Annual Review

2010

a YTL company

www.wessexwater.co.uk

Contents

FOR FURTHER INFORMATION

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

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THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2008

CUSTOMER
SERVICE
EXCELLENCE

CSE

a YTL company

SINCE 1955

Registered office: Wessex Water, Claverton Down, Bath BA2 7WW
Telephone: 01225 526 000 Fax: 01225 528 000
Registered in England No 2366648

www.wessexwater.co.uk

About Wessex Water

Our aims

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

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

Our values

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

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

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

Facts and figures

Wessex Water supplies 1.3 million customers with around 285 million litres of water a day.

We have:

- 97 water sources
- 110 water treatment works
- 209 booster pumping stations
- 344 service reservoirs and water towers
- 11,478 kilometres of water mains.

Wessex Water takes away and treats 481 million litres of sewage from 2.7 million customers every day.

Our sewerage system includes:

- 17,322 kilometres of sewers
- 405 sewage treatment works
- 1,003 combined sewer overflows
- 1,438 pumping stations.

THE WESSEX WATER REGION

Financial highlights

- Regulatory capital value £2,262m.
- Turnover £438.2m.
- Debt to capital value ratio 68%.

www.wessexwater.co.uk

Introduction

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.

This is a significant achievement since it has been a difficult 12 months with a severe economic slowdown that presented us with a number of challenges.

We achieved our best ever score in Ofwat's overall performance assessment (OPA) report which assesses the quality of services water companies deliver to customers. The report analysed the sewerage, water and environmental services we provide, and showed that we performed better than any other water and sewerage company. Our overall score was the highest ever in the industry since the measure was introduced in 1999.

We also topped Ofwat's telephone call handling satisfaction survey and retained our government Customer Service Excellence award.

Our financial results reflect the growing impact of the recession with a reduction in water use by both business and domestic customers and an increase in bad debts.

Profit after tax increased from £93.3m to £112.3m, as a result of good cost control and lower interest rates on our borrowings. Our operating costs reduced from £125.0m to £121.4m.

During the year we invested £103.1m in new capital projects and met all the outputs required under our regulatory monitoring plan.

Again much of our investment was directed towards improving the water and sewerage infrastructure. Alongside quality and environmental improvements we completed a number of projects to improve the security of water supply in Wiltshire, Dorset and Somerset including improving trunk main transfers to reduce the number of customers dependent on single sources of supply.

Our sewage treatment quality and improvement programme included major extensions to our treatment works at Wiveliscombe and Bridgwater to deal with increases in industrial flows.

This year saw the conclusion of the 2005-2010 AMP4 investment programme within which we successfully delivered all required outputs, on time and within budget. We now look forward to the AMP5 period 2010-2015.

The final business plan for 2010-2015 that we presented to Ofwat reflected the worsening economic climate and a number of new obligations. We reduced proposed new investment to £1,040m and deferred investment on items that were of low priority to customers to keep average annual bill rises to 1% above inflation.

The final determination from Ofwat reinstated some of the items we had proposed to defer, cut out some items customers had said they wanted, cut our maintenance programme and increased our efficiency targets.

Overall, bills will rise annually at around 0.6% above inflation within which we are expected to maintain all existing services, and we will deliver £1bn of capital investment over the AMP5 period.

We are committed to delivering the outputs and efficiencies the determination requires and continuing to provide the highest levels of customer service in the industry.

However, we believe that to approach the future sustainably, to continue to meet customers' expectations and to successfully respond to national and global challenges, some major reforms must be considered within the water industry.

These include addressing long-term investment needs, incentivising sustainable solutions, simplifying regulation, a clearer representation of customers' interests and allowing sensible consolidation of the industry. We hope the new government will make the necessary changes in consultation with all interested parties.

In the meantime, with our dedicated and committed staff, we are confident we will not only to rise to the challenges of the future but also remain at the forefront of the industry.

Colin Skellett
Chairman

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.

Our key outputs

Despite the challenging economic conditions we have successfully delivered our AMP4, 2005-2010, investment programme and out-performed the assumptions made in the 2004 price determination.

We continue to be recognised as one of the most efficient water and sewerage companies, with the highest returns to our shareholder.

The past year

Against a background of continuing recession in the UK, and ongoing instability in the world's financial markets, Wessex Water has produced a solid set of financial results over the past year with profit before tax rising to £152.9m.

There was an increase in turnover helped by allowed price increases, although we experienced some negative effect from the current economic climate. Operating costs fell through a combination of further efficiencies and a credit under FRS17 pension accounting.

Interest charges reduced significantly due to lower short-term interest rates on our floating rate borrowings and lower inflation on our index-linked bonds. Taxation rose in line with profits but also due to a reduction in group relief available.

The dividend for the year was slightly higher than the previous year but the figures are distorted as a £26.9m dividend in respect of 2008-09 was actually declared in 2009-10.

In respect of cash management we achieved our internal target of no cash outflow for the year, which represented a tremendous result from all parts of the business. Accordingly net debt only rose by accruals on our bonds.

Gearing fell from 70.0% to 67.6%, a result of strong cash performance and a high inflation number in March 2010.

Profit and loss	2009-2010 £m	2008-2009 £m	Variance
Turnover	**438.2**	**420.6**	**17.6**
Operating costs	-121.4	-125.2	3.8
Depreciation	-68.6	-61.6	-7.0
Infrastructure maintenance	-31.5	-30.4	-1.1
Operating profit	**216.7**	**203.4**	**13.3**
Interest payable	-63.8	-84.7	20.9
Profit before tax	**152.9**	**118.7**	**34.2**
Corporation tax	-28.7	-22.4	-6.3
Deferred tax	-11.9	-3.0	-8.9
Profit after tax	**112.3**	**93.3**	**19.0**
Dividends	-138.9	-81.1	-57.8
Retained profit	**-26.6**	**12.2**	**-38.8**

Cashflow	2009-2010 £m	2008-2009 £m	Variance
Operating profit	216.7	203.4	13.3
Depreciation	100.1	92.2	7.9
Working capital	-20.0	-8.6	-11.4
Operating cash flow	**296.8**	**287.0**	**9.8**
Capital expenditure	-116.3	-237.1	120.8
Interest	-61.7	-81.1	19.4
Taxation	-20.4	-27.9	7.5
Dividends	-108.3	-102.8	-5.5
Movement in net debt	**-9.9**	**-161.9**	**152.0**
Opening net debt	-1,520.2	-1,358.3	-161.9
Closing net debt	**-1,530.1**	**-1,520.2**	**-9.9**
RCV	2,262.0	2,171.0	91.0
Gearing %	**67.6%**	**70.0%**	**-2.4%**

At the end of the year we refinanced our £150m of bank facilities maturing in June 2010 and we now have sufficient liquidity until 2012-13.

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.

The last five years

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 outperfomance 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 key outputs

Our service performance is summarised below.

Service to customers and the environment	Service level		Monitoring plan target for 2009-10	Service vs monitoring plan
	AMP4 average	2009-10		
OPA POINTS AS % OF MAXIMUM	95%	97%	No target	Industry leader
WATER SUPPLY				
Properties at risk of receiving low pressure	178	203	275	Better
Properties experiencing unplanned interruptions over 6 hrs	892	753	2,794	Better
Properties experiencing supply restrictions	0%	0%	0%	Same
Overall water quality performance score	99.9%	99.9%	99.9%	Same
Total leakage (million litres per day)	72.7	73.9	74.0	Better
SEWERAGE				
Properties at risk of internal flooding more than once in 10 yrs	345	124	134	Better
Properties flooded due to inadequate capacity	40	7	30	Better
Properties flooded due to other causes	86	104	78	Worse*
CUSTOMER SERVICE				
Customers satisfied or very satisfied with service	96%	98%	Company measure	
Billing contacts dealt with in 5 days	100%	100%	100%	Same
Written complaints dealt with in 10 days	100%	100%	100%	Same
Bills based on a meter reading	100%	100%	100%	Same
Telephone call handling satisfaction	94%	96%	New measure	Industry leader
ENVIRONMENTAL STANDARDS				
Compliance with EA abstraction licences	100%	100%	100%	Same
Number of pollution incidents	105	94	N/A	N/A

*The number of properties flooded due to other causes is primarily (93%) as a result of blockages in the public sewer system. Of these blockages, 90% are a consequence of sewer misuse by third parties. The total number of properties internally flooded (due to both "inadequate capacity" and "other causes") is below the 10-year average.

Beaches meeting mandatory standards	100%	100%	>98%	Better
Population served by compliant sewage treatment works	99.9%	100%	99.5%	Better
Sewage sludge disposed satisfactorily	100%	100%	100%	Same

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
- improvements to drinking water quality
- further reductions in the risk of flooding to properties
- improvements to comply with the Bathing Water, Urban Waste Water and Shellfish Directives
- a further reduction in our carbon footprint by increasing the use of sewage sludge to generate renewable energy
- 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.

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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.

New quality, environmental and customer outputs	Activity 2009-10	Cumulative activity AMP4	Monitoring Plan target	Activity vs Monitoring Plan
Water treatment improvements completed	4	18	18	Same
Security improvements completed	1	2	2	Same
Low flow investigations completed	0	13	13	Same
Sewage treatment improvements completed	17	56	50	Higher
Intermittent discharges improved	4	27	25	Higher
Internal property flooding solved	75	814	808*	Higher
External property flooding solved	21	791	746	Higher
Wastewater investigations completed	0	16	16	Same
Properties able to connect to first time sewerage schemes	131	744	666	Higher

*Original monitoring plan target was 827. Ofwat have recognised the third party problems associated with the delivery of Piddletrenthide Flood Alleviation Scheme and reduced the target to 808.

Turnover

Appointed turnover increased by £18m or 4.3% to £434.6m, largely as a result of the 2009-10 price increase of 6%, but offset to some extent by customers switching to meters, and reductions in volumes. The reduction in volume is higher than the long-run average as a result of the recession in the region.

Operating costs

Regulated operating costs reduced from £123.4m to £120.1m. However, these figures were distorted by a credit under FRS17 pension accounting of £3.3m and a reduction in third-party costs of £1.2m, without which there would have been a £1.2m increase in operating costs. The cost increases were in respect of the operational costs of new obligations and bad debts as a result of the recession and continued inability to disconnect domestic customers. There were, however, tough targets set to save inflation and make real efficiency savings that reduced costs by £1.5m.

Capital investment

In 2009-10 we delivered net capital expenditure of £103.1m (£108.8m gross). Capital expenditure for the last five years is 85% of that assumed by Ofwat in 2004.

During the last five years we have delivered the total number of regulatory outputs required by Ofwat. Overall we exceeded the monitoring plan targets for the five years, this is as a result of our strategic investment programme implemented in 2007-08 and 2008-09 which was aimed at reducing risk and improving service to customers.

Historical cost capital maintenance charges (depreciation and the infrastructure maintenance charge) increased from £92.2m to £100.1m. The increase is split between a £1.1m increase in the infrastructure maintenance charge and a £6.8m increase in depreciation resulting from the continuing capital investment programme.

Interest and tax

Interest charges reduced from £84.7m last year to £63.8m. There was a tight control on cash which saw cash outflow before financing of only £9.9m compared to £161.9m in the previous year when there had been a large capital programme. Interest costs also reduced because of lower interest rates on the index linked bonds. In all the cost of debt reduced from 5.6% to 3.9%.

The corporation tax charge in the year was £28.7m, an increase of £6.3m as a result of increased profits and lower group relief received. The increase was reduced by credits received in respect of prior years. Deferred tax increased from a charge of £3.0m last year to £11.9m this year.

Dividends

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

The board wished to ensure that gearing stayed at or below 70% in order to secure the current credit rating and ongoing access to the capital markets. As a consequence the final dividend for 2008-09 of £26.9m was deferred to 2009-10. Therefore, while dividends declared increased from £81.1m to £138.9m, adjusting for the £26.9m they rose from £108.0m last year to £112.0m this year.

Cashflow and finance

Net debt increased by £9.9m to £1,530.1m. The net cash outflow comprised:

- cash inflow from operating activities of £296.8m, less
- capital investment cash outlay of £116.3m, less
- interest payments of £61.7m, less
- tax payments of £20.4m, less
- dividend payments of £108.3m.

During the course of the year we issued a £50m index linked bond and refinanced £150m of bank facilities that had reached their maturity date. This provides enough capacity for our financial needs for the coming year.

The regulatory capital value increased by £91m and gearing at 31 March 2010 stood at 67.6%.

Overall we exceeded the monitoring plan targets for the five years, this is as a result of our strategic investment programme implemented in 2007-08 and 2008-09 which was aimed at reducing risk and improving service to customers.

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.

Maundown water treatment works

The scheme to reconstruct Maundown water treatment works was successfully commissioned in 2008-09. The five-year £25m project was completed on time, on budget and delivers water of the required standard.

Our environment

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% (315ha) of our 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.

Our emissions for the financial year to 31 March 2010 are shown in the table below.

There has been a reduction of 5,000t in gross carbon dioxide emissions (Defra method). There was an increase in natural gas used for sludge drying and in the grid emissions factor; each contributed an increase of around 700t. The biggest downward factor was the increase in renewable energy from biogas combined heat and power plants, which contributed a saving of 4,600t CO_2 compared with the previous year.

Process emissions show an increase of 700t CO_2 equivalent from methane and a decrease of 300t CO_2e from nitrous oxide.

Our self-generated renewable electricity now amounts to 38GWh – 15% of our total electricity use – of which we exported 5GWh.

CO_2 equivalent emissions	2009-10
Gross operational emissions	157,000 t
Net operational emissions	155,000 t
Operational emissions according to CRC definition	139,000 t
Water supply emissions per ML of treated water	330 kg
Waste water emissions per ML of sewage treated	560 kg

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.

We have successfully completed our sewer flooding programme and concluded the AMP4 period, with fewer properties on the flooding registers than our targets.

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.

Redundancies were spread across the region and 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.

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.

WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Executive directors

Colin Skellett – Executive chairman

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

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

Mark Watts – Finance director and treasurer

A qualified treasurer Mark spent eight years in international banking before joining the treasury department of Wessex Water in 1991. He was appointed treasury manager in 1994 before becoming treasurer in 1999 shortly after the acquisition of Wessex Water by Enron.

Mark is highly experienced in raising finance, from both the capital markets and the banking sector, as well as having a long history in dealing with various corporate finance issues. He was appointed finance director and treasurer on 16 March 2010.

Julian Dennis – Director of compliance and sustainability

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

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

Dave Elliott – Director of regulation and assets

He has 26 years' experience in the water industry. He joined Wessex Water in 1985 working as a technician engineer in sewerage. He spent time in Argentina where he managed sewerage services to 2.5 million customers. On returning to the UK he became southern divisional manager. In 2004 he became general manager, Group Services, responsible for IT, FM, logistics and customer services. He was appointed to his current position on 11 June 2007.

Sean Cater – Director of operations and construction

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

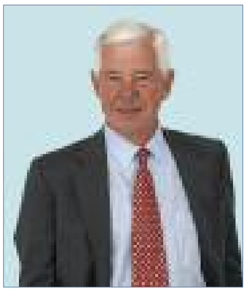
WESSEX WATER SERVICES LIMITED
BOARD OF DIRECTORS - Non executive directors

David Barclay –

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

Lesley Bennett –

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



Peter Costain –

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

Jonathon Porritt CBE –

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

Francis Yeoh CBE –

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

Hong Yeoh –

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

Mark Yeoh –

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

+Kathleen Chew –

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

+ Alternate director to Francis Yeoh

CORPORATE GOVERNANCE

Corporate governance

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

The board

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

The board meets at least bimonthly.

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

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

Colin Skellett – executive chairman
David Barclay *
Lesley Bennett **
Sean Cater
Kathleen Chew +
Peter Costain *
Julian Dennis
David Elliott
Keith Harris (resigned 15/3/2010)
Jonathon Porritt CBE *
Mark Watts (appointed 16/03/2010)
Francis Yeoh CBE #
Hong Yeoh #
Mark Yeoh #

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

Board committees

Three formal committees have been established:

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

Audit committee

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

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

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

Remuneration committee

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

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

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

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

Nomination committee

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

Members: Hong Yeoh, Francis Yeoh, Colin Skellett and Mark Yeoh.

Internal control

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

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

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

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

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited non-statutory accounts (subsequently referred to as accounts) for the year to 31 March 2010. The financial year end of all group companies is 30 June, but under the conditions of appointment of the company (under the Water Industry Act 1991) the company is required to prepare regulatory accounts for the 12 months ended 31 March each year.

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

Principal activities

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

In November 2009 the industry regulator Ofwat announced a 0.3% price limit for Wessex Water Services Ltd from 1 April 2010, before adjustment for inflation. The announcement also included price limits for each of the four subsequent years of 0.3%, 1.9%, 1.9% and 1.5%, before adjustment for inflation, for the years commencing 1 April 2011, 2012, 2013 and 2014 respectively.

Employment

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

Sustainability

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

Environment policy

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

Ethical policy

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

Research and development

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

Market value of land and buildings

In the opinion of the directors, the market value of land and buildings of the company exceeds the book value of these assets at 31 March 2010.

Charitable donations

During the year £110,000 was donated to UK charities (2009 – £163,000).

Supplier payment policy

The policy in respect of suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 2010 trade creditors represented approximately 35 days trade purchases (2009 – 32 days). The company does not follow any specific external code or standard on payment policy.

Directors

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

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

The market price of share options exercised in the year was RM2.18 and the gain on exercise was RM206,400.

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

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

Auditors

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

By order of the board

A J Phillips – Company secretary
25 June 2010

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

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

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

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

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its non-statutory accounts comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

REPORT OF KPMG AUDIT PLC TO WESSEX WATER SERVICES LTD

We have audited the non-statutory accounts of Wessex Water Services Ltd for the year ended 31 March 2010 set out on pages 28 to 49. These non-statutory accounts have been prepared for the reasons set out in note 1a to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

As explained in note 1a, these non-statutory accounts have been prepared by the directors for the year ended 31 March 2010, which is not the company's statutory financial year, in order to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to Wessex Water Services Ltd as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Statutory accounts for the year to 30 June 2009 have been filed with the Registrar of Companies.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 26, the directors are responsible for the preparation of the non-statutory accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit the non-statutory accounts in accordance with the terms of our engagement letter dated 27 May 2010 and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory accounts.

Opinion on the non-statutory accounts

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol, BS1 6AG
25 June 2010

PROFIT AND LOSS ACCOUNT

For the year to 31 March 2010

	NOTE	2010 £m	2009 £m
Turnover	2	438.2	420.6
Operating costs	3	(221.5)	(217.2)
Operating profit	2	216.7	203.4
Interest payable and similar charges	4	(60.4)	(94.2)
Interest receivable	4	0.5	11.8
Other finance costs		(3.9)	(2.3)
Profit on ordinary activities before taxation		152.9	118.7
Taxation on profit on ordinary activities	5	(40.6)	(25.4)
Profit attributable to shareholders	19	112.3	93.3

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

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

BALANCE SHEET
At 31 March 2010

	NOTE	2010 £m	2009 £m
Fixed assets			
Tangible assets	8	2,009.2	2,006.0
Investments	9	-	-
		2,009.2	2,006.0
Current assets			
Stock and work in progress	10	5.3	4.9
Debtors	11	126.8	116.1
Cash at bank and in hand	12	8.1	37.0
		140.2	158.0
Creditors – amounts falling due within one year	13	(141.4)	(188.6)
Net current liabilities	32	(1.2)	(30.6)
Total assets less current liabilities		2,008.0	1,975.4
Creditors – amounts falling due after more than one year	14	(1,533.3)	(1,477.6)
Provisions for liabilities and charges	15	(97.8)	(87.6)
Retirement benefit obligations	16	(58.6)	(34.9)
Deferred income	17	(19.6)	(20.3)
Net assets	2	298.7	355.0
Capital and reserves			
Called up equity share capital	18	81.3	81.3
Profit and loss account	19	217.4	273.7
Equity shareholders' funds	20	298.7	355.0

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

These accounts were approved by the board of directors on 25 June 2010 and signed on its behalf by:

Colin Skellett
Chairman

Mark Watts
Director

CASH FLOW STATEMENT

For the year to 31 March 2010

	NOTE	Year to 31.3.10 £m	Year to 31.3.09 £m
Net cash inflow from operating activities	21	296.8	287.0
Returns on investments and servicing of finance	22	(61.7)	(81.1)
Taxation		(20.4)	(27.9)
Capital expenditure and financial investment	23	(116.3)	(237.1)
Equity dividends paid		(108.3)	(102.8)
Cash outflow before financing		(9.9)	(161.9)
Financing	24	(19.0)	(88.6)
Decrease in cash		(28.9)	(250.5)
Reconciliation of cash movement to the movement in net debt			
Decrease in cash - above		(28.9)	(250.5)
Movement in loans and leases		19.0	88.6
Movement in net debt	25	(9.9)	(161.9)
Opening net debt	25	(1,520.2)	(1,358.3)
Closing net debt	25	(1,530.1)	(1,520.2)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year to 31 March 2010

	Year to 31.3.10 £m	Year to 31.3.09 £m
Profit for the financial year	112.3	93.3
Total recognised gains relating to the financial year	112.3	93.3
Actuarial losses net of taxation	(29.7)	(24.1)
Total gains recognised since last annual report	82.6	69.2

NOTES TO THE ACCOUNTS
For the year to 31 March 2010

1 ACCOUNTING POLICIES

a. Basis of preparation
The financial statements have been prepared on a basis consistent with last year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e), in accordance with the Companies Act 2006.

Group accounts have not been prepared as under section 400 of the Companies Act 2006 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 31).

The non-statutory accounts do not constitute the company's statutory accounts for the years ended 31 March 2010 or 2009. 31 March 2010 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2009 and 30 June 2008. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the company will be prepared for the year ending 30 June 2010.

As explained on page 24, these non-statutory accounts have been prepared by the directors for the same period as the regulatory accounts which have to be prepared for the 12 month period ending 31 March each year in order to allow a user of the regulatory accounts to reconcile them to historical cost accounts of the company.

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

c. Tangible fixed assets and depreciation
Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

NOTES TO THE ACCOUNTS
continued

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

e. **Grants and contributions**
Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (note 17). Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with 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 requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view, because infrastructure assets are not depreciated directly and accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS
continued

2 SEGMENTAL ANALYSIS

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

	2010 £m	2009 £m
a. Turnover		
Regulated	434.6	416.6
Unregulated	3.6	4.0
	438.2	420.6
b. Operating profit		
Regulated	216.7	203.4
Unregulated	-	-
	216.7	203.4
c. Net assets		
Regulated	298.7	355.0
Unregulated	-	-
	298.7	355.0

3 OPERATING COSTS

	2010	2009
Manpower costs (note 6b)	37.5	36.7
Materials and consumables	23.1	22.7
Other operational costs	60.8	65.6
Depreciation	99.2	91.1
Amortisation of grants and contributions	(1.0)	(0.9)
Loss on disposals of fixed assets	1.9	2.0
	221.5	217.2
Operating costs include:		
Operating leases for plant and machinery	1.0	1.4
Research and development	0.2	0.2
Directors' remuneration (note 6c)	1.4	1.1
Fees paid to the auditors	0.2	0.3

	2010 £000	2009 £000
Auditors' remuneration:		
Audit of these financial statements	125	145
Other services pursuant to legislation	30	61
All other services	35	107
	190	313

4 NET INTEREST PAYABLE

	2010 £m	2009 £m
Interest payable:		
To group companies	52.4	78.3
On bank loans	5.9	11.8
On finance leases	2.1	4.1
Total interest payable	60.4	94.2
Interest receivable on short term bank deposits	(0.5)	(11.8)
Net interest payable	59.9	82.4

5 TAXATION

	2010 £m	2009 £m
a. Taxation on profit on ordinary activities		
Current year corporation tax:		
UK corporation tax at 28%	33.4	22.7
Adjustments in respect of previous years	(4.7)	(0.3)
Total corporation tax charge	28.7	22.4
Deferred tax – current year:		
Origination and reversal of timing differences	9.9	8.0
Increase in discount	(3.6)	(6.0)
	6.3	2.0
Deferred tax – prior year:		
Origination and reversal of timing differences	6.8	0.8
(Increase) / decrease in discount	(1.2)	0.2
	5.6	1.0
Total deferred tax charge	11.9	3.0
Taxation charge on profit on ordinary activities	40.6	25.4
b. Current tax reconciliation		
Profit on ordinary activities before tax	152.9	118.7
Current tax at 28%	42.8	33.2
Group relief for nil consideration	(0.2)	(2.6)
Capital allowances in excess of depreciation	(4.5)	(3.9)
Payment of lease creditor capital	(1.8)	(1.8)
Other timing differences	(2.9)	(2.2)
Total corporation tax charge – as above	33.4	22.7

NOTES TO THE ACCOUNTS
continued

6 DIRECTORS AND EMPLOYEES

	2010 £m	2009 £m
a. Total employment costs of the company were:		
Wages and salaries	58.0	61.1
Social security costs	4.5	5.4
Other pension costs	5.0	6.8
	67.5	73.3
b. Total employment costs are charged as follows:		
Capital schemes	30.0	36.6
Manpower costs (note 3)	37.5	36.7
	67.5	73.3

c. Total directors' remuneration	2010 £000	2009 £000
Salary and fees	904	898
Compensation for loss of office	238	-
Bonuses	240	189
Benefits in kind	59	58
	1,441	1,145

The remuneration above is in respect of six executive directors (2009 – five) and seven non executive directors (2009 – seven). In determining the directors' pay, the remuneration committee considers the financial and operational performance of the business, including performance against budget and regulatory and customer expectations.

Executive directors have one year rolling contracts of employment. In addition the executive directors received £1,360k (2009 – £605k) remuneration from other group companies, including compensation for loss of office. Five directors have benefits accruing under defined benefit pension schemes (2009 – four). The aggregate amount of company contributions to pension schemes in respect of directors was £158k (2009 – £176k).

d. Directors' remuneration and standards of service

Remuneration of the executive directors comprises:
- basic salary
- bonus
- pension plan
- car and health benefits
- unapproved share option scheme of the parent company YTL Power International Berhad.

It is the Remuneration Committee that sets the annual level of remuneration of the directors. This overall package is linked to market rates of pay, externally assessed against the HAY Industrial and Services Sector comparison of companies. Basic salary and the other benefits, with the exception of the bonus scheme, are not linked to standards of performance.

In the light of economic conditions the executive directors did not receive a salary increase for the year 2009-2010.

The annual bonus of directors is dependent on the achievement of company, team and individual targets. In the case of directors these targets are weighted as 60% company, 20% team and 20% individual. The company targets are Key Performance Indicators covering financial measures, Ofwat service measures, asset performance, environmental and employee issues as shown below:

Financial – profit after tax / operating costs / capital expenditure / cash flow / bad debts / gearing / post tax return
Service – Overall Performance Assessment / drinking water quality / customer satisfaction / customer service rating / operating cost comparative performance
Asset – regulatory outputs / serviceability / security of supply / leakage / properties on flooding register
Environmental – energy usage / energy self generation / sewage treatment compliance / bathing water quality / pollutions
Employees – reportable injuries / employee rating of company / training plan delivered.

In 2009-2010 all but one of the company targets were met or bettered, and when taking into account team and individual performance, the following bonus payments were made; SA Cater £65k, DJ Elliott £56k, PJL Dennis £43k, TK Harris £39k and CF Skellett £37k.

For 2010-2011 the company targets have been revised slightly to reflect new priorities as shown below:

Financial – profit after corporation tax / operating costs / capital expenditure / cash flow before dividends / equity return
Service – Service Incentive Mechanism quantitative and qualitative score / customer service rating / operating cost comparative performance
Asset – regulatory outputs / serviceability / security of supply / leakage
Environmental – energy usage / energy self generation / sewage treatment compliance / bathing water quality / pollutions category 1, 2 and 3
Employees – reportable injuries / employee rating of company / training plan delivered.

	2010 £000	2009 £000
e. Highest paid director		
Salary	133	200
Compensation for loss of office	238	-
Bonus	39	60
Benefits in kind	6	15
	416	275

There is a different highest paid director in the two years and respectively they had an accrued annual pension entitlement of £158,996 at 31 March 2010 (2009 – £79,792).

	2010 number	2009 number
f. Monthly average number of employees during the year	1,709	1,867

7 DIVIDENDS

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

	2010 £m	2009 £m
Final dividend in respect of a prior year not recognised as a liability in that year	26.9	-
Interim dividends for 9 months to 31 December	81.4	81.1
Final dividend for 3 months to 31 March	30.6	-
	138.9	81.1

NOTES TO THE ACCOUNTS

continued

8 TANGIBLE FIXED ASSETS

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2009	652.1	1,106.3	943.7	64.2	185.5	2,951.8
Additions	3.9	36.3	60.6	4.7	5.6	111.1
Transfers on commissioning	12.7	22.8	81.4	19.3	(136.2)	-
Disposals	(2.7)	-	(10.1)	-	-	(12.8)
Grants and contributions	-	(5.5)	-	-	-	(5.5)
At 31 March 2010	666.0	1,159.9	1,075.6	88.2	54.9	3,044.6
Depreciation						
At 1 April 2009	172.6	329.7	424.7	18.8	-	945.8
Charge for the period	13.2	31.5	50.4	4.1	-	99.2
Disposals	(0.9)	-	(8.7)	-	-	(9.6)
At 31 March 2010	184.9	361.2	466.4	22.9	-	1,035.4
Net book value						
At 31 March 2010	481.1	798.7	609.2	65.3	54.9	2,009.2
At 1 April 2009	479.5	776.6	519.0	45.4	185.5	2,006.0

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 £59.6m (2009 – £66.0m).

The depreciation charge for the period on assets held under finance leases is £6.4m (2009 – £6.4m).

The net book value of infrastructure assets at 31 March 2010 is stated after the deduction of grants and contributions amounting to £115.1m (2009 – £109.6m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £363.2m (2009 – £340.0m) of expenditure on maintaining the network, and £361.2m (2009 – £329.7m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £10.2m (2009 – £9.8m) in respect of land which is not depreciated.

9 INVESTMENTS

The company has an investment of £13,000 (2009 – £13,000) in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

10 STOCK AND WORK IN PROGRESS

	2010 £m	2009 £m
Raw materials and consumables	2.4	2.6
Work in progress	2.9	2.3
	5.3	4.9

11 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	35.1	32.7
Owed by group companies	26.6	26.7
Prepayments and accrued income	62.8	53.3
Other debtors	2.3	3.4
	126.8	116.1

12 CASH AT BANK AND IN HAND

Short-term bank deposits	-	32.5
Cash at bank and in hand	8.1	4.5
	8.1	37.0

Short-term bank deposits mature within 1 month.

13 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Loans repayable	-	75.0
Inter company loan	1.3	1.3
Obligations under finance leases	4.9	4.8
Trade creditors	5.4	4.1
Amounts owed to subsidiary company	2.4	12.0
Amounts owed to other group companies	0.6	0.6
Amounts owed to associate company	0.7	0.7
Dividend	30.6	-
Other creditors	2.7	2.2
Corporation tax	20.1	11.7
Taxation and social security	2.3	1.9
Accruals and deferred income	70.4	74.3
	141.4	188.6

The inter company loan is due to a fellow subsidiary company SC Technology GmbH.

NOTES TO THE ACCOUNTS
continued

14 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		2010 £m	2009 £m
Loans repayable	– in more than 1 year, but not more than 2 years	75.0	-
	– in more than 2 years, but not more than 5 years	-	75.0
	– in more than 5 years	240.0	240.0
		315.0	315.0
Finance lease repayable	– in more than 1 year, but not more than 2 years	5.6	4.9
	– in more than 2 years, but not more than 5 years	21.4	19.0
	– in more than 5 years	43.6	51.6
		70.6	75.5
Inter company loans – in more than 5 years		1,146.4	1,085.6
Other		1.3	1.5
		1,533.3	1,477.6

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of the following bond issues lent to the company:

	2010 £m	2009 £m
Bond at 5.375% repayable in March 2028	198.1	198.0
Bond at 5.75% repayable in October 2033	345.8	345.6
Index linked Bond at 3.53% plus inflation repayable in July 2023	62.2	60.7
Index linked Bond at 2.186% plus inflation repayable in September 2039	50.3	-
Index linked Bond at 1.75% plus inflation repayable in July 2046	83.7	81.6
Index linked Bond at 1.75% plus inflation repayable in July 2051	83.7	81.7
Index linked Bond at 1.369% plus inflation repayable in July 2057	83.7	81.6
Index linked Bond at 1.374% plus inflation repayable in July 2057	83.7	81.7
Index linked Bond at 1.489% plus inflation repayable in November 2058	51.7	51.5
Index linked Bond at 1.495% plus inflation repayable in November 2058	51.7	51.6
Index linked Bond at 1.499% plus inflation repayable in November 2058	51.8	51.6
	1,146.4	1,085.6

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 April 2009	87.4	0.2	87.6
Provided in year	-	1.8	1.8
Utilised during year	-	(1.2)	(1.2)
Origination and reversal of timing differences	14.5	-	14.5
Increase in discount	(4.9)	-	(4.9)
At 31 March 2010	97.0	0.8	97.8

	2010 £m	2009 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	292.9	278.2
Other timing differences	(1.0)	(0.8)
Undiscounted provision for deferred tax	291.9	277.4
Discount	(194.9)	(190.0)
Discounted provision for deferred tax	97.0	87.4

16 PENSION LIABILITY

FRS 17 pension liability (note 16e)	79.9	46.9
FRS 17 deferred tax asset	(22.4)	(13.1)
Unfunded and compensatory added years pension	1.1	1.1
	58.6	34.9

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

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

b. The total pension cost of the company under FRS 17, including amounts set aside for employees retiring early and other finance income, was £11.9m (2009 – £9.2m).

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

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

d. The actuarial valuation described above has been updated to 31 March 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 were:

	31.03.10	31.03.09	31.03.08
Rate of increase in salaries	3.4%	3.75%	5.0%
Rate of increase in pensions in payment	3.25%	2.7%	3.5%
Rate of increase in pensions in payment (reduced level members)	2.2%	2.0%	2.4%
Discount rate	5.6%	6.6%	6.9%
Inflation assumption	3.4%	2.75%	3.5%

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

e. The value of the assets and liabilities at 31 March 2010 and the comparator for the previous two years was as follows:

	31.03.10 £m	31.03.09 £m	31.03.08 £m
Equities	149.0	87.1	127.3
Property	21.7	13.0	20.0
Government bonds	128.8	119.7	144.5
Corporate bonds	17.7	33.6	3.6
Other	8.7	3.5	0.3
Total fair value of the assets	325.9	256.9	295.7
Present value of defined benefit obligations	(405.8)	(303.8)	(316.1)
Deficit in the scheme	(79.9)	(46.9)	(20.4)

The expected rates of return over the last three years were as follows:	31.03.10 %	31.03.09 %	31.03.08 %
Equities	8.5	9.25	9.0
Property	9.0	8.25	7.5
Government bonds	4.5	4.25	4.5
Corporate bonds	5.5	6.25	5.3
Other	0.6	2.0	6.0
Total	6.6	6.4	6.7

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 plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return of each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation of the scheme as at 31 March 2010.

f. Additional analysis:

	31.03.10 £m	31.03.09 £m
Analysis of profit and loss charge		
Current service cost	7.6	6.4
Past service cost	0.4	0.5
Interest cost	19.9	21.7
Expected return on scheme assets	(16.0)	(19.4)
Expense recognised in profit and loss account	11.9	9.2
Changes to the present value of defined benefit obligations during the year		
Opening present value of defined benefit obligations	303.8	316.1
Current service cost	7.6	6.4
Interest cost	19.9	21.7
Contributions by scheme participants	1.0	3.4
Actuarial losses / (gains) on scheme liabilities	85.4	(31.1)
Net benefits paid out	(12.3)	(13.2)
Past service cost	0.4	0.5
Closing present value of defined benefit obligations	405.8	303.8
Changes to the fair value of scheme assets during the year		
Opening fair value of scheme assets	256.9	295.7
Expected return on scheme assets	16.0	19.4
Actuarial gains / (losses) on scheme assets	44.2	(64.6)
Contributions by the employer	20.1	16.2
Contributions by scheme participants	1.0	3.4
Net benefits paid out	(12.3)	(13.2)
Closing fair value of scheme assets	325.9	256.9
Actual return on scheme assets		
Expected return on scheme assets	16.0	19.4
Actuarial gains / (losses) on scheme assets	44.2	(64.6)
Actual return on scheme assets	60.2	(45.2)
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses		
Total actuarial losses	(41.2)	(33.5)
Cumulative amount of losses recognised	(88.0)	(46.8)

NOTES TO THE ACCOUNTS

continued

History of asset values, defined benefit obligations, deficit in the scheme and experience gains and losses	31.03.10 £m	31.03.09 £m	31.03.08 £m	31.03.07 £m	31.03.06 £m
Fair value of scheme assets	325.9	256.9	295.7	288.9	272.2
Present value of scheme liabilities	(405.8)	(303.8)	(316.1)	(349.5)	(347.8)
(Deficit) in the scheme	(79.9)	(46.9)	(20.4)	(60.6)	(75.6)
Experience gains/(losses) on scheme assets	44.2	(64.6)	(17.6)	(3.4)	26.0
Experience gains/(losses) on scheme liabilities	4.3	(1.1)	(3.4)	(5.3)	(1.0)

17 DEFERRED INCOME

	2010 £m	2009 £m
Grants and contributions:		
At 1 April	20.3	20.8
Received in the year	0.3	0.4
Less amortisation	(1.0)	(0.9)
At 31 March	19.6	20.3

18 CALLED UP EQUITY SHARE CAPITAL

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

19 PROFIT AND LOSS ACCOUNT

At 1 April	273.7	285.6
Actuarial losses net of taxation	(29.7)	(24.1)
Profit attributable to shareholders	112.3	93.3
Dividends (note 7)	(138.9)	(81.1)
At 31 March	217.4	273.7

20 EQUITY SHAREHOLDERS' FUNDS

	2010 £m	2009 £m
At 1 April	355.0	366.9
Actuarial losses net of taxation	(29.7)	(24.1)
Profit attributable to shareholders	112.3	93.3
Dividends (note 7)	(138.9)	(81.1)
At 31 March	298.7	355.0

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

	Year to 31.3.10 £m	Year to 31.3.09 £m
Operating profit	216.7	203.4
Depreciation	99.2	91.1
Amortisation of grants and contributions	(1.0)	(0.9)
Provisions	(11.4)	(8.1)
Loss on disposal of fixed assets	1.9	2.0
(Increase) in stocks	(0.4)	(0.6)
(Increase) in debtors	(10.9)	(0.7)
Increase in creditors	2.7	0.8
	296.8	287.0

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Interest received	0.4	14.0
Interest paid	(58.1)	(90.3)
Interest element of finance lease rentals	(4.0)	(4.8)
	(61.7)	(81.1)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of tangible fixed assets	(123.7)	(243.2)
Sale of tangible fixed assets	1.3	0.8
Connection charges, grants and deferred income	6.1	5.3
	(116.3)	(237.1)

24 FINANCING

Loans and finance leases drawn down	50.0	194.7
Loans and finance leases (repaid)	(69.0)	(283.3)
	(19.0)	(88.6)

NOTES TO THE ACCOUNTS
continued

25 MOVEMENT IN NET DEBT

	1 April 2009 £m	Cash flow £m	Non cash items £m	31 March 2010 £m
Cash at bank and in hand	37.0	(28.9)	-	8.1
Short-term borrowings	(76.3)	75.0	-	(1.3)
Loans repayable after one year	(315.0)	-	-	(315.0)
Finance leases repayable within one year	(4.8)	(0.1)	-	(4.9)
Finance leases repayable after one year	(75.5)	4.9	-	(70.6)
Bonds repayable after one year	(1,085.6)	(50.0)	(10.8)	(1,146.4)
	(1,520.2)	0.9	(10.8)	(1,530.1)

26 FINANCIAL INSTRUMENTS

Short-term debtors and creditors have been excluded from the financial instruments disclosure other than £6.2m (2009 – £81.1m) of short-term borrowings.

The company has financed its activities through a combination of short-term borrowings, long-term loans and leases and Bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 31 March 2010 there were £150.0m (2009 – £75.0m) of undrawn facilities. The company uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit exposure to floating interest rates.

a. Interest rate and currency exposure

	Fixed rate borrowings 2010 £m	Floating rate borrowings 2010 £m	Total borrowings 2010 £m	Fixed rate borrowings 2009 £m	Floating rate borrowings 2009 £m	Total borrowings 2009 £m
Sterling	1,146.4	391.8	1,538.2	1,085.6	471.6	1,557.2

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

	Interest rate % 2010	Period years 2010	Interest rate % 2009	Period years 2009
Sterling	3.7	31.8	3.8	31.6

£6.2m (2009 – £80.6m) of floating rate borrowings are short term, and £385.6m (2009 – £391.0m) are long term with interest rates moving in line with LIBOR.

b. Fair values

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

	Book value £m 2010	Fair value £m 2010	Book value £m 2009	Fair value £m 2009
Borrowings less than 1 year	6.2	6.2	81.1	81.1
Floating rate borrowings over 1 year	385.6	385.6	390.5	390.5
Fixed rate borrowings over year	1,146.4	1,204.5	1,085.6	1,011.8
	1,538.2	1,596.3	1,557.2	1,483.4

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

27 SHARE-BASED PAYMENTS

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

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

The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each, the following options were outstanding at 31 March 2009 and 2010.

Granted – Ordinary shares of RM0.50 each	Outstanding at 31 March 2009	Granted	Forfeited	Exercised	Outstanding at 31 March 2010
13/12/2002 Unapproved	12,999,250	-	(100,000)	(3,109,500)	9,789,750
26/12/2002 Approved	4,489,500	-	-	(398,500)	4,091,000
12/12/2003 Unapproved	1,719,000	-	(200,000)	(525,000)	994,000
12/12/2003 Approved	1,518,000	-	-	(100,000)	1,418,000
16/05/2005 Unapproved	3,900,000	-	-	-	3,900,000
16/05/2005 Approved	4,378,000	-	(102,000)	(22,000)	4,254,000
07/08/2006 Unapproved	700,000	-	(200,000)	-	500,000
07/08/2006 Approved	4,946,000	-	(170,000)	(67,500)	4,708,500
20/08/2007 Unapproved	900,000	-	-	-	900,000
20/08/2007 Approved	3,394,000	-	(170,000)	-	3,224,000
26/06/2008 Unapproved	90,000	-	-	-	90,000
28/11/2008 Unapproved	6,560,000	-	(480,000)	-	6,080,000
28/11/2008 Approved	9,594,000	-	(250,000)	-	9,344,000
TOTAL	55,187,750	-	(1,672,000)	(4,222,500)	49,293,250

Of the above options 29,655,250 were exercisable at 31 March 2010.

NOTES TO THE ACCOUNTS
continued

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

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
13/12/2002 Unapproved	13/12/2005	29/11/2011	1.32	n/a
26/12/2002 Approved	26/12/2005	29/11/2011	1.39	n/a
12/12/2003 Unapproved	12/12/2006	29/11/2011	1.53	0.51
12/12/2003 Approved	12/12/2006	29/11/2011	1.70	0.34
16/05/2005 Unapproved	16/05/2008	29/11/2011	1.82	0.04
16/05/2005 Approved	16/05/2008	29/11/2011	2.02	0.01
07/08/2006 Unapproved	07/08/2009	29/11/2011	1.74	0.07
07/08/2006 Approved	07/08/2009	29/11/2011	1.93	0.01
20/08/2007 Unapproved	20/08/2010	29/11/2011	2.04	0.03
20/08/2007 Approved	20/08/2010	29/11/2011	2.27	-
26/06/2008 Unapproved	20/08/2010	29/11/2011	1.80	0.02
28/11/2008 Unapproved	28/11/2011	29/11/2011	1.61	0.22
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 through to the exercise date.

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

Scheme	Weighted ave. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
16/05/2005 Unapproved	2.03	3.5	5	3.15	5.6
16/05/2005 Approved	2.03	3.5	3	2.91	5.6
07/08/2006 Unapproved	1.92	3.5	4	4.10	5.8
07/08/2006 Approved	1.92	3.5	3	4.06	5.8
20/08/2007 Unapproved	2.30	3.5	4	3.63	6.9
20/08/2007 Approved	2.30	3.5	3	3.60	6.9
26/06/2008 Unapproved	1.93	3.5	3	3.43	7.8
28/11/2008 Unapproved	1.85	21.0	3	3.23	7.3
28/11/2008 Approved	1.85	21.0	3	3.23	7.3

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

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

28 COMMITMENTS AND GUARANTEES

a. There were no operating leases under leases on land and buildings due within the next year, which expire between 1 and 2 years. Commitments under other operating leases were £0.1m (2009 – nil).

b. At 31 March 2010 the company had no interest rate and currency instrument agreements outstanding with commercial banks (2009 – nil).

c. Capital expenditure contracted but not provided at 31 March 2010 was £21.8m (2009 – £50.1m).

d. The company has guaranteed bonds of £1,146.4m (2009 – £1,085.6m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

29 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 2010 for which provision has not been made in these accounts.

30 RELATED PARTIES

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

31 ULTIMATE PARENT COMPANY

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

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

32 GOING CONCERN

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

REGULATORY INFORMATION

Introduction

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

Regulation

Under the conditions of its Licence, granted to the company by the Secretary of State for the Environment the company is obliged to provide the Water Services Regulatory Authority with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 56 to 71.

Ring fencing

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

The company was in compliance with that requirement as at 31 March 2010. In the opinion of the directors:

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

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

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

In making this statement the directors made reference to the detailed budget produced for the year to March 2011 and the five-year business plan model. The directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Directorships

C F Skellett and M T Watts are also directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, Wessex Engineering & Construction Ltd and Bristol Wessex Billing Services Ltd. C F Skellett is also a director of YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd.

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

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES

Directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2010.

The directors also confirm that, except for the departure explained in note 1e on page 32 to the financial statements, and in respect of infrastructure renewals accounting as explained below, applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

Accounting policies

These regulatory accounts on pages 56 to 71 do not constitute the company's statutory accounts for the years ended 31 March 2010 or 2009. 31 March 2010 is not the accounting reference date for the company. The latest statutory accounts of the company were for the years ended 30 June 2009 and 2008. Both these statutory accounts have been delivered to the registrar of companies. The auditors have reported on both these statutory accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The next statutory accounts of the company will be prepared for the year ending 30 June 2010.

Historical cost statements

In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non appointed business to show the profit and loss account, balance sheet and cash flow statements.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom, except for the treatment of certain grants and contributions (see note 1e on page 32). The principal accounting policies are described on pages 31 to 33.

Under FRS15, Tangible Fixed Assets, it is not permitted to recognise provisions or prepayments in respect of infrastructure renewals accounting. In accordance with instructions from the Water Services Regulatory Authority, set out in a letter RD 11/00 dated 6 April 2000 "Regulatory Accounts for 1999-2000 – Reporting Requirements RAG 3.04", the sections of FRS15 relevant to infrastructure renewals accounting are to be dis-applied. The effect of this on the balance sheet has been shown on page 58.

Turnover recognition

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

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

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

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

DIRECTORS' RESPONSIBILITIES AND ACCOUNTING POLICIES continued

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

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

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

Current cost statements
The principal accounting policies are described on page 62.

The effect of not applying FRS15 in respect of infrastructure renewals accounting, has been to reduce fixed assets by £2.0m (2009 – £10.3m) and increase working capital by the same amount. Within fixed assets the impact has been to reduce cost by £363.2m (2009 – £340.0m) and reduce accumulated depreciation by £361.2m (2009 – £329.7m).

Reconciliation to the non-statutory accounts
In the non-statutory accounts the company has continued to capitalise customer pipe leak repairs. The impact is to increase historical cost profit after tax and to increase historical cost net assets as shown on page 58.

Principals of cost allocation
In note 7a and 7b of the current cost regulatory statements, direct costs are specifically attributed to services and do not require allocation. Business activities, rates and doubtful debts are allocated according to specific criteria relevant to each type of cost.

Capital costs are specifically attributed to services and do not require allocation.

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

We have audited the Regulatory Accounts of Wessex Water Services Ltd ("the company") on pages 56 to 70 which comprise:

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

The financial reporting framework that has been applied in their preparation is Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the company. There are differences between United Kingdom Generally Accepted Accounting Practices (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

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

Respective responsibilities of the WSRA, the directors and auditors

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

The directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of director's responsibilities for regulatory information on page 51.

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

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

International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts
An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the directors. In view of the purpose for which these Regulatory Accounts have been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 56 to 58 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK GAAP, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 2006 is given on page 58.

Opinion on the Regulatory Accounts
In our opinion the Regulatory Accounts of the company for the year ended 31 March 2010 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 51, 52 and 62, the state of the company's affairs at 31 March 2010 on a historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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

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

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

(c) the regulatory historical cost accounting statements on pages 56 to 58 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA; and

(d) the regulatory current cost accounting statements on pages 59 to 70 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol, BS1 6AG
25 June 2010

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year to 31 March 2010

	2010 Appointed £m	2010 Non appointed £m	2010 Total £m	2009 Appointed £m	2009 Non appointed £m	2009 Total £m
Turnover	434.6	3.6	438.2	416.6	4.0	420.6
Operating costs	(151.6)	(3.6)	(155.2)	(153.8)	(4.0)	(157.8)
Depreciation	(66.7)	-	(66.7)	(59.8)	-	(59.8)
Operating income	(1.9)	-	(1.9)	(2.0)	-	(2.0)
Operating profit	214.4	-	214.4	201.0	-	201.0
Other income	0.4	-	0.4	0.5	-	0.5
Interest payable	(63.8)	-	(63.8)	(84.7)	-	(84.7)
Profit on ordinary activities before taxation	151.0	-	151.0	116.8	-	116.8
Current taxation	(28.7)	-	(28.7)	(22.4)	-	(22.4)
Deferred taxation	(11.9)	-	(11.9)	(3.0)	-	(3.0)
Profit for the year	110.4	-	110.4	91.4	-	91.4
Ordinary dividend	(138.9)	-	(138.9)	(81.1)	-	(81.1)
Transfer to reserves	(28.5)	-	(28.5)	10.3	-	10.3

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year to 31 March 2010

	2010 Appointed £m	2010 Non appointed £m	2010 Total £m	2009 Appointed £m	2009 Non appointed £m	2009 Total £m
Profit for the year	110.4	-	110.4	91.4	-	91.4
Actuarial losses net of tax	(29.7)	-	(29.7)	(24.1)	-	(24.1)
Total recognised gains	80.7	-	80.7	67.3	-	67.3

HISTORICAL COST BALANCE SHEET

At 31 March 2010

	2010 Appointed £m	2009 Appointed £m
Fixed assets		
Tangible fixed assets	1,987.9	1,978.3
Current assets		
Stocks	5.3	4.9
Debtors	126.8	116.1
Infrastructure renewals prepayment	2.0	10.3
Cash at bank and in hand	8.1	37.0
	142.2	168.3
Creditors – amounts falling due within one year		
Borrowings	(6.2)	(81.1)
Corporation tax	(19.6)	(11.2)
Dividends payable	(30.6)	-
Other creditors	(84.5)	(95.8)
	(140.9)	(188.1)
Net current assets / (liabilities)	1.3	(19.8)
Total assets less current liabilities	1,989.2	1,958.5
Creditors – amounts falling due after more than one year		
Borrowings	(1,532.0)	(1,476.1)
Other creditors	(1.3)	(1.5)
	(1,533.3)	(1,477.6)
Provisions for liabilities and charges		
Deferred tax	(97.0)	(87.4)
Retirement benefit obligations	(58.6)	(34.9)
Other provisions	(0.8)	(0.2)
Deferred income	(19.6)	(20.3)
Net assets	279.9	338.1
Capital and reserves		
Called up share capital	81.3	81.3
Profit and loss account	198.6	256.8
Equity shareholders' funds	279.9	338.1

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

The regulatory information on pages 56 to 71 was approved by the board of directors on 25 June 2010.

Colin Skellett
Chairman

Mark Watts
Director

RECONCILIATION FROM REGULATORY ACCOUNTS TO NON STATUTORY ACCOUNTS

At 31 March 2010

	2010 £m	2009 £m
Profit and loss account		
Per Regulatory Accounts	110.4	91.4
Capitalisation of customer pipe leak repairs	1.9	1.9
Per Non Statutory Accounts	112.3	93.3
Balance sheet		
(a) Fixed assets		
Per Regulatory Accounts	1,987.9	1,978.3
Capitalisation of customer pipe leak repairs – current year	1.9	1.9
Capitalisation of customer pipe leak repairs – prior years	17.4	15.5
Infrastructure renewals expenditure under FRS 15	2.0	10.3
Per Non Statutory Accounts	2,009.2	2,006.0
(b) Current assets		
Per Regulatory Accounts	142.2	168.3
Infrastructure renewals expenditure under FRS 15	(2.0)	(10.3)
Per Non Statutory Accounts	140.2	158.0
(c) Creditors – amounts falling due within one year		
Per Regulatory Accounts	(140.9)	(188.1)
Tax adjustment on prior year customer pipe leak repairs	(0.5)	(0.5)
Per Non Statutory Accounts	(141.4)	(188.6)
(d) Reserves		
Per Regulatory Accounts	198.6	256.8
Capitalisation of customer pipe leak repairs – current year	1.9	1.9
Capitalisation of customer pipe leak repairs – prior years	16.9	15.0
Per Non Statutory Accounts	217.4	273.7

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

For the year to 31 March 2010

	NOTE	2010 £m	2009 £m
Turnover	4	434.6	416.6
Current cost operating costs	7	(239.0)	(233.2)
Operating income	4	(4.1)	(2.7)
Working capital adjustment	4	(0.6)	(0.1)
Current cost operating profit	5	190.9	180.6
Other income		0.4	0.5
Interest payable		(63.8)	(84.7)
Financing adjustment		43.6	(3.2)
Current cost profit before taxation		171.1	93.2
Corporation tax		(28.7)	(22.4)
Deferred tax		(11.9)	(3.0)
Current cost profit attributable to shareholders		130.5	67.8
Ordinary dividend		(138.9)	(81.1)
Transfer to reserves		(8.4)	(13.3)

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS At 31 March 2010

	NOTE	2010 £m	2009 £m
Fixed assets			
Tangible fixed assets	6	11,670.1	11,187.5
Third party contributions since 1989-90		(178.6)	(166.7)
		11,491.5	11,020.8
Other operating assets and liabilities			
Working capital	8	61.5	41.1
Cash and deposits		8.1	37.0
Infrastructure renewals prepayment		2.0	10.3
		71.6	88.4
Non operating assets and liabilities			
Borrowings		(6.2)	(81.1)
Non trade debtors due within one year		0.1	(0.2)
Non trade creditors due within one year		(14.0)	(15.7)
Corporation tax payable		(19.6)	(11.2)
Dividends payable		(30.6)	-
		(70.3)	(108.2)
Amounts falling due after more than one year			
Borrowings		(1,532.0)	(1,476.1)
Other creditors		(1.3)	(1.5)
		(1,533.3)	(1,477.6)
Provisions for liabilities and charges			
Deferred tax provision		(97.0)	(87.4)
Post employment liabilities		(58.6)	(34.9)
Other provisions		(0.8)	(0.2)
Net assets employed		9,803.1	9,400.9
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		37.4	75.5
Current cost reserve	9	9,684.4	9,244.1
		9,803.1	9,400.9

CURRENT COST CASH FLOW STATEMENT

For the year to 31 March 2010

	NOTE	Appointed 2010 £m	Appointed 2009 £m
Net cash inflow from operating activities	5	294.9	285.1
Returns on investments and servicing of finance			
Interest received		0.4	14.0
Interest paid		(58.1)	(90.3)
Interest on finance lease rentals		(4.0)	(4.8)
		(61.7)	(81.1)
Taxation			
UK corporation tax paid		(20.4)	(27.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(98.6)	(211.9)
Receipts of grants and contributions		6.1	5.3
Infrastructure renewals expenditure		(23.2)	(29.4)
Sale of fixed assets		1.3	0.8
		(114.4)	(235.2)
Equity dividends paid		(108.3)	(102.8)
Net cash outflow before financing		(9.9)	(161.9)
Financing			
Capital element of finance lease rentals		(4.8)	(3.8)
Loans taken out		-	194.7
Loans repaid		(75.0)	(300.0)
Loans from subsidiary company		60.8	20.5
		(19.0)	(88.6)
Decrease in cash		(28.9)	(250.5)

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

NOTES TO THE CURRENT COST STATEMENTS

For the year to 31 March 2010

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

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

1 TANGIBLE FIXED ASSETS

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

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

Non-specialised operational properties

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

Specialised operational assets

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

Infrastructure assets

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

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

Other tangible assets

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

Surplus land

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

2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS

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

3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

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

Working capital adjustment

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

Financing adjustment

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

4 ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS

	2010 Water services £m	2010 Sewerage services £m	2010 Appointed business £m	2009 Water services £m	2009 Sewerage services £m	2009 Appointed business £m
Turnover						
Unmeasured – household	61.4	139.9	201.3	61.6	136.0	197.6
Unmeasured – non household	2.3	4.1	6.4	2.4	4.5	6.9
Total unmeasured	63.7	144.0	207.7	64.0	140.5	204.5
Measured – household	39.8	79.8	119.6	35.9	69.2	105.1
Measured – non household	34.9	43.8	78.7	33.3	41.6	74.9
Total measured	74.7	123.6	198.3	69.2	110.8	180.0
Trade effluent	-	4.4	4.4	-	4.6	4.6
Large users	8.4	11.6	20.0	8.9	13.2	22.1
Rechargeable works	2.3	0.6	2.9	3.7	0.4	4.1
Bulk supplies	0.3	-	0.3	0.3	-	0.3
Other appointed business	0.2	0.7	0.9	0.3	0.6	0.9
Other sources	0.1	-	0.1	0.1	-	0.1
Total turnover	149.7	284.9	434.6	146.5	270.1	416.6
Operating income						
Current cost loss on disposal of fixed assets	(2.5)	(1.6)	(4.1)	(1.3)	(1.4)	(2.7)
Total operating income	(2.5)	(1.6)	(4.1)	(1.3)	(1.4)	(2.7)
Working capital adjustment	(0.2)	(0.4)	(0.6)	-	(0.1)	(0.1)

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

	2010 £m	2009 £m
Current cost operating profit	190.9	180.6
Working capital adjustment	0.6	0.1
Movement in working capital	(20.4)	(28.8)
Other income	0.4	0.5
Current cost depreciation	87.4	79.4
Current cost loss on disposal of fixed assets	4.1	2.7
Infrastructure renewals charge	31.5	30.4
Provisions	0.4	20.2
Net cash inflow from operating activities	294.9	285.1

NOTES TO THE CURRENT COST STATEMENTS
continued

6 CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Cost at 1 April 2009	728.4	27.5	2,386.0	25.8	3,167.7
MEA adjustment	-	-	-	-	-
RPI adjustment	28.3	1.2	106.2	1.3	137.0
Disposals	(8.6)	(0.1)	-	(1.5)	(10.2)
Additions	24.1	-	3.5	2.5	30.1
Cost at 31 March 2010	772.2	28.6	2,495.7	28.1	3,324.6
Depreciation at 1 April 2009	342.0	5.6	-	13.0	360.6
MEA adjustment	-	-	-	-	-
RPI adjustment	14.0	0.2	-	0.6	14.8
Disposals	(6.0)	-	-	(1.4)	(7.4)
Charge for year	19.9	0.4	-	3.9	24.2
Depreciation at 31 March 2010	369.9	6.2	-	16.1	392.2
Net book value at 31 March 2010	402.3	22.4	2,495.7	12.0	2,932.4
At 1 April 2009	386.4	21.9	2,386.0	12.8	2,807.1
SEWERAGE SERVICES					
Cost at 1 April 2009	2,154.5	42.3	7,228.7	54.3	9,479.8
MEA adjustment	-	-	-	-	-
RPI adjustment	92.0	1.7	320.6	2.4	416.7
Disposals	(11.2)	(0.2)	-	(2.0)	(13.4)
Additions	38.7	-	13.2	4.0	55.9
Cost at 31 March 2010	2,274.0	43.8	7,562.5	58.7	9,939.0
Depreciation at 1 April 2009	1,067.0	5.5	-	26.9	1,099.4
MEA adjustment	-	-	-	-	-
RPI adjustment	46.7	0.3	-	1.2	48.2
Disposals	(8.9)	-	-	(1.9)	(10.8)
Charge for year	56.9	0.6	-	7.0	64.5
Depreciation at 31 March 2010	1,161.7	6.4	-	33.2	1,201.3
Net book value at 31 March 2010	1,112.3	37.4	7,562.5	25.5	8,737.7
At 1 April 2009	1,087.5	36.8	7,228.7	27.4	8,380.4
TOTAL					
Cost at 1 April 2009	2,882.9	69.8	9,614.7	80.1	12,647.5
MEA adjustment	-	-	-	-	-
RPI adjustment	120.3	2.9	426.8	3.7	553.7
Disposals	(19.8)	(0.3)	-	(3.5)	(23.6)
Additions	62.8	-	16.7	6.5	86.0
Cost at 31 March 2010	3,046.2	72.4	10,058.2	86.8	13,263.6
Depreciation at 1 April 2009	1,409.0	11.1	-	39.9	1,460.0
MEA adjustment	-	-	-	-	-
RPI adjustment	60.7	0.5	-	1.8	63.0
Disposals	(14.9)	-	-	(3.3)	(18.2)
Charge for year	76.8	1.0	-	10.9	88.7
Depreciation at 31 March 2010	1,531.6	12.6	-	49.3	1,593.5
Net book value at 31 March 2010	1,514.6	59.8	10,058.2	37.5	11,670.1
At 1 April 2009	1,473.9	58.7	9,614.7	40.2	11,187.5

7a ACTIVITY COSTING ANALYSIS – 2010 for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
DIRECT COSTS							
Employment costs	3.4	1.5	1.8	6.7	1.9	3.1	5.0
Power	2.8	9.1	0.9	12.8	2.4	4.6	7.0
Hired & contracted services	1.9	3.0	0.8	5.7	1.1	0.7	1.8
Associated companies	-	2.5	4.2	6.7	-	-	-
Materials & consumables	0.9	4.1	2.3	7.3	1.0	0.3	1.3
Service charges EA	0.9	2.2	-	3.1	2.8	-	2.8
Bulk supply import	-	-	-	-	1.1	-	1.1
Other direct costs	0.2	0.1	-	0.3	0.1	0.1	0.2
Total direct costs	10.1	22.5	10.0	42.6	10.4	8.8	19.2
General & support expenditure	2.1	5.1	0.8	8.0	2.0	3.4	5.4
Functional expenditure	12.2	27.6	10.8	50.6	12.4	12.2	24.6
OPERATING EXPENDITURE							
Customer services				6.9			3.4
Scientific services				1.3			2.8
Other business activities				1.9			1.2
Total business activities				10.1			7.4
Local authority rates				7.1			7.7
Doubtful debts				4.8			2.5
Total opex less third party services				72.6			42.2
Third party services				0.4			4.9
Total operating expenditure				73.0			47.1

NOTES TO THE CURRENT COST STATEMENTS
continued

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Total £m	Water resources & treatment £m	Water distribution £m	Total £m
CAPITAL MAINTENANCE							
Infrastructure renewals charge	12.6	0.6	0.1	13.3	0.6	17.6	18.2
Current cost depreciation	14.9	41.1	7.3	63.3	12.0	11.6	23.6
Amortisation of deferred credits				(1.0)			(0.3)
Business activities depreciation				1.2			0.6
Total capital maintenance				76.8			42.1
Total operating costs				149.8			89.2
CCA (MEA) VALUES							
Service activities	7,670.8	943.2	118.5	8,732.5	248.8	2,680.7	2,929.5
Business activities				5.2			2.9
				8,737.7			2,932.4
Services for third parties				-			-
Total				8,737.7			2,932.4

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

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

NOTES TO THE CURRENT COST STATEMENTS
continued

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

8 WORKING CAPITAL

	2010 £m	2009 £m
Stocks	5.3	4.9
Trade debtors – measured household	10.1	9.8
Trade debtors – unmeasured household	18.4	16.3
Trade debtors – measured non-household	4.6	4.5
Trade debtors – unmeasured non-household	0.2	0.2
Other trade debtors	1.8	1.9
Measured income accrual	49.8	45.4
Prepayments and other debtors	41.8	38.2
Trade creditors	(5.4)	(4.1)
Deferred income – customer advance receipts	(27.1)	(26.0)
Short term capital creditors	(14.4)	(27.0)
Accruals and other creditors	(23.6)	(23.0)
	61.5	41.1

9 MOVEMENT ON CURRENT COST RESERVE

At 1 April	9,244.1	9,281.9
MEA adjustment	-	-
RPI adjustments:		
Fixed assets	490.7	(41.7)
Working capital	0.6	0.1
Financing	(43.6)	3.2
Grants and third party contributions	(7.4)	0.6
At 31 March	9,684.4	9,244.1

NOTES TO THE CURRENT COST STATEMENTS
continued

10 ANALYSIS OF NET DEBT

a. Cash flow movement

	1 April 2009 £m	Cash flow £m	Non cash items £m	31 March 2010 £m
Cash at bank and in hand	37.0	(28.9)	-	8.1
Short term borrowings	(76.3)	75.0	-	(1.3)
Loans repayable after one year	(315.0)	-	-	(315.0)
Finance leases repayable within one year	(4.8)	(0.1)	-	(4.9)
Finance leases repayable after one year	(75.5)	4.9	-	(70.6)
Bonds repayable after one year	(1,085.6)	(50.0)	(10.8)	(1,146.4)
	(1,520.2)	0.9	(10.8)	(1,530.1)

b. Interest rate risk profile

	Fixed Rate £m	Floating Rate £m	Index Linked £m	Total £m
Borrowings:				
Less than one year	-	(6.2)	-	(6.2)
Between one and two years	-	(80.6)	-	(80.6)
Between two and five years	-	(21.4)	-	(21.4)
Between five and twenty years	(198.1)	(283.6)	(62.2)	(543.9)
In more than twenty years	-	-	(886.1)	(886.1)
	(198.1)	(391.8)	(948.3)	(1,538.2)
Cash				8.1
Net debt				(1,530.1)

11 REGULATORY CAPITAL VALUE

	2010 £m
Closing RCV for 2008-09	2,171
Ofwat adjustment (indexation and land sales)	(11)
Indexation	96
Opening RCV for 2009-10	2,256
Capital expenditure	145
Infrastructure renewals expenditure	23
Grants and contributions	(8)
Depreciation	(100)
Infrastructure renewals charge	(26)
Outperformance of regulatory assumptions (5 years in arrears)	(28)
Closing RCV for 2009-10	2,262
Average RCV	2,208

ADDITIONAL REGULATORY DISCLOSURES

For the year to 31 March 2010

A REGULATORY COMMENTARY AND TRENDS

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

B DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services provided by appointee to associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2009-10 Value £m
Wessex Water Ltd	Corporate charges	0.4	No market	0.7
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance and personnel	12.3	No market	0.7
Geneco Ltd	Asset rental, transport, information systems and laboratory	14.9	No market	5.1
Wessex Water Enterprises Ltd	Sludge treatment, accommodation, transport, insurance, laboratory and central services	13.3	No market	3.0

Services provided to appointee by associated companies

Associate company	Service provided	Turnover of associate £m	Terms of supply	2009-10 Value £m
Bristol Wessex Billing Services Ltd	Billing services	12.3	Competitive letting	10.0
Geneco Ltd	Waste water services	14.9	No market	12.8
Geneco Ltd	Waste water capital equipment	14.9	No market	1.0
Wessex Water Enterprises Ltd	Supply of electricity	13.3	Other market testing	1.8

Financial transactions

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

The appointee paid £52.4m of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the bonds issued by that company, that were lent to the appointee under the same terms as the bonds. The bonds are shown in note 14 to the accounts.

The appointee acquired assets of £0.5m on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

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

ENVIRONMENTAL COST STATEMENT AND INVESTMENT TOWARDS SUSTAINABILITY

For the year to 31 March 2010

Introduction

As part of our commitment to becoming a sustainable business, we feel it is important to account for our main environmental impacts and our spending towards sustainability.

The account that follows comprises:

1) The hypothetical cost of reducing our key externalised environmental impacts to a sustainable level – see our environmental cost statement.

2) Mandatory and discretionary expenditure on sustainability-related benefits for our customers and communities, the environment, our employees and infrastructure – see our statement of investment towards sustainability.

We have reported this information alongside our environmental accounts since 2001. Environment and financial management continue to converge and interest has grown in assigning monetary value to environmental impacts. For example, all water companies were required to include the HM Treasury Shadow Price of Carbon in their business plan submissions for the 2009 price review. This concept is also central to emissions trading such as the Carbon Reduction Commitment Energy Efficiency Scheme.

ENVIRONMENTAL COST STATEMENT – UNAUDITED For the year to 31 March 2010

Environmental cost – known and possible impacts	£14.7m
Profit attributable to shareholders 2009-10	£112.3m
Environmentally sustainable profit	£97.6m

Greenhouse gas emissions (known impact)

Component	Consumption	Emissions Kt CO_2e	2009-10 target	Shadow cost £m
Scope 1				
Natural gas & gasoil	19 GWh	6		
Transport	4 Ml	10		
Methane & nitrous oxide	-	23	124	1.7 (33 kt CO_2e at £51/t)
Scope 2				
Grid electricity	215 GWh	117		
Scope 3				
Transport	Var. measures	1		
Methane & nitrous oxide	-	-		

Impacts on watercourses (possible impacts)

	2009-10 target	Abatement cost £m
Abstraction at Priority 2 sites	Meeting Defra guidance on low flows	13.0

The environmental cost statement, developed some 10 years ago with Forum for the Future, places a monetary value on impacts that have not already led to company investment. Once these are identified, we estimate what a sustainable level of impact would be and compare it with the actual impact that we have had during the reporting year. Then, the financial effect is calculated based on the theoretical cost of reducing impacts to a sustainable level, either by investment, offsetting, markets or shadow prices.

Where environmental impacts are directly regulated, such as those relating to rivers and coastal waters, the resulting investment for environmental improvement is already embedded within the profit and loss account and therefore not included here.

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

Emissions to air
In the long term, we have set ourselves the ambitious goal of becoming carbon neutral. Our annual emissions of three major greenhouse gases – carbon dioxide (from electricity, gas, diesel oil, transport), methane and nitrous oxide – are compared with the target reduction pathway in the UK Climate Change Act (CCA). This Act requires an 80% cut between 1990 and 2050.

Our total carbon dioxide equivalent emissions were 157Kt in 2009-10, 33Kt tonnes above the CCA reduction pathway target value shown in the table below. To calculate a cost of neutralising these surplus emissions, we apply the HM Treasury's Shadow Price of Carbon – £51 per tonne (price given for emissions outside the EU Emissions Trading Scheme). This differs to the approach used in previous years, where a lower carbon offset purchase price of £7.50/tonne has been used.

	1990	2009-10 actual	2009-10 target (see notes)	Deficit
Greenhouse gas emissions (Kt CO_2e)	165	157	124	33

Our emissions for 2009-10 have been calculated in accordance with Defra's guidance on how to measure and report greenhouse gas emissions (September 2009). Emissions are categorised into three different scopes: 1 (direct emissions from activities owned or controlled by us that release emissions straight into the atmosphere); 2 (indirect emissions, associated with our consumption of purchased electricity from sources we do not own or control); and 3 (other indirect emissions, eg, from staff using their own vehicles for business use).

While emissions reported in the table on page 72 are in line with regulatory reporting requirements, they exclude potential scope 3 emissions associated with the application of sludge to land. If these were included, our actual emissions in the table above would increase by 9Kt CO_2e.

ENVIRONMENTAL COST STATEMENT – UNAUDITED continued

Impacts on water
Some of the rivers and streams in our region experience low flows from time to time, due to the combined effects of dry weather and Wessex Water's abstraction of groundwater. Over the last five years we have carried out a programme of investigations looking at the effect of abstraction on the ecology of the rivers and streams in question. In tandem we investigated potential solutions whereby the water supplied to our customers can be taken from alternative sources. The costs of the investigation part of this programme are accounted within the AMP period 2005-10 and are therefore not represented in these accounts.

In July 2007 the Environment Agency advised us that for our draft water resources management plan and business plan, we should assume a reduction in source outputs of 23.5 Ml/d. Work has shown that the replacement cost stands at approximately £5m per Ml. On this basis, with the total investment discounted over 20 years at 6%, we estimate that this is equivalent to £13m per annum. The costs of accommodating this change will be internalised over the course of the next AMP period and will be removed from the environmental cost statement accordingly.

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

Environmental cost
The overall environmental cost for Wessex Water in 2009-10 was £14.7m, leaving the sustainable level of profit for the company at £97.6m.

INVESTMENT TOWARDS SUSTAINABILITY

For the year to 31 March 2010

This statement outlines the investment towards sustainability that Wessex Water made in 2009-10, including expenditure on customers and communities, the environment, employees and infrastructure. A distinction is made between mandatory investment (expenditure governed primarily by legislation or regulation) and discretionary investment (additional expenditure that the company chooses to make).

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

Investment towards sustainability – unaudited 2009-2010

CUSTOMERS AND COMMUNITIES	Amount £'000s
Mandatory expenditure *Example – water supply quality enhancement work such as mains relining*	**25,948**
Discretionary expenditure	**-**
(b) *Example – replacement of customers' supply pipes; education service*	**601**
(c) *Example – charitable donations to community projects*	**135**
ENVIRONMENT	
Mandatory expenditure	
Example – capital investment to meet the Habitats Directive	**23,294**
Discretionary expenditure	
(b) *Example – trials on options for more sustainable water resources*	**633**
(c) *Example – conservation grants to wildlife trusts*	**66**
EMPLOYEES	
Mandatory expenditure	
Example – basic pay and conditions including pension	**61,944**
Discretionary expenditure	
(a) *Example – enhanced overtime payments*	**3,638**
Discretionary expenditure	
(b) *Example – staff training*	**6,089**
INVESTMENT – INFRASTRUCTURE	
Mandatory expenditure *Example – replacement/refurbishment of sewers*	**57,961**
TOTALS	
Customers and communities	**26,684**
Environment	**23,993**
Employees	**71,671**
Infrastructure	**57,961**
Total	**180,309**

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