Annual Review

2009

Wessex Water
a YTL company

www.wessexwater.co.uk

Contents

About Wessex Water

Our aims

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

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

Our values

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

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

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

Facts and figures

Wessex Water supplies 1.3 million customers with around 353 million litres of water a day.

We have:

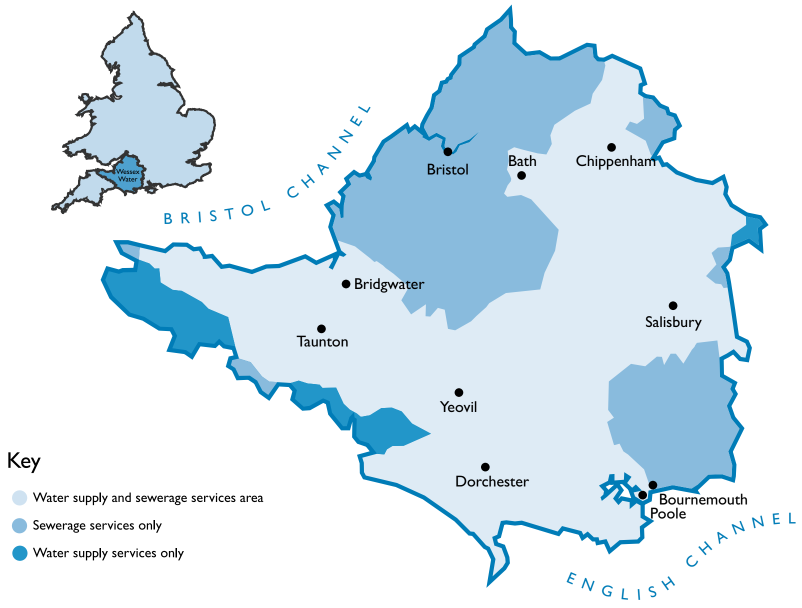
- 99 water sources
- 110 water treatment works
- 209 booster pumping stations
- 344 service reservoirs and water towers
- 11,400 kilometres of water mains.

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

Our sewerage system includes:

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

THE WESSEX WATER REGION



Financial highlights

- Regulatory capital value £2,171m.
- Turnover £420.6m.
- Debt to capital value ratio 70%.

Introduction

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

In Ofwat's service league table we achieved our highest ever score, 98% of maximum. Over the past four years we have been the UK's most consistent top performing water and sewerage company and the most efficient.

We also topped Ofwat's telephone satisfaction survey and became the first utility company in the UK to be awarded the government's Customer Service Excellence award.

Our financial results reflect the early stages of the recession with a reduction in profit after tax of £2.2m to £93.3m. There is clear evidence that the use of water by business and industry is reducing and bad debts are starting to rise.

Our operating costs continue to increase because of the cost of meeting new standards, higher power prices and increased business rates.

During the year we delivered a capital investment programme of £210m and met all the outputs required under our monitoring plan. We improved the resilience of our network, reduced the number of customers served by single sources of supply and further reduced the number of properties at risk of sewage flooding.

Our largest single capital project in this five-year period, the new water treatment works at Maundown in Somerset, was commissioned on time and within budget.

The effect of the recession and the rising cost of raising new finance have impacted on the final business plan we have submitted to Ofwat for the period 2010-2015. The plan follows extensive consultation with customers and other stakeholders and proposes £1,040m of new investment.

This investment will improve the water and sewerage infrastructure across the region, help meet stringent environmental and quality requirements and further improve the security of our services.

It includes building an integrated water supply grid which will provide greater flexibility for how we distribute water around our region, further reducing leakage and reducing the small number of properties at risk of sewer flooding.

But while we are planning a large number of schemes to improve services and the environment, we have chosen to defer some requirements which would have driven prices considerably above inflation at a time when everyone is facing a challenging economic climate.

The business plan we have submitted proposes improved levels of service and quality at a cost the majority of customers consider both affordable and reasonable.

We welcome the report of Martin Cave on the potential for competition and innovation in the water industry. If his recommendations are taken forward by government we will see improvements which will benefit customers and the environment.

We are determined to continue the progress we have made over recent years in delivering the fundamentals that are important to our customers: reliable, secure water and sewage services that are affordable, improving the water environment and dealing with the consequences of climate change.

Wessex Water is in a strong position to meet the challenges ahead.

Colin Skellett
Chairman

Highlights:

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

Our key outputs

The past year

The past year has been a challenging one for Wessex Water – in common with other companies in the sector we have faced a combination of volatile retail, commodity and capital price inflation along with falling demand and rising bad debts.

The global financial crisis has raised concerns about the cost of new capital and pension deficits have worsened as equity markets have declined.

Consequently, profits are lower than in 2007-08. In the non-statutory accounts profit after tax fell by £2.2m to £93.3m.

The regulatory historic cost profits after tax fell by £2.5m to £91.4m, as shown in the table below.

Wessex Water	2007-2008 £m	2008-2009 £m	Variance
Historic cost profits			
Operating profit	192	201	9
Interest	-69	-84	-15
Profit before tax	123	117	-6
Tax	-29	-26	3
Profits after tax	94	91	-3
Dividends	104	81	-23
Regulatory profits			
Operating profits	168	181	13
Corporation tax	-28	-22	6
Post tax returns	140	159	19
Interest	-69	-84	-15
Equity return	71	75	4
Post tax return	6.8%	7.2%	0.4%
Cashflow and debt			
EBITDA	278	293	15
Capital maintenance	-132	-101	31
Working capital	12	-31	-43
Pension contributions	-5	-7	-2
Tax	-30	-28	2
Interest	-53	-61	-8
Dividends	-82	-103	-21
Steady state cashflow	-12	-38	-26
Capital enhancement	-96	-104	-8
Cashflow	-108	-142	-34
Opening debt	-1,236	-1,358	-122
Cashflow	-108	-142	-34
Bond accruals	-14	-20	-6
Year end debt	-1,358	-1,520	-162
Gearing	63%	70%	7%

However, the return on Regulatory Capital Value (RCV) increased to 7.2% and the RCV itself increased modestly to £2,171m despite negative inflation in the year to March.

Negative inflation, combined with our second largest capital investment ever, increased gearing from 63% to 70%.

Despite difficult operating conditions we continue to outperform the assumptions made in the 2004 price control. Over the five-year price control period we expect operating costs to be 8% less than Ofwat assumed. We expect also to deliver the five-year capital investment programme for around 15% less than was originally assumed in price limits and these savings will be passed on to customers from next April.

Our service performance is summarised in the table below.

Service to customers and the environment	Service level 2005-06	2006-07	2007-08	2008-09	Average service level AMP4	Monitoring plan target	Service versus monitoring plan
OPA points as % of maximum	95%	92%	96%	98%	95%	N/A	N/A
Water supply							
Properties at risk of receiving low pressure	196	186	157	150	172	275	Better
Properties experiencing unplanned supply interruptions over 6 hrs	838	508	1,267	1,098	928	2,794	Better
Properties experiencing supply restrictions	0%	0%	0%	0%	0%	0%	Same
Customer complaints on taste/odour/ appearance	3,110	2,681	2,741	2,075	2,652	N/A	N/A
Overall water quality performance score	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	Same
Sewerage							
Properties at risk of internal flooding more than once in 10 yrs	617	464	343	177	N/A	226	Better
Properties flooded – inadequate capacity	24	62	72	36	49	38	Better
Properties flooded – other causes	65	80	104	76	81	78	Better
Customer service							
Customers satisfied/very satisfied with service	94%	96%	98%	96%	96%	N/A	N/A
Customer complaints (operational)	1,907	1,706	1,910	1,406	1,732	N/A	N/A
Customer complaints (non-operational)	2,746	4,841	5,863	6,615	5,016	N/A	N/A
Billing contacts dealt with in 5 days (DG6)	100%	100%	100%	100%	100%	100%	Same
Written complaints dealt in 10 days (DG7)	100%	100%	100%	100%	100%	100%	Same
Bills based on a meter reading (DG8)	100%	100%	100%	100%	100%	100%	Same
Telephone call handling satisfaction (DG9)	93%	92%	94%	95%	94%	New measure	New measure
Environmental standards							
Compliance with EA abstraction licences	100%	100%	100%	100%	100%	100%	Same
Total leakage (million litres per day)	73.2	72.1	72.1	72.2	72.4	74.0	Better
Number of pollution incidents	140	106	110	75	108	N/A	N/A
Beaches meeting mandatory standards	100%	100%	100%	100%	100%	>98%	Better
Satisfactory intermittent discharges to river and the sea	98.5%	98.9%	99.4%	99.7%	N/A	99.5%	Better
Population equivalent served by STWs compliant with EA consent (LUT)	99.8%	99.6%	100%	100%	99.9%	99.5%	Better
Sewage sludge disposed satisfactorily	100%	100%	100%	100%	100%	100%	Same

Our long-term plan

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

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

The majority of customers want to see:

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

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

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

This plan was well received by customers and stakeholders. Research by Ofwat and the Consumer Council for Water showed that three-quarters of customers who had an opinion supported the plan.

In our own follow-up research there was strong support both for the balance of improvements and for our commitment not to increase bills faster than inflation.

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

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

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

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

The plan published in April proposed:

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

The final plan requires:

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

Challenges for the next year

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

Longer term challenges

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

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

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

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

Specifically we welcome proposals to:

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

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

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

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

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

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

Our customers

Customer service

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

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

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

We are continuing work to improve customer service including joining with Ofwat to develop new consumer experience measures. Across our business we are raising awareness of customer expectations and are using new work and asset management systems.

These include a customer contact application that will give more information to enable us to deliver significant improvements in customer service. It will allow a one-stop-shop approach with up front scheduling and the ability to solve more issues in one call and at first contact.

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

We have also formed partnerships with local authorities and the Environment Agency (EA) to provide a forum for discussing and resolving wider water and environmental issues.

These partnerships have proved particularly fruitful in the case of flooding where a number of bodies have responsibilities and where working in partnership can deliver better solutions than working in isolation.

Customer Service Excellence award

The Customer Service Excellence award tests in depth areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude.

Emphasis is also placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

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

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

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

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

Affordability, tariffs and debt recovery

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

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

Around 5,000 customers have already benefited from our Assist tariff aimed at enabling those with the greatest difficulty in paying to make a modest contribution towards the costs of water and sewerage services.

By encouraging customers to adopt an affordable payment routine we have increased cash collection by 30% despite cutting charges by around 50% for these customers.

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

Community involvement

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

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

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

"Our education programme continues not only with organisations that come into contact with vulnerable customers but also on wider water and sewerage issues, for example through our schools' engagement."

New quality, environmental and customer outputs	Activity level 2005-06	Activity level 2006-07	Activity level 2007-08	Activity level 2008-09	Cumulative activity AMP4	Monitoring plan target	Activity versus monitoring plan
Water treatment improvements completed	7	4	3	2	16	16	Same
Distribution main renovated for quality (km)	31	0	4	1	36	35	Better
Low flow investigations completed	0	0	13	0	13	13	Same
Sewage treatment improvements completed	16	5	5	13	39	27	Better
Intermittent discharges improved	5	6	7	5	23	17	Better
Internal property flooding solved	202	206	167	170	745	702	Better
External property flooding solved	270	284	142	71	767	663	Better
Waste water investigations completed	0	10	3	3	16	16	Same
Properties able to connect to first-time sewerage schemes	94	82	121	316	613	377	Better

Customer dividend

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

Our investors

Turnover

Last year regulated turnover increased by £25.9m or 6.6% to £416.6m. Price increases of 8.6% were offset by a 4% reduction in metered water use to commercial customers and a loss of £5.3m as people moved to meters. The reduction in demand was due partly to the wet summer and partly to the growing impact of the recession.

Operating costs

Regulated operating costs (excluding third party costs) increased from £108.1m to £118.6m, a rise of 9.7% and within this the cost of meeting new standards added £2.0m. The largest increase in costs was in respect of power. Despite beating the market by 15%, power costs still increased by more than a fifth.

We also faced an increase in bad debt charges and higher business rates and compensation payments to customers under the Wessex Water Promise. Underlying costs increased by 2% as we mitigated the inflationary increases on wages and other costs by making efficiency savings.

Capital investment

In 2008-09 we delivered net capital expenditure of £204.8m (£210.2m gross), a reduction of 10% compared with the previous year. Expenditure in the first four years of this price control is 88% of that assumed by Ofwat in 2004.

Historic cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased from £86.0m to £92.0m. The increase is split between a £3.6m increase in the infrastructure maintenance charge and a £2.4m increase in depreciation resulting from the continuing capital investment programme.

Interest and tax

Interest charges increased from £69.4m last year to £84.7m and cash interest costs increased due to growing indebtedness. In addition, accruals on index linked bonds increased as a consequence of inflation, while FRS17 interest costs increased as a consequence of the high yield on AA corporate bonds. In all, the cost of debt rose slightly from 5.5% to 5.6%.

The corporation tax charge in the year was £22.4m, a decrease of £5.3m as a result of the reduced profits, the fall in the tax rate from 30% to 28% and higher capital allowances claimed.

Deferred tax increased from a charge of £1.3m last year to a charge of £3.0m this year.

Dividends

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

To ensure gearing stayed at or below 70% to maintain our current credit rating and ongoing access to the capital markets, dividends declared were reduced by 22% to £81.1m in the year to March 2009 compared to £104.0m in the previous year.

Cashflow and finance

Net debt increased by £161.9m to £1,520.2m. The net cash outflow comprised:

- cash inflow from operating activities of £287.0m, less
- capital investment cash outlay of £237.1m, less
- interest payments of £81.1m, less
- tax payments of £27.9m, less
- dividend payments of £102.8m.

During the course of the year we secured £140m of new 10-year finance from the EIB. This provides enough capacity for our financial needs until June 2010 when our existing bank facilities retire.

These will need to be refinanced during the course of this year and early indications are that our relationship banks are willing to renew these facilities, albeit on considerably less advantageous terms than at present.

There has been significant activity in the bond market so far this year so we are encouraged that this market may provide an alternative to bank finance.

Gearing at the end of March stood at 70%.

Our environment

Water efficiency

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

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

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

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

We continue to work with business customers to reduce water use and leakage on their sites.

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

During 2008-09 we carried out a water efficiency trial in Bath in conjunction with Somer Community Housing Trust, the EA and Resource Futures.

Emissions for the year ending 31 March 2009

Item	Description	Unit	Value
1	Annual operational emissions according to the CRC	tonnes of CO_2 equivalent emissions	127,929
2	Annual operational emissions according to the Defra GHG guidelines	tonnes of CO_2 equivalent emissions	179,902
3	Operational GHG emissions per Ml of treated water	kg of CO_2 equivalent emissions per Ml	336
4	Operational GHG emissions per Ml of sewage treated	kg of CO_2 equivalent emissions per Ml	709

Carbon management

Carbon management is a fundamental part of our central aspiration to become a genuinely sustainable water company. Our strategy for carbon management involves the first three stages of the carbon hierarchy – avoidance, efficiency, renewable energy.

We continue to make progress with carbon-cutting initiatives, particularly in the areas of energy efficiency and biogas production.

Our emissions for the year are shown in the table opposite.

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

Bathing water

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

Sewage discharges to rivers

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

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

Pollution incidents

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

Wider sustainability initiatives

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

Working with a range of partners our biodiversity action plan supports projects that are advancing catchment management and river restoration within our region.

One of these – Wiltshire Wildlife Trust's Chalk Streams Project – recently won a prize from the Wild Trout Trust for its achievements.

Deteriorating raw water quality remains a problem and our catchment management activities to tackle nitrate and pesticide pollution of our sources currently involves working with farmers in nine catchments across our region to address the issue at source, rather than by building more treatment works.

The quality of the advice being given by our advisers has secured strong support for this work from farmers and other interests.

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

Our assets

Asset maintenance

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

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

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

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

Water supply

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

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

Mains relining/renewal

Avoiding the possibility of bursts or discoloured water continues to be a high customer priority.

We are nearing the end of an extensive mains replacement programme and during the year have carried out work to reline and replace 47km of distribution mains.

Maundown water treatment works

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

The scheme to rebuild the works was successfully commissioned in 2008-09.

The five-year £25m project was completed on time and on budget.

The objectives of the scheme were:

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

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

"The five-year £25m project has been completed on time, on budget and provides improved treated water quality."

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

Sewerage and sewage treatment programme

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

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

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

Intermittent discharges

During 2008-09 we have improved five unsatisfactory intermittent discharges to rivers or the sea and are currently either investigating or designing solutions for the remainder.

Our sewer project in Hotwells, Bristol, to eliminate unsatisfactory storm discharges into Bristol's Floating Harbour following heavy rainfall, has now been completed.

First-time sewerage

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

Urban Waste Water Treatment Directive

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

Bristol sewage sludge treatment

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

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

Sewage flooding

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

Our largest flooding relief scheme in this five-year period, an 850m long tunnel under Bristol city centre, has been successfully completed.

The tunnel breakthrough took place in November 2008 and it was lined and ready to accept sewage flows in March 2009.

Bristol tunnel project

The Bristol tunnel project was the final major scheme to bring the city's sewerage system up to a standard that meets public expectation and strict environmental regulations.

It formed part of a £300m investment in the city's sewerage system over the last 50 years and cost £9m to construct.

Engineers blasted through the second strongest rock in the UK, yet despite the size of this ambitious and prestigious engineering project, all that can be seen of the project are four manhole covers.

But below some of Bristol's historic buildings, including Red Lodge and the Royal Fort, a new half-mile long sewer has brought long awaited flood relief to properties in and around Denmark Street, St Augustine's Parade and Frogmore Street.

Wessex Water started work on the tunnelling in 2007 to make way for the new sewer and creating the underground passage, which runs from the St Augustine's area to Clifton, was particularly challenging for the engineers involved.

The new sewer is now taking sewage safely out of the city for treatment at Bristol sewage treatment works at Avonmouth.

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

"The Bristol tunnel project was the final major scheme to bring the city's sewerage system up to a standard that meets public expectation and strict environmental regulations."

Meeting demands

Water supplies to customers have been provided throughout the year without restrictions and customers have now enjoyed 32 consecutive years without hosepipe or other restrictions.

Despite the cold, dry winter our resources position for 2009 remains healthy with reservoir and groundwater stocks at or above average at the beginning of April.

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

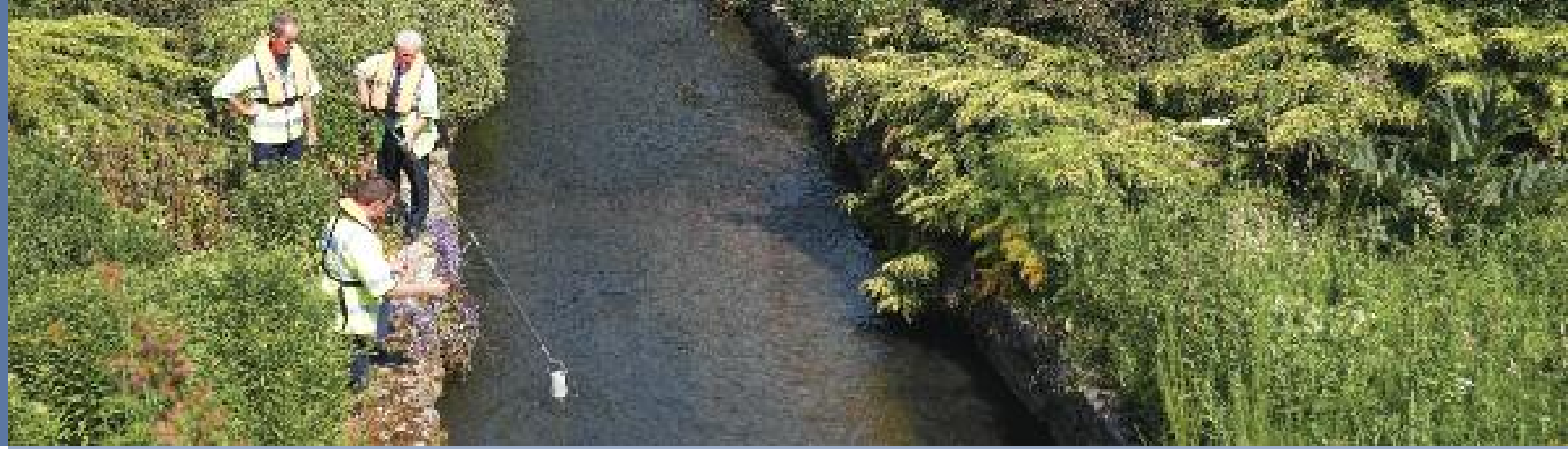
We have enlarged Gould's Hill service reservoir, a vital treated water storage facility for Weymouth, and this will ensure peak demands can continue to be met in the town even during the sailing Olympics in 2012.

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

"Water supplies to customers have been provided throughout the year without restrictions and customers have now enjoyed 32 consecutive years without hosepipe or other restrictions."

"Self-generated renewable electricity now amounts to 23GWh; this is 9% of our total electricity use. In total we produce 17% of our own energy needs."

Our people



Our success as a company depends on the excellence of our employees and never more so than now as we face difficult and challenging conditions.

Throughout the year our employees have once again provided outstanding service to customers.

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

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

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

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

Health and safety

Our commitment to health and safety remains strong and maintaining high standards is a critical measure of the successful operation of our business.

Our health and safety team are responsible for determining health and safety policy, the development of company targets and monitoring compliance with company standards.

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

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

Wessex Water Academy

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

It aims to deliver:

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

The academy team act as consultants within the individual businesses identifying the training needs of employees and equipping them with the skills and knowledge needed to move their business plans forward.

Training takes place across all our sites and offices, including our own technical training facility and confined spaces training area in Yeovil.

"Our commitment to health and safety remains strong and maintaining high standards is a critical measure of the successful operation of our business."

WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Executive directors

Colin Skellett –
Executive chairman

A chartered chemist and engineer by training, he has been working in the water industry for more than 40 years, holding a number of positions in the management and control of both water supply and sewage treatment.

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

Keith Harris – Director of finance and policy and deputy to the executive chairman

Appointed in 1999. He joined Wessex Water in 1989 as an economist and was formerly head of business planning. He was responsible for overseeing the 1994, 1999, 2004 and 2009 price reviews and has long experience in debt and equity markets.

He is a member of the Water UK council and Steering Committee and vice chairman of Norton Radstock Regeneration Ltd.

Julian Dennis –
Director of compliance and sustainability

A microbiologist, he studied for his PhD while with the Public Health Laboratory Service at the Centre for Applied Microbiology and Research at Porton Down, before joining Thames Water in 1988, where he was appointed chief scientist in 1999. Julian joined Wessex Water in May 2003.

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

Dave Elliott – Director of planning and asset management.

He has 24 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became southern divisional manager. In 2004 he became general manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007.

Sean Cater –
Director of operations and construction

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

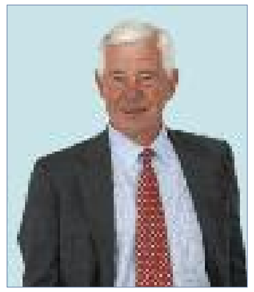
WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Non executive directors

David Barclay –

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

Lesley Bennett –

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



Peter Costain –

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

Jonathon Porritt CBE –

environmental freelance writer and broadcaster, Chairman of Sustainable Development Commission and Founder Director of Forum for the Future. Appointed 1 June 2005. Chairman of Wessex Water's Sustainability Panel and Stakeholder Forum.

Francis Yeoh CBE –

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

Hong Yeoh –

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

Mark Yeoh –

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

+Kathleen Chew –

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

+ Alternate director to Francis Yeoh

CORPORATE GOVERNANCE

Corporate governance

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

The board

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

The board meets at least bimonthly.

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

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

Colin Skellett – executive chairman
David Barclay *
Lesley Bennett **
Sean Cater
Kathleen Chew +
Peter Costain *
Julian Dennis
David Elliott
Keith Harris
Jonathon Porritt CBE *
Francis Yeoh CBE #
Hong Yeoh #
Mark Yeoh #

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

Board committees

Three formal committees have been established:

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

Audit committee

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

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

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

Remuneration committee

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

The remuneration committee is exclusively comprised of independent non-executive directors of the board and meets during the year as necessary.

Members of the remuneration committee do not participate in decisions concerning their own remuneration.

Members: Hong Yeoh, chairman, David Barclay, Peter Costain, Francis Yeoh and Mark Yeoh.

Nomination committee

The nomination committee's duty is to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of directors and for succession planning. It reviews board structure, size, composition and successional needs. Members: Hong Yeoh, Francis Yeoh, Colin Skellett and Mark Yeoh.

Internal control

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

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

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

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

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2009. The financial year end of all group companies is 30 June, but under the conditions of appointment of the company (under the Water Industry Act 1991) the company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

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

Principal activities

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

The Director General of Water Services announced on 2 December 2004 an 8.9% price limit for Wessex Water Services Ltd from 1 April 2005, before adjustment for inflation. The announcement also included price limits for each of the four subsequent years of 4.9%, 5.6%, 4.0% and 2.9%, before adjustment for inflation, for the years commencing 1 April 2006, 2007, 2008 and 2009 respectively.

The company has prepared its submission to the industry regulator in respect of the price period commencing 1 April 2010, and is awaiting the final determination of prices.

Employment

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

Sustainability

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

Environment policy

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

Ethical policy

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

Research and development

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

Market value of land and buildings

In the opinion of the directors, the market value of land and buildings of the company exceeds the book value of these assets at 31 March 2009.

Charitable donations

During the year £163,000 was donated to UK charities (2008 – £150,000).

Supplier payment policy

The policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 2009 trade creditors represented approximately 32 days trade purchases (2008 – 34 days). The company does not follow any specific external code or standard on payment policy.

Directors

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

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

No share options were exercised in the year.

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

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

Auditors

A resolution to reappoint KPMG Audit Plc as auditors of the company will be proposed at the Annual General Meeting.

By order of the board

A J Phillips - Company secretary
24 June 2009

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

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

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

These non-statutory accounts are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these non-statutory accounts, the directors are required to:

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

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

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

REPORT OF THE INDEPENDENT AUDITORS TO WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2009 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These non-statutory accounts have been prepared under the accounting policies set out therein.

As explained in note 1a, these non-statutory accounts have been prepared by the directors of the company for the year ended 31 March 2009, which is not the company's statutory financial year, in order to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to Wessex Water Services Ltd as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Statutory accounts for the year to 30 June 2008 have been filed with the Registrar of Companies.

This report is made solely to the company, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we have been engaged to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 30, the company's directors have accepted responsibility for the preparation of the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

Our responsibility is to audit the non-statutory accounts in accordance with the terms of our engagement letter dated 27 May 2009 and International Standards on Auditing (UK and Ireland).

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

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the non-statutory Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the non-statutory accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the non-statutory accounts have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply; and
- the information given in the non-statutory Directors' Report is consistent with the non-statutory accounts.

KPMG Audit Plc
Chartered Accountants
Bristol
24 June 2009

PROFIT AND LOSS ACCOUNT

For the year to 31 March 2009

	NOTE	2009 £m	2008 £m
Turnover	2	420.6	394.4
Operating costs	3	(217.2)	(200.5)
Operating profit	2	203.4	193.9
Interest payable and similar charges	4	(94.2)	(88.9)
Interest receivable	4	11.8	18.4
Other finance (costs) / income		(2.3)	1.1
Profit on ordinary activities before taxation		118.7	124.5
Taxation on profit on ordinary activities	5	(25.4)	(29.0)
Profit attributable to shareholders	19	93.3	95.5

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

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

BALANCE SHEET

At 31 March 2009

	NOTE	2009 £m	2008 £m
Fixed assets			
Tangible assets	8	2,006.0	1,891.2
Investments	9	-	-
		2,006.0	1,891.2
Current assets			
Stock and work in progress	10	4.9	4.3
Debtors	11	116.1	116.9
Cash at bank and in hand	12	37.0	290.0
		158.0	411.2
Creditors – amounts falling due within one year	13	(188.6)	(468.4)
Net current liabilities	32	(30.6)	(57.2)
Total assets less current liabilities		1,975.4	1,834.0
Creditors – amounts falling due after more than one year	14	(1,477.6)	(1,344.1)
Provisions for liabilities and charges	15	(87.6)	(86.4)
Retirement benefit obligations	16	(34.9)	(15.8)
Deferred income	17	(20.3)	(20.8)
Net assets	2	355.0	366.9
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	273.7	285.6
Equity shareholders' funds	20	355.0	366.9

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

These accounts were approved by the board of directors on 24 June 2009 and signed on its behalf by:

Colin Skellett
Chairman

Keith Harris
Director

CASH FLOW STATEMENT

For the year to 31 March 2009

	NOTE	Year to 31.3.09 £m	Year to 31.3.08 £m
Net cash inflow from operating activities	21	287.0	266.5
Returns on investments and servicing of finance	22	(81.1)	(69.3)
Taxation		(27.9)	(28.6)
Capital expenditure and financial investment	23	(237.1)	(209.0)
Equity dividends paid		(102.8)	(82.3)
Cash outflow before financing		(161.9)	(122.7)
Financing	24	(88.6)	157.1
(Decrease) / increase in cash		(250.5)	34.4
Reconciliation of cash movement to the movement in net debt			
(Decrease) / increase in cash – above		(250.5)	34.4
Movement in loans and leases		88.6	(157.1)
Movement in net debt	25	(161.9)	(122.7)
Opening net debt	25	(1,358.3)	(1,235.6)
Closing net debt	25	(1,520.2)	(1,358.3)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year to 31 March 2009

	Year to 31.3.09 £m	Year to 31.3.08 £m
Profit for the financial year	93.3	95.5
Total recognised gains relating to the financial year	93.3	95.5
Actuarial (losses) / gains net of taxation	(24.1)	24.4
Total gains recognised since last annual report	69.2	119.9

NOTES TO THE ACCOUNTS

For the year to 31 March 2009

1 ACCOUNTING POLICIES

a. Basis of preparation

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

Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 31).

The non-statutory accounts do not constitute the company's statutory accounts for the years ended 31 March 2009 or 2008. 31 March 2009 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2008 and 30 June 2007. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The next statutory accounts of the company will be prepared for the year ending 30 June 2009.

As explained on page 28, these non-statutory accounts have been prepared by the directors for the same period as the regulatory accounts which have to be prepared for the 12 month period ending 31 March each year in order to allow a user of the regulatory accounts to reconcile them to historical cost accounts of the company.

b. Turnover

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

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

NOTES TO THE ACCOUNTS
continued

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

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

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

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

h. Foreign currency
All transactions of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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

j. Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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

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

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

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

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

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

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

p. Dividends on shares presented within shareholders' funds
Dividends are proposed by the board and immediately afterwards are authorised by the shareholder, and therefore are recognised as a liability in the accounts until paid.

NOTES TO THE ACCOUNTS
continued

2 SEGMENTAL ANALYSIS

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

	2009 £m	2008 £m
a. Turnover		
Regulated	416.6	390.7
Unregulated	4.0	3.7
	420.6	394.4
b. Operating profit		
Regulated	203.4	193.9
Unregulated	-	-
	203.4	193.9
c. Net assets		
Regulated	355.0	366.9
Unregulated	-	-
	355.0	366.9

3 OPERATING COSTS

	2009 £m	2008 £m
Manpower costs (note 6b)	36.7	38.7
Materials and consumables	22.7	20.8
Other operational costs	65.6	55.0
Depreciation	91.1	86.2
Amortisation of grants and contributions	(0.9)	(0.9)
Loss on disposals of fixed assets	2.0	0.7
	217.2	200.5
Operating costs include:		
Operating leases for plant and machinery	1.4	1.6
Research and development	0.2	0.2
Directors' remuneration (note 6c)	1.1	1.0
Fees paid to the auditors	0.3	0.2

	2009 £000	2008 £000
Auditors' remuneration:		
Audit of these financial statements	145	120
Other services pursuant to legislation	61	55
All other services	107	2
	313	177

4 NET INTEREST PAYABLE

	2009 £m	2008 £m
Interest payable:		
To group companies	78.3	71.3
On bank loans	11.8	13.1
On finance leases	4.1	4.5
Total interest payable	94.2	88.9
Interest receivable on short term bank deposits	(11.8)	(18.4)
Net interest payable	82.4	70.5

5 TAXATION

	2009 £m	2008 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 28% (2008 – 30%)	22.7	25.3
Advance corporation tax due to parent company	-	4.9
	22.7	30.2
Prior year corporation tax: adjustments in respect of previous periods	(0.3)	(2.5)
Total corporation tax charge	22.4	27.7
Deferred tax – current year:		
Origination and reversal of timing differences	8.0	(32.6)
(Increase) / decrease in discount	(6.0)	34.2
	2.0	1.6
Deferred tax – prior year:		
Origination and reversal of timing differences	0.8	-
Decrease / (increase) in discount	0.2	(0.3)
	1.0	(0.3)
Total deferred tax charge	3.0	1.3
Taxation charge on profit on ordinary activities	25.4	29.0
b. Current tax reconciliation		
Profit on ordinary activities before tax	118.7	124.5
Current tax at 28% (2008 – 30%)	33.2	37.3
Group relief for nil consideration	(2.6)	(3.1)
Capital allowances (in excess of) / less than depreciation	(3.9)	1.0
Payment of lease creditor capital	(1.8)	(1.9)
Other timing differences	(2.2)	(3.1)
Total corporation tax charge – as above	22.7	30.2

NOTES TO THE ACCOUNTS
continued

6 DIRECTORS AND EMPLOYEES

	2009 £m	2008 £m
a. Total employment costs of the company were:		
Wages and salaries	61.1	52.0
Social security costs	5.4	4.7
Other pension costs	6.8	8.0
	73.3	64.7
b. Total employment costs are charged as follows:		
Capital schemes	36.6	26.0
Manpower costs (note 3)	36.7	38.7
	73.3	64.7

	2009 £000	2008 £000
c. Total directors' remuneration		
Salary and fees	898	745
Bonuses	189	247
Benefits in kind	58	47
	1,145	1,039

The remuneration above is in respect of five executive directors for the full year (2008 – four for the full year, and one part year) and seven non executive directors (2008 – seven). In determining the directors' pay, the remuneration committee considers the financial and operational performance of the business, including performance against budget and regulatory and customer expectations.

Executive directors have one year rolling contracts of employment. In addition the executive directors received £605k (2008 – £626k) remuneration from other group companies. Four directors have benefits accruing under defined benefit pension schemes (2008 - four). The aggregate amount of company contributions to pension schemes in respect of directors was £176k (2008 – £148k).

d. Remuneration policy – link between performance and pay

Wessex Water Services Ltd operates a remuneration policy which links rewards to company, business unit and individual performance.

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

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

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

The bonus payments made in relation to this policy, for the year to 31 March 2009, were Sean Cater £60k, David Elliott £34k, Keith Harris £33k, Colin Skellett £32k and Julian Dennis £31k.

	2009 £000	2008 £000
e. Highest paid director		
Salary	200	121
Bonus	60	55
Benefits in kind	15	11
	275	187

The salary for the highest paid director in 2008 was for part of the year.

The highest paid director had an accrued annual pension entitlement of £79,792 at 31 March 2009 (2008 – £41,452).

	2009 number	2008 number
f. Monthly average number of employees during the year	1,867	1,719

7 DIVIDENDS

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

	2009 £m	2008 £m
Interim dividends for 9 months to 31 December	81.1	82.3
Final dividend for 3 months to 31 March	-	21.7
	81.1	104.0

NOTES TO THE ACCOUNTS
continued

8 TANGIBLE FIXED ASSETS

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2008	634.7	1,046.1	856.5	60.2	163.6	2,761.1
Additions	10.0	45.6	56.6	6.0	96.5	214.7
Transfers on commissioning	9.2	19.5	41.4	4.5	(74.6)	-
Disposals	(1.8)	-	(10.8)	(6.5)	-	(19.1)
Grants and contributions	-	(4.9)	-	-	-	(4.9)
At 31 March 2009	652.1	1,106.3	943.7	64.2	185.5	2,951.8
Depreciation						
At 1 April 2008	160.6	299.3	388.0	22.0	-	869.9
Charge for the period	12.5	30.4	44.9	3.3	-	91.1
Disposals	(0.5)	-	(8.2)	(6.5)	-	(15.2)
At 31 March 2009	172.6	329.7	424.7	18.8	-	945.8
Net book value						
At 31 March 2009	479.5	776.6	519.0	45.4	185.5	2,006.0
At 1 April 2008	474.1	746.8	468.5	38.2	163.6	1,891.2

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

Other assets include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £66.0m (2008 – £72.4m).

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

The net book value of infrastructure assets at 31 March 2009 is stated after the deduction of grants and contributions amounting to £109.6m (2008 – £104.7m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £340.0m (2008 – £310.6m) of expenditure on maintaining the network, and £329.7m (2008 – £299.3m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £9.8m (2008 – £9.6m) in respect of land which is not depreciated.

9 INVESTMENTS

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

10 STOCK AND WORK IN PROGRESS

	2009 £m	2008 £m
Raw materials and consumables	2.6	1.6
Work in progress	2.3	2.7
	4.9	4.3

11 DEBTORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	32.7	36.9
Owed by group companies	26.7	24.9
Prepayments and accrued income	53.3	46.1
Other debtors	3.4	9.0
	116.1	116.9

12 CASH AT BANK AND IN HAND

Short-term bank deposits	32.5	290.0
Cash at bank and in hand	4.5	-
	37.0	290.0

Short-term bank deposits mature within 1 month (2008 - £110.0m within 1 month and £180.0m within 3 months).

13 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	-	2.5
Loans repayable	75.0	-
Inter company loan	1.3	299.6
Obligations under finance leases	4.8	3.7
Trade creditors	4.1	3.7
Amounts owed to subsidiary company	12.0	12.1
Amounts owed to other group companies	0.6	0.6
Amounts owed to associate company	0.7	-
Dividend	-	21.7
Other creditors	2.2	2.1
Corporation tax	11.7	17.1
Taxation and social security	1.9	1.7
Accruals and deferred income	74.3	103.6
	188.6	468.4

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

NOTES TO THE ACCOUNTS
continued

14 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		2009 £m	2008 £m
Loans repayable	– in more than 1 year, but not more than 2 years	-	21.6
	– in more than 2 years, but not more than 5 years	75.0	75.0
	– in more than 5 years	240.0	100.0
		315.0	196.6
Finance lease repayable	– in more than 1 year, but not more than 2 years	4.9	4.4
	– in more than 2 years, but not more than 5 years	19.0	17.0
	– in more than 5 years	51.6	59.0
		75.5	80.4
Inter company loans	– in more than 5 years	1,085.6	1,065.5
Other		1.5	1.6
		1,477.6	1,344.1

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 5.375% repayable in March 2028	198.0	197.9
Bond at 5.75% repayable in October 2033	345.6	345.4
Index linked Bond at 3.53% plus inflation repayable in July 2023	60.7	58.3
Index linked Bond at 1.75% plus inflation repayable in July 2046	81.6	78.4
Index linked Bond at 1.75% plus inflation repayable in July 2051	81.7	78.5
Index linked Bond at 1.369% plus inflation repayable in July 2057	81.6	78.5
Index linked Bond at 1.374% plus inflation repayable in July 2057	81.7	78.5
Index linked Bond at 1.489% plus inflation repayable in November 2058	51.5	50.0
Index linked Bond at 1.495% plus inflation repayable in November 2058	51.6	50.0
Index linked Bond at 1.499% plus inflation repayable in November 2058	51.6	50.0
	1,085.6	1,065.5

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2008	86.4	-	86.4
Provided in year	-	0.3	0.3
Utilised during year	-	(0.1)	(0.1)
Origination and reversal of timing differences	5.7	-	5.7
(Increase) in discount	(4.7)	-	(4.7)
At 31 March 2009	87.4	0.2	87.6

	2009 £m	2008 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	278.2	271.3
Other timing differences	(0.8)	(0.7)
Undiscounted provision for deferred tax	277.4	270.6
Discount	(190.0)	(184.2)
Discounted provision for deferred tax	87.4	86.4

16 PENSION LIABILITY

FRS 17 pension liability (note 16e)	46.9	20.4
FRS 17 deferred tax asset	(13.1)	(5.7)
Unfunded and compensatory added years pension	1.1	1.1
	34.9	15.8

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

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

b. The total pension cost of the company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £9.2m (2008 – £7.0m).

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

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

d. The actuarial valuation described above has been updated to 31 March 2009 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	31.03.09	31.03.08	31.03.07
Rate of increase in salaries	3.75%	5.0%	4.0%
Rate of increase in pensions in payment	2.7%	3.5%	3.0%
Rate of increase in pensions in payment (reduced level members)	2.0%	2.4%	2.3%
Discount rate	6.6%	6.9%	5.4%
Inflation assumption	2.75%	3.5%	3.0%

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

e. The value of the assets and liabilities at 31 March 2009 and the comparator for the previous two years was as follows:

	31.03.09 £m	31.03.08 £m	31.03.07 £m
Equities	87.1	127.3	138.6
Property	13.0	20.0	27.1
Government Bonds	119.7	144.5	123.0
Corporate Bonds	33.6	3.6	-
Other	3.5	0.3	0.2
Total fair value of the assets	256.9	295.7	288.9
Present value of defined benefit obligations	(303.8)	(316.1)	(349.5)
Deficit in the scheme	(46.9)	(20.4)	(60.6)
The expected rates of return over the last three years were as follows:	%	%	%
Equities	9.25	9.0	9.0
Property	8.25	7.5	7.3
Government Bonds	4.25	4.5	4.7
Corporate Bonds	6.25	5.3	-
Other	2.0	6.0	5.5
Total	6.4	6.7	7.0

Narrative description of the basis used to determine expected value:
Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 31 March 2009.

f. Additional analysis:

	31.03.09 £m	31.03.08 £m
Analysis of profit and loss charge		
Current service cost	6.4	7.4
Past service cost	0.5	0.7
Interest cost	21.7	18.9
Expected return on scheme assets	(19.4)	(20.0)
Expense recognised in profit and loss account	9.2	7.0
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	316.1	349.5
Current service cost	6.4	7.4
Interest cost	21.7	18.9
Contributions by scheme participants	3.4	2.9
Actuarial (gains) on scheme liabilities	(31.1)	(52.5)
Net benefits paid out	(13.2)	(10.8)
Past service cost	0.5	0.7
Closing present value of defined benefit obligations	303.8	316.1
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	295.7	288.9
Expected return on scheme assets	19.4	20.0
Actuarial (losses) on scheme assets	(64.6)	(17.6)
Contributions by the employer	16.2	12.3
Contributions by scheme participants	3.4	2.9
Net benefits paid out	(13.2)	(10.8)
Closing fair value of scheme assets	256.9	295.7
Actual return on scheme assets		
Expected return on scheme assets	19.4	20.0
Actuarial (losses) on scheme assets	(64.6)	(17.6)
Actual return on scheme assets	(45.2)	2.4
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial (losses) / gains	(33.5)	34.9
Cumulative amount of (losses) recognised	(46.7)	(13.2)

NOTES TO THE ACCOUNTS
continued

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.09 £m	31.03.08 £m	31.03.07 £m	31.03.06 £m	31.03.05 £m
Fair value of scheme assets	256.9	295.7	288.9	272.2	228.7
Present value of scheme liabilities	(303.8)	(316.1)	(349.5)	(347.8)	(309.0)
(Deficit) in the scheme	(46.9)	(20.4)	(60.6)	(75.6)	(80.3)
Experience gains / (losses) on scheme assets	(64.6)	(17.6)	(3.4)	26.0	7.2
Experience (losses) on scheme liabilities	(1.1)	(3.4)	(5.3)	(1.0)	(5.8)

17 DEFERRED INCOME

	2009 £m	2008 £m
Grants and contributions:		
At 1 April	20.8	21.5
Received in the year	0.4	0.2
Less amortisation	(0.9)	(0.9)
At 31 March	20.3	20.8

18 CALLED UP EQUITY SHARE CAPITAL

81,350,000 ordinary shares of £1 each: Authorised, allotted, called up and fully paid	81.3	81.3

19 PROFIT AND LOSS ACCOUNT

At 1 April	285.6	269.7
Actuarial (losses) / gains net of taxation	(24.1)	24.4
Profit attributable to shareholders	93.3	95.5
Dividends (note 7)	(81.1)	(104.0)
At 31 March	273.7	285.6

20 EQUITY SHAREHOLDERS' FUNDS

	2009 £m	2008 £m
At 1 April	366.9	351.0
Actuarial (losses) / gains net of taxation	(24.1)	24.4
Profit attributable to shareholders	93.3	95.5
Dividends (note 7)	(81.1)	(104.0)
At 31 March	355.0	366.9

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

	Year to 31.3.09 £m	Year to 31.3.08 £m
Operating profit	203.4	193.9
Depreciation	91.1	86.2
Amortisation of grants and contributions	(0.9)	(0.9)
Provisions	(8.1)	(5.2)
Loss on disposal of fixed assets	2.0	0.7
(Increase) in stocks	(0.6)	-
(Increase) in debtors	(0.7)	(12.2)
Increase in creditors	0.8	4.0
	287.0	266.5

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Interest received	14.0	18.7
Interest paid	(90.3)	(83.9)
Interest element of finance lease rentals	(4.8)	(4.1)
	(81.1)	(69.3)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of tangible fixed assets	(243.2)	(217.9)
Sale of tangible fixed assets	0.8	1.4
Connection charges, grants and deferred income	5.3	7.5
	(237.1)	(209.0)

24 FINANCING

Loans and finance leases drawn down	194.7	157.1
Loans and finance leases (repaid)	(283.3)	-
	(88.6)	157.1

NOTES TO THE ACCOUNTS
continued

25 MOVEMENT IN NET DEBT

	1 April 2008 £m	Cash flow £m	Non cash items £m	31 March 2009 £m
Cash at bank and in hand	290.0	(253.0)	-	37.0
Bank overdraft	(2.5)	2.5	-	-
Short term borrowings	-	(76.3)	-	(76.3)
Loans repayable after one year	(196.6)	(118.4)	-	(315.0)
Finance leases repayable within one year	(3.7)	(1.1)	-	(4.8)
Finance leases repayable after one year	(80.4)	4.9	-	(75.5)
Bonds repayable within one year	(299.6)	300.0	(0.4)	-
Bonds repayable after one year	(1,065.5)	-	(20.1)	(1,085.6)
	(1,358.3)	(141.4)	(20.5)	(1,520.2)

26 FINANCIAL INSTRUMENTS

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £81.1m (2008 – £305.8m) of short term borrowings.

The company has financed its activities through a combination of short term borrowings, long term loans and leases and Bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 31 March 2009 there were £75.0m (2008 – £100.0m) of undrawn facilities. The company uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2009 £m	Floating rate borrowings 2009 £m	Total borrowings 2009 £m	Fixed rate borrowings 2008 £m	Floating rate borrowings 2008 £m	Total borrowings 2008 £m
Sterling	1,085.6	471.6	1,557.2	1,365.1	283.2	1,648.3

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

	Interest rate % 2009	Period years 2009	Interest rate % 2008	Period years 2008
Sterling	3.8	31.6	4.3	26.2

£80.6m (2008 – £6.2m) of floating rate borrowings are short term, and £391.0m (2008 – £277.0m) are long term with interest rates moving in line with LIBOR.

b. Fair values

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

	Book value £m 2009	Fair value £m 2009	Book value £m 2008	Fair value £m 2008
Borrowings less than 1 year	81.1	81.1	305.8	305.6
Floating rate borrowings over 1 year	390.5	390.5	277.0	277.0
Fixed rate borrowings over 1 year	1,085.6	1,011.8	1,065.5	1,085.1
	1,557.2	1,483.4	1,648.3	1,667.7

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

27 SHARE-BASED PAYMENTS

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

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

The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each, the following options were outstanding at 31 March 2008 and 2009.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2008	Granted	Forfeited	Exercised	Outstanding at 31 March 2009
13/12/2002 Unapproved	13,496,250	-	(100,000)	(397,000)	12,999,250
26/12/2002 Approved	4,566,000	-	-	(76,500)	4,489,500
12/12/2003 Unapproved	1,869,000	-	(100,000)	(50,000)	1,719,000
12/12/2003 Approved	1,518,000	-	-	-	1,518,000
16/05/2005 Unapproved	3,900,000	-	-	-	3,900,000
16/05/2005 Approved	4,548,000	-	(170,000)	-	4,378,000
07/08/2006 Unapproved	900,000	-	(200,000)	-	700,000
07/08/2006 Approved	5,316,000	-	(370,000)	-	4,946,000
20/08/2007 Unapproved	900,000	-	-	-	900,000
20/08/2007 Approved	3,654,000	-	(260,000)	-	3,394,000
26/06/2008 Unapproved	-	90,000	-	-	90,000
28/11/2008 Unapproved	-	6,560,000	-	-	6,560,000
28/11/2008 Approved	-	9,696,000	(102,000)	-	9,594,000
TOTAL	40,667,250	16,346,000	(1,302,000)	(523,500)	55,187,750

Of the above options 29,003,750 were exercisable at 31 March 2009.

NOTES TO THE ACCOUNTS
continued

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

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

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

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

Scheme	Weighted ave. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
16/05/2005 Unapproved	2.03	3.5	5	3.15	5.6
16/05/2005 Approved	2.03	3.5	3	2.91	5.6
07/08/2006 Unapproved	1.92	3.5	4	4.10	5.8
07/08/2006 Approved	1.92	3.5	3	4.06	5.8
20/08/2007 Unapproved	2.30	3.5	4	3.63	6.9
20/08/2007 Approved	2.30	3.5	3	3.60	6.9
26/06/2008 Unapproved	1.93	3.5	3	3.43	7.8
28/11/2008 Unapproved	1.85	4.2	3	3.23	8.5
28/11/2008 Approved	1.85	4.2	3	3.23	8.5

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

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

28 COMMITMENTS AND GUARANTEES

a. There were no operating leases (2008 – £0.1m) under leases on land and buildings due within the next year, which expire between 1 and 2 years. There are no commitments under other operating leases.

b. At 31 March 2009 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2008 – nil).

c. Capital expenditure contracted but not provided at 31 March 2009 was £50.1m (2008 – £116.8m).

d. The company has guaranteed Bonds of £1,085.6m (2008 – £1,365.1m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 2009 for which provision has not been made in these accounts.

30 RELATED PARTIES

There are no related party transactions requiring disclosure in these accounts. As the company is a wholly owned subsidiary of Wessex Water Ltd (see note 31), the company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' and has therefore not disclosed transactions or balances with entities which form part of the group.

31 ULTIMATE PARENT COMPANY

The smallest group into which the accounts of the company will be consolidated is that headed by Wessex Water Ltd, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Claverton Down, Bath, BA2 7WW.

The ultimate parent company is YTL Corporation Berhad, which is incorporated in Malaysia under the Companies Act 1965, whose registered address is Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

32 GOING CONCERN

The directors have considered the financial position of the company and have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts.

REGULATORY INFORMATION

Introduction

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

Regulation

Under the conditions of its Licence, granted to the company by the Secretary of State for the Environment the company is obliged to provide the Water Services Regulatory Authority with additional information to that contained in the statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 60 to 75.

Ring fencing

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

The company was in compliance with that requirement as at 31 March 2009. In the opinion of the directors:

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

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

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

   In making this statement the directors made reference to the detailed budget produced for the year to March 2010 and the five-year business plan model. The directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Directorships

Colin Skellett and Keith Harris are also directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, YTL Utilities Holdings Ltd and Bristol Wessex Billing Services Ltd. Keith Harris is also a director of S C Technology AG and Colin Skellett a director of YTL Utilities (UK) Ltd.

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

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES

Directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2009.

The directors also confirm that, except for the departure explained in note 1e on page 36 to the financial statements, and in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

Accounting policies

These regulatory accounts on pages 60 to 75 do not constitute the company's statutory accounts for the years ended 31 March 2009 or 2008. 31 March 2009 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2008 and 2007. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The next statutory accounts of the company will be prepared for the year ending 30 June 2009.

Historical cost statements
In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non appointed business to show the profit and loss account, balance sheet and cash flow statements.
The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, except for the treatment of certain grants and contributions (see note 1e on page 36). The principal accounting policies are described on pages 35 to 37.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the Water Services Regulatory Authority, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 62.

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

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

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

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

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES continued

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

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

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

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

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £10.3m (2008 – £11.3m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £340.0m (2008 – £310.6m) and reduce accumulated depreciation by £329.7m (2008 – £299.3m).

Reconciliation to the non-statutory accounts
In the non-statutory accounts the company has continued to capitalise customer pipe leak repairs. The impact is to increase historic cost profit after tax and to increase historic cost net assets as shown on page 62.

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

We have audited the Regulatory Accounts of Wessex Water Services Ltd ("the company") on pages 60 to 74 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet the regulatory historical statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the company and the Water Services Regulatory Authority (the "Regulator" or the "WSRA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the company and the WSRA those matters we have agreed to state to them in our report, in order (a) to assist the company to meet its obligation under the company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the WSRA, for our audit work, for this report, or for the opinions we have formed.

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

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

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

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 55.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

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

We report our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether regulatory current cost accounting statements on pages 63 to 74 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06, and Regulatory Accounting Guideline 4.03.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

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

The regulatory historical cost accounting statements on pages 60 to 62 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK GAAP, and a reconciliation to the balance sheet drawn up under the Companies Act 1985 is given on page 62.

Opinion

In our opinion the Regulatory Accounts of the company for the year ended 31 March 2009 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 55, 56 and 66, the state of the company's affairs at 31 March 2009 on a historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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

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

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

(c) the regulatory historical cost accounting statements on pages 60 to 62 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA; and

(d) the regulatory current cost accounting statements on pages 63 to 74 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

KPMG Audit Plc
Chartered Accountants
Bristol
24 June 2009

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year to 31 March 2009

	2009 Appointed £m	2009 Non appointed £m	2009 Total £m	2008 Appointed £m	2008 Non appointed £m	2008 Total £m
Turnover	416.6	4.0	420.6	390.7	3.7	394.4
Operating costs	(153.8)	(4.0)	(157.8)	(139.6)	(3.7)	(143.3)
Depreciation	(59.8)	-	(59.8)	(58.5)	-	(58.5)
Operating income	(2.0)	-	(2.0)	(0.7)	-	(0.7)
Operating profit	201.0	-	201.0	191.9	-	191.9
Other income	0.5	-	0.5	0.4	-	0.4
Interest payable	(84.7)	-	(84.7)	(69.4)	-	(69.4)
Profit on ordinary activities before taxation	116.8	-	116.8	122.9	-	122.9
Current taxation	(22.4)	-	(22.4)	(27.7)	-	(27.7)
Deferred taxation	(3.0)	-	(3.0)	(1.3)	-	(1.3)
Profit for the year	91.4	-	91.4	93.9	-	93.9
Ordinary dividend	(81.1)	-	(81.1)	(104.0)	-	(104.0)
Transfer to reserves	10.3	-	10.3	(10.1)	-	(10.1)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year to 31 March 2009

	2009 Appointed £m	2009 Non appointed £m	2009 Total £m	2008 Appointed £m	2008 Non appointed £m	2008 Total £m
Profit for the year	91.4	-	91.4	93.9	-	93.9
Actuarial (losses) / gains net of tax	(24.1)	-	(24.1)	24.4	-	24.4
Total recognised gains	67.3	-	67.3	118.3	-	118.3

HISTORICAL COST BALANCE SHEET

At 31 March 2009

	2009 Appointed £m	2008 Appointed £m
Fixed assets		
Tangible fixed assets	1,978.3	1,864.4
Current assets		
Stocks	4.9	4.3
Debtors	116.1	116.9
Infrastructure renewals prepayment	10.3	11.3
Cash at bank and in hand	37.0	290.0
	168.3	422.5
Creditors - amounts falling due within one year		
Borrowings	(81.1)	(305.8)
Corporation tax	(11.2)	(16.6)
Dividends payable	-	(21.7)
Other creditors	(95.8)	(123.8)
	(188.1)	(467.9)
Net current liabilities	(19.8)	(45.4)
Total assets less current liabilities	1,958.5	1,819.0
Creditors - amounts falling due after more than one year		
Borrowings	(1,476.1)	(1,342.5)
Other creditors	(1.5)	(1.6)
	(1,477.6)	(1,344.1)
Provisions for liabilities and charges		
Deferred tax	(87.4)	(86.4)
Retirement benefit obligations	(34.9)	(15.8)
Other provisions	(0.2)	-
Deferred income	(20.3)	(20.8)
Net assets	338.1	351.9
Capital and reserves		
Called up share capital	81.3	81.3
Profit and loss account	256.8	270.6
Equity shareholders' funds	338.1	351.9

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

The regulatory information on pages 60 to 75 was approved by the board of directors on 24 June 2009.

Colin Skellett
Chairman

Keith Harris
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON STATUTORY ACCOUNTS

For the year to 31 March 2009

	2009 £m	2008 £m
Profit and loss account		
Per Regulatory Accounts	91.4	93.9
Capitalisation of customer pipe leak repairs	1.9	1.6
Per Non Statutory Accounts	93.3	95.5
Balance sheet		
(a) Fixed assets		
Per Regulatory Accounts	1,978.3	1,864.4
Capitalisation of customer pipe leak repairs – current year	1.9	1.6
Capitalisation of customer pipe leak repairs – prior years	15.5	13.9
Infrastructure renewals expenditure under FRS 15	10.3	11.3
Per Non Statutory Accounts	2,006.0	1,891.2
(b) Current assets		
Per Regulatory Accounts	168.3	422.5
Infrastructure renewals expenditure under FRS 15	(10.3)	(11.3)
Per Non Statutory Accounts	158.0	411.2
(c) Creditors – amounts falling due within one year		
Per Regulatory Accounts	(188.1)	(467.9)
Tax adjustment on prior year customer pipe leak repairs	(0.5)	(0.5)
Per Non Statutory Accounts	(188.6)	(468.4)
(d) Reserves		
Per Regulatory Accounts	256.8	270.6
Capitalisation of customer pipe leak repairs – current year	1.9	1.6
Capitalisation of customer pipe leak repairs – prior years	15.0	13.9
Tax adjustment on prior year customer pipe leak repairs	-	(0.5)
Per Non Statutory Accounts	273.7	285.6

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

For the year to 31 March 2009

	NOTE	2009 £m	2008 £m
Turnover	4	416.6	390.7
Current cost operating costs	7	(233.2)	(220.3)
Operating income	4	(2.7)	(2.9)
Working capital adjustment	4	(0.1)	0.3
Current cost operating profit	5	180.6	167.8
Other income		0.5	0.4
Interest payable		(84.7)	(69.4)
Financing adjustment		(3.2)	33.1
Current cost profit before taxation		93.2	131.9
Corporation tax		(22.4)	(27.7)
Deferred tax		(3.0)	(1.3)
Current cost profit attributable to shareholders		67.8	102.9
Ordinary dividend		(81.1)	(104.0)
Transfer to reserves		(13.3)	(1.1)

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS At 31 March 2009

	NOTE	2009 £m	2008 £m
Fixed assets			
Tangible fixed assets	6	11,187.5	11,131.1
Third party contributions since 1989-90		(166.7)	(163.3)
		11,020.8	10,967.8
Other operating assets and liabilities			
Working capital	8	41.1	12.3
Cash and deposits		37.0	290.0
Overdraft		-	(2.5)
Infrastructure renewals prepayment		10.3	11.3
		88.4	311.1
Non operating assets and liabilities			
Borrowings		(81.1)	(303.3)
Non trade debtors due within one year		(0.2)	1.9
Non trade creditors due within one year		(15.7)	(16.8)
Corporation tax payable		(11.2)	(16.6)
Dividends payable		-	(21.7)
		(108.2)	(356.5)
Amounts falling due after more than one year			
Borrowings		(1,476.1)	(1,342.5)
Other creditors		(1.5)	(1.6)
		(1,477.6)	(1,344.1)
Provisions for liabilities and charges			
Deferred tax provision		(87.4)	(86.4)
Post employment liabilities		(34.9)	(15.8)
Other provisions		(0.2)	-
Net assets employed		9,400.9	9,476.1
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		75.5	112.9
Current cost reserve	9	9,244.1	9,281.9
		9,400.9	9,476.1

CURRENT COST CASH FLOW STATEMENT
For the year to 31 March 2009

	NOTE	Appointed 2009 £m	Appointed 2008 £m
Net cash inflow from operating activities	5	285.1	264.9
Returns on investments and servicing of finance			
Interest received		14.0	18.7
Interest paid		(90.3)	(83.9)
Interest on finance lease rentals		(4.8)	(4.1)
		(81.1)	(69.3)
Taxation			
UK corporation tax paid		(27.9)	(28.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(211.9)	(172.1)
Receipts of grants and contributions		5.3	7.5
Infrastructure renewals expenditure		(29.4)	(44.2)
Sale of fixed assets		0.8	1.4
		(235.2)	(207.4)
Equity dividends paid		(102.8)	(82.3)
Net cash (outflow) before financing		(161.9)	(122.7)
Financing			
Capital element of finance lease rentals		(3.8)	(3.2)
Loans taken out		194.7	-
Loans repaid		(300.0)	(4.4)
Loans from subsidiary company		20.5	164.7
		(88.6)	157.1
(Decrease) / increase in cash		(250.5)	34.4

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

NOTES TO THE CURRENT COST STATEMENTS

For the year to 31 March 2009

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

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

1 TANGIBLE FIXED ASSETS

Modern equivalent asset values (MEA) arising from the 2004 periodic review have been incorporated into the regulatory statements.

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

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

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

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

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

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

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

2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS

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

3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

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

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

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

4 ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS

	2009 Water services £m	2009 Sewerage services £m	2009 Appointed business £m	2008 Water services £m	2008 Sewerage services £m	2008 Appointed business £m
Turnover						
Unmeasured – household	61.6	136.0	197.6	59.4	130.9	190.3
Unmeasured – non household	2.4	4.5	6.9	2.3	4.5	6.8
Total Unmeasured	64.0	140.5	204.5	61.7	135.4	197.1
Measured – household	35.9	69.2	105.1	30.6	59.2	89.8
Measured – non household	33.3	41.6	74.9	32.1	39.6	71.7
Total Measured	69.2	110.8	180.0	62.7	98.8	161.5
Trade effluent	-	4.6	4.6	-	4.0	4.0
Large users	8.9	13.2	22.1	9.8	12.2	22.0
Rechargeable works	3.7	0.4	4.1	3.3	0.6	3.9
Bulk supplies	0.3	-	0.3	0.4	-	0.4
Other appointed business	0.3	0.6	0.9	0.3	1.3	1.6
Other sources	0.1	-	0.1	0.2	-	0.2
Total turnover	146.5	270.1	416.6	138.4	252.3	390.7
Operating income						
Current cost loss on disposal of fixed assets	(1.3)	(1.4)	(2.7)	(0.7)	(2.2)	(2.9)
Total operating income	(1.3)	(1.4)	(2.7)	(0.7)	(2.2)	(2.9)
Working capital adjustment	-	(0.1)	(0.1)	0.1	0.2	0.3

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

	2009 £m	2008 £m
Current cost operating profit	180.6	167.8
Working capital adjustment	0.1	(0.3)
Movement in working capital	(28.8)	0.1
Other income	0.5	0.4
Current cost depreciation	79.4	77.6
Current cost loss on disposal of fixed assets	2.7	2.9
Infrastructure renewals charge	30.4	29.9
Provisions	20.2	(13.5)
Net cash inflow from operating activities	285.1	264.9

NOTES TO THE CURRENT COST STATEMENTS

continued

6 CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Cost at 1 April 2008	694.8	26.1	2,390.6	28.9	3,140.4
MEA adjustment	-	-	-	-	-
RPI adjustment	(2.3)	(0.1)	(9.1)	(0.1)	(11.6)
Disposals	(3.8)	-	-	(5.3)	(9.1)
Additions	39.7	1.5	4.5	2.3	48.0
Cost at 31 March 2009	728.4	27.5	2,386.0	25.8	3,167.7
Depreciation at 1 April 2008	328.5	5.2	-	14.3	348.0
MEA adjustment	-	-	-	-	-
RPI adjustment	(1.1)	-	-	(0.1)	(1.2)
Disposals	(2.3)	-	-	(5.2)	(7.5)
Charge for year	16.9	0.4	-	4.0	21.3
Depreciation at 31 March 2009	342.0	5.6	-	13.0	360.6
Net book value at 31 March 2009	386.4	21.9	2,386.0	12.8	2,807.1
At 1 April 2008	366.3	20.9	2,390.6	14.6	2,792.4
SEWERAGE SERVICES					
Cost at 1 April 2008	2,072.3	40.5	7,227.5	58.8	9,399.1
MEA adjustment	-	-	-	-	-
RPI adjustment	(7.6)	(0.1)	(27.4)	(0.2)	(35.3)
Disposals	(11.8)	-	-	(7.6)	(19.4)
Additions	101.6	1.9	28.6	3.3	135.4
Cost at 31 March 2009	2,154.5	42.3	7,228.7	54.3	9,479.8
Depreciation at 1 April 2008	1,028.0	4.9	-	27.5	1,060.4
MEA adjustment	-	-	-	-	-
RPI adjustment	(3.9)	-	-	(0.1)	(4.0)
Disposals	(9.0)	-	-	(7.4)	(16.4)
Charge for year	51.9	0.6	-	6.9	59.4
Depreciation at 31 March 2009	1,067.0	5.5	-	26.9	1,099.4
Net book value at 31 March 2009	1,087.5	36.8	7,228.7	27.4	8,380.4
At 1 April 2008	1,044.3	35.6	7,227.5	31.3	8,338.7
TOTAL					
Cost at 1 April 2008	2,767.1	66.6	9,618.1	87.7	12,539.5
MEA adjustment	-	-	-	-	-
RPI adjustment	(9.9)	(0.2)	(36.5)	(0.3)	(46.9)
Disposals	(15.6)	-	-	(12.9)	(28.5)
Additions	141.3	3.4	33.1	5.6	183.4
Cost at 31 March 2009	2,882.9	69.8	9,614.7	80.1	12,647.5
Depreciation at 1 April 2008	1,356.5	10.1	-	41.8	1,408.4
MEA adjustment	-	-	-	-	-
RPI adjustment	(5.0)	-	-	(0.2)	(5.2)
Disposals	(11.3)	-	-	(12.6)	(23.9)
Charge for year	68.8	1.0	-	10.9	80.7
Depreciation at 31 March 2009	1,409.0	11.1	-	39.9	1,460.0
Net book value at 31 March 2009	1,473.9	58.7	9,614.7	40.2	11,187.5
At 1 April 2008	1,410.6	56.5	9,618.1	45.9	11,131.1

7a ACTIVITY COSTING ANALYSIS – 2009 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
DIRECT COSTS							
Employment costs	4.3	3.1	2.8	10.2	2.3	2.1	4.4
Power	2.0	9.4	1.2	12.6	2.1	5.0	7.1
Hired & contracted services	1.5	2.4	4.1	8.0	0.9	0.8	1.7
Materials & consumables	1.3	2.7	3.3	7.3	1.1	0.4	1.5
Service charges EA	1.0	2.5	-	3.5	2.8	-	2.8
Bulk supply import	-	-	-	-	1.3	-	1.3
Other direct costs	0.3	0.1	-	0.4	0.1	0.1	0.2
Total direct costs	10.4	20.2	11.4	42.0	10.6	8.4	19.0
General & support expenditure	3.2	6.2	2.8	12.2	3.1	3.5	6.6
Functional expenditure	13.6	26.4	14.2	54.2	13.7	11.9	25.6
OPERATING EXPENDITURE							
Customer service				6.4			3.5
Scientific services				1.1			2.7
Other business activities				1.3			1.3
Total business activities				8.8			7.5
Local authority rates				7.4			7.3
Doubtful debts				4.4			2.4
Exceptional items				-			-
Total opex less third party services				74.8			42.8
Third party services				1.2			4.6
Total operating expenditure				76.0			47.4

NOTES TO THE CURRENT COST STATEMENTS
continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	12.4	-	-	12.4	-	18.0	18.0
Current cost depreciation	14.6	37.3	6.5	58.4	10.1	10.6	20.7
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.0			0.6
Total capital maintenance				70.8			39.0
Total operating costs				146.8			86.4
CCA (MEA) VALUES							
Service activities	7,340.7	916.6	117.7	8,375.0	242.5	2,561.8	2,804.3
Business activities				5.4			2.8
				8,380.4			2,807.1
Services for third parties				-			-
Total				8,380.4			2,807.1

7b ACTIVITY COSTING ANALYSIS – 2008 for the year to 31 March

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

NOTES TO THE CURRENT COST STATEMENTS
continued

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

8 WORKING CAPITAL

	2009 £m	2008 £m
Stocks	4.9	4.3
Trade debtors – measured household	9.8	12.4
Trade debtors – unmeasured household	16.3	16.0
Trade debtors – measured non-household	4.5	5.2
Trade debtors – unmeasured non-household	0.2	0.3
Other trade debtors	1.9	3.0
Measured income accrual	45.4	39.8
Prepayments and other debtors	38.2	38.3
Trade creditors	(4.1)	(3.7)
Deferred income – customer advance receipts	(26.0)	(25.6)
Short term capital creditors	(27.0)	(55.5)
Accruals and other creditors	(23.0)	(22.2)
	41.1	12.3

9 MOVEMENT ON CURRENT COST RESERVE

At 1 April	9,281.9	8,922.4
MEA adjustment	-	-
RPI adjustments:		
Fixed assets	(41.7)	398.6
Working capital	0.1	(0.3)
Financing	3.2	(33.1)
Grants and third party contributions	0.6	(5.7)
At 31 March	9,244.1	9,281.9

NOTES TO THE CURRENT COST STATEMENTS
continued

10 ANALYSIS OF NET DEBT

	1 April 2008 £m	Cash Flow £m	Non cash items £m	31 March 2009 £m
Cash at bank and in hand	290.0	(253.0)	-	37.0
Bank overdraft	(2.5)	2.5	-	-
Short term borrowings	-	(76.3)	-	(76.3)
Loans repayable after one year	(196.6)	(118.4)	-	(315.0)
Finance leases repayable within one year	(3.7)	(1.1)	-	(4.8)
Finance leases repayable after one year	(80.4)	4.9	-	(75.5)
Bonds repayable within one year	(299.6)	300.0	(0.4)	-
Bonds repayable after one year	(1,065.5)	-	(20.1)	(1,085.6)
	(1,358.3)	(141.4)	(20.5)	(1,520.2)

11 REGULATORY CAPITAL VALUE

	2009 £m
Closing RCV for 2007-08	2,114
Ofwat adjustment (indexation and land sales)	35
Indexation	(8)
Opening RCV for 2008-09	2,141
Capital expenditure	161
Infrastructure renewals expenditure	23
Grants and contributions	(8)
Depreciation	(94)
Infrastructure renewals charge	(25)
Outperformance of regulatory assumptions (5 years in arrears)	(27)
Closing RCV for 2008-09	2,171
Average RCV	2,191

ADDITIONAL REGULATORY DISCLOSURES
For the year to 31 March 2009

A REGULATORY COMMENTARY AND TRENDS

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

B DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services provided by appointee to associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2008-09 Value £m
Wessex Water Ltd	Corporate charges	0.9	No market	0.7
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance and personnel	11.8	No market	0.6
Wessex Water Enterprises Ltd	Sludge treatment, accommodation, transport, insurance, and laboratory services	12.2	No market	3.3

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2008-09 Value £m
Bristol Wessex Billing Services Ltd	Billing services	11.8	Competitive letting	9.6
SC Technology AG	Supply of sludge drying equipment and consultancy	11.1	Competitive letting	0.4
Wessex Water Enterprises Ltd	Supply of electricity	12.2	Other market testing	1.2

Financial transactions

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

The appointee paid £78.3m of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 14 to the accounts.

The appointee acquired assets of £1.0m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

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

ENVIRONMENTAL COST STATEMENT AND INVESTMENT TOWARDS SUSTAINABILITY

For year to 31 March 2009

Introduction

Since 2001, as part of our commitment to sustainability we have included a wider description of our impacts and activity in our annual report alongside the financial accounts. When we began to report in this way it was considered a novelty. Although many companies were disclosing quantified environmental impacts (such as water use and greenhouse gas emissions), we were the first European company to attempt environmental cost accounting, in which these impacts had a monetary value assigned to them.

Only a few companies have adopted this approach in their reporting. However, environmental and financial management continue to converge and the concept of describing environmental impacts in financial terms has not gone away. For example, cost abatement curves for different carbon management options are now an accepted form of analysis. Furthermore, Ofwat has taken the step of requiring all water companies to include the HM Treasury Shadow Price of Carbon in their business plan submissions for the 2009 Price Review.

With the assistance of Mott MacDonald, we have developed a detailed carbon footprinting tool that considers the construction and operational impacts of new assets that we will build in the five years up to 2014-15. This has been used in turn for cost benefit analysis of proposed investment and to estimate the present value of greenhouse gas emissions that are associated with the proposed investment.

As previous years, we include two monetised accounts of our sustainability performance in the pages that follow:

1) An environmental cost statement which considers the hypothetical cost of reducing our key externalised environmental impacts to a sustainable level

2) A statement of investment towards sustainability which identifies expenditure – mandatory and discretionary – on our customers and communities, the environment, our employees and our infrastructure.

Environmental cost statement

The sustainability charity Forum for the Future developed the following approach to shed light on an organisation's impacts on the atmosphere, water, land and biodiversity. Some of our environmental impacts are directly regulated, such as those on rivers and coastal waters. Our resulting investment to improve the environment is already embedded within the Profit and Loss Account.

So, the following environmental cost statement attempts to put a monetary value on impacts that have not yet led to investment. Once these are identified, we estimate what a sustainable level of impact would be and compare it with the actual impact that we have had during the reporting year. Then, the financial effect is calculated based on the theoretical cost of reducing impacts to a sustainable level, either by investment, offsetting, markets or shadow prices.

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

ENVIRONMENTAL COST STATEMENT

For the year to 31 March 2009

Environmental cost statement – unaudited

Known impacts

Component	Consumption	Emissions (tonnes)	2008-09 target (see notes)	Avoidance/ abatement cost £	2008-09 £'000
Emissions to air Methane (as CO_2 equivalent)	–	tCO_2e – 16,624			
Nitrous oxide	–	tCO_2e – 17,570	tCO_2e – 127,297	tCO_2e – 52,605 tonnes at £7.50	(395)
Grid electricity	224 m kWh	tCO_2 – 145,708			
Self-generated renewable energy	23 m kWh	tNOx – 305	tNOx – 387	tNOx – NA	(-)
Natural gas	3 m kWh	tSO_2 – 561	tSO_2 – 856	tSO_2 – NA	(-)
Diesel oil	1 m litres				
Transport (vehicle, rail, air)	48 m km	tOther – 16	tOther – 144	tOther – NA	(-)

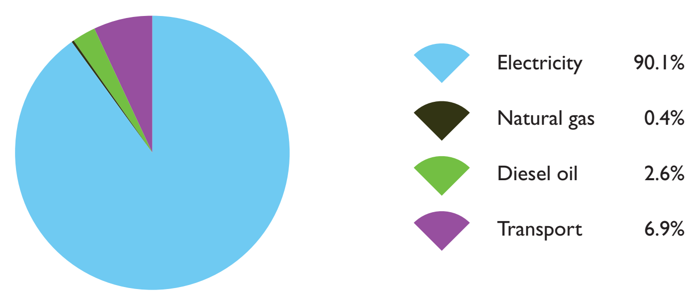
Environmental cost	(395)
Profit after taxation as per the financial accounts	93,300
Environmentally sustainable profit	92,905

t - tonnes CO_2 - carbon dioxide NOx - oxides of nitrogen SO_2 - sulphur dioxide

CO_2e - carbon dioxide equivalent including methane and nitrous oxide

Other - non-methane Volatile Organic Compounds; Particulates <10 microns

Breakdown of energy CO_2 emissions to air by component type



Possible impacts

Impacts on watercourses	Target 2008-09	Avoidance/abatement cost £'000
Abstraction Priority 2 sites	Meeting Defra guidance on low flows	(13,000)

NOTES TO THE 2009 ENVIRONMENTAL COST STATEMENT

Emissions to air

In the long term, we aim to be carbon neutral. We are also monitoring our emissions of three major greenhouse gases – carbon dioxide, methane and nitrous oxide – compared with the target reduction path in the UK Climate Change Act being an 80% cut between 1990 and 2050.

Our total carbon dioxide equivalent emissions were 179,902 tonnes in 2008-09. This is 52,605 tonnes above a reduction pathway that matches the Climate Change Act's target as shown in table below. The abatement cost given on the previous page relates to these surplus emissions above the reduction path way for an 80% cut between 1990 and 2050.

The financial cost for reaching the target is calculated using the price of £7.50/tonne for carbon dioxide equivalent emissions from electricity, gas, diesel oil, transport, methane and nitrous oxide. This is the price offered by Climate Care to offset carbon dioxide through renewable energy projects and forestry.

	1990	2008-09 actual emissions	2008-09 target (see notes)	Deficit
Carbon dioxide	165,430	179,902	127,297	52,605
Methane CO_2e	31,067			
Nitrous oxide CO_2e	10,805			

If, instead of a carbon offset purchase price, we were to use HM Treasury's Shadow Price of Carbon, the unit value of greenhouse gas emissions would be £26.50 per tonne carbon dioxide equivalent. This would increase the environmental cost shown in the table on page 77 by £1m.

Impacts on water

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

In July 2007 the Environment Agency advised us that for our draft Water Resources Management Plan and Business Plan, we should assume a reduction in source outputs of 23.5 Ml/d. Recent work has shown that the replacement cost stands at approximately £5m per Ml. On this basis, with the total investment discounted over 20 years at 6% we estimate that this is equivalent to £13m per annum. These costs of accommodating this change will be internalised in the next AMP period. At that point, this line would no longer appear in the Environmental Cost Statement.

Impacts on land

Environmental site risk assessments have been carried out on a number of Wessex Water sites to identify any contaminated land that might require remedial action. At present, based on the risk assessments, there are no known sites where Wessex Water will need to carry out contaminated land remediation. Therefore, there is no abatement cost.

Environmental cost

The overall environmental cost for Wessex Water in 2008-09 was £0.4m, leaving the sustainable level of profit for the company at £92.9m.

INVESTMENT TOWARDS SUSTAINABILITY

For year to 31 March 2009

Investment towards sustainability

This section outlines the investment towards sustainability that Wessex Water made in 2008-09. This includes expenditure on customers and communities, the environment, employees and infrastructure. A distinction is made between:

- mandatory investment – expenditure governed primarily by legislation or regulation
- discretionary investment – additional expenditure that the company chooses to make.

The benefits can be primarily for third parties, the company itself, or evenly split between both.

Investment towards sustainability – unaudited 2008-2009

CUSTOMERS AND COMMUNITIES	Amount £'000s
Mandatory expenditure *Example – water supply quality enhancement work such as mains relining*	**50,082**
Discretionary expenditure (a)	**-**
Discretionary expenditure (b) *Example – replacement of customers' supply pipes; education service*	**541**
Discretionary expenditure (c) *Example – charitable donations to community projects*	**163**
ENVIRONMENT	
Mandatory expenditure *Example – capital investment to meet the Bathing Water Directive*	**48,700**
Discretionary expenditure (a)	**-**
Discretionary expenditure (b) *Example – trials on options for more sustainable water resources*	**1,051**
Discretionary expenditure (c) *Example – conservation grants to wildlife trusts*	**78**
EMPLOYEES	
Mandatory expenditure *Example – basic pay and conditions including pension*	**63,440**
Discretionary expenditure (a) *Example – enhanced overtime payments*	**4,461**
Discretionary expenditure (b) *Example – staff training*	**5,775**
Discretionary expenditure (c) *Example – enhanced maternity leave*	**-**
INVESTMENT – INFRASTRUCTURE	
Mandatory expenditure *Example – replacement/refurbishment of sewers*	**111,756**
TOTALS	
Customers and communities	**50,786**
Environment	**49,829**
Employees	**73,676**
Infrastructure	**111,756**
Total	**286,047**

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

Investment towards sustainability is £286.0m down from £303.4m last year as a result of a reduction in infrastructure investment.

FOR FURTHER INFORMATION

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

For further details, write to:

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www.wessexwater.co.uk

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THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2008

CUSTOMER
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a YTL company

SINCE 1955

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