

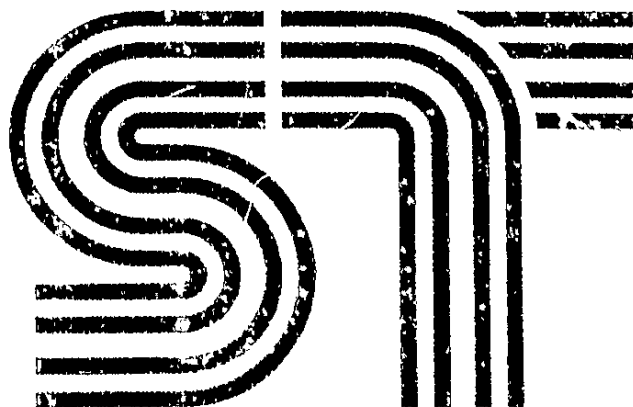
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# Severn Trent

Severn Trent Plc Report & Accounts 1991/92



## A Global vision

Severn Trent Plc is one of the major water and waste management companies in the world, with an annual turnover in excess of 800 million pounds.

Our core regulated business is Severn Trent Water Limited, one of the world's largest private sector water companies, employing the bulk of the Group's 10,000 strong workforce. We are capitalising on its strength and skills by applying our experience to other closely-related business areas:

- waste management is the second core business area in which we have recently acquired Biffa, a leading waste management company with operations in the UK and Belgium;
- extending our international reach through Severn Trent International. With this company's projects in Europe, the USA and other countries added to our UK customer base, we supply water services to some 15 million people around the world;
- investing in technologies vital for the future of our water and waste businesses with the formation of Severn Trent Technology, and developing them commercially;
- building on our ability to meet and monitor high standards of quality by expanding Severn Trent Laboratories; and
- using our knowledge of utility company needs to market our management and monitoring systems to other companies.

In all these operations we maintain the Group's commitment to quality, value for money, and care for the environment.

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 aims 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.

We in Severn Trent are in the business of caring for the environment because the environment is our business.

This year we will publish a full environmental policy:

- we have carried out an audit to find where we meet this policy;
- we will publish a plan for those areas where we do not yet meet fully all our objectives;
- we will report the audit factually.

Financial highlights	£ million
Turnover	822
Operating profit	261
Profit before tax	265
Investment expenditure	600
Dividend per share	19.3p

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# Chairman's statement

John Bellak *Chairman*

Last year I emphasised our overriding commitment to the success of our regulated business - Severn Trent Water Limited.

We have been true to that commitment. Severn Trent Water Limited has again the lowest average charge for drinking water and the second lowest overall charge: yet it has again made the highest investment and earned the highest profits of the ten water and sewerage companies because of the efficiency of our operations.

We have further underlined our commitment to our customers by voluntarily reducing by one per cent

the price increase for 1992/3 to which we were entitled under our licence: this despite an average charge per household of only 41 pence per day, among the very lowest in the European Community.

The Group's turnover was £822 million, our operating profit £261 million, and our profit before tax £265 million.

The Board recommends a final dividend of 12.9 pence per share, making a total of 19.3 pence per share for the year, in line with our wish to provide shareholders with a growing income in real terms.

The result of the General Election on April 9, 1992 was welcome. It has removed the political uncertainties over the future of your company, and ensured that the system of regulation so recently put in place remains effective.

The system ensures that quality standards are met efficiently and on time, whilst also providing a fair incentive and a proper return to our shareholders on the vast capital investment they are making.

We continued our cautious expansion into related areas of environmental activity at home and abroad. The acquisition of PSC establishes a base for the pursuit of operating contracts in the USA, where our expertise in the economic and efficient operation of water and sewage treatment systems is increasingly appreciated.

Aquafin is expanding rapidly in Belgium and contributing to group profit.

We have been able to make small, coherent acquisitions to expand both our Technology and our Laboratory businesses, excellent and profitable parts of the Group: and the purchases of Stoner Associates and, since the financial year end, of Computer Systems & Applications in the USA are important in the contribution they will make to our water and systems businesses at home and abroad.

By far our largest investment outside water has been in the waste management industry.

The recession has undoubtedly had an effect: nevertheless Biffa has performed well in a most difficult economic climate and we have great confidence in its management and its style. We have the right base for

the future in an important additional core business for the Group.

During the year Frank Earnshaw has retired from the Board. His contribution to Severn Trent and its predecessors for over 40 years has been beyond praise, and he has never lost his drive and enthusiasm for innovation.

We are very fortunate in welcoming to the Board Clare Tritton QC, a most distinguished expert in European law, whose specialised knowledge will be of particular value to us as Brussels becomes ever more important in our affairs.

Following the year end, we were also very pleased to announce the appointment of Alan Costin as Group Finance Director.

All my Board colleagues and all who work in the companies within the Severn Trent Group are committed to being the best: in quality, in service, in profitability, in commitment to our customers worldwide, and to our shareholders worldwide.

To them, my sincere thanks for all their efforts and support.

# The Board

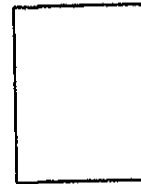
Severn Trent's Board currently has twelve members, chosen for their wide experience of business and commerce, and for their specialist knowledge.



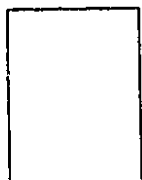
**John G Bellak MA (61)**  
Chairman since 1983. Mr Bellak is also Chairman of the Charitable Contributions Committee, the Treasury Committee and the Industrial Committee. Previously Managing Director of Royal Doulton Limited. He has over 30 years' experience in exporting and industry and is a member of the Grand Council of the Confederation of British Industry and its Environment Committee and Planning Task Force; and a member of the Court of Keele University.



**Timothy C Heywood-Lonsdale MA (55)\***  
Appointed to the Board in October 1983, and has been Deputy Chairman since 1986. He serves on the Charitable Contributions Committee, is Chairman of the Remuneration Committee and a Trustee Director of the Severn Trent Pension Schemes. Mr Heywood-Lonsdale is Chairman of S.I.S. Chemicals Limited and is a property manager. Before privatisation, he served on many water authority committees, including those dealing with consumer affairs and water quality.



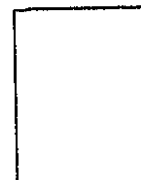
**Clare Tritton QC (56)\***  
Joined the Board in November 1991. She serves on the Audit Committee and is a Trustee Director of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law. Mrs Tritton serves on the Hansard Commission on Legislative Reform and is an Independent Non-Executive Director member of the Council of FIMBRA.



**Roderick S Paul MA FCA (57)**  
Chief Executive. Appointed to the Board in 1988, he is a member of the Treasury Committee and the Industrial Committee. A council member of the Birmingham Chamber of Industry and Commerce and the Confederation of British Industry in the East and West Midlands, he is Chairman of the Advisory Board of the Business School of the University of Warwick, a Member of the Council of the University and a member of the Board for Chartered Accountants in Business.



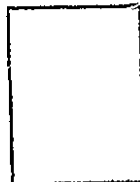
**Victor Cocker BA (Econ) MIWEM (51)**  
Appointed to the Board in October 1988, Mr Cocker is Managing Director of Severn Trent Water Limited. He joined Severn Trent in 1974, specialising in regulatory planning and marketing functions. He spent 12 years in the Gas Industry prior to joining Severn Trent.



**Michael P Upstone BSc C Eng MICE MIWEM (57)**  
Appointed to the Board in January 1991, Mr Upstone 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.



**ST International**  
**Rennie Quinn BSc (Chem) MRIC Chem**  
Managing Director



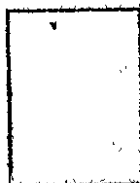
**Biffa**  
**Martin Bettington BSc MBA**  
Managing Director



**ST Property**  
**Paul Ludlow FRICS**  
Managing Director



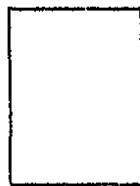
**ST Technology**  
**Bill Scott C Eng FICE MIWEM FAWO**  
Managing Director



**ST Laboratories**  
**John Leahy MA C Chem MRSC**  
General Manager



**ST Systems**  
**Jim Oliver BA**  
Managing Director



**Alan W Henn (61)\***  
Mr Henn has been a Board Member since October 1986 and is a member of the Charitable Contributions Committee and the Remuneration Committee. Mr Henn is a Director of Beacon Broadcasting and Communications Limited and Chairman of various private companies. Before privatisation he served on the Regional Joint Councils and was Deputy Chairman of the Lower Severn Consumer Committee.



**Richard Ireland FICIS (58)\***  
Joined the Board in 1989. Mr Ireland is Chairman of the Audit Committee and a member of the Industrial Committee and the Treasury Committee. 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.



**Sir Richard Baker Wilbraham Bt DL (58)\***  
Appointed to the Board in 1989. Sir Richard serves on the Remuneration Committee, the Audit Committee and the Treasury Committee of the Board and is Chairman of the Trustee Boards of the Severn Trent Pension Schemes. He is also Chairman of the Bibby Line Group and Deputy Chairman of Grosvenor Estate Holdings, a Director of Brixton Estate Plc, Christie Hospital NHS Trust and other companies.



**Alan Costin FCA (49)**  
Appointed to the Board as Group Finance Director in May 1992. He serves on the Treasury Committee and the Industrial Committee, and is a Trustee Director of the Severn Trent Pension Schemes. A chartered accountant with nearly 30 years' experience, Mr Costin was previously Finance Director of Lex Service Plc. Prior to this he held various senior positions within that Group in the UK and the USA. Before joining Lex Service Mr Costin gained industrial experience with a leading security printer.



**Andrew H Simon BSc, MBA (47)\***  
Mr Simon was appointed to the Board in October 1986, and is a member of the Remuneration Committee, the Audit Committee and the Industrial Committee. He is Chairman of the Evode Group Plc and also a Director of Lichfield Cathedral Arts. He is a Confederation of British Industry Council Member, a Member of the Court of Keele University, and a European Advisory Director to the Wharton School of Finance.



**Roger H Boissier CBE (62)\***  
Appointed to the Board in October 1986, Mr Boissier is a member of the Remuneration Committee and the Industrial Committee. He is Chairman of Pressac Holdings Plc and Kalon Group Plc and a Director of British Gas Plc, Edward Lumley Holdings Limited, T & N Plc and a number of other companies. Before privatisation he served as Deputy Chairman of the Soar Water Consumer Committee and the Derwent Water Consumer Committee.

\*Non-executive Director



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# Chief Executive's review

Roderick Paul *Chief Executive*

The year was one of real progress in both earnings and quality in our water business. We added the important second arm to our core water utility and its international operations by purchasing Biffa - a waste management company whose high standards match our own.

Through Severn Trent Technology we support these core activities by investing in technologies crucial to their future. In addition, we have three niche businesses with long-term goals: Laboratories; Systems; and Property.

As part of developing and growing our water business in the UK we achieved major improvements in quality. At 99.6 per cent compliance we have now largely met the targets ahead of schedule for drinking and waste water agreed at privatisation. This year saw the peak of our investments to raise standards to meet EC directives and UK environmental laws, and raise service levels to meet our customers' needs, but we continue to take action to improve productivity, quality and service standards for the years ahead. Despite our very satisfactory growth in profits, we also maintained low costs and low charges to our utility customers in particular.

## New business areas

We have entered new business areas, both to spread the risk facing any company with one large, regulated business and to make wider use of our extensive pool of skills internationally. Aquafin in Belgium has made an excellent start, as have contracts won in the USA. We have also laid a solid base for further operations in Europe.

The purchase of Biffa is a highly significant step into waste management, and the quality of its business bears out the detailed environmental audit which underpinned our decision to buy. In

Belgium the company's landfill practices make them leaders in their field, and both there and in the UK we have invested in landfill and treatment capacities, and in improving collection productivity.

Biffa has performed well, if not at the level we hoped before the depth of the UK recession became apparent. Costs were reduced, but we were not tempted to push landfill prices down at the expense of using future reserves. Thus Biffa remains in excellent shape for the future with strong landfill capacity.

## Cost effective services

We have invested in technologies which we have identified as vital to our two core businesses. These include new systems for measuring pollutants in water and waste; faster water analysis techniques; and new disinfection technologies. Some of the trading activities we acquired through such investments are also beginning to make a contribution to group profits.

Our Laboratories have excellent prospects for growth in new business areas outside Severn Trent Water; the Systems business is now successfully marketing the systems we use in our water business to other utilities; and Property is enabling us to optimise benefits from real estate disposals.

In addition to the formal separation of the Board of Severn Trent Water from the Plc in January 1991, a number of other steps have successfully strengthened our management, including the appointment of a President to supervise performance across our interests in the USA and provide close contact and direction in this growing area. Clear definition of responsibilities in all our individual companies results in the sharp management focus apparent in the Managing Directors' reports which follow this review.

## Environmental contractors

In essence we are environmental contractors, providing water and waste management services to the community. Implicit in this is a general duty to care for the environment, and we have always

### Improving service and efficiency

One aspect of raising service levels is responding quickly to customers' calls with the right information on hand. Above, Daljit Kaur and Gary Roberts, operators, demonstrate to Roderick Paul, Chief Executive an image storage system that can scan customers' letters and other documents directly into a central computer for immediate accessing by any department on request.

Advanced technology of this type has enabled us to provide a better and more cost effective service.

accepted this responsibility at top management level. This year we are in the process of formalising that understanding by putting a corporate environmental policy into action throughout the Group - building on our existing practices of assessing the environmental impact of all our activities and taking steps to prevent, reduce and eliminate any adverse effects.

We have set policy objectives which we will be announcing shortly, including both those specific to our core businesses and the common business practices to which all Severn Trent companies adhere. This environmental report will set out our policies, the plan to achieve them, and a factual report on results.

Prior to Severn Trent's acquisition of Biffa, during April 1991, Environmental Resources Limited (ERL) undertook an environmental review of Biffa's landfill operations. The review assessed current operational practices, and identified a number of areas where investment or other action was required.

The review indicated that current operational practices were of a high standard. Waste acceptance procedures and record-keeping were comprehensive and in line with requirements for the type and scale of the operation. Compliance with regulatory requirements was good, with a record of quick response to regulatory concerns. A number of deficiencies were noted relating in particular to older sites, including a number inherited through acquisition, where outmoded practices had left environmental problems. Leachate control, gas-management and final restoration required improvements at these sites. Specific remedial actions and associated costs were identified.

ERI has assessed progress twelve months after the initial review. This review has noted that actions have been taken to implement operational and management improvements, including capital investment in remedial and site preparatory works. Other identified improvements include:

- an internal environmental review programme of waste management operations in the UK;
- up-grading of acceptance procedures to incorporate Duty of Care provisions, and improved testing and analysis of



- incoming special and difficult wastes;
- expanded resources for the in-house technical department;
  - up-grading of current, and installation of new environmental control and monitoring systems;
  - extension of liaison groups to all open sites.

Biffa, with the full support of Severn Trent, is committed to achieving the highest level of environmental performance within the industry, going well beyond the minimum standards of regulatory compliance. The introduction of the internal environmental review programme, with the results reported at Board level, is an important first step.

The need to integrate the new internal environmental review programme into an environmental management system throughout the Company is a clear priority, and has been initiated by Biffa. The system will include:

- the adoption of clear performance criteria and goals;
- extending the internal environmental review procedure to the Belgian sites;
- incorporation of formal systems for environmental management into the existing management structure, including training and communication needs to meet environmental objectives;
- further improvements to environmental monitoring systems and contingency action plans; and
- setting up an external review function

To this end, ERL has been asked by Biffa to assist with the development of its environmental management system.

In Severn Trent Water we also have our plans laid to comply with our environmental policy and to report the results.

Our environmental policy is an integrated management system that is applied to all our businesses.

### Natural polish for water quality

Beds of reeds planted in gravel give a final polish to treated effluent returned to rivers where it must meet exceptionally high quality standards. In low-population areas, the beds are highly effective in filtering out residual suspended solids. Ben Green, Principal Process Development Scientist, checks the water level in a reed bed being used for effluent polishing at Himley works near Wolverhampton, one of the first of some 70 small, unmanned sites in the region to be provided with reed beds before the end of 1992.

# Severn Trent Water

Vic Cocker *Managing Director of Severn Trent Water*

Severn Trent Water represents some 80 per cent of the turnover of the Group. By area it is the second largest of the UK's water companies. We provide services to a resident population of over eight million people using 39,000 kilometres of water mains and 52,000 kilometres of sewers.

As a water service company we cannot merely pursue any one 'major strength'; instead we must score highly in every area:

- low-cost operation;
- high efficiency;
- customer care;
- environmental protection, and quality.

Measured against other water companies in the UK, Severn Trent ranks in the top two or three in virtually every field. For example, while we earn the highest profits of any water company in the UK, because of our efficiency measures, our charges to customers for water and sewerage continue to be the second lowest in the country, and the absolute lowest for drinking water - with the average household paying about 41p a day for water and waste water services in 1992/93.

## Highest ever standard achieved

Among the driving forces behind the privatisation of water in 1989 was the need to improve water quality and to bring the treatment of sewage into line with emerging higher standards. Both demand massive investment and a ten-year programme agreed with Government commits us to firm targets for capital expenditure, heavily weighted in the early years to enable us to comply with statutory and EC standards as soon as possible.

Investment this year totalled £585 million, a 43 per cent

## Investing in quality

Commissioned in Autumn 1991, the new £0.65 million pilot water treatment plant at Strensham, near Tewkesbury, is experimenting with ozone and activated carbon for the control of organic micro pollutants. Anne Watson, Process Development Officer, talks to Managing Director Vic Cocker about how new techniques can improve not only the laboratory quality factors but also the taste

and smell by which customers judge water quality. Through such investment - currently running at some £2.3 million each working day for water and sewerage services - Severn Trent Water achieved virtually 100 per cent compliance with EC quality standards by the end of the financial year.

Increase on last year which brings us fully into line with our agreed targets. This compares with a total investment of £205 million in 1988/89, the last full year before privatisation. By using competitive tendering rather than negotiated contracts we have been able to benefit from the overcapacity in the market and gain better value for money.

Our investment programme for capital expenditure were £161 million on water supply and sewerage and water treatment, £161 million on sewerage, £108 million on sewerage, and £152 million on sewerage treatment and disposal. Within this total £10 million was spent on maintenance and renewal of water mains and sewers.

### Speed and quality of response

In addition to strengthening product and process quality, we have invested in major improvements to the one area where we do not yet rank among the top water companies: recorded customer

service response times. We expect to see a marked improvement in performance as a result of the new computer billing system due for introduction in July, and have already made a breakthrough in speed and quality of response to customer enquiries by investing in image processing technology. This stores letters, documents and details of customers' telephone enquiries as an electronic image, enabling staff to retrieve and display information quickly on computer terminals.

The quality of water and sewage treatment is of paramount concern to us, to our customers, and to the regulatory bodies. In both areas of operation we had achieved virtually 100 per cent compliance with EC quality standards by the end of the financial year.

As our geographic area is totally landlocked, unlike other water companies in the UK we have never disposed of sewage or sludge at sea. Instead, both are treated to a very high standard, since the cleaned up waste water is returned to rivers and more than half of sludge produced is used on land as soil conditioner.

### This century's last great reservoir

The 300-hectare Carsington reservoir represents an investment of £107 million and increases our raw water storage capacity by 10 per cent, enough to meet even peak demand. It will almost certainly be the last major reservoir to be built in the UK this century.

In May 1992 it was officially opened by Her Majesty The Queen, hosted by Severn Trent Chairman John Ballaig at the Visitor Centre, above right, an important information base for what will become a major recreation area.

For drinking water, we improved significantly on even last year's high performance. Supplies from Severn Trent compare to the very best in the UK and Europe, and only the UK and Switzerland exceed a 99 per cent pass rate in water quality samples. During the year, 99.6 per cent of the 500,000 tests for the safety and quality of Severn Trent's drinking water passed the tough standards imposed.

Nevertheless, we have to face a gap between perception and reality: although drinking water quality is now the best yet in scientific terms, many customers believe it to be deteriorating. We have taken practical steps to bridge the gap: working to achieve 100 per cent compliance with quality standards for drinking water while also improving the factors on which customers judge water: smell, colour and taste.

Among the various treatments we are using to improve water quality is the increasing use of granular activated carbon. During the year the joint initiative with Anglian Water Services, Graham Carbons, commissioned its first carbon regeneration plant

Quality Inspectors visited over 24,000 homes during the year to sample tap water, and each sample was analysed at one of Severn Trent Water's microbiological laboratories, or the chemical laboratories of Severn Trent Laboratories. In the photograph is Christine Cool from the company's Quality Assurance department.

which will secure an important source of carbon regeneration for us. The completion of the £60 million upgrade to the Frankley treatment works, on schedule for 1993, will make an important contribution. Birmingham's water - which mainly originates in the Welsh hills - contains trace amounts of iron and manganese, which present no health problems but may at times cause discoloration and a slight taste. An additional stage of treatment will involve a process of dissolved air flotation, and when completed Frankley will have the largest plant using this technology in the world.

In addition, we are testing techniques of fine-tuning chlorination by reducing the initial dosage at our treatment works and topping up at other stages of the distribution network. The aim is to minimise unwanted taste and smell by spreading this essential disinfectant more evenly.

Better communications are vital to carry our messages on quality and services: all customers received our 'FACTS' leaflet about water quality during the year, and we have constructed visitor centres and educational facilities at major works and at the new reservoir at Carsington in Derbyshire. Now over 50 per cent of Carsington was opened by Her Majesty The Queen in May 1992.

### Quality through advanced technology

The current £60 million upgrade to the Frankley water treatment works in Birmingham will enable us to meet all quality standards of drinking water for the city into the 21st century. It will remove colour and taste, using a process of dissolved air flotation. Supplies Controller, John Gibson (right) and Technical Assistant Robert Hutcheson are seen above viewing work on the site. When completed, Frankley will incorporate the world's largest dissolved air flotation plant. The upgrade of Frankley works is part of our ten year investment plan. The chart below shows the increase in investment over the last four years.

We are in a strong position concerning water resources: the Carsington reservoir will boost our water resources by 10 per cent and help ensure our supplies meet peak demand. Our interlinked grid network enables us to draw on our wide choice of water sources, and move supplies from one area to another to meet demand.

Our water treatment capacity, however, will remain tightly constrained until the completion of the Ogston treatment works near Chesterfield - delayed for over 12 months by planning objections.

The levels of service agreed with the Director General have been achieved in other key areas: we did not need to impose hosepipe bans in 1990 and 1991, and over 99 per cent of properties are above target levels for pressure and supply. Very few customers remain at risk of foul flooding to properties: nevertheless we believe it necessary to invest heavily to eliminate the remaining problems. This programme of improvements underlines our constant focus on customer service. We also place great importance on our relationships with the Director General of Water Services and the Customer Services Committee: they are the guardians of our contract with our customers.

### Our business is the environment

A commitment to protecting the environment is integral to our operations. Our business is the environment, and in the drive to become a world leader in water and waste water treatment we work closely with Severn Trent Technology to research and develop new or improved methods. Current projects include sewage treatment techniques to remove nutrients (nitrogen and phosphorus); algae detection; sludge digestion; computerised control of treatment works; and improvements to disinfection. Expenditure on R&D activities within Severn Trent Water during the year totalled £5.2 million.

We are already seeing the results of such investment from:

the new £0.65 million pilot water treatment plant near Tewkesbury. This was commissioned in Autumn 1991 and we are currently experimenting with different combinations of ozone, ultraviolet light and activated carbon treatments to further improve the taste and quality of our water.

We took initiatives during the year to encourage non-agricultural pesticide users to help us tackle at source the problem of pesticides in drinking water. Our 'Spraysafe' campaign emphasised to local authorities and others the benefits of using less, and changing to less damaging pesticides - helping to protect the environment in general and reducing the cost of treating water to meet EC standards on pesticide contamination, which are the most stringent in the world.

The transformation of our culture from a traditional public utility to a competitive and profitable service company is well under way. One effect is a fundamental change of attitude: we now supply customers, rather than merely consumers. Another is a shift upwards in skill levels as we develop the more effective, better-trained workforce essential for the increasingly technical and precise nature of our operations.

With this in mind, we introduced NVQ awards (National Vocational Qualification), which is a system of assessing and awarding certificates of competence for individuals in their day-to-day work. We expect some 3,000 employees, across all operational areas of our business, to gain these nationally recognised records of achievement over the next two years.

During the year we increased manpower numbers to meet the needs of our investment programme, to provide better customer service, and to improve product quality. As a result, overall numbers in Severn Trent Water Limited have now peaked at around 7,500 employees.

### Drive to meet standards

David Turner (Assistant Controller) and Eddie Powell (Engineering Manager, West) discussing the operation of the patented dual aeration system installed in the activated sludge plant at the new Cannock sewage treatment works. The system is designed to be able to respond to a wide range of air demand from the sewage with optimum operating cost at all times.

Advanced technology systems are playing a major part in our drive to meet the EC sewage compliance standards. We hope to achieve 100 per cent by July 1992.

*Note: compliance with percentile sanitary standards (by flow).*

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# International

Rennie Quinn *Managing Director of Severn Trent International*  
Severn Trent International is carving out a new business for the Group in new markets. Although still in the early stages of development, we are increasingly recognised as a water and waste water operating company with worldwide capability.

Our aim is to build a major business that extends Severn Trent Water's capability internationally. The strong home base gives us important competitive advantages: a critical mass for development, plus the ability to offer the Group's expertise and resources to our customers, whatever their size or location. In most countries we have the added advantage of already having met in the UK the standards now challenging them.

Our market platform is based upon Severn Trent Water's reputation as one of the world's leading operators in the field, and we are determined that our operations will match their high standards of ethics, management and people. Our choice of partners and joint venture companies reflects this clearly.

## Expanding in the USA and Europe

The acquisition of PSC Environmental Services - which operates plants and systems owned by municipalities in Pennsylvania and South Carolina - underlines our resolve to become an important force in the USA. To PSC's plant operating experience we bring a full range of utility management skills, from distribution through to billing.

In strengthening our position in Europe, we are particularly pleased with the progress of Aquafin in Belgium, in which we have a 20 per cent share of the equity. From a standing start in January 1991, the company has grown with our help and know-how to

## Building in Belgium

Aquafin began work in 1991 on a contract to provide 11.5 kilometres of sewerage in the province of Antwerp, scheduled for completion in mid-1992. Severn Trent International Managing Director Rennie Quinn meets Aquafin project leaders Roger Pacey (left) and Dirk Stove at Willebroek-Oost, where the 2-metre diameter sewer pipe will connect to a brand-new sewage treatment works.

Above: Aquafin's headquarters are located on the edge of Antwerp. The majority of their work is concentrated in the Flanders area.

120 employees by March 1992, and during this time has developed some 140 projects with a total value of £85 million.

In 1992, 214 projects are planned with a total value of £170 million and we have already begun the tendering process for 56 of these. The development of the company has been achieved in what for Severn Trent is an entirely new legal and governmental environment.

We are co-operating with a number of German partners in bidding for water projects in the former Eastern sector, and plans are well advanced for joint ventures in Europe where we can offer the added value of a truly integrated operation.

We continue to use our consultancy operations to break new ground for facilities management and other contracts which use our operational and management skills. We are currently working in Mauritius, India, Malaysia and Africa. In addition, a particularly important contract in Puerto Rico has been extended and developed.

Although in many cases we transfer skills to our overseas operations, we gain essential experience in return. The exchange of knowhow with partners in international projects broadens our understanding of other cultures and unfamiliar technical problems.

Our market research has enabled us to concentrate our efforts on the markets which hold good prospects for us, whilst being receptive to opportunities elsewhere.

This targeted approach has made an important contribution to our success in developing new business areas.

#### A base for growth in the US

Since we acquired the US company PSC Environmental Services during the year it has won further contracts on the eastern seaboard for both water and sewage treatment. Our integrated management expertise coupled with PSC's local operational experience form a base with considerable growth potential. Pictured in the control room at The Oaks waste water treatment plant is Bill Roshong, facility manager.



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# Biffa Waste Services

*Martin Bettington Managing Director of Biffa Waste Services*  
Severn Trent acquired Biffa Waste Services in May 1991 as a logical extension of its core business. Biffa is an integrated waste management company offering services to its customers covering the collection, recycling and treatment of waste through to its safe disposal in landfill sites, treatment plants or clinical incinerators. A detailed independent environmental audit of Biffa's landfill sites at the time of acquisition confirmed the high standards of operation which demonstrated a good basis for compatibility with Severn Trent Water.

*Our integration into the Group has gone very smoothly.*  
We have retained the strong Biffa name and assimilated Severn Trent's waste activities into Biffa. Our revenues of £99.6 million for the full year are slightly lower than the previous year due to the recession in the United Kingdom depressing volumes and prices in the collection and landfill divisions whereas our municipal collection activities and our operations in Belgium both had a very good year.

We have combated the effects of the recession by cutting costs throughout the year. Collection vehicles have been taken out of the fleet to maintain productivity, overheads have been kept to a minimum and our workforce has been trimmed by nine percent to 1,800 people.

## Building on synergy

Our selling activities have been highly focused on increasing our regional market shares and utilising the strength of our national network of waste collection depots. We have designed specific service packages to help our large customers meet their 'Duty of Care' obligations under the new Environmental Protection Act, and our national network has been particularly useful in meeting the needs of the large fast food, retail and brewery chains.

As one of the leading waste management companies, we are committed to providing recycling services to our waste customers.

### Combining landscape design with pollution control

Above, Managing Director, Martin Bettington and Site Manager, Keith Speller at a restored section of the landfill site at Redhill. The site combines the latest techniques in landscape design with pollution control. The first completed sections have been restored to blend with the surrounding landscape and the site has over 200 individual monitoring points for environmental data.

Below: a section through the landfill site at Redhill.

Together with the major waste paper processors in the United Kingdom, we have launched a scheme across all our depots whereby our customers can separate card from their waste streams for recycling. Similarly our municipal customers are able to separate newspapers and magazines from the domestic waste stream for recycling.

The landfill division achieved its goal of replenishing and increasing our stock of available void space for landfilling. At the end of the year we had twenty one operational landfill sites with a combined void space of twenty two million cubic metres, with a further sixty million cubic metres at various stages of either being acquired or developed, thirty two million of which is already under Biffa's control.

We continued to expand our range of treatment activities, which although affected by recession are a vital growth area for the future. We have upgraded our facilities to take more volume and a

wider range of waste streams; installed fume-scrubbing equipment; and increased the tanker fleet.

Our growing presence in Belgium - which was unaffected by recession - made an important contribution. Our totally re-engineered Cour au Bois site is setting new standards for landfills in Belgium, and plans are well in hand to build our own treatment facilities in Antwerp. Another record year in waste brokerage took us to second place in the Belgian market.

The Environmental Protection Act became law in April 1992, and has major implications for the year ahead. We have invested heavily in training to ensure our staff understand its provisions and are well prepared to advise customers on how it affects their businesses. By making producers responsible for their own waste, it is likely to raise the level at which companies take buying decisions on waste, and to favour responsible operators. This is a trend from which we are well placed to benefit.

### Responsibility for the future

Landfilled sites remain our responsibility for future decades, and are designed and managed incorporating latest landfill technology. Above, Site Foreman Emile Jacob, Director Charles Rijckenberg and Landfill Manager Philippe Cannel inspect our newly developed Cour au Bois landfill site in Belgium, in which the design of more than ten protective layers is clearly visible.

# Technology

Bill Scott *Managing Director of Severn Trent Technology*

Severn Trent Technology has been developed over the last 18 months and, through both acquisition and growth, achieved a turnover approaching £38 million.

Our main functions are to identify the technologies that are the key to the future of Severn Trent's core businesses of water and waste over the years ahead, and secure them for further development and commercialisation.

Our group of companies is engaged in technologies such as the development of expert systems - designed to ensure that as treatment works become increasingly complex, the operator receives accurate, timely and relevant information.

We are also exploring innovative ways of measuring the key parameters used by operational managers. Faster, easier testing will support managers' efforts to deliver the required standards.

## A strategy for innovation

By acquiring Stoner Associates early in the financial year we have for instance been able to apply their workstation-based network analysis system in Severn Trent Water, identifying problems which when remedied will make significant savings.

Factors such as flow and pressure can be predicted to ensure that a satisfactory service is maintained. Severn Trent Water is also developing the technique to model the presence of chlorine at various points in the network to minimise the impact on taste. Stoner solutions are equally effective in modelling oil and gas pipelines.

Advanced disinfection techniques for water and sewage treatment are provided by Capital Controls Inc, an international company in which we have 80 per cent shareholding. The company has developed an electrolytic process of generating chlorine on site, avoiding the need for bulk storage of chlorine gas. The whole life cost of this system is cheaper than the traditional alternative.

Researching alternative disinfectants to chlorine is an important priority. Small scale ozone generation systems are part

## Tomorrow's metering technology

Bill Scott, Managing Director of Severn Trent Technology and Eddie Dunkey, Managing Director of Fusion Meters Ltd, inspect the new fluidic oscillator water meter and its highly automated, state-of-the-art manufacturing cell.

The meter, which contains integrated flow-sensing and data-storage electronics with the advantage of no moving parts, can be read remotely by automatic radio communication. Designed for the international market and produced within a BS 5750 Quality Management System, this new product is a major breakthrough in water metering.

of the product range and a marketing agreement provides access to the full spectrum of ozone technology.

#### Building on technological leadership

Other investments that secured important expertise for us include the ultraviolet light treatment specialists JaBay, who manufacture units suitable for the disinfection of drinking water and are expanding their product line to include an open channel system for sewage applications.

Aztec is a market-leader in on-line water quality monitoring and control instrumentation. They are well known for their analysers which measure colour, aluminium and iron. Their coagulation control system improves water quality by enhancing the filtration process and they have recently released a low range turbidimeter and an ammonia monitor.

In February 1992 we formed Tetra Europe, a joint venture with USA company Tetra Technologies. This makes Tetra's proven sewage treatment techniques available for use and development by Severn Trent Water and for sale to other companies in the UK and Europe. Tetra have valuable experience in nutrient removal and other advanced processes, and their technologies have been well received by other UK water companies, while those which apply to treating industrial liquid wastes are of particular interest to Biffa.

Severn Trent also hold 49 per cent of the equity in Minworth Systems, which maintained its strong technical lead in the development of intelligent instruments and advanced communications and process information management systems for waste water.

Research by the Cranfield Institute, funded by Severn Trent, resulted in a design of a meter with no moving parts. A joint venture with the Fusion Group has since been established to manufacture the meter and related products. Prototypes are being tested by Severn Trent Water and the production line will be operational by the end of 1992. With radio read-out, powered by a long life battery, the unit is accurate over a full range of flows and has a long, maintenance-free life.

#### Ultraviolet as a disinfectant

Our investment in JaBay brought expertise in the use of ultraviolet light as a disinfectant for both water and sewage treatment. JaBay manufactures a closed vessel unit which is now installed in a number of Severn Trent Water boreholes.

#### Expertise in pipeline network management

After acquiring Stoner Associates, we applied their analysis software system within Severn Trent Water. This software enabled us to construct a computer model of our water distribution system to predict the effect of changes in flows and pressures. Stoner solutions are also used in other industries such as oil and gas, and in 11 countries.

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# Laboratories

John Leahy *General Manager of Severn Trent Laboratories*

We made excellent progress during the year in developing work from sources other than Severn Trent Water, and we now have a £9.7 million turnover. We achieved this by winning further public sector contracts and by promoting our services in new markets and to new customers. Our external business was further strengthened by the acquisition in January of Lyne, Martin and Radford, a long-established Public Analysts laboratory in Reading. We shall retain the company's name but have integrated its operations with those at our other three sites.

## Focusing on specialised markets

With this spread of locations we plan to concentrate specialised services at individual laboratories, but continue to supply other services on a local basis where necessary. Specialist services include testing soil for contamination; food analysis including pesticide residues; and occupational hygiene - all of which employ technologies and skills with which we are exceptionally well equipped. We are also pursuing a promising new niche

market that Lyne, Martin and Radford have developed in safety testing of toys and other consumer products.

Our main customer is Severn Trent Water, for whom we analyse water and related samples, both to demonstrate compliance with the rigorous standards imposed by regulatory authorities and to monitor the performance of major capital schemes.

Also within the Group, we work closely with Biffa on waste analysis and site monitoring (a contract won by competitive tender), and with the International division, with whom a number of our 300 employees are working on laboratory-based projects.

The essence of our business is to provide a fast, high-quality service at a competitive price. To ensure that we can meet the ever-increasing expectations of our customers, we have invested heavily in state-of-the-art technology over the last 18 months, and are expanding into a new 10,000 sq. ft. laboratory extension at our Tile Hill (Coventry) headquarters. All our laboratories are accredited with the Department of Trade and Industry's National Measurement and Accreditation Scheme (NAMAS), which gives formal recognition of our commitment to quality, as does the Department of Health's recent granting of Good Laboratory Practice (GLP) Compliance to our Finham laboratory.

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## Attracting commercial customers

Quality of operation coupled with investment in advanced facilities enabled Severn Trent Laboratories to attract revenue during the year from customers outside the Group. At the Finham laboratory in Coventry, Leigh Harling-Dowen of the commercial organics section and General Manager John Leahy discuss the operation of a new purge and trap analyser - highly sensitive to even small traces of unwanted organic substances in water samples.

# Systems

*Jim Oliver Managing Director of Severn Trent Systems*

Building on the Utility experience and Information Systems expertise of the Group, Severn Trent Systems markets and installs a portfolio of Utility Solutions within the Water, Gas and Electricity Industries worldwide.

Supported by the Group's operational management experience there is a specific focus on consultancy and software implementation within the Work Management and Customer Information solution areas with a substantial and growing client base in the USA, UK and Australia.

In pursuit of the goal of becoming a lead specialist supplier of solutions to the Utility Industry, we acquired Computer Systems & Applications Inc. shortly after the end of the financial year. CS&A, a Houston based company, has been active and successful in this market niche for many years.

This influx of specialist marketing knowledge will now enable us to consolidate our activities and push for growth.

# Property

*Paul Ludlow Managing Director of Severn Trent Property*

Severn Trent Property was created principally to develop the Group's surplus sites. This has been a year of sowing seeds which may take some years to come to fruition. To secure the medium term supply of suitable sites for development, stakes have been taken in two property companies specialising in securing land on option.

Severn Trent Property's principal scheme is Mid-Point Park in Birmingham, a 90-acre industrial and warehouse site for which the infrastructure is now being established. Interest is strong, with a number of sales already agreed with further encouraging prospects for the current year.

## Specialist in Utility Systems

Here, Jim Oliver of Severn Trent Systems and Dr Roger Urwin, Chief Executive of London Electricity review the software and support by CS&A, which is part of Severn Trent Systems, to help London Electricity provide a more efficient service to its 1.9 million customers.

In a depressed property market we are focusing on distribution schemes where there is still a measure of occupier and investment interest, including a 90 acre project in Birmingham and warehouse units in Bristol. On site is Paul Ludlow with Jon Towler, Quantity Surveyor of Wilson Construction Plc who are main contractors at Bristol.

## Directors' report

The Directors present their Report, together with the audited Financial Statements for the year ended 31 March 1992.

### Principal activities

The principal activities of the Group are the supply of water, the treatment and disposal of sewage, waste management and the development of businesses in related areas. These are described fully, together with a review of the Group's business and future developments on pages 6 to 21.

A list of the principal operating subsidiary and associated undertakings of the Group at 31 March 1992 appears in note 24 to the financial statements on page 45.

### Dividend and reserves

Details of dividends paid and proposed are set out in note 8 on page 35. Subject to approval at the Annual General Meeting, the recommended final dividend of 12.9p for each Ordinary Share will be paid on 1 October 1992 to shareholders on the register at the close of business on 9 July 1992.

Proposed transfers to reserves are set out in note 19 to the financial statements on page 41.

### Acquisitions

During the year the Group made a number of acquisitions, details of which are provided under notes 22 and 24 to the financial statements on pages 43 and 45.

### Post balance sheet events

Early in April 1992, the Group completed the acquisition of Computer Systems & Applications Inc, which is based in Houston, Texas. CS&A provide customer information and billing systems to utilities throughout the USA, Australasia and the UK.

### Directors

Mr F Earnshaw retired from the Board on 31 October 1991.

Mr S M Larnder resigned from the Board on 31 October 1991.

On 1 November 1991 Mrs C Tritton QC was appointed a Director of the Company, and Mr R A S Costin was appointed a Director of the Company on 18 May 1992. Having been appointed Directors since the last Annual General Meeting they retire from the Board in accordance with the Articles of Association of the Company and, being eligible, offer themselves for re-appointment.

Mr R Ireland and Mr A H Simon retire from the Board by rotation and, being eligible, offer themselves for re-appointment.

Mr R A S Costin has a service contract with the Company which provides for not less than three years' written notice of termination by the Company and not less than twelve months' written notice by the Director. Mr R Ireland, Mr A H Simon and Mrs C Tritton QC do not have service contracts with the Company or any of its subsidiary undertakings.

The Directors of the Company at 31 March 1992 and their interests in the shares of the Company were as follows:-

	Beneficial Holdings in Ordinary Shares 31 March 1992	Beneficial Holdings in Ordinary Shares 1 April 1991	Share Options under Approved Schemes 31 March 1992	Share Options under Approved Schemes 1 April 1991	Share Options Granted during the year ended 31 March 1992
J G Bellak	7789	7663	174995	114731	60264
R S Paul	8326	7859	180491	143541	36950
V Cocker	4417	4291	113515	86289	27226
M P Upstone	1397	1271	90937	69113	21824
T C Heywood-Lonsdale	9000	8000	—	—	—
Sir Richard Baker Wilbraham	5000	30000*	—	—	—
R H Boissier	1100	1100	—	—	—
A W Henn	5000	5000	—	—	—
R Ireland	1000	1000	—	—	—
A H Simon	4600	4600	—	—	—
C Tritton	—	— +	—	— +	—

+ at date of appointment

\* Includes a non-beneficial interest of 25,000 ordinary shares at 31 March 1991.

Options have been granted in accordance with the Severn Trent Executive Share Option Scheme and the Severn Trent Sharesave Scheme.

No options were exercised by Directors during the year.

No change. In the above mentioned interests of the Directors were notified to the Company between the year end and 18 June 1992.

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

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 10 to the financial statements on page 36

#### Share Capital

Details of movements in share capital are shown in note 18 to the financial statements on pages 40 and 41.

A special resolution will be put to shareholders at the Annual General Meeting which, if passed, will authorise the Directors, until the conclusion of the Annual General Meeting of the Company to be held in 1993 to allot shares for cash other than pro rata to shareholders 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.

#### Amendments to the Articles of Association

It is proposed to make a number of changes to the Articles of Association of the Company following the coming into force of various provisions of the Companies Act 1989 and to bring the Articles into line with current practice. These changes are set out in full in Resolution 9 of the notice of Annual General Meeting. Resolution 9 will be proposed as a special resolution. The detailed changes to the Articles, all of which have been approved by The London Stock Exchange, relate to the following principal topics:

- (a) Section 212 notices (Resolution 9(b) and (c) relating to Article 76)

The Articles currently provide that where a member has failed to give the Company the information required by a notice given to that member by the Company under section 212 of the Companies Act 1985, certain sanctions may be imposed on the member in relation to the shares the subject of the section 212 notice. It is proposed that the Articles be amended to provide that any sanctions applying to shares will equally apply to any new shares issued in right of the existing shares the subject of the sanctions (for example, on a rights issue).

- (b) Delegation of Directors' powers (Resolution 9(f) relating to Article 119)

In the light of recent case law, it is proposed to clarify the provisions in the Articles relating to the ability of the Board to delegate their powers to Committees of the Board and to include provisions to enable a Committee to sub-delegate all or any of the powers so delegated. The new provisions provide that the Board may delegate the determination of any fee, remuneration or other benefit of an executive Director but only to a Committee of the Board consisting of two or more non-executive Directors. The new provisions reflect the existing policy of the Company whereby the salaries and other benefits payable to the executive Directors are decided by a Remuneration Committee consisting entirely of non-executive Directors.

- (c) Directors' and Officers' Liability Insurance (Resolution 9(d) and (l) relating to Article 96 and Article 154)

The Companies Act 1989 enabled the Company to purchase liability insurance for the benefit of its directors and officers. It is therefore proposed to update the Articles to make specific reference to this change in the law.

- (d) Borrowing powers (Resolution 9(e) relating to Article 102)

The Companies Act 1989 introduced the term "subsidiary undertaking" in relation to company accounts. It is proposed to update the provisions in the Articles restricting the borrowing powers of the Board by including references to the term subsidiary undertaking in place of the reference to subsidiaries.

- (e) Scrip dividends (Resolution 9(g)(h)(i) relating to Article 135)

It is proposed to update the provisions in the Articles relating to the ability of shareholders to elect to receive new ordinary shares in the Company instead of cash dividends (scrip dividends) to bring them into line with modern practice. In particular, it is proposed that the Articles be amended to remove restrictions on the period within which directors may be authorised to offer scrip dividends and allow for a scrip dividend mandate scheme to be offered to shareholders. A separate document giving full details of the Board's proposals is enclosed with the Notice of Annual General Meeting.

- (f) Notices to Members (Resolution 9(j) relating to Article 149)

Provisions are to be inserted into the Articles to enable a notice to be given to a Member to be given by reference to a record date, provided that the notice is sent by reference to the Register as it stands at any time within the period of 15 days before despatch of the relevant notice.

- (g) Destruction of Documents (Resolution 9(k) relating to Article 151)

It is proposed to amend the current provisions so as to allow for the destruction of documents in circumstances where a permanent record of that document has been made.

A copy of the current Articles of Association of the Company and the changes proposed to be made to the Articles will be available for inspection at the registered office of the Company until the date of the Annual General Meeting and at the meeting until its conclusion.

#### Scrip Dividend Alternative

Article 135 of the Articles of Association of the Company (as proposed to be amended by the above Amendments to the Articles) enables the Directors, if authorised by an ordinary resolution of the Company, to offer shareholders the option to receive fully paid ordinary shares instead of a cash dividend (a scrip alternative), either in respect of each separate dividend or in respect of all future dividends by way of a mandate scheme. The Directors believe that a scrip alternative and mandate scheme will be of particular benefit to shareholders who wish to increase their holdings without incurring dealing costs. In addition there are cash flow benefits for the Company. Resolution 10 on the Notice of Annual General Meeting therefore seeks approval to allow the Directors to offer a scrip dividend alternative for any dividend payable or declared prior to the date of the Annual General Meeting of the Company to be held in 1997, including the final dividend for the year ended 31 March 1992.



## Directors' report

Subject to Resolution 10 being passed the Directors intend to offer a scrip alternative and mandate scheme in respect of the final dividend for the year ended 31 March 1992. A separate document giving full details of the scrip alternative and mandate scheme, together with a Form of Election, is being circulated with the Notice of Annual General Meeting.

### Research and Development

Severn Trent has significantly increased expenditure on its Research and Development Programme from £4.3m in 1990/91 to £6.4m in 1991/92, with particular focus on the improvement of water quality and waste water treatment.

The Group continues to search worldwide for new technologies which can be developed and subsequently utilised to improve operational efficiency and to meet ever tightening environmental standards.

### Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £145,853 (1991: £115,239). No political donations were made during the year.

### Employees

The number of people employed by the Group on 31 March 1992 was 10,523 (1991 - 7,729). Of these, 7,529 (1991 - 7,182) were employed by Severn Trent Water Limited, the water utility.

During the year, further grants of options under the Sharesave Scheme and the Executive Share Option Scheme were made and in addition, there was an allocation of shares under the profit sharing arrangements of the Severn Trent Share Schemes.

The Group continues to have well established consultation arrangements in place which provide a valuable means of communication with employees; in addition, the house newspaper 'Stream' is sent direct to employees and a team briefing system continues to operate in the water utility on a regular basis providing valuable face to face communication arrangements with employees.

The Company remains committed to equal opportunity, and policies and practices are operated to see that no employee or job applicant receives less favourable treatment whatever their sex, race, religion, marital status or disability.

### Disabled persons

The Group continues its policy of employing disabled people and encouraging employees who become disabled to continue working within the Group wherever this is possible.

### Health and Safety at work

The Group's commitment to health and safety remains as strong as ever and for the third year in succession, Severn Trent Water Limited has gained a British Safety Council award for its achievements. The Group will continue to build on this foundation in conjunction with the opportunities offered by recent European Safety Directives to reduce further risks to its people.

### Substantial shareholdings

As at 18 June 1992 the Company had been notified of the following substantial shareholdings in its issued ordinary share capital: Provident Mutual held 12,021,335 ordinary shares representing 3.4% of the issued ordinary share capital; Friends Provident Group held 14,239,330 ordinary shares representing 4.02% of the issued ordinary share capital; and Rockleigh Corporation Plc (formerly Sun Life Group) held 12,379,066 ordinary shares representing 3.5% 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 the back cover. There is no charge for this publication.

### Directors' and officers' liability insurance

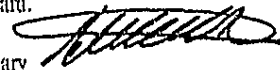
The Company maintains insurance under Section 310(3) of the Companies Act 1985 for its Directors and Officers against liabilities in relation to the Company.

### 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  
29 June 1992.



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## 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)

### Annual General Meeting

12 August 1992 at the International Convention Centre, Birmingham

## Group profit and loss account

For the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Turnover	2	821.7	627.0
Operating costs		(562.8)	(429.7)
Operating profit before share of results of associated undertakings	3	258.9	197.3
Share of results of associated undertakings		1.9	(0.1)
Operating profit :	2	260.8	197.2
Income from investments		0.3	0.3
Net interest receivable	5	4.3	51.5
Profit on ordinary activities before taxation		265.4	249.0
Taxation on profit on ordinary activities	6	(24.1)	(20.9)
Profit on ordinary activities after taxation		241.3	228.1
Extraordinary item	7	8.6	(9.7)
Profit for the year		249.9	218.4
Dividends	8	(68.3)	(62.1)
Retained profit for the financial year	19	181.6	156.3
Earnings per share	9	68.2p	64.5p

## Balance sheets

At 31 March 1992

	Notes	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
<b>Fixed assets</b>					
Tangible assets	10	2,291.8	1,813.8	3.4	0.1
Investments	11	19.0	7.3	662.1	408.8
		2,310.8	1,821.1	665.5	408.9
<b>Current assets</b>					
Stocks	12	24.3	13.8	—	—
Debtors	13	157.5	108.2	17.6	38.1
Short term deposits and investments	14	336.9	339.4	330.6	339.4
Cash at bank and in hand		5.8	—	0.1	—
		524.5	461.4	348.3	377.5
Creditors: amounts falling due within one year	15	(394.0)	(266.7)	(311.1)	(369.1)
<b>Net current assets</b>		130.5	194.7	37.2	8.4
<b>Total assets less current liabilities</b>		2,441.3	2,015.8	702.7	417.3
Creditors: amounts falling due after more than one year	16	(521.7)	(107.6)	(278.0)	—
Provisions for liabilities and charges	17	(89.5)	(79.8)	—	—
<b>Net assets</b>		1,830.1	1,828.4	424.7	417.3
Minority shareholders' interest		(0.1)	(0.1)	—	—
		1,830.0	1,828.3	424.7	417.3
<b>Capital and reserves</b>					
Called up share capital	18	353.8	353.8	353.8	353.8
Reserves and retained profits	19	1,476.2	1,474.5	70.9	63.5
		1,830.0	1,828.3	424.7	417.3

Signed on behalf of the Board who approved the accounts on 29 June 1992.



J G Bellak  
Chairman



R S Paul  
Chief Executive

## Group cash flow statement

For the year ended 31 March 1992

		1992		1991	
	Notes	£m	£m	£m	£m
Net cash inflow from operating activities	23a		287.6		267.2
Returns on investments and servicing of finance:					
Interest received		102.1		59.4	
Interest paid		(70.8)		(11.2)	
Interest element of finance lease rentals payments		(5.4)		(4.0)	
Dividends received from investment in Caird Group Plc		0.5		0.1	
Dividends paid		(41.4)		(55.7)	
Net cash outflow from returns on investments and servicing of finance			(15.0)		(11.4)
Tax paid			(21.4)		(11.9)
Investing activities:					
Purchase of tangible fixed assets		(442.1)		(315.2)	
Grants received		25.3		21.0	
Purchase of investment in and loans advanced to associated undertakings		(11.0)		(7.6)	
Sale/(purchase) of investment in Caird Group Plc		15.7		(16.8)	
Purchase of subsidiary undertakings	23b	(225.7)		(8.0)	
Sale of business	23c	0.3		—	
Sale of tangible fixed assets		6.2		6.5	
Net cash outflow from investing activities			(631.3)		(320.1)
Net cash outflow before financing			(380.1)		(76.2)
Financing:					
(Purchase)/sale of current asset investments		(11.1)		9.8	
Loans advanced		388.0		32.7	
Loans repaid		(3.7)		(0.4)	
Finance lease capital repaid		(4.2)		(3.5)	
Net cash inflow from financing	23d		369.0		38.6
Decrease in cash and cash equivalents	23e		(11.1)		(37.6)

## Notes to the financial statements

Year ended 31 March 1992

### 1 Accounting policies

#### a) Accounting convention

The financial statements have been prepared under the historical cost convention and comply with applicable Accounting Standards except as indicated in note f) below.

#### b) Basis of preparation

The financial statements include the results of Severn Trent Plc and its subsidiary undertakings. The results of subsidiary undertakings acquired are included from the date of acquisition. The results of associated undertakings have been accounted for on the equity basis where the holding exceeds 20 per cent and 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 (being land, including operational landfill sites, buildings, operational structures and 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 and capitalised 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) Landfill sites

Landfill sites are included at cost less accumulated depreciation.

The cost of landfill sites is amortised over the estimated life of the site on the basis of the usage of void space using the annuity method of depreciation. Cost includes the cost of acquiring and developing sites but does not include interest.

Each landfill site is divided into a number of operational cells: the depreciation charge is calculated for each individual cell over the estimated life of the cell on the basis of the usage of the void space within the cell concerned.

##### iii) 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 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.

## Notes to the financial statements

### Accounting policies (continued)

#### lv) 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 accounted for 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 accounted for as operating leases. Rental costs arising under operating leases are expensed in the year in which 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 is indexed to reflect the impact of price changes 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. The charge to the profit and loss account is adjusted by transfers to or from the infrastructure renewals provision to eliminate significant fluctuations in the timing of actual 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 on 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 amount written off. Those held as current assets are stated at the lower of cost and net realisable value.

#### h) Stocks

Stocks 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.

Development land and properties are included at cost net of progress payments receivable.

#### i) Landfill restoration costs

Provision for the cost of restoring landfill sites is made over the operational life of the site and charged to the profit and loss account on the basis of the usage of void space.

#### j) Environmental control and aftercare costs

Environmental control and aftercare costs are incurred over the operational life of each landfill site and may be incurred for a considerable period thereafter. Provision for such costs is made over the operational life of the site and charged to the profit and loss account on the basis of the usage of void space.

#### k) 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.

l) Foreign currency

The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences arising from the translation into sterling of the net assets of these subsidiary undertakings at the beginning and end of the year are dealt with through reserves, as are exchange differences on fixed asset loans between Group companies.

The cost of the Company's investments in overseas subsidiary undertakings is translated into sterling at the rates of exchange ruling at the date of investment.

All other foreign currency assets and liabilities of the Company and its United Kingdom subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end except in those instances where forward cover has been arranged, in which case the forward rate is used. Any exchange differences so arising are dealt with through the profit and loss account.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange realised during the year are dealt with through the profit and loss account.

m) Research and development

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

n) 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.

o) Advance corporation tax

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.

p) Goodwill

Goodwill represents the difference between the cost of acquisitions 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

2 Segmental analysis

a) Analysis of turnover and operating profit by geographical origin and type of business

	United Kingdom		Other — principally Europe and USA		Group	
	1992 £m	1991 £m	1992 £m	1991 £m	1992 £m	1991 £m
Turnover						
Water and sewerage services	689.9	608.6	—	—	689.9	608.6
Waste management	76.3	3.7	13.1	—	89.4	3.7
Other	24.5	3.4	17.9	11.3	42.4	14.7
	790.7	615.7	31.0	11.3	821.7	627.0
Operating profit						
Water and sewerage services	254.2	205.7	—	—	254.2	205.7
Waste management	8.1	0.5	2.9	—	11.0	0.5
Other	4.6	0.6	1.6	0.6	6.2	1.2
	266.9	206.8	4.5	0.6	271.4	207.4
Corporate overheads					(10.6)	(10.2)
					260.8	197.2

Turnover by origin and destination does not differ materially.

b) Analysis of net operating assets by geographical location and type of business

	United Kingdom		Other — principally Europe and USA		Group	
	1992 £m	1991 £m	1992 £m	1991 £m	1992 £m	1991 £m
Water and sewerage services	1,958.1	1,580.5	—	—	1,958.1	1,580.5
Waste management	49.8	1.0	1.8	—	51.6	1.0
Other	16.2	26.1	16.6	6.9	32.8	33.0
Net operating assets	2,024.1	1,607.6	18.4	6.9	2,042.5	1,614.5
Short term deposits, taxation balances, cash, borrowings and dividends payable					(212.4)	213.9
Net assets					1,830.1	1,828.4

3 Operating profit	1992	1991
Operating profit is stated after charging/(crediting):	£m	£m
Employee costs (note 4)	154.1	109.7
Infrastructure renewals expenditure (note 17a)	83.1	82.2
Depreciation (note 10)	63.3	48.6
Environmental and landfill restoration costs (note 17a)	2.0	—
Operating lease payments	4.5	3.2
Hire of plant and machinery	2.6	1.4
Research and development expenditure	6.4	4.3
Audit fees	0.4	0.2
Profit on disposal of fixed assets	(3.5)	(2.4)

4 Information regarding directors and employees	1992	1991
Directors:	£'000	£'000
Fees	113.3	92.5
Emoluments including pension contributions	828.6	812.0
Performance payments	64.2	119.9

1,006.1      1,024.4

Emoluments of the Chairman (excluding pension contributions)      143.7      149.5

Emoluments of the highest paid director (excluding pension contributions)      148.2      158.8

Emoluments (excluding pension contributions) of other directors of the Company were within the following bands:

£	1992	1991
	No.	No.
£ 5,001 — 10,000	1	—
£ 10,001 — 15,000	—	2
£ 15,001 — 20,000	5	4
£ 20,001 — 25,000	1	1
£ 70,001 — 75,000	2	—
£ 90,001 — 95,000	1	—
£ 100,001 — 105,000	—	1
£ 105,001 — 110,000	—	2
£ 110,001 — 115,000	1	1

- i) The executive directors' salaries and performance payments are determined by the Remuneration Committee, consisting of non-executive directors, after taking the advice of outside independent consultants. The performance payments are based upon the level of achievement against separate profit targets for those businesses existing at the time of privatisation and those acquired subsequently and achievements against levels of service, water supply and sewage treatment quality targets set by external regulators.
- ii) Non-cash benefits included in the total emoluments consist mainly of the provision of cars and health care insurance.
- iii) In addition to the emoluments disclosed above a payment of £333,742 consisting of pension compensation of £77,567 and of contractual emoluments, was made to a director for early termination of his contract (1991: £30,000).

Notes to the financial statements

4 Information regarding directors and employees (continued)

	1992 £m	1991 £m
Employees:		
Wages and salaries	159.8	112.1
Social security costs	13.6	8.6
Pension costs (note 21)	15.1	14.1
	188.5	134.8
Charged as follows:		
Capital and infrastructure renewals	34.4	25.1
Operating costs (note 3)	154.1	109.7
	188.5	134.8
Average number of employees during the year (full time equivalent)	1992 No.	1991 No.
By type of business:		
Water and sewerage services	7,456	7,054
Waste management	1,948	58
Other	1,012	412
	10,416	7,524
By geographical location:		
United Kingdom	9,960	7,389
Rest of the World	456	135
	10,416	7,524
5 Net interest receivable	1992 £m	1991 £m
Interest receivable	93.5	70.9
Interest payable on or in respect of:		
Bank loans, overdrafts and other loans repayable within five years	(54.7)	(15.4)
Other loans repayable after more than five years	(30.2)	—
Finance leases	(4.3)	(4.0)
	4.3	51.5

6 Taxation on profit on ordinary activities	1992 £m	1991 £m
Overseas taxation	0.5	0.1
Share of taxation charges of associated undertakings	0.8	0.1
Tax on franked investment income	0.2	0.2
Advance corporation tax	22.6	20.5
	24.1	20.9

At 31 March 1992, the Group had tax losses of approximately £87.0 million (1991:£30.0 million) which will be available for offset against future trading profits of Severn Trent Water Limited.

7 Extraordinary Item	1992 £m	1991 £m
Surplus on realisation of investment in Caird Group Plc	8.6	—
Write down of investment in Caird Group Plc	—	(9.7)
	8.6	(9.7)

8 Dividends	1992 Pence Per Share	1992 £m	1991 Pence Per Share	1991 £m
Interim dividend declared	6.4	22.7	5.85	20.7
Final dividend proposed	12.9	45.6	11.70	41.4
	19.3	68.3	17.55	62.1

#### 9 Earnings per share

The calculation of earnings per Ordinary Share is based on earnings of £241.3 million (1991:£228.1 million), divided by 353.8 million Ordinary Shares being the average number of shares in issue during 1991/92 and 1990/91.

The exercise of outstanding share options would not materially dilute earnings per share.

Notes to the financial statements

10 Tangible fixed assets

	Group			Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
<b>Cost</b>				
Balance 1 April 1991	780.1	947.2	461.9	2,189.2
Additions	141.5	162.0	194.8	498.3
Acquired with subsidiaries	39.7	—	70.3	110.0
Business disposed of	(0.3)	—	(0.1)	(0.4)
Grants and contributions	—	(23.2)	—	(23.2)
Disposals	(0.7)	—	(12.8)	(13.5)
Reclassification of assets	(20.4)	5.7	11.6	(3.1)
<b>Balance 31 March 1992</b>	<b>939.9</b>	<b>1,091.7</b>	<b>725.7</b>	<b>2,757.3</b>
<b>Depreciation</b>				
Balance 1 April 1991	245.8	—	129.6	375.4
Charge for year	17.9	—	45.4	63.3
Acquired with subsidiaries	4.7	—	32.9	37.6
Disposal	(0.5)	—	(10.3)	(10.8)
<b>Balance 31 March 1992</b>	<b>267.9</b>	<b>—</b>	<b>197.6</b>	<b>465.5</b>
<b>Net book value</b>				
At 31 March 1992	672.0	1,091.7	528.1	2,291.8
At 31 March 1991	534.3	947.2	332.3	1,813.8
<p>i) Tangible fixed assets of £3.1 million were reclassified as development land and properties during the year.</p> <p>ii) Tangible fixed assets held under finance leases at 31 March 1992 comprised plant and equipment at a cost of £73.8 million (1991: £59.9 million) with accumulated depreciation thereon of £28.2 million (1991: £23.8 million).</p> <p>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 £42.3 million (1991: £19.1 million) lower than it would have been had this treatment not been adopted.</p> <p>iv) The net book value of land and buildings is analysed as follows:</p>				
			1992 £m	1991 £m
Freehold			665.5	533.5
Long leasehold			4.4	—
Short leasehold			2.1	0.8
			<b>672.0</b>	<b>534.3</b>

The net book value of land and buildings includes £30.2 million (1991: £nil) in respect of operational landfill sites.

10 Tangible fixed assets (continued)

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

	1992 £m	1991 £m
On owned assets	59.5	45.4
On assets held under finance leases	3.8	3.2
Profit and loss account	63.3	48.6
Capital	—	0.3
	63.3	48.9

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

Land	19.6	17.4
Infrastructure assets	1,091.7	947.2
Assets in the course of construction	445.8	279.9
	1,557.1	1,244.5

vii) At 31 March 1992 the Company's tangible fixed assets comprised freehold land and buildings with a net book value of £3.4 million (1991: plant and equipment £0.1 million).

11 Investments

Group	Associated undertakings		Share of retained earnings £m	Other investments £m	Total £m
	Shares £m	Loans £m			
At 1 April 1991	0.9	6.3	(0.2)	0.3	7.3
Additions	8.3	3.6	1.1	—	13.0
Goodwill written off (note 22)	(0.3)	—	—	—	(0.3)
Provisions	(0.7)	—	—	(0.2)	(0.9)
Reclassification and transfer to subsidiary undertakings	(0.6)	—	0.2	0.3	(0.1)
At 31 March 1992	7.6	9.9	1.1	0.4	19.0

Company	Subsidiary undertakings		Associated undertakings		Other investments £m	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m		
At 1 April 1991	404.0	4.1	—	0.5	0.2	465.8
Additions (see below)	209.3	42.5	1.5	—	—	253.3
At 31 March 1992	613.3	46.6	1.5	0.5	0.2	662.1

Additions to shares in subsidiary undertakings include £89.9 million of loans capitalised during the year.

Brief details of the principal operating subsidiary and associated undertakings of the Group are set out in note 24.

Notes to the financial statements

12 Stocks

	Group	
	1992 £m	1991 £m
Stocks and work in progress	15.0	13.8
Development land and properties	9.3	—
	24.3	13.8

13 Debtors

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Trade debtors	91.0	49.5	—	—
Amounts owed by Group undertakings	—	—	5.9	18.0
Other debtors	15.2	10.7	—	—
Prepayments and accrued income	51.3	48.0	11.7	20.1
	157.5	108.2	17.6	38.1

14 Short term deposits and investments

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Short term deposits	336.9	332.3	330.6	332.3
Investments listed on a recognised stock exchange	—	7.1	—	7.1
	336.9	339.4	330.6	339.4

15 Creditors: amounts falling due within one year

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Bank loans, overdrafts and temporary borrowings	23.9	13.5	201.3	284.7
Other loans	—	3.1	—	—
Obligations under finance leases (note 20c)	7.0	4.0	—	—
Trade creditors	61.9	45.4	0.2	0.7
Amounts owed to Group undertakings	—	—	0.6	17.4
Other creditors	10.4	5.5	1.1	2.6
Taxation and social security	8.5	4.2	—	—
Advance corporation tax payable	22.6	20.5	22.6	20.5
Corporation tax payable	2.2	—	—	—
Dividends payable	68.3	41.4	68.3	41.4
Accruals and deferred income	189.2	129.1	17.0	1.8
	394.0	266.7	311.1	369.1

16 Creditors: amounts falling due after more than one year

	Rate of interest %	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
European Investment Bank loans — 1993-2002	10.8-11.6	146.5	30.0	—	—
Local authority loans — 1992-2035	9.3-12.0	16.5	16.9	—	—
Water annuities	4.0-5.0	0.1	0.1	—	—
Bonds due 1999	11.5	150.0	—	150.0	—
Bonds due 2001	11.625	125.0	—	125.0	—
		438.1	47.0	275.0	—
Obligations under finance leases (note 20c)		43.3	35.9	—	—
Deferred credits		28.9	16.4	—	—
Other		11.4	8.3	3.0	—
		521.7	107.6	278.0	—

Loans outstanding are repayable as follows:	Group	
	1992 £m	1991 £m
Between one and two years	30.9	0.4
Between two and five years	32.0	31.0
After five years — by instalment	54.5	15.5
— other than by instalment	320.7	0.1
	438.1	47.0

The net proceeds of the two Bonds issues during the year amounting to £271.5 million were used to finance the acquisition of Biffa, to refinance a number of smaller acquisitions and for general corporate purposes.

17 Provisions	Balance at 1 April 1991 £m	Arising on acquisition £m	Charged to profit & loss account £m	Utilised £m	Balance at 31 March 1992 £m
a) Liabilities and charges					
Infrastructure renewals provision	72.5	—	83.1	(100.9)	54.7
Reorganisation provision	7.3	2.3	3.9	(3.0)	10.5
Environmental and landfill restoration provisions	—	19.0	2.0	(2.3)	18.7
Other provisions	—	7.9	0.2	(2.5)	5.6
	79.8	29.2	89.2	(108.7)	89.5

The application of the Infrastructure renewals provision is shown net of grants and contributions of £1.8 million.



Notes to the financial statements

17 Provisions (continued)	1992 £m	1991 £m
b) Potential deferred taxation liabilities not provided:		
Capital allowances	330.0	230.1
Other timing differences	(34.1)	(30.9)
Available tax losses	(28.6)	(10.0)
Advance corporation tax not immediately recoverable	(55.0)	(32.4)
	<u>212.3</u>	<u>156.8</u>

18 Called up share capital	1992 £m	1991 £m
Authorised:		
475,000,000 Ordinary Shares of £1	475.0	475.0
One Special Rights Redeemable Preference Share of £1		

	1992 £m	1991 £m
Issued and fully paid:		
353,837,772 Ordinary Shares of £1 (1991: 353,825,846)	353.8	353.8
11,926 Ordinary Shares were issued during the year at 176.0 pence and 239.0 pence 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) The Severn Trent Share Schemes

The issued and paid up share capital of the Company includes 1,699,831 (1991: 1,441,763) Ordinary Shares issued under The Severn Trent Share Schemes. These shares are held in trust on behalf of employees who are beneficially entitled to the shares.

ii) Employee Sharesave Scheme

Under the terms of the Employee 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.

Options outstanding under this Scheme at 31 March, together with their date of grant, normal date of exercise and option price were as follows:

Date of grant	Normal dates of exercise	Option price	Number of shares	
			1992	1991
December 1989	1995 or 1997	176p	3,953,954	4,062,948
January 1991	1996 or 1998	239p	824,053	846,135
January 1992	1997 or 1999	257p	1,756,337	—

18 Called up share capital (continued)

iii) Executive share option scheme

Under the terms of the Executive Share Option Scheme the Board has granted directors and executives options to purchase Ordinary Shares in the Company.  
Options outstanding under this Scheme at 31 March, together with their date of grant, number of option holders, normal date of exercise and option price were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares	
				1992	1991
January 1990	89	Jan 1993 - Jan 2000	262p	2,246,703	2,246,703
January 1991	16	Jan 1994 - Jan 2001	310p	305,072	305,072
January 1992	122	Jan 1995 - Jan 2002	311p	1,017,654	-

19 Reserves and retained profits

Group	Profit & loss account	Share premium account	Total
	£m	£m	£m
At 1 April 1991	1,466.8	7.7	1,474.5
Goodwill arising on acquisitions (note 22)	(174.4)	-	(174.4)
Retained profit for the year	181.6	-	181.6
Exchange adjustments	0.2	-	0.2
Expenses on Issues of Bonds	-	(5.7)	(5.7)
At 31 March 1992	1,474.2	2.0	1,476.2

Company	Profit & loss account	Share premium account	Total
	£m	£m	£m
At 1 April 1991	55.8	7.7	63.5
Retained profit for the year	13.1	-	13.1
Expenses on Issues of Bonds	-	(5.7)	(5.7)
At 31 March 1992	68.9	2.0	70.9

The profit attributable to shareholders, dealt with in the accounts of the Company was £13.1 million (1991: £10.0 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.  
At 31 March 1992 cumulative goodwill written off against reserves amounted to £179.6 million (1991: £5.2 million).

20 Commitments and contingent liabilities

a) Investment expenditure commitments:

Contracted for but not provided in the financial statements

1992	1991
£m	£m
174.3	165.7

Authorised but not yet contracted for

421.9	214.1
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In addition to these commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of OFWAT and to provide for growth in demand for water and sewerage services.

Notes to the financial statements

20 Commitments and contingent liabilities (continued)

b) Operating lease commitments

At 31 March 1992 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £m	Other £m
Leases which expire:		
Within one year	0.4	1.0
Within 2 to 5 years	0.8	2.4
After 5 years	1.8	—
	3.0	3.4

c) Finance lease commitments

Amounts due under finance leases are payable as follows:

	1992 £m	1991 £m
Within one year	9.8	7.5
Between one and two years	12.6	9.5
Between two and five years	27.9	31.8
After more than five years	36.0	3.3
	86.3	52.1
Less: finance charges allocated to future periods	(36.0)	(12.2)
	50.3	39.9

- d) At 31 March 1992 subsidiary undertakings have entered into performance bonds, issued in the normal course of business, amounting to £4.3 million (1990/91: £nil) of which £3.2 million is guaranteed by the Company.
- e) The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings and under these arrangements credit balances of participating companies can be offset against overdrawn balances of participating companies.

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 principal schemes are the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS). In addition there are defined contribution schemes operated by certain overseas subsidiary undertakings. Employers' contributions during the year were £15.1 million (1991: £14.1 million).

The most recent actuarial valuation of STWPS was carried out at 31 March 1989 by an independent actuary, using the attained age method. The principal assumption used was that the investment return would exceed future salary increases by 2% per annum. The valuation showed that the market value of the scheme's 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: together these exceeded by 5% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The total transfer values received amounted to £137.3 million. Members of STWPS contribute to the scheme at the rate of 6%, 5% or 3% of pensionable pay, according to their choice. The actuary has recommended that Employers' contributions to STWPS continue unchanged at the rate of 15.8%, 13.2% and 7.9% of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5%, or 3% respectively.

The first actuarial valuation of STMIS was carried out at 31 March 1991 by an independent actuary, 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 actuarial value of the scheme's assets was £97.3 million, which exceeded by 24% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. Members of STMIS contribute to the scheme at the rate of either 6% or 5% of pensionable pay, according to their choice. The actuary has recommended that with effect from 1 April 1991 Employers' contributions to STMIS be reduced as follows in order to utilise the valuation surplus over twelve years, being the remaining average service lives of the scheme's members. As a consequence the charge to the profit and loss account for the year has been reduced by £2.3 million and this amount is included within prepayments and accrued income (note 13).

Member's contribution rate	Employer's contribution rate
6%	reduced from 15.8% to 7.7%
5%	reduced from 13.2% to 6.4%

## 22 Acquisitions

The following acquisitions were completed during the year

	Cash consideration and costs £m	Deferred consideration £m	Total £m	Fair value of assets acquired £m	Goodwill £m
<b>Subsidiary undertakings</b>					
Biffa	214.2	-	214.2	47.7	166.5
Others	10.3	1.3	11.6	4.0	7.6
	224.5	1.3	225.8	51.7	174.1
<b>Associated undertakings (note 11)</b>	8.3	-	8.3	8.0	0.3
	232.8	1.3	234.1	59.7	174.4

Cash consideration and costs include loans advanced to subsidiary undertakings of £101.7 million.

The following adjustments have been made to reflect the fair value of assets of subsidiary undertakings acquired:

	Book value at date of acquisition £m	Alignment of accounting policies £m	Write down of asset values £m	Other provisions and adjustments £m	Environmental and landfill restoration provisions £m	Fair value of assets acquired £m
<b>Biffa</b>						
Fixed assets	78.7	(0.6)	(9.4)	-	-	68.7
Net current assets	11.5	(0.8)	(2.2)	(0.3)	-	8.2
Provisions for liabilities and charges	(7.0)	-	-	(9.6)	(12.6)	(29.2)
<b>Assets acquired</b>	83.2	(1.4)	(11.6)	(9.9)	(12.6)	47.7
<b>Other subsidiary undertakings</b>						
Fixed assets	2.4	-	-	1.3	-	3.7
Net current assets	0.9	-	-	-	-	0.9
Creditors: amounts falling due after more than one year	(0.6)	-	-	-	-	(0.6)
<b>Assets acquired</b>	2.7	-	-	1.3	-	4.0

Acquisitions during the year contributed £13.1 million to operating profit. Biffa was acquired on 13 May 1991 and contributed £11.0 million to the Group's operating profit for 10.5 months.

According to information supplied by the vendors, Biffa recorded an operating profit of £17.8 million for the year ended 31 March 1991 and an operating profit of £1.4 million in the six week period prior to acquisition from 1 April 1991 to 12 May 1991. These amounts have been arrived at on the basis of the accounting policies followed by the vendor of Biffa, which differ significantly from the accounting policies of the Group.

## 23 Cash flow statement

### a) Reconciliation of operating profit to net cash inflow from operating activities

	1992 £m	1991 £m
Operating profit before interest	260.8	197.2
Exchange adjustments	0.2	-
(Profits)/losses of associated undertakings	(1.9)	0.1
Other investments provisions	0.2	0.9
Depreciation charge (note 10v)	63.3	48.9
Profit on sale of tangible fixed assets	(3.5)	(2.4)
Provisions for liabilities and charges (note 17a)	89.2	82.2
Utilisation of provisions for liabilities and charges (note 17a)	(110.5)	(49.6)
Increase in stocks	(5.6)	(3.0)
Increase in debtors	(31.8)	(31.0)
Increase in creditors	27.2	23.9
<b>Net cash inflow from operating activities</b>	<b>287.6</b>	<b>267.2</b>

Notes to the financial statements

23 Cash flow statement (continued)		1992	1991		
b) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings		£m	£m		
Cash consideration (note 22)		224.5	8.5		
Cash at bank and in hand of acquired subsidiary undertakings		(2.5)	(0.5)		
Bank overdrafts of acquired subsidiary undertakings		3.7	—		
<b>Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings</b>		<b>225.7</b>	<b>8.0</b>		
c) Analysis of the net inflow of cash and cash equivalents in respect of the sale of business		1992	1991		
		£m	£m		
Cash consideration		0.7	—		
Cash at bank and in hand divested		(0.4)	—		
<b>Net inflow of cash and cash equivalents in respect of the sale of business</b>		<b>0.3</b>	<b>—</b>		
d) Analysis of changes in financing during the year	Share capital (including share premium) £m	Loans and finance lease obligations £m	Current asset investments £m	1992 Total £m	1991 Total £m
Balance at 1 April 1991	361.5	90.0	(282.9)	168.6	120.2
Cash flows from financing	(5.7)	385.8	(11.1)	369.0	38.6
Loans and finance lease obligations of subsidiary undertakings acquired during the year	—	0.8	—	0.8	—
Inception of finance lease contracts	—	14.0	—	14.0	9.8
<b>Balance at 31 March 1992</b>	<b>355.8</b>	<b>490.6</b>	<b>(294.0)</b>	<b>552.4</b>	<b>168.6</b>
Loans and finance lease obligations at 31 March 1992 of £490.6 million includes premium of £2.2 million on Bond issues which is analysed as other creditors (notes 15 and 16).					
e) Analysis of the balances of cash and cash equivalents as shown in the balance sheet		Change in year £m	1992 £m	1991 £m	
Cash at bank and in hand		5.8	5.8	—	
Deposits of maturity date of less than 3 months		(6.5)	42.9	49.4	
Bank loans and overdrafts		(10.4)	(23.9)	(13.5)	
		<b>(11.1)</b>	<b>24.8</b>	<b>35.9</b>	
f) The subsidiary undertakings acquired during the year contributed £29.0 million to the Group's net operating cash flows, paid £3.9 million in respect of net returns on investment and servicing of finance, paid £1.9 million in respect of taxation, utilised £11.8 million for investing activities and £1.3 million for financing activities.					

## 24 Subsidiary and associated undertakings

Brief details of principal operating subsidiary and associated undertakings of the Group at 31 March 1992 were as follows:

Subsidiary undertakings	Country of registration or incorporation (and operation)	Percentage and class of share capital held	Nature of business
<b>Water and sewerage services</b>			
* Severn Trent Water Limited	England	100% Ordinary	Water and sewerage undertaking
Waste management			
† Biffa Waste Services Limited	England	100% Ordinary	Waste management
† Liffa Waste Services SA	Belgium	100% Ordinary	Waste management
† Wastedrive Limited	England	100% Ordinary	Waste management
† Wastedrive (Manchester) Limited	England	100% Ordinary	Waste management
<b>Other</b>			
* Severn Trent Industries Limited	England	100% Ordinary	Trading company
* Severn Trent Property Limited	England	100% Ordinary	Property company
* Severn Trent Overseas Holdings Limited	England	100% Ordinary	Holding company
Severn Trent (US) Inc.	United States	100% Ordinary	Holding company
* † Aztec Environmental Control Limited	England	100% Ordinary	Control equipment
Capital Controls Company Inc.	United States	80% Ordinary	Water disinfection equipment
Capital Controls Limited	England	80% Ordinary	Water disinfection equipment
* Fuslon Meters Limited	England	51% Ordinary	Meter design
* † Charles Haswell and Partners Limited	England	100% Ordinary	Engineering design consultants
† Charles Haswell and Partners Far East Limited	Hong Kong	100% Ordinary	Engineering design consultants
* † Jabay Limited	England	100% Ordinary	Water disinfection equipment
† Lyne Martin and Radford Limited	England	100% Ordinary	Laboratory analysis
† PSC Environmental Services Inc.	United States	100% Ordinary	Water treatment operators
† Stoner Associates Inc.	United States	100% Ordinary	Pipeline management systems
<b>Associated undertakings</b>			
<b>Other</b>			
* Acer Engineering Limited	England	35% Ordinary	Engineering design consultants
† Biogas Generation Limited	England	50% Ordinary	Power generation
Grafham Carbons Limited	England	50% Ordinary	Carbon regeneration
Abbcott Estates Limited	England	50% Ordinary	Property development
GMI Rovinlan Limited	England	50% Ordinary	Property development
Wimpey Arena Developments Limited	England	50% Ordinary	Property development
Aquaflin NV	Belgium	20% Ordinary	Water treatment
Minworth Systems Limited	England	49% Ordinary	Process monitoring equipment
* † Tetra Europe Limited	England	50% Ordinary	Waste water treatment processes
		100% Redeemable non-cumulative preference	

\* Held directly by the Company † Acquired during year

Particulars of the issued capital of the Group's associated undertakings were:

Acer Engineering Limited	6,500 A Ordinary shares £1	
	3,500 B Ordinary shares £1	#
Biogas Generation Limited	20,000 A Ordinary shares £1	#
	20,000 B Ordinary shares £1	
Grafham Carbons Limited	20,000 A Ordinary shares £1	#
	20,000 B Ordinary shares £1	
Abbcott Estates Limited	50,000 A Ordinary shares £1	#
	50,000 B Ordinary shares £1	
GMI Rovinlan Limited	25,000 A Ordinary shares £1	
	25,000 B Ordinary shares £1	#
Wimpey Arena Developments Limited	100 Ordinary shares £1	
Aquaflin NV	800,000 shares at 10,000 BEF/share	
Minworth Systems Limited	51,000 A Ordinary shares £1	
	49,000 B Ordinary shares £1	#
Tetra Europe Limited	500,000 Redeemable non-cumulative preference shares £1	#
	500,000 A Ordinary shares £1	#
	500,000 B Ordinary shares £1	

# Held by the Group

## Five year summary

In the five year summary set out below, the financial information for the years 1988 and 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 in 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.

Profit and loss account	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Turnover	821.7	627.0	544.1	476.4	434.5
Operating costs	(562.8)	(429.7)	(380.2)	(298.0)	(251.5)
Operating profit before share of results of associated undertakings	258.9	197.3	163.9	178.4	183.0
Associated undertakings	1.9	(0.1)	—	—	—
Income from investments	0.3	0.3	—	—	—
Net interest receivable/(payable)	4.3	51.5	(34.0)	(80.9)	(86.4)
Profit on ordinary activities before taxation	265.4	249.0	129.9	97.5	96.6
Taxation on profit on ordinary activities	(24.1)	(20.9)	(11.7)	—	—
Profit on ordinary activities after taxation	241.3	228.1	118.2	97.5	96.6
Extraordinary items	8.6	(9.7)	(8.9)	(2.8)	3.2
Profit for the year	249.9	218.4	109.3	94.7	99.8
Dividends	(68.3)	(62.1)	(35.0)	—	—
Retained profit for the financial year	181.6	156.3	74.3	94.7	99.8
Balance Sheet	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Fixed assets	2,310.8	1,821.1	1,531.2	1,356.1	1,246.3
Net current assets/(liabilities)	130.5	194.7	245.1	(189.7)	(105.1)
Total assets less current liabilities	2,441.3	2,015.8	1,776.3	1,166.4	1,141.2
Creditors: amounts falling due after more than one year	(521.7)	(107.6)	(55.8)	(744.5)	(810.2)
Provisions for liabilities and charges	(89.5)	(79.8)	(45.3)	(7.9)	(11.7)
Minority shareholders' interests	(0.1)	(0.1)	—	—	—
	1,830.0	1,828.3	1,675.2	414.0	319.3
Called up share capital	353.8	353.8	353.8	—	—
Reserves and retained profits	1,476.2	1,474.5	1,321.4	414.0	319.3
	1,830.0	1,828.3	1,675.2	414.0	319.3

Report of the Auditors to the Members of Severn Trent Plc

We have audited the financial statements set out on pages 26 to 45 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 1992 and of the profit and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

Price Waterhouse

Chartered Accountants and Registered Auditor

Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

29 June 1992



## Analysis of shareholdings

At 31 March 1992

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of Ordinary Shares million	Percentage of Ordinary Shares %
1 -- 499	73,987	54.1	12.6	3.6
500 -- 999	47,942	35.1	31.1	8.8
1,000 -- 4,999	13,358	9.8	17.7	5.0
5,000 -- 9,999	342	0.3	2.2	0.6
10,000 -- 49,999	441	0.3	10.3	2.9
50,000 -- 99,999	179	0.1	11.8	3.3
over 100,000	400	0.3	268.1	75.8
	136,649	100.0	353.8	100.0

### Shareholders by category of shareholder

Others 3%

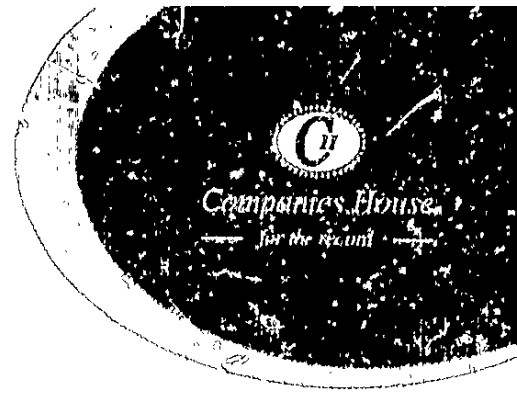
Individuals and  
joint accounts 97%

### Shares held by category of shareholder

Individuals and  
joint accounts 17%

Others 83%

- Individuals and joint accounts
- Others = e.g. Nominees, other corporate bodies, limited and public limited companies, banks, pension funds and insurance companies



## NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company contain some documents which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

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