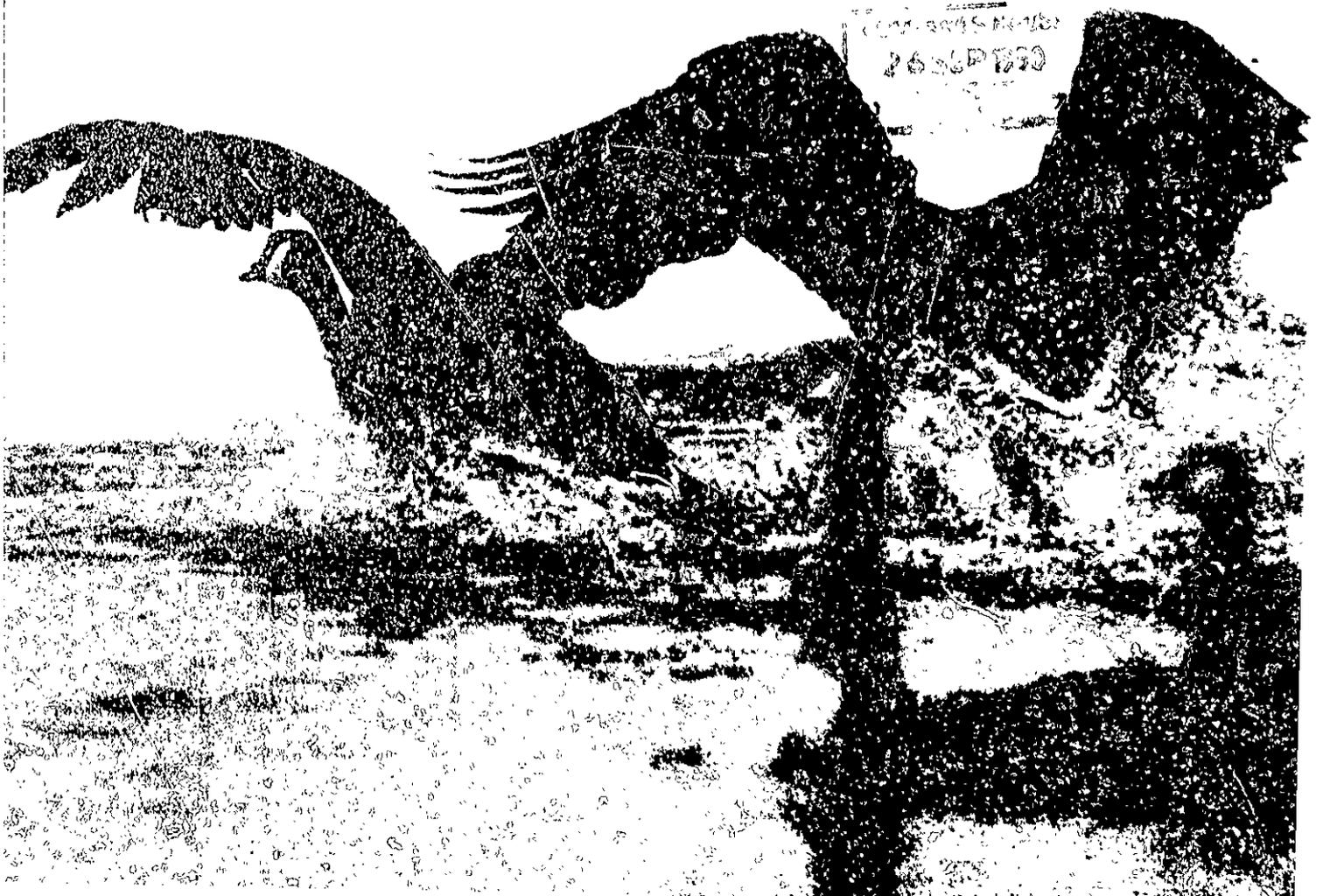
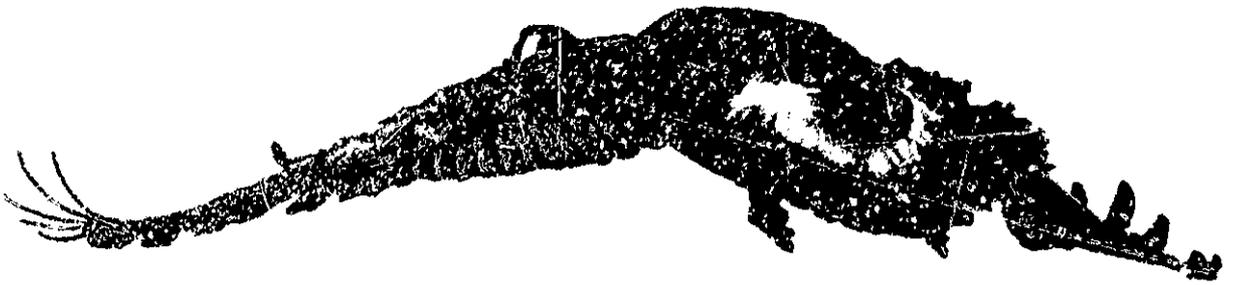


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Southern Water plc

Annual Report 1990



The principal activity of the Southern Water Group is the provision of water supply and wastewater services.

In addition, the Group provides a range of services to domestic and commercial customers in the areas of civil engineering, information technology, laboratory analysis, environmental assessment, estate management, vehicle leasing, contract plumbing and waste management.

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Company information and other details are available on our website at www.southernwater.co.uk



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Financial highlights

year ended 31 March 1990

	1990	1989
TURNOVER	£225.8m	£204.1m

	Actual	Pro forma
Profit before tax	£60.0m	£57.0m
Dividend per share	10.02p	10.02p

PRO-FORMA INFORMATION

Profit before tax	£84.1m	£81.0m
Earnings per share	46.4p	44.5p

Chairman's statement



W. J. W. G. G. G.

It is my great pleasure to present the first Annual Report of Southern Water plc.

1989 was a momentous year for the Company as it saw the successful transition from the public to the private sector with a substantially oversubscribed flotation last December. This was a fitting reward for all the hard work put into privatisation by so many of our people during the previous two years and I am most grateful to them for their invaluable contribution.

Our trading performance during the first year, of which only four months were spent in the private sector, provides a strong foundation on which to build.

The pre tax profit for the Group for the twelve months ended 31 March 1990 was £601 million which compares favourably with the prospectus forecast of £57 million. This has enabled us to declare a dividend of 10.02p per share, as envisaged in the prospectus.

Freed from many Government restraints it is now timely to look forward. We intend to justify the confidence shown in us by our new shareholders by generating sound, progressive growth. We will continue to provide our customers with the high standard of service which they have every right to expect, at prices which represent good value for money.

We were very pleased that the Monopolies and Mergers Commission and the Secretary of State for Trade and Industry have decided that our shareholding in Mid Sussex Water Company did not operate against the public interest and we look forward to continuing our association with that company and the other water companies in which we have shareholdings.

Core business

The significance of our basic business is steadily becoming more apparent to the general public. Every day, it seems, there are new initiatives in water quality and wastewater treatment and disposal. We are ready to respond to them but they are going to cost a great deal of money and the very carefully controlled capital expenditure programme of Southern Water Services is being regularly reappraised. The additional costs will ultimately have to be borne by our customers who

will want reassurance that the money is well spent and producing genuine benefits.

The role of the regulatory bodies is crucial in ensuring that a proper balance is struck between the interests of customers and shareholders who have invested their capital in our industry. We have established a working relationship with the Director General of Water Services, who is responsible for monitoring prices and services, also the National Rivers Authority and Her Majesty's Inspectorate of Pollution, and we are ensuring that they are fully aware of the complexities and costs of running a major water undertaking and of our determination to meet our regulatory requirements in an economical and timely manner.

Our core business dealing with water supply and wastewater treatment and disposal is well established and has experienced professional management able to take full advantage of the growing pace of technological development as we seek solutions to the ever higher standards now required by Government and the EC.

Group structure

But Southern Water is more than just a utility. We have already established 'enterprise' companies to exploit our existing skills in Transport Management and Vehicle Leasing, Scientific Services, Engineering Design and Project Management, Information Technology and Estates Management and Development. These are now contributing to Group profitability and have the potential to expand substantially outside the Group, as most are already demonstrating. New services are being created; 'Watercare' now offers a contract plumbing service with 24 hour emergency call out to a growing number of our customers.

Other developments are underway but we are determined to ensure that our diversification proposals are in areas where we have knowledge and skills and are profitable.

Overall strategic leadership is provided by the executive committee of the main board under my leadership. In addition the Company has been fortunate in obtaining the services of Non-Executive Directors of the highest repute who bring independent thought and wide experience to our deliberations.

The important core business has its own managing director who is supported by a strong and highly

qualified board. All businesses in the Group are responsible for implementing well defined specific strategies. Each company functions as a separate profit centre to encourage the efficient use of its resources. Opportunities for reward and progress are actively promoted through management development policies which focus on action, innovation and flexibility coupled with responsibility and accountability.

We have a duty of care for the environment placed upon us by the Water Act 1989 in relation to our many activities. This we willingly accept for it merely confirms what has long been our practice and is typified by our regular environmental publication *Conservation Matters* - a copy of which accompanies this report for your interest.

The future

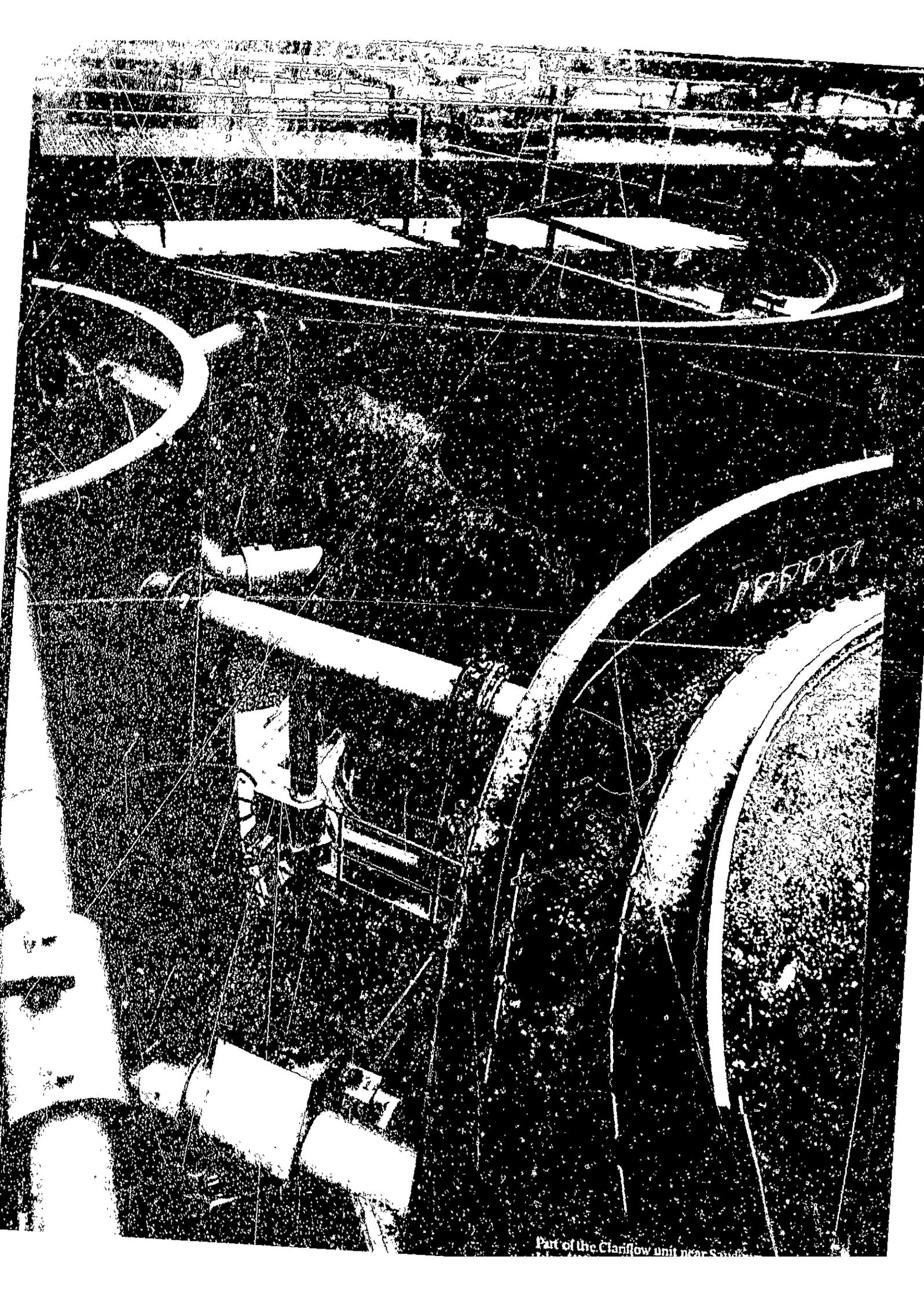
The future is bright, we have been freed from many Government controls and although regulated our important industry is at last being recognised. We are well equipped to deal with change for it is the natural state of business and the water industry is no exception. I am confident that we will build steadily from our current strong position and prosper to the benefit of our shareholders amongst whom we welcome many customers and the majority of our employees.

In future years it is hoped that shareholders will have the option to build their stake in the company by the introduction of scrip dividends. A resolution to that effect will be put to shareholders at our Annual General Meeting.

Finally, on behalf of the Board, I would like to express my sincere appreciation to all employees for their total commitment to the success of the Company last year which included dealing with one of the severest droughts in living memory.



WILLIAM J W COURTNEY CBE
Chairman



Part of the Clariflow unit near Saw

Directors, Company Secretary and Advisers

William Courtney CBE

Laccutite Chairman

William Courtney was commissioned in the Royal Marines and after serving at sea and in the Commandos joined the building material producers Marley plc. He became a managing director in 1960 and was joint Deputy Chairman of the international group from 1976 to 1985. He joined Southern Water Authority as Chairman in August 1985. He was appointed Executive Chairman of the Company in September 1989.

Mr Courtney is Chairman of the British Board of Agrément, which assesses and certifies new building materials, and also Chairman of the Water Byelaws Advisory Service and of the Water Industry Certification Scheme. He is a Freeman of the City of London; a Member of the Company of Watermen and Lightermen of the River Thames; a Liveryman of the Horners Company and past Commodore of the Royal London Yacht Club.

Brian Thorpe CBE LL.M.

Non Executive Deputy Chairman

Brian Thorpe was Chief Executive of Southern Water Authority from its creation in 1973 until 1988. He was appointed Deputy Chairman of the Authority in 1983 and non-Executive Deputy Chairman of the Company in September 1989. He is a Member of the Executive Board of the International Water Supply Association and a Trustee of the Association's Foundation for the Transfer of Knowledge to Developing Countries.

Martyn Webster BSc FCA

Group Finance Director

Martyn Webster joined Southern Water Authority as Group Finance Director and became a Director of the Company in September 1989. He qualified as a chartered accountant at Price Waterhouse with whom he worked in the UK, Australia and the Netherlands. From 1979, he was Financial Controller of NCR and in 1985 he became Group Finance Controller at Laporte Industries.

Francis Midmer C. Eng. FICE FIWEM FBIM

Group Technical Director

Francis Midmer has worked in the water industry since 1949, when he joined the Kent River Board. He was appointed Director of Technical Services of Southern Water Authority in 1985 and joined the Board in 1988. He had previously held the posts of Divisional Manager in Kent and the Isle of Wight. He was appointed Group Technical Director in September 1989. Mr Midmer is currently a member

of the Water Services Association Environmental Issues Committee, the WSA Sewers & Watermains Committee and is also Chairman of the Industry's Process Systems Committee. He is a member of the Board of Management of EUREAU and on the Management Committee of the Foundation for Water Research. He is a Freeman of the City of London and a Liveryman of the Worshipful Company of Engineers.

Phillip Girle FCIB FBIM

Non Executive Director

Phillip Girle was appointed to the Board of Southern Water Authority in 1986 and became a Director of the Company in September 1989. He is Chairman of the Audit Committee. A former director and general manager of National Westminster Bank, and a Director of Yorkshire Bank he had been involved in all aspects of banking - retail, merchant and international. Mr Girle is a Freeman of the City of London and Master of the Worshipful Company of Plaisterers and a member of the MCC.

John Westhead MA DPHIL C. Eng. FIEE CBIM

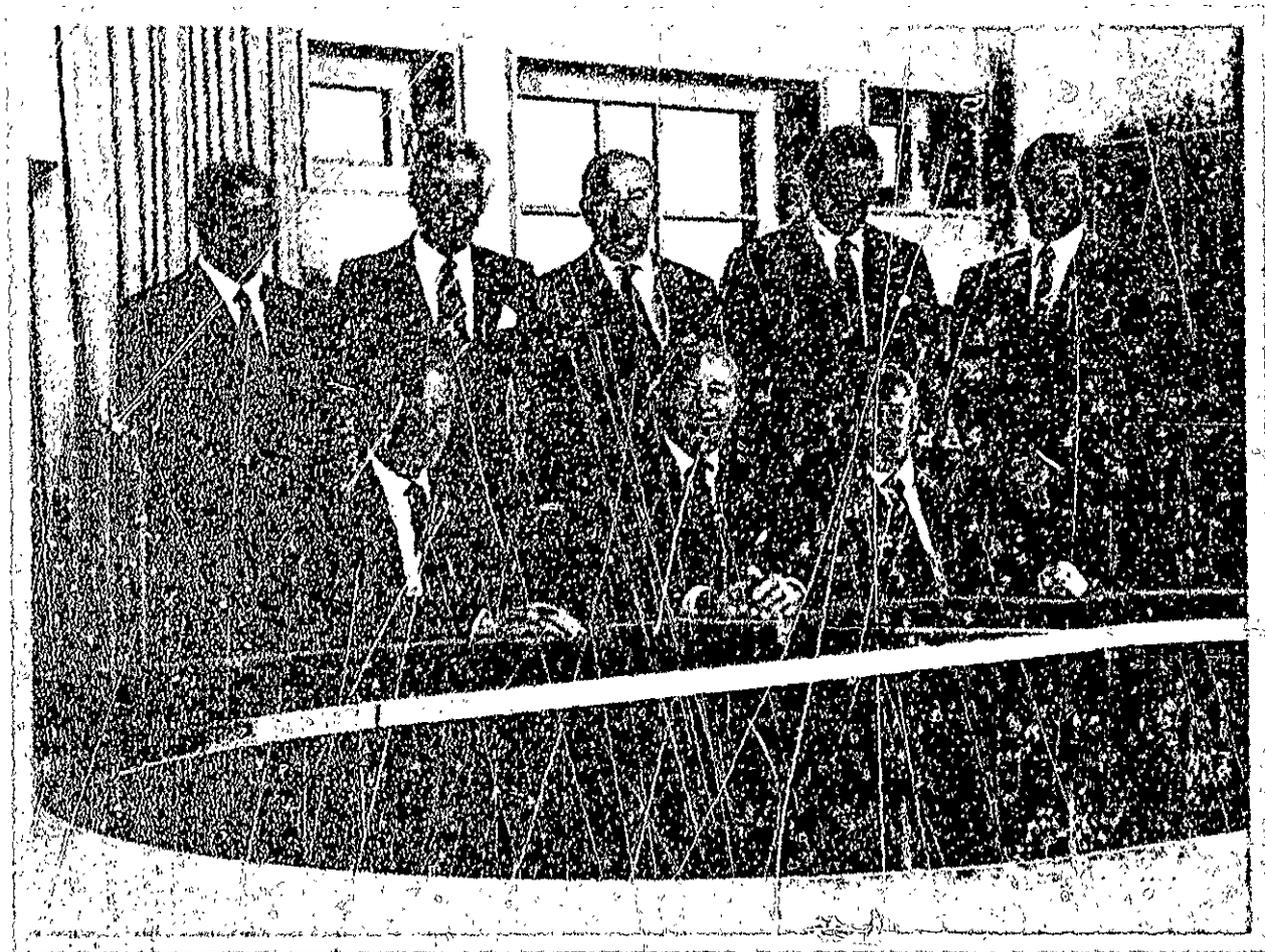
Non Executive Director

Dr John Westhead joined the Board of Southern Water Authority in 1988 and became a Director of the Company in September 1989. He is Group Managing Director of Bowthorpe Holdings plc and was previously general manager of GEC Henley and managing director of the Philips subsidiaries, Pye Telecommunications and Pye TMC, before joining Bowthorpe Holdings in 1979. Dr Westhead is a past Vice-President of the Telecommunications, Engineering and Manufacturing Association, a Fellow of the Institute of Electrical Engineers and a Companion of the British Institute of Management. He is a Freeman of the City of London and a Liveryman of the Scientific Instrument Makers Company and a council member of Ardingly College.

Sir David Nicolson FIC FEng

Non Executive Director

Sir David Nicolson joined the Board of Southern Water in June 1989 and was appointed a Director of the Company in September 1989. He currently holds directorships with Union Group, CIBA - Geigy, London and Scottish Marine Oil, STC, Iveco MIM, DRG, BREL, Invesco, Lazard Leisure Fund, Northern Telecom and Metroland NH. He has had a long and distinguished career in industry and is a former Chairman of BTR and British Airways.



Back row: Graham Nicholson, John Westley, Sir David Nelson, Philip Cox, Martin Webster
 Seated: Brian Dwyer, William Courtney, Dennis McEneaney

COMPANY SECRETARY
Graham Nicholson IPEA

REGISTERED OFFICE
 Southern House
 Yeoman Road
 Worthing
 West Sussex BN13 5NA

PROFESSIONAL ADVISERS
N M Rothschild & Sons

Limited
 Herbert Smith
 Coopers & Lybrand Deloitte
 National Westminster
 Bank plc
 Manufacturers Hanover
 Limited
 UBS Phillips & Drew
 Lloyds Bank plc
 R Watson and Sons
 Hillier Parker
 Hudson Sandler Limited

Merchant Bankers
Legal Advisers
Auditors

Bankers

Bankers
Stockbrokers
Registrars
Actuaries

Property Advisers
Financial Public
Relations

Jeniet Keating Becker Rea *Advertising Agents*

Review of operations

The Southern Water Group of Companies comprise Southern Water plc, the holding company, Southern Water Services Limited, its appointed water and sewerage business and six enterprise companies.

Southern Water Services Limited

The Company has been appointed by the Secretary of State for the Environment to provide water and sewerage services in the south east of England which, for sewerage purposes, extends from Broadstairs in Kent in the east to Barton on Sea in Hampshire in the west.

Water resources and supply

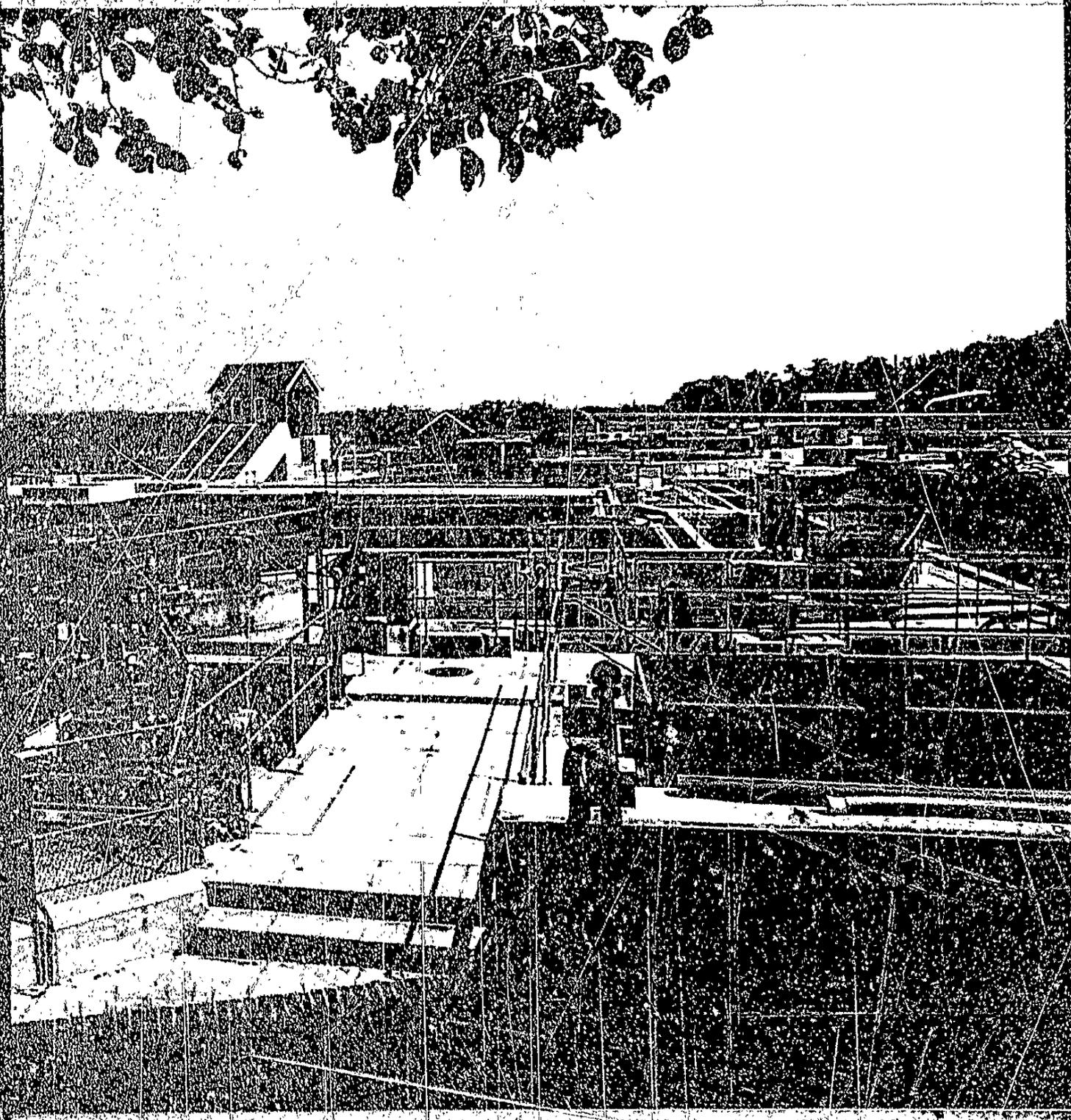
During the year Southern Water Services maintained potable water supplies to 2.1 million people and produced, on average, over 722 million litres of drinking water each day.

The commissioning of Stage 3 of Testwood Treatment Works in Hampshire, at a cost of £2.5 million, has increased the existing treatment capacity to make this Southern Water Services' largest water treatment works. Adjacent land has been purchased to construct a storage reservoir, which together with the necessary infrastructure will provide the resources necessary to satisfy demand in Southern Hampshire (an area of considerable growth) into the next century.

Work commenced during the year to promote the enlargement of the Darvell reservoir in Sussex. The work is required to meet increasing water demands in the East Sussex and Eastbourne areas and once completed, in the mid 1990's, will also secure supplies into the next century. Extensive consultation is being undertaken with the local community and other organisations to ensure that the environmental aspects of the project are given full attention.

Involvement with the National Water Metering Trials has continued. More than 40,000 water meters have now been installed on the Isle of Wight, the largest of all the national sites. The trial on the Island has been most successful in identifying those practical problems involved in installing universal metering and many of these have been overcome as the trial progressed. Metering of all new properties throughout Southern Water Services' area commenced on the





Scaynes Hill wastewater treatment works

1st April 1989 and the metering programme of non-domestic premises nears completion.

Lack of rainfall during the year varied in its severity across the region. At one observation station in Kent, records indicated that it was the driest 22 month period since recording began there in 1864. Although demand was some 30% higher than during the drought of 1976, no customers were without a supply of piped water for their domestic use. This was achieved by managing demand for water by use of hosepipe bans and other restrictions, an advertising campaign promoting "Use Water Wisely", and a combination of maximising the use of surface water resources together with the judicious use of underground sources. On the Isle of Wight, the Medina-Yar water transfer scheme was commissioned and proved its value during these extreme conditions. Although well above average rainfall in December 1989, and January and February 1990 restored surface and underground water levels to near normal conditions, the subsequent dry weather necessitated the reintroduction of hosepipe bans in part of Sussex and Kent in order to safeguard supplies during the summer. Long term plans are however in place to develop additional water resources and improve the security of supplies in those areas.

Overall quality of water supplied was excellent although raw water quality problems associated with low water levels in rivers and underground boreholes were encountered. Regular sampling confirmed extensive compliance with standards laid down in the Water Quality Regulations 1989 which incorporate the requirements of the EC Drinking Water Directive.

A major refurbishment programme of service reservoirs was undertaken to ensure that bacterial quality of water supply remained high.

The severe storms which swept across the Company's area in January resulted in many works and booster stations losing mains electricity supplies. Following the lessons learned from the hurricane of 1987, prompt remedial action and the deployment of standby generators ensured that supplies were maintained to all but a handful of customers.

Wastewater treatment and disposal

During the year Southern Water Services treated and disposed of wastewater and wastewater sludge from over four million customers. Consistent progress was made on capital investment projects

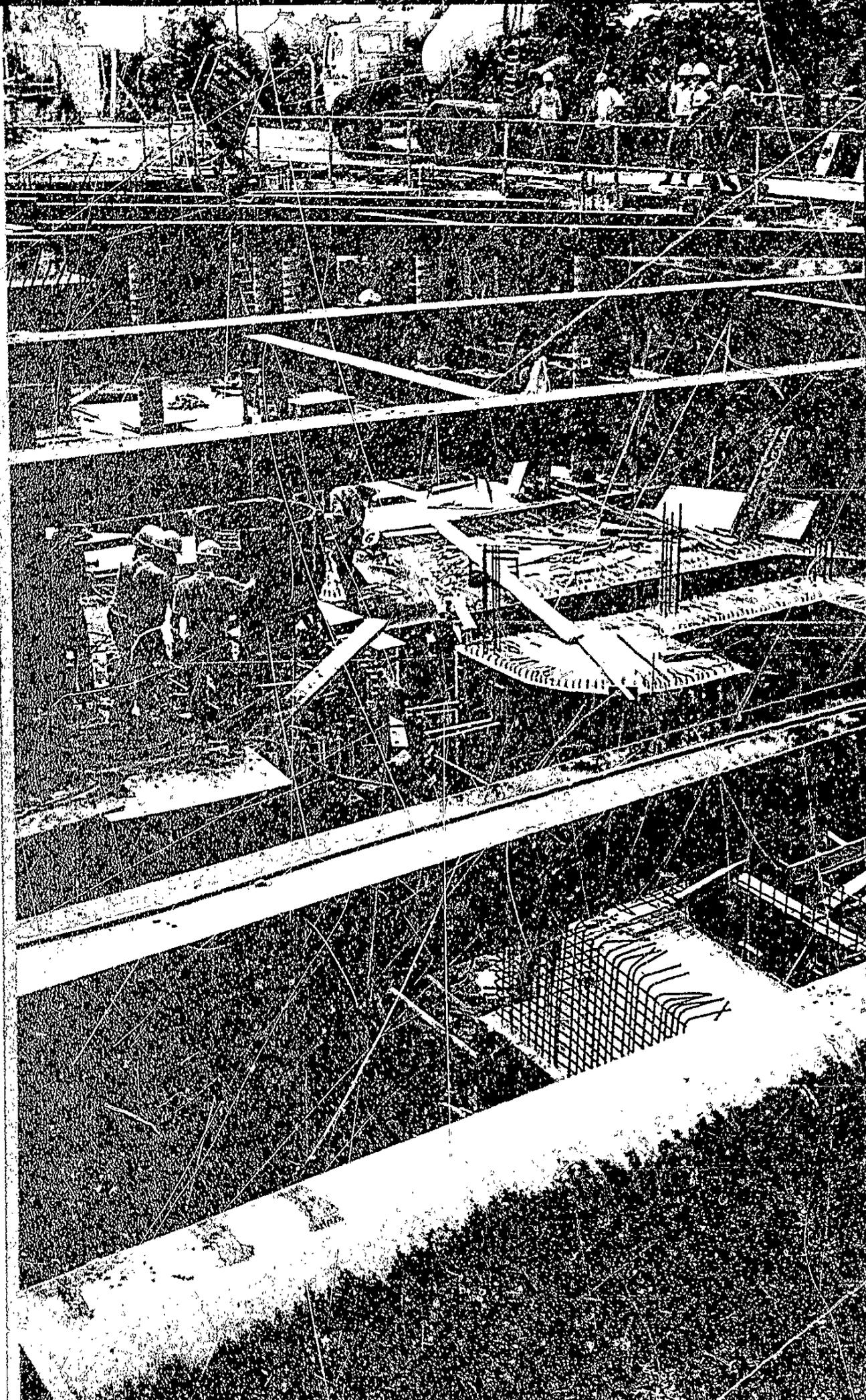


ABOVE. A section of the High Street reconstruction at Cowes, Isle of Wight

OPPOSITE. Construction of new head works at Eastney

BELOW. Storm pumps at Eastney





to improve wastewater treatment and sewerage systems to meet Southern Water's objectives and the requirements of the Water Act 1989.

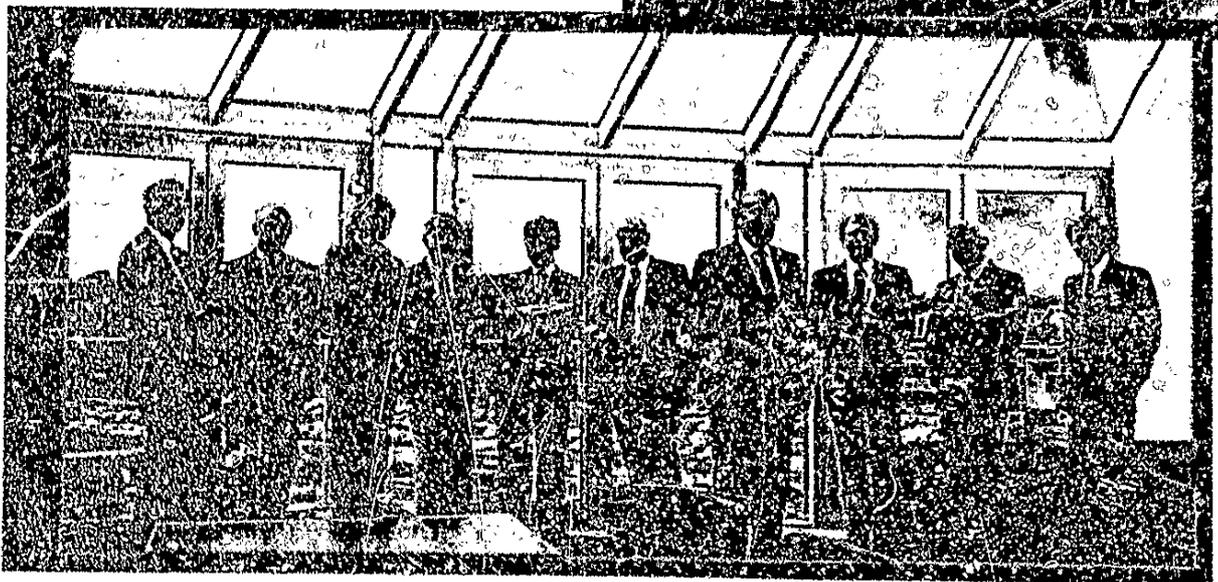
On the Isle of Wight, good progress has been made in upgrading the sewage systems. At Ryde, intercepting sewers and pumping stations were commissioned to extend the catchment area of the long sea outfall at Appley Park. The four mile coastline between Seaview and Binstead is now served by the new scheme.

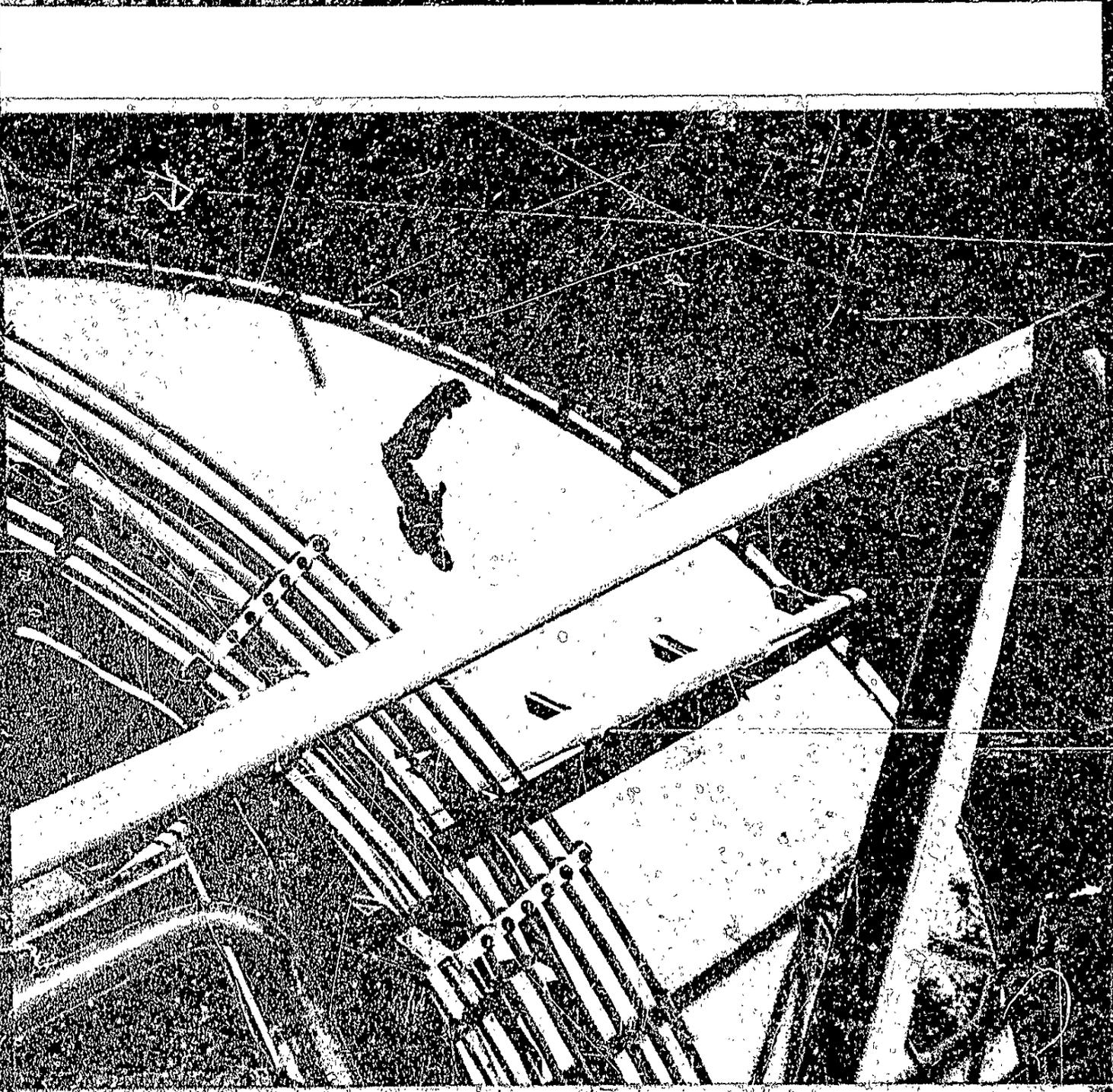
At Cowes, the major marine treatment scheme moved a stage nearer completion with the construction of the headworks and the two terminal pumping stations. The much appreciated High Street scheme, where most services are being replaced followed by a street block paving scheme, was further extended. This successful formula has been made possible by the close co-operation between utilities and the highway authority.

In Newport, Isle of Wight, a major improvement of the town's sewers has been completed. The work involved the sinking of 24 shafts for tunnelling or



The Water Services Board (left to right):
Alisair Smith (Isle of Wight), Richard Clayton (Technical),
Keith Torzi (Sussex), William Cutting (Hampshire),
Michael Hollywood (Financial),
Francis Midmer (Group Technical),
William Courtney (Chairman), Bruce Hewett (Managing
Director), Graham Nicholson (Company Secretary),
Graham Setterfield (Kent)





The new Clariflow plant at East Worthing

pipe-jacking. The new scheme, to be commissioned in early 1990, will further enhance river and estuarial water quality.

In Hampshire, work on the new long sea outfall and associated headworks at Eastney (Portsmouth) has progressed well; this £15 million scheme is due for completion in 1992. Work has been completed on the connection of the Hamble Peninsula to a new trunk sewer, transferring flows to the Peel Common (Fareham) Wastewater

Treatment Works. This £2.7 million scheme further improves the quality of Southampton Water.

In Sussex, the Seaynes Hill Wastewater Treatment Works refurbishment is now substantially completed at a cost of £5.5 million and a start was made on the £5.4 million extension of the Uckfield Wastewater Treatment Works. At Seaford, the outfall for the new disposal scheme was completed at a cost of £10 million. Completion of sewers to connect to the new Galley Hill Pumping Station enabled a long standing embargo on development in Bexhill to be lifted.

Claripac package treatment plants were commissioned at Horsted Keynes, Luxfords Lane (East Grinstead) and Storrington Wastewater

Treatment Works, improving the effluent quality of the existing plant.

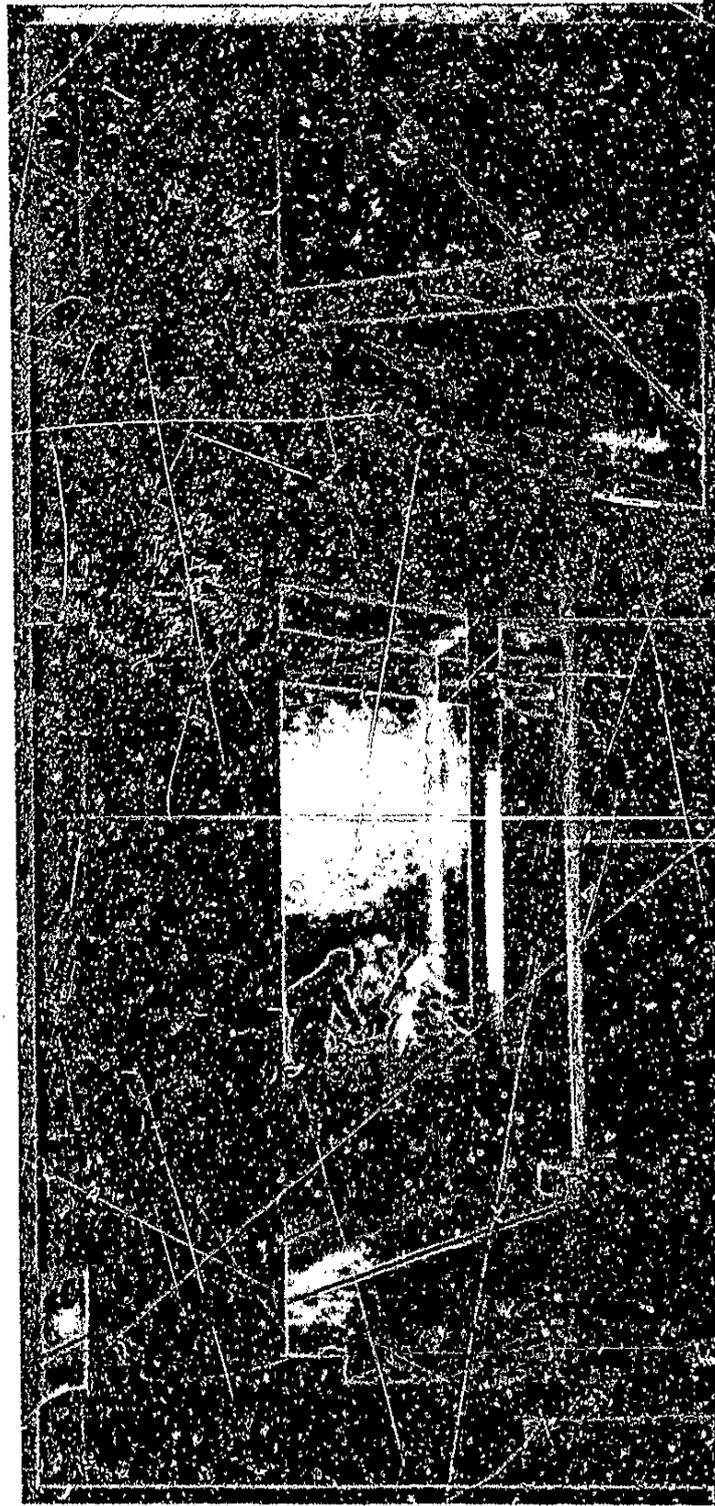
Important relief sewer schemes were started in Hassocks and Hurstpierpoint (£2.1 million) and Northiam (£0.8 million), both of which will relieve flooding problems brought about by continuing development in recent years.

In Kent, the Merne Bay Sewerage Scheme has continued to make progress during the year with the award of contracts for further interconnections, to a value in excess of £1 million. At Folkestone, the £13 million surface water relief sewer draining the Cheriton Terminal site for the Channel Tunnel has continued to make good progress. Major capital investment schemes are also underway at Tunbridge Wells and Canterbury Wastewater Treatment Works.

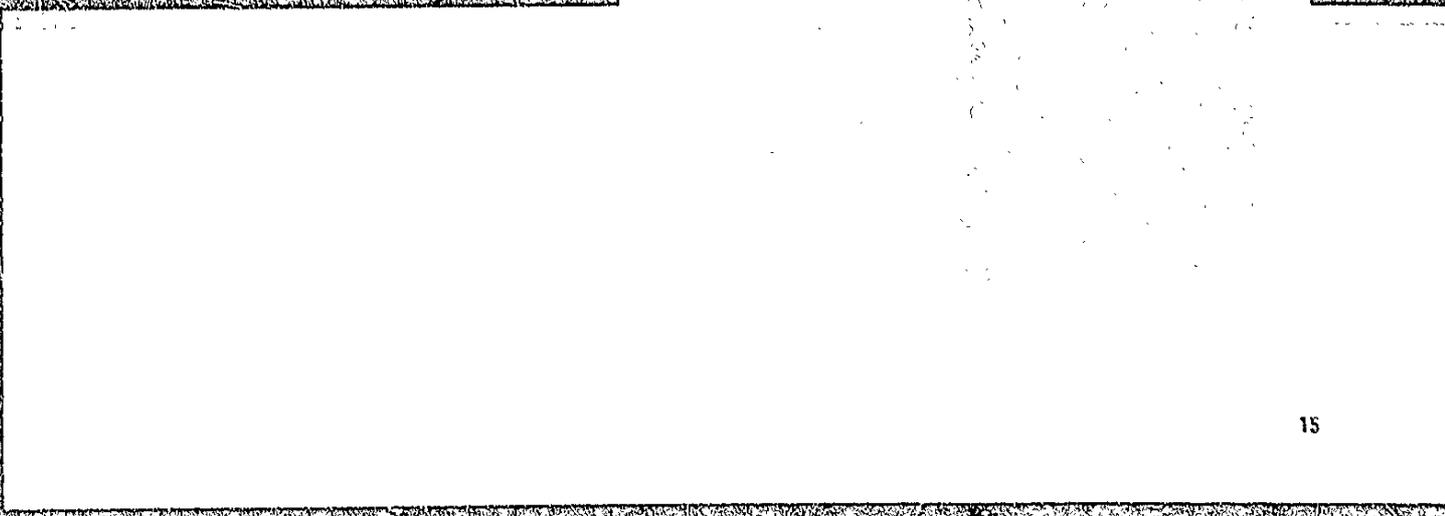
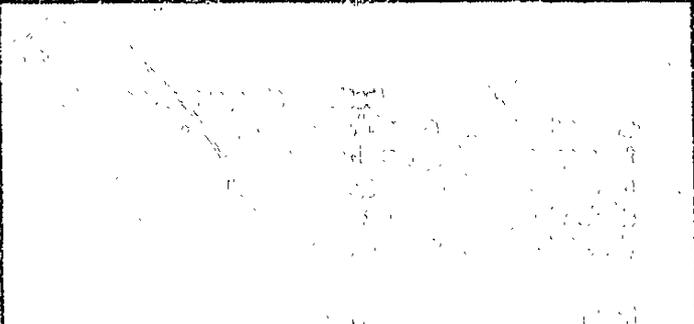
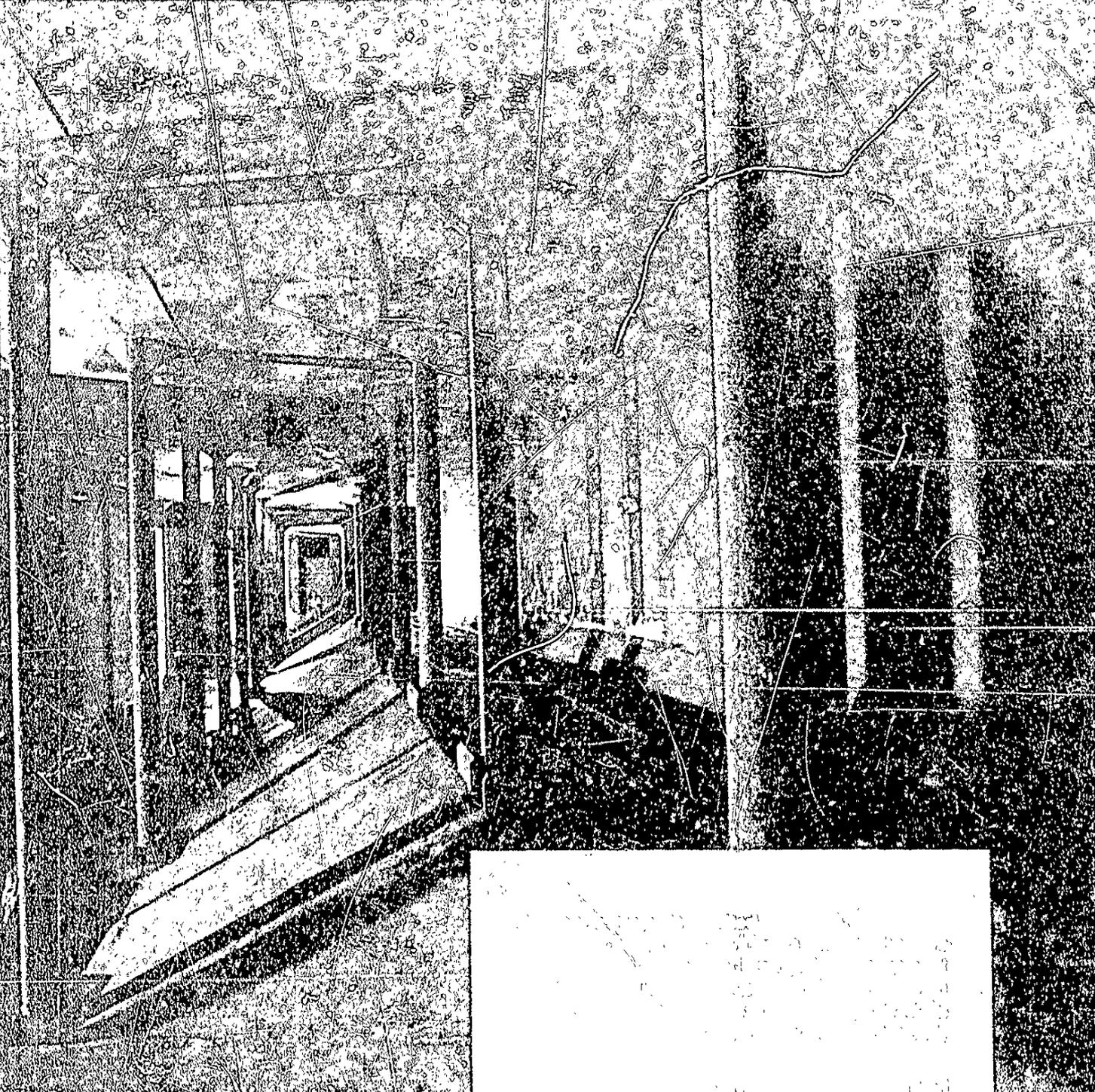
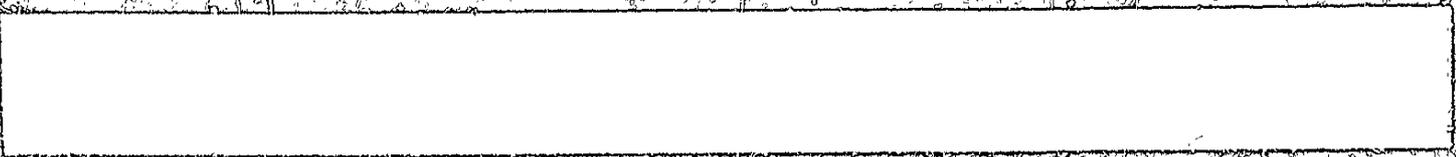
Throughout the region a number of additional improvements were made to other wastewater treatment works to enhance effluent quality. Following the announcement in March by the Secretary of State for the Environment that disposal of sludge to sea is to end by 1998, the provision of alternative disposal facilities is now being planned.

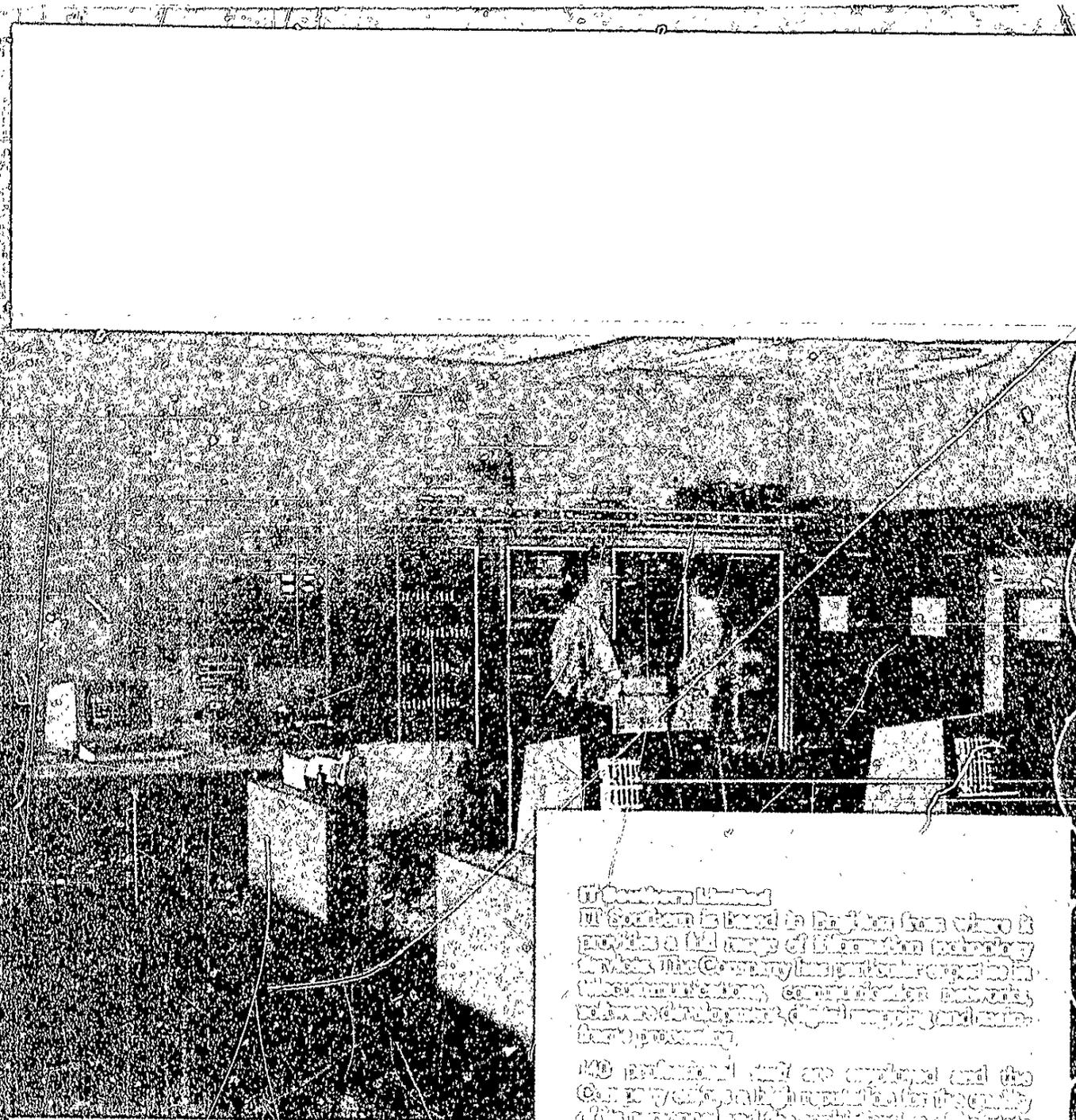
Customers

Southern Water Services places the highest priority on customer satisfaction and new customer services bureaux have been established in four geographical divisions each headed by a Customer Services Manager. These now offer a single point of contact from which all enquiries and complaints can be answered. The bureaux will complement the existing enquiry facilities that already exist within the Customer Accounts Office. To explain the organisation and the services provided three codes of practice for domestic customers have been published.



Fairlight service reservoir,
Hastings



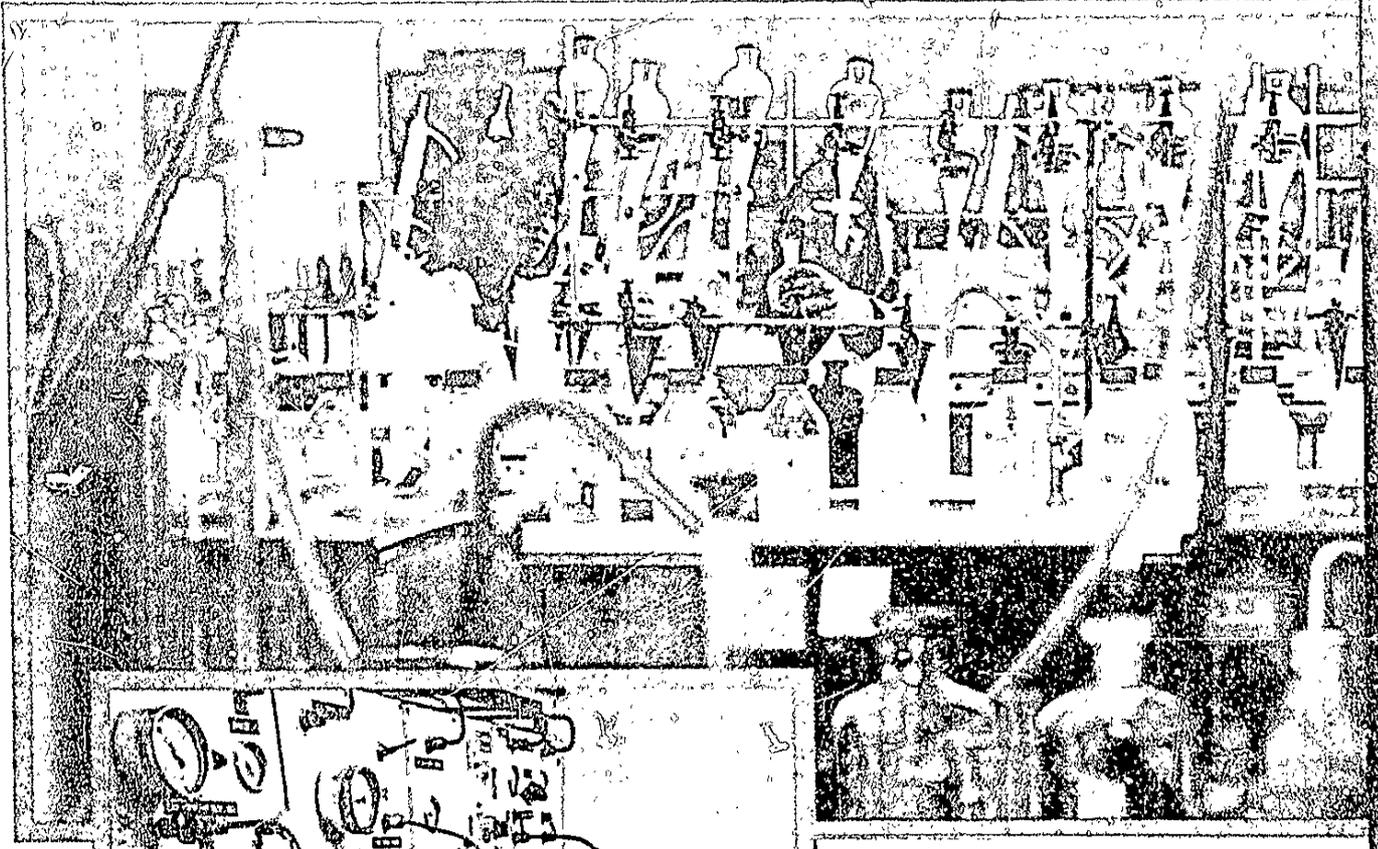


ITT Southern Limited
 ITT Southern is based in Brighton from where it provides a full range of information technology services. The Company has an international presence in telecommunications, computer data networks, education, development, digital imaging and information processing.

400 professional staff are employed and the Company is a public limited company. The quality of its services and the breadth of its range of products is a major strength. ITT Southern is a member of the World Com Group and has a long history of successful joint ventures.

The Company has an excellent record of performance and is a leading provider of services in its field. It has a strong reputation for reliability and quality. The Company is a member of the World Com Group and has a long history of successful joint ventures. The Company is a public limited company and is listed on the London Stock Exchange.

For further information, please contact the Company at the address below.



ABOVE The laboratories at Otterbourne
LEFT Calibrating gas detectors at Falmer



Southern Science Limited
 Southern Science Ltd was established to provide independent laboratory services with state of the art analytical facilities. It provides integrated laboratory, water resources and environmental services to many hundreds of clients. It has four strategically located laboratories in Kent, Sussex, Hampshire and the Isle of Wight where over a million analyses are performed per year including all the necessary analyses for Southern Water Services Ltd. It employs highly qualified staff including chemists, biologists and hydrogeologists and provides environmental impact studies and resources investigations on a consultancy basis to a wide range of customers.



The new water plant at Southern Water plc

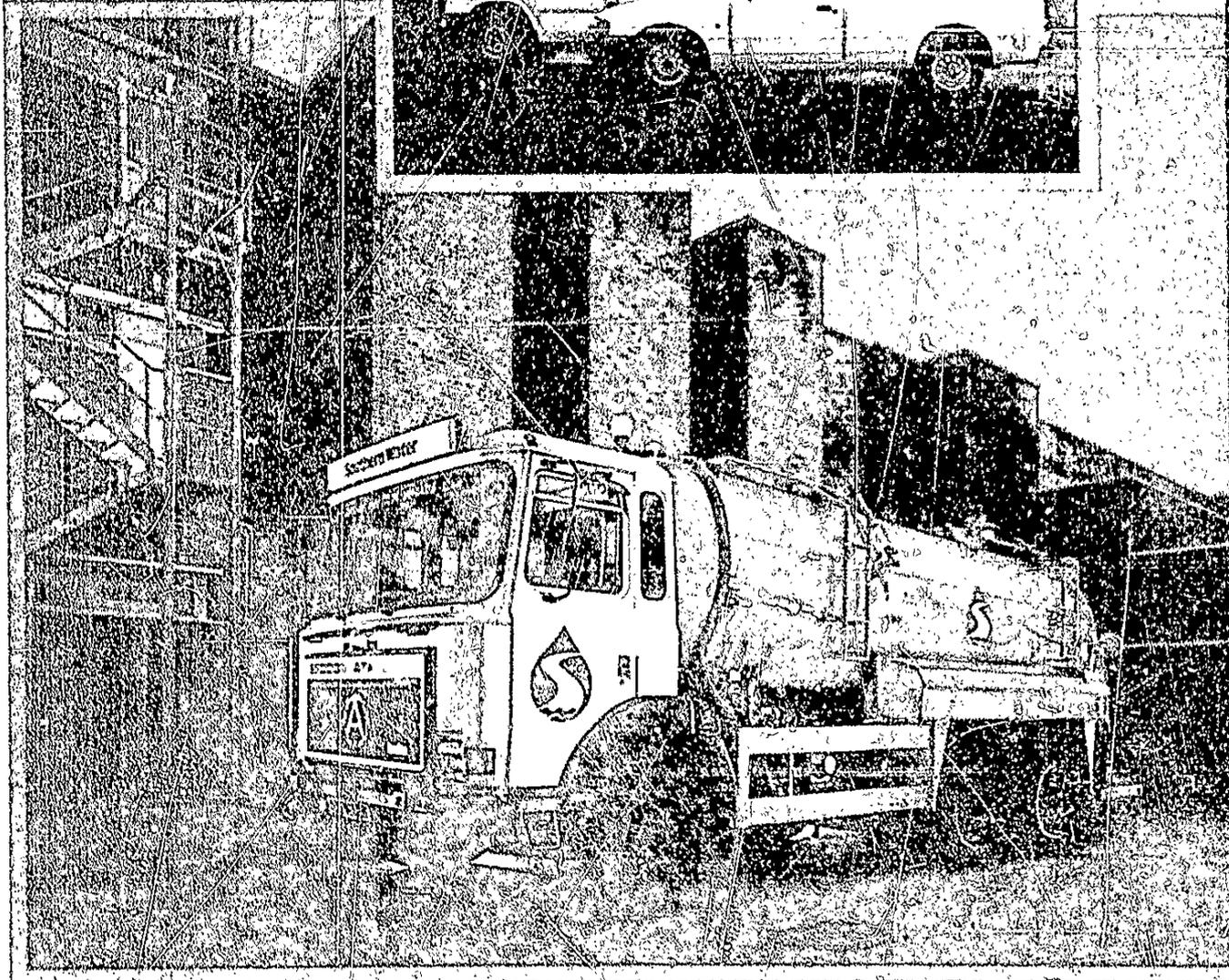
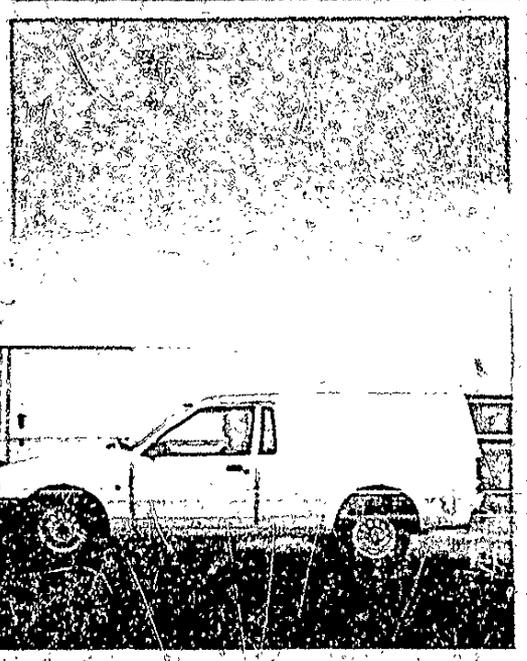
The new water plant at Southern Water plc is a major investment in infrastructure. It will provide a significant increase in water production capacity, ensuring a reliable and high-quality water supply for the region. The plant is designed to be environmentally friendly and efficient, with advanced filtration and treatment processes. This project is a key part of Southern Water's commitment to sustainable water management and improving the resilience of the water supply network.

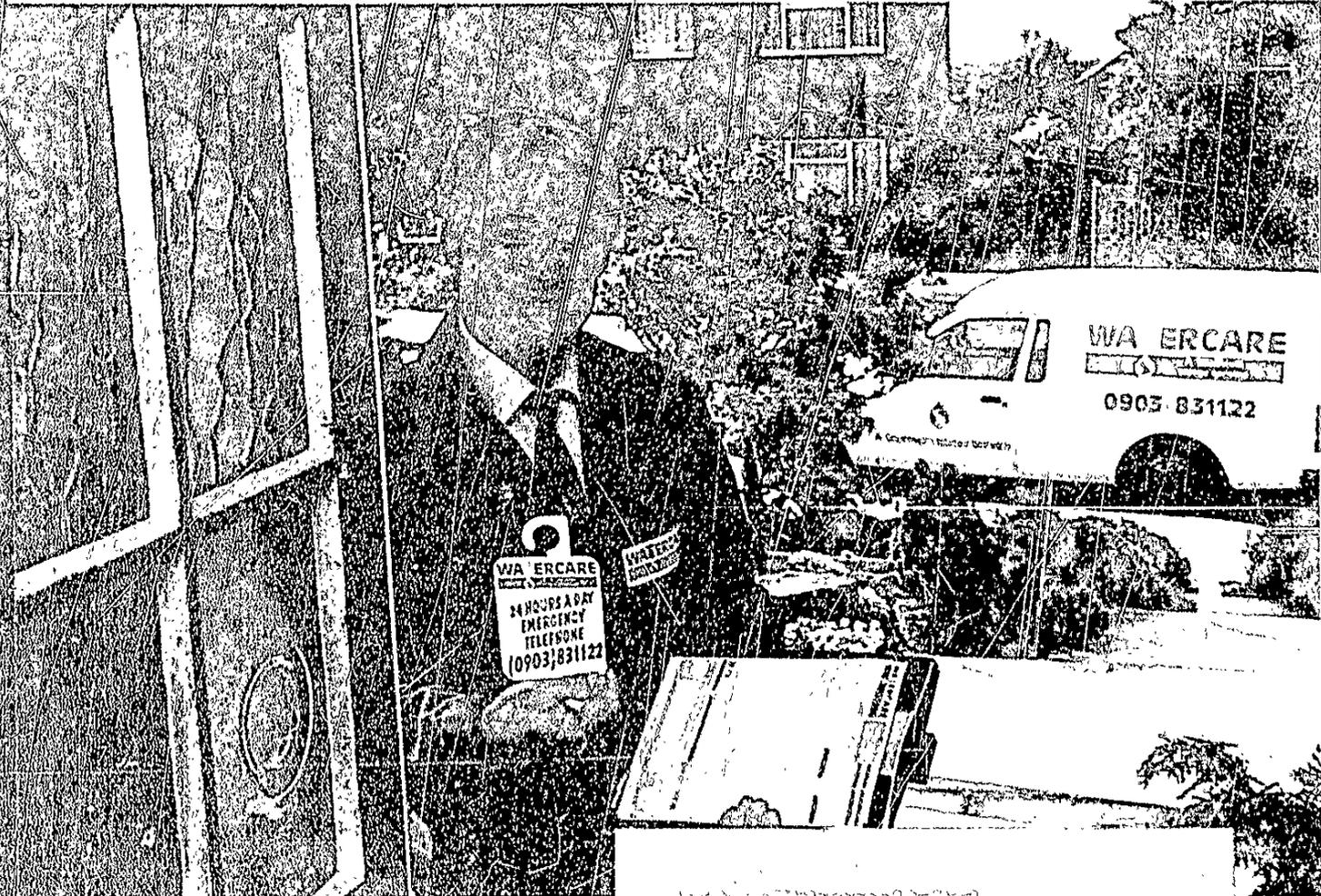
Special Vehicle Leasing Division

This Company has considerable experience operating large and varied fleets of cars, light commercial vehicles and HGV's - both privately and fitted with special equipment and bodies - purpose built to customer requirements.

It now offers the benefits of security from the leasing of fleets of public company cars, providing financial comparison with any vehicle maintenance and servicing, important advice which ensures that its only interests are those of its customers.

The Company was well represented at the Fleet Motor Show at Olympia in May 1990, demonstrating its special services which include contract hire with full maintenance, purchase and lease-to-own, short-term leasing and lease-purchase.

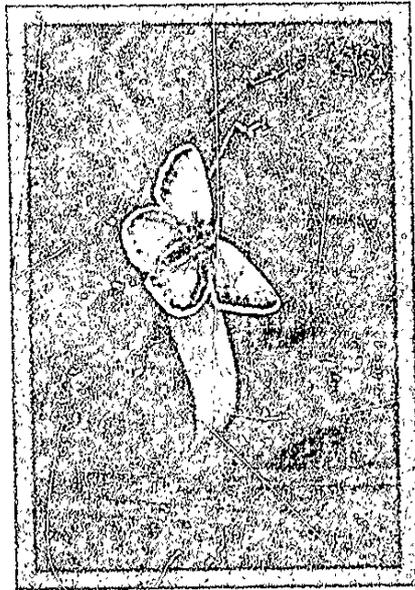




The WA ERCARE team provides a 24-hour emergency response to all WA residents who are unable to access their own home or are unable to access their own home or are unable to access their own home...

The WA ERCARE team provides a 24-hour emergency response to all WA residents who are unable to access their own home or are unable to access their own home...

The WA ERCARE team provides a 24-hour emergency response to all WA residents who are unable to access their own home or are unable to access their own home...



One of the many varieties of butterfly found at Yew Hill

Environmental Southern

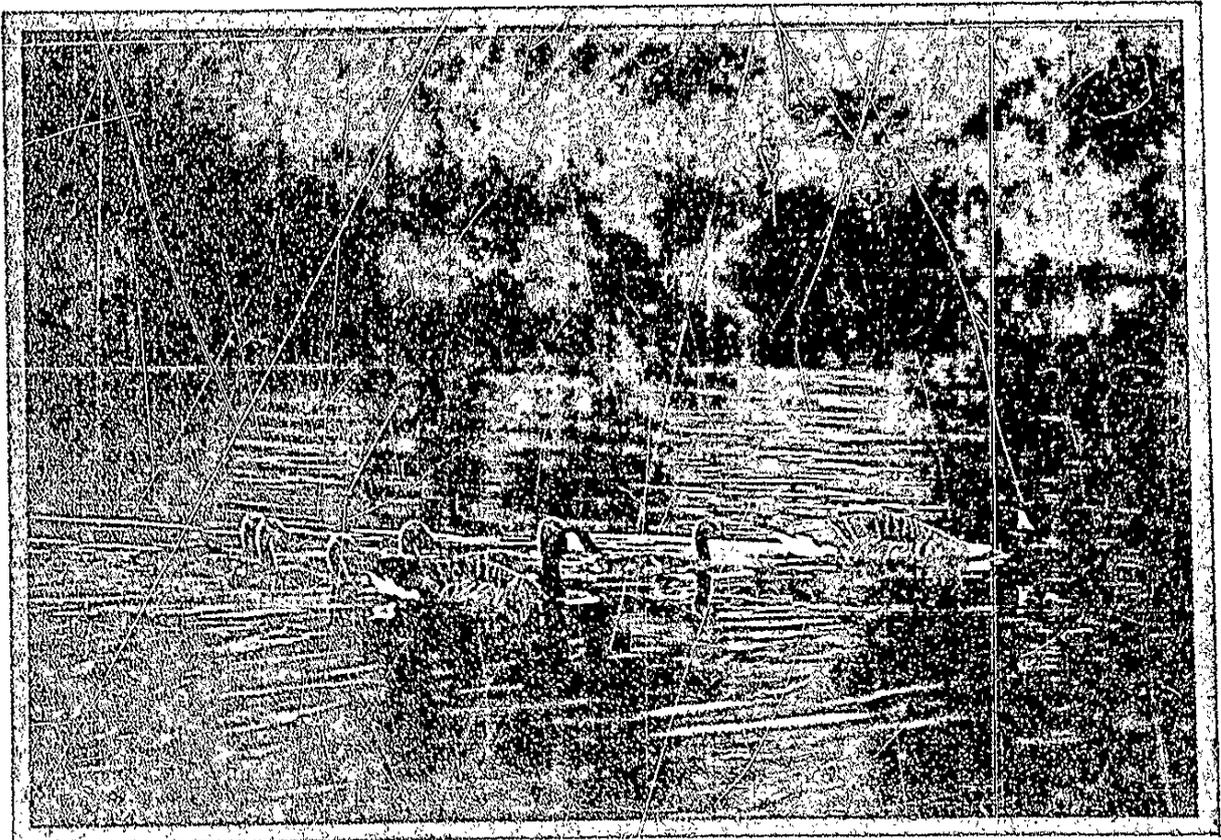
Throughout the year the environmental activities of Southern Water have continued unabated despite the pressure to find even more water resources and to treat greater volumes of wastewater

From the nearly 400 inland wastewater works, treated water is carefully released into the many beautiful rivers in the region accounting for a considerable part of their flow which supports their resident population of fish, plant and animal life

New methods of wastewater treatment are constantly being investigated and old ones re-examined. In partnership with Blue Circle Industries PLC and Portsmouth Polytechnic, Southern Water has developed on the Isle of Wight an entirely new, industrialised method of treating wastewater which is being introduced in other places such as Worthing. At the other end of the scale, back to nature experiments are being carried out at several places using reed beds to clean wastewater in Kent and Hampshire

Careful environmental treatment is also applied to clean water installations and when 30 reservoirs

A family of geese at Scaynes Hill





A fly fishing lesson at Bewl Water

needed restoration work in Sussex, the topsoil was carefully scraped off and put back when the work was finished. In Hampshire, when a new service reservoir was built for Winchester, specialist advice was taken from the Nature Conservancy Council which led to covering it with the sort of poor quality top soil which would provide the conditions for an old fashioned chalk meadow. A special mixture of grass seeds was created, with patches of cowslips, clovers, and other common flowers. Orchids and other less common flowers followed.

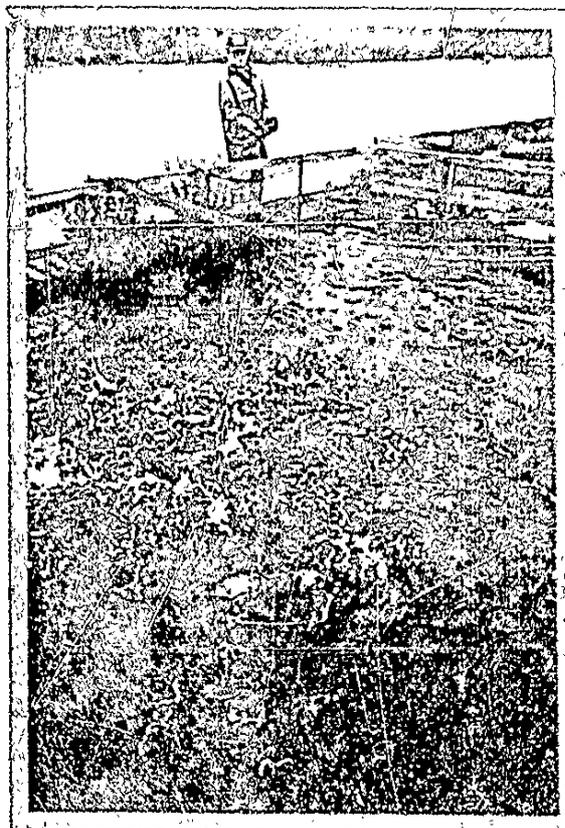
In the case of another service reservoir, a small one at Headon Hill overlooking Alum Bay and the Needles the special requirements of a site of special scientific interest owned by the National Trust meant that use of heavy building plant and equipment for a normal civil engineering job was not possible. To protect the habitat of the rare Dartford warblers that nest there, a reservoir was prefabricated from glass fibre, sited in a disused quarry, and the sections flown in by helicopter and bolted together.

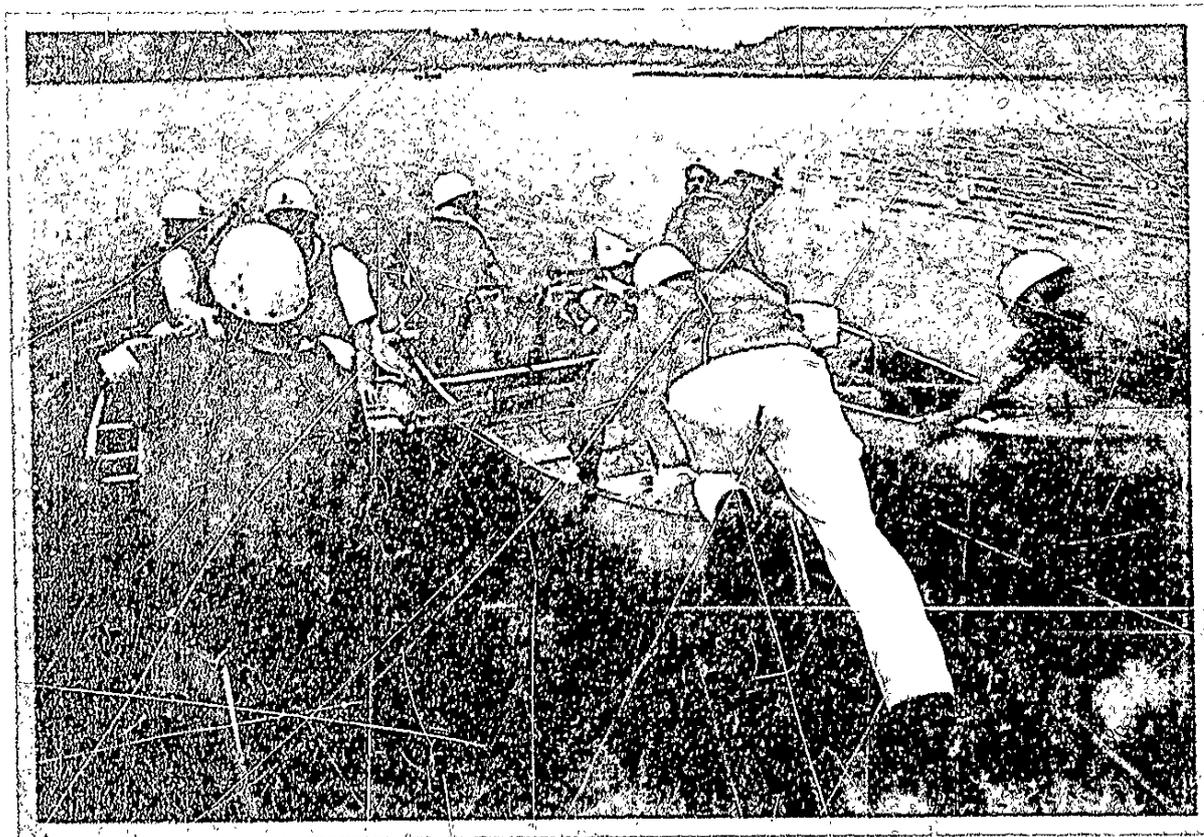
Nesting birds always get special treatment even when they nest in cranes, tractors, vans and in places which make work difficult. The working arrangements are altered so that the job continues and the birds remain. Oyster catchers nest at Eastchurch in a sludge drying bed, and Little Grebes in the adjoining ditch. Visitors to the South Ambersham wastewater treatment works at Midhurst in June would have seen a Grey Wagtail sitting in a nest she had built on a brick beside the front door.

Seawnes Hill wastewater treatment works in Sussex has recently been reconstructed to bring it in line with modern requirements. The opportunity was taken to build in a number of features which make it even more attractive for wildlife including restoring an old rubbish tip and turning it into a wetland which now attracts woodcock, snipe and other wild fowl. Swans, ducks of many kinds, geese, moorhens and coots have also colonised the lagoons where wastewater receives its final stage of treatment.

In the course of their duties Southern Water employees help create artificial caves for bats, rescue kingfishers and foxes from sludge tanks, build ladders and shelters to make life easier for frogs and tadpoles. Caring for the environment is as much a part of Southern Water's philosophy as providing life supporting services for their customers.

Feeding the trout at the hatchery at Bewl Water





Taking part in a group initiative exercise at Beaulieu Water

Employees

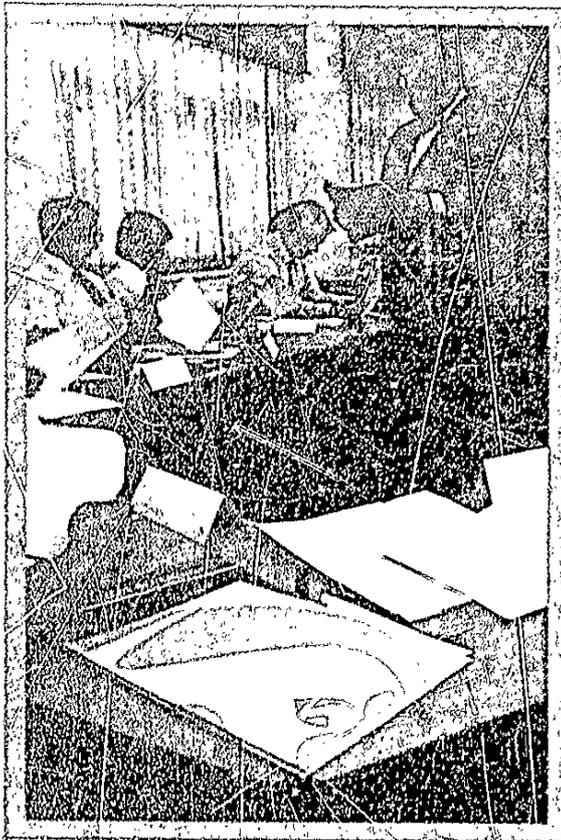
Last year had a major impact on Southern Water staff, many of whom were involved with preparations for privatisation. Those who were not directly concerned with the privatisation process were affected by the changes taking place as a result of the separation of the National Rivers Authority staff and the introduction of the new regulatory environment.

Flotation, in December 1989, gave employees the opportunity to become shareholders in Southern Water plc. Before the shares were offered for sale by the Secretary of State for the Environment all staff were invited to attend meetings explaining the various offers available to them. Over 95% took advantage of the free and matching share offers and 50% have also been granted share options through the Sharesave Scheme that was introduced at the same time. Retired employees also continued to be very strong supporters of Southern Water and many became shareholders

by taking advantage of the priority offer that was made available to them at the time of flotation.

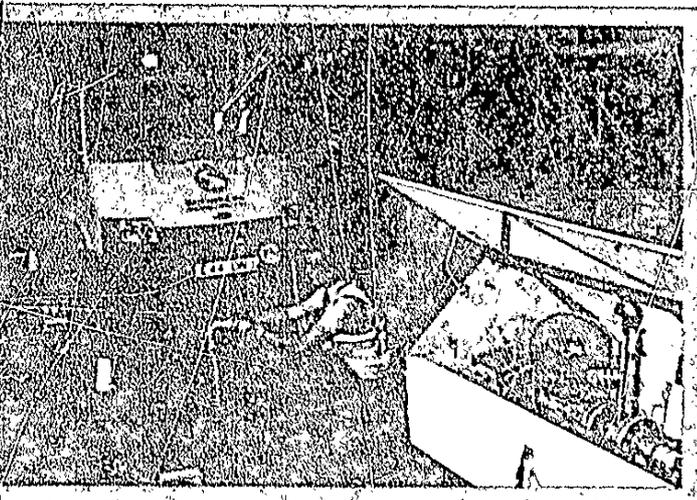
Several initiatives on staff training were pursued during the year. The first of these was an exercise on Customer Awareness to prepare staff for the new challenges of commercial operation. The aim was to inform employees about the new Group structure so that they were aware of Southern Water's objectives and to ensure the most efficient service possible for customers. Quality Circles were also started to develop ideas for further improving service and overall business efficiency.

The continuing training programme provided opportunities for selected staff to develop further their abilities through supervisory and management programmes. Safety and job skills depot training was largely carried out locally to meet the individual depots and offices needs. The Young Employees' Conference was held again last year at West Dean College, to encourage under



One of the many meetings of Southern Water Limited at Horsham

Leak detected in mains often working at night, price of major water losses



25 year olds to develop their abilities and take advantage of career opportunities in the company.

New staff consultative committees were successfully introduced into every company in the Group during the year to reflect the new business organisation. As part of the Company policy for caring for employees, occupational health arrangements were extended during the year by the introduction of "well women clinics" and a facility for medical checks is to be offered to male employees in the current year.

Safety Committees meet regularly in the various companies and a new policy on safety was adopted by the Group. It is very satisfactory to report that during the year 1989/90 the downward trend in the number of accidents in the Company has continued. Since 1986, when the current accident reporting regulations were introduced, there has been a significant reduction of 26% in the number of lost time accidents.

Throughout the year the Company continued its policy of maintaining good communications with its employees. In addition to regular articles appearing in the staff magazine *Southern Water News*, special videos were presented and news bulletins circulated to explain to staff the changes which were taking place in the Company's business and the factors which would affect its future performance.

Finally, it is pleasing to be able to report that Mr Jack Couzins, Senior Technical Assistant, Southern Water Services Limited, was awarded the BEM in the New Year Honours List in recognition of his service to the water industry.

Directors' Report and Accounts 1990

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Report of the Directors

for the year ended 31 March 1990

Southern Water plc was incorporated on 1 April 1989 and until 11 December 1989 the entire issued share capital of the Company was held on behalf of HM Secretary of State for the Environment.

Under the provisions of the Water Act 1989 the Company, through its wholly owned subsidiary Southern Water Services Limited, assumed as effective from 1 April 1989, the vesting of all the functions of Southern Water Authority relating to water supply and the provision of sewerage services together with the property, rights and liabilities associated with those functions.

Share capital

On incorporation, on 1 April 1989, the Company's authorised share capital was 50,000 ordinary shares of £1 each two of which were subscribed for at par by nominees of the Secretary of State for the Environment. On 20 November 1989 following capital restructuring the authorised share capital was increased to 225,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1. The redeemable preference share and 163,725,000 ordinary shares of £1 were either conditionally allotted or issued to the Secretary of State for the Environment.

On 22 November 1989 the Secretary of State offered for sale 163,725,000 ordinary shares of £1 each. All of the shares on offer were taken up and dealings in the shares commenced on the Stock Exchange in London on 12 December 1989.

All of the shares in the Company sold on an instalment basis have been registered in the names of Lloyds Bank Plc or National Westminster Bank Plc as Custodian Banks and will remain so until all the instalments of the purchase price have been paid to HM Government.

As far as the Directors are aware, no person had a beneficial interest in 3% or more of the issued ordinary share capital at 2 July 1990 with the exception of the British Rail Pension Trustee Company Limited which holds 3.42% of the issued ordinary shares.

Principal activities

The principal activity of the Southern Water Group is the provision of water supply and wastewater services. In addition, the Group provides a range of services to domestic and commercial customers

in the areas of civil engineering, information technology, laboratory analysis, environmental assessment, estate management, vehicle leasing, contract plumbing and waste management.

Review of activities

A detailed review of the Group's operations during the financial year is provided on pages 8 to 24 and a segmental analysis of turnover and pre-tax profit, between the principal activity and other activities, is provided in note 1 on page 34.

Profit and dividends

Profit on ordinary activities before taxation for the year was £60.1m. Profit attributable to ordinary shareholders amounted to £48.8m. The Directors propose a dividend of £16.4m (10.02p per ordinary share) which, subject to approval at the Annual General Meeting, will be paid on 1 October 1990 to shareholders on the register at 23 July 1990. The retained profit for the year, after deduction of dividends, amounts to £32.4m and has been transferred to reserves.

Pro-forma results

The Offer for Sale Prospectus of Southern Water plc dated 22 November 1989 contained pro-forma earnings information designed to reflect the impact on the current year forecast results had the capital restructuring and public offer all been effected on 1 April 1989. If applied to the actual results for the year ended 31 March 1990, the pro-forma results calculated on the bases and assumptions set out in Chapter III of the Offer for Sale Prospectus would have been:

Pro-forma profit on ordinary activities after taxation £75.9m

Pro-forma earnings per ordinary share 46.4p

In deriving the pro-forma figures the only changes to the actual results for the year ended 31 March 1990 are the substitution of interest receivable of £5.8m in place of interest payable of £18.2m reflecting the impact of the capital restructuring, and the incorporation of a pro-forma taxation charge of £8.2m. The pro-forma taxation charge, which arises in respect of advance corporation tax, has been calculated assuming a pro-forma full year dividend of £24.6m.

For the purpose of calculating the pro-forma earnings per ordinary share, it has been assumed

that 165,725,000 Ordinary shares of Southern Water plc had been in issue from 1 April 1989.

Directors

The first Directors of the Company were Mr J A Gunn and Mr A D Wheinall of the Department of the Environment who were appointed on the incorporation of the Company on 1 April 1989 and who resigned with effect from 1 September 1989.

The present Directors of the Company are listed on page 6. All were appointed with effect from 1 September 1989. Mr J F Valentine, who was appointed a Director with effect from 1 September 1989, resigned from the Board on 14 February 1990.

In accordance with Article 89, Mr P A Girle retires and will, being eligible, offer himself for re-election. The Director retiring by rotation at the Annual General Meeting in accordance with Article 106 is Dr J Westhead who, being eligible, will offer himself for re-election. Neither of the Directors seeking re-election have service contracts with the Company or any of its subsidiaries.

Directors' share interests

When appointed, none of the Directors had any interest in the share capital of the Company or its subsidiaries. The interests of the Directors shown in the register maintained under the provisions of the Companies Act 1985 as at 31 March 1990 are set out below:

	Beneficial holdings		Share options	
	Ordinary shares	Executive option scheme	Sharesave scheme	
W J W Courtney	6,032	100,000	6,136	
P A Girle	240			
F N Midmer	3,595	85,000		
Sir David Nicolson	260			
B R Thorpe	5,560			
M R Webster	10,000	85,000		
J M Westhead	500			

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes. There have been no changes in Directors' interests in shares during the period 1 April 1990 to 2 July 1990.

None of the directors holds shares beneficially in any subsidiary company.

Directors' interests in contracts

The Board is not aware of any contract of significance (other than service contracts) in relation to the Company or its subsidiaries in which any Director has or has had a material interest. Service contracts are held by Mr W J W Courtney, Mr F N Midmer and Mr M R Webster.

Fixed assets

Capital expenditure on fixed assets totalled £111.4m during the year. Details of changes in fixed assets during the year are summarised in note 9 on page 37.

Acquisitions and investments

On 1 September 1989 as part of the restructuring of the Group, the Company acquired from Southern Water Services Limited the entire issued share capital of Southern Science Limited, Southern Projects Limited, IT Southern Limited, Topmark Vehicle Leasing Limited, Bowsprit Estates Limited and Southern Watercare Limited. These companies had not traded prior to 1 September 1989. The transfer to the Company was effected by a dividend in specie equivalent to the net book value of the assets of these companies. On the same day Southern Water Services Limited also transferred by means of a dividend in specie all its fixed asset investments to the Company. The amount of the dividend was equal to the net book value of the investments at the date of transfer.

On 7 December 1989 the Company subscribed for and was allotted 50% of the issued share capital of Stalwart Environmental Services plc which will operate as a joint venture company with activities in waste management.

Research and development

The improvement of existing services and processes and the identification and development of new technologies and solutions are key aspects of the Group's strategy. Research and development plays an integral role in the drive towards improvements in the quality of service and in more cost efficient methods of working. It is a vital component in the organic development of the Group.

Much of the research and development effort is resourced internally through specific projects and

Report of the Directors *continued*

experimental sites, and in the Group's laboratories and engineering facilities which operate as centres of excellence undertaking work on behalf of the entire Group. In addition, funding is provided to external bodies in particular the Water Research Centre and the Foundation for Water Research.

Employees

Southern Water is an equal opportunities employer and has a policy of non-discrimination in all forms of employment. Selection and promotion are based solely on merit and ability and therefore no job applicant or employee receives less favourable treatment. Disabled persons are considered for all types of work and modifications to job and equipment are made to enable them to be employed.

Other information on employee involvement and communication is given in the Operations Review on pages 8 to 24.

Donations

Charitable donations during the year amounted to £15,000. No political donations were made by the Company or its subsidiaries.

Close company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Auditors

A resolution to reappoint as auditors Coopers & Lybrand Deloitte, who under their previous business name of Deloitte Haskins & Sells had been appointed as the first auditors of the Company, will be proposed at the Annual General Meeting.

By Order of the Board

GRAHAM NICHOLSON
Secretary

5 July 1990

Accounting policies

Basis of consolidation

The Group accounts have been prepared under the historical cost convention and include the accounts of the parent company and all its subsidiaries.

Comparative figures

Comparative figures for the predecessor organisation, the Southern Water Authority, for the year ended 31 March 1989 have been incorporated, restated to exclude the business and assets vested in the National Rivers Authority with effect from 1 April 1989. Changes have taken place during the year arising from capital restructuring, the regulatory regime, and the conversion to plc status. Accordingly the comparability of the figures for the year ended 31 March 1990 and the prior year is limited and care should be taken in relating these figures.

Turnover

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

Depreciation of fixed assets

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

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

Freehold land and infrastructure assets are not depreciated. Infrastructure assets, being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are not depreciated because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life. Expenditure on maintaining the operating capability of the network is charged as an operating cost.

Grants and contributions

Grants and contributions received in respect of additions to fixed assets are deducted from the cost of the additions.

Leased assets

Fixed assets leased to the Group under finance leases are capitalised and depreciated over the shorter of their estimated useful lives and the lease periods. Rental costs under operating leases are expensed as incurred.

Fixed asset investments

The Group's share of the results of related companies is included in the consolidated profit and loss account and the consolidated balance sheet includes the investment in related companies at the Group's share of their net tangible assets.

Other investments held as fixed assets are stated at the lower of cost or market value (or directors valuation where no market value is available). Although the Group holds significant investments in a number of local water companies the equity method of accounting is not employed as the Group exercises no management influence. Dividends from other investments are accounted for on receipt.

Stocks and work in progress

Stocks are stated at cost less provision for damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials and relevant overheads.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Foreign currency

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

Deferred taxation

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

Pensions

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

Consolidated profit and loss account

for the year ended 31 March 1990

	Notes	1990 £m	1989 £m
Turnover	1	<u>225.8</u>	204.1
Profit before interest	2	78.3	95.3
Interest (net)	4	<u>18.2</u>	28.2
Profit on ordinary activities before taxation		60.1	65.1
Taxation	5	<u>5.5</u>	—
Profit on ordinary activities after taxation		54.6	65.1
Extraordinary items	6	<u>5.8</u>	0.6
Profit attributable to ordinary shareholders		48.8	64.5
Dividend proposed	7	<u>16.4</u>	—
Retained profit	18	<u>32.4</u>	64.5

Changes have taken place during the year arising from capital restructuring, the regulatory regime, and the conversion to plc status. Accordingly, the comparability of the results for the year ended 31 March 1990 and the prior year is limited and care should be taken in relating these figures.

Earnings per share information is shown in note 8.

Movements of reserves during the year are shown in note 18.

Consolidated balance sheet

at 31 March 1990

	Notes	1990		1989	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	9	699.9		628.2	
Investments	11	6.0		5.9	
			705.9		634.1
Current assets					
Stocks	12	3.1		3.7	
Debtors	13	44.6		33.8	
Cash at bank and in hand		29.6		—	
		77.3		37.5	
Current liabilities					
Amounts falling due within one year:					
Short term borrowings	14	2.3		60.7	
Other creditors	15	99.5		51.7	
		101.8		112.4	
Net current liabilities			(24.5)		(74.9)
Total assets less current liabilities			681.4		559.2
Creditors					
Amounts falling due after more than one year:					
Bank and other loans	16		(2.0)		(223.0)
Provision for infrastructure renewals			(2.4)		—
			677.0		336.2
Capital and reserves					
Called up share capital	17		163.7		—
Share premium account	18		0.3		—
Profit and loss account	18		513.0		336.2
			677.0		336.2

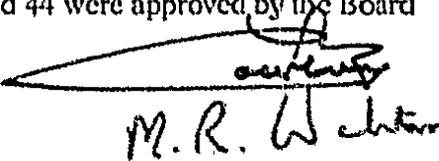
The financial statements on pages 29 to 42 and 44 were approved by the Board on 5 July 1990 and signed on its behalf by:

W J W Courtney CBE

Chairman

M R Webster

Director



M. R. Webster

Company balance sheet

at 31 March 1990

	Notes	£m	1990	£m
Fixed assets				
Investments				
Group companies	10	57.4		
Other investments	11	6.0		
				<u>63.4</u>
Current assets				
Debtors				
Cash at bank and in hand	13	293.8		
		30.1		
				<u>323.9</u>
Current liabilities				
<i>Amounts falling due within one year:</i>				
Other creditors	15	8.9		
				<u>315.0</u>
Net current assets				
				<u>378.4</u>
Capital and reserves				
Called up share capital	17			163.7
Share premium account	18			0.3
Profit and loss account	18			214.4
				<u>378.4</u>

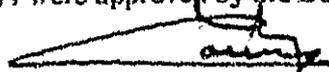
The financial statements on pages 29 to 42 and 44 were approved by the Board on 5 July 1990 and signed on its behalf by:

W J W Courtney CBE

Chairman

M R Webster

Director



M. R. Webster

Consolidated source and application of funds

for the year ended 31 March 1990

	1990		1989	
	£m	£m	£m	£m
Source of funds				
Consolidated profit on ordinary activities before taxation	60.1		65.1	
Extraordinary items	(5.8)		(0.6)	
Depreciation	22.2		19.5	
Movement on infrastructure renewal provision	2.4			
		78.9		84.0
Extinguishment of government debt	276.2			
Transfer from reserves	(14.1)			
Government share subscription	46.3			
Grants and contributions	14.8		10.4	
Proceeds on disposal of fixed assets	2.7		1.1	
		325.9		11.5
Application of funds				
Capital expenditure	(111.4)		(78.6)	
Investments	(0.1)		(5.6)	
Working capital				
Stocks	0.6		(0.1)	
Debtors	(10.8)		1.6	
Creditors	25.9		3.6	
		(95.8)		(79.1)
		309.0		16.4
Provided by				
Cash and short term borrowings		88.0		2.9
Bank and other loans		221.0		13.5
		309.0		16.4

Notes to the accounts

Note 1 Segmental information	<i>(a) Segmental information Southern Water Group</i>	Turnover	Profits
		1990 £m	1990 £m
	Principal activity	222.6	74.3
	Other activities	3.2*	4.0
	Interest (net)		(18.2)
		<u>225.8</u>	<u>60.1</u>

*After eliminating inter company transactions

(b) Geographical information

During the year ended 31 March 1990 all activity was conducted in the United Kingdom.

Note 2 Profit before interest	1990 £m	1989 £m
Turnover	225.8	204.1
Cost of Sales	(116.4)	(88.9)
Gross profit	109.4	115.2
Administration expenses	(32.3)	(25.1)
Other operating income	1.2	1.2
Profit before interest	<u>78.3</u>	<u>95.3</u>

Included in 1990 cost of sales and administration expenses are certain costs associated with privatisation and the new regulatory regime which had not been incurred in the previous year.

Profit before interest is stated after charging:

Depreciation on:		
Own fixed assets	20.5	17.7
Fixed assets held under finance leases	1.7	1.8
	<u>22.2</u>	<u>19.5</u>
Infrastructure renewals	14.1	10.7
Audit fees	0.1	0.1
Rentals under operating leases	0.1	0.1
Research and development	1.0	0.9

Note 3**Directors and employees***(a) Staff costs
(including Directors' emoluments)*Wages and salaries
Social security costs
Other pension costs1990
£m1989
£m39.0
3.0
6.333.4
2.6
4.748.340.7*(b) Average number of persons employed*Principal activity
Other activities1990
Number1989
Number2217
573

} 2667

27902667*(c) Directors' emoluments (from 1 September 1989)*Fees
Other emoluments
(including pension contributions)
Compensation for loss of office

£000

28

222

219

469

The emoluments of the Chairman and the highest paid Director (excluding pension contributions) from 1 September 1989 were as follows:

Chairman

46

Highest paid Director

59

No Directors emoluments were incurred in the period from 1 April 1989 to 31 August 1989.

(d) Directors and senior employees

The remuneration (excluding pension contributions) of Directors, other than the Chairman and highest paid Director, together with those employees who earned more than £30,000 was within the following categories:

£	Directors	Employees	
	1990 Number	1990 Number	1989 Number
0 - 5000	2		
5001 - 10000	3		
10001 - 15000	1		
30001 - 35000	1	24	10
35001 - 40000	—	7	6
40001 - 45000	1	9	2
45001 - 50000	—	1	2
50001 - 55000	—	1	1
55001 - 60000	—	2	—

Notes to the accounts *continued*

Note 4 Interest	1990 £m	1989 £m
Bank loans, overdrafts and other loans: Repayable within 5 years by instalments	—	127
Repayable within 5 years not by instalments	20.0	182
Finance lease obligations	0.2	(1.5)
Interest payable	20.2	294
Interest receivable	(2.0)	(1.2)
	<u>18.2</u>	<u>28.2</u>
<hr/>		
Note 5 Taxation	1990 £m	
United Kingdom taxation: Advance corporation tax on dividends for the year	5.5	
<p>Until 1 September 1989 the Group was exempt from United Kingdom income, corporation and capital gains tax on all income and chargeable gains. As at 1 September 1989 the Group became entitled to capital allowances on qualifying assets transferred from Southern Water Authority. The amount of the expenditure qualifying for plant and machinery allowances was £559.4m and the amount qualifying for industrial building allowances was £36.7m.</p> <p>Until such time as a foreseeable liability to mainstream corporation tax or deferred tax arises, the only tax charge to the profit and loss account will be in respect of advance corporation tax.</p>		
<hr/>		
Note 6 Extraordinary items	1990 £m	1989 £m
Privatisation costs	4.4	0.6
Pre-1974 pension obligations	1.4	—
	<u>5.8</u>	<u>0.6</u>
<hr/>		
Note 7 Dividends payable	1990 £m	
Final proposed of 10.02p per ordinary share	16.4	

Note 8
Earnings per
ordinary share

The Directors believe that the calculation of earnings per share based on the actual results for the year ending 31 March 1990 would not be meaningful in view of the significant changes occurring during the year particularly in relation to the capital restructuring.

As set out in the Offer for Sale Prospectus, earnings per share are only provided in respect of Pro-forma earnings and amount to 46.4p per ordinary share.

There would be no significant dilution of earnings if the outstanding share options were exercised.

Note 9
Tangible fixed assets

		Freehold land and buildings £m	Plant and machinery £m	Infra- structure assets £m	Other £m	Total £m
<i>Cost</i>	Balance 1 April	255.3	119.8	291.1	66.6	732.8
	Additions	26.2	14.2	53.5	17.5	111.4
	Grants and contributions	(0.2)	(0.4)	(9.8)	(4.4)	(14.8)
	Disposals	—	(3.1)	—	(0.8)	(3.9)
	Balance 31 March	281.3	130.5	334.8	78.9	825.5
<i>Depreciation</i>	Balance 1 April	38.1	38.3	—	28.2	104.6
	Charge for year	5.5	6.7	—	10.0	22.2
	Disposals	—	(0.7)	—	(0.5)	(1.2)
	Balance 31 March	43.6	44.3	—	37.7	125.6
<i>Net book value</i> <i>31 March 1990</i>		237.7	86.2	334.8	41.2	699.9
<i>Net book value</i> <i>31 March 1989</i>		217.2	81.5	291.1	38.4	628.2

Tangible fixed assets at 31 March 1990 include £67.1m 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 1990 was £10.7m.

Notes to the accounts *continued*

Note 10 Fixed assets investments – Group companies	Shares in group companies £m	Loans to group companies £m	Total £m
Acquisitions	47.0	—	47.0
Loans advanced	—	10.4	10.4
Balance at 31 March	<u>47.0</u>	<u>10.4</u>	<u>57.4</u>

The principal subsidiary companies are listed on page 44.

Note 11 Fixed asset investments – Other investments	Group £m	Company £m
Balance at 1 April	5.9	—
Investments during year	0.1	6.0
Balance at 31 March	<u>6.0</u>	<u>6.0</u>

In the opinion of the Directors the value of investments at 31 March 1990 was not less than book value. An investment in a related company is not material.

Details of companies in which the Group owns more than 20% of the equity are shown on page 44.

Note 12
Stocks

	Group	
	1990 £m	1989 £m
Materials and consumables	2.5	3.0
Rechargeable work in progress	0.6	0.7
	<u>3.1</u>	<u>3.7</u>

Note 13 Debtors	Group		Company 1990 £m
	1990 £m	1989 £m	
Trade debtors	41.9	26.6	—
Amounts owed by subsidiaries			293.6
Other debtors	1.5	5.1	0.1
Employee loans	1.2	1.9	—
Prepayments	0.2	0.2	0.1
	<u>44.6</u>	<u>33.8</u>	<u>293.8</u>

Note 14 Short-term borrowings	Group	
	1990 £m	1989 £m
Bank loans and overdrafts	—	14.8
Other loans	—	45.0
Obligations under finance leases	2.3	2.9
	<u>2.3</u>	<u>60.7</u>

Note 15 Other creditors	Group		Company 1990 £m
	1990 £m	1989 £m	
Trade creditors	32.5	25.8	—
Amounts owed to subsidiaries			0.4
Proposed dividend	16.4	—	—
Advance corporation tax	5.5	—	—
Other taxation and social security	0.7	0.1	—
Other creditors	5.1	4.1	3.3
Accruals and deferred income	39.3	21.7	5.2
	<u>99.5</u>	<u>51.7</u>	<u>8.9</u>

Notes to the accounts *continued*

Note 16

Bank and other loans

	Group	
	1990	1989
	£m	£m
Government loans	—	218.7
Obligations under finance leases	2.0	4.3
	2.0	223.0
Loans and obligations under finance leases are repayable as follows:		
Between one and two years	0.6	38.6
Between two and five years	1.4	78.7
After five years	—	105.7
	2.0	223.0

Note 17

Called-up share capital

	1990
	£m
<i>Authorised</i>	
225,000,000 ordinary shares of £1 each	225.0
1 special rights redeemable preference share of £1	—
	225.0
<i>Allotted, called-up and fully paid</i>	
Ordinary shares of £1 each:	
Issued during the year	163.7

The special rights redeemable preference share of £1 was allotted and issued to HM Secretary of State for the Environment in November 1989.

Outstanding options to subscribe for ordinary shares in the Company are as follows:

	Date of grant	Number of shares 000	Price per share
Executive share option scheme	February 1990	932	281p
Sharesave scheme	December 1989	1,465	176p

In normal circumstances the Executive share options may be exercised between three and ten years from the date of grant.

Options under the Sharesave scheme may be exercised after either five or seven years from the date of grant.

Note 18
Share premium account
and reserves

	Group		Company	
	Share Premium Account £m	Profit & Loss Account £m	Share Premium Account £m	Profit & Loss Account £m
At 31 March 1989		336.2		
Opening adjustment		(14.1)		
At 1 April 1989		322.1		
Special dividend from Southern Water Services Ltd				233.0
Share capitalisation		(117.4)		(117.4)
Premium on allotment in year	0.3	(0.3)	0.3	(0.3)
Retained profit for the year		32.4		39.1
Government debt extinguishment		276.2		
	<u>0.3</u>	<u>513.0</u>	<u>0.3</u>	<u>214.4</u>

The opening adjustment relates to costs arising from the separation of the National Rivers Authority. Included in this adjustment are loans amounting to £11.4m in respect of National Rivers Authority activities which were incorporated in the government debt extinguishment in November 1989.
The profit for the financial year of the Company was £39.1m. No separate profit and loss account is provided.

Note 19
Contingent liabilities

	Group		Company
	1990 £m	1989 £m	1990 £m
Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	3.6	2.4	--

Note 20
Capital commitments

	Group		Company
	1990 £m	1989 £m	1990 £m
Outstanding contracts placed for capital expenditure	50.9	55.7	--
Capital expenditure authorised by directors but not contracted	55.3	28.2	--

Notes to the accounts *continued*

Note 21 Other financial commitments	Group Other £m	Company Other £m
At 31 March 1990 the Group had annual commitments under non-cancellable operating leases as follows:		
Expiring within one year	0.2	—
Expiring between two and five years	0.9	—
	1.1	—

Note 22
Pensions

The Group operates two funded defined benefit pension schemes providing benefits based on final pensionable earnings and years of service. Both schemes are administered by trustees and operate independently of the Group.

The schemes are valued by independent consulting actuaries using the 'projected unit' method. The last actuarial valuation of the main scheme, which covers over 80% of the Group's employees, was carried out as at 31 March 1989. At that date the estimated market value of the scheme's assets was £56.7m which covered approximately 107% of the benefits accrued to members, after allowing for expected increases in earnings. Having regard to this valuation the actuary recommended that the employer contribution should be maintained at 12% and 11.75% of pensionable pay for members paying contributions of 6% and 5% respectively. This has been implemented. The next actuarial valuation will take place as at 31 March 1992.

The second scheme which is a closed scheme was established on 1 September 1989 with an agreement to make transfer payments from the Water Authority Superannuation Fund sufficient to fund the accrued benefits of the scheme members at that date. All contributions have been made at similar rates to the main scheme. The results of the first full actuarial valuation at 31 March 1990 are not yet available.

The principal assumptions used in the actuarial valuation are those related to the differentials between the rates of return on investments and the rates of increases in earnings and pensions. It has been assumed that the investment return per annum will be 2% higher than wage and salary increases and 3½% higher than pension increases.

Total pension costs for the year were £6.3m (1989 £4.7m).

Report of the Auditors

To the members of Southern Water plc

We have audited the accounts on pages 29 to 42 and 44 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 March 1990 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte
 COOPERS & LYBRAND-DELOITTE
 Chartered Accountants

5 July 1990
 London

Financial calendar

1990

5 July Announcement of final results
 16 July Ex dividend date for final dividend
 23 July Record date for dividend
 30 August Annual General Meeting
 1 October Final dividend payable

1991

January Announcement of unaudited interim results
 March Interim dividend payable
 31 March Financial year end

Shareholders' interests

At 20 June 1990

Number of Shareholders 127,951 (excluding 1507 package units)

Shareholdings Range	Shareholders %	Shares %	Category of Shareholders	Shareholders %	Shares %
300 and under	49.90	6.71	Pension funds	0.03	1.89
301 to 1000	49.04	15.70	Insurance companies	0.03	4.69
1001 to 10000	0.80	1.45	Banks	0.14	0.35
10001 to 50000	0.11	2.03	Nominee companies	1.16	57.76
Over 50000	0.15	74.11	Other corporate bodies	0.40	32.67
			Other shareholders	98.24	22.64
	<u>100.00</u>	<u>100.00</u>		<u>100.00</u>	<u>100.00</u>

Subsidiary companies and investments in other companies

Subsidiary companies

The Company's principal subsidiary companies are listed below. All companies are incorporated in England which is also the country of operation.

Company	Class of capital	Proportion of class held	Nature of business
Southern Water Services Limited	Ordinary	100%	Provision of water supply and wastewater services
Southern Science Limited	Ordinary	100%	Laboratory analysis and environmental assessment
Southern Projects Limited	Ordinary	100%	Civil engineering design and consultancy
IT Southern Limited	Ordinary	100%	Information technology services
Topmark Vehicle Leasing Limited	Ordinary	100%	Vehicle and specialist equipment leasing
Bowsprit Estates Limited	Ordinary	100%	Estates management and property consultancy
Southern Watercare Limited	Ordinary	100%	Contract plumbing

Other fixed asset investments

Principal trading companies in which the Group holds more than 20% of the equity are listed below. All companies are incorporated in England which is also the country of operation.

Company	Class of capital	Proportion of class held	Nature of business	Total capital and reserves £m	*Profit for the year £m
<i>Investment companies</i>					
Eastbourne Waterworks Company	4.9% Cons Ordinary	25.0%	Water supply	5.9	1.2
Folkestone & District Water Company	3.5% Ord 4.9% Ord 4.9% Ord (1953) 7.0% Ord	19.9% 25.0% 25.4% 27.2%	Water supply	4.1	0.3
Mid-Sussex Water Company	3.325% Irred. Preference 4.9% Ord 7.0% Ord	10.1% 25.5% 45.8%	Water supply	15.4	2.1
West Kent Water Company	3.5% Cons Ordinary	24.7%	Water supply	1.8	0.2
<i>Related company</i>					
Stalwart Environmental Services plc	Ordinary	50.0%	Waste management		

*Profit is after charging tax and extraordinary items (if any)

Group five year summary

	1990 £m	1989 £m	1988 £m	1987 £m	1986 £m
Turnover	225.8	204.1	189.5	176.9	160.6
Profits					
Profit before interest	78.3	93.3	96.1	82.5	74.7
Interest (net)	(18.2)	(28.2)	(36.8)	(35.2)	(37.8)
Profit before taxation	60.1	65.1	59.3	47.3	36.9
Taxation	5.5	—	—	—	—
Profit after taxation	54.6	65.1	59.3	47.3	36.9
	P	P	P	P	P
Dividend per ordinary share	10.02	—	—	—	—
	£m	£m	£m	£m	£m
Assets employed					
Fixed assets	699.9	628.2	579.8	540.4	503.8
Investments	6.0	5.9	0.5	—	—
Net current liabilities	(24.5)	(74.9)	(69.0)	(55.5)	(61.4)
Long term liabilities	(4.4)	(223.0)	(239.4)	(272.5)	(277.5)
Net tangible assets	677.0	336.2	271.7	212.4	165.1
Capital and reserves					
Share capital	163.7	—	—	—	—
Share premium	0.3	—	—	—	—
Profit and loss account	513.0	336.2	271.7	212.4	165.1
	677.0	336.2	271.7	212.4	165.1

Changes have taken place during the year arising from capital restructuring, the regulatory regime, and the conversion to plc status. Accordingly, the comparability of the results for the year ended 31 March 1990 and prior years is limited and care should be taken in relating these figures

Notice of Annual General Meeting

NOTICE is hereby given that the first Annual General Meeting of Southern Water plc will be held at the Brighton Centre, King's Road, Brighton BN1 2GR on Thursday 30 August 1990 at 11.00 am, for the transaction of the following business:

Ordinary business

- 1 To receive the Report of the Directors and the audited accounts for the year ended 31 March 1990.
- 2 To declare a final dividend for the year ended 31 March 1990 of 10.02p per ordinary share.
- 3 To re-elect Mr P A Girle as a Director.
- 4 To re-elect Dr J M Westhead as a Director.
- 5 To re-appoint Coopers & Lybrand Deloitte as auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

- 6 To propose the following resolution as a Special Resolution:

THAT the Directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the said Act) pursuant to the authority conferred by a special resolution passed at the Extraordinary General Meeting of the Company held on 20 November 1989 as if Section 89 (1) of the said Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them (but subject to such exclusions, or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depositary receipts, the requirements of any regulatory body or any stock exchange or any other matter whatsoever); and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) hereof) of equity securities up to an aggregate nominal amount of £8,186,000; and provided further that this power shall expire fifteen months from the passing of this resolution or, if earlier, at the conclusion of the

next Annual General Meeting of the Company after the passing of this Resolution, save that the Company may prior to such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements notwithstanding the expiry of any power conferred by this Resolution.

Ordinary resolution

- 7 To propose the following resolution as a Ordinary Resolution:

That the Directors be requested to adopt the principle that the power contained in Article 135 of the Articles of Association of the Company should be exercised so that, to the extent determined by the Directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares in the Company, credited as fully paid, instead of cash, in respect of any final dividend to be paid for the financial year ending 31 March 1991 and any dividends to be paid in subsequent years as the Directors may consider appropriate.

By Order of the Board

Graham Nicholson
Secretary

31 July 1990

Registered office:
Southern House
Yeoman Road
Worthing
West Sussex
BN13 3NX

Notes

1 This notice of the Annual General Meeting of Southern Water plc is being sent to members and the registered holders of interim rights (including rights acquired in respect of Package Units (comprising shares in each water holding company including Southern Water plc)) in accordance with the Instalment Agreement dated 22 November 1989. The Instalment Agreement provides that until shortly after the final instalment of the purchase price is paid on 30 July 1991, shares in the Company on which instalments are payable will be held by Lloyds Bank Plc. Interim rights holders, who together with members are for convenience referred to as shareholders in these notes, can however attend, speak at and exercise voting rights at the Annual General Meeting.

2 Shares acquired by employees under the Free and Matching Offers are held by Trustees until December 1991 and employees holding shares acquired under the Free and Matching Offers will not be able to attend general meetings of the Company until the shares are registered in their names in December 1991. The employees can however instruct the Trustees how to vote on their behalf on any particular resolution if it is put to a formal vote on a poll at the meeting. A voting direction form is enclosed for employees concerned.

3 Subject to it being duly declared at the Annual General Meeting, the final ordinary dividend will be paid on 1 October 1990 to shareholders on the register at close of business on 23 July 1990.

4 A shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

5 Completion of the enclosed proxy form does not preclude a shareholder from attending the meeting and voting in person. Any instrument appointing a proxy, with the authority (if any) under which it is signed, or a certified or office copy of such authority, must be deposited with the Registrars not later than 48 hours before the time fixed for the meeting, or any adjournment thereof.

6 The register of directors' shareholdings and copies of directors' service contracts will be available for inspection at the registered office during normal business hours on any week day, excluding Saturdays and public holidays from the date of this notice until the date of the meeting and at the place of the meeting from 10.00 am until the conclusion of the meeting.

Resolutions - Explanatory notes

The Annual General Meeting is a meeting of shareholders which the Company is required to hold each year. There are resolutions before the meeting which shareholders will be asked to approve. Resolutions 1-5 and 7 are ordinary resolutions which may be carried by a simple majority of shareholders voting in person or by proxy; resolution 6 is a special resolution which the Companies Act 1985 requires to be carried by a 75% majority.

Resolution 1: to receive the report and accounts
The Directors of the Company are required to present to the meeting the Report of the Directors and the audited accounts for the preceding financial year.

Resolution 2: to declare a dividend
The declaration of a final dividend must be authorised by the shareholders and cannot exceed the amount recommended by the Directors in their report. If the meeting approves this resolution the dividend will be paid on 1 October 1990.

Resolution 3: re-election of Director
The Articles of Association (the rules which govern the Company's internal management) require any Director appointed by the Board to retire and seek re-election at the first Annual General Meeting next following his appointment. Mr PA Girle was appointed by the Board on 1 September 1989 and will seek re-election at this meeting.

Resolution 4: re-election of Director
The Articles also provide for the retirement of Directors, other than the Executive Chairman, by rotation each year. In accordance with these provisions Dr JM Westhead, will retire by rotation this year and seek re-election.

Resolution 5: appointment and remuneration of auditors
The Auditors of a company may not continue in that office unless re-appointed at the meeting at which the accounts are presented. The resolution proposes the appointment of Cooper & Lybrand Deloitte who under their former business name of Deloitte Haskins and Sells had been appointed by the Directors as the first auditors of the Company. As is common practice, the resolution also gives authority for the Directors to approve their remuneration.

Resolution 6: renewal of authority to allot shares
The Directors were given a general authority to allot ordinary share capital up to a maximum nominal amount of £217,423,000 at an Extraordinary General Meeting of the Company on

Notice of Annual General Meeting *continued*

20 November 1989. This authority to allot shares remains valid for a period of five years and therefore expires in 1994.

If the Directors propose to allot ordinary shares for cash (other than pursuant to an employee share scheme) Section 89(1) of the Companies Act 1985 requires such shares to be offered first to shareholders in proportion to their existing holdings. These are known as pre-emption rights. There may however be circumstances where, in the best interests of the Company, the Directors need the flexibility to finance business opportunities as they arise by the issue of ordinary shares. It is therefore common practice for companies to propose a special resolution to disapply the pre-emption requirements of Section 89(1) when the Directors wish to raise cash by way of the issue of new shares whose nominal value does not exceed 5% of the Company's issued share capital. This resolution therefore gives the Directors authority to issue for cash, new ordinary shares up to a limit of 5% of the Company's issued ordinary share capital without first offering the shares to existing shareholders. This authority will last until next year's Annual General Meeting or fifteen months after the passing of the resolution whichever is the earlier.

Resolution 7: scrip dividend

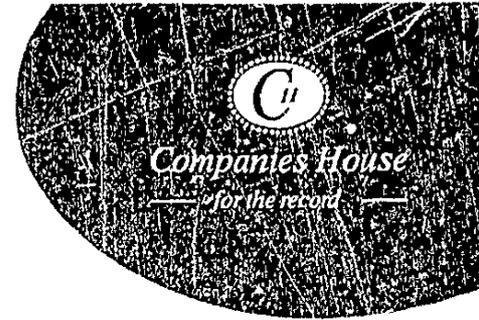
Article 135 enables the Directors, if authorised by an ordinary resolution of the Company, to offer shareholders the option to receive fully paid ordinary shares as an alternative to the cash which they would otherwise receive as a dividend. This is commonly referred to as a scrip dividend option. The Directors believe that this option will be of benefit to the Company and of particular value to shareholders who may wish to increase their holdings without incurring dealing costs. However as the final instalment in shares in Southern Water will not be paid until July 1991 it is not appropriate to offer this option in respect of any dividend for the financial year ended 31 March 1990 or any interim dividend for the year ending 31 March 1991. The Directors are however anxious that the principle of offering scrip dividends in future years should be considered by shareholders so that their views may be taken on the proposal and an appropriate resolution for the payment of a scrip dividend presented to the next Annual General Meeting of the Company.

It should be stressed that this resolution will not have the effect of authorising the Directors to permit shareholders to elect for a scrip dividend in respect of the dividend declared at this or any other meeting or any interim dividend.





**Southern
Water plc**
raising water work



NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company, contain some documents, which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause