

2662742



SOUTH STAFFORDSHIRE WATER PLC

ANNUAL REPORT 1994 - 1995



C O N T E N T S

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DIRECTORS AND ADVISERS

BOARD OF DIRECTORS

J. R. HARRIS, M.B.A., LL.B., A.C.I.S.	Chairman
T. J. McALLISTER, B.Eng. (Hons), M.I.C.E., M.I.W.E.M.	Managing Director
B. H. WHITTY, F.C.A.	Finance Director
D. M. COLDICOTT, F.I.E.I.E., M.I.Mgt	Operations Director
D. P. FIFIELD, B.Sc., C.Eng., M.I.C.E., M.I.W.E.M., D.M.S.	Engineering Director
A. J. WOODWARD, C.Chem, F.R.S.C., M.I.W.E.M.	Customer Services and Quality Director

BANKERS

MIDLAND BANK plc	130 New Street, PO Box 68, Birmingham, B2 4JU.
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SOLICITORS

MARTINEAU JOHNSON	St. Philips House, St. Philips Place, Birmingham, B3 2PP.
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AUDITORS

ARTHUR ANDERSEN	1 Victoria Square, Birmingham, B1 1BD.
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**DIRECTORS' REPORT
AND ACCOUNTS
OF SOUTH
STAFFORDSHIRE
WATER PLC**

**T H E C O M P A N Y ' S
O B J E C T I V E S**

To continuously improve and offer the best value for money of any UK Water Company by combining the lowest annual bill with the highest level of service.

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and Accounts for the year ended 31 March 1995.

Principal Activities and Business Review

The Company is engaged principally in the abstraction, treatment and distribution of water to domestic, industrial and commercial customers.

In July 1994 OFWAT announced the determination of new price limits for the water industry, which will apply with effect from 1995/96. The Directors reviewed OFWAT's proposals and decided to accept the determination which will commit the Company to reduce its charges by 1/2% in real terms in each of the next five years. The Company will now be entering a 5-year period of stability.

A central output from the Periodic Review is an Asset Management Plan, which reflects consultation with customers, together with the views from OFWAT, and sets down the Company's objectives over the 5-year period. OFWAT have stated their intention to focus on outputs, allowing companies considerable flexibility and incentives to plan their operations more efficiently. The Company's strategy is to deliver fully the outputs defined in the Plan and provide the highest levels of service to customers in a cost-effective manner, thereby accruing benefits to shareholders. Where appropriate, consideration will be given to sharing these benefits with customers before the next Periodic Review.

During the last 5 years the Company has abated its K factors by a total of 3.6%, the highest percentage of any water company in the UK. In addition, domestic customers are being given abatements for 1995/96 which ensure that they do not pay any increase over the previous year. These factors have contributed to the Company having the second lowest charges in England and Wales, with an average household bill for 1995/96 of £73. The Chairman of the OFWAT Central Customer Services Committee recently commented "we are pleased to see that, based on our calculations, you have saved the average South Staffs' householder an extra £9 over the five years since privatisation, through cutting your charges by well over £4m. This shows a positive attitude to the balance between the needs of the shareholder and the customer."

Following the award of the Chartermark in October 1993, the Company continued to demonstrate its commitment to the highest quality of customer service. During 1994/95 it was confirmed that South Staffordshire Water PLC was one of only two companies which had for the first time achieved the highest possible levels of service to customers under the four categories in which OFWAT carries out inter-company comparisons. These categories comprised pressure of mains water, interruptions to supply, response to billing queries and response to written complaints.

During 1994 the Company completed its first investment programme since the privatisation of the industry, on time and with significant savings against budget. This investment programme, totalling £96m, has improved water quality, increased the reliability of supplies and upgraded the Company's underground mains network. Maintenance of the underground mains infrastructure is essential and represents a major item of expenditure. During 1994/95 the Company invested £2.6m to complete the work agreed with OFWAT under the first Asset Management Plan (AMP 1) and in addition carried out £1.9m of advance work relating to its AMP 2 programme.

Water quality remains a high priority. The Company's laboratory undertakes more than 270,000 tests every year in order to meet stringent regulatory standards on quality, taste and odour. The 1994 audit by the Drinking Water Inspectorate has again confirmed that 99.7% of all tests undertaken complied with the regulatory standards. Following the construction of nitrate removal plants during the last 5 years, the water supplied by the Company fully complies with the nitrate standard through a cost-effective strategy of treatment and blending water from different sources.

The Company's operating profit for 1994/95 amounted to £14.0m, an increase of £2.4m, whilst pre-tax profits increased by £2.9m to £13.0m. A high level of profits is essential for retention and reinvestment, to enable the Company to meet its water quality obligations.

As highlighted last year, the Company's effective tax rate increased from 20% to 28% due to the expiry of ACT offset. In future, the main factor affecting the tax rate will be the level of capital and infrastructure renewals expenditure.

Cash flow is highly seasonal, with peak inflows from unmeasured water customers in March/April and October. Unmeasured charges, based on the rateable value of properties, provide the majority of income, accounting for 68%

DIRECTORS' REPORT

in 1994/95, and provide a stable income base. Expenditure, both on revenue and capital, is fairly consistent through the year. With many customers paying in advance and with stocks held to a minimum, the Company is able to operate with negative working capital. The net current liabilities of £11m in the Company balance sheet are thus not unusual in the water industry, and liabilities can be discharged from monthly cash inflows.

The Company's financing requirements are mainly covered by its ultimate parent company, which has a £12m revolving loan facility and a £5m bank overdraft facility. The Company's £15.9m leasing facility will expire in December 1995.

Debtor management is essential to safeguard cash flow and avoid the problems of unpaid debt. Tight management controls have enabled the Company to claim one of the lowest ratios of trade debtors to turnover of any company in the UK water industry. This has been achieved without undue harshness to customers, and in an area which includes some of the most financially deprived communities in the UK. The ultimate sanction of disconnection is seen as a last resort, and is avoided where customers are experiencing genuine payment difficulties. A greater emphasis is placed on liaison with the customer during the final stages of debt recovery, in order to agree deferred payment arrangements. During 1994/95 disconnections fell for the third successive year, and it was necessary to make only 368 disconnections, less than one-tenth of one per cent of customers' properties. In addition, those customers with the most difficult financial problems were granted assistance by the Charitable Trust Fund which the Company set up in 1994.

Financial Results and Dividends

The Company's results are shown in the profit and loss account on page 8. The Directors are not proposing the payment of a final dividend to ordinary shareholders (1994: £nil). Interim ordinary dividends paid and declared amount to £3.59m (1994: £2.74m). The retained profit for the year amounts to £5.64m and has been transferred to reserves.

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £9.4m during the year. Third party contributions of £4.6m were received towards the cost of these assets. Details of changes in fixed assets during the year are summarised in note 11 to the accounts.

Research and Development

The water industry is subject to ever more rigorous standards of water quality which are set by the UK and the EU. These standards relate to contaminants such as nitrates, pesticides and lead. The Company is committed to meeting these high standards and will continue to invest in research and development both in-house and through the Water Research Centre and the Foundation for Water Research.

Directors

The Directors who held office during the year, and subsequently, were as follows:

John Richard Harris

Terence John McAllister

Stephen Paul Coathup (resigned 12 July 1995)

David Michael Coldicott

David Pinnock Fifield

Anthony John Woodward

None of the Directors had a material interest in any contract to which the Company was a party during the financial year.

During the year Mr Harris, Mr McAllister and Mr Coathup were also Directors of the ultimate parent company, and their interests in the share capital of that company are shown in its Directors' Report.

The beneficial interests of the remaining Directors, together with those of their families, in the shares and warrants of South Staffordshire Water Holdings PLC at the beginning and end of the year are shown in the table below. No Director had any non-beneficial interest in the shares and warrants of the company.

DIRECTORS' REPORT

Directors (*continued*)

	Ordinary Shares		Redeemable Preference Shares		Warrants	
	1995	1994	1995	1994	1995	1994
D. M. Coldicott	162	162	—	—	—	—
D. P. Fifield	62	62	—	—	—	—
A. J. Woodward	162	162	—	—	—	—

Since 31 March 1995, Mr McAllister has purchased 200 ordinary shares, Mr Harris has purchased 250 ordinary shares and each Director has been allocated 24 ordinary shares under the company's Profit Sharing Scheme.

Brian Howard Whitty was appointed a Director on 17 July 1995.

Options granted to Directors

Details of outstanding share options are shown below:

Name	Date of Grant	Number of Ordinary Shares		Exercise Price
		Executive Scheme	S.A.Y.E.	
D. M. Coldicott	7.6.93	6,250		£13.20
	24.6.93		1,633	£10.56
D. P. Fifield	7.6.93	6,250		£13.20
	24.6.93		653	£10.56
A. J. Woodward	7.6.93	6,250		£13.20
	24.6.93		1,633	£10.56

The options granted under the Executive Scheme are exercisable between 3 and 10 years from the date of grant. Options granted under the Save-As-You-Earn (S.A.Y.E.) Scheme are exercisable at the end of the 5 year savings period.

Employees

The Company has a policy of equal opportunities and non-discrimination in all forms of employment. Every reasonable effort is made to provide disabled people with equal opportunities for employment, training and promotion, having regard to their particular aptitudes and abilities.

Team briefings are held monthly throughout all of the Company's areas and operations, in order to maintain a high level of communication with employees. Employee representation operates through a Joint Employee Council which was established in 1992.

Health and safety standards are maintained at a high level throughout the Company. A full-time Safety Officer is employed, and a regular programme of safety briefings has been initiated to increase the awareness of operational staff. Safety policies are designed to ensure that high standards are maintained in order to protect both employees and members of the public.

The Company actively encourages ownership of its parent company shares by its employees. Over 95% of employees have received shares in the parent company under its Profit Sharing Scheme, whilst 40% hold share options under the Save-As-You-Earn share option scheme. In addition, employees joined an Inland Revenue approved Profit Related Pay scheme at the beginning of the year. These schemes are intended to promote a commonality of interest between employees and the Company.

Tax Status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Donations

No charitable donations were made during either year, all such donations being made by South Staffordshire Water Holdings PLC. There were no political contributions in either year.

DIRECTORS' REPORT

Regulatory Accounts

In addition to its statutory accounts, which are set out on pages 8 to 16, the Company is required to publish additional regulatory information relating to the "Appointed Business" as a water supply company in accordance with its Instrument of Appointment from the Secretary of State for the Environment. This information is set out on pages 20 to 31.

Auditors

A resolution proposing the reappointment of Arthur Andersen as auditors will be put to the Annual General Meeting.

Directors' Liability Insurance

During the year the Company's ultimate parent company purchased liability insurance cover on behalf of the Directors of the Company.

Corporate Governance

The Board supports the main recommendations of the Cadbury Committee as detailed in the Code of Best Practice. Much of the Code has been implemented in practice or in spirit for many years. In particular, the Board of the Holding Company has always included a strong representation of non-executive Directors and the roles of Chairman and Managing Director have traditionally been separated.

The remuneration of executive Directors is recommended by a committee comprising the non-executive Directors of the Holding Company and the Chairman of the Water Company. These arrangements are in keeping with the objectives of the Code and have been working successfully for many years.

An Audit Committee of two independent non-executive Directors was formally set up during the year. This committee will meet regularly with the Company's auditors and has formal terms of reference on which it will report to the Holding Company. It is not considered necessary to appoint a third such Director, as recommended by the Code.

In relation to service contracts, the Board has historically appointed certain executive Directors with terms in excess of the three years recommended by the Code. The Board considers that the Company should continue to offer contractual conditions which attract executives of the highest calibre. However, in appointing any new Directors, the Board will take into account the standard practice within the industry at the time.

With the exception of the matters referred to above, the Company has been in full compliance with the Cadbury Code of Best Practice.

Formal Statement on the Continuing Use of the Going Concern Basis

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The Directors are also required to certify to OFWAT under condition F of the Company's Instrument of Appointment that sufficient financial resources are available for at least the next 12 months.

By Order of the Board

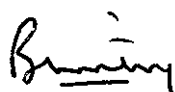
B. H. WHITTY

Company Secretary

1 September 1995

Registered Office: Green Lane, Walsall, West Midlands, WS2 7PD

Registered in England and Wales, Number 2662742



P R O F I T A N D L O S S A C C O U N T

F O R T H E Y E A R E N D E D 3 1 M A R C H 1 9 9 5

	Note	1995 £'000	1994 £'000
Turnover	2	54,387	51,381
Operating costs	3	(40,994)	(40,035)
Other operating income	6	621	234
Operating Profit		14,014	11,580
Investment income	7	17	5
Interest payable and similar charges	8	(1,006)	(1,440)
Profit on Ordinary Activities before Taxation		13,025	10,145
Taxation on profit on ordinary activities	9	(3,681)	(1,991)
Profit for the Financial Year		9,344	8,154
Dividends paid and proposed	10	(3,701)	(2,851)
Retained Profit for the Year	23	5,643	5,303

There are no recognised gains or losses in either year other than retained profit for the financial year.

A statement of movements in reserves is given in note 23 to the accounts.
The accompanying notes are an integral part of these accounts.

B A L A N C E S H E E T

A S A T 3 1 M A R C H 1 9 9 5

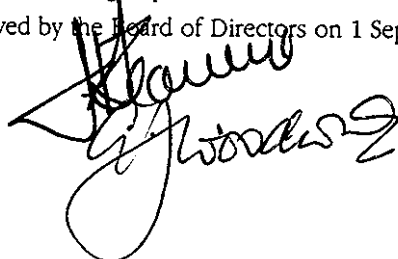
	Note	1995 £'000	1994 £'000
Fixed Assets			
Tangible assets	11	94,582	88,623
Capital contributions	13	(22,913)	(18,572)
		71,669	70,051
Current Assets			
Stocks	14	1,550	1,544
Debtors	15	6,816	4,889
Short-term deposits		7,690	380
		16,056	6,813
Creditors — amounts falling due within one year	16	(27,037)	(23,540)
Net Current Liabilities		(10,981)	(16,727)
Total Assets less Current Liabilities		60,688	53,324
Creditors — amounts falling due after more than one year	17	(10,993)	(11,636)
Provisions for Liabilities and Charges	19	(3,966)	(1,602)
Net Assets		45,729	40,086
Shareholders' Funds			
Equity interests:			
Ordinary share capital	21	5,373	5,373
Premium on ordinary shares		302	302
Profit and loss account	23	38,661	33,018
		44,336	38,693
Non-equity interests:			
Redeemable preference share capital	21	1,200	1,200
Premium on preference shares		193	193
	24	45,729	40,086

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of Directors on 1 September 1995.

J. R. Harris

A J. Woodward



NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of Accounting

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

(b) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services in the normal course of business.

(c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (consisting of water mains, impounding and pumped raw water storage reservoirs and dams), operational structures (being pumping stations, treatment stations, boreholes and service reservoirs) and other assets.

Infrastructure Assets

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost. No depreciation is charged on the infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

The Company's Asset Management Plan includes detailed estimates of the expenditure required over a ten year period to maintain the operating capability of the network in accordance with defined standards of service. This expenditure is indexed for inflation and charged to the profit and loss account so as to provide a substantially level cost in real terms over the period of the Plan.

Operational Structures and Other Assets

Operational structures and other assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost less estimated residual value over the estimated useful lives of the assets, with the exception of land, which is not depreciated. The estimated useful lives of assets are as follows:

Buildings and Service Reservoirs	80 years	Mobile Plant	5 years
Boreholes	100 years	Motor Vehicles	4 years
Fixed Plant	25 years	Office Equipment	5-7 years
Meters	15 years		

(d) Capital Contributions

Capital contributions are treated as deferred income and amortised over the useful lives of the assets concerned, except in the case of infrastructure assets which do not have a finite life and are not depreciated.

(e) Leased Assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are included in tangible fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals. Operating lease rentals are charged to the profit and loss account as incurred.

(f) Stocks

Stores (including chemicals) and work in progress are valued at the lower of cost and net realisable value. Cost includes an appropriate element of overheads. Provision is made for obsolete, slow moving or defective items where appropriate.

(g) Pensions

The cost of pension contributions is charged to the profit and loss account on a systematic basis over the service lives of the employees, in accordance with the advice of an independent actuary.

(h) Research and Development

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

(i) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax on dividends paid or provided is written off, except where recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities. Deferred taxation has been calculated on the liability method. Deferred taxation is not provided on timing differences which, in the opinion of the Directors, will probably not reverse.

(j) Discounts on Redeemable Stocks

The net cost of discounts on the issue of preference and debenture stocks is charged in equal annual instalments to the earliest redemption date.

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies *(continued)*

(k) Cash Flow Statement

Under the provisions of Financial Reporting Standard Number One the Company has not prepared a cash flow statement because its parent company, South Staffordshire Water Holdings PLC, which is registered in England and Wales, has prepared consolidated accounts which include the accounts of the Company for the year ended 31 March 1995 and which contain a cash flow statement.

2. Segmental Information

The Directors consider that the Company operates substantially in the UK in one class of business, that business being water supply. No analysis of turnover, profit before taxation or net assets, by geographical area or by service provided, is appropriate.

3. Operating Costs

	1995 £'000	1994 £'000
Raw materials and consumables	3,301	2,676
Manpower costs (note 4)	14,766	13,336
Depreciation	3,354	3,164
Infrastructure renewals (note 20)	4,260	4,000
Rates	3,502	3,415
Electricity	5,066	5,501
Abstraction costs	697	1,086
Hire of plant and machinery	224	155
Charges for bad and doubtful debts	503	380
Auditors' remuneration:		
— statutory audit	29	28
— other services	73	34
Other operating costs	7,583	8,505
Own work capitalised	(2,364)	(2,245)
	40,994	40,035

4. Staff Costs

Wages and salaries	12,629	11,167
Social Security costs	1,032	940
Pension costs (note 22)	1,105	1,229
	14,766	13,336

Total staff costs include £1,543,000 (1994: nil) in respect of rationalisation costs.

	Number of employees
Average number of employees	650 657

5. Directors' Remuneration

Remuneration including pension contributions	185	160
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Mr Harris, Mr McAllister and Mr Coathup received no emoluments as Directors of this Company. The emoluments of these Directors were dealt with in the accounts of South Staffordshire Water Holdings PLC. The emoluments of the highest paid Director, excluding pension contributions, were £56,000 (1994: £52,000). In addition to the above, an amount of £200,000 (1994: nil) has been provided as part of the Group's business rationalisation plan (note 4).

NOTES TO THE ACCOUNTS

5. Directors' Remuneration (continued)	1995	1994
Directors in scale, excluding pension contributions:	Number of Directors	
£ 0 — £ 5,000	3	3
£45,001 — £50,000	—	2
£50,001 — £55,000	2	1
£55,001 — £60,000	1	—
	£'000	£'000
6. Other Operating Income		
Profit on disposal of properties	421	57
Rental income	200	177
	621	234
7. Investment Income		
Interest receivable on short-term deposits	17	5
8. Interest Payable and Similar Charges		
On loans repayable within five years:		
Bank overdraft and other interest	4	132
Finance charges in respect of finance leases	562	597
Discounts on redeemable stocks	3	3
Bank loans	—	41
Debentures	—	230
	569	1,003
On loans repayable after five years:		
Debentures	437	437
	1,006	1,440
9. Taxation		
The tax charge for the year comprises:		
Corporation tax at 33%	3,731	2,544
Advance corporation tax previously written off	—	(490)
Prior year adjustment	(50)	(63)
	3,681	1,991
No provision for deferred taxation is considered necessary.		
The unprovided potential liability for deferred taxation in respect of all timing differences is as follows:		
Accelerated capital allowances	13,005	12,789
Less: Other timing differences	(140)	(275)
	12,865	12,514
Had the Company been providing in full for deferred tax, the charge for the year would have been increased by £351,000 (1994: decreased by £226,000).		
10. Dividends Paid and Proposed		
Equity interests:		
Ordinary: first interim dividend paid	1,075	887
second interim dividend payable	2,518	1,856
	3,593	2,743
Non-equity interests:		
Preference dividend paid	108	108
	3,701	2,851

NOTES TO THE ACCOUNTS

11. Tangible Fixed Assets

	Specialised Operational Assets £'000	Non- Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Cost					
At 1 April 1994	38,327	9,393	43,162	16,945	107,827
Additions	3,528	45	3,669	2,154	9,396
Disposals	(44)	(6)	—	(910)	(960)
At 31 March 1995	41,811	9,432	46,831	18,189	116,263
Depreciation					
At 1 April 1994	8,037	1,151	—	10,015	19,203
Charge for the year	1,106	109	—	2,139	3,354
Disposals	(43)	—	—	(833)	(876)
At 31 March 1995	9,100	1,260	—	11,321	21,681
Net Book Value					
At 31 March 1995					
Owned	27,573	8,172	42,604	6,021	84,370
Leased	5,138	—	4,227	847	10,212
	32,711	8,172	46,831	6,868	94,582
Net Book Value					
At 31 March 1994					
Owned	24,937	8,241	38,935	5,487	77,600
Leased	5,353	—	4,227	1,443	11,023
	30,290	8,241	43,162	6,930	88,623

Tangible fixed assets financed by leasing amounted to £12,771,010 (1994: £13,199,000) less accumulated depreciation of £2,559,091 (1994: £2,176,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £815,120 (1994: £869,000).

Tangible fixed assets include the following which are not subject to depreciation: freehold land £983,000 (1994: £979,000) and infrastructure assets £46,831,000 (1994: £43,162,000).

12. Guarantees and Commitments

The Company has guaranteed amounts outstanding by South Staffordshire Water Holdings PLC under a revolving credit facility to a maximum amount of £12 million. There was no amount outstanding at the balance sheet date (1994: nil).

In addition, as part of Group overdraft arrangements, the Company has entered into limited guarantees and a letter of set-off to Midland Bank plc, with a maximum liability of £5 million. There was no Group overdraft as at 31 March 1995.

Capital commitments outstanding at 31 March 1995 were £567,000 (1994: £2,367,000). Capital expenditure authorised but not contracted for at 31 March 1995 was approximately £2,167,000 (1994: £977,000).

13. Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 1994	18,572	1,602
Capital contributions	4,341	264
Amortised in year	—	(68)
Balance at 31 March 1995	22,913	1,798

NOTES TO THE ACCOUNTS

	1995 £'000	1994 £'000
14. Stocks		
Stores	1,352	1,412
Work in progress	198	132
	1,550	1,544

In the opinion of the Directors, there is no material difference between the book value and replacement cost of stocks.

15. Debtors		
Due within one year:		
Trade debtors	1,649	1,957
Other debtors	410	434
Infrastructure renewals expenditure prepayment (note 20)	1,889	330
Amounts owed by other group undertakings	998	510
Prepayments and accrued income	1,799	1,592
Unamortised discounts on redeemable stocks	3	3
	6,748	4,826
Due after more than one year:		
Other debtors	61	53
Unamortised discounts on redeemable stocks	7	10
	6,816	4,889

16. Creditors — amounts falling due within one year:		
Bank overdraft	5,452	2,698
Obligations under finance leases	672	974
Payments received in advance	4,641	4,348
Trade creditors	5,323	6,546
Other creditors	3,912	4,251
Amounts owed to other Group undertakings	—	64
Proposed dividends	2,518	1,856
Corporation tax	3,721	1,798
Other taxes and social security	434	446
Accruals	364	559
	27,037	23,540

17. Creditors — amounts falling due after more than one year:		
9 ¹ / ₄ % Redeemable debenture stock 1998/2000	4,000	4,000
Irredeemable debenture stock (note 18)	1,633	1,633
Obligations under finance leases:		
payable within 2 to 5 years	1,465	1,761
payable after 5 years	3,877	4,220
Sundry creditors	18	22
	10,993	11,636

The redeemable debenture stock is redeemable at par at the option of the Company within the dates shown. The debentures are secured by a fixed and floating charge over the assets of the Company. Obligations under finance leases are secured on the relevant tangible fixed assets.

NOTES TO THE ACCOUNTS

	1995 £'000	1994 £'000
18. Irredeemable Debenture Stock		
3½-2%	476	476
4%	627	627
5%	500	500
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	1,633	1,633

19. Provisions for Liabilities and Charges		
AMP 1 surplus (note 20)	2,168	—
Deferred income (note 13)	1,798	1,602
	3,966	1,602

20. Infrastructure Renewals

The timing of the investment programme and other operational considerations may result in uneven patterns of actual infrastructure renewals expenditure. Accruals and prepayments are therefore recorded to reflect the difference between actual and planned expenditure. Requirements for unplanned mains diversion work are largely funded by contributions received from third parties, and these amounts are offset against expenditure for the purpose of clarification.

On 1 April 1995, a new Asset Management Plan came into effect following the Periodic Review of the industry by OFWAT. The current and new plans are denoted AMP 1 and AMP 2 respectively. At each Periodic Review the level of accrual and prepayment is assessed against the volume of work carried out under the previous Asset Management Plan. Any surplus or deficiency which has arisen, due for example to inflation or variations in units costs, is capitalised and amortised to the profit and loss account over the period of the new Asset Management Plan. The most recent assessment at 31 March 1995 showed an AMP 1 surplus of £2,168,000 which will be amortised over the primary AMP 2 period from 1996 to 2005.

	1995 £'000	1994 £'000
(Prepayment)/accrual at 1 April	(330)	1,489
Charge to profit and loss account for the year	4,260	4,000
Actual expenditure for the year		
— AMP 1	(2,569)	(6,924)
— AMP 2	(1,889)	—
Less: contributions received	807	1,105
Capitalisation of AMP 1 surplus (note 19)	(2,168)	—
Prepayment carried forward at 31 March	(1,889)	(330)

21. Called up Share Capital

Authorised:		
8,800,000 Ordinary shares of £1 each	8,800	8,800
1,200,000 Redeemable preference shares of £1 each	1,200	1,200
	10,000	10,000
Issued and fully paid:		
5,373,210 Ordinary shares of £1 each	5,373	5,373
1,200,000 Redeemable preference shares of £1 each	1,200	1,200
	6,573	6,573

The preference shares are redeemable at par on 1 July 2000 or, at the Company's option, at par in whole or in part (to be selected by drawings) after 1 July 1998 provided the Company gives three months' notice in writing. The preference shareholders are entitled to a 9% cumulative fixed dividend per annum and have equal voting rights with the ordinary shareholders. In a winding-up any unpaid dividends together with the nominal value of the shares would be payable in priority to any distribution to the holders of ordinary shares.

NOTES TO THE ACCOUNTS

22. Pension Retirement Benefits

South Staffordshire Water Holdings PLC and its subsidiaries participate in the Water Companies' Association Pension Scheme, by way of a separate sub-fund for the South Staffordshire Water Group, which provides benefits based on final pensionable pay. The assets of the Scheme are held separately from those of the Company, being invested by discretionary fund managers.

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from the regular cost are charged or credited to the profit and loss account over 15 years, being the estimated average remaining working life of scheme members. The regular cost and the variations are determined by a qualified actuary on the basis of triennial valuations, using the current unit method for death in service benefits and the projected unit method for other benefits. -

The most recent actuarial valuation at 1 April 1993 showed the market value of the Group's sub-fund as £59.3 million, and that the actuarial value of those assets represented 106% of the benefits that had accrued to members after allowing for expected future increases in earnings.

In accordance with the recommendations of the actuary, the amount charged to the profit and loss account during 1994/95 in respect of the Company was £1,105,000 (1993/94: £1,229,000), representing an employer's contribution rate of 12.3% (1993/94: 12.3%). The regular contribution rate of 14.5% would result in a regular cost of £1,303,000.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries, wages and pensions. The most recent valuation at 1 April 1993 assumed that investment returns would be 8.5% per annum, that salary and wage increases would average 7% per annum and that present and future pensions would increase at the rate of 5% per annum.

	£'000
23. Profit and Loss Account	
Balance at 1 April 1994	33,018
Retained profit for year	5,643
Balance at 31 March 1995	38,661

	1995 £'000	1994 £'000
24. Reconciliation of Movements in Shareholders' Funds		
Profit for the financial year	9,344	8,154
Dividends	(3,701)	(2,851)
Net additions to shareholders' funds	5,643	5,303
Opening shareholders' funds	40,086	34,783
Closing shareholders' funds	45,729	40,086

25. Ultimate Parent Company

The Company's ultimate parent company is South Staffordshire Water Holdings PLC, a company registered in England and Wales. The only group in which the results of South Staffordshire Water PLC are consolidated is that headed by South Staffordshire Water Holdings PLC. The consolidated accounts of the Group are available to the public and may be obtained from Central Office, Green Lane, Walsall, West Midlands, WS2 7PD.

REVIEW REPORT BY THE AUDITORS TO SOUTH STAFFORDSHIRE WATER PLC

In Relation to Corporate Governance

In addition to our audit of the accounts, we have reviewed the Directors' statement on page 7, concerning the Company's compliance with the Code of Best Practice, in so far as it relates to the paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin "Disclosures relating to Corporate Governance" issued by the Auditing Practices Board.

The purpose of the Directors' statement is to give readers information which assists them in forming their own views regarding the governance of the Company. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Company's non-compliance with the Code which the Directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

With respect to the Directors' statement on going concern on page 7, in our opinion the Directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for Directors) and such statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

Through enquiry of certain Directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the Directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

1 Victoria Square
Birmingham B1 1BD
1 September 1995

Arthur Andersen
Chartered Accountants
and Registered Auditors

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In Relation to the Accounts

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out on the next page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

In preparing these accounts, the Directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- * prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors, having prepared the accounts, are required to provide to the auditors such information and explanation as the auditors think necessary for the performance of their duty.

REPORT OF THE AUDITORS

To the Shareholders of South Staffordshire Water PLC

We have audited the accounts on pages 8 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective Responsibilities of Directors and Auditors

As described on page 17, the Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

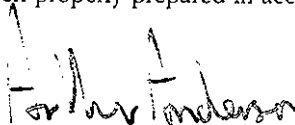
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company, 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 accounts are free from material mis-statement, 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 accounts.

Opinion

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

1 Victoria Square
Birmingham B1 1BD
1 September 1995



Arthur Andersen
Chartered Accountants
and Registered Auditors

**REGULATORY
STATEMENTS
OF SOUTH
STAFFORDSHIRE
WATER PLC**

HISTORICAL COST PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1995

	Appointed Business £'000	1995 Non- Appointed Business £'000	Total £'000	Appointed Business £'000	1994 Non- Appointed Business £'000	Total £'000
Turnover	54,293	294	54,587	51,263	295	51,558
Operating costs	(41,928)	(160)	(42,088)	(41,070)	(169)	(41,239)
	12,365	134	12,499	10,193	126	10,319
Operating income	273	148	421	57	—	57
Operating Profit	12,638	282	12,920	10,250	126	10,376
Net interest	(989)	—	(989)	(1,435)	—	(1,435)
Profit on Ordinary Activities before Taxation	<u>11,649</u>	<u>282</u>	11,931	<u>8,815</u>	<u>126</u>	8,941
Taxation on profit on ordinary activities			(3,681)			(1,991)
Profit on Ordinary Activities after Taxation			8,250			6,950
Dividends			(3,701)			(2,851)
Retained Profit for the Year			4,549			4,099

Reconciliation of Profit on Ordinary Activities before Taxation:

As reported in the statutory accounts (page 6)	13,025	10,145
Adjustment to indexation of the infrastructure renewal accrual, as required by OFWAT, with effect from 1 April 1992 (note 3)	(1,094)	(1,204)
As reported in the regulatory accounts (above)	11,931	8,941

The accompanying notes are an integral part of these accounts.

HISTORICAL COST BALANCE SHEET

AS AT 31 MARCH 1995

	Appointed Business £'000	1995 Non- Appointed Business £'000	Total £'000	Appointed Business £'000	1994 Non- Appointed Business £'000	Total £'000
Fixed Assets						
Tangible assets	94,298	284	94,582	88,332	291	88,623
Capital contributions	(22,913)	—	(22,913)	(18,572)	—	(18,572)
	71,385	284	71,669	69,760	291	70,051
Current Assets						
Stocks	1,499	51	1,550	1,478	66	1,544
Debtors	4,784	143	4,927	4,354	141	4,495
Short-term deposits	7,690	—	7,690	380	—	380
Cash at bank and in hand	(4,262)	4,262	—	(3,934)	3,934	—
	9,711	4,456	14,167	2,278	4,141	6,419
Creditors due within one year	(23,795)	(3,242)	(27,037)	(20,260)	(3,216)	(23,476)
Net Current (Liabilities)/ Assets	(14,084)	1,214	(12,870)	(17,982)	925	(17,057)
Total Assets less Current Liabilities	57,301	1,498	58,799	51,778	1,216	52,994
Creditors due after more than one year	(10,993)	—	(10,993)	(11,636)	—	(11,636)
Provisions for Liabilities and Charges	(5,312)	—	(5,312)	(3,413)	—	(3,413)
Net Assets	40,996	1,498	42,494	36,729	1,216	37,945
Shareholders' Funds						
Share capital	6,573	—	6,573	6,573	—	6,573
Share premium account	495	—	495	495	—	495
Profit and loss account	33,928	1,498	35,426	29,661	1,216	30,877
	40,996	1,498	42,494	36,729	1,216	37,945

The accompanying notes are an integral part of these accounts.

C A S H F L O W S T A T E M E N T

F O R T H E Y E A R E N D E D 3 1 M A R C H 1 9 9 5

	Note	1995 Appointed Business £'000	Non- Appointed Business £'000	Total £'000	1994 Appointed Business £'000	Non- Appointed Business £'000	Total £'000
Net Cash Inflow from Operating Activities	11	14,881	(25)	14,856	12,568	204	12,772
Returns on Investments and Servicing of Finance:							
Interest received		17	—	17	5	—	5
Other income received		—	200	200	—	177	177
Interest paid		(444)	—	(444)	(923)	—	(923)
Interest on finance lease rentals		(545)	—	(545)	(507)	—	(507)
Dividends paid		(3,039)	—	(3,039)	(2,753)	—	(2,753)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(4,011)	200	(3,811)	(4,178)	177	(4,001)
Taxation:							
Corporation tax paid		(1,262)	—	(1,262)	(551)	—	(551)
Investing Activities:							
Purchase of fixed assets		(9,331)	—	(9,331)	(6,895)	—	(6,895)
Disposal of fixed assets		352	153	505	290	—	290
Capital contributions		4,605	—	4,605	3,511	—	3,511
Net cash (outflow)/inflow from investing activities		(4,374)	153	(4,221)	(3,094)	—	(3,094)
Net cash inflow before financing		5,234	328	5,562	4,745	381	5,126
Financing:							
Redemption of debenture stock		—	—	—	(4,000)	—	(4,000)
Repayment of bank loan		—	—	—	(1,500)	—	(1,500)
Capital element of finance lease rental payments		(1,006)	—	(1,006)	(1,009)	—	(1,009)
Net cash outflow from financing		(1,006)	—	(1,006)	(6,509)	—	(6,509)
Increase/(Decrease) in Cash and Cash Equivalents		4,228	328	4,556	(1,764)	381	(1,383)

The accompanying notes are an integral part of these accounts.

CURRENT COST PROFIT AND LOSS
ACCOUNT FOR APPOINTED BUSINESS
FOR THE YEAR ENDED 31 MARCH 1995

	Note	1995 £'000	1994 £'000
Turnover	4	54,293	51,263
Current cost operating costs	5	(43,599)	(42,787)
Operating expense		(62)	(1)
		10,632	8,475
Working capital adjustment		327	262
Current Cost Operating Profit		10,959	8,737
Net interest		(989)	(1,435)
Financing adjustment		736	501
Current Cost Profit on Ordinary Activities before Taxation		10,706	7,803
Taxation		(3,681)	(1,991)
Current Cost Profit on Ordinary Activities after Taxation		7,025	5,812
Dividends		(3,701)	(2,851)
Current Cost Profit Retained	10	3,324	2,961

The accompanying notes are an integral part of these accounts.

C U R R E N T C O S T B A L A N C E S H E E T
F O R A P P O I N T E D B U S I N E S S
A S A T 3 1 M A R C H 1 9 9 5

	Note	1995 £'000	1994 £'000
Fixed Assets			
Tangible assets	6	922,021	887,037
Third party contributions	7	(26,259)	(20,996)
Working capital	8	(9,228)	(9,332)
Net Operating Assets		886,534	856,709
Cash and investments		(2,024)	(6,252)
Non-trade debtors		213	90
Non-trade creditors — due within one year		(7,370)	(5,080)
Creditors — due after more than one year		(10,993)	(11,636)
Net Assets Employed		866,360	833,831
Capital and Reserves			
Share capital		6,573	6,573
Share premium account		495	495
Profit and loss account	10	29,445	26,121
Current cost reserve	9	829,847	800,642
		866,360	833,831

The accompanying notes are an integral part of these accounts.

NOTES TO THE REGULATORY ACCOUNTS

1. Statement of Accounting Policies

(a) Basis of Current Cost Accounting

The accounting policies used are the same as those adopted in the statutory historical cost accounts on pages 10 and 11, except as set out below.

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

(b) Tangible Fixed Assets

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

Specialised Operational Assets

Specialised operational assets acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Surface Investment Requirement (SIR) reviews by adjusting for inflation as measured by changes in the Retail Prices Index (RPI). The unamortised portion of third party contributions received is deducted in arriving at net operating assets.

Non-specialised Operational Assets

Non-specialised operational assets are valued on the basis of open market value for existing use at 31 March 1989 and have been expressed in real terms by adjusting for inflation as measured by changes in the RPI since that date.

Infrastructure Assets

Infrastructure assets are valued at replacement cost, determined principally on the basis of data provided by the Asset Management Plan (AMP) at 31 March 1988.

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

Other Tangible Assets

All other tangible assets are valued periodically at depreciated replacement cost. Between periodic SIR reviews, values are restated for inflation as measured by changes in the RPI.

Surplus Land

Surplus land is valued at recoverable amount.

Third Party Contributions

Infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI over the year.

(c) Real Financial Capital Maintenance Adjustments

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

Working capital adjustment — this is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors.

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

(d) Five Year Rolling Summary

The previous years' figures as shown in the statement in note 12 have been restated to current year values using RPI.

NOTES TO THE REGULATORY ACCOUNTS

2. Non-Appointed Business Activities

In general, non-appointed activities are those for which the Company is not a monopoly supplier, or where the activity involves the optional use of an asset owned by the appointed business.

3. Adjustment to Indexation of the Infrastructure Renewal Accrual

The infrastructure renewal accrual is indexed for inflation in both the regulatory accounts and the statutory accounts of the Company. In the opinion of the Directors, the Construction Output Price Index (COP) is the most appropriate index for the valuation of this accrual. COP has therefore been used in the statutory accounts for 1993 to 1995. However, in accordance with guidelines issued by the Director-General of Water Services, the Retail Price Index (RPI) has been used in the regulatory accounts since 1993. This has resulted in a £1,094,000 (1994: £1,204,000) reduction of profit in the regulatory accounts, and in a £3,235,000 (1994: £2,141,000) difference in net assets between the regulatory accounts and the statutory accounts.

4. Turnover Analysis

	1995 £'000	1994 £'000
Measured supplies	15,152	14,179
Unmeasured supplies	35,928	34,428
Other sources	3,213	2,656
Total turnover	54,293	51,263

5. Current Cost Activity Cost Analysis

	1995 Service Analysis			1994 Service Analysis		
	Resources & Treatment £'000	Distribution £'000	Water Supply Subtotal £'000	Resources & Treatment £'000	Distribution £'000	Water Supply Subtotal £'000
<i>Direct Costs</i>						
Employment Costs	1,001	2,614	3,615	924	2,280	3,204
Power	983	3,997	4,980	1,065	4,333	5,398
Hired & Contracted Services	409	1,135	1,544	394	1,177	1,571
Materials and Consumables	2,012	549	2,561	1,299	654	1,953
Other Direct Costs	697	—	697	1,086	—	1,086
Total Direct Costs	5,102	8,295	13,397	4,768	8,444	13,212
General & Support Expenditure	2,578	5,140	7,718	2,364	5,394	7,758
Functional Expenditure	7,680	13,435	21,115	7,132	13,838	20,970
<i>Capital Costs</i>						
CC Depreciation	2,328	2,673	5,001	2,332	2,538	4,870
Infrastructure Renewal Expenditure	—	5,819	5,819	—	5,819	5,819
Infrastructure Renewal Accrual	—	(437)	(437)	—	(598)	(598)
Functional Cost	10,008	21,490	31,498	9,464	21,597	31,061

NOTES TO THE REGULATORY ACCOUNTS

5. Current Cost Activity Cost Analysis (continued)

	1995 Business Analysis			1994 Business Analysis		
	Customer Services £'000	Scientific Services £'000	Cost of Regulation £'000	Customer Services £'000	Scientific Services £'000	Cost of Regulation £'000
<i>Direct Costs</i>						
Employment Costs	2,100	796	57	2,015	675	56
Hired & Contracted Services	154	96	—	156	110	—
Materials and Consumables	77	98	—	74	93	—
Total Direct Costs	2,331	990	57	2,245	878	56
General & Support Expenditure	3,107	533	179	3,374	388	376
Functional Cost	5,438	1,523	236	5,619	1,266	432
	Activity Cost Total £'000			Activity Cost Total £'000		
Total Functional Cost			38,695			38,378
Rates			3,502			3,416
Doubtful Debts			503			217
Service Cost			42,700			42,011
Service for Third Parties			899			776
Total Operating Costs			43,599			42,787
	Resources & Treatment £'000	Distribution £'000	Water Supply Total £'000	Resources & Treatment £'000	Distribution £'000	Water Supply Total £'000
CCA (MEA) Values						
Service Activities	95,299	915,398	1,010,697	91,029	879,778	970,807
Business Activities			2,079			1,812
Water Supply Total			1,012,776			972,619

The above figures for operating costs include rationalisation costs of £1,543,000. The allocation to activities is as follows:

	£'000
Resources and Treatment	413
Distribution	548
Customer Services	269
Scientific Services	242
Third Party	71
	1,543

Power costs have been analysed in line with updated guidance from OFWAT, and the comparatives have been restated accordingly.

NOTES TO THE REGULATORY ACCOUNTS

6. Current Cost Fixed Asset Statement (100% Water Supply)

	Specialised Operational Assets £'000	Non- Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Gross Replacement Cost					
At 1 April 1994	133,978	8,613	808,028	21,999	972,618
RPI adjustment	4,740	302	28,281	773	34,096
Additions	3,529	45	3,669	2,154	9,397
Disposals	(1,534)	(91)	(264)	(1,446)	(3,335)
At 31 March 1995	140,713	8,869	839,714	23,480	1,012,776
Depreciation					
At 1 April 1994	70,314	688	—	14,579	85,581
RPI adjustment	2,536	26	—	532	3,094
Charge for the year	2,542	108	—	2,351	5,001
Disposals	(1,530)	(38)	—	(1,353)	(2,921)
At 31 March 1995	73,862	784	—	16,109	90,755
Net Book Value					
At 31 March 1995	66,851	8,085	839,714	7,371	922,021
Net Book Value					
At 31 March 1994	63,664	7,925	808,028	7,420	887,037

7. Current Cost Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Gross Replacement Value			
At 1 April 1994	19,358	1,745	21,103
RPI adjustment	678	61	739
Additions	4,341	264	4,605
At 31 March 1995	24,377	2,070	26,447
Depreciation			
At 1 April 1994	—	107	107
RPI adjustment	—	5	5
Amortised in year	—	76	76
At 31 March 1995	—	188	188
Net Book Value			
At 31 March 1995	24,377	1,882	26,259
Net Book Value			
At 31 March 1994	19,358	1,638	20,996

The gross replacement value of infrastructure assets includes RPI adjustments with effect from 1 April 1991, in accordance with the guidance issued by the Director-General of Water Services.

NOTES TO THE REGULATORY ACCOUNTS

	1995 £'000	1994 £'000
8. Current Cost Working Capital		
Stocks	1,499	1,478
Trade debtors	1,506	1,816
Trade creditors	(4,057)	(5,136)
Short-term capital creditors	(1,263)	(1,448)
Infrastructure renewals	(4,324)	(2,593)
Accruals	(364)	(516)
Payments in advance	(4,366)	(4,348)
Tax and social security	(352)	(326)
Group debtors	998	446
Other trade creditors	(190)	(297)
Prepayments	1,685	1,592
	(9,228)	(9,332)

9. Movement on Current Cost Reserve

Balance at 1 April	800,642	781,990
RPI adjustments: Fixed assets	31,002	19,809
Capital contributions	(734)	(394)
Working capital	(327)	(262)
Financing	(736)	(501)
Balance at 31 March	829,847	800,642

10. Movement on Current Cost Profit and Loss Account

Balance at 1 April	26,121	23,160
Current cost profit retained	3,324	2,961
Balance at 31 March	29,445	26,121

11. Reconciliation of Current Cost Operating Profit to Net Cash Inflow from Appointed Operating Activities

Current cost operating profit	10,959	8,737
Current cost depreciation	5,001	4,870
Current cost loss on disposal of assets	62	1
Increase in debtors and prepaid expenses	(929)	(1,427)
(Decrease)/Increase in creditors and accrued expenses	(1,521)	1,162
Increase/(Release) of provisions	1,731	(598)
Effect of other deferrals and accruals on operating activity cash flow	(95)	85
Working capital adjustment	(327)	(262)
Net cash inflow from appointed operating activities	14,881	12,568

NOTES TO THE REGULATORY ACCOUNTS

	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000
12. Five Year Rolling Summary:					
Current Cost Profit and Loss Account for Appointed Business					
Turnover	54,293	52,698	51,208	49,586	46,796
Current cost operating costs	(43,599)	(43,985)	(42,709)	(41,435)	(38,796)
Operating (expense)/income	(62)	(1)	43	(96)	(1,707)
	10,632	8,712	8,542	8,055	6,293
Working capital adjustment	327	269	130	337	732
Current Cost Operating Profit	10,959	8,981	8,672	8,392	7,025
Net interest	(989)	(1,475)	(1,855)	(1,904)	(2,826)
Financing adjustment	736	515	438	941	2,303
Current Cost Profit on Ordinary Activities before Taxation	10,706	8,021	7,255	7,429	6,502
Taxation	(3,681)	(2,047)	(1,063)	(725)	(844)
Current Cost Profit on Ordinary Activities after Taxation	7,025	5,974	6,192	6,704	5,658
Dividends	(3,701)	(2,931)	(2,792)	(2,763)	(345)
Current Cost Profit Retained	3,324	3,043	3,400	3,941	5,313
Current Cost Balance Sheet for Appointed Business					
Fixed Assets					
Tangible fixed assets	922,021	918,083	915,265	903,832	894,883
Third party contributions since 1989/90	(26,259)	(21,731)	(18,165)	(12,579)	(5,998)
Working capital	(9,228)	(9,659)	(12,054)	(7,046)	(9,400)
Net Operating Assets	886,534	886,693	885,046	884,207	879,485
Cash and investments	(2,024)	(6,471)	(4,753)	2,208	1,068
Non-trade debtors	213	93	136	226	356
Non-trade creditors — due within one year	(7,370)	(5,258)	(3,955)	(16,845)	(1,985)
Creditors — due after more than one year	(10,993)	(12,043)	(16,336)	(13,001)	(25,701)
Net Assets Employed	866,360	863,014	860,138	856,795	853,223
Capital and Reserves					
Share capital	6,573	6,803	6,961	7,092	7,381
Share premium account	495	512	524	534	556
Profit and loss account	29,445	27,035	24,526	21,480	18,250
Current cost reserve	829,847	828,664	828,127	827,689	827,036
	866,360	863,014	860,138	856,795	853,223

NOTES TO THE REGULATORY ACCOUNTS

13. Condition F

In the opinion of the Directors, the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the Investment Programme necessary to fulfil the Company's obligations under its Instrument of Appointment).

Furthermore, in the opinion of the Directors, the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its activities and fulfil its obligations.

Under the provisions of condition F, the following information is provided in relation to transactions with associated companies:

(a) Borrowings

South Staffordshire Water Holdings PLC draws funds under a revolving loan facility with Midland Bank plc and advances funds to South Staffordshire Water PLC as and when required. All advances to South Staffordshire Water PLC are made on the same terms as received from Midland Bank plc. There was no amount outstanding at the balance sheet date (1994: nil).

(b) Dividends

During the year, South Staffordshire Water PLC paid dividends of £2.93 million on its ordinary shares to South Staffordshire Water Holdings PLC. This comprised the second interim dividend for 1993/94 and the first interim dividend for 1994/95. The whole of the ordinary dividend paid reflected an assessment of a reasonable return to shareholders in the light of the Company's actual performance.

(c) Guarantees

South Staffordshire Water PLC has entered into a limited guarantee to Midland Bank plc to secure all liabilities of South Staffordshire Water Holdings PLC up to £12 million. This guarantee is in respect of a £12 million revolving loan facility, which is primarily for the purposes of the Appointed Business. This guarantee will expire in 1998.

South Staffordshire Water PLC has also entered into limited guarantees and a letter of set-off to Midland Bank plc with a maximum liability of £5m. These are normal commercial arrangements to enable the setting-off of positive and negative bank balances between Group companies within an overall Group overdraft limit of £5m. These guarantees will continuously remain in force in order that all group companies can share the benefits of the setting-off arrangement. There was no Group overdraft as at 31 March 1995.

(d) Other Transactions

The aggregate value of other transactions under the provisions of Condition F is not material to the Appointed Business as a whole.

(e) Associated Companies

The turnover of the associated companies, in the year ended 31 March 1995, was as follows:

South Staffordshire Water Holdings PLC	£0.804 million
South Staffordshire Enterprises Limited	£nil
South Staffordshire Water Services Limited	£5.041 million
Fastfix Plumbing and Heating Limited	£1.939 million

14. Condition K

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of its Instrument of Appointment as at 31 March 1995.

REPORT OF THE AUDITORS

To the Director-General of Water Services

We have audited the regulatory financial statements on pages 20 to 31.

Respective Responsibilities of Directors and Auditors

As described on page 17, the Company's Directors are responsible for the preparation of the regulatory 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 regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory 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 mis-statement, 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 regulatory financial statements in terms of Generally Accepted Accounting Principles, the Regulatory Accounting Guidelines and consistency with the statutory accounts.


Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 1995 required to be published and submitted to you by South Staffordshire Water PLC to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991.

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

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- (c) the financial statements on pages 20 and 21 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (d) the current cost financial information on pages 22 to 30 has been properly prepared in accordance with Regulatory Accounting Guideline One, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.

1 Victoria Square
Birmingham B1 1BD
1 September 1995


Arthur Andersen
Chartered Accountants
and Registered Auditors