

WELSH WATER PLC

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1991

Registered No. 2366776



REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1991.

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REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 1991 on pages 6 to 32.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is principally engaged in the provision of water supply and sewerage services, but in addition provides engineering, environmental and analytical consultancy, leisure business development and the development of waste management and other new business initiatives.

CONSOLIDATED RESULTS AND TRANSFER TO RESERVES

Profit on Ordinary Activities before taxation amounted to £128.1m (1990 £39.5m). The profit attributable to shareholders amounted to £118.4m (1990 £28.8m) which, after dividends of £28.1m (1990 £16.1m) resulted in a transfer to reserves of £90.3m (1990 £12.7m).

DIVIDEND

The directors recommend a final dividend of 13.0p (net) per Ordinary share making a total dividend of 19.5p (net) for the year to 31 March 1991. This will be paid on 1 October 1991 to shareholders whose names are on the register at the close of business on 22 July 1991.

CAPITAL EXPENDITURE

The analysis of capital expenditure and details of capital commitments are shown on pages 19 and 26 respectively.

SHARE CAPITAL

As at 12 June 1991 the Company has not been notified of any beneficial interests amounting to 3% or more of the issued ordinary share capital of the Company apart from the following:

Norwich Union Fund Managers Limited - 4.2% .
Gartmore Investment Managers Limited - 3.36%.

CLOSE COMPANY

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance is arranged on behalf of the Company, directors and certain specified managers. This policy is renewed annually.

DIRECTORS

The names of the current directors of the Company, including biographical details, are shown on pages [] to []. Of these, J M James who retires by rotation in accordance with the Company's Articles of Association, offers himself for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

J E Jones, D A Jeffrey and G A Hawker have contracts of service with the Company which can be terminated by eighteen months notice at any time. No other directors have contracts of service.

DIRECTORS' INTERESTS

The beneficial interests of the directors in the Ordinary shares of the Company as at 31 March 1991 are as follows:

	Ordinary shares of £1		Executive Share Options		Sharesave Options
	31.3.91	31.3.90	31.3.91	31.3.90	
JE Jones	6,264	6,264	186,544	90,337	6,136
DA Jeffrey	5,479	5,479	107,219	107,219	6,136
GA Hawker	2,495	2,495	84,126	84,126	6,136
T Knowles	9,200	4,200	-	-	-
DG Hawkins	500	-	-	-	-
IR Evans	500	-	-	-	-
JM James	500	-	-	-	-

During the period 1 April 1991 to 12 June 1991 there were no changes in the directors' interests. No director was granted any Sharesave options during the year.

J E Jones, D A Jeffrey and G A Hawker are directors of Welsh Water Share Scheme Trustees Limited which holds 735,042 fully paid Ordinary shares as trustees for employees who were beneficially entitled to them under the special arrangements made at the time of the Offer for Sale.

EMPLOYEES

The last twelve months have seen new initiatives which have emphasised the Group's commitment to the development of its employees within an employee relations framework which encourages initiative, flexibility and improved productivity.

Building on the foundations of the 1990 Pay Review Agreement, a wide ranging "Partnership Agreement" was concluded with all Employee Groups. This represents a major step forward in employee relations within the Group and continuing evidence of the excellent relationships that exist between the Group and its recognised Trade Unions. Equally important initiatives have also been developing in training and management development.

Employees care continues to be a key issue. For example, all employees have had the opportunity of attending a mobile Health Screening Unit and further developments in this field are planned, and a new Group Safety Policy has been published.

Full and fair consideration is given to applications for employment made by disabled persons. If an employee becomes disabled whilst employed by a Group Company every effort is made to find suitable continuing employment, with re-training as necessary. Disabled persons share equally in the opportunities for training, career development and promotion.

The Group has established and continues to develop its policies and practices as an equal opportunity employer.

RESEARCH AND DEVELOPMENT

Research and development is carried out primarily in the water supply and sewerage services sector of the Group.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

During the year, there have been no political donations and charitable donations amounted to £26,000 (1990 £37,000).

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

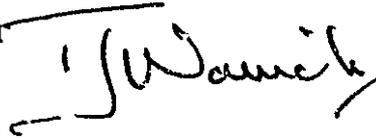
At the Annual General Meeting on 1 August 1991 resolutions will be proposed as Special Resolutions to authorise directors to allot equity securities for cash and in respect of changes to the rules of the Company's Employee Share Schemes.

These resolutions are set out in full in the Notice of Meeting on page [] of this report together with explanatory notes thereon.

AUDITORS

Coopers & Lybrand Deloitte have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board
T J Warwick
Company Secretary



12 June 1991

WELSH WATER PLC

Report of the auditors to the members of Welsh Water PLC

We have audited the financial statements on pages 6 to 32 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1991 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte

Coopers & Lybrand Deloitte
Chartered Accountants
Cardiff

12 June, 1991

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the Group accounting policies is set out below.

BASIS OF ACCOUNTING

These financial statements have been prepared under the historical cost convention.

BASIS OF CONSOLIDATION

The financial statements comprise a consolidation of the financial statements of Welsh Water PLC and all its subsidiary undertakings and include the group proportion of the profits or losses and retained earnings of associated undertakings. The financial statements of each company in the Group are prepared to 31 March. Uniform accounting policies are adopted by all companies in the Group.

ACCOUNTING FOR ACQUISITIONS

The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Where appropriate, adjustments have been made to bring different accounting policies of newly acquired companies into line with those of the Group.

Goodwill arising from the purchase of subsidiary undertakings and investments in associated undertakings, representing the excess of the fair value of the purchase consideration over the fair value of net assets acquired, is written off on acquisition against consolidated reserves.

TURNOVER

Turnover represents the income receivable in the ordinary course of business for services provided, and excludes where appropriate Value Added Tax.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are included at cost and are amortised over their estimated useful economic lives. Fishing rights have an infinite life and are not amortised.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets comprise :-

(i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipe lines and sea outfalls); and

(ii) Other assets (including properties, overground plant and equipment and fixtures and fittings).

INFRASTRUCTURE ASSETS:

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

OTHER ASSETS:

Other assets are included at cost, less accumulated depreciation.

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

Buildings	30-60 years
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant and equipment	4-10 years

Assets in the course of construction are not depreciated until commissioning.

Freehold hotel properties are not depreciated, on the basis that they are maintained in a constant state of good repair, and taking into account their long economic life and high residual values. Freehold hotels are valued regularly on an existing use basis by independent professional valuers. Expenditure relating to certain equipment included in the purchase price of hotels is capitalised. Replacement expenditure is treated on a renewal basis and the cost is charged to profit and loss account as incurred.

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 charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease periods. All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the profit and loss account in the year to which they relate.

GOVERNMENT GRANTS AND CONTRIBUTIONS

Government 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. The cost and accumulated depreciation at 1 April 1990 are restated to take account of the change in accounting policy relating to non-infrastructure assets. Grants and contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets.

INVESTMENTS

Long term investments, held as fixed assets, are stated at cost less amounts written off or provided to reflect permanent diminution in value. Those held as current assets are stated at the lower of cost and net realisable value.

STOCKS AND WORK IN PROGRESS

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

Amounts recoverable on contracts which are included in debtors, are stated at cost plus attributable profit. Long term contract profit is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of work carried out at the year end. Turnover and related costs are recorded as contract activity progresses. Full provision is made for losses on all contracts in the year in which such losses are first foreseen. This policy is applied irrespective of the length of the contract.

PENSION COSTS

Contributions to pension schemes are based on the advice of a professionally qualified actuary. The cost of providing pensions, including the amortisation of actuarial surpluses and deficiencies, is charged to the profit and loss account on a basis which spreads the cost over the service lives of the employees. The difference between the charge for pensions and total contributions paid is included within pension provisions or debtors as appropriate.

FOREIGN CURRENCIES

On consolidation, balance sheets and profit and loss accounts of subsidiary undertakings are translated into sterling at closing rates of exchange. Exchange differences resulting from the translation at closing rates of net investments in subsidiary and associated undertakings are dealt with in reserves. All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

RESEARCH AND DEVELOPMENT

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

DEFERRED TAXATION

Deferred taxation is provided to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes to the extent that it is probable that a liability for taxation will crystallise as a result of the reversal of those timing differences.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1991**

	Note	1991 £m	1990 £m
Turnover	2	293.0	255.3
Net Operating Costs	3	(197.8)	(191.7)
Operating Profit	4	----- 95.2	----- 63.6
Share of results of associated undertakings	2	(0.3)	-
Interest receivable		35.7	9.7
Interest payable	6	(2.5)	(33.8)
Profit on Ordinary Activities before Taxation		----- 128.1	----- 39.5
Taxation	7	(9.6)	(5.4)
Profit on Ordinary Activities after Taxation		----- 118.5	----- 34.1
Minority interests		(0.1)	-
Extraordinary item	8	-	(5.3)
Profit for the Year		----- 118.4	----- 28.8
Dividends	9	(28.1)	(16.1)
Retained Profit for the Year	27	----- 90.3 =====	----- 12.7 =====
Earnings per Ordinary share	10	----- 82.2p =====	----- 61.7p =====

BALANCE SHEETS AT 31 MARCH 1991

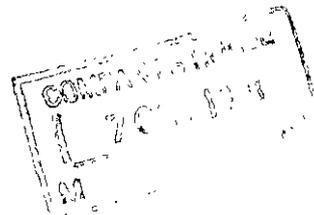
	Note	Group		Company	
		1991 £m	1990 £m	1991 £m	1990 £m
Fixed Assets					
Intangible assets	12	0.9	0.7	-	-
Tangible assets	13	788.6	671.1	0.2	-
Investments	14	18.3	0.2	318.0	283.5
		-----	-----	-----	-----
		807.8	672.0	318.2	283.5
Current Assets					
Stocks and work in progress	16	5.9	4.7	-	-
Debtors	17	69.3	56.8	42.9	23.5
Current asset investments	18	200.7	216.6	-	-
Cash at bank and in hand		8.2	10.7	0.2	5.8
		-----	-----	-----	-----
		284.1	288.8	43.1	29.3
Current Liabilities					
Creditors: Amounts falling due within one year	19(a)	155.9	120.0	33.4	23.0
		-----	-----	-----	-----
Net Current Assets		128.2	168.8	9.7	6.3
		-----	-----	-----	-----
Total Assets Less Current Liabilities		936.0	840.8	327.9	289.8
		-----	-----	-----	-----
Creditors' amounts falling due after more than one year					
Provision for Liabilities and Charges	24	50.6	39.3	-	-
		-----	-----	-----	-----
Net Assets		865.4	781.8	326.8	289.8
		=====	=====	=====	=====
Capital and Reserves					
Called up share capital	25	144.1	144.1	144.1	144.1
Share premium account		131.9	131.9	131.9	131.9
Reserves	27	589.1	505.8	50.8	13.8
		-----	-----	-----	-----
Shareholders' Funds		865.1	781.8	326.8	289.8
Minority Interests		0.3	-	-	-
		-----	-----	-----	-----
		865.4	781.8	326.8	289.8
		=====	=====	=====	=====

The financial statements on pages 6 to 32 were approved by the Board of Directors on 12 June 1991 and were signed on its behalf by:

John E. Jones CBE, DL
Chairman

D.A. Jeffrey
Managing Director

G.A. Hawker
Finance Director



**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 MARCH 1991**

	<u>Note</u>	1991	1990
Source of Funds		£m	£m
Profit on ordinary activities before taxation and after minority interests		128.0	39.5
Extraordinary item		-	(5.3)
		-----	-----
		128.0	34.2
Items not involving movement of funds:			
Depreciation of tangible fixed assets		23.0	19.1
Provision against fixed asset investments		-	0.4
Profit on disposal of tangible fixed assets		(1.0)	(0.2)
Share of results of associated undertakings		0.3	-
Exchange differences		(0.1)	-
Movement in provision for liabilities and charges	24	11.3	10.5
Minority interests - arising during the year		0.1	-
- on acquisition		0.2	-
		-----	-----
Funds generated from operations		161.8	64.0
		-----	-----
Funds from other sources:			
Disposal of tangible fixed assets		1.1	0.4
Proceeds from issue of shares		-	276.0
Grants and contributions		8.3	7.8
		-----	-----
Total funds from other sources		9.4	284.2
		-----	-----
Total source of funds		171.2	348.2
		-----	-----
Application of Funds			
Purchase of fixed assets	12 - 13	(149.1)	(100.1)
Purchase of fixed asset investments		(18.3)	(0.3)
Purchase of goodwill on acquisition of subsidiary	15	(7.0)	-
Taxation paid		(5.4)	-
Dividends paid		(25.5)	-
Creditors: Amounts falling due after more than one year		0.3	48.2
		-----	-----
		(205.0)	(52.2)
		-----	-----
Net source/(application) of funds		(33.8)	296.0
		=====	=====
Increase/(Decrease) in working capital:			
Stocks		1.2	0.7
Debtors		12.5	18.1
Creditors : Amounts falling due within one year		(40.3)	78.2
Current asset investments		27.5	15.0
		-----	-----
		0.9	112.0
Movement in liquid funds:			
Current asset investments - short term		(43.4)	201.6
Cash		(2.5)	10.7
Bank overdraft		11.2	(28.3)
		-----	-----
Increase/(Decrease) in working capital		(33.8)	296.0
		=====	=====

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

1. PARENT COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 230 of the Companies Act 1985, the profit and loss account of Welsh Water PLC has not been included in these financial statements. The profit for the year, dealt with in the accounts of the holding company, was £65.1m (1990 £29.9m).

2. SEGMENTAL ANALYSIS BY CLASS OF BUSINESS

Turnover and Operating Profit.

	Turnover		Operating Profit/(Loss)	
	1991 £m	1990 £m	1991 £m	1990 £m
Water and sewerage services	286.2	254.3	96.5	67.4
Other Trading Activities	6.8	1.0	0.3	(1.3)
	<u>293.0</u>	<u>255.3</u>	<u>96.8</u>	<u>66.1</u>
Common costs			(1.6)	(2.5)
Share of results of associates			95.2	63.6
Net interest receivable			(0.3)	-
			<u>33.2</u>	<u>(24.1)</u>
Profit on ordinary activities before taxation			<u>128.1</u>	<u>39.5</u>

The retained earnings of Associated Undertakings is £(0.3)m (1990 NIL).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

3. NET OPERATING COSTS	NOTE	1991 £m	1990 £m
Change in stocks and work in progress		(1.2)	(0.7)
Infrastructure renewals expenditure	24(b)	20.9	17.8
Staff costs		57.1	49.4
Depreciation:			
Own assets		21.6	17.7
Assets held under finance leases		1.4	1.4
Other operating charges		99.7	106.8
Exchange differences		(0.1)	-
Amortisation of Government grants		(0.3)	(0.5)
Other operating income:			
Profits on sale of tangible fixed assets		(1.1)	(0.2)
Net rents receivable		(0.2)	-
		-----	-----
		197.8	191.7
		=====	=====
4. OPERATING PROFIT		1991 £m	1990 £m
Operating profit is stated after charging/(crediting):			
Auditors' remuneration		0.2	0.1
Research and development		1.2	1.1
Rentals under operating leases:			
Hire of plant and equipment		2.0	1.4
Other operating leases		0.8	0.4
Exceptional items:			
Voluntary severance and restructuring costs		0.4	6.7
Discount arising from early repayment of loans		-	(1.4)
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

5. DIRECTORS AND EMPLOYEES

(a) Directors' Remuneration

Executive directors' remuneration represents salary plus a bonus based on the profitability of the Group. The basis of remuneration is fixed by a Remuneration Committee comprising the non-executive directors of the Company after taking independent specialist advice.

The combined emoluments of the directors of Welsh Water PLC for their services as directors of the Company and its subsidiaries are set out below:

	1991 £000	1990 £000
Fees	40	23
Contributions to Pension Schemes	43	288
Other Emoluments - salary	271	182
- performance related bonus	86	43
	440	536
	440	536

Included in the above are amounts (excluding pension contributions) paid to :

	1991 £000	1990 £000
Chairman - salary	108	61
- performance related bonus	35	15
	143	76
	143	76
Highest paid director - salary	108	66
- performance related bonus	35	16
	143	82
	143	82

The combined salary and performance related bonus (excluding pension contributions) were in the following ranges :

	1991 Number	1990 Number
£0 - £5,000	-	1
£5,001 - £10,000	4	3
£65,001 - £70,000	-	1
£75,001 - £80,000	-	1
£80,001 - £85,000	-	1
£90,001 - £95,000	1	-
£115,001 - £120,000	1	-
£140,001 - £145,000	1	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

5. DIRECTORS AND EMPLOYEES (Continued)

(b) Staff Costs	1991 £m	1990 £m
Wages and salaries	67.0	51.1
Social security costs	5.0	3.8
Other pension costs	5.8	4.8
	-----	-----
	70.8	59.7
	=====	=====

Of the above £13.7m (1990 £10.3m) has been charged to capital.

(c) Average Weekly Number of Employees during the year

	1991 Number	1990 Number
By business segment:		
Water and sewerage Services	3455	3397
Other activities	678	314
	-----	-----
	4133	3711
	=====	=====

6. INTEREST PAYABLE

	1991 £m	1990 £m
On Government loans extinguished	-	30.5
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	0.7	1.4
- repayable wholly or partly in more than five years	1.7	1.8
	-----	-----
	2.4	33.7
On finance leases	0.1	0.1
	-----	-----
	2.5	33.8
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

7. TAXATION

	1991 £m	1990 £m
Irrecoverable Advance Corporation Tax	9.4	5.4
Overseas taxation	0.2	-
	-----	-----
	9.6	5.4
	=====	=====

The Group's tax charge for the year principally represents the Advance Corporation Tax payable on the dividend. The cumulative amount of Advance Corporation Tax written off of £14.8m remains available to reduce future liabilities to Mainstream Corporation Tax.

No liability to Mainstream Corporation Tax arises due to the availability of taxation allowances. Taxation losses are available to the companies within the Group for carry forward to reduce future taxable profits of those companies. The amount available for carry forward is subject to negotiation with the Inland Revenue and is estimated to be not less than £2m (1990 £30m).

The tax charge for the year has been reduced by £41m (1990 £19.1m) in respect of the excess of tax allowances over depreciation and other timing differences on which, in accordance with the Group's accounting policy, no deferred tax has been provided.

	1991 £m	1990 £m
8. EXTRAORDINARY ITEM		
Privatisation and restructuring costs	-	5.3
	=====	=====

9. DIVIDENDS

	1991 £m	1990 £m
Interim paid of 6.5p per Ordinary share	9.4	-
Final proposed of 13.0p per Ordinary share (1990 11.17p)	18.7	16.1
	-----	-----
	28.1	16.1
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

10. EARNINGS PER ORDINARY SHARE

	1991	1990
Earnings per Ordinary share (1990 Pro forma)	82.2p	61.7p
	=====	=====

Earnings per Ordinary share has been calculated on the basis of profit after taxation and minority interests of £112.4m and by reference to 144,078,163 Ordinary shares, being the weighted average number of Ordinary shares in issue during the year (1990 - 144,078,000).

Pro forma earnings per Ordinary share for the year to 31 March 1990 was calculated on the basis of pro forma profit after taxation of £88.9m and by reference to 144,078,000 Ordinary shares, after taking account of adjustments to interest of £57.5m and Advance Corporation Tax of £2.7m.

Earnings per Ordinary share on a nil distribution basis is 88.7p (1990 67.3p).

11. PRIOR YEAR ADJUSTMENT

Grants and contributions on non-infrastructure assets are credited to deferred income in compliance with the Companies Act 1989 and Statement of Standard Accounting Practice No.4 (revised) "Accounting for Government Grants". The cost and accumulated depreciation at 1 April 1990 have been restated to take account of this change in accounting policy. (See note 13). The net effect on the profit and loss account and reserves is nil.

12. INTANGIBLE FIXED ASSETS

Group Cost	Fishing Rights
	£m
At 1 April 1990	0.7
Reclassification	0.2

At 31 March 1991	0.9
	=====
Net Book Value	
At 31 March 1991	0.9
	=====
At 31 March 1990	0.7
	=====

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

13. TANGIBLE FIXED ASSETS

Group	Freehold Land and Buildings fm	Infra- Structure Assets fm	Vehicles Plant and Equipment fm	Operational Structures fm	Total fm
Cost					
At 1 April 1990	21.3	289.7	132.0	355.2	798.2
Reclassification	(0.6)	0.5	(1.2)	1.3	-
Prior year adjustment	1.0	-	3.5	30.3	34.8
	-----	-----	-----	-----	-----
As restated	21.7	290.2	134.3	386.8	833.0
Additions	6.2	57.9	31.6	53.2	148.9
Grants & Contributions	-	(8.3)	-	-	(8.3)
Disposals	-	-	(2.0)	-	(2.0)
	-----	-----	-----	-----	-----
At 31 March 1991	<u>27.9</u>	<u>339.8</u>	<u>163.9</u>	<u>440.0</u>	<u>971.6</u>
Accumulated Depreciation					
At 1 April 1990	3.0	-	38.0	114.9	155.9
Prior year adjustment	0.1	-	0.2	5.7	6.0
	-----	-----	-----	-----	-----
As restated	3.1	-	38.2	120.6	161.9
Charge for the year	0.8	-	13.8	8.4	23.0
Disposals	-	-	(1.9)	-	(1.9)
	-----	-----	-----	-----	-----
At 31 March 1991	<u>3.9</u>	<u>-</u>	<u>50.1</u>	<u>129.0</u>	<u>183.0</u>
Net Book Value					
At 31 March 1991	<u>24.0</u>	<u>339.8</u>	<u>113.8</u>	<u>311.0</u>	<u>788.6</u>
At 31 March 1990 (as restated)	<u>18.6</u>	<u>290.2</u>	<u>96.1</u>	<u>266.2</u>	<u>671.1</u>
Utilisation at 31 March 1991					
Owned	24.0	339.8	109.9	311.0	784.7
Finance leased	-	-	3.9	-	3.9
	-----	-----	-----	-----	-----
	<u>24.0</u>	<u>339.8</u>	<u>113.8</u>	<u>311.0</u>	<u>788.6</u>

- (a) Tangible fixed assets at 31 March 1991 include £137.6m (1990 £76.7m) of assets in the course of construction, which are not depreciated until commissioning.
- (b) Grants and contributions relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets. The cost and accumulated depreciation at 1 April 1990 are restated to take account of the change in accounting policy relating to non-infrastructure assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

13. TANGIBLE FIXED ASSETS (continued)

- (c) The treatment of accounting for contributions and infrastructure charges in respect of infrastructure assets is described in the Principal Accounting Policies. This treatment has been adopted in accordance with section 226(5) of the Companies Act 1985 in order to show a true and fair view as in the opinion of the Directors, it is not appropriate to treat contributions and infrastructure charges on infrastructure assets as deferred income. The fixed assets to which they relate are not depreciated and accordingly no basis exists on which to recognise such contributions as deferred income. The contributions relate directly to investment in infrastructure assets and therefore are deducted directly from their purchase or production cost. As a consequence the net book value amount for fixed assets is £59.9m lower (1990 £51.6m) than it would have been had this treatment not been adopted.

Company

	Vehicles, Plant and Equipment £m
Cost and net book value at 31 March 1991	0.2 =====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

14. FIXED ASSET INVESTMENTS

Group

	Associated Undertakings	Listed	Unlisted	Total
	£m	£m	£m	£m
Cost				
At 1 April 1990	0.4	-	0.2	0.6
Additions	0.3	17.2	0.8	18.3
Share of results	(0.3)	-	-	(0.3)
Exchange differences	-	-	0.1	0.1
At 31 March 1991	0.4	17.2	1.1	18.7
Amounts Written Off				
At 31 March 1990 and 31 March 1991	0.4	-	-	0.4
Net Book Value				
At 31 March 1991	-	17.2	1.1	18.3
At 31 March 1990	-	-	0.2	0.2

The market value of listed investments at 31 March 1991, all of which are dealt with on a recognised Stock Exchange, is £23.9m. The shares in South Wales Electricity PLC, included in listed investments above, are partly paid. The outstanding amount is £14.1m, which is due in equal instalments on 22 October 1991 and 15 September 1992. This amount has not been accrued in these financial statements or included within Capital Commitments, Note 22.

Company

	Interests in Group Undertakings	Other Investments	Total
	£m	£m	£m
Cost			
At 1 April 1990	283.5	-	283.5
Additions	16.9	18.0	34.9
Exchange differences	-	0.1	0.1
At 31 March 1991	300.4	18.1	318.5
Amounts written off			
Charge for the year	0.5	-	0.5
Net Book Value			
At 31 March 1991	299.9	18.1	318.0
At 31 March 1990	283.5	-	283.5

Other investments include listed investments as detailed above.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

Principal Group undertakings are shown below:-

Subsidiary	Proportion Held	Principal Activity
Dŵr Cymru Cyfyngedig	100%	Water and sewerage services
Wallace Evans Limited	100%	Engineering and environmental consultancy
Welsh Water Enterprises Limited	100%	Waste management and other activities
Hamdden Limited	100%	Hotels and leisure
Brecon Insurance Company Limited	100%	Insurance
G.T.F.C. Limited	74%	Plant hire and sales
Union de Ingenieros y Economistas Consultores S.A. "Unieco"	51%	Engineering & environmental consultancy
Associate		
Cambrian Environmental Services PLC	50%	Waste management

- (a) Investments in Group undertakings are in Ordinary shares of £1 each, except for Unieco which are Ordinary shares of Ptas 1000. The investment in Cambrian Environmental Services PLC is in the 'B' Ordinary shares of £1 each which represents 50% of the voting rights.
- (b) Brecon Insurance Company Limited is incorporated and registered in Guernsey, Channel Islands. Unieco is incorporated and registered in Spain. All other companies are incorporated in Great Britain and registered in England and Wales. The principal country of operation of all companies correspond to their country of incorporation.
- (c) The accounting reference period of Unieco is 31 December, with accounts for consolidation purposes prepared to 31 March. The accounting reference period of all other companies is 31 March.
- (d) The shareholdings in G.T.F.C. Limited, Unieco and Cambrian Environmental Services PLC are held through an intermediate holding company.

15. ACQUISITION OF WALLACE EVANS LIMITED

On 31 May 1990 the Group acquired the issued share capital of Wallace Evans Limited for a consideration of £5.7m. An initial payment of £1.35m in cash and £1.7m in loan notes was made on 31 May 1990 with the balance being settled by the further issue of loan notes between September 1990 and September 1992. The total fair value of the net liabilities acquired was £1.3m. In accordance with the Group's accounting policy, acquisition accounting has been used for the purchase and goodwill of £7.0m arising on consolidation has been written off directly to reserves.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

15. ACQUISITION OF WALLACE EVANS LIMITED (Continued)

The table below shows the book values and fair values of the net liabilities acquired:-

	Book Value	Fair Value Adjustments	Fair Value To The Group
	fm	fm	fm
Intangible Fixed Assets	0.2	(0.2)	-
Tangible Fixed Assets	0.5	-	0.5
Stocks and Work in Progress	0.8	(0.1)	0.7
Debtors	2.2	-	2.2
Creditors including Bank overdrafts	(4.7)	-	(4.7)
	-----	-----	-----
	(1.0)	(0.3)	(1.3)
	-----	-----	-----
Goodwill			7.0

Consideration			5.7

16. STOCKS AND WORK IN PROGRESS

	Group	
	1991	1990
	fm	fm
Finished goods	0.4	-
Consumable stores	4.1	3.2
Work in progress	1.4	1.5
	----	----
	5.9	4.7
	-----	-----

17. DEBTORS

	Group		Company	
	1991	1990	1991	1990
	fm	fm	fm	fm
Amounts falling due within one year:				
Trade debtors	43.1	39.9	-	-
Amounts recoverable on contracts	1.0	-	-	-
Amounts due from subsidiary undertakings	-	-	42.7	23.4
Amounts due from associated undertakings	0.3	-	-	-
Other debtors	21.8	13.7	0.1	-
Prepayments and accrued income	2.4	2.8	0.1	0.1
	-----	-----	-----	-----
	68.6	56.4	42.9	23.5
Amounts falling due after more than one year:				
Other debtors	0.2	0.4	-	-
Amounts due from associated undertakings	0.5	-	-	-
	----	----	----	----
	69.3	56.8	42.9	23.5
	-----	-----	-----	-----

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991.

18. CURRENT ASSET INVESTMENTS

Current asset investments

	Group	
	1991 £m	1990 £m
Maturing within one year	158.2	201.6
Maturing after more than one year	42.5	15.0
	-----	-----
	<u>200.7</u>	<u>216.6</u>

19. CREDITORS

	NOTE	Group		Company	
		1991 £m	1990 £m	1991 £m	1990 £m
a) Amounts falling due within one year:					
Bank loans and overdrafts	20(a)	22.6	33.8	-	-
Other loans	20(b)	4.0	1.0	3.0	-
Obligations under finance leases	21	0.5	0.3	-	-
Trade creditors		68.9	36.1	-	-
Amounts due to subsidiary undertakings		-	-	0.4	0.4
Dividend payable		18.7	16.1	18.7	16.1
Corporation Tax		9.4	5.4	9.4	5.4
Other taxation and social security payable		3.1	0.4	-	-
Other creditors		25.8	24.5	-	-
Accruals and deferred income		2.9	2.4	1.9	1.1
		-----	-----	-----	-----
		<u>155.9</u>	<u>120.0</u>	<u>33.4</u>	<u>23.0</u>

b) Amounts falling due after more than one year:

Other loans	20(b)	15.0	14.9	1.1	-
Obligations under finance lease	21	0.8	0.5	-	-
Other creditors:					
Between one and five years		3.3	2.9	-	-
After more than five years		0.9	1.4	-	-
		-----	-----	-----	-----
		<u>20.0</u>	<u>19.7</u>	<u>1.1</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

20. LOANS

(a) Bank Loans and Overdrafts

Group

	Interest Rate %	Repayable by Instalments		Other than by Instalments		Total 1991 £m	Total 1990 £m
		1991 £m	1990 £m	1991 £m	1990 £m		
Within one year	13.5-16.0	-	-	22.6	33.8	22.6	33.8

(b) Other Loans

Group

	Range of Interest Rates %	Repayable by Instalments		Other than by Instalments		Total 1991 £m	Total 1990 £m
		1991 £m	1990 £m	1991 £m	1990 £m		
Within one year	9.75-13.05	1.0	1.0	3.0	-	4.0	1.0
Between one and two years	9.75-13.05	1.0	1.0	1.1	-	2.1	1.0
Between two and five years	9.75-13.05	2.7	2.8	-	-	2.7	2.8
After more than five years	9.75-13.05	10.2	11.1	-	-	10.2	11.1
		14.9	15.9	4.1	-	19.0	15.9

Company

	Repayable Other than by Instalments	
	1991 £m	1990 £m
Within one year	3.0	-
Between one and two years	1.1	-
	4.1	-

The loans shown of £4.1m bear interest at a rate of 1% below the London Inter-Bank Borrowing Offered Rate (LIBOR). This rate also applies to the Group loans of £4.1m shown as repayable "Other than by Instalments".

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

21. FINANCE LEASES

Group

Amounts due under finance leases are payable as follows:

	1991 £m	1990 £m
Within one year	0.5	0.3
Between one and two years	0.6	0.3
Between two and five years	0.2	0.2
	1.3	0.8
	1.3	0.8

22. CAPITAL COMMITMENTS

Group

	1991 £m	1990 £m
Contracted for but not provided in the financial statements	52.2	15.5
	52.2	15.5
Authorised but not yet contracted for	24.9	11.3
	24.9	11.3

Apart from these commitments, in order to meet regulatory and service standards the Group has longer term capital expenditure obligations totalling approximately £1.9 billion at current prices over the next ten years which include investments to meet shortfalls in performance and condition and to provide for new demands and growth.

23. LEASING COMMITMENTS

Group

	Land and Buildings		Other Operating Leases	
	1991 £m	1990 £m	1991 £m	1990 £m
At 31 March 1991 there were revenue commitments, in the ordinary course of business in the next year to the payment of rentals on non cancellable operating leases expiring:-				
Between two and five years	-	-	0.6	-
After five years	0.6	0.5	-	-
	0.6	0.5	0.6	-
	0.6	0.5	0.6	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

24. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	1991 £m	1990 £m
Deferred Taxation	(a)	-	-
Infrastructure Maintenance Provision	(b)	13.9	10.5
Deferred Income	(c)	34.2	28.8
Captive Insurance Fund	(d)	2.5	-
		50.6	39.3
		50.6	39.3

(a) Deferred Taxation

Group

No provision is required for deferred taxation. The full potential liability to deferred taxation comprises:-

	Full Potential Liability	
	1991	1990
	£m	£m
Accelerated capital allowances	51.5	22.2
Other timing differences	(1.5)	(2.9)
	50.0	19.3
Less: Losses	(0.7)	(10.8)
Advance Corporation Tax	(14.8)	(5.4)
	34.5	3.1
	34.5	3.1

Company

The company has no potential liability to deferred taxation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

24. PROVISIONS FOR LIABILITIES AND CHARGES (Continued)

(b) Infrastructure Maintenance Provision.

Group	1991	1990
	£m	£m
At 1 April 1990	10.5	-
Charge for the year	20.9	17.8
Expenditure in the year	(17.5)	(7.3)
	----	----
At 31 March 1991	13.9	10.5
	====	====

As part of their obligations to the Director General of Water Services the directors have determined a programme of expenditure for the maintenance and enhancement of the infrastructure asset system. This programme is set out in an Asset Management Plan effective from 1 April 1989. The above provision represents the difference between the annual anticipated expenditure requirement in the Asset Management Plan for infrastructure maintenance and that actually incurred.

(c) Deferred Income

Group	1991	1990
	£m	£m
At 1 April 1990	28.8	25.2
Receivable during the year	5.7	4.1
Released to Profit and Loss Account	(0.3)	(0.5)
	----	----
At 31 March 1991	34.2	28.8
	====	====

Deferred income represents grants and contributions received in respect of investment in non-infrastructure fixed assets. Grants on non-infrastructure assets are released to the profit and loss account over the estimated useful economic life of the related assets.

(d) Captive Insurance Fund

Group	1991
	£m
At 1 April 1990	-
Premiums	2.4
Claims	(0.2)
Investment Income	0.3

At 31 March 1991	2.5
	====

Cover against certain environmental risks and employer and public liability risks is provided by Brecon Insurance Company Limited, a wholly owned subsidiary undertaking of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

25. SHARE CAPITAL

	1991 £m	1990 £m
Authorised:		
200,000,000 Ordinary shares of £1 each	200.0	200.0
1 Special Rights Redeemable Preference Share of £1	-	-
	-----	-----
	200.0	200.0
	=====	=====
 Allotted and fully paid:		
144,079,961 Ordinary Shares of £1 each (1990 144,078,000)	144.1	144.1
1 Special Rights Redeemable Preference Share of £1	-	-
	-----	-----
	144.1	144.1
	=====	=====

The Special Rights Redeemable Preference share ("Special share") is redeemable at par at the option of the Secretary of State for Wales at any time prior to 31 December 1994, and unless so redeemed, will be redeemed by the Company on that date. This Special share does not carry any rights to vote at general meetings but entitles the Secretary of State for Wales, or another person acting on behalf of HM Government, to attend and speak at such meetings. The written consent of the holder of the Special share is required under certain circumstances, in particular the alteration of specific sections of the Articles of Association of the Company. The Special share confers no right to participate in the capital or profits of the Company, except that on a winding-up the Special shareholder is entitled to repayment of £1 in priority to other shareholders.

The movement in the issued ordinary shares resulted from the exercise of share options under the Company's Sharesave Scheme at a price of 176p per share.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

26. EMPLOYEE SHARE SCHEMES

The Company has established one share ownership scheme and two share option schemes for its employees and those of participating subsidiary undertakings.

Under the share ownership scheme 735,042 Ordinary shares of the Company were held in trust at 31 March 1991 on behalf of employees who were beneficially entitled to the shares under special arrangements made at the time of the Offer for Sale of the share capital of the Company dated 22 November 1989.

The Employee Sharesave Scheme is savings related and under normal circumstances the share options are exercisable on the completion of a five or seven year Save As You Earn contract. The Executive Share Option Scheme is for senior employees and the options are normally exercisable between the 3rd and 10th anniversary of the date of grant.

Options granted under these schemes to 31 March 1991 together with their exercise prices and dates are shown below:-

	Date Option Granted	Normal Date of Exercise	Option Price per share	Number of Ordinary Shares
Employee Sharesave Scheme	12 Dec 1989	12 Jan 1995	176p	1,206,040
	12 Dec 1989	12 Jan 1997	176p	572,894
Executive Share Option Scheme	16 Jan 1990	16 Jan 1993-16 Jan 2000	281p	1,082,413
	23 Jan 1990	23 Jan 1993-23 Jan 2000	288p	11,951
	18 Jan 1991	18 Jan 1994-18 Jan 2001	349.67p	230,914
				3,104,212

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991**

27. RESERVES

	Group £m	Company £m
At 1 April 1990	505.8	13.8
Profit retained for the year	90.3	37.0
Goodwill - arising on acquisition during the year.	(7.0)	-
	-----	-----
At 31 March 1991	589.1	50.8
	=====	=====

The cumulative goodwill written off directly to reserves is £7.0m.

28. DIRECTORS' AND OFFICERS' LOANS AND TRANSACTIONS

I R Evans, a non-executive director, is a partner in The LEK Partnership, to which organisation fees and reimbursements of expenses of £422,269 (1990 £72,946) were paid during the year for consultancy services rendered in the ordinary course of business, and on normal commercial terms.

No loans or credit transactions were outstanding with any directors, officers or connected persons at the end of the year or subsisted during the year.

29. ELAN AQUEDUCT

In 1984 Welsh Water Authority transferred to Severn Trent Water Authority the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7m representing the consideration for the transfer, plus accrued interest has been invested in a Trust Fund, the principal function of which was to provide an income to Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this fund was vested in Dwr Cymru Cyfyngedig under the provisions of the Water Act 1989. The relevant assets and the Fund are not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

30. PENSION SCHEMES

The Company operates as principal employer two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS), for the benefit of all eligible employees of the Welsh Water Group.

The employer's contributions and the pension cost under Statement of Standard Accounting Practice No 24 "Accounting for Pension Costs" have been assessed in accordance with the advice of William M. Mercer Fraser Limited using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth of 7% per annum. Pensions in payment and deferred pensions under the WMIS have been assumed to increase by 6% per annum. This assumption has been chosen to reflect the increases which are guaranteed to be in line with the Retail Prices Index (RPI). For the WPS, the corresponding assumption used is 5.25% per annum. This reflects increases which are guaranteed at 5% per annum (or the increase in the RPI if less) with the intention to pay more up to the level of the RPI if the resources of the scheme so permit.

The pension cost for the period was £5.8m (1990 £4.8m).

The first actuarial valuation of the two schemes was carried out as at 31 March 1990. The total market value of the assets at the valuation date was £35.1m. Following this valuation the actuaries do not recommend a change in contribution rates.

Both the WPS and WMIS comply with the anticipated requirements of the Social Security Act 1990 with regard to pension increases. Some changes may be required in the Schemes to comply with the ruling of the European Court in May 1990 concerning equality for men and women. However, these are unlikely to involve significant costs provided appropriate related changes are made to the contracting out requirements of the State arrangements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

FIVE YEAR SUMMARY

	Year ended 31 March				
	1987 £m	1988 £m	1989 £m	1990 £m	1991 £m
Turnover	190.5	202.8	219.6	255.3	293.0
Operating profit	64.9	69.0	75.1	63.6	95.2
Share of results of Associates	-	-	-	-	(0.3)
Net interest receivable/(payable)	(53.0)	(52.6)	(50.2)	(24.1)	33.2
Profit on Ordinary Activities before Taxation	11.9	16.4	24.9	39.5	128.1
Taxation	-	-	-	(5.4)	(9.6)
Profit on Ordinary Activities after Taxation	11.9	16.4	24.9	34.1	118.5
Minority interests	-	-	-	-	(0.1)
Extraordinary item	-	-	(1.0)	(5.3)	-
Dividends	-	-	-	(16.1)	(28.1)
Retained Profit for the year	11.9	16.4	23.9	12.7	90.3
Fixed Assets	496.1	522.1	570.3	672.0	807.8
Net Current Assets/(Liabilities)	(58.2)	(76.6)	(105.7)	168.8	128.2
Total Assets Less Current Liabilities	437.9	445.5	464.6	840.8	936.0
Creditors : Amounts falling due after more than one year	(417.5)	(408.7)	(404.3)	(19.7)	(20.0)
Provisions for Liabilities and Charges	-	-	-	(39.3)	(50.6)
	20.4	36.8	60.3	781.8	865.4
Capital and Reserves					
Called up share capital	-	-	-	144.1	144.1
Share premium account	-	-	-	131.9	131.9
Reserves	20.4	36.8	60.3	505.8	589.1
Shareholder's Funds	20.4	36.8	60.3	781.8	865.1
Minority interests	-	-	-	-	0.3
	20.4	36.8	60.3	781.8	865.4

a) Figures for 1987 to 1989 are those shown in the listing particulars published on 22 November 1989 and exclude financial information attributable to functions which have since been transferred to the National Rivers Authority and are therefore unaudited. During the years ended 31 March 1987 to 1989 Welsh Water Authority had no share capital and paid no dividends.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

FIVE YEAR SUMMARY (Continued)

b) Grants and contributions on non-infrastructure assets are credited to deferred income in compliance with the Companies Act 1989 and Statement of Standard Accounting Practice No.4 (revised) "Accounting for Government Grants". Grants and contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets and the figures for 1990 and 1991 are restated to take account of the change in accounting policy relating to non-infrastructure assets.