

SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 1994



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

REGISTERED IN ENGLAND NO 2366665

SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 1994

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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
Auditors	Price Waterhouse Chartered Accountants 31 Great George Street Bristol BS1 5QD

SOUTH WEST WATER SERVICES LIMITED

NOTICE OF MEETING

The fifth Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 7 July 1994 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 1994.
- 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

9 June 1994

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 1994.

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 13.2% to £210.2m. Turnover from main water and sewerage charges was £203.7m.

Operating Costs

Operating costs rose by 4.3% to £106.7m. The impact of inflation and the operation of completed capital schemes were the principal underlying factors.

Further efficiencies to optimise the utilisation of the Company's workforce were introduced during the year. Employment costs charged against profits were restricted to an increase of 3.6% to £28.8m, reflecting the manpower implications of operating completed capital schemes.

Profit

Operating profit increased by 23.8% to £103.9m (1993 £83.9m). The Company has moved to a net interest payable position of £13.3m during the year, in contrast to net interest receivable in 1993 of £10.2m. This is the result of a reduction in interest rates receivable on current asset investments coupled with the utilisation of cash for capital expenditure. Net profit before taxation amounted to £90.6m (1993 £94.1m), after taking account of interest payable.

An interim dividend of 15.6p per ordinary share, totalling £41.5m, was paid to the parent undertaking on 3 December 1993. 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 taxation charge for the year relates to revisions to previous group relief payments to optimise the medium-term tax position.

The remaining undistributed profit of £48.6m (1993 £55.9m) will be transferred to reserves to help fund the capital expenditure programme.

Net cash flow from operating activities increased from £96.7m to £112.3m.

Profit before tax as a return on average net assets employed showed a small reduction to 11.2% (1993 12.4%).

SOUTH WEST WATER SERVICES LIMITED

REPORT OF THE DIRECTORS (Continued)

FINANCIAL NEEDS AND RESOURCES

Capital expenditure on tangible fixed assets during the year was £198.8m, similar to 1993 (£198.1m), representing 95% of the Company's turnover (1993 107%). Changes in tangible fixed assets during the year are detailed in note 10 to the financial statements.

The capital works programme comprises nearly 450 on-going projects with 88 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 1994 amounted to £203m.

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 1994 loans and finance lease obligations amounted to £507m compared with £381m at 31 March 1993. Current asset investments of £404m (1993 £389m) were held at the Balance Sheet date.

Facilities in place but not yet drawn totalled £88m for finance leasing at 31 March 1994. 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.

DIRECTORS

The present Directors of the Company are K W Court (Chairman), W H Fraser, R J Baty, C J Cook, I R Douglas and E J Moorhouse.

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 9 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 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.

SOUTH WEST WATER SERVICES LIMITED

REPORT OF THE DIRECTORS (Continued)

EMPLOYEES

Employee numbers decreased during the year as the Company introduced further manpower efficiencies.

Industrial relations and negotiating arrangements designed to meet business needs are in place. Employee consultation has been strengthened through the introduction of 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.

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.

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 fifth 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 fifth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 7 July 1994 at 9.00 am.

By Order of the Board



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

9 June 1994

SOUTH WEST WATER SERVICES LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the Auditors' Statement of Auditors' Responsibilities set out on page 9, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the 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 10 to 30, 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 to prevent and detect fraud and other irregularities.

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 which have been prepared under the historical cost convention and the accounting policies set out on pages 13 to 15.

Respective Responsibilities of Directors and Auditors

As described on page 8 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 judgments 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 1994 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

9 June 1994

PROFIT AND LOSS ACCOUNTfor the year ended 31 March 1994

	Notes	1994 £m	1993 £m
Turnover	2	210.2	185.7
Other operating income		0.4	0.5
Operating costs	3	(106.7)	(102.3)
		-----	-----
Operating profit	2	103.9	83.9
Net interest (payable)/receivable	4	(13.3)	10.2
		-----	-----
Profit on ordinary activities before taxation	2	90.6	94.1
Tax on profit on ordinary activities	5	(0.5)	0.6
		-----	-----
Profit on ordinary activities after taxation		90.1	94.7
Dividends	6	(41.5)	(38.8)
		-----	-----
Retained profit transferred to reserves	19	48.6	55.9
		=====	=====

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.

All the operating activities are continuing operations.

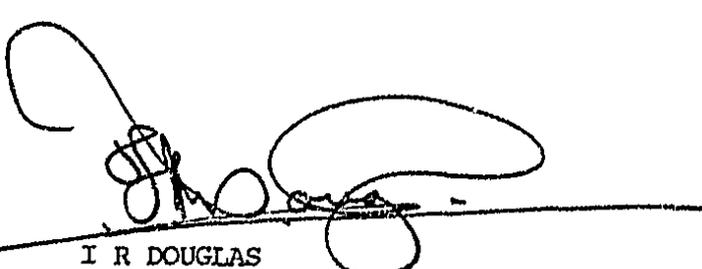
The notes on pages 13 to 30 form part of these financial statements.

BALANCE SHEETat 31 March 1994

	Notes	1994 £m	1993 £m
FIXED ASSETS			
Tangible assets	10	1,016.7	839.5
CURRENT ASSETS			
Stocks	11	1.2	1.3
Debtors	12	45.3	36.0
Investments	13	404.2	388.9
Cash at bank and in hand		0.7	0.4
		451.4	426.6
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	14	(106.5)	(80.8)
NET CURRENT ASSETS			
		344.9	345.8
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,361.6	1,185.3
Creditors: amounts falling due after more than one year	15	(503.7)	(380.3)
Provisions for liabilities and charges	16	(3.7)	(4.2)
Accruals and deferred income	17	(19.3)	(14.5)
NET ASSETS			
		834.9	786.3
CAPITAL AND RESERVES			
Called-up share capital	18	265.9	265.9
Profit and loss account	19	569.0	520.4
SHAREHOLDERS' FUNDS			
	20	834.9	786.3

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

Approved by the Board on 9 June 1994 and signed on its behalf by:-



I R DOUGLAS
Finance Director



W H FRASER
Managing Director

CASH FLOW STATEMENTfor the year ended 31 March 1994

	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	24(a)	112.3	96.7
Returns on investments and servicing of finance			
Interest received		24.9	49.5
Interest paid		(31.2)	(31.8)
Interest element of finance lease rental payments		(14.1)	(9.1)
Dividends paid		(41.5)	(38.8)
Net cash outflow from returns on investments and servicing of finance		(61.9)	(30.2)
Taxation			
Group tax relief (paid)/received		(0.7)	1.1
Investing activities			
Payments to acquire tangible fixed assets		(174.0)	(211.2)
Grants and contributions:			
Infrastructure assets		4.9	1.4
Non-infrastructure assets		4.3	6.8
Receipts from disposal of tangible fixed assets		0.7	0.5
Payments to acquire current asset investments		(1,381.8)	(951.8)
Receipts from disposal of current asset investments		1,396.8	954.3
Net cash outflow from investing activities		(149.1)	(200.0)
Net cash outflow before financing		(99.4)	(132.4)
Financing			
Other loans raised		(60.0)	(30.0)
Finance lease drawdowns		(68.9)	(85.5)
Capital element of finance lease rental payments		3.0	1.8
Net cash inflow from financing		(125.9)	(113.7)
Increase/(decrease) in cash and cash equivalents	24(c)	26.5	(18.7)
		(99.4)	(132.4)

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 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(a) 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 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 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 10.

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	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Turnover						
Turnover	95.2	87.3	115.5	98.8	210.7	186.1
Inter-segment turnover	(0.4)	(0.3)	(0.1)	(0.1)	(0.5)	(0.4)
Turnover to third parties	<u>94.8</u>	<u>87.0</u>	<u>115.4</u>	<u>98.7</u>	<u>210.2</u>	<u>185.7</u>
Profit						
Segment operating profit	31.8	23.9	72.1	60.0	103.9	83.9
Net interest (payable)/ receivable	(5.7)	4.4	(7.6)	5.8	(13.3)	10.2
Profit on ordinary activities before taxation	<u>26.1</u>	<u>28.3</u>	<u>64.5</u>	<u>65.8</u>	<u>90.6</u>	<u>94.1</u>
Net assets						
Segment net assets	<u>377.9</u>	<u>383.8</u>	<u>457.0</u>	<u>402.5</u>	<u>834.9</u>	<u>786.3</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

	1994 £m	1993 £m
Manpower costs (note 7)	28.8	27.8
Raw materials and consumables	6.5	6.9
Rentals under operating leases:		
Hire of plant and machinery	0.6	0.7
Other operating leases	2.2	2.3
Research expenditure	0.4	0.5
Auditors' remuneration	0.1	0.1
Other external charges	40.9	38.9
Depreciation:		
On owned assets	8.1	8.8
On assets acquired under finance leases	6.5	2.7
Deferred income (note 17)	(0.4)	(0.4)
Infrastructure renewals charge	5.7	5.6
Other operating charges	7.3	8.4
	<u>106.7</u>	<u>102.3</u>

Comparative figures for other external charges have been amended to present separately other operating charges. Fees payable to the Company's auditors, Price Waterhouse, for non-audit work for the year ended 31 March 1994 amounted to £0.9m (1993 £0.3m).

4 Net Interest (Payable)/Receivable

	1994 £m	1993 £m
Interest payable:		
To parent undertaking	(17.1)	(17.6)
To fellow subsidiary undertakings	(0.1)	(0.1)
Bank loans, overdrafts and other loans repayable wholly within five years	-	(0.1)
Long term loans (any part repayable after five years)	(13.7)	(13.2)
Interest element of finance lease rentals	(7.8)	(8.0)
Other finance costs	(0.7)	(0.7)
	<u>(39.4)</u>	<u>(39.7)</u>
Interest receivable:		
Listed redeemable securities	11.2	14.8
From fellow subsidiary undertakings	-	0.1
Other investments (as defined in note 13)	14.9	35.0
	<u>26.1</u>	<u>49.9</u>
Net interest (payable)/receivable	<u>(13.3)</u>	<u>10.2</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 1994.

	1994 £m	1993 £m
Amount (payable)/receivable in respect of surrender of tax losses (from)/to South West Water group companies in respect of:-		
the current year	1.2	0.5
previous years	(1.7)	0.1
	<u>(0.5)</u>	<u>0.6</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

	1994 £m	1993 £m
Interim dividend of 15.6p (1993 14.6p) per ordinary share	41.5	38.8

NOTES TO THE FINANCIAL STATEMENTS7 Numbers of Employees and Employment Costs

	1994	1993
The average number of persons (including Directors) employed by the Company during the years ended 31 March was:		
Water services	1,209	1,237
Sewerage services	932	907
	<u>2,141</u>	<u>2,144</u>
Employment costs comprise:	£m	£m
Wages and salaries	36.4	36.0
Social Security costs	3.1	2.8
Other pension costs	3.1	2.7
	<u>42.6</u>	<u>41.5</u>
Total employment costs are charged as follows:		
Manpower costs (note 3)	28.8	27.8
Capital schemes and infrastructure renewals expenditure	13.8	13.7
	<u>42.6</u>	<u>41.5</u>

NOTES TO THE FINANCIAL STATEMENTS8 Emoluments of Directors

	1994 £000	1993 £000 (Restated)
Total emoluments of the Directors of the Company		
Remuneration - salary	307	296
- performance bonus	37	62
	-----	-----
	344	358
Other emoluments	34	26
Pension contributions	84	78
	-----	-----
	462	462
	=====	=====

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, performance bonus, war benefit and health cover.

Directors participate in an annual performance bonus plan, payments under which are related to increases in earnings per share and the achievement of other performance related targets.

Performance bonus payments have previously been disclosed within the emoluments of Directors in the year of cash payment. These are now shown on a receivable basis such that they are included in the year to which they relate. Accordingly, the 1993 figures have been restated to the receivable basis.

	1994 £000	1993 £000 (Restated)
Included above within emoluments of Directors are:-		
(a) Emoluments of the Chairman	-	-
	=====	=====
(b) Emoluments of the highest paid Director -		
Remuneration - salary	77	77
- performance bonus	10	20
	-----	-----
	87	97
Other emoluments	11	11
Pension contributions	15	17
	-----	-----
	113	125
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

8 Emoluments of Directors (Continued)

Number of Directors whose emoluments, excluding pension contributions, fell within the following ranges:-	1994	1993 (Restated)
Range (£)		
0 - 5,000	1	1
55,001 - 60,000	1	1
60,001 - 65,000	-	1
65,001 - 70,000	1	-
75,001 - 80,000	2	2
95,001 - 100,000	1	-
105,001 - 110,000	-	1

During the current year the Directors received cash payments under the performance bonus scheme in respect of the previous year. These payments are included in the restated figures for 1993.

The Company has a future obligation in respect of Mr W H Fraser to pay the difference between pension entitlement based upon final salary and the maximum amount payable under the rules of the pension scheme.

9 Directors' Interests

The beneficial interests of Directors in shares of South West Water Plc at 31 March 1994 and 31 March 1993 were as follows:-

	Share Interests		Options to Subscribe for Shares			
	1994	1993	Scheme	1994	Granted in Year	1993
R J Baty	7,517	19,951	Executive Sharesave	39,600 8,395	15,000 -	24,600 8,395
C J Cook	15,300	21,545	Executive Sharesave	43,000 8,094	15,000 1,755	28,000 6,339
B J Moorhouse	39	-	Executive	47,500	10,500	37,000
I R Douglas	-	-	Executive Sharesave	27,500 2,006	10,500 877	17,000 1,129

As a result of a scrip dividend alternative, the following Directors acquired additional ordinary shares on 6 April 1994 as follows:-

R J Baty	88
C J Cook	7

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

Other than as stated above, there have been no changes in Directors' interests since 31 March 1994.

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.

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 1994
	£m	£m	£m	£m	£m	£m
Cost:-						
At 1 April 1993	9.5	336.1	237.1	187.6	169.6	939.9
Additions	0.5	29.7	24.6	25.6	118.4	198.8
Grants and contri- butions	-	(4.6)	-	-	-	(4.6)
Transfers	0.1	27.2	48.0	10.1	(85.4)	-
Disposals	-	-	(0.1)	(1.6)	-	(1.7)
At 31 March 1994	<u>10.1</u>	<u>388.4</u>	<u>309.6</u>	<u>221.7</u>	<u>202.6</u>	<u>1,132.4</u>
Deprecia- tion:-						
At 1 April 1993	1.9		46.5	52.0		100.4
Charge for year	0.2		5.9	10.4		16.5
Disposals	-		-	(1.2)		(1.2)
At 31 March 1994	<u>2.1</u>		<u>52.4</u>	<u>61.2</u>		<u>115.7</u>
Net book value:-						
At 31 March 1994	<u>8.0</u>	<u>388.4</u>	<u>257.2</u>	<u>160.5</u>	<u>202.6</u>	<u>1,016.7</u>
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>

Out of the total depreciation charge for the Company of £16.5m (1993 £13.0m), the sum of £1.9m (1993 £1.5m) has been charged to capital projects and £14.6m (1993 £11.5m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.1m (1993 £1.1m) and £4.6m (1993 £3.6m) respectively.

The net book value of infrastructure assets is stated after deducting £24.8m (1993 £20.2m) grants and contributions.

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 1994
	£m	£m	£m	£m
Cost:-				
At 1 April 1993	51.3	56.1	56.6	164.0
Additions	17.3	17.6	34.0	68.9
Transfers	30.0	11.9	(41.9)	-
At 31 March 1994	<u>98.6</u>	<u>85.6</u>	<u>48.7</u>	<u>232.9</u>
Depreciation:-				
At 1 April 1993	0.4	5.1		5.5
Charge for year	1.3	5.2		6.5
At 31 March 1994	<u>1.7</u>	<u>10.3</u>		<u>12.0</u>
Net book value:-				
At 31 March 1994	<u>96.9</u>	<u>75.3</u>	<u>48.7</u>	<u>220.9</u>
At 31 March 1993	<u>50.9</u>	<u>51.0</u>	<u>56.6</u>	<u>158.5</u>

11 Stocks

	1994 £m	1993 £m
Raw materials and consumables	1.2	1.3

NOTES TO THE FINANCIAL STATEMENTS12 Debtors

	1994 £m	1993 £m
Trade debtors	23.4	19.3
Amounts owed by fellow subsidiary undertakings	0.3	0.1
Other debtors	0.4	0.7
Prepayments and accrued income	21.2	15.9
	<u>45.3</u>	<u>36.0</u>
Included above are amounts due after more than one year:		
Other debtors	0.1	0.3
Prepayments and accrued income	1.6	-
	<u>1.7</u>	<u>0.3</u>

13 Current Asset Investments

	1994 £m	1993 £m
Listed on a recognised investment exchange	181.2	104.6
Other investments	223.0	284.3
	<u>404.2</u>	<u>388.9</u>
Market value of listed investments	181.5	106.2

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

	1994 £m	1993 £m
European Investment Bank loans	1.9	-
Bank loans and overdrafts	5.7	1.6
Obligations under finance leases (note 21)	5.0	3.3
Trade creditors	65.0	48.3
Amounts owed to parent undertaking	3.7	4.5
Amounts owed to fellow subsidiary undertakings	5.3	2.6
Amounts owed to associated undertakings	0.5	0.9
Other creditors	0.5	0.5
Taxation and social security	1.3	1.0
Accruals and deferred income	17.6	18.1
	<u>106.5</u>	<u>90.8</u>

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

	1994 £m	1993 £m
European Investment Bank loans	128.0	130.0
Other loans	0.1	0.1
Amounts owed to parent undertaking	150.0	90.0
Obligations under finance leases (note 21)	224.0	159.2
Other creditors	1.6	1.0
	<u>503.7</u>	<u>380.3</u>

16 Provisions for Liabilities and Charges

	1994 £m
Infrastructure Renewals	
At 1 April 1993	4.2
Charged against profits	5.7
Utilised during year	(6.2)
At 31 March 1994	<u>3.7</u>

	1994 £m	1993 £m
Deferred Taxation		
The maximum potential liability for deferred taxation for which no provision is considered necessary, at 31 March 1994 was:		
Tax effect of timing differences due to:		
Accelerated capital allowances	37.9	33.8
Other timing differences	(1.0)	(4.0)
Unutilised corporation tax losses	-	(5.0)
	<u>36.9</u>	<u>24.8</u>

Losses set off against deferred tax at 31 March 1993 are based on capital allowances available to the Company being claimed in full. It is now expected that capital allowances for the earlier years will be partially disclaimed. This will not generate any corporation tax losses to be carried forward at 31 March 1994 but will result in higher potential capital allowances' claims in future years.

NOTES TO THE FINANCIAL STATEMENTS17 Accruals and Deferred Income

	1994 £m
Deferred Income	
At 1 April 1993	15.2
Additions	5.1
Released to profit and loss account	(0.4)

At 31 March 1994	19.9
Amount to be released within one year (note 14)	(0.6)

Amount to be released after more than one year	19.3
	=====

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 1994 was £265,950,000 comprising 265,950,000 ordinary shares of £1 each.

19 Reserves

	Profit and loss account £m
At 1 April 1993	520.4
Profit retained for year	48.6

At 31 March 1994	569.0
	=====

20 Statement of Movements in Shareholders' Funds

	1994 £m	1993 £m
Profit on ordinary activities after taxation	90.1	94.7
Dividends	(41.5)	(38.8)
	-----	-----
Net addition to shareholders' funds	48.6	55.9
Shareholders' funds at 1 April	786.3	730.4
	-----	-----
Shareholders' funds at 31 March	834.9	786.3
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS21 Loans and Other Borrowings

	1994 £m	1993 £m
Loans are repayable:		
After five years	150.0	90.0
By instalments, any of which is due for repayment after five years:		
Payable after five years	96.4	106.8
Payable between two and five years	27.0	21.4
Payable between one and two years	4.7	1.9
	<u>278.1</u>	<u>220.1</u>
Within one year:		
European Investment Bank Loans	1.9	-
Bank loans and overdrafts	5.7	1.6
	<u>285.7</u>	<u>221.7</u>

Loans are denominated in sterling and are repayable over the period 1994-2012. The rates of interest payable on loans, any part of which is due after five years, varies from 4% to 12%.

	1994 £m	1993 £m
Obligations under finance leases are repayable:		
After five years	211.7	150.9
Between two and five years	8.9	6.4
Between one and two years	3.4	1.9
	<u>224.0</u>	<u>159.2</u>
Within one year	5.0	3.3
	<u>229.0</u>	<u>162.5</u>

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £2.2m (1993 £1.5m).

22 Pensions

The pension cost for the Company for the year ended 31 March 1994 was £3.1m (1993 £2.7m). 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

	1994 £m	1993 £m
Capital Commitments:		
Contracted but not provided	48.1	86.8
Authorised but not yet contracted	216.7	152.0

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.

	1994 £m	1993 £m
Operating Leases:		
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	1.9	1.6
Leases, other than for land and buildings, expiring between one and five years	0.1	0.4
	<u>2.0</u>	<u>2.2</u>

	1994 £m	1993 £m
Contingent Liabilities:		
Contractors' claims on capital schemes	11.0	17.9
Guarantee of borrowings by the parent undertaking	150.0	150.0
	<u>161.0</u>	<u>167.9</u>

NOTES TO THE FINANCIAL STATEMENTS24 Notes to the Cash Flow Statement(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	1994 £m	1993 £m
Operating profit	103.9	83.9
Depreciation charge	14.6	11.5
Profit on disposals of tangible fixed assets	(0.2)	(0.3)
Deferred income released	(0.4)	(0.4)
Provisions for liabilities and charges	(0.5)	(1.5)
Decrease in stocks	0.1	0.4
Increase in debtors	(0.7)	(4.9)
(Decrease)/increase in creditors (amounts falling due within and over one year)	(4.5)	8.0
NET CASH INFLOW FROM OPERATING ACTIVITIES	112.3	96.7

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

	1994 £m	1993 £m
Balance at start of year	186.7	205.4
Net cash inflow/(outflow)	26.5	(18.7)
Balance at end of year	213.2	186.7

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

	1994 £m	1993 £m	1992 £m	Change in Year 1994 £m	Change in Year 1993 £m
Current asset investments	404.2	388.9	416.1	15.3	(27.2)
Deduct investments not within three months of maturity when purchased	(186.0)	(201.0)	(203.5)	15.0	2.5
	218.2	187.9	212.6	30.3	(24.7)
Cash at bank and in hand	0.7	0.4	0.2	0.3	0.2
Short term borrowings and overdrafts	(5.7)	(1.6)	(7.4)	(4.1)	5.8
Cash and cash equivalents	213.2	186.7	205.4	26.5	(18.7)

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

	1994 £m	1993 £m
Loans and Finance Lease Obligations		
Balance at start of year	381.0	267.3
Loans raised	60.0	30.0
Finance lease drawdowns	68.9	85.5
Finance lease repayments	(3.0)	(1.8)
Balance at end of year	<u>506.9</u>	<u>381.0</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.