

SOUTHERN WATER SERVICES LIMITED

**DIRECTORS' REPORT AND
ACCOUNTS FOR THE YEAR ENDED
31 MARCH 1999**

Registered No. 2366670



SOUTHERN WATER SERVICES LIMITED

Directors' Report and Accounts for the year

ended 31 March 1999

Contents	Page
Report of the Directors	2
Accounting Policies	6
Profit and Loss Account	9
Balance Sheet	10
Notes to the Accounts	11
Report of the Auditors	20

REPORT OF THE DIRECTORS

The directors present their report and the audited Accounts for the year ended 31 March 1999.

RESULTS AND DIVIDEND

The profit for the financial year amounted to £158.4 million (1998: £73.3 million). The directors recommend a final dividend of £528.23 per ordinary share (1998: £516.91) together with an interim dividend of £264.11 per ordinary share (1998: £258.45) makes a total dividend of £792.34 per ordinary share for the year (1998: £775.36). The balance of the profit for the year of £114.0 million (1998: £29.9 million) has been transferred to reserves.

ACTIVITIES AND REVIEW

The principal activities of the company are the provision of water supply and wastewater services in the South East of England.

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. Research and development expenditure for 1999 amounted to £2.5 million (1998: £3.2 million).

DIRECTORS AND THEIR INTERESTS

The Directors who held office during the year were as follows:

Christopher Chapman
Richard Clayton
Barrie Delacour
Stuart Derwent
John Harris
Eric Hutchinson
Ronnie Mercer
David Stainthorpe

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company.

The interests of the directors, in the shares of Scottish Power plc at 31 March 1999 and 31 March 1998 or the date of their appointment if later, are shown below.

REPORT OF THE DIRECTORS

	Ordinary		Share Options				*Long Term	
	Shares Held		Executive Scheme		Sharesave Scheme		Incentive Plan	
	1999	1998/Appt	1999	1998/Appt	1999	1998/Appt	1999	1998/Appt
Christopher Chapman	-	-	-	-	-	-	-	-
Richard Clayton	-	-	-	-	1,905	1,905	9,414	5,384
Barrie Delacour	21,439	18,952	-	-	13,638	13,638	7,674	4,423
Stuart Derwent	24,991	24,861	-	-	9,850	9,850	11,143	6,307
John Harris	-	-	-	-	-	-	-	-
Eric Hutchinson	46,029	45,928	-	-	9,850	9,850	7,804	4,500
Ronnie Mercer	1,000	1,000	698	698	6,581	6,581	27,169	18,222
David Stainthorpe	25,645	19,157	-	-	9,468	15,855	7,503	4,346

* These shares represent, in each case, the maximum number of shares which the directors may receive, dependent on the satisfaction of certain performance criteria as approved by the shareholders of Scottish Power plc in connection with the Long Term Incentive Plan.

DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare Accounts for each financial year 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 or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the Accounts for the year ended 31 March 1999. The directors also confirm that applicable accounting standards have been followed and that the Accounts have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records and sufficient internal controls to safeguard the assets of the company and to prevent and detect fraud or any other irregularities.

EMPLOYEES

Employee involvement and participation

The company has developed its communications processes with its employees to ensure greater understanding of and involvement in the business. This has been achieved through the 'Waterline' staff magazine, produced to complement 'Southern Water News', and by staff briefings. The influence of ScottishPower is now seen through the extension of the values based leadership development programme to Southern Water. The ScottishPower Learning business is now firmly established in Southern Water with programmes for school leavers and the long-term unemployed to work alongside and learn from our employees. The Open Learning facilities at all the main company locations reinforce the commitment of the company to providing learning opportunities.

REPORT OF THE DIRECTORS

The company has been working with the trade unions to establish new consultation arrangements suitable for the changed organisation. These processes are aimed at improving the involvement and participation of staff in the business. The Managing Director meets the recognised trade unions at least twice per year to discuss the progress of the business in meeting its objectives.

The operating divisions continue to meet regularly with the trade union representatives to discuss local issues and also address health and safety matters.

Equal opportunity

Southern Water policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. The published ScottishPower Equal Opportunity booklet is issued to all Southern Water employees. The policy is designed to ensure that equal opportunity in these areas extends as far as practicable to people with disabilities. The company is a member of the Employer's Forum on Disability, which supports the efforts to meet the needs of the disabled for employment and access to the company and its buildings.

Health and safety

The company has embraced the ScottishPower health and safety strategy, and every employee receives a copy of the corporate policy statement on health and safety. There are regular meetings of employee representatives and managers to consider all aspects of health and safety, and there is a health and safety management review group which ensures that there is an adequate system for meeting the company's responsibilities for health and safety to its staff, customers and members of the public.

Southern Water has its own internal occupational health service, including the provision of physiotherapy. These services are being developed to meet the needs of the business and our employees at work.

YEAR 2000 POLICY STATEMENT

A Year 2000 strategy has been established for the ScottishPower group, of which Southern Water Services Limited is a member. Details are contained in the 1998-99 Annual Report and Accounts of Scottish Power plc.

REPORT OF THE DIRECTORS

CREDITOR PAYMENT POLICY AND PRACTICE

The company's current policy and practice concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code. Copies are available upon request from the Company Secretary. For other suppliers, the company's policy and practice is to settle terms of payment when agreeing the terms of transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The company's creditor days at 31 March 1999 were 50 days.

AUDITORS

The auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998. Following this, Coopers & Lybrand resigned and, on 2 October 1998, the directors appointed the new firm PricewaterhouseCoopers as auditors. Special notice has been received by the company of the intention to propose a resolution to re-appoint PricewaterhouseCoopers as auditors to the company at the Annual General Meeting. PricewaterhouseCoopers have expressed their willingness to continue in office.

By Order of the Board



K G Hall
Secretary
5 May 1999

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 accounting standards in the UK and, subject to the treatment of infrastructure grants and contributions described below, with the requirements of the Companies Act 1985.

Basis of preparation

The Accounts contain information about Southern Water Services Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of the ultimate holding company Scottish Power plc, a company registered in Scotland.

Statement of cash flows

The company is exempt from including a statement of cash flows in its Accounts as it is a wholly owned subsidiary of Scottish Power plc, which has included a consolidated statement of cash flows in its consolidated Accounts.

Turnover

Turnover represents the invoiced value of goods and services provided, excluding value added tax.

Research and development

Expenditure on research is charged to the profit and loss account as it is incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost and are depreciated on the straight line method over their estimated operational lives. The main depreciation periods used by the company are set out below:

	<u>Years</u>
Buildings	10 - 60
Operational structures	15 - 80
Fixed plant	10 - 40
Vehicles, computers and mobile plant	3 - 10

Freehold land and infrastructure assets, being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition to fixed assets.

ACCOUNTING POLICIES

The depreciation charge for infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan agreed with the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

The method of accounting for infrastructure renewals has been revised following the introduction of FRS 12 'Provisions, contingent liabilities and contingent assets' and the infrastructure renewals accounting basis as set out in FRS 15 'Tangible fixed assets'. The change in accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation. Further details are set out in Note 7.

Grants and contributions

Capital grants and customer contributions in respect of additions to non- infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets. Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of those assets. While this treatment is in accordance with Statement of Standard Accounting Practice (SSAP) 4, it is not in accordance with the Companies Act 1985. The Act requires capital grants and contributions to be shown as deferred income rather than offset against cost of tangible fixed assets. This departure from the requirements of the Act is, in the opinion of the directors, necessary for the Accounts to give a true and fair view as, while provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on tangible fixed assets is disclosed in Note 7.

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 to the profit and loss account in proportion to the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged to profit and loss account as incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

The charge for ordinary taxation is based on the profits for the year and takes into account taxation deferred, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the different treatment for taxation and accounting purposes of provisions and the depreciation of fixed assets.

ACCOUNTING POLICIES

Pensions

Southern Water plc operates pension schemes which cover the majority of the employees of Southern Water Services Limited. A valuation of the defined benefits pension schemes is normally conducted by an independent actuary every three years. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet. Payments to defined contribution schemes are charged against profit as incurred.

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1999

	Notes	1999 £m	1998 £m
Turnover from continuing operations	1	439.2	420.4
Cost of sales	1	(175.2)	(175.1)
Gross profit from continuing operations		264.0	245.3
Administrative expenses	1	(27.5)	(26.8)
Other operating income	1	5.3	4.5
Operating profit from continuing operations	2	241.8	223.0
Net interest charge	4	(51.4)	(40.1)
Profit on ordinary activities before taxation		190.4	182.9
Ordinary taxation	5	(32.0)	(33.2)
Profit after ordinary taxation		158.4	149.7
Exceptional taxation - windfall tax	5	-	(76.4)
Profit for the financial year		158.4	73.3
Dividends	6	(44.4)	(43.4)
Profit retained	15	114.0	29.9

A statement of total recognised gains and losses and a reconciliation to historical cost profits and losses are not shown as all gains and losses for 1998 and 1999 are recognised in the profit and loss account under the historical cost convention.

The Accounting Policies on pages 6 to 8, together with the Notes on pages 11 to 19 form part of these Accounts.

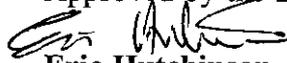
BALANCE SHEET

as at 31 March 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets (restated - see Note 7)	7	1,857.2	1,580.1
Investments	8	-	-
Current assets			
Stocks	9	1.9	2.1
Debtors (restated - see Note 7)	10	108.7	204.7
		<u>110.6</u>	<u>206.8</u>
Creditors: amounts falling due within one year			
Loans and other borrowings	11	(52.4)	(29.4)
Convertible unsecured loan stock 1999	11	(190.7)	-
Other creditors	11	(314.0)	(324.6)
		<u>(557.1)</u>	<u>(354.0)</u>
Net current liabilities		<u>(446.5)</u>	<u>(147.2)</u>
Total assets less current liabilities		<u>1,410.7</u>	<u>1,432.9</u>
Creditors: amounts falling due after more than one year			
Loans and other borrowings	11	(524.1)	(485.1)
Convertible unsecured loan stock 1999	11	-	(177.5)
Provision for liabilities and charges	12	(3.2)	(3.3)
Grants and contributions	13	(33.4)	(31.0)
Net assets		<u>850.0</u>	<u>736.0</u>
Called up share capital	14	0.1	0.1
Share premium	15	46.3	46.3
Profit and loss account	15	803.6	689.6
Equity shareholders' funds		<u>850.0</u>	<u>736.0</u>

The Accounting Policies on pages 6 to 8, together with the Notes on pages 11 to 19, form part of these Accounts.

Approved by the Board on 5 May 1999 and signed on its behalf by:



Eric Hutchinson

Finance Director

NOTES TO THE ACCOUNTS

1 Classification of turnover and revenue costs

Turnover represents the income receivable for providing water supply and wastewater services and is generated wholly in the United Kingdom.

Cost of sales reflects the direct costs of providing water supply and wastewater services.

Administrative expenses comprise the indirect costs of the business. Other operating income refers to rents receivable and the profit on disposal of fixed assets.

2 Operating profit (restated - see Note 7)

Operating profit is stated after charging/(crediting):	1999 £m	1998 £m
Depreciation on		
- fixed assets	57.5	52.1
- fixed assets held under finance leases	0.4	0.4
	<u>57.9</u>	<u>52.5</u>
Rentals under other operating leases	4.3	6.2
Research and development expenditure	2.5	3.2
Release of grants and contributions	(1.4)	(1.2)
Profit on disposal of fixed assets	(4.7)	(3.5)
	<u>£'000</u>	<u>£'000</u>
Auditors' remuneration for statutory audit	97	92
Auditors' remuneration for non-audit services to the company	101	145

3 Employee information

	1999 £m	1998 £m
(a) Employee costs (including directors' emoluments):		
Wages and salaries	51.5	51.7
Social security costs	4.0	4.0
Pension costs	5.3	5.3
Total employee costs	<u>60.8</u>	<u>61.0</u>
Less: charged as capital expenditure	(16.2)	(15.1)
Charged to the profit and loss account	<u>44.6</u>	<u>45.9</u>

NOTES TO THE ACCOUNTS

	1999 Number	1998 Number
(b) Average number of persons employed	2,279	2,371

4 Net interest charge

	1999 £m	1998 £m
Interest payable on bank loans and overdraft	(3.4)	(3.3)
Interest payable on other loans	(55.7)	(37.4)
Total interest payable	(59.1)	(40.7)
Interest receivable	7.7	0.6
Net interest charge	(51.4)	(40.1)

Interest of £55.7m (1998: £37.4m) was payable to Group companies.

5 Taxation

	1999 £m	1998 £m
Corporation tax		
UK corporation tax at 31% (1998: 31%)	32.0	33.2
Exceptional taxation - windfall tax	-	76.4
Total tax charge	32.0	109.6

Exceptional taxation in 1997-98 related to the company's estimated share of the windfall tax according to the formula contained within the Finance (No 2) Act 1997. Two equal instalments of £38.2 million were paid on 1 December 1997 and 1 December 1998.

6 Dividend per ordinary share

	1999 £ per ordinary share	1998 £ per ordinary share	1999 £m	1998 £m
Interim dividend	264.11	258.45	14.8	14.5
Proposed final dividend	528.23	516.91	29.6	28.9
	792.34	775.36	44.4	43.4

NOTES TO THE ACCOUNTS

7 Fixed assets and capital commitments

(a) Tangible assets	Freehold Land & Buildings £m	Plant & Machinery £m	Vehicles and Equipment £m	Infra- structure assets £m	Other £m	Total £m
Cost :						
At 1 April 1998 (restated)	561.2	471.1	1.7	835.9	188.2	2,058.1
Additions and transfers	71.3	106.8	(0.4)	145.0	18.5	341.2
Grants and contributions	-	-	-	(5.6)	-	(5.6)
Disposals	(1.0)	(0.8)	(0.6)	(0.5)	-	(2.9)
At 31 March 1999	631.5	577.1	0.7	974.8	206.7	2,390.8
Depreciation :						
At 1 April 1998 (restated)	116.6	114.0	1.3	150.0	96.1	478.0
Charge for the year	11.7	16.5	(0.2)	19.7	10.2	57.9
Disposals	(0.7)	(0.5)	(0.6)	(0.5)	-	(2.3)
At 31 March 1999	127.6	130.0	0.5	169.2	106.3	533.6
Net book value :						
At 31 March 1999	503.9	447.1	0.2	805.6	100.4	1,857.2
At 31 March 1998	444.6	357.1	0.4	685.9	92.1	1,580.1

Rules relating to renewals accounting, as set out in FRS 15: Tangible Fixed Assets, have been adopted by the company. As a consequence, the cost of infrastructure assets as at 1 April 1998 has been increased by £155.4m and accumulated depreciation of infrastructure assets as at 1 April 1998 has been increased by £150.0m.

Differences between depreciation charged and actual expenditure on infrastructure assets are no longer accounted for as either a prepayment or provision, but are subsumed into tangible fixed assets. At 31 March 1998 the difference arising prior to adoption of FRS 15 was a prepayment of £5.4m. This change of accounting has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

Of the additions to infrastructure assets, the amount spent on infrastructure renewals during the year was £31.6m and of the grants and contributions set against infrastructure assets, £1.6m relates to infrastructure renewals.

Tangible fixed assets include £427.3m (1998: £255.9m) 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 1999 was £6.1m (1998: £6.5m). The charge for depreciation against these assets during the year was £0.4m (1998: £0.4m).

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £91.0m (1998: £85.4m).

NOTES TO THE ACCOUNTS

(b) Capital commitments	1999 £m	1998 £m
In respect of contracts placed	232.3	188.7
	<hr/>	<hr/>

8 Fixed asset investments

Southern Water Services Limited holds the entire issued share capital of Southern Water Services Finance plc, a company incorporated in the UK on 13 March 1998. The principal activity of the company is to raise debt finance. The investment is stated at cost of £12,500. Southern Water Services Limited has guaranteed the £100m Variable Coupon Guaranteed Bonds issued by Southern Water Services Finance plc.

9 Stocks	1999 £m	1998 £m
Raw materials and consumables	1.7	1.9
Work in progress	0.2	0.2
	<hr/>	<hr/>
	1.9	2.1
	<hr/>	<hr/>

10 Debtors (restated - see Note 7)	1999 £m	1998 £m
Trade debtors	44.6	37.9
Unbilled income	30.8	25.2
Amounts owed by parent company and fellow subsidiary undertakings	29.2	131.9
Prepayments	0.3	0.2
Other debtors	3.8	9.5
	<hr/>	<hr/>
	108.7	204.7
	<hr/>	<hr/>

11 Creditors

(a) Amounts falling due within one year	1999 £m	1998 £m
Loans and other borrowings :		
Bank overdraft	41.4	19.4
Loans from parent company	11.0	10.0
£200m Discounted Convertible Unsecured Loan Stock 1999	190.7	-
	<hr/>	<hr/>
	243.1	29.4
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

The Discounted Convertible Unsecured Loan Stock 1999 is convertible at the option of the stockholder on 24 November 1999 into fully paid ordinary shares of £1 in Southern Water Services Limited at the rate of 97 fully paid ordinary shares for every £2,000,000 in nominal amount stock. The full amount of the Discounted Unsecured Loan Stock is held by Scottish Power plc, the ultimate parent company.

	1999 £m	1998 £m
Other creditors :		
Trade creditors	20.8	19.4
Capital creditors and accruals	137.0	117.4
Amounts owed to parent company and fellow subsidiary undertakings	16.6	21.1
Corporation tax	42.7	37.1
Windfall tax	-	38.2
Other taxation and social security	0.5	0.7
Other accruals and deferred revenue	52.0	47.3
Dividends payable	44.4	43.4
	<u>314.0</u>	<u>324.6</u>
(b) Amounts falling due after more than one year	1999 £m	1998 £m
Loans and other borrowings :		
Loans from parent company	424.5	385.5
Loans from subsidiary undertakings	99.6	99.6
	<u>524.1</u>	<u>485.1</u>
£200m Discounted Convertible Unsecured Loan Stock 1999	<u>-</u>	<u>177.5</u>
	1999 £m	1998 £m
Repayments fall due as follows:		
Between one to two years	11.8	188.5
Between two and five years	46.7	41.7
After five years not by instalments	398.7	348.7
After five years by instalments	66.9	83.7
	<u>524.1</u>	<u>662.6</u>

The rates of interest payable on loans from the parent company due after five years range from 6.35% to 11.1%. The rate of interest on the loans from subsidiary undertakings is 6.9%.

NOTES TO THE ACCOUNTS

12 Provision for liabilities and charges

a) Provisions	Total £m
At 1 April 1998	3.3
Utilised in year	(0.1)
At 31 March 1999	3.2

b) Deferred taxation

No provision for deferred taxation is considered necessary at 31 March 1999, since future taxation depreciation is expected to exceed accounting depreciation and therefore no deferred taxation liabilities are expected to crystallise in the foreseeable future. Total potential deferred liabilities, calculated at the prevailing rate of corporation tax of 30% (1998: 31%) are as follows:

	1999 £m	1998 £m
Accelerated capital allowances (non-infrastructure assets)	159.2	156.8
Other timing differences	(3.5)	(6.8)
	<u>155.7</u>	<u>150.0</u>

13 Grants and contributions

	£m
At 1 April 1998	31.0
Receivable in year	3.8
Released to profit and loss account	(1.4)
At 31 March 1999	33.4

Grants and contributions relate to non-infrastructure assets.

14 Share capital	1999	1998
	£m	£m
Authorised 46,050,000 ordinary shares of £1 each	46.1	46.1
Allotted, called up and fully paid 56,000 ordinary shares of £1 each	0.1	0.1

NOTES TO THE ACCOUNTS

15 Reconciliation of movement in shareholders' funds

	Called up share capital	Share premium	Profit and loss account	Total
	£m	£m	£m	£m
At 1 April 1998	0.1	46.3	689.6	736.0
Profit retained	-	-	114.0	114.0
At 31 March 1999	0.1	46.3	803.6	850.0
At 1 April 1997	0.1	46.3	659.7	706.1
Profit retained	-	-	29.9	29.9
At 31 March 1998	0.1	46.3	689.6	736.0

16 Pensions

The company's pension arrangements are administered through three schemes operated by Southern Water plc, the immediate holding company. The principal defined benefit scheme, which covers the majority of the group's employees has eight Trustee Directors. The power of appointment of new Trustee Directors is vested in Southern Water plc. The assets of the schemes are held separately from those of the company. State Street Bank and Trust Company acts as custodian trustee for the defined benefit schemes and asset management is delegated to an external fund manager.

Members of the schemes receive an annual statement of their accrued benefits and a copy of the trustees' annual report. The accounts of all schemes are audited annually by PricewaterhouseCoopers.

The defined benefit schemes are valued by independent consulting actuaries using either the 'projected' unit method or the 'attained age' method. The last completed actuarial valuation of the principal scheme was carried out as at 31 March 1998. At that date, the market value of the scheme's assets was £231.1m, and the actuarial value of these assets represented approximately 108% of the benefits accrued to members, after allowing for expected increases in earnings. The employers' average contribution is 12.8% of pensionable pay with members paying standard contributions of 6%, 5% or 3%.

The principal assumptions used in all actuarial valuations are those related to the differentials between the rates of return on investments and the rates of increases in earnings and pensions. In the main scheme, it has been assumed that the investment return per annum will be 2% higher than wage and salary increases and 4% higher than pension increases.

On 31.12.98, the Southern Water pension schemes were closed to new entrants who have the option of joining one of the ScottishPower schemes.

NOTES TO THE ACCOUNTS

17 Contingent liabilities

	1999	1998
	£m	£m
Contractors' claims	0.9	4.0
	—	—

The company is party to mutual cross guarantees for any monies owed by Southern Water plc group companies to National Westminster Bank plc.

18 Financial commitments

	1999	1998
	£m	£m
Annual commitments under operating leases:		
Expiring within one year	0.2	0.8
Expiring between two and five years	1.6	2.5
Expiring after five years	-	0.3
	—	—
	1.8	3.6
	—	—

19 Directors' emoluments

	1999	1998
	£'000	£'000
Aggregate emoluments (including benefits in kind)	615	363
	—	—

Retirement benefits are accruing to five directors under a Southern Water defined benefit scheme.

	1999	1998
	£'000	£'000
Aggregate highest paid director emoluments and benefits (excluding gains made on exercise of share options)	141	97
	—	—
Defined benefit scheme: Accrued annual pension at 31 March	17	44
	—	—

Retirement benefits are accruing to the highest paid director under a ScottishPower defined benefit scheme.

NOTES TO THE ACCOUNTS

Directors' interests in share options of Scottish Power plc.

<u>Executive director</u>	<u>At 1/4/98 or date of appointment if later</u>	<u>Granted</u>	<u>Exercised</u>	<u>At 31 March 1999</u>
Long Term Incentive Plan				
Richard Clayton	5,384	4,030	-	9,414
Barrie Delacour	4,423	3,251	-	7,674
Stuart Derwent	6,307	4,836	-	11,143
Eric Hutchinson	4,500	3,304	-	7,804
David Stainthorpe	4,346	3,157	-	7,503
Ronnie Mercer	18,222	8,947	-	27,169
Executive Share Option Scheme				
Ronnie Mercer	698	-	-	698
Sharesave Scheme				
Richard Clayton	1,905	-	-	1,905
Barrie Delacour	13,638	-	-	13,638
Stuart Derwent	9,850	-	-	9,850
Eric Hutchinson	9,850	-	-	9,850
David Stainthorpe	15,855	-	6,387	9,468
Ronnie Mercer	6,581	-	-	6,581

20 Related party transactions

Scottish Power plc has ultimate control over the company. The company has taken an exemption, as allowed by Financial Reporting Standard 8, not to disclose related party transactions with other group companies as the parent company publishes full statutory consolidated Accounts.

21 Ultimate holding company

The company is a wholly owned subsidiary of Southern Water plc, which is itself wholly owned by Scottish Power plc, the ultimate holding company.

Copies of Scottish Power plc's consolidated Accounts may be obtained from the Company Secretary at 1 Atlantic Quay, Glasgow G2 8SP.

AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER SERVICES LIMITED

We have audited the Accounts on pages 8 to 19.

Respective responsibilities of directors and auditors

As described on page 3, the directors are responsible for preparing the Accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the information contained in the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts.

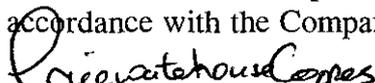
Basis of audit opinion

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, 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 Accounts 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 Accounts.

Opinion

In our opinion the Accounts give a true and fair view of the state of the company's affairs at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

5 May 1999