

SOUTHERN WATER SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

1991



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REPORT OF THE DIRECTORS

For the year ended 31 March 1991

The Directors present their annual report, together with the audited accounts, for the year ended 31 March 1991

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. The issued share capital is 56,000 ordinary shares of £1 each.

Activity

Southern Water Services Limited 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 6. The Directors recommend a final dividend of £17.9m and the transfer of the balance of the profit for the year to reserves.

Fixed assets

Capital expenditure on fixed assets totalled £118.5m during the year. Details of changes in fixed assets during the year are summarised in note 8 on page 12.

Directors

The Directors of the Company are Mr W J W Courtney, Mr B A O Hewett, Mr M Hollywood, Mr A L Smith, Mr G H Setterfield, Mr K Tozzi, Mr W Cutting, Mr F N Midmer and Mr R F Clayton.

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 1991 are set out below.

	Ordinary Shares held		Executive Share Options		Sharesave Scheme	
	1991	1990	1991	1990	1991	1990
Mr B A O Hewitt	1,295	1,295	75,000	60,000	6,136	6,136
Mr M Hollywood	4,055	4,055	68,500	55,000	6,136	6,136
Mr A L Smith	795	795	51,000	40,000	5,222	2,045
Mr G H Setterfield	995	995	51,000	40,000	4,656	3,068
Mr K Tozzi	1,860	1,860	51,000	40,000	12,272	12,272
Mr W Cutting	795	795	51,000	40,000	4,090	4,090
Mr R F Clayton	591	591	32,000	25,000	6,199	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 £15,300. No political donations were made by the Company.

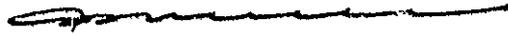
Research and Development

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, will be proposed at the Annual General Meeting.

By order of the Board.



Graham Nicholson
Secretary
25 June 1991

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

ACCOUNTING POLICIES

Basis of Accounting and Consolidation

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards, except as noted in grants and contributions.

Comparative Figures

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

Turnover

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

Depreciation of Fixed Assets

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

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

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

Grants and Contributions

Grants and contributions received in respect of additions to non-infrastructure fixed assets are shown as deferred credits and released to profit over the useful lives of the relevant assets. Previously these items were deducted from the cost of the relevant addition. This change in accounting policy has no impact on current or prior year earnings but the prior year balance sheet has been restated to reflect the change in categorisation.

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

Leased Assets

Fixed assets leased to the Company under finance leases are capitalised and depreciated in line with the Group'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 expensed as incurred.

Stocks and Work in Progress

Stocks used internally for operational and engineering purposes are stated at cost less provision for damage and obsolescence. Other stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes labour, materials and relevant overheads.

Research and Development

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

Foreign Currency

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

Deferred Taxation

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

Pensions

Southern Water plc operates defined benefit pension schemes which cover all 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 straight line basis over the expected remaining service lives of employees in each scheme. Contributions to these schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements.

**PROFIT AND LOSS
ACCOUNT**

For the year ended 31 March 1991

	Notes	1991 £000	1990 £000
Turnover	1	249,819	223,828
Profit before interest	2	86,669	76,208
Interest (net)	4	(31,617)	(32,870)
Profit on ordinary activities before taxation		55,052	43,338
Taxation	5	0	0
Profit on ordinary activities after taxation		55,052	43,338
Extraordinary items	6	0	271,988
Profit attributable to ordinary shareholders		55,052	315,377
Transfer from reserves		0	16,780
Dividends payable	7	(27,854)	(320,782)
Transfer to reserves		27,198	11,375

Movements on reserves during the year are shown in note 17.

BALANCE SHEET

As at 31 March 1991

	Notes	1991 £000	1990 £000
Assets employed			
Fixed assets			
Tangible assets	8	767,674	692,930
Investments	9	<u>0</u>	<u>0</u>
		767,674	692,930
Current assets			
Stocks	10	3,163	2,809
Debtors	11	<u>72,166</u>	<u>44,295</u>
		75,329	47,104
Current liabilities			
Amounts falling due within one year:			
Short term borrowing	12	17,025	2,739
Other amounts falling due within one year	13	<u>144,155</u>	<u>365,026</u>
		161,180	367,765
Net current assets (liabilities)		<u>(85,851)</u>	<u>(320,661)</u>
Total assets less current liabilities		681,823	372,269
Creditors			
Amounts falling due after more than one year			
Grants and contributions	14	(281,396)	(2,056)
Provisions for liabilities and charges	15	<u>(5,899)</u>	<u>(4,735)</u>
		<u>(3,621)</u>	<u>(2,394)</u>
		390,907	363,084
Capital and reserves			
Called up share capital	16	56	56
Share premium account	17	46,294	46,294
Profit and loss account	17	<u>344,557</u>	<u>316,734</u>
		390,907	363,084

The accounts on pages 4 to 16 were approved by the Board on 25 June 1991 and signed on its behalf by:


W J W Courtney, CBE — Chairman


M Hollywood — Director

**SOURCE AND
APPLICATION OF FUNDS**

For the year ended 31 March 1991

		1991	1990
	£000	£000	£000
Source of Funds			
Profit on ordinary activities before taxation	55,052	43,389	
Extraordinary items:			
Privatisation costs	0	(4,432)	
Release from intra-group Debenture	0	276,920	
Depreciation	22,386	18,668	
Movement on infrastructure renewal provision	<u>1,227</u>	<u>2,394</u>	
		78,665	336,439
Transfer to (from) reserves	625	(14,011)	
Share subscription by holding company	0	46,300	
Grants and contributions	22,505	14,773	
Proceeds on disposal of fixed assets	26	2,777	
Transfer of assets to group companies	10	10,933	
Transfer of investments	<u>0</u>	<u>5,987</u>	
		23,166	66,759
Total source of funds		<u>101,831</u>	<u>403,198</u>
Application of funds			
Capital expenditure	(118,507)	(107,131)	
Investments	0	(102)	
Dividends	(27,582)	(293,200)	
Working capital			
Stocks	(354)	891	
Debtors	(27,871)	(10,495)	
Creditors	<u>(221,143)</u>	<u>285,744</u>	
		(395,457)	(124,293)
		<u>(293,626)</u>	<u>278,905</u>
Provided by			
Short term borrowings		(14,286)	57,961
Bank and other loans		<u>(279,340)</u>	<u>220,944</u>
		<u>(293,626)</u>	<u>278,905</u>

**NOTES TO THE
ACCOUNTS**

**Note 1
Segmental Information**

	Turnover 1991 £000	Profits 1991 £000	Turnover 1990 £000	Profits 1990 £000
Principal activity	242,383	84,530	218,500	73,600
Other activities	7436	2,439	5,328	2,468
Interest (net)		(31,617)		(32,879)
	<u>249,819</u>	<u>55,052</u>	<u>223,828</u>	<u>43,389</u>

	1991 £000	1990 £000
Note 2		
Turnover and profit before interest		
Turnover (wholly in the UK)	249,819	223,828
Cost of sales	(145,302)	(119,608)
Gross profit	104,517	104,220
Administration expenses	(21,225)	(28,971)
Other operating income	3,377	1,019
Profit before interest	<u>86,669</u>	<u>76,268</u>

Profit on ordinary activities before taxation is stated after charging

Depreciation on		
Fixed assets not subject to finance leases	22,020	17,574
Fixed assets held under finance leases	366	1,094
	<u>22,386</u>	<u>18,668</u>
Infrastructure renewals charge	<u>15,400</u>	<u>14,100</u>
Audit fees	<u>70</u>	<u>70</u>
Rentals under operating leases	<u>13</u>	<u>9</u>
Research and development	<u>970</u>	<u>947</u>

**NOTES TO THE
ACCOUNTS**

Note 3.
Directors and Employees

	1991 £000	1990 £000
(a) Staff costs (including Directors' emoluments)		
Wages and salaries	33,752	32,655
Social Security costs	2,536	2,468
Other pension costs	3,465	3,280
	<u>39,753</u>	<u>38,403</u>
 (b) Directors' emoluments	 £000	 £000
		7 months from 1.9.89
Fees	0	0
Other emoluments (including pension contributions)	448	189
	<u>448</u>	<u>189</u>
 The emoluments of the highest paid Director (Excluding pension contributions)	 £000	 £000
		7 months from 1.9.89
	72	34

The Directors' emoluments cover 7 Directors.
The emoluments of the Chairman and Mr F N Midmer are disclosed separately in the accounts of the Holding Company, Southern Water plc.

	1991 Number	1990 Number
(c) Average number of persons employed	2284	2217
(d) Directors		
The remuneration (excluding pension contributions) of directors other than the highest paid director and those who hold office in the Holding Company was within the following categories:		
	1991	7 months from 1.9.89
£	Number	Number
1 - 5000	-	1
20001 - 25000	-	3
25001 - 30000	-	1
30001 - 35000	-	1
40001 - 45000	2	-
45001 - 50000	1	-
50001 - 55000	2	-
65001 - 70000	1	-

**NOTES TO THE
ACCOUNTS**

	1991 £000	1990 £000
Note 4		
Interest		
Bank loans, overdrafts, and other loans:		
Repayable after 5 years	31,697	2
Repayable within 5 years not by instalments	1,360	32,948
Finance lease obligations	<u>145</u>	<u>248</u>
	33,202	33,198
Interest receivable	<u>1,585</u>	<u>319</u>
Net interest payable	<u>31,617</u>	<u>32,879</u>

Note: £30,940K (1990: £32,862K) interest was paid to Southern Water plc

Note 5
Taxation

United Kingdom corporation tax @ 34% (1990 corporation tax rate was 35%)	<u>0</u>	<u>0</u>
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The Company has substantial unutilised capital allowances in respect of expenditure qualifying for plant and machinery allowances and industrial buildings allowances. As a result there is no mainstream corporation tax liability in the foreseeable future.

Note 6
Extraordinary Items

Privatisation costs	0	(4,432)
Release from Intra-group debenture	<u>0</u>	<u>276,420</u>
	<u>0</u>	<u>271,988</u>

Note 7
Dividends payable

Final proposed dividend of £497.393 per ordinary share (1990: £492.535)	27,854	27,582
Special dividend	0	276,200
Dividend in specie	<u>0</u>	<u>17,000</u>
	<u>27,854</u>	<u>320,782</u>

**NOTES TO THE
ACCOUNTS**

**Note 8
Tangible fixed assets**

	Freehold Land & Buildings £000	Plant & Machinery £000	Infra- structure assets £000	Other £000	Total £000
Cost					
Balance 1 April	269,542	127,132	335,254	66,661	798,589
Reclassification and accounting policy change	(3,258)	3,851	372	3,982	4,947
Additions	35,406	23,961	37,565	20,625	117,557
Additions from group companies	0	500	450	0	950
Grants and contributions	0	0	(21,341)	0	(21,341)
Disposals	0	(239)	0	(13)	(252)
Disposals to group companies	0	0	0	(17)	(17)
Balance 31 March	301,690	155,205	352,300	91,238	900,433
Depreciation					
Balance 1 April	41,195	39,178	0	30,021	110,394
Reclassification and accounting policy change	(61)	260	0	13	212
Additions from group companies	0	84	0	0	84
Charge for year	7,402	7,155	0	7,745	22,302
Disposals	0	(213)	0	(13)	(226)
Disposals to group companies	0	0	0	(7)	(7)
Balance 31 March	48,536	46,464	0	37,759	132,759
Net book value 31 March 1991	253,154	108,741	352,300	53,479	767,674
Net book value 31 March 1990	275,150	91,545	335,626	40,609	692,930

Tangible fixed assets at 31 March 1991 include £78,649,000 (1990: £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 1991 was £9,021,000. (1990: £9,413,000)

**NOTES TO THE
ACCOUNTS**

	1991 £,000	1990 £,000
Note 9		
Fixed asset investments		
At 1 April	0	5,885
Additions	0	102
Transfer to holding company	0	(5,987)
	<u>0</u>	<u>0</u>
At 31 March	<u>0</u>	<u>0</u>
Note 10		
Stocks		
Materials and consumables	2,624	2,436
Work in progress	539	373
	<u>3,163</u>	<u>2,809</u>
Note 11		
Debtors		
Trade debtors	56,011	41,312
Amounts owed by group companies	12,325	541
Other debtors	2,798	1,242
Employee loans	719	1,167
Prepayments	313	33
	<u>72,166</u>	<u>44,295</u>
Debtors include £397,000 due after one year.		
Note 12		
Short term borrowings		
Bank overdraft	16,369	470
Obligations under finance leases	656	2,269
	<u>17,025</u>	<u>2,739</u>
Note 13		
Amounts falling due within one year		
Trade creditors	45,664	32,253
Amounts owed to group companies	41,420	271,295
Proposed dividend	27,854	27,582
Other taxation and social security	63	15
Accruals and deferred revenue	31,154	33,881
	<u>144,155</u>	<u>365,026</u>

**NOTES TO THE
ACCOUNTS**

Note 14
Creditors falling due after more than one year

	1991	1990
	£000	£000
Loans from ultimate holding company	240,000	0
Other loans	40,036	34
Obligations under finance leases	<u>1,366</u>	<u>2,022</u>
	<u>281,396</u>	<u>2,056</u>

	1991	1990
	£000	£000

Loans and obligations under finance leases are repayable as follows:

Finance Leases		
Between one and two years	674	656
Between two and five years	692	1,366
Other Loans		
Between one to five years	4	7
After five years not by instalments	<u>280,026</u>	<u>27</u>
	<u>281,396</u>	<u>2,056</u>

The Company has agreed loan facilities with Southern Water plc and the European Investment Bank. The rates of interest payable on loans due after 5 years varies from 10.95% to 13%.

Note 15
Provisions for liabilities and charges

	Infrastructure Renewal £000
Balance 1 April	2,394
Movement in year	<u>1,227</u>
At 31 March	<u>3,621</u>

**NOTES TO THE
ACCOUNTS**

**Note 16
Called up share capital**

	1991 £000	1990 £000
Authorised Ordinary shares of £1 each	<u>46,050</u>	<u>46,050</u>
Alotted, called up and fully paid Ordinary shares of £1 each:	<u>56</u>	<u>56</u>

**Note 17
Share premium account and reserves**

	Share Premium Account 1991 £000	Profit and Loss Account 1991 £000
At 1 April	46,294	316,734
Transfer from profit and loss		27,198
Release of pre-vesting provision		625
At 31 March	<u>46,294</u>	<u>344,557</u>

**NOTES TO THE
ACCOUNTS**

**Note 18
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 accounts of Southern Water plc.

**Note 19
Contingent liabilities**

	1991 £000	1990 £000
Contingent liabilities in connection with contractors' claims on capital schemes and road reinstatements	<u>4,817</u>	<u>3,636</u>

The Company is party to mutual cross guarantees for any monies owed by Group companies to National Westminster Bank plc.

**Note 20
Capital commitments**

Outstanding contracts placed for capital expenditure	<u>50,293</u>	<u>50,618</u>
Capital expenditure authorised by directors but not contracted	<u>53,968</u>	<u>55,258</u>

**Note 21
Other financial commitments**

	Land Buildings 1991 £000	Other 1991 £000	Land & Buildings 1990 £000	Other 1990 £000
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At 31 March the Company had annual commitments under non-cancellable operating leases as follows:

Expiring within one year	0	0	0	0
Expiring between two and five years	1	6	2	7
Expiring in over five years	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>2</u>	<u>7</u>	<u>3</u>	<u>8</u>

**Note 22
Ultimate holding company**

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

**REPORT OF THE AUDITORS
TO THE MEMBERS OF
SOUTHERN WATER
SERVICES LTD.**

We have audited the accounts on pages 4 to 16 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31 March 1991 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

25 June 1991

London