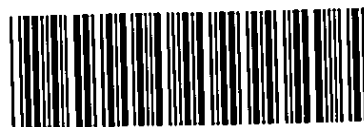


YTL Utilities (UK) Limited Group
CONSOLIDATED ACCOUNTS

For the year to 30 June 2008

Registered number 04341837

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Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

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

The company's principal subsidiary Wessex Water Ltd (WWL), 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.

In addition to WWSL, Wessex Water Enterprises Ltd (WWE), a wholly owned subsidiary company, undertakes unregulated water and waste water activities in the Wessex Water region and SC Technology GmbH (SCT), a wholly owned subsidiary company, installs and operates sludge drying equipment operating from its head office in Switzerland.

FINANCIAL AND OPERATIONAL REVIEW

WESSEX WATER SERVICES LTD

Over the past year Wessex Water Services Ltd has:

- achieved its highest-ever score in Ofwat's service league table, scoring 418 points (96% of maximum)
- continued to top Ofwat's telephone satisfaction survey and a record 98% of customers who contacted it rated the service as either good or very good
- delivered its largest-ever capital investment programme
- maintained its position as the most efficient operating company
- increased the proportion of energy generated from renewable sources
- received a number of awards, including Utility Week's Customer Care award and the award as best creditor of the year at the Citizens Advice Bureau's Social Policy Oscars, and received the Queen's Award for Enterprise
- re-invested financial efficiencies it has made in improving the security of our service to customers through a customer dividend programme, in particular:
 - improved the resilience of our asset network, reducing the number of customers served by single sources and further cutting those at risk of sewage flooding
 - improved support to customers who are struggling to pay their bills through the award winning Assist and Restart Plus programmes
- increased profit after tax and delivered the highest return on capital value of any water and sewerage company
- consulted customers on their aspirations for the 2009 Price Review
- published the Strategic Direction Statement, setting out how it will deliver those aspirations in a long term, sustainable context.

Customer dividend

In 2006 we established our own construction company to further improve delivery of our investment programme. This proved to be very successful and we continue to make savings against the predicted costs.

We also recognise that our large investment programme has resulted in increases in customers' bills. With this in mind we have started a 'customer dividend' programme funded from the efficiencies made in our wider capital programme. This initiative is aimed at improving the resilience of our services and providing extra help to those in financial difficulty who are struggling to pay their water bills.

We began investment in these key areas in earnest this year and will continue to support this programme until the start of the next price review in 2010. Our programme to improve the resilience of our services and to make them more affordable will not be complete by then, so we intend to make these key objectives of our next business plan.

Service resilience

Last summer's experience in Yorkshire and Gloucestershire demonstrated the serious impact on services that can result from widespread flooding.

In addition, we continue to see the quality of water in some of our reservoirs and groundwaters deteriorating due to levels of nitrates and pesticides. This means that during some periods of the year some sources may not meet our stringent water quality standards.

We have evaluated the impact of losing a water source due to either water quality problems or flooding and are determined to ensure this should not lead to restrictions in service to customers. Consequently, we have initiated a policy of ensuring two points of supply for every community so that if one source of water supply fails, service to our customers will be maintained through alternative sources.

We continue to invest in reducing leakage, particularly in customers' service pipes, beyond our regulatory target of 74Ml/d. This initiative has seen leakage reduce to 72Ml/d with a further reduction to 71Ml/d achievable by 2010.

During the past few years we have also invested significantly in reducing the risk of internal flooding from sewers. Our policy of flood protection followed the industry standard of protection up to a one in 30 year storm.

It is clear that the impact of climate change is increasing the severity of the storms we experience and to ensure our customers are not put at greater risk of flooding, we have increased the level of our protection up to one in 50 year storms.

Affordability, tariffs and debt recovery

We remain committed to our work on affordability and during 2007-08 we have won several awards in recognition of this; including:

- the Citizens Advice Bureau Social Policy Oscar
- Utility Week's Customer Care Award.

Our innovative Assist tariff has completed its first year with very promising results. Assist is aimed at enabling those with the greatest difficulty in paying to make at least a modest contribution towards the costs of water and sewerage services. If successful, as seems to be the case, the cost carried by all other customers will also be reduced.

We have begun a tariff study with 5,000 customers to investigate the impact of three innovative tariffs: a rising block tariff, a seasonal tariff and a peak-seasonal tariff. The study will enable us to understand the impact of both metering and innovative tariffs on customers' consumption and affordability.

These trials will be assisted by the installation of smart meters so readings can be collected remotely by our customers and ourselves. This will allow us all to see how and when customers use water, help them manage the amount they use and so have greater control over their bills.

Restart Plus, which runs alongside our existing Restart scheme, continues to perform well. Both schemes are designed to get customers who are having difficulty paying back on track. Evidence suggests that 14 out of 15 people on the schemes will not fall into arrears again.

CUSTOMER SERVICE

Wessex Water continues to deliver ever higher standards of customer service and we remain at the top of Ofwat's independent survey of customer satisfaction for our telephone service. Of the 2,400 customers surveyed in our independent monthly satisfaction service last year, a record 98% rated our service as good or very good.

We are not, however, complacent and are continuing our work to improve customers' overall satisfaction with our services. We have been part of an industry group working with Ofwat to develop new measures of customer experience and are working across our business to raise awareness of customers' expectations.

We are installing a new work and asset management system, including a customer contact module that will enable us to deliver significant improvements in customer service. It provides a one-stop-shop with

the ability to solve more issues in one call and at first contact. It will allow us to schedule timed appointments for customers and will also give us the ability to understand what is driving customer contacts.

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

We are continuing our work with organisations that come into contact with vulnerable customers, and on wider water and sewerage issues, eg, through our education advisers and schools programme.

Our community partnership programme, the Wessex Partnership, brings together all our community involvement including the Wessex Water Promise and Restart Plus.

Meeting demands

Once again we have maintained supplies to our customers throughout the year without restrictions. Wessex Water customers have now enjoyed 32 consecutive years of supply without hosepipe or other restrictions.

The year was characterised by a very wet summer and between May and July rainfall was 200% of long term average, leading to a healthy resource position. The wet summer reduced demand and water supplied to customers averaged 353 megalitres per day (Ml/d), 3% below the previous year.

Work to improve the margin between demand and supply has progressed well. At Maundown in west Somerset, our major water treatment works is being rebuilt and upgraded to meet peak demands in a drought year. Associated upgrading of the Somerset spine main is also close to completion. Optional metering continues to grow and now 41% of our domestic customers pay on the basis of what they use.

The economy of the Wessex Water region remains buoyant with continuing high rates of development and we continue to take an active role. We liaise with planning authorities, the South West Regional Assembly and developers to ensure we can plan effectively to meet the needs of growth and avoid delays through lack of adequate infrastructure.

Water efficiency

Controlling leakage from our network of more than 11,400 km of mains and service pipes remains one of our highest priorities. It safeguards security of supplies and minimises our impact on the environment.

Leakage is currently 72Ml/d beating the Ofwat target of 74Ml/d. This year we have put further resources into detecting and repairing leaks, taking advantage of improvements in detection technology.

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

- provision of water efficiency information to all our customers, for both metered and unmetered supplies, via literature in bills
- the provision of self audit packs and cistern devices
- maintaining up to date and relevant information on our website
- promotion of water butts through literature, at roadshows, on our website and through leaflets and fliers
- publicity campaigns such as our litre beater campaign and continuation of our frost campaign
- gardening roadshows and a speaker programme
- an extensive education programme both in schools and at our field centres across the region.

We continue to work with business customers to reduce their water use and leakage. Through our water inspection and trade effluent visits we can provide traders with advice on recycling and water efficiency.

We are now offering business customers with significant consumption a service enabling them to view their 15 minute consumption profile over the internet. This allows them to understand and manage their water usage and so minimise waste.

During the year we hosted a water efficiency day, bringing together local authority planners, regulators and water efficiency experts to further promote water efficiency initiatives. And as part of our water

resources management plan we have updated our water efficiency strategy. We believe that effective and persistent communication on water efficiency will bring sustainable benefits over the longer term.

Sewage flooding

During 2007-08 we have significantly reduced the number of properties at risk of internal flooding by a further 163, which beats our monitoring plan target. This was despite an exceptionally wet year, particularly June/July and January, which saw a 500% increase in incidents against the five-year average.

WATER SUPPLY AND SEWAGE TREATMENT

Water supply

Our compliance with drinking water standards remains at the highest levels – more than 99.9%. However, we are continuing work to improve this still further. Wherever possible we use innovative means to develop lowest whole life cost sustainable solutions rather than building conventional end-of-pipe treatment works.

Nitrates

At some groundwater sources the concentration of nitrates in the water is gradually increasing, mainly due to the historic use of fertilisers in agriculture. Consequently, we need to do work to ensure the quality of water put into supply continues to meet the required standards.

Where possible we are using sustainable catchment management, rather than constructing new treatment plants. Initial results are encouraging. Our specialists work alongside the local farming community to identify ways pollutants can get into the water and help find alternative land management practices that will protect and improve groundwater quality. Unfortunately, the current approach of Ofwat discourages this more sustainable approach, so we are pressing for a change.

Pesticides

Elevated pesticide levels have occasionally been found at water supply sources as a result of contamination of groundwater by farming practices. Rather than install treatment plant, we have again worked with farmers to reduce the risk of contamination.

At our Friar Waddon source near Weymouth, we have entered into agreements with three farms for a three-year trial to assess the effects of a total ban on spraying pesticides on land around the source. Results to date are encouraging and we have begun discussions with the largest landowner with a view to trialling the use of modern, more environmentally friendly, pesticides to enable cultivation to resume.

Water clarity

This year we have completed the final project in our programme of improvements to meet the stricter turbidity standard for water supply.

Mains relining/renewal

During the year we continued to reline and replace distribution mains to meet an undertaking with the DWI to overcome discoloured water problems.

We have also continued to replace lead communication pipes on a reactive basis in accordance with the protocol set out by the DWI.

Sewage discharges

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

During 2007-08 we improved six unsatisfactory storm discharges that discharged diluted sewage to rivers following heavy rainfall so outperforming our monitoring plan target.

Bathing Water Directive

Compliance with the EU's mandatory bathing water standard remains at 100% for the fourth year running.

Asset maintenance

Our strategic investment programme, designed to focus maintenance on reducing the risk of failures of service and improving asset stewardship, has made excellent progress.

We have developed new methods of asset management that will improve our services to customers. These have been recognised through achieving accreditation to PAS55, the internationally recognised standard for Asset Management. Wessex Water is the first UK water company to have achieved this recognition.

Our water infrastructure remains stable with improving service to customers, reductions in leakage and a burst rate better than the industry norm and close to the lower quartile.

During the year we increased our mains replacement rate delivering an additional 17km of new mains. The sewerage infrastructure remained stable with a collapse rate 4% lower than the previous year.

ENVIRONMENTAL SUSTAINABILITY

Carbon management

Carbon management is a fundamental part of our central aspiration to become a genuinely sustainable water company and we are tracking our progress against the government's reduction path for greenhouse gas emissions.

CO2 emissions from our energy use have been climbing steadily in the last 10 years and emissions of methane (a greenhouse gas) have also been increasing as sludge quantities rise from enhanced treatment processes to meet tighter environmental standards. Our carbon management plan involves the first three stages of the carbon hierarchy – avoidance, efficiency and renewable energy. As well as specific carbon-cutting initiatives, we are taking steps to ensure carbon management is built into decision making and operational activity.

At Bristol sewage treatment works we have installed new sludge treatment to increase our biogas production. This will enable us to generate more renewable electricity, so reducing the use of grid electricity and lower our methane emissions. We estimate the reduced emissions will equate to 16,000 tonnes of carbon dioxide.

Customers support a sustainable approach

To produce our Strategic Direction Statement we undertook a major programme of quantitative and qualitative customer research. This showed that customers want us to become more sustainable in our operations; in particular, to reduce our carbon footprint. The statement also mirrors our existing sustainability vision, which guides our strategy to become a truly sustainable water company.

In addition to investment at our Bristol treatment works we are pushing ahead with plans to install wind turbines at Avonmouth. Implementation would mean that our Bristol works will become a net exporter of energy and that 23% of the company's electricity will come from self-generated renewable sources, a further step towards our goal of carbon neutrality.

Wider sustainability initiatives

The third phase of our Biodiversity Action Plan partners programme is well underway. Projects receiving support aim to advance catchment management and river restoration within our region.

- Wiltshire Wildlife Trust's Chalk Streams project continues to demonstrate best practice in restoring sections of the Hampshire Avon and its tributaries. This project has helped secure £2m funding from the European Union and Heritage Lottery Fund.
- Avon Wildlife Trust has shown a strong correlation between land use and nitrate levels in St Catherine's Valley near Bath. The Trust has identified three hotspots and is developing incentives to encourage farmers to change practices.

Our own catchment management work to tackle nitrates and pesticides continues in south Dorset and south Wiltshire. Soil and water samples are providing clearer evidence of the precise locations where there is a higher risk of groundwater contamination from farming inputs. The quality of the assistance given by our expert staff has secured strong cooperation for this work from farmers and other interested parties. We are also halfway through a major review of our waste management practice. Internal training is underway and methods for recording waste data have been improved. We have begun composting grit and screenings as an alternative to landfilling.

Finally we were delighted to receive a Queens Award for Enterprise in recognition of our approach to sustainability.

PEOPLE, HEALTH AND SAFETY

Our success as a company depends on the excellence of our employees and we aim to be open, honest and ethical in all our dealings with them.

Employee research in 2007 showed a number of concerns that needed to be addressed. We made management and other changes to deal with these concerns and recent survey data shows a marked improvement.

With increasingly sophisticated water assets, access to the right skills is of growing importance. The shift from manual to technical work through training will be a continuing trend as will the need for individuals able to deliver high quality customer service, manage technical issues and risks, and at the same time begin to respond to the challenges of competition.

We are facing increasing competition from other sectors to attract and retain staff. To deal with all these challenges we have revised our recruitment and training strategies. All our employees are encouraged to have a personal development plan and our learning and development team are actively involved enabling this.

Our human resource department contains a training section offering a wide variety of programmes at all levels, ensuring ongoing learning opportunities. Regular monthly communication meetings take place within teams, along with personal appraisal or review meetings that are scheduled at least once a year.

Our owner, YTL Power, has introduced a 10 year employee share option scheme. New employees with more than 12 months service became eligible to join the scheme from August 2008.

We remain committed to achieving the highest possible health and safety standards and changes have been made to the management of health and safety to improve efficiency across the business. Individual business units now have dedicated health and safety advisers responsible for implementing health and safety strategy consistent with the company's goals.

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.

INVESTING IN OUR FUTURE SERVICES

During 2007-08 our investment programme has progressed well and is delivering the improvements in our services outlined in our business plan.

Water supply programme

Nitrates

We are taking a multifaceted approach to the problem of increasing concentrations of nitrates in groundwater sources that has been a result of the use of fertilisers in agriculture.

As well as our continuing work using catchment management, we have also put considerable effort into understanding the reasons behind the continuing rise in nitrates in our groundwater sources. A sophisticated process related model has been developed and we believe our approach is at the forefront of the industry.

Taste and odour

At Maundown, our largest water treatment works serving around 200,000 customers in west and central Somerset, there is an increasing incidence of algal blooms in the two large feeder reservoirs, which can cause taste and odour complaints.

We are making improvements to upgrade treatment, replace outdated assets and increase capacity to deal with a small shortfall in peak capacity in the west and north of the region. Work is due to be completed in 2009, with construction well advanced, civil engineering and building work complete and the majority of mechanical and electrical equipment installed. Commissioning will start in the summer.

Lead in drinking water

We are working to replace lead pipe in our network. When we replace our communication pipes we also include the customer's supply pipe up to the property wall. In three zones where we currently use phosphate dosing of the water to reduce uptake of lead from the pipes we are increasing the rate of lead pipe replacement. This should in time enable us to stop phosphate dosing.

Low river flows

During the year the low flow investigation and solution projects have been completed and reports were sent to the Environment Agency and English Nature in March 2008. Our draft water resources plan includes the possibility that we may have to reduce abstraction by 23.5 Ml/d (4% of our total reserves) during AMP5.

Security and Emergency Measures Direction

Work is progressing well to meet new standards for security and surveillance at our service reservoirs and water treatment works.

Sewerage and sewage treatment programme

Sewage discharges

During the five years ending in 2010 we are improving 25 unsatisfactory storm overflows that discharge very dilute sewage to rivers following heavy rainfall. Construction of a new storm overflow at Hotwells, Bristol, has progressed cautiously to minimise risks to the stability of the old river wall and a major highway, and the scheme will be completed in early 2009.

First time sewerage

We are continuing with our programme of work to bring mains sewerage to rural communities to overcome public health or environmental problems due to septic tank, cesspool or other unsatisfactory forms of sewage disposal.

During the five years ending in 2010 we are providing first time sewerage for 26 communities. This year we completed six schemes at Alderton, Lower Claverham, Reservoir Lane (Wells), Cleeve Hill Rd (Cleeve), Rooksbridge and Willow Close (Weston super Mare).

Urban Waste Water Treatment Directive

The sole outstanding project in our programme of improvements for the current five-year investment period is the scheme to remove nitrogen at Poole sewage treatment works. Construction work is now well advanced and the plant will come on stream this summer.

Bristol tunnel flood alleviation scheme

Our largest flooding relief scheme in this period – an 850m long tunnel under Bristol city centre designed to remove 57 properties at risk of flooding – is well underway with completion scheduled for March 2009.

Investigations

We have completed our investigations into the impact of treated sewage effluent on nature conservation sites in the Somerset Levels and Moors and at East Harptree near Bristol.

We have also completed investigations into the influence of intermittent discharges from Black Rock pumping station on the bathing water quality at Weston super Mare. This work was completed early to inform our programme of improvements planned for the next price review period.

Our programme to identify and reduce the number of misconnections to the sewerage system which give rise to stream pollution is continuing.

Asset maintenance

Investigations have also taken place into alternative mains replacement strategies on an economic basis, looking at the social and environmental benefits and disbenefits and carbon costs associated with all activities related to bursts and mains replacement.

We propose to continue our initiative of delivering additional mains replacement over the next two years.

KEY ISSUES FACING WESSEX WATER SERVICES LTD

Price review 2009

Next year's price review is an opportunity to deliver what customers want in the context of a long term, sustainable strategy. Very high levels of investment will be required for many years if we are to deliver the reliability, security and quality of services our customers require – and to deal with the impact of climate change.

In our Strategic Direction Statement we set out our key success factors, reflecting customer priorities as well as the evolving environment and economy in which we operate. In summary we will:

- continue to provide first class water and sewerage services
- operate and maintain the condition and capacity of our assets to the highest possible standards for future generations
- provide high levels of customer satisfaction by providing personal, knowledgeable and responsible customer service
- charge prices which encourage people to pay their bills and use water wisely
- ensure that our company has ready access to the capital markets
- deliver our services in a sustainable way.

Our customers have told us that over the next five years the majority would prefer bills to rise by no more than inflation, accompanied by improvements in service. To help them plan their budgets we must avoid a rollercoaster of prices and the 2009 price review gives us just that opportunity.

Our operating efficiencies can be used to fund the improvements in services that customers want without bills going up in real terms.

Competition

Wessex Water regards competition and accounting separation, accompanied by intra-supply chain trading, as an opportunity to improve cost transparency and accountability through the value chain. Without progress in this area, we are sceptical about the extent to which the next step-change in efficiency improvements can be made. We are one of the companies working with Ofwat in piloting accounting separation and rather than viewing this as a desktop exercise, we see it as the first stage towards the management and operation of distinctive business units.

As the water services company with the lowest cost of billing and some of the highest standards of services, we welcome moves towards competition provided it creates real benefits for customers.

Financing

Spring 2008 saw some worrying events affecting the world economy – a more conservative position being taken by lenders, uncertainty in the banking sector and sharply rising prices for oil and food. While the medium to long term significance of these is not yet clear, we recognise the possibility of tighter credit and cost inflation being dominant features post-2010. At this stage we believe we will be able to continue accessing the capital markets, but at a higher price. Typical spreads have risen by 100 basis points since the onset of the credit crunch.

Private sewers transfer

The government is proposing to transfer responsibility for most private sewers to water companies. This would mean that the sewer lengths that we currently operate and maintain will approximately double, which would have a significant impact on bills. A timetable for transfer has not yet been set.

Climate change

The 2007 floods in Yorkshire and Gloucestershire underlined two important points. Firstly, the need for more resilience in our asset base to ensure that we can continue to deliver the services expected from us, even in difficult situations such as widespread flooding. This is even more important in the face of climate change.

Secondly, the floods highlighted the need for a more joined-up approach to surface water management. We have responded to Defra's consultation document 'Improving Surface Water Drainage', and believe that local councils are the right authorities to lead on surface water management plans and that water companies should be major contributors to these plans. It is a given that we will be expected to maintain

current standards into the foreseeable future. Additionally, we do not expect customers to tolerate lapses in quality and availability of service during major disruptive weather events.

It is apparent that climate change adaptation and asset resilience will be major issues and in the first instance we expect that we will be asked to demonstrate a suitable response to the government's climate change adaptation strategy.

In the short term, we are:

- building on our existing partnership work with local authorities and other bodies sharing responsibilities on flooding
- assessing flooding risk to assets and
- building climate change into our risk assessment processes and using the output of the United Kingdom Climate Impacts Programme research in our planning.

KEY OUTPUTS AND SERVICE DELIVERY

The board is pleased with the performance of Wessex Water Services Ltd. In particular:

- we have achieved our highest-ever Ofwat OPA score of 418 points, 96% of the maximum
- we continue to top Ofwat's telephone satisfaction survey, and a record 98% of customers who contacted us rated our service as either good or very good
- we have delivered our largest-ever capital investment programme and met all outputs required under the monitoring plan
- we have improved the resilience of our asset network, in particular reducing the number of customers served by single sources and further cutting those at risk of sewage flooding
- we have further increased the proportion of energy generated procured from the group's renewable sources
- we are the most efficient operating company
- we have consulted customers on their aspirations for the 2009 Price Review and published our Strategic Direction Statement, setting out how we will deliver those aspirations in a long term, sustainable context
- we have received a number of awards, including the Queen's Award for Enterprise and Utility Week's Customer Care Award
- we have received accreditation to PAS55 and so become the first water company in the world to attain this independent recognition of good asset management practice.

WESSEX WATER ENTERPRISES LTD

The company generated turnover of £11.5m (up from £9.8m last year) from a number of unregulated activities in the Wessex Water Services Ltd region. The principal 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 £10.2m (up from £7.2m 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 £94.1m to £110.0m. Turnover increased by £33.4m or 8.7% to £418.4m, mainly driven by the increase in the regulated turnover of WWSL.

Operational costs excluding depreciation increased by £6.9m from £121.9m to £128.8m because of the inflationary pressure on energy costs. Depreciation charges (including the infrastructure maintenance charge and the disposal of assets) have increased by £2.4m as a result of the ongoing investment programme and a loss on disposal of fixed assets (last year profit on sale of fixed assets).

Net interest charges reduced by £0.4m from £75.8m to £75.4m, despite an increase in net debt of £52.6m from £1,312.9m to £1,365.5m. This was because of new financing introduced by Wessex Water Services Ltd and high interest rates on cash deposits. There was a £2.1m increase in finance income in respect of pension accounting.

There was a tax charge in the year of £24.7m, an increase of £10.7m over £14.0m charged last year. Corporation tax increased by £22.6m due to fact that £20.4m of advanced corporation tax was available to be utilised in the previous year, whilst deferred tax moved from a £7.8m charge last year to a £4.1m credit this year.

Under FRS 17 'Retirement Benefits' the deficit of 44.7m at the start of the year has increased to £63.5m at 30 June 2008, the growth in the liabilities of £24.4m being greater than the £5.6m 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% (2007 – 47.7%) due to the increased turnover, and interest cover (excluding pensions finance income) increased to 2.76 times (2007 – 2.42 times) as operating profit grew by 13%.

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 2008.

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	1,200,000	1.32	13/12/2002	13/12/2005	29/11/2011	-	(400,000)	800,000

The market price of the shares exercised in the year was RM2.6407 and the gain on exercise was RM528,280. 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 employee newspaper, 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 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 2008, trade creditors in the principal trading subsidiary WWSL represented approximately 34 days trade purchases (2007- 32 days).

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the company donated £1,955,000 (2007 - £990,000) 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.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc 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
12 September 2008

Statement of directors' responsibilities

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).

The group and parent company financial statements are required by law to 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 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; 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 proper accounting records that 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 1985. 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) LTD

We have audited the group and parent company financial statements (the "financial statements") of YTL Utilities (UK) Ltd for the year ended 30 June 2008, which comprise the Group Profit and Loss Account, Balance Sheets, Statement of Total Recognised Gains and Losses and the related Notes to the Accounts. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 12, the company's directors have accepted responsibility for the preparation of the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and applicable UK law. Our responsibility is to audit the financial statements in accordance with the terms of our engagement letter dated 13 February 2008 and International Standards on Auditing (UK and Ireland).

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

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

12 September 2008

Consolidated profit and loss account

For the year ended 30 June 2008

	Note	2008 £m	2007 £m
Turnover			
Continuing operations	2	418.4	385.0
Raw materials and consumables		(27.7)	(25.4)
Staff costs	5	(40.2)	(41.3)
Depreciation and other amounts written off tangible and intangible fixed assets		(80.7)	(81.4)
Other operating charges		(60.9)	(55.2)
(Loss) / profit on disposal of fixed assets		(1.9)	1.2
Amortisation of grants and contributions		0.9	0.9
Operating profit	2	207.9	183.8
Interest payable and similar charges	6	(107.0)	(91.2)
Interest receivable	6	31.6	15.4
Other finance income	19	2.2	0.1
Profit on ordinary activities before taxation	3	134.7	108.1
Tax on profit on ordinary activities	7	(24.7)	(14.0)
Profit for the financial year	22	110.0	94.1

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 2008

	Note	2008 £m	2008 £m	2007 £m	2007 £m
Fixed assets					
Intangible assets	9		(121.7)		(129.4)
Tangible assets	10		2,000.4		1,839.4
			<u>1,878.7</u>		<u>1,710.0</u>
Current assets					
Stocks	12	4.8		4.4	
Debtors	13	351.2		219.0	
Cash at bank and in hand	14	255.3		265.3	
		<u>611.3</u>		<u>488.7</u>	
Creditors - amounts falling due within one year	15	(460.9)		(137.5)	
Net current assets			<u>150.4</u>		<u>351.2</u>
Total assets less current liabilities			<u>2,029.1</u>		<u>2,061.2</u>
Creditors - amounts falling due after more than one year	16		(1,560.0)		(1,689.3)
Provisions for liabilities and charges	18		(81.7)		(88.5)
Retirement benefit obligations	19		(46.8)		(33.3)
Grants and contributions	20		(20.6)		(21.3)
Net assets	2		<u>320.0</u>		<u>228.8</u>
Capital and reserves					
Called up share capital	21		-		-
Profit and loss account	22		320.0		228.8
Equity shareholders' funds			<u>320.0</u>		<u>228.8</u>

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

These financial statements were approved by the board of directors on 12 September 2008 and were signed on its behalf by:


Seok Hong Yeoh
Director

Company balance sheet
At 30 June 2008

	<i>Note</i>	2008 £m	2008 £m	2007 £m	2007 £m
Fixed assets					
Investments	11		351.3		351.3
			<u>351.3</u>		<u>351.3</u>
Current assets					
Debtors	13	242.3		120.6	
Cash at bank and in hand	14	0.1		0.3	
		<u>242.4</u>		<u>120.9</u>	
Creditors - amounts falling due within one year	15	(104.0)		(87.5)	
Net current assets			<u>138.4</u>		<u>33.4</u>
Total assets less current liabilities			<u>489.7</u>		<u>384.7</u>
Creditors - amounts falling due after more than one year	16		(209.0)		(205.0)
Net assets			<u>280.7</u>		<u>179.7</u>
Capital and reserves					
Called up share capital	21	-		-	
Profit and loss account	22	280.7		179.7	
Equity shareholders' funds			<u>280.7</u>		<u>179.7</u>

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

Statement of total recognised gains and losses

For the year ended 30 June 2008

	Group 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Profit for the financial year	110.0	101.0	94.1	79.9
Foreign currency adjustment	(0.2)	-	-	-
Actuarial (losses) / gains net of taxation	(18.6)	-	14.4	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total recognised gains since last annual report	91.2	101.0	108.5	79.9
	<hr/>	<hr/>	<hr/>	<hr/>

Reconciliation of movements in shareholders' funds

For the year ended 30 June 2008

	Group 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Opening shareholders' funds	228.8	179.7	120.3	99.8
Profit for the financial year	110.0	101.0	94.1	79.9
Foreign currency adjustment	(0.2)	-	-	-
Actuarial (losses) / gains net of taxation	(18.6)	-	14.4	-
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	320.0	280.7	228.8	179.7
	<hr/>	<hr/>	<hr/>	<hr/>

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 1985.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2008. 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.

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

Notes (continued)

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 schedule 4 of the Companies Act 1985 which requires assets to be stated at their purchase price or production cost, without deduction of grants and contributions which would be accounted for as deferred income. The departure from the 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 parent company is not a member of that 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 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.

Notes (continued)

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
	2008	2008	2008	2007	2007	2007
	£m	£m	£m	£m	£m	£m
Regulated	399.2	207.1	39.3	369.1	180.8	49.1
Unregulated	19.2	0.8	280.7	15.9	3.0	179.7
	<u>418.4</u>	<u>207.9</u>	<u>320.0</u>	<u>385.0</u>	<u>183.8</u>	<u>228.8</u>

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.

Notes (continued)

3 Profit on ordinary activities before taxation

	2008 £m	2007 £m
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Fees paid to the auditors	0.3	0.3
Depreciation	88.3	89.0
Hire of plant and machinery - rentals payable under operating leases	1.6	1.7
Research and development expenditure	0.1	0.1
<i>after crediting</i>		
Release of negative goodwill	7.7	7.6
	2008 £000	2007 £000
Auditors' remuneration		
Audit of these financial statements	23	22
Audit of financial statements of subsidiaries pursuant to legislation	181	174
Other services pursuant to legislation	55	55
Other services relating to taxation	-	57
All other services	100	5
	<u>359</u>	<u>313</u>

4 Remuneration of directors

<i>Total directors' remuneration</i>		
	2008 £000	2007 £000
Salary	507	481
Bonus	310	210
Benefits in kind	25	25
	<u>842</u>	<u>716</u>

The remuneration above is in respect of two executive directors (2007 – two). There were no contributions to pension schemes in respect of the directors.

Remuneration of highest paid director

Salary	357	331
Bonus	250	150
Benefits in kind	14	14
	<u>621</u>	<u>495</u>

The highest paid director had an accrued pension entitlement of £293,715 at 30 June 2008 (2007 - £282,418).

In July 2007 C F Skellett entered into a 5 year Consultancy Agreement of £0.1m per annum, with YTL Utilities Limited (a parent company). The full £0.5m has been paid as a lump sum.

Notes (continued)

5 Staff numbers and costs

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

	Number of employees 2008	Number of employees 2007
Billing department	313	314
Other staff	1,816	1,663
	<u>2,129</u>	<u>1,977</u>

The aggregate payroll costs of these persons were as follows:

	2008 £m	2007 £m
Wages and salaries	55.3	50.4
Social security costs	5.1	4.7
Other pension costs	7.2	8.0
Share based payments	-	0.1
	<u>67.6</u>	<u>63.2</u>

The aggregate payroll costs were charged as follows:

Capital schemes	24.6	17.9
Infrastructure renewals expenditure	5.0	4.1
Other finance income	(2.2)	(0.1)
Staff costs	40.2	41.3
	<u>67.6</u>	<u>63.2</u>

6 Interest payable and similar charges

Interest payable		
On bank loans and overdrafts	86.7	74.0
On loan from parent company (note 16)	4.1	3.4
On loan from other group company (note 16)	11.6	9.6
Finance charges payable in respect of finance leases and hire purchase contracts	4.6	4.2
Interest receivable		
On loan to parent company	(12.3)	(4.5)
On short term deposits	(19.3)	(10.9)
	<u>75.4</u>	<u>75.8</u>

Interest on loan from parent company has not been paid, but has been rolled up and added to the principal. The interest rate on this loan varied between 10.8% and 11.2% (2007 – between 9.7% and 10.8%).

Notes (continued)

7 Taxation

Analysis of charge in the year	2008 £m	2008 £m	2007 £m	2007 £m
<i>Corporation tax</i>				
Current tax on income for the year	29.7		30.6	
ACT written back	-		(20.4)	
Total current tax charge		29.7		10.2
Adjustments in respect of previous years		(0.9)		(4.0)
Total corporation tax charge		28.8		6.2
<i>Deferred tax – current year</i>				
Origination and reversal of timing differences	1.9		(19.4)	
(Increase) / decrease in discount	(6.4)		26.9	
		(4.5)		7.5
<i>Deferred tax – prior year</i>				
Origination and reversal of timing differences	1.5		1.3	
Increase in discount	(1.1)		(1.0)	
		0.4		0.3
Total deferred tax (credit) / charge		(4.1)		7.8
Tax charge on profit on ordinary activities		24.7		14.0
<i>Factors affecting the tax charge for the year</i>				
		2008 £m	2007 £m	
<i>Corporation tax reconciliation</i>				
Profit on ordinary activities before taxation		134.7	108.1	
Current tax at 29.5% (2007 - 30%)		39.7	32.4	
<i>Effects of:</i>				
Expenses not deductible for tax purposes		(2.6)	(0.4)	
Capital allowances for the year (greater) / lower than depreciation		(0.5)	5.8	
Adjustments in respect of previous years		(0.9)	(4.0)	
Goodwill amortisation		(2.2)	(2.3)	
Lease payment		(1.9)	(1.9)	
ACT written back		-	(20.4)	
Other timing differences		(2.8)	(3.0)	
Total corporation tax charge (see above)		28.8	6.2	

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement which had been substantively enacted in the Finance Act 2007 at the balance sheet date. These included a reduction in the rate of corporation tax to 28% from 1 April 2008 and the abolition of balancing adjustments in relation to industrial buildings, which have been taken into consideration in computing the company's tax charge. The Budget Statement also announced changes to the rates of capital allowances in respect of plant and machinery which will apply from 1 April 2008, which it intends to incorporate in the Finance Act 2008. Had these changes been enacted at the balance sheet date the deferred tax provision (note 18) would have reduced by £5.4m to £73.1m, and the corporation tax liability would have increased by £0.3m to £15.4m.

Notes (continued)

8 Dividends

There were no dividends declared or paid in either year.

9 Intangible fixed assets

Group	Negative goodwill £m
<i>Cost</i>	
At 1 July 2007	(168.3)
Additions	-
	<hr/>
At 30 June 2008	(168.3)
	<hr/>
<i>Amortisation</i>	
At 1 July 2007	38.9
Credited in the year	7.7
	<hr/>
At 30 June 2008	46.6
	<hr/>
<i>Net book value</i>	
At 30 June 2008	(121.7)
	<hr/>
At 30 June 2007	(129.4)
	<hr/>

Notes (continued)

10 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						
<i>Cost or valuation</i>						
At 1 July 2007	534.7	894.9	635.0	54.7	96.5	2,215.8
Additions	7.9	58.4	49.1	5.7	137.6	258.7
Transfers on commissioning	6.7	5.7	19.1	7.0	(38.5)	-
Disposals	(0.7)	-	(11.1)	-	-	(11.8)
Grants and contributions	-	(7.0)	-	-	-	(7.0)
At 30 June 2008	548.6	952.0	692.1	67.4	195.6	2,455.7
<i>Depreciation</i>						
At 1 July 2007	57.4	122.2	172.2	24.6	-	376.4
Charge for the year	13.7	26.8	44.4	3.4	-	88.3
On disposals	(0.3)	-	(9.1)	-	-	(9.4)
At 30 June 2008	70.8	149.0	207.5	28.0	-	455.3
<i>Net book value</i>						
At 30 June 2008	477.8	803.0	484.6	39.4	195.6	2,000.4
At 30 June 2007	477.3	772.7	462.8	30.1	96.5	1,839.4

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 £70.8m (2007 - £77.3m).

The depreciation charge for the year on assets held under finance leases is £6.5m (2007 - £6.4m).

The net book value of infrastructure assets at 30 June 2008 is stated after the deduction of grants and contributions amounting to £105.7m (2007 - £98.7m) in order to give a true and fair view (see note 1).

Included in the cost of infrastructure assets is £319.2m (2007 - £275.2m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £306.8m (2007 - £280.0m) 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 £9.7m (2007 - £9.5m) in respect of land which is not depreciated.

Notes (continued)

11 Fixed asset investments

	Company interests in subsidiary undertakings £m
Cost	
At 1 July 2007	351.3
Transfer to fixed assets	-
At 30 June 2008	351.3
Provisions	
At 1 July 2007	-
Movement	-
At 30 June 2008	-
Net book value	
At 30 June 2008	351.3
At 30 June 2007	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%	-
Wessex Water Enterprises Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%	-
Wessex Engineering & Construction Services Limited	United Kingdom	Engineering services	£1 ordinary shares, 100%	-
Wessex Promotions Ltd	United Kingdom	Concert promotion	£1 ordinary shares 100%	-
Joint Arrangements				
Bristol Wessex Billing Services Limited	United Kingdom	Billing services	£1 ordinary A shares, 50%	-

Notes (continued)

12 Stocks

	Group 2008 £m	Group 2007 £m
Raw materials and consumables	2.0	1.4
Work in progress	2.8	3.0
	<u>4.8</u>	<u>4.4</u>

13 Debtors

	Group 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Trade debtors	49.7	-	46.2	-
Amount owed by group undertakings	241.7	242.3	120.0	120.6
Other debtors	5.8	-	2.9	-
Prepayments and accrued income	54.0	-	49.9	-
	<u>351.2</u>	<u>242.3</u>	<u>219.0</u>	<u>120.6</u>

Amount owed by group undertakings was a loan facility signed on 3 April 2006 with the immediate holding company YTL Utilities Holdings Ltd, a company registered in the Cayman Islands, for up to £350.0m, of which £241.7m was drawn down as at 30 June 2008 (2007 - £120.0m).

14 Cash at bank and in hand

Short-term cash deposits	254.8	-	265.0	-
Cash at bank	0.5	0.1	0.3	0.3
	<u>255.3</u>	<u>0.1</u>	<u>265.3</u>	<u>0.3</u>

£89.8m of short-term deposits mature within 1 month (2007 - £180.0m) and £165.0m within 5 months (2007 - £85.0m).

15 Creditors: amounts falling due within one year

Bank loans and overdrafts	-	-	5.4	-
Bond at 5.875% repayable in March 2009	293.5	-	-	-
Other loans	5.8	-	-	-
Obligations under finance leases	4.8	-	5.3	-
Trade creditors	11.9	-	4.4	-
Amounts owed to parent undertaking	0.6	0.6	0.2	0.2
Amounts owed to subsidiary undertaking	-	100.3	-	84.6
Amounts owed to fellow subsidiary undertaking	3.1	3.1	2.7	2.7
Taxation and social security	16.9	-	6.1	-
Other creditors	2.5	-	1.5	-
Accruals	121.8	-	111.9	-
	<u>460.9</u>	<u>104.0</u>	<u>137.5</u>	<u>87.5</u>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	Group 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Bonds	1,072.0	-	1,199.8	-
Other loans	201.9	-	202.3	-
Obligations under finance leases	75.5	-	80.4	-
Loans from group undertakings	209.0	209.0	205.0	205.0
Other creditors	1.6	-	1.8	-
	<u>1,560.0</u>	<u>209.0</u>	<u>1,689.3</u>	<u>205.0</u>

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

Bond at 5.875% repayable in March 2009	-	293.2
Bond at 5.375% repayable in March 2028	197.9	197.8
Bond at 5.75% repayable in October 2033	345.5	345.3
Index linked bonds		
At 3.53% plus inflation repayable in July 2023	61.0	58.7
At 1.75% plus inflation repayable in July 2046	79.3	76.2
At 1.75% plus inflation repayable in July 2051	79.3	76.2
At 1.369% plus inflation repayable in July 2057	79.3	76.2
At 1.374% plus inflation repayable in July 2057	79.3	76.2
At 1.489% plus inflation repayable in November 2058	50.2	-
At 1.495% plus inflation repayable in November 2058	50.1	-
At 1.499% plus inflation repayable in November 2058	50.1	-
	<u>1,072.0</u>	<u>1,199.8</u>

Obligations under finance leases are repayable:

In more than 1 year, but no more than 2 years	4.9	4.4
In more than 2 years, but no more than 5 years	19.1	17.0
In more than 5 years	51.5	59.0
	<u>75.5</u>	<u>80.4</u>

Loans from group undertakings comprise £39.1m (2007 - £35.1m) from a holding company YTL Utilities Limited and £169.9m (2007 - £169.9m) from another group company, YTL Utilities Finance Ltd. Under the terms of the loan agreement with YTL Utilities Finance Ltd, interest is payable at LIBOR plus 0.6% and the loan is repayable in June 2010.

The loan from YTL Utilities Limited comprises rolled up interest of £39.1m (2007 - £35.1m). Under the terms of the 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%.

17 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosures below other than £255.3m (2007 - £265.3m) of cash in hand, £241.7m (2007 - £120.0m) of debtors due from parent company and £304.1m (2007 - £10.7m) of short term borrowings.

Notes (continued)

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 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Cash at bank and in hand	(255.3)	(0.1)	(265.3)	(0.3)
Loan to parent company	(241.7)	(241.7)	(120.0)	(120.0)
Due on demand, one year or less	304.1	-	10.7	-
Due between one and two years	27.2	-	297.6	-
Due between two and five years	266.9	169.9	289.2	169.9
Due in five years or more	1,264.3	39.1	1,100.7	35.1
	<u>1,365.5</u>	<u>(32.8)</u>	<u>1,312.9</u>	<u>84.7</u>

Amounts repayable in more than five years:

Loans	192.3	39.1	194.1	35.1
Bonds	1,072.0	-	906.6	-
	<u>1,264.3</u>	<u>39.1</u>	<u>1,100.7</u>	<u>35.1</u>

Interest rate and currency exposure:

	Fixed rate borrowings 2008 £m	Floating rate borrowings 2008 £m	Total 2008 £m	Fixed rate borrowings 2007 £m	Floating rate borrowings 2007 £m	Total 2007 £m
Sterling	<u>1,365.5</u>	<u>-</u>	<u>1,365.5</u>	<u>1,199.8</u>	<u>113.1</u>	<u>1,312.9</u>

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

	Interest rate 2008 %	Period 2008 Years	Interest rate 2007 %	Period 2007 Years
Sterling	<u>4.3</u>	<u>25.9</u>	<u>4.6</u>	<u>23.8</u>

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 2008 £m	Fair value 2008 £m	Book value 2007 £m	Fair value 2007 £m
Borrowings / (cash) less than 1 year	48.8	47.0	(254.6)	(254.6)
Loan to parent company	(241.7)	(241.7)	(120.0)	(120.0)
Floating rate borrowings over 1 year	486.4	486.4	487.7	487.7
Fixed rate borrowings over 1 year	1,072.0	1,114.2	1,199.8	1,186.3
	<u>1,365.5</u>	<u>1,405.9</u>	<u>1,312.9</u>	<u>1,299.4</u>

Notes (continued)

18 Provisions for liabilities and charges

	Deferred taxation £m	Restructuring costs £m	Total £m
Group			
At 1 July 2007	84.5	4.0	88.5
Utilised during year	-	(0.8)	(0.8)
Origination and reversal of timing differences	1.5	-	1.5
Increase in discount	(7.5)	-	(7.5)
At 30 June 2008	78.5	3.2	81.7

The restructuring costs provision is in respect of SC Technology GmbH.

The elements of deferred taxation are as follows:

	2008 £m	2007 £m
Difference between accumulated depreciation / amortisation and capital allowances	271.3	270.2
Other timing differences	(0.6)	(1.0)
Undiscounted provision	270.7	269.2
Discount	(192.2)	(184.7)
Discounted provision	78.5	84.5

19 Pension scheme

FRS 17 pension liability (see below)	63.5	44.7
FRS 17 deferred tax asset	(17.8)	(12.5)
Unfunded and compensatory added years pension	1.1	1.1
	46.8	33.3

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 4.9% 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 82% of the actuarial value of the accrued benefits of £374.6m, a deficit of £66.8m. 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 £9.0m from 31 December 2008.

Notes (continued)

The total pension cost for the year under FRS 17, including amounts set aside for early retirees and other finance income, was £5.6m (2007 - £7.8m). 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 by the actuary as at 30 June 2008 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:

	2008	2007	2006
Rate of increase in salaries	5.4%	4.1%	3.8%
Rate of increase in pensions in payment	3.9%	3.1%	2.8%
Rate of increase in pensions in payment – reduced level members	2.5%	2.3%	2.2%
Discount rate	6.7%	5.8%	5.2%
Inflation assumption	3.9%	3.1%	2.8%

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:

	2008 £m	2007 £m	2006 £m
Equities	124.5	145.6	109.5
Property	18.6	24.3	22.2
Government bonds	147.4	116.3	86.5
Corporate bonds	3.7	3.0	42.5
Cash	0.9	0.3	2.0
	<hr/>	<hr/>	<hr/>
Total fair value of the assets	295.1	289.5	262.7
	<hr/>	<hr/>	<hr/>
Present value of defined benefit obligations	(358.6)	(334.2)	(333.0)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme	(63.5)	(44.7)	(70.3)
	<hr/>	<hr/>	<hr/>

The expected rates of returns were as follows:

	%	%	%
Equities	9.1	9.25	8.9
Property	8.1	8.25	7.2
Government bonds	5.0	5.1	4.6
Corporate bonds	5.8	5.6	5.0
Cash	5.9	6.0	4.6
	<hr/>	<hr/>	<hr/>
	6.9	7.5	6.7
	<hr/>	<hr/>	<hr/>

Notes (continued)

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 2008.

Analysis of profit and loss charge	2008	2007
	£m	£m
Current service cost	7.0	6.9
Past service cost	0.8	1.0
Interest cost	19.3	17.3
Expected return on scheme assets	(21.5)	(17.4)
	<hr/>	<hr/>
Expense recognised in profit and loss account	5.6	7.8
	<hr/>	<hr/>

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

Opening present value of defined benefit obligations	334.2	333.0
Current service cost	7.0	6.9
Interest cost	19.3	17.3
Contributions by scheme participants	3.0	2.7
Actuarial losses / (gains) on scheme liabilities	6.2	(15.2)
Net benefits paid out	(11.9)	(11.5)
Past service cost	0.8	1.0
	<hr/>	<hr/>
Closing present value of defined benefit obligations	358.6	334.2
	<hr/>	<hr/>

Changes to the fair value of scheme assets during the year

Opening fair value of scheme assets	289.5	262.7
Expected return on scheme assets	21.5	17.4
Actuarial (losses) / gains on scheme assets	(19.6)	5.4
Contributions by the employer	12.6	12.8
Contributions by scheme participants	3.0	2.7
Net benefits paid out	(11.9)	(11.5)
	<hr/>	<hr/>
Closing fair value of scheme assets	295.1	289.5
	<hr/>	<hr/>

Actual return on scheme assets

Expected return on scheme assets	21.5	17.4
Actuarial (loss) / gain on scheme assets	(19.6)	5.4
	<hr/>	<hr/>
Actual return on scheme assets	1.9	22.8
	<hr/>	<hr/>

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

Total actuarial (losses) / gains	(25.8)	20.6
	<hr/>	<hr/>
Cumulative amount of losses recognised	(59.0)	(33.2)
	<hr/>	<hr/>

Notes (continued)

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

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Fair value of scheme assets	295.1	289.5	262.7	240.3	211.0
Present value of scheme liabilities	(358.6)	(334.2)	(333.0)	(311.7)	(262.9)
Deficit in scheme	(63.5)	(44.7)	(70.3)	(71.4)	(51.9)
Experience (losses) / gains on scheme assets	(19.6)	5.4	5.1	18.7	4.3
Experience losses on scheme liabilities	(5.2)	(4.9)	(0.2)	(9.7)	(6.3)

20 Grants and contributions

	Group £m
At 1 July 2007	21.3
Received in year	0.2
Less amortisation	(0.9)
At 30 June 2008	20.6

21 Called up share capital

	2008 £	2007 £
Group and Company		
<i>Authorised</i>		
100 Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	2	2

22 Profit and loss account

	Group £m	Company £m
At 1 July 2007	228.8	179.7
Retained profit for the year	110.0	101.0
Actuarial losses net of taxation	(18.6)	-
Foreign currency adjustments	(0.2)	-
At 30 June 2008	320.0	280.7

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 2008 was £0.3m (2007 - £1.2m).

Notes (continued)

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

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

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 and 26 June 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

The following options were outstanding at 30 June 2007 and 2008.

Granted – Ordinary shares of RM0.50 each	Outstanding at 30.06.2007	Granted	Forfeited	Exercised	Outstanding at 30.06.2008
13/12/2002 Unapproved	16,343,000	-	(200,000)	(2,963,750)	13,179,250
26/12/2002 Approved	5,070,000	-	-	(572,000)	4,498,000
12/12/2003 Unapproved	2,361,000	-	-	(542,000)	1,819,000
12/12/2003 Approved	1,518,000	-	-	-	1,518,000
16/05/2005 Unapproved	4,100,000	-	(200,000)	-	3,900,000
16/05/2005 Approved	4,850,000	-	(336,000)	-	4,514,000
07/08/2006 Unapproved	900,000	-	-	-	900,000
07/08/2006 Approved	5,486,000	-	(170,000)	-	5,316,000
20/08/2007 Unapproved	-	900,000	-	-	900,000
20/08/2007 Approved	-	3,768,000	(272,000)	-	3,496,000
26/06/2008 Unapproved	-	90,000	-	-	90,000
TOTAL	40,628,000	4,758,000	(1,178,000)	(4,077,750)	40,130,250

Of the above options 29,428,250 were exercisable at 30 June 2008. FRS 20 did not change the profit in the year (2007 – reduction of £0.1m).

Notes (continued)

25 Commitments

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

	Group 2008 £m	Company 2008 £m	Group 2007 £m	Company 2007 £m
Contracted	129.4	-	71.9	-

26 Related party disclosures

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

27 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 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.