

2366665

# SOUTH WEST WATER LIMITED

*(FORMERLY SOUTH WEST WATER SERVICES LIMITED)*

## ANNUAL REPORT AND FINANCIAL STATEMENTS 1999



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

# ANNUAL REPORT AND FINANCIAL STATEMENTS 1999

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## **DIRECTORS, REGISTERED OFFICE AND AUDITORS**

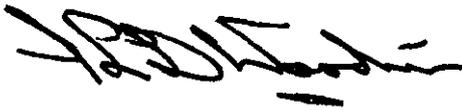
<b>Chairman</b>	<b>K G Harvey</b>
<b>Chief Executive</b>	<b>R J Baty</b>
<b>Operations and Engineering Director</b>	<b>P J Briens</b>
<b>Regulatory and Finance Director</b>	<b>D J Dupont</b>
<b>Customer Service Director</b>	<b>R Furniss</b>
<b>Secretary</b>	<b>K D Woodier</b>
<b>Registered Office</b>	<b>Peninsula House Rydon Lane Exeter EX2 7HR</b>
<b>Auditors</b>	<b>PricewaterhouseCoopers Chartered Accountants 31 Great George Street Bristol BS1 5QD</b>

## NOTICE OF MEETING

The tenth Annual General Meeting of South West Water Limited will be held at Peninsula House, Rydon Lane, Exeter on 20 July 1999 at 2.00 pm for the transaction of the following business:-

- Resolution 1                      To receive the Report of the Directors and the audited financial statements for the year ended 31 March 1999.
- Resolution 2                      To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board



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

23 June 1999

A member of the Company is entitled to attend and vote at the meeting or may appoint one or more proxies to attend and, on a poll, vote instead of her or him. A proxy need not be a member of the Company.

## REPORT OF THE DIRECTORS

The Directors submit their annual report and the audited financial statements of South West Water Limited for the year ended 31 March 1999.

The Company changed its name from South West Water Services Limited on 1 August 1998. The parent Company also changed its name to Pennon Group Plc on the same date.

### PRINCIPAL ACTIVITIES

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

### FINANCIAL RESULTS

#### Turnover

Turnover for the year increased by 7.4% to £270.1m. Turnover from main water and sewerage charges was £262.1m (1998 £244.3m) primarily reflecting the absence of a customer charges rebate (1998 £10.0m).

#### Operating Costs

Total operating costs fell by £0.9m, to £131.4m, including the absence of exceptional costs of £5.6m relating to business restructuring in 1998.

The completion of capital schemes was reflected in both additional costs of operations, together with an increase in depreciation charged to profits to £41.9m (1998 £38.3m, excluding provision for impairment).

#### Profit

Operating profit was £138.7m (1998 £119.2m, after exceptional restructuring costs). Net interest payable increased to £32.5m (1998 £13.5m), mainly due to a lower gain on defeasance of finance leases and the utilisation of cash for capital expenditure. Net profit before taxation amounted to £106.2m (1998 £105.7m).

The Company's taxation position results in a charge to mainstream corporation tax of £40.6m (1998 £10.0m) for the year, including a total of £20.0m payable to Pennon Group companies for tax saved by way of group relief and surrender of advance corporation tax.

#### Dividends and Retained Profit

An interim dividend of £60.0m was declared to the parent undertaking (1998 £165.1m, including £104.0m relating to the introduction of the windfall tax on utilities). The Directors do not recommend payment of a final dividend.

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

- a sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital: and
- a further level of growth funded by efficiency out-performance.

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

Retained profit of £5.6m was transferred to reserves (1998 £69.4m retained deficit).

## **REPORT OF THE DIRECTORS (Continued)**

### **FINANCIAL RESULTS Continued**

#### **Cash Flow**

Net cash inflow from operating activities decreased to £154.4m (1998 £163.7m) mainly as a result of increased working capital funding requirements.

### **FINANCIAL NEEDS AND RESOURCES**

Capital expenditure on tangible fixed assets during the year was £105.2m, substantially reduced from the 1998 level of £165.4m, reflecting the completion of a number of major schemes where significant works were in the course of construction at 31 March 1998. Capital scheme work-in-progress at 31 March 1999 decreased to £38.5m (1998 £98.1m). The Company continues to focus its investment programme upon the improvements confirmed by the Monopolies and Mergers Commission referral in 1994.

The capital works programme comprises nearly 100 on-going projects at 31 March 1999 with 57 major projects completed during the year. Further progress on the "Clean Sweep" bathing water schemes was achieved.

Significant funding facilities have been established to cover both medium and long term requirements, including finance leasing, loans from the European Investment Bank and a long term loan from Pennon Group Plc. In addition short term facilities are in place with a range of financial institutions.

At 31 March 1999 loans and finance lease obligations amounted to £584.0m compared with £487.3m at 31 March 1998. Current asset investments of £22.8m (1998 £61.4m) were held at the Balance Sheet date. Total facilities in place but not utilised totalled £215.0m at 31 March 1999. These resources form part of the funding strategy put in place to finance the future investment expenditure needs of the Company.

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

### **FUTURE DEVELOPMENTS**

The restructuring of the Company's operation has progressed substantially during the year, enabling further cost reduction and development of customer focus for the future.

Major submissions have been completed in support of the Director General's review of price limits. The outcome of this review is due to be published in late 1999 and will be important to the financial position of the Company in the new millennium.

### **YEAR 2000**

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

## **REPORT OF THE DIRECTORS (Continued)**

### **YEAR 2000 Continued**

A programme to address the impact of the Year 2000 date change on the Company's business has been ongoing since 1996 and the overwhelming majority of the necessary changes are complete. The programme included a risk analysis of the impact on our business of Year 2000 date change failures by key suppliers, who have participated in formal Year 2000 compliance confirmation processes. Extensive work has been carried out to assess, upgrade or replace all assets that may be affected by Year 2000 failures. All Year 2000 compliance work will be completed by June 1999.

The Year 2000 compliance programme has been designed to avoid Year 2000 change computer systems failure. However, that work cannot provide absolute assurance. The Directors will provide resources to deal promptly with any residual failures.

The total cost of modifications to the Company's computer hardware and software is estimated at £3.7m of which £1.8m is for new equipment that will be capitalised. The remainder will be charged against profits in the year in which it is incurred, including £0.7m in 1999.

### **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. I R Douglas resigned from office on 6 April 1998.

None of the Directors held any beneficial interest in the shares of the Company during the year. The interests of the Directors in shares of Pennon Group Plc are shown in note 10 of the Financial Statements. No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to either the individual Director or the Company's business.

### **EMPLOYEES**

Employee numbers decreased during the year through continued manpower efficiencies.

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

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

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

## **REPORT OF THE DIRECTORS (Continued)**

### **PAYMENTS TO SUPPLIERS**

It is the Company's payment policy for the year ending 31 March 2000 to follow the Confederation of British Industry (CBI) Code of Practice on Supplier Payments. The Company is committed to the payment of its suppliers to agreed terms. Information about the Code, and copies thereof, may be obtained from the CBI at Centre Point, 103 New Oxford Street, London, WC1A 1DU. Trade creditors at 31 March 1999 represented 49 days (1998 45 days) of the amount invoiced by suppliers during the year.

### **PARENT COMPANY**

The Company is a wholly owned subsidiary of Pennon Group Plc (formerly South West Water Plc).

### **AUDITORS**

PricewaterhouseCoopers were appointed auditors until the conclusion of the tenth 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 tenth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 20 July 1999 at 2.00 pm.

By Order of the Board



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

23 June 1999

## **DIRECTORS' RESPONSIBILITY STATEMENT**

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

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

The Directors consider that in preparing the financial statements on pages 13 to 37, 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 LIMITED**

We have audited the financial statements on pages 13 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 16 to 18.

### **Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including as described on page 11, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

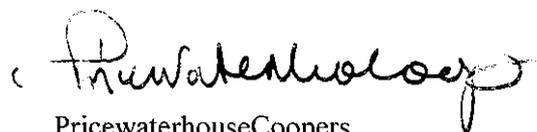
### **Basis of Opinion**

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 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors  
Bristol

23 June 1999

**PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 March 1999**

	Notes	1999 £m	1998 £m Restated (Note 24)
Turnover	2	270.1	251.5
Operating costs	3	(131.4)	(132.3)
<b>Operating Profit</b>	2	<b>138.7</b>	<b>119.2</b>
Net interest payable	5	(32.5)	(13.5)
<b>Profit on Ordinary Activities</b>			
Before Taxation	2	106.2	105.7
Tax on profit on ordinary activities	6	(40.6)	(10.0)
<b>Profit on Ordinary Activities</b>			
After Taxation		65.6	95.7
Dividends	7	(60.0)	(165.1)
<b>Retained Profit/(Deficit)</b>			
Transferred to Reserves	21	5.6	(69.4)

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

There are no recognised gains or losses other than the profit on ordinary activities after taxation for the year, in 1999 or 1998.

All operating activities are continuing operations.

The notes on pages 16 to 37 form part of these financial statements.

**BALANCE SHEET**  
**at 31 March 1999**

	Notes	1999 £m	1998 £m Restated (Note 24)
<b>Fixed Assets</b>			
Tangible assets	11	1,505.8	1,448.0
Investments	12	0.5	0.4
		<u>1,506.3</u>	<u>1,448.4</u>
<b>Current Assets</b>			
Stocks	13	3.2	3.5
Debtors: amounts falling due after more than one year	14	8.4	9.3
Debtors: amounts falling due within one year	14	52.4	42.3
Investments	15	22.8	61.4
Cash at bank and in hand		1.7	0.7
		<u>88.5</u>	<u>117.2</u>
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	16	(123.0)	(170.2)
		<u>(34.5)</u>	<u>(53.0)</u>
<b>Net Current Liabilities</b>			
<b>Total Assets Less Current Liabilities</b>			
		1,471.8	1,395.4
<b>Creditors: amounts falling due after more than one year</b>			
	17	(540.2)	(466.9)
Provisions for liabilities and charges	18	(3.4)	(6.3)
Accruals and deferred income	19	(32.1)	(31.7)
		<u>896.1</u>	<u>890.5</u>
<b>Net Assets</b>			
<b>Capital and Reserves</b>			
Called-up share capital	20	365.9	365.9
Profit and loss account	21	530.2	524.6
		<u>896.1</u>	<u>890.5</u>
<b>Shareholders' Funds</b>			
	22		

The notes on pages 16 to 37 form part of these financial statements.

Approved by the Board on 23 June 1999 and signed on its behalf by:-



R J Baty  
 Chief Executive



D J Dupont  
 Regulatory and Finance Director

**CASH FLOW STATEMENT**  
**for the year ended 31 March 1999**

	Notes	1999 £m	1998 £m Restated (Note 24)
<b>Cash Inflow from Operating Activities</b>	27a	154.4	163.7
<b>Returns on Investments and Servicing of Finance</b>	27b	(22.7)	(13.9)
<b>Taxation</b>		(39.4)	(2.0)
<b>Capital Expenditure and Financial Investment</b>	27b	(109.1)	(165.9)
<b>Equity Dividends Paid</b>		(112.0)	(113.1)
<b>Cash Outflow Before Use of Liquid Resources and Financing</b>		<u>(128.8)</u>	<u>(131.2)</u>
<b>Management of Liquid Resources</b>	27b	33.6	54.1
<b>Financing</b>	27b	92.1	78.5
<b>(Decrease)/Increase in Cash in Year</b>		<u>(3.1)</u>	<u>1.4</u>

## 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 that, as a whole, is intended to be maintained in perpetuity at a specified level of service by the continuing replacement and refurbishment of its components.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network, in accordance with defined standards of service, and to the maintenance of the operating capacity of the network, is treated as capital expenditure on tangible fixed assets and included at cost after deducting grants and contributions.

The depreciation charge on infrastructure assets represents the level of annual expenditure required to maintain the operating capacity of the network and is calculated from an independently certified asset management plan.

The adoption of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' has required a changed method of accounting for infrastructure assets. The effect of this change is disclosed in note 24.

- (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 properties	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, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. 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 Pennon Group Plc's defined benefit pension schemes) is charged against profits so as to spread evenly the cost of pensions over the service lives of employees in the schemes. A pension surplus is released to profits, using the straight line method, over the average remaining service lives of employees in the schemes.

#### (i) Research and Development Expenditure

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting Policies (Continued)

#### (j) Taxation

Corporation tax payable is provided on taxable profits at current rates. Tax deferred or accelerated as a result of timing differences between the treatment of certain items for taxation and for accounting purposes is provided for to the extent that it is probable that a material liability or asset will crystallise in the foreseeable future.

#### (k) Goodwill

Goodwill arising from the purchase of a business undertaking, representing the excess of the purchase consideration over the fair value of the net assets acquired, has been written off to reserves. From April 1998 any goodwill similarly arising will be capitalised and classified as an asset on the balance sheet, and amortised evenly according to its finite economic life.

#### (l) Financial Instruments

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

### 2 Segmental Analysis

By class of business:-

	Water		Sewerage		Company	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>Turnover</b>						
Total turnover	112.4	110.4	157.7	141.8	270.1	252.2
Inter-segmental turnover	-	(0.5)	-	(0.2)	-	(0.7)
Turnover to third parties	112.4	109.9	157.7	141.6	270.1	251.5
<b>Profit</b>						
Segmental operating profit	42.5	38.4	96.2	80.8	138.7	119.2
Net interest payable	(11.9)	(5.0)	(20.6)	(8.5)	(32.5)	(13.5)
Profit on ordinary activities before taxation	30.6	33.4	75.6	72.3	106.2	105.7
<b>Net Assets</b>						
Segmental net assets	424.5	414.7	471.6	475.8	896.1	890.5

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

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

1998 turnover is restated to reflect the prior year adjustment (note 24).

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Operating Costs

	1999 £m	1998 £m Restated (Note 24)
Manpower costs (note 8)	27.2	27.9
Raw materials and consumables	8.2	7.7
Rentals under operating leases:-		
Hire of plant and machinery	1.2	0.9
Other operating leases	1.1	(0.7)
Research and development expenditure	0.1	0.2
Auditors' remuneration	0.1	0.1
Other external charges	42.5	42.9
Depreciation:-		
On owned non infrastructure assets	20.9	18.9
On owned infrastructure assets	6.6	6.5
Provision for impairment	-	3.9
On assets held under finance leases	11.2	11.2
On assets held under defeased finance leases	3.2	1.7
Profit on disposal of fixed assets	(0.2)	-
Deferred income (note 19)	(1.3)	(1.0)
Other operating charges	10.6	12.1
	131.4	132.3

Fees payable to the Company's auditors, PricewaterhouseCoopers, for non-audit work for the year ended 31 March 1999 amounted to £0.2m (1998 Nil).

### 4 Exceptional Item

	1999 £m	1998 £m
Provision for business restructuring	-	5.6

## NOTES TO THE FINANCIAL STATEMENTS

### 5 Net Interest Payable

	1999 £m	1998 £m
Interest payable:-		
To parent undertaking	(17.7)	(16.9)
Bank loans and overdrafts	(9.6)	(11.0)
Interest element of finance lease rentals	(13.1)	(7.6)
Other finance costs	(1.0)	(0.1)
	<u>(41.4)</u>	<u>(35.6)</u>
Interest receivable:-		
From parent undertaking	0.7	-
Listed redeemable securities	1.1	1.6
Other investments (as defined in note 15)	3.2	8.3
	<u>5.0</u>	<u>9.9</u>
Gain on defeasance of finance leases	<u>3.9</u>	<u>12.2</u>
Net interest payable	<u>(32.5)</u>	<u>(13.5)</u>

The interest element of finance lease rentals is shown after netting £4.9m (1998 £8.5m) interest receivable on cash deposited against collateralised finance lease obligations (note 23).

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

- a utilised finance lease facilities to fund certain water and sewerage services tangible fixed assets; and
- b deposited amounts, equal to the present value of rental obligations arising from those finance leases, with UK financial institutions, to counter-indemnify the letters of credit issued by those institutions to the lessors in order to secure those rental obligations.

These deposited funds, which totalled £143.8m at 31 March 1999 (1998 £127.9m), together with interest earned thereon, may be used to settle the rental obligations under those finance leases. If the finance leases terminate due to the insolvency of the financial institutions which have issued the letters of credit no liability will fall on the Company.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 5 Net Interest Payable (Continued)

A gain of £3.9m (1998 £12.2m) has been recognised, equivalent to the difference between the finance lease drawdowns and the funds deposited with financial institutions to cover rentals arising therefrom, after deferring income in recognition of possible rental variations and costs as follows:

	1999 £m	1998 £m
Gain on defeasance of finance leases	5.1	15.7
less income deferred for finance lease rental variations (note 19)	(1.2)	(3.3)
less costs	-	(0.2)
	3.9	12.2

### 6 Tax on Profit on Ordinary Activities

	1999 £m	1998 £m
UK corporation tax at 31% for :-		
the current year	13.2	3.6
prior years	7.4	-
Amounts payable to Pennon Group companies in respect of surrender of taxable losses and advance corporation tax	20.0	6.4
	40.6	10.0

The corporation tax charge for the year has been reduced by £37.9m as a result of group relief and advance corporation tax surrender, for which £20.0m is payable. The charge is also reduced by the availability of capital allowances for which no deferred tax has been provided (note 18).

As a result of the significance of surrenders of taxable losses within the Pennon Group, these are now separately identified, with a similar reanalysis of comparative figures.

### 7 Dividends

	1999 £m	1998 £m
Interim dividend of 28.42p per Ordinary share payable in two equal instalments on 1 December 1997 and 1 December 1998	-	104.0
Interim dividend of 16.4p (1998 16.7p) per Ordinary share paid on 11 December 1998	60.0	61.1
	60.0	165.1

The interim dividend of £104.0m in 1998 was declared as a result of the Government's introduction of a windfall tax on privatised utilities.

## NOTES TO THE FINANCIAL STATEMENTS

### 8 Employees and Employment Costs

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

	1999	1998
Water services	947	977
Sewerage services	753	757
	<u>1,700</u>	<u>1,734</u>

	1999 £m	1998 £m
Employment costs comprise:-		
Wages and salaries	32.8	31.5
Exceptional item	-	2.9
Social security costs	2.5	2.4
Pension costs (note 25)	0.2	(2.1)
	<u>35.5</u>	<u>34.7</u>

Charged as follows:-		
Manpower costs	27.2	27.9
Capital schemes and other expenditure	6.8	6.8
Restructuring provision	1.5	-
	<u>35.5</u>	<u>34.7</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 9 Directors' Emoluments

	1999 £000	1998 £000
Total emoluments of the Directors of the Company:-		
Remuneration - salary	298	338
- performance bonus	22	92
	<hr/> 320	<hr/> 430
Other emoluments	34	33
Compensation for loss of office	-	86
	<hr/> 354	<hr/> 549

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

	1999 £000	1998 £000
Remuneration - salary	104	74
- performance bonus	12	29
	<hr/> 116	<hr/> 103
Other emoluments	10	6
	<hr/> 126	<hr/> 109

Other emoluments include car benefit and health care.

The emoluments of South West Water Limited Directors are determined by the Remuneration Committee of Pennon Group Plc consisting of non-executive Directors. The Remuneration Committee takes external professional advice in determining the level of emoluments.

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 Pennon Group Plc. The 1998 amounts disclosed above include performance bonuses for the two years, 1997 and 1998.

At 31 March 1999 retirement benefits were accruing to 4 Directors (1998 4 Directors) under defined benefit pension schemes, operated by the parent company.

The highest paid Director participated in defined benefit pension schemes, with an accrued pension of £62,000 at 31 March 1999 (1998 £47,000).

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Directors' Interests

The beneficial interest of Directors holding office at 31 March 1999 in shares of Pennon Group Plc at 31 March 1999 and 31 March 1998, or date of appointment, were as follows:-

	Share Interests		Scheme	Options			
	1999	1998		1999	Granted in Period	Exercised in Period	1998
P J Briens	5,111	7,091	Executive	-	-	-	-
D J Dupont	13,972	13,953	Executive Sharesave	4,000 3,102	- -	- -	4,000 3,102
R Furniss	2,256	3,092	Executive Sharesave	15,500 4,624	- -	- -	15,500 4,624

In addition a contingent interest was held in shares of Pennon Group Plc under the terms of the Pennon Group Plc Long Term Incentive Plan, described in note 12, as follows :

	31 March 1999 <u>Shares</u>	31 March 1998 <u>Shares</u>
P J Briens	7,686	3,686
D J Dupont	8,108	4,167
R Furniss	7,611	4,023

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

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

In respect of the current Directors there have been no changes since 31 March 1999 in the Directors' interests in shares of the Company or of Pennon Group Plc.

## 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
<b>Cost:-</b>						
At 1 April 1998	12.4	648.9	476.1	437.8	98.1	1,673.3
Prior year adjustment	-	61.8	-	-	-	61.8
At 1 April 1998 restated	12.4	710.7	476.1	437.8	98.1	1,735.1
Additions	-	38.0	15.4	35.2	16.6	105.2
Grants and contributions	-	(3.5)	-	-	-	(3.5)
Reclassifications/ transfers	(1.0)	35.7	(0.2)	41.7	(76.2)	-
Disposals	-	(0.2)	(0.1)	(3.7)	-	(4.0)
At 31 March 1999	11.4	780.7	491.2	511.0	38.5	1,832.8
<b>Depreciation:-</b>						
At 1 April 1998	5.9	-	82.5	137.5	-	225.9
Prior year adjustment	-	61.2	-	-	-	61.2
At 1 April 1998 restated	5.9	61.2	82.5	137.5	-	287.1
Charge for year	0.1	7.3	9.2	26.7	-	43.3
Disposals	-	(0.2)	-	(3.2)	-	(3.4)
At 31 March 1999	6.0	68.3	91.7	161.0	-	327.0
<b>Net Book Value:-</b>						
At 31 March 1999	5.4	712.4	399.5	350.0	38.5	1,505.8
At 31 March 1998	6.5	648.9	393.6	300.3	98.1	1,447.4
Prior year adjustment	-	0.6	-	-	-	0.6
At 31 March 1998 restated	6.5	649.5	393.6	300.3	98.1	1,448.0

The adoption of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' has required a prior year adjustment (note 24) to take account of necessary changes since the year to 31 March 1989, when infrastructure renewals accounting was adopted. The previous prepayment on the infrastructure renewals provision has been subsumed into tangible, both owned and defaced finance leased, fixed assets by the inclusion of accumulated cost and depreciation.

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Tangible Fixed Assets (Continued)

Out of the total depreciation charge for the Company of £43.3m (1998 £40.2m), the sum of £1.4m (1998 £1.9m) has been charged to capital projects, and £41.9m (1998 £38.3m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.3m (1998 £1.3m) and £8.8m (1998 £7.4m) respectively.

The net book value of infrastructure assets is stated after deducting £40.6m (1998 £37.1m) grants and contributions.

Maintenance of the operating capability of the infrastructure network:-

	£m
Excess of expenditure over depreciation on maintaining the operating capability of the network at 1 April 1998	0.6
Expenditure in the year on maintaining operating capability	9.5
Less depreciation for the year	(7.3)
	<hr/>
Excess of expenditure over depreciation at 31 March 1999	2.8
	<hr/>

Assets held under finance leases included above:-

	Infra- structure assets	Opera- tional properties	Fixed & mobile plant, vehicles and computers	Construc- tion in progress	Total
	£m	£m	£m	£m	£m
Cost:- At 31 March 1999	-	193.9	104.2	-	298.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:- Charge for year	-	3.2	8.0	-	11.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:- At 31 March 1999	-	16.1	45.1	-	61.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Assets held under defeased finance leases also included above:-					
Cost:- At 31 March 1999	75.3	68.1	29.8	4.1	177.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:- Charge for year	0.7	1.0	1.5	-	3.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:- At 31 March 1999	1.5	1.4	2.7	-	5.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Fixed Asset Investments

	1999 £m	1998 £m
<i>Listed Investments:-</i>		
At 1 April	0.4	-
Addition during year	0.4	0.5
Provision for impairment	(0.3)	(0.1)
	<hr/>	<hr/>
At 31 March	0.5	0.4
	<hr/>	<hr/>

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

During 1999 the trustees of the Employee Share Ownership Plan purchased 38,100 of Pennon Group Plc's ordinary shares (1998 63,000) through a non-interest bearing advance made by the Company. The market value of those shares, which were held at 31 March 1999, was £963,000 (1998 £615,000). The costs of the incentive scheme are provided and charged to profits over the period of its operation, and are included in employment costs.

### 13 Stocks

	1999 £m	1998 £m
Raw materials and consumables	3.2	3.5
	<hr/>	<hr/>

### 14 Debtors

	1999 £m	1998 £m
<i>Amounts falling due after more than one year:-</i>		
Prepayments for pension costs (note 25)	8.4	9.1
Prepayments and accrued income	-	0.2
	<hr/>	<hr/>
	8.4	9.3
<i>Amounts falling due within one year:-</i>		
Trade debtors	29.9	24.5
Amounts owed by fellow subsidiary undertakings	0.3	0.4
Other debtors	6.8	0.3
Prepayments for pension costs (note 25)	0.5	-
Prepayments and accrued income	14.9	17.1
	<hr/>	<hr/>
	52.4	42.3
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Current Asset Investments

	1999 £m	1998 £m
Listed investments	9.7	18.3
Other investments:-		
Overnight deposits	-	5.0
Other	13.1	38.1
	<u>22.8</u>	<u>61.4</u>
Market value of listed investments	<u>9.7</u>	<u>18.3</u>

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

In 1998 £75.0m of investments were deposited against collateralised finance lease obligations (note 23).

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

	1999 £m	1998 £m
Loans:- (note 23)		
European Investment Bank loans	10.8	10.3
Amounts owed to parent undertaking	26.1	-
Bank loans and overdrafts	-	0.9
	<u>36.9</u>	<u>11.2</u>
Obligations under finance leases (note 23)	6.9	9.8
Trade creditors	12.7	12.5
Capital creditors	23.7	31.6
Other amounts owed to parent undertaking	14.9	64.7
Amounts owed to fellow subsidiary undertakings	3.1	5.9
Other creditors	5.5	4.7
Corporation tax	7.0	6.3
Taxation and social security	0.8	5.5
Accruals and deferred income	11.5	18.0
	<u>123.0</u>	<u>170.2</u>

As a result of the significance of surrenders of taxable losses within the Pennon Group, corporation tax has been reanalysed within the comparative figures.

## NOTES TO THE FINANCIAL STATEMENTS

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

	1999 £m	1998 £m
Loans:- (note 23)		
European Investment Bank loans	85.6	96.4
Amounts owed to parent undertaking	150.0	150.0
	<hr/> 235.6	<hr/> 246.4
Obligations under finance leases (note 23)	304.6	219.9
Other creditors	-	0.6
	<hr/> 540.2	<hr/> 466.9

### 18 Provisions for Liabilities and Charges

	Infra- structure Renewals £m	Restruc- turing £m	Finance Lease Variations £m	Other £m	Total £m
At 1 April 1998	(0.6)	5.2	6.2	1.1	11.9
Prior year adjustment (note 24)	0.6	-	(6.2)	-	(5.6)
	<hr/> -	<hr/> 5.2	<hr/> -	<hr/> 1.1	<hr/> 6.3
At 1 April 1998 restated	-	5.2	-	1.1	6.3
Charged against profits	-	1.7	-	-	1.7
Released to profits	-	(1.7)	-	(1.1)	(2.8)
Utilised during year	-	(1.8)	-	-	(1.8)
	<hr/> -	<hr/> 3.4	<hr/> -	<hr/> -	<hr/> 3.4
At 31 March 1999	-	3.4	-	-	3.4

The restructuring provision relates principally to severance costs to be utilised over the next twelve months, together with costs for property restructuring which will be utilised over the remaining lease period.

Other provisions relate to property remediation costs which have been released to profits during the year.

#### Deferred Taxation

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

	1999 £m	1998 £m
Tax effect of timing differences due to:-		
Accelerated capital allowances	180.1	225.8
Other timing differences, including pensions	9.1	(0.1)
	<hr/> 189.2	<hr/> 225.7

The adoption of Financial Reporting Standard 12, 'Provisions, Contingent Liabilities and Contingent Assets', has required a changed method of accounting for infrastructure assets, as disclosed in note 1c. Infrastructure assets are now depreciated. As a result, the comparatives have been restated to include an additional £147.9m of accelerated capital allowances on infrastructure assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 19 Accruals and Deferred Income

	1999 £m	1998 £m
<b>Deferred Income</b>		
At 1 April	26.7	23.4
Prior year adjustment	6.2	2.9
	<hr/>	<hr/>
At 1 April restated	32.9	26.3
Additions	1.7	7.6
Released to profits	(1.3)	(1.0)
	<hr/>	<hr/>
At 31 March	33.3	32.9
Amount to be released within one year	(1.2)	(1.2)
	<hr/>	<hr/>
Amount to be released after more than one year	32.1	31.7
	<hr/>	<hr/>

Included above is £3.3m additions for 1998 arising from the prior year adjustment (note 24).

Finance lease variations (note 5) included above amount to £7.4m (1998 £6.2m).

### 20 Called-up Share Capital

	1999 £m	1998 £m
Authorised, allotted, called-up and fully paid:- 365,950,000 Ordinary shares of £1 each	365.9	365.9
	<hr/>	<hr/>

### 21 Reserves

	Profit and loss account £m
At 1 April 1998	524.6
Retained profit for year	5.6
	<hr/>
At 31 March 1999	530.2
	<hr/>

The cumulative value of goodwill at 31 March 1999 resulting from acquisitions, which has been written off against reserves, is £1.4m (1998 £1.4m).

## NOTES TO THE FINANCIAL STATEMENTS

### 22 Statement of Movements in Shareholders' Funds

	1999 £m	1998 £m
Profit on ordinary activities after taxation	65.6	95.7
Dividends	(60.0)	(165.1)
Shareholders' Funds (equity interest) :-		
Addition / (reduction) for year	5.6	(69.4)
At 1 April	890.5	959.9
At 31 March	896.1	890.5

### 23 Loans and Other Borrowings

	1999 £m	1998 £m
<b>Loans</b>		
Repayable:-		
After five years	185.6	199.2
Between two and five years	38.5	36.3
Between one and two years	11.5	10.9
Falling due after more than one year (note 17)	235.6	246.4
Falling due within one year (note 16)	36.9	11.2
	272.5	257.6

Loans are denominated in sterling and are repayable over the period 1999-2012. The rates of interest payable on loans, any part of which is due after five years, vary from 5% to 11%.

	1999 £m	1998 £m
<b>Obligations under finance leases</b>		
Repayable:-		
After five years	293.5	205.2
Between two and five years	5.9	4.6
Between one and two years	5.2	10.1
Falling due after more than one year (note 17)	304.6	219.9
Falling due within one year (note 16)	6.9	9.8
	311.5	229.7

Included above are finance charges arising on obligations under finance leases totalling £36.9m (1998 £26.3m), of which £4.2m (1998 £6.1m) is repayable within one year.

## NOTES TO THE FINANCIAL STATEMENTS

### 23 Loans and Other Borrowings (Continued)

In addition, at 31 March 1998 obligations under finance leases of £75.0m had been offset against cash of an equal amount which had been deposited with the lessor's bank group (collateralisation). The Company could insist that this cash be utilised to meet the finance lease obligations as they fell due. During the year the Company withdrew the cash deposits placed with the lessor's bank group. Accordingly, a finance lease obligation of £75.0m is included above.

#### *Loans and obligations under finance leases*

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

	1999 £m	1998 £m
Loans	246.3	256.7
Obligations under finance leases	305.4	219.2
	<u>551.7</u>	<u>475.9</u>

### 24 Prior Year Adjustment

The adoption of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' (FRS12) has necessitated an adjustment to certain provisions made in prior years. FRS12 has also required a changed method of accounting for infrastructure assets as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment.

As a result of these changes in accounting policy, comparatives have been restated as follows:

#### (a) Balance Sheet

	Tangible fixed assets  £m	Provisions for liabilities and charges  £m	Deferred income  £m
1998 reported	1,447.4	11.9	25.5
Application of FRS12	0.6	(5.6)	6.2
1998 restated	<u>1,448.0</u>	<u>6.3</u>	<u>31.7</u>

The changes arising from the application of FRS12 involve the elimination or reclassification of certain provisions for liabilities and charges.

## NOTES TO THE FINANCIAL STATEMENTS

### 24 Prior year adjustment (Continued)

#### (b) Profit and Loss Account

	Turnover £m	Other operating income £m
1998 reported	251.2	0.3
Reclassification	0.3	(0.3)
1998 restated	<u>251.5</u>	<u>-</u>

The application of FRS12 involves the infrastructure renewals charge being reclassified as depreciation, of assets owned and held under defeased finance leases. The changes arising from the application of FRS12 involve the reclassification of infrastructure renewals as capital expenditure. Other operating income has been reclassified.

#### (c) Cash Flow Statement

	Cash inflow from operating activities £m	Capital expenditure and financial investment £m
1998 reported	153.2	(155.4)
Application of FRS12	10.0	(10.0)
Reclassification	0.5	( 0.5)
1998 restated	<u>163.7</u>	<u>(165.9)</u>

The changes arising from the application of FRS12 involve the reclassification of infrastructure renewals as capital expenditure.

#### (d) Notes to the Cash Flow Statement

	Depreciation charge £m	Decrease in provisions for liabilities and charges £m	Purchase of tangible fixed assets £m	Increase in debtors £m	Purchase of fixed asset investments £m
1998 reported	31.3	(3.8)	(159.9)	(1.9)	-
Application of FRS12	7.0	3.0	(10.0)	0.5	(0.5)
1998 restated	<u>38.3</u>	<u>(0.8)</u>	<u>(169.9)</u>	<u>(1.4)</u>	<u>(0.5)</u>

The changes arising from the application of FRS12 involve the reclassification of infrastructure renewals as capital expenditure. The purchase of fixed asset investments has been reclassified as a result of its increasing significance.

## NOTES TO THE FINANCIAL STATEMENTS

### 25 Pensions

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

The net pensions charge for the Company for the year ended 31 March 1999 was £0.2m (1998 £2.1m credit). Full details of the valuations and the actuarial assumptions are given in the financial statements of Pennon Group Plc, and incorporate the latest actuarial valuations of the two main schemes at 31 March 1998 and possible benefit improvements.

Pension prepayments included as debtors of the Company amount to £8.9m (1998 £9.1m), representing the accumulated difference between the Company pension charge (or credit) and employer contributions paid.

### 26 Commitments and Contingent Liabilities

	1999 £m	1998 £m
<b>Capital commitments</b>		
Contracted but not provided	29.5	40.6
<b>Commitments under operating leases</b>		
Rentals during the year following the balance sheet date		
Land and buildings leases expiring:-		
after five years	2.0	2.0
<b>Contingent Liabilities</b>		
Contractors' claims on capital schemes	1.1	8.1
Guarantee of borrowings of the parent undertaking	150.0	150.0
	151.1	158.1

The Company has guaranteed the principal and interest on a £150.0m Bond issued by Pennon Group Plc, which is to be redeemed on 5 February 2012. The full amount of the Bond has been loaned to the Company, with the same repayment date.

## NOTES TO THE FINANCIAL STATEMENTS

### 27 Notes to the Cash Flow Statement

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

	1999 £m	1998 £m Restated (Note 24)
Operating profit	138.7	119.2
Depreciation charge	41.9	38.3
Provision for impairments:-		
Tangible fixed assets	-	3.9
Fixed asset investments	0.3	0.1
Deferred income released to profits	(1.3)	(1.0)
Decrease in provisions for liabilities and charges	(2.9)	(0.8)
Decrease/(increase) in stocks	0.3	(0.3)
Increase in debtors (amounts falling due within and over one year)	(11.2)	(1.4)
(Decrease)/increase in creditors (amounts falling due within and over one year)	(11.2)	5.7
Profit on disposal of tangible fixed assets	(0.2)	-
Net cash inflow from operating activities	<u>154.4</u>	<u>163.7</u>

Cash outflows from operating activities accounted for as exceptional items, included above, were £1.8m (1998 £1.9m). These relate to the utilisation of the restructuring provision.

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

	1999 £m	1998 £m
<b>(i) Returns on Investments and Servicing of Finance</b>		
Interest received	9.7	18.6
Interest paid	(27.2)	(28.4)
Interest element of finance lease rentals	(5.1)	(4.0)
Costs associated with defeased leases (note 5)	(0.1)	(0.1)
Net cash outflow for returns on investments and servicing of finance	<u>(22.7)</u>	<u>(13.9)</u>
<b>(ii) Capital Expenditure and Financial Investment</b>		
	1999 £m	1998 £m Restated (Note 24)
Purchase of tangible fixed assets	(113.9)	(169.9)
Grants and contributions:-		
Infrastructure assets	3.6	3.5
Non-infrastructure assets	0.8	0.2
Receipts from disposal of tangible fixed assets	0.8	0.8
Purchase of fixed asset investments	(0.4)	(0.5)
Net cash outflow for capital expenditure and financial investment	<u>(109.1)</u>	<u>(165.9)</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

	1999 £m	1998 £m
<b>(iii) Management of Liquid Resources</b>		
Purchase of current asset investments	(184.5)	(218.9)
Sale of current asset investments	218.1	273.0
	<hr/>	<hr/>
Net cash inflow from management of liquid resources	33.6	54.1
Liquid resources comprise readily disposable current asset investments.		
<b>(iv) Financing</b>		
	1999 £m	1998 £m
Debt due within one year (other than bank overdrafts): reduction	15.8	(9.0)
Reduction in cash deposited against finance lease obligations (note 23)	75.0	75.0
Cash placed on deposit with financial institutions (note 5)	(15.9)	(75.2)
Defeased finance lease drawdowns (note 5)	21.0	90.9
Other finance lease drawdowns	-	1.4
Capital element of finance lease rental payments	(3.8)	(4.6)
	<hr/>	<hr/>
Net cash inflow from financing	92.1	78.5

### (c) Analysis of Net Debt

	At 1 April 1998 £m	Cash flow £m	Non-cash movements £m	At 31 March 1999 £m
Cash at bank and in hand	0.7	1.0	-	1.7
Current asset investments:-				
overnight deposits	5.0	(5.0)	-	-
Bank overdrafts	(0.9)	0.9	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4.8	(3.1)	-	1.7
Debt due within one year (other than bank overdrafts)	(10.3)	(15.8)	(10.8)	(36.9)
Debt due after more than one year	(96.4)	-	10.8	(85.6)
Finance lease obligations	(229.7)	(76.3)	(5.5)	(311.5)
Amounts owed to parent undertaking	(150.0)	-	-	(150.0)
	<hr/>	<hr/>	<hr/>	<hr/>
	(486.4)	(92.1)	(5.5)	(584.0)
Current asset investments:-				
other than overnight deposits	56.4	(33.6)	-	22.8
	<hr/>	<hr/>	<hr/>	<hr/>
	(425.2)	(128.8)	(5.5)	(559.5)

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	1999 £m	1998 £m
<b>(Decrease)/increase in cash in the period</b>	<b>(3.1)</b>	1.4
Cash inflow from increase in debt and finance leasing	<b>(92.1)</b>	(78.5)
Cash inflow from decrease in liquid resources	<b>(33.6)</b>	(54.1)
	<hr/>	<hr/>
<b>Change in net debt arising from cash flows</b>	<b>(128.8)</b>	(131.2)
Non-cash movements:-		
In-substance settlement of finance lease obligations	<b>5.1</b>	15.7
Increase in accrued finance charges on finance lease obligations	<b>(10.6)</b>	(11.4)
	<hr/>	<hr/>
<b>Increase in net debt in the year</b>	<b>(134.3)</b>	(126.9)
<b>Net debt at 1 April</b>	<b>(425.2)</b>	(298.3)
	<hr/>	<hr/>
<b>Net debt at 31 March</b>	<b>(559.5)</b>	(425.2)
	<hr/>	<hr/>

### 28 Related Party Transactions

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

### 29 Parent Company

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