WESSEX WATER LTD GROUP
CONSOLIDATED ACCOUNTS

(formerly Wessex Water Plc)

For the nine months ended
31 December 1998

Registered in England and Wales No. 2366633

DIRECTORS' REPORT

The directors present their report and the audited accounts for the nine months to 31 December 1998. Following the acquisition of the company, as described below, the year end was changed from 31 March to 31 December.

PRINCIPAL ACTIVITIES AND OPERATIONAL REVIEW

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.

On 30 July 1998 N M Rothschild and Sons Limited and Morgan Stanley and Co. Limited, acting on behalf of a wholly owned subsidiary of Enron Corp., made an offer for the ordinary shares of Wessex Water Plc. The offer was declared unconditional on 21 September 1998. By 16 November 1998 all of the ordinary shares were held by Enron Water (Europe) Plc. On 11 December 1998 Enron Water (Europe) Plc changed its name to Azurix Europe Ltd.

On 30 November 1998 the company completed the sale of its 50% stake in Wessex Waste Management Ltd to Waste Management International Plc for a cash consideration of £205 million.

On 9 December 1998 the High Court sanctioned a reduction in the company's share capital involving the cancellation of all of the remaining preference shares. On 11 December 1998 Wessex Water Plc was re-registered as a private company, Wessex Water Ltd.

The group has continued to provide an excellent service and high quality standards for customers. The last nine month period has been important for the group as it prepares for the review of customer charges to be effective from 1 April 2000, and ensures that it will have no problem with the millennium date change.

PROFIT AND DIVIDEND

Profit for the period after taxation was £88.9 million (31.3.98 - £16.9 million). The directors are not proposing a final dividend.

DIRECTORS

The directors of the company during the period to 31 December 1998 were:

W N Hood	Chairman
P A Barrett	Resigned 19 October 1998
C J Bishop	
E G Falkman	Resigned 16 October 1998
E J Gawith	
Sir Terry Heiser	Resigned 19 October 1998
R D Kent	Resigned 23 September 1998
Lord McGowan	Resigned 19 October 1998
C F Skellett	
N A W Wheatley	

There were no beneficial interests of the directors or their families in the shares of the company at 31 December 1998. During the period no director was materially interested in any contract with the company or with any of its subsidiaries.

EMPLOYMENT

Wessex Water offers equal opportunities to all applicants for employment. Disabled people are considered for employment, training, career development and promotion on the basis of their aptitude and abilities, in common with all employees.

A high priority is given to employee communications which include team meetings, an employee newspaper, newsletters and conferences.

ENVIRONMENT POLICY

Wessex Water 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. Wessex Water has an environmental advisory panel and an environmental and sustainability charter. A separate sustainability report is prepared indicating the progress made in this area during the period.

RESEARCH AND DEVELOPMENT

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

CHARITABLE DONATIONS

During the period £84,000 was donated to UK charities (12 months to 31.3.98 - £122,000).

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 31 December 1998 trade creditors represented approximately 46 days trade purchases (31 March 1998 - 45 days).

YEAR 2000

Wessex Water is well advanced in its work to overcome the risks associated with the year 2000 date change. The year 2000 project, started in 1996, is working on three principal areas - operational systems, mainframe applications and desktop computers. This work includes close liaison with suppliers to address compliance issues associated with embedded logic in operational equipment. Controls have been in place for some time to ensure that purchases of new equipment are year 2000 compliant and compatible with existing systems.

Total additional costs of the year 2000 project are expected to be in the order of £10 million between 1996 and 2000.

AUDITORS

Coopers & Lybrand resigned as the company's auditors on 1 December 1998 and Arthur Andersen were appointed as auditors on that day to fill a casual vacancy. A resolution for their appointment will be proposed at the Annual General Meeting.

By Order of the Board
N G Wooller
Company Secretary
29 April 1999

N G Wooller

DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 group and company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board
N G Wooller
Company secretary
29 April 1999

N G Wooller

AUDITORS' REPORT TO THE MEMBERS OF WESSEX WATER LTD

We have audited the accounts on pages 4 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's and 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the group and the company at 31 December 1998 and of the group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

ARTHUR ANDERSEN
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS
29 April 1999

GROUP PROFIT AND LOSS ACCOUNT
For the nine months to 31 December 1998

	NOTE	9 months to 31.12.98 £m	12 months to 31.3.98 £m
Turnover	2	212.8	266.0
Operating profit	2,3	98.6	137.8
Share operating profit of associated undertaking	5	4.9	11.1
Profit on sale of associated undertaking	5	3.8	-
Profit on ordinary activities before interest and taxation		107.3	148.9
Net interest payable	6	(10.9)	(9.9)
Profit on ordinary activities before taxation		96.4	139.0
Taxation on profit on ordinary activities	7	(7.5)	(23.2)
Utility tax	7	-	(98.9)
Profit attributable to shareholders		88.9	16.9
Dividends (including non-equity)	8	(5.3)	(53.1)
Transfer to/(from) reserves	19	83.6	(36.2)

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

There were no recognised gains and 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
31 December 1998

	NOTE	Group 31.12.98 £m	Group 31.3.98 £m	Company 31.12.98 £m	Company 31.3.98 £m
Tangible assets	9	1,157.2	1,099.4	-	-
Investments	10	0.4	69.5	83.8	260.0
		1,157.6	1,168.9	83.8	260.0
Current assets					
Stock	11	2.2	1.1	-	-
Debtors	12	268.0	53.4	330.1	324.9
Investments	13	0.7	0.7	0.7	0.7
Cash at bank and in hand		2.2	1.1	30.9	45.8
		273.1	56.3	361.7	371.4
Creditors - amounts falling due within one year	14	(401.2)	(277.7)	(21.0)	(166.0)
Net current (liabilities)/assets		(128.1)	(221.4)	340.7	205.4
Total assets less current liabilities		1,029.5	947.5	424.5	465.4
Creditors - amounts falling due after more than one year	15	(93.9)	(103.1)	-	-
Provisions for liabilities and charges	16	(8.6)	(8.1)	-	-
Deferred income	17	(22.5)	(22.9)	-	-
Net assets	2	904.5	813.4	424.5	465.4
Capital and reserves					
Called up share capital	18	131.8	282.1	131.8	282.1
Capital redemption reserve	19	120.8	30.5	120.8	30.5
Share premium account	19	29.0	25.7	29.0	25.7
Profit and loss account	19	622.9	475.1	142.9	127.1
Shareholders' funds	20	904.5	813.4	424.5	465.4
Shareholders' funds comprise:					
Equity shareholders' funds		904.5	658.9	424.5	310.9
Non-equity shareholders' funds		-	154.5	-	154.5
		904.5	813.4	424.5	465.4

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

These accounts were approved by the board of directors on 29 April 1999 and signed on its behalf by:

N A W Wheatley

NOTES TO THE ACCOUNTS
For the nine months to 31 December 1998

1 Accounting policies

a. Basis of preparation

The accounts have been prepared under the historic cost convention and 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 company has adopted all applicable accounting standards up to and including FRS11, "Impairment of Fixed Assets and Goodwill".

b. Basis of consolidation

The group accounts include the accounts of the company and its subsidiaries up to 31 December 1998. As permitted by the Companies Act 1985 a profit and loss account for Wessex Water Ltd is not presented.

c. Associated undertakings

The accounts incorporate the group's share of the results of associated undertakings, where material. The consolidated profit and loss account incorporates the group's share of profits less losses and the group's share of net assets is included in the consolidated balance sheet.

d. Turnover

Turnover for the group represents income receivable in the ordinary course of business, excluding VAT, for services provided to external customers outside of the group.

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. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. The timing of the expenditure may fluctuate from the planned service level, and consequently accruals or deferrals are made in respect of infrastructure renewals expenditure. No 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.

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 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 9.

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. The results of overseas subsidiaries are translated at average rates of exchange for the year. Differences arising from the translation of retained profits at closing rates are taken to reserves, as are differences on the translation of opening balance sheets and foreign currency funding.

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. **Research and development**

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

m. ***Goodwill***

Goodwill arising on acquisition, being the excess of purchase consideration over the fair value of assets and liabilities acquired, relating to acquisitions on or after 1 April 1998, is held on the balance sheet and amortised over its useful economic life. On acquisitions before 31 March 1998 goodwill was eliminated immediately against reserves.

n. ***Taxation***

The charge for taxation is based on the profit for the period adjusted in accordance with tax legislation. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

o. **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.

p. **Cash flow**

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

		9 months to 31.12.98 £m	12 months to 31.3.98 £m
2	**Segmental analysis**		

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

		9 months to 31.12.98 £m	12 months to 31.3.98 £m
a.	Turnover		
	Water supply	66.2	84.7
	Waste treatment	146.6	181.3
		212.8	266.0
b.	Operating profit		
	Water supply	25.4	34.2
	Waste treatment	73.2	103.6
		98.6	137.8
c.	Net assets		
	Water supply	345.3	325.0
	Waste treatment	684.1	649.1
		1,029.4	974.1
	Interest bearing operating assets	(124.9)	(160.7)
		904.5	813.4

3 Operating profit

a. Operating profit is shown after charging/(crediting) the following items:

	9 months to 31.12.98 £m	12 months to 31.3.98 £m
Manpower costs (note 4)	18.9	23.1
Materials and consumables	12.1	23.8
Other operational costs	37.1	38.7
Exceptional cost of acquisition of the company by Azurix Europe Ltd	12.5	-
Depreciation of fixed assets	25.0	30.8
Amortisation of grants and contributions	(0.6)	(0.7)
Loss on disposals of fixed assets	0.7	1.5
Infrastructure renewals charge	8.5	11.0
	114.2	128.2

Exceptional costs associated with the acquisition of the company by Azurix Europe Ltd have been expensed by the group. These included advisors' fees and compensation in respect of cancelled share option schemes.

b. Operational costs include:

	9 months to 31.12.98 £m	12 months to 31.3.98 £m
Operating leases for plant and machinery	0.5	0.8
Other operating leases	0.3	0.3
Research and development	0.2	0.2
Directors' remuneration (note 4)	0.8	0.9
Audit fees	0.1	0.1

4 Employment costs

a. Total employment costs of the group:

	9 months to 31.12.98 £m	12 months to 31.3.98 £m
Wages and salaries	23.7	29.0
Social security costs	1.8	2.2
Other pension costs	2.6	2.6
	28.1	33.8

b. Total employment costs are charged as follows:

	9 months to 31.12.98 £m	12 months to 31.3.98 £m
Capital schemes	8.3	9.5
Infrastructure renewals expenditure	0.9	1.2
Manpower costs	18.9	23.1
	28.1	33.8

	31.12.98	31.3.98
	Number	Number
c. Monthly average number of employees during the period	1,404	1,414

d. Total directors' remuneration

	9 months to 31.12.98	12 months to 31.3.98
	£000	£000
Fees	45	90
Salary	556	585
Bonuses	171	172
Benefits in kind	37	53
	809	900

Five directors have benefits accruing under defined benefits pension schemes (31.3.98 – 5). Five directors exercised options under the executive share option scheme (31.3.98 – 5).

e. Remuneration of highest paid director

Salary	149	154
Bonus	47	40
Benefits in kind	7	12
	203	206

The highest paid director had an accrued pension entitlement of £123,672 at 31 December 1998 (31.3.98 - £96,081).

f. The beneficial interest of the directors, including shares held in trust, together with those of their families, in the shares of the company were:

	31 December 1998		31 March 1998	
	60p ordinary	50p preference	60p ordinary	50p preference
W N Hood	-	-	127,004	32,692
C F Skellett	-	-	72,664	14,115
C J Bishop	-	-	29,103	4,952
E J Gawith	-	-	51,106	37,659
N A W Wheatley	-	-	32,039	133
P A Barrett	-	-	2,566	-
Sir Terry Heiser	-	-	1,666	2,000
R D Kent	-	-	12,869	15,444

5 Share of results of associated undertakings

The financial statements incorporate the company's share of the results of Wessex Waste Management Ltd (trading as UK Waste) for the period 1 April 1998 to 21 September 1998, the date of effective control by Azurix Europe Ltd. On 30 November 1998 the company completed the sale of its interest in Wessex Waste Management Ltd for £205.0m

	Period to 21.9.98	12 months to 31.3.98
	£m	£m
UK Waste		
Turnover	87.8	173.7
Operating costs	(78.0)	(151.6)
Operating profit	9.8	22.1
Wessex Water Ltd 50% share of operating profit	4.9	11.1
Profit on disposal of Wessex Waste Management Ltd	3.8	-

The profit on disposal is stated net of goodwill written back of £134.5m.

		12 months to 31.12.98 £m	9 months to 31.3.98 £m
6	**Net interest payable**		
	On bank loans	8.1	6.0
	On other loans	0.4	0.5
	On finance leases	3.9	6.5
	Total interest payable	12.4	13.0
	Share of interest receivable of associated undertaking	(0.3)	(0.4)
	Other interest receivable	(1.2)	(2.7)
	Total interest receivable	(1.5)	(3.1)
	Net interest payable	10.9	9.9

7 ***Taxation***

a. Taxation on profit on ordinary activities

	12 months to 31.12.98 £m	9 months to 31.3.98 £m
UK corporation tax at 31%	19.4	21.6
Advance corporation tax utilised relating to prior years	(16.2)	(13.3)
Advance corporation tax on dividends for the year	-	10.9
Payment for group relief	0.4	-
Share of tax charge of associated undertaking	1.7	4.0
Capital gains tax on disposal of associated undertaking	2.2	-
	7.5	23.2

The cumulative amount of advance corporation tax written off of £35.9m (31.3.98 - £55.7m) remains available to reduce future liabilities to UK corporation tax.

b. Utility tax

The Finance (No. 2) Act 1997 required the payment of utility tax, which for Wessex Water Plc was £98.9m, and was charged in full in the results to 31 March 1998. The tax was payable in two equal instalments, the first was paid on 1 December 1997 and the second on 1 December 1998.

c. *Deferred taxation*

No deferred tax has been provided as projections indicate that the potential liability will not crystallise within the foreseeable future. The full potential amount of deferred taxation calculated at 30% (31.3.98 - 31%) on all timing differences is as follows:

	12 months to 31.12.98 £m	9 months to 31.3.98 £m
Accelerated capital allowances	215.2	208.0
Other timing differences	(4.8)	(4.6)
Advance corporation tax recoverable	(35.9)	(55.7)
	174.5	147.7

Included in accelerated capital allowances are timing differences on infrastructure assets.

8 **Dividends**

	12 months to 31.12.98 £m	9 months to 31.3.98 £m
Ordinary shares		
Interim dividend of 6.5p per share	-	13.8
Proposed final dividend of 14.1p per share	-	30.1
	-	43.9
Preference shares		
At 5.3% net for the period 1 April 1997 to 6 September 1997, 6.45% net for the period 7 September 1997 to 6 September 1998 and 6.24% for the period 7 September 1998 to 9 December 1998	5.3	9.2
	5.3	53.1

9 Tangible fixed assets

	Freehold land and buildings	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account and assets in course of const-ruction	Group Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1998	371.1	472.6	369.6	27.8	75.0	1,316.1
Additions	3.3	13.5	18.2	2.7	48.2	85.9
Transfers on commissioning	7.0	7.1	14.4	1.2	(29.7)	-
Disposals	(0.3)	-	(1.2)	(0.1)	(0.6)	(2.2)
Grants and contributions	-	(2.0)	-	-	-	(2.0)
At 31 December 1998	381.1	491.2	401.0	31.6	92.9	1,397.8
Depreciation						
At 1 April 1998	65.4	-	136.5	14.8	-	216.7
Provision for year	4.6	-	17.4	3.0	-	25.0
Disposals	-	-	(1.0)	(0.1)	-	(1.1)
At 31 December 1998	70.0	-	152.9	17.7	-	240.6
Net Book Value						
At 31 December 1998	311.1	491.2	248.1	13.9	92.9	1,157.2
At 31 March 1998	305.7	472.6	233.1	13.0	75.0	1,099.4

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 £82.3m (31.3.98 - £83.7m).

The depreciation charge for the period on assets held under finance leases is £1.4m (12 months to 31.3.98 - £1.9m).

The net book value of infrastructure assets at 31 December 1998 is stated after the deduction of grants and contributions amounting to £47.3m (31.3.98 - £45.3m) in order to give a true and fair view (see note 1g).

Included in freehold land and buildings above is an amount of £6.3m (31.3.98 - £6.3m) in respect of land which is not depreciated.

10 Investments

	Group Associated undertakings £m	Company Subsidiary companies £m	Company Associated undertakings £m	Company Total £m
Cost				
At 1 April 1998	69.5	96.5	163.5	260.0
Share of retained profit	3.5	-	-	-
Disposals	(72.6)	-	(163.1)	(163.1)
At 31 December 1998	0.4	96.5	0.4	96.9
Amounts written off				
At 1 April 1998	-	-	-	-
Provision made	-	13.1	-	13.1
At 31 December 1998	-	13.1	-	13.1
Carrying value at 31 December 1998	0.4	83.4	0.4	83.8
Carrying value at 1 April 1998	69.5	96.5	163.5	260.0

The principal subsidiary companies and associated undertakings are listed in note 26.

11 Stock

	Group 31.12.98 £m	Group 31.3.98 £m
Stock	0.4	0.3
Work in progress	1.8	0.8
	2.2	1.1

12 Debtors

Amounts falling due within one year	Group 31.12.98 £m	Group 31.3.98 £m	Company 31.12.98 £m	Company 31.3.98 £m
Trade debtors	38.3	25.9	-	-
Amounts owed by subsidiary companies	-	-	131.8	324.5
Amounts owed by immediate parent company (note 19c)	198.3	-	198.3	-
Infrastructure renewals prepayment	3.3	2.0	-	-
Other debtors	5.7	4.8	-	-
Prepayments and accrued income	22.4	20.7	-	0.4
	268.0	53.4	330.1	324.9

13 Investments

The market value of listed investments at 31 December 1998 was £2.7m (31.3.98 - £2.8m).

14 Creditors - amounts falling due within one year

	Group 31.12.98 £m	Group 31.3.98 £m	Company 31.12.98 £m	Company 31.3.98 £m
Bank overdraft repayable on demand	0.6	0.4	-	-
Loans repayable	258.2	59.9	15.0	48.9
Obligations under finance leases	13.0	11.9	-	-
Trade creditors	9.6	5.0	-	-
Amounts owed to associated undertaking	-	3.7	-	3.7
Other creditors	0.6	0.8	-	-
Corporation tax	27.2	18.1	5.1	1.6
Advance corporation tax	-	11.5	-	11.5
Utility tax	-	49.5	-	49.5
Other taxation and social security	0.7	0.8	-	-
Accruals and deferred income	91.3	66.6	0.9	1.3
Proposed dividend	-	49.5	-	49.5
	401.2	277.7	21.0	166.0

Included in loans repayable of £258.2m is a £240.0m committed facility with a syndicate of banks, fully drawn down at 31 December 1998, which was repaid in April 1999 (see note 28). Interest was charged at LIBOR plus 0.18%. The facility was replaced by a £300m Guaranteed Bond on 30 March 1999.

15 Creditors - amounts falling due after more than one year

		Group 31.12.98 £m	Group 31.3.98 £m
Loans repayable	- within 1-2 years	3.3	3.3
	- within 2-5 years	34.9	38.2
		38.2	41.5
Obligations under finance leases	- within 1-2 years	15.2	14.0
	- within 2-5 years	37.9	45.7
Other		2.6	1.9
		93.9	103.1

Loans have been arranged with fixed and variable interest rates in both sterling and foreign currencies. Using a combination of interest rate swaps and currency swaps these loans have been changed to fixed and variable sterling interest rates.

16 Provisions for liabilities and charges

	Group			
	at 1 April 1998 £m	Provided £m	Utilised £m	at 31 December 1998 £m
Pensions	5.2	0.6	0.1	5.7
Office relocation	2.9	0.2	0.2	2.9
	8.1	0.8	0.3	8.6

17 Deferred income

Grants and contributions	Group 31.12.98 £m	Group 31.3.98 £m
Opening	22.9	23.5
Received in the period	0.2	0.1
Less amortisation	(0.6)	(0.7)
	22.5	22.9

18 Called up share capital

	Group and Company 31.12.98 £m	Group and Company 31.3.98 £m
Authorised		
346,666,670 ordinary shares of 60p each	208.0	208.0
50p redeemable preference shares (31.3.98 - 310,000,000)	-	155.0
	208.0	363.0
Allotted and fully paid		
219,585,986 ordinary shares of 60p each (31.3.98 – 212,677,552)	131.8	127.6
50p redeemable preference shares (31.3.98 - 308,984,402)	-	154.5
	131.8	282.1

a. Preference shares were issued as redeemable by the company at par in four equal tranches on the dividend payment date in each of the years 1998, 1999, 2000 and 2001. The preference dividend was paid annually in arrears at a gross dividend rate, fixed in advance, of 12 months LIBOR plus one half per cent. The Annual General Meeting on 29 July 1998 approved the offer of early redemption in full, and this offer was accepted by preference shareholders in respect of 180,644,493 preference shares which were redeemed on 9 September 1998. Following the acquisition of the company by Azurix Europe Ltd the High Court granted an application for redemption of the remaining preference shares, and 128,339,909 were redeemed on 9 December 1998.

b. On 6 April 1998 201,071 ordinary shares were issued at £5.30 per share and on 30 September 1998 4,746,773 ordinary shares were issued at £4.56 per share. These shares were issued to existing shareholders in lieu of a cash dividend.

c. During the period 1,297,088 ordinary shares were issued at prices between £1.47 and £3.64 per share under the savings related share option scheme and 663,502 ordinary shares were issued at prices between £1.57 and £3.16 per share under the executive share option scheme. These issues resulted in a share premium on allotment of £3,630,044.

d. On 30 July 1998 Enron Corp. made an offer of £6.30 per share for all of the ordinary shares of the company. The offer was declared unconditional on 21 September 1998 and by 16 November 1998 Azurix Europe Ltd, at that time a subsidiary company of Enron Corp., had acquired 219,585,986 shares, valuing the company at £1,383.4 million.

e. The company had various share schemes for employees, prior to the acquisition of the company by Azurix Europe Ltd. All share schemes were cancelled following the acquisition of the company by Azurix Europe Ltd. Compensation payments were made as part of the costs of the acquisition of the company by Azurix Europe Ltd.

19 *Reserves*

	Capital redemption reserve £m	Share premium account £m	Profit & loss account £m
Group			
At 1 April 1998	30.5	25.7	475.1
Shares issued	-	3.6	-
Shares issued from scrip dividends	-	-	19.7
Issue costs	-	(0.3)	-
Transfer to capital redemption reserve	90.3	-	(90.3)
Goodwill written back – associated undertaking	-	-	134.5
Foreign exchange adjustment	-	-	0.3
Retained profit for the period	-	-	83.6
At 31 December 1998	120.8	29.0	622.9
Company			
At 1 April 1998	30.5	25.7	127.1
Shares issued	-	3.6	-
Shares issued from scrip dividends	-	-	19.7
Issue costs	-	(0.3)	-
Transfer to capital redemption reserve	90.3	-	(90.3)
Retained profit for the period	-	-	86.4
At 31 December 1998	120.8	29.0	142.9

a. As permitted by Section 230 of the Companies Act 1985, a profit and loss account of the parent company is not presented. The amount of the consolidated profit attributable to shareholders dealt with in the accounts of the parent company is £91.7m (31.3.98 - £76.7m) after including dividends from subsidiary companies of £54.9m (31.3.98 - £161.1m).

b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (31.3.98 - £149.0m).

c. On the redemption of the preference shares on 9 September 1998 (note 18), no capital redemption reserve was established by the company (as required by Section 170 Companies Act 1985) and the profit and loss reserve was not reduced by a corresponding amount (£90.3m – the nominal value of the preference shares then redeemed). Dividends of £125.0m and £73.3m were subsequently declared and such amounts were paid to the immediate parent company in December 1998. As a result of the redemption of the preference shares, these amounts exceeded the profits then available for distribution, although this was not recognised at the time by the company due to the appropriate reserve transfers having not been made. The company has obtained counsel's advice to the effect that the aggregate amount of such dividends is held by the immediate parent company on constructive trust for the company and is therefore treated as an amount receivable from the immediate parent company in the financial statements (note 12). During 1999, the company expects to apply to the High Court to cancel the capital redemption reserve.

20 Reconciliation of movements in shareholders' funds

	Group 31.12.98 £m	Group 31.3.98 £m	Company 31.12.98 £m	Company 31.3.98 £m
Profit attributable to shareholders	88.9	16.9	91.7	76.7
Dividends	(5.3)	(53.1)	(5.3)	(53.1)
	83.6	(36.2)	86.4	23.6
Share capital issued	4.2	1.9	4.2	1.9
Preference shares redeemed	(154.5)	-	(154.5)	-
Share premium created	3.3	3.3	3.3	3.3
Scrip dividend	19.7	5.2	19.7	5.2
Goodwill written back/(off)	134.5	(0.2)	-	-
Foreign exchange adjustment	0.3	(0.2)	-	-
Net (reduction)/addition to shareholders' funds	91.1	(26.2)	(40.9)	34.0
Opening shareholders' funds	813.4	839.6	465.4	431.4
Closing shareholders' funds	904.5	813.4	424.5	465.4

21 Commitments

a. Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:

	31.12.98 £m	31.3.98 £m
Between 2 and 5 years	0.2	0.2
Over 5 years	0.2	0.2
	0.4	0.4

b. At 31 December 1998 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £301.3m (31.3.98 - £114.8m).

c. Capital expenditure contracted but not provided at 31 December 1998 was £78.3m (31.3.98 - £47.2m).

22 Contingent liabilities

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 31 December 1998 was £3.8m.

23 Pensions

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

The pension cost for the year, including amounts set aside for early retirees, was £2.6m (31.3.98 - £4.3m).

The latest full actuarial valuations for WWPS, WWMIS and WWEPS were undertaken as at 31 March 1996. The projected unit method was used for the WWPS valuation and the attained age method for the WWMIS and WWEPS valuations. 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 8% per annum for all schemes, that salary increases would average 6% per annum in the WWPS and WWMIS, and 7.5% in the WWEPS, and that present and future pensions would increase at the rate of 3.75% per annum in the WWPS and WWEPS, and 4% per annum in the WWMIS. The same actuarial methods and assumptions were used for assessing pension costs. The market value of the WWPS assets as at 31 March 1996 was £84.8m, for WWMIS £33.9m and for WWEPS £1.6m. The valuation showed that the actuarial value of the assets at 31 March 1996 represented 103%, 110% and 105% of the actuarial value of the accrued benefits for the WWPS, WWMIS and WWEPS respectively.

The next actuarial valuation will be as at 31 December 1998.

24 Related party transactions

A director of SC Technology AG owns certain of the assets at the company's operation in Biel, Switzerland, for which a charge was made to SC Technology AG of £0.2m in the year.

25 Wessex Water Services Ltd - dividend policy

The policy adopted by the board of Wessex Water Services Ltd is to declare ordinary dividends of two thirds of the historic profit attributable to shareholders, subject to a current cost ordinary dividend cover of one, plus an amount equal to any charge for utility tax.

26 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 Trustee Company Ltd	United Kingdom	Trustee of employee share scheme
Wessex Water BV	Netherlands	Financial services
SC Technology AG	Switzerland	Waste treatment processes

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

b. Associated undertakings

Wessex Water Ltd owns 50% of the Management Shares, and 53% of the Funding Shares of Brunel Insurance Company Ltd, an insurance company incorporated and operating in Guernsey.

27 Ultimate parent company

The company is 100% owned by Azurix Europe Ltd, a UK company which prepares group accounts including the accounts of the company. The directors consider the ultimate parent company to be Azurix Corp. a Delaware corporation, and the consolidated accounts of this company will be available to the public from Enron Corp., 1,400 Smith Street, Houston, Texas, USA. Enron Corp. has an indirect 50% interest in Azurix Corp.

28 Going concern and subsequent event

The current liabilities of the company exceed its current assets. On 30 March 1999 the group issued £300.0m 5.875% Guaranteed Bonds due 2009. The directors have considered the financial position of the company and of the group and have concluded that they will be able to meet their 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.