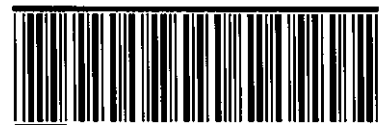


Registered in England No 2366648

WESSEX WATER SERVICES LTD

ANNUAL REPORT AND ACCOUNTS 1997



A40 *A12H5021* 368
COMPANIES HOUSE 06/10/97

Wessex

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 1997.

PRINCIPAL ACTIVITIES

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

PROFIT AND DIVIDEND

The profit for the year after taxation was £93.0m. The directors recommend a dividend for the year of £62.0m.

OPERATIONAL REVIEW

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

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

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

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

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

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

One scheme in particular proved so popular that its completion was celebrated with a 'thank you' party hosted by the villagers. This was the £1.6m scheme to provide a mains sewerage system to the Wiltshire village of Chapmanslade and connect 200 homes for the first time.

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

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

A judicial review of the decision to move the boundary of the Severn Estuary went against the Government and as a result secondary treatment will be required by December 2000 at Bristol (Avonmouth) sewage treatment works. We aim to fund this major project through efficiencies made in delivering our capital programme.

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

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

ENVIRONMENT

Protecting and improving the environment is at the heart of our business culture. A separate environmental report - 'Striking the balance' - sets out in detail our environmental record and aspirations. This year's report will for the first time include environmental indicators which will demonstrate our progress across the whole range of our activities. These indicators have been developed with the assistance of the sustainable development charity Forum for the Future.

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

Leakage from water mains has received considerable media and political attention. In common with many other companies, Wessex Water inherited an ageing supply network which had suffered for many years from lack of Government investment. Our investment programme has enabled us to reduce leakage every year and we are on course to achieve our target of 15%. This programme will enable us to meet any sensible mandatory targets set by regulators.

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

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

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

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

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

We recognise that the economy of our region relies heavily on tourism and the quality of bathing waters. During 1996 we announced a target of providing secondary treatment to all our effluent discharges to coastal and estuarial waters including appropriate disinfection of any discharges which could affect recreational waters and shellfisheries around the Wessex coast. We have also decided to phase out the use of chlorine as a disinfectant on effluent discharges. We shall be replacing it with either ultraviolet disinfection or membrane treatment over a 10-year programme.

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

COMMUNITY

Wessex Water is a company with a major impact on the area it serves and it continues to be actively involved in the lives of communities across its region.

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

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

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

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

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.

CHARITABLE DONATIONS

During the year £49,000 was donated to UK charities.

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.

DIRECTORS

The following directors who were also directors of Wessex Water Plc, which owns the whole of the issued share capital of the company, were directors of the company for the year to 31 March 1997:

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 of the company and their beneficial interests, including shares held in trust, in the share capital of Wessex Water Plc were:

	<u>Shares</u> 50p preference 31 March 1997	<u>Shares</u> 60p ordinary 31 March 1997	<u>Shares</u> 50p preference 1 April 1996	<u>Shares</u> 60p ordinary 1 April 1996	<u>Options</u> 60p ordinary 31 March 1997	<u>Options</u> 60p ordinary 1 April 1996
L H Ames	-	-	-	-	-	-
L Bennett	-	-	-	-	-	-
C J Bishop	4,952	10,121	*10,952	*13,532	112,908	*112,908
E J Gawith	37,375	27,029	*37,375	*29,729	56,660	*56,660
J G Jones	5,279	34,997	7,954	35,556	58,440	58,440

* As at date of appointment

Three of these directors were conditionally awarded shares in Wessex Water Plc under the group long term incentive plan.

D Cooper, M C Earnshaw and P M Try resigned as directors on 31 December 1996. C J Bishop and E J Gawith were appointed as directors on 1 January 1997.

AUDITORS

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



By order of the board
A F Crofts
Company secretary
25 June 1997

DIRECTORS' RESPONSIBILITIES

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

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

The 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.

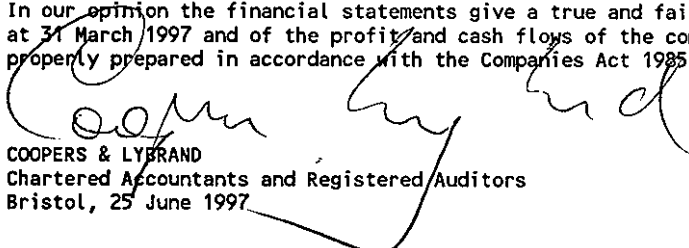
Basis of opinion

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 1997 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, 25 June 1997

PROFIT AND LOSS ACCOUNT
for the year to 31 March 1997

	NOTES	1997 £m	1996 £m
Turnover	2	247.6	239.7
Operating profit	3	131.5	120.1
Net interest payable	4	(19.6)	(19.0)
Profit on ordinary activities before taxation		111.9	101.1
Taxation on profit on ordinary activities	5	(18.9)	(11.9)
Profit attributable to shareholders		93.0	89.2
Dividends	6	(62.0)	(59.5)
Retained profit for the year	17	31.0	29.7

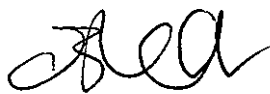
The company's turnover and operating profit were generated from continuing activities.

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.

BALANCE SHEET
at 31 March 1997

	NOTES	1997 £m	1996 £m
Fixed assets			
Tangible assets	8	1,021.6	971.2
<hr/>			
Current assets			
Stocks	9	0.9	1.7
Debtors	10	45.5	43.6
		<hr/>	<hr/>
		46.4	45.3
Creditors - amounts falling due within one year	11	(309.4)	(275.2)
<hr/>			
Net current liabilities		(263.0)	(229.9)
<hr/>			
Total assets less current liabilities		758.6	741.3
Creditors - amounts falling due after more than one year	12	(124.0)	(135.3)
Provisions for liabilities and charges	13	(5.1)	(7.0)
Deferred income	14	(23.5)	(24.0)
<hr/>			
Net assets	15	606.0	575.0
<hr/>			
Capital and reserves			
Called up share capital	16	81.3	81.3
Profit and loss account	17	524.7	493.7
<hr/>			
Equity shareholders' funds	17	606.0	575.0
<hr/>			

These accounts were approved by the board of directors on 25 June 1997



C F Skellett
director



N A W Wheatley
director

CASH FLOW STATEMENT
for the year to 31 March 1997

	NOTES	1997 £m	1996 £m
Net cash inflow from operating activities	18	152.5	147.1
Returns on investments and servicing of finance	19	(19.4)	(19.0)
Taxation		(1.0)	-
Capital expenditure and financial investment	20	(75.3)	(80.8)
Equity dividends paid		(49.5)	(74.6)
<hr/>			
Cash inflow/(outflow) before financing		7.3	(27.3)
Financing	21	(8.0)	18.6
<hr/>			
Decrease in cash in the period		(0.7)	(8.7)
<hr/>			
Reconciliation of cash movement to movement in net debt			
for the year to 31 March 1997			
Decrease in cash - above		(0.7)	(8.7)
Movement in financing		8.0	(18.6)
Opening net debt	22	(309.3)	(282.0)
<hr/>			
Closing net debt	22	(302.0)	(309.3)
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
for the year to 31 March 1997

1 ACCOUNTING POLICIES

a. Basis of preparation

The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom and, except for the treatment of certain grants and contributions, see note 1e, in accordance with the Companies Act 1985.

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 8.

f. Stocks

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

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.

2 Turnover	1997	1996
	£m	£m
Analysis by class of business		
Water supply	82.1	81.4
Waste water	164.8	157.7
Inter group income	0.7	0.6
	<u>247.6</u>	<u>239.7</u>
3 Operating profit		
a. Analysis by class of business		
Water supply	33.5	32.0
Waste water	98.0	88.1
	<u>131.5</u>	<u>120.1</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 7)	22.7	22.6
Materials and consumables	17.4	22.1
Other operational costs	36.4	36.8
	<u>76.5</u>	<u>81.5</u>
Depreciation		
Depreciation	28.8	27.1
Amortisation of grants and contributions	(0.7)	(0.7)
Loss on disposals of fixed assets	0.8	0.8
	<u>28.9</u>	<u>27.2</u>
Infrastructure renewals charge (note 13)	10.7	10.9
	<u>116.1</u>	<u>119.6</u>
c. Operational costs include:		
Operating leases for plant and machinery	0.8	0.5
Other operating leases	0.3	0.3
Research and development	0.3	0.6
Directors' remuneration (note 7)	0.4	0.5
Audit fees (note 27)	0.1	0.1
	<u>1.9</u>	<u>2.0</u>

NOTES TO THE ACCOUNTS continued
for the year to 31 March 1997

	1997 £m	1996 £m
4 Net interest payable		
Interest payable:		
On bank loans	14.4	13.1
On other loans	0.3	0.2
On finance leases	7.0	7.5
	<hr/>	<hr/>
Total interest payable	21.7	20.8
Interest receivable	2.1	1.8
	<hr/>	<hr/>
Net interest payable	<u>19.6</u>	<u>19.0</u>
Included in interest payable on loans is £8.5m (1996 - £6.7m) payable to group companies.		
5 Taxation		
a. Taxation on profit on ordinary activities		
UK corporation tax at 33% (1996 - 33%)	<u>18.9</u>	<u>11.9</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% (1996 - 33%) on all timing differences is as follows:		
Accelerated capital allowances	197.6	174.4
Other timing differences	<u>(4.2)</u>	<u>(6.9)</u>
	<u>193.4</u>	<u>167.5</u>
Included in accelerated capital allowances are timing differences on infrastructure assets.		
6 Dividends		
Interim dividend paid of 36.88p per share on 81,350,000 ordinary shares (1996 - 49.17p)	30.0	40.0
Final dividend proposed of 39.33p per share on 81,350,000 ordinary shares (1996 - 23.97p)	<u>32.0</u>	<u>19.5</u>
	<u>62.0</u>	<u>59.5</u>

	1997 £m	1996 £m
7 Directors and employees		
a. Total employment costs of the company were:		
Wages and salaries	28.2	29.4
Social security costs	2.3	2.4
Other pension costs	<u>3.1</u>	<u>3.1</u>
	<u>33.6</u>	<u>34.9</u>
b. Total employment costs are charged as follows:		
Capital schemes	9.4	10.3
Infrastructure maintenance expenditure	1.5	2.0
Manpower costs	<u>22.7</u>	<u>22.6</u>
	<u>33.6</u>	<u>34.9</u>
	1997	1996
c. The number of full time equivalent employees at 31 March was:	<u>1,396</u>	<u>1,431</u>
Monthly average number of employees during the financial year:	<u>1,413</u>	<u>1,501</u>
d. Total directors remuneration		
	1997	1996
	£000	£000
Salary	276	403
Bonuses	118	82
Benefits in kind	<u>36</u>	<u>58</u>
	<u>430</u>	<u>543</u>
<p>Three directors are accruing retirement benefits under the group's defined benefit schemes.</p> <p>In addition to the above, total payments of £90,000 were made to 3 directors who left the company, plus a further £193,288 to augment their pension entitlements, and £9,700 for outplacement assistance.</p>		
e. Highest paid director		
Salary	68	68
Bonus	27	14
Benefits in kind	<u>8</u>	<u>9</u>
	<u>103</u>	<u>91</u>

The highest paid director had an accrued pension entitlement under the Wessex Water Pension Scheme and Wessex Water Executive Pension Scheme of £51,812 at 28 February 1997, the date he left the company.

NOTES TO THE ACCOUNTS continued
for the year to 31 March 1997

8 Tangible fixed assets

	Freehold land and buildings	Infra- structure assets	Plant machinery and vehicles	Other assets	Payments on account and assets in course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1996	338.8	415.3	345.3	38.6	40.4	1,178.4
Additions	11.2	17.3	19.8	0.9	36.9	86.1
Transfers on commissioning	7.3	7.7	8.4	0.2	(23.6)	-
Disposals	(0.7)	-	(19.4)	(14.8)	(0.4)	(35.3)
Grants and contributions	-	(5.0)	-	-	-	(5.0)
At 31 March 1997	<u>356.6</u>	<u>435.3</u>	<u>354.1</u>	<u>24.9</u>	<u>53.3</u>	<u>1,224.2</u>
Depreciation						
At 1 April 1996	53.5	-	127.5	26.2	-	207.2
Provision for year	5.6	-	20.1	3.1	-	28.8
Disposals	(0.1)	-	(18.7)	(14.6)	-	(33.4)
At 31 March 1997	<u>59.0</u>	<u>-</u>	<u>128.9</u>	<u>14.7</u>	<u>-</u>	<u>202.6</u>
Net book value						
At 31 March 1997	<u>297.6</u>	<u>435.3</u>	<u>225.2</u>	<u>10.2</u>	<u>53.3</u>	<u>1,021.6</u>
At 1 April 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>

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 £85.6m (1996 - £87.5m).

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

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

9	Stocks	1997	1996
		£m	£m
	Stores	0.3	1.0
	Work in progress	<u>0.6</u>	<u>0.7</u>
		<u>0.9</u>	<u>1.7</u>
10	Debtors		
	Amounts due within one year		
	Trade debtors	22.3	23.2
	Other debtors	4.0	4.8
	Prepayments and accrued income	<u>19.2</u>	<u>15.6</u>
		<u>45.5</u>	<u>43.6</u>
11	Creditors - amounts falling due within one year		
	Bank overdraft repayable on demand	42.1	41.4
	Loans repayable	1.6	-
	Finance leases repayable	9.7	7.9
	Trade creditors	4.0	3.4
	Amounts owed to parent company	179.7	155.4
	Other creditors	0.5	0.5
	Corporation tax	13.4	6.9
	Taxation and social security	0.8	1.1
	Accruals and deferred income	<u>57.6</u>	<u>58.6</u>
		<u>309.4</u>	<u>275.2</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.

12	Creditors - amounts falling due after more than one year		
	Loans repayable		
	- within 1 - 2 years	10.8	1.6
	- within 2 - 5 years	39.8	17.3
	- after 5 years	<u>1.6</u>	<u>34.9</u>
		52.2	53.8
	Finance leases repayable		
	- within 1 - 2 years	11.6	9.7
	- within 2 - 5 years	49.3	41.9
	- after 5 years	10.5	29.6
	Other	<u>0.4</u>	<u>0.3</u>
		<u>124.0</u>	<u>135.3</u>

The interest rates on loans outstanding of £52.2m vary between 5.5% and 9.9%. These loans have been swapped into floating rates through a combination of currency and interest rate swaps, the interest rates payable being between 5.5% and 7.1%. There is no exchange rate exposure under the currency swaps.

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

13	Provisions for liabilities and charges	at 1 April 1996	Provided	Utilised	at 31 March 1997
		£m	£m	£m	£m
	Infrastructure renewals	4.1	10.7	13.3	1.5
	Pensions	<u>2.9</u>	<u>0.9</u>	<u>0.2</u>	<u>3.6</u>
		<u>7.0</u>	<u>11.6</u>	<u>13.5</u>	<u>5.1</u>

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

NOTES TO THE ACCOUNTS continued
for the year to 31 March 1997

15	Net assets	1997 £m	1996 £m	
	Analysis by class of business			
	Water supply	205.6	191.0	
	Waste water	<u>400.4</u>	<u>384.0</u>	
		<u>606.0</u>	<u>575.0</u>	
16	Called up share capital			
	Ordinary shares of £1 each:			
	Authorised, allotted, called up and fully paid	<u>81.3</u>	<u>81.3</u>	
17	Profit and loss account and shareholders' funds	Profit & loss account £m	Shareholders' funds £m	
	At 1 April 1996	493.7	575.0	
	Profit retained for the year	31.0	31.0	
	At 31 March 1997	<u>524.7</u>	<u>606.0</u>	
18	Reconciliation of operating profit to net cash inflow from operating activities	1997 £m	1996 £m	
	Operating profit	131.5	120.1	
	Depreciation	28.8	27.1	
	Amortisation of grants and contributions	(0.7)	(0.7)	
	Provisions	(1.9)	(2.3)	
	Loss on disposals of fixed assets	0.8	0.8	
	Decrease in stocks	0.8	1.6	
	(Increase) in debtors	(2.2)	(0.6)	
	(Decrease)/increase in creditors	<u>(4.6)</u>	<u>1.1</u>	
		<u>152.5</u>	<u>147.1</u>	
19	Returns on investments and servicing of finance			
	Interest received	2.1	0.8	
	Interest paid	(14.7)	(12.3)	
	Interest element of finance lease rental payments	<u>(6.8)</u>	<u>(7.5)</u>	
		<u>(19.4)</u>	<u>(19.0)</u>	
20	Capital expenditure and financial investment			
	Purchase of tangible fixed assets	(81.8)	(87.5)	
	Sale of tangible fixed assets	1.1	0.7	
	Connection charges, grants and deferred income received	<u>5.4</u>	<u>6.0</u>	
		<u>(75.3)</u>	<u>(80.8)</u>	
21	Financing			
	Loan from parent company	-	25.0	
	Capital element of finance lease rental payments	<u>(8.0)</u>	<u>(6.4)</u>	
		<u>(8.0)</u>	<u>18.6</u>	
22	Movement in net debt	at 1 April 1996 £m	Cash Flow £m	at 31 March 1997 £m
	Bank overdraft	(41.4)	(0.7)	(42.1)
	Finance leases greater than 1 year	(81.2)	9.8	(71.4)
	Finance leases less than 1 year	(7.9)	(1.8)	(9.7)
	Loans greater than 1 year	(53.8)	1.6	(52.2)
	Loans less than 1 year	-	(1.6)	(1.6)
	Loan from parent company	<u>(125.0)</u>	-	<u>(125.0)</u>
		<u>(309.3)</u>	<u>7.3</u>	<u>(302.0)</u>

23 Commitments

a. Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:	1997	1996
	£m	£m
Between 2 and 5 years	-	0.1
Over 5 years	<u>0.2</u>	<u>0.2</u>
	<u>0.2</u>	<u>0.3</u>

b. At 31 March 1997 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £80.0m (1996 - £120.0m).

c. Capital expenditure contracted but not provided at 31 March 1997 was £62.0m (1996 - £22.7m).

24 Contingent liabilities

There are no material contingent liabilities at 31 March 1997 for which provision has not been made in these accounts.

25 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 1996. 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 £3.9m (1996 - £4.2m).

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

26 Related party transactions

There are no related party transactions requiring disclosure in these financial statements.

27 Other transactions

- a. In addition to audit fees the company paid Nil (1996 - £0.4m) to its auditors for 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 1997, in respect of the purchase of company cars; C J Bishop £3,952; E G Gawith £5,000; J G Jones £7,213.

28 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	30

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 30.

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 1997.

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.

DIRECTORSHIPS

W N Hood, C F Skellett and N A W Wheatley are also directors of the ultimate parent company Wessex Water Plc and its associated undertaking Wessex Waste Management Ltd. C F Skellett is a director of a fellow subsidiary SC Technology AG.

C J Bishop and E J Gawith became directors of Wessex Water Plc on 2 April 1997.



A F Crofts
Company secretary
14 July 1997

DIRECTORS' RESPONSIBILITIES

In addition to their responsibilities to prepare financial statements in accordance with the 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 30.

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 ended 31 March 1997 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 30 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, 14 July 1997

HISTORICAL COST PROFIT AND LOSS ACCOUNT
for the year to 31 March 1997

	1997			1996		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	242.6	5.0	247.6	231.0	8.9	239.9
Operating costs	(112.1)	(3.6)	(115.7)	(112.2)	(7.2)	(119.4)
Operating income	<u>(0.8)</u>	<u>-</u>	<u>(0.8)</u>	<u>(0.8)</u>	<u>-</u>	<u>(0.8)</u>
Operating profit	129.7	1.4	131.1	118.0	1.7	119.7
Other income	0.4	-	0.4	0.4	-	0.4
Interest payable	<u>(19.6)</u>	<u>-</u>	<u>(19.6)</u>	<u>(19.0)</u>	<u>-</u>	<u>(19.0)</u>
Profit on ordinary activities before taxation	110.5	1.4	111.9	99.4	1.7	101.1
Taxation	<u>(18.9)</u>	<u>-</u>	<u>(18.9)</u>	<u>(11.9)</u>	<u>-</u>	<u>(11.9)</u>
Profit for the year	91.6	1.4	93.0	87.5	1.7	89.2
Dividends	<u>(62.0)</u>	<u>-</u>	<u>(62.0)</u>	<u>(59.5)</u>	<u>-</u>	<u>(59.5)</u>
Retained profit for the year	<u>29.6</u>	<u>1.4</u>	<u>31.0</u>	<u>28.0</u>	<u>1.7</u>	<u>29.7</u>

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 1997

	1997			1996		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Fixed assets						
Tangible fixed assets	<u>1,020.5</u>	<u>1.1</u>	<u>1,021.6</u>	<u>971.2</u>	<u>-</u>	<u>971.2</u>
Current assets						
Stocks	0.9	-	0.9	1.7	-	1.7
Debtors	44.3	1.2	45.5	41.6	2.0	43.6
Cash at bank and in hand	<u>-</u>	<u>11.9</u>	<u>11.9</u>	<u>-</u>	<u>10.4</u>	<u>10.4</u>
	45.2	13.1	58.3	43.3	12.4	55.7
Creditors - amounts falling due within one year						
Borrowings	(190.3)	-	(190.3)	(184.7)	-	(184.7)
Dividends payable	(32.0)	-	(32.0)	(19.5)	-	(19.5)
Other creditors	<u>(98.1)</u>	<u>(0.9)</u>	<u>(99.0)</u>	<u>(80.9)</u>	<u>(0.5)</u>	<u>(81.4)</u>
	(320.4)	(0.9)	(321.3)	(285.1)	(0.5)	(285.6)
Net current assets/(liabilities)	<u>(275.2)</u>	<u>12.2</u>	<u>(263.0)</u>	<u>(241.8)</u>	<u>11.9</u>	<u>(229.9)</u>
Total assets less current liabilities	<u>745.3</u>	<u>13.3</u>	<u>758.6</u>	<u>729.4</u>	<u>11.9</u>	<u>741.3</u>
Creditors - amounts falling due after more than one year						
Borrowings	(123.6)	-	(123.6)	(135.0)	-	(135.0)
Other creditors	<u>(0.4)</u>	<u>-</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>-</u>	<u>(0.3)</u>
	(124.0)	-	(124.0)	(135.3)	-	(135.3)
Provisions for liabilities and charges	(5.1)	-	(5.1)	(7.0)	-	(7.0)
Deferred income	<u>(23.5)</u>	<u>-</u>	<u>(23.5)</u>	<u>(24.0)</u>	<u>-</u>	<u>(24.0)</u>
	<u>592.7</u>	<u>13.3</u>	<u>606.0</u>	<u>563.1</u>	<u>11.9</u>	<u>575.0</u>
Capital and reserves						
Called up share capital	81.3	-	81.3	81.3	-	81.3
Profit and loss account	511.4	13.3	524.7	481.8	11.9	493.7
	<u>592.7</u>	<u>13.3</u>	<u>606.0</u>	<u>563.1</u>	<u>11.9</u>	<u>575.0</u>

The regulatory information on pages 19 to 30 was approved by the board of directors on 14 July 1997

N A W Wheatley
director



CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS
for the year to 31 March 1997

	NOTES	1997 £m	1996 £m
Turnover	4	242.6	231.0
Current cost operating costs	7	(132.5)	(133.2)
Operating income	4	(2.0)	(1.4)
		<u>108.1</u>	<u>96.4</u>
Working capital adjustment	4	<u>1.2</u>	<u>1.5</u>
Current cost operating profit	5	109.3	97.9
Other income		0.4	0.4
Interest payable		(19.6)	(19.0)
Financing adjustment		8.2	7.9
Current cost profit before taxation		<u>98.3</u>	<u>87.2</u>
Taxation		(18.9)	(11.9)
Current cost profit attributable to shareholders		<u>79.4</u>	<u>75.3</u>
Dividends		(62.0)	(59.5)
Current cost profit retained		<u><u>17.4</u></u>	<u><u>15.8</u></u>

**CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS
at 31 March 1997**

	NOTES	1997 £m	1996 £m
Tangible fixed assets	6	8,397.7	8,156.8
Third party contributions since 1989-90		(71.1)	(65.0)
Working capital	9	(56.3)	(46.8)
Net operating assets		<u>8,270.3</u>	<u>8,045.0</u>
Cash and investments		(54.0)	(51.8)
Non trade creditors due within one year		(146.6)	(139.8)
Creditors due after one year		(124.0)	(135.3)
Dividends payable		(32.0)	(19.5)
Net assets employed		<u>7,913.7</u>	<u>7,698.6</u>
Capital and reserves			
Called up share capital		81.3	81.3
Profit and loss account		240.3	222.9
Current cost reserve	10	7,592.1	7,394.4
		<u>7,913.7</u>	<u>7,698.6</u>

CURRENT COST CASH FLOW STATEMENT
for the year to 31 March 1997

	1997			1996		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Net cash inflow from operating activities (note 5)	<u>163.8</u>	<u>2.0</u>	<u>165.8</u>	<u>158.0</u>	<u>3.2</u>	<u>161.2</u>
Returns on investments and servicing of finance						
Interest received	2.1	-	2.1	0.8	-	0.8
Interest paid	(14.7)	-	(14.7)	(12.3)	-	(12.3)
Interest on finance lease rentals	(6.8)	-	(6.8)	(7.5)	-	(7.5)
	<u>(19.4)</u>	<u>-</u>	<u>(19.4)</u>	<u>(19.0)</u>	<u>-</u>	<u>(19.0)</u>
Taxation						
UK Corporation tax paid	<u>(1.0)</u>	<u>-</u>	<u>(1.0)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital expenditure and financial investment						
Purchase of fixed assets	(81.3)	(0.5)	(81.8)	(87.5)	-	(87.5)
Disposal of fixed assets	1.1	-	1.1	0.7	-	0.7
Receipts of grants and contributions	5.4	-	5.4	6.0	-	6.0
Infrastructure renewals expenditure	(13.3)	-	(13.3)	(14.1)	-	(14.1)
	<u>(88.1)</u>	<u>(0.5)</u>	<u>(88.6)</u>	<u>(94.9)</u>	<u>-</u>	<u>(94.9)</u>
Equity dividends paid	<u>(49.5)</u>	<u>-</u>	<u>(49.5)</u>	<u>(74.6)</u>	<u>-</u>	<u>(74.6)</u>
Net cash inflow/(outflow) before financing	5.8	1.5	7.3	(30.5)	3.2	(27.3)
Financing						
Loan from parent company	-	-	-	25.0	-	25.0
Capital element of finance lease rentals	<u>(8.0)</u>	<u>-</u>	<u>(8.0)</u>	<u>(6.4)</u>	<u>-</u>	<u>(6.4)</u>
	<u>(8.0)</u>	<u>-</u>	<u>(8.0)</u>	<u>18.6</u>	<u>-</u>	<u>18.6</u>
(Decrease)/increase in cash	<u><u>(2.2)</u></u>	<u><u>1.5</u></u>	<u><u>(0.7)</u></u>	<u><u>(11.9)</u></u>	<u><u>3.2</u></u>	<u><u>(8.7)</u></u>

An analysis of net debt is shown in Note 22 to the statutory accounts on page 14.

**NOTES TO THE CURRENT COST REGULATORY STATEMENTS
for the year to 31 March 1997**

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 TANGIBLE FIXED ASSETS

Modern equivalent asset values (MEA) arising from the latest periodic review have been incorporated into the 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.

Non-specialised operational properties

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 assets

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 tangible 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

	Water services £m	1997 Sewerage services £m	Appointed business £m	Water services £m	1996 Sewerage services £m	Appointed business £m
Turnover						
Measured	31.2	35.5	66.7	29.4	31.0	60.4
Unmeasured	46.6	116.6	163.2	44.8	113.9	158.7
Trade effluent	-	5.6	5.6	-	4.6	4.6
Other sources	0.8	4.3	5.1	0.9	3.9	4.8
Third party services	2.0	-	2.0	2.4	0.1	2.5
Total turnover	<u>80.6</u>	<u>162.0</u>	<u>242.6</u>	<u>77.5</u>	<u>153.5</u>	<u>231.0</u>
Operating income						
Current cost loss on disposal of fixed assets	(0.7)	(1.3)	(2.0)	(0.6)	(0.8)	(1.4)
Total operating income	<u>(0.7)</u>	<u>(1.3)</u>	<u>(2.0)</u>	<u>(0.6)</u>	<u>(0.8)</u>	<u>(1.4)</u>
Working capital adjustment	<u>0.5</u>	<u>0.7</u>	<u>1.2</u>	<u>0.6</u>	<u>0.9</u>	<u>1.5</u>

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

	1997 £m	1996 £m
Current cost operating profit	109.3	97.9
Other income	0.4	0.4
Current cost depreciation	48.8	48.4
Current cost loss on disposals of assets	2.0	1.4
Decrease in stock	0.8	1.3
Increase in debtors and prepaid expenses	(3.0)	(2.0)
(Decrease)/increase in creditors and accrued expenses	(4.2)	1.3
Provisions	(2.4)	(3.3)
Infrastructure renewals expenditure	13.3	14.1
Working capital adjustment	(1.2)	(1.5)
Net cash flow from operating activities	<u>163.8</u>	<u>158.0</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued
for the year to 31 March 1997

6 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
WATER SERVICES					
Gross replacement cost					
At 1 April 1996	355.6	17.2	1,886.8	81.5	2,341.1
RPI adjustment	9.0	0.4	48.5	1.3	59.2
Disposals	(0.1)	(0.9)	(0.1)	(28.5)	(29.6)
Additions	12.9	0.1	13.9	2.8	29.7
At 31 March 1997	<u>377.4</u>	<u>16.8</u>	<u>1,949.1</u>	<u>57.1</u>	<u>2,400.4</u>
Depreciation					
At 1 April 1996	146.8	2.1	-	57.4	206.3
RPI adjustment	3.8	-	-	0.8	4.6
Disposals	-	(0.1)	-	(28.1)	(28.2)
Charge for year	7.2	0.3	-	6.3	13.8
At 31 March 1997	<u>157.8</u>	<u>2.3</u>	<u>-</u>	<u>36.4</u>	<u>196.5</u>
Net book value at 31 March 1997	<u>219.6</u>	<u>14.5</u>	<u>1,949.1</u>	<u>20.7</u>	<u>2,203.9</u>
Net book value at 1 April 1996	<u>208.8</u>	<u>15.1</u>	<u>1,886.8</u>	<u>24.1</u>	<u>2,134.8</u>
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 1996	1,168.1	20.3	5,389.1	81.7	6,659.2
RPI adjustment	29.6	0.5	138.5	1.4	170.0
Disposals	(2.4)	(0.9)	-	(24.6)	(27.9)
Additions	30.7	0.1	20.0	4.5	55.3
At 31 March 1997	<u>1,226.0</u>	<u>20.0</u>	<u>5,547.6</u>	<u>63.0</u>	<u>6,856.6</u>
Depreciation					
At 1 April 1996	577.2	2.2	-	57.8	637.2
RPI adjustment	14.8	-	-	0.9	15.7
Disposals	(2.1)	(0.1)	-	(24.0)	(26.2)
Charge for year	28.9	0.3	-	6.9	36.1
At 31 March 1997	<u>618.8</u>	<u>2.4</u>	<u>-</u>	<u>41.6</u>	<u>662.8</u>
Net book value at 31 March 1997	<u>607.2</u>	<u>17.6</u>	<u>5,547.6</u>	<u>21.4</u>	<u>6,193.8</u>
Net book value at 1 April 1996	<u>590.9</u>	<u>18.1</u>	<u>5,389.1</u>	<u>23.9</u>	<u>6,022.0</u>
TOTAL					
Gross replacement cost					
At 1 April 1996	1,523.7	37.5	7,275.9	163.2	9,000.3
RPI adjustment	38.6	0.9	187.0	2.7	229.2
Disposals	(2.5)	(1.8)	(0.1)	(53.1)	(57.5)
Additions	43.6	0.2	33.9	7.3	85.0
At 31 March 1997	<u>1,603.4</u>	<u>36.8</u>	<u>7,496.7</u>	<u>120.1</u>	<u>9,257.0</u>
Depreciation					
At 1 April 1996	724.0	4.3	-	115.2	843.5
RPI adjustment	18.6	-	-	1.7	20.3
Disposals	(2.1)	(0.2)	-	(52.1)	(54.4)
Charge for year	36.1	0.6	-	13.2	49.9
At 31 March 1997	<u>776.6</u>	<u>4.7</u>	<u>-</u>	<u>78.0</u>	<u>859.3</u>
Net book value at 31 March 1997	<u>826.8</u>	<u>32.1</u>	<u>7,496.7</u>	<u>42.1</u>	<u>8,397.7</u>
Net book value at 1 April 1996	<u>799.7</u>	<u>33.2</u>	<u>7,275.9</u>	<u>48.0</u>	<u>8,156.8</u>

7a **ACTIVITY COSTING ANALYSIS - 1997**
for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage	Sewage treatment	Sludge treatment and disposal	Total	Water resources and treatment	Water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	2.1	2.7	1.3	6.1	1.4	2.1	3.5
Power	1.2	2.4	0.3	3.9	1.9	2.0	3.9
Hired & contracted services	1.5	1.8	1.7	5.0	1.3	1.3	2.6
Materials & consumables	0.6	2.8	1.0	4.4	1.3	1.2	2.5
Service charges EA	0.5	1.6	-	2.1	1.9	-	1.9
Bulk supply import	-	-	-	-	1.1	-	1.1
Other direct costs	0.1	0.1	0.1	0.3	-	0.1	0.1
Total direct costs	<u>6.0</u>	<u>11.4</u>	<u>4.4</u>	<u>21.8</u>	<u>8.9</u>	<u>6.7</u>	<u>15.6</u>
General & support expenditure	1.7	5.7	1.6	9.0	4.1	2.7	6.8
Functional expenditure	<u>7.7</u>	<u>17.1</u>	<u>6.0</u>	<u>30.8</u>	<u>13.0</u>	<u>9.4</u>	<u>22.4</u>
OPERATING EXPENDITURE							
Customer services				4.6			1.5
Scientific services				0.6			1.9
Other business activities				0.5			0.5
Total business activities (note 8)				<u>5.7</u>			<u>3.9</u>
Local authority rates				3.3			3.5
Doubtful debts				1.6			0.5
Total opex less third party services				<u>41.4</u>			<u>30.3</u>
Third party services				-			1.8
Total operating expenditure				<u>41.4</u>			<u>32.1</u>
CAPITAL MAINTENANCE							
Infrastructure renewals expenditure	6.4	-	0.1	6.5	0.2	6.6	6.8
Infrastructure renewals provision	(2.2)	-	-	(2.2)	0.1	(1.0)	(0.9)
Current cost depreciation	5.6	26.9	2.0	34.5	6.1	7.0	13.1
Amortisation of deferred credits				(0.6)			(0.2)
Business activities depreciation				1.3			0.7
Total capital maintenance				<u>39.5</u>			<u>19.5</u>
Total operating costs				<u>80.9</u>			<u>51.6</u>
CCA (MEA) VALUES							
Service activities	5,542.7	610.3	29.6	6,182.6	153.8	2,044.9	2,198.7
Business activities				11.2			5.2
				<u>6,193.8</u>			<u>2,203.9</u>
Services for third parties				-			-
Total				<u>6,193.8</u>			<u>2,203.9</u>

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued
for the year to 31 March 1997

7b ACTIVITY COSTING ANALYSIS - 1996
for the year to 31 March

	SEWERAGE SERVICES				WATER SERVICES		
	Sewerage	Sewage treatment	Sludge treatment and disposal	Total	Water resources and treatment	Water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	1.5	2.8	1.6	5.9	1.5	2.2	3.7
Power	1.0	3.0	0.3	4.3	2.3	2.3	4.6
Agencies	3.4	0.1	-	3.5	-	-	-
Hired & contracted services	0.4	1.4	1.5	3.3	1.2	1.4	2.6
Materials & consumables	0.4	2.6	0.9	3.9	1.3	1.2	2.5
Service charges EA	0.4	1.8	-	2.2	1.6	-	1.6
Bulk supply imports	-	-	-	-	0.9	-	0.9
Other direct costs	0.1	0.1	-	0.2	0.1	0.2	0.3
Total direct costs	<u>7.2</u>	<u>11.8</u>	<u>4.3</u>	<u>23.3</u>	<u>8.9</u>	<u>7.3</u>	<u>16.2</u>
General & support expenditure	1.8	5.2	1.5	8.5	3.9	2.5	6.4
Functional expenditure	<u>9.0</u>	<u>17.0</u>	<u>5.8</u>	<u>31.8</u>	<u>12.8</u>	<u>9.8</u>	<u>22.6</u>
OPERATING EXPENDITURE							
Customer services				4.6			1.6
Scientific services				0.9			1.9
Other business activities				0.7			0.4
Total business activities				<u>6.2</u>			<u>3.9</u>
Local authority rates				2.3			3.3
Doubtful debts				2.0			0.7
Total opex less third party services				<u>42.3</u>			<u>30.5</u>
Third party services				-			2.1
Total operating expenditure				<u>42.3</u>			<u>32.6</u>
CAPITAL MAINTENANCE							
Infrastructure renewals expenditure	7.5	-	0.3	7.8	0.3	6.0	6.3
Infrastructure renewals provision	(3.4)	-	(0.2)	(3.6)	-	(0.6)	(0.6)
Current cost depreciation	5.6	26.9	1.8	34.3	6.5	6.9	13.4
Amortisation of deferred credits				(0.6)			(0.2)
Business activities depreciation				0.9			0.6
Total capital maintenance				<u>38.8</u>			<u>19.5</u>
Total operating costs				<u>81.1</u>			<u>52.1</u>
CCA (MEA) VALUES							
Service activities	5,387.1	596.8	27.5	6,011.4	149.5	1,980.0	2,129.5
Business activities				10.6			5.3
Services for third parties				-			-
Total				<u>6,022.0</u>			<u>2,134.8</u>

8 ANALYSIS OF BUSINESS ACTIVITIES

The business activity costs in note 7a are split between direct costs and general & support expenditure as follows:

	Direct £m	General and support £m	Total £m
Sewerage services - Customer services	4.0	0.6	4.6
- Scientific services	0.6	-	0.6
- Other activities	0.5	-	0.5
	<u>5.1</u>	<u>0.6</u>	<u>5.7</u>
Water services - Customer services	1.3	0.2	1.5
- Scientific services	1.8	0.1	1.9
- Other activities	0.4	0.1	0.5
	<u>3.5</u>	<u>0.4</u>	<u>3.9</u>

9 WORKING CAPITAL

	1997 £m	1996 £m
Stocks	0.9	1.7
Trade debtors	21.6	21.8
Working cash balances		
Trade creditors	(4.0)	(3.4)
Short term capital creditors	(23.1)	(18.8)
Infrastructure renewals accrual	(10.1)	(13.2)
Other trade accruals	(21.8)	(25.9)
Trade payments in advance	(15.4)	(16.3)
Payroll related taxes and DSS contributions	(0.8)	(1.1)
Group trade creditors	(25.8)	(10.9)
Other trade debtors	21.3	19.1
Prepayments	0.9	0.2
	<u>(56.3)</u>	<u>(46.8)</u>

10 MOVEMENT ON CURRENT COST RESERVE

	1997 £m	1996 £m
At 1 April	7,394.4	5,414.7
AMP adjustment	-	1,827.0
RPI adjustments:		
Fixed assets	208.9	163.9
Working capital	(1.2)	(1.5)
Financing	(8.2)	(7.9)
Grants and third party contributions	(1.8)	(1.8)
At 31 March	<u>7,592.1</u>	<u>7,394.4</u>

**FIVE YEAR SUMMARY FOR THE APPOINTED BUSINESS
for the year to 31 March**

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
CURRENT COST PROFIT AND LOSS ACCOUNT					
Turnover	242.6	236.5	232.1	222.4	214.1
Current cost operating costs	(132.5)	(136.4)	(147.3)	(150.9)	(152.9)
Operating income	(2.0)	(1.4)	(2.7)	(3.1)	(1.7)
Working capital adjustment	1.2	1.6	1.6	0.8	0.9
	<u>109.3</u>	<u>100.3</u>	<u>83.7</u>	<u>69.2</u>	<u>60.4</u>
Other income	0.4	0.4	0.4	0.5	0.3
Net interest	(19.6)	(19.5)	(19.0)	(16.3)	(15.9)
Financing adjustment	8.2	8.1	10.3	5.3	2.7
	<u>98.3</u>	<u>89.3</u>	<u>75.4</u>	<u>58.7</u>	<u>47.5</u>
Taxation	(18.9)	(12.2)	(6.1)	-	(0.4)
	<u>79.4</u>	<u>77.1</u>	<u>69.3</u>	<u>58.7</u>	<u>47.1</u>
Current cost profit attributable to shareholders	(62.0)	(60.9)	(57.7)	(83.6)	(71.8)
Dividends					
Current cost profit/(loss) retained	<u>17.4</u>	<u>16.2</u>	<u>11.6</u>	<u>(24.9)</u>	<u>(24.7)</u>
CURRENT COST BALANCE SHEET					
Tangible fixed assets	8,397.7	8,368.9	6,475.3	6,448.7	6,390.4
Third party contributions since 1989-90	(71.1)	(66.7)	(62.7)	(51.5)	(38.5)
Working capital	(56.3)	(48.0)	(57.7)	(46.9)	(34.7)
Net operating assets	<u>8,270.3</u>	<u>8,254.2</u>	<u>6,354.9</u>	<u>6,350.3</u>	<u>6,317.2</u>
Cash and investments	(54.0)	(53.2)	(42.0)	(133.6)	6.1
Non trade creditors due within one year	(146.6)	(143.4)	(114.5)	(5.6)	(4.5)
Non trade creditors due after one year	(124.0)	(138.8)	(150.8)	(163.4)	(240.4)
Dividends payable	(32.0)	(20.0)	(36.5)	(45.8)	(50.2)
Net assets employed	<u>7,913.7</u>	<u>7,898.8</u>	<u>6,011.1</u>	<u>6,001.9</u>	<u>6,028.2</u>
Called up share capital	81.3	83.4	85.7	88.7	90.7
Profit and loss account	240.3	228.7	218.3	213.9	244.4
Current cost reserve	7,592.1	7,586.7	5,707.1	5,699.3	5,693.1
	<u>7,913.7</u>	<u>7,898.8</u>	<u>6,011.1</u>	<u>6,001.9</u>	<u>6,028.2</u>

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