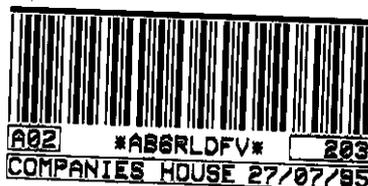


**SOUTH WEST WATER PLC**  
**(Registered in England No. 2366640)**

**ANNUAL REPORT AND ACCOUNTS 1995**

**Peninsula House  
Rydon Lane  
Exeter  
EX2 7HR**



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

■  
**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 greater South West, a leading international environmental instrumentation company, and a leading regional construction services company.**

■  
**The Group has assets of £1.7 billion and currently employs over 3,000 people.**

**F I N A N C I A L   H I G H L I G H T S**

Year ended 31 March	1995	1994
Turnover	<b>£286.2m</b>	£251.6m
Operating profit*	<b>£121.7m</b>	£106.4m
Profit before taxation*	<b>£98.7m</b>	£93.0m
Net assets	<b>£844.3m</b>	£821.3m
Capital expenditure	<b>£159.4m</b>	£203.4m
Earnings per share		
before exceptional restructuring charge	<b>71.8p</b>	68.5p
after exceptional restructuring charge	<b>43.7p</b>	
Dividend per share – interim	<b>9.1p</b>	8.4p
– final	<b>18.2p</b>	17.1p
– total	<b>27.3p</b>	25.5p

*\*Before exceptional restructuring charge of £35.5m.*



## C H A I R M A N ' S   S T A T E M E N T

*"For the fifth successive year since flotation I am pleased to be able to report significant progress."*

For the fifth successive year since flotation I am pleased to be able to report significant progress. There have been many beneficial outcomes for customers and the environment. These have been dependent on the very necessary higher level outturn in income and underlying profits in this and earlier years.

Capital investment is the key to delivering improvements in water and sewerage. This vital expenditure for the last financial year, including the renewal of the existing infrastructure, reached £159 million – a high level but lower than last year. This moderated level reflected the outcome of the Periodic Review price determination, which revealed a regulatory decision to abridge capital commitments for the next ten years.

Nevertheless, the momentum and scale of this capital investment in the water and sewerage infrastructure remains very significant. We have further reinforced the maintenance of the very high quality and compliance levels for drinking water – 99.7% – and, through further substantial modernisation of sewage treatment works, secured an improved overall waste water compliance of around 95%. This change is a remarkable turnaround compared to the position at privatisation just over five years ago when overall waste water compliance was only at 50%. It constitutes a major environmental gain for the South West.

Moreover, the huge £900 million investment commitment to stop the discharge of raw sewage to bathing waters is producing an environmental uplift all round the region's coastline – from Lyme Regis to Lynton and Lynmouth. Within a few months three quarters of the allowed 'Clean Sweep' schemes will have been completed, to protect 51 designated bathing waters.

It is in this context of continuous modernisation and huge capital expenditure that the basic need for a profitable, adequate surplus income stream has to be seen. Happily the results for turnover and profits in 1994/95 help to meet this need.

Specifically, Group turnover increased by 14% to £286 million largely as a result of tariff increases in the regulated water and



*K W Court, Executive Chairman*

sewerage business coupled with the growth in external income to £51 million from our Enterprise businesses. Operating profit also moved up 14% to £122 million before exceptional costs, helped by the income increase and by over £3 million of efficiency savings in South West Water Services Limited. However, this was offset by cost increases arising from the new or expanded operational works and their depreciation charges.

In addition to the sustained re-investment of profits, I have to re-emphasise that by far the major part of the financing of the capital programme for water and sewerage – already reaching the unprecedented expenditure of nearly £1,000 million – has come from shareholders' investment, extensive long-

term borrowings and other sources. Unsurprisingly, therefore, having had to borrow more cash, net interest payments for that business have risen by £9 million to £22 million.

In this performance overview it is gratifying to be able to record that our strategy of carefully developing related, non-regulated business is bearing fruit. We have now established or improved profitable trading positions in three key sectors: waste management, environmental instrumentation and construction and project management services. Their growth is a welcome, positive contribution on which we plan to build.

In summary, the financial year was characterised by the strong operating performance across the Group and it is this that has enabled us to lift profit before tax and exceptional costs by 6%.

In this context, the Directors are recommending a final dividend of 18.2p (with a scrip dividend alternative) which, with the interim dividend, will provide a full year dividend of 27.3p – an increase of 7%.

Let me turn to an important stage in the development of our services company. Last July we received the Periodic Review Determination from the economic regulator, the Director General of Water Services, for the next 10 years price limits. This set an average increase in the 'K' factor of 1.1% for the period 1995-2000 and zero% for 2000-2005. We considered this



## C H A I R M A N ' S   S T A T E M E N T

was not adequate to match the demands of our inescapable legal obligations and functions and to deal with the sustained requirements and expectations of our customers. With about half the region benefiting from the modernisation so far, there is much unfinished business of upgrading, refurbishment and renewal. This presented us with a dilemma – how to reconcile the need to respond to the legal imperatives and the pressing longer-term capital investment needs with the inadequacy of income flows over the next ten years. We sought a solution, therefore, by putting an appeal to the Monopolies and Mergers Commission last September. The detailed inquiry process was scheduled to finish at the end of March but, at the request of the Commission, the Director General of Water Services granted an extension. The Commission has to make a Determination and report this to the Director General by 28 June 1995, although its public release is not expected until late July or August.

At the beginning of last year we started to undertake a major re-assessment of our structure and business processes in South West Water Services Limited and in the supporting functions provided by the Group. The first stage was to assess the scope for, and start to secure, economies obscured or not exploitable during the recent years of rapid expansion. This was followed by a review of the changing regulatory, customer, financial and economic circumstances facing the company. By the Spring of this year we were in a position to plan and commence instituting changes to achieve a low cost, lean and more efficient water and sewerage undertaking dedicated to improving customer services.

This is expanded on elsewhere in the Report, but I draw attention to the large scale of manpower and non-manpower savings. Unavoidably it will lead to accumulated redundancies of well over 500 staff by the end of the year. It is for this reason that we have prudently set aside provisions from this year's profits to deal with the resulting costs.

An important part of the restructuring and the re-engineering of business processes in the core business is to develop ways of improving value for customers. I can report that during the year we were able to broaden our range of easier payment methods including the Watercard – an electronic payment card for use at Post Offices which enables customers to budget for their water payments to suit their individual circumstances. We improved our performance against OFWAT's service standards, for example achieving a rating of "very good" for dealing with customer complaints. Progress was also maintained in the development

of a new, comprehensive customer information and service system – to be commissioned at the end of the year.

We continued to support economic development in the region, contributing financial and staff assistance to the special private sector development body, South West Enterprise Limited, which in turn acts as a catalyst for the public economic development agencies.

Turning to our board of directors, Lady Mary Holborow, who has served this board and its predecessor for over 15 years has decided that the time spent on her new duties as Lord Lieutenant of Cornwall is precluding continued membership of our board. We are most reluctant to lose Mary since she has been an indefatigable and most valuable contributor to our affairs. She is resigning with effect from the end of September and we wish her full success in her new duties.



*Chairman, Keith Court, with (left) Councillor Barbara Austin, Mayor of Lyme Regis and Councillor Jean Cockerill, Chairman of West Dorset District Council, at the opening ceremony for the first phase of the Lyme Regis 'Clean Sweep' scheme.*

Finally let me mention our employees. This is a difficult time with many redundancies, changes in responsibilities and the demanding tasks of renewal. I record my warmest thanks and appreciation for their enthusiasm and determination to maintain a successful enterprise.

*Keith Court*

K W Court



**O P E R A T I N G R E V I E W**  
*Water and sewerage services*

*“During 1994/95, 96 significant projects were completed and over 400 were ongoing”.*

South West Water Services Limited supplies drinking water and disposes of waste water in Devon and Cornwall and parts of Somerset and Dorset.

**FINANCIAL RESULTS**

In 1994/95 water and sewerage turnover increased by 13% to £236.7 million, of which £105.7 million was for water supplies and £131 million for sewerage. The increased turnover mainly resulted from tariff increases implemented in accordance with the ‘K’ factor agreed with the Director General of Water Services.



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

Operating profit before exceptional restructuring costs increased by 13% to £117.7 million and the operating margin before restructuring costs, rose from 49.4% to 49.7%. The total restructuring charge of £35.5 million is in respect of severance and other costs associated with over 500 redundancies being effected by March 1996.

**MMC REFERENCE**

In July 1994, the Director General of Water Services concluded his Periodic Review of the industry and announced his price limit Determinations for the next ten years. The Directors concluded that the

**WATER AND SEWERAGE SERVICES**

Year ended 31 March	1995	1994
	£ million	£ million
Turnover	236.7	210.2
Operating profit*	117.7	103.9
Profit before tax*	95.8	90.6
Capital expenditure	152.9	198.8

*\*Before exceptional restructuring charge of £35.5 million*

Determination for South West Water Services may not enable the company properly to finance its functions and could jeopardise the company’s ability to meet its obligations, and the reasonable expectations of our customers for quality and service. Consequently we requested the Director General to refer his Determination to the Monopolies and Mergers Commission for review. The review commenced in September 1994 and will extend into the summer of 1995.

Our appeal is about achieving the right fit between, on the one hand, the cost and timing burden of the legal obligations, which entail quality and environmental improvements, and on the other their proper financing. We believe that it is very necessary to

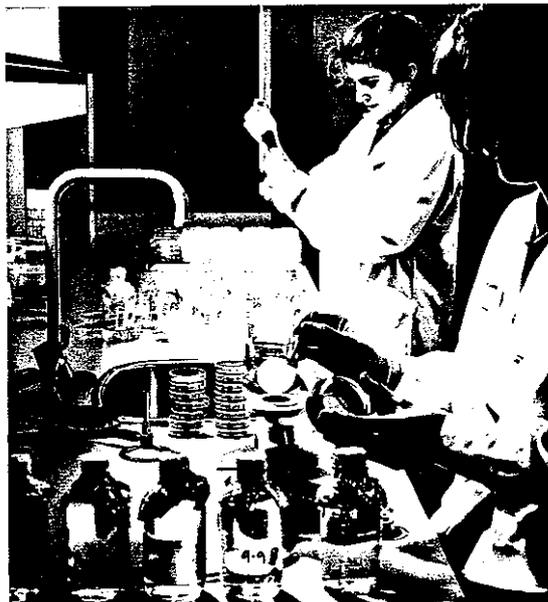
resolve this issue in the interests of our stakeholders and customers.

**RESHAPING THE BUSINESS**

During the year under review we embarked on a multi-stage plan to add and deliver product and service value at lower cost to extend customer satisfaction. This is being done in a careful manner with the aim of increasing involvement of employees and closer contact with customers.

*Water quality testing at the new microbiology laboratory at Countess Wear, Exeter.*

In the light of the outcome of the Director General’s Periodic Review in July 1994, we re-phased our capital programme which resulted in a reduction of capital expenditure for water and sewerage, from £198.8 million in 1993/94 to £152.9 million in 1994/95. During 1994/95, 96 significant projects were completed and over 400 were ongoing. £38.5 million was invested in water resources, treatment and distribution and £114.4 million in waste water treatment and disposal of which £80.8 million related to coastal sewage treatment schemes. Infrastructure renewals expenditure was £6.1 million.





## OPERATING REVIEW

### *Water and sewerage services*



*A section of the tunnel sewer which  
sea bed at Penzance*

The first stages have focussed on streamlining and increasing flexibility in the organisation now that, for example, the peak workload in capital works has been reached.

The initial efficiency review carried out during the year resulted in a reduction of more than 100 jobs and in January 1995 the company announced the second phase to take into account changes in the economic and regulatory climate. This will result in a further loss of around 400 jobs during the year 1995/96.

These job losses will mainly arise from the reduction in the company's capital investment, the consolidation of our three Operating Divisions into two, based in St Austell, Cornwall and Exeter, Devon and the cutting of our central support structure.

Our Plymouth Divisional administration office will close, as will the laboratory at Truro where work will transfer to the recently modernised and extended laboratory facility at Countess Wear, Exeter.

These are practical and significant preparatory moves to enable us to respond to the increasing demands of our customers and to the unceasing demands of the regulators and keeps us on course as a water-care, waste engineering and waste manage-

ment company contributing to the quality of life in the region.

#### **OUR CUSTOMERS' DRINKING WATER**

Since privatisation we have invested over £350 million on 200 schemes to enhance our water storage, treatment and distribution capability. Drinking water quality last year was maintained at the high level of 99.7% compliance and our considerable investment in clean water projects has ensured that there have been no water restrictions since 1992.

Supplies to 90,000 of our customers in North Devon and North Cornwall were further enhanced by the completion of the Northcombe water treatment works. The improvements to our works at St Cleer are benefiting 75,000 customers in East Cornwall. The supply network

has also been strengthened by the reinforcement of the strategic spine main further into West Cornwall.

Since privatisation 26 water treatment works scheduled for improvement have been upgraded and over 1,000 kilometres of water mains have been renewed or relined at a cost of over £50 million, improving the pressure and quality of much of our water supplies to customers. Leakage has been tackled vigorously in areas where it can help defer capital expenditure.

#### **INLAND WASTE WATER TREATMENT PROGRESS**

During the year we continued our programme of improvements to our inland waste water treatment works with major schemes completed at Truro, Buckfastleigh and Ivybridge. At privatisation, after years of under investment, almost 50% of our 588 waste water treatment works were failing consent standards resulting in pollution of local waterways and many restrictions on local developments. Now 95% of our works meet their consent standards and over 200 planning embargoes have been lifted to allow much needed domestic and commercial building development to proceed for rural and urban communities throughout the region.



## OPERATING REVIEW

### Water and sewerage services

*"Within a few months three quarters of the allowed 'Clean Sweep' coastal sewage treatment schemes will have been completed, protecting 51 of the designated bathing waters in the region."*

#### OUR 'CLEAN SWEEP' PROGRAMME

Within a few months three quarters of the allowed 'Clean Sweep' coastal sewage treatment schemes will have been completed, protecting 51 designated bathing waters in the region. Bathing water schemes completed during the last financial year included those at Gorran Haven and Portwrinkle, and those at Lyme Regis, Exmouth, Salcombe and Combe Martin will be commissioned within the 1995 bathing season. The project at Lyme Regis is our first major scheme to incorporate the use of ultra violet disinfection treatment which is also being used at two other smaller 'Clean Sweep' schemes.

Our £100 million Penzance and St Ives scheme was substantially completed during the financial year and the final phase will enable full operation during 1995. It will be making obsolete no less than 47 old raw sewage outfalls around the coast of South West Cornwall.

This large comprehensive scheme, with its innovative contractual arrangements, including tunnelling of the main outfall, provision of the large storage tunnel obviating a second outfall, and the introduction of the Biopur secondary treatment, is a step-change in environmental improvement of the coastal waters.

During the year discussions were held with the National Rivers Authority regarding the re-defined 'Clean Sweep' schemes for Dartmouth, Torbay, Falmouth and Mevagissey. The cost implications of the NRA's interim requirements have been referred to the Monopolies and Mergers Commission and will be taken into account as part of the Commission's conclusion on future pricing limits.

#### IMPROVED LEVELS OF CUSTOMER CARE

The Office of Water Services' annual report on our levels of customer service for the year 1993/94 identified six key areas out of seven, where we have provided improvements in levels of service to our customers.

These improvements are directly attributable to the successful delivery of our capital programme, our investment in processes and employee training.

#### RESEARCH, DEVELOPMENT AND INNOVATION

Our programme of research and development into clearly focussed areas of water-care and waste processing technology is contributing to higher standards of performance and cost effective operation at our works. Extensive trials of ultra violet equipment for disinfection of final effluent at waste water treatment works are being conducted and South West Water Services is leading in the practical application of ultra violet waste water treatment.



*Project Manager Robert Prentice, with local schoolchildren on a tour of the £2 million sewerage improvement scheme in Barnstaple, North Devon.*

Trials have also continued on other products and processes designed to improve the performance of both our clean water and waste water treatment works. We are testing and using membrane filtration and a new thermal drying plant for sludge treatment is undergoing evaluation. Similar exercises are being carried out with sludge thickening equipment and, for clean water supply and distribution, with touch-read and remote reading equipment for water meter reading.

#### CHARGING OPTIONS FOR THE FUTURE

Following the Government's announcement in April 1995 that water companies will be allowed to continue beyond the year 2000, to use rateable value as a basis of water charges for properties built before 1990, the company is reviewing its future charging policy to move towards the long term objective of metering.

At present all domestic properties built since 1990 together with all commercial customers are charged on a metered basis. In addition we operate for the benefit of customers a meter option scheme which provides them with a choice of charging method.





## O P E R A T I N G   R E V I E W

### E n t e r p r i s e   b u s i n e s s e s

*“1994/95 was a year of successful consolidation with enhanced financial performance from existing businesses.”*

South West Water's strategy is to build on its core expertise with the development of related non-regulated environmental businesses. These have been brought together within the Enterprise Division. The three major business areas are:

- Instrumentation
- Waste management
- Construction services

The division is also involved in pursuing best use and value from the Group's land and property holdings, the provision of recreational facilities at our lakes and water parks in Devon and Cornwall, and developing our investment in associated undertakings.



*C J H Drummond  
Director of Development*

pHOX Systems Limited – South West Water's water quality instrumentation subsidiary – was successfully completed this year and the benefits of combining marketing and other synergies are now coming through. ELE benefited from its worldwide distribution network, trading in more than 100 countries with a particularly buoyant demand for its products from the Far East.

#### W A S T E   M A N A G E M E N T

Haul Waste Limited, acquired in February 1993, has a strong operational and geographical fit with the existing operations of South West Water Services Limited and is

the leading waste management business in the greater South West of England. The acquisition of the Devon based Acetip Limited, in March 1995 served further to consolidate the company's regional position. Haul Waste secured the relevant permissions and commenced operations at the extension of its Heathfield landfill site in Devon, which will provide disposal capacity into the early part of the next century.

#### C O N S T R U C T I O N   S E R V I C E S

T J Brent Limited, the Bodmin, Cornwall based construction company acquired in 1990, provides general civil engineering, pipeline construction and other related specialist services. Over the past four years it has established itself as one of the leading civil contractors in the South West of England.

#### E N T E R P R I S E   B U S I N E S S E S

Year ended 31 March	1995	1994
	£ million	£ million
Turnover	87.3	74.6
Operating profit	4.0	2.5
Income from interests in associated undertakings	1.2	0.7
Profit before tax	2.9	2.4
Capital expenditure	7.7	5.6

1994/95 was a year of successful consolidation with enhanced financial performance from existing businesses. Turnover increased by 17% to £87.3 million, of which £51.1 million was from customers outside the Group, with increases in all areas. Operating profit rose from £2.5 million to £4 million and profit after interest and before tax rose from £2.4 million to £2.9 million. Capital expenditure was £7.7 million of which the largest single item was the expansion of the strategic landfill site at Heathfield in Devon. The Group, by its careful strategy has established a solid, competitively strong and profitable base in each of its key Enterprise activities upon which to build.

#### I N S T R U M E N T A T I O N

The ELE Group Limited, acquired in May 1993, specialises in materials testing and environmental monitoring equipment and is a world leader in its field. The integration into ELE of



*An ELE Paqualab being used to test environmental contamination on Mount Everest.*



## OPERATING REVIEW

*Enterprise businesses*



During the year T J Brent made a significant contribution to South West Water Services' clean and waste water mains rehabilitation programme. The company successfully bid for a number of major external contracts including a two year contract for a £3 million cable laying and reinstatement scheme for South Western Electricity Plc in Devon and Somerset and two large sea defence projects for the Isles of Scilly.

In February Copa Products Limited, our process engineering business, was integrated into T J Brent to exploit marketing and design synergies. The two businesses have been co-operating on a number of projects and this move is in line with South West Water's strategy of growing significant businesses in each of its key areas of operation.

### RESEARCH, DEVELOPMENT AND INNOVATION

Our subsidiary companies continue to invest in research, development and innovation programmes geared towards product, service and environmental improvement at lower cost.

During the year, ELE launched a new generation of soil testing equipment which has been very well received in the market place, and in its pHOX division is currently trialling upgraded water quality monitoring equipment. T J Brent is expanding its use of sewer rehabilitation techniques.

### ASSOCIATED UNDERTAKINGS

The income from interests in our associated undertakings increased from £0.7 million to £1.2 million in 1995, mainly in respect of Westcountry Television Limited.

Our joint venture engineering consultancy company, Pell Frischmann Water Limited, complements the Group's development resource and skill base and concentrates on the implementation of water treatment and related infrastructure projects. A significant proportion of South West Water Services' capital programme is benefiting from the company's invaluable expertise in the areas of design and construction supervision, including many schemes within our 'Clean Sweep' coastal sewage treatment programme.



*Haul Waste Limited is the leading waste management company in the greater South West of England.*



## ENVIRONMENTAL REVIEW

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

### ENHANCING THE ENVIRONMENT

The Group is committed to environmental protection and enhancement and, indeed, this is clearly identified as one of our key goals. Considerable emphasis is placed on environmental sensitivity and the challenge we face is balancing operational requirements with our responsibility towards the environment.

The programme of improvements being carried out by South West Water Services is providing an invaluable contribution towards improving the environment, quality of life and economic well being of one of the most beautiful regions in the country. Our 'Clean Sweep' coastal sewage treatment programme remains the biggest single investment in the environment the South West has ever seen and is providing significant environmental enhancement and protection to bathing waters and estuaries throughout the region. As an



*B A O Hewett, Director of Technical & Environmental Affairs*

population. Bill Oddie, the television personality and ornithologist, officially opened two new bird hides at Roadford Lake in early Spring.

Large numbers of bird and bat boxes have been located at many of our lakes and reservoirs whilst hazel coppicing continued at several locations to provide additional wildlife habitat.

Discussions are underway with Dartmoor National Park to provide an access agreement for the whole of the Burrator Reservoir catchment area. Advice and assistance was sought from conservation groups and from our Recreation and Conservation Forum, which

consists of representatives from some 20 conservation and leisure bodies. Our fourth Conservation and Recreation Achievements Report was published during the year.

### ENVIRONMENTAL INITIATIVES

Our annual Environmental Award is designed to promote environmental awareness amongst employees throughout the Group. In 1994 it was awarded for the development of wildlife habitats at Crediton Waste Water Treatment Works. The project was carried out at minimum cost by a team of works operators and Leisure Services ranger staff on their own initiative, and involved careful transplanting of trees and sowing of natural seed. One year on, mallard, moorhen and goldfinches have established themselves on the site and the trees, including willow and alder, are thriving.

Our environmental newspaper, 'The Pennant', continues to be well received and the Winter 1994 issue gave wide coverage to our Danes Castle project in Exeter which has recently received the prestigious 'Heritage in Britain' award presented by the British Archaeological Society. The award highlighted the company's sensitive approach when carrying out major construction work in an archaeologically sensitive area.



*Colin Drummond, Director of Development, donating a Land Rover on behalf of the Company to Lady Arran, vice chairman of the Exmoor Calvert Trust for the disabled.*

example, the years of gross pollution by sewage of Mounts Bay at Penzance have been ended through the advent of the Penzance and St Ives new sewage treatment scheme. Its rehabilitation will contribute substantially to its early return as a safe, scenic bathing water.

### CONSERVATION AND ACCESS

At our reservoirs, a programme of renewing and updating information displays at major sites was progressed during the year to enable visitors to better understand operational, conservation and access issues.

In January we invited birdwatchers from the region to take part in a co-ordinated bird count at 50 of our sites in order to establish an up-to-date picture of the resident and migratory bird





## FINANCIAL REVIEW

***“Operating profit before exceptional items increased by 14% to £122 million.  
All business sectors performed well.”***

### OPERATING PROFIT

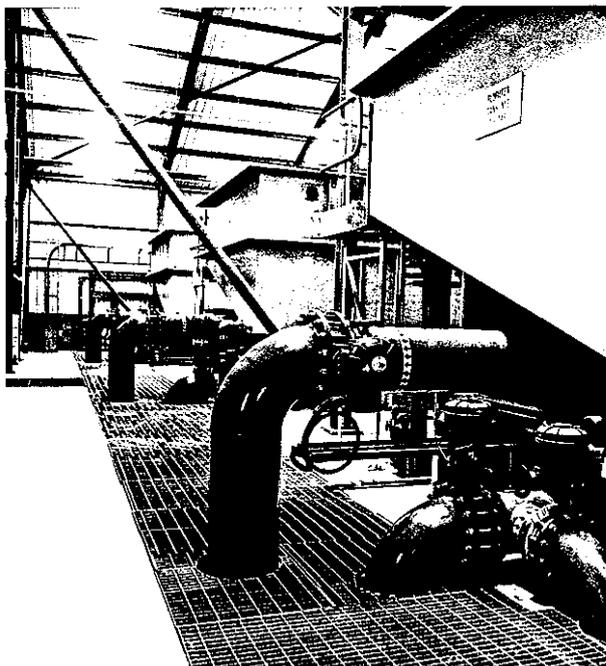
Group turnover for the year increased by 14% to £286 million. External turnover of the water and sewerage services business was £235 million, up by 13% mainly influenced by tariff increases. External turnover of Enterprise businesses was £8 million higher at £51 million.

Operating costs for the year of £165 million increased by 13% influenced by expenses associated with the operation of newly commissioned works, Monopolies and Mergers Commission referral costs and Enterprise business growth. Restructuring costs amounting to £35.5 million have been separately accounted for as an exceptional item.



*K L Hill*  
Group Director of Finance

Operating profit before exceptional items increased by 14% to £122 million. The water and sewerage services business performed well, and contributed an operating profit before exceptional items of £118 million, up 13% on 1994. Enterprise businesses also achieved enhanced financial performance and contributed an operating profit before exceptional items of £4 million, which compares with a profit of £2.5 million in 1994, an increase of 60%. In summary, all business sectors performed well.



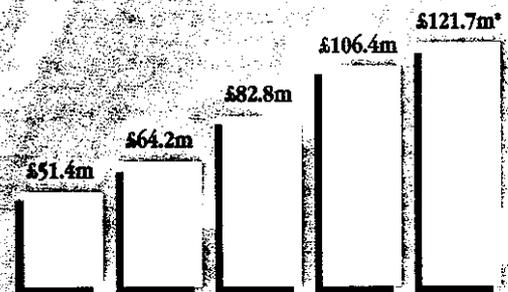
A more detailed commentary on operating results is given in the operating reviews for water and sewerage services and for Enterprise businesses on pages 4 and 8 respectively.

### FINANCE COSTS

Net interest payable was £24 million for the year, compared with £14 million in 1994, reflecting utilisation of cash for capital investment purposes and lower interest receivable rates.

Interest payable totalled £49 million, of which £29 million is at fixed interest rates on long term loans. Interest receivable is derived from investment of temporarily surplus funds on the money market.

### SOUTH WEST WATER PLC OPERATING PROFIT 1990 - 1995



\*Before exceptional restructuring charge of £35.5 million

### PROFIT BEFORE TAX

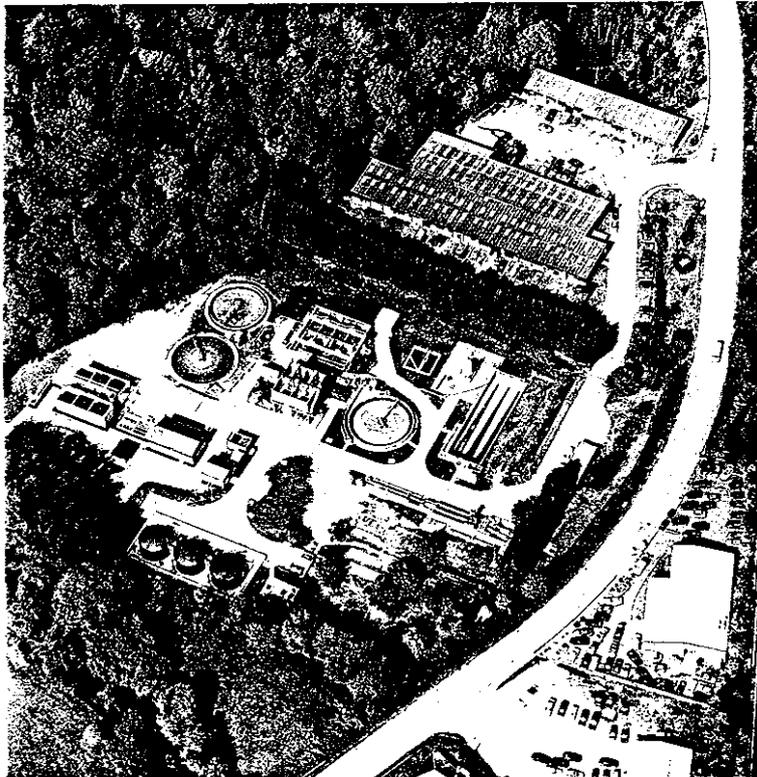
Profit before exceptional restructuring costs and tax was £6 million ahead of 1994 at £99 million. The improvement in operating profit was restrained by increased interest payable. After exceptional restructuring costs, profit before tax was reduced to £63 million.

Profit before tax includes the Group's share of net profits in associated undertakings of £1.2 million, mainly from Westcountry Television Limited, compared with £0.7 million in 1994.

*The improvements to our water treatment works at St Cleer are benefiting 75,000 customers in East Cornwall.*



## FINANCIAL REVIEW



Capital expenditure at work – the £3 million improvement scheme for hybrid Waste Water Treatment Works near Plymouth.

### 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 this year. Part of the Group's surplus capital allowances are given up under financially beneficial leasing arrangements. Advance corporation tax of £8 million 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 £34.5 million. This year £20.5 million, or 37% of profit after tax and exceptional restructuring costs, 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 was £159 million (1994 £203 million) of which £152.9 million was for the water and sewerage business. There were no significant acquisitions during the year (1994 £18 million).

Changes in fixed assets during the year are detailed in notes 12 and 13 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

During the year £47 million of finance lease facilities were drawn-down, net of repayments, to contribute to the funding of the capital investment programme. No other borrowings were undertaken. £4 million of borrowing repayments were made.

At 31 March 1995 loan and finance lease obligations were £660 million and the Group held current asset investments of £429 million. Net borrowings increased during the year by £98 million to £231 million.

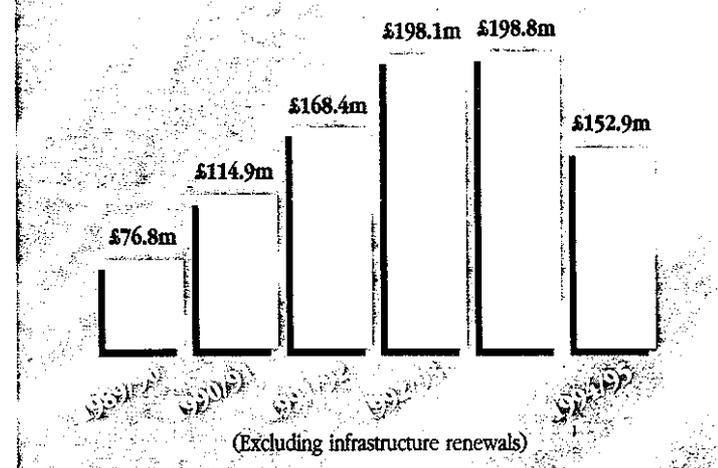
Loan and finance lease facilities currently in place and not drawn total £83 million.

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 1995 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 share capital increased from £125.4 million to £126.5 million as a result of shares issued under the Company's scrip dividend alternative and the Sharesave and Executive share option schemes. The special rights redeemable preference share of £1, previously held by the Secretary of State for the Environment, was redeemed at par on 31 December 1994.

### SOUTH WEST WATER SERVICES LIMITED CAPITAL EXPENDITURE 1989 - 1995





## FINANCIAL REVIEW



### SHAREHOLDERS' RETURN

The Directors recommend the payment of a final dividend of 18.2p per share for the year ended 31 March 1995. Together with the interim dividend of 9.1p per share paid on 6 April 1995, this makes a total dividend for the year of 27.3p per share, an increase of 7% on the dividends for 1994. If approved at the annual general meeting the final dividend will be paid on 1 September 1995 to shareholders on the register at close of business on 22 June 1995.

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

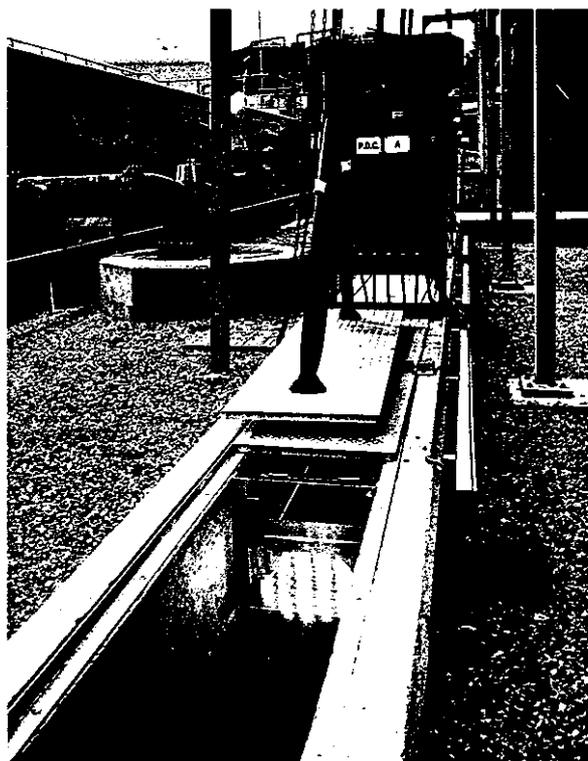
The dividend of 27.3p is paid out of earnings per share of 43.7p. On a net basis, the cover for payment of dividends is 1.6 times, or 2.6 times based on earnings before the exceptional restructuring charge.

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 1995 was 667p.

*Above: 95% of our 588 inland sewage treatment works now meet their consent standards compared to only 50% five years ago.*

*Below: Ultra violet disinfection treatment is being used at the Lyme Regis 'Clean Sweep' scheme.*





## B O A R D O F D I R E C T O R S

### **KEITH WILLIAM COURT**

*BA, FIPM (60)*

#### ***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 vice chairman of the Water Services Association.

### **TIMOTHY CHARLES LEADER**

*BA, CEng, MIMechE, CIMgt (67)*

#### ***Non-executive Deputy Chairman***

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

### **WILLIAM HAMILTON FRASER**

*BSc, EurIng, CEng, FIMechE, CIMgt, FlntPet (57)*

#### ***Managing Director, South West Water Services Limited***

was appointed on 13 September 1989. He held various senior positions with Foster Wheeler from 1964 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 (44)*

#### ***Director of Development***

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

### **BRUCE ALEXANDER OGSTON HEWETT**

*BSc(Eng), MSc, EurIng, CEng, FICE, FCIWEM, FIMgt (59)*

#### ***Director of Technical and Environmental Affairs***

was appointed on 1 April 1993. He has over 30 years experience in the water industry, including nine 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 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**

*IPFA (54)*

#### ***Group Director of Finance***

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

### **SIR GEOFFREY HOWES CHIPPERFIELD**

*KCB (62)*

#### ***Non-executive Director***

was appointed on 1 October 1993. He was the 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 (60)*

#### ***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 of the European Union. 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 (60)*

#### ***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 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**

*(58)*

#### ***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 (60)*

#### ***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 Henderson Administration Group and a director of 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.



*Back row (left to right): B A O Hewett, A T Fletcher, K L Hill, S M Yassukovich, S J Day, C I J H Drummond.  
Front row: W H Fraser, T C Leader, K W Court, Lady Mary Holborow, Sir Geoffrey H Chipperfield.*

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**COMMITTEES  
OF THE BOARD**

***Audit***

T C Leader (*Chairman*)  
Sir Geoffrey H Chipperfield  
S J Day  
A T Fletcher

***Finance***

K W Court (*Chairman*)  
S J Day  
W H Fraser  
K L Hill  
T C Leader  
S M Yassukovich

***Remuneration***

T C Leader (*Chairman*)  
A T Fletcher  
Lady Mary Holborow

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**SECRETARY AND  
REGISTERED OFFICE**

R C Milligan  
Peninsula House, Rydon Lane, Exeter EX2 7HR  
Registered in England No. 2366640

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**AUDITORS**

Price Waterhouse, Chartered Accountants  
31 George Street, Bristol BS1 5QD

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**REGISTRARS**

Lloyds Bank Plc  
Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 3EP

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## R E P O R T O F T H E D I R E C T O R S

The Directors of South West Water Plc ('the Company') present their sixth Annual Report, in respect of the year ended 31 March 1995, together with the audited Financial Statements of the Company for that year.

The Financial Statements will be laid before the shareholders at the sixth annual general meeting of the Company, to be held on 25 July 1995, notice of which is given on pages 44 and 45.

### P R I N C I P A L A C T I V I T I E S

The principal activities of the Company and its subsidiaries ('the Group') continued to be the provision of water-care and waste engineering, waste management and instrumentation. The activities are described in more detail in the operating reviews.

### F I N A N C I A L R E S U L T S A N D D I V I D E N D

Group profit on ordinary activities after taxation was £55.0m. The Directors recommend a final dividend of 18.2p per ordinary share, making a total for the year of 27.3p, the cost of which would be £34.5m, leaving retained profit at £20.5m to be transferred to reserves.

The financial review analyses the results in more detail, and sets out other financial information including that for fixed assets.

### D I R E C T O R S

Details of the Directors at the date of this report, all of whom served throughout the year, are given on page 14.

Mr W H Fraser, Mr S M Yassukovich and Mr B A O Hewett are due to retire by rotation at the annual general meeting. 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 Fraser and Mr Hewett have service contracts which provide for not less than three years' notice of termination by the Company and not less than one year's notice of termination by the respective Directors expiring at any time. Mr Yassukovich does not have 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.

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.

Details of Directors' interests in shares of the Company are given in note 11 to the financial statements on page 31.

### E M P L O Y E E S

The Company is committed to effective communication with all employees. Employees in South West Water Services Limited elect representatives from all levels to a Staff Council, which deals with matters of concern to all staff employees, both trade union and non trade union members alike. The Staff Council complements other forms of employee communication used throughout the Group, including a monthly employee briefing system, an employee newspaper and an employee ideas scheme.

Employees are encouraged to become shareholders in the Company through the employee profit sharing and sharesave schemes.

Training and development of staff is a priority and particular attention is being given to management development and management of change and to training for revised working processes following the restructuring of the water and sewerage services business.

The Group operates 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.

### R E S E A R C H A N D D E V E L O P M E N T

Research and development activities continued throughout the Group during the year, with expenditure of £1.6m on research. Further information is included in the operating reviews.

### D O N A T I O N S

During the year charitable donations amounting to £30,000 were made. No political donations were made.

### T A X S T A T U S

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

# R E P O R T   O F   T H E   D I R E C T O R S

## S U B S T A N T I A L S H A R E H O L D I N G S

At 22 June 1995 interests in the issued share capital had been reported by:

	Shares	%
PDFM/UBS International	18,897,703	14.99
Norwich Union Life Insurance Society	7,489,980	5.95
Sun Life Group	6,302,562	5.02

## F U T U R E   D E V E L O P M E N T S

The Monopolies and Mergers Commission review of the price limits set for South West Water Services Limited by the Director General of Water Services commenced in September 1994. The Commission has to make a Determination and report this to the Director General by 28 June 1995, although its public release is not expected until late July or August.

## A U D I T O R S

Price Waterhouse were appointed auditors until the conclusion of the sixth 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.

## A P P O I N T E D   B U S I N E S S

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 28 September 1995 by application to the Secretary at Peninsula House, Rydon Lane, Exeter EX2 7HR.

## A N N U A L   G E N E R A L   M E E T I N G

The sixth annual general meeting will be held at The Great Hall, University of Exeter, Exeter, Devon on 25 July 1995 at 11.00 am.

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

*Resolution 7* 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 authority 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.

*Resolution 8* makes certain changes to the Articles of Association of the Company.

*a* Following redemption of the Special Share held by HM Government on 31 December 1994 it is no longer necessary to retain the limitation in Article 53 on any person acquiring 15 per cent or more of the voting share capital of the Company. It is therefore proposed that Article 53 and other provisions relevant to the Special Share be deleted. It is also proposed that references to US Legended Shares and certain related items be deleted. These references are no longer appropriate because the time period for arrangements in relation to US Legended Shares has now expired.

*b* It is proposed to introduce new Articles 5 and 6 which concern the authorisation of the Directors:

- i) to allot relevant securities under section 89 of the Companies Act 1985; and
- ii) to disapply pre-emption rights contained in section 89 of the Companies Act 1985.

The purpose of these new articles is to allow for shareholder resolutions to grant these new authorities to be in short form. This will simplify the content of the relevant shareholder resolutions at general meetings of the Company.

*By Order of the Board*

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



22 June 1995



## C O R P O R A T E   G O V E R N A N C E

The Company complies fully with the provisions of the Cadbury Committee's Code of Best Practice other than the reporting by Directors on internal control, for which the guidance has not yet come into effect.

### BOARD OF DIRECTORS

The Board of Directors comprises five Executive and six Non-executive Directors.

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. Details of membership of the Committees is given on page 15.

A procedure has been established for Directors to take independent professional advice, if necessary, at the Company's expense.

### DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 21, 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 of the Group for the financial year.

The Directors consider that, in preparing the financial statements on pages 22 to 42, 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.

### INTERNAL CONTROL

Reporting on internal controls is in force for the Company and the Group as from 1 April 1995. The Directors intend to comply with these reporting requirements from that date and will make a statement concerning the existing control framework in future Annual Reports.

### GOING CONCERN

As reported as part of the Chairman's interim statement issued in November 1994, the Director General of Water Services had set price limits for South West Water Services Limited for the next ten years which the Directors concluded may not enable that company properly to finance its functions and could jeopardise the company's ability to meet its obligations, and the reasonable expectations of its customers for quality and service. For this reason, the Directors of South West Water Services Limited formally notified the Director General in September of the company's requirement for him to refer this Determination to the Monopolies and Mergers Commission.

The Water Industry Act 1991 provides that the Director General (or, upon a reference, the Monopolies and Mergers Commission) shall secure that companies holding appointments under this Act as water or



## C O R P O R A T E   G O V E R N A N C E

sewerage undertakers are able to finance the proper carrying out of their functions. The Directors therefore consider that the Monopolies and Mergers Commission process is not inconsistent with continuing the adoption of the going concern basis.

The Directors consider, after making appropriate enquiries, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

*By Order of the Board*

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

22 June 1995

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## R E P O R T   T O   T H E   D I R E C T O R S

*by the auditors of South West Water Plc  
on corporate governance matters*

In addition to our audit of the financial statements we have reviewed your statements on pages 18 and 19 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

### **B A S I S   O F   O P I N I O N**

We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's corporate governance procedures nor on the ability of the Group to continue in operational existence.

### **O P I N I O N**

In our opinion, your statement on going concern on pages 18 and 19 has provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and is not inconsistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, your statement on page 18 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

**Price Waterhouse**

Chartered Accountants  
and Registered Auditors  
Bristol

22 June 1995



**F I N A N C I A L   S T A T E M E N T S**  
*for the year ended 31 March 1995*

<b>C O N T E N T S</b>	
Auditors' report	21
Group profit and loss account	23
Group and Company balance sheets	
Group cash flow statement	
Notes to the financial statements	



**A U D I T O R S ' R E P O R T T O T H E  
S H A R E H O L D E R S O F S O U T H W E S T  
W A T E R P L C**

We have audited the financial statements on pages 22 to 42 which have been prepared under the historical cost convention and the accounting policies set out on pages 25 and 26.

**R E S P E C T I V E  
R E S P O N S I B I L I T I E S O F  
D I R E C T O R S A N D A U D I T O R S**

As described on page 18 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.

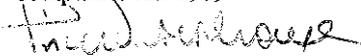
**B A S I S O F O P I N I O N**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

**O P I N I O N**

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 1995 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

22 June 1995

**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 1995*

	Notes	Before exceptional restructuring charge 1995 £m	Exceptional restructuring charge (note 4) 1995 £m	Total 1995 £m	1994 £m
<b>TURNOVER</b>	2	286.2	–	286.2	251.6
Other operating income		0.6	–	0.6	0.4
Operating costs	3	(165.1)	(35.5)	(200.6)	(145.6)
<b>OPERATING PROFIT/(LOSS)</b>	2	121.7	(35.5)	86.2	106.4
Income from interests in associated undertakings		1.2	–	1.2	0.7
Net interest payable	5	(24.2)	–	(24.2)	(14.1)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2	98.7	(35.5)	63.2	93.0
Tax on profit on ordinary activities	6	(8.2)	–	(8.2)	(7.1)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</b>	7	90.5	(35.5)	55.0	85.9
Dividends	8			(34.5)	(32.0)
<b>RETAINED PROFIT TRANSFERRED TO RESERVES</b>	23			20.5	53.9
<b>EARNINGS/(LOSS) PER SHARE</b>	9	71.8p	(28.1p)	43.7p	68.5p

All the activities are continuing operations.

The notes on pages 25 to 42 form part of these financial statements.

There were no recognised gains or losses for the Group or Company, other than the profit for the year, in 1995 or 1994.

A statement of movements in reserves is given in note 23.

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

at 31 March 1995

	Notes	Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
<b>FIXED ASSETS</b>					
Tangible assets	12	1,177.7	1,059.4	2.1	2.1
Investments	13	4.5	3.6	428.5	324.8
		<b>1,182.2</b>	<b>1,063.0</b>	<b>430.6</b>	<b>326.9</b>
<b>CURRENT ASSETS</b>					
Stocks	14	14.2	6.2	-	-
Debtors: amounts falling due after more than one year	15	4.3	2.4	192.5	190.4
Debtors: amounts falling due within one year	16	56.9	54.9	11.0	7.3
Investments	17	429.3	479.6	70.3	69.2
Cash at bank and in hand		3.1	1.8	-	-
		<b>507.8</b>	<b>544.9</b>	<b>273.8</b>	<b>266.9</b>
<b>CURRENT LIABILITIES</b>					
Creditors: amounts falling due within one year	18	(158.3)	(169.0)	(55.4)	(53.4)
		<b>349.5</b>	<b>375.9</b>	<b>218.4</b>	<b>213.5</b>
<b>NET CURRENT ASSETS</b>					
		<b>1,531.7</b>	<b>1,438.9</b>	<b>649.0</b>	<b>540.4</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
Creditors: amounts falling due after more than one year	19	(633.9)	(594.0)	(237.0)	(236.7)
Provisions for liabilities and charges	20	(29.7)	(4.3)	-	-
Accruals and deferred income	21	(23.8)	(19.3)	-	-
		<b>844.3</b>	<b>821.3</b>	<b>412.0</b>	<b>303.7</b>
<b>NET ASSETS</b>					
<b>CAPITAL AND RESERVES</b>					
Called-up share capital	22	126.5	125.4	126.5	125.4
Share premium account	23	144.0	143.5	144.0	143.5
Other reserves	23	-	-	3.1	3.1
Profit and loss account	23	573.8	552.4	138.4	31.7
		<b>844.3</b>	<b>821.3</b>	<b>412.0</b>	<b>303.7</b>
<b>SHAREHOLDERS' FUNDS</b>					

The notes on pages 25 to 42 form part of these financial statements.

Approved by the Board on 22 June 1995 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 1995*

	Notes	1995	1994
		£m	£m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	30a	<b>134.3</b>	121.6
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		29.0	26.9
Interest paid		(37.8)	(33.9)
Interest element of finance lease rental payments		(10.0)	(14.3)
Dividends received from associated undertakings		0.1	0.1
Dividends paid		(29.6)	(18.1)
Net cash outflow from returns on investments and servicing of finance		<b>(48.3)</b>	(39.3)
<b>TAXATION</b>			
Advance corporation tax paid		<b>(6.8)</b>	(8.4)
<b>INVESTING ACTIVITIES</b>			
Payments to acquire tangible fixed assets		<b>(180.9)</b>	(181.2)
Grants and contributions:			
Infrastructure assets		3.1	4.9
Non-infrastructure assets		5.2	4.3
Receipts from disposal of tangible fixed assets		1.0	0.7
Payments to acquire current asset investments		<b>(1,056.6)</b>	(1,451.0)
Receipts from disposal of current asset investments		<b>1,147.0</b>	1,397.3
Acquisitions net outflow	30b	<b>(0.2)</b>	(13.3)
Net cash outflow from investing activities		<b>(81.4)</b>	(238.3)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		<b>(2.2)</b>	(164.4)
<b>FINANCING</b>			
Issue of shares for cash consideration		<b>(1.6)</b>	(0.3)
Issue of sterling notes		-	(52.1)
Expenses of sterling notes issue		-	0.2
Loans repaid		3.7	0.6
Finance lease drawdowns		<b>(52.0)</b>	(71.7)
Capital element of finance lease rental payments		4.6	4.1
Net cash inflow from financing		<b>(45.3)</b>	(119.2)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	30d	<b>43.1</b>	(45.2)
		<b>(2.2)</b>	(164.4)



# 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

## I 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 1f 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 1995, 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

- 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. 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	40 – 80 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Assets in the course of construction are not depreciated until commissioned.

### 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 finance lease period, whichever is the shorter. The corresponding liability is 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

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 12.

Grants and contributions receivable in respect of expenditure charged against profits in the year have been included in the profit and loss account.

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**I ACCOUNTING POLICIES (continued)**

**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.

**b Stocks**

Stocks are stated 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 services		Enterprise businesses		Group	
	1995 £m	1994 £m	1995 £m	1994 £m	1995 £m	1994 £m
<i>Turnover</i>	<b>236.7</b>	210.2	<b>87.3</b>	74.6	<b>324.0</b>	284.8
Inter-segment elimination	<b>(1.6)</b>	(1.7)	<b>(36.2)</b>	(31.5)	<b>(37.8)</b>	(33.2)
Turnover to third parties	<b>235.1</b>	208.5	<b>51.1</b>	43.1	<b>286.2</b>	251.6
<i>Profit</i>						
Operating profit before exceptional restructuring charge	<b>117.7</b>	103.9	<b>4.0</b>	2.5	<b>121.7</b>	106.4
Exceptional restructuring charge	<b>(35.5)</b>	–	–	–	<b>(35.5)</b>	–
Operating profit after exceptional restructuring charge	<b>82.2</b>	103.9	<b>4.0</b>	2.5	<b>86.2</b>	106.4
Income from interests in associated undertakings	–	–	<b>1.2</b>	0.7	<b>1.2</b>	0.7
Net interest payable	<b>(21.9)</b>	(13.3)	<b>(2.3)</b>	(0.8)	<b>(24.2)</b>	(14.1)
Profit on ordinary activities before taxation	<b>60.3</b>	90.6	<b>2.9</b>	2.4	<b>63.2</b>	93.0
<i>Segment net assets/(liabilities)</i>	<b>844.9</b>	829.7	<b>(0.6)</b>	(8.4)	<b>844.3</b>	821.3

Water and sewerage services comprise the regulated water and waste water business.

Enterprise businesses comprise waste management, instrumentation and construction services.

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**

	Before exceptional restructuring charge 1995 £m	Exceptional restructuring charge (note 4) 1995 £m	Total 1995 £m	1994 £m
Manpower costs (note 10)	45.1	20.1	65.2	41.5
Raw materials and consumables	24.2	–	24.2	20.9
Rentals under operating leases:				
Hire of plant and machinery	2.4	–	2.4	3.4
Other operating leases	1.0	–	1.0	1.0
Research expenditure	1.6	–	1.6	1.6
Auditors' remuneration	0.2	–	0.2	0.2
Other external charges	45.6	–	45.6	38.3
Depreciation:				
On owned assets	15.5	–	15.5	11.4
On assets held under finance leases	10.5	–	10.5	7.4
Provision for diminution in value	–	8.3	8.3	–
Deferred income released to profits	(0.6)	–	(0.6)	(0.5)
Infrastructure renewals charge	6.1	–	6.1	5.7
Other operating charges	13.5	7.1	20.6	14.7
	<b>165.1</b>	<b>35.5</b>	<b>200.6</b>	<b>145.6</b>

Fees payable to the Company's auditors for non-audit work amounted to £0.5m (1994 £1.0m).

**4 EXCEPTIONAL RESTRUCTURING CHARGE**

The exceptional restructuring charge of £35.5m (1994 nil) is in respect of a provision for restructuring the water and sewerage business and comprises employee severance costs, a provision for diminution in value of certain tangible fixed assets and other reorganisation expenditure.

**5 NET INTEREST PAYABLE**

	1995 £m	1994 £m
Interest payable:		
Bank loans, overdrafts and other loans repayable wholly within five years	(7.3)	(3.9)
Long term loans (any part repayable after five years)	(29.4)	(29.7)
Interest element of finance lease rentals	(11.5)	(8.0)
Other finance costs	(0.8)	(0.7)
	<b>(49.0)</b>	<b>(42.3)</b>
Interest receivable:		
Listed redeemable securities	7.6	11.2
Other investments (as defined in note 17)	17.2	17.0
	<b>24.8</b>	<b>28.2</b>
Net interest payable	<b>(24.2)</b>	<b>(14.1)</b>

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**6 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
United Kingdom taxation:		
Irrecoverable advance corporation tax	<b>8.2</b>	7.1

The Group is entitled to capital allowances on qualifying assets transferred from the predecessor authority and from its substantial investment programme. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1995; advance corporation tax on the interim and proposed final dividends is therefore regarded as irrecoverable and has been charged against profits. No provision for deferred taxation is required for the year ended 31 March 1995 (note 20).

**7 PROFIT OF PARENT COMPANY**

	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
Profit on ordinary activities after taxation dealt with in the accounts of the parent company	<b>139.2</b>	38.2

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

**8 DIVIDENDS**

	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
Interim dividend of 9.1p (1994 8.4p) per share paid 6 April 1995	<b>11.5</b>	10.5
Proposed final dividend of 18.2p (1994 17.1p) per share payable 1 September 1995	<b>23.0</b>	21.5
	<b>34.5</b>	32.0

**9 EARNINGS PER SHARE**

	<b>Profit on ordinary activities after taxation</b>		<b>Earnings per share</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>		
Before exceptional restructuring charge	<b>90.5</b>	85.9	<b>71.8p</b>	68.5p
Exceptional restructuring charge	<b>(35.5)</b>	-	<b>(28.1p)</b>	-
After exceptional restructuring charge	<b>55.0</b>	85.9	<b>43.7p</b>	68.5p

Earnings per share before the exceptional restructuring charge has been calculated to show the impact of this charge on the results, as such items can have a distorting effect on earnings from year to year and therefore warrant separate consideration.

Earnings per share for 1995, calculated in accordance with the guidelines issued by the Institute of Investment Management and Research, were 50.2p (1994 68.5p). This has been calculated by eliminating the provision for diminution of fixed assets (equivalent to 6.5p per share) and is provided for clarification purposes for users of the financial statements.

Earnings per share on the nil distribution basis is 50.2p (1994 74.2p). This has been calculated by eliminating the taxation charge of £8.2m (1994 £7.1m) in respect of irrecoverable advance corporation tax on the interim and proposed final dividends.

The above earnings per share figures have been calculated by dividing the profit/(loss) figures by 126.0 million being the weighted average number of shares in issue during the year (1994 125.3 million). There would have been no significant dilution of earnings per share if the outstanding shares which might be issued in respect of the Company's share option schemes, referred to in note 22, had been in issue during the year.

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**10 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS**

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

	1995	1994
Water and sewerage services	2,084	2,141
Enterprise businesses	999	919
	3,083	3,060

Employment costs comprise:

	Before exceptional restructuring charge 1995 £m	Exceptional restructuring charge (note 4) 1995 £m	Total 1995 £m	1994 £m
Wages and salaries	53.6	9.5	63.1	52.4
Social security costs	4.7	–	4.7	4.7
Other pension costs (note 28)	4.2	10.6	14.8	4.1
Total employment costs	62.5	20.1	82.6	61.2

Charged as follows:

Manpower costs (note 3)	45.1	41.5
Research expenditure	0.6	0.7
Capital schemes and infrastructure renewals expenditure	16.8	19.0
	62.5	61.2
Exceptional restructuring charge (note 3)	20.1	–
	82.6	61.2

**11 DIRECTORS**

**Emoluments of Directors**

	1995	1994
Total emoluments of the Directors of the Company	£000	£000
Executive Directors		
Remuneration – salary	450	432
– performance bonus	–	55
	450	487
Other emoluments	47	42
Pension contributions	200	121
Payments in respect of tax liability from supplementary pension arrangements	59	–
Non-executive Directors		
Fees	117	129
Total emoluments	873	779

Total emoluments include £168,000 payable to Directors for services as Directors of subsidiary undertakings (1994 £123,000).

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**11 DIRECTORS (continued)**

*Emoluments of Directors (continued)*

Emoluments of the Executive Directors are determined by the Remuneration Committee consisting of Non-executive Directors. The Remuneration Committee takes external professional advice in determining the level of emoluments. Other emoluments include car benefit and health cover.

Payments under the incentive performance bonus plan are related to increases in earnings per share above a pre-determined target, performance of relevant businesses, and the achievement of individual performance targets as determined by the Remuneration Committee. As in the case of management and salaried staff, the salaries and 1995 performance bonuses review for Executive Directors has been deferred.

The Group established during the year funding arrangements to provide pension benefits above the Inland Revenue earnings cap and improved pension benefits for certain Directors. These supplementary pension arrangements, which are not approved for taxation relief, are funded by Company contributions and replace previously unfunded pension commitments. The Directors included in these arrangements receive payments to cover the tax liability which arises in respect of these contributions.

The following table shows a breakdown of total emoluments, excluding pension contributions, of individual Directors:

	Salary/ fees £000	Perfor- mance bonus £000	Other emoluments £000	Payment related to supplementary pension £000	<b>Total 1995 £000</b>	1994 £000
<b>Executive Chairman</b>						
K W Court	99	-	3	13	115	112
<b>Executive Directors</b>						
C I J H Drummond	77	-	8	3	88	87
W H Fraser	107	-	18	29	154	130
B A O Hewett	81	-	9	5	95	98
K L Hill	86	-	9	9	104	102
<b>Non-executive Directors</b>						
Sir Geoffrey H Chipperfield (appointed 1 October 1993)	17				17	7
S J Day	18				18	18
A T Fletcher (appointed 26 May 1993)	18				18	14
Lady Mary Holborow	21				21	22
T C Leader	26				26	25
S M Yassukovich	17				17	16
Retired Directors ( 2 )	-				-	27
	567	-	47	59	673	658

The emoluments of the Chairman in 1995 were £115,000 (1994 £112,000) including a performance bonus of £nil (1994 £13,000). The Company pension contribution in respect of the Chairman was £49,000 (1994 £40,000).

The emoluments of W H Fraser, the highest paid Director, were £154,000 (1994 £130,000) including a performance bonus of £nil (1994 £13,000). The Company pension contribution in respect of Mr Fraser was £63,000 (1994 £20,000).

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

Range (£)	1995	1994	Range (£)	1995	1994
5,001-10,000	-	1	95,001-100,000	1	1
10,001-15,000	-	2	100,001-105,000	1	1
15,001-20,000	4	3	110,001-115,000	1	1
20,001-25,000	1	2	125,001-130,000	-	1
25,001-30,000	1	-	150,001-155,000	1	-
85,001-90,000	1	1			

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**11 DIRECTORS (continued)**

**Directors' interests**

The number of shares of the Company in which Directors held beneficial interests at 31 March 1995 and 31 March 1994 were:

	1995	1994		1995	1994
Sir Geoffrey H Chipperfield	1,500	1,500	B A O Hewett	1,084	492
K W Court	43,788	38,102	K L Hill	9,080	9,042
S J Day	1,500	1,500	Lady Mary Holborow	2,685	2,625
C I J H Drummond	1,392	1,354	T C Leader	1,296	1,219
A T Fletcher	1,033	1,000	S M Yassukovich	-	-
W H Fraser	7,621	7,344			

On 3 April 1995 Lady Mary Holborow sold 1,912 shares and repurchased 1,785 shares in a Personal Equity Plan.

As a result of electing for a scrip dividend alternative the following Directors acquired additional shares on 6 April 1995:

K W Court	662	B A O Hewett	20
A T Fletcher	20	Lady Mary Holborow	25
W H Fraser	103	T C Leader	26

C I J H Drummond and W H Fraser acquired an additional 17 and 30 shares respectively on 11 April 1995 as a result of reinvestment of dividends in a Personal Equity Plan.

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

Options to subscribe for shares of the Company under the Executive Share Option and Sharesave Schemes at 31 March 1995 and 31 March 1994 were:

*Executive Share Option Scheme*

	503p	496p	418p	328p	1995 Total	1994 Total
Grant date	1995	1993	1992	1991		
K W Court	10,000	40,000	23,000	40,000	113,000	103,000
C I J H Drummond	8,000	22,500	33,500	-	64,000	56,000
W H Fraser	10,000	30,000	29,000	47,000	116,000	106,000
B A O Hewett	15,000	30,000	-	-	45,000	30,000
K L Hill	8,000	25,500	26,000	30,000	89,500	81,500

The options to subscribe at 503p were granted during the year. No Director exercised any options during the year and no options held by Directors lapsed during the year. The exercise dates of the above options and the performance targets in respect of exercise are shown in note 22.

*Sharesave Scheme*

	393p	332p	287p	1995 Total	1994 Total
Grant date	1993	1992	1991		
K W Court	-	2,259	1,567	3,826	7,916
B A O Hewett	4,389	-	-	4,389	4,389

During the year K W Court exercised options under the Sharesave Scheme in respect of 4,090 shares at an exercise price of 176p per share, and these shares are included in the 1995 Directors' interests. At the date of exercise the market price of the shares was 488p. No other Director exercised any options during the year and no options were granted or lapsed during the year in respect of Directors. The exercise dates of the above options are shown in note 22.

The market price of the Company's shares at 31 March 1995 was 492p (1994 562p) and the range during the year to that date was 462p to 578p (1994 468p to 664p).

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**12 TANGIBLE FIXED ASSETS**

<i>Group</i>	Land and buildings	Infra- structure assets	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	<b>Total 1995</b>
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 April 1994	48.1	388.4	309.6	243.6	199.6	<b>1,189.3</b>
Additions	1.8	25.4	18.1	29.8	84.3	<b>159.4</b>
Grants and contributions		(3.4)				<b>(3.4)</b>
Arising on acquisitions	(0.8)	-	-	1.1	-	<b>0.3</b>
Disposals	(0.4)	-	-	(3.7)	-	<b>(4.1)</b>
Transfers	0.1	31.9	(11.7)	41.4	(61.7)	-
At 31 March 1995	<b>48.8</b>	<b>442.3</b>	<b>316.0</b>	<b>312.2</b>	<b>222.2</b>	<b>1,341.5</b>
Depreciation:						
At 1 April 1994	5.3		52.4	72.2		<b>129.9</b>
Arising on acquisitions	0.1		-	0.8		<b>0.9</b>
Charge for year	1.8		6.1	20.0		<b>27.9</b>
Provision for diminution in value	6.4		-	1.9		<b>8.3</b>
Disposals	(0.3)		-	(2.9)		<b>(3.2)</b>
At 31 March 1995	<b>13.3</b>		<b>58.5</b>	<b>92.0</b>		<b>163.8</b>
Net book value:						
At 31 March 1995	<b>35.5</b>	<b>442.3</b>	<b>257.5</b>	<b>220.2</b>	<b>222.2</b>	<b>1,177.7</b>
At 31 March 1994	<b>42.8</b>	<b>388.4</b>	<b>257.2</b>	<b>171.4</b>	<b>199.6</b>	<b>1,059.4</b>

Assets held under finance leases included above:

Cost: At 31 March 1995	131.5	106.7	52.7	<b>290.9</b>
Depreciation: Charge for year	2.0	8.5		<b>10.5</b>
Depreciation: At 31 March 1995	3.7	21.2		<b>24.9</b>

The cost of land and buildings and of operational properties includes non-depreciable land of £4.2m (1994 £4.2m) and £6.4m (1994 £4.6m) respectively.

Net book value of land and buildings comprises:

	<b>1995</b>	1994
	<b>£m</b>	£m
Freehold	<b>28.8</b>	36.0
Long leasehold	<b>0.2</b>	0.3
Short leasehold	<b>6.5</b>	6.5
	<b>35.5</b>	42.8

Included within freehold land and buildings is £2.5m for an investment property (1994 nil) that has been valued by an employee of the Group who is a Chartered Surveyor.

The net book value of infrastructure assets is stated after deducting £28.2m (1994 £24.8m) grants and contributions.

Out of the total depreciation charge for the Group of £27.9m (1994 £20.7m), the sum of £1.9m (1994 £1.9m) has been charged to capital projects and £26.0m (1994 £18.8m) against profits. The provision for diminution in value for the Group of £8.3m (1994 nil) has been included in the exceptional restructuring charge.

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**12 TANGIBLE FIXED ASSETS (continued)**

<i>Company</i>	Freehold land and buildings £m	Fixed and mobile plant, vehicles and computers £m	Total 1995 £m
Cost:			
At 1 April 1994	2.0	1.2	3.2
Additions	—	0.2	0.2
Disposals	—	(0.2)	(0.2)
At 31 March 1995	2.0	1.2	3.2
Depreciation:			
At 1 April 1994	0.6	0.5	1.1
Charge for year	—	0.1	0.1
Disposals	—	(0.1)	(0.1)
At 31 March 1995	0.6	0.5	1.1
Net book value:			
At 31 March 1995	1.4	0.7	2.1
At 31 March 1994	1.4	0.7	2.1

**13 FIXED ASSET INVESTMENTS**

	Shares £m	Loans £m	Group Total 1995 £m	Shares £m	Loans £m	Company Total 1995 £m
<i>Subsidiary undertakings</i>						
Cost:						
At 1 April 1994				320.0	—	320.0
Additions				103.7	—	103.7
At 31 March 1995				423.7	—	423.7
<i>Associated undertakings</i>						
Cost:						
At 1 April 1994	0.6	3.0	3.6	1.8	3.0	4.8
Profit for year	1.0	—	1.0			
Dividends received	(0.1)	—	(0.1)			
At 31 March 1995	1.5	3.0	4.5	1.8	3.0	4.8
<i>Total investments</i>						
At 31 March 1995	1.5	3.0	4.5	425.5	3.0	428.5
At 31 March 1994	0.6	3.0	3.6	321.8	3.0	324.8

Investments made by the Company during the year in subsidiary undertakings included £100m for a further subscription for shares in South West Water Services Limited.

Profit for year of £1.0m (1994 £0.5m) comprised income from interests in associated undertakings at £1.2m (1994 £0.7m), disclosed in the profit and loss account, less £0.2m (1994 £0.2m) included elsewhere in the balance sheet.

Details of principal subsidiary and associated undertakings of the Group are set out in note 27.

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**14 STOCKS**

	<b>Group</b>		<b>Company</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Raw materials and consumables	2.7	2.7	-	-
Work in progress	8.2	0.8	-	-
Finished goods	3.3	2.7	-	-
	<b>14.2</b>	<b>6.2</b>	<b>-</b>	<b>-</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Amounts owed by subsidiary undertakings			191.9	189.8
Amounts owed by associated undertakings	0.6	0.6	0.6	0.6
Other debtors	0.1	0.2	-	-
Prepayments and accrued income	3.6	1.6	-	-
	<b>4.3</b>	<b>2.4</b>	<b>192.5</b>	<b>190.4</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Trade debtors	34.9	32.6	-	-
Amounts owed by subsidiary undertakings			10.3	6.9
Amounts owed by associated undertakings	0.4	0.5	0.3	0.2
Other debtors	0.4	0.6	-	-
Prepayments and accrued income	21.1	20.8	0.4	0.2
Advance corporation tax recoverable	0.1	0.4	-	-
	<b>56.9</b>	<b>54.9</b>	<b>11.0</b>	<b>7.3</b>

**17 CURRENT ASSET INVESTMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Listed on a recognised investment exchange:				
Within Great Britain	64.2	124.9	-	-
Outside Great Britain	-	56.5	-	-
	<b>64.2</b>	<b>181.4</b>	<b>-</b>	<b>-</b>
Other investments	365.1	298.2	70.3	69.2
	<b>429.3</b>	<b>479.6</b>	<b>70.3</b>	<b>69.2</b>
Market value of listed investments	64.3	181.7	-	-

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

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

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Loans:				
Bank loans and overdrafts	4.8	6.5	2.4	1.4
Sterling notes	0.5	0.5	0.5	0.5
European Investment Bank loans	4.7	2.0	-	-
Series B unsecured loan stock notes	4.8	5.8	4.8	5.8
	<b>14.8</b>	<b>14.8</b>	<b>7.7</b>	<b>7.7</b>
Obligations under finance leases	13.8	6.3	-	-
Trade creditors	56.0	79.4	4.3	4.9
Amounts owed to associated undertakings	1.0	1.2	-	0.8
Other creditors	2.0	2.5	0.4	0.9
Advance corporation tax	9.0	7.9	8.9	7.9
Other taxation and social security	2.6	2.6	-	-
Accruals and deferred income	25.1	23.2	0.1	0.1
Interim dividend	11.0	9.6	11.0	9.6
Proposed final dividend	23.0	21.5	23.0	21.5
	<b>158.3</b>	<b>169.0</b>	<b>55.4</b>	<b>53.4</b>

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

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Loans:				
Sterling bond	150.0	150.0	150.0	150.0
Sterling notes	85.9	86.4	85.9	86.4
European Investment Bank loans	123.4	128.0	-	-
Other loans	0.3	0.8	-	-
	<b>359.6</b>	<b>365.2</b>	<b>235.9</b>	<b>236.4</b>
Obligations under finance leases	272.5	226.6	-	-
Amounts owed to subsidiary undertakings			0.1	0.1
Other creditors	1.8	2.2	1.0	0.2
	<b>633.9</b>	<b>594.0</b>	<b>237.0</b>	<b>236.7</b>

**20 PROVISIONS FOR LIABILITIES AND CHARGES**

	At	Charged against profits	Utilised during year	Group At
	1 April 1994			31 March 1995
	£m	£m	£m	£m
Infrastructure renewals	3.7	6.1	(6.1)	3.7
Environmental and landfill restoration	0.6	-	-	0.6
Restructuring costs	-	35.5	(10.1)	25.4
	4.3	41.6	(16.2)	29.7

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**20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

***Deferred taxation***

The maximum potential liability for deferred taxation, for which no provision is considered necessary, at 31 March 1995 was:

	<b>Group 1995 £m</b>
Tax effect of timing differences due to:	
Accelerated capital allowances	54.5
Other timing differences	(10.8)
	43.7
Less: advance corporation tax recoverable	(26.5)
Maximum potential liability	17.2

As infrastructure assets are not depreciated, deferred taxation will crystallise in the event of their disposal at amounts in excess of their tax written down value. The tax effect (at 33%) due to accelerated capital allowances on infrastructure assets which has been excluded above amounts to £110.4m. Advance corporation tax of £9.9m, additional to the amount set out in the table above, is available to be set against this liability. In the opinion of the Directors, the likelihood of a liability crystallising in the foreseeable future is remote.

**21 ACCRUALS AND DEFERRED INCOME**

	<b>Group</b>		<b>Company</b>	
	<b>1995 £m</b>	1994 £m	<b>1995 £m</b>	1994 £m
<b><i>Deferred income</i></b>				
At 1 April	19.9	15.3	—	0.1
Additions	5.2	5.1	—	—
Released to profits	(0.6)	(0.5)	—	(0.1)
	24.5	19.9	—	—
At 31 March	(0.7)	(0.6)	—	—
To be released within one year				
	23.8	19.3	—	—
To be released after more than one year				

Deferred income comprises mainly grants and contributions on non-infrastructure assets.

**22 CALLED-UP SHARE CAPITAL**

	<b>1995 £m</b>	1994 £m
<b><i>Authorised</i></b>		
175,000,000 ordinary shares of £1 each	175.0	175.0
1 special rights redeemable preference share of £1	—	—
	126.5	125.4
<b><i>Allotted, called-up and fully paid</i></b>		
126,503,786 ordinary shares of £1 each (1994 125,376,571)	126.5	125.4
1 special rights redeemable preference share of £1 (redeemed on 31 December 1994)	—	—
	126.5	125.4

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**22 CALLED-UP SHARE CAPITAL (continued)**

<i>Ordinary shares allotted during year</i>	1995	1994
In lieu of £2.3m cash (1994 £1.7m) under scrip dividend alternative	<b>439,826</b>	359,876
For consideration of £0.8m (1994 £0.2m) under South West Water Executive Share Option Scheme to Directors and senior employees who exercised their options	<b>231,700</b>	57,650
For consideration of £0.8m (1994 £0.1m) under South West Water Sharesave Scheme to employees who exercised their options	<b>455,689</b>	53,201
	<b>1,127,215</b>	470,727

Outstanding options at 31 March 1995 and 31 March 1994 to subscribe for shares of £1 each under the Company's share option schemes are shown below:

Nature of scheme	Date granted and subscription price fully paid		Performance targets	Period when options normally exercisable	Thousands of shares in respect of which options outstanding	
					1995	1994
Sharesave	12 Dec 1989	176p	–	1995 – 1997	<b>269</b>	714
	5 July 1991	287p	–	1996 – 1998	<b>426</b>	464
	3 July 1992	332p	–	1997 – 1999	<b>312</b>	345
	2 July 1993	393p	–	1998 – 2000	<b>205</b>	219
	6 Jan 1995	373p	–	2000 – 2002	<b>475</b>	
Executive	18 Jan 1990	293p	<i>a</i>	1993 – 2000	<b>13</b>	24
	5 July 1991	328p	<i>a</i>	1994 – 2001	<b>390</b>	606
	3 July 1992	418p	<i>a</i>	1995 – 2002	<b>438</b>	458
	5 July 1993	496p	<i>b</i>	1996 – 2003	<b>512</b>	544
	6 Jan 1995	503p	<i>c</i>	1998 – 2005	<b>338</b>	
				<b>3,378</b>	3,374	

The performance targets for exercise of Executive Scheme options are:

*a* gross dividend yield of 9.68% on the 1989 water share offer price; *b* increase in earnings per share in excess of the Retail Price Index movement over the period March 1993 to date of exercise; *c* increase in earnings per share in excess of the Retail Price Index movement over the period March 1994 to date of exercise.

At 31 March 1995 there were 1,182 participants in the Sharesave Scheme (1994 1,126) and 93 in the Executive Scheme (1994 85).

Options granted to Directors, included above, are shown in note 11.

**23 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 1994	143.5	3.1	552.4	31.7
Retained profit for year			20.5	104.7
Premium on shares issued	0.9			
Adjustment for shares issued under the scrip dividend alternative	(0.4)		2.0	2.0
Goodwill arising on acquisitions			(1.1)	
At 31 March 1995	<b>144.0</b>	<b>3.1</b>	<b>573.8</b>	<b>138.4</b>

The cumulative value of goodwill at 31 March 1995 resulting from acquisitions, which has been written off to reserves, is £40.3m (1994 £39.2m).

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

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Profit on ordinary activities after taxation	55.0	85.9	139.2	38.2
Dividends	(34.5)	(32.0)	(34.5)	(32.0)
	20.5	53.9	104.7	6.2
Adjustment for shares issued under the scrip dividend alternative	2.0	2.6	2.0	2.6
Shares issued for cash consideration	1.6	0.3	1.6	0.3
Goodwill written off	(1.1)	(15.0)		
Shareholders' funds:				
Addition for year	23.0	41.8	108.3	9.1
At 1 April	821.3	779.5	303.7	294.6
At 31 March	844.3	821.3	412.0	303.7

Shareholders' funds at 31 March 1995 comprised equity interest. The one special rights redeemable preference share of £1 represented a non-equity interest until redeemed on 31 December 1994.

**25 LOANS AND OTHER BORROWINGS**

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
<b>Loans</b>				
Repayable by instalments, any of which is due for repayment after five years:				
Payable after five years	85.5	96.4	-	-
Payable between two and five years	30.4	27.4	-	-
Payable between one and two years	7.7	4.8	-	-
Repayable otherwise than by instalments:				
Payable after five years	150.0	150.0	150.0	150.0
Payable between two and five years	85.4	85.9	85.4	85.9
Payable between one and two years	0.6	0.7	0.5	0.5
Falling due after more than one year (note 19)	359.6	365.2	235.9	236.4
Falling due within one year (note 18)	14.8	14.8	7.7	7.7
	374.4	380.0	243.6	244.1
<b>Obligations under finance leases</b>				
Repayable:				
After five years	257.8	211.7	-	-
Between two and five years	10.6	10.7	-	-
Between one and two years	4.1	4.2	-	-
Falling due after more than one year (note 19)	272.5	226.6	-	-
Falling due within one year (note 18)	13.8	6.3	-	-
	286.3	232.9	-	-

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £8.4m (1994 £2.4m).

Loans and other borrowings are predominantly denominated in sterling and are repayable over the period 1995 - 2018. The rates of interest payable on loans and other borrowings, any part of which is due after five years, range between 4% and 12%.



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## 26 ACQUISITIONS

On 7 March 1995 Peninsula Waste Technology Limited, a 100% owned Group company, agreed a £1.0m reduction in the consideration for the 1993 purchase of Haul Waste Limited which is matched by a reduction in the fair value of net assets acquired.

On 20 March 1995 the entire issued share capital of Acetip Limited was purchased by Haul Waste Limited, a 100% owned Group company, for a cash consideration of £1.2m. Goodwill on acquisition amounting to £1.1m has been written off to reserves (note 23). Results of the company for the year ended 31 January 1994, and for subsequent periods, were not material. The analysis of the book value of net assets acquired which is the same as the fair value to the Group is shown in note 30c.

During the year £1.3m fair value acquisition provisions, established in previous years, were utilised or released (1994 £0.5m) and at 31 March 1995 £1.7m (1994 £3.0m) was carried forward.

## 27 PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

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)

	Activity
ELE Group Limited	Instrumentation
Haul Waste Limited*	Waste management
Peninsula Insurance Limited†	Insurance
Peninsula Properties (Exeter) Limited	Property development
Peninsula Waste Technology Limited	Holding company
Rydon Properties Limited	Property investment
South West Water Services Limited	Water and sewerage services
T J Brent Limited	Construction services

**Associated undertakings**

	Share and loan capital in issue	Proportion held by Company	Activity
Pell Frischmann Water Limited	6,666 ordinary £1	25%	Engineering consultancy
	3,334 ordinary £1 (non-voting)	100%	
Westcountry Television Limited	1,030,000 ordinary 10p	23%	Television broadcasting
	1,374,465 preference £1	31%	
	£5m subordinated loan stock	60%	

\* shares held by Peninsula Waste Technology Limited

† incorporated, registered and operating principally in Guernsey

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**28 PENSIONS**

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

The pension cost for the Group for the year ended 31 March 1995, before the exceptional restructuring charge, was £4.2m (1994 £4.1m). 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. To cover the financial strain on the pension schemes from the water and sewerage business restructuring, a provision of £10.6m has been included in the exceptional restructuring charge for additional employers' contributions during 1995/96.

The latest actuarial valuations of the major schemes were at 1 April 1993. At that date the market value of the schemes' assets was £89.1m and the actuarial value of those assets represented 107% and 108% 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 14.9% of pensionable earnings (in 1995 and 1994). 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% per annum, and that present and future pensions would increase at the rate of between 5% and 5.5% per annum.

**29 COMMITMENTS AND CONTINGENT LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>1995</b>	<b>1994</b>	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Capital commitments</b>				
Contracted but not provided	17.9	55.0	-	-
Authorised but not yet contracted	172.3	222.1	0.6	1.5
In addition to these commitments, the Group has longer term capital expenditure plans for water and sewerage services to meet shortfalls in asset performance and condition, and to provide for new demand and growth.				
<b>Commitments under operating leases</b>				
Rentals during the year following the balance sheet date:				
Land and buildings – leases expiring:				
Within one year	0.3	0.2	-	-
Between one and five years	0.8	0.5	-	-
After five years	0.7	1.2	-	-
Other – leases expiring between one and five years	0.1	1.1	-	-
	1.9	3.0	-	-
<b>Contingent liabilities</b>				
Contractors' claims on capital schemes	18.9	11.1	-	-
Bank guarantees	1.9	2.4	422.9	413.3
	20.8	13.5	422.9	413.3

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

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**30 NOTES TO THE GROUP CASH FLOW STATEMENT**

<i>a Reconciliation of operating profit to net cash inflow from operating activities</i>	<b>1995</b>	1994
	<b>£m</b>	£m
Operating profit	<b>86.2</b>	106.4
Depreciation charge	<b>26.0</b>	18.8
Provision for diminution in value	<b>8.3</b>	–
Deferred income released to profits	<b>(0.6)</b>	(0.5)
Provisions for liabilities and charges	<b>25.4</b>	(0.5)
(Increase)/decrease in stocks	<b>(8.0)</b>	1.2
(Increase)/decrease in debtors (amounts falling due within and over one year)	<b>(3.4)</b>	0.1
Increase/(decrease) in creditors (amounts falling due within and over one year)	<b>0.5</b>	(3.7)
Profit on disposal of tangible fixed assets	<b>(0.1)</b>	(0.2)
Net cash inflow from operating activities	<b>134.3</b>	121.6
<i>b Net outflow of cash and cash equivalents in respect of acquisitions</i>	<b>1995</b>	1994
	<b>£m</b>	£m
Cash consideration	<b>0.2</b>	11.9
Bank overdrafts acquired	<b>–</b>	1.4
	<b>0.2</b>	13.3
<i>c Acquisitions comprised:</i>	<b>1995</b>	1994
	<b>£m</b>	£m
Associated undertakings	<b>–</b>	1.1
Tangible fixed assets – Acetip Limited	<b>0.4</b>	–
– Haul Waste Limited	<b>(1.0)</b>	–
– 1994 acquisitions	<b>–</b>	1.8
Stocks	<b>–</b>	3.2
Debtors: amounts falling due within one year	<b>0.4</b>	4.3
Creditors: amounts falling due within one year	<b>(0.3)</b>	(6.0)
Obligations under finance leases	<b>–</b>	(0.1)
Creditors: amounts falling due after more than one year	<b>(0.1)</b>	(0.3)
Loans	<b>(0.3)</b>	(1.1)
Fair value of net assets acquired	<b>(0.9)</b>	2.9
Goodwill	<b>1.1</b>	15.0
	<b>0.2</b>	17.9
Satisfied by:		
Cash consideration – Acetip Limited	<b>1.2</b>	–
– 1994 acquisitions	<b>–</b>	11.9
Reduced cash consideration for Haul Waste Limited	<b>(1.0)</b>	–
	<b>0.2</b>	11.9
Loan stock notes issued	<b>–</b>	6.0
	<b>0.2</b>	17.9

The fair value of net assets acquired for 1995 is in respect of the Acetip Limited acquisition unless otherwise indicated. The subsidiary undertakings acquired during 1995 and 1994 did not contribute materially to the Group's cash flow.

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**30 NOTES TO THE GROUP CASH FLOW STATEMENT (continued)**

*d Balances of cash and cash equivalents*

	1995	1994	Change in 1995	Change in 1994
	£m	£m	£m	£m
Current asset investments	429.3	479.6	(50.3)	13.6
Deduct investments not within three months of maturity when purchased	(165.2)	(255.6)	90.4	(53.7)
	<b>264.1</b>	<b>224.0</b>	<b>40.1</b>	<b>(40.1)</b>
Cash at bank and in hand	3.1	1.8	1.3	1.4
Bank overdrafts	(4.8)	(6.5)	1.7	(6.5)
Cash and cash equivalents	<b>262.4</b>	<b>219.3</b>	<b>43.1</b>	<b>(45.2)</b>

*e Changes in financing during the year*

	Share capital (including premium)		Loans and finance lease obligations	
	1995	1994	1995	1994
	£m	£m	£m	£m
At 1 April	268.9	268.6	604.0	477.9
Cash inflows from financing	1.6	0.3	43.7	119.1
Expenses of sterling notes issue			-	(0.2)
Release of premium on sterling notes			(0.5)	-
Loans and finance lease obligations of subsidiary undertakings acquired			0.3	1.2
Loan stock notes issued to acquire a subsidiary undertaking			-	6.0
At 31 March	<b>270.5</b>	<b>268.9</b>	<b>647.5</b>	<b>604.0</b>

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	1995	1994	1993	1992	1991
	£m	£m	£m	£m	£m
<b>Profit and loss account</b>					
Turnover – continuing operations:					
Water and sewerage services	235.1	208.5	184.1	159.3	139.2
Enterprise businesses	51.1	43.1	10.3	7.2	4.6
Total turnover	286.2	251.6	194.4	166.5	143.8
Operating profit/(loss) – continuing operations:					
Water and sewerage services	82.2 *	103.9	83.2	64.5	51.5
Enterprise businesses	4.0	2.5	(0.4)	(0.3)	(0.1)
Total operating profit	86.2 *	106.4	82.8	64.2	51.4
Income/(loss) from interests in associated undertakings	1.2	0.7	(2.0)	(0.1)	(0.1)
Net interest (payable)/receivable	(24.2)	(14.1)	11.9	25.9	36.9
Profit on ordinary activities before taxation	63.2 *	93.0	92.7	90.0	88.2
Tax on profit on ordinary activities	(8.2)	(7.1)	(8.5)	(8.9)	(7.8)
Profit after tax	55.0 *	85.9	84.2	81.1	80.4
Dividends	(34.5)	(32.0)	(29.5)	(26.8)	(24.4)
Retained profit transferred to reserves	20.5 *	53.9	54.7	54.3	56.0
Earnings per share:					
Before exceptional restructuring charge	71.8p	68.5p	67.9p	66.1p	65.8p
After exceptional restructuring charge	43.7p				
Dividend per share	27.3p	25.5p	23.7p	21.7p	20.0p
<b>Capital expenditure</b>					
Acquisitions and investment	0.2	17.9	32.1	4.8	3.1
Tangible fixed assets	159.4	203.4	203.7	172.4	119.3
<b>Balance sheet</b>					
Fixed assets	1,182.2	1,063.0	882.1	679.5	517.0
Net current assets	349.5	375.9	394.0	402.1	308.1
Non-current liabilities	(687.4)	(617.6)	(496.6)	(343.4)	(140.2)
Net assets	844.3	821.3	779.5	738.2	684.9
<b>Number of employees (average for year)</b>					
Water and sewerage services	2,084	2,141	2,144	2,084	1,855
Enterprise businesses	999	919	412	365	217
	3,083	3,060	2,556	2,449	2,072

\* After exceptional restructuring charge of £35.5m.



## N O T I C E   O F   M E E T I N G

The sixth annual general meeting of South West Water Plc will be held at The Great Hall, University of Exeter, Exeter, Devon on 25 July 1995 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 1995.

### **Resolution 2**

To declare a final dividend for the year ended 31 March 1995.

### **Resolution 3**

To re-elect Mr W H Fraser as a Director.

### **Resolution 4**

To re-elect Mr S M Yassukovich as a Director.

### **Resolution 5**

To re-elect Mr B A O Hewett as a Director.

### **Resolution 6**

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 7**

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 existing general authority conferred on them under section 80 of that Act 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 interest 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 in 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 £6,335,000;

(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.

### **Resolution 8**

To propose the following as a special resolution:

That the Articles of Association of the Company be altered by the following amendments (using the numbering of the current Articles of Association):

1. The deletion of the following provisions:

- (i) the definitions in paragraph (A) of Article 1 of "Special Share", "Special Shareholder", "US Legended Shares", "United States" and "US Person";
- (ii) Article 9;
- (iii) subparagraph (vii) of paragraph (A) of Article 35 and paragraphs (B), (C), (D), (E), (F) and (G) of that Article;
- (iv) Article 53;
- (v) the words "(except in the case of authority conferred in the Instalment Agreement, as defined in paragraph (A) of Article 53)" in lines 1 and 2 of Article 80; and
- (vi) the words "(or, if such corporation is the Custodian Bank (as defined in paragraph (A) of Article 53) acting in its capacity as such, may in accordance with the Instalment Agreement (as so defined) authorise more than one person)" in lines 3 to 6 of Article 80; and
- (vii) the words "(i) such determination takes place by virtue of the relevant authority being revoked under and in accordance with the Instalment Agreement, as defined in paragraph (A) of Article 53, or (ii)" in lines 4 to 7 of Article 81.

2. The deletion of the words "Special Share" and the insertion in their place of the words "special rights redeemable preference share of £1" in the definition of "Ordinary Share" in paragraph (A) of Article 1.

3. The insertion of the following new Articles 5 and 6 in the re-numbered Articles:

"5. Authority to allot relevant securities.

The Company may from time to time pass an ordinary resolution referring to this Article and authorising, in accordance with Section 80 of the Act, the board to exercise all the powers of the Company to allot relevant securities and:

- (i) on the passing of the resolution the board shall be generally and unconditionally authorised to allot relevant securities (as defined for the purposes of that section) up to the nominal amount specified in the resolution; and
- (ii) unless previously revoked the authority shall expire on the day specified in the resolution (not being more than five years after the date on which the resolution is passed),



## N O T I C E   O F   M E E T I N G

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but any authority given under this article shall allow the Company, before the authority expires, to make an offer or agreement which would or might require relevant securities to be allotted after it expires."

"6. Disapplication of the pre-emption rights.

(A) Subject to the board being generally authorised to allot relevant securities in accordance with Section 80 of the Act, the Company may from time to time resolve by a special resolution referring to this Article that the board be given power to allot equity securities for cash and, on the passing of the resolution, the board shall have power to allot (pursuant to that authority) equity securities for cash as if Section 89(1) of the Act did not apply to the allotment but that power shall be limited:

- (i) to the allotment of equity securities in connection with a rights issue; and
- (ii) to the allotment (other than in connection with a rights issue) of equity securities having, in the case of relevant shares, a nominal amount or, in the case of other equity securities, giving the right to subscribe for, or to convert into, relevant shares having, a nominal amount not exceeding in aggregate the sum specified in the special resolution

and unless previously revoked that power shall expire on the date (if any) specified in the special resolution or, if no date is specified, 15 months after the date on which the special resolution is passed or if earlier at the conclusion of the next annual general meeting of the Company but the Company may before the power expires make an offer or agreement which would or might require equity securities to be allotted after it expires.

(B) For the purposes of this Article:

- (i) "equity security" and "relevant share" have the meanings given to them in Section 94 of the Act; and
- (ii) "rights issue" means an offer or issue to or in favour of shareholders on the register on a date fixed by the board where the equity securities respectively attributable to the interest of all those shareholders are proportionate (as nearly as practicable) to the respective number of shares held by them on that date but the board may make such exclusions or other arrangements as the board considers expedient in relation to fractional entitlements or legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange."

4. The re-numbering and re-lettering of all other Articles and amendment of cross-references as appropriate.

*By order of the Board*

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



22 June 1995

### 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.



## S H A R E H O L D E R S   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 1995*

	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1 – 100	4,063	11.6	0.2
101 – 1,000	26,648	76.2	8.4
1,001 – 5,000	3,477	9.9	4.3
5,001 – 50,000	472	1.4	7.4
50,001 – 100,000	107	0.3	6.4
Over 100,000	195	0.6	73.3
	<hr/> 34,962	100.0	100.0
Individuals	32,223	92.1	11.9
Companies	479	1.4	5.9
Trust companies (pension funds etc)	17	0.1	1.5
Banks and nominees	2,202	6.3	67.0
Insurance companies	41	0.1	13.7
	<hr/> 34,962	100.0	100.0

### *Shareholder information*

Financial year end	31 March
Sixth annual general meeting	25 July 1995
1995 Final dividend payable	1 September 1995
1996 Interim results announcement	November 1995
1996 Interim dividend payable	April 1996
1996 Results preliminary announcement	May 1996
Seventh annual general meeting	July 1996
1996 Final dividend payable	September 1996



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

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### *Shareholder services*

#### ***Share dealing service***

The low-cost share dealing service enables investors to buy and sell shares in the Company on a low-cost basis and to make regular investments in the Company.

#### ***Personal equity plans***

By holding their shares in the Company in the general or the single company personal equity plan, shareholders may gain tax advantages.

#### ***Scrip dividend alternative***

The scrip dividend alternative enables shareholders to receive their dividends in the form of shares instead of cash.

Details of the scrip dividend alternative are enclosed and details of the other shareholder services are available from the Company Secretary's Department (telephone: (01392) 446688).