

Annual report and accounts 1996



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**Severn Trent Plc**

COMPANY NUMBER 2366619

## Main activities

### Water and

#### sewerage services

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

### Waste management services

Biffa Waste Services is one of the leading integrated waste management companies in the UK and Belgium.

### Software

Severn Trent Systems provides a range of utility management information systems, including customer service and network modelling software solutions for electricity, natural gas and water utilities worldwide.

### Operating and consultancy services

Severn Trent Water International provides water and waste water management expertise primarily in western Europe and North America.

### Technology

Severn Trent Technology develops and markets new and existing technologies in a number of areas that are key to water and waste management businesses worldwide.

### Property

Severn Trent Property develops facilities in the UK, primarily for distribution, retail and industrial sectors.

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Severn Trent Plc is one of the world's leading water and waste services companies. Quoted on The London Stock Exchange and listed among the top 100 companies in the UK, the group has a turnover of more than £1 billion and employs some 10,000 people, primarily in the UK, the rest of Europe and North America.

## Financial highlights

	1996	1995
Turnover (£m)	1,158	1,076
Operating costs (£m)	(740)	(704)
Restructuring provision (£m)	—	(55)
Share of results of associated undertakings (£m)	3	2
Profit before interest (£m)	421	319
Profit before tax (£m)	373	268

Earnings per share before exceptional item (p)	89.6	81.3
Gearing (%)	19.2	24.8
Second interim dividend (p)	3.84	3.84
First interim and final dividends (p)	28.53	25.03
Total dividends for the year (p)	32.37	28.87

# Sharing the benefits of efficiency

Richard Ireland, Chairman

## Group results

The principal management challenges for the year were four-fold: to increase operating efficiency in Severn Trent Water; to increase profitability in the non-regulated businesses; to deal with the problems associated with the drought; and to undertake an extensive review of the group's strategy. These challenges were successfully met.

Group profit before tax increased to £373.0 million, an improvement of 15.7 per cent on a like-for-like basis – excluding the £55 million exceptional restructuring provision announced in November 1994. Similarly, group profit before interest increased by 12.4 per cent to £420.8 million. Turnover rose by 7.5 per cent to £1.16 billion (£1.08 billion). Earnings per share, again on a like-for-like basis, were 10.2 per cent higher at 89.6p (81.3p). Net borrowings reduced by 15.1 per cent to £481.3 million (£567.1 million) and the group's gearing at 31 March 1996 was 19.2 per cent (24.8 per cent).

## Dividends and customer benefits

In November 1994, Severn Trent Plc was the first major water and sewerage company to introduce a programme of benefit sharing for customers and shareholders. The programme includes a

reduction in charges for customers of £30 over a five year period and a second interim dividend of 3.84p net per share per year to shareholders over the same period. These benefits are based on efficiencies achieved by the company during the first five year period following privatisation.

During the year, an additional £150 million of voluntary expenditure was committed to improving significantly the resilience of Severn Trent Water's supply and distribution systems.

The board is recommending a final dividend of 19.33p net per ordinary share, making 28.53p for the year excluding the second interim dividend, compared with 25.03p for the previous year, an increase of 14.0 per cent. Total dividends are covered 2.8 times by earnings. Given the current regulatory and tax regimes, the board believes that twice covered dividends are appropriate and, barring unforeseen circumstances, the intention is to arrive at this position by the year 2000.

There should be no doubt about the group's continuing commitment to improving services for customers, providing appropriate returns to shareholders, sharing the benefits of efficiency savings and making voluntary additional capital expenditure to ensure

Severn Trent Water maintains its service standards. Dividend payments will not in any way restrict the capital expenditure which is vital for the enhancement of Severn Trent Water's systems and essential to ensure its position as a leading water and sewerage company.

## Business development

During the year, an extensive strategic review was undertaken to determine the best means of enhancing shareholder value. The review was wide ranging and involved an in-depth study of the UK and US utility sectors as well as the identification of other opportunities for the development of the non-regulated businesses.

A key benchmark used by the board against which to measure the relative merits of the strategic alternatives has been, and will continue to be, the possible benefits which might accrue from a return of capital to shareholders. This is a complex analysis depending on a number of judgments including, for example: the scale of any such return of capital and the return which could be earned on such capital if it were retained in the business; how to ensure that all shareholders are treated equally; and any customer benefits considered necessary.



The board decided that it would seek to exploit Severn Trent's core strengths in managing water and sewerage services efficiently and in waste management. It also believes that benefits which arise from multi-utility operations and services are probably best obtained through alliances or joint ventures.

After making detailed assessments of all the opportunities, a proposed offer to acquire South West Water was identified as being financially, strategically and operationally the best opportunity in the UK. It should enable Severn Trent to take a low risk approach to building its position in both the water and waste services sectors through the application of its core skills and allow Severn Trent Water to apply its expertise in resource management, asset management and customer service to bring better services at lower cost to customers in the South West region. It will also improve Biffa's market position significantly.

Severn Trent has identified scope for cost savings and efficiency improvements in the enlarged group. The proposed offer for South West Water represents an outstanding opportunity for Severn Trent to enhance value for shareholders by building a stronger and more efficient water and waste services business. The board strongly believes that, provided acceptable clearance terms are obtained from the Monopolies and Mergers Commission and OFWAT, the acquisition of South West Water provides the best way forward for the group and its shareholders.

#### **Corporate governance**

As required by the Greenbury report, the board engaged independent consultants to undertake a thorough review of Director's remuneration. Based on this review, the Remuneration Committee has prepared a detailed report which is set out on pages 21 to 24.

#### **Board**

Following the resignation of Allen Lloyd, the board is delighted that David Arculus, group managing director, EMAP Plc, Robert Walker, division president,

the Pepsi-Cola company, and Martin Flower, an executive director of Coats Viyella Plc, have joined the board as non-executive directors. They each bring substantial and varied business experience which will be of considerable benefit to the group.

#### **Employees**

The dedication and enthusiasm shown by employees throughout the group during the year has been impressive. The board is indebted to them for all they have achieved, often in trying circumstances and, not infrequently, in adverse weather conditions.

#### **Outlook**

Severn Trent Water has been working hard since last autumn to obviate the need for hosepipe bans and other restrictions with reservoirs currently 87 per cent full. The board looks to the future with confidence as the work and investment continues to increase the robustness of the company's resources and systems and its efficiency.

Whilst we cannot predict what effect, if any, the landfill tax will have on waste disposal, we expect Biffa to make further progress as it develops its position as a leader in the waste services market.

The proposed acquisition of South West Water will allow us to apply our core skills in water services and waste management and deliver value to our shareholders and to customers in the South West region.

Severn Trent Systems shows potential in serving the utility sector as a whole, in both the UK and the US. In addition, the consultancy and contract operations of Severn Trent Water International are capable of further profitable expansion, particularly in the US, as are a number of the supporting technology businesses.

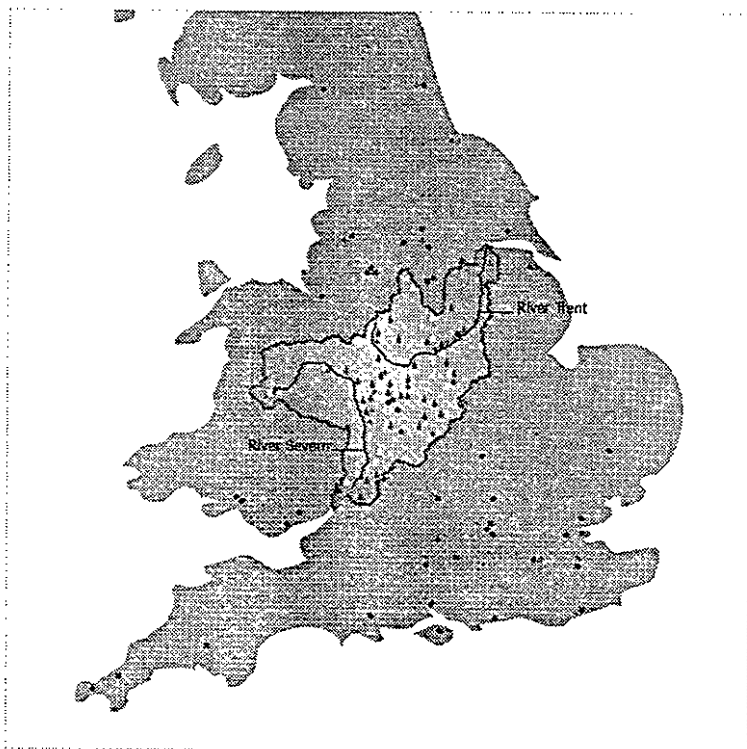
The board remains committed to acting in the best interests of its customers and shareholders. It will continue to make additional investment to improve services and share the benefits of efficiencies. Its confidence in the future of the group is reflected in its progressive dividend policy which will,

barring unforeseen circumstances, reduce the level of cover to around twice earnings by the year 2000.

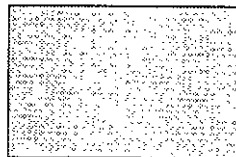
Richard Ireland Chairman

# A total environmental service

## UK operations



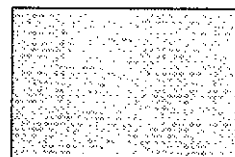
- △ Severn Trent Water major water treatment works
- ▲ Severn Trent Water major sewage treatment works
- Severn Trent related businesses major sites
- Biffa Waste Services' landfill facilities
- Biffa Waste Services collection and municipal depots
- Biffa Waste Services special waste, clinical and environmental services facilities
- Severn Trent Water sewage treatment area



Since 1989, Severn Trent Water has invested a total of

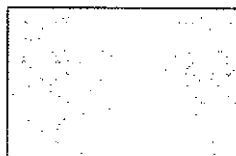
**£2.7 billion**

in improving the quality of its services to customers. More than 10,800 investment projects have been completed, including 4,300 major schemes.



Biffa currently services **563,000** properties

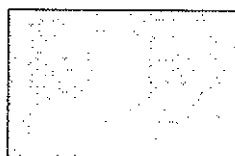
on average each week through the 16 municipal refuse collection contracts it operates in the UK.



Charles Haswell and Partners has over

**30 years' experience**

in providing multi-disciplinary design and engineering advice services to clients worldwide. The company specialises in water, transportation, tunnelling and heavy industrial civil engineering works.



Severn Trent Laboratories carries out approximately

**7,000 tests**

daily on 1,000 samples it receives from commercial clients all over the UK. The company is also recognised internationally for its laboratory management skills.

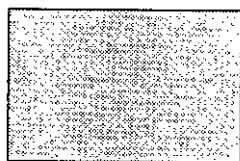
As a world leader in the provision of water and waste services, Severn Trent Plc's strategy for growth focuses on using and developing its expertise in the management of resources and assets and in providing a high level of service to its customers. The company will continue to use these skills to strengthen its existing businesses and to add value to other utility and utility-related operations.



Severn Trent Systems' software provides over **100m** bills

to more than 20 million customers worldwide each year. The company has clients in North America, Australia, Canada, France and the UK.

In the US, two out of every three homes heated by natural gas are served by a utility using one or more of Stoner Associates' network modelling software solutions.

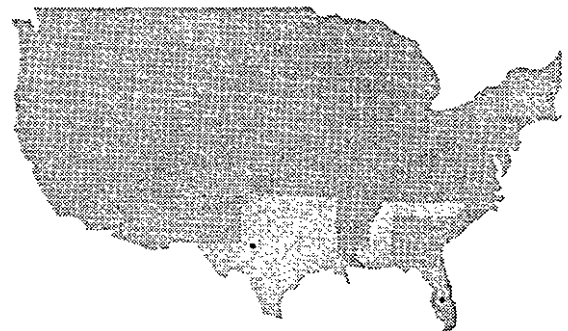


ST Environmental Services' employees take **1.7m** readings

each year from customers' water meters. The company operates over 160 water services contracts in the US with more than 500 people employed primarily in the southern and eastern states.

Severn Trent Water International is currently providing technical and organisational expertise in many countries including Guyana, China, Mauritius, Trinidad and Tobago and Romania

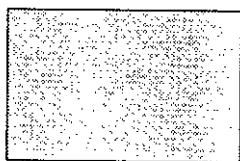
### ST Environmental Services: USA



ST Environmental Services

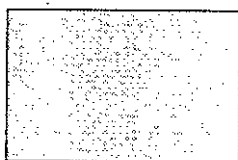
#### Key projects

- Pasadena, Texas
- Lee County, Florida
- Jackson, Mississippi



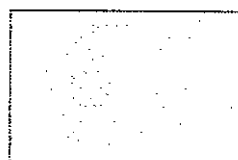
Paperflow Services mails over **52m** items

a year for major companies in the UK and Germany using the latest computer controlled mailing and booklet making equipment.



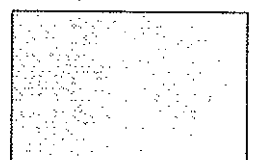
Genera Technologies has pioneered a simple **3 hour** test

for the detection of parasites in water. The new technique presents considerable cost and time savings over conventional testing methods which can take up to 20 hours to obtain results.



Capital Controls sells chlorination equipment for disinfection to over **70** countries

worldwide through its network of offices, agents and its joint ventures in Hong Kong and Bombay. It is the largest supplier of disinfection equipment in the US.



Fusion Meters' domestic water meter with no moving parts, **System EQUITY**

has recently gained approval from the UK Department of Trade & Industry's National Weights and Measures Laboratory. More accurate than the conventional meter, System EQUITY is the first of its kind anywhere in the world.

# Maximising operational strength

Vic Cocker, Group Chief Executive

## Water services

Severn Trent Water continued its trend of efficiency savings and tight cost control. Improved billing and a focus on the collection of charges from newly occupied properties helped to increase turnover by 5.7 per cent to £895.6 million (£847.0 million). Profit before interest increased by 10.5 per cent to £400.8 million (£362.6 million) due, largely, to further improvement in cost control. Upward pressures on costs, for example those associated with the operation of new plant and equipment, increased pension contributions as a result of an actuarial valuation and increased abstraction charges payable to the former National Rivers Authority (NRA) were held in check by further operating efficiencies.

Direct operating costs decreased by 1.8 per cent in real terms before an additional £12 million of special expenditure on the drought and before pension costs. The implementation of the first full year of the two year programme to reduce costs in the central support function was completed successfully. Employee numbers for Severn Trent Water overall reduced by a further 7.3 per cent to 5,862 (6,324).

The quality of water in the Severn Trent Water region continues to rank among the very best reported anywhere

in the world. During the year, drinking water compliance remained at 99.8 per cent. In addition, Severn Trent Water has already substantially met the main obligations of the European directive on urban waste water treatment and continues to invest to meet the even higher UK inland river standards. Severn Trent Water's compliance with numeric waste water standards is more than 99.0 per cent and improvements in the quality of discharges to inland waterways have already been recognised by the Environment Agency in a 22.3 per cent increase in the quality of river water.

The investment programme continued to deliver benefits. Since privatisation in 1989, Severn Trent Water has invested £2.7 billion in improving services to its 3.5 million customers. During the year, the company invested £322 million and major schemes were completed at Mythe, Strensham, Ogston and Coleshill. Work began on a number of new projects, in particular on a £90 million refurbishment of the one hundred year old Minworth sewage works on the outskirts of Birmingham. Severn Trent Water plans to invest more than £400 million next year.

Effective management of water resources during the drought was the most significant challenge Severn Trent

Water faced during the year. Rainfall in the Severn Trent Water region for the twelve months to 31 March 1996 was the second lowest experienced by the ten major UK water and sewerage companies and less than 70 per cent of the long term average. Whilst the company eventually had to introduce restrictions on water use in August 1995, these were necessary to ensure essential supplies through the winter. The action taken through the company's mobilisation plan to secure additional resources, reduce leakage by 12 per cent (from 24 per cent to 21 per cent) and manage demand enabled all the restrictions to be lifted by April 1996. Severn Trent Water is confident that, throughout this summer, it will be able to meet similar demand levels to those experienced last year without a hosepipe ban.

During the drought, a seven point plan was introduced which involved substantial voluntary additional investment. The plan aimed to increase the water resources available for supply by five per cent. The range of activities included locating additional resources, transferring resources to augment reservoir refill and increasing leakage detection and repair. For the first time, Severn Trent Water is planning to use the River Trent as a source for drinking water. This has only become possible as

a result of the company's investment at sewage works, in association with the NRA, to improve significantly the quality of river water.

We appreciate that no matter what weather conditions prevail, our customers expect us to supply all their legitimate needs for water. We understand that expectation and we intend that it will be fulfilled. At the same time, many of our customers believe that there are good ecological, environmental and economic reasons for using water wisely and we appreciate their constraint.

#### **Waste services**

Biffa, the waste management company, reported excellent results. Profit before interest increased by 21.8 per cent to £21.2 million (£17.4 million) on turnover of £173.3 million which was 12.4 per cent higher than last year.

In the UK, profits were up 43 per cent with turnover up five per cent. All three divisions, collection, landfill and special waste, performed well. Volumes in the UK collection division increased by seven per cent, due largely to strong growth in the industrial and commercial sectors. The municipal activities showed a year on year improvement and one new municipal contract coming on stream during the year brought good opportunities for geographic expansion. In addition, more effective controls were introduced to fleet management and maintenance activities which helped to increase efficiency and improve margins.

The alliance with SCA Recycling UK Limited is working well. This jointly operated scheme offers customers a national recycling service for paper and card in order to help them reduce the impact of the new landfill tax by diverting these waste streams away from landfill.

Landfill in the UK maintained its consistently strong performance. Unit revenues increased by 21 per cent which more than compensated for the 11 per cent reduction in volumes. Three additional landfill sites will open shortly to replace three which closed during the

year. Operating void space remains constant at 36 million cubic metres and a further 16 million cubic metres is either in development or awaiting consent.

The landfill division's Redhill site was the first in the UK to achieve BS7750 accreditation. A further twenty-two locations have BS7750 accreditation.

Biffa's preparations for the introduction of the landfill tax later this year are well advanced. Systems are largely in place and an extensive marketing programme has proved effective in helping customers understand better the implications of the tax for their businesses.

The benefits of restructuring last year helped the special waste division to improve its performance. All areas are now in profit and the targeting of particular waste streams and industry sectors is producing encouraging results.

Biffa's operations in Belgium had a difficult year, although revenues were up 41 per cent on the year spread across all three divisions of collection, landfill and special waste. The restrictions on the carriage of waste across the internal borders within Belgium, combined with the start up costs of the new treatment and recycling centre at Antwerp, caused profit to be 26 per cent behind last year. The border closure particularly affected operating costs in collection. The decision was taken halfway through the year to close the Antwerp recycling centre, in order to manage promptly the operational problems associated with the start up of the plant and to improve quality control. Good progress has been made and the plant has now re-opened. The landfill activities in Belgium continue to perform well and have maintained their high quality levels.

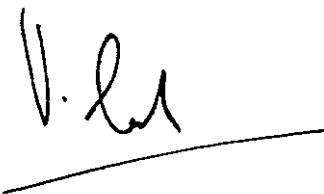
#### **Related businesses**

Profit before interest from related businesses increased nearly three-fold to £6.7 million. In particular, Severn Trent Water International reported profit before interest, after marketing development costs, of £1.9 million compared with a loss of £2.2 million last

year. Contracts won during the year included the management of the company responsible for water and sewerage services in Trinidad and Tobago.

Severn Trent Systems, the utility software company, reported an 80 per cent increase in profit before interest. The application of new technologies in the utility industry, particularly in the UK and the US, will be key in reducing costs and improving efficiency in the future. This worldwide market offers potential both in terms of systems sales and the development of strategic alliances.

Severn Trent Property's 38 hectare development at Midpoint Park, Birmingham is nearing completion. Its retail warehouse development at Walsall was sold within twelve months. Work has now started at the 124 hectare Daventry International Rail Freight Terminal in which interest has already been expressed by some prospective occupiers in addition to finance and forward commitments from Hermes.



Vic Cocker Group Chief Executive

# Making the most of our resources

## Plugging the leaks

The long hot summer of 1995 brought the subject of water leakage into sharp focus in the UK. Hosepipe bans and drought conditions forced customers to use water sparingly, but the national press accused water companies of being unconcerned about water leaking from their networks.

It was a situation that could not be allowed to continue, and Severn Trent Water is tackling the problem. The company now employs an additional 160 people specifically in this area and will spend a total of £25 million in 1996/97 on leakage detection and repair of its 41,000km distribution system.

By April 1996, leakage had dropped

by 12 per cent compared with the previous year as a result of a series of measures:

- a Leakline for customer calls receives an average of 650 calls a week. In fact one week's calls in early January 1996 exceeded 2,500
- repairs carried out each month to the company's water mains have increased by 70 per cent
- response times have halved so that repairs are now tackled within 48 hours on average
- Severn Trent has instigated an innovative fixed fee scheme for mending leaks on private property; consequently, the number of repairs to customer supply pipes carried out by

the company has increased six fold.

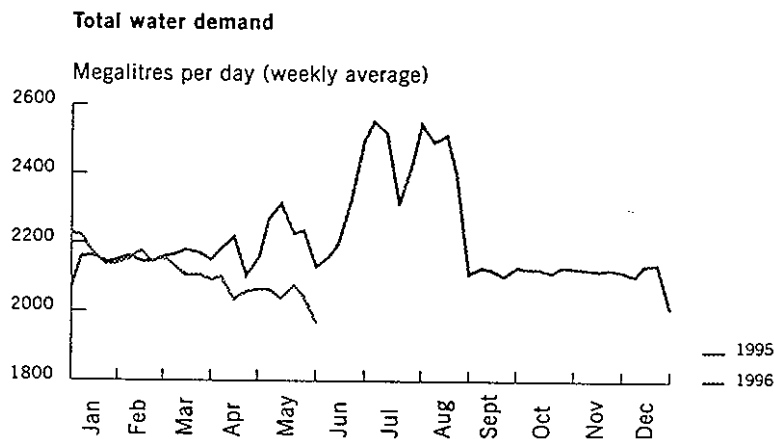
## Replenishing the reservoirs...

As a nation we are demanding more and more water, which leaves water companies with a dilemma: how to satisfy increasing demand with a finite rainfall resource. The one in 300 year drought of 1995 compounded the problem, so Severn Trent cut back on water taken from reservoirs and, instead, looked for alternative sources.

Despite a lower than average winter rainfall in 1995/96, increased abstraction from groundwater and river flows provided an excellent source of water, thus allowing the reservoirs to replenish to the maximum possible extent. For several months, the company supplied one third of Birmingham's water from the River Severn instead of its normal reservoir supply source.

Meanwhile, the drought was especially severe and prolonged in the Derwent Valley in Derbyshire — an area whose reservoirs supply much of the East Midlands — but a remarkable series of measures ensured supplies to the drought hit regions. These included sending water back up the Derwent Valley aqueduct to Derby — a feat not previously attempted during the 80 years in which the scheme has operated.

Yield at some reservoirs was



Action taken by Severn Trent Water to manage demand and tackle leakage has helped to reduce water consumption.

Opposite: Severn Trent offers a low cost repair service for leaks on customers' supply pipes.

Above: Landfill gas quality is monitored prior to use in power generation at Biffa's Redhill site.

Above Right: Biffa's partnership with SCA Recycling UK creates national network for the collection of recyclable paper.

Right: A series of measures has maximised the rate at which Severn Trent's reservoirs have refilled.

increased by enhancements to treatment works and a better control of water distribution. Strenuous efforts were made to squeeze every last drop from available pumping capacity.

The result of all these measures? The average storage position of Severn Trent's reservoirs increased from 35 per cent to 87 per cent in six months.

#### **Waste not, want not**

Waste is a by-product of modern life. As a nation, the UK produces an estimated 95 million tonnes of waste each year and it costs £2.7 billion to dispose of this material.

For any company, waste management is as vital as health and safety or food hygiene, for rubbish cannot simply be thrown away. The Environmental Protection Act places a criminal liability on the producer to ensure that waste is disposed of properly.

The cost of taking waste directly to landfill is rising rapidly and this is set to continue. The tonnage of waste going to landfill will be taxed from 1 October 1996, and there is near agreement on a levy on packaging material to fund its reclamation and recycling. Consequently, it is making economic as well as environmental sense to look at ways to minimise, treat and/or recycle waste wherever possible.

Waste paper and card is one of the largest constituents of the waste streams from Biffa's customers that currently goes to landfill. Biffa has formed an alliance with SCA Recycling UK, part of the major European paper and card producer SCA, to offer customers the ability to recycle their paper and card on a nationwide basis. The complementary nature of the two businesses has created efficiencies in collection and processing which produce unrivalled opportunities for customers to control costs and meet their environmental obligations by redirecting paper and card away from landfill.

#### **Greenhouse gases – the fuel of the future?**

Water, sewerage and waste management systems are essential to any community's health and well-being. The Severn Trent group helps to improve the environment for around 20 million people worldwide.

However, the company's commitment to the environment extends beyond its statutory obligations. Severn Trent Plc has developed an environmental policy which is already producing real benefits both to the environment and to business performance. Details of progress are published by the company annually in its Environmental Report.

Severn Trent's strategy for

environmental improvement is based upon facts. Specific targets set in a number of areas address important environmental issues and result in meaningful improvements. These target areas include reductions in the consumption of electricity in all offices, reductions in company vehicle fuel consumption, increases in office waste recycling, reductions in methane emissions from landfill sites and increases in the generation of electricity from landfill gases.

Good progress is being made in all areas, not least in the generation of power at Biffa's landfill sites. An unavoidable by-product of landfill sites is methane gas which is normally flared, preventing its emission to the atmosphere. However, Biffa is utilising this resource in the generation of electricity for its own use and to export to the national grid.

The first such site has been operating for five years, and has an output capacity of two megawatts — enough to supply 1,000 homes on average. The success of this scheme has encouraged Biffa to commission four more sites under the government's non-fossil fuel obligation initiative. By the end of 1996, the company will be generating enough electricity to supply a small town.

# Protecting and developing our assets

## **Managing our surface assets**

Severn Trent Water has over 6,000 surface installations in addition to its underground assets. These include sewage works, water treatment works, pumping stations and reservoirs. Water companies need to have a clear understanding of the nature and state of their assets if they are to make sound investment decisions, and asset management planning therefore requires a high degree of innovation and a consistency of approach.

In just six years since privatisation, Severn Trent Water has delivered one of the largest water utility investment programmes in the world. In its second five years, the company will invest around £1 billion in its surface assets, covering more than 2,000 separate construction projects. Severn Trent's success in asset management is evidenced by its ability to deliver high quality services at charges which remain among the lowest in the UK. And those services consistently achieve compliance standards among the highest in Europe.

Severn Trent Water has developed specialised computer investment models for asset management planning. They hold detailed information on the company's asset inventory, condition and performance. These systems are so powerful that the company is using them

centrally to define its capital programme for schemes of all sizes.

## **Investing in quality**

Severn Trent's surface assets investment model can be used to plan investment projects such as the new water treatment works at Tittesworth in Staffordshire which officially opened in September 1995. A major investment of £16 million has improved the quality of drinking water for 125,000 customers in north Staffordshire.

Water in Tittesworth reservoir has always been of a very high quality, but it contains trace amounts of manganese from winter flood waters from surrounding moorlands. Although it is not harmful, manganese can sometimes cause slight discoloration in water.

To remove this problem and modernise the whole treatment works, a development programme began in 1992. The treatment process now has two separate stages of filtration, resulting in outstanding water quality, with the added benefit that up to 4.5 million litres of water per day are now more readily available.

## **Putting the pressure on**

For some customers, the 1995 drought brought a drop in water pressure at times of peak demand. Around 90,000

homes on the edges of the distribution system or on higher ground were affected.

To alleviate the problem, Severn Trent Water analysed and designed a variety of new schemes using network modelling. Network analysis software simulates the supply network and shows how the system operates under different conditions — ensuring that the most efficient and cost effective solution is found quickly.

Across the Severn Trent region over 170 new schemes will soon be complete. By July 1996, over 225 km of new main will have been laid, and areas previously most affected by distribution problems will receive the greatest benefit.

## **A commitment to the environment**

As a business dependent on the health of the environment, a commitment to environmental protection and improvement is central to Biffa Waste Services activities.

As the third largest landfill operator in the UK, Biffa has 24 landfill sites with a total void capacity of 36 million cubic metres plus a further 16 million cubic metres either in development or awaiting consent. In 1995/96, Biffa filled just under 3.4 million cubic metres of void space which is the equivalent of one large



landfill site. Good operational and environmental management is therefore essential.

Confirmation of the company's commitment to the environment came in July 1995 when Biffa became the first waste management company to achieve BS7750 — the top environmental award — for the management of its Redhill landfill site.

Management and operational procedures were already certified to ISO9002 — the international standard for quality management systems — so the certification to the environmental standard was just an extension of the good practice already in operation.

To gain the award, the site had to consider all of the possible ways its operations could potentially affect the environment, ranging from the quality of local watercourses to noise levels as vehicles enter and leave the site. Monitoring programmes were reviewed and targets set to ensure that Biffa continued to improve its environmental performance.

Energy efficiencies have already been achieved, while the recent installation of a landfill gas-fuelled power station has resulted in a reduction in emissions of greenhouse gases to the atmosphere.

#### Turning the tide

ST Environmental Services (STES) expertise in the management of water and waste water facilities has ensured that Lee County in Florida is well on the way to making substantial cost savings during a five year operations and maintenance contract.

Faced with escalating costs from its municipal works and more stringent regulatory requirements, Lee County became the first county in the United States to privatise its water and waste water operations. County commissioners turned to the private sector for proposals on the operation and management of the two waste water plants and two water treatment plants, meter reading, billing and collection and customer services.

STES won the bid and one year later the improvements to the facilities and services have made quite an impact on Lee County, which also has to contend with huge population increases during the winter months. A team approach to problem solving and service delivery has boosted employee morale and productivity, while STES has also invested in various technologies to provide an efficient and cost-effective service. These include the enhancement of the customer service computer system and a more advanced system for televising and inspecting sewer lines.

The impact of this investment is reflected in the improvements in the services provided to customers. One customer in particular, who also happens to be a retired Director of Public Works, wrote STES a letter of commendation praising the installation of a water main as one of the best operations I have had the privilege to witness... STES is to be congratulated for having such dedicated employees. The county is to be congratulated for its services.

Opposite: Severn Trent is investing around £50 million on new water mains schemes during 1996.

Far left: The control centre of the state-of-the-art Corkscrew water treatment facility operated by ST Environmental Services in Lee County, Florida.

Above: At Biffa's Redhill landfill site, internal audits are carried out as part of its BS7750 environmental management system.

Left: Severn Trent uses pipeline network modelling software to design water mains schemes.

# Working for our customers

## **Actions speak louder than words**

Severn Trent Water is committed to improving its services to all customers, whether they be individual householders or large industrial clients.

For the 17 per cent of British people who are deaf or hard of hearing, simple everyday tasks like paying bills or using the telephone can be fraught with difficulties. To improve staff understanding of these difficulties and enable better communication with hearing-impaired customers, Severn Trent Water has initiated a programme of deaf awareness training for frontline staff. These staff have learned basic sign language skills, and all offices visited by customers have a quiet room where signing and lip-reading are easier because background distractions are minimised.

Major visitor centres and offices where customers can go to pay bills have been fitted with induction loops which also cut out background noise — an induction loop allows customers with hearing aids to tune in directly to a voice or other sound. Textphones have also been installed in district and customer accounting offices which aid communication with customers who have textphones in their homes. These phones have a keyboard and a small screen which allows the user to type and read

calls via an ordinary telephone line.

All these measures are recommended by the Royal National Institute for Deaf People, and Severn Trent Water became the first water and sewerage company to endorse the Institute's *Louder than Words* charter in August 1995.

Large industrial customers need a different approach and the company seeks to work in partnership with major customers in order to achieve long term sustainable commercial relationships.

Each customer has a locally based designated account manager who acts as the focal point for delivering all the support and development services available from the company as well as advising on other services available from companies within the Severn Trent group.

Cadbury, the UK's largest chocolate manufacturer, is one of Severn Trent Water's major customers. As a high quality manufacturing business, producing more than 100,000 tonnes of chocolate each year, Cadbury requires exceptional standards of performance from its suppliers. Cadbury uses more than 300,000 cubic metres of water each year, mainly for cleaning its machinery, though some chocolate products use water during manufacture.

Severn Trent also provides waste water services to Cadbury and has,

over the years, provided a range of support and advice on water use and environmental management.

## **Handled with care**

*Polluter pays* — the principle behind the Environmental Protection Act makes all producers of waste legally responsible for safe handling, containment, transfer and disposal of all forms of industrial and commercial waste.

Biffa recognises that large, multi-site operations need a new and complete approach to waste management which deals effectively with their waste needs. It is one of the few waste management companies to have a team of account development executives dedicated to providing a high level of service to these customers on a nationwide basis. Many well-known high street names benefit from Biffa's efficient and cost-effective waste disposal service.

The comprehensive waste service includes the management of waste collection and disposal, and advice on legislation and extraordinary waste requirements. Biffa will also help its customers to reduce costs by encouraging operational efficiencies.

## **Sold on software**

Software and consulting services company, Severn Trent Systems (STS),

Opposite: Severn Trent's quality assurance inspectors take over 20,000 samples from customers' taps each year.

Above: Working with large industrial customers—Mike Sawle, one of Severn Trent's business advisors with Paul Shaw of Cadbury.

Above right: Biffa provides a flexible service to large multi-site customers.

Far right: Over five million people visit Severn Trent's sites each year.

Right: Severn Trent's education programme helps children to learn about the environment.

provides solutions for electricity, gas and water utilities worldwide. The company has successfully implemented some of the largest and most complex utility systems in the world, covering engineering, operational and customer service aspects of the industry. One example is STS's multi-utility customer service software, CIS Open-Vision, which is being implemented at electricity generation and supply company, Hydro-Electric, based in Perth in Scotland.

Hydro-Electric is building an IT infrastructure to carry it through a programme of planned expansion and into the next century. In particular, the prospect of electricity industry deregulation in 1998 throws the issue of greater accountability for customer service into sharp focus.

CIS Open-Vision offers flexibility for the utilities of the future, as the need for rapid, reliable access to information increases. The software is being successfully implemented in utilities across the USA which provide combined gas, water and electricity services. Severn Trent Plc — via its systems solution provider, STS — is therefore well positioned as a multi-utility customer service provider.

#### Seeing is believing

Severn Trent Water now welcomes in

excess of five million visitors to its sites each year.

A network of 11 visitor centres is specially designed to show customers how water and sewage is cleaned to meet the very high standards set by Britain and Europe.

Carsington Water in Derbyshire attracts over a million visitors every year. Most come to enjoy the beautiful landscape, to shop, to eat and to be informed about the company. The more active can hire or bring their own cycles, canoes or sailboards, while anglers can fish in the reservoir which has excellent brown trout fishing. Enthusiastic nature lovers can study birds and wildlife from the comfort of two purpose-built bird hides and a turf roofed wildlife centre.

A fully equipped classroom with a full-time resident teacher has proved extremely popular with local schools, teachers and parents.

Adult groups are catered for by the Come and See team of guides who provide a talk and video presentation about the work of the company and a guided tour explaining the story of Carsington.

#### Supporting the community

Severn Trent supports a wide variety of community projects and charities concerned with health, welfare, the

environment, heritage and the arts.

One of the many community projects currently being sponsored by Severn Trent is the conversion of an old mill in Cromford, Derbyshire into a venture centre. With the help of a £25,000 grant from Severn Trent Plc, the Arkwright Society is converting the mill into a residential centre for disadvantaged youngsters from all over the country. Youngsters will be sponsored to spend time at the centre following outdoor pursuits including canoeing, mountain walking, rock climbing environmental work and painting.

HRH The Prince of Wales officially opened the centre in January 1996 and is supporting the venture through The Prince's Trust. Other major causes currently supported by the company include the RNLI and the Staffordshire Air Ambulance service.

# Financial review

Alan Costin, Group Finance Director

## Results

Group turnover of £1,157.5 million was 7.5% up on the previous year. Turnover of £895.6 million in Severn Trent Water increased by 5.7%, compared with RPI + K of 3.1%. The number of properties in the region recorded as unoccupied reduced by nearly 10%. Consumption of water by metered customers increased by nearly 3%. Turnover in Biffa increased by 12.4% on the previous year and in the other related businesses it was up by 21.7%. External turnover in our non-regulated businesses now accounts for nearly 23% of the total group sales.

Group profit before interest of £420.8 million was 31.8% higher than the previous year, or 12.4% higher before the £55 million exceptional restructuring charge incurred last year. Severn Trent Water produced £400.8 million profit before interest, an increase of 10.5% over last year's result before the exceptional restructuring charge. The continuing tight control of operating costs, including the implementation of the first year of the two year programme for restructuring central support costs, ensured that operating costs decreased by 1.8%, in real terms although the benefit of these efficiencies was partly absorbed by £12 million additional costs incurred as a result of the drought in the summer and autumn of 1995 and the

increased revenue expenditure on leakage control. Biffa earned £21.2 million profit before interest, an increase of 21.8% on the previous year. In the UK, where profit before interest was up 43.0%, all three divisions (landfill, collection and special waste treatment) produced higher profits, but the profits from Belgium were adversely impacted by losses at the newly opened pre-treatment centre at Antwerp and by lower margins in the collection division.

Profit before interest from our related businesses increased by 294.1% to £6.7 million, including £1.9 million from Severn Trent Water International which last year made a loss of £2.2 million. Severn Trent Systems achieved a strong performance with an 80% increase in profit before interest. Total profit before interest from our non-regulated businesses increased by 46.1% to £27.9 million.

Group net operating assets (excluding net debt, taxation balances and dividends payable) were £3,157.6 million at 31 March 1996, an increase of 5.5% over the year compared with a 12.4% increase in profit before interest (before last year's exceptional restructuring charge). Severn Trent Water improved its return on year end net operating assets to 13.5% (1995: 12.9%) while Biffa achieved 17.0%

(1995: 15.5%) and the related businesses 10.3% (1995: 2.8%).

Net interest payable by the group was £47.8 million, £4.0 million lower than last year. The reduction was largely the result of lower net borrowings which averaged £506 million, compared with £535 million in the previous year.

Net interest charges were covered 8.8 times by profit before interest.

Consolidated net debt at 31 March 1996 was £481.3 million, which represented 19.2% of shareholders funds, compared with 24.8% at 31 March 1995.

Group profit before tax of £373.0 million was 39.4% higher than last year, or 15.7% higher before the exceptional restructuring provision.

The group taxation charge for the year ended 31 March 1996 was £45.3 million, equivalent to 12.1% of the group's profit before tax (1995: 11.0%). The charge comprised principally UK corporation tax of £35.6 million and advance corporation tax written off of £6.1 million; overseas taxation, double taxation relief and our share of the taxation charge of associated undertakings totalled £3.6 million. The group's effective tax rate is significantly lower than the standard rate of UK corporation tax, due primarily to the impact of accelerated capital allowances.

Profit after tax was £327.7 million, a 37.7% increase over last year or 11.8% before the exceptional restructuring provision.

Earnings per share of 89.6 pence increased by 10.2% compared with last year, before the exceptional restructuring provision.

The proposed dividends for the full year, totalling 32.37 pence per share, are covered 2.8 times by earnings.

The group's operating activities generated £492.7 million net cash inflow in the year (1995: £482.3 million), of which £452.8 million arose in Severn Trent Water and £39.8 million in Biffa. Payments for the purchase of tangible fixed assets, net of disposals and grants received, amounted to £241.2 million (1995: £302.5 million) including £203.6 million in Severn Trent Water and £31.0 million in Biffa. £3.4 million was expended in the year on the purchase of businesses and net investment, including loans, in associated undertakings. After payment of net interest charges of £33.1 million, taxation of £26.8 million and net dividends of £91.8 million, the group had a cash inflow before financing of £96.4 million, including £12.2 million from the inception of finance lease contracts.

Net proceeds from shares issued, together with foreign currency translation differences, generated £1.6 million. Consequently, net debt including finance lease obligations, reduced by £85.8 million over the course of the year. Before taking account of our proposed acquisition of South West Water Plc, and largely as a consequence of increased capital expenditure in Severn Trent Water, net debt is expected to increase in 1996/97 by an amount broadly similar to the reduction in 1995/96.

The group's cash resources are adequate to finance the anticipated outflow.

#### Treasury management

The group had total borrowing facilities at 31 March 1996 of £1,207 million, of which £772 million was utilised. Of

these facilities, £771 million are available to Severn Trent Water, of which £486 million was utilised. The group had cash and short term investments totalling £290.4 million at the year end.

Group policy requires that undrawn committed borrowing facilities, together with cash and short term investments, should never be less than the anticipated cash requirements of the group for the following two years. The maturity profile of the group's borrowings is set out in note 16 to the financial statements.

The Treasury Committee of Severn Trent Plc determines the group's policy for the management of interest rate and foreign currency risk. Many of the group's assets, and the borrowings associated therewith, are of a long term nature. Accordingly group policy, which is kept under review, requires that the interest rate on a significant proportion of the group's borrowings — currently a minimum of 60% — should be either fixed, or hedged through the use of interest rate swaps or forward rate agreements.

At 31 March 1996 interest rates on 60% of the group's gross borrowings were either fixed, or hedged for periods ranging from one to six years.

Foreign exchange transactions are not a material proportion of the group's business. Nevertheless, group policy requires that the foreign exchange risk on transactions exceeding £25,000 in value is at least 70% hedged.

The group has investments in various assets denominated in foreign currencies, principally the US dollar and the Belgian franc. At 31 March 1996 the sterling value of foreign currency assets exceeded the value of liabilities, including borrowings, in those currencies by £57.8 million. The group's current policy is not to hedge the foreign currency translation risk associated with its net surplus of non sterling assets. An unrealised net translation gain of £0.3 million arose in the year.

Cash deposits, short term investments, forward rate agreements, currency swaps and other treasury instruments are transacted only with

counterparties who are highly rated by the major credit rating agencies.

#### Dividends

The cost of the proposed dividends to the Company's shareholders for the year ended 31 March 1996 was £118.8 million, plus associated advance corporation tax of £29.7 million. Dividends received or receivable by the company from its subsidiaries and associated undertakings comprised £120.0 million from Severn Trent Water Limited (1995: £140.0 million) and £3.0 million (1995: £0.7 million) from Biffa and the other non-regulated businesses.

The company also received an exceptional dividend of £386 million (1995: nil) from Severn Trent Water, being the net cash saving arising from efficiencies achieved in the five year period up to the first Periodic Review. The benefit of the interest saving on this amount is being shared equally between customers and shareholders through the package announced with the group's results in June 1995.



Alan Costin Group Finance Director

# Board of Directors

## 1 Richard Ireland FCIS (62) Chairman

Mr Ireland joined the board in 1989 and was appointed deputy Chairman in December 1992 and Chairman on 31 March 1994. He is a Trustee Director of the Severn Trent Pension Schemes. Mr Ireland is a non-executive director of Wolseley plc, Schroder UK Growth Fund plc and Gartmore Shared Equity Trust Plc. It is the intention that he will become the non-executive Chairman of Wolseley plc on 1 August 1996 where he was formerly group Finance Director. He is Vice-President of the Birmingham Chamber of Commerce and Industry.

## 2 Victor Cocker BA (Econ) FIWEM (55)

Appointed Group Chief Executive of Severn Trent Plc on 1 April 1995, Mr Cocker was appointed to the board in 1988. Mr Cocker joined Severn Trent in 1974, having previously worked in the gas industry. He specialised in regulatory planning and marketing functions and was the Managing Director of Severn Trent Water Limited from January 1991 to March 1995. He is a non-executive director of Aquafin NV and Chairman of the RNLI Forward Birmingham lifeboat campaign.

## 3 Alan Costin FCA (53)

Group Finance Director since May 1992, 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.

## 4 Brian Duckworth BA FCCA (47)

Mr Duckworth joined the board in November 1994. Prior to his appointment as Managing Director of Severn Trent Water Limited on 1 April 1995 he was Customer Service Director. Mr Duckworth has been with Severn Trent since its formation in various financial roles and is also a director of Nottingham Development Enterprise Limited and UK Water Industry Research Limited.

## 5 Martin Bettington BSc MechEng MBA (43)

Mr Bettington joined the board in November 1994. He is the Managing Director of Severn Trent's waste management business, Biffa Waste Services. Mr Bettington was previously employed by BET Plc, Biffa's former holding company. He holds an MBA from Manchester Business School.

## 6 Andrew Simon OBE BSc MBA (51)\*

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, Istock PLC, Phillip Harris plc, ERF (Holdings) plc, Associated British Ports Holdings Plc, Recognition Systems Group plc and non-executive Chairman of Spaldings Ltd and of Radiodetection Ltd.

## 7 Roger Boissier CBE (65)\*

Mr Boissier was appointed to the board in October 1986. He is Chairman of Pressac Holdings Plc and a non-executive director of Kalon Group Plc (Chairman 1992-5), T & N Plc and a number of other companies. Mr Boissier retired as a non-executive director of British Gas Plc in April 1996.

## 8 Clare Tritton BA QC (60)\*

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. Mrs Tritton is a non-executive director of the Birmingham Royal Ballet and FIMBRA, and Chief Executive of Throckmorton Estates.

## 9 David Arculus MA (50)\*

Mr Arculus joined the board as a non-executive Director on 20 May 1996. Mr Arculus has been group Managing Director of EMAP Plc, the international media company, since 1989 where he played a significant role in the growth of that company during his 24 year career. Mr Arculus was formerly a journalist and a producer at the BBC. He is also a director of Norcross Plc and a member of the National Consumer Council.

## 10 Robert Walker MA (51)\*

Mr Walker joined the board as a non-executive director on 20 May 1996. Mr Walker is a Division President at the Pepsi-Cola Company, the beverages subsidiary of PepsiCo Inc. Since joining PepsiCo in 1976 he has at various times been responsible for Pepsi's business in Europe, the Middle East, South Asia and Africa. Mr Walker formerly worked for Procter & Gamble Limited and McKinsey and Company.

## 11 Martin Flower BA (49)\*

Mr Flower will join the board as a non-executive Director on 11 June 1996. Mr Flower is an executive director of Coats Viyella Plc and Chairman of its Thread Division. During his career at Coats Viyella he has been based in different parts of Europe, Asia Pacific and South America. He has a particular interest in and knowledge of European and EU affairs. Mr Flower is also a non-executive director of William Prym of Stolberg in Germany.

\* non-executive Director

Company Secretary: **David Mattin FCCA**

Details of membership of board committees are stated in the Directors Report on page 20.

# Directors' report

The Directors present their report, together with the audited financial statements of the group for the year ended 31 March 1996.

## Principal activities

The principal activities of the group continued to be the supply of water and sewerage services, waste management and the development of businesses in related areas. These are described in more detail, together with a review of the group's business and future developments on pages 2 to 15, which should be read in conjunction with this report.

Details of the principal associated and subsidiary undertakings of the group at 31 March 1996 appear in notes 10 and 23 to the financial statements on pages 38, 48 and 49.

## Dividends and reserves

Details of dividends paid, payable and proposed are set out in note 7 on page 36. A second interim dividend of 3.84p net for each Ordinary Share will be paid on 5 August 1996 to shareholders on the register at the close of business on 25 June 1996. Subject to approval at the Annual General Meeting, the recommended final dividend of 19.33p net for each Ordinary Share will be paid on 1 October 1996 to shareholders on the register at the close of business on 25 June 1996. Proposed transfers to reserves are set out in note 19 to the financial statements on page 44.

## Scrip dividends

A scrip dividend alternative will be offered on the final dividend, giving shareholders the opportunity to elect for new Ordinary Shares in the company instead of all or part of the cash dividend. Details will be sent to shareholders towards the end of July 1996.

## Directors

Details of current Directors are shown on page 16. Mr R S Paul retired as a Director on 28 April 1995. Mr M P Upstone retired as a Director on 30 June 1995. Mr A J Lloyd resigned as a Director on 12 March 1996. Mr R S Paul was succeeded as Group Chief Executive on 1 April 1995 by Mr V Cocker, an existing Director. Mr B Duckworth, an existing Director, became Managing Director of Severn Trent Water Limited on that date.

Mr T D G Arculus and Mr R M Walker joined the Board as non-executive Directors on 20 May 1996. Mr M C Flower will join the board as a non-executive Director on 11 June 1996. Having been appointed since the last Annual General Meeting they retire from the board in accordance with the Articles of Association and, being eligible, offer themselves for re-appointment.

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

Messrs Arculus, Walker, Flower, Ireland and Simon, all non-executive Directors, do not have service agreements with the company.

The Directors of the company at 31 March 1996 and their interests in the shares of the company can be found in the Report of the Remuneration Committee on pages 21 to 24. 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.

## Share capital

Details of movements in share capital are shown in note 18 to the financial statements on page 43.

A special resolution will be put to shareholders at the Annual General Meeting which, if passed, will authorise the Directors, for a period of fifteen months from the date of the forthcoming Annual General Meeting or, if earlier, until the conclusion of the Annual General Meeting to be held in 1997, to allot shares for cash in connection with a rights issue, and generally up to a maximum aggregate nominal value of £18,387,622. The special resolution is set out in full in the Notice of Meeting which accompanies the report and accounts.

## Renewal of authority to purchase own shares

At the Annual General Meeting in 1995, a resolution was passed for the first time authorising the Directors to purchase, in the market, the company's own shares as is permitted by the company's Articles of Association. Although no purchases have been made and while your Directors have no firm intention that the company should make purchases of its Ordinary Shares, nonetheless they would wish to continue to be able to act quickly if circumstances arise in which they consider such purchases to be desirable. The authority, set out in Special Resolution 10, remains unchanged from last year but for the fact that the authority granted this year would, if passed, be deemed to extend for a period of 15 months or until next year's Annual General Meeting, whichever is the earlier.

The proposed authority will again be limited to approximately ten per cent of the company's issued Ordinary Share capital as at 1 June 1996. The minimum price per Ordinary Share payable by the company (exclusive of expenses) will be £1, the nominal value of each Ordinary Share. The maximum to be paid on any exercise of such authority (exclusive of expenses) will be an amount not more than five per cent above the average of the middle market quotations for

Ordinary Shares of the company as derived from The London Stock Exchange Daily Official List for the ten business days immediately preceding the date of each purchase. Purchases will only be made on The London Stock Exchange and only in circumstances where the board believes that they are in the interests of shareholders generally. Furthermore, purchases will only be made if the board believes that they would result in an increase in earnings per share. Any such purchases will be financed out of profits lawfully available for distribution.

#### **Amendments to Articles of Association**

The special resolutions and the principal proposed amendments to the company's Articles of Association are explained below.

#### **Special resolution 11**

##### **Article 86: remuneration of Directors**

At present Article 86 stipulates that the fee payable to each non-executive Director shall not exceed £30,000 per annum. The Remuneration Committee report to shareholders on pages 21 to 24 draws attention to the increased responsibility of non-executive Directors resulting from the implementation of the Greenbury Report. Accordingly, it is necessary for there to be greater flexibility in determining non-executive Directors' fees to take account of varying duties and responsibilities. The amendment to Article 86 proposes that fees should be determined by reference to a maximum aggregate sum for all Directors, rather than the present individual maximum figure.

#### **Special resolution 12**

##### **Article 92: appointment**

##### **Article 106: rotation and retirement of Directors**

##### **Article 107: which Director to retire**

The amendments to Articles 92 and 106 will remove the provisions exempting a Managing Director, Chief Executive Director and an executive Chairman of the board of Directors (including any joint holder of any such office) from retirement by rotation at any Annual General Meeting. To prevent both the Managing Director (or Chief Executive Director) and the executive Chairman of the board of Directors being required to retire by rotation at the same Annual General Meeting, it is proposed to amend Article 107 to exempt one of those two from retiring by rotation on the same occasion. The one to be so exempted from retirement will be determined by reference to their respective lengths of time in office. However, at that meeting another Director will retire by rotation instead and the exempted person will then retire by rotation at the next following Annual General Meeting.

#### **Special resolution 13**

Various additional amendments are proposed to the company's Articles of Association and the principal amendments may be summarised as follows:

Articles 3 and 9 and sub-paragraph (i) of special resolution 13: the Special Share

The authorised share capital of the company includes an unclassified share, which was previously a special rights redeemable preference share of £1 (the Special Share). This was issued to the Secretary of State for the Environment upon the privatisation of the company in 1989. The rights attaching to the Special Share are contained in Article 9.

In accordance with the terms of Article 9(E), the Special Share was redeemed at par by the company on 31 December 1994. Upon such redemption, Article 9 ceased to have effect and the Special Share became an unclassified share of £1. It is now proposed that this Article 9 be removed as it is redundant, and that the unissued unclassified share be re-classified as an Ordinary Share of the company. The share capital of the company as stated in Article 3 consequently needs to be amended.

##### **Article 53: limitations on shareholdings**

The purpose of Article 53 was to prevent, until no later than 31 December 1994, a person other than a Permitted Person (as defined in Article 53) from owning or controlling the right to cast on a poll 15% or more of the votes at General Meetings of the company. As this Article is no longer in force, it is proposed that it be removed.

##### **Other changes**

The other proposed alterations are either as a consequence of the amendments described above, a result of alterations to the requirements of the Listing Rules of The London Stock Exchange Limited or of a minor and technical nature.

#### **CREST**

CREST is the new computerised system for settling sales and purchases of shares. Once shares have entered the CREST system, they will be transferred by electronic means and there will be no share certificates in relation to them. However, CREST is a voluntary system and no one will be forced to use it. So, shareholders who wish to retain their share certificates will be able to do so.

Under the Uncertificated Securities Regulations 1995, companies may make their shares eligible for settlement in CREST by means of a Directors' resolution. The Directors of Severn Trent Plc passed the necessary resolution at a board meeting on 31 May 1996.

The effect of the Directors' resolution is to disapply those provisions of the company's existing Articles of Association that are inconsistent with the holding and transfer of the company's Ordinary Shares in CREST and any provision of the Regulations, as and when the shares enter the CREST system.

The shares have not become transferable by means of the CREST system merely by virtue of the passing of the Directors' resolution; the permission of the Operator of the system, CRESTCo Limited must also be given before the shares can become so transferable. Shareholders should note that, under the Regulations, they have the right by ordinary resolution to resolve that the Directors' resolution shall cease to have effect.



A representative from CRESTCo will be manning a Help Desk at the company's Annual General Meeting on 30 July 1996 in order to deal with shareholders' queries. A copy of an explanatory leaflet published by CRESTCo is enclosed with the mailing to shareholders of the Notice of AGM and the 1996 report and accounts.

Under the Regulations, it is necessary for the company to give notification to its shareholders within 60 days of the passing of the board resolution. The formal notification is set out below:

To all shareholders

Notification of a Directors' resolution relating to CREST  
This is to notify you that, in accordance with the Uncertificated Securities Regulations 1995 (the Regulations), on 31 May 1996 the company resolved by a resolution of its Directors that title to the company's Ordinary Shares of £1 each, in issue or to be issued, may be transferred by means of a relevant system as defined in the Regulations (which at present, in practice, means the CREST system). The resolution of the Directors became effective immediately.

#### **Research and development**

In 1995/96, group expenditure on research and development was £6.0 million compared to £7.4 million in 1994/95. The R & D effort is focused on developing technologies to allow the group companies to meet the high standards imposed by the EU and our regulators. Over the last twelve months we have achieved significant improvements in the acceptability of our drinking water through an R & D initiative to control the level and variability of chlorine residual in our distribution mains. On the sewage treatment side, our evaluation of a variety of nutrient removal techniques has produced significant capital efficiencies in our current capital expenditure programme.

#### **Supplier payment policy**

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Severn Trent Water Limited operates to a code of practice entitled General Conditions of Contract relating to the supply of Goods/Services or the Execution of Works, copies of which can be obtained from the Purchasing or Legal departments, Severn Trent Water Limited, 2297 Coventry Road, Birmingham B26 3PU. Additionally, Severn Trent Water Limited operates under the terms and conditions of contract defined by ICE 6th Edition for Civil Engineering Works, and G90 Terms and Conditions for Mechanical and Electrical Works.

#### **Contributions for political and charitable purposes**

Donations to charitable organisations during the year amounted to £218,931 (1995: £233,869). No political donations were made during the year.

#### **Employees**

The group employed 9,993 people on 31 March 1996 (1995: 10,308) an overall reduction of 3%, of which 5,862 (1995: 6,324) were employed in Severn Trent Water, a reduction of 7.3%.

The first phase of the programme of staff reductions in support services in Severn Trent Water under the Towards 2000 initiative was achieved. This initiative also had a knock-on effect of some staff reductions in other group companies. Some group companies, however, increased their number of employees to reflect an increased level of business activity.

Severn Trent Water introduced its new Single Table Bargaining arrangements and has continued with its NVQ training programmes, with a special focus on the NVQ in Customer Service. Biffa Waste Services, Paperflow Services and Severn Trent Laboratories are in the process of seeking Investors in People registration for their employee development programmes.

The third year of the Profit Related Pay scheme was implemented with over 98% of UK employees participating in the arrangements; and employees across the group were again invited to join the employee Sharesave Scheme in December 1995.

There has been a major programme of internal communications throughout the year by the re-launch of the in-house newspaper *Newstream*, and by using other channels of communications including Team Meetings, Hot News and our established consultative arrangements. In 1995 there was a major communications initiative to inform employees of the action plan on the company's response to the drought situation.

The group has an active network of 80 Pensioner Visitor volunteers, who are in regular contact with all ex-employees over the age of 65. Their activities consist mainly of home visits (over 2,000 in the year) to help resolve individual problems or by organising social activities.

The group maintains a positive stance to its policy of equal opportunities for all employees irrespective of sex, race, religion, marital status or disability.

#### **Disabled persons**

The group has recently joined the national Employers' Forum on Disability, following the introduction of the legislation on the Disability Discrimination Act.

The company continues to maintain its policy of not discriminating in employment, career development, training and promotion against people who are, or become, disabled.

#### **Substantial shareholdings**

As at 1 June 1996 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

## Directors' report *continued*

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 will be available on written request to the Company Secretary at the address given on the back cover. There is no charge for this publication.

### Corporate governance

The Directors have examined their compliance with the Cadbury Code of Best Practice and are able to report that the company has complied with the applicable provisions of the Code throughout the financial year.

### Board Committees

Membership of Board Committees is as detailed below:

<b>Charitable Contributions Committee</b>	<b>Remuneration Committee</b>
B Duckworth (Chairman)	A H Simon (Chairman)
A H Simon, D W Mattin	R H Boissier, R M Walker
	C Tritton
	Secretary — D W Mattin

### Audit Committee

A H Simon (Chairman)  
R Ireland, T D G Arculus  
Secretary — D W Mattin

**Treasury Committee**  
R. Ireland (Chairman)  
V. Cocker, R A S Costin  
C Tritton  
Secretary — D W Mattin

### Nominations Committee

R Ireland (Chairman)  
R H Boissier, A H Simon  
C Tritton  
Secretary — D W Mattin

from 31 May 1996

### Internal financial control

The board of Directors has overall responsibility for the group's system of internal financial control. The board has established an organisation structure with clear lines of accountability. Formalised processes are in place for the preparation, review and approval of business plans, budgets and investment proposals for the group as a whole and the individual operating units. Financial results and other key business monitors are monitored and reported regularly and variances from approved budgets identified and used to initiate action.

The board has published internally a group Accounting Policies and Procedures Manual, which is supplemented in each business unit by financial and operating control procedures appropriate thereto. The group's treasury affairs are managed centrally and in accordance with its Treasury Policies and Procedures Manual. Compliance with these policies and procedures is monitored by management, by the group's

internal auditors and, to the extent necessary to support their audit report, by the external auditors.

The board has established an Audit Committee which agrees audit strategies and receives reports from management on the published financial results of the group, and from the external auditors and the internal auditors on their findings. The board has also established a Treasury Committee which determines matters of treasury policy and whose approval is required for certain treasury transactions.

The financial control systems operated in each of the group's business activities have been designed in the light of the principal areas of financial risk to which it is exposed.

The board has reviewed the effectiveness of the system of internal financial control in respect of the period beginning 1 April 1995 until 10 June 1996, being the date on which the accounts were signed. The review has been based upon a self assessment process using standard software packages appropriately tailored to each business. The findings have been considered by management, the Audit Committee and the board.

The board recognises that any system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

### Going concern

Based upon its review of the group's budget for 1996/97, outline business plans for the next two years and the committed borrowing facilities available to the group, the board has a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements set out on pages 26 to 49 have been prepared on the going concern basis.

### Auditors

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

By order of the board

D W Mattin Company Secretary  
10 June 1996



# Report of the Remuneration Committee to the shareholders of Severn Trent Plc

The Remuneration Committee (the Committee) is responsible for determining the remuneration policy as applied to Severn Trent's Chairman and executive Directors. Its members are all non-executive Directors.

Members of the Committee during the year were as follows:

A H Simon (Chairman)  
 R H Boissier  
 C Tritton  
 R Ireland (until 31 July 1995)  
 A J Lloyd (until 12 March 1996)

With effect from 31 May 1996 Mr R M Walker was appointed to the Committee.

This report sets out the Committee's policy and disclosures on Directors' remuneration. In framing its remuneration policy, the Committee has given full consideration to Section B of the Best Practice provisions annexed to the Listing Rules of the London Stock Exchange.

## 1 Remuneration policy

The report of the study group on Directors' remuneration chaired by Sir Richard Greenbury (the Greenbury Report) in July 1995 strongly recommended that privatised utilities undertake a comprehensive review of their remuneration packages.

The Committee has undertaken such a review in conjunction with specialist external advisors, Arthur Andersen. This review confirmed that the executive Directors were paid at the lower end of the scale of companies of similar size and complexity across a variety of industry sectors. The review further recommended a number of changes to the overall remuneration package which the Committee has endorsed and which have been implemented.

The remuneration policy of the company continues to be to pay salaries which are competitive with businesses of similar size and complexity. The company aims both to attract and retain the high quality management necessary for the efficient running of the company and to balance profit enhancement with the interest of shareholders, customers, employees and the local community.

## 2 Service Contracts

Each of the executive Directors has a contract of service with the company which is terminable by the company on giving not less than two years' written notice and by the Director on giving not less than six months' written notice. As previously reported, in 1995 the executive Directors agreed, without compensation, to reduce the notice period applicable to their contracts of service from three years to two years. The Committee believes that this period of notice is in line with the market place and is

in fact necessary to enable the company to recruit and retain Directors of the requisite calibre. This will, however, be kept under review.

## 3 Executive Directors

The remuneration package of the executive Directors comprises four components:

### i) Basic salary and benefits

Basic salary reflects the executive Directors' experience and responsibility. All have been determined following the receipt of independent advice and have been established, by the Committee, at or below the levels advised.

The table below shows the basic fees and salaries of the Chairman and the executive Directors for the year to 31 March 1996 and those that have been set by the Committee for the year to 31 March 1997. Consistent with past practice the salary increase in respect of Mr Cocker is substantially below the level recommended by the Committee based on external comparisons. Mr Ireland, who on average devotes a minimum of two and a half days a week to the company's affairs, has not received an increase in his basic fees and salary since 1 January 1994. His present basic fees and salary are also below the level recommended by the Committee based on external comparisons.

	Basic salary for the year ended 31 March 1996 £	Basic salary for the year ending 31 March 1997 £
Chairman (including fees)		
R Ireland	100,000	100,000
Executives		
M J Bettington	100,000	110,000
V Cocker	180,000	185,000
R A S Costin	155,000	160,000
B Duckworth	120,000	130,000

– The company operates an Inland Revenue registered Profit Related Pay Scheme. The Scheme is open to UK employees including executive Directors.

The principal benefits of the executive Directors include the use of a motor car, fuel, and membership of private medical insurance and life assurance schemes.

### ii) Annual bonus

The annual bonus payable to executive Directors, which can amount to up to 35% of basic salary, is dependent upon the

achievement of certain financial and personal objectives. Four key performance measures are used to determine the level of the bonus: group profit before tax; profit before tax of the non-regulated businesses; achievement of personal objectives; and shareholder return calculated by reference to the growth in pre-tax earnings per share over a three year period relative to all the quoted water and sewerage companies.

The bonuses awarded by the Committee in respect of the year ended 31 March 1996 are shown in the lower table on page 23.

Following the independent review commissioned by the Committee, as recommended by the Greenbury report, the annual bonus scheme has been substantially revised with effect from 1 April 1996. The revised bonus arrangements reduce emphasis on purely financial performance and increase the focus on continuous improvement of quality measured by reference to performance in four areas represented by the company's four core values: namely Our Customers, Our Environment, Our Company and Our People.

As part of the Committee's policy of placing greater emphasis on variable, performance related remuneration, the maximum bonus payment under the new scheme has increased to 40% of basic salary. This increase has been matched with the setting of more demanding performance targets. The maximum bonus will only be achieved if there has been a substantial improvement in all four areas year on year.

The element of the bonus which relates to financial performance will make up 50% of the bonus available for payment. The element of the bonus that relates to achievement of personal objectives, customer satisfaction (as measured by independent market research) and the achievement of environmental quality objectives make up the remaining 50% of the bonus available for payment.

#### iii) Executive Share Option Scheme

Severn Trent currently operates an Inland Revenue approved Executive Share Option Scheme. However no grants of options have been made under this Scheme since December 1993 and it is intended that no further grants will be made to the executive Directors. The options previously granted to Directors under the Scheme are set out on page 24.

#### iv) Pensions

All executive Directors are eligible for membership of the Severn Trent Senior Staff Pension Scheme (the Scheme). The Scheme aims to provide members with a pension which, on retirement at age 60 with at least 20 years service, would amount to two thirds of their final pensionable pay. In common with most other schemes, the group's pension arrangements also provide executive Directors with additional benefits including life assurance cover, amounting to four times pensionable earnings' as well as pensions payable in the event of ill health and to dependants on death.

Executive Directors' pensionable earnings currently include

basic salary and bonus, and in the case of Mr V Cocker, benefits in kind. Following the overall review of Directors' remuneration, the Committee has decided that, where pensionable earnings include elements that do not comply with best practice, they will be phased out.

The executive Directors each contribute 6% of pensionable earnings to the Scheme. The company contribution rate is 42% (1995: 42%).

The company has future obligations to Mr R A S Costin, whose pensionable earnings are subject to the Inland Revenue cap (currently £78,600) which limits the amount of salary which may be treated as pensionable. The company has given undertakings to the Director affected, designed to bring his overall benefits up to the level that would have applied had the cap not been in place, by means of unfunded arrangements. The amount charged to the profit and loss account for this future obligation is £53,720 (1995: charge of £53,206 in respect of 1994/5 and £36,204 in respect of prior years).

#### v) Sharesave Scheme and Profit Sharing Scheme

The executive Directors, in common with all eligible employees of the group, are entitled to participate in the group's Inland Revenue approved Sharesave Scheme and the group's Inland Revenue approved Profit Sharing Scheme.

#### 4. Non-executive Directors

The remuneration of the non-executive Directors is determined by the board of Directors as a whole. The non-executive Directors exclude themselves from any discussion or decisions relating to their own specific remuneration. The remuneration reflects both the amount of time given and the contribution made by the non-executive Directors to the company's affairs and is formulated on the basis of independent advice received by the Board. The non-executive Directors and the Chairman do not receive any bonuses related to the company's performance, nor do they participate in any of the share or pension schemes operated by the company.

The fees of the non-executive Directors were last increased in 1991. Mr A H Simon's fees were increased to £29,750 with effect from 1 July 1995 to reflect his Chairmanship of the Remuneration and Audit Committees. Fees for the remaining non-executive Directors were increased to £25,000 with effect from 1 December 1995.

The Directors seeking re-appointment at the Annual General Meeting are Messrs Arculus, Flower, Ireland, Simon and Walker. All are non-executive Directors and do not have service agreements with the company.

## Report of the Remuneration Committee *continued*

### 5. Directors' emoluments

The emoluments (excluding pension contributions) of the Directors were within the following ranges:

	Directors			Directors	
	1996	1995		1996	1995
£5,001-10,000	-	1	£110,001-115,000	1	-
£15,001-20,000	1	1	£130,001-135,000	1	-
£20,001-25,000	3	2	£150,001-155,000	-	1
£25,001-30,000	1	1	£160,001-165,000	1	-
£35,001-40,000	1	-	£190,001-195,000	-	1
£45,001-50,000	-	1	£200,001-205,000	1	1
£50,001-55,000	-	1	£220,001-225,000	-	1
£95,001-100,000	-	1	£230,001-235,000	1	-

The emoluments of the Chairman, the executive Directors and fees payable to the non-executive Directors are as follows:

	Basic salary	Benefits	Annual	Other <sup>8</sup>	Total	Pension contributions		
	and fees	in kind	bonus			1995/96	1994/95	
	£000	£000	£000	£000	1995/96 £000	1994/95 £000	1995/96 £000	1994/95 £000
<b>Chairman</b>								
R Ireland <sup>1</sup>	100.0	10.1	-	-	110.1	100.0	-	-
<b>Executives</b>								
M J Bettington <sup>2</sup>	99.1	8.9	25.0	-	133.0	52.2	52.5	11.2
V Cocker	179.1	6.6	45.0	-	230.7	200.7	90.2	78.5
R A S Costin	154.1	11.1	38.7	-	203.9	190.3	33.0 <sup>3</sup>	32.3 <sup>3</sup>
B Duckworth <sup>4</sup>	119.1	12.1	30.0	-	161.2	50.0	58.6	18.1
R S Paul <sup>5</sup>	15.3	1.3	-	-	16.6	224.2	6.3	90.6
M P Upstone <sup>6</sup>	32.9	2.7	-	-	35.6	151.6	23.5	57.2
<b>Non-executives</b>								
R Baker-Wilbraham	-	-	-	-	-	7.3	-	-
R H Boissier	21.7	-	-	1.1	22.8	20.8	-	-
A J Lloyd <sup>7</sup>	20.6	-	-	1.1	21.7	16.9	-	-
A H Simon	27.3	-	-	0.4	27.7	29.6	-	-
C Tritton	21.7	-	-	0.8	22.5	20.3	-	-
<b>Total</b>	<b>790.9</b>	<b>52.8</b>	<b>138.7</b>	<b>3.4</b>	<b>985.8</b>	<b>1,063.9</b>	<b>264.1</b>	<b>287.9</b>

Until detailed guidance is available from the Institute and Faculty of Actuaries on disclosure of pension benefits under the Greenbury Committee's Code of Best Practice, the figures for pension contributions disclosed above are the contributions paid by the company.

1 The Chairman does not participate in any of the company's share schemes, bonus schemes or pension schemes and his only benefit in kind is a company car.

2 Mr M J Bettington was appointed as a Director on 8 November 1994 and therefore the 1994/95 emoluments were from that date.

3 See section 3(iv) above.

4 Mr B Duckworth was appointed as a Director on 8 November 1994 and therefore the 1994/95 emoluments were from that date.

5 Mr R S Paul retired from the Board on 28 April 1995. No compensation was paid to him.

6 Mr M P Upstone retired from the Board on 30 June 1995. No compensation was paid to him.

7 Mr A J Lloyd, a non-executive Director, retired from the Board on 12 March 1996. No compensation was paid to him.

8 Expenses paid to non-executive Directors.

### Directors' interests

The Directors of the company at 31 March 1996 and their beneficial interests in the shares of the company were as follows:

	At start of year	Exercised during the year	Lapsed	At the end of the year	Exercise price	Market price on date of exercise	Date from which exercisable	Expiry date
	No. of shares	No. of shares	No. of shares	No. of shares	pence	pence		
<b>Executive share options</b>								
M J Bettington	14,630	14,630	–	–	311	663	1995	2002
	9,808	–	–	9,808	497		1996	2003
	7,800	–	–	7,800	625		1996	2003
V Cocker	24,308	–	–	24,308	311		1995	2002
	19,315	–	–	19,315	497		1996	2003
	13,307	–	–	13,307	625		1996	2003
R A S Costin	58,350	–	–	58,350	497		1996	2003
	18,560	–	–	18,560	625		1996	2003
B Duckworth	12,676	–	–	12,676	311		1995	2002
	10,462	–	–	10,462	497		1996	2003
	8,528	–	–	8,528	625		1996	2003
<b>Sharesave options</b>								
M J Bettington	5,034	–	–	5,034	360		Apr 1998	Sep 1998
V Cocker	2,918	–	–	2,918	257		Apr 1997	Sep 1997
	2,493	–	–	2,493	415		Apr 2000	Sep 2000
R A S Costin	–	–	–	–	–		–	–
B Duckworth	3,501	–	–	3,501	257		Apr 1999	Sep 1999
	2,493	–	–	2,493	415		Apr 2000	Sep 2000

Mr M P Upstone, who retired during the year, held Executive Options at the start of the year over 32,588 shares. He also held Sharesave Options at the beginning of the year over 2,918 shares, 1,921 of which were exercised at their exercise price of 257 pence when the shares had a market price of 673 pence per share.

Mr R S Paul, who retired during the year, held Executive Options at the start of the year over 60,692 shares. He exercised options over 34,032 shares at their exercise price of 311 pence and over 26,660 shares at their exercise price of 497 pence when the shares had a market price of 604 pence per share. He also held Sharesave Options at the beginning of the year over 2,918 shares, 1,828 of which were exercised at their exercise price of 257 pence when the shares had a market price of 655 pence per share.

No executive share options were granted during the year. There was no change in the number of options held by the Directors remaining with the company between the year end and 1 June 1996.

At 31 March 1996 there were 122 other executives participating in the Executive Share Option Scheme (1995: 128).

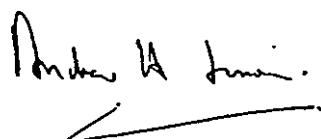
At 31 March 1996, the market price of the company's shares was 594 pence and the range during the year was 519 pence to 688 pence.

### Beneficial holdings in Ordinary Shares:

	At 1 April 1995 No. of shares	At 31 March 1996 No. of shares	At 1 June 1996 No. of shares
<b>Chairman</b>			
R Ireland	1,044	1,092	1,106
<b>Executive Directors</b>			
M J Bettington	–	1,000	1,000
V Cocker	16,248	16,795	16,967
R A S Costin	973	1,055	1,058
B Duckworth	15,900	10,297	10,436
<b>Non-executive Directors</b>			
R H Boissier	1,080	1,131	1,146
A H Simon	5,060	4,070	4,070
C Tritton	2,460	2,575	2,610

Mr Upstone and Mr Paul, who retired during the year, had beneficial holdings in Ordinary Shares at the start of the year of 8,004 and 44,323 respectively. Mr A J Lloyd, who resigned during the year, had no beneficial holdings in Ordinary Shares.

On behalf of the board



Andrew Simon Chairman, Remuneration Committee



# 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 26 to 49 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements 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.

# Auditors' report to the shareholders of Severn Trent Plc

We have audited the financial statements on pages 23 to 24 and 26 to 49 which have been prepared under the historical cost convention and the accounting policies set out on pages 30 to 32.

### Respective responsibilities of Directors and Auditors

As described above 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 judgements 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 misstatement, 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 affairs of the company and of the group as at 31 March 1996 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

**Price Waterhouse**



Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

10 June 1996

# Report to the Directors on corporate governance matters

In addition to our audit of the financial statements we have reviewed your statement on page 20 concerning the group's compliance with the paragraphs of the Code of Best Practice specified for our review by The London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code if not otherwise disclosed.

### Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures Relating to Corporate Governance' issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the group's system of internal financial control or corporate governance procedures, nor on the ability of the group to continue in operational existence.

### Opinion

In our opinion the Directors' statements on internal financial control and going concern on page 20 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related

guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and officers of the company and examination of relevant documents, your statement on page 20 appropriately reflects the group's compliance with the other paragraphs of the Code specified for our review.

**Price Waterhouse**

Chartered Accountants

**Price Waterhouse**



Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

10 June 1996



# Group profit and loss account

Year ended 31 March 1996

	Notes	1996 £m	1995 £m
Turnover	2	1,157.5	1,076.4
Operating costs before exceptional item		(740.2)	(704.1)
Restructuring provision		—	(55.0)
<b>Total operating costs</b>	3	<b>(740.2)</b>	<b>(759.1)</b>
Operating profit		417.3	317.3
Share of results of associated undertakings		3.5	2.0
<b>Profit before interest</b>	2	<b>420.8</b>	<b>319.3</b>
Net interest payable	5	(47.8)	(51.8)
<b>Profit on ordinary activities before taxation</b>		<b>373.0</b>	<b>267.5</b>
Taxation on profit on ordinary activities	6	(45.3)	(29.5)
<b>Profit for the financial year</b>		<b>327.7</b>	<b>238.0</b>
Dividends	7	(118.8)	(105.0)
<b>Retained profit for the financial year</b>	19	<b>208.9</b>	<b>133.0</b>
Earnings per share	8	89.6p	66.0p
Earnings per share before exceptional item	8	89.6p	81.3p

All activities are continuing operations.

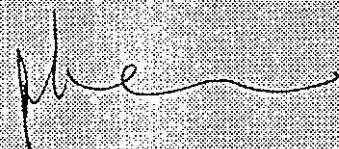


# Balance sheets

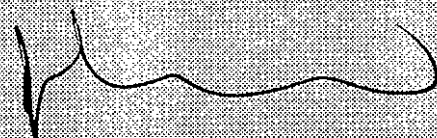
At 31 March 1996

	Notes	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
<b>Fixed assets</b>					
Tangible assets	9	3,353.9	3,217.8	7.1	7.4
Investments	10	32.2	30.5	1,720.6	1,346.3
		<b>3,386.1</b>	<b>3,248.3</b>	<b>1,727.7</b>	<b>1,353.7</b>
<b>Current assets</b>					
Stocks	11	41.6	36.2	-	-
Debtors	12	201.4	183.8	34.7	17.3
Short term deposits and investments	13	286.5	208.2	275.5	199.6
Cash at bank and in hand		3.9	13.0	-	-
		<b>533.4</b>	<b>441.2</b>	<b>310.2</b>	<b>216.9</b>
Creditors: amounts falling due within one year	14	(536.0)	(438.1)	(275.9)	(195.4)
<b>Net current (liabilities)/ assets</b>		<b>(2.6)</b>	<b>3.1</b>	<b>34.3</b>	<b>21.5</b>
<b>Total assets less current liabilities</b>		<b>3,383.5</b>	<b>3,251.4</b>	<b>1,762.0</b>	<b>1,375.2</b>
Creditors: amounts falling due after more than one year	15	(797.4)	(849.4)	(276.1)	(277.8)
Provisions for liabilities and charges	17	(75.0)	(111.8)	-	-
<b>Net assets</b>		<b>2,511.1</b>	<b>2,290.2</b>	<b>1,485.9</b>	<b>1,097.4</b>
<b>Capital and reserves</b>					
Called up share capital	18	366.7	363.9	366.7	363.9
Share premium account	19	3.1	3.3	3.1	3.3
Profit and loss account	19	2,141.0	1,922.8	1,116.1	730.2
<b>Shareholders' funds</b>		<b>2,510.8</b>	<b>2,290.0</b>	<b>1,485.9</b>	<b>1,097.4</b>
Minority shareholders' interest		0.3	0.2	-	-
		<b>2,511.1</b>	<b>2,290.2</b>	<b>1,485.9</b>	<b>1,097.4</b>

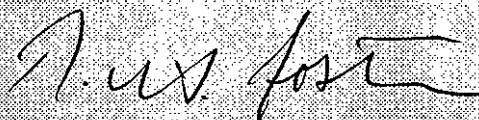
Signed on behalf of the board who approved the accounts on 10 June 1996.



Richard Ireland  
Chairman




Alan Costin  
Group Finance Director





# Group cash flow statement

Year ended 31 March 1996

	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	22a	492.7	482.3
Returns on investments and servicing of finance			
Interest received		24.1	13.7
Interest paid		(56.0)	(53.8)
Interest element of finance lease rental payments		(1.2)	(2.4)
Dividends received		2.2	2.1
Dividends paid		(94.0)	(71.5)
Net cash outflow from returns on investments and servicing of finance		(124.9)	(111.9)
Tax paid		(26.8)	(20.8)
Investing activities			
Purchase of tangible fixed assets		(267.3)	(334.5)
Grants received		19.7	25.5
Investment in associated undertakings		(0.2)	(3.2)
Loans advanced to associated undertakings		(3.4)	(6.6)
Loans repaid by associated undertakings		1.0	4.3
Purchase of businesses/subsidiary undertakings	22b	(0.8)	(1.8)
Sale of tangible fixed assets		6.4	6.5
Net cash outflow from investing activities		(244.6)	(309.8)
Net cash inflow before financing		96.4	39.8
Financing			
Maturity/(purchase) of short term deposits		15.7	(69.6)
Loans advanced		2.2	-
Loans repaid		(11.8)	(5.6)
Finance lease capital repaid		(14.9)	(14.5)
Shares issued net of expenses		1.4	5.2
Net cash outflow from financing	22c	(7.4)	(84.5)
Increase/(decrease) in cash and cash equivalents	22d	89.0	(44.7)

## Reconciliation of movement in net debt with cash flow before financing

	Notes	1996 £m	1995 £m
Net cash inflow before financing (as above)		96.4	39.8
Shares issued net of expenses (as above)		1.4	5.2
Inception of finance lease contracts	22c	(12.2)	(36.3)
Currency translation differences	22c	0.2	-
Reduction in net debt	22e	85.8	8.7



# Statement of total recognised gains and losses

Year ended 31 March 1996

	Group	
	1996 £m	1995 £m
Profit for the financial year	327.7	238.0
Currency translation differences	0.3	3.4
<b>Total recognised gains and losses for the year</b>	<b>328.0</b>	<b>241.4</b>

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

## 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	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Profit for the financial year		327.7	238.0	493.7	106.4
Dividends		(118.8)	(105.0)	(118.8)	(105.0)
		208.9	133.0	374.9	1.4
Other recognised gains and losses relating to the year		0.3	3.4	—	—
Shares issued (net of expenses)	18	2.6	5.2	2.6	5.2
Scrip dividend	19	11.0	10.2	11.0	10.2
Goodwill written off in respect of deferred consideration	19	(2.0)	(1.2)	—	—
<b>Net addition to shareholders' funds</b>		<b>220.8</b>	<b>150.6</b>	<b>388.5</b>	<b>16.8</b>
Shareholders' funds at 1 April 1995		2,290.0	2,139.4	1,097.4	1,080.6
<b>Shareholders' funds at 31 March 1996</b>		<b>2,510.8</b>	<b>2,290.0</b>	<b>1,485.9</b>	<b>1,097.4</b>



# Notes to the financial statements

Year ended 31 March 1996

## 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 policy on grants and contributions 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 are accounted for on the equity basis where the company's holding is 20% 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:

#### i) Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines.

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 serviceability of the network in accordance with defined standards of service is charged as an operating cost (note 1f).

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:

	years
Buildings	30-60
Operational structures	40-80
Fixed plant	20-40
Vehicles, mobile plant and computers	3-10

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

**e) 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. Lease 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.

**f) Infrastructure renewals accounting**

The charge to the profit and loss account for infrastructure renewals expenditure takes account of planned expenditure on maintaining the serviceability of infrastructure assets in accordance with the operational policies and standards underlying Severn Trent Water Limited's investment programme, and is indexed to reflect the impact of price changes since the programme was prepared. Expenditure during the year is charged to the infrastructure renewals provision.

**g) Grants and contributions**

Grants and contributions received in respect of non infrastructure assets are treated as deferred income 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 to 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 £120.1 million lower than it would otherwise have been (1995: £104.1 million).

**h) 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.

**i) 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. The net realisable value of development land is based upon its value as a serviced site after taking account of the cost of providing infrastructure services.

**j) 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.

**k) Environmental control and aftercare costs**

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

**l) 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.



## 1 Accounting policies (continued)

### m) 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.

### n) Research and development

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

### o) 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.

### p) 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.

### q) 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 profit before interest by geographical origin and type of business

	United Kingdom		Other – principally Europe and USA		Group	
	1996	1995	1996	1995	1996	1995
	£m	£m	£m	£m	£m	£m
<b>Turnover</b>						
Water and sewerage services	895.6	847.0	–	–	895.6	847.0
Waste management	130.1	123.6	43.2	30.6	173.3	154.2
Related businesses	92.7	71.6	56.2	50.7	148.9	122.3
Inter segment trading	(59.7)	(47.1)	(0.6)	–	(60.3)	(47.1)
	<b>1,058.7</b>	<b>995.1</b>	<b>98.8</b>	<b>81.3</b>	<b>1,157.5</b>	<b>1,076.4</b>
<b>Profit before interest</b>						
Water and sewerage services	400.8	362.6	–	–	400.8	362.6
Exceptional restructuring provision	–	(55.0)	–	–	–	(55.0)
<b>Water and sewerage services after exceptional item</b>	<b>400.8</b>	<b>307.6</b>	<b>–</b>	<b>–</b>	<b>400.8</b>	<b>307.6</b>
Waste management	17.3	12.1	3.9	5.3	21.2	17.4
Related businesses	3.8	2.5	2.9	(0.8)	6.7	1.7
	<b>421.9</b>	<b>322.2</b>	<b>6.8</b>	<b>4.5</b>	<b>428.7</b>	<b>326.7</b>
Corporate overheads					(7.9)	(7.4)
					<b>420.8</b>	<b>319.3</b>

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.

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

	United Kingdom		Other – principally Europe and USA		Group	
	1996	1995	1996	1995	1996	1995
	£m	£m	£m	£m	£m	£m
Water and sewerage services	2,968.0	2,818.4	–	–	2,968.0	2,818.4
Waste management	97.7	88.1	26.8	24.4	124.5	112.5
Related businesses	25.7	22.5	39.4	38.5	65.1	61.0
<b>Net operating assets</b>	<b>3,091.4</b>	<b>2,929.0</b>	<b>66.2</b>	<b>62.9</b>	<b>3,157.6</b>	<b>2,991.9</b>
Short term deposits and investments, cash, borrowings, taxation balances and dividends payable					(646.5)	(701.7)
					<b>2,511.1</b>	<b>2,290.2</b>



### 3 Operating costs

	1996	Before exceptional restructuring provision	Exceptional restructuring provision	Total 1995
	£m	1995 £m	1995 £m	£m
Wages and salaries	196.2	199.8	32.4	232.2
Social security costs	18.6	18.6	—	18.6
Pension costs (note 21)	15.6	12.5	11.4	23.9
<b>Total employee costs</b>	<b>230.4</b>	<b>230.9</b>	<b>43.8</b>	<b>274.7</b>
Hired and contracted services	56.0	43.6	—	43.6
Power	42.7	39.1	—	39.1
Raw materials and consumables	56.8	43.2	—	43.2
Rates	37.2	37.7	—	37.7
Service charges	17.6	14.8	—	14.8
Agencies	17.7	18.5	—	18.5
Waste disposal costs	23.3	22.7	—	22.7
Other operating costs	111.5	101.4	2.0	103.4
Depreciation — on owned assets	114.2	100.4	—	100.4
— on assets held under finance leases	11.4	8.5	—	8.5
Infrastructure renewals charge (note 17a)	55.1	51.8	—	51.8
Environmental and landfill restoration costs (note 17a)	3.9	3.9	—	3.9
Tariff rebalancing costs	—	23.5	—	23.5
Operating lease rentals — land and buildings	3.0	2.8	—	2.8
— other	2.3	3.0	—	3.0
Hire of plant and machinery	6.5	5.7	—	5.7
Research and development expenditure	6.0	7.4	—	7.4
Auditors' remuneration — audit work	0.5	0.5	—	0.5
— non audit work	0.1	0.2	—	0.2
Tangible fixed assets write off	—	—	9.2	9.2
Profit on disposal of fixed assets	(1.1)	(1.6)	—	(1.6)
	<b>795.1</b>	<b>758.0</b>	<b>55.0</b>	<b>813.0</b>
Own work capitalised	(54.9)	(53.9)	—	(53.9)
	<b>740.2</b>	<b>704.1</b>	<b>55.0</b>	<b>759.1</b>

Included in auditors' remuneration is £42,000 (1995: £42,000) in respect of the audit of the company. Details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 21 to 24.



#### 4 Employee numbers

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

	1996 No.	1995 No.
<b>By type of business:</b>		
Water and sewerage services	5,930	6,531
Waste management	2,256	2,202
Related businesses	1,851	1,895
	<b>10,037</b>	<b>10,628</b>
<b>By geographical location:</b>		
United Kingdom	8,935	9,533
Other — principally Europe and USA	1,102	1,095
	<b>10,037</b>	<b>10,628</b>

#### 5 Net interest payable

	1996 £m	1995 £m
Interest receivable and similar income	20.8	15.1
Interest payable and similar charges:		
Bank loans and overdrafts	(22.3)	(20.1)
Other loans	(34.6)	(34.8)
Finance leases	(11.7)	(12.0)
	<b>(47.8)</b>	<b>(51.8)</b>



## 6 Taxation on profit on ordinary activities

	1996 £m	1995 £m
UK corporation tax – current year	43.9	8.0
– prior years	(8.3)	–
Double taxation relief	(1.4)	(1.4)
Overseas taxation	3.5	2.9
Share of taxation charges of associated undertakings	1.5	1.5
Advance corporation tax – current year	3.1	20.1
– prior year	3.0	(1.6)
	<b>45.3</b>	<b>29.5</b>

The corporation tax charge for the year has been reduced by the excess of capital allowances over depreciation.

No provision for deferred taxation is required for the year ended 31 March 1996. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £15.2 million (1995: £16.7 million).

At 31 March 1996, the group had tax losses of approximately £45 million (1995: £78 million) which will be available for offset against future trading profits. The comparative figure for tax losses has been restated to take account of computations submitted to the relevant tax authorities.

## 7 Dividends

	1996		1995	
	Pence per share	£m	Pence per share	£m
Interim dividend declared	9.20	33.7	8.23	29.8
Second interim dividend declared	3.84	14.1	3.84	14.0
Final dividend proposed	19.33	71.0	16.80	61.2
	<b>32.37</b>	<b>118.8</b>	<b>28.87</b>	<b>105.0</b>

## 8 Earnings per share

Earnings per share is calculated on the net basis on earnings of £327.7 million (1995: £238.0 million), divided by 365.6 million shares being the average number of shares in issue during the year (1995: 360.4 million). For the year ended 31 March 1995, earnings per share is also shown calculated on earnings of £293.0 million, being earnings before the exceptional restructuring provision, since the Directors consider that this gives a useful additional indication of underlying performance.

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



## 9 Tangible assets

	Group			Company	
	Land and buildings	Infrastructure assets	Plant and equipment	Total	
	£m	£m	£m	£m	
<b>Cost</b>					
At 1 April 1995	1,302.8	1,375.3	1,253.4	3,931.5	8.3
Additions	81.8	79.8	129.2	290.8	-
Grants and contributions	-	(16.0)	-	(16.0)	-
Disposals	(3.5)	(1.0)	(34.8)	(39.3)	-
Reclassification and transfers	(2.6)	1.0	2.0	0.4	-
Exchange adjustments	-	-	0.7	0.7	-
<b>At 31 March 1996</b>	<b>1,378.5</b>	<b>1,439.1</b>	<b>1,350.5</b>	<b>4,168.1</b>	<b>8.3</b>
<b>Depreciation</b>					
At 1 April 1995	337.6	-	376.1	713.7	0.9
Charge for year	32.5	-	93.1	125.6	0.3
Disposals	(1.7)	-	(23.7)	(25.4)	-
Exchange adjustments	-	-	0.3	0.3	-
<b>At 31 March 1996</b>	<b>368.4</b>	<b>-</b>	<b>445.8</b>	<b>814.2</b>	<b>1.2</b>
<b>Net book value</b>					
At 31 March 1996	<b>1,010.1</b>	<b>1,439.1</b>	<b>904.7</b>	<b>3,353.9</b>	<b>7.1</b>
At 31 March 1995	965.2	1,375.3	877.3	3,217.8	7.4

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

	1996	1995
	£m	£m
Cost	195.6	205.0
Accumulated depreciation	(42.6)	(41.5)
<b>Net book value</b>	<b>153.0</b>	<b>163.5</b>

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 1g.

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

	1996	1995
	£m	£m
Freehold	997.9	953.7
Long leasehold	1.2	1.1
Short leasehold	11.0	10.4
<b>Total</b>	<b>1,010.1</b>	<b>965.2</b>

iv) The net book value of land and buildings includes £49.1 million (1995: £44.6 million) in respect of landfill sites.

## 9 Tangible assets (continued)

v) Included in the above are the following tangible fixed assets not subject to depreciation:	1996 £m	1995 £m
Land	22.7	21.8
Infrastructure assets	1,439.1	1,375.3
Assets in the course of construction	281.0	356.7
	<b>1,742.8</b>	<b>1,753.8</b>

vi) At 31 March 1996 the company's tangible fixed assets comprised freehold land and buildings with a net book value of \$6.3 million (1995: \$6.3 million) and plant and equipment with a net book value of \$0.8 million (1995: \$1.1 million).

## 10 Investments

Group	Interests in associated undertakings	Other investments	Total
	£m	£m	£m
At 1 April 1995	30.1	0.4	30.5
Net additions	2.1	—	2.1
Share of profits	2.0	—	2.0
Dividends received	(2.2)	—	(2.2)
Currency translation differences	(0.2)	—	(0.2)
<b>At 31 March 1996</b>	<b>31.8</b>	<b>0.4</b>	<b>32.2</b>

Interests in associated undertakings at 31 March 1996 comprised the group's share of net assets less provisions of £20.9 million (1995: £21.7 million) and loans of £10.9 million (1995: £8.4 million). The group's share of the post acquisition accumulated reserves of associated undertakings at 31 March 1996 was £1.5 million (1995: £1.6 million).

Particulars of the group's associated undertakings at 31 March 1996 are:

	Nature of business	Percentage of share capital held	Issued share capital		
			A ordinary shares of £1	B ordinary shares of £1	Other classes of shares
Biogas Generation Limited	Power Generation	50%	20,000#	20,000	—
Biogeneration Limited	Power Generation	50%	500#	500	—
GMI Rovinian Limited	Property Development	50%	25,000	25,000#	—
Graham Carbons Limited	Carbon Regeneration	50%	20,000#	20,000	—
Minworth Systems Limited	Process Monitoring Equipment	49%	51,000	49,000#	—
Aquaflin NV	Sewerage Undertaking	20%	—	—	800,000 shares at 10,000 BEF/share
Indaqua Industria e Gestao de Aguas SA	Water Undertaking	30%	—	—	250,000 shares at 1,000 escudos/share
Industrias del Agua SA de CV	Water Undertaking	49%	—	—	10,000,000 common shares

# Held by the group

The country of incorporation, registration and main operation is Great Britain with the exceptions of Aquaflin (Belgium), Indaqua Industria (Portugal) and Industrias del Agua (Mexico). The group financial statements incorporate a trading period for Aquaflin of twelve months to its accounting reference date of 31 December 1995.



## 10 Investments (continued)

The principal subsidiary undertakings of the group are listed in note 23. Subsidiary undertakings audited by Price Waterhouse account for more than 97% of turnover.

A complete list of subsidiary undertakings is available on request to the company and will be filed with the next Annual Return to the Registrar of Companies.

Company	Subsidiary undertakings		Associated undertakings	Other investments	Total
	Shares £m	Loans £m	£m	£m	£m
At 1 April 1995	1,227.3	117.8	1.0	0.2	1,346.3
Net additions	6.4	367.9	—	—	374.3
Transfer to subsidiary undertaking	0.8	0.2	(1.0)	—	—
<b>At 31 March 1996</b>	<b>1,234.5</b>	<b>485.9</b>	<b>—</b>	<b>0.2</b>	<b>1,720.6</b>

## 11 Stocks

	Group	
	1996 £m	1995 £m
Stocks and work in progress	12.5	11.0
Development land and properties	29.1	25.2
	<b>41.6</b>	<b>36.2</b>

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

## 12 Debtors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Trade debtors	117.8	102.6	—	—
Amounts owed by group undertakings	—	—	31.6	13.3
Amounts owed by associated undertakings	3.2	2.1	—	—
Taxation recoverable	0.7	0.4	—	—
Other debtors	9.7	13.5	0.1	0.1
Prepayments and accrued income	70.0	65.2	3.0	3.9
	<b>201.4</b>	<b>183.8</b>	<b>34.7</b>	<b>17.3</b>

Debtors include £2.1 million (1995: £4.3 million) which falls due after more than one year.

### 13 Short term deposits and investments

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Short term deposits	284.1	201.5	275.5	199.6
Other investments	2.4	6.7	-	-
	<b>286.5</b>	<b>208.2</b>	<b>275.5</b>	<b>199.6</b>

### 14 Creditors: amounts falling due within one year

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Bank overdrafts	6.5	10.6	108.8	46.1
Bank loans	30.2	2.7	-	-
Other loans	0.3	0.8	-	-
Obligations under finance leases	8.6	11.7	-	-
Borrowings (note 16)	45.6	25.8	108.8	46.1
Trade creditors	56.4	53.1	0.1	0.1
Other creditors	12.1	6.7	3.5	3.0
Taxation and social security	9.1	8.1	-	-
Advance corporation tax payable	28.8	25.5	28.8	25.5
Corporation tax payable	18.3	4.5	-	-
Dividends payable	118.8	105.0	118.8	105.0
Accruals and deferred income	246.9	209.4	15.9	15.7
	<b>536.0</b>	<b>438.1</b>	<b>275.9</b>	<b>195.4</b>



**15. Creditors: amounts falling due after more than one year**

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Bank loans	268.7	295.4	—	—
Other loans	290.4	300.5	275.0	275.0
Obligations under finance leases	167.0	166.6	—	—
Borrowings (note 16)	726.1	762.5	275.0	275.0
Deferred income	59.8	60.6	—	—
Other	11.5	26.3	1.1	2.8
	<b>797.4</b>	<b>849.4</b>	<b>276.1</b>	<b>277.8</b>

**16. Borrowings**

Group	Loans and overdrafts			1996	1995
	Repayable by instalments any of which are payable after five years £m	Other repayment terms £m	Finance leases £m	Total £m	Total £m
Within one year (note 14)	3.7	33.3	8.6	45.6	25.8
Between one and two years	5.0	23.2	1.4	29.6	36.2
Between two and five years	25.6	428.0	—	453.6	325.3
After more than five years	24.2	53.1	165.6	242.9	401.0
	<b>58.5</b>	<b>537.6</b>	<b>175.6</b>	<b>771.7</b>	<b>788.3</b>

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	1996 £m	1995 £m
European Investment Bank loans — 2002-2003	6.4 – 9.0	95.5	120.5
Local authority loans — 2010-2035	6.9 – 10.0	15.5	15.8
Bonds due 2001	11.6	—	125.0
Other loans	3.0 – 7.2	0.6	0.2
		<b>111.6</b>	<b>261.5</b>

**Company**

The company has other loans totalling £275.0 million which are repayable within five years (1995: £275.0 million of which amounts repayable after five years comprised Bonds due 2001 of £125.0 million).



## 17 Provisions for liabilities and charges

a) Provisions comprise:	Balance at	Charged to	Balance at	
	1 April 1995 £m	profit & loss account £m	Utilised £m	31 March 1996 £m
Infrastructure renewals	41.3	55.1	(66.7)	29.7
Environmental and landfill restoration	18.2	3.9	(6.8)	15.3
Restructuring	43.6	-	(24.3)	19.3
Insurance	7.1	2.5	-	9.6
Other	1.6	1.6	(2.1)	1.1
	<b>111.8</b>	<b>63.1</b>	<b>(99.9)</b>	<b>75.0</b>

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £3.5 million (1995: £3.5 million).

Acquisition provisions included above are analysed as follows:

	£m
At 1 April 1995	13.7
Utilised	(2.8)
<b>At 31 March 1996</b>	<b>10.9</b>

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

b) Potential deferred taxation liabilities not provided:

	1996 £m	1995 £m
Capital allowances	233.7	215.0
Other timing differences	(33.8)	(47.7)
Available tax losses	(14.8)	(25.8)
Advance corporation tax not immediately recoverable	(116.3)	(87.9)
	<b>68.8</b>	<b>53.6</b>

In addition to the amounts set out in the table above, there is advance corporation tax of £2.2 million (1995: £24.5 million) which is available to set against the group's liability on taxable profits arising in future periods.

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of a disposal of such assets at amounts in excess of their tax written down value. In the opinion of the Directors, the likelihood of a liability crystallising in the foreseeable future is remote. Accelerated capital allowances on infrastructure assets of £365.7 million (1995: £330.1 million), assuming a tax rate of 33%, have therefore been excluded from the amounts set out above.

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



## 18 Called up share capital

	1996	1995
	£m	£m
Authorised:		
475,000,000 Ordinary Shares of £1	475.0	475.0
One unclassified share of £1		
Issued and fully paid:		
366,701,762 Ordinary Shares of £1 (1995: 363,900,935)	366.7	363.9

### a) Shares issued during the year

2,024,871 Ordinary Shares were issued in lieu of cash of £11.0 million in respect of the first interim and final dividends for the year ended 31 March 1995. Scrip issue costs were £0.3 million.

330,816 ordinary shares were issued at 176p, 239p, 257p, 360p, 482p, or 415p under the group's Employee Sharesave Scheme and 243,835 ordinary shares were issued at 310p, 311p or 497p under the group's Executive Share Option Scheme. 201,305 Ordinary Shares were issued at 600p as deferred consideration for the purchase of a subsidiary undertaking. The aggregate consideration in respect of these allotments was £2.9 million.

### b) Employee share schemes

#### i) The Severn Trent Share Schemes

The issued and paid up share capital of the company includes 2,064,833 (1995: 1,853,763) Ordinary Shares issued under The Severn Trent Share Schemes. These shares are held in trust on behalf of employees who are beneficially entitled to the shares.

#### ii) Employee Sharesave Scheme

Under the terms of the 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	
			1996	1995
December 1989	1995 or 1997	176p	805,279	930,829
January 1991	1996 or 1998	239p	646,084	731,075
January 1992	1997 or 1999	257p	1,341,689	1,559,280
January 1993	1998 or 2000	360p	977,645	1,093,092
January 1994	1999 or 2001	482p	720,752	813,506
January 1995	2000 or 2002	415p	1,290,458	1,387,398
January 1996	2001 or 2003	535p	819,956	-

#### iii) Executive Share Option Scheme

Under the terms of the Executive Share Option Scheme, the Board has granted Directors and other 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	
				1996	1995
January 1990	3	1993 - 2000	262p	22,949	22,949
January 1991	1	1994 - 2001	310p	15,967	47,901
January 1992	88	1995 - 2002	311p	662,655	812,015
March 1993	109	1996 - 2003	497p	605,651	672,719
December 1993	122	1996 - 2003	625p	506,703	518,591

## 19 Reserves

Group	Share premium account £m	Profit & loss account £m
At 1 April 1995	3.3	1,922.8
Goodwill	-	(2.0)
Retained profit for the year	-	208.9
Shares issued	2.1	-
Scrip dividend (including expenses)	(2.3)	11.0
Currency translation differences	-	0.3
<b>At 31 March 1996</b>	<b>3.1</b>	<b>2,141.0</b>

Company	Share premium account £m	Profit & loss account £m
At 1 April 1995	3.3	730.2
Retained profit for the year	-	374.9
Shares issued	2.1	-
Scrip dividend (including expenses)	(2.3)	11.0
<b>At 31 March 1996</b>	<b>3.1</b>	<b>1,116.1</b>

The profit attributable to shareholders, dealt with in the accounts of the company was £493.7 million (1995: £106.4 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the company.

At 31 March 1996 cumulative goodwill written off against group reserves amounted to £246.1 million (1995: £244.1 million). Goodwill written off in the year principally relates to deferred consideration for prior year acquisitions.

## 20 Commitments and contingent liabilities

a) Investment expenditure commitments	1996 £m	1995 £m
Contracted for but not provided in the financial statements	<b>178.3</b>	<b>87.6</b>

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**

The group is committed to making the following payments during the next year in respect of operating leases which expire as follows:

	1996		1995	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.5	0.6	0.5	0.8
Between one and five years	1.9	1.4	2.0	1.6
After five years	2.5	-	1.7	-
	4.9	2.0	4.2	2.4

c) Group undertakings have entered into bonds in the normal course of business. The company has entered into guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

d) 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.

**21 Pensions**

The principal pension schemes operated by the group are the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS). These defined benefit schemes are fully funded to cover future salary and pension increases and their assets are held in separate trustee administered funds. In addition, there is a defined benefit scheme for senior staff and defined contribution schemes operated by certain overseas subsidiary undertakings. The pension charge for the year ended 31 March 1996 was £15.6 million (1995: £12.5 million before the exceptional restructuring charge).

**STWPS**

An actuarial valuation of STWPS was carried out at 31 March 1995 by an independent professionally qualified actuary using the projected unit method. The principal assumptions used were as follows:

	% per annum
Investment return	9
Salary increases	7
Pension increases	5.5
Dividend growth	4.5

The actuarial value of the scheme's assets was £392.9 million, which exceeded by 4% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings.

The surplus is being spread over the estimated period of employees' average service lives with the group on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £398.0 million.

As recommended by the actuary, with effect from 1 April 1995, the employer's contribution to STWPS has been increased to the rate of 11.88%, 9.9% or 5.94% (1995: 8.8%, 7.35% or 4.4%) of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay according to their choice.



## 21 Pensions (continued)

### STMIS

The most recent valuation of STMIS was carried out at 31 March 1994 by an independent professionally qualified 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 assumptions used were the same as noted for STWPS above. The actuarial value of the scheme's assets was £51.7 million, which exceeded by 11% the actuarial value of benefits accrued to members, after allowing for future increases in earnings. The surplus is being spread over the estimated period of employees' average service lives with the group on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £58.3 million. The employers' contribution to STMIS continues unchanged at the rate of 9.54% or 7.95% of pensionable pay of STMIS members whose contributions are at the rate of 6% or 5% respectively.

## 22 Cash flow statement

	1996	1995
	£m	£m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	420.8	319.3
Currency translation differences	-	(0.3)
Share of results of associated undertakings	(3.5)	(2.0)
Provisions relating to associated undertakings	-	2.3
Depreciation charge	125.6	108.9
Profit on sale of tangible fixed assets	(1.1)	(1.6)
Deferred income received	2.8	13.7
Deferred income written back	(3.6)	(3.0)
Provisions for liabilities and charges (note 17a)	63.1	116.8
Utilisation of provisions for liabilities and charges	(101.0)	(82.0)
Increase in stocks	(5.2)	(13.6)
(Increase)/decrease in debtors	(15.5)	8.2
Increase in creditors	10.3	15.6
<b>Net cash inflow from operating activities</b>	<b>492.7</b>	<b>482.3</b>
b) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of businesses and subsidiary undertakings		
	1996	1995
	£m	£m
Consideration	-	0.3
Deferred consideration	0.8	1.5
<b>Net outflow of cash and cash equivalents in respect of the purchase of businesses and subsidiary undertakings</b>	<b>0.8</b>	<b>1.8</b>



c) Analysis of changes in financing during the year	Share capital	Loans and	Current	1996	1995
	(including share premium)	finance lease obligations	asset investments		
	£m	£m	£m		
	Total	Total	Total		
At 1 April 1995	367.2	777.7	(135.5)	1,009.4	1,057.6
Cash flows from financing	1.4	(24.5)	15.7	(7.4)	(84.5)
Inception of finance lease contracts	-	12.2	-	12.2	36.3
Shares issued as deferred consideration	1.2	-	-	1.2	-
Currency translation differences	-	(0.2)	-	(0.2)	-
<b>At 31 March 1996</b>	<b>369.8</b>	<b>765.2</b>	<b>(119.8)</b>	<b>1,015.2</b>	<b>1,009.4</b>

d) Analysis of cash and cash equivalents as shown in the balance sheet	Change in year	1996	1995
	£m	£m	£m
Cash at bank and in hand	(9.1)	3.9	13.0
Deposits with maturity date of less than 3 months	94.0	166.7	72.7
Bank overdrafts	4.1	(6.5)	(10.6)
	<b>89.0</b>	<b>164.1</b>	<b>75.1</b>

e) Analysis of net debt as shown in the balance sheet	Notes	Change in year	1996	1995
		£m	£m	£m
Short term deposits and investments	13	78.3	286.5	208.2
Cash at bank and in hand		(9.1)	3.9	13.0
Borrowings	16	16.6	(771.7)	(788.3)
<b>Decrease in net debt</b>		<b>85.8</b>	<b>(481.3)</b>	<b>(567.1)</b>



**Water and sewerage services**

**#Severn Trent Water Limited**  
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**Directors**

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B Duckworth  
J K Banyard  
M Lily  
D W Mattin  
G P Noone  
A Q Todd  
T D A Tricker  
M Wilson

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D A Brown  
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S J Parrott  
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**Other related businesses**

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M R Knight  
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J Graziop  
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B A W Dunkey  
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J A Wilkes

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I J Hislop

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Limited**

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R K Peace

**#Tetra Europe Limited**

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C Borowski  
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**Others**

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Limited**

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C J G Jones  
D J Keeling  
R A Lee  
C M Nunn  
P T Simpson  
J G Campbell  
D R Gutteridge

**Derwent Insurance Limited**

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Guernsey  
Telephone: 01481 710555

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J B Langlois  
J Mann  
D W Mattin  
P Tandon

**Severn Trent (Del) Inc**

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and operational in the United  
States of America)  
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USA  
Telephone: 001 215 997 6530

**Directors**

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D W Mattin  
J R Whalen (Jr)

**#Severn Trent Overseas Holdings  
Limited**

(Holding Company)  
2297 Coventry Road  
Birmingham B26 3PU

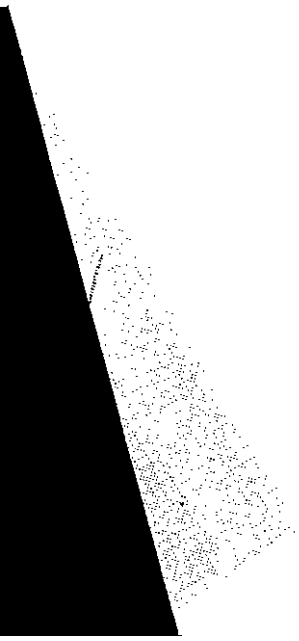
**Directors**

R A S Costin  
M R Knight  
D W Mattin

# Held directly by the company

Country of incorporation,  
registration and main operation is  
Great Britain unless otherwise  
stated.

All subsidiary undertakings are  
wholly owned unless otherwise  
indicated and all shareholdings  
are in ordinary shares.





# Five year summary

	1996	1995	1994	1993	1992
	£m	£m	£m	£m	£m
<b>Profit and loss account</b>					
Turnover	1,157.5	1,076.4	998.0	904.6	821.7
Profit before interest before exceptional item	420.8	374.3	329.7	299.0	260.8
Exceptional item	-	(55.0)	-	-	8.6
Income from investments	-	-	-	-	0.3
Net interest (payable)/ receivable	(47.8)	(51.8)	(48.3)	(28.9)	4.3
Profit on ordinary activities before taxation	373.0	267.5	281.4	270.1	274.0
Taxation on profit on ordinary activities	(45.3)	(29.5)	(21.2)	(22.5)	(24.1)
Profit for the financial year	327.7	238.0	260.2	247.6	249.9
Dividends	(118.8)	(105.0)	(81.7)	(75.1)	(68.3)
Retained profit for the financial year	208.9	133.0	178.5	172.5	181.6
<b>Net assets employed</b>					
Fixed assets	3,386.1	3,248.3	3,029.7	2,723.8	2,310.8
Net liabilities excluding net debt	(318.7)	(279.2)	(239.3)	(251.2)	(221.6)
Provisions for liabilities and charges	(75.0)	(111.8)	(75.0)	(70.0)	(89.5)
	2,992.4	2,857.3	2,715.4	2,402.6	1,999.7
<b>Financed by</b>					
Called up share capital	366.7	363.9	358.9	356.1	353.8
Reserves	2,144.1	1,926.1	1,780.5	1,623.7	1,476.2
Shareholders' funds	2,510.8	2,290.0	2,139.4	1,979.8	1,830.0
Minority shareholders' interest	0.3	0.2	0.2	0.4	0.1
Net debt	481.3	567.1	575.8	422.4	169.6
	2,992.4	2,857.3	2,715.4	2,402.6	1,999.7
<b>Statistics</b>					
Earnings per share	89.6p	66.0p	72.7p	69.9p	70.6p
Earnings per share before exceptional item	89.6p	81.3p	72.7p	69.9p	68.2p
Dividends per share	28.53p	25.03p	22.75p	21.1p	19.3p
Second Interim dividend	3.84p	3.84p	-	-	-
Dividend cover	2.8	2.3	3.2	3.3	3.7
Gearing	19.2%	24.8%	26.9%	21.3%	9.3%
Share price at 31 March (fully paid)	594p	514p	570p	519p	319p
Average number of employees – Water and sewerage services	5,930	6,531	6,954	7,445	7,456
– Other	4,107	4,097	3,829	3,074	2,960

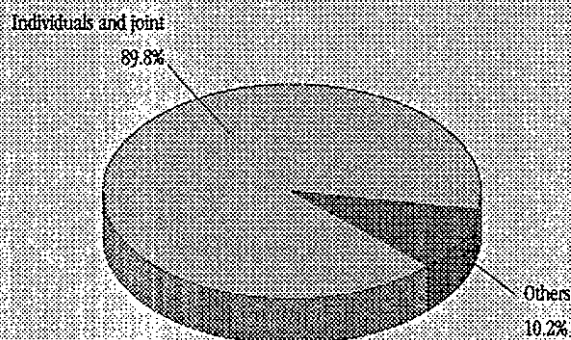


# Shareholder information

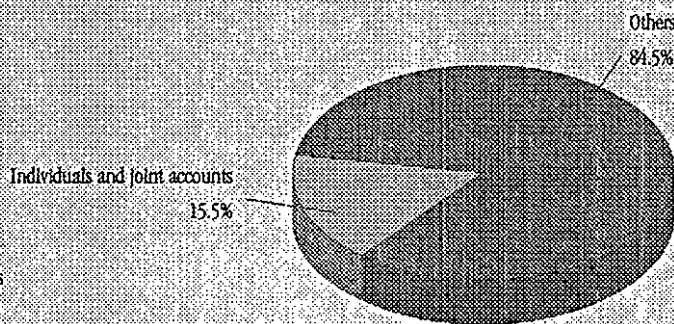
Analysis of shareholding at 31 March 1996

Shareholdings	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
		%	million	%
1 – 499	67,608	54.0	13.0	3.6
500 – 999	34,919	27.9	23.2	6.3
1,000 – 4,999	21,031	16.8	30.2	8.2
5,000 – 9,999	469	0.4	3.0	0.8
10,000 – 49,999	558	0.4	13.2	3.6
50,000 – 99,999	193	0.2	13.0	3.6
over 100,000	443	0.3	271.1	73.9
	<b>125,221</b>	<b>100.0</b>	<b>366.7</b>	<b>100.0</b>

## Shareholders by category of shareholder



## Shares held by category of shareholder



Individuals and joint accounts

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

## 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	– November/December
Preliminary results for the year to 31 March	– June
Report and accounts for the year to 31 March	– July

### Dividend payments

Dividend payments in respect of the year ended 31 March 1996:

First interim dividend	– paid 9 April 1996
Second interim dividend	– 5 August 1996
Proposed final dividend	– 1 October 1996

### Annual General Meeting

30 July 1996 at the International Convention Centre, Birmingham

### Registrars

Lloyds Bank Registrars  
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### Severn Trent Plc

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