WESSEX WATER SERVICES LTD

Accounts for the year to 31 December 2001

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 2001.

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 £66.6m (2000 restated - £68.0m). Dividends of £32.8m (2000 - £42.4m) were declared in the year, and the directors propose a final dividend of £11.3m (2000 - £10.7m).

OPERATIONAL REVIEW

The company has continued to provide an excellent service and high quality standards for customers.

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.

During the year the parent company Wessex Water Ltd entered into a joint arrangement with Bristol Water Holdings Plc and a joint venture agreement with MWH UK Ltd for the operation of the Billing and Customer Services activities and Engineering Services activities respectively. These agreements resulted in the transfer of employees out of the company into these entities.

Last autumn Azurix Corp. appointed advisors to undertake the sale of Wessex Water Ltd and subsidiary companies, including Wessex Water Services 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.

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.

MARKET VALUE OF LAND AND BUILDINGS

In the opinion of the directors, the market value of land and buildings of the company 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 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 2001 trade creditors represented approximately 35 days trade purchases (2000 - 38 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	Resigned - 30 September 2001
P J Costain	
T K Harris	
J G Jones	
Mrs K Morgan	
P L M Sherwood	
Lord Wakeham	
NAW Wheatley	

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

AUDITORS

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

N G Wooller

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 company and of the company's profit or loss for the year. 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 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 SERVICES LTD

We have audited the financial statements on pages 4 to 17.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its 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

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	265.2	262.6
Operating costs	3	(150.6)	(133.0)
Operating profit	2	114.6	129.6
Net interest payable	4	(32.9)	(30.0)
Profit on ordinary activities before taxation		81.7	99.6
Taxation on profit on ordinary activities	5	(15.1)	(31.6)
Profit attributable to shareholders		66.6	68.0
Dividends paid and proposed	7	(44.1)	(53.1)
Transfer to reserves	18	22.5	14.9

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

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

BALANCE SHEET
31 December 2001

	NOTE	31.12.01 £m	31.12.00 £m restated
Fixed assets			
Tangible assets	9	1,382.5	1,322.9
Investments	10	-	-
		1,382.5	1,322.9
Current assets			
Stock and work in progress	11	2.3	1.1
Debtors	12	79.9	65.8
		82.2	66.9
Creditors - amounts falling due within one year	13	(269.2)	(318.2)
Net current liabilities	26	(187.0)	(251.3)
Total assets less current liabilities		1,195.5	1,071.6
Creditors - amounts falling due after more than one year	14	(526.4)	(422.9)
Provisions for liabilities and charges	15	(66.2)	(67.6)
Deferred income	16	(23.1)	(23.8)
Net assets	2	579.8	557.3
Capital and reserves			
Called up equity share capital	17	81.3	81.3
Profit and loss account	18	498.5	476.0
Equity shareholders' funds	19	579.8	557.3

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

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		66.6	68.0
Total recognised gains and losses relating to the financial year		66.6	68.0
Prior year adjustment	8	(66.7)	-
Total gains and losses recognised since last annual report		(0.1)	68.0

NOTES TO THE ACCOUNTS
For the year to 31 December 2001

1 Accounting policies

a. Basis of preparation

The financial statements 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 1e) in accordance with the Companies Act 1985. The company 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 6, is a prior year adjustment of £66.7m, 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 company 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. 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 25).

b. Turnover

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

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 (note 16). 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 9.

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 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. Gains and losses on these translations are taken to reserves net of exchange differences arising on related foreign currency borrowings.

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 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.

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 parent company Wessex Water Ltd, which is incorporated in England, prepares consolidated accounts which include the accounts of the company and which contain a cash flow statement.

m. **Joint arrangements**

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The company includes its share of assets, liabilities and cash flows in such joint arrangements in the financial statements.

n. **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.

o. **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.

p. **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

	Year to 31.12.01 £m	Year to 31.12.00 £m
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	5.6	4.1
Intra group	2.5	0.9
	265.2	262.6
b. Operating profit		
Regulated	111.9	128.3
Unregulated	2.7	1.3
	114.6	129.6
c. Net assets		
Regulated	558.1	538.3
Unregulated	21.7	19.0
	579.8	557.3

Unregulated activities arise from the use of regulated assets, but are outside the price controls of the regulator.

3 Operating costs

Manpower costs (note 6b)	20.2	21.2
Materials and consumables	15.9	15.2
Other operational costs	50.9	41.9
Depreciation	62.9	55.9
Amortisation of grants and contributions	(0.8)	(0.8)
Loss/(gain) on disposals of fixed assets	1.5	(0.4)
	150.6	133.0
Operating costs include:		
Operating leases for plant and machinery	0.5	0.3
Other operating leases	0.1	0.3
Research and development	0.2	0.3
Directors' remuneration (note 6c)	0.5	0.7
Audit fees	0.1	0.1

4 Net interest payable

Interest payable:		
To group companies	18.0	18.0
On bank loans	14.2	11.8
On other loans	-	0.2
On finance leases	2.5	3.7
Total interest payable	34.7	33.7
Interest receivable	(1.8)	(3.7)
Net interest payable	32.9	30.0

	Year to 31.12.01 £m	Year to 31.12.00 £m
5 Taxation		
a. Taxation on profit on ordinary activities		
Current tax:		
UK corporation tax at 30%	3.9	4.9
Advance corporation tax due to parent company	7.9	9.8
Payment for group relief	4.3	5.3
	16.1	20.0
Deferred tax:		
Origination and reversal of timing differences	9.0	9.1
(Increase)/decrease in discount	(10.0)	2.5
	(1.0)	11.6
	15.1	31.6

b. Current tax reconciliation

Profit on ordinary activities before tax	81.7	99.6
Current tax at 30%	24.5	29.9
Expenses not deductible for corporation tax purposes	0.6	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)
Other timing differences	(1.1)	(0.5)
Total current tax charge - as above	16.1	20.0

6 Directors and employees

a. Total employment costs of the company were:

Wages and salaries	27.9	32.7
Social security costs	2.1	2.6
Other pension costs	1.5	1.9
	31.5	37.2

b. Total employment costs are charged as follows:

Capital schemes	10.1	14.7
Infrastructure renewals expenditure	1.2	1.3
Manpower costs	20.2	21.2
	31.5	37.2

		Year to 31.12.01 £000	Year to 31.12.00 £000
c.	**Total directors' remuneration**		
	Fees	144	110
	Salary	294	434
	Bonuses	79	99
	Benefits in kind	24	39
		541	682

Four directors have benefits accruing under defined benefit pension schemes at the year end (2000 – 5).

d.	Highest paid director		
	Salary	95	105
	Bonus	19	28
	Benefits in kind	10	9
		124	142

The highest paid director had an accrued annual pension entitlement of £29,620 at 31 December 2001 (2000 - £85,406).

			31.12.01 number	31.12.00 number
e.	Monthly average number of employees during the period	- Engineering Services	98	206
		- Billing Services	260	255
		- All other staff	873	893
		- Total	1,231	1,354

Engineering Services employees were transferred to a joint venture company, set up by Wessex Water Ltd, during the year.

7 Dividends

The dividend policy 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.

	Year to 31.12.01 £m	Year to 31.12.00 £m
Interim dividends of 40.32p per share on 81,350,000 ordinary shares (2000 – 52.12p)	32.8	42.4
Final dividend of 13.89p per share on 81,350,000 ordinary shares (2000 - 13.15p)	11.3	10.7
	44.1	53.1

8 Prior year adjustment

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:

Profit and loss account - Increase/(decrease) in profit in the year	1.0	(11.6)
Balance sheet - (Decrease) in net assets	(65.7)	(66.7)

9 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 2001	475.4	683.3	517.5	37.4	42.8	1,756.4
Additions	11.1	34.1	22.8	3.4	57.5	128.9
Transfers on commissioning	12.2	5.2	10.7	0.8	(28.9)	-
Disposals	(0.4)	-	(6.4)	(0.2)	(0.1)	(7.1)
Grants and contributions	-	(4.0)	-	-	-	(4.0)
At 31 December 2001	498.3	718.6	544.6	41.4	71.3	1,874.2
Depreciation						
At 1 January 2001	82.3	133.0	197.6	20.6	-	433.5
Charge for the year	8.1	17.5	31.5	5.8	-	62.9
Disposals	(0.1)	-	(4.5)	(0.1)	-	(4.7)
At 31 December 2001	90.3	150.5	224.6	26.3	-	491.7
Net book value						
At 31 December 2001	408.0	568.1	320.0	15.1	71.3	1,382.5
At 1 January 2001	393.1	550.3	319.9	16.8	42.8	1,322.9

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 year 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 (note 1e).

Included in the cost of infrastructure assets is £149.1m (2000 - £134.8m) 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

The company has an investment of £13,000 in 100% of the £1 ordinary shares of a subsidiary company, Wessex Water Services Finance Plc.

	31.12.01 £m	31.12.00 £m
11 Stock and work in progress		
Stock	1.2	0.5
Work in progress	1.1	0.6
	2.3	1.1
12 Debtors - amounts falling due within one year		
Trade debtors	33.3	31.8
Owed by ultimate parent company	0.3	0.6
Owed by other group companies	1.7	1.1
Other debtors	18.5	3.6
Prepayments and accrued income	26.1	28.7
	79.9	65.8
13 Creditors - amounts falling due within one year		
Bank overdraft repayable on demand	11.1	5.5
Loans repayable	13.6	79.2
Obligations under finance leases	20.4	17.6
Trade creditors	1.4	1.2
Amounts owed to parent company	55.6	48.1
Amounts owed to subsidiary undertaking	10.5	13.3
Amounts owed to other group companies	17.6	13.4
Dividend	39.1	37.1
Other creditors	0.9	1.2
Corporation tax	17.8	17.3
Taxation and social security	0.5	0.7
Accruals and deferred income	80.7	83.6
	269.2	318.2
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
- in more than 2 years, but not more than 5 years	78.4	78.4
- in more than 5 years	96.6	21.6
	175.0	101.6
Finance leases - in more than 1 year, but not more than 2 years	-	20.4
Inter company loans - in more than 5 years	347.4	297.1
Other	4.0	3.8
	526.4	422.9

The inter company loans are due to a subsidiary company Wessex Water Services Finance Plc in respect of the proceeds of a two bond issues lent to the company. One bond of £297.4m at an interest rate of 5.875% is 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.

15 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 (note 8)	66.7	-	66.7
At 1 January 2001 (as restated)	66.7	0.9	67.6
Utilised during year	-	(1.4)	(1.4)
Additional amounts provided	-	1.0	1.0
Origination and reversal of timing differences	9.0	-	9.0
Increase in discount	(10.0)	-	(10.0)
At 31 December 2001	65.7	0.5	66.2

Restructuring costs are payable in the first half of 2002.

	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)
Undiscounted provision for deferred tax	239.3	230.3
Discount	(173.6)	(163.6)
Discounted provision for deferred tax (note 8)	65.7	66.7

16 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

17 Called up equity share capital

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

18 Profit and loss account

	31.12.01 £m
At 1 January 2001	542.7
Prior year adjustment (note 8)	(66.7)
At 1 January 2001 (as restated)	476.0
Retained profit for the year	22.5
At 31 December 2001	498.5

19 Equity shareholders' funds

	31.12.01
	£m
At 1 January 2001	624.0
Prior year adjustment (note 8)	(66.7)
At 1 January 2001 (as restated)	557.3
Retained profit for the year	22.5
At 31 December 2001	579.8

20 Financial instruments

Short term debtors and creditors have been excluded from the financial instruments disclosure other than £45.1m of short term borrowings.

The company has financed its activities through a combination of short term borrowings, long term loans and leases and bonds issued by its subsidiary company Wessex Water Services Finance Plc. At 31 December 2001 there were £63m of undrawn facilities.

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	438.6	127.3	565.9
Italian lira	1.6	-	1.6
At 31 December 2001	440.2	127.3	567.5

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
Weighted average	5.57	8.1

£23.1m 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 informed and willing parties, other than a forced or liquidation sale.

	Book value £m	Fair value £m
Borrowings less than 1 year	45.1	45.5
Floating rate borrowings over 1 year	104.2	104.2
Fixed rate borrowings over 1 year	418.2	402.2
At 31 December 2001	567.5	551.9

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 interest rate swaps have been fixed at 5.16%.

21 Commitments and guarantees

a. Operating lease payments of £0.2m (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 company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £74.0m (2000 - £210.6m).

c. Capital expenditure contracted but not provided at 31 December 2001 was £49.5m (2000 - £27.5m).

d. The company has guaranteed a £297.4m Bond and a £50.0m index linked Bond, issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

22 Contingent liabilities

There are no material contingent liabilities at 31 December 2001 for which provision has not been made in these accounts.

23 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 £1.5m (2000 - £1.9m).

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
Total fair value of the assets	100.0	176.7
Present value of scheme liabilities		(212.6)
Deficit in the scheme		(35.9)
Related deferred tax asset		10.8
Net pension liability		(25.1)

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.

24 Related parties

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

25 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 England 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.

26 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.