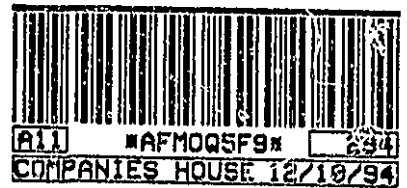


# WESSEX WATER Plc

ANNUAL REPORT 1994



Registered in England  
No: 2366633

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## Wessex Water in Brief

Wessex Water covers an area of around 10,000 square kilometres including the counties of Avon, Dorset, Somerset, most of Wiltshire and small parts of Devon, Hampshire and Gloucestershire. It supplies 1.1 million people with drinking water and treats waste water from 2.5 million people.

Water is taken from 148 different sources and over 400 million litres daily are treated and supplied through 10,400 kilometres of mains.

Over 800 million litres of waste water is treated at 351 sewage treatment works each day, carried there through 14,700 kilometres of sewers.

Wessex Water jointly owns one of the country's largest waste management companies, Wessex Waste Management Ltd, which trades as UK Waste.

## Chairman's Statement

I am delighted to report on another year of excellent progress. We have continued to concentrate on doing two things well: running Wessex Water Services efficiently and profitably and developing a material stream of profit outside price regulation from Wessex Waste Management. This strategy is producing enhanced value for shareholders.

In the year to 31 March 1994 turnover increased by 6% to £217 million and through continuing control of costs operating profit rose 14% to £92.2 million. With an increase of more than 90% in the contribution from Wessex Waste Management, together with interest income, profit before tax reached a record £103.3 million, an increase of 20%.

Recognising this performance, your Directors are recommending a final dividend of 15.5p per share, raising the total payment for the year by 9.3% to 23.5p per share.

In recent months the Company's shares have been trading at between two and three times their 1989 issue price. To give the shares wider appeal and to reduce the weight of the share price, the Board proposes to sub-divide each existing share of £1 into two new ordinary shares of 50p each. This proposal will be put to shareholders at the Annual General Meeting in September.

Wessex Water continues to adapt to change. Following further efficiency savings operational costs were reduced by 2% below those of the previous year. Operational costs are now lower than they were two years ago and we aim to keep up this momentum. We have maintained exacting standards of quality and day-to-day service to our customers. Compliance with drinking water and sewage treatment standards was 99.7% and 98% respectively.

We are committed in every respect to high standards. Our capital expenditure programme represents a significant investment in a strong infrastructure for the future.

The Director General of Water Services has completed his five year regulatory review of Wessex Water Services, our water supply and sewage treatment company. Much work went into the submission we put to the Director General detailing our strategy and action plan for the next ten years. We have taken account of our customers' views and the plan was based on meeting our legal obligations, protecting public health and the environment, and delivering value for money whilst producing an acceptable level of financial return.

On 28 July 1994 the Director General announced that the company's charges for the five years from 1 April 1995 would rise by up to 1.5% above the retail price index and by up to 0.5% above the retail price index for the five years from 1 April 2000. These figures are, I believe, fair for our customers and shareholders. They take account of Wessex Water's efficiency, the necessary additional costs of running the regulated business and the capital investment required to maintain high standards.

Our joint venture waste business with Waste Management International plc, Wessex Waste Management, has made impressive progress. Profit before tax was £18.1 million

compared with £9.4 million the previous year. Wessex Water Plc's share of this profit was £9.1 million - an increase of 93% and a substantial contribution to overall results.

Internal growth and acquisitions have made Wessex Waste Management one of the top four waste businesses in the UK. As the waste industry consolidates and adapts to new legislation and techniques I expect the company's successful expansion to continue through further acquisitions and a broadening of the services provided to customers.

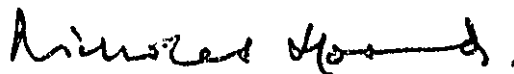
Your Board of Directors is changing.

After 40 years in the UK water industry Ron Huntington retired from the Board in February. It is fitting that he was awarded an OBE in recognition of his contributions to Wessex Water and to the wider UK water industry, together with his work on behalf of the water industry in Europe. Retiring after the Annual General Meeting in September will be Dr A K Barbour and Mr A R Thornhill. Joe Barbour has served on the Wessex Water Authority and Plc Boards since 1980. His specialist knowledge of environmental science and its application has had a significant effect on Wessex Water's first class environmental record and reputation. Andrew Thornhill became a Director in 1988 and has helped in the transfer from public authority to a private sector company. His legal advice and knowledge of tax issues will be missed. Our three retiring Directors have played full parts on your Board: on your behalf I thank them.

On 29 July Lord McGowan joined the Board of Directors. Duncan McGowan is Head of Corporate Finance at Panmure Gordon, stockbrokers to Wessex Water since 1988. I welcome him.

I thank all our staff for their contribution and dedication to the Company over the last year. As well as their hard work for Wessex Water, many of our staff work in the local community on a voluntary basis helping a wide range of people.

With an increasingly efficient water services business and a growing profit contribution from Wessex Waste Management I am confident we can maintain our progressive dividend policy. I look forward to reporting further progress next year.



*Nicholas Hood*

Nicholas Hood  
Chairman

# Managing Director's Review

This year's results are excellent. By continuing our clear strategies we face the future with a leaner and fitter water services organisation and a growing solid waste business.

Wessex Water Services continued to make good progress during the year. The overriding importance we place on high standards and quality of service is reflected in the compliance levels achieved and in customers' satisfaction with the good value for money represented by the services we provide. Through further efficiency savings we have reduced operational costs to a level below that of two years ago.

Wessex Waste Management produced impressive results, showing the benefits of the continuing programme of expansion and integration. The company is now one of the top four waste management companies in the UK.

## WESSEX WATER SERVICES

We have concentrated on getting the fundamentals right, carrying through further organisational change to improve the efficiency of operations and to empower managers to take decisions at the right level. There is still more to be done. A major exercise is under way to plan for Wessex Water's needs into the next century.

During the year we maintained our high level of compliance with European drinking water standards at 99.7% and with pressure standards at 99.5%. Once again we have operated without any water restrictions. Our water production department, responsible for the system which collects, treats, controls and monitors water supply, became one of the first to receive BS 5750 certification, helping to assure quality standards for the future.

Wessex Water operates 351 sewage treatment works and 1,178 sewage pumping stations with a network of 14,700 kilometres of public sewers. Compliance with demanding discharge standards at our sewage treatment works remained high at 98% and, once again, our compliance with regulations for treating and disposing of sewage sludge was 100%.

## INVESTING FOR THE FUTURE

We aim to continue to comply with statutory requirements and to maintain an infrastructure that can cope with the growing demands placed upon it. This means significant investment to meet ever higher standards and to make best use of new or improved technologies which provide more efficient and environmentally friendly ways of achieving our objectives. During 1993/94 we invested over £100 million in our capital programme - £145 per property receiving water and sewerage services. Over two thirds of company profits are directly reinvested in the business.

Last year we spent an average of £69 per property to help maintain our present high water supply standards.

- Major works are under way, or have already been completed, at several water treatment works, including those at Durleigh, Porlock and Fulwood in Somerset and Sutton Poyntz in Dorset. These projects will help us to maintain the high standards set by the European Drinking Water Directive.
- Significant investment continued to improve or rebuild local storage reservoirs.
- 73 kilometres of mains were relined or replaced to improve water quality. This work, begun in 1990, is showing results. Eight of our water supply zones failed iron standards in 1992, while in 1993 just one failed. We are working to reduce that figure to zero.

We take similar care in planning our future requirements for the treatment and safe disposal of sewage. During the year we invested an average of £76 per property in schemes to improve sewerage and sewage treatment.

- At Poole, construction continues on one of the most advanced sewage treatment plants in the UK which will enable us to deal with more waste and meet higher standards.
- Major improvements and extensions came into operation at sewage treatment plants serving Bournemouth and Ferndown.
- In Bristol, a major sewer tunnel was completed. This project, which has taken four and a half years of construction, was one of the largest tunnelling projects in the UK. Over 10,000 people took the opportunity during three days in January to walk through part of the sewer and see how their money had been spent.
- The second phase of the Frome Valley relief sewer, with capacity to cope with the expected expansion in North Bristol, was commissioned in February.

Wessex Water's in-house engineering services gained BS 5750 certification in March - one of the first of the water companies to do so. We make use of their expertise in the cost effective implementation of our capital schemes so reducing the need to call on external consultants. Against a background of aggressive pricing, the majority of our contracts were completed for less than the original estimate.

#### SERVING OUR CUSTOMERS

We are conscious that all expenditure, whether on capital investment or on operating costs, has a direct impact on our customers' pockets, so we were pleased that a recent survey showed 80% of our customers believe our services are good value for money.

Under-investment prior to privatisation and the need to meet tighter European and UK standards have meant that our charges to customers have had to rise by more than the rate of inflation. We recognise the difficulties these price increases cause some customers and offer a range of flexible payment options. Customers can contact specially trained staff if

they are having payment problems. In the three years since this service was established 80,000 special payment arrangements have been set up. We work closely with Citizens Advice Bureaux and local social services departments to help those facing genuine difficulties. We also introduced this year a "pay as you go" system to help those who face the greatest difficulty in paying. Most of the customers who took part in a trial of the system decided to retain it.

We tailor services to customers with special needs, ranging from larger print or braille bills for the visually impaired to a text line telephone service for the hard of hearing and a password system to guard against bogus visiting water officials. A register is maintained to ensure we take account of the urgent water needs of vulnerable people, such as dialysis patients.

This range of help is extended to those with real needs. But for those who simply refuse to pay their bills, we believe that, having tried all other methods of debt recovery, disconnection should remain the final sanction.

### THE REGULATORY REVIEW

In March 1994 we submitted Wessex Water Services' strategic business plan for the coming 10 years to the Director General of Water Services. It was based on a number of fundamental principles:

- protecting public health and the environment through high quality water supply and waste water treatment
- responding to our customers' views
- meeting our legal obligations and
- delivering value for money whilst producing an acceptable level of financial return.

In the run up to the regulatory review, we consulted our customers extensively about what they wanted from us. We set up twelve panels for in depth discussions and undertook detailed research with 1,000 customers. A plan was drawn up on the strength of this consultation and delivered to all our customers for comment. More than 50,000 people replied to tell us what they wanted. They said they would be willing to pay more to deal with low river flow problems and to improve water taste and colour. On future charging policy, they made clear they were opposed to the compulsory metering of existing properties. We have taken full account of these views in our strategic business plan.

We are pleased that the outcome of the review fairly balanced the interests of customers and shareholders.

### WESSEX WASTE MANAGEMENT

Our joint venture with Waste Management International plc, Wessex Waste Management, has again produced impressive results. Organic growth and the acquisition of a further

eight businesses in the course of the year now make Wessex Waste Management's operating subsidiary, UK Waste, one of the largest waste management companies in the country. The company has almost 1,500 employees and its contribution to Wessex profits almost doubled during the year.

UK Waste is committed to being the country's leading waste and environmental services company, able to offer integrated approaches to managing customers' waste to the highest technical and environmental standards. UK Waste can draw upon the expertise and resources of our partner, part of the largest waste and environmental services group in the world.

Waste Management International's unique system for restoring contaminated land was introduced to the UK for the first time with the successful remediation of a site in central Scotland. The change of the industrial collection fleet from rear-end loaders to the more efficient front-end loader system continues to improve productivity. More industrial customers took up waste audit and minimisation services - a clear pointer to the future development of the company.

The acquisition towards the end of 1993 of SCS Services in Kent brought us a range of local authority environmental services which are likely to provide another growing area of business.

New landfill sites were opened during the year at Warnham in Sussex, Roxby on Humberside and Escrick in North Yorkshire. The fourth phase of the Risley site in Cheshire also came into operation. A major new liquid treatment plant was constructed at Kilsyth in Scotland, giving UK Waste the ability to handle the large quantities of liquid waste currently tankered from Scotland to England. During the year we were disappointed that the joint waste disposal company with Avon County Council was unable to begin operations because of third party legal action against the Council.

Integrating the former Wimpey Waste business with Waste Management Ltd and incorporating smaller acquisitions has taken a great deal of management time and effort. Integration is now complete and a new regional structure has been introduced. This has already proved to be very successful and provides an excellent platform for further growth and development of the business. The management of UK Waste are to be congratulated for achieving such excellent results against a background of difficult trading conditions in the rest of the industry.

The waste management industry is undergoing change. Legislation will gradually move the balance towards recycling and waste-to-energy facilities. But, in the UK, properly engineered landfill will remain key to waste disposal well in to the next century. Wessex Waste Management is well placed to profit from the changing market.



## CARING FOR THE ENVIRONMENT

### WESSEX WATER SERVICES

We are committed to protecting, conserving and enhancing the environment and regularly monitor our performance against the objectives set in our Environmental Charter. Our business culture ensures the environment remains a key concern. The Board determines and reviews strategy, while policy development is assessed by an independent group of environmental advisers.

We make best use of processes already in place and harness new technologies where they are environmentally beneficial. In its first year of operation, the biodrier at Avonmouth, which treats sludge in an environmentally friendly and imaginative way, has produced over 8,000 tonnes of "biogran". This granulate is being successfully marketed for use on farmland, in land reclamation and on leisure amenities, such as golf courses.

In December 1993 we began a trial of wind powered aerators and mixers for the treatment of waste water, the first use of such a process in Europe. Initial results are highly encouraging, with the treatment of waste being achieved with no external energy requirement and with low maintenance costs.

We protect the natural habitats at our sites, many of which attract a wide range of wildlife. We have contributed to the work of the Somerset Trust for Nature Conservation, helping to establish a 350 acre wetland wildlife reserve at Westhay near Glastonbury. A number of our sites are also open to the public as community amenities.

### UK WASTE

We welcome the recent introduction of new controls over waste disposal licences. We believe this is an important step in raising standards within the whole waste industry. As a company that already operates to very high standards we are encouraged to see the growing importance placed on environmental protection. Alongside tighter regulation there is now a need for more effective and consistent policing of environmental and quality regulations. The proposed formation of a new environment agency should provide a more coordinated focus and we hope Government will move quickly to establish the new agency.

As part of a review of UK Waste's environmental policy all landfill site restoration plans were re-examined to provide more diverse and natural habitats for wildlife. This forms part of a formal environmental policy introduced into UK Waste in preparation for seeking BS 7750 certification when this begins in 1994/95.

In Cheshire, the Moore Nature Reserve was further developed by UK Waste and a full time warden appointed. Our extensive tree planting programme continued including major planting at the closed Ravenhead landfill site to form part of the new Mersey Forest.

## INVOLVEMENT IN THE COMMUNITY

We have always encouraged corporate and individual involvement in the community we serve. This year we reviewed our community involvement programme to ensure greater focus and better management of our effort.

We renewed our commitment to play our part in improving the social, economic and environmental health of communities in the areas in which we work. As part of our close association with Business in the Community and in cooperation with ACTION, a charity that helps to match need with expertise, we began staff secondments to voluntary organisations to help solve a range of community problems and to contribute to the personal development of our staff.

We are strong supporters of the water industry's own charity, WaterAid. Staff and customers in the Wessex region raised £220,000 towards the provision of clean water and proper sanitation in developing countries. WaterAid has an impressive record in helping communities to help themselves through simple technology and basic health standards.

## WORKING AS A TEAM

Wessex is a team, and our success is the result of individual contributions to that team. The last year has not been easy as, in our search for greater efficiency, we have had to reduce the number of employees. This drive for efficiency must continue. The challenge is to ensure we involve everyone in the changes we make.

We will continue to provide opportunities for their professional and personal development so that we can maintain a high quality, flexible workforce well able to meet the future needs of the Wessex business. During the last year we have particularly focused on team building, management development and the implementation of National Vocational Qualifications for operational staff.

Within UK Waste formal staff liaison arrangements were introduced to provide better two way communication throughout the company. This was part of a major drive during the year to improve communication. Another new initiative was the introduction of an award scheme to recognise the effort and dedication of individual employees.

Our employees are undoubtedly our most important asset. The Company's performance over the last year is a tribute to their dedication and effort. Our confidence in the future is a reflection of our confidence in them. I look forward to continuing success for the Wessex team in the year ahead.



Colin Skellett  
Managing Director

# Directors and Advisers

## EXECUTIVE DIRECTORS

WN Hood CBE, CBIM (58) *Chairman*

Appointed Chairman September 1989; Chairman of Wessex Water Authority 1987-89. Director, Water Services Association. Non-executive director of Provident Life Association Ltd, Commercial Union Environment Trust plc and APV plc. Chairman of the WaterAid Council, a member of the Water Training Council and Vice President of the International Water Supply Association. Deputy Chairman of Business in the Community. Member of The Prince's Council.

CF Skellett MSc, CChem, FRSC, FIWEM (49) *Managing Director*

Appointed Managing Director September 1989. Joined Wessex Water Authority in 1974, having worked within the water industry since 1961. Member of the executive committee of the Water Services Association. UK representative on the board of management of EUREAU, the European water supply association, and EWWG, the European waste water group.

NAW Wheatley FCA (52) *Finance Director*

Appointed Finance Director September 1989 having been Finance Director of Wessex Water Authority since March 1989. He was previously Finance Director of Henlys Group, Paterson Jenks Plc and Denbyware Ltd.

## NON-EXECUTIVE DIRECTORS

DNA McLure MA, FCIM (68) *Deputy Chairman\**

Appointed Deputy Chairman September 1989; member of Wessex Water Authority 1986-89. Director of Burn Stewart Distillers plc. Former directorships include Beecham Group, Arthur Bell Distillers, United Distillers and London Buses. Council member and past President of the Incorporated Society of British Advertisers.

Dr AK Barbour OBE, BSc, PhD, CChem, FRSC, FIMM (68)\*

Appointed September 1989; member of Wessex Water Authority 1980-89. Formerly Chief Environmental Scientist for RTZ Corporation. Visiting Professor of Chemistry (Environmental) at the University of Manchester Institute of Science and Technology. He will retire from the Board on 9 September 1994.

EG Falkman BA, MA, JD (49)

Appointed February 1991. Chief Executive of Waste Management International plc. He has held various positions with WMX Technologies, Inc. since 1977. Chairman, Environment Commission of the International Chamber of Commerce. Director and member of the Steering Committee of the World Industry Council for the Environment.

Sir Terry Heiser GCB (62)

Appointed January 1993. Former Permanent Secretary at the Department of the Environment. Non-executive director of Abbey National plc, J Sainsbury plc, McDonnell

Douglas Information Systems Ltd, Smith New Court plc and Costain Group PLC. Member of the Executive Committee of the National Trust. Chairman of the General Advisory Council of the BBC.

RD Kent MA, MBA (46)\*

Appointed September 1989; member of Wessex Water Authority 1988-89. Managing Director of Close Brothers Group plc; Chairman of Close Brothers Ltd; non-executive director of English and Scottish Investors plc.

Lord McGowan (56)

Appointed 29 July 1994. Director and Head of Corporate Finance, Panmure Gordon & Co Ltd, stockbrokers, for whom he has worked since 1968 and a director of NationsBank Europe Ltd.

AR Thornhill QC, BA (50)\*

Appointed September 1989; member of Wessex Water Authority 1988-89. Practising barrister at the Revenue Bar since 1969, and QC since 1985, specialising in taxation. He will retire from the Board on 9 September 1994.

*\* Member of the Remuneration, ~~Assets~~ and Nomination Committees*

#### ADVISERS

AUDITORS

Coopers & Lybrand

LEGAL ADVISER

Linklaters & Paines

BANKER

Midland Bank plc

FINANCIAL ADVISER

SG Warburg & Co Ltd

STOCKBROKER

Panmure Gordon & Co Ltd

REGISTRAR

National Westminster Bank Plc

# Directors' Report

The directors have pleasure in submitting their annual report to shareholders together with the audited accounts for the year to 31 March 1994.

## PRINCIPAL ACTIVITIES

The main activities of the Group are the supply of clean water and the treatment and disposal of waste water. The Company has an investment in waste disposal through its associate company Wessex Waste Management Ltd.

A review of progress and the activities of the Group during the year and for the future is given in the Managing Director's Review (pages 4 to 9). The names and activities of the principal operating subsidiary companies and associated undertakings are given on page 36.

## PROFIT AND DIVIDEND

Group profit for the year after taxation amounted to £93.5m. The directors recommend a final dividend of 15.5p per ordinary share to be paid on 3 October 1994 to shareholders on the register at the close of business on 18 August 1994. Together with the interim dividend of 8.0p per share, this will make a total of 23.5p per share for the year. The profit retained in the business, after deduction of dividends, amounts to £62.9m and has been transferred to reserves.

## SUBSTANTIAL SHAREHOLDERS

UK Waste Management Holdings Ltd, a subsidiary of Waste Management International plc, holds 30.3 million shares of the Company, amounting to 19.8% of total issued share capital.

The Company has been notified of a holding of 7.2% of the issued £1 ordinary shares by Prudential Corporation.

## DIRECTORS

The names and details of the directors are set out on pages 10 and 11.

R Huntington retired on 10 February 1994.

At the Annual General Meeting on 9 September 1994 Dr A K Barbour and A R Thornhill will retire by rotation in accordance with the Articles of Association of the Company and will not be seeking re-election.

Lord McGowan will be joining the Board as a non-executive director with effect from 29 July 1994 and will offer himself for appointment by shareholders at the Annual General Meeting.

## CORPORATE GOVERNANCE

The Company has followed the Cadbury Committee Code of Best Practice where guidelines have been published. The auditors have reviewed the Company's compliance with the Cadbury Code in accordance with the requirements of the Listing Rules of the London Stock Exchange.

## DIRECTORS' INTERESTS

The beneficial interests of the directors, together with those of their families, in the shares of the Company were:

	£1 Ordinary Shares		Share Options	
	31 March 1994	1 April 1993	31 March 1994	1 April 1993
WN Hood	37,162	56,603	117,231	117,231
CF Skellett	37,910	56,466	92,799	92,799
NAW Wheatley	31,060	46,250	67,269	67,269
DNA McLure	12,500	12,500	-	-
Dr AK Barbour	990	956	-	-
EG Falkman	-	-	-	-
Sir Terry Heiser	1,000	1,000	-	-
RD Kent	7,722	7,722	-	-
AR Thornhill	2,566	2,566	-	-

Options to purchase fully paid ordinary shares were granted under the Wessex Water Sharesave Scheme and the Wessex Water Executive Share Option Scheme. 45% of employees have options under the savings-related Sharesave Scheme and 46 directors and senior managers have options under the Executive Scheme. Further details are given in note 21(f) to the accounts.

Executive directors are also deemed to be interested in ordinary shares held in trust under the Wessex Water Profit Sharing Scheme as follows: WN Hood 642; CF Skellett 659; NAW Wheatley 639.

WN Hood and CF Skellett are directors of Wessex Water Trustee Company Limited which on 31 March 1994 held 669,586 shares on behalf of employees of the Group. No directors had any other interest in the shares of the Company or any other group company.

On 6 April 1994 W N Hood, C F Skellett and N A W Wheatley each acquired 7 shares and Dr A K Barbour acquired 11 shares under the interim scrip dividend arrangements. There were no other changes in directors' overall shareholdings to the date of this report.

## AUDITORS

A resolution to re-appoint Coopers & Lybrand as the Company's auditors will be proposed at the Annual General Meeting.

## EMPLOYMENT

Wessex Water 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.

## Directors' Report *continued*

It is the policy throughout the Group to ensure that health and safety standards are maintained at a high level. Regular health and safety meetings are held. The accident rate continues to be one of the lowest in the water industry.

### CHARITABLE DONATIONS

During the year Wessex Water donated £60,000 to UK charities. No contributions were made to political organisations.

### ENVIRONMENTAL POLICY

Wessex Water 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 Charter and a separate environmental report has been prepared indicating the progress made in this area during the year. Further details are included on page 8 of the Managing Director's Review.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00 am on Friday 9 September 1994 at the Assembly Rooms, Bennett Street, Bath. The resolutions, together with explanatory notes on the special business, are given on pages 38 to 40.

### OTHER INFORMATION

On 6 April 1994 181,556 shares were allotted following the Company's interim scrip dividend offer of 28 January 1994.

Details of changes in tangible fixed assets during the year are given in note 12 to the accounts.

During the financial year, insurance was maintained covering directors and officers against liabilities relating to the performance of their duties.

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

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

By Order of the Board  
AF Crofts  
Company Secretary  
21 June 1994



## Directors' Responsibilities

The directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the results for that year.

In preparing financial statements the directors are required to select suitable accounting policies and apply them consistently, to make judgements and estimates that are reasonable and prudent and to state whether applicable accounting standards have been followed.

The financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which comply with the Companies Act 1985 and which disclose, with reasonable accuracy at any time, the financial position of the Group. The directors are also responsible for safeguarding the assets of the Group and for taking reasonable steps to ensure the prevention or detection of fraud or other irregularities.

## Auditors' Report

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

We have audited the financial statements on pages 16 to 36.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

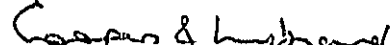
### BASIS OF OPINION

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 Company and Group at 31 March 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Coopers & Lybrand

Chartered Accountants and Registered Auditors

Bristol, 21 June 1994



# Consolidated Profit and Loss Account

for the year to 31 March 1994

	Note	1994 £m	1993 £m
Turnover	1	217.2	205.6
Operating profit	2	92.2	81.0
Net interest receivable	3	2.0	0.5
Profit on ordinary activities before taxation and associates		94.2	81.5
Share of results of associated undertakings	4	9.1	4.5
Profit on ordinary activities before taxation		103.3	86.0
Taxation on profit on ordinary activities	5	9.8	9.1
Profit attributable to shareholders		93.5	76.9
Dividends	6	30.6	25.9
Profit retained	22	62.9	51.0
Earnings per ordinary share	7	73.5p	70.9p
Fully diluted earnings per ordinary share	8	60.4p	60.1p

The Group's turnover and operating profit was generated from continuing activities.

The Group has no recognised gains or losses other than the profits shown above, and therefore no separate statement of total recognised gains or losses has been presented.

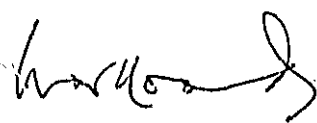
There is no difference between the results as reported above and their historical cost equivalents.

The notes on pages 26 to 36 form part of these accounts.  
The movements on reserves are shown in note 22 on page 32.

# Consolidated Balance Sheet

at 31 March 1994

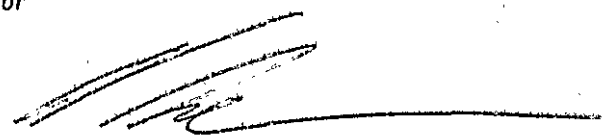
	Note	1994 £m	1994 £m	1993 £m	1993 £m
<b>Fixed assets</b>					
Tangible assets	12	881.5		809.6	
Investments	13	32.9	914.4	22.9	832.5
<hr/>					
<b>Current assets</b>					
Stock and work in progress	14	2.9		2.4	
Debtors	15	40.1		43.4	
Listed investments	13	0.7		0.7	
Short term cash investments		194.3		267.9	
		238.0		314.4	
<hr/>					
Creditors - amounts due within one year	16	117.4		101.5	
<hr/>					
Net current assets			120.6		212.9
<hr/>					
Total assets less current liabilities			1035.0		1045.4
Creditors - amounts due after more than one year	17		150.6		219.6
Provisions for liabilities and charges	18		7.0		8.3
Deferred income	19		17.3		12.4
<hr/>					
			860.1		805.1
<hr/>					
<b>Shareholders funds</b>					
Called up share capital	21		152.6		151.7
Share premium account	21		166.7		163.1
Profit and loss account	22		540.8		490.3
<hr/>					
			860.1		805.1



These accounts were approved by the board of directors on 21 June 1994

Nicholas Hood  
Chairman

Nicholas Wheatley  
Director

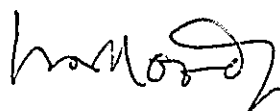


The notes on pages 20 to 36 form part of these accounts.

# Company Balance Sheet

at 31 March 1994

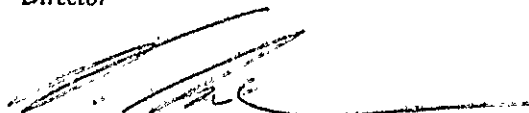
	Note	1994 £m	1994 £m	1993 £m	1993 £m
<b>Fixed assets</b>					
Investments	13		225.1		208.3
<hr/>					
<b>Current assets</b>					
Debtors	15	43.0		50.2	
Listed investments	13	0.7		0.7	
Short term cash investments		311.1		321.3	
			354.8		372.2
<hr/>					
Creditors - amounts due within one year	16	42.7		70.9	
<hr/>					
Net current assets			312.1		301.3
<hr/>					
Total assets less current liabilities			537.2		509.6
Creditors - amounts due after more than one year	17		0.8		34.2
			536.4		475.4
<hr/>					
<b>Shareholders funds</b>					
Called up share capital	21		152.6		151.7
Share premium account	21		166.7		163.1
Profit and loss account	22		217.1		160.6
	23		536.4		475.4



These accounts were approved by the board of directors on 21 June 1994

Nicholas Hood  
Chairman

Nicholas Wheatley  
Director



The notes on pages 20 to 36 form part of these accounts.

# Consolidated Cash Flow Statement

for the year to 31 March 1994

	Note	1994 £m	1994 £m	1993 £m	1993 £m
Net cash inflow from operating activities	24		116.2		100.7
<b>Returns on investments and servicing of finance</b>					
Interest received		19.8		21.4	
Interest paid		(7.8)		(11.6)	
Dividends paid		(22.3)		(18.6)	
Interest element of finance lease rental payments		(6.3)		(8.5)	
	25		(16.6)		(17.3)
<b>Taxation</b>					
Advance corporation tax	26		(6.7)		(6.3)
<b>Investing activities</b>					
Purchase of tangible fixed assets		(97.3)		(135.5)	
Sale of tangible fixed assets		0.8		0.6	
Connection charges, grants and deferred income		13.5		11.9	
Investments		(20.9)		(64.5)	
	27		(103.9)		(187.5)
Net cash outflow before financing			(11.0)		(110.4)
<b>Financing</b>					
Issue of ordinary share capital		0.3		147.3	
(Decrease)/increase in finance leases		(4.0)		11.9	
New long-term loans		7.6		16.2	
Long-term loans repaid		(68.0)		-	
	28		(64.1)		175.4
(Decrease)/increase in cash and cash equivalents	29		(75.1)		65.0

Details supporting the consolidated cash flow statement are set out in notes 24 to 29.

# Notes to the Accounts

for the year to 31 March 1994

## ACCOUNTING POLICIES

### a Basis of preparation

The accounts have been prepared in accordance with the historical cost convention and with applicable accounting standards in the United Kingdom and, except for the treatment of certain capital contributions, with the provisions of the Companies Act 1985. See note g below.

### b Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries up to 31 March 1994. As permitted by the Companies Act 1985 a profit and loss account for Wessex Water Plc is not presented.

### c Associated undertakings

The accounts incorporate the Group's share of the results of associated undertakings, where material. The consolidated profit and loss account incorporates the Group's share of profits less losses and the Group's share of net assets is included in the consolidated balance sheet.

The accounting policy used by the Wessex Waste Management group in respect of acquisitions by that group is as follows: for consolidation purposes the fair value of total purchase consideration is allocated between identifiable assets and liabilities acquired on the basis of their fair value to the Group at the date of acquisition. Any difference arising, representing goodwill, is eliminated against reserves. In determining the fair value of assets and liabilities acquired, provisions are made in respect of any business reorganisation costs to be incurred and any trading losses anticipated during the reorganisation period, together with provision for environmental liabilities and remediation costs.

### d Turnover

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided to external 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 and sea outfalls. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting connection charges and grants. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No 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:

Specialised operational properties and structures	15 - 80 years
Non-specialised operational properties	60 years
Plant machinery and vehicles	3 - 30 years
Other assets	4 - 15 years

### f Leased assets

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

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

**g Grants and contributions**

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

Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost. 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 and the grants and contributions would not be recognised in the profit and loss account. The effect on the value of fixed assets is disclosed in note 12.

**h Investments**

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

**i Stocks and work in progress**

Stocks 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.

**j 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.

**k Interest rate instruments**

Interest rate instruments, which are used to provide a hedge against interest rate movements attaching to the Group's external financing, are valued on a basis consistent with the underlying transactions. Profits are accounted for on an accruals basis over the life of the hedge. Any losses arising are provided for in the financial period in which they occur.

**l Research and development**

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

**m Business development expenditure**

Expenditure incurred by the Group attributable to business development projects is deferred in circumstances where, in the opinion of the directors, there exists a reasonable expectation that a project will lead to the recovery of attributable expenditure through future commercial success. Deferred business development expenditure is amortised over the period during which the related future income is expected to arise. Unamortised expenditure is reviewed on a regular basis and its recoverability reassessed. Where doubt exists as to the continued recoverability of such expenditure it is written off.

**n Taxation**

The charge for taxation is based on the profit for the period adjusted in accordance with tax legislation. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

**o Pensions**

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

# Notes to the Accounts *continued*

for the year to 31 March 1994

## 1 Turnover

	Group	
	1994 £m	1993 £m
Analysis by class of business		
Water supply	73.8	71.6
Waste water	143.4	134.0
	217.2	205.6

## 2 Operating profit

### a Analysis by class of business

Water supply	22.1	19.2
Waste water	70.1	61.8
	92.2	81.0

Operating profit by class of business is determined after allocating central costs on the basis of estimated time spent on each class of business.

### b Operating profit is shown after charging the following costs:

#### OPERATIONAL COSTS

Manpower costs (note 10)	30.9	31.9
Materials and consumables	24.2	24.2
Other operational costs	36.5	37.4
	91.6	93.5

#### DEPRECIATION

Depreciation	23.0	20.5
Amortisation of grants and contributions	(0.5)	(0.3)
Loss on disposals of fixed assets	1.0	0.9
	23.5	21.1

#### INFRASTRUCTURE MAINTENANCE EXPENDITURE (note 16)

	9.9	10.0
Total costs	125.0	124.6

### c Operational costs include:

Operating leases for plant and machinery	0.2	0.2
Other operating leases	1.1	0.9
Research and development	0.8	0.9
Directors' remuneration (note 11)	0.8	0.7
Audit fees, company and group (note 33)	0.1	0.1

3 Net interest receivable

Group	
1994	1993
£m	£m

INTEREST PAYABLE

Bank loans, overdrafts and other loans:

Repayable within five years otherwise than by instalments

5.6	0.3
-----	-----

Not wholly repayable within five years

2.9	10.9
-----	------

Finance leases

6.3	8.5
-----	-----

Other

0.3	-
-----	---

Total interest payable

15.1	19.7
------	------

INTEREST RECEIVABLE

17.1	20.2
------	------

Net interest receivable

2.0	0.5
-----	-----

4 Share of results of associated undertakings

The financial statements incorporate trading periods for the 12 months to 31 March 1994 for Wessex Waste Management Ltd and Wimpey Wessex Water Ltd. In each case the accounting reference date is 31 December 1993.

Wessex Waste Management Ltd

Turnover

88.6	48.3
------	------

Operating costs

70.5	38.8
------	------

Operating profit

18.1	9.5
------	-----

Interest payable

-	(0.1)
---	-------

Profit before tax

18.1	9.4
------	-----

Wessex Water Group share - Wessex Waste Management Ltd

9.1	4.7
-----	-----

- Wimpey Wessex Water Ltd

-	(0.2)
---	-------

9.1	4.5
-----	-----

5 Taxation

a Taxation on profit on ordinary activities

UK corporation tax at 33%

1.0	-
-----	---

Advance corporation tax

5.4	7.1
-----	-----

Share of tax charge of associated undertaking

3.4	1.6
-----	-----

Adjustment in respect of a previous year

-	0.4
---	-----

9.8	9.1
-----	-----

The advance corporation tax charge is in respect of dividends paid and proposed for the year.



# Notes to the Accounts *continued*

for the year to 31 March 1994

## 5 Taxation *continued*

### b Deferred taxation

The full potential amount of deferred taxation calculated at 33% on all timing differences is as follows:

	Group	
	1994	1993
	£m	£m
Accelerated capital allowances	125.2	97.9
Other timing differences	(6.5)	(7.5)
Advance corporation tax recoverable	(28.6)	(23.2)
Trading losses	-	(7.0)
	<u>90.1</u>	<u>60.2</u>

No deferred tax has been provided as projections indicate that the potential liability will not crystallise within the foreseeable future.

## 6 Dividends

### ON ORDINARY SHARES

Interim dividend of 8.0p per share (1993 - 7.3p)	10.0	7.6
Proposed final dividend of 15.5p per share (1993 - 14.2p)	19.5	17.7
	<u>29.5</u>	<u>25.3</u>

### ON B ORDINARY SHARES

Total dividend of 2.595p per share	0.5	0.5
------------------------------------	-----	-----

### ON C ORDINARY SHARES

Dividend of 4.22p per share (1993 from the date of issue £32,255)	0.3	-
---	-----	---

### ON D ORDINARY SHARES

Interim dividend of 8.0p per share (1993 - Nil)	0.1	-
Proposed final dividend of 15.5p per share (1993 - 14.2p)	0.2	0.1
	<u>0.3</u>	<u>0.1</u>
	<u>30.6</u>	<u>25.9</u>

## 7 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit after taxation, less the dividend payable on B and C ordinary shares, using a weighted average number of ordinary shares in issue of 126,037,588.

## 8 Fully diluted earnings per ordinary share

The calculation of fully diluted earnings per ordinary share is based on the profit after taxation plus notional interest on outstanding share options, as if they had been exercised on 1 April 1993. The weighted average number of ordinary shares for this purpose is 161,458,684 which assumes the exercise of all outstanding options and the full conversion of B, C and D ordinary shares.

## 9 Company profit and loss account

As permitted by Section 230 of the Companies Act 1985, a profit and loss account of the parent company is not presented. The amount of the consolidated profit attributable to shareholders dealt with in the accounts of the parent company is £87.1m (1993 - £72.4m) after including dividends from subsidiary companies of £77.0m (1993 - £65.0m).

## 10 Employee information

	Group	
	1994 £m	1993 £m
a Total employment costs of the Group were:		
Wages and salaries	37.2	37.9
Social security costs	3.0	2.9
Other pension costs	4.7	4.1
	<hr/> 44.9	<hr/> 44.9
b Total employment costs are charged as follows:		
Capital schemes	12.6	12.2
Infrastructure maintenance expenditure	1.4	0.8
Manpower costs	30.9	31.9
	<hr/> 44.9	<hr/> 44.9
	<hr/> 1994	<hr/> 1993
c The weekly average number of employees during the financial year was:	<hr/> 1852	<hr/> 1871

# Notes to the Accounts *continued*

for the year to 31 March 1994

## 11 Directors' remuneration

The remuneration of executive directors is determined by the Remuneration Committee, comprising 4 non-executive directors. Bonuses for executive directors are payable on the achievement of the Group's profit target and an assessment of individual performance.

	Group	
	1994 £000	1993 £000
<b>a Total remuneration:</b>		
Fees as directors	87	74
Salary for management services	429	431
Bonuses	87	60
	603	565
Taxable benefits	34	32
Pension contributions	145	138
<b>b Chairman and highest paid director:</b>		
Salary	138	135
Bonus	28	19
	166	154
Taxable benefits	11	10
Pension contributions	47	44
<b>c Other directors within the following ranges, excluding pension contributions:</b>		
£	1994	1993
0 - 5000	1	2
10001 - 15000	-	2
15001 - 20000	3	-
20001 - 25000	1	2
25001 - 30000	1	-
100001 - 105000	1	-
105001 - 110000	-	1
110001 - 115000	-	1
120001 - 125000	1	-
125001 - 130000	-	1
135001 - 140000	1	-

## 12 Tangible fixed assets

	Specialised operational properties & structures	Non-specialised operational properties	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Group total
	£m	£m	£m	£m	£m	£m	£m
<b>COST</b>							
At 1 April 1993	232.2	12.3	337.9	238.9	30.9	105.6	957.8
Additions	17.8	2.1	16.8	14.8	2.3	49.9	103.7
Transfers on commissioning	21.9	2.0	20.8	21.2	-	(65.9)	-
Disposals	(0.7)	-	-	(7.2)	(1.5)	(0.1)	(9.5)
Government grants & contributions	-	-	(4.2)	-	-	(2.8)	(7.0)
At 31 March 1994	<u>271.2</u>	<u>16.4</u>	<u>371.3</u>	<u>267.7</u>	<u>31.7</u>	<u>86.7</u>	<u>1045.0</u>
<b>DEPRECIATION</b>							
At 1 April 1993	37.7	2.0	-	89.2	19.3	-	148.2
Provision for year	4.1	0.2	-	15.9	2.8	-	23.0
Disposals	(0.6)	-	-	(6.2)	(0.9)	-	(7.7)
At 31 March 1994	<u>41.2</u>	<u>2.2</u>	<u>-</u>	<u>98.9</u>	<u>21.2</u>	<u>-</u>	<u>163.5</u>
<b>NET BOOK VALUE</b>							
At 31 March 1994	<u>230.0</u>	<u>14.2</u>	<u>371.3</u>	<u>168.8</u>	<u>10.5</u>	<u>86.7</u>	<u>881.5</u>
At 31 March 1993	<u>194.5</u>	<u>10.3</u>	<u>337.9</u>	<u>149.7</u>	<u>11.6</u>	<u>105.6</u>	<u>809.6</u>

Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.

Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and waste water services and land held to protect the quality of water supplies.

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

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

The net book value of assets held under finance leases is £91.3m (1993 - £93.1m).

The depreciation charge for the year on assets held under finance leases is £1.8m (1993 - £1.4m).

The net book value of infrastructure assets, completed and in the course of construction, is stated after the deduction of grants and contributions amounting to £28.2m (1993 - £21.2 m) in order to give a true and fair view.

# Notes to the Accounts *continued*

for the year to 31 March 1994

## 13 Investments

### a Fixed asset investments

Fixed asset investments represent the Company's investment in its principal subsidiary companies and associated undertakings

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
At 1 April	22.9	5.6	208.3	135.6
Additions	16.8	72.7	16.8	72.7
Share of retained profit	5.6	2.7	-	-
Proportion of goodwill written off by associated undertaking	(12.4)	(58.1)	-	-
<b>At 31 March</b>	<b>32.9</b>	<b>22.9</b>	<b>225.1</b>	<b>208.3</b>

The principal subsidiary companies and associated undertakings are listed on page 36.

During the course of the year the Company provided funding to Wessex Waste Management Ltd of £16.8m. £5.4m was provided for the acquisition of additional businesses and £11.4m for working capital.

The Group's share of goodwill written off by Wessex Waste Management Ltd, comprises provisional fair value adjustments arising on acquisitions made in the year and the finalisation of the fair value of acquisitions made in the previous year.

The Group's share of net assets of associated undertakings is £32.9m (1993 - £22.9m).

### b Current asset investments

The market value of listed investments at 31 March 1994 was £2.0m.

## 14 Stock and work in progress

	Group	
	1994 £m	1993 £m
Stores	2.0	1.9
Work in progress	0.9	0.5
	<b>2.9</b>	<b>2.4</b>

## 15 Debtors

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Amounts due within one year				
Trade debtors	21.8	21.8	-	-
Amounts owed by associated undertakings	-	1.7	-	1.7
Amounts owed by subsidiary undertakings	-	-	42.0	46.1
Other debtors	3.2	1.7	-	-
Prepayments and accrued income	15.1	18.2	1.0	2.4
	<b>40.1</b>	<b>43.4</b>	<b>43.0</b>	<b>50.2</b>

## 16 Creditors

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Amounts due within one year				
Bank overdraft repayable on demand	1.5	-	-	-
Finance leases repayable	5.1	4.0	-	-
Trade creditors	1.8	4.2	-	-
Amounts owed to associated undertakings	0.1	0.1	-	-
Amounts owed to subsidiary undertakings	-	-	-	30.0
Proposed dividend	30.2	25.7	30.2	25.7
Other creditors	4.1	6.1	3.4	5.0
Corporation tax	1.0	-	1.0	-
Advance corporation tax	5.9	7.3	5.9	7.3
Other taxation and social security	1.4	1.0	-	-
Accruals and deferred income	66.3	53.1	2.2	2.9
	<u>117.4</u>	<u>101.5</u>	<u>42.7</u>	<u>70.9</u>

Wessex Water Plc has acted as guarantor for certain borrowing facilities made available to Wessex Water Services Ltd. As part of the Group's banking arrangements the Company has entered into a cross undertaking with Wessex Water Services Ltd in relation to its overdraft and related facilities.

## 17 Creditors

Amounts due after more than one year

Loans repayable	- within 1-2 years	-	-	-	30.0
	- within 2-5 years	12.5	1.6	-	-
	- after 5 years	41.3	112.6	-	-
		<u>53.8</u>	<u>114.2</u>	<u>-</u>	<u>30.0</u>
Finance leases repayable	- within 1-2 years	6.4	5.1	-	-
	- within 2-5 years	29.4	23.6	-	-
	- after 5 years	60.0	72.2	-	-
Other		1.0	4.5	0.8	4.2
		<u>150.6</u>	<u>219.6</u>	<u>0.8</u>	<u>34.2</u>

Loans of £53.8m are at, or have been swapped into, floating rates and reinvested until required. The interest rates varied between 5.8% and 4.8% during the course of the year.

## 18 Provisions for liabilities and charges

	Group	
	1994 £m	1993 £m
Infrastructure maintenance provision		
At 1 April	8.3	6.4
Charged to profit and loss account	9.9	10.0
Infrastructure maintenance expenditure	(11.2)	(8.1)
At 31 March	<u>7.0</u>	<u>8.3</u>

**Notes to the Accounts** *continued*  
for the year to 31 March 1994

**19 Deferred income**

	Group	
	1994	1993
	£m	£m
Grants and contributions		
At 1 April	12.4	7.1
Received in year	5.4	5.6
Less amortisation	(0.5)	(0.3)
At 31 March	<u>17.3</u>	<u>12.4</u>

**20 Net assets**

Analysis by class of business

Water supply	236.9	215.1
Waste water	493.7	453.9
	<u>730.6</u>	<u>669.0</u>
Interest bearing operating assets	129.5	136.1
	<u>860.1</u>	<u>805.1</u>

Interest bearing operating assets include cash, loans, taxation, interest and dividends payable.

**21 Called up share capital and share premium account**

			Group and Company	
			1994	1993
			£m	£m
<b>AUTHORISED:</b>				
170,000,000		ordinary shares of £1 each	170.0	170.0
20,000,000	B	ordinary shares of £1 each	20.0	20.0
8,000,000	C	ordinary shares of £1 each	8.0	8.0
1,400,000	D	ordinary shares of £1 each	1.4	1.4
One special rights redeemable preference share of £1			-	-
			<u>199.4</u>	<u>199.4</u>
<b>ALLOTTED AND FULLY PAID:</b>				
125,387,801		ordinary shares of £1 each	125.4	124.5
18,135,064	B	ordinary shares of £1 each	18.1	18.1
7,971,053	C	ordinary shares of £1 each	8.0	8.0
1,060,530	D	ordinary shares of £1 each	1.1	1.1
One special rights redeemable preference share of £1			-	-
			<u>152.6</u>	<u>151.7</u>

21 Called up share capital and share premium account *continued*

- a D ordinary shares will convert into new ordinary shares on 1 January 1995 on a one-for-one basis, B and C ordinary shares will convert into new ordinary shares on 28 February 1998 on a one-for-one basis. Holders of B and C ordinary shares are entitled to a fixed dividend of 0.75% net per annum on the issue price. Holders of D ordinary shares are entitled to the same dividends as holders of ordinary shares. Both the C and D ordinary shares are non voting until 1 January 1995.
- b Options granted to UK Waste Management Holdings Ltd in respect of 6,363,182 ordinary shares may be exercised between 1 January 1995 and 31 December 1999 at prices between £5.43 and £9.04 per share, dependent on the date of the exercise, provided certain performance targets are achieved by Wessex Waste Management Ltd.
- c On 1 April 1993 112,091 ordinary shares were issued at £5.952 per share and on 1 October 1993 558,169 ordinary shares were issued at £5.609 per share. These shares were issued to existing shareholders in lieu of a cash dividend and resulted in a share premium on allotment of £3,127,676.
- d During the year 39,166 ordinary shares were issued at prices between £1.71 and £4.46 per share under the savings related share option scheme, 65,214 at £2.76 per share and 7,158 at £4.19 per share under the executive share option scheme and 97,184 at £7.14 per share under the 1993 profit sharing scheme. These issues resulted in a share premium on allotment of £772,013.
- e The special rights redeemable preference share is redeemable, at par, on 31 December 1994 or at any time prior to that date at the option of the Secretary of State after consulting the Company.
- f The Company had the following share schemes for employees:
- i 669,586 ordinary shares of the Company were held in trust at 31 March 1994 on behalf of employees who were beneficially entitled to the shares under the Wessex Water profit sharing scheme.
  - ii A savings-related share option scheme based on SAYE contracts, under which options were granted in December 1989, August 1991, August 1992 and August 1993, at prices, adjusted for the 1993 rights issue, of £1.71, £2.94, £3.80 and £4.46 per share respectively. At 31 March 1994 the number of options outstanding under this scheme were 2,132,800, exercisable between 10 February 1995 and 28 February 2001.
  - iii An executive share option scheme whereby options outstanding in respect of 991,126 ordinary shares were granted at prices, adjusted for the 1993 rights issue, between £2.76 and £7.36 per share. These options are exercisable between 1 April 1994 and 31 January 2004.

SHARE PREMIUM ACCOUNT

	Group and Company	
	1994	1993
	£m	£m
At 1 April	163.1	44.8
Premium on shares issued	3.9	121.3
Scrip dividend and cost of the 1993 rights issue	(0.3)	(3.0)
At 31 March	166.7	163.1



# Notes to the Accounts *continued*

for the year to 31 March 1994

## 22 Profit and loss account

	Group £m	Company £m
At 1 April 1993	490.3	160.6
Profit retained for the year	62.9	56.5
Proportion of goodwill written off by associated undertaking (note 13)	(12.4)	-
At 31 March 1994	<u>540.8</u>	<u>217.1</u>

Group profit and loss account includes the Group's share of post acquisition reserves of associated undertakings of (£110.9m). These comprise retained profits of £9.1m less accumulated goodwill written off amounting to £120.0m.

## 23 Reconciliation of movements in shareholders funds

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Profit attributable to shareholders	93.5	76.9	87.1	72.4
Dividends	(30.6)	(25.9)	(30.6)	(25.9)
	<u>62.9</u>	<u>51.0</u>	<u>56.5</u>	<u>46.5</u>
Share capital issued	0.9	30.6	0.9	30.6
Share premium created	3.6	118.3	3.6	118.3
Proportion of goodwill written off on acquisition by associated undertaking	(12.4)	(58.1)	-	-
Net addition to shareholders funds	<u>55.0</u>	<u>141.8</u>	<u>61.0</u>	<u>195.4</u>
Opening shareholders funds	805.1	663.3	475.4	280.0
Closing shareholders funds	<u>860.1</u>	<u>805.1</u>	<u>536.4</u>	<u>475.4</u>

## 24 Reconciliation of operating profit to net cash inflow from operating activities

	Group	
	1994 £m	1993 £m
Operating profit	92.2	81.0
Depreciation	23.0	20.5
Release of deferred income	(0.5)	(0.3)
Infrastructure maintenance provision	(1.3)	1.9
Loss on sale of fixed assets	1.0	0.9
(Increase)/decrease in stock and work in progress	(0.5)	0.8
(Increase) in debtors	(1.7)	(2.8)
Increase/(decrease) in creditors	4.0	(1.3)
	<u>116.2</u>	<u>100.7</u>

25 Reconciliation of returns on investments and servicing of finance

	Group			
	1994 £m	1994 £m	1993 £m	1993 £m
Interest receivable	17.1		20.2	
Decrease in debtors	2.7	19.8	1.2	21.4
Interest payable	(8.8)		(11.2)	
Increase/(decrease) in creditors	1.0	(7.8)	(0.4)	(11.6)
Dividends payable	(30.6)		(25.9)	
Scrip issue of shares in lieu of dividend	3.8		1.9	
Increase in creditors	4.5	(22.3)	5.4	(18.6)
Interest paid on finance leases		(6.3)		(8.5)
		(16.6)		(17.3)

26 Reconciliation of taxation

Taxation - advance corporation tax	(6.0)		(7.1)	
(Decrease)/increase in taxation creditor	(0.7)	(6.7)	0.8	(6.3)

27 Reconciliation of investing activities

Capital expenditure	(103.7)		(122.2)	
Increase/(decrease) in capital creditors	6.4	(97.3)	(13.3)	(135.5)
Sale of tangible assets		0.8		0.6
Government grants and contributions	7.0		6.4	
Deferred income	5.4		5.6	
Decrease/(increase) in capital debtors	1.1	13.5	(0.1)	11.9
Investments	(22.4)		(75.4)	
Income from interests in associated undertakings	5.6		2.5	
(Decrease)/increase in creditors	(5.3)		9.6	
Decrease/(increase) in debtors	1.2	(20.9)	(1.2)	(64.5)
		(103.9)		(187.5)

# Notes to the Accounts *continued*

for the year to 31 March 1994

## 28 Analysis of changes in financing

	31/3/94	31/3/93	31/3/92	Group	
				1994	1993
	£m	£m	£m	£m	£m
Called up share capital	152.6	151.7	121.1	0.9	30.6
Share premium account	166.7	163.1	44.8	3.6	118.3
	<u>319.3</u>	<u>314.8</u>	<u>165.9</u>	<u>4.5</u>	<u>148.9</u>
Script issue in lieu of dividend				(3.8)	(1.9)
(Decrease)/increase in creditors				(0.4)	0.3
				<u>0.3</u>	<u>147.3</u>
Finance leases repayable within one year	5.1	4.0	-		
Creditors more than one year	150.6	219.6	191.4		
Less other	(1.0)	(4.5)	(0.4)		
	<u>154.7</u>	<u>219.1</u>	<u>191.0</u>	<u>(64.4)</u>	<u>28.1</u>
				<u>(64.1)</u>	<u>175.4</u>

## 29 Analysis of changes in cash and cash equivalents during the period

Short term cash investments	194.3	267.9	206.2	(73.6)	61.7
Bank overdraft	(1.5)	-	(3.3)	(1.5)	3.3
	<u>192.8</u>	<u>267.9</u>	<u>202.9</u>	<u>(75.1)</u>	<u>65.0</u>

## 30 Commitments

### a Capital expenditure authorised by the directors:

Committed	39.0	38.3
Not yet committed	64.0	80.5
	<u>103.0</u>	<u>118.8</u>

In addition to these commitments, at 31 March 1994, Wessex Water Services Ltd had longer term investment expenditure plans which included expenditure to improve the performance and condition of its assets and to provide for growth in demand.

### b Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:

Between 2 and 5 years	0.3	0.2
Over 5 years	0.2	0.8
	<u>0.5</u>	<u>1.0</u>

### c At 31 March 1994 the Company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £58.8m (1993 - £129.2m).

### 31 Contingent liabilities

There are no material contingent liabilities at 31 March 1994 for which provision has not been made in these accounts.

### 32 Pensions

The two main pension arrangements operated by the Group are the Wessex Water Pension Scheme (WWPS) and the Wessex Water Mirror Image Pension Scheme (WWMIS). Both WWPS and WWMIS are defined benefit schemes covering the majority of the Group's staff; the assets of the schemes are held in separate trustee administered funds. 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 schemes.

The pension cost for the year was £4.7m (1993 - £4.1m).

The balance sheet includes a provision of £0.1m (1993 - prepayment £0.5m) resulting from accumulated contributions paid being lower than the net pension cost.

The latest actuarial valuations of both WWPS and WWMIS were undertaken as at 31 March 1993. The projected unit method was used for the WWPS valuation and the attained age method for the WWMIS valuation. 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 8% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 3.75% per annum in the WWPS and 4% per annum in the WWMIS. The same actuarial methods and assumptions were used for assessing pension costs.

The market value of the WWPS assets as at 31 March 1993 was £54.7m and those for WWMIS £24.3m.

The valuation showed that the actuarial value of the assets at 31 March 1993 represented 102% and 106% of the actuarial value of the accrued benefits for the WWPS and WWMIS respectively.

### 33 Other transactions

- a Total fees paid to Coopers & Lybrand, the Group's auditors, amounted to £0.7m (1993 - £0.3m), consisting of the audit fee £0.1m, project management of a new billing system £0.5m and other professional advice £0.1m.
- b There were no transactions or arrangements with directors and officers which require disclosure under the provisions of the Companies Act 1985.

# Principal Subsidiary Companies and Associated Undertakings

## SUBSIDIARY COMPANIES

Unless otherwise specified, Wessex Water Plc owns 100% of the issued ordinary share capital of each subsidiary company, which is incorporated and operates in the United Kingdom.

Company	Principal activities
Wessex Water Services Ltd	Water supply and waste water services
Wessex Water Commercial Ltd	Development of water supply and waste water services
Wessex Water Trustee Company Ltd	Trustee of employee share schemes
Wessex Water BV (incorporated in The Netherlands)	Financial services

Other subsidiary companies are dormant and not material to the Group.

## ASSOCIATED UNDERTAKINGS

Company	Class of shares held	Proportion of issued shares held	Principal activities
Wessex Waste Management Ltd	139,151,731 B shares of £1 each	50 per cent	Waste management
Wimpey Wessex Water Ltd	50,000 B shares of £1 each	50 per cent	Water and waste water construction
Brunel Insurance Company Ltd	(a) 800,000 funding shares of £1 each (50 pence paid)	80 per cent	Insurance
	(b) 50 management shares of £1 each	50 per cent	

The interests in the associated undertakings, which are incorporated in Great Britain and registered in England, other than Brunel Insurance Company Ltd, which is registered in the States of Guernsey, are held directly by Wessex Water Plc.

## ACCOUNTS OF WESSEX WATER SERVICES LTD

Copies of the accounts of Wessex Water Services Ltd are available from The Company Secretary, Wessex Water Services Ltd, Wessex House, Passage Street, Bristol, BS2 0JQ.

# Five Year Summary

year to 31 March

	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Turnover	217.2	205.6	190.8	166.9	147.8
Operating profit	92.2	81.0	67.5	57.5	40.3
Net interest receivable/(payable)	2.0	0.5	8.5	8.5	(17.5)
Profit on ordinary activities before taxation and associates	94.2	81.5	76.0	66.0	22.8
Share of results of associated companies	9.1	4.5	0.9	-	-
Profit on ordinary activities before taxation	103.3	86.0	76.9	66.0	22.8
Taxation on profit on ordinary activities	9.8	9.1	6.5	6.1	3.5
Profit attributable to shareholders	93.5	76.9	70.4	59.9	19.3
Dividends	30.6	25.9	20.5	18.2	10.4
Profit retained	62.9	51.0	49.9	41.7	8.9
Fixed assets	914.4	832.5	721.4	617.2	556.9
Current assets	238.0	314.4	250.6	199.9	70.9
Current liabilities	117.4	101.5	106.7	79.0	61.9
Net current assets	120.6	212.9	143.9	120.9	9.0
Amounts due after more than one year	150.6	219.6	188.5	64.0	0.9
Provisions	7.0	8.3	6.4	8.2	6.5
Deferred income	17.3	12.4	7.1	3.4	-
	860.1	805.1	663.3	662.5	558.5
Called up share capital	152.6	151.7	121.1	120.9	102.6
Share premium account	166.7	163.1	44.8	44.6	0.6
Profit and loss account	540.8	490.3	497.4	497.0	455.3
	860.1	805.1	663.3	662.5	558.5
Average number of employees	1852	1871	1869	1755	1639

# Notice of Annual General Meeting

The fifth Annual General Meeting of Wessex Water Plc will be held at the Assembly Rooms, Bennett Street, Bath on Friday 9 September 1994 at 11.00 am for the following purposes:

## ORDINARY BUSINESS

- 1 To receive the Directors' Report and the audited accounts for the year to 31 March 1994.
- 2 To declare a final dividend.
- 3 To appoint Lord McGowan as a director.
- 4 To re-appoint Coopers & Lybrand as auditors and authorise the directors to fix the auditors' remuneration.

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following as an ordinary resolution:

- 5 That the directors be authorised to offer holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of the whole or some part (to be determined by the directors) of any dividend declared or paid during the period from the date of passing this resolution to the beginning of the next Annual General Meeting of the Company, in accordance with the provisions of Article 135.

To consider and, if thought fit, pass the following as an ordinary resolution:

- 6 That each ordinary share of £1 nominal value, B share of £1 nominal value, C share of £1 nominal value and D share of £1 nominal value in the capital of the Company, whether issued or unissued, be sub-divided into two shares of 50p each of the same class, such sub-division to take place at the close of business on Friday 28 October 1994.

To consider and, if thought fit, pass the following as a special resolution:

- 7 That the directors be empowered, pursuant to Section 95 of the Companies Act 1985, for a period expiring 15 months following the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 1995, to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985) wholly for cash pursuant to the general authority conferred by a special resolution passed on 3 September 1993 as if Section 89(1) of that Act did not apply to such allotment and the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power provided that such power shall be limited:
  - i. to the allotment of equity securities (other than B shares and C shares) in connection with a rights issue; for the purposes of this Resolution "rights issue" means an offer or offers of equity securities open for acceptance for a period fixed by the directors whereby (1) ordinary shares or other equity securities are offered to (a) holders on the register on a fixed record date of ordinary shares in proportion to their respective holdings of ordinary shares and (b) holders on the register on a fixed record date of B shares and C shares to the extent required by the rights attached to such shares and (c) holders of options issued pursuant to an option instrument dated 26 February 1991 (as amended) in accordance with their rights and (2) D shares are offered to holders on the register on a fixed record date of D shares to the extent required by the rights attached to such shares, but subject in all cases to such exclusions or to other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or stock exchange in any territory whatsoever; and

- ii to the allotment (otherwise than pursuant to sub-paragraph i above) of equity securities (other than B, C and D shares) up to an aggregate nominal value of £6,281,000; and
- iii to the allotment of B shares to holders of B shares up to an aggregate nominal value of £906,753; and
- iv to the allotment of C shares to holders of C shares up to an aggregate nominal value of £28,947; and
- v to the allotment (otherwise than pursuant to sub-paragraph i above) of D shares to the holders of D shares up to an aggregate nominal value of £53,026.

For the purpose of this resolution words and expressions defined in or for the purposes of the Articles of Association and Part IV of the Companies Act 1985 shall bear the same meanings herein.

Registered office:  
Wessex House  
Passage Street  
Bristol BS2 OJQ

By order of the Board  
A F Crofts  
Company Secretary  
29 July 1994

#### NOTES

- 1 A member of the Company is entitled to appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. A proxy form is enclosed with this notice. Instructions for use are shown on the form. Forms of proxy must be deposited at the office of the Registrar, National Westminster Bank Plc, PO Box 39, Caxton House, Redcliffe Way, Bristol BS99 7ZQ, no later than 11.00 am on 7 September 1994.
- 2 Copies of directors' service contracts are available for inspection by shareholders at the registered office during business hours until 8 September 1994 and thereafter at the place of the Annual General Meeting from 10.30 am until the conclusion of the meeting.

#### EXPLANATION OF RESOLUTIONS 5, 6 AND 7

##### RESOLUTION 5: SCRIP DIVIDEND

The Company's Articles of Association allow the directors, if authorised by an ordinary resolution of the Company, to offer shareholders the option to receive fully paid ordinary shares as an alternative to the cash which they would otherwise receive as a dividend. This is commonly referred to as a "scrip dividend" option. The directors believe that this option is of benefit to the Company and of particular value to shareholders who may wish to increase their holdings without incurring dealing costs or stamp duty.

##### RESOLUTION 6: SHARE DIVISION

The Company's ordinary shares have been trading on the London Stock Exchange in recent months in the range of approximately 550p to approximately 750p. To give the shares wider appeal and reduce the weight of the share price whilst preserving the level of reserves of the Company, the Board proposes that each existing ordinary share of £1 be sub-divided into two new ordinary shares of 50p each. The underlying interest of shareholders in the profits, net assets and dividends of the Company will not be affected by the proposed sub-division.



# Notice of Annual General Meeting *continued*

## RESOLUTION 7: AUTHORITY TO ALLOT SHARES FOR CASH

Under Section 89(1) of the Companies Act 1985 if the directors wish to allot any of the unissued ordinary shares for cash they must, unless a special resolution is passed to disapply the Section, offer them first to shareholders in proportion to the number of shares they each hold at that time. An offer of this type is called a "rights issue" and the entitlement to be offered the new securities first is known as a "pre-emption right".

However, the Act makes no distinction between the ordinary shares and other classes of ordinary shares for the purposes of pre-emption rights and would, for example, grant holders of B shares pre-emption rights over ordinary shares and vice versa. Accordingly the Company must disapply Section 89 to distinguish the ordinary shares from the other classes of ordinary shares.

There may also be legal, regulatory or practical reasons why it may not be possible to issue new securities under a rights issue to some shareholders, particularly those resident overseas, or circumstances in which the directors may wish to allot a limited number of the new ordinary shares for cash without making any offer to shareholders (eg on an acquisition).

Resolution 7 therefore disapplies the pre-emption provisions of the Companies Act 1985:

- completely for an offer which is made to all shareholders;
- so as to allow the directors to allot new ordinary shares to anyone, wholly for cash, up to a maximum aggregate nominal value of £6,281,000 equivalent to 5% of the Company's issued ordinary share capital at the date of this notice;
- so as to allow the directors to allot new B, C or D shares, wholly for cash, up to a maximum aggregate nominal value of 5% of the issued shares at the date of this notice limited in the case of the C shares to the remaining authorised but un-issued shares.

If the directors wished, without taking account of pre-emption rights, to allot wholly for cash new ordinary shares in excess of these limits, they would first have to request the shareholders to waive their pre-emption rights in respect of the new securities which exceed it.

## Financial Calendar

Annual general meeting	9 September 1994
Final dividend for 1993-94	3 October 1994
Half year results	December 1994
Interim dividend for 1994-95	6 April 1995
Results to 31 March 1995	June 1995

