

SEVERN TRENT PLC

REPORT AND ACCOUNTS 1992 - 1993

Company Number 2366619



A Global Vision

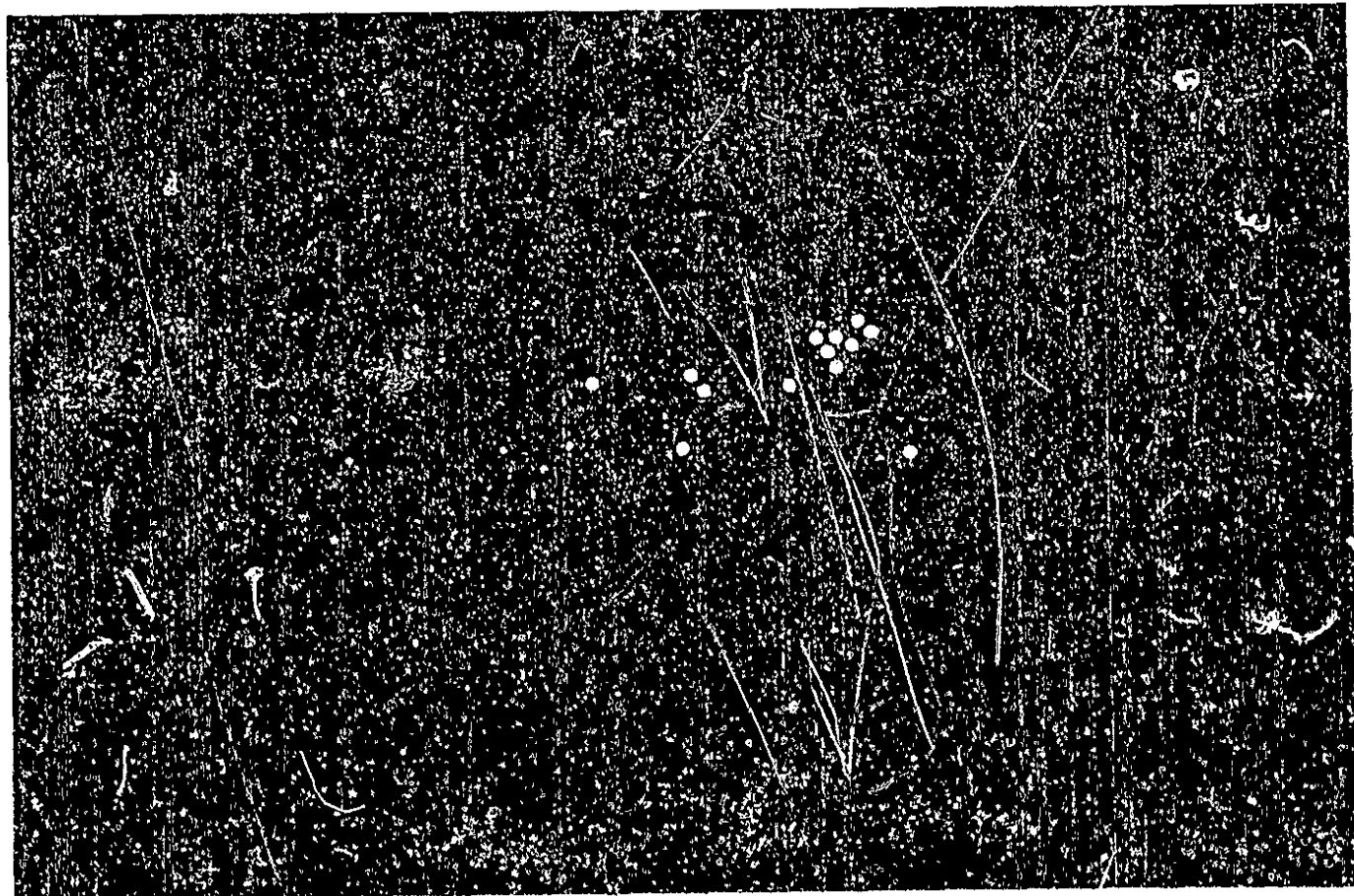
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"Our purpose is to be a world leader in the water business, to establish ourselves as a successful international corporation founded on a strong home water utility base, and to develop a substantial earnings stream in other appropriate businesses."

Severn Trent Plc is a major water and waste management company with annual sales of over £900 million.

Founded on a strong base in the UK, new opportunities are being generated round the world with particular emphasis on Western Europe and North America. We now provide our services to nearly 20 million people.

Severn Trent locations



Financial highlights

	1993 £ million
Turnover	905
Operating profit	299
Profit before tax	270
Investment expenditure	577
Dividend per share	21.1p



Chairman John Bellak with Her Majesty The Queen at Carsington Water 16 May 1992. Her Majesty performed the formal inauguration of the 36 000 million litre reservoir, which will safeguard water supplies to the East Midlands of England well into the next century.

Chairman's statement

The Group strategy of concentrating our activity in the water and waste management businesses at home and overseas, has provided solid progress in the year under review and a firm base for steady growth in the future.

Group turnover was £905 million, generating operating profits of £290 million and profit before tax of £270 million.

The recovery of the UK economy has been much slower than expected and we are not unaffected by this. However, stable earnings streams and increasing operating efficiency have enabled us to achieve consistent growth.

The Board is committed to providing shareholders with income growth in real terms and recommends a final dividend of 14.1p, making a total for the year of 21.1p, an increase of 9.3%.

Severn Trent Water has again performed very well, and Biffa has produced a robust performance in very testing market conditions. Severn Trent Water has consistently the highest profits of the ten water and sewerage service companies of England and Wales, whilst having the second lowest average household charge for water and sewerage services at 41p per day.

Among those who will benefit from this are the customers of East Worcester Water, whose operations we acquired in March 1993. Their water bills over the next two years will be £18 lower on average than they would have been had East Worcester remained independent: this merger is of benefit to them and to the shareholders of Severn Trent.

Rising investment in people and equipment at Severn Trent Water has resulted in major improvements in customer service, and that achievement has been recognised by the award of the Charter Mark, received by Vic Coker on behalf of the company from the Prime Minister.

The next price review will be undertaken by the Director General of Water Services in 1994. In approaching that review

our combination of low charges and high levels of efficiency, with a compliance rate for drinking water and sewage effluent of 99% or better, should reap their reward.

Severn Trent Water International has worked hard for many months in the difficult task of building a profitable business in selected overseas markets. Those efforts have recently resulted in a major contract in Mexico City and I am particularly delighted that the Group's expertise is being recognised internationally.

During the year the Cadbury Committee issued its report on Corporate Governance. We have carefully examined our own procedures to ensure that we comply with its recommendations. We will determine our compliance in respect of 'internal control' and 'going concern' when the promised guidelines have been developed.

Tim Heywood-Lonsdale and Alan Henn have decided not to seek re-election as Directors at the 1993 Annual General Meeting. Over the years Tim and Alan have been most valued and respected Board members both before and after privatisation, and we are sad to lose them. Our sincerest thanks go to them, as do our best wishes for the future. The Board has elected Richard Ireland as Deputy Chairman.

All who work in the Severn Trent Group have much to be proud of in their achievements at home and abroad. To all of them our thanks are due.

With their help, and the support of my colleagues on the Board, I am confident that your Company can achieve the vision and the ambitious targets it has set.



John Bellak, *Chairman*.

The Board

Executive Directors
Non-executive Directors

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

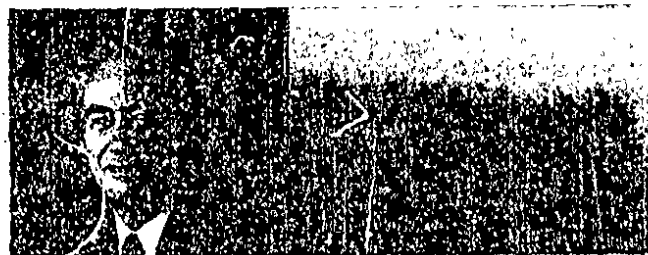
Roderick S Paul MA, FCA (58)
Chief Executive. Appointed to the Board in 1988. A council member of the Birmingham Chamber of Industry and Commerce and the Confederation of British Industry in the East and West Midlands, he is Chairman of the Advisory Board of the Business School of the University of Warwick, a Member of the Council of that University, a Member of the Senate of the Institute of Chartered Accountants and a member of the Board for Chartered Accountants in Business.



John G Bellak MA (62)
Chairman since 1983. 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, a Member of the Court of Keele University and President of the European Waste Water Group.



Richard Ireland FCIS (59)
Joined the Board in 1989. Deputy Chairman since December 1992. Mr Ireland is Group Finance Director of Wolseley plc and a Council Member of the Birmingham Chamber of Industry & Commerce.



Michael P Upstone BSc, C Eng, FICE, MIWEM (58)
Appointed to the Board in January 1991, Mr Upstone is the Director of Customer Service and Deputy Managing Director of Severn Trent Water Limited. He has been with Severn Trent since its formation and has 30 years' water industry management experience.



Alan Costin FCA (50)
Appointed to the Board as Group Finance Director in May 1992. He 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.



Victor Cocker BA (Econ), MIWEM (52)
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.





Alan W Henn (62)
Mr Henn has been a Board Member since October 1980. He 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.



Clare Tritton QC (57)
Joined the Board in November 1991. She is a Trustee Director of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law. She serves on the Monopolies and Mergers Commission and is an independent non-executive Director member of the Council of FIMBRA. She also served on the Hansard Commission of Legislative Reform.

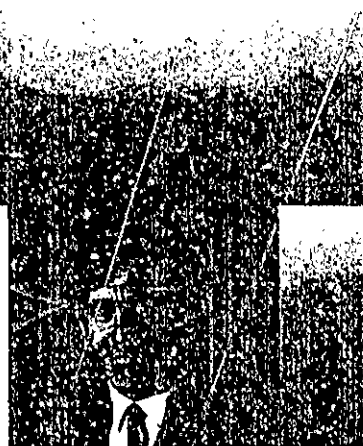


Sir Richard Baker Wilbraham Bt DL (59)
Appointed to the Board in 1989. Sir Richard is Chairman of the Trustee Boards of the Severn Trent Pension Schemes. He is also Chairman of the Bibby Lane Group and Deputy Chairman of Grosvenor Estate Holdings, a Director of Brixton Estates Plc, Christie Hospital NHS Trust and other companies.

Board committees
Monopolies and Mergers Commission
Charitable Contributions Committee
Trustee Chairman of the Severn Trent Pension Schemes
Remuneration Committee
Trustee Chairman of the Severn Trent Pension Schemes



Timothy C Heywood Lonsdale MA (56)
Appointed to the Board in October 1985. Deputy Chairman from 1986 to 1992. He is a Trustee Director of the Severn Trent Pension Schemes. Mr Heywood Lonsdale is Chairman of SFS 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.



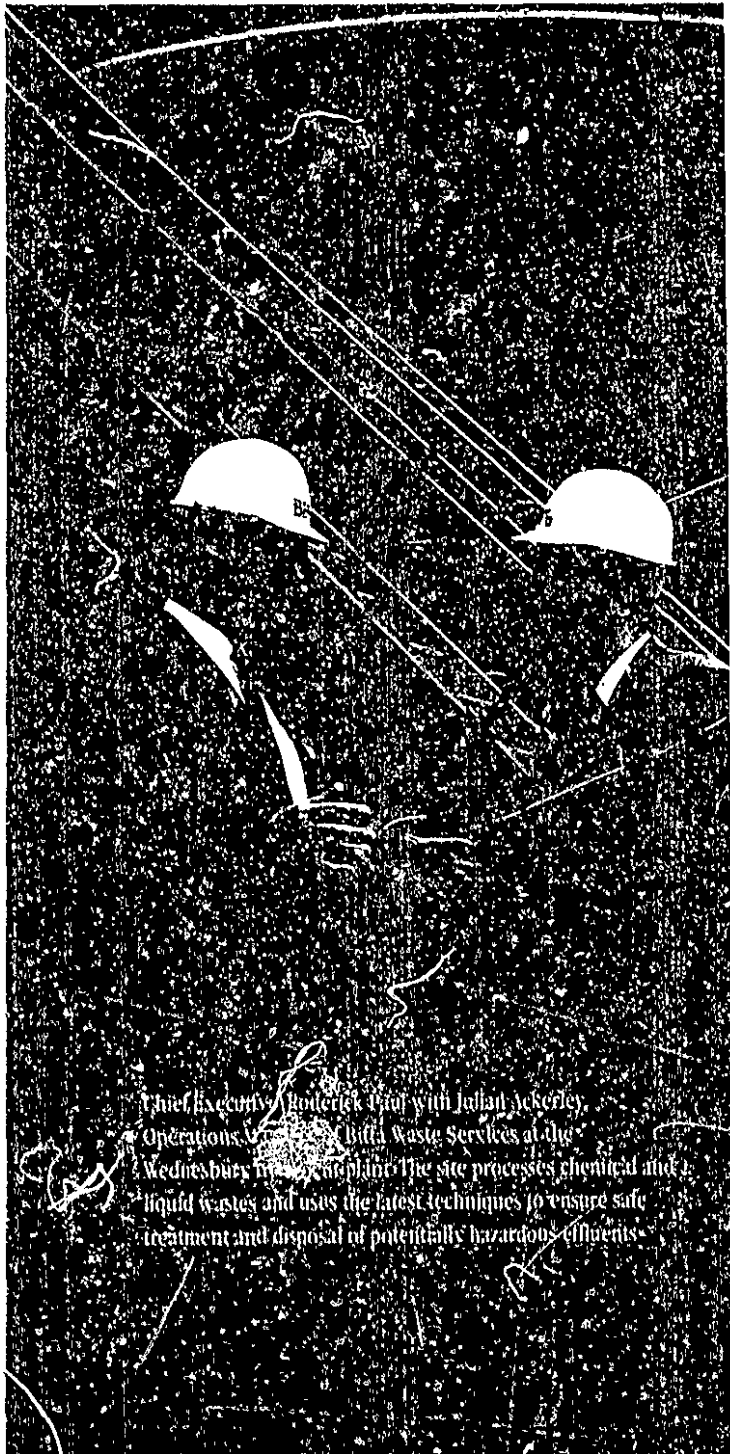
Andrew H Simon OBE, BSc, MBA (68)
Mr Simon was appointed to the Board in October 1986. He was formerly Chairman of the Esso Group Plc and is now a non-executive Director of Laporte plc. He is a Member of the Court of Keele University, a European Advisory Director to the Wharton School of Finance and a Director of EIGHTFIELD Cultural Arts.



Roger H Boissier CBE (64)
Appointed to the Board in October 1986. Mr Boissier is Chairman of Pressac Holdings Plc and Kalon Group Plc, a Director of AMEC Power Limited, British Gas Plc, Edward Lumley Holdings Limited and T & N Plc. Before privatisation he served as Deputy Chairman of the Soar Water Consumer Committee and the Derwent Water Consumer Committee.

Audits committee
Trustee Chairman of the Severn Trent Pension Schemes
Treasury committee
Trustee Chairman of the Severn Trent Pension Schemes
Investments committee
Trustee Chairman of the Severn Trent Pension Schemes
Nominations committee
Trustee Chairman of the Severn Trent Pension Schemes

Chief Executive's review



Chief Executive, Richard Paul with Julian Akerley, Operations Director of Biffa Waste Services at the Wednesbury incinerator. The site processes chemical and liquid wastes and uses the latest techniques to ensure safe treatment and disposal of potentially hazardous effluents.

Vision

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

This is our vision.

- We have grown and strengthened our excellent home water utility, achieving the very highest standards in the UK and Europe at low cost to our customers and improving profit to our shareholders - the highest in the UK water business. Profit before tax has grown by 120% since flotation.
- We have made a successful start to the growth of our water business overseas - in Europe and North America with particular success in Belgium, Mexico and the USA and have generated sales of £9 million.
- We have established a leading position in the waste management business in the UK with the purchase of Biffa, a high quality, professional operation which is turning in a solid performance in spite of recessionary pressures and has total sales of £104 million.
- We have developed a small, but strategically important group of new businesses in Technology, Systems and Property that contribute in excess of £52 million to turnover.

These developments will create new earnings outside the regulated water business to underpin our commitment to real growth in dividends.

People

Central to all our progress is the quality and motivation of our people. We believe in clear direction for high quality, well trained employees from whom we expect only the highest standards of performance.

We regularly assess and measure our managers and staff,

we train them at all levels and reward them for performance. It is our people who deliver the quality of our products and services and they who see to it that we do this safely and with care for the environment.

This concentration on quality and standards is achieved with strong cost control. We know that we compete on our costs.

Water – our principal business

On 1 January 1993 Severn Trent Water Limited and Severn Trent Water International were brought together into Severn Trent Utilities.

Our plans to compete in the world market have moved forward very well during the year, with particularly strong performance in Belgium, and good progress in the USA where we have a substantial base of operating municipal water and waste water facilities in the Eastern states. We have entered the Mexican market with a Mexican partner and won a valuable contract in Mexico City as our first success.

Our main skill is as an operator of municipal water and waste water services and we now wish to bring the maximum benefit from our new experience outside the UK back home as well as exporting our domestic expertise.

The UK water utility has delivered high quality at low cost, an excellent performance which is critical to the future as we approach the price review by our regulator.

Overseas we are investing heavily in marketing our operating skills with the clear focus on Western Europe and North America, where there is the greatest economic and political stability essential to the very long term nature of this business.

Waste – our second core business

Biffa is a high quality broadly based waste company. It is

performing well in difficult economic times, building its presence in waste collection and landfill with strong emphasis on new treatment for liquid waste disposal. The liquid waste investment is particularly important with the legislative pressure to raise standards and ensure that there is capacity to treat certain wastes rather than bury them untreated in landfill.

The Belgian operation is also investing in treatment and fits very well with our water operations in that country.

Other activities

Technology, Systems and Property are all businesses that support the two core activities.

The Technology businesses are vital to realise our vision of leadership by developing technologies critical to the future of our core activities.

Systems is founded on the central operating systems of our water business – work management and customer billing in particular. The latter has been vital in delivering the great improvement achieved in customer services in Severn Trent Water.

The Property business is founded on the optimisation of the disposal of surplus property from our two core businesses and makes a valuable contribution.

Environmental commitment

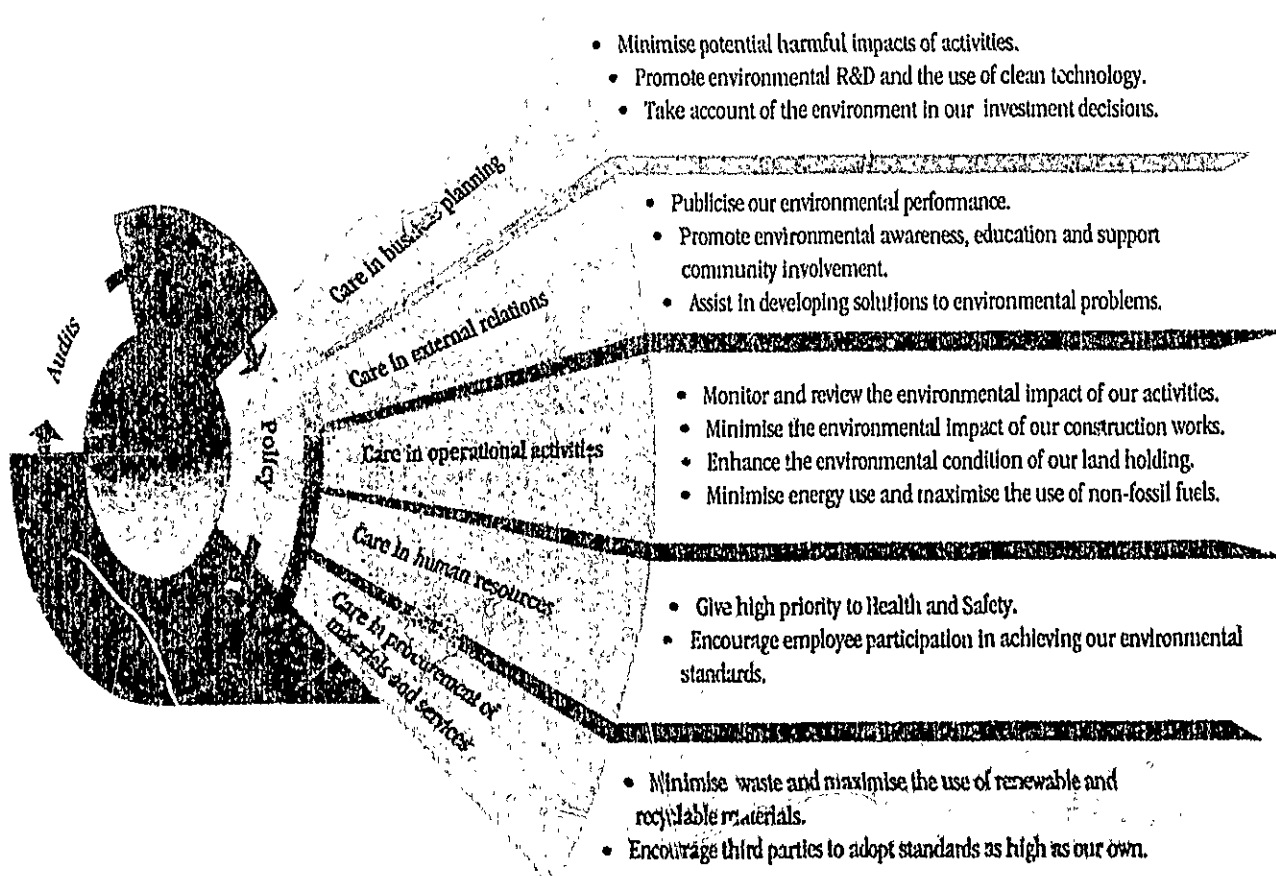
The provision of high quality drinking water is central to our business, but just as vital is dealing with Society's waste – our bodily wastes, and those arising from our modern lifestyle. The very task of managing these essential processes is at the heart of our business.

The environmental challenge is a business challenge.

- During the past year we have undertaken a review of our environmental performance and adopted a comprehensive environmental policy.


- In January 1993 we published a report setting out the details of the review and we have now targeted areas for improvement.
- Our Report covers a wide range of our activities: not just our mainstream activities in water and waste, but also areas such as staff training, R&D, procurement, fleet transport and so on.
- We have established an environmental Action Plan with specific tasks and timescales for their achievement.
- We will produce an Environmental Report each year with updated Action Plans.
- Audit of our achievements will be an integral part of the process, as will be the publication of the results.

Environmental management cycle 1992/93



The future

Severn Trent Water Limited is, and will remain, the main focus and strength of our future, but the contribution made by the unregulated businesses, including Severn Trent Water International, is vital to support real dividend growth in the future.


Roderick Paul, Chief Executive.

Severn Trent Water

Our main achievements for the year were:

- Opening of Carsington Reservoir, adding 10% to raw water resources.
- Award of Charter Mark for customer service.
- Step change improvement in customer response times.
- Successful introduction of output and quality related pay scheme for manual workers.
- Excellent standards compliance for drinking water and sewage effluents.
- Further cost reductions.

Improving customer service

The prestigious Charter Mark Award recognised our commitment to customer service and our efforts to improve the quality and speed of response to customers. Response times have been improved significantly as a result of investment in the IBM 'Image' customer information system which allows on-screen retrieval of relevant correspondence within seconds. This allows customers' queries to be resolved whilst the customer is on the phone. Performance on customer service queries and complaints has now risen to 'good' on OFWAT (Office of Water Services) ratings, and we are raising our performance further.

We continue to produce a very high quality of 'product'; 99.7% of drinking water samples and 99.0% of sewage effluent samples met standards in 1992. However, because customer perceptions are critical of some areas of performance, we intensified our customer communication programme throughout the year. Ongoing tracking market research shows this is paying off and it is particularly encouraging to see improvements in customer perception of both drinking water quality and value for money.

Improvements in customer service are also being achieved by our pipelaying contractors. The 'Mainstream' Scheme for water mains contractors is well established. A comparable



The Charter Mark for customer service was presented to Severn Trent Water by Prime Minister John Major at a ceremony in September 1992.



Attending the ceremony on behalf of the company were (left to right) Vic Cocker, Managing Director, Foster Revenue Manager, Customer Accounts, Sales and Training Services Manager at Stoke District, and Joe Stephens, Director of Services.

The charts below illustrate two examples of improvements in customer services.



correspondence in digital form, allowing instant access and faster response to queries and complaints. Gary Roberts and Collette Stacey, correspondence recording assistants at Severn Trent Water's Customer Accounts centre, can view any letter to or from a customer within seconds and can direct a request such as installation of a water meter to the relevant department almost instantly.



scheme 'SewerCare' has been initiated to improve customer care in sewer renewal contracts.

We are also responding to particular customers' needs through pilot introductions of our 'Waterkey' budget payment system. Waterkey is a pre-payment unit to help customers budget for their water services by using a smart key which is rechargeable at locations such as Post Offices.

The resources of Finance, Regulation and Systems departments have been brought together under the Director of Finance and Regulation in preparation for the periodic review. An extensive market research exercise underpins the production of our market plan. This research has provided a detailed picture of the areas of additional investment which our customers wish to support and shows a high degree of support for investment in improved drinking water standards and in reduced leakage but less support for further improved standards of sewage effluents.

As a result of our improved performance beyond the original investment and efficiency targets, the agreed price increase (RPI-X) for 1993-94 is now +6%, showing a cumulative customer price reduction of 14% to date from that originally determined.

Changing to meet customer's needs

We have restructured our customer service organisation. The functions of operations and customer accounting have been combined under the Director of Customer Service. This customer service focus has been developed by the appointment of a Director of Marketing.

Agreement was reached with our manual and craft unions to implement new more flexible pay structures. These will be based on payments based on meeting tight output targets. Measures are agreed within the industry. They will improve the contractor and add significantly to our productivity and cost savings.

Trading position

The recession has had a significant effect on water use by our manufacturing and commercial customers, reducing metered water consumption by 5%. However, trade effluent income increased in real terms as a result of an active programme to promote growth through enhanced services. The recession was also felt at Severn Trent Atec where some 60 staff were made redundant. These were our first compulsory redundancies and we assisted those affected by arranging counselling and support to secure alternative employment.

Significant manpower reductions during the year, from 7,529 to 7,070 show real efficiency improvements. Overall operating costs in 1992-93 increased by only 1.2%.

Investment and improved services

Our water availability situation was improved in May 1992 with the opening of the £107 million reservoir at Carsington in Derbyshire. In the meantime, the redevelopment of the Frankley water treatment works serving Birmingham nears completion.

The peak of capital investment expenditure was reached in the second half of the financial year, and so expenditure will decrease in the immediate future. Expenditure on Research and Development remains at a high level. Full scale developments, such as nutrient removal at Stratford, show how to gain future operational and capital cost savings.

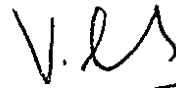
Towards the end of the financial year, we acquired the operations and assets of East Worcester Water PLC for £55.8 million. The economies of scale and greater resources in the enlarged company bring benefits to all our customers. For instance the hosepipe bans imposed on East Worcester in the last two years should become a thing of the past following integration into Severn Trent's regional water grid.

Customers' value for money rises too as average water bills in the East Worcester area will now increase less than they would have done. These factors demonstrate the logic of this acquisition, which will enhance the Group's earnings.

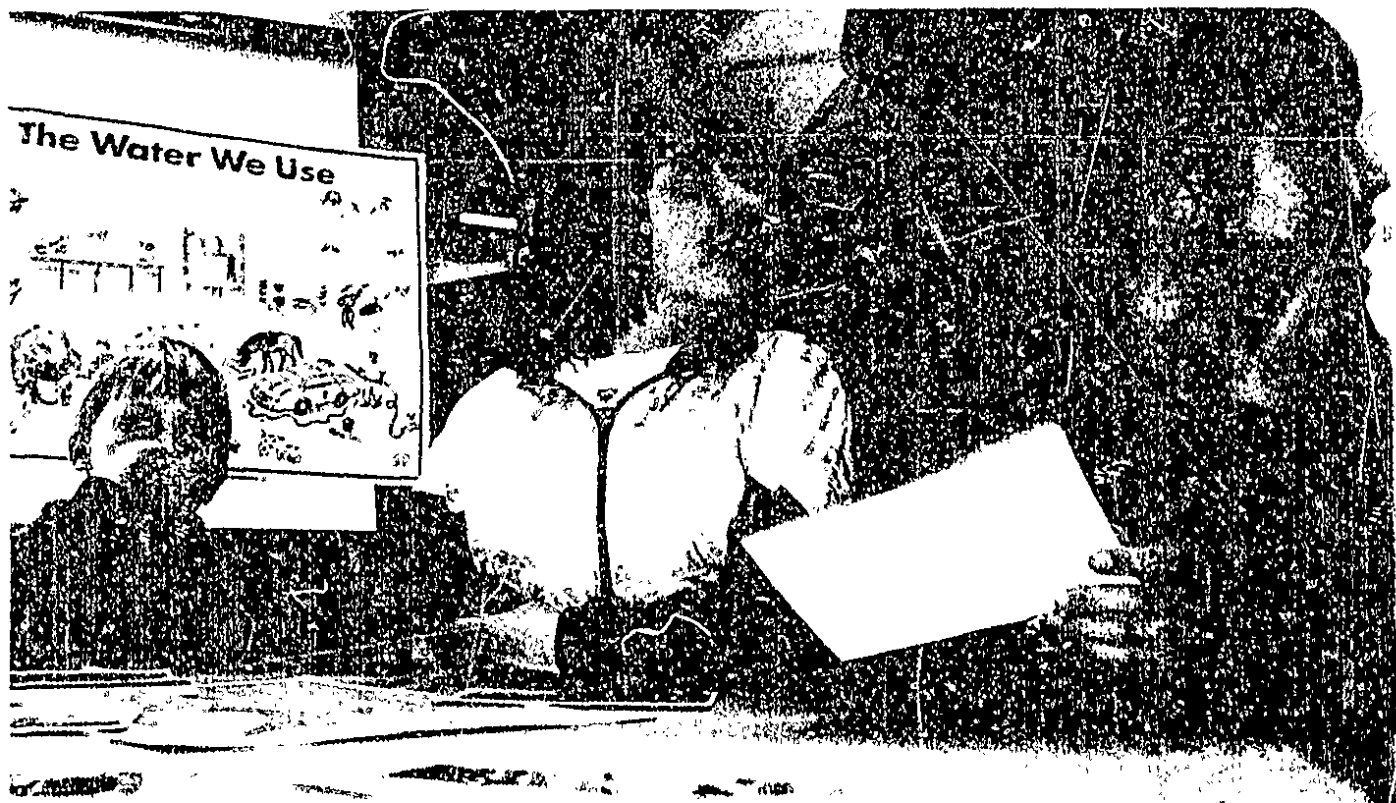
In the year ahead, improvements in customer service and productivity will continue to build on the actions we took in 1992/93.

We have a committed, motivated workforce driving us

forward. I know that we can meet the growing challenges from external pressures, whilst maintaining our position as a high quality, low cost water services company.



Vic Cocker, *Managing Director of Severn Trent Water.*



Severn Trent Water has established a regional network of Education Centres. These fully equipped classrooms, staffed by qualified teachers, provide visiting schools with the opportunity to investigate environmental issues linked to the National Curriculum.



Severn Trent Water International

Focusing on the key North American and European markets, this has been a year of significant achievement for our International Water Business. The renaming of the worldwide water company as 'Severn Trent Water International' reflects our vision of being a world leader in the water and waste water utility sectors. Strategic acquisitions and major contracts have seen us grow in both turnover and staff as we invest for profit. Critical to success has been the high calibre, professionalism and commitment of our staff.

North America

We have firmly established ourselves in the US market, building on the earlier acquisition of an operating company in Pennsylvania. ST Environmental Services Inc, our utility operating company, has its headquarters near Boston, Massachusetts, under the leadership of Jack Bonomo.

We are the majority owners of Island Recycling and Environmental Corporation (IREC), based in Long Island. IREC operates, and is refurbishing, the waste water and combined sludge and refuse treatment facility at Glen Cove.

In Mexico, we have formed a joint venture, Industrias del Agua SA de CV (IASA), with the Mexican Company, Socios Ambientales de Mexico SA de CV (SAMSA). Already, IASA has won a major contract to supply water and sewerage services in Mexico City. The contract entails providing services to some two million people and is one of the largest of its type in the world.

Europe

In Belgium, we have continued our close relationship with Aquafin, the company established to provide waste water services in Flanders. We are the industrial partner, owning 20%.

This year has seen the expansion of the company to 180 people with 326 projects tendered to the value of £250 million.

Hydrogest Srl, a joint venture company with Italimpres, a major engineering conglomerate, has been formed to take advantage of opportunities arising in the Italian water market. Based in Milan, Hydrogest Srl is pursuing opportunities for our wide ranging water expertise.

Through our office in Berlin, staffed by German nationals, and headed by Dr Karl-Heinz Zwirnmann, we are closely involved with the development of opportunities in the German market.

Other Markets

Our water services consultancy division continues to perform well. Newly industrialised and developing countries see economic and population growth straining their often already inadequate infrastructure. This increases pollution problems and demand for our services, providing the skills and technology to manage most effectively the existing infrastructure and assets as well as advising on growth options.

This year we have worked in Puerto Rico, Mauritius, Malaysia, Swaziland, India, Chile, Hong Kong and Ethiopia.

The Future

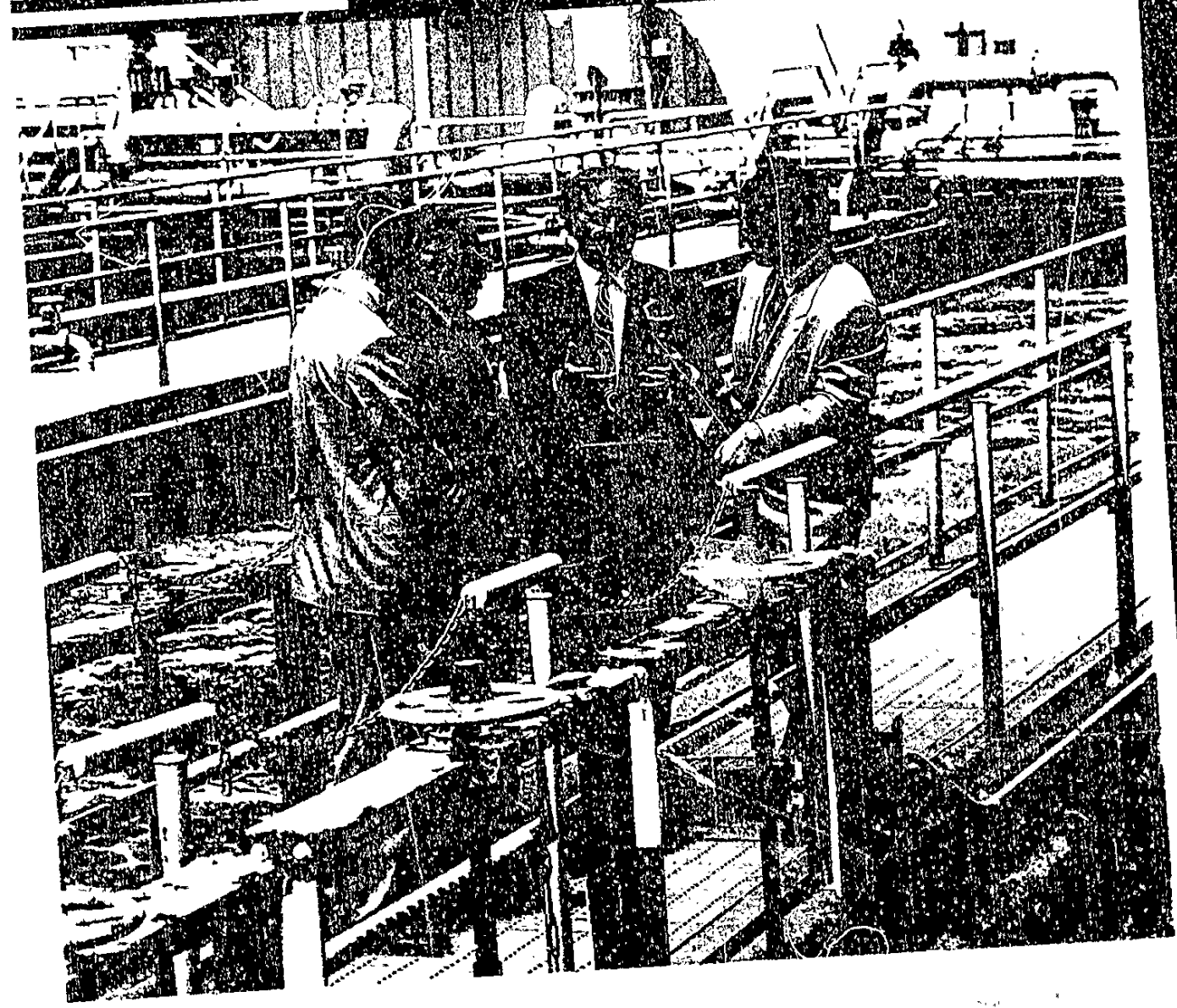
The last year has been successful for Severn Trent Water International. Having won contracts in Long Island and Mexico City against stiff international competition, we look to this coming year to build upon these achievements and other foundations laid.

Rennie Quinn,

Managing Director of Severn Trent Water International.

provide operating services throughout Mexico
and to enter the rapidly developing private
water services market.

At the top left is the Mexican flag. In the center, the Mexican coat of arms is visible. To the right, the text reads: "provide operating services throughout Mexico and to enter the rapidly developing private water services market." Below this, the text reads: "The Mexican Government is seen second from right with (left to right) Tony Hill, Marketing and Commercial Director, STWL, Joseph A. Graziose, President, IREC, and Joseph Graziose, Vice President, IREC." The main image shows a group of men in suits standing on a construction site with railings, likely a water treatment facility. The background shows a large building under construction.



Biffa Waste Services

1992/93 has been a year of solid progress in Biffa's development as a leading integrated waste management company in a very difficult economic climate. Last year we predicted the increasing impact of the Environmental Protection Act 1990 on large national companies and how they handled their waste streams. The level of business in this section has grown rapidly during the year and has contributed to our revenue increasing to £104 million.

Following our efforts in 1991/92 we have maintained our costs at a low level whilst selectively increasing resources related to future growth initiatives and the continuing improvement in operating standards. Our efforts were rewarded by receiving the British Safety Council's prestigious five star award for our liquid treatment plant at Wednesbury and BS5750 accreditation for one of our major landfill sites at Redhill.

The total waste industry in the United Kingdom has remained flat. We have achieved revenue and volume growth in all our major activities of collection, landfill and special waste. However, prices and margins reflect the tough economic conditions of the last year.

Divisional activities

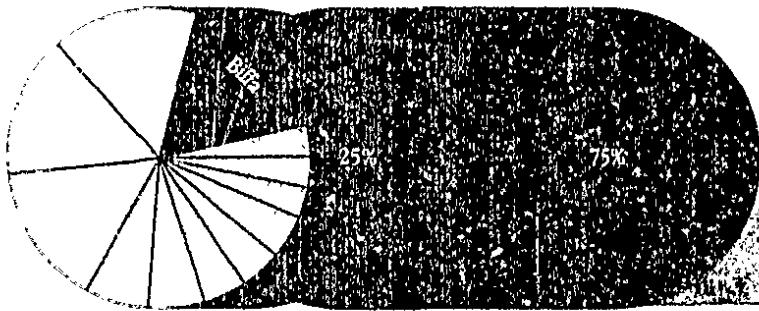
In our collection division, volumes have grown by 6%. Our national spread of depots has helped us to offer multi-site services to our customers enabling them to achieve greater control of their waste activities. Our municipal collection contracts had another good year with many recycling schemes being introduced for reclaiming paper, card and cans. We were also awarded three new contracts increasing the geographic

spread of our operations, and successfully renewed five of our contracts for periods of between two and seven years.

Our landfill activities had a good year, exceeding last year's revenues and profits. We brought on stream three new sites with another two new sites coming on stream in the first half of 1993/94, thereby increasing our operational void space from twenty one million cubic metres to thirty five million cubic metres. We also have another forty million cubic metres in various stages of development, ranging from extensions to existing sites through to seeking planning and licence permissions for new sites.

The refurbishment of our liquid treatment plants, commenced last year and completed this year, has enabled us to treat more difficult waste streams, resulting in volumes and the price per tonne increasing year on year. Since the year end, we have received planning permission for a new treatment plant in the West Midlands which will be able to handle nearly 200,000 gallons per day of industrial liquid effluents.

Our Belgian activities had a good year. Volumes of waste into our site at Cour au Bois were restricted through the implementation of a law banning the importation of waste from Flanders and Brussels into Wallonia. Despite all our efforts this reduced volumes by nearly 50%. However, since the year end volumes are being built up to their previous levels. We have also received licences for the extension of the site covering the next 10 years. Our collection activities have shown large productivity improvements throughout the year and we shall be expanding our activities further into Flanders and Wallonia. We have now received licences to build and operate a pre-treatment centre for liquid wastes in the Antwerp region and construction is due to start this year.



Martin Bellington (right), Managing Director of Biffa Waste Services, and Ross McKenzie, Regional Landfill Manager at Bray landfill site in Berkshire. Bray is Biffa's award-winning site for restoration. The restored land is currently leased to the local farmer for livestock and arable use.

An integrated approach

The combination of growing in tough economic conditions and the need to reduce environmental impact, while maintaining our reputation for quality, means we have to take an integrated approach to our business. This means we have to look at the way we do things across all areas of our business.

It has already been brought into the company, strengthening both our sales and operational capabilities.

John G. ...

John G. ...

Severn Trent Technology

"A firm that does not include technology among its assets cannot long remain competitive in this world." Hiroyuki Itami, Professor of Management, Hitotsubashi University.

Severn Trent has long prided itself on its purposeful search for and use of appropriate technologies, a pride represented today in the Severn Trent Technology group of companies.

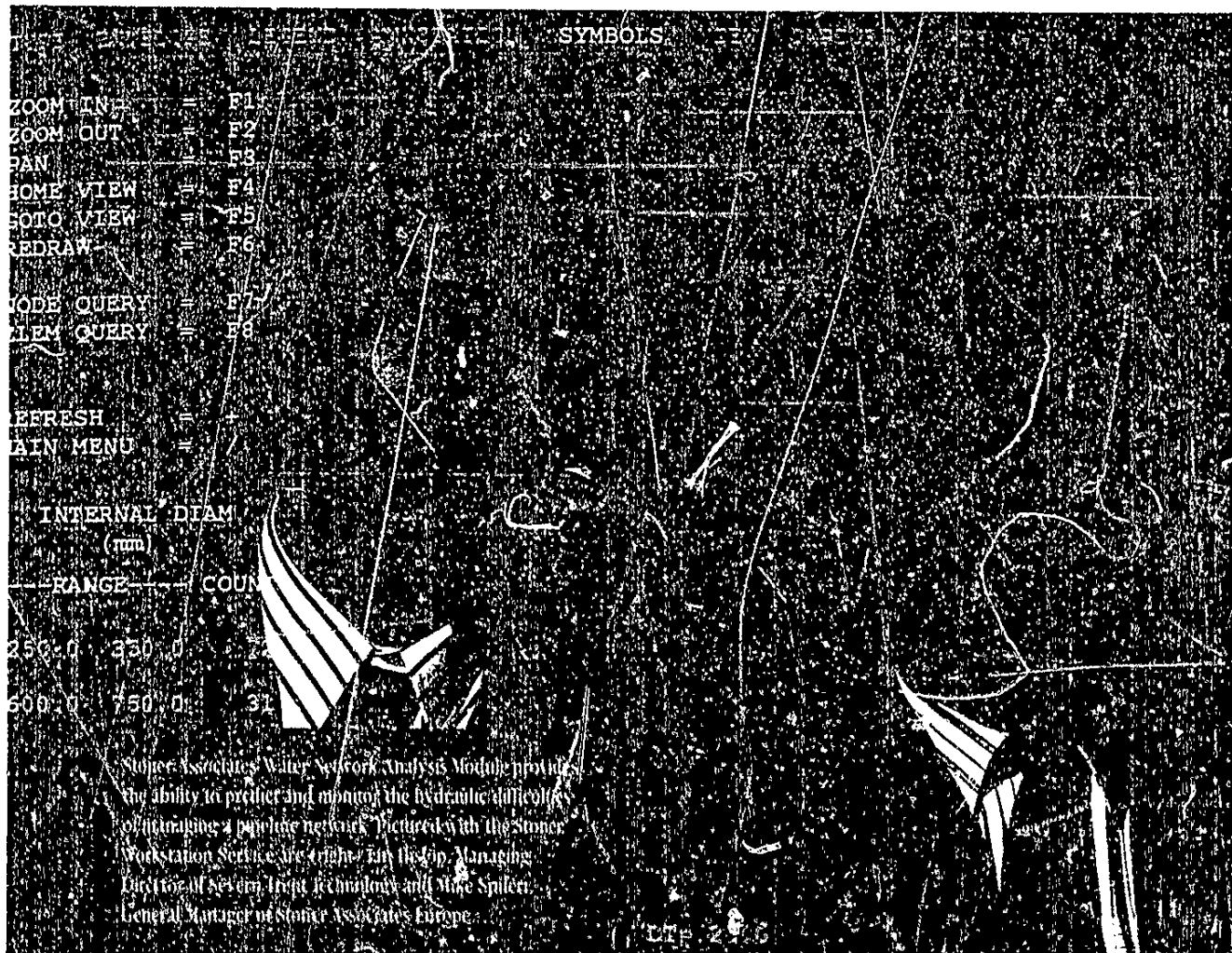
The emphasis is on profitable use of technology. In 1992-93

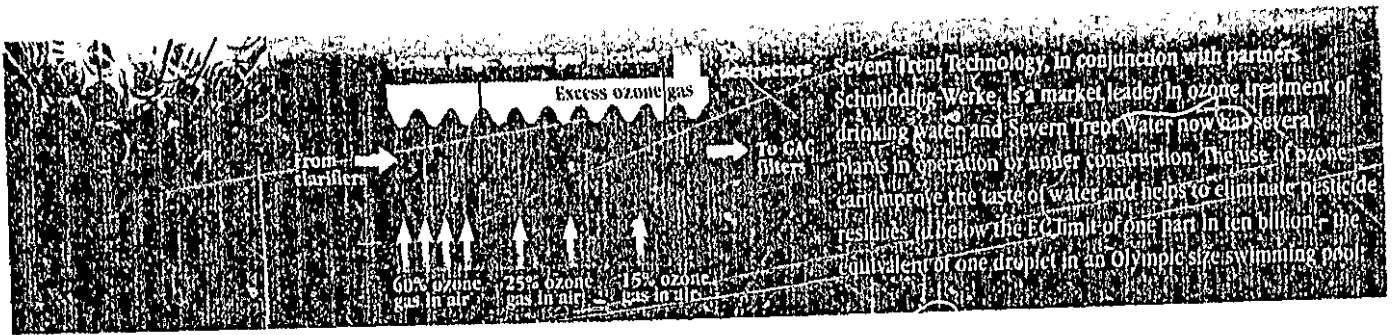
Severn Trent Technology added £26 million to Group turnover.

Our technologies focus on three main strategic business areas.

Water and Waste Treatment Technologies

Use of chlorine gas remains the primary disinfection technology, whilst ozone and ultra-violet disinfection are becoming





increasingly widespread in waste water streams, the removal of nutrients will prove challenging. Severn Trent is to the fore in each of these

Severn Trent Technology offers a full range of disinfection processes. New methods of electrolytic generation of chlorine gas at the point of dosing, and digital control instrumentation which support core competences in sophisticated chlorination systems have led to increased market penetration by Capital Controls Company Inc. JafBay Ltd is developing advanced oxidation processes by combining ultra-violet and ozone and has expanded into open channel disinfection of sewage effluent. Tetra Europe Ltd, a joint venture company, supplies proprietary treatment technologies for utility and industrial waste waters. Highly effective in nutrient removal, these technologies are well established in the USA

Infrastructure Management Technologies

In utilities and many industrial concerns, management of the large infrastructure of assets is crucial. Severn Trent has advanced infrastructure management technologies and has added value to these by their use in Severn Trent Water.

To ensure the integrity of the infrastructure, on-line water quality monitoring and control instrumentation is vital. Aztec Environmental Control Ltd is market leader in state of the art products that help control quality taste and appearance. The company has expanded its geographical coverage into Scotland and Europe and USA. Minworth Systems Ltd, a joint venture company, complements this product range with advanced process information management systems that provide real time control of sewage treatment works. Through advanced modelling techniques Stoner Associates Inc provides cost effective engineering tools and services for pipe network of pipes used by water, gas and oil companies worldwide

Development is well advanced on the next generation of products that will interface to quality monitoring and control instrumentation and systems.

Key Business Support Technologies

Severn Trent, like many large corporations, needs to monitor and control its core business functions. By using advanced technologies these functions can add greater value and be provided at least cost. Use of these technologies reinforces Severn Trent's leadership in business management

Severn Trent Laboratories has a well-established base of business in advanced water analysis techniques. Further penetration into environmental issues, including air and soil analysis, has added to our capabilities. Fusion Meters Ltd, a joint venture, continues to refine the System EQUITY water meter with concurrent development of revolutionary procedures to read the meter by radio. Interfaced to powerful billing systems, such as Severn Trent Systems' CUBIS DB2, customer service can be improved dramatically. With the addition of Paperflow Services Ltd we increased our capabilities to deliver end to end services. With current generation bulk mailing facilities, this company already has a base of external customers

Our continued commitment to innovative technologies has provided a comprehensive portfolio of advanced capabilities which reach and range across utility and industrial operations. Severn Trent Technology visibly demonstrates that Severn Trent Plc does not include technology among its assets

HRBop, Managing Director of Severn Trent Technology

Directors' report

The Directors present their Report, together with the audited financial statements for the year ended 31 March 1993.

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 17.

A list of the principal operating subsidiary and associated undertakings of the Group at 31 March 1993 appears in note 22 to the financial statements on pages 42 and 43.

Dividends and reserves

Details of dividends paid and proposed are set out in note 7 on page 32. Subject to approval at the Annual General Meeting, the recommended final dividend of 14.1p for each Ordinary Share will be paid on 1 October 1993 to shareholders on the register at the close of business on 9 July 1993.

Proposed transfers to reserves are set out in note 17 to the financial statements on page 38.

Scrip dividends

A scrip dividend alternative will be offered on the final dividend, giving shareholders the opportunity to elect for new Ordinary Shares in the Company instead of all or part of the cash dividend. Details will be sent to shareholders towards the end of July 1993.

Acquisitions

During the year the Group made a number of acquisitions, details of which are provided under notes 20 and 22 to the financial statements on pages 40 to 43.

Post balance sheet events

In May 1993, the Group acquired the AM-TEX Corporation of Houston, Texas for £6.3 million. This company provides water and sewerage services to 250,000 people in the southwest of the USA.

Directors

Mr R A S Costin was appointed a Director of the Company on 18 May 1992. In accordance with the Articles of Association of the Company Mr R H Boissier, Mr A W Henn and Mr T C Heywood-Lonsdale retire by rotation. Mr Boissier, being eligible, offers himself for re-appointment. As previously announced Mr Henn and Mr Heywood-Lonsdale will not be seeking re-appointment.

Mr Boissier does not have a service contract with the Company or any of its subsidiary undertakings.

The Directors of the Company at 31 March 1993 and their interests in the shares of the Company were as follows:

	Beneficial holdings in Ordinary Shares		Share Options under approved schemes			
	as at 31 March 1993	as at 1 April 1992	as at 1 April 1992	Exercised during the year	Granted during the year	as at 31 March 1993
J G Bellak	15,769	7,789	174,995	107,572	7,805	75,228
R S Paul	40,431	8,326	180,491	137,405	26,660	69,746
V Cocker	9,525	4,417	113,515	80,153	19,315	52,677
R A S Costin	-	-	-	-	58,350	58,350
M P Upstone	7,505	1,397	90,937	62,977	13,682	41,642
T C Heywood-Lonsdale	11,030	9,000	-	-	-	-
Sir Richard Baker						
Wilbraham	5,000	5,000	-	-	-	-
R H Boissier	990	1,100	-	-	-	-
A W Henn	2,690	5,000	-	-	-	-
R Ireland	1,000	1,000	-	-	-	-
A H Simon	5,060	4,600	-	-	-	-
C Tritton	1,500	-	-	-	-	-

*at date of appointment

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

No changes in the above mentioned interests of the Directors were notified to the Company between the year end and 3 June 1993, except for the acquisition by Mr Boissier of 15 shares arising from the scrip dividend alternative.

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 9 to the financial statements on pages 33 and 34.

Share capital

Details of movements in share capital are shown in note 16 to the financial statements on pages 37 and 38.

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 to be held in 1994 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.

Amendment to the Articles of Association

Following the introduction of the Cheques Act 1992, the Company's dividend warrants are crossed 'Account Payee' in order to provide increased security for shareholders. It is proposed to make a simple technical amendment to Article 133 to bring this Article into line with current practice. The special resolution is set out in full in the Notice of Meeting which accompanies this document.

Research and Development

In 1992/93, the Group spent £8.2 million (1992: £6.4 million) on its Research and Development programme. The focus of the programme is aimed at meeting the new, or likely, regulatory standards for potable water and waste water treatment at minimum cost.

Emerging technologies are identified around the world which appear to be capable of development to provide significant benefits in the ability to meet ever-tightening quality and environmental standards, with associated cost advantages.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £158,191 (1992: £145,853). No political donations were made during the year.

Employees

The number of people employed by the Group on 31 March 1993 was 10,539 (1992: 10,523). Of these, 7,070 (1992: 7,529) were employed by Severn Trent Water Limited.

During the year a new and innovative pay arrangement for its craft, process and production workers in Severn Trent Water was introduced. A profit-related pay scheme was registered for introduction in 1993/94 across the Group. There were further grants of options under the Sharesave and Executive Share Option Schemes and a further allocation of shares under the Profit Sharing arrangements.

Training remains a high priority across the Group and in Severn Trent Water alone, there were over 38,000 'off the job' training days. National Vocational Qualifications, which are linked to the new pay arrangements, continue to be one of the main initiatives to improve the skills of craft, process and production workers in the water utility.

The Company regards communication with employees as being of the highest priority and considerable effort is devoted to this through the Company's in-house newspaper 'Stream', team briefing, the annual Employees' Evening attended by over 2,500 employees across the Group, conferences, videos and other special exercises such as those involved in communicating the profit-related pay proposals. In addition, there are well

established formal consultative arrangements with employee representatives which have been in existence for many years.

We remain committed to equal opportunities across the Group with policies and procedures to ensure that employees or potential employees are not discriminated against whatever their sex, race, religion, marital status or disability.

Disabled persons

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

Health and Safety at work

The health and safety of our employees and our customers is a priority for every company in the Group. Severn Trent Water Limited has gained, for the fourth successive year, a British Safety Council award for its safety record whilst Biffa Waste Services Limited gained a five star award from the same body for its treatment plant at Wednesbury. All companies in the Group are now actively implementing requirements of recent safety legislation which will further reduce workplace risks.

Substantial shareholdings

As at 3 June 1993 the Company had been notified of the following substantial shareholdings in its issued ordinary share capital:

Barclays Bank Plc and its subsidiaries held a non beneficial interest in 14,388,122 Ordinary Shares representing 4.05% of the issued ordinary share capital; and Rockleigh Corporation Plc 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 Company Secretary 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.

16 June 1993

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

28 July 1993 at the International Convention Centre, Birmingham.

Auditors

Price Waterhouse
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
Telephone: 021-200 3000

Stockbrokers

James Capel & Co. Limited
Thames Exchange
10 Queen Street Place
London EC4R 1BL
Telephone: 071-621 0011

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS
Telephone: 071-374 8000

UBS Limited

100 Liverpool Street
London EC2M 2RH
Telephone: 071-901 3333

Company Secretary

David W Mattin FCCA

Merchant Bankers

Samuel Montagu & Co. Limited
10 Lower Thames Street
London EC3R 6AE
Telephone: 071-260 9000

Registered office:

Severn Trent Plc
2308 Coventry Road
Birmingham B26 3JZ
Telephone: 021-722 6000
Facsimile: 021-722 6150

Registrars

Lloyds Bank Registrars
54 Pershore Road South
Kings Norton
Birmingham B30 3EP
Telephone: 021-433 8000

Registered No. 2366619

Financial statements

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Report of the auditors to the members of Severn Trent Plc

We have audited the financial statements set out on pages 22 to 43 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 1993 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse *Price Waterhouse*

Price Waterhouse
Chartered Accountants and Registered Auditor

Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

16 June 1993

Price Waterhouse



Group profit and loss account

Year ended 31 March 1993

		1993		1992
	Notes	£m	£m	As restated £m
Turnover				
Continuing operations		898.4		821.7
Acquisitions		6.2		-
Total turnover	2		904.6	821.7
Operating costs			(606.5)	(554.2)
Operating profit before share of results of associated undertakings	3		298.1	267.5
Share of results of associated undertakings				
Continuing operations		1.2		1.9
Acquisitions		(0.3)		-
Total share of results of associated undertakings			0.9	1.9
Operating profit				
Continuing operations excluding disposal of an investment		299.6		260.8
Disposal of an investment		-		8.6
Continuing operations		299.6		269.4
Acquisitions		(0.6)		-
Total operating profit	2		299.0	269.4
Income from investments			-	0.3
Net interest (payable)/receivable	5		(28.9)	4.3
Profit on ordinary activities before taxation			270.1	274.0
Ongoing operations excluding disposal of an investment		270.1		265.4
Disposal of an investment		-		8.6
Taxation on profit on ordinary activities	6		(22.5)	(24.1)
Profit for the financial year			247.6	249.9
Dividends	7		(75.1)	(68.3)
Retained profit for the financial year	17		172.5	181.6
Earnings per share				
Earnings per share	8		69.9p	70.6p
Impact of reclassification of 1992 extraordinary item			-	(2.4)p
Earnings per share - adjusted	8		69.9p	68.2p

Balance sheets

At 31 March 1993

		Group		Company	
	Notes	1993 £m	1992 £m	1993 £m	1992 £m
Fixed assets					
Tangible assets	9	2,694.2	2,291.8	7.7	3.4
Investments	10	29.6	19.0	1,287.0	662.1
		2,723.8	2,310.8	1,294.7	665.5
Current assets					
Stocks	11	24.7	24.3	-	-
Debtors	12	165.2	157.5	20.6	17.6
Short term deposits		240.6	336.9	230.3	330.6
Cash at bank and in hand		5.9	5.8	0.5	0.1
		436.4	524.5	251.4	348.3
Creditors: amounts falling due within one year	13	(446.1)	(394.0)	(221.6)	(311.1)
Net current (liabilities)/assets		(9.7)	130.5	29.8	37.2
Total assets less current liabilities		2,714.1	2,441.3	1,324.5	702.7
Creditors: amounts falling due after more than one year	14	(663.9)	(521.7)	(277.7)	(278.0)
Provisions for liabilities and charges	15	(70.0)	(89.5)	-	-
Net assets		1,980.2	1,830.1	1,046.8	424.7
Capital and reserves					
Called up share capital	16	356.1	353.8	356.1	353.8
Reserves	17	1,623.7	1,476.2	690.7	70.9
Shareholders' funds		1,979.8	1,830.0	1,046.8	424.7
Minority shareholders' interests		0.4	0.1	-	-
		1,980.2	1,830.1	1,046.8	424.7

Signed on behalf of the Board who approved the accounts on 16 June 1993.

J G Bellak
Chairman

R A S Costin
Group Finance Director

Group cash flow statement

Year ended 31 March 1993

		1993	1992
	Notes	£m	£m
Net cash inflow from operating activities	21a	355.3	287.6
Returns on investments and servicing of finance			
Interest received		44.4	56.6
Interest paid		(57.3)	(25.3)
Interest element of finance lease rental payments		(5.9)	(5.4)
Dividends received		0.2	0.5
Dividends paid		(65.6)	(41.4)
Net cash outflow from returns on investments and servicing of finance		(84.2)	(15.0)
Tax paid		(23.2)	(21.4)
Investing activities			
Purchase of tangible fixed assets		(451.9)	(442.1)
Grants received		23.6	25.3
Investment in associated undertakings		(8.8)	(8.0)
Loans advanced to associated undertakings		(0.9)	(3.0)
Sale of an investment		-	15.7
Purchase of subsidiary undertakings	21b	(2.5)	(225.7)
Sale of business		-	0.3
Sale of tangible fixed assets		10.9	6.2
Net cash outflow from investing activities		(429.6)	(631.3)
Net cash outflow before financing		(181.7)	(380.1)
Financing			
Sale/(purchase) of short term deposits		197.1	(11.1)
Loans advanced		100.9	388.0
Loans repaid		(1.5)	(3.7)
Finance lease capital repaid		(11.4)	(4.2)
Shares issued net of expenses		3.8	-
Net cash inflow from financing	21c	288.9	369.0
Increase/(decrease) in cash and cash equivalents	21d	107.2	(11.1)

Statement of total recognised gains and losses

Year ended 31 March 1993

	Notes	Group		Company	
		1993 £m	1992 £m	1993 £m	1992 £m
Profit for the financial year		247.6	249.9	690.7	81.4
Currency translation differences	17	3.5	0.2	-	-
Expenses on issue of shares		(0.3)	-	(0.3)	-
Expenses on issue of Bonds		-	(5.7)	-	(5.7)
Total recognised gains and losses for the year		250.8	244.4	690.4	75.7

Historical cost profits and losses

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Reconciliation of movements in Group shareholders' funds

	Notes	1993 £m	1992 £m
Profit for the financial year		247.6	249.9
Dividends		(75.1)	(68.3)
		172.5	181.6
Other recognised gains and losses relating to the year (net)		3.2	(5.5)
Shares issued	16	4.1	-
Scrip dividend	17	2.7	-
Goodwill written off	17	(32.7)	(174.4)
Net addition to shareholders' funds		149.8	1.7
Shareholders' funds at 1 April 1992		1,830.0	1,828.3
Shareholders' funds at 31 March 1993		1,979.8	1,830.0

Notes to the financial statements

Year ended 31 March 1993

1 Accounting policies

a Accounting convention

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards and, except for the treatment of certain grants and contributions, comply with the requirements of the Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the grants and contributions policy below.

b Basis of preparation

The financial statements include the results of Severn Trent Plc and its subsidiary and associated 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 Company's holding is 20% or more and the Company exercises significant influence.

The financial statements have been prepared to comply with Financial Reporting Standard 3. Comparative figures have been restated accordingly.

c Turnover

Turnover represents 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 commissioned.

iv 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 a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is applied over the shorter of the estimated useful life and the lease period.

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 to the profit and loss account 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. Expenditure during the year is charged to the infrastructure renewals provision.

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 relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions would be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to the profit and loss account. The effect of this departure is that the net book value of fixed assets is £61.8 million (1992: £42.3 million) lower than it would otherwise have been.

g Investments

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

h Stocks

Stocks are stated at cost less any provision necessary to take account of 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.

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.

l Accounting policies (continued)

k Pension costs

Pension costs are determined actuarially so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives 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 thus arising are dealt with through reserves, as are exchange differences on 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.

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	
	1993 £m	1992 £m	1993 £m	1992 £m	1993 £m	1992 £m
Turnover						
Water and sewerage services	739.8	689.9	-	-	739.8	689.9
Waste management	86.3	76.3	17.4	13.1	103.7	89.4
Other	34.2	24.5	26.9	17.9	61.1	42.4
	860.3	790.7	44.3	31.0	904.6	821.7
Operating profit						
Water and sewerage services	293.0	254.2	-	-	293.0	254.2
Waste management	8.5	8.1	3.5	2.9	12.0	11.0
Other	1.1	4.6	0.3	1.6	1.4	6.2
	302.6	266.9	3.8	4.5	306.4	271.4
Surplus on realisation of investment in Caird Group Plc					-	8.6
Corporate overheads					(7.1)	(10.6)
					299.0	269.4

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	
	1993 £m	1992 £m	1993 £m	1992 £m	1993 £m	1992 £m
Water and sewerage services	2,394.4	2,008.1	-	-	2,394.4	2,008.1
Waste management	60.2	49.8	4.2	1.8	64.4	51.6
Other	13.1	16.5	29.9	16.6	43.0	33.1
Net operating assets	2,467.7	2,074.4	34.1	18.4	2,501.8	2,092.8
Short term deposits, taxation balances, cash, borrowings, obligations under finance leases and dividends payable					(521.6)	(262.7)
					1,980.2	1,830.1

Comparative figures for net operating assets have been amended to exclude obligations under finance leases.

Notes to the financial statements

3 Operating profit	1993	1992
Operating profit is stated after charging/(crediting):	£m	£m
Employee costs (note 4)	173.2	154.1
Infrastructure renewals expenditure (note 15a)	69.8	83.1
Depreciation (note 9)	82.3	63.3
Environmental and landfill restoration costs (note 15a)	2.1	2.0
Operating lease payments - land and buildings	2.3	1.8
- other	4.1	4.5
Hire of plant and machinery	2.7	2.6
Research and development expenditure	8.2	6.4
Audit fees (see below)	0.4	0.4
Profit on disposal of fixed assets	(5.1)	(3.5)
Surplus on realisation of investment in Caird Group Plc	-	(8.6)

Fees paid to Price Waterhouse:	1993	1992
	£'000	£'000
Audit fees	433	449
Taxation fees - UK	182	419
Other fees - UK	300	446
	915	1,314
Charged to capital	(57)	(265)
Charged to profit and loss account	858	1,049

Included in the audit fee above is £38,000 (1992: £38,000) in respect of the Company.

4 Information regarding directors and employees	1993	1992
Directors:	£'000	£'000
Fees	142.5	113.3
Emoluments including pension contributions	927.1	828.6
Performance payments	95.6	64.2
	1,165.2	1,006.1
Emoluments of the Chairman (excluding pension contributions)	179.3	143.7
Emoluments of the highest paid director (excluding pension contributions)	195.4	148.2

4 Information regarding directors and employees (continued)

Emoluments (excluding pension contributions) of other directors of the Company were within the following bands:	1993 No.	1992 No.
£ 5,001 - 10,000	-	1
£ 15,001 - 20,000	-	5
£ 20,001 - 25,000	7	1
£ 70,001 - 75,000	-	2
£ 90,001 - 95,000	-	1
£105,001 - 110,000	1	-
£110,001 - 115,000	-	1
£140,001 - 145,000	1	-
£150,001 - 155,000	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. Performance payments are based upon the level of achievement against separate profit targets for the pre and post privatisation businesses and achievements against levels of service, water supply and sewerage quality targets set by external regulators.
- ii The Company has a future obligation in respect of Mr A Costin to pay the difference between his pension entitlement based upon the relevant portion of his final salary and the maximum amounts payable under the rules of the pension scheme.
- iii Included within the fees paid above is an amount of £20,416 paid to a third party for making available the services of one of the non-executive Directors.
- iv Non cash benefits included in the total emoluments consist of the provision of cars and health care insurance.
- v Details of Directors' interests in the shares of the Company, including share options, are shown in the Directors' Report on page 18.

Employees:	1993 £m	1992 £m
Wages and salaries	182.1	159.8
Social security costs	15.7	13.6
Pension costs (note 19)	11.2	15.1
	209.0	188.5

Charged as follows:

Capital and infrastructure renewals	55.8	34.4
Operating costs (note 3)	173.2	154.1
	209.0	188.5

Average number of employees during the year (full time equivalent)

By type of business:

	1993 No.	1992 No.
Water and sewerage services	7,415	7,456
Waste management	1,827	1,948
Other	1,247	1,012
	10,519	10,416

By geographical location:

United Kingdom	9,967	9,960
Other - principally Europe and USA	552	456
	10,519	10,416

Notes to the financial statements

5 Net interest (payable)/receivable	1993 £m	1992 £m
Interest receivable	29.9	48.0
Interest payable:		
Bank loans, overdrafts and other loans repayable within five years	(9.8)	(9.2)
Loans repayable after more than five years	(43.0)	(30.2)
Finance leases	(6.0)	(4.3)
	(28.9)	4.3

Comparative figures of interest payable and receivable have been amended to take into account the Group pooling arrangements as set out in note 18e. These adjustments have no effect on the result for the year.

6 Taxation on profit on ordinary activities	1993 £m	1992 £m
Overseas taxation	0.6	0.5
Share of taxation charges of associated undertakings	0.7	0.8
Tax on franked investment income	-	0.2
Advance corporation tax - current year	22.1	22.6
- prior year	(0.9)	-
	22.5	24.1

At 31 March 1993 the Group had tax losses of approximately £110.0 million (1992: £87.0 million) which will be available for offset primarily against future trading profits of Severn Trent Water Limited.

7 Dividends	1993 Pence Per Share	1993 £m	1992 Pence Per Share	1992 £m
Interim dividend declared	7.0	24.8	6.4	22.7
Final dividend proposed	14.1	50.3	12.9	45.6
	21.1	75.1	19.3	68.3

8 Earnings per share

The calculation of earnings per Ordinary Share is based on earnings of £247.6 million (1992: £249.9 million), divided by 354.3 million Ordinary Shares being the average number of shares in issue during the year (1992: 353.8 million).

The calculation of the adjusted earnings per share is based on earnings of £241.3 million for the year ended 31 March 1992. The adjusted earnings exclude the surplus on the realisation of investment in Caird Group Plc of £8.6 million, which was treated as an extraordinary item in 1992.

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

o Tangible fixed assets

				Group	Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
Cost					
Balance 1 April 1992	939.9	1,091.7	725.7	2,757.3	3.5
Additions	149.0	126.2	216.9	492.1	4.5
Acquired with subsidiaries	4.5	7.8	9.0	21.3	-
Grants and contributions	-	(19.5)	-	(19.5)	-
Disposals	(2.7)	-	(18.2)	(20.9)	-
Exchange adjustments	1.2	-	2.5	3.7	-
Reclassification of assets	(6.8)	3.0	3.8	-	-
Balance 31 March 1993	1,085.1	1,209.2	939.7	3,234.0	8.0
Depreciation					
Balance 1 April 1992	267.9	-	197.6	465.5	0.1
Charge for year	21.6	-	60.7	82.3	0.2
Acquired with subsidiaries	0.9	-	4.8	5.7	-
Disposals	(2.4)	-	(12.5)	(14.9)	-
Exchange adjustments	0.3	-	0.9	1.2	-
Balance 31 March 1993	288.3	-	251.5	539.8	0.3
Net book value					
At 31 March 1993	796.8	1,209.2	688.2	2,694.2	7.7
At 31 March 1992	672.0	1,091.7	528.1	2,291.8	3.4
i Included in tangible fixed assets are assets held under finance leases as follows:					
				1993 £m	1992 £m
Cost				133.9	73.8
Accumulated depreciation				(31.6)	(28.2)
Net book value				102.3	45.6
ii 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 set out in note 1f.					
iii The net book value of land and buildings is analysed as follows:					
				1993 £m	1992 £m
Freehold				792.4	665.5
Long leasehold				2.5	4.4
Short leasehold				1.9	2.1
				796.8	672.0

iv The net book value of land and buildings includes £33.6 million (1992: £30.2 million) in respect of operational landfill sites.

9 Tangible fixed assets (continued)		1993	1992
v Depreciation incurred during the year has been charged as follows:		£m	£m
On owned assets		77.2	59.5
On assets held under finance leases		5.1	3.8
		82.3	63.3

vi Included in the above are the following tangible fixed assets not subject to depreciation:		1993	1992
		£m	£m
Land		21.4	19.6
Infrastructure assets		1,209.2	1,091.7
Assets in the course of construction		487.2	445.8
		1,717.8	1,557.1

vii At 31 March 1993 the Company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.4 million and plant and machinery of £1.3 million (1992: freehold land and buildings £3.4 million).

10 Investments

Group	Associated undertakings		Share of retained earnings £m	Other investments £m	Total £m
	Shares £m	Loans £m			
At 1 April 1992	7.6	9.9	1.1	0.4	19.0
Additions	8.8	0.9	0.2	-	9.9
Provisions	-	(0.6)	-	-	(0.6)
Dividends received	-	-	(0.1)	-	(0.1)
Currency translation differences	1.2	-	0.2	-	1.4
At 31 March 1993	17.6	10.2	1.4	0.4	29.6

Company	Subsidiary undertakings		Associated undertakings		Other investments £m	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m		
At 1 April 1992	613.3	46.6	1.5	0.5	0.2	662.1
Loans capitalised	0.5	(0.5)	-	-	-	-
Transferred to subsidiary undertaking/repaid	-	(4.0)	-	(0.5)	-	(4.5)
Additions (see below)	602.8	27.3	-	-	-	630.1
Provisions	-	-	(0.7)	-	-	(0.7)
At 31 March 1993	1,216.6	69.4	0.8	-	0.2	1,287.0

Additions to shares in subsidiary undertakings includes £600m for further subscription of shares in Severn Trent Water Limited. Brief details of the principal operating subsidiary and associated undertakings of the Group are set out in note 22.

11 Stocks

	Group	
	1993 £m	1992 £m
Stocks and work in progress	14.6	15.0
Development land and properties	10.1	9.3
	24.7	24.3

The replacement value of stocks is not materially different from their book value.

12 Debtors

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Trade debtors	102.3	91.0	-	-
Amounts owed by Group undertakings	-	-	18.7	5.9
Overseas taxation recoverable	0.2	-	-	-
Other debtors	12.4	15.2	-	-
Prepayments and accrued income	50.3	51.3	1.9	11.7
	165.2	157.5	20.6	17.6

Debtors include £4.5 million (1992: £0.4 million) which falls due after more than one year.

13 Creditors: amounts falling due within one year

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Debentures (unsecured)	0.5	-	-	-
Bank loans, overdrafts and temporary borrowings	48.2	23.9	106.2	201.3
Other loans	6.7	-	-	-
Obligations under finance leases (note 18c)	10.3	7.0	-	-
Trade creditors	53.3	61.9	0.1	0.2
Amounts owed to Group undertakings	-	-	0.7	0.6
Other creditors	9.2	10.4	1.7	1.1
Taxation and social security	8.0	8.5	-	-
Advance corporation tax payable	22.1	22.6	22.1	22.6
Corporation tax payable	2.2	2.2	-	-
Dividends payable	75.1	68.3	75.1	68.3
Purchase consideration for East Worcester Water Plc	53.4	-	-	-
Deferred credits	1.9	2.6	-	-
Accruals and deferred income	181.2	186.6	15.7	17.0
	446.1	394.0	221.6	311.1

Notes to the financial statements

1-4 Creditors: amounts falling due after more than one year	Rate of interest %	Group		Company	
		1993 £m	1992 £m	1993 £m	1992 £m
European Investment Bank loans - 1996-2002	5.7 - 10.9	215.9	146.5	-	-
Local authority loans - 1994-2035	8.7 - 12.0	16.2	16.5	-	-
Water annuities	4.0 - 5.0	0.1	0.1	-	-
Bonds due 1999	11.5	150.0	150.0	150.0	150.0
Bonds due 2001	11.6	125.0	125.0	125.0	125.0
Debenture stock - 1996 (unsecured)	12.5	3.5	-	-	-
Debenture stock - irredeemable (unsecured)	3.0 - 5.0	0.1	-	-	-
Other loans	-	0.5	-	-	-
		511.3	438.1	275.0	275.0
Obligations under finance leases (note 18c)		97.9	43.3	-	-
Deferred credits		39.5	28.9	-	-
Other		15.2	11.4	2.7	3.0
		663.9	521.7	277.7	278.0

Loans outstanding are repayable as follows:

	Group	
	1993 £m	1992 £m
Between one and two years	5.7	30.9
Between two and five years	58.1	32.0
After five years - by instalment	49.5	54.5
- other than by instalment	398.0	320.7
	511.3	438.1

Debenture stock of £3.6 million included above and £0.5 million included in note 13 derives from the acquisition of East Worcester Water Plc.

15 Provisions for liabilities and charges	Balance at 1 April 1992 £m	Arising on acquisition £m	Charged to profit & loss account £m	Exchange adjustments £m	Utilised £m	Balance at 31 March 1993 £m
a Provisions comprise:						
Infrastructure renewals	54.7	0.4	69.8	-	(85.2)	39.7
Environmental and landfill restoration	18.7	-	2.1	0.8	(2.9)	18.7
Reorganisation and other	16.1	3.0	-	-	(7.5)	11.6
	89.5	3.4	71.9	0.8	(95.6)	70.0

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £3.2 million (1992: £1.8 million).

15 Provisions for liabilities and charges (continued)

Acquisition provisions included above are analysed as follows:

	£m
At 1 April 1992	25.7
Arising on acquisitions during the year	3.4
Exchange adjustments	0.7
Utilised	(6.7)
At 31 March 1993	23.1

A significant proportion of acquisition provisions relate to environmental and landfill restoration liabilities which are of a long term nature.

	1993 £m	1992 £m
b Potential deferred taxation liabilities not provided:		
Capital allowances	391.7	330.0
Other timing differences	(29.9)	(34.1)
Available tax losses	(36.2)	(28.6)
Advance corporation tax not immediately recoverable	(76.2)	(55.0)
	249.4	212.3

16 Called up share capital

Authorised:

475,000,000 Ordinary Shares of £1

One Special Rights Redeemable Preference Share of £1

Issued and fully paid:

356,093,377 Ordinary Shares of £1 (1992: 353,837,772)

One Special Rights Redeemable Preference Share of £1

a Shares issued during the year:

666,982 Ordinary shares were issued in lieu of cash of £2.7 million in respect of the final dividend for the year ended 31 March 1992. 19,726 Ordinary shares were issued at 176.0p, 239.0p or 257.0p to former employees under the Group's Employee Sharesave Scheme and 1,568,897 Ordinary shares were issued at 262.0p under the Group's Executive Share Option Scheme. The aggregate consideration in respect of these allotments was £4.1 million.

b 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.

c Employee share schemes

i The Severn Trent Share Schemes

The issued and paid up share capital of the Company includes 2,264,547 (1992: 1,699,831) 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.

16 Called up share capital (continued)

ii Employee Sharesave Scheme

Under the terms of the Sharesave Scheme the Board may grant those employees who have entered into an Inland Revenue approved Save as You Earn (SAYE) contract for a period of either five or seven years the right to purchase Ordinary Shares in the Company. Options outstanding at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			1993	1992
December 1989	1995 or 1997	176p	3,887,113	3,953,954
January 1991	1996 or 1998	239p	805,356	824,053
January 1992	1997 or 1999	257p	1,724,280	1,756,337
January 1993	1998 or 2000	360p	1,203,262	-

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 were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares	
				1993	1992
January 1993	33	Jan 1993 - Jan 2000	262p	677,806	2,246,703
January 1994	16	Jan 1994 - Jan 2001	310p	305,072	305,072
January 1995	121	Jan 1995 - Jan 2002	311p	1,011,304	1,017,654
March 1996	128	Mar 1996 - Mar 2003	497p	725,154	-

	Profit & loss account £m	Share premium account £m	Total £m
At 1 April 1992	1,474.2	2.0	1,476.2
Retained profit for the year	(32.1)	-	(32.1)
Share issues (note 20)	(0.6)	-	(0.6)
Retained profit for the year	172.5	-	172.5
Currency translation differences	3.5	-	3.5
Share issues (net of expenses)	-	2.2	2.2
Script dividend	2.7	(0.7)	2.0
At 31 March 1993	1,620.2	3.5	1,623.7

Company	Profit & loss account £m	Share premium account £m	Total £m
At 1 April 1992	68.9	2.0	70.9
Retained profit for the year	615.6	-	615.6
Share issues (net of expenses)	-	2.2	2.2
Script dividend	2.7	(0.7)	2.0
At 31 March 1993	687.2	3.5	690.7

The profit attributable to shareholders, dealt with in the accounts of the Company was £690.7 million (1992: £81.4 million). The comparative figure of profit attributable to shareholders has been adjusted to exclude dividends payable to shareholders. As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

At 31 March 1993 cumulative goodwill written off against Group reserves amounted to £212.3 million (1992: £179.6 million).

18 Commitments and contingent liabilities	1993	1992
	£m	£m
a Investment expenditure commitments:		
Contracted for but not provided in the financial statements	253.4	174.3
Authorised but not yet contracted for	210.9	421.9

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 Water Services and to provide for growth in demand for water and sewerage services.

b Operating lease commitments

At 31 March 1993 the Group was committed to make the following payments during the next year in respect of operating leases:

Leases which expire:	Land and buildings £m	Other £m
Within one year	0.6	1.5
Within two to five years	0.4	0.9
After five years	1.9	-
	2.9	2.4

c Finance lease commitments

Amounts due under finance leases are payable as follows:

	1993 £m	1992 £m
Within one year	10.3	7.0
Between one and two years	13.7	9.2
Between two and five years	20.6	23.3
After more than five years	63.6	10.8
	108.2	50.3

Comparative figures for finance lease commitments have been adjusted to show only the capital element of finance repayments and exclude finance charges allocated to future periods, which were previously disclosed separately. The revised disclosure minimises the impact of changes in interest rates on the analysis of commitments.

d At 31 March 1993 subsidiary undertakings have entered into performance bonds, issued in the normal course of business, amounting to £5.2 million (1992: £4.3 million) of which £5.1 million (1992: £3.2 million) is guaranteed by the Company. In addition the Company has entered into guarantees of £11.7 million. No liability is expected to arise in the normal course of business.

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.

19 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 £11.2 million (1992: £15.1 million).

STWPS

An actuarial valuation of STWPS was carried out at 31 March 1992 by an independent actuary, using the projected unit 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 £227.3 million, which exceeded by 16% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings.

The actuary recommended that with effect from 1 April 1992 employers' contributions be reduced as follows in order to utilise the valuation surplus over the average service lives of the Scheme's members. As a consequence the charge to the profit and loss account has been reduced by £4.8 million.

Members' contribution rate	Employers' contribution rate
6%	reduced from 16.3% to 8.8%
5%	reduced from 13.6% to 7.35%
3%	reduced from 8.1% to 4.4%

STMIS

The most recent valuation of STMIS was carried out at 31 March 1991 by an independent actuary using the attained age method, which is considered the most appropriate method of valuation for a scheme which is closed to new members.

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.

The employers' contribution to STMIS continues unchanged at the rate of 7.7% and 6.4% of pensionable pay of STMIS members whose contributions are at the rate of 6% or 5% respectively.

20 Acquisitions

The following acquisitions were completed during the year:

	Cash consideration and costs £m	Fair value of assets acquired £m	Goodwill £m
Subsidiary undertakings			
East Worcester Water Plc ('EWW')	33.8	5.6	28.2
Others	4.9	1.0	3.9
	38.7	6.6	32.1

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 £m	Fair value of assets acquired £m
EWW					
Fixed assets	15.0	(0.7)	(0.7)	-	13.6
Net current assets	(0.1)	-	(0.2)	-	(0.3)
Creditors: amounts falling due after more than one year	(4.3)	-	-	-	(4.3)
Provisions for liabilities and charges	(0.9)	-	-	(3.0)	(3.4)
Assets acquired	10.2	(0.7)	(0.9)	(3.0)	5.6

20 Acquisitions (continued)

	Book value at date of acquisition £m	Alignment of accounting policies £m	Write down of asset values £m	Other provisions £m	Fair value of assets acquired £m
Other subsidiary undertakings					
Fixed assets	2.0	-	-	-	2.0
Net liabilities	(0.6)	-	(0.1)	-	(0.7)
Minority interest	-	-	-	(0.3)	(0.3)
Assets acquired	1.4	-	(0.1)	(0.3)	1.0

EWV was acquired on 19 March 1993. The Group profit and loss account does not include any results arising from EWV. The audited accounts of EWV recorded an operating profit of £4.3 million for the year ended 31 December 1992.

21 Group cash flow statement

	1993 £m	1992 £m
a Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit before interest	299.0	269.4
Currency translation differences	0.5	0.2
Profits of associated undertakings	(0.9)	(1.9)
Investment provisions	0.5	0.2
Depreciation charge	82.3	63.3
Profit on sale of tangible fixed assets	(5.1)	(3.5)
Surplus on realisation of investment in Caird Group Plc	-	(8.6)
Deferred credits received	12.2	14.4
Deferred credits written back	(1.6)	(1.2)
Provisions for liabilities and charges (note 15a)	71.9	89.2
Utilisation of provisions for liabilities and charges (note 15a)	(98.8)	(110.5)
Increase in stocks	(0.2)	(5.6)
Increase in debtors	(11.5)	(31.8)
Increase in creditors	7.0	14.0
Net cash inflow from operating activities	355.3	287.6
b Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings		
Consideration (note 20)	38.7	224.5
Paid after 31 March 1993	(33.4)	-
Deferred consideration	(1.3)	-
Cash paid in respect of prior year acquisitions	0.2	-
Cash at bank and in hand of acquired subsidiary undertakings	(1.7)	(2.5)
Bank overdrafts of acquired subsidiary undertakings	-	3.7
Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings	2.5	225.7

21 Cash flow statement (continued)

c Analysis of changes in financing during the year

				1993	1992
	Share capital (including share premium) £m	Loans and finance lease obligations £m	Current asset investments £m	Total £m	Total £m
Balance at 1 April 1992	355.8	490.6	(294.0)	552.4	168.6
Reclassify premium on Bond issues	-	(2.2)	-	(2.2)	-
Cashflows from financing	3.8	88.0	197.1	288.9	369.0
Loans and finance lease obligations of subsidiary undertakings acquired during the year	-	5.8	-	5.8	0.8
Inception of finance lease contracts	-	69.1	-	69.1	14.0
Balance at 31 March 1993	359.6	651.3	(96.9)	914.0	552.4

d Analysis of the balances of cash and cash equivalents as shown in the balance sheet

		Change in year £m	1993 £m	1992 £m
Cash at bank and in hand		0.1	5.9	5.8
Deposits with maturity date of less than three months		100.8	143.7	42.9
Bank loans and overdrafts		6.3	(17.0)	(23.9)
		107.2	132.0	24.8

e The subsidiary undertakings acquired during the year did not contribute materially to the Group's cashflows.

22 Subsidiary and associated undertakings

Brief details of principal subsidiary and associated undertakings of the Group at 31 March 1993 were as follows:

Subsidiary undertakings	Country of registration or incorporation and operation	Percentage and class of share capital held	Nature of business
* Severn Trent Water Limited	England	100% Ordinary	Water and Sewerage Undertaking
†* East Worcester Water Plc	England	99.5% Ordinary 99.7% Ordinary non voting 88.3% 10.75% Preference shares	Water Undertaking
Biffa Waste Services Limited	England	100% Ordinary	Waste Management
Biffa Waste Services SA	Belgium	100% Ordinary	Waste Management
Wastedrive Limited	England	100% Ordinary	Waste Management
Wastedrive (Manchester) Limited	England	100% Ordinary	Waste Management
* Severn Trent Industries Limited	England	100% Ordinary	Trading Company
* Severn Trent Property Limited	England	100% Ordinary	Property Development
* Severn Trent Overseas Holdings Limited	England	100% Ordinary	Holding Company
Severn Trent (Del) Inc	United States	100% Ordinary	Holding Company
* Aztec Environmental Control Limited	England	100% Ordinary	Control Equipment

22 Subsidiary and associated undertakings (continued)

Subsidiary undertakings	Country of registration or incorporation and operation	Percentage and class of share capital held	Nature of business
Capital Controls Company Inc.	United States	80% Ordinary	Water Disinfection Equipment
Capital Controls Limited	England	80% Ordinary	Water Disinfection Equipment
* Fusion Meters Limited	England	51% Ordinary	Meter Design
* Jabay Limited	England	100% Ordinary	Water Disinfection Equipment
* Paperflow Services Limited	England	100% Ordinary	Mailing Services
Stoner Associates Inc.	United States	100% Ordinary	Pipeline Management Systems
† Island Recycling and Environmental Corporation	United States	65% Ordinary	Waste Treatment
ST Environmental Services Inc.	United States	100% Ordinary	Water Treatment Operators
* Severn Trent Systems Limited	England	100% Ordinary	Computer Systems Development
† Computer Systems & Applications Inc	United States	100% Ordinary	Computer Software for Utilities
Derwent Insurance Limited	Guernsey	100% Ordinary	Insurance Company
* 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
Associated undertakings			
Abbott Estates Limited	England	50% Ordinary	Property Development
GMI Rovinian Limited	England	50% Ordinary	Property Development
Wimpey Arena Developments Limited	England	50% Ordinary	Property Development
Minworth Systems Limited	England	49% Ordinary	Process Monitoring Equipment
* Tetra Europe Limited	England	50% Ordinary	Waste Water Treatment Processes
Aquafin NV	Belgium	20% Ordinary	Water Treatment
† Hydrogest Italmiprese Industrie Severn Trent Srl.	Italy	50% Quota	Water Treatment
† Industrias del Agua SA de CV	Mexico	49% Ordinary	Water and Sewerage Undertaking
* 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

- * Held directly by the Company † Acquired during the year
- o Severn Trent Laboratories and Severn Trent Water International are trading divisions of Severn Trent Industries Limited.
- x The Company declared its offer for the ordinary, non voting ordinary and 10.75% preference shares unconditional in all respects on 19 March 1993. On 16 April 1993, Notices were sent to non assenting shareholders compulsorily acquiring outstanding shares in each class with effect from 28 May 1993.

Particulars of the issued share capital of the Group's associated undertakings at 31 March 1993 were:

	A Ordinary shares of £1	B Ordinary shares of £1	Other classes of shares
Abbott Estates Limited	50,000#	50,000	
GMI Rovinian Limited	25,000	25,000#	
Wimpey Arena Developments Limited	-	-	100 Ordinary shares of £1
Minworth Systems Limited	51,000	49,000#	
Tetra Europe Limited	500,000#	500,000	500,000 redeemable non-cumulative preference shares#
Aquafin NV	-	-	800,000 shares at 10,000BEF/share
Hydrogest Italmiprese Industrie Severn Trent Srl.	-	-	1,000,000 Quotas
Industrias del Agua SA de CV	-	-	10,000,000 Common Shares
Acer Engineering Limited	6,500	3,500#	
Biogas Generation Limited	20,000#	20,000	
Grafham Carbons Limited	20,000#	20,000	

Held by the Group

Five year summary

In the five year summary set out below, the financial information for 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 and the regulatory environment established at the time of privatisation in November 1989 render comparisons with the years 1990 and 1989 potentially misleading.

Profit and loss account	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Turnover	904.6	821.7	627.0	544.1	476.4
Operating profit including share of results of associated undertakings	299.0	269.4	187.5	155.0	175.6
Income from investments	-	0.3	0.3	-	-
Net interest (payable)/receivable	(28.9)	4.3	51.5	(34.0)	(80.9)
Profit on ordinary activities before taxation	270.1	274.0	239.3	121.0	94.7
Taxation on profit on ordinary activities	(22.5)	(24.1)	(20.9)	(11.7)	-
Profit for the financial year	247.6	249.9	218.4	109.3	94.7
Dividends	(75.1)	(68.3)	(62.1)	(35.0)	-
Retained profit for the financial year	172.5	181.6	156.3	74.3	94.7
Balance sheet	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Fixed assets	2,723.8	2,310.8	1,821.1	1,531.2	1,356.1
Net current (liabilities)/assets	(9.7)	130.5	194.7	245.1	(189.7)
Total assets less current liabilities	2,714.1	2,441.3	2,015.8	1,776.3	1,166.4
Creditors: amounts falling due after more than one year	(663.9)	(521.7)	(107.6)	(55.8)	(744.5)
Provisions for liabilities and charges	(70.0)	(89.5)	(79.8)	(45.3)	(7.9)
	1,980.2	1,830.1	1,828.4	1,675.2	414.0
Called up share capital	356.1	353.8	353.8	353.8	-
Reserves	1,623.7	1,476.2	1,474.5	1,321.4	414.0
Minority shareholders' interests	0.4	0.1	0.1	-	-
	1,980.2	1,830.1	1,828.4	1,675.2	414.0

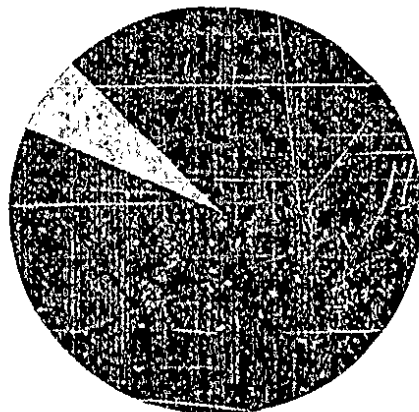
Analysis of shareholdings

at 31 March 2004

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of Ordinary Shares million	Percentage of Ordinary Shares %
1 - 499	70,308	52.8	12.8	3.6
500 - 999	43,785	32.9	29.5	8.3
1,000 - 4,999	17,270	13.0	24.4	6.9
5,000 - 9,999	507	0.4	3.2	0.9
10,000 - 49,999	580	0.4	13.3	3.7
50,000 - 99,999	236	0.2	16.0	4.5
over 100,000	444	0.3	256.9	72.1
	133,130	100.0	356.1	100.0

Shareholders by category of shareholder

Others 6%



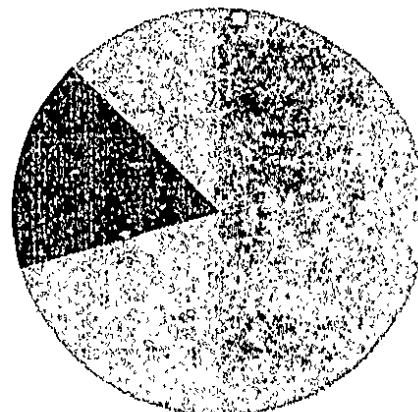
Individuals and joint accounts 94%

■ Individuals and joint accounts

□ Others - e.g. Nominees, other corporate bodies, limited and public limited companies, banks, pension funds and insurance companies

Shares held by category of shareholder

Individuals and joint accounts 17%



Others 83%



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.

Companies House would like to apologise for any inconvenience this may cause.



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AWARD FOR EXCELLENCE



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