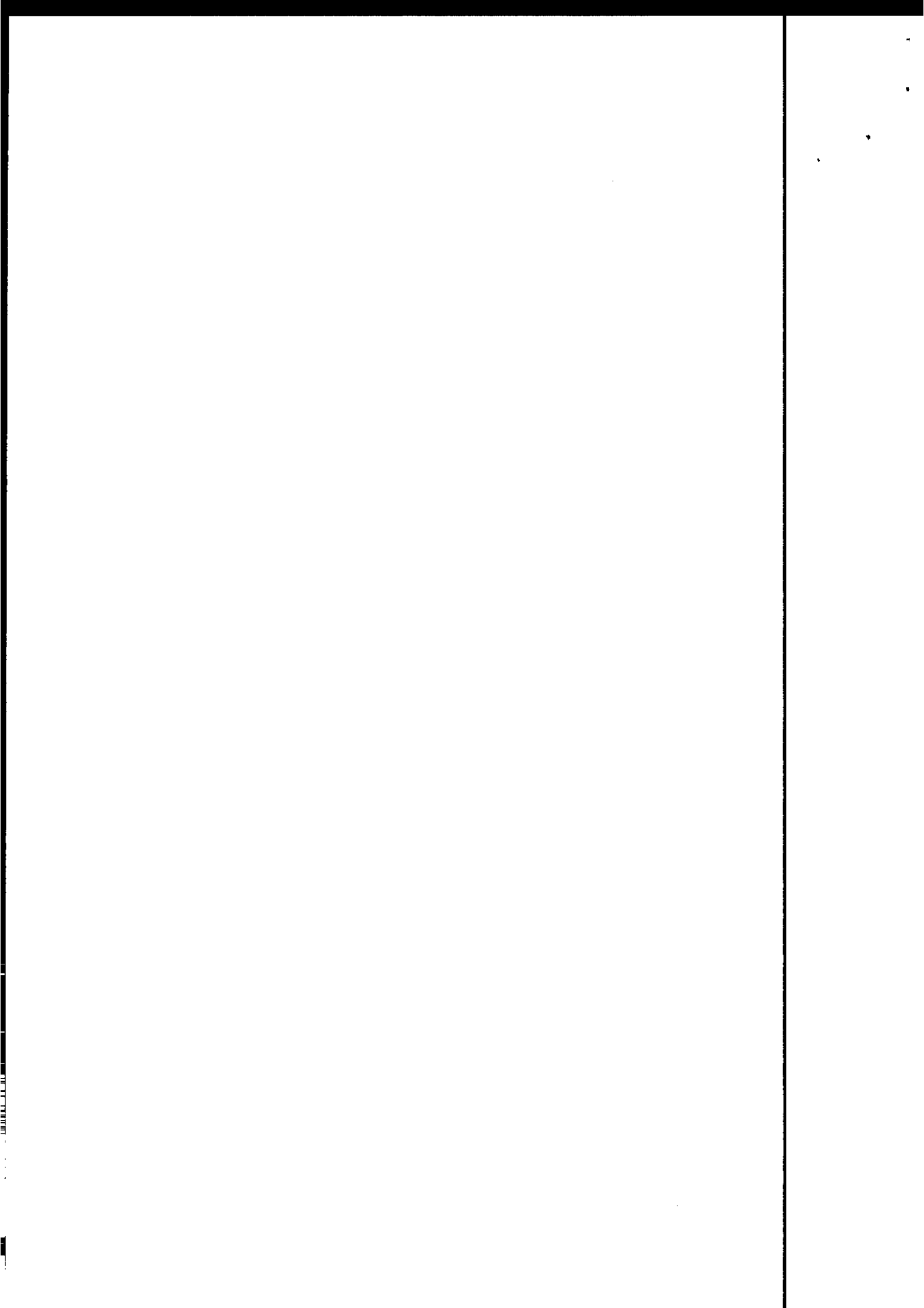


WESSEX WATER SERVICES LTD

Accounts for the six months to
30 June 2002

Registered in England and Wales No. 2366648



DIRECTORS' REPORT

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

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 period after taxation was £31.4m (year to December 2001 - £66.6m). Dividends of £9.7m (year to December 2001 - £32.8m) were declared in the period, and the directors propose a final dividend of £18.4m (year to December 2001 - £11.3m).

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 2001 the parent company Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc and a joint venture agreement with MWH UK Ltd for the operation of the Billing and Customer Services activities and Engineering Services activities respectively. These agreements resulted in the transfer of employees out of the company into these entities.

Last autumn Azurix Corp. appointed advisors to undertake the sale of Wessex Water Ltd and subsidiary companies, including Wessex Water Services 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. The sale was completed on 21 May 2002.

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

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 £73,000 was donated to UK charities (year to December 2001 - £65,000).

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 2002 trade creditors represented approximately 34 days trade purchases (31 December 2001 - 35 days).

DIRECTORS

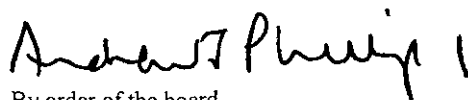
The following were directors of the company during the period and subsequently;

C F Skellett
S M Allen
Mrs L C Bennett
P J Costain
T K Harris
J G Jones
Mrs K J Morgan
P L M Sherwood
Lord Wakeham - Resigned 10 May 2002
NAW Wheatley - Resigned 10 May 2002
Francis Sock Ping Yeoh - Appointed 21 May 2002
Seok Hong Yeoh - Appointed 21 May 2002

No directors had interests in shares of group companies, except for Francis Sock Ping Yeoh and Seok Hong Yeoh whose interests in the shares of YTL Power International Berhad and YTL Corporation Berhad are disclosed in the accounts of those companies.

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
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 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.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditors
8 Salisbury Square
London, E14 5AG
11 October 2002

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 restated
Turnover	2	133.5	265.2
Operating costs	3	(75.0)	(150.6)
Operating profit	2	58.5	114.6
Net interest payable	4	(16.8)	(32.9)
Profit on ordinary activities before taxation		41.7	81.7
Taxation on profit on ordinary activities	5	(10.3)	(15.1)
Profit attributable to shareholders		31.4	66.6
Dividends paid and proposed	7	(28.1)	(44.1)
Transfer to reserves	17	3.3	22.5

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

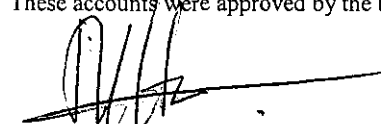
The accompanying notes are an integral part of this profit and loss account.

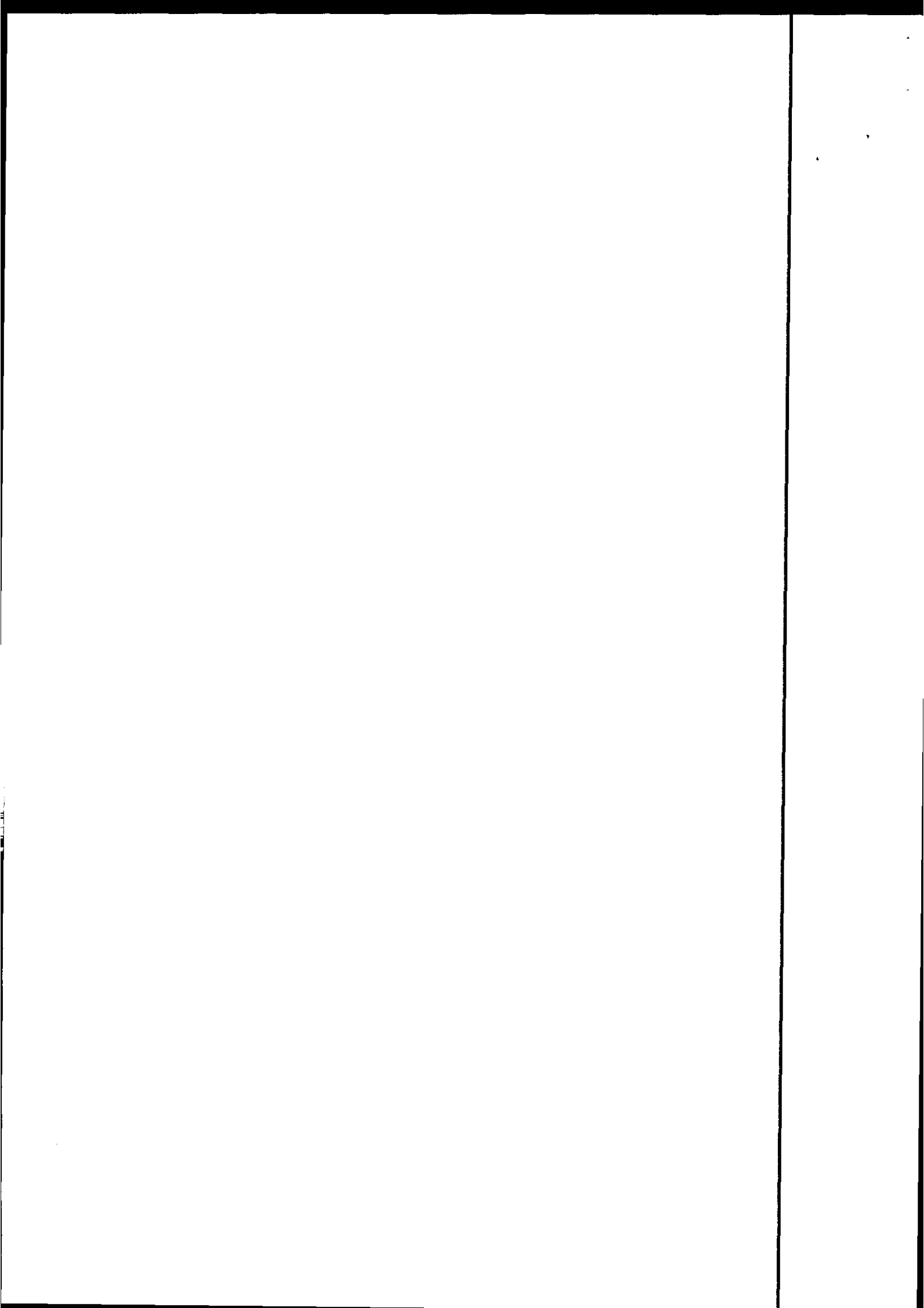
BALANCE SHEET
30 June 2002

	NOTE	30.06.02 £m	31.12.01 £m
Fixed assets			
Tangible assets	8	1,425.9	1,382.5
Investments	9	-	-
		<hr/>	<hr/>
		1,425.9	1,382.5
Current assets			
Stock and work in progress	10	1.8	2.3
Debtors	11	116.4	79.9
		<hr/>	<hr/>
		118.2	82.2
Creditors - amounts falling due within one year	12	(340.1)	(269.2)
		<hr/>	<hr/>
Net current liabilities	25	(221.9)	(187.0)
		<hr/>	<hr/>
Total assets less current liabilities		1,204.0	1,195.5
Creditors - amounts falling due after more than one year	13	(526.2)	(526.4)
Provisions for liabilities and charges	14	(71.9)	(66.2)
Deferred income	15	(22.8)	(23.1)
		<hr/>	<hr/>
Net assets	2	583.1	579.8
		<hr/>	<hr/>
Capital and reserves			
Called up equity share capital	16	81.3	81.3
Profit and loss account	17	501.8	498.5
		<hr/>	<hr/>
Equity shareholders' funds	18	583.1	579.8
		<hr/>	<hr/>

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



NOTES TO THE ACCOUNTS
For the six months to 30 June 2002

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:

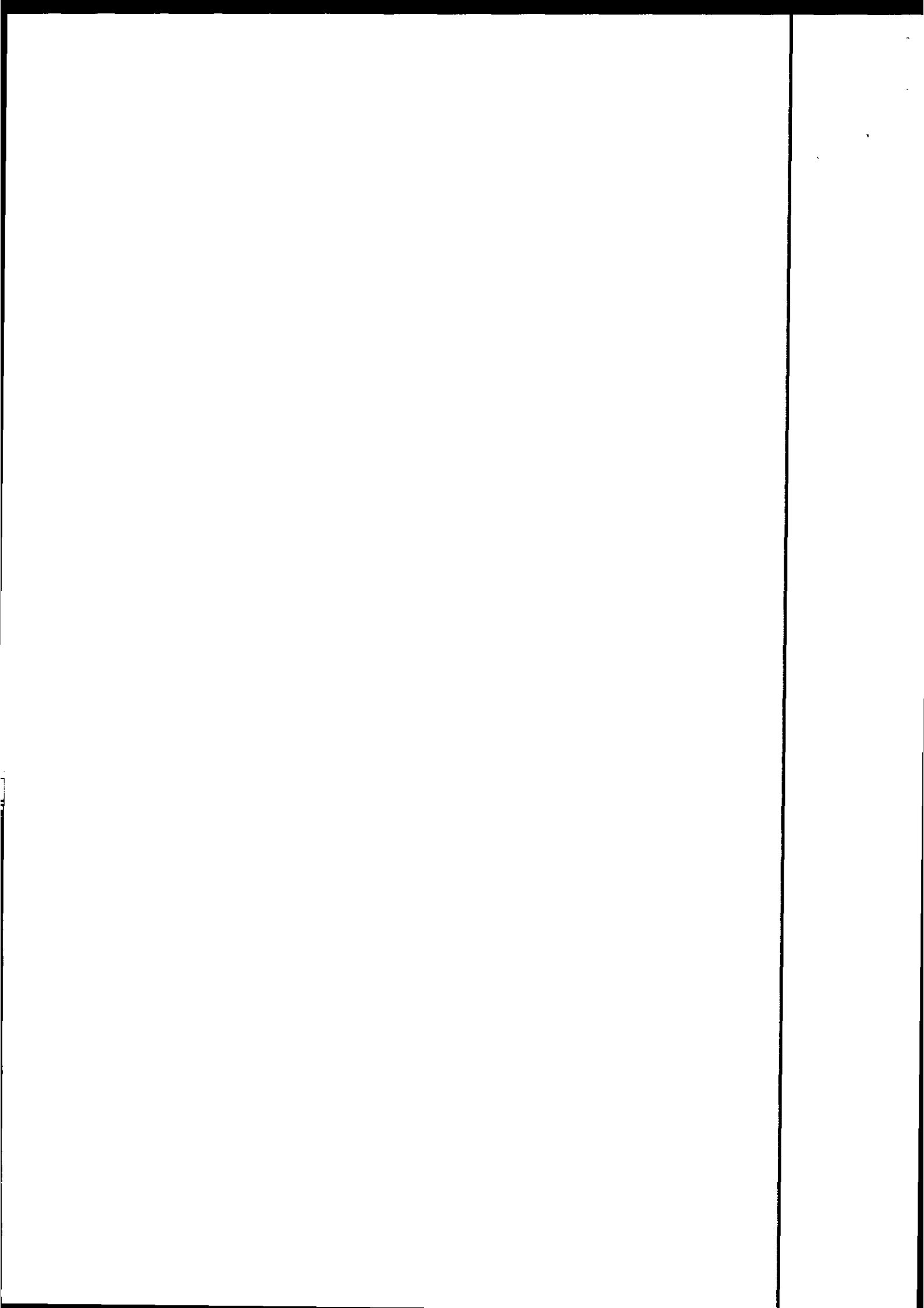
Buildings and operational structures	15 - 80 years
Plant, machinery and vehicles	3 - 30 years
Other assets	4 - 15 years

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

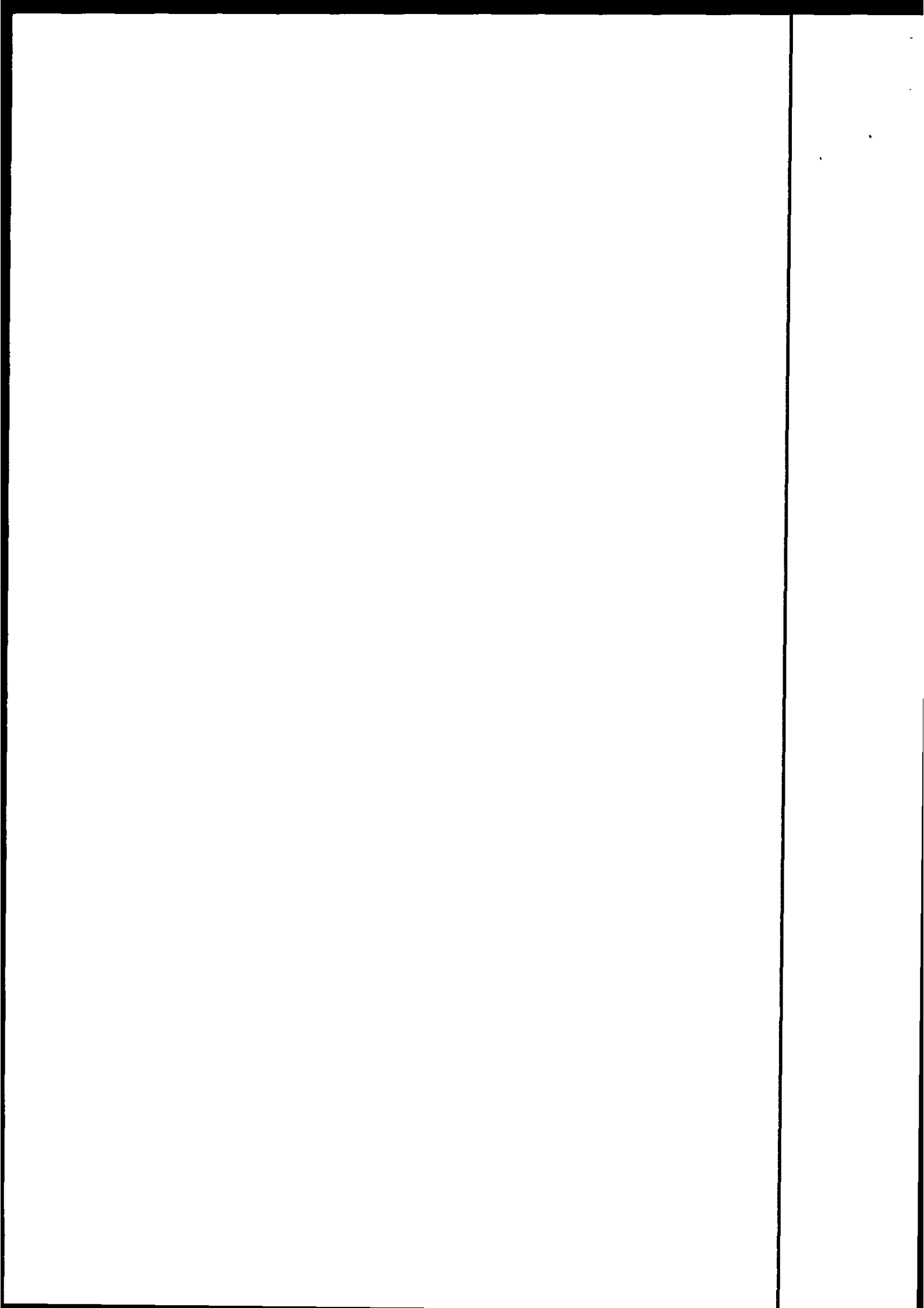
Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

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

Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom.

a.	Turnover		
	Regulated	129.8	257.1
	Unregulated	2.6	5.6
	Intra group	1.1	2.5
		<hr/>	<hr/>
		133.5	265.2
		<hr/> <hr/>	<hr/> <hr/>
b.	Operating profit		
	Regulated	57.1	111.9
	Unregulated	1.4	2.7
		<hr/>	<hr/>
		58.5	114.6
		<hr/> <hr/>	<hr/> <hr/>
c.	Net assets		
	Regulated	560.0	558.1
	Unregulated	23.1	21.7
		<hr/>	<hr/>
		583.1	579.8
		<hr/> <hr/>	<hr/> <hr/>

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

3 Operating costs

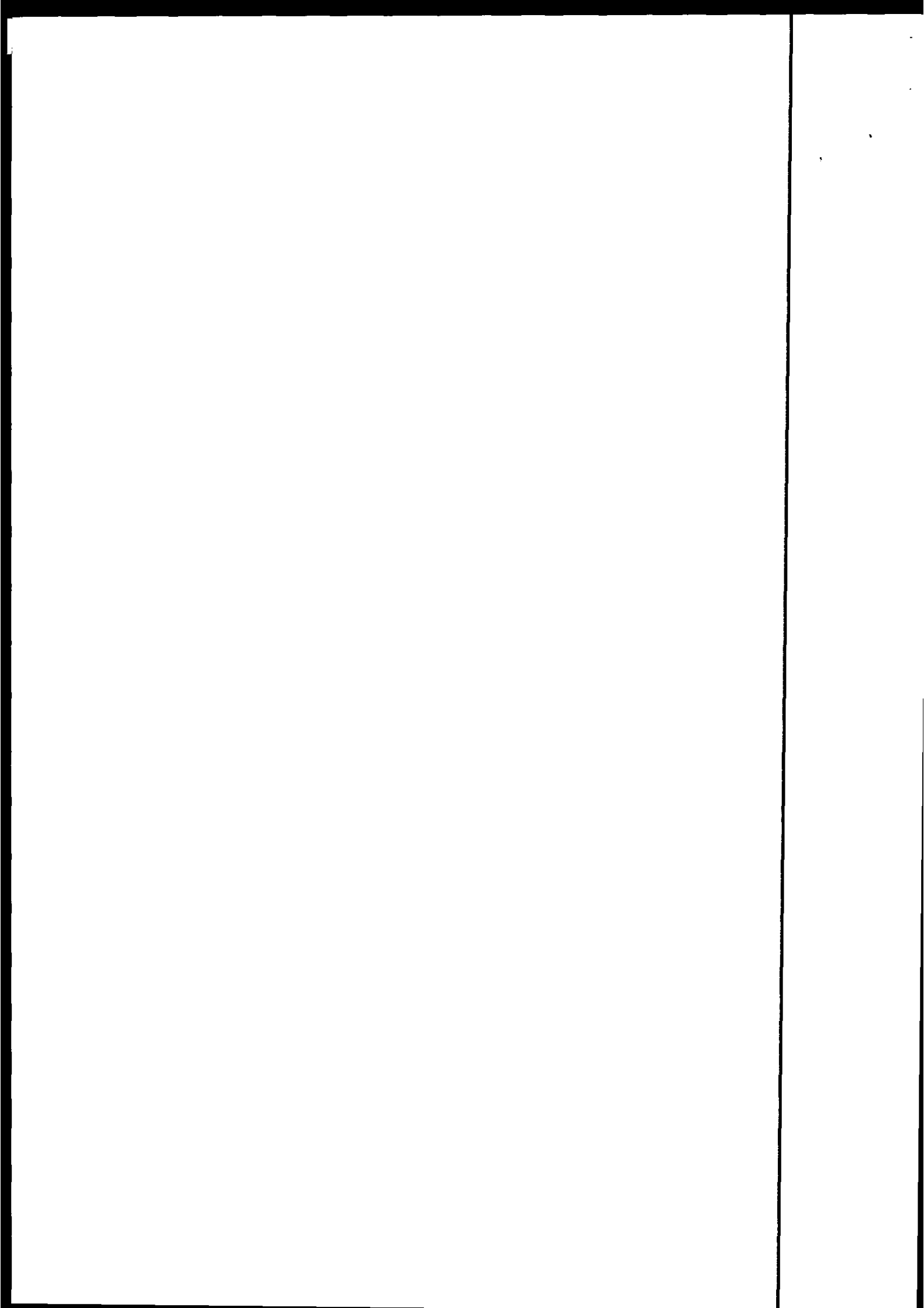
	Manpower costs (note 6b)	10.7	20.2
	Materials and consumables	7.8	15.9
	Other operational costs	24.3	50.9
	Depreciation	32.3	62.9
	Amortisation of grants and contributions	(0.4)	(0.8)
	Loss/(profit) on disposals of fixed assets	0.3	1.5
		<hr/>	<hr/>
		75.0	150.6
		<hr/> <hr/>	<hr/> <hr/>

Operating costs include:

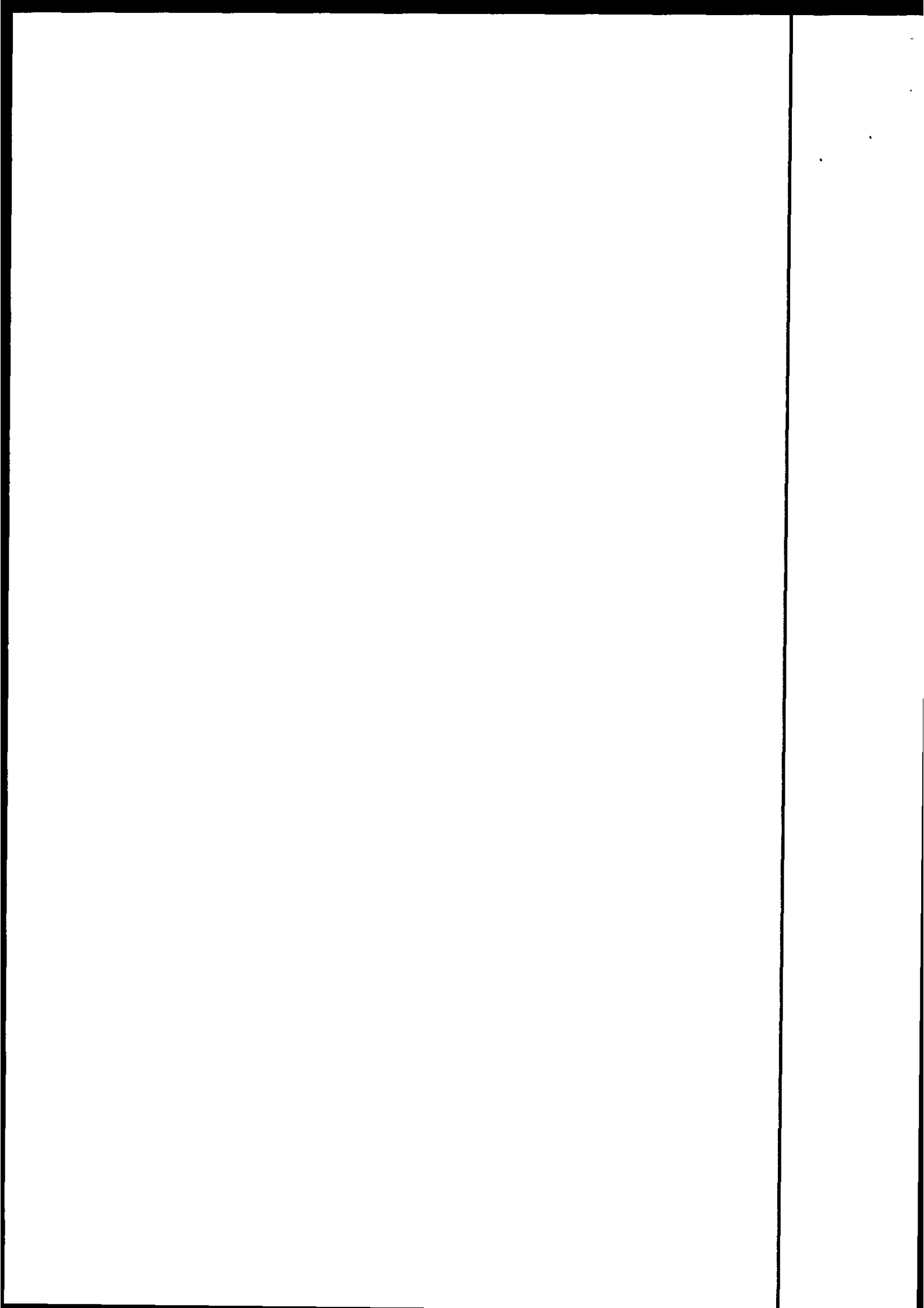
	Operating leases for plant and machinery	0.9	0.5
	Other operating leases	-	0.1
	Research and development	0.1	0.2
	Directors' remuneration (note 6c)	0.3	0.5
	Audit fees	0.1	0.1
		<hr/>	<hr/>

4 Net interest payable

	Interest payable:		
	To group companies	9.9	18.0
	On bank loans	6.5	14.2
	On finance leases	0.5	2.5
		<hr/>	<hr/>
	Total interest payable	16.9	34.7
	Interest receivable	(0.1)	(1.8)
		<hr/>	<hr/>
	Net interest payable	16.8	32.9
		<hr/> <hr/>	<hr/> <hr/>



	6 months to 30.06.02 £m	12 months to 31.12.01 £m
5 Taxation		
a. Taxation on profit on ordinary activities		
Current tax:		
UK corporation tax at 30%	1.0	3.9
Advance corporation tax due to parent company	2.0	7.9
Payment for group relief	1.4	4.3
	<hr/>	<hr/>
	4.4	16.1
Deferred tax:		
Origination and reversal of timing differences	8.6	9.0
(Increase)/decrease in discount	(2.7)	(10.0)
	<hr/>	<hr/>
	5.9	(1.0)
	<hr/>	<hr/>
	10.3	15.1
	<hr/> <hr/>	<hr/> <hr/>
b. Current tax reconciliation		
Profit on ordinary activities before tax	41.7	81.7
	<hr/>	<hr/>
Current tax at 30%	12.5	24.5
Expenses not deductible for corporation tax purposes	0.5	0.6
Capital allowances for the year in excess of depreciation	(3.0)	(2.6)
Payment of lease creditor capital	(3.0)	(5.3)
Other timing differences	(2.6)	(1.1)
	<hr/>	<hr/>
Total current tax charge - as above	4.4	16.1
	<hr/> <hr/>	<hr/> <hr/>
6 Directors and employees		
a. Total employment costs of the company were:		
Wages and salaries	11.3	27.9
Social security costs	0.9	2.1
Other pension costs	2.0	1.5
	<hr/>	<hr/>
	14.2	31.5
	<hr/> <hr/>	<hr/> <hr/>
b. Total employment costs are charged as follows:		
Capital schemes	3.2	10.1
Infrastructure renewals expenditure	0.3	1.2
Manpower costs	10.7	20.2
	<hr/>	<hr/>
	14.2	31.5
	<hr/> <hr/>	<hr/> <hr/>



	6 months to 30.06.02 £000	12 months to 31.12.01 £000
c. Total directors' remuneration		
Fees	67	144
Salary	186	294
Bonuses	37	79
Benefits in kind	15	24
	<hr/>	<hr/>
	305	541
	<hr/>	<hr/>

Four directors have benefits accruing under defined benefit pension schemes at the period end (31 December 2001 – 4).

d. Highest paid director		
Salary	54	95
Bonus	10	19
Benefits in kind	6	10
	<hr/>	<hr/>
	70	124
	<hr/>	<hr/>

The highest paid director had an accrued annual pension entitlement of £30,932 at 30 June 2002 (31 December 2001 - £29,620).

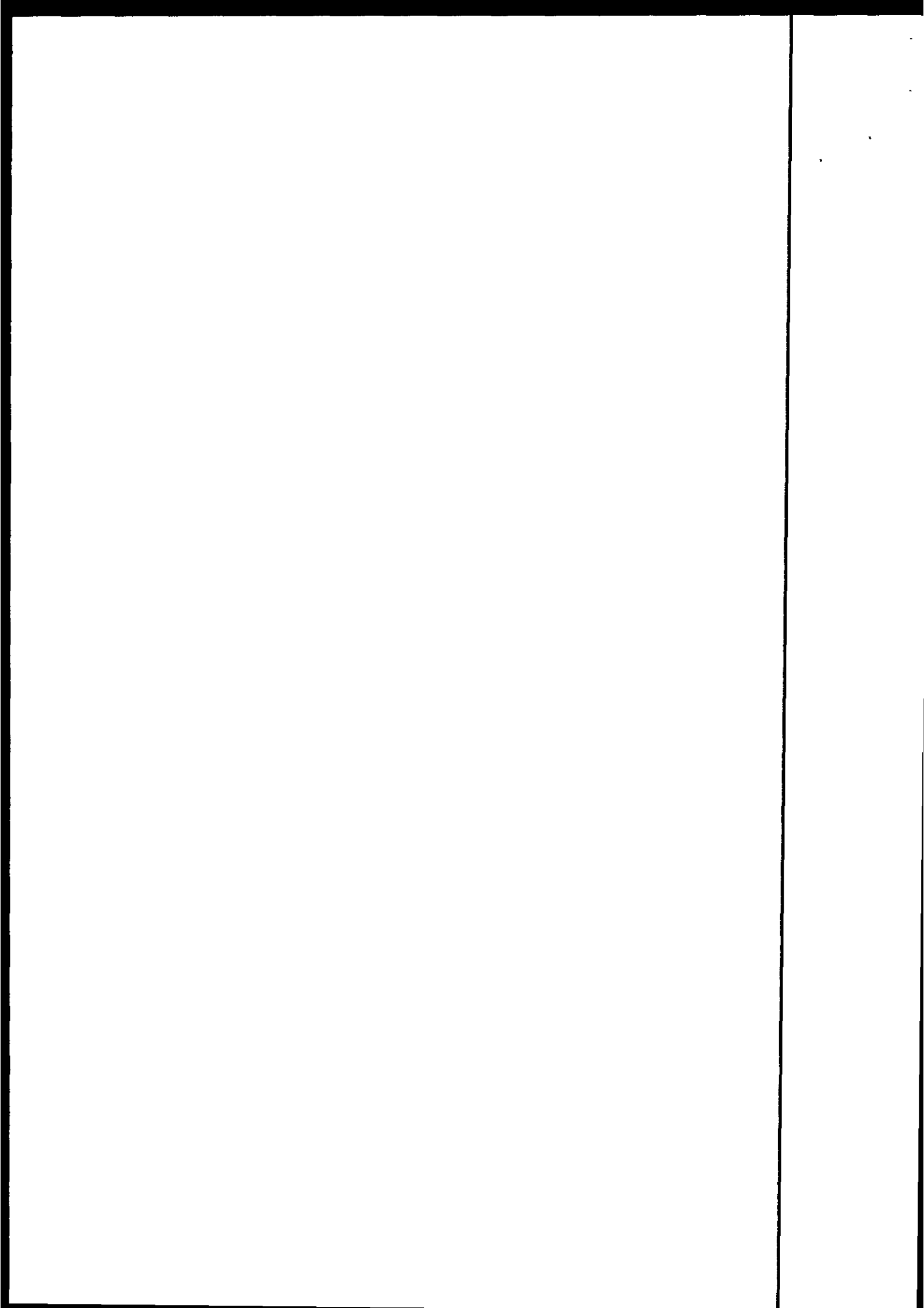
	30.06.02 number	31.12.01 number
e. Monthly average number of employees during the period		
- Engineering Services	-	98
- Billing Services	260	260
- All other staff	897	873
	<hr/>	<hr/>
- Total	1,157	1,231
	<hr/>	<hr/>

Engineering Services employees were transferred to a joint venture company, set up by Wessex Water Ltd, during the year to 31 December 2001.

7 Dividends

The dividend policy 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.

	6 months to 30.06.02 £m	12 months to 31.12.01 £m
Interim dividends of 11.92p per share on 81,350,000 ordinary shares (2001 – 40.32p)	9.7	32.8
Final dividend of 22.62p per share on 81,350,000 ordinary shares (2001 - 13.89p)	18.4	11.3
	<hr/>	<hr/>
	28.1	44.1
	<hr/>	<hr/>



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 January 2002	498.3	718.6	544.6	41.4	71.3	1,874.2
Additions	11.1	18.9	17.1	0.9	30.4	78.4
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	516.6	745.0	567.4	44.8	74.0	1,947.8
Depreciation						
At 1 January 2002	90.3	150.5	224.6	26.3	-	491.7
Charge for the period	4.2	9.0	16.1	3.0	-	32.3
Disposals	-	-	(2.0)	(0.1)	-	(2.1)
At 30 June 2002	94.5	159.5	238.7	29.2	-	521.9
Net book value						
At 30 June 2002	422.1	585.5	328.7	15.6	74.0	1,425.9
At 1 January 2002	408.0	568.1	320.0	15.1	71.3	1,382.5

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.

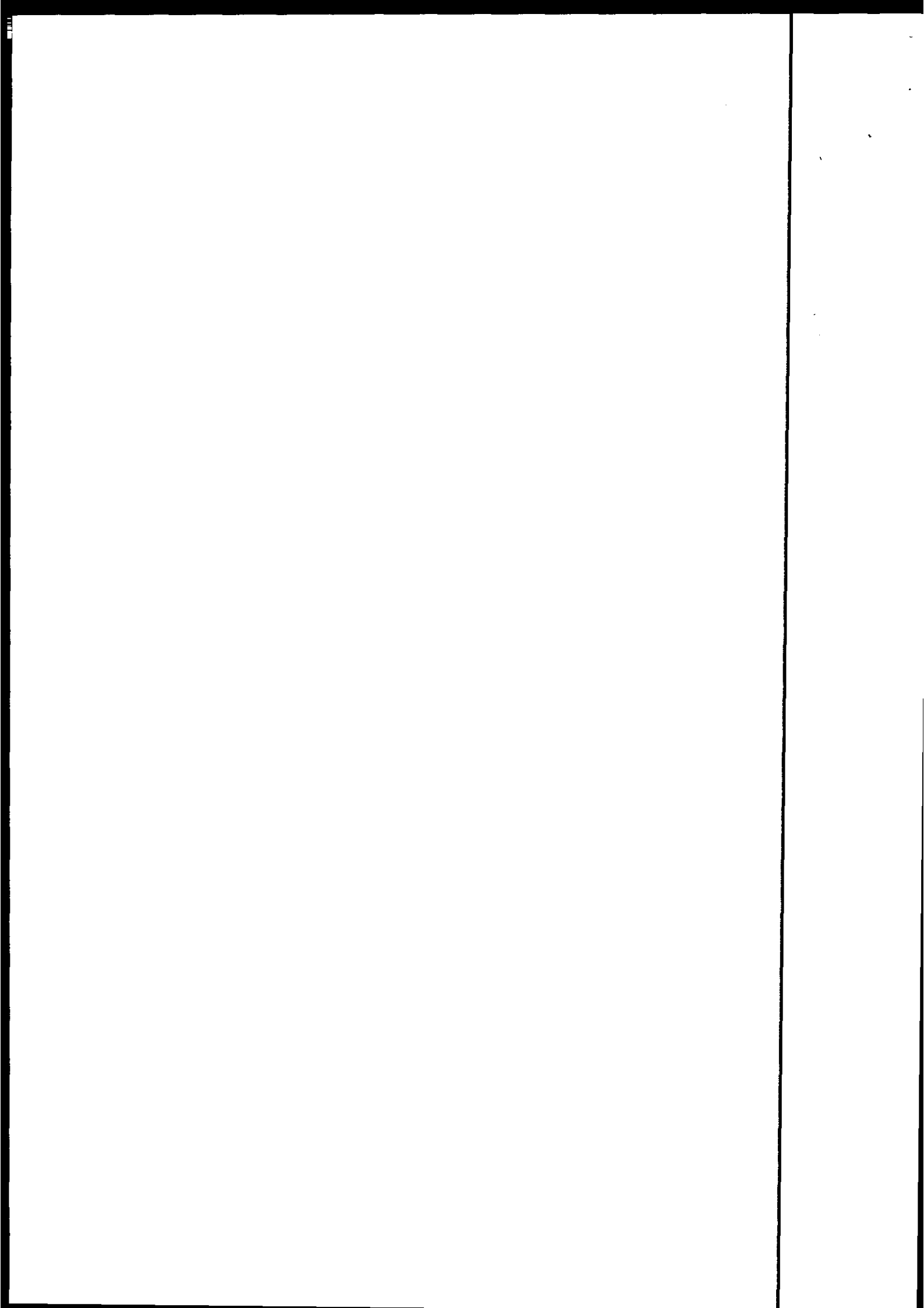
The net book value of assets held under finance leases is £75.7m (31 December 2001 - £76.8m).

The depreciation charge for the period on assets held under finance leases is £1.1m (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 (note 1e).

Included in the cost of infrastructure assets is £165.1m (31 December 2001 - £149.1m) 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.

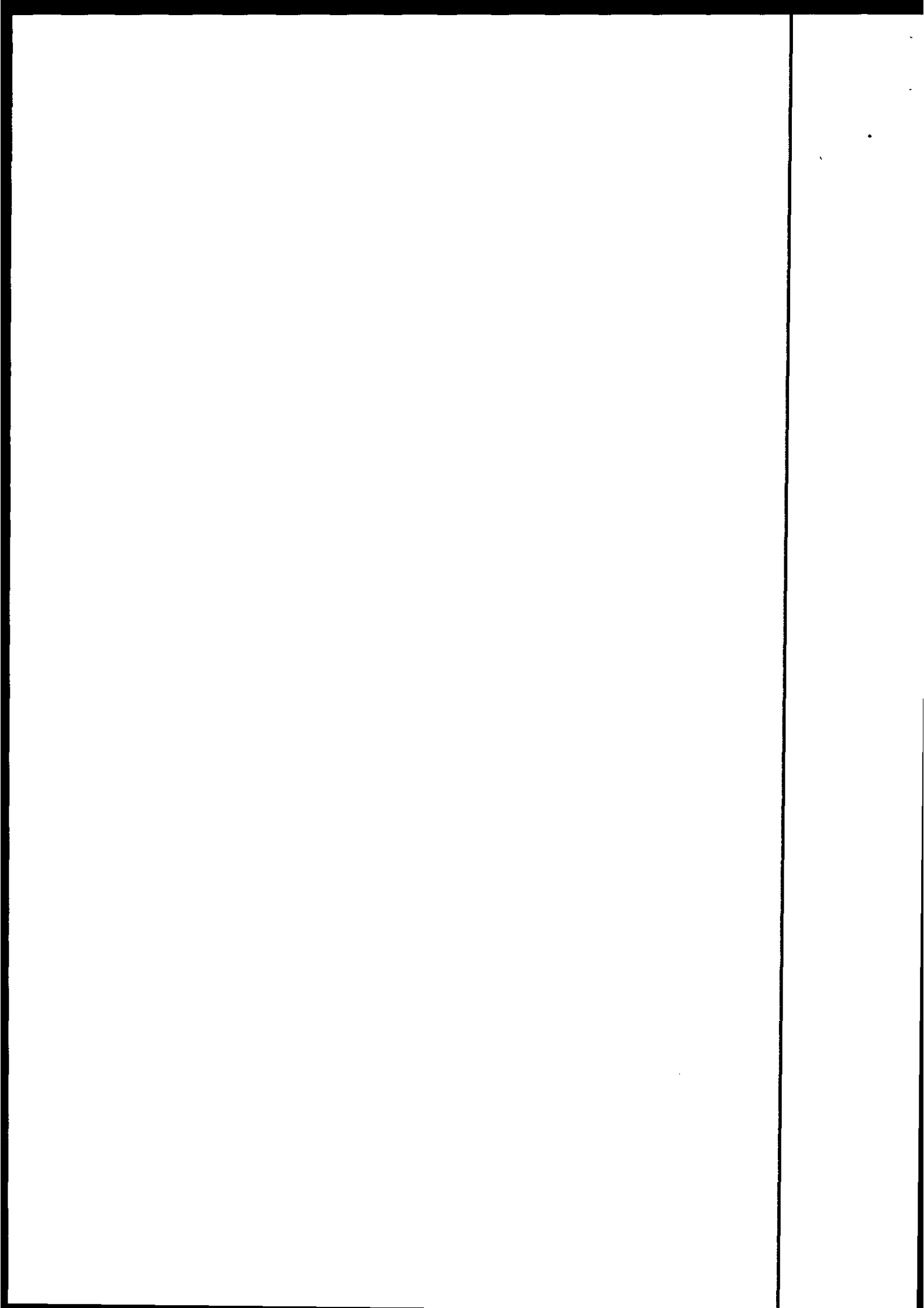


9 Investments

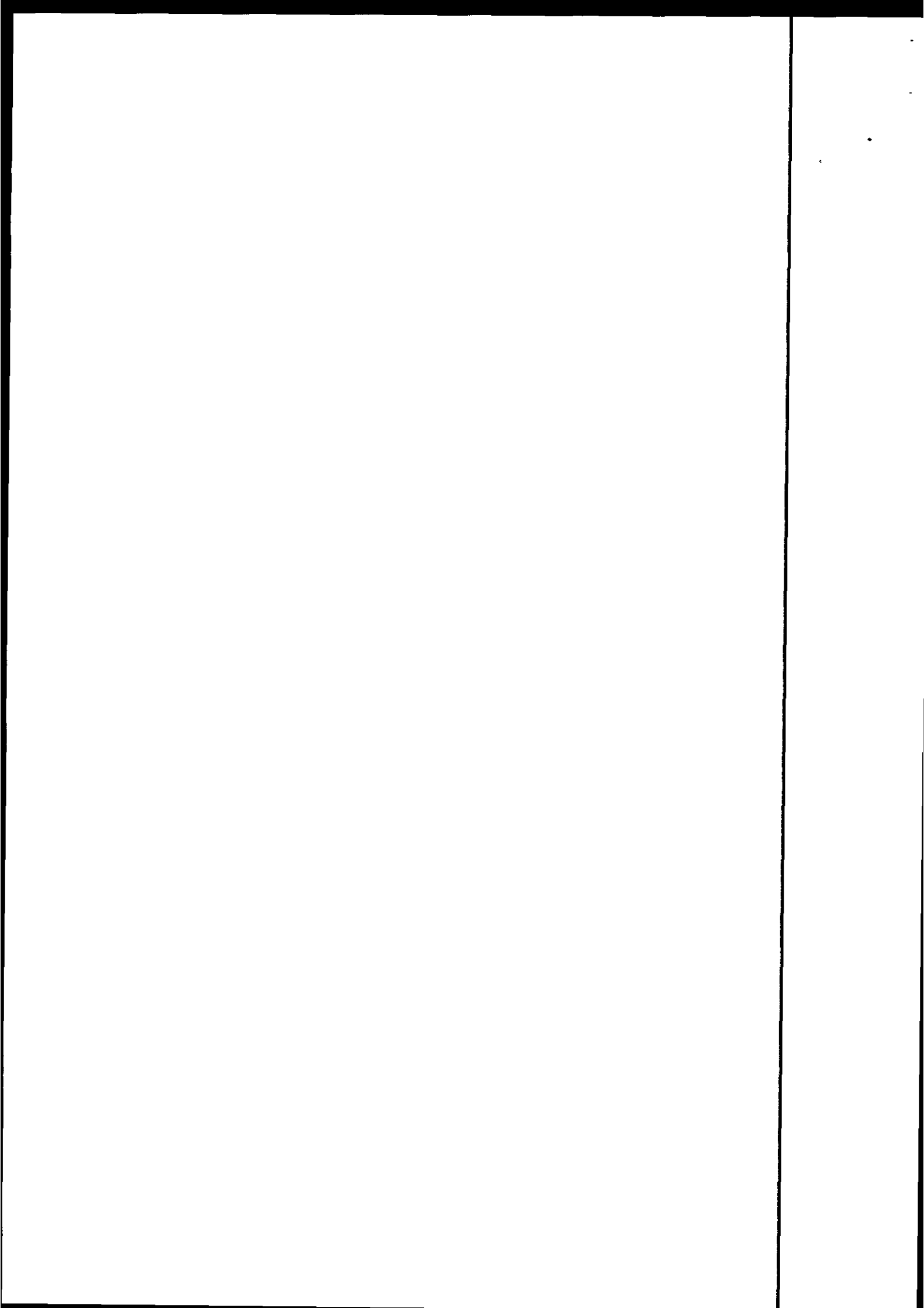
The company has an investment of £13,000 in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	30.06.02 £m	31.12.01 £m
10 Stock and work in progress		
Stock	0.6	1.2
Work in progress	1.2	1.1
	<u>1.8</u>	<u>2.3</u>
11 Debtors - amounts falling due within one year		
Trade debtors	32.4	33.3
Owed by ultimate parent company	-	0.3
Owed by other group companies	9.1	1.7
Other debtors	43.3	18.5
Prepayments and accrued income	31.6	26.1
	<u>116.4</u>	<u>79.9</u>
12 Creditors - amounts falling due within one year		
Bank overdraft repayable on demand	4.1	11.1
Loans repayable	175.4	13.6
Obligations under finance leases	10.4	20.4
Trade creditors	1.5	1.4
Amounts owed to parent company	36.2	55.6
Amounts owed to subsidiary undertaking	4.5	10.5
Amounts owed to other group companies	0.6	17.6
Dividend	18.4	39.1
Other creditors	1.0	0.9
Corporation tax	18.8	17.8
Taxation and social security	0.6	0.5
Accruals and deferred income	68.6	80.7
	<u>340.1</u>	<u>269.2</u>
13 Creditors - amounts falling due after more than one year		
Loans repayable - in more than 1 year, but not more than 2 years	-	-
- in more than 2 years, but not more than 5 years	78.4	78.4
- in more than 5 years	96.6	96.6
	<u>175.0</u>	<u>175.0</u>
Inter company loans - in more than 5 years	347.6	347.4
Other	3.6	4.0
	<u>526.2</u>	<u>526.4</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 £297.6m at an interest rate of 5.875% is 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.



14 Provisions for liabilities and charges	Deferred tax £m	Restructuring costs £m	Total £m
At 1 January 2002	65.7	0.5	66.2
Utilised during year	-	(0.2)	(0.2)
Origination and reversal of timing differences	8.6	-	8.6
Increase in discount	(2.7)	-	(2.7)
At 30 June 2002	71.6	0.3	71.9
		30.06.02	31.12.01
		£m	£m
Deferred tax is provided as follows:			
Accelerated capital allowances		248.2	242.2
Other timing differences		(0.3)	(2.9)
Undiscounted provision for deferred tax		247.9	239.3
Discount		(176.3)	(173.6)
Discounted provision for deferred tax		71.6	65.7
15 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
16 Called up equity share capital			
81,350,000 ordinary shares of £1 each:			
Authorised, allotted, called up and fully paid		81.3	81.3
17 Profit and loss account			30.06.02
			£m
At 1 January 2002			498.5
Retained profit for the period			3.3
At 30 June 2002			501.8
18 Equity shareholders' funds			
At 1 January 2002			579.8
Retained profit for the year			3.3
At 30 June 2002			583.1



19 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £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 2002 there were £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 £m	Floating rate borrowings £m	Total borrowings £m
Sterling	428.8	283.7	712.5
At 30 June 2002	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 %	Period years
Sterling	5.54	7.8
Weighted average	5.54	7.8

£179.5m of floating rate borrowings are short term, and £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	Fair value £m
Borrowings less than 1 year	189.9	189.9
Floating rate borrowings over 1 year	104.2	104.2
Fixed rate borrowings over 1 year	418.4	415.2
At 30 June 2002	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.

£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.

20 Commitments and guarantees

- There were no operating lease payments (31 December 2001 - £0.2m), under leases on land and buildings due within the next year, which expire after 2 years.
- At 30 June 2002 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £70.8m (31 December 2001 - £74.0m).
- Capital expenditure contracted but not provided at 30 June 2002 was £54.8m (31 December 2001 - £49.5m).

- d. The company has guaranteed a £297.6m Bond and a £50.0m 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 2002 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 period, including amounts set aside for early retirees, was £2.0m (12 months to 31 December 2001 - £1.5m).
- 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.

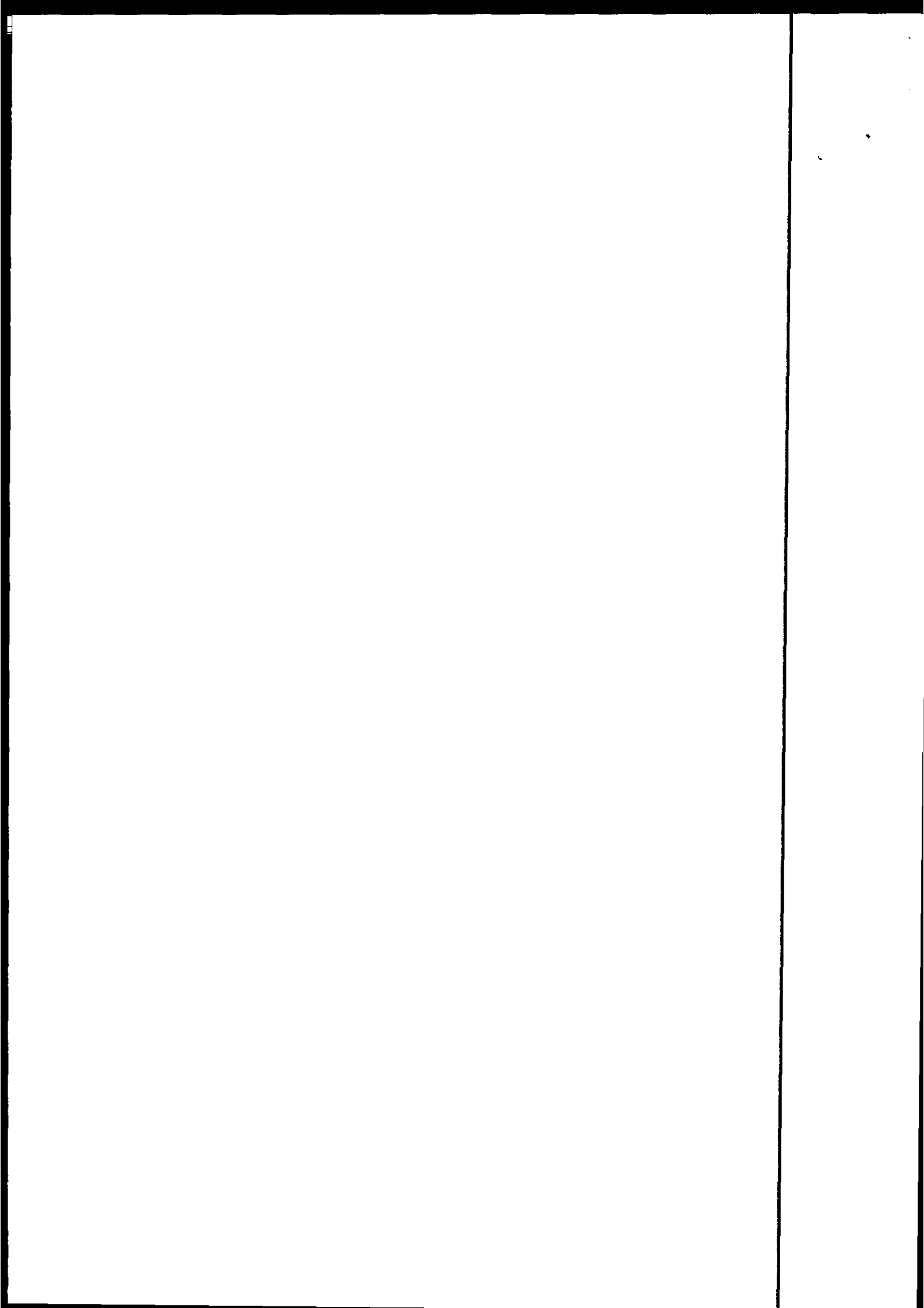
The actuarial valuation described above has been updated at 30 June 2002 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	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 rate 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
		<hr/>		<hr/>
Total fair value of the assets		197.7		176.7
Present value of scheme liabilities		(214.7)		(212.6)
		<hr/>		<hr/>
(Deficit) in the scheme		(17.0)		(35.9)
Related deferred tax asset		5.1		10.8
		<hr/>		<hr/>
Net pension (liability)		(11.9)		(25.1)
		<hr/>		<hr/>

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:

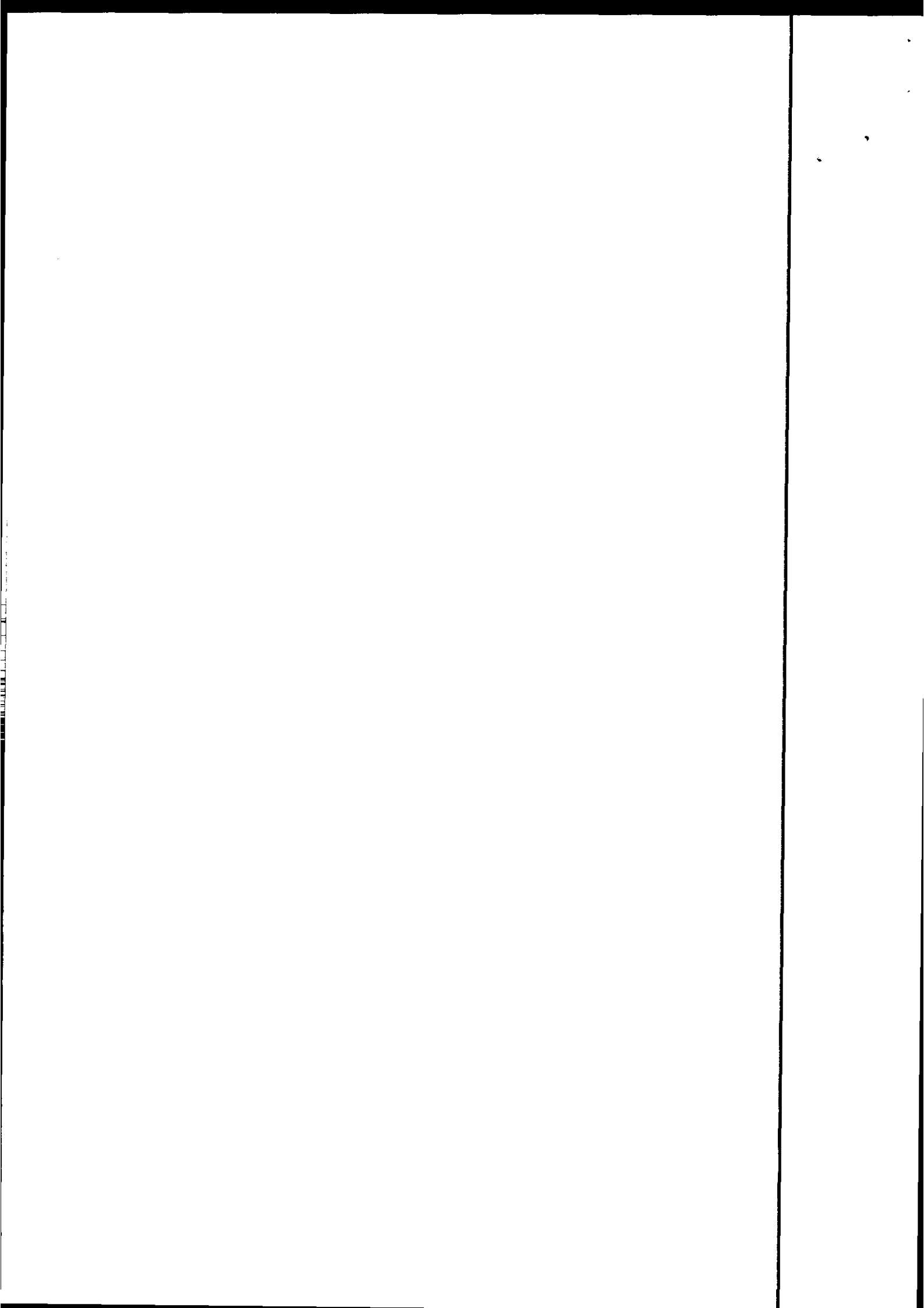
	30.06.02 £m	31.12.01 £m
Balance sheet presentation		
Net assets per statutory accounts	583.1	579.8
Remove SSAP 24 pension asset	(39.6)	(14.9)
FRS 17 pension liability (net of deferred tax asset)	(11.9)	(25.1)
	<hr/>	<hr/>
Net assets including pension liability	531.6	539.8
	<hr/>	<hr/>
Profit and loss account presentation		
Profit and loss reserves per statutory accounts	501.8	498.5
Remove SSAP 24 pension asset	(39.6)	(14.9)
FRS 17 pension liability (net of deferred tax asset)	(11.9)	(25.1)
	<hr/>	<hr/>
Profit and loss reserves including pension liability	450.3	458.5
	<hr/>	<hr/>

- 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)
	<hr/>
Total operating charge	(2.9)
	<hr/>
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)
	<hr/>
Net return	(0.2)
	<hr/>
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)
	<hr/>
Surplus/(deficit) in scheme at 30 June 2002	(17.0)
	<hr/>
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)
	<hr/>
Actuarial gain/(loss) recognised in statement of recognised gains and losses	(5.7)
	<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 Road, 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.

