

SOUTHERN WATER SERVICES LIMITED

Registration Number: 2366670

REPORT OF THE DIRECTORS
For the Year Ended 31 March 1992

The Directors present their annual report, together with the audited accounts, for the year ended 31 March 1992.

PRINCIPAL ACTIVITY

The Company provides water supply and wastewater services in the South East of England.

RESULTS

Details of the profit and dividends for the year are shown in the profit and loss account on page 6. The Directors recommend dividends of £30.2m (1991: £27.9m) and the transfer of the balance of the profit for the year to reserves.

FIXED ASSETS

Capital expenditure on fixed assets totalled £142.3m (1991: £118.5m) during the year. Details of changes in fixed assets during the year are summarised in note 6 on page 11.

DIRECTORS

The Directors of the Company at the date of this report were: W J W Courtney CBE, F N Midmer, B A O Hewett, A L Smith, G H Setterfield, K Tozzi, W Cutting, R Clayton, S Derwent (appointed 1 April 1992), R Collett (appointed 1 April 1992).

M Hollywood retired as a Director on 31 December 1991.



DIRECTORS' SHAREHOLDINGS

Mr W J W Courtney and Mr F N Midmer are also Directors of Southern Water plc and their interests in the share capital of that Company are shown in its Directors' Report.

The beneficial interests of the other Directors of the Company in the ordinary shares of the Holding Company as at 31 March and at the date of this report are set out below.

	<u>26 June</u>	<u>Ordinary</u>		<u>Executive</u>		<u>Sharesave</u>	
	<u>1992</u>	<u>Shares</u>		<u>Share Options</u>		<u>Scheme</u>	
		<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Mr W Cutting	841	825	795	62,000	51,000	4,090	4,090
Mr R F Clayton	614	602	591	39,000	32,000	6,199	6,199
Mr R Collett	311	-	-	-	-	-	-
Mr S Derwent	1,291	-	-	-	-	-	-
Mr B A O Hewett	1,364	1,339	1,295	86,000	75,000	6,740	6,136
Mr G H Setterfield	945	928	995	62,000	51,000	6,168	4,656
Mr A L Smith	841	825	795	62,000	51,000	8,246	5,222
Mr K Tozzi	1,969	1,930	1,860	62,000	51,000	15,296	12,272

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes.

None of the Directors holds shares beneficially in the Company.

DIRECTORS' AND OFFICERS' LIABILITY

The Company purchases liability insurance covering the Directors and Officers of the Company.

EMPLOYMENT POLICIES

The Company is an equal opportunities employer and has a policy of non discrimination in all forms of employment. Selection and promotion are based solely on merit and ability and no job applicant or employee receives less favourable treatment. Disabled persons are considered for all types of work and modifications to jobs and equipment are made to enable them to be employed. Employees who become disabled are offered alternative work within the Company wherever possible.

The future prosperity of the Company depends on the skills of its employees and we are committed to ensuring that the training required to fulfil career potential is provided. Training programmes are designed to meet specific needs, and include a range of in-house courses, beginning with an induction programme which introduces new employees to the fundamentals of customer service, teamwork and quality standards.

The Company places strong emphasis on effective employee communications and operates a number of formal and informal mechanisms, ranging from employee briefings to publications such as the Group's newspaper 'Southern Water News'. All employees are made aware of the objectives of the business and the contribution they themselves can make. To a large extent, pay increases are now closely related to individual performance and employees are encouraged to participate in the Employee Sharesave Scheme.

The health and safety of employees is of paramount concern and every effort is made to ensure safe working conditions and appropriate safety training. Additionally, all employees have the opportunity to undertake health and lifestyle checks at the Company's expense.

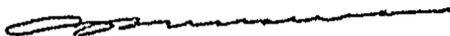
RESEARCH AND DEVELOPMENT

The improvement of existing services and processes, together with the identification and development of new technology and solutions, are key aspects of the Company's strategy to enhance the quality of service to customers and improve methods of working.

AUDITOR

A resolution to reappoint as auditor Coopers & Lybrand, will be proposed at the Annual General Meeting. Until 1 June 1992 the firm practised in the name of Coopers & Lybrand Deloitte.

By order of the Board.



Graham Nicholson
Secretary
26 June 1992

REGISTERED OFFICE
Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX

ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Turnover

Turnover represents the invoice value of goods and services provided, excluding VAT.

Depreciation of Fixed Assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives, which are principally as follows:

Buildings	10 - 60 years
Operational structures	15 - 80 years
Fixed plant	10 - 40 years
Vehicles, computers and mobile plant	3 - 10 years

Freehold land and infrastructure assets are not depreciated. Infrastructure assets, being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are not depreciated 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.

Grants and Contributions

Grants and contributions received in respect of non-infrastructure fixed assets are shown as deferred credits and released to profit over the useful lives of the relevant assets.

Grants and contributions received for new connections to the infrastructure network are accounted for as non-specific capital receipts and credited to fixed assets in order to show a true and fair view.

Leased Assets

Fixed assets leased to the Company under finance leases are capitalised and depreciated in line with the Company's depreciation policy.

The interest element of finance lease repayments is charged against profit in proportion to the balance of the capital repayments outstanding.

Rental costs under operating leases are expensed as incurred.

Stocks and Work in Progress

Stocks used internally for operational and engineering purposes are stated at cost less provision for damage and obsolescence. Other stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes labour, materials and relevant overheads.

Research and Development

Research and development expenditure is expensed in the year in which it is incurred.

Foreign Currency

All transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. Foreign currency balances are translated into sterling at the rate of exchange ruling at the balance sheet date or at the forward cover rate where forward cover arrangements exist.

Deferred Taxation

Provision is made for deferred taxation on the liability method to the extent that it is considered probable that a liability to taxation will occur in the foreseeable future.

Pensions

Southern Water plc operates defined benefit pension schemes which cover all employees of Southern Water Services Ltd. The expected cost of these schemes is charged against profit over the period benefiting from employees' service. Variations from the regular cost are charged against profit on a straight line basis over the expected remaining service lives of employees in each scheme. Contributions to these schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements.

Cash Flow

The Company is a wholly owned subsidiary of Southern Water plc and the cash flows of the Company are included in the consolidated group cash flow statement. Consequently the Company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Turnover		283.7	249.8
Profit before interest	1	100.8	86.7
Interest (net)	3	(39.5)	(31.6)
Profit on ordinary activities before taxation		61.3	55.1
Taxation	4	(9.8)	0
Profit attributable to ordinary shareholders		51.5	55.1
Dividends payable	5	(30.2)	(27.9)
Retained Profit	15	21.3	27.2

Movements on reserves during the year are shown in note 15.

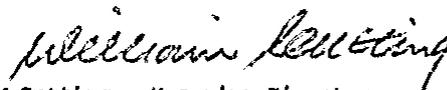
BALANCE SHEET

As at 31 March 1992

	Notes	£m	1992 £m	£m	1991 £m
Fixed assets					
Tangible assets	6		874.6		767.7
Current assets					
Stocks	7	3.6		3.1	
Debtors	8	53.3		72.2	
		<u>56.9</u>		<u>75.3</u>	
Current liabilities					
Amounts falling due within one year:					
Short term borrowings	9	(23.9)		(17.0)	
Other creditors	10	(131.0)		(146.2)	
		<u>(154.9)</u>		<u>(161.2)</u>	
Net current liabilities			<u>(98.0)</u>		<u>(85.9)</u>
Total assets less current liabilities			<u>776.6</u>		<u>681.8</u>
Creditors					
Amounts falling due after more than one year	11		(350.7)		(281.4)
Provisions for liabilities and charges	12		(1.9)		(3.6)
Grants and contributions	13		(11.8)		(5.9)
			<u>412.2</u>		<u>390.9</u>
Capital and reserves					
Called up share capital	14		0.1		0.1
Share premium account	15		46.3		46.3
Profit and loss account	15		365.8		344.5
			<u>412.2</u>		<u>390.9</u>

The accounts on pages 4 to 15 were approved by the Board on 26 June 1992 and signed on its behalf by:


W J W Courtney, CBE - Chairman


W Cutting - Managing Director

NOTES TO THE ACCOUNTS

Note 1	1992 £m	1991 £m
Turnover and profit before interest		
Turnover (wholly in the UK)	283.7	249.8
Cost of sales	(162.4)	(145.3)
Gross profit	121.3	104.5
Administration expenses	(22.4)	(21.2)
Other operating income	1.9	3.4
Profit before interest	100.8	86.7
Profit on ordinary activities before taxation is stated after charging		
Depreciation on		
Own fixed assets	24.5	22.0
Fixed assets held under finance leases	0.4	0.4
	24.9	22.4
Infrastructure renewals charge	16.1	15.4
Audit fees	0.1	0.1
Research and development	4.6	2.9

NOTES TO THE ACCOUNTS

Note 2

Directors and employees	1992 £m	1991 £m
(a) Staff costs (including directors' emoluments)		
Wages and salaries	37.8	33.8
Social security costs	2.9	2.5
Other pension costs	3.8	3.5
	<u>44.5</u>	<u>39.8</u>

	1992 Number	1991 Number
(b) Average number of persons employed during the year:	2322	2284

	1992 £m	1991 £m
(c) Directors' emoluments		
Fees	0	0
Other emoluments (including pension contributions)	0.5	0.4
	<u>0.5</u>	<u>0.4</u>
	£000	£000

The emoluments of the highest paid director (Excluding pension contributions)	110	72
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(d) Directors

The remuneration (excluding pension contributions) of directors was within the following categories:

£	1992 Number	1991 Number
0 - 5000	2	2
40001 - 45000	-	2
45001 - 50000	-	1
50001 - 55000	2	2
55001 - 60000	1	-
60001 - 65000	2	-
65001 - 70000	-	1
70001 - 75000	-	1
80001 - 85000	1	-
105001 - 110000	1	-

NOTES TO THE ACCOUNTS

	1992 £m	1991 £m
Note 3		
Interest		
Repayable after 5 years by instalments	(9.9)	(0.8)
Repayable after 5 years not by instalments	(30.2)	(31.1)
Repayable within 5 years by instalments	(0.6)	0
Repayable within 5 years not by instalments	(0.5)	(1.2)
Finance lease obligations	(0.1)	(0.1)
	<u>(41.3)</u>	<u>(33.2)</u>
Interest receivable	1.8	1.6
Net interest payable	<u>(39.5)</u>	<u>(31.6)</u>

£30.0m (1991 £30.9m) of interest was payable to Southern Water plc

Note 4
Taxation

United Kingdom Taxation:

Advance corporation tax on dividends for the year	9.8	0
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The Company has available £9.8m (1991 £nil) of unrelieved advance corporation tax and substantial unutilised capital allowances. At 31 March 1992 unutilised allowances existed in respect of expenditure of approximately £590m qualifying for plant and machinery allowances and £38m qualifying for industrial building allowances.

Until such time as a foreseeable liability to mainstream corporation tax arises, the only tax charge to the profit and loss account will be in respect of advance corporation tax.

Note 5
Dividends payable

Interim proposed dividend of £180.054 per ordinary share (1991: NIL)	10.0	-
Final proposed dividend of £360.107 per ordinary share (1991: £497.393)	20.2	27.9
	<u>30.2</u>	<u>27.9</u>

NOTES TO THE ACCOUNTS

Note 6
Tangible fixed assets

	Freehold Land & Buildings £m	Plant & Machinery £m	Infra- structure assets £m	Other £m	Total £m
Cost					
Balance at 1 April	251.7	155.2	352.3	91.2	900.4
Additions	56.9	41.9	30.1	13.4	142.3
Grants and contributions	0	0	(10.3)	0	(10.3)
Disposals	0	(0.1)	0	(3.3)	(3.4)
Balance at 31 March	358.6	197.0	372.1	101.3	1029.0
Depreciation					
Balance at 1 April	48.5	46.5	0	37.7	132.7
Additions	0	0.2	0	0	0.2
Charge for year	9.1	8.5	0	7.3	24.9
Disposals	0	(0.1)	0	(3.3)	(3.4)
Balance at 31 March	57.6	55.1	0	41.7	154.4
Net book value at 31 March 1992	301.0	141.9	372.1	59.6	874.6
Net book value at 31 March 1991	253.2	108.7	352.3	53.5	767.7

Tangible fixed assets at 31 March 1992 included £75.1m (1991: £78.6m) of assets in the course of construction which are not depreciated until commissioning.

The net book value of tangible fixed assets held under finance leases at 31 March 1992 was £8.7 (1991: £9.0m).

NOTES TO THE ACCOUNTS

	1992 £m	1991 £m
Note 7		
Stocks		
Materials and consumables	3.0	2.6
Work in progress	0.6	0.5
	3.6	3.1
Note 8		
Debtors		
Trade debtors	48.9	56.0
Amounts owed by group companies	2.1	12.4
Other debtors	1.4	2.8
Employee loans	0.8	0.7
Prepayments	0.1	0.3
	53.3	72.2
Debtors include £0.4m (1991: £0.4m) due after one year.		
Note 9		
Short term borrowings		
Bank overdraft	23.2	16.3
Obligations under finance leases	0.7	0.7
	23.9	17.0
Note 10		
Other Creditors		
Trade creditors	14.2	15.4
Amounts owed to group companies	13.0	41.4
Proposed dividend	30.2	27.9
Advance Corporation Tax	9.8	-
Other taxation and social security	0.1	0.1
Accruals and deferred revenue	63.7	59.4
	131.0	144.2

NOTES TO THE ACCOUNTS

Note 11

Creditors falling due after more than one year

	1992 £m	1991 £m
Loans from holding company	220.0	240.0
Other loans	130.0	40.0
Obligations under finance leases	0.7	1.4
	<u>350.7</u>	<u>281.4</u>

	1992 £m	1991 £m
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Loans and obligations under finance leases are repayable as follows:

Finance leases

Between one and two years	0.7	0.7
Between two and five years	-	0.7

Other loans

Between one to five years	7.9	-
After five years not by instalments	220.0	240.0
After five years by instalments	122.1	40.0
	<u>350.7</u>	<u>281.4</u>

The Company has agreed loan facilities with Southern Water Plc and the European Investment Bank. The rates of interest payable on loans due after 5 years range from 10.4% to 13%.

Note 12

Provisions for liabilities and charges

	Infrastructure renewal £m
Balance at 1 April 1991	3.6
Provided in year	16.1
Utilised in year	(17.8)
Balance at 31 March 1992	<u>1.9</u>

NOTES TO THE ACCOUNTS

Note 13

Grants and contributions

	1992 £m
Balance at 1 April 1991	5.9
Additions	6.2
Release to profit and loss account	(0.3)
	<hr/>
Balance at 31 March 1992	11.8
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Note 14

Called up share capital

Authorised Ordinary shares of £1 each:	46.1	46.1
	<hr/>	<hr/>
Allotted, called up and fully paid Ordinary shares of £1 each:	0.1	0.1
	<hr/>	<hr/>

Note 15

Share premium account and reserves

	Share Premium Account £m	Profit and Loss Account £m
Balance at 1 April 1991	46.3	344.5
Retained profit for year	-	21.3
	<hr/>	<hr/>
Balance at 31 March 1992	46.3	365.8
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NOTES TO THE ACCOUNTS

**Note 16
Pensions**

The Company's pension arrangements are administered through three schemes operated by Southern Water plc, the Holding Company. Actuarial information concerning these schemes is disclosed in the accounts of Southern Water plc.

**Note 17
Contingent liabilities**

	1992 £m	1991 £m
Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	0.6	4.8

The Company is party to mutual cross guarantees for any monies owed by Group companies to National Westminster Bank Plc.

**Note 18
Capital Commitments**

Outstanding contracts placed for capital expenditure	62.8	50.3
Capital expenditure authorised by directors but not contracted	104.1	44.9

**Note 19
Ultimate holding company**

The Company is wholly owned by Southern Water plc, a company incorporated in England.

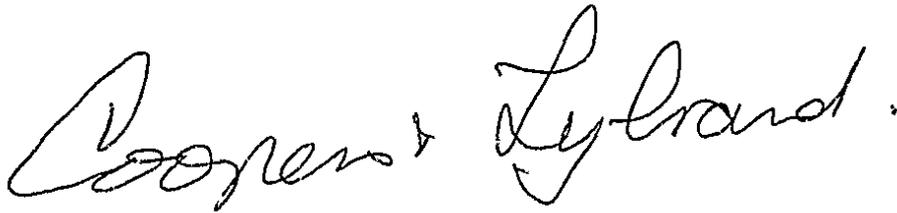
Copies of Southern Water plc's consolidated financial statements may be obtained from the Company Secretary at Southern House, Yeoman Road, Worthing, West Sussex, BN13 3NX.

Southern Water Services Ltd

REPORT OF THE AUDITOR

We have audited the accounts on pages 4 to 15 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31 March 1992 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads "Coopers & Lybrand". The signature is written in dark ink and is positioned above the printed name of the firm.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditor

26 June 1992

London