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**SOUTH WEST WATER PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**1994**



South West Water Plc operates and invests primarily in the fields of water-care and waste engineering, instrumentation and process technology.

The principal subsidiary, South West Water Services Limited, holds the water and sewerage appointments for the South West region.

Enterprise businesses include the leading waste management operator in the South West, specialist instrumentation and process technology companies with worldwide sales, project management and consultancy, regional construction services and land and property development.

The Group has assets of £1.6 billion and employs over 5,000 people.

#### FINANCIAL HIGHLIGHTS

Year ended 31 March	1994	1993
Turnover	£251.6m	£194.4m
Profit before taxation	£93.0m	£92.7m
Net assets	£821.3m	£779.5m
Capital expenditure	£203.4m	£203.7m
Earnings per share	68.5p	67.9p
Dividend per share – interim	8.4p	7.8p
– final	17.1p	15.9p
– total	25.5p	23.7p

# D I R E C T O R S

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<b>Executive Chairman</b>	K W Court																					
<b>Non-executive Deputy Chairman</b>	T C Leader																					
<b>Executive Directors</b>	W H Fraser <i>Managing Director South West Water Services Limited</i> C J H Drummond <i>Director of Development</i> B A O Hewett <i>Director of Technical and Environmental Affairs</i> K L Hill <i>Group Director of Finance</i>																					
<b>Non-executive Directors</b>	Sir Geoffrey H Chipperfield S J Day A T Fletcher Lady Mary Holborow S M Yassukovich																					
<b>Secretary and Registered Office</b>	R C Milligan Peninsula House Rydon Lane Exeter EX2 7HR Registered in England No. 2366640																					
<b>Committees of the Board</b>	<table><thead><tr><th><b>Audit</b></th><th><b>Finance</b></th><th><b>Remuneration</b></th></tr></thead><tbody><tr><td>T C Leader <i>(Chairman)</i></td><td>K W Court <i>(Chairman)</i></td><td>T C Leader <i>(Chairman)</i></td></tr><tr><td>Sir Geoffrey H Chipperfield</td><td>S J Day</td><td>K W Court</td></tr><tr><td>S J Day</td><td>W H Fraser</td><td>A T Fletcher</td></tr><tr><td>A T Fletcher</td><td>K L Hill</td><td>Lady Mary Holborow</td></tr><tr><td></td><td>T C Leader</td><td></td></tr><tr><td></td><td>S M Yassukovich</td><td></td></tr></tbody></table>	<b>Audit</b>	<b>Finance</b>	<b>Remuneration</b>	T C Leader <i>(Chairman)</i>	K W Court <i>(Chairman)</i>	T C Leader <i>(Chairman)</i>	Sir Geoffrey H Chipperfield	S J Day	K W Court	S J Day	W H Fraser	A T Fletcher	A T Fletcher	K L Hill	Lady Mary Holborow		T C Leader			S M Yassukovich	
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<b>Auditors</b>	Price Waterhouse Chartered Accountants 31 Great George Street Bristol BS1 5QD																					
<b>Registrars</b>	Lloyds Bank Plc Lloyds Bank Registrars 51 Pershore Road South Birmingham B30 3EP																					

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## D I R E C T O R S

### B i o g r a p h i c a l D e t a i l s

**Keith William Court BA (Hons) (50)**  
*Executive Chairman*

was appointed on 1 September 1989 and was chairman and chief executive of South West Water Authority from 1 August 1987 previously 17 years at Ford Motor Company where he held a number of senior management appointments including employee affairs director of Ford of Europe Inc. He joined Blue Circle Industries as assistant works director in 1975 and became a main board director from 1978 and chief executive of the UK cement and related operations from 1983 to 1987.

Mr Court is chairman of the Water Services Association.

**Timothy Charles Leader**  
BA (Eng) MIMechE (CIM) (66)  
*Non-executive Deputy Chairman*

was appointed on 1 September 1989. He has held a number of senior positions in the engineering industry including chief executive of Simon Engineering from 1985 to 1989.

**William Hamilton Fraser**

BSc (Eng) C Eng, IMechE, CIMgt, FlinstPet (56)  
*Managing Director of South West Water Services Limited*

was appointed on 13 September 1989. He held various senior management positions with Foster Wheeler from 1961 to 1978. He was vice president with McDermott International from 1978 to 1985 and was chairman and chief executive officer of Humphreys & Glasgow from 1985 to 1988.

**Colin Irwin John Hamilton Drummond**  
MA, MBA (13)

*Director of Development*

was appointed on 1 April 1992. Prior to joining the Company he was a divisional chief executive of Coats Vuyella, having previously been corporate development director of Renold plc, a strategy consultant with The Boston Consulting Group and an official at the Bank of England.

**Bruce Alexander Ogston Hewett**

BSc (Eng), MSc, Earling, CEng, FICE, FIWEM, FIMgt (58)  
*Director of Technical and Environmental Affairs*

was appointed on 1 April 1993. He has over 30 years experience in the water industry, including 9 years with international consulting engineers on dams, water supply and waste water schemes in the UK and overseas. Prior to joining the Company he held senior appointments with Southern Water Plc, including managing director of Southern Water Services Limited from 1988 to 1992. He was elected to the Council of the Institution of Civil Engineers in 1992 and is a member of the American Society of Civil Engineers.

**Kenneth Leslie Hill BSc (53)**  
*Group Director of Finance*

was appointed on 21 September 1989. He is a qualified public finance accountant with wide experience in the water industry. Prior to joining the Company he was finance director of Severn Trent Water.

**Sir Geoffrey Howes Chipperfield KC BSc (1)**  
*Non-executive Director*

was appointed on 1 October 1993. He was permanent secretary and chief executive of PSA Services from 1991 and previously he was permanent secretary in the Department of Energy. Earlier he held senior positions in the Department of the Environment and the Ministry of Housing.

**Simon James Day MA (59)**  
*Non-executive Director*

was appointed on 1 September 1989 and was a member of South West Water Authority from October 1983. He is vice chairman of the Association of County Councils and a member of the Committee of the Regions. He is a member and former leader of Devon County Council, a member of Plymouth Development Corporation and chairman of governors of Bicton College of Agriculture.

**Alan Thomas Fletcher MA (59)**  
*Non-executive Director*

was appointed on 26 May 1993. He is managing partner of Rubicon Partners, chairman of Vector Industries Limited and a director of Craftree Plc, Shepherd Building Group and several other companies. Formerly he was chairman and chief executive of the Wilkinson Sword Group and chief operating officer of Swedish Match.

**Lady Mary Christina Holborow (57)**  
*Non-executive Director*

was appointed on 1 September 1989 and was a member of South West Water Authority from April 1980. She has been chairman of the Cornwall Committee of the Rural Development Commission since 1987, is vice chairman of the Cornwall & Isles of Scilly Health Authority and is on the board of the Devon and Cornwall Training and Enterprise Council.

**Stanislas Michael Yassukovich CBE (59)**  
*Non-executive Director*

was appointed on 16 November 1992. He is chairman of Hemingway Properties Plc and of Flextech Plc, vice chairman of Cragotti & Partners Group and Bristol & West Building Society, deputy chairman of ABC International Bank Plc, a non-executive director of Henderson Administration Group and several other companies. He was formerly chairman of Merrill Lynch Europe and Middle East. He has been a deputy chairman of the Stock Exchange and from 1988 to 1991 was chairman of the Securities Association.



**“Our results demonstrate another year of substantial achievements...”**

I am very pleased to report another successful year for the Group, with our water and sewerage services business making excellent progress and our other subsidiaries operating well.

Turnover increased by 29% to £252 million, as a result of tariff increases in the regulated water and sewerage services business and the growth in external income to £13 million from our other subsidiaries. There was a net increase of 5,000 water customers, and the marginal effects of recession felt through lower water demand from commercial customers was less than in the previous year.

Core operating profit rose by 29% to £106 million, driven by the increased turnover, and was fortified by further efficiencies of £2 million, including manpower savings in water and sewerage services. Pre-tax profit moved up marginally to £93 million. This slowing of the rate of increase in profit reflects the need of the core business for the first time since flotation to pay significantly more interest than it

received. There was a 20% increase since last year when £119 million of interest was received, as compared to the interest payment this year of £111 million. This change results from a significant reduction of cash to fund the very large water and sewerage capital programme plus the effect of reduced interest rates – nearly halved – on interest but invested borrowings of £150 million.

The financing of this programme has to be augmented by extensive borrowing which, as it is used, will further increase the net amount of interest to be paid in future years. It needs to be emphasised that, of the total water and sewerage capital expenditure to date of about £700 million, 50% has come from retained profit and 70% has been secured through the original shareholders' investment, external borrowings and other sources.

We are continuing to forge ahead with the capital programme of improvements – at a level of about £200 million for the year. During the year we completed 88 major projects with more than 350 in planned progress at the end of the year. Over two thirds of the schemes in our £900 million ‘Clean Sweep’ coastal sewage treatment programme are now complete or under construction, and we have executed more than one third of all the planned engineering schemes in the ten year capital programme. These include not only new clean and waste water treatment facilities, but also major refurbishment of the distribution networks.

Our promises of a radical improvement to the infrastructure and the better protection of the environment are being realised. Central to this process has been the achievement and maintenance of significantly higher quality standards. Drinking water compliance was maintained at the very high level of 99.7% and the upgrading of around 200 sewage treatment works has helped to raise the overall waste water discharge compliance level to over 93% inland and on the coast the scene is changing – with many well-known tourist areas benefiting from the new schemes.

Success in this strategic era of regeneration of the infrastructure – pursuing the higher quality levels and new demanding environmental obligations – has brought into focus the huge costs involved and their financing. It is this which is receiving special examination as part of the comprehensive Periodic Review being undertaken by the Director General of Water Services. After many months of preparation including extensive consultation with customers, our water services company submitted its Strategic Business Plan to the Director General in March 1994. His determination of the price ceilings for 1995 to 2005 will be publicly notified on 28 July 1994, to take effect from 1 April 1995. In making his decision, the Regulator has to ensure that our water and sewerage business is able to finance the proper carrying out of its functions.

Turning to our other businesses, it will be seen that the third party income amounts to 17% of the total turnover, enabling them to return an improved operating profit of £2.5 million. This careful expansion of related businesses is primarily focused on waste management (Haul Waste Limited), environmental instrumentation equipment (ELE Group Limited) and construction services (T J Brent Limited). Overall, the non-core subsidiaries and associated undertakings contributed a welcome £2.4 million to profits before tax.

In addition to our financial and operational progress, there are other important aspects of our activities, including concern for the environment and the

economy of the region. These are set out in some detail in the Report but I should like to emphasise that in connection with economic development for Cornwall and Devon we have given strong support, after leading in its formation, to the new private sector development body – South West Enterprise Limited – comprising well over 100 commercial and industrial employers in the region, as well as participating in other local developmental associations.

With reference to our Board of Directors, two of our colleagues, Dr John Lawrence and Mr Charles Spence retired during the year after serving eight years and nearly five years respectively as non-executive Directors. We wish both John and Charles long and happy retirements. During the year we welcomed the appointment of Sir Geoffrey Chipperfield, KCB as a non-executive Director of the Board. He was formerly chief executive of the Property Services Agency and earlier, permanent secretary at the Department of Energy.

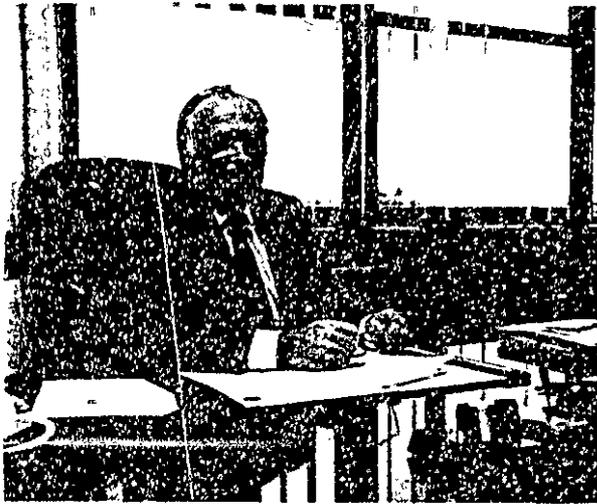
To conclude, our results demonstrate another year of substantial achievements, and in this context the Board is recommending a final dividend of 17.1p (with a scrip dividend alternative) to total with the interim dividend a full year dividend of 25.5p – an increase of 7.6%. With our businesses making excellent progress, I warmly thank my colleagues and all our employees in the Group for their sterling efforts and strong support in a challenging year.

*Keith Court*

*K W Court*

*Chairman Keith Court with Dr David Bellamy at the official launch of Teign Estuary's 'Clean Sweep' in September 1993*





W.H. Fraser, Managing Director  
South West Water Services Limited

**“21 bathing waters are now benefiting from ‘Clean Sweep’ coastal sewage treatment schemes.”**



We have continued to deliver improved product quality and reliability and enhanced quality of service to our customers. Around £200 million was invested in delivering schemes within our capital programme during the year. In just four years we have successfully completed over 100 individual schemes in our region. Of these major schemes 88 were completed this year.

We have maintained our high level of drinking water quality and the latest report from the independent Drinking Water Inspectorate confirms that our compliance rate of 99.7% is one of the highest in the country.

Reliability of supplies is better than ever and there were no restrictions on water supplies.

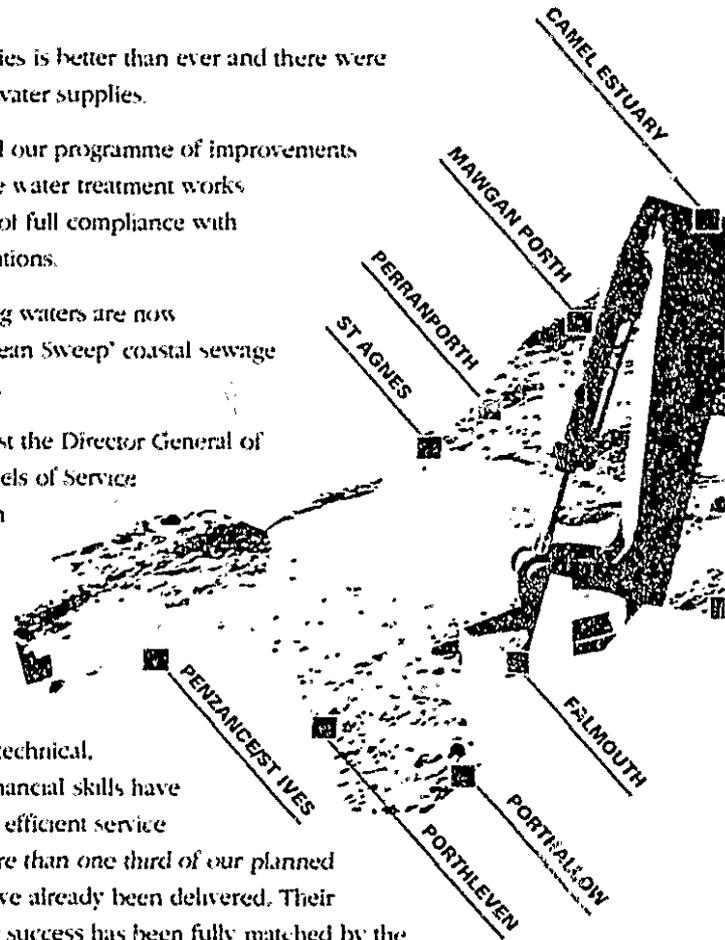
We have continued our programme of improvements to our inland waste water treatment works towards the target of full compliance with their consent conditions.

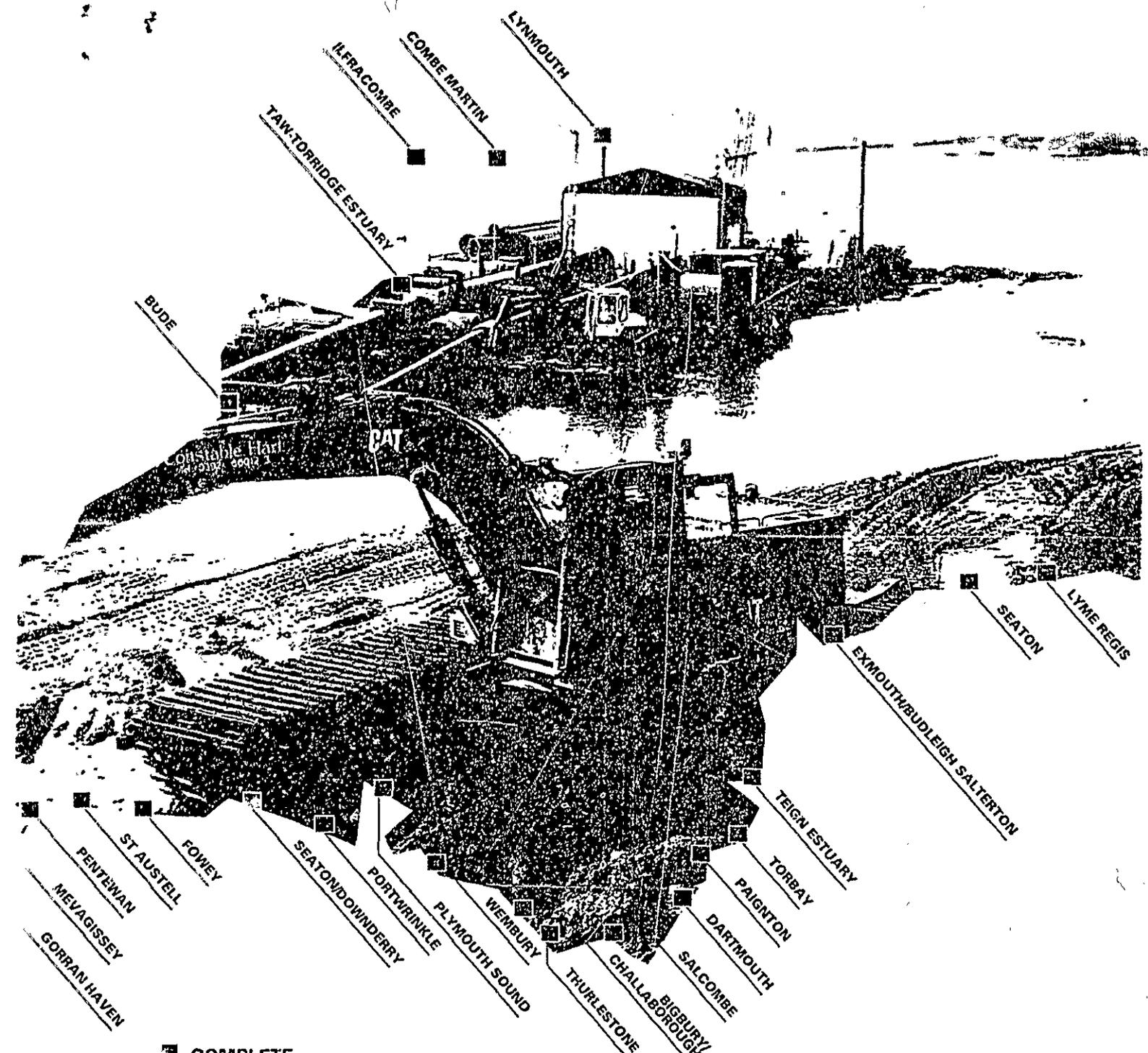
Twenty one bathing waters are now benefiting from ‘Clean Sweep’ coastal sewage treatment schemes.

Performance against the Director General of Water Services’ Levels of Service Indicators has been improved.

Our operating margins have risen from 45% to 50%. The application of our technical, engineering and financial skills have contributed to cost efficient service improvements. More than one third of our planned capital schemes have already been delivered. Their contribution to our success has been fully matched by the continuous improvement of operating practices, including the installation and commissioning of our new regional monitoring system.

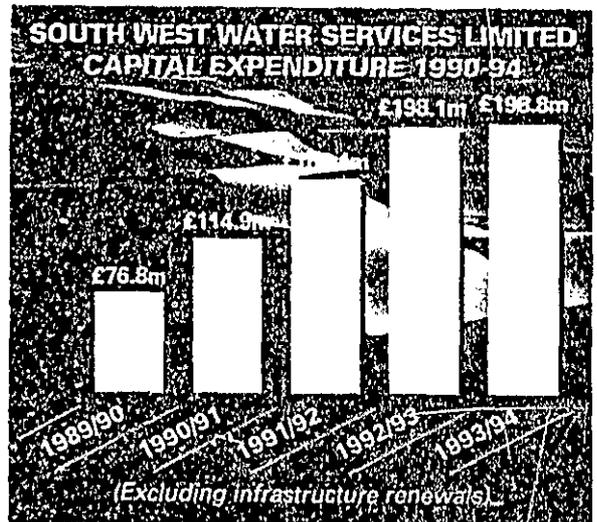
At the same time as delivering our successful performance we have been preparing for the Director General’s Periodic Review of price limits. We have submitted our Strategic Business Plan setting out our priorities for the next ten years.



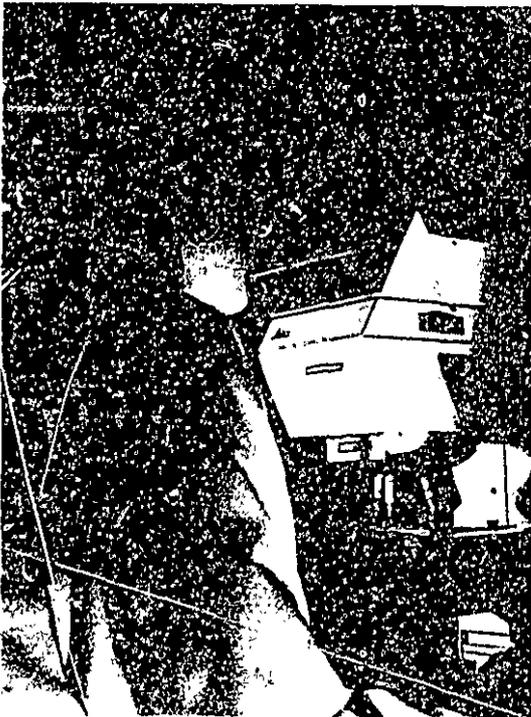


- COMPLETE
- CONSTRUCTION
- DESIGN
- APPRAISAL

The benefits of the improvements we have delivered and planned for the future are now becoming apparent. We have been able to lift over 100 commercial and residential development restrictions throughout the South West since 1989.



**“Since privatisation almost £280 million has been invested in water resources, water treatment and our distribution network.”**



**IMPROVING SERVICES -  
QUALITY DRINKING WATER**

The provision of plentiful supplies of high quality drinking water to our customers is paramount.

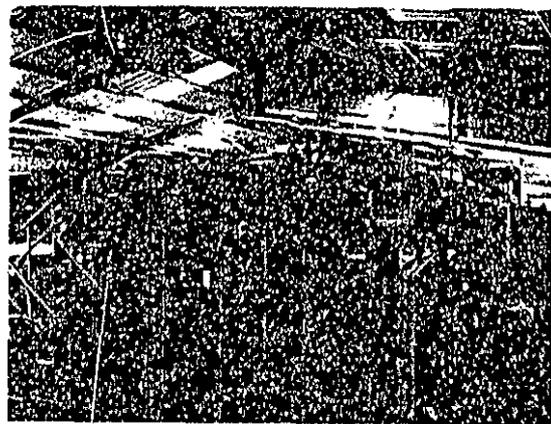
Since privatisation in 1989 almost £280 million has been invested in water resources, water treatment and our distribution network. In the last financial year our investment was over £50 million.

Our investment enabled us to provide our customers with high quality water and ensured there were no restrictions on water usage during the year. Almost two thirds of the resident population in the South West are benefiting from the wide range of improvements undertaken since 1989 to water treatment works and the water supply network.

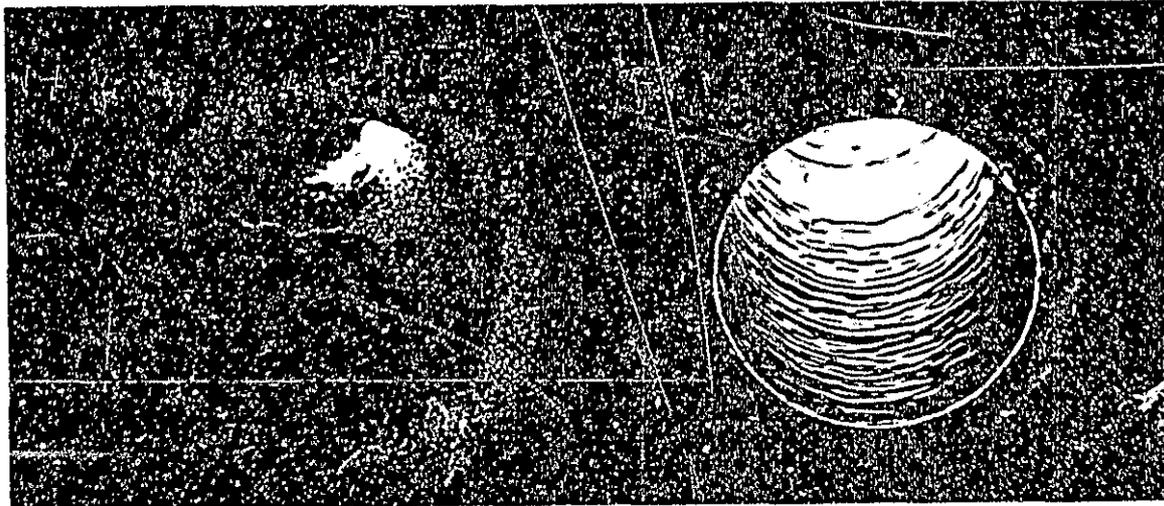
Safeguarding the high quality of drinking water supply to our customers is of crucial importance to the company. We continue to invest in the latest scientific equipment to meet this need. A new micro-biology laboratory in Exeter was completed earlier this year equipped with state-of-the-art technology for comprehensive water quality testing.

A major new water main between Tiverton and Wilmington has significantly improved supplies for our customers in East Devon who have been affected by water restrictions in the past.

Supplies to our customers in large areas of Cornwall have been enhanced following the £7 million



*The recently completed £4 million water treatment works at College near Falmouth*



*Pressure and air - The nearly encrusted water main on the left was a cause of low pressure and water discoloration*

upgrading and subsequent increase in the output of Restormel Water Treatment Works. A recently completed £1 million water treatment works at College near Lalmouth has further improved supplies for local customers.

Twenty five water treatment works scheduled to be improved have now been upgraded and a major four year programme of service reservoir refurbishment at 253 sites has been completed nine months ahead of schedule and within the budget of £7 million.

Our programme of mains rehabilitation continues. Since 1990 some 800 kilometres of aged cast iron mains – out of a total of 9,500 kilometres – have been renovated. This year alone, customers in over 50,000 properties throughout the region have benefited from the improved water quality.

Leakage has been tackled strenuously in areas where it can help defer capital expenditure.

#### IMPROVING SERVICES – WASTE WATER

One of the most significant and visible aspects of our capital programme is our 'Clean Sweep' initiative. It is one of the largest coastal sewage treatment programmes in Europe and completed schemes are already benefiting 21 bathing waters.

Two thirds of our 33 'Clean Sweep' schemes are now

either completed or under construction. Completed schemes are already benefiting the tourist areas of Bude, South Hams, South Devon, Teignmouth & Shaldon and St Austell.

Major schemes underway include those at Penzance and St Ives, Lyme Regis, Exmouth and Budleigh Salterton, Salcombe, Fowey, Gorran Haven and Ilfracombe.

**“Two thirds of our 33 ‘Clean Sweep’ schemes are now either completed or under construction.”**

Significant progress has been made with the modernisation of around 200 waste water treatment works and compliance levels have risen to 93%. Our programme is providing radical improvements to the region's rivers and the aquatic environment as a whole.

Waste water treatment works at Launceston, Exeter, Plympton and Plymouth were all upgraded, significantly improving the quality of their treated waste water discharged to rivers and estuaries.

Our programme of improvements and renovations to the region's sewers includes sewer replacement to reduce the risk of local flooding.

"The company has developed a fully integrated programme of market research to identify customers' concerns and needs..."



#### IMPROVING SERVICES - CUSTOMERS

We continued to deliver enhanced levels of customer service during the year.

New customer initiatives introduced included a simplified bill and a user friendly customer service information leaflet. These were produced following discussions with groups of customers and market testing of various design options.

We also introduced a revised fixed price meter option scheme for domestic customers wishing to pay their water and sewerage services on a volume used basis. Information is provided to help customers assess the potential benefits of metering.

The company has developed a fully integrated programme of market research to identify customers' concerns and needs, and ensure that these are fully taken into account to enhance our levels of customer service.

'Running Water', an educational resource pack for 8 to 13 year olds and linked with the National Curriculum was introduced. The resource pack includes easily understood information on the water cycle and was developed in close co-operation with local teachers, educational advisory staff and the Education Business Partnerships of both Devon and Cornwall.





**OUR  
ENTERPRISE  
BUSINESSES**

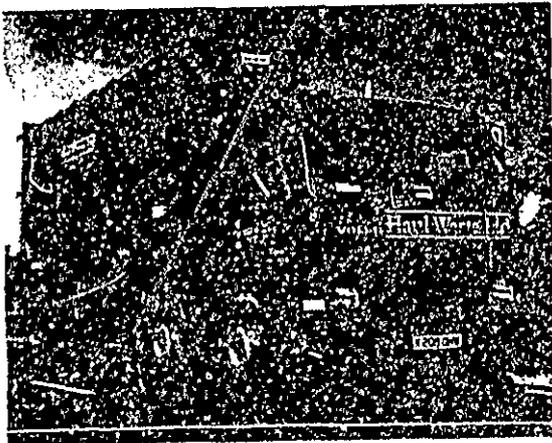
During the year we made substantial progress in strengthening the Group's range of related environmental businesses. Gross turnover for the year was

£75 million, compared to £55 million in the previous year, and produced profit of £2.1 million after interest

**"During the year we made substantial progress in strengthening the Group's range of related environmental businesses."**

**WASTE MANAGEMENT**

Haul Waste Limited, acquired in February 1993, has successfully consolidated its position as the leading waste management operator in the South West of England and neighbouring counties. Its new strategic landfill at Calne in Wiltshire had a very successful



first year of operation. The company achieved planning permission and site licence for the extension of another of its strategic landfill sites at Heathfield in Devon which gives added capacity for the next 12 years. During the year its collection fleet was substantially upgraded. A state-of-the-art computer system was installed to meet the expanding requirements of the business. The company made four small acquisitions during the year. These have been integrated into Haul Waste with the aim of enhancing its services in Somerset, Avon and Cornwall.

On acquisition, Haul Waste was already established in the clinical waste collection business. The company has since secured a contract to run a clinical waste incinerator on behalf of the Royal Devon and Exeter Healthcare Trust at Wonford Hospital in Exeter. A contract was also won to build and operate a clinical waste incinerator at the Derriford Hospital in Plymouth. Both are designed to meet post 1995 environmental standards and give well balanced capacity to meet local market requirements.



*Colin Drummond, Director of Development (right) with David Beatty, Managing Director of the ELF Group Limited*

**INSTRUMENTATION  
AND PROCESS TECHNOLOGY**

The ELE Group Limited (formerly Testlink Holdings Limited), specialists in instrumentation and environmental equipment, has been successfully integrated following its acquisition in May 1993. It has an unparalleled international distribution network for environmental and civil engineering instrumentation equipment. During the past year it traded in 125 countries and won a number of significant contracts.

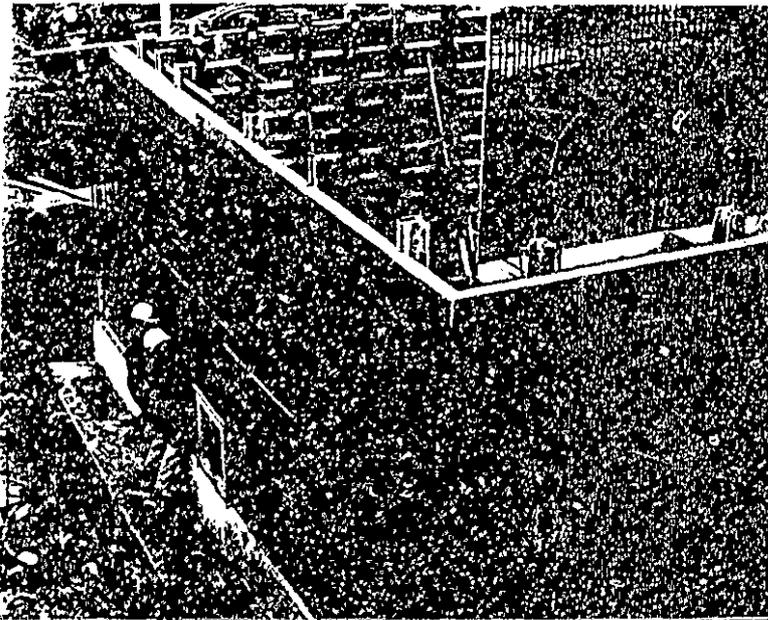
In order to exploit the marketing and other synergies identified prior to the acquisition of ELE, PHOX systems Limited has been integrated into ELE.



*On site environmental monitoring with FLE equipment*

During the year, pHOX achieved BS 5750 accreditation, which FLE already holds, reflecting the Group's commitment to continuing quality improvements.

Copa Products Limited, our process engineering business, reaped the benefits of the previous year's consolidation programme. During the year it substantially broadened its product range of special waste water treatment systems, and negotiated exclusive UK rights to market Fischer & Porter ultra violet waste water treatment technology which is well established in North America.



### **CONSTRUCTION SERVICES**

TJ Brent Limited saw a further year of profitable growth as a leading specialist civil engineering contractor in the South West. In August 1993 it entered the sewer rehabilitation market with the acquisition of the assets from an existing contractor. In March 1994 the company also acquired the assets of a highway drain clearing business based in Devon. Both operations have been successfully integrated into TJ Brent Limited. In November the company achieved BS 5750 accreditation for its water mains relining activities.

### **CONSULTANCY AND PROJECT MANAGEMENT**

The engineering consultancy company, Pell Frischmann Water Limited – jointly owned with Pell Frischmann Group Limited – is currently providing design and construction supervision expertise to South West Water Services Limited on over 60 schemes, and is expanding by providing services to other markets.

### **PROPERTY INTERESTS**

Our property companies have continued to develop assets. We were successful in our planning application to develop a major business park of approximately 45 acres at our strategically located site in Plymouth. Actual development of the site will be market led. In October 1993 we exchanged contracts for the purchase and renovation of Telecom House in Plymouth.

### **LEISURE SERVICES**

We continued to provide a wide range of environmentally-sustainable recreational opportunities at our lakes and water parks. Following the successful launch in May 1993 of the brown trout fishery at Roadford Lake, we opened a new angling and watersports centre at this popular venue. The facility was created with grant aid assistance from the Rural Development Commission.

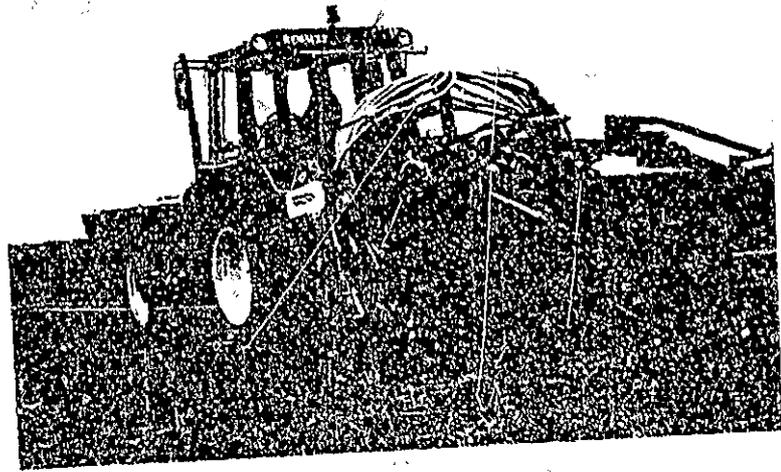
*Our construction services company, TJ Brent Limited continued to expand during the year*

**RESEARCH, DEVELOPMENT AND INNOVATION**

Research, development and innovation activities continued throughout the Group during the year, with expenditure of £1.6 million.

In South West Water Services Limited the move towards the use of more innovative and compact technology has continued.

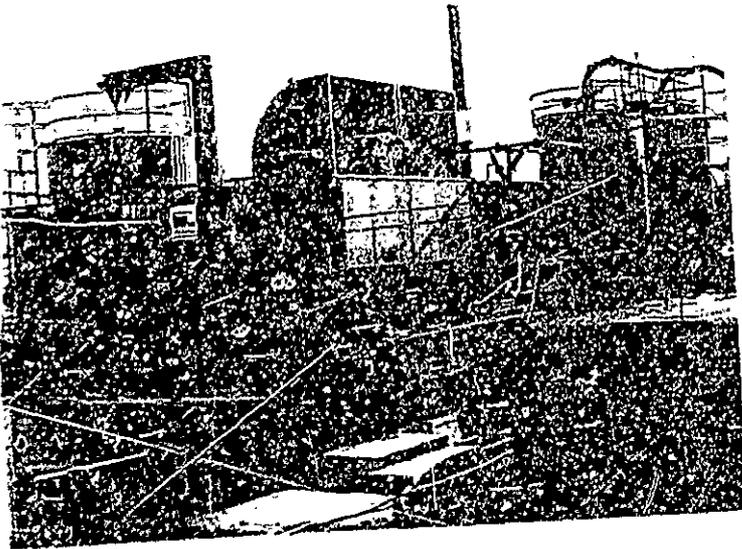
The use of ultra violet light for disinfection of waste water effluent is being developed and 12 schemes in the 'Clean Sweep' programme are presently scheduled to include this method of disinfection. Membrane filtration is undergoing trials for both potable water and waste water treatment. The development of physico-chemical treatment for waste water has also continued and biological aerated floccled filters (BAFF units) have been installed to improve secondary treatment of waste water.



*The ULTICULT system at work.*

innovative ULTICULT combination drilling system and umbilical cord has continued to attract wide interest in the farming community.

In our other subsidiary companies, BAFF units are under development by Copa Products as well as other products designed to improve performance of sewage treatment plants. Investigations are also in hand on new techniques and materials for relining water mains and sewers, as well as trials of touch-read and radio-read water meters.



*New thermal drying sludge treatment technology is currently under trial where dried sludge granules will be produced for agricultural use.*

Investigations are in hand on the use of the deep shaft waste water treatment process at St Agnes.

New thermal drying sludge treatment technology is currently under trial where dried sludge granules will be produced for agricultural use. The use of liquid digested sludge on agricultural land using the

**“...the move towards the use of more innovative and compact technology has continued.”**

ELE has completed a comprehensive research and development programme covering over 200 of its monitoring and testing products. It includes concrete, soil and asphalt testing equipment designed to meet new and emerging European standards as well as products to monitor volatile organic compounds.

The Group continues to support consortium based research within the water industry using the Water Research Centre and other research bodies.



**ENHANCING THE ENVIRONMENT**

We are proud of the major role we play in caring for one of the most beautiful regions in the country.

Environmental concerns form a key element in our thinking as we seek to create a balance between operational requirements and our responsibility towards the environment. In particular, South West Water Services Limited is a vitally important link in the water cycle and is aware of the need to maintain a high standard of environmental awareness, behaviour and practice

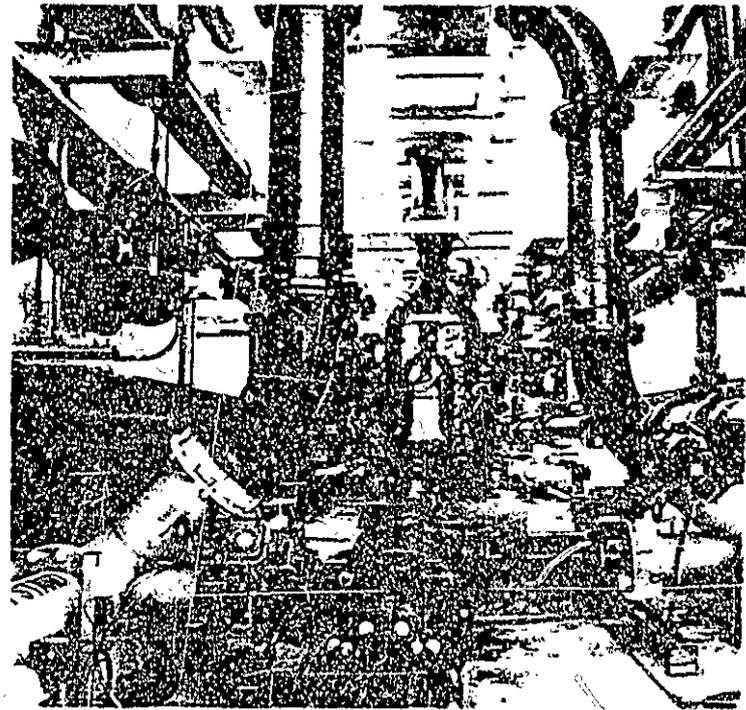
Our massive programme of improvements is providing a significant contribution towards improving the environment, quality of life and economic well being of the region. Our 'Clean Sweep' coastal sewage treatment programme is the biggest single investment in the environment the South West has ever seen and is transforming the bathing waters all around our coastline.

Our 'Clean Sweep' coastal sewage treatment programme is the biggest single investment in the environment the South West has ever seen and is transforming the bathing waters all around our coastline.

**CONSERVATION**

Part of the waste water treatment works site at Ottery St Mary in Devon has been set aside for conservation purposes and planted with suitable tree species to encourage the development of

an area of wet woodland or scrub. The covered service reservoir at Burrows Water Treatment Works near Dawlish in Devon is home to a soft seeded diverse flora which includes an abundance of orchids. By restricting grass cutting to September,

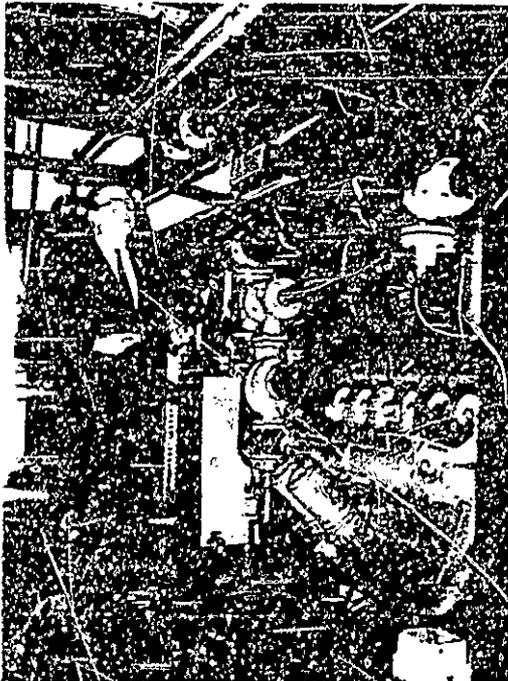


*Our modernised inland waste water treatment works at Flynpton*

**"Our 'Clean Sweep' coastal sewage treatment programme is the biggest single investment in the environment the South West has ever seen."**

hundreds of rare orchids are allowed to complete their reproductive cycle during the spring and early summer. The Cornwall Trust for Nature Conservation has advised us on a planting scheme at Porth Reservoir near Newquay to enhance the habitat for birdlife. Advice has also been sought from the Trust on a suitable management regime for reed beds and another bird sanctuary at Lower Tamar Lake in Cornwall.

The use of permissive and statutory footpaths and bridleways is encouraged, through a high standard of maintenance and signage. Major improvements to the network were achieved during the year at Roadford, Fernworthy and Siblyback lakes



*Bruce Hewett, Director of Technical and Environmental Affairs at one of our combined heat and power plants*

Landscape and habitat enhancement is evident from many tree planting schemes at Upper Laman Lake and Agul and Burnator reservoirs. We continued to favour native broadleaved species for this purpose. Active conservation management and monitoring was progressed throughout the year by our Ranger Service with advice from specialist bodies.

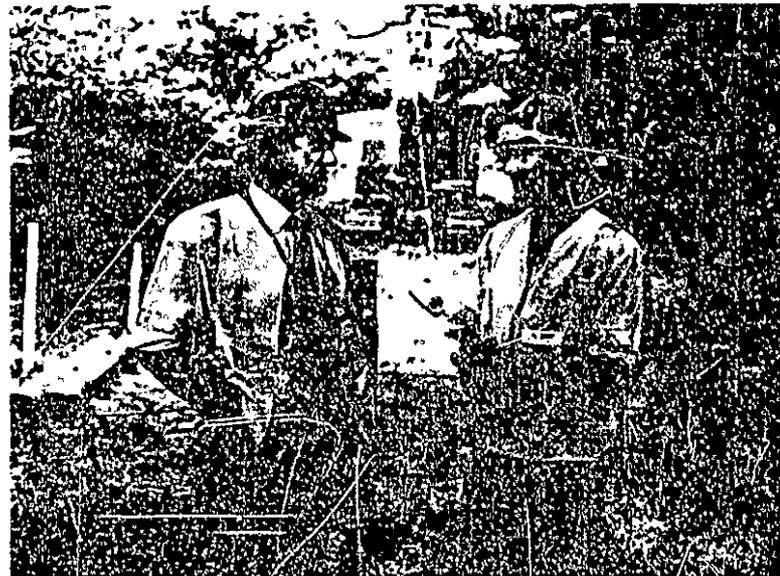
Our Recreation and Conservation Forum, which consists of representatives from 20 conservation and leisure bodies, continued to advise on recreation, conservation and access issues. A Conservation and Recreation Achievements Report is published each year.

**ENVIRONMENTAL INITIATIVES**

Our annual Environmental Award, introduced to promote environmental awareness amongst employees, was awarded in 1993 for work on the Thurlestone & South Milton Waste Water Treatment Works project. It involved the use of reed beds for

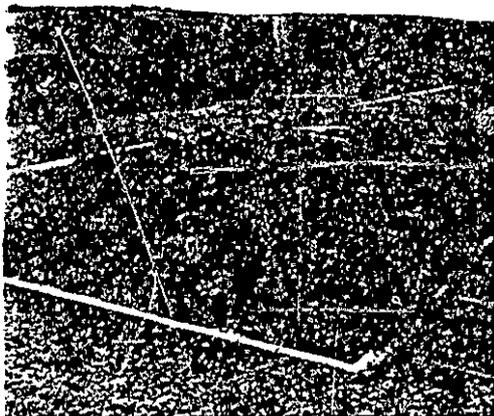
the tertiary treatment of sewage from a small community of 1,500 and ensures the effluent meets the stringent consents imposed by the National Rivers Authority to safeguard the discharge into a Site of Special Scientific Interest. The reed beds have proved highly successful as well as beneficial to the wildlife in the area.

In the winter of 1993, our new publication on environmental matters 'The Pennant' was published for the first time. This twice-yearly newspaper provides a review of some of the environmental activities of the South West Water Group.



*Chairman Keith Court and main layer Sean Robue, discussing progress on a new water main, specially routed to preserve ancient woodland on Dartmoor*

'The Pennant' has been extremely well received and over 10,000 copies have been distributed to schools, libraries, local authorities and other groups.



*Reed beds sewage treatment at Thurlestone*



*John Baker, our Dartmoor Ranger engaged in a stream survey with a group of local conservation enthusiasts*

**SUPPORTING OUR EMPLOYEES**



*Training front line operational staff enabling them to gain National Vocational Qualifications*

**“...ensuring that the skills and competencies of our people, in every part of the Group, keep pace with business need.”**

*Change continues to characterise all our businesses as a direct consequence we continue to invest heavily in money and time, in ensuring that the skills and competencies of our people, in every part of the Group, keep pace with business need.*

**TRAINING**

Much has been achieved during the year including strategic planning involvement for senior managers and the continuation of our Management Development Programme for 180 middle managers throughout the Group. Sales training conferences have been mounted by ELE for its international

distributors, some of whom travelled from New Zealand, South East Asia and Eastern Europe. New working patterns, allied to a further investment in training, were agreed with operators in clean water treatment facilities which reflect operational need and improve flexibility and security.

Further training was provided for front line operational staff enabling them to gain National Vocational Qualifications which denote a level of competence and expertise recognised throughout the water industry.

*There have been significant improvements during the year using the Management of Health and Safety at Work Regulations to reduce accidents, and to promote occupational health. This sound approach has proved successful with a 31% reduction in work accidents, and associated cost savings.*

**COMMUNICATIONS AND SUPPORT**

A significant initiative during the year to enhance employee relations was the formation of a new Staff Council covering South West Water Services Limited.

The Council contains elected representatives from all levels within South West Water Services Limited and deals with matters of concern to all staff employees both trade union and non-trade union members alike. The formation of the Staff Council complements other existing forms of employee communications used throughout the Group.

Our employee benefits include profit sharing, sharesave and pension schemes and a salary structure based on rewarding performance.

An employee ideas scheme entitled 'Inspirations!' has been implemented to encourage innovation, new developments and cost-saving measures throughout the Group.

The Group remains committed to a non-discriminatory employment policy and makes every reasonable effort to provide disabled people with equal opportunities for employment, training and development, having regard to their particular aptitudes and abilities.

The Directors submit their fifth annual report and the audited financial statements of South West Water Plc (the Company) and its subsidiaries (the Group) for the year ended 31 March 1994.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of water, care and waste, engineering, instrumentation and process technology. The principal subsidiary, South West Water Services Limited, holds the water and sewerage appointments for Cornwall and Devon and small areas of Somerset and Dorset. During the year, the Group acquired Testlink Holdings Limited (since renamed ELE Group Limited) as an extension of the Group's interests in environmental instrumentation. The Group is also involved in land and property development, construction services and the provision of recreational facilities in Devon and Cornwall.

A review of activities for the year is given on pages 6 to 16.

### FINANCIAL RESULTS

#### Turnover

Group turnover for the year increased by 29% to £252m. Turnover of the water and sewerage business was £209m, up by 13% in line with tariff increases. Turnover of the other businesses was £33m higher at £13m, which included £17m from acquisitions in the year.

Water and sewerage business turnover is enhanced by a "K" factor, agreed with the Director General of Water Services, which generates income to help fund the investment programme of South West Water Services Limited.

#### Operating costs

Operating costs for the year of £146m increased by 30%, influenced by acquisitions and business growth. In the water and sewerage business, expenses associated with the operation of newly commissioned works are the principal reason for the controlled increase in costs.

#### Operating profit

Operating profit increased by 29% to £106m. The water and sewerage business is performing well, and contributed an operating profit of £104m, up 25% on 1993.

Other businesses contributed an operating profit of £25m, which included £0.6m from companies acquired during the year, and compares with a loss of £0.1m in 1993.

#### Profit before tax

Profit before tax was maintained at the 1993 level of £93m. The improvement in operating profit was restrained by increased interest payable.

Net interest payable was £14m for the year, an increase of £126m reflecting lower interest receivable rates and utilisation of cash for investment purposes.

The Group's share of net profits in associated undertakings was £0.7m, mainly from Westcountry Television Limited.

#### Taxation

The Group's capital investment programme is generating sufficient capital allowances to make it probable that no mainstream corporation tax liability will arise for the year. Advance corporation tax of £7m on the Company's dividends is currently not recoverable and has been written off to the profit and loss account.

#### Dividends and retained earnings

Payment of the interim and recommended final dividends will require £32m. This year, £54m, or 63% of profit after tax, has been transferred to reserves and retained in the business to help fund the Group's investment programme.

#### INVESTMENT

Capital expenditure by the Group on tangible fixed assets during the year was £203m.

Acquisitions during the year cost £16m, principally in respect of Testlink Holdings Limited. Goodwill, arising on acquisitions, of £15m has been written off to reserves.

Changes in fixed assets during the year are detailed in notes 11 and 12 to the financial statements.

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.

#### FINANCING

On 30 March 1994, a further £50m tranche of 8.375 per cent sterling notes, repayable at par in 1998, were issued at 104.12 per cent to finance commercial requirements, at an effective borrowing rate of 7%.

During the year, £72m of finance lease facilities were drawdown to fund schemes in the capital investment programme.

At 31 March 1994 loan and finance lease obligations were £915m and the Group held current asset investments of £189m. Net borrowings increased during the year by £119m to £133m.

Loan and finance lease facilities currently in place and not drawn total £129m.

The borrowing powers of the Directors are limited to two and a half times capital and reserves, as defined in the Articles of Association. At 31 March 1994 the limit was £2.1 billion. The Directors confirm that the Group can meet its short term requirements from the existing borrowing facilities without breaching covenants or other borrowing restrictions.

#### SHARE CAPITAL

During the year the issued ordinary share capital increased from £121.9m to £125.4m largely as a result of shares issued under the Company's scrip dividend alternative.

#### SHAREHOLDERS' RETURN

The Directors recommend the payment of a final dividend of 17.1p per ordinary share for the year ended 31 March 1994. Together with the interim dividend of 8.1p per ordinary share paid on 6 April 1994, this makes a total dividend for the year of 25.5p per ordinary share, an increase of 7.6% on the dividends for 1993. If approved at the annual general meeting the final dividend will be paid on 1 September 1994 to shareholders on the register at close of business on 20 June 1994.

The Directors propose a scrip dividend alternative in respect of the final dividend and a circular regarding the scrip dividend alternative is enclosed.

The dividend of 25.5p is paid out of earnings per share of 68.5p. The cover for payment of dividends is 2.7 times on a net basis.

There would be no significant dilution of earnings per share if the outstanding shares which might be issued, in respect of the Company's share option schemes, had been in issue during the year.

The value of net assets per share, at book value, at 31 March 1994 was 655p.

#### DIRECTORS

Details of the Directors are given on page 3.

Dr J R Lawrence and Mr C Spence retired as non-executive Directors on 31 December 1993 and 31 March 1994 respectively. Sir Geoffrey H Chipperfield was appointed as a non-executive Director on 1 October 1993.

Having been appointed by the Board, Sir Geoffrey H Chipperfield is due to retire at the annual general meeting together with Mr T C Leader, Lady Mary Holborow and Mr C I J H Drummond who retire by rotation.

All of the Directors due to retire offer themselves for re-election and resolutions for their re-election will be proposed at the annual general meeting.

Mr C I J H Drummond has a service contract which provides for not less than three years' notice of termination by the Company and not less than one year's notice of termination by Mr Drummond, expiring at any time. None of the other Directors proposed for re-election has a service contract with the Company.

No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

Details of Directors' interests in shares of the Company are given in note 10 to the financial statements on page 31. No Director had an interest in the shares of any subsidiary undertaking.

During the year the Company has maintained cover for Directors and senior employees against liabilities in relation to the Company under a directors' and officers' liability insurance policy.

#### CORPORATE GOVERNANCE

The Company complies fully with the provisions of the Cadbury Committee's Code of Best Practice, other than those items (namely going concern and internal control), for which guidance is awaited. The Company's auditors, Price Waterhouse, have reviewed the Company's compliance with the specific matters in the Code which the London Stock Exchange requires that the auditors should review. They have reported to the Board that they are of the opinion that it is appropriate for the Directors to make the statement that the Company complies with those aspects of the Code.

The Board comprises 5 executive and 6 non-executive Directors including an executive Chairman and non-executive Deputy Chairman. The Board and the Audit, Finance and Remuneration Committees meet on a regular basis. Strategic and key operational decisions are determined by the Board. The Audit Committee reviews the audit plan, financial controls and procedures as well as regulatory compliance matters, the Finance Committee reviews dividend policy, financial statements and accounting policies and the Remuneration Committee reviews the remuneration and benefits of the executive Directors and the overall remuneration and benefits policy for senior management.

**EMPLOYEES**

Information regarding employment policies appears on page 16 and details of the employee share option schemes is given in note 21 to the financial statements on page 30.

**RESEARCH AND DEVELOPMENT**

Information regarding research and development is given on page 13 and note 3 to the financial statements.

**DONATIONS**

During the year charitable donations amounting to £29,000 were made. No political donations were made.

**TAX STATUS**

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

**SUBSTANTIAL SHAREHOLDINGS**

At 23 June 1991 interests in the issued share capital had been reported by:

	Shares	%
Phillips & Drew Fund Management	12,670,405	10.09
Norwich Union Life Insurance Society	8,761,910	6.99
Sun Life Group	5,086,562	4.06

**AUDITORS**

Pricewaterhouse were appointed auditors until the conclusion of the fifth annual general meeting and have indicated their willingness to continue in office. A resolution for their re-appointment will be proposed at the annual general meeting.

**ANNUAL GENERAL MEETING**

The fifth annual general meeting will be held at The Guildhall, Plymouth, Devon on Tuesday, 20 July 1991 at 11.00 am.

In addition to the routine business, the following resolutions will be proposed at the annual general meeting.

Resolution 8 requests shareholder approval by way of an ordinary resolution to renew for a period not exceeding five years the Directors' existing general and unconditional authority to allot securities in accordance with the Companies Act 1985 and the Articles of Association of the Company. This authority would continue that granted in November 1989. The share capital to which this authority relates of £1,848,000 ordinary shares represents approximately 33% of the issued share capital at the date of this report.

Resolution 9 requests shareholder approval by way of a special resolution to renew until next year's annual general meeting the Directors' existing authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. The share capital to which this authority relates represents approximately 5% of the issued share capital at the date of this report.

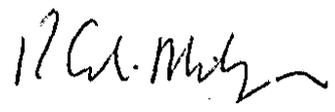
The Directors consider that they should have such authorities in order to be able to take advantage of opportunities as they arise and to retain flexibility although they have no current plans to issue shares.

**APPOINTED BUSINESS**

South West Water Services Limited is required to publish additional financial information relating to the 'Appointed Business' as water and sewerage undertaker in accordance with the instrument of Appointment from the Secretary of State for the Environment. A copy of this information will be available from 23 September 1991 by application to the Secretary at Peninsula House, Rydon Lane, Exeter EX2 7HR.

*By order of the Board*

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



23 June 1991

The annual general meeting of South West Water Plc will be held at The Guildhall, Plymouth, Devon on Tuesday 23 July 1991 at 11.00 am for the transaction of the following business:

**Resolution 1**

To receive the Report of the Directors and the financial statements for the year ended 31 March 1991.

**Resolution 2**

To declare a final dividend for the year ended 31 March 1991.

**Resolution 3**

To re-elect Sir Geoffrey H Chipperfield as a Director.

**Resolution 4**

To re-elect Mr T C Leader as a Director.

**Resolution 5**

To re-elect Lady Mary Holborow as a Director.

**Resolution 6**

To re-elect Mr C J H Drummond as a Director.

**Resolution 7**

To re-appoint Price Waterhouse as auditors until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the Directors to fix their remuneration.

**Resolution 8**

To propose the following as an ordinary resolution:

That

(a) the Directors be generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (as defined for the purposes of that section) up to a maximum nominal amount of £18,000,000;

(b) this authority shall expire on the day five years after the passing of this resolution;

(c) the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after it expires; and

(d) all previous authorities under section 80 of the Companies Act 1985 shall cease to have effect.

**Resolution 9**

To propose the following as a special resolution

That

(a) the Directors be authorised with effect from the conclusion of this annual general meeting to allot for cash equity securities (as defined for the purposes of section 89 of the Companies Act 1985) pursuant to the general authority conferred on them by Resolution 8 above as if section 89(1) of that Act did not apply to the allotment but this authority shall be limited:

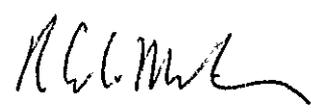
- i to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them but the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any relevant regulatory body or stock exchange; and
- ii to the allotment (other than under i above) of equity securities having, in the case of relevant shares (as defined for the purposes of section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £6,277,000;

(b) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution; and

(c) the Company may, before this authority expires, make an offer or agreement which would or might require equity securities to be allotted after it expires.

*By order of the Board*

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



23 June 1991

**Notes**

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

A Form of Proxy is enclosed and, if used, should be lodged with the Company's Registrars, Lloyds Bank Plc, Lloyds Bank Registrars, not less than 48 hours before the time fixed for the meeting.

The Register of Directors' Interests and copies of the Directors' service contracts will be available for inspection during normal business hours at the Company's registered office from the date of this notice until the date of the meeting, and at the place of the meeting from 10.00am until the conclusion of the meeting.

# FINANCIAL STATEMENTS

for the year ended 31 March 1994

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## DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 22, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group 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 23 to 31, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which they consider to be applicable have been followed.

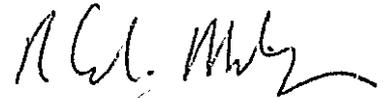
The Directors have responsibility for ensuring that accounting records are kept which disclose with reasonable accuracy the financial position of the Company and the Group which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

*By order of the Board*

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

23 June 1994



A U D I T O R S ' R E P O R T

for the year ended 31 March 1994

AUDITORS' REPORT TO THE SHAREHOLDERS OF SOUTH WEST WATER PLC

We have audited the financial statements on pages 23 to 27 which have been prepared under the historical cost convention and the accounting policies set out on pages 26 and 27.

**Respective responsibilities of Directors and auditors**

As described on page 21 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion based on our audit on those statements and to report our opinion to you.

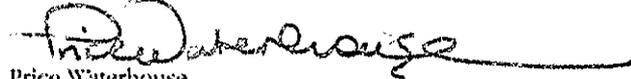
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 and of the Group at 31 March 1994 and of the profit and cash flows of the Group 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

23 June 1994

**G R O U P P R O F I T A N D L O S S A C C O U N T**

*for the year ended 31 March 1994*

	Notes	1994 £m	1993 £m
<b>TURNOVER</b>			
Continuing operations		234.7	194.4
Acquisitions		16.9	-
Total turnover	2	251.6	194.4
Other operating income		0.1	0.2
Operating costs	3	(145.6)	(111.8)
<b>OPERATING PROFIT</b>			
Continuing operations		105.8	82.8
Acquisitions		0.6	-
Total operating profit	2	106.4	82.8
Share of profit (loss) in associated undertakings		0.7	(2.0)
Net interest (payable) receivable	4	(14.1)	11.9
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Tax on profit on ordinary activities	5	(7.1)	(8.5)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>			
Dividends	6 7	85.9 (32.0)	84.2 (29.5)
<b>RETAINED PROFIT TRANSFERRED TO RESERVES</b>			
	22	53.9	54.7
<b>EARNINGS PER ORDINARY SHARE</b>			
	8	68.5p	67.9p

A statement of movements in reserves is given in note 22.

**S T A T E M E N T O F T O T A L  
R E C O G N I S E D G A I N S A N D L O S S E S**

*for the year ended 31 March 1994*

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	85.9	84.2	38.2	33.4
Expenses, including discount, of sterling notes issue	-	(0.4)	-	(0.4)
<b>TOTAL GAINS AND LOSSES RECOGNISED FOR THE YEAR</b>	85.9	83.8	38.2	33.0

The notes on pages 26 to 41 form part of these financial statements.

**B A L A N C E S H E E T S**

*at 31 March 1994*

	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
<b>FIXED ASSETS</b>					
Tangible assets	11	1,059.4	880.0	2.1	2.1
Investments	12	3.6	2.1	324.8	307.7
		<b>1,063.0</b>	<b>882.1</b>	<b>326.9</b>	<b>310.1</b>
<b>CURRENT ASSETS</b>					
Stocks	13	6.2	4.2	-	0.1
Debtors, amounts falling due after more than one year	14	2.4	0.3	190.4	125.5
Debtors, amounts falling due within one year	15	54.9	43.3	7.3	8.2
Investments	16	479.6	466.0	69.2	71.5
Cash at bank and in hand		1.8	0.4	-	0.6
		<b>544.9</b>	<b>514.2</b>	<b>266.9</b>	<b>205.9</b>
<b>CURRENT LIABILITIES</b>					
Creditors, amounts falling due within one year	17	(169.0)	(120.2)	(53.4)	(36.1)
<b>NET CURRENT ASSETS</b>					
		<b>375.9</b>	<b>394.0</b>	<b>213.5</b>	<b>169.8</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		<b>1,438.9</b>	<b>1,276.1</b>	<b>540.4</b>	<b>470.0</b>
Creditors, amounts falling due after more than one year	18	(594.0)	(477.3)	(236.7)	(185.3)
Provisions for liabilities and charges	19	(4.3)	(4.8)	-	-
Accruals and deferred income	20	(19.3)	(14.5)	-	-
<b>NET ASSETS</b>					
	2	<b>821.3</b>	<b>779.5</b>	<b>303.7</b>	<b>294.6</b>
<b>CAPITAL AND RESERVES</b>					
Called-up share capital	21	125.4	124.9	125.4	124.9
Share premium account	22	143.5	143.7	143.5	143.7
Other reserves	22	-	-	3.1	3.1
Profit and loss account	22	552.4	510.9	31.7	22.9
<b>SHAREHOLDERS' FUNDS</b>					
	23	<b>821.3</b>	<b>779.5</b>	<b>303.7</b>	<b>294.6</b>

The notes on pages 26 to 41 form part of these financial statements.

Approved by the Board on 23 June 1994 and signed on its behalf by:

K W Court, Chairman



**G R O U P C A S H F L O W S T A T E M E N T**

*for the year ended 31 March 1994*

	Notes	1994 £m	1993 £m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	29a	121.6	95.1
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		26.9	49.8
Interest paid		(33.9)	(29.1)
Interest element of finance lease rental payments		(14.3)	(9.2)
Dividends received from associated undertakings		0.1	0.2
Dividends paid		(18.1)	(36.3)
Net cash outflow from returns on investments and servicing of finance		(39.3)	(14.9)
<b>TAXATION</b>			
Advance corporation tax paid		(8.4)	(8.6)
<b>INVESTING ACTIVITIES</b>			
Payments to acquire tangible fixed assets		(181.2)	(217.8)
Grants and contributions:			
Infrastructure assets		4.9	1.3
Non-infrastructure assets		4.3	7.0
Receipts from disposal of tangible fixed assets		0.7	0.4
Payments to acquire current asset investments		(1,451.0)	(951.9)
Receipts from disposal of current asset investments		1,397.3	954.3
Acquisitions net outflow	29b	(13.3)	(32.1)
Net cash outflow from investing activities		(238.3)	(238.8)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(164.4)	(164.2)
<b>FINANCING</b>			
Issue of shares for cash consideration		(0.3)	(2.8)
Issue of sterling notes		(52.1)	(35.0)
Expenses of sterling notes issue (1993 including discount)		0.2	0.4
Other loans raised		-	(30.0)
Other loans repaid		0.6	-
Finance lease draw-downs		(71.7)	(86.0)
Capital element of finance lease rental payments		4.1	2.3
Net cash inflow from financing		(119.2)	(151.1)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	29d	(45.2)	(13.1)
		(164.4)	(164.2)

**N O T E S   T O   T H E  
F I N A N C I A L   S T A T E M E N T S**

**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, the requirements of the London Stock Exchange 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 11 below.

**b Basis of consolidation**

The Group financial statements include the results of the Company and its subsidiary undertakings, each made up to 31 March 1991, together with the attributable share of results and reserves of associated undertakings on the basis of their latest financial statements. The results of subsidiary and associated undertakings acquired during the year are included for the periods of ownership.

**c Turnover**

Turnover, excluding Value Added Tax, represents the income receivable in the ordinary course of business for goods and services provided.

**d 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 Landfill sites

Landfill sites are included at cost less accumulated depreciation. The cost of a landfill site is depreciated over its estimated life on the basis of the usage of void space. Cost includes acquisition, development and remedial expenses.

- iii 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:

Leasehold buildings	over the period of the lease
Freehold buildings	30 - 60 years
Operational structures	10 - 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.

**e 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 financial lease period, whichever is the shorter. The corresponding liability has been recorded as a creditor. The interest element of the rental costs 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.

**f Grants and contributions**

From 1 April 1990 grants and contributions receivable in respect of capital expenditure on non-infrastructure assets are included in the balance sheet as deferred income and are released to profits over the depreciable lives of the assets to which they relate.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets 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.

**g 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.

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**1 ACCOUNTING POLICIES (continued)**

**h Stocks**

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

**i Pension costs**

The expected cost of pensions in respect of the 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.

Pension costs for the Group's defined contribution schemes are charged against profits in the year in which they are incurred.

**j Research expenditure**

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

**k 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.

**l Goodwill**

Goodwill, arising from the purchase of subsidiary and associated undertakings, representing the excess of the purchase consideration over the fair value of net assets acquired, is written off to Group reserves.

**m Foreign currency**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. The results of overseas subsidiaries are translated into sterling at the average rates of exchange prevailing during the year. Exchange differences arising from the retranslation of opening balances are dealt with in reserves.

**2 SEGMENTAL ANALYSIS**

By class of business	Water and sewerage business		Other business		Group	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Turnover	210.2	185.7	74.6	35.2	284.8	220.9
Inter-segment turnover	(1.7)	(1.0)	(31.5)	(21.9)	(33.2)	(26.5)
Turnover to third parties	208.5	184.1	43.1	10.3	251.6	194.1
<b>Profit</b>						
Segment operating profit (loss)	103.9	83.2	2.5	(0.1)	106.4	82.8
Share of profit (loss) in associated undertakings	—	—	0.7	(2.0)	0.7	(2.0)
Net interest (payable) receivable	(13.3)	10.2	(0.8)	1.7	(14.1)	11.9
Profit (loss) on ordinary activities before taxation	90.6	93.1	2.4	(0.7)	93.0	92.7
Segment net assets (liabilities)	829.7	781.1	(8.4)	(1.6)	821.3	779.5

Water and sewerage business comprises the provision of water and sewerage services to customers served by South West Water Services Limited.

The Group's acquisitions during the year arose in the other business segment.

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

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**3 OPERATING COSTS**

	Continuing 1994 £m	Acquisitions 1994 £m	Total 1994 £m	Total 1993 £m
Manpower costs (note 9)	38.2	3.3	41.5	34.4
Raw materials and consumables	12.3	8.0	20.9	10.6
Rentals under operating leases:				
Hire of plant and machinery	3.4	-	3.4	0.8
Other operating leases	0.5	0.5	1.0	0.7
Research expenditure	1.1	0.5	1.6	1.2
Auditors' remuneration	0.2	-	0.2	0.2
Other external charges	37.4	0.9	38.3	33.4
Depreciation:				
On owned assets	11.2	0.2	11.4	10.1
On assets held under finance leases	7.3	0.1	7.4	3.1
Deferred income	(0.5)	-	(0.5)	(0.5)
Infrastructure renewals charge	5.7	-	5.7	5.6
Other operating charges	12.5	2.2	14.7	12.2
	129.3	16.3	145.6	111.8

The comparative for other external charges has been amended to present separately other operating charges. Fees payable to the Group's auditors, Price Waterhouse, for non-audit work for the year amounted to £1.0m (1993 £0.5m).

**4 NET INTEREST (PAYABLE)/RECEIVABLE**

	1994 £m	1993 £m
Interest payable:		
Bank loans, overdrafts and other loans repayable wholly within five years	(3.9)	(0.6)
Long term loans (any part repayable after five years)	(29.7)	(29.1)
Interest element of finance lease rentals	(8.0)	(8.1)
Other finance costs	(0.7)	(0.7)
	(42.3)	(38.5)
Interest receivable:		
Listed redeemable securities	11.2	14.9
Other investments (as defined in note 16)	17.0	35.5
	28.2	50.4
Net interest (payable) receivable	(14.1)	11.9

**5 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	1994 £m	1993 £m
United Kingdom taxation:		
Irrecoverable advance corporation tax	7.1	8.5

The Group is entitled to capital allowances on its substantial investment programme. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1994; advance corporation tax on the interim and proposed final dividends is therefore regarded as irrecoverable and has been charged against profits.

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**6 PROFIT OF PARENT COMPANY**

	1994	1993
	£m	£m
Profit on ordinary activities after taxation dealt with in the accounts of the parent company	38.2	33.1

As permitted by section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

**7 DIVIDENDS**

	1994	1993
	£m	£m
Interim dividend of 8.4p per ordinary share payable 6 April 1994 (1993 7.8p paid on 4 March 1993)	10.5	9.7
Proposed final dividend of 17.1p per ordinary share payable 1 September 1994 (1993 15.9p paid on 1 September 1993)	21.5	19.8
	32.0	29.5

**8 EARNINGS PER ORDINARY SHARE**

	1994	1993
Profit on ordinary activities after taxation	£85.9m	£84.2m
Earnings per ordinary share	68.5p	67.9p

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation by 125,310 million being the weighted average number of ordinary shares in issue during the year (1993 124,069 million).

There would have been no significant dilution of earnings per ordinary share if the outstanding shares which might be issued in respect of the Company's share option schemes, referred to in note 21, had been in issue during the year.

Earnings per ordinary share on the nil distribution basis is 74.2p (1993 74.7p). This has been calculated by eliminating the taxation charge of £7.1m (1993 £8.5m) in respect of irrecoverable advance corporation tax on the interim and proposed final dividends.

The calculation of earnings per ordinary share is consistent with that for Headline Earnings recommended by the Institute of Investment Management and Research.

**9 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS**

The average number of persons (including Directors) employed by the Group during the year were:

	1994	1993
Water and sewerage business	2,141	2,144
Other business	919	812
	3,060	2,956

**NOTES TO THE  
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**9 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS (continued)**

	Continuing 1994	Acquisitions 1994	Total 1994	Total 1993
	£m	£m	£m	£m
Employment costs comprise				
Wages and salaries	49.3	3.1	52.4	45.5
Social security costs	1.3	0.1	4.7	3.5
Other pension costs (note 27)	3.9	0.2	4.1	3.4
<b>Total employment costs</b>	<b>57.5</b>	<b>3.7</b>	<b>61.2</b>	<b>50.4</b>
Total employment costs are charged as follows:				
Manpower costs (note 3)	38.2	3.3	41.5	34.4
Research expenditure	0.3	0.1	0.7	0.4
Capital schemes and infrastructure renewals expenditure	19.0	-	19.0	15.6
	<b>57.5</b>	<b>3.7</b>	<b>61.2</b>	<b>50.4</b>

**10 DIRECTORS**

**Emoluments of Directors**

	1994 £000	1993 £000 (Restated)
Total emoluments of the Directors of the Company		
Executive Directors		
Remuneration – salary	432	378
– performance bonus for year	55	78
	<b>487</b>	<b>456</b>
Other emoluments	42	31
Pension contributions	121	105
Fees to non-executive Directors	129	127
<b>Total emoluments</b>	<b>779</b>	<b>719</b>

Emoluments of the executive Directors are determined by the Remuneration Committee consisting mainly of non-executive Directors. Emoluments include salary, performance bonus, car benefit and health cover.

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

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

Included above within total emoluments of the Directors are:

	1994 £000	1993 £000 (Restated)
a Emoluments of the Chairman		
Remuneration – salary	95	95
– performance bonus for year	13	20
	<b>108</b>	<b>115</b>
Other emoluments	4	4
Pension contributions	40	39
<b>Total emoluments</b>	<b>152</b>	<b>158</b>
b Emoluments of the highest paid Director		
Remuneration – salary	103	109
– performance bonus for year	13	26
	<b>116</b>	<b>135</b>
Other emoluments	14	9
Pension contributions	20	23
<b>Total emoluments</b>	<b>150</b>	<b>167</b>
c Emoluments payable to Directors for services as Directors of subsidiary undertakings	123	127

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**10 DIRECTORS (continued)**

**Emoluments of Directors (continued)**

Number of Directors whose emoluments, excluding pension contributions, fell within the following ranges:

Range (£)	1994	1993 (Restated)	Range (£)	1994	1993 (Restated)
0-5,000	-	1	85,001-90,000	1	1
5,001-10,000	1	1	95,001-100,000	1	-
10,001-15,000	2	-	100,001-105,000	1	1
15,001-20,000	3	1	110,001-115,000	1	-
20,001-25,000	2	1	115,001-120,000	-	1
25,001-30,000	-	1	125,001-130,000	1	-
30,001-35,000	-	1	140,001-145,000	-	1

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

The Company has a future obligation in respect of Messrs W H Fraser, B A O Hewett and K L Hill to pay the difference between pension entitlement based upon final salary and the maximum amount payable under the rules of the pension scheme.

**Directors' interests**

The beneficial interests of Directors in the ordinary shares of the Company at 31 March 1994 and 31 March 1993 (or date of appointment if later) and changes in such interests since 31 March 1994 were as follows:

a Share interests	1994	1993		1994	1993
K W Court	38,102	37,009	B A O Hewett	492	-
Sir Geoffrey H Chipperfield	1,500	-	K L Hill	9,042	9,003
S J Day	1,500	1,500	Lady Mary Holborow	2,625	2,585
C I J H Drummond	1,354	729	T C Leader	1,219	1,180
A T Fletcher	1,000	-	C Spence	2,438	2,360
W H Fraser	7,344	7,212	S M Yassukovich	-	-

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

K W Court	460	Lady Mary Holborow	17
W H Fraser	70	T C Leader	17
B A O Hewett	6		

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

b Options to subscribe for shares	1994 Total	Executive scheme			Sharesave scheme				1993 Total
		496p	418p	328p	393p	332p	287p	176p	
Subscription price									
K W Court	110,916	40,000	23,000	40,000	-	2,259	1,567	4,090	70,916
C I J H Drummond	56,000	22,500	33,500	-	-	-	-	-	33,500
W H Fraser	106,000	30,000	29,000	47,000	-	-	-	-	76,000
B A O Hewett	34,389	30,000	-	-	4,389	-	-	-	-
K L Hill	81,500	25,500	26,000	30,000	-	-	-	-	56,000

The exercise dates of options to subscribe for shares are shown in note 21. No Director exercised options during the year. The options to subscribe at 496p under the Executive scheme and at 393p under the Sharesave scheme were granted during the year.

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**11 TANGIBLE FIXED ASSETS**

Group	Land and buildings	Infrastructure assets	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1994
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1993	39.3	336.1	211.5	202.0	167.7	989.6
Additions	0.8	20.7	24.0	31.0	117.3	203.4
Grants and contributions		(4.6)				(4.6)
Arising on acquisitions	0.5	-	-	2.6	-	3.1
Disposals	-	-	(0.1)	(2.1)	-	(2.2)
Transfers	7.5	27.2	40.6	10.1	(85.1)	-
At 31 March 1994	48.1	388.4	309.6	243.6	199.6	1,189.3
Depreciation						
At 1 April 1993	3.1		46.8	59.7		109.6
Arising on acquisitions	-		-	1.3		1.3
Charge for year	2.2		5.6	12.9		20.7
Disposals	-		-	(1.7)		(1.7)
At 31 March 1994	5.3		52.4	72.2		129.9
Net book value:						
At 31 March 1994	12.8	388.4	257.2	171.4	199.6	1,059.4
At 31 March 1993	36.2	336.1	197.7	142.3	167.7	880.0

Out of the total depreciation charge for the Group of £20.7m (1993 £14.6m), the sum of £1.9m (1993 £1.9m) has been charged to capital projects and £18.8m (1993 £13.2m) against profits.

The cost of land and buildings and of operational properties includes non-depreciable land of £4.2m (1993 £4.2m) and £1.6m (1993 £3.6m) respectively.

The net book value of land and buildings is analysed as follows:

	1994 £m	1993 £m
Freehold	36.0	36.2
Long leasehold	0.3	-
Short leasehold	6.5	-
	<u>42.8</u>	<u>36.2</u>

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

Company	Freehold land and buildings	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1994
	£m	£m	£m	£m
Cost				
At 1 April 1993	1.8	0.9	0.2	2.9
Additions	-	0.4	-	0.4
Disposals	-	(0.1)	-	(0.1)
Transfers	0.2	-	(0.2)	-
At 31 March 1994	2.0	1.2	-	3.2
Depreciation				
At 1 April 1993	0.2	0.3		0.5
Charge for year	0.4	0.2		0.6
At 31 March 1994	0.6	0.5		1.1
Net book value:				
At 31 March 1994	1.4	0.7	-	2.1
At 31 March 1993	1.6	0.6	0.2	2.4

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**11 TANGIBLE FIXED ASSETS (continued)**

The analysis on page 32 includes the following amounts in respect of assets held under finance leases

Group	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1994
	£m	£m	£m	£m
Cost At 31 March 1994	98.6	91.7	68.7	239.0
Depreciation Charge for year	1.3	0.1	-	1.4
Depreciation At 31 March 1994	1.7	12.7	-	14.4

**12 FIXED ASSET INVESTMENTS**

	Shares £m	Loans £m	Group Total 1994 £m	Shares £m	Loans £m	Company Total 1994 £m
<b>Subsidiary undertakings</b>						
Cost						
At 1 April 1993				304.2	-	304.2
Additions				15.8	-	15.8
At 31 March 1994				320.0	-	320.0
<b>Associated undertakings</b>						
Cost						
At 1 April 1993	0.5	1.6	2.1	1.5	2.0	3.5
Additions	0.3	1.0	1.3	0.3	1.0	1.3
Goodwill written off	(0.2)	-	(0.2)	-	-	-
Profit for year	0.1	0.4	0.5	-	-	0.5
Dividends received	(0.1)	-	(0.1)	-	-	-
At 31 March 1994	0.6	3.0	3.6	1.8	3.0	4.8
<b>Total investments</b>						
At 31 March 1994	0.6	3.0	3.6	321.8	3.0	324.8
At 31 March 1993	0.5	1.6	2.1	305.7	2.0	307.7

Investments made by the Company during the year in subsidiary undertakings included £15.3m for the acquisition of Testlink Holdings Limited (subsequently renamed ELE Group Limited, note 25) and £0.5m to fund the development of certain Group companies.

The investment during the year in associated undertakings was in respect of Westcountry Television Limited for which £0.2m goodwill has been written off to Group reserves (note 25).

Profit for year of £0.5m comprised share of profit in associated undertakings at £0.7m, disclosed in the profit and loss account, less £0.2m included in net current assets.

Details of principal subsidiary and associated undertakings of the Group are set out in note 26.

**13 STOCKS**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Raw materials and consumables	2.7	1.7	-	-
Work in progress	0.8	2.1	-	-
Finished goods	2.7	0.4	-	0.1
	6.2	4.2	-	0.1

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**14 DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Amounts owed by subsidiary undertakings			189.8	125.5
Amounts owed by associated undertakings	0.6	-	0.6	-
Other debtors	0.2	0.3	-	-
Prepayments and accrued income	1.6	-	-	-
	<b>2.4</b>	<b>0.3</b>	<b>190.4</b>	<b>125.5</b>

**15 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Trade debtors	32.6	23.5	-	-
Amounts owed by subsidiary undertakings			6.9	7.0
Amounts owed by associated undertakings	0.5	0.7	0.2	0.1
Other debtors	0.6	2.5	-	-
Prepayments and accrued income	20.8	16.6	0.2	0.2
Advance corporation tax recoverable	0.4	-	-	-
	<b>54.9</b>	<b>43.3</b>	<b>7.3</b>	<b>8.2</b>

**16 CURRENT ASSET INVESTMENTS**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Listed on a recognised investment exchange:				
Within Great Britain	124.9	94.8	-	23.0
Outside Great Britain	56.5	33.6	-	-
	<b>181.4</b>	<b>128.4</b>	<b>-</b>	<b>23.0</b>
Other investments	298.2	337.6	69.2	18.5
	<b>479.6</b>	<b>466.0</b>	<b>69.2</b>	<b>41.5</b>
Market value of listed investments	<b>181.7</b>	<b>130.4</b>	<b>-</b>	<b>23.3</b>

The comparative for investments listed on a recognised investment exchange has been restated to separately present figures for exchanges within and outside Great Britain.

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

**17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Bank loans and overdrafts	6.5	-	1.4	-
Sterling notes	0.5	-	0.5	-
European Investment Bank loans	2.0	-	-	-
Loan stock notes	5.8	-	5.8	-
Obligations under finance leases	6.3	3.9	-	-
Trade creditors	79.4	59.0	4.9	4.5
Amounts owed to associated undertakings	1.2	0.9	0.8	0.1
Other creditors	2.5	2.4	0.9	0.8
Advance corporation tax	7.9	8.8	7.9	8.8
Other taxation and social security	2.6	3.6	-	1.9
Accruals and deferred income	23.2	21.8	0.1	0.2
Interim dividend	9.6	-	9.6	-
Proposed final dividend	21.5	19.8	21.5	19.8
	<b>169.0</b>	<b>120.2</b>	<b>53.4</b>	<b>30.1</b>

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**18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Sterling bond	150.0	150.0	150.0	150.0
Sterling notes	86.4	35.0	86.4	35.0
European Investment Bank loans	128.0	130.0	-	-
Other loans	0.8	0.1	-	-
Loans falling due after more than one year (note 24)	365.2	315.1	236.4	185.0
Obligations under finance leases (note 24)	226.6	160.5	-	-
Amounts owed to subsidiary undertakings			0.1	-
Other creditors	2.2	1.7	0.2	0.3
	<b>594.0</b>	<b>477.3</b>	<b>236.7</b>	<b>185.3</b>

**19 PROVISIONS FOR LIABILITIES AND CHARGES**

	Group 1994 £m	Company 1994 £m
<b>Infrastructure renewals</b>		
At 1 April 1993	4.2	-
Charged against profits	5.7	-
Utilised during year	(6.2)	-
At 31 March 1994	3.7	-
<b>Environmental and landfill restoration</b>		
At 1 April 1993 and 31 March 1994	0.6	-
<b>Total provisions for liabilities and charges</b>		
At 31 March 1994	4.3	-
At 31 March 1993	4.8	-

**Deferred taxation**

The maximum potential liability for deferred taxation, for which no provision is considered necessary, for the Group and the Company at 31 March 1994 was:

	Group 1994 £m	Company 1994 £m
Tax effect of timing differences due to:		
Accelerated capital allowances (as reduced by expected disclaimers)	39.1	-
Other timing differences	(1.4)	-
	37.7	-
Less: advance corporation tax recoverable	(22.8)	-
Maximum potential liability	14.9	-

**20 ACCRUALS AND DEFERRED INCOME**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
<b>Deferred income</b>				
At 1 April	15.3	9.6	0.1	-
Additions	5.1	6.2	-	0.2
Released to profits	(0.5)	(0.5)	(0.1)	(0.1)
At 31 March	19.9	15.3	-	0.1
Amount to be released within one year	(0.6)	(0.8)	-	(0.1)
Amount to be released after more than one year	19.3	14.5	-	-

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

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**21 CALLED-UP SHARE CAPITAL**

	1994 £m	1993 £m
<b>Authorised</b>		
175,000,000 ordinary shares of £1 each	175.0	175.0
1 special share of £1	-	-
<b>Allotted, called-up and fully paid</b>		
125,370,571 ordinary shares of £1 each (1993 124,905,844)	125.4	124.9
1 special share of £1	-	-

The special share is redeemable at any time up to 31 December 1994 at par at the option of the Secretary of State for the Environment after consulting the Company. Unless so redeemed it will be redeemed by the Company on that date at par.

During the year 470,727 ordinary shares were allotted (1993 1,256,385).

359,876 (1993 282,521) ordinary shares were allotted in September 1993 in lieu of £1,689,057 (cash 1993 £767,945) under the scrip dividend alternative.

57,050 (1993 962,700) ordinary shares were allotted for a consideration of £183,712 (1993 £2,822,601) under the South West Water Executive Share Option Scheme to Directors and senior employees who exercised their options.

53,201 (1993 11,164) ordinary shares were allotted for a consideration of £110,106 (1993 £20,095) under the South West Water Sharesave Scheme to employees who exercised their options.

Outstanding options at 31 March 1994 and 31 March 1993 to subscribe for ordinary shares of £1 each under the Company's share option schemes are shown below:

Nature of scheme	Date granted	Subscription price fully paid	Period when options normally exercisable	Number of shares in respect of which options outstanding	
				1994	1993
Sharesave	12 Dec 1989	176p	1995 - 1997	714,310	781,134
Sharesave	5 July 1991	287p	1996 - 1998	464,473	517,247
Sharesave	3 July 1992	332p	1997 - 1999	344,560	385,766
Sharesave	2 July 1993	393p	1998 - 2000	218,648	-
Executive	18 Jan 1990	293p	1993 - 2000	23,700	52,700
Executive	5 July 1991	328p	1994 - 2001	605,750	647,350
Executive	3 July 1992	418p	1995 - 2002	458,200	463,500
Executive	5 July 1993	496p	1996 - 2003	544,200	-
				3,373,841	2,848,197

There are 1126 (1993 1,106) participants in the Sharesave Scheme and 85 (1993 66) in the Executive Scheme. Options granted to Directors, included above, are shown in note 10.

**22 RESERVES**

	Group and Company share premium account	Company other reserves	Group profit and loss account	Company profit and loss account
	£m	£m	£m	£m
At 1 April 1993	143.7	3.1	510.9	22.9
Retained profit for year	-	-	53.9	6.2
Premium on shares issued	0.2	-	-	-
Adjustment for shares issued under the scrip dividend alternative	(0.4)	-	2.6	2.6
Goodwill arising on acquisitions	-	-	(15.0)	-
At 31 March 1994	143.5	3.1	552.4	31.7

The cumulative value of goodwill at 31 March 1994 resulting from acquisitions, which has been written off to reserves, is £39.2m (1993 £24.2m).

**NOTES TO THE  
FINANCIAL STATEMENTS**

**23 STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Profit on ordinary activities after taxation	85.9	81.2	38.2	43.1
Dividends	(32.0)	(29.5)	(32.0)	(29.5)
Recognised loss	53.9	54.7	6.2	3.9
Expenses including discount of sterling notes issue	-	(0.4)	-	(0.4)
Adjustment for shares issued under the scrip dividend alternative	2.6	1.3	2.6	1.3
Shares issued for cash consideration	0.3	2.8	0.3	2.8
Goodwill written off	(15.0)	(17.1)	-	-
Shareholders' funds:				
Addition for year	41.8	41.3	9.1	7.0
At 1 April	779.5	738.2	294.6	287.0
At 31 March	821.3	779.5	303.7	294.0

**24 LOANS AND OTHER BORROWINGS**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Loans are repayable:				
By instalments, any of which is due for repayment after five years:				
Payable after five years	96.4	106.7	-	-
Payable between two and five years	27.4	21.5	-	-
Payable between one and two years	4.8	1.9	-	-
Otherwise than by instalments:				
Payable after five years	150.0	150.0	150.0	150.0
Payable between two and five years	85.9	35.0	85.9	35.0
Payable between one and two years	0.7	-	0.5	-
Falling due after more than one year	365.2	315.1	236.4	185.0
Falling due within one year:				
Loan stock notes	5.8	-	5.8	-
European Investment Bank loans	2.0	-	-	-
Sterling notes	0.5	-	0.5	-
Bank loans and overdrafts	6.5	-	1.4	-
	380.0	315.1	244.1	185.0

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

On 20 May 1993 £0.9m Series B unsecured loan stock notes, repayable at par in September 2003 or on notice being given by the noteholders, were issued as part consideration for the acquisition of the share capital of Teslink Holdings Limited (note 25).

On 30 March 1994 £50.0m 8.75 per cent sterling notes, repayable at par in 1998, were issued at a price of 104.12 per cent. Expenses of the issue were £0.2m and the net proceeds of £51.9m have been used for general commercial purposes.

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Obligations under finance leases are repayable:				
After five years	211.7	150.9	-	-
Between two and five years	10.7	7.2	-	-
Between one and two years	4.2	2.4	-	-
	226.6	160.5	-	-
Within one year	6.3	3.9	-	-
	232.9	164.4	-	-

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £2.4m (1993 £1.6m).

**NOTES TO THE  
FINANCIAL STATEMENTS**

**25 ACQUISITIONS**

During the year the Group acquired interests in the following

	Consideration and costs	Goodwill written off
	£m	£m
Testlink Holdings Limited	15.3	14.1
Westcountry Television Limited	1.5	0.2
Other unincorporated businesses	1.3	0.7
	17.0	15.0

On 23 May 1993 the entire issued share capital of Testlink Holdings Limited (subsequently renamed ELF Group Limited) was purchased by the Company. The consideration of £15.3m comprised £9.3m cash and £6.0m unsecured loan stock (note 24). Goodwill on acquisition amounting to £14.1m has been written off to reserves and an analysis of net assets acquired and the fair value to the Group is as follows:

	Book value	Alignment of accounting policies	Write down of asset values	Re-organisation provisions	Fair value to the Group
	£m	£m	£m	£m	£m
Tangible fixed assets	1.2	(0.1)	-	-	1.1
Stocks	3.1	-	(0.2)	-	3.2
Debtors, amounts falling due within one year	1.4	-	(0.1)	-	1.3
Creditors, amounts falling due within one year	(5.1)	(0.2)	-	(0.7)	(6.0)
Obligations under finance leases	(0.1)	-	-	-	(0.1)
Creditors, amounts falling due after more than one year	-	(0.1)	-	(0.1)	(0.2)
Loans	(1.1)	-	-	-	(1.1)
Net assets	2.7	(0.1)	(0.3)	(0.8)	1.2

Consolidated profit before tax of Testlink Holdings Limited for the year ended 31 December 1992 was £0.9m. Results for the subsequent period to the date of acquisition were not material.

On 9 February 1991 the Company extended its investment in Westcountry Television Limited and acquired a further 3 per cent interest in the ordinary shares of the company for a cash consideration of £0.3m. Goodwill amounting to £0.2m arising on the share acquisition has been written off to reserves. On 25 June 1993 the Company subscribed £1.0m towards subordinated unsecured loan stock 1996/99.

During the year £1.3m was invested by Group companies in the acquisition for cash of unincorporated businesses. Goodwill on acquisition of £0.7m has been written off to reserves.

During the year £0.5m fair value acquisition provisions, established in previous years, were utilised (1993 nil) and at 31 March 1991 £2.2m was carried forward (1993 £2.7m).

**26 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS**

Details of principal subsidiary and associated undertakings are:

Unless otherwise indicated all shares are ordinary shares and are held by South West Water Plc and the country of incorporation, registration and principal operations is England.

**Subsidiary undertakings (all wholly owned)**

Name of company	Activity
Copa Products Limited	Process technology
ELF Group Limited (ordinary, ordinary A and preference shares)	Instrumentation
Haal Waste Limited (shares held by Peninsula Waste Technology Limited)	Waste management
Peninsula Insurance Limited (incorporated, registered and operating principally in Guernsey)	Insurance
Peninsula Properties (Fwyter) Limited	Property development
Peninsula Waste Technology Limited	Waste management
Rydon Properties Limited	Property investment
South West Water Services Limited	Water and sewerage services
T J Brent Limited	Construction services

**Associated undertakings**

Name of company	Activity	Shares in issue	Proportion held by Company
Pell Frischmann Water Limited	Engineering consultancy	6,666 ordinary £1	25%
		3,331 ordinary £1 (non-voting)	100%
Westcountry Television Limited	Television broadcasting	1,000,000 ordinary 10p 1,371,165 preference £1	23% 31%

**NOTES TO THE  
FINANCIAL STATEMENTS**

**27 PENSIONS**

The Group operates a number of pension schemes. The two major schemes are of the funded defined benefit type. The assets of all schemes are held in separate trustee administered funds.

The pension cost for the Group for the year ended 31 March 1994 was £11m (1993 £3m). The pension cost of the defined benefit schemes has been determined on the advice of independent qualified actuaries using either the projected unit or attained age method and spreads the cost of pensions over the service lives of the members of the schemes.

The latest actuarial valuations of the major schemes were at 1 April 1993 (previously 1 April 1990). At that date the market value of the schemes' assets was £89.1m (previously £29.9m) and the actuarial value of those assets represented 107% and 108% (previously 109% and 115%) of the benefits that had accrued to members, after allowing for expected future increases in earnings. The employers' regular pension costs of these schemes are 10.5% and 11.5% of pensionable earnings (1993 10.7% and 13.8%). The actuarial surpluses are being recognised in the Group profit and loss account over the remaining service lives of the current members of the schemes.

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in earnings and pensions. It is assumed that for the two major schemes the investment return would be 9% per annum and that pensionable pay increases would average 7.5% and that present and future pensions would increase at the rate of between 5% and 5.5% per annum.

**28 COMMITMENTS AND CONTINGENT LIABILITIES**

	Group		Company	
	1994	1993	1994	1993
	£m	£m	£m	£m
<b>Capital commitments:</b>				
Contracted but not provided	55.0	87.1	-	0.1
Authorised but not yet contracted	222.1	152.0	1.5	-

In addition to these commitments, the Group has longer term capital expenditure plans to meet shortfalls in asset performance and condition, and to provide for new demand and growth.

**Operating leases:**

Commitments to pay rentals during the year following the balance sheet date were:

	Group		Company	
	1994	1993	1994	1993
	£m	£m	£m	£m
<b>Leases for land and buildings:</b>				
Expiring within one year	0.2	0.2	-	-
Expiring between one and five years	0.5	1.6	-	-
Expiring after five years	1.2	0.1	-	-
<b>Leases, other than for land and buildings:</b>				
Expiring between one and five years	1.1	1.0	-	-
	<u>3.0</u>	<u>2.9</u>	<u>-</u>	<u>-</u>
<b>Contingent liabilities:</b>				
Contractors' claims on capital schemes	11.1	17.9	-	-
Bank guarantees	2.4	1.3	413.3	409.1
	<u>13.5</u>	<u>19.2</u>	<u>413.3</u>	<u>409.1</u>

Bank guarantees by the Company are principally in respect of borrowing facilities of subsidiary undertakings.

N O T E S   T O   T H E  
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**29 NOTES TO THE GROUP CASH FLOW STATEMENT**

**a Reconciliation of operating profit to net cash inflow from operating activities**

	1994 £m	1993 £m
Operating profit	106.1	82.8
Depreciation charge	18.8	13.2
Deferred income released	(0.5)	(0.5)
Provisions for liabilities and charges	(0.5)	(1.5)
Decrease in stocks	1.2	0.1
Decrease (increase) in debtors (amounts falling due within and over one year)	0.1	(5.5)
(Decrease) increase in creditors (amounts falling due within and over one year)	(3.7)	9.2
Profit on disposal of tangible fixed assets	(0.2)	-
<b>Net cash inflow from operating activities</b>	<b>121.6</b>	<b>98.1</b>

**b Analysis of the net outflow of cash and cash equivalents in respect of acquisitions**

	1994 £m	1993 £m
Cash consideration	11.9	32.1
Bank overdrafts acquired	1.4	-
<b>Net outflow of cash and cash equivalents in respect of acquisitions</b>	<b>13.3</b>	<b>32.1</b>

**c Acquisitions comprised:**

	1994 £m	1993 £m
Associated undertakings	1.1	3.4
Tangible fixed assets	1.8	14.3
Stocks	3.2	-
Debtors - amounts falling due within one year	4.3	3.1
Creditors - amounts falling due within one year	(6.0)	(4.0)
Obligations under finance leases	(0.1)	(0.7)
Creditors - amounts falling due after more than one year	(0.3)	(0.5)
Provisions for liabilities and charges	-	(0.6)
Loans	(1.1)	-
	2.9	15.0
Goodwill	15.0	17.1
	17.9	32.1
<b>Satisfied by:</b>		
Loan stock notes issued (note 23)	6.0	-
Cash consideration	11.9	32.1
	17.9	32.1

Acquisitions during the year contributed an inflow of £0.2m (1993 outflow £0.1m) to the Group's net operating cash flow, paid £0.2m (1993 nil) in respect of net returns on investments and servicing of finance, paid £0.4m (1993 nil) in respect of taxation and utilised £0.2m (1993 £0.1m) for investing activities.

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29 NOTES TO THE GROUP CASH FLOW STATEMENT (continued)

d Analysis of the balances of cash and cash equivalents

	1994	1993	1992	Change in year 1994	Change in year 1993
	£m	£m	£m	£m	£m
Current asset investments	479.6	466.0	488.7	13.6	(22.7)
Deduct investments not within three months of maturity when purchased	(255.6)	(201.9)	(204.3)	(53.7)	2.4
	224.0	264.1	284.4	(40.1)	(20.3)
Cash at bank and in hand	1.8	0.1	0.2	1.4	0.2
Bank overdrafts	(6.5)	-	(7.0)	(6.5)	-0
Cash and cash equivalents	219.3	264.5	277.6	(45.2)	(13.1)

e Analysis of changes in financing during the year

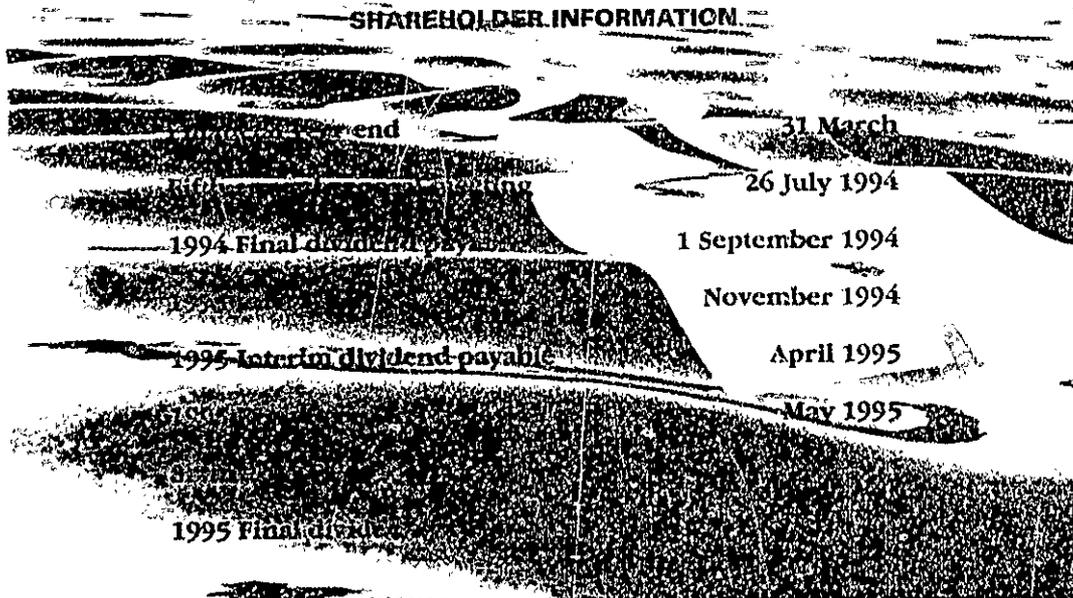
	Share capital (including premium)		Loans and finance lease obligations	
	1994	1993	1994	1993
	£m	£m	£m	£m
At 1 April	268.6	266.2	477.9	328.6
Cash inflows from financing	0.3	2.8	119.1	148.7
Loans and finance lease obligations of subsidiary undertakings acquired	-	-	1.2	0.6
Expenses of sterling notes issue (1993 including discount)	-	(0.4)	(0.2)	-
Loan stock notes issued to acquire a subsidiary undertaking	-	-	6.0	-
At 31 March	268.9	268.6	604.0	477.9

	1994	1993	1992	1991
	£m	£m	£m	£m
<b>Profit and loss account:</b>				
Turnover - continuing operations				
Water and sewerage business	208.5	181.1	159.5	139.2
Other business	43.1	19.3	7.2	1.0
Total turnover	<u>251.6</u>	<u>191.1</u>	<u>166.5</u>	<u>145.8</u>
Operating profit (loss) - continuing operations				
Water and sewerage business	103.9	83.2	61.5	51.5
Other business	2.5	(0.1)	(0.3)	(0.1)
Total operating profit	<u>106.4</u>	<u>82.8</u>	<u>61.2</u>	<u>51.4</u>
Share of profit (loss) of associated undertakings	0.7	(2.0)	(0.1)	(0.1)
Net interest (payable) receivable	<u>(14.1)</u>	<u>11.9</u>	<u>25.9</u>	<u>36.0</u>
Profit on ordinary activities before taxation	93.0	92.7	90.0	88.2
Taxation	<u>(7.1)</u>	<u>(8.5)</u>	<u>(8.9)</u>	<u>(7.8)</u>
Profit after taxation	85.9	84.2	81.1	80.4
Dividends	<u>(32.0)</u>	<u>(29.5)</u>	<u>(26.8)</u>	<u>(24.1)</u>
Retained profit transferred to reserves	<u>53.9</u>	<u>54.7</u>	<u>54.3</u>	<u>56.0</u>
Earnings per ordinary share	68.5p	67.9p	66.1p	65.8p
Dividend per ordinary share	<u>25.5p</u>	<u>23.7p</u>	<u>21.7p</u>	<u>20.0p</u>
<b>Capital expenditure:</b>				
Acquisitions and investments				
Tangible fixed assets	17.9	32.1	1.8	3.1
	<u>203.4</u>	<u>203.7</u>	<u>172.4</u>	<u>119.3</u>
<b>Balance sheet:</b>				
Fixed assets				
Net current assets	1,063.0	882.1	679.5	517.0
Non-current liabilities	375.9	394.0	402.1	308.1
Net assets	<u>(617.6)</u>	<u>(496.6)</u>	<u>(345.1)</u>	<u>(110.2)</u>
	<u>821.3</u>	<u>779.5</u>	<u>738.2</u>	<u>684.9</u>
<b>Number of employees (average for year):</b>				
Water and sewerage business				
Other business	2,141	2,141	2,081	1,855
	<u>919</u>	<u>912</u>	<u>365</u>	<u>217</u>
	<u>3,060</u>	<u>2,556</u>	<u>2,449</u>	<u>2,072</u>

# S H A R E H O L D E R   A N A L Y S I S A N D   I N F O R M A T I O N

## ORDINARY SHAREHOLDERS AT 31 MARCH 1994

	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1 - 100	1,087	11.0	0.3
101 - 1,000	27,298	77.1	8.7
1,001 - 5,000	3,258	9.2	1.0
5,001 - 50,000	109	1.3	7.2
50,001 - 100,000	109	0.3	6.7
Over 100,000	173	0.5	73.1
	35,391	100.0	100.0
Individuals	32,792	92.6	11.9
Companies	150	1.3	0.1
Trust companies (pension funds etc)	19	0.1	1.5
Banks and nominees	2,080	5.9	65.9
Insurance companies	11	0.1	11.3
	35,391	100.0	100.0





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The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

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