

Company No: 2366640

SOUTH WEST WATER PLC

ANNUAL REPORT AND ACCOUNTS 1993



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*Opposite page:
Excavating the tunnel for the Gwithian outfall, 2.65km long and 50 metres below sea level,
which forms part of our 'Clean Sweep' scheme for Penzance and St Ives*

SOUTH WEST WATER PLC

2 South West Water Plc operates and invests primarily in the fields of water-care and waste engineering, instrumentation and process technology.



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



Haul-Waste Limited operates the largest waste management business in the South West region.



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



The Group has assets of £1.4 billion and now employs nearly 3,000 people.

FINANCIAL HIGHLIGHTS

Year ended 31 March	1993	1992
Turnover	£194.4m	£166.5m
Profit before taxation	£92.7m	£90.0m
Net assets	£779.5m	£738.2m
Capital expenditure	£203.7m	£172.4m
Earnings per share	67.9p	66.1p
Dividend per share - interim	7.8p	7.1p
- final	15.9p	14.6p

Executive Chairman	K W Court		
Non-executive Deputy Chairman	T C Leader		
Executive Directors	W H Fraser	Managing Director, South West Water Services Limited	
	C I J H Drummond	Director of Development	
	B A O Hewett	Director of Technical and Environmental Affairs (appointed 1 April 1993)	
	K L Hill	Group Director of Finance	
Non-executive Directors	S J Day		
	A T Fletcher (appointed 26 May 1993)		
	Lady Mary Holborow		
	J R Lawrence		
	C Spence		
	S M Yassukovich		
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)	K W Court (Chairman)	T C Leader (Chairman)
	S J Day	S J Day	K W Court
	J R Lawrence	W H Fraser	Lady Mary Holborow
		K L Hill	C Spence
		T C Leader	
		S M Yassukovich	
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		

4 Keith William Court BA, FIPM (58), 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. Mr Court is vice chairman of the Water Services Association and chairman of the Water Industry Certification Scheme.

Timothy Charles Leader BA, CEng, MIMechE, CBIM (65), 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, CIMgt, FInstPet (55), 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.

Collin Irwin John Hamilton Drummond MA, MBA (42), Director of Development, was appointed on 1 April 1992. Prior to joining the Company he was a divisional chief executive of Coats Vuyella, 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.

Bruce Alexander Ogston Hewett BSc(Eng), MSc, EurIng, CEng, FICE, FIWEM, FIMgt (57), Director of Technical and Environmental Affairs, was appointed on 1 April 1993. He has over 30 years experience in the water industry, including 9 years with international consulting engineers on dams, water supply and waste water schemes in the UK or overseas. Prior to joining the Company he held senior appointments with Southern Water Plc, including managing director of Southern Water Services from 1988 to 1992. He was elected to the Council of the Institution of Civil Engineers in 1992 and is a member of the American Society of Civil Engineers.

Kenneth Leslie Hill IPFA (52), 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 (58), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1983. He is a member of Devon County Council and Plymouth Development Corporation, chairman of governors of Bicton College of Agriculture and a farmer.

Alan T Fletcher MA (58), Non-executive Director, was appointed on 26 May 1993. He is a partner with Apax Partners & Company Limited, deputy chairman of James Neill Holdings Limited and chairman of Unicom Abrasives Limited. Formerly he was chairman and chief executive of the Wilkinson Sword Group and chief operating officer of Swedish Match.

Lady Mary Christina Holborow (56), 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 member of the Cornwall & Isles of Scilly Health Authority and is on the board of the Devon and Cornwall Training and Enterprise Council.

John Raymond Lawrence BSc(Eng), PhD (62), Non-executive Director, was appointed on 1 September 1989 and was a member of South West Water Authority from October 1985. He was formerly a senior executive of ICI Group and director of the ICI Group Environmental Laboratory. He is a member of the advisory board of the Warren Spring Laboratory, and a senior honorary fellow and visiting professor, King's College, London.

Charles Spence (71), Non-executive Director, was appointed on 1 September 1989 and was a member of 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.

Stanislas Michael Yassukovich CBE (58), Non-executive Director, was appointed on 16 November 1992. He is chairman of Cragnotti & Partners Capital Investment (UK) Limited, chairman of Flextech plc, vice chairman of Bristol & West Building Society and a non-executive director of Henderson Administration Group and several other companies. He was formerly chairman of Merrill Lynch Europe and Middle East. He has been a deputy chairman of the Stock Exchange and from 1988 to 1991 was chairman of the Securities Association.

We continued to make good, brisk progress in our third full year since flotation, with sound performance in all our key areas.

Overall the impact of the large scale modernisation and enlargement of water and sewerage services throughout the South West became more evident with many customers and communities experiencing the benefits of the extensive improvements. We have now completed, as planned, one third of the schemes in our ten year capital programme. The significant headway we have made, with over 500 projects in progress, is already giving an impetus to various aspects of economic and environmental development in the region.

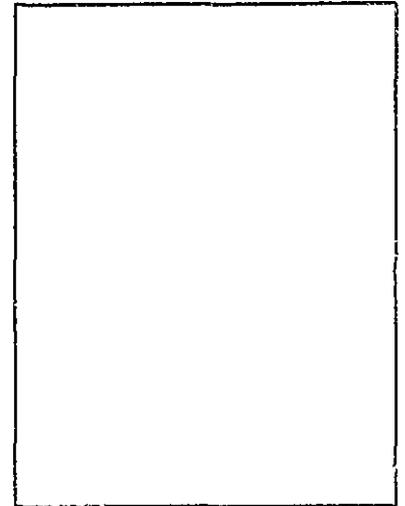
Turning to the financial features, turnover increased by 16.8% to £194.4 million reflecting the substantial tariff increases in the regulated business and a contribution of £10.3 million from our other enterprises.

To a moderate degree the income of all our businesses was affected by the recession.

Group operating profit rose by 29% to £82.8 million boosted by the increase in charges from the Services subsidiary and rigorous cost control. Efficiencies in water and sewerage operations amounted to £2 million, offsetting part of the unavoidable cost increases necessary to meet the higher service levels. Despite income from interest having reduced by £14 million as we had to draw cash to finance the capital programme, pre-tax profit increased by 3% to £92.7 million. Nearly two thirds of post-tax profit will be reinvested in the business.

Arising out of this positive business outcome, the Directors are recommending a final dividend of 15.9p (with a scrip dividend alternative), to total with the interim dividend a full year dividend of 23.7p - an increase of 9.2%.

Capital expenditure increased by over 18% to nearly £204 million and, in addition to the large number of schemes on-going during the year, 115 major projects were completed to plan. There was a further



planned shift in the priority and amount of expenditure on sewage treatment and sewerage to protect the marine and estuarial environments. This programme - known as 'Clear Sweep' - has already benefited the tourist areas of Bude, South Hams, South Devon, Teignmouth and Shaldon, and St Austell.

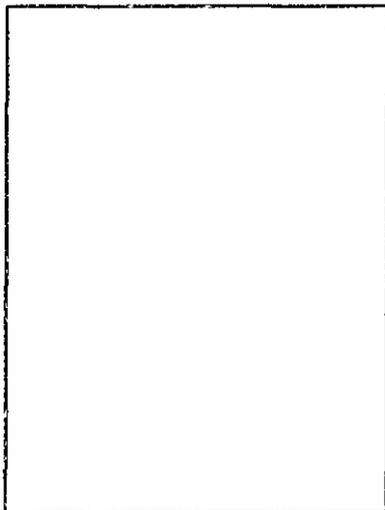
Extensive capital investment has also provided for improvements and expansion in water and sewerage treatment units, refurbishment and renewal of water mains and sewers, and upgrading of service reservoirs. We have maintained drinking water compliance at its very high level and compliance for waste water is steadily improving.

The high level of profit - derived from the water and sewerage services income - is an absolute requirement to finance the capital works to fulfil the UK and EC legal obligations and standards. We need large amounts of cash each year both to provide directly for the capital works and, since the level of capital expenditure exceeds our income, to pay the interest on the capital loans entered into to bridge the difference. With a somewhat larger annual level expected in the years ahead it is clear that, despite the benefit of the medium and longer term funding that has been put in place, there will be a continuing need to increase charges above the present levels.

It is inescapable that the environmental and public health policies and compliance

6 rules of the European and UK Governments determine and drive our capital expenditure. As the operator, we recognise the need to try to reconcile the urgency of these requirements both with customer views and the financial realities. As part of the 1995 Periodic Review of charges to be undertaken by the Regulator, during the year we started intensive consultation with our customers on the extent to which they either supported the current programme of environmental improvements to meet minimum legal standards, or whether they would be willing to support programmes of work that incorporated various higher levels of environmental requirements foreseen as becoming necessary or still under discussion at Governmental levels. A first assessment of responses has shown a preference by the majority for the current programmes involving the lower level of financial commitment. Consultations with customers will be continuing, as will efforts by the company to secure sufficient discretion from all the Regulators to accommodate customer preferences.

We continued to develop our complementary non-regulated businesses, most of which at this stage have been operating on a small scale relative to the size of the main core business. We were particularly pleased to acquire Haul-Waste Limited in February from English China Clays Plc. Haul-Waste is the leading waste management company in the South West



Since the year end we have acquired Testlink Holdings Limited which, under its trading name ELE, strengthens our position in the international environmental instrumentation market. Both of these acquisitions lift our non-core activities to a considerably higher level of potential contribution to turnover and profits.

At the last annual general meeting I referred to the report on Financial Aspects of Corporate Governance being prepared by the Cadbury Committee. I said then that we already conformed with the recommendations almost in their entirety. After further review the Board is pleased to confirm its decision to follow fully the Committee's Code of Best Practice.

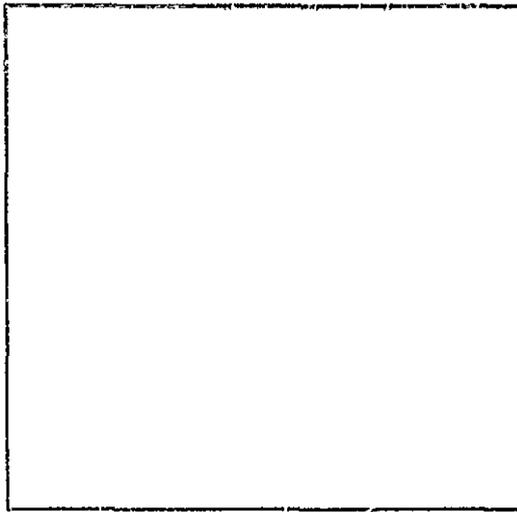
After the sad deaths during the year of two of our non-executive main board directors – Mr Kenneth Morton and Mr Charles Stuart – both of whom are greatly missed, and the retirement of Mr Bill Dickens it was necessary to conduct professional searches for three new board members. Mr Bruce Hewett was appointed Director of Technical and Environmental Affairs in a full-time executive capacity. He has 30 years' broad technical experience in the water industry having held senior appointments in Southern Water, including managing director of its water services subsidiary. Mr Stanislas Yassukovich joined last November as a non-executive Director. He has extensive experience in the financial and capital markets. And last month we appointed Mr Alan Fletcher as a non-executive Director. He brings broad industrial and business development experience. All three are warmly welcomed to our Board.

In summary, our results reflect a third successful full year for the Group. In thanking my colleagues and all our employees for continuing to contribute invaluable enthusiasm and expertise, I confidently view the achievements so far as an excellent basis for taking the Group forward.

Kent Court

K W Court

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



We are successfully managing a capital expenditure programme which is providing enormous benefits for our customers and the environment. Since privatisation we have completed 319 major schemes throughout the region, many ahead of schedule.

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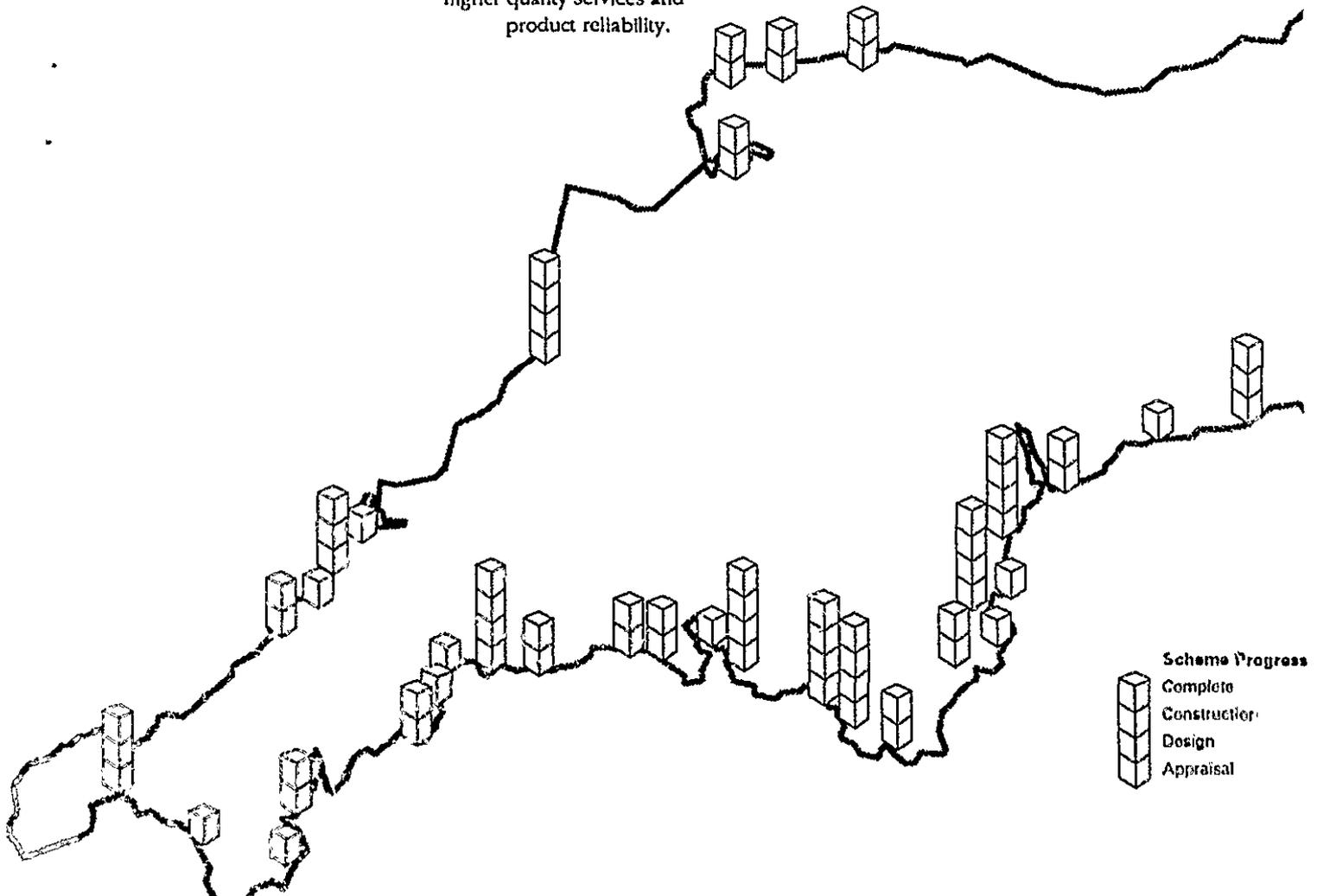
FOCUS FOR THE YEAR

In each sphere of our business activities we are totally dedicated to improving the quality and reliability of services to our customers. Less than four years after privatisation this focus has produced excellent results.

Effective cost control and improved operating margins have been achieved following the successful streamlining a year ago of our operational structure from six districts to the three customer focused divisions. The divisions are now delivering higher quality services and product reliability.

Over one third of the schemes within our massive programme of improvements have now been delivered. By the end of the century we will have invested £3,000 for every billed customer.

We are meeting and talking with our customers in the largest consultation campaign carried out by our industry in the region. A General Manager, Marketing, with specific responsibility for bringing the Company closer to its customers, has been appointed.



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

8 CONSULTING OUR CUSTOMERS

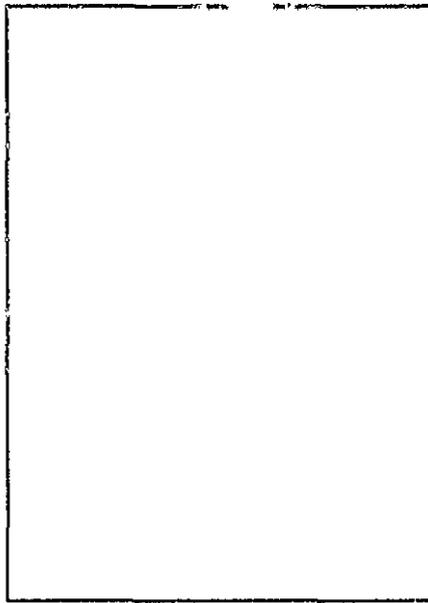
Each day South West Water delivers 485 million litres of drinking water to homes, businesses and industries through 14,000 km of water mains, and removes a similar amount of waste water for treatment via 8,000 km of sewers.

As a major provider of services in the South West, we are committed to seeking the views of our customers and responding to their needs. Provision of the highest standards of quality and reliability are our primary goals

As part of our Periodic Review process, which involves the preparation of a long-term business plan for the Director General of Water Services, we launched an intensive customer consultation programme. It sought the views of our customers on future levels of service and charges and formed the basis for the Company's Market Plan, published in May 1993.

The consultation listened to the views of customers across all age and occupational groups, and included:

- independently conducted in-depth surveys of 2,500 customers throughout our region
- independently conducted discussions with representative customer panels
- the distribution of 50,000 leaflets and questionnaires to interested customers and representative groups
- public meetings at focal points across the region
- roadshows in town and city centres
- radio phone-ins
- an explanatory video
- an educational pack for schools and colleges



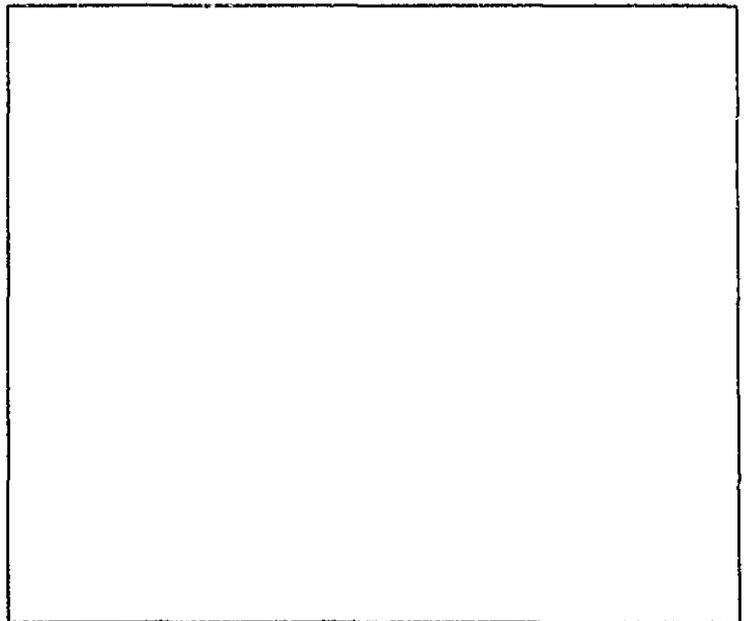
Our Market Plan for future water services in our region from the second half of the decade and beyond, was published in May 1993

The key issues already identified by customers have been the introduction of higher standards, the rate of improvement and the resultant increase in water bills. During the campaign we also received many positive views on the extensive improvements we are currently delivering throughout the region.

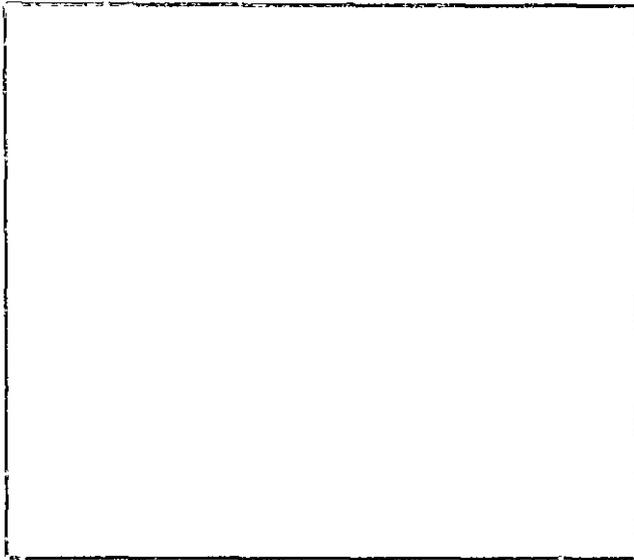
Listening to our customers' views helps us to plan more accurately for the future to provide value for money services in the South West.

Barbara Moorhouse, our Regulatory Director, and our Public Relations Manager, Alan Smith, listen to the views of one of our customers during our extensive customer consultation programme

we are committed to seeking the views of our customers



we continued to improve the quality of drinking water



Dunsford Hill service reservoir and the Danes Castle service reservoir which is under construction

Almost 50% of water treatment works scheduled to be improved have now been completed, and in the year 34 service reservoirs were refurbished. Our mains rehabilitation programme is on track and 236 km of mains were replaced or relined.

For the third year in succession we continued to improve the quality of drinking water. The independent Drinking Water Inspectorate confirmed a compliance rate of 99.7% – one of the highest compliance rates in the country.

We continued to improve the quality of drinking water for the third year in succession and achieved higher standards of customer service

SATISFYING OUR CUSTOMERS

An uninterrupted plentiful supply of clean drinking water, for our customers, remains a priority objective of the Company.

To help us achieve this aim we invested £18 million during the course of the year to improve our supply capability.

Earlier this year we announced plans for a pumped storage scheme using water from Wimbleball Reservoir. When complete, this scheme will significantly improve supplies for our customers in East Devon who have suffered from water restrictions in the past. We are improving drinking water supplies to Exeter with the completion of the

Comprehensive details of the high standard of our drinking water quality are included in our annual publication 'Quality Matters'.

We continued our investment in leakage detection and have developed a strategy to reduce our overall leakage by 50 million litres per day over the next three years.

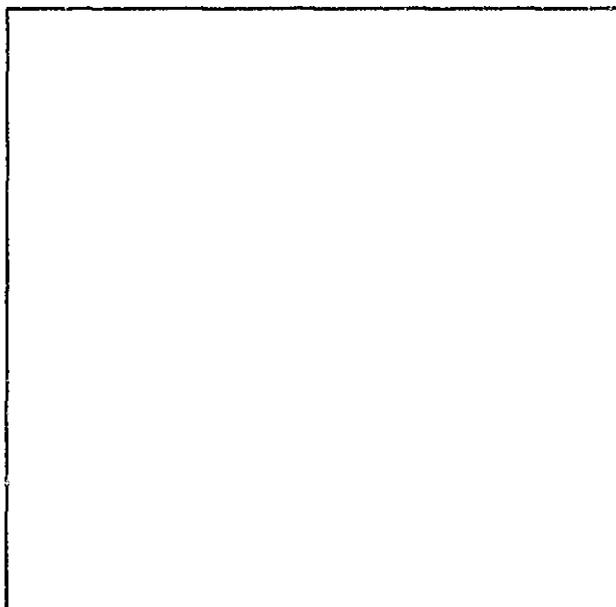
This year we introduced off-peak television advertising over the billing period as part of our extensive 'How can we help you?' campaign. The campaign promoted our new helpline for any customers having difficulty in paying their bills.

Our customer care programme has ensured that we have one of the lowest rates of disconnection for non-payment in the country.

We also introduced new services for our blind, deaf and disabled customers, as well as subsidising the cost of Post Office counter payments for customers

Open Days, enabling our customers to see our activities first hand, proved extremely successful over the course of the year. Sport for All days at our water parks were also well attended, and over 1,500 local customers took advantage of an opportunity to walk inside a newly completed section of a main sewer tunnel at Teignmouth.

A Post Office counter payment scheme was introduced during the year, together with new services for our blind, deaf and disabled customers



REVIEW OF ACTIVITIES

of South West Water

Services Limited

10 DELIVERING THE CAPITAL PROGRAMME

Almost £200 million was invested in delivering schemes within our capital programme during the year. By the year 2000 we plan to spend almost £1,400 million on waste water improvements and over £600 million in improving drinking water supply.

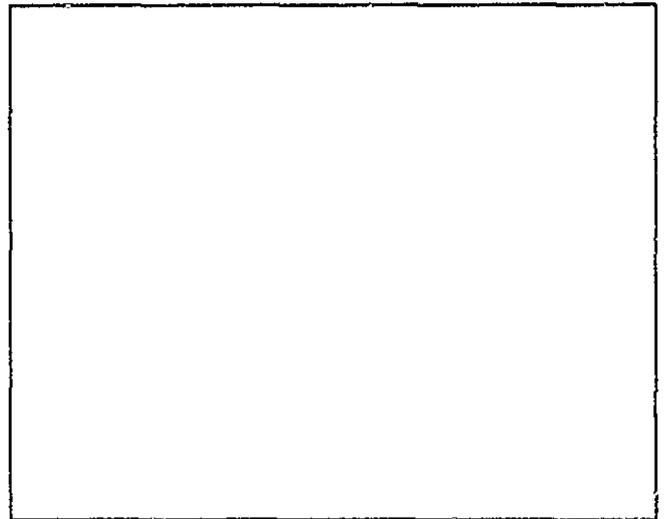
In less than a decade we will have reversed a century of neglect of the clean and waste water infrastructure in the South West.

Since privatisation we have successfully completed 319 major schemes. Of these schemes, 115 were completed this year. Over 500 are in progress.

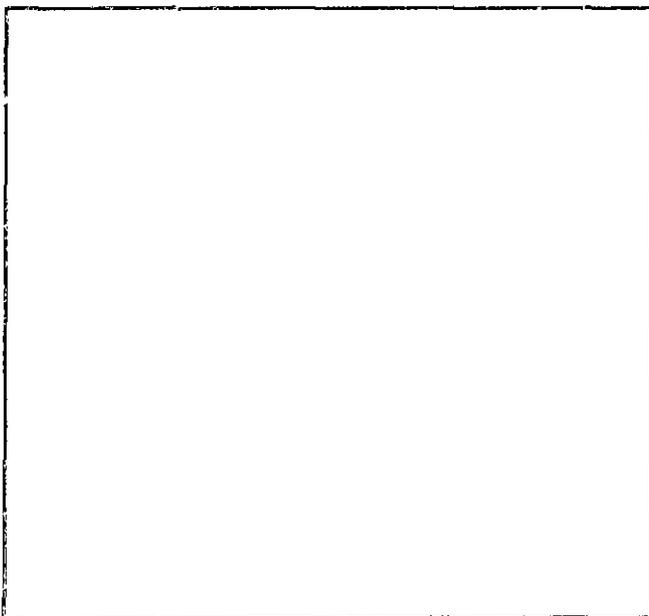
One of the key elements of our capital programme is delivery of our £900 million 'Clean Sweep' coastal waste water treatment initiative. All but three of the 33 improvement schemes benefiting 81 EC designated bathing waters will be completed by 1995.

Pell Frischmann Water Limited, our joint-venture engineering consultancy company, continues to bring invaluable expertise to a significant proportion of the capital programme.

Construction of the long sea outfall at Par in Cornwall. One of the many 'Clean Sweep' schemes involving our joint venture engineering consultancy company Pell Frischmann Water Limited.



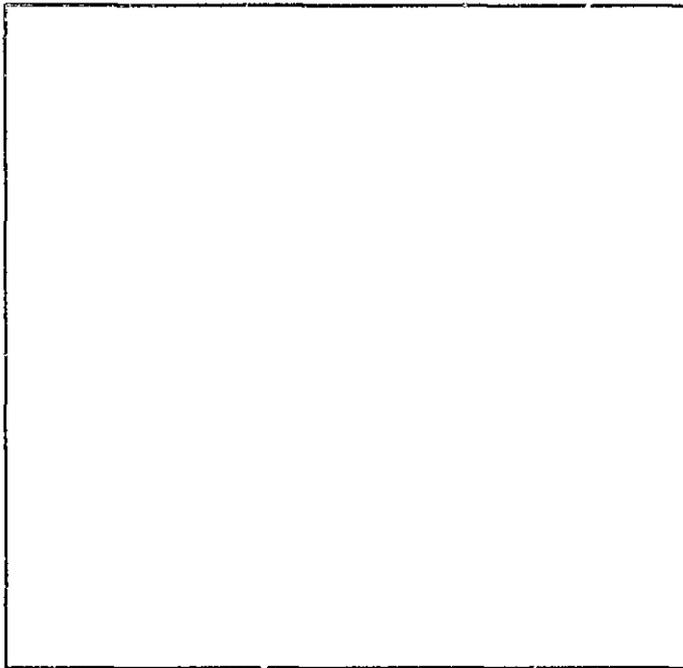
we have continued our investment in water supply reliability



Northcombe Water Treatment Works was completed during the year, improving supplies for our customers in North Devon.

we have now delivered over one third of the schemes in the capital programme

Innovative technology and treatment processes are being used to help us achieve improved levels of compliance at our waste water treatment works



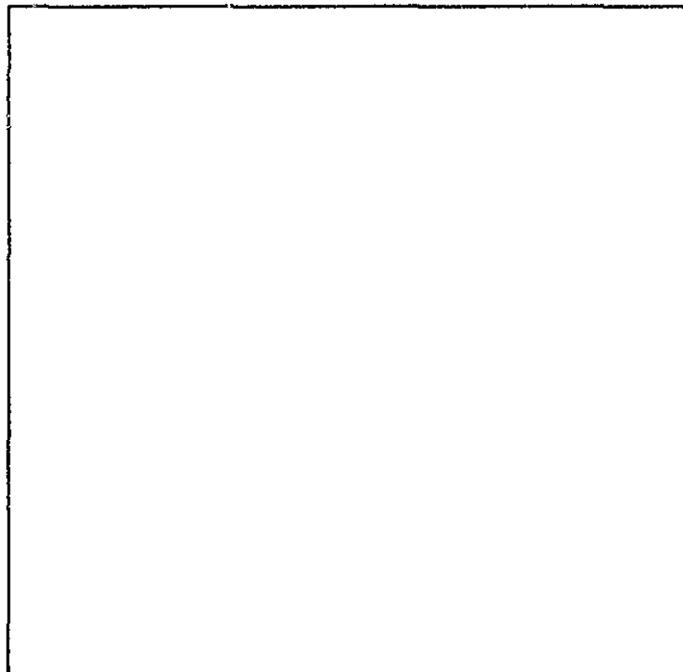
Delivering the Capital Programme
(continued)

Higher standards of treatment required by the EC Urban Waste Water Treatment Directive will also be achieved earlier than originally planned. Completed schemes are already benefiting the tourist areas of Bude, South Hams, South Devon, Teignmouth and Shaldon and St Austell. Innovative technology is being used at our scheme at Par in Cornwall which will be completed this year. *The biggest of all our schemes so far, the Penzance and St Ives scheme, is well underway and includes a tunnel for the Gwithian outfall which will be 2.65km in length and 50 metres below sea level.*

We have continued our investment in water supply reliability throughout the region. Major clean water schemes completed include Northcombe Water Treatment Works, benefiting large areas of North Devon, and the extension of Restermal Water Treatment Works, serving a major part of Cornwall.

New treatment technology using a magnetite regeneration process has been introduced at Littlehempston Water Treatment Works near Totnes - the largest works of its type in Europe.

The completed Buckland Waste Water Treatment Works at Newton Abbot, part of the £30 million Teign Estuary 'Clean Sweep' scheme enhancing the bathing waters and beaches of Teignmouth and Shaldon



12 ENTERPRISE ACTIVITIES

During the year we continued to develop our non-regulated business activities to broaden the base for future growth and earnings.

The addition of Haul-Waste Limited to the Group in February 1993 was our largest acquisition to date. The company has extensive landfill capacity and is the largest waste management business in the South West. It has excellent synergies with our existing liquid waste business and provides a linking of expertise in dry and liquid waste disposal.

In May 1993 we acquired Testlink Holdings Limited which under the name 'ELE' designs, manufactures and distributes materials testing and environmental monitoring equipment in the UK and overseas. Together with our existing subsidiary, pHOX Systems Limited, this acquisition strengthens our position in the international environmental instrumentation market.

Our construction services company, TJ (Brent) Limited, continues to grow profitably and has developed a leading position as a specialist civil engineering contractor in the South West.

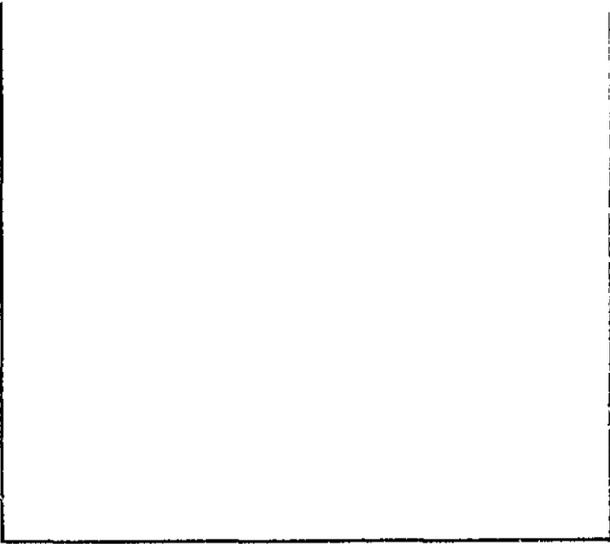
Our subsidiary companies, pHOX Systems Limited and Copa Products Limited, have consolidated their business activities in the fields of instrumentation and process technology. Focused strategies to enhance product development and distribution have been put in place to position the companies competitively in their respective markets.

We are committed to improving amenities at our lakes and water parks. The provision of these is attracting more visitors to our facilities and to the region as a whole. Readford Lake now provides a first-class venue for family recreation, attracting national interest with its opening this year for brown trout fishing.

Our land and property companies have concentrated on developing existing assets, disposing of surplus properties as appropriate. They are well placed to take advantage of any upturn in the property market.

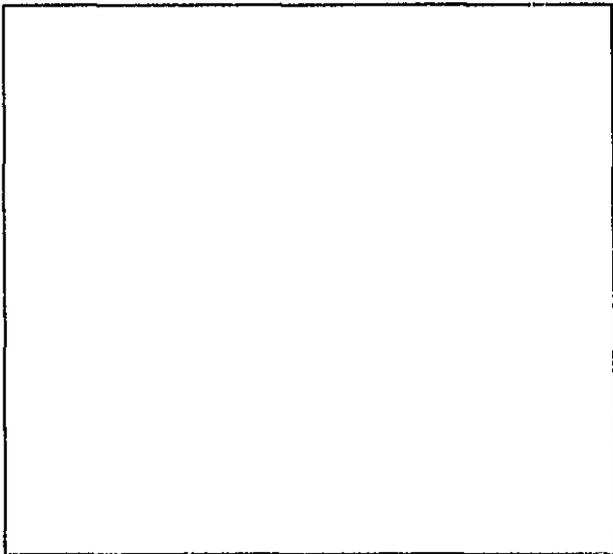
A planning application has been submitted to Plymouth City Council to develop surplus land at Crownhill in Plymouth. The phased office campus development could generate up to 2,300 jobs in the area. Windsor House, an award winning innovative and highly environmentally friendly building, has already been completed on the site and is the headquarters of the South and West Devon Division of South West Water Services Limited.

Westcountry Television Limited, a company in which South West Water has a minority share, commenced broadcasting on 1 January 1993.



Director of Development, Colin Drummond, and Michael Harrison, General Manager of Haul-Waste Limited, at the Heathfield Landfill site in Devon where electricity is generated from methane gas

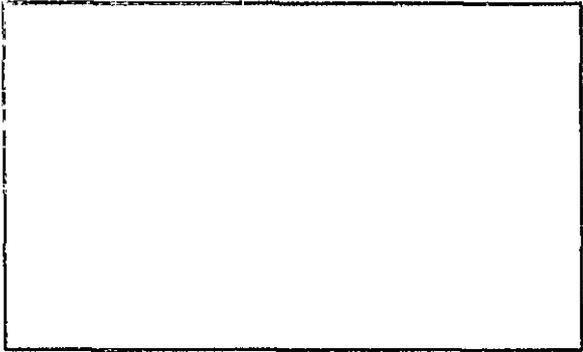
We continued to develop our non-regulated activities



We continued to develop our non-regulated business activities and acquired Haul-Waste Limited, the leading waste management company operating in the South West

enhancement of the environment is one of our key goals

ENHANCING OUR ENVIRONMENT



Completed 'Clean Sweep' projects are already benefiting tourist areas in our region. Chairman, Keith Court, at the opening ceremony of the Bude Scheme in North Cornwall

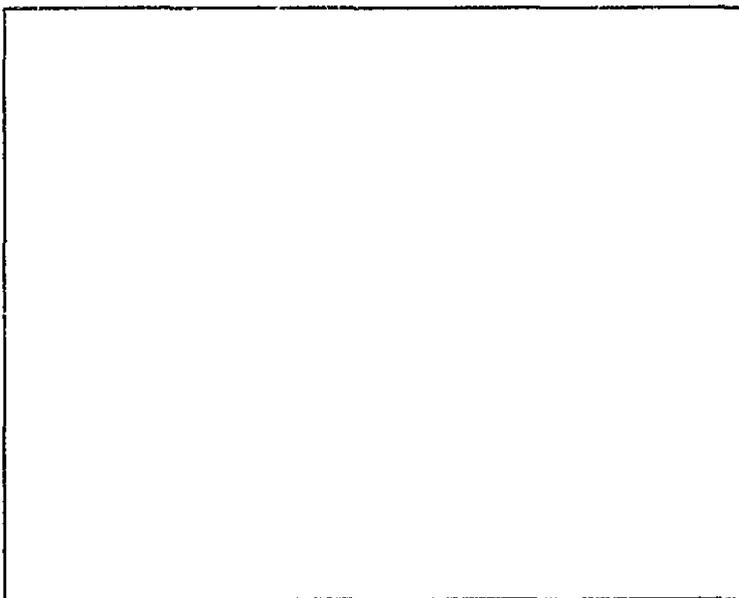
The South West region is one of outstanding natural beauty, attracting almost 10 million visitors each year. Tourism, therefore, plays a key role in the economy and accounts for over £1,000 million income each year.

Enhancement of the environment is identified as one of our key goals both in our Mission Statement and Environmental Policy. Delivery of our programme of improvements by the end of the decade will provide a significant contribution towards improving the quality of life and economic well-being of the region.

All along our coastline major waste water treatment schemes are transforming the bathing waters and beaches. Our 'Clean Sweep' programme is the biggest single investment in the environment the South West has ever seen.

Inland waste water treatment works are being modernised bringing radical improvements to the region's rivers and the aquatic environment. Innovative treatment processes are being developed and deployed.

Almost 90% of our 588 waste water treatment works now comply with quality standards.



The award winning Windsor House in Plymouth is the new headquarters for South West Water Services Limited South and West Devon Division and forms part of a proposed major office campus development

schemes are transforming the bathing waters and beaches

The siting of a new service reservoir in Exeter was adjusted following the discovery by archaeologists of a 12th century Norman castle

14 Enhancing Our Environment
(continued)

As well as contributing to the enhancement of the local environment we constantly aim to help protect the global environment. Energy efficiency initiatives taken include registration of a Declaration of Commitment with the Energy Efficiency Office. Our Energy Business Plan aims to reduce consumption at existing sites by 3% per annum. South West Water Services Limited has the capacity to produce a total of 3.2 megawatts of power for electricity generation at some 14 locations through biogas generation and utilisation of the methane produced from sludge digestion.

We continue to support community environmental initiatives. On many of our sites we have introduced conservation measures ranging from butterfly meadows to barn-owl boxes. Coppicing of woodland will provide additional valuable habitat at several locations. An arboretum is being planned at Burrator reservoir as an additional amenity.

With the development of Roadford Lake, six of our reservoir sites have now been designated 'water parks'. Many other sites provide free public access to areas of great natural beauty enhanced by a wide range of active recreational pursuits.

Similarly, we are very conscious of our responsibility for historic and archaeological sites. We recently adjusted the siting of a new service reservoir in Exeter following the unearthing of a 12th century Norman castle. This historic site will be preserved for the benefit of the community.

An annual Environmental Award Scheme was introduced to promote environmental awareness amongst employees and the first Environmental Award was made in 1992. The award-winning project promoted the use of biodegradable lubricants.

Our waste water treatment modernisation programme is bringing major improvements to the region's rivers and the aquatic environment

RESEARCH AND DEVELOPMENT

Our programme of research and development into clearly focused areas of water-care and waste processing technology is contributing to higher standards of performance and cost effective operation at our works.

Research into the use of ultra violet light has led to adoption of this method of disinfection of waste water effluent, and membrane technology has been developed to a stage where it is being used for advanced treatment of waste water and potable water. Improved physico-chemical treatment processes have been developed to meet increasingly stringent standards. As a result, plant using the new processes has been installed at several of our waste water treatment works enabling these standards to be met. Experiments are being carried out to investigate the efficiency of chemical dosing in improving primary and secondary waste water treatment.

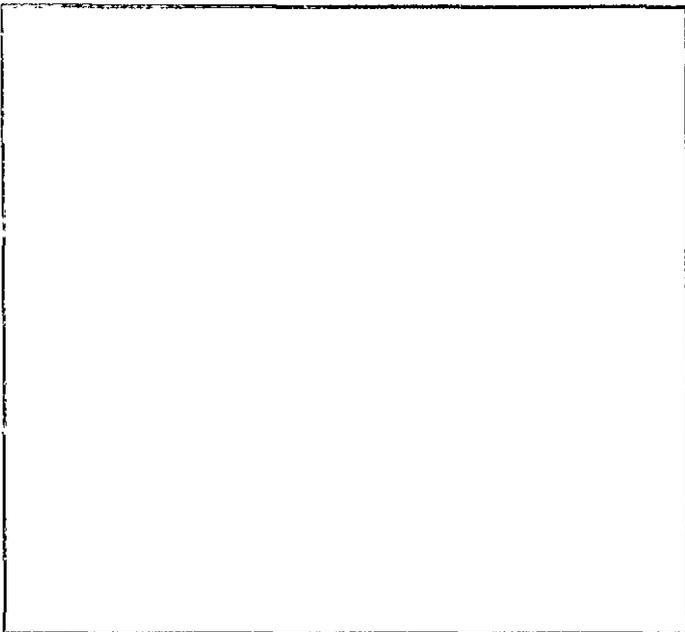
The research projects designed to examine higher rate oxidation processes have been successful and systems are now in operation at Slapton Sands, Liskeard and Plymouth.

An innovative submerged biological reactor process has been developed jointly by South West Water Services Limited and Copa Products Limited. This system has already been introduced at two of our waste water treatment works.

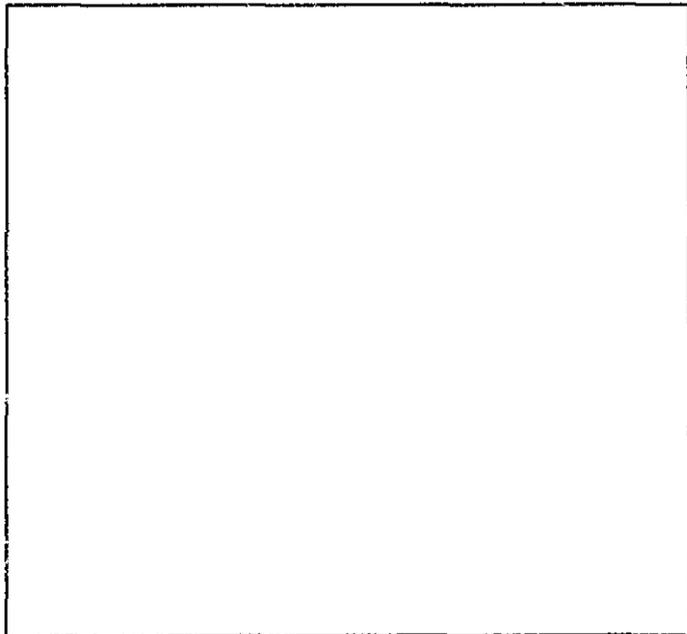
Sewage sludge technology based on low cost disposal and beneficial use is being assessed to cope with the future increases in volume. Experimental work is being carried out jointly with Devon County Council on the co-composting of sewage sludge and municipal waste.

We continued to support industry led research programmes carried out by the Foundation for Water Research and the Water Research Centre

A biological aerated filter process developed by South West Water Services Limited and our subsidiary company, Copa Products Limited, is being used at waste water treatment works



RESEARCH CONTRIBUTING TO HIGHER STANDARDS AND COST EFFECTIVE OPERATION



An advanced micro filtration process using membrane technology for residual fine solid removal in place at one of our waste water treatment works

training and development continues to be a priority

16 OUR EMPLOYEES

South West Water is proud of the contribution its people are making to the continuing success of the Group. The year under review has been one of considerable change and our employees have coped and adapted admirably.

We have restructured our six districts into three major multifunctional divisions, each led by newly appointed senior managers, one for Cornwall and two for Devon.

The new divisions are now providing an improved career structure for employees, and enhanced product quality and customer service.

Training and development for the future continues to be a priority. During the first two years of our Management

Development Programme for first line managers throughout the Group, some 30% were able to take on additional responsibilities. An additional programme for 50 first line managers within our operating divisions will be completed by the end of the summer.

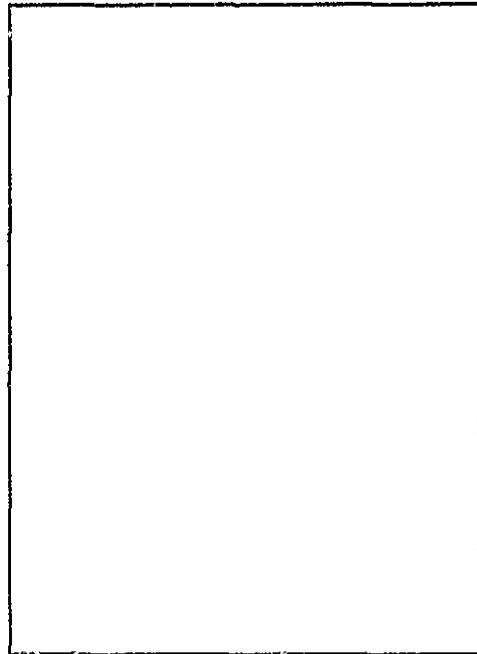
We began training programmes for staff enabling them to gain National Vocational Qualifications (NVQs) which denote a level of competence recognised throughout the water industry. Our aim is for all front-line operational staff to have gained the NVQ relevant to them by 1995.

In a culture of change, employee communications are of paramount importance. The monthly two way briefing system, News and Views, the employee newspaper, *Sou'Wester*, and other communication initiatives help improve mutual understanding between the Group and its people.

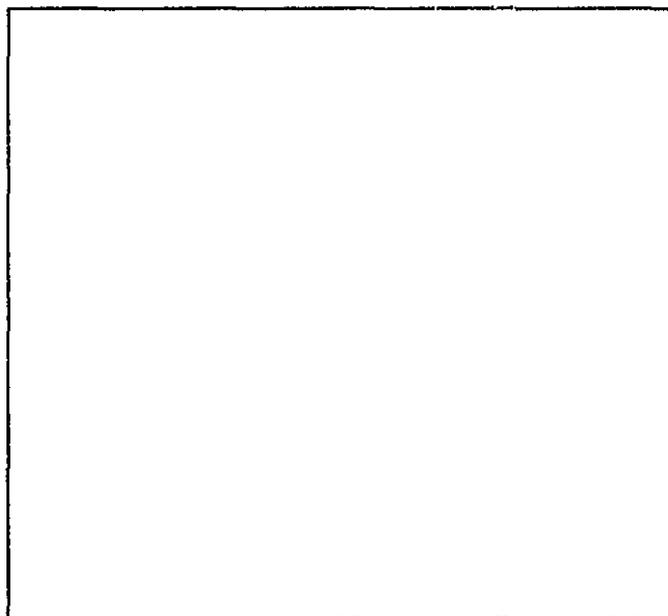
Our employee benefits include a profit sharing scheme and shareave scheme, pension schemes and a salary structure based on rewarding performance.

We continue to support local charitable fund raising activities by many of our employees and the water industry's own appeal, *WaterAid*.

The employee newspaper Sou'Wester, helps improve mutual understanding between the Group and its people



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.



Graham Watts, David Cudd, Steve Hamilton, and Richard Turner receiving their National Vocational Qualification certificates from Managing Director, Bill Fraser, together with their assessors Tony Harris and George Dark

The Directors submit their fourth annual report and the audited financial statements of South West Water Plc (the Company) and its subsidiaries (the Group) for the year ended 31 March 1993.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of water-care and waste engineering, instrumentation and process 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, the Group acquired Haul-Waste Limited, a South West based company engaged in waste management. Since the year end Testlink Holdings Limited was acquired as an extension of the Group's interests in environmental instrumentation. The Group is also involved in land and property development, construction services and the provision of recreational facilities in Devon and Cornwall.

A review of activities for the year is given on pages 7 to 16.

FINANCIAL RESULTS

Turnover

Group turnover for the year increased by 16.8% to £194.4m. Turnover of the water and sewerage business was £184.1m; up by 15.6% in line with tariff increases for the year.

Turnover of other business segments was £3.1m higher at £10.3m, including £2.3m from Haul-Waste Limited following its acquisition by the Group.

Operating Costs

A 9.1% rise in operating costs to £111.8m resulted from a programme of improved customer service and environmental protection by South West Water Services Limited and the impact of inflation and the acquisitions programme.

Employment costs charged to profits increased by 6.7% to £34.8m including the impact of the acquisitions programme.

Initiatives in the water and sewerage business to improve operational efficiency continued. The streamlining of the operational structure within South West Water Services Limited last year has been followed by a manpower reduction, which commenced in March 1993. These efficiencies will quickly pay back the initial cost of £2.4m.

Profit

Operating profit increased by 29.0% to £82.8m; the contribution from acquisitions was not significant.

The regulated business activities are performing well, and the water and sewerage business contributed an operating profit of £83.2m (up 29.6% on 1992).

There was a small operating loss of £0.4m (1992 £0.3m) on other business, and our share of the net losses in associated undertakings was £2.0m (1992 £0.1m), including £1.5m in

respect of Westcountry Television Limited as detailed in note 25 to the financial statements.

Operating profit was augmented by net interest receivable of £11.9m (1992 £25.9m) to produce a profit on ordinary activities before tax of £92.7m (1992 £90.0m). The decrease in net interest receivable of £14.0m reflects lower interest rates and utilisation of cash for capital expenditure.

Payment of the interim and recommended final dividends will require £29.5m, in addition to which £8.5m of advance corporation tax will be payable. Since this tax is currently not recoverable it has been written off to the profit and loss account. In view of the capital allowances on qualifying assets from the Group's capital expenditure no mainstream corporation tax liability is expected to arise for the year.

The remaining undistributed profit of £54.7m (1992 £54.3m) will be transferred to reserves. A high level of retained profit is necessary to help the funding of the massive capital expenditure programme of improvements and 65% of profit after tax has been retained in the business. Net cash inflow from operating activities increased by 43.6% to £93.1m.

FINANCIAL NEEDS AND RESOURCES

Capital expenditure by the Group on tangible fixed assets during the year was £203.7m, an increase of 18.2% on 1992, and was more than Group turnover from all sources for the year. Changes in tangible fixed assets during the year are detailed in note 11 to the financial statements.

Acquisitions of new subsidiaries and additional investment in associated undertakings cost £32.1m, principally in respect of Haul-Waste Limited. Goodwill on this acquisition, written off to Group reserves, amounted to £17.1m. In February 1993, £35m of 8.375 per cent sterling notes, repayable in 1998, were issued largely to finance the purchase of Haul-Waste Limited and for other commercial activities. Since the year end Testlink Holdings Limited was acquired for a consideration of £15.0m and financed as disclosed in note 30 to the financial statements.

The capital works programme comprises over 500 projects and 115 major projects were completed during the year. The year saw further work on the 'Clean Sweep' bathing water schemes and the completion of a number of major water supply schemes.

Over the last four years the capital works programme has expanded nearly 300% underlining the massive inroads made in rectifying the region's inadequate infrastructure. By the turn of the century it is forecast that £2.0 billion of capital works will have been undertaken in the region. This will reflect the impact of new obligations imposed on us by EC and UK Governments – the acceleration of the bathing water

18 schemes, banning of sludge disposal at sea, and additional treatment under the new EC Urban Waste Water Directive.

Adequate financing is vital to support this programme.

The Group has arranged significant funding for the short and medium term including finance leasing, European Investment Bank loans, and a sterling bond.

At 31 March 1993 loans and finance lease obligations were £480m, compared with £338m at 31 March 1992 and leasing facilities in place but not yet drawn totalled £100m. At the same date, the Group held current asset investments of £466m (1992 £489m). These resources form part of the funding strategy being put in place to finance the investment expenditure plans of the Group.

The borrowing powers of the Directors are limited to two and a half times capital and reserves, as defined in the Articles of Association. At 31 March 1993 the limit was £1.9 billion (1992 £1.8 billion). The Directors confirm that the Group can meet its short term requirements from existing borrowing facilities without breaching covenants or other borrowing restrictions.

SHARE CAPITAL

During the year the issued ordinary share capital increased from £123.6m to £124.9m as a result of shares issued under the Company's share option schemes and the scrip dividend alternative.

SHAREHOLDERS' RETURN

The Directors recommend the payment of a final dividend of 15.9p per ordinary share for the year ended 31 March 1993. Together with the interim dividend of 7.8p per ordinary share paid on 4 March 1993, this makes a total dividend for the year of 23.7p per ordinary share, an increase of 9.2% on the dividends for 1992. If approved at the annual general meeting the final dividend will be paid on 1 September 1993 to shareholders on the register at close of business on 17 June 1993.

The dividend of 23.7p (1992 21.7p) is paid out of earnings per share of 67.9p (1992 66.1p). The cover for payment of dividends is 2.9 times (1992 3.0 times) on a net basis.

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

There would be no significant dilution of earnings per share if the outstanding shares which might be issued, in respect of the Company's share option schemes and the acquisition of Copa Holdings Limited, were in issue during the year. The value of net assets per share, at book value, at 31 March 1993 was 621p (1992 597p).

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 4. It is reported with sadness that non-executive Directors Mr K J Morton and Mr C R Stuart died on 28 June 1992 and 6 April 1993 respectively. Mr S M Yassukovich and Mr A T Fletcher were appointed as non-executive Directors on 16 November 1992 and 26 May 1993 respectively and Mr B A O Hewett was appointed Director of Technical and Environmental Affairs on 1 April 1993 following the retirement of Mr W J Dickens on 30 September 1992.

Having been appointed by the Board, Mr S M Yassukovich Mr A T Fletcher and Mr B A O Hewett are due to retire at the annual general meeting together with Mr K L Hill and Mr S J Day who retire by rotation.

All of the Directors due to retire offer themselves for re-election and resolutions for their re-election will be proposed at the annual general meeting. Mr B A O Hewett and Mr K L Hill have service contracts which provide for not less than three years' notice of termination by the Company and not less than one year's notice of termination by the respective Directors, expiring at any time. None of the other Directors proposed for re-election has a service contract with the Company.

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

Details of Directors' interests in shares of the Company are given in note 10 to the financial statements on page 29.

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.

CORPORATE GOVERNANCE

The Directors have considered the Code of Best Practice recommended by the Cadbury Committee and intend to follow the Code in the light of the Company's particular circumstances. The Board comprises five executive and seven non-executive Directors including an executive Chairman and a non-executive Deputy Chairman. The Board and the Audit, Finance and Remuneration Committees meet on a regular basis. Strategic decisions and key operational decisions are determined by the Board. The Audit Committee reviews the audit plan, financial controls and procedures as well as regulatory compliance matters; the Finance Committee reviews dividend policy, financial statements and accounting policies and the Remuneration Committee reviews the remuneration and benefits of the executive Directors and the overall remuneration and benefits policy for senior management.

EMPLOYEES

Information regarding employment policies appears on page 16 and information regarding employee share option schemes is given in note 21 to the financial statements on page 34.

RESEARCH AND DEVELOPMENT

Information regarding research and development is given on page 15.

Throughout the Group's water-care and waste engineering, instrumentation and process technology businesses, the identification and development of new products and processes are expected to contribute to higher standards of performance and more cost effective operation of our works as well as market competitiveness and profitability.

DONATIONS

During the year charitable donations amounting to £33,000 (1992 £30,000) were made. No political donations were made.

TAX STATUS

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

SUBSTANTIAL SHAREHOLDINGS

At 21 June 1993 interests in the issued share capital had been reported by:

Norwich Union Fund Managers	8,653,244 shares	7.08%
Phillips & Drew Fund Management	3,773,658 shares	3.02%
Prudential Corporation	6,313,180 shares	5.06%
Sun Life Group	3,749,287 shares	3.00%

AUDITORS

Pricewaterhouse were appointed Auditors until the conclusion of the fourth 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 fourth annual general meeting will be held at The Palace Hotel, Babbacombe Road, Torquay, Devon on Thursday, 22 July 1993, at 11.00am.

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

Resolution 9 requests shareholder approval by way of a special resolution 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 1993. 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 21 to the financial statements on page 34.

Resolution 10 requests shareholder approval by way of a special resolution for an amendment to Article 135(i) of the Articles of Association of the Company. The proposed amendment would enable the authorisation of the Directors to offer a scrip dividend alternative in relation to dividends declared in a specified period ending not later than the beginning of the fifth annual general meeting following the authorisation in place of the existing specified period currently stated in Article 135(i) of no later than the next annual general meeting.

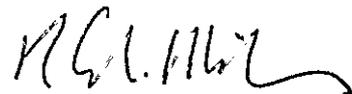
Resolution 11 requests shareholder approval by way of an ordinary resolution to offer a scrip dividend alternative in respect of any dividend declared before the annual general meeting in 1998. Such approval will enable the Directors to approve scrip dividends during that period without requesting further shareholder approval. A separate circular regarding the scrip dividend alternative in respect of the final dividend for the year ended 31 March 1993 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.



21 June 1993

NOTICE OF MEETING

The fourth annual general meeting of South West Water Plc will be held at The Palace Hotel, Babbacombe Road, Torquay, Devon on Thursday, 22 July 1993 at 11.00am for the transaction of the following business

20

Resolution 1 To receive the Report of the Directors and the financial statements for the year ended 31 March 1993.

Resolution 2 To declare a final dividend for the year ended 31 March 1993

Resolution 3 To re-elect Mr S M Yassukovich as a Director.

Resolution 4 To re-elect Mr B A O Hewett as a Director.

Resolution 5 To re-elect Mr K L Hill as a Director.

Resolution 6 To re-elect Mr S J Day as a Director

Resolution 7 To re-elect Mr A T Fletcher as a Director.

Resolution 8 To re-appoint Price Waterhouse as Auditors until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the Directors to fix their remuneration.

Resolution 9 To propose the following as a special resolution:

That

a the Directors be empowered 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 £6,245,000;

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 10 To propose the following as a special resolution:

That Article 135(i) of the Company's Articles of Association be deleted and replaced by the following:

(i) An Ordinary Resolution may specify a particular dividend, or may specify all or any dividends declared within a specified period, but such period may not end later than the beginning of the fifth Annual General Meeting following the date of the meeting at which the Ordinary Resolution is passed.

Resolution 11 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 annual general meeting of the Company to be held in 1998 including the final dividend for the year ended 31 March 1993.

By order of the Board.

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



21 June 1993

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, Lloyds Registrars, 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 10.00am until the conclusion of the meeting

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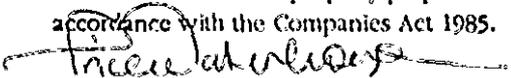
DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results for that year. In preparing the financial statements, suitable accounting policies have been used and consistently applied, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in compliance with applicable accounting standards and, except for the treatment of grants and contributions on infrastructure assets (as indicated in note 1f on page 25), with the Companies Act 1985. The Directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

AUDITORS' REPORT

To the Members of South West Water Plc
We have audited the financial statements on pages 22 to 29 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 1993 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 21 June 1993
Chartered Accountants
and Registered Auditor
Bristol

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1993

22

		1993	1992
	Notes	£m	£m
Turnover	2	194.4	166.5
Other operating income		0.2	0.2
Operating costs	3	(111.8)	(102.5)
Operating profit	2	82.8	64.2
Share of losses in associated undertakings		(2.0)	(0.1)
Interest receivable (net)	4	11.9	25.9
Profit on ordinary activities before taxation	2	92.7	90.0
Tax on profit on ordinary activities	5	(8.5)	(8.9)
Profit on ordinary activities after taxation	6	84.2	81.1
Dividends	7	(29.5)	(26.8)
Retained profit transferred to reserves	22	54.7	54.3
Earnings per ordinary share	8	67.9p	66.1p

A statement of movements in reserves is given in note 22.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 1993

		1993	1992
	Notes	£m	£m
Profit on ordinary activities after taxation	6	84.2	81.1
Expenses, less premium, of sterling bond issue		-	(1.6)
Expenses including discount, of sterling notes issue	24	(0.4)	-
Total gains and losses recognised for the year		83.8	79.5

The notes on pages 25 to 39 form part of these financial statements.

	Notes	Group		Company	
		1993	1992	1993	1992
		£m	£m	£m	£m
Fixed assets					
Tangible assets	11	880.0	679.1	2.4	8.4
Investments	12	2.1	0.4	307.7	279.9
		882.1	679.5	310.1	288.3
Current assets					
Stocks	13	4.2	4.6	0.1	0.1
Debtors: amounts falling due after more than one year	14	0.3	0.6	125.5	104.7
Debtors: amounts falling due within one year	15	43.3	31.6	8.2	8.0
Investments	16	466.0	489.7	71.5	67.1
Cash at bank and in hand		0.4	0.2	0.6	0.6
		514.2	528.7	205.9	180.5
Current liabilities					
Creditors: amounts falling due within one year	17	(120.2)	(126.6)	(36.1)	(31.5)
Net current assets		394.0	402.1	169.8	149.0
Total assets less current liabilities		1,276.1	1,081.6	479.9	437.3
Creditors: amounts falling due after more than one year	18	(477.3)	(328.7)	(185.3)	(150.3)
Provisions for liabilities and charges	19	(4.8)	(5.7)	—	—
Accruals and deferred income	20	(14.5)	(9.0)	—	—
Net assets	2	779.5	738.2	294.6	287.0
Capital and reserves					
Called-up share capital	21	124.9	123.6	124.9	123.6
Share premium account	22	143.7	142.6	143.7	142.6
Other reserves	22	—	—	3.1	3.1
Profit and loss account	22	510.9	472.0	22.9	17.7
Shareholders' funds	23	779.5	738.2	294.6	287.0

The notes on pages 25 to 39 form part of these financial statements.

Approved by the Board on 21 June 1993 and signed on its behalf by:

K W Court, Chairman.



GROUP CASH FLOW STATEMENT

for the year ended 31 March 1993

24

		1993	1992
	Notes	£m	£m
Net cash inflow from operating activities	29a	98.1	68.3
Returns on investments and servicing of finance			
Interest received		49.8	43.0
Interest paid		(29.4)	(12.1)
Interest element of finance lease rental payments		(9.2)	(1.8)
Dividends received from associated undertakings		0.2	-
Dividends paid		(26.3)	(25.0)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(14.9)	4.1
Taxation			
Advance corporation tax paid		(8.6)	(8.1)
Investing activities			
Payments to acquire tangible fixed assets		(217.8)	(143.4)
Grants and contributions:			
Infrastructure assets		1.3	6.2
Non-infrastructure assets		7.0	5.5
Receipts from disposal of tangible fixed assets		0.4	0.3
Payments to acquire current asset investments		(951.9)	(646.6)
Receipts from disposal of current asset investments		954.3	613.1
Acquisitions of subsidiary and associated undertakings net (outflow)/inflow	29b	(32.1)	0.1
Net cash outflow from investing activities		(238.8)	(164.8)
Net cash outflow before financing		(164.2)	(100.5)
Financing			
Issue of shares for cash consideration		(2.8)	-
Issue of sterling bond		-	(150.0)
Issue of sterling notes		(35.0)	-
Expenses, less premium, of sterling bond issue		-	1.6
Expenses, including discount, of sterling notes issue		0.4	-
Other loans raised		(30.0)	-
Other loans repaid		-	7.4
Finance lease drawdowns		(86.0)	(49.7)
Capital element of finance lease rental payments		2.3	1.3
Net cash inflow from financing		(151.1)	(189.4)
(Decrease)/increase in cash and cash equivalents	29d	(13.1)	88.9
		(164.2)	(100.5)

1 ACCOUNTING POLICIES

The following paragraphs describe the main policies:

a Accounting convention

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

b Basis of consolidation

The Group financial statements include the results of the Company and its subsidiary undertakings, each made up to 31 March 1993, 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 Landfill sites

Landfill sites are included at cost less accumulated depreciation. The cost of a landfill site is depreciated over its estimated life on the basis of the usage of void space. Cost includes acquisition, development and remedial expenses.

- iii 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.

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 of the rental cost is charged against profits, using the actuarial method, over the period of the lease.

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

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. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to the profit and loss account. As a consequence of this departure the net book value of tangible fixed assets is £20.2m lower than it would otherwise have been.

Grants and contributions receivable 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 the lower of cost and net realisable value. Cost includes labour, materials and an 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)

1 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 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

2 CLASSES OF BUSINESS

	Water and sewerage business		Other business		Group	
	1993	1992	1993	1992	1993	1992
	£m	£m	£m	£m	£m	£m
Turnover						
Turnover	185.7	160.4	35.2	22.0	220.9	182.4
Inter-segment turnover	(1.6)	(1.1)	(24.9)	(14.8)	(26.5)	(15.9)
Turnover to third parties	184.1	159.3	10.3	7.2	194.4	166.5
Profit						
Segment operating profit/(loss)	83.2	64.5	(0.4)	(0.3)	82.8	64.2
Share of losses in associated undertakings	-	-	(2.0)	(0.1)	(2.0)	(0.1)
Interest receivable (net)	10.2	23.1	1.7	2.8	11.9	25.9
Profit on ordinary activities before taxation	93.4	87.6	(0.7)	2.4	92.7	90.0
Net assets						
Segment net assets	781.1	728.2	(1.6)	10.0	779.5	738.2

Water and sewerage business comprises the provision of water and sewerage services to customers served by South West Water Services Limited.

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

3 OPERATING COSTS

	1993	1992
	£m	£m
Manpower costs (note 9)	34.4	32.4
Raw materials and consumables	10.6	9.3
Rentals under operating leases:		
Hire of plant and machinery	0.8	0.7
Other operating leases	0.7	0.4
Research expenditure	1.2	1.0
Auditors' remuneration	0.2	0.1
Other external charges	45.6	40.1
Depreciation:		
On owned assets	10.1	10.8
On assets held under finance leases	3.1	2.2
Deferred income	(0.5)	(0.3)
Infrastructure renewals charge	5.6	5.8
	111.8	102.5

Fees payable to the Group's auditors, Price Waterhouse, for non-audit work for the year ended 31 March 1993 amounted to £0.5m.

4 INTEREST RECEIVABLE (NET)

	1993	1992
	£m	£m
Interest receivable:		
Listed redeemable securities	14.9	13.5
Other investments (as defined in note 16)	35.5	30.6
	50.4	44.1
Interest payable:		
Bank loans, overdrafts and other loans repayable wholly within five years	(0.6)	(0.2)
Long term loans (any part repayable after five years)	(29.1)	(14.2)
Interest element of finance lease rentals	(8.1)	(3.4)
Other finance costs	(0.7)	(0.4)
	(38.5)	(18.2)
Interest receivable (net)	11.9	25.9

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1993	1992
	£m	£m
United Kingdom taxation:		
Irrecoverable advance corporation tax	8.5	8.9

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 1993; advance corporation tax on the interim and proposed final dividends is therefore regarded as irrecoverable and has been charged against profits.

6 PROFIT OF PARENT COMPANY

	1993	1992
	£m	£m
Profit on ordinary activities after taxation dealt with in the accounts of the parent company	33.4	28.4

Other than profit on ordinary activities after taxation, as disclosed above, a recognised loss for the year of £0.4m (1992 loss £1.6m) arose in the accounts of the Company (as shown in note 23).

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

7 DIVIDENDS

	1993	1992
	£m	£m
Interim dividend paid of 7.8p (1992 7.1p) per ordinary share	9.7	8.8
Proposed final dividend of 15.9p (1992 14.6p) per ordinary share	19.8	18.0
	29.5	26.8

8 EARNINGS PER SHARE

	1993	1992
Profit on ordinary activities after taxation	£84.2m	£81.1m
Earnings per ordinary share	67.9p	66.1p

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation by 124 069 million being the weighted average number of ordinary shares in issue during the year (1992 122 563 million). There would have been no significant dilution of earnings per ordinary share if the outstanding shares which might be issued in respect of the Company's share option schemes and

the acquisition of Copa Holdings Limited, referred to in note 21, were in issue during the year.

Earnings per ordinary share on the nil distribution basis is 74.7p (1992 73.4p). This has been calculated by eliminating the taxation charge of £8.5m (1992 £8.9m) 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:

	1993	1992
Water and sewerage business	2,144	2,084
Other business areas	412	365
	2,556	2,449

Employment costs comprise:

	1993	1992
	£m	£m
Wages and salaries	43.5	38.4
Social security costs	3.5	3.1
Other pension costs (note 27)	3.4	2.9
Total employment costs	50.4	44.4
Total employment costs are charged as follows:		
Manpower costs (note 3)	34.4	32.4
Research expenditure	0.4	0.2
Capital schemes and infrastructure renewals expenditure	15.6	11.8
	50.4	44.4

10 DIRECTORS

Emoluments of Directors

	1993	1992
	£000	£000
Total emoluments of the Directors of the Company, including pension contributions	692	676
Emoluments of the Chairman, excluding pension contributions (1993: including salary of £95,000, and an incentive performance bonus of £13,000 relating to the previous financial year)	112	108
Emoluments of the highest paid Director, excluding pension contributions (1993: including salary of £109,000, and an incentive performance bonus of £18,000 relating to the previous financial year)	136	124
Payment made to a former Director for an unexpired period of notice	—	15

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

Range (£)	1993	1992	Range (£)	1993	1992
0 – 5,000	1	—	70,001 – 75,000	1	—
5,001 – 10,000	1	—	80,001 – 85,000	—	1
10,001 – 15,000	—	4	85,001 – 90,000	—	1
15,001 – 20,000	4	2	95,001 – 100,000	1	—
20,001 – 25,000	1	1	105,001 – 110,000	—	1
25,001 – 30,000	1	—	110,001 – 115,000	1	—
40,001 – 45,000	1	—	120,001 – 125,000	—	1
65,001 – 70,000	—	1	135,001 – 140,000	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, bonus, car benefit and health cover. The executive Directors participate in an annual incentive performance bonus plan. The total bonuses in respect of 1992 paid in 1993 were £51,000 (1992 £37,000), excluding pension contributions, and were based

upon an increase in earnings per share and achievement of other performance targets. These bonuses have been included in the information for 1993 disclosed above. The bonuses payable for 1993 performances have not yet been determined and will be disclosed in the 1994 financial statements. A provision of £80,000 for 1993 bonuses, excluding pension contributions, has been made in these financial statements.

10 DIRECTORS (continued)**Directors' interests**

The beneficial interests of Directors in ordinary shares of the Company at 31 March 1993 and 31 March 1992 (or date of appointment if later) were as follows:

	Share interests		Scheme	Options to subscribe for shares			
	1993	1992		1992	Granted in year	Exercised in year	1993
K W Court	37,009	7,177	Executive	105,000	23,000	65,000	63,000
			Sharesave	5,657	2,259	-	7,916
S J Day	1,500	1,500					
G I J H Drummond	729	-	Executive	-	33,500	-	33,500
W H Fraser	7,212	2,089	Executive	112,000	29,000	65,000	76,000
K L Hill	9,003	5,980	Executive	75,000	26,000	45,000	56,000
Lady Mary HolbeLOW	2,585	2,350					
J R Lawrence	1,551	900					
T C Leader	1,180	1,180					
C Spence	2,360	2,050					
C R Stuart	1,050	1,000					
S M Yasukovich	-	-					

The exercise dates and prices of options to subscribe for shares are shown in note 21.

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 1993.

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 1993
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 April 1992	32.1	302.7	223.3	163.7	47.3	769.1
Reclassifications	(5.9)	(6.0)	(18.6)	(7.6)	38.1	-
Additions	6.6	28.2	23.0	32.8	113.1	203.7
Grants and contributions		(2.1)				(2.1)
On acquisition of subsidiary	2.9	-	7.3	9.9	-	20.1
Disposals	(0.2)	-	-	(1.0)	-	(1.2)
Transfers	3.8	13.3	9.5	4.2	(30.8)	-
At 31 March 1993	39.3	336.1	244.5	202.0	167.7	989.6
Depreciation:						
At 1 April 1992	2.7		43.0	44.3		90.0
Reclassifications	(0.2)		0.2	-		-
On acquisition of subsidiary	-		0.3	5.5		5.8
Charge for year	0.7		3.3	10.6		14.6
Disposals	(0.1)		-	(0.7)		(0.8)
At 31 March 1993	3.1		46.8	59.7		109.6
Net book value:						
At 31 March 1993	36.2	336.1	197.7	142.3	167.7	880.0
At 31 March 1992	29.4	302.7	180.3	119.4	47.3	679.1

Out of the total depreciation charge for the Group of £14.6m (1992 £13.9m), the sum of £1.4m (1992 £0.9m) has been charged to capital projects and £13.2m (1992 £13.0m) against profits.

The cost of freehold land and buildings and of operational properties includes non-depreciable land of £4.2m (1992 £1.7m) and £3.6m (1992 £3.4m) respectively.

11 TANGIBLE FIXED ASSETS (continued)

The analysis on the previous page includes the following amounts in respect of assets held under finance leases:

Group	Operational properties	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1993
	£m	£m	£m	£m
Cost: At 31 March 1993	51.3	59.3	56.6	167.2
Depreciation Charge for year	0.1	3.0		3.1
Accumulated depreciation: At 31 March 1993	0.4	6.6		7.0

Company	Freehold land and buildings	Fixed and mobile plant, vehicles and computers	Construction in progress	Total 1993
	£m	£m	£m	£m
Cost: At 1 April 1992	3.7	0.9	4.1	8.7
Additions	5.7	0.3	-	6.0
Disposals	(7.6)	(0.3)	(3.9)	(11.8)
At 31 March 1993	1.8	0.9	0.2	2.9
Depreciation: At 1 April 1992	0.1	0.2		0.3
Charge for year	0.2	0.2		0.4
Disposals	(0.1)	(0.1)		(0.2)
At 31 March 1993	0.2	0.3		0.5
Net book value: At 31 March 1993	1.6	0.6	0.2	2.4
At 31 March 1992	3.6	0.7	4.1	8.4

12 FIXED ASSET INVESTMENTS

	Group			Company		
	Shares	Loans	Total 1993	Shares	Loans	Total 1993
	£m	£m	£m	£m	£m	£m
Subsidiary undertakings						
Cost:						
At 1 April 1992				274.2	5.5	279.7
Additions				30.0	-	30.0
Repayments				-	(5.5)	(5.5)
At 31 March 1993				304.2	-	304.2
Associated undertakings						
Cost:						
At 1 April 1992	0.4	-	0.4	0.2	-	0.2
Additions	1.4	2.0	3.4	1.3	2.0	3.3
Loss for year	(1.1)	(0.4)	(1.5)	-	-	-
Dividends received	(0.2)	-	(0.2)	-	-	-
At 31 March 1993	0.5	1.6	2.1	1.5	2.0	3.5
Total investments						
At 31 March 1993	0.5	1.6	2.1	305.7	2.0	307.7
At 31 March 1992	0.4	-	0.4	274.4	5.5	279.9

Investments made by the Company during the year in subsidiary undertakings included £28.5m share capital subscribed in Peninsula Waste Technology Limited to assist with the purchase of Haul-Waste Limited (note 25) and £1.5m to fund the development of certain Group companies.

The Company's investment during the year in associated undertakings was in respect of Westcountry Television

Limited (note 25). The Group's investment also includes £0.1m to fund the development of an associated undertaking. Loss for year of £1.5m comprised share of losses of associated undertakings of £2.0m, disclosed in the profit and loss account, less £0.5m included in creditors: amounts falling due within one year.

Details of principal subsidiary and associated undertakings of the Group are set out in note 26.

13 STOCKS

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Raw materials and consumables	1.7	3.4	-	-
Work in progress	2.1	0.9	-	-
Finished goods	0.4	0.3	0.1	0.1
	4.2	4.6	0.1	0.1

14 DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Amounts owed by subsidiary undertakings	-	-	125.5	104.5
Amounts owed by associated undertakings	-	0.2	-	0.2
Other debtors	0.3	0.4	-	-
	0.3	0.6	125.5	104.7

15 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Trade debtors	23.5	15.4	-	-
Amounts owed by subsidiary undertakings	-	-	7.9	7.5
Amounts owed by associated undertakings	0.7	0.3	0.1	-
Other debtors	2.5	2.0	-	0.2
Prepayments and accrued income	16.6	16.9	0.2	0.3
	43.3	34.6	8.2	8.0

Debtors: amounts falling due after more than one year has been separately presented (note 14) following the issue of Abstract number 4 by the Urgent Issues Task Force of the Accounting Standards Board.

16 CURRENT ASSET INVESTMENTS

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Listed on a recognised investment exchange	128.4	95.3	23.0	-
Other investments	337.6	393.4	48.5	67.1
	466.0	488.7	71.5	67.1
Market value of listed investments	130.4	95.5	23.3	-

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

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Bank loans and overdrafts	–	7.0	–	–
Obligations under finance leases	3.9	3.9	–	–
Trade creditors	59.0	66.0	4.5	4.3
Amounts owed to associated undertakings	0.9	1.5	0.1	–
Other creditors	2.4	0.7	0.8	0.2
Advance corporation tax	8.8	8.9	8.8	8.9
Other taxation and social security	3.6	3.6	1.9	–
Accruals and deferred income	21.8	17.0	0.2	0.1
Proposed dividend	19.8	18.0	19.8	18.0
	120.2	126.6	36.1	31.5

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18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Sterling bond	150.0	150.0	150.0	150.0
Sterling notes	35.0	–	35.0	–
European Investment Bank loans	130.0	100.0	–	–
Other loans	0.1	0.1	–	–
Loans falling due after more than one year (note 24)	315.1	250.1	185.0	150.0
Obligations under finance leases (note 24)	160.5	77.2	–	–
Other creditors	1.7	1.4	0.3	0.3
	477.3	328.7	185.3	150.3

Deferred income has been separately disclosed in the balance sheets. This presentational change from 1992 has been made because of increasing materiality (note 20).

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	Company
	1993	1993
	£m	£m
Infrastructure renewals		
At 1 April 1992	5.7	–
Charged against profits	5.6	–
Utilised during year	(7.1)	–
At 31 March 1993	4.2	–
Environmental and landfill restoration		
On acquisition of subsidiary, and		
At 31 March 1993	0.6	–
Total provisions for liabilities and charges		
At 31 March 1993	4.8	–
At 31 March 1992	5.7	–

19 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 1993 was:

	Group	Company
	£m	£m
Tax effect of timing differences due to:		
Accelerated capital allowances	34.2	-
Other timing differences	(4.1)	-
Unutilised corporation tax losses	(5.2)	-
	24.9	-
Less: advance corporation tax recoverable	(15.1)	-
Maximum potential liability	9.8	-

20 ACCRUALS AND DEFERRED INCOME

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Deferred income				
At 1 April	9.6	3.3	-	-
Additions	6.2	6.6	0.2	-
Released to profits	(0.5)	(0.3)	(0.1)	-
At 31 March	15.3	9.6	0.1	-
Amount to be released within one year	(0.8)	(0.6)	(0.1)	-
Amount to be released after more than one year	14.5	9.0	-	-

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

21 CALLED-UP SHARE CAPITAL

	Number and value (£) of shares	
	1993	1992
Authorised		
Ordinary shares of £1 each	175,000,000	175,000,000
Special share of £1	1	1
	175,000,001	175,000,001
Allotted, called-up and fully paid		
Ordinary shares of £1 each:		
At 1 April	123,649,459	122,248,000
Allotted during the year	1,256,385	1,401,459
At 31 March	124,905,844	123,649,459
Special share of £1:		
At 1 April and 31 March	1	1
	124,905,845	123,649,460

21 CALLED-UP SHARE CAPITAL (continued)

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.

34 Unless so redeemed it will be redeemed by the Company on that date at par.

The purchase agreement for Copa Holdings Limited, which was acquired on 27 November 1991 (by way of the issue of 1,401,012 ordinary shares fully paid), provides that further ordinary shares, to a maximum of 3.6 million, may be issued on a performance related basis for the two years ending 31 March 1994. No such issue of ordinary shares is expected by the Directors.

In September 1992 and March 1993 a total of 282,521 (1992 nil) ordinary shares were issued under the scrip dividend alternative.

During the year 11 161 (1992 447) ordinary shares were allotted for a consideration of £20,095 (1992 £787) under the South West Water Sharesave Scheme to employees who exercised their options.

During the year 962,700 ordinary shares were allotted for a consideration of £2,822,601 (1992 nil) under the South West Water Executive Share Option Scheme to Directors and senior employees who exercised their options.

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 outstanding at year end	Nature of scheme	Subscription price fully paid	Period when options normally exercisable
781,134	Sharesave	176p	1995-1997
517,247	Sharesave	287p	1996-1998
385,766	Sharesave	332p	1997-1999
52,700	Executive	293p	1993-2000
647,850	Executive	328p	1994-2001
463,500	Executive	418p	1995-2002
2,848,197			

There are 1,106 participants in the Sharesave Scheme and 66 in the Executive Scheme.

Invitations to apply for further options, to be granted in July

1993, under the Sharesave and Executive Schemes have been issued. Options granted to Directors, included above, are shown in note 10.

22 RESERVES

	Group and Company share premium account	Company other reserves	Group profit and loss account	Company profit and loss account
	£m	£m	£m	£m
At 1 April 1992	142.6	3.1	472.0	17.7
Profit retained for year	-	-	54.7	3.9
Premium on shares issued	1.8	-	-	-
Adjustment for shares issued under the scrip dividend alternative	(0.3)	-	1.3	1.3
Expenses, including discount, of sterling notes issue	(0.4)	-	-	-
Goodwill arising on acquisition	-	-	(17.1)	-
At 31 March 1993	143.7	3.1	510.9	22.9

The cumulative value of goodwill at 31 March 1993 resulting from acquisitions, which has been written off to reserves, is £24.2m.

23 STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Profit on ordinary activities after taxation	84.2	81.1	33.4	28.4
Dividends	(29.5)	(26.8)	(29.5)	(26.8)
	54.7	54.3	3.9	1.6
Recognised loss:				
Expenses, less premium, of sterling bond issue		(1.6)	-	(1.6)
Expenses, including discount, of sterling notes issue	(0.4)	-	(0.4)	-
Adjustment for shares issued under the scrip dividend alternative	1.3	-	1.3	-
Shares issued	2.8	4.5	2.8	4.5
Goodwill written off	(17.1)	(3.9)	-	-
Shareholders' funds:				
Addition for year	41.3	53.3	7.5	4.5
At 1 April	738.2	684.9	287.7	282.5
At 31 March	779.5	738.2	294.6	287.0

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24 LOANS AND OTHER BORROWINGS

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Loans are repayable:				
By instalments, any of which is due for repayment after five years:				
Payable after five years	106.7	85.7	-	-
Payable between two and five years	21.5	14.4	-	-
Payable between one and two years	1.9	-	-	-
Otherwise than by instalment:				
Payable after five years	150.0	150.0	150.0	150.0
Payable between one and five years	35.0	-	35.0	-
Falling due after more than one year	315.1	250.1	185.0	150.0
Falling due within one year:				
Bank loans and overdrafts	-	7.0	-	-
	315.1	257.1	185.0	150.0

Loans are denominated in sterling and are repayable over the period 1994-2012. The rates of interest payable on loans, any part of which is due after five years, vary from 4% to 12%.

On 3 February 1993 £35m 8.375 per cent sterling notes, repayable in 1998 at par, were issued at a price of 99.60 per

cent. The expenses including discount on issue, amounting to £0.4m, have been charged to the share premium account. The net proceeds of £34.6m have been used for general commercial purposes including the acquisition of Haul-Waste Limited.

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Obligations under finance leases are repayable				
After five years	150.9	71.9	-	-
Between two and five years	7.2	4.1	-	-
Between one and two years	2.4	1.2	-	-
	160.5	77.2	-	-
Within one year	3.9	3.9	-	-
	164.4	81.1	-	-

Included above are finance charges arising on obligations under finance leases which are repayable within one year and amount to £1.6m (1992 £2.6m).

25 ACQUISITIONS

During the year ended 31 March 1993 the Company extended its investment in Westcountry Television Limited and acquired a 20% interest in the ordinary shares of the company for a consideration of £1.3m. The Company also subscribed £2.0m for a 50% interest in unsecured loan stock 1996/99. The Group's share of the loss before tax and deferred costs of the company for periods ended 31 December 1992, incurred in applying successfully for a franchise and preparing for transmission, amounting to £1.5m, have been charged against profits.

On 5 February 1993 the entire issued share capital of

Haul-Waste Limited was purchased by Peninsula Waste Technology Limited, a 100% owned Group company. The cash consideration for the share capital and assets acquired, including costs, was £28.7m. Goodwill on acquisition amounting to £11.4m has been written off to reserves (note 22). Profit before tax of the company for the year ended 31 December 1992 was £0.9m. Results for the subsequent periods, to the date of acquisition, and post-acquisition, were not significant. The analysis of net assets acquired and the fair value to the Group is as follows:

	Book value	Asset revaluation	Provisions	Fair value to the Group
	£m	£m	£m	£m
Tangible fixed assets	6.7	7.6	-	14.3
Debtors: amounts falling due within one year	3.1	-	-	3.1
Creditors: amounts falling due within one year	(2.1)	-	(1.9)	(4.0)
Obligations under finance leases	(0.7)	-	-	(0.7)
Creditors: amounts falling due after more than one year	(0.3)	-	(0.2)	(0.5)
Provisions for liabilities and charges	-	-	(0.6)	(0.6)
Net assets	6.7	7.6	(2.7)	11.6

Provisions arising on acquisition include environmental and landfill restoration costs, pension scheme, and reorganisation costs.

26 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, registration and principal operations
Shares held by South West Water Services Limited:			
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
pHIX Systems Limited	Instrumentation	100%	England
Copa Products Limited	Process technology	100%	England
Peninsula Properties (Exeter) Limited	Property trading	100%	England
Rydon Properties Limited	Property investment	100%	England
Peninsula Waste Technology Limited	Waste management	100%	England
Shares held by Peninsula Waste Technology Limited:			
Haul-Waste Limited	Waste management	100%	England

26 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)**Associated undertakings**

Name of company	Activity	Class of shares	Number of shares in issue	Proportion of nominal value of shares held	Country of incorporation, registration and principal operations
Shares held by South West Water Plc:					
Pell Frischmann Water Limited	Engineering consultancy	Ordinary £1	6,666	25%	England
		Ordinary £1 (non-voting)	3,334	100%	
Westcountry Television Limited	Television broadcasting	Ordinary 10p	100,000	20%	England
		Preference £1	700,000	31%	
Shares held by Peninsula Waste Technology Limited:					
Rugged Environmental Technology Systems Limited	Process technology	Ordinary £1	1,000	50%	England

27 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 1993 was £3.4m (1992 £2.9m). 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 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 (1992 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. A triennial actuarial valuation, as at 1 April 1993, is currently in progress for the major 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.

28 COMMITMENTS AND CONTINGENT LIABILITIES

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Capital commitments:				
Contracted but not provided	87.1	139.4	0.1	5.3
Authorised but not yet contracted	152.0	111.7	—	5.3

In addition to these commitments the Group has longer term capital expenditure plans to meet shortfalls in asset 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:

Leases for land and buildings:				
Expiring within one year	0.2	—	—	—
Expiring between one and five years	1.6	0.1	—	—
Expiring after five years	0.1	—	—	—
Leases, other than for land and buildings: Expiring between one and five years	1.0	0.5	—	—
	2.9	0.6	—	—

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

	Group		Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Contingent liabilities:				
Contractors' claims on capital schemes	17.9	9.7	-	-
Bank guarantees	1.3	1.5	409.4	362.7
	19.2	11.2	409.4	362.7

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

29 NOTES TO THE GROUP CASH FLOW STATEMENT

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

	1993	1992
	£m	£m
Operating profit	82.8	64.2
Depreciation charge	13.2	13.0
Deferred income released	(0.5)	(0.3)
Provisions for liabilities and charges	(1.5)	(0.5)
Decrease/(increase) in stocks	0.4	(0.3)
Increase in debtors (amounts falling due within and over one year)	(5.5)	(6.1)
Increase/(decrease) in creditors (amounts falling due within and over one year)	9.2	(1.7)
Net cash inflow from operating activities	98.1	68.3

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

Cash consideration	32.1	0.3
Cash at bank and in hand acquired	-	(0.4)
Net outflow/(inflow) of cash and cash equivalents in respect of the purchase of subsidiary and associated undertakings	32.1	(0.1)

c Acquisitions of subsidiary and associated undertakings comprised:

Associated undertakings	3.4	0.2
Tangible fixed assets	14.3	11.5
Stocks	-	0.2
Debtors: amounts falling due within one year	3.1	0.6
Cash at bank and in hand	-	0.4
Creditors: amounts falling due within one year	(4.0)	(4.4)
Obligations under finance leases	(0.7)	(0.2)
Creditors: amounts falling due after more than one year	(0.5)	-
Provisions for liabilities and charges	(0.6)	-
Loans	-	(7.4)
	15.0	0.9
Goodwill	17.1	3.9
	32.1	4.8
Satisfied by:		
Shares issued	-	4.5
Cash consideration	32.1	0.3
	32.1	4.8

The subsidiary undertaking acquired during the year contributed an outflow of £0.1m (1992 £1.0m) to the Group's net operating cash flow, paid nil (1992 £0.2m) in respect of

net returns on investments and servicing of finance, paid nil (1992 nil) in respect of taxation and utilised £0.1m (1992 £6.2m) for investing activities.

29 NOTES TO THE GROUP CASH FLOW STATEMENT (continued)

d Analysis of the balances of cash and cash equivalents

	1993	1992	1991	Change in year 1993	Change in year 1992
	£m	£m	£m	£m	£m
Current asset investments	466.0	488.7	369.0	(22.7)	119.7
Deduct investments not within three months of maturity when purchased	(201.9)	(204.3)	(170.8)	2.4	(33.5)
	264.1	284.4	198.2	(20.3)	86.2
Cash at bank and in hand	0.4	0.2	0.1	0.2	0.1
Bank loans and overdrafts	-	(7.0)	(9.6)	7.0	2.6
Cash and cash equivalents	264.5	277.6	188.7	(13.1)	88.9

Comparative figures for previous periods shown in this note and the Group cash flow statement have been restated to

represent current asset investments not within three months of maturity when purchased.

e Analysis of changes in financing during the year

	Share capital (including premium)		Loans and finance lease obligations	
	1993	1992	1993	1992
	£m	£m	£m	£m
At 1 April	266.2	266.4	328.6	130.0
Cash inflows from financing	2.8	-	148.7	191.0
Expenses, less premium, of sterling bond issue	-	(1.6)	-	-
Expenses, including discount, of sterling notes issue	(0.4)	-	-	-
Loans and finance lease obligations of subsidiary undertakings acquired	-	-	0.6	7.6
Shares issued for non-cash consideration	-	1.4	-	-
At 31 March	268.6	266.2	477.9	328.6

30 POST-BALANCE SHEET EVENTS

On 26 May 1993, the Company acquired Testlink Holdings Limited for a consideration of £15.0m. This was satisfied by the issue of £6.0m unsecured loan stock and £9.0m cash.

The profit before tax of Testlink Holdings Limited for the year ended 31 December 1992 was £0.9m.

SHAREHOLDER ANALYSIS

Ordinary shareholders at 31 March 1993

		Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares
40	1 - 100	4,413	11.8	0.3
	101 - 1,000	29,003	77.4	9.3
	1,001 - 5,000	3,291	8.8	4.0
	5,001 - 50,000	487	1.3	7.7
	50,001 - 100,000	86	0.2	5.2
	Over 100,000	182	0.5	73.5
		37,462	100.0	100.0
	Individuals	35,099	93.7	12.9
	Companies	427	1.1	7.7
Trust companies (pension funds etc)		27	0.1	1.4
Banks and nominees		1,860	5.0	64.4
Insurance companies		49	0.1	13.6
		37,462	100.0	100.0

SHAREHOLDER INFORMATION

Financial year end	31 March
Fourth annual general meeting	22 July 1993
1993 final dividend payable	1 September 1993
1994 interim results announcement	November 1993
1994 interim dividend payable	March 1994
1994 results preliminary announcement	May 1994
Fifth annual general meeting	July 1994
1994 final dividend payable	September 1994

SHAREHOLDER SERVICES ESTABLISHED BY THE COMPANY**Share dealing service**

The low-cost share dealing service enables investors to buy and sell shares in the Company on a low-cost basis and to make regular investments in the Company.

Personal equity plans

By holding their shares in the Company in the general or the single company personal equity plan, shareholders may gain tax advantages.

Scrip dividend alternative

The scrip dividend alternative enables shareholders to receive their dividends in the form of shares instead of cash.

Details of the scrip dividend alternative are enclosed and details of the other shareholder services are available from the Company Secretary's Department (telephone: (0392) 446688).