REGISTERED NO: 2366640

SOUTH WEST WATER PLC

ANNUAL REPORT AND ACCOUNTS 1992

pic 1

Clean Sweep
comes to the
Teign Estuary –
pipelaying and
upgrading of
Buckland Sewage
Treatment Works

South West Water Plc operates and invests primarily in the fields of water-care and waste processing, systems and technology.

Its principal subsidiary, South West Water Services Limited, holds the water and sewerage appointments for the South West region.

Related waste and water-care systems and services are provided in the UK by subsidiary and joint venture companies.

The group has assets of over £1,000 million and employs over 2,400 people.

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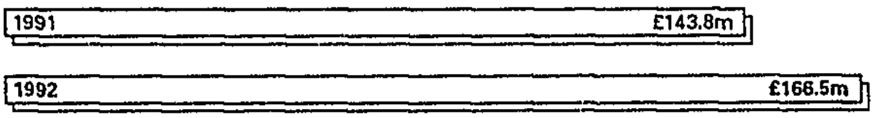
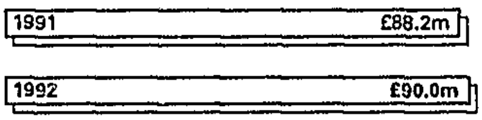
FINANCIAL HIGHLIGHTS

Year ended 31 March	1992	1991
Turnover	**£166.5m**	£143.8m
Profit before taxation	**£90.0m**	£88.2m
Net assets	**£738.2m**	£684.9m
Capital expenditure	**£172.4m**	£119.3m
Earnings per share	**66.1p**	65.8p
Dividend per share – interim	**7.1p**	6.7p
– final	**14.6p**	13.3p

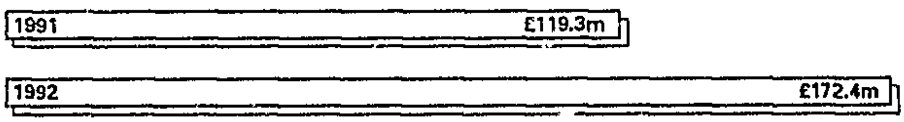
Turnover



Profit before taxation



Capital expenditure



DIRECTORS

Executive Chairman	K.W. Court		
Non-executive Deputy Chairman	T.C. Leader		
Executive Directors	W.H. Fraser	Managing Director, South West Water Services Limited	
	W.J. Dickens	Director of Technical Affairs	
	C.I.J.H. Drummond	Director of Development (appointed 1 April 1992)	
	K.L. Hill	Group Director of Finance	
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**	**Finance**	**Remuneration**
	T.C. Leader (Chairman) S.J. Day J.R. Lawrence K.J. Morton C.R. Stuart	K.W. Court (Chairman) S.J. Day W.H. Fraser K.L. Hill T.C. Leader K.J. Morton C.R. Stuart	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 (57), 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 (64), 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, EurIng, CEng, FIMechE, CBIM, FInstPet, (54), 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 (64), Director of Technical Affairs, was appointed on 1 September 1989 having joined South West Water Authority in August 1988. He has over 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. He is a member of the Street Works Advisory Committee.

Colin Irwin John Hamilton Drummond MA, MBA (41), Director of Development, was appointed on 1 April 1992. Prior to joining the Company he was a divisional chief executive of Coats Viyella, having previously been corporate development director of Renold plc, a strategy consultant with The Boston Consulting Group and an official at The Bank of England.

Kenneth Leslie Hill IPFA (51), 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.

Simon James Day MA (57), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1983. He is the leader of Devon County Council, chairman of governors of Bicton College of Agriculture and a farmer.

Lady Mary Christina Holborow (55), 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, and 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 (61), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1985. He is a senior executive of ICI Group and formerly director of the ICI Group Environmental Laboratory. He is a member of the Advisory Board of the Warren Spring Laboratory.

Kenneth John Morton MA, FCA, FCT (52), 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 (70), 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 a member of South West Regional Health Authority.

Charles Rowell Stuart BSc(Econ), FRAeS, FCIT, FInstD (64), 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 and a governor of University of Plymouth.

CHAIRMAN'S STATEMENT

pic 2

I am pleased to report a year of substantial progress and achievement. We further improved our standard of service to customers and our business performance strengthened. Of most importance we continued to transform radically the infrastructure of the South West.

Turnover rose by 16% and operating profit increased by 25%. Capital expenditure increased by 45% to reach a new record level. We secured this growth, made numerous operational advances and still maintained the necessary substantial pre-tax profits, which increased by 2% to £90 million.

Growth in turnover slowed in the second half, as the recession affected income from water and sewerage services. Despite this factor and an inevitable reduction in interest income as cash was drawn down for the enlarging capital expenditure, the marked improvement in operating profit has contributed to the pre-tax outcome.

The directors are recommending a final dividend of 14.6p, to total with the interim payment of 7.1p – a full year dividend of 21.7p. If approved at the annual general meeting, the final dividend will be paid on 1 September 1992 – one month earlier than in previous years. For the first time we are offering shareholders the alternative of a scrip dividend.

Adequate financing is vital to support our massive programme of improvements. As I explained at the 1991 Annual General Meeting, we have put together significant funding for the short and medium term – including finance leasing, and European Investment Bank loans – and have been successful in conserving the initial Government cash injection. A high level of profit is necessary to boost the funding and in 1991 we ploughed back £56 million of our profits – to which we will add £54 million from this year's results. Recently we launched a successful £150 million bond issue.

Expansion of the capital works programme to over £170 million, comprising nearly 600 projects, benefited from the restructuring of Engineering, and the establishment in 1990 of the joint venture, Pell Frischmann Water. 115 projects were completed. The year saw the start of the Clean Sweep bathing water schemes and the completion of major water supply schemes including links between the new Roadford reservoir and the South Devon area. Plymouth and Torbay now benefit from multiple sources of supply.

This was the third successive year in which the programme expanded by nearly 50% underlining the massive inroads made in rectifying the inadequate infrastructure.

One key objective is to maintain a financial capability which is responsive to the company's large capital investment obligations. I foreshadowed at the 1991 Annual General Meeting the new obligations imposed on us by government – the acceleration of the bathing water schemes, banning of sludge disposal at sea, and additional treatment under the new EC Urban Waste Water Directive. I explained that, unavoidably, we would have to use the mechanism of Cost Pass Through to pay for these more onerous obligations. The Director General of Water Services approved an increase in our charges limits from 6.5% above the increase in the Retail Price Index, to 11.5% above for the next three years and acknowledged that there would be a need for similar adjustments to continue beyond 1995.

This price determination provides predictable strength in company income for a number of years ahead. Combined with full mobilisation of our engineering planning, design and project management teams, it enables us to press ahead with meeting the enlarged capital programme of over £2 billion by the turn of the century.

In summary, our regulated business activities are performing well. Additionally, during the year we pursued opportunities to develop linked businesses in support of our overall strategy of becoming a broader based water-care and waste systems and technology company. We acquired a privately owned waste water process technology business, Copa Holdings Limited. We entered into joint ventures with the Weir Group, involving the development of new process technologies and, with a major Spanish company, Fomento de Construcciones y Contratas, to establish a waste management business.

These newer non-regulated activities, added to scientific instrumentation, land development and construction services, are planned to contribute to turnover and profitability.

In all our operations we continued to give priority to improvement in the quality and reliability of our services and products and in the care of the environment.

One of my main board colleagues, Mr Michael Quantick, retired this March after 42 years' service with our company and the public sector. My colleagues and I record our appreciation of his efforts, and wish him well.

Mr Colin Drummond, 41, replaces him. He has particular experience in strategy and new business development, and we welcome him to our Board.

In a year of so much progress, activity and change I warmly thank my colleagues and all our employees for their consistent commitment and efforts. We have a clear mission and have already established a record of achievement. This is a firm base on which to build the long term business.

Keith Court

K. W. Court

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

pic 3

FOCUS FOR THE YEAR

Continuous improvement in quality of service and efficiency was our focus for the year. Hallmarks of quality and reliability apply to all of our business activities.

... significant measurable increases in the quality and reliability of service

A growing capital expenditure programme is being successfully managed. Refurbishment of the underground systems, improvements to treatment processing and the discipline of tight quality assurance procedures are contributing to significant measurable increases in the quality and reliability of service.

Larger and faster improvements to the quality of many of the region's important bathing waters will result from the company's successful application to the Director General of Water Services for an increase in its charges limit.

The six operating districts were streamlined into three customer focused, profit centre divisions. These are to be the basis for delivering higher quality and reliability and soundly based operating margins.

The importance to the business of conforming to a demanding regulatory regime was reflected in the appointment of a Regulatory Director to the Board of South West Water Services Limited.

CLEAN SWEEP – MOVING FORWARD

Clean Sweep –
the company's
programme of 33
schemes benefiting
81 EC bathing waters

Scheme Progress

Complete
Construction
Design
Appraisal

REVIEW OF ACTIVITIES
of South West Water Services Limited

SATISFYING OUR CUSTOMERS

The company regularly surveys customers' opinions of its services. These confirm that the first priority is an uninterrupted plentiful supply of clean drinking water.

Drinking water quality has been raised to unprecedented levels

There were no restrictions on the use of water anywhere in the region in 1991. During the year the company invested in improvements to reliability of supply by increasing the network and treatment capacity.

Water from Roadford Lake became available to customers in North and South Devon following major pipeline improvements. Work began on large new water treatment works to serve Plymouth and North Devon. Extensions embracing new techniques to Littlehempston Water Treatment Works serving South Devon were virtually completed.

pic 4

Twenty-four hours of every day our laboratories monitor supplies to achieve consistent quality. Martin Broome delivers samples to Karen Hutchings at Countess Wear laboratory, Exeter

Substantial progress was made on identifying and controlling leakage and will continue.

Drinking water quality has been raised to unprecedented levels. The independent Drinking Water Inspectorate confirmed that 66,000 analyses showed a 99.6% compliance rate in 1991 – up from 99.1% in 1990.

Since 1989, 176 service reservoirs have been refurbished including 53 in the past year. Over 220 kilometres of water main was relaid or relined during the year – 40 kilometres more than originally planned.

pic 5

Works Manager John Miles at Littlehempston Water Treatment Works – constructed to treat Roadford water for the people of South Devon

SATISFYING OUR CUSTOMERS *(continued)*
The improved system of treatment works, mains and service reservoirs is increasingly monitored and controlled by remote sensing and communications technology. This reduces operating costs and improves the end product.

Plentiful supplies of clean water remain the basis of customer satisfaction. However, we are adding service value wherever possible.

The new divisions each have a senior manager responsible for customer liaison. Communications with customers have been enhanced by the use of our computer based work management system, CUSTOMS, and improved information material.

We work closely with the Director General of Water Services and his Customer Service Committee to achieve our common goal of satisfying customers.

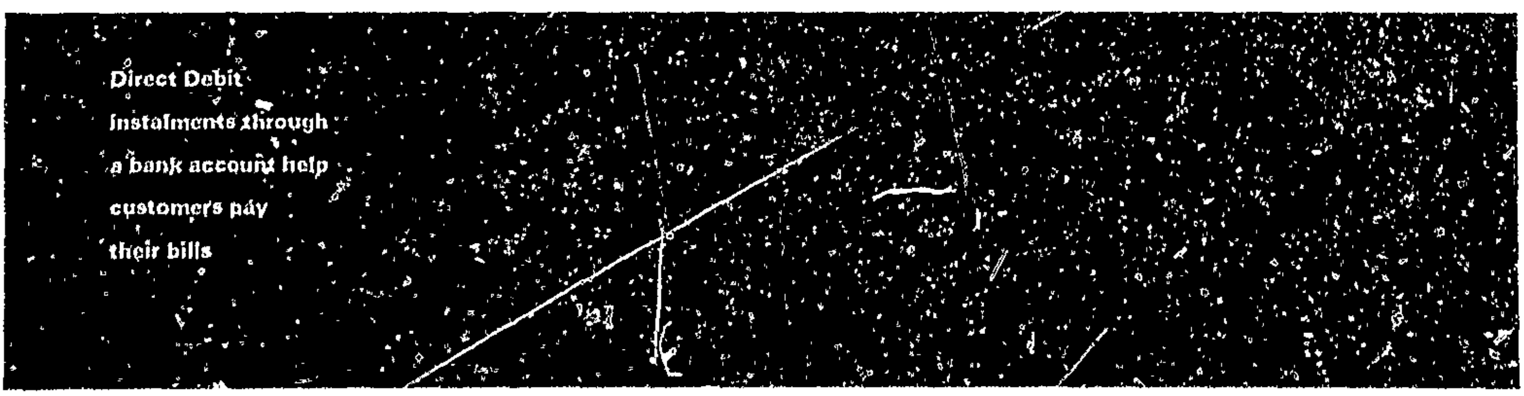
Electronic progress at Tamar Lakes Water Treatment Works. Steve Pratt operates a small computer that now does all the work of the former control console

pic 6

Communications with customers have been enhanced...

Bills have been redesigned and awarded the Plain English Society's "Crystal Mark". Easy payment facilities spread over 10 months have been widely advertised.

pic 7


Direct Debit
instalments through
a bank account help
customers pay
their bills

ENHANCING THE ENVIRONMENT

Both the quality of life and economy of the South West depend on a clean healthy environment. Tourism alone brings in £1,400 million a year to the region.

Directors of South West Water Plc on a visit to Buckland Sewage Treatment Works

pic 8

We treat and dispose of the waste water produced by 1.5 million residents and 6 million visitors to protect the region's rivers and beaches. The performance of inland sewage treatment works discharging to rivers has been improved from 64% compliance with statutory standards in 1989 to 73% in 1991.

To continue to raise this level a massive programme of investment in 200 inland sewage treatment works is well underway – reversing the neglect of the past. Rivers are benefiting. Planning authorities are able to consider development in many areas previously affected by a shortage of treatment capacity.

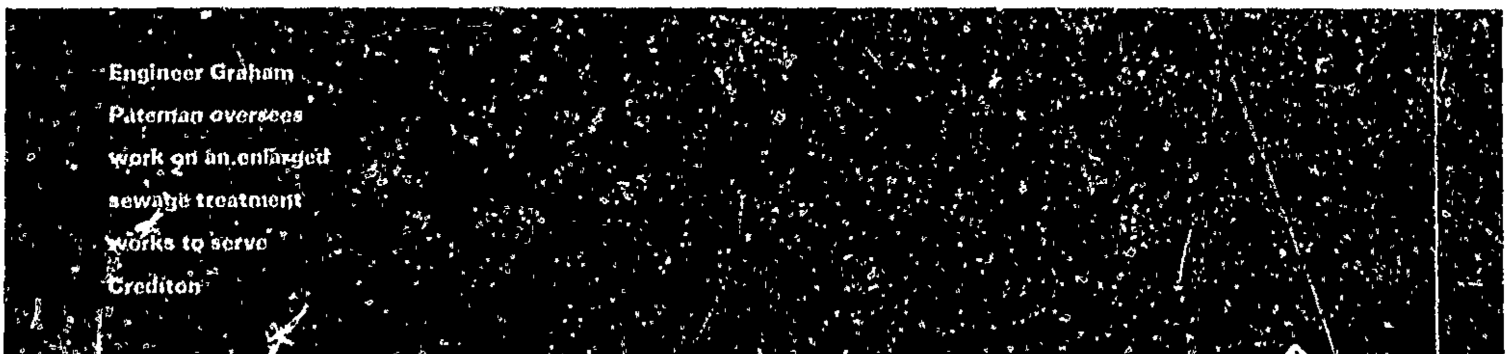
The greatest challenge being met by the company is in the coastal environment. The new charges increase allowed the acceleration of the Clean Sweep programme. All but three of the 33 capital schemes benefiting 81 EC designated bathing waters will be completed by 1995 – 4 years ahead of initial expectations. Higher standards of treatment required by the EC Urban Waste Water Treatment Directive will also be achieved earlier than originally planned.

...a massive programme of investment in 200 inland sewage treatment works is well underway...

Following successful laying of a long sea outfall, the new inland sewage treatment works at Bude came into operation in June 1992.

The Teign Estuary scheme is well underway and the main contract for a scheme to rid West Cornwall of 47 crude sewage outfalls

pic 9



Engineer Graham Pateman oversees work on an enlarged sewage treatment works to serve Crediton

... capital schemes benefiting 81 EC designated bathing waters will be completed ...

ENHANCING THE ENVIRONMENT
(continued)

has been awarded. These three schemes alone will benefit 15 designated bathing waters.

Enhanced waste water treatment to improve effluent quality inevitably produces more sludge. South West Water has developed a unique system for injecting sludge into land using an 'umbilical cord' linking the sludge tanker to the injection system.

Energy management continues to protect the global environment by reducing the use of fossil fuel. We now produce 3.3 megawatts by hydro-electric generation and combined heat and power generation fuelled by methane from sludge at 14 sites.

pic 10

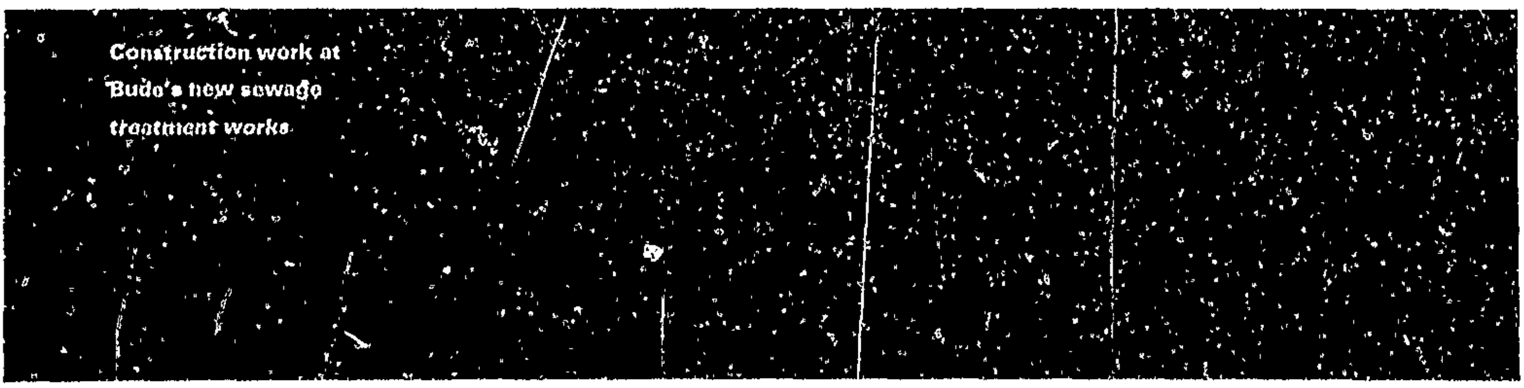
Generating electricity at Roadford

At five water parks and many other sites we provide free public access to areas of great natural beauty enhanced by a wide range of leisure pursuits.

The company is active in sponsoring community environmental initiatives.
We have granted the Calvert Trust special use of the Wistlandpound Reservoir on Exmoor, plus a neighbouring farmhouse, to develop water sports for the disabled.

As an addition to the Environmental Policy launched in 1990 an Environmental Award competition open to all employees has been introduced.

pic 11



Construction work at Bude's new sewage treatment works

DELIVERING THE CAPITAL PROGRAMME

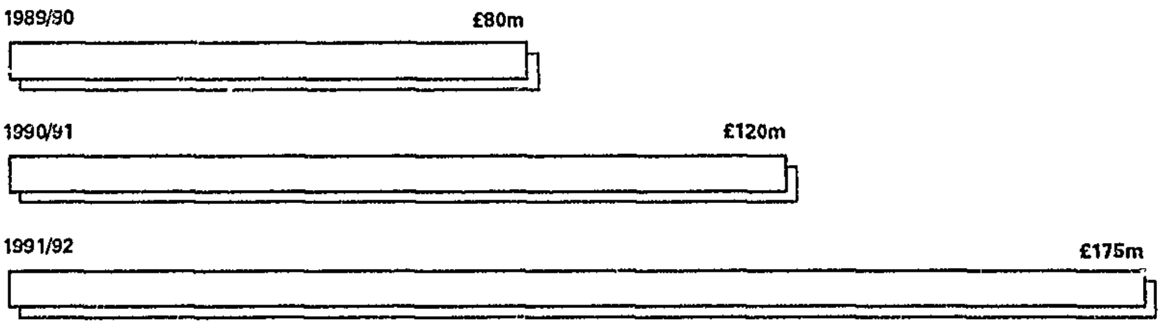
... meeting target dates and target costs

For a third successive year the company has delivered an increase of almost 50% in its capital programme with a spend of £175 million, including infrastructure renewals.

Almost 600 schemes are in progress. By the turn of the century £2,000 million will have been invested in improved clean and waste water services. In the year 115 schemes were completed, the majority of them on or ahead of schedule.

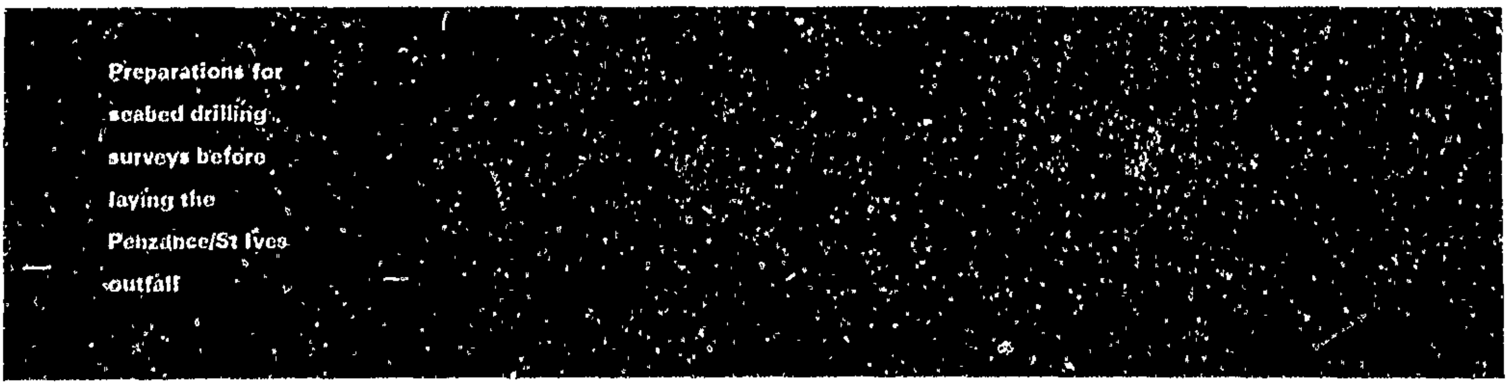
This success has been achieved by careful attention to planning, managing the programme and the individual schemes. Additional resources have been deployed in forward planning and appraisal – the key to finding the most cost effective solutions to clearly evaluated needs and to meeting target dates and target costs.

South West Water's in-house project management group has been strengthened. The joint venture engineering business Pell Frischmann Water Limited has also grown in capability from an initial 50 staff in 1990 to 150 and provides invaluable support in implementing the programme.



Capital programme delivered by South West Water Services Limited

pic 12



Preparations for seabed drilling surveys before laying the Penzance/St Ives outfall

DELIVERING THE CAPITAL PROGRAMME *(continued)*

These two teams, combined with commercial exploitation of competition in consultancy and contracting, have delivered improved capital productivity.

An integral part of our approach to project management is the application of marketing skills, including improved two-way communications with customers and their representatives. This has helped gain the support of local communities affected by our works.

The company is now well placed, both financially and managerially, to deliver further increases in capital expenditure on time and within budget

The practical benefits of the capital programme are dependent on sound financing. The updated programme since flotation will have cost some £2,000 million by the year 2000. Sixty-five percent of this sum is already in place or identified.

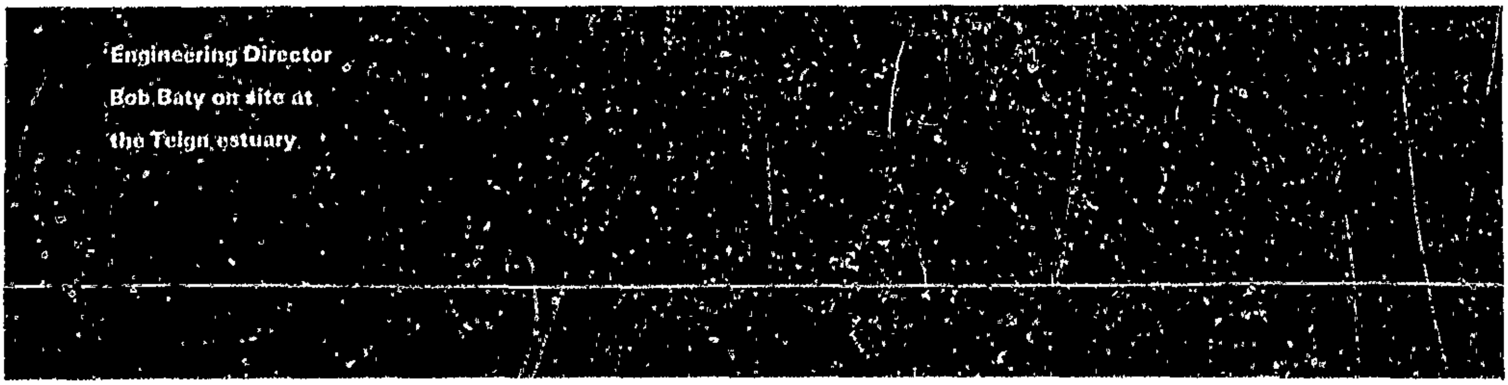
Increased income will reinforce profits, essential to support the investment programme.

The company is now well placed, both financially and managerially, to deliver further increases in capital expenditure on time and within budget. The environment, quality of life and economy of the region will benefit.

pic 13

Group Director of Finance Ken Hill, Regulatory Director Barbara Moorhouse and Bill Fraser analyse the benefits of the Cost Pass Through decision

pic 14



Engineering Director
Bob Baty on site at
the Teign estuary.

The Group now has a number of related subsidiary businesses, well placed to exploit their growing markets

ADDING VALUE FOR SHAREHOLDERS

While giving priority to the water and sewerage business we are developing related water-care and waste processing systems and technology businesses. These will add non-regulated earnings for the benefit of investors, supporting and enhancing our regulated activities.

The Group now has a number of related subsidiary businesses, well placed to exploit their growing markets.

- Pell Frischmann Water Limited, a joint venture established in 1990, provides project management support to the water industry;
- pHOX Systems Limited, acquired in 1990, provides the water and other flow process industries with monitoring and control instrumentation;
- T J (Brent) Limited, acquired in 1990, specialises in underground engineering services;
- Copa Holdings Limited, acquired in 1991, develops and markets innovative products and processes for waste water treatment;
- Rugged Environmental Technology Systems Limited, a joint venture with the Weir Group established in 1992 to develop and market advanced technology products and processes for waste water treatment for larger plants;
- Peninsula Waste Management Limited, a joint venture with the major Spanish construction and waste management group, Fomento de Construcciones y Contratas, established in 1992 to provide domestic and commercial solid and liquid waste disposal services.

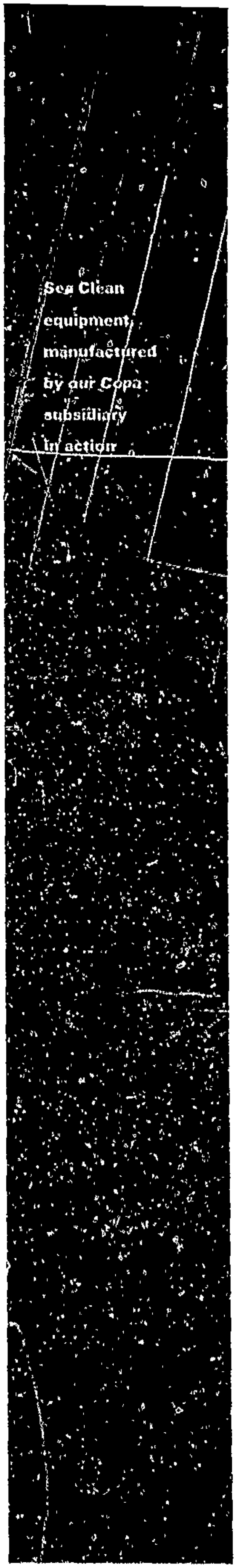
pic 15

Director of Development, Colin Drummond at our successful office development Peninsula Park

During the year most of the 89,000 square feet of office space developed by our subsidiary Peninsula Properties (Exeter) Limited in Exeter was let.

We are a minority investor with other significant investors in a regional enterprise, Westcountry Television Limited, which successfully competed for the ITV3 franchise for the region and begins broadcasting on 1 January 1993.

pic 16



Sea Clean equipment, manufactured by our Copa subsidiary in action

RESEARCH AND DEVELOPMENT

Throughout the Group's water-care and waste processing and technology businesses, the identification and development of new products and processes will contribute to market competitiveness and profitability.

We contributed £350,000 to industry-led research programmes in the past year. Part of this sum helped to fund the Foundation for Water Research which covers wider environmental, quality and operational considerations. Other more specific work relating directly to South West Water activities was carried out on our behalf by the Water Research Centre.

... new products and processes will contribute to market competitiveness and profitability

Great opportunities lie in the development of new treatment processes, particularly those for waste water, which have received little commercial attention over many years.

Within the company we have created a clear three part strategy to tackle these developments. The first stage involves improved physico-chemical treatment processes, enabling treatment works to meet more stringent EC standards. New technologies in this area are being enhanced and promoted by our subsidiary company Copa Holdings Limited and joint venture Rugged Environmental Technology Systems Limited.

The second stage of the strategy examines higher-rate oxidation processes. Two research projects are already underway at specific sites to determine the optimum removal process for soluble organic material in sewage.

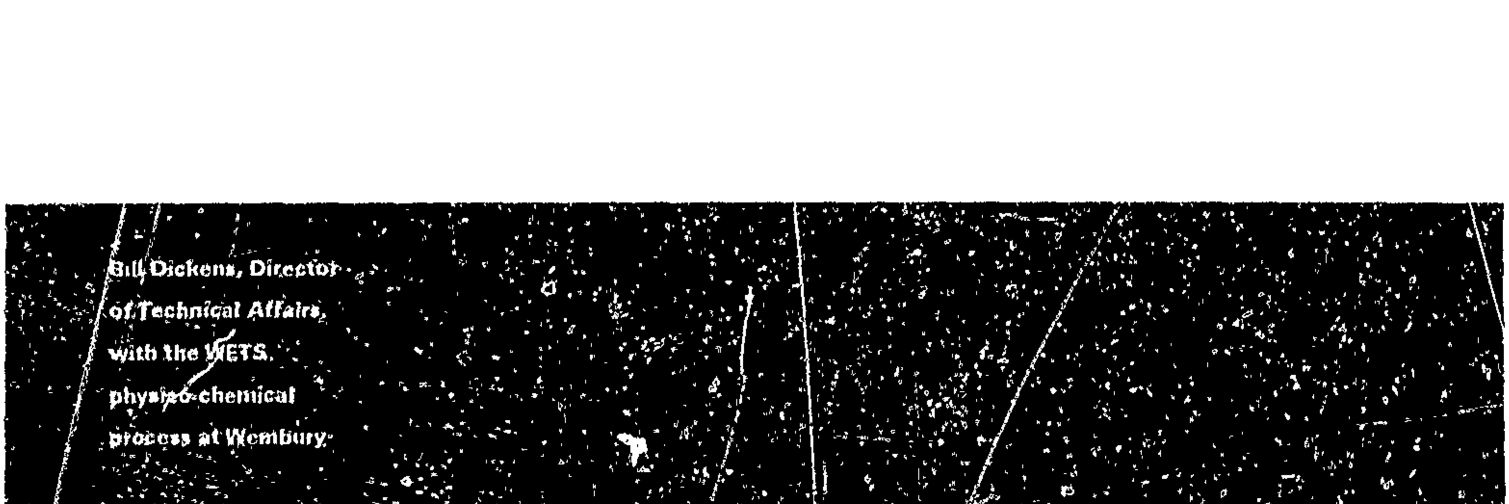
Membrane technology is the expected long term solution for residual fine solid removal and is actively under development at two sites as the third arm of the strategy.

Some £12 million has been allocated to fund this tripartite programme, plus those for sewage sludge disposal and water treatment, over a three year period. Some 27 major and minor projects will be completed in the coming twelve months.

pic 17

Mark Burton servicing a Membrane Technology Unit at Porthilly, Cornwall

pic 18



Bill Dickens, Director of Technical Affairs, with the WETS physico-chemical process at Wembury.

ADDING VALUE FOR EMPLOYEES

South West Water is proud of the contribution of its people. They are the means to long-term success.

pic 19

Works Manager Linda Humphreys, with John Watson and Jeremy Arscott at Plympton Sewage Treatment Works

A culture based on personal accountability and responsibility is supported by organisational change, by training and development, by improved reward systems and by a continual concentration on employee communications.

Restructuring operational activities involved a greater focus on the product and customer services, removal of one tier of management and the introduction of new staff whilst reducing total numbers. Managers were chosen through a rigorous selection process including the use of assessment centres.

Training and development for the future continues to be a priority. The company has been active in the development of National Vocational Qualifications and will start implementing them in 1992/93. We ran our second Management Development Programme for First Line Managers using a combination of internal and external resources, including Polytechnic of the South West's School of Management.

A completely new salary structure based on rewarding measurable performance rather than length of service was introduced. Improved pension benefits were also implemented. The monthly two way briefing system News and Views, the employee newspaper *Sou'Wester*, and direct mail have all been used to improve mutual understanding between the company and its people.

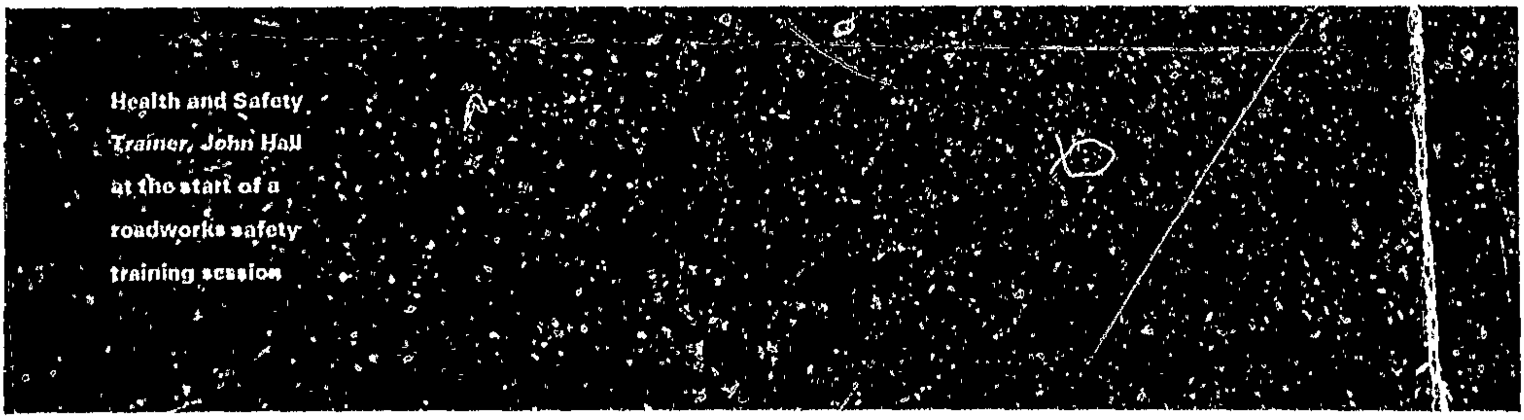
pic 20

Operations Director Ch[illegible] Cook, with Divisional Managers Ian Hume, Roger Stent, and David Roberts, discussing quality assurance

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

...the means to long-term success

pic 21



Health and Safety Trainer, John Hall at the start of a roadworks safety training session

REPORT OF THE DIRECTORS

The Directors submit their third annual report and the audited financial statements of South West Water Plc and its subsidiaries (the Group) for the year ended 31 March 1992.

PRINCIPAL ACTIVITIES
The principal activities of the Group are the provision of water-care and waste water processing and technology. The principal subsidiary, South West Water Services Limited, holds the water and sewerage appointments for Cornwall and Devon and small areas of Somerset and Dorset. During the year South West Water Plc (the Company) acquired Copa Holdings Limited, which is engaged in process technology, and the balance of the shares in Peninsula Properties (Exeter) Limited, a property investment company. The Group is also involved in property development and the provision of recreational facilities in Cornwall and Devon. The Company entered into joint ventures with the Weir Group, to develop new process technologies, and, since the year end, with a major Spanish company, Fomento de Construcciones y Contratas, to establish a waste management business.

A review of activities for the year is given on pages 8 to 27.

FINANCIAL RESULTS AND DIVIDENDS
Group turnover for the year increased by 15.8% to £166.5m. Turnover of the water and sewerage business was £159.3m; this incorporated a 16.2% tariff increase offset by a 1.9% reduction in business activity. Turnover of other business was £2.6m higher at £7.2m, including a contribution of £0.6m from acquisitions during the year.

A 10.6% rise in operating costs to £102.5m resulted from a programme of improved customer service and environmental protection by South West Water Services Limited and the impact of inflation and acquisitions.

Net interest receivable was £11.0m lower at £25.9m, reflecting lower interest rates and utilisation of cash for capital expenditure.

Taxation of £8.9m relates to advance corporation tax payable on the interim and proposed final dividends which 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 £81.1m compared with £80.4m for the year to 31 March 1991.

The Directors recommend the payment of a final dividend of 14.6p per ordinary share for the year ended 31 March 1992. Together with the interim dividend of 7.1p per ordinary share paid on 4 March 1992, this makes a total dividend for the year of 21.7p per ordinary share, an increase of 8.5% on the dividends for 1991. If approved at the annual general meeting the final dividend will be paid on 1 September 1992 to shareholders on the register at close of business on 15 June 1992.

The payment of these dividends will require £26.8m leaving £54.3m carried to reserves. Over two thirds of the profit after tax has been retained in the business.

The Directors also recommend a scrip dividend alternative and subject to approval at the annual general meeting this will be available in respect of the final dividend.

SHARE CAPITAL
During the year the issued ordinary share capital increased from 122.2m to 123.6m shares on the acquisition of Copa Holdings Limited and the exercise of options by employees.

FINANCING

At 31 March 1992 loans and finance lease obligations were £338.2m, compared with £140.6m at 31 March 1991.

The new borrowings arranged during the year comprised a sterling bond issue for £150m, and obligations under finance leases and other borrowings which increased by £47.6m.

At 31 March 1992 the Group held current asset investments of £488.7m (1991 £369.0m). These resources form part of the funding strategy being put in place to finance the investment expenditure plans of the Group.

FIXED ASSETS

Capital expenditure by the Group on tangible fixed assets during the year was £172.4m, an increase of 44.5% on 1991.

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.

DIRECTORS

Details of the Directors are given on page 5. Mr C. I. J. H. Drummond was appointed Director of Development on 1 April 1992 following the retirement of Mr M.J. Le P. Quantick on 31 March 1992. As Mr C. I. J. H. Drummond was appointed by the Board he is due to retire at the annual general meeting. Mr W.H. Fraser, Mr T. C. Leader and Mr C. Spence also retire by rotation at the annual general meeting. Mr C. Spence is aged 70 years.

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 C. I. J. H. Drummond and Mr W. H. Fraser 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 respective Directors, expiring at any time. Neither 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 10 to the financial statements on page 43.

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 appears on page 26 and information regarding employee share option schemes is given in note 19 to the financial statements on page 49.

DONATIONS

During the year charitable donations amounting to £36,000 (1991 £19,000) were made. No political donations were made.

RESEARCH AND DEVELOPMENT

Information regarding research and development activities is given on page 24.

REPORT OF THE DIRECTORS *(continued)*

TAX STATUS

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

SUBSTANTIAL SHAREHOLDINGS

At 1 June 1992 interests in the issued share capital have been reported by:

Baillie Gifford & Co	5,131,000 shares	4.19%
Confederation Life Group	3,795,744 shares	3.07%
Friends Provident Life Office	5,132,440 shares	4.20%
Norwich Union Fund Managers	8,653,244 shares	7.08%

AUDITORS

Price Waterhouse were appointed Auditors until the conclusion of the third 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 third annual general meeting will be held at the English Riviera Centre, Torquay, Devon on Thursday, 23 July 1992, at 11.00 a.m.

In addition to the routine business, the following resolutions will be proposed at the annual general meeting:

Resolution 8 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 1992. 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 other than referred to in note 19 to the financial statements on page 48.

Resolution 9 requests shareholder approval to offer a scrip dividend alternative and Resolution 10 proposes an amendment to the Articles of Association in connection with the scrip dividend mandate arrangements. A separate circular regarding the scrip dividend is enclosed.

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

22 June 1992

NOTICE OF MEETING

The third annual general meeting of South West Water Plc will be held at the English Riviera Centre, Torquay, Devon on Thursday, 23 July 1992 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 1992.

Resolution 2 To declare a final dividend for the year.

Resolution 3 To re-elect Mr C. I. J. H. Drummond as a Director.

Resolution 4 To re-elect Mr W. H. Fraser as a Director.

Resolution 5 To re-elect Mr T. C. Leader as a Director.

Resolution 6 To re-elect Mr C. Spence as a Director. (Mr Spence is aged 70 years).

Resolution 7 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 8 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 £6,180,000;

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.

Resolution 9 To propose the following as an ordinary resolution:

That the Directors be authorised to offer any holders of ordinary shares in the capital of the Company the right to elect to receive ordinary shares, credited as fully paid, instead of cash, in respect of any dividend (or any part thereof) of the Company declared before the beginning of the next annual general meeting of the Company including the final dividend for the year ended 31 March 1992.

Resolution 10 To propose the following as a special resolution:

That the Articles of Association be amended as follows:

a By the insertion in Article 135 of a new paragraph (iii):

"iii In respect of each holder of Ordinary Shares the Directors may in their absolute discretion determine that any amount of dividend which represents less than the value of one new Ordinary Share of the Company as calculated under paragraph (ii) of this Article shall not be payable and may make provision whereby such amount is accrued and/or retained (without interest) and aggregated on behalf of that holder with, and treated for the purposes of this Article as part of, the cash amount of the dividend which such holder elects to forego in a subsequent offering by the Directors under this Article and such provision may include the circumstances in which the amount of such dividend (or any part of it) shall become payable and the date for its payment."

Resolution 10 *(continued)*
b By the existing paragraphs (iii), (iv), (v), (vi) and (vii) of Article 135 being respectively re-designated paragraphs (iv), (v), (vi), (vii) and (viii).

By order of the Board.

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

22 June 1992

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.

FINANCIAL STATEMENTS
for the year ended 31 March 1992

CONTENTS

AUDITORS' REPORT
To the Members of South West Water Plc

We have audited the financial statements on pages 34 to 55 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 1992 and of the profit and cash flows 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
and Registered Auditor
Bristol

22 June 1992

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Turnover	2	166.5	143.8
Other operating income		0.2	0.3
Operating costs	3	(102.5)	(92.7)
Operating profit	2	64.2	51.4
Share of losses in associated undertakings		(0.1)	(0.1)
Interest receivable (net)	4	25.9	36.9
Profit on ordinary activities before taxation	2	90.0	88.2
Tax on profit on ordinary activities	5	(8.9)	(7.8)
Profit on ordinary activities after taxation	6	81.1	80.4
Dividends	7	(26.8)	(24.4)
Retained profit transferred to reserves	20	54.3	56.0
Earnings per ordinary share	8	66.1p	65.8p

A statement of movements in reserves is given in note 20.
The notes on pages 37 to 55 form part of these financial statements.

BALANCE SHEETS
at 31 March 1992

		Group		Company	
		1992	1991	1992	1991
	Notes	£m	£m	£m	£m
Fixed assets					
Tangible assets	11	679.1	516.8	8.4	5.1
Investments	12	0.4	0.2	279.9	275.1
		679.5	517.0	288.3	280.2
Current assets					
Stocks	13	4.6	4.1	0.1	–
Debtors	14	35.2	28.5	112.7	28.5
Investments	15	488.7	369.0	67.1	–
Cash at bank and in hand		0.2	0.1	0.6	0.3
		528.7	401.7	180.5	28.8
Creditors due within one year	16	(126.6)	(93.6)	(31.5)	(26.2)
Net current assets		402.1	308.1	149.0	2.6
Total assets less current liabilities		1,081.6	825.1	437.3	282.8
Creditors due after more than one year	17	(337.7)	(134.0)	(150.3)	(0.3)
Provisions for liabilities and charges	18	(5.7)	(6.2)	–	–
	2	738.2	684.9	287.0	282.5
Capital and reserves					
Called-up share capital	19	123.6	122.2	123.6	122.2
Share premium account	20	142.6	144.2	142.6	144.2
Other reserves	20	–	–	3.1	–
Profit and loss account	20	472.0	418.5	17.7	16.1
		738.2	684.9	287.0	282.5

The notes on pages 37 to 55 form part of these financial statements.

Approved by the Board on 22 June 1992 and signed on its behalf by:

K. W. Court, Chairman.

GROUP CASH FLOW STATEMENT
for the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Net cash inflow from operating activities	27a	68.3	60.1
Returns on investments and servicing of finance			
Interest received		43.0	42.3
Interest paid		(12.1)	(0.5)
Interest element of finance lease rental payments		(1.8)	–
Dividends paid		(25.0)	(22.4)
Net cash inflow from returns on investments and servicing of finance		4.1	19.4
Taxation			
Advance corporation tax paid		(8.1)	(4.4)
Investing activities			
Payments to acquire tangible fixed assets		(143.4)	(110.9)
Grants and contributions:			
Infrastructure assets		6.2	5.5
Non-infrastructure assets		5.5	3.7
Receipts from disposal of tangible fixed assets		0.3	0.2
Acquisitions of subsidiary and associated undertakings net inflow/(outflow)	27b	0.1	(3.0)
Net cash outflow from investing activities		(131.3)	(104.5)
Net cash outflow before financing		(67.0)	(29.4)
Financing			
Issue of sterling bond repayable 2012		(150.0)	–
Expenses, less premium, of sterling bond issue		1.6	–
Other loans raised		–	(100.0)
Other loans repaid		7.4	–
Finance lease drawdowns		(49.7)	(29.7)
Capital element of finance lease rental payments		1.3	–
Net cash inflow from financing		(189.4)	(129.7)
Increase in cash and cash equivalents	27d	122.4	100.3
		(67.0)	(29.4)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The following paragraphs describe the main policies:

a Accounting convention

The financial statements have been prepared under the historical cost convention.

b Basis of consolidation

The Group financial statements include the results of the Company and its subsidiary undertakings, each made up to 31 March 1992, together with the attributable share of results and reserves of associated undertakings on the basis of their latest financial statements. The results of subsidiary and associated undertakings acquired during the year are included for the periods of ownership.

c Turnover

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

d Tangible fixed assets and depreciation

Tangible fixed assets comprise:

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

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

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

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

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

Other assets are stated at cost less accumulated depreciation.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES *(continued)*

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, using the actuarial method, over the period of the lease.

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

f Grants and contributions

From 1 April 1990 grants and contributions receivable in respect of capital expenditure on non-infrastructure assets are included in the balance sheet as deferred income and are released to profits over the depreciable lives of the assets to which they relate.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets in order to show a true and fair view. As a consequence the net book value of tangible fixed assets is £18.1m lower than it would otherwise have been had this treatment not been adopted.

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 held as current assets are stated at cost plus accrued income.

h Stocks

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials and an appropriate element of overheads.

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 evenly the cost of pensions over the service lives of employees in the schemes.

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.

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 in the foreseeable future.

1 ACCOUNTING POLICIES *(continued)*

l Goodwill

Goodwill, arising from the purchase of subsidiary undertakings, representing the excess of the purchase consideration over the fair value of net assets acquired, is 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 year. Exchange differences arising from the retranslation of opening balances are dealt with in reserves.

n Accounting standards

The financial statements of the Group are prepared in compliance with all current applicable accounting standards and the requirements of the London Stock Exchange.

2 CLASSES OF BUSINESS

	Water and sewerage business		Other business		Group	
	1992	1991	1992	1991	1992	1991
	£m	£m	£m	£m	£m	£m
Turnover						
Turnover	160.4	140.2	22.0	14.0	182.4	154.2
Inter-segment turnover	(1.1)	(1.0)	(14.8)	(9.4)	(15.9)	(10.4)
Turnover to third parties	159.3	139.2	7.2	4.6	166.5	143.8
Profit						
Segment operating profit/(loss)	64.5	51.5	(0.3)	(0.1)	64.2	51.4
Share of losses in associated undertakings	–	–	(0.1)	(0.1)	(0.1)	(0.1)
Interest receivable (net)	23.1	33.0	2.8	3.9	25.9	36.9
Profit on ordinary activities before taxation	87.6	84.5	2.4	3.7	90.0	88.2
Net assets						
Segment net assets	728.2	674.5	10.0	10.4	738.2	684.9

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

3 OPERATING COSTS

	1992	1991
	£m	£m
Manpower costs (note 9)	32.4	28.0
Raw materials and consumables	9.3	8.8
Rentals under operating leases:		
Hire of plant and machinery	0.7	0.7
Other operating leases	0.4	0.3
Research expenditure	1.0	0.5
Auditors' remuneration	0.1	0.1
Other external charges	40.1	36.8
Depreciation:		
On owned assets	10.8	9.2
On assets acquired under finance leases	2.2	0.9
Deferred income (note 22)	(0.3)	(0.2)
Infrastructure renewals charge	5.8	7.6
	102.5	92.7

Other external charges in 1992 are reduced by £0.5m in respect of the recovery, from a supplier, of costs previously incurred in undertaking remedial work to the water supply systems in the North Cornwall area, following the misdelivery of aluminium sulphate to the Lowermoor Water Treatment Works in July 1988.

4 INTEREST RECEIVABLE (NET)

	1992	1991
	£m	£m
Interest receivable:		
Listed redeemable securities	13.5	6.8
Other investments (as defined in note 15)	30.6	35.3
	44.1	42.1
Interest payable:		
Bank loans, overdrafts and other loans repayable wholly within five years	(0.2)	(0.1)
Long term loans (any part repayable after five years)	(14.2)	(3.5)
Interest element of finance lease rentals	(3.4)	(1.1)
Other finance costs	(0.4)	(0.5)
	(18.2)	(5.2)
Interest receivable (net)	25.9	36.9

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1992	1991
	£m	£m
United Kingdom taxation:		
Irrecoverable advance corporation tax	8.9	7.8

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 1992; advance corporation tax on the interim and proposed final dividends is therefore regarded as irrecoverable and has been charged to profits.

6 PROFIT OF PARENT COMPANY

	1992	1991
	£m	£m
Profit on ordinary activities after taxation dealt with in the accounts of the parent company	28.4	28.4

As permitted by section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

7 DIVIDENDS

	1992	1991
	£m	£m
Interim dividend paid of 7.1p (1991 6.7p) per ordinary share	8.8	8.2
Proposed final dividend of 14.6p (1991 13.3p) per ordinary share	18.0	16.2
	26.8	24.4

8 EARNINGS PER SHARE

	1992	1991
Profit on ordinary activities after taxation	£81.1m	£80.4m
Earnings per ordinary share	66.1p	65.8p

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation by 122,662,516, being the weighted average number of ordinary shares in issue during the year (1991 122,248,000).

There would be no significant dilution of earnings per ordinary share if the outstanding shares, referred to in note 19, were in issue from the dates the rights first arose.

Earnings per ordinary share on the nil distribution basis is 73.4p (1991 72.1p). This has been calculated by eliminating the taxation charge of £8.9m (1991 £7.8m) in respect of irrecoverable advance corporation tax on the interim and proposed final dividends.

9 NUMBERS OF EMPLOYEES AND EMPLOYMENT COSTS

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

	1992	1991
Water and sewerage business	2,084	1,855
Other business areas	365	217
	2,449	2,072

Employment costs comprise:

	1992	1991
	£m	£m
Wages and salaries	38.4	30.2
Social security costs	3.1	2.4
Other pension costs (note 25)	2.9	2.5
Total employment costs	44.4	35.1
Total employment costs are charged as follows:		
Manpower costs (note 3)	32.4	28.0
Research expenditure	0.2	–
Capital schemes and infrastructure renewals expenditure	11.8	7.1
	44.4	35.1

10 DIRECTORS

Emoluments of Directors

	1992	1991
	£000	£000
Total emoluments of the Directors of the Company, including pension contributions	676	526
Emoluments of the Chairman, (who was the highest paid Director in 1991), excluding pension contributions (including salary of £85,000 per annum, effective 1 October 1990, and in relation to performance in the previous year 1990/91, an incentive bonus of £19,000 based on an increase in Group earnings per share and achievement of other performance targets)	108	89
Emoluments of the highest paid Director in 1992, excluding pension contributions (including salary of £92,000 per annum, effective 1 April 1991, and in relation to performance in the previous year 1990/91, an incentive bonus of £24,000 based on an increase in Group earnings per share and achievement of other performance targets)	124	
Payment made to a former Director for an unexpired period of notice	15	–

10 DIRECTORS *(continued)*

Emoluments of Directors *(continued)*

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

	1992	1991
Range (£)		
10,001- 15,000	4	4
15,001- 20,000	2	2
20,001- 25,000	1	1
45,001- 50,000	–	1
55,001- 60,000	–	1
60,001- 65,000	–	1
65,001- 70,000	1	-
80,001- 85,000	1	–
85,001- 90,000	1	2
105,001-110,000	1	–
120,001-125,000	1	–

Fees are paid only to the non-executive Directors. The emoluments of the executive Directors are determined by the Remuneration Committee consisting mainly of non-executive Directors. Emoluments include salary, incentive bonus, car benefit, health cover and professional subscriptions.

The executive Directors participate in an annual incentive bonus plan. The total bonuses in respect of 1990/1991, paid in 1992, were £87,000 excluding pension contributions, and were based upon an increase in Group earnings per share and achievement of other performance targets. These bonuses have been included in the information for 1992 disclosed above. The bonuses payable in respect of 1991/1992 performances have not yet been determined and will be disclosed in the 1993 financial statements.

Directors' interests

The beneficial interests of Directors in ordinary shares of the Company at 31 March 1992 and 31 March 1991 were as follows:

	Share interests		Options to subscribe for shares			
	1992	1991	Scheme	1991	Granted during year	1992
K. W. Court	7,177	7,088	Executive	65,000	40,000	105,000
			Sharesave	4,090	1,567	5,657
S. J. Day	1,500	1,500				
W. J. Dickens	1,868	1,779	Executive	45,000	24,000	69,000
			Sharesave	6,136		6,136
W. H. Fraser	2,089	2,000	Executive	65,000	47,000	112,000
K. L. Hill	5,980	5,980	Executive	45,000	30,000	75,000
Lady Mary Holborow	2,350	2,350				
J. R. Lawrence	900	900				
T. C. Leader	1,180	1,180				
K. J. Morton	760	760				
M. J. Le P. Quantick	2,384	2,295	Executive	45,000	30,000	75,000
			Sharesave	3,068		3,068
C. Spence	2,050	2,050				
C. R. Stuart	1,000	1,000				

The options may be exercised at the prices and on the dates shown in note 19. No options were exercised by Directors during the year.

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

There have been no changes in the above interests since 31 March 1992.

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 1992
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 April 1991	20.8	255.7	178.1	103.9	34.8	593.3
Additions	2.9	47.6	45.2	57.0	19.7	172.4
Grants and contributions		(4.5)				(4.5)
On acquisition of subsidiaries	8.2	–	–	0.6	–	8.8
Disposals	(0.3)	–	–	(0.6)	–	(0.9)
Transfers	0.5	3.9	–	2.8	(7.2)	–
At 31 March 1992	32.1	302.7	223.3	163.7	47.3	769.1
Depreciation:						
At 1 April 1991	2.0		38 1	36.4		76.5
On acquisition of subsidiaries	–		–	0.1		0.1
Charge for year	0.7		4.9	8.3		13.9
Disposals	–		–	(0.5)		(0.5)
At 31 March 1992	2.7		43.0	44.3		90.0
Net book value:						
At 31 March 1992	29.4	302.7	180.3	119.4	47.3	679.1
At 31 March 1991	18.8	255.7	140.0	67.5	34.8	516.8

Out of the total depreciation charge for the Group of £13.9m (1991 £10.7m), the sum of £0.9m (1991 £0.6m) has been charged to capital projects and £13.0m (1991 £10.1m) against profits.

The cost of freehold land and buildings includes a total of £7.4m (1991 £2.2m) for non-depreciable land.

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

	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1992
	£m	£m	£m	£m
Cost:				
At 31 March 1992	34.2	39.2	6.7	80.1
Depreciation:				
Charge for year	0.3	1.9		2.2
Net book value:				
At 31 March 1992	33.8	36.4	6.7	76.9

11 TANGIBLE FIXED ASSETS *(continued)*

Company	Freehold land and buildings	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1992
	£m	£m	£m	£m
Cost:				
At 1 April 1991	2.9	0.8	1.5	5.2
Additions	0.4	0.2	3.2	3.8
Disposals	(0.2)	–	–	(0.2)
Transfers	0.6	(0.1)	(0.6)	(0.1)
At 31 March 1992	3.7	0.9	4.1	8.7
Depreciation:				
At 1 April 1991	–	0.1		0.1
Charge for year	0.1	0.1		0.2
At 31 March 1992	0.1	0.2		0.3
Net book value:				
At 31 March 1992	3.6	0.7	4.1	8.4
At 31 March 1991	2.9	0.7	1.5	5.1

12 FIXED ASSET INVESTMENTS

			Group			Company
	Shares	Loans	Total 1992	Shares	Loans	Total 1992
	£m	£m	£m	£m	£m	£m
Subsidiary undertakings						
Cost:						
At 1 April 1991				269.6	2.5	272.1
Additions				4.6	–	4.6
Transfers				–	3.0	3.0
At 31 March 1992				274.2	5.5	279.7
Associated undertakings						
Cost:						
At 1 April 1991	0.2	–	0.2	–	3.0	3.0
Additions	0.2	–	0.2	0.2	–	0.2
Profit for year	0.1	–	0.1	–	–	–
Transfers	(0.1)	–	(0.1)	–	(3.0)	(3.0)
At 31 March 1992	0.4	–	0.4	0.2	–	0.2
Total investments						
At 31 March 1992	0.4	–	0.4	274.4	5.5	279.9
At 31 March 1991	0.2	–	0.2	269.6	5.5	275.1

Profit for year of £0.1m in respect of associated undertakings comprises £0.2m profits, eliminated from profits on consolidation of Group results, less losses of £0.1m.

Details of principal subsidiary and associated undertakings are set out in note 24.

13 STOCKS

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Raw materials and consumables	3.4	3.5	–	–
Work in progress	0.9	0.6	–	–
Finished goods	0.3	–	0.1	–
	4.6	4.1	0.1	–

14 DEBTORS

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Trade debtors	15.4	12.7	–	–
Amounts owed by subsidiary undertakings			112.0	28.1
Amounts owed by associated undertakings	0.5	0.1	0.2	0.1
Other debtors	2.4	1.6	0.2	0.3
Prepayments and accrued income	16.9	14.1	0.3	–
	35.2	28.5	112.7	28.5
Included above are amounts due after more than one year:				
Amounts owed by subsidiary undertakings			104.5	1.4
Amounts owed by associated undertakings	0.2	–	0.2	–
Other debtors	0.4	0.3	–	–
	0.6	0.3	104.7	1.4

15 CURRENT ASSET INVESTMENTS

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Listed on a recognised investment exchange	95.3	56.3	–	–
Other investments	393.4	312.7	67.1	–
	488.7	369.0	67.1	–
Market value of listed investments	95.5	57.4	–	–

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

16 CREDITORS DUE WITHIN ONE YEAR

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Bank loans and overdrafts	7.0	9.6	–	–
Obligations under finance leases	3.9	1.8	–	–
Trade creditors	66.0	42.9	4.3	1.4
Amounts owed to associated undertakings	1.5	0.1	–	0.1
Other creditors	0.7	0.8	0.2	0.7
Advance corporation tax	8.9	8.1	8.9	7.8
Other taxation and social security	3.6	1.0	–	–
Accruals and deferred income	17.0	13.1	0.1	–
Proposed dividend	18.0	16.2	18.0	16.2
	126.6	93.6	31.5	26.2

17 CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Sterling bond (note 21)	150.0	–	150.0	–
European Investment Bank loans	100.0	100.0	–	–
Other loans	0.1	0.1	–	–
Obligations under finance leases	77.2	29.1	–	–
Deferred income (note 22)	9.0	3.2	–	–
Other creditors	1.4	1.6	0.3	0.3
	337.7	134.0	150.3	0.3

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	Company
	1992	1992
	£m	£m
Infrastructure renewals		
At 1 April 1991	6.2	–
Charged against profits	5.8	–
Utilised during year	(6.3)	–
At 31 March 1992	5.7	–

18 PROVISIONS FOR LIABILITIES AND CHARGES *(continued)*

Deferred taxation

The maximum potential liability for deferred taxation, for which no provision is considered necessary, for the Group and the Company at 31 March 1992 was:

	Group	Company
	£m	£m
Tax effect of timing differences due to:		
Accelerated capital allowances	23.2	–
Other timing differences	(2.8)	–
Unutilised corporation tax losses	(6.6)	–
	13.8	–
Less: advance corporation tax recoverable	(10.5)	–
Maximum potential liability	3.3	–

19 CALLED-UP SHARE CAPITAL

	1992	1991
	£m	£m
Authorised		
175,000,000 ordinary shares of £1 each	175.0	175.0
1 special share of £1	–	–
	175.0	175.0
Allotted, called-up and fully paid		
Ordinary shares of £1 each:		
At 1 April (122,248,000 shares)	122.2	122.2
Allotted during the year (1,401,459 shares)	1.4	–
At 31 March	123.6	122.2
Special share of £1:		
At 1 April and 31 March (1 share)	–	–
	123.6	122.2

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 at par.

During the year 447 shares were allotted for a consideration of £787 (1991 nil) under the South West Water Sharesave Scheme to employees who exercised their options.

In November 1991 and February 1992 a total of 1,401,012 ordinary shares were issued fully paid by way of consideration for the purchase of the whole of the issued share capital (4.5 million ordinary shares of 1p each) of Copa Holdings Limited. Further shares, to a maximum of 3.6 million, may be issued, on a performance related basis, for the two years ending 31 March 1994, as shown in note 23.

19 CALLED-UP SHARE CAPITAL *(continued)*

There are outstanding options to subscribe for ordinary shares of £1 each 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
outstanding at year end			
819,892	Sharesave	176p	1995-1997
546,573	Sharesave	287p	1996-1998
1,010,000	Executive	293p	1993-2000
762,250	Executive	328p	1994-2001
3,138,715			

There are 1,004 participants in the Sharesave Scheme and 57 in the Executive Scheme. Invitations to apply for further options, to be granted in July 1992, under the Sharesave and Executive Schemes have been issued. Options granted to Directors, included above, are shown in note 10.

20 RESERVES

	Share premium account Group and Company	Other reserves Group	Other reserves Company	Profit and loss account Group	Profit and loss account Company
	£m	£m	£m	£m	£m
At 1 April 1991	144.2	–	–	418.5	16.1
Profit retained for year	–	–	–	54.3	1.6
Premium arising on shares issued	–	3.1	3.1	–	–
Expenses, less premium, of sterling bond issue	(1.6)	–	–	–	–
Goodwill arising on acquisitions	–	(3.1)	–	(0.8)	–
At 31 March 1992	142.6	–	3.1	472.0	17.7

Other reserves arise from the premium on ordinary shares issued by way of consideration for the purchase of the whole of the issued share capital of Copa Holdings Limited in accordance with section 131 of the Companies Act 1985.

The cumulative value of goodwill at 31 March 1992 resulting from acquisitions, which has been written off to reserves, is £7.1m.

21 LOANS AND OTHER BORROWINGS

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Loans are repayable:				
After five years	150.0	–	150.0	–
By instalments, any of which is due for repayment after five years:				
Payable after five years	85.7	93.5	–	–
Payable between two and five years	14.4	6.6	–	–
	250.1	100.1	150.0	–
Within one year:				
Bank loans and overdrafts	7.0	9.6	–	–
	257.1	109.7	150.0	–

The rate of interest payable on loans, any part of which is due after five years, varies from 4% to 12%. Loans are denominated in sterling and are repayable over the period 1992-2012.

On 5 February 1992 a £150m 10¾ per cent sterling bond, repayable in 2012 at par, was issued at a price of 101.429 per cent. The expenses, less premium, on issue amounting to £1.6m have been charged to the share premium account. The net proceeds of £148.4m will be used to finance part of the Group's capital expenditure programme and for other general commercial purposes.

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Obligations under finance leases are repayable:				
After five years	71.9	25.3	–	–
Between two and five years	4.1	2.9	–	–
Between one and two years	1.2	0.9	–	–
	77.2	29.1	–	–
Within one year	3.9	1.8	–	–
	81.1	30.9	–	–

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £2.6m (1991 £1.0m).

22 DEFERRED INCOME

	Group	Company
	1992	1992
	£m	£m
At 1 April 1991	3.3	–
Additions	6.6	–
Released to profits	(0.3)	–
At 31 March 1992	9.6	–
Amount due within one year	(0.6)	–
Due after more than one year (note 17)	9.0	–

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

23 ACQUISITIONS

On 31 October 1991 the remaining shares in Peninsula Properties (Exeter) Limited were acquired for £50. The loss after tax of the company for the seven months ended 31 October 1991 was £0.2m (year ended 31 March 1991 loss £0.1m).

On 27 November 1991 Copa Holdings Limited was acquired for a consideration of £4.5m. Depending upon trading performance in the two years ending 31 March 1994, further consideration, which cannot yet be quantified but to a maximum of £15m, may become payable under the terms of the purchase agreement. Goodwill on acquisition amounted to £3.9m which has been written off to reserves (note 20). Copa Holdings Limited was formed on 25 November 1991 as a new holding company. Profits after tax of the companies now comprising the new Copa group for their respective last financial periods totalled £0.4m. Profits for subsequent periods up to the date of acquisition were insignificant.

During the year ended 31 March 1992 a shareholding in Westcountry Television Limited was acquired for £0.2m. The loss after tax of the company for the year ended 30 April 1991 was £1.0m, (and from unaudited accounts for the eleven months to 31 March 1992 loss £0.5m), arising from expenses incurred in applying successfully for a franchise and preparing for transmission. The Group's share is being deferred to be charged against the Group's share of the initial profits earned during the franchise period, which commences on 1 January 1993.

Fair value adjustments on these acquisitions were not material and assets and liabilities acquired are shown in note 27c.

24 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

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
Shares held by South West Water Plc:			
South West Water Services Limited	Water supply and sewerage services	100%	England
Peninsula Insurance Limited	Insurance	100%	Guernsey
T J (Brent) Limited	Construction services	100%	England
pHOX Systems Limited	Instrumentation	100%	England
Copa Holdings Limited	Process technology	100%	England
Peninsula Properties (Exeter) Limited	Property investment	100%	England
Peninsula Waste Technology Limited	Waste management	100%	England

Associated undertakings

Name of company	Activity	Class of shares	Number of shares in issue	Proportion of nominal value of shares held	Country of incorporation and principal operations
Shares held by South West Water Plc:					
Pell Frischmann Water Limited	Engineering consultancy	Ordinary £1 Ordinary £1 (non-voting)	6,666 3,334	25% 100%	England
Westcountry Television Limited	Television broadcasting	Ordinary 10p Preference £1	100,000 700,000	– 31%	England
Shares held by Peninsula Waste Technology Limited:					
Rugged Environmental Technology Systems Limited	Process technology	Ordinary £1	1,000	50%	England

25 PENSIONS

The Group operates a number of pension schemes. The two major 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 1992 was £2.9m (1991 £2.5m). 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 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 (1991 10.7% and 13.3%). 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.

The assumptions which have the most significant effect on the results of the valuations 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.

26 COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Capital commitments:				
Contracted but not provided	139.4	35.7	5.3	0.1
Authorised but not yet contracted	111.7	52.6	5.3	5.8

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

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Leases for land and buildings, expiring between one and five years	0.1	–	–	–
Leases, other than for land and buildings, expiring between one and five years	0.5	0.3	–	–
	0.6	0.3	–	–
Contingent liabilities:				
Contractors' claims on capital schemes	9.7	5.5	–	–
Bank guarantees	1.5	–	362.7	350.8
	11.2	5.5	362.7	350.8

Bank guarantees by the Company are principally in respect of borrowing facilities of subsidiary undertakings.

27 NOTES TO THE GROUP CASH FLOW STATEMENT

a Reconciliation of operating profit to net cash inflow from operating activities

	1992	1991
	£m	£m
Operating profit	64.2	51.4
Depreciation charge	13.0	10.1
Deferred income released	(0.3)	(0.2)
Provisions for liabilities and charges	(0.5)	2.5
Increase in stocks	(0.3)	(1.2)
Increase in debtors	(6.1)	(5.7)
(Decrease)/increase in creditors (within and over one year)	(1.7)	3.2
Net cash inflow from operating activities	68.3	60.1

b Analysis of the net (inflow)/outflow of cash and cash equivalents in respect of the purchase of subsidiary and associated undertakings

	1992	1991
	£m	£m
Cash consideration	0.3	3.1
Cash at bank and in hand acquired	(0.4)	(0.1)
Net (inflow)/outflow of cash and cash equivalents in respect of the purchase of subsidiary and associated undertakings	(0.1)	3.0

c *Acquisitions of subsidiary and associated undertakings comprised:*

	1992	1991
	£m	£m
Tangible fixed assets	11.5	1.7
Associated undertakings	0.2	–
Stocks	0.2	1.1
Debtors	0.6	1.0
Cash at bank and in hand	0.4	0.1
Creditors due within one year	(4.4)	(3.2)
Obligations under finance leases	(0.2)	(0.2)
Creditors due after more than one year	–	(0.4)
Loans	(7.4)	–
	0.9	0.1
Goodwill	3.9	3.0
	4.8	3.1
Satisfied by:		
Shares issued (at market value)	4.5	–
Cash consideration	0.3	3.1
	4.8	3.1

The subsidiary undertakings acquired during the year contributed an outflow of £1.0m (1991 £0.4m inflow) to the Group's net operating cash flow, paid £0.2m (1991 £1.0m) in respect of net returns on investments and servicing of finance, paid nil (1991 £0.2m) in respect of taxation and utilised £6.2m (1991 £0.8m) for investing activities.

27 NOTES TO THE GROUP CASH FLOW STATEMENT *(continued)*

d Analysis of the balances of cash and cash equivalents

	1992	1991	1990	Change in year 1992	Change in year 1991
	£m	£m	£m	£m	£m
Cash at bank and in hand	0.2	0.1	0.1	0.1	–
Current asset investments	488.7	369.0	262.8	119.7	106.2
Short term borrowings and overdrafts	(7.0)	(9.6)	(3.7)	2.6	(5.9)
	481.9	359.5	259.2	122.4	100.3

e Analysis of changes in financing during the year

	Share capital (including premium)		Loans and finance lease obligations	
	1992	1991	1992	1991
	£m	£m	£m	£m
At 1 April	266.4	266.4	130.0	0.1
Cash inflows from financing	–	–	191.0	129.7
Loans and finance lease obligations of subsidiary undertakings acquired	–	–	7.6	0.2
Shares issued for non-cash consideration	1.4	–	–	–
Expenses, less premium, of sterling bond issue	(1.6)	–	–	–
At 31 March	266.2	266.4	328.6	130.0

SHAREHOLDER ANALYSIS
Ordinary shareholders at 31 March 1992

	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
1 - 100	10,656	26.7	0.3
101 - 1,000	26,262	65.9	10.1
1,001 - 5,000	2,248	5.6	2.9
5,001 - 50,000	440	1.1	7.1
50,001 - 100,000	98	0.3	6.1
Over 100,000	172	0.4	73.0
	39,876	100.0	100.0
Individuals	37,543	94.2	13.3
Companies	475	1.2	7.9
Trust companies (pension funds etc)	33	0.1	1.0
Banks and nominees	1,771	4.4	63.6
Insurance companies	53	0.1	13.6
HM Government	1	–	0.6
	39,876	100.0	100.0

SHAREHOLDER INFORMATION

Financial year end	31 March
Third annual general meeting	23 July 1992
1992 final dividend payable	1 September 1992
1993 interim results announcement	November 1992
1993 interim dividend payable	March 1993
1993 results preliminary announcement	May 1993
Fourth annual general meeting	22 July 1993
1993 final dividend payable	September 1993

SHAREHOLDER SERVICES

The Company has established a low-cost share dealing service to enable 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 general and a single company personal equity plan to enable shareholders to gain tax advantages by holding their shares through the plans.

The Directors propose to introduce a scrip dividend alternative to enable shareholders to receive their dividends in the form of shares instead of cash. Resolutions requesting shareholder approval will be submitted to the annual general meeting on 23 July 1992.

Details of these shareholder services are available from the Company Secretary's Department (tel: 0392-219666) and will be available at the annual general meeting.

NOTICE OF ILLEGIBLE DOCUMENT

ON THE MICROFICE RECORD

Companies House regrets that the microfiche record for this company contain some documents which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologies for any inconvenience this may cause.