

## Chairman's statement

Wessex Water has had an excellent year and has again delivered first class results. Whilst maintaining high standards of quality and service, Wessex Water has produced another good financial performance. UK Waste continues to develop and profits have increased.

In the year to 31 March 1997, turnover increased to £254m and profit before tax was a record £145m. The board is recommending a final dividend of 12.3 pence, raising the total for the year to 18.0 pence per share.

The board reviewed the strategic options available following the recommendation by the MMC that our proposed acquisition of South West Water should not proceed. We decided that the share capital reorganisation subsequently approved by shareholders struck the right balance between the potential to pay increased dividends per share, and the need to keep sufficient funding capacity to continue the development of our regulated and unregulated businesses.

The recommendation by the MMC and its subsequent ratification by Government has introduced an effective block on mergers with all but the smallest water companies. I do not think this is in the long term interest of shareholders or customers. The threat of take-over has usually been seen as good motivation to improve performance.

During the long process of the MMC enquiry and the subsequent capital restructuring there was an extra burden of work for those directly involved and additional responsibility fell on those who ensured that the day to day business continued to be run safely and efficiently.

I am confident that this extra commitment shows a particular spirit among the staff of Wessex Water which will ensure we continue to deliver higher returns to shareholders and look after the interests of employees and customers over the coming years. After many years of continuous efficiency improvement I know how hard everyone at your company works; we are indebted to them.

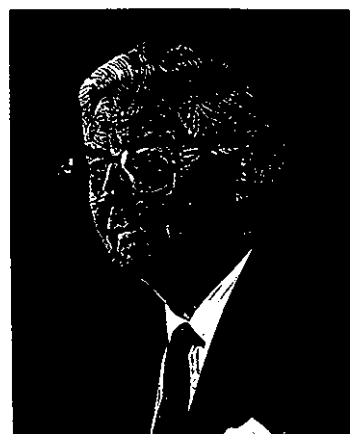
The Government has announced the way in which the one off tax on privatised utilities is to be levied. The Wessex Water share will be £99m. The application of the tax is inevitably somewhat crude. I regret that shareholders' funds will be reduced in this way and that our excellent record of improvements in efficiency and service, without provisions for losses on unregulated activities, has not been recognised. That aside I support the objective of using the income from the tax to reduce the number of unemployed young people.

It gives me great pleasure to welcome two new executive directors to the board. Libby Gawith and Chris Bishop have already made a significant contribution to the efficient running of Wessex Water and they deserve their promotions. I know that they will each play a full part in the future strategic direction of your company.

*Nicholas Hood*

18 July 1997

Wessex Water Plc



Nicholas Hood  
Chairman

2366633



## Overview of Wessex Water Plc

Wessex Water's aim is to provide high quality water and environmental services which protect health, give customers good value for money, employees a satisfying career and shareholders a good return on their investment. Protecting the environment is at the heart of our business culture and with the assistance of the sustainable development charity, Forum for the Future, we have developed indicators to demonstrate our progress across the whole range of our activities. Wessex Water is committed to ensuring the provision of its services on a sustainable basis.

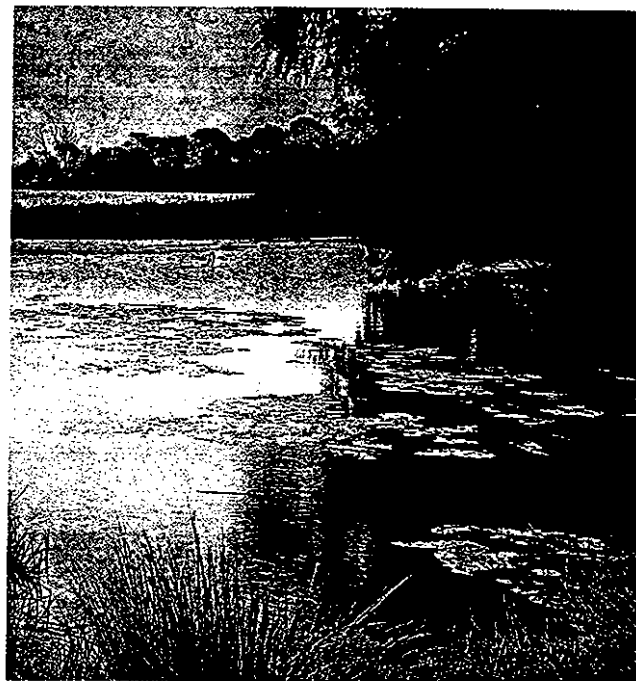
Wessex Water Plc comprises three businesses - Wessex Water Services, UK Waste and SC Technology.

Wessex Water Services provides water supply and sewerage services across an area of the south west of England covering 10,000 square kilometres, including Dorset, Somerset, Bristol, Bath, most of Wiltshire and parts of Gloucestershire, Hampshire and Devon.

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

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

Our commitment to customer service is further demonstrated by customer guarantees which are among the best in the industry, and offer 'no quibble' compensation should we fail in our obligations.



Every day, Wessex Water supplies over 400 million litres of high quality drinking water to 1.1 million water customers. We operate 137 water sources, 131 treatment plants, 11,000 kilometres of water mains, 320 pumping stations and over 300 storage reservoirs.

Wessex Water provides sewerage services to 2.5 million people, treating and safely disposing of millions of litres of sewage every day. This involves nearly 15,000 kilometres of sewers, 1,250 pumping stations and 350 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.

During 1996 we announced a target of providing secondary treatment to all our effluent discharges to coastal and estuarial waters.

Formed in 1991, UK Waste is jointly owned by Waste Management International and Wessex Water Plc. Having completed 35 acquisitions, it has grown from virtually nothing to be the leading waste management business in the country with a turnover of £150 million. Based at High Wycombe, UK Waste now employs over

2,000 people at 46 locations. The company provides a full range of waste collection, disposal and recycling services across the whole of the United Kingdom.

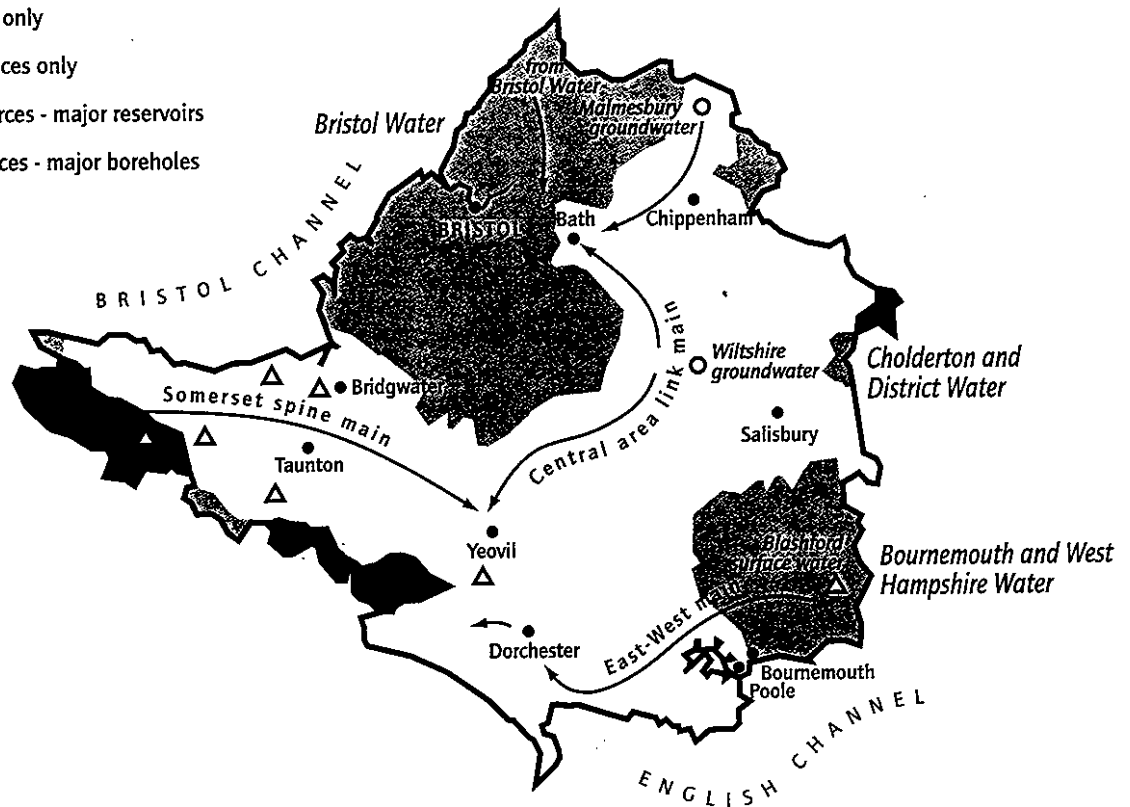
SC Technology, which trades as Swiss Combi, was acquired in January 1996. Based near Zurich and operating worldwide, it designs, manufactures and operates environmentally advanced thermal drying processes for the treatment and disposal of all types of organic sludges.

## Key

Water supply and sewerage services area

- Sewerage services only
- Water supply services only
- △ Surface water sources - major reservoirs
- Groundwater sources - major boreholes

The Wessex Water region showing our main water grid system ▼



## Chief executive's operational and financial review

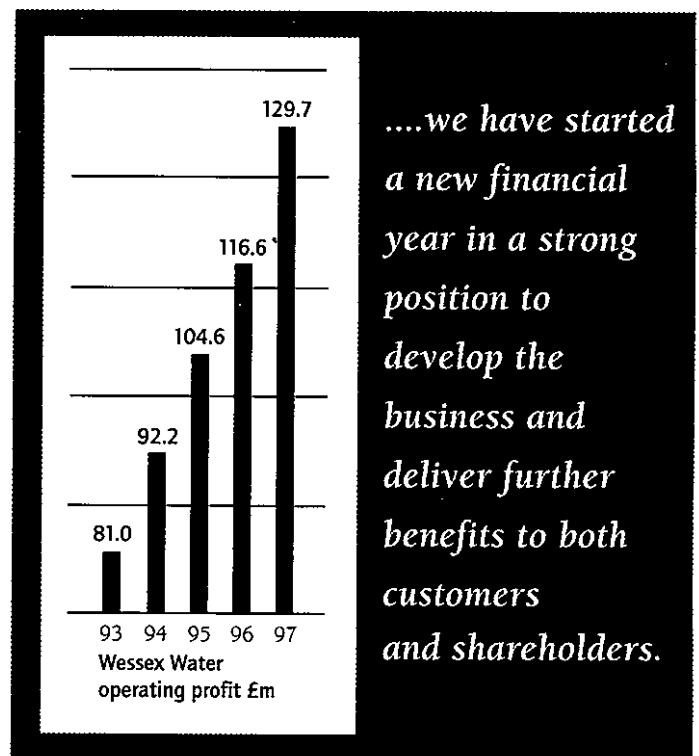
Wessex Water Plc has once again provided high standards and top quality service for its customers and excellent financial results for its shareholders. Customers, shareholders and employees can all be proud of their company. This year Wessex Water has:

- continued to achieve virtually 100% compliance with the legal requirements governing the quality of drinking water and sewage treatment discharges
- made a further 3% reduction in operational costs
- again maintained unrestricted water supplies to customers despite the highest ever peak demands for water
- continued to work with the Environment Agency to balance the needs of consumers and the water environment
- improved customer guarantees still further to ensure they are among the best in the industry, with 'no quibble' compensation should we fail in our commitments
- been awarded a further Chartermark for the quality of customer service
- maintained UK Waste as the country's leading waste management company. Together UK Waste and SC Technology, our specialist sludge drying business, provide a growing profit contribution not subject to regulatory price control
- increased earnings per ordinary share to 43.5 pence
- raised dividend per ordinary share to 18.0 pence.

In an otherwise excellent year there was only one cause for regret. Our intention to achieve a significant change in the size and profitability of Wessex Water Plc by acquiring South West Water was blocked by the MMC. The board reviewed other strategic options and decided that it was appropriate to restructure the balance sheet.

While maintaining sufficient capacity for future strategic moves, we were able to benefit shareholders through a repurchase of ordinary shares and buying back from Waste Management International its holding of B and C shares in Wessex Water. WMI's parent, Waste Management Inc., had already made it clear that this investment no longer formed part of its core portfolio.

Consequently we have started a new financial year in a strong position to develop the business and deliver further benefits to both customers and shareholders.



## FINANCIAL REVIEW

The financial results for the year to 31 March 1997 were again excellent with turnover up 6% to £254.3 million and operating profit showing an increase of 11% to £129.7 million. An increase in the contribution from UK Waste and continuing interest income meant the profit before tax rose to £145.0 million.

Fully diluted earnings per ordinary share rose by 12% to 43.5 pence and the board is recommending a final dividend of 12.3 pence per ordinary share, raising the total payment for the year to 18.0 pence per ordinary share. This dividend reflects the results for the year from both our regulated and unregulated businesses, the successful capital restructuring, and the board's confidence in the future of the group.

The board decided that a share capital reorganisation was in the best long term interests of shareholders following the blocking of our proposed acquisition of South West Water in the autumn of 1996. The proposal to repurchase 50.9 million ordinary and B and C ordinary shares was approved by shareholders at an extraordinary general meeting in February 1997. The cost of £185 million was paid out during the course of the year, though the consequent advance corporation tax will fall into the cash flow for 1997/98.

Excluding the cost of the share repurchase there was a net positive cash flow of £25 million for the year after investment of £100 million in capital and infrastructure maintenance. £53 million was paid in dividends and tax. The balance represents cash flows from operations and movements in working capital.

The opening net cash position of £62 million, the positive cash flow from trading of £25 million and the £185 million cost of the share repurchase meant that the net debt at 31 March 1997 was £98 million. This level of debt represents 12% of total shareholders' funds. Including £155 million of redeemable preference shares as debt, the total at 31 March 1997 becomes £253 million which is 37% of equity shareholders' funds.

The group's taxation position continues to reflect the move towards the payment of a higher level of mainstream corporation tax. We are still able to utilise advance corporation tax, previously written off, against this liability and to carry the balance forward for future use.

## WESSEX WATER SERVICES

Wessex Water provides essential water supply and sewerage services to domestic, commercial and industrial customers. We work hard to understand what our customers expect of us - for most of them there is no alternative supplier. We need to meet their requirements and to respond to their expectations against a background of constantly changing regulatory requirements and, over recent years, significant variations in climate.

Although there may be no conclusive evidence of long-term climate change, patterns of rainfall have certainly altered with shorter periods of heavier rainfall and longer dry spells. Overall demand for water has remained relatively stable, but the long periods of very dry weather have increased peak demands by up to 40%. The water industry is a long-term business and we must ensure we can provide our services on a sustainable basis. Our regional grid system has again enabled us to meet demands without restrictions.



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

The quality of drinking water and effluents discharged from our treatment works remains very high with virtually 100% compliance with the required standards. Figures published last December by the Office of Water Services (OFWAT) showed Wessex Water's standards of customer service are overall the best of the 10 water and sewerage companies in England and Wales.

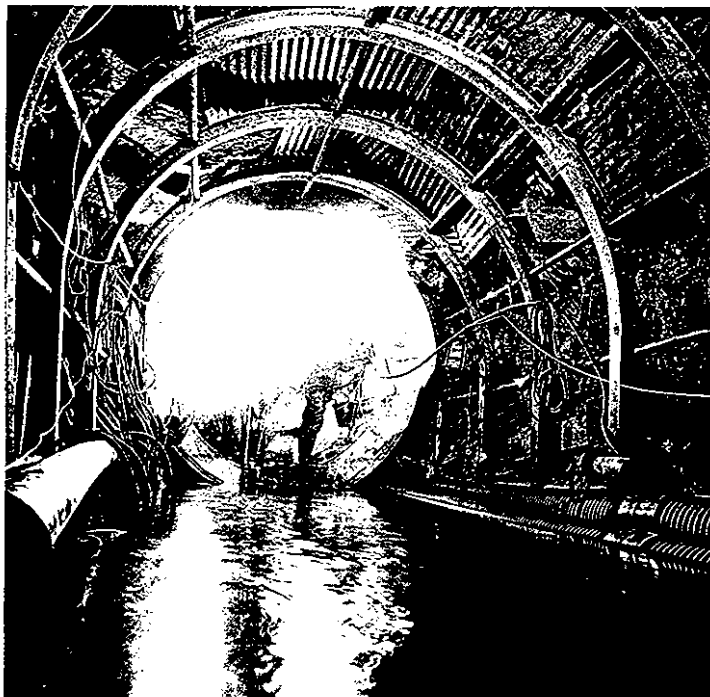
Our customer liaison panels, monthly surveys and customer directors provide a valuable source of customers' views. Wessex Water Services is still the only water company to have independently appointed customer directors to the board of the company. Our customer surveys show that 85% consider Wessex Water's service either good or excellent. While this is encouraging, we aim to improve the percentage who say our service is excellent. We have also begun to research customers' views in preparation for the price review in 1999/2000. We shall be working closely with the regional Environment Agency and the

Wessex region OFWAT customer service committee in developing a programme which customers support.

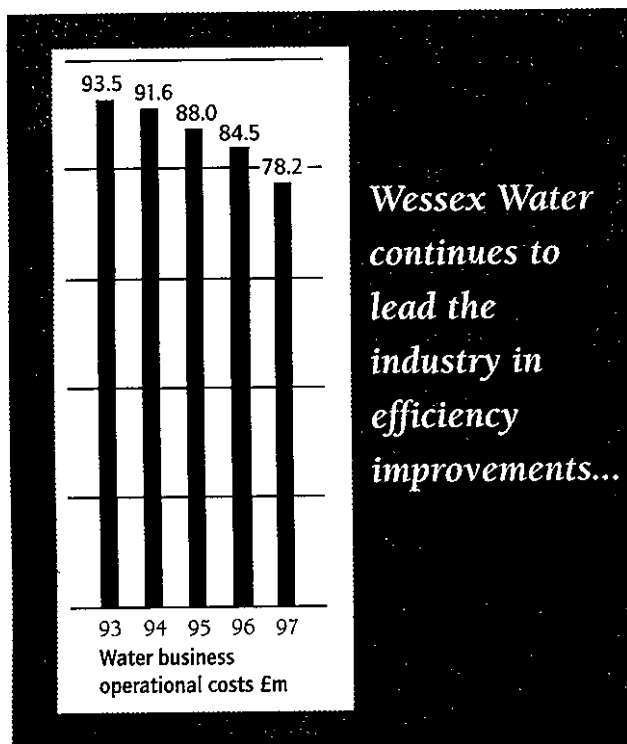
Throughout the year we have continued with our capital investment programme. £100m was put into over 1,600 schemes to bring improved water supply and sewerage services to the region.

As part of our programme to provide additional treatment for effluent discharges to coastal and estuarial waters, a new treatment works is under construction at Swanage and a one kilometre tunnel is already complete. Construction at our new £36m Weston-super-Mare sewage treatment works is progressing well. This scheme, which includes a 2.7km tunnel under the town, will improve the levels of treatment for an important tourist area.

One scheme in particular proved so popular that its completion was celebrated with a 'thank you' party hosted by the villagers. This was the £1.6m



◀ Work in progress at the £36m sewage treatment scheme at Weston-super-Mare



scheme to provide a mains sewerage system to the Wiltshire village of Chapmanslade and connect 200 homes for the first time.

Water supply projects have included the Somerset spine main scheme to ensure added security for water supplies in the county. Across our water supply region £8.5m was spent in 1996/97 on cleaning out and relining pipework.

Recognising that any construction work should be sympathetic to its environment, we try wherever possible to adapt buildings to their surroundings. The Weston-super-Mare works is designed to reflect local farm buildings while at our Brixton Deverill borehole, old sheds which were an eyesore have been replaced with a Cotswold stone building.

A judicial review of the decision to move the boundary of the Severn Estuary went against the Government and as a result secondary treatment will be required by December 2000 at Bristol

(Avonmouth) sewage treatment works. We aim to fund this major project through efficiencies made in delivering our capital programme.

Wessex Water continues to lead the industry in efficiency improvements, with a further 3% cash reduction in costs during the year. Operational costs are now 13% lower in cash terms than they were in 1993 - 21% lower after taking account of inflation.

During the last year Wessex Water has identified computer systems which will require amendment or replacement for the year 2000 date change. We are now in the process of implementing and testing such changes. Electronic links with third parties are being reviewed to ensure that these are checked and tested for year 2000 compliance.

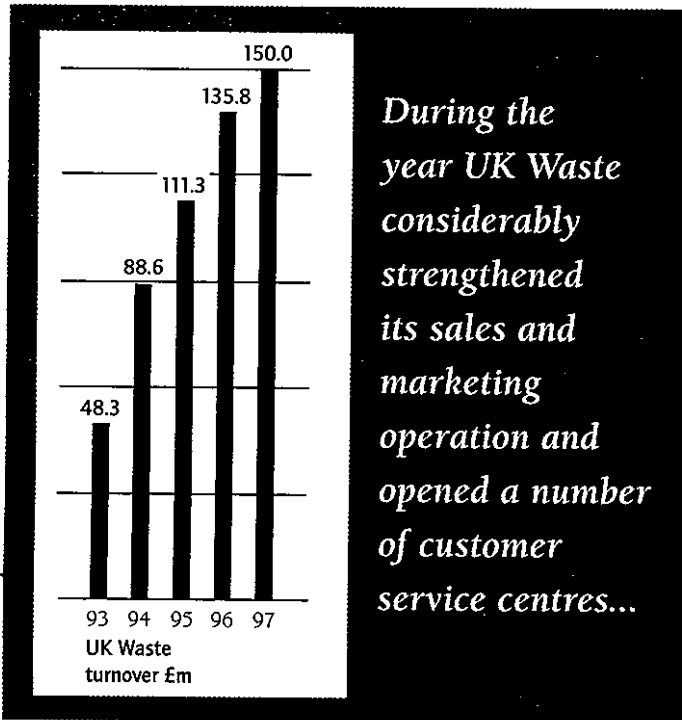
#### UK WASTE

UK Waste again produced good results, despite a significant fall in the price for waste paper and board which continued throughout the reporting year. Prices now appear to have stabilised. Turnover for the year increased to £150m and profit before tax was £25.1m compared to £24.4m the previous year. The Wessex Water share was £12.6m. UK Waste has achieved the objective of becoming the leading waste management business in the country. With around 60 million cubic metres of available airspace, and operating on a national basis from 46 locations, UK Waste is in a good position to capture a growing share of the total waste market.

Our emphasis is now placed on obtaining greater returns from the investment we have made and key to this is an effective sales and marketing team. During the year UK Waste considerably strengthened its sales and marketing operation and opened a number of customer service centres



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



providing customers with a single point of contact for all our services. We have established a new national accounts structure for major customers who require services at many locations across the country. These changes are showing benefits in both the level of new business obtained and retention of existing business.

There is a growing trend for large industrial customers to seek fewer suppliers for services. UK Waste is in a strong position to provide a whole range of waste services including recycling and recovery of packaging waste. Our network of material recovery facilities and paper processing plants covers the whole of the United Kingdom. From 1998 new regulations will require the segregation, collection, recycling and recovery of packaging waste.

The company operates several landfill gas recovery schemes which use landfill gas to generate power. This provides a profitable and environmentally sound source of energy from the decaying waste.

New legislation being introduced in Northern Ireland will provide an opportunity to grow our business. Last year our traditional landfill operations were supplemented by commercial waste collection and we won a major collection contract in Belfast. A pilot kerbside collection scheme for recycling domestic waste has also been introduced.

Looking ahead, possible increases in the landfill tax, proposals for a European landfill directive and recent changes to the definition of hazardous waste should stimulate demand for UK Waste's value added services. We are confident that recycling will become

a more important service which we can supply to the community. We believe that this will bring opportunities for both environmental improvement and profit growth.

UK Waste - new front end loaders, which allow greater operating efficiency ▼





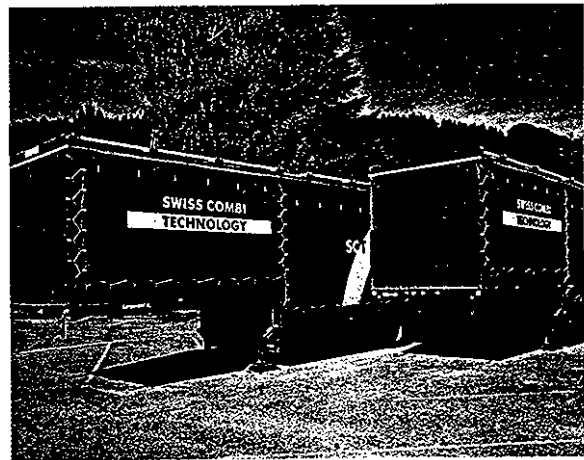
## SC TECHNOLOGY

SC Technology, which trades as Swiss Combi, was acquired in January 1996. It designs, manufactures and operates environmentally advanced thermal drying processes for the treatment and disposal of all types of organic sludges. Waste sludge volumes are increasing worldwide and European directives and other controls impose increasing restrictions on the methods of sludge disposal.

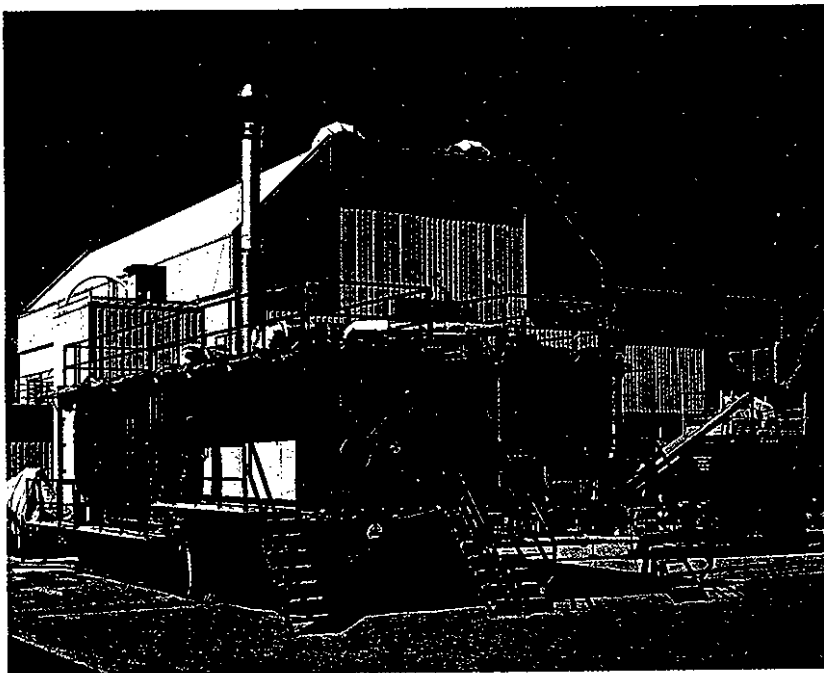
With growing restrictions on other outlets for sewage sludge, thermal drying is increasingly seen as the best solution. The Swiss Combi drier is one of the most technologically advanced and environmentally sound on the market. There

are 22 Swiss Combi plants already operating worldwide and the outlook for 1997/98 is promising. New contracts have been won in South Africa, Germany, Canada and Russia. Sludge drying is proving to be a sizeable niche market in which the combination of Swiss Combi and Wessex Water has well proven skills and expertise.

Mobile plant packaged ▶  
and ready for transportation  
to its new home



Swiss Combi mobile plant on  
location ▼



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

### ENVIRONMENT

Protecting and improving the environment is at the heart of our business culture. A separate environmental report - 'Striking the balance' - sets out in detail our environmental record and aspirations. This year's report will for the first time include environmental indicators which will demonstrate our progress across the whole range of our activities. Copies of this report will be available from company offices.

Water abstraction, unless carefully managed, may have an adverse impact on the environment and so we work closely with the Environment Agency. We have introduced river support measures where our abstraction may affect flows and are working with the Environment Agency on long-term plans for water abstraction which balance the needs of consumers and the environment.

Leakage from water mains has received considerable media and political attention.

In common with many other companies, Wessex Water inherited an ageing supply network which had suffered for many years from lack of Government investment. Our investment

programme has enabled us to reduce leakage every year and we are on course to achieve our target of 15%. This programme will enable us to meet any sensible mandatory targets set by regulators.

As well as reducing leakage in our distribution network we are encouraging customers to conserve water. All water supply customers have been sent a newsletter explaining both our plans for water conservation and how they can help. With the newsletter they have received a free water saving device called a 'Hippo', designed to reduce excessive water use in toilet flushing. We are also promoting our free meter option and targeting those customers whose use pattern imposes high peak demand. The combination of leakage reduction and water conservation should enable us to hold overall consumption at, or near, current levels.



▲ More than 500,000 households received copies of Wessex Water's customer newsletter and 'Hippo' water saving devices

◀ A customer watches as a water meter is fitted at his home

*...we announced  
a target of  
providing  
secondary  
treatment to  
all our effluent  
discharges to  
coastal and  
estuarial waters ...*



▲ Swanage beach

We will continue to support measures to avoid waste both by ourselves and our customers, whilst meeting our primary duty to supply the water our customers want in an environmentally sound way.

In January 1997 we considered the possibility of low rainfall continuing for the rest of the year. As a result we developed a plan to ensure our customers would receive unrestricted water supplies. At the same time we put together plans to ensure that the environment would be protected from the effects of our existing water supply abstractions.

Working with neighbouring water companies, Wessex Water has been able to ensure greater reliability of water supplies. As a result of the Wimbleball pumped storage scheme, where excess winter flows from the River Exe are pumped back into Wimbleball reservoir, we now have a more dependable raw water supply source in west Somerset.

We are also working to develop imaginative new solutions to provide long-term supplies for the Wessex Water region. At Wareham, in Dorset, we have begun preparing for trials of a technique known as Aquifer Storage and Recovery (ASR), the first time this has been used in the UK. At times of low demand drinking water will be pumped underground into an aquifer. This water can then be made available to our customers at times of peak demand. If the trials are successful ASR will provide large storage capacity in an environmentally sound way and at a much lower cost than would be required to build a reservoir.

We recognise that the economy of our region relies heavily on tourism and the quality of bathing waters. During 1996 we announced a target of providing secondary treatment to all our effluent discharges to coastal and estuarial waters including appropriate disinfection of any discharges which could affect recreational waters and shellfisheries around the Wessex coast.

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

We have also decided to phase out the use of chlorine as a disinfectant on effluent discharges. We shall be replacing it with either ultraviolet disinfection or membrane treatment over a 10-year programme.

During the year we continued to undertake both direct research into ways of improving treatment systems and to contribute to the United Kingdom water industry research programme.

### COMMUNITY

Wessex Water is a company with a major impact on the area it serves and it continues to be actively involved in the lives of communities across its region. Our chairman, Nicholas Hood, is chairing the Bristol 2000 Millennium project which will transform the heart of Bristol. As deputy chairman of Business in the Community he is also closely involved with environmental and urban regeneration programmes.

We support our employees in their efforts to play a full part in the communities in which they live and work. Our Community Plus fund, which matches fund raising by staff, and the Watermark scheme, which helps local environmental projects, both provide direct financial support.

Twenty six towns in the region receive regular visits from our 'Person to Person' service which provides an easy contact point for customers' comments and concerns.

I have been particularly pleased with the development of our education programme. Building on our established education centres we have extended our services to schools by providing the support of a full-time education adviser.

Wessex Water's education  
adviser Sue Goodland  
with the children of Knights  
Templar school at Watchet ▼



WaterAid work in Ethiopia helps to support self help water and sanitation projects ▶



WaterAid is the charity we particularly support and last year staff, volunteers and customers from this region raised £248,000 for the work of WaterAid - an outstanding achievement. This money goes to support self help water and sanitation projects in Ethiopia. As a result of such fund raising WaterAid nationally has been able to provide more than 600,000 people with a safe water supply for the first time in their lives.

#### **OUR EMPLOYEES**

The past year has not been an easy one for any of our staff. In particular, the proposed bid for South West Water and the subsequent MMC enquiry meant a great deal of hard work and long hours from many staff across the company. I would like to thank all our employees for their contribution to another successful year.

A review of Wessex Water's organisation during the year has produced a leaner and flatter management structure with 130 managerial, technical and support staff leaving the business.

Full consultation was undertaken on the changes and this process helped considerably in determining the final outcome. For those leaving the company we are working hard to help them find alternative employment. The excellent industrial relations which we have established over the years have helped with this difficult process.

To achieve our objectives it is essential we have a well trained workforce. We are making additional investment in training schemes to meet current business needs and to develop staff for the future. As part of this programme we are setting up 'open learning' centres across the company where staff can continue their own education and development using the latest technology.

#### **SUMMARY**

Wessex Water Services continues to deliver high standards, good customer service and excellent financial results. Preparations for the 1999/2000 price review are well under way and the company has an efficient organisation to take it successfully beyond the year 2000.

Our diversified business ventures are doing well with UK Waste positioned for further profit growth and Swiss Combi offering a significant new opportunity.

Overall, Wessex Water Plc is in an excellent position to continue delivering growing shareholder value.

Colin Skellett  
Chief executive

## Directors

W N Hood CBE, CBIM (61)#

*Chairman*

Appointed September 1989; chairman of Wessex Water Authority 1987-89. Non-executive director of Winterthur Life UK Ltd and Commercial Union Environment Trust 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.



▲ Nicholas Hood addressing the International Water Supply Association conference in Harrogate



C F Skellett MSc, CChem, FRSC, FIWEM (52)#

*Chief executive*

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

◀ Colin Skellett discusses new techniques in sewage treatment at Wessex Water's Kingston Seymour site

N A W Wheatley FCA (55)

*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.

Nick Wheatley meets UK Waste personnel during a recent visit to the Cardiff recycling centre ▶





**C J Bishop CPFA (46)**

*Business services director*

Appointed April 1997. Joined Wessex Water Authority in 1978. Appointed as a director of Wessex Water Services Ltd in November 1991 with responsibility for operational and business planning and, two years later, became customer services director.

◀ Meeting customers forms an essential part of the business for Chris Bishop

▼ Libby Gawith goes underground to inspect the 2.7km tunnel, part of the Weston-super-Mare sewage treatment scheme

**E J Gawith BSc, MBA, MICE, MIWEM (42)**

*Engineering and operations director*

Appointed April 1997. Joined Wessex Water Authority in 1986 and has held a variety of engineering and operational roles with Wessex Water Services Ltd. Appointed as director of engineering in 1994 and became responsible for both engineering and operations in January 1997.



**P A Barrett OBE (60)\***

Appointed May 1996. Chief executive of Smurfit 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 (52)\***

Appointed February 1991. Chairman of Waste Management International plc. He has held various positions with Waste Management 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 (65)\***

Appointed January 1993. Former Permanent Secretary

at the Department of the Environment 1985-92. Non-executive director of Abbey National plc and J Sainsbury plc. Director of the Personal Investment Authority. Trustee of the Victoria and Albert Museum. Member of the Executive Committee of the National Trust.

**R D Kent MBA (49)\* #**

*Chairman of the 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 (58)**

*Chairman of the remuneration committee*

Appointed 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 and Hallmar plc.

\*Member of the remuneration and audit committees #Member of the nomination committee

## Directors' report

The directors have pleasure in submitting their annual report to shareholders together with the audited accounts for the year to 31 March 1997.

### Principal activities

The main activities of the group are the supply of clean water and the treatment and disposal of 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 4 to 13. The names and activities of the principal operating subsidiary companies and associated undertakings are given in note 38 to the accounts on page 42.

During the year the company repurchased 19.6% of its voting share capital; details are given in note 22a to the accounts on page 36.

### Profit and dividend

Group profit for the year after taxation amounted to £121.0m. The directors recommend a final dividend of 12.3p per ordinary share to be paid on 1 October 1997 to shareholders on the register at the close of business on 11 July 1997. Together with the interim dividend of 5.7p per share, this will make a total of 18.0p per share for the year.

### Substantial shareholders

The company has been notified of substantial interests of 3% or more of the issued 60p ordinary shares by Mercury Asset Management 10.4%, Prudential Corporation group of companies 7.2%, Scottish Widows 5.8% and Hermes Investment Management 3.1% as at 25 June 1997.

### Board of directors

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

On 2 April 1997 C J Bishop and E J Gawith joined the board and will offer themselves for appointment by shareholders at the Annual General Meeting on 10 September 1997. Each of them has a service contract which may be terminated by the company with one year's notice.

Following the company's repurchase of B shares from UK Waste Management Holdings in February 1997, the right attaching to those shares to appoint a director lapsed. The directors invited E G Falkman, chairman of Waste Management International plc, to remain on the board. Accordingly he will offer himself for re-appointment by shareholders at the Annual General Meeting.

Sir Terry Heiser and N A W Wheatley will retire by rotation at the Annual General Meeting in accordance with the Articles of Association of the company and, being eligible, will offer themselves for re-appointment. Mr Wheatley has a service contract with the company which may be terminated by the company with one year's notice.



The beneficial interests of the directors and their families in the shares of the company are shown in note 22h on page 38.

### 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 97% of employees hold shares under the profit sharing scheme. The details of the share schemes for employees are shown in note 22g 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 pages 10 to 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 services.

### Charitable donations

During the year Wessex Water donated £89,000 to UK charities. A further £20,000 was donated for Wessex Watermark environmental awards through a registered charity. No contributions were made to political organisations.

### Creditor payment policy

The company's policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 1997 group trade creditors represented approximately 43 days trade purchases.

## Directors' report *continued*

### 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 the Listing Rules 12.43(j) and 12.43(v) 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' statement above appropriately reflects the company's compliance with the other paragraphs of the Cadbury Code specified for their review by Listing Rule 12.43(j). 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.

#### Post balance sheet event

On 7 April 1997 295,403 60p ordinary shares were allotted following the company's interim scrip dividend offer of 17 February 1997.

#### Annual general meeting

The Annual General Meeting will be held at 11.00 am on Wednesday 10 September 1997 at the Assembly Rooms, Bennett Street, Bath. The proposed resolutions, together with explanatory notes on the special business, are given on pages 44 to 47.

#### 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  
25 June 1997



## Remuneration committee report

The remuneration committee determines the remuneration and terms of employment of the chairman, executive directors and senior executives. The committee is chaired by Lord McGowan and comprises solely of 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, together with advice from independent remuneration consultants. The remuneration elements for the 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.

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 in note 35 on page 41 of the accounts, which provide retirement benefits based upon length of service and pensionable salary. The chairman, chief executive and finance director 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 the Wessex Water pension schemes. Under the rules of the Wessex Water Mirror Image Pension Scheme, certain taxable benefits are also pensionable. The remuneration committee has taken account of these circumstances in assessing the overall remuneration package of directors and senior executives. Due regard is given to the implications of bonus payments on the funding of the company's pension schemes.

iv Service contract

The chairman and executive directors each have a service contract which may be terminated by the company with one year's notice.

Full details of directors' remuneration are set out in note 10d 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 interests of directors holding office at 31 March 1997 in options to acquire shares in the company are set out in note 22g ii and iii on page 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

At the 1996 Annual General Meeting shareholders approved the introduction of a long term incentive plan. The aim of the plan is to focus the efforts of senior executives on the long term performance of the company in a way which aligns with shareholder interests. The remuneration committee has responsibility for the operation of the plan.

Details of the conditional awards of shares made to directors holding office at 31 March 1997 are set out in note 22g iv on page 37.

The eventual number of shares which participants may receive, if any, will be dependent on the achievement of the performance conditions of the scheme.

The principal condition is in relation to the company's total shareholder return over a three year period, compared with that of a comparator group of utility companies. Total shareholder return takes into account capital appreciation and total distributions to ordinary shareholders over the period. The relative position of the company within the comparator group will determine the proportion of the provisional awards to which the participants will become entitled.

### Non-executive directors

The remuneration of non-executive directors is determined by the board taking account of independent surveys of comparable appointments.

## Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

In preparing the 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 the 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 1997 and of the profit, total recognised gains 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, 25 June 1997

# Group profit and loss account

for the year to 31 March 1997

	Notes	1997 £m	1996 £m
Turnover	2	254.3	240.7
Operating profit	3	129.7	116.6
Share of results of associated undertakings	4	12.6	12.2
<b>Profit on ordinary activities before interest</b>		<b>142.3</b>	<b>128.8</b>
Net interest receivable	5	2.7	5.1
<b>Profit on ordinary activities before taxation</b>		<b>145.0</b>	<b>133.9</b>
Taxation on profit on ordinary activities	6	24.0	21.0
<b>Profit attributable to shareholders</b>		<b>121.0</b>	<b>112.9</b>
Dividends (including non-equity)	7	47.1	38.5
<b>Retained profit for the year</b>	<b>24</b>	<b>73.9</b>	<b>74.4</b>
Earnings per ordinary share	8	52.2p	47.7p
Fully diluted earnings per ordinary share	9	43.5p	39.0p
Dividend per ordinary share	7	18.0p	15.2p

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

# Balance sheets

at 31 March 1997

	Notes	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
<b>Fixed assets</b>					
Tangible assets	11	1,021.5	971.2	-	-
Investments	12	63.6	55.0	259.4	259.4
		<b>1,085.1</b>	<b>1,026.2</b>	<b>259.4</b>	<b>259.4</b>
<b>Current assets</b>					
Stocks	13	10.4	9.7	-	-
Debtors	14	52.3	52.6	185.6	161.9
Listed investments	15	0.7	0.7	0.7	0.7
Cash investments	16	40.3	209.3	79.4	245.8
		<b>103.7</b>	<b>272.3</b>	<b>265.7</b>	<b>408.4</b>
<b>Creditors - amounts falling due within one year</b>	<b>17</b>	<b>196.0</b>	<b>150.6</b>	<b>93.7</b>	<b>55.0</b>
<b>Net current (liabilities)/assets</b>		<b>(92.3)</b>	<b>121.7</b>	<b>172.0</b>	<b>353.4</b>
<b>Total assets less current liabilities</b>		<b>992.8</b>	<b>1,147.9</b>	<b>431.4</b>	<b>612.8</b>
<b>Creditors - amounts falling due after more than one year</b>	<b>18</b>	<b>124.4</b>	<b>135.9</b>	<b>-</b>	<b>-</b>
<b>Provisions for liabilities and charges</b>	<b>19</b>	<b>5.3</b>	<b>7.2</b>	<b>-</b>	<b>-</b>
<b>Deferred income</b>	<b>20</b>	<b>23.5</b>	<b>24.0</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>	<b>21</b>	<b>839.6</b>	<b>980.8</b>	<b>431.4</b>	<b>612.8</b>
<b>Capital and reserves</b>					
Called up share capital	22	280.2	309.2	280.2	309.2
Capital redemption reserve	22a	30.5	-	30.5	-
Share premium account	23	22.4	18.3	22.4	18.3
Profit and loss account	24	506.5	653.3	98.3	285.3
<b>Shareholders' funds</b>	<b>25</b>	<b>839.6</b>	<b>980.8</b>	<b>431.4</b>	<b>612.8</b>
<b>Shareholders' funds comprise:</b>					
Equity shareholders' funds		685.1	792.0	276.9	424.0
Non-equity shareholders' funds	25	154.5	188.8	154.5	188.8
		<b>839.6</b>	<b>980.8</b>	<b>431.4</b>	<b>612.8</b>

These accounts were approved by the board of directors on 25 June 1997 and signed on its behalf by:

W N Hood

N A W Wheatley






## Group cash flow statement

for the year to 31 March 1997

	Notes	1997 £m	1996 £m
Net cash inflow from operating activities	26	-146.2	145.2
Returns on investments and servicing of finance	27	(5.7)	(0.1)
Taxation		(13.6)	(8.9)
Capital expenditure and financial investment	28	(75.5)	(80.8)
Acquisitions and disposals	29	-	(23.2)
Equity dividends paid		(29.8)	(32.5)
Cash inflow/(outflow) before use of liquid resources and financing		21.6	(0.3)
Management of liquid resources	30	160.9	11.1
Financing	31	(189.9)	(4.7)
(Decrease)/increase in cash in the period		(7.4)	6.1
Reconciliation of cash movement to the movement in net (debt)/funds			
(Decrease)/increase in cash - above		(7.4)	6.1
Movement in liquid resources	30	(160.9)	(11.1)
Movement in loans and leases	31	8.3	5.6
Movement in net (debt)/funds		(160.0)	0.6
Opening net funds	32	61.6	61.0
Closing net (debt)/funds		(98.4)	61.6

## Statement of total recognised gains and losses

for the year to 31 March 1997

		1997 £m	1996 £m
Profit attributable to shareholders		121.0	112.9
Advance corporation tax on repurchase of ordinary shares	22a	(35.2)	-
Foreign exchange difference		0.1	-
Total recognised gains relating to the year		85.9	112.9

# Notes to the accounts

for the year to 31 March 1997

## I 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, see note 1g, in accordance with the Companies Act 1985.

### b. Basis of consolidation

The group accounts include the accounts of the company and its subsidiaries up to 31 March 1997. 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 11.

**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**

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 of UK companies denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date.

The results of overseas subsidiaries are translated at average rates of exchange for the year. Differences arising from the translation of retained profits at closing rates are taken to reserves, as are differences on the translation of opening balance sheets and foreign currency funding.

**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 1997

2 Turnover	Group	
	1997	1996
	£m	£m
Analysis by class of business		
Water supply	82.1	81.4
Waste treatment	172.2	159.3
	<u>254.3</u>	<u>240.7</u>
<b>3 Operating profit</b>		
a. Analysis by class of business		
Water supply	32.6	28.3
Waste treatment	97.1	88.3
	<u>129.7</u>	<u>116.6</u>
<p>Operating profit by class of business is determined after allocating central costs on the basis of estimated time spent on each class of business.</p>		
b. Operating profit is shown after charging the following costs:		
<b>Operational costs</b>		
Manpower costs (note 10)	25.0	23.6
Materials and consumables	22.4	23.0
Other operational costs	37.4	39.3
	<u>84.8</u>	<u>85.9</u>
<b>Depreciation</b>		
Depreciation	29.0	27.2
Amortisation of grants and contributions	(0.7)	(0.7)
Loss on disposals of fixed assets	0.8	0.8
	<u>29.1</u>	<u>27.3</u>
<b>Infrastructure renewals charge (note 19)</b>	10.7	10.9
Total costs	<u>124.6</u>	<u>124.1</u>
c. Operational costs include:		
Operating leases for plant and machinery	0.8	0.5
Other operating leases	0.3	0.3
Research and development	0.4	0.6
Directors' remuneration (note 10)	0.6	0.5
Audit fees, company and group (note 37)	0.1	0.1
	<u>0.1</u>	<u>0.1</u>

#### 4 Share of results of associated undertakings

The financial statements incorporate Wessex Water Plc's share of the results of Wessex Waste Management Ltd (trading as UK Waste) for the 12 months to 31 March 1997. The accounting reference date of Wessex Waste Management Ltd is 31 December.

	Group	
	1997 £m	1996 £m
UK Waste		
Turnover	150.0	135.8
Operating costs	125.3	111.5
Operating profit	24.7	24.3
Interest receivable	0.4	0.1
Profit before tax	25.1	24.4
Wessex Water Plc share	12.6	12.2
<b>5 Net interest receivable</b>		
Interest payable		
On bank loans	4.5	4.5
On other loans	0.3	0.3
On finance leases	7.0	7.5
Total interest payable	11.8	12.3
Interest receivable	14.5	17.4
Net interest receivable	2.7	5.1
<b>6 Taxation</b>		
a. Taxation on profit on ordinary activities		
UK corporation tax at 33% (1996 - 33%)	24.9	19.7
Advance corporation tax utilised relating to prior years	(14.0)	(11.9)
Advance corporation tax on dividends for the year	9.8	8.9
Share of tax charge of associated undertaking	3.3	4.3
	24.0	21.0

The cumulative amount of advance corporation tax written off of £58.1m remains available to reduce any future liabilities to UK corporation tax (1996 - £27.0m).

The UK corporation tax charge is reduced by £23.2m (1996 - £21.8m) in respect of accelerated capital allowances.

## Notes to the accounts *continued*

for the year to 31 March 1997

### 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% (1996 - 33%) on all timing differences is as follows:

	Group	
	1997	1996
	£m	£m
Accelerated capital allowances	197.6	174.4
Other timing differences	(5.2)	(7.4)
Advance corporation tax recoverable	(58.1)	(27.0)
	<u>134.3</u>	<u>140.0</u>

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

### 7 Dividends

#### On equity shares

##### Ordinary shares

Interim dividend of 5.7p per share (1996 - 5.0p)

12.3 10.7

Proposed final dividend of 12.3p per share (1996 - 10.2p)

25.9 21.9

38.2 32.6

#### On non-equity shares

##### B ordinary shares

Total dividend of 0.7785p per share (1996 - 1.557p)

0.2 0.5

##### C ordinary shares

Total dividend of 1.26675p per share (1996 - 2.5335p)

0.2 0.3

##### Preference shares

At 5.81875% net for the period 7 September 1995 to 6 September 1996 and

5.3% net for the period 7 September 1996 to 31 March 1997

8.5 5.1

47.1 38.5

### 8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit attributable to shareholders, less the dividend payable on preference shares and B and C ordinary shares. The weighted average number of ordinary shares used in the calculation is 214.7m (1996 - 214.1m).

### 9 Fully diluted earnings per ordinary share

The calculation of fully diluted earnings per ordinary share is based on the profit attributable to shareholders, less the dividend payable on preference shares, plus notional interest on outstanding share options, as if they had been exercised on 1 April 1996. The weighted average number of ordinary shares used in the calculation is 266.3m (1996 - 273.6m). To be consistent with the calculation used in the previous year the B and C ordinary shares have been included for the period 1 April 1996 to 13 February 1997.

## 10 Employment costs

	Group	
	1997	1996
	£m	£m
a. Total employment costs of the group:		
Wages and salaries	30.3	30.4
Social security costs	2.4	2.4
Other pension costs	3.2	3.1
	<u>35.9</u>	<u>35.9</u>
b. Total employment costs are charged as follows:		
Capital schemes	9.4	10.3
Infrastructure renewals expenditure	1.5	2.0
Manpower costs	25.0	23.6
	<u>35.9</u>	<u>35.9</u>
	<u>1997</u>	<u>1996</u>
c. Number of full time equivalent employees at 31 March	1,451	1,469
Monthly average number of employees during the financial year	<u>1,460</u>	<u>1,526</u>

### d. Directors' remuneration

#### i Fees, salaries, performance related bonuses and taxable benefits - 1997

	Fees £000	Salary £000	Bonus £000	Benefits in kind £000	1997 Total £000
W N Hood	-	149	42	11	202
C F Skellett	-	135	38	11	184
N A W Wheatley	-	117	33	12	162
P A Barrett	14	-	-	-	14
E G Falkman	-	-	-	-	-
Sir Terry Heiser	17	-	-	-	17
R D Kent *	17	-	-	-	17
Lord McGowan *	17	-	-	-	17
	<u>65</u>	<u>401</u>	<u>113</u>	<u>34</u>	<u>613</u>

#### ii Fees, salaries, performance related bonuses and taxable benefits - 1996

	Fees £000	Salary £000	Bonus £000	Benefits in kind £000	1996 Total £000
W N Hood	-	145	29	10	184
C F Skellett	-	125	24	11	160
N A W Wheatley	-	105	20	11	136
E G Falkman	-	-	-	-	-
Sir Terry Heiser	16	-	-	-	16
R D Kent *	16	-	-	-	16
Lord McGowan *	16	-	-	-	16
D N A McLure	21	-	-	-	21
	<u>69</u>	<u>375</u>	<u>73</u>	<u>32</u>	<u>549</u>

\* Fees in respect of R D Kent and Lord McGowan were paid to their principal employers.

#### iii Highest paid director

The highest paid director was W N Hood. His aggregate emoluments, consisting of salary, performance related bonus and benefits in kind are shown above. At 31 March 1997 he had an accrued pension entitlement under Wessex Water pension schemes of £61,450 per annum.

#### iv Retirement benefits

Retirement benefits accrued to 3 directors during the course of the year under Wessex Water pension schemes (1996 - 3).

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 1997

### 11 Tangible fixed assets

	Freehold land and buildings	Infra- structure assets	Plant machinery and vehicles	Other assets	Payments on account and assets in course of construction	Group Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 April 1996	338.7	414.6	346.7	38.6	40.4	1,179.0
Exchange difference	-	-	(0.2)	-	-	(0.2)
Additions	11.2	17.3	20.0	0.9	36.9	86.3
Transfers on commissioning	7.3	7.7	8.4	0.2	(23.6)	-
Disposals	(0.7)	-	(19.4)	(14.8)	(0.4)	(35.3)
Grants and contributions	-	(5.0)	-	-	-	(5.0)
At 31 March 1997	<u>356.5</u>	<u>434.6</u>	<u>355.5</u>	<u>24.9</u>	<u>53.3</u>	<u>1,224.8</u>
<b>Depreciation</b>						
At 1 April 1996	53.5	-	128.1	26.2	-	207.8
Exchange difference	-	-	(0.1)	-	-	(0.1)
Provision for year	5.6	-	20.3	3.1	-	29.0
Disposals	(0.1)	-	(18.7)	(14.6)	-	(33.4)
At 31 March 1997	<u>59.0</u>	<u>-</u>	<u>129.6</u>	<u>14.7</u>	<u>-</u>	<u>203.3</u>
<b>Net book value</b>						
At 31 March 1997	<u>297.5</u>	<u>434.6</u>	<u>225.9</u>	<u>10.2</u>	<u>53.3</u>	<u>1,021.5</u>
At 1 April 1996	<u>285.2</u>	<u>414.6</u>	<u>218.6</u>	<u>12.4</u>	<u>40.4</u>	<u>971.2</u>

Capital expenditure for the year was £99.6m (1996 - £87.7m) comprising fixed asset additions of £86.3m (1996 - £73.6m) plus infrastructure renewals expenditure of £13.3m (1996 - £14.1m), see note 19.

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

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

The net book value of assets held under finance leases is £85.6m (1996 - £87.5m).

The depreciation charge for the year on assets held under finance leases is £1.9m (1996 - £1.9m).

The net book value of infrastructure assets is stated after the deduction of grants and contributions amounting to £41.1m (1996 - £36.1m) in order to give a true and fair view - see note 1g.



## 12 Investments

	Group Associated undertakings £m	Company Subsidiary companies £m	Company Associated undertakings £m	Company Total £m
Fixed asset investments at cost				
At 1 April 1996	55.0	94.5	164.9	259.4
Share of retained profit	9.3	-	-	-
Share of goodwill written off	(0.7)	-	-	-
At 31 March 1997	<u>63.6</u>	<u>94.5</u>	<u>164.9</u>	<u>259.4</u>

The principal subsidiary companies and associated undertakings are listed in note 38.

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.

## 13 Stocks

	Group	
	1997 £m	1996 £m
Stores	0.3	1.0
Work in progress	10.1	8.7
	<u>10.4</u>	<u>9.7</u>

## 14 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts falling due within one year				
Trade debtors	23.0	24.4	-	-
Amounts owed by subsidiary undertakings	-	-	180.4	155.4
Other debtors	4.3	6.1	-	-
Prepayments and accrued income	25.0	22.1	5.2	6.5
	<u>52.3</u>	<u>52.6</u>	<u>185.6</u>	<u>161.9</u>

## 15 Listed investments

The market value of listed investments at 31 March 1997 was £2.1m (1996 - £2.3m).

## Notes to the accounts *continued*

for the year to 31 March 1997

16 Cash investments	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Cash investments with maturities - less than 3 months	40.3	181.8	79.4	218.3
- 3-12 months	-	3.7	-	3.7
- over 12 months	-	23.8	-	23.8
	<u>40.3</u>	<u>209.3</u>	<u>79.4</u>	<u>245.8</u>

### 17 Creditors - amounts falling due within one year

Bank overdraft repayable on demand	3.3	4.0	-	-
Loans repayable	1.7	0.2	-	-
Finance leases repayable	9.7	7.9	-	-
Payments received on account	10.6	11.9	-	-
Trade creditors	4.4	3.7	-	-
Proposed dividend	42.9	38.1	42.9	38.1
Other creditors	0.5	0.5	-	-
Corporation tax	18.0	11.8	4.6	4.9
Advance corporation tax	45.0	8.9	45.0	8.9
Other taxation and social security	0.8	1.6	-	-
Accruals and deferred income	59.1	62.0	1.2	3.1
	<u>196.0</u>	<u>150.6</u>	<u>93.7</u>	<u>55.0</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.

18 Creditors - amounts falling due after more than one year		Group	
		1997 £m	1996 £m
Loans repayable	- within 1-2 years	10.9	1.8
	- within 2-5 years	40.1	17.7
	- after 5 years	1.6	34.9
		<u>52.6</u>	<u>54.4</u>
Finance leases repayable	- within 1-2 years	11.6	9.7
	- within 2-5 years	49.3	41.9
	- after 5 years	10.5	29.6
Other		0.4	0.3
		<u>124.4</u>	<u>135.9</u>

The interest rates on loans outstanding of £52.6m vary between 5.1% 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 5.5% and 7.1%. There is no exchange rate exposure under the currency swaps.

The total value of leases repayable by instalments, any part of which falls due after more than 5 years, is £81.1m (1996 - £89.1m).

## 19 Provisions for liabilities and charges

	at 1 April 1996 £m	Provided £m	Utilised £m	Group at 31 March 1997 £m
Infrastructure renewals	4.3	10.7	13.3	1.7
Pensions	2.9	0.9	0.2	3.6
	<u>7.2</u>	<u>11.6</u>	<u>13.5</u>	<u>5.3</u>

## 20 Deferred income

	Group	
	1997 £m	1996 £m
Grants and contributions		
At 1 April	24.0	24.4
Received in year	0.2	0.3
Less amortisation	(0.7)	(0.7)
At 31 March	<u>23.5</u>	<u>24.0</u>

## 21 Net assets

Analysis by class of business		
Water supply	299.1	274.6
Waste treatment	596.2	553.4
	<u>895.3</u>	<u>828.0</u>
Interest bearing operating assets	(55.7)	152.8
	<u>839.6</u>	<u>980.8</u>

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

**Notes to the accounts** *continued*  
for the year to 31 March 1997

**22 Called up share capital**

	Group and Company	
	1997	1996
	£m	£m
Authorised		
300,000,000 ordinary shares of 60p each (1996 - 300,000,000)	180.0	180.0
33,333,335 B ordinary shares of 60p each (1996 - 33,333,335)	20.0	20.0
13,333,335 C ordinary shares of 60p each (1996 - 13,333,335)	8.0	8.0
310,000,000 50p redeemable preference shares (1996 - 310,000,000)	155.0	155.0
	<b>363.0</b>	<b>363.0</b>
Allotted and fully paid		
209,507,244 ordinary shares of 60p each (1996 - 214,417,242)	125.7	128.6
308,984,402 50p redeemable preference shares (1996 - 308,984,402)	154.5	154.5
Nil B ordinary shares of 60p each (1996 - 30,225,106)	-	18.1
Nil C ordinary shares of 60p each (1996 - 13,285,088)	-	8.0
	<b>280.2</b>	<b>309.2</b>

- a. In February 1997, under the Tender offer approved by shareholders on 13 February 1997, the company repurchased the following shares to improve the efficiency of its balance sheet and deliver higher returns to shareholders:

- i 6,675,068 ordinary shares at £3.80 per share, cost £25.4m
- ii 722,771 ordinary shares at £3.55 per share from UK Waste Management Holdings, cost £2.5m
- iii 30,225,106 B ordinary shares at £3.55 per share from UK Waste Management Holdings, cost £107.3m
- iv 13,285,088 C ordinary shares at £3.55 per share from UK Waste Management Holdings, cost £47.2m.

The total cost of ordinary shares repurchased was £182.4m plus advance corporation tax of £35.2m and associated costs of £2.5m. The company repurchased all the B and C ordinary shares and 3.4% of the ordinary shares.

The nominal value of ordinary shares repurchased of £30.5m was transferred to capital redemption reserve.

- b. Preference shares will be redeemable by the company at par in four 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. Preference shares have priority on winding up, but are non voting unless a resolution is proposed to vary their rights.
- c. Holders of B and C ordinary shares were entitled to the October 1996 dividend of 0.375% net 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 were cancelled on 14 February 1997.
- e. On 9 April 1996 263,760 ordinary shares were issued at £3.40 per share and on 1 October 1996 520,207 ordinary shares were issued at £3.57 per share. These shares were issued to existing shareholders in lieu of a cash dividend and resulted in a share premium on allotment of £2,285,096.
- f. During the year 939,980 ordinary shares were issued at prices between £0.86 and £2.48 per share under the savings related share option scheme. 570,138 ordinary shares were issued at prices between £1.38 and £3.16 per share under the executive share option scheme and 193,756 ordinary shares at £3.49 per share under the profit sharing scheme. These issues resulted in a share premium on allotment of £2,076,790.
- 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 1997 496,012 ordinary shares and 138,545 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 1997 was £1,892,407.

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

- ii A savings-related share option scheme, based on SAYE contracts, under which options were granted between December 1989 and July 1996, at prices between £0.86 and £2.80 per share. At 31 March 1997 there were options outstanding in respect of 2,642,076 shares, exercisable between 1 April 1997 and 31 March 2004.

The directors' holdings under this scheme are shown below.

Date of grant	Option price	W N Hood	Ordinary shares	
			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
21 July 1995	£2.31	5,064	4,480	2,987
At 1 April 1996		24,536	23,952	8,325
Exercised March 1997		(14,736)	(14,736)	-
At 31 March 1997		9,800	9,216	8,325

The shares exercised by W N Hood and C F Skellett were in respect of the 1989 scheme granted at £0.86. If the shares had been sold on the day of the exercise at the market price of £3.71, there would have been a gain of £41,998 each, subject to taxation.

- iii An executive share option scheme whereby options outstanding in respect of 1,888,850 ordinary shares were granted at prices between £1.39 and £3.68 per share. These options are exercisable between 1 April 1997 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	W N Hood	Ordinary shares	
			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 1997		264,990	201,726	167,372

Certain of the above options have been granted at an alternative discounted exercise price, dependent upon earnings per share increasing by 2% per annum above RPI over the 5 years preceding the date of exercise.

Date of grant	Discounted option price	W N Hood	Ordinary shares	
			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 1997 was £3.67 and during the year varied between £3.02 and £3.87.

- iv A long term incentive plan whereby shares are conditionally awarded to employees, and released dependent upon the achievement of the performance criteria set for the group. At 31 March 1997 95,306 (1 April 1996 - Nil) shares had been conditionally awarded at £3.53 with an award date of 1 October 1999. The directors holdings at 31 March 1997 under this scheme were W N Hood 16,973, C F Skellett 15,388 and N A W Wheatley 13,295.

**Notes to the accounts** *continued*  
for the year to 31 March 1997

- 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 1996		31 March 1997		24 June 1997	
	ordinary	preference	ordinary	preference	ordinary	preference
P A Barrett	-	-	2,500	-	2,500	-
C J Bishop	-	-	*10,121	*4,952	10,317	4,952
E J Gawith	-	-	*27,029	*37,375	27,458	37,375
Sir Terry Heiser	1,666	2,000	1,666	2,000	1,666	2,000
W N Hood	63,467	75,892	79,338	32,692	79,348	32,692
R D Kent	12,869	15,444	12,869	15,444	12,869	15,444
C F Skellett	44,339	52,942	45,460	14,115	45,460	14,115
N A W Wheatley	42,677	50,946	42,879	50,946	42,879	44,874

\* At date of appointment 2 April 1997.

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

**23 Share premium account**

	Group and Company	
	1997 £m	1996 £m
At 1 April	18.3	171.0
Premium on shares issued	4.4	2.4
Issue costs	(0.3)	(0.6)
Utilised for bonus preference shares	-	(154.5)
At 31 March	<u>22.4</u>	<u>18.3</u>

**24 Profit and loss account**

	Group	Company
	£m	£m
At 1 April 1996	653.3	285.3
Profit retained for the year	73.9	33.1
Goodwill written off (note 12)	(0.7)	-
Foreign exchange adjustments	0.1	-
Repurchase of ordinary shares	(220.1)	(220.1)
At 31 March 1997	<u>506.5</u>	<u>98.3</u>

Group profit and loss account includes the group's share of post acquisition reserves of associated undertakings of (£101.3m), (1996 - (£109.8m)). These comprise retained profits of £33.0m (1996 - £23.8m) less accumulated goodwill written off amounting to £134.3m (1996 - £133.6m).

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 £80.2m (1996 - £75.2m) after including dividends from subsidiary companies of £62.0m (1996 - £59.5m).

25 Reconciliation of movements in shareholders' funds	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Profit attributable to shareholders	121.0	112.9	80.2	75.2
Dividends	(47.1)	(38.5)	(47.1)	(38.5)
	<u>73.9</u>	<u>74.4</u>	<u>33.1</u>	<u>36.7</u>
Share capital issued	1.5	155.2	1.5	155.2
Repurchase of ordinary shares	(220.1)	-	(220.1)	-
Share premium created/(utilised)	4.1	(152.7)	4.1	(152.7)
Goodwill written off	(0.7)	(22.4)	-	-
Foreign exchange adjustment	0.1	-	-	-
Net (reduction)/addition to shareholders' funds	<u>(141.2)</u>	<u>54.5</u>	<u>(181.4)</u>	<u>39.2</u>
Opening shareholders' funds	<u>980.8</u>	<u>926.3</u>	<u>612.8</u>	<u>573.6</u>
Closing shareholders' funds	<u>839.6</u>	<u>980.8</u>	<u>431.4</u>	<u>612.8</u>

Non-equity interests within shareholders' funds of £154.5m (1996 - £188.8m), are split between preference shares £154.5m (1996 - £154.5m), B ordinary shares nil (1996 - £22.6m) and C ordinary shares nil (1996 - £11.7m).

26 Reconciliation of operating profit to net cash inflow from operating activities	Group	
	1997 £m	1996 £m
Operating profit	129.7	116.6
Depreciation	29.0	27.2
Amortisation of grants and contributions	(0.7)	(0.7)
Provisions	(1.9)	(2.3)
Loss on disposals of fixed assets	0.8	0.8
(Increase)/decrease in stocks	(0.7)	0.4
(Increase)/decrease in debtors	(1.3)	1.1
(Decrease)/increase in creditors	(8.7)	2.1
	<u>146.2</u>	<u>145.2</u>
 27 Returns on investments and servicing of finance		
Interest received	15.7	12.9
Interest paid	(4.8)	(4.7)
Dividends paid on non-equity shares	(9.8)	(0.8)
Interest element of finance lease rental payments	(6.8)	(7.5)
	<u>(5.7)</u>	<u>(0.1)</u>
 28 Capital expenditure and financial investment		
Purchase of tangible fixed assets	(82.0)	(87.5)
Sale of tangible fixed assets	1.1	0.7
Connection charges, grants and deferred income received	5.4	6.0
	<u>(75.5)</u>	<u>(80.8)</u>

Notes to the accounts *continued*  
for the year to 31 March 1997

29 Acquisitions and disposals

	Group	
	1997	1996
	£m	£m
Purchase of subsidiary undertaking	-	(13.1)
Investment in associated undertaking	-	(10.1)
	<u>-</u>	<u>(23.2)</u>

30 Management of liquid resources

Cash investments	169.0	3.0
Cash repayable on demand within 24 hours	(8.1)	8.1
	<u>160.9</u>	<u>11.1</u>

31 Financing

Issue of ordinary share capital	3.1	0.9
Loans and finance leases	(8.3)	(5.6)
Repurchase of ordinary shares	(184.7)	-
	<u>(189.9)</u>	<u>(4.7)</u>

32 Movement in net (debt)/funds

	at 1 April 1996 £m	Cash Flow £m	Group at 31 March 1997 £m
Bank overdraft	(4.0)	0.7	(3.3)
Cash investments	209.3	(169.0)	40.3
Loans and finance leases repayable within one year	(8.1)	(3.3)	(11.4)
Loans and finance leases repayable after one year	(135.6)	11.6	(124.0)
	<u>61.6</u>	<u>(160.0)</u>	<u>(98.4)</u>

Cash investments at 1 April 1996 included investments of £23.8m, 31 March 1997 - Nil, in which there was an active market, with maturity dates of greater than one year at the date of acquisition.

33 Commitments

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

	Group	
	1997	1996
	£m	£m
Between 2 and 5 years	-	0.1
Over 5 years	0.2	0.2
	<u>0.2</u>	<u>0.3</u>

- b. At 31 March 1997 the group had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £283.8m (1996 - £323.8m).
- c. Capital expenditure contracted but not provided at 31 March 1997 was £62.0m (1996 - £22.7m).



### 34 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 1997 was £2.7m.

### 35 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 £4.0m (1996 - £4.2m).

The latest actuarial valuations for WWPS, WWMIS and WWEPS were undertaken as at 31 March 1996. The projected unit method was used for the WWPS valuation and the attained age method for the WWMIS and WWEPS valuations. The assumptions which have the most significant effect on the results of a valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 8% per annum for all schemes, that salary increases would average 6% per annum in the WWPS and WWMIS, and 7.5% in the WWEPS, and that present and future pensions would increase at the rate of 3.75% per annum in the WWPS and WWEPS, 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 1996 was £84.8m, for WWMIS £33.9m and for WWEPS £1.6m. The valuation showed that the actuarial value of the assets at 31 March 1996 represented 103%, 110% and 105% of the actuarial value of the accrued benefits for the WWPS, WWMIS and WWEPS respectively.

The next actuarial valuation will be as at 31 March 1999.

### 36 Related party transactions

- a. Wessex Water provided office space and administrative assistance to Bristol 2000 in its bid to obtain Millennium funding for the rejuvenation of the Bristol waterfront. W N Hood is chairman of Bristol 2000.
- b. A director of SC Technology AG owns certain of the assets at the company's operation in Biel, Switzerland, for which a charge was made to SC Technology AG of £0.3m in the year.
- c. Transactions with UK Waste Management Holdings, the joint owner of UK Waste, are disclosed in note 22a.
- d. £0.2m was paid to Brunel Insurance Company Ltd for premiums during the year. At 31 March 1997 a balance of £0.2m was due from Brunel Insurance Company Ltd.

### 37 Other transactions

In addition to audit fees the group paid £0.2m (1996 - £0.5m) to its auditors for other professional advice.

**Notes to the accounts** *continued*  
for the year to 31 March 1997

**38 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	Country of incorporation and operation	Principal activities
Wessex Water Services Ltd	United Kingdom	Water supply and waste water services
Wessex Water Trustee Company Ltd	United Kingdom	Trustee of employee share scheme
Wessex Water BV	Netherlands	Financial services
SC Technology AG	Switzerland	Waste water processes

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

b. Associated undertakings

Company	Class of shares held	Proportion of issued shares held	Principal activities
Wessex Waste Management Ltd	B shares of £1 each	50 per cent	Waste management
Brunel Insurance Company Ltd	i Management shares of £1 each	50 per cent	Insurance
	ii Funding shares of £1 each - 50p paid	67 per cent	

The interests in the associated undertakings are held directly by Wessex Water Plc. Wessex Waste Management Ltd is incorporated and operates in the United Kingdom, and Brunel Insurance Company Ltd in Guernsey.

# Five year summary

for the year to 31 March

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	254.3	240.7	229.1	217.2	205.6
Operational costs	84.8	85.9	88.0	91.6	93.5
Depreciation and infrastructure maintenance	39.8	38.2	36.5	33.4	31.1
Operating profit	129.7	116.6	104.6	92.2	81.0
Share of results of associated companies	12.6	12.2	10.2	9.1	4.5
Profit on ordinary activities before interest	142.3	128.8	114.8	101.3	85.5
Net interest receivable	2.7	5.1	2.2	2.0	0.5
Profit on ordinary activities before taxation	145.0	133.9	117.0	103.3	86.0
Taxation on profit on ordinary activities	24.0	21.0	16.2	9.8	9.1
Profit attributable to shareholders	121.0	112.9	100.8	93.5	76.9
Dividends	47.1	38.5	34.6	30.6	25.9
Retained profit for the year	73.9	74.4	66.2	62.9	51.0
Fixed assets	1,085.1	1,026.2	975.2	914.4	832.5
Current assets	103.7	272.3	261.2	238.0	314.4
Current liabilities	196.0	150.6	133.1	117.4	101.5
Net current (liabilities)/assets	(92.3)	121.7	128.1	120.6	212.9
Amounts falling due after more than one year	124.4	135.9	143.1	150.6	219.6
Provisions	5.3	7.2	9.5	7.0	8.3
Deferred income	23.5	24.0	24.4	17.3	12.4
	839.6	980.8	926.3	860.1	805.1
Called up share capital	280.2	309.2	154.0	152.6	151.7
Capital redemption reserve	30.5	-	-	-	-
Share premium account	22.4	18.3	171.0	166.7	163.1
Profit and loss account	506.5	653.3	601.3	540.8	490.3
	839.6	980.8	926.3	860.1	805.1
	1997	1996	1995	1994	1993
Number of employees at 31 March	1,451	1,469	1,582	1,834	1,861

# Notice of Annual General Meeting

The eighth Annual General Meeting of Wessex Water Plc will be held at 11.00 am on Wednesday 10 September 1997 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 1997.
- 2 To declare a final dividend.
- 3 To appoint E J Gawith as a director.
- 4 To appoint C J Bishop as a director.
- 5 To re-appoint E G Falkman as a director.
- 6 To re-appoint Sir Terry Heiser as a director.
- 7 To re-appoint N A W Wheatley as a director.
- 8 To re-appoint Coopers & Lybrand as auditors and authorise the directors to fix the auditors' remuneration.

## Special business

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

- 9 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.

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

- 10 that the existing authorised but unissued B ordinary and C ordinary share capital of the company, currently divided into 33,333,335 B ordinary shares of 60 pence each and 13,333,335 C ordinary shares of 60 pence each, be forthwith designated as ordinary share capital of the company, divided into 46,666,670 ordinary shares of 60 pence each;
- 11 that the regulations contained in the printed document produced to the meeting and signed by the chairman for purposes of identification be hereby adopted as the Articles of Association of the company in substitution for and to the exclusion of all existing Articles of the company;
- 12 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 20,900,000 ordinary shares of 60 pence each
  - ii the minimum price which may be paid for any such share 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 ten business days immediately preceding the day on which the share is contracted to be purchased, and
- iv the authority hereby conferred shall expire fifteen months from the date of this resolution, or if earlier, at the conclusion of the Annual General Meeting of the company in 1998, 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;

13 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 1998, 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 in connection with a rights issue whereby ordinary shares or other equity securities are offered to holders of ordinary shares in proportion to their respective holdings of ordinary shares, but subject to such exclusions or to other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or stock exchange in any territory whatsoever; and
- ii to the allotment (otherwise than pursuant to sub-paragraph i above) of equity securities up to an aggregate nominal value of £6,290,000.

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  
25 June 1997

#### Note

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 8 September 1997.

# Notice of Annual General Meeting *continued*

## Explanation of resolutions 9 to 13

### Resolution 9: 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 10: Re-designation of share capital

On 14 February 1997, the company repurchased the 30,225,106 B ordinary shares of 60 pence each in the company ("B shares") and the 13,285,088 C ordinary shares of 60 pence each in the company ("C shares"), in each case held by UK Waste Management Holdings, as part of the arrangements relating to the tender offer to shareholders made at that time. The company now seeks authority under Resolution 10 to re-designate its B and C share capital as ordinary share capital, as it does not foresee any circumstances under which it might reissue B shares or C shares.

### Resolution 11: New Articles of Association

Following the repurchase of the B shares and C shares outlined above, the rights of such shares set out in the company's current Articles of Association became irrelevant and the company therefore wishes to amend its Articles accordingly. The company is also taking this opportunity to update its Articles of Association generally, in line with current law, regulation and practice and to take account of the admission of the company's ordinary shares into the CREST settlement system.

The principal proposed changes comprise:

- i amendments throughout the Articles to contemplate the admission of the company's ordinary shares into the CREST settlement system (in uncertificated form);
- ii general updating of the Articles to reflect the current practice and requirements of the London Stock Exchange and the Investor Protection Committees;
- iii updating of the provisions of the Articles relating to the requisitioning and conduct of general meetings of the company, to reflect current practice and to enhance administrative and practical flexibility; and
- iv updating of the provisions of the Articles relating to the conduct of business by the directors, both in board and committee meetings, to reflect current practice and technologies.

Authority is therefore sought under Resolution 11 for the company to adopt new Articles of Association containing these changes. The proposed new Articles of Association are available for inspection at the company's registered office during business hours, and on 10 September 1997 they will be made available for inspection at the place of the Annual General Meeting from 10.30 am until the conclusion of the meeting.

#### **Resolution 12: Authority to purchase shares**

In certain circumstances, it may be advantageous for the company to purchase its own shares and Resolution 12 seeks authority from shareholders to do so. It is a renewal of the existing authority. The authority entitles the company to purchase up to 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 12 will last for 15 months or, if earlier, until next year's Annual General Meeting.

#### **Resolution 13: 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."

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

Resolution 13 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 £6,290,000 equivalent to 5 per cent of the company's issued ordinary share capital at the date of this notice.

If the directors wished, without taking account of pre-emption rights, to allot wholly for cash new ordinary shares in excess of the 5 per cent limit, they would first have to request the shareholders to waive their pre-emption rights in respect of the new securities which exceed it.

# General information

## Financial calendar

Preference dividend payable on 8 September 1997

Annual General Meeting to be held on 10 September 1997

Final dividend for 1996/97 payable on 1 October 1997

## Shareholder enquiries

Shareholder enquiries, including notification of a change of a name or address, should be directed to the company's Registrars: The Royal Bank of Scotland plc, Securities Services - Registrars, PO Box 39, Caxton House, Redcliffe Way, Bristol BS99 7ZF, telephone 0117 976 3007.

## Amalgamation of shareholding

If you have received more than one copy of this Annual Report there may be more than one account in your name on the register. To amalgamate accounts please contact the Registrars, as above, giving written details of the accounts concerned and how you wish them to be amalgamated.

## Tender offer - share prices for tax purposes

The repurchase price of the 60p ordinary shares tendered under the Tender Contract of 13 February 1997 was 380 pence per share. The Inspector of Taxes has agreed to apportion this amount between an income element of 313 pence and a capital element of 67 pence.

For capital gains tax purposes the relevant market value of the 60p ordinary shares on 13 February 1997, calculated in accordance with the provisions of the Taxation of Chargeable Gains Act 1992, was 359 pence.

## Advisers

Auditors	Coopers & Lybrand
Legal adviser	Linklaters & Paines
Banker	Midland Bank plc
Financial adviser	Barclays de Zoete Wedd Ltd
Stockbroker	Panmure Gordon & Co Ltd
Registrars	The Royal Bank of Scotland plc