

**Annual report and accounts 1997** Service, quality and environmental leadership



COMPANY NUMBER: 2366619

**Severn Trent Plc**

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**Severn Trent Water**

A leading provider of water supply and waste water services in the UK, serving a population of approximately eight million people.

**Biffa Waste Services**

One of the leading integrated waste management companies in the UK and Belgium.

**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.

**Severn Trent Water International**

Provides water and waste water management expertise primarily in Western Europe and North America.

**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.

**Severn Trent Property**

Develops facilities in the UK, primarily for distribution, retail and industrial sectors.

## 3 Severn Trent Plc Business and financial summary

<b>Financial highlights at a glance</b>	<b>1997</b>	<b>1996</b>	<b>±%</b>
Turnover (£m)	1,215	1,158	5.0
Profit before interest (pre-exceptionals) (£m)	438	421	4.1
Profit before tax (pre-exceptionals) (£m)	391	373	4.8
Profit before tax (post-exceptionals) (£m)	367	373	(1.7)
Earnings per share (pre-exceptionals) (p)	93.9	89.6	4.8
Earnings per share (post-exceptionals) (p)	87.2	89.6	(2.7)
Gearing %	27.4	19.2	42.7
Second interim dividend (p)	3.84	3.84	-
First interim and final dividends (p)	32.66	28.53	14.5
Total dividends for the year (p)	36.50	32.37	12.8

## Chairman's statement

Richard Ireland Chairman

**We are committed to achieving a leadership position in service, quality and the environment.**

I am pleased to report that the group has made highly satisfactory progress this year with excellent results from both the regulated water utility and the non-regulated companies, which now account for 30% of total turnover.

The group's profit before tax increased by 4.8% to £391 million (£373 million). This excludes the effect of a £20 million provision at Severn Trent Water for further restructuring and £4.5 million of costs relating to the group's proposed acquisition of South West Water. On the same basis, group profit before interest increased by 4.1% to £438 million (£421 million) and earnings per share rose by 4.8% to 93.9p (89.6p). Turnover, at £1.22 billion (£1.16 billion), increased by 5.0%. Net debt was £694 million (£481 million) with gearing at 27.4% (19.2%).

Profit before interest from the non-regulated businesses increased by 28.7%. Further improvements are planned with a view to increasing non-regulated earnings as the regulation of Severn Trent Water imposes increasing constraints.

This year's results have endorsed the soundness of the group's strategy: the development of Severn Trent Water as a premier water services organisation and the establishment of complementary businesses that can produce consistent growth year-on-year.

### **Dividends and customer benefits**

During the year, the group continued its well-established programme of benefit sharing for customers and shareholders. Severn Trent Water has committed some £220 million of additional investment over the five years to the year 2000 to alleviate drought associated problems. As a result, substantial improvements in water availability and reduced leakage have been achieved.

In addition, the five-year programme of rebates amounting to £30 per customer continues; this reduction in charges is based on efficiencies derived during the first five years since privatisation and is planned to continue until 1999, as is the second interim dividend to shareholders of 3.84p net per share.

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The board is recommending a final dividend of 22.16p net per share to bring the total for the year, excluding the second interim dividend, to 32.66p – an increase of 14.5%. Total dividends for the year, including the second interim dividend, are therefore 36.5p net per share – an increase of 12.8%. The level of the dividend is consistent with the board's intention, barring unforeseen circumstances, to arrive at dividend cover of two times earnings by the year 2000.

The final dividend payment date has been brought forward to August from October to facilitate the completion of the previously announced capital restructuring. Accordingly, it is intended to pay the final dividend and the second interim dividend for the year ended 31 March 1997 together on 6 August 1997 and to offer a scrip dividend alternative to shareholders on this combined dividend.

In previous years, no scrip has been offered on the second interim dividend. The Directors intend that in 1998 any final dividend should be paid on a date in early October, as has been the practice in previous years.

### **Quality, service and environmental leadership**

The group is committed to achieving a leadership position in the key areas of quality, service and the environment. These areas are fundamental to Severn Trent's businesses. They are integral facets of the group's identity; what it is and what it stands for.

Severn Trent Water's compliance with drinking water quality standards increased still further during the year, reaching 99.9% – one of the highest reported in Europe. Compliance with sanitary waste water standards reached 100% for the first time. In its report, 'Environmental issues in the Midlands 1995/96', the Environment Agency stated that more than a quarter of the Midlands' rivers had improved chemically and more than a third biologically, largely as a result of expenditure by Severn Trent Water to improve water quality.

In March, the Severn Trent Advisory Panel on the Environment was created. This independent panel, chaired by Derek Osborn CB, Chairman of the European Environment Agency, is advising the board on the long-term effects of changes in the environment and is working on a number of issues, for example the sustainability of quality water supplies for all customers.

During the year, Biffa Waste Services' landfill site at Redhill was awarded the European environment standard, EMAS (EC Eco-Management and Audit Scheme).

Biffa is the first British waste company to receive the standard and this site is the first landfill facility in Europe to receive EMAS accreditation. Biffa also has 34 ISO 9000 and 6 ISO 14000 accreditations.

### **Employees**

Once again, the board is indebted to all employees throughout the group for their dedication and determination to succeed. On behalf of the directors and the shareholders they represent, I thank them all. Individually and collectively, they have set new standards in many of our businesses and have worked hard to produce results of which we can all be proud.

### **Outlook**

Severn Trent Plc will continue to be true to its values of achieving service, quality and environmental leadership in all its businesses while it works to meet the expectations of shareholders, customers and employees.

Severn Trent Water remains committed to providing customers with all the water they need, whenever they need it. Following the progress achieved to date, the company will reduce leakage still further in order to meet its own target of 12% by the year 2000. It will continue to become more efficient and will continue to produce some of the highest quality drinking water in the world whilst maintaining its excellent record in waste water compliance. However, the board needs to be mindful of any effects which might arise from the proposed changes in taxation and the possibility of a tightening regulatory regime.

The group's strategy of developing further the non-regulated businesses is designed to achieve growth and shareholder value in the face of increasing regulatory uncertainty. Biffa Waste Services is performing strongly and has forged for itself a leadership position in the waste industry as, increasingly, it is advising large, national and multi-national organisations on their waste minimisation and disposal strategies. There are exciting opportunities in the evolving utilities sector for utility-related services, particularly in the USA, and marketing activity will be increased in order for these businesses to reach their full potential.

## Group Chief Executive's review

### Vic Cocker Group Chief Executive

**The results provide another milestone in Severn Trent Plc's transformation from a regional water utility to a globally recognised and respected service provider.**

The development of the group this year – and the last few years – has been impressive. The shape and speed of its development has been defined by a carefully considered strategy designed to leverage existing strengths whilst encouraging new ones.

The acquisition of South West Water was believed to be an outstanding opportunity to enhance shareholder value and so the board was disappointed when, despite assurances of substantial reductions in charges for the customers of South West Water, the former President of the Board of Trade decided that the proposed bid should not proceed. As a result, the board reviewed its strategy and, in the absence of any alternative development opportunity of significant scale, decided that a repurchase of 10% of the issued share capital was appropriate.

During December 1996, 5.6% of the issued share capital was repurchased. Proposals to be submitted to shareholders at the 1997 Annual General Meeting will, if approved, allow this programme to be completed. The proposals will comprise a capital reorganisation in which all shareholders may participate. Full details are contained in the Circular which accompanies the report and accounts.

In summary, the group is stable and strong both financially and operationally. The group's future strategy is clear. It will continue to deliver shareholder value through:

- continuing to build a world-class water services organisation;
- looking for significant opportunities for profitable growth in the waste industry in the UK and Continental Europe;
- seeking to expand its presence in selected markets for utility-related services which includes the application of new technologies, IT and expert consultancy services.

These objectives are likely to be achieved through a combination of organic growth and selected, small to medium sized acquisitions provided they meet the necessary stringent financial and business criteria.

### **Severn Trent's businesses**

Severn Trent Plc is now a substantial British-based water, waste and utility services group. Throughout the world, the group's companies serve more than 20 million people. These companies operate in the UK and the USA – the major bases of the operations – but the group is increasingly a global organisation with joint projects in countries which include Russia, Israel, China, Peru, Romania, Mauritius, Turkey, Guyana, Swaziland, the West Indies, and Belgium. This year's results reflect the success of the strategy for development that the group has applied over recent years: the development of the regulated water company, Severn Trent Water, as a premier water services organisation and the establishment of complementary, non-regulated businesses.

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### Regulated water services

Severn Trent Water provides the core of our water services operations. In the seven years since privatisation, this company has become one of the world's largest providers of water services. In that time, its operations have been transformed. More than 9,000 investment projects have been completed, including 3,600 major schemes and over £3 billion has been invested – the equivalent of more than £1,000 per household in the Severn Trent Water area.

Since 1995, some £220 million of new investment has been committed to address the problems associated with the drought, and, in particular, unprecedented efforts have been made to tackle leakage. This has resulted in a secure water supply position for the summer months and in a reduction in leakage from the company's pipes of one third, from 24% in 1995 to 16%, which has been achieved 12 months earlier than required by Ofwat. In addition, the company has now introduced a free repair service to customers' own supply pipes in order to reduce leakage more quickly.

### Non-regulated businesses

The group's non-regulated businesses comprise the waste management company, Biffa Waste Services, and the utility-related businesses (Severn Trent Water International, Severn Trent Systems, Severn Trent Technology and Severn Trent Property). Together, these trading companies accounted for 30% of the group's turnover, 8.2% of its profits before interest and exceptional items and, this year, they produced 46.2% of the group's profit growth. Management efforts during the current year will be focused on improving further the market position and profitability of these businesses.

A detailed review both of the regulated water services business, Severn Trent Water, and the non-regulated businesses follows on pages 8 to 21 of this report, with the exception of Severn Trent Property which I shall comment upon here. Severn Trent Property made a small profit before interest as it continues to develop commercial and industrial facilities in and around the Severn Trent Water region. The development of the 124 hectare Daventry International Rail Freight Terminal (DIRFT) progresses well and there is an encouraging level of interest in the site's industrial units.

### Values

While the group's strategy directs all of the business activities, its implementation is guided by three corporate values that management seeks to integrate into all aspects of group operations. These values are:

**Service** – a commitment to provide customers with the highest possible level of service based on a reputation for high standards and value for money.

**Quality** – a vision to establish products and services that are perceived as best in their class for quality, price and performance.

**Environmental leadership** – a drive to move beyond the standards set by national and international regulators and to take a progressive approach to the environment so that the group's standards may become an accepted industry benchmark.

My vision is that these three principles will motivate and drive forward every business in the Severn Trent group and, by so doing, will add further value to the services we provide and to our business as a whole.

### Service in the UK and the USA

The excellence of the services offered by companies within the group – and the efficiency of the organisation itself – is underwritten by a commitment to finding new and better ways to improve service delivery. In order for the group to benchmark itself against the best global service providers, Severn Trent Plc commissioned two major service studies, one in the UK and one in the USA.

This research, conducted by three of the world's leading academics in the field, represents a landmark study of service practice and performance. The reports have attracted considerable attention from both the academic and business worlds. Above all, they have provided the group with a rare opportunity; the chance to learn from genuinely innovative work.

### Summary

In summary, this has been a good year. The results provide another milestone in Severn Trent Plc's transformation from a regional water utility to a globally recognised and respected service provider. In 1989/90, the year of privatisation, the organisation employed, on average, some 7,300 people. Today, despite a reduction in the number of employees at Severn Trent Water, the group now employs more than 10,000 people around the world. My personal thanks go to each and every one of them for all their hard work and their commitment to wanting to be the best.

The operating review on the following pages describes, in more detail, the source of the group's strength; namely, the businesses of which Severn Trent Plc is comprised and the achievements of the people who work in them.



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Water services are at the heart of Severn Trent's business – the source from which all else flows. Severn Trent Water, one of the UK's largest water and sewerage companies, is in the front line in managing the challenges faced by the water industry – from regulation to resource management to global warming. The company has invested more than any other UK water company since privatisation: customer service has improved dramatically; quality standards have never been higher and supplies are secure. It is a reflection of the dedication, enthusiasm and expertise of Severn Trent Water's employees that, despite these challenges, these annual results maintain a continuing record of achievement.

Turnover at Severn Trent Water increased by 3.6% to £927.8 million (£895.6 million) in line with RPI+K, or £919.1 million after adjustments for the rebate of £6.50 to customers. The company's commitment to water conservation through its free domestic meter option and initiatives with industrial customers reduced measured water consumption and, as a consequence, income. This income shortfall was offset by new business and continued improvement in the identification of further income opportunities. Profit before interest increased to £410.3 million (£400.8 million), an improvement of 2.4% excluding the effect of a provision of £20 million for the costs of further restructuring of the company.

### **Cost control**

Severn Trent Water continued its excellent record of cost control in response both to the company's own drive for increased efficiency and customer service, and to the demanding targets set by the regulatory body, Ofwat. Direct operating costs, excluding leakage expenditure of £31.5 million, fell in real terms by 4.5%. Additional running costs including the operation of major new schemes, the use of higher cost sources of supply and the Landfill Tax have continued to be offset by increased efficiency.

In 1994, the company announced a restructuring programme, 'Towards 2000', to be completed by 31 March 1997. The programme focused on reducing central overheads and £55 million was provided to meet the associated costs. All the objectives of that programme have been fully met for a cost of £46 million and annual savings of approximately £20 million have been achieved.

# Water

Leakage has been reduced by a third to 16% – a year ahead of schedule.

**Unpurified water** provides life and nourishment to all kinds of wildlife, but to sustain the eight million people in the Midlands region, Severn Trent Water treats around 2,000 million litres of water every day to the highest quality. In fact, this year Severn Trent Water has reached 99.9% compliance with water quality standards – meaning that in the UK its customers have the very best quality **drinking water**.

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Severn Trent Water has now embarked on a further programme of organisational change. This comprises a major restructuring of the company's operational activities, with the focus on delivering further specific customer service improvements and asset management productivity.

The anticipated cost of this programme is £29 million, funded from the £9 million remaining under the original provision plus £20 million from a separate provision taken in these accounts. This new programme is expected to realise savings commencing in 1997/98 and rising to £12 million per annum by 2000/01.

### Quality and customer service

Severn Trent Water continues to produce some of the best quality water in the world. Compliance with drinking water standards reached 99.9% – one of the highest reported anywhere in Europe. Compliance with sanitary standards for waste water increased to 100%.

During the year, Severn Trent Water invested £411.9 million, an increase of 28% on the previous year. Major schemes were started at the sewage treatment works at Minworth and Finham. During the current year, capital investment is expected to be of the order of £500 million.

In addition, Severn Trent Water significantly improved its performance on the Director General of Water Services' Levels of Service Indicators. The company is also proud to retain the Charter Mark award for customer service; a recognition of the dedication to high standards and achievements throughout the organisation.

In response to the Deputy Prime Minister's 10 point plan from the Water Summit in May, Severn Trent Water has published 'Your water: Safe in our hands', a document that sets out a series of commitments to customers to improve even further resources, customer service and environmental safeguards.

### Resources

Since 1995, Severn Trent Water has committed £220 million of additional expenditure to address problems associated with the drought. The prompt action taken on finding and fixing leaks, securing new water resources and strengthening the distribution system has resulted in Severn Trent Water having a very strong position in terms of available water resources. However, the company remains concerned about water resources in the medium and long term and has welcomed the Government's early involvement in examining water resources nationally.

Leakage arises partly on Severn Trent Water's own system and partly on customers' pipes. On the company's system, excellent progress has been made. Leakage has been reduced by one third to 16% – a year ahead of the timetable agreed with the regulator – and the company is on track to meet its own target of 12% leakage by the year 2000. During the year, more than 200 additional people were hired to help find and fix leaks faster – the average time to 'find and fix' is now 48 hours.

Although some progress has also been made on repairing leaks to customers' own supply pipes, they still account for an estimated 7% of leakage. Severn Trent Water was one of the first companies to provide a subsidised leak repair service to tackle the problem and more than 8,000 customers took advantage of this service during the year. To make further progress, Severn Trent Water has since announced that the leak detection and repair service for household customers will be free of charge.

Severn Trent Water's free metering programme is now well established and some 50,000 applications were received. With effect from July 1997, customers having a meter fitted will also be offered a free plumbing 'health check'.

These and other similar measures give Severn Trent Water confidence that, despite the acute lack of rainfall in the region, no restrictions to supply will become necessary for the foreseeable future. In only five of the last 25 months has rainfall been above the monthly average and the long-term forecasts suggest that changing weather patterns have become the norm. Reservoir storage in the Severn Trent Water region is currently 94.2% compared with 87.5% a year ago.

### Community partnership

Severn Trent Water is committed to developing partnerships with the local communities it serves in order to address issues and to work together in finding solutions. These issues include bio-diversity, sustainability, water conservation, education, customer service and the environment.

The company is establishing a new charitable trust with funding of £2 million, chaired by Lord Denis Howell, the former Minister of State who represented Birmingham Small Heath, to help those of our customers who have genuine, severe financial difficulty.

# Water

**Textbooks** cannot bring to life the miracles of the natural world, but Severn Trent Water's fully equipped classrooms and teaching materials help to make learning about the environment fun. This year, the company's education programmes have benefited more than 65,000 **schoolchildren**.

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Biffa Waste Services is a leading provider of integrated waste management services in the UK and Belgium and is probably the best placed in the industry in terms of the balance of its operations. Biffa's results for the year reflect the increasing breadth and depth of the services the company offers and the demand for them which exists in the markets it serves. In short, Biffa had another year of excellent progress. Profit before interest increased to £24.3 million (£21.2 million), an improvement of 14.6%, on turnover of £195.8 million (£173.3 million).

In the UK, turnover increased by 21%, including the impact of the Landfill Tax, to £157.6 million (£130.1 million), and profit before interest was £19.8 million (£17.3 million) – a rise of 14%.

The strong performance of the collection activities continued, with commercial volumes growing by 12% year-on-year. This, together with a firm control on unit operating costs, produced a very strong profit improvement.

In landfill, volumes dropped by 2% whilst unit revenues moved up by 8%. Virtually all sites showed good year-on-year improvements and three new landfill sites became operational, two in the last quarter.

The introduction of the Landfill Tax in October 1996 resulted in an immediate drop in the volume of inert materials which are going instead to tax exempt sites. The special waste market also suffered from the tax, with consignments being delayed.

The main volume areas of municipal and industrial and commercial waste streams have remained largely unaffected. Since the year end, the market for special waste has improved but inert materials remain at very low volumes.

The businesses in Belgium performed well, largely due to a strong performance from collection and improvements at the Antwerp pre-treatment plant. Since September 1996, when the management of the facility was reorganised, costs have reduced significantly. The plant is now on a clearly improving trend, rapidly building credibility in the marketplace and working hard to attract more volumes into the plant. The landfill activities have responded well to the closure of the border between Flanders and Wallonia and have replaced the Flemish waste streams.

Increasingly, as the waste market develops and requirements become more sophisticated, customers are seeking the combined skills of collection, recycling, disposal and treatment capabilities from their waste contractors.

The Landfill Tax, the draft EU Landfill Directive and the Producer Responsibility Obligations Regulations have all been helpful in focusing the attention of senior managers throughout industry on their changing requirements for waste handling. Biffa is working with many leading companies in order to help them address the major issues relating to the new legislation. Undoubtedly, companies like Biffa, with large collection fleets and advanced information technology systems stand to benefit.

# Waste

**Biffa had another year of excellent progress. Customers are increasingly seeking the combined skills of collection, recycling, treatment and disposal capabilities from their waste contractors.**

**Aluminium cans** are one of the many by-products of everyday living which can be segregated and recycled. Biffa Waste Services works to develop systems for recycling and replenishment, drawing value from waste and benefiting the environment wherever possible. Here, recycled drinks cans are used in a particularly innovative way by American company Herman Miller, to manufacture the **Aeron chair**.

Severn Trent Technology (STT) performed strongly with a significant increase in profit before interest. As one of the leading suppliers of environmental services in the UK, STT is represented in almost 70 countries around the world. The scope of the STT group's capabilities is very wide, ranging from the design and installation of advanced disinfection equipment, to on-line quality monitoring, laboratory analysis and testing. STT's four business units are:

**The Capital Controls Group**

Capital Controls, both in the UK and the USA, increased its contribution and its customers have responded well to a more clearly defined marketing strategy.

Headquartered in Colmar, Pennsylvania, The Capital Controls Group specialises in the treatment of water, waste water and industrial effluents. It is a leader in disinfection technology and has an established track record of developing equipment with advanced safety features. Last year saw further growth, particularly in its meter installation work. The group has joint ventures in India and China, and export markets are expanding rapidly as the demand for safe drinking water and a cleaner environment grows.

**Fusion Meters**

Fusion Meters has developed the world's first electronic domestic water meter. The meter has been approved by the UK's National Weights and Measures Laboratory, and is now in full production. The benefit is that the meter does not lose accuracy over time through wear and tear, or the recording of trapped air which can be a significant problem in developing countries where water supplies are often intermittent.

**Paperflow Services**

Paperflow offers a range of services to help organisations communicate more effectively with their customers. Services include print, mail and document handling. This year the company mailed over 56 million items for its clients, primarily in the utility and financial services sectors. In 1994, Paperflow entered into a partnership agreement with IBM to provide a more extensive range of services to clients who are increasingly outsourcing this type of work. The business continues to perform well, and was the first company in the Severn Trent group to receive the Investors in People award.

**Severn Trent Laboratories (STL)**

STL is the UK's largest commercial laboratory carrying out volume environmental analysis and testing. It offers a full range of analytical services to utilities, industry and government and has successfully expanded overseas, particularly in the USA where it provides laboratory services in Houston. In a highly competitive market where customer service is key, STL has pioneered the use of information technology to improve delivery times and allow customers to track the status of their samples through the laboratory.

Severn Trent Technology is one of the leading suppliers of environmental services in the UK and is represented in almost 70 countries around the world.

# Technology

**Soil samples** – more than 3,000 each year – are analysed for contaminants by Severn Trent Laboratories so that developers have the assurance they need to turn their plans into reality. Severn Trent Property's development of commercial and industrial facilities includes the 124 hectare Daventry International Freight Terminal (DIRFT) which is now operational, with trains using the rail terminal on a regular basis. Today's developers use state-of-the-art surveying equipment, such as this **laser theodolite**.



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Profit before interest at Severn Trent Systems (STS) increased substantially. This was helped by the increase in the number of utility companies contracting-out to specialists their customer service and work management systems, together with some important contract wins.

STS develops and installs powerful software products that drive the complex customer information, work management and network modelling systems used by electricity, gas and water utilities worldwide. STS companies employ more than 500 people in the UK and the USA. Together, they serve major clients in the UK, the USA, Australia, Puerto Rico and Argentina.

### Customer information

As the global utility sector moves towards deregulation, the pressure is on gas, water and electricity providers to be ever more accountable for the levels of service they provide to customers. A utility's service performance and efficiency relies heavily on the systems it employs to manage assets and customer information. This is where the systems developed by STS can be applied most effectively.

STS recently demonstrated that it is ideally positioned to take full advantage of such business opportunities when it secured a five-year, multi-million pound contract to manage all customer information services for Hydro-Electric, headquartered in Perth, Scotland.

The contract is the first of its kind in the UK and builds on STS's existing relationship with Hydro-Electric. STS will now take over all aspects of customer information services, including marketing and billing. The service will be run by two dedicated computers at STS's control centre in Birmingham, with high-speed digital links to Hydro-

Electric's 400 users at its Perth headquarters and 50 high street shops throughout Scotland. Hydro-Electric will now be able to offer its 600,000 customers improved up-to-the-minute information and services.

STS's customer information systems are also being successfully implemented in utilities across the USA, including Snohomish Public Utility District in Washington State and the Central Services Association in Mississippi.

### Engineering analysis

Responding to changing economic realities also requires planning engineers in utilities to do more with less. Their challenge results from the need to balance the expectations of energy and water consumers for improved quality service and greater supply, with the expectations of regulators and shareholders for reduced capital and operating costs in support of improved financial performance.

Planning engineers at leading water, natural gas and electricity utilities in 36 countries currently use distribution network simulation software and services from Stoner Associates, a part of STS. The software allows them to analyse the behaviour of their networks under different conditions so they can select the best course of action from alternative design and operating scenarios.

Stoner's four main software products continued to sell well during the year and a new generation of personal computer-based simulation solutions, known as SynerGEE was released. A state-of-the-art product, one of SynerGEE's main advantages is that it facilitates tighter integration with other utility computer systems, including STS's customer information and work management systems.

# Systems

Severn Trent Systems' companies employ more than 500 people in the UK and the USA. Together, they serve major clients in the UK, the USA, Australia, Puerto Rico and Argentina.

**Customer queries** must be handled quickly and efficiently by any utility and Severn Trent Systems' customer information system software allows many companies to do just that. Operators can access customer records, including images of all correspondence, within seconds – just one of the many benefits of storing information on **CD-ROM**.

**ST Environmental Services is now the third largest contract operations company for water services in the USA.**

# International

Severn Trent Water International (STWI) produced good results with an increase of 58% in profit before interest to £3.0 million (£1.9 million).

STWI is a global player in the provision of water and waste water management and operational expertise. From Trinidad to Turkey, Mauritius to Mexico, Belgium to Brazil, Portugal to Puerto Rico, STWI works in partnership with its clients to help them achieve major improvements in their operations and, in doing so, the service they provide to their customers and the environment.

Whether the aim is to reduce costs, improve quality standards, levels of service or operational performance, STWI continues to apply successfully its skills and experience to achieve the very best for its clients around the world – the best in quality, service and environmental performance.

## **North America**

ST Environmental Services (STES), a part of STWI, is now the third largest contract operations company for water services in the USA, where there is rapid growth occurring in the use of private operators. With around 670 employees, STES continues to advance its position in the market through a combination of acquisition and organic growth, reflected recently in two new alliances. The acquisition of the assets of MHPC Inc, the largest contract operator of water and

waste water facilities in New York State, and of MTS Inc, of Texas, means that STES now operates more than 250 water services contracts, including over 300 plants, in the USA.

The MTS alliance adds 26 municipal utility districts in the Houston area to those already served by STES, while MHPC operates facilities for 75 communities in up-state New York. STES now operates in 10 states and the total population it serves has doubled in size in the last three years.

## **Belgium**

STWI's public/private partnership with the government of Flanders in Belgium continues to progress well. The joint venture company, Aquafin, is successfully operating the waste water plants, and delivering large capital investment projects aimed at providing more efficient and effective services to the 5.8 million people in the region. Aquafin's work is also generating significant environmental improvements.

## **Trinidad and Tobago**

In 1996, STWI was awarded a three-year, performance-based contract to manage WASA, the water and waste water utility serving the islands of Trinidad and Tobago. This major contract is now well established and significant operating improvements have already been achieved for the 1.3 million people living on the islands.

**Regional** roots have provided a firm base from which Severn Trent Water International has grown to become a leading provider of water and waste water management and operational expertise around the world. The company has worked in more than 48 countries across the globe – from Belgium to Brazil, Mauritius to Mexico, Trinidad to Turkey – truly **international**.

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The group's commitment to its strategic goal of environmental protection and continuous improvement has been formalised as policy since 1992. This policy covers all companies in the Severn Trent group. Details of this policy, and of the environmental performance of the group companies are published annually in a report entitled 'Stewardship'.

Over the last five years the group has identified the main operational areas where impact is made on the environment and strategic action plans are now underway to minimise or eradicate this impact. The plan sets targets for Severn Trent Water to cut leakage from water mains to 12% by 2000 and to reduce consumption of electricity and vehicle fuel. Biffa Waste Services has targets to reduce methane emissions from landfill sites and to increase the generation of electricity from methane collected at landfill sites. Biffa is also charged with increasing the amount of recyclable waste it collects.

One key initiative under the action plan is the establishment of an advisory panel of independent experts to provide insight and expertise. Chaired by Derek Osborn CB, Chairman of the European Environment Agency and Board Member of the Environment Agency for England and Wales, the panel will be advising the company on the strategic environmental issues that the Severn Trent group will face over the next 25 years. The panel also includes Dr Nigel Arnell, a leading authority on climate change and water resource management; Janet Barber, environmentalist and former director of programmes for World Wide Fund for Nature UK and David Lascelles, Director of the Centre for the Study of Financial Innovation. Their formal report will be published in the autumn of 1997.

Vic Cocker this year became a member of the Advisory Committee on Business and the Environment, a body set up to encourage dialogue, and promote environmental issues in the business community. Several senior staff members across the group also work on a range of projects for UNED-UK (United Nations Environment and Development - UK Committee) and the World Business Council for Sustainable Development.

In 1997, the company participated in the independently run 'index of corporate environmental engagement', to evaluate the environmental commitment of FTSE 100 UK companies. Severn Trent Plc was placed in the second of five categories, which reinforced the group's position among these top companies.

Company Reporting Ltd also examined the Environmental Reports of 42 top UK companies in 1997. Credit was given for performance 'above and beyond' current environmental regulations and while Severn Trent Plc ranked second overall, its own reporting score was the highest of all companies evaluated.

**Severn Trent Plc aims to lead the way in setting environmental standards.**

# Environment

**Domestic** customers in the Severn Trent Water region use, on average, 137 litres of water per person every day for washing, drinking and cooking – and this demand is increasing each year. The company is addressing a range of long term issues, including climate change, in working to secure water supplies for future generations – both in the home and the **natural environment**.

## Financial review

Alan Costin Group Finance Director

### Results

Group turnover of £1.22 billion was 5.0% up on the previous year. Turnover of £919 million in Severn Trent Water increased by 2.6% compared with RPI+K of 3.6%, the difference resulting from the impact of the customer rebate of £6.50 per household. Turnover in Biffa increased by 13.0% to £196 million, and in the utility-related services by 27.5% to £190 million. Turnover in our non-regulated businesses now accounts for 30% of the group's gross sales.

Group profit before interest of £413.6 million was 1.7% less than the previous year. The result for the year included exceptional costs of £24.5 million: before these exceptional costs, which comprised £20 million restructuring provision within Severn Trent Water and £4.5 million costs incurred in connection with the proposed bid for South West Water Plc, profit was 4.1% higher than last year. Severn Trent Water produced £410.3 million profit before interest and the exceptional restructuring provision, an increase of 2.4% over last year's result. Direct costs, excluding the impact of additional leakage remediation costs, were tightly controlled, reducing in real terms by £15 million or 4.5%. Operating expenditure on measures to reduce leakage cost £31.5 million, an increase of £7 million. The provisions for infrastructure renewals and for depreciation were respectively £6 million and £4 million higher than in the previous year. Consequently, total costs in Severn Trent Water increased by 2.4%.

Total profit before interest from the group's non-regulated businesses increased by 28.7%. Biffa earned £24.3 million profit before interest, an increase of 14.6% over the previous year, achieving higher profits in both the UK and Belgium.

Profit before interest from the utility-related services increased by 73.1% to £11.6 million, including £3.0 million from Severn Trent Water International compared with £1.9 million last year. Severn Trent Systems produced another very good result, increasing profit before interest by 44.2%.

Group net operating assets (excluding net debt, taxation balances and dividends payable) were £3.4 billion at 31 March 1997, an increase of 7.9% over last year, compared with a 4.1% increase in profit before interest and exceptional costs. Severn Trent Water's return on year-end net operating assets (before the exceptional provision) declined to 12.7% (1996: 13.5%) but Biffa's return increased to 19.6% and that of the utility-related services to 16.6%.

Net interest payable by the group was £47.1 million. The small reduction compared with last year was achieved despite the impact of the purchase by the company of 20.5 million of its ordinary shares in December 1996, which increased interest expense by £2.5 million in the

## 23 Severn Trent Plc Financial review

final quarter of the year. Net interest charges were covered 8.8 times by profit before interest. Net interest payable in 1997/98 will increase, reflecting the full year impact of the share repurchase in December 1996 and the capital restructuring to be implemented, subject to shareholder approval at the Annual General Meeting, in August 1997.

Consolidated net debt at 31 March 1997 was £694 million, an increase of £213 million over the previous year end. The increase was primarily the result of the share repurchase in December 1996 which cost £168 million, including related advance corporation tax. The capital restructuring planned for August 1997 is expected to increase net debt by approximately £120 million, depending upon the market price of the company's shares when details of the restructuring are announced. Net debt at 31 March 1997 represented 27.4% of shareholders funds (1996: 19.2%).

Group profit before tax of £366.5 million was 1.7% lower than last year; however, before exceptional costs profit before tax increased by 4.8%.

The group taxation charge for the year ended 31 March 1997 was £49.8 million, equivalent to 13.6% of profit before tax (1996: 12.1%). The charge comprised principally £40.4 million of UK corporation tax and £6.3 million of advance corporation tax. 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 £316.7 million (1996: £327.7 million).

Earnings per share of 87.2 pence were 2.7% lower than last year; earnings per share before exceptional costs were 93.9 pence, an increase of 4.8%.

The proposed dividends for the full year, amounting to 36.5 pence per share, are covered 2.5 times by earnings.

The group's operating activities generated a net cash inflow of £508 million, including £464 million from Severn Trent Water and £44 million from Biffa. Capital expenditure (net of disposals and grants received) together with investment in associated undertakings, amounted to £355 million, including £325 million in Severn Trent Water (1996: £204 million) and £24 million in Biffa (1996: £31 million). After payment of net interest, taxation, and acquisition considerations, the group had a cash inflow of £63 million. Dividends of £108 million were paid in the year. Cash expended in connection with the purchase of the company's shares was £168 million; cash raised from the issue of shares was £7 million. As a consequence, the group's net cash outflow for the year was £206 million. Inception of

new finance leases amounted to £9 million. After currency exchange translation differences of £2 million, the increase in net debt over the course of the year was £213 million.

#### Treasury management

The group had borrowing facilities at 31 March 1997 of £1.31 billion, of which £932 million was utilised. Of these facilities, £882 million are available to Severn Trent Water (£657 million utilised). Since 31 March 1997 an additional borrowing facility of £200 million has been secured by Severn Trent Water, which remains unutilised at the date of publication of this review. The group had cash and short term investments totalling £237 million at the year end.

The group's cash resources and available debt facilities are adequate to finance the anticipated cash outflow in 1997/98 arising from the group's normal business and from the planned capital restructuring.

The group's policy for the management of interest rate risk requires that a significant proportion of the group borrowings – currently a minimum of 50% – should be either fixed, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 1997 interest rates on 65% of the group's borrowings net of matching cash investments was either fixed, or hedged for periods ranging from two to five years.

The group's business does not involve material exposure to foreign exchange transactions.

The group has investments in various assets denominated in foreign currencies, principally the US dollar and the Belgian franc. The group's current policy is to hedge an element of the foreign currency translation risk associated with these investments, the sterling value of which exceeded the value of liabilities, including borrowings, in foreign currencies by £35.4 million at 31 March 1997. An unrealised net translation loss of £8.8 million arose in the year (1996: £0.3 million gain).

The group makes use of financial derivatives only for the purposes of risk management in connection with the financing requirements of its normal business.

#### Dividends

The cost of the proposed dividends to the company's shareholders for the year ended 31 March 1997 was £128.5 million, an increase of £9.7 million over last year. Dividends received or receivable by the company from its subsidiaries comprised £275.0 million from Severn Trent Water and £5.5 million from Biffa and the utility-related services. The group also received dividends of £2.0 million from associated undertakings.



24 Severn Trent Plc Board of Directors



**Board Committees**

Membership of Board Committees is as detailed below:

**Audit Committee** A H Simon (Chairman), R Ireland, T D G Arculus, Secretary – D W Mattin

**Remuneration Committee** A H Simon (Chairman), R H Boissier, R M Walker, C Tritton, Secretary – D W Mattin

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

**Nominations Committee** R Ireland (Chairman), R H Boissier, A H Simon, C Tritton, Secretary – D W Mattin

**Charitable Contributions Committee** B Duckworth (Chairman), A H Simon, D W Mattin

**Company Secretary** David Mattin FCCA

## Board of Directors

1	4	7	10
2	5	8	11
3	6	9	

**1 Richard Ireland** FCIS (63) 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 non-executive Director of Severn Trent Water and is a Trustee Director of certain of the Severn Trent Pension Schemes. Mr Ireland is non-executive Chairman of Wolseley plc, where he was formerly group Finance Director. He is a non-executive director of Schroder UK Growth Fund plc and Gartmore Shared Equity Trust Plc and President of the Birmingham Chamber of Commerce and Industry.

**2 Victor Cocker** BA (Econ) FIWEM (56)

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, a trustee of RNLI and WaterAid and a director of Midlands Excellence.

**3 Alan Costin** FCA (54)

Group Finance Director since May 1992, Mr Costin is also a Trustee Director of certain 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 FIWEM (48)

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. He is also a director of Nottingham Development Enterprise Limited and UK Water Industry Research Limited.

**5 Martin Bettington** BSc MechEng MBA (44)

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 (52)\*

Mr Simon joined the board in October 1986. He was formerly Chairman of the Evode Group Plc and is now a non-executive director of Laporte Plc, Ibstock PLC, Philip Harris plc, ERF (Holdings) plc, Associated British Ports Holdings Plc, Recognition Systems Group plc and non-executive Chairman of Spaldings Ltd.

**7 Roger Boissier** CBE (66)\*

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, Allott & Lornax Holdings Ltd and Edward Lumley Holdings Ltd. He is also a member of the Court and Council of Loughborough University and a Governor of the Landau Forte City Technology College, Derby.

**8 Clare Tritton** BA QC (61)\*

Mrs Tritton joined the board in November 1991 and is also a Trustee Director of certain of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law and served on the Monopolies and Mergers Commission and on FIMBRA until May 1997. Mrs Tritton is a non-executive director of the Birmingham Royal Ballet Trust Company, Chief Executive of Throckmorton Estates and a director of Throckmorton Enterprises Ltd.

**9 David Arculus** MA (51)\*

Mr Arculus joined the board on 20 May 1996. Mr Arculus became Chief Operating Officer of United News and Media plc on 7 April 1997. Prior to that he was group Managing Director of EMAP Plc, the international media company, where he played a significant role in the growth of that company. Mr Arculus was formerly a journalist and a producer at the BBC. He is a non-executive director of Barclays plc.

**10 Robert Walker** MA (52)\*

Mr Walker joined the board on 20 May 1996 and is also a non-executive Director of Severn Trent Water. Mr Walker is a Division President at Pepsi-Cola International, 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 (50)\*

Mr Flower joined the board 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

## Directors' report

The Directors present their report, together with the audited financial statements of the group for the year ended 31 March 1997.

### Principal activities

The principal activities of the group continued to be the supply of water and sewerage services, waste management and the development of utility-related services. These are described in more detail, together with a review of the group's business and future developments on pages 4 to 23, which should be read in conjunction with this report.

Details of the principal associated and subsidiary undertakings of the group at 31 March 1997 appear in notes 10 and 23 to the financial statements on pages 46, 53 and 54.

### Dividend and Reserves and Scrip Dividend

Details of dividends paid, payable and proposed are set out in note 7 on page 44. Subject to approval at the Annual General Meeting, the recommended final dividend of 22.16p net for each Ordinary Share will be paid on 6 August 1997 to shareholders on the register at the close of business on 20 June 1997. A second interim dividend of 3.84p for each Ordinary Share will also be paid on 6 August 1997 to shareholders on the register at the close of business on 20 June 1997. Proposed transfers to reserves are set out in note 19 to the financial statements on page 50.

The final dividend payment date has been brought forward to August from October to accommodate the proposed capital reorganisation described in detail in the accompanying circular. Accordingly it is intended to pay the final dividend and the second interim dividend for the year ended 31 March 1997 together on 6 August 1997 and to offer a scrip dividend alternative to shareholders on this combined dividend. In previous years no scrip has been offered on the second interim dividend. The Directors intend that in 1998 any final dividend should be paid on a date in early October, as has been the practice in previous years. The Directors will also be seeking authority at this year's Annual General Meeting to offer a scrip dividend alternative to shareholders for a further five years.

### Directors

Details of current Directors are shown on page 25. 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 joined the board as a non-executive Director on 11 June 1996. They were re-elected as Directors at last year's Annual General Meeting. Mr R H Boissier, Mr V Cocker and Mrs C Tritton retire from the board by rotation and, being eligible, offer themselves for reappointment. Mr Boissier and Mrs Tritton, being non-executive Directors, do not have service agreements with the company. Mr Cocker has a service contract which provides for not less than two years' written notice of termination by the company and not less than six months' written notice by the Director expiring at any time. The Directors of the company at 31 March 1997 and their interests in the shares of the company can be found on pages 32 and 33. 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.

### Long Term Incentive Plan

Full details of the proposed Long Term Incentive Plan can be found in the circular which accompanies the report and accounts.

### Share capital

Details of movements in share capital are shown in note 18 to the financial statements on page 49. A special resolution will be put to shareholders at the Annual General Meeting which, if passed, will authorise the Directors, for a period of 15 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 1998 to allot shares for cash in connection with a rights issue, and generally up to a maximum aggregate nominal value equivalent to 5% of the issued ordinary share capital of the company. The special resolution is set out in full in the Notice of Meeting contained in the circular which accompanies the report and accounts.

### Capital reorganisation

Full details of the proposed capital reorganisation can be found in the circular which accompanies the report and accounts.

### Renewal of authority to purchase own shares

Details of the proposal that the Directors be authorised to make purchases of company shares are contained in the circular which accompanies the report and accounts.

### Extension of existing employee share schemes to overseas employees

Details of the proposal that Directors be authorised to modify any employee share scheme arrangements to include overseas employees are contained in the circular which accompanies the report and accounts.

## 27 Severn Trent Plc Directors' report

**Research and development**

In 1996/97 group expenditure on research and development was £6.3m compared to £6.0m in 1995/96. The research and development effort continues to be focused on developing techniques and projects that will allow companies to meet the exacting standards set by Regulators in the most cost-effective manner. This may be either by offering improvements to existing processes or providing instrumentation or techniques which will facilitate economic management of complex plants. Over the last 12 months there has been considerable activity on determining suitable treatment regimes for the River Trent, and on the dirty water side, the development of toxicity and pollution monitors has progressed to the point where these products have now been licensed for sale.

Capital Controls has a long pedigree of developing safe equipment and, last year, introduced a new range of safety shut-down systems. A new range of advanced water quality monitors is being introduced so that utilities can measure a range of health, safety and quality parameters very accurately. In Severn Trent Laboratories work is focused on developing new analytical methods so that samples can be processed more quickly, more accurately and more cost-effectively than before.

**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 to 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 £226,725 (1996: £218,931). No political donations were made during the year.

**Employees**

The group employed 10,056 people on 31 March 1997 (1996: 9,993). Of these 5,653 (1996: 5,862) were employed in Severn Trent Water, a reduction of 3.6%.

The objectives of the Severn Trent Water, 'Towards 2000', restructuring programme, announced in 1994, have been fully met. The Water company has now embarked on a further programme of organisational change with the focus on delivering specific customer service and asset management productivity. These reductions, along with the increase in the number of employees of other group companies reflecting their increased level of business activity, moves the group closer to a 50/50 split on manpower resources between the regulated and non-regulated businesses.

Severn Trent Water, under its new Single Table Bargaining arrangements, has concluded a two-year pay deal for the majority of its employees. It has also continued with its NVQ training programme seeking to move this into the area of environmental awareness.

Paperflow Services has achieved 'Investors in People' registration for its employee development programme and Biffa Waste Services and Severn Trent Laboratories are progressing along the same route.

Biffa Waste Services, in conjunction with Warwick University has designed and delivered the Biffa Business School under which 16 managers have completed a Certificate in Management Studies. The programme will be continued and potentially developed up to an MBA level.

The fourth year of the Profit Related Pay Scheme was operated with over 98% of UK employees participating in the arrangements. Eligible UK employees were again invited to join the employee Sharesave Scheme in December 1996.

A series of Employee Evenings with the message of reinforcing the 'branding' of Severn Trent Plc and the interdependency of the individual group companies have recently taken place for all the UK-based employees. Similar events will also take place in the USA.

The group has reviewed its various pension schemes as part of the preparation for the implementation of the recent pension legislation. This has resulted in some inherited schemes being terminated and the extension of the main Severn Trent Water Pension Scheme arrangements to an increased number of employees.

The group maintains a positive stance to its policy of equal opportunities for all employees irrespective of sex, race, religion, marital status or disability, and employees involved in recruitment and selection have received refresher training on these issues.

## Directors' report

### Disabled persons

Following the introduction of the Disability Discrimination Act, group companies have undertaken training programmes on disability discrimination, both from customers' and employees' perspectives.

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

### Substantial shareholdings

As at 2 June 1997 the company had not been informed of any substantial shareholding in its issued Ordinary Share capital.

### Close company status

The company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

### Accounts of Severn Trent Water Limited

Separate accounts for Severn Trent Water Limited are prepared and sent to the Director General of Water Services. A copy of these accounts 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.

### 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. Formal structures and 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 reviewed 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 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 1996 until 9 June 1997, 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 1997/98, 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 36 to 54 have been prepared on the going concern basis.

### Auditors

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

By order of the board

D W Mattin Company Secretary

9 June 1997



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

The Remuneration Committee ('the Committee') is responsible for determining the remuneration policy for Severn Trent's Chairman and executive Directors. Its members during the year were the following non-executive directors:

A H Simon (Chairman)  
R H Boissier  
C Tritton  
R M Walker (from 31 May 1996)

The Committee considers that the company has complied with the principles set out in Section A of the Best Practice provisions annexed to the Listing Rules of the London Stock Exchange, concerning the Committee's composition and operation.

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 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 of management necessary for the ongoing efficiency of the company while balancing profit enhancement with the interests of its shareholders, customers, employees and local community through the careful choice of performance targets and components of remuneration.

### 2 Service contracts

In 1995 the executive Directors agreed without compensation to the reduction in the notice period required for the termination of their contracts of service from three years to two. These continue to be 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. The Committee continues to believe that this period of notice is in line with market practices and is necessary to accord with its aim of attracting and retaining the requisite calibre of management. This will continue to be monitored by the Committee in the future.

### 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. The Committee has sought and received independent advice on the appropriate levels of executive Directors' pay given the competitive position of the company within the market. The Committee has set basic salaries for the executive Directors in accordance with the salary ranges advised. The table on page 31 shows the basic fees and salaries of the executive Directors for the year to 31 March 1997.

The company operates an Inland Revenue registered Profit-Related Pay Scheme which is open to employees at all levels including all 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) Performance related annual bonus

The annual bonus scheme operated for executive Directors continues to measure performance by reference to both financial and non-financial factors. Performance is measured by reference to the company's four Core Values, namely Our Customers, Our Environment, Our Company and Our People. The targets chosen reflect a continuous emphasis on improving the quality demanded by these Core Values.

Financial performance accounts for 50% of the bonus available. The remaining 50% is comprised of the elements relating to the achievement of customer and employee satisfaction (both measured by independent market research), personal objectives and environmental quality objectives.

The maximum amount payable under the annual bonus scheme is 40% of basic salary. In the year to 31 March 1997 the bonus awarded was 26.3% (1996: 25%). The bonuses awarded by the Committee in respect of the year ended 31 March 1997 are shown in the table on page 31.

#### iii) Share options and Long Term Incentive Plan

No grants of options have been made to executive Directors under the Inland Revenue Approved Executive Share Option Scheme since December 1993 and it is intended that grants of options under this Scheme will not be made to executive Directors in the future. The options previously granted to executive Directors under the Scheme are set out on page 33.

## Report of the Remuneration Committee

It is the intention of the company to introduce a share-based incentive scheme to replace the Executive Share Option Scheme for executive Directors which will be known as the Severn Trent Long Term Incentive Plan ('the Plan'). The Plan aims to further align the rewards of executive Directors and certain other senior executives more closely with the interests of shareholders. It has been designed on advice from Arthur Andersen.

The principal terms of the Plan are described in the circular to shareholders which accompanies the 1997 Report and Accounts.

#### iv) Pension

All executive Directors are eligible for membership of the Severn Trent Senior Staff Pension Scheme, which has been given Inland Revenue approval. Under this Scheme employees contribute 6% of pensionable earnings and the company contributes the balance of the cost of the Scheme as determined by the scheme actuary. The company contribution rate is 44% (1996: 42%).

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, subject to Inland Revenue limits. Part of this entitlement may be convertible into cash at the date of retirement. 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 final pensionable earnings at date of death, as well as pensions payable in the event of ill health and pensions payable to dependants on death.

Executive Directors' pensionable earnings currently include basic salary and bonus payments. However, the inclusion of bonuses as an element of pensionable earnings is in the process of being phased out.

The company has a future obligation in respect of Mr R A S Costin, who joined the Scheme after 1 June 1989 and is therefore subject to the Inland Revenue earnings cap (1996/97: £82,200), to pay the difference between his pension entitlement based upon the relevant portion of his final salary and the maximum amounts payable had the cap not been in place. This obligation is unfunded. The amount charged to the profit and loss account for this future obligation was £77,607 (1996: £53,720).

The company makes no contributions on behalf of the Chairman or the non-executive Directors. Consequently, the number of Directors to whom benefits are accruing under the Severn Trent Senior Staff Pension Scheme is four. No Directors are members of money purchase schemes.

#### 4 Chairman

The Chairman, Mr Ireland, devotes on average two and a half days a week to the company's affairs for which he is remunerated at the rate effective from 1 January 1994. His present basic fees and salary are therefore well below the level recommended by the Committee based on external comparisons. Mr Ireland does not participate in any of the company's share, bonus or pension schemes.

#### 5 Non-executive Directors

The non-executive Directors do not set their own level of fees and exclude themselves from any discussions relating to these. The board as a whole determines the level of fees that will be paid to non-executive Directors.

The board receives independent advice on the appropriate level of fees for non-executives, and their remuneration reflects both the amount of time given and the contribution made by the non-executive Directors to the company's affairs.

The fees for Mr A H Simon, as chairman of both the Remuneration and Audit Committees, during the year were £29,750 in line with the level set with effect from 1 July 1995. The other non-executive Directors each receive fees of £25,000 per annum, set with effect from 1 December 1995.

The non-executive Directors do not have service agreements with the company.

## 31 Severn Trent Plc Report of the Remuneration Committee

**6 Directors' emoluments**

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

	Basic salary & fees £000	Benefits in kind £000	Annual bonus £000	Other <sup>5</sup> £000	1996/97 £000	Total 1995/96 £000
<b>Chairman</b>						
R Ireland <sup>1</sup>	100.0	11.7	-	-	111.7	110.1
<b>Executive Directors</b>						
M J Bettington	109.1	11.7	28.9	-	149.7	133.0
V Cocker <sup>2</sup>	184.1	7.0	48.7	-	239.8	230.7
R A S Costin	159.1	11.3	42.1	-	212.5	203.9
B Duckworth	129.1	12.2	34.2	-	175.5	161.2
R S Paul	-	-	-	-	-	16.6
M P Upstone	-	-	-	-	-	35.6
<b>Non-executive Directors</b>						
T D G Arculus <sup>3</sup>	21.7	-	-	-	21.7	-
R H Boissier	25.0	-	-	1.7	26.7	22.8
M C Flower <sup>4</sup>	20.1	-	-	-	20.1	-
A J Lloyd	-	-	-	-	-	21.7
A H Simon	29.7	-	-	1.6	31.3	27.7
C Tritton	25.0	-	-	-	25.0	22.5
R M Walker <sup>3</sup>	21.7	-	-	-	21.7	-
<b>Total</b>	<b>824.6</b>	<b>53.9</b>	<b>153.9</b>	<b>3.3</b>	<b>1,035.7</b>	<b>985.8</b>

The executive Directors, in common with all eligible employees of the group, are entitled to participate in the group's Inland Revenue registered Profit Related Pay Scheme.

- <sup>1</sup> The Chairman does not participate in any of the company's share schemes or bonus schemes and his only benefit in kind is a company car.
- <sup>2</sup> The accrued pension at 31 March 1997 for the highest paid director was £133,017 per annum. The increase in pension during the year (in excess of inflation) was £9,360. The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.
- <sup>3</sup> Mr T D G Arculus and Mr R M Walker were appointed as non-executive Directors with effect from 20 May 1996.
- <sup>4</sup> Mr M C Flower was appointed a non-executive Director with effect from 11 June 1996.
- <sup>5</sup> Other emoluments represent expenses chargeable to UK income tax paid to non-executive Directors.

On behalf of the Board

**Andrew Simon** Chairman Remuneration Committee



## 32 Severn Trent Plc Directors' interests

## Directors' interests

**Directors' interests**

The Directors of the Company at 31 March 1997 and their beneficial interests in the shares of the Company were as follows:

	At 1 April 1996 or subsequent date of appointment No. of shares	At 31 March 1997 No of shares	At 2 June 1997 No of shares
<b>(f) Beneficial Holdings in Ordinary Shares</b>			
<b>Chairman</b>			
R Ireland	1,092	1,144	1,144
<b>Executive Directors</b>			
M J Bettington	1,000	1,062	1,062
V Cocker	16,801	6,894	9,854
R A S Costin	1,055	1,128	1,130
B Duckworth	10,297	15,856	16,102
<b>Non-executive Directors</b>			
T D G Arculus	- <sup>†</sup>	-	-
R H Bolssier	1,131	1,186	1,204
M C Flower	- <sup>†</sup>	-	-
A H Simon	4,070	4,070	4,070
C Tritton	2,575	2,699	2,741
R M Walker	- <sup>†</sup>	-	-

All the above holdings are in ordinary shares of Severn Trent Plc.

No Director had any non-beneficial interest in the ordinary share capital of any group company.

<sup>†</sup>At date of appointment.

## 33 Severn Trent Plc Directors' interests

**Directors' interests continued****(ii) Options over Ordinary Shares**

	At the start of the year No of shares	Exercised during the year No of shares	Granted during the year No of shares	At the end of the year No of shares	Year of grant of option	Exercise price (pence)	Market price at date of exercise (pence)	Gain on exercise 1996/97 £	Date from which exercisable	Expiry date
<b>Executive Share Options</b>										
M J Bettington	9,808	-	-	9,808	1993	497	-	-	Mar 1996	Mar 2003
	7,800	-	-	7,800	1993	625	-	-	Dec 1996	Dec 2003
V Cocker	24,308	(24,308)	-	-	1992	311	683.5	90,547	-	-
	19,315	(19,315)	-	-	1993	497	683.5	36,022	-	-
	13,307	-	-	13,307	1993	625	-	-	Dec 1996	Dec 2003
R A S Costin	58,350	(58,350)	-	-	1993	497	672.5	102,404	-	-
	18,560	-	-	18,560	1993	625	-	-	Dec 1996	Dec 2003
B Duckworth	12,676	(12,676)	-	-	1992	311	679.5	46,711	-	-
	10,462	(10,462)	-	-	1993	497	679.5	19,093	-	-
	8,528	-	-	8,528	1993	625	-	-	Dec 1996	Dec 2003

**Sharesave Options**

M J Bettington	5,034	-	-	5,034	1993	360	-	-	Apr 1998	Sep 1998
V Cocker	2,918	-	-	2,918	1992	257	-	-	Apr 1997	Sep 1997
	2,493	-	-	2,493	1995	415	-	-	Apr 2000	Sep 2000
	-	-	738	738	1997	528	-	-	Apr 2000	Sep 2000
R A S Costin	-	-	1,960	1,960	1997	528	-	-	Apr 2002	Sep 2002
B Duckworth	3,501	-	-	3,501	1992	257	-	-	Apr 1999	Sep 1999
	2,493	-	-	2,493	1995	415	-	-	Apr 2000	Sep 2000
	-	-	1,306	1,306	1997	528	-	-	Apr 2002	Sep 2002

<sup>1</sup> The executive Directors, in common with all eligible UK employees of the group, are entitled to participate in the company's Inland Revenue approved Sharesave Scheme.

<sup>2</sup> The 'Gain on Exercise' column in the table shows the notional gain, before taxation, based on the difference between the exercise price and the market price on the date of exercise. It does not indicate that this was the actual gain realised on the sale of shares or that the shares in question have necessarily been sold.

<sup>3</sup> No Executive Share Options were granted or lapsed during the year. At 31 March 1997 there were 92 other executives participating in the Executive Share Option Scheme (1996: 122).

<sup>4</sup> The 'Gain on Exercise' in 1995/96 resulting from the exercise of an Executive Share Option by Mr M Bettington was £51,498.

<sup>5</sup> On 1 April 1997 Mr Cocker exercised a Sharesave Option over 2,918 shares at an option price of 257 pence. The market price at the date of exercise was 684.5 pence and the 'Gain on Exercise' was £12,474.

<sup>6</sup> At 31 March 1997, the market price of the company's shares was 690 pence (31 March 1996: 594 pence) and the range during the year was 524 pence to 756.5 pence.

## 34 Severn Trent Plc Five year summary

## Five year summary

	1997	1996	1995	1994	1993
	£m	£m	£m	£m	£m
<b>Profit and loss account</b>					
Turnover	1,215.3	1,157.5	1,076.4	998.0	904.6
Profit before interest before exceptional items	438.1	420.8	374.3	329.7	299.0
Exceptional items	(24.5)	-	(55.0)	-	-
Net interest payable	(47.1)	(47.8)	(51.8)	(48.3)	(28.9)
Profit on ordinary activities before taxation	366.5	373.0	267.5	281.4	270.1
Taxation on profit on ordinary activities	(49.8)	(45.3)	(29.5)	(21.2)	(22.5)
Profit for the year	316.7	327.7	238.0	260.2	247.6
Dividends	(128.5)	(118.8)	(105.0)	(81.7)	(75.1)
Retained profit for the financial year	188.2	208.9	133.0	178.5	172.5
<b>Net assets employed</b>					
Fixed assets	3,589.9	3,386.1	3,248.3	3,029.7	2,723.8
Net liabilities excluding net debt	(289.7)	(318.7)	(279.2)	(239.3)	(251.2)
Provisions for liabilities and charges	(75.3)	(75.0)	(111.8)	(75.0)	(70.0)
	3,224.9	2,992.4	2,857.3	2,715.4	2,402.6
<b>Financed by</b>					
Called up share capital	350.5	366.7	363.9	358.9	356.1
Reserves	2,179.7	2,144.1	1,926.1	1,780.5	1,623.7
Equity shareholders' funds	2,530.2	2,510.8	2,290.0	2,139.4	1,979.8
Minority shareholders' interest	0.3	0.3	0.2	0.2	0.4
Net debt	694.4	481.3	567.1	575.8	422.4
	3,224.9	2,992.4	2,857.3	2,715.4	2,402.6
<b>Statistics</b>					
Earnings per share	87.2p	89.6p	66.0p	72.7p	69.9p
Earnings per share before exceptional items	93.9p	89.6p	81.3p	72.7p	69.9p
Dividends per share	32.66p	28.53p	25.03p	22.75p	21.1p
Second interim dividend	3.84p	3.84p	3.84p	-	-
Dividend cover	2.5	2.8	2.3	3.2	3.3
Gearing	27.4%	19.2%	24.8%	26.9%	21.3%
Share price at 31 March	690p	594p	514p	570p	519p
Average number of employees - Water and sewerage services	5,743	5,930	6,531	6,954	7,445
- Other	4,315	4,107	4,097	3,829	3,074

35 Severn Trent Plc Auditors' report to the shareholders of Severn Trent Plc

## 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 36 to 54, 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 31 to 33 and 36 to 54 which have been prepared under the historical cost convention and the accounting policies set out on pages 40 and 41.

### 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 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

### Price Waterhouse

Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
9 June 1997

## Report to the Directors on corporate governance matters

In addition to our audit of the financial statements we have reviewed your statements on page 28 concerning the group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

### Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either 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, your statements on internal financial controls on page 28 and on going concern on page 28, have provided the disclosures required by the Listing Rules referred to above 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 statements on page 28 appropriately reflects the group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

### Price Waterhouse

*Price Waterhouse*  
Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
9 June 1997

## 36 Severn Trent Plc Group profit and loss account

## Group profit and loss account year ended 31 March 1997

	Notes	1997 £m	1996 £m
<b>Turnover</b>	2	<b>1,215.3</b>	<b>1,157.5</b>
Operating costs before exceptional items	3	<b>(780.3)</b>	(740.2)
Exceptional costs	3	<b>(24.5)</b>	–
<b>Total operating costs</b>	3	<b>(804.8)</b>	(740.2)
<b>Operating profit</b>		<b>410.5</b>	417.3
Share of results of associated undertakings		<b>3.1</b>	3.5
<b>Profit before interest</b>	2	<b>413.6</b>	420.8
Net interest payable	5	<b>(47.1)</b>	(47.8)
<b>Profit on ordinary activities before taxation</b>		<b>366.5</b>	373.0
Taxation on profit on ordinary activities	6	<b>(49.8)</b>	(45.3)
<b>Profit for the financial year</b>		<b>316.7</b>	327.7
Dividends	7	<b>(128.5)</b>	(118.8)
<b>Retained profit for the financial year</b>	19	<b>188.2</b>	208.9
Earnings per share	8	<b>87.2p</b>	89.6p
Earnings per share before exceptional items	8	<b>93.9p</b>	89.6p

All activities are continuing operations.

## 37 Severn Trent Plc Balance sheets

## Balance sheets at 31 March 1997

	Notes	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
<b>Fixed assets</b>					
Tangible assets	9	3,566.3	3,353.9	7.1	7.1
Investments	10	23.6	32.2	1,562.4	1,720.6
		<b>3,589.9</b>	<b>3,386.1</b>	<b>1,569.5</b>	<b>1,727.7</b>
<b>Current assets</b>					
Stocks	11	66.0	41.6	-	-
Debtors	12	217.6	201.4	166.5	34.7
Short term deposits and investments	13	229.9	286.5	185.3	275.5
Cash at bank and in hand		7.2	3.9	5.0	-
		<b>520.7</b>	<b>533.4</b>	<b>356.8</b>	<b>310.2</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(526.4)</b>	<b>(536.0)</b>	<b>(180.2)</b>	<b>(275.9)</b>
<b>Net current (liabilities)/assets</b>		<b>(5.7)</b>	<b>(2.6)</b>	<b>176.6</b>	<b>34.3</b>
<b>Total assets less current liabilities</b>		<b>3,584.2</b>	<b>3,383.5</b>	<b>1,746.1</b>	<b>1,762.0</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(978.4)</b>	<b>(797.4)</b>	<b>(275.9)</b>	<b>(276.1)</b>
<b>Provisions for liabilities and charges</b>	17	<b>(75.3)</b>	<b>(75.0)</b>	-	-
<b>Net assets</b>		<b>2,530.5</b>	<b>2,511.1</b>	<b>1,470.2</b>	<b>1,485.9</b>
<b>Capital and reserves</b>					
Called up share capital	18	350.5	366.7	350.5	366.7
Share premium account	19	5.7	3.1	5.7	3.1
Capital redemption reserve	19	20.5	-	20.5	-
Profit and loss account	19	2,153.5	2,141.0	1,093.5	1,116.1
<b>Equity shareholders' funds</b>		<b>2,530.2</b>	<b>2,510.8</b>	<b>1,470.2</b>	<b>1,485.9</b>
Minority shareholders' interest		0.3	0.3	-	-
		<b>2,530.5</b>	<b>2,511.1</b>	<b>1,470.2</b>	<b>1,485.9</b>

Signed on behalf of the board who approved the accounts on 9 June 1997.

Richard Ireland Chairman

Alan Costin Group Finance Director

## 38 Severn Trent Plc Group cash flow statement

## Group cash flow statement year ended 31 March 1997

	Notes	1997 £m	1997 £m	1996 £m	1996 £m
<b>Net cash inflow from operating activities</b>	22a		<b>507.9</b>		494.9
<b>Returns on investments and servicing of finance</b>	22b		<b>(39.1)</b>		(33.1)
<b>Tax paid</b>			<b>(39.1)</b>		(26.8)
<b>Capital expenditure and financial investment</b>	22c		<b>(355.2)</b>		(243.8)
<b>Acquisitions</b>	22d		<b>(10.7)</b>		(0.8)
<b>Equity dividends paid</b>			<b>(108.3)</b>		(94.0)
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>			<b>(44.5)</b>		96.4
<b>Management of liquid resources</b>	22e		<b>55.8</b>		(78.3)
<b>Financing</b>					
Increase/(decrease) in debt		<b>157.4</b>		<b>(24.5)</b>	
Issue of shares		<b>6.9</b>		<b>1.4</b>	
Purchase of own shares		<b>(168.2)</b>		<b>-</b>	
	22f		<b>(3.9)</b>		(23.1)
<b>Increase/(decrease) in cash</b>			<b>7.4</b>		(5.0)

## Reconciliation of net cash flow to movement in net debt

	Notes	1997 £m	1997 £m	1996 £m	1996 £m
Increase/(decrease) in cash (as above)		<b>7.4</b>		<b>(5.0)</b>	
Cash flow from movement in net debt and financing		<b>(157.4)</b>		<b>24.5</b>	
Cash flow from movement in liquid resources		<b>(55.8)</b>		<b>78.3</b>	
<b>Change in net debt resulting from cash flows</b>			<b>(205.8)</b>		97.8
Inception of finance lease contracts			<b>(9.1)</b>		(12.2)
Currency translation differences			<b>1.8</b>		0.2
<b>(Increase)/decrease in net debt</b>			<b>(213.1)</b>		85.8
<b>Net debt at 31 March 1996</b>			<b>(481.3)</b>		(567.1)
<b>Net debt at 31 March 1997</b>	22g		<b>(694.4)</b>		(481.3)

Comparative figures have been restated to reflect the requirements of FRS1 (revised).

## 39 Severn Trent Plc Statement of total recognised gains and losses

## Statement of total recognised gains and losses year ended 31 March 1997

	1997 £m	Group 1996 £m
Profit for the financial year	316.7	327.7
Currency translation differences	(8.8)	0.3
<b>Total recognised gains and losses for the year</b>	<b>307.9</b>	<b>328.0</b>

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

## Reconciliation of movements in shareholders' funds

		Group		Company	
	Notes	1997 £m	1996 £m	1997 £m	1996 £m
Profit for the financial year		316.7	327.7	263.3	493.7
Dividends		(128.5)	(118.8)	(128.5)	(118.8)
		<b>188.2</b>	<b>208.9</b>	<b>134.8</b>	<b>374.9</b>
Other recognised gains and losses relating to the year		(8.8)	0.3	-	-
Shares issued (net of expenses)	18	6.9	2.6	6.9	2.6
Scrip dividend	19	10.8	11.0	10.8	11.0
Goodwill written off	19	(9.5)	(2.0)	-	-
Purchase of own shares	19	(168.2)	-	(168.2)	-
Net addition to/(reduction in) shareholders' funds		19.4	220.8	(15.7)	388.5
Shareholders' funds at 1 April 1996		2,510.8	2,290.0	1,485.9	1,097.4
<b>Shareholders' funds at 31 March 1997</b>		<b>2,530.2</b>	<b>2,510.8</b>	<b>1,470.2</b>	<b>1,485.9</b>



## Notes to the financial statements

### 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. 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.

41 Severn Trent Plc Notes to the financial statements

**1 Accounting policies continued**

**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 £134.4 million lower than it would otherwise have been (1996: £120.1 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.

**m) Foreign currency**

The trading results of overseas subsidiary and associated undertakings are translated into sterling using average rates of exchange ruling during the year.

The net equity interests in overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year-end. Exchange differences thus arising are treated as movements in reserves together with exchange differences on loans between group companies. Exchange differences arising in respect of foreign exchange instruments taken out as hedges of overseas investments are also treated as movements in reserves.

All other foreign 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.

## Notes to the financial statements

	United Kingdom		Other – principally Europe and USA		Group	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
<b>2 Segmental analysis</b>						
<b>a) Analysis of turnover and profit before interest by geographical origin and type of business</b>						
<b>Turnover</b>						
Water and sewerage services	919.1	895.6	–	–	919.1	895.6
Waste management	157.6	130.1	38.2	43.2	195.8	173.3
Utility-related services	127.8	92.7	62.0	56.2	189.8	148.9
Inter segment trading	(88.3)	(59.7)	(1.1)	(0.6)	(89.4)	(60.3)
	1,116.2	1,058.7	99.1	98.8	1,215.3	1,157.5

<b>Profit before interest</b>						
Water and sewerage services	410.3	400.8	–	–	410.3	400.8
Exceptional restructuring provision	(20.0)	–	–	–	(20.0)	–
Water and sewerage services after exceptional restructuring provision	390.3	400.8	–	–	390.3	400.8
Waste management	19.8	17.3	4.5	3.9	24.3	21.2
Utility-related services	3.9	3.8	7.7	2.9	11.6	6.7
	414.0	421.9	12.2	6.8	426.2	428.7
Corporate overheads					(8.1)	(7.9)
Exceptional costs related to the proposed bid for South West Water Plc					(4.5)	–
					413.6	420.8

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.

Water and sewerage services turnover is net of customer rebate and utilisation of the tariff rebalancing provision as follows:

	1997 £m	1997 £m	1996 £m	1996 £m
Gross turnover		927.8		895.6
Customer rebate	(20.0)		(12.2)	
Tariff rebalancing provision	11.3		12.2	
		(8.7)		–
		919.1		895.6

	United Kingdom		Other – principally Europe and USA		Group	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
<b>b) Analysis of net operating assets by geographical location and type of business</b>						
Water and sewerage services	3,214.9	2,968.0	–	–	3,214.9	2,968.0
Waste management	103.4	97.7	20.6	26.8	124.0	124.5
Utility-related services	33.9	25.7	36.1	39.4	70.0	65.1
Net operating assets	3,352.2	3,091.4	56.7	66.2	3,408.9	3,157.6
Short term deposits and investments, cash, borrowings, taxation and dividends payable					(878.4)	(646.5)
					2,530.5	2,511.1

## 43 Severn Trent Plc Notes to the financial statements

	Before exceptional	Exceptional	Total	Total
	costs	costs	1997	1996
	1997	1997	1997	1996
	£m	£m	£m	£m
<b>3 Operating costs</b>				
Wages and salaries	201.6	13.0	214.6	196.2
Social security costs	18.4	-	18.4	18.6
Pension costs (note 21)	15.4	6.0	21.4	15.6
Total employee costs	235.4	19.0	254.4	230.4
Power	38.4	-	38.4	42.7
Raw materials and consumables	65.5	-	65.5	56.8
Rates	41.5	-	41.5	37.2
Service charges	18.6	-	18.6	17.6
Agencies	17.9	-	17.9	17.7
Waste disposal costs	26.4	-	26.4	23.3
Other operating costs	128.5	1.0	129.5	111.5
Depreciation – on owned assets	121.9	-	121.9	114.2
– on assets held under finance leases	9.7	-	9.7	11.4
Hired and contracted services	75.9	-	75.9	56.0
Infrastructure renewals charge (note 17a)	61.0	-	61.0	55.1
Environmental and landfill restoration costs (note 17a)	4.4	-	4.4	3.9
Operating lease rentals – land and buildings	3.1	-	3.1	3.0
– other	2.2	-	2.2	2.3
Hire of plant and machinery	7.8	-	7.8	6.5
Research and development expenditure	6.3	-	6.3	6.0
Auditors' remuneration – audit work	0.5	-	0.5	0.5
– non-audit work	0.3	-	0.3	0.1
Profit on disposal of fixed assets	(3.7)	-	(3.7)	(1.1)
Costs of proposed bid	-	4.5	4.5	-
	861.6	24.5	886.1	795.1
Own work capitalised	(81.3)	-	(81.3)	(54.9)
	780.3	24.5	804.8	740.2

Exceptional costs comprise a £20 million provision for restructuring of Severn Trent Water Limited and costs of £4.5 million related to the proposed bid for South West Water Plc.

Included in auditors' remuneration is £51,200 (1996: £52,500) in respect of the audit of the company.

Details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 29 to 31.

	1997	1996
	No.	No.
<b>4 Employee numbers</b>		
Average number of employees during the year (full time equivalent)		
<b>By type of business:</b>		
Water and sewerage services	5,743	5,930
Waste management	2,252	2,256
Utility-related services	2,063	1,851
	10,058	10,037
<b>By geographical location:</b>		
United Kingdom	8,798	8,935
Other – principally Europe and USA	1,260	1,102
	10,058	10,037

## Notes to the financial statements

	1997 £m	1996 £m
<b>5 Net interest payable</b>		
Interest receivable and similar income	24.2	20.8
Interest payable and similar charges:		
Bank loans and overdrafts	(27.8)	(22.3)
Other loans	(34.0)	(34.6)
Finance leases	(9.5)	(11.7)
	<b>(47.1)</b>	<b>(47.8)</b>

	1997 £m	1996 £m
<b>6 Taxation on profit on ordinary activities</b>		
UK corporation tax at 33% – current year	52.6	43.9
– prior year	(12.2)	(8.3)
Double taxation relief	(1.4)	(1.4)
Overseas taxation	3.0	3.5
Share of taxation charges of associated undertakings	1.5	1.5
Advance corporation tax – current year	1.3	3.1
– prior year	5.0	3.0
	<b>49.8</b>	<b>45.3</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 1997. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £28.2 million (1996: £40.7 million). At 31 March 1997, the group had tax losses of approximately £46.7 million (1996: £38.5 million) which will be available for offset against future trading profits. The comparative figures above have been restated to take account of computations submitted to the relevant tax authorities.

Advance corporation tax of £29.2 million was paid during the year as part of the cost of the purchase of own shares and has been charged directly to reserves (note 19).

The government has announced its intention to impose a levy on utilities. At the date of signing these financial statements the amount, timing and incidence of the levy have not been announced and therefore no provision has been included.

	Pence per share	1997 £m	Pence per share	1996 £m
<b>7 Dividends</b>				
Interim dividend declared	10.50	37.0	9.20	33.7
Second interim dividend declared	3.84	13.5	3.84	14.1
Final dividend proposed	22.16	78.0	19.33	71.0
	<b>36.50</b>	<b>128.5</b>	<b>32.37</b>	<b>118.8</b>

### 8 Earnings per share

Earnings per share are calculated on the net basis on earnings of £316.7 million (1996: £327.7 million), divided by 363.3 million shares, being the average number of shares in issue during the year (1996: 365.6 million). For the year ended 31 March 1997, earnings per share are also shown calculated on earnings of £341.2 million, being earnings before the exceptional costs related to the restructuring of Severn Trent Water Limited and the proposed bid for South West Water Plc, since the Directors consider that this gives a useful indication of underlying performance.

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

## 45 Severn Trent Plc Notes to the financial statements

9 Tangible assets				Group	Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
<b>Cost</b>					
At 1 April 1996	1,378.5	1,439.1	1,350.5	4,168.1	8.3
Additions	80.6	110.6	179.0	370.2	0.3
Grants and contributions	-	(14.3)	-	(14.3)	-
Disposals	(4.3)	-	(24.2)	(28.5)	-
Reclassification and transfers	(13.8)	1.9	11.9	-	-
Exchange adjustments	(2.1)	-	(8.8)	(10.9)	-
<b>At 31 March 1997</b>	<b>1,438.9</b>	<b>1,537.3</b>	<b>1,508.4</b>	<b>4,484.6</b>	<b>8.6</b>

<b>Depreciation</b>					
At 1 April 1996	368.4	-	445.8	814.2	1.2
Charge for year	34.8	-	96.8	131.6	0.3
Disposals	(1.0)	-	(21.6)	(22.6)	-
Exchange adjustments	(1.1)	-	(3.8)	(4.9)	-
<b>At 31 March 1997</b>	<b>401.1</b>	<b>-</b>	<b>517.2</b>	<b>918.3</b>	<b>1.5</b>

<b>Net book value</b>					
At 31 March 1997	1,037.8	1,537.3	991.2	3,566.3	7.1
At 31 March 1996	1,010.1	1,439.1	904.7	3,353.9	7.1

	1997 £m	1996 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:		
Cost	176.0	195.6
Accumulated depreciation	(46.0)	(42.6)
Net book value	130.0	153.0

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.

	1997 £m	1996 £m
iii) The net book value of land and buildings is analysed as follows:		
Freehold	1,022.8	997.9
Long leasehold	3.6	1.2
Short leasehold	11.4	11.0
	<b>1,037.8</b>	<b>1,010.1</b>

iv) The net book value of land and buildings includes £43.5 million (1996: £49.1 million) in respect of landfill sites.

	1997 £m	1996 £m
v) Included in the above are the following tangible fixed assets not subject to depreciation:		
Land	22.9	22.7
Infrastructure assets	1,537.3	1,439.1
Assets in the course of construction	253.8	281.0
	<b>1,814.0</b>	<b>1,742.8</b>

vi) Tangible asset additions include £6.3 million in respect of the purchase of a carbon regeneration plant from Grafham Carbons Limited, an associated undertaking. Subsequent to this purchase, Grafham Carbons Limited repaid a loan of £6.3 million owed to the group. This repayment is included in loans repaid by associated undertakings disclosed in note 10.

vii) At 31 March 1997 the company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.3 million (1996: £6.3 million) and plant and equipment with a net book value of £0.8 million (1996: £0.8 million).

## Notes to the financial statements

10 Investments	Interests in associated undertakings £m	Other investments £m	Total £m
<b>Group</b>			
At 1 April 1996	31.8	0.4	32.2
Loans advanced/additions	4.9	0.2	5.1
Loans repaid	(9.3)	-	(9.3)
Share of profits	1.6	-	1.6
Dividends received	(2.0)	-	(2.0)
Currency translation differences	(4.0)	-	(4.0)
<b>At 31 March 1997</b>	<b>23.0</b>	<b>0.6</b>	<b>23.6</b>

Interests in associated undertakings at 31 March 1997 comprised the group's share of net assets less provisions of £16.6 million (1996: £20.9 million) and loans of £6.4 million (1996: £10.9 million). The group's share of the post-acquisition accumulated losses of associated undertakings at 31 March 1997 was £2.8 million (1996: £1.5 million accumulated profits). Particulars of the group's associated undertakings at 31 March 1997 are:

	Nature of business	Percentage of share capital held	Issued share capital	
			A ordinary shares of £1	B ordinary shares of £1
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*
Grafham Carbons Limited	Carbon Regeneration	50%	20,000*	20,000
Minworth Systems Limited	Process Monitoring Equipment	49%	51,000	49,000*
Aquafin NV	Sewerage Undertaking	20%	-	-
				800,000 shares at 10,000 BEF/share
Indaqua Industria e Gestao de Aguas SA	Water Undertaking	30%	-	-
				100,000 shares at 1,000 escudos/share
Industrias del Agua SA de CV	Water Undertaking	49%	-	-
				10,000,000 common shares
Trinidad & Tobago Water Services Limited (TTWS)	Water Undertaking	50%	-	-
				2 shares at TT\$200/share

\*Held by the group

The country of incorporation, registration and main operation is Great Britain with the exceptions of Aquafin (Belgium), Indaqua Industria (Portugal), Industrias del Agua (Mexico) and TTWS (Trinidad & Tobago). The group financial statements incorporate a trading period for Aquafin, Indaqua and TTWS of 12 months to their accounting reference date of 31 December 1996.

The principal subsidiary undertakings of the group are listed in note 23. Subsidiary undertakings audited by Price Waterhouse account for more than 98% 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		Other investments £m	Total £m
	Shares £m	Loans £m		
At 1 April 1996	1,234.5	485.9	0.2	1,720.6
Additions/loans advanced	50.5	1.5	-	52.0
Loans repaid	-	(210.2)	-	(210.2)
<b>At 31 March 1997</b>	<b>1,285.0</b>	<b>277.2</b>	<b>0.2</b>	<b>1,562.4</b>

## 47 Severn Trent Plc Notes to the financial statements

	Group	
	1997	1996
	£m	£m
<b>11 Stocks</b>		
Stocks and work in progress	13.9	12.5
Development land and properties	52.1	29.1
	<b>66.0</b>	<b>41.6</b>

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

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<b>12 Debtors</b>				
Trade debtors	130.1	117.8	-	-
Amounts owed by group undertakings	-	-	157.6	31.6
Amounts owed by associated undertakings	0.8	3.2	-	-
Taxation recoverable	0.4	0.7	-	-
Other debtors	10.4	9.7	0.2	0.1
Prepaid pension contributions	1.1	-	0.4	-
Prepayments and accrued income	74.8	70.0	8.3	3.0
	<b>217.6</b>	<b>201.4</b>	<b>166.5</b>	<b>34.7</b>

Debtors include £4.0 million (1996: £2.1 million) which falls due after more than one year.

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<b>13 Short term deposits and investments</b>				
Short term deposits	229.9	284.1	185.3	275.5
Other investments	-	2.4	-	-
	<b>229.9</b>	<b>286.5</b>	<b>185.3</b>	<b>275.5</b>

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<b>14 Creditors: amounts falling due within one year</b>				
Bank overdrafts	0.2	6.5	-	108.8
Bank loans	27.7	30.2	-	-
Other loans	0.4	0.3	-	-
Obligations under finance leases	1.4	8.6	-	-
Borrowings (note 16)	29.7	45.6	-	108.8
Trade creditors	46.9	56.4	-	-
Other creditors	14.6	12.1	4.5	3.5
Taxation and social security	10.9	9.1	-	-
Advance corporation tax payable	31.0	28.8	31.0	28.8
Corporation tax payable	24.9	18.3	-	-
Dividends payable	128.5	118.8	128.5	118.8
Accruals and deferred income	239.9	246.9	16.2	16.0
	<b>526.4</b>	<b>536.0</b>	<b>180.2</b>	<b>275.9</b>

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<b>15 Creditors: amounts falling due after more than one year</b>				
Bank loans	440.8	268.7	-	-
Other loans	290.0	290.4	275.0	275.0
Obligations under finance leases	171.0	167.0	-	-
Borrowings (note 16)	901.8	726.1	275.0	275.0
Deferred income	58.1	59.8	-	-
Other	18.5	11.5	0.9	1.1
	<b>978.4</b>	<b>797.4</b>	<b>275.9</b>	<b>276.1</b>



## Notes to the financial statements

16 Borrowings	Loans				1997 Total £m	1996 Total £m
	Overdrafts £m	Repayable by instalments any of which are payable after five years £m	Other repayment terms £m	Finance leases £m		
<b>Group</b>						
Borrowings due within one year (note 14)	0.2	0.4	27.7	1.4	29.7	45.6
Borrowings due after one year:						
Between one and two years	–	0.3	136.4	–	136.7	29.6
Between two and five years	–	0.7	426.7	–	427.4	453.6
After more than five years	–	13.8	152.9	171.0	337.7	242.9
Total borrowings due after one year (note 15)	–	14.8	716.0	171.0	901.8	726.1
	0.2	15.2	743.7	172.4	931.5	771.7
				Rate of interest %	1997 £m	1996 £m
Loans repayable partly or wholly after five years comprise:						
European Investment Bank loans – 2003–2004				5.6 – 7.9	152.7	95.5
Local authority loans – 2010–2035				6.0 – 14.4	15.3	15.5
Other loans				3.5 – 5.0	0.1	0.6
					168.1	111.6

**Company**

The company has other loans totalling £275.0 million (1996: £275.0 million) which are repayable within five years.

17 Provisions for liabilities and charges	Balance at 1 April 1996 £m	Charged to profit & loss account £m	Exchange adjustment £m	Utilised £m	Balance at 31 March 1997 £m
a) Provisions comprise:					
Infrastructure renewals	29.7	61.0	–	(72.5)	18.2
Environmental and landfill restoration	15.3	4.4	(0.7)	(2.7)	16.3
Restructuring	19.3	20.0	–	(10.0)	29.3
Insurance	9.6	4.7	–	(3.4)	10.9
Other	1.1	0.3	–	(0.8)	0.6
	75.0	90.4	(0.7)	(89.4)	75.3

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £4.3 million (1996: £3.5 million).

b) Potential deferred taxation liabilities not provided:	1997 £m	1996 £m
Capital allowances	287.2	255.0
Other timing differences	(25.0)	(30.0)
Available tax losses	(15.4)	(12.7)
Advance corporation tax not immediately recoverable	(149.6)	(118.0)
	97.2	94.3

In addition to the amounts set out in the table above, there is advance corporation tax of £3.9 million (1996: £nil) 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 £405.3 million (1996: £370.7 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.

## 49 Severn Trent Pic Notes to the financial statements

<b>18 Called up share capital</b>	<b>1997</b>	<b>1996</b>
	<b>£m</b>	<b>£m</b>
<b>Authorised:</b>		
475,000,001 Ordinary Shares of £1	<b>475.0</b>	<b>475.0</b>
<b>Issued and fully paid:</b>		
350,463,680 Ordinary Shares of £1 (1996: 366,701,762)	<b>350.5</b>	<b>366.7</b>

## a) Shares issued during the year

1,841,436 Ordinary Shares were issued in lieu of cash of £10.8 million in respect of the first interim and final dividends for the year ended 31 March 1996. Scrip issue costs were £0.3 million.

1,302,041 Ordinary Shares were issued at 176p, 239p, 257p, 360p, 482p, 415p or 535p under the group's Employee Sharesave Scheme and 1,118,441 Ordinary Shares were issued at 262p, 310p, 311p, 497p or 625p under the group's Executive Share Option Scheme. The aggregate consideration in respect of these allotments was £7.2 million.

## b) Shares purchased during the year

In December 1996, the company purchased for cancellation 20,500,000 Ordinary Shares at an average price of 673p per share (note 19).

## c) Employee share schemes

## i) The Severn Trent Share Schemes

The issued and paid up share capital of the company includes 948,408 (1996: 2,064,833) 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 three, five or seven years the right to purchase Ordinary Shares in the company. Options outstanding at 31 March 1997 were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			1997	1996
December 1989	1995 or 1997	176p	<b>6,201</b>	<b>805,279</b>
January 1991	1996 or 1998	239p	<b>212,369</b>	<b>646,084</b>
January 1992	1997 or 1999	257p	<b>1,260,505</b>	<b>1,341,689</b>
January 1993	1998 or 2000	360p	<b>913,497</b>	<b>977,645</b>
January 1994	1999 or 2001	482p	<b>691,768</b>	<b>720,752</b>
January 1995	2000 or 2002	415p	<b>1,215,638</b>	<b>1,290,458</b>
January 1996	2001 or 2003	535p	<b>759,776</b>	<b>819,956</b>
January 1997	2000, 2002 or 2004	528p	<b>1,127,292</b>	-

## 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 1997 were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares	
				1997	1996
January 1990	-	1993 - 2000	262p	-	<b>22,949</b>
January 1991	-	1994 - 2001	310p	-	<b>15,967</b>
January 1992	<b>15</b>	1995 - 2002	311p	<b>95,540</b>	<b>662,655</b>
March 1993	<b>41</b>	1996 - 2003	497p	<b>192,107</b>	<b>605,651</b>
December 1993	<b>97</b>	1996 - 2003	625p	<b>407,837</b>	<b>506,703</b>

## Notes to the financial statements

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
<b>19 Reserves</b>			
<b>Group</b>			
At 1 April 1996	3.1	-	2,141.0
Goodwill	-	-	(9.5)
Retained profit for the year	-	-	188.2
Shares issued	4.8	-	-
Purchase of own shares	-	20.5	(168.2)
Scrip dividend (including expenses)	(2.2)	-	10.8
Currency translation differences	-	-	(8.8)
<b>At 31 March 1997</b>	<b>5.7</b>	<b>20.5</b>	<b>2,153.5</b>

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
<b>Company</b>			
At 1 April 1996	3.1	-	1,116.1
Retained profit for the year	-	-	134.8
Shares issued	4.8	-	-
Purchase of own shares	-	20.5	(168.2)
Scrip dividend (including expenses)	(2.2)	-	10.8
<b>At 31 March 1997</b>	<b>5.7</b>	<b>20.5</b>	<b>1,093.5</b>

The profit attributable to shareholders, dealt with in the accounts of the company was £263.3 million (1996: £493.7 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the company.

The total cost of £168.2 million for the purchase of own shares comprised cost of shares (£138.0 million), advance corporation tax (£29.2 million) and other expenses (£1.0 million).

At 31 March 1997 cumulative goodwill written off against group reserves amounted to £255.6 million (1996: £246.1 million). Goodwill written off in the year relates to a number of small business acquisitions. The total consideration payable in respect of acquisitions was £10.5 million and the book and fair value of the net assets acquired was £1.0 million. Acquisitions have not materially impacted on the results or operating cash flow for the year.

<b>20 Commitments and contingent liabilities</b>	1997 £m	1996 £m
<b>a) Investment expenditure commitments</b>		
Contracted for but not provided in the financial statements	227.6	178.3

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:

	1997		1996	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.7	0.5	0.5	0.6
Between one and five years	1.6	1.6	1.9	1.4
After five years	2.4	-	2.5	-
	<b>4.7</b>	<b>2.1</b>	<b>4.9</b>	<b>2.0</b>

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.

## 51 Severn Trent Plc Notes to the financial statements

**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 a separate fund administered by the trustees. 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 1997, before the restructuring provision, was £15.4 million (1996: £15.6 million).

**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%
Inflation	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.

The employer's contribution rate to STWPS continues unchanged at 11.88%, 9.9% or 5.94% of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay.

**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**

	1997 £m	1996 £m
<b>a) Reconciliation of profit before interest to operating cash flows</b>		
Profit before interest	413.6	420.8
Share of results of associated undertakings	(3.1)	(3.5)
Dividends received from associates	2.0	2.2
Depreciation charge	131.6	125.6
Profit on sale of tangible fixed assets	(3.7)	(1.1)
Deferred income received	1.8	2.8
Deferred income written back	(3.9)	(3.6)
Provisions for liabilities and charges (note 17a)	90.4	63.1
Utilisation of provisions for liabilities and charges	(93.8)	(101.0)
Increase in stocks	(22.5)	(5.2)
Increase in debtors	(17.9)	(15.5)
Increase in creditors	13.4	10.3
Net cash inflow from operating activities	507.9	494.9

The cash flow from operating activities includes payments totalling £4.5 million for exceptional costs related to the proposed bid for South West Water Plc. The utilisation of provisions for liabilities and charges includes £10.0 million in respect of an exceptional restructuring provision charged to the profit and loss account in a previous year.

## Notes to the financial statements

	1997 £m	1996 £m
<b>22 Cash flow statement continued</b>		
<b>b) Returns on investments and servicing of finance</b>		
Interest received	24.0	24.1
Interest paid	(62.4)	(56.0)
Interest element of finance lease rental payments	(0.7)	(1.2)
Net cash outflow for returns on investments and servicing of finance	(39.1)	(33.1)

	1997 £m	1996 £m
<b>c) Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(391.5)	(267.3)
Grants received	18.2	19.7
Sale of tangible fixed assets	13.8	6.4
Investment in associated undertakings	-	(0.2)
Loans advanced to associated undertakings	(4.9)	(3.4)
Loans repaid by associated undertakings	9.3	1.0
Investment in other fixed asset investments	(0.1)	-
Net cash outflow for capital expenditure and financial investment	(355.2)	(243.8)

	1997 £m	1996 £m
<b>d) Acquisitions</b>		
Consideration	(10.1)	-
Deferred consideration	(0.6)	(0.8)
Net cash outflow for acquisitions	(10.7)	(0.8)

e) Liquid resources comprise short term deposits, certificates of deposit and other investments with a maturity date of less than one year.

	1997 £m	1996 £m
<b>f) Financing</b>		
Loans advanced	199.9	2.2
Loans repaid	(30.2)	(11.8)
Finance lease capital repaid	(12.3)	(14.9)
Decrease/(increase) in debt	157.4	(24.5)
Shares issued net of expenses	6.9	1.4
Purchase of own shares	(168.2)	-
Net cash outflow from financing	(3.9)	(23.1)

	At 1 April 1996 £m	Cash flow £m	Other non- cash changes £m	Exchange movement £m	At 31 March 1997 £m
<b>g) Analysis of changes in net debt</b>					
Cash at bank and in hand	3.9	1.5	-	1.8	7.2
Overdrafts (note 16)	(6.5)	5.9	-	0.4	(0.2)
		7.4			
Debt due within one year (note 16)	(30.5)	30.2	(28.1)	0.3	(28.1)
Debt due after one year (note 16)	(559.1)	(199.9)	28.1	0.1	(730.8)
Finance leases (note 16)	(175.6)	12.3	(9.1)	-	(172.4)
		(157.4)			
Current asset investments (note 13)	286.5	(55.8)	-	(0.8)	229.9
Total	(481.3)	(205.8)	(9.1)	1.8	(694.4)

## 53 Severn Trent Plc Notes to the financial statements

## 23 Subsidiary undertakings and their Directors

**Water and sewerage services**

**Severn Trent Water Limited\***  
2297 Coventry Road  
Birmingham B26 3PU  
Telephone 0121 722 4000

**Directors**  
V Cocker  
B Duckworth  
J K Baryard  
J M Foster  
R Ireland  
M Lily  
D W Mattin  
G P Noone  
A Q Todd  
R M Walker  
M Wilson

**Waste management**

**Biffa Waste Services Limited**  
Coronation Road  
Cressex  
High Wycombe HP12 3TZ  
Telephone 01494 521221

**Directors**  
M J Bettington  
D G Bellhouse  
D A Brown  
R A S Costin  
B J Griffiths  
P T Jones  
C M Malbrain  
N H Manning  
S J Parrott  
C Pearce  
R B Tate

**Biffa Waste Services SA**  
Mechelsesteenweg 642, B-1800  
Vilvoorde  
Belgium  
Telephone 003 22251 0198  
(Incorporated and operational in Belgium)

**Directors**  
C M Malbrain  
D G Bellhouse  
M J Bettington  
P Canivet  
K Smits

**Utility related services****International**

**Severn Trent Water International Limited**  
2308 Coventry Road  
Birmingham B26 3JZ  
Telephone 0121 722 6000

**Directors**  
R T Quinn  
V Cocker  
R A S Costin  
J A Hill  
B M Horner  
R Ireland

**Severn Trent Water International  
(Overseas Holdings) Limited**  
2308 Coventry Road  
Birmingham B26 3JZ

**Directors**  
R A S Costin  
J A Hill  
D W Mattin

**ST Environmental Services Inc**

Park 10  
16337 Park Row  
Houston  
Texas 77084  
USA  
Telephone 001 281 578 4277  
(Incorporated and operational in the United States of America)

**Directors**  
R T Quinn  
W T Nabors  
W A Callegari  
K J Kelly

**Property**

**Severn Trent Property Limited\***  
2308 Coventry Road  
Birmingham B26 3JZ  
Telephone: 0121 722 6000

**Directors**  
G Inge  
P A Ludlow  
R A S Costin  
P C Long

**Daventry International Rail Freight Terminal Limited (85% owned)**

2308 Coventry Road  
Birmingham  
B26 3JZ  
Telephone 0121 722 6000

**Directors**  
P A Ludlow  
J Jones  
P C Long  
M J Roper

**Systems**

**Severn Trent Systems Limited\***  
2800 The Crescent  
Birmingham Business Park  
Birmingham B37 7YL  
Telephone 0121 717 7755

**Directors**  
J T Oliver  
V Cocker  
I P Clark  
M Lily

**Computer Systems and Applications Inc**

(Trading as Severn Trent Systems)  
Two Chasewood Park  
20405 State Highway 249  
Suite 600  
Houston  
Texas 77070  
USA  
Telephone 001 713 320 7100  
(Incorporated and operational in the United States of America)

**Directors**  
J T Oliver  
I P Clark  
C E Riddle

**Stoner Associates Europe Limited\***

2800 The Crescent  
Birmingham Business Park  
Birmingham B37 7YL  
Telephone 0121 717 7755

**Directors**  
J T Oliver  
T E Richwine  
A M Schulte

**Stoner Associates Inc**

PO Box 86  
1170 Harrisburg Pike  
Carlisle  
Pennsylvania 17013-0086  
USA  
Telephone 001 717 243 1900  
(Incorporated and operational in the United States of America)

**Directors**  
J T Oliver  
K J Kelly  
T E Richwine

## Notes to the financial statements

### 23 Subsidiary undertakings and their Directors continued

#### Utility related services continued

##### Technology

**Severn Trent Technology Limited\***  
2308 Coventry Road  
Birmingham B26 3JZ  
Telephone 0121 722 6000

**Directors**  
I J Hislop  
V Cocker  
R K Peace  
N A Rummens

**Aztec Environmental Control Limited\***  
8 Hawksworth  
Southmead Industrial Park  
Didcot  
Oxon OX11 7HR  
Telephone 01235 512000

**Directors**  
I J Hislop  
R K Peace

**Capital Controls Limited\***  
Park Lane  
Minworth  
Sutton Coldfield  
West Midlands B76 9BL  
Telephone 0121 313 2300

**Directors**  
I J Hislop  
R K Peace

**Capital Controls Company Inc**  
3000 Advance Lane  
PO Box 211  
Colmar  
Pennsylvania 18915  
USA  
Telephone 001 215 977 4000  
(Incorporated and operational in the United States of America)

**Directors**  
I J Hislop  
K J Kelly

**Fusion Meters Ltd (75% owned)\***  
Smeckley Wood Close  
Chesterfield Trading Estate  
Chesterfield S41 9PZ  
Telephone 01246 456658

**Directors**  
I J Hislop  
G G Archibald  
E Bridgstock  
E A W Ounkey  
R K Peace  
J A Wilkes

**Genera Technologies Limited\***  
St. John's Innovation Centre  
St. John's Innovation Park  
Cowley Road  
Cambridge CB4 4WS  
Telephone 01223 421945

**Directors**  
I J Hislop  
A Parton  
R K Peace

**Paperflow Services Limited\***  
Ashbourne Way  
Solihull  
West Midlands B90 4QU  
Telephone 0121 609 0800

**Directors**  
D J Cramp  
(to 30 June 1997)  
N A Rummens  
(from 1 July 1997)  
I J Hislop

**Severn Trent Laboratories Limited\***  
STL Business Centre  
Torrington Avenue  
Coventry CV4 9GU  
Telephone 01203 692692

**Directors**  
R Brydon  
I J Hislop  
R K Peace

**Tetra Europe Limited\***  
Rock House  
Stockhill Lane  
Nottingham NG6 OCJ  
Telephone 0115 979 1555

**Directors**  
M Ashley  
I J Hislop

##### Others

**Charles Haswell and Partners Limited**  
99 Great Russell Street  
London WC1B 3LA  
Telephone 0171 580 2412  
(Engineering Design Consultants)

**Directors**  
J K Banyard  
I Elliott  
G G Ford  
D R Gutteridge  
C J G Jones  
D J Keeling  
R A Lee  
C M Nunn  
P T Simpson

**Derwent Insurance Limited**  
Dixcart House  
Sir William Place  
St Peter Port  
Guernsey  
Telephone 01481 710555  
(Insurance company – incorporated and operational in Guernsey)

**Directors**  
G M de Cruz  
J E Langlois  
J Mann  
D W Mattin  
P Tandon

**Severn Trent (Del) Inc**  
2980 Advance Lane  
Colmar  
Pennsylvania 18915  
USA  
Telephone 001 215 997 6530  
(Holding company – incorporated and operational in the United States of America)

**Directors**  
K J Kelly  
D W Mattin  
J R Whalen (Jr)

**Severn Trent Overseas Holdings Limited\***  
2297 Coventry Road  
Birmingham B26 3PU  
(Holding company)

**Directors**  
V Cocker  
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.

## 55 Severn Trent Plc Shareholder information

## Shareholder information Analysis of shareholdings at 31 March 1997

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of ordinary shares million	Percentage of ordinary shares %
1 - 499	62,814	56.1	12.1	3.4
500 - 999	29,542	26.4	19.7	5.6
1,000 - 4,999	17,890	16.0	25.9	7.4
5,000 - 9,999	434	0.4	2.9	0.8
10,000 - 49,999	557	0.5	12.8	3.7
50,000 - 99,999	186	0.2	12.9	3.7
over 100,000	458	0.4	264.2	75.4
	111,881	100.0	350.5	100.0



56 Severn Trent Plc Shareholder information

## Shareholder information

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### Financial Calendar

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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

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Dividend payments in respect of the year ended

31 March 1997:

First interim dividend	paid 7 April 1997
Second interim dividend	6 August 1997
Proposed final dividend	6 August 1997

### Annual General Meeting

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30 July 1997 at the International Convention Centre, Birmingham

### Registrars

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Lloyds Bank Registrars  
54 Pershore Road South  
Kings Norton  
Birmingham B30 3EP  
Telephone 0121 433 8000

### Severn Trent Plc

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Registered number 2366619  
Registered office  
2297 Coventry Road  
Birmingham B26 3PU  
Telephone 0121 722 4000

Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU, United Kingdom. Telephone +44 121 722 4000 Internet <http://www.severn-trent.com>

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**Severn Trent Plc**