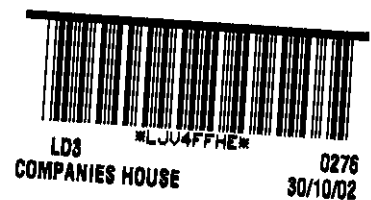


YTL Utilities (UK) Limited
(formerly Trushelfco (No. 2869) Limited)

**Directors' report and consolidated
financial statements**

Registered number 04341837

30 June 2002



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Directors' report

The directors present their annual report and the audited financial statements for the period ended 30 June 2002.

Principal activities

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

The company's principal subsidiary is a regulated company licensed for the supply of clean water and treatment and disposal of waste water, operating in a region of 10,000 square kilometres in the south west of England.

Business review

The company was incorporated on 18 December 2001 as Trushelfco (No. 2869) Limited, and changed its name to YTL Utilities (UK) Limited on 21 March 2002.

On 21 May 2002, the company purchased the entire share capital of Wessex Water Limited for an enterprise value of £1,239.5 million.

The results for the period are set out on page 6.

This is the first period of accounts for the company, and thus no comparative results have been presented.

Research and development

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

Proposed dividend

The directors do not recommend the payment of a dividend on the ordinary shares of the company.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the group exceeds the book values of these assets at 30 June 2002.

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the period were as follows:

Elanor Jane Zuercher	(appointed 18 December 2001, resigned 13 March 2002)
Louise Jane Stoker	(appointed 18 December 2001, resigned 13 March 2002)
Taner Hassan	(appointed 13 March 2002, resigned 18 March 2002)
Simon Peregrine Hall	(appointed 13 March 2002, resigned 18 March 2002)
Tiong Lay Yeoh	(appointed 18 March 2002)
Francis Sock Ping Yeoh	(appointed 18 March 2002)
Seok Kian Yeoh	(appointed 18 March 2002)
Seok Hong Yeoh	(appointed 18 March 2002)
Sock Siong Yeoh	(appointed 18 March 2002)
Seok Kah Yeoh	(appointed 18 March 2002)
Colin Frank Skellett	(appointed 21 May 2002)
John Sefton Andrew Smith-Maxwell	(appointed 21 May 2002)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

Directors' report *(continued)*

Employees

In common with all employees, the group 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 group intranet.

Political and charitable contributions

The company made no political or charitable contributions during the period.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Seok Hong Yeoh
Director

2 Lambs Passage
London
EC1Y 8BB

4 October 2002

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Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that 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;
- 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 to 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.



8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of YTL Utilities (UK) Limited

We have audited the financial statements on pages 6 to 28.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 company 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 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 affairs of the company and the group as at 30 June 2002 and of the profit of the group for the six month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

4 October 2002

Consolidated profit and loss account
for the six month period ended 30 June 2002

	<i>Note</i>	2002 £m
Turnover	2	
Continuing operations		
Acquisitions		23.7
 Raw materials and consumables		(1.9)
Staff costs	5	(2.2)
Depreciation and other amounts written off tangible and intangible fixed assets		(5.2)
Other operating charges		(5.2)
Amortisation of grants and contributions		0.1
 Operating profit	2	
Continuing operations		
Acquisitions		9.3
 Interest payable and similar charges	6	(6.7)
 Profit on ordinary activities before taxation	3	2.6
Tax on profit on ordinary activities	7	(0.3)
 Profit for the financial period		2.3
Dividends	8	(1.7)
 Retained profit for the period	22	0.6

Statement of total recognised gains and losses

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

Consolidated balance sheet
at 30 June 2002

	<i>Note</i>	2002 £m	2002 £m
Fixed assets			
Intangible assets	9		(167.7)
Negative goodwill			
Tangible assets	10		1,492.4
Investments	11		-
Investments in associates			
			<hr/> 1,324.7
Current assets			
Stocks	12	2.9	
Debtors	13	113.4	
Investments	14	0.7	
Cash at bank and in hand		-	
		<hr/> 117.0	
Creditors: amounts falling due within one year	15	(303.2)	
		<hr/>	
Net current liabilities			(186.2)
			<hr/>
Total assets less current liabilities			1,138.5
Creditors: amounts falling due after more than one year	16		(1,040.9)
Provisions for liabilities and charges	18		(74.2)
Grants and contributions	19		(22.8)
			<hr/>
Net assets	2		0.6
			<hr/> <hr/>
Capital and reserves			
Called up share capital	21		-
Profit and loss account	22		0.6
			<hr/>
Equity shareholders' funds			0.6
			<hr/> <hr/>

These financial statements were approved by the board of directors on 4 October 2002 and were signed on its behalf by:


 Seok Hong Yeoh
 Director

Balance sheet

At 30 June 2002

	Note	2002 £m	2002 £m
Fixed assets			
Investments	11		561.3
Current assets			
Debtors	13	15.9	
Creditors: amounts falling due within one year	15	(61.7)	
Net current liabilities			(45.8)
Total assets less current liabilities			515.5
Creditors: amounts falling due after more than one year	16		(515.5)
Net assets			-
Capital and reserves			
Called up share capital	21		-
Profit and loss account	22		-
Equity shareholders' funds			-

These financial statements were approved by the board of directors on 4 October 2002 and were signed on its behalf by:


 Seok Hong Yeeh
 Director

Reconciliation of movements in shareholders' funds
for the six month period ended 30 June 2002

	<i>Note</i>	Group 2002 £m	Company 2002 £m
Profit for the financial period		2.3	1.7
Dividends		(1.7)	(1.7)
		<hr/>	<hr/>
New share capital subscribed (net of issue costs)	21	0.6	-
		-	-
		<hr/>	<hr/>
Net addition to shareholders' funds		0.6	-
Opening shareholders' funds		-	-
		<hr/>	<hr/>
Closing shareholders' funds		0.6	-

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The group has adopted all applicable accounting standards up to and including FRS 19 'Deferred Tax'. The group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards except for the treatment of certain grants and contributions (see below), and under the historical cost accounting rules

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 year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

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

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Negative goodwill

Negative goodwill is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after crediting the unamortised amount of any related negative goodwill.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

Depreciation is provided to write off the cost less the estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Grants and contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (see note 19).

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 10.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes (continued)

Post-retirement benefits

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

The parent company is not a member of that pension scheme, and thus is not required to make any disclosures under the transitional rules of FRS 17 'Retirement benefits'.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

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

Taxation

Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Financial instruments

Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the Finance costs in respect of the accounting period and reduced by payments made in that period.

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

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Income includes an estimate of the value of services provided between the last meter reading date and the period end.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996), the group is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the group in its own published consolidated financial statements.

Notes (continued)

2 Segmental information

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

	Turnover	Operating Profit	Net assets
	2002	2002	2002
	£m	£m	£m
Regulated	22.1	9.0	0.6
Unregulated	1.6	0.3	-
	<u>23.7</u>	<u>9.3</u>	<u>0.6</u>

Unregulated activities include the trading activities of SC Technology AG and Wessex Water Enterprises Limited, as well as the Wessex Water Services Limited non regulated activities.

3 Profit on ordinary activities before taxation

	2002 £m
<i>Profit on ordinary activities before taxation is stated</i>	
<i>after charging</i>	
Auditors' remuneration:	
Group	
- audit	-
- fees paid to the auditors and its associates in respect of other services	-
Depreciation and other amounts written off tangible fixed assets	5.8
Hire of plant and machinery - rentals payable under operating leases	0.2
Hire of other assets - operating leases	-
Research and development expenditure	-
<i>after crediting</i>	
Release of negative goodwill	0.6

The audit fee for the company for the period was £9,800.

4 Remuneration of directors

No remuneration was paid to any of the directors during the period.

Notes (continued)

5 Staff numbers and costs

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

	Number of employees 2002
Engineering department	166
Billing department	260
Other staff	973
	<hr/> 1,399 <hr/>

The aggregate payroll costs of these persons were as follows:

	2002 £m
Wages and salaries	2.6
Social security costs	0.2
Other pension costs	0.4
	<hr/> 3.2 <hr/>

Of the amount disclosed above, £1.0 million has been charged to capital schemes.

6 Interest payable and similar charges

	2002 £m
On bank loans and overdrafts	6.0
On loans from immediate parent company	0.6
Finance charges payable in respect of finance leases and hire purchase contracts	0.1
	<hr/> 6.7 <hr/>

Notes (continued)

7 Taxation

Analysis of charge in period

	2002 £m	2002 £m
<i>UK corporation tax</i>		
Current tax on income for the period	0.5	
	<hr/>	
Total current tax		0.5
ACT written back		(0.2)
		<hr/>
Tax on profit on ordinary activities		0.3

Factors affecting the tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2002 £m
<i>Current tax reconciliation</i>	
Profit on ordinary activities before tax	2.6
	<hr/>
Current tax at 30%	0.8
<i>Effects of:</i>	
Expenses not deductible for tax purposes	0.5
Capital allowances for period in excess of depreciation	(0.5)
Other timing differences	(0.3)
	<hr/>
Total current tax charge (see above)	0.5

Notes (continued)

8 Dividends and other appropriations

On 15 May 2002, YTL Utilities (UK) Limited signed a loan facility agreement with its immediate parent company YTL Utilities Limited, a company registered in the Cayman Islands, for up to £120 million.

Under the terms of this agreement, interest is payable up to an amount which equals the company's distributable profits at the year end. In substance, however, an element of the interest payable is considered to be an appropriation of profit rather than interest on the loan principal. The element which is considered to be interest on the loan principal (see note 6) has been calculated by reference to a market rate (of approximately 6%) of interest on an external loan of a similar principal. The residual amount has been disclosed as a dividend in these financial statements.

9 Intangible fixed assets

Group	Negative Goodwill £m
<i>Cost</i>	
At beginning of period	-
Additions	(168.3)
	<hr/>
At end of period	(168.3)
<i>Amortisation</i>	
At beginning of period	-
Credited in the year	0.6
	<hr/>
At end of period	0.6
	<hr/>
<i>Net book value</i>	
At 30 June 2002	(167.7)

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings	Infrastructure Assets	Plant, machinery and vehicles	Office equipment	Payments on account and assets in course of construction	Total
Group	£m	£m	£m	£m	£m	£m
Cost or valuation						
At beginning of period	-	-	-	-	-	-
Acquisitions	422.2	644.6	336.3	16.1	69.4	1,488.6
Additions	1.5	2.6	2.6	0.1	3.9	10.7
Disposals	-	-	(0.4)	-	-	(0.4)
Grants and contributions	-	(0.8)	-	-	-	(0.8)
At end of period	423.7	646.4	338.5	16.2	73.3	1,498.1
Depreciation						
At beginning of period	-	-	-	-	-	-
Charge for the period	0.7	1.6	2.9	0.6	-	5.8
On disposals	-	-	(0.1)	-	-	(0.1)
At end of period	0.7	1.6	2.8	0.6	-	5.7
Net book value						
At 30 June 2002	423.0	644.8	335.7	15.6	73.3	1,492.4

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

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

The net book value of assets held under finance leases is £75.7 million.

The depreciation charge for the period on assets held under finance leases is £0.2 million.

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

Included in the cost of infrastructure assets is £164.9 million of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £159.5 million of depreciation included in the profit and loss account as an infrastructure renewals charge in previous years.

Included in freehold land and buildings above is an amount of £7.0 million in respect of land which is not depreciated.

Notes (continued)

11 Fixed asset investments

Group	Company Interests in subsidiary undertakings £m
<i>Cost</i>	
At beginning of period	-
Additions	571.5
	<hr/>
At end of period	571.5
	<hr/>
<i>Provisions</i>	
At beginning of period	-
Dividend paid out of pre acquisition reserves	10.2
	<hr/>
At end of period	10.2
	<hr/>
<i>Net book value</i>	
At 30 June 2002	561.3

Group interests in associated undertakings are not material to the group financial statements.

Notes (continued)

11 Fixed asset investments (continued)

The principal undertakings in which the group's/company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held Group	Class and percentage of shares held Company
<i>Subsidiary undertakings</i>				
Wessex Water Limited	United Kingdom	Water supply and waste water services	-	60p ordinary shares, 100%
Wessex Water Services Limited	United Kingdom	Water supply and waste water services	£1 ordinary shares, 100%	-
Wessex Water BV	Netherlands	Financial Services	€453.8 ordinary shares, 100%	-
SC Technology AG	Switzerland	Waste treatment processes	CHF 1,000 ordinary shares, 100%	-
Wessex Water Services Finance Plc	United Kingdom	Issue of bond	£1 ordinary shares, 100%	-
Wessex Water Enterprises Limited	United Kingdom	Membrane Technology	£1 ordinary shares, 100%	-
<i>Joint Ventures</i>				
MWH Wessex Limited	United Kingdom	Engineering Services	£1 ordinary A shares, 51%	-
<i>Associates</i>				
Aquator Services Limited	United Kingdom	Membrane Technology	£1 ordinary shares, 10%	-
<i>Joint Arrangements</i>				
Bristol Wessex Billing Services Limited	United Kingdom	Billing Services	£1 ordinary A shares, 50%	-

Notes (continued)

12 Stocks

	Group 2002 £m
Raw materials and consumables	0.6
Work in progress	2.3
	<hr/> 2.9 <hr/>

13 Debtors

	Group 2002 £m	Company 2002 £m
Trade debtors	36.1	-
Amounts owed by group undertakings	-	15.9
Other debtors	43.6	-
Prepayments and accrued income	33.7	-
	<hr/> 113.4 <hr/>	<hr/> 15.9 <hr/>

14 Investments (held as current assets)

	Group 2002 £m
Listed investments	0.7

At 30 June 2002 the market value of the listed investments was £2.3 million.

15 Creditors: amounts falling due within one year

	Group 2002 £m	Company 2002 £m
Bank loans and overdrafts (see note 16)	8.6	-
Other loans (see note 16)	175.4	-
Obligations under finance leases and hire purchase contracts (see note 16)	10.5	-
Trade creditors	3.8	-
Amounts owed to group undertakings	13.5	58.8
Taxation and social security	10.2	-
Other creditors	1.0	-
Accruals and deferred income	80.2	2.9
	<hr/> 303.2 <hr/>	<hr/> 61.7 <hr/>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	Group 2002 £m	Company 2002 £m
Bonds	343.4	-
Bank loans and overdrafts	585.0	406.6
Amounts owed to group undertakings	108.9	108.9
Other creditors	3.6	-
	1,040.9	515.5

Analysis of debt:

	Group 2002 £m	Company 2002 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	194.5	-
Between one and two years	-	-
Between two and five years	486.2	406.6
In five years or more	551.1	108.9
	1,231.8	515.5

Amounts repayable in more than five years:

	Group 2002 £m	Company 2002 £m
Group		
Bank loans and overdrafts	98.8	-
Amounts owed to group undertakings	108.9	108.9
Bonds	343.4	-
	551.1	108.9

Notes (continued)

17 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosures other than the £194.5 million 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, Wessex Water Services Finance Plc. £410.0 million of the loans have been secured by a first fixed and floating charge over the assets of the group.

The group 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.

	Fixed rate borrowings 2002 £m	Floating rate borrowings 2002 £m	Total 2002 £m
Sterling	831.3	411.6	1,242.9

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

	Interest rate 2002 %	Period 2002 Years
Sterling	5.94	5.5

£189.0 million of floating rate borrowings are short term, and £222.6 million are long term with interest rates moving in line with LIBOR.

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 2002 £m	Fair value 2002 £m
Borrowings less than 1 year	194.5	194.5
Floating rate borrowings over 1 year	227.6	227.6
Fixed rate borrowings over 1 year	820.8	820.8
	1,242.9	1,242.9

In addition, the group had interest rate and currency instrument agreements outstanding with commercial banks with a book value of £480.8 million and a fair value of £485.0 million.

Notes (continued)

18 Provisions for liabilities and charges

	Deferred taxation £m	Restructuring costs £m	Total £m
Group			
At beginning of period	-	-	-
Amounts arising from the acquisition of a subsidiary	67.6	5.9	73.5
Additional amounts provided	-	0.7	0.7
	<hr/>	<hr/>	<hr/>
At end of period	67.6	6.6	74.2
	<hr/>	<hr/>	<hr/>

The elements of deferred taxation are as follows:

	2002 £m
Difference between accumulated depreciation and amortisation and capital allowances	248.2
Other timing differences	(0.3)
Advance Corporation Tax recoverable	(4.4)
	<hr/>
Undiscounted provision	243.5
Discount	(175.9)
	<hr/>
Discounted provision	67.6
	<hr/>

19 Grants and contributions

	Group £m
At beginning of period	-
Amounts arising from the acquisition of a subsidiary	22.6
Received during period	0.2
	<hr/>
At end of period	22.8
	<hr/>

Notes (continued)

20 Acquisitions

On 21 May 2002 the company acquired all of the 60p ordinary shares of Wessex Water Limited. The resulting negative goodwill of was capitalised and will be written off over 22 years, the weighted average of the useful economic lives of the non-monetary assets of Wessex Water Limited.

	Book value £m	Re- valuation £m	Other adjustments £m	Fair value £m
Fixed assets				
Tangible	1,428.6	60.0	-	1,488.6
Current assets				
Stock	3.2	-	-	3.2
Debtors	108.3	-	-	108.3
Investments	0.7	-	-	0.7
Total assets	<u>1,540.8</u>	<u>60.0</u>	<u>-</u>	<u>1,600.8</u>
Liabilities				
Provisions and grants	(96.1)	-	-	(96.1)
Creditors	(779.0)	4.1	10.0	(764.9)
Total liabilities	<u>(875.1)</u>	<u>4.1</u>	<u>10.0</u>	<u>(861.0)</u>
Net assets	<u>665.7</u>	<u>64.1</u>	<u>10.0</u>	<u>739.8</u>
Negative goodwill				<u>(168.3)</u>
Purchase consideration				<u>571.5</u>

Tangible fixed assets have been revalued upwards by £60.0 million to reflect the Regulated Asset Value of Wessex Water Limited at the date of acquisition. The Regulated Asset Value approximates to both the value in use and recoverable amount of those assets at that date.

Creditors have been reduced by £4.1 million in order to reflect the current market value of the long term debt acquired with Wessex Water Limited. The principal debt instrument affected is the £297.6 million fixed rate bond which bears interest at 5.875% until March 2009.

The other adjustment reflects the revaluation of certain tax and other liabilities.

The acquired undertaking made a profit of £21.4 million in the five month period from the beginning of its financial year to the date of acquisition. In its previous financial year of 12 months the profit was £60.4 million.

No provision was made for reorganising or restructuring in respect of the acquisition.

Notes (continued)

21 Called up share capital

	2002 £
<i>Authorised</i>	
100 Ordinary shares of £1 each	100
<i>Allotted, called up and fully paid</i>	
2 Ordinary shares of £1 each	2

22 Profit and loss account

	Group £m	Company £m
At beginning of period	-	-
Retained profit for the period	0.6	-
	<hr/>	<hr/>
At end of year	0.6	-
	<hr/>	<hr/>

23 Contingent liabilities

The group 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 £2.4 million.

24 Commitments

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

	Group 2002 £m	Company 2002 £m
Contracted	54.8	-
	<hr/>	<hr/>

- (b) At 30 June 2002 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £480.8 million.

Notes (continued)

25 Pension scheme

Contributions to the group's defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 December 2001. The assumptions which have the most significant effect on the results of the 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 most recent actuarial valuation showed that the market value of the scheme's assets was £176.7 million and that the actuarial value of those assets represented 83% of the benefits that had accrued to members, after allowing for expected future increases in earnings. In response to this valuation the group made a special contribution into the scheme in April 2002 of £25.6 million which increased the market value of scheme assets to around 95% of the actuarial value of the accrued benefits.

The contribution rate agreed for the next 3 years is 15% of pensionable earnings.

No employees of the company are members of the group scheme.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs' under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation was updated by the actuary on an FRS 17 basis as at 30 June 2002.

The major assumptions used by the actuary in this valuation were:

	2002
Rate of increase in salaries	3.6%
Rate of increase in pensions in payment and deferred pensions	2.6%
Discount rate applied to scheme liabilities	5.9%
Inflation assumption	2.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2002	Value at 2002 £m
Equities	8.0%	91.1
Government bonds	5.0%	101.2
Corporate bonds	5.9%	2.1
Cash	3.5%	3.3
		<hr/>
		197.7
Present value of scheme liabilities		(214.7)
		<hr/>
Deficit in the scheme – Pension liability		(17.0)
Related deferred tax asset		5.1
		<hr/>
Net pension liability		(11.9)

Notes (continued)

25 Pension scheme (continued)

The amount of this net pension liability would have a consequential effect on reserves.

Movement in deficit during the period

	2002 £m
Deficit in scheme at date of acquisition	(8.6)
Current service cost	(0.4)
Contributions paid	0.3
Past service cost	(0.1)
Other finance cost	-
Actuarial loss	(8.2)
	<hr/>
Deficit in the scheme at end of year	(17.0)

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit

	2002 £m
Current service cost	(0.4)
Past service cost	(0.1)
	<hr/>
	(0.5)

Analysis of amounts included in other finance income/costs

	2002 £m
Expected return on pension scheme assets	1.0
Interest on pension scheme liabilities	(1.0)
	<hr/>
	-

Notes (continued)

25 Pension scheme (continued)

Analysis of amount recognised in statement of total recognised gains and losses

	2002 %	2002 £m
Actual return less expected return on scheme assets	100	(8.2)
Actuarial gain (loss) recognised in statement of total recognised gains and losses		(8.2)

26 Related party disclosures

The company is controlled by YTL Utilities Limited the immediate holding company. The ultimate controlling party is YTL Corporation Berhad, the ultimate holding company.

In addition to the amounts paid to the immediate holding company disclosed in notes 6 and 8, the company paid £13.5 million in due diligence costs to that company in connection with the acquisition of Wessex Water Limited.

27 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of YTL Corporation Berhad which is the ultimate parent company incorporated in Malaysia.

The largest group in which the results of the company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The smallest group in which they are consolidated is that headed YTL Power International Berhad, incorporated in Malaysia. The consolidated accounts of these groups are available to the public and can be obtained from Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.