

WESSEX WATER SERVICES LIMITED

2366647

Report of the directors
for the year to 31 March 1990

The directors present the accounts for the year to 31 March 1990.

Principal activities

The main activities of the Company are as a water and sewerage undertaker, appointed under the terms of the Water Act 1989.

Review of business and future developments

On 1 September 1989 the functions of Wessex Water Authority relating to water supply and sewerage services and the majority of the property, rights and liabilities were transferred to Wessex Water Services Limited.

The level of business and financial position at the year end were satisfactory. The directors expect that a profitable level of activity will be sustained.

Dividends and reserves

The dividends paid and proposed for the year are set out in note 6 to the accounts. The retained loss for the year, after dividends, of £34.2m has been charged against reserves.

Fixed assets

The movements in fixed assets during the year are set out in note 10 to the accounts.

Land and buildings

The market value, on an existing use basis, of the Company's major non-specialised operational properties was assessed by independent valuers for the purposes of flotation of Wessex Water Plc at some £13m. This represents approximately £9m in excess of their net book value at 31 March 1990. There is no current intention to dispose of these properties.

Ring Fencing

Under condition K of its appointment, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 1990.

COMPANIES HOUSE
19 OCT 1990
M

Directors

The first directors of the Company were J A L Gunn and A D Whetnall - nominees of the Secretary of State for the Environment, who were appointed on 1 April 1989 and resigned on 31 August 1989.

The directors of the Company are:-

	<u>Appointed</u>
W N Hood	1 September 1989
C P Skellett	1 September 1989
R Huntington	1 September 1989
N A W Wheatley	1 September 1989
D Beal	1 September 1989
J G Jones	1 September 1989
K Manley	1 September 1989
J B Hill	1 September 1989
D Piggott	1 September 1989
D Eastwood	20 February 1990

Directors' interests in shares

The whole of the issued share capital of that Company is owned by Wessex Water Plc. The following directors are also directors of Wessex Water Plc:

W N Hood
R Huntington
C P Skellett
N A W Wheatley

Their interests in the shares of that Company are shown in the accounts of Wessex Water Plc.

The beneficial interests of other directors in the share capital of Wessex Water Plc at 31 March 1990 were:-

<u>Beneficial Interests</u>	£1 Ordinary Shares	Share Options	
		Sharesave	Executive
D Beal	1800	4090	35211
D Eastwood	-	6136	10563
J B Hill	5900	7159	35211
J G Jones	980	6136	35211
K Manley	5980	6136	35211
D Piggott	6700	6136	35211

The share options granted provide for directors to purchase fully paid ordinary shares in Wessex Water Plc under the Wessex Water Sharesave Scheme and the Wessex Water Executive Share Option Scheme.

When appointed none of the directors had any beneficial interest in the shares of the Company or of Wessex Water Plc.

Employment Policies

The Company offers equal opportunities to all applicants for employment, whatever their sex, race, religion or marital status. Employment policies are under review and will take into account the Company's future ability to attract and retain staff. It is the Company's policy that disabled persons shall be considered for employment, training, career development and promotion on the basis of their aptitudes and abilities, in common with all employees.

A high priority is given to employee communication.

Regular health and safety meetings are held. During the year the health and safety constitution has been reviewed and revised.

Close company provisions

The close company provisions of the Income and Corporation Taxes Act 1988, as amended, do not apply to the Company; there has been no change in this respect since incorporation.

Auditors

Coopers and Lybrand were appointed by the directors as the first auditors of the Company on 1 September 1989. Coopers & Lybrand have merged their practice with Deloitte Haskins and Sells and now practise in the name of Coopers & Lybrand Deloitte. They have signed the auditor's report in their new name. A resolution to re-appoint Coopers & Lybrand Deloitte as the Company's auditors will be proposed at the annual general meeting.

BY ORDER OF THE BOARD



A F Crofts
Company Secretary
26 June 1990.

WESSEX WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

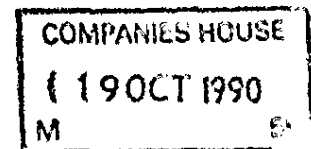
For The Year to 31 March 1990

23 66648

	Note	1990 £m	1989 £m
TURNOVER	1	146.6	130.8
OPERATING PROFIT	2	45.8	53.9
Net interest payable	3	(22.5)	(29.8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		23.3	24.1
Taxation on profit on ordinary activities	4	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		23.3	24.1
Extraordinary items	5	(2.4)	(1.0)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS		20.9	23.1
Dividends	6	(55.1)	-
(LOSS) PROFIT FOR THE FINANCIAL YEAR RETAINED IN THE BUSINESS		(34.2)	23.1

The notes on pages 4 to 14 form part of these accounts.

The movements on reserves are shown in note 17 on page 12.



WESSEX WATER SERVICES LIMITED

BALANCE SHEET

at 31 March 1990

	Note	1990 £m	1989 £m
FIXED ASSETS			
Tangible assets	10	557.0	485.8
<hr/>			
CURRENT ASSETS			
Stock and work in progress	11	4.6	2.7
Debtors	12	22.2	18.0
Short term cash investments		-	30.0
		26.8	50.7
CREDITORS: Amounts falling due within one year	13	(61.0)	(97.1)
		(34.2)	(46.4)
NET CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		522.8	439.4
CREDITORS: amounts falling due after more than one year	14	(0.9)	(281.3)
PROVISION FOR LIABILITIES AND CHARGES	15	(6.5)	-
		515.4	158.1
<hr/>			
CAPITAL AND RESERVES			
Called up share capital	16	81.3	-
Profit and loss account	17	434.1	158.1
		515.4	158.1

These accounts were approved by the Board of Directors on

N. Hood
Nicholas Hood
Chairman

D Piggott
D Piggott
Director

The Notes on Pages 4 to 14 form part of these accounts.

WESSEX WATER SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For The Year To 31 March 1990

	1990 £m	1989 £m
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	23.3	24.1
Items not involving the movement of funds:		
Depreciation	15.2	12.7
Infrastructure maintenance provision	6.5	-
Disposal of fixed assets	1.0	-
	<u>46.0</u>	<u>36.8</u>
Connection charges and grants	6.3	4.8
Proceeds from the sale of fixed assets	1.3	0.2
Transfer of assets to Wessex Water Commercial Limited	0.1	-
	<u>53.7</u>	<u>41.8</u>
APPLICATION OF FUNDS		
Capital expenditure	(95.1)	(67.7)
Extraordinary items	(2.4)	(1.0)
Other	(0.2)	0.2
Dividends paid	(35.1)	-
	<u>(132.8)</u>	<u>(68.5)</u>
(INCREASE) IN WORKING CAPITAL:		
Stocks and work in progress	(1.9)	(0.2)
Debtors	(4.2)	0.5
Creditors	(2.9)	0.2
	<u>(141.8)</u>	<u>(68.0)</u>
TOTAL APPLICATION OF FUNDS	(141.8)	(68.0)
OPERATING CASH FLOW	(88.1)	(26.2)
CAPITAL AND LOAN MOVEMENTS		
Ordinary shares issued	81.3	-
Movements on loans	(2.5)	51.5
NRA restructuring costs	(1.0)	-
	<u>(10.3)</u>	<u>25.3</u>
(DECREASE)/INCREASE IN CASH RESOURCES	(10.3)	25.3
REPRESENTED BY		
Decrease/(Increase) in short term borrowings	19.7	(4.7)
(Decrease)/Increase in short term cash investments	(30.0)	30.0
	<u>(10.3)</u>	<u>25.3</u>

The notes on pages 4 to 14 form part of these accounts

NOTES TO THE ACCOUNTS

For The Year To 31 March 1990

ACCOUNTING POLICIES

a. Basis of preparation

Wessex Water Services Limited was incorporated on 1 April 1989. On 1 September 1989, in accordance with a Transfer Scheme made under Schedule 2 of the Water Act 1989, the property, rights and liabilities of the Wessex Water Authority ("the authority"), other than those applicable to the National Rivers Authority (NRA), were vested in Wessex Water Services Limited. However, for statutory accounts purposes, all the property, rights and liabilities to which the Authority was entitled or subject, other than those applicable to the NRA, immediately before the end of the Authority's last financial year are to be treated as having vested in Wessex Water Services Limited immediately after the end of that year. Accordingly, the accounts of Wessex Water Services Limited, based on the accounting policies set out below, are presented for the financial year from 1 April 1989 to 31 March 1990. Comparative figures are included after adjustment in respect of property, rights and liabilities vested in the NRA.

The accounts have been prepared under the historic cost convention.

b. Turnover

Turnover represents income receivable net of VAT in the ordinary course of business for services provided inclusive of transactions with other subsidiaries of Wessex Water Plc.

c. Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets which are mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls; and

Other assets which include properties, plant and equipment.

(i) Infrastructure assets

Infrastructure assets comprise a network of systems.

Expenditure on infrastructure assets relating to increases in capacity or enhancement 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

Other assets are included at cost less accumulated depreciation. Additions are included at cost, after deducting connection charges and grants.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Specialised operational properties and structures	15 - 80 years
Non-specialised operational properties	60 years
Plant machinery and vehicles	3 - 30 years
Other	7 - 15 years

d. 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 expensed in the year they are incurred.

e. Investments

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

f. Stocks and work in progress

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

g. Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rate 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.

h. Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

1. Taxation

The charge for taxation is based on the profit for the period as adjusted for disallowable items. 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.

j. Pensions

The cost of providing pension 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.

1 TURNOVER

	1990	1989
	£m	£m
Analysis by class of business		
Water supply	47.2	42.1
Sewerage services	94.9	86.5
Other trading activities	<u>4.5</u>	<u>2.2</u>
	<u>146.6</u>	<u>130.8</u>

2 OPERATING PROFIT

	1990	1989
	£m	£m
a. Analysis by class of business		
Water supply	8.6	13.6
Sewerage services	36.4	40.1
Other trading activities	<u>0.8</u>	<u>0.2</u>
	<u>45.8</u>	<u>53.9</u>

Operating profit by class of business is determined after charging direct costs to the appropriate class of business and allocating indirect costs in proportion to turnover. The comparative figures have been restated to reflect this change of basis. In the opinion of the directors the apportionment of interest costs by class of business is not meaningful.

b. Operating profit is shown after charging the following operating costs:-

Materials and consumables	16.4	12.8
Other external charges	25.6	21.1
Manpower costs (note 7)	22.7	19.2
Depreciation	15.2	12.7
Infrastructure renewals expenditure	11.6	6.8
Other operating charges	5.8	3.3
Exceptional items (see (d) below)	2.5	1.0
Disposal of fixed assets	<u>1.0</u>	<u>-</u>
Total operating costs	<u>100.8</u>	<u>76.9</u>

c. The above costs are stated after including:-

Operating leases:		
Plant and machinery	0.6	0.7
Other operating leases	0.4	0.5
Costs of research and development	0.9	0.9
Directors' emoluments (note 8)	0.2	0.2
Auditors' remuneration	0.1	0.1
	<u> </u>	<u> </u>

d. Exceptional items include:-

Redundancy and rationalisation	1.7	1.0
Banking arrangement fees	<u>0.8</u>	<u> </u>
	<u>2.5</u>	<u>1.0</u>

Care should be taken in drawing conclusions from a comparison of operating costs between the two years because of changes which have taken place during the year to 31 March 1990 in the regulatory environment and the costs associated with private company status.

3 NET INTEREST PAYABLE

1990	1989
£m	£m

Net interest payable is comprised as follows:-

Interest payable to other Group Companies	9.9	-
Interest payable on:		
Bank loans, overdrafts and other loans:-		
Repayable within five years otherwise than by instalments	0.9	3.1
Repayable within five years by instalments	-	3.2
Not wholly repayable within five years	-	24.1
Loans Extinguished (see note 17)	<u>14.0</u>	<u> </u>
Total Interest Payable	24.8	30.4
Interest receivable	(1.0)	(0.6)
Compensation received arising from loan refinancing	(1.3)	-
	<u>22.5</u>	<u>29.8</u>

4 TAXATION

a There is no liability to UK corporation tax by virtue of capital allowances. The accumulated capital allowances available at 31 March 1990 are estimated to be £449m.

- b The full potential amount of deferred taxation calculated at 35% on all timing differences is as follows:-

	1990 £m
Accelerated capital allowances	35.6
Other timing differences	<u>(2.3)</u>
	33.3
Less trading losses	<u>(15.8)</u>
	<u>17.5</u>

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

5 EXTRAORDINARY ITEMS

	1990 £m	1989 £m
Expenses in connection with the offer for sale of the Holding Company's shares	<u>2.4</u>	<u>1.0</u>

There is no taxation attributable to the extraordinary items.

6 DIVIDENDS

	1990 £m
Interim dividend paid of £702.43 per share on 50,000 ordinary shares.	35.1
Final dividend proposed of 24.59p per share on 81,350,000 ordinary shares.	<u>20.0</u>
	<u>55.1</u>

7 EMPLOYEE INFORMATION

	1990 £m	1989 £m
The total employment costs of all employees (including executive directors) of the company were:-		
a. Wages and salaries	22.6	18.7
Social security costs	1.8	1.6
Other pension costs	<u>2.9</u>	<u>2.6</u>
Total Employment Costs	<u>27.3</u>	<u>22.9</u>
b. Total employment costs are charged as follows:-		
Capital schemes	4.2	3.3
Infrastructure renewals expenditure	0.4	0.4
Manpower costs	<u>22.7</u>	<u>19.2</u>
	<u>27.3</u>	<u>22.9</u>

c. The average number of employees during the financial year was as follows:-

Craft and Manuals	564	594
Management and Staff	<u>1022</u>	<u>962</u>
	<u>1586</u>	<u>1556</u>

d. The emoluments, excluding pension contributions of senior employees of the Company other than directors fell within the following ranges:-

£	1990	1989
30001 - 35000	19	5
35001 - 40000	3	1
40001 - 45000	1	-

8 DIRECTORS' REMUNERATION

The Chairman and three other directors did not receive any remuneration from Wessex Water Services Limited

	1990
	£000
Total emoluments, including pension contributions, for management services	192

Emoluments (excluding pension contributions) of the Chairman and highest paid director were:

Chairman	-
Highest paid director	37

The emoluments of the other directors (excluding pension contributions) were within the following ranges:-

£	1990
10001 - 15000	1
30001 - 35000	3
35001 - 40000	1

The emoluments of the former members of the Wessex Water Authority for the period 1 April 1989 to 31 August 1989 are dealt with in the accounts of Wessex Water Plc.

9 TRANSACTIONS WITH DIRECTORS AND OFFICERS

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

10 TANGIBLE FIXED ASSETS

	Specialised operational properties and structures	Non specialised operational properties	Infra-structure assets	Plant machinery and vehicles	Other assets	Payments on account and assets in course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
COST							
At 1 April 1989	137.2	7.4	222.8	126.9	19.4	54.8	568.5
Additions	43.2	0.8	35.5	17.8	4.9	(7.1)	95.1
Disposals	(0.2)	-	(0.8)	(3.0)	(0.3)	-	(4.3)
Connection charges & grants	(0.7)	-	(1.5)	(0.3)	(0.3)	(3.5)	(6.3)
At 31 March 1990	<u>179.5</u>	<u>8.2</u>	<u>256.0</u>	<u>141.4</u>	<u>23.7</u>	<u>44.2</u>	<u>652.0</u>
DEPRECIATION							
At 1 April 1989	25.9	1.4	-	47.2	8.2	-	82.7
Provision for year	2.6	0.1	-	9.5	3.0	-	15.2
Disposals	-	-	-	(1.8)	(0.1)	-	(1.9)
At 31 March 1990	<u>28.5</u>	<u>1.5</u>	<u>-</u>	<u>54.9</u>	<u>11.1</u>	<u>-</u>	<u>95.0</u>
NET BOOK VALUE							
at 31 March 1990	<u>151.0</u>	<u>6.7</u>	<u>256.0</u>	<u>86.5</u>	<u>12.6</u>	<u>44.2</u>	<u>557.0</u>
At 31 March 1989	<u>111.3</u>	<u>6.0</u>	<u>222.8</u>	<u>79.7</u>	<u>11.2</u>	<u>54.8</u>	<u>485.8</u>

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

Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the quality of water supplies.

Infrastructure assets comprise mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipe lines and sea outfalls.

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

All of the specialised operational properties and structures together with non-specialised operational properties are freehold.

11 STOCK AND WORK IN PROGRESS

	1990 £m	1989 £m
Stores	2.4	1.7
Work in progress	<u>2.2</u>	<u>1.0</u>
	<u>4.6</u>	<u>2.7</u>

12 DEBTORS

	1990 £m	1989 £m
Amounts falling due within one year:		
Trade debtors	10.7	8.0
Amounts owed by Group Companies	0.7	-
Other debtors	2.4	2.2
Prepayments and accrued income	<u>8.4</u>	<u>7.8</u>
	<u>22.2</u>	<u>18.0</u>

13 CREDITORS: Amounts falling due within one year

	1990 £m	1989 £m
Bank loans, overdrafts and temporary borrowings	6.1	25.8
Other loans	-	33.5
Trade creditors	3.2	4.0
Amounts owed to Group Companies	14.1	-
Other creditors	0.5	0.4
Taxation and social security	0.3	0.5
Accruals and deferred income	<u>36.8</u>	<u>32.9</u>
	<u>61.0</u>	<u>97.1</u>

Under the terms of the group's banking arrangements all companies in the group are jointly and severally liable for the overdrafts of the other group companies. In addition Wessex Water Services Limited has acted as guarantor for certain borrowing facilities made available to Wessex Water Plc.

14 CREDITORS: Amounts falling due after more than one year

	1990 £m	1989 £m
Loans (extinguished on 15 November 1989 (see note 17))	-	280.2
Other creditors	<u>0.9</u>	<u>1.1</u>
	<u>0.9</u>	<u>281.3</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

1990
£m

Infrastructure maintenance	
Balance at 1 April 1989	-
Charged to profit and loss account	<u>6.5</u>
Balance at 31 March 1990	<u>6.5</u>

16 CALLED UP SHARE CAPITAL

Authorised	£ 81,350,000
Ordinary shares of £1 each Issued and fully paid	£ 81,350,000

The company's authorised share capital upon incorporation on 1 April 1989 was 50,000 ordinary shares of £1 each. On 1 September 1989, 50,000 ordinary shares were issued at par, credited as fully paid, to Wessex Water Plc the company's holding company.

On 20 November 1989 the authorised share capital of the company was further increased to £81,350,000 by the creation of 81,300,000 additional Ordinary Shares and the shares were issued at par to Wessex Water Plc on 26 March 1990.

17 RESERVES

PROFIT
AND LOSS
ACCOUNT
£m

Balance at 1 April 1989	158.1
- Reduction due to the transfer of functions to the National Rivers Authority	<u>(4.6)</u>
	153.5
- Issue of 50,000 ordinary shares to the Holding Company, credited as fully paid (see note 16)	-
- Extinguishment of debenture issued by the Holding Company in respect of loans transferred and subsequently written off by the Secretary of State for the Environment	314.8
- Loss retained for the year	(34.2)
Balance at 31 March 1990	<u>434.1</u>

Wessex Water Services Limited inherited, on vesting, the outstanding loans of Wessex Water Authority. On 1 September 1989 loans amounting to £314.8m were transferred to Wessex Water Plc in return for the issue of a £314.8m debenture in accordance with a direction made by the Secretary of State for the Environment under section 85(1) of the Water Act 1989.

On 15 November 1989 the outstanding loans of Wessex Water Plc and the outstanding debenture of Wessex Water Services Limited, both amounting to £314.8m, were extinguished in accordance with an order made by the Secretary of State under sections 86(1) and 86(2) of the Water Act 1989. As a result of this extinguishment order £314.8m has been taken to the reserves of Wessex Water Services Limited.

18 COMMITMENTS

	1990	1989
	£m	£m
Capital expenditure authorised by the Directors:		
Committed	17.6	27.4
Not yet committed	<u>76.7</u>	<u>56.2</u>
	<u>94.3</u>	<u>83.6</u>
Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire after more than 5 years	<u>0.4</u>	<u>0.5</u>

In addition to these commitments, at 31 March 1990 the company had longer term investment expenditure plans which included expenditure to meet shortfalls in performance and condition of its assets and to provide for new demand and growth.

19 CONTINGENT LIABILITIES

There are no material contingent liabilities at 31 March 1990 for which provision has not been made in these accounts.

20 PENSIONS

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

The pension cost for the year 1989/90 was £3.4m (1988/89 - £2.6m). The pension cost has been determined on the advice of independent qualified actuaries and spreads the cost of pensions over the service lives of the members of the Schemes.

The first actuarial valuations of both WWPS and WWMIS, as at 1 April 1990, are currently in progress. Pending the results of these valuations the Company's pension cost for WWPS and WWMIS for 1989/90 has been taken as the actual contributions paid to the Schemes for that year. The pension cost has been derived from the results of an actuarial valuation of the former pension arrangement, the Water Authorities Superannuation Fund ("WASF"). Transfers of assets are being paid from WASF to WWPS and WWMIS, sufficient to cover 100% of the value of benefits that had accrued to members in WASF, allowing for future increases in pensions and earnings. The principal actuarial assumptions used to determine both the transfers from WASF and the cost of benefits under that Scheme were that the return on investments would exceed salary increases by 2% per annum and would exceed price inflation by 3% per annum; the funding method used was the attained age method.

Included in the pension costs for the year was £0.8m which arose as a result of recharges from certain local authorities and from WASF; these recharges will not recur in future years. A further cost of £0.5m represents the capital cost of additional benefits granted under the Severance Scheme.

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

21 ULTIMATE HOLDING COMPANY

Wessex Water Plc a company incorporated in the United Kingdom is the company's ultimate holding company.

Report of the auditors to the members of
WESSEX WATER SERVICES LIMITED

We have audited the accounts set out on pages 1 to 4 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1990 and of the loss and source and application of funds of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Casper & Bryant Delantti

Chartered Accountants
BRISTOL, 26 June 1990