

**SOUTHERN WATER SERVICES LIMITED**

**DIRECTORS' REPORT  
AND ACCOUNTS FOR THE YEAR ENDED  
31 MARCH 2002**

Registered No. 2366670



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COMPANIES HOUSE 30/10/02

# SOUTHERN WATER SERVICES LIMITED

## Directors' Report and Accounts for the year ended 31 March 2002

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## **REPORT OF THE DIRECTORS**

The directors present their report and the audited Accounts for the year ended 31 March 2002.

## **RESULTS AND DIVIDEND**

The profit after taxation for the financial year amounted to £93.0 million (2001: £126.7 million). The directors recommend a final dividend of £nil per ordinary share (2001: £568.56) together with an interim dividend of £nil per ordinary share (2001: £284.28) making a total dividend of £nil per ordinary share for the year (2001: £852.84). The balance of the profit for the year of £93.0 million (2001: £78.9 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 the year amounted to £2.0 million (2001: £2.2 million).

## **DIRECTORS AND THEIR INTERESTS**

The directors who held office at 31 March 2002 were as follows:

Martin Baggs (appointed 14 May 2001)  
Prof Christopher Chapman  
Barrie Delacour  
Stuart Derwent  
Anthony Fegan  
John Harris  
Eric Hutchinson  
David Stainthorpe

Mr A Nelson was appointed a director and elected Chairman of the Board on 23 April 2002. Ronnie Mercer resigned as a director on 1 April 2001.

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. Nor did any director have any disclosable interests in the shares of Scottish Power plc.

## SOUTHERN WATER SERVICES LIMITED

As permitted by Statutory Instrument, the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985 does not contain the interests of directors who are also directors of a company of which the company is a wholly owned subsidiary. Accordingly, the interests of the following directors are disclosed in the Annual Report & Accounts for the year ended 31 March 2002 of Southern Water Limited (formerly Southern Water plc).

Martin Baggs, Barrie Delacour, Stuart Derwent, Anthony Fegan, Eric Hutchinson and David Stainthorpe

### **SUBSEQUENT EVENTS**

The company is a wholly owned subsidiary of Southern Water Limited (formerly Southern Water plc), which at 31 March 2002 was itself owned by Scottish Power plc, the ultimate holding company.

Since the year end, Southern Water Limited (formerly Southern Water plc), was acquired by First Aqua Limited. Details of these changes can be found in note 25 to these Accounts

### **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 2002. 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.

## SOUTHERN WATER SERVICES LIMITED

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 Services policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. 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***

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**

The company'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](http://www.payontime.co.uk).

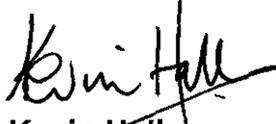
The company's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The company's creditor days at 31 March 2002 were 56 days (2001 : 58 days).

SOUTHERN WATER SERVICES LIMITED

**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

A handwritten signature in black ink, appearing to read "Kevin Hall", written over a horizontal line.

**Kevin Hall**  
Secretary  
28 June 2002

SOUTHERN WATER SERVICES LIMITED

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 March 2002

	Notes	2002 £m	2001 £m
<b>Turnover</b>	2	<b>429.9</b>	421.6
Cost of sales	2	<b>(195.9)</b>	(182.1)
<b>Gross profit</b>		<u><b>234.0</b></u>	<u>239.5</u>
Administrative expenses	2	<b>(23.4)</b>	(21.9)
Other operating income	2	<b>2.2</b>	2.1
Exceptional item	3	<b>(9.6)</b>	-
<b>Operating profit and profit on ordinary activities before interest and taxation</b>	4	<u><b>203.2</b></u>	<u>219.7</u>
Net interest and similar charges	6	<b>(71.9)</b>	(66.3)
<b>Profit on ordinary activities before taxation</b>		<u><b>131.3</b></u>	<u>153.4</u>
Tax on profit on ordinary activities	7	<b>(38.3)</b>	(26.7)
<b>Profit on ordinary activities after taxation</b>		<u><b>93.0</b></u>	<u>126.7</u>
Dividends	8	-	(47.8)
<b>Retained profit for the financial year</b>	18	<u><u><b>93.0</b></u></u>	<u><u>78.9</u></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 2001 and 2002 are recognised in the profit and loss account under the historical cost convention.

The Notes on pages 7 to 20 form part of these Accounts.

SOUTHERN WATER SERVICES LIMITED

**BALANCE SHEET**  
as at 31 March 2002

	Notes	2002 £m	2001 £m
<b>Fixed assets</b>			
Tangible assets	9	2,504.8	2,340.6
Investments	10	-	-
		<u>2,504.8</u>	<u>2,340.6</u>
<b>Current assets</b>			
Stocks	11	4.1	3.6
Debtors: amounts falling due within one year	12	111.8	93.0
		<u>115.9</u>	<u>96.6</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(939.5)</u>	<u>(714.9)</u>
<b>Net current liabilities</b>		<b>(823.6)</b>	<b>(618.3)</b>
<b>Total assets less current liabilities</b>		<u>1,681.2</u>	<u>1,722.3</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(482.1)</b>	<b>(637.9)</b>
<b>Provision for liabilities and charges</b>	15	<b>(355.2)</b>	<b>(334.8)</b>
<b>Grants and contributions</b>	16	<b>(37.4)</b>	<b>(36.1)</b>
<b>Net assets</b>		<u>806.5</u>	<u>713.5</u>
<b>Capital and reserves</b>			
Called up share capital	17	0.1	0.1
Share premium	18	46.3	46.3
Profit and loss account	18	760.1	667.1
<b>Total equity shareholders' funds</b>		<u>806.5</u>	<u>713.5</u>

The Notes on pages 7 to 20 form part of these Accounts.

The Accounts were approved by the Board on 28 June 2002 and signed on its behalf by:

  
**Eric Hutchinson**  
Finance Director

## SOUTHERN WATER SERVICES LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

#### 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

As at 31 March 2002 Scottish Power plc had ultimate control over the company. The company has taken an exemption, as allowed by Financial Reporting Standard 1, not to publish a cash flow statement as the parent company publishes full statutory consolidated Accounts.

##### Turnover

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

##### Research and development

Expenditure on research and development 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:

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

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**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 9.

**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.

# SOUTHERN WATER SERVICES LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

### 1 Accounting policies (continued)

#### Taxation

Where required, and to comply with Financial Reporting Standard 19, full provision for deferred tax is made on a non-discounted basis.

#### Pensions

Southern Water Limited (formerly 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.

### 3 Exceptional Item

	2002	2001
	£m	£m
Restructuring of debt	<u>9.6</u>	<u>-</u>

Net exceptional finance costs of £9.6m comprise legal and professional fees arising from the proposed refinancing of Southern Water.

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**4 Operating profit**

Operating profit is stated after charging/(crediting):	2002	2001
	£m	£m
Depreciation on		
- owned assets	75.1	68.7
- leased assets	0.4	0.4
	<u>75.5</u>	<u>69.1</u>
Rentals under other operating leases	5.3	5.5
Research and development expenditure	2.0	2.2
Release of grants and contributions	(1.6)	(1.5)
Profit on disposal of fixed assets	(1.6)	(1.6)
Auditors' remuneration for statutory audit	100	93
Auditors' remuneration for non-audit services to the company	53	61
	<u>                    </u>	<u>                    </u>

**5 Employee information**

	2002	2001
	£m	£m
<b>(a) Employee costs (including directors' emoluments):</b>		
Wages and salaries	49.4	49.4
Social security costs	3.6	3.9
Pension costs	4.7	4.5
	<u>57.7</u>	<u>57.8</u>
Total employee costs	57.7	57.8
Less: charged as capital expenditure	(13.9)	(14.0)
	<u>43.8</u>	<u>43.8</u>
Charged to the profit and loss account	43.8	43.8
	<u>                    </u>	<u>                    </u>
	2002	2001
	No.	No.
<b>(b) Average number of persons employed</b>	<u>2,033</u>	<u>2,062</u>

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

**6 Net interest and similar charges**

	2002 £m	2001 £m
Interest payable on bank loans and overdraft	(2.2)	(2.7)
Interest payable on other loans	(69.9)	(63.7)
Total interest payable	(72.1)	(66.4)
Interest receivable	0.2	0.1
Net interest charge	(71.9)	(66.3)

Interest of £69.9 million (2001: £63.7 million) was payable to Group companies.

**7 Tax on profit on ordinary activities**

	2002 £m	2001 £m
Current tax:		
UK corporation tax at 30% (2001: 30%)	20.2	23.1
Adjustment in respect of prior years	(2.3)	(2.0)
	17.9	21.1
Deferred tax:		
Origination and reversal of timing differences	20.4	24.1
Adjustment in respect of prior years	-	(18.5)
Total deferred tax	20.4	5.6
Total tax on profit on ordinary activities	38.3	26.7

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

**7 Tax on profit on ordinary activities (cont)**

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

	2002 £	2001 £
Current tax:		
UK corporation tax rate at 30% on profit for the period	39.4	46.0
Adjustments in respect of prior years	(2.3)	(20.5)
Permanent differences	1.2	1.2
<b>Tax charge on ordinary activities</b>	<b>38.3</b>	<b>26.7</b>
Effect of deferred tax	(20.4)	(5.6)
<b>Current tax charge for period</b>	<b>17.9</b>	<b>21.1</b>

**8 Dividends per ordinary share**

	2002 £ per ordinary share	2001 £ per ordinary share	2002 £m	2001 £m
Interim dividend	-	284.28	-	15.9
Final dividend	-	568.56	-	31.9
	-	852.84	-	47.8

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**9 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
<b>Cost:</b>						
At 1 April 2001	794.3	791.1	0.7	1,155.6	262.3	3,004.0
Additions & transfers	62.6	84.6	-	75.4	26.3	248.9
Grants & contributions	-	-	-	(9.2)	-	(9.2)
Disposals	(0.6)	(0.9)	-	(0.8)	(0.1)	(2.4)
<b>At 31 March 2002</b>	<b>856.3</b>	<b>874.8</b>	<b>0.7</b>	<b>1,221.0</b>	<b>288.5</b>	<b>3,241.3</b>
<b>Depreciation:</b>						
At 1 April 2001	153.7	171.8	0.7	209.1	128.1	663.4
Charge for the year	15.8	27.2	-	21.0	11.5	75.5
Disposals	(0.7)	(0.9)	-	(0.7)	(0.1)	(2.4)
<b>At 31 March 2002</b>	<b>168.8</b>	<b>198.1</b>	<b>0.7</b>	<b>229.4</b>	<b>139.5</b>	<b>736.5</b>
<b>Net book value:</b>						
<b>At 31 March 2002</b>	<b>687.5</b>	<b>676.7</b>	<b>-</b>	<b>991.6</b>	<b>149.0</b>	<b>2,504.8</b>
At 31 March 2001	640.6	619.3	-	946.5	134.2	2,340.6

Of the additions to infrastructure assets, the amount spent on infrastructure renewals during the year was £32.9 million and of the grants and contributions set against infrastructure assets, £6.5 million relates to infrastructure renewals.

Tangible fixed assets include £497.2 million (2001: £646.1 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 2002 was £5.0 million (2001: £5.4 million). The charge for depreciation against these assets during the year was £0.4 million (2001: £0.4 million).

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £115.1 million (2001: £105.9 million).

SOUTHERN WATER SERVICES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

**9 Fixed assets and capital commitments (continued)**

<b>(b) Capital commitments</b>	<b>2002 £m</b>	<b>2001 £m</b>
In respect of contracts placed	<u><b>179.2</b></u>	<u><b>73.5</b></u>

**10 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 £50,000 (2001: £12,500). Southern Water Services Limited has guaranteed the £100 million Variable Coupon Guaranteed Bonds issued by Southern Water Services Finance plc.

**11 Stocks**

	<b>2002 £m</b>	<b>2001 £m</b>
Raw materials	<b>1.1</b>	<b>1.5</b>
Work in progress	<b>3.0</b>	<b>2.1</b>
	<u><b>4.1</b></u>	<u><b>3.6</b></u>

**12 Debtors: amounts falling due within one year**

	<b>2002 £m</b>	<b>2001 £m</b>
Trade debtors	<b>60.8</b>	<b>55.1</b>
Unbilled income	<b>32.5</b>	<b>28.9</b>
Amounts owed by group undertakings	<b>14.2</b>	<b>0.4</b>
Prepayments	<b>0.1</b>	<b>1.4</b>
Other debtors	<b>4.2</b>	<b>7.2</b>
	<u><b>111.8</b></u>	<u><b>93.0</b></u>

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**13 Creditors:** amounts falling due within one year

	2002 £m	2001 £m
Bank overdraft	54.5	46.8
Loan from parent company	666.0	341.8
Trade creditors	20.2	16.3
Capital creditors and capital accruals	89.0	105.8
Amounts owed to group undertakings	54.4	85.7
Corporation tax	7.4	22.1
Other taxation and social security	1.2	1.2
Other accruals and deferred revenue	46.8	47.4
Dividends	-	47.8
	<b>939.5</b>	<b>714.9</b>

**14 Creditors:** amounts falling due after more than one year

	2002 £m	2001 £m
Loans and other borrowings:		
Loans from parent company	382.5	538.3
Loans from subsidiary undertakings	99.6	99.6
	<b>482.1</b>	<b>637.9</b>

	2002 £m	2001 £m
Repayments fall due as follows:		
Between one to two years	285.5	424.5
Between two and five years	51.8	53.4
After five years not by instalments	129.7	129.7
After five years by instalments	15.1	30.3
	<b>482.1</b>	<b>637.9</b>

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 2002

**15 Provision for liabilities and charges**

	2002 £m	2001 £m
<b>(a) Environmental obligations</b>	<u>3.1</u>	<u>3.1</u>
<b>(b) Deferred taxation</b>		
Accelerated capital allowances	355.6	339.0
Other timing differences	(3.5)	(7.3)
<b>Deferred taxation</b>	<u>352.1</u>	<u>331.7</u>
 <b>Total</b>	 <u><u>355.2</u></u>	 <u><u>334.8</u></u>
 <b>Movement in deferred tax provision:</b>	 <b>2002 £m</b>	 <b>2001 £m</b>
Deferred tax provided at 1 April	331.7	326.1
Deferred tax charge in Profit and Loss Account	20.4	5.6
 <b>Deferred tax provided at 31 March</b>	 <u><u>352.1</u></u>	 <u><u>331.7</u></u>

**16 Grants and contributions**

	£m
At 1 April 2001	36.1
Receivable in year	2.9
Released to profit and loss account	(1.6)
 <b>At 31 March 2002</b>	 <u><u>37.4</u></u>

Grants and Contributions relate to non-infrastructure assets.

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**17 Share capital**

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
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>

**18 Reconciliation of movement in shareholders' funds**

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
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>
At 1 April 2001	0.1	46.3	667.1	713.5
Profit retained	-	-	93.0	93.0
At 31 March 2002	<u>0.1</u>	<u>46.3</u>	<u>760.1</u>	<u>806.5</u>

**19 Pensions**

The company's pension arrangements are administered through two schemes operated by Southern Water Limited (formerly Southern Water plc), an intermediate holding company. The principal defined benefit scheme, which covers the majority of the company's employees, has nine Trustee Directors. The power of appointment of new Trustee Directors is vested in Southern Water Limited (formerly 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 for the main defined benefit scheme and asset management is delegated to external fund managers.

Members of the schemes receive an annual statement of their accrued benefits.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

## 19 Pensions (continued)

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.

## Composition of the Plan

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. Under transitional arrangements relating to the introduction of FRS17 the company is required to disclose the following information about the Plans and the figures that would have been shown under FRS17 in the current balance sheet.

The company operates two defined benefit plans in the UK. A full actuarial valuation was carried out at 1 April 2001 and updated to 31 March 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	<b>At 31/3/2002</b>
Rate of increase in earnings (plus an age-related promotional scale)	4.3% pa
Rate of increase in deferred pensions	2.8% pa
Rate of increase in pensions in payment	2.8% pa
Discount rate	6.0% pa
Inflation assumption	2.8% pa

The assets in the Plans and the expected rates of return were:

	<b>Long-term expected Rate of return at 31/3/2002</b>	<b>Value at 31/3/2002 £m</b>
Equities	8.0% pa	210.3
Property	7.0% pa	0.0
Bonds	5.3% pa	84.2
Cash	3.8% pa	5.1
Total market value of Plan assets		<u>299.6</u>
Total value of Plan liabilities		<u>(338.6)</u>
Accrued deficit in the Plan		(39.0)
Related deferred tax asset		<u>11.7</u>
Net pension liability		<u>(27.3)</u>

If the above pension liability were recognised in the financial statements, the company's net assets and profit and loss reserve would be as follows:

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002**

**19 Pensions (continued)**

	<b>At 31/3/2002</b>
	<b>£ m</b>
Net assets excluding pension liability	806.5
Pension liability	(27.3)
Net assets including pension liability	<u>779.2</u>
	<b>At 31/3/2002</b>
	<b>£ m</b>
Profit and loss reserve excluding pension liability	760.1
Pension liability	(27.3)
Profit and loss reserve	<u>732.8</u>

**20 Contingent liabilities**

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Contractors' claims	<u>15.7</u>	<u>12.3</u>

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

**21 Financial commitments**

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Annual commitments under operating leases:		
Expiring within one year	0.9	0.5
Expiring between two and five years	1.9	1.5
Expiring after five years	0.1	0.2
	<u>2.9</u>	<u>2.2</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

**22 Directors' emoluments**

	<b>2002</b>	2001
	<b>£000</b>	£000
Aggregate emoluments (including benefits in kind)	<u>611</u>	<u>744</u>

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

	<b>2002</b>	2001
	<b>£000</b>	£000
Aggregate highest paid director's emoluments and benefits (excluding gains made on exercise of share options)	<u>147</u>	<u>209</u>
Defined benefit scheme: Accrued annual pension at 31 March	<u>71</u>	<u>34</u>

**23 Related party transactions**

At 31 March 2002 Scottish Power plc had 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.

**24 Ultimate holding company**

The company is a wholly owned subsidiary of Southern Water Limited (formerly Southern Water plc), which at 31 March 2002 was 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.

**25 Post Balance Sheet event**

On 23 April 2002 the parent company, Southern Water Ltd (formerly Southern Water plc), was acquired by First Aqua Limited.

On 31 May 2002 Southern Water plc was re-registered as a private limited company and the name was changed to Southern Water limited.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER SERVICES LIMITED**

We have audited the Accounts on pages 5 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

**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 on page 2.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 Directors' Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts. The other information comprises only the Report of the Directors.

**Basis of audit opinion**

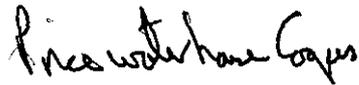
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by 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 2002 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  
28 June 2002