YTL Utilities (UK) Limited Group
CONSOLIDATED ACCOUNTS

For the year to 30 June 2004

Registered number 04341837

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2004.

Principal activities

The company's principal activity is that of a holding company.

The company's principal subsidiary Wessex Water Limited (WWL) owns 100% of the share capital of Wessex Water Services Limited (WWSL), a regulated company licensed for the supply of clean water and treatment and disposal of waste water, operating in a region of 10,000 square kilometres in the south west of England.

Business review

The company was incorporated on 18 December 2001 as Trushelfco (No. 2869) Limited, and changed its name to YTL Utilities (UK) Limited on 21 March 2002.

The results for the year are set out on page 5.

Research and development

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

Proposed dividend

The directors do not recommend the payment of a dividend on the ordinary shares of the company.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the group exceeds the book values of these assets at 30 June 2004.

Directors and directors' interests

The directors who held office during the year and subsequently were as follows:

Tiong Lay Yeoh *
Francis Sock Ping Yeoh *
Seok Kian Yeoh *
Seok Hong Yeoh *
Sock Siong Yeoh *
Seok Kah Yeoh *
John Gareth Jones – appointed 18 February 2004
Colin Frank Skellett

* Shares held in YTL Power International Berhad and YTL Corporation Berhad are disclosed in the accounts of those companies.

John Gareth Jones was granted 1,000,000 ordinary share options of Malaysian Ringgit RM1.00 each in YTL Power International Berhad on 13 December 2002. The share option price was RM2.64 and the options are exercisable between 13 December 2005 and 12 December 2012.

No other directors had any disclosable interest in the shares of group companies.

Directors' report *(continued)*

Employment

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

Supplier payment policy

The group does not follow any specific external code or standard on payment policy. The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2004, trade creditors in the principal trading subsidiary WWSL represented approximately 30 days trade purchases (2003 - 29 days).

Political and charitable contributions

During the year the company donated £110,000 to UK charities.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Seok Hong Yeoh
Director

2 Lambs Passage
London
EC1Y 8BB
30 October 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

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

kpmg

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Report of the independent auditors to the members of YTL Utilities (UK) Limited

We have audited the financial statements on pages 5 to 27.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 October 2004

Consolidated profit and loss account

for the year ended 30 June 2004

	Note	2004 £m	2003 £m restated
Turnover			
Continuing operations	2	**307.6**	287.7
Raw materials and consumables		**(23.2)**	(23.1)
Staff costs	5	**(29.8)**	(27.1)
Depreciation and other amounts written off tangible and intangible fixed assets		**(69.7)**	(65.3)
Other operating charges		**(56.1)**	(52.9)
Amortisation of grants and contributions		**0.8**	0.8
Operating profit	2	**129.6**	120.1
Interest payable and similar charges	6	**(82.2)**	(81.7)
Profit on ordinary activities before taxation	3	**47.4**	38.4
Tax on profit on ordinary activities	7	**2.6**	(2.1)
Profit for the financial period		**50.0**	36.3
Deemed appropriation of profits	8	**-**	-
Retained profit for the period	22	**50.0**	36.3

The turnover and operating profit were generated from continuing activities.

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

Consolidated balance sheet

at 30 June 2004

	Note	2004 £m	£m	2003 £m restated	£m restated
Fixed assets					
Intangible assets					
Negative goodwill	*10*		**(152.3)**		(160.0)
Tangible assets	*11*		**1,686.9**		1,595.9
Investments					
Investments in associates	*12*		**-**		-
			1,534.6		1,435.9
Current assets					
Stocks	*13*	**3.5**		4.4	
Debtors	*14*	**121.7**		114.4	
Investments	*15*	**0.4**		0.7	
Cash at bank and in hand		**0.7**		1.1	
		126.3		120.6	
Creditors - amounts falling due within one year	*16*	**(301.7)**		(118.7)	
Net current (liabilities)/assets			**(175.4)**		1.9
Total assets less current liabilities			**1,359.2**		1,437.8
Creditors - amounts falling due after more than one year	*17*		**(1,173.0)**		(1,293.5)
Provisions for liabilities and charges	*19*		**(77.3)**		(84.6)
Grants and contributions	*20*		**(21.1)**		(21.9)
Net assets	*2*		**87.8**		37.8
Capital and reserves					
Called up share capital	*21*		**-**		-
Profit and loss account	*22*		**87.8**		37.8
Equity shareholders' funds			**87.8**		37.8

These financial statements were approved by the board of directors on 30 October 2004 and were signed on its behalf by:

Seok Hong Yeoh
Director

Balance sheet
at 30 June 2004

	Note	2004 £m	£m	2003 £m restated	£m restated
Fixed assets					
Tangible assets	*11*		**0.1**		0.1
Investments	*12*		**351.3**		351.3
			351.4		351.4
Current assets					
Debtors	*14*	**13.7**		12.8	
Cash at bank and in hand		**0.5**		1.0	
		14.2		13.8	
Creditors - amounts falling due within one year	*16*	**(229.3)**		(53.0)	
Net current liabilities			**(215.1)**		(39.2)
Total assets less current liabilities			**136.3**		312.2
Creditors - amounts falling due after more than one year	*17*		**(91.8)**		(290.1)
Net assets			**44.5**		22.1
Capital and reserves					
Called up share capital	*21*		**-**		-
Profit and loss account	*22*		**44.5**		22.1
Equity shareholders' funds			**44.5**		22.1

These financial statements were approved by the board of directors on 30 October 2004 and were signed on its behalf by:

Seok Hong Yeoh
Director

Statement of total recognised gains and losses

for the year ended 30 June 2004

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Profit for the financial period – as stated	**50.0**	**22.4**	41.4	25.9
Prior period adjustment (note 9)	**(5.5)**	**(5.5)**	-	-
Profit for the financial period - restated	**44.5**	**16.9**	41.4	25.9
Foreign currency adjustment	-	-	(0.4)	-
Total recognised gains since last annual report	**44.5**	**16.9**	41.0	25.9

Reconciliation of movements in shareholders' funds

for the year ended 30 June 2004

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Profit for the financial period – as stated	**50.0**	**22.4**	41.4	25.9
Deemed appropriation of profits – as stated	-	-	(25.8)	(25.8)
	50.0	**22.4**	15.6	0.1
Foreign currency adjustment	-	-	(0.4)	-
Net addition to shareholders' funds	**50.0**	**22.4**	15.2	0.1
Opening shareholders' funds	**37.8**	**22.1**	0.6	-
Prior period adjustment (note 9)	-	-	22.0	22.0
Closing shareholders' funds	**87.8**	**44.5**	37.8	22.1

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The group has adopted all applicable accounting standards up to and including FRS 19 'Deferred Tax'. The group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards except for the treatment of certain grants and contributions (see below), and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Negative goodwill

Negative goodwill is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after crediting the unamortised amount of any related negative goodwill.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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.

Depreciation is provided to write off the cost less the estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

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 (see note 20).

Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with 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 requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view. This is because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 11.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The Wessex Water Limited 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. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

The parent company is not a member of that pension scheme.

Notes *(continued)*

1 Accounting policies *(continued)*

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

In respect of work in progress, costs include labour, materials and attributable overheads. Long term contract turnover and profit are recognised according to the value of work done. Where amounts received are different from the turnover recognised, they are included in debtors or creditors according to the circumstances of each individual contract.

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.

Financial instruments

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 costs in respect of the accounting period and reduced by payments made in that period.

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.

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Income includes an estimate of the value of services provided between the last meter reading date and the period end.

Cash flow statement

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

Notes *(continued)*

2 Segmental information

Substantially all of the turnover, operating profit and net assets are derived from activities within the United Kingdom.

	Turnover	Operating profit	Net assets	Turnover	Operating profit	Net assets
	2004	2004	2004	2003	2003	2003
	£m	£m	£m	£m	£m	£m restated
Regulated	285.4	128.2	43.3	266.0	118.0	15.7
Unregulated	22.2	1.4	44.5	21.7	2.1	22.1
	307.6	129.6	87.8	287.7	120.1	37.8

Regulated activities represent the entire trade of Wessex Water Services Ltd. Unregulated activities comprise the trade of SC Technology GmbH, Wessex Water Enterprises Ltd and YTL Events Limited as well as the holding company activities of the company and Wessex Water Ltd.

3 Profit on ordinary activities before taxation

	2004 £m	2003 £m
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group - audit	0.2	0.2
- fees paid to the auditors and its associates in respect of other services	0.1	-
Depreciation and other amounts written off tangible fixed assets	76.8	73.0
Hire of plant and machinery - rentals payable under operating leases	1.5	2.0
Research and development expenditure	0.1	0.1
after crediting		
Release of negative goodwill	7.7	7.7

The audit fee for the company for the year was £25k (2003 - £25k).

4 Remuneration of directors

	2004 £000	2003 £000
Salary	375	345
Bonus	75	111
Benefits in kind	14	15
	464	471

All the remuneration above, paid by group companies, was in respect of C F Skellett. The group also made pension contributions of £64k (2003 - £59k) and he had an accrued annual pension entitlement of £321,493 at 30 June 2004 (2003 - £291,470). On 3 July 2002 he entered into a 5 year Consultancy Agreement of £0.2m per annum, with YTL Power International Berhad. The full £1.0m was paid in advance less 8% Malaysian Withholding Tax. No remuneration was paid to any of the other directors in either year.

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows:

	Number of employees 2004	Number of employees 2003
Engineering department	**126**	149
Billing department	**299**	295
Other staff	**1,413**	1,238
	1,838	1,682

The aggregate payroll costs of these persons were as follows:

	2004 £m	2003 £m
Wages and salaries	**43.5**	39.4
Social security costs	**3.8**	3.4
Other pension costs	**4.3**	3.8
	51.6	46.6

Of the amount disclosed above £21.8m (2003 - £19.5m) has been charged to capital schemes.

6 Interest payable and similar charges

	2004 £m	2003 £m restated
On bank loans and overdrafts	**61.9**	67.8
On loan from immediate parent company (note 8, 9)	**8.9**	11.1
On loan from other group company	**10.1**	2.7
Finance charges payable in respect of finance leases and hire purchase contracts	**2.4**	0.7
Interest receivable	**(1.1)**	(0.6)
	82.2	81.7

Interest on loan from immediate parent company has not been paid, but has been rolled up and added to the principal. The interest rate on this loan varied between 8.6% and 9.6% (2003 – between 8.6% and 9.4%).

Notes *(continued)*

7 Taxation

Analysis of charge in period

	2004 £m	2004 £m	2003 £m	2003 £m
Corporation tax				
Current tax on income for the period	**4.8**		(0.1)	
ACT written back	**(3.2)**		-	
Total current tax charge/(credit)		**1.6**		(0.1)
Adjustments in respect of previous periods		**-**		(10.8)
Total corporation tax charge/(credit)		**1.6**		(10.9)
Deferred tax				
Current year		**(1.1)**		10.9
Adjustments in respect of previous periods		**(3.1)**		2.1
Total deferred tax (credit)/charge		**(4.2)**		13.0
Tax (credit)/charge on profit on ordinary activities		**(2.6)**		2.1

Factors affecting the tax charge for the period

	200 £	2003 £m restated
Corporation tax reconciliation		
Profit on ordinary activities before taxation	**47.4**	38.4
Current tax at 30%	**14.2**	11.5
Effects of:		
Expenses not deductible for tax purposes	**2.7**	3.5
Capital allowances for period in excess of depreciation	**(7.4)**	(8.3)
Adjustments in respect of previous periods	**-**	(10.8)
Goodwill amortisation	**(2.3)**	(2.3)
Lease payment	**(1.1)**	(3.1)
ACT written back	**(3.2)**	-
Other timing differences	**(1.3)**	(1.4)
Total corporation tax charge/ (credit) (see above)	**1.6**	(10.9)

8 Deemed appropriation of profits

On 15 May 2002, the company signed a loan facility agreement with its immediate parent company YTL Utilities Limited, a company registered in the Cayman Islands, for up to £120m.

Under the terms of this agreement, interest is results dependent, in that no interest is treated as having accrued unless on certain specified quarterly dates the company has sufficient distributable profits. To the extent that the company does have sufficient distributable profits, the interest that accrues forms a separate amount owing to YTL Utilities Limited which is payable on such date as the company elects or on 31 October 2020. Interest on the loan principal (see note 6) was calculated by reference to a market rate of interest on an external loan of a similar principal with similar characteristics. Any interest accrued above this market rate would be disclosed as a deemed appropriation of profits. There was no deemed appropriation of profits in the year (2003 – nil (see note 9)).

Notes *(continued)*

9 Prior period adjustment

The company has contracted with its immediate parent company, YTL Utilities Limited, that interest on the loan to the company, for up to £120m, should be at LIBOR plus 500 basis points from 15 May 2002. In the period to 30 June 2002 and the year to 30 June 2003 interest had been accrued at LIBOR plus 50 basis points and an additional amount up to the distributable profits of the company had been accrued as a deemed appropriation of profits. The impact of the change in the agreed interest amount was as follows:

	Group and Company	
	30.06.03	30.06.02
	£m	£m
Profit and loss account		
Interest (charge) on inter company loan	(5.5)	(0.4)
Reduction in deemed appropriation of profits	27.5	1.7
Increase in profit and loss account	22.0	1.3
Balance Sheet		
Reduction in loan from immediate parent company	22.0	1.3
Increase in profit and loss account	22.0	1.3

10 Intangible fixed assets

Group	**Negative goodwill £m**
Cost	
At 1 July 2003	(168.3)
Additions	-
At 30 June 2004	**(168.3)**
Amortisation	
At 1 July 2003	8.3
Credited in the year	7.7
At 30 June 2004	**16.0**
Net book value	
At 30 June 2004	**(152.3)**
At 30 June 2003	(160.0)

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings	Infrastructure assets	Plant, machinery and vehicles	Office equipment	Payments on account and assets in course of construction	Group total
	£m	£m	£m	£m	£m	£m
Group						
Cost or valuation						
At 1 July 2003	449.4	698.2	401.2	31.4	91.5	1,671.7
Additions	26.1	44.8	84.5	6.2	14.5	176.1
Disposals	(1.1)	-	(10.6)	-	-	(11.7)
Grants and contributions	-	(5.8)		-	-	(5.8)
At 30 June 2004	**474.4**	**737.2**	**475.1**	**37.6**	**106.0**	**1,830.3**
Depreciation						
At 1 July 2003	10.9	22.2	36.5	6.2	-	75.8
Charge for the year	12.4	22.5	36.8	5.1	-	76.8
On disposals	(0.5)	-	(8.7)	-	-	(9.2)
At 30 June 2004	**22.8**	**44.7**	**64.6**	**11.3**	**-**	**143.4**
Net book value						
At 30 June 2004	**451.6**	**692.5**	**410.5**	**26.3**	**106.0**	**1,686.9**
At 30 June 2003	438.5	676.0	364.7	25.2	91.5	1,595.9

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

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

The net book value of assets held under finance leases is £96.4m (2003 - £50.7m).

The depreciation charge for the year on assets held under finance leases is £3.6m (2003 - £0.4m).

The net book value of infrastructure assets at 30 June 2004 is stated after the deduction of grants and contributions amounting to £71.4m (2003 - £65.6m) in order to give a true and fair view (see note 1).

Included in the cost of infrastructure assets is £205.0m (2003 - £186.9m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £202.6m (2003 - £180.1m) of depreciation included in the profit and loss account as an infrastructure renewals charge in previous years.

Included in freehold land and buildings above is an amount of £7.0m (2003 - £7.0m) in respect of land which is not depreciated.

Notes *(continued)*

11 Tangible fixed assets *(continued)*

	Plant, machinery and vehicles £m	Company total £m
Company		
Cost or valuation		
At 1 July 2003	0.1	0.1
Additions	-	-
At 30 June 2004	**0.1**	**0.1**
Depreciation		
At 1 July 2003	-	-
Charge for the year	-	-
At 30 June 2004	-	-
Net book value		
At 30 June 2004	**0.1**	**0.1**
At 30 June 2003	0.1	0.1

12 Fixed asset investments

	Company interests in subsidiary undertakings £m
Cost	
At 1 July 2003	571.5
Additions	-
At 30 June 2004	**571.5**
Provisions	
At 1 July 2003	220.2
Movement	-
At 30 June 2004	**220.2**
Net book value	
At 30 June 2004	**351.3**
At 30 June 2003	351.3

Group interests in associated undertakings are not material to the group financial statements.

Notes *(continued)*

12 Fixed asset investments *(continued)*

The principal undertakings in which the group or company interest at the year end is 10% or more are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held Group	Class and percentage of shares held Company
Subsidiary undertakings				
Wessex Water Limited	United Kingdom	Water supply and waste water services	-	60p ordinary shares, 100%
Wessex Water Services Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%	-
YTL Events Limited	United Kingdom	Event promotions	-	£1 ordinary share, 100%
SC Technology GmbH	Switzerland	Waste treatment processes	CHF 1,000 ordinary shares, 100%	-
Wessex Water Services Finance Plc	United Kingdom	Issue of bonds	£1 ordinary shares, 100%	-
Wessex Water Enterprises Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%	-
Wessex Engineering Services Limited	United Kingdom	Engineering services	£1 ordinary shares, 100%	-
Associates				
Aquator Services Limited	United Kingdom	Membrane technology	£1 ordinary shares, 10%	-
Joint Arrangements				
Bristol Wessex Billing Services Limited	United Kingdom	Billing services	£1 ordinary A shares, 50%	-

Notes *(continued)*

13 Stocks

	Group 2004 £m	Group 2003 £m
Raw materials and consumables	**1.5**	1.4
Work in progress	**2.0**	3.0
	3.5	4.4

14 Debtors

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Trade debtors	**42.4**	-	38.1	-
Amounts owed by group undertakings	-	**13.7**	-	12.8
Other debtors	**1.7**	-	2.9	-
Taxation	-	-	1.7	-
Pension prepayment	**42.6**	-	38.7	-
Prepayments and accrued income	**35.0**	-	33.0	-
	121.7	**13.7**	114.4	12.8

15 Investments (held as current assets)

	Group 2004 £m	Group 2003 £m
Listed investments	**0.4**	0.7

At 30 June 2004 the market value of the listed investments was £1.9m (2003 - £2.2m).

16 Creditors: amounts falling due within one year

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Bank loans and overdrafts	**6.2**	-	11.0	-
Other loans	**11.9**	-	22.9	-
Obligations under finance leases and hire purchase contracts	**2.3**	-	1.0	-
Trade creditors	**3.1**	-	5.0	-
Loan from group undertaking	**169.9**	**169.9**	-	-
Amounts owed to group undertakings	**5.0**	**59.4**	2.9	53.0
Taxation and social security	**2.1**	-	1.0	-
Other creditors	**2.3**	-	1.0	-
Accruals	**98.9**	-	73.9	-
	301.7	**229.3**	118.7	53.0

The loan from group undertaking is a loan facility signed on 31 March 2003 with another group company YTL Utilities Finance Limited, a company registered in the Cayman Islands, for up to £170m. Under the terms of this agreement, interest is payable at LIBOR plus 2.0% and the loan is repayable in June 2005.

Notes *(continued)*

17 Creditors: amounts falling due after more than one year

	Group 2004 £m	Company 2004 £m	Group 2003 £m restated	Company 2003 £m restated
Bonds	**690.8**	**-**	344.4	-
Other loans	**386.4**	**-**	655.0	-
Loans from group undertakings	**91.8**	**91.8**	290.1	290.1
Other creditors	**4.0**	**-**	4.0	-
	1,173.0	**91.8**	1,293.5	290.1

Loans from group undertakings comprise £91.8m (2003 - £120.2m) from the immediate parent company YTL Utilities Limited and additionally in 2003 £169.9m from another group company YTL Utilities Finance Limited.

The loan from YTL Utilities Limited comprises principal of £70.8m (2003 - £108.1m) and rolled up interest of £21.0m (2003 - £12.1m).

Analysis of debt:

	Group 2004 £m	Company 2004 £m	Group 2003 £m restated	Company 2003 £m restated
Debt can be analysed as falling due:				
In one year or less, or on demand	**190.3**	**169.9**	34.9	-
Between one and two years	**78.4**	**-**	175.4	169.9
Between two and five years	**346.1**	**-**	457.7	-
In five years or more	**744.5**	**91.8**	656.4	120.2
	1,359.3	**261.7**	1,324.4	290.1

Amounts repayable in more than five years:

	Group 2004 £m	Company 2004 £m	Group 2003 £m restated	Company 2003 £m restated
Loans	**345.8**	**91.8**	312.0	120.2
Bonds	**398.7**	**-**	344.4	-
	744.5	**91.8**	656.4	120.2

Notes *(continued)*

18 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosures other than £0.7m (2003 - £1.1m) of cash in hand and £190.3m (2003 - £34.9m) of short term borrowings.

The group has financed its activities through a combination of short term borrowings, long term loans and leases, bonds issued by a subsidiary company Wessex Water Services Finance Plc and loans from group undertakings.

The group uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

	Fixed rate borrowings 2004 £m	**Floating rate borrowings 2004 £m**	**Total 2004 £m**	Fixed rate borrowings 2003 £m	Floating rate borrowings 2003 £m	Total 2003 £m restated
Sterling	**511.7**	**846.9**	**1,358.6**	825.2	498.1	1,323.3

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

	Interest rate 2004 %	**Period 2004 Years**	Interest rate 2003 %	Period 2003 Years
Sterling	**5.51**	**10.4**	4.80	5.1

£189.6m (2003 - £33.8m) of floating rate borrowings are short term, and £657.3m (2003 - £464.3m) are long term with interest rates moving in line with LIBOR.

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

	Book value 2004 £m	**Fair value 2004 £m**	Book value 2003 £m restated	Fair value 2003 £m restated
Borrowings less than 1 year	**189.6**	**189.6**	33.8	33.8
Floating rate borrowings over 1 year	**657.3**	**653.0**	464.3	464.3
Fixed rate borrowings over 1 year	**511.7**	**516.6**	825.2	850.2
	1,358.6	**1,359.2**	1,323.3	1,348.3

Notes *(continued)*

19 Provisions for liabilities and charges

	Deferred taxation £m	Restructuring costs £m	Total £m
Group			
At 1 July 2003	80.7	3.9	84.6
Utilised during year	-	(0.6)	(0.6)
Additional amounts provided	-	0.8	0.8
Origination and reversal of timing differences	10.4	-	10.4
Increase in discount	(17.9)	-	(17.9)
At 30 June 2004	**73.2**	**4.1**	**77.3**

The elements of deferred taxation are as follows:

	2004 £m	2003 £m
Difference between accumulated depreciation / amortisation and capital allowances	**304.6**	290.7
Other timing differences	**5.8**	1.8
Advance Corporation Tax recoverable	**(32.1)**	(24.6)
Undiscounted provision	**278.3**	267.9
Discount	**(205.1)**	(187.2)
Discounted provision	**73.2**	80.7

20 Grants and contributions

	2004 £m
Group	
At 1 July 2003	21.9
Received in period	-
Less amortisation	(0.8)
At 30 June 2004	**21.1**

Notes *(continued)*

21 Called up share capital

	2004 £	2003 £
Group and Company		
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

22 Profit and loss account

	Group 2003 £m	Company 2003 £m
At 1 July 2003 – as stated	15.8	0.1
Prior period adjustment (note 9)	22.0	22.0
At 1 July 2003 - restated	37.8	22.1
Retained profit for the year	50.0	22.4
At 30 June 2004	**87.8**	**44.5**

23 Contingent liabilities

The group has provided performance guarantees on behalf of SC Technology GmbH on the tendering for contracts, the maximum liability in respect of which at 30 June 2004 was £1.1m (2003 - £1.4m).

24 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Contracted	**66.4**	**-**	36.4	-

(b) At 30 June 2004 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £730.8m (2003 - £480.8m).

Notes *(continued)*

25 Pension scheme

The Wessex Water Limited group operates a pension scheme providing benefits based on final pensionable pay. Contributions to the defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 December 2001. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.0%, that salary increases would average 3.5% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £176.7m which represented 83% of the actuarial value of benefits that had accrued to members, after allowing for expected future increases in earnings. In response to this valuation the group made a special contribution into the scheme in April 2002 of £25.6m which increased the market value of scheme assets to around 95% of the actuarial value of the accrued benefits.

The contribution rate agreed for the next six months is 15% of pensionable earnings. The next actuarial valuation will be as at 31 December 2004.

No employees of the company are members of the group scheme.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs' under FRS 17 'Retirement benefits' the following transitional disclosures are required. The disclosures provide the information which will be necessary for the full implementation of FRS 17.

The valuation was updated by the actuary on an FRS 17 basis as at 30 June 2004 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 in this valuation were:

	2004	**2003**	**2002**
Rate of increase in salaries	**4.0%**	**3.6%**	**3.6%**
Rate of increase in pensions in payment and deferred pensions	**3.0%**	**2.6%**	**2.6%**
Discount rate applied to scheme liabilities	**5.8%**	**5.3%**	**5.9%**
Inflation assumption	**3.0%**	**2.6%**	**2.6%**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes *(continued)*

25 Pension scheme *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2004 £m	Value at 2003 £m	Value at 2002 £m
Equities	**85.1**	75.9	91.1
Government bonds	**86.7**	107.4	101.2
Corporate bonds	**36.9**	12.4	2.1
Cash	**2.3**	1.7	3.3
Total fair value of the assets	**211.0**	197.4	197.7
Present value of scheme liabilities	**(262.9)**	(251.4)	(214.7)
Deficit in the scheme – Pension liability	**(51.9)**	(54.0)	(17.0)
Related deferred tax asset	**15.6**	16.2	5.1
Net pension liability	**(36.3)**	(37.8)	(11.9)

The expected rates of returns were as follows:

	%	%	%
Equities	**8.0**	7.5	8.0
Government bonds	**5.0**	4.5	5.0
Corporate bonds	**5.5**	4.8	5.9
Cash	**4.8**	3.8	3.5
Total	**6.3**	5.7	6.4

Movement in deficit during the period

	2004 £m	2003 £m
Deficit in scheme at 1 July	**(54.0)**	(17.0)
Current service cost	**(5.4)**	(4.4)
Contributions paid	**4.5**	4.8
Past service cost	**(0.1)**	(0.7)
Other finance cost	**(2.2)**	(0.1)
Actuarial loss	**5.3**	(36.6)
Deficit in the scheme at 30 June	**(51.9)**	(54.0)

Notes *(continued)*

25 Pension scheme *(continued)*

If FRS 17 had been fully adopted in these financial statements in respect of the Wessex Water Limited group pension scheme, the net assets and profit and loss reserves at the respective balance sheet dates would be as follows:

	2004 £m	2003 £m restated	2002 £m restated
Balance sheet presentation			
Net assets per statutory accounts	**87.8**	37.8	1.9
Remove SSAP 24 pension asset	**(40.8)**	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax)	**(36.3)**	(37.8)	(11.9)
Net assets including pension liability	**10.7**	(40.2)	(49.6)
Profit and loss account presentation			
Profit and loss reserves per statutory accounts	**87.8**	37.8	1.9
Remove SSAP 24 pension asset	**(40.8)**	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax)	**(36.3)**	(37.8)	(11.9)
Profit and loss reserves including pension liability	**10.7**	(40.2)	(49.6)

Additional disclosure for the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit	**2004 £m**	2003 £m
Current service cost	**(5.4)**	(4.4)
Past service cost	**(0.1)**	(0.7)
	(5.5)	(5.1)
Analysis of amounts included in other finance income/costs		
Expected return on pension scheme assets	**11.1**	12.5
Interest on pension scheme liabilities	**(13.3)**	(12.6)
	(2.2)	(0.1)
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on scheme assets	**4.3**	(10.2)
Experience gains and losses arising on the scheme liabilities	**(6.3)**	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	**7.3**	(26.1)
	5.3	(36.6)

Notes *(continued)*

26 Related party disclosures

The company is controlled by YTL Utilities Limited the immediate holding company. The ultimate controlling party is YTL Corporation Berhad, the ultimate holding company.

Inter company loan transactions are disclosed in notes 6, 8, 16 and 17 and directors remuneration in note 4.

27 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of YTL Corporation Berhad which is the ultimate parent company incorporated in Malaysia.

The largest group in which the results of the company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The smallest group in which they are consolidated is that headed YTL Power International Berhad, incorporated in Malaysia. The consolidated accounts of these groups are available to the public and can be obtained from Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.