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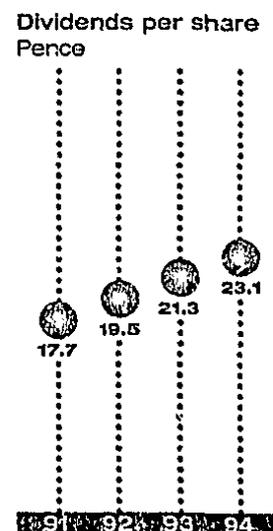
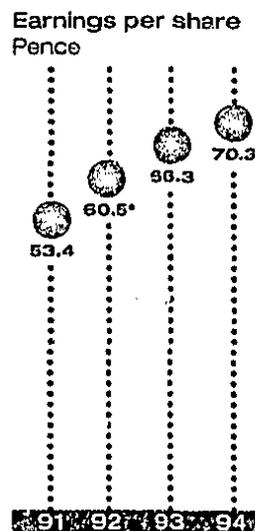
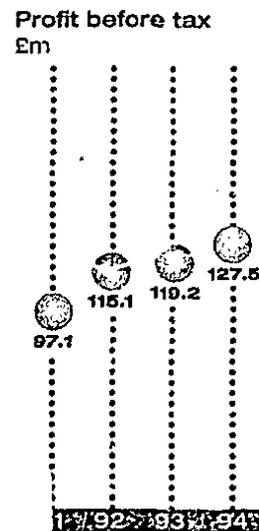
Southern Water plc

Growing more than a water business

The Southern Water Group has nearly 3,500 employees, some 85,000 shareholders and a turnover approaching £350 million a year. As well as providing water and wastewater services, our activities include engineering services, environmental services and systems technology, together with a number of other specialist services and products.

Financial highlights

	1994	1993
Turnover	£347.7m	£319.2m
Profit before tax	£127.5m	£119.2m
Earnings per share	70.3p	66.3p
Dividends per share	23.1p	21.3p
Shareholders' funds	£965.0m	£881.5m



*Before exceptional items



COMPANIES HOUSE 13/09/94

Chairman's statement



I am pleased, once again, to report on another year of real progress for your Company. Profits have grown well in both our regulated and non-regulated businesses.

Our water supply and wastewater customers are enjoying even higher standards of service whilst an ever increasing number of new customers benefit from the expanding range of other services the Group now offers.

These advances reflect our strategic objective of adding value for our shareholders at minimum risk and cost whilst providing our customers with superior performance and value in everything we undertake.

Results and dividend

Group turnover advanced by 8.9% from £319.2m to £347.7m in the year to 31 March 1994. Profit before tax increased by 7% to £127.5m and earnings per share rose by 6% to 70.3p. This sound growth in profit has been firmly underpinned by our ongoing commitment to the generation of operating efficiencies and by the encouraging progress

made by our non-regulated businesses. Non-regulated trading profits at £10.1m were 20.2% higher than last year and represent 7.6% of the Group total. This pleasing result confirms our strategy of sound, steady organic growth, within a broadening range of knowledge and skills, augmented by sensibly priced niche acquisitions.

Over two-thirds of our post-tax profit is immediately reinvested to help fund our vast capital programme. Investment expenditure was 44% higher than last year at £176m largely reflecting the way in which 'Operation Seaclean' is forging ahead. Expenditure in 1994/5 will be even higher as major coastal schemes designed to enhance the quality of bathing water are progressively completed. This high level of investment exceeds our annual profits by some 38%. However, I am pleased to report that through our clear focus on efficiency and tight financial management, the Group ended the year with a net cash balance of £10m.

The Board is recommending the payment of a final dividend of 15.4p per ordinary share, making a total for the year of 23.1p, an increase of 8.5% on last year. The annual dividends will therefore have risen by 30% over the last three years.

Our scrip dividend alternative, which has proved popular with shareholders, will be available again for those wishing to build their investment in the Company.

Business highlights

I turn to some of the key features and developments of the business in the year, further details of which are given in the Managing Director's review on page 8.

In Southern Water Services Ltd., our principal subsidiary, the dedication to high standards has been recognised by the National Rivers Authority, which in its latest review rated our wastewater works compliance equal top in the industry. We have also been rated top among the ten major companies in 1993 by the Office of Water Services (OFWAT) in respect of the four key 'levels of service' where direct comparisons can be made between companies.

We have aligned our non-regulated businesses into four distinct sectors, namely Engineering Services, Environmental Services, Systems Technology and Specialist Services and Products. With the exception of the latter the businesses in these sectors generally have complementary activities in terms of markets served or skills and technology deployed. The relationships between these companies will be developed to maximise our strength in the market-place.

During the year we made three acquisitions in the Environmental Services sector. In May 1993 we acquired the Sussex based E.S. Taylor Group, a solid waste management, mineral extraction and recycling business, on which I reported last year. Later in 1993 we purchased the ERG Environmental Resource Group plc. This company designs and builds turnkey process plants for treating and recovering inorganic effluents, supplying high purity water for industrial use and produces purification systems for fumes, dust and odours. Their customers, many with household names, are drawn from a wide range of industries, including aerospace, chemicals, electronics, car manufacturers, food, pharmaceuticals and mining. The acquisition of ERG marks our strategic

move into the field of on-site effluent treatment systems.

Finally, at the end of 1993, we acquired a 75% shareholding in GMSS Ltd. which provides a full public analyst and scientific service to nine local authorities in the greater Manchester area and increasingly serves the needs of local industry. Together with Southern Science Ltd., these businesses, which are complementary, now offer a wide range of specialist services throughout the country.

As part of the organic development of the Group we have established Pipestock Plus Ltd., as its materials and services purchasing and distribution agent. Initial progress in enhancing the efficiency of purchasing and stockholding is very encouraging.

Two of our rapidly developing businesses, Paperstream Ltd., and Topmark Vehicle Contracts Ltd., have already outgrown their existing premises and are moving to new high quality locations which will allow for significant expansion. Additionally, McDowells Ltd., our engineering consultancy, has relocated from its four regional offices to a single prestigious freehold office conveniently situated near to Gatwick Airport. This will provide an important centre of excellence which will greatly enhance the efficiency and prospects of the business.

The Board

The Company has a broadly equal balance of Executive and Non-Executive Directors, the latter fully constituting the Audit and Executive Remuneration Committees of the Board.

As foreshadowed in last year's Annual Report, Mr Brian Thorpe CBE retired from the Board

Throughout the Group our people concentrate on providing their customers with high quality, value for money products and services, with total commitment.

This is the key to our future progress.

**Chairman's
statement
continued**

In August 1993 and Mr Francis Midmer, the former Group Technical Director, was appointed a Non-Executive Director on his retirement thus enabling the Company to benefit from his considerable knowledge of the water industry.

We were pleased that Dr John Westhead, Chief Executive of Bowthorpe plc was able to accept our invitation to rejoin the Board as a Non-Executive Director in July 1993.

I am grateful for the valuable contribution to our affairs made by our Non-Executive Directors who, together with their Executive colleagues, form an enthusiastic and hard working team dedicated to the profitable growth of the Company.

I am pleased to record that Mr Anthony Fry, an Executive Director of N M Rothschild & Sons Ltd., has accepted an invitation to join the Board as a Non-Executive Director with effect from 1 July 1994. During his 17 years with Rothschilds he has gained a wide experience of all aspects of corporate finance and was a key advisor to Southern Water during its flotation period. We look forward to the benefit of his experience in our deliberations.

The Company's approach to Corporate Governance is described on page 26 and fully complies with the applicable provisions of the Cadbury Code of Best Practice.

The future

Southern Water Services Ltd. has not been immune from the effects of the sharp recession and the demand for water from industry and commerce has declined for several years. Although the economy appears to be recovering slowly we do not expect to see much growth in demand in the immediate future.

Future growth in profits depends heavily on our ability to achieve maximum efficiencies in both capital and operating costs. We will continue to strive hard in these areas.

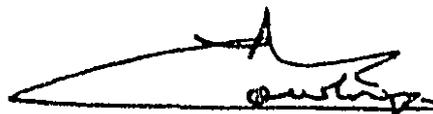
The Periodic Review for Southern Water Services for the period 1995/2000 has necessitated the submission of a more detailed appraisal of, and forecast for, our regulated business than most companies produce in their lifetime. We require a fair outcome from the Periodic Review process and await the Director General's announcement on the 28 July 1994 with more than a little interest!

Much has been achieved in our non-regulated activities in only four years. I am confident that our strategy of steady development in areas where we have key strengths is the right one. We will continue to aim at enhancing value to shareholders at minimum risk.

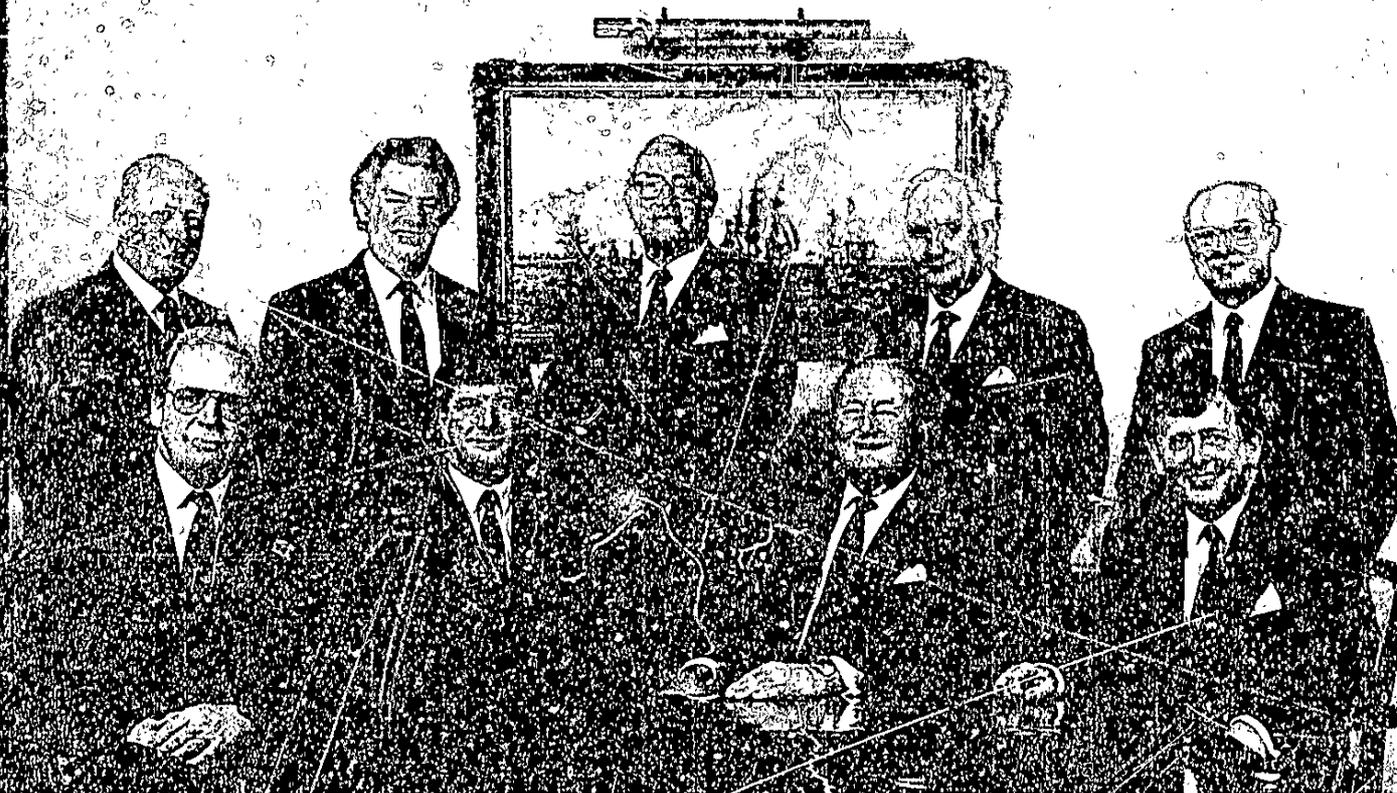
It gives me great pleasure to record the Board's appreciation for the continuing strong contribution made by our employees during another year of change and achievement.

Throughout the Group our people concentrate on providing their customers with high quality, value for money products and services, with total commitment. This is the key to our future progress.

I look forward with enthusiasm to reporting another successful year for the Southern Water Group in 1994/5.



William J W Courtney CBE
Chairman



The Board

WILLIAM COURTNEY CBE
FIWEM

Executive Chairman
William Courtney joined Southern Water Authority as Chairman in August 1985 and was appointed Executive Chairman of the Company in September 1989. He was formerly Managing Director and Joint Deputy Chairman of Marley plc. Mr Courtney is also Chairman of the British Board of Agreement, which assesses and certifies new building materials.

MARTYN WEBSTER
BSc (ECON) FCA

Group Managing Director
Martyn Webster was appointed to his present position in January 1993, previously having been Group Finance Director since the inception of the Company in 1989. 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

RAYMOND KING
BSc FCA MCT

Group Finance Director
Raymond King joined the Board in January 1993 having been appointed Group Finance Director designate in June 1992. He had previously worked for ICI Plc for 14 years, most recently as Controller, corporate operations. He joined ICI from Price Waterhouse where he qualified as a chartered accountant.

KEITH TOZZI
BSc MA C ENG FICE FIWEM
FInst.M

Group Technical Director
Keith Tozzi was appointed to the Board in January 1993 and assumed the post of Group Technical Director from 1 September 1993. He has served in the water industry since 1966 and has played an important role developing the Company's water and wastewater operations in a number of senior posts.

FRANCIS MIDMER
C ENG, FICE FIWEM FInst.M
Non-Executive Director*
Francis Midmer retired from being Group Technical Director in August 1993, having worked in the water industry since 1949. Appointed Director of Technical Services of Southern Water Authority in 1985, he joined the Board in 1988. He has held senior positions on a number of national bodies associated with the development of the industry.

PHILIP GIRLE
FCIB FInst.M

Non-Executive Director*†
Philip Girle was appointed to the Board of Southern Water Authority in 1986 and became a Director of the Company in 1989. He is a former Director and General Manager of National Westminster Bank, and a former Director of the Yorkshire Bank. He is Chairman of the Audit Committee.

VIVIAN THOMAS CBE
FIMI

Non-Executive Director*†
Vivian Thomas was appointed to the Board on 1 June 1992. A former Chief Executive Officer of BP Oil UK Ltd, he was also Chairman of Alexander Duckham from 1984 to 1992. Mr Thomas is Chairman of the British Standards Institution, Chairman of the British Road Federation and a Director of Jaguar Ltd.

JOHN WESTHEAD
MA DPHIL C ENG FICE FInst.M

Non-Executive Director†
John Westhead joined the Board on 1 July 1993 having previously served on the Board of Southern Water Authority from 1988 and as a Director of the Company to 1992 until his appointment as Chief Executive of Bowthorpe plc, a position he still holds; he is also Chairman of the Remuneration Committee for Executive Directors.

ANTHONY FRY
BA (Oxon)

Non-Executive Director
Not in photograph
Anthony Fry is joining the Board on 1 July and brings with him 17 years experience of the City. Since 1988 he has been an Executive Director of N M Rothschild and Sons Ltd, the International Merchant Bank and became a member of the Bank's Executive Committee in 1993.

* Member of the Audit Committee
† Member of the Remuneration Committee

GRAHAM NICHOLSON
IPFA

Company Secretary
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Worthing
West Sussex BN13 3NX

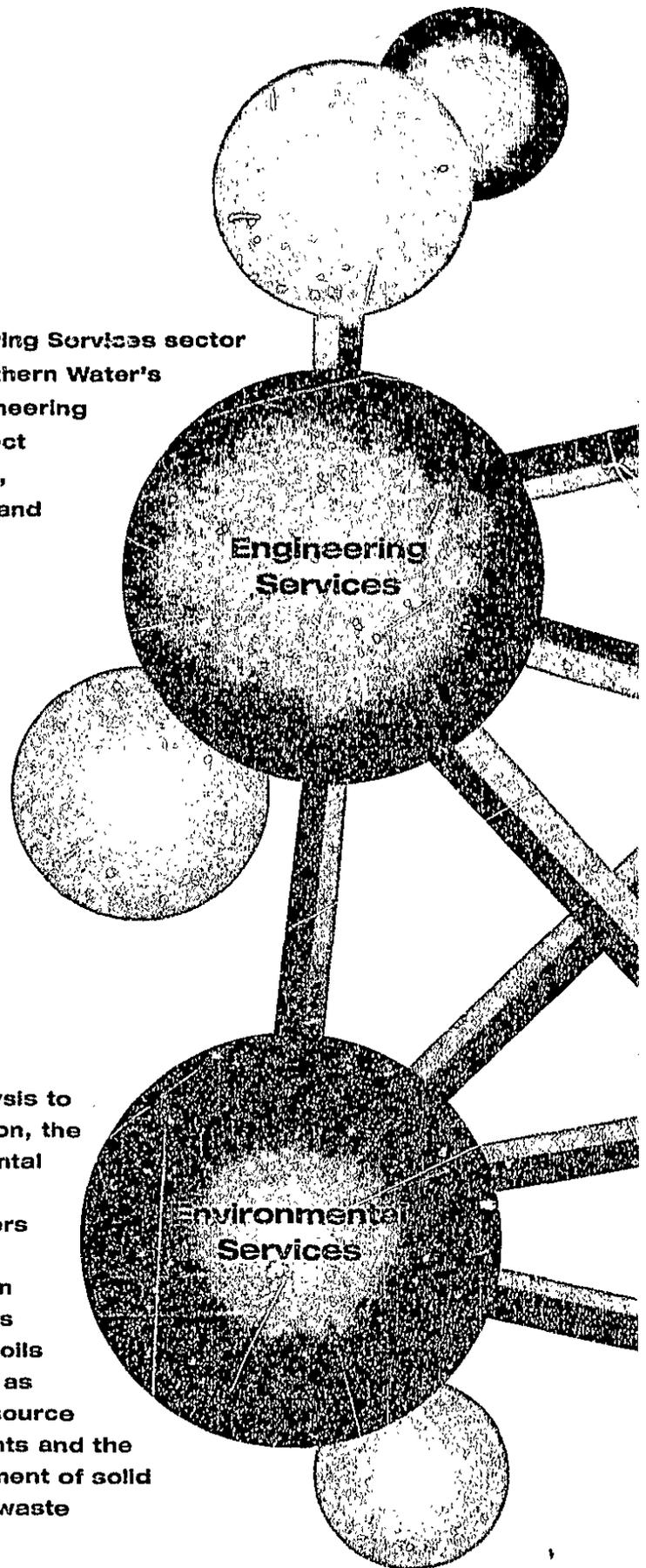
From left to right (seated)
Raymond King, Martyn Webster,
William Courtney, Keith Tozzi.
(Standing) Francis Midmer,
Vivian Thomas, Philip Girle,
John Westhead and
Graham Nicholson

Group structure

At the centre of the Group is the water and wastewater business of Southern Water Services Ltd. From this core, the Group has developed into a number of related sectors, as shown in the diagram.

The Engineering Services sector exploits Southern Water's skills in engineering design, project management, consultancy and contracting

From analysis to final solution, the Environmental Services sector offers advanced expertise in the analysis of water, soils and gases as well as resource assessments and the safe treatment of solid and liquid waste



As a sophisticated user of computer systems, Southern Water provides a range of services based on Information technology

Systems Technology

From vehicle contract hire to bottled mineral water, Southern Water has developed a number of specialised businesses

Specialist Services and Products

Southern Water Services

Southern Water Services Ltd is the Group's main subsidiary, providing water and wastewater services in Kent, Sussex, Hampshire and the Isle of Wight



Managing Director's review

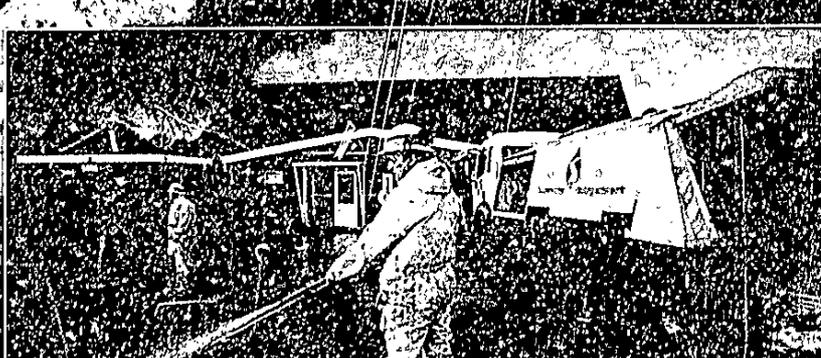
The year under review has been another one of progress and achievement across the Group. Southern Water Services has reinforced its excellent compliance record and also achieved the best 'OFWAT' levels of service performance of the ten major water companies.

Profits continue to grow well in our non-regulated businesses which operate in the sectors of:

- Engineering Services
- Environmental Services
- Systems Technology
- Specialist Services and Products

Progress in each of our main businesses is described on pages 10 to 21. A Financial Review appears in the Report of the Directors on page 25.





During the winter of 83/94 Southern Water staff worked around the clock to maintain services and to support local authorities and the National Rivers Authority in dealing with flooding following some of the heaviest and prolonged rainfall for many years in the South of England.

Water Supply

Some 260,000 chemical and microbiological analyses were carried out during the year with the principal purpose of safeguarding Southern Water's commitment to provide excellent drinking water. Over 99.7% of these analyses achieved compliance with the relevant water quality standards monitored by the Drinking Water Inspectorate.

620 million litres of treated water are supplied every day to industry and over two million domestic customers across the region through 12,300 km of water mains. Two thirds of the water supplied comes from underground sources; the remainder is abstracted from rivers and four surface reservoirs.

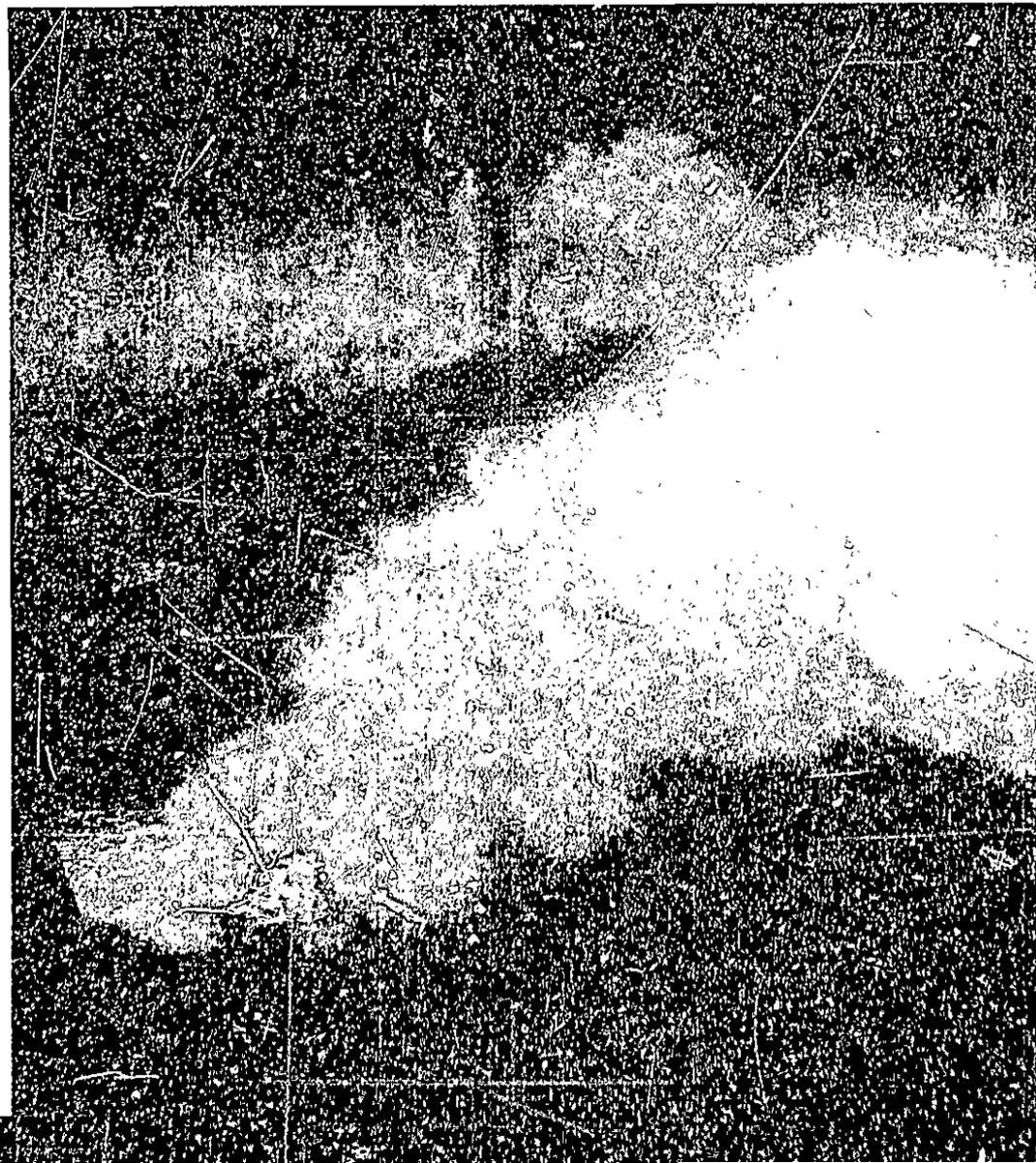
The wet winter of 1993/94 replenished the majority of the underground aquifers in our region. Rivers have generally returned to normal or above normal flows and reservoirs have also reached their normal levels. During the recent years of low rainfall valuable information was gained on the performance of our water

resources and this is helping to shape our future strategy to safeguard supplies.

Our water resource strategy places a very strong emphasis on maximising the use of existing supplies. In Kent, the transfer of raw water from the River Medway at Yalding, via a 20 kilometre pipeline, will make

Southern Water Services

The business priorities of Southern Water Services are excellence in the provision of water supply and wastewater services, allied with strong financial management and the vigorous pursuit of operating efficiency.



available 30 million litres a day of additional water resources at our Bawl Water reservoir. This £18m project will be completed by late 1994. The £20m Operation Seaclean project at Herne Bay will also benefit resources in Kent by increasing flows in the River Stour.

Leak detection remains a very high priority. With the aid of specialist equipment and meters strategically placed in the distribution system, the detection programme has saved over 100 million litres of water per day since privatisation. Our customers

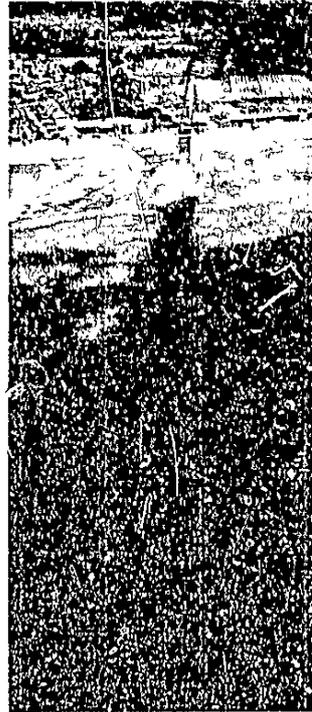
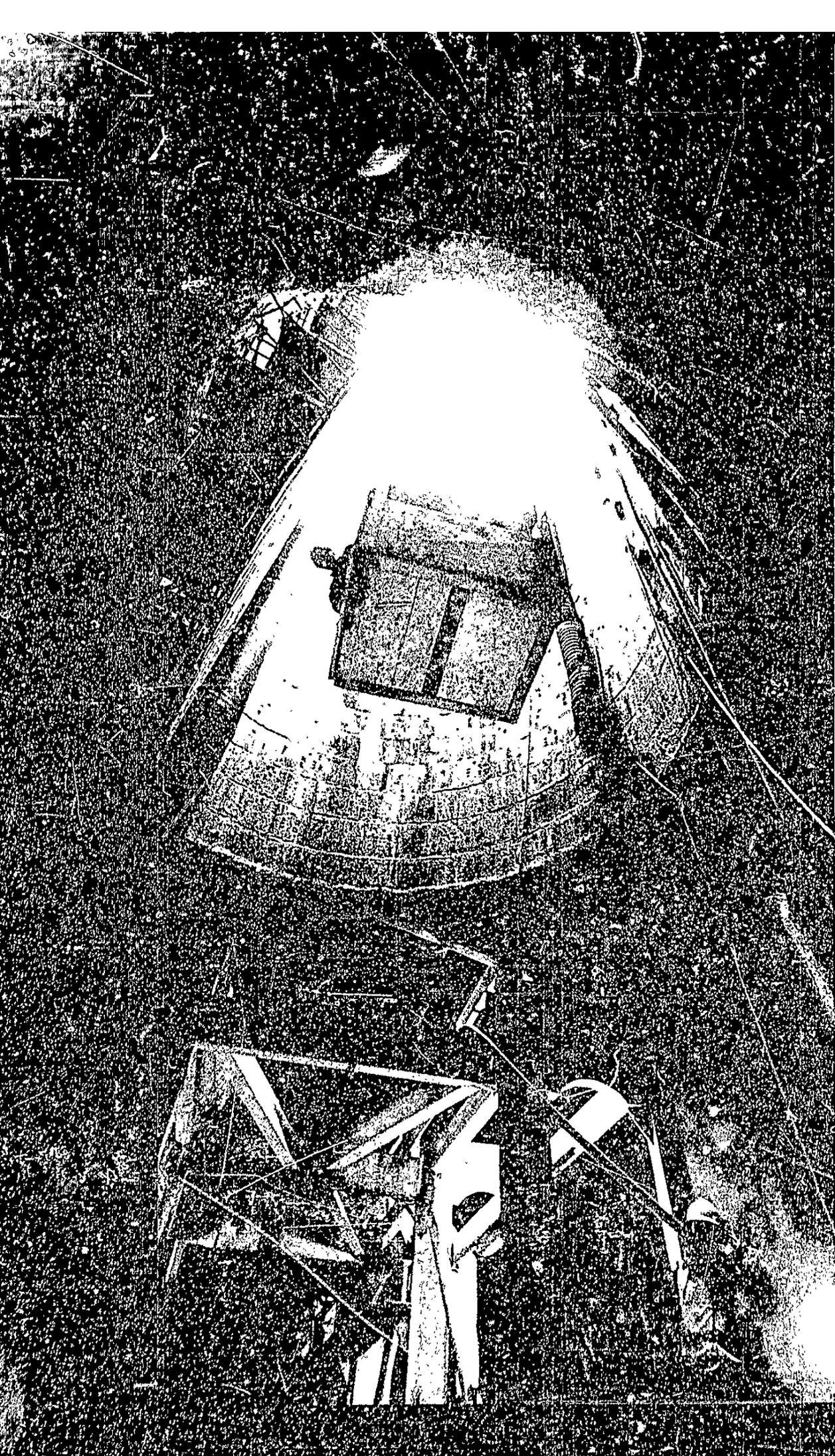
have also played an important role in this achievement by using the free phone "Leakline" service to report water escaping from our distribution system.

We are also proud to be one of the largest water supply companies to have gained independent Quality Assurance certification to British Standard 5750. This has been achieved in the Southern Hampshire water supply area where the accreditation was sought as a pilot study.



Above: Installing a 20km long pipeline from the River Medway at Yalding which will transfer raw water for storage to Bawl Reservoir.

Left: Releasing water from Bawl Reservoir into the River Medway. The water will be abstracted down-stream and be treated before supplying the Medway towns and surrounding areas.



Wastewater

In March 1994 Southern Water Services achieved a significant milestone when all of its 367 inland wastewater treatment works achieved compliance with their treatment consent standards – this is the direct result of our extensive investment in quality improvements since privatisation in 1989 and enhanced training of operational staff.

Total consent compliance at our wastewater treatment works was achieved through an intense programme of capital investment, particularly by the application of process technology. Work continues to improve the flexibility of our plants, for example, to cope with abnormal loadings and changes in the type and volumes of the wastewater received from four million customers through our 24,500 km sewerage network.

The Company's current investment expenditure is focused on Operation Seaclean, the £450m programme to comply with the requirements of the EU Bathing Water Directive at designated beaches. The programme has moved firmly from the design stage to construction and most of the projects will be completed in 1995, although the £120m Dover/Folkestone scheme, now in detailed design, has been delayed by planning considerations.

Long sea outfalls have been pulled into position at Eastbourne and Worthing where new wastewater treatment works are

also under construction. Contracts have been awarded for similar works at Shoreham. The Brighton to Hove stormwater storage tunnel is progressing using a former Channel Tunnel boring machine along the five km route.

Work on the Sandwich Bay Sewerage Scheme is also progressing to schedule; this Scheme links the sewer networks of the towns of Ramsgate, Deal and Sandwich with the Weatherlees Wastewater Treatment Works at Richborough. The largest sewerage improvement scheme to date, it will also improve bathing water quality in Sandwich Bay and augment water flows in the River Stour.

Planning work is now underway to enable the Company to meet the onerous requirements of the EU Urban Wastewater Treatment Directive. This Directive requires the installation of new treatment plants at many coastal sites and the upgrading of certain existing inland works. Currently Southern Water's wastewater treatment processes produce the equivalent of 70,000 tonnes of sludge dry

solids each year. Volumes will more than double over the next six years due to the commissioning of the new coastal works and the cessation of sludge disposal to sea in 1998. The Company's strategy to deal with this issue includes a key role for the re-cycling of sludge for beneficial agricultural and horticultural uses.

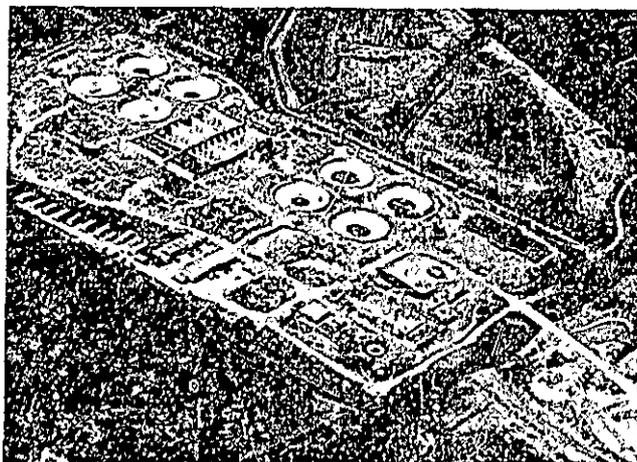
The very wet weather between Christmas and the New Year caused flooding throughout the region. Sewers were inundated from overloaded land drainage systems, blocked culverts and rivers bursting their banks. The Chichester area of Sussex was particularly badly affected. Southern Water's staff worked long hours in adverse conditions to ensure that our plant and equipment remained fully operational and gave close support to local authorities and to the National Rivers Authority which has responsibility for land drainage and river catchments.

Customer service

The provision of first class services to all Southern Water Services customers is a priority. The annual 'Update' magazine for customers explains the wide range of our activities.

Our Special Needs register is well established and provides extra free services for the elderly and disabled, these include talking bills, large print for the visually handicapped, a special telephone service for the hearing impaired, priority services for kidney dialysis patients, more frequent meter reading, sending accounts to friends or carers and advice on special water appliances in the home.

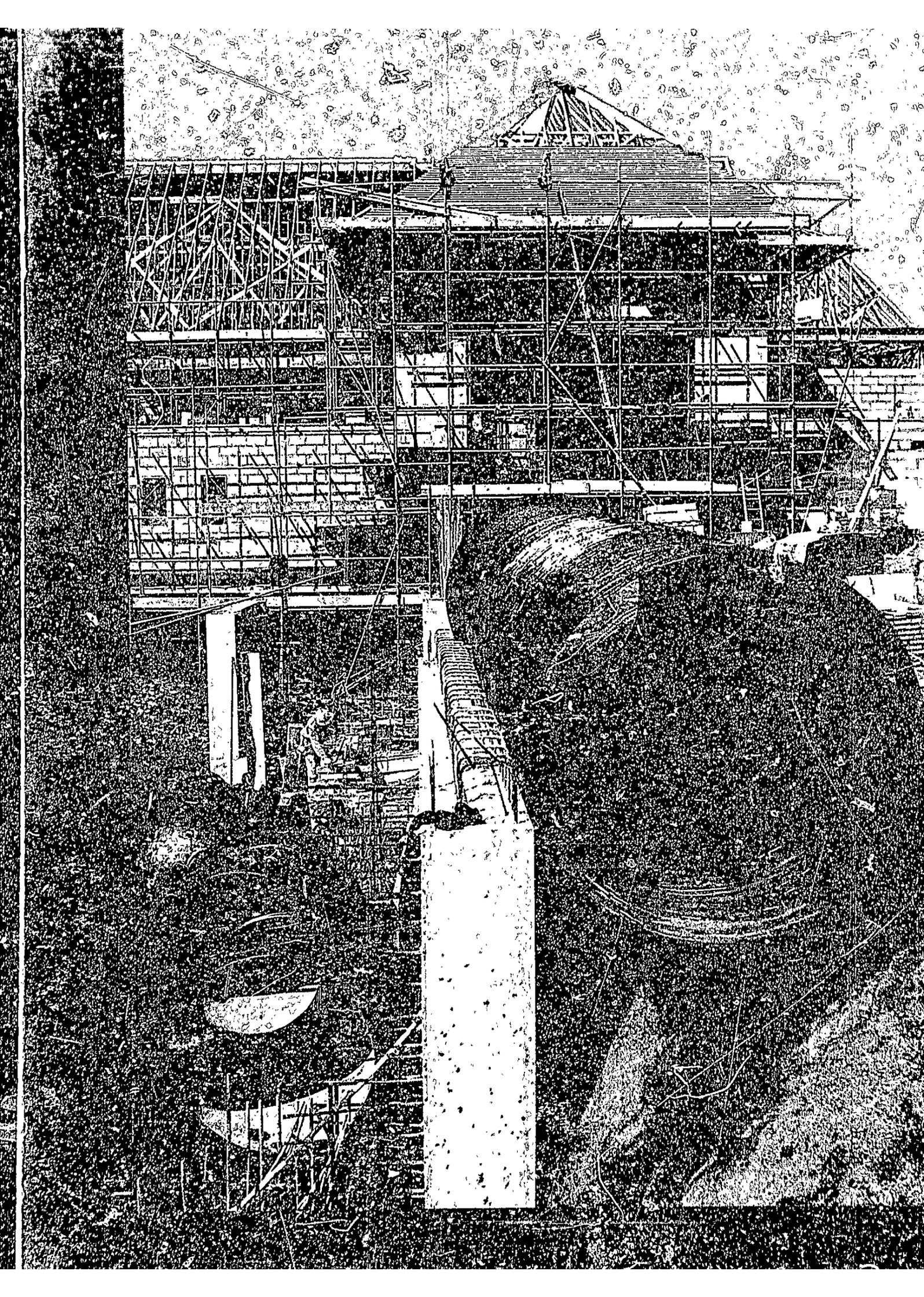
The Office of Water Services (OFWAT) which monitors the standards of service of all water companies in England and Wales, listed in its 1993 report four areas where direct comparisons between companies are possible: mains water pressure, supply interruptions and speed of response to billing enquiries and written complaints. OFWAT said Southern Water Services 'performed particularly well'; the Company's overall performance in these areas was the best among the ten water and sewerage undertakers.



Above left: The new 4.5km long sea outfall pipe at Worthing.

Far left: Brighton Stormwater Tunnel - a dropshaft for the 5km long wastewater tunnel underneath the foreshore.

Left: The new inland wastewater treatment works currently under construction at Weatherlees will serve the Sandwich Bay area in Kent.



The engineering sector provides a comprehensive service in engineering design, project management, consultancy, pipelaying and maintenance both for the Southern Water Group and for a growing number of external clients in the UK and overseas.

Engineering Services

McDowells Limited

Coastal Wastewater Consultants Limited

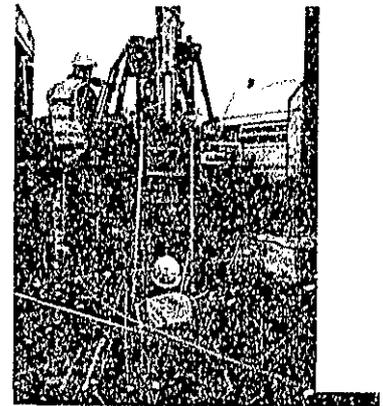
Pipeworks Limited

The engineering design businesses of McDowells and the former Southern Projects have been merged under the McDowells name and the Company is now based at a single location in Crawley, West Sussex. This provides a centre of excellence for engineering design and project management services in civil, structural, mechanical, electrical, infrastructure design, geotechnical and highway engineering. Supported by the marine wastewater treatment expertise of Coastal Wastewater Consultants Limited, as many as 500 projects are managed at any one time.

McDowells designed many multi-million pound projects

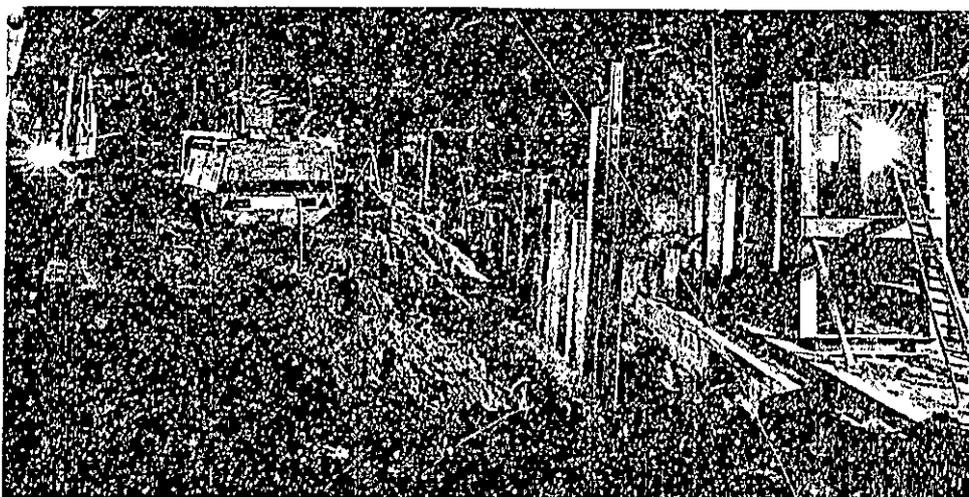
during the year, including coastal wastewater schemes at Eastbourne and Worthing in Sussex, and Sandwich Bay and Herne Bay in Kent.

The past year also saw the creation of Pipeworks to offer the Group's existing pipelaying and pipe maintenance expertise to the wider market, particularly the gas and electricity industries. The integration within Pipeworks of the commercial plumbing operations of Southern Watercare and the heating, ventilation and maintenance services of M W Longley has created one of the largest pipeline contracting and associated services companies in Southern England.



Above: Sewer replacement works being undertaken by Pipeworks Limited.

Far left: The construction of the pumping station for the 20km long pipeline, transferring raw water from the Filver Medway to storage at the Bewl Reservoir in Kent.



Left: The Wastewater Treatment Scheme at Eastbourne includes an underground headworks, odour control plant and a 3.2km long sea outfall.



Environmental Services

Southern Science Limited

GMSS Limited

Aquaclear Limited

ERG Environmental
Resource Group plc

Eco-clear Limited

Greenhill Enterprises
Limited

E S Taylor Group of
Companies

Clinical Waste Limited

The past year has seen substantial progress in the Group's Environmental Services sector, reflecting both organic growth and business development through niche acquisitions. Southern Water's environmental services range from initial analysis to fully engineered solutions.

In 1993, the Group acquired a 75% shareholding in Greater Manchester Scientific Services (GMSS Limited), a laboratory employing 40 people which provides the public analyst service for the Association of Greater Manchester Authorities. Together with Southern Science, the expanded business offers advanced chemical and microbiological analysis of a range of substances from water and foods to soils and gases.

Southern Science's client list has continued to develop well. In particular, remediation of contaminated land is now an important environmental and economic issue. Southern Science has responded to this with "Geoprobe" and "Geolab", their mobile sampling and laboratory facility. Providing immediate on-site results and supported by further sophisticated laboratories and experienced staff, clients are offered a first class and comprehensive consultancy service.

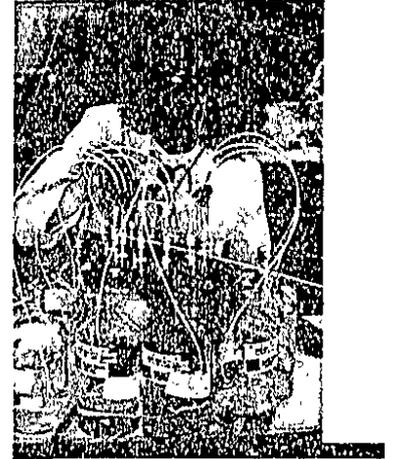
The year also saw significant advancement in the Group's integrated waste management capability with the acquisition of ERG Environmental Resource Group plc. This

brings to Southern Water a well respected company with a proven track record in the provision of design services and the building of turnkey process plants for treating and recovering inorganic effluents and the supply of air purification systems. Significant contracts during the year included a water treatment plant for the Ford Motor Company's Portuguese facility and process plant, air pollution equipment and industrial effluent treatment systems for the aircraft manufacturers, Short Brothers of Belfast.

The Group's businesses in the collection, treatment and disposal of wastes continue to expand. Mineral extraction and processing, recycling and dry waste disposal are undertaken at our landfill sites by the E S

Taylor Group and Greenhill Enterprises. Additional landfill capacity was acquired during the year in Sussex and Hampshire. In liquid waste treatment, Eco-clear continues to develop its waste treatment, drain cleaning and closed circuit TV sewer inspection services and to expand its fleet of specialist waste collection and sewer cleansing vehicles.

Clinical Waste Limited, the Group's joint venture with Mediwaste (NZ) Limited, collects and incinerates clinical waste to the highest environmental standards, meeting the stringent demands of the EU Hazardous Waste Directive. The company's first contract at King's College Hospital, London, provides ward-side collection and on site incin-



eration capacity of 18 tonnes of clinical waste per day. A similar facility at Eastbourne General Hospital and serving other hospitals in the area will commence construction in the near future and there are plans for other plants throughout the UK.



Above: Samples being prepared for analysis at one of Southern Science's laboratories.

Far Left: The fully automatic plant for Short's of Belfast designed and installed by ERG Environmental Resources Group plc.

Left: Clinical waste being delivered to the new incinerator at King's College Hospital, London.

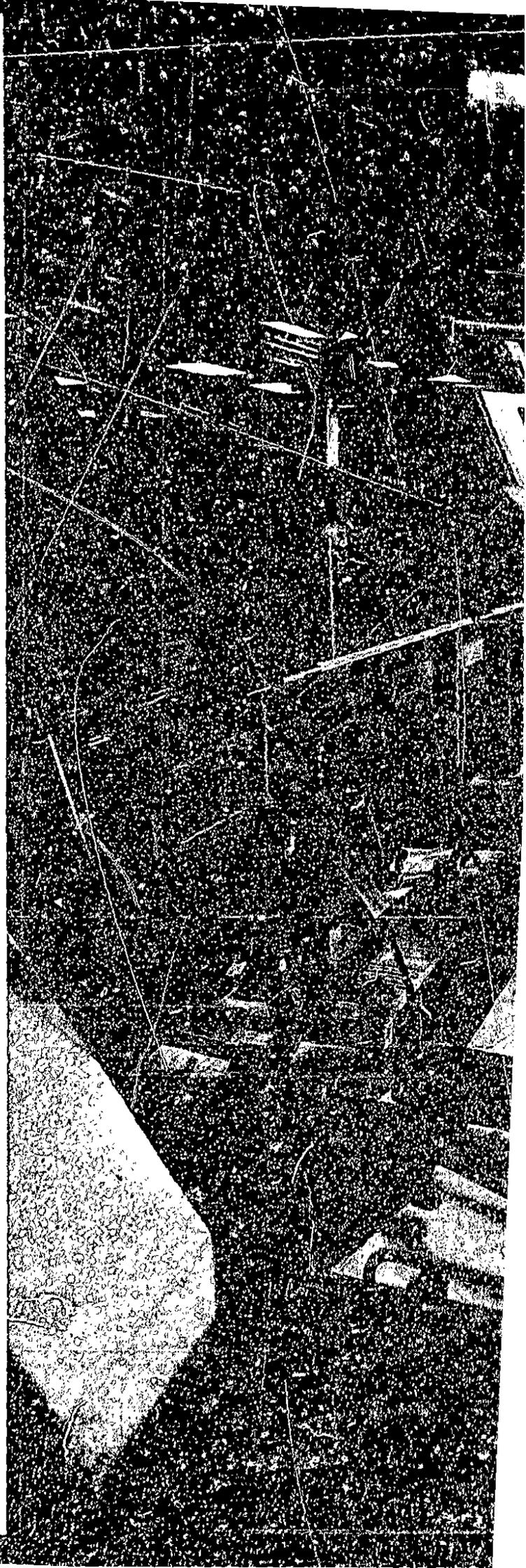
Systems Technology

IT Southern Limited

Paperstream Limited

*Tynemarch Systems
Engineering Limited*

*Sectron Systems
Limited*



Over many years, Southern Water has built up valuable expertise in the development, implementation and integration of advanced computer based communication, security and process control systems. This sector of the Group is well equipped to provide innovative solutions to business problems based on the very latest developments in information technology and communications.

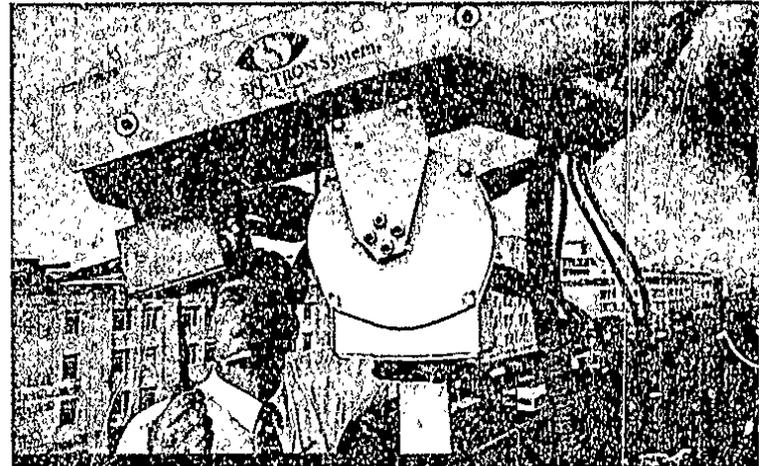
IT Southern provides a comprehensive range of IT services including software development, office automation, management of computer facilities, IT related consultancy and training. The Company markets a range of niche software products and services, for which there is a strong demand.

Paperstream provides mailing, remittance processing, billing and printing services for a wide range of organisations including local authorities, publishing companies and financial services companies. A key service is Cablecollect, the UK's leading cable TV and telephony billing system, which processes subscribers' bills for some fifty

per cent of the UK Cable TV industry.

Paperstream's services have been further enhanced by its recent relocation to new premises on the South Coast where all services are provided under one roof using state of the art technology.

Tynemarch Systems Engineering Limited specialises in engineering software services with emphasis on mathematical modelling, process control and optimisation aimed at minimising operating costs and ensuring the maximum benefits from capital investment. Tynemarch's market position is maintained by continuing



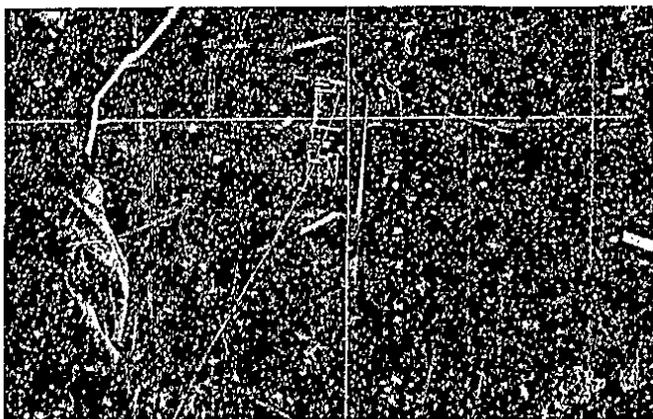
Above: An engineer with Sectron Systems Ltd. carries out routine maintenance on one of many surveillance cameras in Plymouth City centre.

research and producing innovative and practical solutions to client problems.

Sectron Systems Limited has made important advances during the year, marketing its high-technology security services and surveillance systems to both public and private sector clients. The services are based on sophisticated monitoring and communications ranging from closed circuit TV surveillance of offices and industrial sites to control of entry and passive alarm and fire protection systems. Sectron is now serving a number of "high street names" on a nationwide basis.

Far Left: State of the art equipment at Paperstream's new premises, brings speed and efficiency to bulk mailing.

Left: An operator accessing a digital mapping programme of sewer and water main records at IT Southern Ltd.



Southern Water has developed many skills and resources which are now being exploited externally in niche markets. These skills extend well beyond engineering, environmental and technology applications.

Specialist services and products

Topmark Vehicle Contracts Limited

Hazeley Down Mineral Water Company Limited

Pipestock Plus Limited

Monk Rawling Limited

Topmark Vehicle Contracts specialises in contract hire of heavy commercial vehicles and has a rapidly growing external client list, particularly among customers requiring specialist equipment such as public service vehicles and refrigerated units. The company is preparing to move to new larger premises in the West Midlands which are strategically located and provide a single site for the company's activities. Topmark is fast developing as a major force providing high specification commercial vehicles to industry and commerce throughout the UK on a contract hire basis.

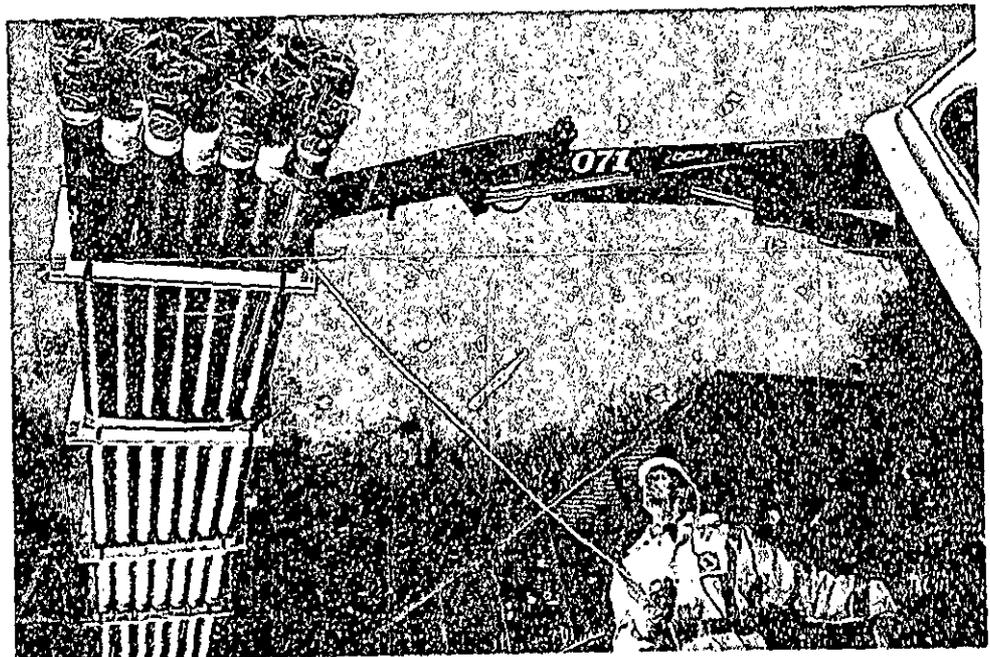
Hazeley Down Mineral Water

Company has introduced a new brand of high quality mineral water called '464'. This complements the Company's existing brand, Hazeley Down, which has a strong reputation in the hotel and catering trade. The new brand takes its name from the depth in feet of the source from which it is bottled. Packaged in a distinctive bottle, '464' is aimed at the young, healthy lifestyle market and is on sale at a growing number of national retail outlets.

Acting as the Group's purchasing arm, Pipestock Plus supplies Group companies with a wide range of approved and tested materials. This service is now available externally and

the Company supplies a wide range of materials and equipment to customers throughout the UK.

Monk Rawling is a firm of chartered surveyors, providing a complete range of agency, valuation and estate management services for urban and rural properties. New offices were opened at Brighton and Crawley in Sussex during the year, adding to other offices strategically placed in the South-East. Monk Rawling is now a strong regional player and has achieved steady growth in business volumes, in a relatively subdued commercial market sector.



Southern Water is continually searching for more innovative and cost effective methods of carrying out its operations. Over the past year, some £4.3m has been invested in Research and Development. Research is carried out internally using expertise available within Group companies, and externally in liaison with universities and specialist research bodies.

Research and Development

The removal of pesticides from drinking water is an area where significant research has been undertaken to find a technically sound and cost effective method of meeting the exceedingly demanding new treatment standards. This research is well advanced and considerable investment in new treatment plants will be made over the next two years. Experimental plants have also

been constructed to investigate the potential for reducing the leaching of lead from customers' pipes, where they have old plumbing systems and to remove polycyclic aromatic hydrocarbons (PAH's), a feature of some types of older water distribution mains.

With the future investment programme dominated by projects to meet the EU

Urban Wastewater Treatment Directive, research is being targeted at 'compact' treatment processes for use at coastal town sites where space is at a premium. Cost effective methods are also being developed for dealing with the much larger volumes of sludge which will be produced in the future.

During the year, commissioning of the Southern Water Services' telemetry system commenced. Designed to replace existing fragmented and ageing equipment the new system will, for the first time, connect 1,500 operational plants to four highly sophisticated control systems. Efficiencies have already started to flow from this enhanced monitoring of our treatment processes.

Having successfully developed a prototype mobile pipeline mapping system, the Company is now in the process of installing a compact disc based system into operators' vehicles to take digital mapping to the place where it is needed – the field operator. This will greatly reduce the burden caused by paper maps which are expensive and onerous to maintain and cumbersome to use in poor weather.

The operational performance of water supply and wastewater treatment plants being closely monitored using Southern Water's state of the art telemetry system,





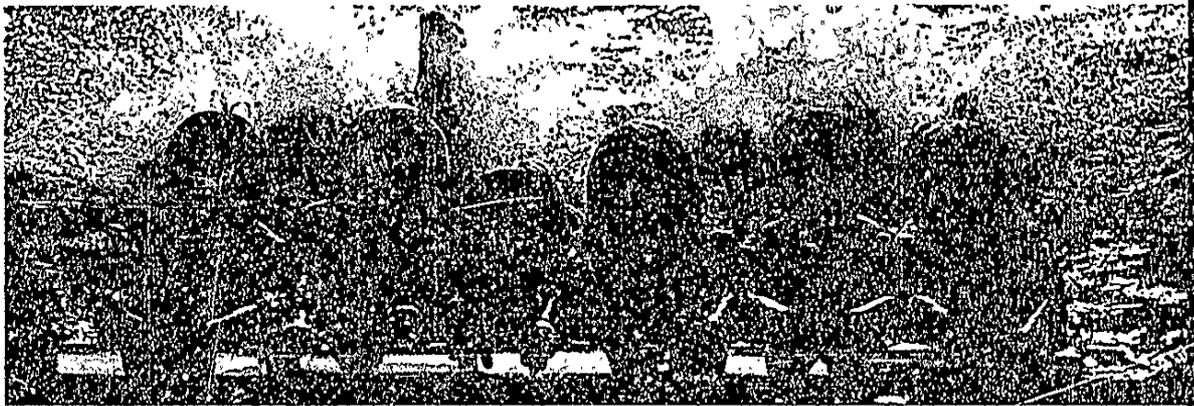
Far Left: Water distribution pipes being delivered to one of Pipe-stock Plus depots.

Left: Hazeley Down's latest product "464" is aimed at the young healthy lifestyle market.

Below: One of many specialist vehicles, supplied by Topmark Vehicle Contracts Ltd.



Southern Water contributes to community life through its creation of employment opportunities both inside and outside the Group and through sponsorship of charitable and educational activities.



The Community

Employees are encouraged to represent Southern Water in the community and many presentations were made during the year to schools, industry and other customer groups to broaden the awareness of our role in the community.

An on-going programme of Open Days continues to be a major attraction with some 10,500 customers and shareholders visiting our supply and treatment plants during the year.

Southern Water's sponsorship of the "Learn to Swim" scheme in association with the Amateur Swimming Association (ASA) now operates at 53 centres

Above: Just a few of the smiling faces benefitting from Southern Water's biggest community project "Learn to Swim".

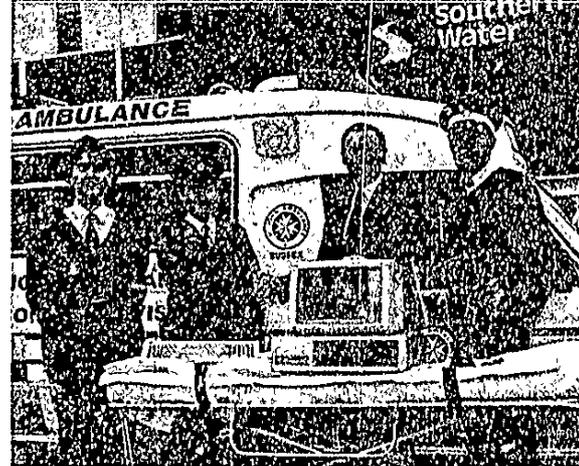
Right: Computer equipment being donated to the St. Johns Ambulance Brigade: an example of Southern Water's practical support for local charitable organisations.

throughout the region providing teaching equipment and training for instructors. Some 42,000 young children have learnt to swim using the scheme and this should rise to 75,000 by the end of 1995.

Southern Water is a major employer in the South East, with a work force of 3,500 people and is also a massive investor in the region. Hundreds of millions of pounds will

be spent between now and the end of the century on key projects which will further improve the quality of the environment and the local economy.

The Group and its employees continue to support many community-orientated causes. These include local hospitals, children's charities, Citizens Advice Bureaux and the Royal Life Saving Society.



The Environment

The environment is at the heart of our business. From investment of £450m in Operation Seaclean, to organising voluntary groups to clean up local ponds, Southern Water treats its environmental obligations very seriously.

The Group's environmental policy is an unambiguous statement of the way all our companies will act to protect and, where possible, enhance the environment. Our key principles are to:

- minimise environmental impact and the use of raw materials and energy;
- comply with statutory standards;
- provide environmental information in respect of Group activities;
- safeguard the health and safety of Group employees and enhance their environmental awareness;
- protect the aquatic environment and conserve nature;
- undertake environmental impact assessments and audits of compliance.

Southern Water communicates widely its policies and actions on environmental issues.

Conservation Matters, the much acclaimed environmental newspaper, this year won a prestigious award from the British Association of Industrial Editors and Southern Water Services continues to publish a highly informative annual environmental activity report. Both publications receive a very wide circulation including staff, shareholders, environmental groups, libraries, other community organisations and government bodies.

The Group owns some 10,000 acres of land in the South of England including areas within the boundaries of sites of special scientific interest (SSSI). Close liaison with the Nature

Conservancy Council, local naturalists groups and other specialist environmental groups helps to ensure that our sites are managed sensitively and that existing and potential natural habitats are protected and developed both in conjunction with our investment programme and as stand-alone environmental initiatives.

The Group remains committed to recycling waste products where possible and work continued during the year aimed at establishing environmentally desirable methods of disposing of growing volumes of sludge produced by more efficient wastewater treatment processes. Additionally, recycling centres have been established in Sussex where

solid waste is sorted and processed resulting in the recycling of some 60% of incoming material.

'Pond Week' now extends throughout the region and has become a major feature of Southern Water's environmental commitment. In September 1993 more than 1,000 volunteers responded to the joint Southern Water Services and British Trust for Conservation Volunteers (BTCV) scheme to make Pond Week '93 the most successful environmental initiative of its kind in the South of England. This gives a wide cross-section of the community an opportunity to translate their environmental concern into practical action.



One of the many ponds throughout the Southern Water region being given a clean up by volunteers, as part of Pond Week '93.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 1994.

Business overview

A review of the principal businesses of the Group and of their development in 1994 is contained in the Chairman's statement and the Managing Director's review on pages 2 to 22. A financial review of the year appears below and the financial statements are set out on pages 28 to 45.

Financial review

Turnover Group turnover in 1994 increased by 8.9% to £347.7m. External sales in the regulated business of Southern Water Services were 6.9% higher at £319.5m, principally due to the average increase in water charges of 6.9%. Growth in turnover from new connections was offset by a 3% decline in measured sales volumes caused mainly by lower water use among industrial and commercial customers. Total sales in the non-regulated businesses amounted to £88.1m, 13.8% above the previous year. Excluding intra Group sales, the external turnover of these businesses was £28.2m, an increase of 38.9%, reflecting mainly organic growth and also new acquisitions.

Profit Group trading profit was £133.6m, an increase of £14.2m (11.9%) on 1993. Trading profit in the regulated business was 11.3% higher at £123.5m. The continuing focus on cost efficiencies produced operating cost savings of over £3m in the year. These savings partially offset unavoidable additions to the cost base resulting from the company's compliance driven capital expenditure programme and other new obligations. Trading profit in the non-regulated businesses was £1.7m (20.2%) higher at £10.1m. This represents 7.6% of total trading profit and reflects the continuing success of the Group strategy of steady, evolving development.

Net interest payable increased to £6.1m, as the decline in short term interest rates, which began after Sterling left the Exchange Rate Mechanism of the European Monetary System, resulted in lower returns on the Group's cash holdings. Profit on ordinary activities before taxation was £127.5m, an increase of £8.3m (7.0%).

The Group has available in its regulated business substantial capital allowances brought forward from earlier years. The charge for taxation of £10.2m, therefore represents advance corporation tax payable on dividends declared, together with a mainstream liability relating to non-regulated profits. Profit attributable to ordinary shareholders amounted to £117.5m (1993 £109.4m).

Earnings and dividends Earnings per share increased by 6.0% to 70.3p. An interim dividend of £12.9m (7.7p per

ordinary share) with a scrip alternative was paid on 6 April 1994 and, subject to approval at the Annual General Meeting, a final dividend of £25.9m (15.4p per ordinary share) is proposed to be paid on 3 October 1994 to shareholders on the register on 5 July 1994. A scrip alternative is being offered for the final dividend. The retained profit for the year, after deduction of dividends, amounted to £78.7m and has been transferred to reserves.

Capital and reserves increased by £83.5m in the year to £965.0m. The increase reflected retained profit of £78.7m, net additions of £9.2m for shares issued in respect of scrip dividends, acquisitions and other allotments, less £4.4m of goodwill charged to reserves.

Cash flow The Group cash flow statement appears on page 32. Net cash inflow from operating activities increased by £34.2m to £178.2m due to the Group's increased generation of profit and ongoing firm control of working capital.

Returns on investment and servicing of finance were a net outflow of £33.3m, a rise of £5.9m compared with 1993. The increase reflected reduced income from the Group's cash and current asset investments, due to lower interest rates, and also higher dividend payments to shareholders. Tax paid, representing ACT on dividends paid declined by £0.7m to £9.2m.

The net cash outflow from investing activities was £220.1m (1993 £84.9m) including £78.4m for the purchase of current asset investments and deposits with a maturity date exceeding three months. Expenditure on new fixed assets amounted to £154.8m (1993 £109.9m), 85% of which was incurred by the regulated business to provide new major marine and inland wastewater treatment works and on improvements to water supply services and sewerage systems. Cash expenditure on acquisitions in 1994 was £2.3m.

New financing in 1993 involved a further loan of £5m from the European Investment Bank to fund environmental improvements, bringing total long term borrowings to £155.1m, all at fixed interest rates.

After allowing for the purchase of current asset investments and deposits referred to above, cash and cash equivalents decreased in the year by £79.5m. However, the Group's total liquidity, comprising current asset investments, cash and deposits increased by £1.2m to £174.3m. After deducting all borrowings, including short term borrowings of £9.2m, the Group ended the year with net cash of £10.0m (1993 £15.5m).

The Group's treasury activities are centrally controlled in accordance with policies laid down by the Board. Short term cash surpluses are invested according to strictly defined criteria to limit risk, and performance is reported monthly to the Board.

Report of the Directors, continued

Share capital

The ordinary share capital of the Company increased by £2.0m in the year; details of the movements are given in note 18 to the financial statements. The issued share capital at 31 March 1994 was 167,793,460 Ordinary Shares of £1 each.

As far as the Directors are aware, no person had a beneficial interest in 3% or more of the issued ordinary share capital at 16 June 1994 except for the following: Prudential Portfolio Managers Ltd 6.83%.

Fixed assets

Details of changes in fixed assets during the year are summarised in notes 8 and 9.

Investments

During the year the Company acquired the entire share capital of E S Taylor (Worthing) Holdings Limited and ERG Environmental Resource Group plc, and also 75% of the share capital of GMSS Limited, for a total consideration in shares and cash of £6.0m.

Research and development

Expenditure on research and development in 1994 amounted to £4.3m (1993 – £6.0m). Further information on research and development activities is given in the Managing Director's review.

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 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. Employees who become disabled are offered alternative work within the Group wherever possible.

With the future prosperity of the Group depending on the skills of its employees, we are committed to ensuring that the training required to fulfil career potential is provided. Training programmes are designed to meet specific needs, and include a range of in-house courses, beginning with an induction programme which introduces new employees to the fundamentals of customer service, teamwork and quality standards.

The Group places strong emphasis on effective employee communications and operates a number of formal and informal mechanisms, ranging from employee briefings to publications including the Group magazine, 'Southern Water News.' All employees are made aware of the objectives of the business and the contribution they themselves can make. Increasingly, pay is related to

individual performance and employees are encouraged to participate in the Employee Sharesave Scheme, now in its fifth year.

The health and safety of employees is of paramount concern and every effort is made to ensure safe working conditions and appropriate safety training. Additionally, all employees have the opportunity to undertake health and lifestyle checks at the Group's expense.

Corporate governance

The Company fully complies with applicable provisions of the Cadbury Committee's Code of Best Practice on the Financial Aspects of Corporate Governance. The Company expects to be able to comply with reasonable guidelines relating to internal control and the Company as a going concern, when these aspects of the Code are finalised.

The auditors have reviewed the Company's approach to corporate governance in accordance with the Stock Exchange requirements and the Auditing Practices Board guidance. They have confirmed that the above statement appropriately reflects the Company's compliance with those paragraphs of the Code specified by the Stock Exchange for their review.

The means by which corporate governance is effected in the Group is as follows:

The Board of Directors meets regularly throughout the year and is responsible for policy and strategy as well as having a schedule of matters which are specifically reserved for its decision. The Board has also established standing committees each of which operates within defined terms of reference. Day to day management of the Group is delegated to an Executive Committee comprising all of the Executive Directors. Nominations for new Directors are considered by a Nomination Committee, consisting of the whole Board, which meets as required.

There is an Audit Committee composed entirely of Non-Executive Directors which normally meets three times a year to monitor the adequacy of the Group's internal controls and to review the internal audit activities. It also reviews the half year and annual financial statements before submission to the Board. The external auditors and the Finance Director are invited to attend all Audit Committee meetings although an opportunity is provided for Non-Executive Directors and the auditors to meet in private.

There are also two Remuneration Committees. One meets at least once a year to review the terms and conditions of employment of the Executive Directors and consists entirely of Non-Executive Directors. The second committee, consisting of the Chairman and three Executive Directors, meets annually to review the terms and conditions of Non-Executive Directors. No Director plays a part in any discussion about his own remuneration.

Directors

The Directors of the Company at the date of this report are shown on page 5. Dr J M Westhead was appointed to the Board on 1 July 1993 and Mr B R Thorpe CBE retired as a Director on 19 August 1992. The Directors retiring by rotation at the Annual General Meeting in accordance with Article 106 are Mr F N Midmer and Mr V E Thomas who being eligible, offer themselves for re-election. As Non-Executive Directors they have no service agreements. Mr A M Fry has accepted appointment to the Board with effect from 1 July 1994 under Article 89. He will resign and offer himself for election at the Annual General Meeting as a Non-Executive Director. Mr Fry has no service agreement.

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 1994 are set out below together with their interests as at the date of this report.

	Ordinary Shares			Executive Option Scheme		Sharesave Scheme	
	16 June 1994	31 March 1994	31 March 1993	31 March 1994	16-93	31 March 1994	1993
W J W Courtney	50,617	50,088	48,742	106,000	106,000	9,160	9,160
M R Webster	51,075	51,075	49,440	72,000	57,000	7,790	7,790
R King	260	257	250	65,000	40,000	4,872	4,872
K Tozzi	7,855	7,763	19,408	52,000	27,000	17,244	17,244
F A Curle	589	582	557	-	-	-	-
F N Midmer	32,703	32,700	35,191	47,000	47,000	-	7,790
V E Thomas	250	250	250	-	-	-	-
J M Westhead	568	562	-	-	-	-	-

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes at a price each year indicated in note 18. During the year Mr W J W Courtney (40,000 shares) and Mr M R Webster (20,000 shares) exercised Executive Share options granted in January 1991. No options were granted or exercised between 31 March 1994 and 16 June 1994. 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 M R Webster, Mr R King and Mr K Tozzi.

Directors' and officers' liability insurance

The Company maintains liability insurance covering the Directors and officers of the Company and its subsidiaries.

Donations

Charitable donations during the year amounted to £27,000. No political donations were made by the Company or its subsidiaries.

Close company status

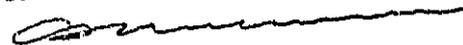
The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Auditors

A resolution to re-appoint Coopers & Lybrand as auditors and to authorise the Director to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The notice of the meeting is contained on pages 47-48 of this report. The Agenda includes, as an item of special business, the renewal of certain authorities to allot shares.


By Order of the Board
Graham Nicholson Company Secretary
16 June 1994

Southern Water plc
Registered office: Southern House, Yeoman Road, Worthing,
West Sussex BN13 3NX. Registered in England No. 2366620

Financial statements

**DIRECTORS'
RESPONSIBILITIES
For the preparation
of the financial
statements**

The Directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the year. The Directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis.

The Directors are also required to maintain adequate accounting records, and are responsible for taking reasonable steps to safeguard the Group's assets and prevent or detect fraud and other irregularities.

**REPORT OF THE
AUDITORS
To the members of
Southern Water plc**

We have audited the financial statements on pages 29 to 45.

Respective responsibilities of directors and auditors

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

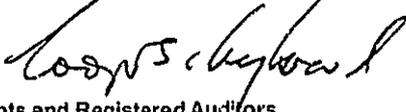
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
16 June 1994

Accounting policies

Basis of accounting and consolidation

The financial statements have been prepared under the historical cost convention, in accordance with applicable UK accounting standards and, subject to the treatment of infrastructure grants and contributions described below, in accordance with the Companies Act 1985.

The consolidated Group financial statements include the accounts of the parent company and all its subsidiary undertakings. The accounting year end for all subsidiary undertakings is 31 March with the exception of one subsidiary whose year end is 31 December and 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 financial statements from or to their respective dates of acquisition or disposal.

Turnover

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

Depreciation

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 included in creditors and released to profit over the useful lives of the relevant assets.

Since infrastructure assets are not depreciated, no basis exists on which to recognise relevant grants and contributions as deferred income. Accordingly, infrastructure grants and contributions are deducted from the cost of infrastructure assets in order to show a true and fair view. This is in accordance with SSAP4. The Companies Act 1985 provides for grants and contributions relating to infrastructure assets to be shown separately as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 8.

Leased assets

Assets leased to Southern Water Services Limited under finance leases are capitalised and depreciated in line with the Group depreciation policy. 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 charged against profit as incurred.

Fixed asset investments

The Group's share of the results of associated undertakings is included in the Group profit and loss account, and the Group balance sheet includes the investment in associated undertakings 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). Dividends from other investments are accounted for on receipt.

Goodwill

Goodwill, representing the excess of the acquisition cost of subsidiary undertakings or investments in associated undertakings over the fair value of the net assets acquired, is charged to reserves.

Stocks and work in progress

Stocks used internally for operational 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.

Current asset investments

Current asset investments relating to treasury activities are stated in the balance sheet at market value. Realised and unrealised gains and losses arising in the year are recognised in the profit and loss account.

Research and development

Research and development expenditure is charged against profit in the year in which it is incurred.

Foreign currency

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

Taxation

Advance corporation tax in respect of dividends for the year is written off in the profit and loss account unless it can be recovered against mainstream corporation tax.

Provision is made for deferred taxation, relating to capital allowances and other timing differences, 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 most 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 systematic basis over the expected remaining service lives of employees in each scheme. Contributions to the schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements.

Group profit and loss account

For the year ended 31 March 1994

	Notes	1994 £m	1993 £m
Turnover – continuing operations	1	<u>347.7</u>	<u>319.2</u>
Trading profit – continuing operations	1,2	133.6	119.4
Net interest payable	3	<u>(6.1)</u>	<u>(0.2)</u>
Profit on ordinary activities before taxation		127.5	119.2
Taxation	4	<u>(10.2)</u>	<u>(9.8)</u>
Profit on ordinary activities after taxation		117.3	109.4
Minority interests		<u>0.2</u>	<u>–</u>
Profit attributable to ordinary shareholders		117.5	109.4
Dividends	5	<u>(38.8)</u>	<u>(35.3)</u>
Retained profit for the year	19	<u>78.7</u>	<u>74.1</u>
Earnings per share	7	70.3p	66.3p

Statement of total recognised gains and losses

Profit attributable to ordinary shareholders is equal to the total recognised gains in both financial years.

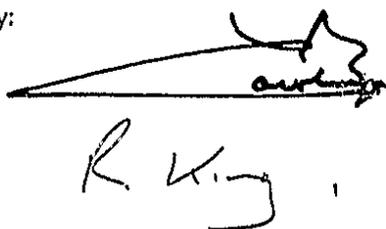
Balance sheets

At 31 March 1994

	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
Fixed assets					
Tangible assets	8	1059.1	955.9	0.9	0.9
Investments	9	1.4	1.4	501.3	298.5
		<u>1070.5</u>	<u>957.2</u>	<u>502.2</u>	<u>299.4</u>
Current assets					
Stocks	10	4.4	4.7	—	—
Debtors	11	64.3	59.9	72.7	50.3
Investments	12	94.8	—	94.8	—
Cash and deposits		79.5	173.1	76.9	194.0
		<u>243.0</u>	<u>237.7</u>	<u>244.4</u>	<u>244.3</u>
Creditors due within one year					
Short term borrowings	13	(9.2)	(7.5)	—	—
Other creditors	14	(155.8)	(131.6)	(62.1)	(47.2)
		<u>(165.0)</u>	<u>(139.1)</u>	<u>(62.1)</u>	<u>(47.2)</u>
Net current assets		<u>78.0</u>	<u>98.6</u>	<u>182.3</u>	<u>197.1</u>
Total assets less current liabilities		<u>1148.5</u>	<u>1055.8</u>	<u>684.5</u>	<u>496.5</u>
Creditors due after more than one year					
Long term borrowings	15	(155.1)	(150.1)	(155.0)	—
Grants and contributions	16	(21.5)	(17.0)	—	—
		<u>(176.6)</u>	<u>(167.1)</u>	<u>(155.0)</u>	<u>—</u>
Provision for liabilities and charges	17	(5.8)	(6.2)	(3.5)	(4.5)
Minority interests		<u>(1.1)</u>	<u>(1.0)</u>	<u>—</u>	<u>—</u>
		<u>965.0</u>	<u>881.5</u>	<u>526.0</u>	<u>492.0</u>
Capital and reserves					
Called up share capital	18	167.8	165.8	167.8	165.8
Share premium account	19	4.3	2.1	4.3	2.1
Profit and loss account	19	792.9	713.6	353.9	324.1
	21	<u>965.0</u>	<u>881.5</u>	<u>526.0</u>	<u>492.0</u>

The financial statements on pages 29 to 45 were approved by the Board on 16 June 1994 and signed on its behalf by:

W J W Courtney CBE Chairman
R King Group Finance Director



R King

Group cash flow statement

For the year ended 31 March 1994

	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	26	178.2	144.0
Returns on investment and servicing of finance:			
Interest received		13.6	18.1
Interest paid		(16.9)	(16.0)
Interest payments under finance leases		(0.1)	—
Dividends received		0.3	0.2
Dividends paid		(30.2)	(29.7)
Net cash outflow from returns on investment and servicing of finance		(33.3)	(27.4)
Taxation paid		(9.2)	(9.9)
Investing activities:			
Purchase of tangible fixed assets		(154.8)	(109.9)
Sale of tangible fixed assets		1.4	1.6
Acquisition of subsidiary undertakings		(2.3)	—
Grants and capital contributions		14.0	13.4
Current asset investments and deposits maturing after three months		(78.4)	10.0
Net cash outflow from investing activities		(220.1)	(84.9)
Net cash (outflow)/inflow before financing		(84.4)	21.8
Financing:			
Issue of new shares		0.5	2.0
New long term loans		5.0	20.0
Principal repayments under finance leases		(0.6)	(0.9)
Net cash inflow from financing	27	4.9	21.1
(Decrease)/increase in cash and cash equivalents	29	(79.5)	42.9

Notes to the financial statements

NOTE 1		Turnover £m	1994 Profits £m	Net Assets £m	Turnover £m	1993 Profits £m	Net Assets £m
SEGMENTAL INFORMATION	Regulated business	319.5	123.5	917.0	298.9	111.0	842.2
	Non-regulated businesses	28.2	10.1	35.4	20.3	8.4	22.0
		<u>347.7</u>	<u>133.6</u>	<u>952.4</u>	<u>319.2</u>	<u>119.4</u>	<u>864.2</u>
	Net interest payable		(6.1)	10.0		(0.2)	15.5
			<u>127.5</u>	<u>962.4</u>		<u>119.2</u>	<u>879.7</u>
	Unallocated assets			2.6			1.8
				<u>965.0</u>			<u>881.5</u>

All material activities were conducted in the United Kingdom.

Turnover is stated after eliminating inter company transactions of £60.4m (1993 £57.4m), of which £59.9m (1993 £57.1m) relates to sales by non-regulated businesses.

NOTE 2		Group		
		1994 £m	1993 £m	
ANALYSIS OF TRADING PROFIT	Turnover	347.7	319.2	
	Cost of sales	(174.2)	(163.6)	
	Gross profit	173.5	155.6	
	Administration expenses	(41.7)	(38.0)	
	Other operating income	1.8	1.8	
	Trading profit	<u>133.6</u>	<u>119.4</u>	
	Trading profit is stated after charging/(crediting):			
	Depreciation on:			
	Own fixed assets	37.4	32.5	
	Fixed assets held under finance leases	0.6	0.4	
	<u>38.0</u>	<u>32.9</u>		
Infrastructure renewals expenditure	16.9	16.6		
Rentals under operating leases	0.3	0.2		
Research and development	4.3	6.0		
Grants and contributions	(0.7)	(0.5)		

Audit fees charged in the Group financial statements for the year ended 31 March 1994 were £0.2m (1993 £0.2m), of which £40,000 (1993 £37,000) related to the Company. Fees payable to the auditors for services other than statutory audit were £0.1m (1993 £0.1m)

Notes to the financial statements continued

NOTE 3		Group	
		1994 £m	1993 £m
INTEREST	Interest payable on bank loans, overdrafts and other loans:		
	Repayable within five years by instalments	(3.3)	(2.0)
	Repayable wholly within five years not by instalments	(1.0)	(1.2)
	Repayable after five years by instalments	(12.8)	(13.6)
	Finance lease obligations	(0.1)	—
	Other	(0.7)	—
		<u>(17.9)</u>	<u>(16.8)</u>
	Interest receivable	11.8	16.6
		<u>(6.1)</u>	<u>(0.2)</u>

NOTE 4		Group	
		1994 £m	1993 £m
TAXATION	United Kingdom taxation:		
	Corporation tax at 33% (1993 33%)	6.1	—
	Advance corporation tax utilised relating to prior years	(4.2)	—
	Advance corporation tax on dividends for the year	8.3	9.8
		<u>10.2</u>	<u>9.8</u>

The corporation tax charge for the year of £6.1m has been reduced by £37.2m (1993 £40.3m) in respect of the excess of tax allowances over depreciation and other timing differences.

NOTE 5		Group	
		1994 £m	1993 £m
DIVIDENDS	Interim dividend of 7.7p (1993 7.1p) per ordinary share paid 6 April 1994	12.9	11.7
	Proposed final dividend of 15.4p (1993 14.2p) per ordinary share	25.9	23.6
		<u>38.8</u>	<u>35.3</u>

A scrip alternative was offered for the interim dividend and will be offered for the final dividend.

NOTE 6		Group	
		1994 £m	1993 £m
DIRECTORS AND EMPLOYEES	Employee costs (including Directors' emoluments)		
	Wages and salaries	66.4	62.3
	Social security costs	5.5	4.8
	Pension contributions	6.6	6.2
		<u>78.5</u>	<u>73.3</u>

NOTE 6 continued

		Group	
		1994 Number	1993 Number
DIRECTORS AND EMPLOYEES	Average number of persons employed		
	Regulated business	2,388	2,373
	Non-regulated activities	1,088	1,012
		<u>3,476</u>	<u>3,385</u>
		<u>1994 £000</u>	<u>1993 £000</u>
Directors' emoluments			
	Fees	68	70
	Salary (including benefits in kind)	514	381
	Performance bonus	70	63
	Pension contributions	146	84
		<u>798</u>	<u>598</u>

Two Executive Directors who served throughout the year had been appointed for the last three months of the previous year. One Non-Executive Director served for seven months in the current year, having formerly been an Executive Director for the first five months of the year and the whole of the previous year.

An unfunded pension provision of £28,000 (1993 £5,000) has also been charged against profit in respect of one Director. In addition a payment of £240,000 was made during the year to the Southern Water Executive Pension Scheme in respect of a funding deficit from prior years relating to Directors.

The emoluments of the Chairman, who was also the highest paid Director, were £215,000 (1993 £200,000) inclusive of performance bonuses of £22,000 (1993 £28,000) and pension contributions £46,000 (1993 £30,000).

Performance bonuses for Executive Directors are determined by the Remuneration Committee, which comprises exclusively Non-Executive Directors, and are based, inter alia, on the increase in the Company's earnings per share.

Fifty per cent of Directors' emoluments are charged to the Group's non-regulated businesses.

The emoluments (excluding pension contributions) of all Directors who served during the year were within the following bands:

£	1994 Number	1993 Number	£	1994 Number	1993 Number
10001 - 15000	2	1	105001 - 110000	—	1
15001 - 20000	2	2	110001 - 115000	—	1
20001 - 25000	—	2	115001 - 120000	1	—
25001 - 30000	—	1	145001 - 150000	1	—
60001 - 65000	1	—	165001 - 170000	1	1
95001 - 100000	1	—			

Notes to the financial statements continued

NOTE 7

EARNINGS PER SHARE

Earnings per share were 70.3p (1993 66.3p), based on profit attributable to ordinary shareholders of £117.5m (1993 £109.4m) and the weighted average number of shares in issue during the year of 167.1m (1993 164.9m).

Earnings per share on the nil basis were 75.3p (1993 72.3p) and are calculated on profit attributable to ordinary shareholders, adjusted by advance corporation tax written off.

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

NOTE 8		Freehold land and buildings £m	Plant and machinery £m	Group infrastructure assets £m	Other £m	Total £m	Company Other £m
TANGIBLE FIXED ASSETS	Cost						
	Balance at 1 April 1993	389.8	259.2	392.3	114.4	1155.7	1.6
	Acquisition of subsidiaries	1.3	0.8	—	0.7	2.8	—
	Additions	41.1	33.8	64.6	18.6	158.1	0.5
	Grants and contributions	—	—	(8.8)	—	(8.8)	—
	Disposals	—	(3.5)	—	—	(3.5)	(0.1)
	Balance at 31 March 1994	<u>432.2</u>	<u>290.3</u>	<u>448.1</u>	<u>133.7</u>	<u>1304.3</u>	<u>2.0</u>
	Depreciation						
	Balance at 1 April 1993	67.5	84.4	—	48.0	199.9	0.7
	Charge for year	10.4	18.5	—	9.1	38.0	0.4
	Disposals	—	(2.7)	—	—	(2.7)	—
	Balance at 31 March 1994	<u>77.9</u>	<u>100.2</u>	<u>—</u>	<u>57.1</u>	<u>235.2</u>	<u>1.1</u>
	Net book value						
	31 March 1994	<u>354.3</u>	<u>190.1</u>	<u>448.1</u>	<u>76.6</u>	<u>1069.1</u>	<u>0.9</u>
Net book value							
31 March 1993	<u>322.3</u>	<u>174.8</u>	<u>392.3</u>	<u>66.4</u>	<u>955.8</u>	<u>0.9</u>	

Tangible fixed assets at 31 March 1994 included £143.8m (1993 £84.1m) 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 1994 was £8.3m (1993 £8.5m).

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £57.7m (1993 £48.9m).

NOTE 9		1994 £m	1993 £m		
FIXED ASSET INVESTMENTS	(a) Group				
	Cost at 31 March	2.3	2.3		
	Less amounts provided	(0.9)	(0.9)		
	Balance at 31 March	<u>1.4</u>	<u>1.4</u>		
	(b) Company				
		Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Other Investments £m	Total £m
	Balance at 1 April 1993	50.6	246.5	1.4	298.5
	Additions	13.3	189.5	—	202.8
	Balance at 31 March 1994	<u>63.9</u>	<u>436.0</u>	<u>1.4</u>	<u>501.3</u>

The principal subsidiary undertakings of the Company and fixed asset investments of the Group are listed on page 45.

NOTE 10		— Group —	
		1994 £m	1993 £m
STOCKS	Materials and consumables	3.4	3.6
	Work in progress	1.0	1.1
		<u>4.4</u>	<u>4.7</u>

NOTE 11		— Group —		— Company —	
		1994 £m	1993 £m	1994 £m	1993 £m
DEBTORS	Trade debtors	54.6	53.0	—	—
	Amounts owed by subsidiary undertakings			70.0	46.7
	Other debtors	6.4	5.7	1.4	3.4
	Prepayments	3.3	1.2	1.3	0.2
		<u>64.3</u>	<u>59.9</u>	<u>72.7</u>	<u>50.3</u>

Notes to the financial statements continued

NOTE 12		Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
CURRENT ASSET INVESTMENTS	Listed on recognised investment exchanges	41.5	—	41.5	—
	Other investments	53.3	—	53.3	—
		<u>94.8</u>	<u>—</u>	<u>94.8</u>	<u>—</u>

Investments include Government bonds, floating rate notes and commercial paper and are stated at market value.

NOTE 13		Group	
		1994 £m	1993 £m
SHORT TERM BORROWINGS	Bank loans and overdrafts	9.0	6.7
	Obligations under finance leases	0.2	0.8
		<u>9.2</u>	<u>7.5</u>

NOTE 14		Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
OTHER CREDITORS	Trade creditors	15.2	12.9	0.4	0.1
	Capital creditors and accruals	30.5	27.2	—	—
	Amounts owed to subsidiary undertakings			2.7	4.9
	Corporation tax	11.3	10.3	10.2	0.8
	Other taxation and social security	2.9	1.8	—	0.1
	Other accruals and deferred income	57.0	44.1	9.9	6.0
	Dividends payable	38.9	35.3	38.9	35.3
	<u>155.8</u>	<u>131.6</u>	<u>62.1</u>	<u>47.2</u>	

The amounts for 1993 have been re-analysed and now show capital creditors and accruals separately.

NOTE 15		Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
LONG TERM BORROWINGS	Bank loans	155.0	150.0	155.0	-
	Obligations under finance leases	0.1	0.1	-	-
		<u>155.1</u>	<u>150.1</u>	<u>155.0</u>	<u>-</u>
Repayable as follows:					
Bank loans:					
Between one and two years		2.0	-	2.0	-
Between two and five years		28.6	18.6	28.6	-
After five years		124.4	131.4	124.4	-
Finance leases:					
Between one and two years		0.1	0.1	-	-
		<u>155.1</u>	<u>150.1</u>	<u>155.0</u>	<u>-</u>

Bank loans are unsecured and repayable by instalments for periods up to 15 years. The rates of interest payable on loans due after 5 years range from 7.1% to 11.5%.

NOTE 16		Group £m
GRANTS AND CONTRIBUTIONS	Balance at 1 April 1993	17.0
	Receivable in year	5.2
	Released to profit and loss account	(0.7)
Balance at 31 March 1994		<u>21.5</u>

Grants and contributions relate to non-infrastructure fixed assets.

NOTE 17		Group			Company Share schemes and other £m	
		Infra- structure renewal £m	Share schemes £m	Other £m		Total £m
PROVISION FOR LIABILITIES AND CHARGES	Balance at 1 April 1993	1.7	3.5	1.0	6.2	4.5
	Provided in year	16.9	-	2.1	19.0	-
	Utilised in year	(18.4)	-	(1.0)	(19.4)	(1.0)
	Balance at 31 March 1994	<u>0.2</u>	<u>3.5</u>	<u>2.1</u>	<u>5.8</u>	<u>3.5</u>

The full potential deferred taxation liability, for which no provision is considered necessary, calculated under the liability method at a tax rate of 33% is:

		Group	
		1994 £m	1993 £m
Accelerated capital allowances (non-infrastructure assets)		98.6	82.0
Losses and other timing differences		(19.0)	(18.3)
Advance corporation tax		(38.8)	(34.8)
		<u>40.8</u>	<u>28.9</u>

Notes to the financial statements continued

NOTE 18		1994 £m	1993 £m
CALLED-UP SHARE CAPITAL	Authorised		
	225,000,000 ordinary shares of £1 each 1 special rights redeemable preference share of £1	225.0	225.0
		<u>225.0</u>	<u>225.0</u>
	Allotted, called-up and fully paid		
	Ordinary shares of £1 each:		
	At 1 April	165.8	164.3
	Issued during the year	2.0	1.5
	1 special rights redeemable preference share of £1		
	At 31 March	<u>167.8</u>	<u>165.8</u>

Allotments in the year were in respect of scrip dividends 1,051,283, sharesave scheme 43,982, executive share options exercised 176,000 and acquisitions 677,111.

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 at 31 March 1994 were as follows:

	Date of grant	Number of shares 000	Price per share
Executive share option scheme	January 1991	184	295p
	January 1992	309	310p
	January 1993	350	466p
	January 1994	173	639p
Sharesave scheme	December 1989	1275	176p
	January 1991	727	236p
	February 1992	765	248p
	January 1993	580	372p
	January 1994	393	519p

In normal circumstances, the executive share options may be exercised between three and ten years from the date of grant. During the year 176,000 ordinary shares of £1 each were allotted under the scheme for a consideration of £0.5m.

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

NOTE 19

		Group		Company	
		Share Premium Account £m	Profit & Loss Account £m	Share Premium Account £m	Profit & Loss Account £m
SHARE PREMIUM ACCOUNT AND RESERVES	At 1 April 1993	2.1	713.6	2.1	324.1
	Retained profit for the year	—	78.7	—	24.8
	Premium on allotments	3.4	—	3.4	—
	Capitalisation of scrip dividend shares	(1.1)	—	(1.1)	—
	Value of dividends taken as scrip shares	—	5.0	—	5.0
	Expenses of issue of scrip dividend shares	(0.1)	—	(0.1)	—
	Goodwill on acquisitions	—	(4.4)	—	—
	At 31 March 1994	<u>4.3</u>	<u>792.9</u>	<u>4.3</u>	<u>353.9</u>

The cumulative amount of goodwill charged in respect of acquisitions of existing subsidiaries is £12.4m (1993 £8.0m).

The profit of the Company attributable to shareholders for the financial year was £63.6m (1993 £83.0m). No separate profit and loss account is presented as permitted by S230 of the Companies Act 1985.

NOTE 20

ACQUISITIONS

Three acquisitions were made during the year as set out in the Directors' Report. The fair value of the assets acquired and the resulting goodwill are set out below:-

	Book values acquired £m	Adjustments to accord with Group policies £m	Fair Value £m
Fixed assets	3.9	(1.1)	2.8
Stocks	0.2	(0.1)	0.1
Debtors	1.8	—	1.8
Creditors	(2.7)	(0.1)	(2.8)
	<u>3.2</u>	<u>(1.3)</u>	<u>1.9</u>
Minority interests			<u>(0.3)</u>
			1.6
Goodwill charged to reserves			<u>4.4</u>
Purchase consideration			<u>6.0</u>
Consideration satisfied by:			
Issue of shares (including share premium £3.0m)			3.7
Cash paid (£3.3m) less cash acquired (£1.0m)			<u>2.3</u>
			<u>6.0</u>

Notes to the financial statements continued

NOTE 21

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		— Group —	
		1994 £m	1993 £m
	Profit attributable to ordinary shareholders		
	Dividends for the year	117.5	109.4
	Retained profit for the year	(38.8)	(35.3)
	Allotments for cash — executive and sharesave option schemes	78.7	74.1
	Shares issued relating to acquisitions	0.6	2.3
	Value of dividends taken as scrip shares	3.7	—
	Expenses of issue of scrip dividend shares	5.0	2.3
	Goodwill charged to reserves	(0.1)	(0.3)
	Net addition to Shareholders' funds	(4.4)	(1.0)
	Shareholders' funds at 1 April	83.5	77.4
	Shareholders' funds at 31 March	881.5	804.1
		905.0	881.5

NOTE 22

CONTINGENT LIABILITIES		— Group —	
		1994 £m	1993 £m
	Contractors' claims	2.4	1.4
	Bank guarantees	0.5	—
		2.9	1.4

All wholly owned Group companies registered in England have provided mutual cross guarantees for borrowings from National Westminster Bank Plc which at 31 March 1994 amounted to £9.0m.

NOTE 23

CAPITAL COMMITMENTS		— Group —		— Company —	
		1994 £m	1993 £m	1994 £m	1993 £m
	Outstanding contracts placed for capital expenditure	91.6	57.2	—	—
	Capital expenditure authorised by the Directors but not contracted	142.6	118.8	—	—

NOTE 24

OTHER FINANCIAL
COMMITMENTS

Annual commitments under
non-cancellable operating leases:
Expiring between two and five years
Expiring after five years

Group		Company	
1994	1993	1994	1993
£m	£m	£m	£m
0.1	0.1	—	—
0.1	0.1	—	—
<u>0.2</u>	<u>0.2</u>	<u>—</u>	<u>—</u>

NOTE 25

PENSIONS

The Group has a number of pension schemes. The principal defined benefit scheme, which covers over 80% of the Group's employees, has six Trustee Directors — Mr William Courtney, Mr Philip Girdle and four other members who are not Directors of the Company. The power of appointment of new Trustee Directors is vested in Southern Water plc.

The assets of all schemes are held separately from those of the Group. The Bank of Scotland acts as custodian trustee for the defined benefit schemes and asset management is delegated to a fund manager, Queen Anne's Gate Asset Management Ltd. On 31 March 1994, the principal scheme held shares in Southern Water plc which represented 2.7% of the investment portfolio.

All schemes' accounts are audited annually by auditors other than those of Southern Water plc. Members of the schemes receive an annual statement of their accrued benefits and a copy of the trustees' annual report.

The Group's defined benefit schemes are valued by independent consulting actuaries using either the 'projected unit' method or the 'attained age' method. The last completed actuarial valuation of the principal scheme was carried out as at 31 March 1992. At that date, the market value of the scheme's assets was £87.7m, which covered approximately 107% of the benefits accrued to members, after allowing for expected increases in earnings. The employers' average contribution is being maintained at 11.7% of pensionable pay with members paying standard contributions of 6%, 5% or 3%.

The most recent actuarial valuations of the other defined benefit schemes indicated that the market values of their assets covered the estimated value of members' accrued benefits, after allowing for a special contribution paid into one of the schemes.

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

Total pension costs for the year were £6.6m (1993 £6.2m).

Notes to the financial statements continued

NOTE 26		1994 £m	1993 £m
RECONCILIATION OF TRADING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES	Trading profit	133.6	119.4
	Depreciation charge	38.0	32.9
	Other items	(2.3)	(1.0)
	Movement in provisions	(0.4)	(0.2)
	Decrease in stocks	0.4	0.2
	(Increase) in debtors	(4.4)	(1.7)
	Increase/(decrease) in other creditors	13.3	(5.6)
	Net cash inflow from operating activities	<u>178.2</u>	<u>144.0</u>

NOTE 27		Share capital (including premium) £m	Long term loans £m	Finance lease obligations £m	Total £m
CHANGES IN FINANCING DURING THE YEAR	At 1 April 1993	167.9	150.0	0.9	318.8
	Cash inflow/(outflow) from financing	0.5	5.0	(0.6)	4.9
	Shares issued for non-cash consideration	3.7	—	—	3.7
	At 31 March 1994	<u>172.1</u>	<u>155.0</u>	<u>0.3</u>	<u>327.4</u>

NOTE 28		1994 £m	1993 £m
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET	Current asset investments	94.8	—
	Cash and short term deposits	79.5	173.1
	Short term borrowings (excluding finance leases)	(9.0)	(6.7)
		<u>165.3</u>	<u>166.4</u>
	Investments and deposits exceeding three months to maturity when acquired	(133.4)	(55.0)
	Cash and cash equivalents	<u>31.9</u>	<u>111.4</u>

NOTE 29		1994 £m	1993 £m
ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS	Cash and cash equivalents at 1 April	111.4	68.5*
	Net cash (outflow)/inflow	(79.5)	42.9
	Cash and cash equivalents at 31 March (see note 28)	<u>31.9</u>	<u>111.4*</u>

*restated to exclude short term finance lease obligations of £0.8m.

Subsidiary undertakings and investments in other companies

At 31 March 1994

SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiary undertakings at 31 March 1994 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 Water Industries Limited	Ordinary	100%	Industrial and commercial services
McDowells Limited*	Ordinary	100%	Civil and structural engineering design and consultancy
Pipeworks Limited	Ordinary	100%	Pipe and mainlaying services
IT Southern Limited*	Ordinary	100%	Information technology services
Paperstream Limited*	Ordinary	100%	Mailing and printing services
Tynemarch Systems Engineering Limited (year end 31 December)	Ordinary	100%	Process control and engineering software services
Sectron Systems Limited*	Ordinary	100%	Security services
Southern Science Limited*	Ordinary	100%	Laboratory analysis and environmental assessment
GMSS Limited	Ordinary	75%	Laboratory services
Aquaclear Limited*	Ordinary	100%	Commercial water systems consultancy
Eco-clear Limited	Ordinary	100%	Liquid waste management
E S Taylor (Worthing) Holdings Limited	Ordinary	100%	Solid waste management
ERG Environmental Resource Group plc	Ordinary	100%	Effluent and odour treatment services
Greenhill Enterprises Limited	Ordinary	100%	Waste management
Clinical Waste Limited	Ordinary	55%	Clinical waste management
Topmark Vehicle Contracts Limited*	Ordinary	100%	Vehicle contract hire
Hazeley Down Mineral Water Company Limited*	Ordinary	100%	Bottled mineral water
Bowsprit Holdings Limited	Ordinary	100%	Property investment
Monk Rawling Limited	Ordinary	100%	Estates management and property consultancy
Bowsprit Property Development Limited	Ordinary	100%	Property development
Waterline Insurance Company Limited	Ordinary	100%	Insurance

*These companies act as agents of Southern Water Industries Limited.

FIXED ASSET INVESTMENTS

Company	Class of capital	Proportion of class held %	Nature of business	Total capital and reserves £m	Profit for the period £m	
Associated undertaking	Coastal Wastewater Consultants Limited	Ordinary	50%	Marine treatment engineering design and consultancy	0.1	—
Other investments	Folkeslone & Dover Water Services Limited	Ordinary Preference Deferred	25.1% 21.8% 12.2%	Water supply	6.1	1.7

Both companies are registered in England

Group five year summary

	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Turnover –					
continuing operations	347.7	319.2	290.7	251.2	225.8
Trading profit –					
continuing operations	133.6	119.4	106.1	90.5	78.3
Exceptional items	–	–	6.0	–	(5.8)
Net interest	(6.1)	(0.2)	3.0	6.6	(18.2)
Profit on ordinary activities					
before taxation	127.5	119.2	115.1	97.1	54.3
Taxation	(10.2)	(9.8)	(9.8)	(9.7)	(5.5)
Profit on ordinary activities					
after taxation	117.3	109.4	105.3	87.4	48.8
Minority interests	0.2	–	–	–	–
Profit attributable to					
ordinary shareholders	117.5	109.4	105.3	87.4	48.8
Dividends	(38.8)	(35.3)	(32.1)	(29.0)	(16.4)
Retained profit for the year	78.7	74.1	73.2	58.4	32.4
	p	p	p	p	p
Earnings per share	70.3	66.3	64.2	53.4	–
Earnings per share before					
exceptional items	–	–	60.5	–	–
Dividends per ordinary share	23.1	21.3	19.5	17.7	10.02
	£m	£m	£m	£m	£m
Assets employed					
Fixed assets	1070.5	957.2	893.8	787.0	710.6
Net current assets (liabilities)	78.0	98.6	59.5	1.3	(24.5)
Long term creditors	(176.6)	(167.1)	(142.8)	(47.3)	(6.7)
Provision for liabilities and charges	(5.8)	(6.2)	(6.4)	(5.1)	(2.4)
Minority interests	(1.1)	(1.0)	–	–	–
Net assets	965.0	881.5	804.1	735.9	677.0
Capital and reserves					
Called up share capital	167.8	165.8	164.3	163.8	163.7
Share premium account	4.3	2.1	1.6	0.4	0.3
Profit and loss account	792.9	713.6	638.2	571.7	513.0
	965.0	881.5	804.1	735.9	677.0

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 of 1990 with later years is limited and care should be taken in relating these figures.

Notice of Annual General Meeting

NOTICE is hereby given that the fifth Annual General Meeting of Southern Water plc will be held at the Dorne Theatre, Church Street, Brighton, East Sussex, on Thursday, 18 August 1994 at 11:00 am, to transact the following business:

Ordinary Business

- 1 To receive and adopt the Report of the Directors and the audited financial statements for the year ended 31 March 1994.
- 2 To declare a final dividend for the year ended 31 March 1994 of 15.4p per Ordinary share.
- 3 To elect Mr A M Fry as a Director.
- 4 To re-elect Mr F N Midmer as a Director.
- 5 To re-elect Mr V E Thomas as a Director.
- 6 To re-appoint Coopers & Lybrand as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

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

THAT

(i) the Directors shall have general and unconditional authority to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) of the Company on and subject to such terms as the Directors may determine. The authority hereby conferred shall be for a period expiring five years from the date hereof unless renewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of relevant securities which may be allotted pursuant to such authority shall be £56,013,568.

(ii) the Directors shall be entitled under the authority conferred by paragraph (i) of this Resolution or under any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

(iii) the authority under the said Section 80 conferred at the Extraordinary General Meeting held on 20 November 1989 be and is hereby cancelled.

- 8 To consider 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) in accordance with the authority conferred by Resolution 7 above as if Section 89 (1) of the said Act did not apply 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 sub-paragraph (a) or (b) hereof) of equity securities up to an aggregate amount not exceeding 5% of the nominal value of the issued share capital of the Company as at the date hereof;

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.


By Order of the Board
Graham Nicholson Company Secretary
21 July 1994

Southern Water plc
Registered office: Southern House, Yeoman Road,
Worthing, West Sussex, BN13 3NX.

Notice of Annual General Meeting continued

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 1-7 are ordinary resolutions which may be carried by a simple majority of shareholders voting in person or by proxy; resolution 8 is a special resolution which the Companies Act 1985 requires to be carried by a 75% majority.

Resolution 1: to receive the report and financial statements
The Directors of the Company are required to present to the meeting the Report of the Directors and the audited financial statements 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 3 October 1994.

Resolutions 3, 4 and 5: election of Directors
The Articles of Association (the rules which govern the Company's internal management) provide for the retirement of certain Directors by rotation each year. In accordance with these provisions, Mr F N Midmer and Mr V E Thomas will retire by rotation this year and seek re-election. Mr A M Fry joined the Board on 1st July 1994 and in accordance with the Articles, will seek election at this meeting.

Resolution 6: appointment and remuneration of auditors
A public company must appoint auditors to hold office until the next general meeting at which financial statements are presented. The resolution proposes the reappointment of Coopers & Lybrand and as is common practice, the resolution also seeks authority for the Directors to approve their remuneration.

Resolution 7: authority to allot shares
The Directors were given a general authority to allot ordinary share capital up to a maximum nominal amount of £217,423,000 at an Extraordinary General Meeting of the Company on 20 November 1989. This authority to allot shares remained valid for a period of five years. Resolution 7 seeks to replace this authority with a new authority for a further five year period until 17 August 1999. The Directors do not presently intend to exercise this authority except for the allotment of new shares pursuant to a scrip dividend offer and the Company's employee share schemes or to finance business opportunities. The number of shares permitted by the proposed authority, 56,013,568 is one third of the issued share capital and complies with the recommendations of the Association of British Insurers.

Resolution 8: partial disapplication of pre-emption rights

If the Directors propose to allot ordinary shares (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 holding. 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 new ordinary shares. This resolution therefore gives the Directors authority to issue 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 waives the pre-emption requirements on a scrip dividend and 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. This authority will last until next year's Annual General Meeting or fifteen months after the passing of the resolution whichever is the earlier.

Notes

- 1 Subject to it being duly declared at the Annual General Meeting, the final ordinary dividend will be paid on 3 October 1994 to shareholders on the register at close of business on 5 July 1994.
- 2 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.
- 3 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, must be deposited with the Company's Registrars, The Royal Bank of Scotland, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 4BR not later than 48 hours before the time fixed for the meeting, or any adjournment thereof.
- 4 The following documents 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.
 - (a) The Directors' Service Contracts;
 - (b) The register of Directors interests in shares in the Company.

Shareholder information

FINANCIAL CALENDAR

1994

16 June	Announcement of final results
20 June	Ex dividend date for final dividend
5 July	Record date for dividend
18 August	Annual General Meeting
3 October	Final dividend payable
December	Announcement of unaudited interim results

1995

31 March	Financial year end
6 April	Interim dividend payable

SHAREHOLDERS' INTERESTS

At 16 June 1994

Number of Shareholders 85,631

Shareholding Range	Shareholders %	Shares %	Category of Shareholders	Shareholders %	Shares %
300 and under	51.60	4.21	Pension funds	0.02	1.26
301 to 1000	45.23	10.56	Insurance companies	0.05	9.84
1001 to 10000	2.45	2.49	Banks and nominee companies	2.63	65.75
10001 to 50000	0.33	3.38	Other corporate bodies	0.40	5.56
Over 50000	0.39	78.86	Other shareholders	96.90	17.59
	100.00	100.00		100.00	100.00

ANNUAL GENERAL MEETING

The Annual General Meeting of Southern Water plc is being held at the Dome Theatre, Brighton on 18 August 1994. The entrance will be via The Corn Exchange in Church Street, Brighton.

The doors of the Theatre will open from 9.30am and the Annual General Meeting will start at 11.00am. Refreshments will be available.

Shareholders are requested to bring their admission cards

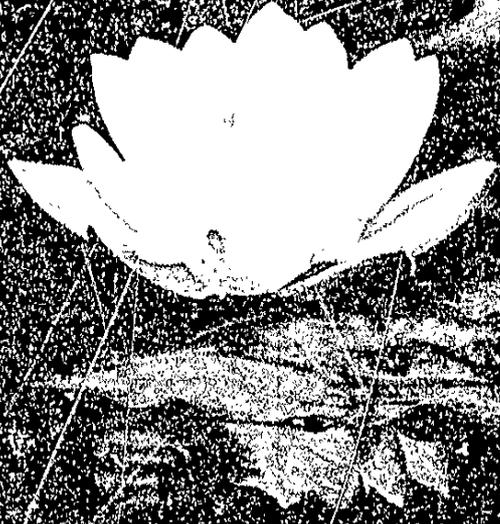
with them to the meeting. Cameras and tape recorders will not be allowed to be taken into the meeting and shareholders will recognise the need for random security checks to be carried out at the entrance. The Theatre has facilities for people with disabilities and a separate seating area with induction loops has been provided for the hard of hearing.

If you have any queries about the business of the meeting please telephone: L Crawford, Shareholder Services Manager on (0903) 264444.

REGISTRARS

The Royal Bank of Scotland plc maintains the Company's share register. If you have any queries please contact:

The Royal Bank of Scotland plc, PO Box 435, Owen House,
8 Bankhead Crossway North, Edinburgh, EH11 4BR
(031 523 6123 or 031 523 6126)



Southern Water plc
Annual Report 1994

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