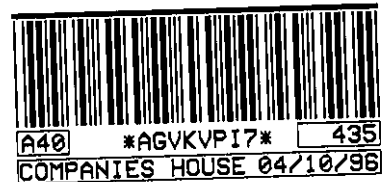


236648

WESSEX WATER SERVICES LTD

ANNUAL REPORT AND ACCOUNTS 1996



CONTENTS

STATUTORY INFORMATION

Directors' report	1
Directors' responsibilities and auditors' report	4
The accounts	5
Notes to the accounts	8
REGULATORY INFORMATION	16

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 March 1996.

PRINCIPAL ACTIVITIES

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

OPERATIONAL REVIEW

The company continued to deliver high standards, improve efficiency and provide customers with an excellent service.

DELIVERING HIGH STANDARDS

An important aspect of the quality of our service was demonstrated during last year's exceptionally dry summer when, despite record low rainfall, there were no restrictions in water supply anywhere in the Wessex region. Effective investment in water resources, our ability to move water to where it was needed through our regional grid system and the hard work of all our employees, ensured customers' supplies were not restricted. We firmly believe customers have a right to the services they pay for and those few who were inconvenienced by low pressure during periods of exceptional demand were paid compensation.

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

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

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

Work has also begun on a £36 million scheme to construct a new sewage treatment works for Weston-super-Mare. In all, around 1300 capital projects were completed last year and compliance with the legal standards for drinking water and sewage treatment discharges was maintained at virtually 100%.

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

IMPROVING EFFICIENCY

Last year the costs of running the water business fell by another 4% despite some additional running costs during the exceptionally dry period last summer. As a result of this excellent performance, costs are now 19% lower in real terms, than they were four years ago.

Across the company employees have found ways to reduce costs whilst maintaining high standards. We are confident of maintaining the momentum of cost reductions.

IMPROVING CUSTOMER RELATIONS

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

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

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

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

DIRECTORS' REPORT continued

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

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

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

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

COMMUNITY INVOLVEMENT

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

The company strongly supports the efforts of employees who participate in a wide range of activities in the communities in which they live and work. In addition to continued support from the Community Plus Fund which matches the fund raising efforts of staff, teams from Wessex Water participated in Challenge West 95, taking up challenges from regional charities to help them with specific projects.

Education centres which give schools and colleges a base for their studies have been established at Ashford in Somerset and Sutton Poyntz in Dorset. Further projects at company sites are nearing completion at Trowbridge in Wiltshire and Blashford Lakes in Hampshire. Strong links have also been forged with education business partnerships which promote closer links between schools and industry.

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

ENVIRONMENTAL RESPONSIBILITY

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

We were also the only water company in the country to become a founding partner of "Forum for the Future" - a new environmental charity committed to research for positive solutions to environmental problems and building a sustainable way of life.

We continue to work with the Environment Agency in identifying ways of resolving low river flows in catchments where water abstraction has an impact. Good progress was made with stream support measures for the River Piddle in Dorset, the River Wylye in Wiltshire and the River Avon at Malmesbury.

A number of Wessex Watermark awards were made to local groups who sought assistance on a variety of water related environmental projects. Since the scheme was established in conjunction with the Conservation Foundation, 150 local groups have benefitted from awards totalling £90,000.

RESEARCH & DEVELOPMENT

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

SUPPLIER PAYMENT POLICY

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

PROFIT AND DIVIDEND

The profit for the year after taxation was £89.2m. The directors recommend a dividend for the year of £59.5m.

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, including shares held in trust, in the share capital of Wessex Water Plc at 31 March 1996 were:

	<u>Shares</u> 50p preference 31 March 1996	<u>Shares</u> 60p ordinary 31 March 1996	<u>Shares</u> 50p ordinary 1 April 1995	<u>Options</u> 60p ordinary 31 March 1996	<u>Options</u> 50p ordinary 1 April 1995
L H Ames	-	-	-	-	-
L Bennett	-	-	-	-	-
D Cooper	25,522	16,491	32,190	67,744	63,264
M C Earnshaw	198	389	194	30,010	57,756
J G Jones	7,954	35,556	45,540	58,440	74,288
P M Try	17,528	10,829	22,861	85,870	81,390

J Lofts resigned as a director on 1 December 1995, C J Bishop, D Graham, E J Gawith and K Manley resigned on 31 October 1995. L H Ames was appointed as a director on 1 December 1995.

AUDITORS

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



By order of the board
A F Crofts
Company Secretary
20 June 1996

DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the company 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 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 and detection of fraud and 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.

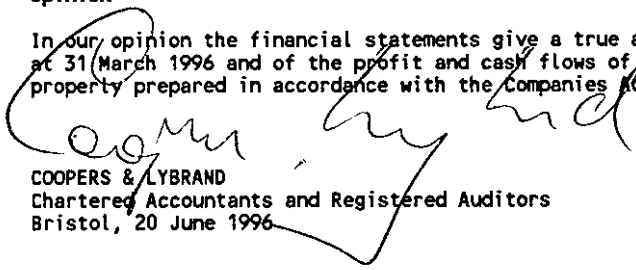
Basis of opinion

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 1996 and of the profit 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, 20 June 1996

PROFIT AND LOSS ACCOUNT
For the year to 31 March 1996

	NOTE	1996 £m	1995 £m
Turnover	1	239.7	230.1
Operating profit	2	120.1	105.2
Net interest payable	3	(19.0)	(18.0)
Profit on ordinary activities before taxation		101.1	87.2
Taxation on profit on ordinary activities	4	(11.9)	(5.7)
Profit attributable to shareholders		89.2	81.5
Dividends	5	(59.5)	(54.6)
Profit retained	16	29.7	26.9

The company's turnover and operating profit were 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.

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 1996

	NOTE	1996 £m	1995 £m
Fixed assets			
Tangible assets	7	971.2	930.3
<hr/>			
Current assets			
Stock and work in progress	8	1.7	3.3
Debtors	9	43.6	43.3
		<u>45.3</u>	<u>46.6</u>
Creditors - amounts falling due within one year	10	(275.2)	(254.8)
		<u>(229.9)</u>	<u>(208.2)</u>
Net current liabilities			
Total assets less current liabilities		741.3	722.1
Creditors - amounts falling due after more than one year	11	(135.3)	(143.1)
Provisions for liabilities and charges	12	(7.0)	(9.3)
Deferred income	13	(24.0)	(24.4)
	14	<u>575.0</u>	<u>545.3</u>
<hr/>			
Capital and reserves			
Called up share capital	15	81.3	81.3
Profit and loss account	16	493.7	464.0
		<u>575.0</u>	<u>545.3</u>
Equity shareholders' funds	16	<u>575.0</u>	<u>545.3</u>

These accounts were approved by the board of directors on 20 June 1996



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 1996

	NOTE	1996 £m	1996 £m	1995 £m	1995 £m
Net cash inflow from operating activities	17		147.1		133.0
Returns on investments and servicing of finance					
Interest received		0.8		1.2	
Interest paid		(12.3)		(13.0)	
Interest element of finance lease rental payments		(7.5)		(9.3)	
Dividends paid		(74.6)		(62.0)	
			(93.6)		(83.1)
Investing activities					
Purchase of tangible fixed assets		(87.5)		(72.7)	
Sale of tangible fixed assets		0.7		3.1	
Connection charges, grants and deferred income received		6.0		10.8	
			(80.8)		(58.8)
Net cash outflow before financing			(27.3)		(8.9)
Financing					
	18				
Loan from parent company		25.0		100.0	
Capital element of finance lease rental payments		(6.4)		(5.4)	
			18.6		94.6
(Decrease)/increase in cash and cash equivalents	19		(8.7)		85.7

NOTES TO THE ACCOUNTS
For the year to 31 March 1996

ACCOUNTING POLICIES

a. Basis of preparation

The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions, with the Companies Act 1985, see 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, without deduction of grants and contributions which would be accounted for as deferred income. 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 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 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.

1 Turnover	1996	1995
	£m	£m
Analysis by class of business		
Water supply	81.4	78.0
Waste water	157.7	151.1
Inter group income	0.6	1.0
	<u>239.7</u>	<u>230.1</u>
2 Operating profit		
a. Analysis by class of business		
Water supply	32.0	26.9
Waste water	88.1	78.3
	<u>120.1</u>	<u>105.2</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:		
Operational costs		
Manpower costs (note 6)	22.6	26.4
Materials and consumables	22.1	22.4
Other operational costs	36.8	39.6
	<u>81.5</u>	<u>88.4</u>
Depreciation		
Depreciation	27.1	24.7
Amortisation of grants and contributions	(0.7)	(0.6)
Loss on disposals of fixed assets	0.8	1.4
	<u>27.2</u>	<u>25.5</u>
Infrastructure maintenance expenditure (note 12)	<u>10.9</u>	<u>11.0</u>
	<u>119.6</u>	<u>124.9</u>
c. Operational costs include:		
Operating leases for plant and machinery	0.5	0.4
Other operating leases	0.3	0.5
Research and development	0.6	0.8
Directors' remuneration (note 6)	0.7	0.7
Audit fees (note 23)	0.1	0.1
	<u>2.2</u>	<u>2.5</u>

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1996

	1996 £m	1995 £m
3 Net interest payable		
Net interest payable is made up of:		
Interest payable on bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	9.1	8.2
Not wholly repayable within five years	4.0	3.1
Finance leases	7.5	7.7
Other	0.2	0.2
	<hr/>	<hr/>
Total interest payable	20.8	19.2
Interest receivable	1.8	1.2
	<hr/>	<hr/>
Net interest payable	<u>19.0</u>	<u>18.0</u>
Included in interest payable on loans is £6.7m (1995 - £1.8m) payable to group companies.		
4 Taxation		
a. Taxation on profit on ordinary activities		
UK corporation tax at 33% (1995 - 33%)	<u>11.9</u>	<u>5.7</u>
b. Deferred taxation		
No deferred tax has been provided as projections indicate that the potential liability will not crystallise within the foreseeable future.		
The full potential amount of deferred taxation calculated at 33% (1995 - 33%) on all timing differences is as follows:		
Accelerated capital allowances	174.4	152.6
Other timing differences	(6.9)	(7.2)
	<u>167.5</u>	<u>145.4</u>
Included in accelerated capital allowances are timing differences on infrastructure assets.		
5 Dividends		
Interim dividend paid of 49.17p per share on 81,350,000 ordinary shares (1995 - 24.58p)	40.0	20.0
Final dividend proposed of 23.97p per share on 81,350,000 ordinary shares (1995 - 42.51p)	<u>19.5</u>	<u>34.6</u>
	<u>59.5</u>	<u>54.6</u>
6 Directors and employees		
a. Total employment costs of the company were:		
Wages and salaries	29.4	33.0
Social security costs	2.4	2.7
Other pension costs	3.1	3.1
	<u>34.9</u>	<u>38.8</u>
b. Total employment costs are charged as follows:		
Capital schemes	10.3	11.0
Infrastructure maintenance expenditure	2.0	1.4
Manpower costs	22.6	26.4
	<u>34.9</u>	<u>38.8</u>
	1996	1995
c. The number of full time equivalent employees at 31 March was:	<u>1,431</u>	<u>1,571</u>
Monthly average number of employees during the financial year:	<u>1,501</u>	<u>1,696</u>

	1996 £000	1995 £000
d. Total directors' remuneration:		
Salary	<u>403</u>	<u>432</u>
Bonuses	<u>82</u>	<u>84</u>
Benefits in kind	<u>58</u>	<u>71</u>
Pension contributions	<u>107</u>	<u>136</u>
e. Directors' remuneration excluding pension contributions:		
Highest paid director - salary	68	71
- bonus	<u>14</u>	<u>14</u>
	82	85
- benefits in kind	<u>9</u>	<u>8</u>
	<u>91</u>	<u>93</u>
f. Remuneration of directors, excluding pension contributions:		
£	1996	1995
0 - 5,000	6	5
20,001 - 25,000	-	2
25,001 - 30,000	-	1
30,001 - 35,000	-	1
45,001 - 50,000	2	-
50,001 - 55,000	1	-
60,001 - 65,000	1	1
65,001 - 70,000	1	-
70,001 - 75,000	-	1
75,001 - 80,000	1	-
80,001 - 85,000	1	3
90,001 - 95,000	1	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 1996

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
Cost						
At 1 April 1995	306.1	381.7	289.7	33.3	101.8	1,112.6
Additions	9.4	12.0	21.9	4.0	26.3	73.6
Transfers on commissioning	23.9	26.0	35.4	2.1	(87.4)	-
Disposals	(0.6)	-	(1.7)	(0.8)	(0.3)	(3.4)
Government grants and contributions	-	(4.4)	-	-	-	(4.4)
At 31 March 1996	<u>338.8</u>	<u>415.3</u>	<u>345.3</u>	<u>38.6</u>	<u>40.4</u>	<u>1,178.4</u>
Depreciation						
At 1 April 1995	48.3	-	110.6	23.4	-	182.3
Provision for year	5.3	-	18.3	3.5	-	27.1
Disposals	(0.1)	-	(1.4)	(0.7)	-	(2.2)
At 31 March 1996	<u>53.5</u>	<u>-</u>	<u>127.5</u>	<u>26.2</u>	<u>-</u>	<u>207.2</u>
Net book value						
At 31 March 1996	<u>285.3</u>	<u>415.3</u>	<u>217.8</u>	<u>12.4</u>	<u>40.4</u>	<u>971.2</u>
At 31 March 1995	<u>257.8</u>	<u>381.7</u>	<u>179.1</u>	<u>9.9</u>	<u>101.8</u>	<u>930.3</u>

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

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

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

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

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

8 Stock and work in progress	1996	1995
	£m	£m
Stores	1.0	2.0
Work in progress	0.7	1.3
	<u>1.7</u>	<u>3.3</u>

9 Debtors		
Amounts due within one year		
Trade debtors	23.2	22.6
Other debtors	4.8	5.5
Prepayments and accrued income	15.6	15.2
	<u>43.6</u>	<u>43.3</u>

10 Creditors - amounts falling due within one year		
Bank overdraft repayable on demand	41.4	32.7
Finance leases repayable	7.9	6.4
Trade creditors	3.4	0.9
Amounts owed to parent company	155.4	137.7
Other creditors	0.5	0.4
Corporation tax	6.9	2.2
Taxation and social security	1.1	1.1
Accruals and deferred income	58.6	73.4
	<u>275.2</u>	<u>254.8</u>

Wessex Water Services Ltd has acted as guarantor for certain borrowing facilities and currency exchange agreements made available to other group companies. 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.

11 Creditors - amounts falling due after more than one year		
Loans repayable		
- within 1 - 2 years	1.6	-
- within 2 - 5 years	17.3	15.7
- after 5 years	34.9	38.1
	<u>53.8</u>	<u>53.8</u>
Finance leases repayable		
- within 1 - 2 years	9.7	8.0
- within 2 - 5 years	41.9	35.1
- after 5 years	29.6	46.0
Other	0.3	0.2
	<u>135.3</u>	<u>143.1</u>

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

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

12 Provisions for liabilities and charges	at 1 April 1995	Provided	Utilised	at 31 March 1996
	£m	£m	£m	£m
Infrastructure maintenance	7.3	10.9	(14.1)	4.1
Pensions	2.0	1.0	(0.1)	2.9
	<u>9.3</u>	<u>11.9</u>	<u>(14.2)</u>	<u>7.0</u>

Amounts relating to pensions were previously included in creditors.

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

NOTES TO THE ACCOUNTS continued
For the year to 31 March 1996

14	Net assets				1996 £m	1995 £m
	Analysis by class of business					
	Water supply				191.0	178.8
	Waste water				<u>384.0</u>	<u>366.5</u>
					<u>575.0</u>	<u>545.3</u>
15	Called up share capital					
	Ordinary shares of £1 each:					
	Authorised, allotted, called up and fully paid				<u>81.3</u>	<u>81.3</u>
16	Profit and loss account and shareholders' funds				Profit & loss account £m	Shareholders funds £m
	At 1 April 1995				464.0	545.3
	Profit retained for the year				29.7	29.7
	At 31 March 1996				<u>493.7</u>	<u>575.0</u>
17	Reconciliation of operating profit to net cash inflow from operating activities				1996 £m	1995 £m
	Operating profit				120.1	105.2
	Depreciation				27.1	24.7
	Amortisation of grants and contributions				(0.7)	(0.6)
	Provisions				(2.3)	0.5
	Loss on disposals of fixed assets				0.8	1.4
	Decrease/(increase) in stock and work in progress				1.6	(0.4)
	Increase in debtors				(0.6)	(2.7)
	Increase in creditors				1.1	4.9
					<u>147.1</u>	<u>133.0</u>
18	Analysis of changes in financing					
		31/3/96 £m	31/3/95 £m	31/3/94 £m		
	Loan from parent company	125.0	100.0	-		
	Finance leases repayable within one year	7.9	6.4	5.1		
	Creditors more than one year	135.3	143.1	149.8		
	Less other	(0.3)	(0.2)	(0.2)		
		<u>267.9</u>	<u>249.3</u>	<u>154.7</u>	<u>18.6</u>	<u>94.6</u>
19	Analysis of changes in cash and cash equivalents during the period					
	Bank overdraft	(41.4)	(32.7)	(118.4)	<u>(8.7)</u>	<u>85.7</u>

20 Commitments

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

In addition to these commitments, at 31 March 1996, Wessex Water Services Ltd had longer term investment expenditure plans which included expenditure to improve the performance and condition of its assets and to provide for growth in demand.

b. Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:	1996 £m	1995 £m
Within 1 year	-	0.1
Between 2 and 5 years	0.1	0.1
Over 5 years	0.2	0.2
	<u>0.3</u>	<u>0.4</u>

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

21 Contingent liabilities

There are no material contingent liabilities at 31 March 1996 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 (WGPS), the Wessex Water Mirror Image Pension Scheme (WMMIS), 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 employees retiring early, was £4.2m (1995 - £4.5m).

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

23 Other transactions

- a. In addition to audit fees the company paid to its auditors £0.4m (1995 - £0.8m), relating to systems project management and other professional advice.
- 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 1996, in respect of the purchase of company cars; D Cooper £12,084; J G Jones £12,022.

24 Ultimate parent company

Wessex Water Plc, a company incorporated in Great Britain, is the company's ultimate parent company. The registered office of Wessex Water Plc is Wessex House, Passage Street, Bristol BS2 0JQ.

CONTENTS

REGULATORY INFORMATION

Introduction	17
Directors' responsibilities and auditors' report	18
Historical cost statements	19
Current cost regulatory statements	21
Notes to the current cost regulatory statements	24
Five year summary for the appointed business	33

REGULATORY INFORMATION

INTRODUCTION

The company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

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 19 to 33.

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 1996.

In the opinion of the directors:

- a. 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
- b. 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.



A F Crofts
Company Secretary
4 September 1996

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 19 to 33.

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 for statutory accounts purposes 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.

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.

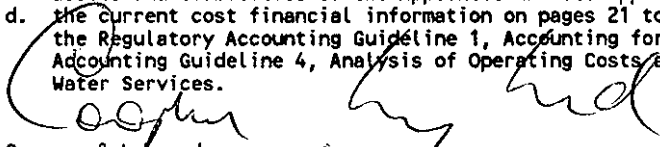
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion the financial statements contain the information for the year to 31 March 1996 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 19 and 20, in conjunction with the financial statements set out on pages 5 to 15, 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 21 to 33 has been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 and Regulatory Accounting Guideline 4, Analysis of Operating Costs and Assets, issued in June 1992 by the Office of Water Services.


Coopers & Lybrand
Chartered Accountants and Registered Auditors
Bristol, 4 September 1996

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year to 31 March 1996

	1996			1995		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	231.0	8.9	239.9	219.6	10.8	230.4
Operating costs	(112.2)	(7.2)	(119.4)	(115.6)	(8.6)	(124.2)
Operating income	<u>(0.8)</u>	<u>-</u>	<u>(0.8)</u>	<u>(1.4)</u>	<u>-</u>	<u>(1.4)</u>
Operating profit	118.0	1.7	119.7	102.6	2.2	104.8
Other income	0.4	-	0.4	0.4	-	0.4
Interest payable	<u>(19.0)</u>	<u>-</u>	<u>(19.0)</u>	<u>(18.0)</u>	<u>-</u>	<u>(18.0)</u>
Profit on ordinary activities before taxation	99.4	1.7	101.1	85.0	2.2	87.2
Taxation	<u>(11.9)</u>	<u>-</u>	<u>(11.9)</u>	<u>(5.7)</u>	<u>-</u>	<u>(5.7)</u>
Profit for the year	87.5	1.7	89.2	79.3	2.2	81.5
Dividends	<u>(59.5)</u>	<u>-</u>	<u>(59.5)</u>	<u>(54.6)</u>	<u>-</u>	<u>(54.6)</u>
Retained profit for year	<u>28.0</u>	<u>1.7</u>	<u>29.7</u>	<u>24.7</u>	<u>2.2</u>	<u>26.9</u>

Grants and internal water supply income of £0.2m (1995 - £0.3m) 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 1996

	Appointed £m	1996 Non appointed £m	Total £m	Appointed £m	1995 Non appointed £m	Total £m
Fixed assets						
Tangible assets	<u>971.2</u>	<u>-</u>	<u>971.2</u>	<u>930.3</u>	<u>-</u>	<u>930.3</u>
Current assets						
Stocks	1.7	-	1.7	3.0	0.3	3.3
Debtors	41.6	2.0	43.6	39.9	3.4	43.3
Cash at bank and in hand	<u>-</u>	<u>10.4</u>	<u>10.4</u>	<u>-</u>	<u>7.2</u>	<u>7.2</u>
	<u>43.3</u>	<u>12.4</u>	<u>55.7</u>	<u>42.9</u>	<u>10.9</u>	<u>53.8</u>
Creditors - amounts falling due within one year						
Borrowings	(184.7)	-	(184.7)	(139.1)	-	(139.1)
Dividends payable	(19.5)	-	(19.5)	(34.6)	-	(34.6)
Other creditors	<u>(80.9)</u>	<u>(0.5)</u>	<u>(81.4)</u>	<u>(87.6)</u>	<u>(0.7)</u>	<u>(88.3)</u>
	<u>(285.1)</u>	<u>(0.5)</u>	<u>(285.6)</u>	<u>(261.3)</u>	<u>(0.7)</u>	<u>(262.0)</u>
Net current assets/(liabilities)						
	<u>(241.8)</u>	<u>11.9</u>	<u>(229.9)</u>	<u>(218.4)</u>	<u>10.2</u>	<u>(208.2)</u>
Total assets less current liabilities	729.4	11.9	741.3	711.9	10.2	722.1
Creditors - amounts falling due after one year						
	(135.3)	-	(135.3)	(143.1)	-	(143.1)
Provisions for liabilities and charges	(7.0)	-	(7.0)	(9.3)	-	(9.3)
Deferred income	<u>(24.0)</u>	<u>-</u>	<u>(24.0)</u>	<u>(24.4)</u>	<u>-</u>	<u>(24.4)</u>
	<u>563.1</u>	<u>11.9</u>	<u>575.0</u>	<u>535.1</u>	<u>10.2</u>	<u>545.3</u>
Capital and reserves						
Called up share capital	81.3	-	81.3	81.3	-	81.3
Profit and loss account	481.8	11.9	493.7	453.8	10.2	464.0
	<u>563.1</u>	<u>11.9</u>	<u>575.0</u>	<u>535.1</u>	<u>10.2</u>	<u>545.3</u>

The regulatory information on pages 19 to 33 was approved by the board of directors on 4 September 1996.

Nicholas Wheatley
director



CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS
For the year to 31 March 1996

	Note	1996 £m	1995 £m
Turnover	4	231.0	219.6
Current cost operating costs	7	(133.2)	(139.4)
Operating income	4	<u>(1.4)</u>	<u>(2.5)</u>
		96.4	77.7
Working capital adjustment		<u>1.5</u>	<u>1.5</u>
Current cost operating profit	5	97.9	79.2
Other income		0.4	0.4
Interest payable		(19.0)	(18.0)
Financing adjustment		7.9	9.7
Current cost profit before taxation		<u>87.2</u>	<u>71.3</u>
Taxation		(11.9)	(5.7)
Current cost profit attributable to shareholders		<u>75.3</u>	<u>65.6</u>
Dividends		(59.5)	(54.6)
Current cost profit retained		<u><u>15.8</u></u>	<u><u>11.0</u></u>

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS
At 31 March 1996

	Note	1996 £m	1995 £m
Tangible fixed assets	6	8,156.8	6,143.5
Third party contributions since 1989-90		(65.0)	(59.5)
Working capital	8	<u>(46.8)</u>	<u>(54.7)</u>
Net operating assets		8,045.0	6,029.3
Cash and investments		(51.8)	(39.9)
Non trade creditors due within one year		(139.8)	(108.6)
Dividends due within one year		(19.5)	(34.6)
Creditors due after one year		(135.3)	(143.1)
Net assets employed		<u>7,698.6</u>	<u>5,703.1</u>
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		222.9	207.1
Current cost reserve	9	7,394.4	5,414.7
		<u>7,698.6</u>	<u>5,703.1</u>

CURRENT COST CASH FLOW STATEMENT
For the year to 31 March 1996

	1996			1995		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Net cash flow from operating activities (note 5)	<u>157.6</u>	<u>3.2</u>	<u>160.8</u>	<u>139.9</u>	<u>3.2</u>	<u>143.1</u>
Returns on investments and servicing of finance						
Other income received	0.4	-	0.4	0.4	-	0.4
Interest received	0.8	-	0.8	1.2	-	1.2
Interest paid	(12.3)	-	(12.3)	(13.0)	-	(13.0)
Interest on finance lease rentals	(7.5)	-	(7.5)	(9.3)	-	(9.3)
Dividends paid	(74.6)	-	(74.6)	(62.0)	-	(62.0)
Net cash outflow from returns on investments and servicing of finance	<u>(93.2)</u>	<u>-</u>	<u>(93.2)</u>	<u>(82.7)</u>	<u>-</u>	<u>(82.7)</u>
Investing activities						
Purchase of fixed assets	(87.5)	-	(87.5)	(72.7)	-	(72.7)
Disposal of fixed assets	0.7	-	0.7	3.1	-	3.1
Connection charges, grants and deferred income	6.0	-	6.0	10.8	-	10.8
Infrastructure renewals expenditure	(14.1)	-	(14.1)	(10.5)	-	(10.5)
Net cash outflow from investing activities	<u>(94.9)</u>	<u>-</u>	<u>(94.9)</u>	<u>(69.3)</u>	<u>-</u>	<u>(69.3)</u>
Net cash (outflow)/inflow before financing	(30.5)	3.2	(27.3)	(12.1)	3.2	(8.9)
Financing						
Loan from parent company	25.0	-	25.0	100.0	-	100.0
Capital element of finance lease rentals	(6.4)	-	(6.4)	(5.4)	-	(5.4)
Net cash inflow from financing	<u>18.6</u>	<u>-</u>	<u>18.6</u>	<u>94.6</u>	<u>-</u>	<u>94.6</u>
Increase/(decrease) in cash and cash equivalents	<u>(11.9)</u>	<u>3.2</u>	<u>(8.7)</u>	<u>82.5</u>	<u>3.2</u>	<u>85.7</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS
For the year to 31 March 1996

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.

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

Modern equivalent asset values (MEA) arising from the latest periodic review have been incorporated into the 1995/96 regulatory statements.

Assets acquired 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 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 are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Asset Management Plan (AMP) 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 by the MEA value at the latest periodic review.

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 AMP 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 working capital of the company at the beginning of the year.

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

	1996			1995		
	Water services £m	Sewerage services £m	Appointed business £m	Water services £m	Sewerage services £m	Appointed business £m
Turnover						
Measured	29.4	31.0	60.4	28.0	28.3	56.3
Unmeasured	44.8	113.9	158.7	42.3	109.8	152.1
Trade effluent	-	4.6	4.6	-	4.4	4.4
Revenue grants	-	-	-	-	0.1	0.1
Other sources	0.9	3.9	4.8	0.8	3.6	4.4
Third party services	2.4	0.1	2.5	2.2	0.1	2.3
Total turnover	<u>77.5</u>	<u>153.5</u>	<u>231.0</u>	<u>73.3</u>	<u>146.3</u>	<u>219.6</u>
Operating income						
Current cost loss on disposal of fixed assets	(0.6)	(0.8)	(1.4)	(1.1)	(1.4)	(2.5)
Total operating income	<u>(0.6)</u>	<u>(0.8)</u>	<u>(1.4)</u>	<u>(1.1)</u>	<u>(1.4)</u>	<u>(2.5)</u>

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

	1996 £m	1995 £m
Current cost operating profit	97.9	79.2
Current cost depreciation	48.4	45.4
Current cost loss on disposals of assets	1.4	2.5
Decrease in stock	1.3	-
(Increase) in debtors and prepaid expenses	(2.0)	(4.6)
Increase in creditors and accrued expenses	1.3	4.8
Provisions	(3.3)	3.0
Infrastructure renewals expenditure	14.1	10.5
Effect of other deferrals and accruals on operating activity cash flow	-	0.6
Working capital adjustment	(1.5)	(1.5)
Net cash flow from operating activities	<u>157.6</u>	<u>139.9</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued
For the year to 31 March 1996

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
Gross replacement cost					
At 1 April 1995	1,431.3	36.4	5,287.0	150.4	6,905.1
AMP adjustment	19.3	-	1,825.2	-	1,844.5
RPI adjustment	37.2	1.0	142.5	3.7	184.4
Disposals	(4.0)	(0.6)	(0.1)	(2.6)	(7.3)
Additions	39.9	0.7	21.3	11.7	73.6
At 31 March 1996	<u>1,523.7</u>	<u>37.5</u>	<u>7,275.9</u>	<u>163.2</u>	<u>9,000.3</u>
Depreciation					
At 1 April 1995	657.4	3.6	-	100.6	761.6
AMP adjustment	17.5	-	-	-	17.5
RPI adjustment	17.7	0.1	-	2.7	20.5
Disposals	(3.3)	-	-	(2.2)	(5.5)
Charge for year	34.7	0.6	-	14.1	49.4
At 31 March 1996	<u>724.0</u>	<u>4.3</u>	<u>-</u>	<u>115.2</u>	<u>843.5</u>
Net book value at 31 March 1996	<u>799.7</u>	<u>33.2</u>	<u>7,275.9</u>	<u>48.0</u>	<u>8,156.8</u>
Net book value at 31 March 1995	<u>773.9</u>	<u>32.8</u>	<u>5,287.0</u>	<u>49.8</u>	<u>6,143.5</u>

6b CURRENT COST ANALYSIS OF FIXED ASSETS BY SERVICE

	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
Gross replacement cost				
At 1 April 1995	2,135.0	3,671.7	1,098.4	6,905.1
AMP adjustment	125.4	1,704.2	14.9	1,844.5
RPI adjustment	57.1	98.7	28.6	184.4
Disposals	(4.4)	(0.6)	(2.3)	(7.3)
Additions	28.0	12.3	33.3	73.6
At 31 March 1996	<u>2,341.1</u>	<u>5,486.3</u>	<u>1,172.9</u>	<u>9,000.3</u>
Depreciation				
At 1 April 1995	186.9	89.1	485.6	761.6
AMP adjustment	4.0	-	13.5	17.5
RPI adjustment	5.0	2.4	13.1	20.5
Disposals	(3.7)	(0.4)	(1.4)	(5.5)
Charge for year	14.1	5.8	29.5	49.4
At 31 March 1996	<u>206.3</u>	<u>96.9</u>	<u>540.3</u>	<u>843.5</u>
Net book value at 31 March 1996	<u>2,134.8</u>	<u>5,389.4</u>	<u>632.6</u>	<u>8,156.8</u>
Net book value at 31 March 1995	<u>1,948.1</u>	<u>3,582.6</u>	<u>612.8</u>	<u>6,143.5</u>

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

Infrastructure assets	1,886.8	5,302.9	86.2	7,275.9
Specialised operational assets	208.8	78.9	512.0	799.7
Non specialised operational properties	15.1	6.4	11.7	33.2
Other tangible assets	24.1	1.2	22.7	48.0
At 31 March 1996	<u>2,134.8</u>	<u>5,389.4</u>	<u>632.6</u>	<u>8,156.8</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued
For the year to 31 March 1996

7a ACTIVITY COSTING ANALYSIS - 1996
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	
DIRECT COSTS					
Employment costs	1.7	4.1	1.8	5.9	7.6
Power	1.0	3.0	0.3	3.3	4.3
Agencies	3.4	0.1	-	0.1	3.5
Hired & contracted services	0.4	1.8	1.6	3.4	3.8
Materials & consumables	0.4	2.6	0.9	3.5	3.9
Service charges NRA	-	2.2	-	2.2	2.2
Bulk supply imports	-	-	-	-	-
Other direct costs	0.1	0.1	-	0.1	0.2
Total direct costs	<u>7.0</u>	<u>13.9</u>	<u>4.6</u>	<u>18.5</u>	<u>25.5</u>
General & support expenditure	1.6	3.5	1.2	4.7	6.3
Functional expenditure	<u>8.6</u>	<u>17.4</u>	<u>5.8</u>	<u>23.2</u>	<u>31.8</u>
CAPITAL COSTS					
Current cost depreciation	5.6			28.1	33.7
Infrastructure renewals expenditure	7.5			0.3	7.8
Infrastructure renewals accruals/(prepayments)	(3.4)			(0.2)	(3.6)
Functional costs	<u>18.3</u>			<u>51.4</u>	<u>69.7</u>
Customer services					4.6
Scientific services					0.9
Cost of regulation					0.7
Rates					2.3
Doubtful debts					2.0
Business accounts capital costs					0.9
Service cost					<u>81.1</u>
Services for third parties					-
Total					<u>81.1</u>
FIXED ASSET NET BOOK VALUES AT 31 MARCH 1996					
Service activities	5,387.1			624.3	6,011.4
Business activities	2.3			8.3	10.6
Service totals	<u>5,389.4</u>			<u>632.6</u>	<u>6,022.0</u>
Services for third parties	-			-	-
Total MEA values	<u>5,389.4</u>			<u>632.6</u>	<u>6,022.0</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	2.2	4.4				
2.3	2.3	4.6				
-	-	-				
1.2	1.4	2.6				
0.8	1.2	2.0				
1.6	-	1.6				
0.9	-	0.9				
0.1	0.2	0.3				
<u>9.1</u>	<u>7.3</u>	<u>16.4</u>	<u>5.4</u>	<u>3.2</u>	<u>1.0</u>	<u>9.6</u>
3.2	2.5	5.7	0.8	0.1	0.1	1.0
<u>12.3</u>	<u>9.8</u>	<u>22.1</u>	<u>6.2</u>	<u>3.3</u>	<u>1.1</u>	<u>10.6</u>
6.4	6.8	13.2				
0.3	6.0	6.3				
-	(0.6)	(0.6)				
<u>19.0</u>	<u>22.0</u>	<u>41.0</u>				
		1.6				
		2.4				
		0.4				
		3.3				
		0.7				
		0.6				
		<u>50.0</u>				
		2.1				
		<u>52.1</u>				
149.5	1,980.0	2,129.5				
		5.3				
		<u>2,134.8</u>				
		-				
		<u>2,134.8</u>				

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued
For the year to 31 March 1996

7b 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	
DIRECT COSTS					
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
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
Total direct costs	<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
Functional expenditure	<u>10.9</u>	<u>18.2</u>	<u>5.8</u>	<u>24.0</u>	<u>34.9</u>
CAPITAL COSTS					
Current cost 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
Functional costs	<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
Service cost					<u>87.3</u>
Services for third parties					0.1
Total					<u>87.4</u>
FIXED ASSET NET BOOK VALUES AT 31 MARCH 1995					
Service activities	3,578.8			579.8	4,158.6
Business activities	3.8			33.0	36.8
Service totals	<u>3,582.6</u>			<u>612.8</u>	<u>4,195.4</u>
Services for third parties	-			-	-
Total MEA values	<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 1996

8 WORKING CAPITAL

	1996 £m	1995 £m
Stocks	1.7	3.0
Trade debtors	21.8	19.6
Working cash balances		
Trade creditors	(3.4)	(1.0)
Short term capital creditors	(18.8)	(32.7)
Infrastructure renewals accrual	(13.2)	(17.4)
Other trade accruals	(25.9)	(22.6)
Trade payments in advance	(16.3)	(19.3)
Payroll related taxes and DSS contributions	(1.1)	(1.1)
Group trade creditors	(10.9)	(3.1)
Other trade debtors	19.1	18.7
Prepayments	0.2	1.2
	<u>(46.8)</u>	<u>(54.7)</u>

9 MOVEMENT ON CURRENT COST RESERVE

	1996 £m	1995 £m
At 1 April	5,414.7	5,223.9
AMP adjustment	1,827.0	-
RPI adjustments:		
Fixed assets	163.9	204.0
Working capital	(1.5)	(1.5)
Financing	(7.9)	(9.7)
Grants and third party contributions	(1.8)	(2.0)
At 31 March	<u>7,394.4</u>	<u>5,414.7</u>

The AMP adjustment revises the MEA value of assets in line with the latest Strategic Business Plan.

FIVE YEAR SUMMARY FOR THE APPOINTED BUSINESS
Year to 31 March

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	<u>231.0</u>	<u>226.8</u>	<u>217.3</u>	<u>209.1</u>	<u>199.6</u>
Current cost operating costs	(133.2)	(144.0)	(147.5)	(149.3)	(150.7)
Operating income	(1.4)	(2.6)	(3.0)	(1.6)	(1.6)
Working capital adjustment	<u>1.5</u>	<u>1.6</u>	<u>0.8</u>	<u>0.8</u>	<u>1.8</u>
	<u>97.9</u>	<u>81.8</u>	<u>67.6</u>	<u>59.0</u>	<u>49.1</u>
Other income	0.4	0.4	0.5	0.3	0.3
Net interest	(19.0)	(18.5)	(15.9)	(15.5)	(9.3)
Financing adjustment	7.9	10.0	5.2	2.6	0.5
Current cost operating profit before taxation	<u>87.2</u>	<u>73.7</u>	<u>57.4</u>	<u>46.4</u>	<u>40.6</u>
Taxation	(11.9)	(5.9)	-	(0.4)	0.5
Current cost profit attributable to shareholders	<u>75.3</u>	<u>67.8</u>	<u>57.4</u>	<u>46.0</u>	<u>41.1</u>
Dividends	(59.5)	(56.4)	(81.7)	(70.2)	(66.8)
Current cost profit/(loss) retained	<u>15.8</u>	<u>11.4</u>	<u>(24.3)</u>	<u>(24.2)</u>	<u>(25.7)</u>
Tangible fixed assets	8,156.8	6,309.4	6,283.2	6,230.1	6,142.8
Third party contributions since 1989-90	(65.0)	(61.1)	(50.2)	(37.5)	(24.8)
Working capital	(46.8)	(58.5)	(45.7)	(39.2)	(46.2)
Net operating assets	<u>8,045.0</u>	<u>6,189.8</u>	<u>6,187.3</u>	<u>6,153.4</u>	<u>6,071.8</u>
Cash and investments	(51.8)	(41.0)	(130.1)	5.9	71.8
Non trade creditors due within one year	(159.3)	(144.8)	(50.1)	(49.0)	(33.2)
Creditors due after one year	(135.3)	(146.9)	(159.2)	(233.4)	(208.9)
Net assets employed	<u>7,698.6</u>	<u>5,857.1</u>	<u>5,847.9</u>	<u>5,876.9</u>	<u>5,901.5</u>
Called up share capital	81.3	83.5	86.4	88.4	90.1
Profit and loss accounts	222.9	212.7	208.5	238.3	267.4
Current cost reserve	<u>7,394.4</u>	<u>5,560.9</u>	<u>5,553.0</u>	<u>5,550.2</u>	<u>5,544.0</u>
	<u>7,698.6</u>	<u>5,857.1</u>	<u>5,847.9</u>	<u>5,876.9</u>	<u>5,901.5</u>

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