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ARE ALSO OF POOR
QUALITY.

SOUTH WEST WATER PLC

736640

Quality



Reliability

Customer



Satisfying
customers



Enhancing the
environment

Adding value for
shareholders,
employees and
the community



**SOUTH WEST WATER PLC
ANNUAL REPORT 1990**

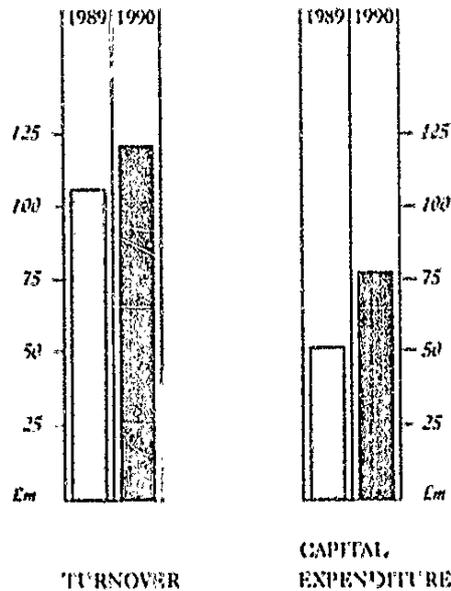
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FINANCIAL HIGHLIGHTS

Year ended 31 March	1990	1989
Turnover	£121.0m	£106.3m
Profit before taxation	£15.3m	£38.1m
Net assets	£31.9m	£214.2m
Capital expenditure	£77.8m	£52.1m
Proforma earnings per share	61.9p	-
Recommended final dividend per ordinary share	11.62p	-

Changes in capital structure, regulation and in the level of infrastructure renewals expenditure took place in the year ended 31 March 1990 as stated in the Report of the Directors.



DIRECTORS

Executive Chairman	K.W. Court	
Non-executive Deputy Chairman	T.G. Leader	
Executive Directors	W.H. Fraser	Managing Director, South West Water Services Limited
	W.J. Dickens	Director of Technical Affairs
	K.L. Hill	Group Director of Finance
	M.J. Le P. Quantick	Director of Development
Non-executive Directors	S.J. Day	
	Lady Mary Holborow	
	J.R. Lawrence	
	K.J. Morton	
	C. Spence	
	C. R. Stuart	
Secretary and registered office	R.C. Milligan	
	Peninsula House, Rydon Lane, Exeter EX2 7HR	

Committees of the Board

Audit

T.C. Leader (Chairman)
S.J. Day
J.R. Lawrence
C.R. Stuart

Finance

K.W. Court (Chairman)
W.H. Fraser
K.L. Hill
T.C. Leader
K.J. Morton
C.R. Stuart

Remuneration

T.C. Leader (Chairman)
K.W. Court
Lady Mary Holborow
C. Spence

Auditors

Price Waterhouse,
Chartered Accountants,
Clifton Heights,
Clifton,
Bristol BS8 1EB

Registrars

Lloyds Bank Plc,
Registrar's Department,
P.O. Box 1669,
Quayside Tower,
Broad Street,
Birmingham B1 1BR

ROADFORD RESERVOIR

DIRECTORS' BIOGRAPHICAL DETAILS

The board of South West Water Plc comprises a full time chairman, a non-executive deputy chairman, and ten other directors, six of whom are non-executive.

Kath William Court BA, FIPM (55), Executive Chairman, was appointed on 1 September 1989 and was Chairman and Chief Executive of South West Water Authority from 1 August 1987. Between 1958 and 1975 he was employed by the Ford Motor Company, where he held senior management appointments including employee affairs director of Ford of Europe Inc. He joined Blue Circle Industries in 1975 as assistant works director, and in 1978 became a main board director. In 1983 he was appointed chief executive of the company's UK cement and related operations.

Timothy Charles Leader BA, CEng, MIMechE, CBIM (62), Non-executive Deputy Chairman, was appointed on 1 September 1989. He joined Babcock International in 1971, becoming managing director of B&W (Operations) in 1972, managing director of Power and Process Engineering Group in 1974 and managing director of Babcock Contractors in 1978. In 1982 he became chairman of Process Plant Contracting Group, a subsidiary of Simon Engineering, and was chief executive of Simon Engineering from 1985 until 30 September 1989.

William Hamilton Fraser BSc, CEng, MIMechE, CBIM, FInstPet, AWeld (52), Managing Director of South West Water Services Limited, was appointed on 13 September

1989. He held various senior management positions with Foster Wheeler from 1964 to 1978. He was a vice president with McDermott International from 1978 to 1985 and chairman and chief executive officer of Humphreys & Glasgow from 1985 until 1988. From 1988 until his appointment with South West Water Plc he ran an engineering company, the business of which included process control, systems and project management.

William James Dickens BSc (Eng), DIC, CEng, FICE, FIWEM (62), Director of Technical Affairs, was appointed on 1 September 1989 having joined South West Water Authority in August 1988. He has spent 19 years in the water industry, having been appointed as head of tidal division of the Greater London Council and deputy project manager of the Thames Barrier project in 1971, and from 1974 held various senior appointments in Thames Water Authority prior to being appointed its director of operations in 1986.

Kenneth Leshe Hill IPFA (49), Group Director of Finance, was appointed on 21 September 1989. He was chief financial officer of Glamorgan River Authority from 1972 to 1974. Prior to his appointment with South West Water Plc he was finance director of Severn Trent Water, joining them as assistant finance director in 1974 and becoming financial controller in 1986. He is a qualified public finance accountant.

Michael John Le Page Quantick IPFA (59), Director of Development, was appointed on 1 September 1989 having joined South West Water Authority in January 1974. He is qualified as a public finance accountant and was chief

FROM LEFT TO RIGHT: LADY MARY HOLBOROW, K.W. COURT, J.R. LAWRENCE, W.J. DICKENS, G.R. SHARR, F.L. HILL, M.J. LE PAGE QUANTICK, S.J. DWYER



accountant with Plymouth City Council between 1970 and 1974. At South West Water Authority he was appointed chief accountant in 1974, assistant director of finance in 1977, head of finance in 1984 and director of commercial and financial affairs in 1988.

Simon James Day MA (55), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1983. He was a founder director of Plymouth Sound Radio, and was chairman of West of England Newspapers between 1982 and 1986. He is a regional director of Granville & Company and of the Regency and West of England Building Society and a director of the Devon and Cornwall Development Company. He is a farmer, deputy leader of Devon County Council, chairman of the Devon Sea Fisheries Committee and chairman of the governors of Bicton College of Agriculture.

Lady Mary Christina Holborne (53), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from April 1980. She was a trustee of South West Trustee Savings Bank from 1981 and a regional board member of TSB England and Wales from 1984 to 1989 and has been chairman of the Cornwall Business Committee, Rural Development Commission since 1987. She is a governor of Cornwall College of Further Education and a member of the Devon and Cornwall Training and Enterprise Council.

John Raymond Lawrence BSc (Eng), PhD (59), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1985. He held several managerial appointments

at ICI Paints Division between 1965 and 1971 when he was seconded as director of the Institute of Manpower Studies at Sussex University. He returned to ICI in 1975 and since 1979 has been director of the Group Environmental Laboratory at Brisham. He is a member of the Council of the Foundation for Water Research.

Kenneth John Morton MA, FCA, FCT (50), Non-executive Director, was appointed on 20 October 1989. Since 1988, he has been group finance director of Kleinwort Benson Group. He previously held executive positions with Sime Darby, Reed International and Hill Samuel. He is a non-executive director of the Asda Group.

Charles Spence (68), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from July 1989. He was appointed a director of ARC in 1968 and was chief executive from 1978 and chairman from 1986 to 1989. He is now a consultant to ARC.

Charles Rozell Stuart BSc (Econ), FRAeS, FCIT, FInstD (62), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1987. He joined British European Airways in 1969; he was a European board director (marketing) from 1972, and an executive board member of British Airways (for commercial and government matters) from 1980. In 1983 he became chairman of Brymon Airways and Plymouth City Airport. He has held a number of travel related board appointments and is a governor of Polytechnic South West and East Devon College of Further Education. He is chairman of South West Regional Health Authority.

LC LEADER, KJ MORTON, C SPENCE, WH FRASER



CHAIRMAN'S STATEMENT



I am pleased to be making my first annual statement as chairman of South West Water Plc.

We have had a successful year, both financially and operationally. Turnover was up by 13.8%, showing growth above the level of the average charges increase of 13%. Our profit before taxation was 18.9% higher. The Roadford dam and reservoir project was completed last October — nine months ahead of the target finish, and to budget. It marked the culmination of the strategy which was initiated in 1976 to provide adequate water resources for the South West and I commend the efforts and determination which have brought this about. When full, Roadford reservoir will add 44% to our stored water capacity. Work is under way to provide the additional treatment and distribution networks to link with North Cornwall, North, Mid and South Devon water supply areas.

Our capital expenditure reached £78 million, an increase of almost 50% on the previous year, and during the year we were undertaking over 200 infrastructure and improvement projects benefiting villages, towns and cities across the region.

The process of privatisation entailed, among other things, three major changes. Firstly, the welcome investment by shareholders to under-pin our new capital formation. Secondly, the enabling Water Act 1989 led to higher standards for quality and performance — standards which will provide for increased customer satisfaction and a better environment.

Thirdly, the change provided the opportunity for achieving a new momentum in the organisation — of focusing on action and results.

Past under-investment left a legacy of systems and approaches which has required the regeneration of the business to meet the higher standards for drinking water, its supply, quality and reliability, and for more effective waste water treatment and discharge control. Privatisation has provided a sound financial basis for a ten year investment programme for the South West, a programme based on detailed analysis of past and present performance and future needs. The financial base has been strengthened by careful treasury management of the current assets.

A programme of upgraded physical sampling and analysis has resulted already in a threefold increase in the number of checks and inspections, and greater use of sophisticated monitoring equipment is playing an important part in the management of our 24 hours-a-day operation.

Customer satisfaction is dependent on the continued improvement of our infrastructure, operating systems and working practices, and a most important factor is the attentiveness of our staff. Intensive customer care training has been undertaken throughout the Company, and specialist customer relations staff have been appointed in each of our six operating districts for the first time.

We have introduced a comprehensive, monthly, employee briefing system — *News and Views* — to enable overall Company requirements and news to be disseminated throughout the region in face-to-face meetings, and for views to be fed back on the improvement of the product, process and service.

The South West is a region of growth. Part of that growth is from new business, and part is from the influx of people wishing to live in the region. In both cases the exceptional environment is a major attraction. The coast, beaches, rivers, and moors add to the quality of life of resident and visitor alike.

South West Water plays a major role in protecting this environment, and reducing the burden of pollution. Without the Company's efforts the coastal waters and rivers would be badly polluted by the waste we all produce. However, much remains to be done, and the year saw significant progress in the preparation of schemes to improve the quality of our renowned bathing waters, including detailed public consultation on our proposed schemes in Penzance, St Ives, Bude, Teignmouth, Bideford, Barnstaple and Lyme Regis.

My statement would be incomplete without reference to the tremendous support my fellow Directors and I have had from management and employees. They helped maintain and improve customer services during a year of exceptional drought, while continuing to deal with the enormous workload associated with flotation and the preparation of long-term improvement plans.

I was especially pleased to welcome Bill Fraser as a Main Board Director, and as Managing Director of South West Water Services Limited, the utility subsidiary which holds the appointment for the water and sewerage businesses. His high level experience in the United Kingdom and the United States, encompassing energy industry construction services, process control engineering, and the management of major investment programmes has already proved invaluable.

With the new mixture of experience from both the water industry and the private sector we have put in place a strong top management team.

We are delighted at the confidence shown in us by investors — both the many customers who invested in the Plc at flotation and the many institutional investors who have maintained and renewed their support.

Having established a firm footing, the Company now has excellent future prospects. Growth in our core businesses of water and sewerage, and the careful development of related non-core businesses will provide a progressive basis for your Company to move forward.

K. W. COURT

KEITH COURT AND BILL FRASER, MANAGING DIRECTOR OF SOUTH WEST WATER SERVICES LIMITED



REVIEW OF ACTIVITIES

WATER

Continuous supplies of water to the Company's customers through the exceptionally hot, dry summer of 1989 were maintained by careful management of water resources and the supply network combined with bans on hosepipes and other non-essential uses of water.

Impoundment of the new reservoir at Roadford in West Devon commenced in the autumn and by the spring the reservoir was more than half full. When full this will be the Company's largest strategic raw water resource.



ROADFORD RESERVOIR

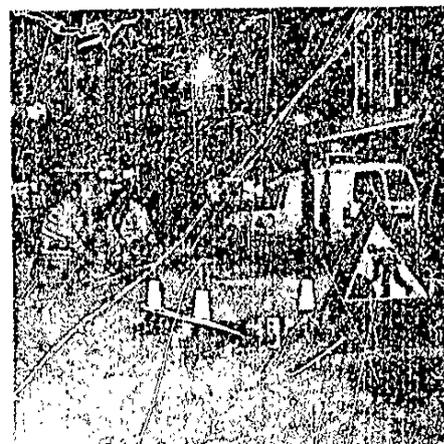
GUNNISLAKE PLACING STAFF ON
DIPLET AND OVERWOOD BEHIND
ROADFORD TO DEVON HILLS AND
SOUTH DEVON



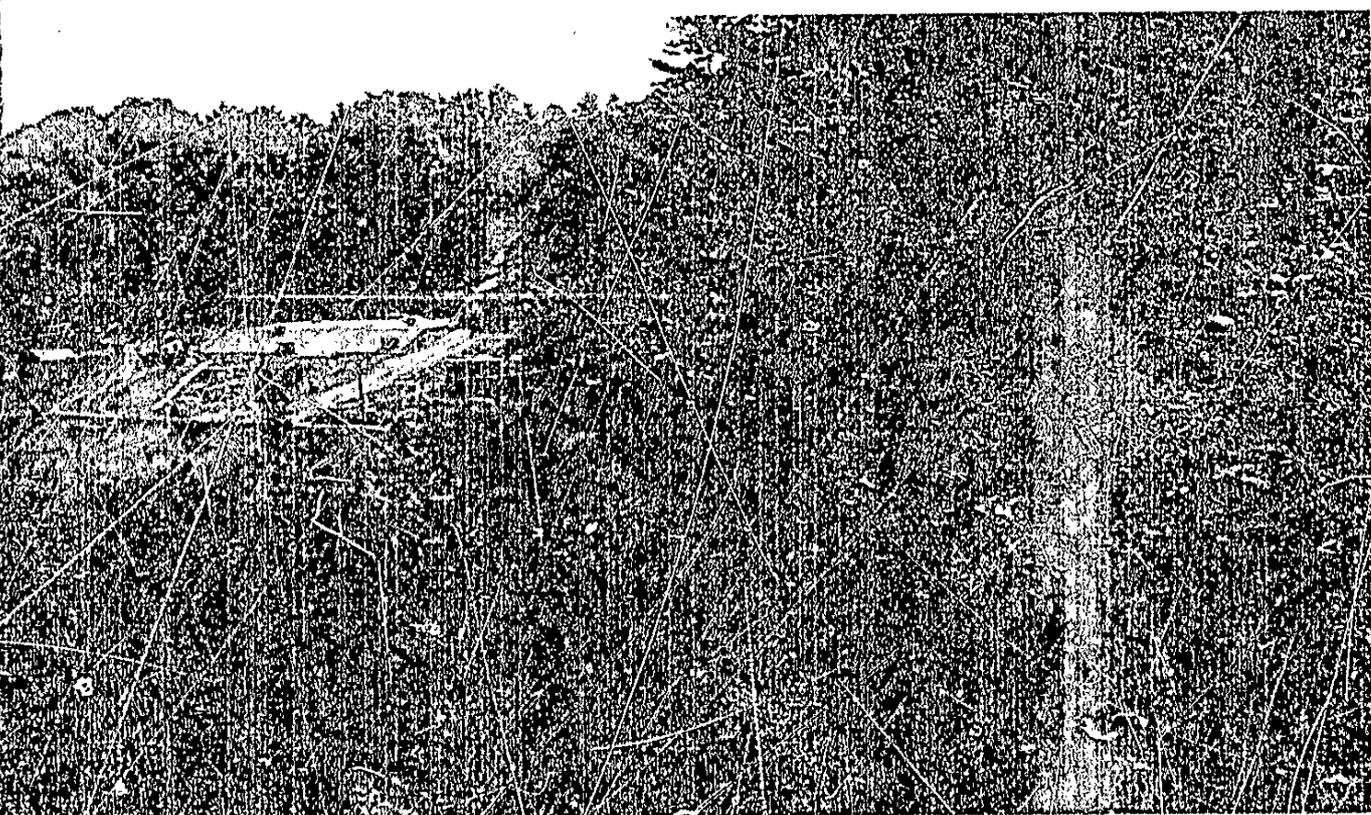
Acceleration of the construction of treatment plant and distribution mains will enable the Company to provide a more secure supply to customers in North Cornwall, North Devon, Plymouth and Torbay.

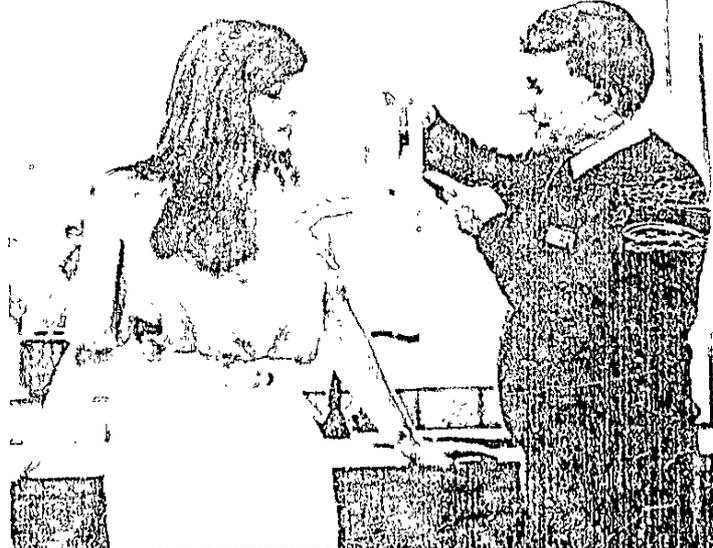
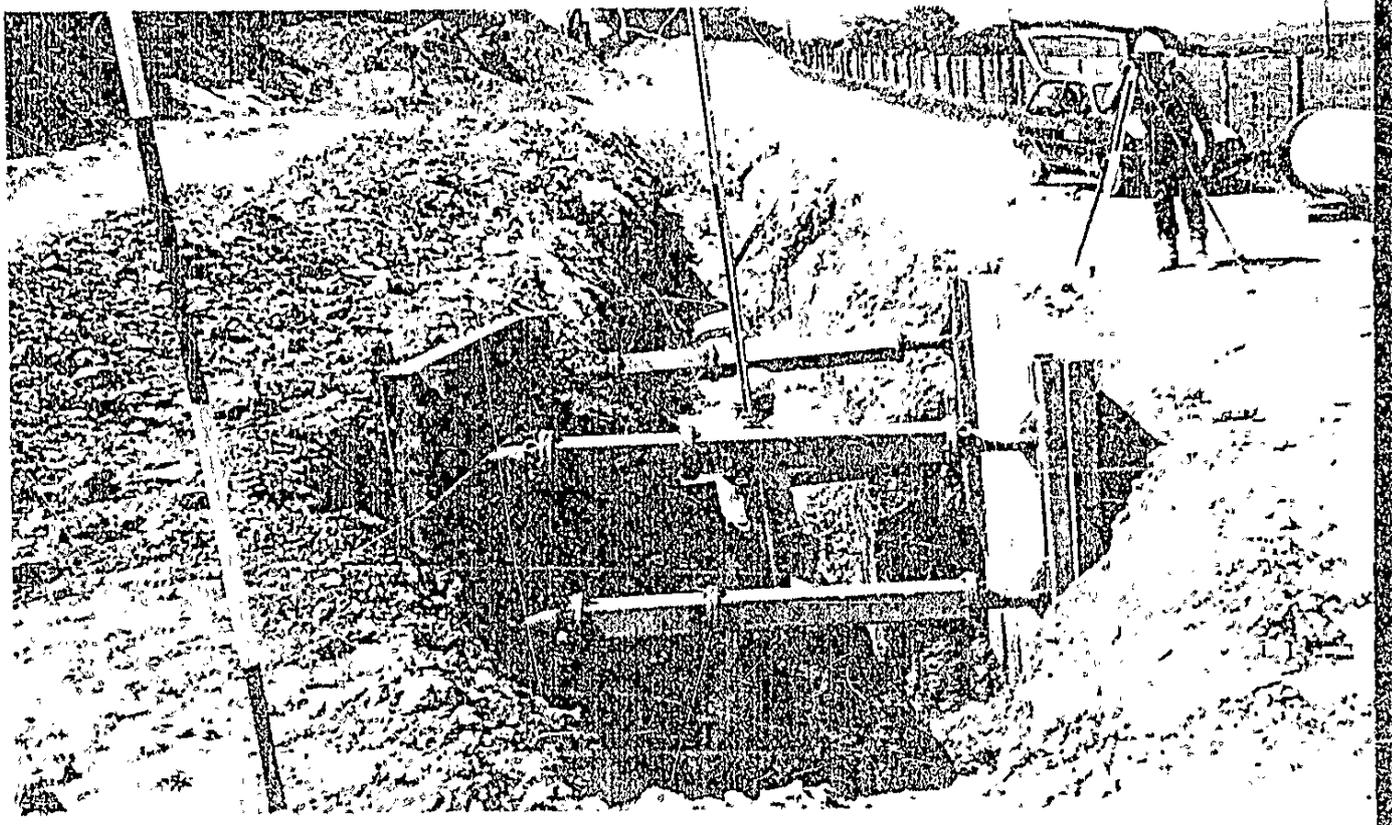
In East Devon the situation will be improved by the proposed new reservoir in the Axe Valley where detailed investigations are identifying the preferred site.

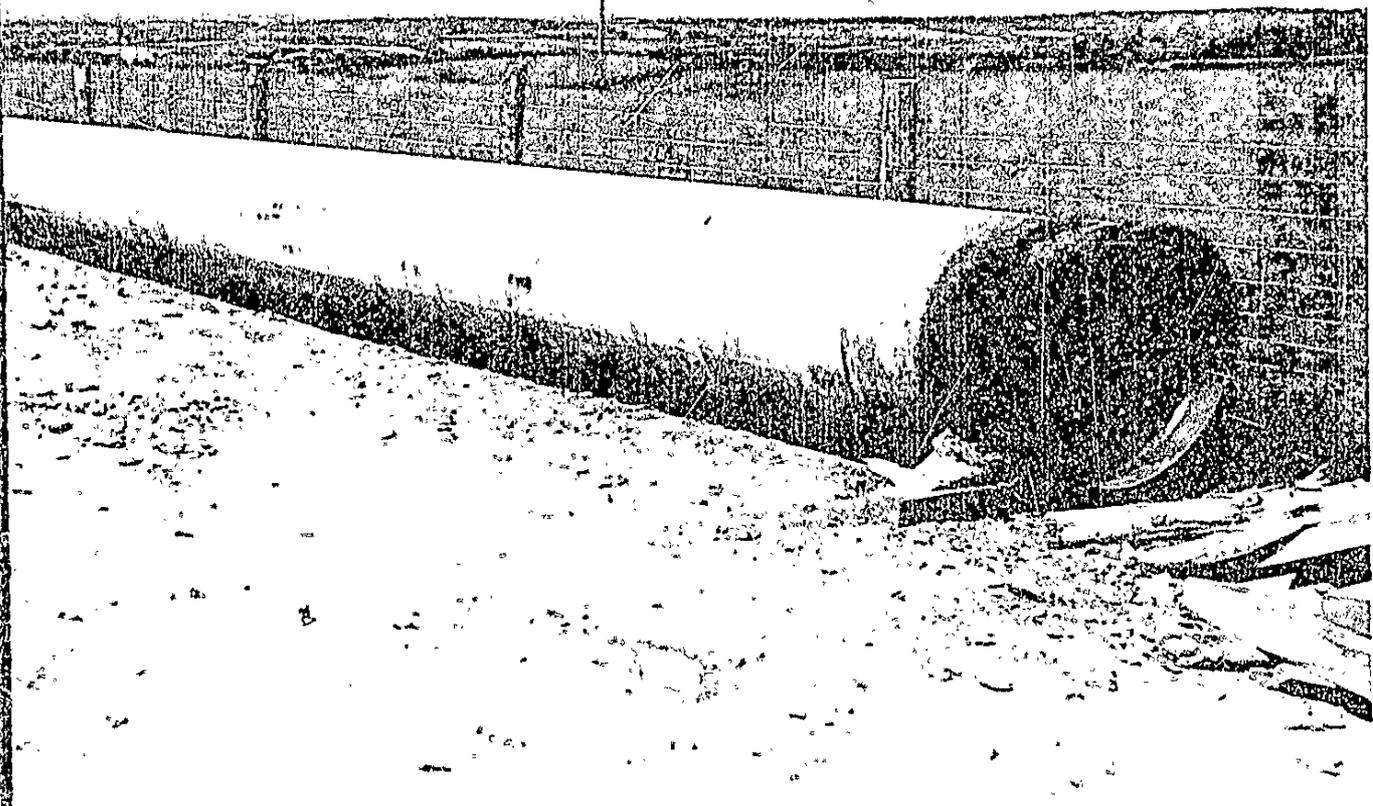
Successful leak detection and repair work in Dart and Exe districts produced encouraging results giving more efficient use of resources and improved quality and reliability for customers. This work is being extended to other districts.



LEAK DETECTION AT NIGHT

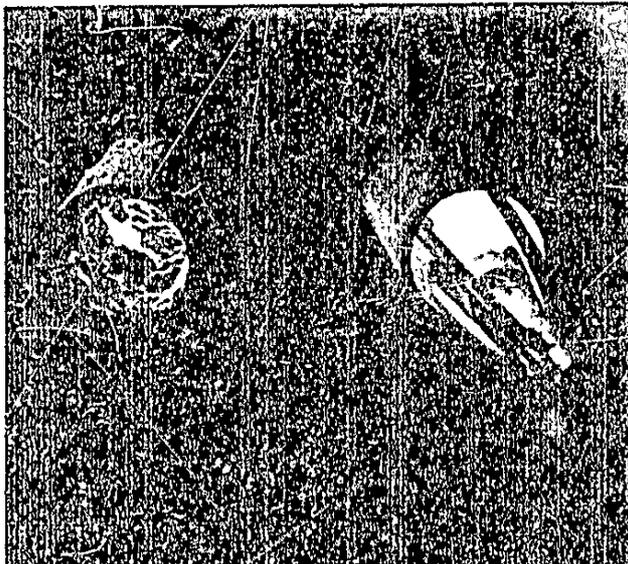






review the number of samples analysed had increased threefold.

A major problem of the network rehabilitation was to find water with which to use the capacity of the network and improve water quality at the customer's tap.



SEWERAGE AND SEWAGE TREATMENT

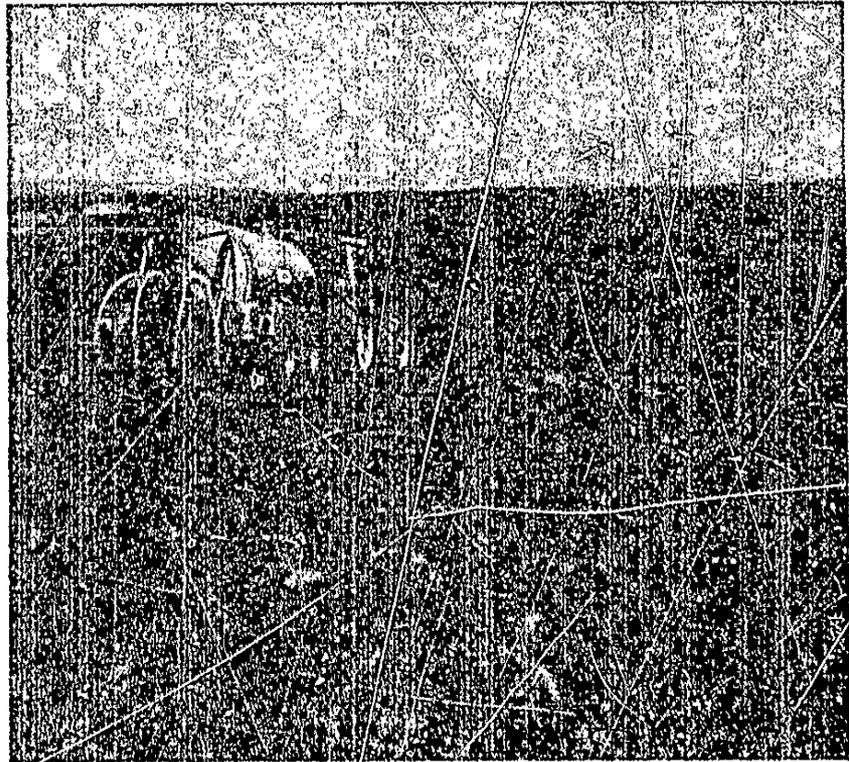
The Company plays a vital role in removing pollutants from the waste produced by all domestic and industrial customers.

The programme of improving sewage treatment works continued to deliver a higher quality effluent and greater protection to the rivers of the region.

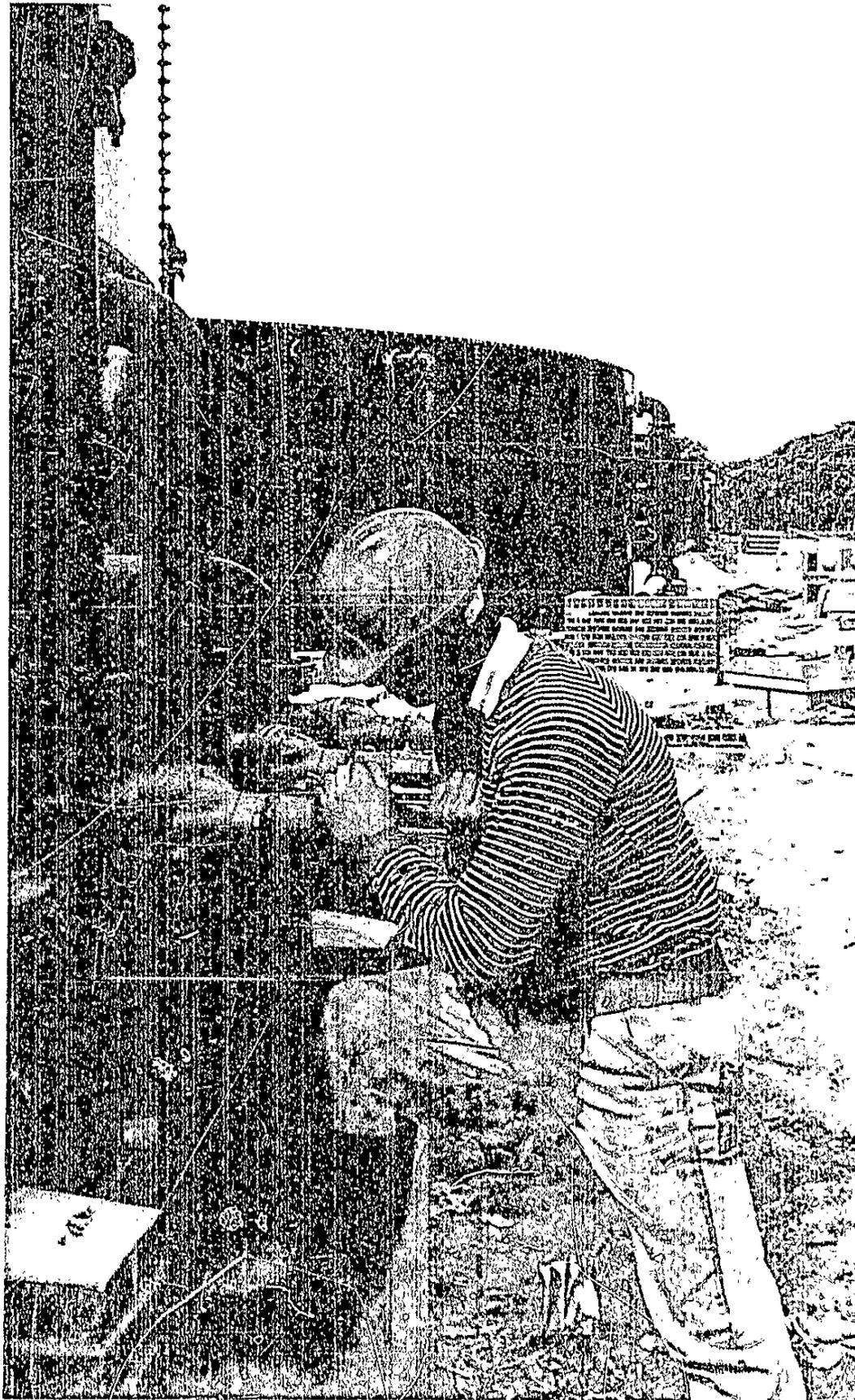
Increased capacity at improved works is supporting economic growth in the region whilst protecting the environment which is such an important factor in the region's quality of life.

A consequence of improved sewage treatment is the production of more sludge; its safe disposal is another major role for the Company in protecting the environment.

(TOP) 1000 TONNE SEWAGE
TREATMENT WORKS - STRIVING FOR
GROWTH AND PROTECTING THE
ENVIRONMENT

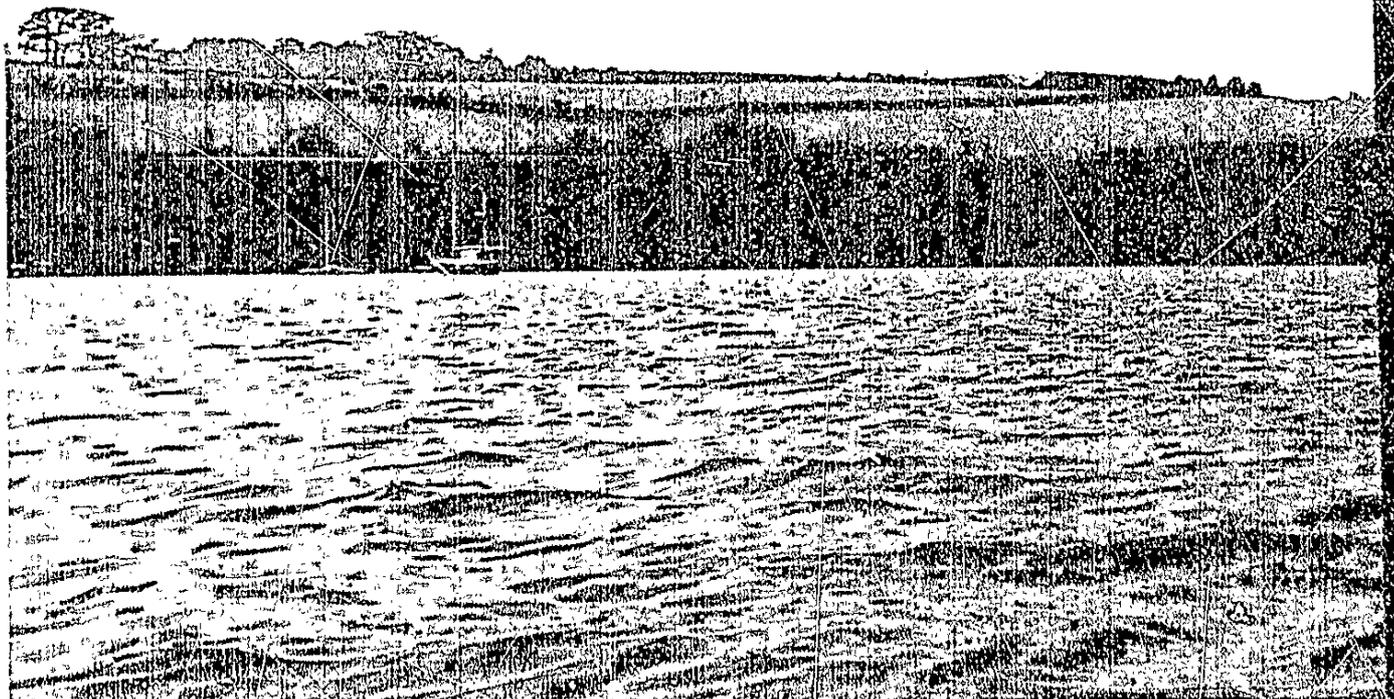
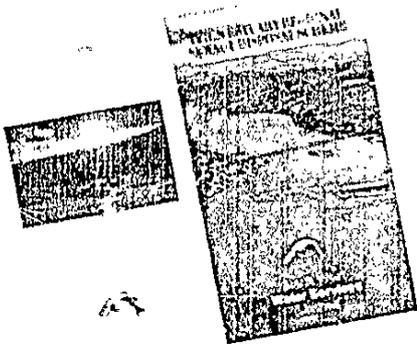


INJECTING VALUE -
ENVIRONMENTAL PROTECTION AND
LAND IMPROVEMENT



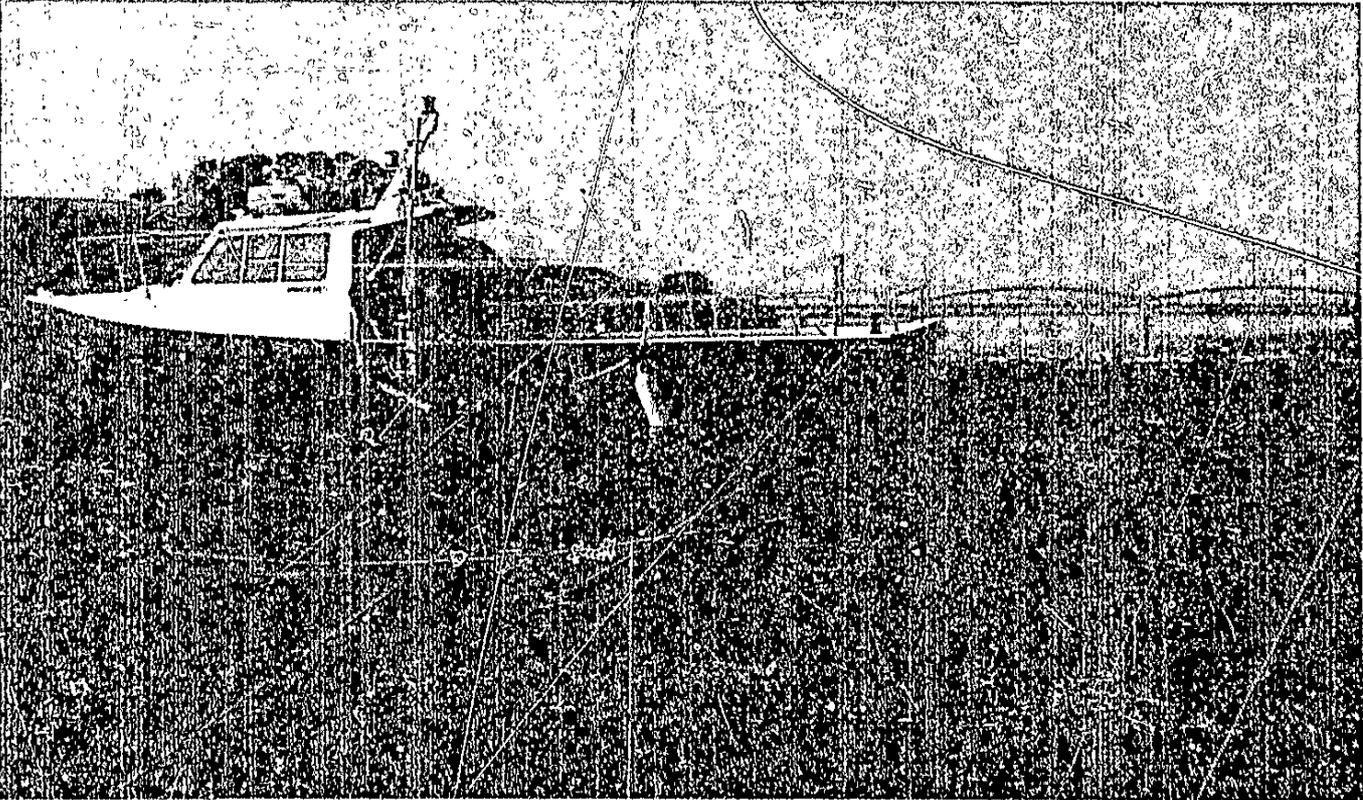
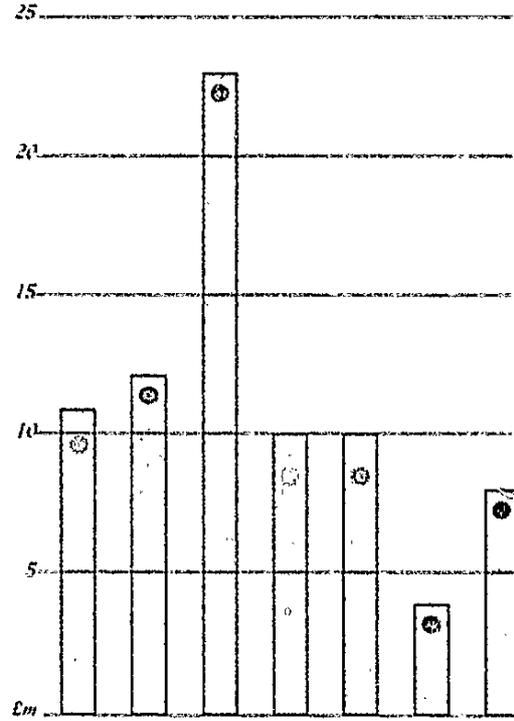
Eighty-six per cent of the region's designated bathing waters met European standards. Plans were developed to ensure compliance at all designated beaches. Detailed environmental and hydrographic surveys will provide invaluable information to ensure cost-effective solutions.

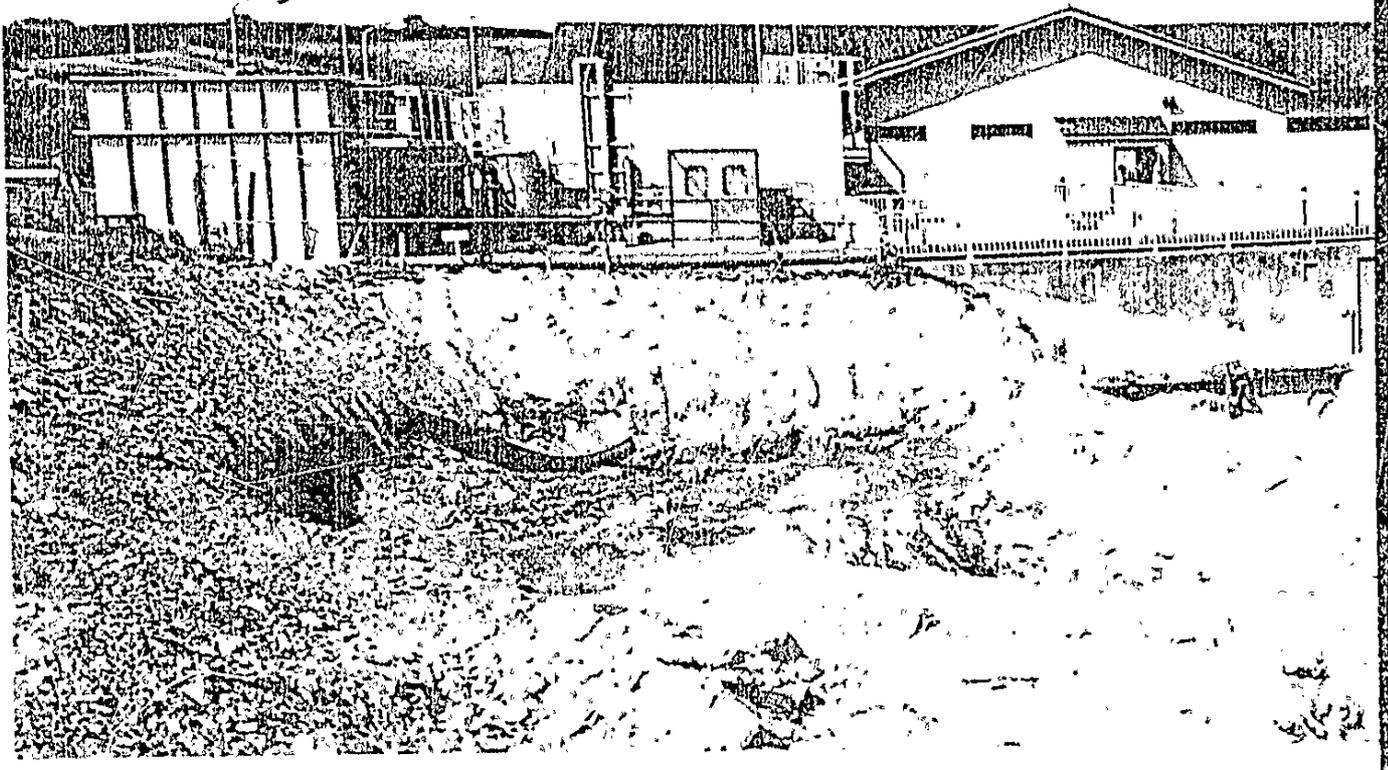
An open approach to public consultation enables the Company's plans to be developed in closer harmony with the wishes of customers.

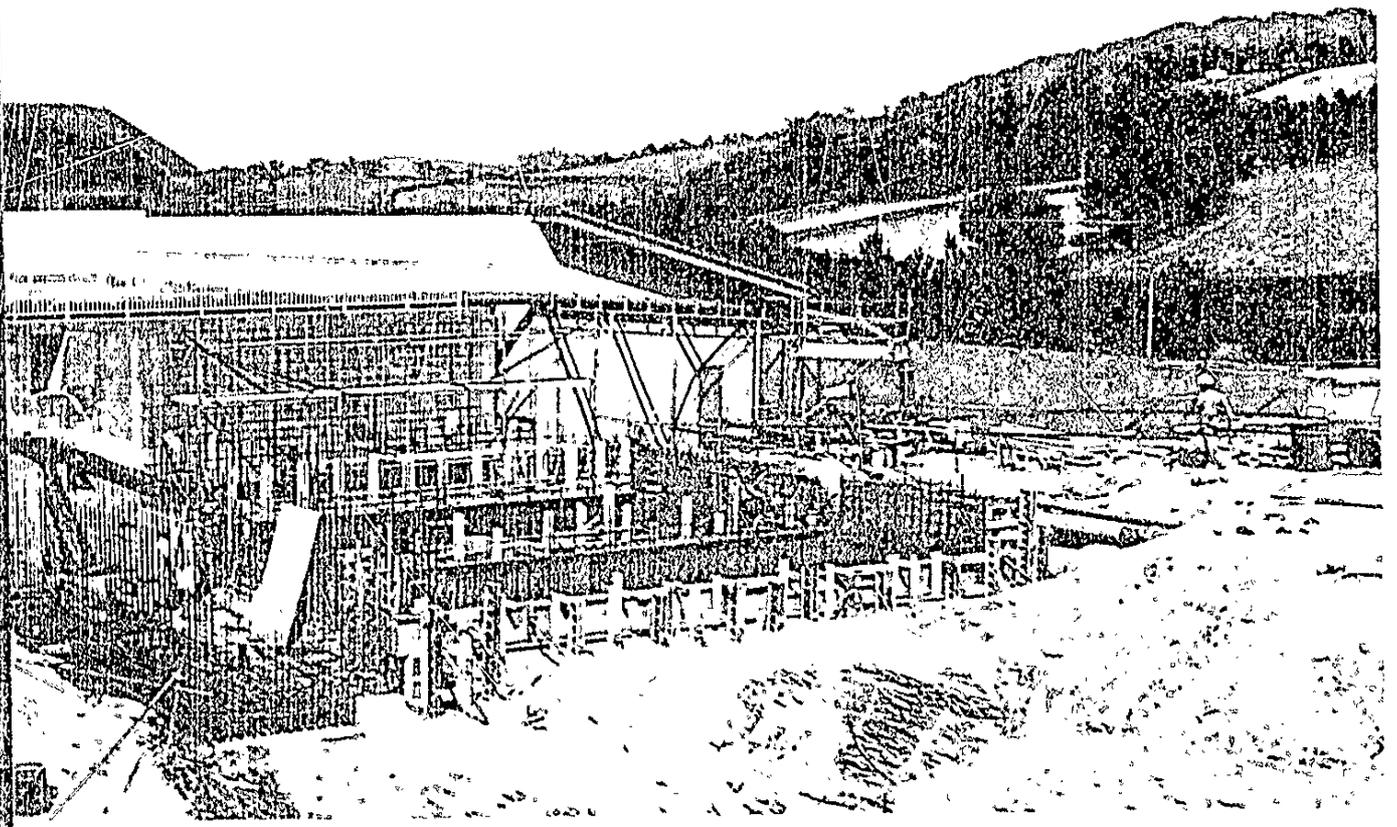


During the year the Company spent £78 million on capital schemes, 50% more than the previous year.

- Water Resources £11M
- Water Treatment £12M
- Water Distribution £23M
- Marine Sewage Treatment £10M
- Sewerage £10M
- Sewage Treatment and Sludge Disposal £4M
- Other Business and Support Activities £8M





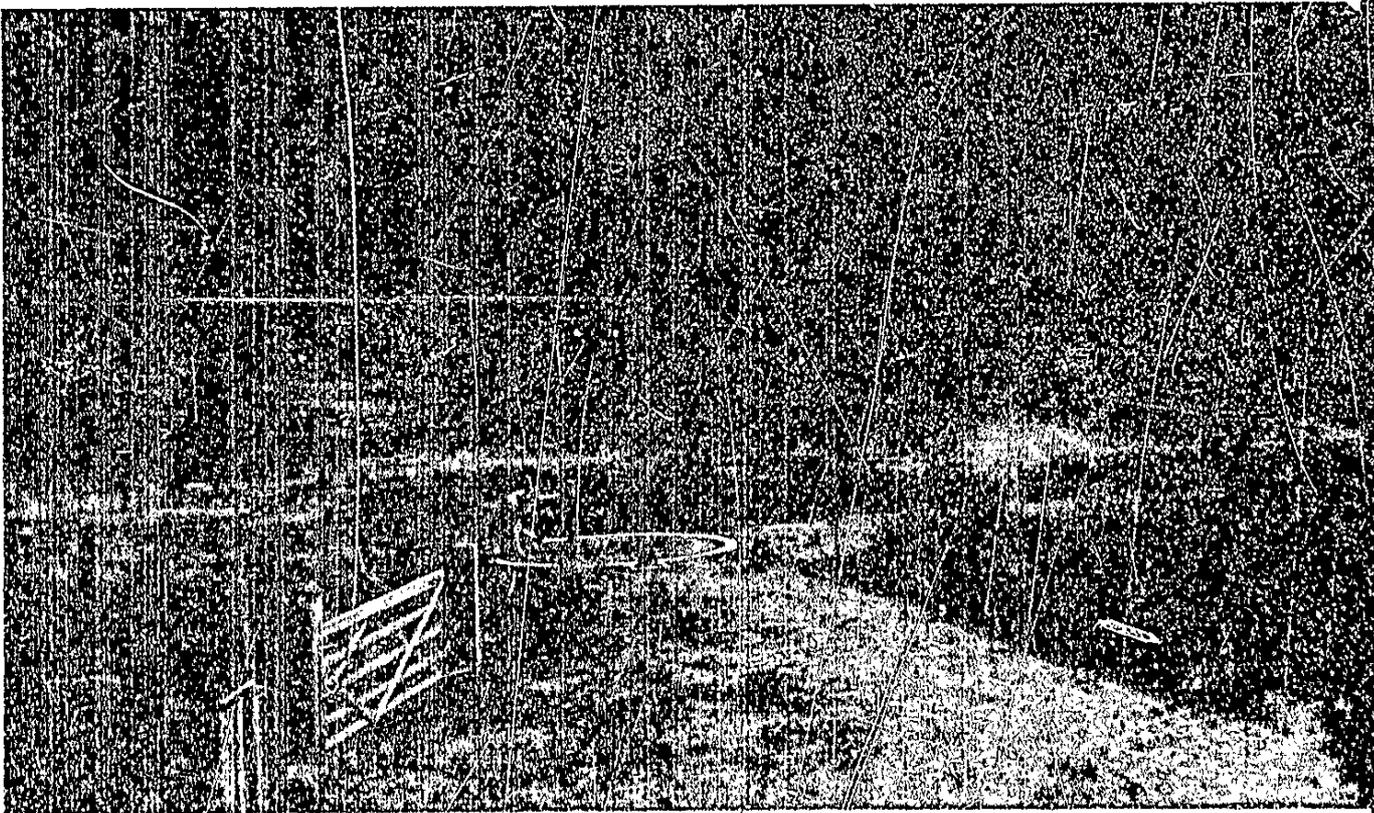


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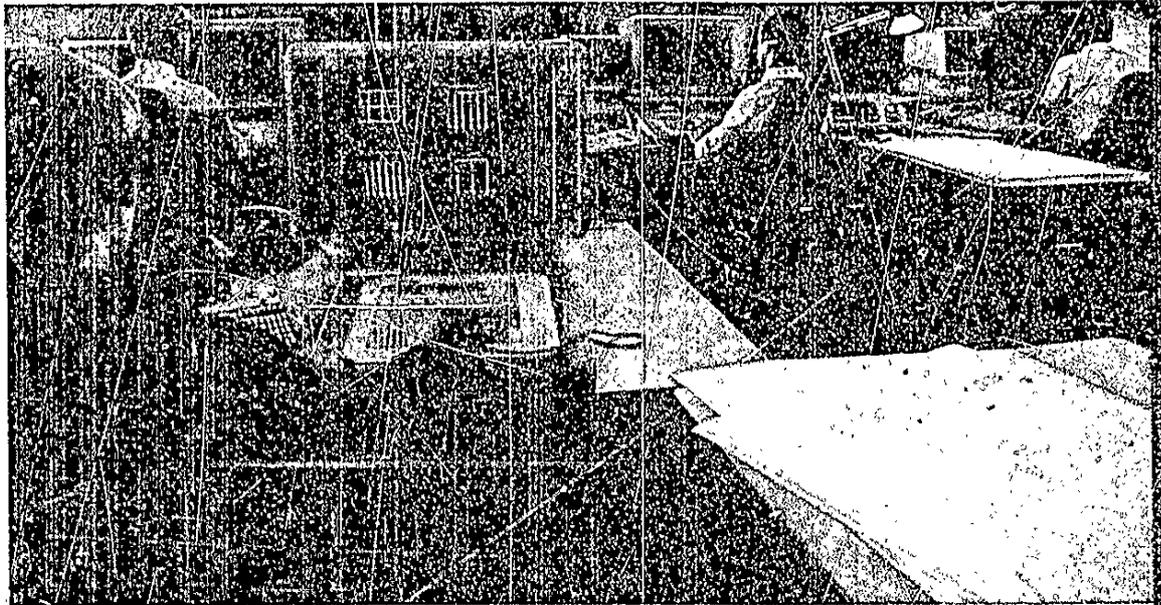
RESEARCH AND DEVELOPMENT

The Company established a new Department of Technical Affairs to drive research and development to find new ways of improving the quality and reliability of our customer services, and to develop technology and processes with wider application.

EXPERIMENTAL REED BED SEWAGE
TREATMENT - USE OF LOW IMPACT
TECHNOLOGY



RESEARCH PAPERS



BUSINESS DEVELOPMENTS

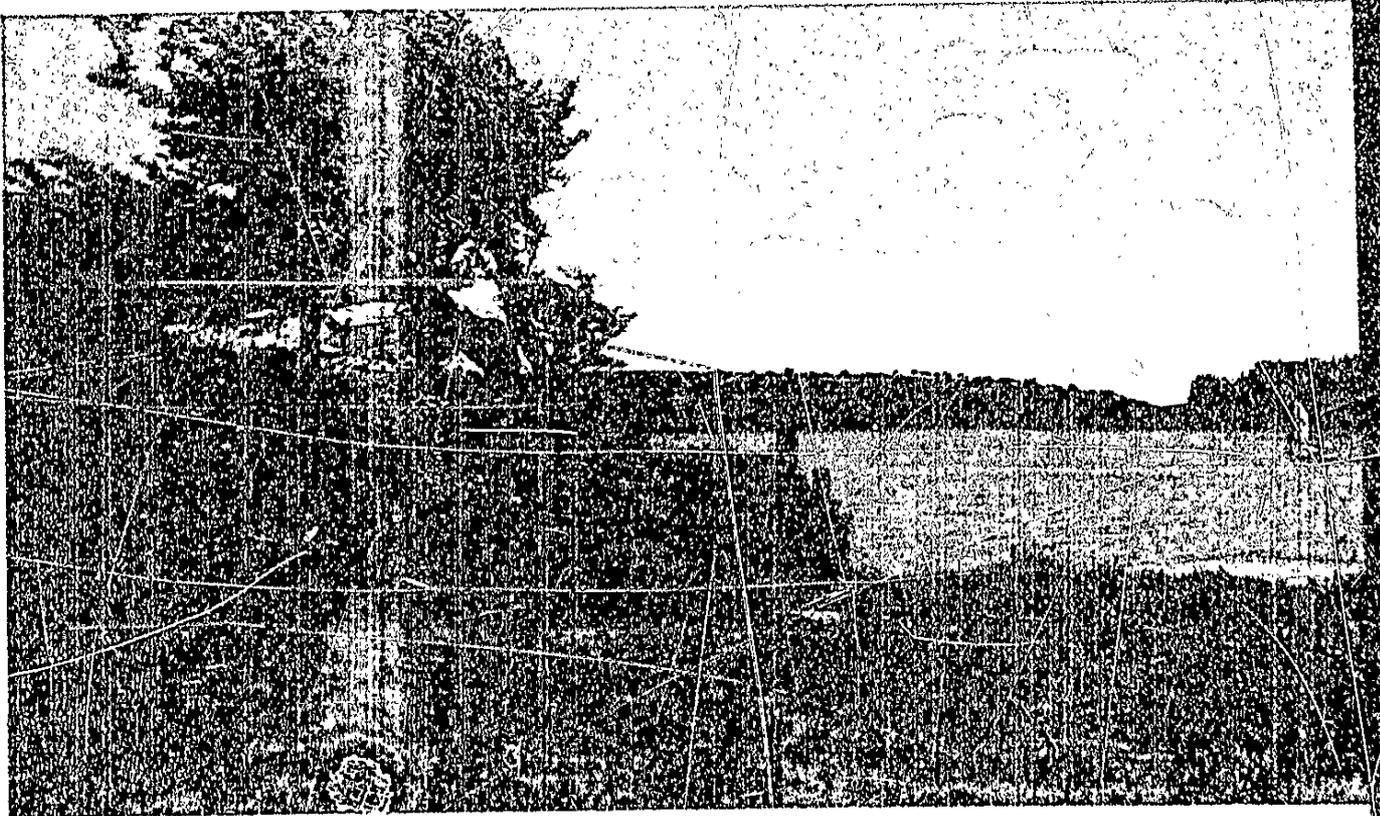
Privatisation has brought the freedom for the Company to diversify its business interests. The Company will seek to build new businesses which are related to areas in which the Company has experience and expertise.

The Company has continued to extend and improve the leisure and recreation facilities at reservoir sites throughout the region. The five water parks now provide some of the best leisure and recreation facilities in the South West. The introduction of gift shops and refreshment facilities at the water parks will provide a complete day out for the family and encourage the casual visitor.

A NEW GOLF AND LEISURE
AT SIBELCO LAKE

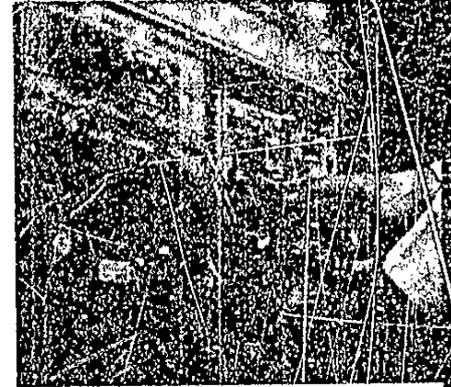


SIBELCO LAKE - VIEW OF
GOLF COURSE FROM LAKE AND WATER

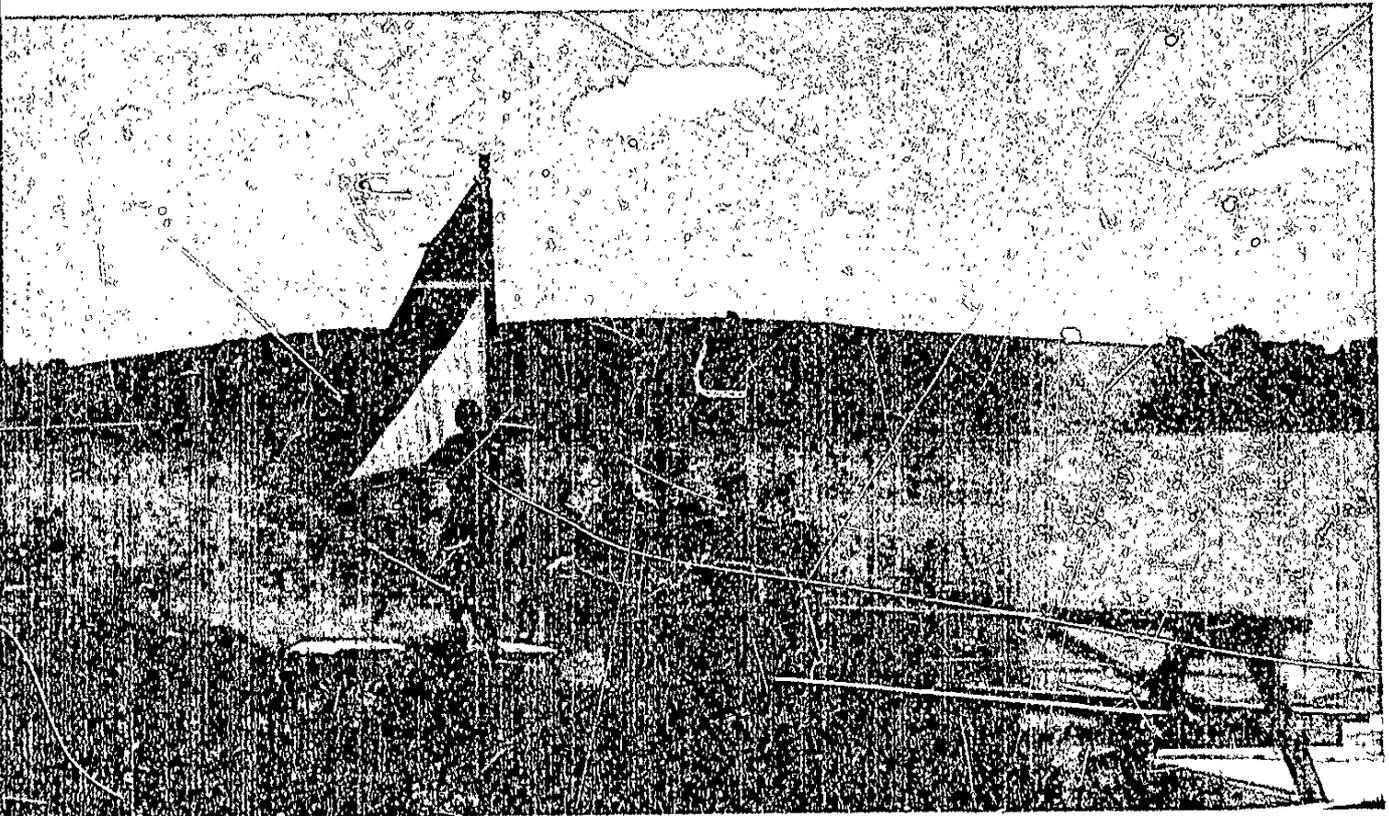


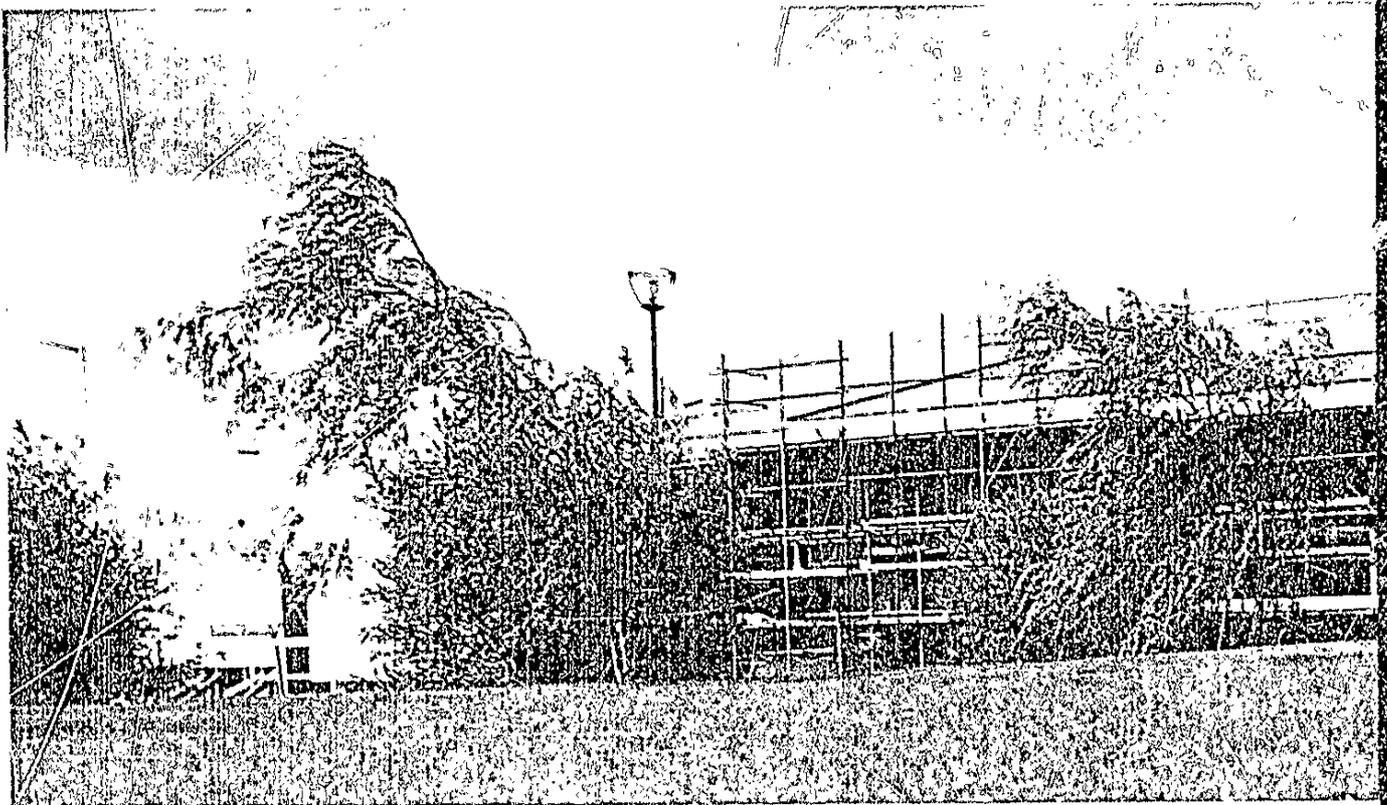
Equity was purchased in two small process control instrumentation companies during the year. After the year end the Company acquired pHIX Systems Limited, a scientific instrument company which has markets in the UK, Europe and the USA.

The Company has been able to take advantage of the continuing demand for office accommodation on the outskirts of Exeter by entering into a joint venture to develop approximately 125,000 sq. ft. (gross) of high quality office accommodation on land adjacent to our headquarters building.



SCIENTIFIC INSTRUMENTATION



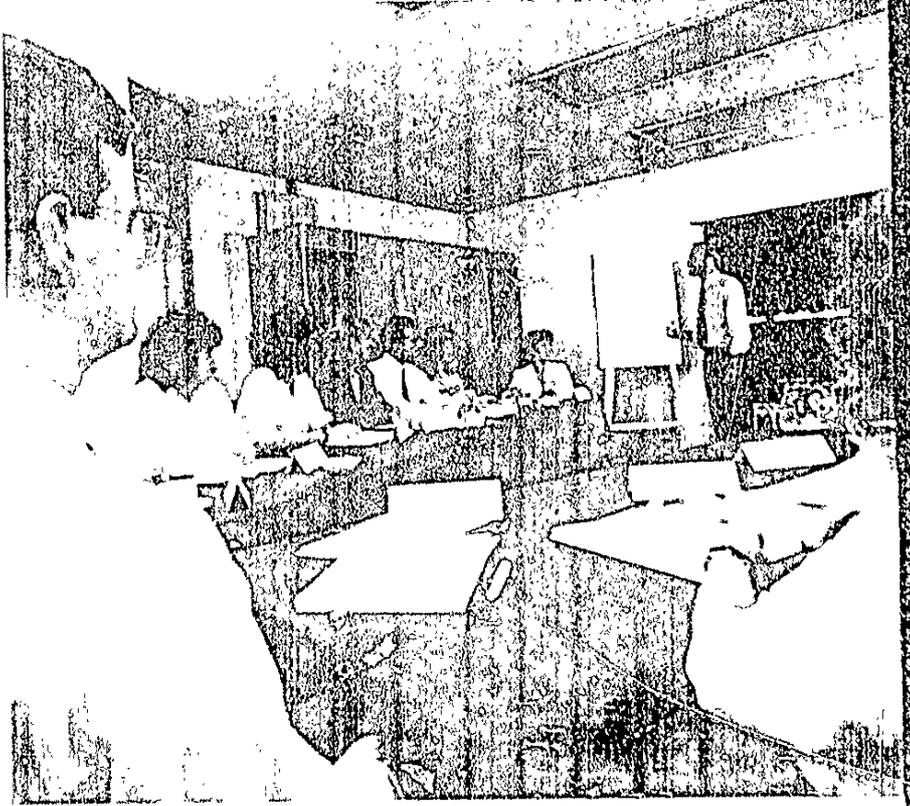
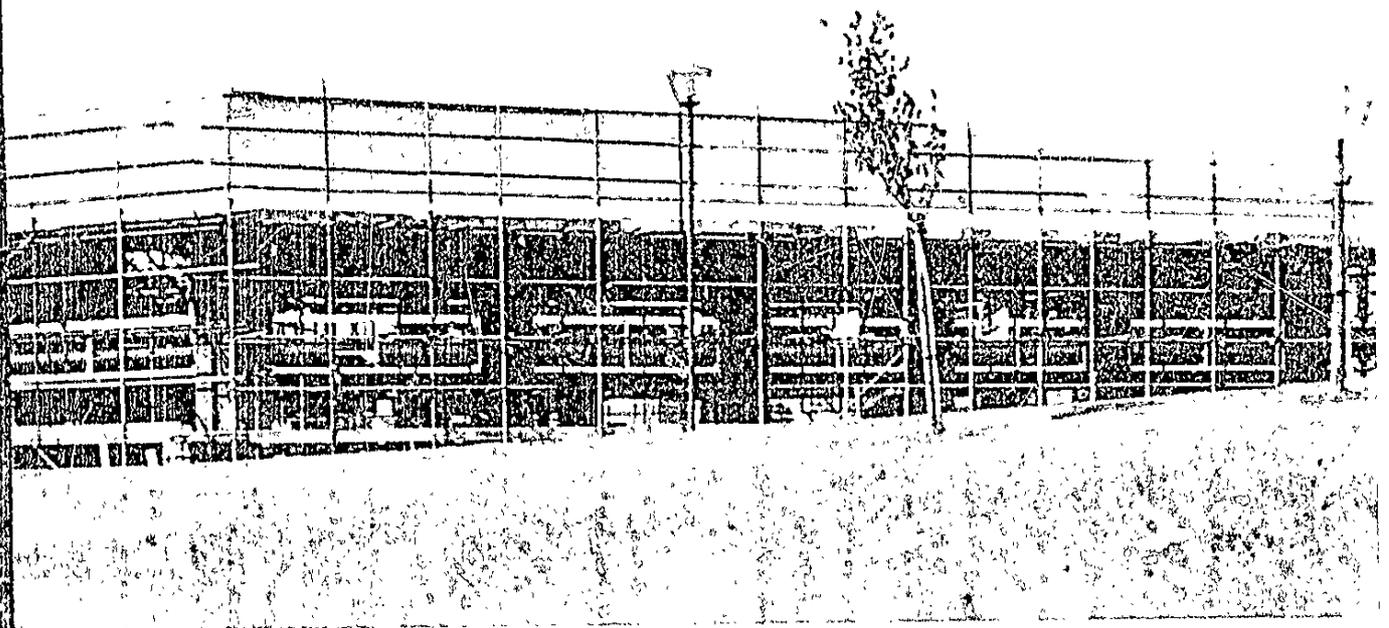


EMPLOYEES

The Company attaches the greatest importance to its employees. Wherever possible it aims to provide equitable remuneration, personal development, professional and security of employment.

In this respect, the Company has worked hard to establish an internal system that fulfills the requirements of law and works in the best interests of employees. Moreover, the Company has endeavored to create a pleasant working atmosphere in which the employees can best perform their jobs.

We are confident that our employees will continue to help us to meet our goals and to achieve our vision of becoming a leading company in the world. In addition, we are committed to the development of our employees and to their well-being.



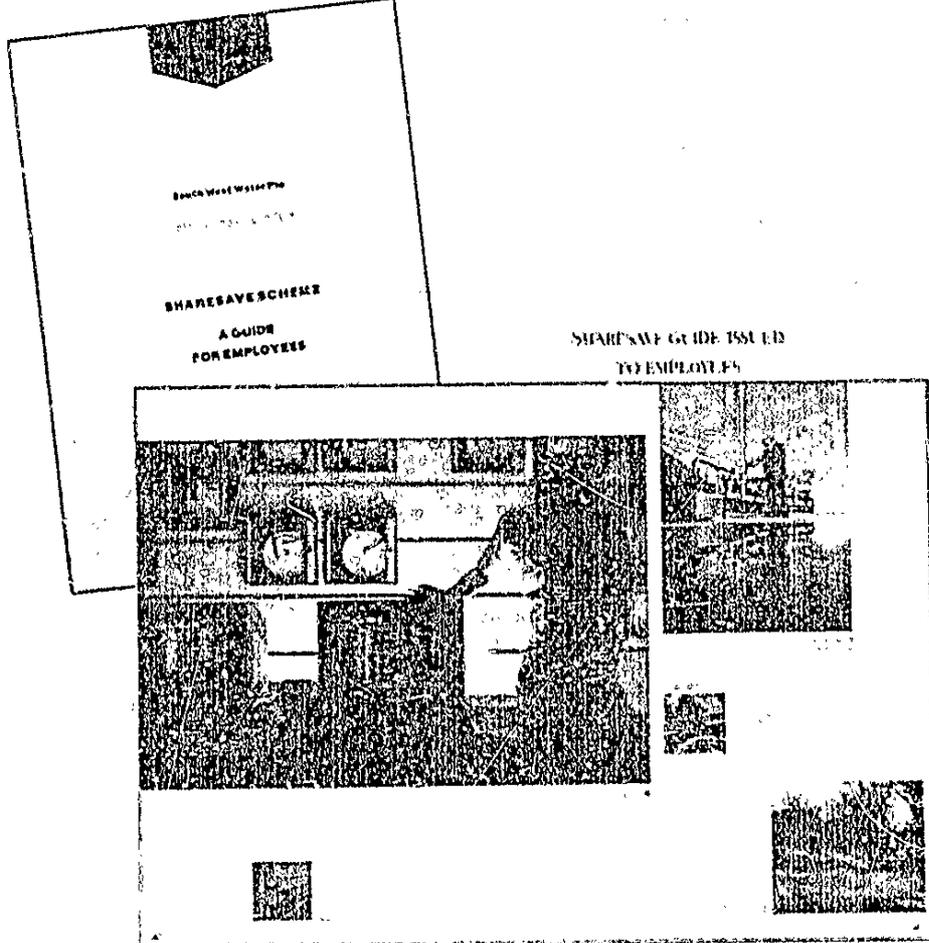
NEWS & VIEWS



for operations staff. A major customer care training programme was launched. Forty employees were given intensive training and they, in turn, trained colleagues throughout the Company.

As part of our programme to improve communications, a briefing system — “News and Views” — was developed and implemented. It provides for the cascading of information to all employees, and gives them the opportunity to raise issues of importance in the workplace.

Employees with more than six months’ service were offered free shares at the time of flotation, and many



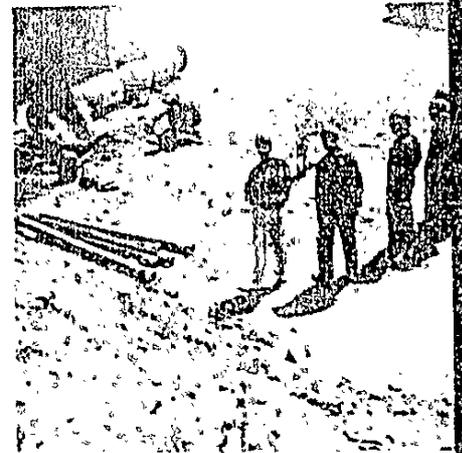


invested their own money in the Company. The Company incorporated in Science so that employees could share with the public some of the programs and shares in the Company.

Dr. Casper is a member of the American Medical Association and the American Society of Surgeons. He is also a member of the American Society of Physicians, the American Society of Surgeons, and the American Society of Podiatry.

Dr. Casper is the only person in the world who has been awarded the title of Doctor of Medicine by the American Medical Association and the American Society of Surgeons. He is also a member of the American Society of Physicians, the American Society of Surgeons, and the American Society of Podiatry.

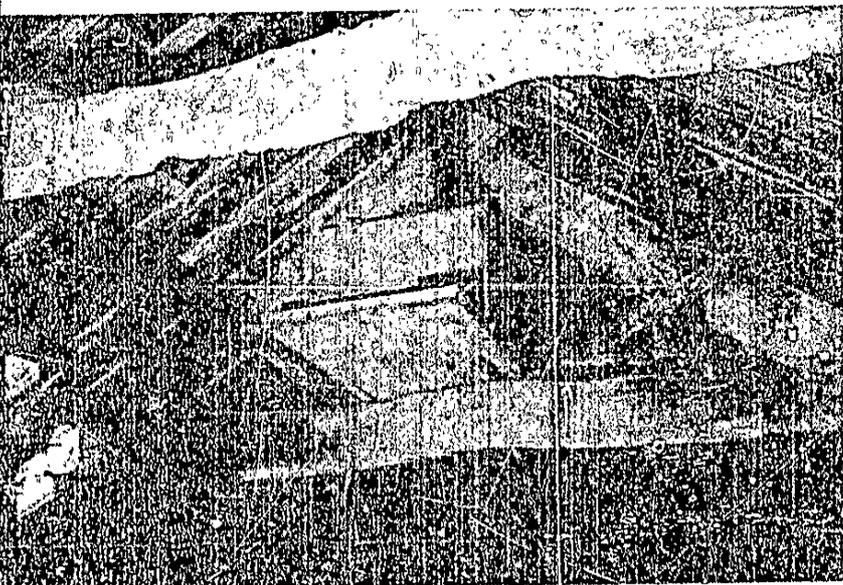
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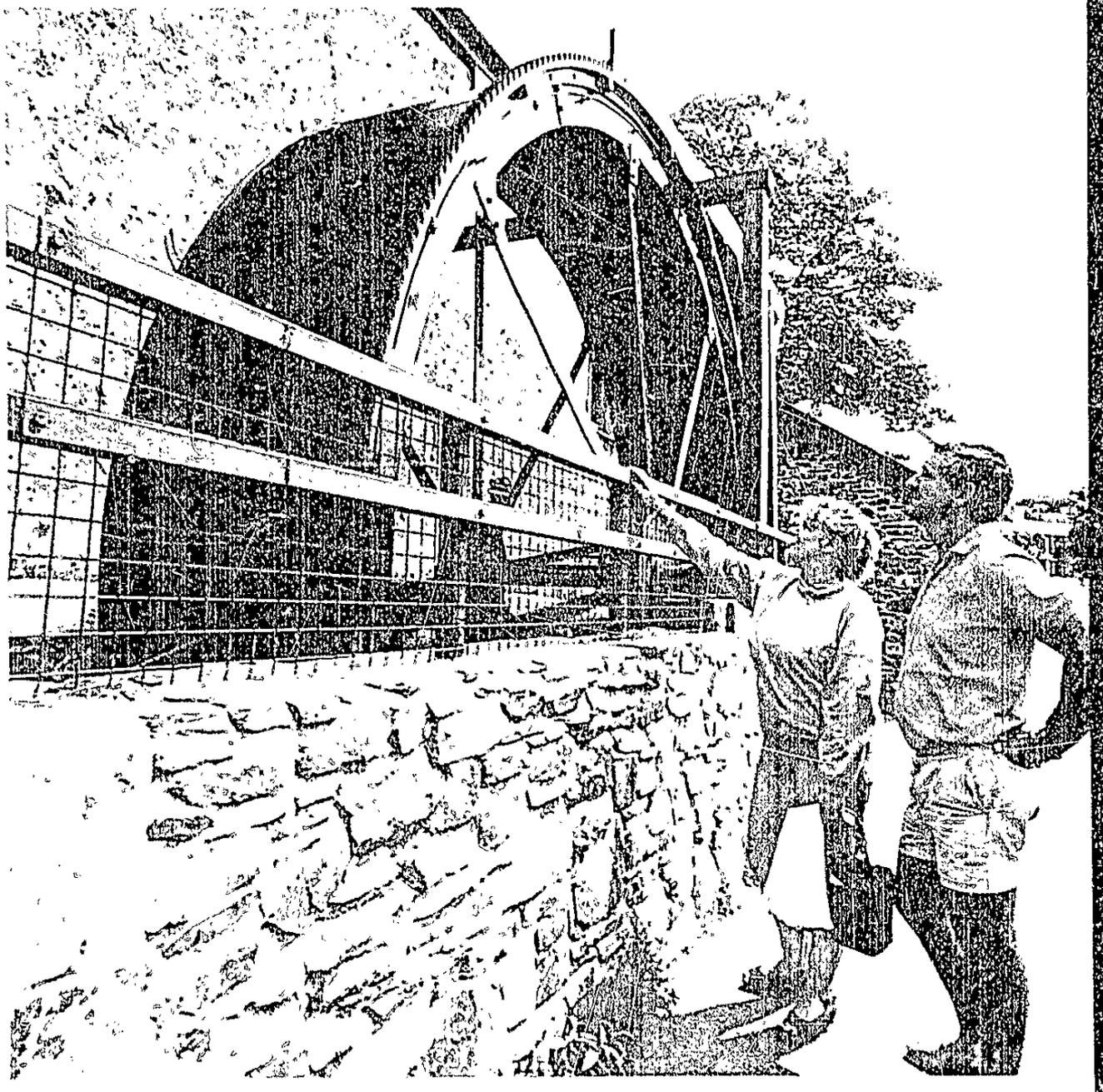
CONSERVATION

In 1989 the Company won the Devon Wildlife Trust/Western Morning News Conservation Award for its work to protect and improve the natural habitat around the Roadford reservoir -- just one example of the Company's conservation efforts.

In addition to enhancing the natural environment, the Company is committed to preserving our man-made heritage, including archaeological remains and more recent industrial machinery.



OWE DAM AT ROADFORD



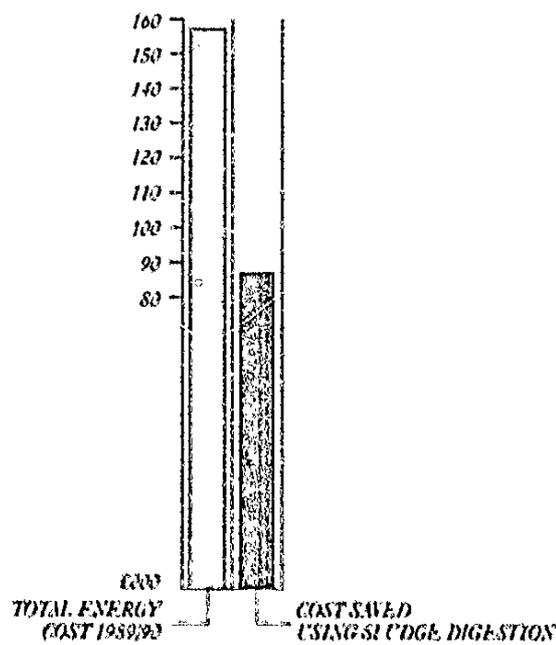
ENERGY EFFICIENCY

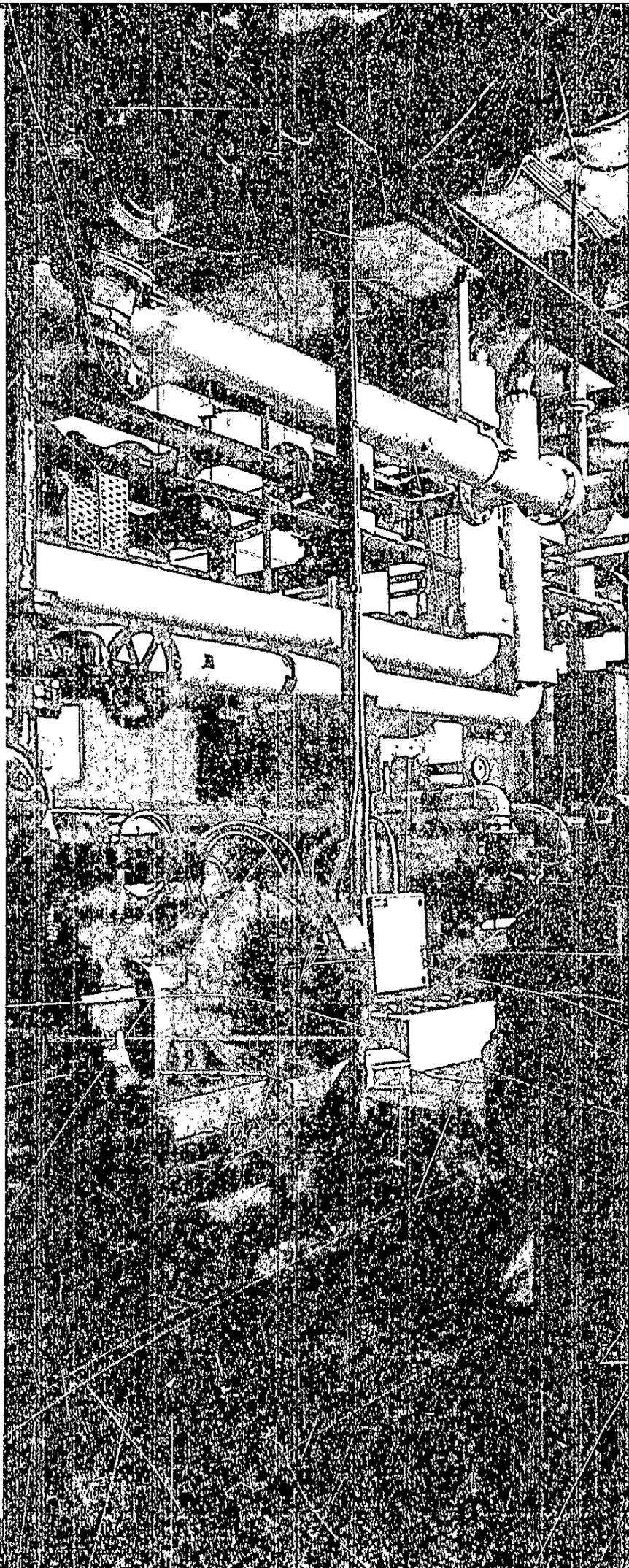
Efficient use of energy helps cut costs as well as protecting the environment.

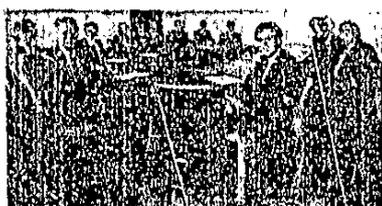
The Company's dedicated Energy Management Team has a three part strategy – to purchase energy at minimum cost, to develop renewable energy sources, and to reduce energy consumption through an energy efficiency programme.

The Company has developed the capacity to produce up to six per cent of its energy requirements. The main sources are combined heat and power plants using methane produced by sludge digestion, and hydro-electric generation at reservoirs. Both sources avoid the use of non-renewable fossil fuels.

COUNTRESS WEAR SEWAGE TREATMENT WORKS







REPORT OF THE DIRECTORS

The Directors submit their first annual report and the audited financial statements of South West Water Plc and its subsidiaries (the Group) for the year ended 31 March 1990.

INCORPORATION AND VESTING OF BUSINESS

South West Water Plc (the Company) was incorporated on 1 April 1989 as a public limited company. On 1 September 1989, the Company acquired the entire issued share capital of South West Water Services Limited, a company 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. The net assets of South West Water Authority, other than those relating to operations transferred to the National Rivers Authority, were vested in South West Water Services Limited on 1 September 1989.

CAPITAL

Authorised

The authorised share capital of the Company on incorporation was £50,000 comprising 50,000 shares of £1 each. On 29 August 1989 the authorised share capital was increased to £50,001 by the creation of one special share of £1 and the 50,000 shares of £1 each were designated as ordinary shares of £1 each. On 20 November 1989 the authorised share capital was further increased to £565,001 by the creation of 515,000 additional ordinary shares of £1 each and, conditionally on the whole of the ordinary share capital being admitted to the Official List by The Stock Exchange and such admission being effective not later than 12 January 1990, it was further increased to £175,000,001 by the creation of 174,435,000 additional ordinary shares of £1 each.

Issued

On incorporation two shares of £1 each were subscribed at par by nominees of the Crown. On 1 September 1989, 49,998 ordinary shares of £1 each were issued at par to the Secretary of State for the Environment, credited as fully paid. On 20 November 1989, 515,000 ordinary shares of £1 each were issued at par, credited as fully paid, to the Secretary of State and, conditionally on the whole of the ordinary share capital being admitted to the Official List by The Stock Exchange, and such admission being effected not later than 12 January 1990, a) 121,683,000 ordinary shares of £1 each were allotted, credited as fully paid, to the Secretary of State in consideration of an undertaking to pay in cash £265.9 million, and b) the special share was allotted at par, credited as fully paid, to the Secretary of State.

OFFER FOR SALE

On 22 November 1989 the Secretary of State for the Environment offered for sale 122,248,000 ordinary shares of £1 under the UK Offer for Sale and overseas offers in Canada, Continental Europe, Japan and the USA. The shares were offered at 240p per ordinary share, 100p payable on application, 70p payable on 31 July 1990 and 70p payable on 30 July 1991. All the shares on offer were taken up and dealings commenced on The Stock Exchange in London on 12 December 1989. Under the Special Incentives available on the Offer for Sale certain applicants were eligible for a reduction of 10p per ordinary share on each of the second and final

instalments or a share bonus if ordinary shares purchased under the Offer for Sale are held continuously until 31 December 1992.

PRINCIPAL ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES

The Company, through its subsidiary South West Water Services Limited, is engaged principally 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 Group is also developing other trading activities including property development, extension of recreational facilities and scientific instrumentation. A review of activities for the year is given on pages 12 to 33.

FINANCIAL RESULTS AND DIVIDENDS

Group turnover for the year ended 31 March 1990 increased by 13.8% to £121.0m. This resulted from a 13% increase in tariffs for the supply of drinking water and disposal of waste water, and growth in business.

Profit on ordinary activities before taxation advanced from £38.1m to £45.3m. This compares with the forecast of not less than £44.5m made at the time of the Offer for Sale in November 1989.

Taxation of £4.7m relates to irrecoverable advance corporation tax payable on the proposed dividend, with no mainstream corporation tax being payable.

Profit after taxation was £40.6m compared with the Offer for Sale forecast of not less than £39.8m and £38.1m in 1989. The extraordinary items of £3.8m were in respect of privatisation and restructuring costs.

The Company exceeded both the unadjusted and proforma profit forecasts made at the time of the Offer for Sale; the proforma profit results of £75.7m after taxation (compared with the Offer for Sale forecast of £74.9m) reflect the profit that would have arisen if the new capital structure had been in place for the full year.

The Directors believe that comparison between the results for the years ended 31 March 1990 and 31 March 1989 is not meaningful in view of changes in capital structure and regulation and in the level of infrastructure renewals expenditure and other costs associated with the Company's new status as a Plc.

The Directors propose payment of a final dividend of 11.62p per share for the year ended 31 March 1990. If approved at the annual general meeting payment will be made on 1 October 1990 to shareholders on the register at the close of business on 23 July 1990. The payment of this dividend will require £14.2m, leaving £22.6m retained in the business.

LOANS

As part of the capital restructuring of the Company all indebtedness in respect of relevant loans outstanding at 15 November 1989 was waived, in accordance with the provisions of the Water Act 1989. Relevant loans comprised sums borrowed from the Secretary of State or the Public Works Loan Commissioners and at that date amounted to £129.4m.

CAPITAL EXPENDITURE

Capital expenditure on tangible fixed assets was £77.8m, a significant increase from the £52.1m achieved in 1989, and included work on more than 200 major projects throughout the region. The expenditure comprised:

Water supply	45.9
Sewerage services	23.8
Other business and support activities	8.1
	<hr/>
	77.8
	<hr/>

Grants and contributions of £6.7m were received in respect of the above expenditure (1989 £7.4m).

FIXED ASSETS

Changes in fixed assets are shown in note 11 to the financial statements.

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 water supply and sewerage service price levels.

CURRENT ASSETS

At 31 March 1990 the Group held current asset investments of £262.8m largely representing the cash received in connection with the allotment of shares to the Secretary of State.

DIRECTORS

Mr. J.A.L. Gunn and Mr. A.D. Whetnall were appointed Directors on incorporation of the Company and resigned on 31 August 1989. The present Directors of the Company are shown on page 4.

Mr. W.H. Fraser, Mr. K.L. Hill and Mr. K.J. Morton were appointed by the Board after 1 September 1989 and are therefore due to retire at the first annual general meeting. Also at the meeting Lady Mary Holborow and Mr. S. J. Day retire by rotation. All of the Directors due to retire offer themselves for re-election and resolutions for their re-election will be proposed at the annual general meeting. Mr. Fraser and Mr. Hill have service contracts which provide for not less than three years' notice of termination by the Company and not less than one year's notice of termination by the Director, expiring at any time. None of the other Directors proposed for re-election has a service contract with the Company.

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

Details of Directors' interests in shares of the Company are given in note 24 to the financial statements on page 62.

EMPLOYEES

Information on employees appears on pages 26 to 29.

DONATIONS

During the period, no charitable or political donations were made.

RESEARCH AND DEVELOPMENT

Information on research and development appears on page 22.

TAX STATUS

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

SUBSTANTIAL SHAREHOLDINGS

Norwich Union Fund Managers Limited has notified an interest in 6,251,700 ordinary shares, being 5.11% of the issued ordinary share capital of the Company. No other person has notified an interest of 3% or more in the issued ordinary share capital.

AUDITORS

Price Waterhouse were appointed Auditors by the Board until the conclusion of the first 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 first annual general meeting will be held at the English Riviera Centre, Torquay, Devon on Tuesday, 18 September 1990 at 11.30 am.

In addition to the routine business a special resolution will be proposed at the annual general meeting.

Resolution 9 seeks to renew until next year's annual general meeting the Directors' existing authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. The share capital to which this authority relates represents approximately five per cent of the issued share capital at 31 March 1990. The Directors consider that they should have such authority in order to be able to take advantage of opportunities as they arise and to retain flexibility although they have no current plans to issue shares.

APPOINTED BUSINESS

South West Water Services Limited is required to provide additional financial information relating to "Appointed Business" as a water and sewerage undertaker in accordance with the Instrument of Appointment from the Secretary of State for the Environment. A copy of this information is available to shareholders and customers by application to the Secretary at Peninsula House, Rydon Lane, Exeter EX2 7HR.

By order of the Board.

R C Milligan, Secretary,
Peninsula House, Rydon Lane,
Exeter, EX2 7HR.
25 July 1990



SHAREHOLDER INFORMATION

Financial year end	31 March
Second instalment payable by	31 July 1990
First annual general meeting	18 September 1990
1990 final dividend payable	1 October 1990
1991 interim results announcement	November 1990
1991 interim dividend payable	4 March 1991
1991 results preliminary announcement	June 1991
Final instalment payable by	30 July 1991
Second annual general meeting	September 1991
1991 final dividend payable	1 October 1991

CORPORATE PERSONAL EQUITY PLAN

The Company has established a corporate personal equity plan to enable shareholders to gain tax advantages by holding their shares through the Plan. Full details of the Plan are available from the managers, CC&P Trustees Limited, 26/28 Bedford Row, London WC1R 4HE.

ANNUAL GENERAL MEETING

The first annual general meeting will be held at the English Riviera Centre, Torquay on 18 September 1990. Shareholders who are also customers of South West Water Services Limited will be able to raise any questions on customer service at the customer service desk in the exhibition area adjoining the meeting. CC&P Trustees Limited will also be present to provide information on the corporate personal equity plan in the exhibition area.

SHAREHOLDER ANALYSIS

Ordinary shareholders at 31 March 1990

	No. of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1 - 100	13,199	23.0	1.1
101 - 200	8,809	15.4	1.4
201 - 300	4,969	8.7	1.2
301 - 800	23,279	40.7	9.5
801 - 1,000	4,336	7.6	3.1
1,001 - 2,000	2,077	3.6	2.1
2,001 - 5,000	181	0.3	0.5
5,001 - 50,000	251	0.4	3.2
50,001 - 100,000	51	0.1	3.0
Over 100,000	97	0.2	74.9
	57,249	100.0	100.0
Individuals	54,513	95.2	18.6
Companies	710	1.2	37.3
Trust companies (Pension funds etc)	44	0.1	1.0
Banks and nominees	1,923	3.4	32.3
Insurance companies	58	0.1	10.5
HNI Government	1	-	0.3
	57,249	100.0	100.0

PERCENTAGE OF TOTAL SHAREHOLDERS

PERCENTAGE OF ORDINARY SHARES

INDIVIDUALS		
COMPANIES		
TRUST COMPANIES		
BANKS AND NOMINEES		
INSURANCE COMPANIES		

NOTICE OF MEETING

The first Annual General Meeting of South West Water Plc will be held at the English Riviera Centre, Torquay, Devon on Tuesday, 18 September 1990 at 11.30 a.m. for the transaction of the following business:

- Resolution 1* To receive the Report of the Directors and the Financial Statements for the year ended 31 March 1990.
- Resolution 2* To declare a final dividend for the year.
- Resolution 3* To re-elect Mr. W.H. Fraser as a Director.
- Resolution 4* To re-elect Mr. K.L. Hill as a Director.
- Resolution 5* To re-elect Mr. K.J. Morton as a Director.
- Resolution 6* To re-elect Mr. S.J. Day as a Director.
- Resolution 7* To re-elect Lady Mary Holborow as a Director.
- Resolution 8* To re-appoint Price Waterhouse as Auditors until the conclusion of the next general meeting at which Financial Statements are laid before the Company and to authorise the Directors to fix their remuneration.
- Resolution 9* To propose the following as a special resolution:
- That
- a the Directors be empowered to allot for cash equity securities (as defined for the purposes of section 89 of the Companies Act 1985) pursuant to the existing general authority conferred on them under section 80 of that Act as if section 89(1) of that Act did not apply to the allotment but this power shall be limited:
 - i to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them but the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and
 - ii to the allotment (other than under (i) above) of equity securities having, in the case of relevant shares (as defined for the purposes of section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £6,112,000;
 - b this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution; and
 - c the Company may, before this power expires, make an offer or agreement which would or might require equity securities to be allotted under this power after it expires.

By order of the Board

R.C. Milligan, Secretary,
Peninsula House, Rydon Lane,
Exeter, EX2 7HR
8 August 1990



NOTES

The Annual Report and the Notice of the first Annual General Meeting are issued under the provisions of the Articles of Association and the Instalment Agreement dated 22 November 1989 relating to Interim Rights. Rights to attend and vote at the meeting may be exercised in accordance with the Articles of Association and the Instalment Agreement.

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

A Form of Proxy is enclosed and, if used, should be lodged with the Company's Registrars, Lloyds Bank Plc, Registrar's Department not less than 48 hours before the time fixed for the meeting. The appointment of a proxy will not preclude a member or a registered holder of Interim Rights from attending and voting at the meeting.

The following will be available for inspection during normal business hours at the Company's registered office from the date of this notice until the date of the meeting, and at the place of the meeting from 10.30 a.m. until the conclusion of the meeting:

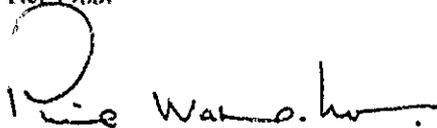
- The Register of Directors' Interests in the capital of the Company and of its subsidiaries.
- Copies of the Directors' service contracts.

AUDITORS' REPORT

To the Members of South West Water Plc

We have audited the Financial Statements on pages 44 to 62 in accordance with Auditing Standards.

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 1990 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
Bristol

25 July 1990

SOUTH WEST WATER PLC
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 1990



GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1990

		1990	1989
	Notes	£m	£m
Turnover	2	121.0	106.5
Other operating income		0.2	0.2
Operating costs	3	(77.1)	(55.1)
Operating profit	2	44.1	51.4
Interest receivable (payable)	4	1.2	(13.3)
Profit on ordinary activities before taxation		45.3	38.1
Tax on profit on ordinary activities	5	(4.7)	—
Profit on ordinary activities after taxation		40.6	38.1
Extraordinary items	6	(3.8)	(0.5)
Profit for the year	7	36.8	37.6
Dividend	8	(4.2)	—
Retained profit transferred to reserves	9	22.6	37.6
Preforma earnings per ordinary share	10	61.5p	—

A statement of movements in reserves is given in note 9.

The notes on pages 47 to 62 form part of these financial statements.

BALANCE SHEETS
at 31 March 1990

	Notes	Group		Company
		1990	1989	1990
		£m	£m	£m
Fixed assets				
Tangible assets	11	415.0	353.1	1.4
Investments	12	0.3	-	269.0
		<u>415.3</u>	<u>353.1</u>	<u>270.4</u>
Current assets				
Stocks	13	1.5	1.6	-
Debtors	14	20.7	18.6	13.7
Investments	15	202.8	2.8	15.7
Cash at bank and in hand		0.1	0.1	-
		<u>225.4</u>	<u>23.1</u>	<u>29.4</u>
Creditors due within one year	16	(63.8)	(65.2)	(21.3)
Net current assets (liabilities)		<u>221.6</u>	<u>(42.1)</u>	<u>8.1</u>
Total assets less current liabilities		<u>636.9</u>	<u>311.0</u>	<u>278.5</u>
Creditors due after more than one year	17	(1.3)	(96.8)	-
Provisions for liabilities and charges	19	(3.7)	-	-
		<u>631.9</u>	<u>214.2</u>	<u>278.5</u>
Capital and reserves				
Called-up share capital	20	122.2	-	122.2
Share premium account	9	144.2	-	144.2
Profit and loss account	9	365.5	214.2	12.1
		<u>631.9</u>	<u>214.2</u>	<u>278.5</u>

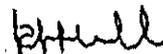
The notes on pages 47 to 62 form part of these financial statements.

Approved by the Board on 25 July 1990 and signed on its behalf by:

K.W. Court, Chairman



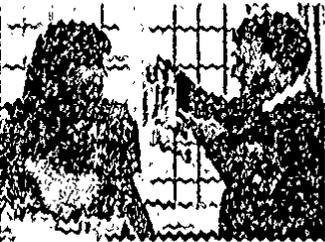
K.L. Hill, Group Director of Finance




**GROUP SOURCE AND APPLICATION OF FUNDS
STATEMENT**

for the year ended 31 March 1990

	1990	1989
	£m	£m
Source of funds		
Profit on ordinary activities before taxation	41.5	38.1
Extraordinary items	(0.5)	(0.5)
	<u>41.0</u>	<u>37.6</u>
Adjustment for items not involving the movement of funds:		
Depreciation	7.1	7.1
Profit on sale of tangible fixed assets	(0.1)	(0.1)
Provisions for liabilities and charges	—	—
Total generated from operations	<u>48.0</u>	<u>44.6</u>
Funds from other sources:		
Proceeds from disposals of tangible fixed assets	4.4	4.4
Proceeds from issue of ordinary shares	—	—
Source of funds total	<u>52.4</u>	<u>49.0</u>
Application of funds		
Net additions to tangible fixed assets	(44.7)	(44.7)
Acquisition of subsidiaries and related companies (see note below)	—	—
Loan repayments	(1.0)	(1.0)
	<u>(45.7)</u>	<u>(45.7)</u>
(Increase) decrease in working capital		
Stocks	(0.2)	(0.2)
Debtors	0.9	0.9
Creditors	(2.1)	(2.1)
	<u>(1.4)</u>	<u>(1.4)</u>
Surplus for year	<u>1.9</u>	<u>1.9</u>
Represented by		
Increase (decrease) in net liquid funds:		
Cash and bank balances	(0.3)	(0.3)
Current asset investments	1.0	1.0
Short term borrowings and overdrafts	1.2	1.2
	<u>1.9</u>	<u>1.9</u>
Note:		
Acquisition of subsidiaries and related companies comprised:		
Goodwill	—	—
Related companies	—	—
Debtors	—	—
Creditors	—	—
	<u>—</u>	<u>—</u>
Financed by cash from Group's cash resources	<u>1.9</u>	<u>—</u>



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.

b Basis of Consolidation

South West Water Plc ("the Company") was incorporated on 1 April 1989. On 1 September 1989 the Company acquired the entire issued share capital of South West Water Services Limited ("South West Water"). The net assets of the South West Water Authority (the "predecessor authority"), other than those relating to operations transferred to the National Rivers Authority ("NRA"), were vested in South West Water on 1 September 1989. Under Section 91 of the Water Act 1989 for statutory accounting purposes vesting is deemed to have taken place on 1 April 1989 and South West Water is deemed to have become a subsidiary of the Company on the same date. Accordingly the Group financial statements cover the full year ended 31 March 1990. Corresponding figures for 1989 relate to the predecessor authority and have been adjusted to exclude operations transferred to the NRA and to reflect accounting policies now used by the Group; details of changes were disclosed in the listing particulars of the Company dated 22 November 1989.

The Group financial statements include the results of the Company and its subsidiaries, each made up to 31 March 1990, together with the attributable share of results and reserves of related companies on the basis of their latest accounts. The results of subsidiaries and related companies acquired during the year are included for the periods of ownership.

No Profit and Loss Account is presented for the Company, as permitted by section 228 of the Companies Act 1985.

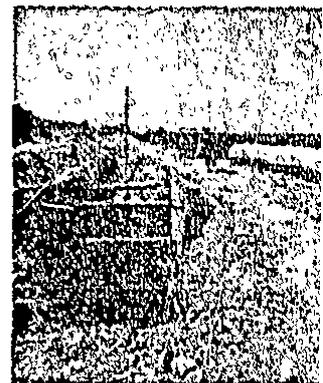
c Turnover

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



1 ACCOUNTING POLICIES (continued)

Infrastructure assets

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 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 capabilities of the network is charged as an operating cost. This policy has been implemented with effect from 1 April 1984, being the earliest practicable date of application. Prior to that date, certain infrastructure renewals expenditure was capitalised and depreciation was charged on infrastructure assets.

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, with effect from 1 April 1989, the charge against profits is adjusted by way of accruals or deferrals as appropriate to reflect the long term normal level of charges, in accordance with defined standards of service.

It has not been possible or appropriate to adjust the profit and loss account charges for infrastructure renewals expenditure not incurred for the five years ended 31 March 1989 as the Group did not have information in the current form during this period. Consequently, the levels of charges for infrastructure renewals expenditure in the five years ended 31 March 1989 may not necessarily be indicative of the likely levels of charges after 1 April 1989.

Other assets

Other assets are stated at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions.

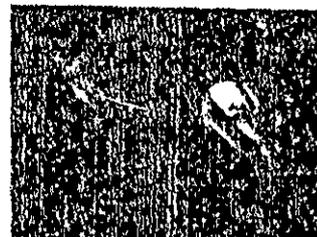
Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

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.

e Investments

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



1 ACCOUNTING POLICIES (continued)

f Stocks

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence.

g Pension Costs

The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged against profits so as to spread the cost of pensions over the service lives of employees in the schemes at a level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Such assumptions are regularly updated and the effect of variations from the regular cost is spread over the expected remaining service lives of current employees in each scheme.

h Research Expenditure

Research expenditure is charged against profits in the year in which it is incurred, except that the cost of fixed assets which provide facilities for research is depreciated over the useful life of those assets.

i 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.

j Goodwill

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

k Leases

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

2 TURNOVER AND OPERATING PROFIT

	Turnover		Operating profit	
	1988	1989	1988	1989
	£m	£m	£m	£m
Water supply	59.5	52.3	12.9	19.7
Sewerage services	41.8	54.0	5.2	31.7
Other	0.2	-	0.2	-
	<u>101.5</u>	<u>106.3</u>	<u>18.3</u>	<u>51.4</u>

All turnover and operating profit arise in the UK



3 OPERATING COSTS

	1990	1989
	£m	£m
Manpower costs (see note 22)	20.1	16.4
Raw materials and consumables	6.7	5.4
Other external charges	26.0	17.1
Depreciation on owned assets	7.8	6.6
Infrastructure renewals expenditure	6.9	3.8
Rentals under operating leases:		
Use of plant and machinery	0.6	0.5
Other operating leases	0.2	0.3
Research and development	0.3	0.4
Auditors' remuneration	0.1	0.1
Other operating charges	8.1	4.5
	77.1	55.1

4 INTEREST RECEIVABLE (PAYABLE)

	1990	1989
	£m	£m
Interest receivable:		
Listed redeemable securities	0.6	0.5
Other investments (as defined in note 15)	10.1	1.0
	11.0	1.5
Interest payable:		
Relevant loans (as defined in note 18)	(0.1)	(14.6)
Other loans and short term borrowings	(1.2)	(0.1)
Other finance costs	(0.5)	(0.1)
	(1.8)	(14.8)
Net interest receivable (payable)	1.0	(13.3)

Net interest receivable (payable) above includes a charge against profits of £0.4m (1989 nil) arising from changes in the value of current asset investments.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1990	1989
	£m	£m
United Kingdom taxation:		
Irrecoverable advance corporation tax	4.7	-

The Group is entitled to capital allowances on qualifying assets transferred from the predecessor authority. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1990; advance corporation tax on the proposed dividend is therefore regarded as irrecoverable and has been written off to the profit and loss account.

6 EXTRAORDINARY ITEMS

	1990	1989
	£m	£m
Privatisation and restructuring costs	3.5	0.5

Privatisation and restructuring costs include expenditure relating to preparation for the vesting of the predecessor authority's assets and liabilities in successor bodies which took place on 1 September 1989 under the provisions of the Water Act 1989.

7 PROFIT FOR THE YEAR

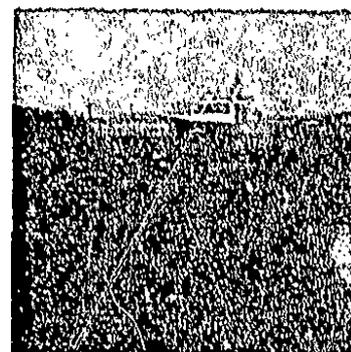
	1990	1989
	£m	£m
Dealt with in the accounts of the holding company	26.4	-

8 DIVIDEND

	1990	1989
	£m	£m
Proposed final dividend of 11.62p per ordinary share, payable 1 October 1990	14.2	-

9 RESERVES

	Group and Company share premium account	Group profit and loss account	Company profit and loss account
	£m	£m	£m
Capital restructuring in accordance with the provisions of the Water Act 1989:			
Net assets transferred from predecessor authority on vesting	-	214.2	-
Loans waived by Secretary of State for the Environment ("the Secretary of State") and Public Works Loan Commissioners	-	129.4	-
Arising on share issues to Secretary of State:			
Shares issued as fully paid, out of reserves	-	(0.5)	(0.5)
Share premium on shares issued for cash	141.2	-	-
Goodwill arising on acquisitions	-	(0.2)	-
Profit retained for year	-	22.6	12.6
At 31 March 1990	141.2	345.5	12.1



(i) *PROFORMA EARNINGS PER SHARE*

	1990
Proforma profit on ordinary activities after taxation	<u>£75.7m</u>
Proforma earnings per ordinary share	<u>61.9p</u>

Proforma earnings per ordinary share have been calculated by dividing proforma profit on ordinary activities after taxation by 122,248,000 ordinary shares in issue. Proforma profit on ordinary activities after taxation has been calculated by adjusting financing costs by £37.5m to reflect interest income that would have arisen on the basis that the new capital structure had been in place from 1 April 1989, and by including a proforma taxation charge. The proforma taxation charge comprises advance corporation tax on a notional dividend of £21.3m, being the proforma dividend forecast at the time of the Offer for Sale.

There would be no significant dilution of earnings per ordinary share if the outstanding share options were exercised.

Actual earnings per ordinary share have not been presented as the information is not regarded as meaningful given the changes in the Group's capital structure, regulatory environment and taxation position which have taken place during the year. Earnings per ordinary share for 1989 have not been presented as the Company had no ordinary shares in issue during the year and the application of proforma adjustments to that period would, in the Directors' view, be subjective and inappropriate.

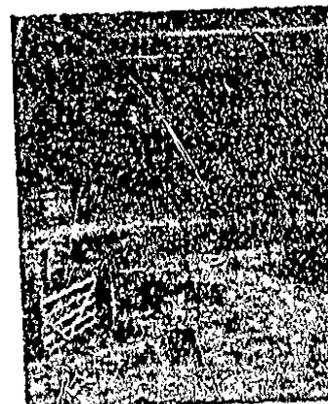
11 TANGIBLE FIXED ASSETS

Group	Freehold land and buildings	Infra-structure assets	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1990
	£m	£m	£m	£m	£m	£m
Cost:						
Transferred from predecessor authority at 1 April 1989	10.3	171.7	127.6	56.8	43.9	410.3
Additions	3.0	19.5	17.8	7.2	30.3	77.8
Grants and contributions	-	(2.1)	(0.9)	(0.1)	(3.6)	(6.7)
Disposals	(0.5)	-	-	(0.4)	-	(0.9)
At 31 March 1990	12.8	189.1	144.5	63.5	70.6	480.5
Depreciation:						
Transferred from predecessor authority at 1 April 1989	1.3	-	30.0	25.9	-	57.2
Charge for year	0.3	-	3.7	4.6	-	8.6
Disposals	-	-	-	(0.3)	-	(0.3)
At 31 March 1990	1.6	-	33.7	30.2	-	65.5
Net book value:						
At 31 March 1990	11.2	189.1	110.8	33.3	70.6	415.0
At 31 March 1989	9.0	171.7	97.6	30.9	43.9	353.1

Out of the total depreciation charge for the Group of £8.6m (1989 £7.1m), the sum of £0.8m (£0.5m) has been charged to capital projects and £7.8m (£6.6m) against profits.

There are no assets subject to finance lease arrangements.

Company	Freehold land and buildings	Plant, machinery and vehicles	Total 1990
	£m	£m	£m
Additions at cost	1.0	0.4	1.4
Cost and net book value:			
At 31 March 1990	1.0	0.4	1.4
Included above are:			
Assets in course of construction which are not depreciated until commissioned			0.3



12 FIXED ASSET INVESTMENTS

Subsidiary companies	Company		
	Shares	Loans	Total 1990
	£m	£m	£m
Additions during year, at cost	266.5	2.5	269.0
Related companies	Group		Company
	1990	1989	1990
	£m	£m	£m
Shares in unlisted companies:			
Additions during year, at cost	0.3	-	-
Total investments	0.3	-	269.0

Details of principal subsidiaries and related companies are:

Name of company	Activity	Proportion of nominal value of shares held	Country of incorporation and principal operations
Subsidiary companies			
South West Water Services Limited	Water supply and sewerage services	100%	England
Peninsula Insurance Limited	Insurance	100%	Guernsey
Related company			
Peninsula Properties (Exeter) Limited	Property development	50%	England

All the shares held are ordinary shares. The shares in the subsidiary companies are held by South West Water Plc and the shares in the related company are held by South West Water Services Limited.

13 STOCKS

	Group		Company
	1990	1989	1990
	£m	£m	£m
Raw materials and consumables	1.8	1.6	-

14 DEBTORS

	Group		Company
	1990	1989	1990
	£m	£m	£m
Trade debtors	5.1	5.2	0.1
Amounts owed by subsidiaries			13.5
Other debtors	1.6	0.9	
Prepayments and accrued income	11.1	12.5	0.1
	<u>20.7</u>	<u>18.6</u>	<u>13.7</u>
Other debtors above include amounts due after more than one year	0.2	0.2	

15 CURRENT ASSET INVESTMENTS

	Group		Company
	1990	1989	1990
	£m	£m	£m
Listed on a recognised investment exchange	10.1	1.8	
Other investments	2.4	1.0	15.7
	<u>12.5</u>	<u>2.8</u>	<u>15.7</u>
Market value of listed investments	10.1	1.8	

Other investments include certificates of deposit, floating and variable rate notes, commercial paper and short term deposits.

16 CREDITORS DUE WITHIN ONE YEAR

	Group		Company
	1990	1989	1990
	£m	£m	£m
Bank loans and overdrafts	2.7	2.5	
Other short term borrowings		1.0	
Current portion of long term loans (note 18)		34.1	
Trade creditors	26.7	15.3	2.1
Advance corporation tax	0.7	-	4.7
Other taxation and social security	2.0	0.6	
Other creditors	1.8	0.5	
Accruals and deferred income	12.0	11.2	
Proposed dividend	11.2	-	14.2
	<u>67.8</u>	<u>65.2</u>	<u>21.3</u>



17 CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group		Company
	1990	1989	1990
	£m	£m	£m
Non-current portion of long term loans (note 18)	0.1	95.9	-
Other creditors	1.2	0.9	-
	1.3	96.8	-

18 LONG TERM LOANS

	Interest rates %	Repayment dates	Group		Company
			1990	1989	1990
			£m	£m	£m
Unsecured loans:					
Relevant loans				129.4	-
Other loans	3.25-6.63	1992-2006	0.1	0.6	-
			0.1	130.0	-

"Relevant loans" comprises sums borrowed or treated as borrowed from the Secretary of State or the Public Works Loan Commissioners including sums borrowed from the European Investment Bank which were refinanced by relevant loans subsequent to 31 March 1989. All indebtedness in respect of relevant loans outstanding at 15 November 1989 has been waived.

	Group		Company
	1990	1989	1990
	£m	£m	£m
Loans or instalments thereof are repayable:			
After five years from balance sheet date:			
Lump sums		8.3	-
Instalments	0.1	58.6	-
From two to five years		21.4	-
From one to two years		7.6	-
Total due after more than one year (note 17)	0.1	95.9	-
Due within one year (note 16)		34.1	-
	0.1	130.0	-

Aggregate amount repayable by instalments any of which fall due after five years

0.1 98.7

Loans at 31 March 1990 are denominated in sterling.



19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company
	1990	1989	1989
	£000	£m	£000
Infrastructure renewals expenditure			
Charged against profits	4.9	3.8	-
Utilised during year	(3.2)	(3.8)	-
	1.7	-	-

Deferred taxation

The maximum potential liability for deferred tax for the Group and the Company at 31 March 1990 was:

	Total potential liability	
	Group	Company
	£000	£000
Accelerated capital allowances	0.3	-
Other	19.7	-
Unutilised corporation tax losses	1.0	-

Consequently, a deferred tax provision was not required at 31 March 1990.

20 CALLED-UP SHARE CAPITAL

Authorised Capital

The authorised share capital of the Company on incorporation on 4 April 1989 was £50,000 comprising 50,000 undesignated shares of £1 each. On 29 August 1989 the authorised share capital was increased to £50,001 by the creation of one special share of £1 and the 50,000 shares of £1 each were designated as ordinary shares of £1 each. On 20 November 1989 the authorised share capital was further increased to £565,001 by the creation of 515,000 additional ordinary shares of £1 each and, conditionally on the whole of the ordinary share capital being admitted to the Official List by the Stock Exchange and such admission being effective not later than 12 January 1990, it was further increased to £175,000,001 by the creation of 174,435,000 additional ordinary shares of £1 each.

At 31 March 1990 the authorised share capital of the Company comprised 175,000,000 ordinary shares of £1 each and one special share of £1.



20 CALLED-UP SHARE CAPITAL (continued)

Allotted, called-up and fully paid capital		
Shares issued during the year comprised:		£
Ordinary shares:		
Issued at par for cash		2
Issued at par in accordance with an obligation arising from receipt of shares in South West Water Services Limited from the Secretary of State	49,998	
Issued at par, credited as fully paid, out of reserves to the Secretary of State in accordance with a direction under the Water Act 1989	515,000	
Issued, credited as fully paid, in consideration of an undertaking by the Secretary of State to pay in cash £265,900,000	121,687,000	
		122,248,000
Special share:		
Issued at par, credited as fully paid, out of reserves to the Secretary of State in accordance with a direction under the Water Act 1989		1
Total at 31 March 1990		122,248,001

The special share is redeemable at any time up to 31 December 1994 at par at the option of the Secretary of State after consulting the Company. Unless so redeemed it will be redeemed by the Company on that date. This share, which may only be held by the Secretary of State or another person acting on behalf of the Crown, does not carry any rights to vote at general meetings or meetings of any class of shareholder, but entitles the holder to attend and speak at such meetings. Certain matters, in particular the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person from owning or having an interest in 15 per cent or more of the ordinary shares in the Company), require the written consent of the holder of the special share. The special share confers no right to participate in the capital or profits of the Company, except that on a winding-up (or return of capital) the Special Shareholder is entitled to repayment of £1 in priority to other shareholders.

Options to subscribe for ordinary shares under the Company's share option schemes were granted during the year to employees (including Directors) as shown below:

Number of shares in respect of which options granted during year	Number of shares outstanding at year end	Nature of scheme	Subscription price fully paid	Period when options normally exercisable
878,282	878,896	Sharewise	176p	1995-1997
1,000,000	1,000,000	Executive	293p	1995-2000
1,008,282	1,008,896			

No options were exercised during the year. Options in respect of 2,339 shares lapsed during the year. Options granted to Directors, included above, are shown in note 24.

21 COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company
	1990	1989	1989
	£m	£m	£m
Capital commitments (including acquisition of other companies):			
Contracted but not provided	26.4	29.3	0.1
Authorised but not yet contracted	13.1	23.4	1.1

In addition to these commitments the Group has longer term investment expenditure plans which include substantial expenditure to meet shortfalls in performance and condition and to provide for new demand and growth.

Finance leases:

The Group had no commitments in respect of finance leases at 31 March 1990 (1989 nil).

Operating leases:

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

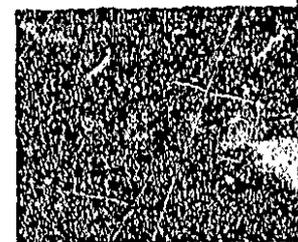
	Group		Company
	1990	1989	1989
	£m	£m	£m
Leases of land and buildings			
Expiring after five years		0.1	
Other leases			
Expiring within one year		0.1	
between two and five years	0.3	0.1	
	0.3	0.2	

Contingent liabilities:

	Group		Company
	1990	1989	1989
	£m	£m	£m
Contractors' claims on capital schemes	3.2	3.9	

The maximum potential liability of the Group amounting to £250,000 for civil claims arising out of the incident at Lowermoor water treatment works on 6 July 1988 has been provided in the Group financial statements. In the event that claims exceed this maximum potential liability then insurance cover will apply.

Criminal proceedings alleging public nuisance in relation to this incident are against South West Water Authority and the Water Act 1989 provides that criminal liability does not transfer to its successor company.



22 NUMBER OF EMPLOYEES AND EMPLOYMENT COSTS

The average number of persons (including Directors) employed by the Group during the year ended 31 March 1990 was 1,712.

Comparative figures for 1989 are not available because employees of the predecessor authorities included those engaged on activities since transferred to the National Rivers Authority.

	1990	1989
	£m	£m
Employment costs comprise:		
Wages and salaries	22.5	19.1
Social security costs	1.7	1.4
Other pension costs	2.5	1.4
Total employment costs	26.7	21.9

Total employment costs are charged as follows:

Manpower costs (note 3)	20.1	16.4
Capital schemes and infrastructure renewal expenditure	6.6	5.5
	26.7	21.9

Pensions

The two main pension arrangements operated by the Group are the South West Water Pension Scheme ("SWWPS") and the South West Water Mirror Image Pension Scheme ("SWWMIS"). Both SWWPS and SWWMIS are defined benefit schemes covering over 90% of the Group's employees (including Directors); the assets of the schemes are held in separate trustee administered funds.

The pension cost for the Group for the year ended 31 March 1990 was £3.0m (1989 £2.6m). The pension cost has been determined on the advice of independent qualified actuaries and spreads the cost of pensions over the service lives of the members of the schemes.

The first actuarial valuations of both SWWPS and SWWMIS, as at 1 April 1990, are currently in progress. Pending the results of these valuations the Group's pension cost for SWWPS and SWWMIS for the year ended 31 March 1990 has been taken as the actual contributions paid to the schemes for that year, namely 12% of pensionable salaries. The pension cost of 12% of salaries has been derived from the results of an actuarial valuation of the former pension arrangements, operated through the Water Authorities Superannuation Fund ("WASF"). Transfers of assets are being made from WASF to SWWPS and SWWMIS, sufficient to cover 100% of the value of benefits that had accrued to members in WASF, allowing for future increases in pensions

22 NUMBER OF EMPLOYEES AND EMPLOYMENT COSTS (continued)

and earnings. The principal actuarial assumptions used to determine both the transfers from WASF and the cost of benefits under that scheme were that the return on investments would exceed salary increases by 2% per annum and would exceed price inflation by 3% per annum; the funding method used was the attained age method.

Included in the pension costs for the year was £0.1m (1989 £0.3m) which arose as a result of recharges by certain local authorities and £0.4m (1989 £0.9m) by WASF; these recharges will not recur in future years.

23 EMOLUMENTS OF DIRECTORS AND EMPLOYEES

	1 September 1989 to 31 March 1990	Annual equivalent
	£000	£000
Total emoluments of the Directors of the Company for the period 1 September 1989 to 31 March 1990, including pension contributions	307	463
Emoluments of the Chairman, excluding pension contributions	31	53
Emoluments of the highest paid Director, excluding pension contributions	43	78

Number of other Directors whose emoluments, excluding pension contributions, for the period 1 September 1989 to 31 March 1990 fell within the following ranges:

Range (£)	1 September 1989 to 31 March 1990	Annual equivalent
0-5,000	5	-
5,001-10,000	2	7
25,001-30,000	2	-
30,001-35,000	1	-
45,001-50,000	-	2
55,001-60,000	-	1

No employee of the Company received emoluments, excluding pension scheme contributions, which exceeded £30,000 for the period 1 September 1989 to 31 March 1990.



24 DIRECTORS' INTERESTS

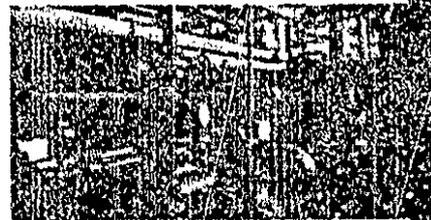
At 31 March 1990 the Directors held interests in shares of the Company as follows:

	Beneficial share interests	Shares under option	
		Sharesave scheme	Executive scheme
K.W. Court	6,760	4,090	65,000
S.J. Day	1,500		
W.J. Dickens	1,779	6,136	45,000
W.H. Fraser	2,000		65,000
K.L. Hill	5,980		45,000
Lady Mary Holborow	2,350		
J.R. Lawrence	900		
T.C. Leader	1,180		
K.J. Morton	760		
M.J. Le P. Quantick	2,295	3,068	45,000
G. Spence	2,050		
C.R. Stuart	1,000		

When appointed none of the Directors had any interest in shares of the Company. There have been no changes in the above interests since 31 March 1990.

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

The options were granted during the year and may be exercised at prices and dates shown in note 20



Design - Les Dominey
Photography - John Plimmer/Japies
Printed in Plymouth by Burrups Ltd - St Ives plc