WESSEX WATER SERVICES LTD

Accounts for the year to 30 June 2009

Registered in England and Wales No. 2366648

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2009.

PRINCIPAL ACTIVITIES

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

FINANCIAL AND OPERATIONAL REVIEW

In the past year Wessex Water achieved record levels of quality, compliance and customer service; but the year was also financially very challenging.

HIGHLIGHTS

- the highest-ever OPA score of 428 points, 98% of the maximum
- meeting all outputs required under the monitoring plan
- topping Ofwat's telephone satisfaction survey
- 96% of customers who contacted us rated our service as either good or very good
- improving the resilience of our asset network, in particular reducing the number of customers served by single sources and further cutting those at risk of sewage flooding
- holding leakage at 72Ml/d, despite the coldest winter in 15 years which led to a major increase in bursts
- commissioning the new water treatment works at Maundown, the largest single project in our AMP4 investment programme
- consulting customers on their aspirations for the 2009 Price Review and final business plan, setting out how we will deliver those aspirations in a long-term, sustainable context
- receiving a number of awards, in particular we are the first utility and private company in the UK to be awarded the government standard Customer Service Excellence award and the Queens Award for Enterprise in the Sustainable Development category
- we remain the only UK water company to have achieved accreditation to PAS55, the internationally recognised standard for asset management.

FINANCIAL PERFORMANCE

Operating performance

We are currently outperforming the targets used by Ofwat in setting price limits, and the return on Regulatory Capital Value (RCV) at March 2009 was 7.2%. Operating profit increased from £199.5m to £201.8m, however due to increased interest and taxation charges the profit after taxation fell from £105.0m to £89.1m

Turnover

Turnover increased by £21.2m or 5.3% to £424.2m, largely as a result of the April 2008 price increase, but offset by customers switching to meters and reductions in volumes. The reduction in volume was due to the wet summer in 2008 and the increasing impact of the economic recession.

Operating costs

We continue to face rising operating costs due to market conditions. Operating costs increased by £11.1m, from £115.8m to £126.9m because of the impact of new obligations, power prices, general inflation and the cost of debt collection.

Depreciation charges (including the infrastructure maintenance charge and disposal of assets) increased from £87.7m to £95.5m, with infrastructure maintenance increasing by £4.0m and depreciation by £3.8m because of the ongoing capital investment programme.

Interest, tax and dividends

Interest charges increased from £70.0m last year to £83.5m this year. £5.8m of the increase related to the accounting charge for FRS 17 Pension costs, and £7.7m to the interest on net debt which rose by £112.5m over the year. The average cost of debt remained at 5.5%.

The corporation tax charge in the year was £19.7m, a reduction of £9.0m over last year, being a combination of lower profits, the reduced rate of corporation tax and the mix of expenditure for tax purposes. Deferred tax which was a credit of £4.2m last year was a charge of £9.5m this year.

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

Dividends declared in the year amounted to £81.1m in the year to June 2009 compared to £104.0m last year.

Pensions

The actuarial valuation at December 2007 showed a deficit of £60.6m up from £60.0m at December 2004. As a result employer contribution rates were increased and the company agreed to make special annual contributions of £7.2m in December 2008, March 2010 and in March each year for the next 8 years.

In the balance sheet the pension deficit is calculated using the FRS 17 accounting assumptions, on this basis, the deficit has reduced from £63.5m at June 2008 to £45.9m at June 2009.

OUR LONG-TERM PLAN

During the past year we developed our business plan for the five years starting in April 2010 and in doing so we:

• established what our customers and other stakeholders want
• considered what priority to give these objectives through a willingness to pay and cost benefit assessment
• published and reviewed a draft plan
• modified the draft plan in the light of feedback, new obligations and the changing economic climate.

The majority of customers want to see:

• delivery of basic services in a secure sustainable way
• no bill increases in real terms over the next five years, and
• no price cuts if they are to increase subsequently.

Customers are willing to pay for reductions in leakage, improvements in security of supply and a reduction in our greenhouse gas emissions. They are also willing to pay for improvements indrinking water quality and to reduce the risk of sewage flooding. As far as possible we have tried to reflect these views in our plan.

Our draft business plan proposed maintaining average bills in real terms at the 2009 level until 2015 and, rather than using our past efficiencies to cut prices, we proposed to invest a total of £1,140m to make a substantial start in delivering the long-term aspirations of customers and other stakeholders.

This plan was well received by customers and stakeholders. Research by Ofwat and the Consumer Council for Water showed that three-quarters of customers who had an opinion supported the plan. In our own follow-up research there was strong support both for the balance of improvements and for our commitment not to increase bills faster than inflation.

However, new obligations and taxes, and the worsening economic climate, now make it difficult to deliver all the planned outputs without price increases. In particular:

• revenues are being reduced by the recession
• there are strong indications that bad debt is rising
• the government requires companies to pay higher business rates and take responsibility for private sewers
• the cost of new finance has increased significantly.

So we have refined our plan to constrain price increases and to deliver the improvements that matter most to customers. To do this we have:

• deferred some maintenance investment and targeted further efficiencies without taking excessive risk with service or quality
• deferred quality and environmental investment where the benefits are outweighed by the costs
• asked regulators to pay directly for the costs of environmental investigations
• challenged some of the new costs and accounting changes.

The plan published in April proposed:

• metering on change of ownership combined with new tariffs designed to encourage a more sustainable use of water and improve affordability
• integration of our water supply assets to improve security of supply, deal with deteriorating raw water quality and improve river flows
• a 5% reduction in leakage
• improvements in drinking water quality
• further reductions in the risk of flooding to properties
• improvements to comply with the Bathing Water, Urban Waste Water and Shellfish Directives
• a further reduction in our carbon footprint by increasing the use of sewage sludge to generate renewable energy.

The final plan requires:

• an investment programme reduced to £1,040m
• a cumulative K factor of 12.4% over five years
• average bills in 2015 6.2% higher than at present.

OFWAT response

In August 2009 Ofwat announced its response to the plan submitted by the company in the form of a draft determination of prices. In the draft determination Ofwat has assumed:

• an investment programme of £958m
• a cumulative K factor of 0.6% over five years
• average bills in 2015 2.0% lower than at present.

The company will make a formal response to the draft determination, and the final determination will be announced by Ofwat in November 2009.

While we remain focused on the price review and developments in regulation and competition, we also need to successfully complete our AMP4 programme, to continue to improve service and efficiency, to make it as easy as possible for customers to pay their bills and to maintain a strong credit rating to permit ready access to the capital markets.

Longer term challenges

The issues faced by the industry are considerable. Collectively we must:

• continue to improve customer service and environmental standards against a background of climate change, population growth and growing affordability concerns
• raise substantial amounts of new capital in the most difficult economic circumstances for decades
• deliver services in an ever more sustainable way.

We can only rise to these challenges through innovation – be that technical, financial or service – and innovation will only occur if there is the right balance of incentives and regulation.

The water industry has tended to rely on the latter as the spur for improvement and in future much greater use must be made of incentives. To that end market forces should be used to supplement a reformed regulatory regime and we believe the Cave Review opens up the potential for these reforms. Specifically we welcome proposals to:

• separate wholesale and retail activities with a view to empowering the retailer to deliver a better and more sustainable service to customers. We particularly welcome proposals for negotiated settlements with local consumer representatives
• increase the trading of abstraction licences and treated water between companies at prices which reflect social and environmental costs
• review the threshold for merger references to the Competition Commission and require Ofwat to publish an assessment of the value of comparators
• allow companies to earn the same return on operating cost solutions as they do on capital
• reform the current water supply licensing regime.

Regulation has a major role to play in promoting innovation and encouraging market forces to work efficiently and we see the need for a specific focus on:

• setting network access prices in a way which promotes sustainable outcomes, while still attracting capital at the lowest possible cost
• developing mechanisms that reward the delivery of improved customer service and sustainable solutions
• setting separate price controls for each part of the network to promote efficient delivery of services
• developing robust institutional arrangements which will allow effective consumer representation at a local level.

All the above must be combined with tariffs which encourage sustainable use and ensure water is affordable for all.

These reforms will require considerable effort on the part of companies and regulators over the next two to three years and we have already begun the process. Our existing joint venture with Bristol Water, Bristol Wessex Billing Services, provides an excellent base for a retail business. We have also started business separation at the other end of the value chain.

In April 2009 we formed a new business unit, GENeco, to deliver focused waste to energy services. With clear service levels and energy generation targets, it is already delivering savings and more innovative ways of working.

OUR CUSTOMERS

Customer service

Wessex Water continues to deliver some of the highest standards of customer service in the water industry and we remain at the top of Ofwat's independent survey of customer satisfaction with our telephone service.

Of the 2,000 customers surveyed in our own monthly satisfaction survey last year, 96% rated our service as either good or very good.

This year we became the first utility and private company in the UK to be awarded the government standard Customer Service Excellence award, for our approach to customer services.

We are continuing work to improve customer service including joining with Ofwat to develop new consumer experience measures. Across our business we are raising awareness of customer expectations and are using new work and asset management systems. These include a customer contact application that will give more information to enable us to deliver significant improvements in customer service. It will allow a one-stop-shop approach with up front scheduling and the ability to solve more issues in one call and at first contact.

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

We have also formed partnerships with local authorities and the Environment Agency (EA) to provide a forum for discussing and resolving wider water and environmental issues. These partnerships have proved particularly fruitful in the case of flooding where a number of bodies have responsibilities and where working in partnership can deliver better solutions than working in isolation.

Customer Service Excellence award

The Customer Service Excellence award tests in depth areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. Emphasis is also placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

An independent assessor for the award scheme reported that Wessex Water had, "a deep understanding and commitment to customer service".

The assessor spent time analysing the way Wessex Water dealt with customers and concluded that we had grasped the principles underlying the Customer Service Excellence standard and go out of our way to meet customer needs with friendly and helpful staff who exhibit good customer service in everything they do.

Wessex Water was praised for communicating effectively with people with affordability issues by setting up support for debt management advice with voluntary and charitable organisations.

Affordability, tariffs and debt recovery

During the year we saw a marked deterioration in forward looking debt recovery indicators. Day sales outstanding increased, collection rates reduced and bankruptcies increased. The deterioration in these lead indicators suggests a growing affordability problem and worsening bad debt position.

In response we are introducing a new debt recovery system with segmentation of our customer base which will enable us to more accurately target debt recovery measures and advice.

Around 5,000 customers have already benefited from our Assist tariff aimed at enabling those with the greatest difficulty in paying to make a modest contribution towards the costs of water and sewerage services. By encouraging customers to adopt an affordable payment routine we have increased cash collection by 30% despite cutting charges by around 50% for these customers.

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

Community involvement

The Wessex Water Partnership is our community partnership programme and brings together all our community involvement including our Restart schemes, our package of guarantees and compensation payments (Wessex Water Promise), our Wessex Watermark grant scheme and community involvement scheme for charitable donations.

Started in September 2004, our offender training programme continues to offer a new start for offenders and is now running in seven prisons. We are working with the Ministry of Justice to encourage other industry members to participate.

Our education programme continues to flourish and as well as providing information on water and sewerage through our education advisers and our schools programme, we also work with organisations like the Citizens Advice Bureau to find ways to help vulnerable customers.

Customer dividend

We have used some of the savings made in this five-year period to raise standards and have invested almost £23m improving aspects of service that matter most to customers and in providing extra help to those in financial difficulty who are struggling to pay their water bills.

OUR ENVIRONMENT

Water efficiency

Controlling leakage from our network of more than 11,400 km of mains and service pipes is one of our highest priorities. Leakage, during the year to March 2009, remained at 2Ml/d below our target of 74Ml/d, despite the impact of the coldest winter in 15 years.

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

- provision of educational information for customers through our website and various publications
- distribution of free Save-a-Flush and self audit packs
- promotion of water saving devices such as water butts
- promotion of the benefits for our commercial customers
- promotion of water meters.

During 2008-09 we trialled a new water audit service with customers on our meter tariff trial. The audit service comprises a home visit from a specially trained Wessex Water staff member who checks pipes and taps for leaks and offers advice on water efficiency in the home.

We continue to work with business customers to reduce water use and leakage on their sites. We are now offering business customers with significant water consumption a service where they can view their consumption data over the internet, enabling them to understand and manage their water usage and to minimise waste.

During the year we carried out a water efficiency trial in Bath in conjunction with Somer Community Housing Trust, the EA and Resource Futures.

Carbon management

Carbon management is a fundamental part of our central aspiration to become a genuinely sustainable water company. Our strategy for carbon management involves the first three stages of the carbon hierarchy– avoidance, efficiency, renewable energy. We continue to make progress with carbon-cutting initiatives, particularly in the areas of energy efficiency and biogas production.

Self-generated renewable electricity now amounts to 23GWh – 9% of our total electricity use. Our work to develop renewable energy was recognised in 2008 when we were awarded the South West Green Energy Award for the best large renewable energy scheme.

Bathing water

Our compliance with the EU's mandatory bathing water standards remains at 100% for the fifth year running.

Sewage discharges to rivers

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

The EA has acknowledged the major role we have played in the dramatic year on year improvement in river and coastal water quality over the past two decades.

Pollution incidents

We have continued to reduce the number of pollution incidents to our lowest ever level. We have been congratulated by the EA on being the first water and sewerage company in the country to have no major or significant pollutions and have achieved a dramatic reduction in the number of minor pollution incidents.

Wider sustainability initiatives

Biodiversity work continues with 91.3% of our Sites of Special Scientific Interest (SSSIs) landholding in favourable or recovering status. We continue to encourage co-operation between operational staff, tenants and conservation organisations to manage SSSIs.

Working with a range of partners our biodiversity action plan supports projects that are advancing catchment management and river restoration within our region. One of these – Wiltshire Wildlife Trust's Chalk Streams Project – recently won a prize from the Wild Trout Trust for its achievements.

Deteriorating raw water quality remains a problem and our catchment management activities to tackle nitrate and pesticide pollution of our sources currently involves working with farmers in nine catchments across our region to address the issue at source, rather than by building more treatment works. The quality of the advice being given by our advisers has secured strong support for this work from farmers and other interests.

We are continuing with efforts to improve waste management and to reduce excavation waste; our critical sewers team has investigated a wide range of trenchless technology and won an award for best new worldwide product/technique at the 2009 International Society for Trenchless Technology innovation awards.

OUR ASSETS

Asset maintenance

We have a large and growing stock of assets and are committed to effectively maintaining them to ensure that our infrastructure remains in good working order, with improving services to our customers.

Over the past year our work in this area has included the renovation of 12km of our Somerset spine main affected by soil corrosion, at a cost of £11m, and the replacement of membranes at Swanage sewage treatment works to ensure the continued compliance of the works with Environment Agency requirements.

We believe it is unacceptable to have asset failures that compromise public health, impair customer service, lead to environmental damage or cause significant disruption. So we are updating our processes to enable us to develop new and more efficient methods of asset management to improve our services and our assets' resilience still further.

The upgrades we have made to our systems have been recognised with our continued accreditation to PAS55, the internationally recognised standard for asset management, we are the only UK water company to have achieved this standard.

Water supply

While our compliance with drinking water standards remains at the highest levels – more than 99.9% – we are continuing our work to improve the quality of drinking water still further.

Wherever possible we again seek to be innovative by employing sustainable solutions rather than building conventional end-of-pipe treatment works.

Mains relining/renewal

Avoiding the possibility of bursts or discoloured water continues to be a high customer priority. We are nearing the end of an extensive mains replacement programme and during the year have carried out work to reline and replace 47km of distribution mains.

Maundown water treatment works

The Maundown works is our largest and most strategic water treatment plant serving a population equivalent of 200,000 (approximately 15% of our supply area).

The scheme to rebuild the works was successfully commissioned in 2008-09. The five-year £25m project was completed on time and on budget. The objectives of the scheme were:

• to improve treated water quality by reducing concentrations of agal geosmin in the treated water, which can cause taste and odour complaints
• to increase output. The peak output has been increased to meet peak demands in the Somerset area
• to replace life-expired assets. The original works was built in two phases in 1960 to treat water from Clatworthy reservoir and in 1977 for water from Wimbleball reservoir. Parts of the works were more than 40 years old and had reached the end of their useful life.

The project was managed directly by Wessex Water from inception in 2004 to completion in 2009, in line with our policy of delivering complex projects using in-house resources.

Sewerage and sewage treatment programme

Our compliance with sewage discharge consents remains high with an overall compliance rate of 99.6%.

Work to prevent sewer collapses and blockages is one of our main concerns and during the year to March 2009 we replaced or repaired more than 14km of major sewers.

Since it started in 2005, our programme to identify and reduce misconnections to the sewerage system that cause stream pollution has ensured that more than 600 properties are no longer causing pollution.

Intermittent discharges

We have improved five unsatisfactory intermittent discharges to rivers or the sea and are currently either investigating or designing solutions for the remainder. Our sewer project in Hotwells, Bristol, to eliminate unsatisfactory storm discharges into Bristol's Floating Harbour following heavy rainfall, has now been completed.

First-time sewerage

We have continued with our programme to provide rural communities with a proper sewerage system to replace unsatisfactory sewage disposal and we have completed schemes for six new communities.

Urban Waste Water Treatment Directive

The one remaining project in our programme of improvements under this directive for the current five-year investment period, nitrogen removal at our second largest works at Poole STW, has now been completed.

Bristol sewage sludge treatment

At our largest sewage treatment works serving the greater Bristol area we are building an advanced sludge treatment plant.

The first stage is now in operation and has increased the production of methane gas so that we now generate more renewable power from this site.

Sewage flooding

We continue to make significant reductions in the number of properties at risk of internal flooding and have reduced the number to 177 – well below our monitoring plan target of 226.

Our largest flooding relief scheme in this five-year period, an 850m long tunnel under Bristol city centre, has been successfully completed. The tunnel breakthrough took place in November 2008 and it was lined and ready to accept sewage flows in March 2009.

The Bristol tunnel project was the final major scheme to bring the city's sewerage system up to a standard that meets public expectation and strict environmental regulations. It formed part of a £300m investment in the city's sewerage system over the last 50 years and cost £9m to construct.

Engineers blasted through the second strongest rock in the UK, yet despite the size of this ambitious and prestigious engineering project, all that can be seen of the project are four manhole covers. Below some of Bristol's historic buildings, including Red Lodge and the Royal Fort, a new half-mile long sewer has brought long awaited flood relief to properties in and around Denmark Street, St Augustine's Parade and Frogmore Street.

Wessex Water started work on the tunnelling in 2007 to make way for the new sewer and creating the underground passage, which runs from the St Augustine's area to Clifton, was particularly challenging for the engineers involved. The new sewer is now taking sewage safely out of the city for treatment at Bristol sewage treatment works at Avonmouth.

The Bristol tunnel project was completed on time, on budget and, despite hundreds of blasts taking place, without complaints from residents or businesses.

Meeting demands

Water supplies to customers have been provided throughout the year without restrictions and customers have now enjoyed 32 consecutive years without hosepipe or other restrictions. Despite the cold, dry winter our resources position for 2009 remains healthy with reservoir and groundwater stocks at or above average at the beginning of April.

We are continuing with our investment programme to ensure communities can be served by more than one water source in future. Other proposals for the next five years include the development of an integrated water grid to further improve resilience to changing climatic conditions, dealing with deteriorating raw water quality and using existing spare capacity to avoid developing new resources to deal with increasing demands and low river flow problems.

We have enlarged Gould's Hill service reservoir, a vital treated water storage facility for Weymouth, and this will ensure peak demands can continue to be met in the town even during the sailing Olympics in 2012.

During the year we began a trial to test the effectiveness and customer response to three different sophisticated metering tariffs. We see metering on change of ownership, with appropriate tariffs to accompany it, as the fairest means of extending metering to help meet government targets on water efficiency and reduce leakage from customers' pipes, while not putting low-income households at a disadvantage.

OUR PEOPLE

Our success as a company depends on the excellence of our employees and never more so than now as we face difficult and challenging conditions. Throughout the year our employees have once again provided outstanding service to customers.

- "Your workmen always give 100% excellent work and are always polite."
- "It was brilliant to get a helpful receptionist on my first phone call who dealt with the problem straight away."
- "Your staff were first class, they certainly knew their job and thank you for the excellent work."
- "Perfect. I would like to have it on record that Daniel was efficient, charming and correct at all times and had beautiful manners."
- "Wessex Water are fab at responding – thank you."

We believe it is important to recognise the hard work that lies behind the company's achievements and the high levels of service we maintain. So an awards evening was held last year to celebrate some of the company's most dedicated employees who went above and beyond the call of duty in their daily job.

Our people have also been recognised for their work through the government's Customer Service Excellence award, the RoSPA Gold award for health and safety and the South West Green Energy award.

The past year has seen further advances in our communications with employees, with the provision of an improved and expanded intranet, an e-newsletter replacing the paper version of our internal magazine and an online survey about our internal television network – Source TV.

Health and safety

Our commitment to health and safety remains strong and maintaining high standards is a critical measure of the successful operation of our business. Our health and safety team are responsible for determining 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, with managers and supervisors, to ensure the safety of our employees and others while also promoting and maintaining the company's standards and strategy for health and safety.

Our health and safety policy, arrangements and safety documentation are continuously reviewed to ensure they remain best practice and we will continue to support the Water UK occupational health and safety group in developing appropriate industry standards.

Wessex Water Academy

The Wessex Water Academy brings together training and development within the organisation ensuring structured communication and accessibility for all, at all levels. It is a key learning centre focused on developing operational, managerial and leadership excellence.

It aims to deliver:

- internationally recognised qualifications for managers endorsed by the Institute of Leadership and Management
- recognised vocational qualifications, such as NVQs
- youth training – including operations technicians, apprenticeships
- technical, legal and regulatory skills training
- professional qualifications
- access to Further and Higher Education
- personal development.

The academy team act as consultants within the individual businesses identifying the training needs of employees and equipping them with the skills and knowledge needed to move their business plans forward. Training takes place across all our sites and offices, including our own technical training facility and confined spaces training area in Yeovil.

EMPLOYMENT

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

SUSTAINABILITY

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

ENVIRONMENT POLICY

The company protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The environment policy is reviewed annually.

ETHICAL POLICY

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

RESEARCH AND DEVELOPMENT

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

MARKET VALUE OF LAND AND BUILDINGS

In the opinion of the directors, the market value of land and buildings of the company exceeds the book value of these assets at 30 June 2009.

CHARITABLE DONATIONS

During the year £113,000 was donated to UK charities (2008 - £183,000).

SUPPLIER PAYMENT POLICY

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2009 trade creditors represented approximately 31 days trade purchases (2008 - 34 days). The company does not follow any specific external code or standard on payment policy.

CORPORATE GOVERNANCE

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

THE BOARD

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

The board meets at least bimonthly.

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

BOARD COMMITTEES

Three formal committees have been established:

- Audit 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 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 Combined Code, and the committee considers any other corporate governance issues referred to it by the board.

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

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

Remuneration Committee
The role of the remuneration committee is to ensure that the company's directors and senior managers are fairly rewarded for their overall contribution to company performance, giving due regard to market rates, individual performance and the financial health of the company. The committee reviews proposals for the total remuneration package, to include salary, bonus, pensions and other benefits as well as recommending policies and best practice. Salary 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 independent non-executive directors of the board and meets during the year as necessary. Members of the remuneration committee do not participate in decisions concerning their own remuneration.

Members: H Yeoh, chairman, D M Barclay, P J Costain, F Yeoh and M Yeoh.

Nomination Committee
The nomination committee's duty is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for succession planning. It reviews board structure, size, composition and successional needs.

Members: H Yeoh, F Yeoh, CF Skellett and M Yeoh.

INTERNAL CONTROL

The board maintains full control and direction over strategic, financial, risk management, organisational and regulatory issues. The board has ensured that an organisational structure is in place that has defined lines of responsibility and delegation of authority. There are established systems for capital authorisations and asset disposal. Regular reviews of the key risk items that may affect the company are held at board level and in the audit committee. The board receives a management report detailing all relevant financial, operational and regulatory matters that affect the company.

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

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

DIRECTORS

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

C F Skellett - Executive Chairman
D M Barclay *
Mrs L C S Bennett **
S A Cater
Kathleen Chew +
P J Costain *
P J L Dennis
D J Elliott
T K Harris
J E Porritt *
Francis Yeoh #
Hong Yeoh #
Mark Yeoh #

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

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

	Opening number	Exercise price RM	Date of grant	Exercise date	Expiry date	Grant	Exercise	Closing number
SA Cater	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	-	240,000
SA Cater	-	1.61	28/11/2008	28/11/2011	29/11/2011	1,400,000	-	1,400,000
PJL Dennis	2,000,000	1.82	16/05/2005	16/05/2008	29/11/2011	-	-	2,000,000
DJ Elliott	240,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	-	240,000
TK Harris	800,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	-	800,000

No share options were exercised in the year.

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

RE-APPOINTMENT OF AUDITORS

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

Andrew S Phillips

By order of the Board
A J Phillips - Company Secretary
19 October 2009

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

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

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

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Wessex Water Services Ltd for the year ended 30 June 2009 set out on pages 14 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2009 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

A Campbell-Orde

AC Campbell-Orde
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
19 October 2009

PROFIT AND LOSS ACCOUNT
For the year to 30 June 2009

	NOTE	Year to 30.06.09 £m	Year to 30.06.08 £m
Turnover	**2**	**424.2**	403.0
Operating costs	**3**	**(222.4)**	(203.5)
Operating profit	**2**	**201.8**	199.5
Interest payable and similar charges	**4**	**(87.8)**	(90.8)
Interest receivable	**4**	**7.9**	18.6
Other finance (charge) / income	**16**	**(3.6)**	2.2
Profit on ordinary activities before taxation		**118.3**	129.5
Taxation on profit on ordinary activities	**5**	**(29.2)**	(24.5)
Profit for the financial year		**89.1**	105.0

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

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

BALANCE SHEET
30 June 2009

	NOTE	30.06.09 £m	30.06.08 £m
Fixed assets			
Tangible assets	8	**2,012.7**	1,930.1
Investments	9	**-**	-
		2,012.7	1,930.1
Current assets			
Stock and work in progress	10	**5.2**	4.5
Debtors	11	**129.8**	130.0
Short term cash investments	12	**32.1**	254.8
		167.1	389.3
Creditors - amounts falling due within one year	13	**(174.6)**	(459.0)
Net current liabilities	1a	**(7.5)**	(69.7)
Total assets less current liabilities		**2,005.2**	1,860.4
Creditors - amounts falling due after more than one year	14	**(1,476.6)**	(1,343.7)
Provisions for liabilities and charges	15	**(86.3)**	(77.9)
Retirement benefit obligations	16	**(34.1)**	(46.8)
Deferred income	17	**(20.0)**	(20.6)
Net assets	2	**388.2**	371.4
Capital and reserves			
Called up equity share capital	18	**81.3**	81.3
Profit and loss account	19	**306.9**	290.1
Equity shareholders' funds	20	**388.2**	371.4

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

These accounts were approved by the board of directors on 19 October 2009 and signed on its behalf by:

T K Harris
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year to 30 June 2009

	NOTE	Year to 30.06.09 £m	Year to 30.06.08 £m
Profit for the financial year		**89.1**	105.0
Total recognised gains relating to the financial year		**89.1**	105.0
Actuarial gains / (losses) net of taxation	19	**8.8**	(18.6)
Total gains recognised since last annual report		**97.9**	86.4

1 Accounting policies

a. Basis of preparation

The financial statements have been prepared on a basis consistent with the last financial year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e) in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis. Although the company has net current liabilities at 30 June 2009, the directors have confirmed that it will have access to new funds. The company has a 25 year Licence to provide water and waste water services in South West England. It has a statutory obligation to provide these services and the industry regulator OFWAT has an obligation to ensure that the Licensee can continue to trade.

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. The financial statements present information about the company as an individual undertaking and not about its group.

b. Turnover

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

d. Leased assets

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

e. Grants and contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the requirements of 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. This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

f. Investments

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

g. Stock

Stock and work in progress are stated at cost less any diminution in value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. Foreign currency

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

i. Research and development

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

j. Taxation

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

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

k. Pensions

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus / deficit is split between operating charges, finance items and, in the Statement of Total Recognised Gains and Losses, actuarial gains and losses.

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

l. Cash flow

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

m. Joint arrangements

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

n. Finance costs

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

o. Debt

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

p. **Interest rate instruments**

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

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

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

2 **Segmental analysis**

	Year to 30.06.09 £m	Year to 30.06.08 £m

Substantially all of the turnover, operating profit and net assets derive from the United Kingdom.

	Year to 30.06.09 £m	Year to 30.06.08 £m
a. Turnover		
Regulated	**420.4**	399.2
Intra group	**3.8**	3.8
	424.2	403.0
b. Operating profit		
Regulated	**201.8**	199.5
Intra group	**-**	-
	201.8	199.5
c. Net assets		
Regulated	**388.2**	371.4
Intra group	**-**	-
	388.2	371.4

3 **Operating costs**

	Year to 30.06.09 £m	Year to 30.06.08 £m
Manpower costs (note 6b)	**38.6**	37.9
Materials and consumables	**23.6**	19.9
Other operational costs	**64.7**	58.0
Depreciation	**93.5**	86.7
Amortisation of grants and contributions	**(0.9)**	(0.9)
Loss on disposals of fixed assets	**2.9**	1.9
	222.4	203.5
Operating costs include:		
Operating leases for plant and machinery	**1.3**	1.6
Research and development	**0.1**	0.1
Directors' remuneration (note 6c)	**1.1**	1.1

	Year to 30.06.09 £000	Year to 30.06.08 £000
Auditors' remuneration:		
Audit of these financial statements	**135**	125
Other services pursuant to legislation	**35**	55
All other services	**281**	99
	451	279

4 Net interest payable	Year to 30.06.09 £m	Year to 30.06.08 £m
Interest payable:		
To group companies	**73.2**	72.9
On bank loans	**10.6**	13.3
On finance leases	**4.0**	4.6
Total interest payable	**87.8**	90.8
Interest receivable on short term deposits	**(7.9)**	(18.6)
Net interest payable	**79.9**	72.2

5 Taxation

a. Analysis of charge in the period

Corporation tax:		
UK corporation tax at 28.0% (2008 – 29.5%)	**22.9**	29.7
Adjustments in respect of previous years	**(3.2)**	(1.0)
Total corporation tax charge	**19.7**	28.7
Deferred tax – current year:		
Origination and reversal of timing differences	**8.4**	1.9
Increase in discount	**(2.3)**	(6.5)
	6.1	(4.6)
Deferred tax – prior year:		
Origination and reversal of timing differences	**3.6**	1.5
Increase in discount	**(0.2)**	(1.1)
	3.4	0.4
Total deferred tax charge / (credit)	**9.5**	(4.2)
Taxation charge on profit on ordinary activities	**29.2**	24.5

b. Current tax reconciliation

Profit on ordinary activities before tax	**118.3**	129.5
Current tax at 28.0% (2008 – 29.5%)	**33.1**	38.2
Expenses not deductible for corporation tax purposes	**-**	(0.2)
Group relief for nil consideration	**(2.0)**	(2.9)
Adjustments in respect of previous years	**(3.2)**	(1.0)
Capital allowances for the year greater than depreciation	**(4.4)**	(0.4)
Payment of lease creditor capital	**(1.8)**	(1.9)
Other timing differences	**(2.0)**	(3.1)
Total corporation tax charge - as above	**19.7**	**28.7**

c. The Budget Statement 2009 announced an increase to 40% of the capital allowance rate in respect of plant and machinery, which will apply for one year from 1 April 2009, and which is intended to be incorporated in the Finance Act 2009. Had this change been enacted at the balance sheet date the deferred tax provision (note 15) would have increased by £0.6m to £86.4m, and the corporation tax liability (note 13) would have decreased by £0.7m to £10.2m.

6 Directors and employees

	Year to 30.06.09 £m	Year to 30.06.08 £m
a. Total employment costs of the company were:		
Wages and salaries	**65.2**	52.9
Social security costs	**5.3**	4.9
Other pension costs	**7.6**	6.9
	78.1	64.7
b. Total employment costs are charged as follows:		
Capital schemes	**30.9**	24.0
Infrastructure renewals expenditure	**5.0**	5.0
Other finance income	**3.6**	(2.2)
Manpower costs (note 3)	**38.6**	37.9
	78.1	64.7

c. Total directors' remuneration	Year to 30.06.09 £000	Year to 30.06.08 £000
Salary and fees	**875**	822
Bonuses	**180**	271
Benefits in kind	**58**	53
	1,113	1,146

The remuneration above is in respect of five executive directors (2008 – five) and seven non executive directors (2008 – seven).

Executive directors have one year rolling contracts of employment. In addition the executive directors received £500k (2008 - £534k) remuneration from other group companies. Four directors have benefits accruing under defined benefit pension schemes (2008 - four). The aggregate amount of company contributions to pension schemes in respect of directors was £180k (2008 - £162k).

d. Highest paid director

Salary	**192**	162
Bonus	**50**	68
Benefits in kind	**15**	14
	257	244

The highest paid director had an accrued annual pension entitlement of £77,762 at 30 June 2009 (30 June 2008 - £67,865).

		30.06.09 number	30.06.08 number
e. Monthly average number of employees during the year	- Billing Services	**323**	313
	- All other staff	**1,859**	1,767
	- Total	**2,182**	2,080

7 Dividends

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

	Year to 30.06.09 £m	Year to 30.06.08 £m
Final dividend in respect of a prior year but not recognised as a liability in that year of 31.1p per share on 81,350,000 ordinary shares (2008 – 35.28p)	**25.3**	28.7
Interim dividends of 68.59p per share on 81,350,000 ordinary shares (2008 – 92.563p)	**55.8**	75.3
	81.1	104.0

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2008/09 declared and paid in July 2009 of £26.1m (32.08p per share) was not recognised in these financial statements.

8 Tangible fixed assets

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2008	639.5	1,051.0	870.5	62.3	197.5	2,820.8
Additions	8.8	51.7	53.0	6.7	66.2	186.4
Transfers on commissioning	15.0	30.1	97.6	11.8	(154.5)	-
Disposals	(3.0)	-	(11.2)	(6.4)	-	(20.6)
Grants and contributions	-	(5.1)	-	-	-	(5.1)
At 30 June 2009	**660.3**	**1,127.7**	**1,009.9**	**74.4**	**109.2**	**2,981.5**
Depreciation						
At 1 July 2008	164.3	306.9	396.7	22.8	-	890.7
Charge for the year	12.6	30.7	46.5	3.7	-	93.5
Disposals	(1.1)	-	(7.9)	(6.4)	-	(15.4)
At 30 June 2009	**175.8**	**337.6**	**435.3**	**20.1**	-	**968.8**
Net book value						
At 30 June 2009	**484.5**	**790.1**	**574.6**	**54.3**	**109.2**	**2,012.7**
At 1 July 2008	475.2	744.1	473.8	39.5	197.5	1,930.1

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 £64.4m (2008 - £70.8m).

The depreciation charge for the year on assets held under finance leases is £6.4 m (2008 - £6.5m).

The net book value of infrastructure assets at 30 June 2009 is stated after the deduction of grants and contributions amounting to £110.8m (2008 - £105.7m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £345.3m (2008 - £319.4m) of expenditure on maintaining the network, and £337.6m (2008 - £306.9m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £10.1m (2008 - £9.7m) in respect of land which is not depreciated.

9 Investments

The company has an investment of £13,000 (2008 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	30.06.09 £m	30.06.08 £m
10 Stock and work in progress		
Raw materials and consumables	**2.6**	1.7
Work in progress	**2.6**	2.8
	5.2	4.5
11 Debtors		
Trade debtors	**41.5**	48.0
Owed by other group companies	**26.9**	25.2
Prepayments and accrued income	**58.8**	51.8
Other debtors	**2.6**	5.0
	129.8	130.0
12 Cash at bank and in hand		
Short term bank deposits	**32.1**	254.8

£5.2m (2008 - £89.8m) of short term bank deposits mature within 1 month and £26.9m within 3 months (2008 - £165.0 within 5 months).

	30.06.09 £m	30.06.08 £m
13 Creditors - amounts falling due within one year		
Bank overdraft	**-**	4.9
Short term bank loans	**60.0**	-
Inter company loans	**1.3**	299.7
Obligations under finance leases	**4.9**	4.8
Trade creditors	**7.4**	11.4
Amounts owed to subsidiary undertaking	**21.0**	25.4
Amounts owed to other group companies	**1.2**	0.6
Other creditors	**2.3**	2.4
Corporation tax	**10.9**	15.7
Taxation and social security	**2.0**	1.8
Accruals and deferred income	**63.6**	92.3
	174.6	459.0

The inter company loan was due to a fellow subsidiary company SC Technology GmbH (2008 - to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of a Bond issued at 5.875% which was repaid in March 2009).

		30.06.09 £m	30.06.08 £m
14	**Creditors - amounts falling due after more than one year**		
	Loans repayable - in more than 1 year, but not more than 2 years	**75.0**	21.6
	- in more than 2 years, but not more than 5 years	**-**	75.0
	- in more than 5 years	**240.0**	100.0
		315.0	196.6
	Finance lease repayable - in more than 1 year, but not more than 2 years	**5.6**	4.9
	- in more than 2 years, but not more than 5 years	**21.4**	19.1
	- in more than 5 years	**43.6**	51.5
		70.6	75.5
	Inter company loans - in more than 5 years	**1,089.5**	1,070.0
	Other	**1.5**	1.6
		1,476.6	1,343.7

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.

	30.06.09 £m	30.06.08 £m
Bond at 5.375% repayable in March 2028	**198.0**	197.9
Bond at 5.75% repayable in October 2033	**345.7**	345.5
Index linked bond at 3.52% plus inflation repayable in July 2023	**61.2**	59.0
Index linked bond at 1.75% plus inflation repayable in July 2046	**82.3**	79.3
Index linked bond at 1.75% plus inflation repayable in July 2051	**82.2**	79.3
Index linked bond at 1.369% plus inflation repayable in July 2057	**82.3**	79.3
Index linked bond at 1.374% plus inflation repayable in July 2057	**82.2**	79.3
Index linked bond at 1.489% plus inflation repayable in November 2058	**51.9**	50.2
Index linked bond at 1.495% plus inflation repayable in November 2058	**51.9**	50.1
Index linked bond at 1.499% plus inflation repayable in November 2058	**51.8**	50.1
	1,089.5	1,070.0

15 **Provisions for liabilities and charges**

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2008	77.8	0.1	77.9
Utilised	-	(0.3)	(0.3)
Provided in year	-	0.7	0.7
Origination and reversal of timing differences	10.5	-	10.5
Increase in discount	(2.5)	-	(2.5)
At 30 June 2009	**85.8**	**0.5**	**86.3**

Restructuring costs relate to the severance costs of a redundancy programme announced in the year.

	30.06.09 £m	30.06.08 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	**280.9**	270.2
Other timing differences	**(0.8)**	(0.6)
Undiscounted provision for deferred tax	**280.1**	269.6
Discount	**(194.3)**	(191.8)
Discounted provision for deferred tax	**85.8**	77.8

16 Pensions

FRS 17 pension liability (see note 16e)	**45.9**	63.5
FRS 17 deferred tax asset	**(12.9)**	(17.8)
Unfunded and compensatory added years pension	**1.1**	1.1
	34.1	46.8

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

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

b. The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £12.4m (2008 - £5.6m). Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses.

c. The latest actuarial valuation for WWPS was undertaken at 31 December 2007. The assumptions which have the most significant effect on the results of a valuation are those relating to the discount rate for scheme liabilities and the rate of increase in salaries and pensions. It was assumed that the pre retirement discount rate would be 6.5% and the post retirement discount rate 5.5%, that salary increases would average 4.4% per annum and that present and future pensions would increase between 2.4% and 3.4% per annum. The market value of the WWPS assets as at 31 December 2007 was £307.8m which represented 83.6% of the actuarial value of the accrued benefits of £368.4m, a deficit of £60.6m. The next actuarial valuation will be at 31 December 2010.

In response to this valuation the company agreed to pay additional contributions of £7.2m per annum at 31 December 2008 and 31 March 2010, and at 31 March for a further 8 years. The level of regular employer contributions also rose.

d. The actuarial valuation described above has been updated at 30 June 2009 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	30.06.09	30.06.08	30.06.07
Rate of increase in salaries	**4.0%**	5.4%	4.1%
Rate of increase in pensions in payment	**2.9%**	3.9%	3.1%
Rate of increase in pensions in payment – reduced level members	**2.1%**	2.5%	2.3%
Discount rate	**6.45%**	6.7%	5.8%
Inflation assumption	**3.0%**	3.9%	3.1%

The mortality assumptions are based upon the recent actual mortality experience of members within the scheme, and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live, on average, for a further 25 years if they are male, and for a further 27 years if they are female. For a member who retires in 2028 at age 60 the assumptions are that they will live, on average, for a further 27 years after retirement if they are male, and a further 29 years after retirement if they are female

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

	30.06.09	30.06.08	30.06.07
	£m	£m	£m
Equities	**97.6**	124.5	145.6
Property	**16.7**	18.6	24.3
Government Bonds	**121.8**	147.4	116.3
Corporate Bonds	**36.3**	3.7	3.0
Cash	**5.3**	0.9	0.3
Total fair value of the assets	**277.7**	295.1	289.5
Present value of defined benefit obligations	**(323.6)**	(358.6)	(334.2)
Deficit in the scheme	**(45.9)**	(63.5)	(44.7)

The expected rates of return were as follows:

	%	%	%
Equities	**9.25**	9.1	9.25
Property	**8.25**	8.1	8.25
Government Bonds	**4.25**	5.0	5.1
Corporate Bonds	**6.25**	5.8	5.6
Cash	**1.2**	5.9	6.0
	6.5	6.9	7.5

Narrative description of the basis used to determine expected value:

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2009.

f. Additional analysis:

	30.06.09	30.06.08
	£m	£m
Analysis of profit and loss charge		
Current service cost	**8.8**	7.0
Past service cost	**-**	0.8
Interest cost	**24.0**	19.3
Expected return on scheme assets	**(20.4)**	(21.5)
Expenses recognised in the profit and loss account	**12.4**	5.6
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	**358.6**	334.2
Current service cost	**8.8**	7.0
Interest cost	**24.0**	19.3
Contributions by scheme participants	**2.7**	3.0
Actuarial (gains) / losses on scheme liabilities	**(57.9)**	6.2
Net benefits paid out	**(12.6)**	(11.9)
Past service cost	**-**	0.8
Closing present value of defined benefit obligations	**323.6**	358.6

	30.06.09 £m	30.06.08 £m
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	**295.1**	289.5
Expected return on scheme assets	**20.4**	21.5
Actuarial losses on scheme assets	**(45.7)**	(19.6)
Contributions by the employer	**17.8**	12.6
Contributions by scheme participants	**2.7**	3.0
Net benefits paid out	**(12.6)**	(11.9)
Closing fair value of scheme assets	**277.7**	295.1

Actual return on scheme assets

Expected return on scheme assets	**20.4**	21.5
Actuarial loss on scheme assets	**(45.7)**	(19.6)
Actual return on scheme assets	**(25.3)**	1.9

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses

Total actuarial gains / (losses)	**12.2**	(25.8)
Cumulative amount of losses recognised	**(46.8)**	(59.0)

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

	30.06.09 £m	30.06.08 £m	30.06.07 £m	30.06.06 £m	30.06.05 £m
Fair value of scheme assets	**277.7**	295.1	289.5	262.7	240.3
Present value of scheme liabilities	**(323.6)**	(358.6)	(334.2)	(333.0)	(311.7)
Deficit in scheme	**(45.9)**	(63.5)	(44.7)	(70.3)	(71.4)
Experience (losses) / gains on scheme assets	**(45.7)**	(19.6)	5.4	5.1	18.7
Experience gains / (losses) on scheme liabilities	**10.5**	(5.2)	(4.9)	(0.2)	(9.7)

	30.06.09 £m	30.06.08 £m
17 Deferred income		
Grants and contributions:		
At 1 July	**20.6**	21.3
Received in the year	**0.3**	0.2
Less amortisation	**(0.9)**	(0.9)
At 30 June	**20.0**	20.6
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 July	**290.1**	307.7
Profit attributable to shareholders	**89.1**	105.0
Dividends (note 7)	**(81.1)**	(104.0)
Actuarial gains / (losses) net of taxation	**8.8**	(18.6)
At 30 June	**306.9**	290.1

		30.06.09 £m	30.06.08 £m
20	**Equity shareholders' funds**		
	At 1 July	**371.4**	389.0
	Profit attributable to shareholders	**89.1**	105.0
	Dividends (note 7)	**(81.1)**	(104.0)
	Actuarial gains / (losses) net of taxation	**8.8**	(18.6)
	At 30 June	**388.2**	371.4

21 **Financial instruments**

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £66.2m (2008 - £309.4m) of short term borrowings and £32.1m of short term cash investments (2008 – £254.8m).

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 30 June 2009 there were £90.0m (2008 - £150.0m) of undrawn facilities.

a. Interest rate and currency exposure

	Fixed rate borrowings 2009 £m	**Floating rate borrowings 2009 £m**	**Total borrowings 2009 £m**	Fixed rate borrowings 2008 £m	Floating rate borrowings 2008 £m	Total borrowings 2008 £m
Sterling	**1,089.5**	**419.7**	**1,509.2**	1,369.7	27.0	1,396.7

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

	Interest rate % 2009	**Period years 2009**	Interest rate % 2008	Period years 2008
Sterling	**3.8**	**32.5**	4.3	25.9

Floating rate borrowings with interest rates moving in line with LIBOR comprise £32.1m of short term deposits (2008 - £254.8m), £66.2m of short term borrowings (2008 - £9.7m) and £385.6m (2008 - £272.1m) of long term borrowings.

b. Fair values

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

	Book value £m 2009	**Fair value £m 2009**	Book value £m 2008	Fair value £m 2008
Borrowings less than 1 year	**34.1**	**34.1**	54.6	52.8
Floating rate borrowings over 1 year	**385.6**	**385.6**	272.1	272.1
Fixed rate borrowings over 1 year	**1,089.5**	**1,070.0**	1,070.0	1,112.2
	1,509.2	**1,489.7**	1,396.7	1,437.1

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

c. Movement in net debt

	1 July 2008 £m	Cash Flow £m	Non cash items £m	**30 June 2009 £m**
Short term cash investments	**254.8**	(224.9)	-	**29.9**
Cash at bank	-	2.2	-	**2.2**
Bank overdraft	**(4.9)**	4.9	-	-
Inter company loan	-	(1.3)	-	**(1.3)**
Short term loans	-	(60.0)	-	**(60.0)**
Loans repayable after one year	**(196.6)**	(118.4)	-	**(315.0)**
Finance leases repayable within one year	**(4.8)**	(0.1)	-	**(4.9)**
Finance leases repayable after one year	**(75.5)**	4.9	-	**(70.6)**
Bonds repayable within one year	**(299.7)**	300.0	(0.3)	-
Bonds repayable after one year	**(1,070.0)**	-	(19.5)	**(1,089.5)**
	(1,396.7)	(92.7)	(19.8)	**(1,509.2)**

22 Commitments and guarantees

a. There were no operating lease payments under leases on land and buildings due within the next year, which expire within 2 years (2008 – £0.1m). There are no commitments under other operating leases.

b. Capital expenditure contracted but not provided at 30 June 2009 was £49.2m (2008 - £129.4m).

c. The company has guaranteed Bonds of £1,089.5m (2008 - £1,369.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

23 Share based payments

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

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

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

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

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.

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

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

The following options were outstanding at 30 June 2008 and 2009.

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2008	Granted	Forfeited	Exercised	Outstanding at 30 June 2009
13/12/2002 Unapproved	13,179,250	-	(200,000)	(100,000)	12,879,250
26/12/2002 Approved	4,498,000	-	-	(108,500)	4,389,500
12/12/2003 Unapproved	1,819,000	-	(100,000)	-	1,719,000
12/12/2003 Approved	1,518,000	-	-	-	1,518,000
16/05/2005 Unapproved	3,900,000	-	-	-	3,900,000
16/05/2005 Approved	4,514,000	-	(170,000)	-	4,344,000
07/08/2006 Unapproved	900,000	-	(200,000)	-	700,000
07/08/2006 Approved	5,316,000	-	(472,000)	-	4,844,000
20/08/2007 Unapproved	900,000	-	-	-	900,000
20/08/2007 Approved	3,496,000	-	(136,000)	-	3,360,000
26/06/2008 Unapproved	90,000	-	-	-	90,000
28/11/2008 Unapproved	-	6,560,000	-	-	6,560,000
28/11/2008 Approved	-	9,696,000	(272,000)	-	9,424,000
TOTAL	40,130,250	16,256,000	(1,550,000)	(208,500)	54,627,750

Of the above options 28,749,750 were exercisable at 30 June 2009.

No charge is recognised in the profit and loss account for FRS 20, as it is not material to the financial statements.

24 Contingent liabilities

There are no material contingent liabilities at 30 June 2009 for which provision has not been made in these financial statements.

25 Related parties

There are no related party transactions requiring disclosure in these financial statements. As the company is a wholly owned subsidiary of Wessex Water Ltd (see note 27), the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group.

26 Post balance sheet event

On 7 September 2009 a subsidiary company Wessex Water Services Finance Plc issued an Index Linked Bond, the proceeds of which were £49.7m, which were lent to the company.

27 Ultimate parent company

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