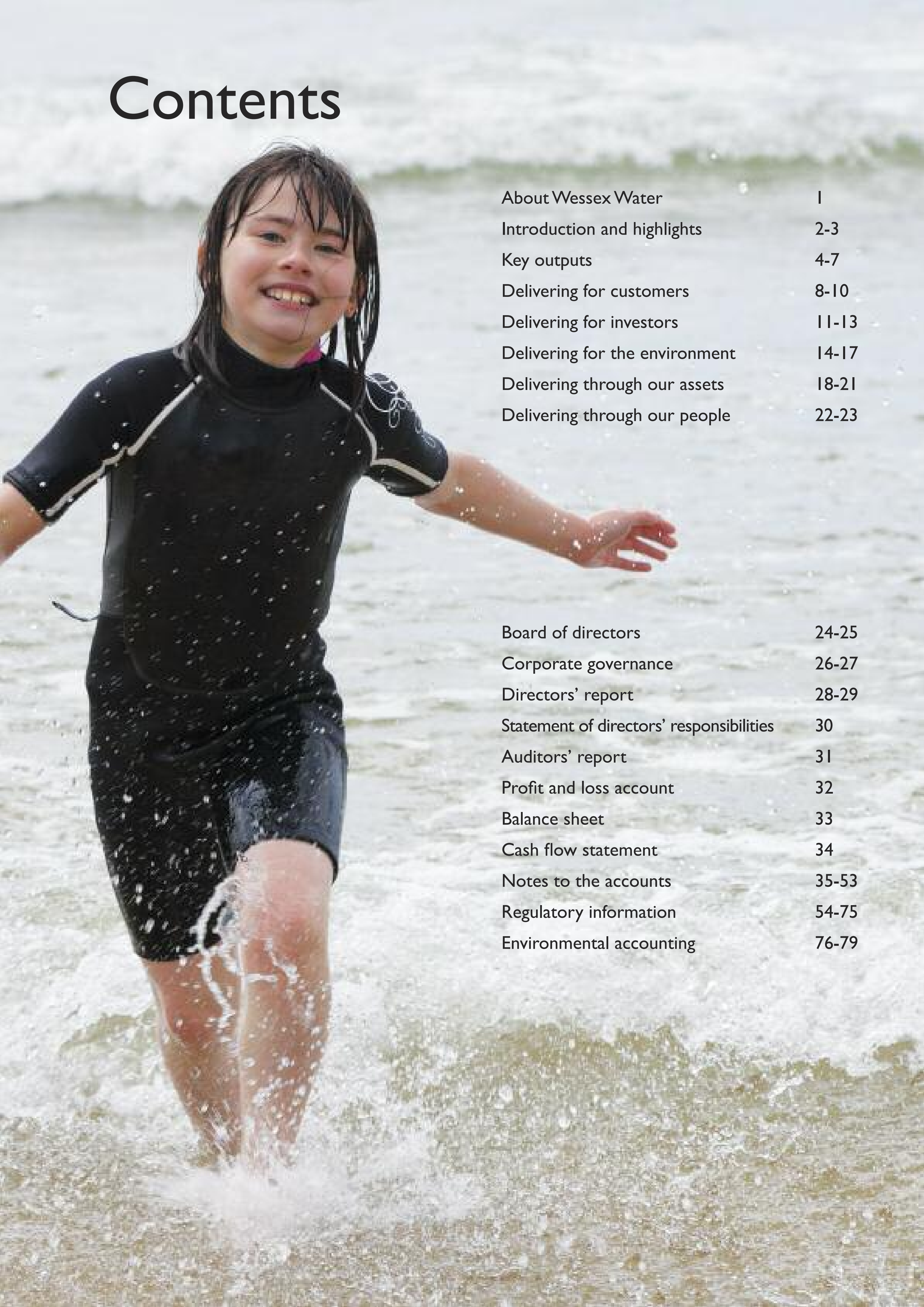
2011 Annual Review

Wessex Water
a YTL company



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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 1.3 million customers with around 284 million litres of water a day.

We have:

- 97 water sources
- 110 water treatment works
- 209 booster pumping stations
- 340 service reservoirs and water towers
- 11,509 kilometres of water mains.

Wessex Water takes away and treats 475 million litres of sewage from 2.7 million customers every day.

Our sewerage system includes:

- 17,443 kilometres of sewers
- 405 sewage treatment works
- 1,515 pumping stations.

Financial highlights

- Regulatory capital value £2,396m
- Turnover £444.9m
- Debt to capital value ratio 64%.

Chairman's introduction

The last year brought new challenges to which Wessex Water, as always, responded positively and successfully.

We continue to be one of the most efficient and profitable water and sewerage companies and the savings we have made over the past five years mean that customers' bills were £21, or 5%, lower in 2010-11 than they otherwise would have been.

Once again our compliance with drinking water standards exceeded 99.9% and compliance with sewage discharge consents continued to be 100%.

Overall, Wessex Water provides the highest levels of service in the industry and we are the industry leader in Ofwat's new league table for overall customer satisfaction. Last year, 98% of customers who contacted us rated our service as either good or very good.

Nowhere was our customer service and the dedication of our staff more visible than during the winter of 2010/11. Despite the prolonged sub-zero temperatures and snow cover during December 2010 and the subsequent rapid thaw in January 2011, we not only cut leakage but also met a challenging new target.

Our staff and contractors worked for lengthy periods in demanding conditions to ensure that bursts and leaks were identified and repaired as quickly as possible.

We have begun work on our regional water grid which will improve the security of supply to customers and meet quality and quantity requirements for water over the next 25 years. This multi-purpose project will be the largest ever carried out by the company; it will include new trunk mains, new service reservoirs and new and improved pumping stations across Dorset, Somerset and Wiltshire.

We have also made good progress with the early phases of our new quality and environmental programme, continuing to be innovative by developing lowest whole-life cost sustainable solutions rather than building conventional end-of-pipe treatment.

Our compliance with the EU's mandatory bathing water standards stands at 100% while compliance with the guideline, stricter, standard that will come into force in 2015 is 87.2%.

Our sewage treatment quality and improvement programme has seen the completion of schemes to reduce pollution from storm overflows in Weymouth and the installation of equipment at 45 sites to record when storm overflows are operating.

We were the first water company in the country to publish information through our website showing when storm overflows that affect bathing waters have been in operation.

While these are challenging times for the economy and our operating costs have increased from £121.4m to £126.2m, profit after tax has increased from £112.3m to £115.5m. During the year we invested £115.3m in new capital projects and met all the outputs required by our regulators.

Turning to the future of the industry, we are reassured by indications that reform within the sector is likely to be achieved by evolution rather than revolution.

We have been part of the reform debate and believe it is important that the right decisions are made with the aim of achieving a sustainable water sector – one that will be able to deal with changes in population, water use and the climate.

We believe a number of key areas need to be addressed and these include fair and sustainable charging where we want to see a system that makes water affordable for all and encourages customers to use it wisely.

The existing five-year price reviews need to be set in the context of a longer term, 10-20 year investment plan to bring greater continuity and enable the pace of investment to be set at an affordable rate.

We believe customers should have a much greater voice in what they want from their local water companies, including the ability to influence prices and discretionary investment.

To encourage more sustainable approaches, such as catchment management, renewable energy and cross-border supplies, the incentives to companies should be improved and refocused.

There are a number of uncertainties ahead, among them the doubling of our sewerage network through the transfer of private sewers later this year, potential structural and/or legislative changes to the sector and worsening customer debt as a result of the fragile economy.

We will manage and respond to these risks to minimise the impact on our business and on our customers. We are committed to operating our business as efficiently as possible and with the contribution of our skilled and dedicated staff we are confident that we will not only continue to do so, but will also maintain our position as industry leaders.

Colin Skellett
Chairman

Highlights

Over the past year we have:

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

Key outputs

Wessex Water made a positive and successful start to the first year of the new regulatory period.

We remain one of the most efficient and profitable of all water and sewerage companies, with the highest levels of service in the industry.

In particular, despite the exceptionally difficult winter conditions of December 2010, we not only cut leakage but also met a challenging new target.

In 2010-11 customers' bills were £21, or 5%, lower than they otherwise would have been because of the savings we have made over the previous five years.

The past year

Despite being the first year of a tougher price review, and against a continuing background of difficult economic conditions for all of our customers, we have been able to produce a very solid set of financial results for the year with profit after tax rising from £112.3m to £115.5m.

Turnover increased primarily through the 0.9% price increase on 1 April 2010. While we sought to control the increase in operating costs there were some upward cost pressures that were outside our control, such as business rates. The increase in depreciation and infrastructure maintenance reflected the ongoing capital investment programme.

Interest payable actually fell due to improved cash flow and low short-term interest rates which more than offset higher inflation. Corporation tax increased despite slightly lower profits because of the special 40% rate for capital allowances in the previous year. Deferred taxation turned from being a charge last year to a small credit this year because the rate at which the liability is calculated fell from 28% to 26%.

Profit and loss	2010-2011 £m	2009-2010 £m	Variance £m
Turnover	**444.9**	**438.2**	**6.7**
Operating costs	-126.2	-121.4	-4.8
Depreciation	-72.6	-68.6	-4.0
Infrastructure maintenance	-34.0	-31.5	-2.5
Operating profit	**212.1**	**216.7**	**-4.6**
Interest payable	-62.2	-63.8	1.6
Profit before tax	**149.9**	**152.9**	**-3.0**
Corporation tax	-34.9	-28.7	-6.2
Deferred tax	0.5	-11.9	12.4
Profit after tax	**115.5**	**112.3**	**3.2**
Dividends	-75.6	-138.9	63.3
Retained profit	**39.9**	**-26.6**	**66.5**

The dividend for the year was lower than the previous year primarily because the final dividend in respect of 2008-09 was actually declared in 2009-10. On a like for like basis dividends fell by almost 14%.

In respect of cash flow we achieved a positive inflow for the second year running which is a major achievement for our business. This was achieved through tight control of operating and capital expenditure and a strong performance from our billing company in terms of debt collection. Net debt only rose because of the accruals on our bonds.

Gearing fell from 67.6% to 64.3% as result of the good cash flow performance but was also helped by recent high inflation pushing the Regulatory Capital Value up to nearly £2.4 billion at March 2011.

Cashflow	2010-2011 £m	2009-2010 £m	Variance £m
Operating profit	212.1	216.7	-4.6
Depreciation	106.6	100.1	6.5
Working capital	-11.6	-8.8	-2.8
Capital expenditure	-103.8	-116.3	12.5
Interest	-59.7	-61.7	2.0
Taxation	-33.9	-20.4	-13.5
Dividends	-106.2	-108.3	2.1
Cash flow	3.5	1.3	2.2
Bond accruals	-12.9	-11.2	-1.7
Movement in net debt	-9.4	-9.9	0.5
Opening net debt	1,530.1	1,520.2	-9.9
Closing net debt	1,539.5	1,530.1	-9.4
RCV	2,396.0	2,262.0	134.0
Gearing %	64.3%	67.6%	-3.3%

Our service performance is summarised below.

Service to customers and the environment	Service level		Service vs 2005-10 average
	2005-10 average	2010-11	
CUSTOMER SERVICE			
SIM customer satisfaction score	New measure	89%	Industry leader
SIM customer contact score (lower is better)	New measure	119	Industry leader
Billing contacts dealt with in 5 days	100%	100%	Same
Written complaints dealt with in 10 days	100%	100%	Same
Bills based on a meter reading	100%	100%	Same
WATER SUPPLY			
Properties at risk of receiving low pressure	178	173	Better
Properties experiencing unplanned interruptions over 12 hrs	79	61	Better
Properties experiencing supply restrictions	0%	0%	Same
Overall water quality performance score	99.9%	>99.9%	Better
Total leakage (million litres per day)	73	71	Better
SEWERAGE			
Properties at risk of internal flooding more than once in 10 yrs	345	102	Better
Properties internally flooded	126	94	Better
ENVIRONMENTAL STANDARDS			
Compliance with EA abstraction licences	100%	100%	Same
Number of pollution incidents	105	85	Better
Beaches meeting mandatory standards	100%	100%	Same
Population served by compliant sewage treatment works	99.9%	100%	Better
Sewage sludge disposed satisfactorily	100%	100%	Same
Carbon emissions (tonnes CO_2 equivalent)	164,000	162,000	Better

A sustainable future

Over the past 12 months the emphasis has been on reform, with the government promising to incorporate the findings of several reviews into a Water White Paper, and Ofwat looking at how it should set future price limits.

Additionally, Defra has been reviewing regulation more generally, including David Gray's review of Ofwat and the Consumer Council for Water.

We have engaged in the reform debate and are working to provide evidence to ensure the right decisions are reached for the future.

This includes our research work on catchment management, including engagement with farmers and the National Farmers Union, our metering and tariffs study that has involved more than 6,000 customers, and research on affordability and debt.

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

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

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

Principal risks and uncertainties

Over the past year we have taken our approach to risk management still further.

A risk committee, comprising the executive directors, has reviewed the major risks to the business, the mitigations already in place and the potential for further mitigation to reduce risks. The board also reviews risk at least annually.

The AMP5 period poses a number of uncertainties, notably:

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

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

We must also accommodate the transfer of private sewers in October 2011 and potential structural and/or legislative changes to the sector, including the separation of wholesale and retail activities.

The transfer of private sewers is likely to result in an interim determination to cover the significant cost impacts, although clearly we are working to minimise these.

Delivering for customers

Customer service

This year we aimed to deliver the best service possible to all our customers.

We lead Ofwat's new service incentive mechanism (SIM) independent survey of customer experience – the qualitative element of the mechanism.

Our high satisfaction score owes much to prompt, warm voice telephone answering, rapid response, first time resolution of problems and keeping customers informed of what we are doing at all times.

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

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

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

Once again we retained our government standard Customer Service Excellence award for our approach to customer services.

And we continue to have the best overall package of customer guarantees in the industry.

Affordability, tariffs and debt recovery

The continuing fragile economic climate and marked increase in unemployment over the year have together brought growing affordability problems.

Last year we introduced a new credit management system which has allowed us to improve segmentation of our customer base, enabling more accurate targeting of customers and ultimately more productive and successful debt recovery.

Our commitment to work on affordability continues unabated and is reflected in our strong links to and partnership with the Citizens Advice Bureau (CAB).

We have also formed a partnership with the Money Advice Trust, in particular National Debtline, and are advising customers keen to take a more self-help approach to use this service.

Around 7,000 customers continue to benefit from our Assist tariff, which enables those with the greatest difficulty in paying to make a modest contribution towards the costs of water and sewerage services.

Our measures to help customers adopt an affordable payment routine have seen cash collection increase by 30% despite cutting charges by around 50%.

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

We have now published the interim findings of our tariff trial to test the effectiveness and customer response to metering and to three different sophisticated metered tariffs.

We found that fitting a meter when the occupier changes reduced customer demand for water by 17% without causing adverse customer reaction.

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

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

Seasonal charging structures appear to encourage a further step change in water conserving behaviour and improve the affordability of charges compared to both flat-rate and rising block charging structures.

However, such structures suffer from a perception problem and customers wrongly assume water companies are profiteering during the summer – particularly when the weather is dry.

To overcome this we want to:

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

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

Encouraging water efficiency

While our customers have now enjoyed 34 consecutive years without hosepipe bans or other restrictions, we are working hard to encourage them to save water.

This year we beat our target to help customers save one litre per property per day.

Customer consultation and engagement

We undertook a wide range of customer consultation and engagement this year.

These included our tracking and monthly satisfaction surveys, customer feedback cards, focus groups and research questionnaires related to our metering and tariffs study, and a range of public consultations, roadshows and workshops.

Our monthly satisfaction survey showed that of the 2,000 customers surveyed, 98% rated our overall service as good or very good.

Alongside this our proactive calling, within 24 hours of us leaving site, of customers who had reported an operational problem also showed 98% rated our service as good or very good.

Over the year we have:

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

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

This year we have reviewed our stakeholder engagement and replaced our two customer liaison panels with three new ones – these cover customers and community, services and planning, and environment.

The membership of each panel has been widened so, for example, the customer and community panel now includes representatives of key customer stakeholders such as the Consumer Council for Water, RNIB, RNID, Citizens Advice and Money Advice Trust as well as local councillors.

Our partnerships with local authorities and the Environment Agency continue to provide a forum for discussing and resolving any issues related to our services.

They have proved particularly fruitful in the case of flooding where various bodies have differing responsibilities and working in partnership can deliver more favourable solutions than working in isolation.

Delivering for investors

Turnover

Turnover increased by £6.7m or 1.5% to £444.9m, principally as a result of the 2010-11 price increase of 0.9%. The recovery of commercial sales and sales from new customers was offset by reduced income from customers switching to meters.

Operating costs

Operating costs increased from £121.4m to £126.2m. However, these figures are distorted by accounting adjustments in respect of pension accounting and a one-off charge taken in the year for AMP preparation costs deferred from AMP4. Without the accounting adjustments operating costs rose by only £3.2m.

There were specific upward pressures on costs in respect of business rates, bad debts and new standards, but these increases were limited by savings made across the business and especially in respect of power.

Capital investment

In 2010-11 we delivered gross capital expenditure of £115.3m (£109.0m net), which is 76% of the Final Determination allowance for the first year of AMP5.

During the year we have met all regulatory outputs required in our determination, while successfully moving to our workstream-based delivery process and also releasing the technical briefs to the workstream partners for much of the AMP programme.

Furthermore, the DWI reviewed all the AMP5 quality projects and was satisfied that project planning and progress is as expected. The EA has also signed off all year one outputs required under the National Environment Programme (NEP).

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

Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased from £100.1m to £106.6m. The increase is split between a £2.5m increase in the infrastructure maintenance charge (IMC) and a £4.0m increase in depreciation resulting from the continuing capital investment programme. The IMC is now assessed on a 15-year forward-looking basis.

This year we applied the results of our PR09 MEA revaluation to our asset register.

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

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

Interest and tax

Interest charges reduced from £63.8m last year to £62.2m this year. There was a tight control on cash for the second year running which saw a positive cash flow before bond accruals of £3.5m, similar to the £1.3m positive last year.

Interest rates were low in the year, but because of the increase in inflation towards the end of this year, there will be an increase in the indexation on index linked bonds next year. In all the cost of debt reduced from 3.9% last year to 3.8% this year.

The corporation tax charge in the year was £34.9m, an increase of £6.2m as a result of a reduction in capital allowances claimed and less credits received in respect of prior years. In respect of capital allowances there was a special 40% rate in the prior year and the Industrial Buildings Allowance rate reduced from 2% to 1%.

Deferred tax moved significantly from a charge of £11.9m last year to a credit of £0.5m this year. This reduction was because of the government announcement of a reduction in the corporation tax rate from 28% to 26% from April 2011. While the rate change does not apply to corporation tax in this year, deferred tax is calculated at the rate that will apply when timing differences (between the treatment of items for taxation and accounting purposes) reverse, and this rate has reduced by 2%.

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 board wishes to ensure that gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets. As a consequence the final dividend for 2008-09 was deferred to 2009-10 increasing the prior year dividend by £26.9m.

The final quarterly dividend for the three months to March 2010 was declared before the year end, while for the year to March 2011 it was declared after the year end. These two factors explain why the dividend of £75.6m declared this year was lower than the £138.9m declared last year. On a like for like basis dividends fell by 14%.

Cashflow and finance

Net debt increased by £9.4m to £1,539.5m. This comprised:

- cash inflow from operating activities of £294.2m, less
- capital investment cash outlay of £103.8m, less
- interest payments of £59.7m, less
- tax payments of £33.9m, less
- dividend payments of £106.2m.

Liquidity at year end was a healthy £163m comprising cash and undrawn bank facilities. There are no major debt maturities in AMP5 with the exception of a £75m term loan maturing in 2011-2012.

The regulatory capital value increased by £134m, from £2,262m to £2,396m, of which £121m related to the impact of inflation. Gearing at 31 March 2011, calculated as net debt divided by regulatory capital value, was 64%.

During the year we have met all regulatory outputs required in our determination, while successfully moving to our workstream-based delivery process

Delivering for the environment

We continue to do our best to protect the environment in all that we do.

Our compliance with drinking water standards continues to exceed 99.9% and compliance with sewage discharge consents remains at 100%.

Once again our compliance with the EU's mandatory bathing water standards stands at 100% while compliance with the guideline, stricter, standard that will come into force in 2015, is 87.2%.

Drinking water

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

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

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

Quality and environmental programme

We have made very good progress delivering the early phases of the AMP5 quality and environmental programme.

Wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions rather than building conventional end-of-pipe treatment.

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

We now have a team of six professionals providing advice and working in partnership with farmers to help reduce the impact of agriculture on our aquifers and reservoirs.

We continue to believe that dealing with the problem at source is a more sustainable and economic approach than energy and chemical intensive end-of-pipe treatment.

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

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

Bathing water directive
Work has begun at Weston-super-Mare sewage treatment works on a £26m scheme to improve secondary treatment and storm storage to meet the requirements of the revised Bathing Water Directive.

The improvement work will be completed two years in advance of the new bathing water directive and involves increasing the secondary treatment and ultraviolet disinfection capacity which will improve the quality of discharges from the works.

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

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

All investigations are progressing well and to programme. These include:

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

Biodiversity

We have now exceeded the Defra Public Service Agreement target for our SSSI landholding. Since April, 96% of our SSSIs are now either in favourable or unfavourable-recovering status.

We agreed with Natural England during the year to remove a number of very small parcels of land from the assessment and are working with them and our tenants to maintain our SSSI performance.

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

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

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

Abstraction impact
In order to reduce the environmental impact of our abstractions we have submitted licence variations to the Environment Agency for the Chitterne, Alton Pancras and Wimbleball sources.

These licence changes will formalise the revised source operations that have been in place for a number of years under the Statement of Intent process to protect river flows in the River Wylye and River Piddle catchments.

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

Carbon management

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

In 2010-11 we continued with action to reduce our emissions through avoidance measures, energy efficiency and increasing renewable energy generation.

There are more than 300 efficiency projects in our energy management database, with an increasing number coming from the water production and supply side of our activities.

As part of the pumping efficiency programme we have taken the WRc base pump optimisation tool and developed a focused programme to identify and rectify inefficient pumping plant and systems in all parts of the business.

Increased adoption of automated meter reading has helped to ensure that accurate data is available to identify problem sites early and minimise inefficient operation.

An advanced process control system has been operating successfully at Holdenhurst sewage treatment works and is producing excellent power reduction results. The possibility of adapting similar control principles at other sites is being investigated and further projects are likely to be implemented this year.

We have refurbished the aeration system at Weymouth sewage treatment works with significant power savings as a result.

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

Our investment in advanced digestion and work to maximise biogas production continues to benefit our renewable energy production.

Bristol sewage treatment works continues to export surplus electricity to the national grid when generation exceeds on-site demand.

Renewable energy generation (GWh)	2004/05	2009/10	2010/11
Biogas	20	37	42
Hydro	<1	1	2
Total (% of WW electricity use)	20 (8%)	38 (15%)	44 (17%)

Delivering through our assets

Asset management

We are committed to maintaining our assets to ensure our infrastructure remains in best possible working order.

We continue to strengthen our approach to risk and asset management, ensuring that risks are understood and managed throughout the business.

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

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

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

Serviceability assessments	Water infrastructure	Water non-infrastructure	Sewerage infrastructure	Sewerage non-infrastructure
2005-06	Marginal	Stable	Stable	Stable
2006-07	Marginal	Stable	Marginal	Stable
2007-08	Stable	Stable	Stable	Stable
2008-09	Stable	Stable	Stable	Stable
2009-10	Stable	Stable	Stable	Stable
2010-11 (self assessment)	Stable	Stable	Stable	Stable

Water supply

Planning for our water supply grid, a multi-purpose regional project that will be the largest ever carried out by the company, progresses well.

It will include new trunk mains, new service reservoirs and new and refurbished pumping stations across Dorset, Somerset and Wiltshire. Construction is expected to start in 2013 and continue through to 2018.

Once complete it will:

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

Sewage flooding

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

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

Our approach to risk and asset management is to **strengthen** our position with the aim of **ensuring that risks are understood and managed** throughout the business

Leakage

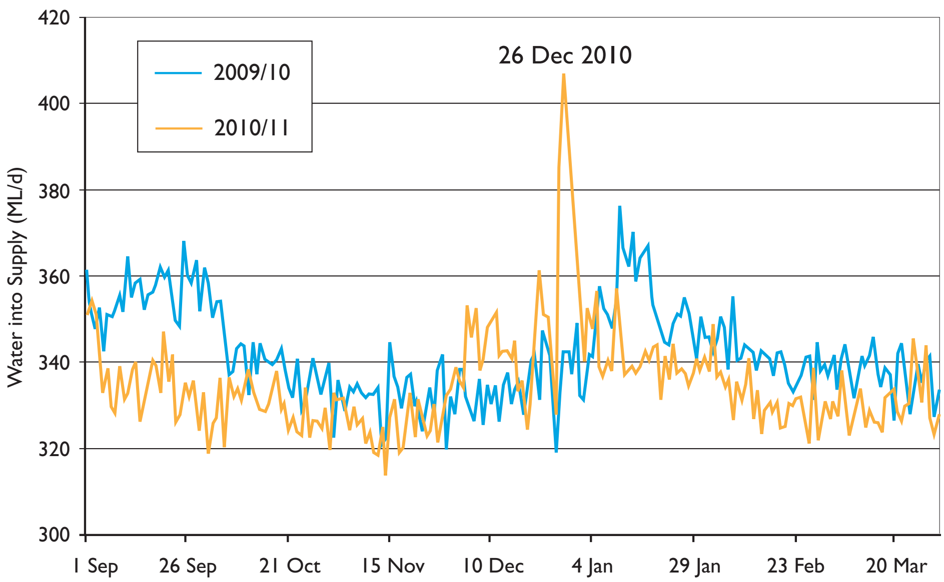
Despite the prolonged sub-zero conditions and snow cover during December 2010 we have cut leakage from 74ML/d and met our new target of 71ML/d.

This is despite the Boxing Day thaw which caused an unprecedented overnight increase in leakage with the instantaneous minimum night flow rising by 90ML/d – a doubling of leakage overnight.

Following the thaw, we stepped up leakage detection significantly, doubling night work and weekends.

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

Distribution input



Financing new development

We remain concerned over the way new development is financed.

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

First-time sewerage

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

Meeting demands

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

At the start of 2011-12 water resources were lower than normal due to the dry winter, particularly in March and April, but still considerably above levels in 1975-76.

Our resilience to drought is considerably better than in 1975-76 due to lower leakage and higher levels of metering.

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

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

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

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

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

Delivering through our people

Over the past year the challenging economic and climatic conditions have proved not only how much the success of Wessex Water depends on its employees, but also that we have the best in the business.

Throughout this period they have continued to provide outstanding service to our customers, in particular working for prolonged periods to deal with the sub-zero temperatures and then the subsequent thaw of December 2010.

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

Health and safety

The health and safety of employees remains paramount and maintaining high standards is an essential measure of the successful operation of our business.

Our health and safety team advise on health and safety policy, the development of company targets and monitoring compliance with company standards.

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

There were 14 reportable incidents in 2010, which is below the five-year average of 22 but still higher than the 12 reportable incidents in 2009.

The increase was caused by one occurrence of a reportable disease (hand arm vibration syndrome) and an increase in the number of injuries longer than three days from eight to nine.

Training

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

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

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

Eureka! scheme

Our Eureka! scheme encourages staff to think about ways to save money, work more efficiently and improve quality, with financial incentives for implemented suggestions.

During the year, 113 entries were submitted with 28 staff receiving awards of £100 and two overall winners awarded a combined total of £10,000.

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 more than 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, chairman of Future Bath Plus and chairman of the West of England Local Enterprise Partnership.

Mark Watts – Finance director and treasurer

A qualified treasurer Mark spent eight years in international banking before joining the treasury department of Wessex Water in 1991. He was appointed treasury manager in 1994 before becoming treasurer in 1999 shortly after the acquisition of Wessex Water by Enron.

Mark is highly experienced in raising finance, from both the capital markets and the banking sector, as well as having a long history in dealing with various corporate finance issues. He was appointed finance director and treasurer on 16 March 2010.

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. Julian joined Wessex Water in May 2003.

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

Dave Elliott – Director of regulation and assets

He has 26 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became southern divisional manager. In 2004 he became general manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007.

Sean Cater – Director of operations and construction

He has more than 30 years' experience in the construction and engineering industry. Sean joined Wessex Water in 1992 as a resident engineer in the Somerset division. He subsequently worked as a construction manager and in 2000 he took on the role of head of capital investment. In 2002 he became general manager of Wessex Utilities Contracting. He was appointed to his current role on 11 June 2007.

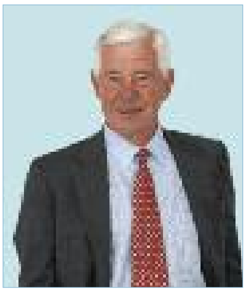
WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Non-executive directors

David Barclay –

former vice chairman of Dresdner Kleinwort Wasserstein (DrKW). Non-executive deputy chairman of John Lewis plc. Member of the Board of the British Library. Appointed 1 November 2005. Chairman of Audit Committee.

Lesley Bennett –

customer director of Wessex Water since 1994. Trustee of Wiltshire Wildlife Trust. Former North Wilts and Wiltshire councillor. Chair of DEVELOP (Community Support Charity for B&NES and Wiltshire). Chair of Wessex Water's Customer and Community 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, co-director of the Prince of Wales's Business and Sustainability Programme and co-founder 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 founder member of the Malaysia Business Council and member of Malaysia's Capital Markets Advisory Council and the Barclays Asia-Pacific Advisory Committee. 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 utilities and construction divisions. 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 & Development Berhad, YTL Cement 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 UK Corporate Governance 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, risk management, health and safety policy, 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
Kathleen Chew +
Peter Costain *
Julian Dennis
David Elliott
Jonathon Porritt CBE *
Mark Watts
Francis Yeoh CBE #
Hong Yeoh #
Mark Yeoh #

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

Board committees

Four formal committees have been established:

- audit committee
- risk management committee
- remuneration committee; and
- nomination committee.

Audit committee

The primary function of the committee is to review the reporting of financial and other information, the auditing of risk, the systems of internal control, 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 UK Corporate Governance Code, and the committee considers any other corporate governance issues referred to it by the board.

The committee meets four times a year. Membership comprises three independent non-executive directors. The committee has access to the company's finance director and treasurer, the financial controller, the head of internal audit and the company's external auditors.

Members: David Barclay, chairman, Lesley Bennett and Peter Costain.

Risk management committee

The purpose of the committee is to identify and manage the key business risks faced by the company. It produces for the board's annual approval a risk management plan addressing the company's risk management systems, practices and procedures to ensure effective risk identification, management and compliance with risk management policies. The committee meets at least annually or at such shorter intervals as may be necessary to consider changes to the company's business risks.

Members: all executive directors.

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 and bonus 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 company, department and individual performance. Company performance includes measurement against Ofwat performance targets.

The remuneration committee is exclusively comprised of 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: Hong Yeoh, chairman, David Barclay, Peter Costain, Francis Yeoh and Mark 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, Colin 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 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 an annual report about the company's management of risk and compliance with the company's internal risk and financial management systems. 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 2011. 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.

In November 2009 the industry regulator Ofwat announced a 0.3% price limit for Wessex Water Services Ltd from 1 April 2010, before adjustment for inflation. The announcement also included price limits for each of the four subsequent years of 0.3%, 1.9%, 1.9% and 1.5%, before adjustment for inflation, for the years commencing 1 April 2011, 2012, 2013 and 2014 respectively.

Employment

Wessex Water Services Ltd offers equal opportunities to all applicants for employment. Disabled people are considered for employment, training, career development and promotion on the basis of their aptitude and abilities, in common with all employees. Employees who become disabled while 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.

Environmental 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 environmental 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 2011.

Charitable donations

During the year £359,000 was donated to UK charities (2010 – £355,000).

Supplier payment policy

The policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 2011 trade creditors represented approximately 30 days trade purchases (2010 – 35 days). The company does not follow any specific external code or standard on payment policy.

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	1,400,000	1.61	28/11/2008	28/11/2011	29/11/2011	-	-	1,400,000
PJL Dennis	2,000,000	1.82	16/05/2005	16/05/2008	29/11/2011	-	(183,100)	1,816,900
DJ Elliott	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	-	240,000
M T Watts	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	-	240,000

The market price of share options exercised in the year was RM2.30164 and the gain on exercise was RM88,188.

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
29 June 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of Wessex Water Services Ltd ("the directors") have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2011 which are intended by them to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) as if applicable UK law applied to them.

In preparing these non-statutory accounts, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the non-statutory accounts; and
- prepared the non-statutory accounts on the going concern basis as they believe that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

REPORT OF KPMG AUDIT PLC TO WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2011 set out on pages 32 to 53. These non-statutory accounts have been prepared for the reasons set out in note 1a to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

As explained in note 1a, these non-statutory accounts have been prepared by the directors of the company for the year ended 31 March 2011, 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 2010 have been filed with the Registrar of Companies.

This report is made solely to the company 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 it 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and KPMG Audit Plc

As explained more fully in the Statement of Directors' Responsibilities on page 30, the directors are responsible for the preparation of the non-statutory accounts which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 27 May 2010 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on the non-statutory accounts

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006, as if those requirements were to apply.

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

PROFIT AND LOSS ACCOUNT

For the year to 31 March 2011

	NOTE	2011 £m	2010 £m
Turnover	2	444.9	438.2
Operating costs	3	(232.8)	(221.5)
Operating profit	2	212.1	216.7
Interest payable and similar charges	4	(61.1)	(60.4)
Interest receivable	4	0.6	0.5
Other finance costs		(1.7)	(3.9)
Profit on ordinary activities before taxation		149.9	152.9
Taxation on profit on ordinary activities	5	(34.4)	(40.6)
Profit attributable to shareholders	19	115.5	112.3

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 2011

	NOTE	2011 £m	2010 £m
Fixed assets			
Tangible assets	8	2,010.9	2,009.2
Investments	9	-	-
		2,010.9	2,009.2
Current assets			
Stock and work in progress	10	5.2	5.3
Debtors	11	131.9	126.8
Cash at bank and in hand	12	63.0	8.1
		200.1	140.2
Creditors – amounts falling due within one year	13	(196.4)	(141.4)
Net current assets / (liabilities)	32	3.7	(1.2)
Total assets less current liabilities		2,014.6	2,008.0
Creditors – amounts falling due after more than one year	14	(1,515.4)	(1,533.3)
Provisions for liabilities and charges	15	(92.7)	(97.8)
Retirement benefit obligations	16	(52.7)	(58.6)
Deferred income	17	(18.7)	(19.6)
Net assets	2	335.1	298.7
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	253.8	217.4
Equity shareholders' funds	20	335.1	298.7

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

These accounts were approved by the board of directors on 29 June 2011 and signed on its behalf by:

Colin Skellett
Chairman

Mark Watts
Director

Company Registration No. 2366648

CASH FLOW STATEMENT

For the year to 31 March 2011

	NOTE	Year to 31.03.11 £m	Year to 31.03.10 £m
Net cash inflow from operating activities	21	294.2	296.8
Returns on investments and servicing of finance	22	(59.7)	(61.7)
Taxation		(33.9)	(20.4)
Capital expenditure and financial investment	23	(103.8)	(116.3)
Equity dividends paid		(106.2)	(108.3)
Cash outflow before financing		(9.4)	(9.9)
Financing	24	58.1	(19.0)
Increase / (decrease) in cash		48.7	(28.9)
Reconciliation of cash movement to the movement in net debt			
Increase / (decrease) in cash – above		48.7	(28.9)
Movement in loans and leases		(58.1)	19.0
Movement in net debt	25	(9.4)	(9.9)
Opening net debt	25	(1,530.1)	(1,520.2)
Closing net debt	25	(1,539.5)	(1,530.1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year to 31 March 2011

	Year to 31.03.11 £m	Year to 31.03.10 £m
Profit for the financial year	115.5	112.3
Total recognised gains relating to the financial year	115.5	112.3
Actuarial losses net of taxation	(3.5)	(29.7)
Total gains recognised since last annual report	112.0	82.6

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 2006.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 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 2011 or 2010. 31 March 2011 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2010 and 30 June 2009. 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 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the company will be prepared for the year ending 30 June 2011.

As explained on page 28, 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.

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

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

d. Leased assets

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

e. Grants and contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions, which would be accounted for as deferred income. The departure from the 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.

The group also operates a defined contribution section within the main pension scheme. Contributions to the scheme are charged to the profit and loss account in the period to which they relate.

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 may be 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 are proposed by the board and immediately afterwards are authorised by the shareholder and therefore are recognised as a liability in the accounts until paid.

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.

	2011 £m	2010 £m
a. Turnover		
Regulated	440.3	434.6
Unregulated	4.6	3.6
	444.9	438.2
b. Operating profit		
Regulated	212.1	216.7
Unregulated	-	-
	212.1	216.7
c. Net assets		
Regulated	335.1	298.7
Unregulated	-	-
	335.1	298.7

3 OPERATING COSTS

	2011 £m	2010 £m
Manpower costs (note 6b)	40.3	37.5
Materials and consumables	24.2	23.1
Other operational costs	61.7	60.8
Depreciation	106.1	99.2
Amortisation of grants and contributions	(0.9)	(1.0)
Loss on disposals of fixed assets	1.4	1.9
	232.8	221.5
Operating costs include:		
Operating leases for plant and machinery	1.2	1.0
Research and development	0.1	0.2
Directors' remuneration (note 6c)	1.4	1.4
Fees paid to the auditors	0.1	0.2

	2011 £000	2010 £000
Auditors' remuneration:		
Audit of these financial statements	135	125
Other services pursuant to legislation	-	30
All other services	-	35
	135	190

4 NET INTEREST PAYABLE

	2011 £m	2010 £m
Interest payable:		
To group companies	54.9	52.4
On bank loans	4.8	5.9
On finance leases	1.4	2.1
Total interest payable	61.1	60.4
Interest receivable on short-term bank deposits	(0.6)	(0.5)
Net interest payable	60.5	59.9

5 TAXATION

	2011 £m	2010 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 28%	37.4	33.4
Adjustments in respect of previous years	(2.5)	(4.7)
Total corporation tax charge	34.9	28.7
Deferred tax – current year:		
Origination and reversal of timing differences	(15.1)	9.9
Decrease / (increase) in discount	14.8	(3.6)
	(0.3)	6.3
Deferred tax – prior year:		
Origination and reversal of timing differences	(0.8)	6.8
Decrease / (increase) in discount	0.6	(1.2)
	(0.2)	5.6
Total deferred tax (credit) / charge	(0.5)	11.9
Taxation charge on profit on ordinary activities	34.4	40.6
b. Current tax reconciliation		
Profit on ordinary activities before tax	149.9	152.9
Current tax at 28%	41.9	42.8
Group relief for nil consideration	(1.3)	(0.2)
Capital allowances less than / (greater than) depreciation	2.9	(4.5)
Payment of lease creditor capital	(1.8)	(1.8)
Other timing differences	(4.3)	(2.9)
Total corporation tax charge – as above	37.4	33.4

c. On 23 March 2011 the Chancellor announced the reduction in the corporation tax rate from 28% to 26% with effect from 1 April 2011. There is no change to the corporation tax figures shown above.

NOTES TO THE ACCOUNTS
continued

6 DIRECTORS AND EMPLOYEES

	2011 £m	2010 £m
a. Total employment costs of the company were:		
Wages and salaries	55.8	58.0
Social security costs	4.8	4.5
Other pension costs	3.6	5.0
	64.2	67.5
b. Total employment costs are charged as follows:		
Capital schemes	23.9	30.0
Manpower costs (note 3)	40.3	37.5
	64.2	67.5
	2011 £000	**2010 £000**
c. Total directors' remuneration		
Salary and fees	983	904
Compensation for loss of office	-	238
Bonuses	337	240
Benefits in kind	69	59
	1,389	1,441

The remuneration above is in respect of five executive directors (2010 – five at the end of the year) and seven non executive directors (2010 – seven). In determining the directors' pay, the remuneration committee considers 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 £466k remuneration from other group companies (2010 – £1,360k including compensation for loss of office). Four directors have benefits accruing under defined benefit pension schemes (2010 – five). The aggregate amount of company contributions to pension schemes in respect of directors was £139k (2010 – £158k).

d. Directors' remuneration and standards of service

Remuneration of the executive directors comprises:
- basic salary
- bonus
- pension plan
- car and health benefits
- unapproved share option scheme of the parent company YTL Power International Berhad.

The Remuneration Committee sets the annual level of remuneration of the directors. Overall packages are linked to market rates of pay, externally assessed against the HAY Industrial and Services Sector comparison of companies. Basic salary and the other benefits, with the exception of the bonus scheme, are not linked to standards of performance.

The annual bonus of directors is dependent on the achievement of company, team and individual targets. In the case of directors these targets are weighted as 60% company, 20% team and 20% individual. The company targets are Key Performance Indicators covering financial measures, Ofwat service measures, asset performance, environmental and employee issues as shown below:

Financial	profit after corporation tax / operational costs / net capital expenditure / cash flow before dividends / equity return
Service	Service Incentive Mechanism customer satisfaction and customer contact score / drinking water quality / customer service rating / operating cost comparative performance
Asset	regulatory outputs / serviceability / security of supply / leakage
Environmental	energy usage / energy self generation / sewage treatment compliance / bathing water quality / pollutions category 1, 2 and 3
Employees	reportable injuries / employee rating of company / compliance with training plan.

In 2010/2011 all but one of the company targets were met or bettered, and when taking into account team and individual performance, the following bonus payments were made; SA Cater £85k, CF Skellett £75k, DJ Elliott £70k, MT Watts £57k and PJL Dennis £50k.

	2011 £000	2010 £000
e. Highest paid director		
Salary	204	133
Compensation for loss of office	-	238
Bonus	85	39
Benefits in kind	15	6
	304	416

There is a different highest paid director in the two years and respectively they had an accrued annual pension entitlement of £51,363 at 31 March 2011 and £158,996 at 31 March 2010.

	2011 number	2010 number
f. Monthly average number of employees during the year	1,595	1,709

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.

	2011 £m	2010 £m
Final dividend in respect of a prior year not recognised as a liability in that year	-	26.9
Interim dividends for 9 months to 31 December	75.6	81.4
Final dividend for 3 months to 31 March	-	30.6
	75.6	138.9

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2010/11 declared and paid in April 2011 of £21.0m was not recognised in these financial statements.

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 2010	666.0	1,159.9	1,075.6	88.2	54.9	3,044.6
Additions	1.0	4.3	54.0	3.5	54.0	116.8
Transfers on commissioning	6.1	9.3	24.0	5.0	(44.4)	-
Disposals	(1.4)	-	(10.1)	(0.3)	-	(11.8)
Grants and contributions	-	(6.3)	-	-	-	(6.3)
At 31 March 2011	671.7	1,167.2	1,143.5	96.4	64.5	3,143.3
Depreciation						
At 1 April 2010	184.9	361.2	466.4	22.9	-	1,035.4
Charge for the period	13.6	34.0	53.2	5.3	-	106.1
Disposals	(0.5)	-	(8.4)	(0.2)	-	(9.1)
At 31 March 2011	198.0	395.2	511.2	28.0	-	1,132.4
Net book value						
At 31 March 2011	473.7	772.0	632.3	68.4	64.5	2,010.9
At 1 April 2010	481.1	798.7	609.2	65.3	54.9	2,009.2

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 £53.2m (2010 – £59.6m).

The depreciation charge for the period on assets held under finance leases is £6.4m (2010 – £6.4m).

The net book value of infrastructure assets at 31 March 2011 is stated after the deduction of grants and contributions amounting to £121.4m (2010 – £115.1m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £397.0m (2010 – £363.2m) of expenditure on maintaining the network, and £395.2m (2010 – £361.2m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £10.6m (2010 – £10.2m) in respect of land which is not depreciated.

9 INVESTMENTS

The company has an investment of £13,000 (2010 – £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

10 STOCK AND WORK IN PROGRESS

	2011 £m	2010 £m
Raw materials and consumables	2.6	2.4
Work in progress	2.6	2.9
	5.2	5.3

11 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Trade debtors	36.6	35.1
Owed by group companies	29.3	26.6
Prepayments and accrued income	59.9	62.8
Other debtors	6.1	2.3
	131.9	126.8

12 CASH AT BANK AND IN HAND

	2011 £m	2010 £m
Short-term bank deposits	63.0	-
Cash at bank and in hand	-	8.1
	63.0	8.1

Short-term bank deposits mature within 1 month.

13 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Bank overdraft	6.2	-
Loans repayable	75.0	-
Inter company loan	1.3	1.3
Obligations under finance leases	5.6	4.9
Trade creditors	2.9	5.4
Amounts owed to subsidiary company	12.5	12.4
Amounts owed to other group companies	0.6	0.6
Amounts owed to associate company	0.2	0.7
Dividend	-	30.6
Other creditors	2.8	2.7
Corporation tax	21.1	20.1
Taxation and social security	1.7	2.3
Accruals and deferred income	66.5	60.4
	196.4	141.4

The inter company loan is due to a fellow subsidiary company SC Technology GmbH.

NOTES TO THE ACCOUNTS
continued

14 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		2011 £m	2010 £m
Loans repayable	- in more than 1 year, but not more than 2 years	-	75.0
	- in more than 2 years, but not more than 5 years	150.0	-
	- in more than 5 years	140.0	240.0
		290.0	315.0
Finance lease repayable	- in more than 1 year, but not more than 2 years	6.3	5.6
	- in more than 2 years, but not more than 5 years	24.0	21.4
	- in more than 5 years	34.7	43.6
		65.0	70.6
Inter company loans	- in more than 5 years	1,159.4	1,146.4
Other		1.0	1.3
		1,515.4	1,533.3

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:

	2011 £m	2010 £m
Bond at 5.375% repayable in March 2028	198.2	198.1
Bond at 5.75% repayable in October 2033	346.0	345.8
Index linked Bond at 3.53% plus inflation repayable in July 2023	62.9	62.2
Index linked Bond at 2.186% plus inflation repayable in September 2039	53.3	50.3
Index linked Bond at 1.75% plus inflation repayable in July 2046	84.6	83.7
Index linked Bond at 1.75% plus inflation repayable in July 2051	84.5	83.7
Index linked Bond at 1.369% plus inflation repayable in July 2057	84.6	83.7
Index linked Bond at 1.374% plus inflation repayable in July 2057	84.5	83.7
Index linked Bond at 1.489% plus inflation repayable in November 2058	53.6	51.7
Index linked Bond at 1.495% plus inflation repayable in November 2058	53.6	51.7
Index linked Bond at 1.499% plus inflation repayable in November 2058	53.6	51.8
	1,159.4	1,146.4

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2010	97.0	0.8	97.8
Provided in year	-	0.4	0.4
Utilised during year	-	(1.2)	(1.2)
Origination and reversal of timing differences	(19.8)	-	(19.8)
Decrease in discount	15.5	-	15.5
At 31 March 2011	92.7	-	92.7

	2011 £m	2010 £m
a. Deferred tax is provided as follows:		
Accelerated capital allowances	272.9	292.9
Other timing differences	(0.8)	(1.0)
Undiscounted provision for deferred tax	272.1	291.9
Discount	(179.4)	(194.9)
Discounted provision for deferred tax	92.7	97.0

b. On 23 March 2011 the Chancellor announced the reduction in the corporation tax rate from 28% to 26% with effect from 1 April 2011. This change became substantially enacted on 29 March 2011 and therefore reduced the deferred tax liability above and the deferred tax asset (note 16).

The Chancellor also announced a reduction in the corporation tax rate by 1% per annum to 23% by 1 April 2014, but these changes were not substantially enacted by 31 March 2011, and the impact has not been included above. Had this change been enacted at the balance sheet date the deferred tax provision above would have decreased by £12.7m to £80.0m, and the deferred tax asset (note 16) would have decreased by £2.1m to £16.0m.

16 PENSION LIABILITY

	2011	2010
FRS 17 pension liability (note 16e)	69.6	79.9
FRS 17 deferred tax asset	(18.1)	(22.4)
Unfunded and compensatory added years pension	1.2	1.1
	52.7	58.6

a. The defined benefit scheme operated by the group, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). The assets are held in separate trustee administered funds. The pension cost charged to the profit and loss account has been determined on the advice of independent qualified actuaries and is such as to spread the cost of pensions over the service lives of the members of the scheme. The scheme has been closed to new members.

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

b. The total pension cost of the company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £6.5m (2010 – £11.9m).

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2010. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.3% and the post retirement discount rate 5.3%, that salary increases would be 3.5% per annum in year 1, 3.0% in years 2 and 3 and 4.3% thereafter and that present and future pensions would increase between 2.2% and 3.3% per annum. The market value of the WWPS assets as at 31 December 2010 was £345.3m which represented 81.2% of the actuarial value of the accrued benefits of £425.2m, a deficit of £79.9m. The next actuarial valuation will be at 31 December 2013.

In response to this valuation the company has agreed to pay additional contributions of £8.6m per annum at 31 March 2012, and at 31 March for a further 9 years.

d. The actuarial valuation described above has been updated to 31 March 2011 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	31.03.11	31.03.10
Rate of increase in salaries – short term	3.0% to 3.5%	3.4%
Rate of increase in salaries – long term	4.3%	3.4%
Rate of increase in pensions in payment	2.6% or 3.3%	3.25%
Rate of increase in pensions in payment (reduced level members)	2.2%	2.2%
Discount rate	5.6%	5.6%
Inflation assumption – RPI	3.5%	3.4%
Inflation assumption – CPI	2.6%	-

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 27.0 years if they are male, and for a further 28.7 years if they are female. For a member who retires in 2031 at age 60 the assumptions are that they will live, on average, for a further 28.5 years after retirement if they are male, and for a further 30.3 years after retirement if they are female.

e. The value of the assets and liabilities at 31 March 2011 and the previous year was as follows:

	31.03.11 £m	31.03.10 £m
Equities	168.5	149.0
Property	23.7	21.7
Government Bonds	138.3	128.8
Corporate Bonds	17.1	17.7
Other	7.6	8.7
Total fair value of the assets	355.2	325.9
Present value of defined benefit obligations	(424.8)	(405.8)
Deficit in the scheme	(69.6)	(79.9)

The expected rates of return were as follows:

	31.03.11 %	31.03.10 %
Equities	8.4	8.5
Property	8.1	9.0
Government Bonds	4.4	4.5
Corporate Bonds	5.1	5.5
Other	1.5	0.6
Total	6.5	6.6

Narrative description of the basis used to determine expected value:
Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme as at 31 March 2011.

f. Additional analysis:

	31.03.11 £m	31.03.10 £m
Analysis of profit and loss charge		
Current service cost	9.3	7.6
Past service cost	(4.5)	0.4
Interest cost	22.6	19.9
Expected return on scheme assets	(20.9)	(16.0)
Expense recognised in profit and loss account	6.5	11.9
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	405.8	303.8
Current service cost	9.3	7.6
Interest cost	22.6	19.9
Contributions by scheme participants	0.7	1.0
Actuarial losses on scheme liabilities	6.5	85.4
Net benefits paid out	(15.6)	(12.3)
Past service cost	(4.5)	0.4
Closing present value of defined benefit obligations	424.8	405.8
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	325.9	256.9
Expected return on scheme assets	20.9	16.0
Actuarial gains on scheme assets	3.6	44.2
Contributions by the employer	19.7	20.1
Contributions by scheme participants	0.7	1.0
Net benefits paid out	(15.6)	(12.3)
Closing fair value of scheme assets	355.2	325.9
Actual return on scheme assets		
Expected return on scheme assets	20.9	16.0
Actuarial gains on scheme assets	3.6	44.2
Actual return on scheme assets	24.5	60.2
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial losses	(2.9)	(41.2)
Cumulative amount of losses recognised	(90.9)	(88.0)

NOTES TO THE ACCOUNTS
continued

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.11 £m	31.03.10 £m	31.03.09 £m	31.03.08 £m	31.03.07 £m
Fair value of scheme assets	355.2	325.9	256.9	295.7	288.9
Present value of scheme liabilities	(424.8)	(405.8)	(303.8)	(316.1)	(349.5)
(Deficit) in the scheme	(69.6)	(79.9)	(46.9)	(20.4)	(60.6)
Experience gains / (losses) on scheme assets	3.6	44.2	(64.6)	(17.6)	(3.4)
Experience gains / (losses) on scheme liabilities	9.1	4.3	(1.1)	(3.4)	(5.3)

17 DEFERRED INCOME

	2011 £m	2010 £m
Grants and contributions:		
At 1 April	19.6	20.3
Received in the year	-	0.3
Less amortisation	(0.9)	(1.0)
At 31 March	18.7	19.6

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	217.4	273.7
Actuarial losses net of taxation	(3.5)	(29.7)
Profit attributable to shareholders	115.5	112.3
Dividends (note 7)	(75.6)	(138.9)
At 31 March	253.8	217.4

20 EQUITY SHAREHOLDERS' FUNDS

	2011 £m	2010 £m
At 1 April	298.7	355.0
Actuarial losses net of taxation	(3.5)	(29.7)
Profit attributable to shareholders	115.5	112.3
Dividends (note 7)	(75.6)	(138.9)
At 31 March	335.1	298.7

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

	Year to 31.3.11 £m	Year to 31.3.10 £m
Operating profit	212.1	216.7
Depreciation	106.1	99.2
Amortisation of grants and contributions	(0.9)	(1.0)
Provisions	(16.4)	(11.4)
Loss on disposal of fixed assets	1.4	1.9
Decrease / (increase) in stocks	0.1	(0.4)
(Increase) in debtors	(5.2)	(10.9)
(Decrease) / increase in creditors	(3.0)	2.7
	294.2	296.8

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Interest received	0.5	0.4
Interest paid	(58.6)	(58.1)
Interest element of finance lease rentals	(1.6)	(4.0)
	(59.7)	(61.7)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of tangible fixed assets	(111.6)	(123.7)
Sale of tangible fixed assets	1.3	1.3
Connection charges, grants and deferred income	6.5	6.1
	(103.8)	(116.3)

24 FINANCING

Loans and finance leases drawn down	50.0	50.0
Loans and finance leases repaid	(4.9)	(79.8)
Bond non cash movements	13.0	10.8
	58.1	(19.0)

NOTES TO THE ACCOUNTS
continued

25 MOVEMENT IN NET DEBT

	1 April 2010 £m	Cash flow £m	Non cash items £m	31 March 2011 £m
Cash at bank and in hand	8.1	54.9	-	63.0
Bank overdraft	-	(6.2)	-	(6.2)
Short term borrowings	(1.3)	-	-	(1.3)
Loans repayable within one year	-	(75.0)	-	(75.0)
Loans repayable after one year	(315.0)	25.0	-	(290.0)
Finance leases repayable within one year	(4.9)	(0.7)	-	(5.6)
Finance leases repayable after one year	(70.6)	5.6	-	(65.0)
Bonds repayable after one year	(1,146.4)	-	(13.0)	(1,159.4)
	(1,530.1)	3.6	(13.0)	(1,539.5)

26 FINANCIAL INSTRUMENTS

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £88.1m (2010 – £6.2m) 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 2011 there were £100.0m (2010 – £150.0m) of undrawn facilities. The company may use derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2011 £m	Floating rate borrowings 2011 £m	Total borrowings 2011 £m	Fixed rate borrowings 2010 £m	Floating rate borrowings 2010 £m	Total borrowings 2010 £m
Sterling	1,159.4	443.1	1,602.5	1,146.4	391.8	1,538.2

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

	Interest rate % 2011	Period years 2011	Interest rate % 2010	Period years 2010
Sterling	3.8	30.8	3.7	31.8

£88.1m (2010 – £6.2m) of floating rate borrowings are short term, and £355.0m (2010 – £385.6m) 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 2011	Fair value £m 2011	Book value £m 2010	Fair value £m 2010
Borrowings less than 1 year	88.1	88.1	6.2	6.2
Floating rate borrowings over 1 year	355.0	355.0	385.6	385.6
Fixed rate borrowings over 1 year	1,159.4	1,248.0	1,146.4	1,204.5
	1,602.5	1,691.1	1,538.2	1,596.3

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 parent company and 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, the following options were outstanding at 31 March 2010 and 2011.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2010	Granted	Forfeited	Exercised	Outstanding at 31 March 2011
13/12/2002 Unapproved	9,789,750	-	(100,000)	(1,311,000)	8,378,750
26/12/2002 Approved	4,091,000	-	-	(1,127,000)	2,964,000
12/12/2003 Unapproved	994,000	-	(360,000)	-	634,000
12/12/2003 Approved	1,418,000	-	(34,000)	(236,000)	1,148,000
16/05/2005 Unapproved	3,900,000	-	(100,000)	(341,100)	3,458,900
16/05/2005 Approved	4,254,000	-	(34,000)	(512,000)	3,708,000
07/08/2006 Unapproved	500,000	-	-	-	500,000
07/08/2006 Approved	4,708,500	-	(170,000)	(220,350)	4,318,150
20/08/2007 Unapproved	900,000	-	(100,000)	-	800,000
20/08/2007 Approved	3,224,000	-	(294,000)	(27,000)	2,903,000
26/06/2008 Unapproved	90,000	-	(10,000)	-	80,000
28/11/2008 Unapproved	6,080,000	-	(360,000)	-	5,720,000
28/11/2008 Approved	9,344,000	-	(284,000)	-	9,060,000
TOTAL	49,293,250	-	(1,846,000)	(3,774,450)	43,672,800

Of the above options 28,812,800 were exercisable at 31 March 2011.

NOTES TO THE ACCOUNTS
continued

The exercise price and fair value of the ordinary shares are as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
13/12/2002 Unapproved	13/12/2005	29/11/2011	1.32	n/a
26/12/2002 Approved	26/12/2005	29/11/2011	1.39	n/a
12/12/2003 Unapproved	12/12/2006	29/11/2011	1.53	0.51
12/12/2003 Approved	12/12/2006	29/11/2011	1.70	0.34
16/05/2005 Unapproved	16/05/2008	29/11/2011	1.82	0.04
16/05/2005 Approved	16/05/2008	29/11/2011	2.02	0.01
07/08/2006 Unapproved	07/08/2009	29/11/2011	1.74	0.07
07/08/2006 Approved	07/08/2009	29/11/2011	1.93	0.01
20/08/2007 Unapproved	20/08/2010	29/11/2011	2.04	0.03
20/08/2007 Approved	20/08/2010	29/11/2011	2.27	-
26/06/2008 Unapproved	20/08/2010	29/11/2011	1.80	0.02
28/11/2008 Unapproved	28/11/2011	29/11/2011	1.61	0.22
28/11/2008 Approved	28/11/2011	29/11/2011	1.78	0.16

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

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

Scheme	Weighted ave. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
16/05/2005 Unapproved	2.03	3.5	5	3.15	5.6
16/05/2005 Approved	2.03	3.5	3	2.91	5.6
07/08/2006 Unapproved	1.92	3.5	4	4.10	5.8
07/08/2006 Approved	1.92	3.5	3	4.06	5.8
20/08/2007 Unapproved	2.30	3.5	4	3.63	6.9
20/08/2007 Approved	2.30	3.5	3	3.60	6.9
26/06/2008 Unapproved	1.93	3.5	3	3.43	7.8
28/11/2008 Unapproved	1.85	21.0	3	3.23	7.3
28/11/2008 Approved	1.85	21.0	3	3.23	7.3

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

A charge of £0.2m is recognised in the profit and loss account for FRS 20.

28 COMMITMENTS AND GUARANTEES

a. There were £0.1m (2010 – £0.1m) of operating leases under leases on land and buildings due within the next year, which expire in over 5 years. There were no other commitments under operating leases.

b. At 31 March 2011 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2010 – nil).

c. Capital expenditure contracted but not provided at 31 March 2011 was £37.6m (2010 – £21.8m).

d. The company has guaranteed Bonds of £1,159.4m (2010 – £1,146.4m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 2011 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 non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 60 to 75.

Ring fencing

Under the conditions of its Licence, the company is at all times required to ensure, so far as 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 2011. 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 2012 and the business plan model through to March 2015. 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.

Transactions with associates

In the opinion of the directors the company has complied with the objectives and principles of RAG 5.04 in that transactions with associated companies are at arms length and that cross subsidy is not occurring.

Directorships

C F Skellett and M T Watts are also directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Ltd and Bristol Wessex Billing Services Ltd. C F Skellett is also a director of YTL Utilities (UK) Ltd and YTL Utilities Holdings 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 2011.

The directors also confirm that, except for the departure explained in note 1e on page 36 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 60 to 75 do not constitute the company's statutory accounts for the years ended 31 March 2011 or 2010. 31 March 2011 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2010 and 2009. 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 498 (2) or (3) of the Companies Act 2006.

The next statutory accounts of the company will be prepared for the year ending 30 June 2011.

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 36). The principal accounting policies are described on pages 35 to 37.

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 62.

Turnover recognition

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

There are no differences in turnover recognition between the statutory and regulatory accounts.

Income related to water and sewerage services is receivable from occupiers of premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised.

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES continued

Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

The principles laid out above apply to both new and existing premises.

Current cost statements
The principal accounting policies are described on page 66.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £1.8m (2010 – £2.0m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £397.0m (2010 – £363.2m) and reduce accumulated depreciation by £395.2m (2010 – £361.2m).

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 62.

Principles of cost allocation
In note 7a and 7b of the current cost regulatory statements, direct costs are specifically attributed to services and do not require allocation. Business activities, rates and doubtful debts are allocated according to a specific criteria, relevant to each type of cost. Capital costs are specifically attributed to services and do not require allocation.

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 for the year ended 31 March 2011 on pages 60 to 74 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between non-statutory and regulatory accounts; 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.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the company and 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. Our audit work has been undertaken so that we might state to the company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the company to meet its obligation under Condition F 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 and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect

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

of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the non-statutory financial statements of the company. Furthermore, 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 International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts
In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 55, 56 and 66, the state of the company's affairs at 31 March 2011 on a historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

Basis of preparation
Without modifying our opinion, we draw attention to the fact that 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 non-statutory financial statements of the company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in non-statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 60 to 62 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 Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 62.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

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 such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the non-statutory financial statements of the company for the year ended 31 March 2011 on which we report, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the company (our 'non-statutory audit') was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our non-statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a non-statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year to 31 March 2011

	2011 Appointed £m	2011 Non appointed £m	2011 Total £m	2010 Appointed £m	2010 Non appointed £m	2010 Total £m
Turnover	440.3	4.6	444.9	434.6	3.6	438.2
Operating costs	(158.1)	(4.6)	(162.7)	(151.6)	(3.6)	(155.2)
Depreciation	(71.2)	-	(71.2)	(66.7)	-	(66.7)
Operating income	(1.4)	-	(1.4)	(1.9)	-	(1.9)
Operating profit	209.6	-	209.6	214.4	-	214.4
Other income	0.4	-	0.4	0.4	-	0.4
Interest payable	(62.2)	-	(62.2)	(63.8)	-	(63.8)
Profit on ordinary activities before taxation	147.8	-	147.8	151.0	-	151.0
Current taxation	(34.9)	-	(34.9)	(28.7)	-	(28.7)
Deferred taxation	0.5	-	0.5	(11.9)	-	(11.9)
Profit for the year	113.4	-	113.4	110.4	-	110.4
Ordinary dividend	(75.6)	-	(75.6)	(138.9)	-	(138.9)
Transfer to reserves	37.8	-	37.8	(28.5)	-	(28.5)

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 2011

	2011 Appointed £m	2011 Non appointed £m	2011 Total £m	2010 Appointed £m	2010 Non appointed £m	2010 Total £m
Profit for the year	113.4	-	113.4	110.4	-	110.4
Actuarial losses net of tax	(3.5)	-	(3.5)	(29.7)	-	(29.7)
Total recognised gains	109.9	-	109.9	80.7	-	80.7

HISTORICAL COST BALANCE SHEET

At 31 March 2011

	2011 Appointed £m	2010 Appointed £m
Fixed assets		
Tangible fixed assets	1,987.7	1,987.9
Current assets		
Stocks	5.2	5.3
Debtors	131.9	126.8
Infrastructure renewals prepayment	1.8	2.0
Cash at bank and in hand	63.0	8.1
	201.9	142.2
Creditors – amounts falling due within one year		
Borrowings	(88.1)	(6.2)
Corporation tax	(20.6)	(19.6)
Dividends payable	-	(30.6)
Other creditors	(87.2)	(84.5)
	(195.9)	(140.9)
Net current assets	6.0	1.3
Total assets less current liabilities	1,993.7	1,989.2
Creditors – amounts falling due after more than one year		
Borrowings	(1,514.4)	(1,532.0)
Other creditors	(1.0)	(1.3)
	(1,515.4)	(1,533.3)
Provisions for liabilities and charges		
Deferred tax	(92.7)	(97.0)
Retirement benefit obligations	(52.7)	(58.6)
Other provisions	-	(0.8)
Deferred income	(18.7)	(19.6)
Net assets	314.2	279.9
Capital and reserves		
Called up share capital	81.3	81.3
Profit and loss account	232.9	198.6
Equity shareholders' funds	314.2	279.9

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

The regulatory information on pages 60 to 75 was approved by the board of directors on 29 June 2011.

Colin Skellett
Chairman

Mark Watts
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON-STATUTORY ACCOUNTS

At 31 March 2011

	2011 £m	2010 £m
Profit and loss account		
Per regulatory accounts	113.4	110.4
Capitalisation of customer pipe leak repairs	2.1	1.9
Per non-statutory accounts	115.5	112.3
Balance sheet		
(a) Fixed assets		
Per regulatory accounts	1,987.7	1,987.9
Capitalisation of customer pipe leak repairs – current year	2.1	1.9
Capitalisation of customer pipe leak repairs – prior years	19.3	17.4
Infrastructure renewals expenditure under FRS 15	1.8	2.0
Per non-statutory accounts	2,010.9	2,009.2
(b) Current assets		
Per regulatory accounts	201.9	142.2
Infrastructure renewals expenditure under FRS 15	(1.8)	(2.0)
Per non-statutory accounts	200.1	140.2
(c) Creditors – amounts falling due within one year		
Per regulatory accounts	(195.9)	(140.9)
Tax adjustment on prior year customer pipe leak repairs	(0.5)	(0.5)
Per non-statutory accounts	(196.4)	(141.4)
(d) Reserves		
Per regulatory accounts	232.9	198.6
Capitalisation of customer pipe leak repairs – current year	2.1	1.9
Capitalisation of customer pipe leak repairs – prior years	18.8	16.9
Per non-statutory accounts	253.8	217.4

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

For the year to 31 March 2011

	NOTE	2011 £m	2010 £m
Turnover	4	440.3	434.6
Current cost operating costs	7	(251.1)	(239.0)
Operating income	4	(3.1)	(4.1)
Working capital adjustment	4	(1.5)	(0.6)
Current cost operating profit	5	184.6	190.9
Other income		0.4	0.4
Interest payable		(62.2)	(63.8)
Financing adjustment		49.7	43.6
Current cost profit before taxation		172.5	171.1
Corporation tax		(34.9)	(28.7)
Deferred tax		0.5	(11.9)
Current cost profit attributable to shareholders		138.1	130.5
Ordinary dividend		(75.6)	(138.9)
Transfer to reserves		62.5	(8.4)

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS At 31 March 2011

	NOTE	2011 £m	2010 £m
Fixed assets			
Tangible fixed assets	6	14,498.1	11,670.1
Third party contributions since 1989-90		(193.2)	(178.6)
		14,304.9	11,491.5
Other operating assets and liabilities			
Working capital	8	64.0	61.5
Cash and deposits		63.0	8.1
Infrastructure renewals prepayment		1.8	2.0
		128.8	71.6
Non operating assets and liabilities			
Borrowings		(88.1)	(6.2)
Non trade debtors due within one year		0.2	0.1
Non trade creditors due within one year		(14.3)	(14.0)
Corporation tax payable		(20.6)	(19.6)
Dividends payable		-	(30.6)
		(122.8)	(70.3)
Amounts falling due after more than one year			
Borrowings		(1,514.4)	(1,532.0)
Other creditors		(1.0)	(1.3)
		(1,515.4)	(1,533.3)
Provisions for liabilities and charges			
Deferred tax provision		(92.7)	(97.0)
Post employment liabilities		(52.7)	(58.6)
Other provisions		-	(0.8)
Net assets employed		12,650.1	9,803.1
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		96.4	37.4
Current cost reserve	9	12,472.4	9,684.4
		12,650.1	9,803.1

CURRENT COST CASH FLOW STATEMENT

For the year to 31 March 2011

	NOTE	Appointed 2011 £m	Appointed 2010 £m
Net cash inflow from operating activities	5	292.1	294.9
Returns on investments and servicing of finance			
Interest received		0.5	0.4
Interest paid		(58.6)	(58.1)
Interest on finance lease rentals		(1.6)	(4.0)
		(59.7)	(61.7)
Taxation			
UK corporation tax paid		(33.9)	(20.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(75.7)	(98.6)
Receipts of grants and contributions		6.5	6.1
Infrastructure renewals expenditure		(33.8)	(23.2)
Sale of fixed assets		1.3	1.3
		(101.7)	(114.4)
Equity dividends paid		(106.2)	(108.3)
Net cash outflow before financing		(9.4)	(9.9)
Financing			
Capital element of finance lease rentals		(4.9)	(4.8)
Loans taken out		50.0	-
Loans repaid		-	(75.0)
Loans from subsidiary company		13.0	60.8
		58.1	(19.0)
Increase / (decrease) in cash		48.7	(28.9)

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 2011

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 2009 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

	2011 Water services £m	2011 Sewerage services £m	2011 Appointed business £m	2010 Water services £m	2010 Sewerage services £m	2010 Appointed business £m
Turnover						
Unmeasured – household	61.4	134.9	196.3	61.4	139.9	201.3
Unmeasured – non household	2.3	4.0	6.3	2.3	4.1	6.4
Total unmeasured	63.7	138.9	202.6	63.7	144.0	207.7
Measured – household	43.0	83.9	126.9	39.8	79.8	119.6
Measured – non household	35.8	44.6	80.4	34.9	43.8	78.7
Total measured	78.8	128.5	207.3	74.7	123.6	198.3
Trade effluent	-	4.5	4.5	-	4.4	4.4
Large users	8.4	12.3	20.7	8.4	11.6	20.0
Rechargeable works	3.2	0.4	3.6	2.3	0.6	2.9
Bulk supplies	0.3	-	0.3	0.3	-	0.3
Other appointed business	0.2	0.9	1.1	0.2	0.7	0.9
Other sources	0.2	-	0.2	0.1	-	0.1
Total turnover	154.8	285.5	440.3	149.7	284.9	434.6
Operating income						
Current cost loss on disposal of fixed assets	(0.8)	(2.3)	(3.1)	(2.5)	(1.6)	(4.1)
Total operating income	(0.8)	(2.3)	(3.1)	(2.5)	(1.6)	(4.1)
Working capital adjustment	(0.5)	(1.0)	(1.5)	(0.2)	(0.4)	(0.6)

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

	2011 £m	2010 £m
Current cost operating profit	184.6	190.9
Working capital adjustment	1.5	0.6
Movement in working capital	(2.5)	(20.4)
Other income	0.4	0.4
Current cost depreciation	93.0	87.4
Current cost loss on disposal of fixed assets	3.1	4.1
Infrastructure renewals charge	34.0	31.5
Provisions	(22.0)	0.4
Net cash inflow from operating activities	292.1	294.9

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 2010	772.2	28.6	2,495.7	28.1	3,324.6
MEA adjustment	208.5	70.7	216.0	7.3	502.5
RPI adjustment	50.0	5.3	145.3	2.1	202.7
Disposals	(2.1)	(0.3)	-	(2.9)	(5.3)
Additions	19.5	0.1	4.9	3.2	27.7
Cost at 31 March 2011	1,048.1	104.4	2,861.9	37.8	4,052.2
Depreciation at 1 April 2010	369.9	6.2	-	16.1	392.2
MEA adjustment	32.3	36.5	-	4.2	73.0
RPI adjustment	20.1	2.3	-	1.1	23.5
Disposals	(1.6)	(0.1)	-	(2.3)	(4.0)
Charge for year	22.6	1.1	-	4.8	28.5
Depreciation at 31 March 2011	443.3	46.0	-	23.9	513.2
Net book value at 31 March 2011	604.8	58.4	2,861.9	13.9	3,539.0
At 1 April 2010	402.3	22.4	2,495.7	12.0	2,932.4
SEWERAGE SERVICES					
Cost at 1 April 2010	2,274.0	43.8	7,562.5	58.7	9,939.0
MEA adjustment	(167.1)	123.6	1,649.4	15.0	1,620.9
RPI adjustment	112.2	8.7	491.8	3.6	616.3
Disposals	(9.9)	(0.6)	-	(4.0)	(14.5)
Additions	35.1	0.2	8.3	9.6	53.2
Cost at 31 March 2011	2,244.3	175.7	9,712.0	82.9	12,214.9
Depreciation at 1 April 2010	1,161.7	6.4	-	33.2	1,201.3
MEA adjustment	(145.6)	77.1	-	8.5	(60.0)
RPI adjustment	53.5	4.6	-	2.0	60.1
Disposals	(7.9)	(0.4)	-	(3.1)	(11.4)
Charge for year	56.0	1.7	-	8.1	65.8
Depreciation at 31 March 2011	1,117.7	89.4	-	48.7	1,255.8
Net book value at 31 March 2011	1,126.6	86.3	9,712.0	34.2	10,959.1
At 1 April 2010	1,112.3	37.4	7,562.5	25.5	8,737.7
TOTAL					
Cost at 1 April 2010	3,046.2	72.4	10,058.2	86.8	13,263.6
MEA adjustment	41.4	194.3	1,865.4	22.3	2,123.4
RPI adjustment	162.2	14.0	637.1	5.7	819.0
Disposals	(12.0)	(0.9)	-	(6.9)	(19.8)
Additions	54.6	0.3	13.2	12.8	80.9
Cost at 31 March 2011	3,292.4	280.1	12,573.9	120.7	16,267.1
Depreciation at 1 April 2010	1,531.6	12.6	-	49.3	1,593.5
MEA adjustment	(113.3)	113.6	-	12.7	13.0
RPI adjustment	73.6	6.9	-	3.1	83.6
Disposals	(9.5)	(0.5)	-	(5.4)	(15.4)
Charge for year	78.6	2.8	-	12.9	94.3
Depreciation at 31 March 2011	1,561.0	135.4	-	72.6	1,769.0
Net book value at 31 March 2011	1,731.4	144.7	12,573.9	48.1	14,498.1
At 1 April 2010	1,514.6	59.8	10,058.2	37.5	11,670.1

7a ACTIVITY COSTING ANALYSIS – 2011 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	2.6	2.3	2.2	7.1	1.8	2.3	4.1
Power	1.7	8.8	0.9	11.4	2.0	4.0	6.0
Hired & contracted services	1.5	3.1	3.1	7.7	0.7	1.2	1.9
Associated companies	-	-	-	-	-	-	-
Materials & consumables	0.8	3.4	3.3	7.5	1.5	0.1	1.6
Service charges EA	0.9	2.1	-	3.0	2.8	-	2.8
Bulk supply import	-	-	-	-	1.1	-	1.1
Other direct costs	0.1	0.1	-	0.2	-	0.1	0.1
Total direct costs	7.6	19.8	9.5	36.9	9.9	7.7	17.6
General & support expenditure	2.3	6.7	1.8	10.8	3.2	4.8	8.0
Functional expenditure	9.9	26.5	11.3	47.7	13.1	12.5	25.6
OPERATING EXPENDITURE							
Customer services				7.0			3.5
Scientific services				1.4			2.7
Other business activities				1.5			1.1
Total business activities				9.9			7.3
Local authority rates				8.2			9.2
Doubtful debts				6.6			2.8
Exceptional items				-			-
Total opex less third party services				72.4			44.9
Third party services				0.8			6.0
Total operating expenditure				73.2			50.9

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	12.4	0.6	0.1	13.1	0.7	20.2	20.9
Current cost depreciation	11.4	43.4	9.7	64.5	14.2	13.5	27.7
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.3			0.8
Total capital maintenance				77.9			49.1
Total operating costs				151.1			100.0
CCA (MEA) VALUES							
Service activities	9,712.8	1,081.0	159.2	10,953.0	391.5	3,144.1	3,535.6
Business activities				6.1			3.4
				10,959.1			3,539.0
Services for third parties				-			-
Total				10,959.1			3,539.0

7b ACTIVITY COSTING ANALYSIS – 2010 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	3.4	1.5	1.8	6.7	1.9	3.1	5.0
Power	2.8	9.1	0.9	12.8	2.4	4.6	7.0
Hired & contracted services	1.9	3.0	0.8	5.7	1.1	0.7	1.8
Associated companies	-	2.5	4.2	6.7	-	-	-
Materials & consumables	0.9	4.1	2.3	7.3	1.0	0.3	1.3
Service charges EA	0.9	2.2	-	3.1	2.8	-	2.8
Bulk supply import	-	-	-	-	1.1	-	1.1
Other direct costs	0.2	0.1	-	0.3	0.1	0.1	0.2
Total direct costs	10.1	22.5	10.0	42.6	10.4	8.8	19.2
General & support expenditure	2.1	5.1	0.8	8.0	2.0	3.4	5.4
Functional expenditure	12.2	27.6	10.8	50.6	12.4	12.2	24.6
OPERATING EXPENDITURE							
Customer services				6.9			3.4
Scientific services				1.3			2.8
Other business activities				1.9			1.2
Total business activities				10.1			7.4
Local authority rates				7.1			7.7
Doubtful debts				4.8			2.5
Exceptional items				-			-
Total opex less third party services				72.6			42.2
Third party services				0.4			4.9
Total operating expenditure				73.0			47.1

NOTES TO THE CURRENT COST STATEMENTS

continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage	Sewage treatment	Sludge treatment & disposal	Total	Water resources & treatment	Water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	12.6	0.6	0.1	13.3	0.6	17.6	18.2
Current cost depreciation	14.9	41.1	7.3	63.3	12.0	11.6	23.6
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.2			0.6
Total capital maintenance				76.8			42.1
Total operating costs				149.8			89.2
CCA (MEA) VALUES							
Service activities	7,670.8	943.2	118.5	8,732.5	248.8	2,680.7	2,929.5
Business activities				5.2			2.9
				8,737.7			2,932.4
Services for third parties				-			-
Total				8,737.7			2,932.4

8 WORKING CAPITAL

	2011 £m	2010 £m
Stocks	5.2	5.3
Trade debtors – measured household	11.9	10.1
Trade debtors – unmeasured household	19.5	18.4
Trade debtors – measured non-household	3.6	4.6
Trade debtors – unmeasured non-household	0.3	0.2
Other trade debtors	1.3	1.8
Measured income accrual	49.0	49.8
Prepayments and other debtors	46.1	41.8
Trade creditors	(2.9)	(5.4)
Deferred income – customer advance receipts	(27.5)	(27.1)
Short term capital creditors	(19.7)	(14.4)
Accruals and other creditors	(22.8)	(23.6)
	64.0	61.5

9 MOVEMENT ON CURRENT COST RESERVE

At 1 April	9,684.4	9,244.1
MEA adjustment	2,110.4	-
RPI adjustments:		
Fixed assets	735.4	490.7
Working capital	1.5	0.6
Financing	(49.7)	(43.6)
Grants and third party contributions	(9.6)	(7.4)
At 31 March	12,472.4	9,684.4

NOTES TO THE CURRENT COST STATEMENTS
continued

10 ANALYSIS OF NET DEBT

a. Cash flow movement

	1 April 2010 £m	Cash flow £m	Non cash items £m	31 March 2011 £m
Cash at bank and in hand	8.1	54.9	-	63.0
Bank overdraft	-	(6.2)	-	(6.2)
Short term borrowings	(1.3)	-	-	(1.3)
Loans repayable within one year	-	(75.0)	-	(75.0)
Loans repayable after one year	(315.0)	25.0	-	(290.0)
Finance leases repayable within one year	(4.9)	(0.7)	-	(5.6)
Finance leases repayable after one year	(70.6)	5.6	-	(65.0)
Bonds repayable after one year	(1,146.4)	-	(13.0)	(1,159.4)
Net debt	(1,530.1)	3.6	(13.0)	(1,539.5)

b. Interest rate risk profile

	Fixed Rate £m	Floating Rate £m	Index Linked £m	Total £m
Borrowings:				
Less than one year	-	(88.1)	-	(88.1)
Between one and two years	-	(6.3)	-	(6.3)
Between two and five years	-	(174.0)	-	(174.0)
Between five and twenty years	(198.2)	(174.7)	(62.9)	(435.8)
In more than twenty years	(346.0)	-	(552.3)	(898.3)
	(544.2)	(443.1)	(615.2)	(1,602.5)
Cash				63.0
Net debt				(1,539.5)

11 REGULATORY CAPITAL VALUE

	2011 £m
Closing RCV for 2009-10	2,262
Indexation	121
Opening RCV for 2010-11	2,383
Capital expenditure	136
Infrastructure renewals expenditure	43
Grants and contributions	(7)
Depreciation	(101)
Infrastructure renewals charge	(39)
Outperformance of regulatory assumptions (5 years in arrears)	(19)
Closing RCV for 2010-11	2,396
Average RCV	2,328

ADDITIONAL REGULATORY DISCLOSURES

For the year to 31 March 2011

A REGULATORY COMMENTARY AND TRENDS

The regulatory commentary and trends are included in the commentary to the non-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	2010-11 Value £m
Wessex Water Ltd	Corporate charges	0.2	No market	0.6
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs and personnel	12.4	No market	1.1
Wessex Water Enterprises Ltd	Sludge treatment, transport, accommodation, insurance, laboratory and central services	13.6	No market	4.2

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2010-11 Value £m
Bristol Wessex Billing Services Ltd	Billing services	12.4	Competitive letting	10.1
Wessex Water Enterprises Ltd	Supply of electricity	13.6	Other market testing	1.9

Financial transactions

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

The appointee paid £54.9m 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 note 14 to the accounts.

The appointee acquired assets of £1.2m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

ENVIRONMENTAL ACCOUNTING

For the year to 31 March 2011

We began environmental cost accounting in 2001, with help from the sustainability charity Forum for the Future. Over the following 10 years, the basic principles and approach have remained the same. The aim is to calculate the monetary cost of addressing 'externalised' environmental impacts, ie, those which have not been tackled comprehensively through investment or some other intervention. We estimate what a sustainable level of impact would be and compare the actual impact that we have had during the reporting year. We then report the theoretical cost of reducing our impacts to the sustainable level, either by investment, offsetting, markets or shadow prices.

From this year onwards, we will not produce a tabulated environmental cost statement. Instead, we will comment on any developments affecting us in the area of monetising environmental impacts.

Over the years, the items reported in the accounts have changed, as information improves or impacts are addressed. For example:

- we no longer report sulphur dioxide emissions from transport fuels, as the levels dropped significantly with the widespread introduction of ultra-low sulphur diesel
- costs for tackling rivers at risk of low flows due to our abstraction have varied, depending on the amount of abstraction licence reduction anticipated from the more vulnerable areas and the consequent cost of supplying water from elsewhere. Our integrated grid project, being implemented over the next six years, provides a comprehensive solution. Furthermore, there have been few years in the last 10 when markedly low flows have actually been seen, due to the weather or other mitigation work we have carried out, such as stream support
- contaminated land costs dropped off the accounts when our investigations showed that the contaminated soils concerned are sufficiently contained, so that further mitigation work is not required.

The costs of some impacts have proved more elusive. For example, while we have reduced the impacts of effluent on the water environment through regulated investment, the far-reaching goals of the Water Framework Directive and the potential standards required by the Priority Substances Directive suggest that much more might be expected in time. However, there are still major knowledge gaps, for example concerning the significance of persistent chemical substances in the water environment. Furthermore, we would also question the actual sustainability of returning rivers to their supposed conditions preceding the agricultural and industrial revolutions, given the energy and chemical inputs needed in sewage treatment to guarantee such an outcome.

Greenhouse gases have tended to dominate our environmental accounts and discussion globally around financial proxies for environmental impacts. Increasingly, greenhouse gas mitigation and economics are converging, with detailed work carried out on the costs of carbon reduction and financial mechanisms developed as a result. The following are some examples.

Carbon offsetting and Kyoto credits

Our first accounts included a unit price charged by an early carbon offset provider; since then, this market has matured. There is now a wide range of offsets offered, with prices reflecting the varying levels of assurance and the quality of the associated emissions reduction projects. Tradeable carbon credits are generated through two Kyoto protocol instruments – Joint Implementation projects (producing Emission Reduction Units) and the Clean Development Mechanism (producing Certified Emission Reductions).

Marginal abatement cost curves
Various methods of emissions reduction can be ranked according to the cost per tonne CO_2 avoided. This produces a curve that shows the full range of options; typically, it will show some energy efficiency options with a negative cost, while other options are too costly per tonne avoided to be economic.

Fiscal instruments
The climate change levy was introduced in 2001, with most attention paid in the water industry to the 0.43p levied on each kilowatt hour of electricity consumed (which at the time equated to 0.43kg CO_2). The Carbon Reduction Commitment is now in its second year, with participants required to make their first payments for carbon allowances in 2012. An allowance will be bought for each tonne of CO_2 emitted, at £12 each. This is expected to rise steadily in the following years.

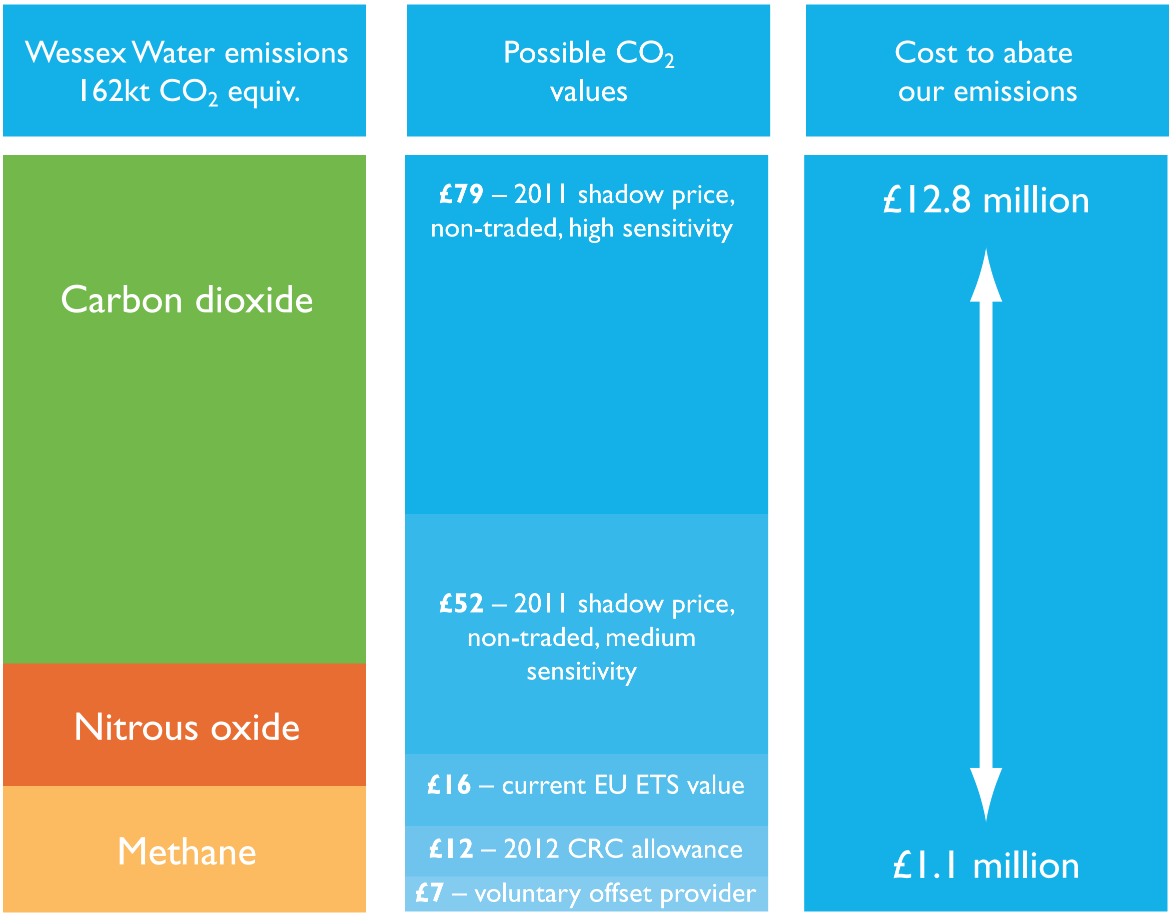
Emissions trading
The value of carbon allowances traded under the EU emissions trading scheme was highly volatile in its first phase, peaking above 30 euros and then slumping to less than one euro, due to over-generous issuance of allowances to the member states. Prices since 2009 have been more stable; the current value is around 16 euros per tonne CO_2.

Shadow pricing
In 2007, the government announced its first estimate (£26.50) of the shadow price of carbon dioxide – the cost to society of the damaging impacts on the climate caused by emissions. A revised approach was issued in 2009, showing ascending annual values. These distinguish between 'traded' and 'non-traded' emissions and also show different values depending on whether the climate has high, medium or low sensitivity to emissions. For example, the current medium sensitivity value for non-traded carbon dioxide is £52 per tonne.

Floor price
In the 2011 budget, the Chancellor announced a proposal to provide greater support and certainty to the price of carbon in the power sector, to encourage investment in low-carbon electricity generation. The proposed price floor would start at £16 per tonne in 2013 and rise to £30 a tonne by 2020.

What is clear is that there is no single value for a tonne of carbon dioxide, which can present a dilemma when attempting to monetise emissions. The diagram overleaf shows the range of possible outcomes in our case.

ENVIRONMENTAL ACCOUNTING
continued



INVESTMENT TOWARDS SUSTAINABILITY
For the year to 31 March 2011

This statement outlines the investment towards sustainability that Wessex Water made in 2010-11, including expenditure on customers and communities, the environment, employees and infrastructure. A distinction is made between mandatory investment (expenditure governed primarily by legislation or regulation) and 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 – unaudited 2010-2011

CUSTOMERS AND COMMUNITIES	Amount £'000s
Mandatory expenditure	**22,868**
Example – water supply quality enhancement work such as mains relining	
Discretionary expenditure (a)	**-**
Discretionary expenditure (b)	**825**
Example – replacement of customers' supply pipes; education service	
Discretionary expenditure (c)	**132**
Example – charitable donations to community projects	
ENVIRONMENT	
Mandatory expenditure	**13,462**
Example – capital investment to meet the Bathing Waters Directive	
Discretionary expenditure (a)	**-**
Discretionary expenditure (b)	**352**
Example – trials on options for more sustainable water resources	
Discretionary expenditure (c)	**81**
Example — conservation grants to Wildlife Trusts	
EMPLOYEES	
Mandatory expenditure	**58,338**
Example — basic pay and conditions including pension	
Discretionary expenditure (a)	**3,700**
Example – enhanced overtime payments	
Discretionary expenditure (b)	**4,033**
Example — staff training	
Discretionary expenditure (c)	**-**
Example — enhanced maternity leave	
INVESTMENT – INFRASTRUCTURE	
Mandatory expenditure	**79,011**
Example – replacement / refurbishment of sewers	
TOTALS	
Customers and communities	**23,825**
Environment	**13,895**
Employees	**66,071**
Infrastructure	**79,011**
Total	**182,802**

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

FOR FURTHER INFORMATION

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

For further details, write to:

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www.wessexwater.co.uk

Produced by Wessex Water design services

Printed by Tasker & Stone
www.taskerandstone.com

Printed on Greencoat 80 Silk. This is a carbon balanced paper made from 80% recovered fibre containing material sourced from responsibly managed forests together with recycled fibre. It is manufactured to ISO 14001 and EMAS (Eco-Management & Audit Scheme) international standards, minimising negative impacts on the environment.

THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2008

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Registered in England No 2366648

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