

WESSEX WATER Plc

ANNUAL REPORT 1992

*Wessex
Water*

COMPANIES HOUSE
19 AUG 1992
M 67

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FINANCIAL HIGHLIGHTS

For the year to 31 March 1992

	1992	1991
Turnover	£190.8m	£166.9m
Operating profit	£67.5m	£57.5m
Profit before tax	£76.9m	£66.0m
Earnings per share	68.0p	58.4p
Dividend per share – net	19.5p	17.7p
Profit retained for reinvestment	£49.9m	£41.7m

CHAIRMAN'S STATEMENT

I am pleased to report another year of real progress for Wessex Water. Capital investment in the water and waste water business was at an all-time high – up 42% to £138 million. We need to continue to invest at this level to put right many years of underfunding and to provide new processes and works to meet the requirements of European and UK law for the quality of drinking water, effluent discharges and bathing waters. To support this continued investment we need healthy profits. So, for our 2.5 million customers and their environment as well as our shareholders and bankers who help to finance the Company, it is good news that Wessex Water Plc profits before tax have increased by 16% to £77 million.

Reflecting these profits and the board's confidence in the future of your Company the directors recommend a final dividend of 12.9p, making 19.5p for the year to 31 March 1992.

Concern for our environment, price rises above inflation and increased, strong and highly publicised regulation of all utilities have understandably caused more customers to contact your Company. It is a credit to all Wessex Water staff that, throughout this increased activity and with the additional requirements of our regulators, costs have been contained and standards of performance have improved. Much attention has been given to improving customer service further. This is not just so that our customers are better informed but, by giving quick and complete answers to customers' questions, costs are reduced and profits better protected.

Your directors are concerned at the possible impact on customers' bills of ever higher standards of water and waste treatment now proposed by European and UK rules. I welcome evidence that "what the customer can afford" is now part of the debate between our principal regulators the Office of Water Services and the National Rivers Authority. I am pleased that by improved efficiency Wessex Water this year is able to reduce customers' bills a little by not using the full increase in charges allowed under the Government's formula.

As well as the progress we have made with the water business we have also made an excellent start with the solid waste business Wessex Waste Management. With our partners Waste Management International plc we were delighted to be able to acquire Wimpey Waste Management Ltd in October 1991. A feature of

the deal was that we did not take the full and almost full landfill sites with their potential future costs of environmental remediation and little income. Since its acquisition a thorough review of the business has revealed the good quality and enthusiasm of the employees who have joined us. The company now trades as UK Waste. I am confident of its future under its new managing director. The profits for the few months since acquisition are at a slightly higher level than we anticipated at the time of acquisition; this is encouraging in such a severe economic climate. Wessex Waste Management has recently acquired two smaller companies which fit well with the business, and I think we may see more activity during this financial year.

All employees have continued to adapt well during another testing year. I am happy to thank them for their dedication and enthusiasm. With such clear commitment the board is confident of the prospects for your Company. Wessex Water will continue to provide a first-class service to all its customers while protecting its environment and growing the business in other profitable areas. The future looks good for Wessex Water customers, shareholders and employees.

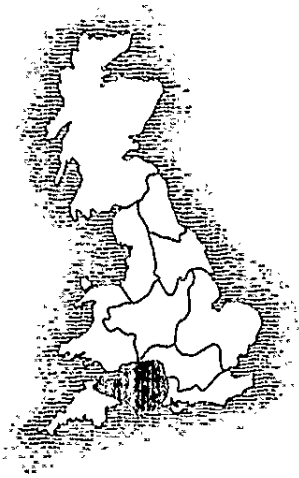
Nicholas Good




Chairman

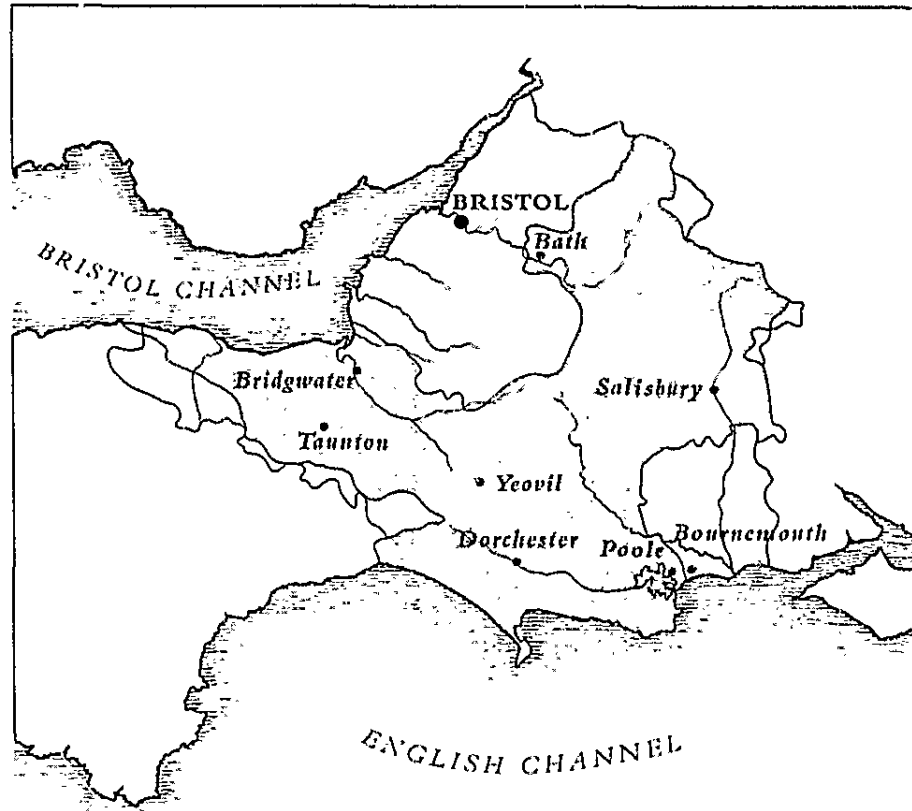


*Clatworthy
reservoir,
Somerset*

WESSEX WATER AT A GLANCE



-  Water supply and waste water services
-  Water supply only
-  Waste water services only



- WESSEX WATER**
- covers an area of over 10,000 square km, including all of Avon, most of Dorset and Somerset, and parts of Wiltshire, Gloucestershire and Hampshire
 - supplies an average of 412 million litres of water every day to 1.1 million customers through a network of 118 treatment works, 305 pumping stations, 360 treated water reservoirs and almost 10,000 km of mains
 - treats 800 million litres of waste water every day from around 2.5 million customers using 14,000 km of sewers, 1,076 waste water pumping stations and 351 waste water treatment works
 - owns 50% of the UK's fifth largest waste management company.

- DURING 1991/92**
- invested £138m on over 2,000 capital projects
 - carried out 1 million water supply quality tests at one of the most modern and automated laboratories in Europe; 99.6% of drinking water tests complied with UK and EC standards
 - achieved 98.3% compliance with effluent discharge consent standards
 - retained 70% of profit for reinvestment in better water and waste water services
 - achieved 99.9% compliance with the Customer Charter.

THE YEAR IN BRIEF

1991

APRIL	Customer telephone calls up by 23% over previous year. A mile of pipeline provided to help supply safe water to a Romanian orphanage.
MAY	Wimpey Wessex Water wins £4m contract in Jersey. Support for Somerset Trust for Nature Conservation wetlands project. Wessex Water News receives award of excellence in national competition.
JUNE	Joint programme with NRA begins to help improve flows in River Piddle. Work starts on new treatment plants at 7 sources where herbicide is occasionally found.
JULY	Drinking Water Inspectorate confirms 99.6% compliance with drinking water standards. £600,000 contract won in Lesotho, Southern Africa. Work starts on £10m plant to convert sewage sludge to soil conditioner at Avonmouth. First ever water quality 'hotline' started for customer enquiries.
AUGUST	£3.2m contract awarded to improve Fulwood water treatment works near Taunton. Taunton Ring Main (East) completed.
SEPTEMBER	No water restrictions throughout summer period. Building Hygiene business awarded BS5750 quality assurance certification. Work starts on a £30m water supply scheme for Bath.
OCTOBER	Wessex Waste Management acquires Wimpey Waste Management. Lower increase in charges announced for 1992/93 sharing efficiency gains with customers.
NOVEMBER	Rt Hon Tom King MP opens new waste water treatment plant in Bridgwater. Customer appeal raises £65,000 for WaterAid.
DECEMBER	NRA reports a net improvement in river water quality since 1985 in Wessex Region.

1992

JANUARY	Wessex Waste Management and Avon County Council agree waste disposal partnership. Agreement for marketing monitoring devices signed with Siemens Plessey. Rt Hon Paddy Ashdown MP opens £140,000 skills training centre at Yeovil.
FEBRUARY	Start of £8m sewer tunnel scheme in Bradley Stoke, North Bristol. Department of Health awards Scientific Centre 'Good Laboratory Practice' certificate. New water supply centre opened in Trowbridge.
MARCH	Formation of separate business units announced to improve local customer service. Leak detection programme intensified. Start of £25m upgrade to waste water treatment works at Poole.

MANAGING DIRECTOR'S REVIEW

A year of continued improvement in standards, quality and service, with record levels of investment and the growth of Wessex Waste Management to be the fifth largest solid waste company in the UK. It was also a year largely dominated by environmental issues, with continuing low rainfall, the introduction of the European Urban Waste Water Treatment Directive and growing demands from the environmental regulators.

The 1990s are heralded as the decade of the customer; certainly this is true for Wessex Water. A number of initiatives have been introduced during the year to strengthen customer service systems, increase our local presence and improve understanding of customer needs and priorities.

For the long term, probably the most important development was the strengthening of our core business management. By promoting a number of excellent young managers we have ensured that Wessex Water has depth of management skills for the future.

PROTECTING THE ENVIRONMENT

Wessex Water is in the business of environmental improvement – a major part of our business is the treatment of waste water, and Wessex Waste Management provides a full range of environmental services to deal with solid waste.

Durdle Door

beach, Dorset



Water supply has the potential to harm the environment if abstraction is not carefully managed. Wessex Water operates within abstraction licences which are monitored by the National Rivers Authority. We do not and will not exceed the prescribed licence conditions.

There have now been five consecutive years of below-average rainfall. Last winter the Wessex Water region had only 53% of average rainfall, making it the driest winter since 1976. Nevertheless, recent investment in new water resources and the effectiveness of our distribution network enabled supplies to all customers to be maintained without any restrictions. Leak detection activity has been increased – during the year we repaired over 8,000 leaks and spent over £6 million on renewing the distribution system. We also ran publicity campaigns encouraging customers to use water wisely.

During a drought the problem of low flows in some rivers attracts considerable publicity. The causes are complex and difficult to explain – not least because in times of low rainfall river flows will be low. There are, however, some areas where abstraction does affect river flows, such as the River Piddle in Dorset. Wessex Water has a clear policy – we will not allow any river to be seriously depleted because of our abstraction, so we are working with the National Rivers Authority to find a new resource to replace the abstraction that affects the River Piddle. In the meantime, we have halved abstraction in this area.

We are increasing the proportion of treated sludge recycled on agricultural land because this is the most environmentally sound use of this valuable nutrient. During the year work has progressed well on the construction of a Swiss Combi biodrier plant at our Avonmouth treatment works. This plant will take sludge currently disposed of at sea and turn it into dry, pasteurised granules which will be sold as a soil conditioner.

Our Environmental Services team has been expanded to provide a full environmental assessment capability so that all significant capital schemes can be subject to environmental assessment at the planning stage. We have revised and extended our environmental policy by developing an Environmental Charter – the first in the water industry – setting clear targets in every area of Wessex Water's activities. Environmental audits are part of this policy.

The Wessex Water region is rich in sites of special scientific interest, areas of outstanding natural beauty and nature reserves. Our work takes us into these areas, requiring extra planning and special care to ensure the environment is protected. Our close relations with county and local conservation organisations are invaluable.

Balancing the conservation and recreational demands on our reservoirs is also very important. We have successfully developed sports activities, including special facilities for the disabled, and provided increased access, whilst at the same time protecting the flora and fauna in these sensitive sites.



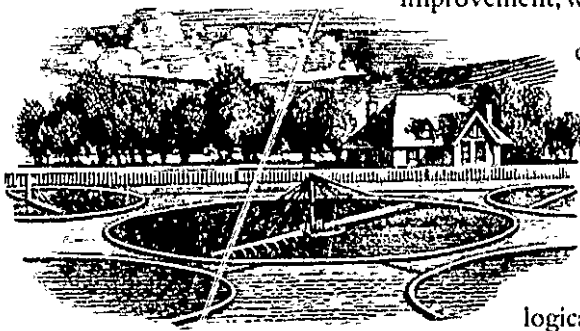
*Sutton Bingham
reservoir, Yeovil*

MEETING QUALITY STANDARDS

The quality of the water we supply remains high. Overall compliance with drinking water standards, as measured by 76,500 tests on samples from customers' taps, was 99.6%. The small element of non-compliance was principally caused by the occasional presence of iron – which is not a hazard to health – from old iron mains in parts of our network, and by problems that arise within customers' own domestic plumbing.

Seven of our 118 water sources occasionally have low levels of herbicides in the water. During the year work began to install activated carbon treatment at these sites. This programme, costing £12 million, will be completed by the end of 1993 and will remove herbicides from treated water.

*Waste water
treatment works at
Saltford, near Bath*



The performance of our waste water treatment plants showed a further improvement, with only six of our 351 plants failing to comply fully with discharge consent standards. Compliance of our waste water treatment plants has risen steadily from 95.5% in 1988/89 to 98.3% last year, even though 40 consents were tightened by the National Rivers Authority. Of the 39 designated bathing waters around Wessex Water's coastline, 36 met the bacteriological standards of the EC Bathing Water Directive. This was not as good as last year, when all 39 complied; however, through our 'duty of care' monitoring programme we were able to demonstrate that the three failures were not due to any deficiency in waste water treatment operation.

SERVING OUR CUSTOMERS

Wessex Water is committed to providing customers with the services they want at a price they can afford. We believe cost and affordability must be taken into account when standards are set, so we have extended our customer research to discover the views of customers. We have also appointed local business managers to provide a focus for the local services we provide.

Handling all contacts from customers quickly and efficiently is very important – last year we received over 800,000 telephone calls and letters. Our systems have BS5750 quality assurance certification and this was renewed during the year.

Compliance with our Customer Charter reached 99.9%. New facilities were introduced including textline and password services for disabled customers and a water quality 'hotline' to make it easy for any customer to obtain an analysis (with explanation) of the water supply to their property, a service unique in the industry.

With over 900,000 separate accounts, making sure bills are paid on time is vital for the financial health of the business. The range of payment facilities we offer has been extended and greater effort directed to clearing outstanding debts. Genuine 'can't pay' customers are identified so that they can be helped through social services; those who can but will not pay are pursued through agreed court procedures. As a result supplies to only 39 customers had to be disconnected. We are investigating the use of pre-payment meters as an alternative to disconnection.

CAPITAL INVESTMENT

Maintaining and improving standards drives our capital investment needs. Years of public sector under-investment and the requirement to meet higher standards mean that high levels of investment will continue to be needed for many years to come.

All our major water treatment works either have been or are in the process of being upgraded. During the year, Ashford Treatment Works near Bridgwater and Fulwood near Taunton were rebuilt to be capable of producing over 26 million litres a day of high quality water using the latest treatment technology. Work has begun on a series of schemes to develop additional water resources and improve security of supply to Bath and Wiltshire. Costing a total of £30 million, the schemes include abstraction of water from the River Avon downstream of Bath, new treatment facilities and additional storage. The first stage of this project, the construction of an 8 million litre capacity reservoir in St Catherine's valley, is in progress.



*Ashford water
treatment works,
near Bridgwater*

CAPITAL INVESTMENT *continued*

Sewer improvement and waste water treatment continue to form the largest part of our investment programme. Sewer renovation schemes were completed in



*Construction of
waste water tunnel,
under Bristol*

Shepton Mallet and Salisbury and a giant tunnelling scheme to complete the sewerage network in Bristol is continuing to plan. At Poole, work has started on a £25 million, three-year project to improve waste water treatment. The new plant will be largely enclosed to avoid smell nuisance and will employ a new technique, biological aerated filtration. When complete it will provide Poole with one of the most

advanced waste water treatment systems in Europe, giving a very high quality effluent and improving water quality in Holes Bay and Poole Harbour.

Work has also started on the first plant to be constructed to meet the new European Urban Waste Water Treatment Directive. At Weston-super-Mare, a £27 million investment will provide a new inland treatment works to replace the existing sea discharge.

Our enormous capital programme, £138 million on over 2,000 projects last year, was managed by our Engineering Services division. Their innovative approach to capital works enabled us to complete the programme at less than the projected level of expenditure.

TECHNOLOGY FOR THE FUTURE

Wessex Water has a reputation for being at the forefront in the use of advanced technology. Through Wessex Water Technologies, a division of Wessex Water Commercial, we are identifying techniques from other industries and from the water industry in other parts of the world which can be successfully applied to our water and waste water business. We have formed a research association with Bath University, giving us access to their wide expertise and to government funding. Wessex Water Technologies is also our vehicle for making strategic investments in businesses with appropriate emerging technologies.

A new water resource allocation model has been developed by our engineers to enable us to make best use of our existing water resources and to minimise the

need for capital investment in new resources. The model is the latest addition to our package of software systems being sold both in the UK and overseas. Remote monitoring technology developed jointly by Wessex Water and the National Rivers Authority has been licensed to Siemens Plessey Controls Ltd for marketing around the world.

WESSEX WASTE MANAGEMENT

In October Wessex Waste Management, one of our joint venture companies, became a major player in the solid waste market by purchasing Wimpey Waste Management. Now trading as UK Waste, the business is a nationwide operation – particularly strong in the north of England and Scotland. The company has a large volume of unused landfill space and an infrastructure more than adequate to enable other acquisitions to be ‘bolted-on’ – some already have been, including Marvin Ltd of Great Yarmouth which has potential for significant growth in the chemical waste sector.

The high quality of the management, staff and assets of UK Waste together with the technology and experience of our partners, Waste Management International plc, will enable further substantial growth.



UK Waste, solid waste disposal

OTHER BUSINESS ACTIVITIES

Our other joint venture, Wimpey Wessex Water, undertook three major engineering schemes during the year, including construction of a sludge treatment facility, incorporating a Swiss Combi biodrier, to serve the States of Jersey.

Merchandising and scientific services continued to develop. Our Scientific Centre is benefiting from having obtained Department of Health Good Laboratory Practice certification and our small Building Hygiene business gained BS5750 quality assurance certification.

Overseas consultancy included work in The Gambia, Australia, Lesotho, the Caribbean and Saudi Arabia.

EMPLOYEES

In both Wessex Water and our joint companies we have skilled, dedicated employees. We are committed to helping all employees to develop to their full potential. During the year management development schemes were revised with particular emphasis on future needs for management succession and growth of new business. Our training facilities at Yeovil were improved by the opening of a new skills training centre, which includes special facilities for confined spaces safety training.

*Wessex Water
supports WaterAid*

During the year we completed the restructuring of the core business, decentralising profit responsibility and ensuring that all support services are subject to the pressure of competition. The introduction of performance related rewards for all employees was also completed. The help and co-operation of our employees during three years of almost constant change has been a key feature in the successful transition from a rather inward-looking public sector authority to a customer driven private sector company.



Our employees have again given generously of their time and money to support community and charitable concerns – speaking to hundreds of groups and organisations, running marathons, driving trucks to Romania and, not least, helping to raise a record £150,000 for the WaterAid charity.

Wessex Water is a business with gross assets approaching £1,000 million but our most important asset is the quality of our employees. Their dedication will ensure that Wessex Water continues to grow and flourish in the coming year.

Colin Skellett
Group Managing Director

WESSEX WATER COMMITTEES

FOUR COMMITTEES ASSIST THE MANAGEMENT OF WESSEX WATER:

Audit and Remuneration Committee comprising four non-executive directors, chaired by DNA McLure. The committee:

- provides an independent review of reports from the Company's external auditor and commissions such additional investigation work as may be appropriate to ensure the adequacy of the Group's accounting controls and procedures
- ensures the Company's directors and senior executives are fairly rewarded for their individual contributions to the Company's overall performance
- ensures the remuneration of the executive directors of the Company is set by a committee of the board which excludes the executive directors.

Capital Control Committee chaired by CF Skellett and including directors of Wessex Water Services Ltd who have engineering, financial, scientific and environmental skills. The committee reviews investment proposals and ensures approved projects are implemented on time and within approved costs. It also arranges post-investment appraisal of selected schemes and independent investigations of value for money.

Environment Committee chaired by Dr AK Barbour and including Professor Sir Richard Doll and JG Jones (Director of Science and Quality, Wessex Water Services Ltd). The committee advises the board on issues relating to environment and health.

Research and Development Committee chaired by Dr AK Barbour and made up of selected directors and senior managers. The committee advises the board of Wessex Water Services Ltd on technology development and application. It prepares, co-ordinates and monitors research and development programmes.

DIRECTORS AND ADVISERS

EXECUTIVE DIRECTORS

WN Hood CBE, CBIM (56) *Chairman*

Appointed Chairman of Wessex Water Authority in October 1987, having previously held various positions in UBM Group between 1974 and 1982 and subsequently been a director of HAT Group. He is a director of the Water Services Association, the Provident Life Association, Bremhill Industries Plc and Commercial Union Environment Trust plc. He is also chairman of the WaterAid Council and a member of the Water Training Council.

CF Skellett MSc, CChem, FRSC, FIWEM (47) *Group Managing Director*

Joined Wessex Water Authority in 1974, having worked within the water industry since 1961. Appointed chief executive in October 1988 and became Group Managing Director of Wessex Water Plc in September 1989. He is a UK representative on the board of management of EUREAU, the European water supply association.

R Huntington BSc, CEng, FICE, FIWEM (63)

Group Director of Engineering and Operations

Joined Wessex Water Authority in 1974, having worked within the water industry since 1956. He was made head of engineering and operations in April 1986 and appointed to the board in October 1988.

NAW Wheatley FCA (50) *Group Finance Director*

Appointed to the board of Wessex Water Authority as Finance Director in March 1989. He was previously finance director of Henlys Group, Paterson Jenks Plc and Denbyware Ltd.

NON-EXECUTIVE DIRECTORS

DNA McLure MA, FCIM (66) *Deputy Chairman*

Appointed to the board of Wessex Water Authority in October 1986 and became Deputy Chairman in February 1988. He was a director of Beecham Group from 1975 to 1986, chairman of Arthur Bell Distillers and a non-executive director of United Distillers from 1987 to 1989. He is a director of London Buses, European

Brands Group and Burn Stewart Distillers Plc. He is a council member (having in the past been president) of the Incorporated Society of British Advertisers.

Dr AK Barbour OBE, BSc, PhD, CChem, FRSC, FIMM (65)

Appointed to the board of Wessex Water Authority in October 1980. He was chief environmental scientist at the RTZ Corporation from 1972 to 1989, and chairman of the Environment, Health and Safety Committee of Eurometaux (the trade association of the European Non-Ferrous Metals Industry) until December 1991. He is visiting professor of chemistry (environmental) at the University of Manchester Institute of Science and Technology.

EG Falkman BA, MA, JD (47)

Appointed to the board of Wessex Water Plc on 25 February 1991. He is chief executive of Waste Management International plc, and has held various positions with Waste Management Inc since 1977.

RD Kent MA, MBA (44)

Appointed to the board of Wessex Water Authority in July 1988. He is managing director of Close Brothers Group plc, chairman of Close Brothers Ltd and a non-executive director of English and Scottish Investors plc. He has been involved in merchant banking for many years.

AR Thornhill QC, BA (48)

Was appointed to the board of Wessex Water Authority in July 1988. He has been a practising barrister at the Revenue Bar since 1969 and became a QC in 1985.

COMPANY SECRETARY

AF Crofts BSc, FCA (40)

Joined Wessex Water Authority as corporate strategist in July 1988 and was appointed Company Secretary in March 1989. He was previously director of finance and company secretary of UBM Motors Ltd.

ADVISERS

AUDITOR

Coopers & Lybrand

LEGAL ADVISER

Linklaters & Paines

BANKERS

Barclays Bank PLC
Chemical Investment
Bank Ltd

FINANCIAL ADVISER

SG Warburg & Co Ltd

STOCKBROKER

Pannure Gordon & Co Ltd

REGISTRAR

National Westminster
Bank PLC

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited accounts for the year to 31 March 1992.

PRINCIPAL ACTIVITIES OF THE GROUP

The main activities of the Group are the supply of clean water and the treatment of waste water. The Group has an investment in solid waste disposal through its associate company Wessex Waste Management Ltd, which acquired Wimpey Waste Management Ltd during the year. Further details of this transaction are given in the Managing Director's Review and note 13 to the accounts. The Group is also involved in construction projects through its associate company Wimpey Wessex Water Ltd.

A review of progress and the activities of the Group during the year and for the future are given in the Managing Director's Review on pages 6 to 12.

PROFIT AND DIVIDEND

Group profit for the year after taxation amounted to £70.4m. The directors recommend a final dividend of 12.9p per ordinary share to be paid on 1 October 1992 to shareholders on the register at the close of business on 16 July 1992. Together with the interim dividend of 6.6p per share this will make a total of 19.5p per share for the year. The profit retained in the business for the year was £49.9m and this has been transferred to reserves.

SUBSTANTIAL SHAREHOLDINGS

18,135,064 B ordinary shares are held by UK Waste Management Holdings Ltd, a subsidiary of Waste Management International plc, amounting to 14.9% of the total ordinary share capital of the Company.

At 1 June 1992 the Company had been notified of the following substantial interests (3% or more) in the ordinary shares of the Company:

Prudential Corporation	8.04%
Fidelity Investments	4.70%
Newton Investment Management Ltd	3.57%

DIRECTORS

The names and details of the directors are set out on pages 14 and 15.

In accordance with Article 106 of the Company's Articles of Association, AR Thornhill QC and NAW Wheatley will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-appointment. The unexpired period of their service contracts at the balance sheet date were 17 months and 3 years respectively.

The interests of the directors in the shares of the Company at 31 March 1992 and 1 April 1991 were as follows:

BENEFICIAL INTERESTS	£1 ORDINARY SHARES		SHARE OPTIONS	
	1992	1991	1992	1991
WN Hood CBE	33,193	33,110	146,654	106,654
CF Skellett	4,083	4,000	129,181	89,181
R Huntington	4,443	4,360	78,142	64,417
NAW Wheatley	5,083	5,000	91,988	71,988
DNA McLure	10,000	10,000	-	-
Dr AK Barbour OBE	800	800	-	-
RD Kent	5,980	5,980	-	-
AR Thornhill QC	2,000	2,000	-	-
EG Falkman	-	-	-	-

On 1 April 1992 CF Skellett and NAW Wheatley acquired 9 and 11 ordinary shares respectively under the interim scrip dividend offer. On 9 April 1992 C F Skellett acquired a family interest in 400 ordinary shares. There were no other movements in directors' shareholdings to the date of this report.

The options to purchase fully paid ordinary shares were granted under the Wessex Water sharesave scheme and the Wessex Water executive share option scheme. 51 directors and senior managers have options under the executive share option scheme granted at between £2.84 and £4.31 per share. 45% of all staff have options under the savings-related sharesave scheme granted at £1.76 and £3.02 per share. Further details are given in note 21 to the accounts.

In addition, executive directors are deemed to be interested in ordinary shares held in trust under the Wessex Water profit sharing scheme as follows:

WN Hood 482; CF Skellett 497; R Huntington 497; and NAW Wheatley 480.

WN Hood and CF Skellett are directors of Wessex Water Trustee Company Ltd which holds 562,186 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.

DIRECTORS' REPORT *continued*

COMMUNITY ACTIVITIES

During the year £43,000 was donated to United Kingdom charities and £35,000 was given by way of sponsorship to local, environmental and water related activities. This included support for nature conservation trusts, Business in the Community, education, swimming clubs, water sports for the disabled and a variety of charities providing benefits to the local community. No political donations were made.

EMPLOYMENT POLICY

Wessex Water offers equal opportunities to all applicants for employment, whatever their sex, race, religion or marital status. Disabled people are offered 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 monthly team briefings, an award winning staff newspaper, newsletters and conferences.

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.

ENVIRONMENTAL POLICY

Wessex Water is committed to protecting, conserving and improving the environment and to operating in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The Company has developed an Environmental Charter and a separate environmental report has been prepared indicating the progress made in this area during the year.

AUDITOR

A resolution to re-appoint Coopers & Lybrand as the Company's auditor will be proposed at the Annual General Meeting. Until 1 June 1992 the firm practised in the name of Coopers & Lybrand Deloitte.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00 am on Thursday 3 September 1992 at the Assembly Rooms, Bennett Street, Bath. The resolutions together with explanatory notes are given on pages 42 to 44.

OTHER INFORMATION

On 1 April 1992 150,058 shares were allotted following the Company's interim scrip dividend offer of 14 January 1992.

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 of the Company 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
22 June 1992

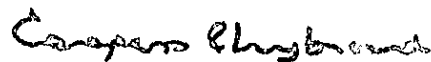


AUDITOR'S REPORT

REPORT OF THE AUDITOR TO THE MEMBERS OF WESSEX WATER Plc

We have audited the accounts set out on pages 20 to 40 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 1992 and of the profit and cash flow 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 Auditor
Bristol
22 June 1992

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year to 31 March 1992

	Note	1992 £m	1991 £m
Turnover	1	190.8	166.9
Operating profit	2	67.5	57.5
Net interest receivable	3	8.5	8.5
Profit on ordinary activities before taxation and associates		76.0	66.0
Income from interests in associated undertakings		0.9	-
Profit on ordinary activities before taxation		76.9	66.0
Taxation on profit on ordinary activities	4	6.5	6.1
Profit attributable to shareholders		70.4	59.9
Dividend	5	20.5	18.2
Profit retained	22	49.9	41.7
Earnings per ordinary share	6	68.0p	58.4p
Fully diluted earnings per ordinary share	7	57.9p	50.3p

The notes on pages 24 to 40 form part of these accounts.
The movements on reserves are shown in note 22 on page 36.

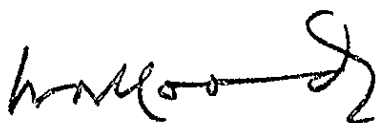
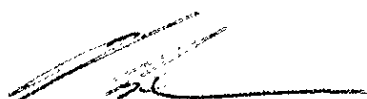
CONSOLIDATED BALANCE SHEET
at 31 March 1992

	Note	1992		1991	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	12	715.8		617.1	
Investments	13	5.6	721.4	0.1	617.2
Current assets					
Stock and work in progress	14	3.2		4.6	
Debtors	15	40.5		33.0	
Listed investments	13	0.7		0.5	
Short term cash investments		206.2		161.8	
		250.6		199.9	
Creditors – amounts due within one year	16	106.7		79.0	
Net current assets			143.9		120.9
Total assets less current liabilities			865.3		738.1
Creditors – amounts due after more than one year	17		188.5		64.0
Provisions for liabilities and charges	18		6.4		8.2
Deferred income	19		7.1		3.4
	20		663.3		662.5
Capital and reserves					
Called up share capital	21		121.1		120.9
Share premium account	22		44.8		44.6
Profit and loss account	22		497.4		497.0
			663.3		662.5

These accounts were approved by the board of directors on 22 June 1992.

Nicholas Hood
Chairman

Nicholas Wheatley
Group Finance Director

The notes on pages 24 to 40 form part of these accounts.

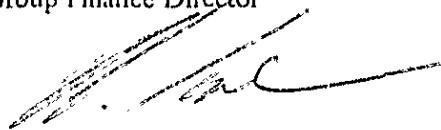
COMPANY BALANCE SHEET
at 31 March 1992

	Note	£m	1992 £m	£m	1991 £m
Fixed assets					
Investments	13		135.6		81.5
Current assets					
Debtors	15	34.4		30.1	
Listed investments	13	0.7		0.5	
Short term cash investments		206.2		159.3	
			241.3		189.9
Creditors -- amounts due within one year	16	36.9		43.0	
Net current assets			204.4		146.9
Total assets less current liabilities			340.0		228.4
Creditors -- amounts due after more than one year	17		60.0		-
			280.0		228.4
Capital and reserves					
Called up share capital	21		121.1		120.9
Share premium account	22		44.8		44.6
Profit and loss account	22		114.1		62.9
			280.0		228.4

These accounts were approved by the board of directors on 22 June 1992.

Nicholas Hood
Chairman

Nicholas Wheatley
Group Finance Director

The notes on pages 24 to 40 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year to 31 March 1992

	Note	1992 £m	1991 £m
Net cash inflow from operating activities	23	88.5	77.5
Returns on investments and servicing of finance			
Interest received		15.5	8.1
Interest paid		(2.4)	(0.4)
Dividends paid		(12.1)	(16.7)
Interest element of finance lease rental payments		(2.1)	-
	25	(1.1)	(9.0)
Taxation			
Advance corporation tax	26	(6.1)	(3.5)
Investing activities			
Purchase of tangible fixed assets		(117.6)	(80.6)
Sale of tangible fixed assets		0.5	0.6
Connection charges, grants and deferred income		10.6	9.9
Investments		(54.3)	(0.6)
	27	(160.8)	(70.7)
NET CASH OUTFLOW BEFORE FINANCING		(79.5)	(5.7)
Financing			
Issue of ordinary share capital		0.4	62.3
Finance lease drawdown		65.1	25.0
New long term loans		60.0	38.0
	28	125.5	125.3
Increase in cash and cash equivalents	24	46.0	119.6

Details supporting the consolidated cash flow statement are set out in notes 23 to 28.

NOTES TO THE ACCOUNTS

For the year to 31 March 1992

ACCOUNTING POLICIES

a Basis of preparation

The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom.

b Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries up to 31 March 1992. 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 their 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 as of 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.

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. The cost and accumulated depreciation have not been restated in prior years, as in the opinion of the directors this is not material.

Grants and contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against the cost of related fixed assets. This treatment has been adopted to show a true and fair view.

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 are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport 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 Company'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 1992

1 Turnover	GROUP	
	1992 £m	1991 £m
Analysis by class of business		
Water supply	61.5	53.4
Waste water	117.5	104.6
Other trading activities	11.8	8.9
	190.8	166.9

2 Operating profit

a Analysis by class of business

Water supply	13.7	8.2
Waste water	52.0	48.2
Other trading activities	1.8	1.1
	67.5	57.5

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

b Operating profit is shown after charging the following operating costs:	1992 £m	1991 £m
Materials and consumables	24.0	21.7
Other external charges	27.2	24.7
Manpower costs (note 9)	32.1	25.7
Depreciation	18.9	17.0
Amortisation of grants and contributions	(0.2)	(0.1)
Infrastructure maintenance expenditure	10.7	12.1
Other operating charges	10.2	8.0
Loss on disposals of fixed assets	0.4	0.3
	123.3	109.4

c Operating costs include:

Operating leases for plant and machinery	0.4	0.5
Other operating leases	0.8	0.6
Research and development	0.7	0.6
Directors' remuneration (note 10)	0.7	0.6
Auditor's remuneration, company and group	0.1	0.1

3 Net interest receivable

	GROUP	
	1992 £m	1991 £m
INTEREST PAYABLE		
Bank loans, overdrafts and other loans.		
Repayable within five years otherwise than by instalments	(0.9)	(0.5)
Not wholly repayable within five years	(7.3)	(1.3)
Total interest payable	(8.2)	(1.8)
INTEREST RECEIVABLE	16.7	10.3
Net interest receivable	8.5	8.5

4 Taxation

a TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Advance corporation tax	6.5	6.1
Share of tax charge of associated undertaking		
- amounts payable on receipt of group relief	0.4	-
- income receivable from surrender of losses to associated undertaking	(0.4)	-
	6.5	6.1

The advance corporation tax is in respect of dividends paid and proposed for the year. There is no other liability to UK corporation tax as a result of the availability of capital allowances.

b DEFERRED TAXATION

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

	1992 £m	1991 £m
Accelerated capital allowances	84.0	54.1
Other timing differences	(6.7)	(4.0)
Advance corporation tax recoverable	(16.1)	(9.6)
Trading losses	(17.3)	(26.4)
	43.9	14.1

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

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

5 Dividend

	GROUP	
	1992 £m	1991 £m
ON ORDINARY SHARES		
Interim dividend of 6.6p per share (1991 – 6.1p)	6.7	6.3
Proposed final dividend of 12.9p per share (1991 – 11.6p)	13.3	11.9
	20.0	18.2
ON B ORDINARY SHARES		
Total dividend of 2.595p per share (1991 from the date of issue £41,258)	0.5	-
	0.5	-

6 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit after taxation, less the dividend payable on B ordinary shares, using a weighted average number of ordinary shares of 102,818,188.

7 Fully diluted earnings per ordinary share

The calculation of fully diluted earnings per ordinary share for 1992 is based on the profit after taxation plus notional interest on outstanding share options, as if they had been exercised on 1 April 1991. The weighted average number of ordinary shares for this purpose is 130,013,918 which assumes the exercise of all outstanding options and the full conversion of B ordinary shares.

The proforma fully diluted earnings per share for 1991 assumes that the B ordinary shares were issued and that the share options had been exercised on 1 April 1990. No adjustment has been made for notional interest on the B ordinary shares between 1 April 1990 and their date of issue. The weighted average number of ordinary shares for this purpose is 129,260,710.

8 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 £71.6m (1991 – £59.3m) after including dividends from subsidiary companies of £61.8m (1991 – £56.0m).

9 Employee information

	GROUP	
	1992	1991
	£m	£m
a Total employment costs of the Group were:		
Wages and salaries	34.8	28.3
Social security costs	2.7	2.2
Other pension costs	3.7	2.3
Redundancy and rationalisation	2.3	0.5
	<hr/>	<hr/>
	43.5	33.3
	<hr/>	<hr/>
b Total employment costs are charged as follows:		
Capital schemes	10.4	6.8
Infrastructure maintenance expenditure	1.0	0.8
Manpower costs	32.1	25.7
	<hr/>	<hr/>
	43.5	33.3
	<hr/>	<hr/>
	1992	1991
c The average number of employees during the financial year was:	1,869	1,755
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

10 Directors' remuneration

The remuneration of executive directors is determined by the Audit and Remuneration Committee comprising non-executive directors and chaired by the Deputy Chairman.

	GROUP	
	1992 £000	1991 £000
a Total remuneration including pension contributions:		
As directors	70	50
For management services	637	526
	707	576
 b Remuneration, including salary, performance related rewards and taxable benefits but excluding pension contributions:		
Chairman	160	128
Other directors within the following ranges:		
£	1992	1991
0 – 5,000	1	1
10,001 – 15,000	2	2
15,001 – 20,000	-	2
20,001 – 25,000	2	-
85,001 – 90,000	-	1
95,001 – 100,000	1	1
100,001 – 105,000	-	1
105,001 – 110,000	1	-
125,001 – 130,000	1	-

11 Transactions with directors and officers

There were no transactions or arrangements with directors and officers which require disclosure under the provisions of the Companies Act 1985.

12 Tangible fixed assets

	Specialised operational properties & structures	Non- specialised operational properties	Infra- structure assets	Plant machinery and vehicles	Other assets	Payments on account and assets in course of construction	Group total
	£m	£m	£m	£m	£m	£m	£m
COST							
At 1 April 1991	188.5	9.0	273.8	176.1	25.9	55.5	728.8
Additions	19.1	2.7	52.9	34.9	3.0	12.7	125.3
Disposals	(0.1)	(0.1)	-	(1.3)	(0.1)	(0.2)	(1.8)
Government grants and contributions	-	-	(6.0)	-	-	(0.8)	(6.8)
At 31 March 1992	<u>207.5</u>	<u>11.6</u>	<u>320.7</u>	<u>209.7</u>	<u>28.8</u>	<u>67.2</u>	<u>845.5</u>
DEPRECIATION							
At 1 April 1991	31.1	1.6	-	64.8	14.2	-	111.7
Provision for year	3.1	0.2	-	12.9	2.7	-	18.9
Disposals	-	-	-	(0.8)	(0.1)	-	(0.9)
At 31 March 1992	<u>34.2</u>	<u>1.8</u>	<u>-</u>	<u>76.9</u>	<u>16.8</u>	<u>-</u>	<u>129.7</u>
NET BOOK VALUE							
At 31 March 1992	<u>173.3</u>	<u>9.8</u>	<u>320.7</u>	<u>132.8</u>	<u>12.0</u>	<u>67.2</u>	<u>715.8</u>
At 31 March 1991	<u>157.4</u>	<u>7.4</u>	<u>273.8</u>	<u>111.3</u>	<u>11.7</u>	<u>55.5</u>	<u>617.1</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 put-and-take raw water storage reservoirs, dams, sludge pipelines and sea outfalls.

The accounting treatment for contributions and infrastructure charges in respect of infrastructure assets is described in the Accounting Policies. In the opinion of the directors it is not appropriate to treat contributions and infrastructure charges on infrastructure assets as deferred income. The fixed assets to which they relate are not depreciated and accordingly no basis exists on which to recognise such contributions as deferred income. The contributions relate directly to investment in infrastructure assets and therefore are deducted directly from their purchase price or production cost.

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

The net book value of assets held under finance leases is £85.1m (1991 - £23.3m).

The depreciation charge for the year on assets held under finance leases is £0.6m (1991 - £0.1m).

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

13 Investments

	GROUP		COMPANY	
	1992 £m	1991 £m	1992 £m	1991 £m
a				
FIXED ASSET INVESTMENTS				
Fixed asset investments represent the Company's investment in its principal subsidiary companies and associated undertakings				
Cost				
At 1 April	0.1	-	81.5	81.4
Additions	54.1	0.1	54.1	0.1
Share of retained profit	0.9	-	-	-
Proportion of goodwill written off by associated undertaking	(49.5)	-	-	-
At 31 March	5.6	0.1	135.6	81.5

The principal subsidiary companies and associated undertakings are listed on page 40.

In the course of the year the Company provided funding of £54.1m to Wessex Waste Management Ltd. The goodwill written off by Wessex Waste Management Ltd arose on the purchase of Wimpey Waste Management Ltd and Hemmings Hygiene Ltd.

The book value of the net assets of Wimpey Waste Management Ltd, now trading as UK Waste Management Ltd, was £26.8m at the date of acquisition. This value has been reduced by acquisition adjustments of £18.2m to reflect the fair value to the acquiring company. The total cash consideration for the business was £106.5m and there was goodwill arising on acquisition of £97.9m of which £48.9m is attributable to Wessex Water Plc.

The principal acquisition adjustments, which are provisional and net of taxation, include provisions for the costs of landfill closure, environmental and compliance costs and other reorganisation costs including the introduction of the new livery of UK Waste.

b CURRENT ASSET INVESTMENTS

The market value of listed investments at 31 March 1992 was £1.1m.

14 Stock and work in progress

	GROUP	
	1992 £m	1991 £m
Stores	2.3	2.9
Work in progress	0.9	1.7
	3.2	4.6

15 Debtors

	GROUP		COMPANY	
	1992 £m	1991 £m	1992 £m	1991 £m
Amounts due within one year				
Trade debtors	19.2	16.0	-	-
Amounts owed by group companies	-	-	28.3	26.8
Other debtors	1.8	1.5	-	-
Prepayments and accrued income	19.5	15.5	6.1	3.3
	<u>40.5</u>	<u>33.0</u>	<u>34.4</u>	<u>30.1</u>

16 Creditors

Amounts due within one year				
Bank loans, overdrafts and temporary borrowings	3.3	4.9	7.9	22.2
Trade creditors	5.7	4.5	-	-
Amounts owed to group companies	-	-	-	0.8
Proposed dividend	20.3	11.9	20.3	11.9
Other creditors	0.4	0.2	-	-
Advance corporation tax	6.5	6.1	6.5	6.1
Other taxation and social security	1.0	1.2	-	-
Accruals and deferred income	69.5	50.2	2.2	2.0
	<u>106.7</u>	<u>79.0</u>	<u>36.9</u>	<u>43.0</u>

As a part of the Group's banking arrangements each of the companies in the Group is jointly and severally liable for the overdrafts of the other group companies. Wessex Water Plc has acted as guarantor for certain borrowing facilities made available to Wessex Water Services Ltd.

17 Creditors

	1992 £m	1991 £m	1992 £m	1991 £m
Amounts due after more than one year				
Loans and finance leases repayable				
within 1-2 years	-	-	30.0	-
within 2-5 years	10.0	0.6	30.0	-
over 5 years	178.1	62.4	-	-
Other	0.4	1.0	-	-
	<u>188.5</u>	<u>64.0</u>	<u>60.0</u>	<u>-</u>

Loans of £188.1m consist of £123.0m borrowed at fixed rates varying between 9.9% and 11.5%, and £65.1m at floating rates linked to LIBOR with an option to convert to fixed rates. During the year to 31 March 1992 these floating rates varied between 9.4% and 10.7%.

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

18 Provisions for liabilities and charges

	GROUP	
	1992 £m	1991 £m
INFRASTRUCTURE MAINTENANCE PROVISION		
At 1 April	8.2	6.5
Charged to profit and loss account	10.7	12.1
Infrastructure maintenance spend	(12.5)	(10.4)
	6.4	8.2

19 Deferred income

Grants and contributions in respect of non-infrastructure assets are treated as a deferred credit and released to the profit and loss account over the life of the underlying asset.

	1992 £m	1991 £m
GRANTS AND CONTRIBUTIONS		
At 1 April	3.4	-
Received in year	3.9	3.5
Less amortisation	(0.2)	(0.1)
	7.1	3.4

20 Net assets

Analysis by class of business

Water supply	190.7	179.7
Waste water	387.1	379.3
	577.8	559.0
Interest bearing operating assets	85.5	103.5
	663.3	662.5

Interest bearing operating assets include cash, loans, taxation, interest and dividends payable. In the opinion of the directors the allocation of net assets by class of business to other trading activities would not be meaningful.

21 Called up share capital

	COMPANY	
	1992 £m	1991 £m
AUTHORISED		
150,000,000 ordinary shares of £1 each	150.0	150.0
20,000,000 B ordinary shares of £1 each	20.0	20.0
One special rights redeemable preference share of £1	-	-
	<u>170.0</u>	<u>170.0</u>
ALLOTTED AND FULLY PAID		
102,952,352 ordinary shares of £1 each	103.0	102.8
18,135,064 B ordinary shares of £1 each	18.1	18.1
One special rights redeemable preference share of £1	-	-
	<u>121.1</u>	<u>120.9</u>

- a The B ordinary shares will convert into new ordinary shares on 28 February 1998, on a one-for-one basis. Options granted to Waste Management Inc were transferred during the year to UK Waste Management Holdings Ltd in respect of 6,363,182 ordinary shares, which may be exercised between 1 January 1995 and 31 December 1999 at prices between £5.43 per share and £9.04 per share, which price will be determined by the date of exercise. Holders of B ordinary shares are entitled to a fixed dividend of 0.75% net per annum on the issue price.
- b During the year 4,995 ordinary shares were issued at £1.76 per share under the savings related share option scheme, 35,211 at £2.84 per share under the executive share option scheme and 146,638 at £3.85 per share under the 1991 profit sharing scheme. This resulted in share premium on allotment of £486,502.
- c 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.
- d The Company has the following share schemes for employees:
- i 562,960 ordinary shares of the Company were held in trust at 31 March 1992 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 at £1.76 per share and in August 1991 at £3.02 per share. At 31 March 1992 the number of options outstanding under this scheme was 1,667,302, exercisable between 10 February 1995 and 13 April 1999.
 - iii An executive share option scheme whereby options outstanding in respect of 1,405,758 ordinary shares were granted between £2.84 and £4.31 per share. These options are exercisable between 16 January 1993 and 9 January 2002.

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

22 Reserves

	GROUP		COMPANY	
	Share premium account £m	Profit and loss account £m	Share premium account £m	Profit and loss account £m
At 1 April 1991	44.6	497.0	44.6	62.9
Retained profit for the year	-	49.9	-	51.2
Premium on shares issued (see note 21)	0.5	-	0.5	-
Scrip dividend issue costs	(0.3)	-	(0.3)	-
Proportion of goodwill written off by associated undertaking (see note 13)	-	(49.5)	-	-
	<u>44.8</u>	<u>497.4</u>	<u>44.8</u>	<u>114.1</u>
At 31 March 1992	44.8	497.4	44.8	114.1

The Group's share of post acquisition reserves of associated undertakings of £48.6m comprises profit retained for the year of £0.9m less goodwill written off on acquisition of £49.5m (see note 13).

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

	1992 £m	1991 £m
Operating profit	67.5	57.5
Depreciation	18.9	17.0
Release of deferred income	(0.2)	(0.1)
Infrastructure maintenance provision	(1.8)	1.7
Loss on disposal of fixed assets	0.4	0.3
Decrease in stock and work in progress	1.4	0.3
(Increase) in debtors	(6.2)	(5.6)
Increase in creditors	8.5	6.4
	<u>88.5</u>	<u>77.5</u>

24 Analysis of changes in cash and cash equivalents during the period

	31/3/92 £m	31/3/91 £m	31/3/90 £m	1992 £m	1991 £m
Short term cash investments	206.2	161.8	43.3	44.4	118.5
Bank overdraft	(3.3)	(4.9)	(6.0)	1.6	1.1
	<u>202.9</u>	<u>156.9</u>	<u>37.3</u>	<u>46.0</u>	<u>119.6</u>

25 Reconciliation of returns on investments and servicing of finance

		1992 £m		1991 £m
Interest receivable	16.7		10.3	
(Increase) in debtors	(1.2)	15.5	(2.2)	8.1
Interest payable	(3.5)		(1.5)	
Increase in creditors	1.1	(2.4)	1.1	(0.4)
Dividends payable	(20.5)		(18.2)	
Increase in creditors	8.4	(12.1)	1.5	(16.7)
Interest payable on finance leases	(4.7)		(0.3)	
Increase in creditors	2.6	(2.1)	0.3	-
		(1.1)		(9.0)

26 Reconciliation of taxation

Taxation (advance corporation tax) per profit and loss account	(6.5)		(6.1)	
Increase in taxation creditor	0.4	(6.1)	2.6	(3.5)

27 Reconciliation of investing activities

Capital expenditure	(115.3)		(86.1)	
Increase in capital creditors	7.7	(117.6)	5.5	(80.6)
Sale of tangible assets		0.5		0.6
Government grants and contributions	6.8		8.0	
Deferred income	3.9		3.5	
Increase in capital debtors	(0.1)	10.6	(1.6)	9.9
Investments	(55.2)		(0.6)	
Income from interests in associated undertakings	0.9	(54.3)	-	(0.6)
		(160.8)		(70.7)

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1992

28 Analysis of changes in financing

	31/3/92 £m	31/3/91 £m	31/3/90 £m	1992 £m	1991 £m
Called up share capital	121.1	120.9	102.6	0.2	18.3
Share premium account	44.8	44.6	0.6	0.2	44.0
				<u>0.4</u>	<u>62.3</u>
Creditors more than one year	188.5	64.0	0.9		
Less other	0.4	1.0	0.9		
	<u>188.1</u>	<u>63.0</u>	<u>-</u>	<u>125.1</u>	<u>63.0</u>
				<u>125.5</u>	<u>125.3</u>

29 Commitments

	GROUP	
	1992 £m	1991 £m
a Capital expenditure authorised by the directors:		
Committed	96.2	40.7
Not yet committed	44.9	90.9
	<u>141.1</u>	<u>131.6</u>

In addition to these commitments, at 31 March 1992, 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:

	1992 £m	1991 £m
Between 1 and 5 years	-	0.1
Over 5 years	0.9	0.6
	<u>0.9</u>	<u>0.7</u>

c At 31 March 1992 the Company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £148m (1991 - £48m).

d Deferred consideration of up to £7.5m being one half of the amount payable by UK Waste Management Ltd, a wholly owned subsidiary of the Company's associated undertaking Wessex Waste Management Ltd, in connection with the acquisition of landfill sites. In the opinion of the directors no amount was payable at the balance sheet date.

30 Contingent liabilities

There are no material contingent liabilities at 31 March 1992 for which provision has not been made in these accounts.

31 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 Trustees of these schemes have appointed independent investment managers to invest the funds in an approved range of securities excluding investment in shares of Wessex Water Plc.

The pension cost charged to the profit and loss account and prepayment at the year end have been determined on the advice of professionally qualified independent actuaries. The pension cost for the year was £3.7m (1991 - £2.3m). The increase is mainly due to the adoption of improvements to the benefits of the WWPS and to the granting of additional benefits to members retiring from service under the Group's severance arrangements.

The balance sheet includes a prepayment of £0.79m (1991 - £0.65m) resulting from the accumulation of employer contributions in excess of net pension costs.

The first actuarial valuations of both WWPS and WWMIS were undertaken as at 31 March 1990. 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 9% per annum, that salary increases would average 7.5% per annum and that present and future pensions would increase at the rate of 5% per annum in the WWPS and 5.5% per annum in the WWMIS. The same actuarial methods and assumptions were used for assessing pension cost.

The market value of the WWPS assets as at 31 March 1990 was £22.7m and those for WWMIS £8.9m. In addition payments of £7.1m and £6.4m respectively were received after that date from the Water Authorities Superannuation Fund in respect of the outstanding transfer payments. These payments were taken into account in the actuarial valuations.

The valuations showed that the actuarial value of the assets at 31 March 1990 represented 110% and 107% of the actuarial value of the accrued benefits for the WWPS and WWMIS respectively.

The pension costs shown take no account of possible changes to the schemes arising from the judgment in the case of Barber v Guardian Royal Exchange Assurance in the European Court of Justice. In the opinion of the directors, based on actuarial advice received, it is not anticipated that such changes would have a material impact on the pension costs in future years.

PRINCIPAL SUBSIDIARY COMPANIES AND ASSOCIATED UNDERTAKINGS

SUBSIDIARY COMPANIES

All subsidiary companies are incorporated and operate in the United Kingdom. Wessex Water Plc owns 100% of the issued ordinary share capital of each subsidiary company.

COMPANY	PRINCIPAL ACTIVITIES
Wessex Water Services Ltd	Water supply and waste water services
Wessex Water Commercial Ltd	Research, development and international water supply and waste water services
Wessex Water Trustee Company Ltd	Trustee of employee share schemes

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

ASSOCIATED UNDERTAKINGS

COMPANY	SHARES HELD	PROPORTION OF ISSUED SHARES HELD	PRINCIPAL ACTIVITIES
Wessex Waste Management Ltd	54,158,000 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 sewerage construction

On 16 October 1991 Wessex Waste Management Ltd acquired the entire share capital of Wimpey Waste Management Ltd from George Wimpey Plc. Further details are given in note 13. Wimpey Waste Management Ltd, now trading as UK Waste Management Ltd, operates an industrial waste management business involving landfill, collection and hazardous waste operations.

The interests in the above companies, which are incorporated in Great Britain and registered in England, are held directly by Wessex Water Plc.

ACCOUNTS OF WESSEX WATER SERVICES LTD

Condition F of the Instrument of Appointment under which Wessex Water Services Ltd (the Appointee) operates, requires specified accounting statements to be published with the annual accounts of the Appointee or its parent company. These will be available from September 1992. Anyone requiring a copy of these accounts including the specified statements should apply to: The Company Secretary, Wessex Water Services Ltd, Wessex House, Passage Street, Bristol BS2 0JQ.

FINANCIAL CALENDAR 1992/93

Annual General Meeting	3 September 1992
Final dividend for 1991/92 payable	1 October 1992
Half year results to be announced	December 1992
Interim dividend for 1992/93 payable	1 April 1993
Results to 31 March 1993	June 1993

FIVE YEAR SUMMARY

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Turnover	190.8	166.9	147.8	130.8	118.9
Operating profit	67.5	57.5	44.5	53.9	53.6
Net interest receivable/(payable)	8.5	8.5	(17.5)	(29.8)	(28.6)
Profit on ordinary activities before taxation and associates	76.0	66.0	27.0	24.1	25.0
Income from interests in associated undertakings	0.9	-	-	-	-
Profit on ordinary activities before taxation	76.9	66.0	27.0	24.1	25.0
Taxation on profit on ordinary activities	6.5	6.1	3.5	-	-
Profit on ordinary activities after taxation	70.4	59.9	23.5	24.1	25.0
Extraordinary items	-	-	4.2	1.0	-
Profit attributable to shareholders	70.4	59.9	19.3	23.1	25.0
Dividends	20.5	18.2	10.4	-	-
Profit retained	49.9	41.7	8.9	23.1	25.0
Fixed assets	721.4	617.2	556.9	485.8	435.8
Current assets	250.6	199.9	70.9	50.7	21.0
Current liabilities	(106.7)	(79.0)	(61.9)	(97.1)	(78.6)
Net current assets/(liabilities)	143.9	120.9	9.0	(46.4)	(57.6)
Creditors due after more than one year	188.5	64.0	0.9	281.3	243.2
Provisions for liabilities and charges	6.4	8.2	6.5	-	-
Deferred income	7.1	3.4	-	-	-
	663.3	662.5	558.5	158.1	135.0
Called up share capital	121.1	120.9	102.6	-	-
Share premium account	44.8	44.6	0.6	-	-
Profit and loss account	497.4	497.0	455.3	158.1	135.0
	663.3	662.5	558.5	158.1	135.0
Average number of employees	1,869	1,755	1,639	1,556	1,539

The figures for 1988 and 1989 are derived from the Prospectus dated 22 November 1989 issued in connection with the Water Share Offer.

NOTICE OF ANNUAL GENERAL MEETING

The third Annual General Meeting of Wessex Water Plc will be held at the Assembly Rooms, Bennett Street, Bath on Thursday 3 September 1992, 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 1992.
- 2 To declare a final dividend.
- 3 To re-appoint Mr AR Thornhill QC as a director.
- 4 To re-appoint Mr NAW Wheatley as a director.
- 5 To re-appoint Coopers & Lybrand as auditor and authorise the directors to fix the auditor's remuneration.

SPECIAL BUSINESS

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

- 6 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 a special resolution:

- 7 That Article 135 of the Articles of Association of the Company be amended by the addition of a new sub-paragraph (viii) as follows:
“(viii) No fraction of any share shall be allotted. The Directors may make such provisions as they think fit for any fractional entitlements including provisions whereby, in whole or in part, the benefit thereof accrues to the Company and/or under which fractional entitlements are accrued and accumulated on behalf of any shareholder and such accruals shall be paid to such shareholder on the following dividend payment date or applied to the allotment by way of bonus to or cash subscription on behalf of such shareholder of fully paid Ordinary Shares. Without prejudice to the foregoing, for the purposes of making provision for the treatment of fractional entitlements, the Directors may in

their absolute discretion distinguish between shareholders who have given a standing election to receive ordinary shares in lieu of a cash dividend entitlement and shareholders who have so elected in respect only of a particular cash dividend entitlement.”

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

- 8 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 1993, 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 20 November 1989, 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 ordinary shares) in connection with a rights issue; for the purposes of this Resolution “rights issue” means an offer of equity securities open for acceptance for a period fixed by the directors 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 ordinary shares to the extent required by the rights attached to the B ordinary shares but subject in both cases to such exclusions or 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;

ii to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities (other than B ordinary shares) up to an aggregate nominal value of £5,155,000, and

iii to the allotment of B ordinary shares to holders of B ordinary shares up to an aggregate nominal value of £906,750.

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:	By order of the Board
Wessex House	AF Crofts
Passage Street	Company Secretary
Bristol BS2 0JQ	22 June 1992

NOTES

- 1 A member is entitled to appoint one or more proxies 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 1 September 1992.
- 2 Copies of directors' service contracts are available for inspection by shareholders at the registered office during business hours until 2 September 1992 and thereafter at the place of the Annual General Meeting from 10.30 am until the conclusion of the meeting.

EXPLANATORY NOTES

The notice on pages 42 and 43 is the formal notification to shareholders of the meeting, its date, time and place, and the matters to be considered. Separate notes on the proxy form explain the arrangements for shareholders to attend the meeting and to exercise their voting rights.

RESOLUTION 1: DIRECTORS' REPORT AND ACCOUNTS

The directors are required to present to the meeting the report of the directors and the accounts for the Company. The report and accounts and the Auditor's Report are contained in this document. The Auditor's Report will be read at the meeting.

RESOLUTION 2: DECLARATION OF FINAL DIVIDEND

A final dividend can only be paid after it has been approved by the shareholders at a general meeting. The resolution seeks approval to the declaration of a final dividend of 12.9p as recommended by the directors.

RESOLUTIONS 3 AND 4: RE-APPOINTMENT OF DIRECTORS

The Company's Articles of Association (the rules which regulate the Company's internal management and administrative structure) require a proportion of the directors to retire and be re-appointed each year. At the Annual General Meeting AR Thornhill QC and NAW Wheatley will retire by rotation and resolutions 3 and 4 propose their re-appointment as directors.

RESOLUTION 5: RE-APPOINTMENT OF AUDITOR

The auditor of the Company may not continue in office unless re-appointed at each meeting at which accounts are presented. The resolution proposes the re-appointment of the Company's existing auditor, Coopers & Lybrand. The resolution also follows common practice in giving authority to the directors to approve the remuneration to be paid to the auditor.

RESOLUTION 6: 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 may wish to increase their holdings without incurring any costs or stamp duty.

RESOLUTION 7:

ACCUMULATION OF FRACTIONAL ENTITLEMENTS

Several shareholders who elected for the scrip dividend option in lieu of the interim dividend suggested that the small amounts of cash representing the fractional entitlement arising after the issue of ordinary shares be carried forward to the next dividend. Accordingly, the Company seeks approval to a change in its Articles to empower the directors in future to retain such fractional entitlements and/or apply them to the issue of further ordinary shares in the future.

The directors presently intend that, with effect from the next interim dividend, fractional entitlements of shareholders who have made a standing election to receive ordinary shares in lieu of a cash dividend will be accumulated and applied towards the issue of further ordinary shares on the next dividend payment date. The fractional entitlements of shareholders who make an election only in relation to a particular dividend will not be accumulated but will be paid in cash.

RESOLUTION 8: AUTHORITY TO ALLOT SHARES

At an Extraordinary General Meeting of the Company held on 20 November 1989 the directors were generally authorised to allot shares up to an aggregate nominal amount of £136,193,000. This authority is valid until 19 November 1994. The aggregate nominal amount of the issued share capital, excluding the B ordinary shares, is £103,109,181.

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 the B ordinary shares for the purposes of pre-emption rights and would therefore grant holders of B ordinary shares pre-emption rights over ordinary shares and vice versa. Accordingly the Company must disapply Section 89 to distinguish the ordinary shares from the B 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 8 therefore disapplies the pre-emption provisions of the Companies Act 1985:

- i completely for an offer which is made to the ordinary shareholders and the B shareholders.
- ii so as to allow the directors to allot new ordinary shares to anyone, wholly for cash, up to a maximum aggregate nominal value of £5,155,000, equivalent to 5% of the company's issued ordinary share capital at the date of this notice.
- iii so as to allow the directors to allot new B ordinary shares to the holders of B ordinary shares, wholly for cash, up to a maximum aggregate nominal value of £906,750, equivalent to 5% of the Company's issued B ordinary share capital at the date of this notice.

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

