

# WESSEX WATER LTD GROUP

## CONSOLIDATED ACCOUNTS

For the year ended  
31 December 2000

Registered in England and Wales No. 2366633



## DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 December 2000.

## PRINCIPAL ACTIVITIES

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

## PROFIT AND DIVIDEND

Profit for the year after taxation was £91.0m (1999 - £114.4m). Dividends of £11.2m (1999 - £291.8m) were declared in the year.

## OPERATIONAL REVIEW

The group has continued to provide an excellent service and high quality standards for customers. The last year has been important for the group as it prepared for the review of customer charges effective from 1 April 2000, and ensured that it had no problem with the millennium date change.

The Director General of Water Services announced on 25 November 1999 a 12% price cut for Wessex Water Services Ltd from 1 April 2000, before adjustment for inflation. The announcement also included level prices, before adjustment for inflation, for the years commencing 1 April 2001 and 1 April 2002, with price increases of 3.8% and 4.7%, before adjustment for inflation, for the years commencing 1 April 2003 and 2004 respectively.

## DIRECTORS

The directors of the company during the year were:

C F Skellett	Chairman
C J Bishop	
E J Gawith	
TK Harris	Appointed 1 February 2000
Lord Wakeham	Appointed 1 October 2000
N A W Wheatley	Resigned 31 January 2000

During the year no director was materially interested in any contract with the company or with any of its subsidiaries. There are no interests in shares of group companies that are disclosable in these accounts.

## EMPLOYMENT

The group 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

The group 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 Services Ltd 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 year.

## 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.

## CHARITABLE DONATIONS

During the year £72,000 was donated to UK charities (1999 - £128,000).

## 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 2000 trade creditors represented approximately 38 days trade purchases (1999 - 37 days).

## AUDITORS

A resolution to reappoint Arthur Andersen as auditors of the company will be proposed at the Annual General Meeting.

By order of the board  
N G Wooller  
Company secretary  
19 March 2001



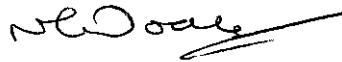
## DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year 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  
19 March 2001



## AUDITORS' REPORT TO THE MEMBERS OF WESSEX WATER LTD

We have audited the accounts on pages 4 to 17, 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 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.

### 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 of the company at 31 December 2000 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ARTHUR ANDERSEN  
Chartered Accountants and Registered Auditors  
1 Surrey Street  
London  
WC2R 2PS  
19 March 2001

**GROUP PROFIT AND LOSS ACCOUNT**  
**For the year to 31 December 2000**

	NOTE	Year to 31.12.00 £m	Year to 31.12.99 £m
Turnover	2	273.9	287.9
<hr/>			
Operating profit	2,3	125.7	149.2
<hr/>			
Net interest payable	5	(23.9)	(22.6)
<hr/>			
<b>Profit on ordinary activities before taxation</b>		101.8	126.6
Taxation on profit on ordinary activities	6	(10.8)	(12.2)
<hr/>			
<b>Profit attributable to shareholders</b>		91.0	114.4
Dividends	7	(11.2)	(291.8)
<hr/>			
<b>Transfer to/(from) reserves</b>	18	79.8	(177.4)
<hr/>			

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

There were no recognised gains and losses in either year other than the profit for each year.

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

**BALANCE SHEETS**  
**31 December 2000**

	NOTE	Group		Company	
		31.12.00 £m	31.12.99 £m	31.12.00 £m	31.12.99 £m
<b>Fixed assets</b>					
Tangible assets	8	1,323.2	1,259.8	-	-
Investments	9	0.4	0.4	89.9	85.0
		<u>1,323.6</u>	<u>1,260.2</u>	<u>89.9</u>	<u>85.0</u>
<b>Current assets</b>					
Stock	10	4.5	2.2	-	-
Debtors - amounts falling due within one year	11	74.9	65.1	86.9	82.5
Debtors - amounts falling due after more than one year	11	90.0	90.0	90.0	90.0
Investments	12	0.7	0.7	0.7	0.7
Cash at bank and in hand		1.0	3.6	6.5	0.8
		<u>171.1</u>	<u>161.6</u>	<u>184.1</u>	<u>174.0</u>
<b>Creditors – amounts falling due within one year</b>	13	<u>(234.5)</u>	<u>(190.2)</u>	<u>(2.4)</u>	<u>(43.5)</u>
<b>Net current (liabilities)/assets</b>	28	<u>(63.4)</u>	<u>(28.6)</u>	<u>181.7</u>	<u>130.5</u>
<b>Total assets less current liabilities</b>		<u>1,260.2</u>	<u>1,231.6</u>	<u>271.6</u>	<u>215.5</u>
<b>Creditors – amounts falling due after more than one year</b>	14	<u>(422.9)</u>	<u>(472.2)</u>	<u>-</u>	<u>-</u>
Provisions for liabilities and charges	15	(7.3)	(10.7)	-	(0.4)
Deferred income	16	(23.8)	(22.3)	-	-
<b>Net assets</b>	2	<u>806.2</u>	<u>726.4</u>	<u>271.6</u>	<u>215.1</u>
<b>Capital and reserves</b>					
Called up equity share capital	17	131.8	131.8	131.8	131.8
Share premium account	18	28.8	28.8	28.8	28.8
Profit and loss account	18	645.6	565.8	111.0	54.5
<b>Equity shareholders' funds</b>	19	<u>806.2</u>	<u>726.4</u>	<u>271.6</u>	<u>215.1</u>

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

These accounts were approved by the board of directors on 19 March 2001 and signed on its behalf by:



C F Skellett  
Chairman



T K Harris  
Director

**NOTES TO THE ACCOUNTS**  
**For the year to 31 December 2000**

**1 Accounting policies**

**a. Basis of preparation**

The accounts have been prepared on a basis consistent with last year, under the historic cost convention, in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions (see note 1g) in accordance with the Companies Act 1985. The group has adopted all applicable accounting standards up to and including FRS16 "Current Tax".

**b. Basis of consolidation**

The group accounts include the accounts of the company and its subsidiaries up to 31 December 2000. As permitted by the Companies Act 1985 a profit and loss account for Wessex Water Ltd is not presented. The profit attributable to shareholders of the company in the year was £67.7m (1999 - £82.6m).

**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.

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

- ii. Other assets include properties, plant and equipment and are shown at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

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

**f. Leased assets**

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the outstanding obligations. The assets are depreciated over the shorter of their estimated useful lives and the period of the lease. All other leases are regarded as operating leases. Rental costs arising under operating leases are written off in the year they are incurred.

**g. Grants and contributions**

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

**h. Investments**

Investments held as fixed assets are stated at cost less any provisions for impairment. Those held as current assets are stated at the lower of cost and net realisable value.

**i. Stock**

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

**j. Foreign currency**

All transactions of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. 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 ultimate parent company Azurix Corp., which is incorporated in Delaware, USA, prepares consolidated accounts which include the accounts of the company and which contain a cash flow statement.

**q. 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.

**r. Debt**

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



	Year to 31.12.00 £m	Year to 31.12.99 £m
<b>2 Segmental analysis</b>		
Substantially all of the turnover, operating profit and net assets derive from activities within the United Kingdom.		
a. Turnover		
Regulated	257.6	275.0
Unregulated	16.3	12.9
	<hr/>	<hr/>
	273.9	287.9
	<hr/> <hr/>	<hr/> <hr/>
b. Operating profit		
Regulated	128.3	151.2
Unregulated	(2.6)	(2.0)
	<hr/>	<hr/>
	125.7	149.2
	<hr/> <hr/>	<hr/> <hr/>
c. Net assets		
Regulated	605.0	579.8
Unregulated	201.2	146.6
	<hr/>	<hr/>
	806.2	726.4
	<hr/> <hr/>	<hr/> <hr/>
<b>3 Operating profit</b>		
a. Operating profit is shown after charging/(crediting) the following items:		
Manpower costs (note 4)	24.6	28.1
Materials and consumables	16.4	16.5
Other operational costs	52.1	46.2
Depreciation of fixed assets	56.3	47.7
Amortisation of grants and contributions	(0.8)	(0.7)
(Gain)/loss on disposals of fixed assets	(0.4)	0.9
	<hr/>	<hr/>
	148.2	138.7
	<hr/> <hr/>	<hr/> <hr/>
b. Operational costs include:		
Operating leases for plant and machinery	0.3	0.5
Other operating leases	0.3	0.4
Research and development	0.1	0.3
Directors' remuneration (note 4)	1.0	0.7
Audit fees	0.2	0.1
	<hr/> <hr/>	<hr/> <hr/>

	Year to 31.12.00 £m	Year to 31.12.99 £m
<b>4 Employment costs</b>		
a. Total employment costs of the group:		
Wages and salaries	34.8	37.4
Social security costs	2.9	2.7
Other pension costs	2.0	2.2
	<hr/>	<hr/>
	39.7	42.3
	<hr/> <hr/>	<hr/> <hr/>
b. Total employment costs are charged as follows:		
Capital schemes	13.9	12.9
Infrastructure renewals expenditure	1.2	1.3
Manpower costs	24.6	28.1
	<hr/>	<hr/>
	39.7	42.3
	<hr/> <hr/>	<hr/> <hr/>
	<b>31.12.00</b>	<b>31.12.99</b>
c. Monthly average number of employees during the period		
- Engineering department	210	213
- All other staff	1,212	1,238
	<hr/>	<hr/>
- Total	1,422	1,451
	<hr/> <hr/>	<hr/> <hr/>
d. Total directors' remuneration	<b>Year to 31.12.00 £000</b>	<b>Year to 31.12.99 £000</b>
Salary	638	643
Bonuses	294	-
Benefits in kind	58	47
	<hr/>	<hr/>
	990	690
	<hr/> <hr/>	<hr/> <hr/>
Six directors have benefits accruing under defined benefits pension schemes (1999 – 5). Salary costs relate to six executive directors at the year end (1999 - 4).		
e. Remuneration of highest paid director		
Salary	140	256
Bonus	28	-
Benefits in kind	13	11
	<hr/>	<hr/>
	181	267
	<hr/> <hr/>	<hr/> <hr/>

The highest paid director had an accrued annual pension entitlement of £47,735 at 31 December 2000 (1999 - £145,823).

	Year to 31.12.00 £m	Year to 31.12.99 £m
<b>5 Net interest payable</b>		
On bank loans	30.0	24.6
On other loans	0.2	0.5
On finance leases	3.7	4.5
	<hr/>	<hr/>
Total interest payable	33.9	29.6
Inter company interest receivable	(6.1)	(3.9)
Other interest receivable	(3.9)	(3.1)
	<hr/>	<hr/>
	(10.0)	(7.0)
	<hr/>	<hr/>
Net interest payable	23.9	22.6
	<hr/> <hr/>	<hr/> <hr/>
<b>6 Taxation</b>		
a. Taxation on profit on ordinary activities		
UK corporation tax at 30% (1999 – 30.25%)	16.4	14.2
Advance corporation tax utilised relating to prior years	(10.9)	(9.5)
Payment for group relief	5.3	7.5
	<hr/>	<hr/>
	10.8	12.2
	<hr/> <hr/>	<hr/> <hr/>
<p>The cumulative amount of advance corporation tax written off of £15.5 m (1999 - £26.4m) remains available to reduce future liabilities to UK corporation tax.</p>		
b. Deferred taxation		
<p>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% on all timing differences is:</p>		
Accelerated capital allowances	234.3	225.7
Other timing differences	(4.0)	(4.5)
Advance corporation tax recoverable	(15.5)	(26.4)
	<hr/>	<hr/>
	214.8	194.8
	<hr/>	<hr/>
<p>Included in accelerated capital allowances are timing differences on infrastructure assets.</p>		
<b>7 Dividends</b>		
<b>Ordinary shares</b>		
Interim dividend	11.2	55.7
Final dividend	-	37.8
Ordinary dividend reinstated	-	198.3
	<hr/>	<hr/>
	11.2	291.8
	<hr/> <hr/>	<hr/> <hr/>

## 8 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
<b>Cost</b>						
At 1 January 2000	393.3	655.3	439.5	34.7	124.6	1,647.4
Additions	37.2	26.5	40.1	8.0	15.3	127.1
Transfers on commissioning	48.1	4.2	45.8	0.6	(98.7)	-
Disposals	(2.3)	-	(3.6)	(5.9)	(0.6)	(12.4)
Grants and contributions	-	(3.6)	-	-	-	(3.6)
<b>At 31 December 2000</b>	<b>476.3</b>	<b>682.4</b>	<b>521.8</b>	<b>37.4</b>	<b>40.6</b>	<b>1,758.5</b>
<b>Depreciation</b>						
At 1 January 2000	76.0	117.6	172.9	21.1	-	387.6
Charge for the year	7.1	15.4	28.8	5.0	-	56.3
Disposals	(0.8)	-	(2.3)	(5.5)	-	(8.6)
<b>At 31 December 2000</b>	<b>82.3</b>	<b>133.0</b>	<b>199.4</b>	<b>20.6</b>	<b>-</b>	<b>435.3</b>
<b>Net Book Value</b>						
<b>At 31 December 2000</b>	<b>394.0</b>	<b>549.4</b>	<b>322.4</b>	<b>16.8</b>	<b>40.6</b>	<b>1,323.2</b>
At 1 January 2000	317.3	537.7	266.6	13.6	124.6	1,259.8

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 £78.6 m (1999 - £80.4m).

The depreciation charge for the period on assets held under finance leases is £1.8m (1999 - £1.9m).

The net book value of infrastructure assets at 31 December 2000 is stated after the deduction of grants and contributions amounting to £54.6m (1999 - £51.0m) in order to give a true and fair view (see note 1g).

Included in the cost of infrastructure assets is £134.6m (1999 - £124.3m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £133.0m (1999 - £117.6m) 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 £6.3m (1999 - £6.3m) in respect of land which is not depreciated.

9 **Investments**

	Group		Company	
	Associated undertakings £m	Subsidiary companies £m	Associated undertakings £m	Total £m
<b>Cost</b>				
At 1 January 2000	0.4	97.7	0.4	98.1
Additions	-	4.9	-	4.9
<b>At 31 December 2000</b>	<u>0.4</u>	<u>102.6</u>	<u>0.4</u>	<u>103.0</u>
<b>Amounts written off</b>				
At 1 January and 31 December 2000	-	13.1	-	13.1
<b>Carrying value at 31 December 2000</b>	<u>0.4</u>	<u>89.5</u>	<u>0.4</u>	<u>89.9</u>
Carrying value at 1 January 2000	0.4	84.6	0.4	85.0

Additions of £4.9m represent the conversion of a loan in a subsidiary company SC Technology AG to share capital. The principal subsidiary companies and associated undertakings are listed in note 26.

10 **Stock**

	Group	
	31.12.00 £m	31.12.99 £m
Stock	0.5	0.4
Work in progress	4.0	1.8
	<u>4.5</u>	<u>2.2</u>

11 **Debtors**

	Group		Company	
	31.12.00 £m	31.12.99 £m	31.12.00 £m	31.12.99 £m
Amounts falling due within one year				
Trade debtors	34.0	30.9	-	-
Amounts owed by subsidiary companies	-	-	85.3	81.2
Amounts owed by immediate parent company	-	1.0	-	-
Other debtors	10.4	5.6	-	-
Prepayments and accrued income	30.5	27.6	1.6	1.3
	<u>74.9</u>	<u>65.1</u>	<u>86.9</u>	<u>82.5</u>
Amounts falling due after more than one year				
Amounts owed by immediate parent company	90.0	90.0	90.0	90.0
	<u>164.9</u>	<u>155.1</u>	<u>176.9</u>	<u>172.5</u>

A loan of £90.0m was made to Azurix Europe Ltd. The loan is a floating rate sterling loan repayable in October 2002 with interest based on LIBOR plus 0.5%.

12 **Investments**

Listed investments at 31 December 2000 with a cost of £0.7m (1999 - £0.7m), had a market value at that date of £1.7m (1999 - £2.0m).

13 Creditors - amounts falling due within one year

	Group		Company	
	31.12.00 £m	31.12.99 £m	31.12.00 £m	31.12.99 £m
Amounts owed to subsidiary company	-	-	0.6	-
Amounts owed to parent company	13.4	8.1	-	-
Bank overdraft repayable on demand	0.6	0.9	-	-
Loans repayable	79.2	13.2	-	4.8
Obligations under finance leases	17.6	15.1	-	-
Trade creditors	2.7	2.8	-	-
Dividends	-	37.8	-	37.8
Other creditors	3.4	1.8	-	-
Corporation tax	18.3	14.4	1.0	0.8
Other taxation and social security	0.7	0.8	-	-
Accruals and deferred income	98.6	95.3	0.8	0.1
	<u>234.5</u>	<u>190.2</u>	<u>2.4</u>	<u>43.5</u>

14 Creditors - amounts falling due after more than one year

Loans repayable - in more than 1 year, but not more than 2 years	1.6	33.3
- in more than 2 years, but not more than 5 years	78.4	1.6
- in more than 5 years	21.6	100.0
	<u>101.6</u>	<u>134.9</u>
Finance leases - in more than 1 year, but not more than 2 years	20.4	17.6
- in more than 2 years, but not more than 5 years	-	20.3
	<u>20.4</u>	<u>37.9</u>
Bond - in more than 5 years	297.1	296.7
Other	3.8	2.7
	<u>422.9</u>	<u>472.2</u>

15 Provisions for liabilities and charges

	Group			
	at 1 January 2000 £m	Provided £m	Utilised £m	at 31 December 2000 £m
Pensions	6.4	0.5	(0.5)	6.4
Office relocation	1.7	-	(1.7)	-
Restructuring costs - severances	2.6	1.2	(2.9)	0.9
	<u>10.7</u>	<u>1.7</u>	<u>(5.1)</u>	<u>7.3</u>

The pension provision is in respect of additional liabilities under SSAP 24 "Accounting for Pension Costs".

	Company			
	at 1 January 2000 £m	Provided £m	Utilised £m	at 31 December 2000 £m
Restructuring costs	0.4	-	(0.4)	-
	<u>0.4</u>	<u>-</u>	<u>(0.4)</u>	<u>-</u>

16	<b>Deferred income</b>	Group	
		31.12.00	31.12.99
	Grants and contributions	£m	£m
	At 1 January	22.3	22.5
	Received in the period	2.3	0.5
	Less amortisation	(0.8)	(0.7)
		23.8	22.3
		23.8	22.3
17	<b>Called up equity share capital</b>	Group and Company	
		31.12.00	31.12.99
		£m	£m
	<b>Authorised</b>		
	346,666,670 ordinary shares of 60p each	208.0	208.0
		208.0	208.0
		208.0	208.0
	<b>Allotted and fully paid</b>		
	219,585,986 ordinary shares of 60p each	131.8	131.8
		131.8	131.8
		131.8	131.8
18	<b>Reserves</b>	Share premium account	Profit & loss account
		£m	£m
	Group		
	At 1 January 2000	28.8	565.8
	Retained profit for the year	-	79.8
		28.8	645.6
	<b>At 31 December 2000</b>	28.8	645.6
	Company		
	At 1 January 2000	28.8	54.5
	Retained profit for the year	-	56.5
		28.8	111.0
	<b>At 31 December 2000</b>	28.8	111.0

- a. As permitted by Section 230 of the Companies Act 1985, a profit and loss account of the parent company is not presented. The profit attributable to the company is £67.7m (1999 - £82.6m) after dividends from subsidiary companies of £53.1m (1999 - £69.5m).
- b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (1999 - £14.5m).

19 Reconciliation of movements in equity shareholders' funds	Group		Company	
	31.12.00 £m	31.12.99 £m	31.12.00 £m	31.12.99 £m
Profit attributable to shareholders	91.0	114.4	67.7	82.6
Dividends	(11.2)	(291.8)	(11.2)	(291.8)
	79.8	(177.4)	56.5	(209.2)
Share premium	-	(0.2)	-	(0.2)
Foreign exchange adjustment	-	(0.5)	-	-
Net addition/(reduction) to shareholders' funds	79.8	(178.1)	56.5	(209.4)
Opening shareholders' funds	726.4	904.5	215.1	424.5
Closing shareholders' funds	806.2	726.4	271.6	215.1

## 20 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £97.4m of short term borrowings.

The group has financed its activities through a combination of short term borrowings, long term loans and leases and a bond issued by a subsidiary company Wessex Water Services Finance Plc.

The company uses derivative financial instruments to reduce the exposure to foreign currency fluctuations and to limit the exposure to floating interest rates.

The principal borrowings are both fixed rate and in sterling.

### a. Interest rate and currency exposure

	Fixed rate borrowings £m	Floating rate borrowings £m	Total borrowings £m
Sterling	385.9	95.8	481.7
US dollar	30.0	-	30.0
Italian lira	4.8	-	4.8
At 31 December 2000	420.7	95.8	516.5

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

	Interest rate %	Period years
Sterling	6.02	7.3
US dollar	6.04	0.8
Italian lira	5.16	1.5
Weighted average	6.01	6.8

£46.6m of floating rate borrowings are short term, and £49.2m 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 willing parties, other than a forced or liquidation sale.

	Book value £m	Fair value £m
Borrowings less than 1 year	97.4	97.9
Floating rate borrowings over 1 year	49.2	49.2
Fixed rate borrowings over 1 year	369.9	359.7
	<hr/>	<hr/>
At 31 December 2000	516.5	506.8
	<hr/> <hr/>	<hr/> <hr/>

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.

c. Interest rate and currency swaps

US dollar borrowings of \$51.0m at floating rates have been swapped into sterling borrowings of £30.0m at fixed rates, and through further interest rate swaps have been fixed at 6.04%.

Italian lira borrowings of ITL 10,710m at fixed rates have been swapped into sterling borrowings of £4.8m at floating rates and through further interest rate swaps have been fixed at 5.16%.

21 Commitments

- a. Operating lease payments of £0.2m (1999 - £0.3m), under leases on land and buildings due within the next year, which expire between 2 and 5 years.
- b. At 31 December 2000 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £212.9m (1999 - £169.9m).
- c. Capital expenditure contracted but not provided at 31 December 2000 was £27.5m (1999 - £78.1m).

22 Contingent liabilities and guarantees

Wessex Water Ltd has provided performance guarantees on behalf of SC Technology AG on the tendering for contracts, the maximum liability in respect of which, at 31 December 2000 was £2.8m (1999 - £1.6m).

23 Pensions

The defined benefit scheme operated by the group, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). Two of the group's former pension schemes, the Wessex Water Mirror Image Pension Scheme (WWMIS) and the Wessex Water Executive Pension Scheme (WWEPS), were merged into the WWPS with effect from 1 January 2000. Some benefit improvements were awarded as part of the merger process. The impact of the merger is reflected in pension costs from 1 January 2000 onwards. 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.

The pension cost for the year, including amounts set aside for early retirees, was £2.3m (1999 - £2.0m).

The latest full actuarial valuations for WWPS, WWMIS and WWEPS were undertaken as at 31 December 1998. 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 6.25% per annum for all schemes, 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 1998 was £112.4m, for WWMIS £40.6m and for WWEPS £2.7m. The valuation showed that the actuarial value of the assets at 31 December 1998 represented 118%, 124% and 117% of the actuarial value of the accrued benefits for the WWPS, WWMIS and WWEPS respectively.

The next actuarial valuation of the WWPS will be as at 31 December 2001.

**24 Related party transactions**

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

**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.

**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
Wessex Water Services Finance Plc *	United Kingdom	Issue of bond
Wessex Water Enterprises Ltd	United Kingdom	Membrane technology

\* 100% owned by Wessex Water Services Ltd

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 are available as part of its filing with the Securities and Exchange Commission, which can be accessed through the Commission's office or its website [www.sec.gov](http://www.sec.gov). On 9 February 2001, Enron Corp. made an offer of \$8.375 per share for the common stock of Azurix Corp. other than those shares owned by Enron Corp. and other group companies.

**28 Going concern**

The current liabilities of the group exceed its current assets. The directors have considered the financial position of the group 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.