YTL Utilities (UK) Limited Group
CONSOLIDATED ACCOUNTS

For the year to 30 June 2010

Registered number 04341837

Contents

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2010

PRINCIPAL ACTIVITIES

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

The company's principal subsidiary Wessex Water Ltd, a holding company, owns 100% of the share capital of Wessex Water Services Ltd (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 WWSL is the major trading entity in the group, and produces non statutory regulatory accounts for the industry regulator OFWAT for the 12 months to 31 March each year Many of the operating statistics are also measured annually to March

In addition to WWSL, Wessex Water Enterprises Ltd, a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region and SC Technology GmbH, a wholly owned subsidiary company in Switzerland, installs and operates sludge drying equipment with two major contracts in Holland

FINANCIAL AND OPERATIONAL REVIEW

WESSEX WATER SERVICES LTD

This year Wessex Water has not only achieved the highest levels of quality, compliance and customer service, but also been recognised as the best water and sewerage company in England and Wales

HIGHLIGHTS

• recognised as the best performing water and sewerage company in England and Wales according to industry regulator Ofwat
• achieved the highest ever overall OPA score in the industry since the measure was first introduced
• improved service levels so that 98% of customers who contacted us rated our service as either good or very good
• received the Citizens Advice inaugural award for best customer service in the UK in recognition of our best-practice approach to dealing with customers in debt
• delivered all customer demands for water without restriction
• topped Ofwat's telephone call handling satisfaction survey
• retained our government standard Customer Service Excellence award for our approach to customer services
• kept leakage within our target level, despite the major increase in bursts caused by the very cold winter this year
• delivered net capital expenditure of £103 1m (£108 8m gross) in time and under budget
• met all outputs under the monitoring plan programme and, in fact, exceeded them over the AMP4 period
• increased our self-generated renewable electricity to 38GWh – 15% of our total electricity use – of which we exported 5GWh

THE LAST FIVE YEARS

We have outperformed the assumptions for AMP4 Over the last five years operating costs were 9% lower than Ofwat assumed and the capital investment programme has been delivered for 15% less than was originally allowed for These savings will benefit customers over the next five-year period In addition we have also delivered the highest levels of service to customers in the industry and have

• achieved the highest ever overall performance score (OPA) in the industry by some margin
• outperformed the 2004 price determination by exceeding the total number of outputs required
• topped Ofwat's customer satisfaction survey
• met customer demands for water without restriction for the 33rd year
• had no major or significant pollution incidents for the second year running – a first in the industry
• received a range of awards for our performance including the Queen's Award for Enterprise, the Citizens Advice inaugural award for best customer service in the UK, the government standard Customer Service Excellence Award for our approach to customer services and the Utility Week award for customer care
• returned outperformance to the customer resulting in bills 5% lower than they might have otherwise been

• kept leakage within our target level, despite the major increase in bursts caused by the very cold winters this year and last
• improved service levels so that 98% of customers who contacted us rated our service as either good or very good
• increased our renewable generation by 68% and achieved self sufficiency in energy at our largest works, serving an equivalent population of 750,000 people
• introduced internal trading within operational business units, including the creation of GENeco, to give a greater focus and understanding of costs and to deliver efficiencies

OUR LONG TERM PLAN

We have successfully negotiated a price review that brings stability for the next five years and this coincides with an incoming government which, through its coalition agreement, has committed to evolution rather than revolution of the industry

Customers indicated during the 2009 price control that they wanted an efficient, safe, reliable supply of water at reasonable cost now and in the future and everything else was of markedly less importance

Our own research showed that they wanted better service rather than lower bills, but equally, they did not want to see bills go up above inflation either The key areas for service improvement were reductions in leakage, improvements in security of supply and a lower carbon footprint

Our draft business plan therefore proposed flat bills plus service improvements on the issues that customers said mattered to them By the time of the final business plan the worsening economic climate and new obligations and taxes meant that we could no longer deliver these improvements while keeping bills flat So we refined our plan to defer investment on items of low priority to customers, keeping annual bill rises below 1%

Our final determination from Ofwat reinstated some of the items that we had proposed to defer and cut out some items that customers had said they wanted, in particular metering that would have reduced leakage Overall, bills in the next five-year period will rise annually at around 0 6%

Our plan for the next five years is·

• to integrate our water supply assets to improve security of supply, deal with deteriorating raw water quality and improve river flows
• for improvements to drinking water quality
• for further reductions in the risk of flooding to properties
• for improvements to comply with the Bathing Water, Urban Waste Water and Shellfish Directives
• for a further reduction in our carbon footprint by increasing the use of sewage sludge to generate renewable energy
• an investment programme of £1bn
• a cumulative K factor of 6% over five years
• average bills in 2015 3 1% higher in real terms than at present

We are now focused on delivering the outputs and efficiencies required over the next five years while continuing to provide the highest levels of customer service in the industry

A sustainable future

It is our intention to become a genuinely sustainable water company Much has been achieved over the last 20 years in the water sector – customer service and impacts on the water environment have improved considerably, water companies' efficiency has increased greatly and significant investment has been delivered in a timely manner

But we believe change is needed if we are to successfully respond to the challenges we face nationally and globally We believe there are some major reforms that are worth serious consideration

• the right approach to long-term investment is critical to the services we provide We are a long-term business with investment that should be directed by long-term priorities, including the main concerns of customers, which we know are consistent over time Currently, the entire investment programme is

reviewed from scratch every five years Replacing this with a 10-20 year investment programme would bring greater continuity and provide the opportunity to test more sustainable approaches
• interest in competition has increased in recent years and we are interested in greater use of market mechanisms in specific areas such as bulk water trading The creation of incentives for more exchanges between companies would avoid unnecessary duplication and deliver cheaper bills to customers and more sustainable outcomes for the environment
• we believe that relaxing the constraints on company mergers would provide significant reductions in operating costs and lower bills for customers With company performance levels converging, the need for comparators is much diminished compared to that at privatisation More value would now be gained from efficiency savings through mergers, particularly between co-located water only and water and sewerage companies
• we believe CCWater's committee structure could be augmented by customer panels, focus groups, both domestic and commercial, social providers and interest groups on a regular basis to obtain good coverage of issues and priorities

Whatever changes are proposed, we envisage a spectrum of market and regulation-led approaches to service delivery Some fresh thinking and major changes are required if we are to deliver a genuinely sustainable water sector We need to make continual improvements and deal with emerging challenges successfully

Risks

There are, inevitably, some uncertainties ahead

• the transfer of private sewers, probably in 2011-12, which is likely to result in an interim determination to cover the significant cost impacts
• tax reform of capital allowances which could result in further increases in tax
• the impacts of the Traffic Management Act
• uncertainty over capital prices and the mismatch between the regulatory index and the real world
• continuing uncertainty over pension deficits
• continued economic uncertainty which is affecting customer debt
• regulatory reform
• the principle of development being self financing needs to be backed by a legal framework which ensures developers cannot connect to sewers where capacity is not available and they contribute their fair share of the costs of any necessary improvements to infrastructure

Our five-year commitments

We have put into place plans to deliver our commitments for the next five years while maintaining our industry leading performance These include

• introducing new work and asset management systems
• greater competitive challenge of our in-house service delivery
• changes to our terms and conditions to match our future needs
• bringing together partners to help in the delivery of the capital programme
• continued development of BWBSL, our billing joint venture with Bristol Water, to ensure we continue to have the lowest cost of service and are well prepared for retail competition
• continued growth of our waste to energy business, GENeco
• even tighter focus on risk management

OUR CUSTOMERS

Customer service

Wessex Water's industry leading customer service has gone from strength to strength over the last five years, culminating in 2009 in our best ever score in Ofwat's OPA report assessing water company quality of services – the highest overall score in the industry since the measure was introduced

Over the last five years we have also received a number of awards for our performance

These have included the Queen's Award for Enterprise, the Citizens Advice inaugural award for best customer service in the UK, the government standard Customer Service Excellence Award for our approach to customer services and the Utility Week award for customer care

Of the 2,000 customers surveyed in our own monthly satisfaction survey, 98% rated our overall service as good or very good and we remain at the top of Ofwat's independent survey of customer satisfaction

Nonetheless, we are working hard to reduce complaints and have, for example, during the last year introduced new literature, procedures and website pages to assist metered customers

We have formed partnerships with local authorities and the Environment Agency to provide a forum for discussing and resolving any issues related to our services These have proved particularly fruitful in the case of flooding where various bodies have responsibilities in this area and working in partnership can deliver better solutions than working in isolation

Our education programme continues to flourish, both with organisations that come into contact with vulnerable customers and also on wider water and sewerage issues, for example through our schools' engagement

Discoloured water and iron compliance
During the year we have relined and replaced distribution mains with the aim of improving water quality and have also begun a major mains rehabilitation project in Bridgwater for completion in summer 2011

First-time sewerage
We have successfully completed our programme to provide communities with a public sewerage system, exceeding our AMP4 five-year investment programme target During 2005-2010 we completed 24 schemes

Encouraging water efficiency

Our customers have now enjoyed 33 consecutive years without hosepipe or other restrictions and our reservoir and groundwater storage levels are healthy

During the year we have put in place 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, including leaflets and the customer magazine
• provision of educational classes and materials for school children, including our Waterwatch pack
• distribution of free Save-a-Flush devices and self audit packs
• promotion of water saving devices such as showerheads, tap inserts and water efficient appliances on our partnership website, www wessexwatershop co uk
• promotion of the benefits of saving water for our commercial customers
• activities inside Wessex Water such as treatment process optimisation, leakage management and reducing water wastage in offices

Demand for optional meters has been high over the year with more than 11,500 meters installed Around 47% of our household customers are now paying for water on the basis of use

We are aiming to meet our water efficiency target through continuing and enhancing these water efficiency initiatives and also through the introduction of a free WaterSave pack for customers

Affordability, tariffs and debt recovery

With the fragile economic climate and unemployment increasing markedly over the year we have continued to see growing affordability problems and a worsening bad debt position

Our new credit management system enables us to respond more effectively to this situation It allows improved segmentation of our customer base which brings more accurate targeting of customers and ultimately more productive and successful debt recovery

We remain committed to our work on affordability and are delighted to have been awarded the Citizens Advice inaugural award for best customer service in the UK in recognition of our best-practice approach to dealing with customers in debt

Around 6,000 customers have already benefited from our Assist tariff aimed at making it possible for 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%

Our Restart schemes, which are designed to get customers who are having difficulty paying back on track, are still working well and evidence continues to suggest that 14 out of 15 people on the schemes will not fall into arrears again
During the year, we continued our trial to test the effectiveness and customer response to three different sophisticated tariffs using smart meters

OUR ENVIRONMENT

Our compliance with drinking water standards remains at more than 99 9% and compliance with sewage discharge consents at 100%

For the sixth consecutive year, compliance with the EU's mandatory bathing water standards remains at 100%

Drinking water

We have completed the quality enhancement schemes included in the AMP4, 2005-2010, investment programme Wherever possible we continue to be innovative by developing lowest whole-life cost sustainable solutions rather than building conventional end-of-pipe treatment works

Nitrates
We have dealt with rising nitrates by adopting a sustainable approach using catchment management Our specialists work alongside the local farming community to identify potential pollutant pathways and find alternative land management practices that will protect and improve groundwater quality

We have

- constructed ion exchange nitrate removal plants at two sites
- blended or substituted from a neighbouring site at three sites
- implemented catchment management at four sites

During AMP5, 2010-2015, we will extend our catchment management work to a further eight at-risk sites

Pesticides
Two schemes were included in the AMP4 programme for pesticides and once again we have worked with farmers to reduce the risk of contamination

The three-year ban on spraying pesticides around our Friar Waddon source has been very successful In 2009 there was an accidental pesticide pollution but measures were quickly put in place to safeguard supplies and public health was not compromised We are working with the farm to eliminate the risk of this recurring We are also negotiating to extend the no-spray agreement for a further three years

We have experienced problems with pesticides, including metaldehyde, at two other sources that are now subject to improvement schemes in AMP5

Environmental programme
AMP4 included a major programme of environmental investigations and improvements, all of which were completed on time

Phosphorus removal
This year we have successfully completed projects to remove phosphorus at 14 sewage treatment works

Misconnections
We have continued our work programme to identify and reduce the number of misconnections to the sewerage system which give rise to stream pollution Since the start of AMP4 this has ensured more than 900 properties no longer cause pollution

Biodiversity
In the last year, 84% of our Sites of Special Scientific Interest (SSSI) landholding was in favourable or recovering condition, compared with the national target of 95% Consequently, we are working on new management agreements with our affected tenants and liaising with other conservation organisations

We have also brought some sites back under our direct management and will be introducing additional management to improve the status We have worked with Natural England and our tenants to include large areas of land in new Higher Level Stewardship plans and have entered into a new agreement which will secure the long-term future of our largest and most valuable SSSI In all, we have specialist conservation management in place at 49 sites

The third phase of our Biodiversity Action Plan Partners Programme ended in 2009-10 Through the third parties that we support, the programme has successfully promoted river restoration and forms of land management that benefit the water environment

We have agreed a number of projects that will be supported over the next five years

Environmental impact – low flows
We completed 13 low flows investigations and the appraisal of options for solving low flows We also successfully completed the three water supply stream support and compensation flow schemes required in AMP4

During the year we completed the Chitterne groundwater source testing on Salisbury Plain to assess its impact on the environment and flows in the River Till in particular It has shown that as long as the annual authorised volume from Chitterne is greatly reduced, abstraction at up to 13ML/d can continue during the summer months without significant impact on flows or the river environment

The Environment Agency and local fishing groups have accepted these conclusions The necessary licence change will be made during 2010-11 subject to approval by the Environment Agency of alternative supplies from Wimbleball reservoir

Carbon management

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

There has been a reduction of 5,000 tonnes in gross carbon dioxide emissions There was an increase in natural gas used for sludge drying and in the grid emissions factor, each contributed an increase of around 700 tonnes The biggest downward factor was the increase in renewable energy from biogas combined heat and power plants, which contributed a saving of 4,600 tonnes of carbon dioxide compared with the previous year

Process emissions show an increase of 700 tonnes carbon dioxide equivalent from methane and a decrease of 300 tonnes carbon dioxide equivalent from nitrous oxide

Our self-generated renewable electricity now amounts to 38 gigawatt hours, 15% of our total electricity use, of which we exported 5 gigawatt hours

OUR ASSETS

Asset maintenance

In 2004 we realised that an increase in capital maintenance was required over the period 2005-2010 to renew a growing proportion of ageing assets and accordingly we have invested significant sums in maintaining stable assets

We have undertaken improvements to our methodology that have been recognised through maintaining our accreditation to PAS55, the internationally recognised standard for asset management

And we are continuing to develop our asset knowledge processes through investment in a new work and asset management system that is being extended to all parts of the business during 2010

These process improvements have allowed us to develop new methods of asset management that will ultimately improve our services and resilience For instance, our investment methodology for sewerage infrastructure is moving away from old industry practice to a totally risk-based approach to maintenance

Sewage flooding

We have successfully completed our sewer flooding programme and concluded the AMP4 period, with fewer properties on the flooding registers than our targets Our external flooding programme has also removed 791 properties or areas at risk of external flooding against a target of 746

We have started working with local councils on the development of surface water management plans and now have data sharing agreements with four of the 12 upper-tier authorities in our licence area

Intermittent discharges
During AMP4 we improved 27 unsatisfactory storm discharges that discharge very dilute sewage to rivers following heavy rainfall

Security

We have invested more than £18m on security improvements over the last five years, including two security related improvement schemes included in the quality enhancement programme

• SEMD – emergency planning for worst case scenario
• a five-year programme of security work at our service reservoirs, water treatment works and gas stores to comply with the Security Service and Centre for Protection of National Infrastructure

We have also completed a number of projects to meet new demands such as the Somerset spine main serving central Somerset

Meeting new demands

To ensure communities can be served by more than one source of water in future we have started developing a 112km regional water supply grid that will take eight years to complete at a cost of £289m It will involve connecting a major part of the water supply network from the north of Bournemouth, through Salisbury and towards Bath

Leakage

Although it remains within our monitoring plan target, leakage increased from 72 2ML/d last year to 73 9ML/d this year as a result of cold conditions at the start of 2010 These caused an increase in bursts and leaks that we were unable to locate and repair quickly due to the extensive snow cover over the region

Sewerage

Investment during the year in sewerage was lower than expected due to the impact of the economic downturn and uncertainty over timing of development A number of large requisition schemes were shelved as developers decided to defer new building until market conditions improved However, some investment progressed on schemes to address under capacity in the existing network

OUR PEOPLE

The past year has once again shown that one of Wessex Water's greatest strengths is the quality of its employees They continue to provide the outstanding skills and dedication that have seen us recognised as the best water and sewerage company in England and Wales

The challenging price review determination and ongoing effects of the economic climate unfortunately meant that 215 of our staff were made redundant over the course of the year There was a reduction in staff numbers across the region that comprised a mixture of reviews of contract and agency staff, normal turnover, voluntary arrangements and some compulsory redundancies

We are committed to maintaining appropriate levels of skills and helping to realise the potential of individuals to ensure that this remains the case

In the last few years, our training has been restructured so it is easier to access, more transparent and sits in line with the EU competent operator framework The Wessex Water Academy is a learning centre focused on developing operational, managerial and leadership skills

It delivers internationally recognised qualifications for managers, recognised vocational qualifications, such as NVQs, youth training, technical, legal and regulatory skills training and professional qualifications It also assists with access to further and higher education and opportunities for professional development while our apprentice scheme provides on-the-job training alongside formal education

Our Eureka! scheme encourages staff to think about ways to save money, working more efficiently or improving quality, with financial incentives for implemented suggestions and during 2009-10, 113 entries were submitted

Health and safety

The company's commitment to health and safety remains strong and we regard the maintenance of high standards as a critical measure of the successful operation of the business Our health and safety team advise on health and safety policy, the development of company targets and monitoring compliance with company standards

Dedicated health and safety advisers work with managers and supervisors to ensure the safety of our employees and others while promoting and maintaining the company's standards and strategy for health and safety

In 2009 we saw continuing reductions in incidents, as a result of improved safety awareness across all parts of the business, safety briefings, better reporting, workplace audits and inspections Improvements to work activities resulting from investigations of all incidents and monitoring accident trends also played their part

We continue to review our health and safety policy, arrangements and safety documentation to ensure they remain best practice and will continue to support the Water UK occupational health and safety group in developing appropriate industry standards

WESSEX WATER ENTERPRISES LTD

The company generated turnover of £13 7m (up from £12 3m last year) from a number of unregulated activities in the Wessex Water Services Ltd region, and through its 100% subsidiary GENeco Ltd operated two sewage treatment sites from 1 April 2009 to 31 March 2010 on behalf of WWSL The principal unregulated activities were treatment of organic waste, power generation, solicitors' searches and sale of industrial cooling water

SC TECHNOLOGY GmbH

Trading under the name Swiss Combi the turnover of the company for the year was £9 6m (down from £11 3m last year) The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers

FINANCIAL PERFORMANCE

Profit after tax increased by £15 9m from £94 4m to £110 3m for the reasons listed below

Turnover increased by £13 3m or 3 0% to £456 5m, mainly driven by the increase in the regulated turnover of WWSL

Operational costs excluding depreciation decreased by £11 1m from £146 5m to £135 4m because of a fair value charge on the settlement of a bond in the prior year and the release of a provision for the impairment of a subsidiary company in the current year Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £4 7m as a result of the ongoing investment programme and a £1 3m increase in the infrastructure maintenance charge

Net interest charges reduced by £19 2m, from £83 6m to £64 4m because of reducing interest rates, lower inflation on index linked bonds and a reduction in finance costs in respect of pension accounting

There was a tax charge in the year of £52 3m, an increase of £23 0m over £29 3m charged last year Corporation tax increased by £12 5m as profits increased, whilst deferred tax moved from a £9 6m charge last year to a £20 1m charge this year

Under FRS 17 'Retirement Benefits' the pension deficit of £45 9m at the start of the year has increased to £99 8m at 30 June 2010, the increase in the liabilities of £87 8m being greater than the £33 9m increase in asset values

The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW

Group operating profit as a percentage of turnover was 49 7% (2009 – 46 8%) due to increased turnover and one off cost reductions, and interest cover (excluding pensions finance charge) increased to 3 7 times (2009 – 2 6 times)

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

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 2010

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
Colin Frank Skellett

The following director has been granted ordinary share options of Malaysian Ringgit RM0 50 each in YTL Power International Berhad

	Opening number	Exercise price RM	Grant date	Exercise date	Expiry date	Grant	Exercise	Closing number
J G Jones	800,000	1 32	13/12/2002	13/12/2005	29/11/2011	-	(400,000)	400,000

The market price of the share options exercised in the year was RM2 19 and the gain on exercise was RM348,000 There were no other interests in shares of group companies that are disclosable in these accounts During the year no director was materially interested in any contract with the company or with any of its subsidiaries

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

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the group'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 group's auditors are aware of that information

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, televisual communication, conferences and the wide availability of the company intranet

SUSTAINABILITY AND THE ENVIRONMENT

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

YTL Utilities (UK) group protects, conserves and improves the environment and operates in a socially responsible manner Working practices are continually revised as improved techniques and technologies become available The environment policy is reviewed annually

SUPPLIER PAYMENT POLICY

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms At 30 June 2010, trade creditors in the principal trading subsidiary WWSL represented approximately 32 days trade purchases (2009 – 31 days) The group does not follow any specific external code or standard on payment policy

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year £2,322,000 (2009 - £2,234,000) was donated to UK charities

CORPORATE GOVERNANCE

WWSL is required, under Condition F of its Instrument of Appointment as a water and sewerage undertaker, to 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 Details of compliance are shown in the annual accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW

RE-APPOINTMENT OF AUDITORS

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

By order of the board

Seok Hong Yeoh
Director

2 Lambs Passage
London
EC1Y 8BB
10 September 2010

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that year

In preparing these financial statements, the directors are required to

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

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

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF YTL UTILITIES (UK) LIMITED

We have audited the financial statements of YTL Utilities (UK) Limited for the year ended 30 June 2010 set out on pages 13 to 35 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

A Campbell

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

10 September 2010

Consolidated profit and loss account

For the year ended 30 June 2010

	Note	2010 £m	2009 £m
Turnover			
Continuing operations	*2*	**456 5**	443 2
Raw materials and consumables		**(31 7)**	(31 1)
Staff costs	*5*	**(43 4)**	(41 2)
Depreciation and other amounts written off tangible and intangible fixed assets		**(94.5)**	(87 4)
Other operating charges		**(60.3)**	(74 2)
Loss on disposal of fixed assets		**(0.6)**	(2 9)
Amortisation of grants and contributions		**1.0**	0 9
Operating profit	*2*	**227 0**	207 3
Interest payable and similar charges	*6*	**(62 9)**	(101 6)
Interest receivable	*6*	**0 8**	21 6
Other finance charge		**(2 3)**	(3 6)
Profit on ordinary activities before taxation	*3*	**162 6**	123 7
Tax on profit on ordinary activities	*7*	**(52.3)**	(29 3)
Profit for the financial year	*22*	**110 3**	94 4

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 2010

	Note	2010 £m	2010 £m	2009 £m	2009 £m
Fixed assets					
Intangible assets	9		**(106.5)**		(114 1)
Tangible assets	10		**2,071 9**		2,082 4
			1,965 4		1,968 3
Current assets					
Stocks	12	**5 7**		5 5	
Debtors	13	**111 8**		108 2	
Cash at bank and in hand	14	**57 1**		35 5	
		174.6		149 2	
Creditors - amounts falling due within one year	15	**(195.3)**		(357 4)	
Net current liabilities	27		**(20 7)**		(208 2)
Total assets less current liabilities			**1,944 7**		1,760 1
Creditors - amounts falling due after more than one year	16		**(1,724 5)**		(1,526 2)
Provisions for liabilities and charges	18		**(104.6)**		(89 8)
Retirement benefit obligations	19		**(73.0)**		(34 1)
Grants and contributions	20		**(19 3)**		(20 0)
Net assets	2		**23 3**		90 0
Capital and reserves					
Called up share capital	21		**-**		-
Profit and loss account	22		**23.3**		90 0
Equity shareholders' funds			**23 3**		90 0

The accompanying notes are an integral part of this balance sheet
Registered number 04341837
These financial statements were approved by the board of directors on 10 September 2010 and were signed on its behalf by

Seok Hong Yeoh
Director

Company balance sheet
At 30 June 2010

	Note	2010 £m	2010 £m	2009 £m	2009 £m
Fixed assets					
Tangible fixed assets	10		0.1		-
Investments	11		351.3		351 3
			351.4		351 3
Current assets					
Debtors	13	0 6		0 6	
Cash at bank and in hand	14	0 9		0 1	
		1 5		0 7	
Creditors - amounts falling due within one year	15	(100 5)		(276 9)	
Net current liabilities	27		(99 0)		(276 2)
Total assets less current liabilities			252 4		75.1
Creditors - amounts falling due after more than one year	16		(215.8)		(43 2)
Net assets			36 6		31 9
Capital and reserves					
Called up share capital	21		-		-
Profit and loss account	22		36 6		31 9
Equity shareholders' funds			36 6		31 9

The accompanying notes are an integral part of this balance sheet

Statement of total recognised gains and losses

For the year ended 30 June 2010

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Profit for the financial year	**110.3**	**136 7**	94 4	84 6
Foreign currency adjustment	**0 1**	**-**	0 2	-
Actuarial (losses) / gains net of taxation	**(45 1)**	**-**	8 8	-
Total recognised gains since last annual report	**65.3**	**136 7**	103 4	84 6

Reconciliation of movements in shareholders' funds

For the year ended 30 June 2010

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Opening shareholders' funds	**90 0**	**31 9**	320 0	280 7
Profit for the financial year	**110.3**	**136 7**	94 4	84 6
Dividends (note 8)	**(132 0)**	**(132 0)**	(333 4)	(333 4)
Foreign currency adjustment	**0.1**	**-**	0 2	-
Actuarial (losses) / gains net of taxation	**(45.1)**	**-**	8 8	-
Closing shareholders' funds	**23.3**	**36 6**	90 0	31 9

Notes

1 Accounting policies

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 below) in accordance with the Companies Act 2006

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2010 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 408 of the Companies Act 2006 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

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

1 Accounting policies *(continued)*

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 requirements of the Companies Act 2006 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income The departure from the 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 10

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 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

The parent company is not a member of either pension scheme

Research and development expenditure

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

Stocks and work in progress

Stocks and work in progress are stated at cost less any diminution in 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

1 **Accounting policies** *(continued)*

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 year and reduced by payments made in that year

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 year end The group has chosen not to recognise as turnover the bills raised for customers who have a record of at least two years non payment

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

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
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Regulated	**434 6**	**222.9**	**(13.3)**	420 4	203 2	58 1
Unregulated	**21.9**	**4 1**	**36 6**	22 8	4 1	31 9
	456 5	**227 0**	**23.3**	443 2	207 3	90 0

Regulated activities arise from the trade of Wessex Water Services Ltd Unregulated activities comprise the trade of SC Technology GmbH and Wessex Water Enterprises Ltd as well as the holding company activities of the company and Wessex Water Ltd

3 Profit on ordinary activities before taxation

	2010 £m	2009 £m
Profit on ordinary activities before taxation is stated after charging		
Fees paid to the auditors	0 2	0 5
Depreciation	102 2	95 0
Hire of plant and machinery - rentals payable under operating leases	1 0	1 3
Research and development expenditure	0 1	0 1
after crediting		
Release of negative goodwill	7.6	7 6

	2010 £000	2009 £000
Auditors' remuneration		
Audit of these financial statements	24	24
Audit of financial statements of subsidiaries pursuant to legislation	205	185
Other services pursuant to legislation	6	35
All other services	-	281
	235	525

4 Remuneration of directors

Total directors' remuneration

	2010	2009
Salary	533	530
Bonus	255	240
Benefits in kind	37	36
	825	806

The remuneration above is in respect of two executive directors (2009 – two) There were no contributions to pension schemes in respect of the directors

Remuneration of highest paid director

	2010	2009
Salary	382	380
Bonus	210	195
Benefits in kind	26	25
	618	600

The highest paid director had an accrued pension entitlement of £143,542 at 30 June 2010 (2009 - £140,178)

5 Staff numbers and costs

The average number of persons employed by the group (ıncludıng dırectors) durıng the year, analysed by category, was as follows

	Number of employees 2010	Number of employees 2009
Bıllıng department	**334**	323
Other staff	**1,727**	1,910
	2,061	2,233

The aggregate payroll costs of these persons were as follows

	2010 £m	2009 £m
Wages and salarıes	**60 4**	63 6
Socıal securıty costs	**4 8**	5 5
Other pensıon costs	**6 3**	8 0
	71 5	77 1

The aggregate payroll costs were charged as follows

Capıtal schemes	**21 3**	30 9
Infrastructure renewals expendıture	**6.8**	5 0
Other finance charge	**2.3**	3 6
Staff costs	**43 4**	41 2
	73 8	80 7

6 Interest payable and sımılar charges

Interest payable		
On bank loans and overdrafts	**55 9**	84 1
On loan from parent company (note 16)	**2.7**	4 1
On loan from other group company (note 16)	**2.8**	9 4
Fınance charges payable ın respect of finance leases and hıre purchase contracts	**1.5**	4 0
Interest receıvable		
On loan to parent company	**(0 2)**	(13 8)
On short term deposıts	**(0.6)**	(7 8)
	62 1	80 0

Interest on loan from parent company has not been paıd, but has been rolled up and added to the prıncıpal The ınterest rate on thıs loan varıed between 5 8% and 6 7% (2009 – between 6 7% and 11 0%)

7 Taxation

Analysis of charge in the year	**2010 £m**	**2010 £m**	2009 £m	2009 £m
Corporation tax				
Current year corporation tax		**34.5**		22 9
Adjustments in respect of previous years		**(2.3)**		(3 2)
Total corporation tax charge		**32.2**		19 7
Deferred tax – current year				
Origination and reversal of timing differences	**8 6**		8 4	
Decrease / (increase) in discount	**6 6**		(2 2)	
		15.2		6 2
Deferred tax – prior year				
Origination and reversal of timing differences	**2 4**		3 6	
Decrease / (increase) in discount	**2 5**		(0 2)	
		4.9		3 4
Total deferred tax charge		**20.1**		9 6
Tax charge on profit on ordinary activities		**52.3**		29 3

Factors affecting the tax charge for the year

	2010 £m	2009 £m
Corporation tax reconciliation		
Profit on ordinary activities before taxation	**162.6**	123 7
Current tax at 28 0%	**45 5**	34 6
Effects of		
Expenses not deductible for tax purposes	**0 7**	(1 0)
Capital allowances for the year greater than depreciation	**(3 8)**	(4 4)
Adjustments in respect of previous years	**(2 3)**	(3 2)
Goodwill amortisation	**(2 2)**	(2 1)
Lease payment	**(1 8)**	(1 8)
Subsidiary company profits	**-**	(0 4)
Other timing differences	**(3 9)**	(2 0)
Total corporation tax charge (see above)	**32 2**	19 7

The 2010 Finance Bill published on 1 July 2010 announced a reduction in the corporation tax rate from 28% to 27% effective from 1 April 2011 Had this change been enacted at the balance sheet date the deferred tax provision (note 18) would have decreased by £4 7m to £99 5m, and the deferred tax asset (note 19) would have decreased by £1 0m to £26 9m There would have been no change to the corporation tax balance at 30 June 2010

8 Dividends

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Ordinary dividends	**132 0**	**132 0**	-	-
Special dividend to the parent company YTL Utilities Holdings Ltd on 31 March 2009	-	-	333 4	333 4
	132 0	**132.0**	333 4	333 4

In accordance with FRS 21 "Events after Balance Sheet Date" the final dividend for 2009/10 declared and paid in July 2010 of £32 9m was not recognised in these financial statements

The special dividend declared in the prior year was offset against the amount due from the immediate parent company YTL Utilities Holdings Ltd

9 Intangible fixed assets

Group	**Negative goodwill £m**
Cost	
At 1 July 2009	(168 3)
Additions	-
At 30 June 2010	**(168 3)**
Amortisation	
At 1 July 2009	54 2
Credited in the year	7 6
At 30 June 2010	**61 8**
Net book value	
At 30 June 2010	**(106 5)**
At 30 June 2009	(114 1)

10 Tangible fixed assets

Group	Freehold land and buildings £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Office equipment £m	Payments on account and assets in course of construction £m	Group total £m
Cost or valuation						
At 1 July 2009	570 6	1,029 0	835 2	84 1	108 8	2,627 7
Additions	4 1	33 8	21 1	4 9	34 8	98 7
Exchange differences	-	-	(0 5)	-	-	(0 5)
Transfers on commissioning	9 8	8 7	77 5	13 0	(109 0)	-
Disposals	(1 0)	-	(9 7)	-	-	(10 7)
Grants and contributions	-	(5 3)	-	-	-	(5 3)
At 30 June 2010	**583.5**	**1,066 2**	**923 6**	**102.0**	**34 6**	**2,709.9**
Depreciation						
At 1 July 2009	83 3	179 7	252 5	29 8	-	545 3
Charge for the year	13 5	31 9	52 5	4 3	-	102 2
Exchange differences	-	-	(0 3)	-	-	(0 3)
Disposals	(0 4)	-	(8 8)	-	-	(9 2)
At 30 June 2010	**96 4**	**211 6**	**295 9**	**34.1**	**-**	**638 0**
Net book value						
At 30 June 2010	**487 1**	**854 6**	**627 7**	**67.9**	**34 6**	**2,071.9**
At 30 June 2009	487 3	849 3	582 7	54 3	108 8	2,082 4

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 £58 0m (2009 - £64 4m)

The depreciation charge for the year on assets held under finance leases is £6 4m (2009 - £6 4m)

The net book value of infrastructure assets at 30 June 2010 is stated after the deduction of grants and contributions amounting to £116 1m (2009 - £110 8m) in order to give a true and fair view (see note 1)

Included in the cost of infrastructure assets is £369 2m (2009 - £345 2m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £369 4m (2009 - £337 5m) 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 £10 3m (2009 - £10 1m) in respect of land which is not depreciated

10 Tangible fixed assets continued

	Company Plant, machinery and vehicles £m
Cost	
At 1 July 2009	-
Additions	0 1
At 30 June 2010	**0.1**
Depreciation	
At 1 July 2009	-
Charge for the year	-
At 30 June 2010	-
Net book value	
At 30 June 2010	**0 1**
At 30 June 2009	-

11 Fixed asset investments

	Company interests in subsidiary undertakings £m
Cost	
At 1 July 2009	351 3
Transfer to fixed assets	-
At 30 June 2010	**351.3**
Provisions	
At 1 July 2009	-
Movement	-
At 30 June 2010	-
Net book value	
At 30 June 2010	**351 3**
At 30 June 2009	351 3

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%	-
GENECO Limited	United Kingdom	Waste water services	£1 ordinary shares, 100%	-
Wessex Engineering & Construction Services Limited	United Kingdom	Engineering services	£1 ordinary shares, 100%	-
Wessex Water Enterprises Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%	
Wessex Promotions Limited	United Kingdom	Concert promotion	£1 ordinary shares 100%	-
Joint Arrangements				
Bristol Wessex Billing Services Limited	United Kingdom	Billing services	£1 ordinary A shares, 50%	-

12 Stocks

	Group 2010 £m	Group 2009 £m
Raw materials and consumables	**2.6**	2 6
Work in progress	**3 1**	2 9
	5 7	5 5

13 Debtors

	Group 2010 £m	**Company 2010 £m**	Group 2009 £m	Company 2009 £m
Trade debtors	**45 6**	-	43 8	-
Amounts owed by group undertakings	-	**0.6**	-	0 6
Other debtors	-	-	2 7	-
Prepayments and accrued income	**66.2**	-	61 7	-
	111 8	**0.6**	108 2	0 6

Amounts owed by group undertakings comprised an amount due to the company from Wessex Water Ltd of £0 6m (2009 - £0 6m)

14 Cash at bank and in hand

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Short-term cash deposits	52 0	-	29 9	-
Cash at bank	5.1	0.9	5 6	0 1
	57 1	0.9	35 5	0 1

£48 0m of short-term deposits mature within 1 month (2009 - £3 0m) and £4 0m within 3 months (2009 - £26 9m)

15 Creditors: amounts falling due within one year

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Loans repayable	80 4	-	66 4	-
Loan from group undertaking	-	-	169 9	169 9
Obligations under finance leases	5 6	-	4 9	-
Trade creditors	3.3	-	8 0	-
Amounts owed to parent undertaking	0 2	0 2	0 4	0 4
Amounts owed to subsidiary undertaking	-	99 2	-	99 7
Amounts owed to fellow subsidiary undertaking	0.6	0 6	6 9	6 9
Amounts owed to associate companies	0.4	-	0 6	-
Taxation and social security	21 4	-	12 8	-
Other creditors	3.2	-	2 0	-
Accruals	80 2	0 5	85 5	-
	195.3	100 5	357 4	276 9

16 Creditors: amounts falling due after more than one year

	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
Bonds	1,150 0	-	1,091 4	-
Other loans	292 5	-	319 5	-
Obligations under finance leases	65 0	-	70 6	-
Loans from group undertakings	215 8	215 8	43 2	43 2
Other creditors	1 2	-	1 5	-
	1,724 5	215 8	1,526 2	43 2

Obligations under finance leases are repayable

	Group 2010 £m	Group 2009 £m
In more than 1 year, but no more than 2 years	6.3	5 6
In more than 2 years, but no more than 5 years	24 0	21 4
In more than 5 years	34 7	43 6
	65 0	70 6

There are two loans from group undertakings The first is from YTL Utilities Finance Ltd with a principal sum of £169 9m (2009 – less than one year £169 9m) Interest is payable at LIBOR plus 3 0%, and the loan is repayable on 1 July 2013 The second of £45 9m (2009 - £43 2m) is from a holding company YTL Utilities Limited and only comprises rolled up interest Under the terms of a loan agreement, signed on 15 May 2002 for a maximum of £120m, interest is results dependent, in that whilst the interest is agreed on a quarterly basis, 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 to the extent then outstanding, on 31 October 2020 Interest is payable at LIBOR plus 5 0%

The bonds were issued by a subsidiary company Wessex Water Services Finance Plc as follows

	Group 2010 £m	Group 2009 £m
Bond at 5 375% repayable in March 2028	**198.1**	198 0
Bond at 5 75% repayable in October 2033	**345.8**	345 7
Index linked bonds		
At 3 52% plus inflation repayable in July 2023	**64.3**	63 1
At 2 186% plus inflation repayable in June 2039	**51 0**	-
At 1 75% plus inflation repayable in July 2046	**83 8**	82 3
At 1 75% plus inflation repayable in July 2051	**83 8**	82 2
At 1 369% plus inflation repayable in July 2057	**83.8**	82 3
At 1 374% plus inflation repayable in July 2057	**83.8**	82 2
At 1 489% plus inflation repayable in November 2058	**51.9**	51 9
At 1 495% plus inflation repayable in November 2058	**51.9**	51 9
At 1 499% plus inflation repayable in November 2058	**51.8**	51 8
	1,150 0	1,091 4

17 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosures below other than £57 1m (2009 - £35 5m) of cash in hand and £86 0m (2009 - £241 2m) 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

Analysis of net debt

	Group 2010 £m	**Company 2010 £m**	Group 2009 £m	Company 2009 £m
Cash at bank and in hand	**(57.1)**	**(0 9)**	(35 5)	(0 1)
Loan to parent company	**-**	**-**	-	-
Due on demand, one year or less	**86 0**	**-**	241 2	169 9
Due between one and two years	**6 7**	**-**	80 9	-
Due between two and five years	**246 0**	**169 9**	25 6	-
Due in five years or more	**1,470 6**	**45.9**	1,418 2	43 2
	1,752.2	**214 9**	1,730 4	213 0

	Group 2010 £m	**Company 2010 £m**	Group 2009 £m	Company 2009 £m
Amounts repayable in more than five years				
Loans	**320.6**	**45 9**	326 8	43 2
Bonds	**1,150 0**	**-**	1,091 4	-
	1,470 6	**45 9**	1,418 2	43 2

Interest rate and currency exposure

	Fixed rate borrowings 2010 £m	**Floating rate borrowings 2010 £m**	**Total 2010 £m**	Fixed rate borrowings 2009 £m	Floating rate borrowings 2009 £m	Total 2009 £m
Sterling	**1,150 0**	**602 2**	**1,752 2**	1,091 4	639 0	1,730 4

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

	Interest rate 2010 %	**Period 2010 Years**	Interest rate 2009 %	Period 2009 Years
Sterling	**3 7**	**31 1**	3 8	32 5

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 2010 £m	**Fair value 2010 £m**	Book value 2009 £m	Fair value 2009 £m
Borrowings less than 1 year	**28 9**	**28 9**	205 7	205 7
Floating rate borrowings over 1 year	**573 3**	**573 3**	433 3	433 3
Fixed rate borrowings over 1 year	**1,150 0**	**1,221 2**	1,091 4	1,071 9
	1,752 2	**1,823 4**	1,730 4	1,710 9

18 Provisions for liabilities and charges

	Deferred taxation £m	**Restructuring costs £m**	**Total £m**
Group			
At 1 July 2009	86 5	3 3	89 8
Provided in year	-	1 5	1 5
Utilised during year	-	(1 6)	(1 6)
Released to profit and loss	-	(2 8)	(2 8)
Origination and reversal of timing differences	8 6	-	8 6
Increase in discount	9 1	-	9 1
At 30 June 2010	**104 2**	**0 4**	**104 6**

The restructuring costs provision is in respect of a redundancy programme announced by WWSL

The elements of deferred taxation are as follows

	2010 £m	2009 £m
Difference between accumulated depreciation / amortisation and capital allowances	**290 5**	281 9
Other timing differences	**(0 8)**	(0 8)
Undiscounted provision	**289 7**	281 1
Discount	**(185.5)**	(194.6)
Discounted provision	**104 2**	86 5

19 Pension scheme

	2010	2009
FRS 17 pension liability (see below)	**99 8**	45 9
FRS 17 deferred tax asset	**(27 9)**	(12 9)
Unfunded and compensatory added years pension	**1 1**	1 1
	73 0	34 1

The Wessex Water Ltd group operates the Wessex Water Pension Scheme (WWPS) 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 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 would be 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 annual contributions of £7 2m per annum

The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £10 6m (2009 - £12 4m) Actuarial gains and losses have been recognised in the period in which they occur through the Statement of Total Recognised Gains and Losses

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme No employees of the company are members of the group scheme

The actuarial valuation described above was updated as at 30 June 2010 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 in this valuation were

	2010	2009	2008
Rate of increase in salaries	**3 3%**	4 0%	5 4%
Rate of increase in pensions in payment	**3 2%**	2 9%	3 9%
Rate of increase in pensions in payment – reduced level members	**2 2%**	2 1%	2 5%
Discount rate	**5 4%**	6 45%	6 7%
Inflation assumption	**3.3%**	3 0%	3 9%

The mortality assumptions are based upon 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 after retirement 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 if they are female

The value of the assets and liabilities were as follows.

	2010 £m	2009 £m	2008 £m
Equities	**141 5**	97 6	124 5
Property	**20 1**	16 7	18 6
Government bonds	**125 5**	121 8	147 4
Corporate bonds	**9 8**	36 3	3 7
Cash	**14.7**	5 3	0 9
Total fair value of the assets	**311.6**	277 7	295 1
Present value of defined benefit obligations	**(411 4)**	(323 6)	(358 6)
Deficit in the scheme	**(99.8)**	(45 9)	(63 5)

The expected rates of returns were as follows:

	%	%	%
Equities	**8 3**	9 25	9 1
Property	**8 8**	8 25	8 1
Government bonds	**4.3**	4 25	5 0
Corporate bonds	**5 3**	6 25	5 8
Cash	**0.8**	1 2	5 9
	6 3	6 5	6 9

Narrative description of the basis used to determine expected value

Wessex Water Services Ltd employs a building block approach in determining the long-term rate of return on pension assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return of each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 30 June 2010

Analysis of profit and loss charge

	2010 £m	2009 £m
Current service cost	**7.9**	8 8
Past service cost	**0 4**	-
Interest cost	**19.9**	24 0
Expected return on scheme assets	**(17 6)**	(20 4)
Expense recognised in profit and loss account	**10.6**	12 4

Changes to the present value of defined benefit obligations during the year

Opening present value of defined benefit obligations	**323 6**	358 6
Current service cost	**7 9**	8 8
Interest cost	**19 9**	24 0
Contributions by scheme participants	**0 9**	2 7
Actuarial losses / (gains) on scheme liabilities	**73.4**	(57 9)
Net benefits paid out	**(14.7)**	(12 6)
Past service cost	**0.4**	-
Closing present value of defined benefit obligations	**411.4**	323 6

Changes to the fair value of scheme assets during the year

	2010 £m	2009 £m
Opening fair value of scheme assets	**277.7**	295 1
Expected return on scheme assets	**17.6**	20 4
Actuarial gains / (losses) on scheme assets	**10.8**	(45 7)
Contributions by the employer	**19.3**	17 8
Contributions by scheme participants	**0.9**	2 7
Net benefits paid out	**(14.7)**	(12 6)
Closing fair value of scheme assets	**311.6**	277 7

Actual return on scheme assets

	2010 £m	2009 £m
Expected return on scheme assets	**17 6**	20 4
Actuarial gains / (losses) on scheme assets	**10 8**	(45 7)
Actual return on scheme assets	**28 4**	(25 3)

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

	2010 £m	2009 £m
Total actuarial (losses) / gains	**(62.6)**	12 2
Cumulative amount of losses recognised	**(109 4)**	(46 8)

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**311 6**	277 7	295 1	289 5	262 7
Present value of scheme liabilities	**(411.4)**	(323 6)	(358 6)	(334 2)	(333 0)
Deficit in scheme	**(99 8)**	(45 9)	(63 5)	(44 7)	(70 3)
Experience gains / (losses) on scheme assets	**10 8**	(45 7)	(19 6)	5 4	5 1
Experience gains / (losses) on scheme liabilities	**2.8**	10 5	(5 2)	(4 9)	(0 2)

On 8 July 2010, the Pensions Minister announced that the Government will in future use the Consumer Prices Index in place of the Retail Prices Index in its determination of the pension increases for private sector occupational pension schemes Although the company has yet to assess the full financial impact of the changes, it is expected that they will lead to a reduction in the liability

20 Grants and contributions

	Group £m
At 1 July 2009	**20.0**
Received in year	**0 3**
Less amortisation	**(1.0)**
At 30 June 2010	**19.3**

21 Called up share capital

	2010 £	2009 £
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 £m	Company £m
At 1 July 2009	**90.0**	**31 9**
Retained profit for the year	**110 3**	**136 7**
Dividends (note 8)	**(132.0)**	**(132.0)**
Actuarial losses net of taxation	**(45 1)**	-
Foreign currency adjustments	**0 1**	-
At 30 June 2010	**23.3**	**36 6**

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 2010 was £0 3m (2009 - £0 3m)

24 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 group 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 following options were outstanding at 30 June 2009 and 2010

Granted – Ordinary shares of RM0 50 each	Outstanding at 30 06 2009	Granted	Forfeited	Exercised	**Outstanding at 30 06 2010**
13/12/2002 Unapproved	12,879,250	-	(100,000)	(3,145,500)	**9,633,750**
26/12/2002 Approved	4,389,500	-	-	(716,500)	**3,673,000**
12/12/2003 Unapproved	1,719,000	-	(560,000)	(525,000)	**634,000**
12/12/2003 Approved	1,518,000	-	-	(134,000)	**1,384,000**
16/05/2005 Unapproved	3,900,000	-	(100,000)	(54,600)	**3,745,400**
16/05/2005 Approved	4,344,000	-	(68,000)	(99,000)	**4,177,000**
07/08/2006 Unapproved	700,000	-	(200,000)	-	**500,000**
07/08/2006 Approved	4,844,000	-	(102,000)	(67,500)	**4,674,500**
20/08/2007 Unapproved	900,000	-	(100,000)	-	**800,000**
20/08/2007 Approved	3,360,000	-	(260,000)	-	**3,100,000**
26/06/2008 Unapproved	90,000	-	(10,000)	-	**80,000**
28/11/2008 Unapproved	6,560,000	-	(480,000)	-	**6,080,000**
28/11/2008 Approved	9,424,000	-	(114,000)	-	**9,310,000**
TOTAL	54,627,750	-	(2,094,000)	(4,742,100)	**47,791,650**

Of the above options 28,421,650 were exercisable at 30 June 2010 FRS 20 did not change the profit in either year

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

Granted – Ordinary shares of RM0 50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
13/12/2002 Unapproved	13/12/2005	29/11/2011	1 32	n/a
26/12/2002 Approved	26/12/2005	29/11/2011	1 39	n/a
12/12/2003 Unapproved	12/12/2006	29/11/2011	1 53	0 51
12/12/2003 Approved	12/12/2006	29/11/2011	1 70	0 34
16/05/2005 Unapproved	16/05/2008	29/11/2011	1 82	0 04
16/05/2005 Approved	16/05/2008	29/11/2011	2 02	0 01
07/08/2006 Unapproved	07/08/2009	29/11/2011	1 74	0 07
07/08/2006 Approved	07/08/2009	29/11/2011	1 93	0 01
20/08/2007 Unapproved	20/08/2010	29/11/2011	2 04	0 03
20/08/2007 Approved	20/08/2010	29/11/2011	2 27	0 00
26/06/2008 Unapproved	20/08/2010	29/11/2011	1 80	0 02
28/11/2008 Unapproved	28/11/2011	29/11/2011	1 61	0 22
28/11/2008 Approved	28/11/2011	29/11/2011	1 78	0 16

Under FRS 20 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight line basis over the vesting period For the options granted on 16 May 2005, 7 August 2006, 20 August 2007, 26 June 2008 and 28 November 2008 the fair value was calculated using a trinomial model For the options granted on 12 December 2003 with an exercise date of 12 December 2006 the market price at the exercise date was used as the fair value The options granted in 2002 did not fall within the scope of FRS 20 since they were exercisable prior to the adoption of the standard

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

Scheme	Weighted ave share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
16/05/2005 Unapproved	2 03	3 5	5	3 15	5 6
16/05/2005 Approved	2 03	3 5	3	2 91	5 6
07/08/2006 Unapproved	1 92	3 5	4	4 10	5 8
07/08/2006 Approved	1 92	3 5	3	4 06	5 8
20/08/2007 Unapproved	2 30	3 5	4	3 63	6 9
20/08/2007 Approved	2 30	3 5	3	3 60	6 9
26/06/2008 Unapproved	1 93	3 5	3	3 43	7 8
28/11/2008 Unapproved	1 85	21 0	3	3 23	7 3
28/11/2008 Approved	1 85	21 0	3	3 23	7 3

25 Commitments

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

	Group 2010 £m	**Company 2010 £m**	Group 2009 £m	Company 2009 £m
Contracted	**35 5**	-	49 2	-

26 Related party disclosures

Inter company loan transactions are disclosed in notes 6, 13, 15 and 16 and directors remuneration in note 4

27 Going concern

The company and group have net current liabilities at 30 June 2010 The directors have considered the financial position of the company and group and concluded that they will be able to meet their liabilities for a period of at least 12 months following the approval of these financial statements The principal trading subsidiary Wessex Water Services Ltd has confirmed that it will have access to new funds Wessex Water Services Ltd has a 25 year Licence to provide water and waste water services in South West England It has a statutory obligation to provide these services and the industry regulator OFWAT has an obligation to ensure that the Licensee can continue to trade

28 Ultimate parent company and parent undertaking of larger group

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

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 by YTL Power International Berhad, incorporated in Malaysia The consolidated financial statements 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