

# WESSEX WATER SERVICES LTD

Accounts for the year to  
30 June 2007

Registered in England and Wales No 2366648

## DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 30 June 2007

### 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

#### OVERVIEW

Over the past year Wessex Water has

- continued to improve service to customers
- met or exceeded all planned maintenance activity levels
- delivered all the quality and environmental outputs expected, and is on course to meet all future outputs at or before the due date
- ensured there were no restrictions placed on water use for the 30th consecutive year and that water resources remain in a healthy position
- met or exceeded all the outputs set by the five-year monitoring plan
- reduced leakage below the target assessed for the 2004 price review to 72MI/d
- maintained the serviceability of the asset network
- planned further investments which will de-risk the business for the future
- made further steps towards reducing our carbon footprint
- not increased energy consumption despite meeting higher standards
- continued to outperform the financial assumptions made in the 2004 determination
- obtained new, long dated finance, which will allow us to complete much of our five-year investment programme
- improved customer satisfaction levels to 96%
- reduced pollution incidents by 24%
- achieved almost 100% drinking water quality compliance
- reduced by a quarter those customers at risk of internal sewage flooding
- ensured that effective stakeholder engagement is at the core of our activities

#### FINANCIAL PERFORMANCE

Historic cost profit after tax increased by £16.8m from £76.1m to £92.9m

Turnover increased by £28.6m or 8.3% to £375.1m following regulated price increases of 7.9% and 9.8% on 1 April 2006 and 1 April 2007 respectively. Operational costs excluding depreciation increased from £104.9m to £117.0m primarily a result of the increase in world energy costs, despite the business making substantial like for like savings. Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £1.9m as a result of the ongoing investment programme.

Net interest charges fell by £1.0m from £66.8m to £65.8m despite an increase in net debt of £66.9m from £1,157.7m to £1,224.6m. This was as a result of the financing undertaken in the last year and a reduction of £1.7m in the interest cost for pensions under FRS 17. The cash outflow of £66.9m comprised

- cash flow from operating activities £247.9m, less
- interest of £65.6m
- tax of £24.9m
- net capital investment of £136.7m
- dividends of £87.6m

There was a tax charge in the year of £14.5m, a decrease of £1.2m over £15.7m charged last year, because

- corporation tax decreased by £3.6m due to prior year credits
- deferred tax credit reduced by £2.4m

Dividends declared in the year amounted to £62.1m plus £25.5m final dividend for the prior year, compared to £52.2m last year. The final dividend for the year of £28.7m was declared and paid after the year end, making £90.8m for the full year. This final dividend was not recognised in the financial statements in line with the requirements of FRS 21 "Events after Balance Sheet Date".

The company fully adopted FRS 17 'Retirement Benefits' last year. The deficit of £70.3m at the start of the year has reduced to £44.7m at 30 June 2007 as a result of a significant increase in the yield on AA-rated corporate bonds that gave rise to a lower value being placed on the liabilities at the year end.

The key performance indicators for the company are measured for the regulatory year to 31 March. These are included in the Regulatory Accounts of the company which can be obtained from Wessex Water, Claverton Down Road, Bath BA2 7WW

Operating profit as a percentage of turnover was 46.2% (2006 – 45.8%) with the increase being a combination of cost control and increased turnover. Interest cover was 2.63 times (2006 – 2.37 times) with the increase being due to regulatory price increases and the beneficial impact of the most recent refinancing undertaken by the company.

## OPERATIONAL REVIEW

### A) Our customers and communities

Our impact on the communities we serve spreads well beyond the obvious, from customer service standards into the sharing of expertise through educational, charitable and communication initiatives.

#### Compliance and quality

Our compliance with drinking water standards shows that we have once again been supplying water of the highest possible quality – levels were at 99.9%, the same as last year.

However, at some of our groundwater sources, the level of nitrate in the raw waters is gradually increasing, mainly due to the use of fertilisers in agriculture, so we are carrying out work to ensure that the quality of water put into public supply meets the required stringent standards. For instance, this year we have completed water treatment improvements at three works including Leckford Bridge, Fovant and Clarendon.

In the past year our programme of work to improve or maintain the quality of drinking water has sought wherever possible to be innovative and to develop lowest whole life cost sustainable solutions rather than build conventional end-of-pipe treatment works.

Rather than build treatment plants, our catchment management specialists work alongside the local farming community to identify potential pollutant pathways and find alternative land management practices to protect and improve groundwater quality.

Where we have encountered increasing pesticide levels at water supply sources in the region, due to contamination of groundwater by farming practices, we have chosen to work with farmers to reduce the risk of contamination rather than install treatment plants.

At our Friar Waddon source, near Weymouth, we have entered into agreements with three farms for a three-year trial to assess the effects of a total ban on spraying pesticides on land around the source to achieve a more sustainable solution to this problem. Results to date are encouraging but if the trial is unsuccessful we will have to install treatment.

At Portesham and Ulwell, work to remove the source of the pesticides is complete and the projects are now in their monitoring phase. We have also undertaken work at Swanage where we had identified a sheep dip as the cause of the groundwater contamination. In such circumstances we continue to urge the Environment Agency, EA, to use its existing powers to regulate discharges to groundwater rather than expect water customers to pick up the cost of additional treatment.

We have made significant improvements in reducing the number of properties experiencing unplanned supply interruptions and the number of customers whose supply was interrupted for more than six hours fell by 31% this year.

We continue to make significant reductions in the number of properties at risk of flooding and while there has been a slight rise in the number of properties actually flooded, due to a wet winter, the average service over the last three years continues to improve.

Our overall customer service performance remains high and we continue to see improvements in our operational customer service performance, but there has been a rise in the number of complaints we have received related to our bills.

It is clear that customers are increasingly satisfied with the way we deliver our services, but do not like the rate of rise in our bills needed to pay for environmental improvements.

We remain committed to improvements in our day-to-day customer service – the number of operational complaints continues to fall and customer satisfaction with our telephone service has consistently kept us as one of the top performers in Ofwat's new league table.

#### Wessex Water Partnership

The Wessex Water Partnership is a range of additional services, available to all customers regardless of whether they are a bill payer or not, that recognises the responsibility we have towards those who are our customers.

In addition to our affordability work these services include Restart Plus, which, running alongside our existing Restart scheme, has now successfully completed its first year.

Both schemes are designed to get customers who are having difficulty paying back on track with Restart Plus offering additional financial help for those in exceptional difficulty. Around 500 customers are on the schemes at the moment and our success rate is 94% – only 6% of customers fall behind again with their water payments.

Through our Wessex Water Promise we continue to provide customer guarantees and compensation well in excess of the statutory guaranteed standards scheme. We have the best overall package of guarantees in the industry and in 2006-07 increased the minimum payments for sewage flooding to £150 for internal and £75 for external. We have also extended the promise to include telephone as opposed to only written responses to account queries.

#### *Community involvement and charity support*

We believe in the benefits of building constructive relationships with all our stakeholders and participate in a wide range of community involvement initiatives.

Our Wessex Watermark scheme is judged by a panel chaired by botanist and television presenter David Bellamy and offers grants of up to £1,500 to community groups and schools carrying out environmental projects within the region.

Over the regulatory year to March 2007 £20,000 has been awarded to dozens of different community groups including

- a £250 grant to Great Mere Community Conservation project in Collingbourne Ducis to transform 1.14 acres of disused land into a habitat to attract a wide variety of flora and fauna
- a £500 grant to Tynings Primary School in Staple Hill, Bristol, to construct a wildlife pond in its school grounds
- a £1,000 grant to Bath City Farm to help it purchase a piece of derelict land adjacent to the site to set up a new wildlife area combined with community allotments

#### *Community Involvement Committee*

In the regulatory year to March 2007 a further £24,000 was donated by Wessex Water to registered charities in the region through our Community Involvement Committee.

Examples include

- £300 to Poole Hospital for their hydrotherapy pool
- £500 to Beaminster Community Learning Centre
- £500 to New Forest & District Sailability

#### *Offender programme*

Wessex Water has been running its offender training and employment programme since early 2005, working in partnership with all the training prisons in our region.

Since then, nine offenders have been selected for the training programme, with six offered employment on successful completion of training. A further 18 year old offender is currently training at one of our sewage treatment works, and other applications are being reviewed from other prisons.

The scheme involves a rigorous 12 week pre-release training and development programme combining practical instruction on site with our own staff and academic training to meet the needs of the job. Applicants are selected via a comprehensive risk assessment by the prison followed by interviews with our own staff.

#### *Public information*

For many years now Wessex Water has believed in keeping not only our customers, but all those affected by our work, informed and involved in all that we do. This means communicating with them across a whole range of areas, from the campaigns that we run to the work that we are doing on their streets and in their towns.

Our strong commitment to promoting water efficiency to both domestic and business customers has helped us to contain any increase in water consumption and is advertised to the public by our Wise up to Water and Litre Beater campaigns.

In addition to providing customers with free cistern devices and information on how to save water, we took to the road last year with a programme of Wise up to Water roadshows all around our region. Signs on our company vehicles and adverts in local and regional newspapers helped to reinforce the message 'to be wise about water'.

The Litre Beater campaign challenges customers to join us in seeing how much water they can save by modifying their daily lives. Launched during winter 2006-07 it addressed the danger of frost and frozen pipes and included a series of adverts in the media and on bus sides and a new litre beater pack containing useful information on water saving.

Both campaigns are backed by regularly updated information on Wessex Water's website, which also contained details of special offers on water butts throughout last summer.

We have adopted a number of methods to communicate with customers about our projects including

- Wootton Bassett, where to reduce the risk of sewer flooding we installed a storm tank in the town's high street, held a public meeting and an exhibition to explain the work, informed and updated local representatives, erected information boards and distributed leaflets
- Tucking Mill, where discussions with local residents and landowners identified issues, information boards were posted on footpaths and cycle paths that overlook the works, press releases were issued explaining the scheme and warning of the dangers of construction traffic and our education advisers spoke about the work to local schools
- Chippenham, where we spent £400,000 to improve and strengthen the sewer network, sending letters to residents, businesses, councillors and the local MP, notifying road closure information to road hauliers, briefing local newspapers, issuing public notices, putting up information boards in public places and distributing leaflet information
- Somerset, where we invested £9m to improve a vital part of Somerset's water supply network – the Somerset spine main, a key east-west link on the supply network. We communicated the scheme and its likely impact to the local community by way of letters, press releases and direct liaison with landowners and businesses

#### *Education*

The number of children benefiting from our education service continues to rise with the figure for the year to March 2007 reaching 19,394, an increase of more than 500 on the previous year and almost five times the number 10 years ago

One of our advisers spent a week at the end of the summer term working with the Malmesbury River Valleys Trust on a project aimed at introducing schools to their local environment and enthusing children about all aspects of nature

The annual fishing day at Sutton Bingham reservoir, organised with the Environment Agency, introduced youngsters to fishing alongside other attractions such as nature walks and minibeast investigations

Last September Blashford, our education centre run in partnership with the Hampshire Wildlife Trust, celebrated its 10th anniversary. A highly successful open day was held with several hundred people visiting the site to take part in a wide range of activities ranging from craft activities to bird watching walks

We have launched a new history programme at our Sutton Poyntz centre in Dorset where pupils now have the opportunity to test their detective skills in reviewing old documents, taking part in a play about Dr Snow and cholera and replicating old photographs with period costumes, as well as learning about water supply past and present

Sutton Poyntz also hosted its second family day during National Science and Engineering Week where members of the public were invited to take part in activities usually only open to school parties, such as stream dipping, water testing and microscope work. The renovation of a working waterwheel on site was a highlight for many of the visitors

#### *Company ethics*

Wessex Water considers it essential to act in a responsible and ethical way in order to be a sound and socially responsible business and we have a very well established system of company governance

In this area there were two major developments in the past year. Firstly, our sustainability panel was formed, chaired by non-executive director Jonathon Porritt. This succeeds our environment and public health advisory panel, with the aim of monitoring the full extent of sustainability issues affecting the company

Secondly, we formed a stakeholder forum bringing together representatives of our main interest groups. We expect that both the sustainability panel and the stakeholder forum will provide useful ways of considering key strategic issues, particularly in the approach to the 2009 periodic price review

### **B) Our environment**

#### **Water resources**

##### *Climate change*

We are in no doubt that climate change is a major factor in all our lives today and consider it would be exceptionally foolhardy to underestimate the importance of successfully managing our water resources

Wessex Water takes the issue of climate change very seriously and is looking in more detail at how it may impact upon our operations. It is predicted that by the second half of the 21st century our region will face wetter, milder winters and hotter, drier summers

We have carried out an overview analysis of the adaptation measures that could be used to deal with expected changes, considering two main themes

- we will need to maintain access to sufficient water resources to meet our customers' reasonable demands for water
- we need to ensure our sewerage system can cope with stormier patterns of rainfall

As we approach the 2009 periodic price review we expect to incorporate UK and regional climate scenarios into our investment and operational planning

During 2006 our region had 108% of the long term average rainfall, leading to a healthy resource position throughout the year. Our continued careful management of water resources ensured that we were able to meet customer demands without the need for restrictions, as we have done for more than 30 years

#### *Drought plan*

In March 2006 we published our draft drought plan for consultation. During the consultation period we received feedback on the plan from our regulators and stakeholders and are now awaiting final feedback from Defra

#### *Water resources management plan*

In 2004 we published our last water resources management plan, which describes how we intend to provide sufficient water and protect the environment over the next 25 years. We are currently preparing a draft to be published as a final document in 2009 covering the period 2010 to 2035

A detailed review of our demand projections to take account of population growth, housing developments, changing behaviours and patterns of household appliance usage and predicted shifts in commercial demands is underway

#### *Strategic Environmental Assessment, SEA*

In 2006 the low flows project trialled a SEA methodology which identified that a range of sustainability and environmental issues are relevant to potential water resource management options. Our methodology enabled us to contribute to the development of national SEA guidelines for the water industry

#### **River and coastal water quality**

Our sewerage treatment performance has declined slightly to 98% from the very high standards last year, 99.5%, due to a failure at Wootton Bassett, one of our works that serves a large population. However, performance to date is better than the monitoring plan target

#### *Urban Waste Water Treatment Directive*

This European Directive sets standards and dates for the treatment of inland and coastal discharges and in the last year we have completed the UWWTD scheme to remove phosphorus at Wootton Bassett, and begun construction of a nitrate removal plant at Poole

#### *Bathing Water Directive*

Compliance with the EU's mandatory bathing water standard remained at 100% for the third year running and compliance with the guideline standard was 77%. During the last year Wessex Water completed a new £2m sewage treatment works at Kilve on the Somerset coast. The new works provides secondary biological treatment to improve the area's water environment

The impact on this part of the Quantock area of outstanding natural beauty of this site was minimised by building the majority of the structures underground

#### *First time sewerage*

Our work to provide communities with a proper sewerage system to manage public health or environmental problems arising from septic tank, cesspool or other unsatisfactory forms of sewage disposal has continued

During the last year we completed three schemes at Redhill-Wrington, Bawdrip and Bathway-Chewton Mendip. Work on the Alderton first time scheme was completed by the end of April 2007 following a short delay

#### *Prosecutions and pollution incidents*

Pollution incidents have fallen by 24% in the last year. We recorded nine serious pollution incidents, including a failure at Ringwood sewage treatment works and an incident when drinking water from a burst main at Crockerton discharged into a nearby stream

Two were the consequences of blockages in sewers and we have stepped up our campaign to alert businesses to the dangers of disposing of vegetable oils and warm fats down sinks and drains

However, while we are disappointed that this should be the case and are stepping up our efforts to prevent such incidents, Wessex Water has not caused a major, category one pollution since 2002

### *Water Framework Directive*

This directive promotes a new approach to water management through river basin planning. Wessex Water is currently engaging with the EA and other stakeholders on the South West River Basin Liaison Panel in the first of three consultations, called Working Together, to draw up a programme of measures in order that the directive's aim of good ecological status for all water bodies can be met.

### *Bristol tunnel scheme*

Wessex Water has begun a £9m sewer tunnelling project to reduce sewer flooding in parts of Bristol city centre. The half mile long tunnel is one of the most ambitious and prestigious engineering projects of its kind to take place in the city for more than a decade.

The new 850m long sewer which will bring flood relief to some of the city's oldest and best loved buildings, is the most effective and sustainable solution to increasing problems with the capacity of the existing network to cope with heavy rainfall. It will be constructed 60 metres underground and will run from Frogmore Street to Woodland Road in Clifton, where it will meet the existing northern foul water interceptor, a main sewer built by Wessex Water in the mid 90s.

### **Our atmospheric footprint**

Wessex Water has the potential to impact adversely on the atmosphere through emissions of greenhouse gases, such as methane as well as CO<sub>2</sub>, and has a crucial duty to ensure that impact is kept to a minimum.

Accordingly we have a long term goal of working towards carbon neutrality, with an annually reviewed carbon management strategy in place. We do, however, face an uphill struggle in the area of carbon management since pumping water and sewage is energy intensive with treatment levels constantly increasing to meet stricter standards.

For example, treatment methods that are energy intensive, such as ultraviolet disinfection and aeration at sewage works, are now commonplace. As a consequence, and even with our focus on energy efficiency, our energy consumption has increased steadily in the last 15 years.

### *Methane*

While carbon dioxide emissions present the single largest global contribution to current climate change, methane is 23 times more potent on a 'like for like' basis.

For the water industry, the major causes of methane emissions are treating and reusing sewage sludge. Despite higher levels of sewage treatment producing more sludge, our methane emissions are around the same as 1990 levels and about 40% lower now than they were in 2000. This is a result of our policy of no longer sending sludge to landfill. We continue to investigate methods for reducing unintentional emissions of methane and increasing energy generation from methane.

### *Energy use and efficiency*

We have a computer based energy management system with energy desks installed in the control room enabling us to track energy anomalies and deal with situations where energy use is higher than normal. A whole range of issues has been detected and acted upon much more promptly than would have otherwise been possible, including excessive aeration, faulty sensors, ragged or blocked pumps.

Specialist software has been designed to capture and log a whole variety of energy saving schemes and so far some £7m of energy savings have been identified. Schemes include further biogas enhancements, computerised control and optimisation of the water network, enhancements to the Meniscus benchmarking system and the conversion of 13 more diesel generators to load management.

Following our establishment of the industry forum for energy saving, a pilot scheme has been implemented involving nine of the 11 large water companies, to enable process efficiencies to be benchmarked.

Wessex Water is installing a 100kW waste wood pellet fired boiler to deliver zero carbon heating to the new Maundown water treatment works.

### *Renewable energy*

We generate and purchase renewable electricity and are part of a regional programme to develop vehicle biofuels. We aim to take 50% of our energy from renewable sources by 2020.

At Bristol sewage treatment works in Avonmouth we are building an enhanced sludge treatment facility to overcome severe restrictions on the availability of agricultural land for sludge from our largest sewage works. We are building a plant to enhance the performance of the existing sludge digesters, increase the production of methane gas and increase power generated at the site. A second sludge stream will process sludge for use as an energy source. Nearly £4m was spent in the year to March 2007 on the first stages of this project.

### *Transport*

To improve the efficient use of our fleet vehicles, location devices are being fitted to locate the nearest appropriate vehicle to the job and reduce miles travelled, travelling time and congestion

New vehicle purchases specify the most advanced technology and highest standard for exhaust emissions. The EU legislative schedule Euro 1 – 5 has targeted progressive reduction in noxious nitrous oxides and particulates and since the introduction of Euro 1 in 1993 to the current Euro standards, nitrous oxides have been reduced by 75% and particulates by 94%. Our tanker fleet continues to use bio-diesel, meeting BSEN 590 standards and the European Bio-diesel standard PEN 14214

### **Our footprint on the land**

We realise our potential to affect the land and its biodiversity is immense and that we must act in such a way as to eliminate or minimise these impacts and enhance biodiversity

### *Sludge*

In 2006 total sludge recycled was 68,527 tonnes of dry solids, compared with 67,740 tonnes in 2005

In line with the sludge team's focus on continually improving sustainability, and reducing environmental impact, sludge outlet selection for recycling has been optimised to reduce cost and miles travelled per tonne recycled

New contracts have been issued for grit and screenings disposal and we expect that around 60% of the grit and screenings which has until now gone to landfill, will instead be recycled

A new vehicle management system for sludge tankers has been installed which will bring an expected 15% reduction in fuel consumption and pollution

### *Biodiversity*

Funding partner organisations to undertake biodiversity work outside our landholding provides us with a better water environment, increased biodiversity and effective partnership working

Phase 3 of our partners programme is now underway and we are supporting eight projects which meet the aims of the UK Biodiversity Action Plan and the EU Water Framework Directive. These range from surveying and monitoring tree sparrows, through river water quality improvement work on the Parrett Rivers, to the Pondways project, surveying the network of ponds within the former county of Avon

Wessex Water is also involved in several multi-agency projects aimed at improving the environment. In the EU funded stream project we are working in partnership with Natural England, NE, the EA, Wiltshire Wildlife Trust, WWT, and Hampshire and Isle of Wight Wildlife Trust, HIWWT

In 2006 the project successfully restored the first two of the six stretches of the River Avon designated for restoration. We are also working alongside NE, the EA, WWT, HIWWT, Salisbury District Council, Salisbury Festival and Hampshire County Council for the Living Rivers Project which started in 2006 and aims to help people living in the River Avon catchment understand their impact on the river and how they can make a difference

### *SSSI and land management*

Wessex Water owns 337 hectares of land or water bodies designated as Sites of Special Scientific Interest, SSSIs, because of wildlife or geological interest. We are aiming to meet the government target to increase the proportion of SSSIs in favourable or recovering condition to 95% by 2010 and in 2006, 85% of our SSSIs met this target

Our liaison with NE to produce management plans for our designated landholdings continues and we are working with tenants and other partners to deliver practical habitat management to improve condition status, on occasions, in challenging circumstances

We own many sites of local or regional importance for wildlife and continue to work with partners, such as the County Wildlife Trusts and Butterfly Conservation, to manage these landholdings. Further work is being carried out to evaluate and manage biodiversity on our operational sites and landholdings, including the production of site environment plans

Investigation to determine whether there is any impact from our sewage effluent and storm flows on nature conservation sites on the Dorset Heaths is almost complete and substantial progress has been made with a similar investigation on the Somerset Levels and Moors



## C) Our people

### *Training, development and support*

To achieve our intention of being a socially responsible and sustainable business we aim to provide our staff with the right tools for the jobs they do – training, development and support that is the best possible

Our human resources department includes a training section that offers

- NVQs and apprenticeship programmes
- a professional development group which includes Chartered Institution of Water and Environmental Management, and other relevant professional qualifications
- a learning and development team committed to providing ongoing development opportunities that support and enhance the career and succession management process
- a structured training programme for leadership to provide appropriate management and coaching skills to managers and supervisors
- the provision of training opportunities, tools, resources, guidelines and on going assistance when required

As a result our employees attend, on average, two courses every year in order to equip them with the technical knowledge, skills and competencies necessary for both professional and personal growth

One such example is our waste and production upskilling programme that is in full swing after its launch 18 months ago. The programme aims to improve skills sets within the business by training operators in the field and following up with competency assessments

As well as this, training our operators on new processes that are entering the industry, such as membrane filtration, not only enhances their professional growth, but also enables us to comply with Drinking Water Inspectorate requirements

The training is supported by 11 production process manuals and 26 waste process manuals, produced in-house while site operation manuals have been put in place on all sites. This year we have launched an initiative called Wessex 2010, intended to improve the capability and performance of our staff, as well as our business processes, for the challenges we face in the years immediately ahead. The project will improve and integrate our work and asset management capabilities and ensure all our staff are trained to be even more responsive to our customers' needs

### *Communication*

Good communication with employees has always been regarded by Wessex Water as not only desirable, but absolutely essential. The company has opted to use a variety of methods to encourage employees to be involved with company direction and to promote new ideas. These include

- Source, our comprehensive intranet site, ensures rapid dissemination of new developments
- monthly team briefings ensure such developments are dealt with in further detail and face to face
- annual staff seminars bring all levels of staff and management together to address performance and future business plans

During the last year our company intranet site has undergone a complete redesign and relaunch, transforming it into a one stop shop for up to date company news, documents and forms of all kinds and links to associated and useful sites. Employees can report problems, make company related bookings online, join forums to discuss matters such as sustainability issues and offer feedback on issues related to their departments

### *Involvement*

A comprehensive staff survey was carried out across the company in the past year and as a result we are reviewing the effectiveness of our communication, human resources and incentivisation policies to improve the overall staff experience. A critical part of this process includes the input and opinions of staff at all levels of the company

### *Reward*

It is one of the characteristics of Wessex Water that those who work for the company often choose to work for us for many years and it is a source of some pride that this year, again, several members of staff have celebrated 25 years with Wessex Water

Wessex Water's Eureka incentive scheme, to encourage employees to think imaginatively and make money saving suggestions, has been a resounding success

Ideas are submitted for consideration for awards and in 2006 four excellent ideas, which together should show savings of hundreds of thousands of pounds, shared an annual prize

- a specially designed cleaning system to ensure dissolved oxygen probes are operating optimally at our Bridgwater (Chilton Trinity) sewage treatment works
- plans for managing sequence batch reactor generators better at Avonmouth sewage treatment works

- new ideas for sludge cake disposal saving around £60,000
- a system to target pumps that have faults unseen by the telemetry alarm system

#### *Workforce diversity*

As a company we continue to recognise the importance of equal opportunity and believe that workforce diversity helps the company to be representative of the customers we serve and the community in which we operate

Our ongoing analysis of our workforce diversity is an important part of our sustainability indicators. When selecting employees it is, of course, their ability to carry out their role successfully that will always come first, whatever their gender, age or ethnicity. This year our figures show that around 73% of our workforce is male and most of our workforce fall into the age ranges 25-50, (72%), and 51-65 (22%) in line with the water industry average.

With the introduction of age discrimination legislation we positively consider any requests we receive from staff who wish to work beyond normal retirement age. Fewer than 1% of our workforce are recorded as from an ethnic minority – however, employees do not have to disclose their ethnic background and, in fact, more than half of our workforce have not done so.

#### *Wellbeing*

Wessex Water has always been committed to achieving the highest possible health and safety standards and is delighted that this year there has been a marked overall reduction in both the number and severity of incidents.

Reductions have taken place across all parts of the business, with 24 incidents reported to the Health and Safety Executive and 642 working days lost in 2006, compared with 35 reportable incidents and 1,080 days lost in 2005. The principal causes of injury were manual handling, lifting, carrying or putting down loads.

Our health and safety policy, arrangements and safety documentation are constantly reviewed to ensure they remain current and reflect any changes in legislation or best practice from other water or utility companies.

Particular emphasis has been placed on updating our arrangements for controlling working hours, mobile phone usage, smoking and the management of construction projects where revisions to regulations have either been implemented or are proposed for introduction in 2007/08.

A core health and safety group within our compliance and sustainability department supports health and safety across the whole business, monitors compliance with company and regulatory standards, develops policy and provides regular information for the board and group management team. Dedicated health and safety advisers have been established in each of the business areas, to promote safety awareness, provide advice and investigate accidents.

We have a dedicated individual occupational health service which assists employees with any health related issues.

A programme has been put in place to ensure Wessex Water vehicles used on the highways are updated in line with the Department of Transport's requirements. These require vehicles used for works or inspection on the highway to be conspicuous, i.e. with roof mounted lighting and high visibility markings over as much of the rear-facing portion of the vehicle as practical.

### **D) Our infrastructure**

#### **Asset investment**

The investment that we make in our assets means that we deliver existing and new standards not only to our customers but also for the wider environment. Population and property numbers in our region have increased at above the level of long term trends and we invest millions of pounds each year to meet ensuing demands.

#### *Programme delivery*

We are now into the second year of our five year investment period, our asset investment commitments for the year have been met and we are on course to meet future outputs at or before their due date.

At our largest treatment works, Maundown in west Somerset we are investing £25m to improve further the quality of drinking water, upgrade the water treatment facilities and allow for increased demand for water in the area.

The works, which was built in the 1960s and extended in the 1970s, serves around 200,000 customers in the west and north of our region. Improvements will replace outdated assets and increase capacity, making it the largest water supply scheme in our programme.

In line with our draft drought plan, at Tucking Mill near Bath, we have improved our infrastructure by completing a £4m scheme to guard against the impact of future droughts on water supplies. Here we have created a standby treatment and pumping facility, which could be quickly enabled for operation in response to prolonged, dry weather conditions in the future. The work involved recommissioning the disused Monkton Combe river abstraction, and consists of a new intake on the river, a new treatment plant on the existing site at Tucking Mill and new mains.

The new standby treatment facility uses the latest membrane technology to treat water drawn from the river. Although it is only likely to be called into service once every five or more years, it will help maintain local water supplies by providing up to 6 5Ml/d for use during especially dry periods.

We are also investing £9m to improve a vital part of Somerset's water supply network – the Somerset spine main which is a key east-west link. Built 30 years ago we are halfway through a two year project to replace 12km of the 500mm main and significantly reduce the risk of future unplanned disruptions to supplies for local residents.

As well as replacing sections of the pipeline, we are taking the opportunity to upgrade them to meet the future demand for water as Somerset's population grows in the coming years.

At Chippenham we have completed a £400,000 scheme to improve and strengthen the sewer network following a survey which revealed a number were either damaged or had collapsed.

Since the survey also revealed a number of foul sewers incorrectly connected to surface water sewers and threatening to pollute the environment in the local area, these were remedied at the same time. Without our investment and essential repairs, the sewerage network would have continued to deteriorate, its effectiveness would have been impaired and the local environment would ultimately have suffered.

More than £350,000 was invested in Yeovil on engineering work to alleviate the risk of foul water flooding. The scheme to install additional pipework included more than 200 metres of 900mm diameter sewer to store stormwater and reduce the risks of sewers flooding.

### **Sensitive investment**

It is some years now since we decided that it was essential to have an environmental services team to carry out screening of all construction projects for environmental impacts. The team arranges environmental and planning consents for our projects and during the last year has completed a range of reports, surveys and consents including:

- 564 environmental screening reports
- 53 preliminary pipeline material assessments (prior to the laying of new pipelines)
- 60 planning applications - many of these included detailed environmental assessments of aspects such as landscape, noise, odour and archaeology
- 279 ecological surveys
- 3 Defra/NE, licences obtained for great crested newts
- eight projects have been carried out under NE licence for badgers

To minimise and mitigate environmental impact the construction project teams have undertaken a wide variety of actions. These include a number of measures that we have employed at Maundown water treatment works. At this Somerset asset, currently our largest construction project and a flagship of environmental good practice, various approaches have been employed:

- the buildings have been designed to blend in with the landscape and will have green sedum roofs
- sustainable energy measures include solar panels and a wood pellet boiler for heating
- agreement has been made with the EA to reuse 50,000m<sup>3</sup> of excavated material on site thus avoiding disposal off site
- before construction an archaeological consultant was appointed to examine the site for archaeological potential. During the excavation works, numerous features were discovered which indicate that the site was a late Iron Age to Roman farmstead. The finds have been examined in detail and a public event was held to allow local residents to tour the site.

Elsewhere we have upgraded a number of our spring sources in line with DWI requirements. These sites pose an interesting prospect as they are invariably located within diverse habitats, many of which are designated as SSSIs or County Wildlife Sites.

One example is Woolcombe Springs in north Dorset, a steep-sided wooded valley with diverse plant life. Here we carried out improvement works in a sympathetic manner and in close consultation with Dorset Wildlife Trust. This included the clearance of non-native scrub, the restoration of the former pond, and mitigation to prevent impacts on badgers. Much of the cut brush was used to construct a natural 'crash-mat' to catch loose material falling from the steep valley sides, avoiding the need for unsightly fencing.

We have been increasingly emphasising protected animal species as the strength of legislation continues to build and have found that creative solutions are sometimes required to minimise the impacts of work.

On the Clifton Maybank water main scheme in Dorset it was necessary to remove a section of hedge to allow vehicle access for the construction. A simple dormouse bridge was constructed over the gap to ensure that habitat was not affected – being arboreal, dormice are particularly susceptible to this kind of loss. The hedges will be replanted using an appropriate native shrub mix when the work has finished.

## **Maintaining assets**

Wessex Water owns a large and ever growing stock of assets, ranging from treatment works to pumping stations and from reservoirs to thousands of kilometres of mains and sewers

Asset failures that compromise public health, reduce our levels of customer service, cause significant disruptions or lead to environmental damage are quite simply unacceptable to Wessex Water. Accordingly we ensure our investment is timely, well targeted and economic in order to eliminate such risks as far as we possibly can.

We are committed to effectively maintaining our assets in a sustainable way by working to reduce resource use and wastage along with seeking more sustainable resources. This year we have either achieved or exceeded all our planned maintenance activity levels.

The level of mains bursts has remained stable at 145 bursts per 1,000km, and sewer collapses as a result of regular schemes of maintenance on our assets at 15.5 per 1,000km.

### *Leakage*

Leakage levels have always been of major concern to Wessex Water and are now assuming a proportionately higher profile amongst the media, government and the populace.

In fact, Wessex Water determined 10 years ago to tackle leakage from its supply network and during that time has cut it to around 50% of that recorded in 1994/95. We have continued to invest significant sums in controlling leakage and during 2006 total leakage was reduced to 72Ml/d. Not only have we increased staff resources devoted to finding and detecting leakage, we have also halved the target time for repairing leaks from 10 to five days. Additionally, we are testing new technology for leak detection in large mains, installing meters on trunk mains and using upgraded pressure control across the region.

Significant updating of technology has also helped to reduce the risk of bursts and leaks and reduced losses at smaller service reservoirs.

### *Intermittent discharges*

During the past year we have seen the number of intermittent discharges from our sewerage network decrease and the percentage of those discharges that are in satisfactory condition has risen to 98.9%.

We have outperformed our monitoring plan target this year, improving six unsatisfactory intermittent discharges and have begun construction at Hotwells, Bristol, where an improvement scheme was delayed due to major problems with the old river wall and subsequent ground risks to a major road.

### *Resource use and waste management*

We are currently undertaking a project to establish recycling centres for excavated highway material from Wessex Water's construction activity. The centres will store waste excavated material then condition it using a proprietary additive that enables us to re-use the material as backfill in our trenches and other construction activities that would normally have required quarry stone.

There are a number of benefits from this activity including:

- the elimination of 95% of highway excavated material from going to landfill and reducing landfill charges to our business
- substantially reducing the need for quarry stone and the environmental impacts of that operation
- reducing transport by having the recycling centres as part of our depot operations where possible

### *Other sustainability initiatives*

In our operations centre at Claverton Down (at the time of its building in 2000 the most sustainable building in the UK) we are constantly looking to increase our recycling. The initial sustainability ethos of the project has been systematically extended into the way we manage the building, the resources we use and the destination of our waste.

In the operations centre we have added the recycling of glass to our existing list of:

- paper and cardboard
- cds, batteries and toner cartridges
- cans and milk bottle tops

Following work with the paper advocacy team at WRAP, the Waste and Resources Action Programme, recycled / environmentally friendly products in use now include recycled paper for copiers and printers and recycled paper for hand towels and toilet rolls. Almost half the total water use on site is of recycled rainwater.

In the last year we have added local, organic, Fairtrade and Rainforest Alliance products to those stocked, in addition to

- recycled toner cartridges
- biodegradable plastic packaging in the restaurant
- wooden stirrers instead of plastic
- mugs instead of plastic cups
- phosphate free washing powder

While we have maintained all our existing practices, we are continually reviewing processes to further improve the sustainability of the operations centre. We are also continuing to extend the lessons learnt here to other Wessex Water offices as our accommodation strategies evolve. As a result we are now stocking environmentally friendly washing powder and dishwasher tablets at our central stores in Dorset.

## **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, an employee newspaper, 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 2007.

## **CHARITABLE DONATIONS**

During the year £120,000 was donated to UK charities (2006 - £43,000).

## **SUPPLIER PAYMENT POLICY**

The company does not follow any specific external code or standard on payment policy. The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2007 trade creditors represented approximately 32 days trade purchases (2006 - 30 days).

## **CORPORATE GOVERNANCE**

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

## THE BOARD

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

The board meets at least bimonthly.

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

## BOARD COMMITTEES

Three formal committees have been established:

- Risk Management and Audit Committee
- Remuneration Committee, and
- Nomination Committee

### **Risk Management and Audit Committee**

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

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

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

### **Remuneration Committee**

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

The Remuneration Committee is exclusively comprised of 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, C F Skellett, F Yeoh and M Yeoh

## INTERNAL CONTROL

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

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

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

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

## DIRECTORS

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

C F Skellett - Executive Chairman  
 D M Barclay \*  
 Mrs L C S Bennett \*\*  
 S A Cater - appointed 11 June 2007  
 Kathleen Chew +  
 P J Costain \*  
 P J L Dennis  
 D J Elliott - appointed 11 June 2007  
 T K Harris  
 J E Porritt \*  
 D A Randle - resigned 8 June 2007  
 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 |
|------------|----------------|-------------------|---------------|---------------|-------------|-------|-----------|----------------|
| TK Harris  | 1,600,000      | 1.32              | 13/12/2002    | 13/12/2005    | 29/11/2011  | -     | (400,000) | 1,200,000      |
| DA Randle  | 480,000        | 1.32              | 13/12/2002    | 13/12/2005    | 29/11/2011  | -     | (120,000) | 360,000        |
|            | 1,400,000      | 1.53              | 12/12/2003    | 12/12/2006    | 29/11/2011  | -     | (280,000) | 1,120,000      |
| PJL Dennis | 2,000,000      | 1.82              | 16/05/2005    | 16/05/2008    | 29/11/2011  | -     | -         | 2,000,000      |

The market price of share options exercised in the year was RM2.0381 and the gain on exercise for T K Harris was RM287,240 and for D A Randle RM228,440.

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

## DISCLOSURE OF INFORMATION TO AUDITORS

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

## AUDITORS

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



By order of the Board  
 A J Phillips - Company Secretary  
 12 September 2007

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

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations. Under Company law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

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

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



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

We have audited the financial statements of Wessex Water Services Ltd for the year ended 30 June 2007, which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities on page 15. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants and Registered Auditor  
100 Temple Street  
Bristol  
BS1 6AG  
12 September 2007

**PROFIT AND LOSS ACCOUNT**  
For the year to 30 June 2007

|   | NOTE | Year to<br>30 06 07<br>£m | Year to<br>30 06 06<br>£m |
|---|------|---------------------------|---------------------------|
| Turnover                                      | 2    | 375 1                     | 346 5                     |
| Operating costs                               | 3    | (201 9)                   | (187 9)                   |
| <hr/>   |      |                           |                           |
| Operating profit                              | 2    | 173 2                     | 158 6                     |
| Interest payable and similar charges          | 4    | (76 7)                    | (66 8)                    |
| Interest receivable                           | 4    | 10 8                      | 1 6                       |
| Other finance income                          | 16   | 0 1                       | (1 6)                     |
| <hr/>   |      |                           |                           |
| Profit on ordinary activities before taxation |      | 107 4                     | 91 8                      |
| Taxation on profit on ordinary activities     | 5    | (14 5)                    | (15 7)                    |
| <hr/>   |      |                           |                           |
| Profit for the financial year                 |      | 92 9                      | 76 1                      |
| <hr/> <hr/>                                   |      |                           |                           |

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

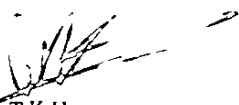
The accompanying notes are an integral part of this profit and loss account

**BALANCE SHEET**  
30 June 2007

|   | NOTE | 30 06 07<br>£m | 30 06 06<br>£m |
|---|------|----------------|----------------|
| <b>Fixed assets</b>   |      |                |                |
| Tangible assets   | 8    | 1,768 3        | 1,698 9        |
| Investments   | 9    | -              | -              |
|   |      | <hr/>          | <hr/>          |
|   |      | 1,768 3        | 1,698 9        |
| <b>Current assets</b>   |      |                |                |
| Stock and work in progress                                      | 10   | 4 2            | 4 8            |
| Debtors   | 11   | 120 1          | 106 8          |
| Short term cash investments                                     | 12   | 265 0          | 26 7           |
|   |      | <hr/>          | <hr/>          |
|   |      | 389 3          | 138 3          |
| <b>Creditors - amounts falling due within one year</b>          | 13   | (146.3)        | (119 8)        |
|   |      | <hr/>          | <hr/>          |
| <b>Net current assets</b>                                       |      | 243 0          | 18 5           |
|   |      | <hr/>          | <hr/>          |
| <b>Total assets less current liabilities</b>                    |      | 2,011 3        | 1,717 4        |
| <b>Creditors - amounts falling due after more than one year</b> | 14   | (1,482 8)      | (1,180 0)      |
| Provisions for liabilities and charges                          | 15   | (84 9)         | (95 9)         |
| Retirement benefit obligations                                  | 16   | (33 3)         | (50 4)         |
| Deferred income   | 17   | (21 3)         | (21 9)         |
|   |      | <hr/>          | <hr/>          |
| <b>Net assets</b>   |      | 389 0          | 369 2          |
|   |      | <hr/>          | <hr/>          |
| <b>Capital and reserves</b>                                     |      |                |                |
| Called up equity share capital                                  | 18   | 81 3           | 81 3           |
| Profit and loss account   | 19   | 307 7          | 287 9          |
|   |      | <hr/>          | <hr/>          |
| <b>Equity shareholders' funds</b>                               |      | 389 0          | 369 2          |
|   |      | <hr/>          | <hr/>          |

The accompanying notes are an integral part of this balance sheet

These accounts were approved by the board of directors on 12 September 2007 and signed on its behalf by



T K Harris  
Director

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year to 30 June 2007**

|  | <b>NOTE</b> | <b>Year to<br/>30 06 07<br/>£m</b> | <b>Year to<br/>30 06 06<br/>£m</b> |
|--|-------------|------------------------------------|------------------------------------|
| Profit for the financial year                          |             | <b>92.9</b>                        | <b>76.1</b>                        |
| <hr/>  |             |                                    |                                    |
| Total recognised gains relating to the financial year  |             | <b>92.9</b>                        | <b>76.1</b>                        |
| Actuarial gains / (losses) net of taxation             | <b>16</b>   | <b>14.5</b>                        | <b>(0.4)</b>                       |
| <hr/>  |             |                                    |                                    |
| <b>Total gains recognised since last annual report</b> |             | <b>107.4</b>                       | <b>75.7</b>                        |

**NOTES TO THE ACCOUNTS**  
**For the year to 30 June 2007**

**1 Accounting policies**

**a Basis of preparation**

The financial statements have been prepared on a basis consistent with the last financial year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e) in accordance with the Companies Act 1985

In the financial statements the following new standard has been adopted for the first time

- FRS 20 'Share based payments'

The impact of FRS 20 has been disclosed in note 23

Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 26)

**b Turnover**

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

**c Tangible fixed assets and depreciation**

Tangible fixed assets comprise infrastructure assets and other assets

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

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

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

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

**d Leased assets**

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

**e Grants and contributions**

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the requirements of schedule 4 of the Companies Act 1985 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view. This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

**f Investments**

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

**g Stock**

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

**h Foreign currency**

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

**i Research and development**

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

**j Taxation**

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

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

**k Pensions**

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

**l Cash flow**

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

**m Joint arrangements**

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

**n Finance costs**

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

**o Debt**

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

**p Interest rate instruments**

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

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

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

**2 Segmental analysis**

**Year to**  
**30 06 07**  
**£m**

**Year to**  
**30 06 06**  
**£m**

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

|          |  |              |              |
|----------|--|--------------|--------------|
| <b>a</b> | Turnover                                     |              |              |
|          | Regulated                                    | 369.1        | 343.0        |
|          | Unregulated                                  | -            | -            |
|          | Intra group                                  | 6.0          | 3.5          |
|          |  | <u>375.1</u> | <u>346.5</u> |
| <b>b</b> | Operating profit                             |              |              |
|          | Regulated                                    | 173.2        | 158.6        |
|          | Unregulated                                  | -            | -            |
|          |  | <u>173.2</u> | <u>158.6</u> |
| <b>c</b> | Net assets                                   |              |              |
|          | Regulated                                    | 389.0        | 369.2        |
|          | Unregulated                                  | -            | -            |
|          |  | <u>389.0</u> | <u>369.2</u> |
| <b>3</b> | <b>Operating costs</b>                       |              | restated     |
|          | Manpower costs (note 6b)                     | 38.6         | 38.9         |
|          | Materials and consumables                    | 23.5         | 17.6         |
|          | Other operational costs                      | 54.9         | 48.4         |
|          | Depreciation                                 | 87.0         | 82.0         |
|          | Amortisation of grants and contributions     | (0.9)        | (0.8)        |
|          | (Profit) / loss on disposals of fixed assets | (1.2)        | 1.8          |
|          |  | <u>201.9</u> | <u>187.9</u> |
|          | Operating costs include                      |              |              |
|          | Operating leases for plant and machinery     | 1.3          | 1.6          |
|          | Research and development                     | 0.1          | 0.1          |
|          | Directors' remuneration (note 6c)            | 0.8          | 0.8          |
|          |  | <u>2.2</u>   | <u>3.3</u>   |

|   | Year to<br>30 06 07<br>£000        | Year to<br>30 06 06<br>£000        |
|---|------------------------------------|------------------------------------|
| Auditors' remuneration  |                                    |                                    |
| Audit of these financial statements                                 | 69                                 | 77                                 |
| Other services pursuant to legislation                              | 70                                 | 70                                 |
| Services relating to corporate finance transactions                 | 38                                 | -                                  |
|   | <u>177</u>                         | <u>147</u>                         |
| <b>4 Net interest payable</b>                                       | <b>Year to<br/>30 06 07<br/>£m</b> | <b>Year to<br/>30 06 06<br/>£m</b> |
| Interest payable  |                                    |                                    |
| To group companies  | 61 0                               | 52 6                               |
| On bank loans   | 11 5                               | 10 4                               |
| On finance leases   | 4 2                                | 3 8                                |
|   | <u>76 7</u>                        | <u>66 8</u>                        |
| Total interest payable  |                                    |                                    |
| Interest receivable on short term deposits                          | (10 8)                             | (1 6)                              |
|   | <u>65 9</u>                        | <u>65 2</u>                        |
| <b>5 Taxation</b>   |                                    |                                    |
| <b>a Analysis of charge in the period</b>                           |                                    |                                    |
| Current year corporation tax  |                                    |                                    |
| UK corporation tax at 30%   | 10 0                               | 8 5                                |
| Advance corporation tax due to parent company                       | 20 0                               | 17 1                               |
|   | <u>30 0</u>                        | <u>25 6</u>                        |
| Prior year corporation tax adjustments in respect of previous years | (8 0)                              | -                                  |
|   | <u>22 0</u>                        | <u>25 6</u>                        |
| Total corporation tax charge  |                                    |                                    |
| Deferred tax – current year   |                                    |                                    |
| Origination and reversal of timing differences                      | (35 3)                             | (1 3)                              |
| Decrease / (increase) in discount                                   | 27 5                               | (8 7)                              |
|   | <u>(7 8)</u>                       | <u>(10 0)</u>                      |
| Deferred tax – prior year   |                                    |                                    |
| Origination and reversal of timing differences                      | 1 3                                | 1 0                                |
| (Increase) in discount  | (1 0)                              | (0 9)                              |
|   | <u>0 3</u>                         | <u>0 1</u>                         |
| Total deferred tax (credit)   | (7 5)                              | (9 9)                              |
|   | <u>14 5</u>                        | <u>15 7</u>                        |
| Taxation charge on profit on ordinary activities                    |                                    |                                    |



|   | Year to<br>30 06 07<br>£m | Year to<br>30 06 06<br>£m |
|---|---------------------------|---------------------------|
| <b>b Current tax reconciliation</b>                     |                           |                           |
| Profit on ordinary activities before tax                | 107.4                     | 91.8                      |
| Current tax at 30%                                      | 32.2                      | 27.5                      |
| Expenses not deductible for corporation tax purposes    | (0.2)                     | -                         |
| Group relief for nil consideration                      | (3.4)                     | (2.6)                     |
| Adjustments in respect of previous years                | (8.0)                     | -                         |
| Capital allowances for the year lower than depreciation | 6.0                       | 3.5                       |
| Payment of lease creditor capital                       | (1.9)                     | (1.9)                     |
| Other timing differences                                | (2.7)                     | (0.9)                     |
| Total corporation tax charge - as above                 | <u>22.0</u>               | <u>25.6</u>               |

- c A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement which had been substantively enacted in the Finance Act 2007 at the balance sheet date. These included a reduction in the rate of corporation tax to 28% from 1 April 2008 and the abolition of balancing adjustments in relation to industrial buildings, which have been taken into consideration in computing the company's tax charge. The Budget Statement also announced changes to the rates of capital allowances in respect of plant and machinery which will apply from 1 April 2008, which it intends to incorporate in the Finance Act 2008. Had these changes been enacted at the balance sheet date the deferred tax provision (note 15) would have reduced by £4.3m to £7.9m.

| <b>6 Directors and employees</b>                       | Year to<br>30 06 07<br>£m | Year to<br>30 06 06<br>£m<br>restated |
|--|---------------------------|---------------------------------------|
| <b>a Total employment costs of the company were</b>    |                           |                                       |
| Wages and salaries                                     | 40.2                      | 43.8                                  |
| Social security costs                                  | 3.6                       | 3.7                                   |
| Other pension costs                                    | 7.0                       | 9.3                                   |
| Share-based payment                                    | 0.1                       | 0.1                                   |
|  | <u>50.9</u>               | <u>56.9</u>                           |
| <b>b Total employment costs are charged as follows</b> |                           |                                       |
| Capital schemes  | 10.1                      | 14.2                                  |
| Infrastructure renewals expenditure                    | 2.3                       | 2.2                                   |
| Other finance income                                   | (0.1)                     | 1.6                                   |
| Manpower costs (note 3)                                | 38.6                      | 38.9                                  |
|  | <u>50.9</u>               | <u>56.9</u>                           |

|                                 | Year to<br>30 06 07<br>£000 | Year to<br>30 06 06<br>£000 |
|---------------------------------|-----------------------------|-----------------------------|
| c Total directors' remuneration |                             |                             |
| Salary and fees                 | 586                         | 616                         |
| Bonuses                         | 194                         | 165                         |
| Benefits in kind                | 33                          | 36                          |
|                                 | <hr/>                       | <hr/>                       |
|                                 | <b>813</b>                  | <b>817</b>                  |
|                                 | <hr/> <hr/>                 | <hr/> <hr/>                 |

The remuneration above is in respect of six executive directors (2006 – four) and seven non executive directors (2006 – nine)

Executive directors have one year rolling contracts of employment. In addition the executive directors received £540k (2006 - £565k) remuneration from other group companies. Five directors have benefits accruing under defined benefit pension schemes (2006 - three). The aggregate amount of company contributions to pension schemes in respect of directors was £117k (2006 - £87k).

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

|                         |             |             |
|-------------------------|-------------|-------------|
| d Highest paid director |             |             |
| Salary                  | 118         | 122         |
| Bonus                   | 51          | 52          |
| Benefits in kind        | 6           | 14          |
|                         | <hr/>       | <hr/>       |
|                         | <b>175</b>  | <b>188</b>  |
|                         | <hr/> <hr/> | <hr/> <hr/> |

The highest paid director had an accrued annual pension entitlement of £133,894 at 30 June 2007 (30 June 2006 - £84,800).

|   |                    | 30 06 07<br>number | 30 06 06<br>number |
|---|--------------------|--------------------|--------------------|
| e Monthly average number of employees during the year | - Billing Services | 314                | 292                |
|   | - All other staff  | 1,347              | 1,451              |
|   |                    | <hr/>              | <hr/>              |
|   | - Total            | <b>1,661</b>       | <b>1,743</b>       |
|   |                    | <hr/> <hr/>        | <hr/> <hr/>        |

## 7 Dividends

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

|  | Year to<br>30 06 07<br>£m | Year to<br>30 06 06<br>£m |
|--|---------------------------|---------------------------|
| Final dividend in respect of a prior year but not recognised as a liability in that year of 31.35p per share on 81,350,000 ordinary shares (2006 – 15.61p) | 25.5                      | 12.7                      |
| Interim dividends of 76.34p per share on 81,350,000 ordinary shares (2006 – 48.56p)  | 62.1                      | 39.5                      |
|  | <hr/>                     | <hr/>                     |
|  | <b>87.6</b>               | <b>52.2</b>               |
|  | <hr/> <hr/>               | <hr/> <hr/>               |

In accordance with FRS 21 'Events after Balance Sheet Date' the final dividend for 2006/07 declared and paid in July 2007 of £28.7m (35.28p per share) was not recognised in these financial statements.

## 8 Tangible fixed assets

|                            | Freehold<br>land &<br>buildings | Infra-<br>structure<br>assets | Plant<br>machinery<br>& vehicles | Other<br>assets | Payments<br>on account<br>& assets in<br>course of<br>construction | Total          |
|----------------------------|---------------------------------|-------------------------------|----------------------------------|-----------------|--|----------------|
|                            | £m                              | £m                            | £m                               | £m              | £m   | £m             |
| <b>Cost</b>                |                                 |                               |                                  |                 |  |                |
| At 1 July 2006             | 608.2                           | 930.1                         | 785.1                            | 79.6            | 104.0  | 2,507.0        |
| Additions                  | 5.8                             | 48.2                          | 45.8                             | 3.7             | 64.3   | 167.8          |
| Transfers on commissioning | 14.9                            | 22.8                          | 31.9                             | 0.7             | (70.3)   | -              |
| Disposals                  | (3.2)                           | -                             | (10.2)                           | (0.7)           | -  | (14.1)         |
| Grants and contributions   | -                               | (7.2)                         | -                                | -               | -  | (7.2)          |
| <b>At 30 June 2007</b>     | <b>625.7</b>                    | <b>993.9</b>                  | <b>852.6</b>                     | <b>83.3</b>     | <b>98.0</b>  | <b>2,653.5</b> |
| <b>Depreciation</b>        |                                 |                               |                                  |                 |  |                |
| At 1 July 2006             | 139.9                           | 252.0                         | 366.1                            | 50.1            | -  | 808.1          |
| Charge for the year        | 12.3                            | 28.1                          | 42.8                             | 3.8             | -  | 87.0           |
| Disposals                  | (1.2)                           | -                             | (8.0)                            | (0.7)           | -  | (9.9)          |
| <b>At 30 June 2007</b>     | <b>151.0</b>                    | <b>280.1</b>                  | <b>400.9</b>                     | <b>53.2</b>     | <b>-</b>   | <b>885.2</b>   |
| <b>Net book value</b>      |                                 |                               |                                  |                 |  |                |
| <b>At 30 June 2007</b>     | <b>474.7</b>                    | <b>713.8</b>                  | <b>451.7</b>                     | <b>30.1</b>     | <b>98.0</b>  | <b>1,768.3</b> |
| At 1 July 2006             | 468.3                           | 678.1                         | 419.0                            | 29.5            | 104.0  | 1,698.9        |

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 £77.3m (2006 - £83.7m)

The depreciation charge for the year on assets held under finance leases is £6.4m (2006 - £6.4m)

The net book value of infrastructure assets at 30 June 2007 is stated after the deduction of grants and contributions amounting to £98.7m (2006 - £91.5m) in order to give a true and fair view (note 1e)

Included in the cost of infrastructure assets is £275.4m (2006 - £244.2m) of expenditure on maintaining the network, and £280.1m (2006 - £252.0m) of depreciation included in the profit and loss account

Included in freehold land and buildings above is an amount of £9.5m (2006 - £9.4m) in respect of land which is not depreciated

## 9 Investments

The company has an investment of £13,000 (2006 - £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc

|  | 30 06 07<br>£m | 30 06 06<br>£m |
|--|----------------|----------------|
| <b>10 Stock and work in progress</b>   |                |                |
| Raw materials and consumables  | 1 3            | 1 1            |
| Work in progress   | 2 9            | 3 7            |
|  | <u>4.2</u>     | <u>4 8</u>     |
| <b>11 Debtors - amounts falling due within one year</b>                              |                |                |
| Trade debtors  | 45 6           | 43 4           |
| Owed by other group companies  | 23 4           | 22 5           |
| Prepayments and accrued income   | 48 6           | 36 8           |
| Other debtors  | 2 5            | 4 1            |
|  | <u>120.1</u>   | <u>106 8</u>   |
| <b>12 Cash at bank and in hand</b>   |                |                |
| Short-term bank deposits   | 265 0          | 26 7           |
|  | <u>265 0</u>   | <u>26 7</u>    |
| £180 0m of short-term bank deposits mature within 1 month and £85 0m within 4 months |                |                |
| <b>13 Creditors - amounts falling due within one year</b>                            |                |                |
| Bank overdraft   | 3 3            | 3 5            |
| Loans repayable  | -              | -              |
| Obligations under finance leases   | 5 3            | 3 2            |
| Trade creditors  | 4 2            | 2 6            |
| Amounts owed to parent company   | 15 2           | 16 1           |
| Amounts owed to subsidiary undertaking   | 25 0           | 23 0           |
| Amounts owed to other group companies  | 0 6            | 0 6            |
| Other creditors  | 1 4            | 1 9            |
| Corporation tax  | 5 9            | 7 9            |
| Taxation and social security   | 1 6            | 2 5            |
| Accruals and deferred income   | 83 8           | 58 5           |
|  | <u>146 3</u>   | <u>119 8</u>   |
| <b>14 Creditors - amounts falling due after more than one year</b>                   |                |                |
| Loans repayable - in more than 2 years, but not more than 5 years                    | 96 6           | 96 6           |
| - in more than 5 years   | 100 0          | 100 0          |
|  | <u>196 6</u>   | <u>196 6</u>   |
| Finance lease repayable - in more than 1 year, but not more than 2 years             | 4 4            | 3 7            |
| - in more than 2 years, but not more than 5 years                                    | 17 0           | 15 0           |
| - in more than 5 years   | 59 0           | 65 4           |
|  | <u>80 4</u>    | <u>84 1</u>    |
| Inter company loans - in more than 1 year, but not more than 2 years                 | 299 4          | -              |
| - in more than 2 years, but not more than 5 years                                    | -              | 299 0          |
| - in more than 5 years   | 904 6          | 597 9          |
| Other  | 1 8            | 2 4            |
|  | <u>1,482 8</u> | <u>1,180 0</u> |

|   | 30 06 07<br>£m | 30 06 06<br>£m |
|---|----------------|----------------|
| The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the company |                |                |
| Bond at 5.875% repayable in March 2009  | 299.4          | 299.0          |
| Bond at 5.375% repayable in March 2028  | 197.8          | 197.7          |
| Bond at 5.75% repayable in October 2033   | 345.3          | 345.1          |
| Index linked bond at 3.53% plus inflation repayable in July 2023  | 56.7           | 55.1           |
| Index linked bond at 1.75% plus inflation repayable in July 2046  | 76.2           | -              |
| Index linked bond at 1.75% plus inflation repayable in July 2051  | 76.2           | -              |
| Index linked bond at 1.369% plus inflation repayable in July 2057   | 76.2           | -              |
| Index linked bond at 1.374% plus inflation repayable in July 2057   | 76.2           | -              |
|   | <u>1,204.0</u> | <u>896.9</u>   |

**15 Provisions for liabilities and charges**

|  | Deferred<br>tax<br>£m | Restructuring<br>costs<br>£m | Total<br>£m |
|--|-----------------------|------------------------------|-------------|
| At 1 July 2006                                 | 93.9                  | 2.0                          | 95.9        |
| Provided in year                               | -                     | (1.1)                        | (1.1)       |
| Origination and reversal of timing differences | (36.4)                | -                            | (36.4)      |
| Decrease in discount                           | 26.5                  | -                            | 26.5        |
|  | <u>84.0</u>           | <u>0.9</u>                   | <u>84.9</u> |

|   | 30 06 07<br>£m | 30 06 06<br>£m |
|---|----------------|----------------|
| Deferred tax is provided as follows     |                |                |
| Accelerated capital allowances          | 269.3          | 306.2          |
| Other timing differences                | (1.1)          | (1.6)          |
|   | <u>268.2</u>   | <u>304.6</u>   |
| Undiscounted provision for deferred tax | 268.2          | 304.6          |
| Discount                                | (184.2)        | (210.7)        |
|   | <u>84.0</u>    | <u>93.9</u>    |

**16 Pensions**

|   |             |             |
|---|-------------|-------------|
| FRS 17 pension liability (see note 16e)       | 44.7        | 70.3        |
| FRS 17 deferred tax asset                     | (12.5)      | (21.1)      |
| Unfunded and compensatory added years pension | 1.1         | 1.2         |
|   | <u>33.3</u> | <u>50.4</u> |

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

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

- b The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £7.8m (2006 - £9.3m). 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 2004. The assumptions which have the most significant effect on the results of a valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 5.5%, that salary increases would average 3.9% per annum and that present and future pensions would increase at the rate of 3.0% per annum. The smoothed market value of the WWPS assets as at 31 December 2004 was £219.9m which represented 79% of the actuarial value of the accrued benefits – a deficit after smoothing of £60.0m. The next actuarial valuation will be at 31 December 2007.

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

- d The actuarial valuation described above has been updated at 30 June 2007 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 07 | 30 06 06 | 30 06 05 |
|---|----------|----------|----------|
| Rate of increase in salaries                                    | 4.1%     | 3.8%     | 3.5%     |
| Rate of increase in pensions in payment                         | 3.1%     | 2.8%     | 2.5%     |
| Rate of increase in pensions in payment – reduced level members | 2.3%     | 2.2%     | -        |
| Discount rate   | 5.8%     | 5.2%     | 5.0%     |
| Inflation assumption  | 3.1%     | 2.8%     | 2.5%     |

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in the future at age 60 will live, on average, for a further 25 years after retirement if they are male, and for a further 28 years if they are female.

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

|   | 30 06 07 | 30 06 06 | 30 06 05 |
|---|----------|----------|----------|
|   | £m       | £m       | £m       |
| Equities                                    | 145.6    | 109.5    | 98.8     |
| Property                                    | 24.3     | 22.2     | -        |
| Government Bonds                            | 116.3    | 86.5     | 83.6     |
| Corporate Bonds                             | 3.0      | 42.5     | 56.0     |
| Cash  | 0.3      | 2.0      | 1.9      |
|   | <hr/>    | <hr/>    | <hr/>    |
| Total fair value of the assets              | 289.5    | 262.7    | 240.3    |
| Present value of funded scheme liabilities  | (334.2)  | (333.0)  | (311.7)  |
|   | <hr/>    | <hr/>    | <hr/>    |
| (Liability) recognised on the balance sheet | (44.7)   | (70.3)   | (71.4)   |
|   | <hr/>    | <hr/>    | <hr/>    |

The expected rates of return were as follows:

|                  | %     | %     | %     |
|------------------|-------|-------|-------|
| Equities         | 9.25  | 8.9   | 7.8   |
| Property         | 8.25  | 7.2   | -     |
| Government Bonds | 5.1   | 4.6   | 4.3   |
| Corporate Bonds  | 5.6   | 5.0   | 4.9   |
| Cash             | 6.0   | 4.6   | 4.8   |
|                  | <hr/> | <hr/> | <hr/> |
|                  | 7.5   | 6.7   | 5.9   |
|                  | <hr/> | <hr/> | <hr/> |

The contribution rate agreed for the next year is 17.5% of pensionable earnings and a lump sum contribution of £4.9m at December 2007.

f Additional analysis

|   | 30 06 07<br>£m | 30 06 06<br>£m |
|---|----------------|----------------|
| <b>Analysis of profit and loss charge</b>   |                |                |
| Current service cost  | 6 9            | 6 7            |
| Past service cost   | 1 0            | 1 0            |
| Interest cost   | 17.3           | 15 6           |
| Expected return on scheme assets  | (17.4)         | (14 0)         |
|   | <hr/>          | <hr/>          |
| Expenses recognised in the profit and loss account                                      | 7 8            | 9 3            |
|   | <hr/>          | <hr/>          |
| <b>Changes to the present value of scheme liabilities during the year</b>               |                |                |
| Opening present value of scheme liabilities   | 333 0          | 311 7          |
| Current service cost  | 6 9            | 6 7            |
| Interest cost   | 17 3           | 15 6           |
| Contributions by scheme participants  | 2 7            | 2 6            |
| Actuarial (gains) / losses on scheme liabilities  | (15 2)         | 5 7            |
| Net benefits paid out   | (11 5)         | (10 3)         |
| Past service cost   | 1 0            | 1 0            |
|   | <hr/>          | <hr/>          |
| Closing present value of scheme liabilities   | 334 2          | 333 0          |
|   | <hr/>          | <hr/>          |
| <b>Changes to the fair value of scheme assets during the year</b>                       |                |                |
| Opening fair value of scheme assets   | 262 7          | 240 3          |
| Expected return on scheme assets  | 17 4           | 14 0           |
| Actuarial gains on scheme assets  | 5 4            | 5 1            |
| Contributions by the employer   | 12 8           | 11 0           |
| Contributions by scheme participants  | 2 7            | 2 6            |
| Net benefits paid out   | (11.5)         | (10 3)         |
|   | <hr/>          | <hr/>          |
| Closing fair value of scheme assets   | 289 5          | 262 7          |
|   | <hr/>          | <hr/>          |
| <b>Actual return on scheme assets</b>   |                |                |
| Expected return on scheme assets  | 17 4           | 14 0           |
| Actuarial gain on scheme assets   | 5 4            | 5 1            |
|   | <hr/>          | <hr/>          |
| Actuarial return on scheme assets   | 22 8           | 19 1           |
|   | <hr/>          | <hr/>          |
| <b>Analysis of amounts recognised in Statement of Total Recognised Gains and Losses</b> |                |                |
| Total actuarial gains / (losses)  | 20 6           | (0 6)          |
|   | <hr/>          | <hr/>          |
| Cumulative amount of (losses) recognised  | (33 2)         | (53 8)         |
|   | <hr/>          | <hr/>          |

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

|  | 30 06 07<br>£m | 30 06 06<br>£m | 30 06 05<br>£m | 30 06 04<br>£m | 30 06 03<br>£m |
|--|----------------|----------------|----------------|----------------|----------------|
| Fair value of scheme assets                  | 289 5          | 262 7          | 240 3          | 211 0          | 197 4          |
| Present value of scheme liabilities          | (334 2)        | (333 0)        | (311 7)        | (262 9)        | (251 4)        |
| (Deficit) in scheme                          | (44 7)         | (70 3)         | (71 4)         | (51 9)         | (54 0)         |
| Experience gains / (losses) on scheme assets | 5.4            | 5 1            | 18 7           | 4 3            | (10 2)         |
| Experience (losses) on scheme liabilities    | (4 9)          | (0 2)          | (9 7)          | (6 3)          | (0 3)          |

|  | 30.06 07<br>£m | 30 06 06<br>£m |
|--|----------------|----------------|
| <b>17 Deferred income</b>                      |                |                |
| Grants and contributions                       |                |                |
| At 1 July                                      | 21 9           | 21 7           |
| Received in the year                           | 0 3            | 1 0            |
| Less amortisation                              | (0 9)          | (0 8)          |
|  | <hr/>          | <hr/>          |
| At 30 June                                     | 21 3           | 21 9           |
|  | <hr/>          | <hr/>          |
| <b>18 Called up equity share capital</b>       |                |                |
| 81,350,000 ordinary shares of £1 each          |                |                |
| Authorised, allotted, called up and fully paid | 81 3           | 81 3           |
|  | <hr/>          | <hr/>          |
| <b>19 Profit and loss account</b>              |                |                |
| At 1 July                                      | 287 9          | 331 0          |
| Restated for pension accounting under FRS 17   | -              | (79 3)         |
| Restated for dividend accounting under FRS 21  | -              | 12 7           |
|  | <hr/>          | <hr/>          |
| Restated 1 July                                | 287 9          | 264 4          |
| Profit attributable to shareholders            | 92 9           | 76 1           |
| Dividends (note 7)                             | (87 6)         | (52 2)         |
| Actuarial gains / (losses) net of taxation     | 14 5           | (0 4)          |
|  | <hr/>          | <hr/>          |
| At 30 June                                     | 307 7          | 287 9          |
|  | <hr/>          | <hr/>          |
| <b>20 Equity shareholders' funds</b>           |                |                |
| At 1 July                                      | 369 2          | 412 3          |
| Restated for pension accounting under FRS 17   | -              | (79 3)         |
| Restated for dividend accounting under FRS 21  | -              | 12 7           |
|  | <hr/>          | <hr/>          |
| Restated 1 July                                | 369 2          | 345 7          |
| Profit attributable to shareholders            | 92 9           | 76 1           |
| Dividends (note 7)                             | (87 6)         | (52 2)         |
| Actuarial gains / (losses) net of taxation     | 14 5           | (0 4)          |
|  | <hr/>          | <hr/>          |
| At 30 June                                     | 389.0          | 369 2          |
|  | <hr/>          | <hr/>          |

**21 Financial instruments**

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £3 3m (2006 - £6 7m) of short term borrowings and £265 0m of short term cash investments (2006 - £26 7m)

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc At 30 June 2007 there were £100 0m (2006 - £250 0m) of undrawn facilities

**a Interest rate and currency exposure**

|          | Fixed rate<br>borrowings<br>2007<br>£m | Floating rate<br>borrowings<br>2007<br>£m | Total<br>borrowings<br>2007<br>£m | Fixed rate<br>borrowings<br>2006<br>£m | Floating rate<br>borrowings<br>2006<br>£m | Total<br>borrowings<br>2006<br>£m |
|----------|--|---|-----------------------------------|--|---|-----------------------------------|
| Sterling | 1,204 0                                | 20 6                                      | 1,224 6                           | 907 7                                  | 250 0                                     | 1,157 7                           |
|          | <hr/>                                  | <hr/>                                     | <hr/>                             | <hr/>                                  | <hr/>                                     | <hr/>                             |



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

|          | Interest<br>rate %<br>2007 | Period<br>years<br>2007 | Interest<br>rate %<br>2006 | Period<br>years<br>2006 |
|----------|----------------------------|-------------------------|----------------------------|-------------------------|
| Sterling | 4.60                       | 23.8                    | 5.59                       | 17.1                    |

Floating rate borrowings with interest rates moving in line with LIBOR comprise £265.0m of short term deposits (2006 - £26.7m), £8.6m of short term borrowings (2006 - £6.8m) and £277.0m (2006 - £269.9m) 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<br>£m<br>2007 | Fair value<br>£m<br>2007 | Book value<br>£m<br>2006 | Fair value<br>£m<br>2006 |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| (Cash) / borrowings less than 1 year | (256.4)                  | (256.4)                  | (19.9)                   | (19.9)                   |
| Floating rate borrowings over 1 year | 277.0                    | 277.0                    | 269.9                    | 269.9                    |
| Fixed rate borrowings over 1 year    | 1,204.0                  | 1,190.5                  | 907.7                    | 953.1                    |
|                                      | <u>1,224.6</u>           | <u>1,211.1</u>           | <u>1,157.7</u>           | <u>1,203.1</u>           |

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

**22 Commitments and guarantees**

- a There were operating lease payments of £0.1m (2006 – nil) under leases on land and buildings due within the next year, which expire after 2 years. There are no commitments under other operating leases
- b At 30 June 2007 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2006 - £10.8m)
- c Capital expenditure contracted but not provided at 30 June 2007 was £71.9m (2006 - £84.0m)
- d The company has guaranteed Bonds of £1,204.0m (2006 - £896.9m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc (see note 14)

**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<br>of RM0.50 each | Vesting date | Expiry date | Exercise<br>price RM | Fair value<br>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             |

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 and 7 August 2006 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              |

The following options were outstanding at 30 June 2006 and 2007

| Granted – Ordinary shares of RM0.50 each | Outstanding at 30 June 2006 | Granted          | Forfeited          | Exercised          | Outstanding at 30 June 2007 |
|--|-----------------------------|------------------|--------------------|--------------------|-----------------------------|
| 13/12/2002 Unapproved                    | 19,795,000                  | -                | (400,000)          | (3,052,000)        | 16,343,000                  |
| 26/12/2002 Approved                      | 5,540,000                   | 0                | 0                  | (470,000)          | 5,070,000                   |
| 12/12/2003 Unapproved                    | 3,000,000                   | 0                | (200,000)          | (439,000)          | 2,361,000                   |
| 12/12/2003 Approved                      | 3,412,000                   | 0                | (34,000)           | (1,860,000)        | 1,518,000                   |
| 16/05/2005 Unapproved                    | 4,100,000                   | 0                | 0                  | 0                  | 4,100,000                   |
| 16/05/2005 Approved                      | 5,122,000                   | 0                | (272,000)          | 0                  | 4,850,000                   |
| 07/08/2006 Unapproved                    | 0                           | 1,000,000        | (100,000)          | 0                  | 900,000                     |
| 07/08/2006 Approved                      | 0                           | 5,792,000        | (306,000)          | 0                  | 5,486,000                   |
| <b>TOTAL</b>                             | <b>40,969,000</b>           | <b>6,792,000</b> | <b>(1,312,000)</b> | <b>(5,821,000)</b> | <b>40,628,000</b>           |

Of the above options 25,292,000 were exercisable at 30 June 2007

The impact of adopting FRS 20 was to reduce the profit in the period by £0.1m

#### 24 Contingent liabilities

There are no material contingent liabilities at 30 June 2007 for which provision has not been made in these accounts

#### 25 Related parties

There are no related party transactions requiring disclosure in these accounts As the company is a wholly owned subsidiary of Wessex Water Ltd (see note 26), the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group

#### 26 Ultimate parent company

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