

REGISTRATION NUMBER 236670

SOUTHERN WATER SERVICES LIMITED

DIRECTORS' REPORT  
AND FINANCIAL STATEMENTS - 1995



SOUTHERN WATER SERVICES LIMITED

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SOUTHERN WATER SERVICES LIMITED

Registration Number: 2366670

REPORT OF THE DIRECTORS

For the Year Ended 31 March 1995

The Directors' present their annual report, together with the audited financial statements, for the year ended 31 March 1995.

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 8. The Directors recommend a dividend of £36.7m (1994: £34.2m) and the transfer of the balance of the profit for the year of £56.9m (1994: £49.7m) to reserves.

FIXED ASSETS

Capital expenditure on fixed assets totalled £143.0m (1994: £132.8m). Details of changes in fixed assets during the year are summarised in note 6 on page 13.

DIRECTORS

W Cutting, A L Smith, G H Setterfield, R Clayton, S Derwent and E Hutchinson served as Directors throughout the year.

## DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors of the Company, who held office at 31 March 1995, 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</u> <u>Shares</u> <u>15 June</u> <u>1995</u>	<u>Ordinary</u> <u>Shares</u>		<u>Executive</u> <u>Share Options</u>		<u>Sharesave</u> <u>Scheme</u>	
		<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>
Mr W Cutting	15,075	19,209	14,643	57,000	47,000	3,782	4,090
Mr R F Clayton	9,258	9,121	10,851	27,000	23,000	7,528	7,528
Mr S Derwent	11,333	11,270	4,959	33,000	29,000	5,293	9,160
Mr E Hutchinson	11,753	11,744	5,581	28,000	24,000	5,293	9,160
Mr G H Setterfield	23,998	23,688	20,044	35,000	31,000	5,317	7,629
Mr A L Smith	3,190	3,142	3,059	35,000	31,000	6,657	8,246

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.

## 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 mainly 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 1995 amounted to £3.8m (1994: £4.0m).

## 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 1995

## 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 6 to 17.

#### **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.

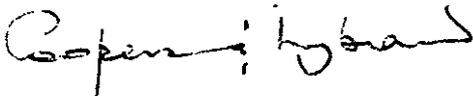
#### **Basis of opinion**

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 1995 and of the profit 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*

15 June 1995

## ACCOUNTING POLICIES

### For the Year Ended 31 March 1995

#### **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 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, grants and contributions relating to additions to the network 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 such grants and contributions to be shown separately as deferred income. 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 and defined contribution pension schemes which cover most employees of Southern Water Services Ltd. The expected cost of the defined benefit 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 1995**

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	Notes	1995 fm	1994 fm
Turnover - continuing operations	1	347.7	328.0
Trading Profit - continuing operations	1	139.4	124.5
Net interest payable	3	(42.3)	(41.6)
Profit on ordinary activities before taxation		97.1	82.9
Taxation	4	(3.5)	1.0
Profit attributable to ordinary shareholders		93.6	83.9
Dividends	5	(36.7)	(34.2)
Retained profit for the year	15	56.9	49.7

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

The company has no recognised gains or losses other than those included in the profit above, and therefore no separate gains or losses has been presented in accordance with Financial Reporting Standard No. 3.

SOUTHERN WATER SERVICES LIMITED

BALANCE SHEET

AS AT 31 MARCH 1995

	Notes	1995 £m	1994 £m	1994 £m
<b>Fixed assets</b>	6		1131.1	1029.4
<b>Current assets</b>				
Stocks	7	3.0		3.1
Debtors	8	55.6		58.0
		<u>58.6</u>		<u>61.1</u>
<b>Creditors due within 1 year</b>				
Short term borrowings	9	(46.7)		(20.5)
Other creditors	10	(213.1)		(149.0)
		<u>(259.8)</u>		<u>(169.5)</u>
<b>Net current liabilities</b>			<u>(201.2)</u>	<u>(108.4)</u>
<b>Total assets less current liabilities</b>			<u>929.9</u>	<u>921.0</u>
<b>Creditors due after more than 1 year</b>				
Long term borrowings	11		(349.0)	(405.0)
Grants and contributions	12		(25.3)	(21.5)
			<u>555.6</u>	<u>494.5</u>
<b>Provisions for liabilities and charges</b>	13		(6.5)	(2.3)
<b>Net assets</b>			<u>549.1</u>	<u>492.2</u>
<b>Capital and reserves</b>				
Called up share capital	14		0.1	0.1
Share premium account	15		46.3	46.3
Profit and loss account	15		502.7	445.8
<b>Equity shareholders' funds</b>			<u>549.1</u>	<u>492.2</u>

The financial statements on pages 6 to 17 were approved by the Board on 15 June 1995 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 1995**

Note 1	1995 £m	1994 £m
<b>Turnover and profit before interest</b> - continuing operations		
Turnover (wholly in the UK)	347.7	328.0
Cost of sales	(182.7)	(177.4)
<b>Gross profit</b>	<u>165.0</u>	<u>150.6</u>
Administration expenses	(29.3)	(28.2)
Other operating income	3.7	2.1
<b>Trading profit</b>	<u>139.4</u>	<u>124.5</u>

**Trading profit is stated after  
charging/(crediting)**

Depreciation on		
Fixed assets - owned	31.9	29.3
Fixed assets held under finance leases	0.3	0.4
	<u>32.2</u>	<u>29.7</u>
Infrastructure renewals expenditure	17.3	16.9
Research and development	3.8	4.0
Grants and contributions	(0.9)	(0.7)
Profit on disposal of fixed assets	(2.1)	(0.4)

Audit fees charged in the financial statements for the year ended 31 March 1995 were £83,000 (1994: £81,000).

Fees payable to the auditors for services other than statutory audit were £63,000 (1994: £67,000).

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

**Note 2**

**Directors and employees**

	1995 £m	1994 £m
(a) Staff costs (including directors' emoluments)		
Wages and salaries	38.9	43.5
Social security costs	3.3	3.5
Pension contributions	3.8	4.4
	<u>46.0</u>	<u>51.4</u>

	1995 Number	1994 Number
(b) Average number of persons employed during the year:	2,116	2,444

The above amounts reflect the transfer of 321 persons to Pipeworks Ltd, a wholly owned subsidiary and agent of Southern Water Services Limited, with effect from 1st April 1994. The associated cost in respect of the year ended 31 March 1995 which continues to be borne by Southern Water Services Limited, but which is excluded from the total above, was £7.3m. Employee costs and average number of employees of Pipeworks Ltd are shown in the financial statements of that company.

	1995 £000	1994 £000
(c) Directors' emoluments		
Salaries (including benefits in kind)	410	396
Pension contributions	100	96
	<u>510</u>	<u>492</u>

A payment of £245,000 was made during 1993/94 to the Southern Water Executive Pension Scheme in respect of a funding deficit from prior years relating to Directors.

	1995 £000	1994 £000
The emoluments of the highest paid director (excluding pension contributions)	87	78

**(d) Directors**

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

£	1995 Number	1994 Number
5001 - 10000	-	1
55001 - 60000	-	3
60001 - 65000	3	1
65001 - 70000	1	-
70001 - 75000	1	1
75001 - 80000	-	1
85001 - 90000	1	-

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

<b>Note 3</b>	<b>1995</b>	<b>1994</b>
<b>Net interest</b>	<b>£m</b>	<b>£m</b>
<b>Interest payable:</b>		
On bank loans, overdrafts and other loans		
Repayable within 5 years by instalments	(6.1)	(3.3)
Repayable after 5 years by instalments	(11.1)	(12.9)
Repayable within 5 years not by instalments	(0.8)	(0.8)
Repayable after 5 years not by instalments	(24.6)	(24.9)
	<hr/>	<hr/>
Interest receivable	(42.6)	(41.9)
	0.3	0.3
	<hr/>	<hr/>
	(42.3)	(41.6)
	<hr/>	<hr/>

£41.8m (1994 £32.1m) of interest was payable to Southern Water plc.

**Note 4  
Taxation**

	<b>1995</b>	<b>1994</b>
	<b>£m</b>	<b>£m</b>
<b>United Kingdom taxation:</b>		
Corporation tax at 33% (1994 33%)	8.9	-
Advance corporation tax utilised re prior years	(5.4)	-
Advance corporation tax on dividends for the year	-	(1.0)
	<hr/>	<hr/>
	3.5	(1.0)
	<hr/>	<hr/>

The corporation tax charge for the year of £8.9m has been reduced by £37.6m (1994 £27.1m) in respect of the excess of tax allowances over depreciation and other timing differences.

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

Note 5 Dividends	1995 £m	1994 £m
Interim proposed dividend of £218.726 per ordinary share (1994: £203.661)	12.2	11.4
Final proposed dividend of £437.452 per ordinary share (1994: £407.303)	24.5	22.8
	<u>36.7</u>	<u>34.2</u>

**Note 6  
Fixed assets**

	Freehold Land & Buildings £m	Plant & Machinery £m	Infra- structure assets £m	Other £m	Total £m
<b>Cost</b>					
Balance at 1 April 1994	415.1	237.7	448.0	136.4	1,237.2
Additions	42.7	25.3	56.3	18.7	143.0
Grants and contributions	-	-	(8.8)	-	(8.8)
Disposals	(0.3)	(0.7)	-	-	(1.0)
Balance at 31 March 1995	<u>457.5</u>	<u>262.3</u>	<u>495.5</u>	<u>155.1</u>	<u>1,370.4</u>
<b>Depreciation</b>					
Balance at 1 April 1994	77.7	73.4	-	56.7	207.8
Charge for year	10.6	11.1	-	10.5	32.2
Disposals	(0.1)	(0.6)	-	-	(0.7)
Balance at 31 March 1995	<u>88.2</u>	<u>83.9</u>	<u>-</u>	<u>67.2</u>	<u>239.3</u>
Net book value at 31 March 1995	<u>369.3</u>	<u>178.4</u>	<u>495.5</u>	<u>87.9</u>	<u>1,131.1</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>

Fixed assets at 31 March 1995 included £221.2m (1994: £142.3m) of assets in the course of construction which are not depreciated until commissioning.

The net book value of fixed assets includes an amount of £7.6m (1994: £7.9m) 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 £66.5m (1994 £57.7m).

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

<b>Note 7</b>	<b>1995</b>	<b>1994</b>
<b>Stocks</b>	<b>£m</b>	<b>£m</b>
Materials and consumables	2.6	2.6
Work in progress	0.4	0.5
	<u>3.0</u>	<u>3.1</u>

<b>Note 8</b>	<b>1995</b>	<b>1994</b>
<b>Debtors</b>	<b>£m</b>	<b>£m</b>
Trade debtors	26.9	28.4
Unbilled income	21.3	21.1
Amounts owed by group companies	2.4	3.3
Other debtors	3.3	4.0
Prepayments	1.7	1.2
	<u>55.6</u>	<u>58.0</u>

<b>Note 9</b>	<b>1995</b>	<b>1994</b>
<b>Short term borrowings</b>	<b>£m</b>	<b>£m</b>
Bank overdraft	25.7	20.5
Loans from holding company	21.0	-
	<u>46.7</u>	<u>20.5</u>

<b>Note 10</b>	<b>1995</b>	<b>1994</b>
<b>Other creditors</b>	<b>£m</b>	<b>£m</b>
Trade creditors	8.2	9.7
Capital creditors and accruals	32.1	28.1
Amounts owed to group companies	86.1	39.0
Other taxation and social security	3.6	0.1
Accruals and deferred revenue	46.4	37.9
Proposed dividends	36.7	34.2
	<u>213.1</u>	<u>149.0</u>

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

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**Note 11**

**Creditors falling due after more than one year**

	1995 £m	1994 £m
Loans from holding company	349.0	405.0

Loans are repayable as follows:

Between one to five years	33.6	30.6
After five years not by instalments	215.0	250.0
After five years by instalments	100.4	124.4
	<u>349.0</u>	<u>405.0</u>

The Company has agreed loan facilities with Southern Water Plc. The rates of interest payable on loans due after 5 years range from 6.5% to 11.1%.

**Note 12**

**Grants and contributions**

	1995 £m
Balance at 1 April 1994	21.5
Receivable in year	4.7
Released to profit and loss account	(0.9)
Balance at 31 March 1995	<u>25.3</u>

Grants and contributions relate to non-infrastructure assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

**Note 13**

**Provisions for liabilities and charges**

	Infrastructure renewal £m	Other £m	Total £m
Balance at 1 April 1994	0.2	2.1	2.3
Provided in year	17.3	1.0	18.3
Utilised in year	(14.1)	-	(14.1)
Balance at 31 March 1995	<u>3.4</u>	<u>3.1</u>	<u>6.5</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:

	1995 £m	1994 £m
Accelerated capital allowances (non infrastructure assets)	106.8	98.1
Losses and other timing differences	(8.8)	(14.5)
Advance corporation tax	(12.4)	(17.8)
	<u>85.6</u>	<u>65.8</u>

**Note 14**

**Called up share capital**

	1995 £m	1994 £m
<b>Authorised</b> 46,050,000 ordinary shares of £1 each:	<u>46.1</u>	<u>46.1</u>
<b>Allotted, called up and fully paid</b> 56,000 ordinary shares of £1 each:	<u>0.1</u>	<u>0.1</u>

**Note 15**

**Share premium account and reserves**

	Share premium account £m	Profit and loss account £m
Balance at 1 April 1994	46.3	445.8
Retained profit for year	-	56.9
Balance at 31 March 1995	<u>46.3</u>	<u>502.7</u>

**SOUTHERN WATER SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995**

**Note 16**

**Movement in shareholders funds**

The movement in shareholders funds of £56.9m (1994 £49.7m) 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

**1995**  
**£m**

**1994**  
**£m**

2.4

2.4

The Company is party to mutual cross guarantees for any monies owed by Group companies to National Westminster Bank Plc which at 31 March 1995 amounted to £12.4m.

**Note 19**

**Capital Commitments**

Outstanding contracts placed for  
capital expenditure

**1995**  
**£m**

**1994**  
**£m**

63.0

90.4

Capital expenditure authorised  
by directors but not contracted

63.8

139.7

**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.