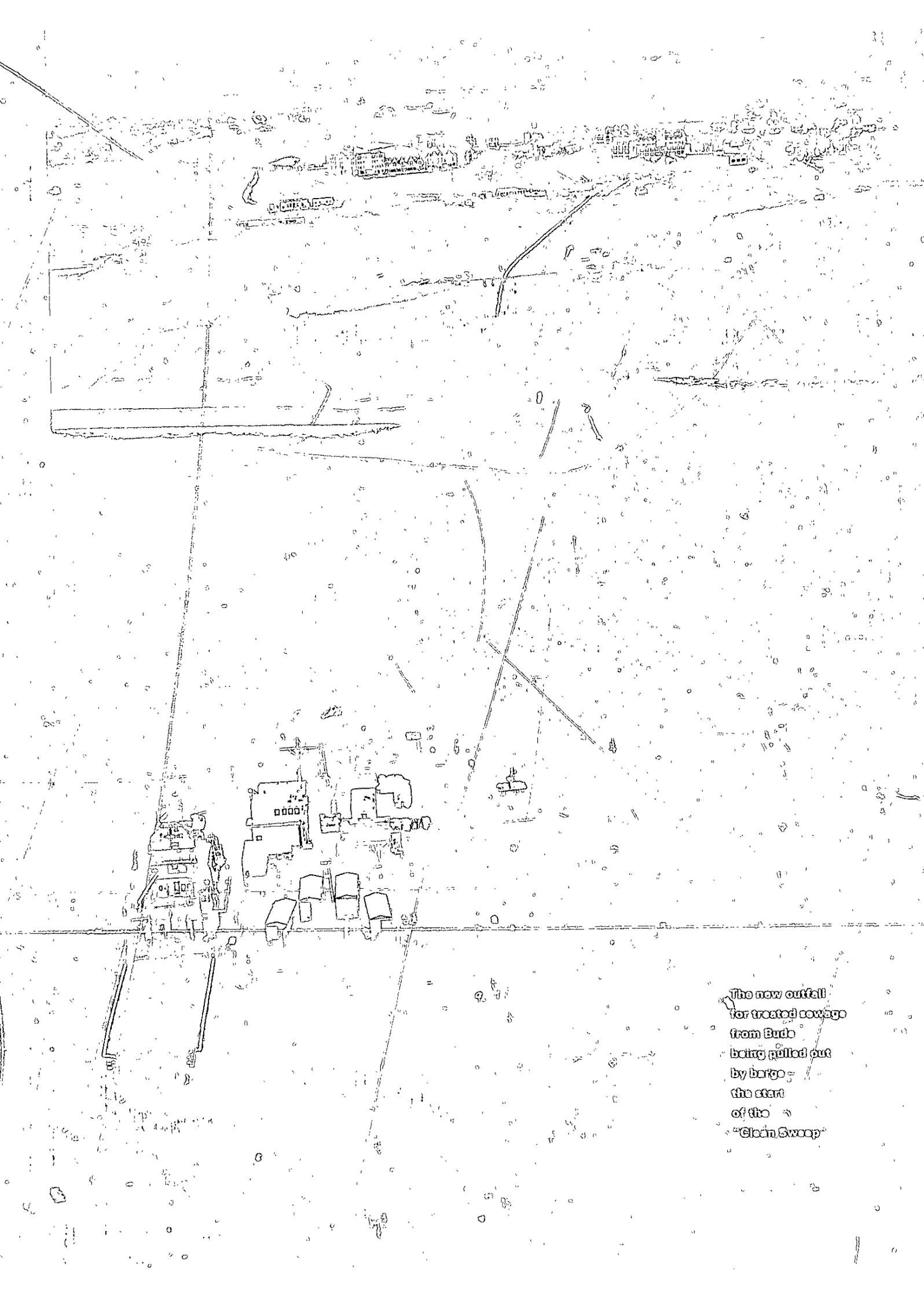


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DUE TO THE POOR
QUALITY OF THE
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FOLLOWING IMAGES
ARE ALSO OF POOR
QUALITY.

234640

A C C C I I I
I O S =



The new outfall
for treated sewage
from Bude
being pulled out
by barge
the start
of the
"Clean Sweep"



CONTENTS

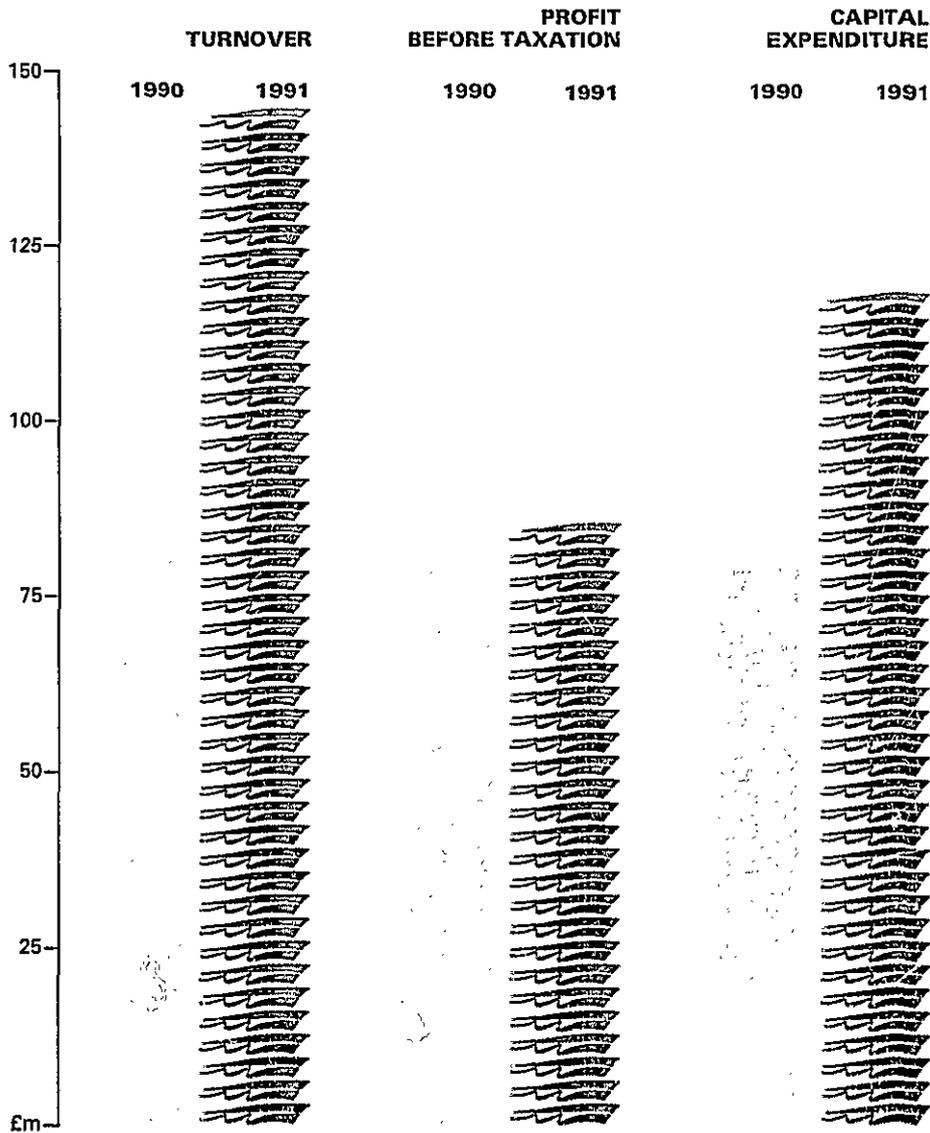
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FINANCIAL HIGHLIGHTS



Year ended 31 March	1991	1990
Turnover	£143.8m	£121.0m
Profit before taxation	£88.2m	£82.8m*
Net assets	£684.9m	£631.9m
Capital expenditure	£119.3m	£77.8m
Earnings per share	65.8p	61.9p*
Dividend per share – interim	6.7p	–
– final	13.3p	11.62p

*Based on proforma results for 1990.





DIRECTORS

Executive Chairman	K.W. Court	
Non-executive Deputy Chairman	T.C. Leader	
Executive Directors	W.H. Fraser	<i>Managing Director, South West Water Services Limited</i>
	W.J. Dickens	<i>Director of Technical Affairs</i>
	K.L. Hill	<i>Group Director of Finance</i>
	M.J. Le P. Quantick	<i>Director of Development</i>
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 Registered in England No 2366640	
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, 31 Great George Street, Bristol BS1 5QD	
Registrars	Lloyds Bank Plc, Registrar's Department, 54 Pershore Road South, Birmingham B30 3ER	

DIRECTORS' BIOGRAPHICAL DETAILS



Keith William Court BA, FIPM (56), Executive Chairman, was appointed on 1 September 1989 and was chairman and chief executive of South West Water Authority from 1 August 1987. Previously 17 years at Ford Motor Company where he held a number of senior management appointments including employee affairs director of Ford of Europe Inc. He joined Blue Circle Industries as assistant works director in 1975 and became a main board director from 1978 and chief executive of the UK cement and related operations from 1983 to 1987.

Timothy Charles Leader BA, CEng, MIMechE, CBIM (63), Non-executive Deputy Chairman, was appointed on 1 September 1989. He has held a number of senior positions in the engineering industry including being chief executive of Simon Engineering from 1985 to 1989.

William Hamilton Fraser BSc, CEng, MIMechE, CBIM, FInstPet, AWeldI (53), 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 vice president with McDermott International from 1978 to 1985 and was chairman and chief executive officer of Humphreys & Glasgow from 1985 to 1988.

William James Dickens BSc(Eng), DIC, CEng, FICE, FIWEM (63), Director of Technical Affairs, was appointed on 1 September 1989 having joined South West Water Authority in August 1988. He has 20 years' experience in the water industry, and held various senior appointments in Thames Water Authority prior to being appointed its director of operations in 1986.

Kenneth Leslie Hill IPFA (50), Group Director of Finance, was appointed on 21 September 1989. He is a qualified public finance accountant with wide experience in the water industry. Prior to joining the Company he was finance director of Severn Trent Water.

Michael John Le Page Quantick IPFA (60), Director of Development, was appointed on 1 September 1989 having joined South West Water Authority in 1974. He is a qualified public finance accountant and held a number of senior finance positions with South West Water Authority between 1974 and 1989.

Simon James Day MA (56), Non-executive Director, was appointed on 1 September 1989. He was a member of South West Water Authority from October 1983 and is a regional director of the Portman Building Society and chairman of governors of Bickton College of Agriculture. He is the leader of Devon County Council and a farmer.

Lady Mary Christina Holborow (54), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from April 1980. She has been chairman of the Cornwall Committee of the Rural Development Commission since 1987, is a governor of Cornwall College of Further Education and is on the board of the Devon and Cornwall Training and Enterprise Council.

John Raymond Lawrence BSc(Eng), PhD (60), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1985. He is director of the ICI Group Environmental Laboratory at Brixham and is a member of the Council of the Foundation for Water Research.

Kenneth John Morton MA, FCA, FCT (51), Non-executive Director, was appointed on 20 October 1989. Since 1988 he has been group finance director of Kleinwort Benson Group. He is a non-executive director of the Asda Group.

Charles Spence (69), Non-executive Director, was appointed on 1 September 1989 and was a member of the South West Water Authority from July 1989. He was a director of ARC from 1968, chief executive from 1978, and chairman from 1986 to 1989. He is now a consultant to ARC. He is a member of South West Regional Health Authority.

Charles Rowell Stuart BSc(Econ), FRAcS, FCIT, FInstD (63), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1987. He held a number of senior appointments with British Airways and from 1983 to 1991 was chairman of Brymon Airways and Plymouth City Airport. He is chairman of South West Regional Health Authority.



CHAIRMAN'S STATEMENT



I am delighted to report that we have had a successful first full year as a new company.

We have reached and maintained higher standards of service. Capital expenditure increased by 53% to reach a record level, and we produced a sound set of financial results. Our turnover was up 19%, and our operating profit went up by 17%.

Pre-tax profits rose by 6.5% on the appropriately adjusted 1989/90 base.

I am happy to underline that the directors are recommending a final dividend of 13.3p which will provide a full year dividend of 20p – an increase of 14.7% over last year's proforma level – while re-investing 70% of the post-tax profits for the eventual benefit of the domestic and business customers. We feel this is a fair distribution of the gains of a successful year.

Much emphasis was placed during the year on the need to improve the quality and reliability of our services. We quickened our response times and remedial actions for customers. We were able to raise compliance in domestic water treatment and supply to high levels, with bacteriological compliance at over 99% throughout the region. We also made significant advances in the programme to improve discharge compliance at inland sewage treatment works, which had been a neglected area for many years. Through a combination of improved process control, increased operational attention and modernisation, sewage treatment works compliance significantly improved. Refitting and renewal is a costly process and will take time, but we are on track towards meeting the necessary higher levels of compliance for all our works.



Our capital programme has leapt forward, with the completion of 280 projects, 94 of which were major projects. The total value of these projects reached nearly £120 million. Many strategically important water treatment and supply schemes were completed, with the programme starting to give considerable weight to marine and inland sewage treatment improvements. The uplift in the capital programme has been secured within the timing and cost targets.

The progress I have referred to is absolutely central to our efforts to contribute to the protection of the environment.

During the year we also embarked on a careful search for additional sources of earnings – both within the core business and also through other linked business developments. The earnings from the acquisition of pHOX Systems Limited, our scientific instrument business, and T J (Brent) Limited, which provides construction services, while both fairly small-scale investments, made a useful contribution to our income. By degrees progress is continuing in other non-core activities, for example, developments in land and property, and leisure and recreation.

While the initial transformation to a customer and commercially based organisation has been accomplished successfully, continuing large-scale change requires a strong framework of goals and objectives. To check that our strategic thinking and initial planning was on the right lines, the Board engaged McKinsey & Co Inc, international management consultants, to undertake a three month review with us of the fundamental medium and longer-term issues. The suggestions and ideas which emerged are being incorporated in our strategic planning.



CHAIRMAN'S STATEMENT *(continued)*

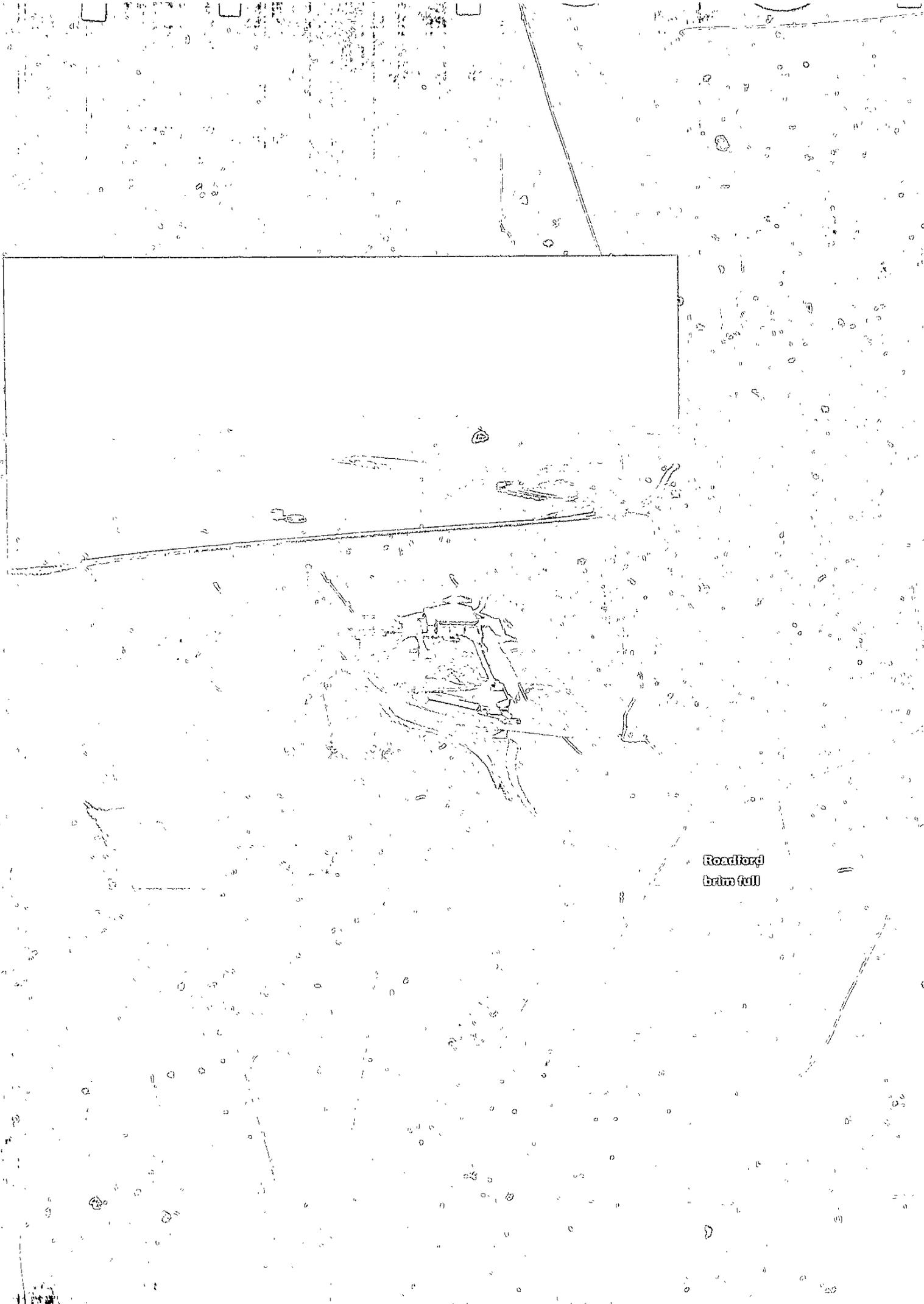
As our report indicates, we have continued to instil throughout our business the need to satisfy customers, and to develop approaches that emphasise quality, reliability and commerciality. My colleagues and I have been very encouraged by the enthusiastic response of our management and employees to this need, and to the very demanding work programmes that were successfully tackled in the year. Their commitment and co-operation is vital and much appreciated. In addition they had to deal with another year of drought – one of the driest recorded – and their efforts to minimise the effect on customers is particularly commended.

Good relations with our shareholders are important to us and, during the year, my colleagues and I met many of the major institutional investors and to them and our individual investors we are grateful for their continued support. We already have a corporate PEP and we have added a low cost dealing service for our shares which we hope shareholders will find of benefit.

In conclusion, I am very pleased to be able to report that, overall, in our first full year we have demonstrated success and progress on many fronts. Across the company, our employees have shown resilience in dealing with significant pressures and changes. As promised, we have now moved forward and established a good bridgehead for the future.



K. W. Court



Roadford
brim full



**REVIEW OF ACTIVITIES
of South West Water Services Limited
by W.H. Fraser, Managing Director**

SATISFYING CUSTOMERS

The first goal of our mission statement is "satisfying customers". Customer satisfaction is the main focus of the business activities reviewed in this report. Improvements in quality of service are underpinned by a range of initiatives which have improved our understanding of customers' wishes and our communication with them.

In each operating district a dedicated Customer Service team acts as the link between the customer and staff.

We have conducted surveys of customers' opinions, perceptions and wishes. The results are used in managing the services we provide and help in the allocation of resources to priorities.

We have established good communications with the regional Customer Services Committee appointed by the Director General of Water Services. The Company is co-operating with the Director General's national review of charging methods. Levels and methods of charging are key issues facing the core business and its customers over the next few years. We shall continue to take every opportunity to consult our customers before making changes to the present charging arrangements.

**John
Bennett,
Customer
Services
Supervisor
in Exe
District,
answering a
customer
enquiry
using
CUSTOMS
terminal**



**John Turner,
Finance
Director, with
Chris Broxton,
one of 10 staff
who dealt with
159,000
customer
account
enquiries by
telephone
during the year**

*John Turner IPFA,
joined South West
Water Authority in
1977. He was chief
accountant until
November 1987
after which he held
the post of
privatisation project
manager.*



Enhancing
the quality
of life for
satisfied
customers

District
Inspector
John Fagg
testing the
supply
pressure
at a
customer's
tap





**REVIEW OF ACTIVITIES
of South West Water Services Limited**

WATER SUPPLY

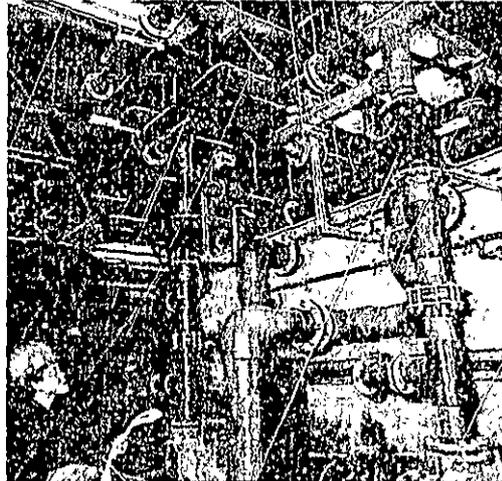
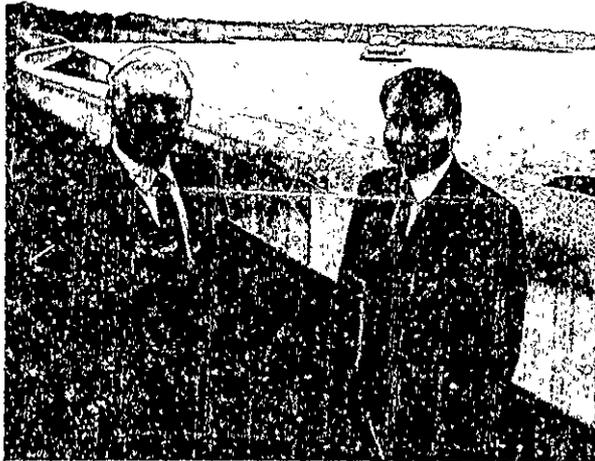
During the year our new and largest reservoir, Roadford Lake, in West Devon, continued to fill and reached 99% of its capacity.

A significant improvement in the reliability of water supplies to customers was achieved despite a spring and summer drier than 1989. The majority of the Company's domestic customers were able to use unrestricted supplies of water throughout the summer of 1990 and business customers benefited from an unrestricted supply.

This was the result of a strategy of being prepared to deal with a worst case scenario of no significant rainfall between May and October. A public commitment to customers to maintain continuous supplies for domestic use was supported by prudent management of resources and a friendly "Let's Save Water Together" campaign.

**Operations
Director,
Chris Cook
and
Engineering
Director,
Bob Baty
at Roadford**

Improvements to the distribution network, acceleration of some capital schemes and the first use of water from Roadford supported the strategy. South Devon, including Torbay, will benefit from a new 40 kilometre trunk main which will carry water from Roadford by the summer of 1991.



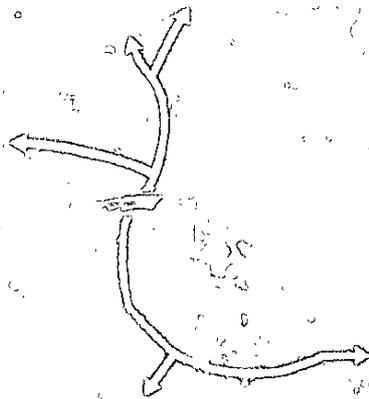
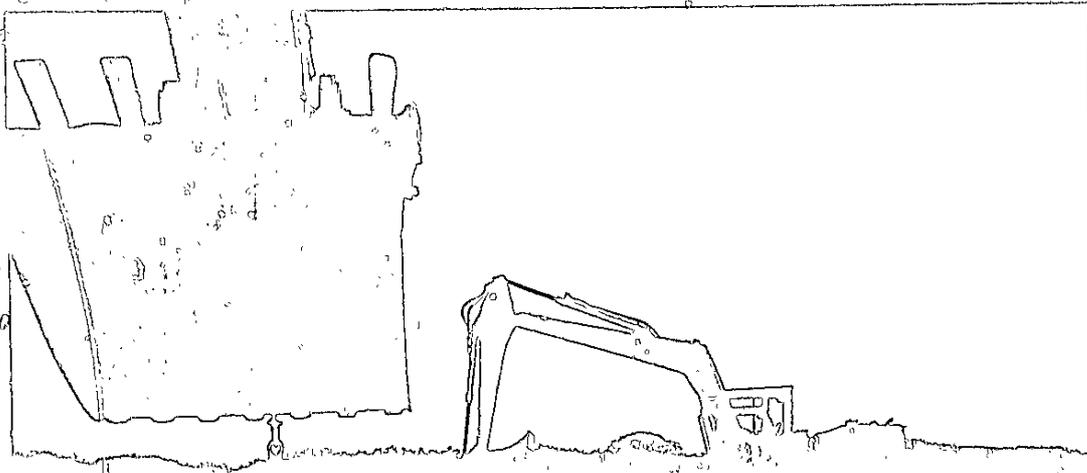
Chris Cook BSc (Eng), CEng, MICE, MIWEM, joined South West Water in 1989 after 15 years in the construction industry where he was managing director of

Tilbury Construction for three years. Prior to this he had eight years experience in the water industry. Bob Baty CEng, MICE, FIWEM, AGLA, MBEM, joined

South West Water in 1988, having previously held senior posts at North West Water Authority. He has over 30 years experience in the water industry.

**Chin Cheo
checking
new
equipment
at Little-
hempston
Water**

**Treatment
Works which
will treat
water from
Roadford for
customers in
Torbay**



**The Roadford
Supply Grid**

**A new spine
main taking
water from
Roadford to
customers in
North Devon**

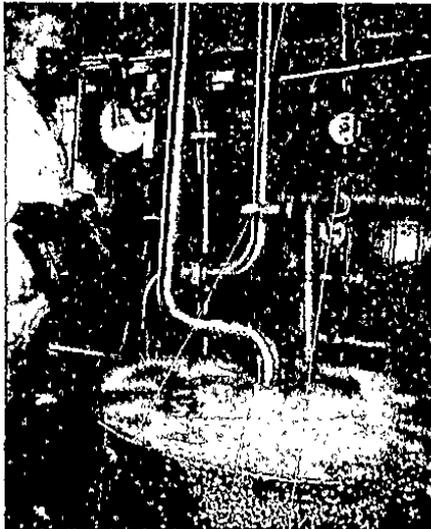
**REVIEW OF ACTIVITIES
of South West Water Services Limited**

WATER SUPPLY (continued)

In January the Company announced its preferred site for a proposed reservoir at Higher Bruckland, near Axminster, to serve the remaining area of vulnerability in East Devon. We are now carrying out detailed appraisal and consultation with all interested parties.

The commercial use of water - vital to the economy of the South West

Security of supplies and drinking water quality were both improved by the ongoing programmes of mains rehabilitation and leakage reduction. The use of epoxy resin lining material lengthens life of the mains, improves throughflow and prevents quality deterioration.



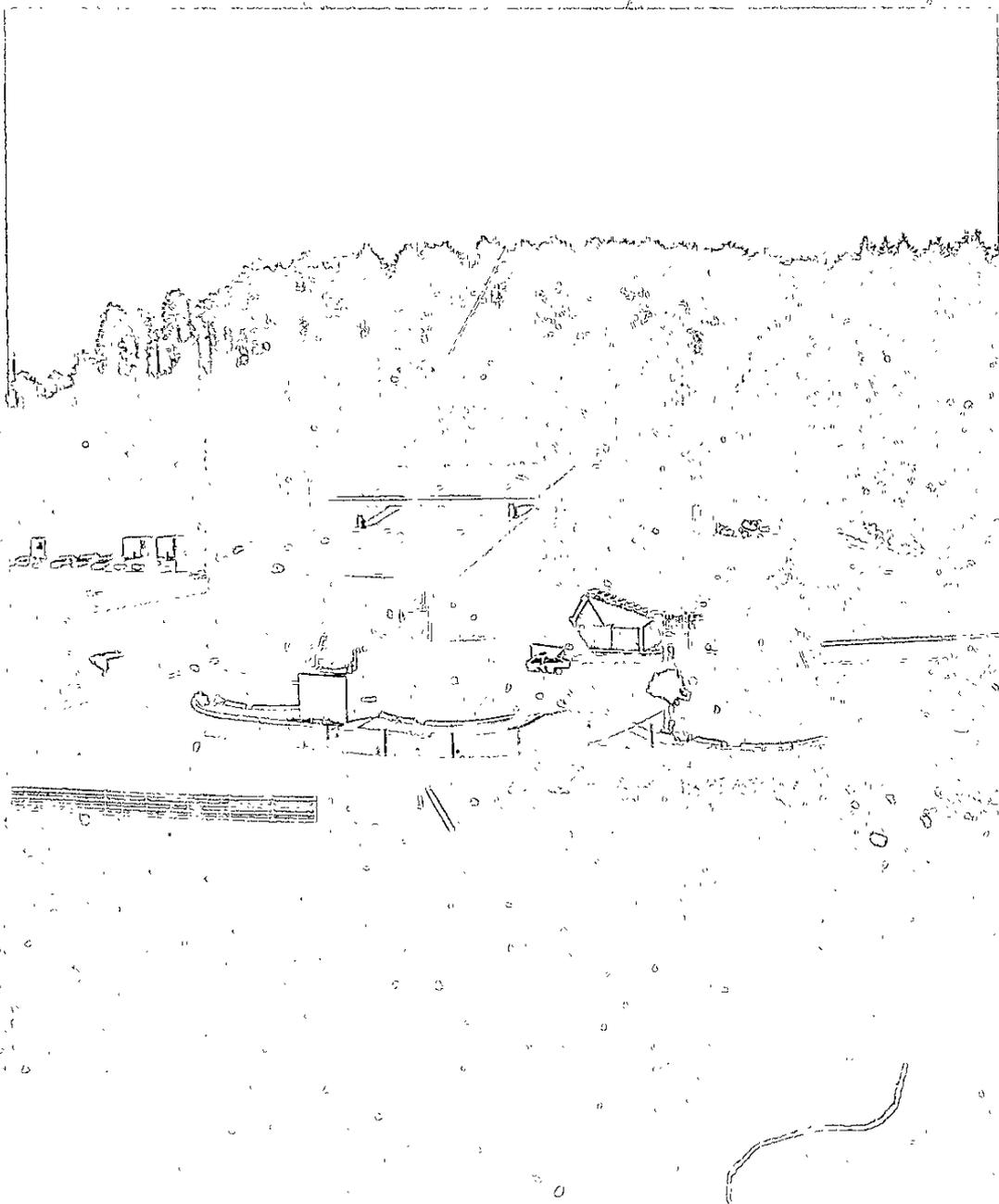
Drinking water quality was enhanced as a consequence of capital expenditure on water treatment works and by further improvements to process monitoring and control, including a 150% increase in sampling and analysis. Sampling was supported by the expansion of remote monitoring and control which provides continuous information to management via telemetry links.



Damian Coia analysing a drinking water sample at Countess Wear Laboratory



Contractors relining a water main in Topsham with minimal disruption to customers



**Allex Water
Treatment
Works
following a
£3.5 million
extension to
improve
supplies to
67,000
customers in
mid-Dorset**

REVIEW OF ACTIVITIES of South West Water Services Limited

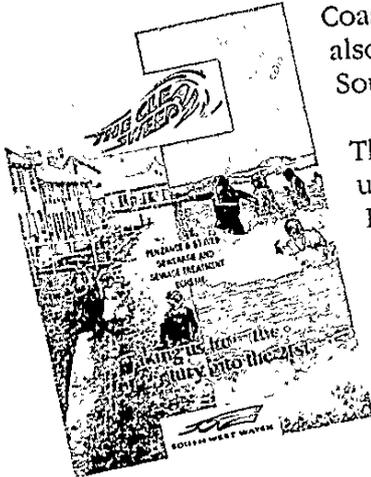
WASTE WATER TREATMENT AND DISPOSAL

The "Clean Sweep" programme of 32 major schemes to improve 73 bathing waters accelerated with some notable milestones – the start of reversing a century of neglect. Ten of the schemes are under construction or at detailed design stage. Pre-design appraisals and environmental studies have been completed or are in progress for virtually all of the others.

Construction of the long sea outfall at Bude is well advanced and will be followed by the development of an inland treatment works. Together they will ensure that the resort's famous beaches meet European bathing water standards – a boost to the local economy.

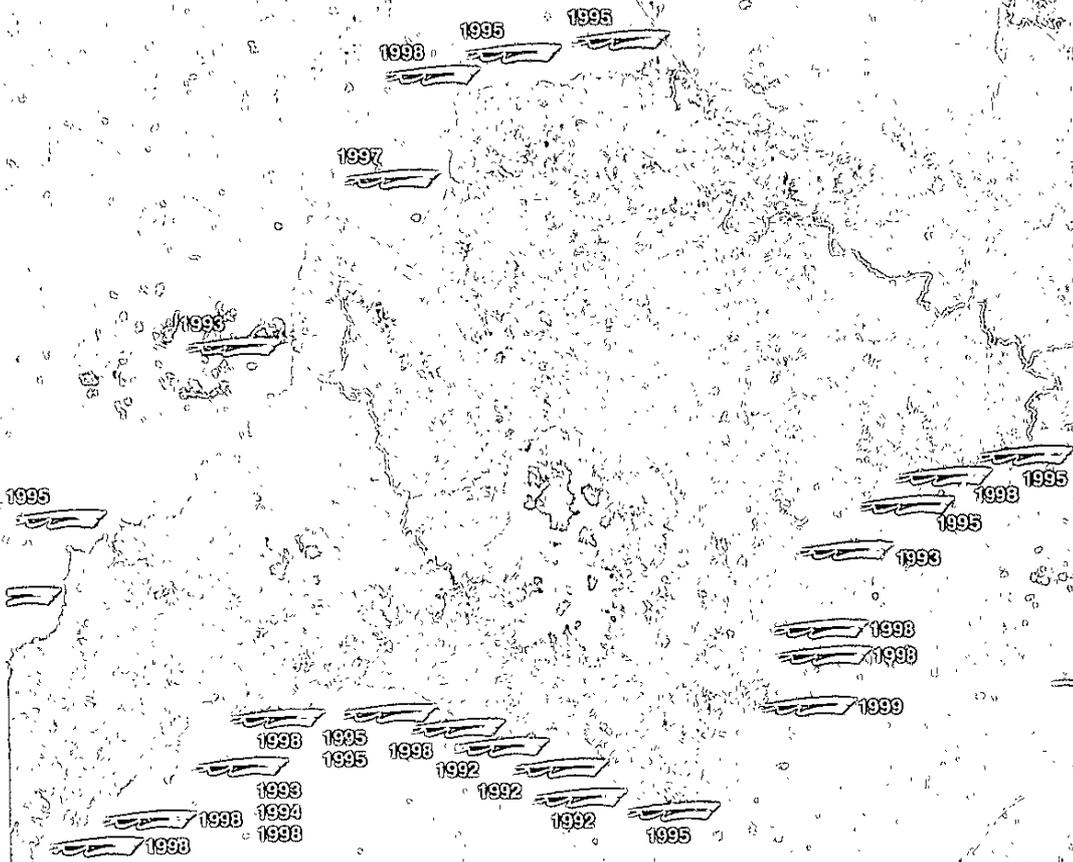
Coastal waste water treatment schemes were also started at Thurlestone and Wembury in South Devon.

The scheme to rid Penzance and St Ives of 47 unsatisfactory sea outfalls moved forward with Penwith District Council granting the necessary planning permissions. The outfall for treated effluent already has a discharge consent from the National Rivers Authority. Construction of the scheme is expected to start in 1992.



The start of the
"Clean Sweep"
at Bude





The "Clean Sweep" program is showing target dates for completion



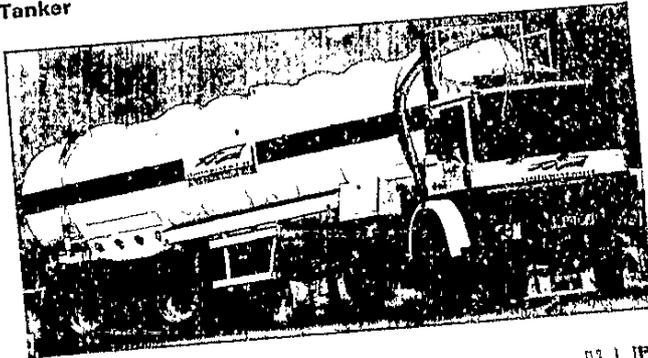
REVIEW OF ACTIVITIES of South West Water Services Limited

WASTE WATER TREATMENT AND DISPOSAL (continued)
Inland waste water treatment works performance improved significantly. The combination of capital investment, improved operating procedures and additional staff brought about a 10% increase in compliance at numerically consented works.

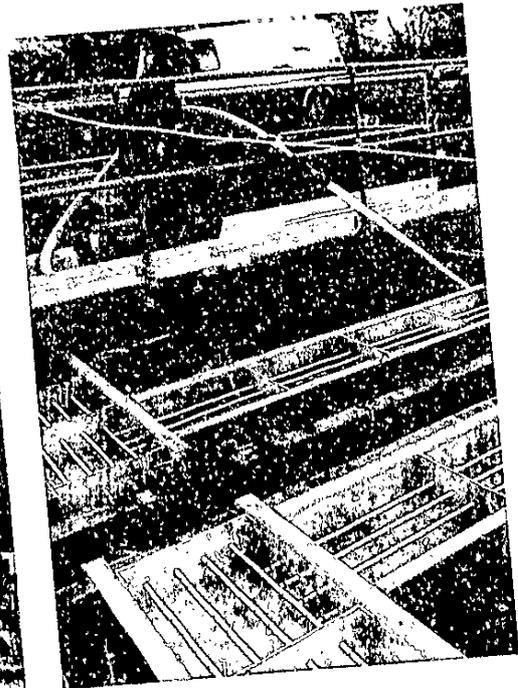
The hidden assets of the sewerage network have also been improved. As well as refurbishment of many sewers, a major new system was laid to enable development of 900 new houses between Torquay and Newton Abbot.

Initiatives under investigation to meet the EC requirement to phase out by 1998 the disposal of sewage sludge to sea include digestion to produce energy, composting to produce agricultural and horticultural products, and incineration.

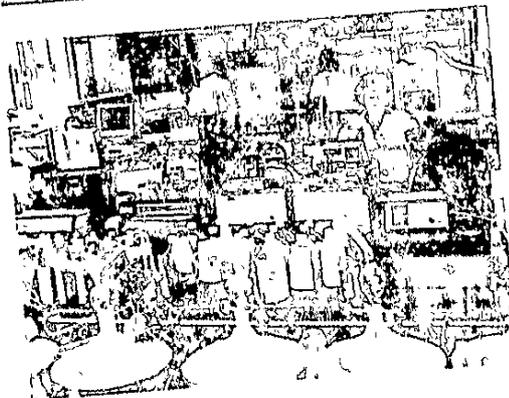
**Fred Allen
at the wheel
of the
industry's
first Multi-
drive Sludge
Tanker**

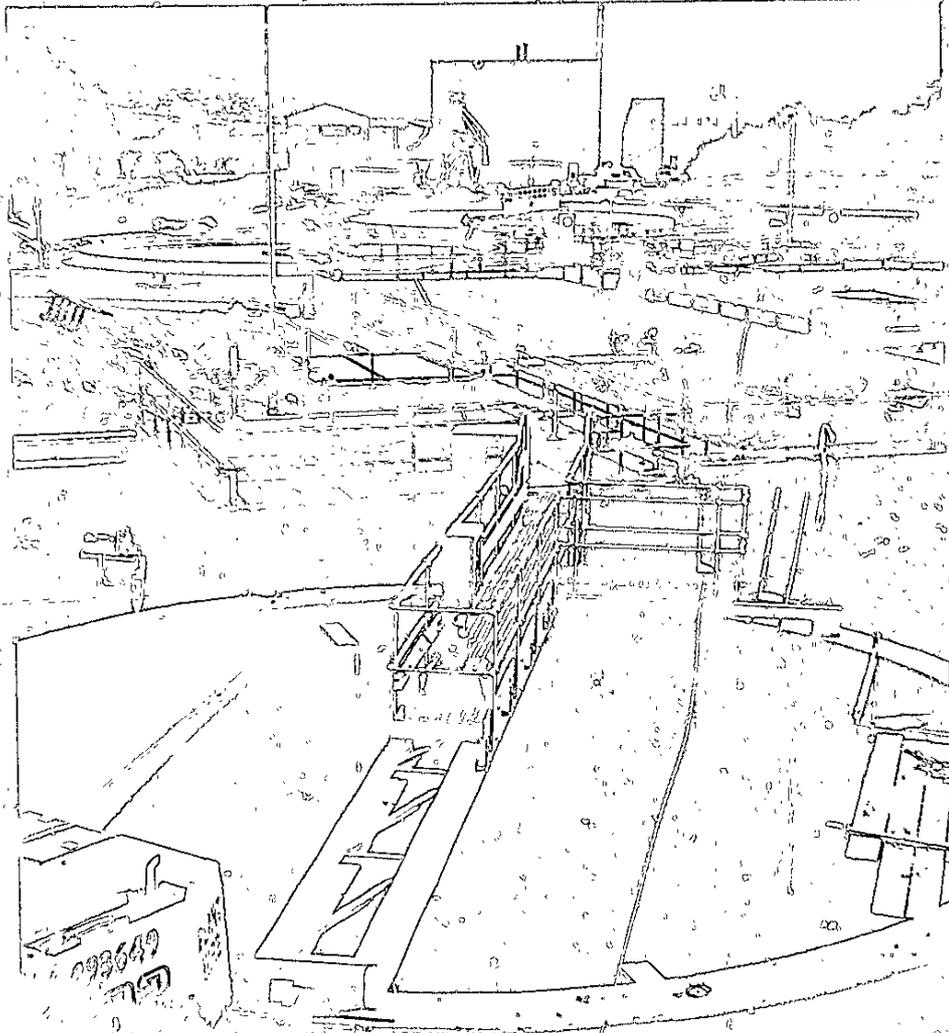


**Denis
Morecomb
performing
routine but
vital
maintenance
at St Austell
Sewage
Treatment
Works**



**Andrea
Nicholls
analysing
treatment
works
effluent to
confirm
compliance
with
standards**





More
improvements at
Buckland
Sewage
Treatment
Works,
Newton
Abbot -
investing
for the
environment



REVIEW OF ACTIVITIES
of South West Water Services Limited

CAPITAL PROGRAMME SUCCESS

The Company achieved the planned 50% uplift in the water and waste water capital programme; a major increase for the second successive year. Total expenditure for the Company, including infrastructure renewals, was £120 million as shown opposite.

During the year 274 schemes were completed and 252 major schemes were ongoing at the year end. The benefits of the completed schemes are already becoming apparent in greater supply reliability, higher drinking and waste water quality and infrastructure development servicing growth in the region.

The programme for continuing these improvements totals £1,400 million to the year 2000. Around £1,100 million of the required funding for this programme has already been put in place through

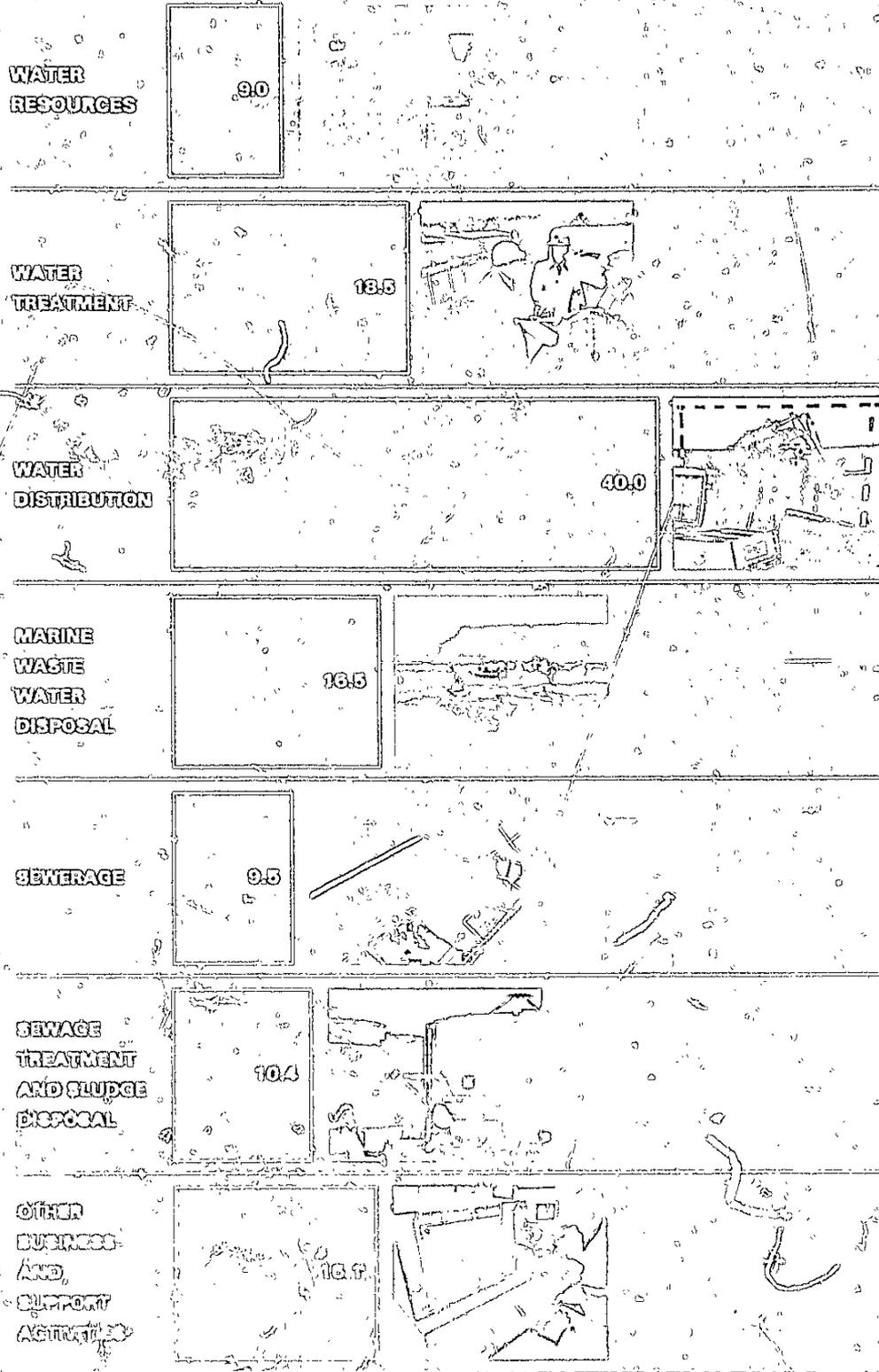
- the continuing reinvestment of profits
- the £266 million "Green Dowry" received on privatisation
- £115 million loan facilities on favourable terms from the European Investment Bank and
- £250 million from two finance leasing arrangements.

The Company led the way by negotiating the first finance leasing deal for the newly privatised water companies. The funding is attractively priced, long-term and flexible. The treasury management department has ensured effective management of the funds throughout the year.



**Group
Director of
Finance, (right)
Ken Hill, and
Corporate
Treasurer,
Derek Bancroft
managing
the
Company's
cash - the
lifblood of
the Capital
Programme**

FIGURES SHOWN IN Em.



Analysis of
Capital
Expenditure

REVIEW OF ACTIVITIES of South West Water Services Limited

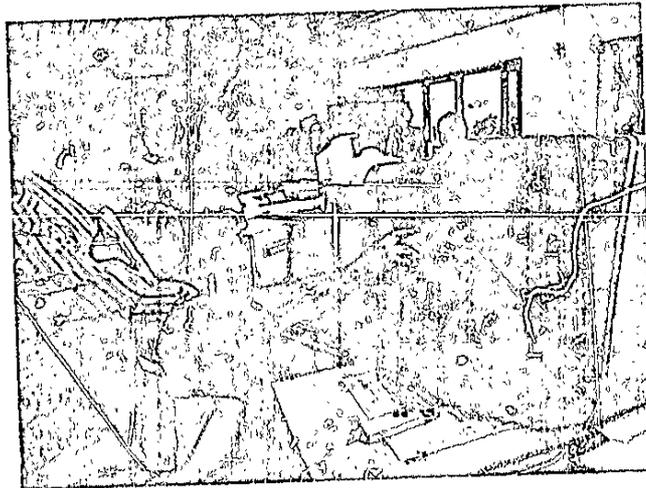
CAPITAL PROGRAMME SUCCESS *(continued)*

Consultation with customers, local authorities, regulators, pressure groups and all interested parties is necessary to develop mutual understanding of our common interests. This has been especially valuable in obtaining planning permissions for some major schemes. Similarly an effective professional working relationship with the National Rivers Authority is important and has enabled us to obtain the necessary discharge consents and abstraction licences.

Additional professional engineers were employed to manage the enlarged capital programme. To further reinforce the Company's capability, a joint venture engineering company, Pell Frischmann Water Limited was established. It is dedicated to providing project implementation support to South West Water.

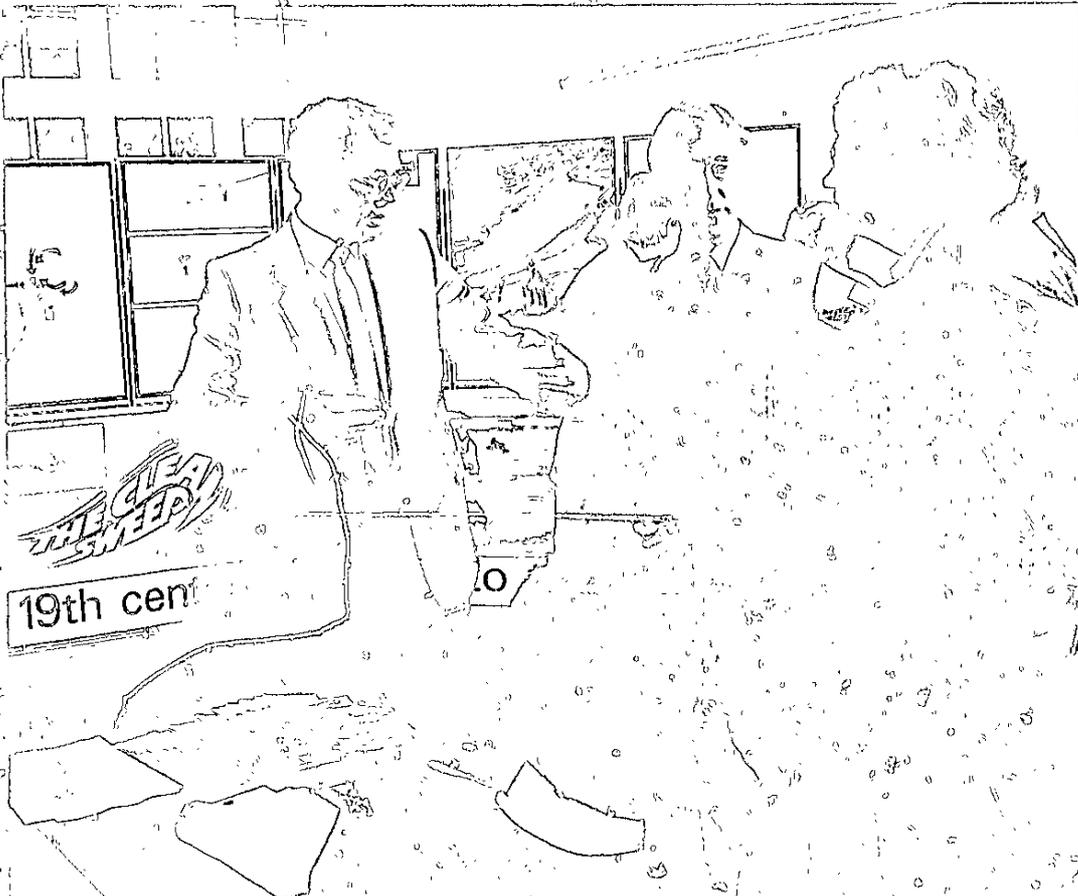
An enhanced procurement team has injected increased commerciality into improving the terms of contracts by tender, performance specification, quality assurance and price negotiation.

Development and operation of tight project control systems and procedures have proved successful in meeting the challenging uplift in the capital programme and the planned commitments.



**Alex Dorr (right)
and Glyn
Evans of
Pell
Frischmann
Water Limited
checking on
the progress
of the Budo
scheme**





Alec Miller discussing the Bude "Clean Sweep" scheme with a group of customers



"We have made significant progress towards new and higher standards of customer service and environmental care including:

- increased reliability of water supplies
- improved drinking water quality
- an uplift in sewage treatment works performance
- a 50% increase in capital expenditure; a major increase for the second year running
- 89 major capital projects completed
- the start of the £495 million "Clean Sweep" programme of bathing water improvements.

This is the start of the transformation of clean and waste water services in the South West."

W. H. Fisco

REVIEW OF GROUP ACTIVITIES

RESEARCH AND DEVELOPMENT

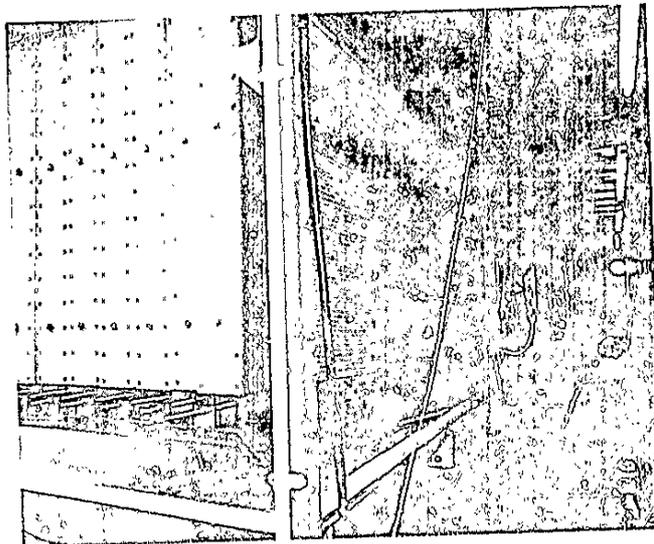
South West Water is a co-sponsor of the Foundation for Water Research which managed a range of research projects in the field of environmental issues, process systems, sewers, water mains and telecommunications during the year.

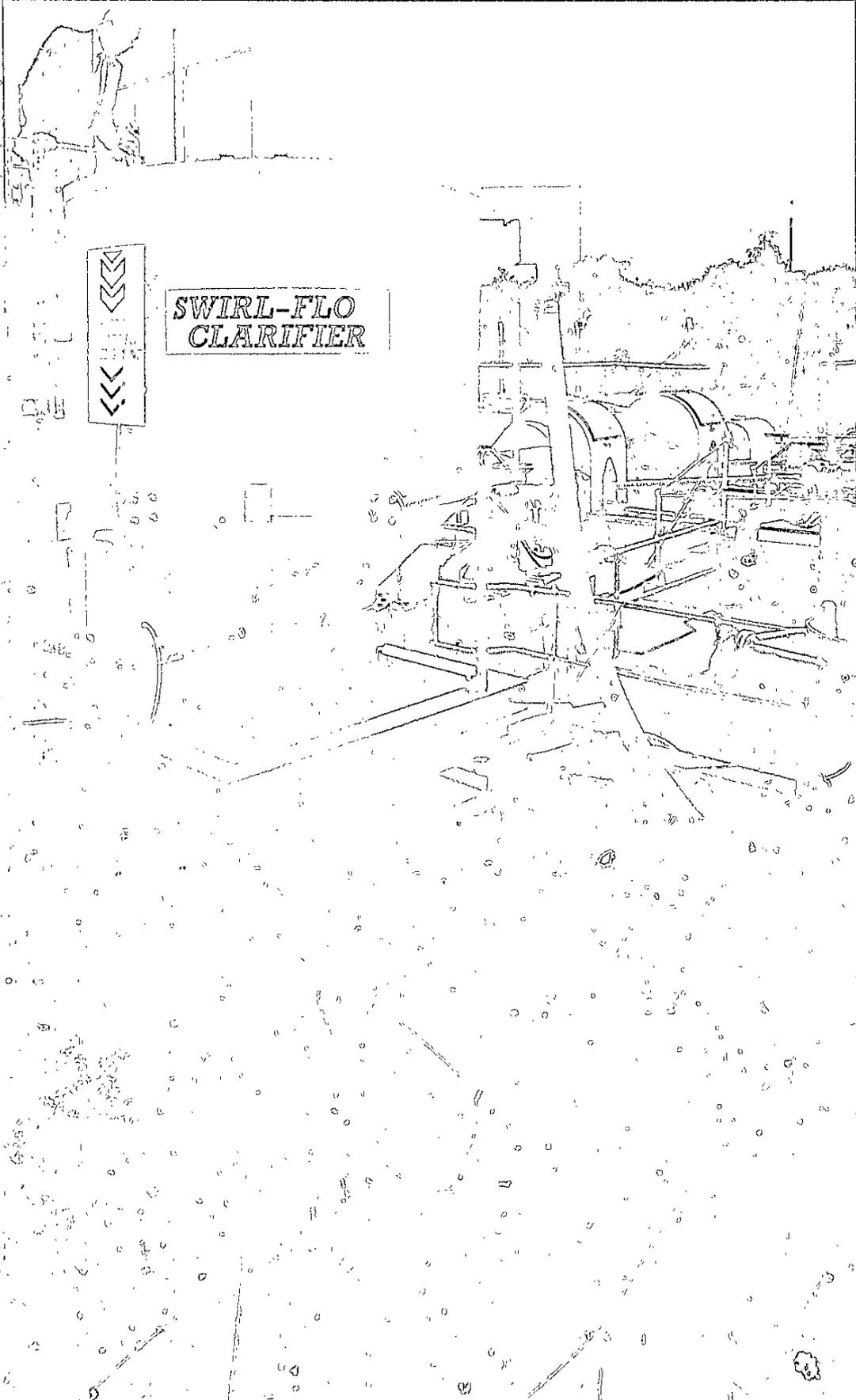
The development of new and improved scientific instrumentation is given high priority within both pHOX Systems Limited and DMP (Holdings) Limited. Projects in hand include the development of a colorimeter range with the first fully tested aluminium monitor now available, and a six channel river quality monitor which has recently been added to the product range.

Operational development to optimise treatment processes and network management continued to make a contribution to improved quality of service.

The development and testing of innovative techniques and processes will play a significant role in the further improvement of cost effective provision of services. Rigorous field testing is an essential part of the development of quality assured new processes.

A membrane technology unit on trial at Tamar Lake Water Treatment Works





**SWIRL-FLO
CLARIFIER**

**Bill Dickens,
Director of
Technical
Affairs,
inspecting a
Hydro-
Dynamic
Separator
on trial at
Countess
Wear
Sewage
Treatment
Works**

**Environmental
Policy
brochure**

ENHANCING THE ENVIRONMENT

South West Water is a major contributor to the protection and enhancement of the environment. The economy and quality of life in the region depend on a healthy natural environment not only for residents but to attract tourists, staff for growing businesses and those seeking retirement.

At the 1990 annual general meeting the Chairman launched a comprehensive Environmental Policy which had been developed in consultation with a founder director of Friends of the Earth. The policy sets tough standards of environmental performance based on all relevant UK and EC legislation. The policy has been cited as a good example of corporate policy by the CBI.

To demonstrate our commitment we have conducted a preliminary Environmental Audit. The audit found a growing awareness of the importance of environmental matters and the need for procedures to address these. Liaison with external environmental groups has improved and contributed to enhanced environmental sensitivity in the Group.

Our primary role in enhancing the environment is to treat and dispose of the waste water safely from 1,500,000 residents, 6,000,000 visitors and the region's industries. Protection of river flows, non-fossil fuel energy production, energy conservation, management of nature reserves, sensitive design of buildings, landscaping of works, and liaison with conservation groups all play their part.

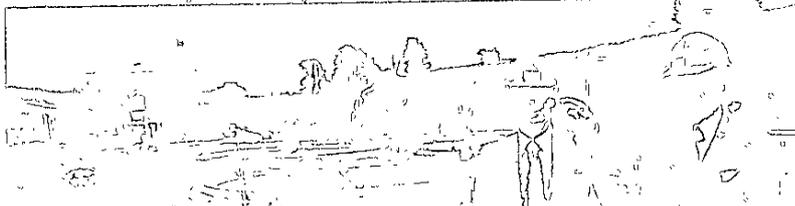
**Ranger Bob
Lunk and
a keen bird
watcher
using the
hide at
Wimbleball
Lake**





Farnworthy
in winter - a
healthy
environment
is vital to the
economic
well being
and quality
of life in the
region

Executive
Chairman,
Kotite Court,
and Lord
Glenhewell,
Chairman of
the National
Rivers
Authority,
at Beckland
Sewage
Treatment
Works





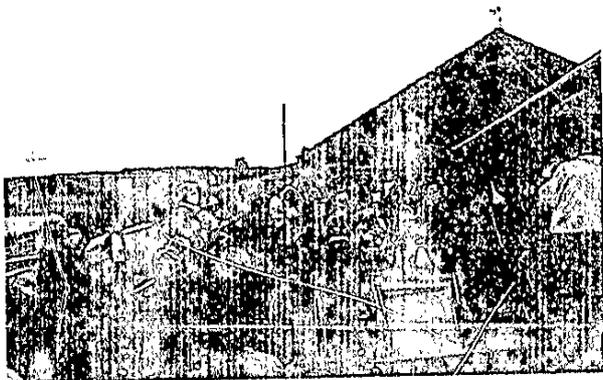
REVIEW OF GROUP ACTIVITIES

BUSINESS DEVELOPMENTS

The Group has continued its careful, moderate scale development of non-regulated business.

We have taken advantage of the opportunity presented by the growing international demand for process control and monitoring instrumentation by acquiring pHOX Systems Limited, a company whose products are in wide demand in the water industry and increasingly used in other fluid based industries. This has been supported by the subsequent acquisition of DMP (Holdings) Limited, a small Cornwall-based instrumentation company with specialist skills in product development.

T J (Brent) Limited, a construction services business based in Cornwall, was added to the Group in April 1990. It specialises in underground work and pipelaying and has been further developed to become one of the leading companies in the epoxy resin lining of water pipes. T J (Brent) Limited provides valuable support to South West Water Services Limited especially in the mains rehabilitation programme.



In the land and property sector two-thirds of the joint venture office development in Exeter has been let or sold and the whole of the St Austell office and factory development has been let. Planning permission has been obtained for 60,000 sq ft of office accommodation in the first phase of the development of the 48 acre site at Crownhill in Plymouth.

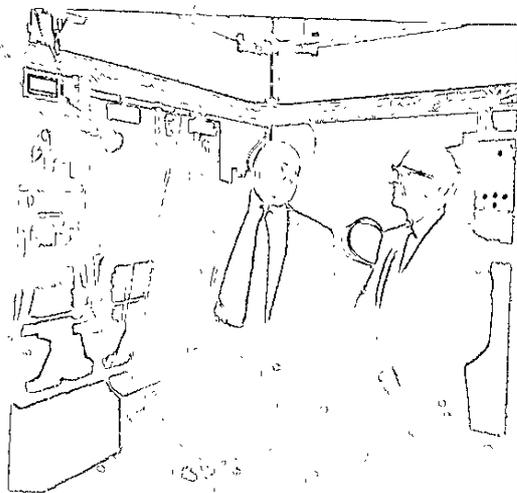
**Prize giving
after a
sailing
regatta at
Wimbleball**

Peninsula Gift shops and tea rooms, sailing schools, trout and coarse fishing are all developing and providing amenities for many of the 2½ million visitors each year to our water parks and reservoirs.

After the year end we announced support, together with three other sponsors, for an application for the South West Channel 3 franchise by Westcountry Television Limited. If the application is successful South West Water Plc will take a 20% share in the company which will represent a modest investment.



A team from
TJ (Bronx)
Limited
working on
water main
rehabilita-
tion in
Toro



Michael
Quandt, (right)
Director of
Development,
and Norman
Fleet, Managing
Director of
pHIX Systems
Limited, with one
of pHIX's wide
range of
internationally
marketed
products

REVIEW OF GROUP ACTIVITIES

EMPLOYEES

Employee numbers increased during the year as we recruited to increase operating capability, to manage the growing capital programme and through the acquisition of the non-core businesses. The recruitment included a range of engineers and scientists as well as operational staff.

The change to a customer based culture is being strongly supported by a range of personnel related initiatives.

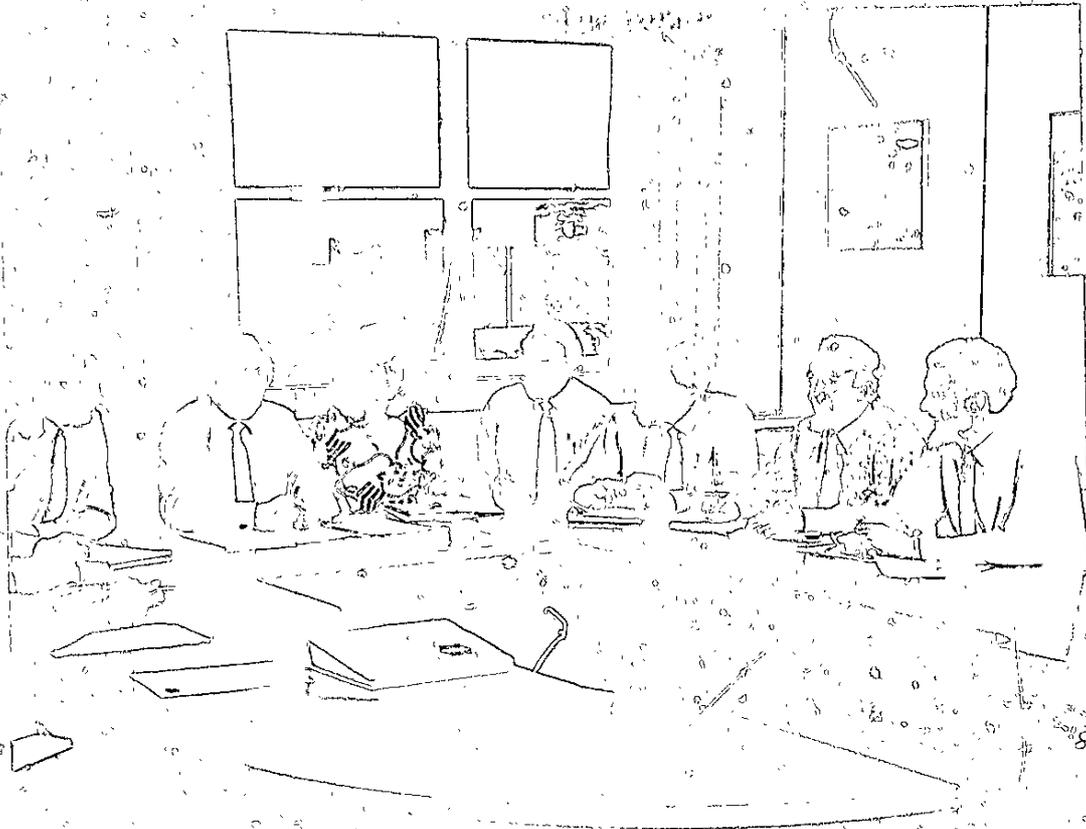
A performance management system for non-manual employees was developed and is in the course of being introduced. The Remuneration Committee of the Board has approved the introduction of an executive incentive plan for Directors and senior managers which has been designed to recognise corporate and individual performance.

A programme of management development was introduced for selected managers with high potential. The programme is an important element in planning for a secure future for the Group.

Managing
for
Performance
brochure



Ken Gristy,
Training Advisor,
leading an
Induction
Training
Session



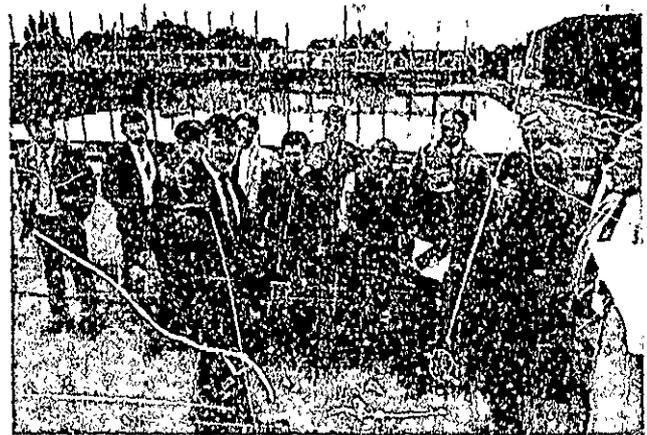
Bill Fraser,
briefing his
senior team -
the start of
cascade
briefing
through
"News &
Views".

REVIEW OF GROUP ACTIVITIES

EMPLOYEES *(continued)*

A series of training courses was provided covering a range of related skills and included two day induction training courses to assist the rapid integration of new staff into the Group. A total of 4,830 personnel days training was provided. The Group is committed to improved communications with employees. The briefing system which was introduced last year continues to be developed. Employees are briefed on Group related issues and have the opportunity to raise matters of importance with their managers.

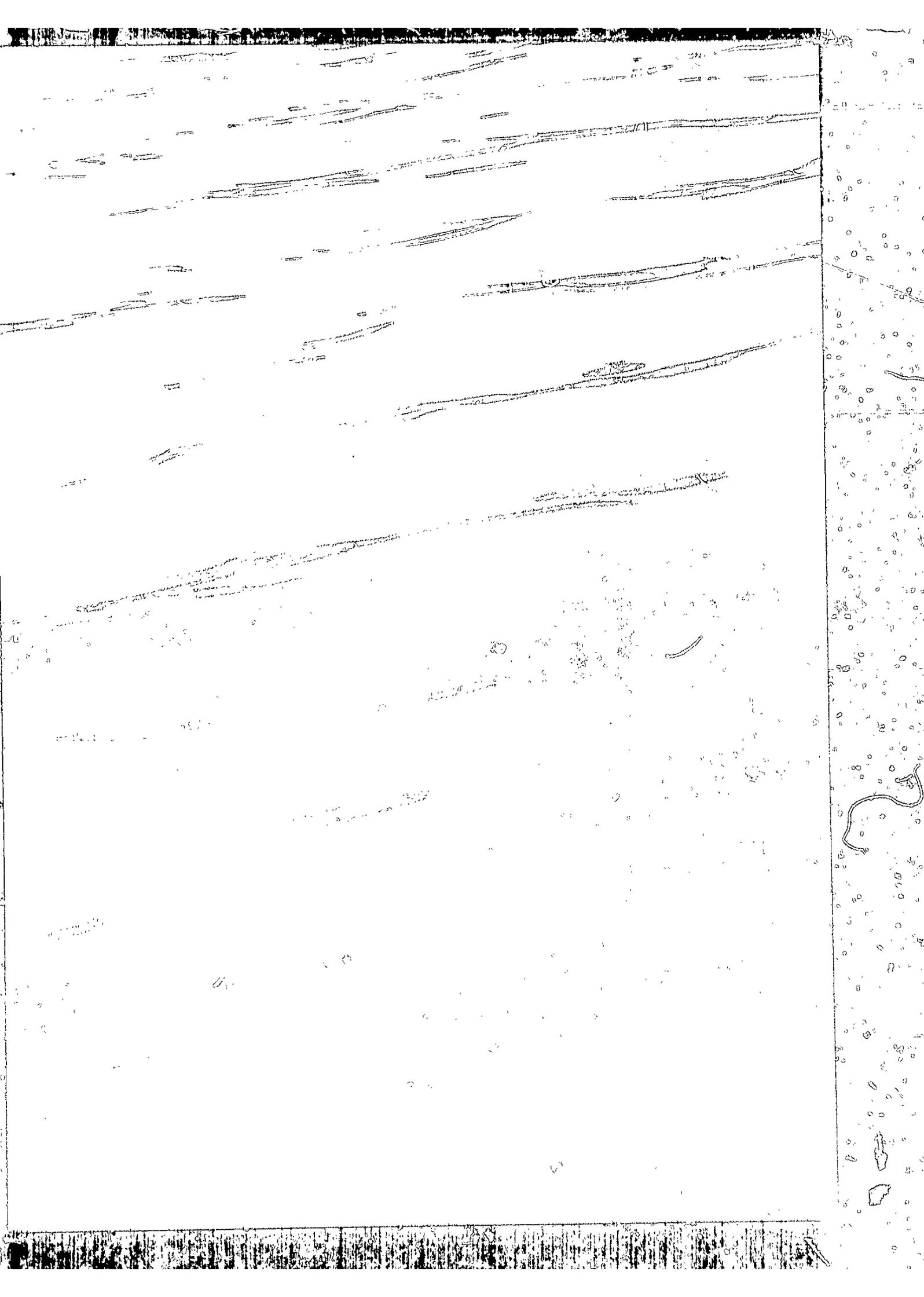
Since the year end an appropriation of shares has been made under the Profit Sharing Scheme. Options have also been granted under the Sharesave Scheme and Executive Share Option Scheme. These schemes are designed to develop the identity of interest between employees and their company.



Employees are represented on the trustee companies in connection with the two main pension schemes and trustee reports are mailed to all members of the pension schemes. A new health and safety department was established. The department is staffed by existing advisers and recently recruited safety professionals. The aim is to develop the existing health and safety policy and its application to the working environment.

A group of new employees learning about sewage treatment from Countess Wear Sewage Treatment Works Superintendent, Lon Thorne

The Group is committed to a non-discriminatory employment policy making every reasonable effort to provide disabled people with equal opportunities for employment, training and development, having regard to their particular aptitudes and abilities.



REPORT OF THE DIRECTORS

The Directors submit their second annual report and the audited financial statements of South West Water Plc and its subsidiaries (the Group) for the year ended 31 March 1991.

INCORPORATION AND OFFER FOR SALE

South West Water Plc (the Company) was incorporated on 1 April 1989 and the ordinary shares in the Company were the subject of an Offer for Sale by the Secretary of State for the Environment in November 1989. All the shares on offer were taken up and dealings commenced on The Stock Exchange in London on 12 December 1989.

The ordinary shares were offered at 240p each, 100p payable on application and the second and final instalments of 70p each were payable on 31 July 1990 and 30 July 1991 respectively. Certain applicants were eligible for a reduction of 10p per ordinary share on each of the second and final instalments.

PRINCIPAL ACTIVITIES

The Group, through 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 scientific instrumentation, property development, and extension of recreational facilities. During the year the Company acquired T J (Brent) Limited, PHOX Systems Limited, DMP (Holdings) Limited and established a joint venture company, Pell Frischmann Water Limited.

A review of activities for the year is given on pages 10 to 32.

FINANCIAL RESULTS AND DIVIDENDS

Group turnover for the year increased by 18.8% to £143.8m. This incorporated a 14.2% tariff increase on the water and sewerage business, and a growth in business activities. A contribution of £4.1m towards Group turnover arose from acquisitions during the year.

A 20.2% rise in operating costs to £92.7m, resulted from a programme of improved customer service by South West Water Services Limited, the impact of inflation, as well as the Group's business acquisitions.

Interest receivable (net) at £36.9m, was achieved largely on the cash injection received in December 1989 following the restructuring of the Company.

Taxation of £7.8m relates to the element of advance corporation tax payable on the interim and proposed final dividend that is written off as currently irrecoverable. No mainstream corporation tax liability is expected to arise for the year.

The Group profit for the year attributable to shareholders was £80.4m, an improvement of 11.8% on the proforma results for 1990. Proforma results incorporate interest and taxation charges as if the capital structure introduced at flotation had been in place for the whole financial year.

The Directors recommend the payment of a final dividend of 13.3p per share for the year ended 31 March 1991. Together with the interim dividend of 6.7p per ordinary share paid on 4 March 1991, this makes a total dividend for the year of 20.0p per ordinary share, an increase of 14.7% on the proforma dividend for 1990. If approved at the annual general meeting the final dividend will be paid on 1 October 1991 to shareholders on the register at close of business on 22 July 1991.

The payment of the final dividend will require £16.2m leaving £56.0m carried to reserves and retained in the business.

LOANS

As part of a long term funding strategy the Group raised £129.7m in loans and finance leases during the year.

FIXED ASSETS

Capital expenditure by the Group on tangible fixed assets during the year was £119.3m, an increase of 53.3% on the 1990 outturn. This increase was achieved with expenditure in the following business areas:

	£m
Water Supply Services	66.8
Sewerage Services	32.0
Other Business & Support Activities	20.5

Changes in fixed assets during the year are detailed in note 11 to the financial statements.

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

CURRENT ASSETS

At 31 March 1991 the Group held current asset investments of £369.0m mainly comprised of the cash received in connection with the allotment of shares to the Secretary of State in December 1989 (£265.9m) and loans raised during the year. These resources form part of the funding strategy put in place to finance the longer term investment expenditure plans of the Group.

DIRECTORS

Details of the Directors who held office during the year are given on page 5.

Dr J. R. Lawrence, Mr C. R. Stuart and Mr W. J. Dickens are due to retire at the second annual general meeting. All of the Directors due to retire offer themselves for re-election and resolutions for their re-election will be proposed at the meeting. Mr W. J. Dickens has a service contract which provides for not less than three years' notice of termination by the Company and not less than one year's notice of termination by Mr W. J. Dickens, expiring at any time. None of the other Directors proposed for re-election has a service contract with the Company.

REPORT OF THE DIRECTORS (continued)

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 25 to the financial statements on page 64.

During the year the Company has maintained cover for Directors and senior employees against liabilities in relation to the Company under a directors' and officers' liability insurance policy.

EMPLOYEES

Information regarding employment policies and employee share schemes appears on pages 30 to 32 and in note 21 to the financial statements on page 61.

DONATIONS

During the year charitable donations amounting to £19,000 (1990 nil) were made. No political donations were made.

RESEARCH AND DEVELOPMENT

Details of research and development activities are given on page 24.

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 and Friends Provident Life Office have notified an interest in 8,653,244 ordinary shares (7.08%) and 5,132,440 ordinary shares (4.20%) respectively. No other person has notified an interest of 3% or more in the issued ordinary share capital.

AUDITORS

Price Waterhouse were appointed Auditors 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 the English Riviera Centre, Torquay, Devon on Wednesday, 11 September 1991, at 11.00 a.m.

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

Resolution 7 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 1991. 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 any such shares.

APPOINTED BUSINESS

South West Water Services Limited is required to publish additional financial information relating to the "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 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.



31 July 1991

SHAREHOLDER INFORMATION

Financial year end	31 March
Second annual general meeting	11 September 1991
1991 final dividend payable	1 October 1991
1992 interim results announcement	November 1991
1992 interim dividend payable	March 1992
1992 results preliminary announcement	May 1992
Third annual general meeting	July/August 1992
1992 final dividend payable	October 1992

SHAREHOLDER SERVICES

The Company has established a low cost dealing service for investors. The service is provided by Hoare Govett Corporate Finance Limited and enables investors to buy and sell shares in the Company on a low cost basis and to make regular investments in the Company.

The Company has also established a corporate personal equity plan to enable shareholders to gain tax advantages by holding their shares through the Plan.

Full details of these shareholder services are available from the Company Secretary's department.

ANNUAL GENERAL MEETING

The second annual general meeting will be held at the English Riviera Centre, Torquay, Devon on Wednesday, 11 September 1991, at 11.00 a.m. 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.

SHAREHOLDER ANALYSIS
Ordinary shareholders at 31 March 1991

	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1 - 100	10,865	25.2	0.9
101 - 200	6,965	16.1	1.2
201 - 300	3,786	8.8	0.9
301 - 800	15,571	36.1	7.0
801 - 1,000	3,481	8.1	2.6
1,001 - 2,000	1,839	4.2	1.9
2,001 - 5,000	234	0.6	0.6
5,001 - 50,000	17	0.6	4.1
50,001 - 100,000	62	0.1	3.9
Over 100,000	116	0.2	76.9
	43,166	100.0	100.0
Individuals	41,287	95.7	13.9
Companies	492	1.1	26.3
Trust companies (Pension funds etc)	26	0.1	0.8
Banks and nominees	1,307	3.0	44.9
Insurance companies	53	0.1	13.8
HM Government	1	-	0.3
	43,166	100.0	100.0

NOTICE OF MEETING

The second annual general meeting of South West Water Plc will be held at the English Riviera Centre, Torquay, Devon on Wednesday, 11 September 1991, at 11.00 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 1991.
- Resolution 2* To declare a final dividend for the year.
- Resolution 3* To re-elect Dr J. R. Lawrence as a Director.
- Resolution 4* To re-elect Mr C. R. Stuart as a Director.
- Resolution 5* To re-elect Mr W. J. Dickens as a Director.
- Resolution 6* To re-appoint Price Waterhouse as Auditors until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the Directors to fix their remuneration.
- Resolution 7* To propose the following as a special resolution:
- That
- a the Directors be empowered with effect from the conclusion of this annual general meeting to allot for cash equity securities (as defined for the purposes of section 89 of the Companies Act 1985) pursuant to the existing general authority conferred on them under section 80 of that Act as if section 89(1) of that Act did not apply to the allotment but this 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.
9 August 1991



NOTES

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

A Form of Proxy is enclosed and, if used, should be lodged with the Company's Registrars, Lloyds Bank Plc, Registrar's Department not less than 48 hours before the time fixed for the meeting.

The Register of Directors' Interests and copies of the Directors' service contracts will be available for inspection during normal business hours at the Company's registered office from the date of this notice until the date of the meeting, and at the place of the meeting from 10.00 a.m. until the conclusion of the meeting.

AUDITORS' REPORT
To the Members of South West Water Plc

We have audited the financial statements on pages 43 to 64 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 1991 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

PRICE WATERHOUSE
Chartered Accountants
Bristol

31 July 1991

South West Water Plc

**FINANCIAL STATEMENTS
for the year ended 31 March 1991**

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1991

		1991	1990
	Notes	£m	£m
Turnover	2	143.8	121.0
Other operating income		0.3	0.2
Operating costs	3	(92.7)	(77.1)
Operating profit	2	51.4	44.1
Share of losses in associated undertakings		(0.1)	-
Interest receivable (net)	4	36.9	1.2
Profit on ordinary activities			
before taxation	2	88.2	45.3
Tax on profit on ordinary activities	5	(7.8)	(4.7)
Profit on ordinary activities			
after taxation		80.4	40.6
Extraordinary items	6	-	(3.8)
Profit for the year	7	80.4	36.8
Dividends	8	(24.4)	(14.2)
Retained profit transferred to reserves	9	56.0	22.6
Earnings per ordinary share	10	65.8p	61.9p

A statement of movements in reserves is given in note 9.
The notes on pages 47 to 64 form part of these financial statements.

BALANCE SHEETS
at 31 March 1991

	Notes	Group		Company	
		1991	1990	1991	1990
		£m	£m	£m	£m
Fixed assets					
Tangible assets	11	516.8	415.0	5.1	1.4
Investments	12	0.2	0.3	275.1	269.0
		517.0	415.3	280.2	270.4
Current assets					
Stocks	13	4.1	1.8	-	-
Debtors	14	28.5	20.7	28.5	13.7
Investments	15	369.0	262.8	-	15.7
Cash at bank and in hand		0.1	0.1	0.3	-
		401.7	285.4	28.8	29.4
Creditors due within one year	16	(93.6)	(63.8)	(26.2)	(21.3)
Net current assets		308.1	221.6	2.6	8.1
Total assets less current liabilities		825.1	636.9	282.8	278.5
Creditors due after more than one year	17	(134.0)	(1.3)	(0.3)	-
Provisions for liabilities and charges	20	(6.2)	(3.7)	-	-
	2	684.9	631.9	282.5	278.5
Capital and reserves					
Called-up share capital	21	122.2	122.2	122.2	122.2
Share premium account	9	144.2	144.2	144.2	144.2
Profit and loss account	9	418.5	365.5	16.1	12.1
		684.9	631.9	282.5	278.5

The notes on pages 47 to 64 form part of these financial statements.

Approved by the Board on 31 July 1991 and signed on its behalf by:

K.W. Court, Chairman.



GROUP SOURCE AND APPLICATION OF FUNDS STATEMENT
for the year ended 31 March 1991

	1991	1990
	£m	£m
Source of funds		
Profit on ordinary activities before taxation	88.2	45.3
Extraordinary items	—	(3.8)
	88.2	41.5
Adjustment for items not involving the movement of funds:		
Depreciation	10.7	8.6
Profit on disposals of tangible fixed assets	—	(0.1)
Losses retained in associated undertakings	0.1	—
Deferred income released	(0.2)	—
Provisions for liabilities and charges	2.5	3.7
Total generated from operations	101.3	53.7
Funds from other sources:		
Proceeds from disposals of tangible fixed assets	0.2	0.7
Proceeds from issue of ordinary shares	—	265.9
Loans raised	100.0	—
Finance lease drawdowns	29.7	—
Grants and contributions:		
Infrastructure assets	8.3	5.3
Non-infrastructure assets	3.5	1.4
Source of funds total	243.0	327.0
Application of funds		
Additions to tangible fixed assets	(119.3)	(77.8)
Acquisitions of subsidiary and associated undertakings (see note below)	(3.8)	(0.3)
Loan repayments	(0.4)	(0.5)
Dividends paid	(22.4)	—
Taxation paid	(4.7)	—
	(150.6)	(78.6)
(Increase) decrease in working capital		
Stocks	(1.2)	(0.2)
Debtors	(6.8)	(2.0)
Creditors	15.9	13.8
	7.9	11.6
Surplus for year	100.3	260.0
Represented by		
Increase (decrease) in net liquid funds:		
Current asset investments	106.2	260.0
Short term borrowings and overdrafts	(5.9)	—
	100.3	260.0
Note: Acquisitions of subsidiary and associated undertakings comprised:		
Goodwill	3.0	0.2
Associated undertakings	—	0.3
Fixed assets	1.7	—
Stocks	1.1	—
Debtors	1.0	0.1
Creditors due within one year	(2.4)	(0.3)
Obligations under finance leases	(0.2)	—
Creditors due after more than one year	(0.4)	—
	3.8	0.3
Financed by cash from Group's cash resources	3.8	0.3

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

The Group financial statements include the results of the Company and its subsidiary undertakings, each made up to 31 March 1991, together with the attributable share of results and reserves of associated undertakings on the basis of their latest accounts. The results of subsidiary and associated undertakings 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 230 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).

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (continued)

Other Assets

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.

e Leased Assets

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

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

f Grants and Contributions

From 1 April 1990 grants and contributions 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. No restatement in respect of prior years has been made as the amounts are not material.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets in order to show a true and fair view.

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

g Investments

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

Short dated unlisted securities are stated at cost plus accrued income.

h Stocks

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

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES *(continued)*

i Pension Costs

The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged against profits so as to spread 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.

Pension costs for the Group's defined contribution schemes are charged against profits in the year in which they are incurred.

j Research Expenditure

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

k Taxation

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

l Goodwill

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

m Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. The results of overseas subsidiaries are translated into sterling at the average rates of exchange prevailing during the period of ownership. Exchange differences arising from non trading activities are dealt with in reserves.

n Accounting Standards

The financial statements of the Group are prepared in compliance with all current Statements of Standard Accounting Practice and the requirements of The Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

2 CLASSES OF BUSINESS

	Water and sewerage business		Other business		Group	
	1991	1990	1991	1990	1991	1990
	£m	£m	£m	£m	£m	£m
Turnover						
Turnover	140.2	121.1	14.0	3.9	154.2	125.0
Inter-segment turnover	(1.0)	(0.3)	(9.4)	(3.7)	(10.4)	(4.0)
Turnover to third parties	139.2	120.8	4.6	0.2	143.8	121.0
Profit						
Segment operating profit	51.5	45.3	(0.1)	(1.2)	51.4	44.1
Share of losses in associated undertakings	-	-	(0.1)	-	(0.1)	-
Interest receivable (net)	33.0	0.1	3.9	1.1	36.9	1.2
Profit before taxation	84.5	45.4	3.7	(0.1)	88.2	45.3
Net assets						
Segment net assets	674.5	619.4	10.4	12.5	684.9	631.9

Substantially all turnover and operating profit arose in the UK.

3 OPERATING COSTS

	1991	1990
	£m	£m
Manpower costs (note 23)	28.0	20.1
Raw materials and consumables	8.8	6.7
Other external charges	27.9	26.0
Depreciation:		
On owned assets	9.2	7.8
On assets acquired under finance leases	0.9	-
Deferred income (note 19)	(0.2)	-
Infrastructure renewals expenditure	7.6	6.9
Rentals under operating leases:		
Hire of plant and machinery	0.7	0.6
Other operating leases	0.3	0.2
Research expenditure	0.3	0.3
Auditors' remuneration	0.1	0.1
Other operating charges	9.1	8.4
	92.7	77.1

NOTES TO THE FINANCIAL STATEMENTS

4 INTEREST RECEIVABLE (NET)

	1991	1990
	£m	£m
Interest receivable:		
Listed redeemable securities	6.8	0.6
Other investments (as defined in note 15)	35.3	10.4
	42.1	11.0
Interest payable:		
Relevant loans	-	(9.1)
Bank overdraft and short term borrowings	(0.1)	(0.2)
Interest element of finance lease charges	(1.1)	-
Long term loans	(3.5)	-
Other finance costs	(0.5)	(0.5)
	(5.2)	(9.8)
Interest receivable (net)	36.9	1.2

"Relevant loans" comprised sums borrowed from the Secretary of State for the Environment or the Public Works Loan Commissioners. The indebtedness for relevant loans outstanding at 15 November 1989 was waived.

Interest receivable (net) above includes a charge against profits of £0.2m (1990 £0.4m) arising from changes in the value of current asset investments.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1991	1990
	£m	£m
United Kingdom taxation:		
Irrecoverable advance corporation tax	7.8	4.7

The Group is entitled to capital allowances on qualifying assets transferred from the predecessor authority and from its substantial investment programme. No liability to mainstream corporation tax is expected to arise in respect of the year ended 31 March 1991; advance corporation tax on the interim and proposed final dividend is therefore regarded as irrecoverable and has been written off to the profit and loss account.

6 EXTRAORDINARY ITEMS

	1991	1990
	£m	£m
Privatisation and restructuring costs	-	3.8

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.

NOTES TO THE FINANCIAL STATEMENTS

7 PROFIT FOR THE YEAR

	1991	1990
	£m	£m
Dealt with in the accounts of the parent company	28.4	26.8

8 DIVIDENDS

	1991	1990
	£m	£m
Interim dividend of 6.7p (1990 nil) per ordinary share paid 4 March 1991	8.2	—
Proposed final dividend of 13.3p (1990 11.62p) per ordinary share payable 1 October 1991 (1990 paid 1 October 1990)	16.2	14.2
	24.4	14.2

9 RESERVES

	Group and Company share premium account	Group profit and loss account	Company profit and loss account
	£m	£m	£m
At 1 April 1990	144.2	365.5	12.1
Profit retained for year	—	56.0	4.0
Goodwill arising on acquisitions	—	(3.0)	—
At 31 March 1991	144.2	418.5	16.1

The cumulative value of goodwill at 31 March 1991 resulting from acquisitions which has been written off to the Group profit and loss account is £3.2m. Goodwill written off on acquisitions during the year comprises T J (Brent) Limited £0.7m, pHOX Systems Limited £2.2m, and DMP (Holdings) Limited £0.1m.

10 EARNINGS PER SHARE

	1991	1990
Profit on ordinary activities after taxation	£80.4m	—
Proforma profit on ordinary activities after taxation	—	£75.7m
Earnings per ordinary share	65.8p	61.9p

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation by 122,248,000 ordinary shares in issue during the year (1990 122,248,000).

Actual earnings per ordinary share for the year ended 31 March 1990 has 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 took place during that year. Instead, the earnings per ordinary share has been calculated using the proforma profit on ordinary activities after taxation.

NOTES TO THE FINANCIAL STATEMENTS

10 EARNINGS PER SHARE (continued)

For the year ended 31 March 1990 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 forecast dividend contained in the prospectus.

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

Earnings per share on the nil distribution basis is 72.1p. This has been calculated by eliminating the taxation charge of £7.8m in respect of irrecoverable advance corporation tax on the interim and proposed final dividends (1990 67.7p on a proforma basis).

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 1991
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 April 1990	12.8	189.1	144.5	63.5	70.6	480.5
Additions	5.6	44.9	23.6	25.9	19.3	119.3
Grants and contributions	—	(8.3)	—	—	—	(8.3)
Acquired in subsidiary undertakings	1.1	—	—	1.2	—	2.3
Disposals	(0.2)	—	—	(0.3)	—	(0.5)
Transfers	1.5	30.0	10.0	13.6	(55.1)	—
At 31 March 1991	20.8	255.7	178.1	103.9	34.8	593.3
Depreciation:						
At 1 April 1990	1.6	—	33.7	30.2	—	65.5
Acquired in subsidiary undertakings	—	—	—	0.6	—	0.6
Charge for year	0.5	—	4.4	5.8	—	10.7
Disposals	(0.1)	—	—	(0.2)	—	(0.3)
At 31 March 1991	2.0	—	38.1	36.4	—	76.5
Net book value:						
At 31 March 1991	18.8	255.7	140.0	67.5	34.8	516.8
At 31 March 1990	11.2	189.1	110.8	33.3	70.6	415.0

Out of the total depreciation charge for the Group of £10.7m (1990 £8.6m), the sum of £0.6m (1990 £0.8m) has been charged to capital projects and £10.1m (1990 £7.8m) against profits.

NOTES TO THE FINANCIAL STATEMENTS

11 TANGIBLE FIXED ASSETS (continued)

Group (continued)

The previous analysis includes the following amounts in respect of finance leases:

	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1991
	£m	£m	£m	£m
Cost:				
Additions	8.7	16.8	4.2	29.7
Acquired in subsidiary undertakings	-	0.2	-	0.2
At 31 March 1991	8.7	17.0	4.2	29.9
Depreciation:				
Acquired in subsidiary undertakings	-	0.1	-	0.1
Charge for year	0.1	0.8	-	0.9
At 31 March 1991	0.1	0.9	-	1.0
Net book value:				
At 31 March 1991	8.6	16.1	4.2	28.9

Company	Freehold land and buildings	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1991
	£m	£m	£m	£m
Cost:				
At 1 April 1990	0.7	0.4	0.3	1.4
Additions	2.2	0.4	1.3	3.9
Disposals	(0.1)	-	-	(0.1)
Transfers	0.1	-	(0.1)	-
At 31 March 1991	2.9	0.8	1.5	5.2
Depreciation:				
At 1 April 1990	-	-	-	-
Charge for year	0.1	0.1	-	0.2
Disposals	(0.1)	-	-	(0.1)
At 31 March 1991	-	0.1	-	0.1
Net book value:				
At 31 March 1991	2.9	0.7	1.5	5.1
At 31 March 1990	0.7	0.4	0.3	1.4

NOTES TO THE FINANCIAL STATEMENTS

12 FIXED ASSET INVESTMENTS

	Group			Company		
	Shares	Loans	Total	Shares	Loans	Total
	1991			1991		
	£m	£m	£m	£m	£m	£m
Subsidiary undertakings						
Cost:						
At 1 April 1990				266.5	2.5	269.0
Additions				3.1	-	3.1
At 31 March 1991				269.6	2.5	272.1
Associated undertakings						
Cost:						
At 1 April 1990	0.3	-	0.3	-	-	-
Losses for year	(0.1)	-	(0.1)	-	-	-
Acquired from subsidiary undertaking	-	-	-	-	3.0	3.0
At 31 March 1991	0.2	-	0.2	-	3.0	3.0
Total investments						
At 31 March 1991	0.2	-	0.2	269.6	5.5	275.1

Details of principal subsidiary and associated undertakings are:

Subsidiary undertakings

Name of company	Activity	Proportion of nominal value of ordinary shares held	Country of incorporation and principal operations
South West Water Services Limited	Water supply and sewerage services	100%	England
Peninsula Insurance Limited	Insurance	100%	Guernsey
Analaq Limited	Instrumentation	51%	England
TJ (Brent) Limited	Construction services	100%	England
pHOX Systems Limited	Instrumentation	100%	England
DMP (Holdings) Limited	Instrumentation	100%	England

All the shares are held by South West Water Plc

On 7 June 1991 the remaining ordinary shares of Analaq Limited were acquired from Messrs Blanchard and Brook, both Directors of that company, for a cash consideration of £2. The loss after tax for the year ended 31 March 1991 was £0.1m and the net liabilities at the year end were £0.2m, both wholly reflected in these financial statements. Any royalties accruing as a result of the development of scientific instrumentation by Analaq Limited in the future will be reflected in the Group profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

12 FIXED ASSET INVESTMENTS (continued)

T J (Brent) Limited was acquired on 20 April 1990; profit after tax for the year ended 31 March 1990 was £0.2m.

PHOX Systems Limited was acquired on 27 June 1990; profit after tax for the year ended 30 June 1990 was £0.1m.

The remaining shares in DMP (Holdings) Limited were acquired on 12 March 1991; loss after tax for the year ended 28 February 1991 was £0.1m.

Associated undertakings

Name of company	Activity	Proportion of nominal value of ordinary shares held	Country of incorporation and principal operations	Capital and reserves 1991	Profit (loss) 1991
				£m	£m
Pell Frischmann Water Limited	Construction services	50%*	England	-	-
*including 33% ordinary non-voting shares					
Peninsula Properties (Exeter) Limited	Property development	50%	England	(0.1)	(0.1)

All the shares are held by South West Water Plc

13 STOCKS

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Raw materials and consumables	3.5	1.8	-	-
Work in progress	0.6	-	-	-
	4.1	1.8	-	-

NOTES TO THE FINANCIAL STATEMENTS

14 DEBTORS

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Trade debtors	12.7	7.7	-	0.1
Amounts owed by group undertakings			28.1	13.5
Amounts owed by associated undertakings	0.1	-	0.1	-
Other debtors	1.6	1.6	0.3	-
Prepayments and accrued income	13.6	11.4	-	0.1
Prepaid pension contributions	0.5	-	-	-
	<u>28.5</u>	<u>20.7</u>	<u>28.5</u>	<u>13.7</u>
Included above are amounts due after more than one year:				
Amounts owed by group undertakings			1.4	-
Other debtors	0.3	0.2	-	-
	<u>0.3</u>	<u>0.2</u>	<u>1.4</u>	<u>-</u>

15 CURRENT ASSET INVESTMENTS

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Listed on a recognised investment exchange	56.3	31.0	-	-
Other investments	312.7	231.8	-	15.7
	<u>369.0</u>	<u>262.8</u>	<u>-</u>	<u>15.7</u>
Market value of listed investments	57.4	31.0	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

16 CREDITORS DUE WITHIN ONE YEAR

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Bank loans and overdrafts	9.6	3.7	-	-
Obligations under finance leases (note 18)	0.5	-	-	-
Trade creditors	42.9	25.5	1.4	1.8
Amounts owed to associated undertakings	0.1	-	0.1	-
Other creditors	0.8	3.1	0.7	0.6
Advance corporation tax	8.1	4.7	7.8	4.7
Other taxation and social security	1.0	0.6	-	-
Accruals and deferred income	14.4	12.0	-	-
Proposed dividend	16.2	14.2	16.2	14.2
	93.6	63.8	26.2	21.3

17 CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Non-current portion of long term loans (note 18)	129.5	0.1	-	-
Deferred income (note 19)	3.2	-	-	-
Other creditors	1.3	1.2	0.3	-
	134.0	1.3	0.3	-

18 LONG TERM LOANS

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Loans				
Interest rates %	4.0-13.8			
Repayment dates	1992-2007			
	100.1	0.1	-	-
Obligations under finance leases	29.4	-	-	-
	129.5	0.1	-	-

NOTES TO THE FINANCIAL STATEMENTS

18. LONG TERM LOANS (continued)

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Analysis of instalments repayable:				
Loans:				
After five years from balance sheet date	93.5	0.1	-	-
From two to five years	6.6	-	-	-
Obligations under finance leases:				
After five years from balance sheet date	26.6	-	-	-
From one to five years	2.8	-	-	-
Total due after more than one year (note 17)	129.5	0.1	-	-
Due within one year:				
Obligations under finance leases (note 16)	0.5	-	-	-
	130.0	0.1	-	-

Loans at 31 March 1991 are denominated in sterling.

19 DEFERRED INCOME

Grants and contributions on non-infrastructure assets

	Group		Company	
	1991	1991	1991	1991
	£m	£m	£m	£m
At 1 April 1990	-	-	-	-
Additions	3.5	-	-	-
Released to profit and loss account (note 3)	(0.2)	-	-	-
	3.3	-	-	-
Amount due within one year (included within note 16)	(0.1)	-	-	-
Due after more than one year (note 17)	3.2	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Group Company	
	1991	1991
	£m	£m
Infrastructure renewals expenditure		
At 1 April 1990	3.7	—
Charged against profits	7.6	—
Utilised during year	(5.1)	—
At 31 March 1991	6.2	—

Deferred taxation

The maximum potential liability for deferred taxation, for which no provision is considered necessary, in respect of the excess of capital allowances over the provision for depreciation of tangible fixed assets and other timing differences, for the Group and the Company at 31 March 1991 was:

	Group Company	
	£m	£m
Tax effect of timing differences due to:		
Accelerated capital allowances	14.6	—
Other	(1.8)	—
Unutilised corporation tax losses	(4.7)	—
	8.1	—
Less: advance corporation tax recoverable	(6.1)	—
Maximum potential liability	2.0	—

21 CALLED-UP SHARE CAPITAL

The authorised share capital of the Company throughout the year was £175,000,001 comprising 175,000,000 ordinary shares of £1 each and one special share of £1.

The allotted, called-up and fully paid share capital throughout the year was £122,248,001 comprising 122,248,000 ordinary shares of £1 each and one special share of £1.

The special share is redeemable at any time up to 31 December 1994 at par at the option of the Secretary of State for the Environment 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.

NOTES TO THE FINANCIAL STATEMENTS

21 CALLED-UP SHARE CAPITAL (continued)

There are outstanding options to subscribe for ordinary shares of £1 under the Company's share option schemes as shown below:

Number of shares in respect of which options granted	Nature of scheme	Subscription price fully paid	Period when options normally exercisable
875,896	Sharesave	176p	1995-1997
1,070,000	Executive	293p	1993-2000
1,945,896			

No options were granted or exercised during the year.

On 5 July 1991 the following options were granted:

557,237	Sharesave	287p	1996-1998
781,000	Executive	328p	1994-2001
1,338,237			

Options granted to Directors, included above, are shown in note 25.

22 COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Capital commitments (including acquisitions of other companies):				
Contracted but not provided	35.7	26.4	0.1	0.1
Authorised but not yet contracted	52.6	13.1	5.8	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.

Operating leases:

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

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Leases, other than for land and buildings, expiring between one and five years	0.3	0.3	-	-
Contingent liabilities:				
Contractors' claims on capital schemes	5.5	2.2	-	-

NOTES TO THE FINANCIAL STATEMENTS

23 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS

The average number of persons (including Directors) employed by the Group during the year ended 31 March was:

	1991	1990
Water and sewerage business	1,855	1,657
Other business areas	217	55
	2,072	1,712

Employment costs comprise:

	1991	1990
	£m	£m
Wages and salaries	30.2	22.5
Social security costs	2.4	1.7
Other pension costs	2.5	2.5
Total employment costs	35.1	26.7

Total employment costs are charged as follows:

Manpower costs (note 3)	28.0	20.1
Capital schemes and infrastructure renewals expenditure	7.1	6.6
	35.1	26.7

Pensions

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

The pension cost for the Group for the year ended 31 March 1991 was £2.5m, (1990 £3.0m). The pension cost of the defined benefit schemes has been determined on the advice of independent qualified actuaries using either the projected unit or attained age method and spreads the cost of pensions over the service lives of the members of the schemes.

The latest actuarial valuations of the major pension schemes were at 1 April 1990. At that date, the market value of the schemes' assets was £29.0m and the actuarial value of those assets, including sums payable by the predecessor fund during 1991/92, represented between 109% and 115% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The employers' regular pension costs of these schemes are 10.7% and 13.3% of pensionable earnings (1990 12%). The actuarial surpluses are being recognised in the Group profit and loss account over the remaining service lives of the current members of the schemes.

NOTES TO THE FINANCIAL STATEMENTS

23 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS *(continued)*

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in earnings and pensions. It is assumed that the investment return would be 9% per annum and that pensionable pay increases would average 7.5%, and that present and future pensions would increase at the rate of between 5% and 5.5% per annum.

A prepayment of £0.5m (1990 nil) is included in debtors, this being the excess of the amount funded over the accumulated pension cost.

24 EMOLUMENTS OF DIRECTORS

	Annual equivalent	
	1991	1990
	£000	£000
Total emoluments of the Directors of the Company, including pension contributions	526	463
Emoluments of the Chairman, and highest paid Director in 1991, excluding pension contributions	89	53
Emoluments of the highest paid Director in 1990, excluding pension contributions		78

Number of Directors whose emoluments, excluding pension contributions, fell within the following ranges:

Range (£)	Annual equivalent	
	1991	1990
5,001-10,000	-	7
10,001-15,000	4	-
15,001-20,000	2	-
20,001-25,000	1	-
45,001-50,000	1	2
50,001-55,000	-	1
55,001-60,000	1	1
60,001-65,000	1	-
75,001-80,000	-	1
85,001-90,000	2	-

The comparative emoluments for 1990, covering the period 1 September 1989 to 31 March 1990, are given on an annual equivalent basis.

Emoluments include salary, car benefit, health cover and professional subscriptions.

A provision of £80,000, excluding pension contributions, has been made in the financial statements in respect of payments under the executive incentive plan. The payments are not reflected in this note as they are still subject to determination by the Remuneration Committee of the Board on the basis of earnings per share and achievement of the individual performance targets. The payments will be included in this note in 1992.

NOTES TO THE FINANCIAL STATEMENTS

25 DIRECTORS' INTERESTS

At 31 March 1990 and 31 March 1991 the Directors held beneficial interests in shares of the Company as follows:

	Share interests	Shares under option	
		Sharesave scheme	Executive scheme
K.W. Court	7,088 (6,760 at 31 March 1990)	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
C. Spence	2,050		
C.R. Stuart	1,000		

On 5 July 1991 further options were granted as follows:

K.W. Court	1,567	40,000
W.J. Dickens		24,000
W.H. Fraser		47,000
K.L. Hill		30,000
M.J. Le P. Quantick		30,000

Other than as stated above there have been no changes in Directors' interests since 31 March 1991. The options may be exercised at the prices and dates shown in note 21.

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