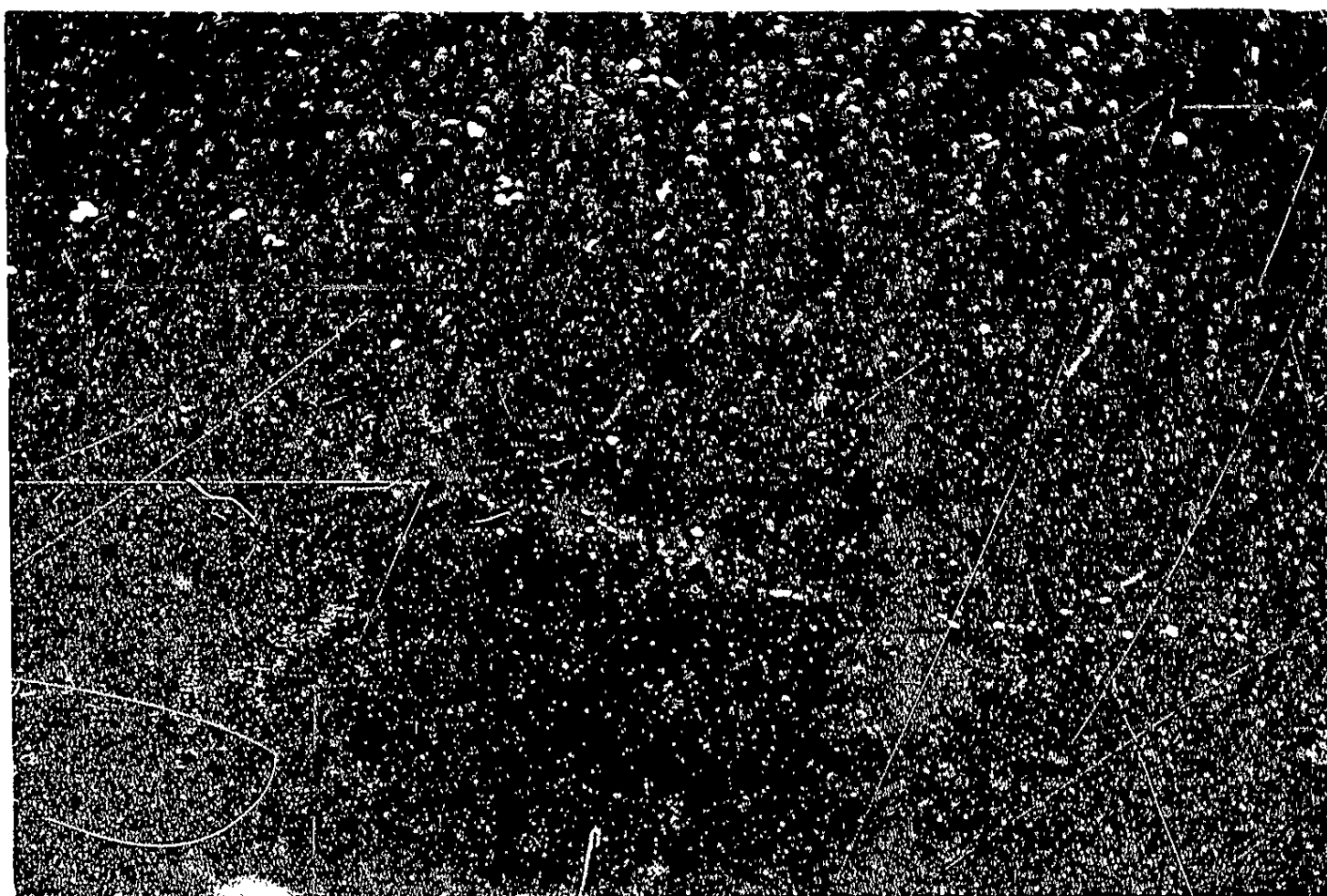


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Sexena Trent Plc
Report and Accounts
1990 - 91

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17 SEP 1991
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COMPANY PROFILE: Severn Trent Plc is one of the major water and waste management companies in the world, with an annual turnover in excess of half a billion pounds.

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 workforce of around 7,700, and provides water services to over eight million people in the heartland of Britain.

Severn Trent Water Limited 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 philosophy is our total commitment to quality and value for money.

The Group is expanding into other areas closely allied to our core business.

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 focussing on care for our customers, our colleagues, our shareholders and our environment.

A top performer

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Financial highlights	£ million
Turnover	627.0
Operating profit	199.4
Profit after interest but before tax	249.0
Investment expenditure	399.9
Dividend per share	17.55p
Earnings per share	64.5p

In our first full year as a publicly quoted company we are proud to have entered the FTSE list of the 100 largest UK companies.

Turnover in 1990/91 was £627 million, yielding an operating profit of £199.4 million and a profit after interest and before tax of £249 million.

Our investment programme, in excess of £4,000 million over a ten year period, is being successfully managed and is on schedule and within budget.

A high level of profitability is essential to the business in order to help finance our large investment programme. Our charges for water supply are the lowest of the ten privatised companies, and for all services, the second lowest – yet we achieved the highest water sector pre-tax profit.

The Board of Directors is committed to providing shareholders with a growing income in real terms and recommends a final dividend of 11.70 pence, making a total of 17.55 pence per share for the year, based on earnings per share of 64.5 pence.

The success of the licensed business, Severn Trent Water Limited, is our central focus. Our "contract" with our customers and regulators is to achieve the determined improvements in quality and service in return for price increases above the rate of inflation (the 'K' factor). This we are doing, and ahead of time.

Elsewhere, we are broadening our activities using our existing expertise to develop profitable businesses, in line with our strategy.

Severn Trent International has won consultancy and operating contracts in Europe, India and the United States.

Severn Trent Waste grew from a standing start to a £4 million business in its first year. In May of 1991, we purchased Biffa, a UK and Belgian market leader in waste management. The £212 million purchase was made in cash, on a debt free basis, and financed by Severn Trent Plc without recourse to, or guarantees from, Severn Trent Water Limited.

Biffa's strong management and excellent reputation will provide high grade, reliable, ethically motivated waste disposal arrangements for the public and significant new profit streams for our shareholders.

In September 1990, we announced an offer for and acquired a 29.9 per cent interest in Caird Group PLC. We decided to lapse our offer following the subsequent disclosure by Caird of matters relating to its previous accounts.

Severn Trent Laboratories proved its skills and competitiveness by achieving 20 per cent of its sales during the year outside the Severn Trent Group.

Severn Trent Systems' skills in advanced computer software were supported by an alliance with IBM, now successfully marketing our products internationally.

And Severn Trent Technology has focussed on the development of a technological group, helpful both to our core business and to wider markets. The Group includes Capital Controls Incorporated, acquired in May 1990, a world leader in the supply of applied water disinfection technology and water analysis instrumentation.

I am delighted to report the appointments of my Board colleagues, Vic Cocker, as Managing Director of Severn Trent Water Limited, and Michael Upstone as its Director of Operations. Michael Upstone was appointed to the Board of Severn Trent Plc in January 1991.

Our success is due to the teamwork of all our employees. Their skills and dedication will lead to further success in the implementation of our investment programme, the achievement of business growth and the provision of high standards of quality and service.

John G Bellak *Chairman*

Achieving real growth

CHIEF EXECUTIVE'S REVIEW. The year just ended was notable for the excellent performance of the core water utility – the best in our history. A consistently high level of achievement resulted in our meeting new and improved standards for quality and service levels, notably:

- Drinking water quality was improved. We are on target to meet the higher standards, being established for all of Europe, within the timetables agreed with the Government.
- The design work to improve processes at our major water supply works is well underway and will be completed within the next 12 months.
- More than double the length of mains are now being improved each year than pre-privatisation, resulting in increased reliability and pressures at customers' taps.
- We have also undertaken investment in sewage treatment facilities, ahead of plan and to budget.
- More areas of sewage flooding and overflowing were resolved in the year.
- We are particularly proud of our achievements in customer service and supply. Despite the hottest and driest summer on record, in 1990, we did not issue any hosepipe bans.
- We have dramatically reduced the time it takes to answer customer enquiries and further improvements will be made this year.

Our front-end loaded investment programme, and its early success, enabled us to take full advantage of the resources put in place at the time of privatisation – the 'K' factor of 5.5 per cent, the cash injection of £360 million and the absence of debt.

The programme is going well, with output targets met. Investment of almost £400 million represented a 50 per cent increase over the previous year. This high level of investment was approximately two-thirds of turnover and two-thirds above pre-tax profit.

Revenue and capital costs were well contained through increased productivity, and our cash position remains strong.

The massive failure of power supplies, during the severe blizzard in the Midlands on December 8, 1990, caused 1.3 million of our customers to be without water supplies. This occurred despite our having dual power circuits to all our major water treatment plants and some standby generation.

- During the crisis, detailed emergency procedures were implemented and the response of our employees was outstanding. We are analysing the security of our strategic water network to see whether further strengthening is required.

Outside our regulated water utility, our objectives include the development of the business through the exploitation of our skills and expertise through joint ventures, partnerships and acquisitions. Early efforts in this direction have met with success.

The greatest asset of any company is the strength and commitment of its work force. We have put much time and effort into extending our human resource activities, by adding to our skill base in such targeted areas as graduate recruitment, engineering and quality assurance.

We will continue to emphasise cost control, product and service quality, technological leadership, and new business growth.

Higher standards achieved

Our investment programme - across all our spheres of operations - is a vital plank in our plans to meet the standards demanded of us by our customers. A total of £400 million was spent extending and improving operational and other facilities.

This flying start was made possible by early planning, effective management of design within the company, and the matrix of resources, both in-house and brought in, assembled to deliver the engineering outputs. We anticipate that our early investment success will mitigate the effects of inflation and a strong regulatory environment and will result in the achievement of our legal obligations and compliance with new European standards.

The construction of the Carsington Reservoir, in Derbyshire, is expected to add some 10 per cent to our resources and a further margin of security to increase reliability of supplies in the 1990s. The reservoir, for which planning began in 1964, will be complete this year. Filling is due to begin in the Autumn, with the facility operational in 1993. Plans for further resource

development are being investigated.

All 26 water sources work was completed to ensure that water complied with EC standards. Work is currently underway at a further 52 plants.

Our plans for our water treatment works are on schedule. Improvements to treatment facilities supplying water to Coventry and Nottingham are in the construction phase and designs are in hand for works in Gloucestershire, Warwickshire, Staffordshire, Leicestershire and Derbyshire. Newer technologies, such as ozonisation, carbon filtration and ultra violet light disinfection, are being incorporated in our plans for updating our water treatment facilities.

A £50 million reconstruction project at Frankley Water Treatment Works, in Birmingham, our largest treatment facility, is progressing on schedule, with completion planned for September 1992.

Currently, we are replacing or relining at an annual rate of some 1500 kilometres of drinking water mains - ahead of target



and twice as much as during the last year before privatisation.

Sewage works performance was strongly improved. 97 per cent of sewage works complied with their effluent consents for the twelve month period. We expect to achieve 100 per cent compliance, with all works fully meeting their sanitary discharge levels during the current year.

A replacement programme for 700 sewage works, which serve small rural communities, was launched. Small, self-contained and unobtrusive sewage works packages will be put in place over a 15 year period.

The Griffin Carbons Plant, a joint venture with Anglim

Water, was completed during the year and will come on stream in 1991/92. It will regenerate carbon used for the final polish in water supply. Increased availability of this facility, which is currently in short supply in the UK, will have a cost effective impact on quality.

Implementation of the Plant Monitoring and Control System was initiated and is expected to be completed by Christmas 1992. This £20 million investment in sophisticated remote telemetry, for both water and sewage facilities, is being implemented across the whole of Severn Trent, in three geographic stages.

1989 - (£113m)

1990 - (£120m)

1991 - (£127m)

1992 - (£134m)

1989 - (£105m)

1990 - (£112m)

1991 - (£119m)

1992 - (£126m)

1993 - (£133m)

1990 - (£120m)

1991 - (£127m)

1992 - (£134m)

1993 - (£141m)

1994 - (£148m)

1995 - (£155m)

1991 - (£130m)

1992 - (£137m)

1993 - (£144m)

1994 - (£151m)

1995 - (£158m)

1996 - (£165m)

1997 - (£172m)

1998 - (£179m)

1999 - (£186m)



We are at the forefront in the application of advanced technology to control operating costs. As a result, despite significant increases in quality, we remain a low cost operator. Our combined water and sewerage charge per day for the average unmeasured household in 1991/92 is 38p, less than a loaf of bread and considerably lower than a litre of bottled water.

Severn Trent's charge for drinking water is the lowest of the ten privatised companies and much lower than most of the European Community. Cost control initiatives, many of them based on the use of advanced technology, have made this possible.

Power costs have been cut by 5 per cent through our ability to purchase electricity taking advantage of the flexible tariffs of the power companies. Advanced computer systems help us to manage power consumption in our plants. Our large

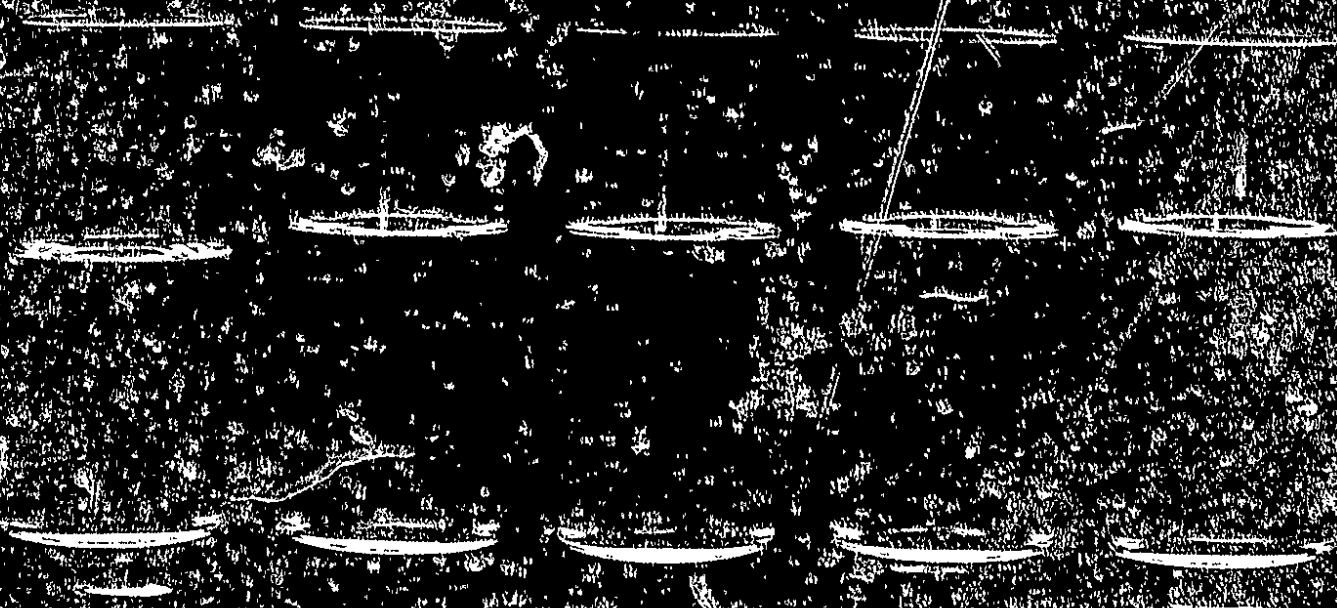
sewage treatment plants, for example, are virtually self sufficient in power, using methane, a by-product of the treatment processes, to run generators.

Our interlinked drinking water grid permits flexibility in operation and effective distribution of water resources. There were no hosepipe bans in Severn Trent in 1990, despite the hottest and driest summer on record in the Midlands.

A range of operational and administrative systems have resulted in dramatic increases in productivity. DOJM, for example, our work planning system, is linked to our customer bureau to ensure that maintenance works are promptly and efficiently accomplished.

IMPACT, our Billing Processing and Customer Transaction System, reduces paperwork and speeds up billing and customer transactions, while CASIT (Customer Accounting Severn Trent)

Severn Trent's charge for drinking water is the lowest of the ten privatised companies.



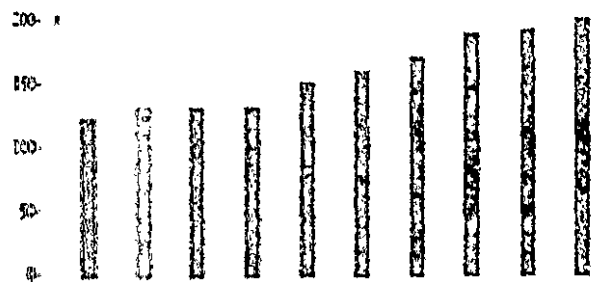
has been implemented to bring real-time facilities to this area.

Computer aided design and expert systems, currently in use or under development, have improved engineering productivity and are helping us to establish the most cost effective design solutions for our capital improvements.

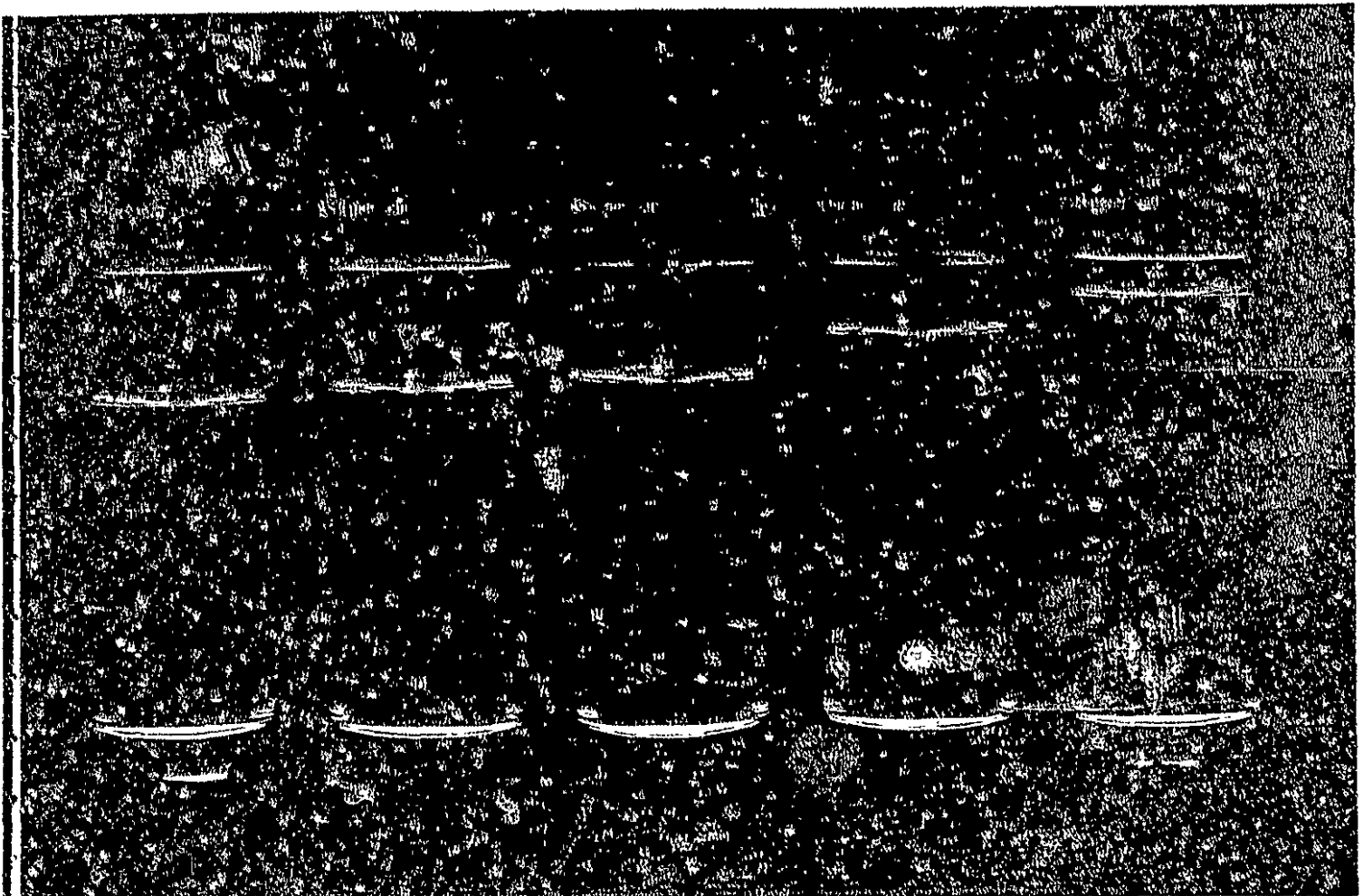
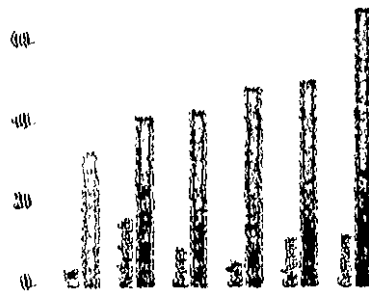
In May 1991 we acquired Stoner Associates, Inc., acknowledged experts in the area of pipeline operational management systems. The "Stoner" System will be implemented during the current year and will be used to target investment for earlier improvements in levels of service to customers.

Process controls, currently in place or under assessment, cost effectively maintain our high quality standards through remote monitoring and control telemetry. New water treatment facilities, for example, require minimum staff intervention and are capable of remote control.

Comparison of Severn Trent (blue) household water and sewerage charges (1991/92) against the other nine companies. (£ per year)



Comparison of European water prices (pence per cubic metre)



Good early planning has left us well placed to face new and strong regulatory pressures.

Our high level of environmentally sound practices means we have a comparatively low exposure to new obligations created by emerging national and European standards.

The lack of sea coast and bathing beaches, and dependence on rivers, both as sources of drinking water and recipients of effluent, have already placed us in the forefront of advanced waste water treatment. With no sea outfalls and no sludge discharged to the sea, all waste water is fully treated and inland sludge disposal routes are well established.

Through early investment in operating facilities, we are already well advanced in meeting the requirements of the Drinking Water Directorate. We expect to be able to meet all new requirements on schedule.

We pay particular attention to the way we undertake new works. Our operational and engineering departments are responsible for co-ordinating our activities with the statutory and voluntary environmental agencies. The high level of investment produced significant work for the departments in this area this year.

Similarly, we are concerned with the protection of our

industrial heritage and have supported much archaeological field work.

Our Recreation and Conservation team works closely with its Advisory Panel, which includes representatives from all major voluntary and statutory environmental and recreation concern groups in the region.

To help increase awareness of conservation issues and to raise funds from industry, we helped the Wetlands and Wildfowl Trust at Slough produce a video drawing attention to the importance of preserving wetlands for birdlife.

During the year, a master plan for environmental and recreational activities at Caslington Reservoir was drawn up and is being implemented at a cost of over £8 million.

The plan, which addresses the needs of an expected 300,000 visitors per year, provides for a visitor centre, exhibitions, restaurant and play areas. It also includes a sailing club, a water sport base for game fishing, wind surfing, canoeing and sub-aqua sports. Implementation is scheduled to begin in the current year.

Our other Recreation and Conservation activities, which are monitored by the Secretary of State for the Environment, are more fully described in a separately published Annual Report, available on request from the Company.

Quality for the environment

A tractor injects sewage sludge into fields as fertiliser supplied to woodland and farm workers. This system is an anti-pollution prevention award for Severn Trent.

We are always striving to improve our quality and service delivery. Technological developments are focussed on the requirements of the core water utility, and aimed at ensuring cost effective operation, high quality and longer term profit potential.

We currently enjoy a reputation for technological leadership within the industry. During the year, our internal technology group was formed to build on that position through strategic research and development for our own use as well as the marketing of our technologies elsewhere.

In 1991/92 we plan to spend £5.5 million on our R & D activities, compared to only some £2.7 million in the year immediately prior to privatisation.

A six-point technological strategy is in place and research activities are being pursued within this framework.

- Advanced water treatment techniques are being explored to keep pace with rising European standards. Instrumentation, to improve the application of established disinfection techniques, is vital, while the maximum benefit will be obtained from the new technologies of ozone and ultraviolet light treatment.

A full scale water treatment plant using activated carbon and ozone has been commissioned in Leamington and is currently treating 35 megallitres per day.

A £750,000 pilot plant, under construction near Tewkesbury, will experiment with different combinations of ozone, ultraviolet and activated carbon treatment. It is scheduled to be commissioned in September 1991.

- Microbiological research is carried out water industry applications. In particular, research being funded at Warwick University is

focussed on detection techniques for blue green algae.

Engineering efforts have emphasised cost control through the modularisation of plant and facility design. A well developed manual, which incorporates the use of advanced computer software techniques, is in use.

- Systems Control research is examining the use of computer systems to optimise performance at treatment and sewage works. A programme at Cranfield Institute of Technology is looking into expert systems for the design of disinfection systems.

At Heriot-Watt University, an expert system for site investigation of ground conditions is being developed. A substantial investment is being made in instrumentation to monitor pilot plants for faster and more reliable ways of improving operational efficiency.

- Sludge and sludge digestion research is aimed at maintaining the environmental soundness of disposal methods currently being used for more than half our output. Innovative techniques, using computer controlled tractors, are under evaluation to fertilise the soil at increased rates.
- Nutrient removal research is exploring methods of reducing the nitrogen and phosphorus content of effluent to meet the new European Municipal Waste Water Directive. Research is at a preliminary stage, but pilot plants are expected to be in place in the current year.

In addition to the activities incorporated into our six point technology strategy, the company injects new technology into its core operations through acquisitions and developments originating with the Severn Trent Technology group.

Core business growth

Effective management of the business will, we believe, foster development of our core utility from its sound base. During the year, we substantially improved our infrastructure through a record level of investment. In real terms, we enhanced margins and improved quality and service levels.

We successfully managed our programmes to achieve the required outputs on time and to budget. The application of the 'K' factor is vital to finance our planned quality and service delivery.

Efficient management of the major investment programme was only part of the success of this past year. We have also seen real growth in our income base.

Approximately 75 per cent of income is generated by unmetered customers, with the remaining 25 per cent, primarily from industry and commerce, being metered. All new houses in the region, of which there were approximately 20,000, last year are being supplied via meters. There has been some growth in metered income despite the economic downturn in the community.

We are taking an active marketing approach to develop further our commercial metered customer base and trade efficient income, both already the largest in the industry. To

provide a fully integrated commercial service, Key Account responsibilities were established throughout the company.

Several significant new contracts with trade customers were signed during the year, adding approximately £3 million of new income. Prospects for this aspect of our business remain promising and we expect it to be an important growth area.

We anticipate additional growth, both in the domestic and commercial/industrial sectors, generated by the completion of the M40 motorway and subsequent development along that corridor.

Our ability to manage our investment programme, and to accomplish our goals, required a review of the way we do things. During the year, staff at management and supervisory levels engaged in comprehensive culture surveys and objective planning. The first fruits of these efforts can be seen in the improved productivity of the business as a whole.

Our overall corporate plan is the basis for setting objectives for employees throughout the organisation. A positive and detailed plan addresses cost control, improved customer service, quality and the pursuit of income earning opportunities and profitable partnerships, and also is the focal point for integrated team working.

Cash generation is vital to our business, with operating revenues accounting for two thirds of our investment this year.

We began the year with the 'Green Dowry' of £360 million substantially intact, and ended 1990/91 with a large proportion of it still available for investment.

A number of factors contributed to this continuing strong cash position. Excellent cost control, coupled with the revenue impact of RPI plus the 'K' factor, generated much needed cash, as did lower than expected inflation effects on many of our capital schemes and higher interest rates on our cash investments.

Our market, which encompasses 8.25 million people over an 8,000 square mile area, remains strong and balanced in spite of the economic downturn in most industries. Although the customer base, particularly on the trade effluent side, includes a large number of blue chip and major industrial companies, no single customer accounts for more than 1 per cent of income.

Our income base is very stable.

New technology enabled us to bill measured customers more efficiently and so settlement of bills was faster.

Costs were tightly controlled, but not to the detriment of standards of service or the responsiveness of the organisation to customer enquiries. In both these areas, good progress was made to improve service – yet operating costs in our water utility business were still a couple of points below the rate of inflation.

Over the next 5 years, our investment plans will, necessarily, consume cash. We will be spending more than £800 per customer over that period. Customer charges alone, even allowing for the 'K' factor, will not cover the cash needs of this level of improvements. However, our current, strong cash position gives us flexibility, both in the timing of our borrowing and in the structuring of our debt profile.

In this connection, our Treasury activities have already been employed in planning for future cash needs. During the year, we have negotiated future European Investment Bank and lease facilities designed to strengthen further our forward position.

In addition we arranged loan facilities for the acquisition of Biffa from Biff PLC. These arrangements were made totally outside Severn Trent Water Limited, and were financed by Severn Trent PLC, without recourse to, or guarantees from, the appointed business.

Financial strength

Our goal is to be a world leader in the water business. In this context, Severn Trent's skills as a technologically and environmentally experienced water utility have far reaching, strategic market potential and offer important avenues for long term growth. We are concentrating our efforts in North America and Europe, particularly Belgium, Germany and Italy.

- Severn Trent International is making the transition from a consultancy and, in its first year, has developed a full range of water and waste water management operating services. Our utility skills have been targeted on promising markets in Europe, notably Germany, Belgium and Italy, as well as the United States, primarily the East Coast and Texas.

In Belgium, we are assisting with management and technical services in an agreement with Aquafin, a local company, to provide waste water services for 5.5 million people in Flanders. We have also acquired a 20 per cent share of the equity of Aquafin, and early in the new year contracts were signed for the management of municipal water utilities for three suburbs of Philadelphia, Pennsylvania. Consultancy projects were also undertaken in Belgium, Puerto Rico, Mauritius and India.

- Severn Trent Waste has expanded our current responsibilities involve the disposal of liquid and solid waste from a variety of industries. We are particularly attentive to our environmental responsibilities in this area. That concern characterised our acquisition of Biffa, in the current year, and will continue to guide our activities.
- Severn Trent Systems is building a market for sales of our sophisticated software and systems to other water utilities as well

as to the oil and gas sectors, internationally. Our potential for excellence has been recognised by IBM, which has entered into an alliance with us. Our product range includes DOJM, a work management system which has had considerable success in the UK, the USA and Australia; CAST, a customer billing system, and a number of other smaller products.

- Severn Trent Laboratories is equipped for increasing sampling demand from Severn Trent Water Limited, its principal customer. Increased marketing efforts addressed to the commercial sector resulted in 20 per cent of business being won outside Severn Trent. A sign of the quality of service being provided is demonstrated by the obtaining of NAMAS accreditation for spectrometry and by the Laboratories being appointed as Public Analyst for the Royal County of Berkshire.

- Severn Trent Property Limited continued its activities in connection with surplus property disposal, development and investment. The business is expected to make a small but important contribution to corporate profits.
- Severn Trent Technology is focused on the development of advanced technologies, both internally and through acquisition, which are vital to the continuing success of the core utility. In May 1991 Stellar Associates, Inc., makers of the most advanced network analysis system available today, was acquired. The technology, which combines engineering and software development skills, has wide application potential, beyond our own vital requirements, in the oil and gas industries. It will be marketed outside the company and is expected to contribute to profits.

A totally environmental business

We are a totally environmental business. Our activities – the gathering, treatment and distribution of drinking water, and the collection, treatment and discharge of effluent – are not a secondary, philanthropic adjunct to our business; they *are* our business.

We wish to be a world leader in the water and waste water business, using and developing skills we already have.

We pursue this objective in the belief that increasingly high standards for the environment are an essential part of our drive for success. Leadership in the water, waste water and other related businesses depends on a healthy environment. We also believe our views are shared by our customers.

Our commitment to a healthy environment in the water

business will be matched also in our other businesses; that is why we seek to provide high grade, reliable and ethically motivated waste disposal arrangements for the public.

Within the company, we have established a high level group charged with coordinating our approach to the environmental agenda.

The remit is not limited to core business activities. It covers all areas from staff training, research and development, materials management and recycling to drinking water quality and land management. It will identify opportunities for making savings and taking advantage of opportunities from new environmental technology.

Shared values

Much of the year's success was due to the skills and commitment of our employees. At every level, the effort to sharpen existing expertise and gain new skills led to better use of resources, improved productivity and meeting of deadlines and targets.

Across the organisation, employees participated in programmes to upgrade qualifications. Courses extended from national vocational qualification through to accredited, in-house Btec and City and Guilds courses, and Master of Science programmes run in conjunction with several universities. One of our Directors also attended the International programme at Harvard University.

Additionally, over 30 graduate recruits joined training programmes in operations, computing, engineering and accountancy.

The object of this effort is to maintain successful succession planning, ensuring the availability of expert managers to develop the business.

The Control of Substances Hazardous to Health Regulations were implemented throughout the Company and contributed to a reduction in accident levels, which led to an award from the British Safety Council in 1990.

A second offer to participate in the company's shareave scheme was made to employees in January, resulting in 10 per cent of eligible employees joining the scheme.

To further encourage share ownership amongst employees, a profit sharing scheme was launched. Employees in the scheme will each have the opportunity to receive an equal percentage of company profits, in the form of shares. A Personal Equity Plan (PEP) scheme for the Ordinary Shares of

Severn Trent Plc is to be introduced, which will be managed by Bradford & Bingley (PEPs) Limited, a wholly owned subsidiary of Bradford and Bingley Building Society. The PEP scheme will allow both shareholders and employees, who are UK residents, to hold (within certain limits fixed by the UK government) Ordinary Shares in a PEP either by transferring (by the sale and repurchase of) their existing holdings or by purchasing new additional shares through regular monthly or lump sum payments to the plan. Further information on this scheme is in the leaflet sent to shareholders with the Notice of Annual General Meeting.

An innovative child care scheme was taken up by more than 100 employees.

On a corporate and individual level, we take an active interest in the communities we serve.

Three quarters of our charitable giving is distributed to a wide range of appeals generally within the Severn Trent region, with the remaining 25 per cent going to the industry-wide charity, Wickaid.

We are closely involved with several teachers' organisations in creating education packs to support the National Curriculum. Currently, a headmaster from Staffordshire has been seconded to Severn Trent to help develop our schools literature and liaison facilities.

A particularly noteworthy event in the year was the participation of 12 employees in the restoration of an orphanage in Siva, Romania. The effort, featured in a "Challenge America" television programme at Christmas, involved the laying of new water mains and sewers, together with planning a new system for the orphanage. Employees also contributed several television sets to the orphanage - just one of the many individual fundraising efforts. The company supported the project by providing time off with pay, vehicles, pipework and pumps.

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. Bellamy MA (CQ)
 Chairman since 1983 and now also Chairman of the Water Services Association. Previously Managing Director of Royal Doulton Limited, he has over 30 years' experience in Exporting and Industry and is a member of the Grand Council of the Confederation of British Industry and a member of the Court of Keele University.

Roderick S. Paul M. Sc. (CQ)
 Chief Executive. Appointed to the Board in 1988 after 15 years with the BOC Group Plc and 6 years with Mitchell Cotts Plc as Chief Executive. A council member of Birmingham Chamber of Industry and Commerce and the CBI in the East and West Midlands. Chairman of the Advisory Board of the business School of the University of Warwick and also a member of the Council of the University.


Vicor Cooper BA (Exam) M. Inst. (CQ)
 Appointed to the Board in October 1985 after the Managing Director of Severn Trent Water Limited. He is an accountant and spent twelve years of his professional life for jointing Severn Trent in 1974.

Frank Barnshaw C. Eng. B. Sc. M. Inst. (CQ)
 Deputy Chief Executive. He has been with Severn Trent since its formation and has over 40 years' varied design and engineering experience. A Board member since November 1985.


Stuart M. Lander BA (CQ)
 Corporate Director of Finance. A chartered accountant, he has had general and financial management experience with a number of public companies including Securix and Newcastle Barrage. He was Director Plc and Deputy Plc. Appointed to the Board in March 1989.

Michael P. Upstone B.Sc. (C. Eng.) M. Inst. (CQ)
 Appointed to the Board in January 1991. He is the Director of Operations and Deputy Managing Director of Severn Trent Water Limited. He has been with Severn Trent since its formation and has nearly 30 years' water industry management experience.


PLEASE NOTE THAT
DUE TO THE POOR
QUALITY OF THE
FICHE SOME OF THE
FOLLOWING IMAGES
ARE ALSO OF POOR
QUALITY.




Philip Collyer (64)
 Philip Collyer and Sons Limited since 1983 is Chairman of Es&S, Capital United, a company controlled by him. Appointed to the Board in October 1983.



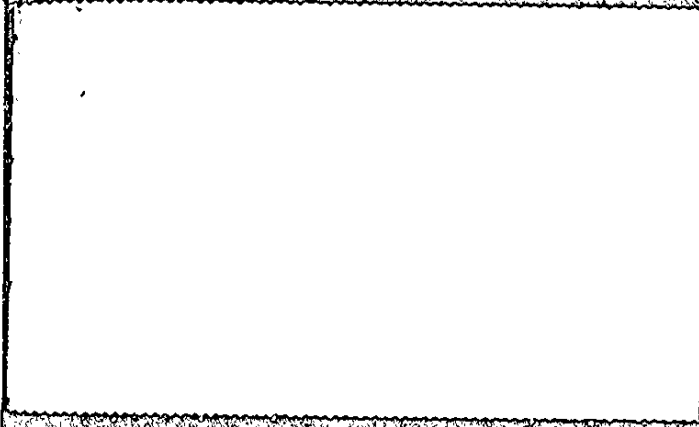
Sir Richard Pike (67)
 Appointed in 1983 as Deputy Chairman of the Bibby Life Group and Gosvenor Estate Holdings. Sir Richard is also a director of Buxton Estate plc and an adviser to Standard Investment Management.




Roger H. Balfour (61)
 Chairman, Pressat Holdings plc, Director, British Gas plc, Edward Huntley Holdings Limited and Es&S plc. Appointed to the Board in October 1983.



Alvin W. Kemp (60)
 Chairman of Beacon Broadcasting and Communications Limited and Chairman of Family Jewellery retailers and associated companies. He has been a Board member since October 1983.



Richard Ireland (67)
 Joined the Board in 1983. He is Group Finance Director of Walsley plc, a council member of the Birmingham Chamber of Industry and Commerce and a member of the Finance Committee of the University of Aston.



Andrew W. Simon (66)
 Chairman of Evode Growth plc and Director of Ridgefield Healthcare plc. Appointed to the Board in October 1983.

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Directors' report

The Directors present their Report, together with the audited Financial Statements for the year ended 31 March 1991.

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 review on pages 4 - 23.

A list of the principal operating subsidiaries and associated undertakings of the Group at 31 March 1991 appears in note 23 to the financial statements on page 46.

Dividend and reserves

Details of dividends paid and proposed are set out in note 9 on page 37. Subject to approval at the Annual General Meeting, the recommended final dividend of 11.7p for each Ordinary Share will be paid on 1 October 1991 to shareholders on the register at the close of business on 22 July 1991.

Proposed transfers to reserves are set out in note 19 to the financial statements on page 43.

Acquisitions

During the year the Group made a number of acquisitions, details of which are provided under note 22 to the financial statements on page 45.

Post balance sheet events

In May 1991, the Group acquired the Biffa group of companies for £212 million in cash. Biffa is a market leader in the collection and disposal of waste in the United Kingdom and Belgium.

In May 1991, the Group acquired Stoner Associates Incorporated of Philadelphia. The company is a worldwide leader in the provision of solutions to pipeline engineering, operations and

management problems.

In June 1991, the Group agreed to acquire a 20 per cent holding in the Belgian Company Aquafin N.V. The company is responsible for undertaking a major investment programme to provide sewerage, sewage treatment and sludge disposal facilities and the subsequent operation of such works throughout Flanders.

Since 1 April 1991, the following funding arrangements have been put in place:-

- (a) £100 million variable rate leasing facility
- (b) 100 billion lira fixed rate loans (6 years and 9 years), from the European Investment Bank, swapped into £46 million fully hedged floating rate sterling loans
- (c) £150 million 11½ per cent fixed rate Eurobonds due 1999.
- (d) £125 million 11¾ per cent fixed rate Eurobonds due 2001.

Directors

Mr C. C. McMillan retired from the Board at the conclusion of the last Annual General Meeting on 15 August 1990. On 9 January 1991 Mr M. P. Upstone was appointed a Director of the Company. Having been appointed a Director since the last Annual General Meeting he retires from the Board in accordance with the Articles of Association of the Company and, being eligible offers himself for re-appointment. Sir Richard Baker Wilbraham, Mr V. Cocker and Mr R. H. Boissier retire from the Board by rotation and being eligible offer themselves for re-appointment.

Mr V. Cocker and Mr M. P. Upstone have service contracts which provide for not less than three years written notice of termination by the Company and not less than twelve months written notice by the Director expiring at any time. Sir Richard Baker Wilbraham and Mr R. H. Boissier do not have service contracts with the Company or any of its subsidiaries.

The interests of the Directors in the shares of the Company were as follows -

	31 March 1991		1 April 1990	
	Beneficial holdings in Ordinary Shares	Share options under approved schemes	Beneficial holdings in Ordinary Shares	Share options under approved schemes
J. G. Bellak	7,663	114,731	7,663	114,731
R. S. Paul	7,859	143,541	7,359	143,541
F. Earnshaw	2,495	92,014	2,495	92,014
V. Cocker	4,291	86,289	4,291	86,289
S. M. Larnder	6,259	97,739	6,259	97,739
M. P. Upstone	1,271	69,113	1,271+	69,113+
T. C. Heywood-Lonsdale	8,000	—	2,800	—
Sir Richard Baker Wilbraham Bt	40,000*	—	11,960*	—
R. H. Boissier	1,100	—	1,100	—
A. W. Henn	5,000	—	3,800	—
R. Ireland	1,000	—	1,000	—
A. H. Simon	4,000	—	4,000	—

No changes in the above mentioned interests of the Directors were notified to the Company between the year end and 21 June 1991 except that Sir Richard Baker Wilbraham disposed of 25,000 ordinary shares (non-beneficial interest).

^ includes a non-beneficial interest of 10,000 ordinary shares at 1 April 1990 and a non-beneficial interest of 25,000 ordinary shares at 31 March 1991.

‡ at date of appointment.

No options were granted to or exercised by the Directors during the year.

No Director had an interest in the shares of any subsidiary company.

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

Fixed assets

The changes in tangible fixed assets during the year are shown in note 11 to the financial statements on page 38.

Share capital

Details on movements in share capital are shown in note 18 to the financial statements on page 42.

Shareholders will be asked to pass a special resolution at the Annual General Meeting authorising the Directors, until the conclusion of the Annual General Meeting of the Company to be held in 1992, 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.

Executive share option scheme

In his Budget statement in March this year, the Chancellor of the Exchequer proposed a change to Inland Revenue approved executive share option schemes which would, as from 1 January 1992, allow options to be granted under such schemes at an option price 15 per cent less than the market value of a share at the time of grant. This facility will only be available if the Company has established an all-employee share scheme. The Company satisfies this condition since it established both a profit sharing scheme and a savings related share option scheme at the time of flotation in 1989.

The Directors, therefore, wish to seek authority from shareholders to alter the rules of the Executive Share Option Scheme to take advantage of the proposed changes when legislation, giving effect to the Budget proposals, comes into force. The resolution to be put to the Annual General Meeting is set out in the Notice of Meeting. If they receive this authority the Directors will implement the changes at the relevant time, having regard to

the view of the Investment Committee of the Association of British Insurers on this proposal.

Sharesave scheme

In his Budget statement, the Chancellor also announced that the maximum amount a participant may save each month to fund the exercise of an option granted to him under an Inland Revenue approved savings related share option scheme is to be increased from £150 to £350.

The date from which the increase will be effective has yet to be announced but is likely to be late this year. A participant would only be able to take advantage of the increased savings limits if invited to apply for a savings related share option after the new limit comes into effect.

The Directors intend to alter the rules of the Sharesave Scheme to increase the savings limit at the appropriate time.

Research and development

Severn Trent has significantly increased expenditure on its Research and Development programme to £4.3 million with particular focus on the improvement of water quality and waste water treatment.

We continue to search worldwide for new technologies which can be developed and subsequently utilised within our investment programme for the benefit of our customers.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £115,239 (1990 £20,034). No political donations were made during the year.

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

Our commitment to health and safety is being strengthened by the development of proposals for the introduction of a comprehensive occupational health service within the Company. This will allow us to build on previous achievements recognised by a British Safety Council award for our record in 1990, and contribute towards our objective of developing our people within a framework of best health and safety practices.

Employees

The number of people working for the Group on 31 March 1991 was 7,729 (1990 7,218). Of these 7,182 (1990 6,986) worked for Severn Trent Water Limited, the water utility.

The Group has well established employee consultation arrangements which provide a valuable channel of communication about business plans and objectives and their achievement. Our regular house newspaper "Stream" continues to be popular with employees and regular team briefing sessions take place, which provide for communication on a face to face basis and serve to inform employees on matters of concern to them as employees. Further details of employee involvement, in particular training and management development, can be found on page 22.

Substantial shareholding

As at 21 June 1991 the Company had been notified that Friends Provident Life Office held 15,582,200 ordinary shares of £1 each representing 4.4 per cent of the issued ordinary share capital.

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 25. There is no charge for this publication.

Directors and Officers liability insurance

The Company maintains insurance under Section 310(3) of the Companies Act 1985 for its officers against liabilities in relation to the Company.

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

19 July 1991

Financial statements

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Financial calendar

Announcement of results

The results of the Group will normally be published at the following times -

Interim results for the six months to 30 September	- December
Preliminary announcement for the year to 31 March	- June
Report and accounts for the year to 31 March	- July

Dividend payments

Dividend payments will normally be made at the following times -

Interim dividend - early April (announced December)
Final dividend - early October (recommended June)

Group profit and loss account

Year ended 31 March 1991

		1991	1990
	Notes	£m	£m
Turnover	2	627.0	544.1
Operating costs	3	(427.6)	(380.2)
Operating profit	2	199.4	163.9
Income from investments		0.3	—
Net interest	5	51.5	(34.0)
Profit on ordinary activities before employee profit sharing		251.2	129.9
Employee profit sharing	6	(2.2)	—
Profit on ordinary activities before taxation		249.0	129.9
Taxation on profit on ordinary activities	7	(20.9)	(11.7)
Profit on ordinary activities after taxation		228.1	118.2
Extraordinary item	8	(9.7)	(8.9)
Profit for the year		218.4	109.3
Dividends	9	(62.1)	(35.0)
Retained profit for the financial year	19	156.3	74.3
Earnings per share	10	64.5p	—
Profonna earnings per share	10	—	56.4p

Balance sheet

	Notes	Group		Company	
		1991 £m	1990 £m	1991 £m	1990 £m
Fixed assets					
Tangible assets	11	1,813.8	1,530.4	0.1	0.1
Investments	12	7.5	0.8	408.8	400.8
		1,821.1	1,531.2	408.9	400.9
Current assets					
Stores and work in progress		13.8	8.3	—	—
Debtors	13	108.2	61.9	58.1	59.1
Short term deposits and investments	14	359.4	368.8	359.4	—
		461.4	439.0	377.5	59.1
Creditors: amounts falling due within one year	15	(266.7)	(193.9)	(369.1)	(52.7)
Net current assets		194.7	245.1	8.4	6.4
Total assets less current liabilities		2,015.8	1,776.3	417.3	407.3
Creditors: amounts falling due after more than one year	16	(107.6)	(55.8)	—	—
Provisions for liabilities and charges	17	(79.8)	(45.3)	—	—
Net assets		1,828.4	1,675.2	417.3	407.3
Minority shareholders' interest		(0.1)	—	—	—
		1,828.3	1,675.2	417.3	407.3
Capital and reserves					
Called up share capital	18	353.8	353.8	353.8	353.8
Reserves and retained profits	19	1,474.5	1,321.4	63.5	53.5
		1,828.3	1,675.2	417.3	407.3

Signed on behalf of the Board who approved the accounts on 19 July 1991.

J. G. Ballak
Chairman

S. M. Lamder
Corporate Director of finance

Group statement of source and application of funds

Year ended 31 March 1991

	Notes	1991 £m	1990 £m
Operating activities			
Profit before interest after employee profit sharing		197.2	163.9
Depreciation		48.9	40.3
Infrastructure renewals provision		82.2	69.6
Fixed assets:			
Investment in tangible fixed assets		(355.5)	(227.9)
Infrastructure expenditure		(46.9)	(35.9)
Grants and contributions		21.0	12.9
Operating disposals		4.1	2.0
Working capital movement	22	8.0	24.2
Reorganisation costs		(2.7)	(10.8)
Losses of associates		1.1	—
Interest and investment income		51.8	(34.0)
		9.2	4.3
Acquisitions and investments	22	(27.6)	(2.8)
Financing activities			
Issue of shares		—	361.5
Leases		6.3	(4.8)
Loans		32.3	25.3
Dividends		(55.7)	—
Advance corporation tax and other taxation paid		(11.9)	—
		(29.0)	382.0
Movement in net liquid funds		(47.4)	383.5

Notes to the financial statements

1 Accounting policies

a) Accounting convention

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards except as indicated in note f) below

b) Basis of preparation

The financial information is a consolidation of the information of Severn Trent Plc and its subsidiaries. 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 where the holding exceeds 20 per cent, and where the Company exercises significant influence.

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 pipelines), 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.

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	3-10 years

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

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, and reflects the impact of price changes since the programme was prepared by indexation. 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 will be adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure.

f) **Grants and contributions**

Grants and contributions received in respect of non infrastructure assets are treated as deferred credits and are transferred to the profit and loss account in accordance with the asset lives of those assets.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. These grants and contributions are a contribution towards capital expenditure which is intended to ensure that the cost of extending the infrastructure system does not fall upon consumers generally. In the opinion of the directors the accounting treatment adopted is appropriate in order to show a true and fair view.

g) **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.

h) **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.

i) **Pension costs**

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

j) **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.

k) **Research and development**

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

l) **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.

m) **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.

	Turnover:		Operating profit/(Loss)	
	1990	1991	1991	1990
	£m	£m	£m	£m
Analysis of turnover and profits				
a) Class of business				
Severn Trent Water	608.6	541.6	200.2	164.0
Other trading activities	25.7	5.7	1.2	1.3
Business development costs		—	(2.0)	(1.4)
	634.3	547.3	199.4	163.9
Inter company	(7.3)	(3.2)	—	—
	627.0	544.1	199.4	163.9
<hr/>				
			1991	1990
b) Geographical analysis of turnover			£m	£m
United Kingdom			615.7	542.7
Rest of World			11.3	1.4
			627.0	544.1
<hr/>				
			1991	1990
3) Operating costs			£m	£m
Employee costs (note 4)			109.7	92.5
Infrastructure renewals expenditure (note 17)			82.2	69.6
Depreciation (note 11)			48.6	40.0
Other operating leases			3.2	2.6
Auditors' remuneration			0.2	0.1
Research and development			4.3	2.5
Other operating costs			181.8	178.2
			430.0	385.5
Profit on disposal of fixed assets			(2.4)	(5.3)
			427.6	380.2
<hr/>				
			1991	1990
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
			—	6.7

Notes to the financial statements

	1991	1990
+ Information regarding directors and employees	£000	£000
Directors:		
Emoluments (including pension contributions)	1,024.4	780.2
Emoluments (excluding pension contributions) of the chairman	149.5	88.7
Emoluments (excluding pension contributions) of the highest paid director	158.8	108.2
	1991	1990
Emoluments (excluding pension contributions) of other directors of the Company were within the following bands:	No	No
£ 0 – 5,000	—	2
£ 5,001 – 10,000	—	4
£ 10,001 – 15,000	2	2
£ 15,001 – 20,000	4	—
£ 20,001 – 25,000	1	—
£ 70,001 – 75,000	—	1
£ 75,001 – 80,000	—	1
£ 85,001 – 90,000	—	1
£ 95,001 – 100,000	—	1
£100,001 – 105,000	1	—
£105,001 – 110,000	2	—
£110,001 – 115,000	1	—
i) The Executive Directors' salaries and Bonus Scheme are determined by the Remuneration Committee, consisting of the Non-Executive Directors, after taking the advice of outside independent consultants. The Bonus Scheme is based upon the degree of achievement against levels of service, water supply, and sewerage quality targets set by external regulatory bodies, and upon the level of achievement against earnings targets. The Remuneration Committee determines the level of bonuses payable.		
ii) A payment of £30,000 was made to a director for early termination of his contract.		
iii) Non cash benefits included in the total emoluments consist mainly of the provision of company cars and medical health insurance.		
iv) The comparative figures for 1990 have been shown after adjusting for a change in accounting treatment, whereby bonuses are now charged to the year in which they are earned, instead of to the year in which they are paid. This adjustment has resulted in an increase in the 1990 total emoluments of £27,100.		
	1991	1990
Employees:	£m	£m
Staff costs	112.1	93.9
Social security costs	8.0	7.2
Pension costs (note 21)	14.1	11.9
	134.8	113.0
Charged as follows	£m	£m
Capital and infrastructure renewals	25.1	20.5
Operating costs (note 3)	109.7	92.5
	134.8	113.0
Average number of employees during year (full time equivalent)	No.	No.
Severn Trent Water	7,054	7,105
Other	470	193
	7,524	7,298

	1991	1990
Geographical analysis of employees	No.	No.
United Kingdom	7,589	7,298
Rest of World	155	—
	7,744	7,298

	1991	1990
	£m	£m
Interest receivable	70.0	20.7
Interest payable	—	—
Bank loans, overdrafts and other loans repayable within five years	(15.0)	(51.1)
Finance charges in respect of finance leases	—	(3.6)
	55.0	(34.0)

	1991	1990
	£m	£m
Employee profit sharing	—	—
The Group has an employee profit sharing scheme which provides funds to a separately administered trust to enable the trustees to acquire shares of the Company on behalf of employees	2.2	—

	1991	1990
	£m	£m
Taxation on profit on ordinary activities	—	—
U.K. Corporation tax at 34%	—	—
Overseas taxation	(0.1)	—
Associated undertakings	(0.1)	—
Advance corporation tax written off	20.7	11.7
	20.5	11.7

At 31 December 1991, the Group had tax losses of approximately £30 million which will be available for offset against future trading profits of Severn Trent Water Limited.

	1991	1990
	£m	£m
Extraordinary item	—	—
Expenditure relating to preparation for the vesting of the Severn Trent Water Authority's assets and liabilities, and the subsequent flotation of the Company	—	8.9
The Group's 29.9 per cent. investment in Caird Group PLC, has been valued at the share price immediately after the bid lapsed and the difference between the cost and this market value has been written off	(9.7)	—
	(9.7)	8.9

	1991	1991	1990	1990
	Pence Per Share	£m	Pence Per Share	£m
Dividends				
Interim dividend paid	5.85	20.7	—	—
Final dividend proposed	11.70	41.4	9.9	35.0
	17.55	62.1	9.9	35.0

Notes to the financial statements

10 Earnings per share

The calculation of earnings per Ordinary Share is based on earnings of £228.1 million, related to the weighted average of 353.8 million Ordinary Shares in issue during the year

Actual earnings per Ordinary Share have not been presented for the prior period. Proforma earnings per Ordinary Share for 1990 have 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 to the 31 March 1990.

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

	Land and buildings	Plant and equipment	Infrastructure assets	Group Total	Company Plant and equipment
	£m	£m	£m	£m	£m
11 Tangible fixed assets					
Movements for the year analysed by asset-type:					
Cost					
Balance 1 April 1990	667.4	355.8	845.1	1,868.3	0.1
Additions	116.6	117.4	121.5	355.5	—
Grants and contributions	—	—	(19.1)	(19.1)	—
Assets sold or written out	(3.9)	(11.3)	(0.3)	(15.5)	—
Balance 31 March 1991	780.1	461.9	947.2	2,189.2	0.1
Depreciation					
Balance 1 April 1990	231.8	106.1	—	337.9	—
Provision for year	17.7	31.2	—	48.9	—
Assets sold or written out	(3.7)	(7.7)	—	(11.4)	—
Balance 31 March 1991	245.8	129.6	—	375.4	—
Net book value					
At 31 March 1991	534.3	332.3	947.2	1,813.8	0.1
At 31 March 1990	435.6	249.7	845.1	1,530.4	0.1

- i) Tangible fixed assets at 31 March 1991 include £279.9 million (1990 £202.6 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 1991 was £59.9 million and accumulated depreciation thereon was £23.8 million (1990 net book value £33.3 million).
- iii) Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence the net book value of fixed assets is £19.1 million lower than it would have been had this treatment not been adopted.

- iv) The net book value of land and buildings is analysed as follows:

	1991	1990
	£m	£m
Freehold land and buildings	534.3	434.8
Leasehold land and buildings - short lease	0.8	0.8
	535.1	435.6

	1990	1990
v) Depreciation incurred during the year has been charged as follows		£m
On owned assets	35.4	37.4
On assets held under finance leases	5.2	2.6
Profit and loss account	48.6	40.0
Capital	0.5	0.3
	48.9	40.3
vi) Included in the above are the following tangible fixed assets not subject to depreciation:		£m
Land	17.3	8.5
Infrastructure assets	947.2	845.1
	964.5	853.6

1.2 Investments	Shares	Loans	Associated undertakings		Other investments	Total
			Share of retained earnings			
Group	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1990	0.1	0.4	—	0.3		0.8
Additions	1.7	5.9	(0.2)	—		7.4
Amounts written off	(0.9)	—	—	—		(0.9)
At 31 March 1991	0.9	6.3	(0.2)	0.3		7.3
	Subsidiary undertakings		Associated undertakings		Other investments	Total
	Shares	Loans	Shares	Loans		
Company	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1990	400.6	—	—	0.2	—	400.8
Transfer from group undertakings	—	—	—	—	0.2	0.2
Additions	3.7	4.1	0.9	0.3	—	9.0
Amounts written off	(0.3)	—	(0.9)	—	—	(1.2)
At 31 March 1991	404.0	4.1	—	0.5	0.2	408.8

Brief details of the principal operating subsidiary and associated undertakings of the Group are set out in note 23.

Notes to the financial statements

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
13 Debtors				
Trade	19.5	25.7	—	—
Amounts owed by group undertakings	—	—	18.0	59.0
Other	10.7	4.2	—	0.1
Prepayments and accrued income	18.0	32.0	20.1	—
	108.2	61.9	38.1	59.1

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
14 Short term deposits and investments				
Short term deposits	332.3	367.8	332.3	—
Investments listed on a recognised stock exchange	—	7.1	7.1	—
	332.3	368.8	339.4	—

The above listed investments at 31 March 1991 represents the 29.9 per cent investment in Caird Group PLC which on that date had a market value of £11.6 million.

The investment in Caird has not been consolidated as the Group is not in a position to exercise significant influence over the operations of the Company.

As at 31 December 1990, the amount disclosed in the accounts of Caird for Capital and reserves was £48.1 million and the loss retained for the previous eighteen months was £6.3 million.

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
15 Creditors amounts falling due within one year				
Bank loans, overdrafts and temporary borrowings	13.5	2.6	28.7	—
Other loans	3.1	0.4	—	—
Obligations under finance leases (note 20c)	1.0	3.5	—	—
Trade	15.1	42.6	0.7	2.6
Amounts owed to group undertakings	—	—	17.4	3.4
Other	5.5	4.9	2.0	—
Taxation and social security	1.2	3.3	—	—
Advance corporation tax payable	20.5	11.7	20.5	11.7
Proposed dividend	11.4	35.0	11.4	35.0
Accruals and deferred income	120.1	89.9	1.8	—
	260.7	193.9	300.1	52.7

	Average rate of interest	1991	1990
Creditors' amounts falling due after more than one year	%	4.0	£m
European Investment Bank loans - 1993	11.2	50.0	—
Local authority loans - 1991-2035	9.3-12.0	16.0	17.3
Water annuities	4.0- 5.0	0.1	0.1
		47.0	17.4
Obligations under finance leases (note 20c)		35.9	30.1
Deferred credits		16.4	5.3
Other		8.5	3.0
		107.6	55.8

	1991	1990
Loans outstanding are repayable as follows:	£m	£m
Between one and two years	0.4	0.4
Between two and five years	51.0	1.1
After five years - by instalment	15.5	15.8
- other than by instalment	0.1	0.1
	47.0	17.4

	Balance at 1 April 1990	Transfer to profit & loss account	Applied	Balance at 31 March 1991
	£m	£m	£m	£m
17 PROVISIONS				
a) Liabilities and charges				
Infrastructure renewals provision	35.3	8.2	45.0	72.5
Reorganisation provision	10.0	—	2.7	7.3
	45.3	8.2	47.7	79.8

The application of the infrastructure renewal provision is shown net of grants and contributions of £1.9 million.

	1991	1990
b) Deferred taxation	£m	£m
The potential liability for deferred taxation calculated under the liability method is:		
Accelerated capital allowances	230.1	154.6
Other timing differences	(30.9)	(12.7)
Available tax losses	(10.0)	(18.9)
Advance corporation tax not immediately recoverable	(32.4)	(11.7)
	156.8	111.3

	1991	1990
18 Called up share capital	£m	£m
Authorised:		
475,000,000 Ordinary Shares of £1	475.0	475.0
One Special Rights Redeemable Preference Share of £1		
Issued and fully paid:	£m	£m
353,825,846 Ordinary Shares of £1 (1990 353,821,439)	353.8	353.8
4,407 Ordinary Shares were issued during the year at 10p in lieu of cash to former employees under the terms of the Group's employee sharesave scheme		
One Special Rights Redeemable Preference Share of £1		

a) In accordance with a direction made by the Secretary of State under the Water Act 1989 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.

b) 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 1,441,763 (1990 1,443,945) Ordinary Shares of the Company which were held in trust at 31 March 1991, 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

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 grant	Option price	Number of shares
		1991
December 1989	170p	4,232,551
January 1991	230p	—

iii) Executive share option scheme

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

Date of grant	Number of options	Normal date of exercise	Option price	Number of shares
				1990
January 1990	2,246,703	Jan 1994	210p	2,246,703
January 1991	—	Jan 1994	210p	—

Reserves and retained profits	Profit and loss account	Share premium account	Total
Group			
At 1 April 1990	£m	£m	£m
Goodwill arising on acquisition	1,313.7	7.7	1,321.4
Profit retained for the year	(3.2)	—	(3.2)
	156.3	—	156.3
At 31 March 1991	1,466.8	7.7	1,474.5

	Profit and loss account	Share premium account	Total
Company			
At 1 April 1990	£m	£m	£m
Profit retained for the year	45.8	7.7	53.5
	10.0	—	10.0
At 31 March 1991	55.8	7.7	63.5

The profit attributable to shareholders, dealt with in the accounts of the Company was £10.0 million (1990 £45.8 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

At 31 March 1991 cumulative goodwill written off against reserves amounted to £5.2 million (1990 £2.0 million).

	1991	1990
	£m	£m
Commitments and contingent liabilities		
a) Investment expenditure commitments		
Contracted for but not provided in the financial statements	165.7	111.2
Authorised but not yet contracted for	214.1	210.3

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 1991 the Group 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	0.1	0.6
Within 2 to 5 years	0.3	1.9
After 5 years	0.6	—
	1.0	2.5

Notes to the financial statements

20 Commitments and contingent liabilities (continued)

	1991	1990
c) Finance leases commitments	£m	£m
Amounts due under finance leases are payable as follows:		
Within one year	7.5	6.4
Between one and two years	9.5	6.4
Between two and five years	31.8	22.9
After more than five years	3.3	9.7
	52.1	45.4
Less: finance charges allocated to future periods	(12.2)	(11.8)
	39.9	33.6

21 Pensions

The Group operates a number of defined benefit schemes which are fully funded to cover future salary and pension increases. The assets of the schemes are held in separate trustee administered funds. The two principal schemes are the Severn Trent Mirror Image Scheme (STMIS) and the Severn Trent Water Pensions Scheme (STWPS).

The actuarial valuation of STWPS was carried out as at 31 March 1989, using the attained age method.

The principal assumption used was that the investment return would exceed future salary and wage increases by 2% per annum.

The valuation showed that the market value of the schemes assets was £0.5 million, and that transfer values were expected from the Water Authorities Superannuation Fund (WASF) totalling £120.3 million in respect of scheme members at the valuation date, and together these represented 105% of the benefits accrued to members after allowing for expected future increases in earnings.

The actuary has recommended that contributions to both schemes may continue unchanged at the rates of 15.8% and 13.2% of pensionable pay of STMIS members paying contributions of 6% and 5% respectively and at the rate of 15.8%, 13.2% and 7.9% of pensionable pay of STWPS members paying contributions of 6%, 5% and 3% respectively.

The first actuarial valuation of STMIS will take place as at 31 March 1991.

Employers' contributions during the year were £14.1 million (1990 £11.9 million).

	1989	1990
	£m	£m
Source and application of funds		
a) Acquisitions and investments		
Investment in subsidiary undertakings (note 1)	3.2	2.0
Investment in associated undertakings (note ii)	7.6	0.8
Investment in Caird Group PLC	10.8	—
	21.6	2.8

i) Investments in subsidiary undertakings

In May 1990, the Company acquired an 80 per cent holding of the issued share capital of Capital Controls Company Inc. The cost of acquisition was £3.2 million.

	Book value	Fair value adjustment	Fair value of assets acquired
	£m	£m	£m
Net assets acquired	5.9	1.0	6.9
Tangible assets	(2.2)	0.8	(1.4)
Net current assets	(0.3)	0.2	(0.1)
Net assets	3.4	2.0	5.4
Minority interest in subsidiaries	(0.1)	—	(0.1)
Shareholders' funds	3.3	2.0	5.3
Loans advanced by Severn Trent Plc			(5.3)
Goodwill arising on acquisition			3.2
Costs of acquisition			3.2

The fair value of assets acquired are reflected in the movements of the source and application of funds statement.

ii) Investment in associated undertakings

Investment in associated undertakings during the year amounted to £7.6 million which comprised the purchase of £1.7 million shares and the issue of £5.9 million in loans.

Significant investments during the year were:

- Abbcott Estates Limited
- Wimpey Arena Developments Limited
- GMI Romanian Limited
- Charles Haswell and Partners Limited
- Charles Haswell and Partners Far East Limited

Details of which are set out in note 23.

Notes to the financial statements

	1990	1990
	£m	£m
2.2 Source and application of funds (continued)		
b) Working capital		
Working capital movements (increase)/decrease		
Stores and work in progress	(1.5)	(1.9)
Debtors	(10.5)	2.1
Creditors: amounts falling due within one year	15.1	24.3
Creditors: amounts falling due after more than one year	(16.1)	(0.3)
Decrease in working capital	8.0	24.2

2.3 Subsidiary and associated undertakings

Brief details of principal operating subsidiaries and associated undertakings of the Group at 31 March 1991 were as follows:
Those held directly by the Company are marked with an asterisk.

	Country of registration or incorporation (and operation)	Class of share capital held	Nature of business
Subsidiary undertakings			
*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
*Severn Trent Environmental Services Limited	England	100% Ordinary	Holding Company
Severn Trent US Inc	United States	100% Ordinary	Holding Company
Severn Trent Research Inc	United States	100% Ordinary	Holding Company
Capital Controls Company Inc	United States	80% Ordinary	Water Disinfection Equipment
Capital Controls (China) Limited	Hong Kong	48% Ordinary	Water Disinfection Equipment
Capital Controls Limited	England	80% Ordinary	Water Disinfection Equipment
*Fusion Meters Limited	England	51% Ordinary	Trading Company
Associated undertakings			
Severn Computer Applications Limited	England	50% Ordinary	Trading Company
Minworth Systems Limited	England	49% Ordinary	Process Monitoring Equipment
*Acer Engineering Limited	England	35% Ordinary	Engineering Design Consultants
Graham Carbon Limited	England	50% Ordinary	Carbon Regeneration
*Charles Haswell & Partners Limited	England	35% Ordinary	Engineering Design Consultants
*Charles Haswell & Partners Far East Limited	Hong Kong	35% Ordinary	Engineering Design Consultants
Abcott Estates Limited	England	50% Ordinary	Property Development
GMI Romanian Limited	England	50% Ordinary	Property Development
Wimpey Arena Developments Limited	England	50% Ordinary	Property Development

We have audited the financial statements set out on pages 30 to 46 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 the Group at 31 March 1991 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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Chartered Accountants

Livery House
169 Edmund Street
Birmingham B3 2JB

Price Waterhouse

19 July 1991



Five year summary

In the five year summary set out below, the financial information for the years 1987 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 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

	1987	1988	1989	1988	1987
	£m	£m	£m	£m	£m
Profit and Loss Account					
Turnover	427.0	541.1	476.4	434.5	402.5
Operating costs	(427.6)	(380.2)	(298.0)	(251.5)	(258.9)
Operating profit	199.4	163.9	178.4	183.0	143.6
Income from investments	0.3	—	—	—	—
Net Interest	51.5	(34.0)	(80.9)	(86.4)	(91.6)
Profit on ordinary activities before employee profit sharing	251.2	129.9	97.5	96.6	52.0
Employee profit sharing	2.2	—	—	—	—
Profit on ordinary activities before taxation	249.0	129.9	97.5	96.6	52.0
Taxation on profit on ordinary activities	(20.0)	(11.7)	—	—	—
Profit on ordinary activities after taxation	229.0	118.2	97.5	96.6	52.0
Extraordinary items	0.7	(8.9)	(2.8)	3.2	(33.8)
Profit for the year	229.7	109.3	94.7	99.8	18.2
Dividends	(62.1)	(35.0)	—	—	—
Retained profit for the financial year	167.6	74.3	94.7	99.8	18.2
Balance Sheet					
Fixed assets	1,821.1	1,531.2	1,356.1	1,246.3	1,175.6
Net current assets/(liabilities)	107.7	245.1	(189.7)	(105.1)	(120.0)
Total assets less current liabilities	1,928.8	1,776.3	1,166.4	1,141.2	1,055.6
Creditors amounts falling due after more than one year	1,775.3	(55.8)	(744.5)	(810.2)	(821.6)
Provisions for liabilities and charges	1,775.3	(45.3)	(7.9)	(11.7)	(14.5)
Minority shareholders interests	—	—	—	—	—
	1,928.8	1,675.2	414.0	319.3	219.5
Called up share capital	353.8	353.8	—	—	—
Reserves and retained profits	1,575.0	1,321.4	414.0	319.3	219.5
	1,928.8	1,675.2	414.0	319.3	219.5

Shareholdings	Number of shareholders	Percentage of total shareholders	Number of Ordinary Share Million	Percentage of Ordinary Shares
1 - 499	76,248	52.7	13.4	3.8
500 - 999	53,031	36.6	34.4	9.7
1,000 - 4,999	13,565	9.4	17.5	5.0
5,000 - 9,999	451	0.3	3.0	0.8
10,000 - 49,999	684	0.5	16.6	4.7
50,000 - 99,999	254	0.2	17.6	5.0
over 100,000	472	0.3	251.3	71.0
	144,705	100.0	353.8	100.0

Category of shareholding	Number of shareholders	Percentage of total shareholders	Number of Ordinary Shares Million	Percentage of Ordinary Shares
Individuals	131,548	90.9	59.0	16.7
Joint account individuals	8,935	6.2	4.0	1.1
Nominee companies	3,233	2.2	130.5	36.9
Other corporate bodies	216	0.1	91.3	25.8
Limited and public limited companies	529	0.4	27.1	7.7
Banks	51	-	0.8	0.2
Pension funds	102	0.1	12.8	3.6
Insurance companies	91	0.1	28.3	8.0
	144,705	100.0	353.8	100.0

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