

SOUTHERN WATER SERVICES LTD

Statutory Financial Statements and Supplementary Regulatory Accounting Statements For the Year Ended 31st March 1994



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PREFACE

This document includes the statutory financial statements of Southern Water Services Ltd to be filed with the Registrar of Companies as required under the Companies Act 1985, together with a set of supplementary regulatory accounting statements required by the Instrument of Appointment (the "Licence") issued to the Company by the Secretary of State for the Environment.

The Director General of Water Services ("the Director General") has a duty under the Water Industry Act 1991 to ensure compliance with the conditions of this Licence.

A particular point of definition is worth noting. The "Appointee" is Southern Water Services Ltd, appointed in the Licence to be the undertaker. Southern Water Services Ltd has other functions and activities which are not regulated by the Licence. These activities are termed the "Non-Appointed Business".

Ring Fencing Statement

Under Condition K of its Licence, the Company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

In the opinion of the Directors, the Company was in compliance with that requirement as at 31 March, 1994.

Protection of the core business (Licence Condition F6A)

The Directors state that the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least 12 months, its regulated activities and sufficient management resources to enable it to carry out its functions.

Directors' responsibilities for the preparation of the supplementary regulatory accounting statements.

In addition to their responsibilities to prepare financial statements in accordance with the Companies Act 1985, described on page 4, the directors are also responsible under Condition F of the Licence issued to the Company by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 for :

- (a) ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Director General to the Appointee from time to time;
- (b) preparing on a consistent basis for each financial year accounting statements in accordance with Condition F, having regard also to the terms of guidelines notified by the Director General from time to time, which so far as is reasonably practicable have the same content as the annual financial statements of the Appointee prepared under Companies Act 1985 and which are prepared in accordance with the formats , accounting policies and principles which apply to those accounts;
- (c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by the Director General from time to time;
- (d) preparing such other accounting and related information as is required by Condition F having regard also to the terms of guidelines issued by the Director General from time to time.

The Directors approved the statutory accounts on pages 1 to 16 on 15 June 1994. They approved the supplementary regulatory accounting statements on pages 17 to 32 on 12 August 1994.

SOUTHERN WATER SERVICES LIMITED

Registration Number: 2366670

REPORT OF THE DIRECTORS
For the Year Ended 31 March 1994

The Directors present their annual report, together with the audited financial statements, for the year ended 31 March 1994.

PRINCIPAL ACTIVITY

The Company provides water supply and wastewater services in the South East of England.

RESULTS

Details of the profit and dividends for the year are shown in the profit and loss account on page 7. The Directors recommend a dividend of £34.2m (1993: £32.4m) and the transfer of the balance of the profit for the year of £49.7m (1993: £30.3m) to reserves.

FIXED ASSETS

Capital expenditure on fixed assets totalled £132.8m (1993: £95.9m). Details of changes in fixed assets during the year are summarised in note 6 on page 12.

DIRECTORS

The Directors of the Company at the date of this report were: W Cutting, A L Smith, G H Setterfield, R Clayton, S Derwent and E Hutchinson.

R Collett resigned as a Director of the Company on 11 May 1993.

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors of the Company, who held office at 31 March 1994, in the ordinary shares of the Holding Company as at 31 March and at the date of this report are set out below.

	<u>Ordinary Shares 15 June 1994</u>	<u>Ordinary Shares</u>		<u>Executive Share Options</u>		<u>Sharesave Scheme</u>	
		<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
Mr W Cutting	14,655	14,643	19,201	47,000	37,000	4,090	4,090
Mr R F Clayton	10,980	10,851	11,973	23,000	19,000	7,528	6,199
Mr S Derwent	5,007	4,959	1,340	29,000	32,500	9,160	9,160
Mr E Hutchinson	5,588	5,581	5,556	24,000	20,000	9,160	9,160
Mr G H Setterfield	20,282	20,044	956	31,000	67,000	7,629	7,629
Mr A L Smith	3,095	3,059	2,957	31,000	27,000	8,246	8,246

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes. During the year the following directors exercised options in ordinary shares of £1 each: Mr S Derwent - 7,500 and Mr G H Setterfield - 40,000.

None of the Directors holds shares beneficially in the Company.

DIRECTORS' AND OFFICERS' LIABILITY

The Company maintains liability insurance covering the Directors and Officers of the Company.

EMPLOYMENT POLICIES

The Company 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 Company wherever possible.

With the future prosperity of the Company 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 Company places strong emphasis on effective employee communications and operates a number of formal and informal mechanisms, ranging from employee briefings to publications such as the Group's newspaper 'Southern Water News'. All employees are made aware of the objectives of the business and the contribution they themselves can make. Pay is increasingly related to individual performance and employees are encouraged to participate in the Employee Sharesave Scheme.

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 Company's expense.

RESEARCH AND DEVELOPMENT

The improvement of existing services and processes, together with the identification and development of new technology and solutions, are key aspects of the Company's strategy to enhance the quality of service to customers and improve methods of working. Revenue expenditure for 1994 amounted to £4.0m (1993: £4.2m).

AUDITORS

A resolution to reappoint Coopers & Lybrand as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board.



Eric Hutchinson
Director
15 June 1994

REGISTERED OFFICE

Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX

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 as at the end of the financial year and of the profit of the Company 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 Company's assets and to prevent or detect fraud and other irregularities.

REPORT OF THE AUDITORS

To the members of Southern Water Services Limited

We have audited the financial statements on pages 5 to 16.

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 the Company's affairs at 31 March 1994 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

15 June 1994

ACCOUNTING POLICIES

For the Year Ended 31 March 1994

Basis of Accounting

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

Turnover

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

Depreciation of Fixed Assets

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

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

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

Grants and Contributions

Grants and contributions received in respect of 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, relevant grants and contributions are deducted from the cost of these assets, in order to show a true and fair view. This is in accordance with SSAP4. The Companies Act 1985 provides for such grants and contributions to be shown separately. The effect of this treatment on the value of tangible fixed assets is disclosed in note 6.

Leased Assets

Fixed assets leased to the Company under finance leases are capitalised and depreciated in line with the Company's depreciation policy.

The interest element of finance lease repayments is charged against profit in proportion to the balance of the capital repayments outstanding.

Rental costs under operating leases are charged against profit as incurred.

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.

Research and Development

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

Foreign Currency

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

No provision is made for deferred taxation unless there is a reasonable probability that a liability will occur in the foreseeable future.

Pensions

Southern Water plc operates defined benefit pension schemes which cover most employees of Southern Water Services Ltd. 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 these schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements.

Cash Flow

The Company is a wholly owned subsidiary of Southern Water plc and the cash flows of the Company are included in the consolidated group cash flow statement. Consequently the Company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

SOUTHERN WATER SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1994

	Notes	1994 £m	1993 £m
Turnover - continuing operations	1	328.0	306.9
Trading Profit - continuing operations	1	124.5	112.6
Net interest payable	3	(41.6)	(40.9)
Profit on ordinary activities before taxation		82.9	71.7
Taxation	4	1.0	(9.0)
Profit attributable to ordinary shareholders		83.9	62.7
Dividends	5	(34.2)	(32.4)
Retained profit for the year	15	49.7	30.3

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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


SOUTHERN WATER SERVICES LIMITED

BALANCE SHEET

AS AT 31 MARCH 1994

	Notes	1994 £m	1993 £m
Fixed assets	6	1,029.4	935.2
Current assets			
Stocks	7	3.1	2.9
Debtors	8	58.0	53.9
		<u>61.1</u>	<u>56.8</u>
Creditors due within 1 year			
Short term borrowings	9	(20.5)	(29.2)
Other creditors	10	(149.0)	(121.6)
		<u>(169.5)</u>	<u>(150.8)</u>
Net current liabilities		(108.4)	(94.0)
Total assets less current liabilities		<u>921.0</u>	<u>841.2</u>
Creditors due after more than 1 year			
Long term borrowings	11	(405.0)	(380.0)
Grants and contributions	12	(21.5)	(17.0)
		<u>494.5</u>	<u>444.2</u>
Provisions for liabilities and charges	13	(2.3)	(1.7)
		<u>492.2</u>	<u>442.5</u>
Capital and reserves			
Called up share capital	14	0.1	0.1
Share premium account	15	46.3	46.3
Profit and loss account	15	445.8	396.1
		<u>492.2</u>	<u>442.5</u>

The financial statements on pages 5 to 16 were approved by the Board on 15 June 1994 and signed on its behalf by:


W Cutting - Managing Director


E Hutchinson - Finance Director

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 1	1994 £m	1993 £m
Turnover and profit before interest		
- continuing operations		
Turnover (wholly in the UK)	328.0	306.9
Cost of sales	(177.4)	(170.3)
Gross profit	150.6	136.6
Administration expenses	(28.2)	(26.0)
Other operating income	2.1	2.0
Trading profit	124.5	112.6
 Trading profit is stated after charging/(crediting)		
Depreciation on		
Fixed assets - owned	29.3	26.8
Fixed assets held under finance leases	0.4	0.4
	29.7	27.2
Infrastructure renewals expenditure	16.9	16.6
Research and development	4.0	4.2
Grants and contributions	(0.7)	(0.5)
Profit on disposal of fixed assets	(0.4)	(0.2)

Audit fees charged in the financial statements for the year ended 31 March 1994 were £81,000 (1993: £78,000).

Fees payable to the auditors for services other than statutory audit were £67,000 (1993: £17,000).

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 2

Directors and employees

	1994 £m	1993 £m
(a) Staff costs (including directors' emoluments)		
Wages and salaries	43.5	42.3
Social security costs	3.5	3.2
Pension contributions	4.4	4.2
	<u>51.4</u>	<u>49.7</u>
	1994 Number	1993 Number
(b) Average number of persons employed during the year:	2,444	2,447
	1994 £000	1993 £000
(c) Directors' emoluments		
Salaries (including benefits in kind)	396	376
Pension contributions	96	63
	<u>492</u>	<u>439</u>

A payment of £245,000 was made during the year to the Southern Water Executive Pension Scheme in respect of a funding deficit from prior years relating to Directors.

	1994 £000	1993 £000
The emoluments of the highest paid director (excluding pension contributions)	78	74

(d) Directors

The remuneration (excluding pension contributions) of directors was within the following categories:

£	1994 Number	1993 Number
0 - 5000	-	4
5001 - 10000	1	-
15001 - 20000	-	1
50001 - 55000	-	2
55001 - 60000	3	2
60001 - 65000	1	1
70001 - 75000	1	1
75001 - 80000	1	-

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 3	1994	1993
Net interest	£m	£m
Interest payable:		
On bank loans, overdrafts and other loans		
Repayable within 5 years by instalments	(3.3)	(2.0)
Repayable within 5 years not by instalments	(0.8)	(0.7)
Repayable after 5 years by instalments	(12.9)	(13.6)
Repayable after 5 years not by instalments	(24.9)	(25.7)
	<u>(41.9)</u>	<u>(42.0)</u>
Interest receivable	0.3	1.1
	<u>(41.6)</u>	<u>(40.9)</u>

£32.1m (1993 £25.7m) of interest was payable to Southern Water plc.

Note 4	1994	1993
Taxation	£m	£m
United Kingdom taxation:		
Advance corporation tax	(1.0)	9.0

The charge for taxation in the profit and loss account is wholly in respect of advance corporation tax on dividends declared. No liability arose in the period in respect of mainstream corporation tax because of the availability of excess tax allowances over depreciation and other timing differences of £27.1m (1993: £39.7m).

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

**Note 5
Dividends**

	1994 £m	1993 £m
Interim proposed dividend of £203.661 per ordinary share (1993: £192.839)	11.4	10.8
Final proposed dividend of £407.303 per ordinary share (1993: £385.679)	22.8	21.6
	<u>34.2</u>	<u>32.4</u>

**Note 6
Fixed assets**

	Freehold Land & Buildings £m	Plant & Machinery £m	Infra- structure assets £m	Other £m	Total £m
Cost					
Balance at 1 April 1993	384.9	217.3	392.3	118.9	1,113.4
Additions	30.2	20.6	64.5	17.5	132.8
Grants and contributions	-	-	(8.8)	-	(8.8)
Disposals	-	(0.2)	-	-	(0.2)
Balance at 31 March 1994	<u>415.1</u>	<u>237.7</u>	<u>448.0</u>	<u>136.4</u>	<u>1,237.2</u>
Depreciation					
Balance at 1 April 1993	67.4	63.0	-	47.8	178.2
Additions	-	0.1	-	-	0.1
Charge for year	10.3	10.5	-	8.9	29.7
Disposals	-	(0.2)	-	-	(0.2)
Balance at 31 March 1994	<u>77.7</u>	<u>73.4</u>	<u>-</u>	<u>56.7</u>	<u>207.8</u>
Net book value at 31 March 1994	<u>337.4</u>	<u>164.3</u>	<u>448.0</u>	<u>79.7</u>	<u>1,029.4</u>
Net book value at 31 March 1993	<u>317.5</u>	<u>154.3</u>	<u>392.3</u>	<u>71.1</u>	<u>935.2</u>

Fixed assets at 31 March 1994 included £142.3m (1993: £83.6m) of assets in the course of construction which are not depreciated until commissioning.

The net book value of fixed assets includes an amount of £7.9m (1993: £8.3m) in respect of assets held under finance leases and hire purchase contracts.

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

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 7	1994	1993
Stocks	£m	£m
Materials and consumables	2.6	2.6
Work in progress	0.5	0.3
	<u>3.1</u>	<u>2.9</u>

At 31 March 1994 the net replacement cost of stocks was not materially different from the above amounts.

Note 8	1994	1993
Debtors	£m	£m
Trade debtors	28.4	29.1
Amounts owed by group companies	3.3	1.1
Other debtors	4.0	2.2
Prepayments	1.2	0.6
Unbilled income	21.1	20.9
	<u>58.0</u>	<u>53.9</u>

The amounts for 1993 have been re-analysed and now show unbilled income separately.

Note 9	1994	1993
Short term borrowings	£m	£m
Bank overdraft	20.5	28.5
Obligations under finance leases	-	0.7
	<u>20.5</u>	<u>29.2</u>

Note 10	1994	1993
Other creditors	£m	£m
Trade creditors	9.7	9.3
Capital creditors and accruals	28.1	26.4
Amounts owed to group companies	39.0	10.2
Proposed dividends	34.2	32.4
Advance corporation tax	-	9.4
Other taxation and social security	0.1	0.1
Accruals and deferred revenue	37.9	33.8
	<u>149.0</u>	<u>121.6</u>

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

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 11

Creditors falling due after more than one year

	1994 £m	1993 £m
Loans from holding company	405.0	230.0
Other loans	-	150.0
	<u>405.0</u>	<u>380.0</u>

Loans are repayable as follows:

Between one to five years	30.6	18.6
After five years not by instalments	250.0	230.0
After five years by instalments	124.4	131.4
	<u>405.0</u>	<u>380.0</u>

The Company has agreed loan facilities with Southern Water Plc. The rates of interest payable on loans due after 5 years range from 7.15% to 11.55%.

Note 12

Grants and contributions

	1994 £m
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 assets.

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 13

Provisions for liabilities and charges

	Infrastructure renewal £m	Other £m	Total £m
Balance at 1 April 1993	1.7	-	1.7
Provided in year	16.9	2.1	19.0
Utilised in year	(18.4)	-	(18.4)
Balance at 31 March 1994	0.2	2.1	2.3

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:

	1994 £m	1993 £m
Accelerated capital allowances (non infrastructure assets)	98.1	78.5
Losses and other timing differences	(14.5)	(17.4)
Advance corporation tax	(17.8)	(18.8)
	65.8	42.3

Note 14

Called up share capital

	1994 £m	1993 £m
Authorised		
46,050,000 ordinary shares of £1 each:	46.1	46.1
Allotted, called up and fully paid		
56,000 ordinary shares of £1 each:	0.1	0.1

Note 15

Share premium account and reserves

	Share premium account £m	Profit and loss account £m
Balance at 1 April 1993	46.3	396.1
Retained profit for year	-	49.7
Balance at 31 March 1994	46.3	445.8

SOUTHERN WATER SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Note 16

Movement in shareholders funds

The movement in shareholders funds of £49.7m (1993 £30.3m) relates solely to the retained profit for the year.

Note 17

Pensions

The Company's pension arrangements are administered through three schemes operated by Southern Water plc, the Holding Company. Actuarial information concerning these schemes is disclosed in the financial statements of Southern Water plc.

Note 18

Contingent liabilities

Contingent liabilities in connection
with contractors' claims on capital
schemes and road reinstatements

1994
£m

1993
£m

2.4

1.4

The Company has provided mutual cross guarantees for borrowing from National Westminster Bank Plc by other Group Companies which at 31 March 1994 amounted to £9m.

Note 19

Capital Commitments

Outstanding contracts placed for
capital expenditure

1994
£m

1993
£m

90.4

57.1

Capital expenditure authorised
by directors but not contracted

139.7

118.8

Note 20

Ultimate holding company

The Company is wholly owned by Southern Water plc, a company incorporated in England.

Copies of Southern Water plc's consolidated financial statements may be obtained from the Company Secretary at Southern House, Yeoman Road, Worthing, West Sussex, BN13 3NX.

Supplementary Historical Cost Financial Statements

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1994

	1994			1993		
	Appointed Business £m	Non- Appointed Business £m	Total £m	Appointed Business £m	Non- Appointed Business £m	Total £m
Turnover	320.0	8.0	328.0	299.2	7.7	306.9
Operating costs	(198.6)	(7.0)	(205.6)	(190.2)	(6.1)	(196.3)
Operating income	0.4	-	0.4	0.2	-	0.2
Operating profit	121.8	1.0	122.8	109.2	1.6	110.8
Other income	1.7	-	1.7	1.8	-	1.8
Net Interest	(41.6)	-	(41.6)	(40.9)	-	(40.9)
Profit on ordinary activities before taxation	81.9	1.0	82.9	70.1	1.6	71.7
Taxation	1.0	-	1.0	(8.8)	(0.2)	(9.0)
Profit attributable to ordinary shareholders	82.9	1.0	83.9	61.3	1.4	62.7
Dividends	(33.8)	(0.4)	(34.2)	(31.7)	(0.7)	(32.4)
Retained profit	49.1	0.6	49.7	29.6	0.7	30.3

HISTORICAL COST BALANCE SHEET

At 31 March 1994

	1994			1993		
	Appointed Business £m	Non- Appointed Business £m	Total £m	Appointed Business £m	Non- Appointed Business £m	Total £m
Fixed assets						
Tangible assets	1,027.8	1.6	1,029.4	933.6	1.6	935.2
Current assets						
Stocks	3.0	0.1	3.1	2.9	-	2.9
Debtors	54.6	3.4	58.0	50.2	3.7	53.9
	<u>57.6</u>	<u>3.5</u>	<u>61.1</u>	<u>53.1</u>	<u>3.7</u>	<u>56.8</u>
Current liabilities						
Amounts falling due within one year :						
Short term borrowings	(20.5)	-	(20.5)	(29.2)	-	(29.2)
Other creditors	(148.1)	(0.9)	(149.0)	(119.9)	(1.7)	(121.6)
	<u>(168.6)</u>	<u>(0.9)</u>	<u>(169.5)</u>	<u>(149.1)</u>	<u>(1.7)</u>	<u>(150.8)</u>
Net current assets/(liabilities)	<u>(111.0)</u>	<u>2.6</u>	<u>(108.4)</u>	<u>(96.0)</u>	<u>2.0</u>	<u>(94.0)</u>
Total assets less current liabilities	<u>916.8</u>	<u>4.2</u>	<u>921.0</u>	<u>837.6</u>	<u>3.6</u>	<u>841.2</u>
Creditors						
Amounts falling due after more than one year	(405.0)	-	(405.0)	(380.0)	-	(380.0)
Provisions for liabilities and charges	(2.3)	-	(2.3)	(1.7)	-	(1.7)
Grants and contributions	(21.5)	-	(21.5)	(17.0)	-	(17.0)
	<u>488.0</u>	<u>4.2</u>	<u>492.2</u>	<u>438.9</u>	<u>3.6</u>	<u>442.5</u>
Capital and reserves						
Called up share capital	0.1	-	0.1	0.1	-	0.1
Share premium account	46.3	-	46.3	46.3	-	46.3
Profit and loss account	<u>441.6</u>	<u>4.2</u>	<u>445.8</u>	<u>392.5</u>	<u>3.6</u>	<u>396.1</u>
	<u>488.0</u>	<u>4.2</u>	<u>492.2</u>	<u>438.9</u>	<u>3.6</u>	<u>442.5</u>

Supplementary Current Cost Financial Statements

ACCOUNTING POLICIES

The Appointed Business of Southern Water Services Ltd

These supplementary current cost financial statements have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990, the effective commencement of the new regulatory regime.

These financial statements have been prepared in accordance with Regulatory Accounting Guidelines (RAGs) 1 to 4. In respect of cost allocations the company has continued to allocate costs as in previous years on the basis suggested in RAG 4 (Analysis of Operating Costs and Assets).

The accounting policies used are the same as those adopted in the statutory historical cost financial statements, except as set out below.

Periodic Review

The Strategic Business Plan produced by the company for the Periodic Review re-assessed asset stock and valuations. Until the implications of the final data used for price-setting have been assessed, the valuations used in the current cost statements, as in previous years, have been based on data from the original 1989 Asset Management Plan.

Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.

Working capital adjustment - this is calculated by applying the change in the Retail Price Index (RPI) over the year to the opening total of trade debtors and stock less trade creditors.

Disposal of fixed assets adjustment - the difference between the values of realised assets in these current cost financial statements and in the historical cost financial statements.

Financing adjustment - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

Valuation bases for determining depreciation and disposal adjustments

i) Tangible Fixed Assets.

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of pre- 31 March 1990 assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

Land and Buildings

Non-specialised operational properties have been valued using existing current cost values at 31 March 1990 as an estimate of open market value for existing use at that date as the Directors believe that there is no material difference between these values. These values have been adjusted for inflation using RPI since that date.

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Periodic Reviews by adjusting for inflation using the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure Assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the Asset Management Plan (AMP).

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In intervening years, values are restated for inflation using the RPI.

Other operational fixed assets

All other operational fixed assets are valued periodically at depreciated replacement cost. Between Periodic Reviews, values are restated for inflation using the RPI.

Surplus Land

Surplus Land is valued at recoverable amount, taking into account that part of any proceeds must be passed on to customers under Condition B of the Licence.

ii) Grants and Other Third Party Contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been released to profit. The balance carried forward is restated for the change in the RPI for the year.

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS

For the year ended 31 March 1994

		<u>1994</u>	<u>1993</u>
	Notes	£m	£m
Turnover	1	320.0	299.2
Current cost operating costs	2,3	(260.4)	(246.9)
Operating income	1	<u>0.4</u>	<u>0.2</u>
		60.0	52.5
Working capital adjustment		<u>1.5</u>	<u>1.5</u>
Current cost operating profit		61.5	54.0
Other income		1.7	1.8
Net Interest		(41.6)	(40.9)
Financing adjustment		<u>9.4</u>	<u>7.1</u>
Current cost profit before taxation		31.0	22.0
Taxation		<u>1.0</u>	<u>(8.8)</u>
Current cost profit attributable to shareholders		32.0	13.2
Dividends		<u>(33.8)</u>	<u>(31.7)</u>
Current cost loss		<u>(1.8)</u>	<u>(18.5)</u>

CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS

At 31 March 1994

		<u>1994</u>	<u>1993</u>
	Notes	£m	£m
Tangible fixed assets	4,5,6	10,680.9	10,400.5
Third party contributions since 1989/90		<u>(67.7)</u>	<u>(53.2)</u>
		10,613.2	10,347.3
Working capital	7	(89.2)	(67.0)
Net operating assets		<u>10,524.0</u>	<u>10,280.3</u>
Non-trade creditors due within one year		(20.5)	(29.2)
Creditors due after one year		(405.0)	(380.0)
Provisions for liabilities and charges		(2.1)	-
Net assets employed		<u>10,096.4</u>	<u>9,871.1</u>
Capital and reserves			
Called up share capital		0.1	0.1
Share premium		46.3	46.3
Profit and loss account		63.4	65.2
Current cost reserve	8	9,986.6	9,759.5
Total capital employed		<u>10,096.4</u>	<u>9,871.1</u>

CASH FLOW STATEMENT

For the year ended 31 March 1994

	1994			1993		
	Appointed Business £m	Non- Appointed Business £m	Total £m	Appointed Business £m	Non- Appointed Business £m	Total £m
Net cash flow from operating activities	<u>154.0</u>	<u>1.0</u>	<u>155.0</u>	<u>127.0</u>	<u>1.2</u>	<u>128.2</u>
Returns on investments and servicing of finance						
Interest received	0.3	-	0.3	2.2	-	2.2
Interest paid	(16.2)	-	(16.2)	(41.3)	-	(41.3)
Dividends paid	(31.7)	(0.7)	(32.4)	(29.3)	(0.9)	(30.2)
Net cashflow from returns on investments and servicing of finance	<u>(47.6)</u>	<u>(0.7)</u>	<u>(48.3)</u>	<u>(68.4)</u>	<u>(0.9)</u>	<u>(69.3)</u>
Taxation						
UK corporation tax paid	<u>(8.2)</u>	<u>(0.2)</u>	<u>(8.4)</u>	<u>(9.0)</u>	<u>(0.3)</u>	<u>(9.3)</u>
Investing activities						
Purchase of fixed assets	(129.0)	(0.1)	(129.1)	(98.3)	-	(98.3)
Disposal of fixed assets	0.4	-	0.4	0.7	-	0.7
Capital contributions	14.0	-	14.0	13.4	-	13.4
Net cashflow from investing activities	<u>(114.6)</u>	<u>(0.1)</u>	<u>(114.7)</u>	<u>(84.2)</u>	<u>-</u>	<u>(84.2)</u>
Net cash outflow before financing	<u>(16.4)</u>	<u>-</u>	<u>(16.4)</u>	<u>(34.6)</u>	<u>-</u>	<u>(34.6)</u>
Financing						
Capital in finance lease rentals	(0.7)	-	(0.7)	(0.7)	-	(0.7)
New medium term loans	25.0	-	25.0	30.0	-	30.0
Net cash outflow from financing	<u>24.3</u>	<u>-</u>	<u>24.3</u>	<u>29.3</u>	<u>-</u>	<u>29.3</u>
Increase/Decrease in cash and cash equivalents	<u>7.9</u>	<u>-</u>	<u>7.9</u>	<u>(5.3)</u>	<u>-</u>	<u>(5.3)</u>

**NOTES TO THE
CURRENT COST
FINANCIAL
STATEMENTS**

**Note 1
Analysis of turnover and operating income for the appointed business**

	1994			1993		
	Water Supply £m	Sewerage Services £m	Total £m	Water Supply £m	Sewerage Services £m	Total £m
Turnover						
Measured	33.8	43.5	77.3	32.6	38.8	71.4
Unmeasured	61.9	162.6	224.5	57.9	153.4	211.3
Trade effluent	-	6.0	6.0	-	5.3	5.3
Other sources	5.0	7.2	12.2	5.3	5.9	11.2
Total Turnover	<u>100.7</u>	<u>219.3</u>	<u>320.0</u>	<u>95.8</u>	<u>203.4</u>	<u>299.2</u>
 Operating income	 <u>0.3</u>	 <u>0.1</u>	 <u>0.4</u>	 <u>0.1</u>	 <u>0.1</u>	 <u>0.2</u>

**Note 2
Reconciliation of Historical to Current Cost operating costs**

	1994 £m	1993 £m
Historical cost operating costs	198.6	190.2
Current cost depreciation	91.5	85.3
Historical cost depreciation	<u>(29.7)</u>	<u>(27.1)</u>
	61.8	58.2
Historical cost infrastructure renewals charge	(16.9)	(16.6)
Current cost infrastructure renewals charge	<u>16.9</u>	<u>15.1</u>
	-	(1.5)
 Current cost operating costs	 <u>260.4</u>	 <u>246.9</u>

**NOTES TO THE
CURRENT COST
FINANCIAL
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**Note 3
Analysis of Current Cost
operating costs by activity**

Row Nr	Item Description	WATER SUPPLY			SEWERAGE				BUSINESS ANALYSIS		
		Sources & Treatment	Water Dist.	TOTAL Water	Sewerage Treatment	Sludge T & Disp.	S T & D Sub Total	Sewerage Sub Total	Customer Services	Scientific Services	Cost of Regulation
	Direct Costs										
1	Employment Costs	1.8	5.1	6.9	4.4	7.1	8.5	12.9			
2	Power	5.5	0.7	6.2	3.3	3.9	4.6	7.9			
3	Agencies	0.0	0.0	0.0	0.2	0.0	0.0	0.2			
4	Hired & Contracted Services	0.4	0.2	0.6	0.9	1.0	1.1	2.0			
5	Associated Companies	0.1	0.1	0.2	1.4	0.1	2.8	4.2			
6	Materials & Consumables	0.3	1.2	1.5	0.5	1.1	1.3	1.8			
7	Service Charges	3.1	0.0	3.1	0.2	1.1	1.2	1.4			
8	Other Direct Costs	1.8	6.5	8.3	1.7	1.7	3.8	5.5			
9	Total Direct Costs	13.0	13.8	26.8	12.6	16.0	23.3	35.9	14.4	5.1	1.8
10	General & Support Expenditure	6.9	7.9	14.8	9.1	12.6	17.9	27.0	3.5	1.7	0.5
11	Functional Expenditure	19.9	21.7	41.6	21.7	28.6	41.2	62.9	17.9	6.8	2.3
	CAPITAL COSTS										
12	CC Depreciation	13.1	4.4	17.5	17.6	39.1	56.4	74.0			
13	Infrastructure Ren. Exp.	0.0	5.8	5.8	7.6	5.0	5.0	12.6			
14	Infra Renew. Accrual/Prepaymt.	0.0	2.4	2.4	-2.3	-1.6	-1.6	-3.9			
15	Functional Cost	33.0	34.3	67.3	44.6	71.1	101.0	145.6			
16	Total (from above)			78.1				161.8			
17	Rates			5.1				5.6			
18	Doubtful Debts			2.0				4.5			
19	Exceptional			0.0				0.0			
20	Intangible Assets			0.0				0.0			
21	Business Acts Cap. Costs			0.0				0.0			
22	Service Cost			85.2				171.9			
23	Services, Cost for 3rd parties			3.3							
24	Total			88.5				171.9			
	CCA (MEA Values)										
25	Service Activities	238.9	2062.5	2301.4	7411.7	664.4	959.0	8370.7			
26	Business Activities			0.0	0.0		0.0	0.0			
27	Service Totals			2301.4	0.0		0.0	8370.7			
28	Svcs, Assets for 3rd Parties			8.8				0.0			
29	Total			2310.2				8370.7			

NOTES TO THE
CURRENT COST
FINANCIAL
STATEMENTS

Note 4

Current cost analysis of fixed assets by asset type

	Specialised Operational Assets £m	Non- Specialised Operational Assets £m	Infra- structure Assets £m	Other Tangible Assets £m	Total £m
Gross replacement cost					
Balance at 1 April 1993	2,031.9	64.4	9,152.8	417.4	11,666.5
RPI adjustment	46.7	1.5	210.5	9.6	268.3
Disposals	-	-	-	(0.2)	(0.2)
Additions	47.2	0.1	64.2	21.2	132.7
Balance at 31 March 1994	<u>2,125.8</u>	<u>66.0</u>	<u>9,427.5</u>	<u>448.0</u>	<u>12,067.3</u>
Accumulated depreciation					
Balance at 1 April 1993	1,057.3	10.9	-	197.8	1,266.0
RPI adjustment	24.3	0.2	-	4.6	29.1
Disposals	-	-	-	(0.2)	(0.2)
Charge for year	68.2	1.0	-	22.3	91.5
Balance at 31 March 1994	<u>1,149.8</u>	<u>12.1</u>	<u>-</u>	<u>224.5</u>	<u>1,386.4</u>
Net book value at 31 March 1994	<u>976.0</u>	<u>53.9</u>	<u>9,427.5</u>	<u>223.5</u>	<u>10,680.9</u>
Net book value at 31 March 1993	<u>974.6</u>	<u>53.5</u>	<u>9,152.8</u>	<u>219.6</u>	<u>10,400.5</u>

Note 5

Current cost analysis of fixed assets by service

	Water Supply £m	Sewerage £m	Sewage Treatment and Disposal £m	Total £m
Gross replacement cost				
Balance at 1 April 1993	2,514.6	7,512.9	1,639.0	11,666.5
RPI adjustment	57.9	173.2	37.2	268.3
Disposals	-	(0.2)	-	(0.2)
Additions	23.4	27.8	81.5	132.7
Balance at 31 March 1994	<u>2,595.9</u>	<u>7,713.7</u>	<u>1,757.7</u>	<u>12,067.3</u>
Accumulated depreciation				
Balance at 1 April 1993	262.2	278.4	725.4	1,266.0
RPI adjustment	6.0	6.2	16.9	29.1
Disposals	-	(0.2)	-	(0.2)
Charge for year	17.5	17.6	56.4	91.5
Balance at 31 March 1994	<u>285.7</u>	<u>302.0</u>	<u>798.7</u>	<u>1,386.4</u>
Net book value at 31 March 1994	<u>2,310.2</u>	<u>7,411.7</u>	<u>959.0</u>	<u>10,680.9</u>
Net book value at 31 March 1993	<u>2,252.4</u>	<u>7,234.5</u>	<u>913.6</u>	<u>10,400.5</u>

**NOTES TO THE
CURRENT COST
FINANCIAL
STATEMENTS**

Note 6

**Current cost analysis of net book values of fixed assets
by service and asset type as at 31 March 1994**

	Water Supply	Sewerage	Sewage Treatment and Disposal	Total
	£m	£m	£m	£m
Specialised operational assets	150.1	137.6	688.3	976.0
Non- specialised operational assets	9.7	29.6	14.6	53.9
Infrastructure assets	1,999.7	7,218.5	209.3	9,427.5
Other tangible assets	150.7	26.0	46.8	223.5
	<u>2,310.2</u>	<u>7,411.7</u>	<u>959.0</u>	<u>10,680.9</u>

Note 7

Working capital

	1994	1993
	£m	£m
Stocks	3.0	2.9
Trade debtors	46.5	46.3
Group trade debtors	2.9	1.1
Other trade debtors	4.0	2.2
Prepayments	1.2	0.6
Trade creditors	(9.7)	(9.3)
Group trade creditors	(6.7)	(9.4)
Group dividend	(33.8)	(31.7)
Tax and social security	(0.1)	(9.3)
Short term capital creditors	(28.1)	(26.7)
Accruals	(69.7)	(33.5)
Infrastructure renewals accrual	1.3	(0.2)
	<u>(89.2)</u>	<u>(67.0)</u>

**NOTES TO THE
CURRENT COST
FINANCIAL
STATEMENTS**

**Note 8
Movement on Current Cost Reserve**

	1994	1993
	£m	£m
Balance at 1 April	9,759.5	9,575.2
RPI Adjustments		
Fixed assets	239.2	193.7
Third party contributions	(1.2)	(0.8)
Working capital	(1.5)	(1.5)
Financing	(9.4)	(7.1)
Balance at 31 March	9,986.6	9,759.5

**Note 9
Reconciliation of current cost operating profit to net cash flow
from operating activities**

Appointed Business of Southern Water Services Ltd

	1994	1993
	£m	£m
Current cost operating profit	61.5	54.0
Current cost profit on sale of assets	(0.4)	(0.2)
Other income	1.7	1.8
Current cost depreciation	91.5	85.3
Amortisation of grants and contributions	(0.7)	(0.5)
Working capital adjustment	(1.5)	(1.5)
(Increase)/Decrease in stocks	(0.1)	0.7
(Increase) in debtors and prepaid expenses	(4.4)	(1.5)
Increase/(Decrease) in creditors and accrued expenses	1.2	(9.6)
Creation/(Release) of provisions	0.6	(1.7)
Effect of other deferrals and accruals on operating activity cash flow	4.6	0.2
Net cash flow from operating activities	154.0	127.0

FOUR YEAR ROLLING SUMMARY

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS

	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	320.0	304.3	288.8	266.4
Current cost operating costs	(260.4)	(251.1)	(246.2)	(235.3)
Operating income	0.4	0.2	0.1	0.7
Working capital adjustment	1.5	1.5	3.0	8.0
Current cost operating profit	61.5	54.9	45.7	39.8
Other income	1.7	1.9	1.9	3.1
Net interest	(41.6)	(41.6)	(41.4)	(34.7)
Financing adjustment	9.4	7.2	12.6	21.1
Current cost profit before taxation	31.0	22.4	18.8	29.3
Taxation	1.0	(8.9)	(10.1)	-
Current cost profit attributable to shareholders	32.0	13.5	8.7	29.3
Dividends	(33.8)	(32.2)	(30.7)	(29.5)
Current cost loss	(1.8)	(18.7)	(22.0)	(0.2)

The prior year figures above have been adjusted for subsequent inflation using the indexation procedures prescribed by the DG in RD 9/94. Accordingly the 1993 figures are different to the comparatives on pages 23 to 30 which have not been indexed.

FOUR YEAR ROLLING SUMMARY

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS

	1994 £m	1993 £m	1992 £m	1991 £m
Tangible fixed assets	10,680.9	10,639.7	10,625.2	10,565.2
Third party contributions since 1989 - 90	(67.7)	(54.4)	(41.4)	(24.5)
Working capital	(89.2)	(68.5)	(80.6)	(79.5)
Net operating assets	<u>10,524.0</u>	<u>10,516.8</u>	<u>10,503.2</u>	<u>10,461.2</u>
Non-trade creditors due within one year	(20.5)	(29.9)	(24.9)	(18.4)
Creditors due after one year	(405.0)	(388.7)	(365.4)	(305.0)
Provisions for liabilities and charges	(2.1)	-	-	-
Net assets employed	<u>10,096.4</u>	<u>10,098.2</u>	<u>10,112.9</u>	<u>10,137.8</u>
Capital and reserves				
Called up share capital	0.1	0.1	0.1	0.1
Share premium	46.3	47.4	48.2	50.2
Profit and loss account	63.4	66.7	87.2	113.5
Current cost reserve	<u>9,986.6</u>	<u>9,984.0</u>	<u>9,977.4</u>	<u>9,974.0</u>
Total capital employed	<u>10,096.4</u>	<u>10,098.2</u>	<u>10,112.9</u>	<u>10,137.8</u>

The prior year figures above have been adjusted for subsequent inflation using the indexation procedures prescribed by the DG in RD 9/94. Accordingly the 1993 figures are different to the comparatives on pages 23 to 30 which have not been indexed.

**REPORT OF THE
AUDITORS TO
THE DIRECTOR
GENERAL OF
WATER SERVICES**

We have audited the financial statements on pages 5 to 32.

Respective responsibilities of directors and auditors

As described on pages ii and 4 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 for statutory financial statements purposes 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 companies circumstances, consistently applied and adequately disclosed.

In conjunction with our audit of the statutory financial statements, as described above, we have performed an examination, on a test basis, of the supplementary regulatory accounting statements to determine their consistency with the statutory financial statements as appropriate and their compliance with relevant Regulatory Accounting Guidelines. We have also performed an assessment of the significant estimates and judgements made by the directors in their preparation of these supplementary statements.

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.

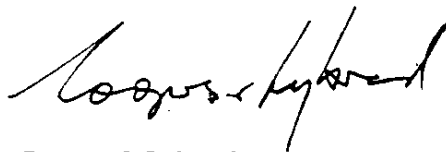
In forming our opinion we also evaluate the overall adequacy of the presentation of information in the financial statements in terms of Generally Accepted Accounting Principals and Regulatory Accounting Guidelines as appropriate.

Opinion

In our opinion the financial statements contain the information for the year to March 31 1994, required to be published and submitted to you by Southern Water Services Ltd. to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:-

- a) Proper accounting records have been kept by the Appointee, as required by paragraph 3 of Condition F of the Instrument ;
- b) The information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services ;
- c) The financial statements on pages 5 to 19 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business ; and
- d) The current cost financial statements on pages 21 to 32 have been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs issued in May 1992 by the Office of Water Services.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
12 August 1994