

COMPANY No: 2366648

# WESSEX WATER SERVICES LTD

ANNUAL REPORT AND ACCOUNTS 1998



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## DIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31 March 1998.

## 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 £93.4m. The directors recommend a dividend for the year of £62.2m, in addition to the special dividend of £98.9m in relation to the Utility Tax charge levied on Wessex Water Plc.

## OPERATIONAL REVIEW

This has been a year of continued progress with an emphasis on preparing for the future.

We have started work on the important review of customer charges due to operate from April 2000 for the water services business. Wessex Water is well placed as an efficient company delivering high standards. We will ensure that the regulator recognises this performance and that the views of our customers are properly reflected in the balance between prices, and the long term maintenance of high quality standards and environmental improvements.

We are working on a fundamental restructuring of systems and processes used throughout the water services business. This will ensure that we have no problems with the millennium date change and we are well equipped to meet the challenges of operating in a more demanding environment beyond 2000.

Wessex Water Services remains, overall, the most efficient water and sewage company in England and Wales, according to statistics published by the water regulator OFWAT.

Water resources remained at very healthy levels throughout the last 12 months allowing the company to complete its 21st year without any restriction on use.

High quality customer service remains a priority. Additional customer service staff have been recruited and new technology installed to improve telephone response times for the growing number of customers who contact us by telephone.

For those customers wishing to talk to an experienced member of staff face to face, our community contact service travels to 26 towns in the region every month giving an opportunity for customers' enquiries and problems to be resolved in person.

Over the last 18 months we have undertaken extensive customer research, including a questionnaire being sent to every customer in our region. All the research has shown that

- . Customers would prefer the majority of efficiencies we have made to be used for environmental and service improvement rather than to reduce bills.
- . The main priorities, seen by customers, for future investment are:
  - maintaining an unrestricted water supply
  - dealing with low river flows
  - improving bathing and river water quality
  - reducing the impact of storm sewage overflows
- . Price stability, coupled with further investment, is overwhelmingly preferred to a one off price reduction.

The conclusions from our research are similar to the results of surveys undertaken by other organisations, notably that of the Department of Environment, Transport and the Region. We expect OFWAT to reflect these clear customer preferences in the forthcoming price review.

## The environment and sustainability

Wessex Water's business is inextricably linked with the environment. We have a clear strategy to protect and improve the environment by:

- . only abstracting water in a manner sympathetic to the environment and reducing abstraction where this is shown to be harmful
- . collecting and treating sewage in a way which meets environmental quality standards
- . going beyond legal requirements where appropriate
- . seeking to operate in an environmentally sustainable way.

Environmental sustainability means providing customers with high quality services in ways which have minimal impact on rivers, the coastline and the wider environment of our region. However, becoming a truly sustainable operation means more than just addressing the environmental impact of our operations; it also includes addressing the social and human issues of running a business as we move into the 21st century.

Operating in this way is not only the duty of a responsible company but benefits all the stakeholders of the business. A growing number of investors are seeking to place their funds in companies which can provide a good return on their investment while at the same time operating in an ethical manner.

Wessex Water is a founder member of the environmental sustainability charity Forum for the Future. Last year, with their help, we published our first sustainability report, Striking the Balance, which measured our performance against a number of environmental sustainability targets. Our second report, to be published later this year, will cover a wider range of targets including community and employee issues.

## The environment - actions speak louder than words

Good intentions can sometimes remain unfulfilled. For Wessex Water our commitment to the environment and the community is demonstrated by tangible actions.

## OPERATIONAL REVIEW - continued

### Capital investment

Last year we spent £129 million on capital projects which, over time, will benefit the environment. We will spend at least a further £200 million before the turn of the century. This will bring the total for the decade to more than £1.1 billion. At any one time we have over 1,000 different projects underway.

Clean bathing waters are important for our region's tourist industry and to those who wish to use coastal resorts for recreation. We are committed to providing full treatment for all continuous coastal discharges which impact on recreational waters. This will take us well beyond the minimum legal standard and is in part being funded from efficiency savings in our investment programme. For example, over £40 million from efficiency savings is being spent to improve our Bristol sewage treatment works.

Through the use of the new technology we are able to provide the highest standards, cost effectively, without the use of potentially harmful chemicals. The new sewage treatment works recently completed at Porlock, on the north Somerset coast, uses membrane technology to produce a high quality effluent which is bacteria and virus free. This is the first operational plant of its type in Europe. The compact nature of the process means that it only requires a third of the space of a conventional sewage treatment works. We are building a similar system to serve Swanage in Dorset.

At Weston-super-Mare, one of the major tourist resorts in our region, construction of a new £36 million sewage treatment works is well advanced. A 2.7 kilometre tunnel to the new site was completed in January and the project is on schedule for completion early in 2000.

Most of the sludge we produce as a by-product of sewage treatment is already recycled to land, a large proportion through the biodrier at our Bristol sewage treatment works. We are extending the use of this system to other sites across the region and similar processes will be installed to serve Poole and Weston-super-Mare.

Our water supply network continues to require further investment. In Somerset, £5 million was spent on a spine main to improve our ability to transfer water from wetter areas of the region to drier parts. Nearly £0.5 million is being invested in improving the water mains around the village of Box, near Bath, where the existing distribution system dates from around 1910. Work is continuing across the region to replace and reline mains to improve water quality and pressure.

### Conserving water

Our target in managing water resources over the next 20 years is to take no more water from the environment than we do now. We will meet growing demand by reducing leakage, encouraging conservation measures and customer education.

During the year all water supply customers were sent a free water saving device called a 'Hippo' which is designed to reduce excess water use in toilet flushing. Our Using Water Wisely Roadshow is visiting locations across the region, combining the conservation message with gardening tips from professional gardeners.

Our Leakstoppers freephone line has proved a great help during the year. Customers reported around 8,000 leaks and Wessex Water's team of leak technicians a further 2,500 - saving over 1.5 million litres of water a day. Company leakage has been reduced to 21% beating the OFWAT target for the year. We intend to reduce total leakage from both company and customer pipes to 15% by the year 2005.

Even though we aim to serve our growing population from current resources the changing pattern of rainfall will make more storage essential. Trials of our aquifer storage and recovery project have shown good results. This process will allow us to store surplus treated water in underground confined aquifers which can then be used during drier periods of the year without further treatment.

Some rivers in the Wessex Water region are affected by water abstraction which was licensed many years ago. We have been working closely with the Environment Agency to tackle low river flows caused by this abstraction. Three rivers are particularly affected by abstraction in our region: the Malmesbury Avon, the Wylde in Wiltshire and the Piddle in Dorset. We have already taken measures to reduce abstraction and have given a commitment to eliminate low flows caused by our abstraction by 2010.

In a first for the water industry, Wessex Water is offering farmers in sensitive catchment areas a financial incentive to use fewer chemical fertilisers by switching to organic farming. For many years relatively small amounts of nitrate from artificial fertilisers have been percolating through to some groundwater sources. While there is no risk to customers, these amounts have now begun to reach levels where expensive treatment will be needed to remove contamination if the process is not halted. Depending on the success of the scheme this could become a permanent feature of our policy of embracing sustainable methods of working to improve the environment.

### Sustainable energy

Energy use is an important indicator of the sustainability of our operations. Higher standards often require higher energy input, but we believe that the increasing use of non-renewable energy is not acceptable. Wessex Water already meets over 10% of its energy consumption from renewable sources - principally from biogas, a by-product of the fermentation of sewage sludge. We are targeting to increase the percentage of our energy that comes from renewable sources to 20% by 2005 and to 50% by 2020.

### Working in the community

We recognise the importance of playing a full part in our region; contributing to its communities and educating present and future generations on the value of water and the environment.

Our education service provides training for children aged from 3-15 years. We also have four education centres across the region which are very popular with teachers and pupils alike.

The Wessex Watermark scheme supports environmental projects within the region. An independent panel of judges, including environmentalist David Bellamy, considers all the grant applications.

Our Community PlusFund provides direct financial support to local charities and our Time to Work scheme enables staff to contribute voluntary work for charities within the normal working week. WaterAid is a charity that the company, employees, customers and volunteers strongly support. During 1997/98 we raised a record £388,000 for its funds.

#### Employees as stakeholders

That we continue to be successful is due to the efforts of all those who work for Wessex Water. Employees are one of the key stakeholders in the business and we will continue to help them to develop to their full potential and to have a satisfying career with Wessex Water.

This year we have embarked upon a People Programme which aims to strengthen employees' sense of ownership and involvement in the business as we prepare for the challenges ahead. In part this will be achieved through investing in better work systems. Our employees' input to the design of these new systems is essential if we are to obtain maximum benefit.

We are also reviewing our employment policies and practices and adapting them to changing business objectives. This includes ensuring all employees have the skills they need for the future. Our Access to Learning scheme enables employees to access over 200 training courses which they can follow either in their own homes or at one of 12 locations throughout the company.

#### RESEARCH & DEVELOPMENT

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

#### CHARITABLE DONATIONS

During the year £122,000 was donated to UK charities.

#### SUPPLIER PAYMENT POLICY

The company's policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 31 March 1998 trade creditors represented approximately 45 days trade purchases.

#### YEAR 2000

Wessex Water is well advanced in its work to overcome the risks associated with the year 2000 date change. The year 2000 project, started in 1996, is working on three principal areas - operational systems, mainframe applications and desktop computers. This work includes close liaison with suppliers to address compliance issues associated with embedded logic in operational equipment. Controls have been in place for some time to ensure that purchases of new equipment are year 2000 compliant and compatible with existing systems.

Total additional costs of the year 2000 project are expected to be in the order of £10 million.

#### 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 1998. Their interests in the shares of Wessex Water Plc are shown in the accounts of that company.

W N Hood  
C F Skellett  
C J Bishop  
E J Gawith  
N A W Wheatley

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><br>50p preference<br>31 March 1998 | <u>Shares</u><br>60p ordinary<br>31 March 1998 | <u>Shares</u><br>50p preference<br>1 April 1997 | <u>Shares</u><br>60p ordinary<br>1 April 1997 | <u>Options</u><br>60p ordinary<br>31 March 1998 | <u>Options</u><br>60p ordinary<br>1 April 1997 |
|-----------|--|--|---|---|---|--|
| L H Ames  | -  | -  | -   | -   | -   | -  |
| L Bennett | -  | -  | -   | -   | -   | -  |
| J G Jones | 5,279  | 31,384   | 5,279   | 34,997  | 6,407   | 58,440   |

#### 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, 9 June 1998



## DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that 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.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1998. The directors also confirm that applicable accounting standards have been followed, and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board  
A F Crofts  
Company secretary  
9 June 1998



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

We have audited the financial statements on pages 5 to 14.

### 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.

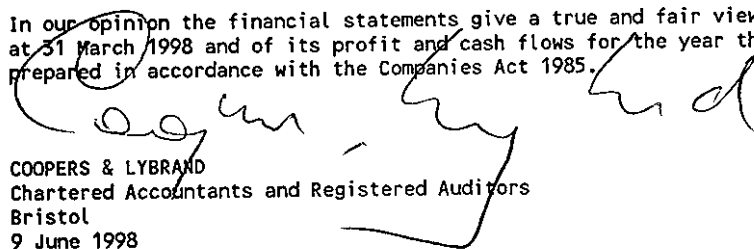
### Basis of opinion

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 the company's affairs at 31 March 1998 and of its profit and cash flows 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  
9 June 1998

PROFIT AND LOSS ACCOUNT  
for the year to 31 March 1998

|   | NOTES | 1998<br>£m | 1997<br>£m |
|---|-------|------------|------------|
| Turnover                                      | 2     | 256.9      | 247.6      |
| Operating profit                              | 2     | 139.2      | 131.5      |
| Net interest payable                          | 5     | (23.5)     | (19.6)     |
| Profit on ordinary activities before taxation |       | 115.7      | 111.9      |
| Taxation on profit on ordinary activities     | 6     | (22.3)     | (18.9)     |
| Profit attributable to shareholders           |       | 93.4       | 93.0       |
| Dividends                                     | 7     | (161.1)    | (62.0)     |
| Transfer to reserves                          | 16    | (67.7)     | 31.0       |

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

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

**BALANCE SHEET**  
at 31 March 1998

|  | NOTES | 1998<br>£m | 1997<br>£m |
|--|-------|------------|------------|
| <b>Fixed assets</b>                                      |       |            |            |
| Tangible assets  | 8     | 1,098.6    | 1,021.6    |
| <hr/>  |       |            |            |
| <b>Current assets</b>                                    |       |            |            |
| Stock and work in progress                               | 9     | 1.0        | 0.9        |
| Debtors  | 10    | 50.4       | 45.5       |
|  |       | <hr/>      | <hr/>      |
|  |       | 51.4       | 46.4       |
| <hr/>  |       |            |            |
| Creditors - amounts falling due within one year          | 11    | (477.8)    | (309.4)    |
| <hr/>  |       |            |            |
| <b>Net current liabilities</b>                           |       | (426.4)    | (263.0)    |
| <hr/>  |       |            |            |
| <b>Total assets less current liabilities</b>             |       | 672.2      | 758.6      |
| <hr/>  |       |            |            |
| Creditors - amounts falling due after more than one year | 12    | (102.9)    | (124.0)    |
| Provisions for liabilities and charges                   | 13    | (8.1)      | (5.1)      |
| Deferred income  | 14    | (22.9)     | (23.5)     |
| <hr/>  |       |            |            |
| <b>Net assets</b>  | 2     | 538.3      | 606.0      |
| <hr/>  |       |            |            |
| <b>Capital and reserves</b>                              |       |            |            |
| Called up share capital                                  | 15    | 81.3       | 81.3       |
| Profit and loss account                                  | 16    | 457.0      | 524.7      |
| <hr/>  |       |            |            |
| <b>Equity shareholders' funds</b>                        | 16    | 538.3      | 606.0      |
| <hr/>  |       |            |            |

These accounts were approved by the board of directors on 9 June 1998 and signed on its behalf by:

C F Skellett  
director



N A W Wheatley  
director





**CASH FLOW STATEMENT**  
for the year to 31 March 1998

|   | NOTES | 1998<br>£m | 1997<br>£m |
|---|-------|------------|------------|
| Net cash inflow from operating activities               | 17    | 167.8      | 152.5      |
| Returns on investments and servicing of finance         | 18    | (23.3)     | (19.4)     |
| Taxation  |       | (4.7)      | (1.0)      |
| Capital expenditure and financial investment            | 19    | (99.8)     | (75.3)     |
| Equity dividends paid                                   |       | (81.5)     | (49.5)     |
| <hr/>   |       |            |            |
| Cash (outflow)/inflow before financing                  |       | (41.5)     | 7.3        |
| Financing   | 20    | 38.9       | (8.0)      |
| <hr/>   |       |            |            |
| Decrease in cash in the period                          |       | (2.6)      | (0.7)      |
| <hr/>   |       |            |            |
| Reconciliation of cash movement to movement in net debt |       |            |            |
| Decrease in cash - above                                |       | (2.6)      | (0.7)      |
| Movement in financing                                   |       | (38.9)     | 8.0        |
| <hr/>   |       |            |            |
| Movement in net debt                                    | 21    | (41.5)     | 7.3        |
| Opening net debt  | 21    | (302.0)    | (309.3)    |
| <hr/>   |       |            |            |
| Closing net debt  | 21    | (343.5)    | (302.0)    |
| <hr/> <hr/>   |       |            |            |

NOTES TO THE ACCOUNTS  
for the year to 31 March 1998

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, sea outfalls and infrastructure investigations and studies. Expenditure on infrastructure assets relating to 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. The timing of the expenditure may fluctuate from the planned service level, and consequently accruals or deferrals are made in respect of infrastructure renewals expenditure. 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. Stock and work in progress

Stock 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 Segmental analysis

|                               | 1998         | 1997         |
|-------------------------------|--------------|--------------|
|                               | £m           | £m           |
| Analysis by class of business |              |              |
| a. Turnover                   |              |              |
| Water supply                  | 84.7         | 82.1         |
| Waste treatment               | 171.5        | 164.8        |
| Intra group income            | <u>0.7</u>   | <u>0.7</u>   |
|                               | <u>256.9</u> | <u>247.6</u> |
| b. Operating profit           |              |              |
| Water supply                  | 35.1         | 33.5         |
| Waste treatment               | <u>104.1</u> | <u>98.0</u>  |
|                               | <u>139.2</u> | <u>131.5</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. Interest payable cannot be allocated to class of business.

c. Net assets

|                 |              |              |
|-----------------|--------------|--------------|
| Water supply    | 180.5        | 205.6        |
| Waste treatment | <u>357.8</u> | <u>400.4</u> |
|                 | <u>538.3</u> | <u>606.0</u> |

3 Operating profit

a. Operating profit is shown after charging/(crediting) the following items:

Operational costs

|                           |             |             |
|---------------------------|-------------|-------------|
| Manpower costs (note 4)   | 20.1        | 22.7        |
| Materials and consumables | 17.4        | 17.4        |
| Other operational costs   | <u>37.8</u> | <u>36.4</u> |
|                           | <u>75.3</u> | <u>76.5</u> |

Depreciation

|  |             |             |
|--|-------------|-------------|
| Depreciation                             | 30.6        | 28.8        |
| Amortisation of grants and contributions | (0.7)       | (0.7)       |
| Loss on disposals of fixed assets        | <u>1.5</u>  | <u>0.8</u>  |
|  | <u>31.4</u> | <u>28.9</u> |

Infrastructure renewals charge (note 13)

|              |              |
|--------------|--------------|
| <u>11.0</u>  | <u>10.7</u>  |
| <u>117.7</u> | <u>116.1</u> |

b. Operational costs include:

|  |            |            |
|--|------------|------------|
| Operating leases for plant and machinery | 0.8        | 0.8        |
| Other operating leases                   | 0.3        | 0.3        |
| Research and development                 | 0.1        | 0.3        |
| Directors' remuneration (note 4)         | 0.1        | 0.4        |
| Audit fees                               | <u>0.1</u> | <u>0.1</u> |

NOTES TO THE ACCOUNTS continued  
for the year to 31 March 1998

|  | 1998<br>£m   | 1997<br>£m   |
|--|--------------|--------------|
| <b>4 Directors and employees</b>                                 |              |              |
| a. Total employment costs of the company were:                   |              |              |
| Wages and salaries   | 26.4         | 28.2         |
| Social security costs  | 2.0          | 2.3          |
| Other pension costs  | <u>2.4</u>   | <u>3.1</u>   |
|  | <u>30.8</u>  | <u>33.6</u>  |
| b. Total employment costs are charged as follows:                |              |              |
| Capital schemes  | 9.5          | 9.4          |
| Infrastructure renewals expenditure                              | 1.2          | 1.5          |
| Manpower costs   | <u>20.1</u>  | <u>22.7</u>  |
|  | <u>30.8</u>  | <u>33.6</u>  |
| c. The number of full time equivalent employees at 31 March was: | <u>1,312</u> | <u>1,396</u> |
| Monthly average number of employees during the financial year:   | <u>1,354</u> | <u>1,413</u> |
| d. Total directors' remuneration                                 | 1998<br>£000 | 1997<br>£000 |
| Fees   | 10           | 7            |
| Salary   | 65           | 269          |
| Bonuses  | 13           | 118          |
| Benefits in kind   | <u>10</u>    | <u>36</u>    |
|  | <u>98</u>    | <u>430</u>   |

The above remuneration does not include the remuneration of the five directors who are also directors of Wessex Water Plc, and which is disclosed in the accounts of that company. These directors have benefits accruing under defined benefit pension schemes.

e. Highest paid director

|                  |           |            |
|------------------|-----------|------------|
| Salary           | 65        | 68         |
| Bonus            | 13        | 27         |
| Benefits in kind | <u>10</u> | <u>8</u>   |
|                  | <u>88</u> | <u>103</u> |

The highest paid director was J G Jones who had an accrued pension entitlement of £44,736 at 31 March 1998. The increase in accrued pension during the year was £2,782 with a transfer value, net of own contributions, of £39,181. During the year he exercised share options and was conditionally awarded ordinary shares under the group long term incentive plan.

**5 Net interest payable**

|                        | 1998<br>£m    | 1997<br>£m    |
|------------------------|---------------|---------------|
| Interest payable:      |               |               |
| On bank loans          | (18.3)        | (14.4)        |
| On other loans         | (0.4)         | (0.3)         |
| On finance leases      | <u>(6.5)</u>  | <u>(7.0)</u>  |
| Total interest payable | (25.2)        | (21.7)        |
| Interest receivable    | <u>1.7</u>    | <u>2.1</u>    |
| Net interest payable   | <u>(23.5)</u> | <u>(19.6)</u> |

Included in interest payable on loans is £11.2m (1997 - £8.5m) payable to group companies.

**6 Taxation**

a. Taxation on profit on ordinary activities

|  |             |             |
|--|-------------|-------------|
| UK corporation tax at 31% (1997 - 33%) | <u>22.3</u> | <u>18.9</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 31% (1997 - 33%) on all timing differences is as follows:

|                                |              |              |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 208.0        | 197.6        |
| Other timing differences       | <u>(4.5)</u> | <u>(4.2)</u> |
|                                | <u>203.5</u> | <u>193.4</u> |

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

## 7 Dividends

The dividend policy is to declare ordinary dividends of two thirds of the historic profit attributable to shareholders, subject to a current cost ordinary dividend cover of one, plus an amount equal to the charge for utility tax.

|   | 1998<br>£m   | 1997<br>£m  |
|---|--------------|-------------|
| Interim dividend on 81,350,000 ordinary shares (1997 - 36.88p per share)                  | -            | 30.0        |
| Final dividend proposed of 76.46p per share on 81,350,000 ordinary shares (1997 - 39.33p) | <u>62.2</u>  | <u>32.0</u> |
|   | 62.2         | 62.0        |
| Special dividend of 121.54p per share on 81,350,000 ordinary shares                       | <u>98.9</u>  | -           |
|   | <u>161.1</u> | <u>62.0</u> |

The special dividend is the amount equal to the utility tax charge, under the Finance (No. 2) Act 1997, levied by the Inland Revenue on Wessex Water Plc. This dividend is payable in two equal instalments, the first was paid on 1 December 1997 and the second is due on 1 December 1998.

## 8 Tangible fixed assets

|                            | Freehold<br>land &<br>buildings | Infra-<br>structure<br>assets | Plant<br>machinery<br>& vehicles | Other<br>assets | Payments<br>on account<br>& assets in<br>course of<br>construction | Total          |
|----------------------------|---------------------------------|-------------------------------|----------------------------------|-----------------|--|----------------|
|                            | £m                              | £m                            | £m                               | £m              | £m   | £m             |
| <b>Cost</b>                |                                 |                               |                                  |                 |  |                |
| At 1 April 1997            | 356.6                           | 435.3                         | 354.1                            | 24.9            | 53.3   | 1,224.2        |
| Additions                  | 13.7                            | 25.8                          | 22.0                             | 2.1             | 50.5   | 114.1          |
| Transfers on commissioning | 0.4                             | 16.4                          | 7.8                              | 4.2             | (28.8)   | -              |
| Disposals                  | (0.3)                           | -                             | (16.0)                           | (3.4)           | -  | (19.7)         |
| Grants and contributions   | -                               | (4.2)                         | -                                | -               | -  | (4.2)          |
| <b>At 31 March 1998</b>    | <u>370.4</u>                    | <u>473.3</u>                  | <u>367.9</u>                     | <u>27.8</u>     | <u>75.0</u>  | <u>1,314.4</u> |
| <b>Depreciation</b>        |                                 |                               |                                  |                 |  |                |
| At 1 April 1997            | 59.0                            | -                             | 128.9                            | 14.7            | -  | 202.6          |
| Provision for year         | 6.5                             | -                             | 20.6                             | 3.5             | -  | 30.6           |
| Disposals                  | (0.1)                           | -                             | (13.9)                           | (3.4)           | -  | (17.4)         |
| <b>At 31 March 1998</b>    | <u>65.4</u>                     | <u>-</u>                      | <u>135.6</u>                     | <u>14.8</u>     | <u>-</u>   | <u>215.8</u>   |
| <b>Net book value</b>      |                                 |                               |                                  |                 |  |                |
| <b>At 31 March 1998</b>    | <u>305.0</u>                    | <u>473.3</u>                  | <u>232.3</u>                     | <u>13.0</u>     | <u>75.0</u>  | <u>1,098.6</u> |
| <b>At 31 March 1997</b>    | <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> |

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

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

The net book value of assets held under finance leases is £83.7m (1997 - £85.6m).

The depreciation charge for the year on assets held under finance leases is £1.9m (1997 - £1.9m).

The net book value of infrastructure assets at 31 March 1998 is stated after the deduction of grants and contributions amounting to £45.3m (1997 - £41.1m) in order to give a true and fair view (note 1e).

NOTES TO THE ACCOUNTS continued  
for the year to 31 March 1998

|   | 1998<br>£m   | 1997<br>£m   |
|---|--------------|--------------|
| <b>9 Stock and work in progress</b>                       |              |              |
| Stock   | 0.3          | 0.3          |
| Work in progress  | <u>0.7</u>   | <u>0.6</u>   |
|   | <u>1.0</u>   | <u>0.9</u>   |
| <b>10 Debtors</b>   |              |              |
| Amounts falling due within one year                       |              |              |
| Trade debtors   | 24.1         | 22.3         |
| Infrastructure renewals prepayment (note 13)              | 2.2          | -            |
| Other debtors   | 4.1          | 4.0          |
| Prepayments and accrued income                            | <u>20.0</u>  | <u>19.2</u>  |
|   | <u>50.4</u>  | <u>45.5</u>  |
| <b>11 Creditors - amounts falling due within one year</b> |              |              |
| Bank overdraft repayable on demand                        | 44.7         | 42.1         |
| Loans repayable   | 10.9         | 1.6          |
| Obligations under finance leases                          | 11.9         | 9.7          |
| Trade creditors   | 4.2          | 4.0          |
| Amounts owed to parent company                            | 324.1        | 179.7        |
| Other creditors   | 0.5          | 0.5          |
| Corporation tax   | 16.5         | 13.4         |
| Taxation and social security                              | 0.8          | 0.8          |
| Accruals and deferred income                              | <u>64.2</u>  | <u>57.6</u>  |
|   | <u>477.8</u> | <u>309.4</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.

|  |              |              |
|--|--------------|--------------|
| <b>12 Creditors - amounts falling due after more than one year</b> |              |              |
| Loans repayable  |              |              |
| - within 1 - 2 years   | 3.2          | 10.8         |
| - within 2 - 5 years   | 38.1         | 39.8         |
| - after 5 years  | -            | 1.6          |
|  | <u>41.3</u>  | <u>52.2</u>  |
| Obligations under finance leases                                   |              |              |
| - within 1 - 2 years   | 14.0         | 11.6         |
| - within 2 - 5 years   | 45.7         | 49.3         |
| - after 5 years  | -            | 10.5         |
| Other  | <u>1.9</u>   | <u>0.4</u>   |
|  | <u>102.9</u> | <u>124.0</u> |

The interest rates on loans outstanding of £41.3m have been swapped into floating rates through a combination of currency and interest rate swaps, the interest rates payable being between 5.9% and 8.3%. There is no exchange rate exposure under the currency swaps.

| <b>13 Provisions for liabilities and charges</b> | at 1 April 1997<br>£m | Provided<br>£m | Utilised<br>£m | at 31 March 1998<br>£m |
|--|-----------------------|----------------|----------------|------------------------|
| Pensions   | 3.6                   | 1.7            | 0.1            | 5.2                    |
| Office relocation                                | -                     | <u>2.9</u>     | -              | <u>2.9</u>             |
|  | <u>3.6</u>            | <u>4.6</u>     | <u>0.1</u>     | <u>8.1</u>             |

Infrastructure renewals expenditure is estimated over the period between regulatory reviews and is charged to the profit and loss account, subject to movements in the construction price index, on an even basis.

A provision is made for the difference between the cumulative actual expenditure and the amount charged to profit and loss. At 31 March 1997 there was a provision of £1.5m for future expenditure.

During the course of the year this provision was fully utilised as expenditure was £3.7m greater than the charge to profit and loss. The resulting net £2.2m is carried as a debtor.

|   | 1998<br>£m                               | 1997<br>£m                           |
|---|--|--------------------------------------|
| <b>14 Deferred income</b>   |  |                                      |
| Grants and contributions  |  |                                      |
| At 1 April  | 23.5                                     | 24.0                                 |
| Received in year  | 0.1                                      | 0.2                                  |
| Less amortisation   | <u>(0.7)</u>                             | <u>(0.7)</u>                         |
| At 31 March   | <u>22.9</u>                              | <u>23.5</u>                          |
| <b>15 Called up share capital</b>   |  |                                      |
| Ordinary shares of £1 each:   |  |                                      |
| Authorised, allotted, called up and fully paid  | <u>81.3</u>                              | <u>81.3</u>                          |
| <b>16 Profit and loss account and shareholders' funds</b>                                 | <b>Profit<br/>&amp; loss<br/>account</b> | <b>Share-<br/>holders'<br/>funds</b> |
|   | £m                                       | £m                                   |
| At 1 April 1997   | 524.7                                    | 606.0                                |
| Transfer to reserves  | <u>(67.7)</u>                            | <u>(67.7)</u>                        |
| At 31 March 1998  | <u>457.0</u>                             | <u>538.3</u>                         |
| <b>17 Reconciliation of operating profit to net cash inflow from operating activities</b> | <b>1998<br/>£m</b>                       | <b>1997<br/>£m</b>                   |
| Operating profit  | 139.2                                    | 131.5                                |
| Depreciation of tangible fixed assets   | 30.6                                     | 28.8                                 |
| Amortisation of grants and contributions  | (0.7)                                    | (0.7)                                |
| Provisions and infrastructure renewals  | 0.8                                      | (1.9)                                |
| Loss on disposals of fixed assets   | 1.5                                      | 0.8                                  |
| (Increase)/decrease in stock and work in progress   | (0.1)                                    | 0.8                                  |
| (Increase) in debtors   | (2.8)                                    | (2.2)                                |
| (Decrease) in creditors   | <u>(0.7)</u>                             | <u>(4.6)</u>                         |
|   | <u>167.8</u>                             | <u>152.5</u>                         |
| <b>18 Returns on investments and servicing of finance</b>                                 |  |                                      |
| Interest received   | 1.8                                      | 2.1                                  |
| Interest paid   | <u>(18.7)</u>                            | <u>(14.7)</u>                        |
| Interest element of finance lease rental payments   | <u>(6.4)</u>                             | <u>(6.8)</u>                         |
|   | <u>(23.3)</u>                            | <u>(19.4)</u>                        |
| <b>19 Capital expenditure and financial investment</b>                                    |  |                                      |
| Purchase of tangible fixed assets   | <u>(104.9)</u>                           | <u>(81.8)</u>                        |
| Sale of tangible fixed assets   | 0.8                                      | 1.1                                  |
| Connection charges, grants and deferred income received                                   | <u>4.3</u>                               | <u>5.4</u>                           |
|   | <u>(99.8)</u>                            | <u>(75.3)</u>                        |
| <b>20 Financing</b>   |  |                                      |
| Loan from parent company  | 50.0                                     | -                                    |
| Capital element of finance lease rental payments  | <u>(9.5)</u>                             | <u>(8.0)</u>                         |
| Loans   | <u>(1.6)</u>                             | <u>-</u>                             |
|   | <u>38.9</u>                              | <u>(8.0)</u>                         |

NOTES TO THE ACCOUNTS continued  
for the year to 31 March 1998

21 Movement in net debt

|                                    | at 1 April 1997 | Cash Flow     | at 31 March 1998 |
|------------------------------------|-----------------|---------------|------------------|
|                                    | £m              | £m            | £m               |
| Bank overdraft                     | (42.1)          | (2.6)         | (44.7)           |
| Finance leases greater than 1 year | (71.4)          | 11.7          | (59.7)           |
| Finance leases less than 1 year    | (9.7)           | (2.2)         | (11.9)           |
| Loans greater than 1 year          | (52.2)          | 10.9          | (41.3)           |
| Loans less than 1 year             | (1.6)           | (9.3)         | (10.9)           |
| Loan from parent company           | <u>(125.0)</u>  | <u>(50.0)</u> | <u>(175.0)</u>   |
|                                    | <u>(302.0)</u>  | <u>(41.5)</u> | <u>(343.5)</u>   |

22 Commitments

- a. Operating lease payments under leases on land and buildings due within the next year in respect of leases which expire:
- |                       | 1998       | 1997       |
|-----------------------|------------|------------|
|                       | £m         | £m         |
| Between 2 and 5 years | 0.2        | -          |
| Over 5 years          | <u>0.2</u> | <u>0.2</u> |
|                       | <u>0.4</u> | <u>0.2</u> |
- b. At 31 March 1998 the company had interest rate and currency instrument agreements outstanding with commercial banks with a principal value of £60.0m (1997 - £80.0m).
- c. Capital expenditure contracted but not provided at 31 March 1998 was £47.2m (1997 - £62.0m).

23 Contingent liabilities

There are no material contingent liabilities at 31 March 1998 for which provision has not been made in these accounts.

24 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 £4.1m (1997 - £3.9m).

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

25 Related parties

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

26 Ultimate parent company

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



**CONTENTS**

**REGULATORY INFORMATION**

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## 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 18 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 1998.

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



A F Crofts  
Company secretary  
14 July 1998

## 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 18 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.

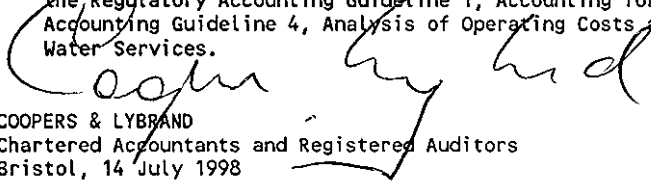
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 1998 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 18 to 20, in conjunction with the financial statements set out on pages 5 to 14, 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 1998

**HISTORICAL COST PROFIT AND LOSS ACCOUNT**  
for the year to 31 March 1998

|  | 1998            |                     |               | 1997            |                     |               |
|--|-----------------|---------------------|---------------|-----------------|---------------------|---------------|
|  | Appointed<br>£m | Non appointed<br>£m | Total<br>£m   | Appointed<br>£m | Non appointed<br>£m | Total<br>£m   |
| Turnover   | 252.5           | 4.4                 | 256.9         | 242.6           | 5.0                 | 247.6         |
| Operating costs                                      | (113.7)         | (3.0)               | (116.7)       | (112.1)         | (3.6)               | (115.7)       |
| Operating income                                     | <u>(1.5)</u>    | <u>-</u>            | <u>(1.5)</u>  | <u>(0.8)</u>    | <u>-</u>            | <u>(0.8)</u>  |
| Operating profit                                     | 137.3           | 1.4                 | 138.7         | 129.7           | 1.4                 | 131.1         |
| Other income   | 0.5             | -                   | 0.5           | 0.4             | -                   | 0.4           |
| Interest payable                                     | <u>(23.5)</u>   | <u>-</u>            | <u>(23.5)</u> | <u>(19.6)</u>   | <u>-</u>            | <u>(19.6)</u> |
| <b>Profit on ordinary activities before taxation</b> | 114.3           | 1.4                 | 115.7         | 110.5           | 1.4                 | 111.9         |
| Taxation   | <u>(22.3)</u>   | <u>-</u>            | <u>(22.3)</u> | <u>(18.9)</u>   | <u>-</u>            | <u>(18.9)</u> |
| <b>Profit for the year</b>                           | 92.0            | 1.4                 | 93.4          | 91.6            | 1.4                 | 93.0          |
| Ordinary dividend                                    | (62.2)          | -                   | (62.2)        | (62.0)          | -                   | (62.0)        |
| Special dividend                                     | <u>(98.9)</u>   | <u>-</u>            | <u>(98.9)</u> | <u>-</u>        | <u>-</u>            | <u>-</u>      |
| Transfer to reserves                                 | <u>(69.1)</u>   | <u>1.4</u>          | <u>(67.7)</u> | <u>29.6</u>     | <u>1.4</u>          | <u>31.0</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 1998

|   | 1998            |                     |                | 1997            |                     |                |
|---|-----------------|---------------------|----------------|-----------------|---------------------|----------------|
|   | Appointed<br>£m | Non appointed<br>£m | Total<br>£m    | Appointed<br>£m | Non appointed<br>£m | Total<br>£m    |
| <b>Fixed assets</b>   |                 |                     |                |                 |                     |                |
| Tangible fixed assets   | <u>1,096.7</u>  | <u>1.9</u>          | <u>1,098.6</u> | <u>1,020.5</u>  | <u>1.1</u>          | <u>1,021.6</u> |
| <b>Current assets</b>   |                 |                     |                |                 |                     |                |
| Stocks  | 1.0             | -                   | 1.0            | 0.9             | -                   | 0.9            |
| Debtors   | 49.3            | 1.1                 | 50.4           | 44.3            | 1.2                 | 45.5           |
| Cash at bank and in hand  | <u>-</u>        | <u>12.2</u>         | <u>12.2</u>    | <u>-</u>        | <u>11.9</u>         | <u>11.9</u>    |
|   | 50.3            | 13.3                | 63.6           | 45.2            | 13.1                | 58.3           |
| <b>Creditors - amounts falling due within one year</b>          |                 |                     |                |                 |                     |                |
| Borrowings  | (254.7)         | -                   | (254.7)        | (190.3)         | -                   | (190.3)        |
| Dividends payable   | (111.6)         | -                   | (111.6)        | (32.0)          | -                   | (32.0)         |
| Other creditors   | <u>(123.2)</u>  | <u>(0.5)</u>        | <u>(123.7)</u> | <u>(98.1)</u>   | <u>(0.9)</u>        | <u>(99.0)</u>  |
|   | (489.5)         | (0.5)               | (490.0)        | (320.4)         | (0.9)               | (321.3)        |
| Net current assets/(liabilities)                                | <u>(439.2)</u>  | <u>12.8</u>         | <u>(426.4)</u> | <u>(275.2)</u>  | <u>12.2</u>         | <u>(263.0)</u> |
| Total assets less current liabilities                           | <u>657.5</u>    | <u>14.7</u>         | <u>672.2</u>   | <u>745.3</u>    | <u>13.3</u>         | <u>758.6</u>   |
| <b>Creditors - amounts falling due after more than one year</b> |                 |                     |                |                 |                     |                |
| Borrowings  | (101.0)         | -                   | (101.0)        | (123.6)         | -                   | (123.6)        |
| Other creditors   | <u>(1.9)</u>    | <u>-</u>            | <u>(1.9)</u>   | <u>(0.4)</u>    | <u>-</u>            | <u>(0.4)</u>   |
|   | (102.9)         | -                   | (102.9)        | (124.0)         | -                   | (124.0)        |
| Provisions for liabilities and charges                          | (8.1)           | -                   | (8.1)          | (5.1)           | -                   | (5.1)          |
| Deferred income   | (22.9)          | -                   | (22.9)         | (23.5)          | -                   | (23.5)         |
|   | <u>523.6</u>    | <u>14.7</u>         | <u>538.3</u>   | <u>592.7</u>    | <u>13.3</u>         | <u>606.0</u>   |
| <b>Capital and reserves</b>                                     |                 |                     |                |                 |                     |                |
| Called up share capital   | 81.3            | -                   | 81.3           | 81.3            | -                   | 81.3           |
| Profit and loss account   | 442.3           | 14.7                | 457.0          | 511.4           | 13.3                | 524.7          |
|   | <u>523.6</u>    | <u>14.7</u>         | <u>538.3</u>   | <u>592.7</u>    | <u>13.3</u>         | <u>606.0</u>   |

The regulatory information on pages 18 to 30 was approved by the board of directors on 14 July 1998

N A W Wheatley  
director



**HISTORICAL COST BALANCE SHEET - ANALYSIS**  
**at 31 March 1998**

|  | 1998<br>Appointed<br>£m | 1997<br>Appointed<br>£m |
|--|-------------------------|-------------------------|
| <b>ANALYSIS OF BORROWINGS</b>                          |                         |                         |
| <b>Borrowings falling due within one year</b>          |                         |                         |
| Bank overdraft   | 56.9                    | 54.0                    |
| Finance leases   | 11.9                    | 9.7                     |
| EIB loans  | 10.9                    | 1.6                     |
| Loans from group companies                             | <u>175.0</u>            | <u>125.0</u>            |
|  | <u>254.7</u>            | <u>190.3</u>            |
| <b>Borrowings falling due after more than one year</b> |                         |                         |
| Finance leases   | 59.7                    | 71.4                    |
| EIB loans  | <u>41.3</u>             | <u>52.2</u>             |
|  | <u>101.0</u>            | <u>123.6</u>            |
| <b>Analysis of gross borrowings</b>                    |                         |                         |
| Fixed rate debt  | 71.6                    | 81.1                    |
| Floating rate debt                                     | <u>284.1</u>            | <u>232.8</u>            |
|  | <u>355.7</u>            | <u>313.9</u>            |
| <b>ANALYSIS OF DEBTORS</b>                             |                         |                         |
| Trade debtors  | 23.5                    | 21.6                    |
| Infrastructure renewals prepayment                     | 2.2                     | -                       |
| Prepayments  | 19.5                    | 18.7                    |
| Other debtors  | <u>4.1</u>              | <u>4.0</u>              |
|  | <u>49.3</u>             | <u>44.3</u>             |
| <b>ANALYSIS OF OTHER CREDITORS DUE WITHIN ONE YEAR</b> |                         |                         |
| Trade creditors  | 4.2                     | 4.0                     |
| Capital creditors                                      | 30.4                    | 23.1                    |
| Group trade creditors                                  | 37.5                    | 22.7                    |
| Corporation tax  | 16.5                    | 13.4                    |
| Receipts in advance                                    | 16.5                    | 15.4                    |
| Other creditors  | <u>18.1</u>             | <u>19.5</u>             |
|  | <u>123.2</u>            | <u>98.1</u>             |

**CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS  
for the year to 31 March 1998**

|  | NOTES | 1998<br>£m    | 1997<br>£m   |
|--|-------|---------------|--------------|
| Turnover   | 4     | 252.5         | 242.6        |
| Current cost operating costs                     | 7     | (135.1)       | (132.5)      |
| Operating income                                 | 4     | (1.9)         | (2.0)        |
|  |       | <u>115.5</u>  | <u>108.1</u> |
| Working capital adjustment                       | 4     | 2.0           | 1.2          |
|  |       | <u>117.5</u>  | <u>109.3</u> |
| Current cost operating profit                    | 5     | 117.5         | 109.3        |
| Other income                                     |       | 0.5           | 0.4          |
| Interest payable                                 |       | (23.5)        | (19.6)       |
| Financing adjustment                             |       | 10.9          | 8.2          |
|  |       | <u>105.4</u>  | <u>98.3</u>  |
| Current cost profit before taxation              |       | 105.4         | 98.3         |
| Taxation   |       | (22.3)        | (18.9)       |
|  |       | <u>83.1</u>   | <u>79.4</u>  |
| Current cost profit attributable to shareholders |       | 83.1          | 79.4         |
| Ordinary dividend                                |       | (62.2)        | (62.0)       |
| Special dividend                                 |       | (98.9)        | -            |
|  |       | <u>(78.0)</u> | <u>17.4</u>  |
| Transfer to reserves                             |       | (78.0)        | 17.4         |

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS  
at 31 March 1998

|   | NOTES | 1998<br>£m     | 1997<br>£m     |
|---|-------|----------------|----------------|
| Tangible fixed assets                   | 6     | 8,745.7        | 8,397.7        |
| Third party contributions since 1989-90 |       | (77.0)         | (71.1)         |
| Working capital                         | 9     | (72.7)         | (56.3)         |
| <b>Net operating assets</b>             |       | <u>8,596.0</u> | <u>8,270.3</u> |
| Cash and investments                    |       | (56.9)         | (54.0)         |
| Non trade creditors due within one year |       | (214.3)        | (146.6)        |
| Creditors due after one year            |       | (102.9)        | (124.0)        |
| Dividends payable                       |       | (111.6)        | (32.0)         |
| <b>Net assets employed</b>              |       | <u>8,110.3</u> | <u>7,913.7</u> |
| <b>Capital and reserves</b>             |       |                |                |
| Called up share capital                 |       | 81.3           | 81.3           |
| Profit and loss account                 |       | 162.3          | 240.3          |
| Current cost reserve                    | 10    | 7,866.7        | 7,592.1        |
|   |       | <u>8,110.3</u> | <u>7,913.7</u> |



**CURRENT COST CASH FLOW STATEMENT**  
for the year to 31 March 1998

|   | 1998            |                     |                | 1997            |                     |               |
|---|-----------------|---------------------|----------------|-----------------|---------------------|---------------|
|   | Appointed<br>£m | Non appointed<br>£m | Total<br>£m    | Appointed<br>£m | Non appointed<br>£m | Total<br>£m   |
| <b>Net cash inflow from operating activities (note 5)</b> | <u>180.9</u>    | <u>1.6</u>          | <u>182.5</u>   | <u>163.8</u>    | <u>2.0</u>          | <u>165.8</u>  |
| <b>Returns on investments and servicing of finance</b>    |                 |                     |                |                 |                     |               |
| Interest received   | 1.8             | -                   | 1.8            | 2.1             | -                   | 2.1           |
| Interest paid   | (18.7)          | -                   | (18.7)         | (14.7)          | -                   | (14.7)        |
| Interest on finance lease rentals                         | (6.4)           | -                   | (6.4)          | (6.8)           | -                   | (6.8)         |
|   | <u>(23.3)</u>   | <u>-</u>            | <u>(23.3)</u>  | <u>(19.4)</u>   | <u>-</u>            | <u>(19.4)</u> |
| <b>Taxation</b>   |                 |                     |                |                 |                     |               |
| UK corporation tax paid                                   | <u>(4.7)</u>    | <u>-</u>            | <u>(4.7)</u>   | <u>(1.0)</u>    | <u>-</u>            | <u>(1.0)</u>  |
| <b>Capital expenditure and financial investment</b>       |                 |                     |                |                 |                     |               |
| Purchase of fixed assets                                  | (103.6)         | (1.3)               | (104.9)        | (81.3)          | (0.5)               | (81.8)        |
| Disposal of fixed assets                                  | 0.8             | -                   | 0.8            | 1.1             | -                   | 1.1           |
| Receipts of grants and contributions                      | 4.3             | -                   | 4.3            | 5.4             | -                   | 5.4           |
| Infrastructure renewals expenditure                       | (14.7)          | -                   | (14.7)         | (13.3)          | -                   | (13.3)        |
|   | <u>(113.2)</u>  | <u>(1.3)</u>        | <u>(114.5)</u> | <u>(88.1)</u>   | <u>(0.5)</u>        | <u>(88.6)</u> |
| Equity dividends paid                                     | <u>(81.5)</u>   | <u>-</u>            | <u>(81.5)</u>  | <u>(49.5)</u>   | <u>-</u>            | <u>(49.5)</u> |
| <b>Net cash (outflow)/inflow before financing</b>         | (41.8)          | 0.3                 | (41.5)         | 5.8             | 1.5                 | 7.3           |
| <b>Financing</b>  |                 |                     |                |                 |                     |               |
| Loan from parent company                                  | 50.0            | -                   | 50.0           | -               | -                   | -             |
| Capital element of finance lease rentals                  | (9.5)           | -                   | (9.5)          | (8.0)           | -                   | (8.0)         |
| Loan repaid   | (1.6)           | -                   | (1.6)          | -               | -                   | -             |
|   | <u>38.9</u>     | <u>-</u>            | <u>38.9</u>    | <u>(8.0)</u>    | <u>-</u>            | <u>(8.0)</u>  |
| <b>(Decrease)/increase in cash</b>                        | <u>(2.9)</u>    | <u>0.3</u>          | <u>(2.6)</u>   | <u>(2.2)</u>    | <u>1.5</u>          | <u>(0.7)</u>  |

The analysis of net debt is shown in note 21 to the statutory accounts

**NOTES TO THE CURRENT COST REGULATORY STATEMENTS**  
for the year to 31 March 1998

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, sea outfalls and infrastructure investigations and studies 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<br>£m | 1998<br>Sewerage services<br>£m | Appointed<br>business<br>£m | Water services<br>£m | 1997<br>Sewerage services<br>£m | Appointed<br>business<br>£m |
|---|----------------------|---------------------------------|-----------------------------|----------------------|---------------------------------|-----------------------------|
| <b>Turnover</b>                               |                      |                                 |                             |                      |                                 |                             |
| Measured                                      | 32.7                 | 38.0                            | 70.7                        | 31.2                 | 35.5                            | 66.7                        |
| Unmeasured                                    | 48.0                 | 120.3                           | 168.3                       | 46.6                 | 116.6                           | 163.2                       |
| Trade effluent                                | -                    | 6.0                             | 6.0                         | -                    | 5.6                             | 5.6                         |
| Other sources                                 | 0.9                  | 4.6                             | 5.5                         | 0.8                  | 4.3                             | 5.1                         |
| Third party services                          | 1.9                  | 0.1                             | 2.0                         | 2.0                  | -                               | 2.0                         |
| Total turnover                                | <u>83.5</u>          | <u>169.0</u>                    | <u>252.5</u>                | <u>80.6</u>          | <u>162.0</u>                    | <u>242.6</u>                |
| <b>Operating income</b>                       |                      |                                 |                             |                      |                                 |                             |
| Current cost loss on disposal of fixed assets | (0.8)                | (1.1)                           | (1.9)                       | (0.7)                | (1.3)                           | (2.0)                       |
| Total operating income                        | <u>(0.8)</u>         | <u>(1.1)</u>                    | <u>(1.9)</u>                | <u>(0.7)</u>         | <u>(1.3)</u>                    | <u>(2.0)</u>                |
| Working capital adjustment                    | <u>0.8</u>           | <u>1.2</u>                      | <u>2.0</u>                  | <u>0.5</u>           | <u>0.7</u>                      | <u>1.2</u>                  |

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

|  | 1998<br>£m   | 1997<br>£m   |
|--|--------------|--------------|
| Current cost operating profit              | 117.5        | 109.3        |
| Other income                               | 0.5          | 0.4          |
| Current cost depreciation                  | 51.6         | 48.8         |
| Current cost loss on disposals of assets   | 1.9          | 2.0          |
| (Increase)/decrease in stock               | (0.1)        | 0.8          |
| Increase in debtors and prepaid expenses   | (2.9)        | (3.0)        |
| Decrease in creditors and accrued expenses | (0.7)        | (4.2)        |
| Provisions                                 | 0.4          | (2.4)        |
| Infrastructure renewals expenditure        | 14.7         | 13.3         |
| Working capital adjustment                 | (2.0)        | (1.2)        |
| Net cash flow from operating activities    | <u>180.9</u> | <u>163.8</u> |

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
for the year to 31 March 1998

6 CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

|                                 | Specialised<br>operational assets<br>£m | Non-specialised<br>operational properties<br>£m | Infrastructure<br>assets<br>£m | Other tangible<br>assets<br>£m | Total<br>£m    |
|---------------------------------|---|---|--------------------------------|--------------------------------|----------------|
| <b>WATER SERVICES</b>           |   |   |                                |                                |                |
| Gross replacement cost          |   |   |                                |                                |                |
| At 1 April 1997                 | 377.4                                   | 16.8  | 1,949.1                        | 57.1                           | 2,400.4        |
| Reclassification                | 32.1                                    | -   | -                              | (32.1)                         | -              |
| RPI adjustment                  | 13.8                                    | 0.6   | 67.7                           | 0.6                            | 82.7           |
| Disposals                       | (6.1)                                   | (0.1)   | -                              | (6.0)                          | (12.2)         |
| Additions                       | 15.0                                    | 2.0   | 20.2                           | 3.4                            | 40.6           |
| At 31 March 1998                | <u>432.2</u>                            | <u>19.3</u>                                     | <u>2,037.0</u>                 | <u>23.0</u>                    | <u>2,511.5</u> |
| Depreciation                    |   |   |                                |                                |                |
| At 1 April 1997                 | 157.8                                   | 2.3   | -                              | 36.4                           | 196.5          |
| Reclassification                | 23.7                                    | -   | -                              | (23.7)                         | -              |
| RPI adjustment                  | 6.1                                     | 0.1   | -                              | 0.3                            | 6.5            |
| Disposals                       | (5.3)                                   | (0.1)   | -                              | (5.5)                          | (10.9)         |
| Charge for year                 | 11.8                                    | 0.3   | -                              | 2.8                            | 14.9           |
| At 31 March 1998                | <u>194.1</u>                            | <u>2.6</u>                                      | <u>-</u>                       | <u>10.3</u>                    | <u>207.0</u>   |
| Net book value at 31 March 1998 | <u>238.1</u>                            | <u>16.7</u>                                     | <u>2,037.0</u>                 | <u>12.7</u>                    | <u>2,304.5</u> |
| Net book value at 1 April 1997  | <u>219.6</u>                            | <u>14.5</u>                                     | <u>1,949.1</u>                 | <u>20.7</u>                    | <u>2,203.9</u> |
| <b>SEWERAGE SERVICES</b>        |   |   |                                |                                |                |
| Gross replacement cost          |   |   |                                |                                |                |
| At 1 April 1997                 | 1,226.0                                 | 20.0  | 5,547.6                        | 63.0                           | 6,856.6        |
| Reclassification                | 28.4                                    | -   | -                              | (28.4)                         | -              |
| RPI adjustment                  | 42.6                                    | 0.7   | 192.1                          | 0.9                            | 236.3          |
| Disposals                       | (8.0)                                   | (0.2)   | -                              | (7.1)                          | (15.3)         |
| Additions                       | 44.8                                    | 3.3   | 18.9                           | 5.7                            | 72.7           |
| At 31 March 1998                | <u>1,333.8</u>                          | <u>23.8</u>                                     | <u>5,758.6</u>                 | <u>34.1</u>                    | <u>7,150.3</u> |
| Depreciation                    |   |   |                                |                                |                |
| At 1 April 1997                 | 618.8                                   | 2.4   | -                              | 41.6                           | 662.8          |
| Reclassification                | 25.9                                    | -   | -                              | (25.9)                         | -              |
| RPI adjustment                  | 22.1                                    | 0.1   | -                              | 0.3                            | 22.5           |
| Disposals                       | (7.5)                                   | -   | -                              | (6.4)                          | (13.9)         |
| Charge for year                 | 33.5                                    | 0.3   | -                              | 3.9                            | 37.7           |
| At 31 March 1998                | <u>692.8</u>                            | <u>2.8</u>                                      | <u>-</u>                       | <u>13.5</u>                    | <u>709.1</u>   |
| Net book value at 31 March 1998 | <u>641.0</u>                            | <u>21.0</u>                                     | <u>5,758.6</u>                 | <u>20.6</u>                    | <u>6,441.2</u> |
| Net book value at 1 April 1997  | <u>607.2</u>                            | <u>17.6</u>                                     | <u>5,547.6</u>                 | <u>21.4</u>                    | <u>6,193.8</u> |
| <b>TOTAL</b>                    |   |   |                                |                                |                |
| Gross replacement cost          |   |   |                                |                                |                |
| At 1 April 1997                 | 1,603.4                                 | 36.8  | 7,496.7                        | 120.1                          | 9,257.0        |
| Reclassification                | 60.5                                    | -   | -                              | (60.5)                         | -              |
| RPI adjustment                  | 56.4                                    | 1.3   | 259.8                          | 1.5                            | 319.0          |
| Disposals                       | (14.1)                                  | (0.3)   | -                              | (13.1)                         | (27.5)         |
| Additions                       | 59.8                                    | 5.3   | 39.1                           | 9.1                            | 113.3          |
| At 31 March 1998                | <u>1,766.0</u>                          | <u>43.1</u>                                     | <u>7,795.6</u>                 | <u>57.1</u>                    | <u>9,661.8</u> |
| Depreciation                    |   |   |                                |                                |                |
| At 1 April 1997                 | 776.6                                   | 4.7   | -                              | 78.0                           | 859.3          |
| Reclassification                | 49.6                                    | -   | -                              | (49.6)                         | -              |
| RPI adjustment                  | 28.2                                    | 0.2   | -                              | 0.6                            | 29.0           |
| Disposals                       | (12.8)                                  | (0.1)   | -                              | (11.9)                         | (24.8)         |
| Charge for year                 | 45.3                                    | 0.6   | -                              | 6.7                            | 52.6           |
| At 31 March 1998                | <u>886.9</u>                            | <u>5.4</u>                                      | <u>-</u>                       | <u>23.8</u>                    | <u>916.1</u>   |
| Net book value at 31 March 1998 | <u>879.1</u>                            | <u>37.7</u>                                     | <u>7,795.6</u>                 | <u>33.3</u>                    | <u>8,745.7</u> |
| Net book value at 1 April 1997  | <u>826.8</u>                            | <u>32.1</u>                                     | <u>7,496.7</u>                 | <u>42.1</u>                    | <u>8,397.7</u> |

7a ACTIVITY COSTING ANALYSIS - 1998  
for the year to 31 March

|   | SEWERAGE SERVICES |                  |                             |                | WATER SERVICES              |                    |                |
|---|-------------------|------------------|-----------------------------|----------------|-----------------------------|--------------------|----------------|
|   | Sewerage          | Sewage treatment | Sludge treatment & disposal | Total          | Water resources & treatment | Water distribution | Total          |
|   | £m                | £m               | £m                          | £m             | £m                          | £m                 | £m             |
| <b>DIRECT COSTS</b>                         |                   |                  |                             |                |                             |                    |                |
| Employment costs                            | 1.5               | 2.1              | 1.3                         | 4.9            | 0.9                         | 1.9                | 2.8            |
| Power                                       | 1.0               | 3.0              | 0.2                         | 4.2            | 1.5                         | 2.4                | 3.9            |
| Hired & contracted services                 | 1.2               | 1.2              | 1.9                         | 4.3            | 1.2                         | 2.0                | 3.2            |
| Materials & consumables                     | 0.5               | 2.4              | 0.9                         | 3.8            | 1.3                         | 1.3                | 2.6            |
| Service charges EA                          | 0.6               | 1.5              | -                           | 2.1            | 1.8                         | -                  | 1.8            |
| Bulk supply import                          | -                 | -                | -                           | -              | 1.1                         | -                  | 1.1            |
| Other direct costs                          | -                 | -                | 0.1                         | 0.1            | 0.1                         | 0.3                | 0.4            |
| <b>Total direct costs</b>                   | <u>4.8</u>        | <u>10.2</u>      | <u>4.4</u>                  | <u>19.4</u>    | <u>7.9</u>                  | <u>7.9</u>         | <u>15.8</u>    |
| General & support expenditure               | 1.8               | 6.0              | 1.9                         | 9.7            | 2.8                         | 3.0                | 5.8            |
| <b>Functional expenditure</b>               | <u>6.6</u>        | <u>16.2</u>      | <u>6.3</u>                  | <u>29.1</u>    | <u>10.7</u>                 | <u>10.9</u>        | <u>21.6</u>    |
| <b>OPERATING EXPENDITURE</b>                |                   |                  |                             |                |                             |                    |                |
| Customer services                           |                   |                  |                             | 5.2            |                             |                    | 1.8            |
| Scientific services                         |                   |                  |                             | 0.6            |                             |                    | 2.1            |
| Other business activities                   |                   |                  |                             | 0.5            |                             |                    | 0.5            |
| <b>Total business activities (note 8)</b>   |                   |                  |                             | <u>6.3</u>     |                             |                    | <u>4.4</u>     |
| Local authority rates                       |                   |                  |                             | 3.5            |                             |                    | 3.6            |
| Doubtful debts                              |                   |                  |                             | 1.9            |                             |                    | 0.6            |
| <b>Total opex less third party services</b> |                   |                  |                             | <u>40.8</u>    |                             |                    | <u>30.2</u>    |
| Third party services                        |                   |                  |                             | 0.1            |                             |                    | 1.8            |
| <b>Total operating expenditure</b>          |                   |                  |                             | <u>40.9</u>    |                             |                    | <u>32.0</u>    |
| <b>CAPITAL MAINTENANCE</b>                  |                   |                  |                             |                |                             |                    |                |
| Infrastructure renewals expenditure         | 6.6               | 0.4              | -                           | 7.0            | -                           | 7.7                | 7.7            |
| Infrastructure renewals provision           | (2.1)             | (0.3)            | -                           | (2.4)          | 0.3                         | (2.0)              | (1.7)          |
| Current cost depreciation                   | 5.8               | 27.9             | 2.2                         | 35.9           | 6.9                         | 7.2                | 14.1           |
| Amortisation of deferred credits            |                   |                  |                             | (0.6)          |                             |                    | (0.2)          |
| Business activities depreciation            |                   |                  |                             | 1.6            |                             |                    | 0.8            |
| <b>Total capital maintenance</b>            |                   |                  |                             | <u>41.5</u>    |                             |                    | <u>20.7</u>    |
| <b>Total operating costs</b>                |                   |                  |                             | <u>82.4</u>    |                             |                    | <u>52.7</u>    |
| <b>CCA (MEA) VALUES</b>                     |                   |                  |                             |                |                             |                    |                |
| Service activities                          | 5,751.7           | 644.6            | 32.9                        | 6,429.2        | 162.5                       | 2,136.4            | 2,298.9        |
| Business activities                         |                   |                  |                             | 12.0           |                             |                    | 5.6            |
|   |                   |                  |                             | <u>6,441.2</u> |                             |                    | <u>2,304.5</u> |
| Services for third parties                  |                   |                  |                             | -              |                             |                    | -              |
| <b>Total</b>                                |                   |                  |                             | <u>6,441.2</u> |                             |                    | <u>2,304.5</u> |

NOTES TO THE CURRENT COST REGULATORY STATEMENTS continued  
for the year to 31 March 1998

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

|   | SEWERAGE SERVICES |                     |                                   |                | WATER SERVICES                    |                       |                |
|---|-------------------|---------------------|-----------------------------------|----------------|-----------------------------------|-----------------------|----------------|
|   | Sewerage          | Sewage<br>treatment | Sludge<br>treatment<br>& disposal | Total          | Water<br>resources<br>& treatment | Water<br>distribution | Total          |
|   | £m                | £m                  | £m                                | £m             | £m                                | £m                    | £m             |
| <b>DIRECT COSTS</b>                         |                   |                     |                                   |                |                                   |                       |                |
| 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 imports                         | -                 | -                   | -                                 | -              | 1.1                               | -                     | 1.1            |
| Other direct costs                          | 0.1               | 0.1                 | 0.1                               | 0.3            | -                                 | 0.1                   | 0.1            |
| <b>Total direct costs</b>                   | <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            |
| <b>Functional expenditure</b>               | <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>    |
| <b>OPERATING EXPENDITURE</b>                |                   |                     |                                   |                |                                   |                       |                |
| Customer services                           |                   |                     |                                   | 4.6            |                                   |                       | 1.5            |
| Scientific services                         |                   |                     |                                   | 0.6            |                                   |                       | 1.9            |
| Other business activities                   |                   |                     |                                   | 0.5            |                                   |                       | 0.5            |
| <b>Total business activities</b>            |                   |                     |                                   | <u>5.7</u>     |                                   |                       | <u>3.9</u>     |
| Local authority rates                       |                   |                     |                                   | 3.3            |                                   |                       | 3.5            |
| Doubtful debts                              |                   |                     |                                   | 1.6            |                                   |                       | 0.5            |
| <b>Total opex less third party services</b> |                   |                     |                                   | <u>41.4</u>    |                                   |                       | <u>30.3</u>    |
| Third party services                        |                   |                     |                                   | -              |                                   |                       | 1.8            |
| <b>Total operating expenditure</b>          |                   |                     |                                   | <u>41.4</u>    |                                   |                       | <u>32.1</u>    |
| <b>CAPITAL MAINTENANCE</b>                  |                   |                     |                                   |                |                                   |                       |                |
| 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            |
| <b>Total capital maintenance</b>            |                   |                     |                                   | <u>39.5</u>    |                                   |                       | <u>19.5</u>    |
| <b>Total operating costs</b>                |                   |                     |                                   | <u>80.9</u>    |                                   |                       | <u>51.6</u>    |
| <b>CCA (MEA) VALUES</b>                     |                   |                     |                                   |                |                                   |                       |                |
| Service activities                          | 5,542.7           | 610.3               | 29.6                              | 6,182.6        | 153.8                             | 2,044.9               | 2,198.7        |
| Business activities                         |                   |                     |                                   | <u>11.2</u>    |                                   |                       | <u>5.2</u>     |
|   |                   |                     |                                   | 6,193.8        |                                   |                       | 2,203.9        |
| Services for third parties                  |                   |                     |                                   | -              |                                   |                       | -              |
| <b>Total</b>                                |                   |                     |                                   | <u>6,193.8</u> |                                   |                       | <u>2,203.9</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<br>£m | General &<br>support<br>£m | Total<br>£m |
|---------------------------------------|--------------|----------------------------|-------------|
| Sewerage services - Customer services | 4.6          | 0.6                        | 5.2         |
| - Scientific services                 | 0.5          | 0.1                        | 0.6         |
| - Other activities                    | 0.5          | -                          | 0.5         |
|                                       | <u>5.6</u>   | <u>0.7</u>                 | <u>6.3</u>  |
| Water services - Customer services    | 1.6          | 0.2                        | 1.8         |
| - Scientific services                 | 1.8          | 0.3                        | 2.1         |
| - Other activities                    | 0.5          | -                          | 0.5         |
|                                       | <u>3.9</u>   | <u>0.5</u>                 | <u>4.4</u>  |

## 9 WORKING CAPITAL

|   | 1998<br>£m    | 1997<br>£m    |
|---|---------------|---------------|
| Stocks                                      | 1.0           | 0.9           |
| Trade debtors                               | 23.5          | 21.6          |
| Trade creditors                             | (4.2)         | (4.0)         |
| Short term capital creditors                | (30.4)        | (23.1)        |
| Infrastructure renewals accrual             | (6.0)         | (10.1)        |
| Other trade accruals                        | (24.9)        | (21.8)        |
| Trade payments in advance                   | (16.5)        | (15.4)        |
| Payroll related taxes and DSS contributions | (0.8)         | (0.8)         |
| Group trade creditors                       | (37.5)        | (25.8)        |
| Other trade debtors                         | 21.8          | 21.3          |
| Prepayments                                 | 1.3           | 0.9           |
|   | <u>(72.7)</u> | <u>(56.3)</u> |

## 10 MOVEMENT ON CURRENT COST RESERVE

|                                      | 1998<br>£m     | 1997<br>£m     |
|--------------------------------------|----------------|----------------|
| At 1 April                           | 7,592.1        | 7,394.4        |
| RPI adjustments:                     |                |                |
| Fixed assets                         | 290.0          | 208.9          |
| Working capital                      | (2.0)          | (1.2)          |
| Financing                            | (10.9)         | (8.2)          |
| Grants and third party contributions | (2.5)          | (1.8)          |
| At 31 March                          | <u>7,866.7</u> | <u>7,592.1</u> |

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

|  | 1998<br>£m     | 1997<br>£m     | 1996<br>£m     | 1995<br>£m     | 1994<br>£m     |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>CURRENT COST PROFIT AND LOSS ACCOUNT</b>      |                |                |                |                |                |
| Turnover   | 252.5          | 250.6          | 244.4          | 239.8          | 229.8          |
| Current cost operating costs                     | (135.1)        | (136.9)        | (140.9)        | (152.2)        | (156.0)        |
| Operating income                                 | (1.9)          | (2.0)          | (1.5)          | (2.7)          | (3.1)          |
| Working capital adjustment                       | 2.0            | 1.2            | 1.6            | 1.6            | 0.8            |
|  | <u>117.5</u>   | <u>112.9</u>   | <u>103.6</u>   | <u>86.5</u>    | <u>71.5</u>    |
| Other income                                     | 0.5            | 0.4            | 0.4            | 0.4            | 0.5            |
| Net interest                                     | (23.5)         | (20.3)         | (20.1)         | (19.7)         | (16.8)         |
| Financing adjustment                             | 10.9           | 8.5            | 8.4            | 10.6           | 5.5            |
|  | <u>105.4</u>   | <u>101.5</u>   | <u>92.3</u>    | <u>77.8</u>    | <u>60.7</u>    |
| Taxation   | (22.3)         | (19.5)         | (12.6)         | (6.2)          | -              |
|  | <u>83.1</u>    | <u>82.0</u>    | <u>79.7</u>    | <u>71.6</u>    | <u>60.7</u>    |
| Current cost profit attributable to shareholders | (161.1)        | (64.0)         | (63.0)         | (59.6)         | (86.4)         |
| Dividends  |                |                |                |                |                |
| Transfer to reserves                             | <u>(78.0)</u>  | <u>18.0</u>    | <u>16.7</u>    | <u>12.0</u>    | <u>(25.7)</u>  |
| <b>CURRENT COST BALANCE SHEET</b>                |                |                |                |                |                |
| Tangible fixed assets                            | 8,745.7        | 8,691.6        | 8,654.4        | 6,696.4        | 6,667.4        |
| Third party contributions since 1989-90          | (77.0)         | (73.6)         | (69.0)         | (64.9)         | (53.2)         |
| Working capital                                  | (72.7)         | (58.3)         | (49.7)         | (59.6)         | (48.5)         |
|  | <u>8,596.0</u> | <u>8,559.7</u> | <u>8,535.7</u> | <u>6,571.9</u> | <u>6,565.7</u> |
| Net operating assets                             |                |                |                |                |                |
| Cash and investments                             | (56.9)         | (55.9)         | (55.0)         | (43.5)         | (138.1)        |
| Non trade creditors due within one year          | (214.3)        | (151.7)        | (148.3)        | (118.4)        | (5.7)          |
| Non trade creditors due after one year           | (102.9)        | (128.3)        | (143.5)        | (155.9)        | (169.0)        |
| Dividends payable                                | (111.6)        | (33.1)         | (20.7)         | (37.7)         | (47.4)         |
| Net assets employed                              | <u>8,110.3</u> | <u>8,190.7</u> | <u>8,168.2</u> | <u>6,216.4</u> | <u>6,205.5</u> |
| Called up share capital                          | 81.3           | 84.2           | 86.3           | 88.6           | 91.7           |
| Profit and loss account                          | 162.3          | 248.7          | 236.5          | 225.8          | 221.2          |
| Current cost reserve                             | 7,866.7        | 7,857.8        | 7,845.4        | 5,902.0        | 5,892.6        |
|  | <u>8,110.3</u> | <u>8,190.7</u> | <u>8,168.2</u> | <u>6,216.4</u> | <u>6,205.5</u> |

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



Company No: 2366633

WESSEX WATER PLC  
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*Wessex*

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