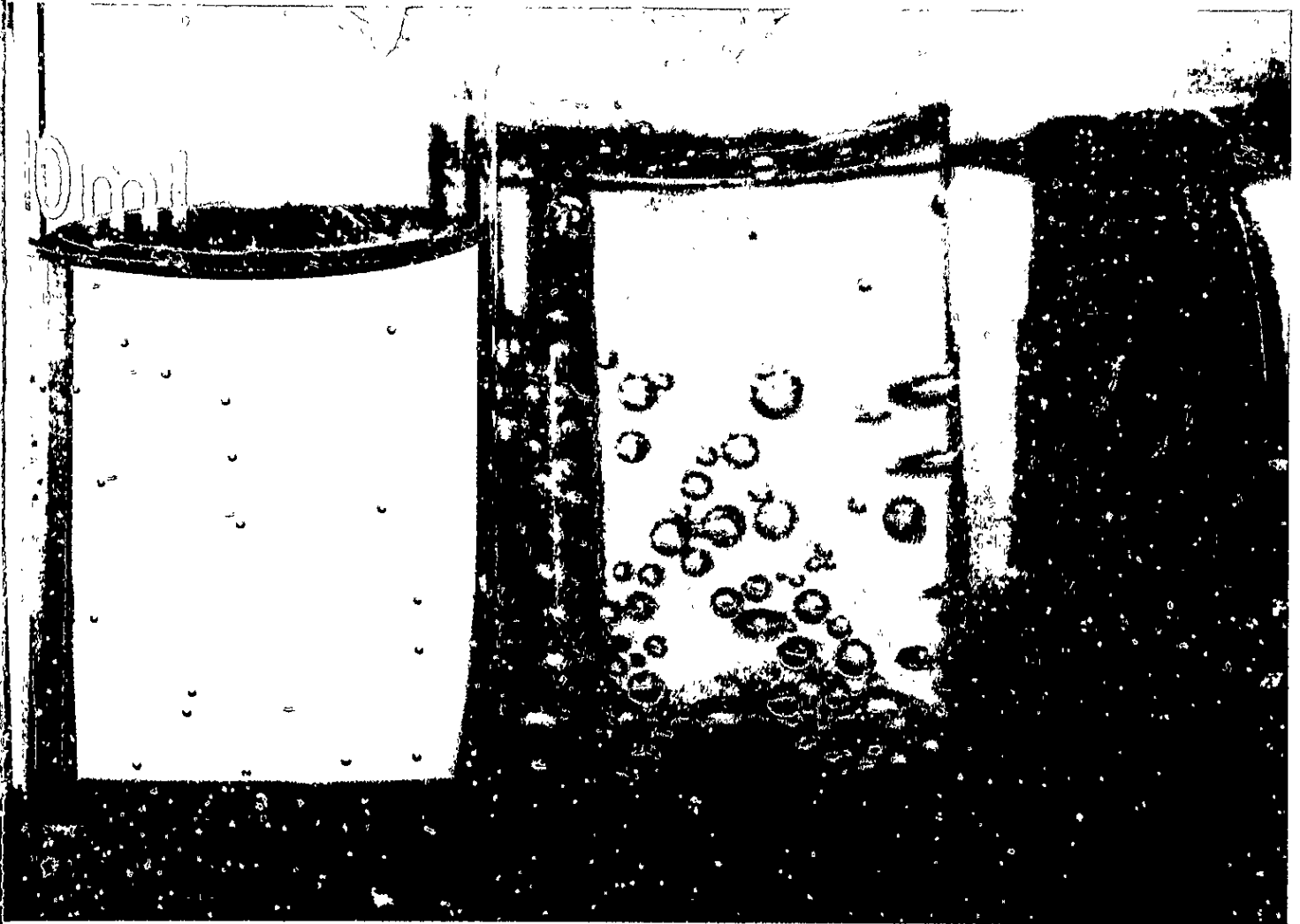




# Severn Trent

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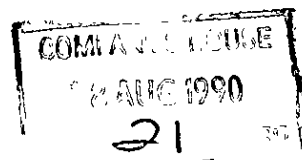


Report & Accounts 1989-90

18/8/90

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## Our Vision

Our purpose is to be a world leader in the water business, to establish ourselves as a successful international corporation founded on a strong home water utility base, and to develop a substantial earnings stream in other appropriate businesses.

Our aim is to be a wealth creator, to grow through increasing our current effectiveness and also by using and developing our special expertise through joint ventures, partnerships and acquisitions.

We will foster a style of management based on personal responsibility and trust through a team of enthusiastic, innovative and well trained people, always maintaining ethical and professional standards, and focusing on care for our customers, our colleagues, our shareholders and our environment.



Severn Trent Plc  
Registered office  
239 Coventry Road  
Birmingham B26 4H  
Telephone 021 223 4000  
Elex 389333  
Telefax 021 223 4800

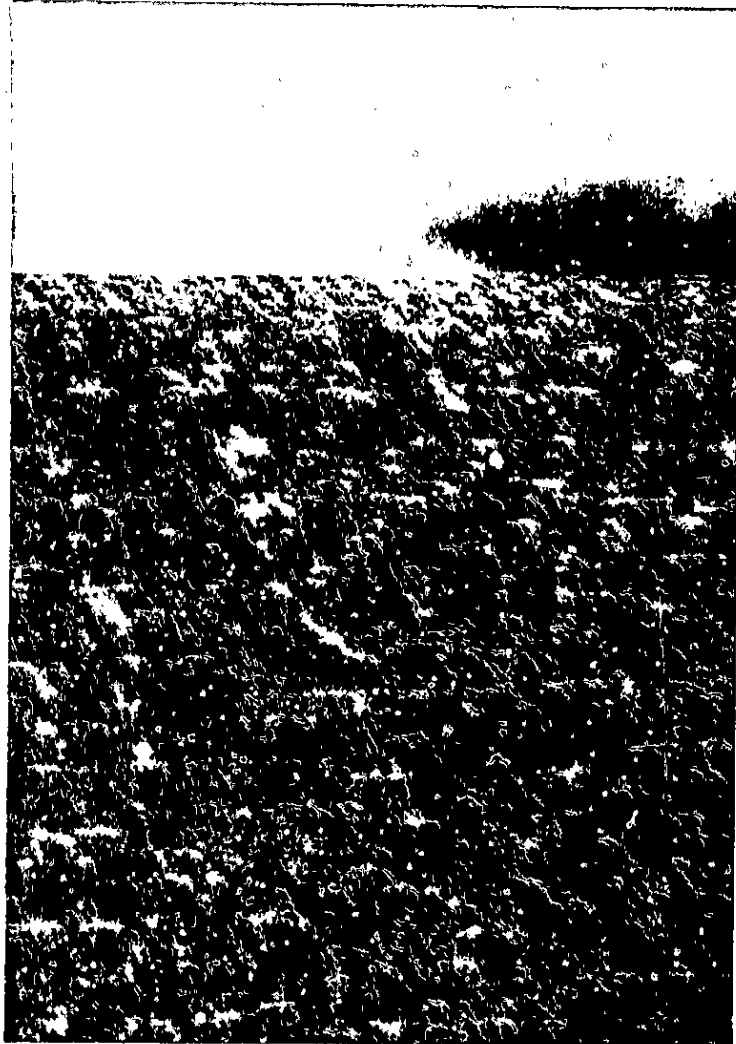
Company Secretary: DW Mella FCA

Companies within Severn Trent Plc  
at 31 March 1990  
Severn Trent Water Limited  
Severn Trent Industries Limited  
Severn Trent Property Limited

Auditors  
Price Waterhouse  
Livery House  
169 Edmund Street  
Birmingham B3 2JB  
Telephone 021 200 5000

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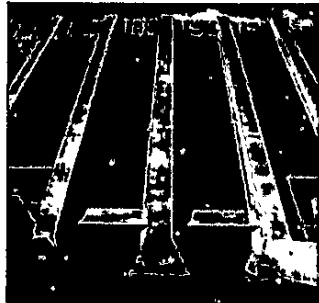
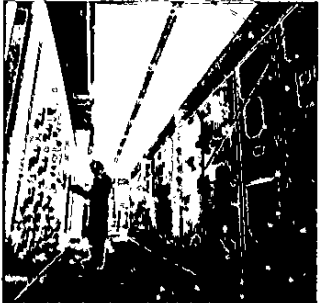


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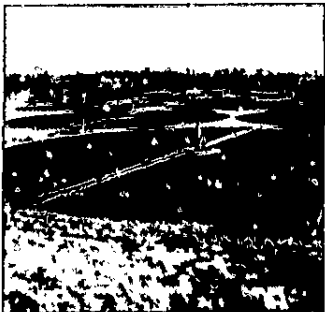
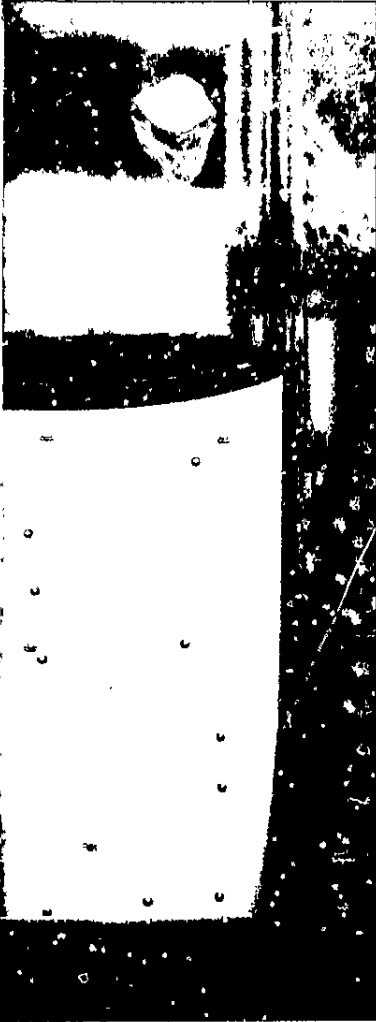
## Profile of Severn Trent

**Investment in quality**  
Severn Trent Plc is one of the major water utilities in the world, with an annual turnover in excess of half a billion pounds. We are probably Britain's most experienced operator in the water and sewerage business.

Severn Trent Water Limited is the core business. One of the largest private sector water companies in the world, it employs the majority of Severn Trent's 7000 workforce, and provides water services to over eight million people in the heartland of Britain.

Severn Trent Water is a utility company with a strong focus on the environment. We gather water and clean it for use by our customers. Then we recollect it, to clean up again to very high standards, and return it safely to the environment in support of improvements in our rivers.

Central to our customers is our total commitment to quality and value for money.



## 1989/90 Facts at a glance

### Financial highlights

Turnover	£544.1 million
Operating profit	£163.9 million
Profit after interest but before tax	£129.9 million
Investment expenditure	£262.0 million
Dividend per share	9.9 pence
Earnings per share (pro-forma)	56.4 pence

### Area

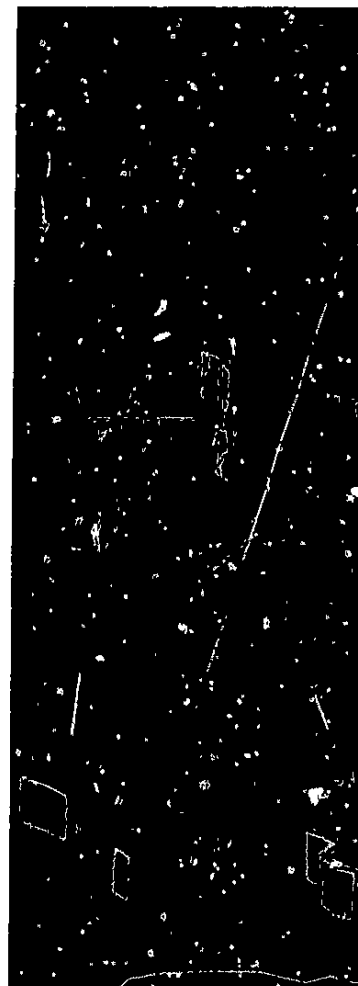
Area of Operations	21,600 square kilometres
Number of Employees	7,218 (full time equivalents)
Employee costs	£116.8 million

### Sewage treatment and disposal

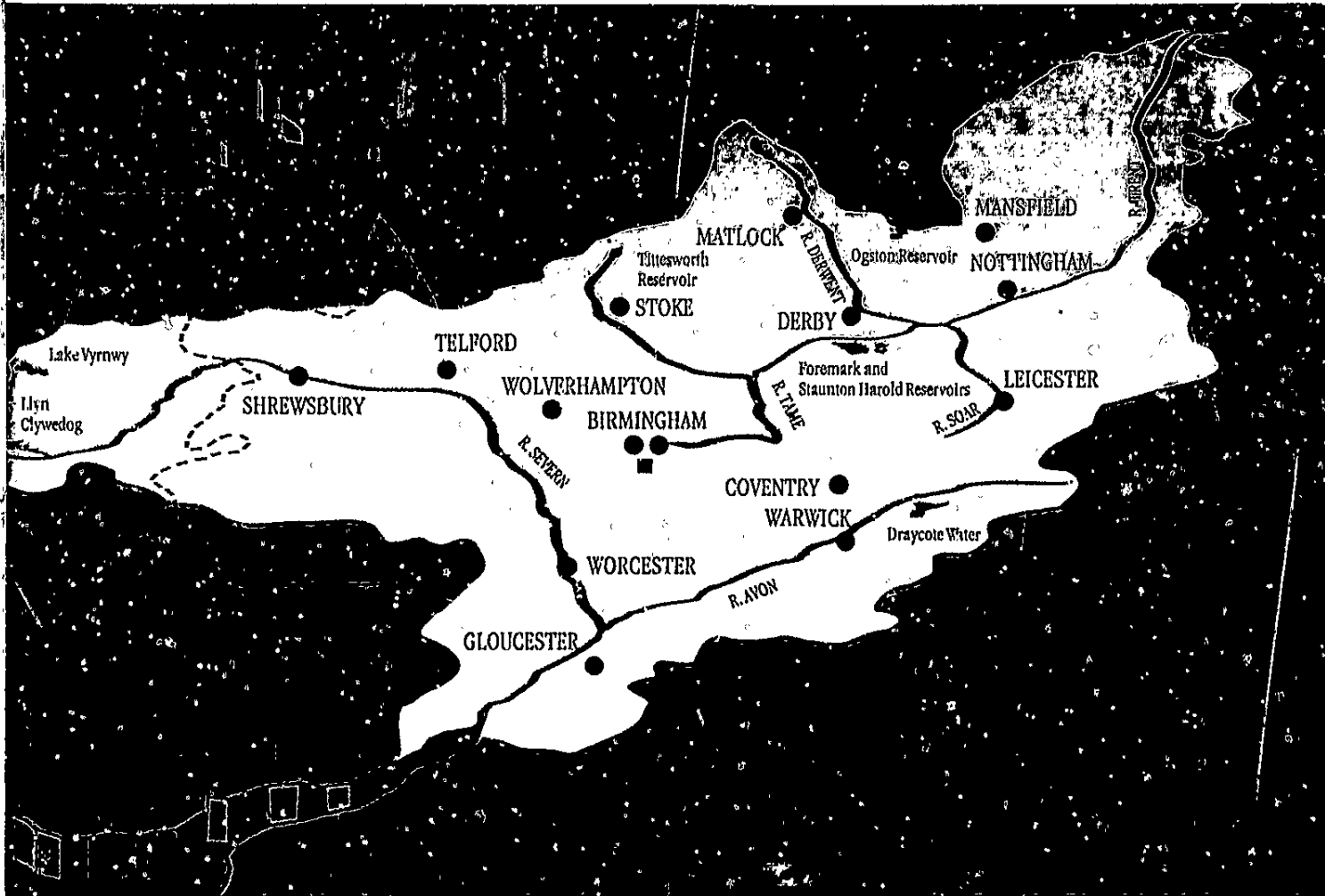
Average daily volume of sewage treated	2752 megalitres
Average daily volume of trade effluent treated	220 megalitres
Properties connected to mains drainage	3.5 million
Length of sewers (estimated)	38,280 kilometres
Sewage treatment works	1062

### Water resources and supply

Average daily volume of water put into supply	1952 megalitres
Properties connected to piped water supply	2,900,000
Length of mains (estimated)	38,000 kilometres
Water treatment works	205







Key	
Company headquarters	■
Rivers	—
Wales/England boundary	- - -
District headquarters	●

## Chairman's

I am proud to introduce this first report of Severn Trent Plc.

The Company's turnover in 1989/90 was £544.1 million. Operating profit was £163.9 million. Profit on ordinary activities, after interest, but before taxation, was £129.9 million.

The prospectus published for flotation included pro-forma information. The comparable pro-forma results for 1989/90, are as follows (prospectus figures in brackets):

Pro-forma profit after interest, but before tax	£217.1m (£208m)
Pro-forma earnings per share	56.4p (53.7p)

The Directors have recommended a dividend of 9.9 pence (net) per Ordinary Share, as forecast in the prospectus, payable on 1 October, 1990 to shareholders on the register as at 23, July 1990.

The flotation arrangements provided for a cash injection into the Company - the "Green Dowry", together with the elimination of historic debts. These measures have resulted in dividend payments being less than half the annual cost of interest paid by

Severn Trent Water Authority prior to privatisation.

The retained profits in the Company, together with the cash injection, have been used to assist in the financing of the investment programme. We have made an excellent start in delivering our "K" investment programme at a cost of £262 million. Thus, double the profit has been reinvested in the business.

The greatest benefit of privatisation is that, for the first time, we have the resources we need to meet the quality and service standards required.

Severn Trent's progress in the private sector has been most encouraging. Our corporate structure and strategy are well established. We have the right organisation in place to achieve our aim to be a world leader in the water business, founded on a strong home water utility base.

Our investment programme, at today's prices, is some £4 billion over the next ten years. Put another way, on average each day we will invest over £1 million improving our service to our customers.

This investment is primarily geared to improving still further the quality of water we supply and the standards to which we treat waste water prior to

returning it to the natural environment.

Sound management information has ensured that we have the right investment plans to meet our obligations and that actual progress is rigorously controlled. We have the balance of resources in people, skill and funds to deliver the results.

Severn Trent Water Limited is our core business and from that base we shall expand in associated business areas which make good use of the considerable available expertise built up over the years.

We have acquired companies already operating in the waste disposal and water disinfection businesses. In addition we have entered into joint ventures with other companies in the field of engineering design and consultancy and carbon regeneration.

Our strategy is to expand, profitably, in businesses to which we can add value.

Privatisation has provided the finance, lacking for the past 70 years, to meet, in the future, obligations to our customers, to Government, to the European Community and to our own high quality standards. We have already largely achieved these standards in waste water treatment, and are absolutely committed to the



John G Bellak  
Chairman

# Statement

achievement of the highest quality standards in drinking water.

The present regulatory structure provides the necessary motivation to profitable efficiency while safeguarding the public interest. I hope that over the coming years we may be allowed to get on with that job, without structural change.

## Shareholders

I am particularly pleased to report that over two thirds of our shareholders are also our customers. I believe this is the highest proportion of direct customer shareholders in any of the new water companies.

A quality service for customers will ensure a quality investment for shareholders.

Around 90 per cent of our workforce hold shares in Severn Trent. One third of employees are also saving to buy shares in the company, through our Save as you Earn scheme.

## Board structure

I am pleased to welcome two new members to our Board - both major figures in the world of business. Sir Richard Baker Wilbraham is Deputy Chairman of the Bibby Line Group and

recently retired as a Director of J Henry Schroder Wagg. Sir Richard is a Director of several companies and Deputy Chairman of Grosvenor Estate Holdings. My other new Board colleague is Richard Ireland. He is Group Finance Director of Wolseley Plc, a council member of the Birmingham Chamber of Industry and Commerce, and a member of the Finance Committee of the University of Aston.

Our other Board Members had all been members of Severn Trent Water Authority.

In May 1990, Frank Earnshaw, Director of Operations, completed forty years service in the water industry. We are very fortunate in having a man with such a wealth of knowledge and experience guiding our operations, and committed to our investment programmes.

During the year we have said goodbye to a number of members of the old Severn Trent Water Authority: Dick Anthony, a member of Nottinghamshire County Council; Guy Hawthorne, and Fred Jennings, both appointed by the Ministry of Agriculture, Fisheries and Food; Reg Parkes, Chairman of the North Birmingham Health Authority, and Bernard Zissman, a senior member

of Birmingham City Council, all served the Authority with great dedication and I should like to record this tribute to them.

Colin McMillan, Director, and Company Secretary until 1 June 1990, intends to retire at the AGM. Colin has had a long and distinguished career spanning 41 years, the last 11 of which have been with Severn Trent. In 1988/89 he was honoured by his professional accounting body, becoming President of the Chartered Institute of Public Finance and Accountancy. He has given most valued service to Severn Trent, notably during the last two years when he had special responsibility for co-ordinating the privatisation process, in all its mass of detail.

## Our People

The main strength of the Company lies in the commitment and skills of its employees and we are fortunate to have a wealth of experience in all parts of the organisation. I should like to record my thanks to all employees for the way they have contributed to the service we provide to our customers and the financial performance of the Company during a very hectic year. During the year, our Technical Officer at Clywedog

Reservoir in Wales, Ray Lewis, was honoured by the award of the BEM and we all congratulate him.

I have great confidence that the team we have in place throughout the organisation will continue to deliver the quality of product and the required financial results.

Double the profit has been invested in the business.

We have the resources we need to meet the quality and service standards required.

The team we have in place will deliver quality and results.

## The Board

Severn Trent's Board currently has 12 members, chosen for their wide experience of business and commerce, and for their specialist knowledge.

**John G Bellak MA (59).**

Chairman since 1983. Previously Managing Director of Royal Doulton, he has 30 years experience in exporting and industry and is a member of the Grand Council of the Confederation of British Industry.

**Sir Richard Baker Wilbraham Bt (56).**

Appointed 1989. He is Deputy Chairman of the Bibby Line Group and recently retired from the Board of J Henry Schroder Wagg. Sir Richard holds many non-executive directorships and is also Deputy Chairman of Grosvenor Estate Holdings.

**Roger H Boisser (59).**

Chairman, Pressac Holdings PLC, non-executive Director, British Gas Plc, Edward Lumley Holdings Limited and T & N Plc. Appointed to Severn Trent Board in October 1986.

**Victor Cocker BA(Econ), MIWEM (49).**

Director of Business Planning and Marketing, he is an economist, spending twelve years in the Gas Industry before joining Severn Trent in 1974. He was appointed to the Board in October 1988.

**Frank Earnshaw CEng, FICEMIMechE, FRWEM (61).**

Director of Operations, he has been with Severn Trent since its formation and has 40 years' water industry management experience. A Board Member since November 1985.

**Alan W Henn (59).**

Chairman of Beacon Broadcasting and Communications Ltd, and Chairman of Family Jewellery Retailers and Associated Companies, he has been a Board Member since October 1986.

**Timothy C Heywood-Lonsdale MA (53).**

Deputy Chairman of Severn Trent since 1986. He is Chairman of Skilbeck Holdings Ltd, a property manager and farmer. Appointed to the Board in October 1983.

**Richard Ireland FCIS (56).**

Joined the Board in 1989. He is Group Finance Director of Wolseley Plc, a council member of the Birmingham Chamber of Industry and Commerce, and a member of the Finance Committee of the University of Aston.

**Stuart M Larnder FCA (45).**

Director of Finance. A chartered accountant, he has had general and financial management experience with major quoted companies including Scottish and Newcastle Breweries Plc, Bass Plc and Next Plc. Latterly Finance Director of Alfred Preedy Plc. Appointed to the Board March 1989.

**Colin G McMillan BCom, IPPFA (61).**

Director of Government Relations and Company Secretary until 1 June 1990; he was formerly Director of Finance for 10 years. He is past President of the Chartered Institute of Public Finance and Accountancy. A Board Member since October 1983.

**Roderick S Paul MA, FCA (54).**

Chief Executive. He has 30 years experience in the private sector, 15 of them with British Oxygen, and latterly, as Chief Executive of Mitchell Cotts plc. A Member of the Board since October 1988.

**Andrew H Simon BSc, MBA (44).**

Chairman and Chief Executive of Evode Group plc and a director of Lichfield Cathedral Arts. Appointed in October 1986.

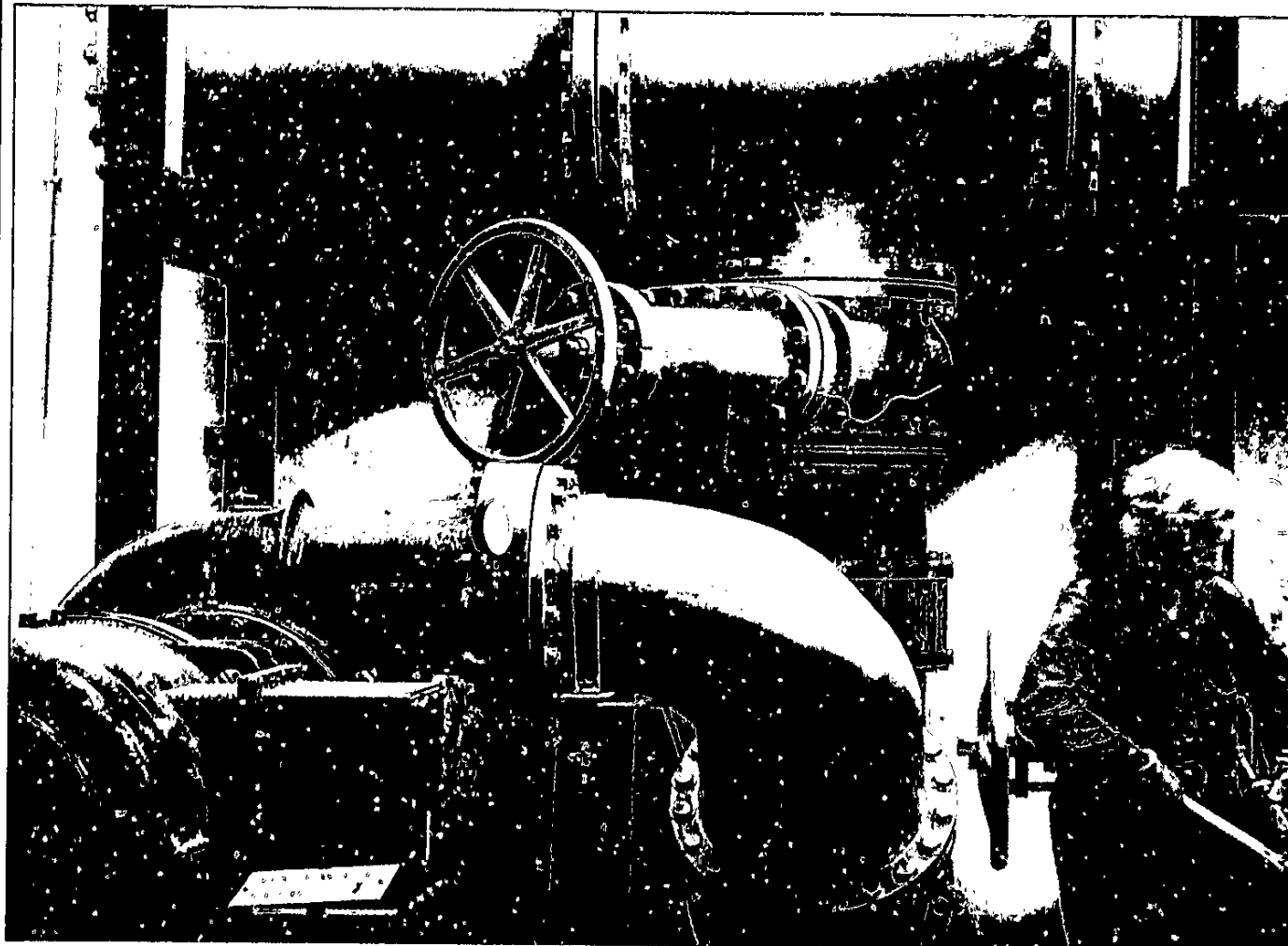


The Board from left to right  
Sir Richard Baker Wilbraham  
Roger Boisser  
Frank Earnshaw  
Colin G Millan  
Roderick Paul (Chief Executive)

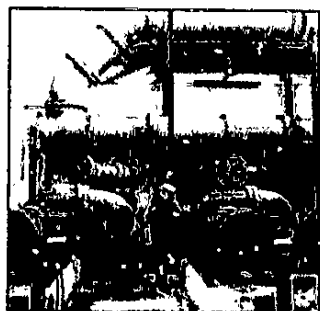
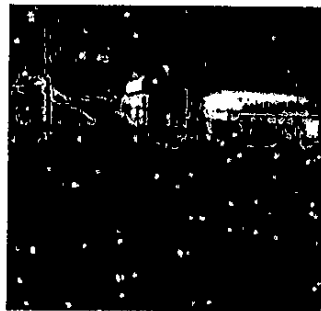
John G Bellak (Chairman)  
Tim Heywood-Lonsdale (Deputy Chairman)  
Stuart Larnder  
Vic Cocker  
Alan Henn  
Richard Ireland

Not present  
Andrew Simon





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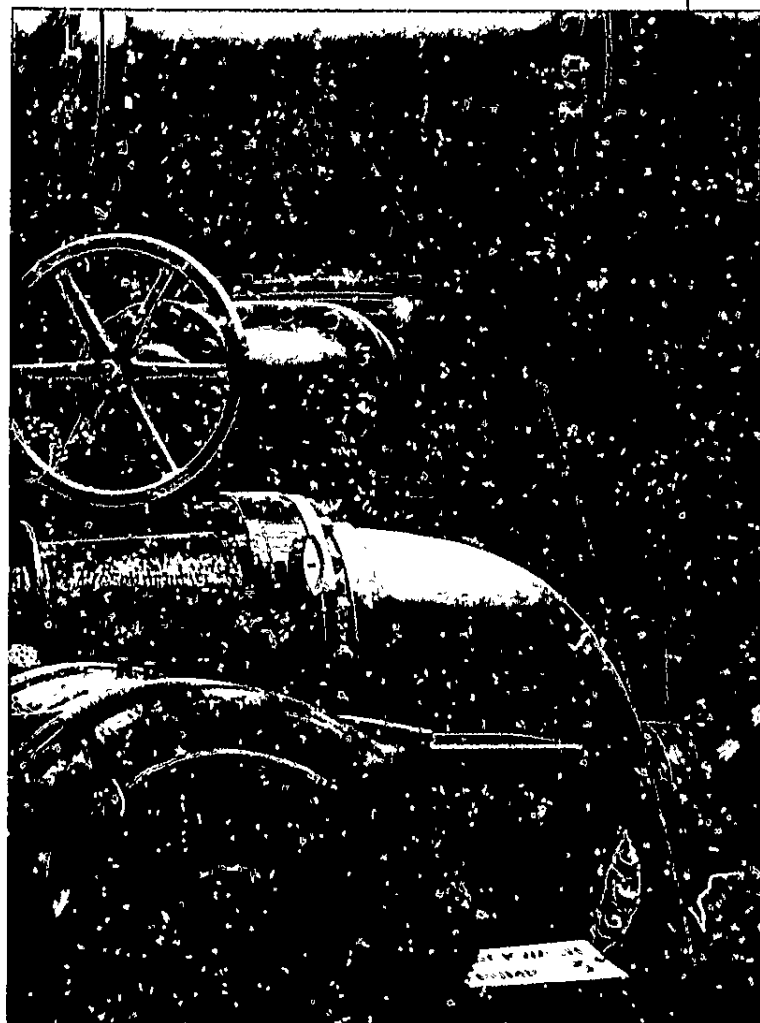
## Chief Executive's Report



The year under review has been one of great change and exciting progress in Severn Trent.

- for the first time in our history we have the resources to meet the quality needs of our customers and the environment.
- we have met our physical investment targets on time and at, or below, planned cost.
- we have made great progress in the year towards meeting our target needs through a 25 percent increase in our investment programme.
- drinking water quality meets the new European Community standards in the great majority of our supplies. Action for full compliance is in progress.
- we meet our sewage discharge consents; further improvements are being achieved.
- we comply with legal and environmental needs in the disposal of all our sewage sludge to land.
- we continued our productivity improvements for the eighth year in succession.

My report describes our activities including Severn Trent Water Limited, Severn Trent Industries Limited, Severn Trent Property Limited, our customers, the environment and our employees.



Colin Bush, plant operator at Ray Hall sewage treatment works

We are now equipped with the resources to manage our business

Our commitment to drinking water quality is total

We are committed to full compliance with effluent standards.

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## Severn Trent Water Limited



For the first time in our history, and probably since before both world wars, we have the resources in place to achieve the quality needs of our customers and the environment.

This is the meaning of privatisation to us in Severn Trent Water; this is the real benefit of the Water Act 1989.

Drinking water will be further improved and all standards met.

Waste water and sludge generated by our customers will continue to be safely returned to the environment and quality standards further improved.

Environmental needs will be protected and recreational facilities will continue to be developed.

Customer services will be improved.

Customers will have the benefit of price and service regulation under the Act. This legislation will also protect and regulate the shareholder's interest.

We are now equipped with the resources to manage our business, free of the ravages of government fiscal ups and downs so injurious to the long term needs of this vital business.

### Our aim Drinking water

Our commitment to drinking water quality is total. We will meet all standards - our own high standards, those set by Government and the European Community, and the rising expectations of our customers on the taste and appearance of their water.

Our supplies already meet the new stringent standards in most cases, and we have identified the deficiencies - both current and future - and agreed a firm timetable with Government for remedial action. We will achieve these agreed improvements in drinking water both on time and to budget.

We will renew or renovate our water mains to meet our quality objective. This year we have renewed or renovated over 1,100 kilometres of pipework.

### Waste water and sludge

We are an environmental business and nowhere is this more evident than in our treatment of sewage. We are committed to full compliance with effluent standards - standards which are set for our sewage treatment works by Government. These stringent standards are set having regard to the river systems and are policed by the National Rivers Authority.

Severn Trent is a world leader in sewage treatment and sludge disposal. All sewage is fully treated; we do not dump raw sewage, or sludge, into the sea.

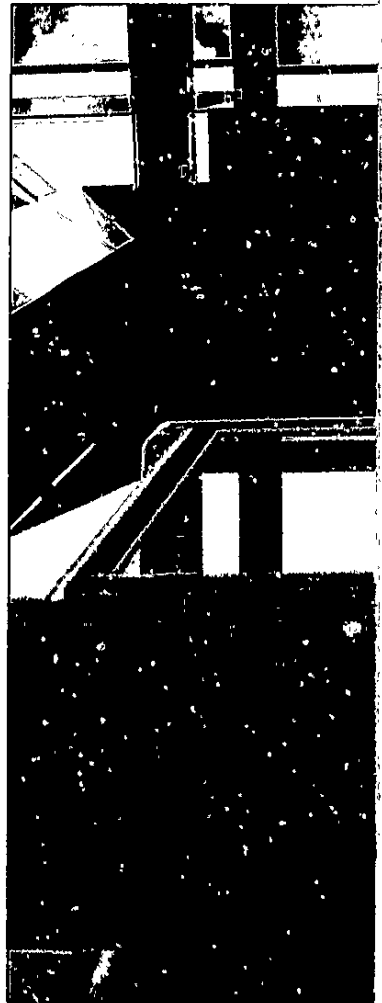
Over the past eight years we have progressively undertaken surveys of our sewerage systems. Generally they are in good condition, but we have identified features of the systems which are in need of improvement.

### Customer service

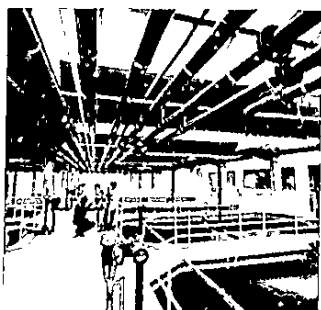
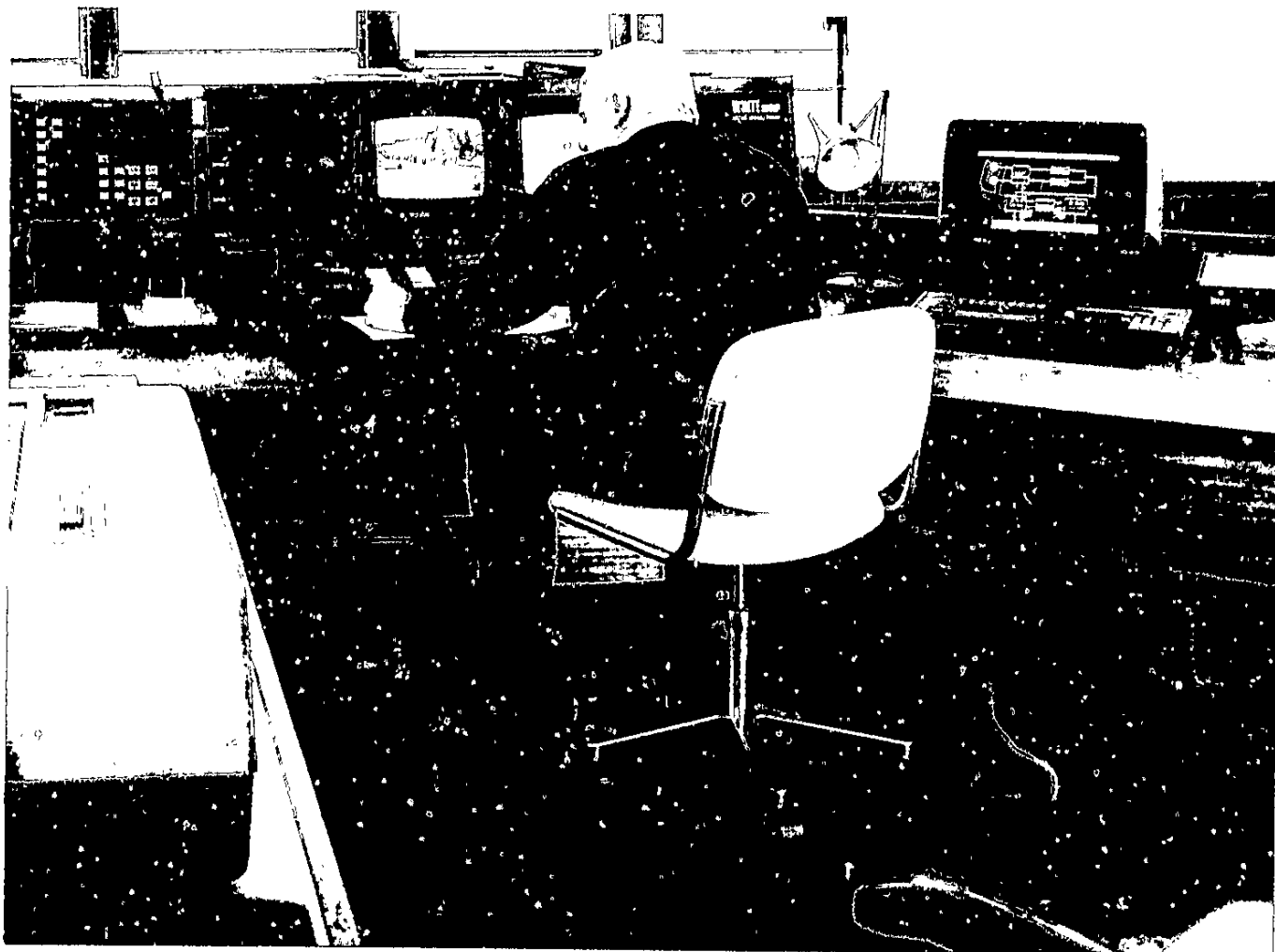
We have developed new systems to monitor and measure the service we give to our customers, both in terms of product quality and service in response to customer enquiries. In some areas we seek major improvement. In particular we are installing a new system for sending out our bills to our customers and for dealing with enquiries. This will take over a year to complete but already the first benefits are being realised.

### Productivity

Over the last year we have continued our drive for cost improvement and productivity. In spite of the full burden during this year of a massive assessment of our quality needs, the development of the programme to meet them, and an increase of quality control staff, numbers of employees have continued to decline for the eighth year in succession.



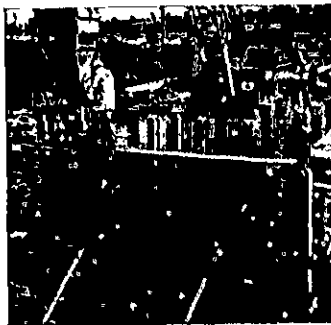






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Model of the Earth from the Apollo 11  
Binoculars in the foreground.



## Investment in Quality

Over the next 10 years we will spend some £4 billion at current prices – all to achieve even higher quality standards and service levels for our customers; this doubles our level of investment. It will be financed by the resources provided under the Water Act 1989, regulated increases in prices, borrowings and the "Green Dowry" provided by Government out of the proceeds of the sale of the undertaking on privatisation.

We have well defined physical targets of quality and service to meet, and it is the achievement of these that will cost the £4 billion.

We plan to meet these physical targets on time and on, or below, the planned cost. We have made an excellent start.

Over the next five years we have some 5000 investment projects to deliver. These are based upon sound planning, and we are using computer-based systems to monitor them. Our determination is backed by the proof of our past record and the skills we have available to us.

In Severn Trent Engineering we possess a highly specialised water design and supervisory facility. Its current design programme tackles schemes worth around £200 million a year and provides an engineering design resource across a whole range of water services.

Severn Trent has entered into a joint venture with the Aker Group, one of the country's largest engineering consultants, which further enhances our already high reputation for engineering expertise.

Since the year end Severn Trent has also acquired a minority shareholding in the highly regarded engineering consultancy of Charles Haswell & Partners Ltd, both in the UK and South East Asia. This gives us vital expertise in tunnelling design and construction for our underground investment and places us well to take advantage of opportunities in the Pacific rim.

These two resources, together with our in-house design facilities, and the continuing use of other consulting engineers, will fully meet our commitment to delivering our investment programme on time and on, or below, budget.

Investment programme report  
In 1988/89 we invested £205 million and in 1989/90 £262 million.

The "K" investment programme  
By the nature of our regulated price increases, including the "K" investment programme, it has been necessary for us to review both investment appraisal and monitoring procedures so as to have effective control of our investment against the revenue generated by the "K" factor.

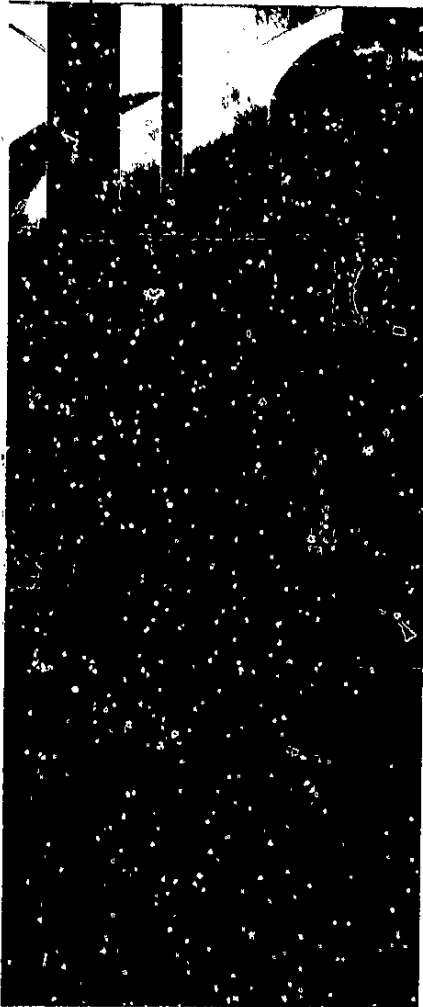
By the year end the new procedures were implemented, but could not take account of projects already in hand or authorised. Effectively the "K" programme only became "live" with vesting and privatisation late in 1989. I am able to report progress in four headings:

### Water treatment

The obligation of meeting the drinking water directive was not placed on us till the Water Act 1989. The programme for water treatment is therefore new and requires us to achieve higher standards. We are up to schedule on the works and design in hand and have completed major drinking water treatment schemes in the year on time and on cost. The largest scheme in the programme at Frankley for Birmingham has been designed and the contract let. The costs of contracts let to date are, on average, on target to meet the programme.

Since this programme has much the longest timescale to run to completion it must contain some uncertainty.





We are confident that we have the skills and resources to meet this challenge and can point to our achievement in our other programmes to support this.

#### Distribution

The programme for distribution is measured by the length of water services that are in need of rehabilitation or replacement in a fixed number of years. To achieve the output planned in the setting of "K" we have to average 1100 kilometres of mains each year. We have been driving this programme, so essential for water quality. A total of 1105 kilometres has been relined or replaced in the year—all at below the cost allowed in the "K" setting plans—an excellent achievement of productivity.

#### Sewage treatment

The programme for upgrading our sewage treatment works has been running for over four years now and will be complete against its current output targets by the end of 1992. We are confident that the outputs will be achieved within the timescale and within the planned costs on which the "K" income is set.

#### Sewerage

The programme for sewerage is set on outputs to achieve current target levels of service in a fixed timescale. Our investment during the year has achieved a significant improvement in the output, measured by achievement of levels of service, and we are within the annual cost allowed in setting "K".

Investing in drinking water quality  
Investment in the quality of our drinking water is our first priority. Our treatment works are undergoing substantial engineering development to bring in modern and innovative treatment processes. This investment in water treatment will maintain and improve our high quality standards well into the 21st century.

We are strengthening our highly integrated and flexible resource and supply grid, which enabled us to meet the heavy and prolonged demands experienced in last summer's drought.

Severn Trent Water's groundwater sources are of high quality and meet stringent standards. A major step to combat rising nitrate levels is being taken in Nottinghamshire, where we have announced a £37 million scheme which includes new borehole sources, laying new mains and installing a sophisticated computer control system to enable remote operation of our Nottinghamshire boreholes. We will have eliminated all nitrate exceedences by 1992 at the latest.

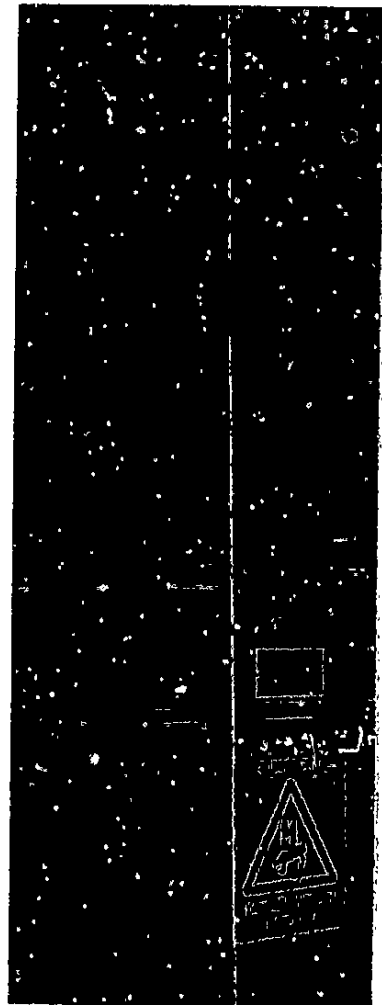
Although raw upland water is generally of a good quality, it sometimes has colour, and natural trace elements of iron and manganese derived from the peat catchment. A major programme is in hand to improve our large upland works. A £6 million programme to improve appearance and taste was commissioned during the year at Bamford in Derbyshire, which treats water from the Derwent valley.

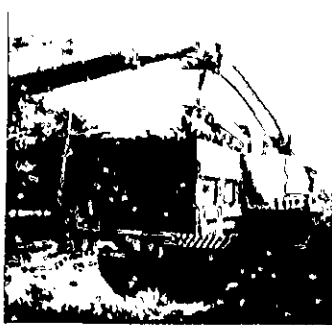
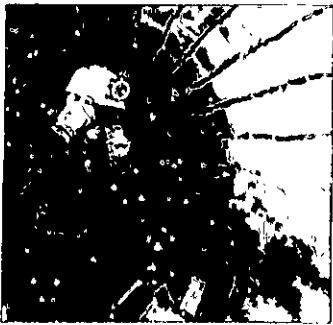
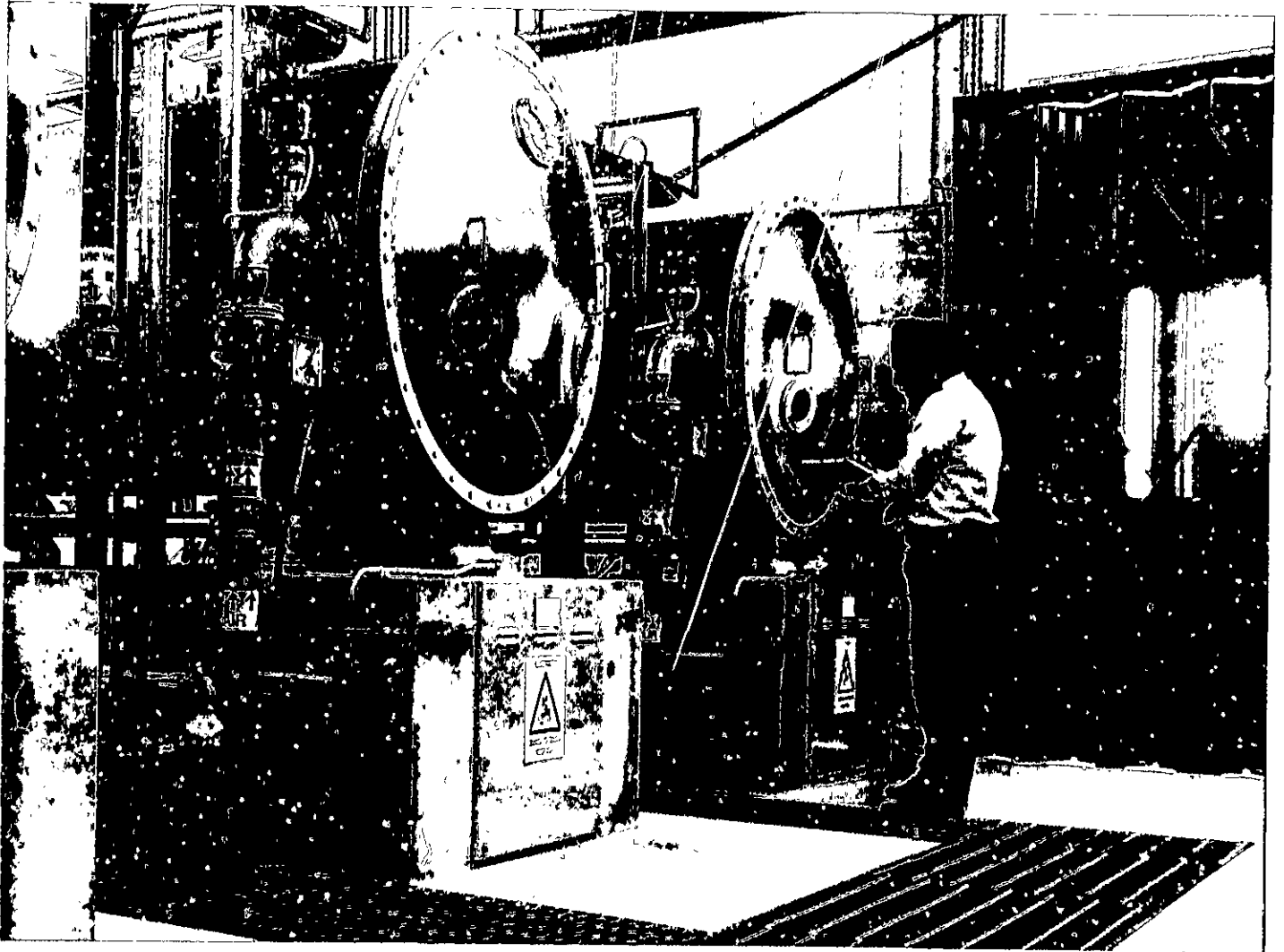
The largest dissolved air flotation plant in the world is being built at Frankley in Birmingham, which treats water from the Elan Valley in Wales. This is part of a £50 million modernisation to remove the colour.

In order to enhance taste, our lowland water is being improved further by the use of carbon filters.

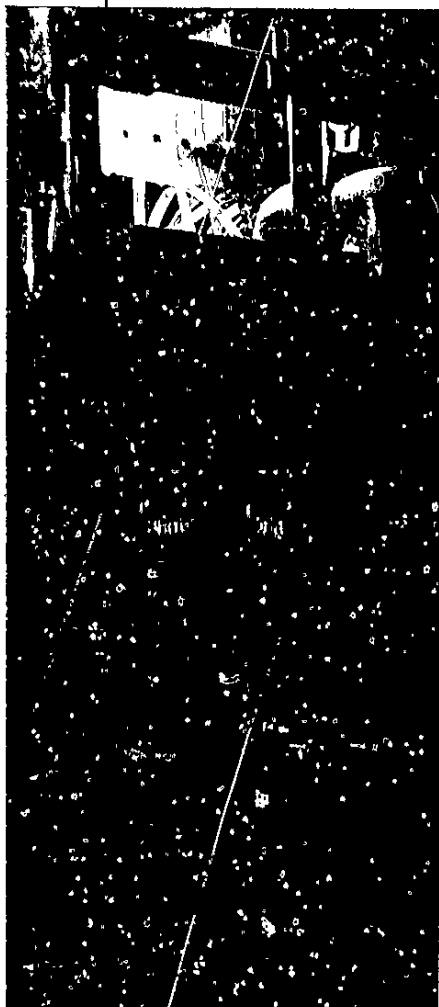
Church Wilne works near Nottingham is the only site in the country to have its own plant for regenerating the carbon from filter beds. In a joint venture with Anglian Water we have also set up a new company, Grafton Carbons Limited, to develop regeneration facilities.

The first plant in our area to use ozone, at Campion Hills in Leamington, has just been brought into operation.





## Investment in Quality



### Investing in water distribution

We are investing in improved service and quality by renewing and relining our distribution system.

In the last five years we have made substantial reductions in the cost of laying service pipes by using thrustboring techniques, instead of trenching. Of the 1100 kilometres of mains which we renew or reline each year, 800 kilometres are by the economical technology of relining.

Active leakage control has enabled us to cut leakage by more than 20 per cent during the past five years, with subsequent reductions in operating costs.

A vital tool in the effective management of our water mains is Severn Trent's unique and highly successful Distribution Operational Job Management system (DOJM).

### Fluoride

Ultimate responsibility for the ethical, medical and economic aspects of the fluoridation of public water supplies rests with the Government and Health Authorities. All costs of such fluoridation are met in full by the Health Authorities and in addition the Secretary of State has now granted Severn Trent Water an indemnity against certain civil liabilities which may be incurred in respect of the fluoridation of water supplies by the Company. The liabilities are seen as unlikely to occur.

### Investing in sewage treatment

Investment in sewage treatment is vital to meet our environmental obligations. We are very near to achieving 100 per cent compliance with the effluent standards at our sewage treatment works - as good as the very best in Europe and way ahead of most.

Our investment has been based on a thorough survey of our works and the condition of our assets, with great emphasis being placed on training.

### Ongoing schemes to ensure

compliance are all on target in terms of cost and timing. Schemes are being carried out throughout our area such as extensions to Coaley sewage treatment works in Gloucestershire, serving around 16,500 customers and costing £1 million, and a £15 million scheme to extend Wanlip works in Leicestershire, serving some 330,000 customers.

The giant Minworth works, one of the largest inland sewage treatment works in Europe, serving Birmingham, is undergoing improvements costing some £18 million. Barnhurst works in Wolverhampton is part way through an £11 million scheme of improvements to be completed in 1993.

### Disposing of sludge

We alone of the newly privatised water services companies already comply with EC sewage sludge directives and our customers will not bear the cost of developing costly alternatives to dumping at sea.

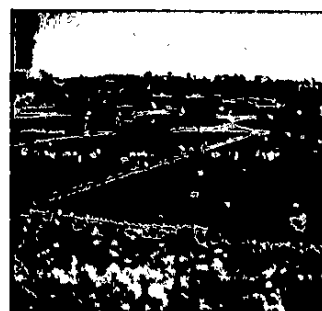
Severn Trent will not be affected by the Government's announcement to end sludge disposal at sea by 1998.

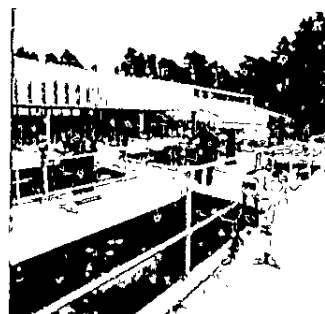
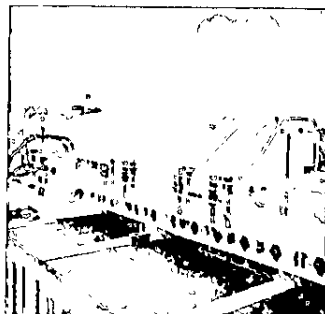
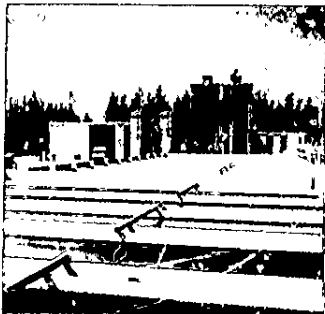
Half of the 250,000 tonnes of dry solids recycled by Severn Trent each year is used on farmland as a fertiliser. We place great importance on protecting this valuable and environmentally desirable disposal route.

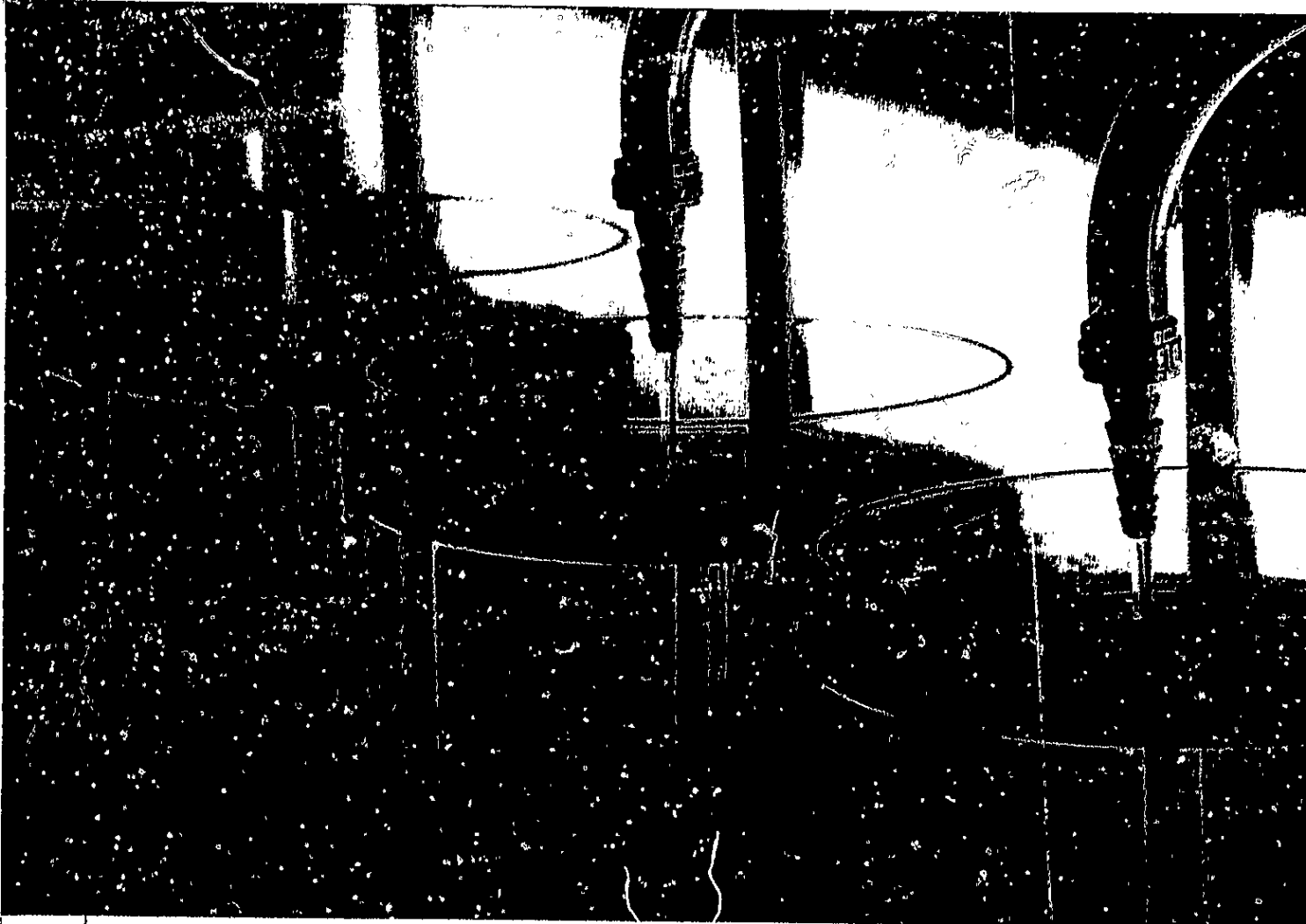
### Investing in sewerage

The investment we undertake is well focussed. Data on the condition of our 38,000 kilometres of sewers is derived from an ongoing programme of drainage area studies. Computer simulation is used to model the hydraulics of the system and closed circuit television is used to inspect our strategic sewers.

During the year over 450 schemes were carried out which ranged in value from £3000 to £3.6 million. They alleviated the risk of flooding at over 800 locations.

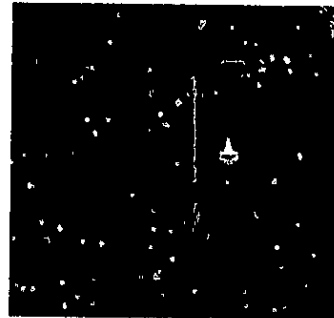






22

Underboiler at our new water treatment works at  
Crapston in Leicestershire





## Our Customers



### Our commitment to quality

At the very heart of our organisation is our Quality Assurance Department promoting the quality ethic throughout the company. Monitoring, reporting, auditing, training and helping - quality assurance plays a vital role.

Sampling is carried out throughout the drinking water and sewage treatment systems and each year some 100,000 samples are taken for analysis in our laboratories.

We are open about our quality achievements. Our public register, from which our customers are able to obtain information about their water supply, is evidence of this. We publish a full report on the quality levels we have achieved. In addition, Her Majesty's Drinking Water Inspectorate is an independent "watchdog" of our quality monitoring.

### The service we give

Severn Trent is a business which impacts on the lives of our customers at many levels. Our aim is to carry out our business maintaining ethical and professional standards for the benefit of our customers and the environment which we all share.

The Water Act 1989 has formalised the way in which we deal with our customers. The service that we provide and the charges that we make are closely monitored by the Director General of Water Services.

Action has been taken to understand better the knowledge and perceptions of customers concerning present services through direct contact, market research and training of employees in customer care. As part of the customer billing process earlier this year 80,000 requests for information leaflets on topics covering drinking water quality, metering options, charges, recreation and nature trails were supplied.

A customer charter is in place, with guarantees from us that we will perform to defined standards, and these are backed by codes of practice covering many aspects of our operations. To monitor customers' enquiries and our performance against set standards, we have sophisticated computer systems in operation.

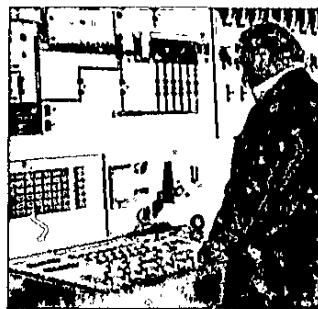
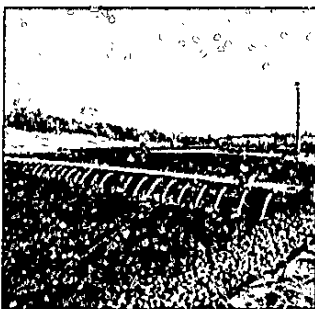
Opportunities for providing additional services to domestic and business customers are now being developed from our core business strengths to meet clear market demands, particularly in the industrial sector.

The human face of our organisation continues to manifest itself with the efforts of our staff to raise money for Water Aid, the water industry charity. And our customers give generously, raising some £110,000 this year in response to our annual appeal.

### The price we charge

The licence under which our water and sewerage businesses operate constrains the overall annual increase in our charges to the Retail Price Index (RPI) plus a K factor. The K factor for each year in the period to 1995 is 5.5 percent. The pricing arrangements in the licence thus gives us the necessary funds to finance our investment programme.

Our average charge levels are very competitive - among the lowest in the UK and very much lower than customers in Europe pay. For around 55 pence per day the average household receives a quality water and sewerage service - 24 hours a day - 365 days a year.



# Severn Trent Industries Limited

Severn Trent Industries Limited is a wholly owned subsidiary of Severn Trent Plc with five operating divisions.

**Severn Trent Laboratories**  
Severn Trent Laboratories provide Severn Trent Water Limited, and other customers, with comprehensive chemical analysis and specialised scientific services.

The laboratories monitor plant performance and quality to ensure that standards are met. In the course of the year the Birmingham laboratory became accredited under the NAMAS (National Measurement Accreditation Service) scheme operated by the Department of Trade and Industry.

Severn Trent Laboratories continue to grow, and have won business from outside the water utility. A number of significant contracts were gained, including the "Red List" survey of organic pollutants in watercourses. This was carried out on behalf of the National Rivers Authority, as well as the Department of the Environment in Northern Ireland.

**Severn Trent Process Plant**  
The newest of the divisions, Severn Trent Process Plant combines process knowledge with the management of engineering design and construction.

The division obtained a contract from the Home Office for the design and provision of a sewage treatment works for a prison. Construction is in progress. They also worked for Severn Trent Water Limited in constructing a sludge digestion plant at Hinckley.

The division is seeking to expand its operations to include industrial treatment plants, and sewage treatment facilities for other water companies. It is also actively pursuing work in India for specialist sludge treatment, in conjunction with its sister division, Severn Trent International.

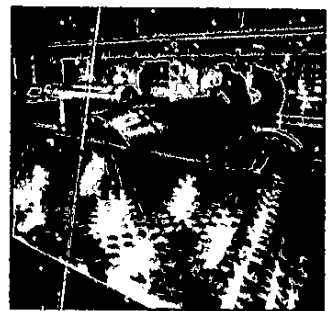
**Severn Trent International**  
Following another successful year in consultancy, with targets greatly exceeded, the activities of our International division are being widened to take on the operation of water and waste water systems.

Our long term technical co-operation arrangements in Mauritius, Madras and Delhi continue to develop, reflecting the high level of success of each arrangement. New projects have been secured in Zimbabwe, Pakistan, Turkey, Australia and China and training activities have continued at a high level.

**Severn Trent Waste**  
Severn Trent Waste is structured into two operating activities. Municipal Wastes provides and operates disposal facilities for domestic, commercial and non-hazardous industrial solid wastes. Specialised Wastes offers British industry an integrated collection, treatment and disposal service for liquid and solid hazardous wastes, as well as a comprehensive range of cleaning and site decontamination services.

Municipal Wastes opened its first landfill site with contracts from two major councils to dispose of domestic refuse, and also accepts industrial and commercial waste from other waste disposal contractors. Other potential landfill sites are being investigated.

In February 1990 the acquisition of two companies, Target Industrial Services Ltd and Target Waste Services Ltd, established the foundation for trading in Specialised Wastes. The capabilities of the division now include oil/water treatment, a transfer station for drummed wastes, transportation for bulk liquids and drummed wastes and a comprehensive range of industrial cleaning and site decontamination services.





Severn Trent Waste



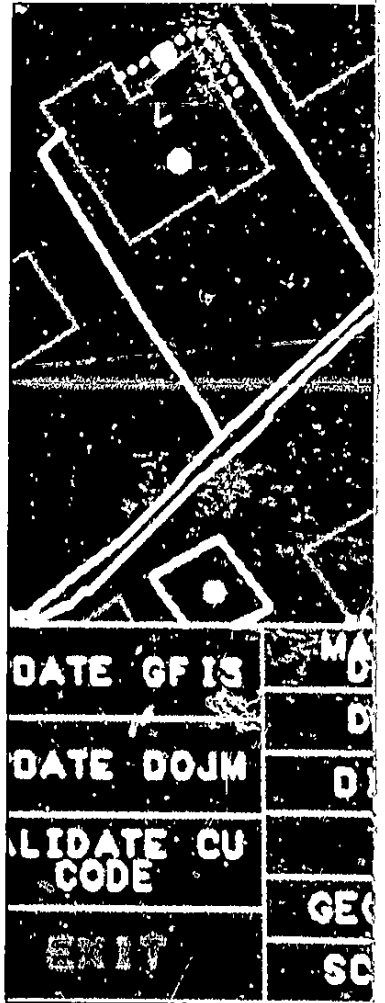
**Severn Trent Systems**  
 Severn Trent Systems is engaged in packaging and marketing our systems to other utilities. The primary objective is to make available computer software products and associated consultancy and services.

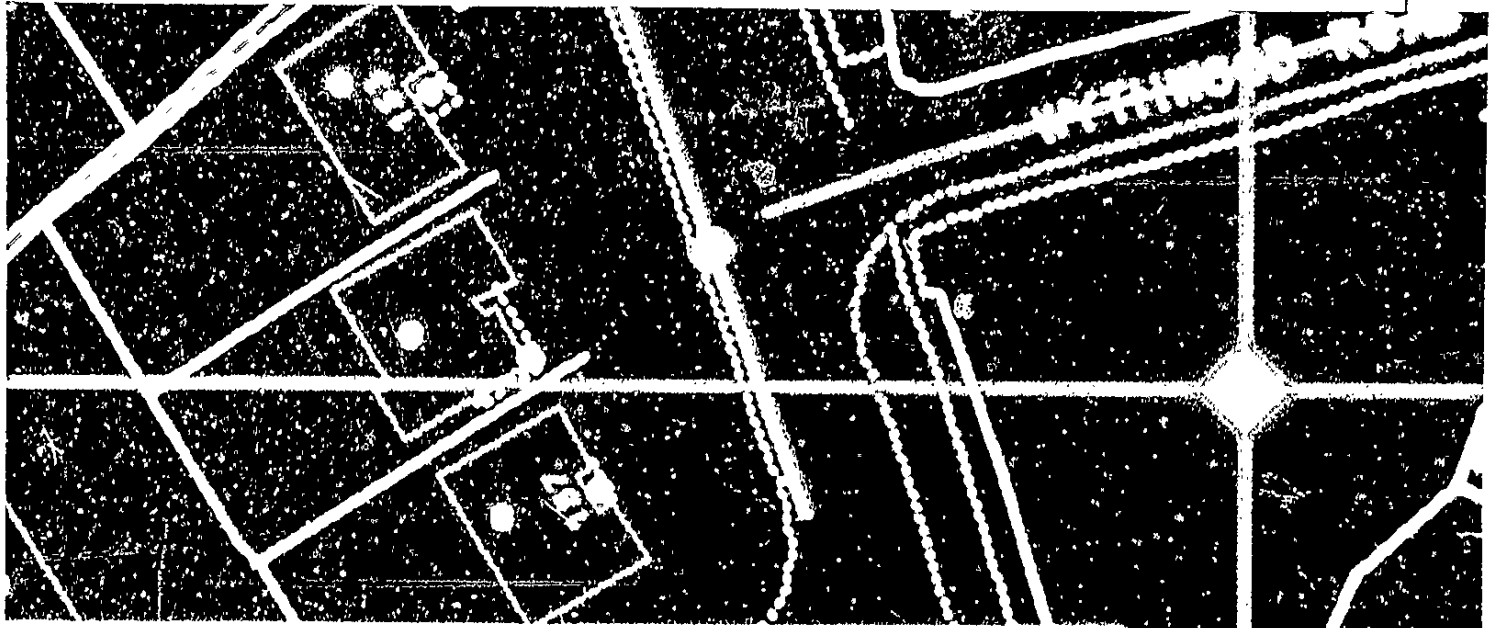
Systems play a vital role within our business. During the last four years we have directed resources to create a unified hardware platform supporting an integrated suite of new products in the areas of financial management, customer information, operational management and service quality. Several of these products are now available for sale and others will be ready soon. We have signed development and marketing agreements with IBM (UK) for our work management system - DOJM - and are discussing similar arrangements for other products.

During 1989/90, whilst still heavily engaged in the later stages of our own implementations, orders were signed for over £1m of Severn Trent systems and services. This includes sales to utilities at home and abroad. Visits and enquiries are regularly received from Europe, America and Australasia.

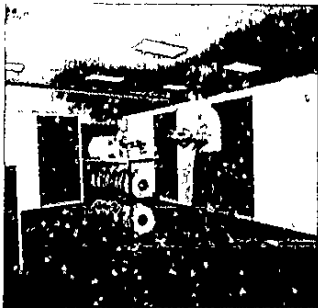
We consider that integrated relational database solutions supplied in packaged form will be much in demand during the 1990's. We look forward to this business's contribution to our growth.

**Severn Trent Property Limited**  
 Severn Trent Property Limited is engaged in property development activities.





UP	MAINS	HYDRANT	MAINS RE-LINE
TE	SERVICES	B BOX	EVENTS
LAY	MAINS CONNECT	VALVE	ADD FIRST MAIN
O	SERVICE CONNECT	AREAS	FACILITIES
CHMA			
ATIC			





Lake Wyny in Wales



## The Company and the Environment



We are wholly committed to caring for the environment in which we operate. We collect a natural element, water, clean it for use and then return it safely to the environment. Our commitment to caring for the environment, and helping our customers and other visitors to enjoy it, is as strong as ever.

During the year we continued to improve facilities for visitors to our area, in an environmentally sound way. These included creating children's play areas, improving car-parking, providing boardwalks and footpaths, information panels, better facilities at visitor centres, bird hides, more facilities for disabled visitors and anglers, restocking our reservoirs with fish and improving facilities for all anglers, creating nature trails, tree planting and landscaping.

We work closely with bodies involved in sport and recreation and the protection of the countryside, giving support and practical help.

Protection of our historic buildings also plays an important part in our activity and work has continued on a number of Victorian buildings we have in our trust. Here we work closely with English Heritage.

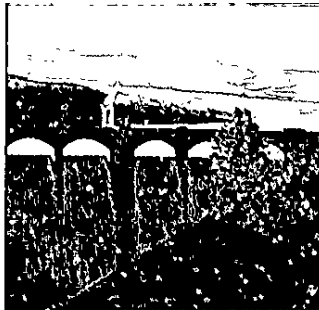
Our efforts on recreation and conservation projects have continued to

win us awards from local and national bodies. These include awards and commendations for setting up our historic conservation fund, for renovation work at a reservoir in Gloucestershire and for our visitor centre at Conduit Head, Shrewsbury, the site of the original water supply to the town.

The Society for the Interpretation of Britain's Heritage also gave us an award, presented by Magnus Magnusson, for the high standard of our visitor information panels at Carsington Reservoir in Derbyshire, which explain the construction of the dam and the reservoir to visitors.

Towards the end of the year under review we showed further proof of our commitment by setting up a Recreation and Conservation Advisory Panel of independent experts to help us further our work in this area.

Full details of our work during the past year can be found in a separate report on our recreation and conservation activities.



## Employees

### Numbers

The number of people working for Severn Trent Plc at 31 March 1990 was 7218 (including full-time equivalents for part-time and temporary employees). Of these, 6986 worked for Severn Trent Water Limited, the water utility.

The equivalent figure at 31 March 1989 was 7787, but on 31 August 1989, 738 employees transferred to the National Rivers Authority.

Additional staff were recruited in the areas of business growth, such as Severn Trent Waste and Severn Trent Laboratories, and to help us meet our quality objectives.

### Shareholders

Some 96 per cent of eligible employees took up the offer of free shares in Severn Trent on flotation and 74 per cent purchased shares under the free and matching share scheme. Thirty three per cent joined the Save as you Earn Share Option Scheme, committing themselves to regular savings over five years, at an average rate of £55 per month - a very welcome commitment to the Company.

### Consultation machinery

Our employee consultation arrangements have been restructured to improve communications. Much of the recent work has been associated with the setting up of a new consultative machinery in Severn Trent Water Limited, a function formerly covered in industry wide negotiation.

At the end of the year under review our manual workers accepted an increase of nine per cent in the first year and, in the second year, inflation plus two per cent. The agreement also includes a restructuring of pay scales during the next two years to take into account the need for higher and improved skills and increased flexibility of working.

### Communications

Communication with our employees is important to us. The lead up to flotation brought a greater emphasis to this activity.

Our house newspaper 'Stream', firmly established over a number of years, continues to be popular among our employees and this is supplemented by team briefing which provides for regular management communications on a face-to-face basis.

### Management development

The year has been marked by a sharp re-focusing on the skills, knowledge and behaviour required of managers. The company's commitment to this change in our culture is reflected in our vision statement, supported by appropriate management practices.

### Training

This year we have increased our recruitment of graduates in engineering, operations, accountancy and computing. In addition we have offered placements for sandwich course students. Students receive on the job training and gain valuable experience whilst having the satisfaction of doing a job.

### Health and safety

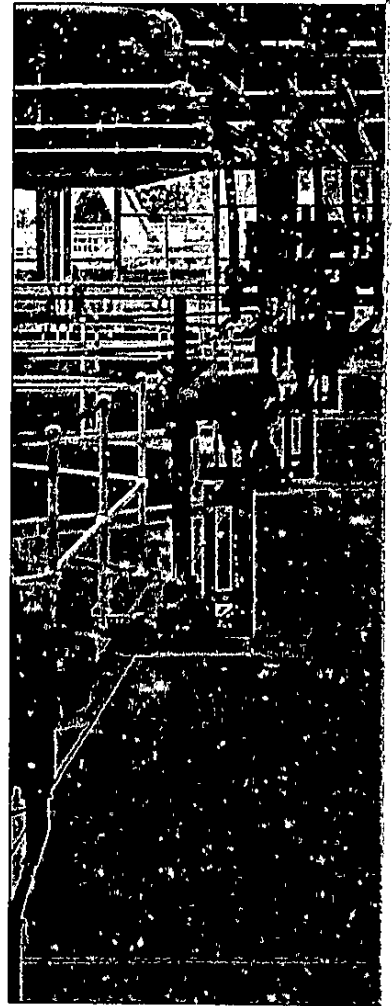
Our continuing commitment to health and safety has been rewarded by a British Safety Council award for our safety record during 1989. Our aim in the coming year is to improve this good performance.

The COSHH (Control of Substances Hazardous to Health) Regulations are now in force and we have reviewed the use of all hazardous substances in the Company and confirmed that our controls achieve their purpose.

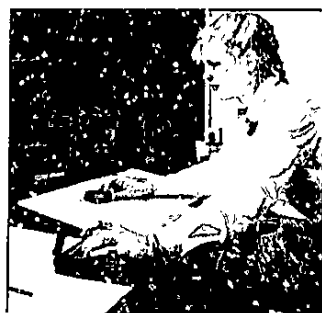
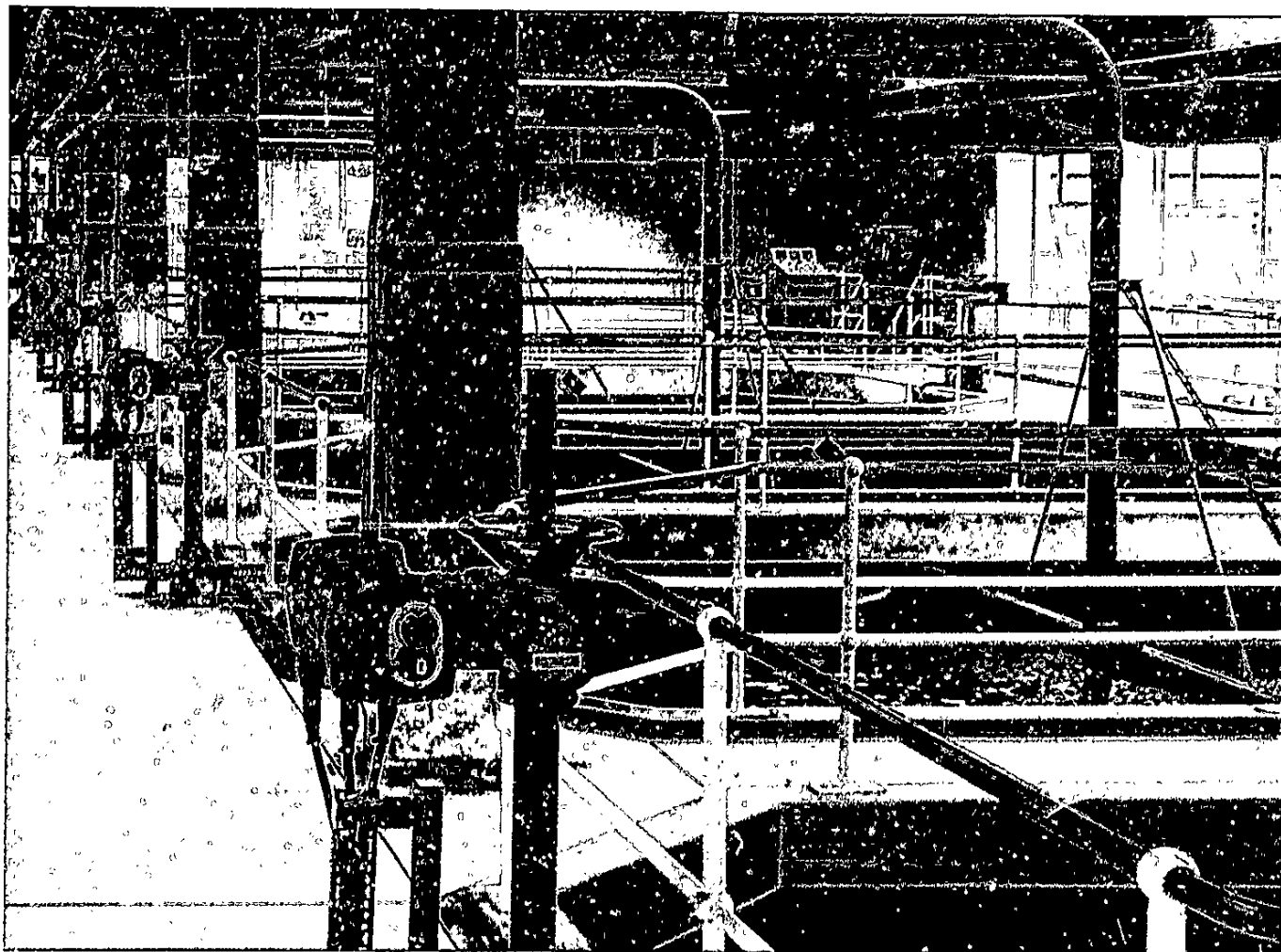
Close liaison has been maintained with the Health and Safety Executive and good working relationships with their inspectors have continued.



30 David Shakespeare, plant operator at Mythe water treatment works, Tewkesbury.







Leithright

Jim Morrison systems giving on the job training

Sae Prastley works on computer aided design at our Leicester offices

At Kiv Hill sewage treatment works Colin Bushy plant operator

Two standards at our laboratories

# Analysis of Shareholdings

at 31 March 1990

Shareholdings	Number of shareholders	Percentage of total shareholders	Percentage of ordinary shares held
1 - 499	90,033	49.5	4.7
500 - 999	72,500	39.8	12.1
1,000 - 4,999	17,571	9.7	6.6
5,000 - 9,999	589	0.3	1.1
10,000 - 49,999	789	0.4	5.4
50,000 - 99,999	232	0.1	4.6
over 100,000	422	0.2	65.5
	<u>182,136</u>	<u>100.0%</u>	<u>100.0%</u>

Category of Shareholding	Number of shareholders	Percentage of total shareholders
Individuals	166,450	91.4
Joint A/c's Individuals	10,269	5.6
Nominee Companies	3,915	2.1
Other Corporate bodies	263	0.1
Limited and Public Limited Companies	704	0.4
Banks	321	0.2
Pension Funds	121	0.1
Insurance Companies	93	0.1
	<u>182,136</u>	<u>100.0%</u>

## Financial Calendar

Annual general meeting	15 August 1990
Dividend for the year to 31 March 1990 to be paid	1 October 1990
Half yearly results for 1990/91 to be announced	12 December 1990
Interim dividend for 1990/91 to be paid	4 March 1991
Preliminary announcement of results for the year ended 31 March 1991	June 1991

## Directors' Report

The Directors present their Report, together with the audited Financial Statements for the year ended 31 March 1990.

### Principal activities

The principal activities of the Group are the supply of water and the treatment and disposal of sewage, together with the development of businesses in related areas. These are described fully, together with a review of the Company's business and future development in the Chief Executive's Report on pages 12-31.

A list of the principal operating companies in the Group at 31 March 1990 appears in note 11 to the financial statements on page 46.

### Dividend and reserves

Subject to the approval of the Annual General Meeting the Directors recommend a dividend of 9.9p net per Ordinary Share payable on 1 October 1990 to shareholders on the register at 23 July 1990.

Proposed transfers to reserves are set out in note 18 to the financial statements on page 50.

### Post balance sheet events

In April, 1990 the Group acquired a 35 per cent holding in the engineering consultancy of both Charles Haswell and Partners Limited and Charles Haswell and Partners Far East Limited. The companies have an international reputation for their expertise in all forms of tunnelling and have substantial experience of designing and managing schemes for water supply and waste water treatment.

In May, 1990 the Group acquired an 80 per cent holding in Capital Controls Incorporated of Colmar, Pennsylvania. The company is a world leader in the supply of applied water disinfection technology and water analysis instrumentation.

### Directors

The interests of the Directors in the Ordinary Share Capital of the Company according to the register maintained under the provisions of the Companies Act 1985 as at 31 March 1990 were:

	Beneficial holdings in Ordinary Shares	Share options under approved schemes
J G Bellak	7,663	114,731
R S Paul	7,359	143,541
V Cocker	4,291	86,289
F Earnshaw	2,495	92,014
S M Larnder	6,259	97,739
C G McMillan	1,287	6,136
T C Heywood-Lonsdale	2,800	—
Sir Richard Baker Wilbraham Bt	11,960*	—
R H Boissler	1,100	—
A W Henn	3,800	—
R Ireland	1,000	—
A H Simon	4,600	—

None of the Directors had an interest in the Ordinary Share Capital of the Company at the beginning of the year or at the 31 August 1989, the date of their appointment.

No changes in the above mentioned interests of the Directors were notified to the Company between the year end and 21 June 1990 except that Sir Richard Baker Wilbraham Bt. purchased 3,040 Ordinary Shares on 19 June 1990.

Includes a non-beneficial interest of 10,000 shares.\*

No Director had an interest in the shares of any subsidiary company other than a non beneficial interest as nominee.

No contract significant to the Company's business in which a Director had a material interest was entered into during the year.

In accordance with the Company's Articles of Association, Mr A W Henn, Mr T C Heywood-Lonsdale and Mr C G McMillan retire by rotation. Mr A W Henn and Mr T C Heywood-Lonsdale, being eligible, offer themselves for re-appointment. Mr C G McMillan is not seeking re-appointment.

Mr A W Henn and Mr T C Heywood-Lonsdale do not have any service contracts with the Company or any of its subsidiaries.

Mr J Gunn and Mr A Whetnall being the appointees of the Secretary of State on incorporation of Severn Trent Plc resigned on 31 August 1989.

## Directors' Report

### Fixed assets

The changes in tangible fixed assets during the year are shown in note 10 to the financial statements on page 44.

### Share capital

Details on movements in share capital are shown in note 17 to the financial statements on page 49.

Shareholders will be asked to pass a special resolution at the Annual General Meeting empowering the Directors, until the conclusion of the Annual General Meeting of the Company to be held in 1991, to allot shares for cash in connection with a rights issue, and generally up to a specified aggregate nominal value. The special resolution is set out in full in the Notice of Meeting which accompanies this document.

### Research and development

Severn Trent has a positive view of research and development. We are directing investment into those areas which can positively contribute to continuing improvements in operational efficiency and the achievement of national and international standards for potable water, sewage effluent and sewage sludge.

We are developing appropriate technologies, captured from any appropriate sources throughout the world, to meet these objectives. We aim successfully to apply these technologies to our core business, and if appropriate, to use them as a springboard to develop other business opportunities in non-core areas.

### Contributions for political and charitable purposes

Donations to charitable organisations during the period amounted to £20,034. No political donations were made.

### Disabled persons

Severn Trent has a policy of employing disabled people in suitable posts and of making arrangements, whenever possible, to encourage employees who develop a disability to continue working with the Group.

### Health and safety at work

We have a continuing commitment to health and safety at work, details of which are on page 30. The section on employees on page 30 also gives details of our policy on employee involvement.

### Substantial shareholding

As at 21 June 1990 the Company had been notified that Compagnie Generale des Eaux is the beneficial owner of 4.04 per cent of the issued share capital of the Company. The Company has not been notified of any other substantial interests in the share capital of the Company.

### Close company status

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

### Accounts of Severn Trent Water Limited

Separate accounts for Severn Trent Water Limited are prepared and sent to the Director General of Water Services. A copy of these accounts can be obtained on written request to the Director of Corporate Communications at the address given on page 56. There is no charge for this publication.

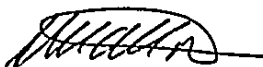
### Auditors

A resolution proposing the re-appointment of Price Waterhouse as auditors will be put to the Annual General Meeting.

By order of the Board

D W Mattin, Secretary

16 July 1990



# Financial Statements

Year ended 31 March 1990

Group Profit and Loss Account	36
Balance Sheets	37
Group Statement of Source and Application of Funds	38
Notes to the Financial Statements	39
Five Year Summary	54
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# Group Profit and Loss Account

Year ended 31 March 1990

	Notes	1990 £m	1989 £m
Turnover	2	544.1	476.4
Operating profit before interest and taxation	2	163.9	178.4
Net interest	5	(34.0)	(80.9)
Profit on ordinary activities before taxation		129.9	97.5
Taxation on profit on ordinary activities	6	(11.7)	—
Profit on ordinary activities after taxation		118.2	97.5
Extraordinary item	7	(8.9)	(2.8)
Profit for the financial year		109.3	94.7
Dividend	8	(35.0)	—
Retained profit for the financial year	18	74.3	94.7
Proforma earnings per share	9	56.4p	—


# Balance Sheets

as at 31 March 1990

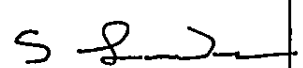
	Notes	Group		Company
		1990 £m	1989 £m	1990 £m
Fixed assets				
Tangible assets	10	1,530.4	1,356.1	0.1
Investments	11	0.8	—	400.8
		<u>1,531.2</u>	<u>1,356.1</u>	<u>400.9</u>
Current assets				
Stores and work in progress		8.3	6.4	—
Debtors	12	61.9	64.0	59.1
Short term deposits and investments	13	368.8	1.1	—
		<u>439.0</u>	<u>71.5</u>	<u>59.1</u>
Creditors: amounts falling due within one year	14	(193.9)	(261.2)	(52.7)
Net current assets/(liabilities)		<u>245.1</u>	<u>(189.7)</u>	<u>6.4</u>
Total assets less current liabilities		<u>1,776.3</u>	<u>1,166.4</u>	<u>407.3</u>
Creditors: amounts falling due after more than one year	15	(55.8)	(744.5)	—
Provisions for liabilities and charges	16	(45.3)	(7.9)	—
		<u>1,675.2</u>	<u>414.0</u>	<u>407.3</u>
Capital and reserves				
Called up share capital	17	353.8	—	353.8
Reserves and retained profits	18	1,321.4	414.0	53.5
		<u>1,675.2</u>	<u>414.0</u>	<u>407.3</u>

Signed on behalf of the Board who approved the accounts on 16 July 1990

  
J G BELLAK  
Chairman

  
S M LARNDER  
Director of Finance





# Group Statement of Source and Application of Funds

Year ended 31 March 1990

	Notes	1990 £m	1989 £m
<b>Funds generated from operations</b>			
Profit before interest		163.9	178.4
Depreciation		40.3	33.8
Infrastructure renewals provision		35.3	—
Working capital movement	22	24.3	21.6
<b>Fixed assets:</b>			
Capital expenditure (net of grants)		(216.4)	(145.5)
Operating disposals		2.0	1.9
<b>Operating cash flow</b>		<u>49.4</u>	<u>90.2</u>
Interest		(34.0)	(80.9)
<b>Net funds generated</b>		<u>15.4</u>	<u>9.3</u>
<b>Other sources of funds</b>			
Issue of shares		361.5	—
<b>Utilisation of funds</b>			
Acquisitions	22	(3.1)	—
Restructuring and flotation		(10.8)	(6.8)
<b>Net cash flow</b>		<u>363.0</u>	<u>2.5</u>



# Notes to the Financial Statements

Year ended 31 March 1990

## 1 Accounting Policies

### a Accounting convention

The financial information has been prepared under the historical cost convention.

### b Basis of preparation

The financial information is a consolidation of the information of Severn Trent Plc and its subsidiaries, and of Severn Trent Water Authority for the first five months of the financial year. The results of subsidiaries acquired are included from the date of acquisition. The results of related companies have been accounted for on the equity basis.

Severn Trent Plc was incorporated on 1 April 1989 and commenced to trade on 1 September 1989 and therefore comparative information in the balance sheet is not applicable. On 1 September 1989 the property rights and liabilities of Severn Trent Water Authority, other than those applicable to the National Rivers Authority, were vested in Severn Trent Water Limited, a wholly owned subsidiary of Severn Trent Plc. The prior year financial information is based on the audited financial statements of Severn Trent Water Authority which have been adjusted to exclude those assets liabilities, profits and losses attributable to the functions transferred to the National Rivers Authority.

The accounts do not indicate what the results of Severn Trent Plc would have been had it been in the private sector operating in the new regulatory environment from 1 April 1989.

### c Turnover

Turnover represents the income receivable in the ordinary course of business for services provided.

### d Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipe lines); and other assets (including properties, overground plant and equipment).

#### (i) 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 after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

#### (ii) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings	30-60 years
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	4-10 years

Assets in the course of construction are not depreciated until commissioning.

## Notes to the Financial Statements

continued

### (iii) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease periods.

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year they are incurred.

### e Infrastructure renewals accounting

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying Severn Trent Water Limited's "K" Investment Programme; these operational policies and standards may differ from those adopted prior to 1 April 1989 and reflect the impact of price changes by indexation since the programme was prepared. The timing of the "K" Investment Programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure.

### f Investments

Investments held as fixed assets are stated at cost less amounts written off. Those held as current assets are stated at the lower of cost and net realisable value.

### g Stores and work in progress

Stores are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

### h Pension costs

Pension costs are determined actuarially so as to spread the cost of providing pension benefits over the estimated period of employee's pensionable service with the Group.

### i Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances on which the exchange movements are covered are translated into sterling at the covered rates. Other foreign currency balances are translated at the rates ruling at the balance sheet date.

### j Research and development

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

### k Deferred taxation

Deferred taxation relating to capital allowances and other timing differences is provided for to the extent it is probable that a liability will crystallise. Deferred taxation is not provided for on timing differences where it is possible that a liability will not crystallise. Advance corporation tax paid and payable in respect of dividends is set off against UK mainstream corporation tax or deferred tax to the extent possible, otherwise it is written off to the profit and loss account.

### l Goodwill

Goodwill represents the difference between the cost at acquisition and the fair value of the net tangible assets acquired. Goodwill is written off to reserves in the year of acquisition.

Notes to the Financial Statements

continued

	Turnover		Operating Profit/(loss)	
	1990 £m	1989 £m	1990 £m	1989 £m
2 Analysis of turnover and profits by class of business				
Severn Trent Water Limited	541.6	476.4	164.0	178.4
Other trading activities	6.7	—	1.3	—
Business development costs	—	—	(1.4)	—
Intra-group	(4.2)	—	—	—
	<u>544.1</u>	<u>476.4</u>	<u>163.9</u>	<u>178.4</u>

All turnover other than £1.4 million is derived from UK activities

	1990 £m	1989 £m
3 Operating costs		
Manpower costs (note 4)	92.5	81.8
Infrastructure renewals expenditure (note 16)	69.6	49.9
Depreciation (note 10)	40.0	33.2
Abstraction charges payable to the National Rivers Authority	10.2	—
Re-organisation provision	6.4	—
Hire of plant and machinery	2.3	1.3
Other operating leases	0.3	0.3
Auditors' remuneration	0.1	0.1
Research and development	2.5	2.3
Other operating costs	161.6	135.4
	<u>385.5</u>	<u>304.3</u>
Profit on disposal of fixed assets	(5.3)	(6.3)
	<u>380.2</u>	<u>298.0</u>
Other operating costs include the following exceptional charges:		
Share of national awareness campaign	2.9	—
Commitment fees for revolving credit facility	3.0	—
Premium for early redemption of foreign debt	0.8	4.5
	<u>6.7</u>	<u>4.5</u>

The infrastructure renewals expenditure charge for the year ended 31 March 1989 reflects only the actual expenditure incurred on maintaining the operating capability of the infrastructure network, as Severn Trent Water Limited did not have a "K" Investment Programme in the current form during this period.

Notes to the Financial Statements

continued

	1990	1989
	£000	£000
4 Information regarding directors and employees		
Directors emoluments:		
Emoluments	558.3	349.4
Pension contributions	194.8	26.4
	<u>753.1</u>	<u>375.8</u>
Emoluments (excluding pension contributions) of the Chairman	79.9	51.1
Emoluments (excluding pension contributions) of the highest paid Director	<u>105.7</u>	<u>70.0</u>
	1990	1989
	No	No
Scale of Directors emoluments (excluding pension contributions):		
£ 0 — 5,000	2	2
£ 5,001 — 10,000	4	3
£ 10,001 — 15,000	2	1
£ 20,001 — 25,000	—	1
£ 40,001 — 45,000	—	1
£ 45,001 — 50,000	—	1
£ 50,001 — 55,000	—	2
£ 65,001 — 70,000	1	—
£ 70,001 — 75,000	1	1
£ 75,001 — 80,000	2	—
£ 95,001 — 100,000	1	—
£ 105,001 — 110,000	1	—
	<u>14</u>	<u>12</u>

Excluded from the above information are five former directors of Severn Trent Water Authority who were not appointed directors of Severn Trent Plc.

A loan to C. G. McMillan of £12,500 was repaid during the year. There are no other transactions or arrangements of a disclosable nature with directors and officers.

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	1990	1989
	£m	£m
Employee emoluments:		
Staff costs	97.7	87.1
Social security costs	7.2	6.4
Pension costs (note 20)	11.9	6.4
	<u>116.8</u>	<u>99.9</u>
Total employment costs		
Charged as follows:		
Capital and infrastructure renewals expenditure	24.3	18.1
Operating costs (note 3)	92.5	81.8
	<u>116.8</u>	<u>99.9</u>

Notes to the Financial Statements

continued

4 Information regarding directors and employees (continued)

Emoluments of senior employees (excluding pension contributions) fall within the following ranges:

	1990	1989
	No	No
£ 30,001 — 35,000	35	41
£ 35,001 — 40,000	46	6
£ 40,001 — 45,000	8	8
£ 45,001 — 50,000	4	1
£ 50,001 — 55,000	5	—
£ 60,001 — 65,000	1	—

	1990	1989
	No	No
Average number of employees during year (full time equivalent)	<u>7,298</u>	<u>7,757</u>

The 1989 employee numbers include staff engaged on activities transferred to the National Rivers Authority. On 31 August 1989, 738 employees transferred to the National Rivers Authority.

5 Net interest

	1990	1989
	£m	£m
Interest payable		
Bank loans, overdrafts and other loans repayable within five years	51.3	43.1
Other loans	—	39.3
Finance charges in respect of finance leases	3.6	4.5
	<u>54.9</u>	<u>86.9</u>
Interest receivable	(20.9)	(6.0)
Net interest	<u>34.0</u>	<u>80.9</u>

6 Taxation on profit on ordinary activities

	1990	1989
	£m	£m
Advance corporation tax written off	<u>11.7</u>	<u>—</u>

At 31 March 1990, the Group had tax losses of approximately £54 million which will be available for offset against future trading profits of the Group.

7 Extraordinary item

	1990	1989
	£m	£m
Expenditure relating to preparation for the vesting of Severn Trent Water Authority's assets and liabilities, and the subsequent flotation of the Company.	<u>8.9</u>	<u>2.8</u>

8 Dividend

	1990	1989
	£m	£m
Proposed dividend of 9.9p net per share	<u>35.0</u>	<u>—</u>

Notes to the Financial Statements

continued

9 Proforma earnings per share

Proforma earnings per Ordinary Share has been calculated by dividing proforma profit on ordinary activities after taxation of £199.6 million by the 353.7 million average number of shares in issue since 20 November 1989. Proforma profit on ordinary activities after taxation has been calculated by making an adjustment to interest of £87.2 million and including a notional taxation charge reflecting advance corporation tax of £17.5 million on the notional dividends of £52.5 million that the Directors consider they would have recommended for the year ended 31 March 1990, if the shares had been in issue and the new capital structure in place since 1 April 1989. Actual earnings per share have not been presented; the number of shares in issue during the year and the actual profits for the period are not considered to be representative of the Group's position following implementation of the new capital structure. There would be no significant dilution of earnings per share if the outstanding share options were exercised.

	Water Supply £m	Sewerage Services £m	Other £m	Group Total £m	Company Total £m
10 Tangible fixed assets					
Movements for the year analysed by service are set out below:					
Cost					
Balance 1 April 1989	619.0	883.2	170.3	1,672.5	—
Additions	88.3	107.2	32.4	227.9	0.1
Grants and contributions	(4.9)	(5.7)	(0.7)	(11.3)	—
Assets sold or written out	(1.4)	(0.8)	(19.7)	(21.9)	—
Balance 31 March 1990	<u>701.0</u>	<u>983.9</u>	<u>182.3</u>	<u>1,867.2</u>	<u>0.1</u>
Depreciation					
Balance 1 April 1989	108.7	148.6	59.1	316.4	—
Provision for year	9.0	13.7	17.6	40.3	—
Assets sold or written out	(1.0)	(0.2)	(18.7)	(19.9)	—
Balance 31 March 1990	<u>116.7</u>	<u>162.1</u>	<u>58.0</u>	<u>336.8</u>	<u>—</u>
Net book value					
At 31 March 1990	584.3	821.8	124.3	1,530.4	0.1
At 31 March 1989	510.3	734.6	111.2	1,356.1	—

- (i) Tangible fixed assets at 31 March 1990 include £202.6 million (1989 £133.7 million) of assets in the course of construction, which are not depreciated until commissioning.
- (ii) The book value of tangible fixed assets held under finance leases at 31 March 1990 was £55.6 million and accumulated depreciation thereon £22.3 million (1989 net book value £36.0 million).

Notes to the Financial Statements

continued

10 Tangible fixed assets (continued)

(iii) Depreciation incurred during the year has been charged as follows:

	1990	1989
	£m	£m
On owned assets	37.4	30.2
On assets held under finance leases	2.6	3.0
Profit and loss account	40.0	33.2
Capital, rechargeable works and other	0.3	0.6
	<u>40.3</u>	<u>33.8</u>

Included in the above are the following tangible fixed assets not subject to depreciation:

	Land	Infrastructure Assets	Total
	£m	£m	£m
At 31 March 1990	<u>8.5</u>	<u>844.0</u>	<u>852.5</u>
At 31 March 1989	<u>8.7</u>	<u>759.5</u>	<u>768.2</u>

Notes to the Financial Statements

continued

11 Investments	Related Companies		Other	Total
	Shares	Loans	Investments	
Group	£m	£m	£m	£m
Cost				
At 1 April 1989	—	—	—	—
Additions during year	0.1	0.4	0.3	0.8
At 31 March 1990	<u>0.1</u>	<u>0.4</u>	<u>0.3</u>	<u>0.8</u>

Company	Related Companies	Subsidiary Companies	Total
	Loans	Shares	
Cost	£m	£m	£m
At 1 April 1989	—	—	—
Additions during year	0.2	400.6	400.8
At 31 March 1990	<u>0.2</u>	<u>400.6</u>	<u>400.8</u>

Brief details of principal operating subsidiaries and related companies of the Group at 31 March 1990 were as follows:

	Country of Registration or Incorporation (and operation)	Class of Share Capital held	Nature of Business
<b>Subsidiary Companies</b>			
Severn Trent Water Limited	England	100% Ordinary	Water and sewerage undertaking
Severn Trent Industries Limited	England	100% Ordinary	Trading company
Severn Trent Property Limited	England	100% Ordinary	Property company
<b>Related Companies</b>			
Minworth Systems Limited	England	49% Ordinary	Process monitoring equipment
Acer Engineering Limited	England	35% Ordinary	Engineering design consultants
Graham Carbons Limited	England	50% Ordinary	Carbon regeneration

12 Debtors	Group		Company
	1990	1989	1990
	£m	£m	£m
Trade debtors	26.0	29.7	—
Amounts owed by group companies	—	—	59.0
Other debtors	16.3	12.9	0.1
Prepayments and accrued income	19.6	21.4	—
	<u>61.9</u>	<u>64.0</u>	<u>59.1</u>



Notes to the Financial Statements

continued

	1990	1989
	£m	£m
13 Short term deposits and investments		
Short term deposits	367.8	—
Investments listed on a recognised investment exchange	1.0	1.1
	<u>368.8</u>	<u>1.1</u>

The market value on 31 March 1990 of listed investments held was £1.0 million (1989 £1.1 million).

	Group		Company
	1990	1989	1990
	£m	£m	£m
14 Creditors: amounts falling due within one year			
Bank loans, overdrafts and temporary borrowings	2.6	18.4	—
Loans	0.4	0.4	—
Current portion of long term loans (note 15)	—	122.9	—
Obligations under finance leases (note 19c)	3.5	3.1	—
Trade creditors	42.9	41.7	2.6
Amounts owed to group companies	—	—	3.4
Other creditors	0.8	25.4	—
Taxation and social security	3.4	3.2	—
Advance corporation tax payable	11.7	—	11.7
Accruals and deferred income	93.6	46.1	—
Proposed dividend	35.0	—	35.0
	<u>193.9</u>	<u>261.2</u>	<u>52.7</u>
	Average rate of Interest %	1990	1989
15 Creditors: amounts falling due after more than one year		£m	£m
Loans Total amount outstanding*		—	805.8
Less current portion of long term loans (note 14)		—	(122.9)
		—	682.9
Local authority loans — repayable 1991-2035	9.3-12.0	17.3	17.6
Water annuities	4.0-5.0	0.1	0.1
		17.4	700.6
Obligations under finance leases (note 19c)		30.1	35.3
Other creditors		8.3	8.6
		<u>55.8</u>	<u>744.5</u>

\*These amounts are included in note 18 within the write off of relevant loans as a result of the capital restructuring of the Group.

Notes to the Financial Statements

continued

15 Creditors: amounts falling due after more than one year (continued)

	1990 £m	1989 £m
Loans outstanding are repayable as follows:		
Between one and two years	0.4	49.2
Between two and five years	1.1	140.9
After five years — by instalments	15.8	335.4
— other than by instalments	0.1	175.1
	<u>17.4</u>	<u>700.6</u>

	Balance at 1 April 1989 £m	Charged to Profit & Loss Account £m	Applied £m	Balance at 31 March 1990 £m
16 Provisions for liabilities and charges				
Reorganisation provision	7.9	6.4	4.3	10.0
Infrastructure renewals provision	—	69.6	34.3	35.3
Total	<u>7.9</u>	<u>76.0</u>	<u>38.6</u>	<u>45.3</u>

	1990 £m	1989 £m
The potential liability for deferred taxation calculated under the liability method at a UK tax rate of 35% is		
Accelerated capital allowances	154.6	—
Other timing differences	(12.7)	—
Available tax losses	(18.9)	—
Advance corporation tax not immediately recoverable	(11.7)	—
	<u>111.3</u>	<u>—</u>

Notes to the Financial Statements

continued

	1990	1989
	£m	£m
17 Called up share capital		
Authorised share capital:		
475,000,000 Ordinary Shares of £1	475.0	—
One Special Rights Redeemable Preference Share of £1		
Alotted and fully paid:		
353,821,439 Ordinary Shares of £1	353.8	—
One Special Rights Redeemable Preference Share of £1		

- a Severn Trent Plc was incorporated on 1 April 1989. The Company's authorised share capital on incorporation was £50,000 divided into 50,000 shares of £1 each, of which two were subscribed at par by nominees of the Crown. On 29 August 1989 the authorised share capital was increased to £50,001 by the creation of one Special Rights Redeemable Preference Share of £1 and the 50,000 shares of £1 each were redesignated as Ordinary Shares of £1 each. On 1 September 1989 49,998 Ordinary Shares were issued at par to the Secretary of State credited as fully paid.
- b On 20 November 1989
- (i) The authorised share capital of the Company was further increased to £2,216,001 by the creation of 2,166,000 additional Ordinary Shares and the Directors were authorised and empowered to allot the increased share capital.
- (ii) In accordance with a direction made by The Secretary of State under the Water Act 1989 2,166,000 Ordinary Shares were issued at par, credited as fully paid to the Secretary of State.
- c The authorised share capital of the company was further increased to £475,000,001 by the creation of 472,784,000 additional Ordinary Shares.
- d 351,430,000 Ordinary Shares were allotted, credited as fully paid, to the Secretary of State in consideration of an undertaking to pay in cash £361.0 million
- e In accordance with a direction made by the Secretary of State under the Water Act 1989 the Special Rights Redeemable Preference Share was allotted at par, credited as fully paid, to the Secretary of State. The Special Rights Redeemable Preference Share is redeemable at par at the request of the holder at any time prior to 31 December 1994, and unless so redeemed, will be redeemed by the Company at that date.
- f On 6 February 1990, 175,439 Ordinary Shares were issued credited as fully paid in part consideration of the acquisition for Target Waste Services Limited and Target Industrial Services Limited.
- g Employee share schemes
- (i) Free and matching offers
- The issued and paid up share capital of the Company includes under the Free and Matching Offer Share Scheme a total of 1,443,945 Ordinary Shares of the Company which were held in trust at 31 March 1990, on behalf of employees who were beneficially entitled to the Shares under special arrangements made at the time of the Offers for sale in December 1989.

(ii) Employee sharesave scheme option

Under the terms of the Sharesave Scheme the Board may grant those employees who have entered into an Inland Revenue approved Save As You Earn (SAYE) contract for a period of either 5 or 7 years the right to purchase Ordinary Shares in the Company.

Date of Issue	Option Price	Number of Shares
February 1990	176p	4,232,551

(iii) Executive share option scheme

Under the terms of the Executive Share Option Scheme the Board has granted 89 Directors and Executives the option to purchase Ordinary Shares in the Company.

Date of issue	Normal date of exercise	Option Price	Number of Shares
February 1990	Jan 1993- Jan 2000	262p	2,246,703

Notes to the Financial Statements

continued

	Group £m	Company £m
18 Reserves and retained profits		
Balance		
At 1 April 1989 as stated in prospectus	414.0	—
National Rivers Authority and other vesting adjustments	(4.0)	—
Reserves as restated	410.0	—
Write-off of relevant loans as a result of the capital restructuring of the Group	831.4	—
Goodwill written off on acquisition (note 21)	(2.0)	—
Profit retained for the year	74.3	45.8
Profit and loss account	1,313.7	45.8
Share premium account		
Premium on allotment of Ordinary Shares	9.9	9.9
Applied in issuing fully paid shares	(2.2)	(2.2)
	7.7	7.7
Balance at 31 March 1990	1,321.4	53.5

The profit attributable to shareholders, dealt within the accounts of the Company was £45.8 million. As permitted by Section 228(7) of the Companies Act 1985, no profit and loss account is presented for the Company.

## Notes to the Financial Statements

continued

### 19 Commitments and contingent liabilities

	1990	1989
	£m	£m
a Investment expenditure commitments		
Contracted for but not provided in the financial statements	139.4	76.0
Authorised but not yet contracted for	182.1	56.0

In addition to these commitments, the Group has longer term expenditure plans which include investments to meet improvements required in performance and to provide for new demand and growth.

#### b Operating lease commitments

At 31 March 1990 Severn Trent was committed to making the following payments during the next year in respect of operating leases:

	Land and Buildings	Other
	£m	£m
Leases which expire:		
Within one year	—	0.6
Within 2 to 5 years	0.1	1.4
After 5 years	0.2	—
	<u>0.3</u>	<u>2.0</u>

#### c Finance lease commitments

Amounts due under finance leases are payable as follows:

	1990	1989
	£m	£m
Within one year	6.4	8.6
Between one and two years	6.4	6.3
Between two and five years	22.9	21.3
After more than five years	9.7	17.9
	<u>45.4</u>	<u>54.1</u>
Less: finance charges allocated to future periods	(11.8)	(15.7)
	<u>33.6</u>	<u>38.4</u>

## Notes to the Financial Statements

continued

### 20 Pensions

The Group operates two pension schemes both of which are of the defined benefit type. The assets of the scheme are held in separate trustee administered funds.

Prior to 1 October 1988 employees were members of the Water Authorities Superannuation Fund (WASF). The Severn Trent Water Pension Scheme (STWPS) was established and came into operation on 1 October 1988 and membership comprises transferees from WASF and new employees appointed since 1 October 1988 who elect to join. Employees who remained in WASF were transferred to the Severn Trent Mirror Image Scheme (STMIS) on vesting on 1 September 1989.

The actuarial valuation of WASF was due to be made as at 31 March 1989. To enable the apportionment of the fund to be agreed in advance of flotation the actuarial valuation was undertaken as at 31 March 1988.

Transfer payments will be calculated as the value of those accrued benefits as at 1 September 1989 on the basis of actuarial assumptions, including allowance for future salary increases and full indexed linked increases to pensions. R Watson and Sons as actuaries to STMIS and STWPS have confirmed that transfer payments calculated on this basis will be appropriate to meet the accrued liabilities assumed by each scheme (including allowance for future salary increases and increases to pensions).

An actuarial valuation of STWPS is being carried out as at 31 March 1989 and the results will be available during 1990. The first actuarial valuation of STMIS will take place as at 31 March 1991.

Pending receipt of the first actuarial valuation of STMIS and STWPS the Group is contributing to STMIS at the rates of 15.8% and 13.2% of pensionable pay for members paying contributions of 6% and 5% respectively and to STWPS at the rate of 15.8%, 13.2% and 7.9% of pensionable pay for members paying contributions of 6%, 5% and 3% respectively. For the period up to 31 August 1989 the contributions to WASF were at the rate of 8.3% and 6.9% of pensionable pay for members paying contributions of 6% and 5% respectively. R Watson and Sons as independent qualified actuaries have confirmed that employer contributions at these rates together with contributions payable by members, are currently appropriate to meet the benefits to be earned in the future.

Employers contributions to the fund during the year were £8.2 million (1989 £0.5 million) in respect of STWPS and £2.3 million in respect of STMIS. In addition during the period to 31 August 1989 payments of £1.4 million (1989 £5.9 million) were made to WASF. The increased employers contributions over the prior year arises from the requirement to fully fund the schemes.

In prior years Severn Trent Water Authority met the unfunded cost of statutory increases to pensions in payment, together with supplementary discretionary arrangements under which it made lump sum payments and/or augmented the payments to pensioners by the award of added years. The Authority was not allowed to pre fund these liabilities through WASF and therefore met the cost of £6.4 million as they were paid to beneficiaries. The liability for these payments ceased on vesting, with the exception of pension increases for pre-1974 employees, payments in respect of which were made by the local authorities who are responsible for the basic pension. The recharge of these to the Group ceased on 31 March 1990. During the year payments totalled £3.8 million.

Notes to the Financial Statements

continued

21 Acquisitions

On 2 February 1990, the Company acquired the whole of the issued share capital of Target Waste Services Limited and Target Industrial Services Limited, the purchase consideration of £2.3 million comprised cash of £1.8 million and the issue of 175,439 shares in the Company.

Net assets acquired	£m	
Tangible assets	0.2	
Debtors	0.6	
		0.8
Creditors: amounts falling due within one year		(0.5)
		0.3
Goodwill		2.0
		2.3
Satisfied by		
Cash	1.8	
Shares issued at a premium	0.5	
Total consideration		2.3

	1990	1989
	£m	£m
22 Source and application of funds		
a Working capital movements (increase)/decrease		
Stock and work in progress	(1.9)	1.3
Debtors	2.7	17.1
Creditors: amounts falling due within one year	23.8	3.2
Creditors: amounts falling due after more than one year	(0.3)	—
Decrease in working capital	24.3	21.6
b Acquisitions		
Purchase of subsidiaries (note 21)	2.3	—
Purchase of investments (note 11)	0.8	—
	3.1	—

## Five Year Summary

In the five year summary set out below, the financial information for the years 1986 to 1989 is based on the audited financial statements of Severn Trent Water Authority which have been adjusted to exclude those assets, liabilities, profits and losses attributable to the functions transferred to the National Rivers Authority.

The Directors believe that care should be exercised when making comparisons between the results for individual years and when drawing conclusions from the trends. The changes which have resulted from the new capital structure, the incidence of infrastructure renewals expenditure, the new regulatory environment and other one-off events render comparisons potentially misleading.

	1986	1987	1988	1989	1990
	£m	£m	£m	£m	£m
<b>Profit and loss account</b>					
Turnover	369.4	402.5	434.5	476.4	544.1
Operating profit before interest payable and taxation	133.9	143.6	183.0	178.4	163.9
Net interest	(94.9)	(91.6)	(86.4)	(80.9)	(34.0)
Profit on ordinary activities before taxation	39.0	52.0	96.6	97.5	129.9
Taxation	—	—	—	—	(11.7)
Profit on ordinary activities after taxation	39.0	52.0	96.6	97.5	118.2
Extraordinary items	—	(33.8)	3.2	(2.8)	(8.9)
Profit for the financial year	39.0	18.2	99.8	94.7	109.3
Dividend	—	—	—	—	(35.0)
Retained earnings	39.0	18.2	99.8	94.7	74.3
<b>Balance sheet</b>					
Fixed assets	1,127.8	1,175.6	1,246.3	1,356.1	1,531.2
Net current assets/(liabilities)	(104.0)	(120.0)	(105.1)	(189.7)	245.1
Total assets less current liabilities	1,023.8	1,055.6	1,141.2	1,166.4	1,776.3
Creditors: amounts falling due after more than one year	(814.5)	(821.6)	(810.2)	(744.5)	(55.8)
Provisions for liabilities and charges	(8.0)	(14.5)	(11.7)	(7.9)	(45.3)
Share capital	—	—	—	—	(353.8)
Reserves and retained profits	(201.3)	(219.5)	(319.3)	(414.0)	(1,321.4)
	(1,023.8)	(1,055.6)	(1,141.2)	(1,166.4)	(1,776.3)



# Auditors' Report

We have audited the financial statements set out on pages 36 to 53 in accordance with Auditing Standards.

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

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169 Edmund Street  
Birmingham B3 2JB

*Price Waterhouse*

Price Waterhouse  
Chartered Accountants

16 July 1990

*Price Waterhouse*



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Published by Severn Trent Plc

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2297 Coventry Road

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Birmingham B26 3PU

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Designed by City & Commercial Communications Plc

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Printed by Burrups Ltd, St Ives plc London and Tokyo. B769901/SII

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