WESSEX WATER LTD GROUP

CONSOLIDATED ACCOUNTS

For the six months to
30 June 2002

Registered in England and Wales No. 2366633

DIRECTORS' REPORT

The directors present their report and the audited accounts for the six months to 30 June 2002.

PRINCIPAL ACTIVITIES

Wessex Water Ltd's principal subsidiary is Wessex Water Services Ltd, a regulated company licenced for the supply of clean water and treatment and disposal of waste water. Wessex Water Services Ltd operates in a region of 10,000 square kilometres in the south west of England.

PROFIT AND DIVIDEND

Profit for the period after taxation was £26.6m (12 months to December 2001 - £60.4m). Dividends of £143.6m (12 months to December 2001 - £42.1m) were declared in the year.

OPERATIONAL REVIEW

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

On 28 June 2001 Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc, under which both companies transferred the billing and customer services activities of their regulated utility business into a new company Bristol Wessex Billing Services Ltd. The new company is 50% owned by each parent company and is providing billing services to the customers of both utilities including a single bill for common customers, where they previously received two bills.

On 1 July 2001 Wessex Water Services Ltd transferred the Engineering Services employees into another 100% owned subsidiary Wessex Engineering Services Ltd, which changed its name to MWH Wessex Ltd. On 18 December 2001 the company entered into a joint venture agreement with MWH UK Ltd, under which MWH UK Ltd took a 49% stake in MWH Wessex Ltd, and that company became the vehicle to deliver the regulatory capital programme to Wessex Water Services Ltd.

The Director General of Water Services announced on 25 November 1999 a 12% 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.

Last autumn Azurix Corp. appointed advisors to undertake the sale of Wessex Water Ltd. On 25 March 2002 Azurix Corp. announced an agreement to sell all of the share capital of Wessex Water Ltd to YTL Power International of Kuala Lumpur, Malaysia for an enterprise value of £1,239.5m. This sale was completed on 21 May 2002.

Following the change in ownership the accounting reference date was changed from 31 December to 30 June.

DIRECTORS

The directors of the company during the period and subsequently were:

C F Skellett	
S M Allen	- Resigned 13 May 2002
T K Harris	
J G Jones	- Resigned 13 May 2002
J S A Smith-Maxwell	- Appointed 24 May 2002
Lord Wakeham	- Resigned 10 May 2002
Francis Sock Ping Yeoh *	- Appointed 5 June 2002
Seok Hong Yeoh *	- Appointed 24 May 2002
Seok Kian Yeoh *	- Appointed 5 June 2002
Seok Kah Yeoh *	- Appointed 24 May 2002
Sock Siong Yeoh *	- Appointed 5 June 2002
Tiong Lay Yeoh *	- Appointed 5 June 2002

During the year no director was materially interested in any contract with the company or with any of its subsidiaries. No directors had interests in the shares of group companies.

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

EMPLOYMENT

In common with all employees, Wessex Water Services Ltd offers equal opportunities to all applicants for employment. A high priority is given to employee communications which include team meetings, an employee magazine, seminars 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 2002.

CHARITABLE DONATIONS

During the period £74,000 was donated to UK charities (12 months to December 2001 - £65,000).

SUPPLIER PAYMENT POLICY

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2002 trade creditors represented approximately 34 days trade purchases. (31 December 2001 - 35 days)

AUDITORS

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

Andrew J Phillips

By order of the board
A J Phillips
Company secretary
11 October 2002

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 group and company and of the group'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 group and 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 LTD

We have audited the accounts on pages 4 to 22.

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 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 group and of the company at 30 June 2002 and of the group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London, EC4Y 8BB
11 October 2002

GROUP PROFIT AND LOSS ACCOUNT
For the six months to 30 June 2002

	NOTE	**6 months to 30.06.02 £m**	12 months to 31.12.01 £m
Turnover	2	140.7	280.8
Operating costs	3	(88.4)	(176.9)
Operating profit	2	52.3	103.9
Net interest payable	5	(14.8)	(27.4)
Profit on ordinary activities before taxation		37.5	76.5
Taxation on profit on ordinary activities	6	(10.9)	(16.1)
Profit attributable to shareholders		26.6	60.4
Dividends	7	(143.6)	(42.1)
Transfer to reserves	18	(117.0)	18.3

The group'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 SHEETS
30 June 2002

	NOTE	Group 30.06.02 £m	Group 31.12.01 £m	Company 30.06.02 £m	Company 31.12.01 £m
Fixed assets					
Tangible assets	8	1,431.7	1,386.3	-	-
Investments	9	-	-	81.0	81.0
		1,431.7	1,386.3	81.0	81.0
Current assets					
Stock	10	2.9	4.2	-	-
Debtors - amounts falling due within one year	11	158.7	174.4	105.8	188.6
Debtors - amounts falling due after more than one year	11	-	-	3.9	6.3
Investments	12	0.7	0.7	0.7	0.7
Cash at bank and in hand		-	-	-	11.2
		162.3	179.3	110.4	206.8
Creditors – amounts falling due within one year	13	(311.8)	(175.9)	(27.4)	(4.6)
Net current (liabilities)/assets	33	(149.5)	3.4	83.0	202.2
Total assets less current liabilities		1,282.2	1,389.7	164.0	283.2
Creditors – amounts falling due after more than one year	14	(529.6)	(526.4)	-	-
Provisions for liabilities and charges	15	(74.3)	(67.7)	(2.7)	(2.9)
Deferred income	16	(22.8)	(23.1)	-	-
Net assets	2	655.5	772.5	161.3	280.3
Capital and reserves					
Called up equity share capital	17	131.8	131.8	131.8	131.8
Share premium account	18	28.8	28.8	28.8	28.8
Profit and loss account	18	494.9	611.9	0.7	119.7
Equity shareholders' funds	19	655.5	772.5	161.3	280.3

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

These accounts were approved by the board of directors on 11 October 2002 and signed on its behalf by:

T K Harris
Director

GROUP CASH FLOW STATEMENT
For the six months to 30 June 2002

	NOTE	6 months to 30.06.02 £m	12 months to 31.12.01 £m
Net cash inflow from operating activities	20	23.8	164.4
Returns on investments and servicing of finance	21	(19.5)	(30.6)
Taxation		(0.4)	(8.2)
Capital expenditure and financial investment	22	(79.3)	(129.7)
Equity dividends paid		(128.3)	(42.1)
Cash outflow before financing		(203.7)	(46.2)
Financing	23	152.6	43.3
Decrease in cash		(51.1)	(2.9)

Reconciliation of cash movement to the movement in net debt

	NOTE	6 months to 30.06.02 £m	12 months to 31.12.01 £m
Decrease in cash - above		(51.1)	(2.9)
Movement in loans and leases		(152.6)	(43.3)
Movement in net debt	24	(203.7)	(46.2)
Opening net debt	24	(471.7)	(425.5)
Closing net debt	24	(675.4)	(471.7)

NOTES TO THE ACCOUNTS
For the year to 30 June 2002

1 Accounting policies

a. Basis of preparation

The accounts have been prepared on a basis consistent with 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 1g) in accordance with the Companies Act 1985. The group has adopted all applicable accounting standards up to and including FRS19 "Deferred Tax". The group has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2002. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

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

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

c. Goodwill

Goodwill in respect of acquisitions before 1 January 1998, when FRS 10 "Goodwill and Intangible Assets" was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

d. Turnover

Turnover for the group 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.

e. 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

f. **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.

g. **Grants and contributions**

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (see note 16).

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

h. **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.

i. **Stock**

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

j. **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. The results of overseas subsidiaries are translated at average rates of exchange for the year. The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

k. **Interest rate instruments**

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

l. **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. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation.

m. **Research and development**

Research and development expenditure is written off in the period in which it is incurred.

n. **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.

o. **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.

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

q. **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

		6 months to 30.06.02 £m	12 months to 31.12.01 £m
2	**Segmental analysis**		

Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom. Unregulated activities include the trading activities of SC Technology AG and Wessex Water Enterprises Ltd as well as the Wessex Water Services Ltd non regulated activities.

		6 months to 30.06.02 £m	12 months to 31.12.01 £m
a.	Turnover		
	Regulated	128.7	257.1
	Unregulated	12.0	23.7
		140.7	280.8
b.	Operating profit		
	Regulated	56.0	111.9
	Unregulated	(3.7)	(8.0)
		52.3	103.9
c.	Net assets		
	Regulated	560.0	558.1
	Unregulated	95.5	214.4
		655.5	772.5

	6 months to 30.06.02 £m	12 months to 31.12.01 £m
3 Operating costs		
Manpower costs (note 4b)	13.3	24.7
Materials and consumables	11.5	27.1
Other operational costs	31.1	61.0
Depreciation of fixed assets	32.6	63.3
Amortisation of grants and contributions	(0.4)	(0.8)
Loss on disposals of fixed assets	0.3	1.6
	88.4	176.9
Operating costs include:		
Operating leases for plant and machinery	1.2	0.8
Other operating leases	-	0.1
Research and development	0.1	0.2
Directors' remuneration (note 4d)	0.4	0.9
Remuneration to auditors - audit fees	0.2	0.2
- non audit fees	-	-

The auditors' remuneration in respect of the company was £15,000 (12 months to 31 December 2001 - £15,000).

4 Employment costs

a. Total employment costs of the group:

Wages and salaries	15.8	34.6
Social security costs	1.2	2.7
Other pension costs	2.4	1.7
	19.4	39.0

b. Total employment costs are charged as follows:

Capital schemes	5.5	12.8
Infrastructure renewals expenditure	0.6	1.5
Manpower costs	13.3	24.7
	19.4	39.0

		30.06.02 number	31.12.01 number
c. Monthly average number of employees during the period	- Engineering department	166	174
	- Billing department	260	260
	- All other staff	973	937
	- Total	1,399	1,371

	6 months to 30.06.02 £000	12 months to 31.12.01 £000
d. Total directors' remuneration		
Fees	12	35
Salary	269	620
Bonuses	54	222
Benefits in kind	20	53
	355	930

Four directors have benefits accruing under defined benefits pension schemes (31 December 2001 – 6).

e. Remuneration of highest paid director		
Salary	102	108
Bonus	20	53
Benefits in kind	6	10
	128	171

The highest paid director had an accrued annual pension entitlement of £200,162 at 30 June 2002 (31 December 2001 - £59,079).

	6 months to 30.06.02 £m	12 months to 31.12.01 £m
5 **Net interest payable**		
On bank loans	16.6	32.5
On finance leases	0.5	2.5
Total interest payable	17.1	35.0
Inter company interest receivable	(2.1)	(5.3)
Other interest receivable	(0.2)	(2.3)
	(2.3)	(7.6)
Net interest payable	14.8	27.4

		6 months to 30.06.02 £m	12 months to 31.12.01 £m
6	**Taxation**		
a.	Analysis of charge in the period		
	Current tax:		
	UK corporation tax at 30%	3.3	13.4
	Advance corporation tax utilised relating to prior years	(2.1)	(9.0)
	Payment for group relief	1.4	4.3
		2.6	8.7
	Deferred tax:		
	Origination and reversal of timing differences	10.7	18.0
	(Increase) in discount	(2.4)	(10.6)
		8.3	7.4
	Tax on profit on ordinary activities	10.9	16.1
b.	Current tax reconciliation		
	Profit on ordinary activities before tax	37.5	76.5
	Current tax at 30%	11.3	23.0
	Expenses not deductible for corporation tax purposes	1.6	2.5
	Capital allowances for the year in excess of depreciation	(3.0)	(2.6)
	Payment of lease creditor capital	(3.0)	(5.3)
	Subsidiary company losses	0.4	1.2
	Advance corporation tax written back	(2.1)	(9.0)
	Other timing differences	(2.6)	(1.1)
	Total current tax charge - as above	2.6	8.7
7	**Dividends**		
	Ordinary shares		
	Interim dividends	48.8	42.1
	Special dividend	79.5	-
	Final dividend	15.3	-
		143.6	42.1

A special dividend of £79.5m was declared on 31 May 2002, following the acquisition of the company by YTL Power International Berhad.

8 Tangible fixed assets

	Freehold land and buildings	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account & assets in course of const-ruction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2002	499.2	717.7	551.0	41.4	70.9	1,880.2
Foreign exchange differences	-	-	(0.1)	-	-	(0.1)
Additions	11.1	18.9	19.8	0.9	30.1	80.8
Transfers on commissioning	7.2	9.6	8.3	2.6	(27.7)	-
Disposals	-	-	(2.6)	(0.1)	-	(2.7)
Grants and contributions	-	(2.1)	-	-	-	(2.1)
At 30 June 2002	517.5	744.1	576.4	44.8	73.3	1,956.1
Depreciation						
At 1 January 2002	90.3	150.5	226.8	26.3	-	493.9
Charge for the period	4.2	9.0	16.4	3.0	-	32.6
Disposals	-	-	(2.0)	(0.1)	-	(2.1)
At 30 June 2002	94.5	159.5	241.2	29.2	-	524.4
Net Book Value						
At 30 June 2002	423.0	584.6	335.2	15.6	73.3	1,431.7
At 1 January 2002	408.9	567.2	324.2	15.1	70.9	1,386.3

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 £75.7m (31 December 2001 - £76.8m).

The depreciation charge for the period on assets held under finance leases is £1.1 m (12 months to 31 December 2001 - £1.8m).

The net book value of infrastructure assets at 30 June 2002 is stated after the deduction of grants and contributions amounting to £60.7m (31 December 2001 - £58.6m) in order to give a true and fair view (see note 1g).

Included in the cost of infrastructure assets is £164.9m (31 December 2001 - £148.9m) of expenditure on maintaining the network, and £159.5m (31 December 2001 - £150.5m) of depreciation included in the profit and loss account.

Included in freehold land and buildings above is an amount of £7.0m (31 December 2001 - £6.8m) in respect of land which is not depreciated.

9 Investments

	Group	Company	Company	Company
	Associated undertakings	Subsidiary companies	Associated undertakings	Total
	£m	£m	£m	£m
Cost				
At 1 January 2002	-	102.6	-	102.6
Disposal	-	-	-	-
At 30 June 2002	-	102.6	-	102.6
Amounts written off				
At 1 January 2002	-	21.6	-	21.6
Written off in the year	-	-	-	-
At 30 June 2002	-	21.6	-	21.6
Carrying value at 30 June 2002	-	81.0	-	81.0
Carrying value at 1 January 2002	-	81.0	-	81.0

The investments are comprised solely of shares in the subsidiary and associated undertakings. The principal subsidiary companies and associated undertakings are listed in note 31.

10 Stock

	Group	
	30.06.02	31.12.01
	£m	£m
Stock	0.6	1.2
Work in progress	2.3	3.0
	2.9	4.2

11 Debtors

	Group		Company	
	30.06.02	31.12.01	**30.06.02**	31.12.01
Amounts falling due within one year	**£m**	£m	**£m**	£m
Trade debtors	36.1	38.0	-	-
Amounts owed by subsidiary companies	-	-	60.6	97.4
Amounts owed by immediate parent company	45.0	90.0	45.0	90.0
Other debtors	43.9	18.9	-	-
Prepayments and accrued income	33.7	27.5	0.2	1.2
	158.7	174.4	105.8	188.6
Amounts falling due after more than one year				
Deferred tax asset - advance corporation tax recoverable	-	-	3.9	6.3
Total debtors	158.7	174.4	109.7	194.9

A loan of £45.0m was made to YTL Utilities (UK) Limited. The loan is repayable on 31 October 2002 with interest based on LIBOR plus 0.5%.

12 Investments

Listed investments at 30 June 2002 with a cost of £0.7m (31 December 2001 - £0.7m), had a market value at that date of £2.3m (31 December 2001 - £2.4m).

13 Creditors - amounts falling due within one year

	Group		Company	
	30.06.02	31.12.01	**30.06.02**	31.12.01
	£m	£m	**£m**	£m
Bank overdraft repayable on demand	8.6	2.5	5.1	2.8
Loans repayable	175.4	16.4	-	-
Obligations under finance leases	10.4	20.4	-	-
Trade creditors	3.8	4.8	-	-
Amounts owed to subsidiary company	-	-	5.4	0.6
Amounts owed to parent company	0.6	17.6	-	-
Dividend	15.3	-	15.3	-
Other creditors	1.0	0.9	-	-
Corporation tax	19.5	18.8	0.6	1.0
Other taxation and social security	0.6	0.5	-	-
Accruals and deferred income	76.6	94.0	1.0	0.2
	311.8	175.9	27.4	4.6

14 Creditors - amounts falling due after more than one year

Loans repayable - in more than 1 year, but not more than 2 years	0.3	-
- in more than 2 years, but not more than 5 years	79.3	78.4
- in more than 5 years	98.8	96.6
	178.4	175.0
Bonds - in more than 5 years	347.6	347.4
Other	3.6	4.0
	529.6	526.4

The bonds are issued by a subsidiary company Wessex Water Services Finance Plc. One bond of £297.6m is at an interest rate of 5.875% repayable in March 2009, and the other is a £50.0m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023.

15 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 January 2002	59.4	8.3	67.7
Utilised during year	-	(2.4)	(2.4)
Additional amounts provided	-	0.7	0.7
Origination and reversal of timing differences	10.7	-	10.7
Increase in discount	(2.4)	-	(2.4)
At 30 June 2002	67.7	6.6	74.3

	Company			
	at 1 January 2002 £m	Provided £m	Utilised £m	**at 30 June 2002 £m**
Restructuring costs	2.9	0.5	(0.7)	2.7

	Group	
Deferred tax is provided as follows:	**30.06.02 £m**	31.12.01 £m
Accelerated capital allowances	248.2	242.2
Other timing differences	(0.3)	(2.9)
Advance corporation tax recoverable	(4.4)	(6.5)
Undiscounted provision for deferred tax	243.5	232.8
Discount	(175.8)	(173.4)
Provision for deferred tax	67.7	59.4

16 **Deferred income**

Grants and contributions

At 1 January 2002 (1 January 2001)	23.1	23.8
Received in the period	0.1	0.1
Less amortisation	(0.4)	(0.8)
At 30 June 2002 (31 December 2001)	22.8	23.1

17 **Called up equity share capital**

	Group and Company	
	30.06.02 £m	31.12.01 £m
Authorised		
346,666,670 ordinary shares of 60p each	208.0	208.0
Allotted and fully paid		
219,585,986 ordinary shares of 60p each	131.8	131.8

On 21 May 2002 the entire share capital of the company was acquired by YTL Utilities (UK) Limited.

18 Reserves

	Share premium account £m	Profit & loss account £m
Group		
At 1 January 2002	28.8	611.9
Retained profit for the period	-	(117.0)
At 30 June 2002	28.8	494.9
Company		
At 1 January 2002	28.8	119.7
Retained profit for the period	-	(119.0)
At 30 June 2002	28.8	0.7

a. As permitted by Section 230 of the Companies Act 1985, a profit and loss account of the parent company is not presented. The profit attributable to the company in the period is £24.6m (12 months to 31 December 2001 - £36.1m) after dividends from subsidiary companies of £28.1m (12 months to 31 December 2001 - £44.1m).

b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (31 December 2001 - £14.5m).

19 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	30.06.02	31.12.01	**30.06.02**	31.12.01
	£m	£m	**£m**	£m
Profit attributable to shareholders	26.6	60.4	24.6	36.1
Dividends	(143.6)	(42.1)	(143.6)	(42.1)
Net addition to shareholders' funds	(117.0)	18.3	(119.0)	(6.0)
Opening shareholders' funds as previously stated	772.5	806.2	280.3	271.6
Prior year adjustment	-	(52.0)	-	14.7
Opening shareholders' funds as restated	772.5	754.2	280.3	286.3
Closing shareholders' funds	655.5	772.5	161.3	280.3

20 Reconciliation of operating profit to net cash inflow from operating activities

	6 months to 30.06.02 £m	12 months to 31.12.01 £m
Operating profit	52.3	103.9
Depreciation	32.6	63.3
Amortisation of grants and contributions	(0.4)	(0.8)
Provisions	(1.1)	7.4
Loss on disposal of fixed assets	0.3	1.5
Decrease in stocks	1.3	0.3
(Increase) in debtors	(29.8)	(17.1)
(Decrease)/increase in creditors	(31.4)	5.9
	23.8	164.4

21 Returns on investments and servicing of finance

Interest received	2.9	8.9
Interest paid	(21.8)	(36.7)
Interest element of finance lease rentals	(0.6)	(2.8)
	(19.5)	(30.6)

22 Capital expenditure and financial investment

Purchase of tangible fixed assets	(81.6)	(134.9)
Sale of tangible fixed assets	0.3	0.8
Connection charges, grants and deferred income	2.0	4.0
Acquisitions and disposals	-	0.4
	(79.3)	(129.7)

23 Financing

Loans and finance leases	152.6	43.3
	152.6	43.3

24 Movement in net debt

	1 January 2002 £m	Cash Flow £m	**30 June 2002 £m**
Bank overdraft	(2.5)	(6.1)	(8.6)
Short term loans	(16.4)	(159.0)	(175.4)
Loans repayable after one year	(175.0)	(3.4)	(178.4)
Amounts owed by parent company	90.0	(45.0)	45.0
Finance leases repayable within one year	(20.4)	10.0	(10.4)
Bonds repayable after one year	(347.4)	(0.2)	(347.6)
	(471.7)	(203.7)	(675.4)

25 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £194.4m of short term borrowings.

The group has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by a subsidiary company Wessex Water Services Finance Plc. At 30 June 2002 there were £81.0m of undrawn facilities. There are no securities attributed to any of the borrowings.

The company uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates. The principal borrowings are both fixed rate and in sterling.

a. Interest rate and currency exposure

	Fixed rate borrowings £m	Floating rate borrowings £m	Total borrowings £m
Sterling	428.8	291.6	720.4
At 30 June 2002	428.8	291.6	720.4

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

	Interest rate %	Period years
Sterling	5.54	7.8
Weighted average	5.54	7.8

£184.0m of floating rate borrowings are short term, and £107.6m 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 willing parties, other than a forced or liquidation sale.

	Book value £m	Fair value £m
Borrowings less than 1 year	194.4	194.4
Floating rate borrowings over 1 year	107.6	107.6
Fixed rate borrowings over 1 year	418.4	415.2
At 30 June 2002	720.4	717.2

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.

£70.8m of fixed rate borrowings over 1 year were subject to interest rate swaps from variable to fixed rates, the fair value of those swaps at 30 June 2002 was £72.0m.

26 *Commitments*

a. There were no operating lease payments (31 December 2001 - £0.1m) under leases on land and buildings due within the next year, which expire after 2 years.

b. At 30 June 2002 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £70.8m (31 December 2001 - £74.5m).

c. Capital expenditure contracted but not provided at 30 June 2002 was £54.8m (31 December 2001 - £49.5m).

27 **Contingent liabilities and guarantees**

Wessex Water Ltd has provided performance guarantees on behalf of SC Technology AG on the tendering for contracts, the maximum liability in respect of which, at 30 June 2002 was £2.4m (31 December 2001 - £1.9m).

28 **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 period, including amounts set aside for early retirees, was £2.4m (12 months to 31 December 2001 - £1.7m).

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 relate to the second year of the transitional provisions, and 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 2002 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:

	30.06.02	31.12.01
Rate of increase in salaries	3.6%	3.5%
Rate of increase in pensions in payment	2.6%	2.5%
Discount rate	5.9%	6.0%
Inflation assumption	2.6%	2.5%

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

	30.06.02 Expected rate of return %	30.06.02 Value £m	31.12.01 Expected rate of return %	31.12.01 Value £m
Equities	8.0	91.1	7.9	102.1
Government Bonds	5.0	101.2	4.9	72.0
Corporate Bonds	5.9	2.1	6.0	1.1
Cash	3.5	3.3	3.5	1.5
Total fair value of the assets		197.7		176.7
Present value of scheme liabilities		(214.7)		(212.6)
(Deficit) in the scheme		(17.0)		(35.9)
Related deferred tax asset		5.1		10.8
Net pension (liability)		(11.9)		(25.1)

The contribution rate agreed for the next 3 years 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:

	30.06.02 £m	31.12.01 £m
Balance sheet presentation		
Net assets per statutory accounts	655.5	772.5
Remove SSAP 24 pension asset	(39.6)	(14.9)
FRS 17 pension liability (net of deferred tax asset)	(11.9)	(25.1)
Net assets including pension liability	604.0	732.5
Profit and loss account presentation		
Profit and loss reserves per statutory accounts	494.9	611.9
Remove SSAP 24 pension asset	(39.6)	(14.9)
FRS 17 pension liability (net of deferred tax asset)	(11.9)	(25.1)
Profit and loss reserves including pension liability	443.4	571.9

f. Additional analysis required by FRS 17.

	30.06.02 £m
Analysis of the amount that would have been charged to operating profit	
Current service cost	(2.1)
Past service cost (augmentations and early retirement costs)	(0.8)
Total operating charge	(2.9)
Analysis of the amount that would have been credited to other finance income	
Expected return on pension scheme assets	6.1
Interest on pension scheme assets	(6.3)
Net return	(0.2)
Analysis of the movement in scheme surplus/(deficit) during the year	
Surplus/(deficit) in scheme at 31 December 2001	(35.9)
Current service cost	(2.1)
Contributions paid	27.7
Past service costs	(0.8)
Other finance income	(0.2)
Actuarial gains/(losses)	(5.7)
Surplus/(deficit) in scheme at 30 June 2002	(17.0)
Analysis of amount that would have been recognised in statement of recognised gains and losses	
Actual return less expected return on pension scheme assets	(9.6)
Experience gains and losses arising on the scheme liabilities	10.6
Changes in assumptions underlying the present value of the scheme liabilities	(6.7)
Actuarial gain/(loss) recognised in statement of recognised gains and losses	(5.7)

29 Related party transactions

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

30 Wessex Water Services Ltd - dividend policy

The policy adopted by the board of Wessex Water Services Ltd to 31 March 2002 was to declare ordinary dividends of two thirds of the historic profit attributable to shareholders (before deferred tax), subject to a current cost ordinary dividend cover of one. Since 1 April 2002 the policy has been to declare all of the current cost profit available to shareholders (before financing adjustment and deferred tax) as ordinary dividends.

31 Principal subsidiary companies and associated undertakings

a. Subsidiary companies

Wessex Water Ltd owns 100% of the issued ordinary share capital of each subsidiary company.

Company	Country of incorporation and operation	Principal activities
Wessex Water Services Ltd	United Kingdom	Water supply and waste water services
Wessex Water BV	Netherlands	Financial services
SC Technology AG	Switzerland	Waste treatment processes
Wessex Water Services Finance Plc *	United Kingdom	Issue of bonds
Wessex Water Enterprises Ltd	United Kingdom	Waste water services

* 100% owned by Wessex Water Services Ltd

Other subsidiary companies are dormant or not material to the group.

b. Joint ventures

Company	Class of shares	Proportion held	Principal activities
MWH Wessex Ltd	£1 ordinary	51%	Engineering services

On 1 July 2001, Wessex Water Services Ltd transferred the Engineering services employees to another 100% subsidiary, Wessex Engineering Services Ltd, which changed its name to MWH Wessex Ltd. On 18 December 2001 the company entered into a joint venture agreement with MWH UK Ltd which took a 49% share in MWH Wessex Ltd.

c. Joint arrangements that are not entities

Company	Class of shares	Proportion held	Principal activities
Bristol Wessex Billing Services Ltd	£1 ordinary	50%	Billing services

On 28 June 2001, Wessex Water Services Ltd and Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc, under which the billing and customer services of both groups were transferred into a new company Bristol Wessex Billing Services Ltd.

d. Associated undertakings

Company	Class of shares	Proportion held	Principal activities
Aquator Services Ltd	£1 ordinary	10%	Membrane technology

32 Ultimate parent company

The company is 100% owned by YTL Utilities (UK) Limited, a UK company which prepares group accounts including the accounts of the company. The ultimate parent company is YTL Corporation Berhad of Malaysia, a company quoted on the Kuala Lumpur stock exchange.

33 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.