

SOUTHERN WATER SERVICES LIMITED

**DIRECTORS' REPORT
AND ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2001**

Registered No. 2366670



SOUTHERN WATER SERVICES LIMITED

Directors' Report and Accounts for the year

ended 31 March 2001

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REPORT OF THE DIRECTORS

The directors present their report and the audited Accounts for the year ended 31 March 2001.

RESULTS AND DIVIDEND

The profit after taxation for the financial year amounted to £126.7 million (2000: £140.2 million). The directors recommend a final dividend of £568.56 per ordinary share (2000: £565.00) together with an interim dividend of £284.28 per ordinary share (2000: £282.50) making a total dividend of £852.84 per ordinary share for the year (2000: £847.50). The balance of the profit for the year of £78.9 million (2000: £92.7 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 the year amounted to £2.2 million (2000: £2.1 million).

DIRECTORS AND THEIR INTERESTS

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

Christopher Chapman
Barrie Delacour
Stuart Derwent
Anthony Fegan
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.

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DIRECTORS AND THEIR INTERESTS (continued)

The interests of the directors, in the shares of Scottish Power plc at 31 March 2001 and 1 April 2000 or the date of their appointment if later, are shown below.

	1.4.00	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	31.3.01
Barrie Delacour						
Ordinary Shares *	28,580	4,803	-	-	-	33,383
ESOP Free and Matching Shares #	-	100	-	-	-	100
Sharesave Scheme	3,810	-	(3,810)	-	-	-
Long Term Incentive Plan - Potential **	11,249	4,442	-	(1,107)	(3,316)	11,268
Long Term Incentive Plan - Vested	-	-	-	-	3,316	3,316

	1.4.00	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	31.3.01
Stuart Derwent						
Ordinary Shares *	32,645	1,490	-	-	-	34,135
ESOP Free and Matching Shares #	-	100	-	-	-	100
Sharesave Scheme	2,247	2,235	-	-	-	4,482
Long Term Incentive Plan - Potential **	16,422	5,625	-	(1,577)	(4,730)	15,740
Long Term Incentive Plan - Vested	-	-	-	-	4,730	4,730

	1.4.00	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	31.3.01
Anthony Fegan						
Ordinary Shares *	-	129	-	-	-	129
ESOP Free and Matching Shares #	-	100	-	-	-	100
Sharesave Scheme	3,815	-	(1,568)	-	-	2,247
Long Term Incentive Plan - Potential **	13,517	4,701	-	(1,308)	(3,922)	12,988
Long Term Incentive Plan - Vested	-	-	-	-	3,922	3,922

	1.4.00	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	31.3.01
Eric Hutchinson						
Ordinary Shares *	53,710	368	-	-	-	54,078
ESOP Free and Matching Shares #	-	100	-	-	-	100
Sharesave Scheme	2,247	2,235	-	-	-	4,482
Long Term Incentive Plan - Potential **	11,630	4,615	-	(1,125)	(3,375)	11,745
Long Term Incentive Plan - Vested	-	-	-	-	3,375	3,375

	1.4.00	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	31.3.01
Ronnie Mercer						
Ordinary Shares *	1,061	12,675	-	-	-	13,736
ESOP Free and Matching Shares #	-	100	-	-	-	100
Executive Scheme	698	-	-	-	-	698
Sharesave Scheme	6,581	3,725	(6,581)	-	-	3,725
Long Term Incentive Plan - Potential **	30,340	12,980	-	(2,625)	(7,875)	32,820
Long Term Incentive Plan - Vested	5,404	-	(5,404)	-	7,875	7,875

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DIRECTORS AND THEIR INTERESTS (continued)

	Granted/ Appropriated / Other net movement	Exercised	Lapsed	Vested	
David Stainthorpe	1.4.00				31.3.01
Ordinary Shares *	30,926	(4,384)	-	-	26,542
ESOP Free and Matching Shares #	-	100	-	-	100
Sharesave Scheme	4,398	855	(2,151)	-	3,102
Long Term Incentive Plan - Potential **	10,882	3,663	-	(1,088)	10,199
Long Term Incentive Plan - Vested	-	-	-	3,258	3,258

Christopher Chapman and John Harris have no interests in the share capital of Scottish Power plc.

* These shares include Partnership Shares purchased pursuant to the Scottish Power Employee Share Ownership Plan (ESOP).

All Free Shares and Matching Shares appropriated pursuant to the ScottishPower ESOP are held in Trust and are subject to forfeiture provisions during the 3 year period from the date of appropriation.

** 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 year.

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 2001. 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 seen through the extension of the values-based leadership development programme to Southern Water.

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EMPLOYEES (continued)

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.

The company continues to work actively with the trade unions and meets with them at senior management level on a regular basis. Key issues for consideration include business reorganisations, consultation on employment policy and discussion of key health and safety issues. As a result of recent changes in the business structure, the company is currently carrying out a review of the consultation arrangements. The objective of this review will be to ensure that all areas of the new organisation are adequately represented for consultation purposes.

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.

CREDITOR PAYMENT POLICY AND PRACTICE

In the UK, the ScottishPower group's current policy and practice concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is a signatory. Copies of the Code may be obtained from the Department of Trade and Industry or from the website www.payontime.co.uk.

The ScottishPower group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in

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CREDITOR PAYMENT POLICY AND PRACTICE (continued)

accordance with its contractual and legal obligations. The company's creditor days at 31 March 2001 and 31 March 2000 were 58 days.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



K G Hall
Secretary
2 May 2001

SOUTHERN WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2001

	Notes	2001 £m	2000 £m
Turnover	2	421.6	470.3
Cost of sales	2	(182.1)	(181.6)
Gross profit		<u>239.5</u>	<u>288.7</u>
Administrative expenses	2	(21.9)	(37.0)
Other operating income	2	2.1	4.7
Operating profit and profit on ordinary activities before interest and taxation	3	<u>219.7</u>	<u>256.4</u>
Net interest and similar charges	5	(66.3)	(57.4)
Profit on ordinary activities before taxation		<u>153.4</u>	<u>199.0</u>
Tax on profit on ordinary activities	6	(26.7)	(58.8)
Profit on ordinary activities after taxation		<u>126.7</u>	<u>140.2</u>
Dividends	7	(47.8)	(47.5)
Retained profit for the financial year	17	<u>78.9</u>	<u>92.7</u>

All items dealt with in the profit and loss account relate to continuing operations.

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 2000 and 2001 are recognised in the profit and loss account under the historical cost convention.

The Notes on pages 8 to 20 form part of these Accounts.

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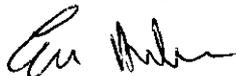
BALANCE SHEET

as at 31 March 2001

	Notes	2001 £m	2000 £m
Fixed assets			
Tangible assets	8	2,340.6	2,123.0
Investments	9	-	-
		<u>2,340.6</u>	<u>2,123.0</u>
Current assets			
Stocks	10	3.6	1.9
Debtors: amounts falling due within one year	11	93.0	95.5
		<u>96.6</u>	<u>97.4</u>
Creditors: amounts falling due within one year	12	<u>(714.9)</u>	<u>(689.2)</u>
Net current liabilities		(618.3)	(591.8)
Total assets less current liabilities		<u>1,722.3</u>	<u>1,531.2</u>
Creditors: amounts falling due after more than one year	13	(637.9)	(532.3)
Provision for liabilities and charges			
- Other	14 (a)	(3.1)	(3.1)
- Deferred tax	14 (b)	(331.7)	(326.1)
		<u>(334.8)</u>	<u>(329.2)</u>
Grants and contributions	15	(36.1)	(35.1)
Net assets		<u>713.5</u>	<u>634.6</u>
Capital and reserves			
Called up share capital	16	0.1	0.1
Share premium	17	46.3	46.3
Profit and loss account	17	667.1	588.2
Total equity shareholders' funds		<u>713.5</u>	<u>634.6</u>

The Notes on pages 8 to 20 form part of these Accounts.

The Accounts were approved by the Board on 2 May 2001 and signed on its behalf by:



Eric Hutchinson
Finance Director

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

1 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 undertaking 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

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS AT 31 MARCH 2001

1 Accounting policies (continued)

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.

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 determined by 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.

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 8.

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.

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NOTES TO THE ACCOUNTS AT 31 MARCH 2001

1 Accounting policies (continued)

Taxation

The charge for ordinary taxation is based on the profits for the year and takes into account full provision for deferred taxation, using the approach set out in Financial Reporting Standard 19 "Deferred Tax", in respect of timing differences on a non-discounted basis. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets. Previously the provision for deferred tax was accounted for on the partial provisioning basis required by Statement of Standard Accounting Practice 15. The effect of this change in accounting policy on the results and net assets on the current and previous financial year is disclosed in Note 6.

Comparative figures have been restated in the Profit and Loss Account, the Balance Sheet and Notes.

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.

2 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.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

3 Operating profit

Operating profit is stated after charging/(crediting):	2001 £m	2000 £m
Depreciation on		
- owned assets	68.7	63.7
- leased assets	<u>0.4</u>	<u>0.4</u>
	<u>69.1</u>	<u>64.1</u>
Rentals under other operating leases	5.5	6.2
Research and development expenditure	2.2	2.1
Release of grants and contributions	(1.5)	(1.5)
Profit on disposal of fixed assets	(1.6)	(4.1)
Exceptional item: administrative expenses – redundancy costs	<u>-</u>	<u>8.4</u>
	2001 £000	2000 £000
Auditors' remuneration for statutory audit	93	90
Auditors' remuneration for non-audit services to the company	<u>61</u>	<u>46</u>

4 Employee information

	2001 £m	2000 £m
(a) Employee costs (including directors' emoluments):		
Wages and salaries	49.4	49.5
Social security costs	3.9	3.9
Pension costs	<u>4.5</u>	<u>4.5</u>
Total employee costs	57.8	57.9
Less: charged as capital expenditure	<u>(14.0)</u>	<u>(13.1)</u>
Charged to the profit and loss account	<u>43.8</u>	<u>44.8</u>
	2001 No.	2000 No.
(b) Average number of persons employed	<u>2,062</u>	<u>2,114</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

5 Net interest and similar charges

	2001 £m	2000 £m
Interest payable on bank loans and overdraft	(2.7)	(2.8)
Interest payable on other loans	(63.7)	(55.0)
Total interest payable	(66.4)	(57.8)
Interest receivable	0.1	0.4
Net interest charge	(66.3)	(57.4)

Interest of £63.7 million (2000: £55.0 million) was payable to Group companies.

6 Tax on profit on ordinary activities

	2001 £m	2000 £m
Current tax:		
UK corporation tax at 30% (2000: 30%)	21.1	40.8
Deferred tax:		
Origination and reversal of timing differences	5.6	18.0
Total tax on profit on ordinary activities	26.7	58.8

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax due to the following factors:

	2001 %	2000 %
Current tax:		
UK corporation tax rate	30.0	30.0
Permanent differences	(12.6)	(0.5)
Effective tax rate on ordinary activities	17.4	29.5
Effect of deferred tax	(3.6)	(9.0)
Effective current tax rate on ordinary activities	13.8	20.5

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6 Tax on profit on ordinary activities (continued)

Financial Reporting Standard (FRS) 19 "Deferred tax" issued on 7 December 2000 requires full provision to be made for deferred tax assets and liabilities, subject to certain exceptions. Previously deferred tax was provided for in respect of timing differences to the extent that it was probable that a liability would crystallise in the foreseeable future. FRS 19 has been applied in preparing the 31 March 2001 Accounts and comparative figures have been restated in the Profit and Loss Account, the Balance Sheet and Notes. The effect on the company's previously reported results and net assets is as follows:

Profit retained for the year	2000
	£m
As previously reported	110.7
Effect of implementing new accounting policy	<u>(18.0)</u>
As restated	<u>92.7</u>
	2000
Net assets	£m
As previously reported	960.7
Effect of implementing new accounting policy	<u>(326.1)</u>
As restated	<u>634.6</u>

7 Dividends per ordinary share

	2001	2000	2001	2000
	£ per	£ per	£m	£m
	ordinary	ordinary		
	share	share		
Interim dividend	284.28	282.50	15.9	15.8
Proposed final dividend	568.56	565.00	31.9	31.7
	<u>852.84</u>	<u>847.50</u>	<u>47.8</u>	<u>47.5</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

8 Fixed assets and capital commitments

(a) Tangible assets

	Freehold land & buildings £m	Plant & machinery £m	Vehicles & equipment £m	Infra- structure assets £m	Other £m	Total £m
Cost:						
At 1 April 2000	714.5	692.7	0.7	1,077.5	233.9	2,719.3
Additions & transfers	80.0	99.0	-	87.3	29.0	295.3
Grants & contributions	-	-	-	(8.6)	-	(8.6)
Disposals	(0.2)	(0.6)	-	(0.6)	(0.6)	(2.0)
At 31 March 2001	794.3	791.1	0.7	1,155.6	262.3	3,004.0
Depreciation:						
At 1 April 2000	139.6	148.1	0.6	188.9	119.1	596.3
Charge for the year	14.3	24.3	0.1	20.8	9.6	69.1
Disposals	(0.2)	(0.6)	-	(0.6)	(0.6)	(2.0)
At 31 March 2001	153.7	171.8	0.7	209.1	128.1	663.4
Net book value:						
At 31 March 2001	640.6	619.3	-	946.5	134.2	2,340.6
At 31 March 2000	574.9	544.6	0.1	888.6	114.8	2,123.0

Of the additions to infrastructure assets, the amount spent on infrastructure renewals during the year was £27.5 million and of the grants and contributions set against infrastructure assets, £5.5 million relates to infrastructure renewals.

Tangible fixed assets include £646.1 million (2000: £425.6 million) 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 2001 was £5.4million (2000: £5.7 million). The charge for depreciation against these assets during the year was £0.3 million (2000: £0.4 million).

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £105.9 million (2000: £97.3 million).

(b) Capital commitments	2001	2000
	£m	£m
In respect of contracts placed	<u>73.5</u>	<u>155.6</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

9 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 £100 million Variable Coupon Guaranteed Bonds issued by Southern Water Services Finance plc.

10 Stocks

	2001 £m	2000 £m
Raw materials	1.5	1.5
Work in progress	2.1	0.4
	3.6	1.9

11 Debtors: amounts falling due within one year

	2001 £m	2000 £m
Trade debtors	55.1	58.9
Unbilled income	28.9	31.5
Amounts owed by group undertakings	0.4	0.4
Prepayments	1.4	0.7
Other debtors	7.2	4.0
	93.0	95.5

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

12 Creditors: amounts falling due within one year

	2001	2000
	£m	£m
Bank overdraft	46.8	50.0
Loan from parent company	341.8	333.9
Trade creditors	16.3	17.0
Capital creditors and capital accruals	105.8	104.4
Amounts owed to group undertakings	85.7	24.8
Corporation tax	22.1	51.9
Other taxation and social security	1.2	1.1
Other accruals and deferred revenue	47.4	58.6
Dividends	47.8	47.5
	<u>714.9</u>	<u>689.2</u>

13 Creditors: amounts falling due after more than one year

	2001	2000
	£m	£m
Loans and other borrowings:		
Loans from parent company	538.3	432.7
Loans from subsidiary undertakings	99.6	99.6
	<u>637.9</u>	<u>532.3</u>
	<u>637.9</u>	<u>532.3</u>
	2001	2000
	£m	£m
Repayments fall due as follows:		
Between one to two years	424.5	233.2
Between two and five years	53.4	120.6
After five years not by instalments	129.7	129.6
After five years by instalments	30.3	48.9
	<u>637.9</u>	<u>532.3</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%.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

14 Provision for liabilities and charges

a) **Other provisions** Total
£m

At 31 March 2000 and 31 March 2001 3.1

The above provision relates to environmental obligations.

b) **Deferred taxation**

Deferred taxation provided in the accounts is as follows:

	2001 £m	2000 £m
Accelerated capital allowances	339.0	334.7
Other timing differences	(7.3)	(8.6)
Total	<u>331.7</u>	<u>326.1</u>
 Movement in deferred tax provision:	 2001 £m	 2000 £m
Deferred tax provided at 1 April - as originally stated	-	-
Prior year adjustment for FRS 19 "Deferred tax"	326.1	308.1
Deferred tax provided at 1 April - as restated	<u>326.1</u>	<u>308.1</u>
Deferred tax charge in Profit and Loss Account	5.6	18.0
Deferred tax provided at 31 March	<u>331.7</u>	<u>326.1</u>

15 Grants and contributions

	£m
At 1 April 2000	35.1
Receivable in year	2.5
Released to profit and loss account	<u>(1.5)</u>
At 31 March 2001	<u>36.1</u>

Grants and contributions relate to non-infrastructure assets.

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

16 Share capital

	2001 £m	2000 £m
Authorised 46,050,000 ordinary shares of £1 each	<u>46.1</u>	<u>46.1</u>
Allotted, called up and fully paid 56,000 ordinary shares of £1 each	<u>0.1</u>	<u>0.1</u>

17 Reconciliation of movement in shareholders' funds

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 1 April 1999 - as originally stated	0.1	46.3	803.6	850.0
Prior year adjustment for FRS 19 "Deferred tax"	-	-	(308.1)	(308.1)
At 1 April 1999 - as restated	<u>0.1</u>	<u>46.3</u>	<u>495.5</u>	<u>541.9</u>
Profit retained	-	-	92.7	92.7
At 31 March 2000	<u>0.1</u>	<u>46.3</u>	<u>588.2</u>	<u>634.6</u>
At 1 April 2000	0.1	46.3	588.2	634.6
Profit retained	-	-	78.9	78.9
At 31 March 2001	<u>0.1</u>	<u>46.3</u>	<u>667.1</u>	<u>713.5</u>

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

18 Pensions

The company's pension arrangements are administered through two schemes operated by Southern Water plc, the immediate holding company. The principal defined benefit scheme, which covers the majority of the company'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 external fund managers.

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 the "projected" unit 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 £231.1 million, 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 December 1998, the Southern Water pension schemes were closed to new entrants who have the option of joining one of the ScottishPower schemes.

19 Contingent liabilities

	2001 £m	2000 £m
Contractors' claims	<u>12.3</u>	<u>4.0</u>

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

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2001

20 Financial commitments

	2001 £m	2000 £m
Annual commitments under operating leases:		
Expiring within one year	0.5	0.6
Expiring between two and five years	1.5	1.8
Expiring after five years	0.2	0.2
	2.2	2.6

21 Directors' emoluments

	2001 £000	2000 £000
Aggregate emoluments (including benefits in kind)	744	681

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

	2001 £000	2000 £000
Aggregate highest paid director's emoluments and benefits (excluding gains made on exercise of share options)	209	179
Defined benefit scheme: Accrued annual pension at 31 March	34	26

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

22 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.

23 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.

SOUTHERN WATER SERVICES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF SOUTHERN WATER SERVICES LIMITED

We have audited the Accounts as set out on pages 6 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibilities, as independent auditors, are established in the United Kingdom 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 1985. 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 other 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.

SOUTHERN WATER SERVICES LIMITED

Opinion

In our opinion the Accounts give a true and fair view of the state of the company's affairs at 31 March 2001 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 "PricewaterhouseCoopers".

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

2 May 2001