

WESSEX WATER SERVICES FINANCE PLC

Accounts for the year to
31 December 2001

Registered in England and Wales No. 3704265



DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The sole activity of the company is to issue bonds, the proceeds of which are lent to the parent company.

PROFIT AND DIVIDEND

The profit for the year to 31 December 2001 was nil (2000 - nil). The directors did not recommend the payment of a dividend in either year.

CHARITABLE DONATIONS

There were no charitable donations in either year.

DIRECTORS

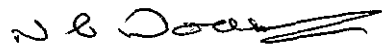
The directors of the company during the year were;

C F Skellett
T K Harris

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.



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 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 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 FINANCE PLC

We have audited the financial statements on pages 3 to 7.

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
Turnover		-	-
Operating profit	2	-	-
Interest income	3	18.1	18.0
Interest expense	3	(18.1)	(18.0)
Profit on ordinary activities before taxation		-	-
Taxation on profit on ordinary activities	4	-	-
Transfer to reserves	9	-	-

There were no recognised gains or losses other than the profit for the year.

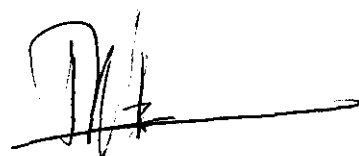
The accompanying notes are an integral part of this profit and loss account.

BALANCE SHEET
31 December 2001

	NOTE	31.12.01 £m	31.12.00 £m
Current assets			
Debtors - amounts falling due within one year	5	10.5	13.3
Debtors - amounts falling due after more than one year	5	347.4	297.1
		<u>357.9</u>	<u>310.4</u>
Creditors - amounts falling due within one year	6	(10.5)	(13.3)
Net current assets		<u>347.4</u>	<u>297.1</u>
Total assets less current liabilities		347.4	297.1
Creditors - amounts falling due after more than one year	7	(347.4)	(297.1)
Net assets		<u>-</u>	<u>-</u>
Capital and reserves			
Called up equity share capital	8	-	-
Profit and loss account	9	-	-
Equity shareholders' funds	9	<u>-</u>	<u>-</u>

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:



T K Harris
 Director

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 and in accordance with applicable accounting standards in the United Kingdom. The company has adopted all applicable accounting standards up to and including FRS19 "Deferred Tax".

b. 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.

c. Cash flow

Under the provision of FRS1 (revised) the company has not prepared a cash flow statement because Wessex Water Ltd a parent company, which is incorporated in England, prepares consolidated accounts which include the accounts of the company and which contain a cash flow statement.

d. Debt

Debt is initially stated at the amount of the net proceeds after 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.

e. Interest rate instruments

Interest rate instruments are used to hedge against interest 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 Operating profit

There were no expenses incurred by the company in either year, audit fees were borne by other group companies.

	Year to 31.12.01 £m	Year to 31.12.00 £m
3 Net interest payable		
Interest payable:		
On bond issues	18.1	18.0
Interest (receivable):		
From parent company	(18.1)	(18.0)
	<hr/>	<hr/>
Net interest payable	-	-
	<hr/> <hr/>	<hr/> <hr/>
4 Taxation		
Taxation of profit on ordinary activities		
UK corporation tax at 30%	-	-
	<hr/> <hr/>	<hr/> <hr/>

5 Debtors	31.12.01	31.12.00
	£m	£m
Debtors within one year		
Interest receivable from parent company	10.5	13.3
	<u> </u>	<u> </u>
Debtors over one year		
Loan due from parent company	347.4	297.1
	<u> </u>	<u> </u>

The loan due from the parent company are the proceeds of the Bond Issues (see note 10) lent on to Wessex Water Services Ltd at the same terms as the bonds.

6 Creditors – amounts falling due within one year

Interest payable	10.5	13.3
	<u> </u>	<u> </u>

7 Creditors – amounts falling due after more than one year

Loan repayable after 5 years	347.4	297.1
	<u> </u>	<u> </u>

8 Called up share capital

Ordinary shares of £1 each:

Authorised – 50,000

Allotted, called up and fully paid – 13,000

-	-
<u> </u>	<u> </u>

9 Profit and loss account and equity shareholders' funds

	Profit & Loss account £m	Share- holders' funds £m
At 1 January 2001	-	-
Transfer to reserves	-	-
	<u> </u>	<u> </u>
At 31 December 2001	-	-
	<u> </u>	<u> </u>

10 Financial instruments

- a. A loan repayable of £297.4m after 5 years is a £300.0m Bond Issue dated 30 March 1999 repayable on 30 March 2009. It was a sterling borrowing at a fixed interest rate of 5.875%. In March 2001 £100.0m was converted to a variable rate Bond with the same redemption rate. The balance outstanding is after deducting fees and discount.

The fair value of the bond at 31 December 2001, the amount at which it could be exchanged in an arms length transaction between informed and willing parties other than a forced or liquidation sale, was £286.5m at market value (2000 - £286.4m). The fair value of the loan due from the parent company is also £286.5m (2000 - £286.4m).

- b. A loan repayable of £50.0m after 5 years is a £50.0m Index Linked Bond dated 10 December 2001 repayable in July 2023, with an interest rate of 3.52% plus November inflation. The fair value of the bond at 31 December 2001 was £44.9m at market value, as was the loan due from the parent company.

Both transactions were in the name of Wessex Water Services Finance Plc, guaranteed by Wessex Water Services Ltd the parent company, to whom the proceeds were lent on similar terms to the bond.

11 Contingent liabilities

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

12 Related parties

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

13 Ultimate parent company

The immediate parent company is Wessex Water Services Ltd. The smallest group into which the accounts of the company are consolidated is Wessex Water Ltd a company incorporated in England.

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.