

236665

SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 1993



REGISTERED OFFICE: Peninsula House, Rydon Lane, Exeter. EX2 7HR

REGISTERED IN ENGLAND NO 2366665

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 1993

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**SOUTH WEST WATER SERVICES LIMITED**

**Directors**

Chairman	K W Court
Managing Director	W H Fraser
Engineering Director	R J Baty
Operations Director	C J Cook
Finance Director	I R Douglas
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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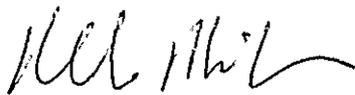
SOUTH WEST WATER SERVICES LIMITED

NOTICE OF MEETING

The fourth Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 21 June 1993 at 9.00 am 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 1993.
- 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

10 June 1993

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 1993.

### 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 15.8% to £185.7m. Turnover from main water and sewerage charges was £178.6m.

#### Operating Costs

Operating costs rose by 6.5% to £102.3m. The impact of inflation and the operation of completed capital schemes were the principal underlying factors.

At the beginning of the year the Operations functions were reorganised from six districts to three divisions, in order to more closely match customer service requirements. Cost savings originating from divisionalisation enabled the provision of improved service at minimal overall additional cost.

Further efficiencies to optimise the utilisation of the Company's workforce were introduced during 1993, requiring the provision of £2.4m restructuring costs. Employment costs charged against profits were restricted to an increase of 2.6% to £27.8m.

#### Profit

Operating profit increased by 25.8% to £83.9m (1992 £66.7m), and was augmented by net interest receivable of £10.2m (1992 £23.1m) to produce a profit on ordinary activities before tax of £94.1m (1992 £89.8m). The decrease in net interest receivable of £12.9m reflects lower interest rates and utilisation of cash for capital expenditure.

An interim dividend of 14.6p, totalling £38.8m, was paid to the parent undertaking on 11 December 1992. The Directors do not recommend payment of a final dividend.

In view of the capital allowances on qualifying assets from the Company's substantial capital expenditure no mainstream corporation tax liability is expected to arise for the accounting period.

The remaining undistributed profit of £55.9m (1992 £55.9m) will be transferred to reserves to help fund the future capital expenditure programme.

Net cash flow from operating activities increased from £48.3m to £96.7m.

Profit before tax as a return on average net assets employed showed a consistency of return at 12.4% (1992 12.8%).

**SOUTH WEST WATER SERVICES LIMITED**

**REPORT OF THE DIRECTORS (Continued)**

**FINANCIAL NEEDS AND RESOURCES**

Capital expenditure on tangible fixed assets during the year was £198.1m, an increase of 18% on 1992, representing 107% of the Company's turnover. Changes in tangible fixed assets during the year are detailed in note 10 to the financial statements.

The capital works programme comprises nearly 570 on-going projects with 115 projects completed during the year. Further progress on the Clean Sweep bathing water schemes and major water supply schemes was achieved. Work-in-progress at 31 March 1993 amounted to £170m.

By the turn of the century it is forecast that nearly £2 billion of capital works will have been undertaken to improve the region's infrastructure and environment. This will include the substantial impact of new obligations imposed by Government - the acceleration of the bathing water schemes, banning of sludge disposal at sea, and additional treatment under the new EC Urban Waste Water Directive.

Adequate financing is vital to support this programme. Significant funding measures for the short and medium term including finance leasing, loans from the European Investment Bank and financing from a Bond, issued by South West Water Plc, have been put in place.

At 31 March 1993 loans and finance lease obligations amounted to £381m compared with £267m at 31 March 1992. Current asset investments of £389m (1992 £416m) were held at the Balance Sheet date.

Facilities in place but not yet drawn totalled £100m for finance leasing at 31 March 1993. These resources form part of the funding strategy being 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.

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.

## SOUTH WEST WATER SERVICES LIMITED

### REPORT OF THE DIRECTORS (Continued)

#### 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 1993 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, I R Douglas (appointed 1 May 1992) and B J Moorhouse.

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.

#### 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 been agreed.

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.

#### 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.

**SOUTH WEST WATER SERVICES LIMITED**

**REPORT OF THE DIRECTORS (Continued)**

**PARENT COMPANY**

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

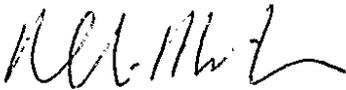
**AUDITORS**

Price Waterhouse were appointed auditors until the conclusion of the fourth 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 fourth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 21 June 1993 at 9.00 am.

By order of the Board



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

10 June 1993

SOUTH WEST WATER SERVICES LIMITED

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

We have audited the financial statements on pages 10 to 30 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 1993 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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PRICE WATERHOUSE  
Chartered Accountants  
and Registered Auditor  
Bristol

10 June 1993

PROFIT AND LOSS ACCOUNTfor the year ended 31 March 1993

	Notes	1993 £m	1992 £m
Turnover	2	185.7	160.4
Other operating income		0.5	2.4
Operating costs	3	(102.3)	(96.1)
		<hr/>	<hr/>
Operating profit	2	83.9	66.7
Interest receivable (net)	4	10.2	23.1
		<hr/>	<hr/>
Profit on ordinary activities before taxation	2	94.1	89.8
Tax on profit on ordinary activities	5	0.6	1.0
		<hr/>	<hr/>
Profit on ordinary activities after taxation		94.7	90.8
Dividends	6	(38.8)	(34.9)
		<hr/>	<hr/>
Retained profit transferred to reserves	19	55.9	55.9
		<hr/>	<hr/>

A statement of movements in reserves is given in note 19.

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

The notes on pages 13 to 30 form part of these financial statements.

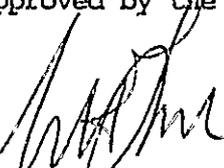
BALANCE SHEET

at 31 March 1993

	Notes	1993 £m	1992 £m
<b>FIXED ASSETS</b>			
Tangible assets	10	839.5	656.7
<b>CURRENT ASSETS</b>			
Stocks	11	1.3	1.7
Debtors	12	36.0	32.3
Investments	13	388.9	416.1
Cash at bank and in hand		0.4	0.2
		426.6	450.3
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling due within one year	14	(80.8)	(94.4)
<b>NET CURRENT ASSETS</b>		345.8	355.9
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
Creditors: amounts falling due after more than one year	15	(380.3)	(267.5)
Provisions for liabilities and charges	16	(4.2)	(5.7)
Accruals and deferred income	17	(14.5)	(9.0)
<b>NET ASSETS</b>		786.3	730.4
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	18	265.9	265.9
Profit and loss account	19	520.4	464.5
<b>SHAREHOLDERS' FUNDS</b>		786.3	730.4

The notes on pages 13 to 30 form part of these financial statements.

Approved by the Board on 10 June 1993 and signed on its behalf by:-

  
W H FRASER  
Managing Director

CASH FLOW STATEMENTfor the year ended 31 March 1993

	Notes	1993 £m	1992 £m
Net cash inflow from operating activities	24a	96.7	48.3
Returns on investments and servicing of finance			
Interest received		49.5	43.4
Interest paid		(31.8)	(16.0)
Interest element of finance lease rental payments		(9.1)	(1.7)
Dividends paid		(38.8)	(34.9)
Net cash outflow from returns on investments and servicing of finance		(30.2)	(9.2)
Taxation			
Group tax relief received		1.1	-
Investing activities			
Payments to acquire tangible fixed assets		(211.2)	(141.3)
Payments to acquire current asset investments		(951.8)	(616.5)
Grants and contributions:			
Infrastructure assets		1.4	6.2
Non-infrastructure assets		6.8	5.5
Receipts from disposal of tangible fixed assets		0.5	6.3
Receipts from disposal of current asset investments		954.3	613.1
Net cash outflow from investing activities		(200.0)	(156.7)
Net cash outflow before financing		(132.4)	(117.6)
Financing			
Loans raised from parent undertaking		-	(90.0)
Other loans raised		(30.0)	-
Finance lease drawdowns		(85.5)	(48.7)
Capital element of finance lease rental payments		1.8	0.3
Net cash inflow from financing		(113.7)	(138.4)
(Decrease)/increase in cash and cash equivalents	24c	(18.7)	20.8
		(132.4)	(117.6)

NOTES TO THE FINANCIAL STATEMENTS1 Accounting Policies

The following paragraphs describe the main policies:-

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention and comply with all current 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 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 STATEMENTS1 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 has been 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

From 1 April 1990 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 have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 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. As a consequence of this departure the net book value of tangible fixed assets is £20.2m lower than it would otherwise have been.

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.

(i) Research Expenditure

Research 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.

NOTES TO THE FINANCIAL STATEMENTS2 . Classes of Business

	Water		Sewerage		Company	
	1993 £m	1992 £m	1993 £m	1992 £m	1993 £m	1992 £m
<b>Turnover</b>						
Turnover	87.3	78.2	98.8	82.5	186.1	160.7
Inter-segment turnover	(0.3)	(0.2)	(0.1)	(0.1)	(0.4)	(0.3)
Turnover to third parties	<u>87.0</u>	<u>78.0</u>	<u>98.7</u>	<u>82.4</u>	<u>185.7</u>	<u>160.4</u>
<b>Profit</b>						
Segment operating profit	23.9	19.6	60.0	47.1	83.9	66.7
Interest receivable (net)	<u>4.4</u>	<u>10.0</u>	<u>5.8</u>	<u>13.1</u>	<u>10.2</u>	<u>23.1</u>
Profit on ordinary activities before taxation	<u>28.3</u>	<u>29.6</u>	<u>65.8</u>	<u>60.2</u>	<u>94.1</u>	<u>89.8</u>
<b>Net assets</b>						
Segment net assets	<u>383.8</u>	<u>386.1</u>	<u>402.5</u>	<u>344.3</u>	<u>786.3</u>	<u>730.4</u>

"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 was substantially in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS3 Operating Costs

	1993 £m	1992 £m
Manpower costs (see note 7)	27.8	27.1
Raw materials and consumables	6.9	6.8
Rentals under operating leases:		
Hire of plant and machinery	0.7	0.7
Other operating leases	2.3	1.3
Research expenditure	0.5	0.5
Auditors' remuneration	0.1	0.1
Other external charges	47.3	41.9
Depreciation:		
On owned assets	8.8	10.3
On assets acquired under finance leases	2.7	1.9
Deferred income (see note 21)	(0.4)	(0.3)
Infrastructure renewals charge	5.6	5.8
	<u>102.3</u>	<u>96.1</u>

Fees payable to the Company's auditor, Price Waterhouse, for non-audit work for the year ended 31. March 1993 amounted to £0.3m.

4 Interest Receivable (net)

	1993 £m	1992 £m
Interest receivable:		
Listed redeemable securities	14.8	13.5
From parent undertaking	-	0.6
From fellow subsidiary undertakings	0.1	-
Other investments (as defined in note 13)	35.0	30.0
	<u>49.9</u>	<u>44.1</u>
Interest payable:		
To parent undertaking	(17.6)	(5.5)
To fellow subsidiary undertakings	(0.1)	-
Bank overdrafts and short term borrowings	(0.1)	(0.1)
Interest element of finance lease rentals	(8.0)	(3.4)
Long term loans (any part repayable after five years)	(13.2)	(11.7)
Other finance costs	(0.7)	(0.3)
	<u>(39.7)</u>	<u>(21.0)</u>
	<u>10.2</u>	<u>23.1</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 1993.

	1993 £m	1992 £m
Amount receivable in respect of surrender of tax losses to South West Water group companies in respect of:-		
the current year	0.5	0.2
previous years	0.1	0.8
	<u>0.6</u>	<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 those losses.

6 Dividends

	1993 £m	1992 £m
Interim dividend of 14.6p (1992 13.12p) per ordinary share	38.8	34.9

NOTES TO THE FINANCIAL STATEMENTS7 . Numbers of Employees and Employment Costs

	1993	1992
The average number of persons (including Directors) employed by the Company during the years ended 31 March was:		
Water services	1,237	1,233
Sewerage services	907	851
	<u>2,144</u>	<u>2,084</u>
Employment costs comprise:		
	£m	£m
Wages and salaries	36.0	32.7
Social Security costs	2.8	2.6
Other pension costs	2.7	2.5
	<u>41.5</u>	<u>37.8</u>
Total employment costs are charged as follows:		
Manpower costs (note 3)	27.8	27.1
Capital schemes and infrastructure renewals expenditure	13.7	10.7
	<u>41.5</u>	<u>37.8</u>

NOTES TO THE FINANCIAL STATEMENTS8 Emoluments of Directors

	1993 £000	1992 £000
Total emoluments of the Directors of the Company, including pension contributions	313	328
Emoluments of the Chairman, excluding pension contributions	Nil	Nil
Emoluments of the highest paid Director, excluding pension contributions	76	70
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 - 5,000	1	1
25,001 - 30,000	-	1
35,001 - 40,000	-	1
45,001 - 50,000	1	-
55,001 - 60,000	1	-
65,001 - 70,000	-	1
70,001 - 75,000	1	-

The emoluments of South West Water Services Limited Directors are determined by the Remuneration Committee of South West Water Plc consisting mainly of non-executive Directors. Emoluments include salary, bonus, car benefit and health cover. South West Water Services Limited Directors participate in an annual incentive performance bonus plan. The total bonuses in respect of 1992 paid in 1993 were £18,000 (1992 £25,000), excluding pension contributions, and were based upon an increase in South West Water Plc earnings per share and achievement of other performance targets. These bonuses have been included in the information for 1993 disclosed above. The bonuses payable for 1993 performances have not yet been determined and will be disclosed in the 1994 financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS9 Directors' Interests

The beneficial interests of Directors in shares of South West Water Plc at 31 March 1993 and 31 March 1992 were as follows:-

	Share Interests		Options to Subscribe for Shares				
	1993	1992	Scheme	1992	Granted in Year	Exercised in Year	1993
R J Baty	19,951	1,486	Executive Sharesave	65,000 6,136	4,600 2,259	(45,000) -	24,600 8,395
C J Cook	21,545	2,367	Executive Sharesave	65,000 6,339	8,000 -	(45,000) -	28,000 6,339
B J Moorhouse	-	-	Executive	25,000	12,000	-	37,000
I R Douglas (apptd 1/5/92)	-	-	Executive Sharesave	-	17,000 1,129	-	17,000 1,129

There have been no changes in the above interest since 31 March 1993.

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.

NOTES TO THE FINANCIAL STATEMENTS10 Tangible Fixed Assets

	Freehold land and build- ings	Infra- structure assets	Opera- tional proper- ties	Fixed & mobile plant, vehicles and computers	Construc- tion in progress	Total 1993
	£m	£m	£m	£m	£m	£m
<b>Cost:-</b>						
At 1 April 1992	14.6	302.7	223.3	159.7	44.3	744.6
Reclassi- fications	(5.9)	(6.0)	(18.6)	(7.6)	38.1	-
Additions	0.8	28.2	23.0	31.9	114.2	198.1
Grants and contri- butions	-	(2.1)	-	-	-	(2.1)
Transfers	-	13.3	9.4	4.3	(27.0)	-
Disposals	-	-	-	(0.7)	-	(0.7)
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31 March 1993	<u>9.5</u>	<u>336.1</u>	<u>237.1</u>	<u>187.6</u>	<u>169.6</u>	<u>939.9</u>
<b>Deprecia- tion:-</b>						
At 1 April 1992	2.0	-	43.1	42.8	-	87.9
Reclassi- fications	(0.2)	-	0.2	-	-	-
Charge for year	0.1	-	3.2	9.7	-	13.0
Disposals	-	-	-	(0.5)	-	(0.5)
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31 March 1993	<u>1.9</u>	<u>-</u>	<u>46.5</u>	<u>52.0</u>	<u>-</u>	<u>100.4</u>
<b>Net book value:-</b>						
At 31 March 1993	<u>7.6</u>	<u>336.1</u>	<u>190.6</u>	<u>135.6</u>	<u>169.6</u>	<u>839.5</u>
At 31 March 1992	<u>12.6</u>	<u>302.7</u>	<u>180.2</u>	<u>116.9</u>	<u>44.3</u>	<u>656.7</u>

Out of the total depreciation charge for the Company of £13.0m (1992 £13.1m), the sum of £1.5m (1992 £0.9m) has been charged to capital projects and £11.5m (1992 £12.2m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.1m (1992 £1.3m) and £3.6m (1992 £3.4m) respectively.

NOTES TO THE FINANCIAL STATEMENTS10 Tangible Fixed Assets (Continued)

The analysis above includes the following amounts in respect of assets held under finance leases:

	Operational properties	Fixed & mobile plant, vehicles and computers	Construction in progress	Total 1993
	£m	£m	£m	£m
<b>Cost:-</b>				
At 1 April 1992	34.2	37.6	6.7	78.5
Reclassifications	(10.4)	(3.1)	13.5	-
Additions	23.0	19.2	43.3	85.5
Transfers	4.5	2.4	(6.9)	-
At 31 March 1993	<u>51.3</u>	<u>56.1</u>	<u>56.6</u>	<u>164.0</u>
<b>Depreciation:-</b>				
At 1 April 1992	0.4	2.4	-	2.8
Charge for period	-	2.7	-	2.7
At 31 March 1993	<u>0.4</u>	<u>5.1</u>	<u>-</u>	<u>5.5</u>
<b>Net book value:-</b>				
At 31 March 1993	<u>50.9</u>	<u>51.0</u>	<u>56.6</u>	<u>158.5</u>
At 31 March 1992	<u>33.8</u>	<u>35.2</u>	<u>6.7</u>	<u>75.7</u>

11 Stocks

	1993 £m	1992 £m
Raw materials and consumables	1.3	1.7

NOTES TO THE FINANCIAL STATEMENTS12 . Debtors

	1993 £m	1992 £m
Trade debtors	19.3	13.9
Amounts owed by parent undertaking	-	0.9
Amounts owed by fellow subsidiary undertakings	0.1	0.1
Other debtors	0.7	0.9
Prepayments and accrued income	15.9	16.5
	<u>36.0</u>	<u>32.3</u>
Other debtors above include amounts due after more than one year	0.3	0.4

13 Current Asset Investments

	1993 £m	1992 £m
Listed on a recognised investment exchange	104.6	94.6
Other investments	284.3	321.5
	<u>388.9</u>	<u>416.1</u>
Market value of listed investments	106.2	94.7

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

14 Creditors: Amounts falling Due Within One Year

	1993 £m	1992 £m
Bank loans and overdrafts	1.6	7.4
Obligations under finance leases (note 21)	3.3	3.5
Trade creditors	48.3	58.0
Amounts owed to parent undertaking	4.5	3.7
Amounts owed to fellow subsidiary undertakings	2.6	1.7
Amounts owed to associated undertakings	0.9	1.4
Other creditors	0.5	0.3
Taxation and social security	1.0	3.1
Accruals and deferred income	18.1	15.3
	<u>80.8</u>	<u>94.4</u>

NOTES TO THE FINANCIAL STATEMENTS15 . Creditors: Amounts falling Due After More Than One Year

	1993 £m	1992 £m
European Investment Bank loans	130.0	100.0
Other loans	0.1	0.1
Amounts owed to parent undertaking	90.0	90.0
Obligations under finance leases (note 21)	159.2	76.3
Other creditors	1.0	1.1
	<u>380.3</u>	<u>267.5</u>

Deferred income has been separately disclosed in the balance sheet. This presentational change from 1992 has been made because of increasing materiality (note 17).

16 Provisions for Liabilities and Charges

	1993 £m
Infrastructure Renewals	
At 1 April 1992	5.7
Charged against profits	5.6
Utilised during year	(7.1)
At 31 March 1993	<u>4.2</u>

	1993 £m
Deferred Taxation	
The maximum potential liability for deferred taxation for which no provision is considered necessary, at 31 March 1993 was:	
Tax effect of timing differences due to:	
Accelerated capital allowances	33.8
Other timing differences	(4.0)
Unutilised corporation tax losses	(5.0)
	<u>24.8</u>

NOTES TO THE FINANCIAL STATEMENTS17 - Accruals and Deferred Income

	1993 £m
Deferred Income	
At 1 April 1992	9.6
Additions	6.0
Released to profit and loss account	(0.4)
	-----
At 31 March 1993	15.2
Amount to be released within one year (included in note 14)	(0.7)
	-----
Amount to be released after more than one year (note 15)	<u>14.5</u>

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

18 Called-up Share Capital

The authorised, allotted, called-up and fully paid share capital of the Company throughout the year ended 31 March 1993 was £265,950,000 comprising 265,950,000 ordinary shares of £1 each.

19 Reserves

	Profit and loss account £m
At 1 April 1992	464.5
Profit retained for year	55.9
	-----
At 31 March 1993	<u>520.4</u>

20 Statement of Movements in Shareholders' Funds

	1993 £m	1992 £m
Profit on ordinary activities after taxation	94.7	90.8
Dividends	(38.8)	(34.9)
	-----	-----
Net addition to shareholders' funds	55.9	55.9
Shareholders' funds at 1 April	730.4	674.5
	-----	-----
Shareholders' funds at 31 March	<u>786.3</u>	<u>730.4</u>

NOTES TO THE FINANCIAL STATEMENTS21 . Loans and Other Borrowings

	1993 £m	1992 £m
Loans are repayable:		
After five years	90.0	90.0
By instalments, any of which is due for repayment after five years:		
Payable after five years	106.8	85.7
Payable between two and five years	21.4	14.4
Payable between one and two years	1.9	-
	<u>220.1</u>	<u>190.1</u>
Within one year:		
Bank loans and overdrafts	1.6	7.4
	<u>221.7</u>	<u>197.5</u>
Loans are denominated in sterling and repayable over the period 1994-2012. The rates of interest payable on loans, any part of which is due after five years, varies from 3.75% to 12.05%.		

	1993 £m	1992 £m
Obligations under finance leases are repayable:		
After five years	150.9	71.8
Between two and five years	6.4	3.6
Between one and two years	1.9	0.9
	<u>159.2</u>	<u>76.3</u>
Within one year	3.3	3.5
	<u>162.5</u>	<u>79.8</u>
Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £1.5m (1992 £2.6m).		

22 Pensions

The pension cost for the Company for the year ended 31 March 1993 was £2.7m (1992 £2.5m). Particulars of the actuarial assumptions and valuation are given in the financial statements of South West Water Plc.

NOTES TO THE FINANCIAL STATEMENTS23 . Commitments and Contingent Liabilities

	1993 £m	1992 £m
<b>Capital Commitments:</b>		
Contracted but not provided	86.8	134.1
Authorised but not yet contracted	152.0	106.4
<p>In addition to these commitments, the Company has longer term capital expenditure plans to meet shortfalls in asset performance and condition, and to provide for new demand and growth.</p>		

	1993 £m	1992 £m
<b>Operating Leases:</b>		
Commitments to pay rentals during the year following the balance sheet date were:		
Leases for land and buildings expiring within one year	0.2	-
Leases for land and buildings expiring between one and five years	1.6	0.1
Leases, other than for land and buildings, expiring between one and five years	0.4	0.5
	<u>2.2</u>	<u>0.6</u>

	1993 £m	1992 £m
<b>Contingent Liabilities:</b>		
Contractors' claims on capital schemes	17.9	9.7
Guarantee of borrowings by the parent undertaking	150.0	150.0
	<u>167.9</u>	<u>159.7</u>

NOTES TO THE FINANCIAL STATEMENTS24 . Notes to the Cash Flow Statement

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

	1993 £m	1992 £m
Operating profit	83.9	66.7
Depreciation charge	11.5	12.2
Profit on disposals of tangible fixed assets	(0.3)	(2.2)
Deferred income released	(0.4)	(0.3)
Provisions for liabilities and charges	(1.5)	(0.5)
Decrease in stocks	0.4	0.7
Increase in debtors	(4.9)	(1.5)
Increase/(decrease) in creditors (amounts falling due within and over one year)	8.0	(26.8)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<u>96.7</u>	<u>48.3</u>

## (b) Analysis of Changes in Cash and Cash Equivalents During the Year

	1993 £m	1992 £m
Balance at start of year	205.4	184.6
Net cash (outflow) inflow	(18.7)	20.8
Balance at end of year	<u>186.7</u>	<u>205.4</u>

## (c) Analysis of the Balances of Cash and Cash Equivalents

	1993 £m	1992 £m	1991 £m	Change in Year 1993 £m	Change in Year 1992 £m
Current asset investments	388.9	416.1	363.6	(27.2)	52.5
Deduct investments not within three months of maturity when purchased	(201.0)	(203.5)	(170.0)	2.5	(33.5)
	187.9	212.6	193.6	(24.7)	19.0
Cash at bank and in hand	0.4	0.2	0.1	0.2	0.1
Short term borrowings and overdrafts	(1.6)	(7.4)	(9.1)	5.8	1.7
<b>Cash and cash equivalents</b>	<u>186.7</u>	<u>205.4</u>	<u>184.6</u>	<u>(18.7)</u>	<u>20.8</u>

Comparative figures for previous periods shown in this note and the cash flow statement have been restated to represent current asset investments not within three months of maturity when purchased.

NOTES TO THE FINANCIAL STATEMENTS24 Notes to the Cash Flow Statement (Continued)(d) Analysis of Changes in Financing during the Year

	1993 £m	1992 £m
<b>Loans and Finance Lease Obligations</b>		
Balance at start of year	267.3	128.9
Loans raised	30.0	90.0
Finance lease drawdowns	85.5	48.7
Finance lease repayments	(1.8)	(0.3)
Balance at end of year	<u>381.0</u>	<u>267.3</u>

25 Ultimate Parent Company

The ultimate parent company 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.