

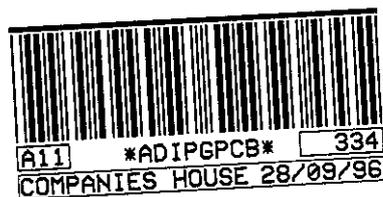
SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

1996





South West Water Services Limited

**ANNUAL REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED**

31 MARCH 1996

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South West Water Services Limited

DIRECTORS, REGISTERED OFFICE AND AUDITORS

Chairman	K W Court
Managing Director	R J Baty
East Division Director	P G Ashcroft (appointed 1 April 1996)
West Division Director	P J Briens (appointed 1 April 1996)
Finance Director	I R Douglas
Regulatory Director	D J Dupont (appointed 1 April 1996)
Technical and Infrastructure Investment Director	I R Hume (appointed 1 April 1996)
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 seventh Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 11 July 1996 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 1996.
- 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

13 June 1996

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 audited financial statements of South West Water Services Limited for the year ended 31 March 1996.

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 1.1% to £239.3m. Turnover from main water and sewerage charges was £233.4m which is after a rebate of customer charges for the year of £6.9m.

Operating Costs

Operating costs fell by 24.8% to £114.0m principally resulting from a net credit of £7.5m in 1996 for exceptional restructuring costs no longer needed (1995 £32.6m charge).

Profit

Operating profit increased by 47.0% to £125.5m (1995 £85.4m) due principally to the reduction in operating costs of £37.5m. The net interest payable decreased to £20.8m (1995 £21.9m), mainly as a result of improved returns on current asset investments. Net profit before taxation amounted to £104.7m (1995 £63.5m), after reflecting both lower interest payable and operating costs.

An interim dividend of 12.7p per Ordinary share, totalling £46.5m, was paid to the parent undertaking on 8 December 1995. 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 year.

Distributable reserves increased by £58.5m after payment of the interim dividend.

Net cash inflow from operating activities reduced to £124.8m (1995 £134.3m) as a result of the cash payments associated with the utilisation of the 1995 exceptional restructuring provision.

FINANCIAL NEEDS AND RESOURCES

Capital expenditure on tangible fixed assets during the year was £100.0m, 34.6% below the 1995 level of £152.9m, reflecting the slow-down in the Company's investment programme.

The capital works programme comprises over 168 on-going projects at 31 March 1996 with 64 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 1996 decreased to £100.5m (1995 £226.5m).

Significant funding for the short and medium term by way of finance leasing, loans from the European Investment Bank and a Bond, issued by South West Water Plc, has been put in place.



South West Water Services Limited

At 31 March 1996 loans and finance lease obligations amounted to £414m compared with £550m at 31 March 1995, largely a result of the collateralisation of £150m of current asset investments against finance lease obligations. Current asset investments of £173m (1995 £353m) were held at the Balance Sheet date.

Facilities in place but not yet drawn totalled £74m for finance leasing at 31 March 1996. Together with current asset investments 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.

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 are shown on page 5. C J Cook resigned on 5 October 1995 and W H Fraser resigned on 29 February 1996.

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 as the Company introduced further 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.

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 1997 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.

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 seventh 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 seventh annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 11 July 1996 at 9.00 am.

By Order of the Board



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

13 June 1996

DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the auditors' statement of responsibilities set out on page 11, 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 12 to 32, 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 12 to 32 which have been prepared under the historical cost convention and the accounting policies set out on pages 15 to 17.

Respective Responsibilities of Directors and Auditors

As described on page 10 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.

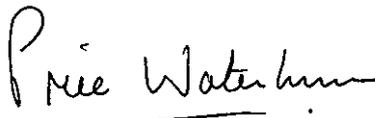
Basis of Opinion

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 1996 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
Chartered Accountants
and Registered Auditors
Bristol

13 June 1996



South West Water Services Limited

**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1996**

		1996 £m	1995 £m
	Notes		
Turnover	2	239.3	236.6
Other operating income		0.2	0.3
Operating costs	3	(114.0)	(151.5)
Operating Profit	2	<u>125.5</u>	<u>85.4</u>
Net interest payable	5	(20.8)	(21.9)
Profit on Ordinary Activities Before Taxation	2	<u>104.7</u>	<u>63.5</u>
Tax on profit on ordinary activities	6	0.3	0.3
Profit on Ordinary Activities After Taxation		<u>105.0</u>	<u>63.8</u>
Dividends	7	(46.5)	(145.0)
Retained Profit/(Deficit) Transferred to Reserves	20	<u>58.5</u>	<u>(81.2)</u>

A statement of movements in reserves is given in note 20.

There are no recognised gains or losses other than the profit on ordinary activities after taxation for the year, in 1996 or 1995.

All operating activities are continuing operations.

The notes on pages 15 to 32 form part of these financial statements.

South West Water Services Limited

BALANCE SHEET
at 31 March 1996

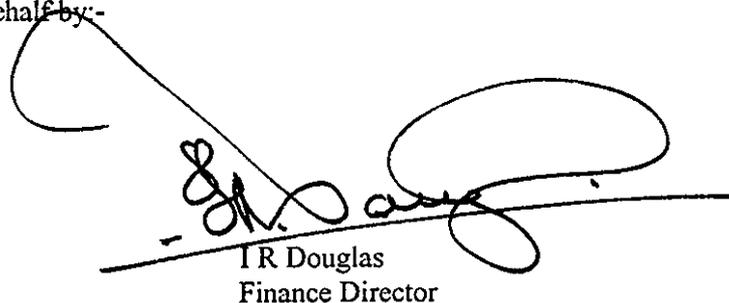
	Notes	1996 £m	1995 £m
Fixed Assets			
Tangible assets	11	1,212.0	1,140.8
Current Assets			
Stocks	12	2.5	1.3
Debtors	13	46.4	47.7
Investments	14	172.8	352.8
Cash at bank and in hand		0.3	0.2
		<u>222.0</u>	<u>402.0</u>
Current Liabilities			
Creditors: amounts falling due within one year	15	(96.8)	(89.8)
Net Current Assets		<u>125.2</u>	<u>312.2</u>
Total Assets Less Current Liabilities			
Creditors: amounts falling due after more than one year	16	(390.4)	(543.0)
Provisions for liabilities and charges	17	(11.4)	(32.5)
Accruals and deferred income	18	(23.2)	(23.8)
Net Assets	2	<u>912.2</u>	<u>853.7</u>
Capital and Reserves			
Called-up share capital	19	365.9	365.9
Profit and loss account	20	546.3	487.8
Shareholders' Funds	21	<u>912.2</u>	<u>853.7</u>

The notes on pages 15 to 32 form part of these financial statements.

Approved by the Board on 13 June 1996 and signed on its behalf by:-



R J Baty
Managing Director



I R Douglas
Finance Director

CASH FLOW STATEMENT
for the year ended 31 March 1996

	Notes	1996 £m	1995 £m
Net Cash Inflow from Operating Activities	25(a)	124.8	134.3
Returns on Investments and Servicing of Finance			
Interest received		20.2	24.5
Interest paid		(30.9)	(31.2)
Interest element of finance lease rental payments		(4.4)	(9.7)
Dividends paid		(46.5)	(145.0)
Net cash outflow from returns on investments and servicing of finance		(61.6)	(161.4)
Taxation			
(Payments)/receipts in respect of group relief		(0.3)	1.4
Investing Activities			
Payments to acquire tangible fixed assets		(100.1)	(173.7)
Grants and contributions:			
Infrastructure assets		3.2	3.1
Non-infrastructure assets		0.7	5.2
Receipts from disposal of tangible fixed assets		0.5	0.4
Payments to acquire current asset investments		(632.6)	(1,026.7)
Receipts from disposal of current asset investments		591.9	1,111.8
Net cash outflow from investing activities		(136.4)	(79.9)
Net Cash Outflow Before Financing		(73.5)	(105.6)
Financing			
Issue of shares for cash consideration		-	(100.0)
Loan repayments		4.6	1.9
Amount received under finance lease arrangements		(10.6)	(48.7)
Capital element of finance lease rental payments		4.3	3.4
Cash deposited against finance lease obligation		150.0	-
Net cash inflow/(outflow) from financing		148.3	(143.4)
(Decrease)/Increase in Cash and Cash Equivalents	25(c)	(221.8)	37.8
		(73.5)	(105.6)

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 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 STATEMENTS

2 Classes of Business

	Water		Sewerage		Company	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Turnover						
Turnover	107.3	106.1	132.5	131.1	239.8	237.2
Inter-segment turnover	(0.3)	(0.4)	(0.2)	(0.2)	(0.5)	(0.6)
Turnover to third parties	<u>107.0</u>	<u>105.7</u>	<u>132.3</u>	<u>130.9</u>	<u>239.3</u>	<u>236.6</u>
Profit						
Segment operating profit	42.2	20.6	83.3	64.8	125.5	85.4
Net interest payable	(7.7)	(9.4)	(13.1)	(12.5)	(20.8)	(21.9)
Profit on ordinary activities before taxation	<u>34.5</u>	<u>11.2</u>	<u>70.2</u>	<u>52.3</u>	<u>104.7</u>	<u>63.5</u>
Net Assets						
Segment net assets	<u>383.3</u>	<u>349.3</u>	<u>528.9</u>	<u>504.4</u>	<u>912.2</u>	<u>853.7</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 located in the United Kingdom.

The exceptional items set out in note 4 arise:-

	Turnover		Operating Costs		Total	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Water	3.4	-	(3.7)	16.3	(0.3)	16.3
Sewerage	3.5	-	(3.8)	16.3	(0.3)	16.3
	<u>6.9</u>	<u>-</u>	<u>(7.5)</u>	<u>32.6</u>	<u>(0.6)</u>	<u>32.6</u>

NOTES TO THE FINANCIAL STATEMENTS

3 Operating Costs

	1996 £m	1995 £m
Manpower costs (note 8)	17.9	50.1
Raw materials and consumables	7.7	6.6
Rentals under operating leases:		
Hire of plant and machinery	0.7	0.4
Other operating leases	1.5	6.6
Research expenditure	0.2	0.5
Auditors' remuneration	0.1	0.1
Other external charges	45.1	44.0
Depreciation:		
On owned assets	12.6	12.1
Provision for diminution in value	-	1.9
On assets acquired under finance leases	11.5	9.1
Deferred income (note 18)	(0.8)	(0.6)
Infrastructure renewals charge (note 17)	6.9	6.1
Other operating charges	10.6	14.6
	<u>114.0</u>	<u>151.5</u>

Fees payable to the Company's auditors, Price Waterhouse, for non-audit work for the year ended 31 March 1996 amounted to £0.1m (1995 £0.4m).

Operating costs include the exceptional items set out in note 4.

4 Exceptional Items

Operating profit is after charging/(crediting) the following exceptional items:-

	1996 £m	1995 £m
Turnover:		
Customer charges rebate	6.9	-
Operating costs:		
Restructuring provision (release)/costs (note 17)		
Manpower costs	(7.5)	19.3
Other operating leases	-	4.4
Provision for diminution in value	-	1.9
Other operating charges	-	7.0
	<u>(7.5)</u>	<u>32.6</u>
Total exceptional items	<u>(0.6)</u>	<u>32.6</u>

NOTES TO THE FINANCIAL STATEMENTS

4 Exceptional Items (Continued)

The exceptional restructuring charge in 1995 was in respect of a provision for restructuring the water and sewerage business. The provision release in 1996 relates to amounts no longer required, comprising principally of pension costs.

5 Net Interest Payable

	1996 £m	1995 £m
Interest payable:		
To parent undertaking	(17.1)	(17.1)
Bank loans and overdrafts	(12.4)	(13.4)
Interest element of finance lease rentals	(9.8)	(11.2)
Other finance costs	(0.2)	(0.9)
	(39.5)	(42.6)
Interest receivable:		
Listed redeemable securities	4.4	7.6
Other investments (as defined in note 14)	14.3	13.1
	18.7	20.7
Net interest payable	(20.8)	(21.9)

The interest element of finance lease rentals is shown after £6.4m (1995 nil) interest receivable on cash deposited against finance lease obligations (note 22).

6 Tax on Profit on Ordinary Activities

The Company is entitled to capital allowances on qualifying assets transferred from its substantial investment programme. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1996.

	1996 £m	1995 £m
Amount receivable in respect of surrender of tax losses to South West Water group companies for the current year	0.3	0.3

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.

NOTES TO THE FINANCIAL STATEMENTS

7 Dividends

	1996 £m	1995 £m
Interim dividend of 12.7p (1995 16.9p) per Ordinary share paid on 8 December 1995	46.5	45.0
Further interim dividend	-	100.0
	46.5	145.0
	46.5	145.0

8 Employees and Employment Costs

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

	1996	1995
Water services	1,029	1,176
Sewerage services	786	908
	1,815	2,084
	1,815	2,084
	£m	£m

Employment costs comprise:

Wages and salaries		
excluding exceptional items	32.7	36.1
exceptional items	(0.2)	8.9
Social security costs	2.6	2.9
Pension costs (note 23)		
excluding exceptional items	(1.5)	3.0
exceptional items	(7.3)	10.4
	26.3	61.3
	26.3	61.3

Charged as follows:

Manpower costs (note 3)		
excluding exceptional items	25.4	30.8
exceptional items	(7.5)	19.3
	17.9	50.1
Capital schemes and infrastructure renewals expenditure	7.3	11.2
Restructuring provision	1.1	-
	26.3	61.3
	26.3	61.3

NOTES TO THE FINANCIAL STATEMENTS

9 Emoluments of Directors

	1996 £000	1995 £000
Total emoluments of the Directors of the Company		
Remuneration - salary	238	323
- performance bonus	31	-
	269	323
Other emoluments	32	43
Pension contributions	94	119
Payment in respect of tax liability from supplementary pension arrangements	21	22
Payment to a former Director	-	10
	416	517

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 cover.

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 South West Water Group has established pension arrangements to provide benefits above the Inland Revenue earnings cap and improved pensions benefits for certain Directors. These supplementary pension arrangements, which are not approved for tax relief, are funded by Company contributions. The Directors included in these arrangements receive payment to cover the tax liability which arises in respect of these contributions.

	1996 £000	1995 £000
Included above within emoluments of Directors are:		
(a) Emoluments of the Chairman	-	-
	-	-
(b) Emoluments of W H Fraser, the highest paid Director -		
Remuneration - salary	81	80
- performance bonus	7	-
	88	80
Other emoluments	12	13
Pension contributions	47	47
Payment in respect of tax liability from supplementary pension arrangements	21	22
	168	162

NOTES TO THE FINANCIAL STATEMENTS

9 Emoluments of Directors (Continued)

The above amounts represent emoluments relating to specific services performed for the Company. The total emoluments of Messrs K W Court and W H Fraser are contained in the financial statements of South West Water Plc.

The following table shows the number of Directors whose emoluments, excluding pension contributions, fell within each band of £5,000:-

Range (£)	1996	1995
0 - 5,000	1	1
45,001 - 50,000	1	-
55,001 - 60,000	-	1
65,001 - 70,000	1	-
70,001 - 75,000	-	1
75,001 - 80,000	-	2
85,001 - 90,000	1	-
115,001 - 120,000	-	1
120,001 - 125,000	1	-

Performance bonuses for 1995 have been disclosed in the 1996 numbers above. The bonuses payable for 1996 performances have not yet been determined and will be disclosed in the 1997 financial statements.

10 Directors' Interests

The beneficial interest of Directors holding office at 31 March 1996 in shares of South West Water Plc at 31 March 1996 and 31 March 1995 were as follows:

	Share interests		Options				
	1996	1995	Scheme	1996	Granted in Year	Exercised in Year	1995
I R Douglas	39	38	Executive Sharesave	32,500 2,930	- -	- -	32,500 2,930

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 W Court and R J Baty are disclosed in the financial statements of that Company.

There have been no changes in I R Douglas' interest in shares of the Company since 31 March 1996.

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 1995	10.1	442.2	316.1	285.2	226.5	1,280.1
Additions	-	22.7	23.0	19.6	34.7	100.0
Grants and contributions	-	(2.7)	-	-	-	(2.7)
Transfers	-	71.6	50.3	38.8	(160.7)	-
Disposals	-	-	-	(1.3)	-	(1.3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1996	10.1	533.8	389.4	342.3	100.5	1,376.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:-						
At 1 April 1995	2.2		58.5	78.6		139.3
Charge for year	0.2		7.3	18.1		25.6
Disposals	-		-	(0.8)		(0.8)
	<hr/>		<hr/>	<hr/>		<hr/>
At 31 March 1996	2.4		65.8	95.9		164.1
	<hr/>		<hr/>	<hr/>		<hr/>
Net Book Value:-						
At 31 March 1996	7.7	533.8	323.6	246.4	100.5	1,212.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1995	7.9	442.2	257.6	206.6	226.5	1,140.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Out of the total depreciation charge for the Company of £25.6m (1995 £23.1m), the sum of £1.5m (1995 £1.9m) has been charged to capital projects, and £24.1m (1995 £21.2m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.1m (1995 £1.1m) and £7.6m (1995 £6.4m) respectively.

The net book value of infrastructure assets is stated after deducting £30.9m (1995 £28.2m) grants and contributions.

NOTES TO THE FINANCIAL STATEMENTS

11 Tangible Fixed Assets (Continued)

Assets held under finance leases included above:-

	Opera- tional properties £m	Fixed & mobile plant, vehicles and computers £m	Construc- tion in progress £m	Total £m
Cost: At 31 March 1996	179.4	101.9	10.9	292.2
Depreciation: Charge for year	3.6	7.9	-	11.5
Depreciation: At 31 March 1996	7.3	25.3	-	32.6

12 Stocks

	1996 £m	1995 £m
Raw materials and consumables	2.5	1.3

13 Debtors

	1996 £m	1995 £m
Trade debtors	23.6	24.2
Amounts owed by fellow subsidiary undertakings	0.5	0.1
Other debtors	2.3	0.2
Prepayments and accrued income	15.8	23.2
Prepayments for pension costs	4.2	-
	<u>46.4</u>	<u>47.7</u>
Included above are amounts due after more than one year:		
Other debtors	-	0.1
Prepayments and accrued income	-	3.6
Prepayments for pension costs	4.2	-
	<u>4.2</u>	<u>3.7</u>

NOTES TO THE FINANCIAL STATEMENTS

14 Current Asset Investments

	1996 £m	1995 £m
Listed investments	55.4	62.0
Other investments	<u>117.4</u>	<u>290.8</u>
	<u>172.8</u>	<u>352.8</u>
Market value of listed investments	<u>55.4</u>	<u>62.2</u>

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

£150.0m (1995 nil) deposited against finance lease obligations (note 22) is not included above.

15 Creditors: Amounts falling Due Within One Year

	1996 £m	1995 £m
Loans:		
European Investment Bank loans	7.8	4.7
Bank loans and overdrafts	<u>2.3</u>	<u>1.1</u>
	10.1	5.8
Obligations under finance leases (note 22)	13.4	12.1
Trade creditors	40.0	41.5
Amounts owed to parent undertaking	3.5	3.1
Amounts owed to fellow subsidiary undertakings	5.6	5.0
Amounts owed to associated undertakings	0.5	0.9
Other creditors	0.4	0.5
Taxation and social security	1.0	1.2
Accruals and deferred income	<u>22.3</u>	<u>19.7</u>
	<u>96.8</u>	<u>89.8</u>

16 Creditors: Amounts falling Due After More Than One Year

	1996 £m	1995 £m
Loans:		
European Investment Bank loans	115.6	123.4
Amounts owed to parent undertaking	<u>150.0</u>	<u>150.0</u>
	265.6	273.4
Obligations under finance leases (note 22)	124.6	268.5
Other creditors	<u>0.2</u>	<u>1.1</u>
	<u>390.4</u>	<u>543.0</u>

NOTES TO THE FINANCIAL STATEMENTS

17 Provisions for Liabilities and Charges

	Infrastructure renewals £m	Restructuring £m	Total £m
At 1 April 1995	3.7	28.8	32.5
Charged against profits	6.9	-	6.9
Utilised during year	(8.5)	(12.0)	(20.5)
Released to profit and loss account	<u>-</u>	<u>(7.5)</u>	<u>(7.5)</u>
At 31 March 1996	<u>2.1</u>	<u>9.3</u>	<u>11.4</u>

Deferred Taxation

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

	1996 £m	1995 £m
Tax effect of timing differences due to:		
Accelerated capital allowances	61.5	53.5
Other timing differences	<u>(5.4)</u>	<u>(10.7)</u>
	<u>56.1</u>	<u>42.8</u>

As infrastructure assets are not depreciated, deferred taxation will crystallise in the event of their disposal at amounts in excess of their tax written down value. The tax effect (at 33%) due to accelerated capital allowances on infrastructure assets, which has been excluded from the amounts set out above, amounts to £128.1m (1995 £110.4m). In the opinion of the Directors, the likelihood of a liability crystallising in the foreseeable future is remote.

18 Accruals and Deferred Income

	1996 £m	1995 £m
Deferred Income		
At 1 April	24.5	19.9
Additions	0.5	5.2
Released to profit and loss account	<u>(0.8)</u>	<u>(0.6)</u>
At 31 March	24.2	24.5
Amount to be released within one year	<u>(1.0)</u>	<u>(0.7)</u>
Amount to be released after more than one year	<u>23.2</u>	<u>23.8</u>

NOTES TO THE FINANCIAL STATEMENTS

19 Called-up Share Capital

	1996 £m	1995 £m
Authorised, allotted, called-up and fully paid: 365,950,000 Ordinary shares of £1 each	<u>365.9</u>	<u>365.9</u>

20 Reserves

	Profit and loss account £m
At 1 April 1995	487.8
Retained profit for year	<u>58.5</u>
At 31 March 1996	<u>546.3</u>

21 Statement of Movements in Shareholders' Funds

	1996 £m	1995 £m
Profit on ordinary activities after taxation	105.0	63.8
Dividends	(46.5)	(145.0)
Shares issued	<u>-</u>	<u>100.0</u>
Shareholders' Funds:		
Addition for year	58.5	18.8
At 1 April	<u>853.7</u>	<u>834.9</u>
At 31 March	<u>912.2</u>	<u>853.7</u>

22 Loans and Other Borrowings

	1996 £m	1995 £m
Loans:		
Repayable:		
After five years	224.1	235.5
Between two and five years	32.6	30.1
Between one and two years	8.9	7.8
	<u>265.6</u>	<u>273.4</u>
Falling due after more than one year (note 16)	265.6	273.4
Falling due within one year (note 15)	<u>10.1</u>	<u>5.8</u>
	<u>275.7</u>	<u>279.2</u>

NOTES TO THE FINANCIAL STATEMENTS

22 Loans and Other Borrowings (Continued)

Loans are denominated in sterling and are repayable over the period 1996-2012. The rates of interest payable on loans, any part of which is due after five years, varies from 3.75% to 11.30%.

	1996 £m	1995 £m
Obligations under finance leases:		
Repayable after five years	113.4	256.2
Between two and five years	6.9	8.7
Between one and two years	<u>4.3</u>	<u>3.6</u>
	124.6	268.5
Falling due within one year	<u>13.4</u>	<u>12.1</u>
	<u>138.0</u>	<u>280.6</u>

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £9.4m (1995 £7.5m).

Obligations under finance leases of £150.0m (1995 nil) are not included above because cash of an equal amount has been deposited with the lessor's bank group; the Company can insist that this cash is utilised to meet the finance lease obligations as they fall due. Such cash deposits are likewise not shown on the balance sheet. The Company has no present plans to withdraw the cash deposits but, in the event that some, or all, of the deposits were withdrawn, an equivalent amount of finance lease obligations would require to be reinstated as a liability in the balance sheet.

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

	1996 £m	1995 £m
Loans	265.6	273.4
Obligations under finance leases	122.4	265.4

23 Pensions

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

The net pensions credit for the Company for the year ended 31 March 1996 was £1.5m (1995 £3.0m charge) before exceptional items, as a result of significant surpluses revealed at the latest actuarial valuations. Full details of the valuations and the actuarial assumptions are given in the financial statements of South West Water Plc.

Pensions prepayments included in debtors of the Company amount to £4.2m (1995 nil), representing the difference between the Company pension credit and employer contributions paid.

NOTES TO THE FINANCIAL STATEMENTS

24 Commitments and Contingent Liabilities

	1996 £m	1995 £m
Capital commitments		
Contracted but not provided	<u>19.7</u>	<u>16.3</u>
Commitments under operating leases		
Rentals during the year following the balance sheet date		
Land and buildings leases expiring:		
within one year	-	0.4
after five years	<u>1.6</u>	<u>1.5</u>
	<u>1.6</u>	<u>1.9</u>
Contingent liabilities		
Contractors' claims on capital schemes	18.8	18.9
Guarantee of borrowings by the parent undertaking	<u>150.0</u>	<u>150.0</u>
	<u>168.8</u>	<u>168.9</u>

25 Notes to the Cash Flow Statement

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

	1996 £m	1995 £m
Operating profit	125.5	85.4
Depreciation charge	24.1	21.2
Provision for diminution in value	-	1.9
Deferred income released	(0.8)	(0.6)
(Decrease)/increase in provisions for liabilities and charges	(21.1)	28.8
Increase in stocks	(1.2)	(0.1)
Increase in debtors	(4.6)	(1.6)
Increase/(decrease) in creditors (amounts falling due within and over one year)	<u>2.9</u>	<u>(0.7)</u>
Net Cash Inflow From Operating Activities	<u>124.8</u>	<u>134.3</u>

Cash outflows from operating activities accounted for as exceptional items, included above, were £11.7m (1995 £1.7m).

NOTES TO THE FINANCIAL STATEMENTS

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

	1996 £m	1995 £m
Balance at start of year	251.0	213.2
Net cash (outflow)/inflow	<u>(221.8)</u>	<u>37.8</u>
Balance at end of year	<u>29.2</u>	<u>251.0</u>

(c) Balances of Cash and Cash Equivalents

	1996 £m	1995 £m	Change in Year 1996 £m	Change in Year 1995 £m
Current asset investments	172.8	352.8	(180.0)	(51.4)
Deduct investments not within three months of maturity when purchased	<u>(141.6)</u>	<u>(100.9)</u>	<u>(40.7)</u>	<u>85.1</u>
	31.2	251.9	(220.7)	33.7
Cash at bank and in hand	0.3	0.2	0.1	(0.5)
Short term borrowings and overdrafts	<u>(2.3)</u>	<u>(1.1)</u>	<u>(1.2)</u>	<u>4.6</u>
Cash and cash equivalents	<u>29.2</u>	<u>251.0</u>	<u>(221.8)</u>	<u>37.8</u>

(d) Analysis of Changes in Financing during the Year

	Share Capital (including premium)		Loans and Finance Lease Obligations	
	1996 £m	1995 £m	1996 £m	1995 £m
Balance at start of year	365.9	265.9	550.3	506.9
Issue of shares for cash consideration	-	100.0	-	-
Loan repayments			(4.6)	(1.9)
Finance lease drawdowns			10.6	48.7
Finance lease repayments			(4.3)	(3.4)
Cash deposited against finance lease obligations			<u>(150.0)</u>	<u>-</u>
Balance at end of year	<u>365.9</u>	<u>365.9</u>	<u>402.0</u>	<u>550.3</u>

NOTES TO THE FINANCIAL STATEMENTS

26 Related Party Transactions

Until the requirements of FRS8, transactions with related parties are required to be disclosed. Transactions with other members of the South West Water Plc group are not, however, required to be set out herein since the Company is a wholly owned subsidiary within that group.

27 Parent Company

The 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.