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SEVERN TRENT WATER LIMITED  
REPORT AND ACCOUNTS 1990-91

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**SEVERN TRENT WATER LIMITED**

**COMPANY INFORMATION**

**Directors**

J G Bellak  
R S Paul  
F Earnshaw  
V Cocker  
B Duckworth  
G Fisher  
J A Stephens  
M P Upstone  
J K Banyard  
I J Hislop  
D R Woods

**Secretary** D W Mattin

**Company**  
**number** 2366686

**Registered**

**Office** 2297 Coventry Road  
Birmingham  
B26 3PU

**Telephone:** 021-722-4000  
**Facsimile:** 021-722-4800  
**Telex:** 339333

**Auditors**

Price Waterhouse  
Livery House  
169 Edmund Street  
Birmingham  
B3 2JB

**Telephone:** 021-200-3000

SEVERN TRENT WATER LIMITED

FINANCIAL STATEMENTS

Year ended 31 March 1991

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## Managing Director's review

**COMMITMENT TO QUALITY.** Commitment to quality and customer service is total. The continuing high level of investment clearly shows our determination to bring about immediate improvements in service, while at the same time meeting all licence obligations and environmental standards within agreed timescales.

Key achievements during the year, the first full year since privatisation, were:

- In 1990/91 we invested £395 million, a 50 per cent increase on the previous year. Our investment programme, in excess of £4,000 million over a ten year period, is being successfully managed, and is on schedule and within budget.
- Our charges for water supply are the lowest of the ten privatised companies, and for all services the second lowest. This has been achieved in spite of us having no sea outlets for sewage sludge disposal. Over half our sewage sludge is returned to the land as a valuable fertiliser.
- We are currently replacing or relining some 1,500 kilometres of drinking water mains – twice as much as in the last year before privatisation. Some 107,000 properties benefited during the year from this work. In addition, lead service pipes were removed from 10,000 properties over and above those dealt with during normal mains improvement work.
- We have made significant progress in improving drinking water quality. We are on target to meet the higher standards set in Europe, within the timescales agreed by the Government. Design work to improve treatment processes at our major water supply works has largely been completed.
- Bacteriological and chemical standards achieved have been the highest ever.
- We had no hose-pipe bans last year, despite it being the hottest and driest summer on record. However, recent weather

trends, coupled with the impact of construction work on treatment works capacity, will bring our capability to meet all demands under increasing pressure. We are, therefore, supplementing our existing conservation and resource management measures with new leakage control initiatives.

- Major investment in sewage treatment facilities means that 97 per cent of our major works complied with their sanitary consents during the year. We are confident that all works will be brought up to 100 per cent compliance during the current year.
- The number of buildings at risk from sewage flooding fell by more than twice the targeted amount and we have maintained good progress in alleviating sewage overflows.
- New technologies and systems have greatly helped our staff to deal with customer complaints and contacts. Over 99 per cent are dealt with within 20 days and we are working towards our declared objective of dealing with 90 per cent of billing queries in less than 10 days.

No one at Severn Trent Water is complacent about the future and the challenges which will continue to face us for some time to come. However, the past year has brought very real benefits to thousands of our customers, and has provided a solid foundation from which to build.

We are involved in a process of culture change which is destined to allow our people greater freedom in meeting the needs of customers. There are many positive results to be seen from the first stages of this process – it is a road on which there can be no turning back.



Victor Cocker *Managing Director*

**SEVERN TRENT WATER LIMITED**  
**DIRECTORS REPORT**  
**Year ended 31 March 1991**

The Director present their report together with the audited financial statements for the year ended 31 March 1991.

Principal activities

The principal activities of the Company are the supply of water and the treatment and disposal of sewage.

Business review

The Company's turnover in 1990/91 was £608.6 million. Operating profit was £200.6 million. Profit on ordinary activities after interest was £246.9 million. The retained profit will be used to help fund our major investment programme, which increased by 50% over the previous year. This investment has helped the Company to achieve record levels of compliance with the high bacteriological and chemical standards for drinking water. Similarly, compliance with consent standards for discharges from sewage works is standing at its highest level. The Company continues to dispose of sewage sludge in accordance with our legal and environmental requirements.

The Company maintained its record - the ninth year in succession - of productive improvements despite targeting increased resources for environmental and customer care initiatives. New systems to assist staff dealing with customers are already helping to reduce response times and provide better services.

A complete review of the Company's activities is contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Director of Corporate Communications at the address given on page 1. There is no charge for this publication.

Future developments

The Company's commitment to quality is total. Investment will continue in bringing our drinking water treatment plants up to the highest standards, which are at least consistent with those set by Government and the European Community. Water mains are being improved at rates far in excess of those being achieved nationally, directly benefiting customers by enhancing the pressure, clarity and taste of our supplies. Continuing high investment in sewage treatment services to emphasise the Company's determination to meet all existing and new environmental standards. All sewage in Severn Trent is treated and the by-products are rendered harmless before being safely returned to the environment.

The Company is replacing overloaded sewers at a rate which will relieve more properties from the risk of flooding than at any time in the past.

Improvements in the service given in response to customers' enquiries and complaints will continue to be given high priority, by providing even better training for our staff and by making the latest technology available to them.

The absence of Government strictures on expenditure levels is enabling the Company to invest in immediate levels of service improvements and maintain assets to protect the long term interests of customers.

### Dividend and reserves

Interim dividends of £80 million were paid during the year. A further interim dividend of £16 million was paid on 28 June 1991. Proposed transfers to reserves are set out in note 17 to the Financial Statements on page 27.

### Post balance sheet events

Since 1 April 1991, the following funding arrangements have been put in place:-

- a) £100 million variable rate leasing facility
- b) £100 billion Lira in fixed rate loans (6 years and 9 years), from the European Investment Bank, swapped into £46 million fully hedged floating rate sterling loans.

### Directors

The Directors of the Company who served during the year are listed below:-

|              |                          |
|--------------|--------------------------|
| J G Bellak   |                          |
| R S Paul     |                          |
| V Cocker     |                          |
| B Duckworth  |                          |
| F Earnshaw   |                          |
| G Fisher     |                          |
| J K Banyard  | appointed 9 January 1991 |
| I J Hislop   | appointed 9 January 1991 |
| J A Stephens | appointed 9 January 1991 |
| M P Upstone  | appointed 9 January 1991 |
| D R Woods    | appointed 9 January 1991 |
| C G McMillan | resigned 17 August 1990  |

Messrs Bellak, Cocker, Earnshaw, Paul and Upstone are also Directors of Severn Trent Plc, the ultimate parent undertaking and their interests in the share capital of that company are disclosed in its Directors Report for the year ended 31 March 1991. The interests of the other Directors at the year end in the Ordinary Share Capital of Severn Trent Plc, according to the register maintained under the provisions of the Companies Act 1985 were as follows:-

|              | <u>31 March 1991</u>                           |  | <u>1 April 1990</u>                            |  |
|--------------|--|--|--|--|
|              | Beneficial<br>holding in<br>Ordinary<br>Shares | Share Options<br>under approved<br>Schemes | Beneficial<br>holding in<br>Ordinary<br>Shares | Share Options<br>under approved<br>Schemes |
| J K Banyard  | 795  | 27,625                                     | 795*   | 27,625*                                    |
| B Duckworth  | 1,591  | 69,113                                     | 1,591  | 69,113                                     |
| G Fisher     | 1,553  | 72,727*                                    | 1,271  | 69,113                                     |
| I J Hislop   | 1,269  | 26,596+                                    | 1,269*   | 24,714*                                    |
| J A Stephens | 1,270  | 24,741                                     | 1,270*   | 24,741*                                    |
| D R Woods    | 1,095  | 29,705+                                    | 1,095*   | 28,136*                                    |

\* at date of appointment

Options were granted in accordance with the Severn Trent Executive Share Scheme and the Severn Trent Employee Sharesave Scheme.

- + During the year Mr I J Hislop and Mr D B Woods were granted options over 1,882 and 1,569 shares respectively under the Employee Sharesave Scheme.
- Mr G Fisher's interest in options at the year end includes spouses option over 3,614 ordinary shares granted under the Severn Trent Employee Sharesave Scheme.

No other Director was granted or exercised options during the year.

#### Fixed assets

The changes in tangible fixed assets during the year are shown in note 9 to the financial statements on pages 20 to 22.

#### Research and development

The Company has a positive view of research and development. It is directing investment into those areas which can contribute to continuing improvements in operational efficiency and the achievement of national and international standards of potable water, sewage effluent and sewage sludge.

The Company is developing appropriate technologies, captured from throughout the world, to meet these objectives. The aim is successfully to apply these technologies to the water business.

#### Disabled persons

The Company has a policy of employing disabled people in suitable posts and of making arrangements, whenever possible, to encourage employees who develop a disability to continue working within the Company.

#### Health and safety

The Company has continued to improve its health and safety record with a continuing commitment to provide a healthy and safe working environment and by continuing to reduce the numbers of reportable accidents. The Company has once again received a British Safety Council Award for its safety record during 1990. Close liaison with the Health and Safety Executive continues and regular safety audits are carried out within the Company. Safety training continues to have a high priority in all areas.

#### Employees

The number of people working for the Company at 31 March 1991 was 7,182 (1990, 6,986) During the course of the year, much work has been undertaken in the management development areas through both the assessment centres which we run in-house, and the development programmes which have been designed. Over 25 senior employees attended business schools such as Harvard, Henley, Sunbridge Park, Ashridge and London Business School.

We continue to run within the Company our own BTec courses on operational management, reclamation and pollution control, water supply and distribution, and City & Guild courses.

We recruited 32 graduates who commenced with us during 1990, in the fields of operations, computing, engineering and accountancy.

Our consultative arrangements with employees continue both at Company and district/departmental level and the negotiating machinery which was established in 1989 is now functioning satisfactorily.

"Ring fencing"

As at 31 March 1991 the Company had available to it sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Auditors

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

By order of the Board



D W Mattin, Secretary  
19 July 1991



SEVERN TRENT WATER LIMITED  
 PROFIT AND LOSS ACCOUNT  
 Year ended 31 March 1991

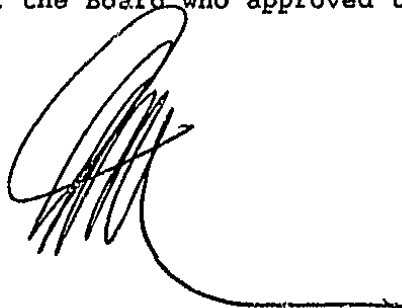
|   | Notes | 1991<br>£M    | 1990<br>£M    |
|---|-------|---------------|---------------|
| Turnover  | 2     | 608.6         | 541.6         |
| Operating costs   | 2     | (408.0)       | (377.6)       |
| Operating profit before interest                              |       | 200.6         | 164.0         |
| Net interest  | 4     | <u>46.3</u>   | <u>(37.8)</u> |
| Profit on ordinary activities before employee profit sharing. |       | 246.9         | 126.2         |
| Employee profit sharing                                       | 5     | <u>(2.1)</u>  | <u>-</u>      |
| Profit on ordinary activities before taxation                 |       | 244.8         | 126.2         |
| Taxation on profit on ordinary activities                     | 6     | <u>-</u>      | <u>-</u>      |
| Profit on ordinary activities after taxation                  |       | 244.8         | 126.2         |
| Extraordinary item  | 7     | <u>-</u>      | <u>(8.9)</u>  |
| Profit for the year   |       | 244.8         | 117.3         |
| Dividends   | 8     | <u>(96.0)</u> | <u>(90.6)</u> |
| Retained profit for the financial year                        | 17    | <u>148.8</u>  | <u>26.7</u>   |

SEVERN TRENT WATER LIMITED  
BALANCE SHEET as at 31 March 1991

|   | Notes | 1991<br>£M     | 1990<br>£M     |
|---|-------|----------------|----------------|
| <b>FIXED ASSETS</b>                                     |       |                |                |
| Tangible assets   | 9     | 1803.2         | 1526.5         |
| Investments   | 10    | <u>2.4</u>     | <u>0.6</u>     |
|   |       | 1805.6         | 1527.1         |
| <b>CURRENT ASSETS</b>                                   |       |                |                |
| Stores and work in progress                             |       | 11.0           | 8.3            |
| Debtors   | 11    | 99.1           | 67.4           |
| Short term deposits and investments                     | 12    | -              | 368.8          |
| Cash at bank and in hand                                |       | <u>283.4</u>   | <u>-</u>       |
|   |       | 393.5          | 444.5          |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR          | 13    | <u>(194.8)</u> | <u>(202.5)</u> |
| NET CURRENT ASSETS                                      |       | <u>198.7</u>   | <u>242.0</u>   |
| TOTAL ASSETS LESS CURRENT LIABILITIES                   |       | 2004.3         | 1769.1         |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 14    | (107.6)        | (55.7)         |
| PROVISIONS FOR LIABILITIES AND CHARGES                  | 15    | <u>(79.8)</u>  | <u>(45.3)</u>  |
|   |       | <u>1816.9</u>  | <u>1668.1</u>  |
| <b>CAPITAL AND RESERVES</b>                             |       |                |                |
| Called up share capital                                 | 16    | 400.0          | 400.0          |
| Reserves and retained profits                           | 17    | <u>1416.9</u>  | <u>1268.1</u>  |
|   |       | <u>1816.9</u>  | <u>1668.1</u>  |

Signed on behalf of the Board who approved the accounts on 19 July 1991.

J G BELLAK  
Chairman



B DUCKWORTH  
Director of Finance



SEVERN TRENT WATER LIMITED  
 STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
Year ended 31 March 1991

|  | Notes | 1991<br>£M     | 1990<br>£M    |
|--|-------|----------------|---------------|
| <b>OPERATING ACTIVITIES</b>                          |       |                |               |
| Profit before interest after employee profit sharing |       | 198.5          | 164.0         |
| Depreciation   |       | 47.9           | 39.9          |
| Infrastructure renewals provision                    |       | 82.2           | 69.6          |
| Fixed assets:  |       |                |               |
| Investment in tangible fixed ass                     |       | (347.8)        | (225.0)       |
| Infrastructure expenditure                           |       | (46.9)         | (35.9)        |
| Grants and contributions                             |       | 21.0           | 12.9          |
| Operating and other disposals                        |       | 4.3            | 3.4           |
| Working capital movement                             | 20    | 11.8           | 22.6          |
| Reorganisation costs                                 |       | (2.7)          | (10.8)        |
| Interest   |       | <u>46.3</u>    | <u>(37.8)</u> |
|  |       | 14.6           | 2.9           |
| <b>ACQUISITIONS AND INVESTMENTS</b>                  |       | <u>(2.0)</u>   | <u>(0.6)</u>  |
| <b>FINANCING ACTIVITIES</b>                          |       |                |               |
| Issue of shares                                      |       | -              | 400.0         |
| Leases   |       | 6.4            | (4.9)         |
| Loans  |       | 29.7           | 25.3          |
| Dividends  |       | <u>(131.7)</u> | <u>(38.9)</u> |
|  |       | <u>(95.6)</u>  | <u>381.5</u>  |
| <b>MOVEMENT IN NET LIQUID FUNDS</b>                  |       | <u>(83.0)</u>  | <u>383.8</u>  |

SEVERN TRENT WATER LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

1 ACCOUNTING POLICIES

a) Accounting convention

The financial information has been prepared under the historical cost convention, and in accordance with applicable accounting standards except as indicated in note f) below.

b) Basis of preparation

The accounting statements have been prepared in accordance with the requirements contained in Condition "F" of the Instrument of Appointment of the Water and Sewerage Undertakers. The supplementary current cost financial information will be published separately and be available by 30 September 1991 in accordance with guidelines issued by the Office of Water Services.

c) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided.

d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipe lines); and

Other assets (including properties, overground plant and equipment).

i) Infrastructure assets

Infrastructure assets comprise a network of systems:

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

ii) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:-

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

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

iii) 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 treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease periods.

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

e) Infrastructure renewals accounting

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the "K" Investment Programme, and reflects the impact of price changes by indexation since the programme was prepared. The timing of the "K" Investment Programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure.

f) Grants and Contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred credits and are transferred to profit and loss accounts in accordance with the asset lives of those assets.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. These grants and contributions are a contribution towards capital expenditure which is intended to ensure that the cost of extending the infrastructure system does not fall upon customers generally. In the opinion of the directors the accounting treatment adopted is appropriate in order to show a true and fair view.

g) Investments

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

h) Stores and work in progress

Stores are stated at cost less any provision necessary to recognise 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.

i) Pension costs

Pension costs are determined actuarially so as to spread the cost of providing pension benefits over the estimated period of employees' pensionable service with the Company.

j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances on which the exchange movements are covered are translated into sterling at the covered rates. Other foreign currency balances are translated at the rates ruling at the balance sheet date.

k) Research and development

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

l) Deferred taxation

Deferred taxation relating to capital allowances and other timing differences is provided for to the extent that it is probable that a liability will crystallise. Deferred taxation is not provided for on timing differences where it is probable that a liability will not crystallise.

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

2 ANALYSIS OF TURNOVER AND OPERATING PROFIT ALLOCATED BY CLASS OF BUSINESS

|  | Water<br>supply | Sewerage<br>services | Other        | Total        | 1990         |
|--|-----------------|----------------------|--------------|--------------|--------------|
|  | £m              | £m                   | £m           | £m           | £m           |
| Unmetered charges                      | 148.2           | 280.9                | -            | 429.1        | 376.3        |
| Metered charges                        | 91.9            | 32.2                 | -            | 124.1        | 105.7        |
| Trade effluent charges                 | -               | 29.9                 | -            | 29.9         | 26.5         |
| Grants                                 | 0.2             | 0.7                  | -            | 0.9          | 0.7          |
| Other                                  | 16.7            | 7.3                  | 0.6          | 24.6         | 32.4         |
| <b>Turnover</b>                        | <u>257.0</u>    | <u>351.0</u>         | <u>0.6</u>   | <u>608.6</u> | <u>541.6</u> |
| Manpower costs                         | 49.7            | 48.9                 | 0.8          | 99.4         | 90.1         |
| Other costs of employment              | 2.9             | 2.3                  | -            | 5.2          | 12.6         |
| Power                                  | 18.0            | 9.0                  | -            | 27.0         | 26.3         |
| Local authority rates                  | 18.5            | 10.9                 | -            | 29.4         | 27.3         |
| Water charges                          | 10.1            | 0.4                  | -            | 10.5         | 15.5         |
| Agencies                               | -               | 16.4                 | -            | 16.4         | 15.5         |
| Materials and consumables              | 12.6            | 11.8                 | 0.3          | 24.7         | 23.8         |
| Hired and contracted services          | 15.4            | 14.9                 | 0.2          | 30.5         | 30.8         |
| Charge for doubtful debts              | 5.1             | 6.0                  | -            | 11.1         | 7.0          |
| Depreciation                           | 19.6            | 27.7                 | 0.3          | 47.6         | 39.6         |
| Infrastructure renewals<br>expenditure | 24.4            | 20.6                 | -            | 45.0         | 34.3         |
| Infrastructure renewals accrual        | 3.6             | 33.6                 | -            | 37.2         | 35.3         |
| Exceptional items                      | -               | -                    | -            | -            | 6.7          |
| Inter company                          | 6.5             | 6.5                  | 0.1          | 13.1         | 5.9          |
| Other                                  | 7.0             | 5.7                  | 1.0          | 13.7         | 12.2         |
| Profit on disposal of assets           | (1.4)           | (1.4)                | -            | (2.8)        | (5.3)        |
| <b>Operating costs</b>                 | <u>192.0</u>    | <u>213.3</u>         | <u>2.7</u>   | <u>408.0</u> | <u>377.6</u> |
| <b>Operating profit/(Loss)</b>         | <u>65.0</u>     | <u>137.7</u>         | <u>(2.1)</u> | <u>200.6</u> | <u>164.0</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

2 ANALYSIS OF TURNOVER AND OPERATING PROFIT ALLOCATED BY CLASS OF BUSINESS

|  | 1991<br>£M | 1990<br>£M |
|--|------------|------------|
| (i) Included within the above are:   |            |            |
| Auditors' remuneration   | 0.1        | 0.1        |
| Research and development   | 3.7        | 2.5        |
| Other operating leases   | 3.2        | 2.6        |
| Exceptional items:   |            |            |
| Share of national awareness campaign   | -          | 2.9        |
| Commitment fees for revolving credit facility  | -          | 3.0        |
| Premium for early redemption of foreign debt   | -          | 0.8        |
| (ii) The Company has not identified for the purpose of its 1991 accounts any businesses or activities other than the Appointed Business. The accounts in respect of the non-appointed activities are not material under the guidelines issued by the Office of Water Services. |            |            |



SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

|  | 1991         | 1990         |
|--|--------------|--------------|
|  | £000         | £000         |
| <b>DIRECTORS:</b>  |              |              |
| Emoluments including pension contributions   | <u>278.4</u> | <u>136.5</u> |
| Emoluments (excluding pension contributions) of the Chairman   | <u>-</u>     | <u>-</u>     |
| Emoluments (excluding pension contributions) of the highest paid director  | <u>74.9</u>  | <u>61.9</u>  |
|  | 1991         | 1990         |
|  | No           | No           |
| Emoluments (excluding pension contributions) of other directors of the company were within the following bands:- |              |              |
| £ 0 - 5,000  | 5            | 6            |
| £ 15,001 - 20,000  | 4            | -            |
| £ 55,001 - 60,000  | -            | 1            |
| £ 70,001 - 75,000  | 1            | -            |

Notes

- i) Non cash benefits included in the total emoluments consist mainly of the provision of company cars and medical health insurance.
- ii) The comparative figures for 1990 have been shown after adjusting for a change in accounting treatment, whereby bonuses are now charged to the year in which they are earned, instead of to the year in which they are paid. This adjustment has resulted in an increase in the 1990 total emoluments of £9,200.

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES CONT'D

EMPLOYEES:

|   | 1991<br>£m   | 1990<br>£m   |
|---|--------------|--------------|
| Staff costs   | 103.2        | 92.1         |
| Social security costs   | 7.9          | 7.0          |
| Pension costs (note 19)   | <u>13.4</u>  | <u>11.5</u>  |
|   | <u>124.5</u> | <u>110.6</u> |
| Charged as follows:-  |              |              |
| Capital and infrastructure renewals                               | 25.1         | 20.5         |
| Operating costs (note 2)  | <u>99.4</u>  | <u>90.1</u>  |
|   | <u>124.5</u> | <u>110.6</u> |
|   | No           | No           |
| Average number of employees during year<br>(full time equivalent) |              |              |
| Staff   | 3,957        | 3,937        |
| Industrial staff  | <u>3,097</u> | <u>3,168</u> |
|   | <u>7,054</u> | <u>7,105</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

| 4 NET INTEREST  | 1991        | 1990          |
|---|-------------|---------------|
|   | £m          | £m            |
| <b>Interest receivable</b>  |             |               |
| Other income  | 57.1        | 21.0          |
| Group undertakings  | <u>0.3</u>  | <u>-</u>      |
|   | 57.4        | 21.0          |
| <b>Interest payable</b>   |             |               |
| Bank loans overdrafts and other loans<br>repayable within five years  | (3.0)       | (51.5)        |
| Finance charges in respect of finance leases  | (4.0)       | (3.5)         |
| Group undertakings  | (4.1)       | (3.8)         |
|   | <u>46.3</u> | <u>(37.8)</u> |
| Net Interest  |             |               |
| <br>  |             |               |
| 5 EMPLOYEE PROFIT SHARING   | 1991        | 1990          |
|   | £m          | £m            |
| The Group has an employee profit sharing scheme<br>which provides funds to a separately administered<br>trust to enable the trustees to acquire shares<br>of Severn Trent Plc on behalf of employees. | <u>2.1</u>  | =             |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

|   | 1991     | 1990       |
|---|----------|------------|
|   | £m       | £m         |
| <b>6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>  |          |            |
| U.K. Corporation tax at 34%   | -        | -          |
| 1, the Company had tax losses of approximately £30 million (after group relief) which will be available for offset against future trading profits of the Company. |          |            |
| <b>7 EXTRAORDINARY ITEM</b>   |          |            |
|   | 1991     | 1990       |
|   | £m       | £m         |
| Expenditure relating to preparation for the vesting of the Severn Trent Water Authority's assets and liabilities and the subsequent flotation of the company.     | <u>-</u> | <u>8.9</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

8 DIVIDENDS

|                                  | 1991<br>£m  | 1990<br>£m  |
|----------------------------------|-------------|-------------|
| Interim dividend paid            | 80.0        | 38.9        |
| Further interim dividend payable | <u>16.0</u> | <u>51.7</u> |
|                                  | <u>96.0</u> | <u>90.6</u> |

9a) TANGIBLE FIXED ASSETS

Movements for the year analysed by service:

|                            | Water<br>supply | Sewerage<br>services | Other        | Total         |
|----------------------------|-----------------|----------------------|--------------|---------------|
|                            | £m              | £m                   | £m           | £m            |
| <b>Cost:</b>               |                 |                      |              |               |
| Balance 1 April 1990       | 710.5           | 984.8                | 167.8        | 1,863.1       |
| Additions                  | 128.2           | 171.1                | 48.5         | 347.8         |
| Grants and contributions   | (13.0)          | ( 6.1)               | -            | (19.1)        |
| Assets sold or written out | (0.3)           | (0.8)                | (14.1)       | (15.2)        |
| Balance 31 March 1991      | <u>825.4</u>    | <u>1149.0</u>        | <u>202.2</u> | <u>2176.6</u> |
| <b>Depreciation:</b>       |                 |                      |              |               |
| Balance 1 April 1990       | 115.0           | 162.6                | 59.0         | 336.6         |
| Provision for year         | 9.1             | 16.5                 | 22.3         | 47.9          |
| Assets sold or written out | -               | (0.5)                | (10.6)       | (11.1)        |
| Balance 31 March 1991      | <u>124.1</u>    | <u>178.6</u>         | <u>70.7</u>  | <u>373.4</u>  |
| <b>Net book value:</b>     |                 |                      |              |               |
| At 31 March 1991           | 701.3           | 970.4                | 131.5        | 1,803.2       |
| At 31 March 1990           | 595.5           | 822.2                | 108.8        | 1,526.5       |

SEVERN-TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

9b) Movements for the year analysed by asset-type:

|                               | Specialised<br>operational<br>properties<br>and<br>structures | Non-<br>specialised<br>operational<br>properties | Infra-<br>structure<br>assets | Plant<br>machinery<br>and<br>vehicles | Other | Total  |
|-------------------------------|---|--|-------------------------------|---------------------------------------|-------|--------|
|                               | £m  | £m   | £m                            | £m                                    | £m    | £m     |
| <u>Cost:</u>                  |   |  |                               |                                       |       |        |
| Balance 1 April 1990          | 609.0   | 57.3   | 845.1                         | 273.0                                 | 78.7  | 1863.1 |
| Additions                     | 99.8  | 12.5   | 121.5                         | 81.2                                  | 32.8  | 347.8  |
| Grants and<br>contributions   | -   | -  | (19.1)                        | -                                     | -     | (19.1) |
| Assets sold or<br>written out | (.05)   | (3.4)  | (0.3)                         | (3.9)                                 | (7.1) | (15.2) |
| Balance 31 Mar 1991           | 708.3   | 66.4   | 947.2                         | 350.3                                 | 104.4 | 2176.6 |
| <u>Depreciation:</u>          |   |  |                               |                                       |       |        |
| Balance 1 April 1990          | 223.6   | 8.2  | -                             | 74.3                                  | 30.5  | 336.6  |
| Provision for year            | 13.8  | 3.8  | -                             | 17.2                                  | 13.1  | 47.9   |
| Assets sold or<br>written out | (0.3)   | (3.4)  | -                             | (3.5)                                 | (3.9) | (11.1) |
| Balance 31 Mar 1991           | 237.1   | 8.6  | -                             | 88.0                                  | 39.7  | 373.4  |
| <u>Net Book value:</u>        |   |  |                               |                                       |       |        |
| At 31 March 1991              | 471.2   | 57.8   | 947.2                         | 262.3                                 | 64.7  | 1803.2 |
| At 31 March 1990              | 385.4   | 49.1   | 845.1                         | 198.7                                 | 48.2  | 1526.5 |

**SEVERN TRENT WATER LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 1991

Note:

- i) Tangible fixed assets at 31 March 1991 include £279.9 million (1990 £202.6 million) of assets in the course of construction, which are not depreciated until commissioning.
- ii) The book value of tangible fixed assets held under finance leases at 31 March 1991 was £59.9 million and accumulated depreciation thereon was £23.8 million (1990 net book value £33.3 million).
- iii) The net book value of land and buildings is analysed as follows

|  | 1991<br>£m   | 1990<br>£m   |
|--|--------------|--------------|
| Freehold land and buildings                | 528.2        | 433.7        |
| Leasehold land and buildings - short lease | <u>0.8</u>   | <u>0.8</u>   |
|  | <u>529.0</u> | <u>434.5</u> |

- iv) Depreciation incurred during the year has been charged as follows:-

|                                       | 1991<br>£m  | 1990<br>£m  |
|---------------------------------------|-------------|-------------|
| On owned assets                       | 44.4        | 37.0        |
| On assets held under finance lease    | <u>3.2</u>  | <u>2.6</u>  |
| Profit and loss account               | 47.6        | 39.6        |
| Capital, rechargeable works and other | <u>0.3</u>  | <u>0.3</u>  |
|                                       | <u>47.9</u> | <u>39.9</u> |

- v) Included in the above are the following tangible fixed assets not subject to depreciation.

|                       | 1991<br>£m   | 1990<br>£m   |
|-----------------------|--------------|--------------|
| Land                  | 14.4         | 8.5          |
| Infrastructure assets | <u>947.2</u> | <u>845.1</u> |
|                       | <u>961.6</u> | <u>853.6</u> |

- vi) Specialised operational properties and structures principally comprise intake works, pumping stations, treatment work and boreholes.
- vii) Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies.
- viii) 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 a consequence the net book value of fixed assets is £19.1 million lower than it would have been had this treatment not been adopted.

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

10 INVESTMENT

|   | Associated<br>undertakings  | Other<br>investments              | Total                  |
|---|---|-----------------------------------|------------------------|
|   | Loans   |                                   |                        |
|   | £m  | £m                                | £m                     |
| Cost:   |   |                                   |                        |
| At 1 April 1990   | 0.3   | 0.3                               | 0.6                    |
| Additions   | 2.0   | -                                 | 2.0                    |
| Transfer to group undertakings                          | <u>-</u>  | <u>(0.2)</u>                      | <u>(0.2)</u>           |
| At 31 March 1991  | <u>2.3</u>  | <u>0.1</u>                        | <u>2.4</u>             |
|   | Country of<br>registration or<br>incorporation<br>(and operation) | Class of<br>share capital<br>held | Nature of<br>business  |
| Associated undertakings                                 |   |                                   |                        |
| Grafham Carbons Limited<br>(Cost of investment £20,000) | England   | 50% ordinary                      | Carbon<br>Regeneration |



SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March, 1991

11 DEBTORS

|                                    | 1991<br>£m  | 1990<br>£m  |
|------------------------------------|-------------|-------------|
| Trade                              | 44.5        | 24.7        |
| Amounts owed by group undertakings | 16.0        | 1.4         |
| Loans due from group undertakings  | 1.0         | 5.2         |
| Other                              | 10.0        | 4.1         |
| Prepayments and accrued income     | <u>27.6</u> | <u>32.0</u> |
|                                    | <u>99.1</u> | <u>67.4</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

12 SHORT TERM DEPOSITS AND INVESTMENTS

|  | 1991<br>£m | 1990<br>£m   |
|--|------------|--------------|
| Short term deposits                                    | -          | 367.8        |
| Investments listed on a recognised investment exchange | <u>1.0</u> |              |
|  | <u>-</u>   | <u>368.8</u> |

The market value of listed investments held on 31 March 1990 was £1.0 million.

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|   | 1991<br>£m   | 1990<br>£m   |
|---|--------------|--------------|
| Bank loans, overdrafts and temporary borrowings | -            | 2.4          |
| Other loans                                     | 0.4          | 0.3          |
| Obligations under finance leases (note 18c)     | 4.0          | 3.4          |
| Trade   | 41.9         | 38.0         |
| Amounts owed to group undertakings              | 1.1          | 8.3          |
| Other   | 2.9          | 4.9          |
| Taxation and social security                    | 4.0          | 3.3          |
| Proposed dividend payable to parent undertaking | 16.0         | 51.7         |
| Accruals and deferred income                    | <u>124.5</u> | <u>89.3</u>  |
|   | <u>194.8</u> | <u>202.5</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

|   | Average rate<br>of interest<br>% | 1991<br>£m   | 1990<br>£m  |
|---|----------------------------------|--------------|-------------|
| European Investment Bank loans - 1993       | 11.5                             | 30.0         | -           |
| Local authority loans - 1991-2035           | 9.3-14.0                         | 16.9         | 17.3        |
| Water annuities                             | 4.0- 5.0                         | <u>0.1</u>   | <u>0.1</u>  |
|   |                                  | 47.0         | 17.4        |
| Obligations under finance leases (note 18c) |                                  | 35.9         | 30.1        |
| Deferred credits                            |                                  | 16.4         | 5.3         |
| Other                                       |                                  | <u>8.3</u>   | <u>2.9</u>  |
|   |                                  | <u>107.6</u> | <u>55.7</u> |
|   |                                  | 1991<br>£m   | 1990<br>£m  |
| Loans outstanding are repayable as follows: |                                  |              |             |
| Between one and two years                   |                                  | 0.4          | 0.4         |
| Between two and five years                  |                                  | 31.0         | 1.1         |
| After five years - by instalments           |                                  | 15.5         | 15.8        |
| - other than by instalments                 |                                  | <u>0.1</u>   | <u>0.1</u>  |
|   |                                  | <u>47.0</u>  | <u>17.4</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

15 a) PROVISIONS FOR LIABILITIES AND CHARGES

|                                      | Balance at<br>1 April<br>1990<br>£m | Charged to<br>profit & loss<br>Account<br>£m | Applied<br>£m | Balance at<br>31 March<br>1991<br>£m |
|--------------------------------------|-------------------------------------|--|---------------|--------------------------------------|
| Infrastructure renewals<br>provision | 35.3                                | 82.2   | 45.0          | 72.5                                 |
| Reorganisation provision             | 10.0                                | -  | 2.7           | 7.3                                  |
|                                      | <u>45.3</u>                         | <u>82.2</u>                                  | <u>47.7</u>   | <u>79.8</u>                          |

The application of the infrastructure renewals provision is shown net of grants and contributions of £1.9 million.

15 b) DEFERRED TAXATION

The potential liability for deferred taxation calculated at 33% under the liability method is

|                                | 1991<br>£m   | 1990<br>£m   |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 229.6        | 149.6        |
| Other timing differences       | (32.7)       | (12.7)       |
| Available tax losses           | (10.0)       | (18.9)       |
|                                | <u>186.9</u> | <u>118.0</u> |

16 SHARE CAPITAL

AUTHORISED

|  | 1991<br>£m   | 1990<br>£m   |
|--|--------------|--------------|
| 500,000,000 Ordinary Shares of £1 each | <u>500.0</u> | <u>500.0</u> |
| ISSUED AND FULLY PAID                  |              |              |
| 400,000,000 Ordinary Shares of £1 each | <u>400.0</u> | <u>400.0</u> |

The ultimate parent undertaking is Severn Trent Plc which is incorporated in England

17 RESERVES AND RETAINED PROFITS

|                              | Total<br>£m   |
|------------------------------|---------------|
| At 1 April 1990              | 1268.1        |
| Profit retained for the year | <u>148.8</u>  |
| At 31 March 1991             | <u>1416.9</u> |

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

18 COMMITMENTS AND CONTINGENT LIABILITIES

a) Investment expenditure commitments

|   | 1991<br>£m   | 1990<br>£m   |
|---|--------------|--------------|
| Contracted for but not provided in the financial statements | <u>165.7</u> | <u>111.1</u> |
| Authorised but not yet contracted for                       | <u>214.1</u> | <u>210.3</u> |

In addition to these commitments, the Company has longer term expenditure plans which include investments to meet improvements in performance and to provide for new demand and growth.

b) Operating lease commitments

At 31 March 1991 the Company was committed to making the following payments during the next year in respect of operating leases:

|                       | Land and<br>buildings<br>£m | Other<br>£m |
|-----------------------|-----------------------------|-------------|
| Leases which expire:- |                             |             |
| Within one year       | 0.1                         | 0.6         |
| Within 2 to 5 years   | 0.3                         | 1.9         |
| After 5 years         | <u>0.6</u>                  | <u>-</u>    |
|                       | <u>1.0</u>                  | <u>2.5</u>  |

c) Finance lease commitments

Amounts due under finance leases are payable as follows:

|   | 1991<br>£m    | 1990<br>£m    |
|---|---------------|---------------|
| Within one year                                   | 7.5           | 6.3           |
| Between one and two years                         | 9.5           | 6.4           |
| Between two and five years                        | 31.8          | 22.9          |
| After more than five years                        | <u>3.3</u>    | <u>9.7</u>    |
|   | 52.1          | 45.3          |
| Less: finance charges allocated to future periods | <u>(12.2)</u> | <u>(11.8)</u> |
|   | <u>39.9</u>   | <u>33.5</u>   |

SEVERN TRENT WATER LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 March 1991

19 PENSIONS

The Company operates two schemes, the Severn Trent Mirror Image scheme (STMIS) and the Severn Trent Water Pensions Scheme (STWPS) both of which are of the defined benefit type and are fully funded to cover future salary and pension increases. The assets of the schemes are held in separate trustee administered funds.

An actuarial valuation of STWPS was carried out at 31 March 1989, using the attained age method.

The principal assumption used was that the investment return would exceed future salary and wages increases by 2% per annum.

The valuation showed that the market value of the schemes assets was £0.5 million, and that transfer values were expected from the Water Authorities Superannuation Fund (WASF) totalling £120.3 million in respect of scheme members at the valuation date, and together these represented 105% of the benefits accrued to members after allowing for expected future increase in earnings.

The actuary has recommended that contributions to both schemes may continue unchanged at the rates of 15.8% and 13.2% of pensionable pay of STMIS members paying contributions of 6% and 5% respectively and at the rate of 15.8%, 13.2% and 7.9% of pensionable pay of STWPS members paying contributions of 6%, 5% and 3% respectively.

The first actuarial valuation of STMIS takes place as at 31 March 1991.

Employers contributions to the funds during the year were £13.4 million (1990 £11.5 million).

SEVERN TRENT WATER LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 1991

20 SOURCE AND APPLICATION OF FUNDS

|  | 1991<br>£m  | 1990<br>£m  |
|--|-------------|-------------|
| Working capital movement (Increase)/decrease               |             |             |
| Stock and work in progress                                 | (2.7)       | (1.9)       |
| Debtors  | (31.7)      | (3.4)       |
| Creditors: amounts falling due<br>within one year          | 29.7        | 28.3        |
| Creditors: amounts falling due<br>after more than one year | 16.5        | (0.4)       |
|  | —           | —           |
| Decrease in working capital                                | <u>11.8</u> | <u>22.6</u> |

SEVERN TRENT WATER LIMITED

REPORT OF THE AUDITOR'S  
TO THE MEMBERS OF SEVERN TRENT WATER LIMITED

We have audited the financial statements set out on pages 8 to 30 in accordance with Auditing Standards.

In our opinion the financial statements, give a true and fair view of the state of the Company at 31 March 1991 and of the profit and source and application of funds of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Livery House  
169 Edmund Street  
Birmingham B3 2JB

PRICE WATERHOUSE  
Chartered Accountants

19 July 1991



**REPORT OF THE AUDITORS TO THE DIRECTOR GENERAL OF WATER SERVICES**

We have audited the financial statements on pages 8 to 30 in accordance with Auditing Standards.

In our opinion, the financial statements contain the information for the year to 31 March 1991 required to be published and submitted to you by Severn Trent Water Limited to comply with condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Act 1989.

In respect of this information, we report that in our opinion:-

- a Proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b The information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Contents of Regulatory Accounts guidelines issued in March 1991 by the Office of Water Services;
- c The financial statements on pages 8 to 30 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business.



Livery House  
169 Edmund Street  
Birmingham B3 2JB

PRICE WATERHOUSE  
Chartered Accountants  
19 July 1991