









Annual Review 2008

Wessex Water

a YTL company

Contents

About Wessex Water

Our aims

Wessex Water aims to provide high quality, sustainable water and environmental services which:

- give customers good service and value for money
- protect and improve the environment
- provide employees with the opportunity for personal development and a satisfying career
- give our investors a good return on their investment.

Our values

We aim to be the best and value everybody's contribution in our pursuit of excellence.

We are honest and ethical in the way we conduct our business.

We treat one another, our customers and the environment with respect.

Facts and figures

Wessex Water supplies 1.25 million customers with around 353 million litres of water a day.

We have:

- 100 water sources
- 110 water treatment works
- 209 booster pumping stations
- 344 service reservoirs and water towers
- 11,400 kilometres of water mains.

Wessex Water takes away and treats 490 million litres of sewage from 2.6 million customers every day.

Our sewerage system includes:

- 16,700 kilometres of sewers
- 405 sewage treatment works
- 1,006 combined sewer overflows
- 1,455 pumping stations.

THE WESSEX WATER REGION

Financial highlights

- Regulatory capital value £2,114m.
- Turnover £394.4m.
- Debt to capital value ratio 64%.

Introduction

The past year has been a prize winning one for Wessex Water in which the company has achieved higher levels of efficiency and customer service than ever before.

We obtained our highest ever score in the Ofwat service league tables and maintained our position as the most efficient water and sewerage company.

Additionally Wessex Water topped Ofwat's telephone satisfaction survey and has won a number of awards that recognise our commitment to sustainability and to delivering top quality service to customers.

Our compliance with drinking water standards remains at the highest levels – 99.9% and compliance with sewage discharge consents is 99.6%.

By taking an innovative approach to delivering capital investment we have been able to continue to outperform our regulator's targets – outperformance that has enabled us to share the benefits with customers by re-introducing our 'customer dividend'.

Consequently we have invested additional sums in improving the resilience of our asset network, reducing the number of customers served by single sources of supply and further reducing the risk of sewage flooding.

We have also improved support to customers who find it difficult to pay their bills, through our award winning Assist and Restart Plus programmes.

The past year has also seen us delivering our largest-ever capital investment programme with more than 2,500 schemes totalling £235m, and beating our monitoring plan target for leakage

Yet, successful though 2007-08 has been for Wessex Water, it has also been challenging and still further challenges lie ahead for the company.

During 2007-08 we consulted with our customers and other stakeholders about what they want to see over the five years from 2010. Our consultations have clearly indicated that the majority would like further investment but within price stability.

The majority also support new, higher environmental standards and want their services delivered by us in a sustainable way that protects the environment and reduces our carbon footprint. These views will form the basis of the business plan we are about to submit to our regulator, Ofwat.

In our plan we will also be proposing other key objectives. We are all too aware of the serious impact on services that can result from pollution or widespread flooding and are determined to ensure that neither flooding nor any other problems such as nitrate or pesticide contamination of water sources should lead to restrictions in service to our customers.

We are proposing further investment beyond 2010 to improve the resilience of our services and to continue to support our work on affordability. This will include schemes to ensure two points of supply for every community so that if one source of water supply fails, service to our customers will be maintained.

Climate change poses problems for everyone and Wessex Water will be responding to the government's climate change adaptation strategy through measures including partnership work and building climate change into our risk assessment processes.

One of the most significant challenges facing Wessex Water is the likely development of competition. 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.

The success that Wessex Water has achieved in the past has always been dependent on the excellence of our employees who continue to show outstanding dedication and commitment. I am confident that their performance will enable us to rise to the challenges of the future.

Colin Skellett
Chairman

Overview and highlights

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 totalling £234.5m
- 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 regulatory historic cost profit after tax by £5.7m to £93.9m 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.


FRIENDSHIP

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 £5.7m to £93.9m and the return on Regulatory Capital Value (RCV) 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

Appointed turnover increased by £29.3m or 8.1% to £390.7m, 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. We have mitigated those increases by controlling the items we can influence and have delivered real terms productivity improvements worth £3.2m. Even so operating costs of the regulated business in 2007-08 (excluding third party costs) increased from £106.7m to £107.4m, a rise of 0.7% because of new standards, power increases and other inflationary increases which added £3.9m to the cost base.

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.

Capital investment

In 2007-08 we delivered our highest ever level of capital investment, completing more than 2,300 schemes at a total cost of £234.5m.

Financial performance *continued*

Depreciation, interest, and tax

Depreciation charges (including the infrastructure maintenance charge and disposal of assets) increased from £85.0m to £86.0m.

Interest charges increased from £65.0m last year to £69.4m this year with net debt increasing by £122.7m over the year, and the cost of debt rising slightly from 5.4% to 5.5%.

The corporation tax charge in the year was £27.7m, an increase of £6.2m over last year, being a combination of an increase in the current year corporation tax of £2.7m and a reduction of £3.5m in the prior year credits. The current year tax charge rose as a result of the increased profits, but was offset by greater capital allowances on the higher capital expenditure programme.

Deferred tax moved significantly over the two years, from a credit of £9.3m last year to a charge of £1.3m this year.

Dividends

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 March 2008 compared to £87.6m last year.

Cashflow and finance

Net debt increased by £122.7m to £1,358.3m. There was a net cash outflow comprising:

- cash inflow from operating activities of £266.5m, less
- net capital investment of £209.0m, less
- interest payments of £69.3m, less
- tax payments of £28.6m, less
- dividend payments of £82.3m.

The Regulatory Capital Value (RCV) rose by £127m to £2,114m and the debt to RCV ratio increased to 64% from 62%.

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 reduced from £60.6m at March 2007 to £20.4m at March 2008.

We have produced out-performance at the operating level through a combination of additional income and lower operating costs

Financial performance *continued*

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 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 74Ml/d. This initiative has seen leakage reduce to 72Ml/d with a further reduction to 71Ml/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.

The table below summarises the 'customer dividend' investments we have made to date and what we anticipate we will invest by 2010.

Customer dividend	Investment up to 2007-08 (£m)	Proposed total investment in AMP4 (£m)
Reducing risk of service failure		
Eliminating single sources of supply and reinforcing critical mains	2.4	13.3
Reducing leakage	2.5	4.1
Protecting key assets from flooding	0.1	1.1
Improving flood protection to customers	0.3	0.5
Rectifying misconnections of customers foul drains to watercourses	0.1	0.2
Support to customers		
Debt counselling services	0.4	0.6
Debt assistance	0.4	0.8
Smart meter trials	0.2	2.0
Total investment	**£ 6.4m**	**£ 22.6m**

Wessex Water is top of Ofwat's independent survey of customer satisfaction for telephone service.

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 (Ml/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.

Customer service *continued*

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 72Ml/d beating the Ofwat target of 74Ml/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.

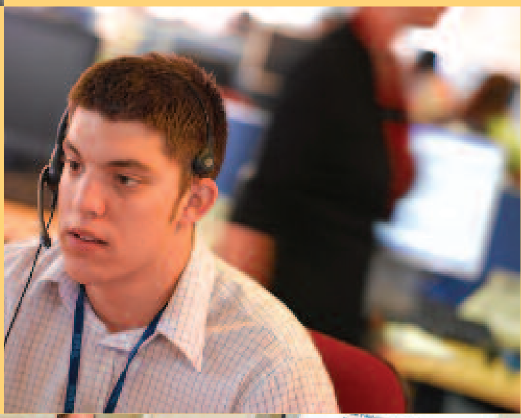
We continue to work with business customers to reduce their water use and leakage. Through our water inspection and trade effluent visits we can provide traders with advice on recycling and water efficiency.

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.

Left and below, whether dealing with billing or operational enquiries our customer services policy means there is always a friendly voice at the end of the line.

Left, Cath Nicholls, one of our education advisers, with children from Cherry Gardens primary school, Bitton near Bristol.

Below, Wessex Water managers hold regular meetings with customer watchdog CCWater.



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.

Education adviser Cath Nicholls presenting a Wessex WaterMark award.

Customer service – connecting with our communities

It is extremely important to Wessex Water that our customers are provided with first class services.

We work closely with the water watchdog the Consumer Council for Water (CC Water) in pursuit of customer service excellence.

CC Water represents water customers with the aim of ensuring that they receive high standards of service and good value for money, comparing favourably with other service providers.

Wessex Water managers hold regular meetings with CC Water representatives to update and inform them on all our developments.

We are also continuing work to improve customers' overall satisfaction with our services in a number of ways, including installing new and innovative systems for managing customer contacts.

And we are liaising with our regulator, Ofwat, to develop new measures of consumer experience.

Our Turn on to Tap Water public relations campaign encourages customers to stop buying bottled water and turn on to tap water.

Our water is officially among the best in the UK so we are encouraging people to drink tap water because it makes sense not only for the environment but also for their pockets. And we are encouraging restaurants, bars, cafes and hotels in the region to put tap water on the menu and make it freely available to customers.

The Wessex Watermark scheme has been running since 1993, helping to fund environmental projects in our region.

It enables groups, schools, councils and other organisations to apply for financial help when carrying out projects throughout the region.

Organised by the Conservation Foundation, grants from £100 to £1,500 are awarded quarterly.

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.

Far left, Networks staff at work on new water connections, while driving down leakage employs innovative equipment, centre.

Meter replacement to a livestock trough in a field, left, and far right, and staff complete a waste transfer note, right.

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.

Networks – driving down leakage

Wessex Water's Networks division, carries out all the activities associated with water distribution and sewerage.

Work to drive down leakage, and reducing the possibility of bursts that may affect our services to our customers, remains one of Wessex Water's top priorities and forms part of Networks' responsibilities.

Through continued investment in detection and using the latest and most innovative equipment we have reduced leakage below our regulatory target of 74Ml/d.

This policy has brought our leakage level to 72Ml/d and we expect to achieve a further reduction to 71Ml/d by 2010.

Meter installation and replacement forms a large part of the Networks workload, with the demand for free meters running above expectations and 11,248 installed in the year 2007-08.

Similarly, a higher than expected number of meters have been replaced, even in the most unlikely locations such as those illustrated on the accompanying page – to a livestock trough in a field.

Water supply and sewage treatment

continued

Sewage discharges

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

During 2007-08 we improved seven 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.

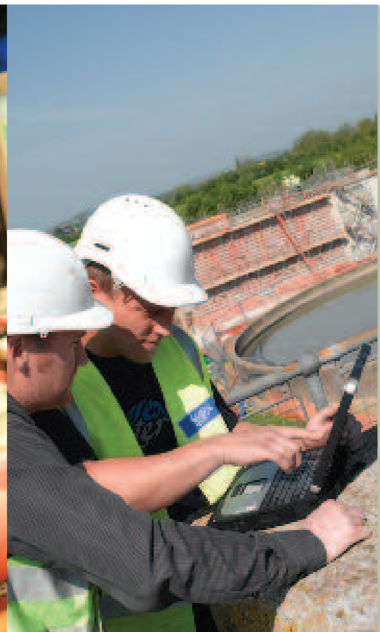
Our water infrastructure remains stable with improving service to customers, reductions in leakage and a burst rate better than the industry norm and close to the lower quartile.

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.

Water quality is tested at Durleigh reservoir, in Somerset, above.

Left, filter beds at Kinson sewage treatment works, Bournemouth.



Wessex Water's control room is staffed 24 hours a day, seven days a week, left and centre.

Treatment staff using Toughbook computers, above.

Treatment – quality and control

Wessex Water's Treatment business is focused on improving both the quality of the water we supply to our customers and the quality of the effluent we discharge to the environment.

To help in that undertaking Wessex Water has introduced new Toughbooks for around 500 of its field staff to improve mobile working.

A Toughbook is a rugged version of a standard laptop giving improved wireless connection and reliability to staff working remotely.

With better communication, teams can save time and mileage when completing their daily jobs, can contact people quickly, email photographs of problems, look up site information, and keep up-to-date with all the company information via the company intranet.

Water quality is continuously monitored at all our treatment works using the latest technology. The monitors are pre-set to specific limits and readings outside the limits can automatically shut the site down.

We also take samples for analysis from reservoirs and customer taps. Our laboratory carries out 300,000 tests on drinking water each year. The analysis falls into three main categories – physical, chemical and bacteriological.

Physical analysis deals with the basic character and behaviour of water, chemical analysis measures the level of specific substances and bacteriological tests ensure that no harmful bacteria are present.

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.

CO_2 emissions from our energy use have been climbing steadily in the last 10 years and emmisions 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 futher 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 Trusts 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.

The biogas reactors at Bristol sewage treatment works at Avonmouth, part of the £35m project


WASTE
ONLY

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.

With increasingly sophisticated water assets, access to the right skills is of growing importance

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, see p16, 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.

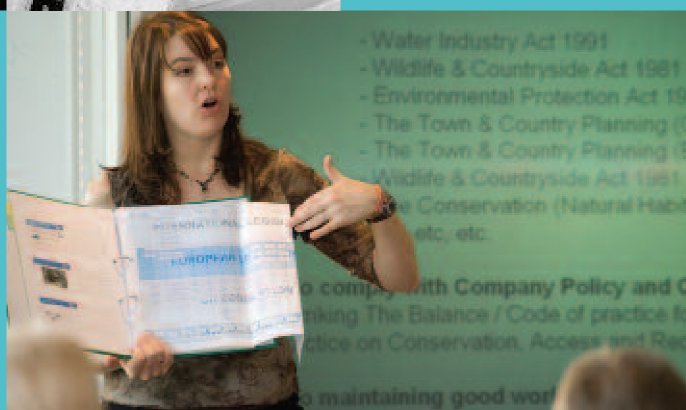
Taste and odour
At Maundown, our largest water treatment works serving around 200,000 customers in west and central Somerset, there is an increasing incidence of algal blooms in the two large feeder reservoirs, which can cause taste and odour complaints.

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.

Environmental training for our engineers is essential in building a sustainable business, pictured left, far left and below.

WECS operates in challenging environments such as our Hotwell's scheme in Bristol, pictured left, above right and on the adjoining page.



Wessex Engineering and Construction – delivering quality, service and efficiency

Wessex Engineering and Construction, WECS, was established by Wessex Water with the aim of delivering our investment programme more efficiently. As a consequence WECS is involved in a very wide variety of projects.

Our Hotwells, Bristol, sewer project is a major engineering scheme to deal with unsatisfactory storm discharge (UID) into Bristol's Floating Harbour that occurs following heavy rainfall.

The project is complicated by the stability of the old river wall and proximity of a major highway. The scheme will be completed in early 2009 and is part of our £829m five-year programme to maintain and improve service quality.

Meanwhile, at our Bristol sewage treatment works we are building a plant to enable us to boost the performance of our sludge treatment and so the amount of electricity we generate.

The first phase of the project, costing almost £9m, is close to completion and by the conclusion in summer 2009 a total of £35m will have been invested.

Investing in our future services

continued

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.

REGULATORY COMMENTARY AND TRENDS

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 of some £235m 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.

Service to customers is summarised below:

Base service to customers	Service level 2005-06	Service level 2006-07	Service level 2007-08	Average service level over AMP4	Monitoring plan target (to date)	Service versus monitoring plan
OPA points as % age of maximum	95%	92%	96%	94%	N/A	N/A
WATER SUPPLY						
Properties at risk of receiving low pressure	196	186	157	180	275	Better
Properties experiencing unplanned supply interruptions of more than 6 hours	838	508	1,267	871	2,794	Better
Customer complaints on taste/odour/appearance	3,110	2,681	2,741	2,844	N/A	N/A
Overall water quality performance score	99.9%	99.9%	99.9%	99.9%	99.9%	Same
SEWERAGE						
Properties at risk of internal flooding more than once in 10 years	617	464	345	N/A	346	Better
Properties flooded – Inadequate capacity*	24	62	73	53	46	Worse
Properties flooded – Other causes*	65	80	107	84	78	Worse

* Performance marginally worse due to exceptional wet weather in June and July. If weather had followed the five-year average our performance would have matched last year

Base service to customers	Service level 2005-06	Service level 2006-07	Service level 2007-08	Average service level over AMP4	Monitoring plan target (to date)	Service versus monitoring plan
CUSTOMER SERVICE						
Customers satisfied/very satisfied with service	94%	96%	98%	96%	N/A	N/A
Customer complaints (operational)	1,907	1,706	1,910	1,841	N/A	N/A
Customer complaints (non-operational)	2,746	4,841	5,863	4,483	N/A	N/A
Billing contacts dealt with in 5 days (DG6)	100%	100%	100%	100%	100%	Same
Written complaints dealt in 10 days (DG7)	100%	100%	100%	100%	100%	Same
Bills based on a meter reading (DG8)	100%	100%	100%	100%	100%	Same
Telephone call handling satisfaction (DG9)	93%	92%	94%	93%	New Measure	New Measure
ENVIRONMENTAL STANDARDS						
Compliance with EA abstraction licences	100%	100%	100%	100%	100%	Same
Total leakage (million litres per day)	73.2	72.1	72.1	72.5	74.0	Better
Number of pollution incidents	140	106	110	119	N/A	N/A
Beaches meeting mandatory standards	100%	100%	100%	100%	>98%	Better
Satisfactory intermittent discharges to river and the sea	98.5%	98.9%	99.4%	N/A	99.3%	Better
Population equivalent served by STWs compliant with EA consent (LUT)	99.8%	99.6%	99.9%	99.8%	99.5%	Better
Sewage sludge disposed satisfactorily	100%	100%	100%	100%	100%	Same

Regulatory measure doubles interruptions >12 hrs and quadruples interruptions >24 hrs

REGULATORY COMMENTARY AND TRENDS
continued

The enhancement programme

We have made good progress with the enhancement programme during 2007-08, as summarised below:

New quality, environmental and customer outputs	Activity level 2005-06	Activity level 2006-07	Activity level 2007-08	Cumulative activity level over AMP4	Monitoring plan target (to date)	Activity versus monitoring plan
Water treatment improvements completed	7	4	3	14	14	Same
Distribution main renovated for quality (km)	31	0	4	35	33	Better
Low flows investigations undertaken	0	0	13	13	13	Same
Sewage treatment improvements completed	16	5	5	26	23	Better
Intermittent discharges improved	5	6	7	18	14	Better
Internal property flooding solved	202	206	163	571	549	Better
External property flooding solved	270	284	142	696	580	Better
Properties with First Time Sewerage	94	82	121	297	251	Better

Serviceability

Ofwat assess trends in the serviceability of our assets using a number of performance and condition indicators. The board's view of our position in 2007-08 is set out below:

Wessex Water view of serviceability	Below ground assets	Above ground assets
Water	Stable	Stable
Sewerage	Stable	Stable

Maintenance

Wessex Water is committed to effectively maintaining its large and growing stock of assets. It is unacceptable to have asset failures that compromise public health, impair customer service, lead to environmental damage, or cause significant disruption. Investment is therefore targeted to minimise or wherever possible eliminate such risks. The key elements of our strategy to achieve this were set out in our monitoring plan, progress against which is summarised below:

Planned maintenance activity	Activity level 2005-06	Activity level 2006-07	Activity level 2007-08	Cumulative activity level over AMP4	Monitoring plan target (to date)	Activity versus monitoring plan
Sources/treatment works renewed	6	4	5	15	14	Higher
Work on dams and impounding reservoirs	0	0	1	1	1	Same
Number of new/refurb supply pumping stations	0	1	2	3	1	Higher
Mains renovated/replaced (km)	44	47	54	145	135	Higher
Number of new/refurb service reservoirs	0	3	9	12	5	Higher
Critical sewers renovated / replaced (km)	16	23	34	73	47	Higher
Number of new/refurb sewage pumping stations	5	8	8	21	13	Higher
Number of new/refurb sewage treatment works	16	7	15	38	35	Higher
Number of new/refurb sludge treatment works	1	3	0	4	1	Higher

Reactive maintenance activity	Activity level 2005-06	Activity level 2006-07	Activity level 2007-08	Cumulative activity level over AMP4	Monitoring plan target (to date)	Activity versus monitoring plan
Communication pipes replaced	1,725	1,101	2,284	5,110	6,000	Lower
Meters replaced	3,190	3,525	5,198	11,913	11,000	Higher
Optional meters installed	8,729	10,971	11,248	30,948	27,000	Higher
Selective meters installed	612	359	28	999	1,780	Lower
New mains (km)	42	35	30	107	138	Lower
Non critical sewers renovated/replaced (km)	67	36	34	76	55	Higher

WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS

Executive directors

Colin Skellett – executive chairman. A chartered chemist and engineer by training, he has been working in the water industry for over 40 years, holding a number of positions in the management and control of both water supply and sewage treatment.

He joined Wessex Water in 1974 and was appointed its chief executive in 1988. Colin oversaw the move from the public to the private sector and the transformation of Wessex Water into a highly rated UK plc. He is joint chairman of GWE Business West and chairman of Future Bath Plus.

Julian Dennis – director of compliance and sustainability. A microbiologist, he studied for his PhD while with the Public Health Laboratory Service at the Centre for Applied Microbiology and Research at Porton Down before joining Thames Water in 1988, where he was appointed chief scientist in 1999.

He is a director of UKWIR and chair of Sustainability South West. He previously chaired BSI, ISO and CEN technical committees.

Keith Harris – director of finance and policy and deputy to the executive chairman. Appointed in 1999. He joined Wessex Water in 1989 as an economist and was formerly head of business planning.

He was responsible for overseeing the 1994, 1999 and 2004 price reviews and has long experience in debt and equity markets.

He is a member of the Water UK council and Steering Committee, chairman of Norton Radstock Regeneration Ltd and a member of the University of West of England Bristol Business School management board.

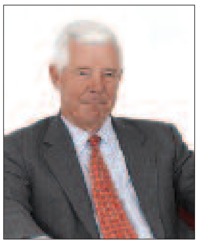
Dave Elliott – director of planning and asset management. He has 24 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina during the Azurix period where he managed sewerage services to 2.5 million customers. On returning to Wessex Water he became southern divisional manager. In 2004 he became general manager, Group Services, responsible for IT, FM, logistics and customer services.

Sean Cater – director of operations and construction. He has 28 years' experience in the construction and engineering industry. He joined Wessex Water in 1992 as a resident engineer in the Somerset division. He worked as a construction manager during the Azurix period and when Wessex Water partnered with MWH, he took on the role of head of capital investment. In 2002 he became general manager of Wessex Utilities Contracting.

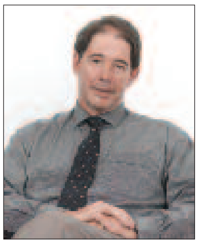
Non-executive directors

David Barclay – former vice chairman of Dresdner Kleinwort Wasserstein (DrKW). Non-executive director of VT Group Plc. Deputy chairman of John Lewis plc. Appointed 1 November 2005. Chairman of Audit Committee.

Lesley Bennett – customer director of Wessex Water since 1994. Former Wiltshire County councillor and North Wiltshire District councillor. Director of Malmesbury River Valleys Trust and North Wiltshire Council for Voluntary Service. Member of Environment Agency Regional Environmental Protection Advisory Committee 1997-2002. Trustee of Wiltshire Wildlife Trust. Chair of Wessex Water's Customer Liaison Panel.



Peter Costain – former deputy chairman of Costain Group Plc 1995-1997 and chief executive 1980-1995. Non-executive director since 1999. Chair of Pensions Committee.



Jonathon Porritt CBE – environmental freelance writer and broadcaster, chairman of Sustainable Development Commission and director of Forum for the Future. Appointed 1 June 2005. Chairman of Wessex Water's Sustainability Panel and Stakeholder Forum.

Francis Yeoh CBE – managing director of YTL Corporation Berhad, Malaysia since 1988. A council member of the Malaysia Business Council as well as vice president of the Federation of Public Listed Companies of Malaysia. Director since May 2002.

Hong Yeoh – director of YTL Corporation Berhad, Malaysia since 1985, executive director of YTL Power International Berhad. Responsible for YTL Group's Construction division. Director since May 2002. Chairman of Remuneration Committee.

Mark Yeoh – executive director responsible for the YTL Hotels and Resorts Division. He graduated from King's College, University of London with an LLB (Hons) and was subsequently called to the Bar at Gray's Inn, London in 1988. He joined the YTL Group in 1989 and serves on the board of YTL Corporation Berhad, YTL Power International Berhad, YTL Land and Development Berhad, YTL e-Solutions Berhad, YTL Vacation Club Berhad and Wessex Water Limited. Director since July 2003.

+**Kathleen Chew** – group legal adviser for the YTL Corporation Group. She holds a LLB (Hons) degree from the University of Birmingham and was called to the Bar at Gray's Inn, London in 1982. She joined YTL Corporation Berhad in 1988 to set up its legal department after being in practice at the Malaysian Bar for five years. Prior to joining the YTL Group, she was a partner in the law firm of Abdul Aziz Ong and Co in Kuala Lumpur from May 1987 to January 1988.

+ Alternate director to Francis Yeoh

CORPORATE GOVERNANCE

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.

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

Colin Skellett – executive chairman
David Barclay *
Lesley Bennett **
Sean Cater - appointed 11 June 2007
Kathleen Chew +
Peter Costain *
Julian Dennis
David Elliott - appointed 11 June 2007
Keith Harris
Jonathon Porritt CBE *
Andrew Randle – resigned 8 June 2007
Francis Yeoh CBE #
Hong Yeoh #
Mark Yeoh #

* Independent non-executive director
* * Independent customer director
\# Non-executive director
\+ Alternate director to Francis Yeoh

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' REPORT

The directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2008. The financial year end of all group companies is 30 June, but under the conditions of appointment of the company (under the Water Industry Act 1991) the company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

Non-statutory accounts have been prepared for the same period to allow users of the regulatory accounts to reconcile those results to the company accounts. Under the terms of its Licence as a water and sewerage undertaker the company is required to prepare a statement of corporate governance as if it were a listed company.

Principal activities

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

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.

The company is currently preparing its submission to the industry regulator in respect of the price period commencing 1 April 2010.

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

Sustainability

Wessex Water Services Ltd has a sustainability vision that guides our progress towards being a sustainable water company. The sustainability vision is reviewed bi-annually. The company's sustainability panel monitors progress and discusses major issues of current and future concern.

Environment policy

Wessex Water 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's full 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 31 March 2008.

Charitable donations

During the year £150,000 was donated to UK charities (2007 - £93,000).

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 31 March 2008 trade creditors represented approximately 34 days trade purchases (2007 - 32 days).

Directors

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 RM 2.6407, 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.

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

A resolution to reappoint 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
24 July 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE NON-STATUTORY ACCOUNTS

The directors are responsible for preparing the Directors' report and the non-statutory accounts in accordance with applicable law and regulations.

The directors have prepared these non-statutory accounts for the reasons and on the basis set out in note 1a to the non-statutory accounts. Under Company law they have elected to prepare the non-statutory accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

These non-statutory accounts 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 non-statutory accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the non-statutory accounts; and
- prepare the non-statutory accounts 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 non-statutory accounts 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 WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2008 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These non-statutory accounts have been prepared under the accounting policies set out therein.

As explained in note 1a, these non-statutory accounts have been prepared by the directors for the year ended 31 March 2008, which is not the company's statutory financial year, in order to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to Wessex Water Services Ltd as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Statutory accounts for the year to 30 June 2007 have been filed with the Registrar of Companies.

This report is made solely to the company, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we have been engaged to state to them in this 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, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 40, the company's directors have accepted responsibility for the preparation of the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

Our responsibility is to audit the non-statutory accounts in accordance with the terms of our engagement letter dated 13 February 2008 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the non-statutory accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the non-statutory accounts.

In addition we 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 an examination, on a test basis, of evidence relevant to the amounts and disclosures in these non-statutory accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of these non-statutory accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work 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 these non-statutory accounts 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 non-statutory accounts.

Opinion

In our opinion:

- the non-statutory accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the non statutory accounts have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply; and
- the information given in the Directors' Report is consistent with the non-statutory accounts.

KPMG Audit Plc
Chartered Accountants
Bristol
24 July 2008

PROFIT AND LOSS ACCOUNT

For the year to 31 March 2008

	NOTE	2008 £m	2007 £m
Turnover	2	394.4	366.8
Operating costs	3	(200.5)	(199.7)
Operating profit	2	193.9	167.1
Interest payable and similar charges	4	(88.9)	(72.0)
Interest receivable	4	18.4	7.4
Other finance income / (costs)		1.1	(0.4)
Profit on ordinary activities before taxation		124.5	102.1
Taxation on profit on ordinary activities	5	(29.0)	(12.2)
Profit attributable to shareholders	19	95.5	89.9

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
At 31 March 2008

	NOTE	2008 £m	2007 £m
Fixed assets			
Tangible assets	8	1,891.2	1,750.5
Investments	9	-	-
		1,891.2	1,750.5
Current assets			
Stock and work in progress	10	4.3	4.3
Debtors	11	116.9	104.5
Cash at bank and in hand	12	290.0	255.0
		411.2	363.8
Creditors - amounts falling due within one year	13	(468.4)	(127.0)
Net current (liabilities) / assets	32	(57.2)	236.8
Total assets less current liabilities		1,834.0	1,987.3
Creditors - amounts falling due after more than one year	14	(1,344.1)	(1,483.2)
Provisions for liabilities and charges	15	(86.4)	(88.1)
Retirement benefit obligations	16	(15.8)	(43.5)
Deferred income	17	(20.8)	(21.5)
Net assets	2	366.9	351.0
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	285.6	269.7
Equity shareholders' funds	20	366.9	351.0

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

These accounts were approved by the board of directors on 24 July 2008 and signed on its behalf by:

C F Skellett
Chairman

T K Harris
Director

CASH FLOW STATEMENT

For the year to 31 March 2008

	NOTE	Year to 31.3.08 £m	Year to 31.3.07 £m
Net cash inflow from operating activities	21	266.5	236.9
Returns on investments and servicing of finance	22	(69.3)	(65.2)
Taxation		(28.6)	(28.4)
Capital expenditure and financial investment	23	(209.0)	(125.0)
Equity dividends paid		(82.3)	(96.8)
Cash outflow before financing		(122.7)	(78.5)
Financing	24	157.1	305.7
Increase in cash		34.4	227.2
Reconciliation of cash movement to the movement in net debt			
Increase in cash - above		34.4	227.2
Movement in loans and leases		(157.1)	(305.7)
Movement in net debt	25	(122.7)	(78.5)
Opening net debt	25	(1,235.6)	(1,157.1)
Closing net debt	25	(1,358.3)	(1,235.6)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year to 31 March 2008

	Year to 31.3.08 £m	Year to 31.3.07 £m
Profit for the financial year	95.5	89.9
Total recognised gains relating to the financial year	95.5	89.9
Actuarial gains net of taxation	24.4	7.8
Total gains recognised since last annual report	119.9	97.7

NOTES TO THE ACCOUNTS

For the year to 31 March 2008

1 ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared on a basis consistent with last year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 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 31).

The non-statutory accounts do not constitute the company's statutory accounts for the years ended 31 March 2008 or 2007. 31 March 2008 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2007 and 30 June 2006. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The next statutory accounts of the company will be prepared for the year ending 30 June 2008.

As explained on page 38, these non-statutory accounts have been prepared by the directors for the same period as the regulatory accounts which have to be prepared for the 12 month period ending 31 March each year in order to allow a user of the regulatory accounts to reconcile them to historical cost accounts of the company.

b. Turnover

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. 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.

NOTES TO THE ACCOUNTS
continued

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 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, 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 provision 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.

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. 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.

m. 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.

n. 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.

o. Joint arrangements

Where there are 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 of such joint arrangements in the financial statements.

p. 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.

NOTES TO THE ACCOUNTS
continued

2 SEGMENTAL ANALYSIS

Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom. Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.

	2008 £m	2007 £m
a. Turnover		
Regulated	390.7	361.4
Unregulated	3.7	5.4
	394.4	366.8
b. Operating profit		
Regulated	193.9	167.1
Unregulated	-	-
	193.9	167.1
c. Net assets		
Regulated	366.9	351.0
Unregulated	-	-
	366.9	351.0

3 OPERATING COSTS

	2008 £m	2007 £m
Manpower costs (note 6b)	38.7	39.1
Materials and consumables	20.8	22.7
Other operational costs	55.0	52.9
Depreciation	86.2	86.2
Amortisation of grants and contributions	(0.9)	(0.9)
Loss / (profit) on disposals of fixed assets	0.7	(0.3)
	200.5	199.7
Operating costs include:		
Operating lease for plant and machinery	1.6	1.2
Research and development	0.2	0.1
Directors' remuneration (note 6c)	1.0	0.8
Fees paid to the auditors	0.2	0.2

	2008 £000	2007 £000
Auditors' remuneration:		
Audit of these financial statements	120	120
Other services persuant to legislation	55	-
Other services relating to taxation	1	-
Services relating to corporate finance transactions	-	38
Services relating to information technology	-	13
All other services	1	-
	177	171

4 NET INTEREST PAYABLE

	2008 £m	2007 £m
Interest payable:		
To group companies	71.3	56.7
On bank loans	13.1	11.1
On finance leases	4.5	4.2
Total interest payable	88.9	72.0
Interest receivable on short term bank deposits	(18.4)	(7.4)
Net interest payable	70.5	64.6

5 TAXATION

	2008 £m	2007 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 30%	25.3	9.2
Advance corporation tax due to parent company	4.9	18.3
	30.2	27.5
Prior year corporation tax: adjustments in respect of previous periods	(2.5)	(6.0)
Total corporation tax charge	27.7	21.5
Deferred tax – current year:		
Origination and reversal of timing differences	(32.6)	0.2
Decrease / (increase) in discount	34.2	(10.4)
	1.6	(10.2)
Deferred tax – prior year:		
Origination and reversal of timing differences	-	1.7
(Increase) in discount	(0.3)	(0.8)
	(0.3)	0.9
Total deferred tax charge / (credit)	1.3	(9.3)
Taxation charge on profit on ordinary activities	29.0	12.2
b. Current tax reconciliation		
Profit on ordinary activities before tax	124.5	102.1
Current tax at 30%	37.3	30.6
Group relief for nil consideration	(3.1)	(3.0)
Capital allowances less than depreciation	1.0	4.0
Payment of lease creditor capital	(1.9)	(1.9)
Other timing differences	(3.1)	(2.2)
Total corporation tax charge - as above	30.2	27.5

c. A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement which have been enacted in the Finance Act 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 been reduced by £5.4m to £81.0m.

NOTES TO THE ACCOUNTS
continued

6 DIRECTORS AND EMPLOYEES

	2008 £m	2007 £m
a. Total employment costs of the company were:		
Wages and salaries	52.0	37.0
Social security costs	4.7	3.3
Other pension costs	8.0	7.1
Share-based payments (note 27)	-	0.1
	64.7	47.5
b. Total employment costs are charged as follows:		
Capital schemes	26.0	8.4
Manpower costs (note 3)	38.7	39.1
	64.7	47.5
	2008	2007
c. Total directors' remuneration	£000	£000
Salary and fees	745	581
Bonuses	247	190
Benefits in kind	47	35
	1,039	806

The remuneration above is in respect of five executive directors (2007 – four) and seven non executive directors (2007 – seven). In determining the directors' pay the remuneration committee consider the financial and operational performance of the business, including performance against budget and regulatory and customer expectations.

Executive directors have one year rolling contracts of employment. In addition the executive directors received £626k (2007 - £518k) remuneration from other group companies. Four directors have benefits accruing under defined benefit pension schemes (2007 - three). The aggregate amount of company contributions to pension schemes in respect of directors was £148k (2007 - £92k).

d. Remuneration policy – link between performance and pay
Wessex Water Services Ltd operates a remuneration policy which links rewards to company, business unit and individual performance. Bonus potential is split equally between these three areas.

Targets are set to reflect the outputs that the board has set. These in turn reflect the requirements of the monitoring plan and the board's desire to be the leading water and sewerage company in the UK.

Company and business unit targets relate to customer service standards, the serviceability of the asset network, environmental and sustainability objectives and financial performance. Individual targets relate to the effective management of the business and its employees, and personal development.

Using these principles the remuneration of directors and senior managers is determined annually by the Remuneration Committee which is chaired by the shareholder. The committee also reflects on the performance of the business in absolute and relative terms. It also evaluates the performance of each individual employee.

The bonus payments made in relation to this policy, for the year to 31 March 2008 were TK Harris £55k, SA Cater £55k, CF Skellett £50k, PJL Dennis £44k and DJ Elliott £43k.

	2008 £000	2007 £000
e. Highest paid director		
Salary	121	116
Bonus	55	48
Benefits in kind	11	12
	187	176

The highest paid director had an accrued annual pension entitlement of £41,452 at 31 March 2008 (2007 - £79,371).

	2008 number	2007 number
f. Monthly average number of employees during the year	1,719	1,241

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.

	2008 £m	2007 £m
Interim dividends for 9 months to 31 December	82.3	60.6
Final dividend for 3 months to 31 March	21.7	27.0
	104.0	87.6

NOTES TO THE ACCOUNTS
continued

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 April 2007	616.1	985.0	842.9	87.6	83.9	2,615.5
Additions	14.3	61.8	45.8	5.1	109.8	236.8
Transfers on commissioning	5.1	6.8	17.0	1.2	(30.1)	-
Disposals	(0.8)	-	(49.2)	(33.7)	-	(83.7)
Grants and contributions	-	(7.5)	-	-	-	(7.5)
At 31 March 2008	634.7	1,046.1	856.5	60.2	163.6	2,761.1
Depreciation						
At 1 April 2007	147.3	272.5	392.8	52.4	-	865.0
Charge for the period	13.6	26.8	42.5	3.3	-	86.2
Disposals	(0.3)	-	(47.3)	(33.7)	-	(81.3)
At 31 March 2008	160.6	299.3	388.0	22.0	-	869.9
Net book value						
At 31 March 2008	474.1	746.8	468.5	38.2	163.6	1,891.2
At 1 April 2007	468.8	712.5	450.1	35.2	83.9	1,750.5

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 £72.4m (2007 - £78.9m).

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

The net book value of infrastructure assets at 31 March 2008 is stated after the deduction of grants and contributions amounting to £104.7m (2007 - £97.1m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £310.6m (2007 - £266.4m) of expenditure on maintaining the network, and £299.3m (2007 - £272.5m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £9.6m (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.

10 STOCK AND WORK IN PROGRESS

	2008 £m	2007 £m
Raw materials and consumables	1.6	1.4
Work in progress	2.7	2.9
	4.3	4.3

11 DEBTORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	36.9	32.5
Owed by group companies	24.9	23.1
Prepayments and accrued income	46.1	43.6
Other debtors	9.0	5.3
	116.9	104.5

12 CASH AT BANK AND IN HAND

Short term bank deposits	290.0	255.0

£110.0m (2007 - £105.0m) of short-term bank deposits mature within 1 month and £180.0m within 3 months (2007 - £150.0m within 4 months).

13 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	2.5	1.9
Loans repayable	-	4.4
Inter company loan	299.6	-
Obligations under finance leases	3.7	3.2
Trade creditors	3.7	1.1
Amounts owed to subsidiary company	12.1	11.2
Amounts owed to parent company	-	10.8
Amounts owed to other group companies	0.6	0.6
Dividend	21.7	-
Other creditors	2.1	1.8
Corporation tax	17.1	7.3
Taxation and social security	1.7	1.4
Accruals and deferred income	103.6	83.3
	468.4	127.0

The inter company loan is due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of a Bond issued at 5.875% and repayable in March 2009.

NOTES TO THE ACCOUNTS
continued

14 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		2008 £m	2007 £m
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
		196.6	196.6
Finance lease repayable	- in more than 1 year, but not more than 2 years	4.4	3.7
	- in more than 2 years, but not more than 5 years	17.0	15.0
	- in more than 5 years	59.0	65.4
		80.4	84.1
Inter company loans	- in more than 1 year, but not more than 2 years	-	299.3
	- in more than 5 years	1,065.5	901.1
Other		1.6	2.1
		1,344.1	1,483.2

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.

	2008 £m	2007 £m
Bond at 5.875% repayable in March 2009	-	299.3
Bond at 5.375% repayable in March 2028	197.9	197.8
Bond at 5.75% repayable in October 2033	345.4	345.2
Index linked Bond at 3.53% plus inflation repayable in July 2023	58.3	56.2
Index linked Bond at 1.75% plus inflation repayable in July 2046	78.4	75.4
Index linked Bond at 1.75% plus inflation repayable in July 2051	78.5	75.5
Index linked Bond at 1.369% plus inflation repayable in July 2057	78.5	75.5
Index linked Bond at 1.374% plus inflation repayable in July 2057	78.5	75.5
Index linked Bond at 1.489% plus inflation repayable in November 2058	50.0	-
Index linked Bond at 1.495% plus inflation repayable in November 2058	50.0	-
Index linked Bond at 1.499% plus inflation repayable in November 2058	50.0	-
	1,065.5	1,200.4

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2007	87.1	1.0	88.1
Utilised during year	-	(1.0)	(1.0)
Origination and reversal of timing differences	(34.5)	-	(34.5)
Decrease in discount	33.8	-	33.8
At 31 March 2008	86.4	-	86.4

	2008 £m	2007 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	271.3	306.6
Other timing differences	(0.7)	(1.5)
Undiscounted provision for deferred tax	270.6	305.1
Discount	(184.2)	(218.0)
Discounted provision for deferred tax	86.4	87.1

16 PENSION LIABILITY

FRS 17 pension liability (note 16e)	20.4	60.6
FRS 17 deferred tax asset	(5.7)	(18.2)
Unfunded and compensatory added years pension	1.1	1.1
	15.8	43.5

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 year's service are held outside the defined benefit scheme.

b. The total pension cost of the company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £7.0m (2007 - £8.8m).

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

NOTES TO THE ACCOUNTS

continued

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 has agreed to pay additional contributions of £9.0m per annum at 31 December 2008 and for a further 7 years. The level of employer and employee contributions will also rise.

d. The actuarial valuation described above has been updated to 31 March 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:

	31.03.08	31.03.07	31.03.06
Rate of increase in salaries	5.0%	4.0%	3.8%
Rate of increase in pensions in payment (1/60th section)	3.5%	3.0%	2.8%
Rate of increase in pensions in payment (1/80th section)	3.5%	3.0%	2.7%
Discount rate	6.9%	5.4%	4.9%
Inflation assumption	3.5%	3.0%	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 at 31 March 2008 and the comparator for the previous two years was as follows:

	31.03.08 £m	31.03.07 £m	31.03.06 £m
Equities	127.3	138.6	122.8
Property	20.0	27.1	-
Government Bonds	144.5	123.0	87.0
Corporate Bonds	3.6	-	58.4
Other	0.3	0.2	4.0
Total fair value of the assets	295.7	288.9	272.2
Present value of defined benefit obligations	(316.1)	(349.5)	(347.8)
Deficit in the scheme	(20.4)	(60.6)	(75.6)
The expected rates of return over the last three years were as follows:	%	%	%
Equities	9.0	9.0	8.3
Property	7.5	7.3	-
Government Bonds	4.5	4.7	4.3
Corporate Bonds	5.3	-	4.7
Other	6.0	5.5	4.6
Total	6.7	7.0	6.2

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 31 March 2008.

f. Additional analysis:

	31.03.08 £m	31.03.07 £m
Analysis of profit and loss charge		
Current service cost	7.4	7.4
Past service cost	0.7	1.0
Interest cost	18.9	17.0
Expected return on scheme assets	(20.0)	(16.6)
Expense recognised in profit and loss account	7.0	8.8
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	349.5	347.8
Current service cost	7.4	7.4
Interest cost	18.9	17.0
Contributions by scheme participants	2.9	2.6
Actuarial (gains) on scheme liabilities	(52.5)	(14.6)
Net benefits paid out	(10.8)	(11.7)
Past service cost	0.7	1.0
Closing present value of defined benefit obligations	316.1	349.5
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	288.9	272.2
Expected return on scheme assets	20.0	16.6
Actuarial (losses) on scheme assets	(17.6)	(3.4)
Contributions by the employer	12.3	12.6
Contributions by scheme participants	2.9	2.6
Net benefits paid out	(10.8)	(11.7)
Closing fair value of scheme assets	295.7	288.9
Actual return on scheme assets		
Expected return on scheme assets	20.0	16.6
Actuarial gain on scheme assets	(17.6)	(3.4)
Actual return on scheme assets	2.4	13.2
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial gains	34.9	11.2
Cumulative amount of gains / (losses) recognised	(13.2)	(48.1)

NOTES TO THE ACCOUNTS

continued

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.08 £m	31.03.07 £m	31.03.06 £m	31.03.05 £m	31.03.04 £m
Fair value of scheme assets	295.7	288.9	272.2	228.7	211.0
Present value of scheme liabilities	(316.1)	(349.5)	(347.8)	(309.0)	(270.9)
(Deficit) in the scheme	(20.4)	(60.6)	(75.6)	(80.3)	(59.9)
Experience gains / (losses) on scheme assets	(17.6)	(3.4)	26.0	7.2	17.1
Experience (losses) on scheme liabilities	(3.4)	(5.3)	(1.0)	(5.8)	(7.8)

17 DEFERRED INCOME

	2008 £m	2007 £m
Grants and contributions:		
At 1 April	21.5	21.8
Received in the year	0.2	0.6
Less amortisation	(0.9)	(0.9)
At 31 March	20.8	21.5

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

19 PROFIT AND LOSS ACCOUNT

At 1 April	269.7	259.5
Actuarial gains net of taxation	24.4	7.8
Share-based payment (note 27)	-	0.1
Profit attributable to shareholders	95.5	89.9
Dividends (note 7)	(104.0)	(87.6)
At 31 March	285.6	269.7

20 EQUITY SHAREHOLDERS' FUNDS

	2008 £m	2007 £m
At 1 April	351.0	340.8
Actuarial gains net of taxation	24.4	7.8
Share-based payment (note 27)	-	0.1
Profit attributable to shareholders	95.5	89.9
Dividends (note 7)	(104.0)	(87.6)
At 31 March	366.9	351.0

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year to 31.3.08 £m	Year to 31.3.07 £m
Operating profit	193.9	167.1
Depreciation	86.2	86.2
Amortisation of grants and contributions	(0.9)	(0.9)
Provisions	(5.2)	(5.7)
Loss / (gain) on disposal of fixed assets	0.7	(0.3)
Decrease in stocks	-	0.3
(Increase) in debtors	(12.2)	(6.5)
Increase / (decrease) in creditors	4.0	(3.3)
	266.5	236.9

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Interest received	18.7	5.4
Interest paid	(83.9)	(66.8)
Interest element of finance lease rentals	(4.1)	(3.8)
	(69.3)	(65.2)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of tangible fixed assets	(217.9)	(137.0)
Sale of tangible fixed assets	1.4	4.7
Connection charges, grants and deferred income	7.5	7.3
	(209.0)	(125.0)

24 FINANCING

Loans and finance leases drawn down	157.1	305.7
	157.1	305.7

NOTES TO THE ACCOUNTS
continued

25 MOVEMENT IN NET DEBT

	1 April 2007 £m	Cash flow £m	Non cash items £m	31 March 2008 £m
Cash at bank and in hand	255.0	35.0	-	290.0
Bank overdraft	(1.9)	(0.6)	-	(2.5)
Short term borrowings	(4.4)	4.4	-	-
Loans repayable after one year	(196.6)	-	-	(196.6)
Finance leases repayable within one year	(3.2)	(0.5)	-	(3.7)
Finance leases repayable after one year	(84.1)	3.7	-	(80.4)
Bonds repayable within one year	-	-	(299.6)	(299.6)
Bonds repayable after one year	(1,200.4)	(150.0)	284.9	(1,065.5)
	(1,235.6)	(108.0)	(14.7)	(1,358.3)

26 FINANCIAL INSTRUMENTS

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £305.8m (2007 - £9.5m) of short term borrowings.

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 31 March 2008 there were £100.0m (2007 - £100.0m) 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 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	1,365.1	283.2	1,648.3	1,211.2	279.4	1,490.6

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	26.2	4.6	23.8

£6.2m (2007 - £9.5m) of floating rate borrowings are short term, and £277.0m (2007 - £269.9m) are long term 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 2008	Fair value £m 2008	Book value £m 2007	Fair value £m 2007
Borrowings less than 1 year	305.8	305.6	9.5	9.5
Floating rate borrowings over 1 year	277.0	277.0	269.9	269.9
Fixed rate borrowings over 1 year	1,065.5	1,085.1	1,211.2	1,247.3
	1,648.3	1,667.7	1,490.6	1,526.7

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

27 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	-

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

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

NOTES TO THE ACCOUNTS
continued

The following options were outstanding at 31 March 2007 and 2008.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2007	Granted	Forfeited	Exercised	Outstanding at 31 March 2008
13/12/2002 Unapproved	17,038,000	-	(700,000)	(2,841,750)	13,496,250
26/12/2002 Approved	5,170,000	-	-	(604,000)	4,566,000
12/12/2003 Unapproved	2,400,000	-	-	(531,000)	1,869,000
12/12/2003 Approved	1,552,000	-	-	(34,000)	1,518,000
16/05/2005 Unapproved	4,100,000	-	(200,000)	-	3,900,000
16/05/2005 Approved	4,918,000	-	(370,000)	-	4,548,000
07/08/2006 Unapproved	900,000	-	-	-	900,000
07/08/2006 Approved	5,588,000	-	(272,000)	-	5,316,000
20/08/2007 Unapproved	-	900,000	-	-	900,000
20/08/2007 Approved	-	3,858,000	(204,000)	-	3,654,000
TOTAL	41,666,000	4,758,000	(1,746,000)	(4,010,750)	40,667,250

Of the above options 21,449,250 were exercisable at 31 March 2008.
FRS 20 did not change the profit for the year (2007 - reduction of £0.1m)

28 COMMITMENTS AND GUARANTEES

a. There were operating leases of £0.1m (2007 – £0.1m) under leases on land and buildings due within the next year, which expire between 1 and 2 years. There are no commitments under other operating leases.

b. At 31 March 2008 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2007 – £10.8m).

c. Capital expenditure contracted but not provided at 31 March 2008 was £116.8m (2007 – £54.1m).

d. The company has guaranteed Bonds of £1,365.1m (2007 – £1,200.4m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 2008 for which provision has not been made in these accounts.

30 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 31), the company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the group.

31 ULTIMATE PARENT COMPANY

The smallest group into which the accounts of the company will be consolidated is that headed by Wessex Water Ltd, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, 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.

32 GOING CONCERN

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.

REGULATORY INFORMATION

Introduction

The company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the company by the Secretary of State for the Environment the company is obliged to provide the Water Services Regulatory Authority with additional information to that contained in the statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 68 to 83.

Ring fencing

Under the conditions of its Licence, the company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made the company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company.

The company was in compliance with that requirement as at 31 March 2008. In the opinion of the directors:

a. The company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointment);

b. the company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the directors made reference to the detailed budget produced for the year to March 2009 and the five-year business plan model. The directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Directorships

C F Skellett and T K Harris are also directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Services Ltd, YTL Utilities Holdings Ltd and Bristol Wessex Billing Services Ltd. T K Harris is also a director of S C Technology AG and C F Skellett a director of YTL Utilities (UK) Ltd.

Francis Yeoh, Hong Yeoh and Mark Yeoh are directors of Wessex Water Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh is a director of YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd, and Francis Yeoh is a director of YTL Utilities (UK) Ltd.

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES

Directors' responsibilities

The directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2008. The directors also confirm that, except for the departure explained in note 1e on page 46 to the financial statements, and in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Accounting policies

These regulatory accounts on pages 68 to 83 do not constitute the company's statutory accounts for the years ended 31 March 2008 or 2007. 31 March 2008 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2007 and 2006. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The next statutory accounts of the company will be prepared for the year ending 30 June 2008.

Historical cost statements
In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non appointed business to show the profit and loss account, balance sheet and cash flow statements.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, except for the treatment of certain grants and contributions (see note 1e on page 46). The principal accounting policies are described on pages 45 to 47.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the Water Services Regulatory Authority, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 70.

Current cost statements
The principal accounting policies are described on page 74.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £11.3m (2007 – increase by £3.0m) and increase working capital by the same amount (2007 – reduce working capital). Within fixed assets the impact has been to reduce cost by £310.6m (2007 – £266.5m) and reduce accumulated depreciation by £299.3m (2007 – £269.5m).

Reconciliation to the non-statutory accounts
In the non-statutory accounts the company has continued to capitalise customer pipe leak repairs. The impact is to increase historic cost profit after tax and to increase historic cost net assets as shown on page 70.

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATORY AUTHORITY AND THE DIRECTORS OF WESSEX WATER SERVICES LTD

We have audited the Regulatory Accounts of Wessex Water Services Ltd ("the company") on pages 68 to 82 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the company, as a body, and the Water Services Regulatory Authority (the "Regulator" or the "WSRA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the company and the WSRA those matters we have agreed to state to them in our report, in order (a) to assist the company to meet its obligation under the company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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, as a body, and the WSRA, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation
The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the company. There are differences between United Kingdom Generally Accepted Accounting Practices (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information, other than that prepared wholly on the basis of an acceptable financial reporting framework such as UK GAAP, may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the WSRA, the directors and auditors
The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of director's responsibilities for regulatory information on page 64.

Our responsibility is to audit the Regulatory Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. It is our responsibility to form an independent opinion based on our audit and to report our opinion to the company and the WSRA

REPORT OF THE INDEPENDENT AUDITORS
continued

We report our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets) issued by the Regulator; and whether the regulatory current cost accounting statements on pages 71 to 82 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the Regulator. We also report to you if, in our opinion, the appointee has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06, and Regulatory Accounting Guideline 4.03 issued by the Regulator.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on the regulatory information, and the additional information required by the licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as noted below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Regulatory Accounts, 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the non-statutory accounts of the company on which we reported on 24 July 2008, which are prepared for a different purpose. Our audit report in relation to the non-statutory accounts of the company (our "non-statutory" audit) was made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our non-statutory audit work was undertaken so that we might state to the company's members those matters which we are required to state to them in a non-statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members, as a body, for our non-statutory audit work, for our non-statutory audit report, or for the opinions we have formed in respect of that non-statutory audit.

The regulatory historical cost accounting statements on pages 68 to 70 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK GAAP, and a reconciliation to the balance sheet drawn up under the Companies Act 1985 is given on page 70.

Opinion
In our opinion the Regulatory Accounts of the company for the year ended 31 March 2008 present fairly in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 64 and 74, the state of the company's affairs at 31 March 2008 on a historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information, we report that in our opinion:

(a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;

(b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;

(c) the regulatory historical cost accounting statements on pages 68 to 70 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA; and

(d) the regulatory current cost accounting statements on pages 71 to 82 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

KPMG Audit Plc
Chartered Accountants
Bristol
24 July 2008

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year to 31 March 2008

	2008 Appointed £m	2008 Non appointed £m	2008 Total £m	2007 Appointed £m	2007 Non appointed £m	2007 Total £m
Turnover	390.7	3.7	394.4	361.4	5.4	366.8
Operating costs	(139.6)	(3.7)	(143.3)	(138.3)	(5.4)	(143.7)
Depreciation	(58.5)	-	(58.5)	(58.4)	-	(58.4)
Operating income	(0.7)	-	(0.7)	0.3	-	0.3
Operating profit	191.9	-	191.9	165.0	-	165.0
Other income	0.4	-	0.4	0.4	-	0.4
Interest payable	(69.4)	-	(69.4)	(65.0)	-	(65.0)
Profit on ordinary activities before taxation	122.9	-	122.9	100.4	-	100.4
Current taxation	(27.7)	-	(27.7)	(21.5)	-	(21.5)
Deferred taxation	(1.3)	-	(1.3)	9.3	-	9.3
Profit for the year	93.9	-	93.9	88.2	-	88.2
Ordinary dividend	(104.0)	-	(104.0)	(87.6)	-	(87.6)
Transfer to reserves	(10.1)	-	(10.1)	0.6	-	0.6

The non appointed business comprises those activities for which the Appointee is not a monopoly supplier or involve the optional use of assets owned by the Appointee.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year to 31 March 2008

	2008 Appointed £m	2008 Non appointed £m	2008 Total £m	2007 Appointed £m	2007 Non appointed £m	2007 Total £m
Profit for the year	93.9	-	93.9	88.2	-	88.2
Actuarial gains net of tax	24.4	-	24.4	7.8	-	7.8
Total recognised gains	118.3	-	118.3	96.0	-	96.0

HISTORICAL COST BALANCE SHEET

At 31 March 2008

	2008 Appointed £m	2007 Appointed £m
Fixed assets		
Tangible fixed assets	1,864.4	1,742.7
Current assets		
Stocks	4.3	4.3
Debtors	116.9	104.5
Infrastructure renewals prepayment	11.3	-
Cash at bank and in hand	290.0	255.0
	422.5	363.8
Creditors - amounts falling due within one year		
Borrowings	(305.8)	(9.5)
Infrastructure renewals accrual	-	(6.1)
Corporation tax	(16.6)	(7.1)
Dividends payable	(21.7)	-
Other creditors	(123.8)	(109.9)
	(467.9)	(132.6)
Net current (liabilities) / assets	(45.4)	231.2
Total assets less current liabilities	1,819.0	1,973.9
Creditors - amounts falling due after more than one year		
Borrowings	(1,342.5)	(1,481.1)
Other creditors	(1.6)	(2.1)
	(1,344.1)	(1,483.2)
Provisions for liabilities and charges		
Deferred tax	(86.4)	(87.1)
Retirement benefit obligations	(15.8)	(43.5)
Other provisions	-	(1.0)
Deferred income	(20.8)	(21.5)
Net assets	351.9	337.6
Capital and reserves		
Called up share capital	81.3	81.3
Profit and loss account	270.6	256.3
Equity shareholders' funds	351.9	337.6

There are no assets, liabilities or shareholders' funds attributed to the non appointed business at either year end.

The regulatory information on pages 68 to 83 was approved by the board of directors on 24 July 2008.

C F Skellett
Chairman

T K Harris
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON STATUTORY ACCOUNTS

For the year to 31 March 2008

	2008 £m	2007 £m
Profit and loss account		
Per Regulatory Accounts	93.9	88.2
Capitalisation of customer pipe leak repairs	1.6	1.7
Per Non Statutory Accounts	95.5	89.9
Balance sheet		
(a) Fixed assets		
Per Regulatory Accounts	1,864.4	1,742.7
Capitalisation of customer pipe leak repairs – current year	1.6	1.7
Capitalisation of customer pipe leak repairs – prior years	13.9	12.2
Infrastructure renewals expenditure under FRS 15	11.3	(6.1)
Per Non Statutory Accounts	1,891.2	1,750.5
(b) Current assets		
Per Regulatory Accounts	422.5	363.8
Infrastructure renewals expenditure under FRS 15	(11.3)	-
Per Non Statutory Accounts	411.2	363.8
(c) Creditors – amounts falling due within one year		
Per Regulatory Accounts	(467.9)	(132.6)
Infrastructure renewals expenditure under FRS 15	-	6.1
Tax adjustment on prior year customer pipe repairs	(0.5)	(0.5)
Per Non Statutory Accounts	(468.4)	(127.0)
(d) Reserves		
Per Regulatory Accounts	270.6	256.3
Capitalisation of customer pipe leak repairs – current year	1.6	1.7
Capitalisation of customer pipe leak repairs – prior years	13.9	12.2
Tax adjustment on prior year customer pipe repairs	(0.5)	(0.5)
Per Non Statutory Accounts	285.6	269.7

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

For the year to 31 March 2008

	NOTE	2008 £m	2007 £m
Turnover	4	390.7	361.4
Current cost operating costs	7	(220.3)	(213.5)
Operating income	4	(2.9)	(3.3)
Working capital adjustment	4	0.3	0.6
Current cost operating profit	5	167.8	145.2
Other income		0.4	0.4
Interest payable		(69.4)	(65.0)
Financing adjustment		33.1	53.3
Current cost profit before taxation		131.9	133.9
Corporation tax		(27.7)	(21.5)
Deferred tax		(1.3)	9.3
Current cost profit attributable to shareholders		102.9	121.7
Ordinary dividend		(104.0)	(87.6)
Transfer to reserves		(1.1)	34.1

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS At 31 March 2008

	NOTE	2008 £m	2007 £m
Fixed assets			
Tangible fixed assets	6	11,131.1	10,624.9
Third party contributions since 1989-90		(163.3)	(151.1)
		10,967.8	10,473.8
Other operating assets and liabilities			
Working capital	8	12.3	12.2
Cash and deposits		290.0	255.0
Overdraft		(2.5)	(1.9)
Infrastructure renewals prepayment / (accrual)		11.3	(3.0)
		311.1	262.3
Non operating assets and liabilities			
Borrowings		(303.3)	(7.6)
Non trade debtors due within one year		1.9	2.3
Non trade creditors due within one year		(16.8)	(15.6)
Corporation tax payable		(16.6)	(7.1)
Dividends payable		(21.7)	-
		(356.5)	(28.0)
Amounts falling due after more than one year			
Borrowings		(1,342.5)	(1,481.1)
Other creditors		(1.6)	(2.1)
		(1,344.1)	(1,483.2)
Provisions for liabilities and charges			
Deferred tax provision		(86.4)	(87.1)
Post employment liabilities		(15.8)	(43.5)
Other provisions		-	(1.0)
Net assets employed		9,476.1	9,093.3
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		112.9	89.6
Current cost reserve	9	9,281.9	8,922.4
		9,476.1	9,093.3

CURRENT COST CASH FLOW STATEMENT

For the year to 31 March 2008

	NOTE	Appointed 2008 £m	Appointed 2007 £m
Net cash inflow from operating activities	5	264.9	235.2
Returns on investments and servicing of finance			
Interest received		18.7	5.4
Interest paid		(83.9)	(66.8)
Interest on finance lease rentals		(4.1)	(3.8)
		(69.3)	(65.2)
Taxation			
UK corporation tax paid		(28.6)	(28.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(172.1)	(109.5)
Receipts of grants and contributions		7.5	7.3
Infrastructure renewals expenditure		(44.2)	(25.8)
Sale of fixed assets		1.4	4.7
		(207.4)	(123.3)
Equity dividends paid		(82.3)	(96.8)
Net cash (outflow) before financing		(122.7)	(78.5)
Financing			
Capital element of finance lease rentals		(3.2)	(2.7)
Loans taken out		-	4.4
Loans repaid		(4.4)	-
Loans from subsidiary company		164.7	304.0
		157.1	305.7
Increase in cash		34.4	227.2

The analysis of net debt is shown in note 10 to the current cost statements.

NOTES TO THE CURRENT COST STATEMENTS

For the year to 31 March 2008

These accounts have been prepared for the Appointed Business of Wessex Water Services Ltd in accordance with guidance issued by the WSRA for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the regulatory historical cost accounts except as set out below.

1 TANGIBLE FIXED ASSETS

Modern equivalent asset values (MEA) arising from the latest periodic review have been incorporated into the regulatory statements.

Assets acquired and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, no adjustment is made in arriving at the replacement cost. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Non-specialised operational properties
Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational assets
Specialised operational assets are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets
Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies are valued at replacement cost determined by the MEA value at the latest periodic review.

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Other tangible assets
All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land
Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working capital adjustment
This is calculated by applying the change in the RPI over the year to the working capital of the company at the beginning of the year.

Financing adjustment
This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

4 ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS

	2008 Water services £m	2008 Sewerage services £m	2008 Appointed business £m	2007 Water services £m	2007 Sewerage services £m	2007 Appointed business £m
Turnover						
Unmeasured – household	59.4	130.9	190.3	53.7	126.4	180.1
Unmeasured – non household	2.3	4.5	6.8	2.1	4.8	6.9
Total Unmeasured	61.7	135.4	197.1	55.8	131.2	187.0
Measured – household	30.6	59.2	89.8	25.4	50.7	76.1
Measured – non household	32.1	39.6	71.7	29.5	37.9	67.4
Total Measured	62.7	98.8	161.5	54.9	88.6	143.5
Trade effluent	-	4.0	4.0	-	4.4	4.4
Large users	9.8	12.2	22.0	8.7	11.4	20.1
Rechargeable works	3.3	0.6	3.9	3.5	0.3	3.8
Bulk supplies	0.4	-	0.4	0.4	-	0.4
Other appointed business	0.3	1.3	1.6	0.3	1.7	2.0
Other sources	0.2	-	0.2	0.2	-	0.2
Total turnover	138.4	252.3	390.7	123.8	237.6	361.4
Operating income						
Current cost loss on disposal of fixed assets	(0.7)	(2.2)	(2.9)	(1.7)	(1.6)	(3.3)
Total operating income	(0.7)	(2.2)	(2.9)	(1.7)	(1.6)	(3.3)
Working capital adjustment	0.1	0.2	0.3	0.2	0.4	0.6

5 RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE APPOINTED BUSINESS

	2008 £m	2007 £m
Current cost operating profit	167.8	145.2
Working capital adjustment	(0.3)	(0.6)
Movement in working capital	0.1	(6.9)
Other income	0.4	0.4
Current cost depreciation	77.6	74.4
Current cost loss on disposal of fixed assets	2.9	3.3
Infrastructure renewals charge	29.9	27.7
Provisions	(13.5)	(8.3)
Net cash inflow from operating activities	264.9	235.2

NOTES TO THE CURRENT COST STATEMENTS

continued

6 CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Cost at 1 April 2007	636.0	25.6	2,295.2	43.5	3,000.3
MEA adjustment	-	-	-	-	-
RPI adjustment	18.9	0.8	86.3	0.8	106.8
Disposals	(15.9)	(0.3)	-	(23.0)	(39.2)
Additions	55.8	-	9.1	7.6	72.5
Cost at 31 March 2008	694.8	26.1	2,390.6	28.9	3,140.4
Depreciation at 1 April 2007	318.2	4.8	-	33.7	356.7
MEA adjustment	-	-	-	-	-
RPI adjustment	8.1	0.1	-	0.3	8.5
Disposals	(15.0)	(0.1)	-	(22.9)	(38.0)
Charge for year	17.2	0.4	-	3.2	20.8
Depreciation at 31 March 2008	328.5	5.2	-	14.3	348.0
Net book value at 31 March 2008	366.3	20.9	2,390.6	14.6	2,792.4
At 1 April 2007	317.8	20.8	2,295.2	9.8	2,643.6
SEWERAGE SERVICES					
Cost at 1 April 2007	1,965.0	39.3	6,939.6	72.2	9,016.1
MEA adjustment	-	-	-	-	-
RPI adjustment	63.5	1.3	260.9	1.3	327.0
Disposals	(35.2)	(0.3)	-	(27.0)	(62.5)
Additions	79.0	0.2	27.0	12.3	118.5
Cost at 31 March 2008	2,072.3	40.5	7,227.5	58.8	9,399.1
Depreciation at 1 April 2007	981.7	4.4	-	48.7	1,034.8
MEA adjustment	-	-	-	-	-
RPI adjustment	26.0	0.2	-	0.5	26.7
Disposals	(32.2)	(0.1)	-	(26.8)	(59.1)
Charge for year	52.5	0.4	-	5.1	58.0
Depreciation at 31 March 2008	1,028.0	4.9	-	27.5	1,060.4
Net book value at 31 March 2008	1,044.3	35.6	7,227.5	31.3	8,338.7
At 1 April 2007	983.3	34.9	6,939.6	23.5	7,981.3
TOTAL					
Cost at 1 April 2007	2,601.0	64.9	9,234.8	115.7	12,016.4
MEA adjustment	-	-	-	-	-
RPI adjustment	82.4	2.1	347.2	2.1	433.8
Disposals	(51.1)	(0.6)	-	(50.0)	(101.7)
Additions	134.8	0.2	36.1	19.9	191.0
Cost at 31 March 2008	2,767.1	66.6	9,618.1	87.7	12,539.5
Depreciation at 1 April 2007	1,299.9	9.2	-	82.4	1,391.5
MEA adjustment	-	-	-	-	-
RPI adjustment	34.1	0.3	-	0.8	35.2
Disposals	(47.2)	(0.2)	-	(49.7)	(97.1)
Charge for year	69.7	0.8	-	8.3	78.8
Depreciation at 31 March 2008	1,356.5	10.1	-	41.8	1,408.4
Net book value at 31 March 2008	1,410.6	56.5	9,618.1	45.9	11,131.1
At 1 April 2007	1,301.1	55.7	9,234.8	33.3	10,624.9

7a ACTIVITY COSTING ANALYSIS - 2008 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
DIRECT COSTS							
Employment costs	3.6	3.2	2.5	9.3	2.0	2.3	4.3
Power	2.5	8.1	1.0	11.6	1.9	4.1	6.0
Hired & contracted services	1.4	3.2	4.3	8.9	0.7	0.8	1.5
Materials & consumables	0.9	3.0	2.5	6.4	0.9	0.5	1.4
Service charges EA	1.0	2.2	-	3.2	2.5	-	2.5
Bulk supply import	-	-	-	-	1.0	-	1.0
Other direct costs	0.3	0.1	-	0.4	0.1	0.1	0.2
Total direct costs	9.7	19.8	10.3	39.8	9.1	7.8	16.9
General & support expenditure	2.8	5.4	2.2	10.4	2.8	2.8	5.6
Functional expenditure	12.5	25.2	12.5	50.2	11.9	10.6	22.5
OPERATING EXPENDITURE							
Customer services				6.2			3.2
Scientific services				0.9			2.4
Other business activities				1.0			1.1
Total business activities				8.1			6.7
Local authority rates				7.1			6.9
Doubtful debts				3.9			2.0
Exceptional items				-			-
Total opex less third party services				69.3			38.1
Third party services				1.2			4.2
Total operating expenditure				70.5			42.3

NOTES TO THE CURRENT COST STATEMENTS

continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	12.3	-	-	12.3	-	17.6	17.6
Current cost depreciation	14.7	36.3	6.4	57.4	10.2	10.0	20.2
Amortisation of deferred credits				(1.0)			(0.2)
Business activities depreciation				0.6			0.6
Total capital maintenance				69.3			38.2
Total operating costs				139.8			80.5
CCA (MEA) VALUES							
Service activities	7,342.5	889.1	102.1	8,333.7	234.5	2,555.3	2,789.8
Business activities				5.0			2.6
				8,338.7			2,792.4
Services for third parties				-			-
Total				8,338.7			2,792.4

7b ACTIVITY COSTING ANALYSIS - 2007 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
DIRECT COSTS							
Employment costs	3.5	3.3	2.4	9.2	1.7	2.4	4.1
Power	2.0	6.7	1.1	9.8	1.8	3.5	5.3
Hired & contracted services	1.8	2.5	3.9	8.2	0.9	1.1	2.0
Materials & consumables	1.1	3.6	2.2	6.9	1.0	0.6	1.6
Service charges EA	1.0	2.3	-	3.3	2.5	-	2.5
Bulk supply import	-	-	-	-	1.2	-	1.2
Other direct costs	0.5	0.1	0.1	0.7	0.1	0.5	0.6
Total direct costs	9.9	18.5	9.7	38.1	9.2	8.1	17.3
General & support expenditure	2.7	5.6	2.6	10.9	3.2	2.9	6.1
Functional expenditure	12.6	24.1	12.3	49.0	12.4	11.0	23.4
OPERATING EXPENDITURE							
Customer services				5.8			2.9
Scientific services				0.7			2.3
Other business activities				1.0			1.0
Total business activities				7.5			6.2
Local authority rates				7.1			7.0
Doubtful debts				4.3			2.2
Exceptional items				-			-
Total opex less third party services				67.9			38.8
Third party services				0.3			4.4
Total operating expenditure				68.2			43.2

NOTES TO THE CURRENT COST STATEMENTS
continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	10.2	-	-	10.2	-	17.5	17.5
Current cost depreciation	14.0	34.4	6.6	55.0	9.8	9.5	19.3
Amortisation of deferred credits				(0.9)			(0.2)
Business activities depreciation				0.7			0.5
Total capital maintenance				65.0			37.1
Total operating costs				133.2			80.3
CCA (MEA) VALUES							
Service activities	7,042.1	840.8	93.4	7,976.3	202.9	2,438.2	2,641.1
Business activities				5.0			2.5
				7,981.3			2,643.6
Services for third parties				-			-
Total				7,981.3			2,643.6

8 WORKING CAPITAL

	2008 £m	2007 £m
Stocks	4.3	4.3
Trade debtors – measured household	12.4	10.4
Trade debtors – unmeasured household	16.0	14.4
Trade debtors – measured non-household	5.2	6.7
Trade debtors – unmeasured non-household	0.3	0.2
Other trade debtors	3.0	0.8
Measured income accrual	39.8	35.3
Prepayments and other debtors	38.3	34.4
Trade creditors	(3.7)	(1.1)
Deferred income – customer advance receipts	(25.6)	(21.6)
Short term capital creditors	(55.5)	(36.6)
Accruals and other creditors	(22.2)	(35.0)
	12.3	12.2

9 MOVEMENT ON CURRENT COST RESERVE

At 1 April	8,922.4	8,595.5
MEA adjustment	-	(102.8)
RPI adjustments:		
Fixed assets	398.6	490.2
Working capital	(0.3)	(0.6)
Financing	(33.1)	(53.3)
Grants and third party contributions	(5.7)	(6.6)
At 31 March	9,281.9	8,922.4

NOTES TO THE CURRENT COST STATEMENTS
continued

10 ANALYSIS OF NET DEBT

	1 April 2007 £m	Cash Flow £m	Non cash items £m	31 March 2008 £m
Cash at bank and in hand	255.0	35.0	-	290.0
Bank overdraft	(1.9)	(0.6)	-	(2.5)
Short term borrowings	(4.4)	4.4	-	-
Loans repayable after one year	(196.6)	-	-	(196.6)
Finance leases repayable within one year	(3.2)	(0.5)	-	(3.7)
Finance leases repayable after one year	(84.1)	3.7	-	(80.4)
Bonds repayable within one year	-	-	(299.6)	(299.6)
Bonds repayable after one year	(1,200.4)	(150.0)	284.9	(1,065.5)
	(1,235.6)	(108.0)	(14.7)	(1,358.3)

11 REGULATORY CAPITAL VALUE

	2008 £m
Closing RCV for 2006/07	1,987
Indexation	75
Opening RCV for 2007/08	2,062
Capital expenditure	180
Infrastructure renewals expenditure	23
Grants and contributions	(8)
Depreciation	(91)
Infrastructure renewals charge	(25)
Outperformance of regulatory assumptions (5 years in arrears)	(27)
Closing RCV for 2007/08	2,114
Average RCV	2,053

The RCV above is that used by the Office of Water Services (Ofwat) in setting price limits in 2004 for the price review period, 2005-06 to 2009-10.

ADDITIONAL REGULATORY DISCLOSURES

For the year to 31 March 2008

A REGULATORY COMMENTARY AND TRENDS

The regulatory commentary and trends, as well as the key outputs, are included in the commentary to the statutory accounts.

B DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services provided by appointee to associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2007/08 Value £m
Wessex Water Ltd	Corporate charges	nil	No market	0.8
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance and personnel	11.5	No market	0.6
Wessex Water Enterprises Ltd	Sludge treatment, accommodation, transport, insurance, and laboratory services	11.0	No market	2.9

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2007/08 Value £m
Wessex Engineering & Construction Services Ltd	Delivery of the capital programme to the appointee	0.6	No market	0.6
Bristol Wessex Billing Services Ltd	Billing services	11.5	Competitive letting	9.3
SC Technology AG	Supply of sludge drying equipment and consultancy	8.5	Competitive letting	2.1
Wessex Water Enterprises Ltd	Supply of electricity	11.0	Other market testing	0.9

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 7 to the accounts.

The appointee paid £71.3m of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in notes 13 and 14 to the accounts.

The appointee acquired assets of £0.4m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

The Directors declare, that to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

ENVIRONMENTAL COST STATEMENT AND INVESTMENT TOWARDS SUSTAINABILITY

For year to 31 March 2008

Introduction

As part of our goal to become truly sustainable, Wessex Water has included environmental and sustainability investment accounts alongside our financial accounts since 2001. This widening of our accounts is to try and better illustrate the financial costs of our main environmental impacts and our spending towards sustainability.

The following accounts are in two main sections:

1) An environmental cost statement which considers the hypothetical cost of reducing our key externalised environmental impacts to a sustainable level.
2) A statement of investment towards sustainability which identifies expenditure - mandatory and discretionary - on our customers and communities, the environment, our employees and our infrastructure.

ENVIRONMENTAL COST STATEMENT

Conventionally, accounting does not set out an organisation's impacts on the atmosphere, water, land and biodiversity. Consequently, such environmental costs are ignored or deferred until investment to restore the environment is urgently required, or after irreversible damage has been caused.

However, environmental impacts are increasingly being factored into business decisions, for a range of reasons. For example:

- environmental costs are increasingly being monetised through environmental regulation and taxes
- identifying environmental best practice can produce financial rewards in the form of cost savings, tax minimisation and environmental grants
- the expectations of consumers, local communities and investors of what constitutes good environmental practice are increasing
- awareness of environmental costs and benefits and potential future problems can assist in strategic planning and help reduce exposure to risk and liabilities
- in the long term, all economic value flows from products and services provided by the environment and people. Instead of eroding these resources, a sustainable society would live off what can be provided year after year.

Methodology

The environmental cost statement is based on an approach developed by the sustainability charity Forum for the Future, as summarised below:

Identify the most significant environmental impacts that are not already dealt with by expenditure within the Profit and Loss Account.

Identify a sustainable level of impact in each case.

Quantify the impact for the year.

Calculate the financial effect – based on offset markets or mitigation costs - of reducing impacts to a sustainable level.

ENVIRONMENTAL COST STATEMENT

For the year to 31 March 2008

The impacts illustrated in the accounts are those for which Wessex Water is directly responsible and / or has the greatest ability to control. It is also acknowledged that the accounts are sensitive to the scope of impacts considered and assumptions about valuation of impacts.

Some of our environmental impacts are directly regulated, such as those on rivers and coastal waters. Our resulting investment, that is embedded within the Profit and Loss Account, is therefore not in the environmental cost statement. However, we attempt to quantify impacts on water that have not yet led to investment driven by regulation.

ENVIRONMENTAL COST STATEMENT - UNAUDITED

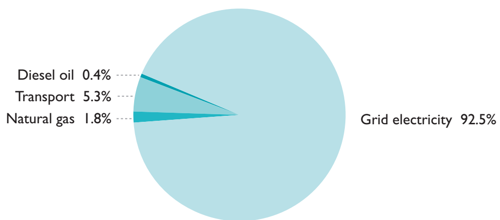
Known impacts

Component	Consumption	Emissions (tonnes)	2007/08 Target (see notes)	Avoidance / abatement cost £	2007/08 £'000
Emissions to air Methane	–	tCO_2e – 21,333	tCO_2e – 139,107	tCO_2e – 40,215 tonnes at £7.50	(302)
Nitrous oxide	–	tCO_2e – 20,879			
Grid electricity	240 m kWh	tCO_2 – 137,110			
Natural gas	13 m kWh	tNOx – 284	tNOx – 132	tNOx – 152 tonnes at £3,400	(517)
Diesel oil	0.5 m litres	tSO_2 – 534	tSO_2 – 400	tSO_2 – 134 tonnes at £2,400	(322)
Transport (vehicle, rail, air)	35 m km	tOther – 11	tOther – 144	tOther – NA	(-)

Environmental cost	(1,141)
Profit after taxation as per the financial accounts	95,500
Environmentally sustainable profit	94,359

t - tonnes CO_2 - carbon dioxide NOx - oxides of nitrogen SO_2 - sulphur dioxide
CO_2e - carbon dioxide equivalent including methane and nitrous oxide
Other - non-methane Volatile Organic Compounds; Particulates <10 microns

Breakdown of energy CO_2 emissions to air by component type



Possible impacts

Impacts on watercourses	Target 2007/08	Avoidance/abatement cost £'000
Abstraction Priority 2 sites	Meeting Defra guidance on low flows	(13,000)

NOTES TO THE 2008 ENVIRONMENTAL COST STATEMENT

Emissions to air

Our sustainability target is set according to the target reduction path in the UK Climate Change Act – a 60% cut between 1990 and 2050. We compare our annual emissions against this pathway as shown in the table below.

	1990	2007/08 actual emissions	2007/08 target (see notes)	Deficit
Carbon dioxide	123,557	179,322	139,107	40,215
Methane CO2e	31,502			
Nitrous oxide CO2e	12,538			

Our total carbon dioxide equivalent emissions were 179,322 tonnes in 2007/08. This means that we are currently in excess of the Climate Change Act target path. This is principally because of rising energy use and a reduction in the amount of renewable electricity contracted from one of our main suppliers.

The financial cost for reaching the target is calculated as follows:

- £7.50/tonne for carbon dioxide equivalent emissions from electricity, gas, diesel oil, transport along with methane emissions. This is the price offered by Climate Care to offset carbon dioxide through renewable energy projects and forestry

- monetary values for other emissions to the atmosphere are based on: a) European research - £7,200/tonne for hydrocarbons and £2,800/tonne for particulates; b) established fiscal mechanisms such as the Swedish sulphur tax (£2,400/tonne) and c) USA trading prices (14,000/tonne for oxides of nitrogen).

Impacts on water

Some of the rivers and streams in our region experience low flows from time to time, due to the combined effects of dry weather and Wessex Water's abstraction of groundwater. We have a programme of investigations underway, looking at the effect of abstraction on the ecology of the rivers and streams in question. In tandem we are investigating potential solutions whereby the water supplied to our customers can be taken from alternative sources. The costs of the investigation part of this programme are accounted for within this AMP period and are therefore not represented in these accounts.

In July 2007 the Environment Agency advised us that for our draft Water Resources Management Plan and Business Plan, we should assume a reduction in source outputs of 23.5 Ml/d. Recent work has shown that the replacement cost is higher than reported in previous years and now stands at £5m per Ml. On this basis, with the total investment discounted over 20 years at 6% we estimate that this is equivalent to £13m per annum.

The Environment Agency are due to confirm a final figure in August 2008 for our Final Business Plan. These costs of accommodating this change will be internalised in the next AMP period. At that point, this line would no longer appear in the Environmental Cost Statement.

Impacts on land

Accounts in previous years included an abatement cost for remediation of contaminated land. More recently, a series of environmental site risk assessments were carried out on a number of Wessex Water sites to identify any contaminated land that might require remedial action. According to statutory guidance, land is classed as contaminated if there is a source of contaminants and a pathway to a receptor for those contaminants. Analysis shows that for the majority of the sites there is a low risk of them falling under this definition. In the few cases where the risk is potentially higher, the company plans further investigation of hazard and liability. At present, based on the risk assessments, there are no known sites where Wessex Water will need to carry out contaminated land remediation. Therefore, there is no abatement cost.

Environmental cost

The overall environmental cost for Wessex Water in 2007/08 was £1.1m, leaving the sustainable level of profit for the company at £94.4m.

INVESTMENT TOWARDS SUSTAINABILITY

This section outlines the investment towards sustainability that Wessex Water made in 2007/2008. This includes expenditure on customers and communities, the environment, employees and infrastructure. A distinction is made between:

- mandatory investment – expenditure governed primarily by legislation or regulation
- discretionary investment – additional expenditure that the company chooses to make. The benefits can be primarily for third parties, the company itself, or evenly split between both.

INVESTMENT TOWARDS SUSTAINABILITY

For the year to 31 March 2008

INVESTMENT TOWARDS SUSTAINABILITY - UNAUDITED

	2007/2008
CUSTOMERS AND COMMUNITIES	**Amount £'000s**
Mandatory expenditure *Example - water supply quality enhancement work such as mains relining*	61,879
Discretionary expenditure (a)	-
Discretionary expenditure (b) *Example - replacement of customers' supply pipes; education service*	543
Discretionary expenditure (c) *Example - charitable donations to community projects*	210
ENVIRONMENT	
Mandatory expenditure *Example - capital investment to meet the Bathing Water Directive*	27,214
Discretionary expenditure (a)	-
Discretionary expenditure (b) *Example - trials on options for more sustainable water resources*	1,759
Discretionary expenditure (c) *Example - conservation grants to Wildlife Trusts*	65
EMPLOYEES	
Mandatory expenditure *Example - basic pay and conditions including pension*	58,790
Discretionary expenditure (a) *Example - enhanced overtime payments*	5,594
Discretionary expenditure (b) *Example - staff training*	4,696
Discretionary expenditure (c) *Example - enhanced maternity leave*	-
INVESTMENT - INFRASTRUCTURE	
Mandatory expenditure *Example - replacement/refurbishment of sewers*	142,697
TOTALS	
Customers and communities	62,632
Environment	29,038
Employees	69,080
Infrastructure	142,697
Total	303,447

Mandatory expenditure – expenditure governed primarily by legislation or regulation
Discretionary expenditure (a) – primary benefit to Wessex Water; secondary benefit to others
Discretionary expenditure (b) – equal benefit to Wessex Water and to others
Discretionary expenditure (c) – primary benefit to others; secondary benefit to Wessex Water

Investment towards sustainability is £303.4m up from £199.7m last year as a result of an increase in infrastructure investment.

FOR FURTHER INFORMATION

Wessex Water has a range of leaflets and reports which are available free to customers.

For further details, write to:

Public relations
Wessex Water
Claverton Down
Bath BA2 7WW

Alternatively you can visit our website at
www.wessexwater.co.uk

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SINCE 1955

Registered office: Wessex Water, Claverton Down, Bath BA2 7WW
Telephone: 01225 526 000 Fax: 01225 528 000
Registered in England No 2366648

www.wessexwater.co.uk