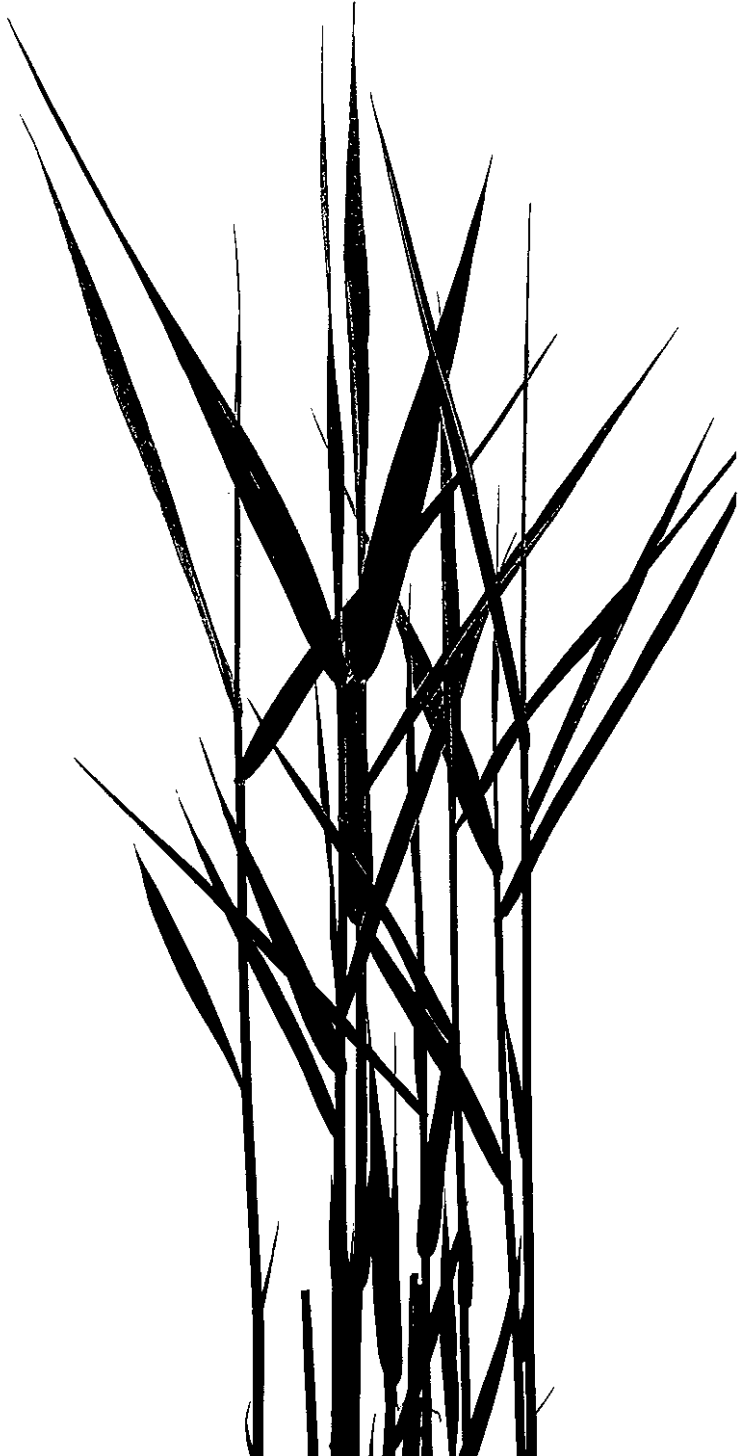
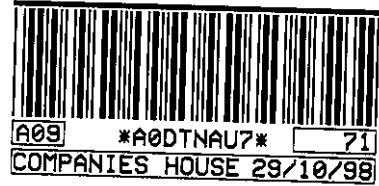


Annual report and accounts 1998  
Service, quality and environmental  
leadership

**Severn Trent Plc**

COMPANY NUMBER: 2366619



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Severn Trent Plc One of the world's leading water, waste and utility services companies. Quoted on the London Stock Exchange and listed among the top 100 companies in the UK, the group has a turnover of more than £1.2 billion and employs some 10,000 people, primarily in the UK, the rest of Europe and North America. Its core values are service, quality and environmental leadership.

**Water**

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

**Waste**

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

**Services**

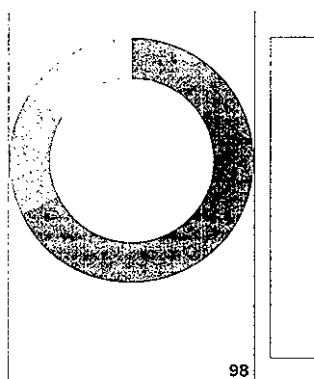
Severn Trent Systems provides a range of utility management information systems, including customer service and network modelling software solutions for electricity, natural gas and water utilities worldwide.

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

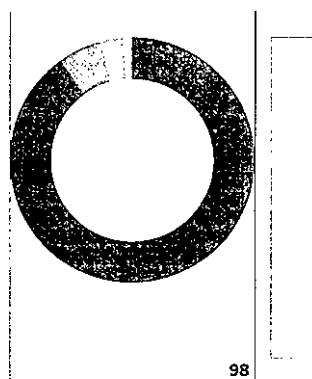
Severn Trent Technology develops and markets new and existing technologies in a number of areas that are key to water and waste water management businesses worldwide.

**Property**

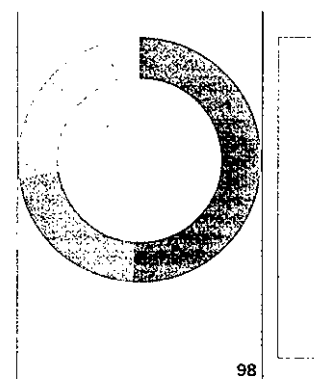
Severn Trent Property develops facilities in the UK, primarily for distribution, retail and industrial sectors.



**Turnover**  
(% of group total)  
■ Water 68 ■ Waste 16  
□ Services 14 □ Other 2



**Profit before interest and tax**  
(% of group total)  
■ Water 90 ■ Waste 6  
□ Services 3 □ Other 1



**No. of employees**  
(% of group total)  
■ Water 51 ■ Waste 22  
□ Services 23 □ Other 4

### Operating highlights at a glance

Severn Trent Water  
 Direct operating costs reduced by 4.7% (real)  
 Leakage reduced by 40% since 1995  
 Best ever service levels

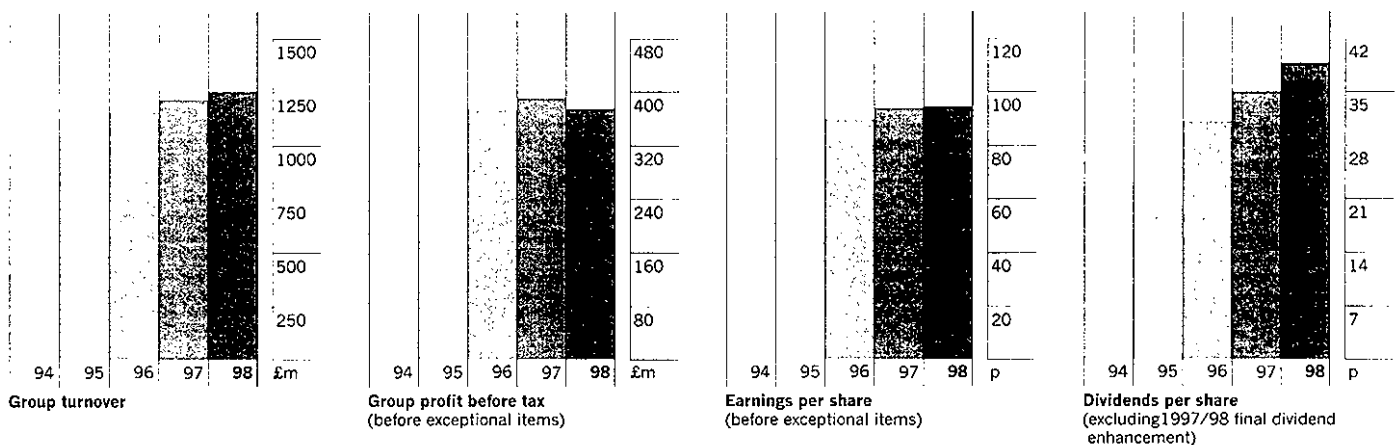
Biffa Waste Services  
 UK collection volumes up 12%  
 Three more landfills in South of England  
 First collection business in Scotland

Severn Trent Services  
 Market leader in chlorine disinfection equipment  
 Laboratories business established in USA

### Financial highlights at a glance

	1998	1997	±%
Turnover (£m)	1,251	1,215	3.0
Profit before interest (pre-exceptionals) (£m)	447	444*	0.8
Profit before tax (pre-exceptionals) (£m)	374	391*	(4.3)
Profit before tax (post-exceptionals) (£m)	374	367	2.0
Earnings per share (pre-exceptionals) (p)	94.40*	93.90*	0.5
Earnings per share (post-exceptionals) (p)	4.30	87.20	-
Gearing (%)	47.40	27.40	73.0
Underlying final dividend (p)	24.37	22.16	10.0
Underlying dividends for year (excluding second interim dividend) (p)	35.92	32.66	10.0
Second interim dividend (p)	3.84	3.84	-
Final dividend enhancement (p)	1.36	-	-
Total equity dividends for the year (p)	41.12	36.50	12.7

\*Excludes effect of £309.6 million Windfall Tax in 1998 (1997: £20 million provision for further restructuring at Severn Trent Water Limited and £4.5 million of exceptional costs associated with the proposed bid for South West Water Plc).



# Chairman's statement These results endorse the soundness of the group's strategy.

Over the past year, the group has continued to make good progress. Severn Trent Water has combined another year of sound financial performance with further improvements in customer service and the excellent quality of both its water and sewerage services. Our non-regulated businesses have achieved further growth. In particular, Biffa had another good year in a highly competitive market.

## Results

Group turnover for the year increased by 3.0% to £1.25 billion (£1.22 billion).

The group's profit before tax increased by 2.0% to £374.0 million (£366.5 million). Comparison with last year is not straightforward. Last year there was £24.5 million of exceptional costs and this year there has been £17.8 million of additional interest as a result of the capital restructuring completed in August and September 1997 and the payment of the first instalment of Windfall Tax in December 1997.

The group's profit before interest increased by 6.7% to £447.4 million or by 0.8% before last year's exceptional costs.

The group's net borrowings increased substantially during the year to finish at £1,082.0 million (£694.4 million), producing gearing of 47.4% (27.4%). The £387.6 million increase in net borrowings included the capital restructuring which cost £128.1 million and the first instalment of the Windfall Tax which amounted to £154.8 million. The increased net borrowings gave rise to net interest costs of £73.4 million, £20.7 million higher than the previous year.

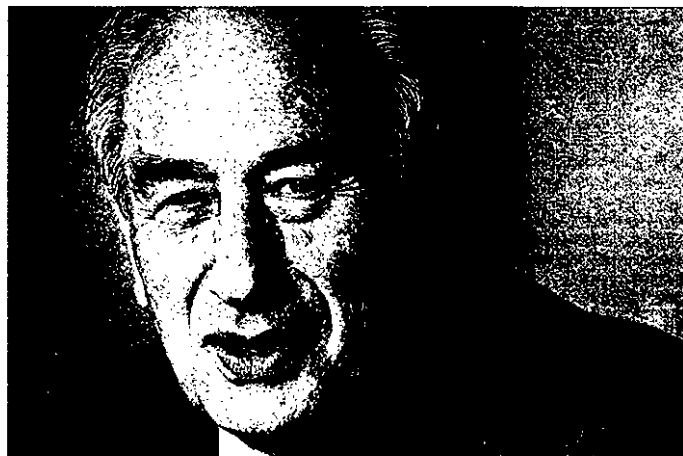
The group's tax charge for the year was £359.1 million, including the exceptional cost of full provision for Windfall Tax of £309.6 million. As a consequence, profit after tax declined to £14.9 million (£316.7 million). Earnings per share declined to 4.3p (87.2p); although earnings per share before exceptional costs increased to 94.4p (93.9p).

These results clearly endorse the soundness of the group's strategy: to develop a world class water services organisation, whilst building earnings from non-regulated businesses in waste management, the supply of products and services related to water and waste water, and the provision of software solutions to utilities.

## Dividends

The board is recommending an underlying final dividend of 24.37p net per share, bringing the total for the year, excluding the second interim dividend, to 35.92p, an increase of 10.0%. Following the announcement by the Chancellor of the Exchequer that Advance Corporation Tax will be abolished with effect from 6 April 1999, the board has decided to defer the payment of the second interim and final dividends until that date. The board also proposes to pay an enhancement to the final dividend of 1.36p net per share to reflect the delay in payment. Total dividends for the year, including the second interim dividend which is fixed at 3.84p net per share and payable for five-years with the first such payment having been made in August 1995, amount to 41.12p net per share (36.5p). The total dividend is covered 2.32 times (2.46 times) by profit after tax on ordinary activities but excluding the exceptional Windfall Tax. It remains the board's intention, barring unforeseen circumstances, to arrive at dividend cover of two times earnings by the year 2000.

Richard Ireland Chairman



The board does not intend to offer a scrip dividend alternative on either the second interim or final dividends.

#### **Customer benefits**

Severn Trent Water continued with its five year programme of rebates amounting to £30 per customer. This reduction in charges is planned to continue until 1999, in line with the payment of a second interim dividend to shareholders and represents an equal sharing between customers and shareholders of the efficiencies achieved during the first five-years following privatisation.

Severn Trent Water also continued with its programme of £220 million additional expenditure to reduce leakage and improve water availability.

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

The group continued to pursue its values of quality, service and environmental leadership.

Severn Trent Water again achieved 99.9% compliance with drinking water quality standards and 100% compliance with sanitary waste water standards.

In May 1997 Severn Trent Plc, in conjunction with the DTI, London Business School and the Universities of North Carolina and Southern California, published a benchmarking study of service practice and performance in the UK and USA. The study findings were launched at a series of events in Washington DC which attracted a number of senior commercial and political figures. In December 1997, Severn Trent was presented with a Utility Achievement Award in recognition of this work, together with two further awards to Severn Trent Water for advances in customer service and extraordinary achievement, innovation and effort.

In October 1997 Angela Eagle, Under Secretary of State at the Department of Environment, Transport and the Regions (DETR) presented the ISO 14001 award to Severn Trent Laboratories. Biffa increased its ISO 9000 accreditations to 47 (34) and continues to have six ISO 14001 accreditations. The EMAS accreditation awarded to Biffa's Redhill landfill site remains the only one of its type in the UK.

In January 1998 the Severn Trent Advisory Panel on the Environment published its report. Taking Severn Trent as an example, the report takes a long term view of the UK water industry and the challenges it will face over the next 25 years. It puts into context some of the conflicting pressures between environmental and commercial priorities.

In July 1997 Biffa Waste Services launched Biffpack, the first packaging compliance scheme run by a major waste management company. The scheme, which helps producers to meet their commitments under the Producer Responsibility Obligations, registered 81 members for the year 1997/98 which has increased to 168 members for 1998/99.

Vic Cocker, Group Chief Executive, is a member of the World Business Council for Sustainable Development. He also chairs the Water Resources Working Group of the Advisory Committee on Business and the Environment.

Brian Duckworth, Managing Director of Severn Trent Water, is Chairman of Water UK and was present at the Prime Minister's meeting on sustainability ahead of the Kyoto Conference.

Group companies continued to pursue ways of reducing carbon dioxide emissions, both directly from vehicles and indirectly from the use of electricity.

#### **Employees**

The group, its shareholders and its customers have benefited throughout the year from the dedication and commitment of all its employees. Their hard work and determination to achieve the high standards which are critical to the continued success of the group's businesses carries on unabated. Many of them work in a physically demanding environment as well as one of organisational change. On behalf of the board, I thank them all.

#### **Board**

Roger Boissier, who has been a director of Severn Trent since 1986, has decided to retire from the board at the conclusion of the Annual General Meeting. Roger has made a valuable contribution to the company over many years.

My own personal thanks are due to Roger and indeed all board members who have supported me over the past four and a half years. I am delighted that the board has appointed David Arculus to succeed me as Chairman and I wish him well. David has had a distinguished business career which leaves him well placed to lead the company which I leave in good heart.

#### **Outlook**

The second and final instalment of the Windfall Tax will be paid on 1 December 1998. The estimated additional interest cost, at current rates, arising from the full cost of the tax will be approximately £23 million per annum.

Severn Trent Water's income will continue to be impacted by the conservation measures which have led to reduced consumption amongst industrial and commercial customers and by the effect of householders opting to switch to metered charging when they can reduce their bills. In addition, our programme of customer rebates will continue until 1999/2000. The company will strive to achieve yet further efficiencies in operating costs and asset management. However, depreciation and interest costs will rise significantly as a consequence of the high capital investment to maintain and improve services, which is expected to peak at around £570 million in 1998/99 following £516 million in the year just ended. At the same time, the company will pursue its highly successful programme to reduce leakage by March 2000 to a level barely half that which existed in 1995.

We remain concerned about certain aspects of the Government's charging proposals which would not allow water companies to disconnect customer's who 'won't pay'. The company has established rigorous procedures to ensure that customers who 'can't pay' are not disconnected: the removal of this ultimate sanction against those customers who have the means to pay but choose not to, will have a consequential adverse impact on prices for all.

The coming year will be a critical one for determining the outcome of the regulatory review effective from 1 April 2000. It is of the utmost importance to customers as well as shareholders that a proper balance is found which addresses the needs of the environment as well as delivering prices which give excellent value for money for the high quality water and sewerage services we provide.

The board is strongly committed to the growth of the group's non-regulated businesses, both organically and through acquisition. The board recognises that it is important to build scale in these businesses and is aiming at growth of 20% per annum in operating profit which it believes is a realistic target over the medium term. However, there may be individual years when this is not achievable and the protection and enhancement of shareholder value will always take precedence over short term growth aspirations. The rate of acquisitions increased during the final quarter of 1997/98, and subject always to the availability of opportunities which both meet the group's stringent financial criteria and help us to make further progress in our chosen markets, is likely to be maintained over the coming year.

# Group Chief Executive's review

## We pursue the growth of our non-regulated businesses both organically and through acquisitions.

Against a background of political and financial change, the group's businesses have produced good results which represent further progress in the implementation of our business strategy.

Severn Trent Water has achieved enhanced operating efficiencies at the same time as maintaining or improving service levels to customers. As anticipated, profit before interest and exceptional costs from the regulated business has grown only marginally. This reflected the combined impact of customer rebates, the success of the company's encouragement of conservation measures by customers, and increased depreciation charges on the high capital investment programme, which exceeded half a billion pounds in the year.

By contrast, the group's non-regulated businesses achieved significant growth. They now employ 48% of the group's people and account for 32% of the group's turnover, and 10% of consolidated profit before interest and tax. The strategic imperative to grow profits from these businesses has always been clear in order that dividend growth can be sustained notwithstanding the reducing returns from the regulated business.

We pursue the growth of our non-regulated businesses both organically and through acquisitions. During the course of the year we invested £42 million in acquiring 12 businesses, including three waste management operations in the UK, at a cost of £24.7 million and eight small businesses which complement our existing technology and international water contract operations activities. Seven of the acquired businesses are located in the USA. The majority of this investment took place in the final quarter of the year and had minimal impact on the year's results. However, it gives us a good platform for further growth in non-regulated profit in the coming year.

### Regulated water services

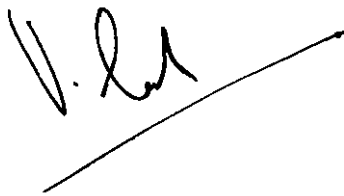
Severn Trent Water had another successful year, meeting the challenge of maintaining strong financial performance whilst continuing to further improve the high quality of the product and service it provides for its 3.4 million customers. This has been achieved through success in four critical areas: a high level of capital investment, which amounted to £516 million in the year; the pursuit of ever greater operational efficiency with an even greater focus on customer service; encouragement of water conservation by its customers, notwithstanding the negative profit impact; and further reduction in leakage from the water distribution system.

Since privatisation, Severn Trent Water has invested nearly £3.9 billion which exceeds its total profit after tax for the same period by more than £1.8 billion. Investment in 1998/99 is expected to be around £570 million. This investment will soon be equivalent to £1,500 for every customer.

Leakage from the water distribution system has now been reduced to 399 megalitres per day, a reduction of 40% since 1995. The water saved is sufficient to supply the city of Leicester.

Severn Trent Water's profit before interest and tax for the year was £414.2 million (£411.0 million), just 0.8% higher than the result for the previous year before the exceptional cost of the restructuring provision established in 1996/97.

Vic Cocker Group Chief Executive



## **Waste Services**

Biffa, our integrated waste management company, achieved a fifth successive year of impressive profit growth. Profit before interest and tax increased by 16.9% to £28.4 million (£24.3 million). The strength of sterling reduced reported profit by £1.0 million compared to translation at the average exchange rates which applied last year. If average exchange rates had remained at the 1996/97 level, the increase in profit before interest and tax would have been 21.0%.

Since Severn Trent acquired Biffa in May 1991, its contribution to group profit before interest and tax has increased by 137%.

The year's results represent a strong performance in all divisions of the business. The highlights include the emergence of the UK collection division as the largest contributor to the profits of the business and a 22.2% increase in the profit before interest and tax earned by Biffa Belgium. Biffa continues to generate good organic growth. Volumes in the collection division rose by 12%, further increasing its market share, particularly in the national account market supported by the development of its IT systems. The acquisitions of a landfill site and recycling facilities at Canford Heath near Bournemouth from WH White Plc, and landfill sites at Salisbury and Swindon from Barge Waste Management further enhance Biffa's capacity in the South of England. The acquisition of the waste collection activities of Paterson's Quarries Limited provided Biffa with its first such operation in Scotland.

## **Severn Trent Services**

We have identified the USA as the biggest market opportunity for our technology, systems and international water and waste water contract operations businesses. We already generate turnover in the USA amounting to \$106 million in the year ended 31 March 1998. To date, this has been achieved through our US subsidiaries marketing their products and services wholly independently of each other.

We believe that we can most effectively exploit the US opportunities by co-ordinating the activities of our businesses under one umbrella brand 'Severn Trent Services'. Scale is important to many US customers. By encompassing in one entity all the activities, US and non US, of our Technology, Systems and Water International businesses, when appropriate we can present ourselves in the market as an organisation of real substance with a turnover currently in excess of \$300 million. Whilst the individual companies, Severn Trent Environmental Services, Severn Trent Systems, Stoner, Capital Controls and our US laboratories business Envirotest, will continue to trade as separate companies, the establishment of Severn Trent Services will enable us to achieve much greater co-ordination of marketing effort, product and service development and use of information technology.

Severn Trent Services achieved 21.3% growth in the turnover of its businesses compared with 1996/97, with turnover increasing to £187.6 million (£154.6 million). Profit before interest and tax amounted to £15.9 million (£14.3 million) an increase of 11.2%.

The strength of sterling reduced reported profit by £1.5 million compared to translation at the average exchange rates which applied last year. If average exchange rates had remained at the 1996/97 level, the increase in profit before interest and tax would have been 21.7%.

## **Year 2000 issue**

The Severn Trent group began planning how to deal with the Year 2000 issue towards the end of 1996. By the early part of 1997, all companies in the group were actively engaged in this task. Severn Trent businesses are organised into six Strategic Business Units (SBUs). The Year 2000 issue is being addressed in each SBU and indeed, where appropriate, within different businesses within each SBU. The managing director of each SBU is responsible for the project within his businesses and reports progress twice yearly to myself. At a group level the project is being co-ordinated by the Group Finance Director, who reports progress to the Audit Committee.

Our objective is to ensure that the performance and functionality of our business systems and non IT applications will not be adversely affected by dates prior to, during and after the Year 2000. In order to achieve this, each SBU has taken a full inventory of its existing systems and hardware and assessed each for Year 2000 compliance. Third party suppliers of hardware and software have been contacted for written confirmation of compliance of bought-in systems or detailed commitments as to how and when compliance will be achieved. Compliance testing of all computer systems is currently in progress and is expected to be completed by the end of 1998.

Systems and hardware that have been identified as non compliant are being reviewed and a decision taken as to whether they should be abandoned, amended or replaced. Detailed plans are well advanced for amendment and replacement of systems as necessary. Implementation of amendment or replacement plans is scheduled over a two year period, ending no later than September 1999, with the majority completed before that date. By way of example, the largest single system used in the group is the customer relations billing system for Severn Trent Water. Arrangements for conversion of this system to achieve Year 2000 compliance are well advanced.

Our businesses have made contact with all EDT counterparties although these are relatively few in number. Each business is reviewing its non IT applications and equipment with embedded chips, for example plant and process controls, analytical equipment and weighing equipment.

The total cost of achieving Year 2000 compliance amongst all group companies is currently estimated as being in the order of £20 million, all of which will be charged against profits, including £2.2 million incurred in 1997/98. The majority of the cost is expected to arise in 1998/99.

## **Summary**

1997/98 was a challenging but successful year. The group and its employees delivered a strong financial result notwithstanding the imposition of the Windfall Tax. Severn Trent Water achieved further significant progress in both the efficiency and quality of its operations. We continued to successfully build the profits from our non-regulated businesses and the benefits of acquisitions made late in the year should enable us to achieve further growth in the current year.

Once again, my personal thanks go to every employee in the group – it is their hard work and striving to be the best which makes the group's success possible.

Richard Ireland will step down as Chairman of the board at the conclusion of the Annual General Meeting. On behalf of the board, I would like to offer sincere thanks to Richard for his invaluable leadership and guidance over the last four and a half years in his role as Chairman and before that as a non executive director. We wish him good health and continued success in the future.

The operating review which follows on pages 8 to 23 describes in more detail the activities, achievements and results of the businesses within the group.



Water Severn Trent Water once again achieved greater efficiency, reducing direct operating costs by 4.7% in real terms.

Severn Trent Water is the group's regulated water business providing high quality water and sewerage services to over three million households and businesses in the Midlands of England and parts of central Wales. The company is the largest in the Severn Trent group and remains at the heart of the group's activities. In particular, Severn Trent Water is at the forefront of the group's determination to achieve a leadership position in terms of quality, service and environmental impact. Since privatisation, the massive capital investment programme, amounting to almost £3.9 billion, and the expertise and enthusiasm of its employees have enabled the company to match the highest quality standards of any large scale water company in the world, to significantly improve service to customers and to secure water supplies to meet customers' demands even under the continuing uncertain climatic conditions.

#### **Turnover**

Turnover at Severn Trent Water increased by 1.5% to £932.8 million (£919.1 million), after the impact of customer rebates amounting to £17.8 million (£8.7 million). The percentage increase was less than allowed tariff increases of 3.0%, primarily as a consequence of a 3.3% reduction in water consumption amongst commercial customers and the savings in water bills achieved by domestic customers who opted to switch to measured tariffs. These factors reduced the company's income by almost £16 million, which was partially offset by new business in the region and the identification of additional income opportunities. Notwithstanding the negative impact on the company's profits, it will continue to encourage water conservation amongst its customers, as this is in the best long term interests of the environment, customers and shareholders.

#### **Profit before interest and tax**

Severn Trent Water's profit before interest and tax for the year 1997/98 was £414.2 million, just 0.8% higher than the result for the previous year before the exceptional cost of the restructuring provision established in 1996/97.

#### **Operating costs**

Severn Trent Water once again achieved greater efficiency in its operations, reducing direct operating costs, excluding Year 2000 costs, by 4.7% in real terms. This continued a trend established over several years, and owed much to the progressive implementation of the reorganisation of operating activities which are now based upon functional lines rather than geographic regions. The new organisation, which is structured around the critical functions of water supply, sewage treatment, networks and customer service, was announced last year and forms the framework for the comprehensive restructuring of the company, for which a £29 million provision was created; it ensures a critical mass in each function and facilitates the standardisation of systems and best practice.

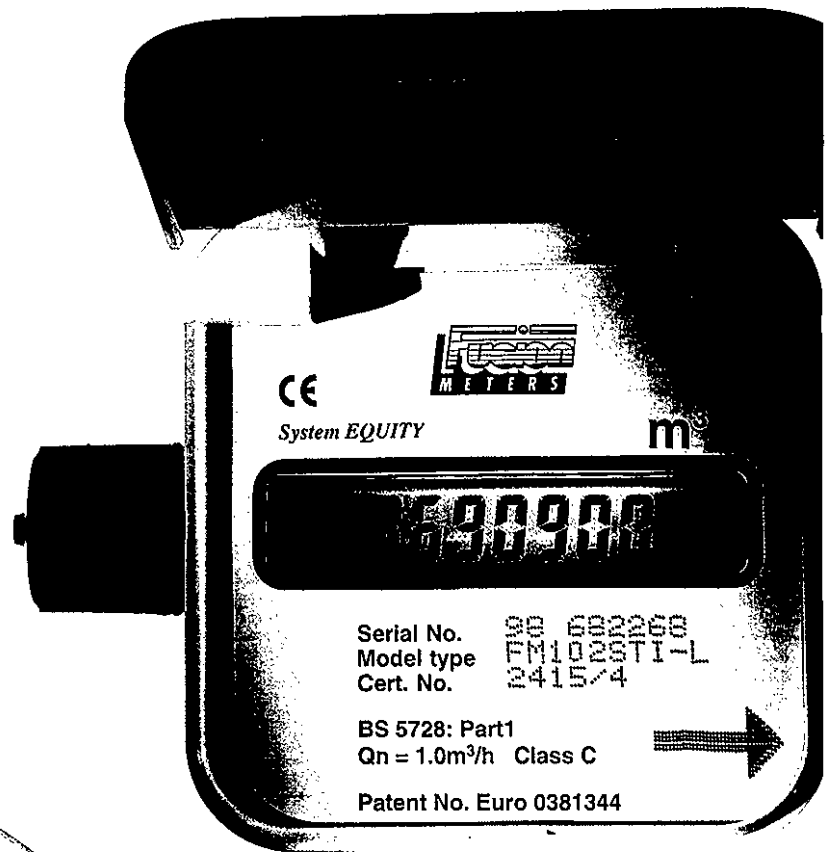
Direct operating costs, which comprise all costs of the business other than depreciation and infrastructure renewals, were £345.7 million (£350.2 million) and included £2.2 million arising from action taken to resolve the Year 2000 issue.

Depreciation charges amounted to £111.0 million (£100.3 million). The 10.7% increase resulted from the high level of capital investment over the last two years. With even higher capital investment planned for 1998/99, depreciation charges will increase again in the current year by around £20 million. The amount provided during the year for infrastructure renewals was £63.6 million an increase of 4.3% over the previous year.

#### **Investment**

Severn Trent Water invested £516 million in the year, following £412 million in 1996/97. This brings the total since privatisation to almost £3.9 billion which exceeds by £1.8 billion the company's cumulative profit after tax over the same period. Investment in 1998/99 is expected to amount to some £570 million.

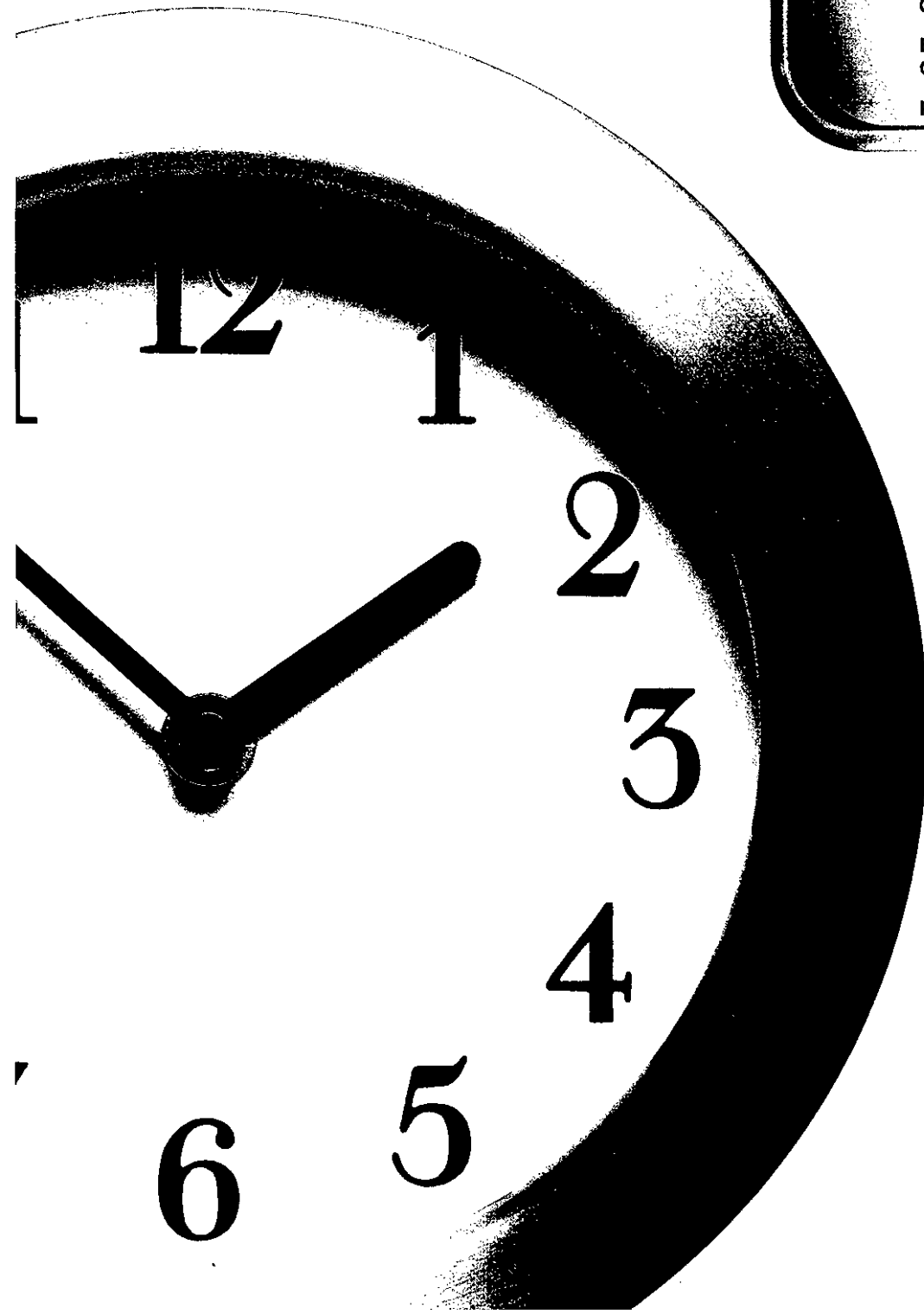
Domestic water meters are fitted free of charge by Severn Trent Water, as part of the company's drive to promote water efficiency. Fitting more free meters, repairing leaks faster and strengthening the supply system will help to ensure that Severn Trent continues to supply high quality water to its eight million customers around the clock.



Serial No. 0000000000  
Model type 0000000000  
Cert. No. 0000000000

BS 5728: Part1  
Qn = 1.0m³/h Class C

Patent No. Euro 0381344



This high level of investment is necessary to enable Severn Trent Water not only to maintain its asset base but to meet ever higher standards in the quality of water supplied and treatment of sewage. The programme includes expenditure on major schemes such as the sewage treatment works at Minworth and Finham, the Little Eaton water treatment works, and schemes encompassed within the National Environment Programme. During the year capital investment on these major schemes totalled some £107 million; the full cost of the schemes over the several years they will take to implement is expected to be around £352 million.

The company has also carried out many thousands of small schemes which bring improvements to local communities or even individual streets or properties.

#### **Quality and customer service**

Severn Trent Water supplies its customers with drinking water of the highest quality. Compliance with drinking water standards reached 99.9%. The company is proud to achieve similarly high standards for its customers in collecting and treating sewage; compliance with sanitary standards for waste water was maintained at 100%.

The company has achieved further improvements in the quality of customer service: the company's rating, as measured by OFWAT, improved in 6 out of 7 measures and remained unchanged at 99.99% in the remaining measure.

The number of properties at risk of receiving low water pressure has been reduced by 43% to 5,415, the lowest level ever recorded for the region.

Almost 2.6 million customer billing contacts were handled during the year, of which 96.3% were comprehensively responded to within five days. 9,860 written complaints were handled, with 84.5% comprehensively responded to within five days and 98.9% within 10 days.

The company received more than 3.5 million telephone contacts from customers, with the average response time reduced to 10.2 seconds, a 48% improvement over the previous year.

#### **Resources and security of supply**

Severn Trent Water is committed to supplying its customers with all their legitimate needs for water, no matter what weather conditions prevail.

The company has a very strong position in terms of available water resources. At the end of the financial year, the company's storage reservoirs were virtually 100% full, compared with 94.2% last year; groundwater levels in the region's aquifers have been rising in Shropshire and Worcestershire but are slow to recover in Staffordshire and Nottinghamshire. The company's success has been achieved by a programme of careful management of water resources over the last three years, involving four key elements: resources in vulnerable areas have been conserved by utilising more costly supplies from elsewhere in the region; the company has encouraged commercial and domestic customers to conserve water, even though this has reduced income and profits; leakage from the water distribution system has been very substantially reduced; and capital investment has been carefully targeted to increase treatment capacity and reinforce the distribution system. Additional abstraction licences have also been secured from the Environment Agency. Of these, the most important is a five year licence to abstract water from the River Trent at Shardlow, near Nottingham. Under this scheme, known as 'Witches Oak Waters', for the first time we are able to use the River Trent for drinking water supply. Whilst the source will always be expensive because of the advanced water treatment necessary, it will make a significant contribution to the security of water supplies in the East Midlands. Discussions are in progress with the Environment Agency and OFWAT to turn this temporary licence into a permanent one.

The company's considerable success in reducing leakage has been achieved through a combination of additional capital investment amounting to some £220 million and a major leakage repair programme which cost £30 million in the year. Since May 1997, repairs on customers' supply pipes have been free of charge, at a cost of £3.6 million. Leakage has been reduced by a further 13% during the year, from 460 MI/d at March 1997 to 399 MI/d.

In November 1997, the company submitted to OFWAT a report commissioned from the Water Research Council into the economic level of leakage, ie an analysis of the level at which the long term cost of further reducing leakage exceeds the long term cost of supplying the water thus saved. The report concluded that the economic level of leakage in the Severn Trent region was around 330 MI/d by the year 2002/3. The company's internal target is to achieve this by March 2000.

#### **Community partnership**

Severn Trent Water continued to develop active working relationships with local communities and with national bodies which contribute to the region. These include the Royal Society for the Protection of Birds and the regional Wildlife Trusts.

The company was delighted to support Boughton Pumping Partnership Trust in the refurbishment of the Edwardian pumping station at Boughton, Nottinghamshire, securing this historic building and its contents for the region's heritage.

The independent charitable trust established last year with £2 million funding from the company has made grants of £238,000 to help those of our customers who have genuine, severe financial difficulty. Until his sad death in April 1998, the trust was chaired by Lord Denis Howell. The trust will miss Lord Howell's wise counsel and fair mindedness.

Continuous monitoring of water from rivers shows improvements in sewage treatment throughout the region. Rivers such as the Trent can now be used as an additional drinking water resource at times of greatest need. At many sites, waste water is naturally cleaned and recycled using reed bed technology.



# Waste Biffa Waste Services delivered increased profits for the fifth consecutive year.

Biffa Waste Services had another very successful year, delivering increased profits for the fifth consecutive year and further strengthening its market position.

## Strategy

Biffa's strategy is to strengthen its position as an integrated waste management company. This brings together the three key success factors of the business – scale, control of disposal and special waste capability. Establishing scale is essential to provide comprehensive geographic coverage, to realise purchasing economies – for trucks, containers and waste disposal – and to achieve operating efficiencies. Control of disposal through a good geographic spread of landfill sites is vital to enable the company to dispose of its customers' waste. Special waste capabilities are essential for success in the industrial sector, especially as more and more waste types are classified as special.

Biffa's service offering is continually being updated ahead of the market. It was the first UK company to provide a national waste management service for well known high street names. It has also expanded its fully integrated services to customers with large industrial sites having a multiplicity of waste types and treatment processes. With the launch of Biffpack, Biffa became the first major waste management company to offer a packaging compliance scheme to help producers meet their commitments under the Producer Responsibility Obligations. The company has steadily broadened its recycling capabilities by encouraging separation at source, particularly in municipal contracts, and establishing recycling operations at transfer stations. Biffa was the first waste company to create alliances with the processors of recycled materials; it now has alliances covering paper, card, newsprint, glass and plastics.

The Biffa management team is shifting the business focus from a product-led strategy which is epitomised as 'filling trucks' and 'filling landfills' to one of providing differentiated services to different market segments. Biffa's strong IT systems are essential to this development, as is its unrivalled depot network coverage in the UK, its economies of scale, and the skills of its people.

These developments have contributed to the results achieved in the year and will underpin continued profitable growth in the future.

## Results

Biffa's profit before interest and tax increased to £28.4 million (£24.3 million) an increase of 16.9% on turnover of £218.6 million (£195.8 million). £9.6 million of the increase was the full year impact of Landfill Tax which was introduced on 1 October 1996. Profit before interest and tax in the UK increased by 15.7% to £22.9 million (£19.8 million).

The strong growth achieved over the last two or three years in volumes and profitability of the collection division continued. Commercial volumes increased by 12%. Collection is now the largest single contributor to the company's profit. The acquisition of the waste collection business of Paterson's Quarries Limited based in Coatbridge, near Glasgow, provides Biffa with its first such operation in Scotland. The acquisition was completed on 30 March 1998.

Landfill volumes in the UK reduced by 2.6% whilst average unit revenues increased by 5.0% on a like for like basis. The market for landfill is becoming very regional with overcapacity in some areas of the country, whilst demand will continue to exceed supply in other parts, including the South and South East of England. Biffa strengthened its position in this region by the acquisition of landfill sites at Salisbury and Swindon from Barge Waste Management, and the Canford Heath landfill site, near Bournemouth, from WH White Plc. The latter acquisition also included a 50% interest in the 7MW landfill gas generation plant, operated on the landfill site by Canford Renewable Energy Limited.

The landfill void bank continued to be replenished with 43.6 million cubic metres currently under operation in the UK and a further 26.1 million cubic metres at various stages of development.

The special waste division also performed well, substantially increasing its profit contribution mainly through the development of innovative treatment solutions designed for particular customers.

Biffa Belgium achieved a 22.2% increase in profit before interest and tax, up from £4.5 million to £5.5 million, despite the impact of the high exchange rate of sterling against the Belgian franc, which reduced reported profit by £1.0 million. This excellent result reflected increased profits from both the collection and landfill activities, and further progress at the company's waste pre-treatment centre at Antwerp.

## Community Partnership

In December 1997, Biffa established the Biffaward Fund with £4 million donated out of Biffa's qualifying contributions under the Landfill Tax Regulations. The regulations allow landfill operators to direct up to 20 per cent of the tax they have collected towards approved local and national environmental projects. Any approved project can only receive 90 per cent of its desired funding from the Landfill Tax, the balance coming from the landfill site operator or from a third party. The fund is managed by the Royal Society for Nature Conservation. To date 24 separate schemes have received awards.

Discarded glass bottles and other glass items – approximately 3,000 tonnes last year – are collected from all over the UK for recycling by Biffa Waste Services. The recycling of glass greatly reduces the environmental impact of producing new glass products.



Services Severn Trent Technology is a leading supplier of environmental products and services and is represented in over 70 countries worldwide.

Severn Trent Technology (STT), a part of Severn Trent Services, had a very encouraging year with turnover increasing by 14.1% to £67.0 million and profit before interest rising by 28% to £3.2 million (£2.5 million). Headquartered in the USA, STT is a leading supplier of environmental products and services and is represented in over 70 countries worldwide. STT has a clearly defined strategy to grow its operations in the US by expanding its range of products and services, gaining market share both organically and through acquisitions. STT comprises four business units:

#### **The Capital Controls Group**

The Capital Controls Group specialises in the treatment of water, waste water and industrial waste effluents. The US operations based in Colmar, Pennsylvania had a particularly successful year; achieving record sales and increasing market share for its core chlorination disinfection equipment. At the end of March 1998, the company's leading position in the global market was reinforced with the acquisition of the Fischer & Porter chlorine disinfection business, also based in Pennsylvania and with operations in Milan, Italy.

Capital Controls recently signed a private labelling agreement with a leading manufacturer of chemical metering pumps which now gives the company access to an important segment of the market not previously served.

#### **Severn Trent Laboratories**

Severn Trent Laboratories (STL) is one of the UK's largest commercial laboratories undertaking volume environmental analysis and testing. The investment in a modern laboratory facility at Coventry continued to attract blue chip customers impressed with STL's ability to service customer needs, particularly sample turn around time, as evidenced by the doubling in volume of testing for contaminated land during the year.

STL completed the acquisition of a small cluster of laboratory operations in the north east of the USA during the year. The initial return from these acquisitions is pleasing and lends support to a further expansion in selected regions of the USA in the year ahead.

#### **Fusion Meters**

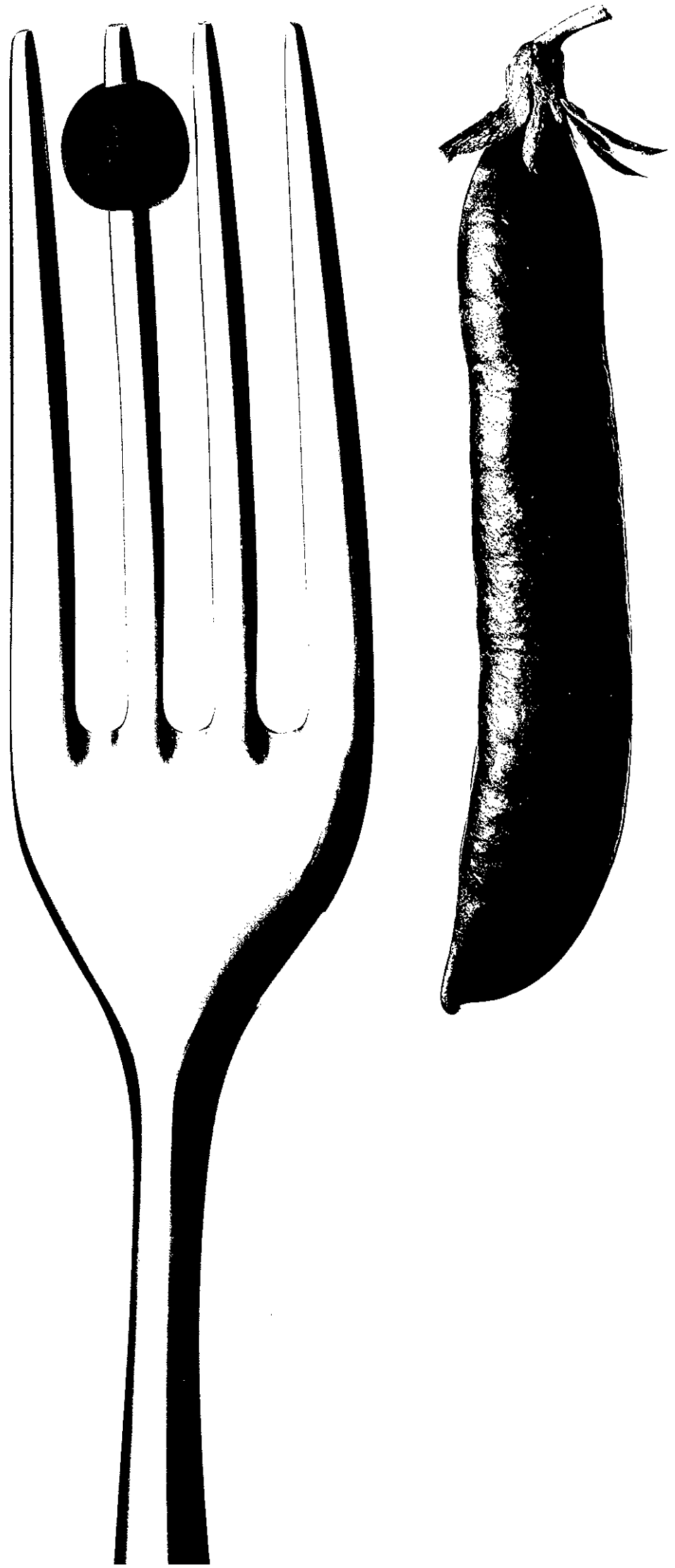
Following National Weights and Measures Approval last year for SystemEQUITY, the world's first electronic domestic water meter, Fusion Meters sold over 32,000 units in the year. In a global market requiring alternative meter sizes, Fusion Meters continued to invest in product development and will soon be in a position to launch an expanded range of meters to meet most market needs.

During the year the company acquired the universal automatic meter reading (AMR) capability of the Talisman product. This small acquisition has been fully integrated into the company's operations and allows Fusion Meters the opportunity to offer both meters and AMR options to customers.

#### **Paperflow Services**

Paperflow Services had a good year increasing profit before interest by 16% and mailing more than 50 million items for its customers. The company's success is built around a range of services to help organisations achieve more effective and efficient written communication with their customers. Services include print, mail and document handling, and are all backed up by detailed attention to customer service.

Fresh vegetables are washed and processed using large volumes of water, the quality of which must be carefully monitored and controlled at all times. From disinfection equipment to salinity and pH monitoring instrumentation, Capital Controls' products help to ensure that consumers enjoy high quality foods.





Services Severn Trent Systems employs more than 600 people in the UK and USA and, across its product set, currently has over 500 systems installed worldwide.

Headquartered in the USA, and part of Severn Trent Services, Severn Trent Systems (STS) is the largest software company focused exclusively on the provision of systems solutions to the utility industry. Its suite of customer information, work management, network modelling and marketing information software solutions helps water, natural gas and electricity companies worldwide to achieve greater operational efficiencies and to be more responsive to their customers.

Turnover at STS increased by 36.2% to £78.6 million. Profit before interest increased by 19.5% to £4.9 million (£4.1 million).

The introduction of competition into the utility industry in the UK, USA and Australia, and the move from mainframe to client-server technology, are generating increased demand for new and more integrated software solutions, as utility companies replace many of their core systems. STS's experience in, and strong focus on, the utility sector has ensured that it is ideally positioned to take full advantage of these business opportunities.

STS employs more than 600 people in the UK and USA and, across its product set, currently has over 500 systems installed worldwide. Its mainframe and mid-range technology customer information systems now produce more than 100 million bills each year, while over 95% of gas distribution companies serving 500,000 or more customers in the USA are users of its network modelling software. The company also has a significant presence in the gas pipeline industry worldwide.

In January 1998, STS acquired a UK mobile technology company, Procis. Procis products are at the forefront of mobile application technology and add significant value to the STS product set by making available the information and functionality of STS products directly to the field staff of customers, thereby increasing their efficiency and customer service levels.

#### **Customer information**

During the year, STS continued to develop its new client-server customer information product, CIS OPEN-VISION. STS has already secured a number of sales, including: Los Angeles Department of Water and Power, Bermuda Electric, and, most recently, City of Portland in Oregon. In the UK, work is continuing on the implementation of CIS OPEN-VISION at Scottish Hydro-Electric, based in Perth, where STS is to manage all aspects of its customer information services, including marketing and billing.

#### **Work management**

Following the delivery of the client-server work management product, STORMS, to a number of utilities in the UK and USA, STS was successful in securing a major contract with British Gas Transco. Transco's gas pipeline operation serves around 19.5 million customers in the UK and the project is believed to be the largest work management system installation in any utility in the world. In the USA, STS is also completing the installation of the new client-server work management software at Tampa Electric in Florida, Michigan Consolidated Gas, Tucson Electric in Arizona and Allegheny Power in Pennsylvania.

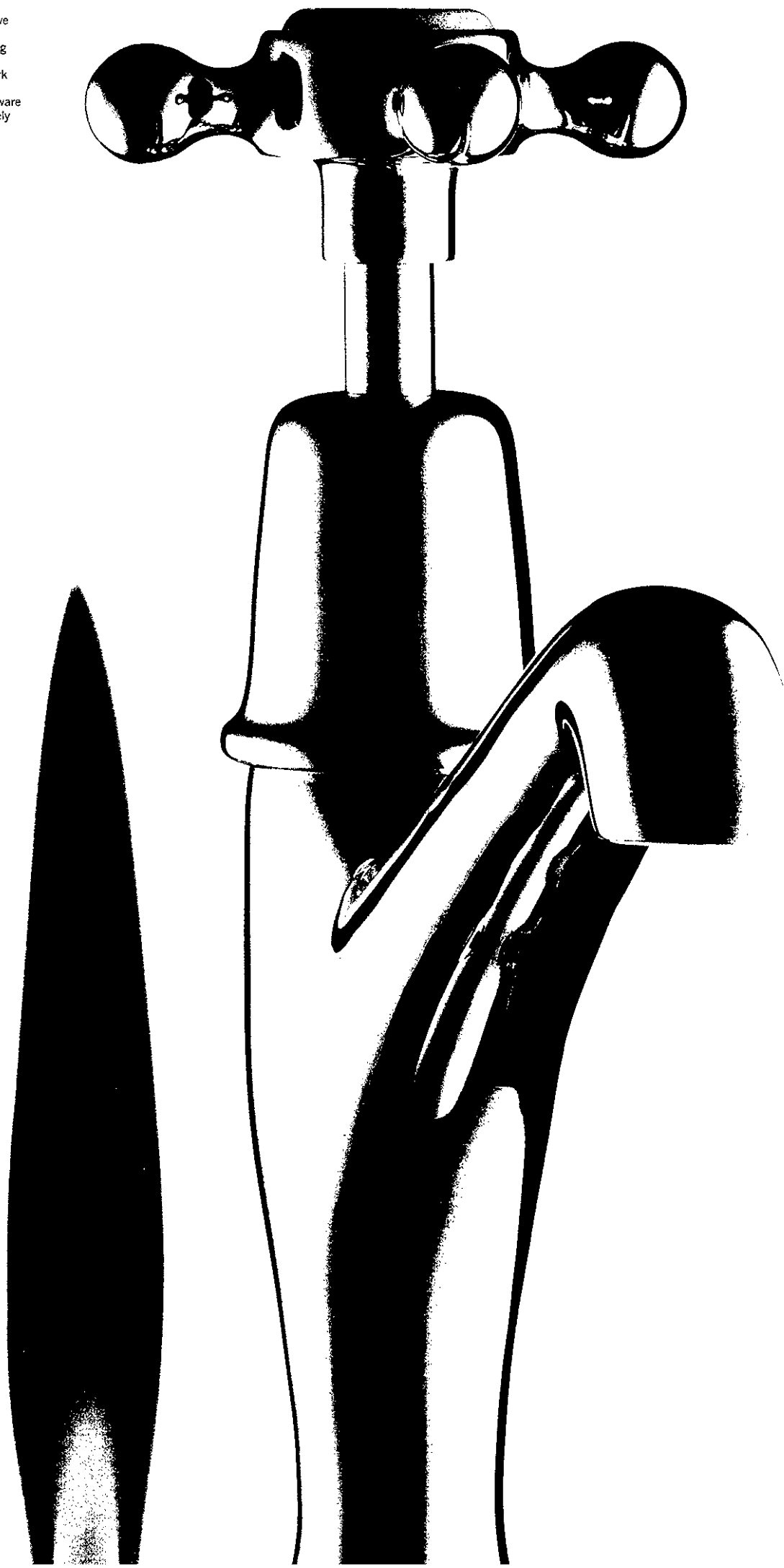
#### **Network modelling**

Stoner Associates, an operating unit of STS, completed the development of its next-generation SynerGEE product family for the gas, electricity and water industries. SynerGEE, the successor to the Stoner Workstation Service, is believed to be the most advanced family of network modelling software commercially available and will be released to clients worldwide during 1998.

#### **Marketing information**

STS licensed its marketing information product, MarKIT to a number of new clients, including AlintaGas, its first Australian client, in Perth, Western Australia, and extended its functionality to provide powerful capabilities for mobile users. MarKIT is a complete sales, marketing and product management system designed to support users throughout the marketing and sales life cycle – from identifying and targeting customers, through to pro-active management of the sales process.

Water, natural gas and electricity companies worldwide are able to achieve greater operational efficiencies and improvements in customer service using Severn Trent Systems' (STS) customer information, work management, network modelling and marketing information software. Today, STS is the largest software company in the world focused exclusively on meeting the needs of utilities.



# Services Severn Trent Water International has provided water and waste water management and operational expertise in over 50 countries.

Severn Trent Water International (STWI) is the third strategic business unit within Severn Trent Services. Its operational focus is in North America and selected countries in Europe. The company works in partnership with its clients to help them achieve major improvements in quality standards, levels of service and operational and environmental performance.

Turnover at STWI increased by 9.9% to £42.0 million. Profit before interest increased by 1.3% to £7.8 million (£7.7 million), including its share of profit before interest of associated undertakings.

## **North America**

Severn Trent Environmental Services (STES) is successfully competing in one of the highest growth markets in the USA. Outsourcing of water and waste water operations by municipalities and industrial customers is growing, as is the demand for full utility service provision. With over 800 employees operating more than 300 plants, STES services nearly two million people in central, north eastern and the southern United States. The company operates facilities in 13 States and provides services in over 21 States.

Continued organic growth, combined with a number of small acquisitions in contract operations and technical services, have strengthened further STES's position in the US market, building scale and providing a solid platform for accelerated growth.

During the year, STES acquired Preferred Services and EV/CMS, two contract operations companies located in Long Island, New York, and Fort Bend, Indiana, respectively. In addition, the acquisition of Pitometer, a 100 year old pipeline services company with an international reputation for quality and which operates throughout the USA, significantly enhanced the range of services STES can offer to its clients.

## **Europe**

STWI's public-private partnership with the government of Flanders in Belgium continues to be successful. The joint venture company, Aquafin, is responsible for operating the sewerage and sewage treatment infrastructure for a population of 5.8 million people in the Flanders region and now employs more than 800 people.

Opportunities exist for further growth as a partner in the newly created Aquafin+ which was established during the year to develop commercial work outside Flanders, particularly in Eastern Europe and other parts of Belgium.

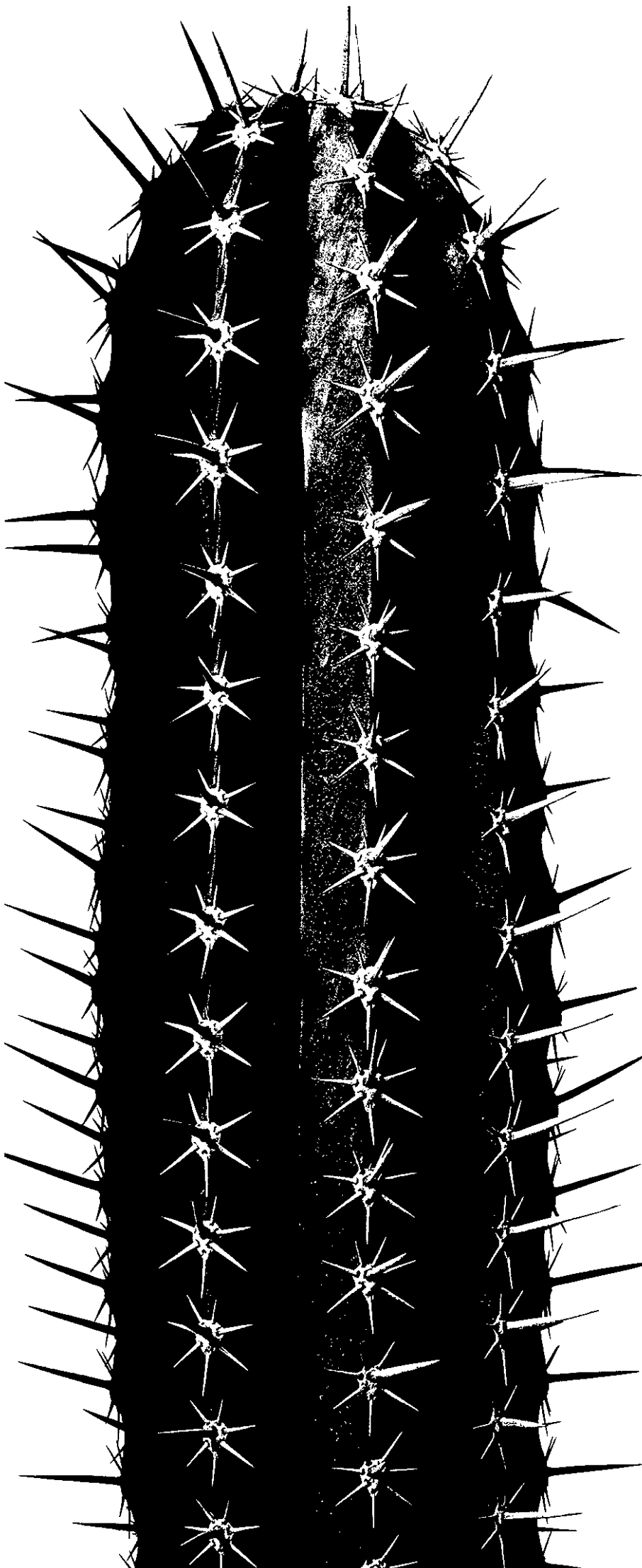
STWI also has operational activities in Portugal and Germany. Whilst these operations are currently small, larger opportunities are developing in both countries including the introduction of private enterprise capital and operating skills to the provision of water and waste water services in Berlin.

STWI's consultancy services continue to grow worldwide, with projects currently being carried out in a number of countries including Romania, Russia, Turkey, New Zealand, Mauritius, Azerbaijan, Hong Kong, Israel, Bulgaria and Poland. The company has also recently won an important contract in Dar Es Salaam, Tanzania.

## **Trinidad and Tobago**

STWI's three year contract, awarded in 1996, to manage WASA, the water and waste water utility serving the islands of Trinidad and Tobago, made good progress during the year in achieving significant financial improvements and enhancements in water supply. The recent drought is adding to the problems of an inadequate water distribution system. Along with Tarmac, its partner in Trinidad & Tobago Water Services, the company, with the support of the government, is promoting a scheme, known as the South Water Scheme, which will significantly improve the reliability of supplies in the south of the island.

Dry, arid conditions are common to a number of areas served by Severn Trent Environmental Services in the USA. Providing water and waste water services to more than two million people in 13 States, including Florida and Texas, STES works in partnership with local municipalities to improve operational and quality standards, so that their customers can always enjoy a refreshing glass of iced tea.



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

Severn Trent Property was established to exploit the development potential of land which becomes surplus to the requirements of Severn Trent Water. The largest development to date has been the successful Midpoint Park, near Birmingham, on land previously attached to the Minworth sewage treatment works. The company has also undertaken a limited number of projects on sites acquired from third parties, the largest being the 174 hectare site at Daventry, Northants, which includes the International Rail Freight Terminal (DIRFT). Severn Trent Water will provide sewerage services to developments on the site.

Severn Trent Property is primarily engaged in the development of warehouse and distribution facilities. However, it also has a 51% interest in Thorpe Park (Leeds) Ltd, which controls 65 hectares of land to the east of Leeds. The site is located immediately adjacent to the A1/M1 link and has planning permission for development of a business park providing up to 1.2 million sq ft of office space. Contracts have recently been exchanged for the construction of a 50,000 sq ft office development for The National Grid Company plc.

During the course of the year, Severn Trent Property completed a 71,500 sq ft warehouse for Kuehne & Nagel at Midpoint Park, Birmingham. The company's 126,000 sq ft retail warehouse development at Broadwalk Retail Park, Walsall, another former Severn Trent Water site, was concluded with the letting of a unit to McDonalds. In early 1997, the whole development was sold to Orionwink BV which is managed by Haslemere Estates.

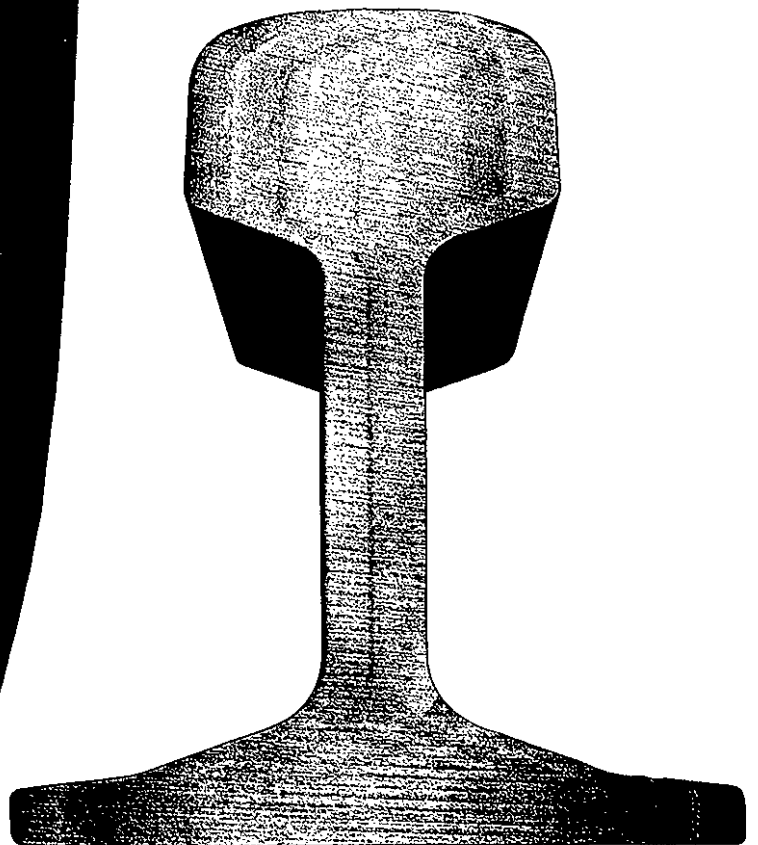
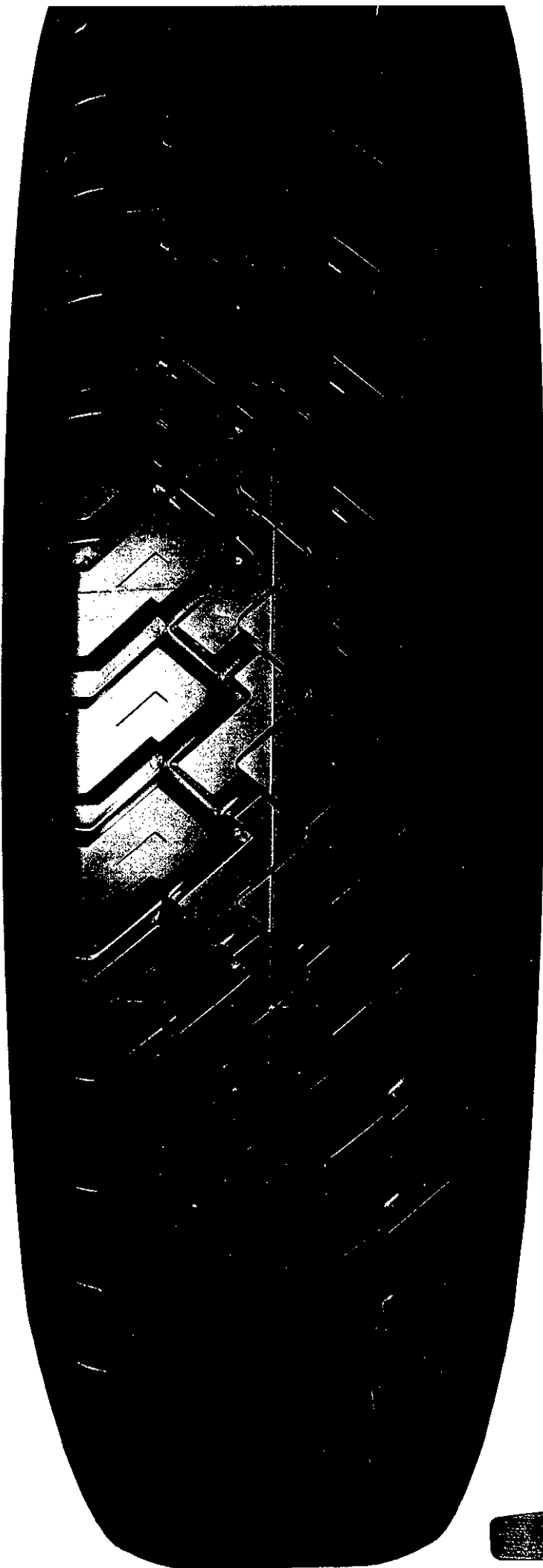
In July 1997, the International Rail Freight Terminal at Daventry, Northamptonshire, became operational. The railport, which is operated by Tibbett & Britten Plc, was officially opened by HRH The Princess Royal on 13 November 1997, together with 475,000 sq ft of warehouse and office space developed on the site by Eddie Stobart Limited. Tibbett & Britten have recently announced their intention to develop a 200,000 sq ft rail connected building for completion in 1999.

Charles Haswell & Partners is an engineering design consultancy which works for Severn Trent Water and for a range of external clients, including Railtrack Plc, Southern Water, Hyundai and Hong Kong Mass Transit Railway Corporation.

Derwent Insurance, based in Guernsey, provides insurance cover to Severn Trent group companies.

Total turnover from the three businesses in the year was £24.8 million (£35.2 million), generating profit before interest and tax of £0.8 million (£2.2 million). The lower profit in part reflected initial marketing costs at DIRFT.

Road and rail distribution facilities developed by Severn Trent Property, at Daventry in Northamptonshire, were officially opened by HRH The Princess Royal in November 1997. Severn Trent's engineering design consultancy, Charles Haswell & Partners specialises in water, transportation, tunnelling and heavy industrial civil engineering works, with clients including Hong Kong Mass Transit Railway.



## Environment The group remains committed to its core value of environmental leadership.

Environmental leadership remains a core value of the group. Since 1992, Severn Trent's commitment to the long term protection and continuous improvement of the environment has been formalised as policy. An important part of this policy is the drive to move beyond the standards set by national and international regulators so that the group's standards become an industry benchmark.

The group continues to publish its annual 'Stewardship' report which provides a comprehensive review of the environmental performance of all its companies and details of the group's strategic environmental Action Plan. Notwithstanding the very considerable success already achieved, leakage reduction remains a priority for Severn Trent Water, whilst Biffa Waste Services continues to pursue the reduction of methane emissions from landfill sites. The group as a whole is working hard to reduce carbon dioxide emissions from vehicles and, indirectly, from its use of electricity.

In January 1998, the Independent Advisory Panel on Long Term Environmental Issues, established by Severn Trent Plc, published its report. Taking Severn Trent Water as an example, the report takes a long term view of the UK water industry and the challenges it will face over the next 25 years.

The Panel was chaired by Derek Osborn CB and included Dr Nigel Arnell, a leading authority on climate change and water resources management; Janet Barber, environmentalist and David Lascelles, Director of the Centre for the Study of Financial Innovation. Derek Osborn is Chairman of the European Environment Agency and board member of the Environment Agency for England and Wales.

At the core of the report's recommendations is the vision that Severn Trent Water – and other water companies – should adopt as a core business objective, the continuous improvement of the whole water environment in its area. The Panel believes that a well articulated, long term strategy to achieve this goal should benefit the environment and bring significant business benefits to the company. The company welcomed the Panel's report and proposals to take forward its recommendations will be published in Stewardship 1998.

The group continued to contribute to the national and international debate on freshwater issues through its involvement in the Advisory Committee on Business and the Environment (ACBE), the World Business Council for Sustainable Development (WBCSD) and UNED-UK (United Nations Environment and Development – UK Committee).

Vic Cocker chaired the ACBE Water Resources Working Group which is looking at the implications for industry of the EC Framework Directive on Water, and the Government's position on conservation and water resources.

The WBCSD Working Group on Fresh Water, also chaired by Vic Cocker, has produced a report entitled 'Industry, Fresh Water and Sustainable Development' which was launched at The Sixth Session of the United Nations Commission on Sustainable Development in New York in April 1998. Severn Trent Plc's Director of Environmental and Corporate Controls attended as a representative of the WBCSD and the water industry.

The group again participated in the Business in the Environment's 'index of corporate environmental engagement' which evaluates 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. As part of its programme to implement some of the Independent Advisory Panel's recommendations, the company has agreed to work with Business in the Environment to champion a similar exercise for the top 100 companies in the Midlands.

Wellington boots are recycled as part of an internal initiative set up by Severn Trent's employees to collect and recycle waste materials. Throughout the Severn Trent group, environmental leadership means exceeding the standards by which we must comply and encouraging the efficient use of resources to protect the environment for future generations.





## Results

Group turnover of £1.25 billion was 3.0% up on the previous year. Turnover of £932.8 million in Severn Trent Water increased by 1.5% compared with RPI + K of 3.0%, the shortfall arising from three factors: the reduction in consumption by industrial and commercial customers; domestic customers opting for the metered tariff where their circumstances are such that their bills are lower as a result, and the full impact of the customer rebate of £6.50 per household. Turnover in Biffa increased by 11.6% to £218.6 million, and in Severn Trent Services by 21.3% to £187.6 million. Turnover in Property and other businesses reduced by 29.5% to £24.8 million.

The group's results are presented in accordance with FRS 9. Accordingly, the group's share of turnover in its joint ventures is reported for the first time, together with its share of operating profit of joint ventures and of associates. The group's share of the net interest costs of its joint ventures and of its associates is included within the group figure but identified separately by way of note.

The group's share of turnover in its joint ventures was £4.3 million (1997: £5.8 million).

Group profit before interest was £447.4 million, an increase of 6.7%. However, if exceptional costs of £24.5 million incurred in 1996/97 are excluded, the increase was just 0.8%. Severn Trent Water produced profit before interest of £414.2 million including £0.1 million from joint ventures, an increase of 0.8% if £20.0 million exceptional costs are excluded from 1996/97. Direct costs, excluding depreciation and the charge for infrastructure renewals, were once again tightly controlled at £345.7 million. Before Year 2000 costs of £2.2 million, this represented a reduction in real terms of 4.7%. However, the cost of providing for depreciation increased by £10.7 million to £111.0 million and for infrastructure renewals by £2.6 million to £63.6 million. Total costs in Severn Trent Water were £518.7 million, an increase of £9.9 million excluding the exceptional costs in the previous year.

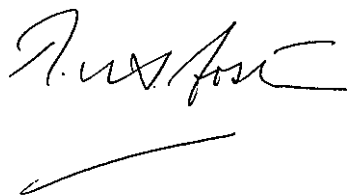
Total profit before interest from the group's non-regulated businesses increased by 10.5% to £45.1 million, accounting for 10.0% of the group result. Biffa earned profit before interest of £28.4 million, including £0.3 million from joint ventures, an increase of 16.9% over the previous year. Profit before interest increased by £3.1 million in the UK and by £1.0 million in Belgium – in local currency, the profit before interest in Belgium increased by 44%.

Profit before interest from Severn Trent Services, including £7.5 million from joint ventures and associates, was £15.9 million, an increase of 11.2%. Severn Trent Services comprises three strategic business units, whose results are summarised below.

	Turnover		Profit before interest	
	1997/98 £m	1996/97 £m	1997/98 £m	1996/97 £m
Severn Trent Technology	67.0	58.7	3.2	2.5
Severn Trent Systems	78.6	57.7	4.9	4.1
Severn Trent Water International	42.0	38.2	7.8	7.7
Severn Trent Services	187.6	154.6	15.9	14.3

Profit before interest from Property and other businesses was £0.8 million (1997: £2.2 million).

Alan Costin Group Finance Director




Group net operating assets (excluding net debt, taxation balances and dividends payable) were £3.72 billion, an increase of 9.2%, compared with an increase of 0.8% in profit before interest and exceptional costs. Severn Trent Water's return on year end net operating assets declined to 11.8% (1997: 12.8% before exceptional costs). By contrast, Biffa's return increased to 20.2% (1997: 19.6%) and that of Services to 42.5% (1997: 32.4%).

Net interest payable by the group was £73.4 million (1997: £52.7 million) which included £5.1 million (1997: £5.6 million) being the group's share of net interest payable by joint ventures and associates. The £20.7 million increase in net interest cost included £14.0 million arising from the capital reorganisation implemented in August and September 1997 and the full year impact of the purchase by the company of 20.5 million of its Ordinary Shares in December 1996, together with £3.8 million interest expense arising from the payment of the first of two equal instalments of the Windfall Tax on 1 December 1997. Net interest charges were covered 6.1 times (1997: 8.0 times) by profit before interest. Net interest payable in 1998/99 will increase again, reflecting the full year impact of the capital reorganisation implemented in August and September 1997 and of the payment of the first instalment of Windfall Tax, together with the impact of the second instalment due on 1 December 1998. The very high capital investment programme in Severn Trent Water will produce a negative free cash flow for the group in 1998/99 before the exceptional Windfall Tax payment and payment of dividends, resulting in a further increase in net interest payable.

Consolidated net debt at 31 March 1998 was £1,082 million, an increase of £388 million over the previous year end. The increase was primarily the result of the capital reorganisation in August and October 1997 which cost £128.1 million and the payment of £154.8 million Windfall Tax in December 1997. Net debt at 31 March 1998 represented 47.4% of shareholders' funds (1997: 27.4%).

Group profit on ordinary activities before taxation was £374.0 million (1997: £366.5 million) an increase of 2.0%. However, if exceptional costs are excluded from the 1996/97 results, group profit before tax declined in the year by 4.3%.

The group charge for taxation on ordinary activities for the year ended 31 March 1998 was £49.5 million, an effective tax rate of 13.2%. The group's effective tax rate is significantly lower than the standard rate of UK corporation tax, due primarily to the impact of certain accelerated capital allowances and the recovery of Advance Corporation Tax written off in earlier years. The charge was comprised principally of £125.5 million of UK corporation tax offset in part by the recovery of £77.3 million of Advance Corporation Tax. Overseas tax charges, double taxation relief and the share of taxation of associated undertakings totalled £1.6 million (1997: £3.1 million). Following the announcement by the Chancellor of the Exchequer that Advance Corporation Tax will be abolished with effect from 6 April 1999, the decision was taken to disclaim certain capital allowances for taxation purposes for the year 1997/98; the increase in mainstream corporation tax payable as a consequence enables Advance Corporation Tax previously written off to be recovered earlier than would otherwise have been the case. As a consequence of the board's decision to delay payment of the second interim and final dividends for the year ended 31 March 1998 until 6 April 1999, no Advance Corporation Tax will be payable thereon. Subject to unforeseen circumstances, the effective tax rate for the year ending 31 March 1999 is expected to be similar to that for the year 1997/98. The effective tax rate for subsequent years will benefit from the utilisation of taxation allowances disclaimed in earlier years.

The group results for the year included full provision for the exceptional cost of the Windfall Tax, amounting to £309.6 million. As a consequence, profit after tax for the financial year was just £14.9 million (1997: £316.7 million).

Earnings per share was 4.3p (1997: 87.2p): earnings per share before exceptional costs was 94.4p (1997: 93.9p), an increase of 0.5%.

The proposed dividends for the full year, amounting to 41.12p per share, are covered 2.32 times by profit after taxation on ordinary activities but before the exceptional cost of the Windfall Tax.

The group's operating activities generated a net cash inflow of £549.0 million (1997: £506.0 million) including £522 million from Severn Trent Water and £48 million from Biffa. Capital expenditure (net of disposals and grants received) together with investment in associated undertakings amounted to £347.0 million including £306 million in Severn Trent Water (1997: £325 million) and £31 million in Biffa (1997: £24 million). The group incurred cash outflows of £54.5 million on net interest and other financing costs; £194.8 million on taxation including the first instalment of Windfall Tax; and £31.9 million on acquisitions. Free cash flow, ie before payment of equity dividends and other returns to shareholders and proceeds from share issues, amounted to an outflow of £77.5 million (1997: £63.8 million inflow). Equity dividends of £91.4 million were paid in the year and the capital reorganisation cost £128.1 million, including expenses. Cash raised from the issue of shares was £3.9 million. As a consequence, the group's net cash outflow was £293.1 million (£205.8 million). Inception of new finance leases amounted to £94.5 million (£9.1 million) and net debt acquired with subsidiary undertakings was £0.5 million. After currency exchange translation differences of £0.5 million, the increase in net debt over the course of the year was £387.6 million.

#### **Treasury management**

The group had committed borrowing facilities at 31 March 1998 of £1,600 million, of which £1,115 million was utilised. In addition the group had borrowed £11 million from uncommitted facilities. The group had cash and short term deposits at 31 March amounting to £47 million. Of the group's committed facilities, £1,165 million are available to Severn Trent Water, of which £840 million was utilised.

The group's cash resources and available borrowing facilities are adequate to finance the anticipated cash outflow in 1998/99.

The group's policy for the management of interest rate risk requires that not less than 50% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 1998 interest rates on 54% of the group's borrowings were so fixed, for periods ranging from 10 months to 10 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 currency translation risk associated with certain US dollar denominated assets. The sterling value of foreign currency denominated assets exceed the value of liabilities, including borrowings, in foreign currencies by £26.8 million at 31 March 1998 (£35.4 million). An unrealised net translation loss of £4.3 million arose in the year (1997: £8.8 million loss).

The group uses financial derivatives solely for the purposes of managing risk associated with financing its normal business activities.

Details of the group's borrowings, investments and financial instruments are contained in note 16 to the accounts, which has been prepared in accordance with FRED 13.

#### **Dividends**

The cost of the proposed equity dividends to the company's shareholders for the year ended 31 March 1998 was £139.8 million (1997: £128.5 million). Dividends received or receivable by the company from its subsidiaries comprised £130.0 million from Severn Trent Water (£275.0 million) and £3.7 million from non regulated businesses (£5.5 million). The group also received dividends of £1.7 million from associated undertakings (£2.0 million). In addition to these dividends, on 1 December 1997 the company received a special dividend of £309.6 million from Severn Trent Water Limited to cover the cost of the Windfall Tax: 50% of this amount was loaned back to Severn Trent Water Limited for a period of one year, interest free.

Severn Trent Water Limited's dividend policy is to declare dividends which are consistent with its regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cashflow requirements and balance sheet considerations. The amount declared is expected to vary each year as the impact of these factors changes.

# 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 – P P Davies

**Remuneration Committee** A H Simon (Chairman), R H Boissier, R M Walker, C Tritton, Secretary – P P Davies

**Treasury Committee** R Ireland (Chairman), V Cocker, R A S Costin, C Tritton, M C Flower, M Wilson, R Cargill, Secretary – P P Davies

**Nominations Committee** R Ireland (Chairman), R H Boissier, A H Simon, C Tritton, Secretary – P P Davies

**Charitable Contributions Committee** B Duckworth (Chairman), A H Simon, Secretary – P P Davies

**Company Secretary** Peter Davies, LL.B. Solicitor



**1 Richard Ireland FCIS (64) Chairman**

Mr Ireland joined the board in 1989, was appointed deputy Chairman in December 1992 and Chairman on 31 March 1994. He is a non-executive Director of Severn Trent Water Limited and a Trustee Director of certain of the Severn Trent Pension Schemes. Mr Ireland is non-executive Chairman of Wolsley 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 immediate past President of the Birmingham Chamber of Commerce and Industry. Mr Ireland will stand down as Chairman and Director of Severn Trent Plc at the conclusion of the Annual General Meeting on 29 July 1998.

**2 Victor Cocker BA (Econ) FCIWEM (57)**

Mr Cocker joined the board in August 1989 and was appointed Group Chief Executive of Severn Trent Plc on 1 April 1995. He joined Severn Trent in 1974 having previously worked in the gas industry. Mr Cocker has 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 (55)**

Mr Costin joined the board as Group Finance Director in May 1992. He is also a Trustee Director of certain of the Severn Trent Pension Schemes. Mr Costin is a Chartered Accountant with many years experience and was previously Finance Director of Lex Service Plc.

**4 Brian Duckworth BA FCCA FCIWEM (49)**

Mr Duckworth joined the board in November 1994. He has been with Severn Trent since 1974 and has worked in various financial roles. Mr Duckworth was appointed as Managing Director of Severn Trent Water Limited on 1 April 1995. Prior to this he was Customer Service Director. Mr Duckworth is Chairman of Water UK, the water industry's trade association and a director of UK Water Industry Research Limited.

**5 Martin Bettington BSc MechEng MBA (45)**

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 (53)\***

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, Novara plc, Associated British Ports Holdings Plc and is on the Supervisory Board of SGL Carbon AG in Germany.

**7 Roger Boissier CBE (67)\***

Mr Boissier joined the board in October 1986. He is Chairman of Pressac Plc and a non-executive director of Kalon Group PLC (Chairman 1992-95), Allott & Lomax Holdings Limited and Edward Lumley Holdings Limited. He is also a member of the Court and Council of Loughborough University, the Council of the University of Derby and a Governor of the Landau Forte City Technology College, Derby.

**8 Clare Tritton BA QC (62)\***

Mrs Tritton joined the board in November 1991. She 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 Limited.

**9 David Arculus MA (52)\***

Mr Arculus joined the board on 20 May 1996. He was the Chief Operating Officer of United News and Media plc from April 1997 until March 1998. Before this he was Group Managing Director of EMAP Plc, the international media company, where he played a significant role in the growth of that company. He was formerly a journalist and a producer at the BBC and is a non-executive director of Barclays plc. Mr Arculus will become Chairman of Severn Trent Plc at the conclusion of the Annual General Meeting and will also shortly become Chairman of IPC Group Ltd.

**10 Robert Walker MA (53)\***

Mr Walker joined the board on 20 May 1996. He is also a non-executive Director of Severn Trent Water Limited. Mr Walker is an Executive Vice President at PepsiCo International, the beverages subsidiary of PepsiCo Inc. Since joining PepsiCo in 1976 he has been responsible for Pepsi's business in Europe, the Middle East, South Asia and Africa. Mr Walker is also a non-executive director of Thomson Travel Group Plc. He formerly worked for Procter & Gamble Limited and McKinsey and Company.

**11 Martin Flower BA (51)\***

Mr Flower joined the board on 11 June 1996. He 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.

**12 John Banyard BScEng FEng FICE FCIWEM (53)**

Mr Banyard joined the board in January 1998. He is an executive Director of Severn Trent Water Limited with responsibility for Asset Management. Mr Banyard is a Chartered Civil Engineer and has worked in a number of engineering roles within the group since joining Severn Trent in 1974. He was elected a Fellow of the Royal Academy of Engineering in 1997.

\* Non-executive Director

1	4	7	10
2	5	8	11
3	6	9	12

# Directors' report

The directors present their report, together with the audited financial statements of the group for the year ended 31 March 1998.

## 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 services. These are described in more detail, together with a review of the group's business and future developments, on pages 4 to 25 which should be read in conjunction with this report.

Details of the principal associated and subsidiary undertakings of the group at 31 March 1998 appear in notes 10 and 23 to the financial statements on pages 49 and 50 and pages 58 and 59.

## Dividend and reserves

Details of dividends paid, payable and proposed are set out in note 7 on page 47. The board is recommending an underlying final dividend of 24.37p net per share, bringing the total for the year, excluding the second interim dividend, to 35.92p, an increase of 10%. Following the announcement by the Chancellor of the Exchequer that Advance Corporation Tax will be abolished with effect from 6 April 1999, the board has decided to defer the payment of the second interim and final dividends until that date. The board also proposes to pay an enhancement to the final dividend of 1.36p net per share to reflect the delay in payment. Payment of the final dividend is subject to approval at the Annual General Meeting. In the light of the impending abolition of Advance Corporation Tax, the board believes that there will be no benefit to the company in offering a scrip alternative to a cash dividend and that to do so is detrimental to the efficient financing of the group. These dividends will be paid to shareholders on the register at the close of business on 19 June 1998. Proposed transfers to reserves are set out in note 19 to the financial statements on page 55.

## Directors

Details of current directors are shown on page 27. Mr J K Banyard joined the board on 23 January 1998 and in accordance with the articles of association of the company will retire at this year's Annual General Meeting and offer himself for re-appointment. Mr R Ireland and Mr R H Boissier both retire from the board by rotation and will not be seeking reappointment. Mr Ireland will stand down as Chairman at the conclusion of the Annual General Meeting and will be succeeded by Mr T D G Arculus, currently a non-executive director. Mr B Duckworth retires from the board by rotation and being eligible offers himself for reappointment. Mr Banyard and Mr Duckworth each have service contracts which provide 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 1998 and their interests in the shares of the company can be found on pages 34 and 35. 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.

## Capital reorganisation

On 8 August 1997 the company effected a capital reorganisation under which each Ordinary Share of £1 was divided into one ordinary share of 62p and one B Share of 38p. Following this sub-division every 20 ordinary shares of 62p each were consolidated into 19 Ordinary Shares of 65½p each. Schroders acting as agents for the company offered to purchase from shareholders all their B Shares at their nominal value on 11 August 1997. A second repurchase offer was made in September 1997. Full details of the effect of the capital reorganisation on the share capital of the company can be found in note 18 to the financial statements on pages 53 and 54.

## Share capital

Details of movements in share capital are shown in note 18 to the financial statements on pages 53 and 54. A special resolution will be put to shareholders at the Annual General Meeting which, if passed, will renew the directors' power to issue equity securities for cash without first having to offer these securities to existing shareholders, as is required by Section 89 of the Companies Act 1985. The power extends to issuing equity securities in relation to a rights issue or up to a maximum amount equal to 5% of the issued Ordinary Shares of the company. For these purposes equity securities are Ordinary Shares in Severn Trent, but they do not include shares which are allotted under employee share schemes. By exempting Severn Trent from the rule in Section 89, the directors will have greater flexibility to raise finance on the Stock Exchange. Nothing will be done that is not in the interests of the shareholders and the Stock Exchange rules also safeguard shareholders' interests. The power will be valid for 15 months or until the next Annual General Meeting, whichever is sooner.

A rights issue would involve Severn Trent offering existing shareholders the opportunity to buy new Ordinary Shares. The number of Ordinary Shares which a shareholder can buy depends on the number he/she already owns. The rules in some countries prevent shareholders from participating in a rights issue. This resolution will allow the directors to make alternative arrangements for those shareholders. In order to take account of the effects of the Capital Reorganisation, the share capital of the company has been taken as at 31 March 1998.

## Renewal of authority to purchase own shares

A special resolution will be proposed at this year's Annual General Meeting to authorise the directors to purchase in the market the company's own Ordinary and B Shares. The directors have no present intention that the company should purchase its own Ordinary Shares or B Shares. Nevertheless they would wish to be able to act quickly if circumstances arise in which they consider such purchases to be in the interests of shareholders generally.

The proposed authority is set out in Resolution 7. In respect of Ordinary Shares the authority will be limited to approximately 10% of the company's issued ordinary share capital as at 31 March 1998 but will not be limited with respect to B Shares. The minimum price per Ordinary Share payable by the company (exclusive of expenses) will be 65½p, the nominal value of each Ordinary Share. The maximum to be paid per Ordinary Share on any exercise of such authority (exclusive of expenses) will be an amount not more than 5% above the average of the middle market quotations for Ordinary Shares of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of each purchase. B Shares will only be purchased at their nominal value of 38p. Purchases will only be made on the London Stock Exchange and only in circumstances where the board believes that they are in the interests of shareholders generally. Furthermore, purchases of Ordinary Shares will only be made if the board believes that they would result in an increase in earnings per share. Any purchases will be financed out of profits lawfully available for distribution.

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**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 either uses its own standard terms and conditions 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), or nationally agreed terms and conditions of contract such as the ICE 6th Edition for Civil Engineering Works, and the G90 Terms and Conditions for Mechanical and Electrical Works.

On average, trade creditors are paid between 35 and 40 days after the invoice date.

**Contributions for political and charitable purposes**

Donations to charitable organisations during the year amounted to £271,274 (1997: £226,725). No political donations were made during the year.

**Employees**

The group employed 10,635 people at 31 March 1998 (1997: 10,056). Of these, 5,320 were employed in Severn Trent Water. There are now in excess of 1,500 employees outside the UK, 315 in Belgium and the balance mainly in the USA. This reflects the growth of the group's activities in the USA.

The major restructuring exercises within Severn Trent Water have now largely been completed and there is currently a period of consolidation. The emphasis on good employee communications is being maintained. The single table bargaining arrangement has facilitated ongoing agreements on pay and conditions. The consultation arrangements have been revised to make them more appropriate to the company's new structure and new two-tier arrangements have been introduced on both county and regional level. They will in the future include opportunities for employees who are not trade union members to participate in these committees.

For the fifth year the Profit Related Pay scheme has operated with over 98% of UK employees participating in the arrangements. It is envisaged that this scheme will be operated until March 2000 when, under current Government legislation, it will be completely phased out.

Biffa Waste Services has continued its association with Warwick University in its Biffa Business School. There are now 15 Biffa employees on a Diploma in Management Studies course and 21 employees on the Certificate of Management course, including five people from Belgium. There is also a major initiative to introduce an NVQ training programme to meet present and potential legislative requirements currently being introduced in the waste disposal industry; these are at NVQ levels 2, 3 and 4. This initiative by Biffa is one of a number where, throughout the group, a more proactive approach to the development of the managerial or technical capability of our employees is being adopted.

The series of Employee Evenings reinforcing the branding of Severn Trent Plc which was initiated during the last financial year in the UK has now been extended to cover USA employees. These presentations have resulted in a number of employee exchange visits to further encourage inter-company awareness and communication at all levels throughout the group.

The group reviewed its various pension schemes and put in place a number of changes to ensure that all schemes operate within the requirements of the 1995 Pensions Act.

The group maintains a positive stance on equal opportunities for all employees irrespective of gender, race, religion, marital status or disability. Equal opportunities policies have been reviewed to ensure that we meet with best practice in all these areas and ongoing training is being given to employees and managers involved in all aspects of recruitment, selection and development.

During the year the company revised and updated its health and safety policy, details of which were translated into appropriate languages and distributed to all employees across the group. The group's policy is to create a safe working environment for its employees and it is committed to establishing, maintaining and improving standards of performance.

**Disabled persons**

The group companies have undertaken training programmes and a number of other initiatives on disability discrimination including participation in the 'Employer's Forum on Disability' to maintain an awareness of the potential of disability discrimination both from customers' and employees' perspectives. The group maintains its policy of not discriminating in employment, career development, training and promotion against people who are, or become, disabled.

**Substantial shareholdings**

As at 1 June 1998 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.

# Directors' report

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## Research and development

The company encourages its subsidiary companies to invest in research and development in order to develop products, processes and techniques that will enhance the group's ability to meet the exacting standards set by the various regulators in the most cost-effective manner. In 1997/98 group expenditure on research and development was £6.0 million compared to £6.3 million in 1996/97.

A joint research facility has been established with Anglian Water to evaluate various process streams available for extracting drinking water from the River Trent, and a sophisticated state-of-the-art pollution monitoring station has been installed on the River Trent as part of this project.

One exciting development during the year has been the use of CD-ROM technology to provide operation and maintenance manuals in a more user-friendly form than the traditional paper-based systems and this has led to the development of a joint venture with the Water Research Centre.

Capital Controls Ltd introduced a new range of advanced water quality monitors during the year which has brought to market some of the results of their research and development effort. Development work in other areas is being installed on a full-scale prototype basis on selective Severn Trent plants and is expected to lead to further new products in the near future.

## Corporate governance

The directors have examined their compliance with the Cadbury Code of Best Practice and the Greenbury Report on directors' remuneration as adopted by the London Stock Exchange, and are able to report that the company has complied with the provisions throughout its financial year. The directors also note with interest the contents of the Hampel Committee Report on Corporate Governance and await the proposed changes to the Listing Rules of the London Stock Exchange so far as they relate to corporate governance. While it is the board's belief that the company already complies with a large number of the principles listed in the Hampel Committee Report, it is the intention of the directors that any further changes which are required to be introduced will be addressed in the coming 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 1997 until 8 June 1998 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.

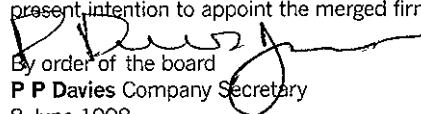
The board recognises that any system of financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

## Going concern

Based upon its review of the group's budget for 1998/99, 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 38 to 59 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. The directors are aware that Price Waterhouse are proposing to merge their firm with Coopers & Lybrand and it is their present intention to appoint the merged firm in the future.

  
By order of the board  
P P Davies Company Secretary  
8 June 1998

The Remuneration Committee ('the Committee') of the board comprises the following non-executive directors:

A H Simon (Chairman)  
R H Boissier  
C Tritton  
R M Walker

The Committee's primary role is to determine the remuneration policy for the Chairman and executive directors of Severn Trent Plc. The Committee does not deal with the fees payable to non-executive directors for which the board has the sole determination.

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.

In carrying out its responsibilities, the Committee receives professional advice from Arthur Andersen.

## **1 Remuneration policy**

The remuneration policy of the Committee 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 efficient running of the company, whilst balancing profit enhancement with the interests of shareholders, customers, employees and the local community. 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.

## **2 Service contracts**

The executive directors' service contracts continue to be terminable by the company giving not less than two years' written notice and by the directors giving not less than six months' notice of termination. The Committee believes that this practice is in the best interests of the company in recruiting and retaining directors of the highest calibre and is in line with current market practice. In the event of any earlier termination of a service agreement, the Committee will take a robust view of the mitigation which should be taken into account when computing any compensation payable. The Committee will continue to monitor the situation.

Mr B Duckworth and Mr J K Banyard are the subject of reappointment as executive directors at the AGM and the Committee believes that their extensive knowledge and experience is critical to the company and fully justifies the continuation of the contractual arrangements which are outlined above.

## **3 Executive directors**

### **i) Basic salary and benefits**

The Committee has received independent advice on the appropriate level of salaries for executive directors which takes into account the competitive position of the company within the market. The table on page 33 shows the basic fees and salaries of executive directors at 31 March 1998.

The company continues to operate an Inland Revenue Profit Related Pay Scheme which is open to employees at all levels, including all executive directors; this scheme will begin to be phased out from April 1998 in accordance with legislation. Principal benefits of the executive directors include the use of a motor car, fuel and membership of private medical insurance and life assurance schemes. During the year the company also introduced an Incapacity Benefits Scheme for directors and other senior executives in the event of long term illness.

### **ii) Performance related annual bonus**

Executive directors are awarded annual bonuses to encourage improved performance and are measured 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. Benchmarks to monitor overall performance are established at the beginning of each year under review. Financial performance accounts for 50% of the bonus payable and the other 50% is dependent on performance in respect of customer/employee satisfaction, personal objectives and environmental quality. The maximum amount payable under the bonus scheme is 40% of basic salary. In the year to 31 March 1998 the bonus award was 19% (1997: 26.3%) and 21.3% in the case of Mr M J Bettington (1997: 26.3%); the actual bonuses awarded by the Committee for the year ended 31 March 1998 are shown in the table on page 33.



# Report of the Remuneration Committee

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## iii) Long-term incentives

As part of the company's response to the Greenbury Report a new Long Term Incentive Share Plan for executive directors was approved by shareholders at the 1997 Annual General Meeting. The Plan replaced the former Executive Share Option Scheme under which no awards had been made since 1993.

Performance is measured by reference to Total Shareholder Return (TSR) over a three year period compared to the TSR of 14 similar privatised utility companies. The maximum allocation which may be made to an individual director in any year is such number of shares as have a market value equal to 50% of basic salary. Shares are allocated annually by the Committee but are not released to executive directors for a period of three years thereafter, provided that the TSR has achieved a prescribed ranking in comparison with the other companies. The maximum award is payable should the company achieve first, second or third place when compared with the 14 companies' rankings. Achievement of fourth or fifth place qualifies for 75% of the allocation, and positions sixth or seventh are rewarded by 50% of the shares. No award is made for eighth place or below. An allocation of shares equivalent to 50% of salary was awarded to executive directors and other senior executives for the performance period effective from 1 April 1997. The Chairman and non-executive directors do not participate in the Long Term Incentive Plan.

## iv) Pensions

The company's policy is to offer all executive directors membership of the Senior Staff Pension Scheme. The total number of executive directors who participate in the Scheme is five.

This Scheme is a funded Inland Revenue approved final salary occupational pension scheme which provides:

- a normal retirement age of 60 years
- an overall pension at normal pension age of  $\frac{2}{3}$  of final pensionable salary subject to the completion of 20 years' pensionable service
- the life cover of 4 x pensionable earnings
- pension payable in the event of retirement on grounds of ill health and a spouse's pension on death.

As previously reported the bonus 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 this Scheme after 1 June 1989 and is therefore subject to the Inland Revenue earnings cap (1997/98: £84,000), to pay the difference between his pension entitlement based upon the relevant portion of his salary and the maximum amount payable had the cap not been in place. The obligation is unfunded. The amount charged to the profit and loss account for this future obligation was £180,732 (1997: £77,607) for which there was a compensatory reduction in the liabilities of the Scheme.

A table detailing the directors' pension provisions as required by the Listing Rules, is shown on page 33.

## 4 Chairman

The Chairman devotes on average 2½ days a week to the company affairs for which since 1 April 1997 he has been paid a basic salary of £130,000 per annum. This was the first increase in salary he has received since January 1994 and is based on external comparisons. Mr Ireland does not participate in any of the company's pension arrangements or share or bonus schemes.

## 5 Non-executive directors

Non-executive directors are paid fees which are reviewed from time to time by the board. They were last increased effective from December 1995 and are set at £25,000 per annum. The fee for Mr A H Simon as Chairman of both Remuneration and Audit Committees was £29,750 which has not been increased since 1 July 1995. The non-executive directors do not participate in any incentive plan nor is any pension provision made for them. The non-executive directors do not have service agreements with the company.

## 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>3</sup> £000	1997/98 £000	Total 1996/97 £000
<b>Chairman</b>						
R Ireland <sup>1</sup>	130.0	12.0	-	-	142.0	111.7
<b>Executive directors</b>						
J K Banyard <sup>2</sup>	19.6	1.6	4.9	-	26.1	-
M J Bettington	119.0	11.6	25.6	-	156.2	149.7
V Cocker <sup>4</sup>	239.0	8.1	45.6	-	292.7	239.8
R A S Costin	164.0	11.4	31.4	-	206.8	212.5
B Duckworth	144.0	13.0	27.6	-	184.6	175.5
<b>Non-executive directors</b>						
T D G Arculus	25.0	-	-	-	25.0	21.7
R H Boissier	25.0	-	-	0.7	25.7	26.7
M C Flower	25.0	-	-	-	25.0	20.1
A H Simon	29.8	-	-	1.6	31.4	31.3
C Tritton	25.0	-	-	0.6	25.6	25.0
R M Walker	25.0	-	-	-	25.0	21.7
	970.4	57.7	135.1	2.9	1,166.1	1,035.7
Aggregate gain on exercise of share options					66.1	294.8
Total emoluments					1,232.2	1,330.5

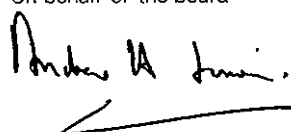
The executive directors, in common with all eligible employees of the group, are entitled to participate in the group's Inland Revenue registered Profit Related Pay Scheme.

- <sup>1</sup> The Chairman, whose basic salary had not been increased between January 1994 and 31 March 1997, 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> Mr Banyard was appointed an executive director with effect from 23 January 1998.
- <sup>3</sup> Other emoluments represent expenses chargeable to UK income tax paid to non-executive directors.
- <sup>4</sup> Aggregate emoluments, including gain on exercise of share options, for Mr Cocker, as highest paid director, amounted to £305,200 (1997: £366,400).

Directors' pension provisions	Increase in <sup>1</sup> accrued pension (excluding inflation) in the year to 31 March 1998 £000	Accumulated total accrued pension at 31 March 1998 £000	Transfer value <sup>2</sup> of the increase in accrued benefits £000
J K Banyard <sup>3</sup>	0.9	65.3	13.0
M J Bettington	4.3	46.3	43.6
V Cocker	33.8	172.0	568.4
R A S Costin	6.2	38.9	87.8
B Duckworth	8.0	79.4	104.8

- <sup>1</sup> The amount of increase in accrued pension during the year excludes the effects of inflation, measured by reference to the increase in the retail prices index between March 1997 and March 1998.
- <sup>2</sup> The transfer value of the increase in accrued benefits is calculated in accordance with Actuarial Guidance Note GN11, less a deduction in respect of each member's own pension contributions during the period. It does not represent a sum payable to individual directors and cannot therefore meaningfully be added to annual remuneration.
- <sup>3</sup> Mr Banyard was appointed an executive director with effect from 23 January 1998. The increase in pension and the cash equivalent transfer value of this increase are in respect of the period from the date of appointment to 31 March 1998.

On behalf of the board



Andrew Simon Chairman Remuneration Committee

# Directors' interests

## Directors' interests

The directors of the company at 31 March 1998 and their beneficial interests in the shares of the company were as follows:

	At 1 April 1997 or subsequent date of appointment	At 31 March 1998	At 31 March 1998	At 1 June 1998	At 1 June 1998
	Number of ordinary shares of £1 each	Number of ordinary shares of 65½p each	Number of B shares of 38p each	Number of ordinary shares of 65½p each	Number of B shares of 38p each
<b>i) Beneficial Holdings</b>					
<b>Chairman</b>					
R Ireland	1,144	1,124	-	1,136	-
<b>Executive directors</b>					
J K Banyard	12,071*	11,071	118	11,079	118
M J Bettington	1,062	1,056	62	1,056	62
V Cocker	6,894	9,635	118	9,701	118
R A S Costin	1,128	1,158	118	1,159	118
B Duckworth	15,856	11,134	118	11,263	118
<b>Non-executive directors</b>					
T D G Arculus	-	-	-	5,000	-
R H Boissier	1,186	1,184	-	1,197	-
M C Flower	-	-	-	-	-
A H Simon	4,070	3,865	-	3,865	-
C Tritton	2,699	2,696	-	2,727	-
R M Walker	-	-	-	498	-

On 8 August 1997, Severn Trent Plc effected a Capital Reorganisation by way of sub-division and consolidation. Each Ordinary Share of £1 was divided into one ordinary share of 62p and one B share of 38p. Following this sub-division, every 20 ordinary shares of 62p each were consolidated into 19 Ordinary Shares of 65½p each.

\*Mr Banyard's appointment as a director of the company was effective from 23 January 1998 at which time he had a beneficial holding of 12,071 Ordinary Shares of 65½p each and 118 B Shares of 38p each.

Messrs Banyard, Bettington, Cocker, Costin and Duckworth have further interests in Severn Trent Plc ordinary shares of 65½p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 23 September 1997. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and have satisfied performance criteria. The initial performance target will be based on the company's total shareholder return compared to the Total Shareholder Return of 14 other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 31 March 1997	At 31 March 1998
	Number of ordinary shares of 65½p each	Number of ordinary shares of 65½p each
J K Banyard	-	5,337
M J Bettington	-	6,347
V Cocker	-	10,675
R A S Costin	-	9,232
B Duckworth	-	7,501

No further awards have been made under the Plan as at 1 June 1998.

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 (p)	Market price at date of exercise (p)	Gain on Exercise 1997/98 £	Date from which exercisable	Expiry date
<b>Executive share options</b>										
J K Banyard	7,800	-	-	7,800	1993	625	-	-	Dec 1996	Dec 2003
M J Bettington	9,808	(9,808)	-	-	1993	497	858	35,407	Mar 1996	Mar 2003
	7,800	(7,800)	-	-	1993	625	858	18,174	Dec 1996	Dec 2003
V Cocker	13,307	-	-	13,307	1993	625	-	-	Dec 1996	Dec 2003
R A S Costin	18,560	-	-	18,560	1993	625	-	-	Dec 1996	Dec 2003
B Duckworth	8,528	-	-	8,528	1993	625	-	-	Dec 1996	Dec 2003
<b>Sharesave options</b>										
J K Banyard	2,078	-	-	2,078	1995	415	-	-	Apr 2000	Sep 2000
	1,633	-	-	1,633	1997	528	-	-	Apr 2002	Sep 2002
M J Bettington	5,034	-	-	5,034	1993	360	-	-	Apr 1998	Sep 1998
	-	-	2,158	2,158	1998	799	-	-	Apr 2003	Sep 2003
V Cocker	2,918	(2,918)	-	-	1992	257	684.5	12,474	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 1998 there were 64 other executives participating in the Executive Share Option Scheme (1997: 92).

<sup>4</sup> At 31 March 1998, the market price of the company's shares was 1,050p (31 March 1997: 690p) and the range during the year was 684.5p to 1,061p.

# Five year summary

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
<b>Profit and loss account</b>					
Turnover: group and share of joint ventures	1,255.6	1,221.1	1,161.9	1,082.1	1,002.2
Less: share of joint ventures' turnover	(4.3)	(5.8)	(4.4)	(5.7)	(4.2)
Turnover	1,251.3	1,215.3	1,157.5	1,076.4	998.0
Profit before interest before exceptional items	447.4	443.7	425.5	376.8	332.0
Exceptional items	-	(24.5)	-	(55.0)	-
Net interest payable	(73.4)	(52.7)	(52.5)	(54.3)	(50.6)
Profit on ordinary activities before taxation	374.0	366.5	373.0	267.5	281.4
Taxation on profit on ordinary activities	(49.5)	(49.8)	(45.3)	(29.5)	(21.2)
Exceptional taxation	(309.6)	-	-	-	-
Profit for the year	14.9	316.7	327.7	238.0	260.2
Dividends	(140.0)	(128.5)	(118.8)	(105.0)	(81.7)
Retained (loss)/profit for the financial year	(125.1)	188.2	208.9	133.0	178.5

Comparative figures for turnover and profit before interest before exceptional items have been restated following the early adoption of Financial Reporting Standard number 9, 'Associates and Joint Ventures'.

## Net assets employed

Fixed assets	3,907.1	3,589.9	3,386.1	3,248.3	3,029.7
Net liabilities excluding net debt	(488.1)	(289.7)	(318.7)	(279.2)	(239.3)
Provisions for liabilities and charges	(56.3)	(75.3)	(75.0)	(111.8)	(75.0)
	3,362.7	3,224.9	2,992.4	2,857.3	2,715.4

## Financed by

Called up share capital	230.3	350.5	366.7	363.9	358.9
Reserves	2,050.1	2,179.7	2,144.1	1,926.1	1,780.5
Total shareholders' funds	2,280.4	2,530.2	2,510.8	2,290.0	2,139.4
Minority shareholders' interest	0.3	0.3	0.3	0.2	0.2
Net debt	1,082.0	694.4	481.3	567.1	575.8
	3,362.7	3,224.9	2,992.4	2,857.3	2,715.4

## Statistics

Earnings per share	4.3p	87.2p	89.6p	66.0p	72.7p
Earnings per share before exceptional items	94.4p	93.9p	89.6p	81.3p	72.7p
Dividends per share	35.92p	32.66p	28.53p	25.03p	22.75p
Second interim dividend	3.84p	3.84p	3.84p	3.84p	-
Final dividend enhancement	1.36p	-	-	-	-
Dividend cover (1998 before Windfall Tax)	2.3	2.5	2.8	2.3	3.2
Gearing	47.4%	27.4%	19.2%	24.8%	26.9%
Ordinary Share price at 31 March	1,050p	690p	594p	514p	570p
B Share price at 31 March	34.0p	-	-	-	-
Average number of employees – Water and sewerage	5,359	5,743	5,930	6,531	6,954
– Other	5,054	4,315	4,107	4,097	3,829

# 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 38 to 59, 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, any material departures being disclosed and explained in the financial statements.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time 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 38 to 59, including the additional disclosures on pages 33 to 35 relating to the remuneration of the Directors specified for our review by the London Stock Exchange, which have been prepared under the historical cost convention and the accounting policies set out on pages 42 and 43.

### 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 the affairs of the company and the group as at 31 March 1998 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



A handwritten signature in black ink, appearing to read 'Price Waterhouse'.

Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
8 June 1998

## Auditors' report on corporate governance matters

### To the Directors of Severn Trent Plc

In addition to our audit of the financial statements we have reviewed your statements on page 30 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 the guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary for us to express any opinion, and we do not do so, 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 control and on going concern on page 30, 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 appropriately reflect the group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse



A handwritten signature in black ink, appearing to read 'Price Waterhouse'.

Chartered Accountants  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
8 June 1998

# Group profit and loss account year ended 31 March 1998

	Notes	1998 £m	1997 £m
Turnover: group and share of joint ventures		<b>1,255.6</b>	1,221.1
Less: share of joint ventures' turnover		<b>(4.3)</b>	(5.8)
<b>Turnover</b>	2	<b>1,251.3</b>	1,215.3
Operating costs before exceptional items	3	<b>(811.8)</b>	(780.3)
Exceptional costs	3	–	(24.5)
<b>Total operating costs</b>	3	<b>(811.8)</b>	(804.8)
<b>Operating profit</b>		<b>439.5</b>	410.5
Share of operating profit of associated undertakings	2	<b>7.9</b>	8.7
<b>Profit before interest</b>	2	<b>447.4</b>	419.2
Net interest payable	5	<b>(73.4)</b>	(52.7)
<b>Profit on ordinary activities before taxation</b>		<b>374.0</b>	366.5
Taxation on profit on ordinary activities	6	<b>(49.5)</b>	(49.8)
Exceptional taxation – Windfall Tax	6	<b>(309.6)</b>	–
<b>Total taxation</b>		<b>(359.1)</b>	(49.8)
<b>Profit for the financial year</b>		<b>14.9</b>	316.7
Dividends (including non-equity dividends)	7	<b>(140.0)</b>	(128.5)
<b>Retained (loss)/profit for the financial year</b>	19	<b>(125.1)</b>	188.2
Earnings per Ordinary Share	8	<b>4.3p</b>	87.2p
Earnings per Ordinary Share before exceptional items	8	<b>94.4p</b>	93.9p

All activities are continuing operations. Comparative figures for turnover, share of operating profit of associated undertakings and net interest payable have been restated following the early adoption of Financial Reporting Standard number 9, 'Associates and Joint Ventures'.


# Balance sheets at 31 March 1998

	Notes	Group		Company	
		1998 £m	1997 £m	1998 £m	1997 £m
<b>Fixed assets</b>					
Tangible assets	9	3,881.2	3,566.3	7.4	7.1
Investments in joint ventures					
Share of gross assets		7.9	6.2	-	-
Share of gross liabilities		(8.6)	(6.9)	-	-
Loans		9.0	6.1	-	-
		8.3	5.4	-	-
Investments in associates		16.3	17.6	-	-
Investments in subsidiaries		-	-	1,725.9	1,562.2
Other investments		1.3	0.6	1.1	0.2
Total investments	10	25.9	23.6	1,727.0	1,562.4
		3,907.1	3,589.9	1,734.4	1,569.5
<b>Current assets</b>					
Stocks	11	82.1	66.0	-	-
Debtors	12	234.0	217.6	92.1	166.5
Short term deposits	13	32.7	229.9	-	185.3
Cash at bank and in hand		14.7	7.2	226.3	5.0
		363.5	520.7	318.4	356.8
<b>Creditors: amounts falling due within one year</b>	14	<b>(754.1)</b>	<b>(526.4)</b>	<b>(235.2)</b>	<b>(180.2)</b>
<b>Net current (liabilities)/assets</b>		<b>(390.6)</b>	<b>(5.7)</b>	<b>83.2</b>	<b>176.6</b>
<b>Total assets less current liabilities</b>		<b>3,516.5</b>	<b>3,584.2</b>	<b>1,817.6</b>	<b>1,746.1</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(1,179.5)</b>	<b>(978.4)</b>	<b>(376.9)</b>	<b>(275.9)</b>
<b>Provisions for liabilities and charges</b>	17	<b>(56.3)</b>	<b>(75.3)</b>	-	-
<b>Net assets</b>		<b>2,280.7</b>	<b>2,530.5</b>	<b>1,440.7</b>	<b>1,470.2</b>
<b>Capital and reserves</b>					
Called up share capital	18	230.3	350.5	230.3	350.5
Share premium account	19	3.3	5.7	3.3	5.7
Capital redemption reserve	19	147.0	20.5	147.0	20.5
Profit and loss account	19	1,899.8	2,153.5	1,060.1	1,093.5
<b>Total shareholders' funds</b>		<b>2,280.4</b>	<b>2,530.2</b>	<b>1,440.7</b>	<b>1,470.2</b>
Equity shareholders' funds		2,271.3	2,530.2	1,431.6	1,470.2
Non-equity shareholders' funds		9.1	-	9.1	-
Minority shareholders' interest (equity)		0.3	0.3	-	-
		2,280.7	2,530.5	1,440.7	1,470.2

Signed on behalf of the board who approved the accounts on 8 June 1998.



Richard Ireland Chairman

Alan Costin Group Finance Director





# Group cash flow statement

year ended 31 March 1998

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
<b>Net cash inflow from operating activities</b>	22a		<b>549.0</b>		505.9
Dividends received from associated undertakings			1.7		2.0
Returns on investments and servicing of finance	22b		(54.5)		(39.1)
Tax paid			(194.8)		(39.1)
Capital expenditure and financial investment	22c		(347.0)		(355.2)
Acquisitions	22d		(31.9)		(10.7)
Equity dividends paid			(91.4)		(108.3)
<b>Net cash outflow before use of liquid resources and financing</b>			<b>(168.9)</b>		(44.5)
Management of liquid resources	22e		196.7		55.8
<b>Financing</b>					
Increase in debt		99.8		157.4	
Issue of shares		3.9		6.9	
Purchase of own shares		(128.1)		(168.2)	
	22f		(24.4)		(3.9)
<b>Increase in cash</b>			<b>3.4</b>		7.4

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

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Increase in cash (as above)		3.4		7.4	
Cash flow from movement in net debt and financing		(99.8)		(157.4)	
Cash flow from movement in liquid resources		(196.7)		(55.8)	
<b>Change in net debt resulting from cash flows</b>			<b>(293.1)</b>		(205.8)
Loans and finance leases acquired with subsidiary undertakings	22d		(0.5)		-
Inception of finance lease contracts			(94.5)		(9.1)
Currency translation differences			0.5		1.8
<b>Increase in net debt</b>			<b>(387.6)</b>		(213.1)
<b>Net debt at 31 March 1997</b>			<b>(694.4)</b>		(481.3)
<b>Net debt at 31 March 1998</b>	22g		<b>(1,082.0)</b>		(694.4)

# Statement of total recognised gains and losses year ended 31 March 1998

	Group	
	1998 £m	1997 £m
Profit for the financial year – group	13.4	315.1
– joint ventures	–	(0.2)
– associates	1.5	1.8
Total profit for the financial year	14.9	316.7
Currency translation differences	(4.3)	(8.8)
<b>Total recognised gains and losses for the year</b>	<b>10.6</b>	<b>307.9</b>

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

## Reconciliation of movements in shareholders' funds

	Notes	Group		Company	
		1998 £m	1997 £m	1998 £m	1997 £m
Profit for the financial year		14.9	316.7	197.9	263.3
Dividends (including non-equity)		(140.0)	(128.5)	(140.0)	(128.5)
		(125.1)	188.2	57.9	134.8
Other recognised gains and losses relating to the year		(4.3)	(8.8)	–	–
Shares issued (net of expenses)	18	3.9	6.9	3.9	6.9
Scrip dividend	19	36.8	10.8	36.8	10.8
Goodwill written off	19	(33.0)	(9.5)	–	–
Purchase of own shares	19	(128.1)	(168.2)	(128.1)	(168.2)
Net (reduction in)/addition to shareholders' funds		(249.8)	19.4	(29.5)	(15.7)
Shareholders' funds at 1 April 1997		2,530.2	2,510.8	1,470.2	1,485.9
<b>Shareholders' funds at 31 March 1998</b>		<b>2,280.4</b>	<b>2,530.2</b>	<b>1,440.7</b>	<b>1,470.2</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 consolidation

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 group has adopted Financial Reporting Standard number 9 early and accordingly, the results of joint venture undertakings are accounted for on the gross equity basis where the company's holding is 50% and the company exercises joint control under a contractual arrangement. This represents a change from last year, where the results of all associated undertakings were accounted for on the equity basis where the company's holding was 20% or more and the company exercised significant influence. The comparative figures have been restated to reflect this change. The results of associates 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. Freehold land is not depreciated.

Other assets are depreciated over their estimated economic lives, which are principally as follows:

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

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

### e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

All other leases are accounted for as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

### f) Infrastructure renewals accounting

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

### g) Grants and contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred income and are transferred to the profit and loss account over the useful economic 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.

## **1 Accounting policies continued**

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 £149.1 million lower than it would otherwise have been (1997: £134.4 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 each landfill 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) Insurance costs**

Provision is made for claims notified by the insured. Provision is also made for claims expected to arise, based on previous claims experience, but which have not yet been notified to the company.

### **m) Pension costs**

Costs of defined benefit pension schemes 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. Costs of defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due.

### **n) 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.

### **o) Research and development**

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

### **p) 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.

### **q) 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.

### **r) 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.

### **s) Year 2000 and euro costs**

Costs of preparing systems and other applications for the Year 2000 and the introduction of the euro are written off to the profit and loss account as incurred, unless there is a significant enhancement to the system or application, in which case, the costs are capitalised and depreciated in line with the policy stated in d) opposite.

# Notes to the financial statements

## 2 Segmental analysis

a) Analysis of turnover and profit before interest by geographical origin and type of business.

	United Kingdom		Other – principally USA and Europe		Group	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
<b>Group turnover</b>						
Water and sewerage	932.8	919.1	–	–	932.8	919.1
Waste management	181.2	157.6	37.4	38.2	218.6	195.8
Services	118.7	92.6	68.9	62.0	187.6	154.6
Property and others	24.8	35.2	–	–	24.8	35.2
Inter-segment trading	(109.7)	(88.3)	(2.8)	(1.1)	(112.5)	(89.4)
	1,147.8	1,116.2	103.5	99.1	1,251.3	1,215.3
<b>Joint ventures' turnover</b>						
Water and sewerage	0.8	3.4	–	–	0.8	3.4
Waste management	0.8	–	–	–	0.8	–
Services	–	–	2.5	1.8	2.5	1.8
Property and others	0.2	0.6	–	–	0.2	0.6
	1.8	4.0	2.5	1.8	4.3	5.8
<b>Profit before interest</b>						
<b>Group operating profit</b>						
Water and sewerage	414.1	410.3	–	–	414.1	410.3
Exceptional restructuring provision	–	(20.0)	–	–	–	(20.0)
Water and sewerage after exceptional restructuring provision	414.1	390.3	–	–	414.1	390.3
Waste management	22.6	19.8	5.5	4.5	28.1	24.3
Services	2.8	2.0	5.6	4.4	8.4	6.4
Property and others	0.8	2.1	–	–	0.8	2.1
Unrealised profit on inter-segment trading	(1.3)	–	–	–	(1.3)	–
	439.0	414.2	11.1	8.9	450.1	423.1
<b>Share of operating profit of joint ventures</b>						
Water and sewerage	0.1	0.7	–	–	0.1	0.7
Waste management	0.3	–	–	–	0.3	–
Services	–	–	0.1	–	0.1	–
Property and others	–	0.1	–	–	–	0.1
	0.4	0.8	0.1	–	0.5	0.8
<b>Share of operating profit of associates</b>						
Services	(0.1)	(0.1)	7.5	8.0	7.4	7.9
<b>Share of operating profit of associated undertakings</b>						
	0.3	0.7	7.6	8.0	7.9	8.7
<b>Group profit before interest</b>						
Water and sewerage	414.2	391.0	–	–	414.2	391.0
Waste management	22.9	19.8	5.5	4.5	28.4	24.3
Services	2.7	1.9	13.2	12.4	15.9	14.3
Property and others	0.8	2.2	–	–	0.8	2.2
Unrealised profit on inter-segment trading	(1.3)	–	–	–	(1.3)	–
	439.3	414.9	18.7	16.9	458.0	431.8
Corporate overheads					(10.6)	(8.1)
Exceptional costs related to the proposed bid for South West Water Plc					–	(4.5)
<b>Group profit before interest</b>					<b>447.4</b>	<b>419.2</b>

The previously reported Utility-related services category has been expanded into Services and Property and others to reflect the management of these businesses. As a result of this and the early adoption of Financial Reporting Standard number 9, comparative figures have been restated.

## 2 Segmental analysis continued

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

	1998 £m	1998 £m	1997 £m	1997 £m
Gross turnover		950.6		927.8
Customer rebate	(17.8)		(20.0)	
Tariff rebalancing provision	-		11.3	
		(17.8)		(8.7)
		932.8		919.1

	United Kingdom		Other – principally USA and Europe		Group	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
<b>b) Analysis of net operating assets by geographical location and type of business</b>						
Water and sewerage	3,499.4	3,214.9	-	-	3,499.4	3,214.9
Waste management	124.5	103.4	16.4	20.6	140.9	124.0
Services	7.8	8.0	29.6	36.1	37.4	44.1
Property and others	43.3	25.9	-	-	43.3	25.9
Net operating assets	3,675.0	3,352.2	46.0	56.7	3,721.0	3,408.9
Short term deposits, cash, borrowings, taxation and dividends payable					(1,440.3)	(878.4)
					2,280.7	2,530.5

	Total 1998 £m	Before exceptional costs 1997 £m	Exceptional costs 1997 £m	Total 1997 £m
<b>3 Operating costs</b>				
Wages and salaries	209.5	201.6	13.0	214.6
Social security costs	19.2	18.4	-	18.4
Pension costs (note 21)	16.6	15.4	6.0	21.4
Total employee costs	245.3	235.4	19.0	254.4
Power	33.4	38.4	-	38.4
Raw materials and consumables	71.5	65.5	-	65.5
Rates	41.1	41.5	-	41.5
Service charges	20.3	18.6	-	18.6
Agencies	18.3	17.9	-	17.9
Waste disposal costs	31.8	26.4	-	26.4
Other operating costs	121.7	128.5	1.0	129.5
Depreciation – on owned assets	134.9	121.9	-	121.9
– on assets held under finance leases	7.5	9.7	-	9.7
Hired and contracted services	90.8	75.9	-	75.9
Infrastructure renewals charge (note 17a)	63.6	61.0	-	61.0
Environmental and landfill restoration costs (note 17a)	5.6	4.4	-	4.4
Operating lease rentals – land and buildings	3.6	3.1	-	3.1
– other	2.2	2.2	-	2.2
Hire of plant and machinery	7.7	7.8	-	7.8
Research and development expenditure	6.0	6.3	-	6.3
Auditors' remuneration – audit work	0.5	0.5	-	0.5
– non audit work	0.2	0.3	-	0.3
Profit on disposal of fixed assets	(1.3)	(3.7)	-	(3.7)
Costs of proposed bid	-	-	4.5	4.5
	904.7	861.6	24.5	886.1
Own work capitalised	(92.9)	(81.3)	-	(81.3)
	811.8	780.3	24.5	804.8

Exceptional costs in 1997 comprised a £20.0 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 £52,000 (1997: £51,200) in respect of the audit of the company.  
Details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 31 to 33.

# Notes to the financial statements

	1998 No.	1997 No.
<b>4 Employee numbers</b>		
Average number of employees during the year (full time equivalent):		
By type of business:		
Water and sewerage	5,359	5,743
Waste management	2,258	2,252
Services	2,413	1,742
Property and others	383	321
	<b>10,413</b>	<b>10,058</b>
By geographical location:		
United Kingdom	8,912	8,798
Other – principally USA and Europe	1,501	1,260
	<b>10,413</b>	<b>10,058</b>

	1998 £m	1997 £m
<b>5 Net interest payable</b>		
Interest receivable and similar income	17.8	24.2
Interest payable and similar charges:		
Bank loans and overdrafts	(35.0)	(27.8)
Other loans	(41.1)	(34.0)
Finance leases	(10.0)	(9.5)
Group	(68.3)	(47.1)
Share of joint ventures	(0.4)	(0.9)
Share of associates	(4.7)	(4.7)
	<b>(73.4)</b>	<b>(52.7)</b>

	1998 £m	1997 £m
<b>6 Taxation</b>		
UK corporation tax at – current year at 31%	125.5	52.6
– prior year at 33%	(0.3)	(12.2)
Double taxation relief	(3.3)	(1.4)
Overseas taxation – current year	3.6	3.0
Share of taxation charges of – joint ventures	0.1	0.1
– associates	1.2	1.4
Advance corporation tax – current year	(69.1)	1.3
– prior year	(8.2)	5.0
	<b>49.5</b>	<b>49.8</b>
Exceptional taxation – Windfall Tax	309.6	–
Total taxation	<b>359.1</b>	<b>49.8</b>

No provision for deferred taxation is required for the year ended 31 March 1998. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £34.0 million (1997: £28.1 million).

In determining the tax charge it has been assumed that the draft legislation announced in the 1998 Finance Bill concerning the abolition of Advance Corporation Tax will be enacted substantially as drafted. The tax charge therefore reflects the action taken to prevent the group's existing Advance Corporation Tax surplus from being increased and the proposed action to utilise part of the Advance Corporation Tax surplus brought forward from previous years.

A Windfall Tax charge of £309.6 million has been levied on Severn Trent Plc. Half of this has been paid during the year. The remainder is due to be paid on 1 December 1998.

<b>7 Dividends</b>	Pence per share	1998 £m	Pence per share	1997 £m
interim dividend declared	<b>11.55</b>	<b>39.2</b>	10.50	37.0
Second interim dividend declared	<b>3.84</b>	<b>13.1</b>	3.84	13.5
Final dividend proposed	<b>24.37</b>	<b>82.9</b>	22.16	78.0
Final dividend enhancement proposed	<b>1.36</b>	<b>4.6</b>	–	–
	<b>41.12</b>	<b>139.8</b>	36.50	128.5
B Share dividend (non-equity – note 18)	<b>1.04</b>	<b>0.2</b>	–	–
		<b>140.0</b>		128.5

The interim dividend for 1998 of £12,153 in respect of Ordinary Shares held under the Long Term Incentive Plan has been waived by the trustees of the Severn Trent Employee Share Ownership Trust.

### 8 Earnings per share

Earnings per share is calculated on the net basis on earnings of £14.7 million being profit for the financial year of £14.9 million (1997: £316.7 million), less £0.2 million B Share dividend (1997: nil), divided by 343.6 million shares, being the weighted average number of Ordinary Shares in issue during the year (1997: 363.3 million), excluding those held in the Severn Trent Employee Share Ownership Trust on which dividends have been waived.

Earnings per share is also shown calculated on earnings before exceptional costs of £309.6 million (1997: £24.5 million), since the Directors consider that this gives a more useful indication of underlying performance.

	1998 Pence	1997 Pence
Earnings per Ordinary Share	<b>4.3</b>	87.2
Adjustments for exceptional costs related to:		
Windfall Tax	<b>90.1</b>	–
Severn Trent Water restructuring	–	5.5
Proposed bid for South West Water Pic	–	1.2
Earnings per Ordinary Share before exceptional items	<b>94.4</b>	93.9

The exercise of outstanding share options would increase earnings per share.



# 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 1997	1,438.9	1,537.3	1,508.4	4,484.6	8.6
Acquisition of businesses	3.6	–	3.2	6.8	–
Additions	115.0	100.5	258.9	474.4	0.8
Grants and contributions	–	(14.7)	–	(14.7)	–
Disposals	(2.8)	–	(60.7)	(63.5)	–
Reclassification and transfers	(56.9)	25.6	(1.2)	(32.5)	–
Exchange adjustments	(1.2)	–	(4.7)	(5.9)	–
<b>At 31 March 1998</b>	<b>1,496.6</b>	<b>1,648.7</b>	<b>1,703.9</b>	<b>4,849.2</b>	<b>9.4</b>
<b>Depreciation</b>					
At 1 April 1997	401.1	–	517.2	918.3	1.5
Charge for year	33.1	–	109.3	142.4	0.5
Disposals	(2.1)	–	(55.0)	(57.1)	–
Reclassification and transfers	(32.3)	–	(0.2)	(32.5)	–
Exchange adjustments	(0.7)	–	(2.4)	(3.1)	–
<b>At 31 March 1998</b>	<b>399.1</b>	<b>–</b>	<b>568.9</b>	<b>968.0</b>	<b>2.0</b>
<b>Net book value</b>					
<b>At 31 March 1998</b>	<b>1,097.5</b>	<b>1,648.7</b>	<b>1,135.0</b>	<b>3,881.2</b>	<b>7.4</b>
At 31 March 1997	1,037.8	1,537.3	991.2	3,566.3	7.1

	1998 £m	1997 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:		
Cost	280.9	176.0
Accumulated depreciation	(38.2)	(46.0)
<b>Net book value</b>	<b>242.7</b>	<b>130.0</b>

ii) Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view as set out in note 1g.

	1998 £m	1997 £m
iii) The net book value of land and buildings is analysed as follows:		
Freehold	1,079.7	1,022.8
Long leasehold	4.8	3.6
Short leasehold	13.0	11.4
	<b>1,097.5</b>	<b>1,037.8</b>

iv) The net book value of land and buildings includes £48.9 million (1997: £43.5 million) in respect of landfill sites.

	1998 £m	1997 £m
v) Included in the above are the following tangible fixed assets not subject to depreciation:		
Land	21.9	22.9
Infrastructure assets	1,648.7	1,537.3
Assets in the course of construction	353.4	253.8
	<b>2,024.0</b>	<b>1,814.0</b>

vi) At 31 March 1998 the company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.9 million (1997: £6.3 million) and plant and equipment with a net book value of £0.5 million (1997: £0.8 million).

	1998 £m	1997 £m
<b>10 Investments</b>		
Investments in joint ventures		
Share of gross assets	7.9	6.2
Share of gross liabilities	(8.6)	(6.9)
Loans	9.0	6.1
	<b>8.3</b>	5.4
Investments in associates		
Share of net assets	15.8	17.3
Loans	0.5	0.3
	<b>16.3</b>	17.6
Other investments	0.4	0.6
Own shares	0.9	-
	<b>25.9</b>	23.6

	Interests in joint ventures £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
<b>Group</b>					
At 1 April 1997	5.4	17.6	0.6	-	23.6
Loans advanced/additions	3.9	0.2	0.1	0.9	5.1
Loans repaid	(1.0)	-	-	-	(1.0)
Share of profits	-	1.5	-	-	1.5
Dividends received	-	(1.7)	-	-	(1.7)
Amounts written back/(off)	-	1.0	(0.3)	-	0.7
Currency translation differences	-	(2.3)	-	-	(2.3)
<b>At 31 March 1998</b>	<b>8.3</b>	<b>16.3</b>	<b>0.4</b>	<b>0.9</b>	<b>25.9</b>

Interests in associated undertakings at 31 March 1998 comprised the group's share of net assets less provisions of £15.1 million (1997: £16.6 million) and loans of £9.5 million (1997: £6.4 million). The group's share of the post acquisition accumulated losses of joint ventures at 31 March 1998 was £1.0 million (1997: £1.0 million). The group's share of post acquisition accumulated losses of associates at 31 March 1998 was £4.4 million (1997: £1.9 million). Particulars of the group's principal associated undertakings at 31 March 1998 are:

	Nature of business	Percentage of share capital held	A Ordinary Shares of £1	B Ordinary Shares of £1	Issued share capital Other classes of shares
Biogas Generation Limited	Power Generation	50%	20,000#	20,000	-
Biogeneration Limited	Power Generation	50%	500#	500	-
GMI Rovinian Limited	Property Development	50%	25,000	25,000#	-
Capital Controls India Private Limited	Chlorination Equipment	50%	-	-	75,000 equity shares at Rs10/share
Trinidad and Tobago Water Services Limited (TTWS)	Water Undertaking	50%	-	-	2 shares at TT\$100/share
Aquafin NV	Sewerage Undertaking	20%	-	-	800,000 shares at 10,000 BEF/share
Indaqua Industria e Gestao de Aguas	Water Undertaking	30%	-	-	500,000 shares at 1,000 escudos/share
Industrias del Agua SA de CV	Water Undertaking	49%	-	-	10,000,000 common shares

#Held by the group

The country of incorporation, registration and main operation is Great Britain with the exceptions of Capital Controls India (India), Aquafin (Belgium), Indaqua (Portugal), Industrias del Agua (Mexico), and TTWS (Trinidad and 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 1997.

Interests in own shares represent Ordinary Shares of 65<sup>5/19p</sup> each held in trust for certain senior employees under the Long Term Incentive Plan. The main features of the Plan are set out on page 32. At 31 March 1998 the trust held 105,219 Ordinary Shares all of which were acquired during the year. The market value of these shares was £1.1 million. The costs of acquiring the shares are charged to the profit and loss account over the three year period for which the performance criteria are measured.

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.

# Notes to the financial statements

10 Investments continued	Subsidiary undertakings		Other investments £m	Own Shares £m	Total £m
	Shares £m	Loans £m			
<b>Company</b>					
At 1 April 1997	1,285.0	277.2	0.2	-	1,562.4
Additions/loans advanced	-	222.1	-	0.9	223.0
Write down of investments	(1.7)	-	-	-	(1.7)
Transfer to subsidiary undertaking	(48.7)	-	-	-	(48.7)
Loans repaid	-	(8.0)	-	-	(8.0)
<b>At 31 March 1998</b>	<b>1,234.6</b>	<b>491.3</b>	<b>0.2</b>	<b>0.9</b>	<b>1,727.0</b>

11 Stocks	Group	
	1998 £m	1997 £m
Stocks and work in progress	13.1	13.9
Development land and properties	69.0	52.1
	<b>82.1</b>	<b>66.0</b>

The replacement value of stocks and work in progress is not materially different from their book value.

12 Debtors	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Trade debtors	132.8	130.1	-	-
Amounts owed by group undertakings	-	-	85.2	157.6
Amounts owed by associated undertakings	1.4	0.8	-	-
Corporation tax recoverable	0.5	0.4	-	-
Other debtors	5.6	10.4	0.3	0.2
Prepaid pension contributions	1.0	1.1	0.4	0.4
Prepayments and accrued income	92.7	74.8	6.2	8.3
	<b>234.0</b>	<b>217.6</b>	<b>92.1</b>	<b>166.5</b>

Debtors include £10.2 million (1997: £4.0 million) which falls due after more than one year.

13 Short term deposits	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Short term deposits	32.7	229.9	-	185.3

14 Creditors: amounts falling due within one year	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Bank overdrafts	3.4	0.2	-	-
Bank loans	113.3	27.7	-	-
Other loans	11.6	0.4	11.2	-
Obligations under finance leases	0.1	1.4	-	-
Borrowings (note 16)	128.4	29.7	11.2	-
Trade creditors	59.3	46.9	-	-
Other creditors	14.7	14.6	5.8	4.5
Taxation and social security	16.0	10.9	0.1	-
Advance corporation tax payable	9.0	31.0	9.0	31.0
Corporation tax payable	55.2	24.9	-	-
Exceptional tax payable	154.8	-	154.8	-
Dividends payable	39.2	128.5	39.2	128.5
Accruals and deferred income	277.5	239.9	15.1	16.2
	<b>754.1</b>	<b>526.4</b>	<b>235.2</b>	<b>180.2</b>

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
<b>15 Creditors: amounts falling due after more than one year</b>				
Bank loans	452.3	440.8	-	-
Other loans	289.7	290.0	275.0	275.0
Obligations under finance leases	259.0	171.0	-	-
Borrowings (note 16)	1,001.0	901.8	275.0	275.0
Deferred income	57.1	58.1	-	-
Other	20.8	18.5	1.3	0.9
Dividends payable	100.6	-	100.6	-
	<b>1,179.5</b>	<b>978.4</b>	<b>376.9</b>	<b>275.9</b>

## 16 Financial instruments

a) Borrowings analysed by currency and interest rate after taking account of various interest rate swaps entered into by the group.

	1998 Total £m	Floating interest rate £m	Fixed interest rate £m	Fixed borrowings	
				Weighted average interest rate %	Weighted average period for which interest is fixed Years
<b>Currency</b>					
Sterling	1,129.3	524.3	605.0	9.25	4.47
Belgian Franc	0.1	-	0.1	6.97	0.61
Gross borrowings	1,129.4	524.3	605.1		

	1998 Total £m
<b>b) Investments in interest bearing assets</b>	
<b>Currency</b>	
Sterling deposits	16.1
US dollar deposits	13.2
Belgian Franc deposits	3.4
Total current asset investments	32.7

Current asset investments comprise short term deposits placed on money markets with a maturity date not exceeding one year, and certificates of deposit.

	Net assets excluding gross borrowings £m	Gross borrowings £m	Net investment £m
<b>c) Net assets (excluding borrowings) and borrowings by currency</b>			
<b>Currency</b>			
Sterling	3,355.0	(1,129.3)	2,225.7
<i>Matched</i>			
US Dollar	39.1	-	39.1
<i>Unmatched</i>			
Belgian Franc	16.0	(0.1)	15.9
	<b>3,410.1</b>	<b>(1,129.4)</b>	<b>2,280.7</b>

Certain US dollar assets are matched by forward currency swaps. Thus exchange differences, arising on the retranslation of the net US dollar equity investment to the year end exchange rate, are matched and offset by retranslation of the forward currency swaps to the same rate. This accounting treatment is in accordance with SSAP 20 'Foreign currency translation'.

# Notes to the financial statements

16 Financial instruments continued	Loans				1998	1997
	Overdrafts £m	Repayable by instalments any of which are payable after five years £m	Other repayment terms £m	Finance leases £m	Total £m	Total £m
<b>d) Borrowings analysed by maturity date</b>						
<b>Group</b>						
Borrowings due within one year (note 14)	3.4	0.4	124.5	0.1	128.4	29.7
Borrowings due after one year:						
Between one and two years	–	0.3	181.1	–	181.4	136.7
Between two and five years	–	0.7	268.4	0.2	269.3	427.4
After more than five years	–	13.6	277.9	258.8	550.3	337.7
Total borrowings due after one year (note 15)	–	14.6	727.4	259.0	1,001.0	901.8
	3.4	15.0	851.9	259.1	1,129.4	931.5

	Rate of interest %	1998 £m	1997 £m
Loans repayable partly or wholly after five years comprise:			
European Investment Bank loans – 2003 – 2004	6.5 – 7.9	277.8	152.7
Local authority loans – 2010 – 2035	6.0 – 14.4	14.8	15.3
Other loans	3.5 – 5.0	0.1	0.1
		292.7	168.1

## Company

The company has other loans totalling £286.2 million (1997: £275.0 million) which are repayable within five years.

## e) Borrowings facilities

The group has the following undrawn committed borrowings facilities available at 31 March 1998:

Expiring within one year	175.0
Expiring after one year	310.0
	485.0

	Book value £m	Fair value £m
<b>f) Fair values of financial instruments</b>		
Financial instruments by category:		
Asset/(liability)		
Net short term non-interest bearing financial instruments	73.5	73.5
Short term deposits	32.7	32.7
Cash at bank and in hand	14.7	14.7
B Shares	(9.1)	(8.1)
Borrowings falling due within one year	(128.4)	(128.4)
Borrowings falling due after more than one year	(1,001.0)	(1,037.1)
Interest rate swaps and similar instruments	–	(2.7)
Currency swaps	–	–
Forward foreign currency contracts	–	–

Where available market rates have been used to determine fair values. When market prices are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

## g) Market risk

Details of the group's policies relating to market risk and its exposure to interest costs are set out in the Financial Review on page 25.

<b>17 Provisions for liabilities and charges</b>	Balance at 1 April 1997 £m	Acquired with subsidiaries £m	Charged to profit & loss account £m	Exchange adjustments £m	Utilised £m	Balance at 31 March 1998 £m
<b>a) Provisions comprise:</b>						
Infrastructure renewals	18.2	-	63.6	-	(74.4)	7.4
Environmental and landfill restoration	16.3	2.1	5.6	(0.4)	(3.0)	20.6
Restructuring	29.3	-	-	-	(13.5)	15.8
Insurance	10.9	-	2.1	-	(0.9)	12.1
Other	0.6	-	-	-	(0.2)	0.4
	<b>75.3</b>	<b>2.1</b>	<b>71.3</b>	<b>(0.4)</b>	<b>(92.0)</b>	<b>56.3</b>

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £4.8 million, (1997: £4.3 million).

	1998 £m	1997 £m
<b>b) Potential deferred taxation liabilities not provided:</b>		
Capital allowances	<b>269.1</b>	282.0
Other timing differences	<b>(17.5)</b>	(26.4)
Available tax losses	<b>(12.8)</b>	(14.3)
Advance corporation tax not immediately recoverable	<b>(76.2)</b>	(146.2)
	<b>162.6</b>	95.1

Except for the amounts set out in the table above, there is no advance corporation tax (1997: £7.3 million) 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 £364.5 million (1997: £405.3 million), assuming a tax rate of 31% (1997: 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.

<b>18 Called up share capital</b>	1998 £m	1997 £m
<b>Authorised:</b>		
520,175,751 Ordinary Shares of 65½p	<b>339.5</b>	-
356,623,364 B Shares of 38p (non-equity)	<b>135.5</b>	-
475,000,001 Ordinary Shares of £1	-	475.0
<b>Total Authorised Share Capital</b>	<b>475.0</b>	475.0
<b>Issued and fully paid:</b>		
339,008,035 Ordinary Shares of 65½p	<b>221.2</b>	-
23,845,584 B Shares of 38p (non-equity)	<b>9.1</b>	-
350,463,680 Ordinary Shares of £1	-	350.5
<b>Total Issued and Fully Paid Share Capital</b>	<b>230.3</b>	350.5

**a) Shares issued during the year:**  
5,063,828 Ordinary Shares of £1 were issued in lieu of cash of £36.8 million in respect of the first interim, second interim and final dividends for the year ended 31 March 1997. Scrip issue costs were £0.4million.

883,270 Ordinary Shares of £1 were issued at 176p, 239p, 257p, 360p, 482p, 415p, 535p or 528p under the group's Employee Sharesave Scheme and 212,586 Ordinary Shares of £1 were issued at 311p, 497p or 625p under the group's Share Option Scheme (formerly Executive Share Option Scheme). The aggregate consideration in respect of these allotments was £3.4 million.

116,933 Ordinary Shares of 65½p were issued under the group's Employee Sharesave Scheme and 98,907 Ordinary Shares of 65½p were issued under the group's Share Option Scheme (formerly Executive Share Option Scheme), within the same range of option prices. The aggregate consideration in respect of these allotments was £0.9 million.

# Notes to the financial statements

## 18 Called up share capital continued

### b) Capital reorganisation

As a result of the 19 for 20 consolidation and issue of B Shares on 8 August 1997, 356,623,364 ordinary shares of £1 became 338,792,195 ordinary shares of 65½p and 356,623,364 B Shares of 38p.

The B Shares are irredeemable and carry a net non-cumulative preferential dividend set at 75% of six month London Interbank Offered Rate, subject to a maximum of 25%. Dividends on the B Shares are paid semi-annually in arrears on 11 February and 11 August each year.

On a return of capital on winding-up the B Shares carry a preferential right to the repayment of the nominal capital paid up, together with any outstanding entitlement to the preferential dividend but no further right to participation in the profits or assets of the company. Except in respect of a winding-up of the company, or where the preferential dividends payable on the B Shares are more than six months in arrears, the holders of B Shares are not entitled to vote at general meetings of the company.

### c) Shares purchased during the year

In August 1997 and September 1997, the company purchased for cancellation 297,054,463 and 35,723,317 B Shares of 38p (see note 19). (1997: purchased and cancelled 20,500,000 ordinary shares of £1 at an average price of 673p per share in December 1996).

### d) Employee share schemes

#### i) The Severn Trent Share Schemes

The issued and paid up share capital of the company includes 748,471 ordinary shares of 65½p and 564,791 B Shares of 38p (1997: 948,408 ordinary shares of £1) 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 1998 were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			1998	1997
December 1989	1995 or 1997	176p	–	6,201
January 1991	1996 or 1998	239p	191,365	212,369
January 1992	1997 or 1999	257p	392,137	1,260,505
January 1993	1998 or 2000	360p	850,786	913,497
January 1994	1999 or 2001	482p	656,469	691,768
January 1995	2000 or 2002	415p	1,124,145	1,215,638
January 1996	2001 or 2003	535p	696,233	759,776
January 1997	2000, 2002 or 2004	528p	1,065,980	1,127,292
January 1998	2001, 2003 or 2005	799p	1,015,524	–

#### iii) Share Option Scheme (formerly Executive Share Option Scheme)

Under the terms of the Share Option Scheme (formerly 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 1998 were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares	
				1998	1997
January 1992	2	1995 – 2002	311p	13,665	95,540
March 1993	20	1996 – 2003	497p	87,116	192,107
December 1993	65	1996 – 2003	625p	272,415	407,837

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
<b>19 Reserves</b>			
<b>Group</b>			
At 1 April 1997	5.7	20.5	2,153.5
Goodwill	–	–	(33.0)
Retained loss for the year	–	–	(125.1)
Shares issued	3.1	–	–
Purchase of own shares	–	126.5	(128.1)
Scrip dividend (including expenses)	(5.5)	–	36.8
Currency translation differences	–	–	(4.3)
<b>At 31 March 1998</b>	<b>3.3</b>	<b>147.0</b>	<b>1,899.8</b>

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
<b>Company</b>			
At 1 April 1997	5.7	20.5	1,093.5
Retained profit for the year	–	–	57.9
Shares issued	3.1	–	–
Purchase of own shares	–	126.5	(128.1)
Scrip dividend (including expenses)	(5.5)	–	36.8
<b>At 31 March 1998</b>	<b>3.3</b>	<b>147.0</b>	<b>1,060.1</b>

The profit attributable to shareholders, dealt with in the accounts of the company was £197.9 million (1997: £263.3 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 £128.1 million (1997: £168.2 million) for the purchase of own shares comprised cost of shares of £126.5 million (1997: £138.0 million) and other expenses of £1.6 million (1997: £1.0 million and Advance Corporation Tax £29.2 million).

At 31 March 1998 cumulative goodwill written off against group reserves amounted to £288.6 million (1997: £255.6 million). Goodwill written off in the year relates to a number of small business acquisitions (note 22d).

<b>20 Commitments and contingent liabilities</b>	1998 £m	1997 £m
<b>a) Investment expenditure commitments</b>		
Contracted for but not provided in the financial statements	<b>238.1</b>	227.6

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:

	1998		1997	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	<b>0.8</b>	<b>0.6</b>	0.7	0.5
Between one and five years	<b>2.7</b>	<b>1.4</b>	1.6	1.6
After five years	<b>1.4</b>	–	2.4	–
	<b>4.9</b>	<b>2.0</b>	4.7	2.1

**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.



# Notes to the financial statements

## 21 Pensions and retirement benefits

The principal pension schemes operated by the group in the UK 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 1998, was £16.6 million (1997: £15.4 million before the restructuring provision).

### 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	1998 £m	1997 £m
<b>a) Reconciliation of profit before interest to operating cash flows</b>		
Profit before interest	447.4	419.3
Share of operating profit of associated undertakings	(7.9)	(8.8)
Depreciation charge	142.4	131.6
Profit on sale of tangible fixed assets	(1.3)	(3.7)
Deferred income received	1.3	1.8
Deferred income written back	(3.3)	(3.9)
Provisions for liabilities and charges (note 17a)	71.3	90.4
Utilisation of provisions for liabilities and charges	(97.3)	(93.8)
Non-cash investment write downs	(0.7)	-
Increase in stocks	(13.9)	(22.5)
Increase in debtors	(16.2)	(17.9)
Increase in creditors	27.2	13.4
<b>Net cash inflow from operating activities</b>	<b>549.0</b>	<b>505.9</b>

The utilisation of provisions for liabilities and charges includes £13.5 million in respect of an exceptional restructuring provision charged to the profit and loss account in a previous year. The cash flow from operating activities in 1997 includes payments totalling £4.5 million for exceptional costs related to the proposed bid for South West Water Plc.

	1998 £m	1997 £m
<b>b) Returns on investments and servicing of finance</b>		
Interest received	20.5	24.0
Interest paid	(74.7)	(62.4)
Non-equity dividend paid	(0.2)	-
Interest element of finance lease rental payments	(0.1)	(0.7)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(54.5)</b>	<b>(39.1)</b>

22 Cash flow statement continued	1998 £m	1997 £m
<b>c) Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(370.1)</b>	(391.5)
Grants received	<b>19.5</b>	18.2
Sale of tangible fixed assets	<b>7.7</b>	13.8
Loans advanced to associated undertakings	<b>(4.1)</b>	(4.9)
Loans repaid by associated undertakings	<b>1.0</b>	9.3
Investment in other fixed asset investments	<b>(0.1)</b>	(0.1)
Investment in own shares	<b>(0.9)</b>	-
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(347.0)</b>	(355.2)

	Book and provisional fair value of assets acquired	
	1998 £m	1997 £m
<b>d) Acquisitions</b>		
Tangible fixed assets	<b>6.8</b>	-
Current assets	<b>6.9</b>	1.8
Liabilities	<b>(3.6)</b>	(0.6)
Provisional fair value of net assets acquired	<b>10.1</b>	1.2
Goodwill	<b>33.0</b>	9.5
Consideration for subsidiaries and operations acquired	<b>43.1</b>	10.7
Net borrowings of subsidiaries acquired	<b>(0.5)</b>	-
<b>Net cash consideration</b>	<b>42.6</b>	10.7

Satisfied by:

Cash consideration relating to current year acquisitions	<b>(31.5)</b>	(10.1)
Cash consideration relating to previous year acquisitions	<b>(0.4)</b>	(0.6)
Deferred consideration relating to current year acquisitions	<b>(10.7)</b>	-
	<b>(42.6)</b>	(10.7)

Where appropriate, assets and liabilities are adjusted to fair values on external valuations and internal reviews. Acquisitions have not materially affected either the group's result or operating cash flow for the year.

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

	1998 £m	1997 £m
<b>f) Financing</b>		
Loans advanced	<b>1,268.0</b>	199.9
Loans repaid	<b>(1,160.1)</b>	(30.2)
Finance lease capital repaid	<b>(8.1)</b>	(12.3)
Decrease in debt	<b>99.8</b>	157.4
Shares issued net of expenses	<b>3.9</b>	6.9
Purchase of own shares	<b>(128.1)</b>	(168.2)
<b>Net cash outflow from financing</b>	<b>(24.4)</b>	(3.9)

	At 1 April 1997 £m	Cash flow £m	Acquisitions £m	Other non- cash changes £m	Exchange movement £m	At 31 March 1998 £m
<b>g) Analysis of changes in net debt</b>						
Cash at bank and in hand	7.2	6.7	-	-	0.8	<b>14.7</b>
Overdrafts (note 16)	(0.2)	(3.3)	-	-	0.1	<b>(3.4)</b>
		3.4				
Debt due within one year (note 16)	(28.1)	16.7	(0.1)	(113.5)	0.1	<b>(124.9)</b>
Debt due after one year (note 16)	(730.8)	(124.6)	(0.1)	113.5	-	<b>(742.0)</b>
Finance leases (note 16)	(172.4)	8.1	(0.3)	(94.5)	-	<b>(259.1)</b>
		(96.4)				
Current asset investments (note 13)	229.9	(196.7)	-	-	(0.5)	<b>32.7</b>
<b>Total</b>	<b>(694.4)</b>	<b>(293.1)</b>	<b>(0.5)</b>	<b>(94.5)</b>	<b>0.5</b>	<b>(1,082.0)</b>

# Notes to the financial statements

## 23 Subsidiary undertakings and their Directors

### Water and sewerage

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

**Directors**  
V Cocker  
B Duckworth  
J K Banyard  
I Elliott  
J M Foster  
R Ireland  
T Kitson  
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 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**  
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(Incorporated and operational in Belgium)

**Directors**  
C M Malbrain  
D A Brown  
M J Bettington  
P Canivet  
K Smits

### Services

**Severn Trent Services, Inc.**  
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Telephone 001 215 997 6530  
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in the United States of America)

**Directors**  
V Cocker  
I J Hislop  
K J Kelly  
J T Oliver  
R T Quinn

### International Water Contract Operations

**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  
M J Wharton

**Severn Trent Water International  
(Overseas Holdings) Limited**  
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R A S Costin  
J A Hill

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**Directors**  
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R T Quinn  
J A Grazioplene Jr  
K J Kelly  
M M Watel  
(from 16 April 1998)  
M J Wharton

### Systems

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

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**Directors**  
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T E Richwine  
A M Schulte

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**Directors**  
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K J Kelly  
T E Richwine

## 23 Subsidiary undertakings and their Directors continued

### Services continued

#### Technology

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N A Rummens

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I J Hislop  
K J Kelly  
M J Ashley  
R M Taylor  
R L Ferrara

**Severn Trent Laboratories Inc**  
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USA  
Telephone 001 914 562 0890

**Directors**  
I J Hislop  
R M Taylor  
R L Ferrara  
R Brydon Jannetta  
K J Kelly

**Fusion Meters Ltd #**  
(75% owned)  
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Chesterfield Trading Estate  
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Telephone 01246 456658

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

**Paperflow Services Limited #**  
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Telephone 0121 609 0800

**Directors**  
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I J Hislop

**Severn Trent Laboratories Limited #**  
STL Business Centre  
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**Directors**  
R Brydon Jannetta  
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R K Peace

**Tetra Europe Limited #**  
Rock House  
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**Directors**  
M J Ashley  
I J Hislop

### Property and others

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G P F 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  
(Property Development)

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

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

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

**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  
M R Miles  
P Tandon

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

**Directors**  
K J Kelly  
R J R Whalen Jr  
C L Wilkinson

**Severn Trent Overseas Holdings Limited**  
2308 Coventry Road  
Birmingham B26 3JZ  
Telephone 0121 722 6000  
(Holding Company)

**Directors**  
V Cocker  
C L Wilkinson

#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 indicated and all shareholdings are in ordinary shares.

# Shareholder information

Analysis of ordinary shareholdings at 31 March 1998

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of Ordinary Shares million	Percentage of Ordinary Shares %
1 - 499	62,810	60.4	12.5	3.7
500 - 999	25,453	24.5	17.6	5.2
1,000 - 4,999	14,363	13.8	21.4	6.3
5,000 - 9,999	369	0.3	2.5	0.7
10,000 - 49,999	476	0.4	11.5	3.4
50,000 - 99,999	184	0.2	13.0	3.8
over 100,000	403	0.4	260.5	76.9
	104,058	100.0	339.0	100.0

## Financial calendar

### Announcement of results

The results of the group will normally be published at the following times:

Interim results for the six months to 30 September	November/December
Preliminary results for the year to 31 March	June
Report and accounts for the year to 31 March	July

### Dividend payments

Dividend payments in respect of the year ended 31 March 1998:

First interim dividend	paid 6 April 1998
Second interim dividend	payable 6 April 1999
Proposed final dividend	payable 6 April 1999

### Annual General Meeting

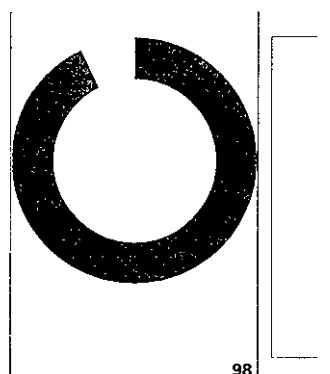
29 July 1998 at the International Convention Centre, Birmingham

### Registrars

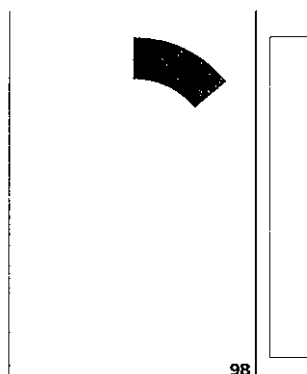
Lloyds Bank Registrars  
54 Pershore Road South  
Kings Norton  
Birmingham B30 3EP  
Telephone 0121 433 8000

### Severn Trent Plc

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



Shareholders by category of shareholder (% of total shareholders)  
■ Individuals and joint accounts 93  
Others\* 7



Shares held by category of shareholder (% of total shares)  
■ Individuals and joint accounts 14  
Others\* 86

\*E.g. nominees, other corporate bodies, limited and public limited companies, banks, pension funds and insurance companies

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