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SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT 1990

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SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT 1990

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SOUTH WEST WATER SERVICES LIMITED

Chairman	K W Court
Managing Director	W H Fraser
Engineering Director	R J Baty
Operations Director	C J Cook
Finance Director	T J Turner
Secretary	R C Milligan
Registered office	Peninsula House Rydon Lane Exeter EX2 7HR
Auditors	Price Waterhouse Chartered Accountants Clifton Heights Clifton Bristol BS8 1EB

MANAGING DIRECTOR'S FOREWORD

I am pleased to present my first report as Managing Director of South West Water.

Privatisation has created a financial structure to enable the funding of our £1.4 billion capital expenditure programme between now and 2001. This programme, based on a carefully prepared Asset Management Plan, will enable us to improve the assets essential to satisfying our customers and enhancing the environment.

During the year £77.8 million was spent on capital schemes - an increase of 50% over 1989/9 and I am confident of achieving a further 50% increase in the current year.

Operating expenditure of £74.6 million was also significantly higher than previous years - another demonstration of our commitment to improving services.

Management has been strengthened by recruitment from the private sector and other parts of the water industry. Extensive management training programmes are in place to ensure that the strengthened team is well equipped for the challenges of meeting our customers' expectations.

Customer Care training, involving every employee, played a major role in the ongoing change of culture towards a modern service company with the hallmarks of quality and reliability.

The higher standards arising from the Water Act 1989 are regulated by the Secretary of State in respect of drinking water quality; the Director General of Water Services in respect of general service standards and price control; and the National Rivers Authority in respect of sewage effluent standards. We welcome their role and are committed to working with them to achieve our common aims.

We especially welcome the appointment of the new Customer Services Committee which will represent customer interests to the Director General. The Committee will be invaluable as a focus for customers' views on our performance in relation to our published Codes of Practice and Guaranteed Standards Scheme.

Our future success depends on our ability to satisfy our customers' needs and I together with all of the Company's staff are dedicated to that end.

I am grateful to all of our staff who have worked diligently and professionally throughout the last year to achieve the substantial progress which we have made.

NOTICE OF MEETING

The first Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter, on 13 July 1990 at 9.30 am for the transaction of the following business:

- Resolution 1. To receive the report of the directors and the audited financial statements for the period ended 31 March 1990.
Resolution 2. To declare a dividend.
Resolution 3. To re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration.

By order of the Board.

R C Milligan
Secretary
Peninsula House
Rydon Lane
Exeter
Devon EX2 7HR



15 June 1990

A member of the Company is entitled to attend and vote at the meeting or may appoint one or more proxies to attend and, on a poll, vote instead of her or him. A proxy need not be a member of the Company.

REPORT OF THE DIRECTORS

The Directors submit their first annual report and audited financial statements of South West Water Services Limited for the year ended 31 March 1990.

INCORPORATION AND VESTING OF BUSINESS

South West Water Services Limited (the Company) was incorporated on 1 April 1989 as a limited company. The Company was formed to continue the water and sewerage business of South West Water Authority other than that part of the business transferred to the National Rivers Authority. On 1 September 1989 the property rights and liabilities of South West Water Authority, other than those applicable to the National Rivers Authority were vested in the Company. Also on 1 September 1989, the entire issued share capital of the Company was acquired by South West Water Plc.

CAPITAL

Authorised

The authorised share capital of the Company on incorporation was £100 comprising 100 shares of £1 each. On 29 August 1989 the authorised share capital was increased to £50,000 by the creation of 49,900 ordinary shares of £1 each and the 100 shares of £1 each were designated as ordinary shares. On 20 November 1989 the authorised share capital was further increased to £265,950,000 by the creation of 265,900,000 additional ordinary shares of £1 each.

Issued

On incorporation two shares were subscribed at par by nominees of the Crown. On 1 September 1989, 49,998 ordinary shares of £1 each were issued at par to South West Water Plc credited as fully paid. On 29 December 1989, 265,900,000 ordinary shares of £1 each were issued at par to South West Water Plc.

PRINCIPAL ACTIVITIES OF THE COMPANY

The Company is engaged in the supply of drinking water and the disposal of waste water in the counties of Cornwall and Devon and small areas of Somerset and Dorset. The Company has adopted a Customer Code of Practice in respect of its principal activities.

FINANCIAL STATEMENTS

Under the Water Act 1989 for statutory accounting purposes, vesting is deemed to have taken place on 1 April 1989 and the Company is deemed to have become a subsidiary of South West Water Plc on the same date. Accordingly, the financial statements cover the full year ended 31 March 1990. Corresponding figures for 1989 relate to the predecessor South West Water Authority and have been adjusted to exclude operations transferred to the National Rivers Authority.

The financial statements include the regulatory disclosure requirements contained in the company's licence of appointment with regard to Current Cost Accounts and other supplementary information.

PROFITS AND DIVIDENDS

Profit on ordinary activities for the year ended 31 March 1990 was £49.5m, with no expected liability to mainstream corporation tax. After providing for extraordinary items of £2.1m in respect of privatisation and restructuring costs, the profit attributable to shareholders amounted to £47.4m.

An interim dividend of £378.80 (net) per share was paid on 20 November 1989 on share capital of 50,000 ordinary shares of £1 each, a distribution of £18.9m.

The directors propose payment of a final dividend of 5.88p per ordinary share (net) for the period. If approved at the annual general meeting, payment of this dividend will be made on 16 July 1990 to shareholders registered at the close of business on 9 July 1990. The payment of this dividend requires £15.7m, leaving £12.8m retained by the Company.

The directors believe that comparison between the results for the years ended 31 March 1990 and 31 March 1989 would not be meaningful in view of changes in capital structure and regulation and in the level of infrastructure renewals expenditure and other costs associated with the Company's new status.

LICENCE OF APPOINTMENT

At 31 March 1990 the company had sufficient rights and assets to comply with the requirements of paragraph 3 of Condition K of the Licence from the Secretary of State for the Environment.

DIRECTORS

The present directors of the Company are K W Court (Chairman), W H Fraser, R J Baty, C J Cook and T J Turner.

Mr J A L Gunn and Mr A D Whetnall were appointed directors on incorporation of the Company and resigned on 31 August 1989. Messrs Court, Baty, Cook and Turner were appointed directors on 1 September 1989 and Mr Fraser was appointed on 13 September 1989.

The interests of the Directors in shares of South West Water Plc are shown in the notes to the financial statements. No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

SUBSEQUENT EVENT

Since 31 March 1990, the Company has reduced its borrowing facility and is in the course of negotiating alternative means of long term funding.

FIXED ASSETS

Changes in fixed assets are shown in the notes to the financial statements.

At 31 March 1990 the Historic Cost Balance Sheet included tangible fixed assets amounting to £413.7m, of which the water distribution networks, the sewerage system, reservoirs, water treatment works, sewage treatment works and pumping stations were the principal fixed assets in terms of value.

Certain land and properties have been identified as surplus to operational requirements and the Directors believe that there may be scope for redevelopment potential. The benefits arising from any such redevelopment will depend, inter alia, on the cost of relocating operational plant and the obtaining of appropriate planning consents. Any such benefit may be taken into account by the Director General of Water Services in subsequent reviews and adjustments of price levels.

RESEARCH AND DEVELOPMENT

Research and development is recognised as a means of improving the quality and reliability of services to customers.

Research areas include disinfection of sewage effluent before discharge to coastal waters, the use of reed beds for sewage treatment and the use of non-aluminium coagulants in water treatment.

EMPLOYEES

The Company's employees are its greatest asset and this was reflected in the development during the year of improved reward and negotiation arrangements. A major customer care training programme was launched during the year and a new employee briefing system was introduced. The Company is committed to looking after the health, safety and welfare of its employees and offers disabled people equal access to employment whenever they can meet a job's requirements.

The Company's employees were offered the opportunity to participate in the employee share offers on the flotation of South West Water Plc and in a sharesave scheme with the grant of options over shares in that company. Revised pension arrangements were also introduced during the year.

DONATIONS

During the year no charitable or political donations were made.

TAX STATUS

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

HOLDING COMPANY

The Company is a wholly owned subsidiary of South West Water Plc.

On 22 November 1989, the Secretary of State for the Environment, offered for sale, shares in South West Water Plc. All the shares were taken up and dealings commenced on The Stock Exchange in London on 12 December 1989.

AUDITORS

Price Waterhouse were appointed auditors by the Board until the conclusion of the first annual general meeting and have indicated their willingness to continue in office. A resolution for their re-appointment will be proposed at the annual general meeting.

ANNUAL GENERAL MEETING

The first annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on Friday, 13 July 1990 at 9.30 am

By order of the Board.

R C Milligan
Secretary
Peninsula House
Rydon Lane
Exeter EX2 7HR



15 June 1990

AUDITORS' REPORT TO THE MEMBERS OF
SOUTH WEST WATER SERVICES LIMITED

We have audited the financial statements set out on pages 10 to 32 in accordance with Auditing Standards.

In our opinion:-

- (i) the historical cost financial statements set out on pages 10 to 27 give a true and fair view of the company's state of affairs at 31 March 1990 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- (ii) the supplementary current cost information set out on pages 28 to 32 has been properly prepared in accordance with the current cost principles, accounting policies and methods described therein.



PRICE WATERHOUSE
Chartered Accountants
Bristol

15 June 1990

SOUTH WEST WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1990

	Notes	1990 £m	1989 £m
Turnover	3	121.1	106.3
Other operating income	4	2.9	0.2
Operating costs	5	(74.6)	(55.1)
Operating profit	6	49.4	51.4
Interest receivable (payable)	7	0.1	(13.3)
Profit on ordinary activities before taxation		49.5	38.1
Tax on profit on ordinary activities	8	-	-
Profit on ordinary activities after taxation		49.5	38.1
Extraordinary items	9	(2.1)	(0.5)
Profit for the year		47.4	37.6
Dividends	10	(34.6)	-
Profit retained		12.8	37.6

A statement of movements in reserves is given in Note 11.

SOUTH WEST WATER SERVICES LIMITED

BALANCE SHEET
at 31 March 1990

	Notes	1990 £m	1989 £m
FIXED ASSETS			
Tangible assets	12	413.7	353.1
Investments	13	3.0	-
		<u>416.7</u>	<u>353.1</u>
CURRENT ASSETS			
Stocks	14	1.8	1.6
Debtors	15	20.3	18.6
Investments	16	242.2	2.8
Cash		0.1	0.1
		<u>264.4</u>	<u>23.1</u>
CREDITORS DUE WITHIN ONE YEAR	17	(53.7)	(65.2)
NET CURRENT ASSETS (LIABILITIES)		<u>210.7</u>	<u>(42.1)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		627.4	311.0
CREDITORS DUE AFTER MORE THAN ONE YEAR	18	(1.3)	(96.8)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(3.7)	-
		<u>622.4</u>	<u>214.2</u>
CAPITAL AND RESERVES			
Called-up share capital	21	265.9	-
Profit and loss account	11	356.5	214.2
		<u>622.4</u>	<u>214.2</u>

Approved by the Board on 15 June 1990 and signed on its behalf by:

Director

J. Thomas

Director

W. C. ...

SOUTH WEST WATER SERVICES LIMITED

SOURCE AND APPLICATION OF FUNDS STATEMENT
for the year ended 31 March 1990

	1990 £m	1989 £m
<u>SOURCE OF FUNDS</u>		
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	49.5	38.1
Extraordinary items	(2.1)	(0.5)
	<hr/>	<hr/>
	47.4	37.6
Adjustment for items not involving the movement of funds:		
Depreciation	8.6	7.1
Profit on sale of tangible fixed assets	(2.8)	(0.1)
Provisions for liabilities and charges	3.7	-
	<hr/>	<hr/>
Total generated from operations	56.9	44.6
FUNDS FROM OTHER SOURCES		
Proceeds from disposal of tangible fixed assets	3.7	4.4
Proceeds from issue of Ordinary Shares	265.9	-
	<hr/>	<hr/>
TOTAL SOURCES	326.5	49.0
<u>APPLICATION OF FUNDS</u>		
CAPITAL EXPENDITURE		
Net additions to tangible fixed assets	70.1	44.7
INVESTMENT IN RELATED COMPANY	3.0	-
DIVIDEND PAID	18.9	-
	<hr/>	<hr/>
	92.0	44.7
INCREASE (DECREASE) IN WORKING CAPITAL		
Stocks	0.2	0.2
Debtors	1.7	(0.9)
Creditors	(7.2)	2.1
	<hr/>	<hr/>
Net working capital requirement	(5.3)	1.4
	<hr/>	<hr/>
TOTAL APPLICATIONS	86.7	46.1
	<hr/>	<hr/>
<u>SURPLUS FOR YEAR</u>	239.8	2.9
<u>REPRESENTED BY</u>		
Increase in net liquid assets:		
Cash and bank balances	-	(0.3)
Current asset investments and short term deposits	239.4	1.0
Short term borrowings and overdrafts	-	1.2
	<hr/>	<hr/>
Loan repayments	239.4	1.9
	0.4	1.0
	<hr/>	<hr/>
	239.8	2.9

NOTES RELATING TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The following paragraphs describe the main policies:

(a) Accounting Convention

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

(b) Basis of accounting

The net assets of the South West Water Authority (the "predecessor authority"), other than those relating to operations transferred to the National Rivers Authority (the "NRA"), vested in South West Water Services Ltd on 1 September 1989. Under Section 91 of the Water Act 1989, for statutory accounting purposes, vesting is deemed to have taken place on 1 April 1989. Corresponding figures for 1989 relate to the predecessor authority and have been adjusted to exclude operations transferred to the NRA and to reflect accounting policies now used by the Company; details of changes were disclosed in the listing particulars of South West Water Plc dated 22 November 1989.

(c) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided.

(d) 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 pipelines and sea outfalls); and
- (ii) other assets (including properties, overground plant and equipment).

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 capital expenditure on fixed assets and included at cost after deducting grants and contributions. 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.

Expenditure on maintaining the operating capability of the network is charged as an operating cost. This policy has been implemented with effect from 1 April 1984, being the earliest practicable date of application. Prior to that date, certain infrastructure renewals expenditure was capitalised and depreciation was charged on infrastructure assets.

Expenditure on the maintenance of infrastructure assets may vary significantly from the long term normal annual level, either because maintenance is deferred or because the pattern of expenditure is uneven. In such instances, with effect from 1 April 1989, the charge against profits is adjusted by way of accruals or deferrals as appropriate to

NOTES RELATING TO THE FINANCIAL STATEMENTS

reflect the long term normal level of charges, in accordance with defined standards of service.

It has not been possible or appropriate to adjust the profit and loss account charges for infrastructure renewals expenditure not incurred for the five years ended 31 March 1989 as the Company did not have information in the current form during this period. Consequently, the levels of charges for infrastructure renewals expenditure in the five years ended 31 March 1989 may not necessarily be indicative of the likely levels of charges after 1 April 1989.

Other assets

Other assets are stated at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated 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 computers	3-10 years

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

(e) **Investments**

Investments held as current assets are stated at the lower of cost and net realisable value.

(f) **Stocks**

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence.

(g) **Pension Costs**

The expected cost of pensions in respect of the Company's employees (who are members of South West Water Group's defined benefit pension schemes) is charged so as to spread the cost of pensions over the service lives of employees in the schemes at a substantially level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Such assumptions are regularly updated and the effect of variations from the regular cost is spread over the expected remaining service lives of current employees in the scheme. Particulars of the actuarial assumptions and valuation are given in the financial statements of South West Water Plc.

(h) **Research Expenditure**

Research expenditure is charged against profits in the year in which it is incurred, except that the cost of fixed assets which provide facilities for research is depreciated over the useful life of those assets.

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

(i) **Taxation**

Corporation tax payable is provided on taxable profits at current rates. Tax deferred or accelerated as a result of timing differences between the treatment of certain items for taxation and for accounting purposes is provided for to the extent that it is probable that a material liability or asset will crystallise.

(j) **Leases**

Rental costs arising under operating leases are charged against profits in the year they are incurred.

2. Appointed business

Appointed business comprises the water supply and sewerage services businesses carried on by South West Water Services Limited as Appointee under the Licence from the Secretary of State for the Environment. In the year ended 31 March 1990 the Appointee carried on no material business other than appointed business. The results for 1990 for the Company and the appointed business are the same.

3. Turnover

	Water supply £m	Sewerage services £m	1990 Total £m	1989 Total £m
Unmetered	37.0	46.5	83.6	72.9
Metered	18.0	12.2	30.2	27.3
Trade effluent	-	2.4	2.4	2.1
Other	4.6	0.5	5.1	4.3
	59.6	61.7	121.3	106.6
Inter-segment charges	(0.1)	(0.1)	(0.2)	(0.3)
	59.5	61.6	121.1	106.3
Year ended 31 March 1989	52.3	54.0		106.3

Services provided internally from one segment to another are priced at external market prices.

4. Other operating income

	Water supply £m	Sewerage services £m	1990 Total £m	1989 Total £m
Rents receivable	0.1	-	0.1	0.1
Profit on sale of fixed assets	1.4	1.4	2.8	0.1
	1.5	1.4	2.9	0.2
Year ended 31 March 1989	0.2	-		0.2

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

5. Operating costs

	Water supply £m	Sewerage services £m	1990 Total £m	1989 Total £m
Manpower costs (see note 23)	11.6	7.5	19.1	16.4
Other costs of employment	0.3	0.3	0.6	0.3
Materials and consumables	4.9	1.7	6.6	5.4
Power	4.2	1.7	5.9	5.1
Water charges	1.7	0.1	1.8	0.3
Hired and contracted services	6.7	4.2	10.9	4.9
Agencies	—	2.7	2.7	2.7
Infrastructure renewals expenditure	3.5	3.4	6.9	3.8
Local authority rates	4.1	1.1	5.2	4.5
Depreciation on owned assets	4.3	3.5	7.8	6.6
Bad and doubtful debts	0.4	0.3	0.7	0.3
Other operating costs	4.2	2.4	6.6	5.1
	<u>45.9</u>	<u>28.9</u>	<u>74.8</u>	<u>55.4</u>
Inter-segment charges	(0.1)	(0.1)	(0.2)	(0.3)
	<u>45.8</u>	<u>28.8</u>	<u>74.6</u>	<u>55.1</u>
Year ended 31 March 1989	<u>32.8</u>	<u>22.3</u>		<u>55.1</u>
Other items included above:				
Rentals under operating leases:				
Hire of plant and machinery			0.6	0.5
Other operating leases			0.2	0.3
Research and development			0.3	0.4
Auditors' remuneration			0.1	0.1

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

6. Operating profit

	Water supply £m	Sewerage services £m	Total £m
Year ended 31 March 1990			
Turnover (note 3)	59.5	61.6	121.1
Other operating income (note 4)	1.5	1.4	2.9
Operating costs (note 5)	(45.8)	(28.8)	(74.6)
Operating profit	15.2	34.2	49.4
Year ended 31 March 1989			
Turnover (note 3)	52.3	54.0	106.3
Other operating income (note 4)	0.2	-	0.2
Operating costs (note 5)	(32.8)	(22.3)	(55.1)
Operating profit	19.7	31.7	51.4

All turnover and operating profit arose in the UK.

7. Interest receivable (payable)

	1990 £m	1989 £m
Interest receivable:		
Listed redeemable securities	0.5	0.5
Other investments (note 16)	9.9	1.0
	10.4	1.5
Interest payable:		
Relevant loans (note 19)	(6.1)	(14.6)
Loan from parent company	(3.5)	-
Other loans and short term borrowings	(0.2)	(0.1)
Other finance costs	(0.5)	(0.1)
	(10.3)	(14.8)
Net interest receivable (payable)	0.1	(13.3)

Net interest receivable (payable) above includes a charge against profits of £0.3m (1989 nil) arising from changes in the value of current asset investments.

8. Tax on profit on ordinary activities

The Company is entitled to capital allowances on qualifying assets transferred from the predecessor authority. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1990.

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

9. Extraordinary items

	1990 £m	1989 £m
Privatisation and restructuring costs	2.1	0.5

Privatisation and restructuring costs include expenditure relating to preparation for the vesting of the predecessor authority's assets and liabilities in successor bodies which took place on 1 September 1989 under the provisions of the Water Act 1989.

10. Dividends

Interim dividend of £378.80 per ordinary share, paid 20 November 1989	18.9	-
Proposed final dividend of 5.88p per ordinary share, payable 16 July 1990	15.7	-
	<u>34.6</u>	<u>-</u>

11. Reserves

	Profit and loss account 1990 £m
Balance 1 April 1989	-
Capital restructuring in accordance with the provisions of the Water Act 1989:	
Net assets transferred from predecessor authority	214.2
Debenture waived by parent company (note 19)	129.5
Profit retained for the year	12.8
At 31 March 1990	<u>356.5</u>

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

12. Tangible fixed assets

	Infrastructure assets (note 12a)	Operational properties (note 12b)	Fixed and mobile plant, vehicles and computers (note 12c)	Construction in progress (note 12d)	Total 1990 (note 12e)
	£m	£m	£m	£m	£m
Cost:					
Transferred from predecessor authority at 1 April 1989	171.7	137.6	56.8	44.2	410.3
Additions	19.5	20.4	7.2	29.7	76.8
Grants and contributions	(2.1)	(0.9)	(0.1)	(3.6)	(6.7)
Disposals	-	(0.5)	(0.7)	-	(1.2)
At 31 March 1990	<u>189.1</u>	<u>156.6</u>	<u>63.2</u>	<u>70.3</u>	<u>479.2</u>
Depreciation:					
Transferred from predecessor authority at 1 April 1989		31.3	25.9		57.2
Charges for year		4.0	4.6		8.6
Disposals		-	(0.3)		(0.3)
		<u>35.3</u>	<u>30.2</u>		<u>65.5</u>
Net book value:					
At 31 March 1990	189.1	121.3	33.0	70.3	413.7
At 31 March 1989	171.7	106.3	30.9	44.2	353.1

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

12 (a) Infrastructure assets

	Water supply £m	Sewerage services £m	Total 1990 £m
Cost:			
Transferred from predecessor authority at 1 April 1989	109.3	62.4	171.7
Additions	14.2	5.3	19.5
Grants and contributions	(1.6)	(0.5)	(2.1)
At 31 March 1990	121.9	67.2	189.1
At 31 March 1989	109.3	62.4	171.7

12 (b) Operational properties

Cost:			
Transferred from predecessor authority at 1 April 1989	57.9	79.7	137.6
Additions	11.6	8.8	20.4
Grants and contributions	(0.1)	(0.8)	(0.9)
Disposals	(0.3)	(0.2)	(0.5)
At 31 March 1990	69.1	87.5	156.6
Depreciation:			
Transferred from predecessor authority at 1 April 1989	14.5	16.8	31.3
Charge for year	1.9	2.1	4.0
At 31 March 1990	16.4	18.9	35.3
Net book value: At 31 March 1990	52.7	68.6	121.3
Net book value: At 31 March 1989	43.4	62.9	106.3

12 (c) Fixed and mobile plant, vehicles and computers

Cost:			
Transferred from predecessor authority at 1 April 1989	35.2	21.6	56.8
Additions	3.8	3.4	7.2
Grants and contributions	-	(0.1)	(0.1)
Disposals	(0.4)	(0.3)	(0.7)
At 31 March 1990	38.6	24.6	63.2
Depreciation:			
Transferred from predecessor authority at 1 April 1989	17.7	8.2	25.9
Charge for year	2.8	1.8	4.6
Disposals	(0.1)	(0.2)	(0.3)
At 31 March 1990	20.4	9.8	30.2
Net book value: At 31 March 1990	18.2	14.8	33.0
Net book value: At 31 March 1989	17.5	13.4	30.9

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

	Water supply £m	Sewerage services £m	Total 1990 £m
12 (d) <u>Construction in progress</u>			
Cost:			
Transferred from predecessor authority at 1 April 1989	27.6	16.6	44.2
Additions	19.8	9.9	29.7
Grants and contributions	(2.8)	(0.8)	(3.6)
At 31 March 1990	44.6	25.7	70.3
At 31 March 1989	27.6	16.6	44.2
12 (e) <u>Total Tangible Fixed Assets</u>			
Total net book value: At 31 March 1990	237.4	176.3	413.7
Total net book value: At 31 March 1989	197.8	155.3	353.1
Included above are:			
Freehold land and buildings			
1990	6.0	5.9	11.9
1989	5.2	5.1	10.3

Out of the total depreciation charge of £8.6 m (1989 £7.1m), the sum of £0.8m (£0.5m) has been charged to capital projects and £7.8m (£6.6m) against profits.

There are no assets subject to finance lease arrangements.

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

13. Fixed asset investments

	1990 £m	1989 £m
Related company		
Loan to unlisted company:		
Addition during year, at cost	3.0	-

Details of the principal related company are:

Name of Company	Activity	Proportion of nominal value of shares held	Country of incorporation and principal operations
Peninsula Properties (Exeter) Limited	Property development	50% (issued share capital £100)	England

14. Stocks

	1990 £m	1989 £m
Raw materials and consumables	1.8	1.6

15. Debtors

Trade debtors	7.5	5.2
Other debtors	1.6	0.9
Prepayments and accrued income	11.2	12.5
	<u>20.3</u>	<u>18.6</u>

Other debtors above include amounts due after more than one year

	0.2	0.2
--	-----	-----

16. Current asset investments

Listed on a recognised investment exchange	9.7	1.8
Other investments	232.5	1.0
	<u>242.2</u>	<u>2.8</u>
Market value of listed investments	9.7	1.8

Other investments include certificates of deposit, floating and variable rate notes, commercial paper and short term deposits.

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

17. Creditors due within one year

	1990 £m	1989 £m
Bank loans and overdrafts	3.5	2.5
Other short-term borrowings	-	1.0
Current portion of long term loans (note 19)	-	34.1
Trade creditors	23.5	15.3
Amounts owed to parent company	13.4	-
Amounts owed to fellow subsidiaries	0.2	-
Taxation and social security	0.6	0.6
Other creditors	0.4	0.5
Accruals and deferred income	12.1	11.2
	<u>53.7</u>	<u>65.2</u>

18. Creditors due after more than one year

Non-current portion of long term loans (note 19)	0.1	95.9
Other creditors	1.2	0.9
	<u>1.3</u>	<u>96.8</u>

19. Long term loans Interest Rates Repayment Dates

Unsecured loans:		
Relevant loans		- 129.5
Other loans	3.75-6.63	1990-2006 0.1 0.5
		<u>0.1</u> <u>130.0</u>

On 1 September 1989 all of the Company's indebtedness in respect of relevant loans amounting to £129.5m was transferred to South West Water Plc in exchange for a debenture. Relevant loans comprised sums borrowed or treated as borrowed from the Secretary of State for the Environment or the Public Works Loan Commissioners including sums borrowed from the European Investment Bank which were refinanced by relevant loans subsequent to 31 March 1989. All indebtedness in respect of the debenture was waived on 15 November 1989.

Loans or instalments thereof are repayable:
After five years from balance sheet date:

	1990 £m	1989 £m
Lump sums	-	8.3
Instalments	0.1	58.6
From two to five years	-	21.4
From one to two years	-	7.6
	<u>0.1</u>	<u>95.9</u>
Total due after more than one year: (note 18)		
Due within one year (note 17)	-	34.1
	<u>0.1</u>	<u>130.0</u>

Aggregate amount repayable by instalments any of which fall due after five years

	0.1	91.1
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Loans at 31 March 1990 are denominated in sterling.

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

20. Provisions for liabilities and charges

	1990 £m	1989 £m
<u>Infrastructure renewals expenditure</u>		
Charged against profits	6.9	3.8
Utilised during year	(3.2)	(3.8)
	<hr/>	<hr/>
At 31 March 1990	3.7	-
	<hr/>	<hr/>

Deferred taxation

The maximum potential liability for deferred tax for the Company at 31 March 1990 was:

	Total potential liability £m
Accelerated capital allowances	5.1
Other	(0.2)
Unutilised corporation tax losses	(4.9)
	<hr/>
At 31 March 1990	-
	<hr/>

Consequently, a deferred tax provision was not required at 31 March 1990.

21. Called-up share capital

Authorised capital

The authorised share capital of the Company on incorporation on 1 April 1989 was £100 comprising 100 ordinary shares of £1 each. On 29 August 1989 the authorised share capital was increased to £50,000 by the creation of 49,900 ordinary shares of £1 each. On 20 November 1989 the authorised share capital was further increased to £265,950,000 by the creation of 265,900,000 additional ordinary shares of £1 each.

Allotted, called-up and fully paid capital

Ordinary shares issued during the year comprised:	£
Issued at par for cash	265,900,002
Issued at par, credited as fully paid, out of reserves to South West Water Plc	49,998
	<hr/>
Total at 31 March 1990	265,950,000
	<hr/>

22. Commitments and contingent liabilities

	1990 £m	1989 £m
Capital commitments:		
Contracted but not provided for	26.3	29.3
Authorised but not yet contracted for	12.0	23.4
	<hr/>	<hr/>

NOTES RELATING TO THE FINANCIAL STATEMENTS

In addition to these commitments the Company has longer term investment expenditure plans which include substantial expenditure to meet shortfalls in performance and condition and to provide for new demand and growth.

Finance leases:

The Company had no commitments in respect of finance leases at 31 March 1990 (1989 nil)

	1990 £m	1989 £m
Operating leases:		
Commitments to pay rentals during the year following the balance sheet date were:		
Leases of land and buildings		
Expiring after five years	-	0.1
Other leases		
Expiring: within one year	-	0.1
between two and five years	0.3	0.1
	<u>0.3</u>	<u>0.2</u>
Contingent liabilities:		
Contractors claims on capital schemes	2.2	3.9

23. Numbers of employees and employment costs

The average numbers of people employed by the Company during the year ended 31 March 1990 were:

Craft and manual	751
Management and staff	933
	<u>1,684</u>

Comparative figures for 1989 are not available because employees of the predecessor authority included those engaged on activities since transferred to the National Rivers Authority.

	1990 £m	1989 £m
Employment costs comprise:		
Wages and salaries	21.6	19.6
Social security costs	1.6	1.5
Other pension costs	2.2	1.4
Total employment costs	<u>25.4</u>	<u>22.5</u>

Total employment costs are charged as follows:

Manpower costs (note 5)	19.1	16.4
Capital schemes and infrastructure renewals expenditure	6.3	6.1
	<u>25.4</u>	<u>22.5</u>

NOTES RELATING TO THE FINANCIAL STATEMENTS24. Pensions

The pensions cost for the Company for the year ended 31 March 1990 was £2.7m (1989 £2.6m). Particulars of the actuarial assumptions and valuation are given in the financial statements of South West Water Plc.

Included in the pensions cost for the year was £0.1m (1989 £0.3m) which arose as a result of recharges by certain local authorities and £0.4m (1989 £0.9m) by the Water Authorities Superannuation Fund; these recharges will not recur in future years.

25. Emoluments of Directors and employees

	£000
Total emoluments of Directors of the Company for the year, including pension contributions, were:	146
The emoluments of the Chairman, excluding pension contributions, were:	Nil
The emoluments of the highest paid Director, excluding pension contributions, were:	47

Emoluments of the Directors, excluding pension contributions, for the year in the following salary bands were:

Salary band (£)	Number in salary band
0- 5,000	2
35,001-40,000	1
45,001-50,000	2

The Chairman and Managing Director are Directors of South West Water Plc and their emoluments are not included in these financial statements but in the financial statements of South West Water Plc.

Emoluments of higher paid employees, excluding pension contributions, for the year in the following salary bands were:

Salary band (£)	Number in salary band
30,001-35,000	7
35,001-40,000	1

26. Directors' Interests

At 31 March 1990 the following Directors held interests in shares of South West Water Plc as follows:

	<u>Beneficial share</u> <u>holdings</u>	<u>Shares under</u> <u>option</u>
		<u>Sharesave scheme</u> <u>Executive scheme</u>
R J Baty	1,259	6,136 45,000
C J Cook	2,278	4,772 45,000
T J Turner	288	6,136 45,000

SOUTH WEST WATER SERVICES LIMITED

NOTES RELATING TO THE FINANCIAL STATEMENTS

Options granted under the sharesave scheme may be exercised between 1995 and 1997 at 176p per share and under the executive scheme between 1993 and 2000 at 293p per share.

The interests in shares of South West Water Plc of the Chairman and Managing Director are disclosed in the financial statements of that company.

There have been no changes in the above interests since 31 March 1990.

No Director has had any interest in shares of the Company during the year.

27. Ultimate Holding Company

South West Water Services Limited is a wholly owned subsidiary of South West Water Plc.

SOUTH WEST WATER SERVICES LIMITED

CURRENT COST FINANCIAL INFORMATION

As Appointee under the Licence from the Secretary of State for the Environment the Company is required to prepare accounting statements on the current cost basis, as well as on the historical cost basis, and such statements are required to be published with the formal statements.

Statement of operating profit
for the year ended 31 March 1990

	Water Supply £m	Sewerage Services £m	Total £m
Operating profit on the historical cost basis as in note 6 to the historical cost main accounts	15.2	34.2	49.4
Current cost operating adjustments:			
Depreciation	(2.4)	(5.6)	(8.0)
Disposal of fixed assets	(1.1)	(1.4)	(2.5)
	<hr/>	<hr/>	<hr/>
Current cost operating profit	11.7	27.2	38.9

Balance sheet
at 31 March 1990

	Water Supply £m	Sewerage Services £m	Total £m
Tangible fixed assets (note 3)	663.1	938.9	1602.0
Fixed asset investments	1.5	1.5	3.0
Current assets	162.2	102.2	264.4
Creditors:			
due within one year	(33.0)	(20.7)	(53.7)
due after more than one year	(0.8)	(0.5)	(1.3)
Provisions for liabilities and charges	(2.7)	(1.0)	(3.7)
	<hr/>	<hr/>	<hr/>
Shareholders' funds (net assets)	790.3	1020.4	1810.7

SOUTH WEST WATER SERVICES LIMITED

CURRENT COST FINANCIAL INFORMATION

Changes in shareholders' funds
for the year ended 31 March 1990

	Share capital £m	Current cost reserve £m	Profit and loss account £m	Total £m
Balance at 1 April 1989, transferred on vesting		1166.0	128.9	1294.9
Issue of shares to parent company for cash	265.9			265.9
Debenture waived by parent company			129.5	129.5
Revaluation surplus reflecting price changes:				
Tangible fixed assets		118.1		118.1
Operating profit for year			38.9	38.9
Interest receivable			0.1	0.1
Extraordinary items			(2.1)	(2.1)
Dividends			(34.6)	(34.6)
Balance at 31 March 1990	265.9	1284.1	260.7	1810.7

The current cost reserve includes £95.8m which has been realised.

Notes to the current cost financial information

1. GENERAL

These statements have been prepared under the current cost convention having regard to the guidance contained in the publication entitled "Accounting for the effect of changing prices: a Handbook" issued by the Accounting Standards Committee. The Director General does not require a gearing adjustment to be made, so a full profit and loss account on a current cost basis has not been prepared; interest and dividends have accordingly been dealt with as changes in shareholders' funds.

The current cost convention is not a system of accounting for general inflation, but allows for price changes specific to the Company's operations.

2. ACCOUNTING POLICIES

The accounting policies used are the same as those used in the historical cost financial statements of the Company, with the exceptions set out below:

TANGIBLE FIXED ASSETS

Properties

Properties are stated at their value to the business, which is based on depreciated replacement cost. Replacement costs have been arrived at on the following bases:

Specialised operational properties

The gross replacement cost of properties as at 1 April 1982 was arrived at using published or locally derived construction formulae or estimated unit costs, analysed by material and size, and indexed for the effects of changing price levels. Additions since that date are included at original cost, and indexed for the effects of changing price levels.

SOUTH WEST WATER SERVICES LIMITED

CURRENT COST FINANCIAL INFORMATION

Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.

Non-specialised operational properties

The net replacement cost of non-specialised operational properties is based on directors' estimates of open market value in existing use.

Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies.

Infrastructure assets

Infrastructure assets are stated on the current cost balance sheet at their value to the business, based on their estimated replacement costs. Replacement costs are calculated using estimated unit costs for principal classes of assets, analysed by material and size, and indexed for price level changes.

As in the historical cost accounts, expenditure on maintaining the operating capability of the network is charged as an operating cost. Accordingly, no depreciation is charged on infrastructure assets.

Other assets

Other assets are included at estimated replacement cost less accumulated depreciation.

STORES

Stores are stated at their value to the business, based upon the estimated net current replacement cost, which is calculated by applying indices to reflect increases in purchase costs.

COST OF SALES AND MONETARY WORKING CAPITAL ADJUSTMENTS

These current cost adjustments have not been applied in the year ended 31 March 1990 as they were not material.

SOUTH WEST WATER SERVICES LIMITED

CURRENT COST FINANCIAL INFORMATION

3. TANGIBLE FIXED ASSETS

	Water Supply £m	Sewerage services £m	Total £m
<u>Infrastructure assets</u>			
Gross replacement cost:			
Transferred from predecessor authority at 1 April 1989	429.7	645.7	1075.4
Additions	24.0	8.5	32.5
Grants and contributions	(4.4)	(1.0)	(5.4)
Revaluation adjustment	36.5	49.5	86.0
At 31 March 1990	<u>485.8</u>	<u>702.7</u>	<u>1188.5</u>
<u>Operational properties</u>			
Gross replacement cost:			
Transferred from predecessor authority at 1 April 1989	206.2	217.0	423.2
Additions	13.7	12.0	25.7
Grants and contributions	(0.1)	(0.8)	(0.9)
Disposals	(1.7)	(1.6)	(3.3)
Revaluation adjustment	16.5	17.3	33.8
At 31 March 1990	<u>234.6</u>	<u>243.9</u>	<u>478.5</u>
Depreciation:			
Transferred from predecessor authority at 1 April 1989	84.6	56.8	141.4
Charge for year	3.2	4.1	7.3
Disposals	(0.2)	(0.1)	(0.3)
Revaluation adjustment	6.0	4.0	10.0
At 31 March 1990	<u>93.6</u>	<u>64.8</u>	<u>158.4</u>
Net book value: At 31 March 1990	<u>141.0</u>	<u>179.1</u>	<u>320.1</u>
<u>Plant, machinery and vehicles</u>			
Gross replacement cost:			
Transferred from predecessor authority at 1 April 1989	55.1	93.5	148.6
Additions	11.7	6.9	18.6
Grants and contributions	-	(0.4)	(0.4)
Disposals	(0.6)	(0.5)	(1.1)
Revaluation adjustment	4.3	6.8	11.1
At 31 March 1990	<u>70.5</u>	<u>106.3</u>	<u>176.8</u>
Depreciation:			
Transferred from predecessor authority at 1 April 1989	27.2	44.8	72.0
Charge for year	3.9	5.4	9.3
Disposals	(0.4)	(0.3)	(0.7)
Revaluation adjustment	3.5	(0.7)	2.8
At 31 March 1990	<u>34.2</u>	<u>49.2</u>	<u>83.4</u>
Net book value: At 31 March 1990	<u>36.3</u>	<u>57.1</u>	<u>93.4</u>
Total net book value at 31 March 1990	<u>663.1</u>	<u>938.9</u>	<u>1602.0</u>

SOUTH WEST WATER SERVICES LIMITED

CURRENT COST FINANCIAL INFORMATION

Included above is £73.5m in respect of assets in course of construction, which are not depreciated until commissioning.

Out of the total depreciation charge of £16.6m the sum of £0.8m has been charged to capital projects and £15.8m to profit and loss account.

FIVE YEAR FINANCIAL SUMMARY

Years ended 31 March	1986 £m	1987 £m	1988 £m	1989 £m	1990 £m
TURNOVER AND PROFITS					
Turnover	83.3	90.0	96.0	106.3	121.1
Operating Profit	39.0	42.6	47.4	51.4	49.4
Interest receivable (payable)	(15.1)	(14.5)	(13.9)	(13.3)	0.1
Profit on ordinary activities before and after taxation	23.9	28.1	33.5	38.1	49.5
Extraordinary items	-	-	-	(0.5)	(2.1)
Dividends	-	-	-	-	(34.6)
Profit retained for year	23.9	28.1	33.5	37.6	12.8
BALANCE SHEET					
Fixed assets	265.7	291.6	319.8	353.1	416.7
Net current assets (liabilities)	(22.9)	(23.8)	(19.9)	(42.1)	210.7
Creditors due after more than one year	(127.8)	(124.7)	(123.3)	(96.8)	(1.3)
Provisions for liabilities and charges	-	-	-	-	(3.7)
Shareholders' funds (net assets)	115.0	143.1	176.6	214.2	622.4
SOURCE AND APPLICATION OF FUNDS					
Profit on ordinary activities	23.9	28.1	33.5	38.1	49.5
Adjustments for depreciation, profit on asset sales and provisions	3.5	4.4	6.1	7.0	9.5
Extraordinary items	-	-	-	(0.5)	(2.1)
Issue of Ordinary Shares	-	-	-	-	265.9
Fixed assets (including investments and acquisitions) net of disposals, grants and contributions	(31.5)	(30.3)	(34.3)	(40.3)	(69.4)
Dividend paid	-	-	-	-	(18.9)
Working capital changes	1.4	0.7	1.8	(1.4)	5.3
Net surplus (deficit)	(2.7)	2.9	7.1	2.9	239.8
Increase in net liquid assets	(2.8)	0.4	4.4	1.9	239.4
Loan repayments	0.1	2.5	2.7	1.0	0.4
	(2.7)	2.9	7.1	2.9	239.8

Figures for 1990 relate to South West Water Services Ltd. Figures for 1986 to 1989 relate to the predecessor authority and have been adjusted to exclude operations transferred to the National Rivers Authority and to reflect the accounting policies now used by the Company. The predecessor authority was not financed by share capital and did not pay dividends.

The Directors believe that comparison between the results for the year ended 31 March 1990 and any of the prior year would not be meaningful in view of changes in capital structure and regulation and in the level of infrastructure renewals expenditure and other costs associated with the Company's new status.

SOUTH WEST WATER SERVICES LIMITED

We set out below the Auditors' Report on the accounting statements prepared under Condition F of the Instrument of Appointment.

**AUDITORS' REPORT TO THE DIRECTOR GENERAL OF WATER SERVICES
ON THE ACCOUNTING STATEMENTS OF SOUTH WEST WATER SERVICES LIMITED**

We have audited, in accordance with Auditing Standards, the historical cost accounting statements on pages 10 to 27 and the current cost accounting statements on pages 28 to 32 prepared under Condition F of the Instrument of Appointment of the Water and Sewerage Undertakers ("the Instrument"). The auditors' report to the members is given on page 9.

In our opinion:-

- (i) proper accounting records have been kept by South West Water Services Limited ("the Appointee") during the period from the date of Appointment on 1 September 1989 to 31 March 1990, as required by paragraph 3 of Condition F of the Instrument;
- (ii) the historical cost accounting statements for the year ended 31 March 1990 on pages 10 to 27 are in agreement with the Appointee's accounting records and properly includes the information required to comply with the relevant paragraphs of Condition F of the Instrument;
- (iii) the historical cost accounting statements on pages 10 to 27 prepared under paragraph 4 of Condition F of the Instrument give a true and fair view of the state of affairs of the Appointee at 31 March 1990 and of its profit for the year then ended; and
- (iv) the current cost accounting statements on pages 28 to 32 comply with paragraph 8 of Condition F of the Instrument and with the guidelines issued by the Director General of Water Services to the Appointee dated 8 January 1990.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
Bristol

15 June 1990