SOUTH WEST WATER LIMITED

ANNUAL REPORT
AND
FINANCIAL STATEMENTS 2002

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COMPANIES HOUSE 03/08/02

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

ANNUAL REPORT AND FINANCIAL STATEMENTS 2002

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DIRECTORS, REGISTERED OFFICE AND AUDITORS

Chairman	K G Harvey
Chief Executive	R J Baty
Operations Director	S C Bird
Customer Service Director	P J Briens
Finance Director (Formerly Regulatory and Finance Director)	D J Dupont
Secretary	K D Woodier
Registered Office	Peninsula House Rydon Lane Exeter EX2 7HR
Auditors	PricewaterhouseCoopers Chartered Accountants 31 Great George Street Bristol BS1 5QD

NOTICE OF MEETING

The thirteenth Annual General Meeting of South West Water Limited will be held at Peninsula House, Rydon Lane, Exeter on 16 July 2002 at 2.00 pm for the transaction of the following business:-

Resolution 1	To receive the Report of the Directors and the audited financial statements for the year ended 31 March 2002.
Resolution 2	To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

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

2 July 2002

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

REPORT OF THE DIRECTORS

The Directors submit their annual report and the audited financial statements of South West Water Limited for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

The financial statements for 2001 have been restated to reflect changes required by the adoption of Financial Reporting Standard 19 "Deferred Tax" and Financial Reporting Standard 18 "Accounting Policies". The changes are disclosed in note 23 to the financial statements.

Operating Profit

Turnover for the year increased by £9.0m, 3.6%, to £260.4m, primarily reflecting the tariff increases for main water and sewerage charges as determined in the Director General's review of price limits for the five year period 2001 to 2005.

Total operating costs rose by £9.3m to £153.4m, reflecting an increase in depreciation of £4.6m, to £55.9m (2001 £51.3m). Additional costs were incurred in the operation of commissioned new capital schemes, £7.2m, the introduction of the government's climate change levy, £0.7m, and inflation, £2.8m. Offsetting savings of £4.0m were achieved from the Company's continuing restructuring and cost reduction programmes.

Operating profit was £107.0m (2001 £107.3m). Net interest payable decreased to £40.2m (2001 £40.3m), with the increased interest from funding the capital expenditure programme being offset by lower interest rates.

Net profit before taxation amounted to £66.8m (2001 £67.0m).

The Company's taxation position results in a charge to mainstream corporation tax of £2.1m (2001 credit of £0.6m) for the year. This position reflects the continuing substantial capital allowances generated by the capital expenditure programme and the continuing benefits delivered from the policy of disclaiming capital allowances in order to utilise surplus advance corporation tax. As a result of FRS 19 full discounted provision for deferred tax has been made. A charge of £2.0m arose in the year and a prior year adjustment resulted in the charge for 2001 being restated at £18.0m.

Dividends and Retained Profit

Interim dividends totalling £66.7m (2001 £60.4m) were declared to the parent undertaking. The Directors do not recommend payment of a final dividend.

The Company has established a dividend policy which involves the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital.

- a further level of growth funded by efficiency out-performance.

- consistency with the assumptions made by Ofwat in setting prices for the K3 period.

REPORT OF THE DIRECTORS (Continued)

FINANCIAL RESULTS (Continued)

Dividend payments ensure that key financial ratios are not prejudiced and that the ability of the Appointee to finance its Appointed Business is not impaired. The dividend for 2001 of £60.4m was reduced from £64.0m in the previous year to accord with the lower levels of profit resulting from the Director General's price reductions and assumptions made in setting prices.

A deficit of £4.0m was transferred to reserves (2001 £10.8m), after charging the interim dividends.

Investment

Capital expenditure on tangible fixed assets during the year was £167.6m, an 8.5% increase from the 2001 level of £154.4m, reflecting the programme of work on a number of major sewage treatment schemes. Capital scheme work-in-progress at 31 March 2002 reduced, through major scheme commissionings, to £73.8m (2001 £96.4m). The Company continues to focus its investment programme upon targeted improvements to meet customer needs.

The capital works programme comprises nearly 100 on-going projects at 31 March 2002 with 84 significant projects completed during the year. Further progress on the "Clean Sweep" bathing water schemes was achieved.

Financing

Net cash inflow from operating activities decreased by £6.4m, to £159.6m (2001 £166.0m) mainly as a result of increased working capital requirements, reflecting tariff increases.

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

After reflecting the accounting policy change arising from the adoption of FRS 18, loans and finance lease obligations amounted to £943.6m at 31 March 2002 (2001 £831.6m). Additionally, current asset investments and cash of £172.6m (2001 £210.2m) were offset by a bank overdraft of £29.9m (2001 £2.8m) at the Balance Sheet date. Total facilities in place but not utilised totalled £160.0m at 31 March 2002.

Derivatives, usually interest rate swaps, are used to manage the mix of fixed and floating rate debt. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and do not, therefore, constitute an exposure for the Company.

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

FUTURE DEVELOPMENTS

Continuous improvement within the Company's operations has been maintained during the year, enabling further cost reduction and development of customer focus for the future.

During the year an Interim Price Determination was applied for, on the basis of the loss of revenue from unmeasured customers switching to the measured charging basis being significantly in excess of Ofwat's original assessment.

Ofwat has subsequently confirmed revised price increases of 4.4% above inflation for the three years 2002/03 to 2004/05.

RISK MANAGEMENT

The Directors have established a formal framework for the identification and monitoring of both operational and financial risks arising from the Company's activities. The effectiveness of this framework is regularly reviewed by the Board.

RESEARCH AND DEVELOPMENT

The development and testing of innovative techniques and processes will continue to play a role in the further improvement of cost effective provision of services.

DIRECTORS

The current Directors of the Company are shown on page 5.

None of the Directors held any beneficial interest in the shares of the Company during the year. The interests of the Directors in shares of Pennon Group Plc are shown in note 9 of the Financial Statements. No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

EMPLOYEES

Employee numbers decreased during the year through continued manpower efficiencies and outsourcing.

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

A performance appraisal and pay related system exists for all non-manual staff and managers.

The Company's people management processes have been recognised via an "Investor in People" award. Whilst the external accreditation is most welcome, the Company is not complacent and will continue its drive for industry-leading best practice in the future. Changes to both structure and working practices are vital for continued success and particular attention is given to the management of change via a wide range of training and development programmes.

The Company is a recognised leader in health and safety management and a safe working environment is of paramount importance. The Company's innovative and low-cost management systems have been introduced for the protection of employees, contractors and the public. These systems have helped to ensure a low level of work-related accidents and attendant reductions in operating costs. The Company has been commended by the Health & Safety Executive for its "world class" risk management systems.

REPORT OF THE DIRECTORS (Continued)

The Company remains committed to a non-discriminatory employment policy, making every reasonable effort to ensure that no current or future employee is disadvantaged because of age, gender, religion, colour, ethnic origin, marital status, sexual orientation or disability. In addition, a "Whistleblowing" policy has been adopted, as have "family friendly" policies.

DONATIONS

No charitable donations were made during the year.

PAYMENTS TO SUPPLIERS

It is the Company's payment policy for the year ending 31 March 2003 to follow the Code of The Better Payment Practice Group on supplier payments. The Company will agree payment terms with individual suppliers in advance and abide by such terms. Information about the Code may be obtained from The Better Payment Practice Group's website at www.payontime.co.uk. Trade creditors at 31 March 2002 represented 45 days of the amount invoiced by suppliers during the year.

PARENT COMPANY

The Company is a wholly owned subsidiary of Pennon Group Plc.

AUDITORS

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

ANNUAL GENERAL MEETING

The thirteenth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 16 July 2002 at 2.00 pm.

By Order of the Board

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

2 July 2002

DIRECTORS' RESPONSIBILITY STATEMENT

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

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit for the financial year. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors consider that in preparing the financial statements on pages 13 to 37, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Chief Executive's Review, the Report of the Directors and the Directors' Responsibility Statement.

Basis of Audit Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the Company's affairs at 31 March 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Bristol

2 July 2002

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2002

	Notes	2002 £m	2001 £m Restated (Note 23)
Turnover	2	**260.4**	251.4
Operating costs	3	**(153.4)**	(144.1)
Operating Profit	2	**107.0**	107.3
Net interest payable	4	**(40.2)**	(40.3)
Profit on Ordinary Activities Before Taxation	2	**66.8**	67.0
Tax on profit on ordinary activities	5	**(4.1)**	(17.4)
Profit on Ordinary Activities After Taxation		**62.7**	49.6
Dividends	6	**(66.7)**	(60.4)
Deficit Transferred To Reserves	20	**(4.0)**	(10.8)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2002

	Notes	2002 £m	2001 £m
Profit on Ordinary Activities After Taxation		**62.7**	49.6
Total Gains and Losses Recognised For The Year		**62.7**	49.6
Prior year adjustments	23	**(55.0)**	
Total Gains and Losses Recognised Since Last Annual Report		**7.7**	

All operating activities are continuing operations.

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

BALANCE SHEET
at 31 March 2002

	Notes	2002 £m	2001 £m Restated (Note 23)
Fixed Assets			
Tangible assets	10	**1,794.2**	1,687.0
Investments	11	**4.2**	0.8
		1,798.4	1,687.8
Current Assets			
Stocks	12	**2.8**	2.7
Debtors: amounts falling due after more than one year	13	**30.8**	5.9
Debtors: amounts falling due within one year	13	**52.3**	48.3
Investments	14	**172.5**	209.8
Cash at bank and in hand		**0.1**	0.4
		258.5	267.1
Current Liabilities			
Creditors: amounts falling due within one year	15	**(137.5)**	(115.7)
Net Current Assets		**121.0**	151.4
Total Assets Less Current Liabilities		**1919.4**	1839.2
Creditors: amounts falling due after more than one year	16	**(882.5)**	(799.7)
Provisions for liabilities and charges	17	**(52.5)**	(50.5)
Deferred income	18	**(40.5)**	(41.1)
Net Assets	2	**943.9**	947.9
Capital and Reserves			
Called-up share capital	19	**450.9**	450.9
Profit and loss account	20	**493.0**	497.0
Shareholders' Funds	21	**943.9**	947.9

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

Approved by the Board on 2 July 2002 and signed on its behalf by:-

R J Baty
Chief Executive

D J Dupont
Finance Director

CASH FLOW STATEMENT
for the year ended 31 March 2002

	Notes	**2002 £m**	2001 £m Restated (Note 23)
Cash Inflow from Operating Activities	26a	**159.6**	166.0
Returns on Investments and Servicing of Finance	26b	**(36.2)**	(30.0)
Taxation		**0.6**	0.5
Capital Expenditure and Financial Investment	26b	**(163.8)**	(142.3)
Acquisitions	26b	**(3.3)**	-
Equity Dividends Paid		**(79.1)**	(48.0)
Cash Outflow Before Use of Liquid Resources and Financing		**(122.2)**	(53.8)
Management of Liquid Resources	26b	**42.9**	(25.6)
Financing	26b	**54.2**	69.3
Decrease in Cash in Year	26c	**(25.1)**	(10.1)

NOTES TO THE FINANCIAL STATEMENTS

1 **Accounting Policies**

The following paragraphs describe the main policies:-

(a) **Accounting Convention**

The financial statements have been prepared under the historical cost convention and in compliance with all applicable accounting standards and, except for the treatment of grants and contributions on infrastructure assets, with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in note 1(f) below.

(b) **Consolidated Financial Statements**

The Company is exempt under the provisions of Section 228 of the Companies Act 1985 from the requirement to produce group financial statements (as amended by Section 5 of the Companies Act 1989) as it is a wholly-owned subsidiary undertaking of Pennon Group Plc which is registered within the European Economic Area and which itself prepares consolidated financial statements. Accordingly consolidated financial statements have not been prepared and the financial information presented is for the Company as an individual undertaking.

(c) **Turnover**

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

(d) **Tangible Fixed Assets and Depreciation**

Tangible fixed assets comprise:-

(i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls)

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

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

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

(ii) other assets (including properties, overground plant and equipment)

Other assets are stated at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:-

Buildings	30-60 years
Operational properties	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	3-10 years

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (Continued)

(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 cost is charged against profits, using the actuarial method, over the period of the lease.

The adoption of Financial Reporting Standard 18, "Accounting Policies", has resulted in a change in the method of accounting for defeased finance leases. The effect of this change is disclosed in note 23.

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 are deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 10.

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

(g) Investments

Listed investments held as current assets are stated at the lower of cost and net realisable value.

Short dated unlisted securities held as current assets are stated at cost plus accrued income.

(h) 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 Company's employees (who are members of the Pennon Group Plc's defined benefit pension schemes) is charged against profits so as to spread evenly the cost of pensions over the service lives of employees in the schemes. A pension surplus (or deficit) is released (or charged) to profits, using the straight line method, over the average remaining service lives of employees in the schemes.

(j) Research and Development Expenditure

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

NOTES TO THE FINANCIAL STATEMENTS

1 **Accounting Policies (Continued)**

(k) **Taxation**

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 in full. Where the effect of the time value of money is material the current amount of the reversals of tax deferred or accelerated is discounted to its present value. The unwinding of the discount to present value is included in the tax charge. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future periods.

The adoption of Financial Reporting Standard 19 "Deferred Tax" has resulted in a change in the method of accounting for deferred tax. The effect of this change is disclosed in note 23.

(l) **Goodwill**

From 1 April 1998 goodwill, arising from the acquisition of subsidiary and associated undertakings, representing the excess of the purchase consideration over the fair value of the net assets acquired, is capitalised and classified as an asset on the balance sheet. Where goodwill has a finite economic life it is amortised evenly over that period. Previously such goodwill arising on acquisitions was written off directly to reserves. When a subsidiary or business undertaking is sold the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill or the goodwill previously written off to reserves.

(m) **Financial Instruments**

Derivative financial instruments are used to hedge interest rate risks. All such hedging instruments, including interest differentials, are matched with their underlying hedged item.

2 **Segmental Analysis**

By class of business:-

	Water		Sewerage		Company	
	2002	2001	**2002**	2001	**2002**	2001
	£m	£m	**£m**	£m	**£m**	£m
Turnover	**106.6**	103.2	**153.8**	148.2	**260.4**	251.4
Profit						
Segmental operating profit	**28.5**	27.5	**78.5**	79.8	**107.0**	107.3
Net interest payable	**(17.4)**	(16.5)	**(22.8)**	(23.8)	**(40.2)**	(40.3)
Profit on ordinary activities before taxation	**11.1**	11.0	**55.7**	56.0	**66.8**	67.0
Net Assets	**378.3**	381.8	**565.6**	566.1	**943.9**	947.9

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

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

2001 net assets are restated to reflect prior year adjustments (note 23).

NOTES TO THE FINANCIAL STATEMENTS

3 Operating Costs

	2002 **£m**	2001 £m
Manpower costs (note 7)	**28.8**	28.5
Raw materials and consumables	**9.7**	9.0
Rentals under operating leases:-		
Hire of plant and machinery	**0.9**	0.7
Other operating leases	**1.2**	1.2
Research and development expenditure	**0.1**	0.1
Auditors' remuneration	**0.1**	0.1
Other external charges	**47.9**	43.9
Depreciation:-		
On owned non infrastructure assets	**30.2**	26.6
On owned infrastructure assets	**11.5**	11.5
On assets held under finance leases	**16.2**	14.7
Provision for impairment of fixed asset investments	**0.1**	-
Profit on disposal of fixed assets	**(0.8)**	(0.3)
Deferred income (note 18)	**(1.2)**	(1.2)
Other operating charges	**8.7**	9.3
	153.4	144.1

No fees were payable to the Company's auditors, PricewaterhouseCoopers, for non-audit work for the year ended 31 March 2002 (2001 Nil).

The depreciation on assets held under finance leases has been restated to include depreciation on defeased finance leases (previously separately disclosed) following the change of accounting policy set out in note 23.

4 Net Interest Payable

	2002 **£m**	2001 £m Restated (Note 23)
Interest payable:-		
To parent undertaking	**(16.0)**	(15.9)
Bank loans and overdrafts	**(6.6)**	(7.2)
Interest element of finance lease rentals	**(27.5)**	(28.4)
Other finance costs	**(0.5)**	(2.3)
	(50.6)	(53.8)
Interest receivable:-		
From parent undertaking	**1.0**	1.6
From fellow subsidiaries	**0.1**	-
Listed redeemable securities	**-**	0.2
Other investments (as defined in note 14)	**9.3**	11.7
	10.4	13.5
Net interest payable	**(40.2)**	(40.3)

NOTES TO THE FINANCIAL STATEMENTS

5 Tax on Profit on Ordinary Activities

(a) Analysis of charge in period	**2002 £m**	**2001 £m** Restated (Note 23)
Current tax :		
UK corporation tax credit at 30% :- prior years	-	(0.2)
Amounts payable to/(receivable from) Pennon Group companies in respect of surrender of taxable losses and advance corporation tax	**2.1**	(0.4)
Total current tax	**2.1**	(0.6)
Deferred tax :		
Origination and reversal of timing differences	**21.3**	21.4
Increase in discount on undiscounted provision	**(19.3)**	(3.4)
Total deferred tax	**2.0**	18.0
Tax on profit on ordinary activities	**4.1**	17.4

(b) Factors affecting tax charge for the year	**2002 £m**	**2001 £m** Restated (Note 23)
The tax assessed for the year is lower then the standard rate of corporation tax in the UK (30%).		
The differences are explained below :		
Profit on ordinary activities before tax	**66.8**	67.0
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**20.0**	20.1
Effects of:		
Expenses not deductible for tax purposes	**3.7**	1.3
Capital allowances for the year in excess of depreciation	**(22.0)**	(20.9)
Other timing differences	**(1.4)**	(2.2)
Adjustments to tax charge in respect of prior year	**1.8**	1.1
Current tax charge for the year (note 5a)	**2.1**	(0.6)

NOTES TO THE FINANCIAL STATEMENTS

6 Dividends

	2002 **£m**	2001 £m
Interim dividend of 14.79p (2001 10.645p) per Ordinary share paid 12 December 2001	**66.7**	48.0
Interim dividend - Nil (2001 2.75p) per Ordinary share	**-**	12.4
	66.7	60.4

7 Employees and Employment Costs

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

	2002	2001
Water services	**793**	833
Sewerage services	**692**	704
	1,485	1,537

	2002 **£m**	2001 £m
Employment costs comprise:-		
Wages and salaries	**32.7**	33.6
Social security costs	**2.3**	2.5
Pension costs (note 24)	**2.0**	0.8
	37.0	36.9
Charged as follows:-		
Manpower costs	**28.8**	28.5
Capital schemes	**7.9**	7.2
Restructuring provision	**0.3**	1.2
	37.0	36.9

NOTES TO THE FINANCIAL STATEMENTS

8 Directors' Emoluments

		2002 £000	2001 £000
Total emoluments of the Directors of the Company:-			
Remuneration	- salary	357	334
	- performance bonus	127	70
	-deferred bonus	103	-
		587	404
Other emoluments		41	41
		628	445

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

		2002 £000	2001 £000
Remuneration	- salary	120	115
	- performance bonus	46	32
	-deferred bonus	46	-
		212	147
Other emoluments		10	10
		222	157

Other emoluments include car benefit and health care.

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

Payments under the incentive performance bonus plan are related to the achievement of Company profit and individual performance targets as determined by the Remuneration Committee of Pennon Group Plc.

The maximum cash bonus achievable under the scheme is 40% of basic salary, which can be matched by an award of shares of an equivalent amount. Shares awarded usually have to be held for a period of three years, conditional upon continuous service with the Company.

At 31 March 2002 retirement benefits were accruing to 4 Directors (2001 4 Directors) under defined benefit pension schemes, operated by the parent company.

The highest paid Director participated in defined benefit pension schemes, with an accrued annual pension of £80,000 at 31 March 2002 (2001 £77,000).

NOTES TO THE FINANCIAL STATEMENTS

9 Directors' Interests

The beneficial interests of Directors holding office at 31 March 2002 in the shares of Pennon Group Plc at 31 March 2002 and 31 March 2001 were as follows:-

	Share Interests		Options					
	31 March 2002	31 March 2001	Scheme	**31 March 2002**	Granted in Period	Exercised in Period	Lapsed in Period	31 March 2001
S C Bird	**934**	828	Sharesave	**820**	316	-	-	504
P J Briens	**4956**	4,550	-	-	-	-	-	-

In addition a contingent interest was held in shares of Pennon Group Plc under the terms of the Pennon Group Plc Long Term Incentive Plan, described in note 11, as follows :

	31 March 2002 Shares	31 March 2001 Shares
S C Bird	5,033	4,549
P J Briens	20,089	16,275

The above represent the maximum number of shares to which Directors would become entitled if all relevant criteria are met. On the basis of the financial results for the year ended 31 March 2001, none of the shares under the 1998 award vested, as the performance criteria were not met. Similarly, having regard to the 2001/02 results, it is not anticipated that any of the shares under the 1999 award will vest.

No Director has had any interest in the shares of the Company during the year. Mr D J Dupont was appointed a Director of Pennon Group Plc on 2 March 2002. The interests in shares of Pennon Group Plc of Messrs K G Harvey, R J Baty and D J Dupont are disclosed in the financial statements of that company.

In respect of the current Directors there have been the following changes since 31 March 2001 in the Directors' interests in shares of the Company or of Pennon Group Plc:

On 8 April 2002, as a result of participation in a dividend reinvestment plan, Dr. Bird acquired additional share interests of 108.

NOTES TO THE FINANCIAL STATEMENTS

10 **Tangible Fixed Assets**

	Freehold land and buildings	Infra-structure assets	Opera-tional properties	Fixed & mobile plant, vehicles and computers	Construc-tion in progress	**Total**
	£m	£m	£m	£m	£m	**£m**
Cost:-						
At 1 April 2001	10.9	892.1	481.7	576.6	96.4	**2,057.7**
Additions	0.2	48.3	30.8	42.0	46.3	**167.6**
Grants and contributions	-	(1.1)	-	-	-	**(1.1)**
Transfers / reclassifications	(0.9)	13.4	25.6	30.8	(68.9)	**-**
Disposals	-	(0.6)	(0.5)	(2.2)	-	**(3.3)**
At 31 March 2002	**10.2**	**952.1**	**537.6**	**647.2**	**73.8**	**2,220.9**
Depreciation:-						
At 1 April 2001	6.4	87.8	90.2	186.3		**370.7**
Charge for year	0.1	13.1	8.7	36.9		**58.8**
Transfers / reclassifications	(0.9)	-	(5.4)	6.3		**-**
Disposals	-	(0.6)	-	(2.2)		**(2.8)**
At 31 March 2002	**5.6**	**100.3**	**93.5**	**227.3**		**426.7**
Net Book Value:-						
At 31 March 2002	**4.6**	**851.8**	**444.1**	**419.9**	**73.8**	**1,794.2**
At 31 March 2001	4.5	804.3	391.5	390.3	96.4	1,687.0

Out of the total depreciation charge for the Company of £58.8m (2001 £54.6m), the sum of £0.9m (2001 £1.8m) has been charged to capital projects, and £57.9m (2001 £52.8m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.7m (2001 £1.7m) and £9.3m (2001 £9.3m) respectively.

The net book value of infrastructure assets is stated after deducting £45.4m (2001 £44.3m) grants and contributions.

NOTES TO THE FINANCIAL STATEMENTS

10 Tangible Fixed Assets (Continued)

Maintenance of the operating capability of the infrastructure network:-

	£m
Excess of expenditure over depreciation on maintaining the operating capability of the network at 1 April 2001	**5.9**
Expenditure in the year on maintaining operating capability	**16.9**
Less depreciation for the year	**(13.1)**
Excess of expenditure over depreciation at 31 March 2002	**9.7**

Assets held under finance leases included above:-

	Infra-structure assets	Opera-tional properties	Fixed & mobile plant, vehicles and computers	Construc-tion in progress	**Total**
	£m	£m	£m	£m	**£m**
Cost:- At 31 March 2002	105.8	309.4	180.5	15.7	**611.4**
Depreciation:- Charge for year	1.5	5.5	9.2	-	**16.2**
Depreciation:- At 31 March 2002	5.0	32.5	73.6	-	**111.1**

11 Fixed Asset Investments

	Subsidiary Undertakings	Listed Investments	**Total Investments 2002**
	£m	£m	**£m**
At 1 April 2001	-	0.8	**0.8**
Additions during year	3.3	0.2	**3.5**
Provision for impairment	-	(0.1)	**(0.1)**
At 31 March 2002	3.3	0.9	**4.2**

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

NOTES TO THE FINANCIAL STATEMENTS

11 **Fixed Asset Investments (Continued)**

During the year the trustees of the Employee Share Ownership Plan purchased 33,000 of Pennon Group Plc's ordinary shares (2001 18,000) through a non-interest bearing advance made by the Company. The market value of those shares, which were held at 31 March 2002, was £1.3m (2001 £1.0m). The costs of the incentive scheme are recognised as a provision for impairment and are charged within employment costs over the period of its operation.

During the year the Company :

a) Acquired, for a cash consideration of £3.3m, being the fair value of net assets, the entire issued Ordinary share capital of Peninsula Properties (Exeter) Limited (formerly Viridor Properties Limited), from Viridor Limited, a wholly-owned subsidiary of Pennon Group Plc. Peninsula Properties (Exeter) Limited is incorporated, registered and has its operation in England. In the opinion of the Directors the total value of investments is not less than the amount at which they are shown in the balance sheet.

b) Established Echo South West Limited, a joint venture between the Company and Echo Managed Services Limited, a subsidiary of South Staffordshire Group Plc. The company is incorporated, registered and has its operation in England. The cost of the investment during the year was £1.

The Company also established in the prior year a wholly-owned subsidiary, Peninsula Leasing Limited, a company incorporated, registered and having its operation in England. Consolidated financial statements have not been prepared, as explained in note 1(b).

12 **Stocks**

	2002	2001
	£m	£m
Raw materials and consumables	**2.8**	2.7

13 **Debtors**

	2002	2001
	£m	£m
Amounts falling due after more than one year:-		
Amounts owed by parent undertaking	**25.0**	-
Amounts owed by fellow subsidiary undertakings	**2.1**	-
Prepayments for pension costs (note 24)	**3.7**	5.9
	30.8	5.9
Amounts falling due within one year:-		
Trade debtors	**26.5**	25.7
Amounts owed by fellow subsidiary undertakings	**0.1**	1.0
Amounts owed by associated undertakings	**0.3**	-
Other debtors	**8.4**	5.7
Prepayments for pension costs (note 24)	**2.0**	1.6
Prepayments and accrued income	**15.0**	14.1
Tax recoverable	-	0.2
	52.3	48.3

NOTES TO THE FINANCIAL STATEMENTS

14 Current Asset Investments

	2002 £m	2001 £m Restated (Note 23)
Listed investments	-	1.2
Other investments:-		
Overnight deposits	3.5	1.2
Other	169.0	207.4
	172.5	209.8
Market value of listed investments	-	1.2

Other investments include certificates of deposit, variable rate notes, commercial paper, other short dated unlisted securities and deposits of £157.9m (2001 £154.6m) made to counter-indemnify letters of credit by financial institutions to lessors in order to secure rental obligations (note 22).

15 Creditors: Amounts Falling Due Within One Year

	2002 £m	2001 £m Restated (Note 23)
Loans:- (note 22)		
European Investment Bank loans	12.8	12.1
Bank loans and overdrafts	29.9	2.8
	42.7	14.9
Obligations under finance leases (note 22)	18.4	17.0
Trade creditors	13.6	11.6
Capital creditors	39.4	38.3
Other amounts owed to parent undertaking	2.9	3.0
Amounts owed to fellow subsidiary undertakings	2.8	1.3
Other creditors	5.5	6.2
Taxation and social security	1.0	-
Accruals and deferred income	11.2	11.0
Interim dividend	-	12.4
	137.5	115.7

NOTES TO THE FINANCIAL STATEMENTS

16 Creditors: Amounts Falling Due After More Than One Year

	2002 £m	2001 £m Restated (Note 23)
Loans:- (note 22)		
European Investment Bank loans	**49.2**	62.0
Other loans	**50.0**	-
Amounts owed to parent undertaking	**150.0**	150.0
	249.2	212.0
Obligations under finance leases (note 22)	**633.3**	587.7
	882.5	799.7

17 Provisions for Liabilities and Charges

	Restruc-turing £m	Deferred Tax £m	Other £m	**Total £m**
At 1 April 2001	1.6	-	1.3	**2.9**
Prior year adjustment (note 23)	-	47.6	-	**47.6**
At 1 April 2001 restated	1.6	47.6	1.3	**50.5**
Additions	0.3	2.0	-	**2.3**
Utilised during year	(0.3)	-	-	**(0.3)**
At 31 March 2002	**1.6**	**49.6**	**1.3**	**52.5**

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

Other provisions relate to anticipated costs of de-commissioning an operational site at the end of its useful life.

Deferred Taxation

	2002 £m	2001 £m Restated (Note 23)
Accelerated capital allowances	**240.8**	219.5
Other timing differences	**(1.7)**	(1.7)
Undiscounted provision for deferred tax	**239.1**	217.8
Discount	**(189.5)**	(170.2)
Discounted provision for deferred tax	**49.6**	47.6

NOTES TO THE FINANCIAL STATEMENTS

17 Provisions for Liabilities and Charges (Continued)

	2002 £m
Provision at 1 April 2001 (restated)	**47.6**
Deferred tax charge in profit and loss account for year	**2.0**
Provision at 31 March 2002	**49.6**

18 Deferred Income

	Finance lease variations	Forward interest rate swap	Grants and contribut-ions	**Total**
Deferred Income	£m	£m	£m	**£m**
At 1 April 2001	7.9	18.2	24.2	**50.3**
Prior year adjustment (note 23)	(7.9)	-	-	**(7.9)**
At 1 April 2001 restated	-	18.2	24.2	**42.4**
Amount to be released :				
after more than one year	-	18.2	22.9	**41.1**
within one year	-	-	1.3	**1.3**
	-	18.2	24.2	**42.4**
Additions	-	-	0.6	**0.6**
Released to profits	-	-	(1.2)	**(1.2)**
At 31 March 2002	-	18.2	23.6	**41.8**
Amount to be released within one year	-	-	(1.3)	**(1.3)**
Amount to be released after more than one year	-	18.2	22.3	**40.5**

19 Called-up Share Capital

	2002 £m	2001 £m
Authorised, 500,000,000 Ordinary shares of £1 each	**500.0**	500.0
Allotted, called-up and fully paid:- 450,950,000 Ordinary shares of £1 each	**450.9**	450.9

NOTES TO THE FINANCIAL STATEMENTS

20 Reserves

	Profit and loss account £m
At 1 April 2001	**570.0**
Prior year adjustment (note 23)	**(73.0)**
At 1 April 2001 restated	**497.0**
Deficit for year	**(4.0)**
At 31 March 2002	**493.0**

The cumulative value of goodwill at 31 March 2002 resulting from acquisitions, which has been written off against reserves, is £1.4m (2001 £1.4m).

The Company has taken advantage of the exemption provided in Urgent Issues Task Force Abstract 17 not to recognise a cost arising from the award of discounted parent company shares to employees under the Sharesave Scheme.

21 Statement of Movements in Shareholders' Funds

	2002 £m	2001 £m Restated (Note23)
Profit on ordinary activities after taxation	**62.7**	49.6
Dividends	**(66.7)**	(60.4)
Shareholders' Funds (equity interest) :-		
Reduction for year	**(4.0)**	(10.8)
At 1 April	**947.9**	958.7
At 31 March	**943.9**	947.9

Shareholders' funds at 1 April 2000 have been reduced by £55.0m to reflect the prior year adjustment explained in note 23.

22 Loans and Other Borrowings

	2002 £m	2001 £m Restated (Note 23)
Loans		
Repayable:-		
After five years	**152.2**	156.4
Between two and five years	**83.4**	42.8
Between one and two years	**13.6**	12.8
Falling due after more than one year (note 16)	**249.2**	212.0
Falling due within one year (note 15)	**42.7**	14.9
	291.9	226.9

22 **Loans and Other Borrowings (Continued)**

	2002 £m	2001 £m Restated (Note 23)
Obligations under finance leases		
Repayable:-		
After five years	**576.5**	554.5
Between two and five years	**37.7**	11.8
Between one and two years	**19.1**	21.4
Falling due after more than one year (note 16)	**633.3**	587.7
Falling due within one year (note 15)	**18.4**	17.0
	651.7	604.7

Included above are finance charges arising on obligations under finance leases totalling £77.8m (2001 £72.1m as restated), of which £16.4m (2001 £10.7m as restated) is repayable within one year.

Loans and obligations under finance leases

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

	2002 £m	2001 £m Restated (Note 23)
Loans	**169.8**	172.5
Obligations under finance leases	**650.4**	603.6
	820.2	776.1

Loans and finance leases are denominated in sterling and are repayable over the period 2003 - 2033. The rates of interest payable on loans, any part of which is due after five years, vary from 4% to 11%.

Within obligations under finance leases the company has :

a utilised finance lease facilities of £180.0m at 31 March 2002 (2001 £180.0m) for certain water and sewerage services tangible fixed assets; and

b deposited amounts, equal to the present value of rental obligations arising from those finance leases, with United Kingdom financial institutions, to counter-indemnify letters of credit issued by those institutions to the lessors in order to secure those rental obligations.

These deposited funds, which totalled £144.9m at 31 March 2002 (2001 £144.9m), together with interest earned thereon, may be used to settle the rental obligations under those finance leases. If the finance leases terminate due to the insolvency of the financial institutions which have issued the letters of credit no liability will fall on the Company.

NOTES TO THE FINANCIAL STATEMENTS

22 Loans and Other Borrowings (Continued)

The rentals payable under finance leases will vary if interest rates, or effective tax rates, change.

The separate recognition of these obligations under finance leases and the current asset investments on the balance sheet is a prior year adjustment following the change in accounting policy (note 23).

At 31 March 2002 floating interest rate swaps existed, to hedge financial liabilities and achieve a balance between fixed and floating rate debt, with a notional principal value of £100.0m.

The Company has entered into an agreement to swap the interest to hedge financial liabilities on a notional principal value of £200.0m, from London Inter Bank Offer Rate (LIBOR) to European Inter Bank Offer Rate (EURIBOR) with commencement dates between 1 April 2006 and 1 April 2010, and maturing on 31 March 2030. The settlement of £18.2m which was received when these swaps were entered into during December 1999 has been deferred (note 18) and will be matched with interest charges on the underlying hedged debt over the period of the swaps.

The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not, therefore, an exposure to the Company.

23 Prior Year Adjustment

The Company's accounting policy on deferred taxation has been changed following adoption of Financial Reporting Standard 19 "Deferred Tax" (FRS19). The FRS requires full provision to be made for deferred taxation arising from timing differences between recognition of gains and losses in the financial statements and their recognition in a tax computation. The Company has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money, as permitted by FRS19. Previously the Company's accounting policy was to provide for deferred taxation to the extent that it was likely to crystallise in the foreseeable future. The application of the previous accounting policy resulted in no provision for deferred taxation being recognised at 31 March 2001.

With the adoption of Financial Reporting Standard 18 "Accounting Policies" (FRS 18), the Directors have reviewed the Company's accounting policies and decided that, in the current reporting environment which encourages increased clarity and transparency in accounting transactions, it is appropriate to present the Company's defeased lease arrangements in a manner that improves their understandability and comparability with other utilities. Accordingly, the rental obligations and cash deposits associated with these leases have now been recognised on the balance sheet separately and the net interest arising from these transactions will now be recognised over the life of the leases.

As a result of these changes in accounting policy the comparative year has been restated as follows:

Balance Sheet	Provision for liabilities and charges £m	Deferred income £m	Profit and loss reserve £m
2001 reported	2.9	50.3	570.0
Deferred taxation (FRS19)	53.6	-	(53.6)
Defeased leases (FRS18)	(6.0)	(7.9)	(19.4)
2001 restated	50.5	42.4	497.0

NOTES TO THE FINANCIAL STATEMENTS

23 Prior Year Adjustment (Continued)

The restatement of the profit and loss reserve at 31 March 2001 comprises a prior period adjustment of £55.0m (£29.6m FRS 19 and £25.4m FRS18) and a £18.0m charge for the year ended 31 March 2001 (FRS19).

	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year	Current Asset Investments
	£m	£m	£m
2001 reported	111.6	615.9	55.2
Deferred taxation (FRS19)	-	-	-
Defeased leases (FRS18)	4.1	183.8	154.6
2001 restated	115.7	799.7	209.8

Profit and Loss Account	Tax on profit on ordinary activities	Net interest payable
	£m	£m
2001 reported	(0.6)	(40.3)
Deferred taxation (FRS19)	18.0	-
Defeased leases (FRS18)	-	-
2001 restated	17.4	(40.3)

The changes arising within net interest payable from the adoption of FRS 18 relate to the recognition of £9.2m interest receivable on investments and £8.6m interest payable on finance leases, offset by the elimination of the previously reported gain on defeasance of finance leases of £0.6m.

There is no material effect upon the current year's results as a consequence of the change in accounting policy in respect of defeased leases. The effect of the change in accounting policy for deferred tax is the charge for deferred tax shown in note 17.

Depreciation on assets held under defeased finance leases has been reclassified as depreciation on assets held under finance leases.

Cash Flow Statement	Management of liquid resources	Financing
	£m	£m
2001 reported	(26.6)	70.3
Defeased leases (FRS18)	1.0	(1.0)
2001 restated	(25.6)	(69.3)

NOTES TO THE FINANCIAL STATEMENTS

24 Pensions

The Company's employees are eligible to participate in funded defined benefit schemes, operated by the parent Company. Contributions are based upon pension costs across the Pennon Group Plc as a whole. The Company is unable to separately identify its share of the underlying assets and liabilities on either a consistent or reasonable basis. The overall pension funding deficit and its implications are shown in the financial statements of Pennon Group Plc.

The net pensions charge for the Company for the year ended 31 March 2002 was £2.0m (2001 £0.8m). Full details of the valuations and actuarial assumptions are given in the financial statements of Pennon Group Plc.

Pension prepayments included as debtors of the Company amount to £5.7m (2001 £7.5m), representing the accumulated difference between the Company pension charge and employer contributions paid.

25 Commitments and Contingent Liabilities

	2002	2001
	£m	£m
Capital commitments		
Contracted but not provided	**69.3**	62.2
Commitments under operating leases		
Rentals during the year following the balance sheet date		
Land and buildings leases expiring:-		
within one year	**0.1**	0.1
after five years	**2.0**	2.0
	2.1	2.1
Contingent Liabilities		
Contractors' claims on capital schemes	**-**	0.7
Guarantee of borrowings of the parent undertaking	**150.0**	150.0
	150.0	150.7

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

NOTES TO THE FINANCIAL STATEMENTS

26 Notes to the Cash Flow Statement

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

	2002 £m	2001 £m
Operating profit	**107.0**	107.3
Depreciation charge	**57.9**	52.8
Provision for impairment of fixed asset investments	**0.1**	-
Deferred income released to profits	**(1.2)**	(1.2)
Decrease in provisions for liabilities and charges	**(0.1)**	(0.7)
(Increase)/decrease in stocks	**(0.1)**	0.7
(Increase)/decrease in debtors (amounts falling due within and over one year)	**(5.5)**	5.8
Increase in creditors (amounts falling due within and over one year)	**2.3**	1.6
Profit on disposal of tangible fixed assets	**(0.8)**	(0.3)
Net cash inflow from operating activities	**159.6**	166.0

No cash outflows from operating activities accounted for in previous years as exceptional items were included above (2001 £0.1m).

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

(i) Returns on Investments and Servicing of Finance	2002 £m	2001 £m Restated (Note 23)
Interest received	**7.2**	9.8
Interest paid	**(22.6)**	(24.3)
Interest element of finance lease rentals	**(20.8)**	(15.5)
Net cash outflow for returns on investments and servicing of finance	**(36.2)**	(30.0)

(ii) Capital Expenditure and Financial Investment	2002 £m	2001 £m
Purchase of tangible fixed assets	**(165.7)**	(145.0)
Grants and contributions: Infrastructure assets	**0.7**	1.2
Receipts from disposal of tangible fixed assets	**1.3**	1.6
Purchase of fixed asset investments	**(0.1)**	(0.1)
Net cash outflow for capital expenditure and financial investment	**(163.8)**	(142.3)

(iii) Acquisitions	2002 £m	2001 £m
Purchase of subsidiary undertaking	**(3.3)**	-

The payment to acquire investments in a subsidiary undertaking, satisfied wholly through cash consideration, represented the acquisition of £3.4m of cash , offset by current liabilities of £0.1m.

NOTES TO THE FINANCIAL STATEMENTS

26 Notes to the Cash Flow Statement (Continued)

(iv) Management of Liquid Resources	**2002 £m**	2001 £m Restated (Note 23)
Purchase of current asset investments	**(75.7)**	(217.3)
Sale of current asset investments	**118.6**	191.7
Net cash inflow/(outflow) from management of liquid resources	**42.9**	(25.6)

(v) Financing	**2002 £m**	2001 £m Restated (Note 23)
Reduction in debt due within one year (other than bank overdrafts)	**(12.0)**	(11.5)
Increase in debt due after more than one year	**50.0**	-
Finance lease drawdowns	**46.7**	89.2
Capital element of finance lease rental payments	**(5.5)**	(8.4)
Loans to parent undertaking	**(25.0)**	-
Net cash inflow from financing	**54.2**	69.3

(c) **Analysis of Net Debt**

	At 1 April 2001 £m Restated (Note 23)	Cash flow £m	Non-cash movements £m	**At 31 March 2002 £m**
Cash at bank and in hand	0.4	(0.3)	-	**0.1**
Current asset investments:-				
Overnight deposits	1.2	2.3	-	**3.5**
Bank overdrafts	(2.8)	(27.1)	-	**(29.9)**
	(1.2)	(25.1)	-	**(26.3)**
Debt due within one year (other than bank overdrafts)	(12.1)	12.1	(12.8)	**(12.8)**
Debt due after more than one year	(62.0)	(50.0)	12.8	**(99.2)**
Finance lease obligations	(604.7)	(41.3)	(5.7)	**(651.7)**
Amounts owed to parent undertaking	(150.0)	25.0	-	**(125.0)**
	(828.8)	(54.2)	(5.7)	**(888.7)**
Current asset investments:- other than overnight deposits	208.6	(42.9)	3.3	**169.0**
	(621.4)	(122.2)	(2.4)	**(746.0)**

NOTES TO THE FINANCIAL STATEMENTS

26 Notes to the Cash Flow Statement (Continued)

Net debt at 1 April 2001 has been restated, from the adoption of FRS 18, to reflect increases in both finance lease obligations of £183.8m and current asset investments of £154.6m, as explained in note 23.

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations and increased accrued interest on cash deposits to secure rental obligations.

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

	2002 £m	2001 £m Restated (Note 23)
Decrease in cash in year	**(25.1)**	(10.1)
Cash inflow from increase in debt and finance leasing	**(54.2)**	(69.3)
Cash (inflow)/outflow from increase in liquid resources	**(42.9)**	25.6
Increase in net debt arising from cash flows	**(122.2)**	(53.8)
Non-cash movements:-		
Increase in accrued finance charges on finance lease obligations	**(5.7)**	(10.6)
Increase in defeased lease deposits with financial institutions	**3.3**	-
Increase in net debt in the year	**(124.6)**	(64.4)
Net debt at 1 April restated	**(621.4)**	(557.0)
Net debt at 31 March	**(746.0)**	(621.4)

27 Related Party Transactions

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

There were no related party transactions involving Directors during the year.

28 Parent Company

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