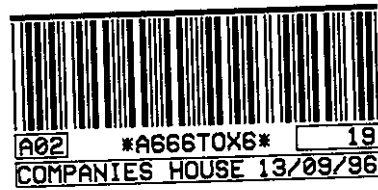


2366633

# WESSEX WATER Plc

ANNUAL REPORT 1996



*Wessex  
Water*

## Contents

2 - 3	Chairman's statement
4 - 5	Overview of Wessex Water Plc
6 - 13	Chief executive's operational and financial review
14 - 15	Directors and advisers
16 - 19	Directors' report
20 - 21	Remuneration committee report
22	Directors' responsibilities and Auditors' report
23 - 42	The accounts
43	Five year summary
44 - 50	Notice of Annual General Meeting
51 - 52	Shareholder information

## Chairman's statement



Nicholas Hood  
Chairman

After such a turbulent time for the water sector in general I am extremely pleased that Wessex Water Plc has turned in another fine performance.

Wessex Water Services continued to excel in the quality of service to customers, in compliance with environmental standards and in operational efficiency. UK Waste, our joint venture with Waste Management International Plc, is doing well and has now achieved market leadership in the waste management sector.

In the year to 31 March 1996 turnover was up 5% to £240.7 million and profit before tax was up 14% to a record £133.9 million. Recognising this performance, we propose to pay a final dividend of 10.2p per share, raising the total payment for the year to 15.2p.

Our success to date and the way we manage the business has produced one of the strongest balance sheets in the sector.

The board has for some time been considering the options for using this balance sheet strength to deliver further higher returns for shareholders. After careful consideration we announced on 6 March our proposal to make an offer for South West Water Plc. This proposal makes sense because:

- we have a proven record of running a high quality efficient utility business
- customers of South West Water would benefit from improved service and a reduction in the level of water and sewerage charges compared with the rates currently approved by OFWAT. In due course Wessex Water's customers would also benefit
- the geographic and commercial fit is compelling and if successful the merger would create a major new utility group for South West England. There would also be considerable benefits from combining the waste management interests of both companies
- shareholders would see earnings enhancement from the first full year following acquisition which would be reflected in future dividend payments
- the acquisition would produce extensive cost savings. The geographical proximity of the service areas of Wessex Water and South West Water and their common boundary, together with our proven ability to manage water and sewerage operations efficiently, make Wessex Water uniquely positioned to obtain the maximum synergy benefits.

As expected, the proposed acquisition has been referred to the Monopolies and Mergers Commission and the outcome of this reference is due in the autumn of 1996.

Investors may be assured that Wessex Water will not overpay for South West Water. If the requirements of the regulatory and competition authorities are too onerous we will not make an offer. We would instead proceed with other options for using our resources to deliver high returns to shareholders.

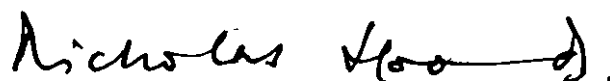
On a sad note, I would like to pay tribute to Donald McLure, deputy chairman, who died suddenly last Christmas. Donald had been associated with Wessex Water for 10 years and became deputy chairman in 1989. He brought commercial, industrial and international experience to the board and he was a very proud and enthusiastic ambassador for the company. Donald would have been delighted with these results and he will be greatly missed.

On 31 May, Pat Barrett joined the board of directors. Pat is chief operating officer of Smurfit Continental Europe and chairman of Porter Chadburn Plc. I welcome him.

All who work for your company know that only by having satisfied customers will Wessex Water be able to please the industry's regulators, critics and our shareholders. Our staff are proud of their company and I thank them for their hard work looking after our customers.

The success of the Wessex Water strategy of doing two things and doing them well is clearly illustrated by these results. The board is determined to utilise our financial resources for the benefit of shareholders.

I remain very confident about the future.

A handwritten signature in black ink that reads "Nicholas Hood". The signature is written in a cursive style with a long horizontal stroke at the end of the name.

Nicholas Hood  
Chairman

## Overview of Wessex Water Plc

Wessex Water Plc has two main business interests - Wessex Water Services and UK Waste.

Our aim is to provide high quality water and environmental services that protect health, improve the environment, give customers good value for money, employees a satisfying career and shareholders a good return on their investment.

Wessex Water Services is the regional water and sewerage company serving an area of the south west of England covering 10,000 square kilometres including Dorset, Somerset, Bristol, most of Wiltshire and parts of Gloucestershire, Hampshire and Devon.

Every day, Wessex Water supplies 400 million litres of high quality drinking water to 1.1 million water customers. We operate 138 water sources, 117 treatment plants, 10,000 kilometres of water mains, 300 pumping stations and over 300 service reservoirs.

*"Customers want to be able to rely on us, our services are vital to public health. That's why it's important for them to know that even if we have a*



Hugh Rickard  
Distribution Manager

*hot dry summer, up to 300,000 extra holidaymakers to deal with and a massive increase in daily use of water, their taps will still flow and they'll still be able to water their gardens. But it's equally important that the quality is reliable too.*

*We operate to strict quality assurance systems. Our whole water production process has been awarded the internationally recognised ISO 9000 standard. Last year we continued to have virtually 100% compliance with arguably the strictest standards in the world".*

Wessex Water provides waste water services to 2.5 million people, treating and safely disposing of 800 million litres of sewage every day. This involves nearly 15,000 kilometres of sewers, 1,210 pumping stations and 346 sewage treatment works. Bathing water quality is very important because the region has 42 EC designated bathing waters including a number of nationally popular resorts on the Dorset and Somerset coasts. These bring tourists to the area and are an essential part of the local economy, providing not just income but employment.

*"We're not just caring for the needs of customers and protecting their health, we're caring for the environment. That means not just protecting it from damage but also improving it where we can. That's why it's so important that our sewage treatment works meet the exacting standards set by the Environment Agency. After all, our region boasts some of the best quality rivers and most popular coastal resorts in the country".*



Chris Wines  
Sewage Treatment Operator

Wessex Water has been in the forefront of the industry in ensuring that its sewage treatment works do not adversely affect bathing waters. In addition, all sewage sludge - the by-product of the sewage treatment process - is recycled to farmland or used for land reclamation purposes. We were the first water company in the UK to stop the disposal of sewage sludge at sea when, in 1992, we adopted Swiss technology and built a Biodrier which turns sewage sludge into dry, odourless granules, which are used as fertiliser.

Wessex Water is committed to providing customers with the best possible service, from offering them a choice of payment methods, to keeping them informed, not only about our day-to-day activities but about all aspects of the water supply and sewerage business.



Ann Goddard  
Community Contact

Last year we were contacted by our customers on around 900,000 separate occasions.

*"Customers who have contacted us, for whatever reason, probably know more about how we can*

*improve our day to day service than we do. That's why we have an independent feedback survey each month so we can find out how well we performed and what lessons we can learn - and then put things right. The most recent figures showed 88% of customers rated our service as excellent or good - but we will keep on trying to reach 100%".*

One of the ways in which we adapt our service to the needs of a largely rural population is the Community Contact Service. Visiting 26 towns across the region each month, it takes our service to our customers.

Our commitment to customer service is further demonstrated by Partnership 2000. Launched in 1994, it offers customers improved service and greater involvement in the running of the business through our independent customer directors, Lesley Bennett and Les Ames.

We offer customers some of the best service guarantees in the industry, with a minimum compensation payment, all underpinned by our 'no quibble' policy.

Formed in 1991, UK Waste is jointly owned by Waste Management International plc and Wessex Water Plc. Our objective for UK Waste when it was established was for it to become the leading waste management business in the country by size, overall profitability and service to customers.

Mainly through the acquisition of 35 businesses, UK Waste has grown from virtually nothing to a nationwide £136 million turnover business in under five years. UK Waste now employs over 2000 people at 60 locations. These include 21 collection depots, 10 transfer stations, 11 landfill sites, two liquid waste treatment centres, four recycling centres and six paper processing plants.

UK Waste has now achieved the objective of market leadership with its size of turnover and level of profits being the highest in the country.

*"When we say we offer a total waste management service - we mean it - right through from picking up household waste to the most advanced waste recycling techniques. Whether it's engineering the best landfill sites or leading the field in waste recovery, our concern is to provide a comprehensive, safe and environmentally sound service to our 25,000 commercial and industrial customers and the one million householders we serve".*



Hilary Kelle  
Depot Manager UK Waste

## Chief executive's operational and financial review

The operational and financial results for the year were again excellent. The highlights were:

- water and environmental quality standards were maintained at very high levels of compliance, virtually 100%. Around 1,300 capital projects were completed which will help ensure continuing high standards in the future
- we maintained our record of supplying water, without any restrictions on customers' use, despite last summer's exceptionally dry weather
- our water services business improved efficiency further, reducing costs by another 4% - costs are now 19% lower, in real terms, than they were four years ago
- maintaining our position as service leader we continued to develop new customer services initiatives under our Partnership 2000 programme, including even better service guarantees, improved compensation for any mistakes and the option to have a meter installed free of charge
- UK Waste achieved its objective of market leadership - growing from virtually nothing to a £136 million nationwide business in under five years.

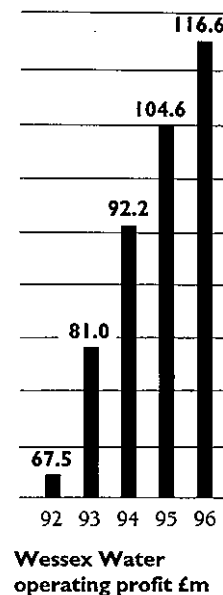
For the fourth time in succession, Wessex Water was ranked as the most highly rated water service company in Britain's Most Admired Companies Survey, independent recognition of another good year and a credit to all involved in the business.

### FINANCIAL REVIEW

Last year produced another set of excellent financial results with turnover up 5% to £240.7 million and

operating profits rising to £116.6 million.

With an increase of 20% in the contribution from UK Waste and continuing interest income, profit before tax rose to a record of £133.9 million, an increase of 14%. Fully diluted earnings per share rose 12% to 39.0 pence and the board is recommending a final dividend of 10.2p per share, raising the total payment for the year to 15.2p per share. This dividend reflects the success of our water services business and the growing contribution from UK Waste.



Net cash resources increased during the year to £62 million. Investment of £88 million was made in capital and infrastructure maintenance expenditure. £13 million was used for the acquisition of the specialist Swiss based sludge drying business S C Technology AG and a further £10 million was invested in UK Waste. £42 million was paid in dividends and taxes. The balance represents cash flow from operations and movements in working capital.

Excluding the investment in new businesses, there was a net positive cash flow of £24 million.

This strong performance is the result of the continuing reduction of operational costs and the efficient way we delivered our own investment programme. The net cash resources at 31 March 1996 were made up of short term cash investments offset by loans and finance leases. Successful treasury management during the year produced interest income of £5.1 million.

Our treasury policy is to maximise returns without undue risk. We have been successful in avoiding high cost fixed interest borrowing in a period of reducing interest rates.

The taxation position of the group is changing as we move towards the payment of more mainstream corporation tax. We are, however, able to utilise advance corporation tax previously written off against this liability and to carry the balance forward.

### WESSEX WATER SERVICES

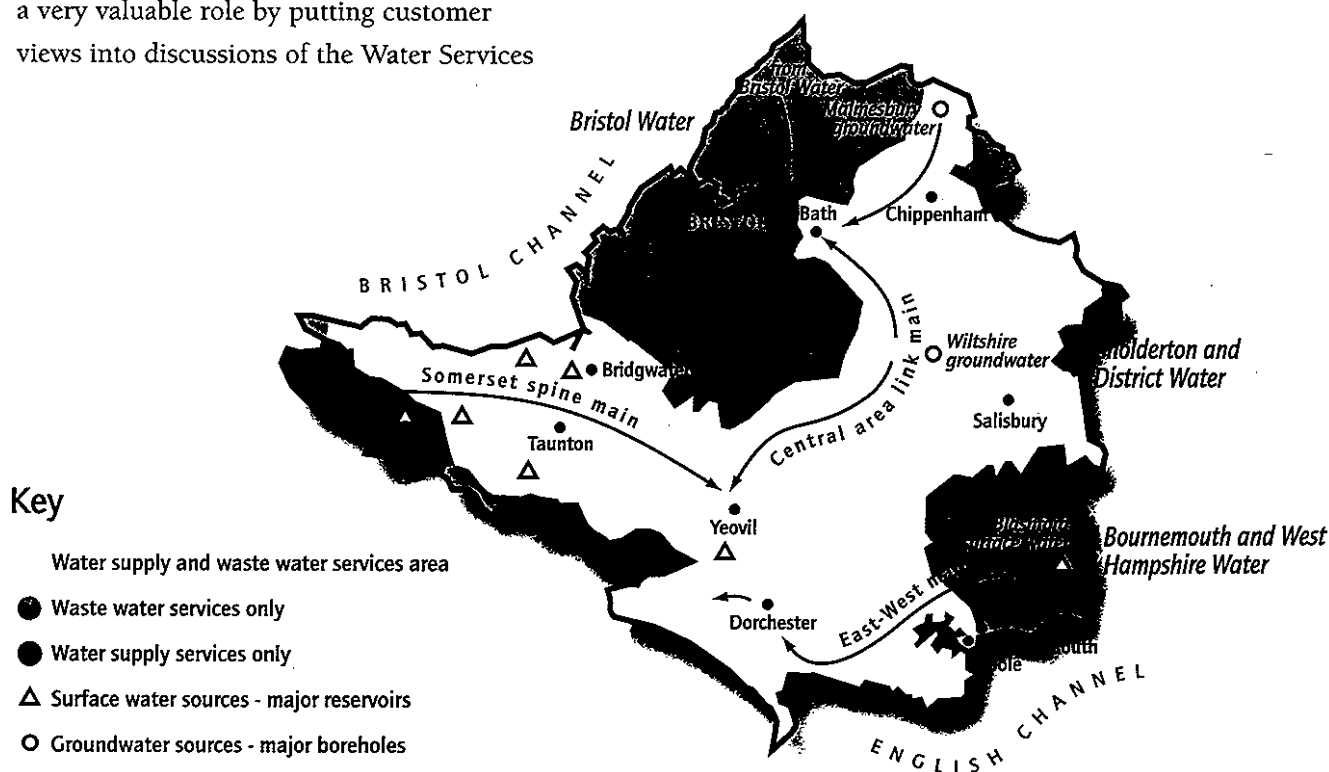
The company continued to deliver high standards, improve efficiency and provide customers with an excellent service. Providing customers with the services they want at a competitive price is our first priority. The success of any business depends on having satisfied customers so a great deal of effort goes into customer research and consultation. Our independent customer directors play a very valuable role by putting customer views into discussions of the Water Services

board. Monthly surveys, conducted by independent researchers, monitor the views of customers who have contacted us with an enquiry or problem. These surveys help us monitor our performance and make service improvements.

### Distinguishing Wessex Water Services

Although some water companies have been justifiably criticised in recent months, many of the clear improvements to service to Wessex Water's customers have been ignored by those, particularly in the media, who lump all water companies together. Water companies do differ and Wessex Water is determined to act in ways which will change these overall perceptions.

The Wessex Water region showing our main water grid system





## Chief executive's operational and financial review *continued*

In January, the company withdrew from the Water Services Association - the trade association for the water and sewage businesses covering England and Wales. We felt that as long as the company was seen as part of the water industry, we would not be given credit where credit was due. We were already taking initiatives designed to set us apart from the rest of the industry. The board believes it is better for us to establish a clear, separate identity and not be constrained by having to follow a 'lowest common denominator' group line, with which we frequently found ourselves out of step.

### Delivering high standards

An important aspect of the quality of our service was demonstrated during last year's exceptionally dry summer when, despite record low rainfall, there were no restrictions in water supply anywhere in the Wessex region. Effective investment in water resources, our ability to move water to where it was needed through our regional grid system and the hard work of all our employees, ensured customers' supplies were not restricted.

We firmly believe customers have a right to the services they pay for and those few who were inconvenienced by low pressure during periods of exceptional demand were paid compensation.

Over the winter we brought forward and completed three schemes which will give added security to water supplies in Somerset, so that whatever kind of summer we have in 1996, our customers will again be free from any hosepipe bans or restrictions.

The programme of major works to upgrade our water treatment plants ended with the completion of a £12 million scheme at Durleigh in Somerset. Investment is continuing to improve the distribution network, renew or reline sections of old mains and reduce leakage levels. Good progress was made towards our target of reducing leakage to 15% by 2005.

Blashford Lakes Reservoir, Hampshire  
*this new water resource linked into our regional grid helped us maintain unrestricted supplies to all customers through the drought of 1995*



The three year project to construct a £35 million state-of-the-art sewage treatment works at Poole was completed and a major tunnelling project to increase the capacity of the sewerage system at Swanage is progressing.

Work has also begun on a £36 million scheme to construct a new sewage treatment works for Weston-super-Mare.

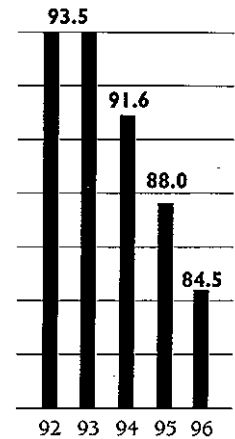
In all, around 1,300 capital projects were completed last year and compliance with the legal standards for drinking water and sewage treatment discharges was maintained at virtually 100%.

Wessex Water's coastline includes many bathing waters popular with visitors and tourism is very important to the regional economy. The company has recently set a long term target of installing full treatment for all discharges made to bathing and recreational waters. This will take us well beyond the minimum legal requirements.

#### Improving efficiency

Last year the costs of running the water business fell by another 4% despite some additional running costs during the exceptionally dry period last summer. As a result of this excellent performance, costs are now 19% lower in real terms, than they were four years ago. Across the company employees have found ways to reduce costs whilst maintaining high standards.

We are confident of maintaining the momentum of cost reductions.



Water business operational costs £m

Poole waste water treatment plant - the new biological aerated filtration plant

*one of the most innovative treatment plants in Europe, providing full treatment for sewage from the important seaside resort of Poole*



### Improving customer relations

We are determined to be the service leader within the water industry. We have continued to make improvements to customer service through our Partnership 2000 initiative - a five year rolling programme giving customers greater involvement and improved service. Launched in 1994, Partnership 2000 introduced:

- the appointment of two independently - selected customers as directors on the Wessex Water Services board
- business and domestic customer guarantees well beyond OFWAT minimum standards and 'no quibble' compensation payments
- a customer dividend in kind, sharing potential savings on capital projects
- a campaign for a fairer charging policy based on council tax bands and a free meter option.

Further Partnership 2000 improvements announced over the year which maintain our position as service leader included:

- the phased abolition of standing charges for unmetered customers
- even better service guarantees for domestic and business customers
- automatic compensation at the highest level offered by any UK water company if we fail to meet our standards of service
- the option for domestic customers to have a water meter installed free of charge.

Twice during the year in separate studies, the Office of Water Services, praised the company's ability to achieve and maintain high levels of customer service.



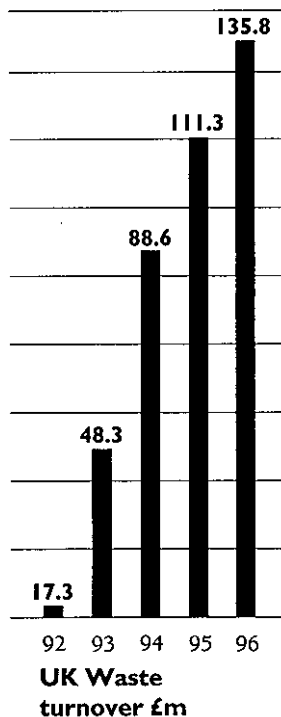
In one report, Wessex Water was the only water and sewerage business in the UK described as "performing well" against comparable measures of service. In another, our performance was judged as "best practice" in the industry in handling customer complaints.

Our 'Person to Person' Community Contact service proved very popular during the year attracting over 4,000 customers. The service, which regularly visits 26 towns across the Wessex region, provides a local point of contact for queries and the payment of bills. In addition, a visiting service is available to help customers choose their own payment arrangements.

With the water industry in general being criticised for some companies' performance failures, it is even more important to explain to our customers what it is that we do in our own region. Whether it is describing the impact and benefit of our many capital investment projects, the opening of our sites for visits by the general public or the hundreds of talks given to local groups across the region, we aim to stay close to our customers.

## UK WASTE

The results for the year confirm that UK Waste has achieved our objective of market leadership,



growing from virtually nothing five years ago to a £136 million turnover business today.

Profit before tax was £24.4 million compared with £20.4 million the previous year. Wessex Water Plc's share of the profit was £12.2 million - an increase of 20%.

Over the year, UK Waste acquired a further eight 'tuck in' businesses and a landfill site in the Midlands. Several new facilities were opened including landfill

sites on Merseyside and in Belfast, a fibre fuel processing plant at Slough and recycling facilities in Hull, Edinburgh, Glasgow and Hampshire.

Major contracts for new commercial and industrial customers included the award of a £10 million long term contract to design, build and operate a glass processing plant for the British Glass Recycling Company. There is increasing demand for the company's total waste management and recycling services which is reflected in the number of major national contracts secured with large producers of waste.

We are pleased that the landfill tax which is being introduced in the autumn will be based on the weight of waste landfilled rather than on value as originally planned. This provides greater incentives for waste producers to dispose of their waste properly and seek ways to minimise and recycle it. UK Waste is benefiting from the additional business which this is bringing. Through the acquisition of several waste paper processing businesses and the development

### Hartley Wintney Materials Recovery Facility, Hampshire

*some of the 230,000 tonnes of waste paper and board handled by UK Waste, baled and ready to be recycled. Recycling is the fastest growing area of UK Waste's business*





of materials recovery facilities, UK Waste has become one of the largest recycling businesses in the country - handling around 230,000 tonnes of waste paper and board annually.

The company established a Recycling Services Division during the year to focus effort on this market. Other specialised services include office waste recycling, electronic equipment recovery and the manufacture of fuels from waste.

#### ENVIRONMENTAL RESPONSIBILITY

All of our business operations have an impact on the environment - from the supply of drinking water to the collection, treatment and safe disposal of liquid and solid wastes. We pride ourselves in maintaining high standards and this was recognised in a recent survey in which Wessex Water was voted one of the top 10 companies in the country for environmental responsibility.

We were also the only water company in the country to become a founding partner of

"Forum for the Future" - a new environmental charity committed to research for positive solutions to environmental problems and building a sustainable way of life.

We continue to work with the Environment Agency in identifying ways of resolving low river flows in catchments where water abstraction has an impact. Good progress was made with stream support measures for the River Piddle in Dorset, the River Wylye in Wiltshire and the River Avon at Malmesbury. A number of Wessex Watermark awards were made to local groups who sought assistance on a variety of water related environmental projects. Since the scheme was established in conjunction with the Conservation Foundation, 150 local organisations have benefited from awards totalling £90,000. UK Waste became the first company in the waste management industry to achieve four accreditations under the new British Standard 7750 for environmental management. This was achieved at landfill sites

Bristol primary school children

*learning in their conservation area, which received a Wessex Watermark award, just one aspect of Wessex Water's varied work in the community*



in Northern Ireland, West Sussex, Cheshire and Humberside. A programme is in place to obtain BS7750 accreditation for all of UK Waste's recycling, treatment and disposal facilities.

### **COMMUNITY INVOLVEMENT**

Wessex Water continues to play an active part in supporting the economic and social well-being of the region it serves.

The company strongly supports the efforts of employees who participate in a wide range of activities in the communities in which they live and work. In addition to continued support from the Community Plus Fund which matches the fund raising efforts of staff, teams from Wessex Water participated in Challenge West 95, taking up challenges from regional charities to help them with specific projects. Education centres which give schools and colleges a base for their studies have been established at Ashford in Somerset and Sutton Poyntz in Dorset. Further projects at company sites are nearing completion at Trowbridge in Wiltshire and Blashford Lakes in Hampshire. Strong links have also been forged with education business partnerships which promote closer links between schools and industry.

UK Waste continued to work with environmental and educational organisations such as the Groundwork Trust and Waste Watch. Its unique robot, 'Cycler', made from recycled material continued on its nationwide tour promoting good waste management practices - it has now met over 50,000 school children. UK Waste's Moore Nature Reserve in Warrington proved popular with visitors, and organisations throughout the North West took part in a woodland extravaganza in November. Through Chairman Nick Hood's role as Deputy Chairman of Business in the Community we have maintained our close links with its Environmental and Regeneration Programmes.

Wessex Water has given significant support to Bristol 2000, the millennial project which will transform the heart of Bristol and provide the region with a new centre for education, science, nature and the arts.

Wessex Water has maintained its strong support for WaterAid, the industry's own charity which works overseas in developing countries helping local populations reduce water borne diseases. Last year the Wessex region of WaterAid raised another £230,000 thanks to the efforts of staff and a generous £90,000 contribution from our customers. This money will go to help many projects. Together with other staff closely involved with WaterAid, I was privileged to see at first hand the benefits clean water and proper sanitation are bringing to communities in Ethiopia.

### **OUR EMPLOYEES**

The most encouraging aspect of a very successful year has been the way staff throughout the company have responded to the challenge of improving standards and service whilst at the same time reducing costs. Whether dealing with drought, storms, new billing systems, business development or preparing the proposals in connection with our bid for South West Water, the team spirit and innovation shown has been remarkable.

At a time when there has been much criticism of some water service companies, shareholders and employees can be rightly proud of Wessex Water's achievements. We can also be very confident about the future development of the business.



Colin Skellett  
*Chief executive*

## Directors and advisers

### DIRECTORS



**WN Hood CBE, CBIM (60)#**

*Chairman*

Appointed chairman September 1989; chairman of Wessex Water Authority 1987-89. Non-executive director of Winterthur Life UK Ltd, Commercial Union Environment Trust plc and APV plc. Member of the Water Training Council and first vice president of the International Water Supply Association. Deputy chairman of Business in the Community. Member of The Prince's Council. Chairman of Bristol 2000 and director of the Bristol Centre for Performing Arts.



**CF Skellett MSc, CChem, FRSC, FIWEM (51)#**

*Chief executive*

Appointed chief executive January 1995 having been managing director since September 1989. Member of the British Committee of the International Water Supply Association.



**NAW Wheatley FCA (54)**

*Finance director*

Appointed finance director September 1989 having been finance director of Wessex Water Authority since March 1989. Previously finance director of UK companies in several different industries.

**P A Barrett OBE (59)\***

Appointed 31 May 1996. Chief operating officer of Smurfit Continental Europe and chairman of Porter Chadburn Plc. Former directorships include Russell Reynolds Associates, TI Group and Continental Can Ltd. Past president of The British Fibre Board Packaging Association.

**E G Falkman BA MA JD (51)\***

Appointed February 1991. Chairman 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 Executive Committee of the World Business Council for Sustainable Development.

**Sir Terry Heiser GCB (64)\***

Appointed January 1993. Former Permanent Secretary at the Department of the Environment 1985-92. Non-executive director of Abbey National plc, J Sainsbury plc, McDonnell Information Systems Group plc and Costain Group PLC. Member of the Executive Committee of the National Trust. Chairman of the General Advisory Council of the BBC.

**R D Kent MBA (48)\*#**

*Chairman of audit committee*

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 and M & G Group PLC.

**Lord McGowan (57)\***

*Chairman of remuneration committee*

Appointed 29 July 1994. Chairman, Panmure Gordon & Co Ltd, stockbrokers, for whom he has worked since 1968 and a director of West Merchant Bank Holdings Ltd. Non-executive director of BNB Resources PLC.

\* Non-executive director and member of the remuneration and audit committees

# Member of the nomination committee

**ADVISERS**

Auditors  
Legal Adviser  
Banker  
Financial Adviser  
Stockbroker  
Registrar

Coopers & Lybrand  
Linklaters & Paines  
Midland Bank plc  
Barclays de Zoete Wedd Ltd  
Panmure Gordon & Co Ltd  
The Royal Bank of Scotland 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 1996.

### 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, which trades as UK Waste.

A review of progress and the activities of the group during the year and for the future is given in the chief executive's operational and financial review on pages 6 to 13. The names and activities of the principal operating subsidiary companies and associated undertakings are given in note 32 to the accounts on page 42.

### PROFIT AND DIVIDEND

Group profit for the year after taxation amounted to £112.9 million. The directors recommend a final dividend of 10.2p per ordinary share to be paid on 1 October 1996 to shareholders on the register at the close of business on 9 July 1996. Together with the interim dividend of 5.0p per share, this will make a total of 15.2p per share for the year.

### SUBSTANTIAL SHAREHOLDERS

UK Waste Management Holdings, a subsidiary of Waste Management International plc, holds 50.7 million shares of the company, amounting to 19.6% of total ordinary issued share capital.

The company has been notified of substantial interests of 3% or more of the issued 60p ordinary shares by Prudential Corporation (7.0%), Scottish Widows Investment Management (4.0%), Lloyds TSB Group plc (3.5%) and Standard Life Group (3.5%) as at 20 June 1996.

### BOARD OF DIRECTORS

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

The directors are sad to record the death of D N A McLure on 27 December 1995. Donald McLure had been deputy chairman since 1989 and was a former member of Wessex Water Authority.

At the Annual General Meeting on 6 September 1996 W N Hood and C F Skellett will retire by rotation in accordance with the Articles of Association of the company and, being eligible, will offer themselves for re-appointment. Both directors have a service contract which may be terminated by the company with one year's notice.

On 31 May 1996 P A Barrett joined the Board as a non-executive director and he will offer himself for appointment by shareholders at the Annual General Meeting.

The beneficial interests of the directors and their families in the shares of the company are shown in note 21h on page 38. During the year no director was materially interested in any contract with the company or with any of its subsidiaries.

## **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, conferences and the half-yearly publication of financial results.

Employees are encouraged to become shareholders in the company. Around 96% of employees hold shares under the profit sharing scheme and approximately 47% hold options under the sharesave scheme. The details of the share schemes for employees are shown in note 21g on pages 36 and 37.

## **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 advisory panel, an environmental charter and a separate environmental report is prepared indicating the progress made in this area during the year. Further details are included on page 12 of the chief executive's operational and financial review.

## **RESEARCH AND DEVELOPMENT**

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

## **CHARITABLE DONATIONS**

During the year Wessex Water donated £77,300 to UK charities. A further £25,000 was donated for Wessex Watermark environmental awards through a registered charity. No contributions were made to political organisations.

## Directors' report *continued*

### **SUPPLIER PAYMENT POLICY**

The company's policy in respect of payments to suppliers is to agree individual payment terms for transactions in advance and to make payments in accordance with those terms.

### **CORPORATE GOVERNANCE**

The company has complied throughout the year with the requirements of the Cadbury Committee's Code of Best Practice.

A statement of the directors' responsibilities in respect of the financial statements is set out on page 22.

#### **Going concern**

The directors are satisfied that the group has adequate resources to continue in operation for the foreseeable future and have used the going concern basis in preparing the financial statements.

#### **Internal financial control**

The board of directors has overall responsibility for systems of internal financial control. Such systems provide a reasonable, but not an absolute, assurance against material errors, losses or fraud.

The board meets regularly and has adopted a schedule of matters which are required to be brought to it for decision. By this means the board maintains control over significant strategic, financial, organisation, investment and compliance issues.

The board has put in place an organisation structure with clearly defined levels of responsibility and delegation of authority.

The audit committee has reviewed areas of key financial risk and the effectiveness of systems of internal financial control. It also reviews the work programmes and findings of internal and external auditors.

The directors have delegated the implementation and operation of systems of internal financial control to the executive management. The control systems operate through accounting policies, authorisation levels, tendering procedures, IT security guidelines, segregation of duties and regular certification of compliance with these control systems by responsible managers.

#### **Auditors' confirmation**

The auditors have confirmed that, in their opinion: with respect to the directors' statements on internal financial control and going concern above, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware

from their audit work on the financial statements; and that the directors' other statements appropriately reflect the company's compliance with the other paragraphs of the Code specified for their review. They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

### **SHARE CAPITAL**

On 9 April 1996 263,760 60p ordinary shares were allotted following the company's interim scrip dividend offer of 19 January 1996.

### **ANNUAL GENERAL MEETING**

The Annual General Meeting will be held at 11.00 am on Friday 6 September 1996 at the Assembly Rooms, Bennett Street, Bath. The proposed resolutions, together with explanatory notes on the special business, are given on pages 44 to 50.

### **AUDITORS**

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

By order of the board

A F Crofts

Company secretary

20 June 1996



## Remuneration committee report

The remuneration committee determines remuneration and terms of employment of the chairman, executive directors and senior executives. The committee is chaired by Lord McGowan and comprises solely non-executive directors as detailed on page 15. The constitution and operation of the committee complies with the best practice provisions of Section A of the supplement to the Listing Rules of the London Stock Exchange. In determining remuneration policy the committee has given full consideration to the best practice provisions outlined in Section B of the supplement to the Listing Rules.

### REMUNERATION POLICY

The key remuneration policy objectives are to ensure that directors and senior executives are fairly rewarded for their individual contributions towards group performance and to enable the company to attract and retain high calibre executives. In making its judgements on these matters, the committee has taken account of external criteria, including those relating to comparator companies, and advice from independent remuneration consultants. During the year the committee has reviewed the remuneration arrangements of directors and senior executives, as recommended in the Greenbury Report. The remuneration elements for chairman and executive directors are:

i salary and benefits

Salary and benefits are based on surveys conducted by external consultants, reviewed annually by the remuneration committee. Salary levels may be adjusted over a number of years to reflect a change in individual responsibilities. Once established at an appropriate level, salaries would only be expected to increase within the range applicable to the workforce as a whole.

ii performance related bonus

Annual performance related bonuses are awarded on the achievement of profit targets and an assessment, by the remuneration committee, of the individual's contribution to the overall performance of the group during the year.

iii provision for pension

The chairman and executive directors are members of the group pension schemes, detailed on page 41 in note 30 to the accounts, which provide retirement benefits based upon length of service and pensionable salary. They are also entitled to an additional pension, rising to a maximum of 10% of pensionable salary on retirement after 1 January 2000.

Pensionable salary includes bonus payments for all members of each scheme. Under the rules of the Wessex Water Mirror Image Pension Scheme, certain taxable benefits are also pensionable. The remuneration committee has taken account of the position in assessing the overall remuneration package of directors and senior executives. Due regard is given to the implications of bonus payments on the pension funds.

iv service contract

The chairman and each executive director have a service contract subject to one year's notice.

Full details of these elements of remuneration are set out in note 9d on page 31.

### **SHARE OPTION SCHEMES**

The chairman and executive directors hold options granted under an Inland Revenue approved executive share option scheme and, in common with all employees, are eligible to participate in a savings related share option scheme. Details of these schemes and the directors' interests in options to acquire shares in the company are set out in note 21g on pages 36 and 37. No options have been granted under the executive share option scheme since August 1994 and it is not intended to grant any further options under that scheme.

### **LONG-TERM INCENTIVE PLAN**

The committee considers that a new long-term incentive plan for executive directors and senior executives should be introduced to focus their efforts on the long term performance of the company in a way which aligns with shareholder interests.

It is proposed that participants will receive a conditional award of Wessex Water shares of up to 40% of basic salary at the discretion of the remuneration committee. The proportion of the award to be released to participants after a period of three years will depend upon Wessex Water's performance in terms of total shareholder return (ie, share price movement and reinvested dividends) relative to a comparator group of utility companies in water, electricity and gas distribution, or such other appropriate grouping as the committee may determine, over that three year period. No shares will be awarded to participants for below median performance. For the full award the total shareholder return must be in the top quartile of the comparator group. Participants will be required to retain the shares, held in trust, for a further period of one year after they have been awarded.

There will be an over-riding performance condition such that no awards will be made unless the company's earnings per share over the previous three financial years has increased by at least 2% per annum more than the growth in the Retail Prices Index over the same period.

Shareholder approval for the plan will be sought at this year's Annual General Meeting. Details of the plan are summarised in the explanatory note to resolution 8 on pages 47 to 49.

## Directors' responsibilities

The directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the company and 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 directors are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the company and group. The directors are also responsible for safeguarding the assets of the company and group and for taking reasonable steps to ensure the prevention and detection of fraud and other irregularities.

## Auditors' report

### Auditors' report to the members of Wessex Water Plc

We have audited the financial statements on pages 23 to 42.

### 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.

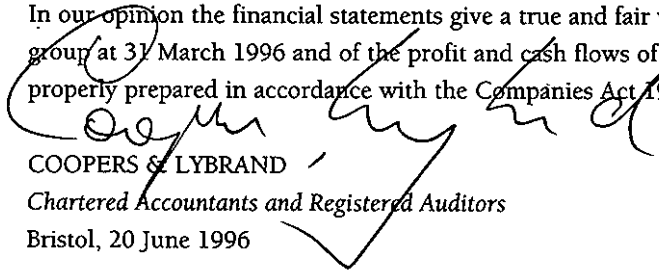
### Basis of opinion

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 company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1996 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, 20 June 1996

# Consolidated cash flow statement

for the year to 31 March 1996

	Note	1996 £m	1996 £m	1995 £m	1995 £m
Net cash inflow from operating activities	25		145.2		130.1
<b>Returns on investments and servicing of finance</b>					
Interest received		12.9		13.0	
Interest paid		(4.7)		(5.2)	
Interest element of finance lease rental payments		(7.5)		(9.3)	
Dividends paid		(33.3)	(32.6)	(26.5)	(28.0)
<b>Taxation</b>					
Corporation tax paid		(0.6)		-	
Advance corporation tax paid		(8.3)	(8.9)	(6.7)	(6.7)
<b>Investing activities</b>					
Purchase of tangible fixed assets		(87.5)		(72.7)	
Sale of tangible fixed assets		0.7		3.1	
Connection charges, grants and deferred income received		6.0		10.8	
Purchase of subsidiary undertaking (net of cash)	11	(12.3)		-	
Investment in associated undertaking		(10.1)		(15.4)	
Cash investments with maturities over 3 months		(2.7)	(105.9)	(24.8)	(99.0)
<b>Net cash outflow before financing</b>			(2.2)		(3.6)
<b>Financing</b>					
Issue of ordinary share capital	26	0.9		1.7	
Capital element of finance lease rental payments	26	(6.4)	(5.5)	(5.4)	(3.7)
<b>Decrease in cash and cash equivalents</b>	27		(7.7)		(7.3)
<b>Net cash statements for the year to 31 March 1996</b>					
Net cash represents the cash resources available to the group, and comprises cash investments less overdraft, loans and leases.					
<b>Reconciliation of movement in net cash</b>					
Net cash outflow before financing (as above)			(2.2)		(3.6)
Cash on acquisition of subsidiary	11		(0.8)		-
Issue of ordinary share capital	26		0.9		1.7
Cash investments with maturities over 3 months	15		2.7		24.8
<b>Increase in net cash</b>			0.6		22.9
<b>Net cash</b>					
Cash investments	15		209.3		212.3
Bank overdraft	16		(4.0)		(2.0)
Loans and finance leases repayable within one year	16		(8.1)		(6.4)
Loans and finance leases repayable after more than one year	17		(135.6)		(142.9)
			61.6		61.0



# Notes to the accounts

for the year to 31 March 1996

## 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 and, except for the treatment of certain grants and contributions, with 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 1996. 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.

### 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:

Buildings and operational structures	15 - 80 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, without deduction of grants and contributions which would be accounted for as deferred income. 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 accordingly the related grants and contributions would not be recognised through the profit and loss account. The effect on the value of fixed assets is disclosed in note 10.

**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 Acquisition accounting**

Goodwill arising on acquisition, being the excess of purchase consideration over the fair value of assets and liabilities acquired, is eliminated immediately against reserves.

**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 pension schemes 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 1996

<b>1 Turnover</b>	<b>Group</b>	
	1996	1995
	£m	£m
Analysis by class of business		
Water supply	81.4	78.0
Waste water	159.3	151.1
	<hr/>	<hr/>
	240.7	229.1
	<hr/>	<hr/>
<b>2 Operating profit</b>		
<b>a Analysis by class of business</b>		
Water supply	28.3	26.8
Waste water	88.3	77.8
	<hr/>	<hr/>
	116.6	104.6
	<hr/>	<hr/>
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>b Operating profit is shown after charging the following costs:</b>		
<b>Operational costs</b>		
Manpower costs (note 9)	23.6	26.7
Materials and consumables	23.0	22.4
Other operational costs	39.3	38.9
	<hr/>	<hr/>
	85.9	88.0
<b>Depreciation</b>		
Depreciation	27.2	24.7
Amortisation of grants and contributions	(0.7)	(0.6)
Loss on disposals of fixed assets	0.8	1.4
	<hr/>	<hr/>
	27.3	25.5
<b>Infrastructure maintenance expenditure (note 18)</b>	10.9	11.0
	<hr/>	<hr/>
<b>Total costs</b>	124.1	124.5
	<hr/>	<hr/>
<b>c Operational costs include:</b>		
Operating leases for plant and machinery	0.5	0.4
Other operating leases	0.3	0.5
Research and development	0.6	0.8
Directors' remuneration (note 9)	0.7	0.7
Audit fees, company and group (note 31)	0.1	0.1
	<hr/>	<hr/>

### 3 Net interest receivable

	Group	
	1996 £m	1995 £m
Interest payable		
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	0.5	0.4
Not wholly repayable within five years	4.0	3.1
Finance leases	7.5	7.7
Other	0.3	0.2
Total interest payable	12.3	11.4
Interest receivable	17.4	13.6
Net interest receivable	5.1	2.2

### 4 Share of results of associated undertakings

The financial statements incorporate Wessex Water Plc's share of the results of Wessex Waste Management Ltd for the 12 months to 31 March 1996. The accounting reference date of Wessex Waste Management Ltd is 31 December 1995.

#### Wessex Waste Management Ltd

Turnover	135.8	111.3
Operating costs	111.5	91.0
Operating profit	24.3	20.3
Interest receivable	0.1	0.1
Profit before tax	24.4	20.4
Wessex Water group share	12.2	10.2

### 5 Taxation

#### a Taxation on profit on ordinary activities

UK corporation tax at 33% (1995 - 33%)	19.7	11.2
Advance corporation tax utilised relating to prior years	(11.9)	(6.8)
Advance corporation tax on dividends for the year	8.9	8.2
Share of tax charge of associated undertaking	4.3	3.6
	21.0	16.2

The cumulative amount of advance corporation tax written off of £27.0m (1995 - £30.0m) remains available to reduce any future liabilities to UK corporation tax.

## Notes to the accounts *continued*

for the year to 31 March 1996

### 5 Taxation *continued*

#### b Deferred taxation

No deferred tax has been provided as projections indicate that the potential liability will not crystallise within the foreseeable future. The full potential amount of deferred taxation calculated at 33% (1995 - 33%) on all timing differences is as follows:

	Group	
	1996	1995
	£m	£m
Accelerated capital allowances	174.4	152.6
Other timing differences	(7.4)	(6.7)
Advance corporation tax recoverable	(27.0)	(30.0)
	140.0	115.9

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

### 6 Dividends

#### On equity shares

##### Ordinary shares

Interim dividend of 5.0p per share (1995 - 4.4p)	10.7	11.2
Proposed final dividend of 10.2p per share (1995 - 8.8p)	21.9	22.6
	32.6	33.8

#### On non-equity shares

##### B ordinary shares

Total dividend of 1.557p per share (1995 - 1.2975p)	0.5	0.5
---	-----	-----

##### C ordinary shares

Total dividend of 2.5335p per share (1995 - 2.11p)	0.3	0.3
--	-----	-----

##### Preference shares

At 5.81875% net for the period 7 September 1995 to 31 March 1996	5.1	-
--	-----	---

	38.5	34.6
--	------	------

### 7 Earnings per ordinary share

The calculation of earnings per ordinary share for 1996 and 1995 is based on the profit attributable to ordinary shareholders, less the dividend payable on B and C ordinary shares, assuming the capital restructuring had taken place on 1 April in both years.

The weighted average number of ordinary shares used in the calculation is 214.1m (1995 - 211.7m).

### 8 Fully diluted earnings per ordinary share

The calculation of fully diluted earnings per ordinary share for 1996 and 1995 is based on the profit attributable to ordinary shareholders plus notional interest on outstanding share options, as if the capital restructuring and issue of share options had taken place on 1 April in both years. The weighted average number of ordinary shares used in the calculation is 273.6m (1995 - 271.2m).

## 9 Employment costs

		Group	
		1996	1995
		£m	£m
a	Total employment costs of the group:		
	Wages and salaries	30.4	33.3
	Social security costs	2.4	2.7
	Other pension costs	3.1	3.1
		<u>35.9</u>	<u>39.1</u>
b	Total employment costs are charged as follows:		
	Capital schemes	10.3	11.0
	Infrastructure maintenance expenditure	2.0	1.4
	Manpower costs	23.6	26.7
		<u>35.9</u>	<u>39.1</u>
c	Number of full time equivalent employees at 31 March	1,469	1,582
	Monthly average number of employees during the financial year	<u>1,526</u>	<u>1,708</u>
d	Directors' remuneration:		
i	Fees, salaries, performance related bonuses and taxable benefits		
		1996	1995
		Total	Total
		£000	£000
	Fees		
	£000		
	Salary		
	£000		
	Bonus		
	£000		
	Benefits		
	in kind		
	£000		
	W N Hood	184	183
	C F Skellett	160	147
	N A W Wheatley	136	128
	Dr A K Barbour	-	11
	E G Falkman	-	-
	Sir Terry Heiser	16	16
	R D Kent	16	15
	Lord McGowan	16	10
	D N A McLure	21	26
	A R Thornhill	-	8
		<u>549</u>	<u>544</u>
ii	Pension contributions		
	W N Hood	50	48
	C F Skellett	43	39
	N A W Wheatley	36	33
		<u>129</u>	<u>120</u>

Remuneration policies are stated in the remuneration committee report on pages 20 and 21.

**Notes to the accounts** *continued*  
for the year to 31 March 1996

**10 Tangible fixed assets**

	Freehold land and buildings	Infra- structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Group total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 April 1995	306.0	381.0	289.7	33.3	101.8	1,111.8
Acquired with subsidiary	-	-	1.4	-	-	1.4
Additions	9.4	12.0	21.9	4.0	26.3	73.6
Transfers on commissioning	23.9	26.0	35.4	2.1	(87.4)	-
Disposals	(0.6)	-	(1.7)	(0.8)	(0.3)	(3.4)
Government grants & contributions	-	(4.4)	-	-	-	(4.4)
<b>At 31 March 1996</b>	<b>338.7</b>	<b>414.6</b>	<b>346.7</b>	<b>38.6</b>	<b>40.4</b>	<b>1,179.0</b>
<b>Depreciation</b>						
At 1 April 1995	48.3	-	110.7	23.4	-	182.4
Acquired with subsidiary	-	-	0.4	-	-	0.4
Provision for year	5.3	-	18.4	3.5	-	27.2
Disposals	(0.1)	-	(1.4)	(0.7)	-	(2.2)
<b>At 31 March 1996</b>	<b>53.5</b>	<b>-</b>	<b>128.1</b>	<b>26.2</b>	<b>-</b>	<b>207.8</b>
<b>Net book value</b>						
At 31 March 1996	285.2	414.6	218.6	12.4	40.4	971.2
At 31 March 1995	257.7	381.0	179.0	9.9	101.8	929.4

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 include furniture and fittings, laboratory and other equipment.

The net book value of assets held under finance leases is £87.5m (1995 - £89.4m).

The depreciation charge for the year on assets held under finance leases is £1.9m (1995 - £1.9m).

The net book value of infrastructure assets is stated after the deduction of grants and contributions amounting to £36.1m (1995 - £31.7m) in order to give a true and fair view - see accounting policy g.

## 11 Investments

### a Fixed asset investments

	Group	Company	Company	Company
	Associated undertakings £m	Subsidiary companies £m	Associated undertakings £m	Total £m
Cost				
At 1 April 1995	45.8	81.4	155.7	237.1
Additions	9.2	13.1	9.2	22.3
Share of retained profit	7.9	-	-	-
Proportion of goodwill written off by associated undertaking	(7.9)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1996	55.0	94.5	164.9	259.4

The principal subsidiary companies and associated undertakings are listed in note 32.

During the course of the year the company provided funding to Wessex Waste Management Ltd of £9.2m. £6.7m was provided for the acquisition of additional businesses and £2.5m 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.

### b Acquisition

On 3 January 1996 the group acquired 100% of the share capital of SC Technology AG for £13.1m, including cash of £0.8m, resulting in a net cash outflow of £12.3m. This company, which trades throughout the world as Swiss Combi, designs, builds and operates sludge drying equipment. The net liabilities on acquisition were £0.3m, comprising fixed assets £1.0m, goodwill £1.1m, cash £0.8m, work in progress £6.8m, debtors £5.3m, less creditors £14.4m and loans £0.9m. The goodwill was written off. These amounts then represented the fair value of assets and liabilities acquired, no other fair value adjustments were made, resulting in net liabilities of £1.4m and a goodwill write off of £14.5m. The accounting reference date for SC Technology AG is 31 December.

If future sales of sludge drying plants exceed certain thresholds, further consideration will be payable by Wessex Water Plc up to a maximum of £16.4m.

## 12 Stock and work in progress

	Group	
	1996 £m	1995 £m
Stores	1.0	2.0
Work in progress	8.7	1.3
	<hr/>	<hr/>
	9.7	3.3



**Notes to the accounts** *continued*  
for the year to 31 March 1996

**13 Debtors**

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts due within one year				
Trade debtors	24.4	22.6	-	-
Amounts owed by subsidiary undertakings	-	-	155.4	137.7
Other debtors	6.1	5.6	-	-
Prepayments and accrued income	22.1	16.7	6.5	1.5
	<u>52.6</u>	<u>44.9</u>	<u>161.9</u>	<u>139.2</u>

**14 Listed investments**

The market value of listed investments at 31 March 1996 was £2.3m (1995 - £2.0m).

**15 Cash investments**

Cash investments with maturities - less than 3 months	181.8	187.5	218.3	218.2
- 3-12 months	3.7	13.4	3.7	13.4
- over 12 months	23.8	11.4	23.8	11.4
	<u>209.3</u>	<u>212.3</u>	<u>245.8</u>	<u>243.0</u>

**16 Creditors: amounts falling due within one year**

Bank overdraft repayable on demand	4.0	2.0	-	-
Loans repayable	0.2	-	-	-
Finance leases repayable	7.9	6.4	-	-
Payments received on account	11.9	-	-	-
Trade creditors	3.7	0.9	-	-
Proposed dividend	38.1	34.3	38.1	34.3
Other creditors	0.5	1.2	-	0.9
Corporation tax	11.8	4.7	4.9	2.5
Advance corporation tax	8.9	8.2	8.9	8.2
Other taxation and social security	1.6	1.1	-	-
Accruals and deferred income	62.0	74.3	3.1	0.5
	<u>150.6</u>	<u>133.1</u>	<u>55.0</u>	<u>46.4</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 that company's overdraft and related facilities.

**17 Creditors: amounts falling due after one year**

		Group	
		1996	1995
		£m	£m
Loans repayable	- within 1-2 years	1.8	-
	- within 2-5 years	17.7	15.7
	- after 5 years	34.9	38.1
		<hr/>	<hr/>
		54.4	53.8
Finance leases repayable	- within 1-2 years	9.7	8.0
	- within 2-5 years	41.9	35.1
	- after 5 years	29.6	46.0
Other		0.3	0.2
		<hr/>	<hr/>
		135.9	143.1
		<hr/>	<hr/>

The interest rates on loans outstanding of £53.8m vary between 5.8% and 9.9%. These loans have been swapped into floating rates through a combination of currency and interest rate swaps, the interest rates payable being between 5.8% and 7.6%. There is no exchange rate exposure under the currency swaps. The interest rate on loans of £0.6m was 5.1%.

The total value of leases repayable by instalments, any part of which falls due after more than 5 years, is £81.2m (1995 - £89.1m).

**18 Provisions for liabilities and charges**

	at 1 April		Group at 31 March	
	1995	Provided	Utilised	1996
	£m	£m	£m	£m
Infrastructure maintenance	7.5	10.9	(14.1)	4.3
Pensions	2.0	1.0	(0.1)	2.9
	<hr/>	<hr/>	<hr/>	<hr/>
	9.5	11.9	(14.2)	7.2
	<hr/>	<hr/>	<hr/>	<hr/>

Amounts relating to pensions were previously included in creditors.

**19 Deferred income**

	Group	
	1996	1995
	£m	£m
Grants and contributions		
At 1 April	24.4	17.3
Received in year	0.3	7.7
Less amortisation	(0.7)	(0.6)
	<hr/>	<hr/>
At 31 March	24.0	24.4
	<hr/>	<hr/>

**20 Net assets**

Analysis by class of business		
Water supply	274.6	252.2
Waste water	553.4	518.9
	<hr/>	<hr/>
	828.0	771.1
Interest bearing operating assets	152.8	155.2
	<hr/>	<hr/>
	980.8	926.3
	<hr/>	<hr/>

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

**Notes to the accounts** *continued*  
for the year to 31 March 1996

**21 Called up share capital**

	Group and Company	
	1996 £m	1995 £m
<b>Authorised</b>		
300,000,000 ordinary shares of 60p each (1995 50p shares - 342,800,000)	180.0	171.4
33,333,335 B ordinary shares of 60p each (1995 50p shares - 40,000,000)	20.0	20.0
13,333,335 C ordinary shares of 60p each (1995 50p shares - 16,000,000)	8.0	8.0
310,000,000 50p redeemable preference shares - created 7 September 1995	155.0	-
	363.0	199.4
<b>Allotted and fully paid</b>		
214,417,242 ordinary shares of 60p each (1995 50p shares - 255,819,823)	128.6	127.9
30,225,106 B ordinary shares of 60p each (1995 50p shares - 36,270,128)	18.1	18.1
13,285,088 C ordinary shares of 60p each (1995 50p shares - 15,942,106)	8.0	8.0
308,984,402 50p redeemable preference shares - issued 7 September 1995	154.5	-
	309.2	154.0

- a On 7 September 1995, a bonus issue of 308,984,402 fully paid 50p cumulative redeemable preference shares was made to holders of ordinary, B and C shares on the register on 31 August 1995, on a one for one basis.

At the same date the authorised ordinary share capital was increased to £180.0m and the ordinary, B and C shares were consolidated on the basis of 5 new 60p shares for every 6 existing 50p shares held as follows:

	6 September 1995 50p ordinary	7 September 1995 60p ordinary
Ordinary shares	256,772,168	213,976,807
B ordinary shares	36,270,128	30,225,106
C ordinary shares	15,942,106	13,285,088

- b The preference shares will be redeemable at par in 4 equal tranches on the dividend payment date in each of the years 1998, 1999, 2000 and 2001. The preference dividend is to be paid annually in arrears at a gross dividend rate, fixed in advance, of 12 month LIBOR plus one half per cent.
- c B and C voting ordinary shares will convert into new ordinary shares on 28 February 1998. Holders of B and C ordinary shares are entitled to a fixed dividend of 0.75% net per annum on the adjusted issue price of £2.076 and £3.378 respectively.
- d Options granted to UK Waste Management Holdings in respect of 10,605,303 ordinary shares may be exercised between April 1996 and 31 December 1999 at prices between £3.22 and £4.53 per share, dependent on the date of exercise, provided certain performance targets are achieved by Wessex Waste Management Ltd.
- e On 6 April 1995 505,465 50p ordinary shares were issued at £2.85 per share to existing shareholders in lieu of a cash dividend and resulted in a share premium on allotment of £1,186,326.
- f During the year 271,312 50p ordinary shares and 124,114 60p ordinary shares were issued at prices between £0.86 and £2.48 per share under the savings related share option scheme. 175,568 50p ordinary shares and 128,032 60p ordinary shares were issued at prices between £1.38 and £3.16 per share under the executive share option scheme and 188,289 60p ordinary shares at £3.36 per share under the profit sharing scheme. These issues resulted in a share premium on allotment of £1,190,944.
- g The company had the following share schemes for employees:

- i A profit sharing scheme whereby employees can apply for free shares or purchase shares which are matched by the company up to a set limit. The cost of the free and matching shares is written off to profit and loss in the year of issue. Employees are entitled to all dividends on the shares.

At 31 March 1996 740,995 60p ordinary shares and 668,695 50p preference shares of the company were held by Wessex Water Trustee Company Ltd on behalf of employees who were beneficially entitled to the shares under this scheme. The market value of the shares at 31 March 1996 was £2,780,580.

W N Hood and C F Skellett are directors of Wessex Water Trustee Company Ltd.

## 21 Called up share capital *continued*

- ii A savings-related share option scheme, based on SAYE contracts, under which options were granted between December 1989 and July 1995, at prices between £0.86 and £2.48 per share. At 31 March 1996 the number of options outstanding under this scheme were 3,198,604, exercisable between 1 April 1996 and 28 February 2003.

The directors' holdings under this scheme are shown below.

Date of grant	Option price	60p ordinary shares		
		W N Hood	C F Skellett	N A W Wheatley
12 December 1989	£0.86	14,736	14,736	-
12 August 1992	£1.90	4,736	4,736	3,946
31 August 1994	£2.48	-	-	1,392
At 1 April 1995		19,472	19,472	5,338
21 July 1995	£2.31	5,064	4,480	2,987
At 31 March 1996		24,536	23,952	8,325

- iii An executive share option scheme whereby options outstanding in respect of 2,480,026 ordinary shares were granted at prices between £1.38 and £3.68 per share. These options are exercisable between 1 April 1996 and 18 August 2004. The directors' holdings under this scheme, exercisable between 3 and 10 years after the date of each grant are shown below. There were no movements in the year.

Date of grant	Option price	60p ordinary shares		
		W N Hood	C F Skellett	N A W Wheatley
3 July 1990	£1.39	38,848	-	-
28 February 1991	£2.09	23,864	23,864	31,026
10 January 1992	£1.85	82,278	82,262	41,146
26 March 1993	£3.16	70,000	60,000	50,000
2 August 1994	£3.13	50,000	35,600	45,200
At 31 March 1996		264,990	201,726	167,372

Certain of the options listed above have been granted at an alternative discounted option price, dependent upon earnings per share increasing by 2% per annum above RPI over the 5 years preceding the date of exercise. The number of options with an alternative price are shown below:

Date of grant	Discounted option price	60p ordinary shares		
		W N Hood	C F Skellett	N A W Wheatley
10 January 1992	£1.57	71,746	62,758	41,146
26 March 1993	£2.685	17,500	15,000	12,500
2 August 1994	£2.66	12,500	8,900	11,300

The quoted share price of ordinary shares at 31 March 1996 was £3.29 and during the year varied between £2.70 and £3.54.

## Notes to the accounts *continued*

for the year to 31 March 1996

### 21 Called up share capital *continued*

- h The beneficial interests of the directors, including shares held in trust, together with those of their families, in the shares of the company were:

	1 April 1995	31 March 1996		19 June 1996	
	50p ordinary	60p ordinary	50p preference	60p ordinary	50p preference
P A Barrett	-	1,000 *	- *	1,000	-
Sir Terry Heiser	2,000	1,666	2,000	1,666	2,000
W N Hood	75,876	63,467	75,892	64,400	75,892
R D Kent	15,444	12,869	15,444	12,869	15,444
C F Skellett	77,408	44,339	52,942	44,353	52,942
N A W Wheatley	72,054	42,677	50,946	42,677	50,946

No director, including E G Falkman and Lord McGowan, had any other interest in the shares of the company or any other group company.

\* At date of appointment 31 May 1996.

### 22 Share premium account

	Group and Company	
	1996	1995
	£m	£m
At 1 April	171.0	166.7
Premium on shares issued	2.4	4.6
Issue costs	(0.6)	(0.3)
Utilised for bonus preference shares	(154.5)	-
At 31 March	18.3	171.0

### 23 Profit and loss account

	Group	Company
	£m	£m
At 1 April 1995	601.3	248.6
Profit retained for the year	74.4	36.7
Proportion of goodwill written off by associated undertaking (note 11)	(7.9)	-
Goodwill written off on acquisition of subsidiary (note 11)	(14.5)	-
At 31 March 1996	653.3	285.3

Group profit and loss account includes the group's share of post acquisition reserves of associated undertakings of (£109.8m) (1995 - (£109.9m)). These comprise retained profits of £23.8m (1995 - £15.8m) less accumulated goodwill written off amounting to £133.6m (1995 - £125.7m).

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 £75.2m (1995 - £66.1m), after including dividends from subsidiary companies of £59.5m (1995 - £54.6m).

## 24 Reconciliation of movements in shareholders' funds

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Profit attributable to shareholders	112.9	100.8	75.2	66.1
Dividends	(38.5)	(34.6)	(38.5)	(34.6)
	<u>74.4</u>	<u>66.2</u>	<u>36.7</u>	<u>31.5</u>
Share capital issued	155.2	1.4	155.2	1.4
Share premium created/(utilised)	(152.7)	4.3	(152.7)	4.3
Goodwill written off	(22.4)	(5.7)	-	-
	<u>54.5</u>	<u>66.2</u>	<u>39.2</u>	<u>37.2</u>
Net addition to shareholders' funds				
Opening shareholders' funds	926.3	860.1	573.6	536.4
	<u>980.8</u>	<u>926.3</u>	<u>612.8</u>	<u>573.6</u>

Non-equity interests within shareholders' funds of £188.8m (1995 - £106.0m), are split between B ordinary shares £22.6m (1995 - £61.8m), C ordinary shares £11.7m (1995 - £44.2m) and preference shares £154.5m (1995 - Nil).

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

	Group	
	1996 £m	1995 £m
Operating profit	116.6	104.6
Depreciation	27.2	24.7
Amortisation of grants and contributions	(0.7)	(0.6)
Provisions	(2.3)	0.5
Loss on disposals of fixed assets	0.8	1.4
Decrease/(increase) in stock and work in progress	0.4	(0.4)
Decrease/(increase) in debtors	1.1	(3.8)
Increase in creditors	2.1	3.7
	<u>145.2</u>	<u>130.1</u>

## 26 Analysis of changes in financing

### a Issue of ordinary share capital

	31/3/96 £m	31/3/95 £m	31/3/94 £m		
Called up share capital	309.2	154.0	152.6	155.2	1.4
Share premium account	18.3	171.0	166.7	(152.7)	4.3
	<u>327.5</u>	<u>325.0</u>	<u>319.3</u>	<u>2.5</u>	<u>5.7</u>
Scrip issue in lieu of dividend				(1.4)	(4.0)
Increase in debtors				(0.2)	-
				<u>0.9</u>	<u>1.7</u>

## Notes to the accounts *continued*

for the year to 31 March 1996

### 26 Analysis of changes in financing *continued*

#### b Capital element of finance lease rental payments

	31/3/96 £m	31/3/95 £m	31/3/94 £m	Group	
				1996 £m	1995 £m
Loans repayable within one year	0.2	-	-		
Finance leases repayable within one year	7.9	6.4	5.1		
Creditors more than one year	135.9	143.1	150.6		
Less other	(1.1)	(0.2)	(1.0)		
	<u>142.9</u>	<u>149.3</u>	<u>154.7</u>	<u>(6.4)</u>	<u>(5.4)</u>

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

Short term cash investments	181.8	187.5	194.3	(5.7)	(6.8)
Bank overdraft	(4.0)	(2.0)	(1.5)	(2.0)	(0.5)
	<u>177.8</u>	<u>185.5</u>	<u>192.8</u>	<u>(7.7)</u>	<u>(7.3)</u>

### 28 Commitments

- a Capital expenditure contracted but not provided at 31 March 1996 was £22.7m (1995 - £29.0m).

In addition to these commitments, at 31 March 1996, 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:

Within 1 year	-	0.1
Between 2 and 5 years	0.1	0.1
Over 5 years	0.2	0.2
	<u>0.3</u>	<u>0.4</u>

- c At 31 March 1996 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £323.8m (1995 - £148.8m).

## 29 Contingent liabilities

Wessex Water Plc has provided guarantees on loan notes issued by Wessex Waste Management Ltd for certain acquisitions, the maximum liability at 31 March 1996 was £5.5m.

## 30 Pensions

The defined benefit schemes operated by the group, which cover the majority of staff, are the Wessex Water Pension Scheme (WWPS), the Wessex Water Mirror Image Pension Scheme (WWMIS) and the Wessex Water Executive Pension Scheme (WWEPS). The assets 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, including amounts set aside for early retirees, was £4.2m (1995 - £4.6m).

The latest actuarial valuations for 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 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. The first valuation of the WWEPS was at 31 March 1993, using the attained age method, which showed that the actuarial value of assets represented 103% of accrued benefits.

The next actuarial valuation will be as at 31 March 1996.

## 31 Other transactions

- a In addition to audit fees the group paid to its auditors £0.5m (1995 - £0.8m), consisting of systems project management £0.4m 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.



**Notes to the accounts** *continued*  
for the year to 31 March 1996

**32 Principal subsidiary companies and associated undertakings**

**a Subsidiary companies**

Wessex Water Plc owns 100% of the issued ordinary share capital of each subsidiary company.

Company	Principal activities
Wessex Water Services Ltd (incorporated in the United Kingdom)	Water supply and waste water services
Wessex Water Trustee Company Ltd (incorporated in the United Kingdom)	Trustee of employee share scheme
Wessex Water B.V. (incorporated in the Netherlands)	Financial services
SC Technology AG (incorporated in Switzerland)	Waste water processes
SC Technology Deutschland GmbH (incorporated in Germany)	Waste water processes

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

**b Associated undertakings**

Company		Class of shares held	Proportion of issued shares held	Principal activities
Wessex Waste Management Ltd		164,529,938 B shares of £1 each	50 per cent	Waste management
Brunel Insurance Company Ltd	(a)	50 Management shares of £1 each	50 per cent	Insurance
	(b)	800,000 Funding shares of £1 each (50 pence paid)	64 per cent	

The interests in the associated undertakings are held directly by Wessex Water Plc.

Wessex Waste Management Ltd is incorporated in the United Kingdom, and Brunel Insurance Company Ltd in Guernsey.

## Five year summary

for the year to 31 March

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	240.7	229.1	217.2	205.6	190.8
Operational costs	85.9	88.0	91.6	93.5	93.5
Depreciation and infrastructure maintenance	38.2	36.5	33.4	31.1	29.8
Operating profit	116.6	104.6	92.2	81.0	67.5
Net interest receivable	5.1	2.2	2.0	0.5	8.5
Profit on ordinary activities before taxation and associates	121.7	106.8	94.2	81.5	76.0
Share of results of associated companies	12.2	10.2	9.1	4.5	0.9
Profit on ordinary activities before taxation	133.9	117.0	103.3	86.0	76.9
Taxation on profit on ordinary activities	21.0	16.2	9.8	9.1	6.5
Profit attributable to shareholders	112.9	100.8	93.5	76.9	70.4
Dividends	38.5	34.6	30.6	25.9	20.5
Profit retained	74.4	66.2	62.9	51.0	49.9
Fixed assets	1,026.2	975.2	914.4	832.5	721.4
Current assets	272.3	261.2	238.0	314.4	250.6
Current liabilities	150.6	133.1	117.4	101.5	106.7
Net current assets	121.7	128.1	120.6	212.9	143.9
Amounts falling due after more than one year	135.9	143.1	150.6	219.6	188.5
Provisions	7.2	9.5	7.0	8.3	6.4
Deferred income	24.0	24.4	17.3	12.4	7.1
	980.8	926.3	860.1	805.1	663.3
Called up share capital	309.2	154.0	152.6	151.7	121.1
Share premium account	18.3	171.0	166.7	163.1	44.8
Profit and loss account	653.3	601.3	540.8	490.3	497.4
	980.8	926.3	860.1	805.1	663.3
Number of employees at 31 March	1,469	1,582	1,834	1,861	1,882

## Notice of Annual General Meeting

The seventh Annual General Meeting of Wessex Water Plc will be held at 11am on Friday 6 September 1996 at the Assembly Rooms, Bennett Street, Bath for the following purposes:

### ORDINARY BUSINESS

- 1 To receive the Directors' report and the audited accounts for the year to 31 March 1996.
- 2 To declare a final dividend.
- 3 To re-appoint W N Hood as a director.
- 4 To re-appoint C F Skellett as a director.
- 5 To appoint P A Barrett as a director.
- 6 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 ordinary resolutions:

- 7 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 of the company's Articles of Association;
- 8 that:
  - i the Wessex Water Long Term Incentive Plan ("the Plan") and the Wessex Water Share Ownership Trust (the "Trust"), as described in the Explanatory Notes on pages 47 to 49 (copies of the draft Rules and Trust Deed of which are produced to the meeting and initialled by the Chairman for the purposes of identification) be and are hereby approved subject to such modifications as the directors may consider necessary or desirable to take account of the requirements of the London Stock Exchange or prevailing practice, and that the directors be and are hereby authorised to adopt and carry the same into effect;
  - ii each of the directors be and is hereby authorised to vote on any matter connected with the Plan and the Trust notwithstanding that he may have a personal interest in it (except that no director may be counted in a quorum or vote in respect of his own participation), and any restriction contained in the company's Articles of Association or otherwise be and is hereby relaxed to that extent.

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

- 9 that the company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of the company provided that:
- i the maximum number of shares hereby authorised to be acquired is 21,500,000 ordinary shares of 60 pence each
  - ii the minimum price which may be paid for any such shares is 60 pence
  - iii the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the company as derived from the London Stock Exchange Daily Official List for the 10 business days immediately preceding the day on which the share is contracted to be purchased; and
  - iv the authority hereby conferred shall expire 15 months from the date of this resolution, or if earlier, at the conclusion of the Annual General Meeting of the company in 1997, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract
- 10 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 1997, 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 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, 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

## Notice of Annual General Meeting *continued*

- ii to the allotment (otherwise than pursuant to sub-paragraph i above) of equity securities (other than B shares and C shares) up to an aggregate nominal value of £6,450,000; 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 £28,948.

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 0JQ

By order of the board  
A F Crofts  
Company secretary  
28 June 1996

### 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, The Royal Bank of Scotland plc, PO Box 39, Caxton House, Redcliffe Way, Bristol BS99 7ZQ, no later than 11.00 am on 4 September 1996.
- 2 Copies of directors' service contracts, the register of directors' interests in shares of the company, the draft rules of the Wessex Water Long Term Incentive Plan and the draft Trust Deed, are available for inspection at the registered office during business hours and on 6 September 1996 at the place of the Annual General Meeting from 10.30 am until the conclusion of the meeting. The draft rules and the Trust Deed will also be available for inspection during business hours at the offices of Linklaters and Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA until the date of the Annual General Meeting.

### EXPLANATION OF RESOLUTIONS 7 TO 10

#### RESOLUTION 7: 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 8: LONG TERM INCENTIVE PLAN

As mentioned in the remuneration committee report on page 21, the directors propose to introduce the Wessex Water Long Term Incentive Plan (the "Plan"). The Plan will operate in conjunction with the Wessex Water Employee Share Ownership Trust (the "Trust"). The remuneration committee (the "Committee") will be responsible for the operation of the Plan.

A summary of the main terms of the Plan is set out below, together with a description of the terms which are intended to apply to the first operation of the Plan. The summary does not form part of the Plan and should not be taken as affecting the interpretation of its detailed rules.

- 1 Operation of the Plan: if the Committee decides to operate the Plan, it will normally issue invitations within 42 days after the announcement of the company's annual or interim results to those employees who have been selected for participation.
- 2 Conditional award: shares in the company will be awarded to participants conditional on the satisfaction of a performance condition set by the Committee (the "Performance Condition"). The value of shares conditionally awarded to any participant in any year may not exceed 40% of basic salary, and will not be pensionable.
- 3 Determination of awards: at the end of the period to which the Performance Condition relates the extent to which it has been satisfied will be determined and the appropriate number of shares will be awarded to each participant on the basis that they are to be held in the Trust for the absolute benefit of the relevant participant during a retention period determined by the Committee.
- 4 Release of shares: the shares awarded to participants will be held in the Trust until the end of the retention period and will then be released to the participants. Pending release, each participant will be beneficially entitled to the relevant shares. Shares may be released early in special circumstances.
- 5 Cessation of employment before awards: if a participant ceases employment before the Performance Condition has been satisfied, the Committee has the discretion to make an award (not subject to a retention period) based on the extent to which the Performance Condition has been satisfied on the date of cessation and the time which has elapsed since the conditional award was made. The Committee will normally be prepared to exercise its discretion in favour of a participant whose employment ceases due to his death, ill health, or the company or business in which he works being transferred outside the group.
- 6 Change of control: in the event of a change of control of the company, shares which have been conditionally awarded will be transferred to participants, unless the Committee determines otherwise.
- 7 Variation of share capital: in the event of a variation of the share capital of the company, the Committee has discretion to adjust the number of shares conditionally awarded to participants.

## Notice of Annual General Meeting *continued*

- 8 Amendment: the Committee may amend a Performance Condition if events occur which would make the amended Performance Condition a fairer measure of performance. The Committee may also amend the rules of the Plan, except that any amendment relating to the identity of participants, the limitations on their benefits or maximum entitlements and the basis for determining awards or adjusting them in the event of a variation of share capital may not be made to the advantage of participants without prior approval of the shareholders of the company in general meeting, except for certain minor amendments.
- 9 Termination: the Committee may at its discretion terminate the Plan at any time, and the Plan will terminate on the 10th anniversary of its adoption, without prejudice to conditional awards already made.
- 10 Costs: the cost of introducing and administering the Plan will be borne by the company.
- 11 The Trust: the Trust will be a discretionary trust for the benefit of all employees. The trustee will be a subsidiary of the company. It will acquire shares in the company to enable awards to be made under the Plan as described in 3 above, using funds provided by the company. The shares may be acquired by purchase in the market or by subscription at a price which will not be less than par value, but any shares subscribed on any day must not exceed the following percentages of the company's issued ordinary share capital immediately prior to that day: when aggregated with shares subscribed under any other employees' share scheme operated by the company, 10% in the previous 10 years or 5% in the previous 5 years, and when aggregated with shares subscribed under executive schemes, 3% in the previous 3 years. Shares subscribed will rank *pari passu* with existing shares on the date of allotment, and application will be made for them to be admitted to the Official List.
- 12 First operation of the Plan: the Committee proposes to make conditional awards under the Plan within 42 days of its adoption on the following basis:
  - a the performance period will be the 3 years commencing 1 October 1996
  - b there will be a Performance Condition comparing the company's total shareholder return ("TSR") over the performance period with the TSR of a comparator group of utility companies in water, electricity and gas distribution over the same period. TSR will be calculated taking account of capital appreciation, dividends paid, and any other issues or distributions in the same period
  - c the relative position of the company's TSR will determine the percentage of the shares conditionally awarded which will actually be received by participants, within the following limits:
    - top quartile - 100%
    - median - 25%
    - below median - zero

- d there will be an additional Performance Condition, namely that the growth in the company's earnings per share over the three financial years commencing 1 April 1996 must be at least 2% per annum more than the growth in the Retail Prices Index over the same period. No awards will be made unless this condition is satisfied
- e there will be a retention period of one year during which shares will be held in trust after they have been awarded.

13 Future operations: the basis of future operations of the Plan will be determined by the Committee, and will be no less challenging.

#### RESOLUTION 9: AUTHORITY TO PURCHASE SHARES

In certain circumstances, it may be advantageous for the company to purchase its own shares and Resolution 9 seeks authority from shareholders to do so. It is a renewal of the existing authority which was given at last year's meeting. The authority entitles the company to purchase just under 10 per cent of the ordinary share capital. The directors have no present intention to use this authority which, in any event, will only be used after careful consideration, in the best interests of shareholders generally and with the intention of increasing future earnings per share. Any shares purchased in this way will be cancelled and the number of shares in issue reduced accordingly.

The authority given by Resolution 9 will last for 15 months or, if earlier, until next year's Annual General Meeting.

#### RESOLUTION 10: 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.



## Notice of Annual General Meeting *continued*

Resolution 10 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 £6,450,000 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 or C shares, to the holders of B or C shares, as the case may be, wholly for cash, up to a maximum aggregate nominal value of 5% of the issued B and C shares at the date of this notice, limited in the case of the C shares to the remaining authorised but unissued 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.

# Shareholder information

## FINANCIAL CALENDAR

Annual general meeting	6 September 1996
Preference dividend	9 September 1996
Final dividend for 1995/96	1 October 1996
Half year results	December 1996
Interim dividend for 1996/97	7 April 1997
Results to 31 March 1997	June 1997
Preference dividend	8 September 1997
Final dividend for 1996/97	1 October 1997

## SHARE CAPITAL RESTRUCTURING 7 SEPTEMBER 1995 : MARKET VALUES

The 60p ordinary shares and 50p preference shares are treated as having a base cost for capital gains tax purposes which is calculated in accordance with the provisions of the Taxation of Chargeable Gains Act 1992 by reference to their respective market values on the London Stock Exchange on 7 September 1995.

The relevant market values on that date were ordinary shares 334p and preference shares 49p.

## CREST

CREST is the new computerised system for settling share dealings. It will enable shares to be held in an electronic form, instead of the traditional share certificate, and make the trading of shares faster and more secure.

CREST is voluntary. Shareholders can keep their share certificates if they wish, which may be preferable for shareholders who do not trade frequently.

## Shareholder information *continued*

On 20 June 1996 the directors passed a resolution, in accordance with the Uncertificated Securities Regulations 1995, permitting Wessex Water share dealings in ordinary shares of 60p each, cumulative redeemable preference shares of 50p each and further preference shares in the capital of the company to be settled in the CREST system. It is expected that, subject to approval by the operator of the CREST system, Wessex Water share dealings will be settled in CREST from February 1997.

A booklet containing further information on CREST is available from the Registrar, The Royal Bank of Scotland plc, PO Box 39, Caxton House, Redcliffe Way, Bristol BS99 7ZF, telephone 0117 976 3007.