

# WESSEX WATER SERVICES LTD

Accounts for the year to  
30 June 2003

Registered in England and Wales No. 2366648

## **DIRECTORS' REPORT**

The directors present their report and the audited accounts for the year to 30 June 2003.

## **PRINCIPAL ACTIVITIES**

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

## **PROFIT AND DIVIDEND**

The profit for the year after taxation was £66.9m (six months to June 2002 - £31.4m). Dividends of £257.0m (six months to June 2002 - £9.7m) were declared in the period, including a special dividend of £210.0m, and the directors propose a final dividend of £12.7m (six months to June 2002 - £18.4m).

## **OPERATIONAL REVIEW**

The company has continued to provide an excellent service and high quality standards for customers.

The Director General of Water Services announced on 25 November 1999 a 12.0% price cut for Wessex Water Services Ltd from 1 April 2000, before adjustment for inflation. The announcement also included level prices, before adjustment for inflation, for the years commencing 1 April 2001 and 1 April 2002, with price increases of 3.8% and 4.7%, before adjustment for inflation, for the years commencing 1 April 2003 and 2004 respectively.

During the year the parent company Wessex Water Ltd terminated the joint venture agreement with MWH UK Ltd for the provision of engineering services. The joint venture company MWH Wessex Ltd changed its name to Wessex Engineering Services Ltd, a 100% subsidiary of Wessex Water Ltd, which continued to provide engineering services to the company.

YTL's acquisition of Wessex Water Ltd was financed in part through an acquisition facility taken out by YTL Utilities (UK) Ltd. The creation of the facility created time in which to consider the appropriate long term financial structure of the UK group. After considering the options carefully it was decided not seek to emulate other companies by creating a highly indebted, ring fenced structure for Wessex Water Services Ltd. Rather than this YTL injected an additional £200m of equity to repay broadly half of the acquisition facility. The residual £210m was then repaid by way of a special dividend from the company.

## **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. A high priority is given to employee communications which include team meetings, an employee magazine, conferences and the wide availability of the company intranet.

## **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 has an environmental advisory panel and an environmental and sustainability charter. A sustainability report is prepared indicating the progress made in this area during the year.

## **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 and ethical 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 30 June 2003.

## **CHARITABLE DONATIONS**

During the year £60,000 was donated to UK charities (six months to June 2002 - £73,000).

## SUPPLIER PAYMENT POLICY

The company's policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2003 trade creditors represented approximately 29 days trade purchases (30 June 2002 - 34 days).

## REMUNERATION COMMITTEE

The Remuneration Committee consists entirely of non executive directors. Its terms of reference are to ensure that the company's senior managers and directors 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 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 individual performance against targets set, team and department performance, and company performance measured against OFWAT target standards of service.

## AUDIT COMMITTEE

The Audit Committee ensures the preservation of good financial practices and monitors the controls that are in place to ensure the integrity of those practices. It reviews the annual financial statements and by way of timely meetings provides a line of communication between the board of directors and external auditors. It has formal terms of reference which deal with its authorities and duties.

## DIRECTORS

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

C F Skellett                    - Executive Chairman  
S M Allen  
Mrs L C Bennett  
P J Costain \* #  
T K Harris  
J G Jones  
Mrs K J Morgan \* #  
P L M Sherwood \* #  
Francis Sock Ping Yeoh \*  
Seok Hong Yeoh \*

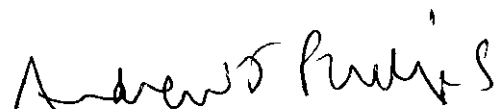
\* Current members of the Remuneration Committee

# Current members of the Audit Committee

S M Allen, T K Harris and J G Jones were each granted 1,000,000 ordinary share options of Malaysian Ringgit RM1.00 each in YTL Power International Berhad on 13 December 2002. The share option price was RM2.64 and the options are exercisable between 13 December 2005 and 12 December 2012. The interests in shares of Francis Yeoh and Hong 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.

## AUDITORS

A resolution to re-appoint 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  
26 September 2003

## DIRECTORS' RESPONSIBILITIES

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

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

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

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF WESSEX WATER SERVICES LTD

We have audited the financial statements on pages 4 to 17.

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

### Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

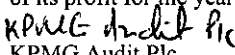
### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
26 September 2003

**PROFIT AND LOSS ACCOUNT**  
**For the year to 30 June 2003**

	NOTE	Year to 30.06.03 £m	6 months to 30.06.02 £m
Turnover	2	272.1	133.5
Operating costs	3	(160.0)	(75.0)
<b>Operating profit</b>	<b>2</b>	<b>112.1</b>	<b>58.5</b>
Net interest payable	4	(44.5)	(16.8)
<b>Profit on ordinary activities before taxation</b>		<b>67.6</b>	<b>41.7</b>
Taxation on profit on ordinary activities	5	(0.7)	(10.3)
<b>Profit attributable to shareholders</b>		<b>66.9</b>	<b>31.4</b>
Dividends paid and proposed	7	(269.7)	(28.1)
<b>Transfer to reserves</b>	<b>17</b>	<b>(202.8)</b>	<b>3.3</b>

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

There were no gains or losses in either period other than the profit for each period.

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

**BALANCE SHEET**  
**30 June 2003**

	NOTE	30.06.03 £m	30.06.02 £m
<b>Fixed assets</b>			
Tangible assets	8	1,525.2	1,425.9
Investments	9	-	-
		<hr/>	<hr/>
		1,525.2	1,425.9
<b>Current assets</b>			
Stock and work in progress	10	3.5	1.8
Debtors	11	119.9	116.4
		<hr/>	<hr/>
		123.4	118.2
<b>Creditors - amounts falling due within one year</b>	12	(138.5)	(340.1)
		<hr/>	<hr/>
<b>Net current liabilities</b>	25	(15.1)	(221.9)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		1,510.1	1,204.0
<b>Creditors - amounts falling due after more than one year</b>	13	(1,004.2)	(526.2)
Provisions for liabilities and charges	14	(103.7)	(71.9)
Deferred income	15	(21.9)	(22.8)
		<hr/>	<hr/>
<b>Net assets</b>	2	380.3	583.1
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up equity share capital	16	81.3	81.3
Profit and loss account	17	299.0	501.8
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	18	380.3	583.1
		<hr/>	<hr/>

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

These accounts were approved by the board of directors on 26 September 2003 and signed on its behalf by:



T K Harris  
 Director

**NOTES TO THE ACCOUNTS**  
**For the year to 30 June 2003**

**1 Accounting policies**

**a. Basis of preparation**

The financial statements have been prepared on a basis consistent with the last financial period, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1e) in accordance with the Companies Act 1985. The company has adopted all applicable accounting standards up to and including FRS19 "Deferred Tax".

The company has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements. Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 24).

**b. Turnover**

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided to third party customers. Income includes an estimate of the value of services provided between the last meter reading date and the period end.

**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

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

f. **Investments**

Investments held as fixed assets are stated at cost less any provisions 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. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

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 cost of providing benefits is charged to the profit and loss account on a basis designed to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated either as provisions or prepayments in the balance sheet. The pension schemes are of the defined benefit type, which are externally funded and valued by an independent actuary.

l. **Cash flow**

Under the provisions of FRS1 (revised) the company has not prepared a cash flow statement because its parent company Wessex Water Ltd, which is incorporated in England, prepares consolidated accounts which include the accounts of the company and which contain a cash flow statement.

m. **Joint arrangements**

The company has certain 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 in such joint arrangements in the financial statements.

n. **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.

o. **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 period and reduced by payments made in the period.

p. **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.



2 <b>Segmental analysis</b>	<b>Year to 30.06.03 £m</b>	<b>6 months to 30.06.02 £m</b>
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Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom.

a. Turnover		
Regulated	266.0	129.8
Unregulated	4.0	2.6
Intra group	2.1	1.1
	<hr/>	<hr/>
	272.1	133.5
	<hr/> <hr/>	<hr/> <hr/>
b. Operating profit		
Regulated	110.4	57.1
Unregulated	1.7	1.4
	<hr/>	<hr/>
	112.1	58.5
	<hr/> <hr/>	<hr/> <hr/>
c. Net assets		
Regulated	355.5	560.0
Unregulated	24.8	23.1
	<hr/>	<hr/>
	380.3	583.1
	<hr/> <hr/>	<hr/> <hr/>

Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.

3 <b>Operating costs</b>		
Manpower costs (note 6b)	22.9	10.7
Materials and consumables	16.9	7.8
Other operational costs	48.5	24.3
Depreciation	72.1	32.3
Amortisation of grants and contributions	(0.8)	(0.4)
Loss/(profit) on disposals of fixed assets	0.4	0.3
	<hr/>	<hr/>
	160.0	75.0
	<hr/> <hr/>	<hr/> <hr/>
Operating costs include:		
Operating leases for plant and machinery	1.7	0.9
Research and development	0.1	0.1
Directors' remuneration (note 6c)	0.7	0.3
Audit fees	0.2	0.1
	<hr/> <hr/>	<hr/> <hr/>
4 <b>Net interest payable</b>		
Interest payable:		
To group companies	19.7	9.9
On bank loans	24.1	6.5
On finance leases	0.7	0.5
	<hr/>	<hr/>
Total interest payable	44.5	16.9
Interest receivable	-	(0.1)
	<hr/>	<hr/>
Net interest payable	44.5	16.8
	<hr/> <hr/>	<hr/> <hr/>

5	<b>Taxation</b>	<b>Year to 30.06.03 £m</b>	<b>6 months to 30.06.02 £m</b>
a.	Taxation on profit on ordinary activities		
	Current year corporation tax:		
	UK corporation tax at 30%	-	1.0
	Advance corporation tax due to parent company	-	2.0
	Payment for group relief	-	1.4
		<hr/>	<hr/>
		-	4.4
	Prior year corporation tax: adjustments in respect of previous periods	(31.0)	-
		<hr/>	<hr/>
	Total corporation tax (credit)/charge	(31.0)	4.4
		<hr/>	<hr/>
	Deferred tax – current year:		
	Origination and reversal of timing differences	13.9	8.6
	(Increase)/decrease in discount	(2.7)	(2.7)
		<hr/>	<hr/>
		11.2	5.9
	Deferred tax – prior year:		
	Origination and reversal of timing differences	30.8	-
	(Increase)/decrease in discount	(10.3)	-
		<hr/>	<hr/>
		20.5	-
		<hr/>	<hr/>
	Total deferred tax	31.7	5.9
		<hr/>	<hr/>
	Taxation on profit on ordinary activities	0.7	10.3
		<hr/>	<hr/>
b.	Current tax reconciliation		
	Profit on ordinary activities before tax	67.6	41.7
		<hr/>	<hr/>
	Current tax at 30%	20.3	12.5
		<hr/>	<hr/>
	Expenses not deductible for corporation tax purposes	-	0.5
	Group relief for nil consideration	(7.3)	-
	Adjustments in respect of previous periods	(31.0)	-
	Capital allowances for the year in excess of depreciation	(8.3)	(3.0)
	Payment of lease creditor capital	(3.1)	(3.0)
	Other timing differences	(1.6)	(2.6)
		<hr/>	<hr/>
	Total corporation tax (credit)/charge - as above	(31.0)	4.4
		<hr/>	<hr/>
6	<b>Directors and employees</b>		
a.	Total employment costs of the company were:		
	Wages and salaries	28.6	11.3
	Social security costs	2.6	0.9
	Other pension costs	3.0	2.0
		<hr/>	<hr/>
		34.2	14.2
		<hr/>	<hr/>
b.	Total employment costs are charged as follows:		
	Capital schemes	9.9	3.2
	Infrastructure renewals expenditure	1.4	0.3
	Manpower costs	22.9	10.7
		<hr/>	<hr/>
		34.2	14.2
		<hr/>	<hr/>

	Year to 30.06.03 £000	6 months to 30.06.02 £000
c. Total directors' remuneration		
Salary and fees	500	253
Bonuses	121	37
Benefits in kind	38	15
	<u>659</u>	<u>305</u>

Four directors have benefits accruing under defined benefit pension schemes (30 June 2002 – four). The remuneration above is in respect of four executive directors (30 June 2002 – four) and six non executive directors (30 June 2002 – six). Executive directors have one year rolling contracts of employment. In addition the executive directors received £392k (six months to June 2002 - £136k) remuneration from other group companies. Executive directors also received £310k (six months to June 2002 – nil) bonus from Azurix Europe Ltd on completion of the sale of the Wessex Water Ltd group to YTL Power International Berhad.

On 3 July 2002, C F Skellett entered into a 5 year Consultancy Agreement of £0.2m per annum, with YTL Power International Berhad. The full £1.0m was paid in advance during the year, less 8% Malaysian Withholding Tax.

d. Highest paid director		
Salary	120	54
Bonus	36	10
Benefits in kind	15	6
	<u>171</u>	<u>70</u>

The highest paid director had an accrued annual pension entitlement of £39,418 at 30 June 2003 (30 June 2002 - £30,932).

	30.06.03 number	30.06.02 number
e. Monthly average number of employees during the period		
- Billing Services	295	260
- All other staff	1,113	897
	<u>1,408</u>	<u>1,157</u>
- Total	<u>1,408</u>	<u>1,157</u>

## 7 Dividends

The dividend policy to 31 March 2002 was to declare ordinary dividends of two thirds of the historic profit attributable to shareholders, subject to a current cost ordinary dividend cover of one. Since 1 April 2002 the dividend policy was changed to declare as an ordinary dividend all of the current cost profit available to shareholders after current year corporation tax but before prior year corporation tax, deferred tax and the current cost financing adjustment.

	Year to 30.06.03 £m	6 months to 30.06.02 £m
Interim dividends of 57.78p per share on 81,350,000 ordinary shares (2002 – 11.92p)	47.0	9.7
Special dividend	210.0	-
Final dividend of 15.61p per share on 81,350,000 ordinary shares (2002 – 22.62p)	12.7	18.4
	<u>269.7</u>	<u>28.1</u>

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
<b>Cost</b>						
At 1 July 2002	516.6	745.0	567.4	44.8	74.0	1,947.8
Additions	16.2	44.0	38.0	10.7	70.5	179.4
Transfers on commissioning	9.4	12.9	24.3	4.8	(51.4)	-
Disposals	(1.6)	-	(4.3)	(0.3)	-	(6.2)
Grants and contributions	-	(4.9)	-	-	-	(4.9)
<b>At 30 June 2003</b>	<b>540.6</b>	<b>797.0</b>	<b>625.4</b>	<b>60.0</b>	<b>93.1</b>	<b>2,116.1</b>
<b>Depreciation</b>						
At 1 July 2002	94.5	159.5	238.7	29.2	-	521.9
Charge for the period	10.3	20.6	35.3	5.8	-	72.0
Disposals	(0.2)	-	(2.6)	(0.2)	-	(3.0)
<b>At 30 June 2003</b>	<b>104.6</b>	<b>180.1</b>	<b>271.4</b>	<b>34.8</b>	<b>-</b>	<b>590.9</b>
<b>Net book value</b>						
<b>At 30 June 2003</b>	<b>436.0</b>	<b>616.9</b>	<b>354.0</b>	<b>25.2</b>	<b>93.1</b>	<b>1,525.2</b>
At 1 July 2002	422.1	585.5	328.7	15.6	74.0	1,425.9

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

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

The net book value of assets held under finance leases is £50.7m (30 June 2002 - £75.7m).

The depreciation charge for the period on assets held under finance leases is £0.4m (6 months to 30 June 2002 - £1.1m).

The net book value of infrastructure assets at 30 June 2003 is stated after the deduction of grants and contributions amounting to £65.6m (30 June 2002 - £60.7m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £187.1m (30 June 2002 - £165.1m) of expenditure on maintaining the network, and £180.1m (30 June 2002 - £159.5m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £7.0m (30 June 2002 - £7.0m) in respect of land which is not depreciated.

## 9 Investments

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

	30.06.03 £m	30.06.02 £m
<b>10 Stock and work in progress</b>		
Stock	1.4	0.6
Work in progress	2.1	1.2
	<u>3.5</u>	<u>1.8</u>
<b>11 Debtors - amounts falling due within one year</b>		
Trade debtors	34.8	32.4
Owed by other group companies	11.5	9.1
Pension fund prepayment	42.6	42.6
Prepayments and accrued income	29.6	31.6
Other debtors	1.4	0.7
	<u>119.9</u>	<u>116.4</u>
<b>12 Creditors - amounts falling due within one year</b>		
Bank overdraft repayable on demand	0.5	4.1
Loans repayable	22.9	175.4
Obligations under finance leases	1.0	10.4
Trade creditors	3.6	1.5
Amounts owed to parent company	15.4	36.2
Amounts owed to subsidiary undertaking	5.3	4.5
Amounts owed to other group companies	0.6	0.6
Dividend	20.4	18.4
Other creditors	1.0	1.0
Corporation tax	8.3	18.8
Taxation and social security	1.1	0.6
Accruals and deferred income	58.4	68.6
	<u>138.5</u>	<u>340.1</u>
<b>13 Creditors - amounts falling due after more than one year</b>		
Loans repayable - in more than 1 year, but not more than 2 years	5.5	-
- in more than 2 years, but not more than 5 years	457.7	78.4
- in more than 5 years	188.4	96.6
	<u>651.6</u>	<u>175.0</u>
Inter company loans - in more than 5 years	348.6	347.6
Other	4.0	3.6
	<u>1,004.2</u>	<u>526.2</u>

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of a two bond issues lent to the company. One bond of £298.0m at an interest rate of 5.875% is repayable in March 2009, and the other is a £50.6m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023.

**14 Provisions for liabilities and charges**

	Deferred tax £m	Restructuring costs £m	Total £m
At 1 July 2002	71.6	0.3	71.9
Provided in year	-	0.3	0.3
Utilised during year	-	(0.2)	(0.2)
Origination and reversal of timing differences	44.7	-	44.7
Increase in discount	(13.0)	-	(13.0)
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2003</b>	<b>103.3</b>	<b>0.4</b>	<b>103.7</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		<b>30.06.03</b>	30.06.02
		<b>£m</b>	<b>£m</b>
Deferred tax is provided as follows:			
Accelerated capital allowances		<b>290.8</b>	248.2
Other timing differences		<b>1.8</b>	(0.3)
		<hr/>	<hr/>
Undiscounted provision for deferred tax		<b>292.6</b>	247.9
Discount		<b>(189.3)</b>	(176.3)
		<hr/>	<hr/>
Discounted provision for deferred tax		<b>103.3</b>	71.6
		<hr/> <hr/>	<hr/> <hr/>
<b>15 Deferred income</b>			
Grants and contributions			
At 1 July 2002 (1 January 2002)		<b>22.8</b>	23.1
Received in the period		-	0.1
Other adjustment		<b>(0.1)</b>	-
Less amortisation		<b>(0.8)</b>	(0.4)
		<hr/>	<hr/>
At 30 June 2003 (30 June 2002)		<b>21.9</b>	22.8
		<hr/> <hr/>	<hr/> <hr/>
<b>16 Called up equity share capital</b>			
81,350,000 ordinary shares of £1 each:			
Authorised, allotted, called up and fully paid		<b>81.3</b>	81.3
		<hr/> <hr/>	<hr/> <hr/>
<b>17 Profit and loss account</b>			<b>30.06.03</b>
			<b>£m</b>
At 1 July 2002			<b>501.8</b>
Retained profit for the period			<b>(202.8)</b>
			<hr/>
<b>At 30 June 2003</b>			<b>299.0</b>
			<hr/> <hr/>
<b>18 Equity shareholders' funds</b>			
At 1 July 2002			<b>583.1</b>
Retained profit for the year			<b>(202.8)</b>
			<hr/>
<b>At 30 June 2003</b>			<b>380.3</b>
			<hr/> <hr/>

## 19 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £24.4m (30 June 2002 - £189.9m) 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 30 June 2003 there were £79.6m (30 June 2002 - £81.0m) 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. The principal borrowings are both fixed rate and in sterling.

### a. Interest rate and currency exposure

	Fixed rate borrowings 2003 £m	Floating rate borrowings 2003 £m	Total borrowings 2003 £m	Fixed rate borrowings 2002 £m	Floating rate borrowings 2002 £m	Total borrowings 2002 £m
Sterling	829.4	195.2	1,024.6	428.8	283.7	712.5

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

	Interest rate % 2003	Period years 2003	Interest rate % 2002	Period years 2002
Sterling	4.80	5.1	5.54	7.8

£24.4m (30 June 2002 - £179.5m) of floating rate borrowings are short term, and £170.8m (30 June 2002 - £104.2m) 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 2003	Fair value £m 2003	Book value £m 2002	Fair value £m 2002
Borrowings less than 1 year	24.4	24.4	189.9	189.9
Floating rate borrowings over 1 year	170.8	170.8	104.2	104.2
Fixed rate borrowings over 1 year	829.4	854.4	418.4	415.2
	1,024.6	1,049.6	712.5	709.3

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.

## 20 Commitments and guarantees

- There were no operating lease payments (30 June 2002 - nil), under leases on land and buildings due within the next year, which expire after 2 years.
- At 30 June 2003 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £480.8m (30 June 2002 - £70.8m).
- Capital expenditure contracted but not provided at 30 June 2003 was £36.4m (30 June 2002 - £54.8m).
- The company has guaranteed a £298.0m Bond and a £50.6m index linked Bond, issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

## 21 Contingent liabilities

There are no material contingent liabilities at 30 June 2003 for which provision has not been made in these accounts.

## 22 Pensions

- 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 a separate trustee administered fund. 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.
- b. The pension cost for the year, including amounts set aside for early retirees, was £3.0m (6 months to June 2002 - £2.0m).
- c. The latest actuarial valuation for WWPS was undertaken at 31 December 2001. The assumptions which have the most significant effect on the results of a valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.0%, that salary increases would average 3.5% per annum and that present and future pensions would increase at the rate of 2.5% per annum. The market value of the WWPS assets as at 31 December 2001 was £176.7m which represented 83% of the actuarial value of the accrued benefits.

In response to this valuation the company made a special contribution to WWPS in April 2002 of £25.6m which increased the market value of scheme assets to around 95% of the actuarial value of the accrued benefits.

- d. Additional disclosures regarding the defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures provide the information which will be necessary for the full implementation of FRS 17.

The actuarial valuation described above has been updated at 30 June 2003 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:

	30.06.03	30.06.02
Rate of increase in salaries	3.6%	3.6%
Rate of increase in pensions in payment	2.6%	2.6%
Discount rate	5.3%	5.9%
Inflation assumption	2.6%	2.6%

The value of the assets and liabilities, together with the expected rate of return, were:

	30.06.03 Expected rate of return %	30.06.03 Value £m	30.06.02 Expected rate of return %	30.06.02 Value £m
Equities	7.5	75.9	8.0	91.1
Government Bonds	4.5	107.4	5.0	101.2
Corporate Bonds	4.8	12.4	5.9	2.1
Cash	3.8	1.7	3.5	3.3
		-----		-----
Total fair value of the assets	5.7	197.4	6.4	197.7
Present value of scheme liabilities		(251.4)		(214.7)
		-----		-----
(Deficit) in the scheme		(54.0)		(17.0)
Related deferred tax asset		16.2		5.1
		-----		-----
Net pension (liability)		(37.8)		(11.9)
		-----		-----

The contribution rate agreed for the next year is 15.0% of pensionable earnings.



- e. If FRS 17 had been adopted in the financial statements, the net assets and profit and loss reserves at the respective balance sheet dates would be as follows:

	30.06.03 £m	30.06.02 £m
<b>Balance sheet presentation</b>		
Net assets per statutory accounts	380.3	583.1
Remove SSAP 24 pension asset	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax asset)	(37.8)	(11.9)
	<hr/>	<hr/>
Net assets including pension liability	302.3	531.6
	<hr/>	<hr/>
<b>Profit and loss account presentation</b>		
Profit and loss reserves per statutory accounts	299.0	501.8
Remove SSAP 24 pension asset	(40.2)	(39.6)
FRS 17 pension liability (net of deferred tax asset)	(37.8)	(11.9)
	<hr/>	<hr/>
Profit and loss reserves including pension liability	221.0	450.3
	<hr/>	<hr/>

- f. Additional analysis required by FRS 17.

	30.06.03 £m
<b>Analysis of the amount that would have been charged to operating profit</b>	
Current service cost	(4.4)
Past service cost (augmentations and early retirement costs)	(0.7)
	<hr/>
Total operating charge	(5.1)
	<hr/>
<b>Analysis of the amount that would have been credited to other finance income</b>	
Expected return on pension scheme assets	12.5
Interest on pension scheme assets	(12.6)
	<hr/>
Net return	(0.1)
	<hr/>
<b>Analysis of the movement in scheme surplus/(deficit) during the year</b>	
Surplus/(deficit) in scheme at 30 June 2002	(17.0)
Current service cost	(4.4)
Contributions paid	4.8
Past service costs	(0.7)
Other finance income	(0.1)
Actuarial gains/(losses)	(36.6)
	<hr/>
Surplus/(deficit) in scheme at 30 June 2003	(54.0)
	<hr/>
<b>Analysis of amount that would have been recognised in statement of recognised gains and losses</b>	
Actual return less expected return on pension scheme assets	(10.2)
Experience gains and losses arising on the scheme liabilities	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	(26.1)
	<hr/>
Actuarial gain/(loss) recognised in statement of recognised gains and losses	(36.6)
	<hr/>

**23 Related parties**

There are no related party transactions requiring disclosure in these accounts.

**24 Ultimate parent company**

The smallest group into which the accounts of the company are consolidated is that headed by Wessex Water Ltd a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW. The ultimate parent company is YTL Corporation Berhad of Malaysia, a company quoted on the Kuala Lumpur stock exchange.

**25 Going concern**

The current liabilities of the company exceed its current assets. 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.