# SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT
AND
FINANCIAL STATEMENTS 1998



REGISTERED OFFICE: Peninsula House, Rydon Lane, Exeter EX2 7HR
REGISTERED IN ENGLAND NO 2366665

# ANNUAL REPORT AND FINANCIAL STATEMENTS 1998

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# DIRECTORS, REGISTERED OFFICE AND AUDITORS
## At 22 June 1998

| | | |
|---|---|---|
| Chairman | K G Harvey | |
| Chief Executive | R J Baty | |
| Operations and Engineering Director | P J Briens | |
| Regulatory and Finance Director | D J Dupont | |
| Customer Service Director | R Furniss | (appointed 1 March 1998) |
| Secretary | K D Woodier | (appointed 1 March 1998) |
| Registered Office | Peninsula House<br>Rydon Lane<br>Exeter EX2 7HR | |
| Auditors | Price Waterhouse<br>Chartered Accountants<br>31 Great George Street<br>Bristol BS1 5QD | |

# NOTICE OF MEETING

The ninth Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 20 July 1998 at 2.30 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 1998.

Resolution 2 To re-appoint Price Waterhouse as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

K D Woodier
Secretary
Peninsula House
Rydon Lane
Exeter EX2 7HR

22 June 1998

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 annual report and the audited financial statements of South West Water Services Limited for the year ended 31 March 1998.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are the provision of water-care and waste water processing and technology. The Company holds the water and sewerage appointments for Cornwall and Devon and small areas of Somerset and Dorset.

## FINANCIAL RESULTS

### Turnover

Company turnover for the year increased by 2.7% to £251.2m. Turnover from main water and sewerage charges was £244.3m which is after a further customer charges rebate of £10.0m (1997 £10.0m), by way of deduction from 1998/99 customer bills.

### Operating Costs

Total operating costs rose by £11.2m, to £132.3m, principally resulting from exceptional restructuring costs of £5.6m relating to severance and property rationalisation costs.

The completion of capital schemes was reflected in both additional costs of operations and an increase in depreciation charged to profits to £31.3m (1997 £26.8m). Exceptional restructuring costs include additional depreciation of £3.9m to cover diminution in value of assets.

### Profit

Operating profit was £119.2m (1997 £125.4m), after exceptional restructuring costs. The net interest payable increased to £13.5m (1997 £11.3m), mainly due to the utilisation of cash for capital expenditure. Gains of £12.2m (1997 £8.7m) arose from defeasance finance lease transactions. Net profit before taxation amounted to £105.7m (1997 £114.1m), again reflecting the higher net interest payable and exceptional restructuring costs.

The Company's taxation position results in a charge to mainstream corporation tax of £10.0m (1997 £8.9m) for the year.

### Dividends

Interim dividends, totalling £165.1m, were declared to the parent undertaking, including an amount of £104.0m, payable in two equal instalments, related to the introduction of the windfall tax on utilities.

The Directors do not recommend payment of a final dividend.

The Company has established a dividend policy which involves two components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital: and

- a further level of growth funded by efficiency out-performance.

Dividend payments ensure that key financial ratios are not prejudiced and that the ability of the Appointee to finance its Appointed Business is not impaired.

A deficit of £69.4m was transferred to reserves after charging the interim dividends.

## FINANCIAL RESULTS Continued

### Cash Flow

Net cash inflow from operating activities increased to £153.2m (1997 £142.1m) mainly as a result of reduced working capital requirements.

## FINANCIAL NEEDS AND RESOURCES

Capital expenditure on tangible fixed assets during the year was £155.4m, similar to the 1997 level of £153.6m, reflecting the continued focus of the Company's investment programme upon major improvements confirmed by the Monopolies and Mergers Commission referral.

The capital works programme comprises nearly 100 on-going projects at 31 March 1998 with 57 major projects completed during the year. Further progress on the "Clean Sweep" bathing water schemes was achieved. Capital scheme work-in-progress at 31 March 1998 decreased to £98.1m (1997 £118.7m).

Significant funding facilities exist for both the medium and long term by way of finance leasing, loans from the European Investment Bank and a Bond, issued by South West Water Plc. In addition short term facilities exist with a range of financial institutions.

At 31 March 1998 loans and finance lease obligations amounted to £487m compared with £412m at 31 March 1997. Current asset investments of £61m (1997 £114m) were held at the Balance Sheet date. Total facilities in place but not utilised totalled £361m, including £24m for finance leasing, at 31 March 1998. Together with current asset investments these resources form part of the funding strategy put in place to finance the future investment expenditure needs of the Company.

The Directors confirm that the Company can meet its short term requirements from existing facilities without breaching covenants or other borrowing restrictions.

In the opinion of the Directors the current market value of land and buildings is not significantly different from the book value shown in the financial statements.

## FUTURE DEVELOPMENTS

The restructuring of the Company's operation will provide a sound basis for further development of customer focus.

Submissions in support of the Director General's 1999 review of price limits are progressing. The outcome of this review will be important to the financial position of the Company in the new millennium.

## YEAR 2000

Many computer and related digital storage systems express dates using only the last two digits of the year. Such systems require modification to accommodate the year 2000 date change in order to avoid malfunction and commercial disruption. The operations of the Company depend not only on in-house computer and related systems, but also to some degree on those of key suppliers.

# REPORT OF THE DIRECTORS (Continued)

**YEAR 2000 Continued**

A programme, to address the impact of the year 2000 date change on the Company's business, is in place. A risk analysis has been undertaken to determine how the change will affect the business. From this a programme has been developed which is designed to address key risks in advance of critical dates. Priority has been given to those computer systems which could cause a significant financial or operational impact on the Company's business if year 2000 date change failures arise. This programme also includes a requirement for the testing of future computer system changes and new implementations.

The risk analysis also considers the impact on our business of year 2000 date change failures by key suppliers, who have participated in formal year 2000 compliance confirmation processes.

The year 2000 compliance programme is designed to avoid year change computer systems failure. However, the work undertaken cannot provide absolute assurance that all year 2000 date change problems will be eliminated. The Directors will provide extra resources to deal promptly with any such residual failures which may occur at, or close to, the changeover date.

The total cost of modifications to the Company's computer hardware, software and operational systems is estimated at £5.0m, of which £1.5m is for new equipment which will be capitalised. The remainder will be charged against profits in the year it is incurred, including £1.0m in 1998.

**RESEARCH AND DEVELOPMENT**

The development and testing of innovative techniques and processes will continue to play a 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.

**DIRECTORS**

The present Directors of the Company and their dates of appointment are shown on page 5. Directors resigning were I R Hume, 30 September 1997, P G Ashcroft, 28 February 1998 and I R Douglas, 6 April 1998.

None of the Directors held any beneficial interest in the shares of the Company during the year. The interests of the Directors in shares of South West Water Plc are shown in note 10 of 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 either the individual Director or the Company's business.

**EMPLOYEES**

Employee numbers decreased during the year through continued manpower efficiencies.

Industrial relations and negotiating arrangements designed to meet business needs are in place. Employee consultation is maintained through a staff council and supporting consultative committees, both chaired by Directors of the Company with representatives drawn from all functional areas.

A Performance Appraisal and Pay Related System exists for all non-manual staff and managers.

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.

# REPORT OF THE DIRECTORS (Continued)

## 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.

## PAYMENTS TO SUPPLIERS

It is the Company's payment policy for the year ending 31 March 1999 to follow the Confederation of British Industry (CBI) Code of Practice on Supplier Payments. The Company is committed to the payment of its suppliers to agreed terms. Information about the Code, and copies thereof, may be obtained from the CBI at Centre Point, 103 New Oxford Street, London, WC1A 1DU. Trade creditors at 31 March 1998 represented 45 days (1997 64 days) of the amount invoiced by suppliers during the year.

## 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 ninth 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 ninth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 20 July 1998 at 2.30 pm.

By Order of the Board

K D Woodier
Secretary
Peninsula House
Rydon Lane
Exeter EX2 7HR

22 June 1998

# DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the Auditors' statement of responsibilities set out on page 12, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit for the financial year.

The Directors consider that in preparing the financial statements on pages 13 to 36, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and hence to prevent and detect fraud and other irregularities.

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

We have audited the financial statements on pages 13 to 36 which have been prepared under the historical cost convention and the accounting policies set out on pages 16 to 18.

**Respective Responsibilities of Directors and Auditors**

As described on page 11 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
Bristol

22 June 1998

## PROFIT AND LOSS ACCOUNT
## for the year ended 31 March 1998

| | Notes | 1998 £m | 1997 £m |
|---|---|---|---|
| **Turnover** | 2 | **251.2** | 244.6 |
| Other operating income | | **0.3** | 1.9 |
| Operating costs | 3 | **(132.3)** | (121.1) |
| **Operating Profit** | 2 | **119.2** | 125.4 |
| Net interest payable | 5 | **(13.5)** | (11.3) |
| **Profit on Ordinary Activities Before Taxation** | 2 | **105.7** | 114.1 |
| Tax on profit on ordinary activities | 6 | **(10.0)** | (8.9) |
| **Profit on Ordinary Activities After Taxation** | | 95.7 | 105.2 |
| Dividends | 7 | **(165.1)** | (56.1) |
| **Retained (Deficit)/Profit Transferred to Reserves** | 21 | **(69.4)** | 49.1 |

A statement of movements in reserves is given in note 21.

There are no recognised gains or losses other than the profit on ordinary activities after taxation for the year, in 1998 or 1997.

All operating activities are continuing operations.

The notes on pages 16 to 36 form part of these financial statements.

# BALANCE SHEET
## at 31 March 1998

| | Notes | 1998 £m | 1997 £m |
|---|---|---|---|
| **Fixed Assets** | | | |
| Tangible assets | 11 | **1,447.4** | 1,333.3 |
| Investments | 12 | **0.4** | - |
| | | **1,447.8** | 1,333.3 |
| **Current Assets** | | | |
| Stocks | 13 | **3.5** | 3.2 |
| Debtors: amounts falling due after more than one year | 14 | **9.3** | 6.8 |
| Debtors: amounts falling due within one year | 14 | **42.3** | 45.0 |
| Investments | 15 | **61.4** | 114.0 |
| Cash at bank and in hand | | **0.7** | 0.2 |
| | | **117.2** | 169.2 |
| **Current Liabilities** | | | |
| Creditors: amounts falling due within one year | 16 | **(170.2)** | (117.4) |
| **Net Current (Liabilities)/Assets** | | **(53.0)** | 51.8 |
| **Total Assets Less Current Liabilities** | | **1,394.8** | 1,385.1 |
| Creditors: amounts falling due after more than one year | 17 | **(466.9)** | (390.4) |
| Provisions for liabilities and charges | 18 | **(11.9)** | (12.4) |
| Accruals and deferred income | 19 | **(25.5)** | (22.4) |
| **Net Assets** | 2 | **890.5** | 959.9 |
| **Capital and Reserves** | | | |
| Called-up share capital | 20 | **365.9** | 365.9 |
| Profit and loss account | 21 | **524.6** | 594.0 |
| **Shareholders' Funds** | 22 | **890.5** | 959.9 |

The notes on pages 16 to 36 form part of these financial statements.

Approved by the Board on 22 June 1998 and signed on its behalf by:-

R J Baty
Chief Executive

D J Dupont
Regulatory and Finance Director

# CASH FLOW STATEMENT
## for the year ended 31 March 1998

| | Notes | 1998 £m | 1997 £m |
|---|---|---|---|
| **Cash Inflow from Operating Activities** | 27a | **153.2** | 142.1 |
| **Returns on Investments and Servicing of Finance** | 27b | **(13.9)** | (12.6) |
| **Taxation** | | **(2.0)** | 0.6 |
| **Capital Expenditure** | 27b | **(155.4)** | (138.5) |
| **Acquisitions** | 27b | **-** | (0.4) |
| **Equity Dividends Paid** | | **(113.1)** | (56.1) |
| Cash Outflow Before Use of Liquid Resources and Financing | | **(131.2)** | (64.9) |
| **Management of Liquid Resources** | 27b | **54.1** | 61.7 |
| **Financing** | 27b | **78.5** | 8.0 |
| **Increase in Cash in Year** | | **1.4** | 4.8 |

# 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 and in compliance with all applicable accounting standards and, except for the treatment of grants and contributions on infrastructure assets, with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in note 1(e) below.

### (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).

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 tangible 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.

(ii) other assets (including properties, overground plant and equipment).

Other assets are stated at cost less accumulated depreciation.

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

| | |
|---|---|
| Buildings | 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting Policies (Continued)

### (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 is recorded as a creditor. The interest element of the rental cost 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

Grants and contributions receivable 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 are deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to the profit and loss account. The effect of this treatment on the value of tangible fixed assets is disclosed in Note 11.

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

### (f) Investments

Listed investments held as current assets are stated at the lower of cost and net realisable value. Short dated unlisted securities held as current assets are stated at cost plus accrued income.

### (g) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes labour, materials and an element of overheads.

### (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. A pension surplus is released to profits, using the straight line method, over the average remaining service lives of employees in the schemes.

### (i) Research and Development Expenditure

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

# NOTES TO THE FINANCIAL STATEMENTS

1 **Accounting Policies (Continued)**

(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) **Goodwill**

Goodwill arising from the purchase of a business undertaking, representing the excess of the purchase consideration over the fair value of the net assets acquired, is written off to reserves.

(l) **Financial Instruments**

Derivative financial instruments are used to hedge interest rate risks. Interest differentials on derivatives are charged against profits in the year in which they arise.

2 **Segmental Analysis**

By class of business:-

| | Water | | Sewerage | | Company | |
|---|---|---|---|---|---|---|
| | **1998** | 1997 | **1998** | 1997 | **1998** | 1997 |
| | **£m** | £m | **£m** | £m | **£m** | £m |
| **Turnover** | | | | | | |
| Total turnover | **110.3** | 108.0 | **141.6** | 137.2 | **251.9** | 245.2 |
| Inter-segmental turnover | **(0.5)** | (0.4) | **(0.2)** | (0.2) | **(0.7)** | (0.6) |
| Turnover to third parties | **109.8** | 107.6 | **141.4** | 137.0 | **251.2** | 244.6 |
| **Profit** | | | | | | |
| Segmental operating profit | **38.4** | 41.3 | **80.8** | 84.1 | **119.2** | 125.4 |
| Net interest payable | **(5.0)** | (4.3) | **(8.5)** | (7.0) | **(13.5)** | (11.3) |
| Profit on ordinary activities before taxation | **33.4** | 37.0 | **72.3** | 77.1 | **105.7** | 114.1 |
| **Net Assets** | | | | | | |
| Segmental net assets | **414.7** | 433.2 | **475.8** | 526.7 | **890.5** | 959.9 |

"Water" includes the provision of water resources, treatment and distribution services and "Sewerage" includes the transfer of sewage, its treatment and disposal.

An analysis by geographical origin and destination is not appropriate as the Company's activity is substantially located in the United Kingdom.

# NOTES TO THE FINANCIAL STATEMENTS

3 **Operating Costs**

| | Before exceptional restructing charge 1998 £m | Exceptional restructing charge/ (release) (note 4) 1998 £m | Total 1998 £m | Total 1997 £m |
|---|---|---|---|---|
| Manpower costs (note 8) | 25.0 | 2.9 | 27.9 | 23.8 |
| Raw materials and consumables | 7.7 | - | 7.7 | 8.1 |
| Rentals under operating leases:- | | | | |
| Hire of plant and machinery | 0.9 | - | 0.9 | 0.9 |
| Other operating leases | 1.1 | (1.8) | (0.7) | 1.1 |
| Research and development expenditure | 0.2 | - | 0.2 | 0.3 |
| Auditors' remuneration | 0.1 | - | 0.1 | 0.1 |
| Other external charges | 42.9 | - | 42.9 | 44.8 |
| Depreciation:- | | | | |
| On owned assets | 18.9 | - | 18.9 | 18.3 |
| Provision for diminution in value | - | 3.9 | 3.9 | - |
| On assets held under finance leases | 11.2 | - | 11.2 | 8.1 |
| On assets held under defeased finance leases | 1.2 | - | 1.2 | 0.4 |
| Deferred income (note 19) | (1.0) | - | (1.0) | (1.2) |
| Infrastructure renewals charge (note 18) | 7.0 | - | 7.0 | 6.8 |
| Other operating charges | 11.5 | 0.6 | 12.1 | 9.6 |
| | 126.7 | 5.6 | 132.3 | 121.1 |

No fees were payable to the Company's auditors, Price Waterhouse, for non-audit work for the year ended 31 March 1998 (1997 £0.1m).

4 **Exceptional Item**

| | 1998 £m | 1997 £m |
|---|---|---|
| Provision for business restructuring (note 18) | 5.6 | - |

## NOTES TO THE FINANCIAL STATEMENTS

5 **Net Interest Payable**

| | 1998<br>£m | 1997<br>£m |
|---|---|---|
| Interest payable:- | | |
| To parent undertaking | **(16.9)** | (17.0) |
| Bank loans and overdrafts | **(11.0)** | (10.3) |
| Interest element of finance lease rentals | **(7.6)** | (7.3) |
| Other finance costs | **(0.1)** | (0.2) |
| | **(35.6)** | (34.8) |
| Interest receivable:- | | |
| Listed redeemable securities | **1.6** | 2.2 |
| Other investments (as defined in note 15) | **8.3** | 12.6 |
| | **9.9** | 14.8 |
| Gain on defeasance of finance leases | **12.2** | 8.7 |
| Net interest payable | **(13.5)** | (11.3) |

The interest element of finance lease rentals is shown after netting £8.5m (1997 £7.2m) interest receivable on cash deposited against collateralised finance lease obligations (note 23).

The gain on defeasance of finance leases results from the in-substance early settlement (defeasance) of obligations under finance leases. The Company has:

a utilised finance lease facilities to fund certain water and sewerage services tangible fixed assets; and

b deposited amounts, equal to the present value of rental obligations arising from those finance leases, with UK financial institutions, to counter-indemnify the letters of credit issued by those institutions to the lessors in order to secure those rental obligations.

These deposited funds, which totalled £127.9m at 31 March 1998 (1997 £52.7m), together with interest earned thereon, may be used to settle the rental obligations under those finance leases. If the finance leases terminate due to the insolvency of the financial institutions which have issued the letters of credit no liability will fall on the Company.

The rentals payable under the finance leases will vary if interest rates, or effective tax rates, change. The Company has made provision, based upon the Directors' assessment of likely outcomes, for possible future costs arising from such variations in arriving at the gain recognised.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Net Interest Payable (Continued)

A gain of £12.2m (1997 £8.7m) has been recognised, equivalent to the difference between the finance lease drawdowns and the funds deposited with financial institutions to cover rentals arising therefrom, after making provision for possible rental variations and costs as follows:

| | 1998 £m | 1997 £m |
|---|---|---|
| Gain on defeasance of finance leases | **15.7** | 12.7 |
| less provision for finance lease rental variations (note 18) | **(3.3)** | (2.9) |
| less costs | **(0.2)** | (1.1) |
| | **12.2** | 8.7 |

## 6 Tax on Profit on Ordinary Activities

| | 1998 £m | 1997 £m |
|---|---|---|
| UK corporation tax at 31% (33%) for the current year | **10.0** | 9.6 |
| Amount receivable from South West Water group companies in respect of surrender of tax losses for prior years | - | (0.7) |
| | **10.0** | 8.9 |

The corporation tax charge for the year has been reduced by the availability of capital allowances for which no deferred tax has been provided (note 18).

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 those losses.

## 7 Dividends

| | 1998 £m | 1997 £m |
|---|---|---|
| Interim dividend of 28.42p (1997 nil) payable in two equal instalments on 1 December 1997 and 1 December 1998 | **104.0** | - |
| Interim dividend of 16.7p (1997 15.2p) per Ordinary share paid on 8 December 1997 | **61.1** | 55.6 |
| Second interim dividend | - | 0.5 |
| | **165.1** | 56.1 |

The interim dividend of £104.0m was declared as a result of the Government's introduction of a windfall tax on privatised utilities.

# NOTES TO THE FINANCIAL STATEMENTS

## 8 Employees and Employment Costs

The average number of persons (including Directors) employed by the Company was:-

| | 1998 | 1997 |
|---|---|---|
| Water services | 977 | 968 |
| Sewerage services | 757 | 797 |
| | 1,734 | 1,765 |

| | 1998 £m | 1997 £m |
|---|---|---|
| Employment costs comprise:- | | |
| Wages and salaries | | |
| excluding exceptional item | 31.5 | 31.8 |
| exceptional item | 2.9 | - |
| Social security costs | 2.4 | 2.5 |
| Pension costs (note 25) | (2.1) | (2.4) |
| | 34.7 | 31.9 |
| Charged as follows:- | | |
| Manpower costs (note 3) | | |
| excluding exceptional item | 25.0 | 23.8 |
| exceptional item | 2.9 | - |
| | 27.9 | 23.8 |
| Capital schemes, infrastructure renewals, and other expenditure | 6.8 | 8.1 |
| | 34.7 | 31.9 |

# NOTES TO THE FINANCIAL STATEMENTS

9 **Directors' Emoluments**

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Total emoluments of the Directors of the Company:- | | |
| Remuneration - salary | **338** | 353 |
| - performance bonus | **92** | 36 |
| | **430** | 389 |
| Other emoluments | **33** | 32 |
| Compensation for loss of office | **86** | - |
| | **549** | 421 |

The emoluments of the highest paid Director, included above, are:-

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Remuneration - salary | **74** | 68 |
| - performance bonus | **29** | 11 |
| | **103** | 79 |
| Other emoluments | **6** | 6 |
| | **109** | 85 |

The emoluments of South West Water Services Limited Directors are determined by the Remuneration Committee of South West Water Plc consisting of non-executive Directors. The Remuneration Committee takes external professional advice in determining the level of emoluments. Other emoluments include car benefit and health care.

Payments under the incentive performance bonus plan are related to the achievement of Company profit and individual performance targets as determined by the Remuneration Committee of South West Water Plc. The 1998 amounts disclosed above include performance bonuses for the two years, 1997 and 1998, whilst 1997 includes payment in respect of the one year, 1996.

At 31 March 1998 retirement benefits were accruing to 4 Directors (1997 6 Directors) under defined benefit pension schemes, operated by the parent company.

The highest paid Director participated in defined benefit pension schemes, with an accrued pension of £47,000 at 31 March 1998 (1997 £41,000).

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Directors' Interests

The beneficial interest of Directors holding office at 31 March 1998 in shares of South West Water Plc at 31 March 1998 and 31 March 1997, or date of appointment, were as follows:-

| | Share Interests | | Options | | | | |
|---|---|---|---|---|---|---|---|
| | 1998 | 1997 (or date of appointment) | Scheme | 1998 | Granted in Period | Exercised in Period | 1997 (or date of appointment) |
| P J Briens | **7,091** | 97 | Executive | - | - | (13,800) | 13,800 |
| I R Douglas | **3,821** | 4,349 | Executive | **5,000** | - | - | 5,000 |
| | | | Sharesave | **3,042** | 1,241 | (1,129) | 2,930 |
| D J Dupont | **13,953** | 7,987 | Executive | **4,000** | - | - | 4,000 |
| | | | Sharesave | **3,102** | 3,102 | (5,647) | 5,647 |
| R Furniss | **3,092** | 3,092 | Executive | **15,500** | - | - | 15,500 |
| | | | Sharesave | **4,624** | - | - | 4,624 |

In addition a contingent interest was held at 31 March 1998 in shares of South West Water Plc under the terms of the South West Water Plc Group Long Term Incentive Plan, described in note 12, as follows :

| | Shares |
|---|---|
| P J Briens | 3686 |
| I R Douglas | 4203 |
| D J Dupont | 4167 |
| R Furniss | 4023 |

The above represent the maximum number of shares to which Directors would become entitled if all relevant criteria are met.

No Director has had any interest in shares of the Company during the year. The interests in shares of South West Water Plc of Messrs K G Harvey and R J Baty are disclosed in the financial statements of that company.

On 6 April 1998, as a result of opting for the scrip dividend alternative, Messrs Briens and Furniss acquired additional share interests in South West Water Plc of 1 and 24 respectively.

In respect of the current Directors there have been no changes since 31 March 1998 in the Directors' interests in shares of the Company, or of South West Water Plc, except as disclosed above.

# NOTES TO THE FINANCIAL STATEMENTS

11 **Tangible Fixed Assets**

| | Freehold land and buildings | Infra-structure assets | Opera-tional properties | Fixed & mobile plant, vehicles and computers | Construc-tion in progress | **Total** |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | **£m** |
| **Cost:-** | | | | | | |
| At 1 April 1997 | 12.2 | 574.2 | 431.6 | 387.7 | 118.7 | **1,524.4** |
| Additions | - | 42.0 | 19.5 | 39.3 | 54.6 | **155.4** |
| Grants and contributions | - | (3.4) | - | - | - | **(3.4)** |
| Transfers | 0.2 | 36.1 | 25.0 | 13.9 | (75.2) | **-** |
| Disposals | - | - | - | (3.1) | - | **(3.1)** |
| At 31 March 1998 | **12.4** | **648.9** | **476.1** | **437.8** | **98.1** | **1,673.3** |
| **Depreciation:-** | | | | | | |
| At 1 April 1997 | 2.5 | | 73.8 | 114.8 | | **191.1** |
| Charge for year | 0.2 | | 8.7 | 24.3 | | **33.2** |
| Provision for diminution in value | 3.2 | | - | 0.7 | | **3.9** |
| Disposals | - | | - | (2.3) | | **(2.3)** |
| At 31 March 1998 | **5.9** | | **82.5** | **137.5** | | **225.9** |
| **Net Book Value:-** | | | | | | |
| At 31 March 1998 | **6.5** | **648.9** | **393.6** | **300.3** | **98.1** | **1,447.4** |
| At 31 March 1997 | 9.7 | 574.2 | 357.8 | 272.9 | 118.7 | 1,333.3 |

Out of the total depreciation charge for the Company of £33.2m (1997 £28.6m), the sum of £1.9m (1997 £1.8m) has been charged to capital projects, and £31.3m (1997 £26.8m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.3m (1997 £1.3m) and £7.4m (1997 £7.2m) respectively.

The net book value of infrastructure assets is stated after deducting £37.1m (1997 £33.7m) grants and contributions.

# NOTES TO THE FINANCIAL STATEMENTS

11 **Tangible Fixed Assets (Continued)**

Assets held under finance leases included above:-

| | Infra-structure assets £m | Opera-tional properties £m | Fixed & mobile plant, vehicles and computers £m | Construc-tion in progress £m | **Total £m** |
|---|---|---|---|---|---|
| Cost:- At 31 March 1998 | - | 193.9 | 107.0 | - | **300.9** |
| Depreciation:- Charge for year | - | 3.2 | 8.0 | - | **11.2** |
| Depreciation:- At 31 March 1998 | - | 12.8 | 39.0 | - | **51.8** |
| Assets held under defeased finance leases also included above:- | | | | | |
| Cost:- At 31 March 1998 | 56.7 | 48.2 | 24.3 | 27.1 | **156.3** |
| Depreciation:- Charge for year | - | 0.2 | 1.0 | - | **1.2** |
| Depreciation:- At 31 March 1998 | - | 0.3 | 1.3 | - | **1.6** |

12 **Fixed Asset Investments**

| | **1998 £m** | 1997 £m |
|---|---|---|
| Listed Investments:- | | |
| Addition during year | **0.5** | - |
| Provision | **(0.1)** | - |
| At 31 March | **0.4** | - |

The listed investments relate to a Long Term Incentive Plan which is operated for senior management of the Company. Awards under the Plan, involving the release of ordinary shares in South West Water Plc to participants, are dependent upon performance conditions being met. These shares are released out of an Employee Share Ownership Plan, a discretionary trust, established to facilitate the operation of the incentive scheme.

During 1998 the trustees of the Employee Share Ownership Plan purchased 63,000 of South West Water Plc's ordinary shares (1997 nil) through a non-interest bearing advance made by the Company. The market value of those shares, which were held at 31 March 1998, was £615,000 (1997 nil). The costs of the incentive scheme are provided and charged to profits over the period of its operation, and are included in employment costs.

# NOTES TO THE FINANCIAL STATEMENTS

## 13 Stocks

| | 1998 £m | 1997 £m |
|---|---|---|
| Raw materials and consumables | **3.5** | 3.2 |

## 14 Debtors

| | 1998 £m | 1997 £m |
|---|---|---|
| Amounts falling due after more than one year:- | | |
| Prepayments for pension costs (note 25) | **9.1** | 6.8 |
| Prepayments and accrued income | **0.2** | - |
| | **9.3** | 6.8 |
| Amounts falling due within one year:- | | |
| Trade debtors | **24.5** | 25.5 |
| Amounts owed by parent undertaking | **-** | 0.4 |
| Amounts owed by fellow subsidiary undertakings | **0.4** | 0.3 |
| Other debtors | **0.3** | 3.3 |
| Prepayments and accrued income | **17.1** | 15.5 |
| | **42.3** | 45.0 |

As a result of the increased significance of debtors falling due after more than one year, these are now separately identified, with a similar reanalysis of comparative figures.

## 15 Current Asset Investments

| | 1998 £m | 1997 £m |
|---|---|---|
| Listed investments | **18.3** | 29.5 |
| Other investments:- | | |
| Overnight deposits | **5.0** | 3.5 |
| Other | **38.1** | 81.0 |
| | **61.4** | 114.0 |
| Market value of listed investments | **18.3** | 29.5 |

Other investments include certificates of deposit, variable rate notes, commercial paper and other short dated unlisted securities.

£75.0m (1997 £150.0m) deposited against collateralised finance lease obligations (note 23) is not included above.

# NOTES TO THE FINANCIAL STATEMENTS

## 16 Creditors:- Amounts Falling Due Within One Year

| | 1998 £m | 1997 £m |
|---|---|---|
| Loans:- (note 23) | | |
| European Investment Bank loans | **10.3** | 9.0 |
| Bank loans and overdrafts | **0.9** | 0.3 |
| | **11.2** | 9.3 |
| Obligations under finance leases (note 23) | **9.8** | 13.3 |
| Trade creditors | **12.5** | 15.3 |
| Capital creditors | **31.6** | 38.3 |
| Amounts owed to parent undertaking | **53.9** | 8.4 |
| Amounts owed to fellow subsidiary undertakings | **5.9** | 5.3 |
| Other creditors | **4.7** | 5.0 |
| Corporation tax | **17.1** | 3.8 |
| Taxation and social security | **5.5** | 0.8 |
| Accruals and deferred income | **18.0** | 17.9 |
| | **170.2** | 117.4 |

As a result of the significance of the corporation tax creditor, it is now separately identified, with a similar reanalysis of comparative figures.

## 17 Creditors:- Amounts Falling Due After More Than One Year

| | 1998 £m | 1997 £m |
|---|---|---|
| Loans:- (note 23) | | |
| European Investment Bank loans | **96.4** | 106.7 |
| Amounts owed to parent undertaking | **150.0** | 150.0 |
| | **246.4** | 256.7 |
| Obligations under finance leases (note 23) | **219.9** | 133.2 |
| Other creditors | **0.6** | 0.5 |
| | **466.9** | 390.4 |

## NOTES TO THE FINANCIAL STATEMENTS

### 18 Provisions for Liabilities and Charges

| | Infra-structure Renewals £m | Restruc-turing £m | Finance Lease Variations (note 5) £m | Other £m | **Total £m** |
|---|---|---|---|---|---|
| At 1 April 1997 | 2.4 | 5.8 | 2.9 | 1.3 | **12.4** |
| Charged against profits | 7.0 | 7.7 | 3.3 | - | **18.0** |
| Released to profits | - | (2.1) | - | (0.2) | **(2.3)** |
| Utilised during year | (10.0) | (6.2) | - | - | **(16.2)** |
| At 31 March 1998 | **(0.6)** | **5.2** | **6.2** | **1.1** | **11.9** |

During the year £2.1m of exceptional costs, contained in the 1995 restructuring provision, were no longer required as a result of the rescheduling of property operating lease commitments.

**Deferred Taxation**

The maximum potential liability for deferred taxation, for which no provision is considered necessary, was:-

| | **1998 £m** | 1997 £m |
|---|---|---|
| Tax effect of timing differences due to:- | | |
| Accelerated capital allowances | **77.9** | 71.5 |
| Other timing differences, including pensions | **(0.1)** | (4.1) |
| | **77.8** | 67.4 |

As infrastructure assets are not depreciated, deferred taxation will only crystallise in the event of their disposal at amounts in excess of their tax written down value. The tax effect, at 31% (1997 33%), due to accelerated capital allowances on infrastructure assets, which has been excluded from the amounts set out above, amounts to £147.9m (1997 £144.8m). In the opinion of the Directors, the likelihood of a liability crystallising in the foreseeable future is remote.

# NOTES TO THE FINANCIAL STATEMENTS

## 19 Accruals and Deferred Income

| | 1998 £m | 1997 £m |
|---|---|---|
| **Deferred Income** | | |
| At 1 April | **23.4** | 24.2 |
| Additions | **4.3** | 0.4 |
| Released to profits | **(1.0)** | (1.2) |
| At 31 March | **26.7** | 23.4 |
| Amount to be released within one year | **(1.2)** | (1.0) |
| Amount to be released after more than one year | **25.5** | 22.4 |

## 20 Called-up Share Capital

| | 1998 £m | 1997 £m |
|---|---|---|
| Authorised, allotted, called-up and fully paid:- | | |
| 365,950,000 Ordinary shares of £1 each | **365.9** | 365.9 |

## 21 Reserves

| | Profit and loss account £m |
|---|---|
| At 1 April 1997 | **594.0** |
| Deficit for year | **(69.4)** |
| At 31 March 1998 | **524.6** |

The cumulative value of goodwill at 31 March 1998 resulting from acquisitions, which has been written off against reserves, is £1.4m (1997 £1.4m).

# NOTES TO THE FINANCIAL STATEMENTS

## 22 Statement of Movements in Shareholders' Funds

| | 1998 £m | 1997 £m |
|---|---|---|
| Profit on ordinary activities after taxation | **95.7** | 105.2 |
| Dividends | **(165.1)** | (56.1) |
| Goodwill written off | **-** | (1.4) |
| Shareholders' Funds (equity interest) :- | | |
| (Reduction)/addition for year | **(69.4)** | 47.7 |
| At 1 April | **959.9** | 912.2 |
| At 31 March | **890.5** | 959.9 |

## 23 Loans and Other Borrowings

| | 1998 £m | 1997 £m |
|---|---|---|
| **Loans** | | |
| Repayable:- | | |
| After five years | **199.2** | 212.0 |
| Between two and five years | **36.3** | 34.4 |
| Between one and two years | **10.9** | 10.3 |
| Falling due after more than one year (note 17) | **246.4** | 256.7 |
| Falling due within one year (note 16) | **11.2** | 9.3 |
| | **257.6** | 266.0 |

Loans are denominated in sterling and are repayable over the period 1998-2012. The rates of interest payable on loans, any part of which is due after five years, vary from 4% to 11%.

| | 1998 £m | 1997 £m |
|---|---|---|
| **Obligations under finance leases** | | |
| Repayable:- | | |
| After five years | **205.2** | 118.4 |
| Between two and five years | **4.6** | 5.4 |
| Between one and two years | **10.1** | 9.4 |
| Falling due after more than one year (note 17) | **219.9** | 133.2 |
| Falling due within one year (note 16) | **9.8** | 13.3 |
| | **229.7** | 146.5 |

Included above are finance charges arising on obligations under finance leases totalling £26.3m (1997 £14.9m), of which £6.1m (1997 £8.7m) is repayable within one year.

## 23 Loans and Other Borrowings (Continued)

In addition obligations under finance leases of £75.0m (1997 £150.0m) have been offset against cash of an equal amount which has been deposited with the lessor's bank group (collateralisation). The Company can insist this cash is utilised to meet the finance lease obligations as they fall due. During the year the Company withdrew £75.0m (1997 nil) of the cash deposits placed with the lessor's bank group. Accordingly, finance lease obligations of £75.0m (1997 nil) are included above.

**Loans and obligations under finance leases**

Included above are instalment debts, of which any part falls due for payment after five years, and non instalment debts due after five years:-

| | **1998 £m** | 1997 £m |
|---|---|---|
| Loans | **256.7** | 265.6 |
| Obligations under finance leases | **219.2** | 133.6 |
| | **475.9** | 399.2 |

## 24 Financial Instruments and Risk Management

The principal financial risk faced by the Company arises from interest rate movements.

The Company uses derivative financial instruments to manage and adjust its exposure to market risk from changes in interest rates including, inter alia, ensuring that at least 50% of net debt is at fixed rate. The precise mix is at times adjusted to reflect anticipated movements in short-term interest rates.

The Board approves treasury policies and procedures relating to the use of financial instruments. Transactions are permitted for hedging purposes only. Major transactions are individually approved by the Board.

The principal interest rate swap agreements in place during the year and outstanding at 31 March 1998 covered a notional amount of £49.8m and aligned the basis of interest receivable from current asset investments with that payable on certain finance lease obligations.

The notional principal amounts are used to determine settlements under interest swaps and are not, therefore, an exposure of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

25 **Pensions**

The Company's employees are eligible to participate in funded defined benefit schemes, operated by the parent Company. Contributions are based upon pension costs across the South West Water Plc group as a whole.

The net pensions credit for the Company for the year ended 31 March 1998 was £2.1m (1997 £2.4m), as a result of significant surpluses revealed in the last actuarial valuation. Full details of the valuations and the actuarial assumptions are given in the financial statements of South West Water Plc.

Pension prepayments included as debtors of the Company amount to £9.1m (1997 £6.8m), representing the accumulated difference between the Company pension credits and employer contributions paid.

26 **Commitments and Contingent Liabilities**

| | **1998** | 1997 |
|---|---|---|
| | **£m** | £m |
| **Capital commitments** | | |
| Contracted but not provided | **40.6** | 66.3 |
| **Commitments under operating leases** | | |
| Rentals during the year following the balance sheet date | | |
| Land and buildings leases expiring:- | | |
| after five years | **2.0** | 1.4 |
| **Contingent Liabilities** | | |
| Contractors' claims on capital schemes | **8.1** | 16.7 |
| Guarantee of borrowings by the parent undertaking | **150.0** | 150.0 |
| | **158.1** | 166.7 |

# NOTES TO THE FINANCIAL STATEMENTS

## 27 Notes to the Cash Flow Statement

### (a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

| | 1998 £m | 1997 £m |
|---|---|---|
| Operating profit | **119.2** | 125.4 |
| Depreciation charge | **31.3** | 26.8 |
| Provision for diminution in value:- | | |
| Tangible fixed assets | **3.9** | - |
| Fixed asset investments | **0.1** | - |
| Deferred income released to profits | **(1.0)** | (1.2) |
| Decrease in provisions for liabilities and charges | **(3.8)** | (2.9) |
| Increase in stocks | **(0.3)** | (0.7) |
| Increase in debtors (amounts falling due within and over one year) | **(1.9)** | (9.2) |
| Increase in creditors (amounts falling due within and over one year) | **5.7** | 4.1 |
| Profit on disposal of tangible fixed assets | - | (0.2) |
| **Net cash inflow from operating activities** | **153.2** | 142.1 |

Cash outflows from operating activities accounted for as exceptional items, included above, were £1.9m (1997 £3.2m). These relate to the utilisation of the 1998 and 1995 restructuring provisions.

### (b) Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

| | 1998 £m | 1997 £m |
|---|---|---|
| (i) Returns on Investments and Servicing of Finance | | |
| Interest received | **18.6** | 19.6 |
| Interest paid | **(28.4)** | (27.6) |
| Interest element of finance lease obligation | **(4.0)** | (4.0) |
| Costs associated with defeased lease facility (note 5) | **(0.1)** | (0.6) |
| Net cash outflow for returns on investments and servicing of finance | **(13.9)** | (12.6) |

| | 1998 £m | 1997 £m |
|---|---|---|
| (ii) Capital Expenditure | | |
| Purchase of tangible fixed assets | **(159.9)** | (143.9) |
| Grants and contributions:- | | |
| Infrastructure assets | **3.5** | 3.7 |
| Non-infrastructure assets | **0.2** | 0.6 |
| Receipts from disposal of tangible fixed assets | **0.8** | 1.1 |
| Net cash outflow for capital expenditure | **(155.4)** | (138.5) |

# NOTES TO THE FINANCIAL STATEMENTS

27 **Notes to the Cash Flow Statement (Continued)**

| (iii) Acquisitions | **1998 £m** | 1997 £m |
|---|---|---|
| Purchase of business undertaking | **-** | (0.4) |

| (iv) Management of Liquid Resources | **1998 £m** | 1997 £m |
|---|---|---|
| Purchase of current asset investments | **(218.9)** | (251.5) |
| Sale of current asset investments | **273.0** | 313.2 |
| Net cash inflow from management of liquid resources | **54.1** | 61.7 |

Liquid resources comprise readily disposable current asset investments.

| (v) Financing | **1998 £m** | 1997 £m |
|---|---|---|
| Debt due within one year (other than bank overdrafts): reduction | **(9.0)** | (7.8) |
| Reduction in cash deposited against finance lease obligations (note 23) | **75.0** | - |
| Cash placed on deposit with financial institutions (note 5) | **(75.2)** | (52.7) |
| Defeased finance lease drawdowns (note 5) | **90.9** | 65.4 |
| Other finance lease drawdowns | **1.4** | 7.4 |
| Capital element of finance lease rental payments | **(4.6)** | (4.3) |
| Net cash inflow from financing | **78.5** | 8.0 |

(c) **Analysis of Net Debt**

| | At 1 April 1997 £m | Cash flow £m | Non-cash movements £m | **At 31 March 1998 £m** |
|---|---|---|---|---|
| Cash at bank and in hand | 0.2 | 0.5 | - | **0.7** |
| Current asset investments:- | | | | |
| overnight deposits | 3.5 | 1.5 | - | **5.0** |
| Bank overdrafts | (0.3) | (0.6) | - | **(0.9)** |
| | 3.4 | 1.4 | - | **4.8** |
| Debt due within one year (other than bank overdrafts) | (9.0) | 9.0 | (10.3) | **(10.3)** |
| Debt due after more than one year | (106.7) | - | 10.3 | **(96.4)** |
| Finance lease obligations | (146.5) | (87.5) | 4.3 | **(229.7)** |
| Amounts owed to parent undertaking | (150.0) | - | - | **(150.0)** |
| | (408.8) | (77.1) | 4.3 | **(481.6)** |
| Current asset investments:- | | | | |
| other than overnight deposits | 110.5 | (54.1) | - | **56.4** |
| | **(298.3)** | **(131.2)** | **4.3** | **(425.2)** |

Non-cash movements include transfers between categories of debt for changing maturities and the in-substance settlement of finance lease obligations, £15.7m (note 5), less the increase in accrued interest payable on finance leases, £11.4m.

# NOTES TO THE FINANCIAL STATEMENTS

## 27 Notes to The Cash Flow Statement (Continued)

### (d) Reconciliation of Net Cash Flow to Movement in Net Debt

| | 1998 £m | 1997 £m |
|---|---|---|
| **Increase in cash in the period** | 1.4 | 4.8 |
| Cash inflow from increase in debt and finance leasing | (78.5) | (8.0) |
| Cash inflow from decrease in liquid resources | (54.1) | (61.7) |
| **Change in net debt arising from cash flows** | (131.2) | (64.9) |
| Non-cash movements:- | | |
| In-substance settlement of finance lease obligations | 15.7 | 12.7 |
| Increase in interest payable on finance leases | (11.4) | (5.5) |
| **Increase in net debt in the year** | (126.9) | (57.7) |
| **Net debt at 1 April** | (298.3) | (240.6) |
| **Net debt at 31 March** | (425.2) | (298.3) |

### (e) Purchase of a Business Undertaking:-

| | 1998 £m | 1997 £m |
|---|---|---|
| **Net liabilities acquired:-** | | |
| Provisions for liabilities and charges | - | (1.0) |
| Goodwill | - | 1.4 |
| Total, satisfied by cash consideration | - | 0.4 |

## 28 Related Party Transactions

Under FRS8, transactions with other members of the South West Water Plc group are not required to be set out herein since the Company is a wholly owned subsidiary within that group.

## 29 Parent Company

The parent Company, and ultimate controlling party, is South West Water Plc which is registered in England. Group financial statements are included in the Annual Report of South West Water Plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.