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Southern Water plc

Annual Report 1991



Southern Water's Span of Operations

The collection, treatment and distribution of potable water.

The collection, treatment and recycling of wastewater.

The provision of services to domestic, commercial and industrial customers in the areas of civil, mechanical and electrical engineering, information technology, laboratory analysis, environmental assessment, estate management, vehicle leasing, contract plumbing, heating and ventilation and waste management.

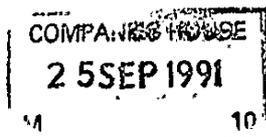
Southern Water's Mission

To provide first class, value for money service for all our customers.

To increase the profitability of existing companies and seek opportunities to develop related businesses for the benefit of our shareholders.

To give opportunities for achievement and reward to all our staff.

To protect and enhance the quality of the Environment for the benefit of the community.



COVER:
Water crowfoot photographed at the
Nature Reserve, Bewl Water, Kent

RIGHT:
Sunset sailing at Bewl Water

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Southern Water plc

Financial highlights

year-ended 31 March 1991



	1991	1990 Pro-forma	1990 Actual
Turnover	£251.2m	£225.8m	£225.8m
Profit before tax	£97.1m	£84.1m	£60.1m
Earnings per share	53.4p	46.4p	—
Dividends per share	17.7p	15.03p	—
Investment expenditure Tangible fixed assets	£125.9m	—	£111.4m
Infrastructure renewals	£15.4m	—	£14.1m
	£141.3m	—	£125.5m
Shareholders' Funds	£735.9m	—	£677.0m

Chairman's statement



It is with great pleasure that I present the Second Annual Report of Southern Water plc which, in fact, covers our first full year in the private sector.

After the momentous events of 1989 and the privatisation of the Water Industry, 1990 could have seemed an anti-climax. This has certainly not been the case – the year has been exciting and demanding. We have seen the continuing profitable development of our Group, together with the introduction of new services and products which will lead to increased growth and benefits for shareholders and customers alike.

I am delighted to report an excellent financial performance for the year ended 31 March 1991. Pre-tax profits have risen from £84.1 million on a pro-forma basis to £97.1 million with turnover increasing by 11.2% to £251.2 million. The Directors are recommending a final dividend of 11.8p (net) per ordinary share making a total for the full year of 17.7p (net). The Directors are also pleased to provide a scrip alternative for the final dividend for those who wish to build their shareholdings.

Whilst some of the freedoms of being in the private sector are becoming apparent there has also been a considerable amount of comment recently on the financial results of the water industry. Southern Water plc has consistently stated that its policy is to maintain a careful and suitable balance between the interests of shareholders and customers. Indeed, in the current year Southern Water Services, our regulated subsidiary, has chosen not to implement the full customer tariff increase

negotiated with the Government. In addition, the profit before interest of this subsidiary for the year ended 31 March 1991 is in line with the forecast profits agreed with the Government and against which the profile of future tariff increases was established. It must also be emphasised that the bulk of these profits – some two-thirds this year – is required to contribute to the funding of our massive capital investment programme.

It is pleasing to record that there has been steady development of our non-regulated activities which are mostly of organic origin and that earnings have increased in the year under review.

Southern Water Services Ltd

The principal subsidiary concerned with the supply of water and wastewater treatment has made encouraging progress in our drive to achieve further cost economies and more efficient working practices. This is important since we cannot be immune to national economic cycles, indeed the current recession has resulted in a decline in metered demand for water and wastewater services from industrial and commercial customers in the South East of England.

We are engaged on a huge programme of capital works needed to make good the neglect of many past decades and achieve the ever higher standards now demanded by the European Community, H.M. Government and its agent bodies such as H.M. Inspectorate of Pollution, the Drinking Water Inspectorate, the National Rivers Authority and the Ministry of Agriculture and Fisheries. Expenditure on capital works (including infrastructure renewals expenditure) amounted to £141 million during the year with an average of 500 contracts in progress or planned at any one time. Capital expenditure will be even higher in 1991/92 and over the next ten years will average more than £3 million per week.

Meanwhile excellent progress is being made on all compliance related projects and we are on target to meet our commitments in relation to relevant U.K. and E.C. standards.

Southern Water fully recognises the need for sensible regulation in the water industry and works closely with the Director General of Water Services and our other regulators. However, it must be understood that the extent of the regulatory regime now far exceeds anything that existed in pre-privatisation days and its growing costs and demands on our resources are causing concern – especially as these will ultimately have to be borne by

Chairman's statement *continued*

RIGHT:
One of the major works undertaken
by Southern Projects the £7M
Headworks at Broadstairs (Kent).

our customers. Furthermore, it is a fact that the customer cannot, in reality, have much influence on the setting of higher standards which largely emanate from the E.C. – he just has to pick up a larger bill year after year without really understanding why.

Southern Water has therefore implemented a policy which seeks lower cost solutions for the capital expenditure programme and will take positive steps to explain the benefits arising from specific projects, through carefully targeted local advertising.

We have experienced dry weather conditions for well over two years and in the Eastern part of our region water resources are depleted. Despite these adverse conditions we have succeeded in maintaining essential supplies to all our customers. We are making every effort to increase availability through reducing losses in the distribution system and by developing new water resources. The commitment of our staff and the co-operation of our customers in Kent and in parts of Sussex, in response to the difficult conditions, merits special mention.

Southern Water Services is structured so that there is a director, with a highly trained and experienced management team, in charge of each Division based on Hampshire, Sussex, Kent and the Isle of Wight. They are determined to offer a high level of customer care and good value for money in all the services they provide.

Other activities

The last year has seen the continued successful development of our non-regulated commercial activities.

Southern Science, Southern Projects, IT Southern, Topmark Vehicle Leasing and Bowsprit Estates have all increased their profits and have generated a growing volume of business outside the Group. Watercare has broadened its geographical coverage and extended the range of services it offers in the plumbing field resulting in a steadily growing turnover.

The launch of our new "Hazeley Down" range of high quality bottled mineral water is imminent, after most successful pilot trials.

A new Southern company, Sectron Systems Ltd, operating a high technology security monitoring service, has just commenced trading, with encouraging initial results.

It is also pleasing to report the continued advance of

Stalwart Environmental Services plc, our joint venture with SAUR (UK) Ltd. which has now won five major local authority contracts in waste management.

During the year we added two small businesses to the Southern Water Group; one, M.W. Longley Ltd., is a well respected heating and ventilation firm which will complement our existing activities and the other is a small software company specialising in advanced network modelling and process control.

Subsequent to the financial year end we have also disposed of our minority holdings in the three Water Companies controlled by SAUR Water Services plc. The development of good relations with SAUR through our Stalwart joint venture had largely achieved the original objectives of these shareholdings. The opportunity was therefore taken in April 1991 to realise these investments giving rise to an exceptional profit before tax of approximately £7 million.

The Future

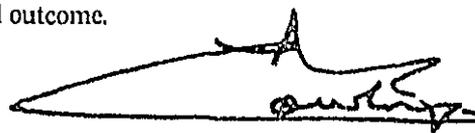
I believe that Southern Water plc has established a firm base for sound controlled growth. The important water and wastewater business is well founded, with high quality management and well on its way to achieving its quality targets.

The long suppressed entrepreneurial skills within the Group are responding to the more competitive climate of the private sector, encouraged by the introduction of remuneration schemes directly related to performance.

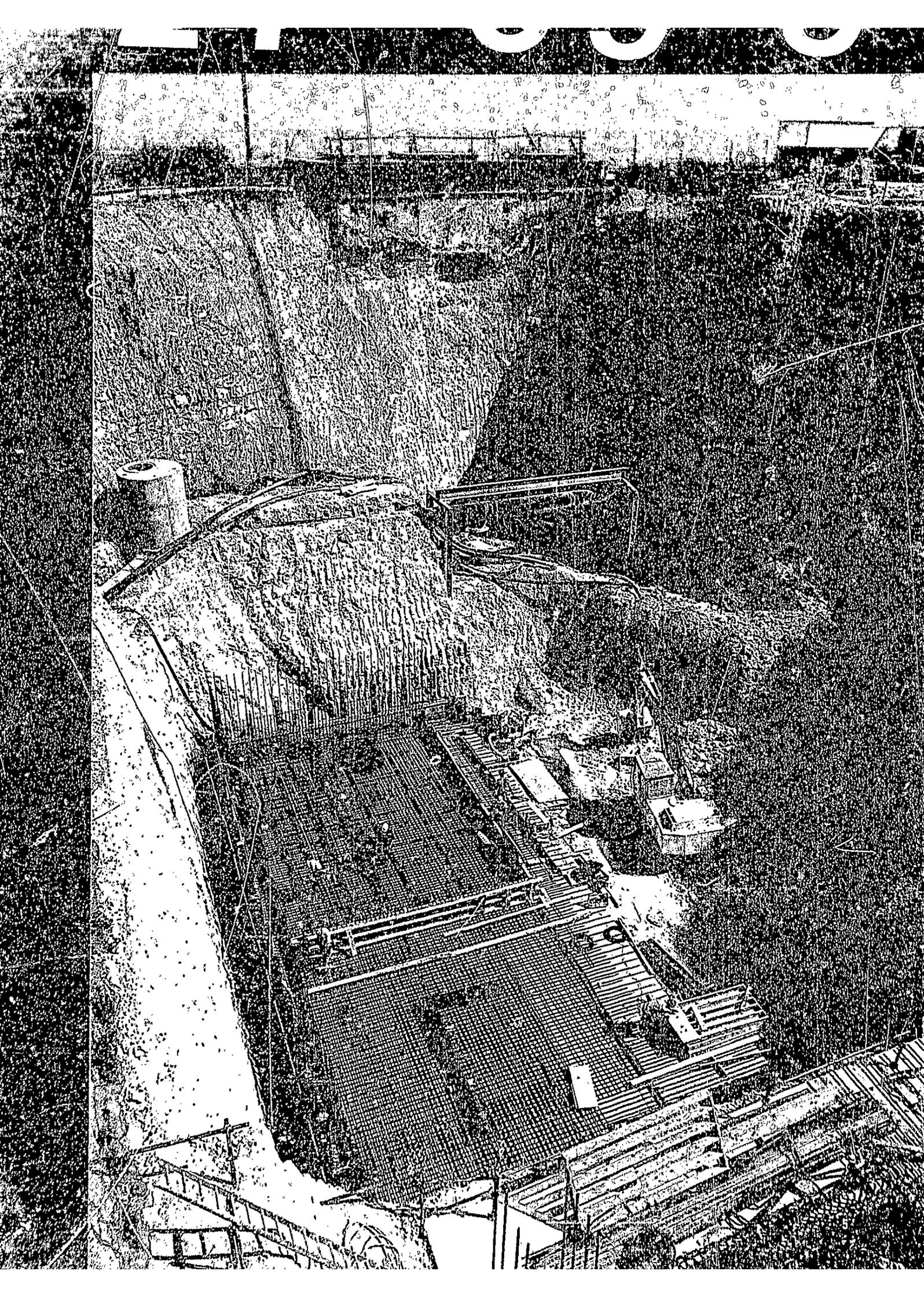
I must pay tribute to the relatively small Board of Executive and Non-Executive Directors whose experience, wide business skills and independent views combine to form an excellent and effective team.

Once again, I am pleased to commend the employees of the Group. The quality of their work, their loyalty and dedication at all levels is a key factor in the sound progress of our business.

It has been a year of achievement accompanied by a robust financial performance. The current year has started well and I look forward to reporting another successful outcome.



WILLIAM J.W. COURTNEY CBE
Chairman



The Board and Advisers



Graham Nicholson

John Westhead

Sir David Nicolson

William Courtney

William Courtney CBE

Executive 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 Vice Chairman of the Water Services Association and Chairman of the Water Byelaws Advisory Service and of the Water Industry Certification Scheme. He is also Chairman of the British Board of Agreement, which assesses and certifies new building materials.

Brian Thorpe CBE LLM

Non Executive Deputy Chairman

Brian Thorpe has been Deputy Chairman since the inception of the Company in 1989, having been Deputy Chairman of the Southern Water Authority from 1983. He was Chief Executive of Southern Water Authority from 1974 until his retirement in 1988. 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(ECON) FCA

Group Finance Director

Martyn Webster has been Group Finance Director since the inception of the Company. He qualified as a chartered accountant with Price Waterhouse for 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 Plc.

Francis Midmer

C ENG, FICE FIWEM FBIM

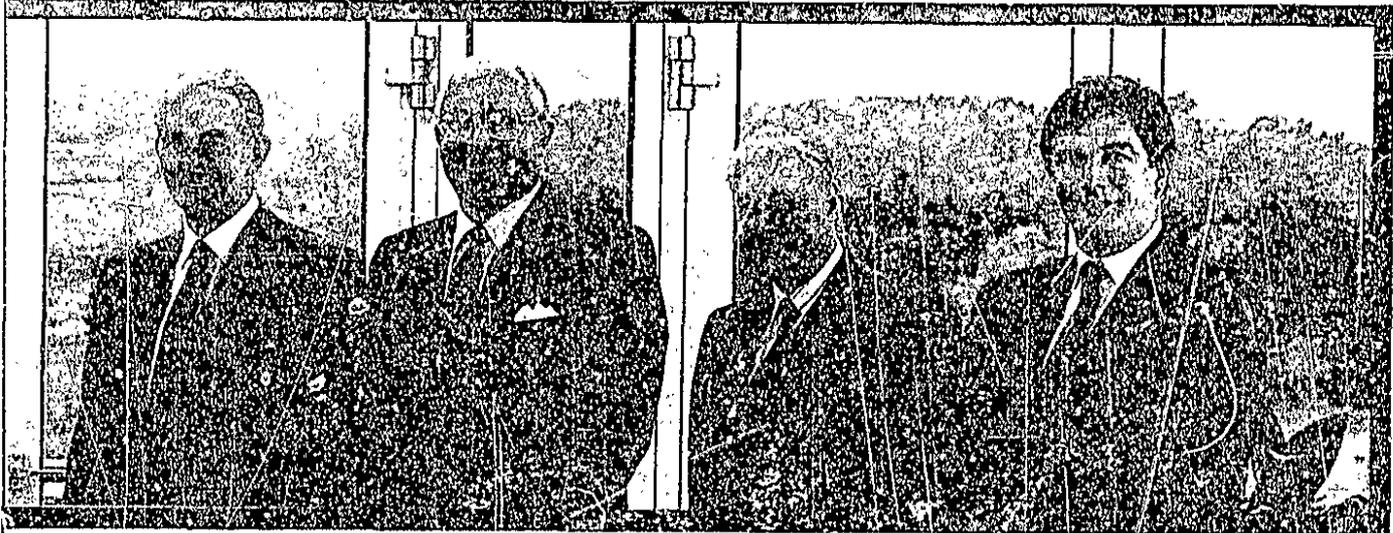
Group Technical Director

Francis Midmer has been Group Technical Director since the inception of the Company having worked in the water industry since 1949. He was appointed Director of Technical Services of Southern Water Authority in 1985 and joined that Board in 1988. Mr Midmer is currently a member of the Water Services Association Environmental Issues Committee, and is also Chairman of the Industry's Process Systems Committee. He is a Board member for the Management Committee of the Foundation for Water Research.

Philip Girdle FCIB FBIM

Non Executive Director

Philip Girdle 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 former Director of Yorkshire Bank he has been involved in all aspects of banking - retail, merchant and international.



Brian Thorpe

Philip Girle

Francis Midmer

Martyn Webster

John Westhead

MA DPHIL C ENG FIEE CBIM
Non Executive Director

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 Director of TLC Plc and is a past Vice-President of the Telecommunications, Engineering and Manufacturing Association.

Sir David Nicolson FIC FENG
Non Executive Director

Sir David joined the Board of Southern Water Authority in June 1989 and was appointed a Director of the Company in September 1989. He currently holds directorships in a number of companies including DRG, Invesco MIM, Northern Telecom and STC. He has had a long and distinguished career in industry and is a former Chairman of BTR and British Airways.

Graham Nicholson IPFA

Company Secretary
 Registered Office:
 Southern House
 Yeoman Road
 Worthing
 West Sussex BN13 3NX

PROFESSIONAL ADVISERS:

N M Rothschild & Sons Limited	Merchant Bankers
Rowe & Pitman	Stockbrokers
Herbert Smith	Legal Advisers
Coopers & Lybrand Deloitte	Auditors
National Westminster Bank Plc	Bankers
Manufacturers Hanover Limited	Bankers
Lloyds Bank Plc	Registrars
R Watson and Sons	Actuaries
Hillier Parker	Property Advisers
Hudson Sandler Limited	Financial Public Relations
Nicklin Advertising	Advertising Agents

Review of operations

At 31 March 1991 the Southern Water Group of Companies comprised Southern Water plc, the holding company, Southern Water Services Ltd., the principal subsidiary providing water and wastewater services and a number of other wholly owned operating companies together with an associated company involved in waste management.

Southern Water Services Limited

This company is the Group's principal subsidiary and provides water supply and wastewater services for commercial, industrial and domestic premises in Hampshire, Kent, Sussex and the Isle of Wight. The area extends from Broadstairs (Kent) in the east, to Barton-on-Sea (Hampshire) in the west.

WATER SUPPLY

740 million litres of potable water are supplied on average every day to industry and over two million domestic customers. Water quality is continuously monitored from the 115 water supply works to customer premises against standards established under the Water Quality (Drinking Water) Regulations laid down by the Government.

Almost three-quarters of the potable water supplied through the 14,050 km of water mains is derived from groundwater sources; the remainder is taken from rivers and reservoirs. Groundwater is naturally filtered through porous rock before abstraction and therefore is cleaner, and generally less expensive to bring up to drinking water standards than



RIGHT:
Underground storage reservoir
(Brighton).

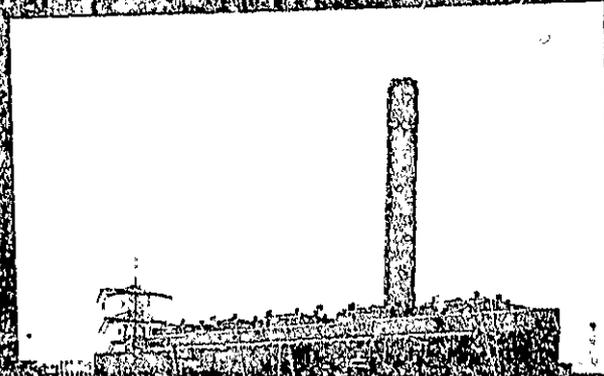
surface water. However demand in our supply area continues to grow and increasingly non-groundwater sources are being sought.

Despite the exceptionally dry weather conditions which have persisted for more than two years, we maintained supplies through the tap for all domestic purposes. This was a result of the prodigious efforts of our staff and the co-operation of customers particularly in Kent and parts of Sussex in response to hose-pipe restrictions.

Much work has taken place to alleviate the impact of the dry weather and there has been refurbishment of previously abandoned wells and increased production from under-utilised sources as well as the commissioning of new trunk mains.

The company is also committed to the never ending task of seeking out water losses within the distribution system. Electronic leak detection equipment and meters to facilitate detection of losses have brought great advances. A proportion of what are called "losses" are, however, legitimate use of water - e.g. water used for fire-fighting or flushing water mains and sewers. Distribution losses can be attributed to leaks from customers' own pipes and taps as well as our own mains.

The company is the leading exponent of large scale metering in the country. The operational experience which has been gained metering the Isle of Wight and a part of Hampshire under the national metering trials, means that we will be well equipped to make the major policy decisions needed on the future charging arrangements for water.



Grain Power Station, one of Kent's largest water users which takes some 1.3 million cubic metres of water from supply each year - a vital commodity for turbine generated electricity.

A dramatic photograph taken at Sheerness Steel where water is an essential part of the process. It takes approximately one ton of water to make one ton of Steel and Sheerness Steel used almost 750,000 cubic metres of Southern's water last year. Being a very large user of water the Company does all it can to conserve water in the various processes.

WASTEWATER TREATMENT AND DISPOSAL

The stringent new requirements from both UK Government and the European Commission results in the largest proportion of our capital investment during this and subsequent years being directed at improvements in both inland and marine wastewater treatment works.

965 million litres of wastewater are collected, treated and recycled every day using over 24,760 km of sewers with 393 wastewater treatment works. In addition there are 40 marine sites serving coastal areas.

Southern Water is acutely aware of the importance of bathing water quality and is committed to a substantial development programme in long sea outfalls and associated treatment facilities. In addition there are "fast-track" projects underway at many inland treatment works to maintain and further improve the high level of effluent quality achieved in 1990/91.

Improvements in standards however are not only being achieved through our large capital expenditure programme. There is intensified management focus on training and development programmes to raise skills and ensure the full use of new technologies to meet the new higher levels of service and compliance.

Only the Southampton area is affected by the Government's decision to ban disposal of sewage sludge to sea after 1998. A composting process is being developed to handle the resultant sludge production. The composting solution represents the most environmentally, financially and socially acceptable option.

Responsible environmental policies, careful use of resources and recycling are issues in which HRIH Prince Charles takes an active interest. During the year, the company has been honoured to

The IBM factory at Havant where the component parts of direct access storage devices (DASD) enter the Kerry water cleaner prior to assembly in the clean room.

At this plant IBM also purchase methane from Southern Water's Budds Farm Wastewater Treatment Works to part fuel their central heating system.

Water test area at Ford's, Swaythling, Hampshire. Home of the Transit.

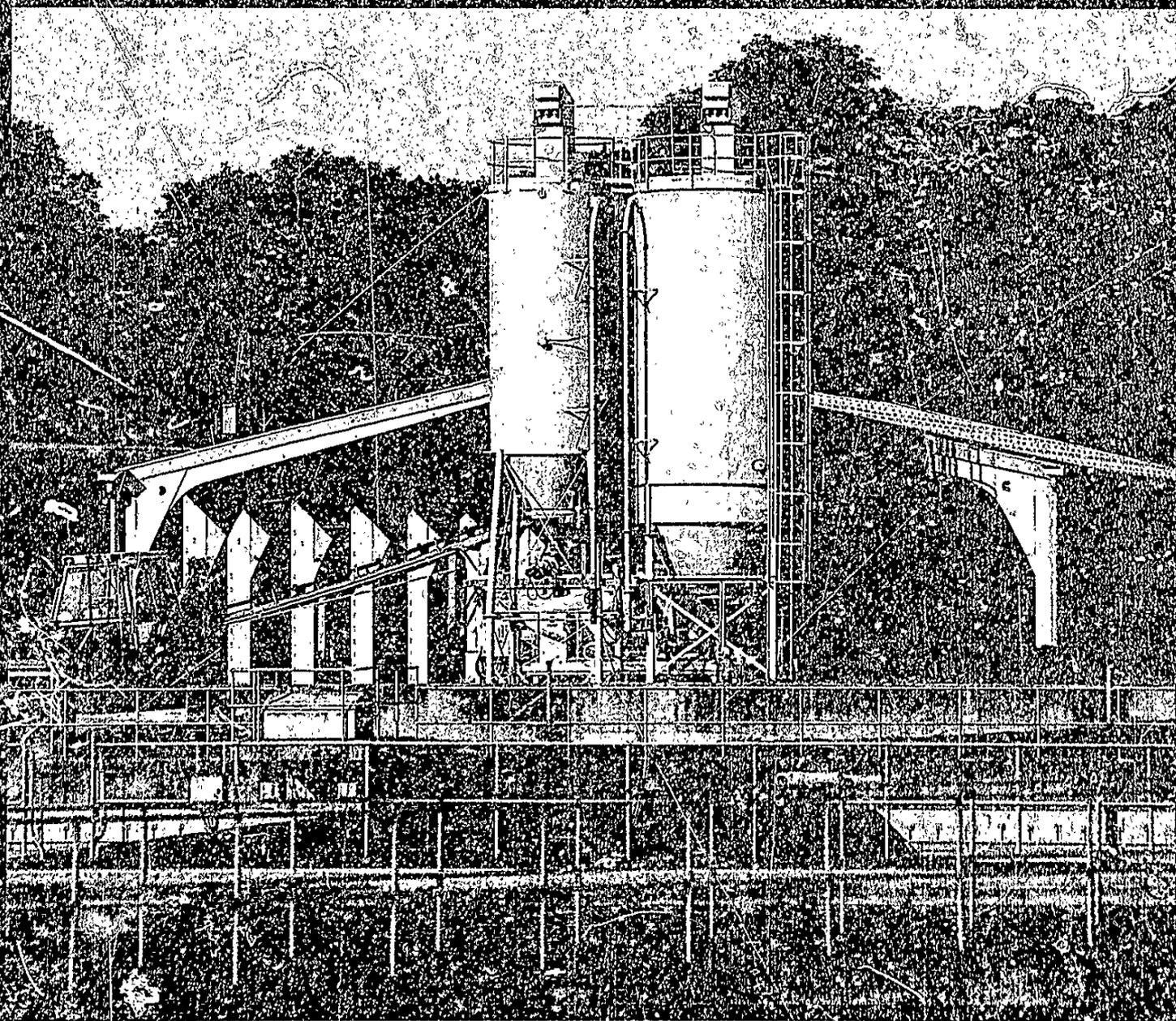
This test takes 2 minutes per vehicle and the water is recycled and renewed twice a week.

welcome the Prince on two occasions: to inspect the chemico-physical Clariflow wastewater treatment works at Sandown, on the Isle of Wight, and to Horsham, in Sussex, to discuss the N-Viro sludge composting process, the first of its kind in the country.

In March 1991 the text of the Municipal Wastewater Directive was agreed by the European Environment Ministers. This sets standards for effluents discharged to the sea and all water courses depending on their size and likely impact on the receiving water.

The main work in this country will be to improve some discharges to estuaries and the sea. Once the appropriate national standards have been established detailed submissions will need to be made to the Department of the Environment. This is expected to be in 1993.

The N-Viro sludge composting plant at Horsham (Sussex).

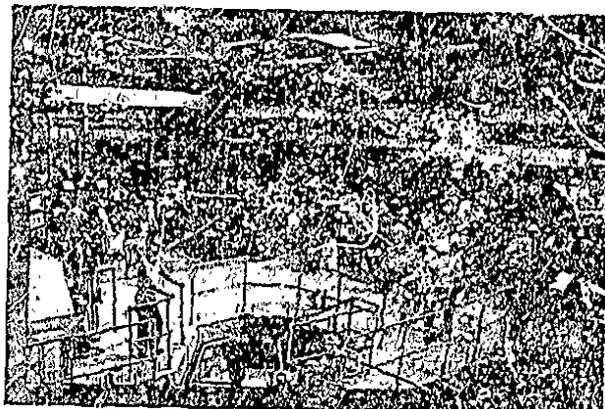


Divisional structure

Southern Water Services Limited has an organisational structure unique to the privatised water businesses being based on four divisions, each headed by a Director who is on the Water Services Board. This ensures that customers are in close communication with Divisional Centres providing comprehensive water and wastewater services where all the necessary skills are available to deal both with routine problems and full scale emergencies. It is evident from the very successful "Shareholders Open Days" (which are to be repeated in 1991) that many shareholders appreciate the information and guidance that is available from Divisions.

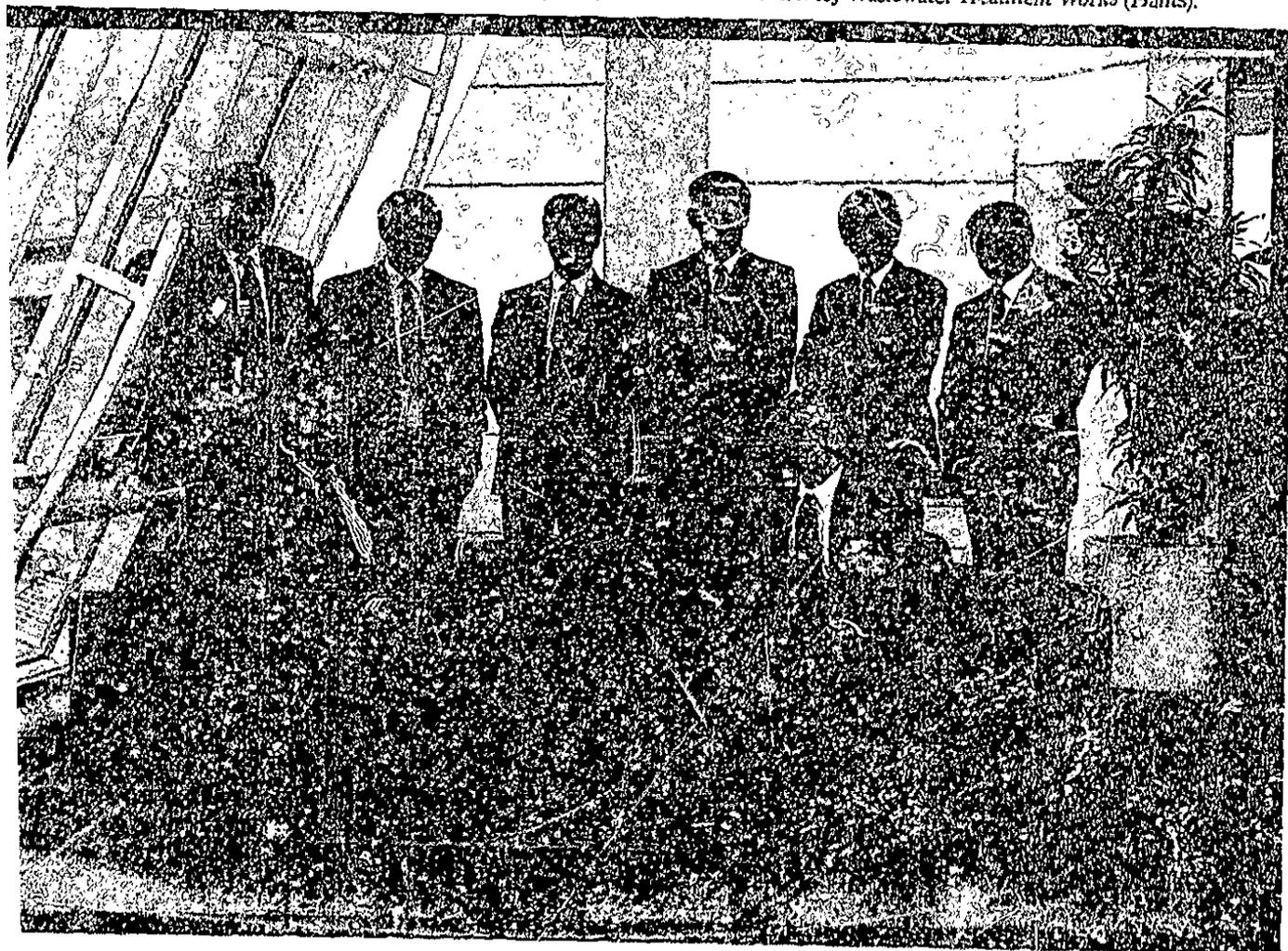
Southern Water Services Board

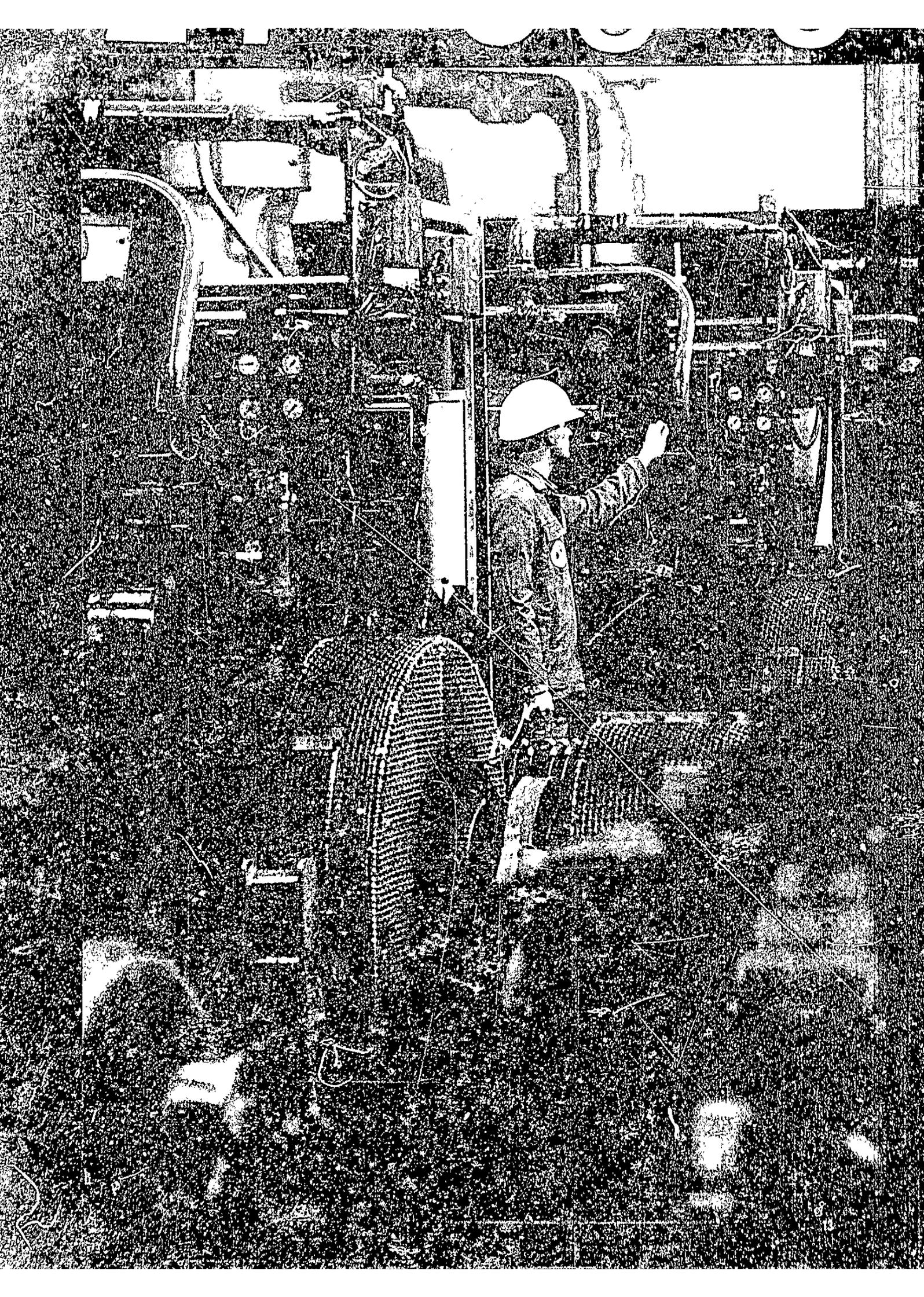
SEATED - William Courtney (*Chairman*) Bruce Hewett (*Managing*) STANDING - Keith Tozzi (*Sussex*) Richard Clayton (*Technical*) Michael Hollywood (*Finance*) Alastair Smith (*Island*) Graham Setterfield (*Kent*) Graham Nicholson (*Secretary*). Not present: Francis Midmer (*Group Technical*) and William Cutting (*Hampshire*).

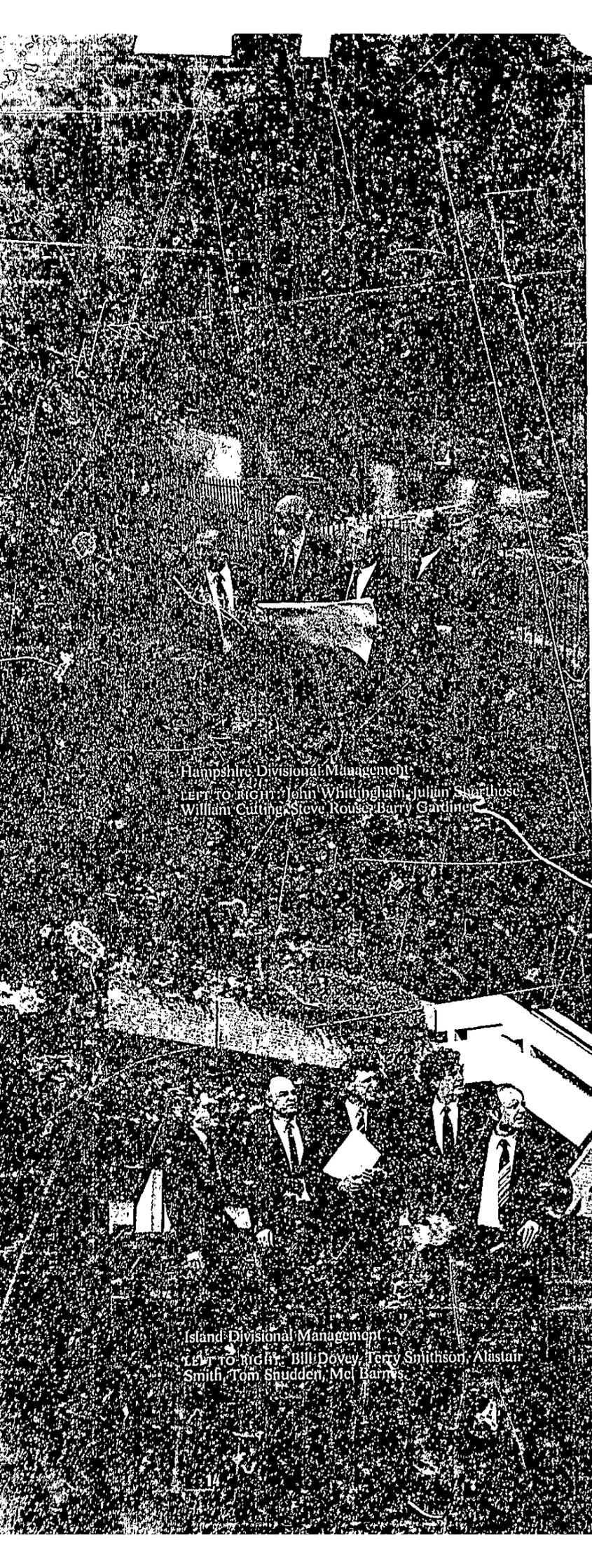


Shareholders inspecting the Headworks at Cowes Marine Treatment Works (Isle of Wight).

RIGHT: Phil Jackson operates the refurbished standby Diesel Engines at Eastney Wastewater Treatment Works (Hants).







Divisional highlights

Hampshire

Sewage sludge from Southampton currently being disposed to sea will be discontinued by 1995, three years ahead of DoE deadline.

All Hampshire's bathing waters achieved EC standards in 1990.

UK's longest sea outfall (5.7 km) at Eastney (Portsmouth) was pulled into position in September 1990 to be commissioned by the summer of 1991.

Hampshire County Council agreed to ban the use of the pesticides atrazine and simazine. Progress made with several other major users, in particular British Rail and other local authorities.

Division was the winner of the Hampshire Award: Business and the Environment, for its initiative in developing a butterfly reserve at Yew Hill service reservoir.

Planning progressed for Testwood Lakes – a future water resource for Southampton.

Hampshire Divisional Management
Left to right: John Whittingham, Julian Starbuck,
William Cutting, Steve Rouser, Barry Gardiner

Isle of Wight

Installation of 48,000 water meters for national trial completed (over 90% of domestic properties).

10 designated bathing waters (out of a total of 13) achieved EC bacteriological standards in 1990.

Ryde beach achieved EC standards following completion of £14 million investment programme over three years. It then passed Bathing Quality Standards in 1990 after failing all previous years.

Distribution losses from company and customer pipes reduced to record low levels.

Cowes sewerage system substantially completed at a cost of nearly £13 million. The final stage will be completed in the winter of 1991.

Cowes headworks completed and outfall brought into operation.

Isle of Wight Divisional Management
Left to right: Bill Dovey, Terry Smithson, Alastair
Smith, Tom Shudden, Mel Barnes

Kent

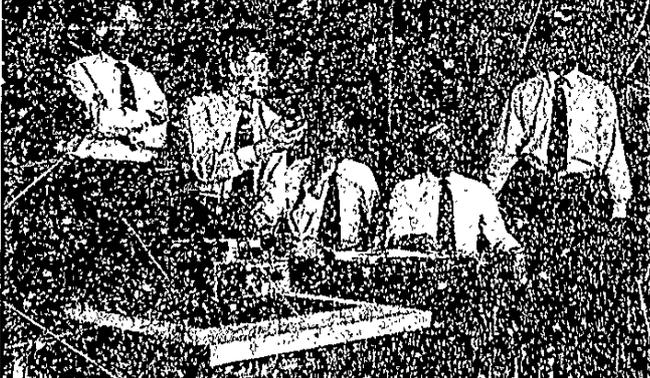
- Additional 15 million litres of water per day brought into supply from new and refurbished boreholes.
- Good progress made with other water companies to develop a new resource, Broad Oak Water, near Canterbury.
- Installation of granular activated carbon filters at Burham Water Supply Works has overcome taste problems for Medway towns.
- New outfall and headworks completed at Broadstairs Wastewater Treatment Works to achieve bathing water compliance.
- New sludge digesters completed at Canterbury, enhancing wastewater treatment process.
- A new service for industrial wastewater/oil separation commenced at Motney Hill.

Sussex

- Progress underway for raising existing dam at Darwell Reservoir (near Robertsbridge, East Sussex) to provide four times the existing capacity. Target date for completion is summer 1996.
- Completion of first stage of high-tech Clariflow marine treatment works at East Worthing to produce effluent of high quality.
- Scaynes Hill Wastewater Treatment Works, which serves Haywards Heath, was completed with subsequent major improvements to the quality of local watercourses.
- Existing water resources refurbished and an additional borehole constructed to further secure resource reliability.
- Development of N-Viro sludge recycling process at Horsham Wastewater Treatment Works to produce an environmentally friendly soil substitute from a previous waste product.
- Screening installed at all coastal outfalls.



Kent Divisional Management
LEFT TO RIGHT: Ray Collett, Ken Shave, Dennis Preston,
Graham Sutherland, Derek Gittis.



Sussex Divisional Management
LEFT TO RIGHT: John Bosley, Keith Tozzi, Ray Mills,
Derek Bloss, Stuart Derwent.

Southern Science Ltd.

Southern Science with three large strategically located laboratories, offers a comprehensive package of analytical, environmental and water resource expertise, both field and laboratory based.

Several new services are under development and Aquacert is one such service launched in the autumn to complement the wide range of analyses already available. It provides a total "health check" for heating, ventilation and plumbing systems, to ensure freedom from pathogenic bacteria such as *legionella*.

Southern Projects Ltd.

Southern Projects provides a total civil, electrical and mechanical engineering design, project management and consultancy service both within and outside the Group. A substantial part of the investment programme of Southern Water Services is handled by the experienced civil, mechanical and electrical engineers in Southern Projects.

Work completed for Southern Water Services has included many multi-million pound projects focused on marine and inland wastewater treatment works to meet government and EC directives, as well as other major distribution schemes, renovation works etc.

Asset performance investigation including computerised water distribution and wastewater catchment modelling has been provided to a growing U.K. client base during the year. In addition the company secured its first overseas contract to survey distribution losses in two major Peruvian conurbations where the latest technology and specifically designed computer software was used. Training local waste control staff was an integral part of the package negotiated with the Overseas Development Agency and the



Nigel Radstock representing Southern Science at a shareholders' open day on the Isle of Wight.

company played a key role in improving health standards in this under privileged area.

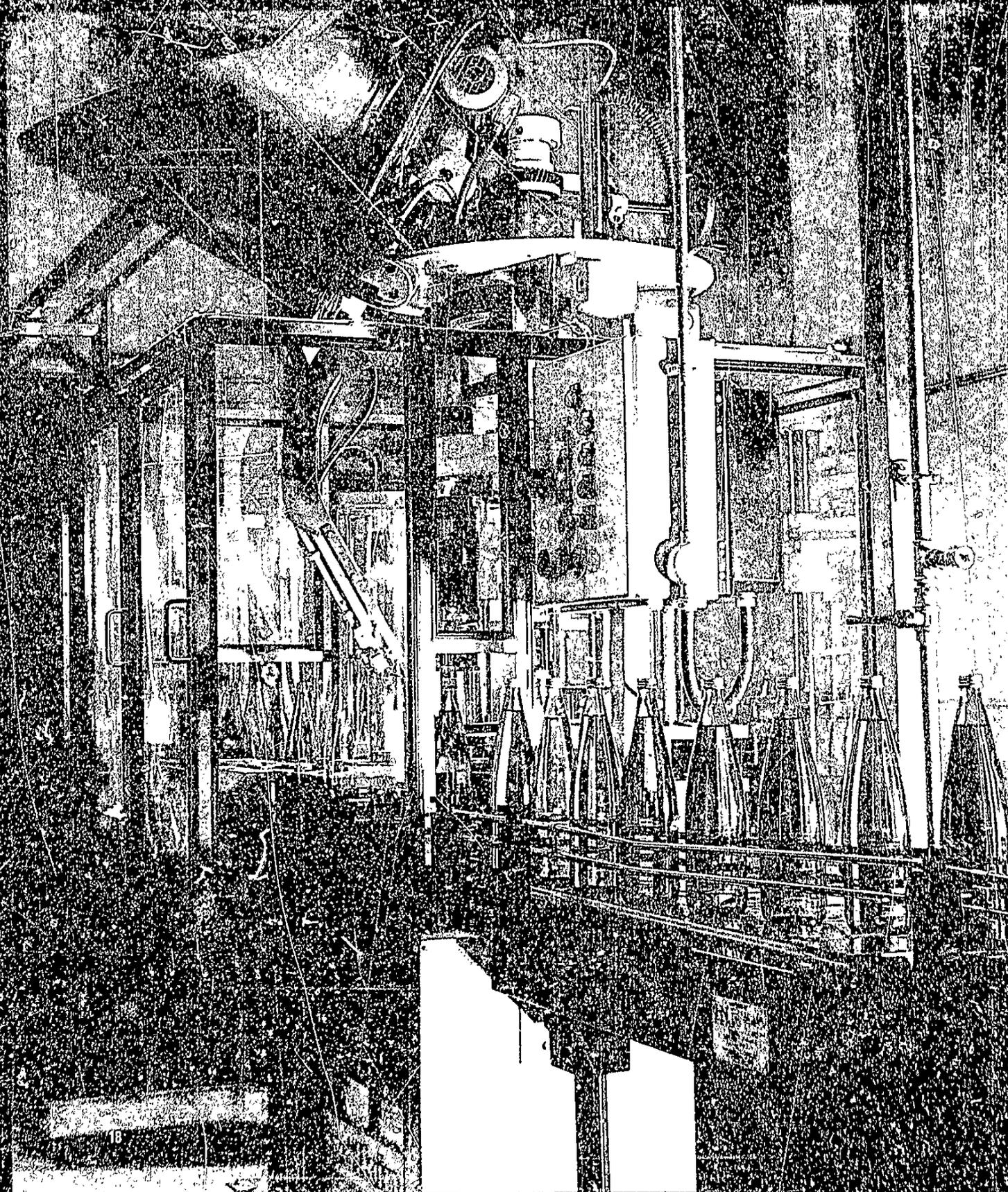
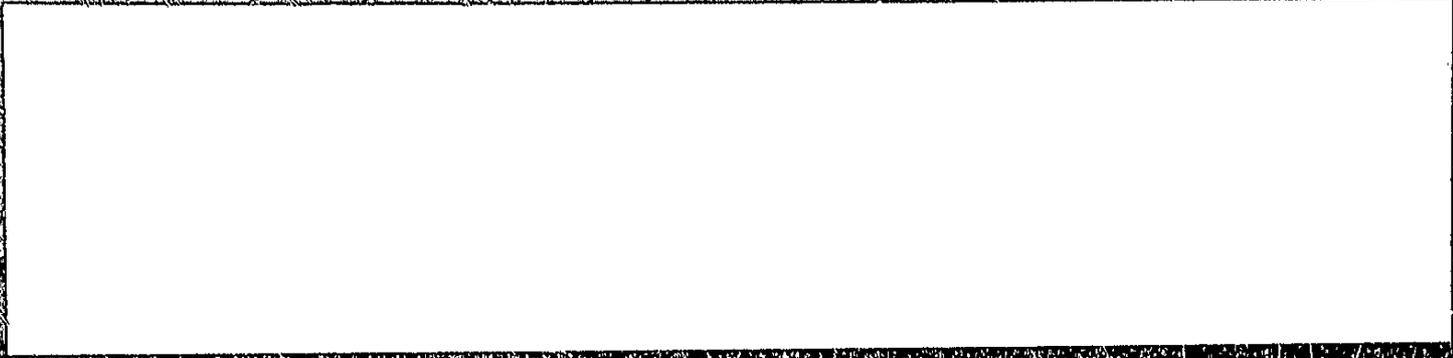
IT Southern Ltd.

This Information Technology company combines the complex interaction of highly sophisticated computer hardware and the intellectual skills of software development to provide the basic information needs of the Group. Several external market sectors have

also been identified which are being developed by the company in the competitive market place. These key sectors are geographic information systems (GIS) - building on the award winning CAD/CAM recognition in 1990, billing services, office automation, IT consultancy and IT training.

RIGHT:
Tom Brooker oversees the Specialist Billing developed by IT Southern for Cable Television.





Topmark Vehicle Leasing Ltd.

A major leasing company of heavy vehicles, vans, cars and plant, Topmark has targeted an important niche in the vehicle leasing market, by focusing particularly on commercial vehicles and specialist heavy vehicles. These are supplied, either as standard, or customised to meet the operator's particular requirements at competitive rates and backed with a full service organisation.



ABOVE:
One of the many specialist vehicles provided by Topmark.



Hazeley Down Mineral Water Co. Ltd.

Developed during the current year this company aims to meet consumers' needs for a high class mineral water at a reasonable price. Considerable research across the region for a pre-eminent high quality mineral water available for bottling at source resulted in a decision to develop a bottling plant in the glorious Hampshire Downs at Twyford. The water is of a quality which can only be provided by a chalk source coming from deep underground and great care has been taken in establishing the bottling plant so that it meets the landscape requirements of the site. Already acclaimed by fortunate samplers of the bottles from the pilot plant, "Hazeley Down" will be available in the summer of 1991.

LEFT:
The Hazeley Down Bottling Plant on a site developed by Bowsprit.

Bowsprit Holdings Ltd.

Bowsprit provides property management and valuation services and currently oversees over 8,000 acres of commercial, industrial, residential and agricultural property. Within this portfolio, activities include the management of a commercial fruit farm, a 1,000 acre woodland estate and the establishment of a number of sites suitable for advanced radio communication.

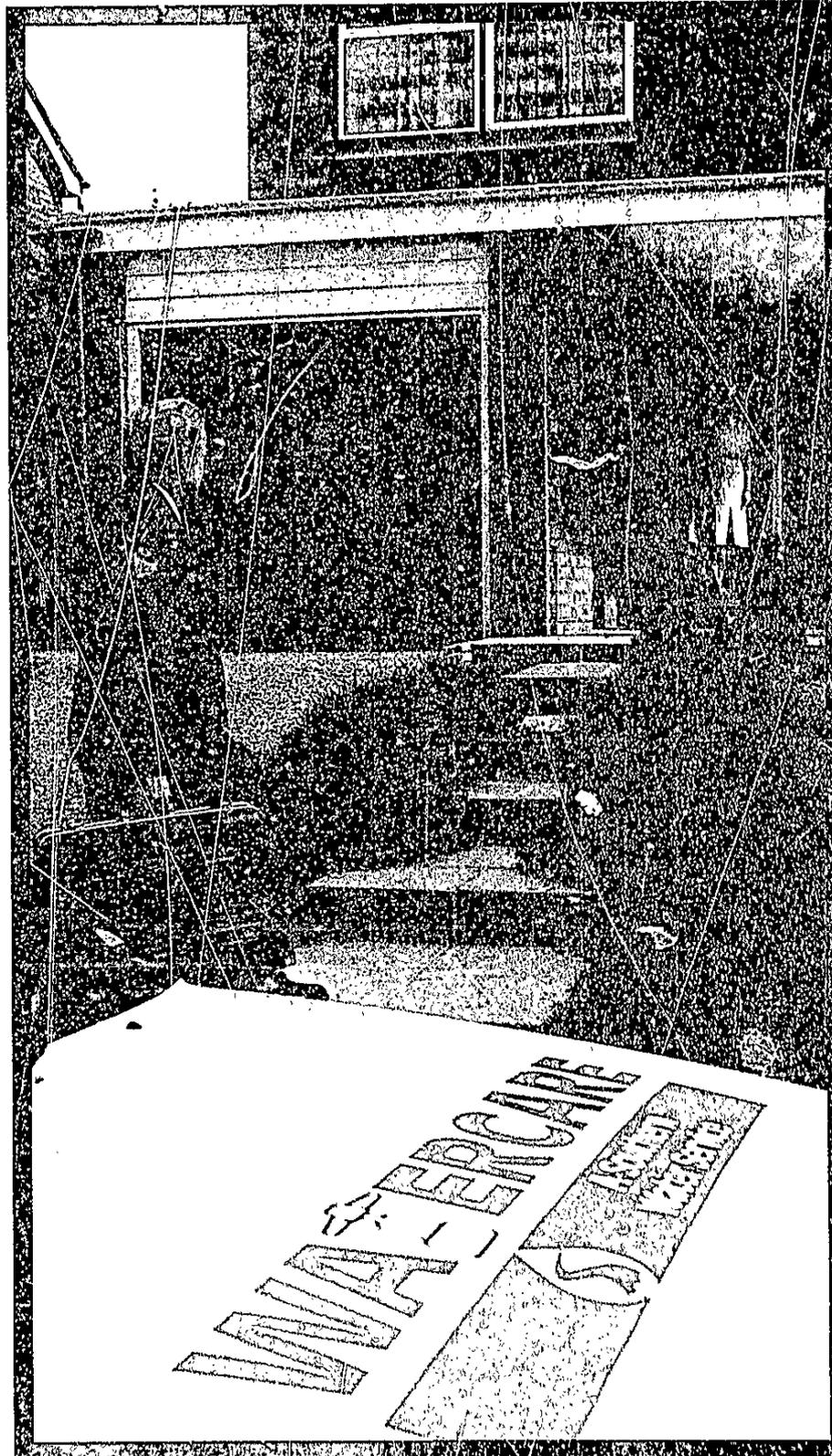
On behalf of the Group the company has secured the acquisition of a wide range of properties from houses and commercial properties to agricultural and woodland areas and is actively pursuing management and valuation services outside the water industry. The company is well placed to take advantage of several development opportunities which will figure in future reports as they come to fruition.

Southern Watercare Ltd.

Southern Watercare Ltd., offers a unique contract service to both domestic and commercial customers which includes an annual plumbing inspection and 24-hour emergency cover 365 days a year which has recently been augmented by a drain clearing service. Watercare also provides installation, maintenance and repair of domestic and commercial water installations and apparatus.

Watercare engineers are trained to operate to demanding quality and service levels. Working from a home base enables technicians to be closer to their customer, whilst a single control centre with a 24-hour telephone call availability maximises operational efficiency. The steadily growing number of customers reflects the need for the service which provides the peace of mind that only subscribers can enjoy.

In February the company began work on a £1.3 million contract for Southampton City Council to replace lead service pipes to council homes.



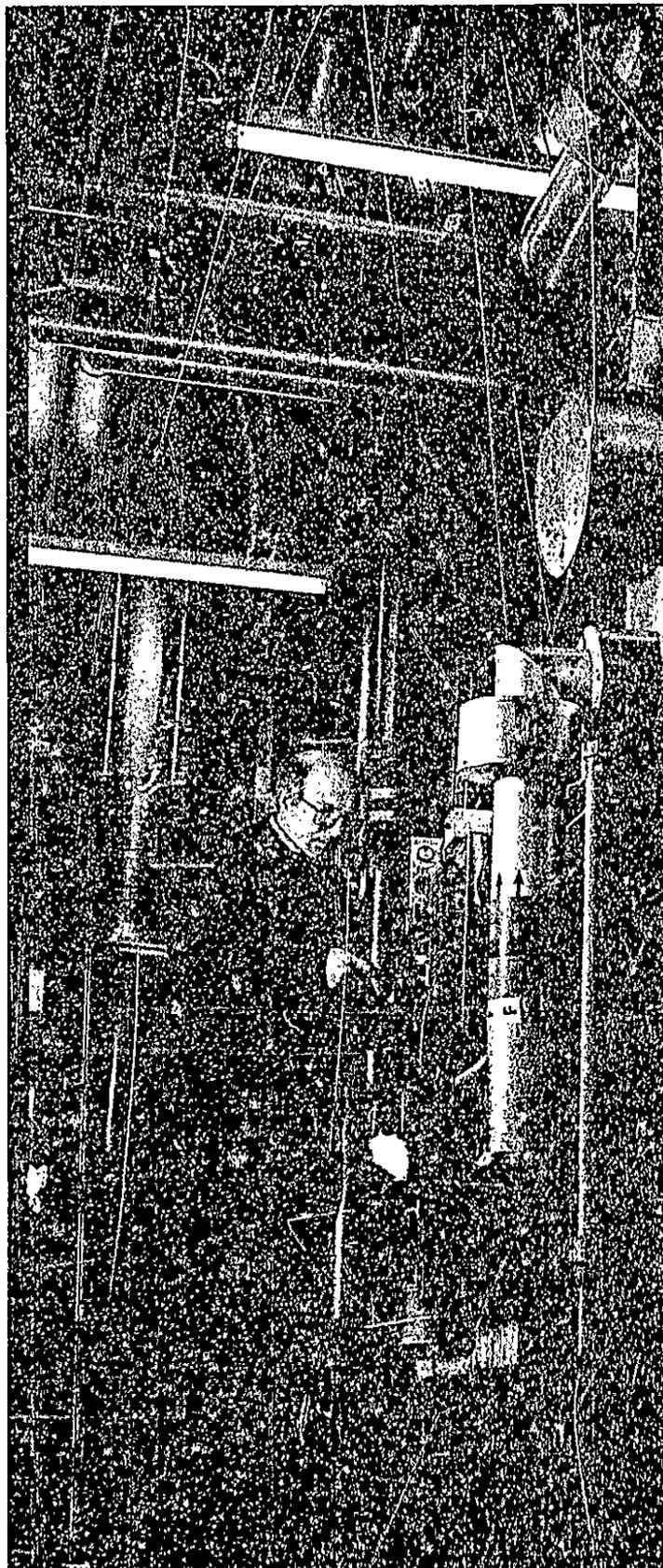
David Voice attends a Watercare call out.

**Tynemarch Systems
Engineering Ltd.**

Tynemarch enjoys a high reputation for its sophisticated engineering software services, particularly in the areas of process control and network modelling. The Company was acquired at the end of January 1991 and will maintain a strict confidentiality on all its clients contracts.

M W Longley Ltd.

M W Longley Limited, a well-established heating and ventilation contractor based at Folkestone, Kent, became the Group's first acquisition in December 1990. Longleys have been servicing commercial, industrial, civic and domestic customers in the South East since 1934 and have grown steadily by always recognising the importance of providing a quality service for every single customer. Heating and ventilation systems are linked with water services and this acquisition offers a natural development of the Group's services, complementing our growing plumbing service - Watercare - and the Aquacert service of Southern Science.



Keith Stickells of Longley's inspects a typical installation.



Refuse collection at Gosport (Hampshire) by Stalwart.

Stalwart Environmental Services plc

Stalwart Environmental Services plc is a joint venture between Southern Water plc and SAUR (UK) Ltd., a subsidiary of the major French company. Stalwart operates in the environmental management field, offering services from refuse collection and street cleansing to site maintenance and waste recycling. The company works in partnership with local authorities and commercial clients to solve and to manage environmental challenges to high professional standards.

During the year Stalwart commenced work on contracts for refuse collection in the London Borough of Harrow and street cleansing for East Hertfordshire District Council. In addition a tender, for the Gosport Borough Council refuse contract,

was successful in February, and subsequent to the year end two other major contracts have been won at Uttlesford (Essex) and Spelthorne (Surrey).

The Environmental Protection Act 1990 imposes a "duty of care" on all landowners, whether domestic, commercial or industrial. A dynamic young company backed by two major groups, Stalwart is well placed to provide expertise and management to assist clients with their new responsibilities.

McDowells Ltd.

Subsequent to the year end the Group's consulting and project engineering expertise has been augmented by the acquisition of McDowells Ltd., a well respected firm of design consultants specialising in civil, structural, highway and public health engineering.

Sectron Systems Ltd

Another of the Group's recently established companies, Sectron Systems Ltd will be offering in 1991 a security service to both public and private sectors as well as to the domestic market. Exploiting the latest technology for security monitoring, access and process control services, the experienced management will address each client's particular security arrangements, tailoring their requirements to the most effective combination of manpower and hardware. Subsequent to the end of the year contracts have been obtained with the City of Plymouth to maintain their CCTV system and with Worthing Borough to install a security system for the internationally renowned bowling greens.

People

At the end of Southern Water's first full year in the private sector staff numbers have increased to just over 3,000, largely as a result of the successful development and acquisition of new subsidiary businesses.

It is recognised that an expanding Group, especially one which provides major services to every individual in the region, needs to ensure that employees have a thorough understanding of their Group and develop their full potential for the continued well being of the Group. This year has seen the consolidation of many existing communication and development programmes and the initiation of some new ones.

An expanded induction programme introduces new staff from all companies in the Group to the fundamentals of customer service, team work and quality standards. Following on from the successful "young employee development conference", a parallel programme has been introduced for staff who have been in post somewhat longer. This initiative has proved very valuable, both in terms of individual development and for releasing untapped potential.

The employment package for staff was enhanced during the year with the launch of "Well-Man" medical checks in the workplace, to complement the existing programme for women, both services now being an important part of the care provided by a good employer. The value of reliable and regular employee communications, through publications such as Southern Water News and planning briefings is part of the process of ensuring employees are better informed and better equipped to meet the challenges of the future.

The Group recognises that staff are important in promoting a positive

public image of the company and are the company's best ambassadors for customers and the general public. The customer awareness programme for employees highlights the importance of the customer in achieving commercial success. This is supported by other initiatives, including quality circles and the launch of a new employee suggestions scheme "Pipedreams", which has

already produced cost saving ideas across the Group.

In conclusion, it is pleasing to report that Peter Langridge, a personnel officer from Southern Water Services Sussex division, was awarded the BEM in the 1991 New Year's Honours list in recognition of his services in the field of employee welfare.



Our regular communication for employees.

Environmental Southern

Southern Water has always had the reputation of preserving and enhancing the natural and industrial heritage within its region and continued emphasis on these matters is given great importance in the Group. Managers with designated conservation responsibilities ensure there is no detrimental impact on the local environment from both proposed capital works and the day-to-day activities of the various companies.

With the Group owning over 8,000 acres in the south of England, including land within the boundaries of Sites of Special Scientific Interest (SSSI), close liaison with the Nature Conservancy Council and local naturalists' groups ensures that all our sites are managed sensitively. Links with many other "expert" groups also help Southern Water to

realise the potential of many natural habitats and changes have been made to the management of sites to allow seeding of wild flowers, which in turn attract a greater diversity of insect life. Wild orchid and many species of butterfly, some of them quite rare, also benefit from these practices. Highlights of the Group's activities are as follows:

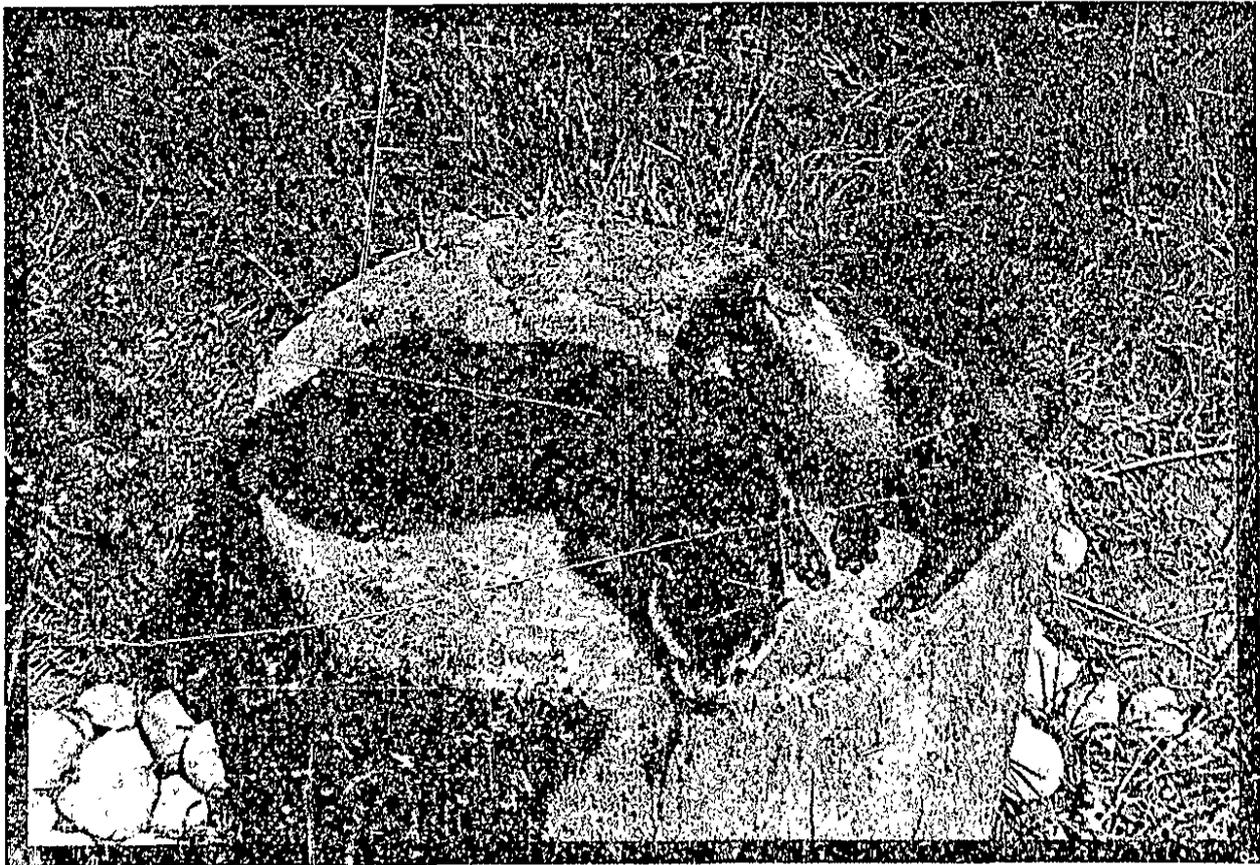
- Hampshire "Business in the Environment" Award presented by Dr. David Bellamy to Hampshire Division for their butterfly reserve.
- Southern Water again promoted "Pond Week" in association with the British Trust for Conservation Volunteers in the Isle of Wight.
- "Hopline 91" - a froggy appeal by county naturalists is supported by Southern Water to enable over

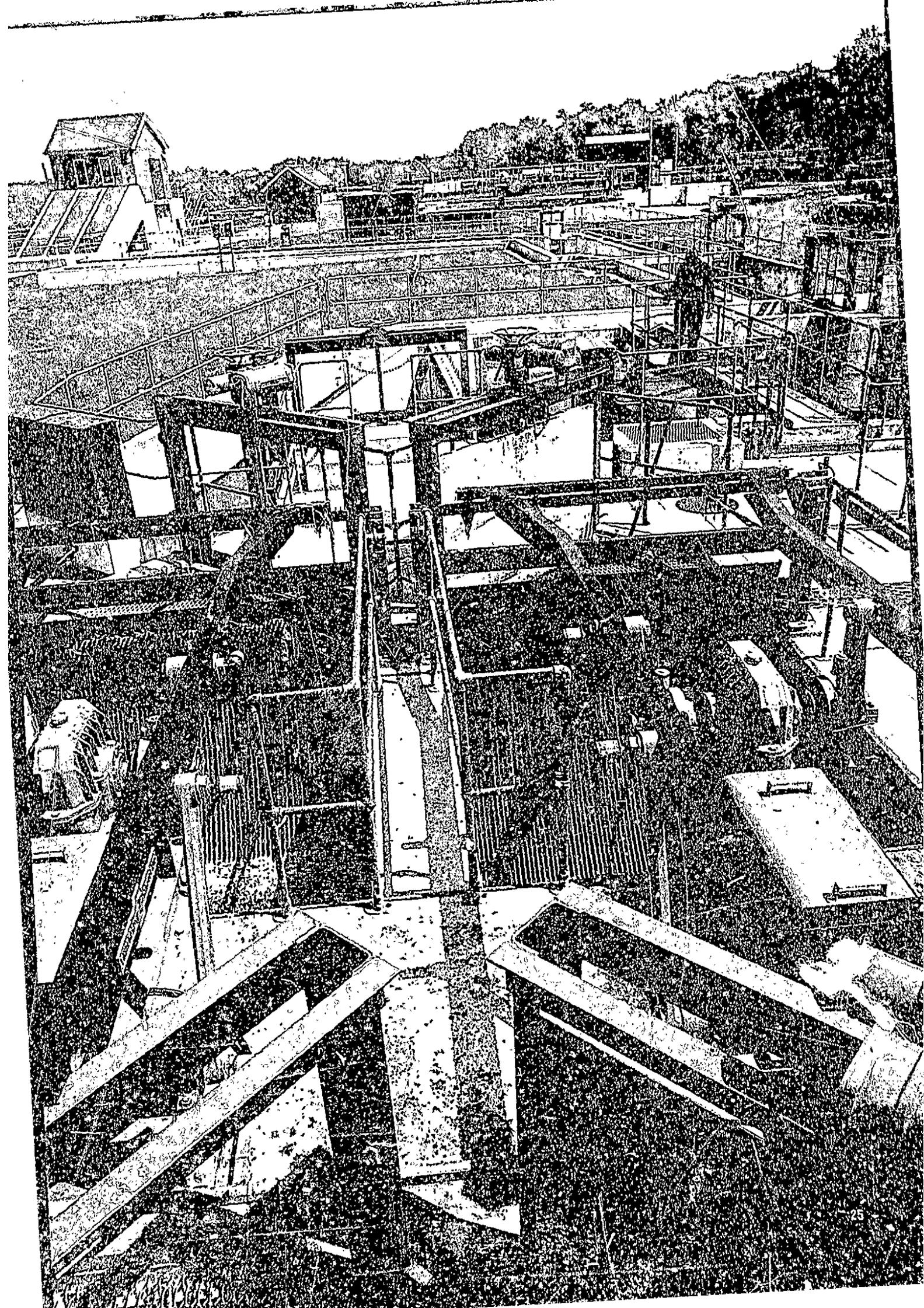
RIGHT:
Scaynes Hill Wastewater Treatment Works (Sussex) opened by David Trippier (Minister for the Environment and Countryside) in October 1990.

2,000 callers on the service to give or take frog spawn in order to protect our native amphibians.

- Links with county archaeologists continue and an Anglo-Saxon burial ground at Sarre (Kent) was discovered during excavations for a new sewer.
- Bewl Water (Southern Water's biggest reservoir at Lamberhurst, Kent) opens a new nature trail, some three kilometres long, enhancing visitors' opportunities to discover local flora and fauna.
- A pair of otters (at Drusillas Zoo, Sussex) are sponsored by Southern Water.
- "Conservation Matters" published regularly (and as a supplement with this Annual Report).

Ollie and Crystal at Drusillas Zoo.





Directors' Report and Accounts 1991

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Report of the Directors

The Directors have pleasure in presenting their report together with the audited accounts for the year ended 31 March 1991.

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, heating and ventilation and waste management.

Review of operations

A detailed review of the Group's operations during the financial year is provided on pages 8 to 25 and a segmental analysis of turnover and pre-tax profit, between the principal activity and other activities, is provided in note 1 on page 36.

Profit and dividends

Profit on ordinary activities before taxation for the year was £97.1m (1990 £60.1m). Profit attributable to ordinary shareholders amounted to £87.4m (1990 £48.8m). An interim dividend of £9.7m (5.9p per ordinary share) was paid on 4 March 1991 and, subject to approval at the Annual General Meeting, a final dividend of £19.3m (11.8p per ordinary share) is proposed which will be paid on 1 October 1991 to shareholders on the register at 22 July 1991. A scrip alternative is being offered for the final dividend. The retained profit for the year, after deduction of dividends, amounts to £58.4m and has been transferred to reserves.

Prior year comparisons – pro-forma results

During the year ended 31 March 1990 significant changes occurred as a result of a major capital restructuring, the introduction of a regulatory regime and the conversion to plc status. Accordingly the comparability of the figures for the year ended 31 March 1991 and the prior year is limited and care should be exercised in relating these figures.

In order to reduce some of the distortions caused by these significant changes, the accounts for the year ended 31 March 1990 incorporated additional pro-forma results, designed to reflect the impact on last year's earnings had the capital restructuring and

public offer all been effected at the start of that financial year – 1 April 1989. On a pro-forma basis the results for the year ended 31 March 1990 were:

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 were 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 arose in respect of advance corporation tax, had been calculated assuming a pro-forma full year dividend of £24.6m.

Share capital

On 22 November 1989 the Secretary of State for the Environment 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 the final instalment of the purchase price has been paid to HM Government.

During the current financial year the Directors have issued, under the authority given at the first Annual General Meeting 40,452 shares in respect of the terms under which M W Longley Limited and Tynemarch Systems Engineering Limited were acquired.

In addition 1,197 shares were issued to holders on the exercise of their options under the Company's Sharesave Scheme.

As far as the Directors are aware, no person had a beneficial interest in 3% or more of the issued ordinary share capital at 25 June 1991 except for the following:

Friends Provident Life Office	4.05%
British Rail Trustee Company Ltd	3.42%

Fixed assets

Capital expenditure on tangible fixed assets totalled £125.9m during the year. Details of changes in fixed assets during the year are summarised in note 9 on page 39.

Report of the Directors *continued*

Acquisitions and investments

On 31 December 1990 the Company acquired the entire issued share capital of M W Longley Ltd, a firm of heating and ventilation engineers based in Kent. The purchase consideration amounting in total to £447,000 was satisfied as to £409,000 in cash and the balance by the allotment of 12,024 fully paid ordinary shares of Southern Water plc.

On 31 January 1991 the Company acquired the entire issued share capital of Tynemarch Systems Engineering Limited a firm involved in process control and sophisticated computer modelling. The purchase consideration amounting to £150,000 was satisfied as to £55,000 in cash and the balance by the allotment of 28,428 fully paid ordinary shares of Southern Water plc.

Subsequent to the year end the Company has disposed of its minority holdings in the Eastbourne Water Company, the Mid-Sussex Water Company and the West Kent Water Company for a cash consideration resulting in an exceptional profit of approximately £7m.

Research and development

The improvement of existing services and processes and the identification and development of new technologies and solutions for our industrial processes 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 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.

Employment policies

The Group 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 jobs and equipment are made to enable them to be employed. The Group has promoted the Employee Sharesave Scheme and is introducing performance related pay as a means of motivating employees in the objectives of performance efficiency and service to our customers.

Other information on employee involvement and communication is given in the Operations Review on pages 8 to 25.

Directors

The Directors of the Company at the date of this report are shown on pages 6 and 7. The Directors retiring by rotation at the Annual General Meeting in accordance with Article 106 are Mr B R Thorpe and Mr F N Midmer. Both, being eligible, offer themselves for re-election. Mr F N Midmer has a service agreement terminable on not less than thirty six months notice. Mr B R Thorpe, a non-executive director, has no service agreement.

The remuneration of executive directors is controlled by a Remuneration Committee consisting entirely of non-executive directors.

Directors' share interests

The interests of the Directors shown in the register maintained under the provisions of the Companies Act 1985 as at 31 March 1991 are set out below:

	Beneficial holdings		Share options			
	Ordinary shares		Executive option scheme		Sharesave scheme	
	1991	1990	1991	1990	1991	1990
W J W Courtney	9,032	6,032	140,000	100,000	6,136	6,136
P A Girdle	540	240				
F N Midmer	4,595	3,595	165,000	85,000	4,766	-
Sir David Nicolson	260	260				
B R Thorpe	5,560	5,560				
M R Webster	10,000	10,000	105,000	85,000	4,766	-
J M Westhead	500	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 1991 to 25 June 1991.

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.

Directors' and officers' liability insurance

The Company purchases liability insurance covering the directors and officers of the Company and its subsidiaries.

Donations

Charitable donations during the year amounted to £20,000. 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, and to authorise the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By Order of the Board

GRAHAM NICHOLSON

Secretary

25 June 1991

Accounting policies

Basis of accounting and consolidation

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The consolidated Group accounts include the accounts of the parent company and all its subsidiaries. The accounting year end for all subsidiaries is 31 March with the exception of two subsidiaries acquired during the year whose results and net assets are not material in the Group context.

The results of businesses acquired or sold during the year are included in the Group accounts from or to their respective dates of acquisition or disposal.

Comparative figures

During the year ended 31 March 1990 significant changes occurred as a result of a major capital restructuring, the introduction of a regulatory regime and the conversion to plc status. Accordingly, the comparability of the figures for the year ended 31 March 1991 and the prior year is limited and care should be taken in relating these figures.

Turnover

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

Depreciation of fixed assets

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

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

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

Grants and contributions

Grants and contributions received in respect of additions to non-infrastructure fixed assets are shown as deferred credits and released to profit over the useful lives of the relevant assets. Previously these items were deducted from the cost of the relevant

additions. This change in accounting policy has no impact on current or prior year earnings but the prior year balance sheet has been restated to reflect the change in categorisation.

Payments received for new connections to the infrastructure network are accounted for as non-specific capital receipts and credited to the appropriate fixed asset category in order to show a true and fair view.

Leased assets

Fixed assets leased to Southern Water Services Limited under finance leases are capitalised and depreciated in line with the Group's depreciation policy.

Fixed assets leased to all other Group companies under finance leases are capitalised and depreciated over the shorter of their estimated useful lives or the lease period. The interest element of finance lease repayments is charged against profit in proportion to the balance of the capital repayments outstanding.

Rental costs under operating leases are expensed as incurred.

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 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 held, at 31 March 1991, 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.

Goodwill

Goodwill representing the excess of the acquisition cost of subsidiaries, or investments in associated companies, over the fair value of the net assets acquired is written off against reserves.

Stocks and work in progress

Stocks used internally for operational and engineering purposes are stated at cost less provision for damage and obsolescence. Other stocks and work in progress are valued at the lower of cost and net

realisable value. Cost includes labour, materials and relevant overheads.

Research and development

Research and development expenditure is expensed in the year in which it is incurred.

Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. 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 1991

	Notes	1991 £m	1990 £m
Turnover	1	<u>251.2</u>	225.8
Profit before interest	2	90.5	78.5
Interest (net)	4	<u>6.6</u>	(18.2)
Profit on ordinary activities before taxation		97.1	60.1
Taxation	5	<u>(9.7)</u>	(5.5)
Profit on ordinary activities after taxation		87.4	54.6
Extraordinary items	6	<u>—</u>	(5.8)
Profit attributable to ordinary shareholders		87.4	48.8
Dividends	7	<u>(29.0)</u>	(16.4)
Retained profit	19	<u>58.4</u>	32.4

Significant changes took place during the year ended 31 March 1990 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 1991 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 19.

Consolidated balance sheet

at 31 March 1991

	Notes	£m	1991 £m	£m	1990 £m	£m
Fixed assets						
Tangible assets						
Investments	9	781.0			704.6	
	11	6.0			6.0	
				787.0		710.6
Current assets						
Stocks						
Debtors	12	3.7			3.1	
Deposits and cash	13	65.2			44.6	
		55.5			29.6	
				124.4		77.3
Current liabilities						
Amounts falling due within one year:						
Short term borrowings	14	8.1			2.3	
Other creditors	15	115.0			99.5	
						123.1
Net current assets (liabilities)				1.3		(24.5)
Total assets less current liabilities				788.3		686.1
Creditors						
Amounts falling due after more than one year:						
Bank and other loans						
Grants and contributions	16	(41.4)			(2.0)	
		(5.9)			(4.7)	
Provision for liabilities and charges	17			(47.3)		(6.7)
				(5.1)		(2.4)
				735.9		677.0
Capital and reserves						
Called up share capital						
Share premium account	18		163.8			163.7
Profit and loss account	19		0.4			0.3
	19		571.7			513.0
			735.9			677.0

The financial statements on pages 30 to 45 and 47 and 48 were approved by the Board on 25 June 1991 and signed on its behalf by:

W J W Courtney CBE

Chairman

M R Webster

Director



M. R. Webster

Company balance sheet

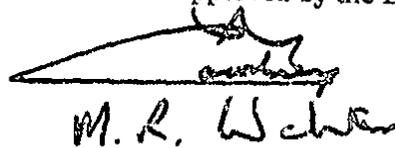
at 31 March 1991

	Notes	£m	1991 £m	£m	1990 £m	£m
Fixed assets						
Tangible assets	9	0.7				
Investments						
Group companies	10	293.1		57.4		
Other investments	11	6.0		6.0		
			299.8			63.4
Current assets						
Debtors						
Deposits and cash	13	71.0		296.7		
		63.1		30.1		
		134.1		326.8		
Current liabilities						
Amounts falling due within one year:						
Other creditors	15	40.6		30.8		
Net current assets						
			93.5			296.0
Total assets less current liabilities						
			393.3			359.4
Provision for liabilities and charges						
	17		(1.5)			
			391.8			359.4
Capital and reserves						
Called up share capital	18		163.8			163.7
Share premium account	19		0.4			0.3
Profit and loss account	19		227.6			195.4
			391.8			359.4

The financial statements on pages 30 to 45 and 47 and 48 were approved by the Board on 25 June 1991 and signed on its behalf by:

W J W Courtney CBE

Chairman



M R Webster

Director

Consolidated statement of source and application of funds

for the year ended 31 March 1991

	1991		1990	
	£m	£m	£m	£m
Source of funds				
Consolidated profit on ordinary activities before taxation	97.1		60.1	
Extraordinary items	—		(5.8)	
Depreciation	27.8		22.2	
Movement on provisions	2.7		2.4	
Amount written off investment	0.1		—	
		127.7		78.9
Extinguishment of government debt	—		276.2	
Transfer to (from) reserves	0.6		(14.1)	
Shares issued and movement in share premium	0.2		—	
Government share subscription	—		46.3	
Grants and contributions	22.5		14.8	
Proceeds on disposal of fixed assets	0.4		2.7	
		23.7		325.9
Application of funds				
Capital expenditure	(125.9)		(111.4)	
Investments	(0.1)		(0.1)	
Goodwill on acquisitions	(0.3)		—	
Dividends	(26.1)		—	
Taxation	(5.5)		—	
Working capital				
Stocks	(0.6)		0.6	
Debtors	(20.6)		(10.8)	
Creditors	8.4		25.9	
		(170.7)		(95.8)
		(19.3)		309.0
Provided by				
Cash and short term borrowings		20.1		88.0
Bank and other loans		(39.4)		221.0
		(19.3)		309.0

Notes to the accounts

Note 1 Segmental information	(a) Segmental information Southern Water Group	Turnover	Profits	Turnover	Profits
		1991 £m	1991 £m	1990 £m	1990 £m
	Principal activity	242.4	84.5	218.5	73.8
	Other activities	8.8*	6.0	7.3*	4.5
	Interest (net)		6.6		(18.2)
		<u>251.2</u>	<u>97.1</u>	<u>225.8</u>	<u>60.1</u>

*After eliminating inter company transactions

(b) Geographical information

During the years ended 31 March 1990 and 31 March 1991 all material activity was conducted in the United Kingdom.

Note 2 Profit before interest	1991 £m	1990 £m
Turnover	251.2	225.8
Cost of Sales	(129.2)	(116.4)
Gross profit	122.0	109.4
Administration expenses	(33.6)	(32.3)
Other operating income	2.1	1.2
Profit before interest	<u>90.5</u>	<u>78.3</u>
Profit before interest is stated after charging:		
Depreciation on:		
Own fixed assets	26.2	20.5
Fixed assets held under finance leases	1.6	1.7
	<u>27.8</u>	<u>22.2</u>
Infrastructure renewals	15.4	14.1
Audit fees	0.1	0.1
Rentals under operating leases	0.2	0.1
Research and development	1.0	1.0

Note 3**Directors and employees**

(a) *Staff costs*
(including Directors' emoluments)
 Wages and salaries
 Social security costs
 Other pension costs

1991
 £m

1990
 £m

45.5
 3.5
 5.1
 54.1
 48.3

(b) *Average number of persons employed*
 Principal activity
 Other activities

1991
 Number

1990
 Number

2259
 669
 2928
 2217
 573
 2790

(c) *Directors' emoluments*

Fees
 Other emoluments
 (including pension contributions)
 Compensation for loss of office

£000
 £000
 Seven months
 from 1 September
 1989

65
 368
 —
 433
 28
 222
 219
 469

£000
 £000
 Seven months
 from 1 September
 1989

The emoluments of the Executive Chairman
 and the highest paid Director (excluding
 pension contributions) were as follows:

Chairman 142 46
 Highest paid Director 59

In the year ended 31 March 1991 the Chairman was also the highest paid
 Director. No Directors' emoluments were incurred in the period from
 1 April 1989 to 31 August 1989.

(d) *Directors*

The remuneration (excluding pension contributions) of Directors, other than
 the Chairman and highest paid Director was within the following categories:

£	1991 Number	Seven months from 1 September 1989 Number
0 - 5000	—	2
5001 - 10000	—	3
10001 - 15000	3	1
25001 - 30000	1	—
30001 - 35000	—	1
40001 - 45000	—	1
80001 - 85000	1	—
85001 - 90000	1	—

Notes to the accounts *continued*

Note 4	1991	1990
Interest	£m	£m
Bank loans, overdrafts and other loans:		
Repayable within 5 years not by instalments	0.4	20.0
Repayable after 5 years by instalments	0.7	—
Finance lease obligations	0.1	0.2
	<u>1.2</u>	<u>20.2</u>
Interest payable		
	1.2	20.2
Interest receivable	(7.8)	(2.0)
	<u>(6.6)</u>	<u>18.2</u>
<hr/>		
Note 5	1991	1990
Taxation	£m	£m
United Kingdom taxation:		
Advance corporation tax on dividends for the year	9.7	5.5
	<u>9.7</u>	<u>5.5</u>
<p>The Group has available £15.2m (1990 £5.5m) of unrelieved advance corporation tax and substantial unutilised capital allowances. At 31 March 1991 unutilised allowances existed in respect of expenditure qualifying for plant and machinery allowances of approximately £522m and £40m in respect of expenditure qualifying for industrial building allowances.</p> <p>Until such time as a foreseeable liability to mainstream corporation tax arises, the only tax charge to the profit and loss account will be in respect of advance corporation tax.</p>		
<hr/>		
Note 6	1991	1990
Extraordinary items	£m	£m
Privatisation costs	—	4.4
Pre-1974 pension obligations	—	1.4
	<u>—</u>	<u>5.8</u>
<hr/>		
Note 7	1991	1990
Dividends payable	£m	£m
Interim of 5.9p (1990 Nil) per ordinary share	9.7	—
Final proposed of 11.8p (1990 10.02p) per ordinary share	19.3	16.4
	<u>29.0</u>	<u>16.4</u>

A scrip alternative is being offered for the final dividend.

Note 8
Earnings per
ordinary share

Earnings per share for the year ended 31 March 1991 amount to 53.4p per ordinary share based on earnings before extraordinary items of £87.4m and the weighted average number of shares in issue during the year of 163,733,000.

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 Directors' Report, earnings per share for 1990 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	Group Infra- structure assets £m	Other £m	Total £m	Company Other £m
<i>Cost</i>	Balance at 1 April	281.3	130.5	334.8	78.9	825.5	—
	Reclassification and accounting policy change	(15.0)	27.9	0.8	(8.8)	4.9	—
	Additions	56.3	31.7	38.0	19.9	125.9	0.9
	Grants and contributions	—	—	(21.3)	—	(21.3)	—
	Disposals	—	(2.8)	—	—	(2.8)	—
	Balance at 31 March	302.6	187.3	352.3	90.0	932.2	0.9
<i>Depreciation</i>	Balance at 1 April	43.6	44.3	—	37.7	125.6	—
	Reclassification and accounting policy change	(2.5)	10.3	—	(7.6)	0.2	—
	Charge for year	7.4	12.5	—	7.9	27.8	0.2
	Disposals	—	(2.4)	—	—	(2.4)	—
	Balance at 31 March	48.5	64.7	—	38.0	151.2	0.2
<i>Net book value</i> <i>31 March 1991</i>		254.1	122.6	352.3	52.0	781.0	0.7
<i>Net book value</i> <i>31 March 1990</i>		225.2	103.8	335.6	40.0	704.6	—

Tangible fixed assets at 31 March 1991 include £79.0m (1990 £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 1991 was £9.0m (1990 £10.7m).

Notes to the accounts *continued*

The accounting policy for grants and contributions received in respect of non-infrastructure assets has been changed, as described in the Accounting Policies. Accordingly, the cost and depreciation of the relevant assets have been restated from 1 April 1989. The grants and contributions received in respect of these assets since that date are now included within creditors as deferred credits. This change in accounting policy has had no effect on either the consolidated profit and loss account or the consolidated reserves.

Note 10
Fixed assets investments –
Group companies

	Investment in group companies £m	Loans to group companies £m	Total £m
Balance at 1 April	47.0	10.4	57.4
Additions	1.1	—	1.1
Movements in year	—	234.6	234.6
Balance at 31 March	48.1	245.0	293.1

The principal subsidiary companies are listed on page 47.

Note 11
Fixed asset investments –
Other investments

	Group £m	Company £m
Balance at 1 April	6.0	6.0
Investments during year	0.1	0.1
Amounts written off	(0.1)	(0.1)
Balance at 31 March	6.0	6.0

In the opinion of the Directors the value of investments at 31 March 1991 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 48.

Subsequent to the year end the Group disposed of investments in three companies for a consideration in excess of the book value as at 31 March 1991.

Note 12
Stocks

	Group	
	1991 £m	1990 £m
Materials and consumables	2.7	2.5
Rechargeable work in progress	1.0	0.6
	<u>3.7</u>	<u>3.1</u>

Note 13
Debtors

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Trade debtors	57.3	41.9	—	—
Amounts owed by subsidiaries			67.0	296.5
Other debtors	6.5	1.3	3.8	0.1
Employee loans	1.0	1.2	0.1	—
Prepayments	0.4	0.2	0.1	0.1
	<u>65.2</u>	<u>44.6</u>	<u>71.0</u>	<u>296.7</u>

Note 14
Short-term borrowings

	Group	
	1991	1990
	£m	£m
Bank loans and overdrafts	7.4	—
Obligations under finance leases	0.7	2.3
	<u>8.1</u>	<u>2.3</u>

Note 15
Other creditors

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Trade creditors	45.7	32.5	0.1	—
Amounts owed to subsidiaries			2.3	0.4
Proposed dividend	19.3	16.4	19.3	16.4
Advance corporation tax	9.7	5.5	9.7	5.5
Other taxation and social security	1.1	0.7	—	—
Other creditors	4.2	5.1	4.2	3.3
Accruals and deferred revenue	35.0	39.3	5.0	5.2
	<u>115.0</u>	<u>99.5</u>	<u>40.6</u>	<u>30.8</u>

Notes to the accounts *continued*

Note 16 Bank and other loans	Group	
	1991 £m	1990 £m
Bank loans	40.0	
Obligations under finance leases	1.4	2.0
	<u>41.4</u>	<u>2.0</u>
Loans and obligations under finance leases are repayable as follows:		
Finance leases:		
Between one and two years	0.7	0.6
Between two and five years	0.7	1.4
Bank loans:		
After five years	40.0	—
	<u>41.4</u>	<u>2.0</u>

Bank loans are unsecured and repayable by instalments for periods of up to 15 years. The rates of interest payable on loans due after 5 years varies from 10.95% to 11.5%.

Note 17 Provisions for liabilities and charges	Infra-structure renewal	Group Share-save scheme	Total	Company Share-save scheme
	£m	£m	£m	£m
Balance at 1 April	2.4	—	2.4	—
Movement in year	1.2	1.5	2.7	1.5
Balance at 31 March	<u>3.6</u>	<u>1.5</u>	<u>5.1</u>	<u>1.5</u>

Note 18 Called-up share capital	<i>Authorised</i>	1991	1990
		£m	£m
	225,000,000 ordinary shares of £1 each	225.0	225.0
	1 special rights redeemable preference share of £1		
		<u>225.0</u>	<u>225.0</u>
<i>Allotted, called-up and fully paid</i>			
Ordinary shares of £1 each:			
	At 1 April	163.7	—
	Issued during the year	0.1	163.7
	At 31 March	<u>163.8</u>	<u>163.7</u>

Details of allotments during the year are contained in the Directors' Report. The special rights redeemable preference share of £1 is held by HM Secretary of State for the Environment.

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
	January 1991	295	295p
Sharesave scheme	December 1989	1,432	176p
	January 1991	797	236p

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 19
Share premium account
and reserves**

	Group		Company	
	Share Premium Account £m	Profit & Loss Account £m	Share Premium Account £m	Profit & Loss Account £m
At 1 April				
Release of pre-vesting provisions	0.3	513.0	0.3	195.4
Premium on allotments in year		0.6		
Retained profit for the year	0.1		0.1	
Goodwill written off		58.4 (0.3)		32.2
At 31 March	<u>0.4</u>	<u>571.7</u>	<u>0.4</u>	<u>227.6</u>

The profit for the financial year of the Company was £70.9m (1990 £39.1m). No separate profit and loss account is provided as permitted by S230 of the Companies Act 1985.

**Note 20
Acquisitions**

Two small acquisitions were made during the year. The fair value of the assets acquired and the resulting goodwill are set out below:

	Book values acquired £'000	Adjustments to accord with Group policies £'000	Fair value £'000
Fixed assets			
Stocks	131	(10)	121
Debtors	98		98
Creditors	367 (229)		367 (229)
Net assets	<u>367</u>	<u>(10)</u>	<u>357</u>
Cost of acquisitions			<u>(608)</u>
Goodwill written off			<u>251</u>

No purchase consideration has been deferred and at 31 March 1991 there were no acquisition related provisions.

Notes to the accounts *continued*

Note 21

Contingent liabilities

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	4.8	3.6	—	—

The Company has provided guarantees in respect of all monies borrowed by Southern Water Services Limited from the European Investment Bank.

All Group companies except those acquired during the year have provided mutual cross guarantees for any monies owed to National Westminster Bank Plc.

Note 22

Capital commitments

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Outstanding contracts placed for capital expenditure	50.3	50.9	—	—
Capital expenditure authorised by directors but not contracted	54.0	55.3	—	—

Note 23

Other financial commitments

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Annual commitments under non-cancellable operating leases:				
Expiring within one year	—	0.2	—	—
Expiring between two and five years	0.7	0.9	—	—
	0.7	1.1	—	—

Note 24

Pensions

The Group operates a number of funded defined benefit pension schemes providing benefits based on final pensionable earnings and years of service. All 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 other schemes, which include a closed scheme, are awaiting their first full actuarial valuations. It is expected, however, that the market value of these schemes' assets will show a surplus over the benefits accrued to members, after allowing for expected earnings increases. Contributions to these schemes have continued at the provisional rates recommended by the actuary.

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 £5.1m (1990 £6.5m).

All the schemes are able to accommodate, insofar as currently understood, the implications of the European Court judgement in 'Barber v Guardian Royal Exchange' without change to the contribution rates currently in force.

Note 25
Subsequent events

On 17 April 1991 the Company disposed of its investments in the Eastbourne Water Company, the Mid-Sussex Water Company and the West Kent Water Company to SAUR Water Services Plc for a total cash consideration of £10.7 million, resulting in an exceptional profit of approximately £7 million.

Report of the Auditors

To the members of Southern Water plc

We have audited the accounts on pages 30 to 45 and 47 and 48 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 1991 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

25 June 1991
London

Financial calendar

1991

25 June Announcement of final results
1 July Ex dividend date for final dividend
22 July Record date for dividend
29 August Annual General Meeting
1 October Final dividend payable
December Announcement of unaudited interim results

1992

March Interim dividend payable
31 March Financial year end

Shareholders' interests

At 25 June 1991

Number of Shareholders 104,947 (including package units)

Shareholdings Range	Shareholders %	Shares %	Category of Shareholders	Shareholders %	Shares %
300 and under	48.78	5.22	Pension funds	0.03	2.35
301 to 1000	49.68	13.05	Insurance companies	0.05	8.95
1001 to 10000	1.10	1.58	Banks	0.03	0.30
10001 to 50000	0.18	2.71	Nominee companies	1.54	48.48
Over 50000	0.26	77.44	Other corporate bodies	0.36	20.74
			Other shareholders	97.99	19.18
	<u>100.00</u>	<u>100.00</u>		<u>100.00</u>	<u>100.00</u>

Subsidiary companies and investments in other companies

at 31 March 1991

Subsidiary companies

The Company's principal subsidiary companies are listed below. With the exception of Waterline Insurance Company Limited, registered and trading in the Isle of Man, all companies are registered 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 Holdings Limited	Ordinary	100%	Property investment
Bowsprit Estates Limited	Ordinary	100%	Estates management and property consultancy
Southern Watercare Limited	Ordinary	100%	Contract plumbing
M. W. Longley Limited	Ordinary	100%	Heating and ventilation contractors
Tynemarch Systems Engineering Limited	Ordinary	100%	Process control and engineering software services
Hazeley Down Mineral Water Company Limited	Ordinary	100%	Bottled mineral water
Sectron Systems Limited	Ordinary	100%	Security services
Waterline Insurance Company Limited	Ordinary	100%	Insurance

Subsequent to 31 March 1991 the Company has acquired the following companies:

McDowells Limited	Ordinary	100%	Civil and structural engineering consultants
Contract Services (SE) Limited	Ordinary	100%	Specialist surveying

Subsidiary companies and investments in other companies *continued*
at 31 March 1991

Other fixed asset investments

Principal trading companies in which the Group holds more than 20% of the equity are listed below. All companies are registered 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 Water 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	0.0	(0.2)

Subsequent to the year end the entire investments in the Eastbourne Water Company, the Mid Sussex Water Company and the West Kent Water Company were sold for a consideration in excess of book value.

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

Group five year summary

	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Turnover	251.2	225.8	204.1	189.5	176.9
Profits					
Profit before interest	90.5	78.3	93.3	96.1	82.5
Interest (net)	6.6	(18.2)	(28.2)	(36.8)	(35.2)
Profit before taxation	97.1	60.1	65.1	59.3	47.3
Taxation	(9.7)	(5.5)	—	—	—
Profit after taxation	87.4	54.6	65.1	59.3	47.3
	p	p	p	p	p
Dividends per ordinary share	17.7	10.02	—	—	—
	£m	£m	£m	£m	£m
Assets employed					
Fixed assets	781.0	704.6	628.2	579.8	540.4
Investments	6.0	6.0	5.9	0.3	—
Net current assets (liabilities)	1.3	(24.5)	(74.9)	(69.0)	(55.5)
Long term liabilities	(52.4)	(9.1)	(223.0)	(239.4)	(272.5)
Net assets	735.9	677.0	336.2	271.7	212.4
Capital and reserves					
Share capital	163.8	163.7	—	—	—
Share premium	0.4	0.3	—	—	—
Profit and loss account	571.7	513.0	336.2	271.7	212.4
	735.9	677.0	336.2	271.7	212.4

Significant changes took place during the year ended 31 March 1990 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 1991 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 second Annual General Meeting of Southern Water plc will be held at the Dome Theatre, Church Street, Brighton, on Thursday 29 August 1991 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 1991.
- 2 To declare a final dividend for the year ended 31 March 1991 of 11.8p per ordinary share.
- 3 To re-elect Mr B R Thorpe as a Director.
- 4 To re-elect Mr F N Midmer 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 given power 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);
- (b) the allotment of ordinary shares pursuant to elections under any scrip dividend option given to shareholders under Article 135 of the Company's Articles of Association; and
- (c) the allotment (otherwise than pursuant to subparagraph (a) or (b) hereof) of equity securities up to an aggregate nominal amount of £8,188,332; 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.

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

THAT (i) the Directors be authorised;

- (a) to exercise the power contained in Article 135 of the Company's Articles of Association to offer shareholders, on the basis determined by the

Directors in accordance with the Articles of Association, the right to elect to receive ordinary shares of £1 each in the capital of the Company credited as fully paid instead of cash in respect of any dividend or any part thereof declared or payable at any time after the commencement of the meeting at which this resolution is passed and prior to the date of the next Annual General Meeting of the Company;

(b) to capitalise out of the amount standing to the credit of the Company's reserves, as the Directors may determine, a sum equal to the aggregate nominal value of the ordinary shares to be allotted pursuant to elections made as aforesaid and to apply that sum in paying up in full those ordinary shares;

(c) to allot such ordinary shares pursuant to elections validly made;

and generally to take such steps (whether before or after the passing of this resolution) as the Directors consider expedient for any such purpose; and

(ii) for the purposes of or mentioned in paragraph (i) the "relevant value" of the entitlement of each shareholder shall in the case of the final dividend payable in respect of the year ended 31 March 1991 be calculated by reference to the average of the middle market quotations for the Company's ordinary shares on the Stock Exchange as derived from the Daily Official List on the day on which the ordinary shares are first quoted 'ex' the final dividend and the four subsequent dealing days, with the addition of 70p per share being the final instalment of the offer for sale price due in respect of the ordinary shares and payable on or before 30 July 1991.

By Order of the Board

Graham Nicholson

Secretary

24 July 1991

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

Notes

1 This notice of Annual General Meeting is being sent to members and registered holders of interim rights (including rights acquired in respect of Package Units comprising shares in each water holding company including the Company) in accordance with the Instalment Agreement dated 22nd November 1989, as amended. If a holder of interim rights has paid the final instalment of the offer for sale price by 30 July 1991, the last date for payment, his name will have been entered in the register of members of the Company before the Annual General Meeting and he will have the rights of a member to attend, speak and vote at the meeting. However, if a holder of interim rights has not so paid the final instalment, he may not be entitled to attend, speak or vote at the meeting. For convenience, interim rights holders are, together with members, referred to as shareholders in these notes.

2 Shares acquired by employees under the Free and Matching Offers are held by Trustees until December 1991 and employees holding shares 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 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 1991 to shareholders on the register at close of business on 22 July 1991.

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.

Notice of Annual General Meeting *continued*

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 1991.

Resolutions 3 & 4: re-election of Directors
The Articles of Association (the rules which govern the Company's internal management) provide for the retirement of Directors, other than the Executive Chairman and Managing Director, by rotation each year. In accordance with these provisions Mr B R Thorpe and Mr F N Midmer will retire by rotation this year and seek re-election.

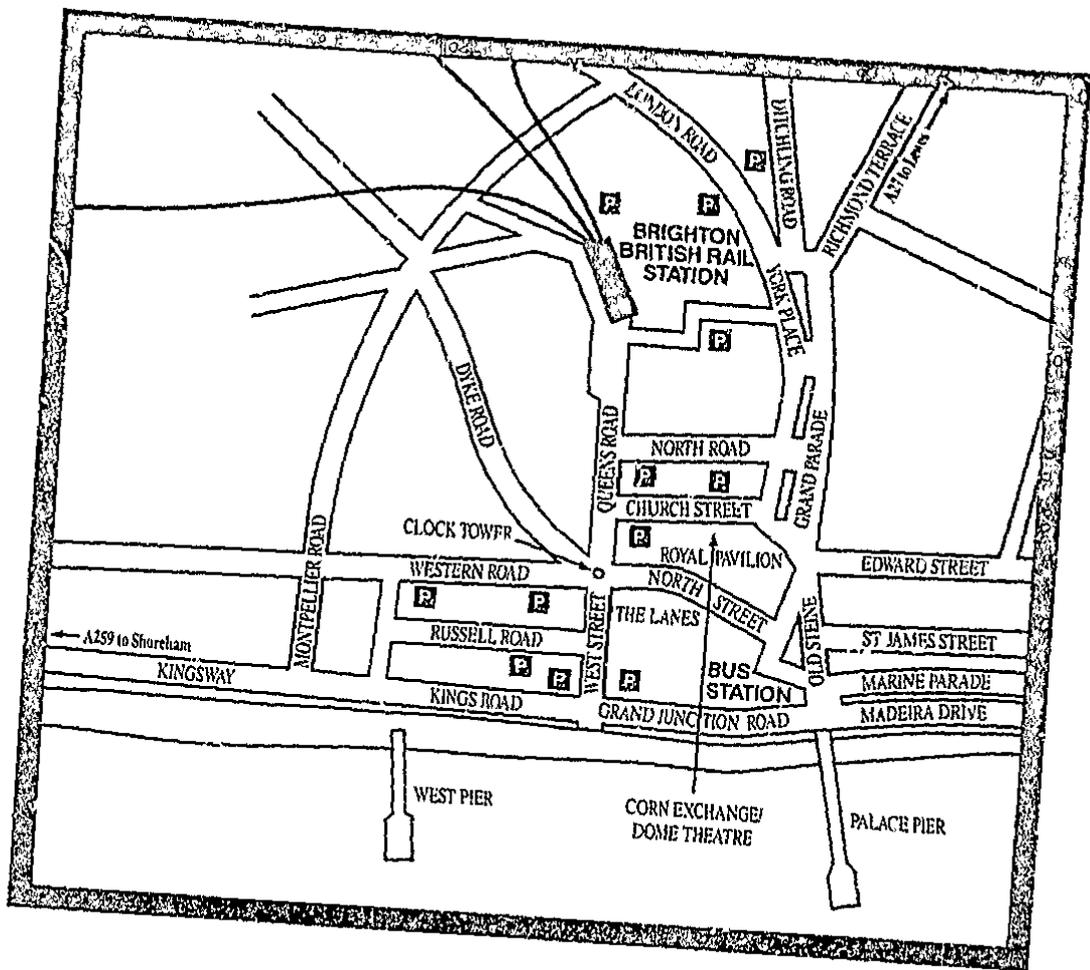
Resolution 5: appointment and remuneration of auditors
A public company must appoint auditors to hold office until the next general meeting at which accounts are presented. The resolution proposes the reappointment of Coopers & Lybrand Deloitte and as is common practice, the resolution also gives authority for the Directors to approve their remuneration.

Resolution 6: renewal of authority in respect of allotment of 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 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. The resolution also disapplies the pre-emption requirements on a rights issue (so as to allow the Directors in such a case to make appropriate arrangements to avoid or resolve legal or practical problems which might, for example, arise with overseas shareholders) and on a scrip dividend. 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 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 particular value to shareholders who wish to increase their holdings without incurring dealing costs. In addition to cash flow benefits the Company will be able to retain the advance corporation tax which would otherwise be payable if a cash dividend is taken and which the Company cannot presently offset against corporation tax. The resolution therefore seeks approval to allow the Directors to offer a scrip dividend alternative for any dividend payable or declared prior to next year's Annual General Meeting. As this will include the final dividend payable in respect of the year ended 31 March 1991, the resolution also contains a formula for valuing the entitlement to new shares which at the time of the offer will be quoted on a partly paid basis. A separate document giving full details of the scrip dividend option together with the Form of Election is enclosed herewith.



Annual General Meeting 1991

The Annual General Meeting of Southern Water plc is being held at the Dome Theatre, Brighton on 29th August. The entrance will be via The Corn Exchange in Church Street, Brighton and is well signposted. Multi-storey car parks are available in Church Street which is a ONE WAY STREET (going west). Other car parks are marked on the plan and Brighton railway station is within walking distance but local buses and taxis are available immediately outside the station. Brighton is a busy seaside resort particularly in August and those shareholders travelling by car should allow adequate time for parking.

The doors of the Theatre will open from 9.30 am and the meeting will start at 11.00 am. Coffee and biscuits will be available before the meeting starts.

Shareholders are requested to bring their admission cards with them to the meeting. Cameras and tape recorders will not be allowed to be taken into the meeting and random security checks will be carried out at the entrance. The Theatre has facilities for disabled persons and a separate seating area with induction loops has been provided for the hard of hearing.

You may find it helpful to bring with you to the meeting a copy of the Annual Report and Accounts which contains the formal Notice and Agenda for the meeting.

If you have any queries about the business of the meeting please telephone: L Crawford, Shareholder Services Manager on (0903) 64444.

Registrar

Lloyds Bank Plc maintains the Company's share register. If you have any queries please contact:
Lloyds Bank Plc, Registrar's Department, Goring-by-Sea, Worthing BN12 6DA
Tel: Worthing (0903) 502541

SCAN UPON DEMAND

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