WESSEX WATER SERVICES LTD

Accounts for the year to 31 December 2000

Registered in England and Wales No. 2366648

AN AZURIX COMPANY

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activities of the company are the supply of clean water and the treatment and disposal of waste water.

PROFIT AND DIVIDEND

The profit for the year after taxation was £ 79.6m (1999 - £104.2m). Dividends of £42.4m (1999 - £31.7m) were declared in the year, and the directors propose a final dividend of £10.7m (1999 - £37.8m).

OPERATIONAL REVIEW

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

The Director General of Water Services announced on 25 November 1999 a 12.0% price cut for Wessex Water Services Ltd from 1 April 2000, before adjustment for inflation. The announcement also included level prices, before adjustment for inflation, for the years commencing 1 April 2001 and 1 April 2002, with price increases of 3.8% and 4.7%, before adjustment for inflation, for the years commencing 1 April 2003 and 2004 respectively.

EMPLOYMENT

Wessex Water Services Ltd 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 Services Ltd protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The company has an environmental advisory panel and an environmental and sustainability charter. A separate sustainability report is prepared indicating the progress made in this area during the year.

RESEARCH AND DEVELOPMENT

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

CHARITABLE DONATIONS

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

SUPPLIER PAYMENT POLICY

The company's policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 December 2000 trade creditors represented approximately 38 days trade purchases (1999 - 37 days).

DIRECTORS

The following were directors of the company during the year;

C F Skellett - Chairman	
S M Allen	
Mrs L C Bennett	
C J Bishop	
P J Costain	
T K Harris	
R N Hodge	Resigned - 31 December 2000
J G Jones	
Mrs K Morgan	
P L M Sherwood	
Lord Wakeham	Appointed - 1 October 2000
NAW Wheatley	Appointed - 20 April 2000

There are no interests in shares of group companies that are disclosable in these accounts.

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

N G Wooller

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 company and of the company's profit or loss for the year. 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 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the 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 SERVICES LTD

We have audited the accounts on pages 4 to 15, 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 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 company at 31 December 2000 and of its profit for the year 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
19 March 2001

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	262.6	278.8
Operating profit	2, 3	129.6	152.9
Net interest payable	4	(30.0)	(28.5)
Profit on ordinary activities before taxation		99.6	124.4
Taxation on profit on ordinary activities	5	(20.0)	(20.2)
Profit attributable to shareholders		79.6	104.2
Dividends paid and proposed	7	(53.1)	(69.5)
Transfer to reserves	17	26.5	34.7

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

There were no recognised gains or 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 SHEET
31 December 2000

	NOTE	31.12.00 £m	31.12.99 £m
Fixed assets			
Tangible assets	8	1,322.9	1,259.5
Investments	9	-	-
		1,322.9	1,259.5
Current assets			
Stock and work in progress	10	1.1	1.1
Debtors	11	72.2	62.3
		73.3	63.4
Creditors - amounts falling due within one year	12	(318.2)	(220.7)
Net current liabilities	24	(244.9)	(157.3)
Total assets less current liabilities		1,078.0	1,102.2
Creditors - amounts falling due after more than one year	13	(422.9)	(472.2)
Provisions for liabilities and charges	14	(7.3)	(10.2)
Deferred income	15	(23.8)	(22.3)
Net assets	2	624.0	597.5
Capital and reserves			
Called up equity share capital	16	81.3	81.3
Profit and loss account	17	542.7	516.2
Equity shareholders' funds	17	624.0	597.5

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

1 Accounting policies

a. Basis of preparation

The accounts have been prepared on a consistent basis 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 1e) in accordance with the Companies Act 1985. The company has adopted all applicable accounting standards up to and including FRS16 "Current Tax".

Group accounts have not been prepared as under section 228 of the Companies Act 1985 the company and its subsidiary are included in the consolidated financial statements of Wessex Water Ltd (see note 23).

b. Turnover

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided.

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

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

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

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

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

d. Leased assets

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

All other leases are regarded as operating leases. Rental costs arising under operating leases are written off in the year they are incurred.

e. Grants and contributions

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

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

f. **Investments**

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

g. **Stock**

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, cost includes labour, materials and attributable overheads.

h. **Foreign currency**

All transactions 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. Differences arising from the translation of retained profits at closing rates are taken to reserves, as are the differences on the translation of opening balance sheets and foreign currency funding.

i. **Research and development**

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

j. **Taxation**

The charge for taxation is based on the profit for the 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.

k. **Pensions**

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

l. **Cash flow**

Under the provisions of FRS1 (revised) the company has not prepared a cash flow statement because its 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.

m. **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.

n. **Debt**

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

o. **Interest rate instruments**

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

2 Segmental analysis

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

	Year to 31.12.00 £m	Year to 31.12.99 £m
a. Turnover		
Regulated	257.6	275.0
Unregulated	5.0	3.8
	262.6	278.8
b. Operating profit		
Regulated	128.3	151.2
Unregulated	1.3	1.7
	129.6	152.9
c. Net assets		
Regulated	605.0	579.8
Unregulated	19.0	17.7
	624.0	597.5

3 Operating profit

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

Operational costs

Manpower costs (note 6)	21.2	25.4
Materials and consumables	15.2	15.4
Other operational costs	41.9	37.5
Depreciation	55.9	47.3
Amortisation of grants and contributions	(0.8)	(0.7)
(Gain)/loss on disposals of fixed assets	(0.4)	1.0
	133.0	125.9

b. Operational costs include:

Operating leases for plant and machinery	0.3	0.4
Other operating leases	0.3	0.4
Research and development	0.1	0.3
Directors' remuneration (note 6)	0.7	0.5
Audit fees	0.1	0.1

4	Net interest payable	**Year to 31.12.00 £m**	Year to 31.12.99 £m
	Interest payable:		
	To group companies	18.0	15.3
	On bank loans	11.8	11.3
	On other loans	0.2	0.5
	On finance leases	3.7	4.5
	Total interest payable	33.7	31.6
	Interest receivable	(3.7)	(3.1)
	Net interest payable	30.0	28.5

5 **Taxation**

a. Taxation on profit on ordinary activities

UK corporation tax at 30% (1999 – 30.25%)	4.9	4.2
Advance corporation tax due to parent company	9.8	8.5
Payment for group relief	5.3	7.5
	20.0	20.2

b. 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% on all timing differences is:

Accelerated capital allowances	234.3	225.7
Other timing differences	(4.0)	(4.5)
	230.3	221.2

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

6 **Directors and employees**

a. Total employment costs of the company were:

Wages and salaries	32.7	34.3
Social security costs	2.6	2.5
Other pension costs	1.9	2.1
	37.2	38.9

b. Total employment costs are charged as follows:

Capital schemes	14.7	12.2
Infrastructure renewals expenditure	1.3	1.3
Manpower costs	21.2	25.4
	37.2	38.9

c. Total directors' remuneration	**Year to 31.12.00 £000**	Year to 31.12.99 £000
Fees	110	98
Salary	434	305
Bonuses	99	58
Benefits in kind	39	23
	682	484

Five directors have benefits accruing under defined benefit pension schemes at the year end (1999 – 7). Salary costs relate to five executive directors at the year end (1999 – 4).

d. Highest paid director		
Salary	105	85
Bonus	28	23
Benefits in kind	9	6
	142	114

The highest paid director had an accrued annual pension entitlement of £85,406 at 31 December 2000 (1999 - £21,592).

		31.12.00	31.12.99
e. Monthly average number of employees during the period	- Engineering department	206	213
	- All other staff	1,148	1,188
	- Total	1,354	1,401

7 Dividends

The dividend policy 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.

	Year to 31.12.00 £m	Year to 31.12.99 £m
Interim dividends of 52.12p per share on 81,350,000 ordinary shares (1999 – 38.97p)	42.4	31.7
Final dividend of 13.15p per share on 81,350,000 ordinary shares (1999 - 46.46p)	10.7	37.8
	53.1	69.5

8 Tangible fixed assets

	Freehold land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2000	392.6	656.2	436.3	34.7	125.9	1,645.7
Additions	37.0	26.5	39.0	8.0	16.2	126.7
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)
At 31 December 2000	475.4	683.3	517.5	37.4	42.8	1,756.4
Depreciation						
At 1 January 2000	76.0	117.6	171.5	21.1	-	386.2
Charge for the year	7.1	15.4	28.4	5.0	-	55.9
Disposals	(0.8)	-	(2.3)	(5.5)	-	(8.6)
At 31 December 2000	82.3	133.0	197.6	20.6	-	433.5
Net book value						
At 31 December 2000	393.1	550.3	319.9	16.8	42.8	1,322.9
At 1 January 2000	316.6	538.6	264.8	13.6	125.9	1,259.5

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

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

The net book value of assets held under finance leases is £78.6 m (1999 - £80.4m).

The depreciation charge for the year on assets held under finance leases is £1.8 m (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 £54.6 m (1999 - £51.0m) in order to give a true and fair view (note 1e).

Included in the cost of infrastructure assets is £134.8m (1999 - £124.5m) 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**	**31.12.00** **£m**	31.12.99 £m

The company has an investment of £13,000 in a wholly owned subsidiary company, Wessex Water Services Finance Plc.

10 Stock and work in progress

Stock	0.5	0.4
Work in progress	0.6	0.7
	1.1	1.1

11 Debtors - amounts falling due within one year

Trade debtors	31.8	30.1
Owed by associated undertakings	1.1	0.8
Owed by ultimate parent company	0.6	1.0
Other debtors	10.0	4.7
Prepayments and accrued income	28.7	25.7
	72.2	62.3

12 Creditors - amounts falling due within one year

Bank overdraft repayable on demand	5.5	1.7
Loans repayable	79.2	8.2
Obligations under finance leases	17.6	15.1
Trade creditors	1.2	1.5
Amounts owed to parent company	48.1	38.2
Amounts owed to subsidiary undertaking	13.3	13.3
Amounts owed to other group companies	13.4	8.1
Dividend	37.1	37.8
Other creditors	1.2	1.8
Corporation tax	17.3	13.6
Taxation and social security	0.7	0.8
Accruals and deferred income	83.6	80.6
	318.2	220.7

13 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
	101.6	134.9
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
	20.4	37.9
Inter company loan - in more than 5 years	297.1	296.7
Other	3.8	2.7
	422.9	472.2

The inter company loan is due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of a bond issue lent to the company at an interest rate of 5.875%, repayable in March 2009.

14 **Provisions for liabilities and charges**

	31.12.99 £m	Provided £m	Utilised £m	**31.12.00 £m**
Pensions	6.4	0.5	(0.5)	6.4
Office relocation	1.7	-	(1.7)	-
Restructuring costs – severances	2.1	1.2	(2.4)	0.9
	10.2	1.7	(4.6)	7.3

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

15 **Deferred income**

	31.12.00 £m	31.12.99 £m
Grants and contributions		
At 1 January	22.3	22.5
Received in the period	2.3	0.5
Less amortisation	(0.8)	(0.7)
At 31 December	23.8	22.3

16 **Called up equity share capital**

81,350,000 ordinary shares of £1 each:		
Authorised, allotted, called up and fully paid	81.3	81.3

17 **Profit and loss account and equity shareholders' funds**

	Profit & loss account £m	**Share-holders' funds £m**
At 1 January 2000	516.2	597.5
Transfer to reserves	26.5	26.5
At 31 December 2000	542.7	624.0

18 **Financial instruments**

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £102.3m of short term borrowings.

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

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

The principal borrowings are both fixed rate and in sterling.

a. Interest rate and currency exposure

	Fixed rate borrowings £m	Floating rate borrowings £m	Total borrowings £m
Sterling	385.9	100.7	486.6
US dollar	30.0	-	30.0
Italian lira	4.8	-	4.8
At 31 December 2000	420.7	100.7	521.4

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

£51.5m 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 informed and willing parties, other than a forced or liquidation sale.

	Book value £m	Fair value £m
Borrowings less than 1 year	102.3	102.8
Floating rate borrowings over 1 year	49.2	49.2
Fixed rate borrowings over 1 year	369.9	359.7
At 31 December 2000	521.4	511.7

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 interest rate swaps have been fixed at 5.16%.

19 Commitments and guarantees

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 company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £210.6m (1999 - £169.9m).

c. Capital expenditure contracted but not provided at 31 December 2000 was £27.5m (1999 - £78.1m).

d. The company has guaranteed a £300.0m Bond issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

20 Contingent liabilities

There are no material contingent liabilities at 31 December 2000 for which provision has not been made in these accounts.

21 **Pensions**

The defined benefit scheme operated by the company, which covers the majority of staff, is the Wessex Water Pension Scheme (WWPS). Two of the company'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 members of the scheme.

The total pension cost of the company, including amounts set aside for employees retiring early, was £2.3m (1999 - £2.0m).

The latest 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.

22 **Related parties**

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

23 **Ultimate parent company**

The smallest group into which the accounts of the company are consolidated is that headed by Wessex Water Ltd a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Claverton Down, Bath BA2 7WW.

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 US Securities and Exchange Commission, which can be accessed through the Commission's office or its website 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.

24 **Going concern**

The current liabilities of the company exceed its current assets. The directors have considered the financial position of the company and have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts.