

SEVERN TRENT PLC

ANNUAL REPORT AND ACCO NTS 1993 - 1994

COMPANY NUMBER 2366619



Contents

Severn Trent Plc is one of the world's largest privately owned water services companies and among the 100 largest listed companies in the UK. It has a turnover of nearly £1 billion and employs some 10,000 people working primarily in the UK, the rest of Europe and North America.

Severn Trent's main activities are:

- water supply services
- waste water services
- waste management services
- water technology services
- customer service software systems

Severn Trent Water is a leading provider of water supply and waste water services in the UK.

It serves eight million people in an area stretching from the Bristol Channel to the Humber estuary.

Biffa Waste Services is a market leader in integrated waste management in the UK and Belgium.

Through its expertise and national coverage, Biffa has achieved an important strategic position in the developing waste services market.

Severn Trent Water International provides expertise in water utility management primarily in Western Europe and the North American Free Trade Area, and serves a worldwide population of more than eight million people.

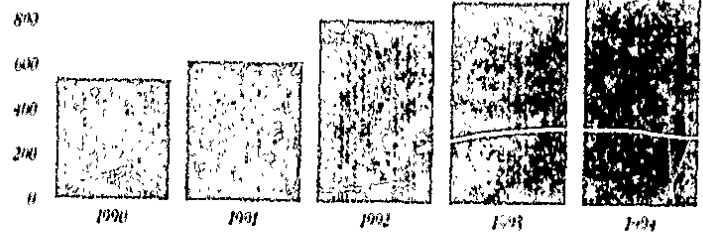
Severn Trent Technology develops and markets new and existing technologies in disinfection, instrumentation and network modelling.

Severn Trent Systems is a leader in software systems, supporting and generating customer service solutions for utilities.

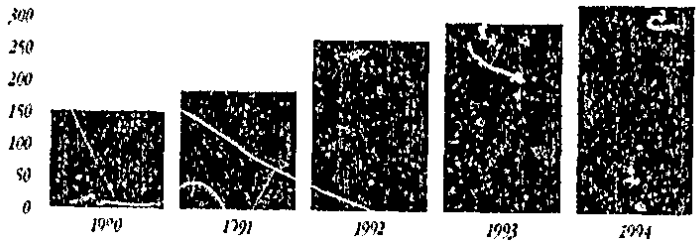
Financial highlights

	1991 £m	1993 £m
Turnover	998	905
Operating profit	329	299
Profit before tax	281	270
Earnings per share	22.7p	69.9p
Dividend per share	22.75p	21.1p
Investment expenditure	485	577

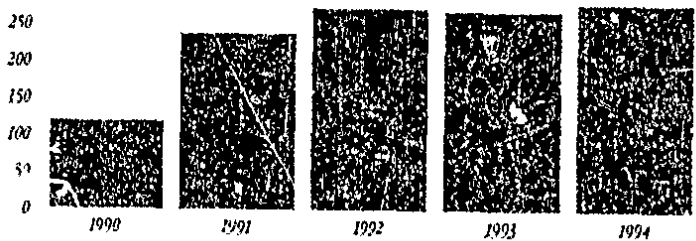
1000 Turnover (£m)



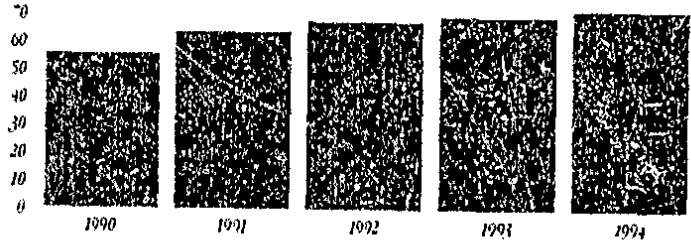
350 Operating profit (£m)



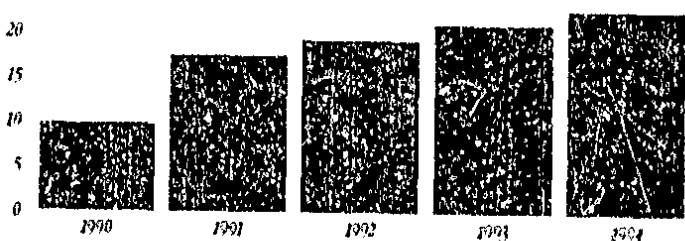
300 Profit before tax (£m)



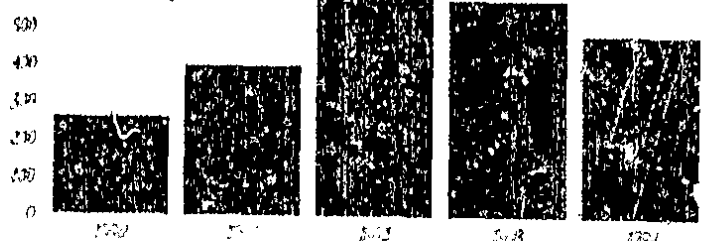
80 Earnings per share (pence)



25 Dividend per share (pence)



600 Investment expenditure (£m)





Roderick Paul, Chief Executive (left); Richard Ireland, Chairman.

Operating and financial review

Group profit before tax for the year 1993/94 was £281.4 million, an increase of 4.2 per cent over 1992/93. Earnings per share were 72.7 pence, 4.0 per cent higher than the previous year. The Board recommends a final dividend of 15.2 pence per share, making a total of 22.75 pence for the full year which represents an increase of 7.8 per cent (1992/93 21.1 pence).

Group turnover for the year was £998.0 million, an increase of £93.4 million. Turnover in Severn Trent Water increased by £47.7 million accounting for slightly more than half of the Group turnover growth. Turnover in Biffa, our waste management business, increased by almost £17.0 million (16.3 per cent) principally as a result of strong growth in our landfill operations. Turnover in our other businesses increased by nearly £29.0 million (47.1 per cent), reflecting the expanding scale of our operations particularly in the USA.

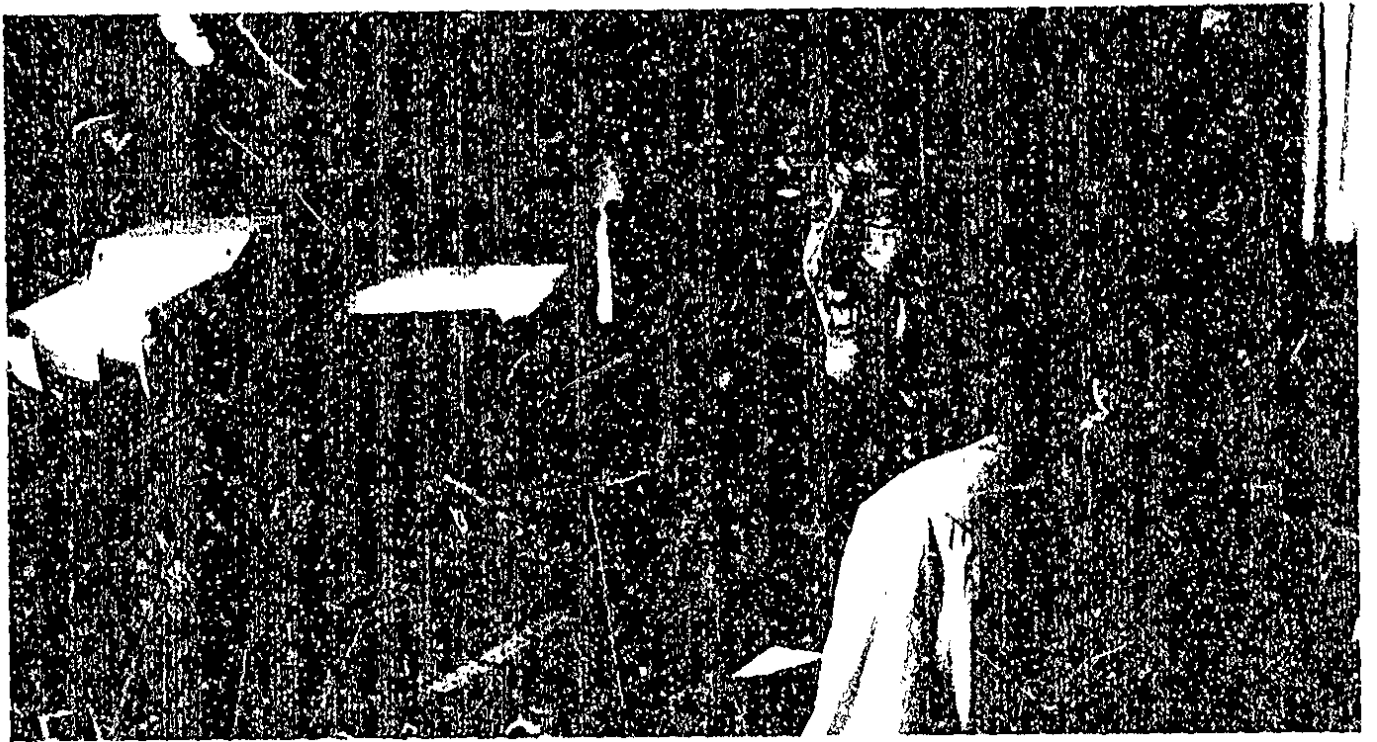
Operating costs for the Group as a whole increased by £62.2 million (10.3 per cent). Within Severn Trent Water, despite increases in depreciation and infrastructure renewals charges and the operating costs in East Worcester Water, the increase was limited to just £16.1 million (3.6 per cent) as a consequence of continuing cost control and productivity improvements. Operating costs in Biffa increased by 16.0 per cent. In our other businesses and excluding acquisitions, operating costs increased by 22.6 per cent as we continued to meet the cost of building significant market positions in the countries in which we have chosen to operate.

Group operating profit was £329.7 million (1992/93 £299.0 million), of which our share of the results of associated undertakings was £0.4 million (1992/93 £0.9 million). Severn Trent Water's operating profit increased by £31.6 million (10.8 per cent) compared with last year. Biffa's £2.2 million (18.3 per cent) increase in operating profit was encouraging, given market conditions which remained unhelpful. The increased costs in our other businesses resulted in an operating loss of £0.7 million, compared with a profit of £1.4 million last year.

The Group's net interest charge for the year was £48.3 million. The increase of £19.4 million over last year was fully anticipated, reflecting the planned increase in borrowings which were required primarily to finance the capital expenditure in Severn Trent Water.

The Group's tax charge for the year was £21.2 million, 5.8 per cent lower than last year, despite the increase in profit before tax. The reduction reflects the lower rates of Advance Corporation Tax introduced with the March 1993 Budget, our tax charge being comprised largely of irrecoverable ACT.

Moving closer to the caller



In Severn Trent Water Limited, our regulated water business in the U.K., turnover increased 6.4 per cent to £787.5 million. The increase was less than RPI-X because of the decline in consumption among metered customers, which showed signs of levelling out during the second half of the year, and an additional number of unoccupied properties.

However, a combination of cost control and efficiency improvements helped operating profits increase by 10.8 per cent to £246 million. Excluding the operating costs of East Worcester Water, which was acquired in March 1993, direct operating costs other than depreciation and infrastructure renewals charges fell by 0.4 per cent. After including East Worcester Water, which is now fully integrated into Severn Trent Water, direct operating costs increased by only 1.4 per cent which is less than the rate of inflation.

The pattern of commercial metered consumption varied throughout the region. Whilst the programme of colliery closures resulted in consumption at British Coal falling 4.1 per cent, six of the fourteen water supply districts recorded an increase in consumption over the previous year. Our efforts to work more closely with our customers have put us in a good position to anticipate future changes in their consumption levels.

An increase in the number of empty domestic and commercial

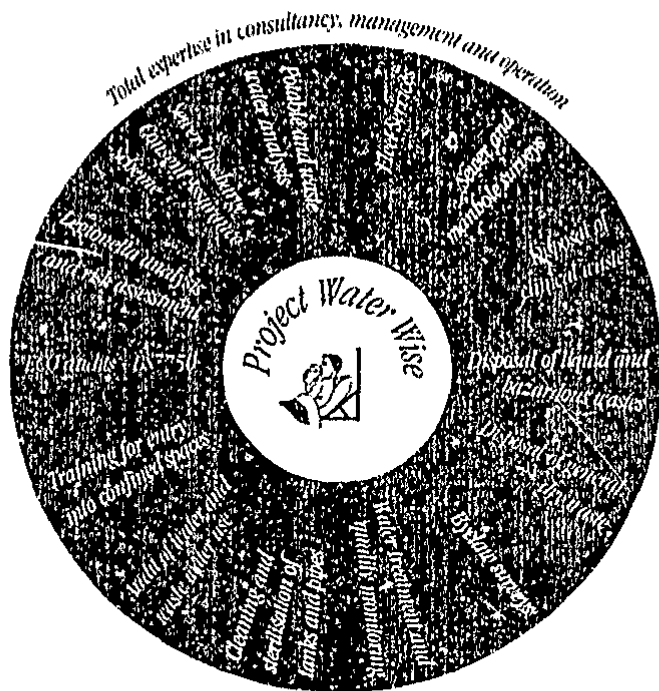
Telephone call management software developed by Severn Trent Systems and Severn Trent Water helps the telephone enquiry team to improve customer service.

A single local rate number connects customers, wherever they are, to a central enquiry office in Birmingham. By using advanced call identification facilities together with a distributed Call Management system, the town or district where a call originates can now be identified. The call is then routed to a customer liaison officer dedicated to calls from that area, but based in one of a number of enquiry offices.

Early results show that the scheme means better local knowledge for the staff, bringing improved motivation and a better understanding of the overall picture in their neighbourhood.

properties affected our unmetered income. Growth in trade effluent was also limited due to the impact of the recession which continued throughout the year.

Since the year end, the supply of drinking water to our customers in the Worcester area was affected following an unauthorised discharge of liquid industrial waste to the River Severn. We have launched our own independent inquiry into the incident led by Professor Kenneth Ives of University College, London. The National Rivers authority and the Drinking Water Inspectorate are conducting their own enquiries. A payment of £26 per household



The National Health Service is one of our major customers. It is keen to make the most efficient use of all its resources, and to achieve maximum value from suppliers. Severn Trent has therefore launched 'Project Water-Wise', offering consultancy and facilities in areas ranging from water analysis through environmental monitoring to waste management. With a single point of contact, client hospitals are benefiting from a range of services offered by the specialist companies in the Group.

was made to domestic customers who were affected.

Our capital programme during the year amounted to £445 million - 24 per cent less than the 1992 peak of £585 million. Further investment in granular activated carbon filtration at our treatment works along the River Severn at Strensham and at The Mythe, where we have also introduced ozone treatment, will make major contributions to water quality as they become fully

Modelling Paris

Stoner Associates, a Severn Trent Technology company, is at the forefront of pipe network computer modelling. Its Stoner Workstation Service can track down pressure trouble spots, determine the hydraulic behaviour of the network and help in designing distribution solutions. Customers worldwide include water, gas and oil companies.

After evaluating many options, a leading French water services company has now commissioned a consortium including STT to undertake a computer based modelling survey of the water distribution network for Paris.

operational. Extensions to Frankley, which include a large new dissolved air flotation plant, will open later in the year. The improvements to Frankley, which is one of the world's largest water treatment plants, will improve significantly the quality of service and reliability of supply offered to the 1.3 million customers it serves in the Birmingham area.

The focus on improving customer service continued throughout the year. We achieved the Director General's service targets in all key areas and particularly in our response times to billing queries and written complaints where we were assessed as 'good' and 'very good' respectively. The total number of complaints fell by 36 per cent during 1992/93 and a further 32 per cent during 1993-94. Our use of advanced technology is reflected in this performance and we are now developing our own internal service standards which will drive further improvements to our service levels under a new Working for Quality programme.

Our quality standards remain among the highest in the industry. During the year we increased our overall compliance with drinking water standards from 99.7 per cent to 99.8 per cent and we maintained our effluent compliance at 99.0 per cent.

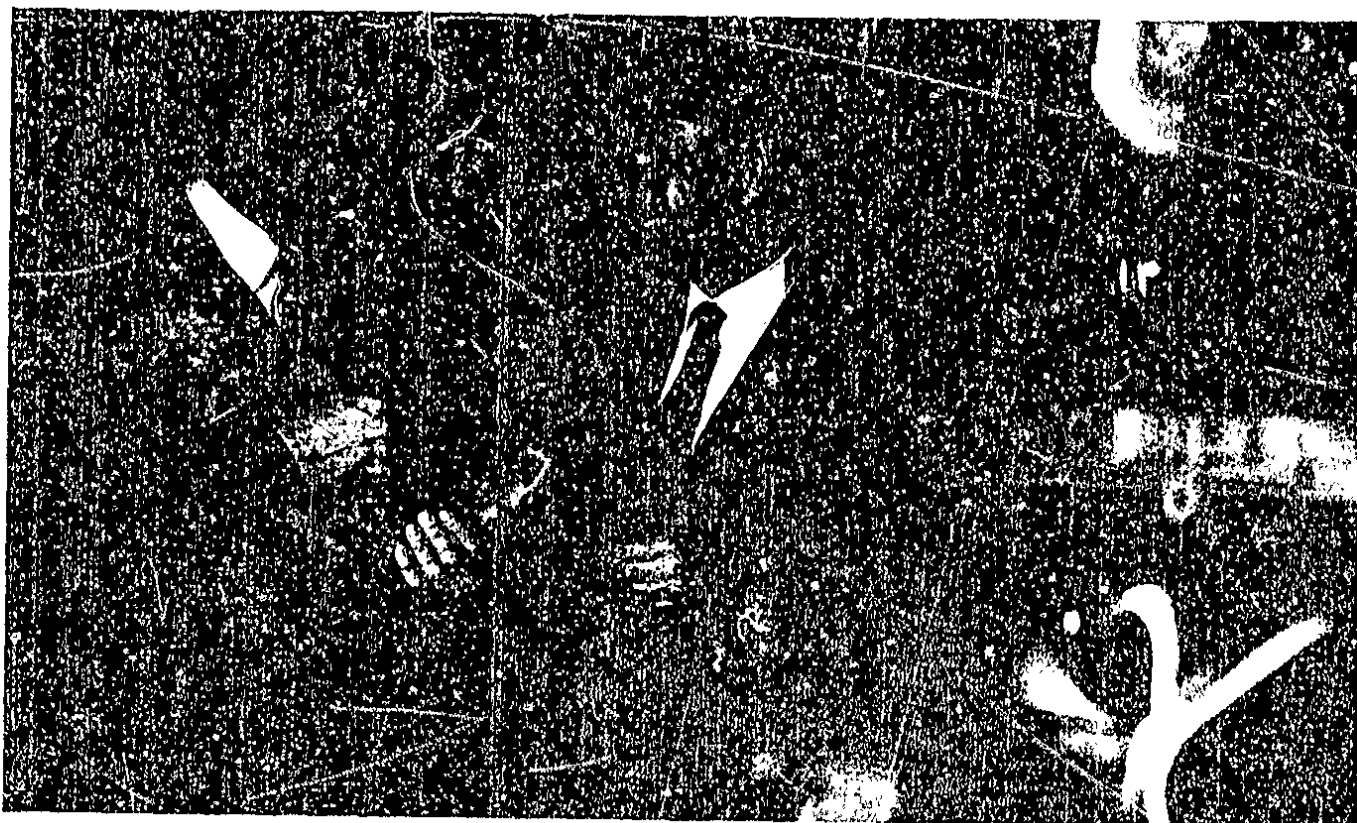
As a result of our acquisition of East Worcester Water, 126 employees joined Severn Trent Water. During the year improved productivity enabled us to reduce the total number of employees by 439 to 6,757, a reduction of 6.1 per cent. This follows a reduction of 459 in 1992/93. Our quality and performance-related pay schemes are now a well-accepted feature of our remuneration packages and are based on achievement rather than activity. We were one of the first water and sewerage companies to introduce successfully a profit related pay scheme, the Severn Trent Enhanced Pay Scheme. As well as producing significant efficiency improvements and cost savings for the company, these schemes also give our employees an added incentive to meet increasingly rigorous targets.

On 21 May 1994 we received from the Director General of Water Services his draft determination of 'K' for the ten year period commencing 1 April 1995. Under the terms of a confidentiality agreement with the regulator, we are prevented from making further comment - even to our shareholders - until the final determination is announced on 28 July 1994.

Waste management services

Biffa, our waste services business, produced a good performance in a market which, in general, remained difficult. Turnover increased by 16.3 per cent to £120.6 million. Operating profit was 18.3 per cent higher at £14.2 million which reflects stringent control of operating costs and the strength of our sales and marketing initiatives.

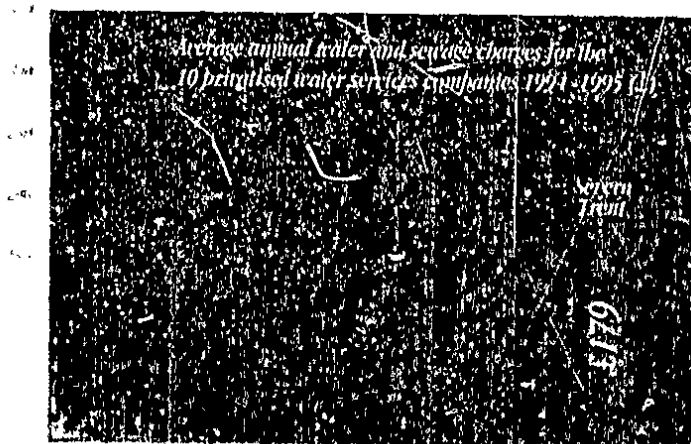
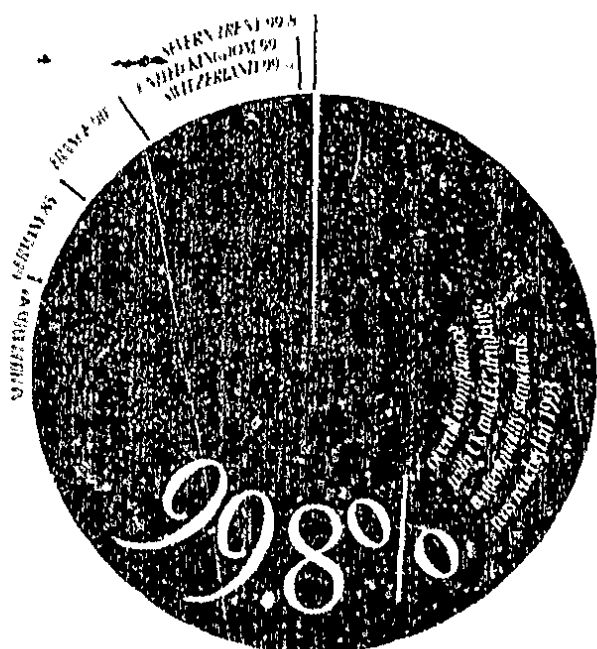
Low cost, high quality supplier



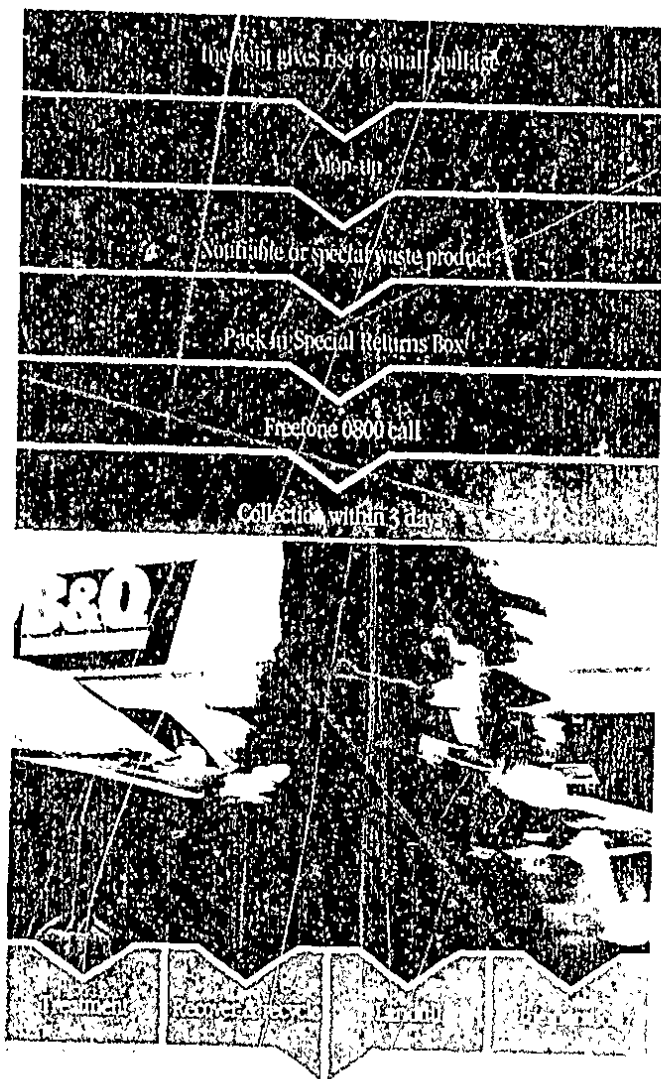
Severn Trent Water is a low cost, high quality supplier. European drinking water standards are the highest in the world and Severn Trent Water's performance is amongst the best in Europe only the United Kingdom and Switzerland attain levels of 99.8% compliance and in 1995 Severn Trent Water achieved 99.8% - a world performance.

Vic Cocker, Managing Director of Severn Trent Water Limited and Deputy Group Chief Executive of Severn Trent Plc with Alex Stephenson, Managing Director of the Power Train Division of Rot er Group. The Longbridge plant of Rot er is a major industrial customer of Severn Trent Water.

The high quality levels are maintained at low cost to the customer. Despite being one of the most profitable water services companies in the UK, Severn Trent Water has the second lowest average charges of the ten companies privatised in 1989. For the average unmetered household, the charge is just 50p per day.



Backtrack



In the Environmental Protection Act 1990, the Duty of Care states that the safe disposal of waste is the responsibility of the originator. This extends even to small consignments, causing expense and time to comply with the law.

Biffa's new Backtrack service takes small waste packages and provides a fast, fully documented disposal service. Consignments are collected from the customer. Biffa selects the appropriate disposal route and provides documentation to ensure compliance with the Act.

The safe disposal of materials which include used engine oil, filters, paint, spillages and fluorescent tubes is increasingly important to many customers, particularly in the retail sector. The Biffa branch and store chain uses Backtrack for small spillages and packages such as here at the branch in Foxley, London.

In the collection division in the UK, volumes increased by 16.0 per cent. We were awarded six new municipal contracts in the latest round of compulsory competitive tendering which brings the total to 23 contracts.

In the landfill division, void usage increased by 16 per cent as five new sites came on stream during the year. Revenues per cubic metre increased by 6 per cent during the year through a combination of price increases and increased efficiency in void usage.

The geographical fit between our collection and landfill operations is improving and will underpin our ability to offer a prompt, reliable and professional service to our customers. Sites were kept operational despite some very wet weather during the last three months of the year which brought tough operational conditions for our landfill teams.

Volumes in special wastes through our liquid treatment plants increased by 25 per cent. However, the special waste operation is affected primarily by changes to the manufacturing base it serves. Whilst revenues remained strong during the first half of the year, they slowed markedly during the second half.

In Belgium, turnover increased by 11.5 per cent to £19.4 million. Operating profit was down by 2.9 per cent to £3.4 million.

The landfill operation produced another good result despite restrictions on the movement of waste within Belgium. The collection and special waste markets were affected by the recession in Belgium. However, our collection activities were strengthened by the acquisition in January 1994 of Cotrans which marked our entry into the municipal market in Belgium. The combined operation puts us in a leading position in the Belgian waste market.

Biffa is already operating to the standards and bearing the costs associated with meeting increased regulatory obligations in the waste sector. We therefore look forward to a uniform enforcement of new legislation.

It is a challenging business opportunity for us as our customers seek environmentally responsible disposal channels for their waste streams, complying with the latest legislation. Biffa has both the expertise and the resources to be able to meet these increasingly sophisticated needs.

International business

Our international water services business, which operates primarily in the North American Free Trade Area and Western Europe, increased its turnover significantly. We have been successful in identifying new opportunities in our target markets and in winning new business. Delays on two major contracts together with continued market development costs resulted in an operating loss for the year of £4.7 million.

Our contract in Mexico to provide water and waste water services to a quarter of Mexico City is now under way having taken more than a year to become operational. The initial phase of the contract, to install 275,000 water meters over a two year period, was given the final go-ahead to start in May 1994.

Similarly, our investment in Island Recycling and Environmental Corporation, a company based in the State of New York which in addition to municipal waste water treatment will convert waste into energy via incineration, has also experienced continued delays in the required permits being granted.

The market development costs for the establishment of a significant presence in the international water and waste water market are substantial. However, we have carefully controlled expenditure and continued to focus our efforts on our chosen markets.

In the USA, the acquisition of AM-TEX and McCullough Environmental Services has helped us to establish an important geographical spread of operations down the eastern seaboard and in the south from Louisiana to Texas. Since the year end we have been successful in winning a £6.2 million contract in Texas.

An increasing portfolio

Biffa's municipal refuse collection and street cleaning contracts increased by six in the latest round of compulsory competitive tendering, bringing the total to twenty-three from Penwith at the tip of Cornwall to Carlisle near the Scottish border

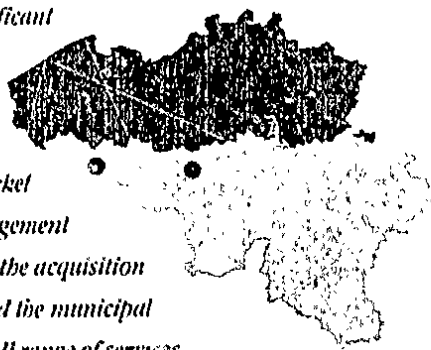
Between them the contracts are worth more than £20 million per annum in this growing market, providing stable income through contracts running from four up to seven years.

Aquafin, the sewerage and sewage treatment company for Flanders in which we have a 20 per cent interest together with a technical co-operation agreement, expanded its operations by taking over responsibility for all 120 existing sewage treatment plants.

In Germany we secured our first operating contract in

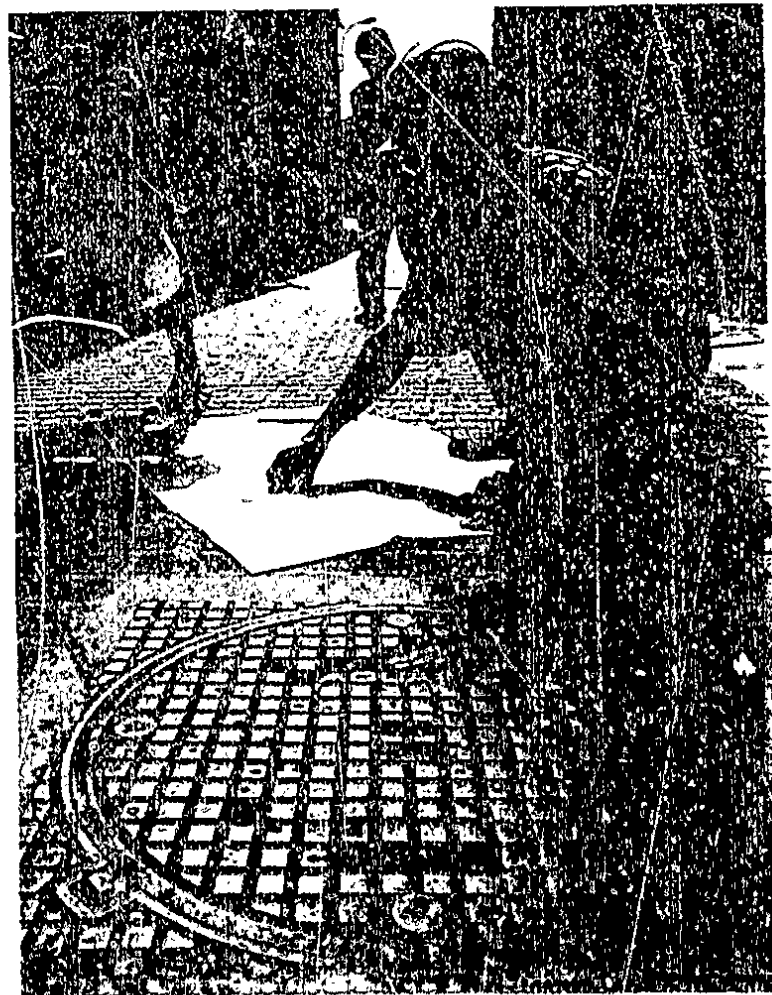
Success in Belgium

Severn Trent has significant and growing interests in Belgium in waste management. Biffa Belgium is now a market leader in waste management services and, through the acquisition of Citrans, has entered the municipal contracts market. A full range of services is provided including landfill and liquid waste disposal



- Biffa activities
- Aquafin activities

Aquafin, in which Severn Trent has a 20 per cent interest, is designing and building sewers and waste water treatment facilities throughout the northern half of Belgium. The latest techniques have enabled contracts to be completed quickly and earlier. An Aquafin Project Engineer is seen inspecting the completed work in the university city of Leuven



Serving Kansas City

A city of almost half a million people in the USA relies on Severn Trent Systems to keep the energy - and the bills - on track.

Kansas City, Missouri is served by Western Resources Inc. for its gas and electricity supplies and the City of Kansas Water and Pollution Control Department for water and sewerage services. Western Resources uses DDM, a computer-based work allocation system developed by Severn Trent Systems. The Water and Pollution Department have installed Systems' CUBIS DB2, a billing and information network maintaining 150,000 customer accounts

association with our German partners. We also continued to assist water services organisations in various parts of the world including Mauritius, Swaziland and Puerto Rico where we were recently awarded a £1.75 million contract to provide management and operational support.

During the last quarter of the year, we restructured Severn Trent Water International to operate on a geographic basis and took steps to reduce overhead costs which has resulted in an operating profit at the start of the current year.

Turnover in Severn Trent Systems increased significantly during the year and the company moved into an encouraging level of profit.

The application of advanced software technology to the customer service process at Severn Trent Water has improved levels of service and efficiency and the collection of accurate performance statistics. The technology played an important role in the successful integration of East Worcester Water into Severn Trent Water's

Chlorine peaks level out

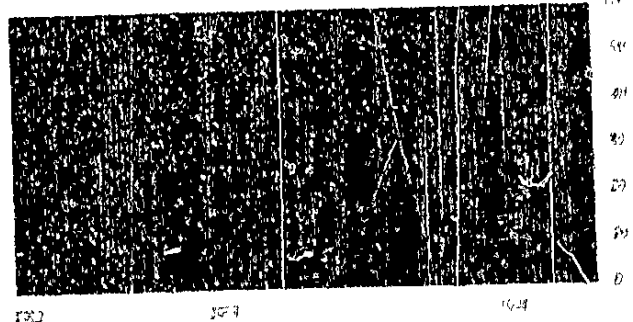


Advanced equipment and improved management means that chlorine variations in drinking water can be controlled more closely.

Maintenance of chlorine in the water distribution system is crucial in the prevention of harmful bacteria. Many customers are sensitive to variations in the level of chlorine, rather than the absolute level.

Severn Trent Water's operators are trained to a high level and are focused on achieving consistency in the level of chlorine leaving treatment works. This coupled with the use of advanced Capital Controls equipment and computer modelling from Stoner Associates, is now reducing complaints on taste from our customers.

The picture shows Alan Jones, Supply Technician and Mick Smith, Process Operator at the Rodway borehole site and treatment works in Shropshire, and the graph profiles chlorine levels at a works showing the impact of the programme



customer accounting system which was improved and updated during the year.

Other organisations, particularly utilities, have recognised that these technological applications are the key to improving customer service and consequently, there are increasing opportunities for us to market our systems expertise elsewhere in the world.

During the year we continued to work with London Electricity to build a multi-functional billing, accounting and management information system. We also won additional contracts to develop systems for utilities in Buenos Aires, Puerto Rico and the USA.

Operating profit in our technology business doubled largely as a result of strong performances from Capital Controls, our chlorine, ozone and ultra-violet disinfection business and Stoner Associates, a market leader in pipework systems modelling. Three of our companies Capital Controls, Aztec and JaBay are now managed as a single business based on a series of product lines which span USA and European markets. These changes enable the product lines to share advances and resources in research and development and to be far more responsive to their respective markets.

The market for purification technology became increasingly competitive during the year, although the instrumentation business benefited from closer association with other technology businesses. Major emphasis was placed on maintaining effective sales channels in the UK and USA and Capital Controls established an important niche as a market leader in disinfection equipment in China. The emphasis on developing and marketing our existing capabilities was matched by cost-reduction programmes which helped to improve profitability alongside sales growth.

Stoner confirmed its leading position in the world market for network modelling by being awarded a major contract as a supplier to the Paris water supply network. Its expertise in simulating fluid flows through large networks is recognised in the water, oil and gas industries.

Our laboratories business, involved primarily with sampling and analysis of water and food products, performed well and increased its business from the industrial sector. Paperflow also produced encouraging results and made good progress in establishing a niche position in the market for advanced customer mailing systems.

Our property business made a small profit for the year reflecting the absence of any significant developments coming on stream. The company does have some exciting prospects but, due to the nature of the property business, the lead times are necessarily long. However the development at Midpoint Park near Birmingham is now almost complete, and its good communications access has attracted some major companies to the site

Teamwork brings results



Investment in customer services at Severn Trent Water draws on expertise from several Group companies. Severn Trent Systems has provided a customer accounts package which has improved access time to correspondence from hours to seconds. Paperflow, a Severn Trent Technology company, handles over nine million bills each year and produces more than 900,000 payment books to help customers pay their bills by instalments.

The average monthly number of written complaints received by the company has dropped by two thirds since the end of 1991. Severn Trent Water's efforts to improve customer service, supported by expertise from within the Group, was recognised by the award of the Government's Charter Mark in 1992.

Funding

The Group's financial position at 31 March 1994 remained strong. Net debt was 26.9 per cent of shareholders' funds and our net interest charge was covered 6.8 times by operating profit. The £153.4 million increase in net debt over the course of the year was smaller than in the previous year in line with the lower, albeit still very substantial, capital investment programme in Severn Trent Water. With a further reduction in the level of capital expenditure planned for 1994/95 in Severn Trent Water, another reduction in the rate of increase in our net borrowings is expected.

The Group's aggregate borrowings and facilities at 31 March 1994 totalled £1,200.7 million, of which £767.9 million were utilised. The Group had cash and short term investments totalling £198.0 million at the year end.

£711.2 million of the total borrowings and facilities are available only to Severn Trent Water: £473.4 million of these facilities were utilised at 31 March 1994. Group policy requires that undrawn committed borrowing facilities should always be available to cover, as a minimum, the anticipated cash requirements of the Group for the following two years.

The maturity profile of the Group's borrowings falling due for repayment after more than one year is detailed in note 15 to the financial statements.

Interest rates and foreign currencies

The Treasury Committee of the Board of Severn Trent Plc determines the Group's policy as regards interest rate and foreign currency risk management.

Many of the Group's assets are of a long term nature. Consequently, to the extent that they are financed with borrowings, it is currently considered appropriate that interest rates on a significant proportion of such debt should either be fixed or if floating, the risk hedged. At 31 March 1994, interest rates on 60.2 per cent of the Group's gross borrowings were either fixed or hedged for periods ranging from 12 months to 6 years.

The Group and its subsidiary companies have invested in various assets located outside the UK and denominated in foreign currencies principally the US dollar and the Belgian franc. At 31 March 1994 the sterling value of assets denominated in foreign currencies exceeded the sterling value of liabilities, including borrowings, in those currencies by £42.8 million. It is currently the Group's policy not to hedge the foreign currency translation risk associated with its net investments overseas. In the year ended 31 March 1994 no recognised but unrealised net gain or loss on the Group's net assets denominated in foreign currencies arose (year ended 31 March 1993 £3.5 million gain).

The business of the Group and its subsidiary companies is transacted predominantly in the local currency of the company concerned. Where foreign currency transaction exposure arises it is Group policy that the exchange risk is at least 70 per cent hedged where the transaction exceeds £25,000 in value.

During the year ended 31 March 1994, the Group's operating activities generated net cash of £441.1 million, of which £426.3 million arose in Severn Trent Water and £18.0 million in Biffa. Expenditure on fixed assets, net of disposal proceeds and grants received, amounted to £337.6 million including £294.5 million in Severn Trent Water and £34.9 million in Biffa. The cash outflow arising from purchase of subsidiary undertakings amounted to £60.0 million, including the payment of £33.4 million by Severn Trent Water in connection with its purchase of East Worcester Water in March 1993. Investments, including loans, in associated undertakings gave rise to cash outflow of £1.9 million.

After payment of net interest charges of £44.0 million, taxation of £21.5 million and net dividends of £66.3 million, the Group had a cash outflow for the year of £96.2 million (year ended 31 March 1993 £181.7 million). This was financed by £2.4 million net proceeds of shares issued, £31.0 million from the maturity of short term deposits, £44.6 million net raised from loans and finance leases and a £12.2 million decrease in cash equivalents.

Developing new markets

The City of Pasadena, Texas has appointed ST Environmental Services (STES) to operate its three waste water treatment plants. STES is now one of the largest private operators of water and waste water treatment plants in the USA.

The Puerto Rico Aqueduct and Sewer Authority is also using Severn Trent's expertise - a programme of organisational and operational improvements is being undertaken with the help of Severn Trent Water International.

Monitoring environmental performance

The Severn Trent environmental policy includes a set of standards or Protocols, and an annual environmental report tracks performance and sets down goals for the future.

An environmental information system has been established to manage the data needed. This uses computer spreadsheets to record statistics such as fleet vehicle mileage, materials recycling and energy consumption

John Broughton, Environmental Support Manager is seen with the system which is used to collate information and measure performance against the targets agreed with external environmental auditors



The capital investment programme in Severn Trent Water is expected to be the major, regular source of cash outflow for the Group for the foreseeable future. We anticipate that this outflow will be financed by cash inflow from operating activities and by further increases in net borrowings.

The Group taxation charge for the year ended 31 March 1994 amounted to £21.2 million (31 March 1993 £22.5 million). The charge was largely comprised of Advance Corporation Tax written off, amounting to £17.7 million (31 March 1993 £21.2 million). Mainstream corporation tax for the year amounted to £1.3 million before double tax relief of £0.2 million and overseas taxation and our share of the taxation charges of associated undertakings totalled £2.4 million.

The Group taxation charge equates to 75 per cent of our profit before taxation. This compares with the UK standard rate of corporation tax of 33 per cent. The principal reasons for the effective tax rate being less than the standard rate are the impact of accelerated capital allowances and other timing differences between taxation and accounting treatment.

Service to the environment

Our commitment to performance measurement is key to our environmental policy. We published our first Environmental Report and Action Plan in January 1993. This was followed by an interim report in November 1993 which recorded the substantial progress we had made in reaching our objectives. Our next report will be published this summer.

The management framework for environmental matters is now in place. This includes both the collection and the verification of data relating to the effects of our activities on the environment. The framework enables us to provide accurate, valuable management information upon which we can base the continuous development of our environmental policy and future improvements.

The Managing Director of each of our businesses is accountable to the Group Chief Executive for environmental matters and is the custodian of our Environmental Protocols. These are the standards we adopt throughout the Group to improve our environmental performance. Our Environmental Training Scheme for managers is well under way and we were pleased to have been a finalist in the ACCA Environmental Awards.



Supporting young enterprise

The photographs in this report have been taken by Deborah Lawrence, a 26 year old freelance photographer from Rochdale, Lancashire.

She was the 1992 winner of the photography category in the European Vision awards, sponsored by Severn Trent Plc and organised in association with the Prince's Trust. Her prize, a month's study in any European country, was spent in Iceland and since winning the competition her talent has been recognised by many new commissions.

Severn Trent is an active supporter of the Prince's Trust and the Prince's Youth Business Trust, helping young people make the fullest contribution to the community.

Service to the community

We continued our theme of 'youth and the community' by establishing, in association with The Prince's Trust, a programme to help young photographers, graphic designers and artists to develop their skills and apply them to the commercial world.

Our system of grants together with a competition entitled European Vision has now helped over 70 young people to further

their career ambitions. This was the second year of the European Vision competition.

We continue to be actively involved with Business in the Community, the Prince's Trust Volunteers Scheme and the Prince's Youth Business Trust together with a number of other community organisations.

Management changes

There were several significant management changes during the year.

John Bellak retired as Chairman on 31 March 1994 and Richard Ireland was appointed non executive Chairman in his place. John Bellak became Chairman of Severn Trent Water Authority in 1983 and subsequently played a key role in preparing the company for privatisation in 1989 and in its development as a leading water and waste business. The Board wishes to place on record its thanks to John for the contribution he has made over the years.

Vic Cocker, Managing Director of Severn Trent Water Limited became Deputy Group Chief Executive and, as a consequence, there were a number of changes in the senior management of Severn Trent Water including the appointment of Alan Costin as Director of Finance in addition to his responsibilities as Group Finance Director and Brian Duckworth, formerly Director of Finance and Regulation, as Customer Service Director.

Sir Richard Baker Wilbraham has decided to retire from the Board at the conclusion of the Annual General Meeting. Sir Richard's expertise will be much missed and we thank him most sincerely for the wise counsel he has given us over the years.

Allen Lloyd, Executive Chairman and founder of Lloyds Chemists Plc was appointed to the Board as a non executive Director on 27 May 1994.

We have made good progress in raising performance standards in order to produce higher levels of service throughout the Group. In many cases this has meant changing our working methods, our traditions and our attitudes. Our service record is proof that we can respond positively to these challenges and the Board extends both its thanks and its appreciation to the employees of the Severn Trent Group for their enthusiasm, commitment and desire to succeed.

Richard Ireland Chairman

Richard Paul Director of Finance

The Board

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

Richard Ireland BSc (60)

Mr Ireland joined the Board in 1989 and was appointed Deputy Chairman in December 1992. He became non executive Chairman on 31 March 1994. He is a Trustee Director of the Severn Trent Pension Schemes. Mr Ireland is Group Finance Director of Wolsley Plc, a non executive Director of Schroder UK Growth Fund plc and a Council Member of the Birmingham Chamber of Industry and Commerce.

Roderick S Paul MA FCA (59)

Group Chief Executive and appointed to the Board in 1988, Mr Paul is 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. Mr Paul is also the Chairman of British Water and a non executive Director of Clyde Petroleum plc.

Victor Cocker BA (Econ) FIVEM (53)

Deputy Group Chief Executive of Severn Trent Plc and Managing Director of Severn Trent Water Limited, Mr Cocker was appointed to the Board in 1988. Mr Cocker joined Severn Trent in 1974, specialising in regulatory planning and marketing functions.

Michael P Upstone BSc C Eng DICB FIVEM (59)

Mr Upstone was appointed to the Board in January 1991 and is Deputy Managing Director of Severn Trent Water Limited. Mr Upstone has been with Severn Trent since its formation and has over thirty years' water industry management experience.

Alan Costin FCA (51)

Group Finance Director since May 1992 and Director of Finance of Severn Trent Water Limited since April 1994, Mr Costin is also a Trustee Director of the Severn Trent Pension Schemes. A Chartered Accountant with many years' experience, Mr Costin was previously Finance Director of Lex Service Plc.

Board Committee
Chairman of the Board

Charitable Contributions Committee
Chairman: R S Paul

Remuneration Committee
Chairman: R S Paul

Charitable Committee
Chairman: R S Paul

- Executives
- Non executives

Clare Tritton BA QC (58)

Mrs Tritton joined the Board in November 1991 and is also a Trustee Director of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law and serves on the Monopolies and Mergers Commission.

Andrew H Simon OBE BSc MBA (49)

Mr Simon joined the Board in October 1986. He was formerly Chairman of the Evode Group Plc and is now a non executive Director of Laporte Plc, Ibstock P.L.C., Philip Harris plc and E.R.F. (Holdings) plc.

Sir Richard Baker Wilbraham Bt DL (60)

Sir Richard was appointed to the Board in 1989. Sir Richard is also Chairman of the Trustee Boards of the Severn Trent Pension Schemes. He is the Chairman of the Bibby Line Group, Deputy Chairman of Grosvenor Estate Holdings and Brixton Estate Plc and a Director of other companies. Sir Richard is also a Church Commissioner.

Roger J Boissier CBE (64)

Mr Boissier was appointed to the Board in October 1986. He is Chairman of Pressac Holdings Plc and Kalon Group Plc, and a Director of British Gas Plc, T & N Plc and other companies.

Mr Lloyd Williams CBE FRCGS (55)

Mr Lloyd joined the Board in May 1994. In 1973 he founded Lloyds Chemists. The company was listed on the London Stock Exchange in 1986 and Mr Lloyd is the executive Chairman of Lloyds Chemists Plc. He is a member of the Pharmaceutical Services Negotiating Committee and the Midlands Industrial Council.

Company secretary: D W Mattin FCCA

Treasury Committee
Chairman: R S Paul

Investment Committee
Chairman: R S Paul

Nominations Committee
Chairman: R S Paul

Directors report

The Directors present their Report, together with the audited financial statements for the year ended 31 March 1994.

Principal activities

The principal activities of the Group continued to be 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 2 to 12.

A list of the principal operating subsidiary and associated undertakings of the Group at 31 March 1994 appears in note 23 to the financial statements on pages 38 and 39.

Dividends and reserves

Details of dividends paid and proposed are set out in note 7 on page 28. Subject to approval at the Annual General Meeting, the recommended final dividend of 15.2p for each Ordinary Share will be paid on 3 October 1994 to shareholders on the register at the close of business on 8 July 1994.

Proposed transfers to reserves are set out in note 18 to the financial statements on page 35.

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 1994.

Acquisitions

During the year the Group made a number of acquisitions, details of which are provided under notes 21 and 23 to the financial statements on pages 36, 38 and 39.

Post balance sheet events

On 21 May 1994 we received from the Director General of Water Services his draft determination of 'K' for the ten year period commencing 1 April 1995. Under the terms of a confidentiality agreement with the regulator, we are prevented from making further comment - even to our shareholders - until the final determination is announced on 28 July 1994.

Directors

Details of the current Directors are shown on page 13.

Mr A W Henn and Mr T C Heywood-Lonsdale retired as Directors on 28 July 1993. Mr J G Bellak retired on 31 March 1994 and Mr R Ireland became non executive Chairman on that date. Mr A Lloyd was appointed a Director on 27 May 1994. Having been appointed since the last Annual General Meeting, Mr Lloyd retires from the Board in accordance with the Articles of Association and, being eligible, offers himself for reappointment. Sir Richard Baker Wilbraham and Mr V Cocker retire from the Board by rotation. Sir Richard will not be offering himself for reappointment, and Mr Cocker being eligible offers himself for reappointment. Mr Cocker has a Service Contract with the Company which provides for not less than three years' written notice of termination by the Company and not less than 12 months' written notice of termination by the Director.

Mr Lloyd does not have a Service Contract with the Company although he has been appointed for a three year period, subject to reappointment by rotation as appropriate, which terminates on 26 May 1997.

The Directors of the Company at 31 March 1994 and their interests in the shares of the Company were as follows:

	Beneficial holdings in Ordinary Shares			Options granted to Directors	
	as at 1 April 1993	as at 31 March 1994	as at 31 March 1994	as at 1 April 1993	as at 31 March 1994
R S Paul	40,434	11,562	11,982	69,746	69,746
V Cocker	9,525	9,785	9,849	52,677	13,307
R A S Costin	-	892	892	58,350	18,560
M P Upstone	7,505	7,597	7,683	11,642	11,642
Sir Richard Baker Wilbraham	5,000	5,000	5,000	-	-
R H Boissier	990	1,055	1,017	-	-
R Ireland	1,000	1,000	1,012	-	-
A H Simon	5,060	5,060	5,060	-	-
C Tritton	1,500	2,365	2,381	-	-

Options have been granted in accordance with the Severn Trent Executive Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate. No options were exercised by Directors during the year. There was no change in the number of options held by Directors between the year end and 2 June 1994. Details of prices and periods during which options are exercisable can be found in note 17 to the financial statements on page 34. 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.

The changes in tangible fixed assets during the year are shown in note 9 to the financial statements on pages 29 and 30.

Share capital

Details of movements in share capital are shown in note 17 to the financial statements on page 34.

At an Extraordinary General Meeting of the Company in November 1989 shareholders passed a resolution granting Directors authority to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) of the Company for a period of five years. This authority will expire in November 1994. Accordingly shareholders will be asked to renew this authority at the Annual General Meeting this year to expire five years from the passing of the resolution granting the authority or, if earlier, at the conclusion of the Annual General Meeting of the Company in 1999. The ordinary resolution is set out in full in the Notice of Meeting which accompanies the Report and Accounts. If passed, the resolution will authorise the Directors to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to a maximum aggregate nominal value of £175,645,917 being 32% of the ordinary share capital in issue as at 3 June 1994 (or if less, the amount of the authorised but unissued ordinary share capital as at the date of the passing of the resolution). The Directors have no present intention of exercising the authority except to satisfy elections by shareholders to receive dividends in the form of shares instead of cash.

Subject to the passing of the resolution authorising Directors to allot relevant securities as outlined above 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 1995 to allot shares for cash in connection with a rights issue, and generally up to a specified aggregate nominal value. The special resolution is set out in Part I of the Notice of Meeting which accompanies the Report and Accounts.

Research and development

Severn Trent's research and development programme is focused on identifying emerging technologies which have the potential to assist in the achievement of ever-increasing regulatory standards and/or will provide the Group with real cost savings through their application. The aim in developing these technologies is to produce robust practical solutions that will find widespread application, both within the Group and in the outside world. In 1993/94, the Group spent £8.3 million compared to a spend of £8.2 million in 1992/93 on its research and development programme.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £171,137 (1993: £158,191). No political donations were made during the year.

Employees

The Group employed 10,770 people (1993: 10,539) on 31 March 1994, of which 6,757 (1993: 7,070) were employed by Severn Trent Water Limited. The number of employees working in the United States increased by over 350 with the acquisition of AM-TEX and McCullough. The former employees of East Worcester Water Plc were successfully integrated into Severn Trent Water Limited.

A Profit Related Pay Scheme was implemented throughout the Group with 98% of employees participating in the Scheme. Training and assessment of operators and craftsmen, leading to NVQ qualifications, has been a major activity area in Severn Trent Water Limited along with Supervisory Development. We also continue to run BTEC programmes 'in-house' for managers.

Internal communication channels - involving our in-house newspaper, team meetings, employees' evening, conferences, special exercises and well established consultative arrangements - contribute to keeping our staff aware of our progress and development within the Group.

Severn Trent Water Limited undertook an internal communications survey involving over 1,500 employees, seeking their views on the internal communication process. The Group remains committed to equal opportunities for all employees and potential employees irrespective of sex, race, religion, marital status or disability.

Disabled persons

Our policy of employing disabled people wherever possible has been in existence for many years and we encourage any existing employees who become disabled to remain within the Group.

Health and safety at work

The Severn Trent Group continues to see a steady improvement in its Health and Safety record, with Severn Trent Water Limited receiving, for the fifth year in succession, the British Safety Council's award and Biffa Waste Services given 'Five Star Status' after an audit by the same body. Throughout the Group the principles laid down by the Health and Safety Executive of effective safety management are being systematically applied

and we are confident that this, together with a more widespread use of risk assessment, will lead to future improvements.

Substantial shareholdings

During the year the Company was informed that, following the coming into force of The Disclosure of Interests in Shares (Amendment) Regulations 1993, neither Barclays Bank Plc and its subsidiaries nor Sun Life Group (formerly Rockleigh Corporation Plc) had a notifiable interest in the issued share capital of the Company.

As at 2 June 1994 the Company had not been informed of any substantial shareholding in its 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.

Corporate governance

Following the introduction of the Cadbury Report on the financial aspects of corporate governance, the Directors have examined their compliance with the Code of Best Practice.

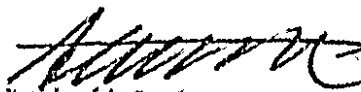
The Directors are able to report that the Company complies with the Code.

Two matters raised in the Cadbury Report, namely the precise criteria for assessing the adequacy of internal controls and the going concern status of the business are currently being considered by the accountancy profession. Once the accountancy profession has reached a consensus on how best to comply with the Code, the Directors will report accordingly.

The Company's auditors, Price Waterhouse, have reviewed the Company's compliance with the specific matters in the Code which the London Stock Exchange requires that the auditors should review. They have reported to the Board that they are of the opinion that it is appropriate for the Directors to make the statement that the Company complies with those aspects of the Code.

Auditors

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



By order of the Board

D.W. Martin Secretary

13 June 1994

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 results 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

29 July 1994 at the International Convention Centre, Birmingham

Advisors

Auditors

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

Solicitors

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

Merchant Bankers

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

Registrars

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

Stockbrokers

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

UBS Limited

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

Severn Trent Plc

Registered No. 2366619
Registered office:
2308 Coventry Road
Birmingham B26 3JZ
Telephone: 021-722 6000

Company Secretary
David W Martin FCCA

Directors' responsibilities in relation to the financial statements

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

The Directors consider that in preparing the financial statements on pages 18 to 39, the Company has used appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates, and that all Accounting Standards which they consider to be applicable have been followed.

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

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

Financial statements

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Report of the auditors to the shareholders of Severn Trent Plc

We have audited the financial statements on pages 18 to 39 which have been prepared under the historical cost convention and the accounting policies set out on pages 22 to 24.

Respective responsibilities of Directors and auditors

As described on page 16 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

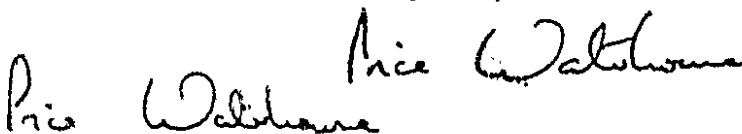
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 1994 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

Chartered Accountants and Registered Auditors

Cornwall Court

19 Cornwall Street

Birmingham B3 2DT

13 June 1994



Group profit and loss account

Year ended 31 March 1994		1994		1993	
	Notes	£m	£m	£m	£m
Turnover					
Continuing operations		979.8		904.6	
Acquisitions		18.2		-	
Total turnover	2		998.0		904.6
Operating costs			(668.7)		(606.5)
Operating profit before share of results of associated undertakings	3		329.3		298.1
Share of results of associated undertakings			0.4		0.9
Operating profit					
Continuing operations		328.9		299.0	
Acquisitions		0.8		-	
Total operating profit	2		329.7		299.0
Net interest payable	5		(48.3)		(28.9)
Profit on ordinary activities before taxation			281.4		270.1
Taxation on profit on ordinary activities	6		(21.2)		(22.5)
Profit for the financial year			260.2		247.6
Dividends	7		(81.7)		(75.1)
Retained profit for the financial year	18		178.5		172.5
<hr/>					
Earnings per share	8		72.7p		69.9p

Balance sheets

At 31 March 1994

		Group		Company	
	Notes	1994 £m	1993 £m	1994 £m	1993 £m
Fixed assets					
Tangible assets	9	3,002.3	2,694.2	7.7	7.7
Investments	10	27.4	29.6	1,331.3	1,287.0
		3,029.7	2,723.8	1,339.0	1,294.7
Current assets					
Stocks	11	23.8	24.7	-	-
Debtors	12	191.7	165.2	9.4	20.6
Short term deposits and investments	13	180.7	240.6	172.3	230.3
Cash at bank and in hand		17.3	5.9	-	0.5
		413.5	436.4	181.7	251.4
Creditors: amounts falling due within one year	14	(422.8)	(446.1)	(162.1)	(221.6)
Net current (liabilities)/assets		(9.3)	(9.7)	19.6	29.8
Total assets less current liabilities		3,020.4	2,714.1	1,358.6	1,324.5
Creditors: amounts falling due after more than one year	15	(805.8)	(663.9)	(278.0)	(277.7)
Provisions for liabilities and charges	16	(75.0)	(70.0)	-	-
Net assets		2,139.6	1,980.2	1,080.6	1,046.8
Capital and reserves					
Called up share capital	17	358.9	356.1	358.9	356.1
Share premium	18	3.1	3.5	3.1	3.5
Profit and loss account	18	1,777.4	1,620.2	718.6	687.2
Shareholders' funds		2,139.4	1,979.8	1,080.6	1,046.8
Minority shareholders' interest		0.2	0.4	-	-
		2,139.6	1,980.2	1,080.6	1,046.8

Signed on behalf of the Board who approved the accounts on 13 June 1994.

R Ireland *Chairman*

R A S Costin *Group Finance Director*

Group cash flow statement

Year ended 31 March 1994

		1994		1993	
	Notes	£m	£m	£m	£m
Net cash inflow from operating activities	22a		441.1		355.3
Returns on investments and servicing of finance					
Interest received		11.2		44.4	
Interest paid		(51.7)		(57.3)	
Interest element of finance lease rental payments		(3.5)		(5.9)	
Dividends received		0.3		0.2	
Dividends paid		(66.6)		(65.6)	
Net cash outflow from returns on investments and servicing of finance			(110.3)		(84.2)
Tax paid			(21.5)		(23.2)
Investing activities					
Purchase of tangible fixed assets		(371.0)		(451.9)	
Grants received		24.5		23.6	
Investment in associated undertakings		(2.9)		(8.8)	
Sale of associated undertakings		1.0		-	
Loans advanced to associated undertakings		(4.4)		(0.9)	
Loans repaid by associated undertakings		4.4		-	
Purchase of subsidiary undertakings	22b	(60.0)		(2.5)	
Sale of tangible fixed assets		8.9		10.9	
Net cash outflow from investing activities			(399.5)		(429.6)
Net cash outflow before financing			(90.2)		(181.7)
Financing					
Maturity of short term deposits		31.0		197.1	
Loans advanced		63.0		100.9	
Loans repaid		(4.0)		(1.5)	
Finance lease capital repaid		(14.4)		(11.4)	
Shares issued net of expenses		2.4		3.8	
Net cash inflow from financing	22c		78.0		288.9
(Decrease)/increase in cash and cash equivalents	22d		(12.2)		107.2

Reconciliation of net debt movement with cash outflow

		1994	1993
	Notes	£m	£m
Net cash outflow before financing (as above)		90.2	181.7
Shares issued net of expenses (as above)		(2.4)	(3.8)
Loans and finance lease obligations of subsidiary undertakings acquired during the year	22c	2.7	5.8
Inception of finance lease contracts	22c	62.7	69.1
Exchange adjustments	22c	0.2	-
Increase in net debt	22f	153.4	252.8

Statement of total recognised gains and losses

Year ended 31 March 1994	1994 £m	1993 £m
Profit for the financial year	260.2	247.6
Currency translation differences	-	3.5
Total recognised gains and losses for the year	260.2	251.1

The Company had no recognised gains or losses other than the profit for the year.

Comparative figures for the above statement have been amended to exclude expenses on issue of shares. Accordingly, proceeds of shares issued are shown net of expenses in the reconciliation of movements in shareholders' funds below.

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 shareholders' funds

	Notes	1994 £m	1993 £m
Profit for the financial year		260.2	247.6
Dividends		(81.7)	(75.1)
		178.5	172.5
Other recognised gains and losses relating to the year		-	3.5
Shares issued (net of expenses)	17	2.4	3.8
Scrip dividend	18	8.5	2.7
Goodwill written off	18	(30.6)	(32.7)
Transfer on acquisition of an associated undertaking as a subsidiary undertaking	18	0.8	-
Net addition to shareholders' funds		159.6	149.8
Shareholders' funds at 1 April 1993		1,979.8	1,830.0
Shareholders' funds at 31 March 1994		2,139.4	1,979.8

Notes to the financial statements

Year ended 31 March 1994

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 per cent or more and the Company exercises significant influence.

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 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 charged 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 £82.2 million lower than it would otherwise have been (1993: £61.8 million).

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 the lower of cost and net realisable value. Cost includes the cost of acquiring and developing the sites.

i Landfill restoration costs

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

j Environmental control and aftercare costs

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

k Pension costs

Pension costs are determined by an independent actuary so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives with the Group.

Notes to the financial statements

1 Accounting policies (continued)

1 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	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Turnover						
Water and sewerage services	787.5	739.8	-	-	787.5	739.8
Waste management	101.2	86.3	19.4	17.4	120.6	103.7
Related businesses	38.5	34.2	51.4	26.9	89.9	61.1
	927.2	860.3	70.8	44.3	998.0	904.6
Operating profit						
Water and sewerage services	324.6	293.0	-	-	324.6	293.0
Waste management	10.8	8.5	3.4	3.5	14.2	12.0
Related businesses	0.9	1.1	(1.6)	0.3	(0.7)	1.4
	336.3	302.6	1.8	3.8	338.1	306.4
Corporate overheads					(8.4)	(7.4)
					329.7	299.0

Details of the principal operating subsidiaries by type of business are set out in note 23.

Turnover by origin and destination does not differ materially. Turnover between business segments is not material.

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

	United Kingdom		Other - principally Europe and USA		Group	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Water and sewerage services	2,673.3	2,394.4	-	-	2,673.3	2,394.4
Waste management	83.6	60.2	12.9	4.2	96.5	64.4
Related businesses	14.7	13.1	34.9	29.9	49.6	43.0
Net operating assets	2,771.6	2,467.7	47.8	34.1	2,819.4	2,501.8
Short term deposits and investments, cash, borrowings, obligations under finance leases, taxation balances and dividends payable					(679.8)	(521.6)
					2,139.6	1,980.2

3 Operating profit	1994	1993
Operating profit is stated after charging/(crediting):	£m	£m
Employee costs (note 4)	194.3	173.2
Infrastructure renewals charge (note 16a)	72.3	69.8
Depreciation (note 9)	94.6	82.3
Environmental and landfill restoration costs (note 16a)	1.4	2.1
Operating lease payments - land and buildings	2.7	2.3
- other	2.8	4.1
Hire of plant and machinery	2.6	2.7
Research and development expenditure	8.3	8.2
Audit fees	0.5	0.4
Profit on disposal of fixed assets	(3.9)	(5.1)
Fees paid to Price Waterhouse:	1994	1993
	£'000	£'000
Audit fees	449	433
Regulatory fees - UK	152	26
Taxation fees - UK	68	182
Other fees - UK	86	274
	755	915
Charged to capital	(9)	(57)
Charged to profit and loss account	746	858

Included in the audit fee above is £42,000 (1993: £38,000) in respect of the Company.

1 Information regarding Directors and employees	1994	1993
Directors:	£'000	£'000
Fees	115.8	142.5
Emoluments including pension contributions	1,076.8	927.1
Performance payments	127.6	95.6
	1,320.2	1,165.2

Details of the emoluments of the Chairman and the highest paid Director are as follows:

	Chairman		Highest paid Director	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Fees	-	-	-	-
Emoluments including benefits in kind	165.2	156.7	181.2	170.8
Performance payments	8.4	22.6	36.9	24.6
Emoluments excluding pension contributions	173.6	179.3	218.1	195.4
Pension contributions	56.7	48.9	83.9	75.1
Emoluments including pension contributions	230.3	228.2	302.0	270.5

In addition to the amounts disclosed above, since the year end the former Chairman has received £404,829 compensation for early termination of his service contract and an amount of £107,797 has been paid in relation to future pension contributions.

4 Information regarding Directors and employees (continued)

Emoluments (excluding pension contributions) of the Directors of the Company, other than the Chairman and the highest paid Director were within the following bands:

	1994 No.	1993 No.
£ 5,001 - 10,000	2	-
£ 20,001 - 25,000	3	7
£ 30,001 - 35,000	1	-
£ 40,001 - 45,000	1	-
£105,001 - 110,000	-	1
£125,001 - 130,000	1	-
£140,001 - 145,000	-	1
£150,001 - 155,000	-	1
£180,001 - 185,000	2	-

- i The executive Directors' salaries, performance payments and granting of share options 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 profit and earnings per share targets and levels of service, water supply and sewerage quality targets set by external regulators.
- ii The Company has a future obligation in respect of Mr RA S 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. The amount charged to the profit and loss account in respect of this future obligation is £37,364 (1993: £25,656).
- iii Included within the Directors' emoluments above is an amount of £41,875 (1993: £20,416) paid to a third party for making available the services of one of the non executive Directors. This amount relates to fees of £22,500 (1993: £20,416) and emoluments of £19,375 (1993: £nil)
- 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 14.

Employees:	1994 £m	1993 £m
Wages and salaries	195.6	182.1
Social security costs	18.2	15.7
Pension costs (note 20)	12.3	11.2
	226.1	209.0

Charged as follows:

Capital and infrastructure renewals	31.8	35.8
Operating costs (note 3)	194.3	173.2
	226.1	209.0

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

By type of business:	1994 No	1993 No
Water and sewerage services	6,954	7,445
Waste management	1,955	1,827
Related businesses	1,874	1,247
	10,783	10,519

By geographical location:

United Kingdom	9,849	9,967
Other - principally Europe and USA	934	552
	10,783	10,519

Notes to the financial statements

5 Net interest payable

	1994 £m	1993 £m
Interest receivable		
Interest payable:	14.5	29.9
Bank loans, overdrafts and other loans repayable within five years	(14.0)	(9.8)
Loans repayable after more than five years	(39.9)	(43.0)
Finance leases	(8.9)	(5.0)
	(48.3)	(28.9)

6 Taxation on profit on ordinary activities

	1994 £m	1993 £m
UK corporation tax at 33%		
Double taxation relief	1.3	-
Overseas taxation	(0.2)	-
Share of taxation charges of associated undertakings	0.9	0.6
Advance corporation tax - current year	1.5	0.7
- prior year	19.5	22.1
	(1.8)	(0.9)
	21.2	22.5

The corporation tax charge for the year has been reduced by the excess of capital allowances over depreciation. If the full potential liability to deferred taxation had been provided on an ongoing basis, an additional charge to taxation of £65.8 million (1993: £64.2 million) would have arisen during the year.

At 31 March 1994, the Group had tax losses of approximately £113.0 million (1993: £110.0 million) which will be available for offset primarily against future trading profits of Severn Trent Water Limited.

7 Dividends

	1994		1993	
	Pence Per Share	£m	Pence Per Share	£m
Interim dividend declared	7.55	27.1	7.0	24.8
Final dividend proposed	15.20	54.6	14.1	50.3
	22.75	81.7	21.1	75.1

8 Earnings per share

Earnings per Ordinary Share are calculated on the net basis on earnings of £260.2 million (1993: £247.6 million) divided by 3579 million Ordinary Shares, being the average number of shares in issue during the year (1993: 3543 million).

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

9 Tangible assets

				Group	Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
Cost					
Balance 1 April 1993	1,085.1	1,209.2	939.7	3,234.0	8.0
Additions	130.1	105.8	188.4	424.3	0.3
Acquired with subsidiaries	1.0	-	8.5	9.5	-
Grants and contributions	-	(20.4)	-	(20.4)	-
Disposals	(4.4)	-	(20.5)	(24.9)	-
Exchange adjustments	(0.1)	-	0.1	-	-
Balance 31 March 1994	1,211.7	1,294.6	1,116.2	3,622.5	8.3
Depreciation					
Balance 1 April 1993	288.3	-	251.5	539.8	0.3
Charge for year	23.7	-	70.9	94.6	0.3
Acquired with subsidiaries	0.1	-	4.9	5.0	-
Disposals	(1.8)	-	(17.4)	(19.2)	-
Balance 31 March 1994	310.3	-	309.9	620.2	0.6
Net book value					
At 31 March 1994	901.4	1,294.6	806.3	3,002.3	7.7
At 31 March 1993	796.8	1,209.2	688.2	2,694.2	7.7

i Included in tangible fixed assets are assets held under finance leases as follows:

	1994 £m	1993 £m
Cost	189.1	133.9
Accumulated depreciation	(38.4)	(31.6)
Net book value	150.7	102.3

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:

	1994 £m	1993 £m
Freehold	892.9	792.4
Long leasehold	3.1	2.5
Short leasehold	5.4	1.9
Total	901.4	796.8

iv The net book value of land and buildings includes £2.9 million (1993: £33.6 million) in respect of landfill sites.

9 Tangible assets (continued)

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

	1994 £m	1993 £m
On owned assets	87.5	77.2
On assets held under finance leases	7.1	5.1
	94.6	82.3

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

	1994 £m	1993 £m
Land	21.0	21.4
Infrastructure assets	1,294.6	1,209.2
Assets in the course of construction	412.8	487.2
	1,728.4	1,717.8

vii At both 31 March 1994 and 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 with a net book value of £1.3 million.

10 Investments

Group	Shares	Loans	Associated undertakings Share of retained earnings	Other investments	Total
	£m	£m	£m	£m	£m
At 1 April 1993	17.6	10.2	1.4	0.4	29.6
Transfer on acquisition as a subsidiary	(0.1)	(2.8)	0.8	-	(2.1)
Additions	2.9	-	(1.1)	-	1.8
Acquired with subsidiary undertakings	0.2	-	-	-	0.2
Disposals	(0.2)	-	(0.8)	-	(1.0)
Provisions	-	(0.5)	-	-	(0.5)
Dividends received	-	-	(0.3)	-	(0.3)
Currency translation differences	(0.3)	-	-	-	(0.3)
At 31 March 1994	20.1	6.9	-	0.4	27.4
Company		Subsidiary undertakings	Associated undertakings	Other investments	Total
	Shares £m	Loans £m	Shares £m	£m	£m
At 1 April 1993	1,216.6	69.4	0.8	0.2	1,287.0
Additions	2.5	41.8	-	-	44.3
At 31 March 1994	1,219.1	111.2	0.8	0.2	1,331.3

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

11 Stocks

Group

	1994 £m	1993 £m
Stocks and work in progress	11.9	14.6
Development land and properties	11.9	10.1
	23.8	24.7

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

12 Debtors

Group

Company

	1994 £m	1993 £m	1994 £m	1993 £m
Trade debtors	104.3	102.3	-	-
Amounts owed by Group undertakings	-	-	7.7	18.7
Amounts owed by associated undertakings	7.4	-	-	-
Overseas taxation recoverable	0.5	0.2	-	-
Other debtors	11.9	12.4	-	-
Prepayments and accrued income	67.6	50.3	1.7	1.9
	191.7	165.2	9.4	20.6

Debtors include £4.0 million (1993: £4.5 million) which falls due after more than one year.

13 Short term deposits and investments

Group

Company

	1994 £m	1993 £m	1994 £m	1993 £m
Investments listed on a recognised stock exchange	4.1	-	-	-
Unlisted investments	0.2	-	-	-
Short term deposits	176.4	240.6	172.3	230.3
	180.7	240.6	172.3	230.3

14 Creditors: amounts falling due within one year

	Group		Company	
	1991 £m	1993 £m	1994 £m	1993 £m
Debentures (unsecured)	1.9	0.5	-	-
Bank loans, overdrafts and temporary borrowings	14.4	48.2	40.5	106.2
Other loans	1.0	0.7	-	-
Obligations under finance leases (note 19c)	13.8	10.3	-	-
Trade creditors	46.9	53.3	0.1	0.1
Amounts owed to Group undertakings	-	-	1.4	0.7
Other creditors	9.6	9.2	2.4	1.7
Taxation and social security	9.3	8.0	-	-
Advance corporation tax payable	19.8	22.1	19.8	22.1
Corporation tax payable	3.0	2.2	-	-
Dividends payable	81.7	75.1	81.7	75.1
Purchase consideration for East Worcester Water Plc	-	33.4	-	-
Deferred credits	2.5	1.9	-	-
Accruals and deferred income	218.9	181.2	16.2	15.7
	422.8	446.1	162.1	221.6

15 Creditors: amounts falling due after more than one year

	Rate of interest %	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
European Investment Bank loans - 1996-2003	5.0-10.9	297.6	215.9	-	-
Local authority loans - 1995-2035	6.9-9.9	15.8	16.2	-	-
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	0.1	-	-
Other loans	9.0	11.4	0.5	-	-
		600.0	511.3	275.0	275.0
Obligations under finance leases (note 19c)		142.7	97.9	-	-
Deferred credits		50.1	39.5	-	-
Other		13.0	15.2	3.0	2.7
		805.8	663.9	278.0	277.7

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

Loans outstanding are repayable as follows :

	Group	
	1994 £m	1993 £m
Between one and two years	3.5	5.7
Between two and five years	170.9	58.1
After five years - by instalment	52.6	49.5
- other than by instalment	373.0	398.0
	600.0	511.3
Repayable by instalment any one of which is due for repayment after five years	72.6	63.2

16 Provisions for liabilities and charges	Balance at 1 April 1993 £m	Charged to profit & loss account £m	Exchange adjustments £m	Utilised £m	Balance at 31 March 1994 £m
a Provisions comprise:					
Infrastructure renewals	39.7	72.3	-	(60.4)	51.6
Environmental and landfill restoration	18.7	1.4	(0.1)	(3.1)	16.9
Reorganisation and other	11.6	2.0	-	(7.1)	6.5
	70.0	75.7	(0.1)	(70.6)	75.0

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £4.7 million (1993: £3.2 million).

Acquisition provisions included above are analysed as follows:

	£m
At 1 April 1993	23.1
Utilised	(5.3)
Exchange adjustments	(0.1)
At 31 March 1994	17.7

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

b Potential deferred taxation liabilities not provided:	1994 £m	1993 £m
Capital allowances	501.6	423.8
Other timing differences	(28.1)	(34.8)
Available tax losses	(37.3)	(36.3)
Advance corporation tax not immediately recoverable	(93.9)	(76.2)
	342.3	276.5

Comparative figures have been restated to take account of computations submitted to the relevant tax authorities.

17 Called up share capital	1994	1993
Authorised:	£m	£m
475,000,000 Ordinary Shares of £1	475.0	475.0
One Special Rights Redeemable Share of £1		
<hr/>		
Issued and fully paid:	1994	1993
	£m	£m
358,897,181 Ordinary Shares of £1 (1993: 356,093,377)	358.9	356.1
One Special Rights Redeemable Preference Share of £1		

a Shares issued during the year:

1,837,793 Ordinary Shares were issued in lieu of cash of £8.5 million in respect of the interim and final dividends for the year ended 31 March 1993. Scrip issue costs were £0.5 million.

85,917 Ordinary Shares were issued at 176.0p, 239.0p, 257.0p or 360.0p to former employees under the Group's Employee Sharesave Scheme and 880,094 Ordinary Shares were issued at 262.0p or 310.0p under the Group's Executive Share Option Scheme. The aggregate consideration in respect of these allotments was £2.7 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 2,579,595 (1993: 2,264,547) Ordinary Shares issued under The Severn Trent Share Schemes. These shares are held in trust on behalf of employees who are beneficially entitled to the Shares.

ii Employee Sharesave Scheme

Under the terms of the 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	
			1994	1993
December 1989	1995 or 1997	176p	3,735,565	3,887,113
January 1991	1996 or 1998	239p	763,478	805,356
January 1992	1997 or 1999	257p	1,624,030	1,724,280
January 1993	1998 or 2000	360p	1,167,172	1,203,262
January 1994	1999 or 2001	482p	955,131	-

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	
				1994	1993
January 1990	3	Jan 1993 - Jan 2000	262p	22,949	677,806
January 1991	5	Jan 1994 - Jan 2001	310p	79,835	305,072
January 1992	117	Jan 1995 - Jan 2002	311p	983,585	1,011,304
March 1993	123	Mar 1996 - Mar 2003	497p	699,209	725,154
December 1993	129	Dec 1996 - Dec 2003	625p	539,596	-

18 Reserves	Share premium account £m	Profit & loss account £m
Group		
At 1 April 1993	3.5	1,620.2
Goodwill arising on acquisitions (note 21)	-	(28.5)
Goodwill in respect of prior year acquisitions	-	(2.1)
Transfer on acquisition of an associated undertaking as a subsidiary undertaking	-	0.8
Retained profit for the year	-	178.5
Shares issued	1.7	-
Scrip dividend (net of expenses)	(2.1)	8.5
At 31 March 1994	3.1	1,777.4

Company	Share premium account £m	Profit & loss account £m
At 1 April 1993	3.5	687.2
Retained profit for the year	-	22.9
Shares issued	1.7	-
Scrip dividend (net of expenses)	(2.1)	8.5
At 31 March 1994	3.1	718.6

The profit attributable to shareholders, dealt with in the accounts of the Company was £104.6 million (1993: £690.7 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

At 31 March 1994 cumulative goodwill written off against Group reserves amounted to £242.9 million (1993: £212.3 million).

19 Commitments and contingent liabilities	1994 £m	1993 £m
a Investment expenditure commitments		
Contracted for but not provided in the financial statements ¹	174.4	253.4
Authorised but not yet contracted for	145.4	210.9

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 1994 the Group was committed to making the following payments during the next year in respect of operating leases which expire:

	Land and buildings £m	Other £m
Within one year	0.4	1.3
Between one and five years	0.8	1.2
After five years	1.6	0.1
	2.8	2.6

19 Commitments and contingent liabilities (continued)

c Finance lease commitments	1994 £m	1993 £m
Amounts due under finance leases are payable as follows:		
Within one year	13.8	10.3
Between one and two years	11.7	13.7
Between two and five years	8.9	20.6
After more than five years	122.1	63.6
	156.5	108.2

- d At 31 March 1994 subsidiary undertakings have entered into performance bonds, issued in the normal course of business, amounting to £10.4 million (1993: £5.2 million) of which £10.1 million (1993: £5.1 million) is guaranteed by the Company. In addition the Company has entered into guarantees of £22.1 million (1993: £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. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances and the credit balances can be offset against overdrawn balances of participating companies.

20 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 £12.3 million (1993: £11.2 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 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 market value of the scheme's assets was £188.0 million.

The employers' contribution to STWPS continues unchanged at the rate of 8.8%, 7.35% or 4.4% respectively of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay according to their choice.

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 market value of the scheme's assets was £85.5 million.

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

21 Acquisitions

Details of companies acquired during the year are given in note 23. Goodwill arose on these acquisitions as follows:

	Book value at date of acquisition £m	Fair value adjustments £m	Fair value of assets acquired £m
Assets acquired:			
Tangible fixed assets and investments	4.5	0.2	4.7
Net liabilities	(1.0)	(1.3)	(2.3)
	3.5	(1.1)	2.4
Cash consideration and costs			30.9
Goodwill			24.5

The profits of subsidiary undertakings acquired during the year, for the period from the start of the financial year to the date of acquisition, were not material.

22	Cash flow statement			1994	1993
				£m	£m
a	Reconciliation of operating profit to net cash inflow from operating activities				
	Operating profit			329.7	299.0
	Currency translation differences			-	0.5
	Profits of associated undertakings			(0.4)	(0.9)
	Investment and other provisions			0.5	0.5
	Depreciation charge			94.6	82.3
	Profit on sale of tangible fixed assets			(3.9)	(5.1)
	Deferred credits received			14.1	12.2
	Deferred credits written back			(2.1)	(1.6)
	Provisions for liabilities and charges (note 16a)			75.7	71.9
	Utilisation of provisions for liabilities and charges			(74.8)	(98.8)
	Decrease/(increase) in stocks			1.4	(0.2)
	Increase in debtors			(10.9)	(11.5)
	Increase in creditors			17.2	7.0
	Net cash inflow from operating activities			441.1	355.3
b	Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings			1994	1993
				£m	£m
	Consideration (note 21)			30.9	38.7
	Paid after the year end			-	(33.4)
	Deferred consideration			(4.0)	(1.3)
	Cash paid in respect of prior year acquisitions			35.4	0.2
	Cash at bank and in hand of acquired subsidiary undertakings			(2.3)	(1.7)
	Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings			60.0	2.5
c	Analysis of changes in financing during the year			1994	1993
				Total	Total
		Share capital (including share premium)	Loans and finance lease obligations	Current asset investments	
		£m	£m	£m	£m
	Balance at 1 April 1993	359.6	651.3	(96.9)	914.0
	Reclassify premium on Bond issues	-	-	-	(2.2)
	Cash flows from financing	2.4	44.6	31.0	78.0
	Loans and finance lease obligations of subsidiary undertakings acquired during the year	-	2.7	-	2.7
	Inception of finance lease contracts	-	62.7	-	62.7
	Exchange adjustments	-	0.2	-	0.2
	Balance at 31 March 1994	362.0	761.5	(65.9)	1,057.6

Notes to the financial statements

22 Cash flow statement (continued)

d Analysis of the balances of cash and cash equivalents as shown in the balance sheet	Change in year £m	1991 £m	1993 £m
Cash at bank and in hand	11.4	17.3	5.9
Deposits with maturity date of less than 3 months	(28.9)	114.8	143.7
Bank loans and overdrafts	5.3	(12.3)	(17.6)
	(12.2)	119.8	132.0

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

f Analysis of net debt as shown in the balance sheet

	Notes	Change in year £m	1991 £m	1993 £m
Short term deposits and investments		59.9	(180.7)	(240.6)
Cash at bank and in hand		(11.4)	(17.3)	(5.9)
Debentures	14	1.4	1.9	0.5
Bank loans, overdrafts and temporary borrowings	14	(33.8)	14.4	48.2
Other loans	14	0.3	1.0	0.7
Obligations under finance leases	14	3.5	13.8	10.3
Loans	15	88.7	600.0	511.3
Obligations under finance leases	15	44.8	142.7	97.9
		153.4	575.8	422.4

23 Subsidiary and associated undertakings

Brief details of principal operating subsidiary and associated undertakings included in the Group accounts are as follows:

Subsidiary undertakings	Country of registration or incorporation (and operation)	Percentage of ordinary share capital held	Nature of business
* Water and sewerage services			
Severn Trent Water Limited	England	100%	Water and Sewerage Undertaking
Waste management			
Biffa Waste Services Limited	England	100%	Waste Management
Biffa Waste Services SA	Belgium	100%	Waste Management
Wastedrive Limited	England	100%	Waste Management
Wastedrive (Manchester) Limited	England	100%	Waste Management
+ Centrale Verzorgingsdienst Cotrans NV	Belgium	100%	Waste Management
Related businesses			
*o Severn Trent Industries Limited	England	100%	Trading Company
* Severn Trent Property Limited	England	100%	Property Development
* Severn Trent Overseas Holdings Limited	England	100%	Holding Company
Severn Trent (Del) Inc.	United States	100%	Holding Company
+ Abbcott Estates Limited	England	85%	Property Development
* Aztec Environmental Control Limited	England	100%	Control Equipment
Capital Controls Company Inc.	United States	100%	Water Disinfection Equipment
Capital Controls Limited	England	100%	Water Disinfection Equipment
* Fusion Meters Limited	England	51%	Meter Design

23 Subsidiary and associated undertakings (continued)

Subsidiary undertakings	Country of registration or incorporation (and operation)	Percentage of ordinary share capital held	Nature of business
*‡ Genera Technologies Limited	England	50%	Water Analysis Technology
* Jabay Limited	England	100%	Water Disinfection Equipment
* Paperflow Services Limited	England	100%	Mailing Services
Stoner Associates Inc.	United States	100%	Pipeline Management Systems
Island Recycling and Environmental Corporation Inc.	United States	65%	Waste Treatment
ST Environmental Services Inc.	United States	100%	Water Treatment Operators
+ ST Environmental Services Inc. (I)	United States	100%	Water Treatment Operators
+ AM-TEX Corporation Inc.	United States	100%	Water Treatment Operators
* Severn Trent Systems Limited	England	100%	Computer Systems Development
Computer Systems and Applications Inc.	United States	100%	Computer Software for Utilities
Derwent Insurance Limited	Guernsey	100%	Insurance Company
* Charles Haswell and Partners Limited	England	100%	Engineering Design Consultants
Associated undertakings			
GMI Rovinian Limited	England	50%	Property Development
Minworth Systems Limited	England	49%	Process Monitoring Equipment
* Tetra Europe Limited	England	50%	Waste Water Treatment Processes
Aquafin NV	Belgium	20%	Sewerage Undertaking
Industrias del Agua SA de CV	Mexico	49%	Water Undertaking
Biogas Generation Limited	England	50%	Power Generation
Grafham Carbons Limited	England	50%	Carbon Regeneration

* Held directly by the Company

+ Acquired during the year

‡ Subsidiary undertaking as a result of controlling interest

° Severn Trent Laboratories and Severn Trent Water International are trading divisions of Severn Trent Industries Limited.

Particulars of the issued share capital of the Group's associated undertakings at 31 March 1994 were:

	A Ordinary shares of £1	B Ordinary shares of £1	Other classes of shares
GMI Rovinian Limited	25,000	25,000 #	
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
Industrias del Agua SA de CV	-	-	10,000,000 Common Shares
Biogas Generation Limited	20,000 #	20,000	
Grafham Carbons Limited	20,000 #	20,000	

Held by the Group

Five year summary

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 resulted from the new capital structure and the regulatory environment established at the time of privatisation in November 1989 render comparisons with the year 1990 potentially misleading.

Profit and loss account	1991	1993	1992	1991	1990
	£m	£m	£m	£m	£m
Turnover	998.0	904.6	821.7	627.0	544.1
Operating profit including share of results of associated undertakings	329.7	299.0	269.4	187.5	155.0
Income from investments	-	-	0.3	0.3	-
Net interest (payable)/receivable	(48.3)	(28.9)	4.3	51.5	(34.0)
Profit on ordinary activities before taxation	281.4	270.1	274.0	239.3	121.0
Taxation on profit on ordinary activities	(21.2)	(22.5)	(24.1)	(20.9)	(11.7)
Profit for the year	260.2	247.6	249.9	218.4	109.3
Dividends	(81.7)	(75.1)	(68.3)	(62.1)	(35.0)
Retained profit for the financial year	178.5	172.5	181.6	156.3	74.3
Balance Sheet					
	1991	1993	1992	1991	1990
	£m	£m	£m	£m	£m
Fixed assets	3,029.7	2,723.8	2,310.8	1,821.1	1,531.2
Net current (liabilities)/assets	(9.3)	(9.7)	130.5	194.7	245.1
Total assets less current liabilities	3,020.4	2,714.1	2,441.3	2,015.8	1,776.3
Creditors: amounts falling due after more than one year	(805.8)	(663.9)	(521.7)	(107.6)	(55.8)
Provisions for liabilities and charges	(75.0)	(70.0)	(89.5)	(79.8)	(45.3)
	2,139.6	1,980.2	1,830.1	1,828.4	1,675.2
Called up share capital	358.9	356.1	353.8	353.8	353.8
Reserves	1,780.5	1,623.7	1,476.2	1,474.5	1,321.4
Minority shareholders' interests	0.2	0.4	0.1	0.1	-
	2,139.6	1,980.2	1,830.1	1,828.4	1,675.2

Analysis of shareholdings

At 31 March 1994

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of Ordinary Shares million	Percentage of Ordinary Shares %
1 - 499	69,826	52.8	12.8	3.5
500 - 999	39,989	30.2	26.5	7.4
1,000 - 4,999	20,733	15.7	29.4	8.2
5,000 - 9,999	553	0.4	3.5	1.0
10,000 - 49,999	594	0.4	14.0	3.9
50,000 - 99,999	218	0.2	14.7	4.1
over 100,000	437	0.3	258.0	71.9
	132,350	100.0	358.9	100.0

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