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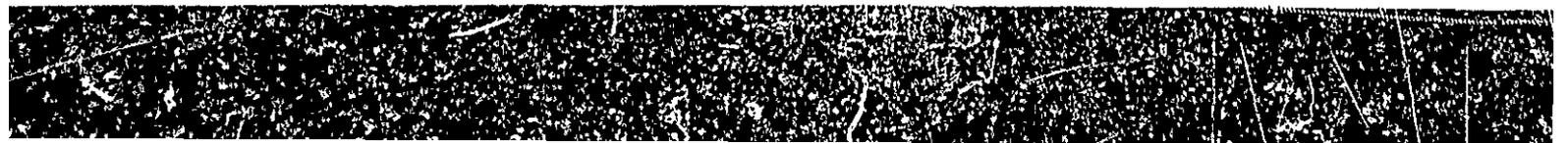


**Southern
Water
Services Ltd**

making water work

**DIRECTORS REPORT
AND ACCOUNTS - 1990**

COMPANIES HOUSE
26 SEP 1990
77



SOUTHERN WATER SERVICES LIMITED

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SOUTHERN WATER SERVICES LIMITED

Registration No. 2366670

REPORT OF THE DIRECTORS
For the year ended 31 March 1990

The Directors present their annual report, together with the audited accounts for the year ended 31 March 1990.

SHARE CAPITAL

The Company which was incorporated on 1 April 1989 is a wholly owned subsidiary of Southern Water plc.

The authorised share capital is 46,050,000 ordinary shares of £1 each. 50,000 ordinary shares were issued on incorporation and 6,000 ordinary shares were issued to the Holding Company in exchange for a payment of £46.3m on 29 December 1990. This payment was matched by a payment made to Southern Water plc by the Secretary of State for the Environment, a condition of which was that it should be transferred to Southern Water Services Ltd.

ACTIVITY

Southern Water Services Limited provides water and sewerage services under the instrument of appointment made by the Secretary of State for the Environment under the Water Act 1989.

RESULTS

Details of the profit and dividends for the year are shown in the profit and loss account on page 8. The Directors recommend a final dividend of £492.535 per ordinary share and the transfer of the balance of the profit for the year to reserves. On 1 September 1989 the Company transferred by means of a dividend in specie all its fixed asset investments to the Holding Company. In November a second special dividend was made to the Holding Company and is shown in note 7 on page 13.

FIXED ASSETS

Capital expenditure on fixed assets totalled £107.1m during the year. Details of changes in fixed assets during the year are summarised in note 8 on page 14.

DIRECTORS

The founder Directors of the Company were Mr J A L Gunn and Mr A D Whetnall who resigned with effect from 31 August 1989. Mr W J W Courtney, Mr B A O Hewett, Mr M Hollywood, Mr A L Smith, Mr G H Setterfield, Mr K Tozzi and Mr J F Valentine were appointed Directors of the Company with effect from 1 September 1989. Mr W Cutting was appointed a Director with effect from 5 September 1989, Mr F N Midmer with effect from 16 February 1990 and Mr R F Clayton with effect from 12 March 1990.

Mr J F Valentine resigned as a Director of the Company on 15 February 1990.

DIRECTORS' SHAREHOLDINGS

Mr W J W Courtney and Mr F N Midmer are also Directors of the Holding Company and their interests in the share capital of that Company are shown in its Directors' Report.

The beneficial interests of the remaining Directors of the Company in the ordinary shares of the Holding Company as at 31 March 1990 are set out below.

	<u>Ordinary shares held</u>	<u>Executive share options</u>	<u>Sharesave scheme</u>
Mr B A O Hewett	1,295	60,000	6,136
Mr M Hollywood	4,055	55,000	6,136
Mr A L Smith	795	40,000	2,045
Mr G H Setterfield	995	40,000	3,068
Mr K Tozzi	1,860	40,000	12,272
Mr W Cutting	795	40,000	4,090
Mr R F Clayton	591	25,000	2,386

Options to purchase fully paid ordinary shares were granted under the Southern Water Sharesave and Executive Share Option Schemes.

None of the Directors holds shares beneficially in the Company.

EMPLOYEES

The Company is an equal opportunities employer and has a policy of non-discrimination in all forms of employment. Disabled persons are considered for all types of work and modifications to jobs and equipment are made to enable them to be employed. Employees of the Company have been encouraged to become shareholders in the Holding Company and to participate in a SAYE Sharesave Scheme. Staff consultative committees have been established and a communication programme carried out to inform all employees of changes taking place in the Company's business and the factors which would affect its future performance. Safety committees have met on a regular basis and a new health and safety policy has been adopted by the Company.

DONATIONS

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

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 in order to enhance the quality of service to customers and improve methods of working.

AUDITORS

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

By order of the Board.

Mr G D Nicholson
Secretary
5 July 1990

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

REPORT OF THE AUDITORS

To the members of Southern Water Services Limited.

We have audited the accounts on pages 6 to 17 in accordance with Auditing Standards.

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

Coopers & Lybrand DeLoitte
COOPERS & LYBRAND DELOITTE
Chartered Accountants
5 July 1990
London

ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention.

Turnover

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

Depreciation of Fixed Assets

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

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

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

Grants and Contributions

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

Leased Assets

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

Stocks and Work in progress

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

Research and Development

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

Foreign Currency

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

Deferred Taxation

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

Pensions

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

PROFIT AND LOSS ACCOUNT
For the period ended 31 March 1990

	Notes	1990 £000
Turnover	2	223828
Profit before interest	2	76268
Interest (net)	4	32879
Profit on ordinary activities before taxation		43389
Taxation	5	0
Profit on ordinary activities after taxation		43389
Extraordinary items	6	271988
Profit attributable to ordinary shareholders		315377
Transfer from Reserves	16	16780
Dividends payable	7	320782
Transfer to Reserves	16	11375

Movements on reserves during the year are shown in note 16.

BALANCE SHEET
At 31 March 1990

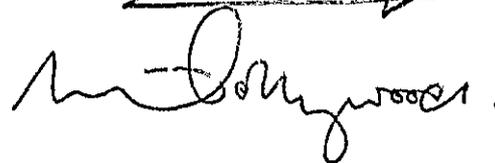
	Notes	£000	1990 £000
ASSETS EMPLOYED			
Fixed assets			
Tangible assets	8	688195	
Investments	9	0	
		<hr/>	688195
Current assets			
Stocks	10	2809	
Debtors	11	44295	
		<hr/>	
		47104	
Current liabilities			
Amounts falling due within one year:			
Short term borrowing	12	2739	
Other amounts falling due within one year	13	365026	
		<hr/>	
		367765	
Net current assets/liabilities			(320661)
			<hr/>
Total assets less current liabilities			367534
Creditors			
Amounts falling due after more than one year	14		(2056)
Provision for infrastructure renewals			(2394)
			<hr/>
			363084
CAPITAL AND RESERVES			
Called up share capital	15		56
Share premium account	16		46294
Profit and loss account	16		316734
			<hr/>
			363084

The accounts on pages 6 to 17 were approved by the Board on 5 July 1990 and signed on its behalf by:

W J W Courtney CBE, Director



M Hollywood, Director



SOURCE AND APPLICATION OF FUNDS
For the period ended 31 March 1990

	£000	1990 £000
Source of Funds		
Profit on ordinary activities before taxation	43389	
Extraordinary items: Privatisation costs	(4432)	
:Release from		
Intra-Group debenture	276420	
Depreciation	18668	
Movement on infrastructure renewal provision	2394	
	-----	336439
Opening reserves adjustment	(14011)	
Share subscription by Holding Company	46300	
Grants and contributions	14773	
Proceeds on disposal of fixed assets	2777	
Transfer of assets to group companies	10933	
Transfer of investments	5987	
	-----	66759

Total source of funds		403198
Application of funds		
Capital expenditure	(107131)	
Investments	(102)	
Special dividend transfers to Southern Water plc	(293200)	
Working Capital		
Stocks	891	
Debtors	(10495)	
Creditors	285744	
	-----	(124293)

		278905

Provided by		
Cash and short term borrowings		57961
Bank and other loans		220944

		278905

NOTES TO THE ACCOUNTS

Note 1

The accounts cover the period since incorporation. Under the terms of the Water Act 1989 the Company is the successor body to Southern Water Authority.

Due to the changes that have taken place in the current year (arising from capital re-structuring, the regulatory regime and the establishment of a new Southern Water plc group structure) it is felt that the inclusion of prior year comparatives would be misleading.

Note 2

Turnover and profit before interest

	1990 £000
Turnover (wholly in the UK)	223828
Cost of Sales	(119608)
Gross profit	104220
Administration expenses	(28971)
Other operating income	1019
Profit before interest	76268
Profit on ordinary activities before taxation is stated after charging	
Depreciation on	
Fixed assets not subject to finance leases	17574
Fixed assets held under finance leases	1094
	18668
Infrastructure Renewals Charge (Includes Provision of £2.394m)	14100
Audit fees	70
Rentals under operating leases	9
Research and development	947

NOTES TO THE ACCOUNTS

Note 3

Directors and Employees

1990
£000

(a) Staff Costs (including Directors' emoluments)	
Wages and Salaries	32655
Social security costs	2468
Other pension costs	3280
	<hr/>
	38403
	<hr/>
(b) Directors' emoluments	
Fees	0
Other emoluments (including pension contributions)	189
	<hr/>
	189
	<hr/>
The emoluments of the highest paid Director (excluding pension contributions)	34

The Directors' emoluments cover 7 Directors. The emoluments of Mr W J W Courtney, Mr F N Midmer and Mr. J F Valentine are disclosed separately in the accounts of the Holding Company, Southern Water plc. The founder Directors received no emoluments.

1990
Number

(c) Average number of persons employed	2217
(d) Directors and Senior Employees	

The remuneration (excluding pension contributions) of directors other than the highest paid director, and those who hold office in the Holding Company together with those employees who earned more than £30,000 was within the following categories:

	Directors	Employees
	1990	1990
	Number	Number
1 - 5000	1	
20001 - 25000	3	
25001 - 30000	1	
30001 - 35000	1	16
35001 - 40000		2
40001 - 45000		1

NOTES TO THE ACCOUNTS

Note 4
Interest

1990
£000

Loans repayable after 5 years
Other interest payable
Finance lease obligations

2
32948
248

Interest receivable

33198
319

32879

Note 5
Taxation

United Kingdom Corporation tax @ 35%

0

Until 1 September 1989 the company was exempt from United Kingdom income, corporation and capital gains tax on all income and chargeable gains. As at 1 September 1989 the Company became entitled to capital allowances on qualifying assets transferred from Southern Water Authority. The amount of the expenditure qualifying for plant and machinery allowances was £559.4m and the amount qualifying for industrial building allowances was £36.7m. Consequently, no corporation tax is payable in respect of the accounting year ended 31 March 1990.

Note 6
Extraordinary Items

Privatisation costs
Release from Intra-Group debenture

(4432)
276420

271988

Note 7
Dividends payable

Final proposed dividend of £492.535
per ordinary share
Special Dividend
Dividend in specie

27582
276200
17000

320782

NOTES TO THE ACCOUNTSNote 8
Tangible fixed assets

	Land and Buildings £000	Plant and Machinery £000	Infra- structure assets £000	Other £000	Total £000
Cost					
Balance 1 April	243681	131595	291198	66287	732761
Additions	26154	9792	53882	17303	107131
Grants and contributions	(210)	(324)	(9826)	(4413)	(14773)
Disposals	(83)	(2087)		(683)	(2853)
Disposal to group companies		(11844)		(11833)	(23677)
Balance 31 March	269542	127132	335254	66661	798589
Depreciation					
Balance 1 April	36030	40643		27869	104542
Charge for year	5166	6000		7502	18668
Disposals	(1)	(71)			(72)
Disposal to group companies		(7394)		(5350)	(12744)
Balance 31 March	41195	39178	0	30021	110394
Net Book Value					
31 March 1990	228347	87954	335254	36640	688195

Tangible fixed assets at 31 March 1990 include £68,898,000 of assets in the course of construction which are not depreciated until commissioning.

The net book value of tangible fixed assets held under finance leases at 31 March 1990 was £9,413,000.

NOTES TO THE ACCOUNTS

1990
£000

Note 9

Fixed asset investments

At 1 April 1989

5885

Additions

102

Transfer to holding company

(5987)

At 31 March 1990

0

Note 10

Stocks

Materials and Consumables

2436

Work in progress

373

2809

Note 11

Debtors

Trade Debtors

41312

Amounts owed by group companies

541

Other Debtors

1242

Employee Loans

1167

Prepayments

33

44295

Debtors include £527,000 due after 1 year.

Note 12

Short term borrowings

Bank overdraft

470

Obligations under finance leases

2269

2739

Note 13

Amounts falling due within one year

Trade creditors

32253

Amounts owed to group companies

298877

Other taxation and social security

15

Other creditors

23159

Accruals and deferred income

10722

365026

NOTES TO THE ACCOUNTS

1990
£000

Note 14
Creditors falling due after more than one year

Other loans 34
Obligations under finance leases 2022

2056

Note 15
Called-up share capital

Authorised

Ordinary shares of £1 each 46050

Allotted, called-up and fully paid
Ordinary shares of £1 each:
Issued during the year.

56

Note 16
Share premium account and reserves

Share
Premium
Account
£000

Profit
and loss
Account
£000

At 31 March 1989
Opening adjustment

336200
(14011)

At 1 April 1989
Share capitalisation
Premium on allotment in year
Transfer to Profit and Loss
Transfer from Profit and Loss

46294

322189
(50)
(16780)
11375

At 31 March 1990

46294

316734

The opening adjustment relates to the costs arising from the separation of the National Rivers Authority. Included in this adjustment are loans amounting to £11.4m in respect of National Rivers Authority activities which were incorporated in the government debt extinguishment in November 1989.

Note 17
Pensions

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

Note 18
Contingent liabilities

Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	3636
	<hr/>

Note 19
Capital commitments

Outstanding contracts placed for capital expenditure	50618
	<hr/>

Capital expenditure authorised by directors but not contracted	55258
	<hr/>

Note 20

	Land & Buildings	Other
	1990	1990
	£000	£000

Other financial commitments

At 31 March 1990 the company had annual commitments under non-cancellable operating leases as follows:

Expiring between two and five years	2	7
Expiring in over five years	1	1
	<hr/>	<hr/>
	3	8
	<hr/>	<hr/>

Note 21

Ultimate holding company

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