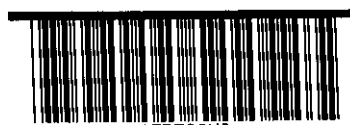


# WESSEX WATER LTD GROUP

## CONSOLIDATED ACCOUNTS

For the year ended  
31 December 2001

Registered in England and Wales No. 2366633



A44 \*ATRF9US\* 0569  
COMPANIES HOUSE 10/04/02

*Wessex  
Water*  
AN AZURIX COMPANY

## DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 December 2001.

### 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 £60.4m (2000 restated - £69.7m). Dividends of £42.1m (2000 - £11.2m) were declared in the year. The directors do not recommend the payment of a final dividend.

### OPERATIONAL REVIEW

The group has continued to provide an excellent service and high quality standards for customers. The last year has seen major changes as the company entered into two joint venture agreements covering the operation of its billing and customer services and engineering activities.

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

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

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

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

### DIRECTORS

The directors of the company during the year were:

C F Skellett	Chairman
S M Allen	
C J Bishop	Resigned 30 September 2001
E J Gawith	Resigned 11 October 2001
T K Harris	
J G Jones	
Lord Wakeham	

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.

## **MARKET VALUE OF LAND AND BUILDINGS**

In the opinion of the directors, the market value of land and buildings of the group exceeds the book value of these assets at 31 December 2001.

## **CHARITABLE DONATIONS**

During the year £65,000 was donated to UK charities (2000 - £72,000).

## **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 2001 trade creditors represented approximately 35 days trade purchases (2000 - 38 days).

## **AUDITORS**

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



By order of the board  
N G Wooller  
Company secretary  
27 March 2002

## 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 group and company and of the group's profit or loss for the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

We have audited the accounts on pages 4 to 23.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described above, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and of the company at 31 December 2001 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*  
KPMG Audit Plc  
Chartered Accountants and Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB  
27 March 2002

**GROUP PROFIT AND LOSS ACCOUNT**  
**For the year to 31 December 2001**

	NOTE	Year to 31.12.01 £m	Year to 31.12.00 £m restated
Turnover	2	280.8	273.9
Operating costs	3	(176.9)	(148.2)
<b>Operating profit</b>	2	103.9	125.7
Net interest payable	5	(27.4)	(23.9)
<b>Profit on ordinary activities before taxation</b>		76.5	101.8
Taxation on profit on ordinary activities	6	(16.1)	(32.1)
<b>Profit attributable to shareholders</b>		60.4	69.7
Dividends	7	(42.1)	(11.2)
<b>Transfer to reserves</b>	19	18.3	58.5

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

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

**BALANCE SHEETS**  
31 December 2001

	NOTE	Group		Company	
		31.12.01 £m	31.12.00 £m restated	31.12.01 £m	31.12.00 £m restated
<b>Fixed assets</b>					
Tangible assets	9	1,386.3	1,323.2	-	-
Investments	10	-	0.4	81.0	89.9
		<hr/>	<hr/>	<hr/>	<hr/>
		1,386.3	1,323.6	81.0	89.9
<b>Current assets</b>					
Stock	11	4.2	4.5	-	-
Debtors - amounts falling due within one year	12	174.4	68.5	188.6	86.9
Debtors - amounts falling due after more than one year	12	-	90.0	6.3	104.7
Investments	13	0.7	0.7	0.7	0.7
Cash at bank and in hand		-	1.0	11.2	6.5
		<hr/>	<hr/>	<hr/>	<hr/>
		179.3	164.7	206.8	198.8
<b>Creditors -- amounts falling due within one year</b>	14	(175.9)	(234.5)	(4.6)	(2.4)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net current assets/(liabilities)</b>		3.4	(69.8)	202.2	196.4
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets less current liabilities</b>		1,389.7	1,253.8	283.2	286.3
<b>Creditors -- amounts falling due after more than one year</b>	15	(526.4)	(422.9)	-	-
Provisions for liabilities and charges	16	(67.7)	(52.9)	(2.9)	-
Deferred income	17	(23.1)	(23.8)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net assets</b>	2	772.5	754.2	280.3	286.3
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Capital and reserves</b>					
Called up equity share capital	18	131.8	131.8	131.8	131.8
Share premium account	19	28.8	28.8	28.8	28.8
Profit and loss account	19	611.9	593.6	119.7	125.7
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Equity shareholders' funds</b>	20	772.5	754.2	280.3	286.3
		<hr/>	<hr/>	<hr/>	<hr/>

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

These accounts were approved by the board of directors on 27 March 2002 and signed on its behalf by:



C F Skellett  
Chairman



T K Harris  
Director

**GROUP CASH FLOW STATEMENT**  
**For the year to 31 December 2001**

	NOTE	Year to 31.12.01 £m	Year to 31.12.00 £m
Net cash inflow from operating activities	21	164.4	173.2
Returns on investments and servicing of finance	22	(30.6)	(24.8)
Taxation		(8.2)	(6.9)
Capital expenditure and financial investment	23	(129.7)	(113.0)
Equity dividends paid		(42.1)	(48.9)
<hr/>			
Cash outflow before financing		(46.2)	(20.4)
Financing	24	43.3	18.1
<hr/>			
Decrease in cash		(2.9)	(2.3)
<hr/>			
<b>Reconciliation of cash movement to the movement in net debt</b>			
Decrease in cash - above		(2.9)	(2.3)
Movement in loans and leases		(43.3)	(18.1)
<hr/>			
<b>Movement in net debt</b>	25	(46.2)	(20.4)
<b>Opening net debt</b>	25	(425.5)	(405.1)
<hr/>			
<b>Closing net debt</b>	25	(471.7)	(425.5)
		<hr/> <hr/>	<hr/> <hr/>

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year to 31 December 2001**

	NOTE	Year to 31.12.01 £m	Year to 31.12.00 £m restated
Profit for the financial year		60.4	69.7
<hr/>			
Total recognised gains and losses relating to the financial year		60.4	69.7
Prior year adjustment	8	(52.0)	-
<hr/>			
<b>Total gains and losses recognised since last annual report</b>		<b>8.4</b>	<b>69.7</b>
<hr/> <hr/>			



**NOTES TO THE ACCOUNTS**  
**For the year to 31 December 2001**

**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 FRS19 "Deferred Tax". Included within the Statement of Total Recognised Gains and Losses on page 7, is a prior year adjustment of £52.0m, which relates to the early adoption of FRS 19 "Deferred Tax". This item has been included within the profit and loss account reserve as at 31 December 2000.

The group has followed the transitional arrangements of FRS 17 "Retirement Benefits" in these financial statements. There has been some further reclassification of assets and liabilities in the prior year to reflect a treatment consistent with the current year.

**b. Basis of consolidation**

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2001. 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 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.

**c. Goodwill**

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

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

**d. Turnover**

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

**e. Tangible fixed assets and depreciation**

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

f. **Leased assets**

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

g. **Grants and contributions**

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets (see note 17).

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 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 and the gains or losses on translation are included in the profit and loss account. The results of overseas subsidiaries are translated at average rates of exchange for the year. The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

k. **Interest rate instruments**

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

l. **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

m. **Research and development**

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

n. **Pensions**

The cost of providing benefits is charged to the profit and loss account on a basis designed to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated either as provisions or prepayments in the balance sheet. The pension schemes are of the defined benefit type, which are externally funded and valued by an independent actuary.

o. **Finance costs**

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

p. **Debt**

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

q. **Cash and liquid resources**

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

	Year to 31.12.01 £m	Year to 31.12.00 £m restated
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2 **Segmental analysis**

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

a. Turnover		
Regulated	257.1	257.6
Unregulated	23.7	16.3
	<hr/>	<hr/>
	280.8	273.9
	<hr/> <hr/>	<hr/> <hr/>

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

b. Operating profit		
Regulated	111.9	128.3
Unregulated	(8.0)	(2.6)
	<hr/>	<hr/>
	103.9	125.7
	<hr/> <hr/>	<hr/> <hr/>

c. **Net assets**

Regulated	558.1	538.3
Unregulated	214.4	215.9
	<hr/>	<hr/>
	772.5	754.2
	<hr/> <hr/>	<hr/> <hr/>

	Year to 31.12.01 £m	Year to 31.12.00 £m restated
<b>3 Operating costs</b>		
Manpower costs (note 4b)	24.7	24.6
Materials and consumables	27.1	16.4
Other operational costs	61.0	52.1
Depreciation of fixed assets	63.3	56.3
Amortisation of grants and contributions	(0.8)	(0.8)
Loss/(gain) on disposals of fixed assets	1.6	(0.4)
	<hr/>	<hr/>
	176.9	148.2
	<hr/> <hr/>	<hr/> <hr/>
Operating costs include:		
Operating leases for plant and machinery	0.8	0.3
Other operating leases	0.1	0.3
Research and development	0.2	0.1
Directors' remuneration (note 4d)	0.9	1.0
Remuneration to auditors - audit fees	0.2	0.2
- non audit fees	-	-
	<hr/> <hr/>	<hr/> <hr/>
<b>4 Employment costs</b>		
a. Total employment costs of the group:		
Wages and salaries	34.6	34.8
Social security costs	2.7	2.9
Other pension costs	1.7	2.0
	<hr/>	<hr/>
	39.0	39.7
	<hr/> <hr/>	<hr/> <hr/>
b. Total employment costs are charged as follows:		
Capital schemes	12.8	13.9
Infrastructure renewals expenditure	1.5	1.2
Manpower costs	24.7	24.6
	<hr/>	<hr/>
	39.0	39.7
	<hr/> <hr/>	<hr/> <hr/>
	<b>31.12.01</b>	<b>31.12.00</b>
	number	number
c. Monthly average number of employees during the period		
- Engineering department	174	210
- Billing department	260	255
- All other staff	937	957
	<hr/>	<hr/>
- Total	1,371	1,422
	<hr/> <hr/>	<hr/> <hr/>

	Year to 31.12.01 £000	Year to 31.12.00 £000
d. Total directors' remuneration		
Fees	35	-
Salary	620	638
Bonuses	222	294
Benefits in kind	53	58
	<u>930</u>	<u>990</u>

Six directors have benefits accruing under defined benefits pension schemes (2000 – 6). Certain directors have been granted stock options by the ultimate parent company Azurix Corp. These options were exercised in full in March 2001 and the following payments were made; C F Skellett £155,646; C J Bishop £78,097; E J Gawith £47,420; S M Allen, J G Jones and T K Harris £10,009 each.

e. Remuneration of highest paid director		
Salary	108	140
Bonus	53	28
Benefits in kind	10	13
	<u>171</u>	<u>181</u>

The highest paid director had an accrued annual pension entitlement of £59,079 at 31 December 2001 (2000 - £47,735).

	Year to 31.12.01 £m	Year to 31.12.00 £m
5 Net interest payable		
On bank loans	32.5	30.0
On other loans	-	0.2
On finance leases	2.5	3.7
	<u>35.0</u>	<u>33.9</u>
Total interest payable	35.0	33.9
Inter company interest receivable	(5.3)	(6.1)
Other interest receivable	(2.3)	(3.9)
	<u>(7.6)</u>	<u>(10.0)</u>
	<u>27.4</u>	<u>23.9</u>
Net interest payable	27.4	23.9

	Year to 31.12.01 £m	Year to 31.12.00 £m restated
<b>6 Taxation</b>		
a. Analysis of charge in the period		
Current tax:		
UK corporation tax at 30%	13.4	16.4
Advance corporation tax utilised relating to prior years	(9.0)	(10.9)
Payment for group relief	4.3	5.3
	<hr/>	<hr/>
	8.7	10.8
Deferred tax:		
Origination and reversal of timing differences	18.0	20.0
(Increase)/decrease in discount	(10.6)	1.3
	<hr/>	<hr/>
	7.4	21.3
	<hr/>	<hr/>
Tax on profit on ordinary activities	16.1	32.1
	<hr/>	<hr/>
b. Current tax reconciliation		
Profit on ordinary activities before tax	76.5	101.8
	<hr/>	<hr/>
Current tax at 30%	23.0	30.5
	<hr/>	<hr/>
Expenses not deductible for corporation tax purposes	2.5	0.4
Capital allowances for the year in excess of depreciation	(2.6)	(4.0)
Payment of lease creditor capital	(5.3)	(4.6)
Capital gains tax base cost in excess of net book value on disposal	-	(1.2)
Subsidiary company losses	1.2	1.1
Advance corporation tax written back	(9.0)	(10.9)
Other timing differences	(1.1)	(0.5)
	<hr/>	<hr/>
Total current tax charge - as above	8.7	10.8
	<hr/>	<hr/>
<b>7 Dividends</b>		
Ordinary shares		
Interim dividends	42.1	11.2
Final dividend	-	-
	<hr/>	<hr/>
	42.1	11.2
	<hr/>	<hr/>
<b>8 Prior year adjustment</b>		

FRS 19 "Deferred Tax" was adopted in these financial statements. The comparative figures in the primary statements have been restated to reflect the new policy. The effects of the change are shown below:

	Group		Company	
	31.12.01	31.12.00	31.12.01	31.12.00
	£m	£m	£m	£m
Profit and loss account - (Decrease) in profit in the year	(7.4)	(21.3)	(8.4)	(9.7)
Balance sheet - (Decrease)/increase in net assets	(59.4)	(52.0)	6.3	14.7
	<hr/>	<hr/>	<hr/>	<hr/>

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 construc- tion	Group Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 January 2001	476.3	682.4	521.8	37.4	40.6	1,758.5
Additions	11.1	34.1	26.7	3.4	57.5	132.8
Transfers on commissioning	12.2	5.2	8.9	0.8	(27.1)	-
Disposals	(0.4)	-	(6.4)	(0.2)	(0.1)	(7.1)
Grants and contributions	-	(4.0)	-	-	-	(4.0)
<b>At 31 December 2001</b>	<b>499.2</b>	<b>717.7</b>	<b>551.0</b>	<b>41.4</b>	<b>70.9</b>	<b>1,880.2</b>
<b>Depreciation</b>						
At 1 January 2001	82.3	133.0	199.4	20.6	-	435.3
Charge for the year	8.1	17.5	31.9	5.8	-	63.3
Disposals	(0.1)	-	(4.5)	(0.1)	-	(4.7)
<b>At 31 December 2001</b>	<b>90.3</b>	<b>150.5</b>	<b>226.8</b>	<b>26.3</b>	<b>-</b>	<b>493.9</b>
<b>Net Book Value</b>						
<b>At 31 December 2001</b>	<b>408.9</b>	<b>567.2</b>	<b>324.2</b>	<b>15.1</b>	<b>70.9</b>	<b>1,386.3</b>
At 1 January 2001	394.0	549.4	322.4	16.8	40.6	1,323.2

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 £76.8m (2000 - £78.6m).

The depreciation charge for the period on assets held under finance leases is £1.8m (2000 - £1.8m).

The net book value of infrastructure assets at 31 December 2001 is stated after the deduction of grants and contributions amounting to £58.6m (2000 - £54.6m) in order to give a true and fair view (see note 1g).

Included in the cost of infrastructure assets is £148.9m (2000 - £134.6m) of expenditure on maintaining the network charged to the infrastructure renewals provision in previous years, and £150.5m (2000 - £133.0m) 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 £6.8m (2000 - £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
<b>Cost</b>				
At 1 January 2001	0.4	102.6	0.4	103.0
Disposal	(0.4)	-	(0.4)	(0.4)
<b>At 31 December 2001</b>	<b>-</b>	<b>102.6</b>	<b>-</b>	<b>102.6</b>
<b>Amounts written off</b>				
At 1 January 2001	-	13.1	-	13.1
Written off in the year	-	8.5	-	8.5
<b>At 31 December 2001</b>	<b>-</b>	<b>21.6</b>	<b>-</b>	<b>21.6</b>
<b>Carrying value at 31 December 2001</b>	<b>-</b>	<b>81.0</b>	<b>-</b>	<b>81.0</b>
Carrying value at 1 January 2001	0.4	89.5	0.4	89.9

The investments are comprised solely of shares in the subsidiary and associated undertakings. The company disposed of its shareholding in Brunel Insurance Company Ltd during the year. The principal subsidiary companies and associated undertakings are listed in note 32.

## 11 Stock

	Group	
	31.12.01 £m	31.12.00 £m
Stock	1.2	0.5
Work in progress	3.0	4.0
	<b>4.2</b>	<b>4.5</b>

## 12 Debtors

	Group		Company	
	31.12.01 £m	31.12.00 £m	31.12.01 £m	31.12.00 £m
Amounts falling due within one year				
Trade debtors	38.0	34.0	-	-
Amounts owed by subsidiary companies	-	-	97.4	85.3
Amounts owed by immediate parent company	90.0	-	90.0	-
Other debtors	18.9	4.0	-	-
Prepayments and accrued income	27.5	30.5	1.2	1.6
	<b>174.4</b>	<b>68.5</b>	<b>188.6</b>	<b>86.9</b>
Amounts falling due after more than one year				
Amounts owed by immediate parent company	-	90.0	-	90.0
Deferred tax asset - advance corporation tax recoverable	-	-	6.3	14.7
<b>Total debtors</b>	<b>174.4</b>	<b>158.5</b>	<b>194.9</b>	<b>191.6</b>

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%.



### 13 Investments

Listed investments at 31 December 2001 with a cost of £0.7m (2000 - £0.7m), had a market value at that date of £2.4m (2000 - £1.7m).

### 14 Creditors - amounts falling due within one year

	Group		Company	
	31.12.01 £m	31.12.00 £m	31.12.01 £m	31.12.00 £m
Bank overdraft repayable on demand	2.5	0.6	2.8	-
Loans repayable	16.4	79.2	-	-
Obligations under finance leases	20.4	17.6	-	-
Trade creditors	4.8	2.7	-	-
Amounts owed to subsidiary company	-	-	0.6	0.6
Amounts owed to parent company	17.6	13.4	-	-
Other creditors	0.9	3.4	-	-
Corporation tax	18.8	18.3	1.0	1.0
Other taxation and social security	0.5	0.7	-	-
Accruals and deferred income	94.0	98.6	0.2	0.8
	<u>175.9</u>	<u>234.5</u>	<u>4.6</u>	<u>2.4</u>

### 15 Creditors - amounts falling due after more than one year

Loans repayable - in more than 1 year, but not more than 2 years	-	1.6
- in more than 2 years, but not more than 5 years	78.4	78.4
- in more than 5 years	96.6	21.6
	<u>175.0</u>	<u>101.6</u>
Finance leases - in more than 1 year, but not more than 2 years	-	20.4
Bonds - in more than 5 years	347.4	297.1
Other	4.0	3.8
	<u>526.4</u>	<u>422.9</u>

The bonds are issued by a subsidiary company Wessex Water Services Finance Plc. One bond of £297.4m is at an interest rate of 5.875% repayable in March 2009, and the other is a £50.0m index linked bond at an interest rate of 3.52% plus inflation repayable in July 2023.

### 16 Provisions for liabilities and charges

	Deferred tax £m	Restructuring costs £m	Group Total £m
At 1 January 2001	-	0.9	0.9
Prior year adjustment	52.0	-	52.0
At 1 January 2001 (as restated)	<u>52.0</u>	<u>0.9</u>	<u>52.9</u>
Utilised during year	-	(1.6)	(1.6)
Additional amounts provided	-	9.0	9.0
Origination and reversal of timing differences	18.0	-	18.0
Increase in discount	(10.6)	-	(10.6)
At 31 December 2001	<u>59.4</u>	<u>8.3</u>	<u>67.7</u>

	Company			
	at 1 January 2001	Provided	Utilised	at 31 December 2001
	£m	£m	£m	£m
Restructuring costs	-	3.1	(0.2)	2.9

Restructuring costs are payable in the first half of 2002.

A pension provision shown in the prior year financial statements has been reclassified as a reduction to a pension prepayment in debtors.

	Group	
	31.12.01 £m	31.12.00 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	242.2	234.3
Other timing differences	(2.9)	(4.0)
Advance corporation tax recoverable	(6.5)	(15.5)
Undiscounted provision for deferred tax	232.8	214.8
Discount	(173.4)	(162.8)
Provision for deferred tax (note 8)	59.4	52.0

#### 17 Deferred income

##### Grants and contributions

At 1 January	23.8	22.3
Received in the period	0.1	2.3
Less amortisation	(0.8)	(0.8)
At 31 December	23.1	23.8

#### 18 Called up equity share capital

	Group and Company	
	31.12.01 £m	31.12.00 £m
<b>Authorised</b> 346,666,670 ordinary shares of 60p each	208.0	208.0
<b>Allotted and fully paid</b> 219,585,986 ordinary shares of 60p each	131.8	131.8

19 Reserves

	Share premium account £m	Profit & loss account £m
<b>Group</b>		
At 1 January 2001	28.8	645.6
Prior year adjustment (note 8)	-	(52.0)
	<hr/>	<hr/>
At 1 January 2001 (as restated)	28.8	593.6
Retained profit for the year	-	18.3
	<hr/>	<hr/>
<b>At 31 December 2001</b>	<b>28.8</b>	<b>611.9</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Company</b>		
At 1 January 2001	28.8	111.0
Prior year adjustment (note 8)	-	14.7
	<hr/>	<hr/>
At 1 January 2001 (as restated)	28.8	125.7
Retained profit for the year	-	(6.0)
	<hr/>	<hr/>
<b>At 31 December 2001</b>	<b>28.8</b>	<b>119.7</b>
	<hr/> <hr/>	<hr/> <hr/>

- 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 £36.1m (2000 restated - £58.0m) after dividends from subsidiary companies of £44.1m (2000 - £53.1m).
- b. The group's profit and loss account reserve is stated net of cumulative goodwill eliminated on acquisition in prior years of £14.5m (2000 - £14.5m).

20 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	31.12.01 £m	31.12.00 £m	31.12.01 £m	31.12.00 £m
Profit attributable to shareholders	60.4	69.7	36.1	58.0
Dividends	(42.1)	(11.2)	(42.1)	(11.2)
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	18.3	58.5	(6.0)	46.8
Opening shareholders funds as previously stated	806.2	726.4	271.6	215.1
Prior year adjustment (note 8)	(52.0)	(30.7)	14.7	24.4
	<hr/>	<hr/>	<hr/>	<hr/>
Opening shareholders funds as restated	754.2	695.7	286.3	239.5
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	772.5	754.2	280.3	286.3
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	Year to 31.12.01 £m	Year to 31.12.00 £m
Operating profit	103.9	125.7
Depreciation	63.3	56.3
Amortisation of grants and contributions	(0.8)	(0.8)
Provisions	7.4	(3.4)
Loss/(gain) on disposal of fixed assets	1.5	(0.4)
Decrease/(increase) in stocks	0.3	(2.3)
(Increase) in debtors	(17.1)	(9.3)
Increase in creditors	5.9	7.4
	<u>164.4</u>	<u>173.2</u>

22 Returns on investments and servicing of finance

Interest received	8.9	10.0
Interest paid	(36.7)	(31.1)
Interest element of finance lease rentals	(2.8)	(3.7)
	<u>(30.6)</u>	<u>(24.8)</u>

23 Capital expenditure and financial investment

Purchase of tangible fixed assets	(134.9)	(123.6)
Sale of tangible fixed assets	0.8	4.3
Connection charges, grants and deferred income	4.0	6.3
Acquisitions and disposals	0.4	-
	<u>(129.7)</u>	<u>(113.0)</u>

24 Financing

Loans and finance leases	43.3	18.1
	<u>43.3</u>	<u>18.1</u>

25 Movement in net debt

	1 January 2001 £m	Cash Flow £m	31 December 2001 £m
Bank overdraft	(0.6)	(1.9)	(2.5)
Cash investments	1.0	(1.0)	-
Short term loans	(79.2)	62.8	(16.4)
Loans repayable after one year	(101.6)	(73.4)	(175.0)
Amounts owed by parent company	90.0	-	90.0
Finance leases repayable within one year	(17.6)	(2.8)	(20.4)
Bonds repayable after one year	(297.1)	(50.3)	(347.4)
Finance leases repayable after one year	(20.4)	20.4	-
	<u>(425.5)</u>	<u>(46.2)</u>	<u>(471.7)</u>

## 26 Financial instruments

Short term debtors and creditors have been excluded from the financial instrument disclosure other than £39.3m of short term borrowings.

The group has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by a subsidiary company Wessex Water Services Finance Plc. At 31 December 2001 there were £63m of undrawn facilities. There are no securities attributed to any of the borrowings.

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

### a. Interest rate and currency exposure

	Fixed rate borrowings £m	Floating rate borrowings £m	Total borrowings £m
Sterling	438.6	118.7	557.3
Euro	-	2.8	2.8
Italian lira	1.6	-	1.6
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2001</b>	<b>440.2</b>	<b>121.5</b>	<b>561.7</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	Interest rate %	Period years
Sterling	5.57	8.1
Italian lira	5.16	0.5
	<hr/>	<hr/>
Weighted average	5.57	8.1
	<hr/> <hr/>	<hr/> <hr/>

£17.3m of floating rate borrowings are short term, and £104.2m are long term with interest rates moving in line with LIBOR.

### b. Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between willing parties, other than a forced or liquidation sale.

	Book value £m	Fair value £m
Borrowings less than 1 year	39.3	39.7
Floating rate borrowings over 1 year	104.2	104.2
Fixed rate borrowings over 1 year	418.2	402.2
	<hr/>	<hr/>
<b>At 31 December 2001</b>	<b>561.7</b>	<b>546.1</b>
	<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

Italian lira borrowings of ITL 3,570m at fixed rates have been swapped into sterling borrowings of £1.6m at floating rates and through further interest rate swaps have been fixed at 5.16%.

## 27 Commitments

- a. Operating lease payments of £0.1m (2000 - £0.2m), under leases on land and buildings due within the next year, which expire between 2 and 5 years.
- b. At 31 December 2001 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £74.5m (2000 - £212.9m).
- c. Capital expenditure contracted but not provided at 31 December 2001 was £49.5m (2000 - £27.5m).

## 28 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 2001 was £1.9m (2000 - £2.8m).

## 29 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 £1.7m (2000 - £2.0m).

The latest actuarial valuation for WWPS was undertaken at 31 December 2001, and the results of that valuation are still being prepared. The previous valuations of 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.

Additional disclosures regarding the defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information, which will be necessary for the full implementation of FRS 17 in the year ending 31 December 2003.

The actuarial valuation described above has been updated at 31 December 2001 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	2001
Rate of increase in salaries	3.5%
Rate of increase in pensions in payment	2.5%
Discount rate	6.0%
Inflation assumption	2.5%

The fair value of the assets, and the present value of the liabilities in the scheme, at the balance sheet date were:

	2001 %	2001 £m
Equities	57.8	102.1
Bonds and cash	42.2	74.6
		<hr/>
Total fair value of the assets	100.0	176.7
Present value of scheme liabilities		(212.6)
		<hr/>
Deficit in the scheme		(35.9)
Related deferred tax asset		10.8
		<hr/>
Net pension liability		(25.1)
		<hr/> <hr/>

The contribution rate for 2001 was 14.2% of pensionable earnings and the agreed contribution rate for the next 3 years is 15.0% of pensionable earnings.

### 30 Related party transactions

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

### 31 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, before deferred tax, subject to a current cost ordinary dividend cover of one.

### 32 Principal subsidiary companies and associated undertakings

#### a. Subsidiary companies

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

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

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

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

c. Joint arrangements that are not entities

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

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

d. Associated undertakings

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

33 **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).