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SOUTH WEST WATER SERVICES LIMITED

DIRECTORS REPORT

AND

FINANCIAL STATEMENTS 1992

SOUTH WEST WATER SERVICES LIMITED

**DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS 1992**

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SOUTH WEST WATER SERVICES LIMITED

Directors

Chairman	K W Court
Managing Director	W H Fraser
Engineering Director	R J Baty
Finance Director	I R Douglas
Operations Director	C J Cook
Regulatory Director	B J Moorhouse
Secretary	R C Milligan

Registered Office	Peninsula House Rydon Lane Exeter EX2 7HR
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Auditors	Price Waterhouse Chartered Accountants 31 Great George Street Bristol BS1 5QD
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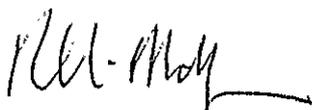
SOUTH WEST WATER SERVICES LIMITED

NOTICE OF MEETING

The third Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 22 June 1992 at 3.30 pm for the transaction of the following business:-

- Resolution 1 To receive the report of the directors and the audited financial statements for the year ended 31 March 1992.
- Resolution 2 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 EX2 7HR

11 June 1992

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.

SOUTH WEST WATER SERVICES LIMITED

REPORT OF THE DIRECTORS

The Directors submit their annual report and audited financial statements of South West Water Services Limited for the year ended 31 March 1992.

In its second full year, the Company has attained even higher standards of service, and increased capital expenditure to a new record level.

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 continued to follow a Customer Code of Practice in respect of its principal activities.

PROFITS AND DIVIDENDS

Profit on ordinary activities for the year ended 31 March 1992 was £89.8m, with no expected liability to mainstream corporation tax. The surrender of tax losses to South West Water group companies resulted in profit after taxation of £90.8m.

An interim dividend of 13.12p (net) per share was paid on 6 December 1991 on share capital of 265,950,000 ordinary shares of £1 each, a distribution of £34.9m.

The directors do not recommend payment of a final dividend, and thereby a transfer to reserves of £55.9m will be made.

LICENCE OF APPOINTMENT

Licence of Appointment - Annual Certificate - Condition F

The Board of Directors certify that in its opinion:-

1. the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment); and
2. the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

Licence of Appointment - Statement relating to Condition K

At 31 March 1992 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.

SOUTH WEST WATER SERVICES LIMITED

DIRECTORS

The present Directors of the Company are K W Court (Chairman), W H Fraser, R J Baty, C J Cook, I R Douglas (appointed 1 May 1992) and B J Moxhouse (appointed 1 October 1991). T J Turner resigned as a Director of the Company on 7 October 1991.

The interests of the Directors in shares of the Company and 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.

During the year the Company has maintained cover for Directors and Senior Employees under a Directors' and Officers' Liability Insurance Policy.

FIXED ASSETS

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

At 31 March 1992 the Historic Cost Balance Sheet included tangible fixed assets amounting to £656.7m 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

The development and testing of innovative techniques and processes will play a significant role in the further improvement of cost effective provision of services.

The Company continues to commission pilot plants to test rigorously potential new processes in field conditions.

EMPLOYEES

Employee numbers increased during the year as the Company recruited to increase operating capability and to manage the growing capital programme.

Industrial relations and negotiating arrangements designed to meet business needs are in place. Single union bargaining for non-manual staff, single table bargaining for manual employees and increased flexibility have all been achieved.

SOUTH WEST WATER SERVICES LIMITED

A Performance Management System for all non-manual staff was introduced, building on the approach used with Managers for the past two years.

The Company remains committed to a non-discriminatory employment policy making every reasonable effort to provide disabled people with equal opportunities for employment, training and development.

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 Corporate Taxes Act 1988.

PARENT COMPANY

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

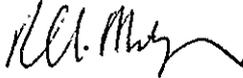
AUDITORS

Price Waterhouse were appointed auditors until the conclusion of the third 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 third annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 22 June 1992 at 3.30 p.m.

By order of the Board
R C Milligan
Secretary
Peninsula House
Rydon Lane
Exeter EX2 7HR



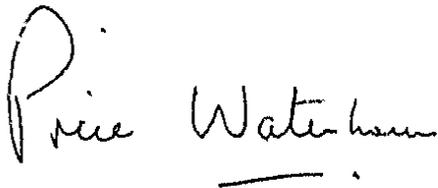
11 June 1992

SOUTH WEST WATER SERVICES LIMITED

**AUDITOR'S REPORT TO THE MEMBERS OF
SOUTH WEST WATER SERVICES LIMITED**

We have audited the financial statements on pages 9 to 28 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 1992 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads "Price Waterhouse". The signature is written in dark ink and is positioned above a short horizontal line.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditor
Bristol

11 June 1992

SOUTH WEST WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Turnover	2	160.4	140.2
Other operating income		2.4	0.1
Operating costs	3	(96.1)	(88.8)
		<hr/>	<hr/>
Operating Profit	2	66.7	51.5
Interest receivable (net)	4	23.1	33.0
		<hr/>	<hr/>
Profit on ordinary activities before taxation		89.8	84.5
Tax on profit on ordinary activities	5	1.0	-
		<hr/>	<hr/>
Profit on ordinary activities after taxation		90.8	84.5
Dividends	6	(34.9)	(32.4)
Retained profit transferred to reserves	7	<hr/> 55.9	<hr/> 52.1
		<hr/>	<hr/>

A statement of movements in reserves is given in note 7.

The notes on pages 12 to 28 form part of these financial statements.

SOUTH WEST WATER SERVICES LIMITED

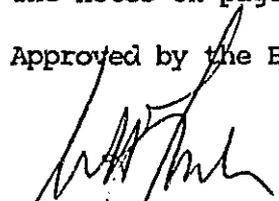
BALANCE SHEET

at 31 March 1992

	Notes	1992 £m	1991 £m
FIXED ASSETS			
Tangible assets	8	656.7	509.9
		<u> </u>	<u> </u>
CURRENT ASSETS			
Stocks	9	1.7	2.4
Debtors	10	32.3	30.0
Investments	11	416.1	363.6
Cash at bank and in hand		0.2	0.1
		<u> </u>	<u> </u>
		450.3	396.1
CREDITORS DUE WITHIN ONE YEAR	12	(94.4)	(92.2)
		<u> </u>	<u> </u>
NET CURRENT ASSETS		355.9	303.9
		<u> </u>	<u> </u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,012.6	813.8
		<u> </u>	<u> </u>
CREDITORS DUE AFTER MORE THAN ONE YEAR	13	(276.5)	(133.1)
		<u> </u>	<u> </u>
PROVISIONS FOR LIABILITIES AND CHARGES	16	(5.7)	(6.2)
		<u> </u>	<u> </u>
		730.4	674.5
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
CAPITAL AND RESERVES			
Called-up share capital	17	265.9	265.9
Profit and loss account	7	464.5	408.6
		<u> </u>	<u> </u>
		730.4	674.5
		<u> </u>	<u> </u>

The notes on pages 12 to 28 form part of these financial statements.

Approved by the Board on 11 June 1992 and signed on its behalf by:-


W H FRASER
MANAGING DIRECTOR

SOUTH WEST WATER SERVICES LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 1992

	Notes	1992	1991
		£m	£m
Net cash inflow from operating activities	22a	51.1	95.0
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		43.4	41.8
Interest paid		(16.0)	(6.5)
Interest element of finance lease rental payments		(0.8)	(1.0)
Dividends paid		(34.9)	(48.1)
		<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance		(8.3)	(13.8)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(144.0)	(107.3)
Grants and contributions:-			
Infrastructure assets		6.2	5.5
Non-infrastructure assets		5.5	3.7
Receipts from disposal of tangible fixed assets		6.3	-
Receipts from disposal of subsidiary and associated undertakings		-	3.0
		<hr/>	<hr/>
Net cash outflow from investing activities		(126.0)	(95.1)
		<hr/>	<hr/>
NET CASH OUTFLOW BEFORE FINANCING		(83.2)	(13.9)
		<hr/>	<hr/>
FINANCING			
Loans raised from parent company		(90.0)	-
Other loans raised		-	(100.0)
Capital element of finance lease rental payments		1.2	-
Finance lease drawdowns		(48.7)	(29.7)
		<hr/>	<hr/>
Net cash inflow from financing		(137.5)	(129.7)
		<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	22c	54.3	115.8
		<hr/>	<hr/>
		(83.2)	(13.9)
		<hr/>	<hr/>

NOTES 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) **Turnover**

Turnover, excluding Value Added Tax, represents the income receivable in the ordinary course of business for services provided.

(c) **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.

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 the charge against profits is equalised by way of accruals or deferrals as appropriate to reflect the long term normal level of charges, in accordance with defined standards of service.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

Other Assets

Other assets are stated at cost less accumulated depreciation. Additions are included at cost.

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 commissioned.

(d) **Leased Assets**

Assets held under finance leases are included in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability has been recorded as a creditor. The interest element is charged against profits, using the actuarial method, over the period of the lease.

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

(e) **Grants and Contributions**

From 1 April 1990 grants and contributions in respect of capital expenditure on non-infrastructure assets are included in the balance sheet as deferred income and are released to profits over the depreciable lives of the assets to which they relate.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence the net book value of tangible fixed assets is £18.1m lower than it would otherwise have been had this treatment not been adopted.

Grants and contributions in respect of expenditure charged against profits in the year have been included in the profit and loss account.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

(f) **Investments**

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

Short dated unlisted securities are stated at cost plus accrued income.

(g) **Stocks**

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

(h) **Pension Costs**

The expected cost of pensions in respect of the Company's employees (who are members of the South West Water Plc Group's defined benefit pension schemes) is charged against profits so as to spread evenly the cost of pensions over the service lives of employees in the schemes.

(i) **Research Expenditure**

Research expenditure is charged against profits in the year in which it is incurred.

(j) **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 in the foreseeable future.

(k) **Accounting Standards**

The accounts of the Company are prepared in compliance with all current applicable accounting standards.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS2 Classes of Business

	Water		Sewerage		Company	
	1992	1991	1992	1991	1992	1991
	£m	£m	£m	£m	£m	£m
TURNOVER						
Turnover to third parties	78.0	68.8	82.4	71.4	160.4	140.2
PROFIT BEFORE TAXATION						
Segment operating profit	19.6	13.0	47.1	38.5	66.7	51.5
Net interest	10.0	14.2	13.1	18.8	23.1	33.0
Company profit before taxation	29.6	27.2	60.2	57.3	89.8	84.5
NET ASSETS						
Segment net assets	386.1	359.1	344.3	315.4	730.4	674.5

An analysis by geographical origin and destination is not appropriate as the Company's activity was substantially in the UK.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Operating Costs

	1992	1991
	£m	£m
Manpower costs (see note 19)	27.1	24.5
Raw materials and consumables	6.8	6.8
Other external charges	34.8	31.9
Depreciation:-		
On owned assets	10.3	8.9
On assets acquired under finance leases	1.9	0.8
Deferred income (see note 15)	(0.3)	(0.2)
Infrastructure renewals expenditure	5.8	7.6
Rentals under operating leases:-		
Hire of plant and machinery	0.7	0.7
Other operating leases	0.4	0.3
Research expenditure	0.5	0.3
Auditors' remuneration	0.1	0.1
Other operating charges	8.0	7.1
	<u>96.1</u>	<u>88.8</u>

Other operating charges in 1992 are reduced by £0.5m in respect of the recovery, from a supplier, of costs previously incurred in undertaking remedial work to the water supply systems in the North Cornwall area, following the misdelivery of aluminium sulphate to the Lowermoor Water Treatment Works in July 1988.

4 Interest receivable (net)

Interest receivable:-		
Listed redeemable securities	13.5	6.7
From parent company	0.6	0.8
Other investments (as defined in note 11)	30.0	34.3
	<u>44.1</u>	<u>41.8</u>
Interest payable:-		
To parent company	(5.5)	(3.7)
Bank overdraft and short term borrowings	(0.1)	(0.1)
Interest element of finance lease payments	(3.4)	(1.0)
Long term loans	(11.7)	(3.5)
Other finance costs	(0.3)	(0.5)
	<u>(21.0)</u>	<u>(8.8)</u>
Interest receivable (net)	<u>23.1</u>	<u>33.0</u>

NOTES TO THE FINANCIAL STATEMENTS5 Tax on profit on ordinary activities

The Company is entitled to capital allowances on qualifying assets transferred from the predecessor authority and from its substantial investment programme. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1992.

Amount receivable in respect of surrender of tax losses to South West Water group companies in respect of:-

the current year	£m
previous years	0.2
	0.8

	<u>1.0</u>

Taxable losses of the Company may be surrendered to other South West Water group companies. Payment for such tax losses surrendered will have regard to the current corporation tax rate and the probable date that the Company would otherwise have utilised these losses.

6 Dividends

	1992 £m	1991 £m
Interim dividend of 13.12p (1991 12.2p) per ordinary share	34.9	32.4
Final dividend	-	-
	<u>34.9</u>	<u>32.4</u>

7 Reserves

	Profit and loss account £m
At 1 April 1991	408.6
Profit retained for year	55.9
At 31 March 1992	<u>464.5</u>

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS8 Tangible fixed assets

	Freehold land and build- ings	Infra- struc- ture assets	Opera- tional proper- ties	Fixed & mobile plant, vehicles and computers	Con- struc- tion in progress	Total 1992
	£m	£m	£m	£m	£m	£m
Cost:-						
At 1 April 1991	16.8	255.7	178.1	101.3	33.7	585.6
Additions	2.3	47.7	45.2	56.0	17.2	168.4
Grants and contributions	-	(4.5)	-	-	-	(4.5)
Transfers	-	3.8	-	2.8	(6.6)	-
Disposals	(4.5)	-	-	(0.4)	-	(4.9)
At 31 March 1992	14.6	302.7	223.3	159.7	44.3	744.6
Depreciation:-						
At 1 April 1991	2.0	-	38.1	35.6	-	75.7
Charge for year	0.5	-	5.0	7.6	-	13.1
Disposals	(0.5)	-	-	(0.4)	-	(0.9)
At 31 March 1992	2.0	-	43.1	42.8	-	87.9
Net book value:-						
At 31 March 1992	12.6	302.7	180.2	116.9	44.3	656.7
At 31 March 1991	14.8	255.7	140.0	65.7	33.7	509.9

Out of the total depreciation charge for the Company of £13.1m (1991 £10.4m), the sum of £0.9m (£0.7m) has been charged to capital projects and £12.2m (£9.7m) against profits.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Tangible fixed assets (continued)

The above analysis includes the following in respect of capitalised finance leases:-

	Operational properties	Fixed & mobile plant, vehicles and com- puters	Con- struc- tion in progress	Total 1992
	£m	£m	£m	£m
Cost:-				
At 1 April 1991	8.7	16.8	4.2	29.7
Additions	24.3	19.6	4.9	48.8
Transfers	1.2	1.2	(2.4)	-
At 31 March 1992	34.2	37.6	6.7	78.5
Depreciation:-				
At 1 April 1991	0.1	0.8	-	0.9
Charge for period	0.3	1.6	-	1.9
At 31 March 1992	0.4	2.4	-	2.8
Net book value:-				
At 31 March 1992	33.8	35.2	6.7	75.7
At 31 March 1991	8.6	16.0	4.2	28.8

9 Stocks

	1992 £m	1991 £m
Raw materials and consumables	1.7	2.4

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

	1992	1991
	£m	£m
10		
	<u>Debtors</u>	
	13.9	11.5
	0.9	-
	-	3.6
	0.1	-
	0.9	0.9
	16.5	13.8
	-	0.2
	<u>32.3</u>	<u>30.0</u>
	0.4	0.3
	<u>0.4</u>	<u>0.3</u>
11		
	<u>Current asset investments</u>	
	94.6	55.5
	321.5	308.1
	<u>416.1</u>	<u>363.6</u>
	94.7	56.6
	<u>94.7</u>	<u>56.6</u>
	Other investments include certificates of deposit, floating and variable rate notes, commercial paper and other short dated unlisted securities.	
12		
	1992	1991
	£m	£m
	<u>Creditors due within one year</u>	
	7.4	9.1
	3.5	0.8
	58.0	37.0
	3.7	29.7
	1.7	0.5
	1.4	0.7
	0.3	-
	3.1	0.8
	15.3	13.6
	<u>94.4</u>	<u>92.2</u>

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

		1992	1991
		£m	£m
13	<u>Creditors due after more than one year</u>		
	Non-current portion of long term loans (note 14)	266.4	129.0
	Deferred income (note 15)	9.0	3.2
	Other creditors	1.1	0.9
		<u>276.5</u>	<u>133.1</u>
14	<u>Long term loans, finance leases and other creditors</u>		
	Interest Repayment		
	Rates Dates		
	Loans 4.0%-12.0% 1992-2013	190.1	100.1
	Obligations under finance leases	76.3	28.9
		<u>266.4</u>	<u>129.0</u>
	Repayable after five years to parent company	90.0	-
	Repayable by instalments any of which is due for repayment after five years:-		
	Payable after five years	85.7	93.5
	Payable between two and five years	14.4	6.6
	Obligations under finance leases:-		
	Payable after five years	71.8	25.2
	Payable between two and five years	3.6	2.9
	Payable between one and two years	0.9	0.8
		<u>266.4</u>	<u>129.0</u>
	Total due after more than one year (note 13)	266.4	129.0
	Due within one year:-		
	Obligations under finance leases (note 12)	3.5	0.8
		<u>269.9</u>	<u>129.8</u>

Loans at 31 March 1992 are denominated in sterling.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

	1992 £m
15 <u>Deferred Income</u>	
At 1 April 1991	3.3
Additions	6.6
Released to profit and loss account	(0.3)
	<hr style="width: 100%;"/>
Amount due within one year (included in note 12)	9.6 (0.6)
	<hr style="width: 100%;"/>
Total due after more than one year (note 13)	9.0
	<hr style="width: 100%;"/>

Deferred income includes grants and contributions on non-infrastructure assets and liquidated damages.

16 <u>Provisions for liabilities and charges</u>	
<u>Infrastructure renewals expenditure</u>	
At 1 April 1991	6.2
Charged against profits	5.8
Utilised during year	(6.3)
	<hr style="width: 100%;"/>
At 31 March 1992	5.7
	<hr style="width: 100%;"/>

Deferred Taxation

The maximum potential liability for deferred taxation for the Company at 31 March 1992 was:-

	1992 £m
Tax effect of timing differences due to:-	
Accelerated capital allowances	23.2
Other timing differences	(2.8)
Unutilised corporation tax losses	(6.6)
	<hr style="width: 100%;"/>
Maximum potential liability	13.8
	<hr style="width: 100%;"/>

A review of projections confirms that a provision for deferred taxation was not required at 31 March 1992 (1991 nil).

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 **Called-up share capital**

The authorised, allotted, called-up and fully paid share capital of the Company throughout the year ended 31 March 1992 was £265,950,000 comprising 265,950,000 ordinary shares of £1 each.

18 **Commitments and contingent liabilities**

	1992 £m	1991 £m
Capital commitments:-		
Contracted but not provided	134.1	35.6
Authorised but not yet contracted	106.4	45.8
	<u>134.1</u>	<u>45.8</u>
Operating Leases:-		
Commitments to pay rentals during the year following the balance sheet date were:-		
	1992 £m	1991 £m
Leases for land and buildings expiring between one and five years	0.1	-
Leases, other than for land and buildings, expiring between one and five years	0.5	0.3
	<u>0.6</u>	<u>0.3</u>
Contingent liabilities:-		
Contractors' claims on capital schemes	9.7	5.5
Guarantee of borrowings by the parent company	150.0	-
	<u>159.7</u>	<u>5.5</u>

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 **Numbers of employees and employment costs**

The average number of persons (including Directors) employed by the Company during the year ended 31 March was:-

	1992	1991
Water services	1,233	1,076
Sewerage services	851	779
	<u>2,084</u>	<u>1,855</u>

Employment costs comprise:-

	£m	£m
Wages and salaries	32.7	27.0
Social security costs	2.6	2.1
Other pension costs	2.5	2.1
Total employment costs	<u>37.8</u>	<u>31.2</u>

Total employment costs are charged as follows:-

Manpower costs (note 3)	27.1	24.5
Capital schemes and infrastructure renewals expenditure	10.7	6.7
	<u>37.8</u>	<u>31.2</u>

Pensions

The pensions cost for the Company for the year ended 31 March 1992 was £2.5m (1991 £2.1m). Particulars of the actuarial assumptions and valuation are given in the financial statements of South West Water Plc.

NOTES TO THE FINANCIAL STATEMENTS

20

Emoluments of Directors

	Year ended 31 March 1992 £000	Year ended 31 March 1991 £000
Total emoluments of the Directors of the Company, including pension contributions	328	174
Emoluments of the Chairman, excluding pension contributions	Nil	Nil
Emoluments of the highest paid director, excluding pension contributions	70	52
Compensation for loss of office to a former Director (including £3,000 in respect of the provision of a vehicle), included in total emoluments (above)	89	-
Number of other Directors whose emoluments, excluding pension contributions, fell within the following ranges:-		
Range (£)		
0 - 4,999	1	1
25,000 - 29,999	1	-
35,000 - 39,999	1	1
45,000 - 49,999	-	1
65,000 - 69,999	1	-

The emoluments of South West Water Services Limited Directors are determined by a Remuneration Committee of South West Water Plc consisting mainly of non-executive directors. South West Water Services Limited Directors participate in an annual incentive bonus plan. The total bonuses paid in 1992 in respect of 1991 were £25,000, excluding pension contributions, based upon an increase in South West Water Plc earnings per share and achievement of other performance targets. This has been included in the information for 1992 disclosed above. The bonuses payable for 1992 performance have not yet been determined and will be disclosed in the 1993 financial statements. Emoluments includes salary, performance bonus, car benefit, health cover and professional subscriptions.

Messrs K W Court and W H Fraser 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.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 Directors' interests

The beneficial interests of Directors in shares of South West Water Plc were as follows:

	31 March 1992			31 March 1991		
	Share Interests	Share- save Options	Execu- tive Options	Share Interests	Share- save Options	Execu- tive Options
R J Baty	1,486	6,136	65,000	1,303	6,136	45,000
C J Cook	2,367	6,339	65,000	2,278	4,772	45,000
B J Moorhouse	-	-	25,000	-	-	25,000 (at date of appointment)
T J Turner	1,277	6,136 (at date of resignation)	60,000	1,188	6,136	45,000

There have been no changes in the above interests since 31 March 1992.

The interests in shares of South West Water Plc of Messrs K W Court and W H Fraser are disclosed in the financial statements of that Company. No Director has had any interest in shares of the Company during the year.

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Notes to the Cash Flow Statement

a Reconciliation of operating profit to net cash inflow from operating activities

	1992 £m	1991 £m
Operating Profit	66.7	51.5
Depreciation	13.1	10.4
Profit on disposals of tangible fixed assets	(2.2)	-
Deferred income released	(0.3)	(0.2)
Provisions for liabilities and charges	(0.5)	2.5
Decrease/(increase) in stocks	0.7	(0.5)
Increase in debtors	(1.5)	(2.9)
(Decrease)/increase in creditors (within and over one year)	(24.9)	34.2
	<u>51.1</u>	<u>95.0</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u><u>51.1</u></u>	<u><u>95.0</u></u>

b Analysis of changes in cash and cash equivalents during the year

	1992 £m	1991 £m
Balance at start of year	354.6	238.8
Net cash inflow	54.3	115.8
	<u>408.9</u>	<u>354.6</u>
Balance at end of year	<u><u>408.9</u></u>	<u><u>354.6</u></u>

c Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	March 1992 £m	March 1991 £m	Change in year £m	March 1991 £m	March 1990 £m	Change in year £m
Cash at bank and in hand	0.2	0.1	0.1	0.1	0.1	-
Current asset investments	416.1	363.6	52.5	363.6	242.2	121.4
Short term borrowings and overdrafts	(7.4)	(9.1)	1.7	(9.1)	(3.5)	(5.6)
	<u>408.9</u>	<u>354.6</u>	<u>54.3</u>	<u>354.6</u>	<u>238.8</u>	<u>115.8</u>
	<u><u>408.9</u></u>	<u><u>354.6</u></u>	<u><u>54.3</u></u>	<u><u>354.6</u></u>	<u><u>238.8</u></u>	<u><u>115.8</u></u>

SOUTH WEST WATER SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Notes to the Cash Flow Statement (continued)

d Analysis of changes in financing during the year.

	1992	1991
	£m	£m
Loans and finance lease obligations		
Balance at start of year	129.8	0.1
Loans raised	90.0	100.0
Finance lease drawdowns	48.7	29.7
Finance lease repayments	(1.2)	-
	<u> </u>	<u> </u>
Balance at end of year	<u>267.3</u>	<u>129.8</u>

23 Ultimate Parent Company

The ultimate parent company is South West Water Plc which is incorporated in England. The Annual Report of South West Water Plc is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.