

SOUTHERN WATER SERVICES LIMITED

Registration Number: 2366670

REPORT OF THE DIRECTORS
For the Year Ended 31 March 1993

The Directors present their annual report, together with the audited financial statements, for the year ended 31 March 1993.

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 7. The Directors recommend dividends of £32.4m (1992: £30.2m) and the transfer of the balance of the profit for the year to reserves.

FIXED ASSETS

Capital expenditure on fixed assets totalled £95.9m (1992: £142.3m). Details of changes in fixed assets during the year are summarised in note 6 on page 12.

DIRECTORS

The Directors of the Company at the date of this report were: W Cutting, A L Smith, G H Setterfield, R Clayton, S Derwent (appointed on 1 April 1992) and E Hutchinson (appointed on 1 December 1992).

W J W Courtney CBE, F N Midmer, B A O Hewett and K Tozzi resigned as Directors of the Company on 1 February 1993. R Collett (appointed on 1 April 1992) resigned as Director of the Company on 11 May 1993.



DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors of the Company, who held office at 31 March 1993, in the ordinary shares of the Holding Company as at 31 March and at the date of this report are set out below.

	<u>Ordinary</u> <u>Shares</u> 17 June <u>1993</u>	<u>Ordinary</u> <u>Shares</u>		<u>Executive</u> <u>Share Options</u>		<u>Sharesave</u> <u>Scheme</u>	
		<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>
Mr W Cutting	19,215	19,201	825	37,000	62,000	4,090	4,090
Mr R F Clayton	11,983	11,973	602	19,000	39,000	6,199	6,199
Mr R Collett	598	594	306*	25,000	12,500*	5,070	3,928*
Mr S Derwent	4,845	1,340	1286*	32,500	12,500*	9,160	9,160*
Mr E Hutchinson	5,564	5,556	5556*	20,000	- *	9,160	9,160*
Mr G H Setterfield	20,020	956	928	67,000	62,000	7,629	6,168
Mr A L Smith	2,971	2,957	825	27,000	62,000	8,246	8,246

* figure at date of appointment.

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes. During the year the following directors exercised options in ordinary shares of £1 each: Mr W Cutting - 40,000, Mr R F Collett - 7,500, Mr A L Smith - 40,000, and Mr R Clayton - 25,000.

None of the Directors holds shares beneficially in the Company.

DIRECTORS' AND OFFICERS' LIABILITY

The Company maintains 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.

With the future prosperity of the Company depending on the skills of its employees, 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. Pay is increasingly 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.

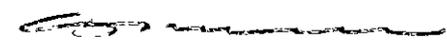
RESEARCH AND DEVELOPMENT

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. Revenue expenditure for 1993 amounted to £4.2m (1992: £4.6m).

AUDITORS

A resolution to reappoint Coopers & Lybrand as auditors to the Company, will be proposed at the Annual General Meeting.

By order of the Board.


Graham Nicholson
Secretary
17 June 1993

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

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for the year. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable accounting standards have been followed.

The Directors are also required to maintain adequate accounting records, and are responsible for taking reasonable steps to safeguard the Company's assets and to prevent or detect fraud and other irregularities.

REPORT OF THE AUDITORS

To the members of Southern Water Services Ltd

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 1993 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coppers & Lybrand
Coppers & Lybrand

Chartered Accountants and Registered Auditors
London

17 June 1993

ACCOUNTING POLICIES

For the Year Ended 31 March 1993

Basis of Accounting

The financial statements 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.

Since infrastructure assets are not depreciated, grants and contributions are deducted from the cost of these assets, in order to show a true and fair view. This is in accordance with SSAP4. The Companies Act 1985 provides for such grants and contributions to be shown separately. The effect of this treatment on the value of the fixed assets is disclosed in note 6.

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 or at the forward cover rate where forward cover arrangements exist. Foreign currency balances are translated into sterling at the rate of exchange ruling at the balance sheet date.

Deferred Taxation

Provision is made for deferred taxation, relating to capital allowances and other timing differences, 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 almost 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 over the expected remaining 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.

Financial Reporting Standard No 3 - Reporting Financial Performance

The company has adopted Financial Reporting Standard No 3, issued by the Accounting Standards Board. This has involved minor presentational changes to the figures for the year ended 31 March 1992.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1993

	Notes	1993 £m	1992 £m
Turnover - continuing operations		306.9	283.7
Profit before interest - continuing operations	1	112.6	100.8
Net Interest	3	(40.9)	(39.5)
Profit on ordinary activities before taxation		71.7	61.3
Taxation	4	(9.0)	(9.8)
Profit attributable to ordinary shareholders		62.7	51.5
Dividends	5	(32.4)	(30.2)
Retained Profit for the year	15	30.3	21.3

In both financial years profit attributable to ordinary shareholders is equal to the total recognised gains as defined in Financial Reporting Standard No 3.

BALANCE SHEET

AS AT 31 MARCH 1993

	Notes	£m	1993 £m	£m	1992 £m
Fixed assets	6		935.2		874.6
Current assets					
Stocks	7	2.9		3.6	
Debtors	8	53.9		53.3	
			<u>56.8</u>	<u>56.9</u>	
Current liabilities					
Amounts falling due within one year:					
Short term borrowings	9	(29.2)		(23.9)	
Other creditors	10	(121.6)		(131.0)	
			<u>(150.8)</u>	<u>(154.9)</u>	
Net current liabilities			(94.0)		(98.0)
Total assets less current liabilities			841.2		776.6
Creditors					
Amounts falling due after more than one year	11		(380.0)		(350.7)
Grants and contributions	12		(17.0)		(11.8)
Provisions for liabilities and charges	13		(1.7)		(1.9)
Net Assets			442.5		412.2
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		396.1		365.8
			<u>442.5</u>		<u>412.2</u>

The financial statements on pages 5 to 16 were approved by the Board on 17 June 1993 and signed on its behalf by:

William Cutting
W Cutting - Managing Director

Eric Hutchison
E Hutchison - Finance Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 1	1993 £m	1992 £m
Turnover and profit before interest - continuing operations		
Turnover (wholly in the UK)	306.9	283.7
Cost of sales	(170.3)	(162.4)
Gross profit	136.6	121.3
Administration expenses	(26.0)	(22.4)
Other operating income	2.0	1.9
Profit before interest	112.6	100.8
Profit on ordinary activities before taxation is stated after		
Crediting:		
Profit on disposal of fixed assets	(0.2)	(0.1)
Charging:		
Depreciation on		
Fixed assets - owned	26.8	24.5
Fixed assets held under finance leases	0.4	0.4
	27.2	24.9
Infrastructure renewals expenditure	16.6	16.1
Auditors' Remuneration:		
Audit Fees	0.1	0.1
Research and development	4.2	4.6

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 2

Directors and employees

	1993 £m	1992 £m
(a) Staff costs (including directors' emoluments)		
Wages and salaries	42.3	37.8
Social security costs	3.2	2.9
Pension contributions	4.2	3.8
	<u>49.7</u>	<u>44.5</u>

	1993 Number	1992 Number
(b) Average number of persons employed during the year:	2447	2322

	1993 £000	1992 £000
(c) Directors' emoluments		
Salaries (including benefits in kind)	376	427
Pension contributions	63	72
	<u>439</u>	<u>499</u>
	£000	£000

The emoluments of the highest paid director
(Excluding pension contributions) 74 110

(d) Directors

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

£	1993 Number	1992 Number
0 - 5000	4	2
15000 - 20000	1	-
50001 - 55000	2	2
55001 - 60000	2	1
60001 - 65000	1	2
70001 - 75000	1	-
80001 - 85000	-	1
105001 - 110000	-	1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 3	1993	1992
Net Interest	£m	£m
Interest payable:		
On bank loans, overdrafts and other loans		
Repayable within 5 years by instalments	(2.0)	(0.6)
Repayable within 5 years not by instalments	(0.7)	(0.5)
Repayable after 5 years by instalments	(13.6)	(9.9)
Repayable after 5 years not by instalments	(25.7)	(30.2)
Finance lease obligations	-	(0.1)
	<u>(42.0)</u>	<u>(41.3)</u>
Interest receivable	1.1	1.8
	<u>(40.9)</u>	<u>(39.5)</u>

£25.7m (1992 £30.0m) of interest was payable to Southern Water plc

Note 4
Taxation

	1993	1992
	£m	£m
United Kingdom taxation:		
Advance corporation tax on dividends	9.0	9.8
	<u> </u>	<u> </u>

The charge for taxation in the profit and loss account is wholly in respect of advance corporation tax on dividends declared. No liability arose in the period in respect of mainstream corporation tax.

The Company has available £18.8m (1992: £9.8m) of unrelieved advance corporation tax and substantial unutilised capital allowances. At 31 March 1993 unutilised allowances existed in respect of expenditure qualifying for plant and machinery allowances of approximately £404.6m and £30.1m in respect of expenditure qualifying for industrial building allowances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 5 Dividends	1993 £m	1992 £m
Interim proposed dividend of £192.839 per ordinary share (1992: £180.054)	10.8	10.0
Final proposed dividend of £385.679 per ordinary share (1992: £360.107)	21.6	20.2
	<u>32.4</u>	<u>30.2</u>

Note 6
Fixed assets

	Freehold Land & Buildings £m	Plant & Machinery £m	Infra- structure assets £m	Other £m	Total £m
Cost					
Balance at 1 April	358.6	197.0	372.1	101.3	1029.0
Additions	26.3	22.2	27.7	19.7	95.9
Grants and contributions	-	-	(7.5)	-	(7.5)
Disposals	-	(1.9)	-	(2.1)	(4.0)
Balance at 31 March	<u>384.9</u>	<u>217.3</u>	<u>392.3</u>	<u>118.9</u>	<u>1113.4</u>
Depreciation					
Balance at 1 April	57.6	55.1	-	41.7	154.4
Additions	-	-	-	-	-
Charge for year	9.8	9.6	-	7.8	27.2
Disposals	-	(1.7)	-	(1.7)	(3.4)
Balance at 31 March	<u>67.4</u>	<u>63.0</u>	<u>-</u>	<u>47.8</u>	<u>178.2</u>
Net book value at 31 March 1993	<u>317.5</u>	<u>154.3</u>	<u>392.3</u>	<u>71.1</u>	<u>935.2</u>
Net book value at 31 March 1992	<u>301.0</u>	<u>141.9</u>	<u>372.1</u>	<u>59.6</u>	<u>874.6</u>

Fixed assets at 31 March 1993 included £83.6m (1992: £75.1m) of assets in the course of construction which are not depreciated until commissioning.

The net book value of fixed assets includes an amount of £8.3m (1992: £8.7m) in respect of assets held under finance leases and hire purchase contracts.

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £48.9m (1992 £41.4m).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 11

Creditors falling due after more than one year

	1993 £m	1992 £m
Loans from holding company	230.0	220.0
Other loans	150.0	130.0
Obligations under finance leases	-	0.7
	<u>380.0</u>	<u>350.7</u>

Loans and obligations under finance leases
are repayable as follows:

Loans

Between one to five years	18.6	7.9
After five years not by instalments	230.0	220.0
After five years by instalments	131.4	122.1
	<u>380.0</u>	<u>350.0</u>

Finance leases

Between one and two years	-	0.7
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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 9.4% to 11.5%.

Note 12

Grants and contributions

	1993 £m
Balance at 1 April 1992	11.8
Receivable in year	5.7
Released to profit and loss account	(0.5)
Balance at 31 March 1993	<u>17.0</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 13

Provisions for liabilities and charges

	Infrastructure renewal £m
Balance at 1 April 1992	1.9
Provided in year	16.6
Utilised in year	(16.8)
Balance at 31 March 1993	<u>1.7</u>

Note 14

Called up share capital

	1993 £m	1992 £m
Authorised Ordinary shares of £1 each:	<u>46.1</u>	<u>46.1</u>
Alotted, called up and fully paid Ordinary shares of £1 each:	<u>0.1</u>	<u>0.1</u>

Note 15

Share premium account and reserves

	Share Premium Account £m	Profit and Loss Account £m
Balance at 1 April 1992	46.3	365.8
Retained profit for year	-	30.3
Balance at 31 March 1993	<u>46.3</u>	<u>396.1</u>

Note 16

Movement in shareholders funds

The movement in shareholders funds of £30.3m (1992 = £21.3m) relates solely to the retained profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1993

Note 17
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 financial statements of Southern Water plc.

Note 18	1993	1992
Contingent liabilities	£m	£m
Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	1.4	0.6

The Company has provided mutual cross guarantees for borrowing from National Westminster Bank Plc by other Group Companies which at 31 March 1993 amounted to £6.7m.

Note 19	1993	1992
Capital Commitments	£m	£m
Outstanding contracts placed for capital expenditure	57.1	62.8
Capital expenditure authorised by directors but not contracted	118.8	104.1

Note 20
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.