

# Southern Water plc

Annual Report 1995

Co. No: 2366620

Signed Copy of  
Annual Report & Account  
Year Ended 31 March 1995



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# Southern Water plc

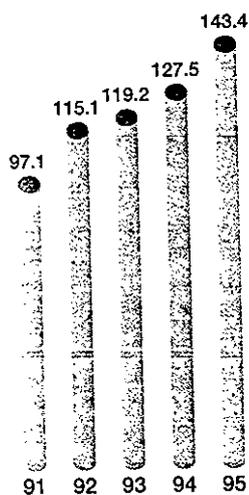
## Working for industry and the community

As well as providing high quality water and wastewater services, Southern Water is developing profitable businesses in synergistic markets where our expertise and resources provide a competitive edge. The Group has an annual turnover of £385 million, employs more than 3,700 people and has some 82,000 shareholders.

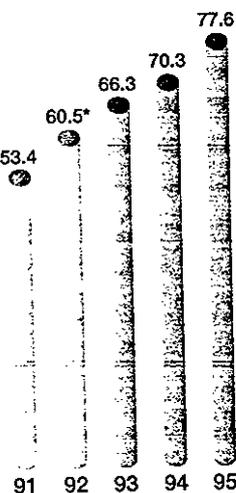
## Financial highlights

	1995	1994
Turnover	£384.6m	£347.7m
Profit before tax	£143.4m	£127.5m
Earnings per share	77.6p	70.3p
Dividends per share	25.9p	23.1p
Shareholders' funds	£1,059.1m	£965.0m

Profit before tax £m

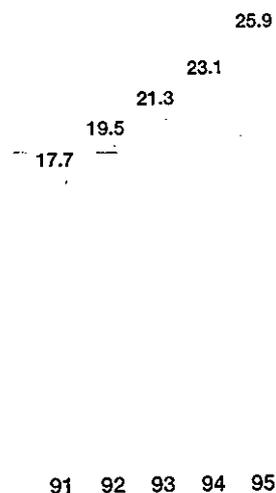


Earnings per share pence



\* Before exceptional items

Dividends per share pence



## Chairman's statement



I am very pleased to report on a year of sustained progress for the Southern Water Group. The 1994/95 results mark the success of our consistent strategy of creating value for shareholders through steady evolutionary development. We have continued to build on the key strengths of Southern Water, our people, skills and technology, whilst maintaining rigorous control of expenditure. Our regulated and non-regulated activities are forging ahead and our customers are enjoying an ever improving quality and range of services.

### Results and dividends

Group turnover was 10.6% higher than last year at £384.6m. Profit before tax increased by 12.5% to £143.4m and earnings per share were 10.4% higher at 77.6p. In our regulated business we have generated a further £3m of operating efficiencies whilst trading profits from our non-regulated activities continued to advance to £11.1m compared with £10.1m last year. Many of these businesses have now developed strong and growing positions in the marketplace, not only in the south east but throughout the UK.

Contrary to the impression frequently conveyed by the media, some 66% of our post-tax profit is immediately reinvested to help fund our capital programme. We have continued to invest massively in huge environmental projects throughout the region, notably 'Operation Seaclean'. Indeed, investment expenditure during the year was £178m, exceeding our post-tax profits by 36%.

I am pleased to report that, notwithstanding this ongoing capital investment, we have, through tight financial management, retained a net cash position of £8.4m at the end of the year. It is also noteworthy that shareholders funds now exceed the £1 billion mark.

The Board is recommending a final dividend of 17.45p per ordinary share, making a total of 25.9p, an increase of 12.1% on last year. The level of dividend reflects our consistent track record of efficiency, plus success in growing non-regulated profits and our confidence in the future. As you can see on page 4, our annual dividend has risen by over 46% since 1990/91. The scrip dividend alternative will be available for the 1994/95 final dividend; however, the continuation of this programme will be subject to the recent decision of the Board to review the Company's capital structure.

As part of this review, the Board wishes to have facilities available which will help it ensure that the Company has an appropriate capital structure for the future. In this connection it has decided to seek authority from shareholders, at the Annual General Meeting on 17 August 1995, to purchase up to 10% of the Company's issued share capital.

### Business highlights

I would like to mention some highlights of both the past year and the five years since privatisation. In the past year Southern Water Services Limited has maintained its remarkable 100% compliance record for all its 367 inland wastewater treatment plants, despite the additional loads imposed by another very wet winter. The quality of our drinking water at 99.7% compliance is better than ever before, among the best in Europe. Following our top rating in 1993 by the Office of Water Services

(OFWAT) for the four key levels of service where comparisons can be made between companies, we have further improved our customer services and are now rated 'very good' for our response to both billing enquiries and customer complaints. Many more improvements are in hand.

We have developed a culture which gives our employees responsibility enabling them to use their enthusiasm and ideas to achieve significant efficiency savings.

We are making excellent progress in constructing our major 'Operation Seaclean' projects, some of which will be operational during the 1995 bathing season, with many more to follow in 1996. The scale and complexity of our wastewater and water supply projects dwarfs nearly all other developments in the south east in recent years and is bringing about a remarkable transition throughout the whole region. The legacy of years of under-investment is being transformed and will benefit our customers for decades to come. Southern Water is responding magnificently to the considerable technical and managerial demands placed upon it.

Some 4,500 projects have been completed since privatisation, equivalent to investing £540 for every household in our region. Standards are higher than ever and the envy of Europe.

The Periodic Review conducted by the Director General of Water Services in July 1994 imposed a price formula which demands rigorous cost control. We will strive to achieve significant savings in both our £1.2 billion capital investment programme to the year 2000 and in operating expenses. Such savings, arising from new technology, enhanced controls and procedures plus the energy and ideas of our people, will benefit both shareholders and customers.

At a time of unprecedented change in the water industry, it is important to understand the needs and concerns of customers – both domestic and industrial.

Southern Water has generated very considerable value for both shareholders and customers over the past five years.

The views and information flowing from the OFWAT Customer Service Committee and our own four Customer Consultative Committees assist us in providing a premium service to customers.

We are pleased to support the Community in a variety of ways. Our ongoing 'Learn to Swim Scheme' has already taught 80,000 children between the ages of 4 and 12 to swim. Educational programmes for schools, Pond Weeks, assistance to Citizens

Advice Bureaux and conducted visits for groups around our works are typical initiatives.

In our non-regulated businesses, external turnover grew by 66.3% in 1994/95 to £46.9m and we have made encouraging progress in many areas, particularly in the environmental and systems technology sectors. Progress is summarised in the Managing Director's review on pages 8 to 24.

The Group has achieved a great deal in the five years since privatisation and our track record bears very favourable comparison with any of the privatised utilities. As the following table shows, we have generated very considerable value for both shareholders and customers. Improvements in services have been dramatic and would not have been achieved if the business had remained in the public sector. Yes, prices have had to rise substantially to remedy the neglect of past decades and bring about badly needed environmental improvements, but it is unfortunate that media comment has dealt extensively with the former, but has neglected to recognise the latter.

## Achievements

	1995	1991	Increase
<b>Shareholder value:</b>			
Earnings per share	77.6p	53.4p	+45%
Dividends per share	25.9p	17.7p	+46%
<b>Customer service:</b>			
Inland wastewater treatment works compliance	100%	89%	
Drinking water compliance	99.7%	99.5%	
Reduction since 1992 in:			
- properties at risk from hydraulic inadequacy of sewers	26%	n/a	
Reduction since 1990 in:			
- properties affected by low water pressure	44%	n/a	
- properties affected by interruption to supply	53%	n/a	
Water saved since 1989 through leakage control:			
- population equivalent	400,000	n/a	
OFWAT assessment of Southern Water			
Response to:			
- billing queries	Very good	Very poor	
- written complaints	Very good	Moderate	

## The Board

At a time when much comment is current about remuneration in some utilities it is apposite to confirm that since privatisation only 50% of the Board costs of Southern Water plc have been charged to our water business, the other half being met by our expanding non-regulated companies.

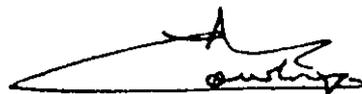
The Company has continued to maintain a broadly equal balance of Executive and Non-Executive Directors, the latter fully constituting the Audit and Executive Remuneration Committees of the Board. As indicated last year, Mr Anthony Fry joined the Board on 1 July 1994. Mr Philip Girle retired as a Non-Executive Director on 31 December 1994 and I would like to record the Board's appreciation of his wise counsel and enthusiastic participation in the affairs of the Plc and its predecessor over the past eight years.

## The future

The Southern Water Group is in good shape, financially strong and well positioned for the future. In the regulated business, efficiency, quality of service and management of our investment obligations are the key areas of focus and we will continue to build on our proven track record. We will also continue to develop our profit generating non-regulated businesses prudently, with niche acquisitions where appropriate.

On behalf of the Board I would like to thank our shareholders for their continued support and encouragement and all our employees for their loyal and dedicated work which has contributed to our success in the past year.

I look forward to reporting on another year of achievement and success in 1995/96.



W J W Courtney CBE  
Chairman

# Group structure

## Southern Water Services

The Group's largest subsidiary provides water and wastewater services in Kent, Sussex, Hampshire and the Isle of Wight. The Company puts great emphasis on:

- raising quality standards
- increasing efficiency
- service to the customer.

These aims are being achieved by huge investments in new works, advanced technology and importantly the training and development of employees.



## Environmental Services



A safe environment has always featured as a top business priority of Southern Water. The skills necessary to achieve this are abundant in the Group's Environmental Services Sector:

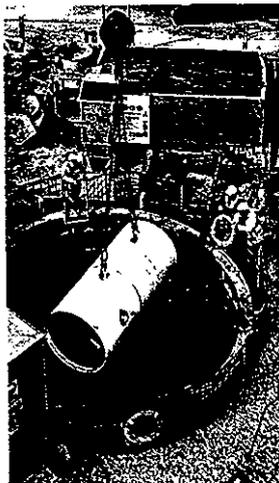
- integrated liquid and solid waste management
- clinical waste disposal
- purification systems for industrial processes
- scientific consultancy and analysis.

## Engineering Services

The Engineering Services Sector brings together Southern Water's skills in engineering design, project management, consultancy and related services:

- full project management
- turnkey projects
- civil and structural design
- building services
- quantity surveying.

The skills used to manage the Group's own £2 billion investment programme are available to clients throughout the UK and overseas.



## Systems Technology



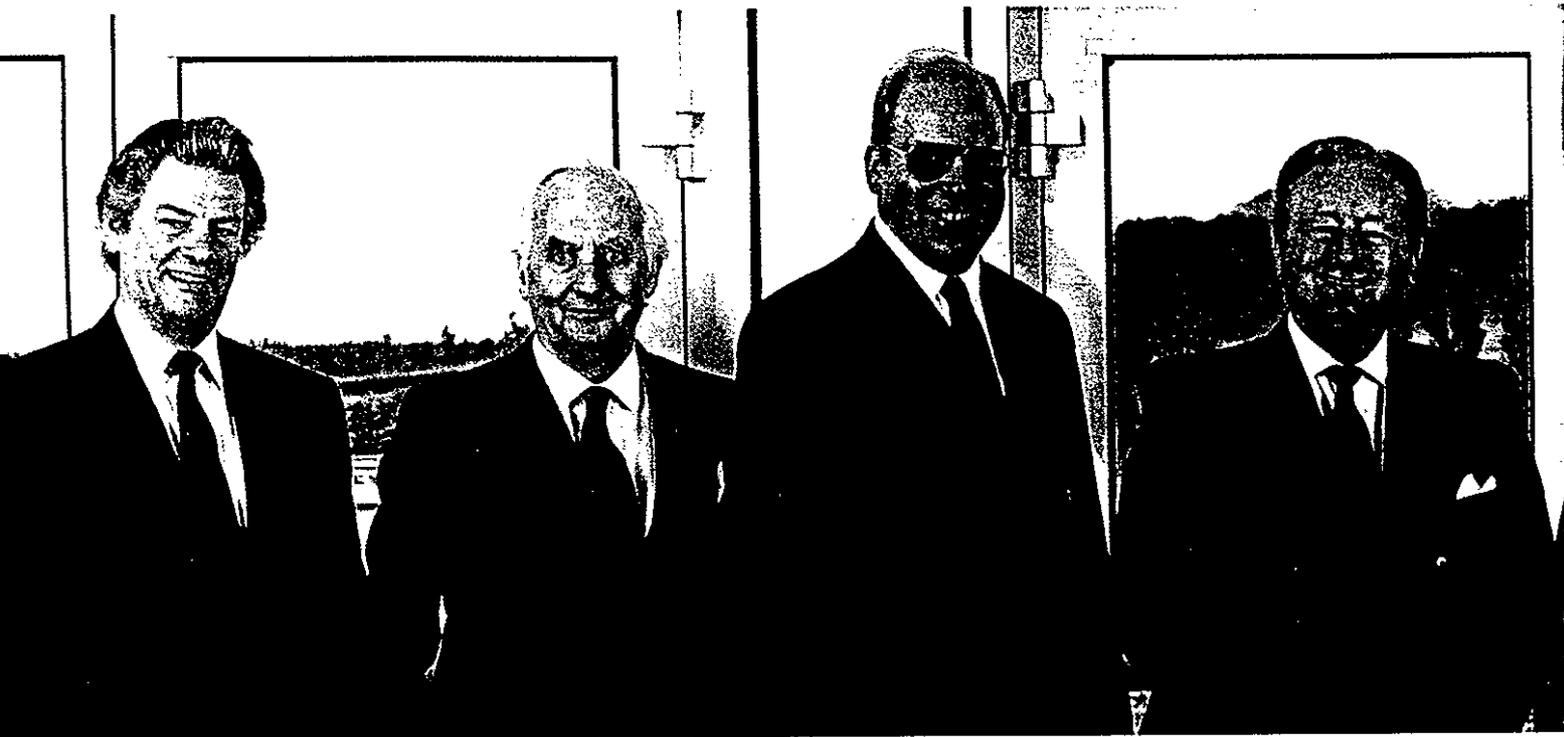
Building on Southern Water's IT skills, the Systems Technology Sector provides a range of services based on leading edge technology:

- integrated computing and telecommunications
- IT consultancy and training
- state-of-the-art billing and payment processing services
- process engineering analysis and software
- advanced security systems.

From vehicle fleet management to bottled water... from materials supply to property management, this business sector encompasses products and services in which Southern Water has long standing expertise.



## The Board



### William Courtney

**CBE Hon. FIWEM**  
Executive Chairman

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

### Martyn Webster

**BSc (ECON) FCA**  
Group Managing Director

Martyn Webster was appointed to his present position in January 1993, previously having been Group Finance Director since the inception of the Company in 1989. He qualified as a chartered accountant with Price Waterhouse for whom he worked in the UK, Australia, and the Netherlands. From 1979, he was Financial Controller of NCR and in 1985 he became Group Finance Controller at Laporte Plc.

### Raymond King

**BSc FCA MCT**  
Group Finance Director

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

### Keith Tozzi

**BSc MA C ENG FICE FIWEM FInst.M**  
Group Technical Director

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

### Francis Midmer

**C ENG, FICE FIWEM FInst.M**  
Non-Executive Director\*

Francis Midmer retired from being Group Technical Director in August 1993, having worked in the water industry since 1949. Appointed Director of Technical Services of Southern Water Authority in 1985, he joined the Board in 1988. He has held senior positions on a number of national bodies associated with the development of the industry.



### Anthony Fry

BA (Oxon)  
Non-Executive Director†

Anthony Fry joined the Board in July 1994 and brings with him 18 years experience of the City. Since 1988 he has been an Executive Director of N M Rothschild and Sons Ltd, the International Merchant Bank and became a member of the Bank's Executive Committee in 1993. He is Chairman of the Remuneration Committee for Executive Directors.

### Vivian Thomas

OBE FIMl  
Non-Executive Director\*†

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

### John Westhead

MA DPHIL C ENG FIEE FInst.M  
Non-Executive Director\*†

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

### John Cullen

LL B  
Company Secretary

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

Left to right: Vivian Thomas, John Westhead, Raymond King, William Courtney, Martyn Webster, Keith Tozzi, Anthony Fry, Francis Midmer, John Cullen.

\* Member of the Audit Committee

† Member of the Executive Remuneration Committee

## Managing Director's review



The year ended 31 March 1995 has been one of solid achievement in all business sectors of the Group.

The non-regulated businesses, where the strategy is one of organic growth supported by low risk, niche acquisitions, have continued to grow profitably. These businesses operate in the sectors of:

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

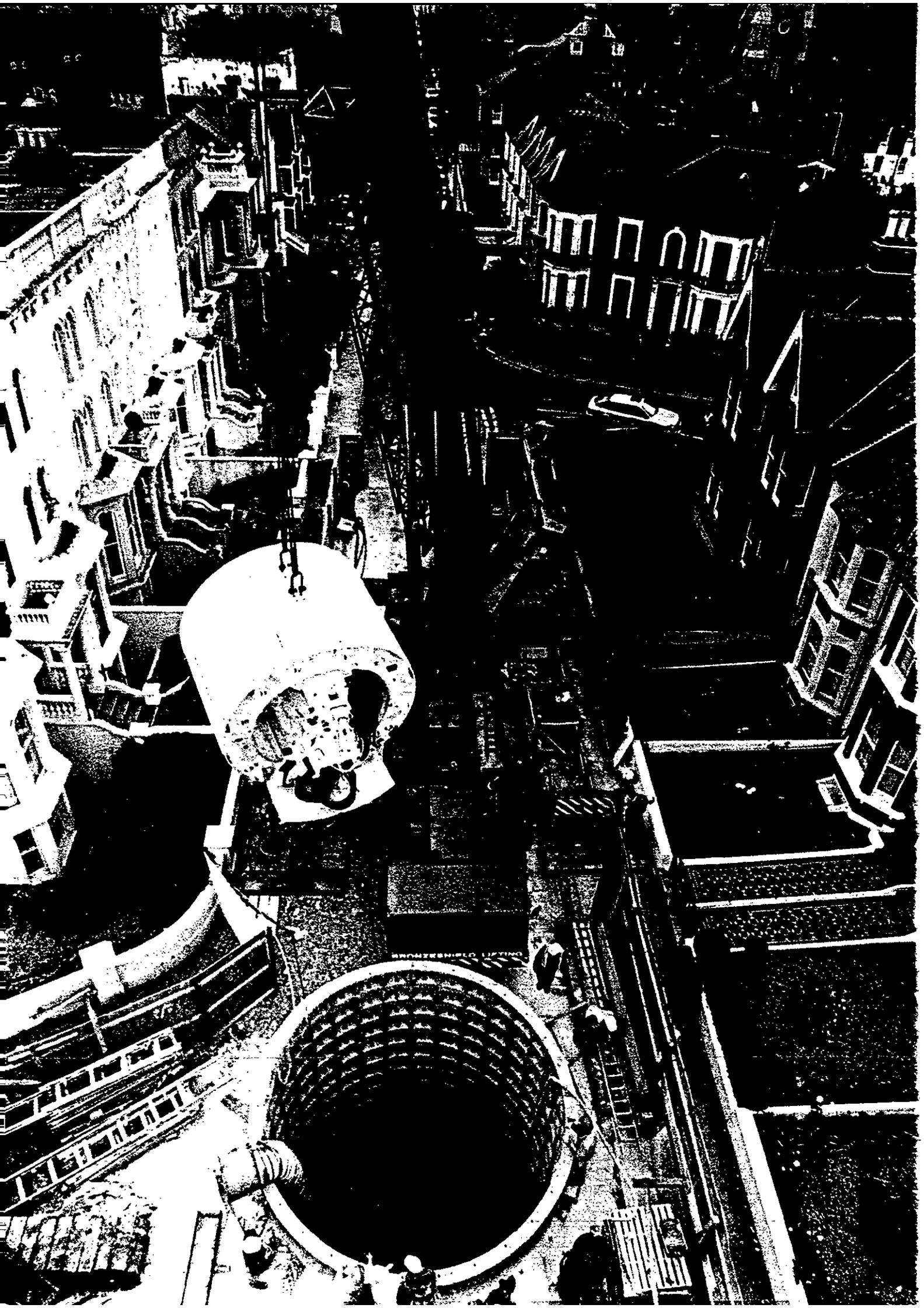
Southern Water Services Limited, the regulated business, has reinforced its excellent record of compliance and continues to make good progress in implementing major capital schemes to enhance services and improve the environment.

A review of our business operations appears on pages 10 to 24 and a Financial Review is incorporated in the Report of the Directors on page 25.



Left: Eco-clear Limited, the Group's waste management arm.

Right: a tunnelling machine being lifted into a 30m shaft at Ramsgate to construct a 4.5m diameter stormwater sewer. Project managed by McDowells Limited.



## Southern Water Services

### Water supply and wastewater services

Southern Water Services Limited is the Group's largest subsidiary company supplying an average of 635 million litres of treated water daily to two million people through 12,300 km of water mains. The wastewater treatment business is even larger with 1,300 million litres of trade and domestic waste recovered daily from a population of four million through a 24,500 km sewerage network in Kent, Sussex, Hampshire and the Isle of Wight.

Southern Water is proud of its proven track record for providing **quality services** with constantly **improving efficiency**. Its **customer service** record is second to none among the ten regional water and sewerage companies – as evidenced for the second year running by OFWAT in its 1994 Report on Levels of Service. Southern Water's performance is best in the four important areas where direct comparisons are possible, namely, mains water pressure, supply interruptions, speed of response to billing enquiries and written complaints.

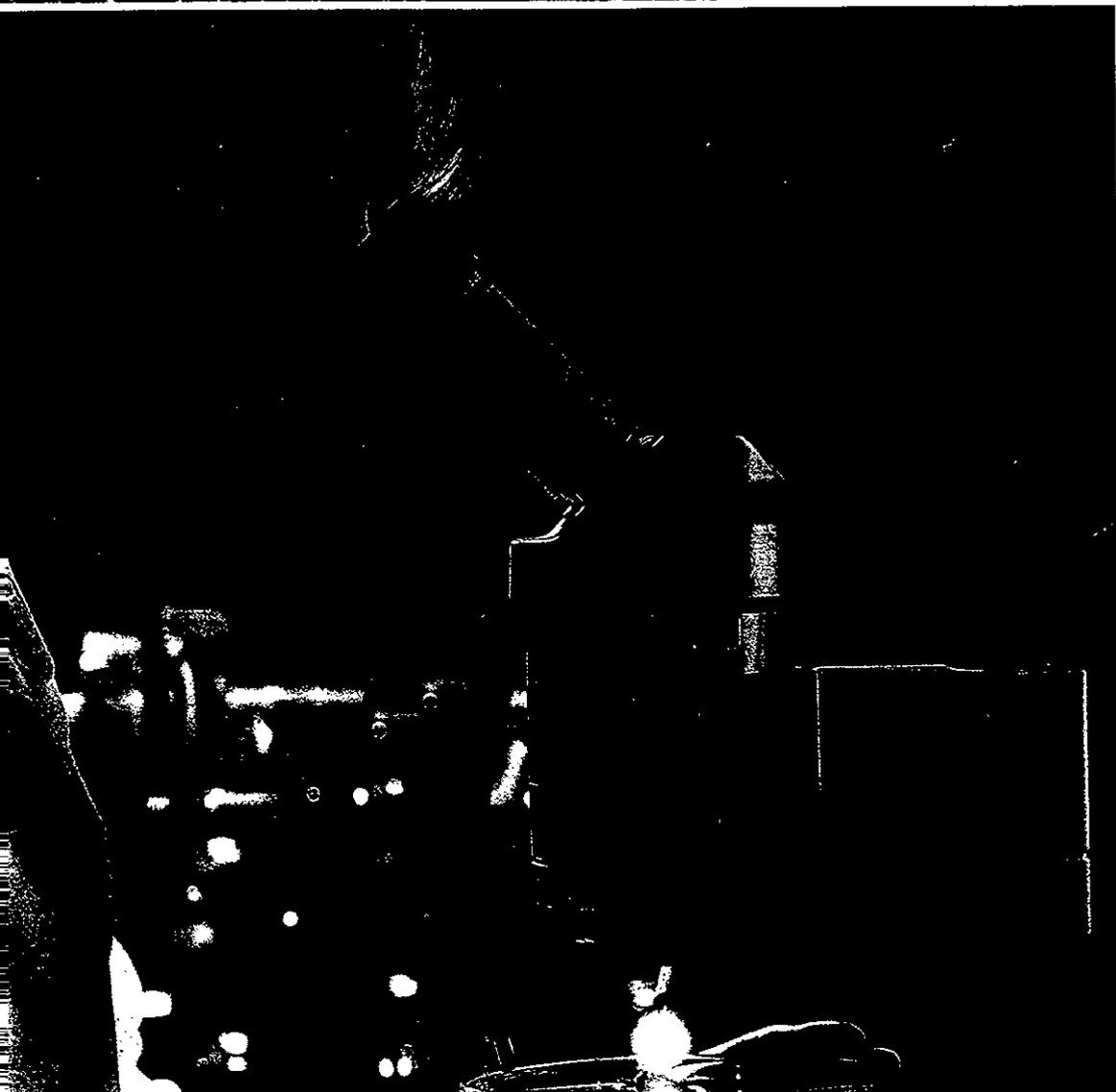
It is particularly pleasing that all 367 of Southern Water's inland wastewater treatment plants achieved 100% compliance with their stringent discharge consents despite the very wet winter which placed exceptional demands on the sewerage system. In water supply, 99.7% of the 260,000 chemical and microbiological analyses carried out during the year met the relevant

statutory water quality standards. This is our highest pass rate ever and confirms our water as among the very best in Europe. Even so, further multi-million pound improvements are in hand including fifteen new plants to remove the minute traces of pesticides present in some supply areas and to reduce the small quantities of lead which can leach from older lead pipes installed in some customers' properties.

Southern Water Services priorities are to provide excellent water and wastewater treatment services, to pursue vigorously operating efficiencies and to maintain strong financial management of the business.

Left: a leak detection unit at work combining employee skills with computer technology.





Above: Kings Hall Pumping Station, Herne Bay in Kent under construction.

Wastewater will be pumped inland for treatment prior to transfer to the River Stour – improving bathing water to EU standards and bolstering river flows.

Left: rigorous laboratory analysis helps to maintain our very high drinking water standards.

## Southern Water Services continued

### Investment in quality

Significant achievements have resulted from a total commitment to quality through reinvesting profits in new plant and the training and development of Southern Water's people.

Importantly, Southern Water Services is a maritime company with major centres of population along its 1,250 km (773 miles) of coastline. More than £800m has been invested since privatisation with £450m being committed to Operation Seaclean, Southern Water's huge programme of work to improve bathing water quality. The majority of this work will be completed in time for the 1996 bathing season, although some is already in place, notably the £56m Sandwich Bay, Kent sewerage scheme serving a population of 100,000.

The £36m Brighton to Hove stormwater project is well advanced. Here, a former Channel Tunnel boring machine is constructing a six metre diameter sewer five kilometres long which will store stormwater for subsequent treatment. Construction of new wastewater treatment works at

Worthing (£35m), Shoreham (£24m), Eastbourne (£42.5m) and Herne Bay (£23m) is progressing well with the associated sea outfalls already in place.

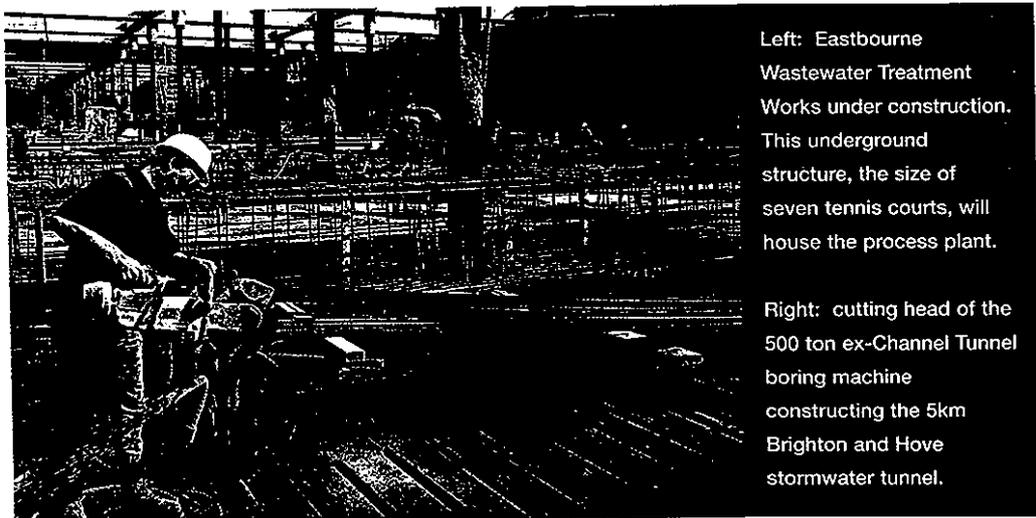
In Kent, construction will begin later this year on a £120m wastewater scheme to serve the towns of Dover and Folkestone.

Notwithstanding the achievements of the past five years, further major environmental improvements will be required over the next ten years to comply with the EU Urban Wastewater Directive with many large towns

requiring new or enhanced wastewater treatment facilities. Feasibility studies have commenced at a number of sites and these schemes form the major part of the Company's massive £2 billion investment programme over the next decade.

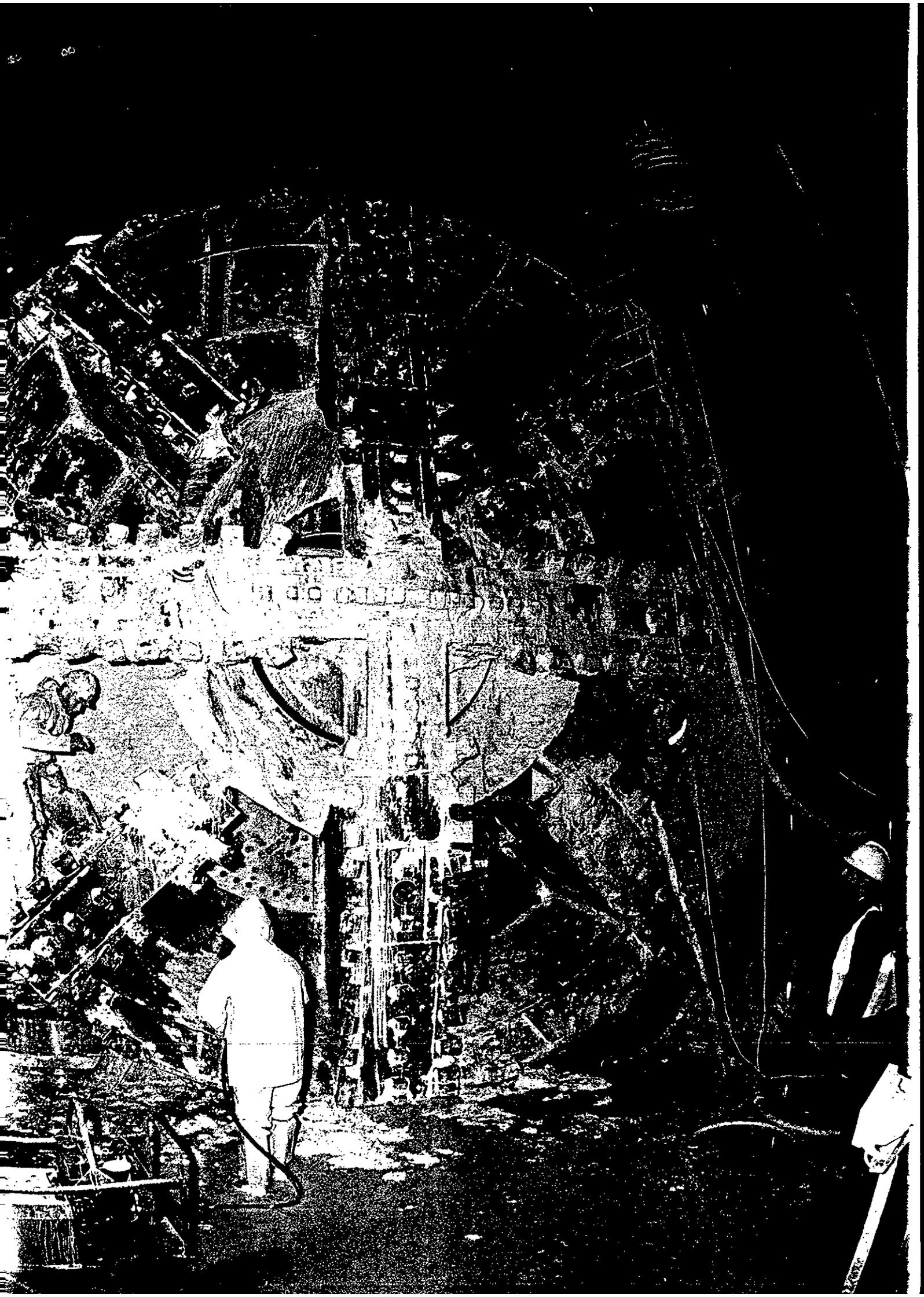
The Company considers the historic problem of a substantial number of properties being at risk from foul flooding to be unacceptable. Every effort will be made to improve significantly on this position despite the Regulator making no financial provision for this in his price determination for the next ten years.

Much of the £2 billion to be spent over the next ten years is to meet stringent new EU water quality legislation.



Left: Eastbourne Wastewater Treatment Works under construction. This underground structure, the size of seven tennis courts, will house the process plant.

Right: cutting head of the 500 ton ex-Channel Tunnel boring machine constructing the 5km Brighton and Hove stormwater tunnel.



## Southern Water Services continued

### Drive for Efficiency

The Regulated Business is characterised by limited potential for real growth but with ongoing demands for high capital investment. This dilemma strengthens Southern Water's commitment to best practice, giving rise to year on year cost savings whilst sustaining the best ever service levels.

Operating cost savings of £3m were achieved in the year. The Company is committed to achieving ongoing efficiency gains in both operating costs and the capital programme.

The efficient management of water resources remains an important priority. Upgrading and augmentation of existing resources, coupled with leakage control, is both environmentally sound and defers the need for major capital expenditure. An additional 28 million litres of water a day is available following the completion of the £18m project allowing the transfer of raw water from the River Medway at Yalding in Kent via a 20 km pipeline to Southern Water's Bewl Water Reservoir. Work has also commenced on the Testwood Lakes scheme to safeguard the quality and improve the security of water supplies to customers in western Hampshire. Leakage control is now saving

Cost savings will continue to be achieved by more efficient operations without compromising commitment to the highest standards of care for customers and the environment.

an additional 110 million litres of water per day – or 15% of total demand – compared with the position before privatisation in 1989. The Company is committed to responsible water resource management.

### Service to our Customers

Southern Water's rating for service to customers has improved year on year and it has the firm intent of maintaining this solid performance.

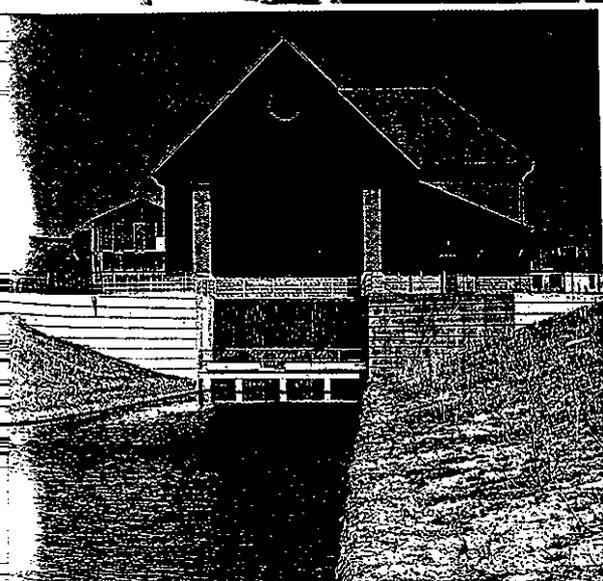
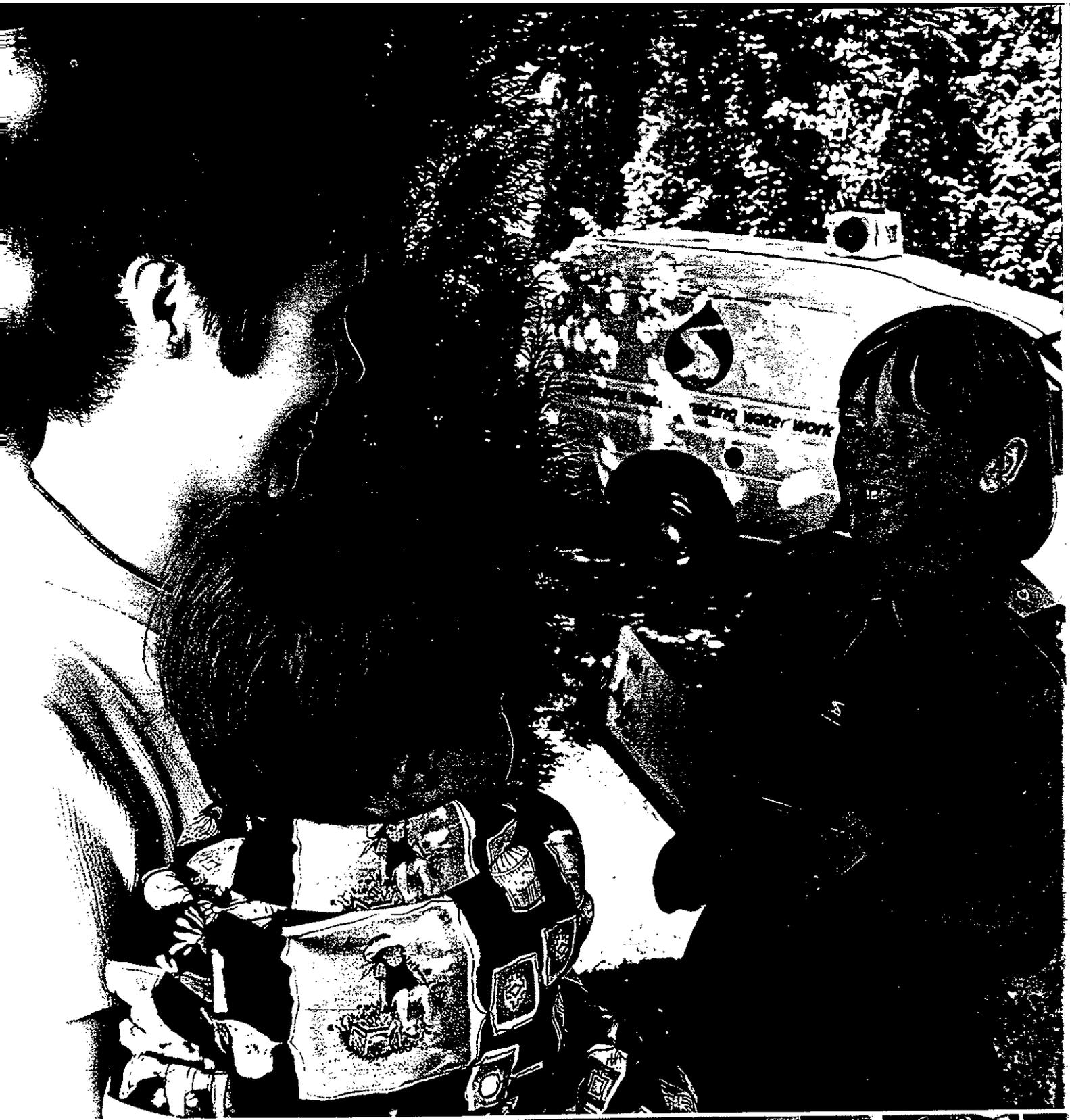
The Company's "Square Deal for Customers" initiative, launched in January 1995, provides a commitment to product and service quality, environmental awareness and special services for the elderly and less able.

This initiative also focuses on fair treatment for customers complaints and highlights our flexible payment terms for water charges. New schemes being trialed include the use of 'Smart Cards' for payment at local shops.

These initiatives and other news about Southern Water's activities are communicated in the popular 'Update' magazine distributed annually to all customers. Open days, public meetings and the valuable work by OFWAT's Customer Service Committee and the Company's four county-based Customer Consultative Committees are used to maximise public awareness and to obtain feedback on public opinion on a wide range of issues.

Above right: Southern Water's staff are committed to giving prompt, efficient and friendly service.

Right and far right: the new Yalding Pumping Station, Kent, blends with the rural landscape on the River Medway. Five powerful pumps are capable of transferring up to 250 million litres of water a day to the Bewl Water Reservoir via a 20 km pipeline.



## Southern Water in the Community

### Community and Environment

Providing a first class service to customers is inextricably linked with care for the environment and contributing to community life. The Company's environmental policy remains at the very heart of this business philosophy and applies equally to all companies within the Southern Water Group. Southern Water Services' Report on Conservation and the Environment is published annually and sets out a clear commitment to minimise its impact on the environment, comply with statutory standards and ensure the health and safety of its employees. These principles are rigorously applied through close liaison with the Nature Conservancy, local naturalists and other environmental groups and communicated to the public through the award winning environmental newspaper "Conservation Matters".

Southern Water's work to protect and conserve the environment ranges from the massive bathing water quality improvement programme to smaller projects such as in Ashford, Kent where the Company has transformed the river frontage creating an ideal habitat for otters. In addition Pond Week, Southern Water's joint scheme with the British Trust for Conservation Volunteers (BTCV) to restore and create ponds, remains popular with more than 1,000 volunteers involved in practical action to improve the environment. All of our activities are undertaken with clear focus on care for the environment.

Southern Water works constantly to safeguard the environment and make a positive contribution to community life.

During the past year, Southern Water contributed to many other aspects of community life. The "Learn to Swim" scheme sponsored in association with the Amateur Swimming Association (ASA) now operates at 67 centres where a total of 80,000 children have already learned to swim. Our sponsorship has been extended for a further three years with a target to increase this number to 200,000. We are also active in preserving our heritage, particularly where connected to our core activities such as working with voluntary help to preserve steam pumping engines at Brede Valley Water Supply Works in Sussex. Educational projects are also encouraged and a programme for schools is being developed focusing on the water cycle.

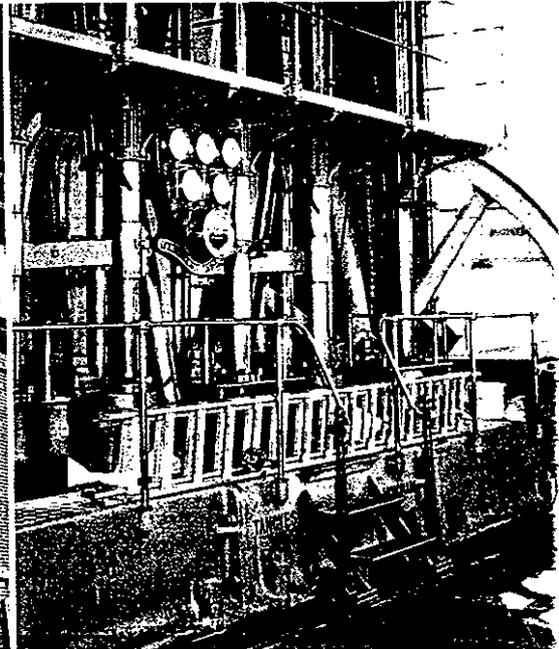
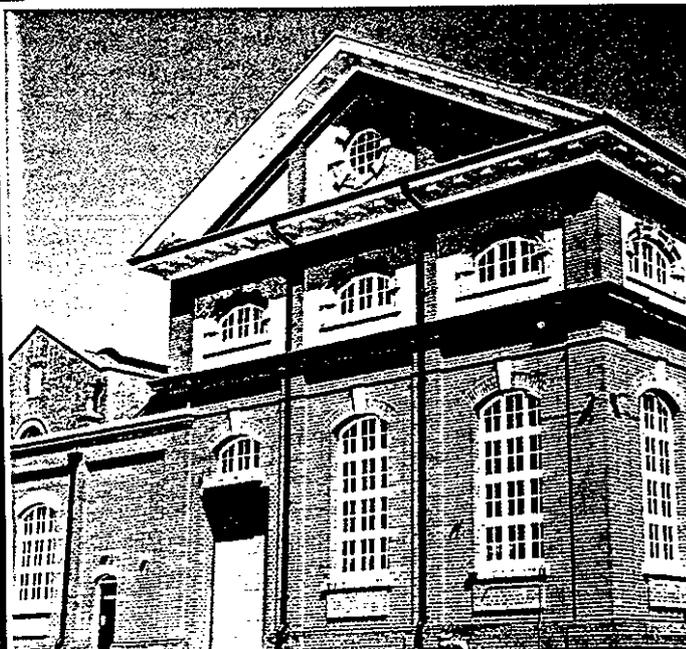
### Research and Development

Southern Water strives for innovation and efficiency and, in 1994/95, invested £4.1m on research and development. Current initiatives include finding innovative solutions to the problems of pesticides and cryptosporidium in water and developing improved 'compact' treatment plants to serve high density urban populations where space is at a premium. With sludge volumes set to double over the next five years, cost effective recycling of biosolids for agricultural use is also an important research priority.



Above: a group of youngsters benefiting from Southern Water's largest community project 'Learn to Swim'.

Right and far right: preserving our heritage - Brede Valley Water Supply Works where a vintage triple expansion engine is being restored with voluntary help.



## Environmental Services

**Southern Science Limited** The Group provides a comprehensive range of environmental services. Niche acquisitions have blended well with existing businesses to provide integrated solutions to most waste management and environmental problems.

**GMSS Limited**

**Southern Science Limited**, with its sister company **GMSS Limited**, offers a comprehensive laboratory analysis service covering substances and products ranging from water, air, soils and emission gases to toys and foods. Geoprobe and Geolab, Southern Science's mobile sampling and laboratory service enables fast and effective response to the growing demand for assessment of contaminated land. All laboratories are accredited by NAMAS – the laboratory equivalent of ISO 9002 quality certification.

**ERG Environmental Resource Group Plc**

**Eco-clear Limited**

Consultancy projects during the year included the hydrogeological input into proposals for a deep repository for medium and low-grade radioactive waste at the Sellafield nuclear reprocessing plant. The Company also continues to undertake hydrogeological work for the National Rivers Authority. Over fifty local authorities throughout the UK use GMSS for air quality monitoring and the University of Southampton Medical School has awarded a contract to the Company to measure the nitrogen oxides exposure of asthmatic children.

**Greenhill Enterprises Limited**

**ES Taylor Group of Companies**

**Clinical Waste Limited**

**ERG Environmental Resource Group Plc**, acquired by Southern Water in 1993, has continued to prosper at home and abroad. ERG has installed its fifth effluent treatment plant for Pirelli's FOS factory in Italy and is now at the forefront in providing pollution abatement equipment and fume scrubbing systems for the European optical fibre cable industry. With Ford Motors UK and Portuguese plants as well as ICI's Merseyside chlor-alkali processing plant included in its client list, ERG has a proven track record in the design and building of turnkey process plants for treating industrial effluents and air purification.

Offering an integrated waste management service, the Group's specialised liquid and solid waste disposal, and mineral extraction activities are provided by **Eco-clear Limited**, the **E S Taylor Group** and **Greenhill Enterprises Limited**. 1994/95 has been a year of substantial growth with numerous additions to the vehicle fleet including Vactor deep sewer cleansing tankers and modern front-end loader (FEL) waste collection vehicles and additional recycling capacity. Clients now include many

Safe and reliable collection, recycling and disposal of waste products – every hour of every day.

household name companies and public sector authorities. Work on the London Underground system and for British Gas are typical examples of projects routinely undertaken by our waste management companies. These businesses are all growing well whilst making their own contribution to a cleaner environment.

**Clinical Waste Limited**, a joint venture company, specialises in the collection and safe disposal of clinical waste using advanced incinerator facilities. The year was marked by the successful commissioning in June 1994 of the incinerator at the King's College Hospital, London which is designed to comply with the EU Hazardous Waste Directive, effective in the UK from October 1995. The Company's services are in increasing demand from hospital authorities concerned about compliance with this new Directive.

Clinical Waste has also won the contract to manage waste disposal operations for the Essex Consortium of Hospitals. This includes the construction of an incinerator at the Goodmayes Hospital, East London which is well advanced. Construction will begin at several other locations during the year.

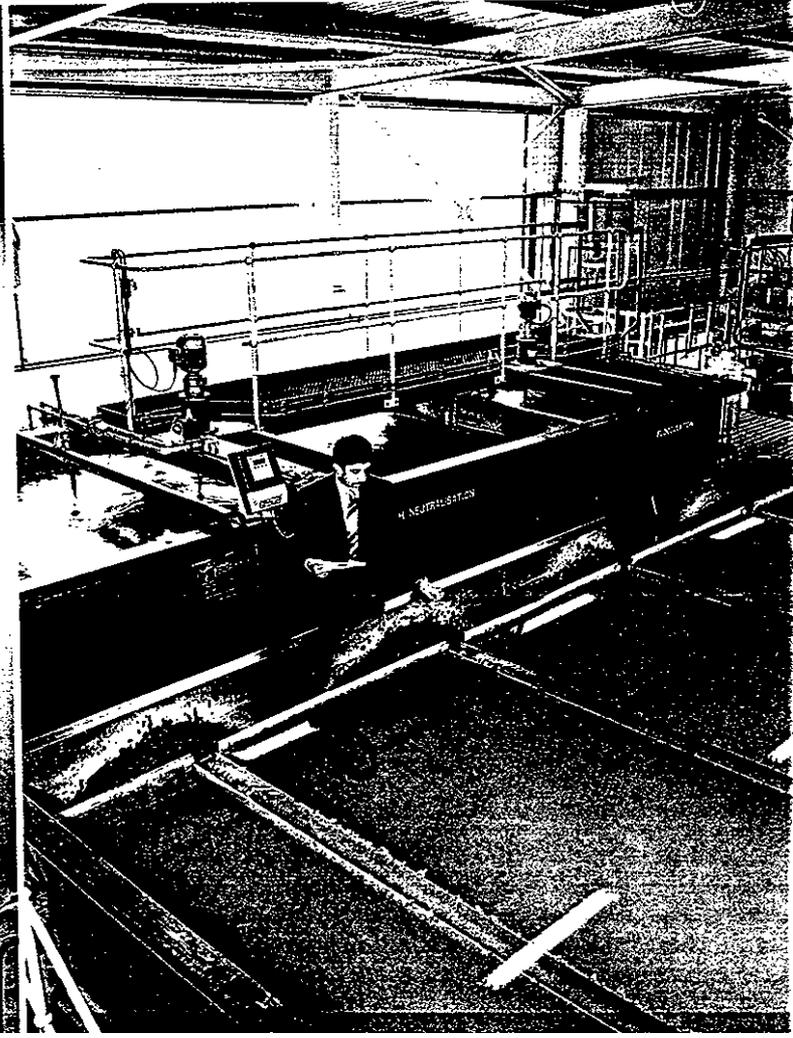
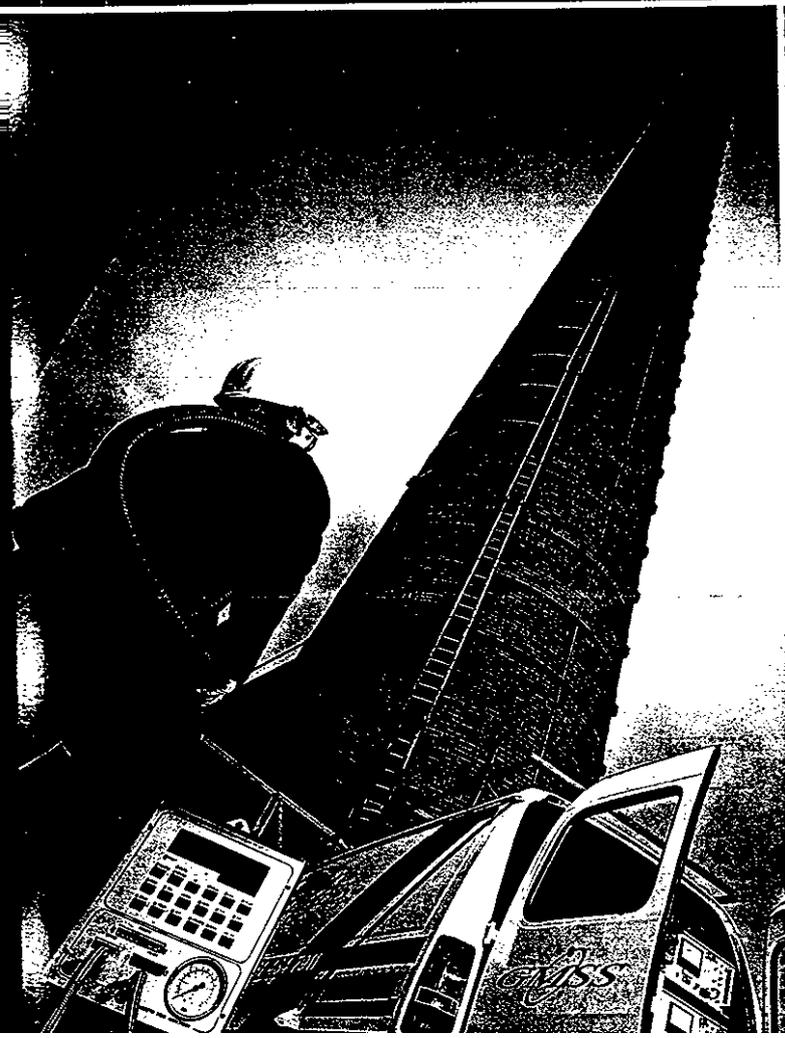


Clockwise from left: while London sleeps, Eco-clear Limited works through the night at a London Transport underground station.

Clinical Waste Limited provides wardside collection and disposal facilities at King's College Hospital, London.

ERG's effluent treatment plant for Ford at Dagenham.

Stack emissions being measured by GMSS' sophisticated monitoring equipment.



## Engineering Services

### McDowells Limited

The Group's engineering capability ranges from engineering design and project management to mechanical and engineering services.

### Coastal Wastewater Consultants Limited

McDowells Limited provides engineering design and project management services in the UK and overseas. Projects have been completed for major UK companies including British Airports Authority, National Westminster Bank, MoD, the National Health Service and Railtrack. Multi-million pound projects designed and managed during 1994/95 included the £56m Sandwich Bay wastewater treatment project in Kent and the construction of the Eastbourne marine treatment works in Sussex. Internationally, trading as Southern Water McDowells, the Group is developing overseas markets.

### Pipeworks Limited

Pipeworks Limited, is the Group's rapidly expanding pipelaying to building services company. It has been successful in winning significant business in the private and public sectors throughout the South-east of England. As well as numerous contracts for the installation and maintenance of commercial and industrial plumbing, heating and air conditioning systems, large contracts in 1994/95 included the total refurbishment of the plumbing and heating systems at two major prisons and the installation for Taylor Woodrow Limited of fire mains and a drainage system for a major road scheme.

### Moreton and Padmore Limited

The diversity of skills and resources is further emphasised by the work of Aquaclear, the Company's water systems hygiene division. Specialising in the assessment of chemical and bacteriological contamination of building systems, services include initial assessment, remedial work and ongoing maintenance. Recent clients have included BP, Virgin Atlantic and Harrods. During the year this expertise was also applied to the maritime environment.

From water systems hygiene to multi-million pound civil engineering projects the Engineering Sector offers total solutions.

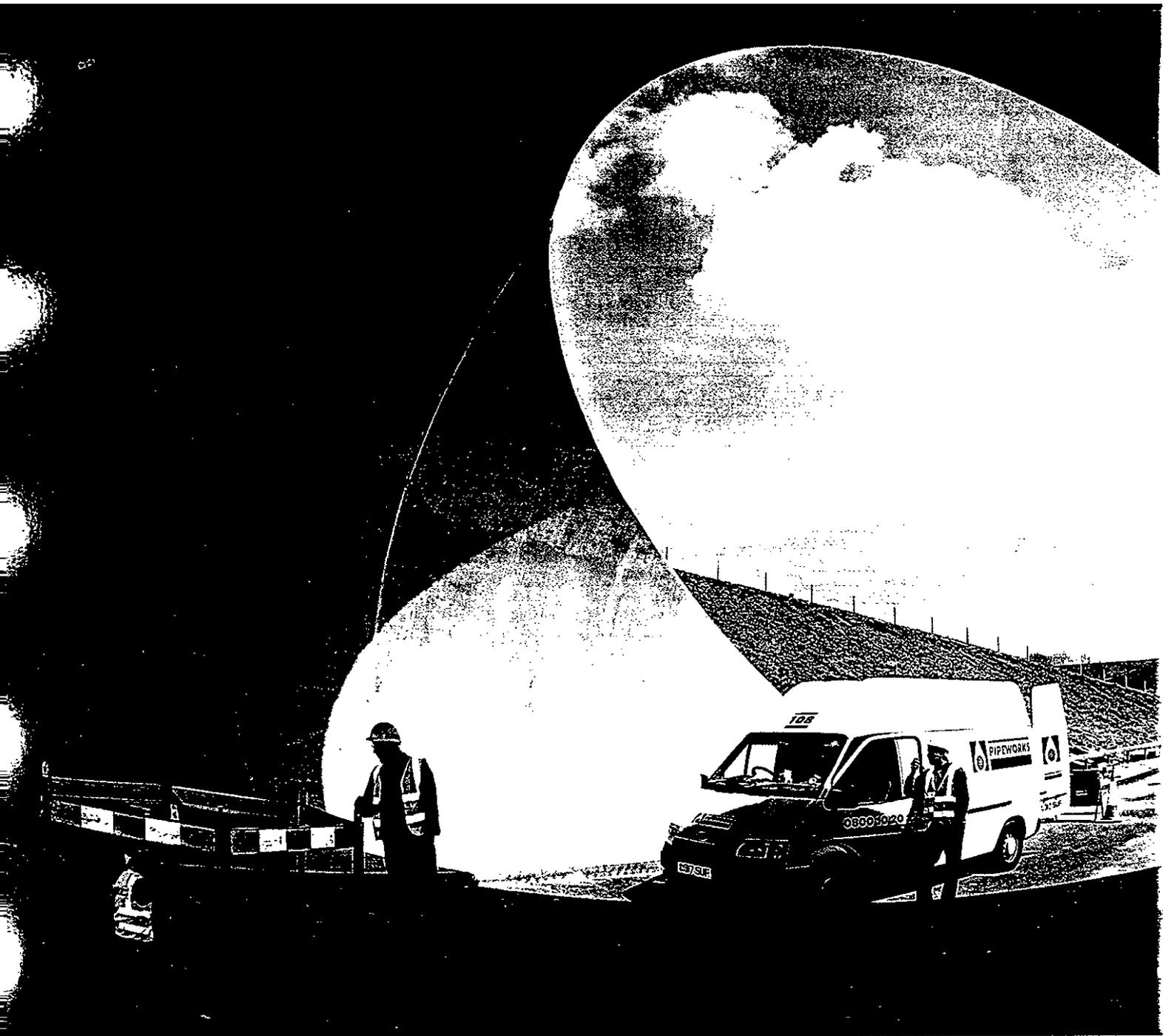
The acquisition in May 1994 of **Moreton and Padmore Limited**, a highly respected quantity surveying business, has provided additional expertise in the engineering services sector and is playing a key role in the management of Southern Water's huge investment programme. The Company has five offices strategically located within the UK providing complete advisory services on all types of building and construction work ranging from project

costing and tendering to final account settlement. The client list includes hospitals and healthcare trusts, banks, education and housing authorities.

Significant contracts undertaken during 1994/95 included project management of the £13m extension to the Thanet District Hospital, Kent and a similar project at the renowned Atkinson Morley neurological hospital in Wimbledon.



A Moreton and Padmore surveyor on site at the Thanet Hospital, Kent.



Above: Pipeworks:  
Limited working on  
a major trunk road  
scheme in Sussex.

Right: McDowells:  
Limited site surveying  
for Railtrack at  
Petersfield Station  
in Hampshire.



## Systems Technology

### Paperstream Limited

The Group provides an innovative range of services to clients, harnessing state-of-the-art information technology and telecommunications.

### IT Southern Limited

Paperstream Limited achieved substantial business growth during the year and now provides billing services and remittance processing for most of the UK's cable TV industry. The Company combines high quality service with rapid response to customer requirements and continuing investment in modern technology. Building on its success, Paperstream's services are now in demand from a growing number of sectors including publishing, financial services, mobile communications and local government.

### Tynemarch Systems Engineering Limited

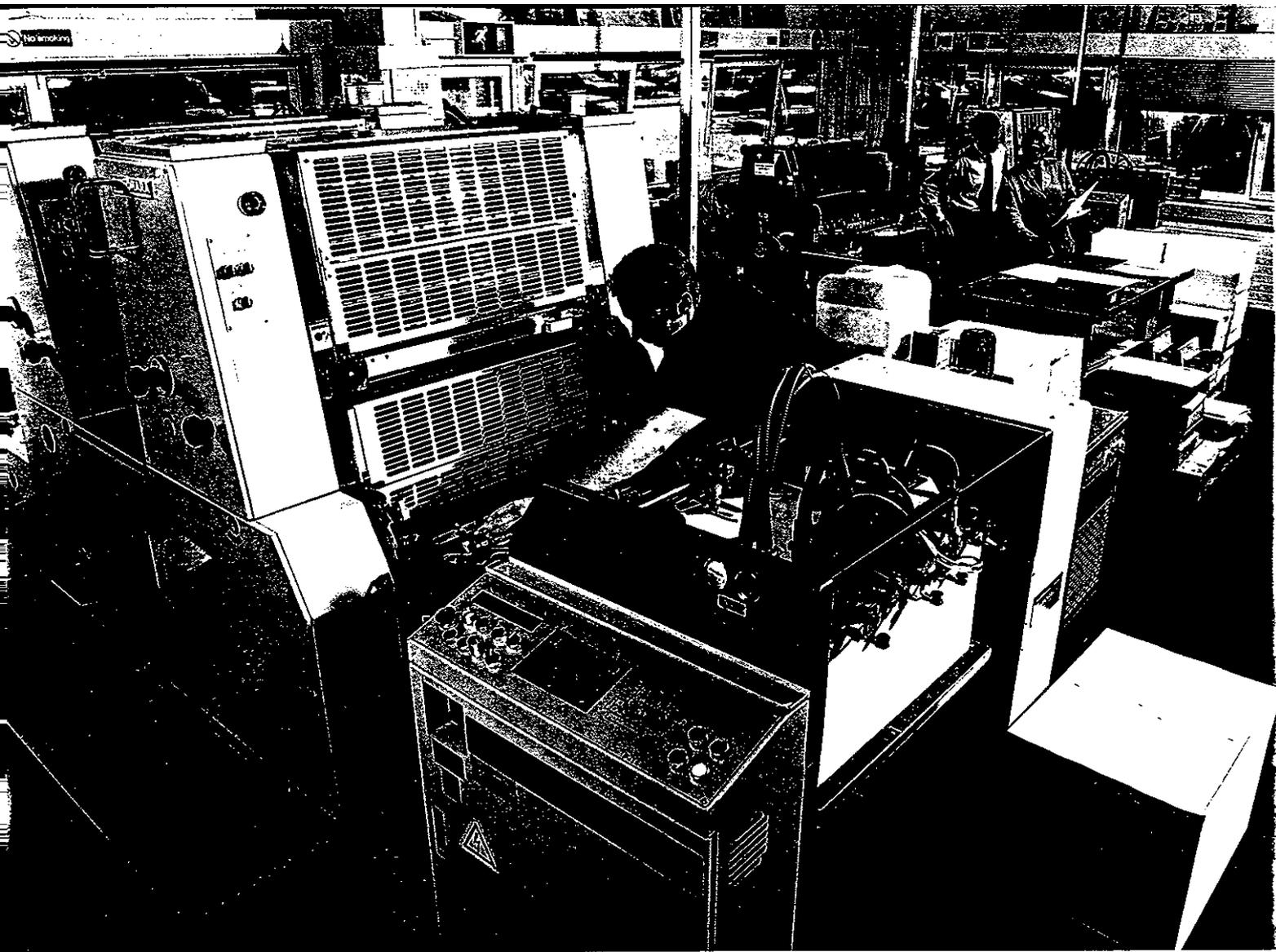
IT Southern Limited provides a wide range of high quality, integrated computing and telecommunications services to clients in both the public and private sectors. In June 1994 the Company obtained full international quality certification to ISO 9001 for all of its services from mainframe and distributed computing, telecommunications and software development to consultancy and IT training. The Company has also introduced 'Managed Services' offering an integrated total care service for all aspects of a client's IT and telecommunications requirements.

Using the technology of tomorrow to provide businesses with a competitive edge today.

Tynemarch Systems Engineering Limited uses sophisticated computer-based mathematical modelling in the analysis of complex treatment processes and networks. Skills in risk analysis, process optimisation and software development enable clients to maximise the benefit of capital investment and to minimise their operating costs. Recent successes include a prestigious contract for UK Water Industry Research Limited for the development of risk analysis methodologies.

Sectron Systems Limited is responding to growing markets for the installation and maintenance of surveillance systems including remote monitoring using CCTV, and intruder and fire detection systems to protect both property and people. National account clients include a wide range of household names including a contract to monitor J Sainsbury's premises throughout the country. A number of local authorities also use Sectron's town centre security packages. The Company's operations are accredited to the security industry's highest standards.





Above: Paperstream Limited has the latest technology to ensure prompt, reliable printing, billing and payment processing services.

Right: IT Southern Limited offers broad experience and practical advice in mainframe and distributed computing and telecommunications.

Left: Sectron Systems Limited provide remote surveillance systems for town centres such as Bridgwater in Somerset.



## Specialist Services and Products

### Topmark Vehicle Contracts Limited

The Group has developed new businesses combining existing skills and technologies to create a competitive edge.

### Hazeley Down Mineral Water Company Limited

Topmark Vehicle Contracts Limited has grown rapidly during the year and has relocated its UK sales and administrative activities to a new and extensive complex in the heart of the West Midlands. Contract hire customers include county and municipal authorities as well as retailers, distributors, builders, engineering and waste companies. Period rental is expanding under the niche names of RefrigerRent, TipperRent and DailyRent and the West Midlands complex includes a unique indoor showroom for top quality used commercial vehicles. London and the South of England are served by a new facility at Crayford, conveniently located adjacent to the Dartford Tunnel. In addition, Topmark is a major provider of commercial fleet management packages to numerous organisations throughout the UK.

### Pipestock Plus Limited

Hazeley Down Mineral Water Company Limited has developed a mineral water that appeals to the younger, healthy lifestyle. This has led to the popular Hazeley Down brand being joined by a new brand labelled '464'. The '464' brand has gained substantial distribution in the High Street. Popularity with the hotel and catering trade has been endorsed by Hazeley Down being voted top still mineral water by tasters assembled by the catering industry's leading trade magazine, *Caterer And Hotelkeeper*.

### Monk Rawling Limited

Opportunities to grow businesses in niche markets where Southern Water has long standing experience.

Pipestock Plus Limited specialises in the purchase and distribution of a wide range of materials and equipment associated with the water industry. The Company has centralised its purchasing expertise at Crawley, West Sussex and in addition to supplying Southern Water's needs, distributes a wide range of products to external customers throughout the UK.

Monk Rawling Limited, the Group's commercial property management and development business, has performed well in a generally subdued market. This firm of chartered surveyors also manages several thousand acres of woodlands and agricultural land. Monk Rawling is successfully realising the potential of the Group's holdings of surplus land achieving a significant disposal at Fareham, Hampshire during the year. The recent establishment of a town planning consultancy strengthens the Company's range of property services.



Left: Topmark's sales and operations centre in the West Midlands.

Far left: Hazeley Down's popular '464' mineral water in its distinctive shaped bottle.

# Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 1995.

## Business Review

A review of the principal businesses of the Group and of their development in 1995 is contained in the Chairman's Statement and the Managing Director's Review on pages 2 to 24. A Financial Review of the year appears below and the financial statements are set out on pages 31 to 49.

## Turnover

In 1995 Group turnover increased by 10.6% to £384.6m. External sales in the regulated business of Southern Water Services were 5.7% higher at £337.7m. This movement was due mainly to the average increase in water and sewerage charges which at 5.8% recognises the need to finance the additional costs arising from the Company's large capital programme. A small decrease in measured sales volumes of water and trade effluent was offset by new connections and a reduced level of empty properties.

External turnover in the non-regulated businesses was 66.3% higher at £46.9m and resulted mainly from the continuing growth of existing businesses, together with a full year's contribution from companies acquired in 1993/94. Total sales, including sales to other Group companies, were £110.3m, an increase of 25.2% on the previous year.

## Profit

Group trading profit in 1995 at £150.7m was 12.8% above the previous year and included a gain of £2.7m from the sale of land in Hampshire; the underlying increase in profit was 10.8%. In the regulated business, underlying trading profit increased by 10.9% to £136.9m. Cash operating costs increased by only 1.2%; further operating cost efficiencies of £3m were achieved, building on savings of £3m achieved last year. The impact of inflation and cost increases arising mainly from the compliance driven capital expenditure programme were significantly offset by these savings. The non-regulated businesses continued to develop successfully during the year and underlying trading profit increased by 9.9% to £11.1m representing 7.5% of the Group total.

Net interest payable at £7.3m was £1.2m above the previous year mainly reflecting a slightly lower average rate of return available on the Group's cash holdings. Including the land disposal gain of £2.7m referred to above, profit on ordinary activities before taxation increased by 12.5% to £143.4m.

The taxation charge for the year was £13.1m (1994 £10.2m) and comprised advance corporation tax of £9.2m on dividends payable, together with a net mainstream corporation tax liability of £3.9m relating to both the regulated and non-regulated businesses. Profit attributable to ordinary shareholders amounted to £130.8m compared with £117.5m in 1994.

## Earnings and Dividends

Earnings per share increased by 10.4% to 77.6p. An interim dividend of £14.3m (8.45p per ordinary share) with a scrip alternative was paid on 6 April 1995, and subject to approval at the Annual General Meeting, a final dividend of £29.6m (17.45p per ordinary share) is proposed to be paid on 2 October 1995 to shareholders on the register on 4 July 1995. A scrip alternative is being offered for the final dividend. The retained profit for the year, after allowing for dividends, amounted to £86.9m and has been transferred to reserves.

Capital and reserves increased by £94.1m to £1059.1m. This increase comprised the retained profit of £86.9m referred to above, and other movements of £7.2m mainly in respect of

shares issued as scrip dividends. The Company created an Employee Share Ownership Trust (ESOT) during the year which purchased shares in the market to satisfy options for 770,000 shares which were exercised by employees under Sharesave One, established in 1989.

**Cash Flow**

The Group cash flow statement appears on page 34. Net cash flow from operating activities increased by £14.3m to £192.5m due to the Group's increased generation of profit and continuing firm control of working capital. Returns on investment and servicing of finance resulted in a net outflow of £38.2m, a rise of £4.9m compared with 1994. The increase mainly reflected reduced income from the Group's cash and current asset investments, due to lower returns available on investments but also higher dividend payments to shareholders. Taxation, representing ACT on dividends paid and the mainstream corporation tax liability for 1994, increased by £0.1m to £9.3m.

The net cash outflow from investing activities was £98.6m (1994 £220.1m) due principally to expenditure on new fixed assets of £160.9m (1994 £154.8m), 85% of which was incurred by the regulated business to provide new major marine and inland wastewater treatment works and on improvements to water supply services and sewerage systems. A reduction of £48.1m in the current asset investments and deposits with an original maturity exceeding three months partially offset this outflow.

The above movements gave rise to a net increase in cash and cash equivalents of £46.4m. Total liquidity of the Group, comprising current asset investments, cash and deposits increased by £1.7m to £176.0m. After deducting all borrowings, including short term borrowings of £33.5m, the Group ended the year with net cash of £8.4m (1994 £10.0m).

**Share Capital**

The ordinary share capital of the Company increased by £1.5m in the year; details of the movements are given in Note 18. The issued share capital at 31 March 1995 was 169,326,188 Ordinary Shares of £1 each.

As far as the Directors are aware, no person had a beneficial interest in 3% or more of the issued ordinary share capital at 15 June 1995 except for the following:

Prudential Portfolio Managers Ltd	7.55%
Standard Life Assurance Group	3.58%
Capital Group Inc.	3.06%

**Fixed Assets**

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

**Research and Development**

Expenditure on research and development in 1995 amounted to £4.1m (1994 – £4.3m). Further information on research and development activities is given in the Managing Director's Review.

**Employment Policies**

The growth of the Group is reflected in the increased number of staff employed in the non-regulated businesses. Recruitment and selection for all jobs is based solely upon merit. The Group has established itself as an equal opportunities employer and has a policy of non-discrimination in

all forms of employment. Every effort, including the provision of special equipment, is made to enable disabled persons to be employed for all types of work. The system of linking pay increases to individual performance now operates throughout the majority of the Group.

1994/95 has seen the further development of an Apprentice Training Scheme, the Graduate Recruitment Programme and a new Management Training Programme, in liaison with Henley Management College, based upon developing the core managerial competencies required to meet the challenges of the developing Group. These initiatives are critical to providing our growing businesses with the right people, possessing the right skills for the future. These programmes are in addition to the on-going training available to all employees, which aim to provide particular skills training to meet specific needs of staff at all stages of their careers. Last year saw many operational staff obtain National Vocational Qualifications associated with the Water Industry.

Clear, concise employee communications are vital to a Group such as Southern Water, which operates through many different companies, in different geographic areas and markets. Information supplied by line managers is supplemented by reports and articles appearing in the Group magazine, Southern Water News.

Health and Safety issues receive particular attention. The Group Technical Director oversees all procedures for health and safety and presents a formal report to the Board every quarter. A recent review has established consistent safety standards in all our companies. This will enhance the monitoring and training for safety across the whole Group. Staff continue to benefit from health checks provided by our Occupational Health Advisors. Equally for the benefit of others, many staff donate blood at sessions organised in the work place.

### **Directors**

The Directors of the Company at the date of this report are shown on pages 6 and 7. Mr P A Gille retired as a Director on 31 December 1994. The Directors retiring by rotation at the Annual General Meeting in accordance with Article 106 are Mr K Tozzi and Dr J M Westhead who being eligible, offer themselves for re-election. K Tozzi has a service contract terminable on not less than 36 months notice. Dr J M Westhead, as a Non Executive Director, has no service agreement with the Company.

### **Directors' Share Interests**

The interests of the Directors shown in the register maintained under the provisions of the Companies Act 1985 as at 31 March 1995 are set out on pages 39 and 40 of the financial statements together with interests as at the date of this report. None of the Directors holds shares beneficially in any subsidiary company.

### **Directors' Interests in Contracts**

The Board is not aware of any contract of significance (other than service contracts) in relation to the Company or its subsidiaries in which any Director has or has had a material interest. Service contracts are held by Mr W J W Courtney, Mr M R Webster, Mr R King and Mr K Tozzi.

### **Directors' and Officers' Liability Insurance**

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

### **Corporate Governance**

The Board is committed to the highest standards of integrity and professionalism in the conduct of the Group's business and considers that during the year the Group complied with the Code of

Best Practice on the Financial Aspects of Corporate Governance, published by the Cadbury Committee in December 1992.

#### Internal Control

The Board meets regularly throughout the year and has formally adopted a schedule of matters which are specifically reserved for its decision, and retains full control over key strategic, financial and organisational issues within the Group. The Board acknowledges its responsibility for the system of internal controls and during the year has, through the Audit Committee, reviewed the effectiveness of the internal financial controls of the Group.

The Board has established standing committees, each of which operates within defined terms of reference.

Day-to-day management of the Group is delegated to an Executive Committee comprising all of the Executive Directors. Nominations for new Directors are considered by a Nomination Committee, consisting of the whole Board, which meets as required.

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

There are also two Remuneration Committees, whose composition and roles are explained in note 6 to the financial statements.

Internal financial control is exercised within the Group through a formal organisational structure put in place by the Board. This involves clearly defined lines of authority and responsibility, including limits for authorisation of transactions and appropriate division of duties. In view of the significance of the Group capital programme, specifically designed investment appraisal and approval procedures have been put in place for all Group companies.

Operating units consist of individual businesses and also the central functional departments which have responsibility for legal, finance and administrative issues. The development of each business is controlled within a strategy approved by the Board. There are comprehensive budgeting and financial reporting systems throughout the Southern Water Group. The Board approves an annual budget for each business and for the Group. Monthly management accounts and forecasts are also prepared and are reviewed by the Board. Regular performance reviews of each business are undertaken.

The Group's treasury activities are centrally controlled in accordance with policies laid down by the Board. Cash is invested according to strictly defined criteria to limit risk, and performance is reported monthly to the Board. The Group does not have significant foreign exchange exposures.

The Group internal controls are reviewed by the Group Internal Audit department which has a broad remit covering both internal financial controls and wider aspects of business efficiency and compliance. Audit coverage is drawn up to reflect the nature of the business risks within the Group. The Group Audit Manager and the external auditors, Coopers & Lybrand, report regularly to the Audit Committee on the performance of the internal financial control environment. The Group internal financial controls are designed to provide reasonable but not absolute assurance against material misstatement or loss.

#### Going Concern

The Directors, having made appropriate enquiries, are satisfied that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

#### Auditors' Review

Our auditors have reported to the Company that in their opinion the Directors' comments on internal financial control and on going concern set out above provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance) and are not inconsistent with the information of which they are aware from their audit work on the financial statements, and the above statement appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the London Stock Exchange for their review. They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness of either the Group's system of financial control or its corporate governance procedures, nor the ability of the Company and the Group to continue in operational existence.

#### Donations

Charitable donations during the year amounted to £28,000. No political donations were made either by the Company or its subsidiaries.

#### Close Company Status

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

#### Auditors

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

#### Annual General Meeting

The notice of the meeting is contained on pages 51 and 52 of this report. The Agenda includes, as items of special business, an authority for the Company to purchase its own shares and for the renewal of the limited authority to allot shares on a non pre-emptive basis.



*By Order of the Board*

*John Cullen*

*Secretary*

*15 June 1995*

Southern Water plc

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

Registered in England No 2366620.

# Financial Statements

## DIRECTORS' RESPONSIBILITIES for the preparation of the financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and cash flows of the Group for the year. They are also required to prepare financial statements on a going concern basis unless this is inappropriate.

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. All accounting standards which they consider to be applicable have been followed and the going concern basis has been applied.

The Directors have responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent or detect fraud and other irregularities.

## REPORT OF THE AUDITORS

to the members of Southern Water plc

We have audited the financial statements on pages 31 to 49.

### Respective responsibilities of directors and auditors

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

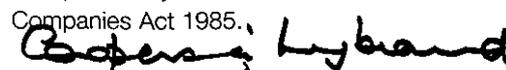
### Basis of opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1995 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Coopers & Lybrand

Chartered Accountants and Registered Auditors  
London

15 June 1995

# Accounting policies

## Basis of accounting and consolidation

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

The consolidated Group financial statements include the accounts of the parent company and all its subsidiary undertakings. The accounting year end for all subsidiary undertakings is 31 March with the exception of one subsidiary whose year end is 31 December and whose results and net assets are not material in the Group context.

The results of businesses acquired or sold during the year are included in the Group financial statements from or to their respective dates of acquisition or disposal.

## Turnover

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

## Depreciation

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

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

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

## Grants and contributions

Grants and contributions received in respect of additions to non-infrastructure fixed assets are included in creditors and released to profit over the useful lives of the relevant assets.

Since infrastructure assets are not depreciated, no basis exists on which to recognise relevant grants and contributions as deferred income. Accordingly, 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 8.

## Leased assets

Assets leased to Southern Water Services Limited under finance leases are capitalised and depreciated in line with the Group depreciation policy. Assets leased to all other Group companies under finance leases are capitalised and depreciated over the shorter of their estimated useful lives and the lease period.

The interest element of finance lease repayments is charged against profit in proportion to the balance of the capital repayments outstanding. Rental costs under operating leases are charged against profit as incurred.

## Fixed asset investments

In the Group financial statements the Group share of the results of associated undertakings is included in the profit and loss account, and the balance sheet includes the investment in associated undertakings at the Group share of their net assets.

Other investments held as fixed assets are stated at the lower of cost or market value (or Directors' valuation where no market value is available). Dividends from other investments are accounted for on receipt.

## Goodwill

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

## Stocks and work in progress

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

## Current asset investments

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

## Research and development

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

## Foreign currency

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

## Taxation

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

Provision is made for deferred taxation, relating to capital allowances and other timing differences, on the liability method, to the extent that it is considered probable that a liability to taxation will occur in the foreseeable future.

## Pensions

The Group operates defined benefit and defined contribution pension schemes. The expected costs of the defined benefit schemes are charged against profit over the period benefiting from the employees' service. Variations from the regular cost are charged against profit on a systematic basis over the expected remaining service lives of employees in each scheme. Contributions to the schemes are determined on the basis of professional actuarial advice in accordance with statutory requirements. Payments to defined contribution schemes are charged against profit as incurred.

# Group profit and loss account

For the year ended 31 March 1995

	Notes	1995 £m	1994 £m
Turnover – continuing operations	1	<u>384.6</u>	<u>347.7</u>
Trading profit – continuing operations	1,2	150.7	133.6
Net interest payable	3	<u>(7.3)</u>	<u>(6.1)</u>
Profit on ordinary activities before taxation		143.4	127.5
Taxation	4	<u>(13.1)</u>	<u>(10.2)</u>
Profit on ordinary activities after taxation		130.3	117.3
Minority interests		<u>0.5</u>	<u>0.2</u>
Profit attributable to ordinary shareholders		130.8	117.5
Dividends	5	<u>(43.9)</u>	<u>(38.8)</u>
Retained profit for the year	19	<u>86.9</u>	<u>78.7</u>
Earnings per share	7	77.6p	70.3p

## Statement of total recognised gains and losses

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

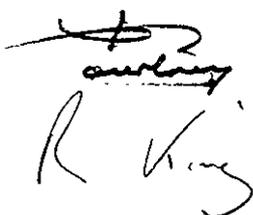
# Balance sheets

At 31 March 1995

	Notes	Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
<b>Fixed assets</b>					
Tangible assets	8	<b>1,181.7</b>	1,069.1	<b>1.0</b>	0.9
Investments	9	<b>1.4</b>	1.4	<b>474.5</b>	501.3
		<b>1,183.1</b>	1,070.5	<b>475.5</b>	502.2
<b>Current assets</b>					
Stocks	10	<b>5.0</b>	4.4	-	-
Debtors	11	<b>72.3</b>	64.3	<b>122.9</b>	72.7
Investments	12	<b>94.7</b>	94.8	<b>91.2</b>	94.8
Cash and deposits		<b>81.3</b>	79.5	<b>91.0</b>	76.9
		<b>253.3</b>	243.0	<b>305.1</b>	244.4
<b>Creditors due within one year</b>					
Short term borrowings	13	<b>(33.5)</b>	(9.2)	<b>(21.0)</b>	-
Other creditors	14	<b>(177.1)</b>	(155.8)	<b>(65.7)</b>	(62.1)
		<b>(210.6)</b>	(165.0)	<b>(86.7)</b>	(62.1)
<b>Net current assets</b>		<b>42.7</b>	78.0	<b>218.4</b>	182.3
<b>Total assets less current liabilities</b>		<b>1,225.8</b>	1,148.5	<b>693.9</b>	684.5
<b>Creditors due after more than one year</b>					
Long term borrowings	15	<b>(134.1)</b>	(155.1)	<b>(134.0)</b>	(155.0)
Grants and contributions	16	<b>(25.3)</b>	(21.5)	-	-
		<b>(159.4)</b>	(176.6)	<b>(134.0)</b>	(155.0)
<b>Provision for liabilities and charges</b>	17	<b>(6.7)</b>	(5.8)	<b>(0.2)</b>	(3.5)
<b>Minority interests</b>		<b>(0.6)</b>	(1.1)	-	-
<b>Net assets</b>		<b>1,059.1</b>	965.0	<b>559.7</b>	526.0
<b>Capital and reserves</b>					
Called up share capital	18	<b>169.3</b>	167.8	<b>169.3</b>	167.8
Share premium account	19	<b>2.9</b>	4.3	<b>2.9</b>	4.3
Profit and loss account	19	<b>886.9</b>	792.9	<b>387.5</b>	353.9
<b>Equity shareholders' funds</b>	21	<b>1,059.1</b>	965.0	<b>559.7</b>	526.0

The financial statements on pages 31 to 49 were approved by the Board on 15 June 1995 and signed on its behalf by:

W J W Courtney CBE  
Chairman  
R King  
Group Finance Director



# Group cash flow statement

For the year ended 31 March 1995

	Notes	1995 £m	1994 £m
<b>Net cash inflow from operating activities</b>	26	<u>192.5</u>	<u>178.2</u>
<b>Returns on investment and servicing of finance:</b>			
Interest received		10.9	13.6
Interest paid		(18.1)	(17.0)
Dividends received		0.5	0.3
Dividends paid		<u>(31.5)</u>	<u>(30.2)</u>
Net cash outflow from returns on investment and servicing of finance		<u>(38.2)</u>	<u>(33.3)</u>
Taxation paid		<u>(9.3)</u>	<u>(9.2)</u>
<b>Investing activities:</b>			
Purchase of tangible fixed assets		(160.9)	(154.8)
Sale of tangible fixed assets		1.5	1.4
Acquisition of subsidiary undertakings		(0.3)	(2.3)
Grants and capital contributions received		13.0	14.0
Decrease/(increase) in current asset investments and deposits maturing after three months		<u>48.1</u>	<u>(78.4)</u>
Net cash outflow from investing activities		<u>(98.6)</u>	<u>(220.1)</u>
<b>Net cash inflow/(outflow) before financing</b>		<u>46.4</u>	<u>(84.4)</u>
<b>Financing:</b>			
Issue of new shares		0.1	0.5
New long term loans		-	5.0
Principal repayments under finance leases		<u>(0.1)</u>	<u>(0.6)</u>
Net cash inflow from financing	27	<u>-</u>	<u>4.9</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	29	<u>46.4</u>	<u>(79.5)</u>
<b>Movement in net cash balances</b>	30	<u>(1.5)</u>	<u>(5.5)</u>

# Notes to the financial statements

NOTE 1		1995			1994		
		Turnover £m	Profits £m	Net assets £m	Turnover £m	Profits £m	Net assets £m
SEGMENTAL INFORMATION	Regulated business	337.7	136.9	989.3	319.5	123.5	917.0
	Non-regulated businesses	46.9	11.1	59.1	28.2	10.1	35.4
		<u>384.6</u>	<u>148.0</u>	<u>1,048.4</u>	<u>347.7</u>	<u>133.6</u>	<u>952.4</u>
	Profit on sale of land in Hampshire		2.7				
			<u>150.7</u>				
	Net interest payable		(7.3)	8.4		(6.1)	10.0
			<u>143.4</u>	<u>1,056.8</u>		<u>127.5</u>	<u>962.4</u>
	Unallocated assets			2.3			2.6
				<u>1,059.1</u>			<u>965.0</u>

All material activities were conducted in the United Kingdom.

Turnover is stated after eliminating inter company transactions of £63.8m (1994 £60.4m), of which £63.4m (1994 £59.9m) relates to sales by non-regulated businesses.

NOTE 2		Group	
		1995 £m	1994 £m
ANALYSIS OF TRADING PROFIT	Turnover	384.6	347.7
	Cost of sales	(195.5)	(174.2)
	Gross profit	189.1	173.5
	Administration expenses	(44.0)	(41.7)
	Other operating income (including profit on sale of land)	5.6	1.8
	Trading profit	<u>150.7</u>	<u>133.6</u>
	Trading profit is stated after charging/(crediting):		
	Depreciation on:		
	Own fixed assets	40.2	37.4
	Fixed assets held under finance leases	0.6	0.6
		<u>40.8</u>	<u>38.0</u>
	Infrastructure renewals expenditure	17.3	16.9
	Rentals under operating leases	0.6	0.3
	Research and development expenditure	4.1	4.3
	Grants and contributions	(1.0)	(0.7)

Audit fees charged in the Group financial statements for the year ended 31 March 1995 were £0.2m (1994 £0.2m), of which £40,000 (1994 £40,000) related to the Company. Fees payable to the auditors for services other than statutory audit were £0.1m (1994 £0.1m).

## Notes to the financial statements continued

		Group	
		1995	1994
		£m	£m
NOTE 3			
INTEREST	Interest payable on bank loans, overdrafts and other loans:		
	Repayable wholly within five years not by instalments	(1.0)	(1.0)
	Repayable within five years by instalments	(6.1)	(3.3)
	Repayable after five years by instalments	(10.4)	(12.8)
	Finance lease obligations	(0.1)	(0.1)
	Other	(0.4)	(0.7)
		<u>(18.0)</u>	<u>(17.9)</u>
	Interest receivable	<u>10.7</u>	<u>11.8</u>
		<u>(7.3)</u>	<u>(6.1)</u>

		Group	
		1995	1994
		£m	£m
NOTE 4			
TAXATION	United Kingdom taxation:		
	Corporation tax at 33% (1994 33%)	10.0	6.1
	Advance corporation tax utilised relating to prior years	(6.1)	(4.2)
	Advance corporation tax on dividends for the year	9.2	8.3
		<u>13.1</u>	<u>10.2</u>

The corporation tax charge for the year of £10.0m has been reduced by £39.5m (1994 £37.2m) in respect of the excess of tax allowances over depreciation and other timing differences.

		Group	
		1995	1994
		£m	£m
NOTE 5			
DIVIDENDS	Interim dividend of 8.45p (1994 7.7p) per ordinary share paid 6 April 1995	14.3	12.9
	Proposed final dividend of 17.45p (1994 15.4p) per ordinary share	29.6	25.9
		<u>43.9</u>	<u>38.8</u>

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

		Group	
		1995	1994
		£m	£m
NOTE 6			
DIRECTORS AND EMPLOYEES	Employee costs (including Directors' emoluments)		
	Wages and salaries	72.7	66.4
	Social security costs	5.9	5.5
	Pension contributions	7.1	6.6
		<u>85.7</u>	<u>78.5</u>

NOTE 6 continued

		1995	Group 1994
		Number	Number
DIRECTORS AND	<b>Average number of persons employed</b>		
EMPLOYEES	Regulated business	2,371	2,388
	Non-regulated activities	1,357	1,088
		<u>3,728</u>	<u>3,476</u>

#### Remuneration committees

The Group has two Remuneration Committees. The role of the first committee is to review the terms and conditions of employment of the Executive Directors. This committee, which meets at least once a year, is chaired by Mr A M Fry and consists entirely of Non-Executive Directors. The role of the second committee is to review the terms and conditions of Non-Executive Directors. This committee meets annually and consists of the Chairman and three Executive Directors. No Director participates in any discussion about his own remuneration.

#### Remuneration policy

The remuneration policy seeks to ensure that remuneration is consistent with corporate performance whilst encouraging the progression of Executive Directors and senior managers, and attracting high calibre individuals into the Group. In recognising these objectives remuneration packages are tailored to provide both short and long term incentives linked to both corporate and personal performance.

The salary of Executive Directors is set having regard to their role within the Company, including the range and weight of responsibility held, the personal exposure of Directors to risk, and the success of the individual in meeting his or her objectives. The Remuneration Committees also consider external benchmarks including market data and the remuneration of individuals performing similar functions in other organisations.

The Remuneration Committee has reviewed the composition of the emoluments paid to the Executive Directors in the light of current developments in the market place and has decided to revise the incentive arrangements within the Group.

Short term performance of the Executive Directors will continue to be rewarded by the Group's annual bonus scheme which is based, inter alia, on the growth in the Group's earnings per share. A new longer term incentive plan has been introduced for Executive Directors and senior managers which takes the form of a restricted share scheme. The restricted share scheme provides for the purchase of existing shares in the Company which will be held in trust and transferred to the individual after a period of three years, if performance targets have been achieved at the end of that same period. The performance targets will relate to both increases in the Group's earnings per share, relative to the average performance of other comparable companies over a three year period, and the maintenance of high customer service levels. Participants will be expected to retain any shares which have been transferred to them under the scheme for a period of at least 12 months, subject to the requirement to sell shares in order to settle a taxation liability arising under the scheme.

The Committee does not intend to recommend the grant of executive share options to those Executive Directors and senior managers who, in any year, are invited to participate in the restricted share scheme.

#### Directors' service contracts

The Executive Directors have service contracts with the Company with notice periods not exceeding three years. The Remuneration Committee has recommended that the notice period for any new senior appointments should not exceed 24 months.

## Notes to the financial statements continued

### NOTE 6 continued

#### DIRECTORS AND EMPLOYEES

#### Directors' emoluments

The emoluments of the Executive and Non-Executive Directors were as follows:

		1995 £000	1994 £000
Executive Directors	– salaries	448	457
	– taxable benefits	49	48
	– performance bonuses	65	70
Non-Executive Directors	– fees	91	68
	– taxable benefits	10	9
		<b>663</b>	<b>652</b>
Pension contributions for Executive Directors		<b>142</b>	<b>146</b>
		<b>805</b>	<b>798</b>

*Fifty per cent of Directors' emoluments are charged to the regulated water and wastewater business, the remainder being charged to the Group's non-regulated businesses.*

All Executive Directors are members of the Southern Water Executive Pension Scheme which, subject to qualifying service, provides a pension of two thirds of remuneration on retirement at age 60. In addition to the pension contributions in the period, unfunded liabilities have been charged against profit in respect of (a) Mr W J W Courtney, £96,000 (1994 nil) and (b) Mr R King £10,000 (1994 £28,000).

In 1993/94 a payment of £240,000 was made to the Southern Water Executive Pension Scheme in respect of a funding deficit from prior years relating to Directors.

	Salary		Taxable Benefits		Performance Bonus		Fees		Total	
	1995 £000	1994 £000	1995 £000	1994 £000	1995 £000	1994 £000	1995 £000	1994 £000	1995 £000	1994 £000
Executive Directors										
W J W Courtney	144	135	18	12	21	22	–	–	183	169
M R Webster	124	118	13	12	18	17	–	–	155	147
R King	94	89	11	12	14	14	–	–	119	115
K Tozzi	86	82	7	7	12	9	–	–	105	98
F N Midmer	–	33	–	5	–	8	–	–	–	46
	<b>448</b>	<b>457</b>	<b>49</b>	<b>48</b>	<b>65</b>	<b>70</b>	<b>–</b>	<b>–</b>	<b>562</b>	<b>575</b>
Non-Executive Directors										
A M Fry			–	–			13	–	13	–
F N Midmer			10	6			18	10	28	16
V E Thomas			–	–			18	18	18	18
J M Westhead			–	–			18	13	18	13
P A Girle			–	–			24	19	24	19
B R Thorpe			–	3			–	8	–	11
	<b>448</b>	<b>457</b>	<b>59</b>	<b>57</b>	<b>65</b>	<b>70</b>	<b>91</b>	<b>68</b>	<b>663</b>	<b>652</b>

Mr Midmer became a Non-Executive Director on 31 August 1993. Mr Thorpe retired from the Board on 19 August 1993. Mr Fry was appointed on 1 July 1994, and Mr Girle retired on 31 December 1994.

The emoluments of the Chairman, who was also the highest paid Director, included pension contributions paid of £50,000 (1994 £46,000).

## NOTE 6 continued

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

£	1995 Number	1994 Number	£	1995 Number	1994 Number
10,001 – 15,000	1	2	105,001 – 110,000	1	–
15,001 – 20,000	2	2	115,001 – 120,000	1	1
20,001 – 25,000	1	–	145,001 – 150,000	–	1
25,001 – 30,000	1	–	150,001 – 155,000	1	–
60,001 – 65,000	–	1	165,001 – 170,000	–	1
95,001 – 100,000	–	1	180,001 – 185,000	1	–

**Directors share interests**

The beneficial interests of the Directors, including family interests, shown on the register maintained under the provisions of the Companies Act 1985 as at 31 March 1995 and 31 March 1994 are set out below, together with their interests as at the date of this report. None of the Directors holds shares beneficially in any subsidiary company.

	15 June 1995	31 March 1995	Ordinary Shares 31 March 1994
W J W Courtney	58,886	58,184	50,088
M R Webster	48,693	48,693	51,075
R King	780	768	257
K Tozzi	20,498	20,377	7,763
A M Fry	502	500	–
F N Midmer	26,739	26,739	32,700
V E Thomas	250	250	250
J M Westhead	595	587	562

Details of the options held by Directors and changes in the year are as follows:

	31 March 1994	Granted	Exercised	31 March 1995	Exercise Price	Exercisable Dates
W J W Courtney						
Executive Scheme	50,000	–	–	50,000	310p	1995-2002
	16,000	–	–	16,000	466p	1996-2003
	40,000	–	–	40,000	639p	1997-2004
	–	25,000	–	25,000	525p	1998-2005
Sharesave Scheme	6,136	–	6,136	–	176p	1995
	3,024	–	–	3,024	248p	1997
	–	2,269	–	2,269	456p	2000
M R Webster						
Executive Scheme	25,000	–	–	25,000	310p	1995-2002
	12,000	–	–	12,000	466p	1996-2003
	35,000	–	–	35,000	639p	1997-2004
	–	25,000	–	25,000	525p	1998-2005
Sharesave Scheme	4,766	–	–	4,766	236p	1996
	3,024	–	–	3,024	248p	1997

## Notes to the financial statements continued

### NOTE 6 continued

DIRECTORS AND EMPLOYEES	31 March 1994	Granted	Exercised	31 March 1995	Exercise Price	Exercisable Dates
R King						
Executive Scheme	40,000	-	-	40,000	466p	1996-2003
	25,000	-	-	25,000	639p	1997-2004
	-	11,500	-	11,500	525p	1998-2005
Sharesave Scheme	4,872	-	-	4,872	372p	1998
K Tozzi						
Executive Scheme	11,000	-	-	11,000	295p	1994-2001
	11,000	-	-	11,000	310p	1995-2002
	5,000	-	-	5,000	466p	1996-2003
	25,000	-	-	25,000	639p	1997-2004
	-	20,000	-	20,000	525p	1998-2005
Sharesave Scheme	12,272	-	12,272	-	176p	1995
	3,024	-	-	3,024	248p	1997
	1,948	-	-	1,948	372p	1998
	-	4,538	-	4,538	456p	2000
F N Midmer						
Executive Scheme	20,000	-	-	20,000	295p	1994-2001
	25,000	-	-	25,000	310p	1995-2002
	2,000	-	-	2,000	466p	1996-2003

The market price of the shares at 31 March 1995 was 566p (1994 570p). The market price on the day that the sharesave scheme options were exercised was 545p. Subsequent to the year end Mr Tozzi exercised 22,000 executive share options granted in 1991 and 1992. The market price on the date of exercise was 580p.

### NOTE 7

**EARNINGS PER SHARE** Earnings per share were 77.6p (1994 70.3p), based on profit attributable to ordinary shareholders of £130.8m (1994 £117.5m) and the weighted average number of shares in issue during the year of 168.6m (1994 167.1m).

Earnings per share on the nil basis were 83.0p (1994 75.3p) and are calculated on profit attributable to ordinary shareholders, adjusted by the gross amount of advance corporation tax written off.

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

NOTE 8		Freehold	Plant and	Infra-	Other	Group	Company
		land and	machinery	structure		Total	Other
		buildings		assets			
		£m	£m	£m	£m	£m	£m
TANGIBLE	Cost						
FIXED ASSETS	Balance at 1 April 1994	432.2	290.3	448.1	133.7	1,304.3	2.0
	Additions	44.6	43.4	56.3	19.3	163.6	0.5
	Grants and contributions	-	-	(8.8)	-	(8.8)	-
	Disposals	(0.1)	(5.7)	-	(0.4)	(6.2)	(0.2)
	Balance at 31 March 1995	<b>476.7</b>	<b>328.0</b>	<b>495.6</b>	<b>152.6</b>	<b>1,452.9</b>	<b>2.3</b>
	<b>Depreciation</b>						
	Balance at 1 April 1994	77.9	100.2	-	57.1	235.2	1.1
	Charge for the year	11.0	18.7	-	11.1	40.8	0.4
	Disposals	(0.1)	(4.4)	-	(0.3)	(4.8)	(0.2)
	Balance at 31 March 1995	<b>88.8</b>	<b>114.5</b>	<b>-</b>	<b>67.9</b>	<b>271.2</b>	<b>1.3</b>
	Net book value 31 March 1995	<b>387.9</b>	<b>213.5</b>	<b>495.6</b>	<b>84.7</b>	<b>1,181.7</b>	<b>1.0</b>
	Net book value 31 March 1994	354.3	190.1	448.1	76.6	1,069.1	0.9

Tangible fixed assets include £224.8m (1994 £143.8m) 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 was £7.9m (1994 £8.3m).

The net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £66.5m (1994 £57.7m).

NOTE 9		1995	1994
		£m	£m
FIXED ASSET	(a) Group		
INVESTMENTS	Cost at 1 April	2.3	2.3
	Less amounts provided	(0.9)	(0.9)
	Balance at 31 March	<b>1.4</b>	<b>1.4</b>
	(b) Company		
		Shares in	Loans to
		subsidiary	subsidiary
		undertakings	undertakings
		£m	£m
		Other	Total
		investments	
		£m	£m
	Balance at 1 April 1994	63.9	436.0
	Net movement	-	(26.8)
	Balance at 31 March 1995	<b>63.9</b>	<b>409.2</b>
		1.4	474.5

The principal subsidiary undertakings and fixed asset investments of the Group are listed on page 49.

## Notes to the financial statements continued

NOTE 10		Group	
		1995 £m	1994 £m
STOCKS	Materials and consumables	3.9	3.4
	Work in progress	1.1	1.0
		<u>5.0</u>	<u>4.4</u>

NOTE 11		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
DEBTORS	Trade debtors	58.7	54.6	-	-
	Amounts owed by subsidiary undertakings	-	-	119.4	70.0
	Other debtors	8.5	6.4	1.1	1.4
	Prepayments	5.1	3.3	2.4	1.3
		<u>72.3</u>	<u>64.3</u>	<u>122.9</u>	<u>72.7</u>

NOTE 12		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
CURRENT ASSET INVESTMENTS	Listed on recognised investment exchanges	18.4	41.5	17.1	41.5
	Other investments	76.3	53.3	74.1	53.3
		<u>94.7</u>	<u>94.8</u>	<u>91.2</u>	<u>94.8</u>

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

NOTE 13		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
SHORT TERM BORROWINGS	Bank loans and overdrafts	12.4	9.0	-	-
	Obligations under finance leases	0.1	0.2	-	-
	Long term borrowings repayable within 12 months	21.0	-	21.0	-
		<u>33.5</u>	<u>9.2</u>	<u>21.0</u>	<u>-</u>

NOTE 14		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
OTHER CREDITORS	Trade creditors	15.1	15.2	0.1	0.4
	Capital creditors and accruals	32.9	30.5	-	-
	Amounts owed to subsidiary undertakings	-	-	0.4	2.7
	Corporation tax	15.1	11.3	10.9	10.2
	Other taxation and social security	1.6	2.9	-	-
	Other accruals and deferred income	68.3	57.0	10.2	9.9
	Dividends payable	44.1	38.9	44.1	38.9
	<u>177.1</u>	<u>155.8</u>	<u>65.7</u>	<u>62.1</u>	

NOTE 15		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
LONG TERM BORROWINGS	Bank loans	134.0	155.0	134.0	155.0
	Obligations under finance leases	0.1	0.1	-	-
		<u>134.1</u>	<u>155.1</u>	<u>134.0</u>	<u>155.0</u>
Repayable as follows:					
Bank loans:					
	Between one and two years	3.9	2.0	3.9	2.0
	Between two and five years	29.7	28.6	29.7	28.6
	After five years	100.4	124.4	100.4	124.4
Finance leases:					
	Between one and two years	0.1	0.1	-	-
		<u>134.1</u>	<u>155.1</u>	<u>134.0</u>	<u>155.0</u>

Bank loans are unsecured and repayable by instalments for periods up to 15 years. The rates of interest payable on loans due after 5 years range from 7.1% to 11.05%.

NOTE 16		Group £m
GRANTS AND CONTRIBUTIONS	Balance at 1 April 1994	21.5
	Receivable in year	4.8
	Released to profit and loss account	(1.0)
	Balance at 31 March 1995	<u>25.3</u>

Grants and contributions relate to non-infrastructure fixed assets.

NOTE 17		Infra- structure renewal	Share schemes	Other	Group Total	Company Share schemes
		£m	£m	£m	£m	£m
PROVISION FOR LIABILITIES AND CHARGES	Balance at 1 April 1994	0.2	3.5	2.1	5.8	3.5
	Provided in year	17.3	-	1.0	18.3	-
	Utilised in year	(14.1)	(3.3)	-	(17.4)	(3.3)
	Balance at 31 March 1995	<u>3.4</u>	<u>0.2</u>	<u>3.1</u>	<u>6.7</u>	<u>0.2</u>

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

	Group	
	1995 £m	1994 £m
Accelerated capital allowances (non-infrastructure assets)	107.9	98.6
Losses and other timing differences	(11.8)	(19.0)
Advance corporation tax	(41.9)	(38.8)
	<u>54.2</u>	<u>40.8</u>

## Notes to the financial statements continued

NOTE 18		1995 £m	1994 £m
CALLED-UP SHARE CAPITAL	<b>Authorised</b>		
	225,000,000 ordinary shares of £1 each	225.0	225.0
	1 special rights redeemable preference share of £1	-	
		<u>225.0</u>	<u>225.0</u>
	<b>Allotted, called-up and fully paid</b>		
	Ordinary shares of £1 each:		
	At 1 April	167.8	165.8
	Issued during the year	1.5	2.0
	1 special rights redeemable preference share of £1	-	
	At 31 March	<u>169.3</u>	<u>167.8</u>

Allotments in the year were in respect of scrip dividends 1,405,453, sharesave scheme 83,554 and executive share options exercised 43,000.

The special rights redeemable preference share of £1 held by HM Secretary of State for the Environment was redeemed on 31 December 1994.

Outstanding options to subscribe for ordinary shares in the Company at 31 March 1995 were as follows:

	Date of grant	Number of shares 000	Price per share
Executive share option scheme	January 1991	179	295p
	January 1992	271	310p
	January 1993	350	466p
	January 1994	273	639p
	February 1995	259	525p
Sharesave scheme	December 1989	438	176p
	January 1991	686	236p
	February 1992	712	248p
	January 1993	549	372p
	January 1994	318	519p
	January 1995	580	456p

In normal circumstances, executive share options may be exercised between three and ten years from the date of grant. During the year 43,000 ordinary shares of £1 each were allotted under the scheme for a consideration of £0.1m.

Options under the sharesave scheme may be exercised after either five or seven years from the date of grant. During the year an employee share ownership trust (ESOT) was established which purchased 794,000 shares in the market to satisfy the options granted in December 1989 of which 770,000 were exercised in March 1995.

		Group		Company	
		Share Premium Account £m	Profit & Loss Account £m	Share Premium Account £m	Profit & Loss Account £m
NOTE 19					
SHARE PREMIUM	At 1 April 1994	4.3	792.9	4.3	353.9
ACCOUNT AND	Retained profit for the year	-	86.9	-	26.4
RESERVES	Premium on allotments	0.2	-	0.2	-
	Movements relating to scrip dividends:				
	Capitalisation of shares	(1.4)	-	(1.4)	-
	Value of dividends	-	7.2	-	7.2
	Expenses of issue	(0.2)	-	(0.2)	-
	Goodwill on acquisition	-	(0.1)	-	-
	At 31 March 1995	<u>2.9</u>	<u>886.9</u>	<u>2.9</u>	<u>387.5</u>

The cumulative amount of goodwill charged in respect of the acquisitions of existing subsidiaries is £12.5m (1994 £12.4m).

The profit of the Company attributable to shareholders for the financial year was £70.3m (1994 £63.6m). No separate profit and loss account is presented as permitted by S230 of the Companies Act 1985.

#### NOTE 20

ACQUISITIONS One acquisition was made during the year for a cash consideration of £0.3m. An adjustment to fixed assets of £0.1m to accord with the Group accounting policies resulted in a goodwill charge to reserves of £0.1m.

## Notes to the financial statements continued

NOTE 21		Group	
		1995 £m	1994 £m
RECONCILIATION	Profit attributable to ordinary shareholders	130.8	117.5
OF MOVEMENTS IN	Dividends for the year	(43.9)	(38.8)
SHAREHOLDERS'	Retained profit for the year	86.9	78.7
FUNDS	Allotments for cash – executive and sharesave option schemes	0.3	0.6
	Shares issued relating to acquisitions	–	3.7
	Value of dividends taken as scrip shares	7.2	5.0
	Expenses of scrip dividend issue	(0.2)	(0.1)
	Goodwill charged	(0.1)	(4.4)
	Net addition to shareholders' funds	94.1	83.5
	Shareholders' funds at 1 April	965.0	881.5
	Shareholders' funds at 31 March	1,059.1	965.0

NOTE 22		Group	
		1995 £m	1994 £m
CONTINGENT	Contractors' claims	2.4	2.4
LIABILITIES	Bank guarantees	0.3	0.5
		2.7	2.9

All wholly owned Group companies registered in England have provided mutual cross guarantees for borrowings from National Westminster Bank Plc which at 31 March 1995 amounted to £12.4m.

NOTE 23		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
CAPITAL	Outstanding contracts placed for				
COMMITMENTS	capital expenditure	65.2	91.6	–	–
	Capital expenditure authorised by the				
	Directors but not contracted	63.9	142.6	–	–

NOTE 24		Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
OTHER	Annual commitments under				
FINANCIAL	non-cancellable operating leases:				
COMMITMENTS	Expiring between two and five years	0.2	0.1	–	–
	Expiring after five years	0.2	0.1	–	–
		0.4	0.2	–	–

## NOTE 25

## PENSIONS

The Group has a number of pension schemes. The principal defined benefit scheme, which covers over 70% of the Group's employees, has six Trustee Directors – Mr William Courtney, Mr Philip Girle, who retired from the Board of Southern Water plc on 31 December 1994, and four other members who are not Directors of the Company. The power of appointment of new Trustee Directors is vested in Southern Water plc.

The assets of all schemes are held separately from those of the Group. The Bank of Scotland acts as custodian trustee for the defined benefit schemes and asset management is delegated to an external fund manager. On 31 March 1995, the principal scheme held shares in Southern Water plc which represented 2.6% of the investment portfolio.

Members of the schemes receive an annual statement of their accrued benefits and a copy of the trustees' annual report. The accounts of all schemes are audited annually by Coopers & Lybrand.

The Group's defined benefit schemes are valued by independent consulting actuaries using either the 'projected unit' method or the 'attained age' method. The last completed actuarial valuation of the principal scheme was carried out as at 31 March 1992. At that date, the market value of the scheme's assets was £87.7m, which covered approximately 107% of the benefits accrued to members, after allowing for expected increases in earnings. The employers' average contribution is being maintained at 11.7% of pensionable pay with members paying standard contributions of 6%, 5% or 3%. A further valuation of the scheme showing the position at 31 March 1995 is currently in progress.

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

The principal assumptions used in all actuarial valuations are those related to the differentials between the rates of return on investments and the rates of increases in earnings and pensions. In the main schemes, it has been assumed that the investment return per annum will be 2% higher than wage and salary increases and 3.5% higher than pension increases.

Total pension costs for the year were £7.1m (1994 £6.6m).

NOTE 26		1995 £m	1994 £m
RECONCILIATION	Trading profit	150.7	133.6
OF TRADING	Depreciation charge	40.8	38.0
PROFIT TO NET	Other items	(1.9)	(2.3)
CASH FLOW	Movement in provisions	0.9	(0.4)
FROM OPERATING	(Increase)/decrease in stocks	(0.5)	0.4
ACTIVITIES	(Increase) in debtors	(7.4)	(4.4)
	Increase in other creditors	9.9	13.3
	Net cash flow from operating activities	<u>192.5</u>	<u>178.2</u>

## Notes to the financial statements continued

		Share capital (including premium) £m	Long term loans £m	Finance lease obligations £m	Total £m
NOTE 27					
CHANGES IN FINANCING DURING THE YEAR	At 1 April 1994	172.1	155.0	0.3	327.4
	Cash inflow/(outflow) from financing	0.1	–	(0.1)	–
	Long term borrowings repayable within 12 months	–	(21.0)	–	(21.0)
	At 31 March 1995	<u>172.2</u>	<u>134.0</u>	<u>0.2</u>	<u>306.4</u>
NOTE 28					
				1995 £m	1994 £m
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET	Current asset investments			94.7	94.8
	Cash and short term deposits			81.3	79.5
				<u>176.0</u>	<u>174.3</u>
	Short term borrowings (excluding finance leases and long term borrowings repayable within 12 months)			(12.4)	(9.0)
	Investments and deposits exceeding three months to maturity when acquired			(85.3)	(133.4)
	Cash and cash equivalents			<u>78.3</u>	<u>31.9</u>
NOTE 29					
				1995 £m	1994 £m
ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS	Cash and cash equivalents at 1 April			31.9	111.4
	Net cash inflow/(outflow)			46.4	(79.5)
	Cash and cash equivalents at 31 March (see note 28)			<u>78.3</u>	<u>31.9</u>
NOTE 30					
				1995 £m	1994 £m
ANALYSIS OF MOVEMENTS IN NET CASH BALANCES	(Decrease)/increase in current asset investments			(0.1)	94.8
	Increase/(decrease) in cash and deposits			1.8	(93.6)
	(Increase) in short term borrowings			(24.3)	(1.7)
	Decrease/(increase) in long term borrowings			21.0	(5.0)
				<u>(1.6)</u>	<u>(5.5)</u>

## Subsidiary undertakings and investments in other companies

At 31 March 1995

### SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiary undertakings at 31 March 1995 are listed below. With the exception of Waterline Insurance Company Limited, registered and trading in the Isle of Man, all companies are registered in England which is also the country of operation.

Company	Class of capital	Proportion of class held	Nature of business
Southern Water Services Limited	Ordinary	100%	Provision of water supply and wastewater services
Southern Water Industries Limited	Ordinary	100%	Industrial and commercial services
McDowells Limited*	Ordinary	100%	Civil and structural engineering design and consultancy
Moreton & Padmore Limited*	Ordinary	100%	Quantity surveying
IT Southern Limited*	Ordinary	100%	Information technology services
Paperstream Limited*	Ordinary	100%	Mailing, remittance processing and printing services
Tynemarch Systems Engineering Limited (year end 31 December)	Ordinary	100%	Process control and engineering software services
Sectron Systems Limited*	Ordinary	100%	Security services
Southern Science Limited*	Ordinary	100%	Laboratory analysis and environmental assessment
GMSS Limited	Ordinary	75%	Laboratory services
Aquaclear Limited*	Ordinary	100%	Commercial water systems consultancy
Eco-clear Limited	Ordinary	100%	Liquid waste management
E S Taylor (Worthing) Holdings Limited	Ordinary	100%	Waste disposal services
ERG Environmental Resource Group plc	Ordinary	100%	Effluent and odour treatment services
Greenhill Enterprises Limited	Ordinary	100%	Waste management
Clinical Waste Limited	Ordinary	55%	Clinical waste management
Topmark Vehicle Contracts Limited*	Ordinary	100%	Vehicle contract hire, sales and rentals
Hazeley Down Mineral Water Company Limited*	Ordinary	100%	Bottled mineral water
Bowsprit Holdings Limited	Ordinary	100%	Property investment
Monk Rawling Limited	Ordinary	100%	Estates management and property consultancy
Bowsprit Property Development Limited	Ordinary	100%	Property development
Waterline Insurance Company Limited	Ordinary	100%	Insurance
Southern Water Technologies Limited*	Ordinary	100%	Technology marketing services

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

### FIXED ASSET INVESTMENTS

	Company	Class of capital	Proportion of class held	Nature of business	Total capital and reserves £m	Profit for the period £m
Associated undertaking	Coastal Wastewater Consultants Limited	Ordinary	50.0%	Marine treatment engineering design and consultancy	-	-
Other investments	Folkestone & Dover Water Services Limited	Ordinary Preference Deferred	25.1% 21.8% 12.2%	Water supply	7.5	3.0

Both companies are registered in England

## Group five year summary

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	384.6	347.7	319.2	290.7	251.2
Trading profit –					
Regulated	138.4	123.5	111.0	99.1	84.5
Non-regulated	12.3	10.1	8.4	7.0	6.0
	<u>150.7</u>	<u>133.6</u>	<u>119.4</u>	<u>106.1</u>	<u>90.5</u>
Exceptional items	–	–	–	6.0	–
Net interest	(7.3)	(6.1)	(0.2)	3.0	6.6
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit on ordinary activities before taxation	143.4	127.5	119.2	115.1	97.1
Taxation	(13.1)	(10.2)	(9.8)	(9.8)	(9.7)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit on ordinary activities after taxation	130.3	117.3	109.4	105.3	87.4
Minority interests	0.5	0.2	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit attributable to ordinary shareholders	130.8	117.5	109.4	105.3	87.4
Dividends	(43.9)	(38.8)	(35.3)	(32.1)	(29.0)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Retained profit for the year	86.9	78.7	74.1	73.2	58.4
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	p	p	p	p	p
Earnings per share	77.6	70.3	66.3	64.2	53.4
Earnings per share before exceptional items	–	–	–	60.5	–
Dividends per ordinary share	25.9	23.1	21.3	19.5	17.7
	£m	£m	£m	£m	£m
Assets employed					
Fixed assets	1,183.1	1,070.5	957.2	893.8	787.0
Net current assets	42.7	78.0	98.6	59.5	1.3
Long term creditors	(159.4)	(176.6)	(167.1)	(142.8)	(47.3)
Provision for liabilities and charges	(6.7)	(5.8)	(6.2)	(6.4)	(5.1)
Minority interests	(0.6)	(1.1)	(1.0)	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net assets	1,059.1	965.0	881.5	804.1	735.9
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Capital and reserves					
Called up share capital	169.3	167.8	165.8	164.3	163.8
Share premium account	2.9	4.3	2.1	1.6	0.4
Profit and loss account	886.9	792.9	713.6	638.2	571.7
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Equity shareholders' funds	1,059.1	965.0	881.5	804.1	735.9
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

# Notice of Annual General Meeting

**NOTICE** is hereby given that the sixth Annual General Meeting of Southern Water plc will be held at the Dome Theatre, Church Street, Brighton, East Sussex, on Thursday, 17 August 1995 at 11:00 am, to transact the following business:

## ORDINARY BUSINESS

- 1 To receive and adopt the Report of the Directors and the audited financial statements for the year ended 31 March 1995.
- 2 To declare a final dividend for the year ended 31 March 1995 of 17.45p per Ordinary share.
- 3 To re-elect Mr K Tozzi as a Director.
- 4 To re-elect Dr J M Westhead as a Director.
- 5 To re-appoint Coopers & Lybrand as auditors of the Company and to authorise the Directors to fix their remuneration.

## SPECIAL BUSINESS

- 6 To consider the following resolution as a Special Resolution:  
THAT the Directors be given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the said Act) in accordance with the authority conferred at the Annual General Meeting of the Company held on 18 August 1994 as if Section 89 (1) of the said Act did not apply provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with a rights issue in favour of Ordinary Shareholders where the equity securities respectively attributable to the interests of the Ordinary Shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held or deemed to be held by them (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depositary receipts, the requirements of any regulatory body or any stock exchange or any other matter whatsoever);
  - (b) the allotment of Ordinary Shares pursuant to elections under any scrip dividend option given to shareholders under Article 135 of the Company's Articles of Association; and
  - (c) the allotment (otherwise than pursuant to subparagraph (a) or (b) hereof) of equity securities up to an aggregate amount not exceeding £8,466,309; and provided further that this power shall expire fifteen months from the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of

the Company after the passing of this resolution, save that the Company may prior to such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements notwithstanding the expiry of any power conferred by this resolution.

- 7 To consider the following resolution as a Special Resolution:  
THAT the Company be and is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of £1 each in the capital of the Company ("ordinary shares") provided that:
  - (a) the maximum number of ordinary shares hereby authorised to be acquired is 16,932,618;
  - (b) the minimum price which may be paid for any such share is £1;
  - (c) the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the capital of the Company as derived from the London Stock Exchange, Daily Official List on the 10 business days immediately preceding the date of purchase; and
  - (d) the authority hereby conferred shall expire 18 months from the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company except in relation to the purchase of shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date.

By Order of the Board  
**John Cullen** Secretary  
14 July 1995

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

## Notice of Annual General Meeting continued

### EXPLANATORY NOTES

The Annual General Meeting is a meeting of shareholders which the Company is required to hold each year. There are resolutions before the meeting which shareholders will be asked to approve. Resolutions 1-5 are Ordinary Resolutions which may be carried by a simple majority of shareholders voting in person or by proxy; Resolutions 6 and 7 are Special Resolutions which the Companies Act 1985 requires to be carried by a 75% majority.

**Resolution 1:** to receive the report and financial statements.

The Directors of the Company are required to present to the meeting the Report of the Directors and the audited financial statements for the preceding financial year.

**Resolution 2:** to declare a dividend.

The declaration of a final dividend must be authorised by the shareholders and cannot exceed the amount recommended by the Directors in their report. If the meeting approves this resolution the dividend will be paid on 2 October 1995.

**Resolutions 3 and 4:** election of Directors.

The Articles of Association (the rules which govern the Company's internal management) provide for the retirement of certain Directors by rotation each year. In accordance with these provisions, Mr K Tozzi and Dr J M Westhead will retire by rotation this year and seek re-election.

**Resolution 5:** appointment and remuneration of auditors. A public company must appoint auditors to hold office until the next general meeting at which financial statements are presented. The resolution proposes the reappointment of Coopers & Lybrand and as is common practice, the resolution also seeks authority for the Directors to approve their remuneration.

**Resolution 6:** partial disapplication of pre-emption rights. If the Directors propose to allot ordinary shares (other than pursuant to an employee share scheme) Section 89(1) of the Companies Act 1985 requires such shares to be offered first to shareholders in proportion to their existing holding. These are known as pre-emption rights. There may however be circumstances where, in the best interests of the Company, the Directors need the flexibility to finance business opportunities as they arise by the issue of new ordinary shares. This resolution therefore gives the Directors authority to issue new ordinary shares up to a limit of 5% of the Company's issued ordinary share capital without first offering the shares to existing shareholders. The resolution also waives the pre-emption requirements on a scrip dividend and on a rights issue so as to allow the Directors in such a case to make appropriate arrangements to avoid or resolve legal or practical problems which might, for example, arise with

overseas shareholders. This authority will last until next year's Annual General Meeting or fifteen months after the passing of the resolution whichever is the earlier.

**Resolution 7:** authority to purchase the Company's own shares.

It is common practice for many listed companies to obtain authority on an annual basis for the purchase of their own shares and the Directors consider that it would be advantageous for the Company to have this power. This resolution seeks the appropriate authority from shareholders and specifies the maximum number of shares which may be acquired ie. 10% of the Company's issued ordinary share capital and the maximum and minimum price at which they may be bought. The Directors will only exercise this authority when, after careful consideration, they believe that such purchases would be in the best interests of shareholders generally. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly. The authority for the Company to purchase its own shares will last for a period of 18 months or until next year's Annual General Meeting, whichever is the sooner. The Directors intend to seek a renewal of this authority at the next Annual General Meeting and on a continuing basis thereafter.

### Notes

1 Subject to it being duly declared at the Annual General Meeting, the final ordinary dividend will be paid on 2 October 1995 to shareholders on the register at close of business on 4 July 1995.

2 A shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

3 Completion of the enclosed proxy form does not preclude a shareholder from attending the meeting and voting in person. Any instrument appointing a proxy, with the authority (if any) under which it is signed, must be deposited with the Company's Registrars, The Royal Bank of Scotland, PO Box 451, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 0NU not later than 48 hours before the time fixed for the meeting, or any adjournment thereof.

4 The following documents will be available for inspection at the registered office during normal business hours on any week day, excluding Saturdays and public holidays from the date of this notice until the date of the meeting and at the place of the meeting from 10.00 am until the conclusion of the meeting.

- (a) The Directors' Service Contracts;
- (b) The register of Directors interests in shares in the Company;
- (c) Southern Water Long Term Incentive Scheme.

# Shareholder information

## FINANCIAL CALENDAR

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### 1995

15 June	Announcement of final results
26 June	Ex dividend date for final dividend
4 July	Record date for dividend
17 August	Annual General Meeting
2 October	Final dividend payable
December	Announcement of unaudited interim results

### 1996

31 March	Financial year end
8 April	Interim dividend payable

## SHAREHOLDERS' INTERESTS

At 15 June 1995

Number of Shareholders 82,016

Shareholdings Range	Shareholders %	Shares %	Category of Shareholders	Shareholders %	Shares %
300 and under	50.37	3.87	Pension funds	0.02	1.24
301 to 1,000	45.65	10.33	Insurance companies	0.05	10.85
1,001 to 10,000	3.20	3.06	Banks and nominee companies	3.29	66.08
10,001 to 50,000	0.38	4.26	Other corporate bodies	0.48	4.44
Over 50,000	0.40	78.48	Other shareholders	96.16	17.39
	<u>100.00</u>	<u>100.00</u>		<u>100.00</u>	<u>100.00</u>

## ANNUAL GENERAL MEETING

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The Annual General Meeting of Southern Water plc is being held at the Dome Theatre, Brighton on 17 August 1995. The entrance will be via The Corn Exchange in Church Street, Brighton. The doors of the Theatre will be open from 9.30am and the Annual General Meeting will start at 11.00am. Refreshments will be available.

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

Representatives of the Bank of England will be available from 9.30am to answer shareholders' questions on CREST, the new settlement system for shares being developed by the Bank of England and expected to operate from late 1996. CREST is a voluntary system enabling shareholders to hold and transfer their shareholdings in electronic form rather than in paper if they so wish.

If you have any queries about the business of the meeting please telephone: L Crawford, Shareholder Services Manager on (01903) 264444.

## REGISTRARS

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The Royal Bank of Scotland plc maintains the Company's share register. If you have any queries please contact:  
The Royal Bank of Scotland plc, PO Box 435, Owen House,  
8 Bankhead Crossway North, Edinburgh, EH11 4BR  
(0131 523 6123 or 0131 523 6126).

## PEP's

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Southern Water single company and general personal equity plans (PEP's) are now available. Further information can be obtained from the Plan Manager (01279 410181).