

# WESSEX WATER SERVICES LTD

ANNUAL REPORT AND ACCOUNTS 1995

Registered in England    Company No: 2366648



Lessex  
Water

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## **DIRECTORS' REPORT**

The directors present their report and the audited accounts for the year to 31 March 1995.

### **PRINCIPAL ACTIVITIES**

The main activities of the company are the supply of clean water and the treatment and disposal of waste water.

### **OPERATIONAL REVIEW**

Over the last five years Wessex Water has made real progress:

- compliance with water and environmental quality standards is the highest ever and amongst the best in Europe
- customer service has improved radically
- we are much more efficient both in our operations and in the delivery of our major investment programme. This efficiency is reflected in the bills to customers.

Wessex Water has the reputation of being one of the most innovative, forward thinking companies in the water sector. This was reinforced by a recent report on Britain's most admired companies where, for the third time, Wessex Water was voted top in the water sector.

#### **Delivering high standards**

Wessex Water delivers high standards through efficient operation and major capital investment. Our investment programme is replacing old and inadequate infrastructure with modern plant capable of serving the region's needs well into the next century. Over the last five years 7,400 projects have been completed - a capital investment of around £740 per household. The results of this investment are clear:

##### **- Water supply**

In the last year drinking water compliance with quality standards rose to its highest level ever at 99.8%. Compliance with pressure standards was 99.5%.

Major improvements to treatment works were completed at Fulwood and Ashford in Somerset and Sutton Poyntz in Dorset, while improvements to the Somerset sources at Durleigh and Porlock will be completed this year.

##### **- Waste water**

The Wessex region has a high quality natural environment and we carry out our operations in an environmentally responsible way. Our sewage treatment works recorded 99.1% compliance with discharge standards - again the highest level ever achieved. Compliance with regulations on the treatment and disposal of sewage sludge remained at 100%.

One of the most innovative sewage treatment plants in Europe, using less land than conventional sites, is nearing completion at Poole, while at Swanage we have begun a comprehensive scheme to increase the capacity of the town's sewerage system. At Weymouth we will be installing additional plant to provide higher standards of treatment and at Weston-super-Mare a complete new works will be constructed.

#### **Increasing efficiency**

Last year, the Director General of Water Services in his review of prices set us a new annual target for efficiency improvement for the next five years. We aim to beat this target and have implemented major changes to improve further both operational and capital efficiency; these changes include:

- a new flatter organisation which has reduced staff numbers as well as improving service standards
- taking back into direct operation the sewerage work carried out by district councils. This will create economies of scale and improved service
- contracting out some support services where there are economic and operational advantages
- harmonising conditions of employment for all staff within a performance-related pay system
- better buying of materials and equipment - over four years a joint purchasing agreement with two other utility companies will save us around £1 million in vehicle costs.

#### **A partnership with customers**

In November last year we launched a major new initiative, Partnership 2000. This is a five year programme which offers customers improved service and greater involvement, it was launched with four main elements.

##### **- Customers on the board**

We appointed two customers to the board of Wessex Water Services, making us the first water company in the UK to give customers a direct voice on the board. Lesley Bennett and John Lofts, who also chair our regional customer liaison panels, have already made a significant contribution to our thinking and we welcome their wholehearted involvement.

## **DIRECTORS' REPORT continued**

### **- Improved customer guarantees**

Our new programme guarantees customers some of the best levels of service in the country - well above the legal requirements - and a "no quibble" promise to put things right if we make a mistake.

### **- Customer dividend**

We will share any future benefit of delivering our capital investment programme at a lower cost by tackling problems that customers have said they want to be solved, even though this was not allowed for in last year's price review.

### **- Campaign for fair charging**

The old rateable value basis of charge is still used for most homes in our region, but is increasingly out of date and discredited. We have devised an alternative based on Council Tax bands and a cheap meter option which is both environmentally sound and socially responsible. Despite the reluctance of the present Government to allow us access to Council Tax information, we will continue to press the case for this fairer system. As a first step towards our long term objective we will abolish the standing charge for unmeasured supplies within the next five years.

## **Caring for the environment**

Wessex Water was recently voted one of the top 10 companies in the country for environmental responsibility. Almost everything we do has an effect on the environment. The tourist industry is an important part of the Wessex region's economy. Forty out of the 42 designated bathing waters along the Wessex coast met the required standards last year. Where there were failures, discharges from waste water treatment works were not a contributory factor.

## **Contributing to the community**

Wessex Water believes in supporting the communities it serves. Our community involvement programme is focused on helping employees in their own efforts within the community.

WaterAid remains at the forefront of our efforts. This, the water industry's own charity, works overseas with the local populations to help reduce water borne disease, the biggest killer of children under the age of five in developing countries. The Wessex region of WaterAid, with contributions from many of our customers, raised a record £230,000 last year. The money will go to help a range of projects, including the provision of safe water supplies to a number of villages in Ethiopia.

## **Our employees**

Employees have had a year of considerable change. They have responded magnificently and as a result we can be very confident for the future.

At all levels in the business we see the benefits of a well trained and motivated workforce and we will continue to support training. Operators in the water services business are gaining National Vocational Qualifications and we have started a series of courses to extend the skill of technicians. Management training and development has been extended and staff at all levels are being prepared for greater responsibility.

## **PROSPECTS**

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

## **DIVIDENDS AND RESERVES**

The dividends paid and proposed for the year are set out in note 5 to the accounts. The retained profit for the year, after dividends, available for transfer to reserves was £26.9m.

## **FIXED ASSETS**

The movements in fixed assets during the year are set out in note 7 to the accounts.

## **EMPLOYMENT POLICIES**

The company offers equal opportunities to all applicants for employment. Disabled people are considered for employment, training, career development and promotion on the basis of their aptitudes and abilities, in common with all employees.

## **DIRECTORS**

The following directors are also directors of Wessex Water Plc, which owns the whole of the issued share capital of the company:

W N Hood  
C F Skellett  
N A W Wheatley

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

Other directors and their beneficial interests in the share capital of Wessex Water Plc at 31 March 1995 were:

	<u>50p ordinary shares</u>		<u>Share options</u>	
	31 March 1995	1 April 1994	31 March 1995	1 April 1994
C J Bishop	33,870	20,594	107,844	80,474
D Cooper	31,322	19,244 *	63,264	75,894 *
M Earnshaw	6	6 *	57,756	57,756 *
E Gawith	36,054	22,858 *	52,180	64,810 *
D Graham	272	150	110,118	79,332
J G Jones	44,598	35,240	74,288	56,738
K Manley	20,414	27,196	109,082	69,082
P M Try	21,919	11,754	81,390	54,020

\* At date of appointment on 1 December 1994.

J S Morris resigned as a director on 31 August 1994 and D P Eastwood on 31 December 1994. L Bennett and J Lofts were appointed as directors on 1 December 1994.

In addition directors are deemed to be interested in ordinary shares held in trust under the Wessex Water Profit Sharing Scheme as follows:

C J Bishop 942; D Cooper 868; M Earnshaw 188; E Gawith 942; D Graham 728; J G Jones 942; K Manley 236; P M Try 942.

No director, including L Bennett and J Lofts, had any other interest in the shares of the company or of Wessex Water Plc.

#### REGULATION

Under the conditions of its Licence, granted to the company by the Secretary of State for the Environment the company is obliged to provide the Director General of Water Services with additional information to that contained in the statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 17 to 31.

#### RING FENCING

Under condition K of its instrument of 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 1995.

In the opinion of the directors:

- The company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointment); and
- The company will for at least the next 12 months have available to it management resources which are sufficient to enable it to carry out those Regulated Activities.

#### OTHER INFORMATION

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

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

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

#### 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  
28 July 1995

## **DIRECTORS' RESPONSIBILITIES**

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

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

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

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

## **AUDITORS' REPORT TO THE MEMBERS OF WESSEX WATER SERVICES LTD**

We have audited the financial statements on pages 5 to 15.

### **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 at 31 March 1995 and of the profit, total recognised gains and cash flows of the company 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, 28 July 1995

**PROFIT AND LOSS ACCOUNT**  
**For the year to 31 March 1995**

	NOTE	1995 £m	1994 £m
Turnover	1	230.1	217.5
<b>Operating profit</b>	<b>2</b>	<b>105.2</b>	<b>92.7</b>
Net interest payable	3	(18.0)	(15.0)
<b>Profit on ordinary activities before taxation</b>		<b>87.2</b>	<b>77.7</b>
Taxation on profit on ordinary activities	4	(5.7)	-
<b>Profit attributable to shareholders</b>		<b>81.5</b>	<b>77.7</b>
Dividends	5	(54.6)	(77.0)
<b>Profit retained</b>		<b>26.9</b>	<b>0.7</b>

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

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

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

The notes on pages 8 to 15 form part of these accounts.

The movements on reserves are shown in note 16 on page 14.




**BALANCE SHEET**  
At 31 March 1995

	NOTE	1995 £m	1994 £m
<b>Fixed assets</b>			
Tangible assets	7	930.3	882.4
<hr/>			
<b>Current assets</b>			
Stock and work in progress	8	3.3	2.9
Debtors	9	43.3	40.2
		<u>46.6</u>	<u>43.1</u>
<b>Creditors - amounts due within one year</b>	10	(256.8)	(233.2)
		<u>(210.2)</u>	<u>(190.1)</u>
<b>Net current liabilities</b>			
<b>Total assets less current liabilities</b>		720.1	692.3
<b>Creditors - amounts due after more than one year</b>	11	(143.1)	(149.8)
<b>Provisions for liabilities and charges</b>	12	(7.3)	(6.8)
<b>Deferred income</b>	13	(24.4)	(17.3)
	14	<u>545.3</u>	<u>518.4</u>
<hr/>			
<b>Capital and reserves</b>			
Called up share capital	15	81.3	81.3
Profit and loss account	16	464.0	437.1
		<u>545.3</u>	<u>518.4</u>
<b>Equity shareholders' funds</b>	16	<u>545.3</u>	<u>518.4</u>

These accounts were approved by the board of directors on 28 July 1995.

Colin Skellett  
director



Nicholas Wheatley  
director



The notes on pages 8 to 15 form part of these accounts.

**CASH FLOW STATEMENT**  
For the year to 31 March 1995

	NOTE	1995 £m	1995 £m	1994 £m	1994 £m
<b>Net cash inflow from operating activities</b>	17		133.0		114.5
<b>Returns on investments and servicing of finance</b>					
Interest received		1.2		4.1	
Interest paid		(13.0)		(10.9)	
Dividends paid		(62.0)		(80.0)	
<u>Interest element of finance lease rental payments</u>		<u>(9.3)</u>		<u>(6.3)</u>	
			(83.1)		(93.1)
<b>Investing activities</b>					
Purchase of tangible fixed assets		(72.7)		(97.3)	
Sale of tangible fixed assets		3.1		0.8	
Connection charges, grants and deferred income		10.8		13.5	
<u>Repayment of loan by parent company</u>		<u>-</u>		<u>60.0</u>	
			(58.8)		(23.0)
<b>Net cash outflow before financing</b>			(8.9)		(1.6)
<b>Financing</b>					
Loan from parent company		100.0		-	
(Decrease) in finance leases		(5.4)		(4.0)	
New long-term loans		-		7.6	
<u>Long-term loans repaid</u>		<u>-</u>		<u>(68.0)</u>	
	18		94.6		(64.4)
<b><u>Increase/(decrease) in cash and cash equivalents</u></b>	19		<u>85.7</u>		<u>(66.0)</u>

**NOTES TO THE ACCOUNTS**  
For the year to 31 March 1995

**ACCOUNTING POLICIES**

**a. Basis of preparation**

The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions, with the Companies Act 1985, see e - grants and contributions below.

**b. Turnover**

Turnover represents income receivable in the ordinary course of business, excluding VAT, 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 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

**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 written off in the year they are incurred.

**e. Grants and contributions**

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

Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost. The departure from the requirement of the Act is, in the opinion of the directors, necessary to give a true and fair view. This is because infrastructure assets are not depreciated and the grants and contributions would not be recognised in the profit and loss account. The effect on the value of fixed assets is disclosed in note 7.

**f. Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, cost includes labour, materials and attributable overheads.

**g. Foreign currency**

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

**h. Research and development**

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

**i. 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.

**j. 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.

<b>1 Turnover</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
Analysis by class of business		
Water supply	78.0	73.8
Waste water	151.1	143.4
Inter group income	1.0	0.3
	<u>230.1</u>	<u>217.5</u>
<b>2 Operating profit</b>		
a. Analysis by class of business		
Water supply	26.9	22.3
Waste water	78.3	70.4
	<u>105.2</u>	<u>92.7</u>
Operating profit by class of business is determined after allocating central costs on the basis of estimated time spent on each class of business.		
b. Operating profit is shown after charging the following costs:		
<b>Operational costs</b>		
Manpower costs (note 6)	26.4	28.2
Materials and consumables	22.4	24.1
Other operational costs	39.6	39.1
	<u>88.4</u>	<u>91.4</u>
<b>Depreciation</b>		
Depreciation	24.7	23.0
Amortisation of grants and contributions	(0.6)	(0.5)
Loss on disposals of fixed assets	1.4	1.0
	<u>25.5</u>	<u>23.5</u>
<b>Infrastructure maintenance expenditure (note 12)</b>	<u>11.0</u>	<u>9.9</u>
	<u>124.9</u>	<u>124.8</u>
c. Operational costs include:		
Operating leases for plant and machinery	0.4	0.2
Other operating leases	0.5	1.0
Research and development	0.8	0.8
Directors' remuneration (note 6)	0.7	0.6
Audit fees (note 23)	0.1	0.1
	<u>2.5</u>	<u>2.7</u>

NOTES TO THE ACCOUNTS continued  
For the year to 31 March 1995

	1995 £m	1994 £m
<b>3 Net interest payable</b>		
Net interest payable is made up of:		
Interest payable on bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	8.2	8.4
Not wholly repayable within five years	3.1	2.9
Finance leases	7.7	6.3
Other	0.2	0.3
	<u>19.2</u>	<u>17.9</u>
Total interest payable		
Interest receivable	1.2	2.9
	<u>18.0</u>	<u>15.0</u>
<b>4 Taxation</b>		
<b>a. Taxation on profit on ordinary activities</b>		
UK corporation tax at 33%	<u>5.7</u>	<u>-</u>
<b>b. Deferred taxation</b>		
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% on all timing differences is as follows:		
Accelerated capital allowances	152.6	125.2
Other timing differences	(7.2)	(6.3)
	<u>145.4</u>	<u>118.9</u>
Included in accelerated capital allowances are timing differences on infrastructure assets.		
<b>5 Dividends</b>		
Interim dividend paid of 24.58p per share on 81,350,000 ordinary shares (1994 - 43.02p)	20.0	35.0
Final dividend proposed of 42.51p per share on 81,350,000 ordinary shares (1994 - 51.63p)	34.6	42.0
	<u>54.6</u>	<u>77.0</u>
<b>6 Directors and employees</b>		
<b>a. Total employment costs of the company were:</b>		
Wages and salaries	33.0	35.2
Social security costs	2.7	3.0
Other pension costs	3.1	3.9
	<u>38.8</u>	<u>42.1</u>
<b>b. Total employment costs are charged as follows:</b>		
Capital schemes	11.0	12.5
Infrastructure maintenance expenditure	1.4	1.4
Manpower costs	26.4	28.2
	<u>38.8</u>	<u>42.1</u>
	1995	1994
<b>c. The number of full time equivalent employees at 31 March was:</b>	<u>1,571</u>	<u>1,821</u>
The weekly average number of employees during the financial year was:	<u>1,696</u>	<u>1,817</u>

	1995 £000	1994 £000
d. Total directors remuneration:		
Salary	<u>432</u>	<u>372</u>
Bonuses	<u>84</u>	<u>65</u>
Taxable benefits	<u>71</u>	<u>31</u>
Pension contributions	<u>136</u>	<u>124</u>
e. Directors remuneration excluding pension contributions:		
Chairman	<u>-</u>	<u>-</u>
Highest paid director - salary	71	69
- bonus	<u>14</u>	<u>12</u>
	85	81
- taxable benefits	<u>8</u>	<u>5</u>
	<u>93</u>	<u>86</u>
f. Remuneration of directors, excluding pension contributions:		
£	1995	1994
0 - 5,000	5	4
15,001 - 20,000	-	1
20,001 - 25,000	2	-
25,001 - 30,000	1	-
30,001 - 35,000	1	-
60,001 - 65,000	1	-
65,001 - 70,000	-	1
70,001 - 75,000	1	2
75,001 - 80,000	-	2
80,001 - 85,000	3	-
85,001 - 90,000	-	1
90,001 - 95,000	1	-
g. The remuneration of the chairman and two other directors was paid by Wessex Water Plc, in respect of their services to the group as a whole, and is disclosed in the accounts of that company.		

NOTES TO THE ACCOUNTS continued  
For the year to 31 March 1995

7 Tangible fixed assets

	Land & buildings	Infra-structure assets	Plant machinery & vehicles	Other assets	Payments on account & assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 April 1994	287.7	372.0	267.7	31.7	86.7	1,045.8
Additions	9.1	10.0	16.7	1.3	43.5	80.6
Transfers on commissioning	9.6	3.2	14.1	1.1	(28.0)	-
Disposals	(0.3)	-	(8.8)	(0.8)	(0.4)	(10.3)
Government grants and contributions	-	(3.5)	-	-	-	(3.5)
<b>At 31 March 1995</b>	<b><u>306.1</u></b>	<b><u>381.7</u></b>	<b><u>289.7</u></b>	<b><u>33.3</u></b>	<b><u>101.8</u></b>	<b><u>1,112.6</u></b>
<b>Depreciation</b>						
At 1 April 1994	43.4	-	98.8	21.2	-	163.4
Provision for year	4.9	-	16.9	2.9	-	24.7
Disposals	-	-	(5.1)	(0.7)	-	(5.8)
<b>At 31 March 1995</b>	<b><u>48.3</u></b>	<b><u>-</u></b>	<b><u>110.6</u></b>	<b><u>23.4</u></b>	<b><u>-</u></b>	<b><u>182.3</u></b>
<b>Net book value</b>						
<b>At 31 March 1995</b>	<b><u>257.8</u></b>	<b><u>381.7</u></b>	<b><u>179.1</u></b>	<b><u>9.9</u></b>	<b><u>101.8</u></b>	<b><u>930.3</u></b>
<b>At 31 March 1994</b>	<b><u>244.3</u></b>	<b><u>372.0</u></b>	<b><u>168.9</u></b>	<b><u>10.5</u></b>	<b><u>86.7</u></b>	<b><u>882.4</u></b>

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

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

The net book value of assets held under finance leases is £89.4m (1994 - £91.3m).

The depreciation charge for the year on assets held under finance leases is £1.9m (1994 - £1.8m).

The net book value of infrastructure assets is stated after the deduction of grants and contributions amounting to £31.7m (1994 - £28.2m) in order to give a true and fair view - see accounting policy e.

<b>8 Stock and work in progress</b>		<b>1995</b>	<b>1994</b>
		<b>£m</b>	<b>£m</b>
Stores		2.0	2.0
Work in progress		<u>1.3</u>	<u>0.9</u>
		<u><b>3.3</b></u>	<u><b>2.9</b></u>
<b>9 Debtors</b>			
Amounts due within one year			
Trade debtors		22.6	21.8
Amounts owed by fellow subsidiary undertaking		-	1.1
Other debtors		5.5	3.2
Prepayments and accrued income		<u>15.2</u>	<u>14.1</u>
		<u><b>43.3</b></u>	<u><b>40.2</b></u>
<b>10 Creditors</b>			
Amounts due within one year			
Bank overdraft repayable on demand		32.7	118.4
Finance leases repayable		6.4	5.1
Trade creditors		0.9	1.8
Amounts owed to parent company		137.7	42.0
Amounts owed to associated undertakings		-	0.1
Other creditors		0.4	0.7
Corporation tax		2.2	-
Taxation and social security		1.1	1.4
Accruals and deferred income		<u>75.4</u>	<u>63.7</u>
		<u><b>256.8</b></u>	<u><b>233.2</b></u>
<p>Wessex Water Services Ltd has acted as guarantor for certain borrowing facilities and currency exchange agreements made available to Wessex Water Plc. As part of the group's banking arrangements the company has entered into a cross undertaking with Wessex Water Plc in relation to the overdraft and related facilities.</p>			
<b>11 Creditors</b>			
Amounts due after more than one year			
Loans repayable	- within 2 - 5 years	15.7	12.5
	- after 5 years	<u>38.1</u>	<u>41.3</u>
		53.8	53.8
Finance leases repayable	- within 1 - 2 years	8.0	6.4
	- within 2 - 5 years	35.1	29.4
	- after 5 years	46.0	60.0
Other		<u>0.2</u>	<u>0.2</u>
		<u><b>143.1</b></u>	<u><b>149.8</b></u>
<p>Loans of £53.8m are at floating rates and reinvested until required. The floating rates varied between 4.8% and 7.2% during the course of the year.</p>			
<b>12 Provisions for liabilities and charges</b>			
Infrastructure maintenance provision			
At 1 April		6.8	8.1
Charged to profit and loss account		11.0	9.9
Infrastructure maintenance expenditure		<u>(10.5)</u>	<u>(11.2)</u>
At 31 March		<u><b>7.3</b></u>	<u><b>6.8</b></u>
<b>13 Deferred income</b>			
Grants and contributions			
At 1 April		17.3	12.4
Received in year		7.7	5.4
Less amortisation		<u>(0.6)</u>	<u>(0.5)</u>
At 31 March		<u><b>24.4</b></u>	<u><b>17.3</b></u>



NOTES TO THE ACCOUNTS continued  
For the year to 31 March 1995

<b>14 Net assets</b>	<b>1995</b>	<b>1994</b>	
	£m	£m	
Analysis by class of business			
Water supply	178.8	168.7	
Waste water	<u>366.5</u>	<u>349.7</u>	
	<u>545.3</u>	<u>518.4</u>	
<b>15 Called up share capital</b>			
Ordinary shares of £1 each:			
Authorised, allotted, called up and fully paid	<u>81.3</u>	<u>81.3</u>	
<b>16 Profit and loss account and shareholders funds</b>	<b>Profit &amp; loss account</b>	<b>Shareholders funds</b>	
	£m	£m	
At 1 April 1994	437.1	518.4	
Profit retained for the year	26.9	26.9	
At 31 March 1995	<u>464.0</u>	<u>545.3</u>	
<b>17 Reconciliation of operating profit to net cash inflow from operating activities</b>	<b>1995</b>	<b>1994</b>	
	£m	£m	
Operating profit	105.2	92.7	
Depreciation	24.7	23.0	
Amortisation of grants and contributions	(0.6)	(0.5)	
Infrastructure maintenance provision	0.5	(1.3)	
Loss on disposals of fixed assets	1.4	1.0	
(Increase) in stock and work in progress	(0.4)	(0.5)	
(Increase) in debtors	(2.7)	(3.4)	
Increase in creditors	4.9	3.5	
	<u>133.0</u>	<u>114.5</u>	
<b>18 Analysis of changes in financing</b>			
	<b>31/3/95</b>	<b>31/3/94</b>	<b>31/3/93</b>
	£m	£m	£m
Loan from parent company	100.0	-	-
Finance leases repayable within one year	6.4	5.1	4.0
Creditors more than one year	143.1	149.8	215.4
Less other	<u>(0.2)</u>	<u>(0.2)</u>	<u>(0.3)</u>
	<u>249.3</u>	<u>154.7</u>	<u>219.1</u>
	<u>94.6</u>	<u>(64.4)</u>	
<b>19 Analysis of changes in cash and cash equivalents during the period</b>			
Bank overdraft	<u>(32.7)</u>	<u>(118.4)</u>	<u>(52.4)</u>
	<u>85.7</u>	<u>(66.0)</u>	

<b>20 Commitments</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
a. Capital expenditure authorised by the directors:		
Committed	<b>29.0</b>	<b>39.0</b>
Not yet committed	<b>53.0</b>	<b>64.0</b>
	<b><u>82.0</u></b>	<b><u>103.0</u></b>

In addition to these commitments, at 31 March 1995, Wessex Water Services Ltd had longer term investment expenditure plans which included expenditure to improve the performance and condition of its assets and to provide for growth in demand.

b. Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:		
Within 1 year	<b>0.1</b>	<b>-</b>
Between 2 and 5 years	<b>0.1</b>	<b>0.3</b>
Over 5 years	<b>0.2</b>	<b>0.2</b>
	<b><u>0.4</u></b>	<b><u>0.5</u></b>

- c. At 31 March 1995 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £148.8m (1994 - £58.8m).

## 21 Contingent liabilities

There are no material contingent liabilities at 31 March 1995 for which provision has not been made in these accounts.

## 22 Pensions

The defined benefit schemes 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 funds are valued by independent qualified actuaries. The latest actuarial assessment of the schemes was at 31 March 1993. Particulars of the basis of charge and valuations are contained in the accounts of Wessex Water Plc. Contributions are based upon pension costs across the group as a whole.

The total pension cost of the company including amounts set aside for early retirees, was £4.5m (1994 - £4.5m).

## 23 Other transactions

- a. Total fees paid to Coopers & Lybrand, the company's auditors amounted to £0.9m (1994 - £0.7m), consisting of the audit fee of £0.1m, systems project management £0.7m and other professional advice £0.1m.
- b. There were no transactions or arrangements with directors and officers which require disclosure under the provisions of the Companies Act 1985, except for the following loans outstanding at 31 March 1995, in respect of the purchase of company cars; C J Bishop £11,855; D Cooper £18,126; E Gawith £14,177; D Graham £12,424; J G Jones £16,829; K Manley £9,425; P M Try £8,338.

## 24 Ultimate parent company

Wessex Water Plc, a company incorporated in Great Britain and registered in England, is the company's ultimate parent company.

## REGULATORY INFORMATION

### DIRECTORS' RESPONSIBILITIES

In addition to their responsibilities to prepare financial statements in accordance with Companies Act 1985, the directors are also responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991 for:

- a. ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Director General of Water Services ("the Director"), to the Appointee from time to time;
- b. preparing on a consistent basis for each financial year accounting statements in accordance with Condition F, having regard also to the terms of guidelines notified by the Director from time to time, which so far as is reasonably practicable have the same content as the annual financial statements of the Appointee prepared under Companies Act 1985 and which are prepared in accordance with the formats, accounting policies and principles which apply to those accounts;
- c. preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by the Director from time to time, and;
- d. preparing such other accounting and related information as is required by Condition F having regard also to the terms of guidelines issued by the Director from time to time.

### REPORT OF THE AUDITORS TO THE DIRECTOR GENERAL OF WATER SERVICES

We have audited the regulatory financial statements on pages 17 to 31.

#### Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of the regulatory 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 regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

In conjunction with our audit for statutory accounts purposes, as described above, we have performed an examination, on a test basis, of the supplementary regulatory accounting statements to determine their consistency with the statutory accounts as appropriate and their compliance with relevant Regulatory Accounting Guidelines. We have also performed an assessment of the significant estimates and judgements made by the directors in their preparation of these supplementary statements.

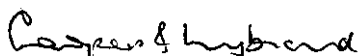
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other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

#### Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 1995 required to be published and submitted to you by Wessex Water Services Ltd to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

- a. proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b. the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- c. the financial statements on pages 5 to 15, 17 and 18 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business, and;
- d. the current cost financial information on pages 19 to 31 has been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.



Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Bristol, 28 July 1995

**HISTORICAL COST PROFIT AND LOSS ACCOUNT**  
**For the year to 31 March 1995**

	1995			1994		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	219.6	10.8	230.4	204.8	12.9	217.7
Operating costs	(115.6)	(8.6)	(124.2)	(114.5)	(10.0)	(124.5)
Operating income	<u>(1.4)</u>	<u>-</u>	<u>(1.4)</u>	<u>(1.0)</u>	<u>-</u>	<u>(1.0)</u>
Operating profit	102.6	2.2	104.8	89.3	2.9	92.2
Other income	0.4	-	0.4	0.5	-	0.5
Interest payable	<u>(18.0)</u>	<u>-</u>	<u>(18.0)</u>	<u>(15.0)</u>	<u>-</u>	<u>(15.0)</u>
Profit on ordinary activities before taxation	85.0	2.2	87.2	74.8	2.9	77.7
Taxation	<u>(5.7)</u>	<u>-</u>	<u>(5.7)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit for the year	79.3	2.2	81.5	74.8	2.9	77.7
Dividends	<u>(54.6)</u>	<u>-</u>	<u>(54.6)</u>	<u>(77.0)</u>	<u>-</u>	<u>(77.0)</u>
Retained profit/(loss) for year	<u>24.7</u>	<u>2.2</u>	<u>26.9</u>	<u>(2.2)</u>	<u>2.9</u>	<u>0.7</u>

Grants and internal water supply income of £0.3m (1994 - £0.2m) have been shown as income in the Regulatory Statements.

The appointed business comprises those activities that are necessary for the Appointee to fulfil the functions and duties of a water and sewerage undertaker.

The non-appointed business comprises those activities for which the Appointee is not a monopoly supplier or involve the optional use of assets owned by the Appointee.

**HISTORICAL COST BALANCE SHEET**  
At 31 March 1995

	1995			1994		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	<u>930.3</u>	<u>-</u>	<u>930.3</u>	<u>882.4</u>	<u>-</u>	<u>882.4</u>
<b>Current assets</b>						
Stocks	3.0	0.3	3.3	2.4	0.5	2.9
Debtors	39.9	3.4	43.3	36.1	4.1	40.2
Cash at bank and in hand	<u>-</u>	<u>7.2</u>	<u>7.2</u>	<u>-</u>	<u>4.0</u>	<u>4.0</u>
	42.9	10.9	53.8	38.5	8.6	47.1
<b>Creditors - amounts falling due within one year</b>	<u>(263.3)</u>	<u>(0.7)</u>	<u>(264.0)</u>	<u>(236.6)</u>	<u>(0.6)</u>	<u>(237.2)</u>
<b>Net current assets/(liabilities)</b>	<u>(220.4)</u>	<u>10.2</u>	<u>(210.2)</u>	<u>(198.1)</u>	<u>8.0</u>	<u>(190.1)</u>
<b>Total assets less current liabilities</b>	709.9	10.2	720.1	684.3	8.0	692.3
<b>Creditors - amounts falling due after one year</b>	<u>(143.1)</u>	<u>-</u>	<u>(143.1)</u>	<u>(149.8)</u>	<u>-</u>	<u>(149.8)</u>
Provisions for liabilities and charges	(7.3)	-	(7.3)	(6.8)	-	(6.8)
Deferred income	<u>(24.4)</u>	<u>-</u>	<u>(24.4)</u>	<u>(17.3)</u>	<u>-</u>	<u>(17.3)</u>
	<u>535.1</u>	<u>10.2</u>	<u>545.3</u>	<u>510.4</u>	<u>8.0</u>	<u>518.4</u>
<b>Capital and reserves</b>						
Called up share capital	81.3	-	81.3	81.3	-	81.3
Profit and loss account	453.8	10.2	464.0	429.1	8.0	437.1
	<u>535.1</u>	<u>10.2</u>	<u>545.3</u>	<u>510.4</u>	<u>8.0</u>	<u>518.4</u>

**CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS**  
**For the year to 31 March 1995**

	Note	1995 £m	1994 £m
<b>Turnover</b>	4	219.6	204.8
Current cost operating costs	7	(139.4)	(139.0)
Operating income	4	<u>(2.5)</u>	<u>(2.8)</u>
		77.7	63.0
Working capital adjustment		<u>1.5</u>	<u>0.7</u>
<b>Current cost operating profit</b>	5	79.2	63.7
Other income		0.4	0.5
Interest payable		(18.0)	(15.0)
Financing adjustment		9.7	4.9
<b>Current cost profit before taxation</b>		<u>71.3</u>	<u>54.1</u>
Taxation		(5.7)	-
Current cost profit attributable to shareholders		<u>65.6</u>	<u>54.1</u>
Dividends		(54.6)	(77.0)
<b>Current cost profit/(loss) retained</b>		<u><u>11.0</u></u>	<u><u>(22.9)</u></u>

**CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS**  
**At 31 March 1995**

	Note	1995 £m	1994 £m
Tangible fixed assets	6	6,143.5	5,910.8
Third party contributions since 1989-90		(59.5)	(47.2)
Working capital	8	<u>(56.9)</u>	<u>(43.0)</u>
<b>Net operating assets</b>		<b>6,027.1</b>	<b>5,820.6</b>
Cash and investments		(39.9)	(122.4)
Non trade creditors due within one year		(141.0)	(47.1)
Creditors due after one year		(143.1)	(149.8)
<b>Net assets employed</b>		<b><u>5,703.1</u></b>	<b><u>5,501.3</u></b>
<b>Capital and reserves</b>			
Called up share capital		81.3	81.3
Profit and loss account		207.1	196.1
Current cost reserve	9	5,414.7	5,223.9
		<b><u>5,703.1</u></b>	<b><u>5,501.3</u></b>

**CURRENT COST CASH FLOW STATEMENT**  
**For the year to 31 March 1995**

	1995			1994		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
<b>Net cash flow from operating activities (Note 5)</b>	<u>129.4</u>	<u>3.2</u>	<u>132.6</u>	<u>112.2</u>	<u>1.8</u>	<u>114.0</u>
<b>Returns on investments and servicing of finance</b>						
Other income received	0.4	-	0.4	0.5	-	0.5
Interest received	1.2	-	1.2	4.1	-	4.1
Interest paid	(13.0)	-	(13.0)	(10.9)	-	(10.9)
Interest on finance lease rentals	(9.3)	-	(9.3)	(6.3)	-	(6.3)
Dividends paid	(62.0)	-	(62.0)	(80.0)	-	(80.0)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<u>(82.7)</u>	<u>-</u>	<u>(82.7)</u>	<u>(92.6)</u>	<u>-</u>	<u>(92.6)</u>
<b>Investing activities</b>						
Purchase of fixed assets	(72.7)	-	(72.7)	(97.3)	-	(97.3)
Disposal of fixed assets	3.1	-	3.1	0.8	-	0.8
Connèction charges, grants and deferred income	10.8	-	10.8	13.5	-	13.5
Repayment of loan by parent company	-	-	-	60.0	-	60.0
<b>Net cash outflow from investing activities</b>	<u>(58.8)</u>	<u>-</u>	<u>(58.8)</u>	<u>(23.0)</u>	<u>-</u>	<u>(23.0)</u>
<b>Net cash (outflow)/inflow before financing</b>	<b>(12.1)</b>	<b>3.2</b>	<b>(8.9)</b>	<b>(3.4)</b>	<b>1.8</b>	<b>(1.6)</b>
<b>Financing</b>						
Loan from parent company	100.0	-	100.0	-	-	-
Capital element of finance lease rentals	(5.4)	-	(5.4)	(4.0)	-	(4.0)
New long term loans	-	-	-	7.6	-	7.6
Long term loans repaid	-	-	-	(68.0)	-	(68.0)
<b>Net cash inflow/(outflow)from financing</b>	<u>94.6</u>	<u>-</u>	<u>94.6</u>	<u>(64.4)</u>	<u>-</u>	<u>(64.4)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<u>82.5</u>	<u>3.2</u>	<u>85.7</u>	<u>(67.8)</u>	<u>1.8</u>	<u>(66.0)</u>



**NOTES TO THE CURRENT COST REGULATORY STATEMENTS**  
**For the year to 31 March 1995**

These accounts have been prepared for the Appointed Business of Wessex Water Services Ltd in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the statutory historical cost accounts except as set out below.

**1 VALUATION BASES FOR DETERMINING DEPRECIATION AND DISPOSAL ADJUSTMENTS**

**Tangible fixed assets**

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

**Land and buildings**

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 1989 and have been expressed in real terms by indexing using the Retail Price Index (RPI) since that date.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Surface Investment Requirements (SIR) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

**Infrastructure assets**

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally:-

- a. for sewers on the basis of unit cost rates currently used by the company for estimating and planning purposes;
- b. for water mains on the basis of data provided by the Asset Management Plan (AMP).

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

**Other fixed assets**

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic SIR reviews, values are restated for inflation as measured by changes in the RPI.

**Surplus land**

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

**2 GRANTS AND OTHER THIRD PARTY CONTRIBUTIONS**

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

### 3 REAL FINANCIAL CAPITAL MAINTENANCE ADJUSTMENTS

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

#### Working capital adjustment

This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors.

#### Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

### 4 ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS

	1995			1994		
	Water services £m	Sewerage services £m	Appointed business £m	Water services £m	Sewerage services £m	Appointed business £m
<b>Turnover</b>						
Measured	28.0	28.3	56.3	25.0	25.0	50.0
Unmeasured	42.3	109.8	152.1	39.8	104.5	144.3
Trade effluent	-	4.4	4.4	-	5.0	5.0
Revenue grants	-	0.1	0.1	0.1	-	0.1
Other sources	3.0	3.7	6.7	2.3	3.1	5.4
Total turnover	<u>73.3</u>	<u>146.3</u>	<u>219.6</u>	<u>67.2</u>	<u>137.6</u>	<u>204.8</u>
<b>Operating income</b>						
Current cost profit on disposal of fixed assets	(1.1)	(1.4)	(2.5)	(0.5)	(2.3)	(2.8)
Total operating income	<u>(1.1)</u>	<u>(1.4)</u>	<u>(2.5)</u>	<u>(0.5)</u>	<u>(2.3)</u>	<u>(2.8)</u>

### 5 RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1995 £m	1994 £m
Current cost operating profit	79.2	63.7
Current cost depreciation	45.4	43.9
Current cost loss on disposals of assets	2.5	2.8
(Increase) in debtors and prepaid expenses	(4.6)	(2.7)
Increase in creditors and accrued expenses	4.8	3.4
Release of provisions	3.0	1.7
Effect of other deferrals and accruals on operating activity cash flow	0.6	0.1
Working capital adjustment	(1.5)	(0.7)
Net cash flow from operating activities	<u>129.4</u>	<u>112.2</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
For the year to 31 March 1995

6a CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost</b>					
At 1 April 1994	1,341.9	34.2	5,086.8	146.5	6,609.4
RPI adjustment	45.2	1.2	177.4	4.4	228.2
Disposals	(1.9)	(0.1)	(0.1)	(11.0)	(13.1)
Additions	46.1	1.1	22.9	10.5	80.6
<b>At 31 March 1995</b>	<b><u>1,431.3</u></b>	<b><u>36.4</u></b>	<b><u>5,287.0</u></b>	<b><u>150.4</u></b>	<b><u>6,905.1</u></b>
<b>Depreciation</b>					
At 1 April 1994	605.2	2.9	-	90.5	698.6
RPI adjustment	21.2	0.1	-	2.9	24.2
Disposals	(1.0)	-	-	(6.5)	(7.5)
Charge for year	32.0	0.6	-	13.7	46.3
<b>At 31 March 1995</b>	<b><u>657.4</u></b>	<b><u>3.6</u></b>	<b><u>-</u></b>	<b><u>100.6</u></b>	<b><u>761.6</u></b>
<b>Net book value at 31 March 1995</b>	<b><u>773.9</u></b>	<b><u>32.8</u></b>	<b><u>5,287.0</u></b>	<b><u>49.8</u></b>	<b><u>6,143.5</u></b>
<b>Net book value at 31 March 1994</b>	<b><u>736.7</u></b>	<b><u>31.3</u></b>	<b><u>5,086.8</u></b>	<b><u>56.0</u></b>	<b><u>5,910.8</u></b>

6b CURRENT COST ANALYSIS OF FIXED ASSETS BY SERVICE

	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
<b>Gross replacement cost</b>				
At 1 April 1994	2,043.3	3,529.7	1,036.4	6,609.4
RPI adjustment	70.4	122.9	34.9	228.2
Disposals	(5.7)	(1.5)	(5.9)	(13.1)
Additions	27.0	20.6	33.0	80.6
<b>At 31 March 1995</b>	<b><u>2,135.0</u></b>	<b><u>3,671.7</u></b>	<b><u>1,098.4</u></b>	<b><u>6,905.1</u></b>
<b>Depreciation</b>				
At 1 April 1994	171.3	81.7	445.6	698.6
RPI adjustment	5.9	2.8	15.5	24.2
Disposals	(3.2)	(0.9)	(3.4)	(7.5)
Charge for year	12.9	5.5	27.9	46.3
<b>At 31 March 1995</b>	<b><u>186.9</u></b>	<b><u>89.1</u></b>	<b><u>485.6</u></b>	<b><u>761.6</u></b>
<b>Net book value at 31 March 1995</b>	<b><u>1,948.1</u></b>	<b><u>3,582.6</u></b>	<b><u>612.8</u></b>	<b><u>6,143.5</u></b>
Net book value at 31 March 1994	<u>1,872.0</u>	<u>3,448.0</u>	<u>590.8</u>	<u>5,910.8</u>

6c NET BOOK VALUE OF FIXED ASSETS BY SERVICE AND BY TYPE

Infrastructure assets	1,707.0	3,497.6	82.4	5,287.0
Specialised operational assets	200.7	77.0	496.2	773.9
Non specialised operational properties	14.9	6.3	11.6	32.8
Other tangible assets	25.5	1.7	22.6	49.8
<b>At 31 March 1995</b>	<b><u>1,948.1</u></b>	<b><u>3,582.6</u></b>	<b><u>612.8</u></b>	<b><u>6,143.5</u></b>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
For the year to 31 March 1995

7a ACTIVITY COSTING ANALYSIS - 1995  
For the year to 31 March

	WASTE WATER				Total £m
	Sewerage	Sewage treatment	Sludge treatment & disposal	Sewage treatment & disposal sub total	
	£m	£m	£m	£m	
<b>DIRECT COSTS</b>					
Employment costs	1.7	4.1	1.9	6.0	7.7
Power	0.7	3.4	0.3	3.7	4.4
Agencies	4.6	0.3	-	0.3	4.9
Hired & contracted services	0.7	1.7	1.3	3.0	3.7
Associated companies	-	-	-	-	-
Materials & consumables	0.4	2.3	0.8	3.1	3.5
Service charges	-	1.9	-	1.9	1.9
Other direct costs	0.1	0.1	0.1	0.2	0.3
<b>Total direct costs</b>	<u>8.2</u>	<u>13.8</u>	<u>4.4</u>	<u>18.2</u>	<u>26.4</u>
General & support expenditure	2.7	4.4	1.4	5.8	8.5
<b>Functional expenditure</b>	<u>10.9</u>	<u>18.2</u>	<u>5.8</u>	<u>24.0</u>	<u>34.9</u>
<b>CAPITAL COSTS</b>					
CC depreciation	5.4			27.0	32.4
Infrastructure renewals expenditure	4.3			0.1	4.4
Infrastructure renewals accruals/(prepayments)	3.7			0.2	3.9
<b>Functional costs</b>	<u>24.3</u>			<u>51.3</u>	<u>75.6</u>
Business analysis functional expenditure					7.0
Rates					2.2
Doubtful debts					2.2
Business accounts capital costs					0.3
<b>Service cost</b>					<u>87.3</u>
Services for third parties					0.1
<b>Total</b>					<u>87.4</u>
<b>FIXED ASSET NET BOOK VALUES AT 31 MARCH 1995</b>					
Service activities	3,578.8			579.8	4,158.6
Business activities	3.8			33.0	36.8
<b>Service totals</b>	<u>3,582.6</u>			<u>612.8</u>	<u>4,195.4</u>
Services for third parties	-			-	-
<b>Total MEA values</b>	<u>3,582.6</u>			<u>612.8</u>	<u>4,195.4</u>

The split of current cost depreciation, infrastructure renewals and fixed asset net book values as between Sewage treatment and Sludge treatment & disposal is not available.

WATER SUPPLY			BUSINESS ANALYSIS			
Water resources & treatment	Water distribution	Total	Customer services	Scientific services	Cost of regulation	Total
£m	£m	£m	£m	£m	£m	£m
2.2	2.7	4.9				
2.2	2.4	4.6				
-	-	-				
0.9	1.4	2.3				
-	-	-				
1.3	1.4	2.7				
2.6	-	2.6				
0.2	0.2	0.4				
<u>9.4</u>	<u>8.1</u>	<u>17.5</u>	<u>4.6</u>	<u>3.2</u>	<u>1.2</u>	<u>9.0</u>
3.3	3.1	6.4	2.0	0.4	0.2	2.6
<u>12.7</u>	<u>11.2</u>	<u>23.9</u>	<u>6.6</u>	<u>3.6</u>	<u>1.4</u>	<u>11.6</u>
6.3	6.0	12.3				
0.3	5.8	6.1				
(0.2)	(0.7)	(0.9)				
<u>19.1</u>	<u>22.3</u>	<u>41.4</u>				
		4.6				
		3.0				
		0.8				
		0.4				
		<u>50.2</u>				
		1.8				
		<u>52.0</u>				
148.3	1,771.0	1,919.3				
		28.8				
		<u>1,948.1</u>				
		-				
		<u>1,948.1</u>				

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
For the year to 31 March 1995

7b ACTIVITY COSTING ANALYSIS - 1994  
For the year to 31 March

	WASTE WATER				Total
	Sewerage	Sewage treatment	Sludge treatment & disposal	Sewage treatment & disposal sub total	
	£m	£m	£m	£m	
<b>DIRECT COSTS</b>					
Employment costs	1.6	5.4	1.7	7.1	8.7
Power	0.4	3.3	0.3	3.6	4.0
Agencies	5.1	0.3	-	0.3	5.4
Hired & contracted services	0.5	2.2	1.1	3.3	3.8
Materials & consumables	0.4	2.9	0.8	3.7	4.1
Service charges	-	2.2	-	2.2	2.2
Other direct costs	-	-	-	-	-
<b>Total direct costs</b>	<u>8.0</u>	<u>16.3</u>	<u>3.9</u>	<u>20.2</u>	<u>28.2</u>
General & support expenditure	3.0	3.9	0.9	4.8	7.8
<b>Functional expenditure</b>	<u>11.0</u>	<u>20.2</u>	<u>4.8</u>	<u>25.0</u>	<u>36.0</u>
<b>CAPITAL COSTS</b>					
CC depreciation	5.2			26.3	31.5
Infrastructure renewals expenditure	5.6			0.2	5.8
Infrastructure renewals accruals/prepayments	2.0			0.1	2.1
<b>Functional costs</b>	<u>23.8</u>			<u>51.6</u>	<u>75.4</u>
Business analysis functional expenditure					7.4
Rates					3.1
Doubtful debts					2.0
Business accounts capital costs					0.5
<b>Service cost</b>					<u>88.4</u>
Services for third parties					-
<b>Total</b>					<u>88.4</u>
<b>FIXED ASSET NET BOOK VALUES AT 31 MARCH 1994</b>					
Service activities	3,443.8			557.4	4,001.2
Business activities	4.2			33.4	37.6
<b>Service totals</b>	<u>3,448.0</u>			<u>590.8</u>	<u>4,038.8</u>
Services for third parties	-			-	-
<b>Total MEA values</b>	<u>3,448.0</u>			<u>590.8</u>	<u>4,038.8</u>

The split of current cost depreciation, infrastructure renewals and fixed asset net book values as between Sewage treatment and Sludge treatment & disposal is not available.

WATER SUPPLY			BUSINESS ANALYSIS			
Water resources & treatment	Water distribution	Total	Customer services	Scientific services	Cost of regulation	Total
£m	£m	£m	£m	£m	£m	£m
2.7	2.2	4.9				
2.1	2.5	4.6				
-	-	-				
1.0	1.6	2.6				
1.7	1.5	3.2				
2.6	-	2.6				
-	0.2	0.2				
<u>10.1</u>	<u>8.0</u>	<u>18.1</u>	<u>4.6</u>	<u>2.6</u>	<u>1.2</u>	<u>8.4</u>
3.3	2.7	6.0	2.6	0.7	0.1	3.4
<u>13.4</u>	<u>10.7</u>	<u>24.1</u>	<u>7.2</u>	<u>3.3</u>	<u>1.3</u>	<u>11.8</u>
5.9	5.7	11.6				
-	5.4	5.4				
0.1	(0.5)	(0.4)				
<u>19.4</u>	<u>21.3</u>	<u>40.7</u>				
		4.4				
		3.0				
		0.7				
		0.3				
		<u>49.1</u>				
		1.5				
		<u>50.6</u>				
138.2	1,703.1	1,841.3				
		30.7				
		<u>1,872.0</u>				
		-				
		<u>1,872.0</u>				



NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
For the year to 31 March 1995

8 WORKING CAPITAL

	1995 £m	1994 £m
Stocks	3.0	2.4
Trade debtors	19.6	19.1
Trade creditors	(1.0)	(1.7)
Short term capital creditors	(32.7)	(24.8)
Infrastructure renewals accrual	(17.4)	(14.4)
Other trade accruals	(22.6)	(21.3)
Payments in advance	(19.3)	(17.1)
Tax and social security	(3.3)	(1.4)
Group trade (creditors)/debtors	(3.1)	1.1
Other trade debtors	18.7	13.9
Prepayments	<u>1.2</u>	<u>1.2</u>
	<u>(56.9)</u>	<u>(43.0)</u>

9 MOVEMENT ON CURRENT COST RESERVE

	1995 £m	1994 £m
At 1 April	5,223.9	5,101.3
AMP/SIR adjustment	-	-
RPI adjustments:		
Fixed assets	204.0	129.1
Working capital	(1.5)	(0.7)
Financing	(9.7)	(4.9)
Grants and third party contributions	(2.0)	(0.9)
At 31 March	<u>5,414.7</u>	<u>5,223.9</u>

**FIVE YEAR SUMMARY FOR THE APPOINTED BUSINESS**  
**Year to 31 March**

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
<b>Turnover</b>	<u>219.6</u>	<u>210.6</u>	<u>202.5</u>	<u>193.3</u>	<u>178.6</u>
Current cost operating costs	(139.4)	(142.9)	(144.6)	(146.0)	(134.9)
Operating income	(2.5)	(2.9)	(1.6)	(1.5)	(0.9)
Working capital adjustment	<u>1.5</u>	<u>0.7</u>	<u>0.8</u>	<u>1.7</u>	<u>1.5</u>
	<u>79.2</u>	<u>65.5</u>	<u>57.1</u>	<u>47.5</u>	<u>44.3</u>
Other income	0.4	0.5	0.3	0.3	0.2
Net interest	(18.0)	(15.4)	(15.0)	(9.0)	(1.5)
Financing adjustment	9.7	5.0	2.5	0.6	0.6
<b>Current cost operating profit before taxation</b>	<u>71.3</u>	<u>55.6</u>	<u>44.9</u>	<u>39.4</u>	<u>43.6</u>
Taxation	(5.7)	-	(0.4)	0.4	-
<b>Current cost profit attributable to shareholders</b>	<u>65.6</u>	<u>55.6</u>	<u>44.5</u>	<u>39.8</u>	<u>43.6</u>
Dividends	(54.6)	(79.1)	(67.9)	(64.7)	(63.3)
<b>Current cost profit/(loss) retained</b>	<u>11.0</u>	<u>(23.5)</u>	<u>(23.4)</u>	<u>(24.9)</u>	<u>(19.7)</u>
Tangible fixed assets	6,143.5	6,117.7	6,064.0	5,982.1	5,892.3
Third party contributions since 1989-90	(59.5)	(48.9)	(36.5)	(24.2)	(12.8)
Working capital	(56.9)	(44.5)	(32.9)	(45.0)	(45.0)
<b>Net operating assets</b>	<u>6,027.1</u>	<u>6,024.3</u>	<u>5,994.6</u>	<u>5,912.9</u>	<u>5,834.5</u>
Cash and investments	(39.9)	(126.7)	5.7	69.9	58.6
Non trade creditors due within one year	(141.0)	(48.8)	(51.9)	(32.3)	(29.2)
Creditors due after one year	(143.1)	(155.0)	(228.1)	(203.4)	(71.9)
<b>Net assets employed</b>	<u>5,703.1</u>	<u>5,693.8</u>	<u>5,720.3</u>	<u>5,747.1</u>	<u>5,792.0</u>
Called up share capital	81.3	84.1	86.1	87.7	91.3
Profit and loss accounts	207.1	203.0	231.9	260.5	297.0
Current cost reserve	<u>5,414.7</u>	<u>5,406.7</u>	<u>5,402.3</u>	<u>5,398.9</u>	<u>5,403.7</u>
	<u>5,703.1</u>	<u>5,693.8</u>	<u>5,720.3</u>	<u>5,747.1</u>	<u>5,792.0</u>

Comparatives have been restated at current year prices using movements in RPI.