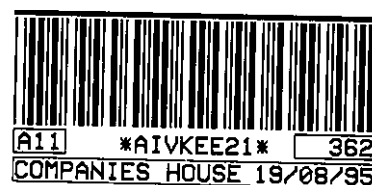


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SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 1995





South West Water Services Limited

FINANCIAL STATEMENTS 1995

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ANNUAL REPORT AND FINANCIAL STATEMENTS

1995

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DIRECTORS, REGISTERED OFFICE AND AUDITORS

Chairman	K W Court
Managing Director	W H Fraser
Engineering Director	R J Baty
Operations Director	C J Cook
Finance Director	I R Douglas
Secretary	R C Milligan
Registered Office	Peninsula House Rydon Lane Exeter EX2 7HR
Auditors	Price Waterhouse Chartered Accountants 31 Great George Street Bristol BS1 5QD

NOTICE OF MEETING

The sixth Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 6 July 1995 at 9.00 am for the transaction of the following business:-

- Resolution 1 To receive the Report of the Directors and the audited financial statements for the year ended 31 March 1995.
- Resolution 2 To re-appoint Price Waterhouse as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board



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

8 June 1995

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.



South West Water Services Limited

REPORT OF THE DIRECTORS

The Directors submit their annual report and audited financial statements of South West Water Services Limited for the year ended 31 March 1995.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

Turnover

Company turnover for the year increased by 12.6% to £236.6m. Turnover from main water and sewerage charges was £229.6m.

Operating Costs

Total operating costs rose by 42% to £151.5m, principally as a result of exceptional restructuring costs of £32.6m arising from severance and other reorganisation costs.

The operation of completed capital schemes and the impact of inflation also contributed to the increase in operating costs. Depreciation costs increased to £23.1m (1994 £14.6m).

Profit

Operating profit fell by 17.8% to £85.4m (1994 £103.9m), after exceptional restructuring costs. The net interest payable increased to £21.9m (1994 £13.3m), mainly as a result of the utilisation of cash for capital expenditure. Net profit before taxation amounted to £63.5m (1994 £90.6m), after taking account of interest payable and exceptional restructuring costs.

An interim dividend of 16.9p per Ordinary share, totalling £45m, was paid to the parent undertaking on 2 December 1994. An additional interim dividend of 37.6p per Ordinary share, totalling £100m, was paid on 31 March 1995 as part of a capital restructuring arrangement whereby a further 100 million ordinary shares of £1 each were authorised and issued for cash at par to the parent undertaking. The Directors do not recommend payment of a final dividend.

In view of the capital allowances on qualifying assets from the Company's substantial capital expenditure no mainstream corporation tax liability is expected to arise for the year. The taxation receivable for the year relates to revisions to previous group relief payments to optimise the medium-term tax position.

A net reduction in the distributable reserves of £81.2m arose after the payment of the interim dividend on 31 March 1995 of £100m.

Net cash inflow from operating activities increased from £112.3m to £134.3m.



REPORT OF THE DIRECTORS

FINANCIAL NEEDS AND RESOURCES

Capital expenditure on tangible fixed assets during the year was £152.9m, 23% below the 1994 level of £198.8m, reflecting the slow-down in the Company's investment programme. Changes in tangible fixed assets during the year are detailed in note 11 to the financial statements.

The capital works programme comprises over 400 on-going projects with 155 projects completed during the year. Further progress on the "Clean Sweep" bathing water schemes was achieved. Capital scheme work-in-progress at 31 March 1995 increased to £226m (1994 £203m).

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

At 31 March 1995 loans and finance lease obligations amounted to £550m compared with £507m at 31 March 1994. Current asset investments of £353m (1994 £404m) were held at the Balance Sheet date. Net debt increased by £94m.

Facilities in place but not yet drawn totalled £84m for finance leasing at 31 March 1995. Together with current asset investments these resources form part of the funding strategy being put in place to finance the future investment expenditure needs of the Company.

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

In the opinion of the Directors the current market value of land and buildings is not significantly different from the book value shown in the financial statements.

RESEARCH AND DEVELOPMENT

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

The Company continues to commission pilot plants to test rigorously potential new processes in field conditions.

DIRECTORS

The present Directors of the Company are K W Court (Chairman), W H Fraser, R J Baty, C J Cook and I R Douglas. B J Moorhouse resigned on 31 March 1995.

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

During the year the Company has maintained cover for Directors and senior employees under a Directors' and Officers' Liability Insurance Policy.

REPORT OF THE DIRECTORS

EMPLOYEES

Employee numbers decreased during the year as the Company introduced further manpower efficiencies.

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

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

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

DONATIONS

During the year no charitable or political donations were made.

TAX STATUS

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

PARENT COMPANY

The Company is a wholly owned subsidiary of South West Water Plc.

AUDITORS

Price Waterhouse were appointed auditors until the conclusion of the 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.

ANNUAL GENERAL MEETING

The sixth annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 6 July 1995 at 9.00 am.

By Order of the Board



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

8 June 1995



DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the Auditors' Statement of Responsibilities set out on page 11, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and Auditors in relation to the financial statements.

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

The Directors consider that in preparing the financial statements on pages 12 to 33, 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 to prevent and detect fraud and other irregularities.

**AUDITORS' REPORT TO THE MEMBERS OF
SOUTH WEST WATER SERVICES LIMITED**

We have audited the financial statements on pages 12 to 33 which have been prepared under the historical cost convention and the accounting policies set out on pages 15 to 17.

Respective Responsibilities of Directors and Auditors

As described on page 10 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

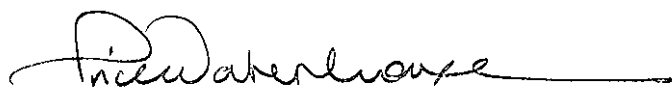
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 1995 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
Bristol

8 June 1995



South West Water Services Limited

PROFIT AND LOSS ACCOUNT
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
Turnover	2	236.6	-	236.6	210.2
Other operating income		0.3	-	0.3	0.4
Operating costs	3	(118.9)	(32.6)	(151.5)	(106.7)
Operating Profit/(Loss)	2	118.0	(32.6)	85.4	103.9
Net interest payable	5	(21.9)	-	(21.9)	(13.3)
Profit/(Loss) on Ordinary Activities					
Before Taxation	2	96.1	(32.6)	63.5	90.6
Tax on profit on ordinary activities	6	0.3	-	0.3	(0.5)
Profit/(Loss) on Ordinary Activities After Taxation		96.4	(32.6)	63.8	90.1
Dividends	7	(145.0)	-	(145.0)	(41.5)
Retained (Deficit)/Profit					
Transferred to Reserves	20	(48.6)	(32.6)	(81.2)	48.6

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

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

All operating activities are continuing operations.

The notes on pages 15 to 33 form part of these financial statements.

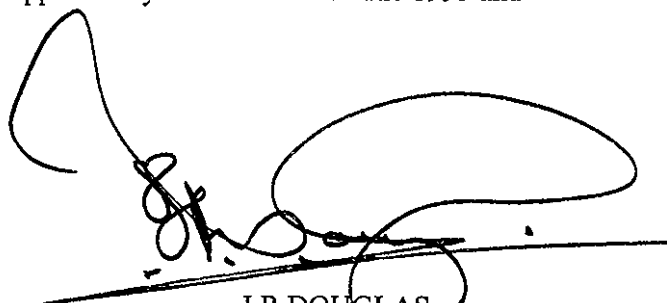
BALANCE SHEET
at 31 March 1995

	Notes	1995 £m	1994 £m
Fixed Assets			
Tangible assets	11	1,140.8	1,016.7
Current Assets			
Stocks	12	1.3	1.2
Debtors	13	47.7	45.3
Investments	14	352.8	404.2
Cash at bank and in hand		0.2	0.7
		<u>402.0</u>	<u>451.4</u>
Current Liabilities			
Creditors: amounts falling due within one year	15	(89.8)	(106.5)
Net Current Assets		<u>312.2</u>	<u>344.9</u>
Total Assets Less Current Liabilities		<u>1,453.0</u>	<u>1,361.6</u>
Creditors: amounts falling due after more than one year	16	(543.0)	(503.7)
Provisions for liabilities and charges	17	(32.5)	(3.7)
Accruals and deferred income	18	(23.8)	(19.3)
Net Assets	2	<u>853.7</u>	<u>834.9</u>
Capital and Reserves			
Called-up share capital	19	365.9	265.9
Profit and loss account	20	487.8	569.0
Shareholders' Funds	21	<u>853.7</u>	<u>834.9</u>

The notes on pages 15 to 33 form part of these financial statements. Approved by the Board on 8 June 1995 and signed on its behalf by:-



W H FRASER
Managing Director



I R DOUGLAS
Finance Director

CASH FLOW STATEMENT
for the year ended 31 March 1995

	Notes	1995 £m	1994 £m
Net Cash Inflow from Operating Activities	25(a)	134.3	112.3
Returns on Investments and Servicing of Finance			
Interest received		24.5	24.9
Interest paid		(31.2)	(31.2)
Interest element of finance lease rental payments		(9.7)	(14.1)
Dividends paid		(145.0)	(41.5)
Net cash outflow from returns on investments and servicing of finance		(161.4)	(61.9)
Taxation			
Receipts/(payments) in respect of group relief		1.4	(0.7)
Investing Activities			
Payments to acquire tangible fixed assets		(173.7)	(174.0)
Grants and contributions:			
Infrastructure assets		3.1	4.9
Non-infrastructure assets		5.2	4.3
Receipts from disposal of tangible fixed assets		0.4	0.7
Payments to acquire current asset investments		(1,026.7)	(1,381.8)
Receipts from disposal of current asset investments		1,111.8	1,396.8
Net cash outflow from investing activities		(79.9)	(149.1)
Net Cash Outflow Before Financing		(105.6)	(99.4)
Financing			
Issue of shares for cash consideration		(100.0)	-
Loan repayments		1.9	-
Other loans raised		-	(60.0)
Finance lease drawdowns		(48.7)	(68.9)
Capital element of finance lease rental payments		3.4	3.0
Net cash inflow from financing		(143.4)	(125.9)
Increase in Cash and Cash Equivalents	25(c)	37.8	26.5
		(105.6)	(99.4)

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

The following paragraphs describe the main policies:-

(a) Accounting Convention

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

(b) Turnover

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

(c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise:

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

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as capital expenditure on tangible fixed assets and included at cost after deducting grants and contributions. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Expenditure on maintaining the operating capability of the network is charged as an operating cost.

Expenditure on the maintenance of infrastructure assets may vary significantly from the long term normal annual level, either because maintenance is deferred or because the pattern of expenditure is uneven. In such instances, the charge against profits is equalised by way of accruals or deferrals as appropriate to reflect the long term normal level of charges, in accordance with defined standards of service.

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

Other assets are stated at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:-

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

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



NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (Continued)

(d) Leased Assets

Assets held under finance leases are included in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability has been recorded as a creditor. The interest element of the rental cost is charged against profits, using the actuarial method, over the period of the lease.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

(e) Grants and Contributions

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

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to the profit and loss account. The effect of this treatment on the value of tangible fixed assets is disclosed in Note 11.

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

(f) Investments

Listed investments held as current assets are stated at the lower of cost and net realisable value. Short dated unlisted securities held as current assets are stated at cost plus accrued income.

(g) Stocks

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

(h) Pension Costs

The expected cost of pensions in respect of the Company's employees (who are members of the South West Water Plc Group's defined benefit pension schemes) is charged against profits so as to spread evenly the cost of pensions over the service lives of employees in the schemes.

(i) Research Expenditure

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (Continued)

(j) Taxation

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



NOTES TO THE FINANCIAL STATEMENTS

2 Classes of Business

	Water		Sewerage		Company	
	1995 £m	1994 £m	1995 £m	1994 £m	1995 £m	1994 £m
Turnover						
Turnover	106.1	95.2	131.1	115.5	237.2	210.7
Inter-segment turnover	(0.4)	(0.4)	(0.2)	(0.1)	(0.6)	(0.5)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Turnover to third parties	<u>105.7</u>	<u>94.8</u>	<u>130.9</u>	<u>115.4</u>	<u>236.6</u>	<u>210.2</u>
Profit						
Segment operating profit	20.6	31.8	64.8	72.1	85.4	103.9
Net interest payable	(9.4)	(5.7)	(12.5)	(7.6)	(21.9)	(13.3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit on ordinary activities before taxation	<u>11.2</u>	<u>26.1</u>	<u>52.3</u>	<u>64.5</u>	<u>63.5</u>	<u>90.6</u>
Net assets						
Segment net assets	<u>349.3</u>	<u>377.9</u>	<u>504.4</u>	<u>457.0</u>	<u>853.7</u>	<u>834.9</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

3 Operating Costs

	Before exceptional restructuring charge 1995 £m	Exceptional restructuring charge (note 4) 1995 £m	Total 1995 £m	1994 £m
Manpower costs (note 8)	30.8	19.3	50.1	28.8
Raw materials and consumables	6.6	-	6.6	6.5
Rentals under operating leases:				
Hire of plant and machinery	0.4	-	0.4	0.6
Other operating leases	2.2	4.4	6.6	2.2
Research expenditure	0.5	-	0.5	0.4
Auditors' remuneration	0.1	-	0.1	0.1
Other external charges	44.0	-	44.0	40.9
Depreciation:				
On owned assets	12.1	-	12.1	8.1
Provision for diminution in value	-	1.9	1.9	-
On assets acquired under finance leases	9.1	-	9.1	6.5
Deferred income (note 18)	(0.6)	-	(0.6)	(0.4)
Infrastructure renewals charge	6.1	-	6.1	5.7
Other operating charges	7.6	7.0	14.6	7.3
	<u>118.9</u>	<u>32.6</u>	<u>151.5</u>	<u>106.7</u>

Fees payable to the Company's auditors, Price Waterhouse, for non-audit work for the year ended 31 March 1995 amounted to £0.4m (1994 £0.9m).

4 Exceptional Restructuring Charge

	1995 £m	1994 £m
Provision for restructuring of the water and sewerage business (note 17)	<u>32.6</u>	<u>-</u>

5 Net Interest Payable

	1995 £m	1994 £m
Interest payable:		
To parent undertaking	(17.1)	(17.1)
To fellow subsidiary undertakings	-	(0.1)
Long term loans (any part repayable after five years)	(13.4)	(13.7)
Interest element of finance lease rentals	(11.2)	(7.8)
Other finance costs	(0.9)	(0.7)
	<u>(42.6)</u>	<u>(39.4)</u>
Interest receivable:		
Listed redeemable securities	7.6	11.2
Other investments (as defined in note 14)	13.1	14.9
	<u>20.7</u>	<u>26.1</u>
Net interest payable	<u>(21.9)</u>	<u>(13.3)</u>

6 Tax on Profit on Ordinary Activities

The Company 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.

	1995 £m	1994 £m
Amount receivable/(payable) in respect of surrender of tax losses to/(from) South West Water group companies in respect of:-		
the current year	0.3	1.2
previous years	-	(1.7)
	<u>0.3</u>	<u>(0.5)</u>

Taxable losses of the Company may be surrendered to other South West Water group companies. Payment for such tax losses surrendered will have regard to the current corporation tax rate and the probable date that the Company would otherwise have utilised those losses.

NOTES TO THE FINANCIAL STATEMENTS

7 Dividends

	1995 £m	1994 £m
Interim dividend of 16.9p (1994 15.6p) per ordinary share paid on 2 December 1994	45.0	41.5
Interim dividend of 37.6p per ordinary share paid on 31 March 1995	100.0	-
	<u>145.0</u>	<u>41.5</u>

The interim dividend of £100.0m was paid to South West Water Plc. That company immediately subscribed for 100 million ordinary shares of the Company at par (note 19).

8 Numbers of Employees and Employment Costs

	1995	1994
The average number of persons (including Directors) employed by the Company during the years ended 31 March was:		
Water services	1,176	1,209
Sewerage services	908	932
	<u>2,084</u>	<u>2,141</u>

	Before exceptional restructuring charge 1995 £m	Exceptional restructuring charge (note 4) 1995 £m	Total 1995 £m	1994 £m
Employment costs comprise:				
Wages and salaries	36.1	8.9	45.0	36.4
Social Security costs	2.9	-	2.9	3.1
Other pension costs (note 23)	3.0	10.4	13.4	3.1
	<u>42.0</u>	<u>19.3</u>	<u>61.3</u>	<u>42.6</u>

Total employment costs are charged as follows:

Manpower costs (note 3)	50.1	28.8
Capital schemes and infrastructure renewals expenditure	11.2	13.8
	<u>61.3</u>	<u>42.6</u>



NOTES TO THE FINANCIAL STATEMENTS

9 Emoluments of Directors

	1995 £000	1994 £000
Total emoluments of the Directors of the Company		
Remuneration - salary	323	307
- performance bonus	-	37
	<hr/> 323	<hr/> 344
Other emoluments	43	34
Pension contributions	119	84
Payment in respect of tax liability from supplementary pension arrangements	22	-
Payment to a former Director	10	-
	<hr/> 517	<hr/> 462

The emoluments of South West Water Services Limited Directors are determined by the Remuneration Committee of South West Water Plc consisting of non-executive Directors. The Remuneration Committee takes external professional advice in determining the level of emoluments. Other emoluments include car benefit and health cover.

Payments under the incentive performance bonus plan are related to the achievement of Company profit and individual performance targets as determined by the Remuneration Committee of South West Water Plc. As in the case of management and salaried staff, the salaries and 1995 performance bonuses review for Directors has been deferred.

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

NOTES TO THE FINANCIAL STATEMENTS

9 Emoluments of Directors (Continued)

1995	1994
£000	£000

Included above within emoluments of Directors are:

(a) Emoluments of the Chairman

-	-
<hr/>	<hr/>

(b) Emoluments of W H Fraser, the highest paid Director -

Remuneration - salary	80	77
- performance bonus	-	10
	<hr/>	<hr/>
	80	87
Other emoluments	13	11
Pension contributions	47	15
Payment in respect of tax liability from supplementary pension arrangements	22	-
	<hr/>	<hr/>
	162	113
	<hr/>	<hr/>

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

Range (£)	1995	1994
0 - 5,000	1	1
55,001 - 60,000	1	1
65,001 - 70,000	-	1
70,001 - 75,000	1	-
75,001 - 80,000	2	2
95,001 - 100,000	-	1
115,001 - 120,000	1	-



NOTES TO THE FINANCIAL STATEMENTS

10 Directors' Interests

The beneficial interest of Directors in shares of South West Water Plc at 31 March 1995 and 31 March 1994 were as follows:

	Share Interests		Scheme	Options			
	1995	1994		1995	Granted in Year	Exercised in Year	1994
R J Baty	10,472	7,517	Executive Sharesave	47,100 5,033	7,500 2,774	- (6,136)	39,600 8,395
C J Cook	16,069	15,300	Executive Sharesave	50,500 8,094	7,500 -	- -	43,000 8,094
I R Douglas	38	-	Executive Sharesave	32,500 2,930	5,000 924	- -	27,500 2,006

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

R J Baty	144
C J Cook	311

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

Other than as stated above, there have been no changes in Directors' interests since 31 March 1995.

The interests in shares of South West Water Plc of Messrs K W Court and W H Fraser are disclosed in the financial statements of that Company.

NOTES TO THE FINANCIAL STATEMENTS

11 Tangible Fixed Assets

	Freehold land and buildings	Infra- structure assets	Opera- tional properties	Fixed & mobile plant, vehicles and computers	Construc- tion in progress	Total
	£m	£m	£m	£m	£m	£m
Cost:-						
At 1 April 1994	10.1	388.4	309.6	221.7	202.6	1,132.4
Additions	-	25.4	18.1	23.8	85.6	152.9
Grants and contributions	-	(3.4)	-	-	-	(3.4)
Transfers	0.1	31.8	(11.6)	41.4	(61.7)	-
Disposals	(0.1)	-	-	(1.7)	-	(1.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1995	10.1	442.2	316.1	285.2	226.5	1,280.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:-						
At 1 April 1994	2.1		52.4	61.2		115.7
Charge for year	0.1		6.1	16.9		23.1
Provision for diminution in value	-		-	1.9		1.9
Disposals	-		-	(1.4)		(1.4)
	<hr/>		<hr/>	<hr/>		<hr/>
At 31 March 1995	2.2		58.5	78.6		139.3
	<hr/>		<hr/>	<hr/>		<hr/>
Net Book Value:-						
At 31 March 1995	7.9	442.2	257.6	206.6	226.5	1,140.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1994	8.0	388.4	257.2	160.5	202.6	1,016.7
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Out of the total depreciation charge for the Company of £23.1m (1994 £16.5m), the sum of £1.9m (1994 £1.9m) has been charged to capital projects and £21.2m (1994 £14.6m) against profits.

The cost of freehold land and buildings and operational properties includes non-depreciable land of £1.1m (1994 £1.1m) and £6.4m (1994 £4.6m) respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

11 Tangible Fixed Assets (Continued)

The analysis above includes the following amounts in respect of assets held under finance leases:

	Operational properties £m	Fixed & mobile plant, vehicles and computers £m	Construction in progress £m	Total 1995 £m
Cost:-				
At 1 April 1994	98.6	85.6	48.7	232.9
Additions	20.8	8.5	19.4	48.7
Transfers	12.2	3.2	(15.4)	-
At 31 March 1995	<u>131.6</u>	<u>97.3</u>	<u>52.7</u>	<u>281.6</u>
Depreciation:-				
At 1 April 1994	1.7	10.3		12.0
Charge for year	2.0	7.1		9.1
At 31 March 1995	<u>3.7</u>	<u>17.4</u>		<u>21.1</u>
Net book value:-				
At 31 March 1995	<u>127.9</u>	<u>79.9</u>	<u>52.7</u>	<u>260.5</u>
At 31 March 1994	<u>96.9</u>	<u>75.3</u>	<u>48.7</u>	<u>220.9</u>

12 Stocks

	1995 £m	1994 £m
Raw materials and consumables	<u>1.3</u>	<u>1.2</u>

NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	1995 £m	1994 £m
Trade debtors	24.2	23.4
Amounts owed by fellow subsidiary undertakings	0.1	0.3
Other debtors	0.2	0.4
Prepayments and accrued income	<u>23.2</u>	<u>21.2</u>
	<u>47.7</u>	<u>45.3</u>
Included above are amounts due after more than one year:		
Other debtors	0.1	0.1
Prepayments and accrued income	<u>3.6</u>	<u>1.6</u>
	<u>3.7</u>	<u>1.7</u>

14 Current Asset Investments

	1995 £m	1994 £m
Listed on a recognised investment exchange	62.0	181.2
Other investments	<u>290.8</u>	<u>223.0</u>
	<u>352.8</u>	<u>404.2</u>
Market value of listed investments	<u>62.2</u>	<u>181.5</u>

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

15 Creditors: Amounts falling Due Within One Year

	1995 £m	1994 £m
European Investment Bank loans (note 22)	4.7	1.9
Bank loans and overdrafts (note 22)	1.1	5.7
Obligations under finance leases (note 22)	12.1	5.0
Trade creditors	41.5	65.0
Amounts owed to parent undertaking	3.1	3.7
Amounts owed to fellow subsidiary undertakings	5.0	5.3
Amounts owed to associated undertakings	0.9	0.5
Other creditors	0.5	0.5
Taxation and social security	1.2	1.3
Accruals and deferred income	<u>19.7</u>	<u>17.6</u>
	<u>89.8</u>	<u>106.5</u>



NOTES TO THE FINANCIAL STATEMENTS

16 Creditors: Amounts falling Due After More Than One Year

	1995 £m	1994 £m
European Investment Bank loans	123.4	128.0
Other loans	-	0.1
Amounts owed to parent undertaking	150.0	150.0
Obligations under finance leases (note 22)	268.5	224.0
Other creditors	1.1	1.6
	<u>543.0</u>	<u>503.7</u>

17 Provisions for Liabilities and Charges

	Infrastructure Renewals £m	Restructuring £m	Total 1995 £m
At 1 April 1994	3.7	-	3.7
Charged against profits	6.1	32.6	38.7
Utilised during year	<u>(6.1)</u>	<u>(3.8)</u>	<u>(9.9)</u>
At 31 March 1995	<u>3.7</u>	<u>28.8</u>	<u>32.5</u>

1995
£m

Deferred Taxation

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

Tax effect of timing differences due to:

Accelerated capital allowances	53.5
Other timing differences	(10.7)
	<u>42.8</u>

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

NOTES TO THE FINANCIAL STATEMENTS

18 Accruals and Deferred Income

	1995 £m
Deferred Income	
At 1 April 1994	19.9
Additions	5.2
Released to profit and loss account	<u>(0.6)</u>
At 31 March 1995	24.5
Amount to be released within one year (note 15)	<u>(0.7)</u>
Amount to be released after more than one year	<u>23.8</u>

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

19 Called-up Share Capital

	1995 £	1994 £
Authorised, allotted, called-up and fully paid:		
Ordinary shares of £1 each	365,950,000	265,950,000

On 30 March 1995, as part of a capital restructuring (note 7), the authorised share capital of the company was increased by a further 100,000,000 ordinary shares of £1 each and on 31 March 1995, 100,000,000 ordinary shares of £1 each were issued to the parent undertaking for cash at par.

20 Reserves

	Profit and loss account £m
At 1 April 1994	569.0
Deficit for year	<u>(81.2)</u>
At 31 March 1995	<u>487.8</u>

21 Statement of Movements in Shareholders' Funds

	1995 £m	1994 £m
Profit on ordinary activities after taxation	63.8	90.1
Dividends	(145.0)	(41.5)
Shares issued	<u>100.0</u>	<u>-</u>
Net addition to shareholders' funds	18.8	48.6
Shareholders' funds at 1 April	<u>834.9</u>	<u>786.3</u>
Shareholders' funds at 31 March	<u>853.7</u>	<u>834.9</u>



NOTES TO THE FINANCIAL STATEMENTS

22 Loans and Other Borrowings

	1995 £m	1994 £m
Loans are repayable:		
After five years	150.0	150.0
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	30.1	27.0
Payable between one and two years	<u>7.8</u>	<u>4.7</u>
	273.4	278.1
Within one year:		
European Investment Bank loans	4.7	1.9
Bank loans and overdrafts	<u>1.1</u>	<u>5.7</u>
	<u>279.2</u>	<u>285.7</u>

Loans are denominated in sterling and are repayable over the period 1995-2012. The rates of interest payable on loans, any part of which is due after five years, varies from 4% to 12%.

	1995 £m	1994 £m
Obligations under finance leases are repayable:		
After five years	256.2	211.7
Between two and five years	8.7	8.9
Between one and two years	<u>3.6</u>	<u>3.4</u>
	268.5	224.0
Within one year	<u>12.1</u>	<u>5.0</u>
	<u>280.6</u>	<u>229.0</u>

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £7.5m (1994 £2.2m).

23 Pensions

The pension cost for the Company for the year ended 31 March 1995 was £13.4m (1994 £3.1m) which includes £10.4m arising as part of the exceptional restructuring charge. A contribution will be paid to the pension schemes to cover the capital cost of pension entitlements arising from the Company's restructuring programme.

Particulars of the actuarial assumptions and valuation are given in the financial statements of South West Water Plc.

NOTES TO THE FINANCIAL STATEMENTS

24 Commitments and Contingent Liabilities

	1995 £m	1994 £m
Capital Commitments:		
Contracted but not provided	16.3	48.1
Authorised but not yet contracted	170.0	216.7

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

	1995 £m	1994 £m
Operating Leases:		
Commitments to pay rentals during the year following the balance sheet date were:		
Leases for land and buildings expiring within one year	0.4	-
Leases for land and buildings expiring between one and five years	-	1.9
Leases for land and buildings expiring after five years	1.5	-
Leases, other than for land and buildings, expiring between one and five years	-	0.1
	<u>1.9</u>	<u>2.0</u>

Included within the exceptional restructuring provision is £4.4m to cover future rental payments arising on property currently leased by the Company, but which will be surplus to requirements after the implementation of the restructuring proposals. Of this sum £0.3m relates to rentals payable in the year following the balance sheet date for leases of land and buildings expiring within one year, and £0.3m for leases expiring after five years.

	1995 £m	1994 £m
Contingent Liabilities:		
Contractors' claims on capital schemes	18.9	11.0
Guarantee of borrowings by the parent undertaking	<u>150.0</u>	<u>150.0</u>
	<u>168.9</u>	<u>161.0</u>



NOTES TO THE FINANCIAL STATEMENTS

25 Notes to the Cash Flow Statement

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

	1995 £m	1994 £m
Operating profit	85.4	103.9
Depreciation charge	21.2	14.6
Provision for diminution in value	1.9	-
Profit on disposals of tangible fixed assets	-	(0.2)
Deferred income released	(0.6)	(0.4)
Provisions for liabilities and charges	28.8	(0.5)
(Increase)/decrease in stocks	(0.1)	0.1
Increase in debtors	(1.6)	(0.7)
Decrease in creditors (amounts falling due within and over one year)	(0.7)	(4.5)
Net Cash Inflow From Operating Activities	134.3	112.3

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

	1995 £m	1994 £m
Balance at start of year	213.2	186.7
Net cash inflow	37.8	26.5
Balance at end of year	251.0	213.2

(c) Analysis of the Balances of Cash and Cash Equivalents

	1995 £m	1994 £m	1993 £m	Change in Year 1995 £m	Change in Year 1994 £m
Current asset investments	352.8	404.2	388.9	(51.4)	15.3
Deduct investments not within three months of maturity when purchased	(100.9)	(186.0)	(201.0)	85.1	15.0
	251.9	218.2	187.9	33.7	30.3
Cash at bank and in hand	0.2	0.7	0.4	(0.5)	0.3
Short term borrowings and overdrafts	(1.1)	(5.7)	(1.6)	4.6	(4.1)
Cash and cash equivalents	251.0	213.2	186.7	37.8	26.5

NOTES TO THE FINANCIAL STATEMENTS

25 Notes to the Cash Flow Statement (Continued)

(d) Analysis of Changes in Financing during the Year

	Share Capital (including premium)		Loans and Finance Lease Obligations	
	1995 £m	1994 £m	1995 £m	1994 £m
Balance at start of year	265.9	265.9	506.9	381.0
Issue of shares for cash consideration	100.0	-	-	-
Loans raised	-	-	-	60.0
Loan repayments	-	-	(1.9)	-
Finance lease drawdowns	-	-	48.7	68.9
Finance lease repayments	-	-	(3.4)	(3.0)
Balance at end of year	<u>365.9</u>	<u>265.9</u>	<u>550.3</u>	<u>506.9</u>

26 Ultimate Parent Company

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