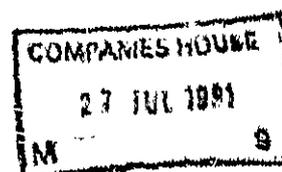


SOUTH WEST WATER SERVICES LIMITED

ANNUAL REPORT 1991

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



ANNUAL REPORT 1991

CONTENTS

Page No.

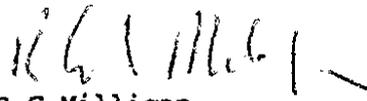
2	Directors
3	Notice of meeting
4	Report of the Directors
7	Auditors' report
8	Financial Statements for year to 31 March 1991

NOTICE OF MEETING

The second Annual General Meeting of South West Water Services Limited will be held at Peninsula House, Rydon Lane, Exeter on 18 July 1991 at 10.45am 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 1991.
- 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
Devon EX2 7HR

6 June 1991

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 audited financial statements of South West Water Services Limited for the year ended 31 March 1991.

In its first full year, the Company has attained higher standards of service, and increased capital expenditure to a record level.

INCORPORATION AND VESTING OF BUSINESS

South West Water Services Limited ("the Company") was incorporated on 1 April 1989 as a limited company. The Company was formed to continue the water and sewerage business of South West Water Authority other than that part of the business transferred to the National Rivers Authority. On 1 September 1989 the property rights and liabilities of South West Water Authority, other than those applicable to the National Rivers Authority, were vested in the Company. Also on 1 September 1989, the entire issued share capital of the Company was acquired by South West Water Plc.

PRINCIPAL ACTIVITIES OF THE COMPANY

The Company is engaged in the supply of drinking water and the disposal of waste water in the counties of Cornwall and Devon and small areas of Somerset and Dorset. The Company has continued to follow a Customer Code of Practice in respect of its principal activities.

FINANCIAL STATEMENTS

Under the Water Act 1989, for statutory accounting purposes, vesting is deemed to have taken place on 1 April 1989 and the Company is deemed to have become a subsidiary of South West Water Plc on the same date. The corresponding figures for 1990 are prepared on that basis.

PROFITS AND DIVIDENDS

Profit on ordinary activities for the year ended 31 March 1991 was £84.5m, with no expected liability to mainstream corporation tax.

An interim dividend of 12.2p (net) per share was paid on 10 December 1990 on share capital of 265,950,000 ordinary shares of £1 each, a distribution of £32.4m.

The directors do not recommend payment of a final dividend, and thereby a transfer to reserves of £52.1m will be made.

LICENCE OF APPOINTMENT

At 31 March 1991 the Company had sufficient rights and assets to comply with the requirements of paragraph 3 of Condition K of the Licence from the Secretary of State for the Environment.

DIRECTORS

The present Directors of the Company are K W Court (Chairman), W H Fraser, R J Baty, C J Cook and T J Turner.

The interests of the Directors in shares of South West Water Plc are shown in the notes to 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.

FIXED ASSETS

Changes in fixed assets are shown in the notes to the financial statements.

At 31 March 1991 the Historic Cost Balance Sheet included tangible fixed assets amounting to £509.9m of which the water distribution networks, the sewerage system, reservoirs, water treatment works, sewage treatment works and pumping stations were the principal fixed assets in terms of value.

Certain land and properties have been identified as surplus to operational requirements and the Directors believe that there may be scope for redevelopment potential. The benefits arising from any such redevelopment will depend, inter alia, on the cost of relocating operational plant and the obtaining of appropriate planning consents. Any such benefit may be taken into account by the Director General of Water Services in subsequent reviews and adjustments of price levels.

RESEARCH AND DEVELOPMENT

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

The Company commissioned five pilot plants to test rigorously potential new processes in field conditions.

EMPLOYEES

Employee numbers increased during the year as the Company recruited to increase operating capability and to manage the growing capital programme.

Industrial relations and negotiating arrangements designed to meet business needs were put in place. Single union bargaining for non-manual staff, single table bargaining for manual employees and increased flexibility were all achieved.

A Performance Management System for all non-manual staff was developed, building on the approach used with Managers for the past two years.

Employee care was further enhanced by the strengthening of the Health and Safety team. 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.

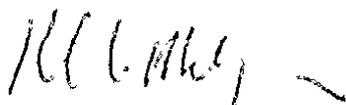
AUDITORS

Price Waterhouse were appointed auditors by the Board until the conclusion of the second 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 second annual general meeting will be held at Peninsula House, Rydon Lane, Exeter on 18 July 1991 at 10.45am.

By order of the Board



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

6 June 1991