

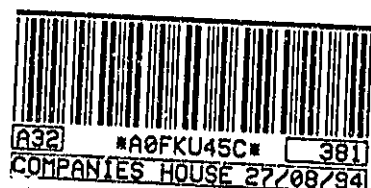
# SEVERN TRENT WATER LIMITED

Company Number: 2366686

## Report and Accounts

for the year ended

31 March 1994



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## *Company information*

*Company number 2356686*

*Registered office 2297 Cosensley Road, Birmingham B26 3PU*

*Telephone 021-722 4000*

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## *Auditors*

*Pricewaterhouse*

*Cornwall Court, 19 Cornwall Street, Birmingham B3 2HT*

*Telephone 011 200 3000*

## Managing Director's review

During the year we continued to make significant improvements in the delivery of customer service and quality whilst maintaining effective cost controls. We increased compliance with drinking water standards from 99.7 to 99.8 per cent and maintained our effluent compliance at 99.0 per cent.

We further improved our performance in meeting the Director General of Water Services level of service standards, particularly in the time taken to respond to billing enquiries and complaints; based on OFWAT's definitions, we are now in the 'good' and the 'very good' categories respectively. The total number of customer complaints received fell by 32 per cent during the year; this follows a 36 per cent decrease in 1992/93.

In order to achieve these results, we took the early decision to implement an ambitious programme of both large and smaller scale investment projects during the first five years of privatisation. These projects, which are either complete or nearing completion, have had a dramatic effect on our ability to improve the quality and the level of service we deliver to our customers.

## Regulation

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

# Low cost, high quality supplier

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

## Service performance

We seek to achieve the highest possible levels of service at the lowest cost. This principle also drives our investment programme. We aim to improve the performance of our two most important resources: our physical assets, above and below the ground, and our people.

Our investment programme, which amounted to £445 million during the year, included the virtual completion of many large scale projects. At Frankley, our large new dissolved air flotation plant will improve significantly the quality of water to the 1.3 million people it serves in and around Birmingham. Further investments in granular activated carbon filtration at our treatment works along the River Severn at Strensham and at The Mythe, where we have also introduced ozone treatment, will make major improvements to water quality as they become fully operational.

On 15 April 1994, the supply of drinking water to our customers in the Worcester area was affected following an unauthorised discharge of liquid industrial waste to the River Severn. We have launched our own independent inquiry into the incident led by Professor Kenneth Ives of University College of London. The National Rivers Authority and the Drinking Water Inspectorate are also conducting their own enquiries. A payment of £225 per household was made to domestic customers who were affected.

Our research and development work, particularly in the use of ozone and activated carbon, has enabled us to reduce the level of expenditure we would have otherwise made both in ozone equipment and in the running costs for our new granular activated carbon installations.

# Improved service

*In the last year, Severn Trent Water has made further improvements in customer service. Investment in new systems has been accompanied by management changes intended to sharpen further the focus on the people served by the Company. Brian Duckworth, formerly Director of Finance and Regulation, has been appointed Customer Services Director and is seen with Thelma Hewett, Senior Telephonist at our Birmingham office.*

OFWAT verdict

## 1993: 'Good'

Source: STW/DG73

## 1994: 'Very good'

Source: STW/DG73

Our continued investment in technology has also enabled us to achieve further improvements in customer service. A document imaging system, which allows us to retrieve written customer enquiries via computer screen almost immediately, has helped us improve customer response times considerably.

### Our people

The commitment to improve our assets continues to be matched by our commitment to helping our employees achieve better standards of performance. Our remuneration policies have made significant

contributions to the effectiveness of the organisation. They are being further developed to ensure that they are achievement, rather than activity oriented.

Through our 'Working for Quality' programme we are able to liberate the expertise which exists at all levels in the Company and put new ideas to work. We believe that all our employees have a contribution to make, particularly in identifying further efficiencies and in supporting our customer service strategy.

We were one of the first water and sewerage companies to introduce successfully a profit related pay scheme registered with the Inland Revenue, 'The Severn Trent Enhanced Pay Scheme.' This scheme has achieved significant efficiency improvements and cost savings for the Company and has also given our employees an added incentive to meet increasingly rigorous targets.

All these initiatives, together with our performance review and development system, enable us to have better control of the quality and service delivery process.

### Financial performance

Turnover for the year increased by 6.4 per cent to £789.8 million. The increase in turnover was less than the RPI+K pricing formula, and resulted from a reduced level of metered consumption and a larger than anticipated number of unoccupied premises.

The pattern of consumption varied throughout the region reflecting the major effect that the economic climate in particular industrial and commercial sectors have on their immediate local economies.

For example, the programme of colliery closures throughout

Our area has resulted in consumption by British Coal falling by 4.1 per cent. However, six of our fourteen water supply districts recorded an increase in consumption over the previous year. Our continuing efforts to work more closely with our customers has put us in a good position to anticipate further changes in their consumption levels.

The increase in the number of empty domestic and commercial properties also affected our unmetered income. Growth in trade effluent was also limited due to the impact of the recession which continued throughout the year.

However, a combination of cost control and efficiency improvements helped increase operating profit by 9.9 per cent to £316.3 million. Excluding the operating costs of East Worcester Water which was acquired in March 1993, direct operating costs, other than depreciation and infrastructure renewals charge, fell by 0.4 per cent. After including East Worcester Water, direct operating costs increased by only 1.4 per cent which was less than the rate of inflation.

The benefits of this acquisition for both customers and the Company have exceeded expectations. Customers in the former East Worcester area are now paying less than they would have done had the company remained independent.

The increasing impact of interest payable, resulting from financing our investment programme, was modified by lower interest rates and improved cashflow. Profit on ordinary activities before taxation was £294.1 million.

We continued to identify efficiency savings whilst maintaining the required service standards. The efficiencies were as a result of investment in technology, improved working methods and operational improvements. The service agreements with our operational districts which we introduced in 1992/93 have been successful in improving standards and in reducing costs.

As a result of our acquisition of East Worcester Water 126 employees joined Severn Trent Water. During the year improved productivity enabled us to reduce the total number of employees by 439 to 6,757, a reduction of 6.1 per cent. This followed a reduction of 459 in the previous year.

As we expected, our depreciation of above ground assets continued to increase significantly as a result of our investment programme. However, the annual charge to the profit and loss account of £72.3 million (1993: £69.8 million) for renewing our underground assets has only increased by indexation; efficiency savings continue to be achieved whilst maintaining the required standards established at privatisation.

Our investment programme, which is helping us achieve both our internal and external targets, further reduced during the year to £445 million. The ten largest projects, of which the improvements to The Mythe Water Treatment Works was the highest at £15.5 million accounted for £105 million of the total expenditure in the year.

The level of debtors experienced in previous years reduced during 1993/94 despite a fall in the number of customers disconnected for non-payment. We continue to explore all the avenues open to us to help our customers pay their bills.

### Customer communication

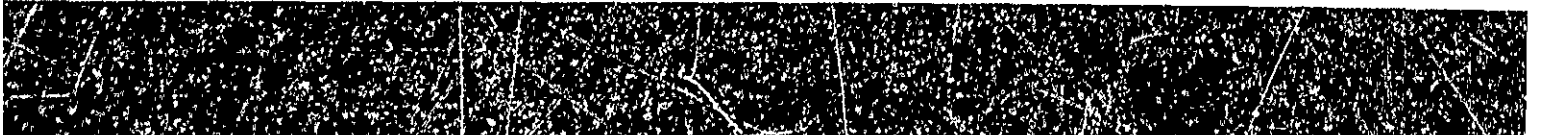
We remain committed to developing an effective two-way communication process with our customers. In 1992/93 we developed our Market Plan. This was based on a detailed market research exercise among 5,000 of the 50,000 customers we contacted in total.

We have continued to ask our customers for their views and the research has shown encouraging trends. Our customers appear to be increasingly aware of improvements in service and they feel the Company is communicating with them more effectively.

# Sewage works Compliance

*Quality standards for sewage effluents are set by the National Rivers Authority, and Severn Trent Water's compliance with the exacting limits is amongst the best in Europe. A thousand sewage works treat waste water, from the smallest serving a few houses, to Minworth in Birmingham, serving over a million people*

*In 1993, the Company's sewage works effluents met the tests for quality standards with a 99 per cent pass rate. 43,794 tests were carried out, with 99 per cent of the samples from sewage works passing all sanitary tests despite tighter limits on many works being introduced.*



# Lower unit costs

*Key operating statistics are submitted to OFWAT who publish comparative figures on factors such as unit costs for water delivered and sewage collected costs per household.*

*Severn Trent Water has the lowest operational unit costs of the ten water services companies for water delivered. The latest*

*published cost was 27 pence per cubic metre – thirty per cent lower than the highest cost supplier. Source: OFWAT*

In addition, the research showed an increase in the number of customers saying that Severn Trent Water keeps prices reasonable and gives good value for money. Ratings for quality, taste and the level of trust our customers have in us have also increased.

In order to improve service performance further we have established our own internal Customer Service Standards which go beyond those specified by the Director General. These measure our performance against standards which include the time taken to answer all types of customer enquiry.

## Leisure, conservation and education

Our programme of 'Come and See' and education visits continued to be popular. We have now held more than 2,000 organised 'Come and See' visits, attracting more than 50,000 visitors at our nine centres. Our four education centres at Minworth, Stoke Bardolph, Carsington and Cropston have also widened the scope of and access to our facilities. More than 18,000 students attended programmes designed as important elements of the National Curriculum for natural sciences.

Our commitment to education was acknowledged twice during the year. We were delighted to win the public education award from the Water Environment Federation of America and also the International Water Services Association award for our education programmes.

Our leisure and conservation activities were recognised during the year as having made an important contribution to the

communities we serve. We gained the Forestry Authority's Centre of Excellence Award for our conservation work on the Upper Derwent and Linacre reservoirs, in Derbyshire.

We continued to improve our facilities for visitors at Carsington Reservoir which earned the Visitor Attraction of the Year Award. We have welcomed more than two million people to Carsington since it opened in May 1992.

## Environmental commitment

We have made a major input to resolving with Government and regulators the environmental and quality obligations the industry must meet post 1995. The resulting guidelines were used with the National Rivers Authority and the Drinking Water Inspectorate to develop the basis for our Strategic Business Plan submission to OFWAT in March 1994.

## Management changes

Several management changes were made towards the end of the financial year which put in place a new management structure. I was appointed Deputy Group Chief Executive of Severn Trent Plc. Alan Costin became Director of Finance for Severn Trent Water Limited in addition to his responsibilities as Group Finance Director of Severn Trent Plc. Brian Duckworth, formerly Director of Finance and Regulation, was appointed Customer Service Director.

## Outlook

I am convinced that the provision of consistently high levels of quality and customer service is the key to our development as a water utility. Inevitably, this means that we will have to review constantly the way we approach the delivery of our services in order to find new and better ways of working.

Over the past year we have made good progress in implementing lasting quality and service improvements. I would like to thank everyone in Severn Trent Water for the part they have played in bringing about these improvements and for their continuing support in helping me to develop the culture of quality and service excellence which I believe lies at the heart of our business and its continued success.

*Vic Cocker Managing Director, Severn Trent Water and  
Deputy Group Chief Executive, Severn Trent Plc*

## Directors' report

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

### Principal activities

The principal activities of the Company and its subsidiary undertaking are the supply of water and the treatment and disposal of sewage

### Results

The results presented are for Severn Trent Water Limited, and its subsidiary undertaking East Worcester Water Plc

The Group's turnover for the year was £789.8 million (1993: £742.3 million), operating profit was £316.3 million (1993: £287.9 million). Profit on ordinary activities before taxation was £294.1 million (1993: £278.4 million).

### Business review and future developments

A complete review of business activities and future developments is contained within the Managing Director's review on page 1.

A review of activities is also contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Company Secretary, Severn Trent Plc, 2308 Coventry Road, Birmingham B26 3JZ. There is no charge for this publication.

### Dividend and reserves

Dividends of £135.0 million were paid during the year. Proposed transfers to reserves are set out in Note 14 to the financial statements on page 19.

### Directors

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

J G Bellak Retired 31 March 1994

J K Banyard

V Cocker

B Duckworth

G P Noone

X S Paul

R T Quinn

J A Stephens

A Q Todd

M P Upstone

D R Woods Resigned 22 March 1994

Mr R A S Costin was appointed a Director on 1 April 1994. Mr R S Paul became Chairman of the Company on the retirement of Mr J G Bellak.

### Directors' interests

The interests of the 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.

	Beneficial holdings in ordinary shares		Share options under approved schemes			
	31 3 94	1 4 93	31 3 94	Granted during the year	Exercised during the year	1 4 93
J K Banyard	3,647	10,555	36,127	7,800	-	28,327
B Duckworth	9,276	8,877	41,303	8,528	-	32,775
G P Noone	9,724	525	29,577	6,448	18,607	41,736
R T Quinn	14,699	14,607	31,134	3,992	-	27,142
J A Stephens	5,085	8,613	31,561	6,448	-	25,113
A Q Todd	1,588	1,496	28,339	7,879	-	20,460

Messrs Cocker, Paul and Upstone are 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 1994. Share options were granted and exercised in accordance with the Severn Trent Executive Share Scheme and the Severn Trent Sharesave Scheme as appropriate.

Details of prices and periods within which options are exercisable can be found in the report and accounts of Severn Trent Plc.

### Fixed assets

The changes in tangible fixed assets during the year are set out in Note 7 to the financial statements on page 14.

### Research and development

The benefits of investment in research and development are now manifesting themselves in the investment programme. Investigative work into the use of ozone and granular activated carbon for pesticide removal has resulted in new water treatment plants being constructed with limited provision of ozone, at a significant capital saving, and with further additional operating cost savings arising from carbon regeneration frequencies.

The development of a simple process for removing both iron and manganese from borehole waters has resulted in the construction of plants at less than two-thirds of the costs offered by competing technologies.

Turning to sewage treatment, the benefits of reed bed technology for tertiary treatment at small sewage works are apparent in both the reduced capital cost (approximately 50% of the cost of mechanical filters) and also the reliability of reed beds, as exemplified by the high standards now being achieved.

### Employees

The number of people employed at 31 March 1994 was 6,757 (1993: 7,196 including East Worcester Water Plc.). The Company is deriving the benefits from its Human Resource Strategy and Working for Quality Programme with increased customer satisfaction and enhanced personal and organisational potential.

Implementation of the new pay arrangement for craft, process and production employees has proved successful and cost effective in controlling terms and conditions of employment. A new performance related salary scheme is being developed for the remaining staff and is expected to be introduced in the summer of 1994.

Staff have benefited from the Profit Related Pay scheme in 1993-94. There were further grants of options under the Employee Share schemes and continuing allocation of shares under the Profit Sharing arrangements.

Training and career development continue to be very important and in 1993-94 there were over 27,000 training days and an increasing number of assessment and development centres for a wide variety of staff.

National Vocational Qualifications, which are fundamental to the improvement of our craft, process and production employees, are now being developed to higher levels and form an important element in our Customer Service training strategy.

The Company is deriving the benefits of a much improved approach to internal communication through wider awareness of Company aims and initiatives. Better communication and the reinforcement of a joint consultative approach with employee representatives has had a particularly beneficial effect on salary negotiations.

#### Equal opportunities and disabled persons

The Company continues to regard equality of opportunity as extremely important. It regularly monitors and updates its policies to ensure that no employee or prospective employee is disadvantaged because of sex, race, religion, marital status, disability, age or sexual preference.

Within the overall Equal Opportunities policy the Company is continuing to develop and enrich its policy regarding disabled people, whether as employees or customers. External applicants for posts receive careful consideration while existing employees receive every support to enable them to sustain an effective and satisfying role. The Company is also continuing its drive to improve facilities for disabled and disadvantaged customers through office access improvements and improved communications such as braille and large type bills.

#### Health and safety

The Company's ongoing commitment to health and safety has resulted in our winning, for the fifth year in succession, a British Safety Council Award for our achievements. Much emphasis has been placed on the implementation of regulations arising from EC directives as well as the formal recording of measures taken to manage health and safety by means of risk assessment.

#### Directors' and Officers' liability insurance

The Company maintains insurance under Section 310(3) of the Companies Act 1985 for its Directors and Officers against liabilities in relation to the Company.

#### Regulation: 'Ring fencing'

In accordance with the requirements of the Director General of Water Services, the Board confirms that as at 31 March 1994 it 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.

#### Statement of Directors' responsibilities

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 as at the end of the financial year and of the profit or loss of the Company for the financial year.

The Directors consider that in preparing the financial statements on pages 7 to 21, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors have voluntarily decided to prepare Group accounts and are applying the same requirement regarding a true and fair view of the state of affairs and of the profit or loss of the Group for that period, to the Group financial statements.

#### 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

13 June 1994



## Profit and loss accounts

Year ended 31 March 1994

	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
Turnover		789.8	742.3	784.1	742.3
Operating costs		(473.6)	(454.4)	(469.5)	(454.4)
Share of results of associated undertakings		0.1	-	0.1	-
Operating profit	2	316.3	287.9	314.7	287.9
Income from shares in subsidiary undertaking		-	-	0.4	-
Amount written off investment	8	-	-	(29.2)	-
Net interest payable	4	(22.2)	(9.5)	(22.0)	(9.5)
Profit on ordinary activities before taxation		294.1	278.4	265.9	278.4
Taxation on profit on ordinary activities	5	(5.3)	-	(4.8)	-
Profit for the financial year		288.8	278.4	259.1	278.4
Dividends	6	(135.0)	(124.4)	(135.0)	(124.4)
Special dividend	6	-	(600.0)	-	(600.0)
Retained profit/(loss) for the financial year	14	153.8	(446.0)	124.1	(446.0)

The profit and loss accounts reflect solely continuing operations.

## Statements of total recognised gains and losses

As there are no recognised gains or losses other than the profit for the period, statements of total recognised gains and losses have not been included.

## Historical cost profit and loss accounts

There is no difference between the result disclosed in the profit and loss accounts and the result on an unmodified historical cost basis.

## Reconciliations of movements in shareholders' funds

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Profit for the financial year	288.8	278.4	259.1	278.4
Dividends	(135.0)	(124.4)	(135.0)	(124.4)
	153.8	(446.0)	124.1	(446.0)
Issue of shares	-	600.0	-	600.0
Goodwill written off	(1.0)	(28.2)	-	-
Net additions to shareholders' funds	152.8	125.8	124.1	154.0
Opening shareholders' funds	2,105.6	1,979.8	2,133.8	1,979.8
Closing shareholders' funds	2,258.4	2,105.6	2,257.9	2,133.8

## Balance sheets

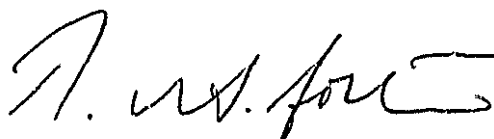
As at 31 March 1994

	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
<b>Fixed assets</b>					
Tangible assets	7	2,867.2	2,590.2	2,867.2	2,576.5
Investments	8	4.3	3.4	10.5	37.2
		2,871.5	2,593.6	2,877.7	2,613.7
<b>Current assets</b>					
Stocks and work in progress		7.1	9.4	7.1	9.2
Debtors	9	118.7	120.3	119.1	118.8
Cash at bank and in hand		69.8	106.4	65.6	105.6
		195.6	236.1	191.8	233.6
Creditors: amounts falling due within one year	10	(234.5)	(289.3)	(237.5)	(286.3)
Net current liabilities		(38.9)	(53.2)	(45.7)	(52.7)
Total assets less current liabilities		2,832.6	2,540.4	2,832.0	2,561.0
Creditors: amounts falling due after more than one year	11	(466.1)	(345.5)	(466.0)	(341.7)
Provisions for liabilities and charges	12a	(55.5)	(47.9)	(55.5)	(44.5)
Provision for deferred income	12b	(52.6)	(41.4)	(52.6)	(41.0)
		2,258.4	2,105.6	2,257.9	2,133.8
<b>Capital and reserves</b>					
Called up share capital	13	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	14	1,258.4	1,105.6	1,257.9	1,133.8
		2,258.4	2,105.6	2,257.9	2,133.8

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



R S Paul *Chairman*



R A S Costin *Director of Finance*

## Group cash flow statement

Year ended 31 March 1994

	Notes	Group	
		1994 £m	1993 £m
Net cash inflow from operating activities	16a	426.3	336.0
<b>Returns on investments and servicing of finance</b>			
Interest received		4.0	17.8
Interest paid		(18.6)	(19.6)
Interest element of finance lease rental payments		(3.4)	(5.6)
Dividends paid		(151.7)	(707.7)
Net cash outflow from returns on investments and servicing of finance		(169.7)	(715.1)
Tax paid		(0.3)	-
<b>Investing activities</b>			
Purchase of tangible fixed assets		(326.9)	(421.5)
Grants received		24.6	23.6
Purchase of subsidiary undertaking	16c	(33.4)	0.4
Loans advanced to associated undertakings		(3.2)	(0.7)
Loans repaid by associated undertakings		2.4	0.1
Sale of tangible fixed assets		7.9	10.8
Net cash outflow from investing activities		(328.6)	(387.3)
Net cash outflow before financing		(72.3)	(766.4)
<b>Financing</b>			
Issue of new shares		-	600.0
Loans repaid		(3.1)	(0.9)
Loans advanced		53.0	100.0
Capital element of finance lease rental payments		(14.2)	(11.4)
Net cash inflow from financing	16e	35.7	687.7
Decrease in cash and cash equivalents	16d	(36.6)	(78.7)

## Notes to the financial statements

Year ended 31 March 1994

### **f 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 requirement of the Act is given in note f below.

#### **b Basis of preparation**

The financial statements include the results of Severn Trent Water Limited and its subsidiary and associated undertakings. The results of associated undertakings have been accounted for on an equity basis where the Company's holding is 20% or more and the Company exercises significant influence.

The Directors have voluntarily decided to prepare group accounts for Severn Trent Water Limited, including its subsidiary East Worcester Water Plc, in order to be consistent with the regulatory accounts.

#### **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 pipelines); and  
Other assets (being land, including buildings, operational structures and plant and equipment).

##### **i Infrastructure assets**

Infrastructure assets comprise a network of systems.

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

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

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

##### **ii Other assets**

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

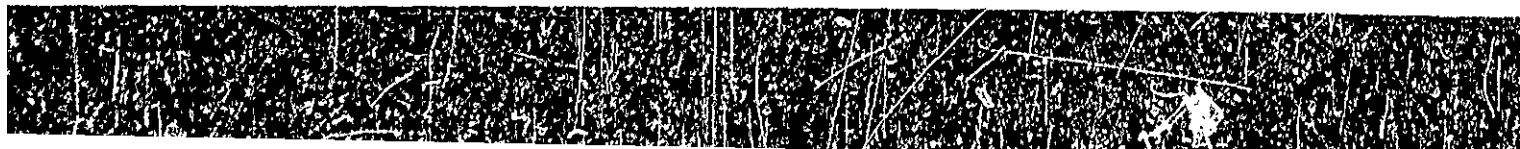
Freehold land is not depreciated. Other assets are depreciated over their estimated economic lives, which are principally as follows:

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

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

##### **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 accounted for as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is applied 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 to the profit and loss account for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying Severn Trent Water Limited's Investment Programme, and is indexed to reflect the impact of price changes since the programme was prepared. The timing of the 'X' Investment Programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Expenditure during the year is charged to the infrastructure renewals provision.

**f Grants and contributions**

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

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 of the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions would be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as no provision is made for depreciation, and any grants and contributions relating to such assets would not be taken to the profit and loss account. The effect of this departure is that the net book value of fixed assets is £83.0 million (1993: £61.8 million) lower than it would otherwise have been.

**g Investments**

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

**h Stocks and work in progress**

Stocks 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 by an independent actuary so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives.

**j Foreign currency**

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Foreign currency balances which are covered by forward exchange contracts are translated into sterling at the contract rate. Other foreign currency balances are translated at the rate 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 it is probable that a liability will crystallise.

**m Goodwill**

Goodwill represents the difference between the cost of acquisition and the fair value of the net tangible assets acquired. Goodwill is written off to reserves in the year of acquisition.

## 2 Operating profit is stated after charging/(crediting)

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Employee costs (note 5)	108.7	110.2	107.7	110.2
Infrastructure renewals charge (note 12a)	72.3	69.8	71.6	69.8
Depreciation (note 7 iv)	77.2	68.6	77.0	68.6
Deferred credits released (note 12b)	(2.1)	(1.6)	(2.1)	(1.6)
Hire of plant and machinery	1.3	1.5	1.3	1.5
Other operating leases	1.0	2.6	1.0	2.6
Audit fees	0.2	0.2	0.2	0.2
Research and development expenditure	5.4	6.8	5.4	6.8
Profit on disposal of fixed assets	(3.3)	(7.5)	(3.3)	(7.5)

Notes: Other fees paid to Price Waterhouse amounted to £206,000, of which £152,000 was paid to meet regulatory requirements.

A more detailed analysis of turnover is included within the regulatory accounts on page 29.

## 3 Information regarding Directors and employees

	1994 £000	1993 £000
Directors:		
Emoluments including pension contributions	1,028.7	918.6
Performance payments (note ii)	130.5	117.2
	1,159.2	1,035.8

Emoluments (excluding pension contributions) of the Chairman

-

Emoluments (excluding pension contributions) of the highest paid Director

126.1

113.5

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

	1994 No.	1993 No.
£ 0 - 5,000	1	1
£ 5,001 - 10,000	-	1
£ 15,001 - 20,000	-	1
£ 45,001 - 50,000	-	1
£ 60,001 - 65,000	-	1
£ 70,001 - 75,000	-	2
£ 75,001 - 80,000	3	1
£ 80,001 - 85,000	2	-
£ 90,001 - 95,000	-	1
£ 95,001 - 100,000	1	1
£105,001 - 110,000	2	1

Notes:

- i Non cash benefits included in the total emoluments consist mainly of the provision of cars and health care insurance.
- ii The Directors' performance payments are based upon the level of achievement against profit targets and achievements against levels of service, water supply and sewage treatment quality targets set by external regulators.
- iii No emoluments were paid to certain of the Directors in respect of their services to the Company. Their emoluments are paid by other Companies within the Severn Trent Group. In aggregate, £319,900 (1993: £284,600) including pension contributions of £84,600 (1993: £75,700) has been included above. This represents the appropriate proportion of their remuneration in respect of their service to the Company.

3 Information regarding Directors and employees (continued)

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Employees	120.3	126.3	119.5	126.3
Wages and salaries	10.3	10.2	10.2	10.2
Social security costs	9.1	8.9	9.0	8.9
Pension costs (note 17)	139.7	145.4	138.7	145.4
	1994 £m	1993 £m	1994 £m	1993 £m
Charged as follows				
Capital and infrastructure renewals	31.0	35.2	31.0	35.2
Operating costs (note 2)	108.7	110.2	107.7	110.2
	139.7	145.4	138.7	145.4
	1994 No.	1993 No.	1994 No.	1993 No.
Average number of employees during the year (full time equivalent):				
Staff	4,094	4,408	4,074	4,408
Industrial staff	2,860	3,037	2,833	3,037
	6,954	7,445	6,907	7,445

4 Net interest payable

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Interest payable:	11.3	8.7	11.3	8.7
Bank loans, overdrafts and other loans repayable within five years	7.5	11.5	7.5	11.5
Loans repayable after more than five years	8.8	6.0	8.8	6.0
Finance leases	2.2	0.5	1.9	0.5
Other	(7.6)	(17.2)	(7.5)	(17.2)
Interest receivable	22.2	9.5	22.0	9.5

5 Taxation on profit on ordinary activities

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
	5.3	-	4.8	-

UK corporation tax at 33% (1993: 33%)

If the full potential liability to deferred taxation had been provided on an ongoing basis an additional charge to taxation of £84.1 million (1993: £94.8 million) would have arisen during the year (note 12c).

At 31 March 1994 the Group and Company had tax losses of approximately £103 million (1993: £103 million) which will be available for offset against future trading profits of the Company.

6 Dividends

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Interim dividend paid	135.0	107.7	135.0	107.7
Further interim dividend	-	16.7	-	16.7
	135.0	124.4	135.0	124.4
Special dividend	-	600.0	-	600.0

The special dividend in 1992/93 was paid to Severn Trent Plc and was reinvested immediately in the Company by the taking up of an issue of Ordinary Shares.

## Tangible assets

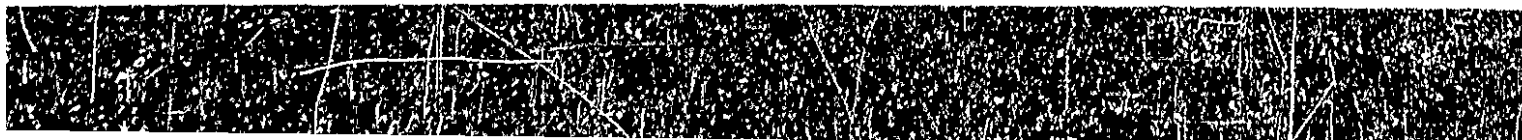
Group

	Specialised operational properties and structures	Non-specialised operational properties	Infrastructure assets	Plant, machinery and vehicles	Other	Total
Cost:	£m	£m	£m	£m	£m	£m
Balance 1 April 1993	939.1	87.4	1,209.2	653.5	185.8	3,075.0
Reclassification and transfer from deferred credits	(2.2)	1.6	(1.4)	0.5	0.6	(0.9)
Additions	110.2	4.7	107.2	130.3	27.5	379.9
Grants and contributions	-	-	(20.4)	-	-	(20.4)
Assets sold or written out	(0.9)	(3.6)	-	(7.2)	(9.2)	(20.9)
Balance 31 March 1994	1,046.2	90.1	1,294.6	777.1	204.7	3,412.7
Depreciation:						
Balance 1 April 1993	267.4	13.4	-	126.5	77.5	484.8
Reclassification and transfer from deferred credits	-	(0.1)	-	-	-	(0.1)
Charge for year	18.2	2.8	-	33.5	22.7	77.2
Assets sold or written out	(0.9)	(1.0)	-	(5.9)	(8.6)	(16.4)
Balance 31 March 1994	284.7	15.1	-	154.1	91.6	545.5
Net book value						
At 31 March 1994	761.5	75.0	1,294.6	623.0	113.1	2,867.2
At 31 March 1993	671.7	74.0	1,209.2	527.0	108.3	2,590.2

## Cost:

Company

Balance 1 April 1993	935.5	86.5	1,201.4	649.1	183.5	3,056.0
Reclassification and transfer from deferred credits	(2.2)	1.6	(1.4)	0.5	0.6	(0.9)
Transfer from subsidiary undertaking	3.6	0.9	7.8	4.4	2.3	19.0
Additions	110.2	4.7	107.2	130.3	27.5	379.9
Grants and contributions	-	-	(20.4)	-	-	(20.4)
Assets sold or written out	(0.9)	(3.6)	-	(7.2)	(9.2)	(20.9)
Balance 31 March 1994	1,046.2	90.1	1,294.6	777.1	204.7	3,412.7
Depreciation:						
Balance 1 April 1993	266.7	13.2	-	124.1	75.5	479.5
Reclassification and transfer from deferred credits	-	(0.1)	-	-	-	(0.1)
Transfer from subsidiary undertaking	0.7	0.2	-	2.4	2.2	5.5
Charge for year	18.2	2.8	-	33.5	22.5	77.0
Assets sold or written out	(0.9)	(1.0)	-	(5.9)	(8.6)	(16.4)
Balance 31 March 1994	284.7	15.1	-	154.1	91.6	545.5
Net book value						
At 31 March 1994	761.5	75.0	1,294.6	623.0	113.1	2,867.2
At 31 March 1993	668.8	73.3	1,201.4	525.0	108.0	2,576.5





7 Tangible assets (continued)

Notes	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
i The value of tangible assets held under finance leases are:				
Cost	187.3	131.5	187.3	129.8
Accumulated depreciation	(36.7)	(29.5)	(36.7)	(28.5)
	150.6	102.0	150.6	101.3
ii The net book value of land and buildings included in specialised and non-specialised operational properties and structures is analysed as follows:				
Freehold	835.7	744.9	835.7	741.3
Short leasehold	0.8	0.8	0.8	0.8
	836.5	745.7	836.5	742.1
iii Depreciation incurred during the year has been charged as follows:				
On owned assets	70.2	63.7	70.0	63.7
On assets held under finance leases	7.0	4.9	7.0	4.9
	77.2	68.6	77.0	68.6
iv Included in the above are the following tangible assets not subject to depreciation:				
Land	16.7	17.2	16.7	17.2
Infrastructure assets	1,294.6	1,209.2	1,294.6	1,201.4
Assets in the course of construction	409.4	486.4	409.4	486.4
	1,720.7	1,712.8	1,720.7	1,705.0
v Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.				
vi 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 quality and quantity of resource waters.				
vii Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view, as set out in note 1f.				

8 Investments

Group	Associated undertakings		Other investments	Total
	Loans	Share of retained earnings		
	£m	£m	£m	£m
At 1 April 1993	3.2	-	0.2	3.4
Additions	0.8	0.1	-	0.9
At 31 March 1994	4.0	0.1	0.2	4.3

Company	Subsidiary undertaking		Associated undertakings		Other investments	Total
	Debtures	Shares	Loans	Share of retained earnings		
	£m	£m	£m	£m	£m	£m
At 1 April 1993	-	33.8	3.2	-	0.2	37.2
Additions	1.6	-	0.8	0.1	-	2.5
Amount written off	-	(29.2)	-	-	-	(29.2)
At 31 March 1994	1.6	4.6	4.0	0.1	0.2	10.5

Shares in East Worcester Water Plc have been written off to reflect the value of the underlying assets of the subsidiary undertaking.

	Country of registration and operation	Class of share capital held by Group and Company	Nature of business
Subsidiary undertaking			
East Worcester Water Plc	England	100% ordinary 100% non voting ordinary 100% 10.75% preference shares	Water undertaking
Associated undertakings			
Graham Carbons Limited (cost of investment £20,000)	England	50% ordinary	Carbon regeneration
Biogas Generation Limited (cost of investment £19,999)	England	50% ordinary	Power generation

9 Debtors

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Trade debtors	63.0	67.6	63.0	66.3
Amounts owed by fellow subsidiary undertakings	0.7	0.3	0.7	0.3
Amounts owed by subsidiary undertaking	-	-	0.6	-
Other debtors	6.5	9.0	6.5	8.8
Prepayments and accrued income	48.5	43.4	48.5	43.4
	118.7	120.3	119.1	118.8

Included within debtors is £2.2 million (1993: £4.5 million) due after one year.

10 Creditors: amounts falling due within one year

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Debentures (unsecured)	1.9	0.5	-	-
Loans	1.6	30.9	1.6	30.9
Obligations under finance leases (note 15c)	13.7	10.1	13.7	10.0
Trade creditors	27.5	37.4	27.5	36.5
Amounts owed to parent undertaking	4.8	-	4.8	-
Amounts owed to fellow subsidiary undertakings	6.6	4.0	6.6	4.0
Amounts owed to subsidiary undertaking	-	-	5.5	-
Other creditors	1.4	3.0	1.4	3.0
Taxation and social security	4.0	4.9	3.9	4.7
Corporation tax payable	0.7	0.4	0.3	-
Proposed dividend to parent undertaking	-	16.7	-	16.7
Purchase consideration for East Worcester Water Plc	-	33.4	-	33.4
Accruals and deferred income	172.3	148.0	172.2	147.1
	234.5	289.3	237.5	286.3

11 Creditors: amounts falling due after more than one year

	Range of Interest rates %	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
European Investment Bank loans - 1996-2003	5.0-10.9	297.6	215.9	297.6	215.9
Debenture stock - 1996 (unsecured)	12.5	-	3.5	-	-
Debenture stock - irredeemable (unsecured)	3.0-5.0	0.1	0.1	-	-
Local authority loans - 1995-2035	6.9-9.9	15.8	16.2	15.8	16.2
Water annuities	4.0-5.0	0.1	0.1	0.1	0.1
		313.6	235.8	313.5	232.2
Obligations under finance leases (note 15c)		142.6	97.8	142.6	97.6
Other creditors		9.9	11.9	9.9	11.9
		466.1	345.5	466.0	341.7

Loans outstanding are repayable as follows:

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Between one and two years	2.5	5.1	2.5	1.6
Between two and five years	169.0	58.1	169.0	58.1
After five years - by instalment	43.2	49.5	43.2	49.5
- other than by instalment	98.9	123.1	98.8	123.0
	313.6	235.8	313.5	232.2

Loans amounting to £62.3 million (1993: £63.2 million) for both Group and Company are repayable by instalments, any one of which is due for repayment after five years.

## 12 Provisions

	Group			
	Balance at 1 April 1993 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 1994 £m
a Liabilities and charges				
Infrastructure renewals provision	39.7	72.3	(60.4)	51.6
Reorganisation provision	8.2	-	(4.3)	3.9
	47.9	72.3	(64.7)	55.5

	Company				
	Balance at 1 April 1993 £m	Transfer from subsidiary undertaking £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 1994 £m
Infrastructure renewals provision	39.3	0.7	71.6	(60.0)	51.6
Reorganisation provision	5.2	3.0	-	(4.3)	3.9
	44.5	3.7	71.6	(64.3)	55.5

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

## b Deferred income

	Group				
	Balance at 1 April 1993 £m	Transfer to fixed assets £m	Released to profit and loss account £m	Received £m	Balance at 31 March 1994 £m
	41.4	(0.8)	(2.1)	14.1	52.6

	Company					
	Balance at 1 April 1993 £m	Transfer from subsidiary undertaking £m	Transfer to fixed assets £m	Released to profit and loss account £m	Received £m	Balance at 31 March 1994 £m
	41.0	0.4	(0.8)	(2.1)	14.1	52.6

## c Deferred taxation

Group and Company

No provision has been made for deferred taxation. The full potential liability for deferred taxation calculated at 33% (1993: 33%) under the liability method is:

	1994 £m	1993 £m
Accelerated capital allowances	497.7	417.4
Other timing differences	(18.3)	(22.1)
Available tax losses	(34.0)	(34.0)
	445.4	361.3

Comparative figures have been restated to take account of computations submitted to the Inland Revenue.

## 13 Share capital

Company

	1994 £m	1993 £m
Authorised:		
1,000,000,500 Ordinary Shares of £1 each	1,000.0	1,000.0

13 Share capital (continued)

	Company	
	1994 £a	1993 £m
Issued and fully paid		
1,000,000,000 Ordinary Shares of £1 each	1,000.0	1,000.0

The ultimate parent undertaking is Severn Trent Plc which is registered in England. Copies of the report and accounts of Severn Trent Plc, which are the only accounts within which the results of the Group and Company are consolidated are obtainable from the Company Secretary, Severn Trent Plc, 2308 Coventry Road, Birmingham B26 3JZ.

14 Profit and loss account

	Group	Company
	£m	£m
At 1 April 1993	1,105.6	1,133.8
Goodwill in respect of prior year acquisition	(1.0)	-
Retained profit for the year	153.8	124.1
At 31 March 1994	1,258.4	1,257.9

At 31 March 1994 cumulative goodwill written off against group reserves amounted to £29.2 million (1993: £28.2 million).

15 Commitments and contingent liabilities

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
a Investment expenditure commitments				
Contracted for but not provided in the financial statements	160.5	247.9	160.5	247.9
Authorised but not yet contracted for	139.9	203.4	139.9	203.4

In addition to these commitments, the Group and Company has longer term expenditure plans which include investments to meet improvements in performance mandated by the Director General of Water Services and to provide for growth and demand in water and sewerage services.

b Operating lease commitments

At 31 March 1994 the Group and Company was committed to making the following payments during the next year in respect of operating leases which expire:

	Land and buildings £m	Other £m
Within one year	-	0.1
Between one and five years	0.1	0.2
After five years	0.5	0.1
	0.6	0.4

c Finance lease commitments

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Amounts due under finance leases are payable as follows:				
Within one year (note 10)	13.7	10.1	13.7	10.0
Between one and two years	11.6	13.7	11.6	13.6
Between two and five years	8.9	20.5	8.9	20.4
After more than five years	122.1	63.6	122.1	63.6
	156.3	107.9	156.3	107.6

d No material finance lease obligations have been entered into subsequent to the year end.

e The banking arrangements of the Company operate on a pooled basis with certain other group undertakings and under these arrangements credit balances of participating companies can be offset against overdrawn balances of participating companies.

## 16 Group cash flow statement

	Group		
	1994 £m	1993 £m	
<b>a Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit	316.3	287.9	
Share of results of associated undertakings	(0.1)	-	
Profit on sale of assets	(3.3)	(7.5)	
Depreciation (note 7 iii)	77.2	68.6	
Infrastructure renewals charge (note 12a)	72.3	69.8	
Utilisation of infrastructure renewals provision (note 12a)	(65.1)	(88.4)	
Deferred credits received (note 12b)	14.1	12.2	
Deferred credits released (note 12b)	(2.1)	(1.6)	
Working capital (note 16b)	22.3	(1.2)	
Other	(5.3)	(3.8)	
<b>Net cash inflow from operating activities</b>	<b>426.3</b>	<b>336.0</b>	
<b>b Working capital</b>	<b>1994 £m</b>	<b>1993 £m</b>	
Decrease in stocks and work in progress	2.3	1.5	
Decrease/(increase) in debtors	11.3	(1.1)	
Increase/(decrease) in creditors	8.7	(1.6)	
	<b>22.3</b>	<b>(1.2)</b>	
<b>c Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertaking</b>	<b>1994 £m</b>	<b>1993 £m</b>	
Cash consideration	-	(34.8)	
Cash paid in respect of prior year	(33.4)	33.4	
Cash at bank and in hand of acquired subsidiary undertaking	-	0.8	
<b>Net (outflow)/inflow of cash and cash equivalents in respect of purchase of subsidiary undertaking</b>	<b>(33.4)</b>	<b>0.4</b>	
<b>d Analysis of the balances of cash and cash equivalents as shown in the balance sheet</b>	<b>Change in year £m</b>	<b>1994 £m</b>	<b>1993 £m</b>
Cash at bank and in hand	(36.6)	69.8	106.4
<b>e Analysis of changes in financing during year</b>		<b>1994</b>	<b>1993</b>
	<b>Share capital £m</b>	<b>Loans and finance lease obligations £m</b>	<b>Total £m</b>
Balance at 1 April	1,000.0	375.1	1,375.1
Cash inflow from financing	-	35.7	35.7
Loans and finance lease obligations of subsidiary undertaking acquired during the year	-	-	-
Inception of finance lease contracts	-	62.6	62.6
<b>Balance at 31 March</b>	<b>1,000.0</b>	<b>473.4</b>	<b>1,473.4</b>
		<b>Total £m</b>	<b>Total £m</b>
		1,375.1	614.0
		687.7	4.4
		69.0	
		1,375.1	

## 17 Pensions

The Group and Company operate two schemes, the Severn Trent Mirror Image Pension Scheme (STMIPS) and the Severn Trent Water Pension 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. Employer's contributions during the year for the Group were £9.1 million (1993: £8.9 million), and for the Company £9.4 million (1993: £8.9 million).

### STWPS

An actuarial valuation of STWPS was carried out at 31 March 1992 by an independent actuary, using the projected unit method. The principal assumption used was that the investment return would exceed future salary and wage increases by 2% per annum. The actuarial value of the scheme's assets was £227.3 million, which exceeded by 16% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The market value of the scheme's assets was £188.0 million. The Employers' contribution to STWPS continue unchanged at the rate of 8.8%, 7.35% and 4.4% of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay according to their choice.

### STMIPS

The most recent actuarial valuation of STMIPS was carried out at 31 March 1991 by an independent actuary using the attained age method, which is considered the most appropriate method of valuation for a scheme which is closed to new members. The principal assumption was that the investment return would exceed future salary and wage increases by 2% per annum. The actuarial value of the scheme's assets was £97.3 million, which exceeded by 24% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The market value of the scheme's assets was £85.5 million. The Employers' contribution to STMIPS continue unchanged at the rate of 7.7% and 6.4% of pensionable pay of STMIPS members whose contributions are at the rate of 6% or 5% respectively.

## Report of the Auditors to the Shareholders of Severn Trent Water Limited

We have audited the financial statements on pages 7 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

### Respective responsibilities of Directors and auditors

As described on page 6 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and Group as at 31 March 1994 and of the profit of the Company and Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse Price Waterhouse*

Price Waterhouse  
Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
13 June 1994

Price Waterhouse



# Regulatory Accounts

Year ended 31 March 2004

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## Historical cost financial statements – Group profit and loss account

Year ended 31 March 1994

	1994 £m	1993 £m
Turnover	789.8	742.3
Operating costs	(476.9)	(461.9)
Share of results of associated undertakings	0.1	-
Other operating income	3.3	7.5
Operating profit	316.3	287.9
Net interest payable	(22.2)	(9.5)
Profit on ordinary activities before taxation	294.1	278.4
Taxation on profit on ordinary activities	(5.3)	-
Profit for the financial year	288.8	278.4
Dividends	(135.0)	(74.4)
Retained profit/(loss) for the financial year	153.8	(446.0)

## Historical cost financial statements - Group balance sheet

As at 31 March 1994	1994 £m	1993 £m
<b>Fixed assets</b>		
Tangible assets	2,867.2	2,590.2
Investments	4.3	3.4
	2,871.5	2,593.6
<b>Current assets</b>		
Stocks and work in progress	7.1	9.4
Debtors	118.7	120.3
Cash at bank and in hand	69.8	106.4
	195.6	236.1
Creditors: amounts falling due within one year	(234.5)	(289.3)
Net current liabilities	(38.9)	(53.2)
Total assets less current liabilities	2,832.6	2,540.4
Creditors: amounts falling due after more than one year	(466.1)	(345.5)
Provisions for liabilities and charges	(55.5)	(47.9)
Provision for deferred income	(52.6)	(41.4)
	2,258.4	2,105.6
<b>Capital and reserves</b>		
Called up share capital	1,000.0	1,000.0
Profit and loss account	1,258.4	1,105.6
	2,258.4	2,105.6

## Current cost financial statements – Group profit and loss account

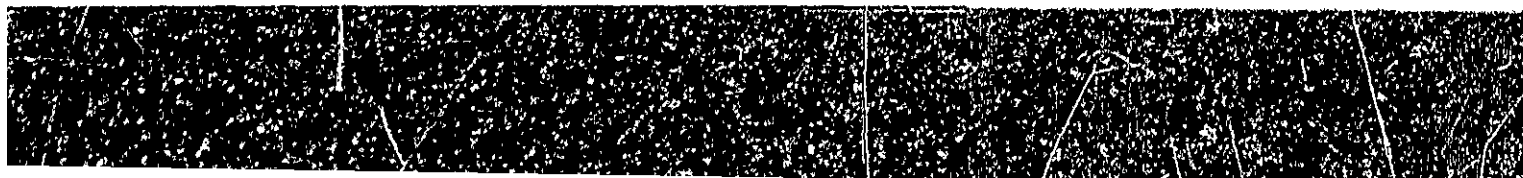
Year ended 31 March 1994

	Notes	1994 £m	1993 £m
Turnover	2a	789.8	742.3
Current cost operating costs	2d	(536.7)	(520.2)
Share of results of associated undertakings		0.1	-
Other operating income	2b	3.7	6.5
		256.9	228.6
Working capital adjustment	2c	2.4	2.9
Current cost operating profit		259.3	231.5
Net interest payable		(22.2)	(9.5)
Financing adjustment		7.5	0.9
Current cost profit before taxation		244.6	222.9
Taxation		(5.3)	-
Current cost profit attributable to shareholders		239.3	222.9
Dividends		(135.0)	(724.4)
Current cost profit/(loss) retained		104.3	(501.5)

## Current cost financial statements – Group balance sheet

As at 31 March 1994

	Notes	1994 £m	1993 £m
<b>Fixed assets</b>			
Tangible assets	3	22,329.4	21,163.2
Third party contributions since 1989/90		(310.1)	(246.4)
Working capital	4	(143.1)	(106.1)
<hr/>			
Net operating assets		21,876.2	20,810.7
Cash and investments		74.1	109.8
Non-trade debtors		10.5	1.2
Non-trade creditors due within one year		(30.7)	(98.2)
Creditors due after one year		(466.1)	(345.5)
Provisions for liabilities and charges		(3.9)	(8.2)
<hr/>			
Net assets employed		21,460.1	20,469.8
<hr/>			
<b>Capital and reserves</b>			
Called up share capital		1,000.0	1,000.0
Profit and loss account		589.0	484.7
Current cost reserve	5	19,871.1	18,985.1
<hr/>			
		21,460.1	20,469.8
<hr/>			



## Current cost financial statements - Group cash flow statement

Year ended 31 March 1994

	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	6	426.3	336.0
<b>Returns on investments and servicing of finance</b>			
Interest received		4.0	17.8
Interest paid		(18.6)	(19.6)
Interest element of finance lease rental payments		(3.4)	(5.6)
Dividends paid		(151.7)	(707.7)
Net cash outflow from returns on investments and servicing of finance		(169.7)	(715.1)
Tax paid		(0.3)	-
<b>Investing activities</b>			
Purchase of fixed assets		(326.9)	(421.5)
Grants received		24.6	23.6
Purchase of subsidiary undertaking		(33.4)	0.4
Loans advanced to associated undertakings		(3.2)	(0.7)
Loans repaid by associated undertakings		2.4	0.1
Disposal of fixed assets		7.9	10.8
Net cash outflow from investing activities		(328.6)	(387.3)
Net cash outflow before financing		(72.3)	(766.4)
<b>Financing</b>			
Issue of new shares		-	600.0
Loans repaid		(3.1)	(0.9)
Loans advanced		53.0	100.0
Capital element of finance lease rental payments		(14.2)	(11.4)
Net cash inflow from financing		35.7	687.7
Decrease in cash and cash equivalents		(36.6)	(78.7)

## Notes to the current cost financial statements

Year ended 31 March 1994

### 1 Accounting policies

#### a Basis of preparation

The accounting policies and notes supporting the amounts in the historical cost statements contained in the regulatory accounts are the same as those outlined in the statutory historical cost accounts on pages 10 to 21.

The regulatory accounts have been prepared in accordance with the requirements contained in Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers, and Regulatory Accounting Guideline 3.03 issued by the Director General of Water Services in May 1992.

The regulatory financial statements have been prepared on a group basis for Severn Trent Water Limited and its subsidiary undertaking East Worcester Water Plc. Comparatives have been restated accordingly.

#### b General

These accounts have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business, with the exception of certain assets.

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below.

#### c Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of the tangible fixed assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

During the year an Asset Management Plan (AMP) survey of existing assets as at 31 March 1993 was undertaken. The adjustment to asset values, as a result of this exercise, is included within the tangible fixed asset note. In the intervening years between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

##### i Non infrastructure assets

###### Specialised operational assets:

The gross replacement cost of specialised operational assets has been derived using the latest cost information provided by the AMP. This value has been adjusted for inflation during the year as measured by changes in the RPI.

The unamortised portion of third party contributions received is deducted in arriving at net operational assets (as described below in note 1d).

###### Non-specialised operational assets:

Non-specialised operational assets were valued on the basis of open market value for existing use at 31 March 1991 and have been expressed in real terms by indexing using RPI since that date.

##### ii Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines are valued at replacement cost, determined principally on the basis of unit cost data provided by the AMP.

## Other assets

All other assets are valued on the basis of data provided by the AMP

## Surplus land

Surplus land is valued at current market values. Any proceeds on disposal to be passed onto customers will be taken into account, in accordance with the requirements contained in Condition B of the Instrument of appointment as a Water and Sewerage Undertaking.

### d Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year and treated as for deferred income.

### e Real financial capital maintenance adjustments

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment - this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors.

Financing adjustment - this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and proposed dividend payable.

## 2 Analysis of current cost turnover and operating costs

	1994			1993		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
<b>a Analysis of turnover</b>						
Measured	116.0	36.9	152.9	108.2	38.0	146.2
Unmeasured	201.7	373.0	574.7	182.0	351.9	533.9
Trade effluent	-	37.2	37.2	-	36.1	36.1
Revenue grants	0.1	-	0.1	0.1	-	0.1
Other sources	17.5	7.4	24.9	18.0	8.0	26.0
<b>Total turnover</b>	<b>335.3</b>	<b>454.5</b>	<b>789.8</b>	<b>308.3</b>	<b>434.0</b>	<b>742.3</b>
<b>b Other operating income</b>						
Current cost profit on disposal of fixed assets	1.1	2.6	3.7	4.6	1.9	6.5
<b>c Working capital adjustment</b>	(0.9)	3.3	2.4	0.2	2.7	2.9

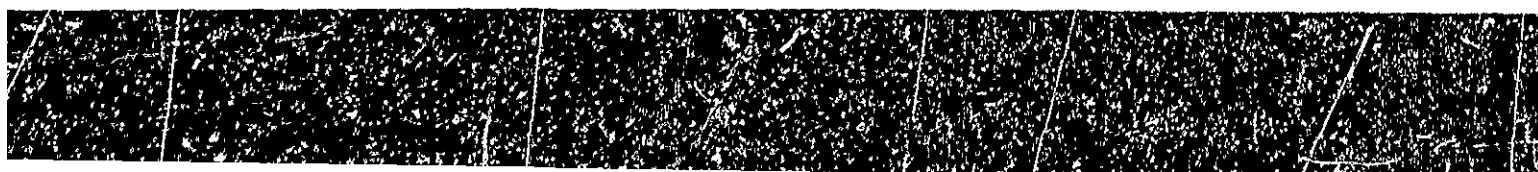
## 2 Analysis of current cost turnover and operating costs (continued)

1994

## d Analysis of operating costs and tangible fixed assets

## Water services

	Water services		
	Water resources and treatment	Water distribution	Water supply sub-total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	6.9	16.1	23.0
Power	8.7	13.9	22.6
Agencies	-	-	-
Hired and contracted services	1.6	4.8	6.4
Associated companies	0.5	1.4	1.9
Materials and consumables	4.1	1.9	6.0
Service charges	11.5	0.4	11.9
Other direct costs	0.4	0.9	1.3
<b>Total direct costs</b>	<b>33.7</b>	<b>39.4</b>	<b>73.1</b>
General and support	19.2	20.0	39.2
<b>Functional expenditure</b>	<b>52.9</b>	<b>59.4</b>	<b>112.3</b>
<b>Capital costs</b>			
Current cost depreciation	13.6	12.4	26.0
Infrastructure renewals			
Expenditure	2.0	35.3	37.3
Accrual	5.3	(20.4)	(15.1)
<b>Functional costs</b>	<b>73.8</b>	<b>86.7</b>	<b>160.5</b>
<b>Business analysis recharge</b>			<b>24.2</b>
Rates			21.5
Doubtful debts			3.7
Business activity capital costs			18.1
<b>Service costs</b>			<b>238.0</b>
Services for third parties			14.2
<b>Total</b>			<b>242.2</b>
<b>Analysis of tangible fixed assets</b>			
Service activities	1,267.0	3,898.7	5,165.7
Business activities			120.3
<b>Service totals</b>			<b>5,286.0</b>
Services for third parties			186.1
<b>Total</b>			<b>5,472.1</b>





Sewerage	Sewerage services				Business analysis		
	Sewage treatment	Sludge treatment and disposal	Sewage treatment and disposal sub total	Sewerage services sub total	Customer services	Scientific services	Cost of regulation
	£m	£m	£m	£m	£m	£m	£m
1.3	13.1	6.6	19.7	21.0			
0.9	9.9	1.7	11.6	12.5			
17.5	-	-	-	17.5			
1.1	1.1	3.7	4.8	5.9			
0.5	0.2	0.8	1.0	1.5			
0.2	1.6	2.6	4.2	4.4			
1.7	3.1	-	3.1	4.8			
0.2	0.4	0.1	0.5	0.7			
23.4	29.4	15.5	44.9	68.3	19.5	11.5	3.9
4.3	25.8	12.4	38.2	42.5	8.0	4.8	1.5
27.7	55.2	27.9	83.1	110.8	27.5	16.3	5.4
5.8	59.6	9.9	69.5	75.3			
23.0	0.1	-	0.1	23.1			
27.1	(0.1)	-	(0.1)	27.0			
83.6	114.8	37.8	152.6	236.2	27.5	16.3	5.4
				25.0	(27.5)	(16.3)	(5.4)
				11.4			
				4.0			
				15.5			
				292.1			
				2.4			
				294.5			
15,283.5	1,227.0	240.1	1,467.1	16,750.6			
18.1			88.6	106.7			
15,301.6			1,555.7	16,857.3			
				-			
				16,857.3			

## 2 Analysis of current cost turnover and operating costs (continued)

## c Non-appointed business

The Group has not identified for the purpose of its 1993/94 accounts, any businesses or activities other than the Appointed Business. The amounts in respect of the non-appointed businesses are not material under the guidelines issued by the Office of Water Services.

Areas of non-appointed business include:

Maintenance services for third parties

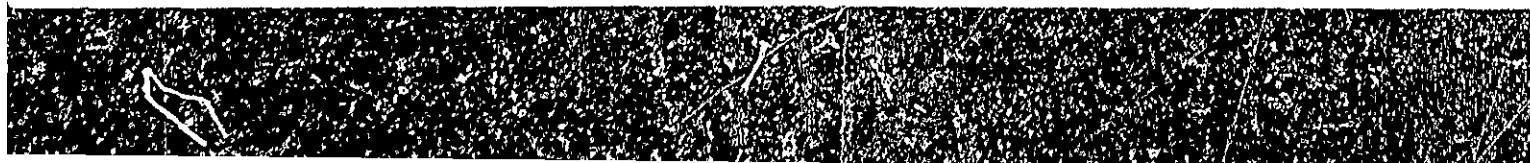
Sales of stores to third parties

External sales of energy

Computing and payroll services to the National Rivers Authority.

## 3a Tangible fixed assets analysis by service

	Water supply	Sewerage	Sewage treatment and disposal	Total
	£m	£m	£m	£m
<b>Gross replacement cost:</b>				
Balance 1 April 1993	7,022.3	13,559.7	2,945.6	23,527.6
AMP adjustment	(1,127.3)	1,518.3	57.0	448.0
RPI adjustment	131.8	346.3	66.8	544.9
Additions	206.4	79.1	114.2	399.7
Disposals	(23.8)	(29.3)	(87.0)	(140.1)
<b>Balance 31 March 1994</b>	<b>6,209.4</b>	<b>15,474.1</b>	<b>3,096.6</b>	<b>24,780.1</b>
<b>Depreciation:</b>				
Balance 1 April 1993	680.3	208.4	1,475.7	2,364.4
AMP adjustment	17.1	(44.8)	31.4	3.7
RPI adjustment	16.4	3.9	37.0	57.3
Charge for year	44.7	10.2	82.1	137.0
Disposals	(21.2)	(5.2)	(85.3)	(111.7)
<b>Balance 31 March 1994</b>	<b>737.3</b>	<b>172.5</b>	<b>1,540.9</b>	<b>2,450.7</b>
<b>Net book value:</b>				
At 31 March 1994	5,472.1	15,301.6	1,555.7	22,329.4
At 31 March 1993	6,342.0	13,351.3	1,469.9	21,163.2



3b Tangible fixed assets analysis by asset type

	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
<b>Gross replacement cost:</b>					
Balance 1 April 1993	4,453.8	186.9	18,634.4	252.5	23,527.6
AMP adjustment	28.2	11.9	420.5	(12.6)	448.0
RPI adjustment	98.1	4.6	438.7	3.5	544.9
Additions	228.9	2.3	135.3	33.2	399.7
Disposals	(93.8)	(6.2)	(23.6)	(16.5)	(140.1)
<b>Balance 31 March 1994</b>	<b>4,715.2</b>	<b>199.5</b>	<b>19,605.3</b>	<b>260.1</b>	<b>24,780.1</b>
<b>Depreciation:</b>					
Balance 1 April 1993	2,207.3	47.6	-	109.5	2,364.4
AMP adjustment	14.9	5.4	-	(16.6)	3.7
RPI adjustment	54.0	1.3	-	2.0	57.3
Charge for year	103.4	2.6	-	31.0	137.0
Disposals	(93.8)	(2.6)	-	(15.3)	(111.7)
<b>Balance 31 March 1994</b>	<b>2,285.8</b>	<b>54.3</b>	<b>-</b>	<b>110.6</b>	<b>2,450.7</b>
<b>Net book value:</b>					
At 31 March 1994	2,429.4	145.2	19,605.3	149.5	22,329.4
At 31 March 1993	2,246.5	139.3	18,634.4	143.0	21,163.2

3c Tangible fixed assets net book value  
by service and by asset type

	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
Water supply	841.9	67.5	4,479.8	82.9	5,472.1
Severage	157.5	6.8	15,125.2	12.1	15,301.6
Sewage treatment and disposal	1,430.0	70.9	0.3	54.5	1,555.7
<b>At 31 March 1994</b>	<b>2,429.4</b>	<b>145.2</b>	<b>19,605.3</b>	<b>149.5</b>	<b>22,329.4</b>

4 Working capital	1994 £m	1993 £m
Stocks	7.1	9.4
Trade debtors	63.0	67.6
Trade creditors	(6.5)	(11.3)
Short term capital creditors	(21.0)	(26.1)
Infrastructure renewals accrual	(51.6)	(39.7)
Accruals	(107.5)	(101.7)
Payments in advance	(52.0)	(40.8)
Tax and social security	(4.0)	(4.9)
Group trade debtors/(creditors)	(10.7)	(3.7)
Other trade debtors/(creditors)	2.1	2.2
Prepayments	38.0	42.9
	(143.1)	(106.1)
<hr/>		
5 Reserves – current cost reserve	1994 £m	1993 £m
Balance 1 April	18,085.1	18,605.6
AMP adjustment	444.3	(58.9)
RPI adjustments:		
Fixed assets	487.6	388.2
Working capital	(2.4)	(2.9)
Financing	(7.5)	(0.9)
Grants and third party contributions	(5.7)	(3.2)
Other adjustments	(30.3)	57.2
Balance 31 March	19,871.1	18,985.1
<hr/>		
6 Reconciliation of current cost operating profit to net cash inflow from operating activities	1994 £m	1993 £m
Current cost operating profit	259.3	231.5
Working capital adjustment	(2.4)	(2.9)
Share of results of associated undertakings	(0.1)	–
Decrease in stocks	2.3	1.5
Current cost depreciation	137.0	126.9
Current cost profit on sale of assets	(3.7)	(6.5)
Decrease/(increase) in debtors and prepaid expenses	11.3	(1.1)
Increase/(decrease) in creditors and accrued expenses	8.7	(1.6)
Release of provisions	7.2	(18.6)
Effect of other deferrals and accruals on operating activity cash flow	6.7	6.8
Net cash inflow from operating activities	426.3	336.0

## Current cost financial statements – Profit and loss account

Four year summary at 1993/94 out-turn prices

	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	789.8	754.9	726.0	668.9
Current cost operating costs	(536.7)	(529.0)	(556.9)	(504.2)
Share of results of associated undertakings	0.1	-	-	-
Other operating income	3.7	6.6	1.7	4.4
	256.9	232.5	170.8	169.1
Working capital adjustment	2.4	2.9	6.4	10.3
Current cost operating profit	259.3	235.4	177.2	179.4
Net interest (payable)/receivable	(22.2)	(9.7)	19.5	50.9
Financing adjustment	7.5	0.9	(8.0)	(27.3)
Current cost profit before taxation	244.6	226.6	188.7	203.0
Taxation	(5.3)	-	-	-
Current cost profit attributable to shareholders	239.3	226.6	188.7	203.0
Dividends	(135.0)	(736.7)	(104.9)	(105.5)
Current cost profit/(loss) retained	104.3	(510.1)	83.8	97.5

## Current cost financial statements – Balance sheet

Four year summary at 1993/94 out-turn prices

	1994 £m	1993 £m	1992 £m	1991 £m
Fixed assets				
Tangible assets	22,329.4	22,094.3	21,598.6	21,203.4
Third party contributions since 1989/90	(310.1)	(252.1)	(174.1)	(78.6)
Working capital	(143.1)	(108.5)	(160.2)	(164.7)
Net operating assets	21,876.2	21,733.7	21,264.3	20,960.1
Cash and investments	74.1	112.3	195.7	309.8
Non-trade debtors	10.5	1.2	2.3	15.4
Non-trade creditors due within one year	(30.7)	(100.5)	(13.9)	(26.1)
Creditors due after one year	(466.1)	(353.4)	(223.5)	(98.9)
Provision for liabilities and charges	(3.9)	(8.4)	(9.4)	(7.9)
Net assets employed	21,460.1	21,384.9	21,215.5	21,152.4
Capital and reserves				
Called up share capital	1,000.0	1,023.0	416.8	433.6
Profit and loss account	589.0	495.8	1,027.6	982.5
Current cost reserve	19,871.1	19,866.1	19,771.1	19,736.3
	21,460.1	21,384.9	21,215.5	21,152.4

## Statement of Directors' responsibilities

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 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 23 to 35, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors have voluntarily decided to prepare Group accounts and are applying the same requirement regarding a true and fair view of the state of affairs and of the profit or loss of the Group for that period, to the Group financial statements.

## Water Industry Act 1991

Further to the requirements of Company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Office of Water Services. This additionally requires the Directors to:

- 1 Confirm that, in their opinion, the Company has sufficient financial and management resources for the next 12 months;
- 2 Confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company;
- 3 Report to the Director General of Water Services changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities;
- 4 Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length;
- 5 Keep proper accounting records which comply with Condition F.

The Directors have prepared Group accounts to include the results of Severn Trent Water Limited and its subsidiary undertaking East Worcester Water Plc for the year.

## Diversification and the protection of the core business – Condition F6a

Severn Trent Water Limited hereby advise:

- 1 That in the opinion of the Directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- 2 That in the opinion of the Directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

V Cocker *Managing Director*  
For and on behalf of the Board  
13 June 1994

## Report of the Auditors to the Director General of Water Services

We have audited the financial statements on pages 23 and 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11, and the financial statements on pages 25 to 35 which have been prepared under the current cost convention and the accounting policies set out on pages 28 and 29.

Respective responsibilities of Directors and auditors.

As described on page 36 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

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

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

### Opinion

In our opinion, the financial statements contain the information for the year to 31 March 1994 required to be published and submitted to you by Severn Trent Water Limited and its subsidiary undertaking East Worcester Water Plc (together 'the Group' or the 'Appointees') to comply with Condition F of the Instruments of Appointment by the Secretary of State for the Environment of the Group as water and sewerage undertakers under the Water Industry Act 1991.

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

- 1 Proper accounting records have been kept by the Appointees as required by paragraph 3 of Condition F of the Instruments;
- 2 The information is in agreement with the Appointees' accounting records, complies with the requirements of Condition F of the Instruments and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- 3 The financial statements on pages 23 and 24 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointees and their Appointed Businesses; and
- 4 The current cost financial information on pages 25 to 35 has been properly prepared in accordance with the Regulatory Accounting Guideline 192 Accounting for Current Costs issued in May 1992 by the Office of Water Services.

*Price Waterhouse Price Waterhouse*

Price Waterhouse  
Chartered Accountants and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT  
13 June 1994

Price Waterhouse



## Financial and operating statistics

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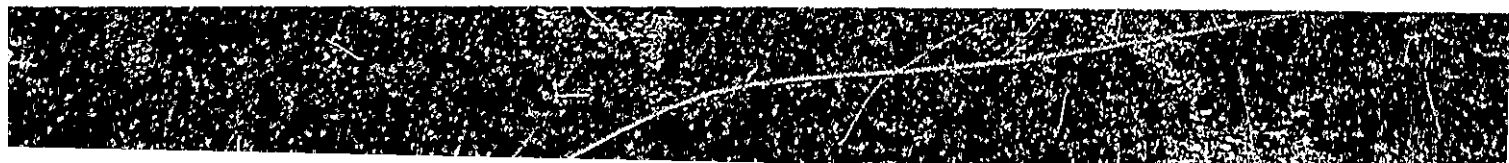
### Introduction

As part of our commitment to further develop communication with our customers these financial and operating statistics are published as a supplementary section to the Annual Report and Accounts of Severn Trent Water Limited for the year ended 31 March 1994.

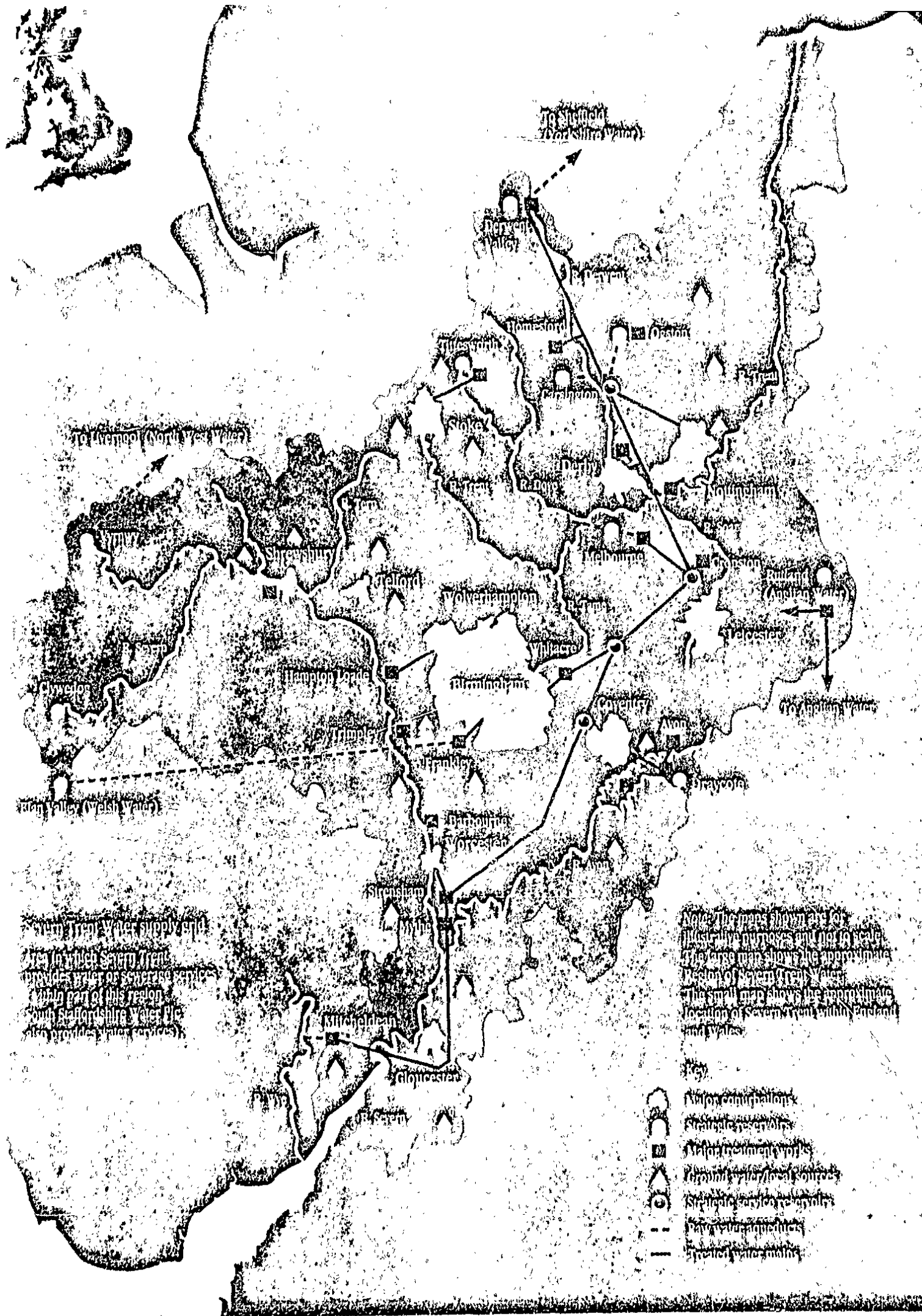
The financial information contained within this section does not amount to statutory accounts within the meaning of the Companies Act 1985. Statutory accounts relating to the financial information contained within this supplement have been delivered to the Registrar of Companies, together with unqualified reports from the auditors.

The principal source of the operating statistics are the Annual Water Quality Reports for Severn Trent Water and information to be submitted to the Director General of Water Services as part of the 1994 July return. Copies of the Water Quality Report are available from the Director of Marketing whose address appears on the inside front cover of this publication.

Unless otherwise stated all information prior to 31 March 1993 relates to Severn Trent Water Limited. Statistics relating to East Worcester Water Plc have been incorporated since 19 March 1993, the date of its acquisition.







Severn-Trent Water supply area  
 The Trent and Severn Trent  
 provides water on several separate  
 main part of this region  
 South Staffordshire Water (The  
 also provides water services)

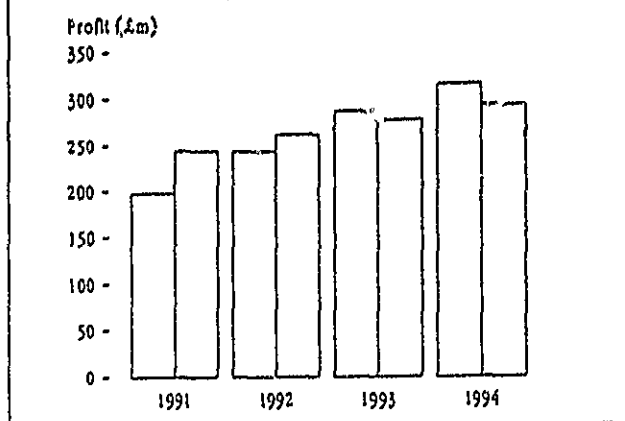
Note: The maps shown are for  
 illustrative purposes and not to scale.  
 The large map shows the approximate  
 location of Severn-Trent Water.  
 The small map shows the approximate  
 location of Severn-Trent water and  
 its sources.

- Key
- Major supply points
  - District supply points
  - Local supply points
  - District supply points
  - Secondary supply lines
  - Main supply lines

## Profit and loss accounts

	1991 £m	1992 £m	1993 £m	1994 £m
Turnover	608.6	692.1	742.3	789.8
Operating profit	198.5	244.3	287.9	316.3
Net interest (payable)/receivable	46.3	18.6	(9.5)	(22.2)
Profit for the financial year	244.8	262.9	278.4	294.1
Taxation	-	-	-	(5.3)
Dividends	(96.0)	(100.0)	(724.4)	(135.0)
Retained profit/(loss)	148.8	162.9	(446.0)	153.8

Operating profit       Profit for the financial year



## Balance sheets

	1991 £m	1992 £m	1993 £m	1994 £m
Fixed assets	1,805.6	2,208.7	2,593.6	2,871.5
Net current (liabilities)/assets	199.5	79.6	(53.2)	(38.9)
	2,005.1	2,288.3	2,540.4	2,832.6
Creditors: amounts falling due after more than one year	(91.2)	(214.5)	(345.5)	(466.1)
Provisions for liabilities, charges and deferred income	(97.0)	(94.1)	(89.3)	(108.1)
	1,816.9	1,979.7	2,105.6	2,258.4
Capital and reserves				
Called up share capital	400.0	400.0	1,000.0	1,000.0
Profit and loss account	1,416.9	1,579.7	1,105.6	1,258.4
	1,816.9	1,979.7	2,105.6	2,258.4

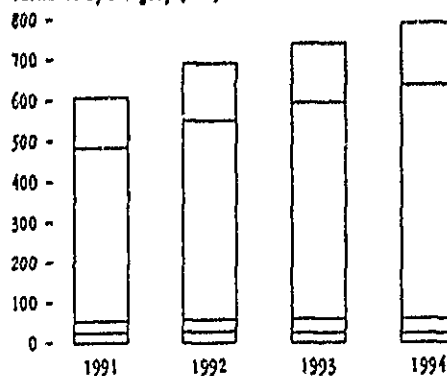
The 1993 Balance sheet information has been restated to include the results of East Worcester Water Plc.

### Turnover by category

	1991 £m	1992 £m	1993 £m	1994 £m
Measured charges	123.3	141.5	146.2	152.9
Unmeasured charges	429.1	490.2	533.9	574.7
Trade effluent	29.9	32.4	36.1	37.2
Other	26.3	28.0	26.1	25.0
	608.6	692.1	742.3	789.8

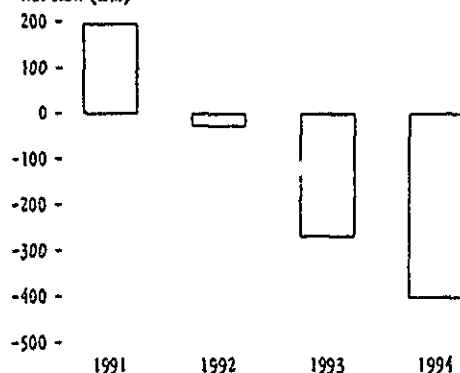
- Measured charges
- Unmeasured charges
- Trade effluent
- Other

Turnover by category (£m)



### Net cash

Net cash (£m)



	1991 £m	1992 £m	1993 £m	1994 £m
Cash at bank and in hand	283.4	185.1	106.4	69.8
Borrowings	(87.3)	(214.0)	(375.1)	(473.4)
	196.1	(28.9)	(268.7)	(403.6)

### Key ratios

	1991	1992	1993	1994
<b>Liquidity</b>				
Current ratio (times)	2.03	1.35	0.82	0.83
<b>Profitability</b>				
Gross profit margin (%)	32.62	35.30	38.78	40.05
Return on capital employed (%): Historic cost	9.90	10.68	11.33	11.17
Return on fixed assets (%): Historic cost	11.00	11.06	11.10	11.02
Return on fixed assets (%): Current cost	0.83	0.83	1.09	1.16
<b>Gearing</b>				
Debt to equity (%)	4.80	10.81	17.81	20.91
<b>Other</b>				
Turnover per employee (£)	86,277	92,825	99,704	113,575
Operating profit per employee (£)	28,140	32,765	38,670	45,485

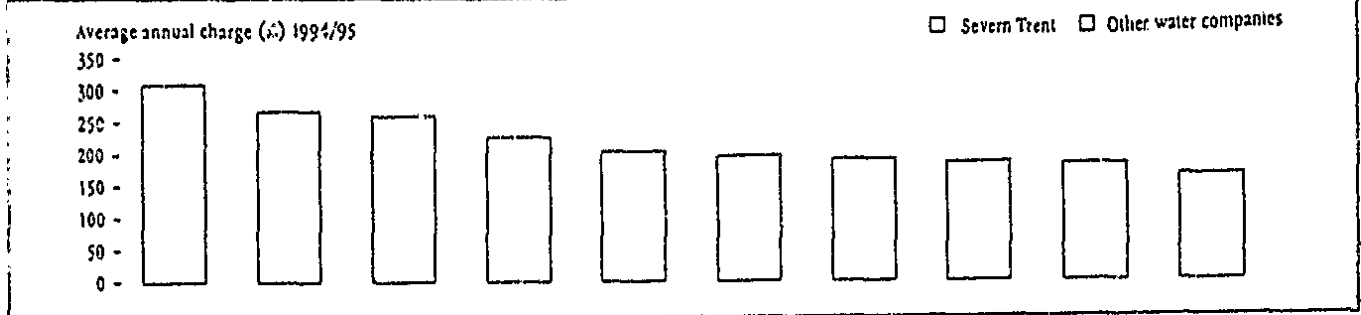
## Customer service

### Charges (1994/95)

Unmeasured water charges  
Average annual charge

	Water £	Sewerage £	Total £
Severn Trent	80	99	179
Average of other 9 water and sewerage companies	101	118	219

### Comparison of average annual charges for 1994/95 (unmeasured charges)



Equivalent cost per day per household

Severn Trent	49 pence
Other water and sewerage companies' average	60 pence

Measured water charges

Water supply (excluding the former East Worcester Water Plc area)	61.00 pence/cubic metre
Sewerage	45.63 pence/cubic metre

### Levels of service

Under Condition J of the Instrument of the Appointment of the Water and Sewerage Undertakers the Director General of Water Services requires the Company to provide information on a series of levels of service indicators which compare the service provided to a specified reference level.

Company performance against OFWAT service indicators (properties/population meeting DG reference levels)

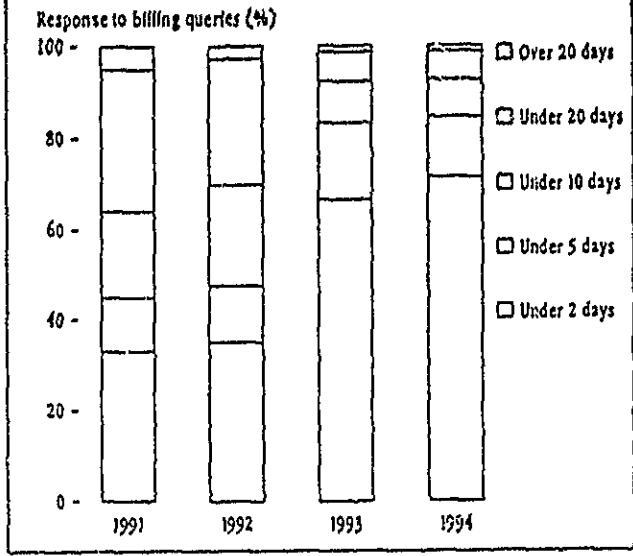
	1991 %	1992 %	1993 %	1994 %
(DG1) Raw water availability				
Percentage of the population who live in areas where resources are adequate to meet demands.	58.78	58.89	99.17	99.20
(DG2) Pressure of mains water				
Percentage of properties not at risk of receiving water at a pressure less than one and a half atmospheres at the stop tap on the boundary of the property.	99.44	99.21	99.38	99.53
(DG3) Interruption to supply				
Percentage of properties not experiencing loss of supply for more than five interruptions for five hours, or three interruptions for twelve hours.	99.97	99.97	99.99	99.99
(DG4) Water usage restrictions				
Percentage of properties affected by:				
Ban on hosepipes	0.00	0.00	0.00	0.00
Drought orders	0.00	0.00	0.00	0.00
(DG5) Flooding from sewers				
Percentage of properties where there is no risk of flooding from public sewers at a frequency of more than twice in ten years.	99.94	99.95	99.95	99.94

**Response to billing queries**

(DG6) Response to billing queries

Response time for replies to billing queries

	1991 %	1992 %	1993 %	1994 %
Under 2 days	33.0	35.0	66.6	71.5
Under 5 days	45.0	47.5	83.2	84.5
Under 10 days	64.0	69.8	92.5	92.8
Under 20 days	95.0	97.4	98.9	99.0
Over 20 days	5.0	2.6	1.1	1.0



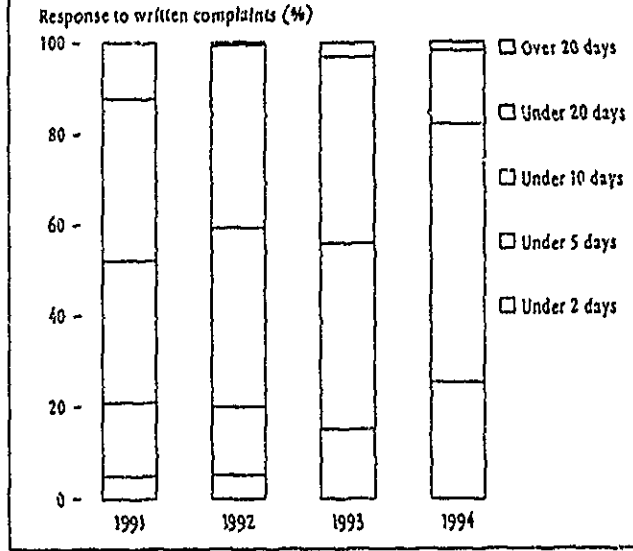
In 1994 there were 2.2 million customer contacts. The Company has achieved for 1994 the 'Good' classification as measured against OFWAT's illustrative profiles.

**Response to written complaints**

(DG7) Response to written complaints

Response time for replies to written complaints

	1991 %	1992 %	1993 %	1994 %
Under 2 days	5.2	5.4	15.2	25.3
Under 5 days	21.1	20.1	56.0	82.1
Under 10 days	52.3	59.3	96.7	97.9
Under 20 days	87.8	99.4	99.8	99.9
Over 20 days	12.2	0.6	0.2	0.1



The number of customer complaints received in 1994 has fallen by 32% from those received in 1993.

The Company has achieved for 1994 the 'Very good' classification as measured against OFWAT's illustrative profiles.

**Guaranteed standards scheme**  
 In 1993/94, 99.5% of all complaints were answered within the guaranteed standards scheme time period. Thirty-two claims have been accepted for guaranteed standard payments.

**New levels of service standards**

As part of our commitment to provide our customers with a 'top-class' quality service, in April 1994 we introduced our own internal, tougher standards against which we will assess our performance. These results will be published.

Our own standards are:

**Answering telephone calls:** We aim to answer calls within 15 seconds and make 30 seconds the maximum wait. However, for billing queries at peak times we will try to limit the maximum wait to 45 seconds.

**Letters:** We will respond to letters in writing, by telephone or face-to-face within five working days 75% of the time, and certainly within 10 working days.

**Appointments:** Whenever we make an appointment to meet you, we will agree to come either in the morning or the afternoon.

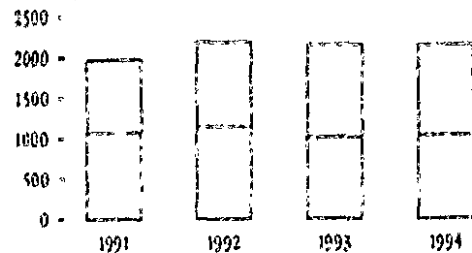
**Customers who visit our offices:** We always aim to make sure you see the right person within five minutes.

## Customer contacts

	1991 '000	1992 '000	1993 '000	1994 '000
By correspondence	1,080	1,149	1,014	1,042
By telephone	904	1,053	1,143	1,109
<b>Total</b>	<b>1,984</b>	<b>2,202</b>	<b>2,157</b>	<b>2,151</b>

Customer contacts include all queries on billing, water, notification of changes, etc. and requests for customer services etc.

Customer contacts ('000)



## Customer payment statistics

	1991 '000	1992 '000	1993 '000	1994 '000
Number of customers paying by instalments	736	798	837	943
Number of summonses (unmeasured charges)	114	103	37	71
Percentage of unmeasured customers summonsed (%)	4.3	3.9	1.4	2.7
Number of disconnections	No.	No.	No.	No.
Domestic	286	1,284	1,215	590
Non-domestic	123	290	410	269
Percentage of customers disconnections (%)	0.01	0.05	0.05	0.03

## Customer complaints

	1991 '000	1992 '000	1993 '000	1994 '000
Customer complaints	21	22	14	9

## Population (Water services)

	1991	1992	1993	1994
Water supply	6,851	6,891	6,909	7,193
Sewerage	8,215	8,175	8,201	8,250

## Billed properties

	1991	1992	1993	1994
<b>Water</b>				
Unmeasured domestic	2,555	2,544	2,541	2,612
Unmeasured non-domestic	69	62	59	58
Sub total	2,624	2,606	2,600	2,670
Measured domestic	62	92	119	159
Measured non-domestic	166	182	176	188
Sub total	228	274	295	347
<b>Total</b>	<b>2,852</b>	<b>2,880</b>	<b>2,895</b>	<b>3,017</b>
<b>Sewerage</b>	<b>3,298</b>	<b>3,323</b>	<b>3,355</b>	<b>3,381</b>

## New connections during year

	1991	1992	1993	1994
Water supply	21	22	23	22
Sewerage	25	27	27	25

## Rainfall

Severn Trent region - area rainfall	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Rainfall (mm)	777	741	814	769	759	718	683	639	842	792
50 long term average	99	96	105	99	98	93	88	83	110	102
Severn Basin										
Rainfall (mm)	842	813	856	805	811	777	732	702	872	797
50 long term average	102	98	103	97	98	94	88	87	108	99
Trent Basin										
Rainfall (mm)	715	685	790	747	723	676	647	576	808	785
50 long term average	97	93	103	101	98	92	88	78	110	107

Note: 50 long term average is based on figures from 1941 to 1970. Figures relate to calendar year.

## Severn Trent region - area rainfall

Area rainfall (mm)

1000 -

800 -

600 -

400 -

200 -

0 -

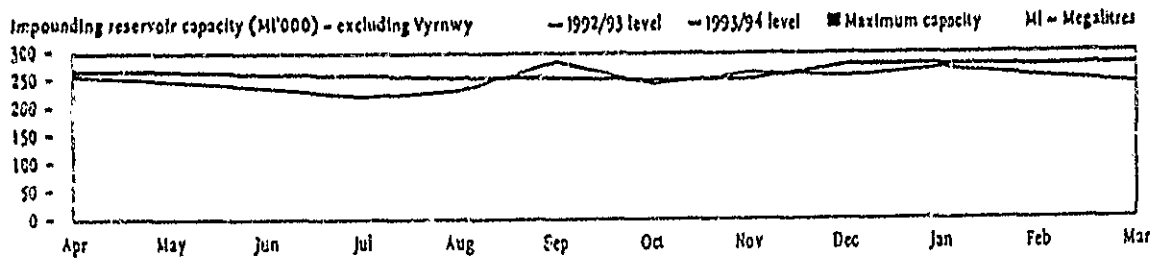
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993

## Analysis of water into supply

	1991 M/d	1992 M/d	1993 M/d	1994 M/d
Impounding reservoirs	577	571	567	575
River abstractions	702	703	724	726
Groundwater	705	702	694	773
Total production	1,984	1,976	1,985	2,074
Treated water imports	22	19	18	17
Treated water exports	(17)	(16)	(16)	(9)
Total water into supply	1,989	1,979	1,987	2,082

Note: M/d = Megalitres per day

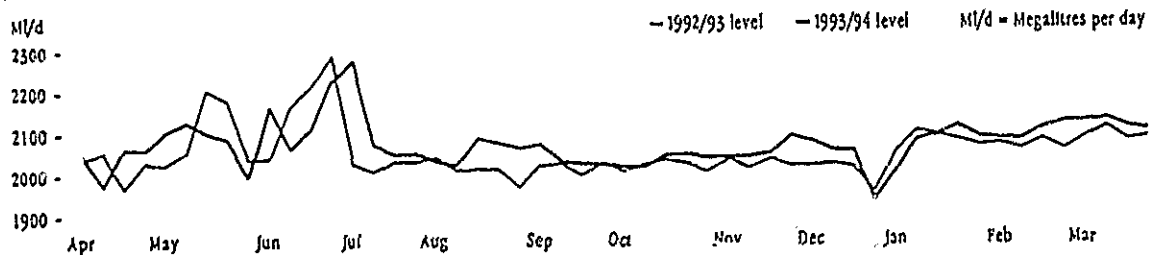
## Impounding reservoir capacities



## Water into supply

	1991 Ml/d	1992 Ml/d	1993 Ml/d	1994 Ml/d
Household demand	990	1,005	1,023	1,057
Non-household demand	601	560	539	538
Water delivered to billed customers	1,591	1,565	1,562	1,595
Total water into supply	1,989	1,979	1,987	2,082
Company unaccounted for water as % of total water supplied	20%	21%	21%	23%

## Average weekly water demand



## Quality - water supply

	1990	1991	1992	1993
1 Overall quality of drinking water				
Number of samples	85,653	86,239	84,761	84,808
% compliance with standards	99.6%	99.6%	99.7%	99.8%
2 Microbiological quality of drinking water				
Water leaving treatment works				
Number of samples	26,015	27,265	28,391	29,745
% compliance with standards	99.8%	99.9%	99.9%	99.9%
Water at service reservoirs				
Number of samples	34,731	34,773	33,577	34,249
% compliance with standards	99.8%	99.9%	99.8%	99.8%
Water at customers' taps				
Number of samples	24,907	24,201	22,793	20,814
% compliance with standards	98.3%	99.6%	99.6%	99.7%



	1990	1991	1992	1993
<b>Physical and chemical quality of drinking water</b>				
Water at customers' taps				
Number of samples	24,907	24,201	22,793	20,814
% compliance with standards	99.5%	99.4%	99.7%	99.7%

Notes: Information on quality is based on calendar year in accordance with current Drinking Water regulations. Many tests are carried out on each sample. Compliance is based on these tests with over 525,000 being made during 1993. % compliance with standards as detailed in the Water Supply (Water Quality) regulations.

### Sewage treatment

	1991	1992	1993	1994
<b>Overall compliance with standards</b>				
Total number of sewage treatment works	1,048	1,026	1,015	1,074
Number of sewage treatment works failing consents	45	19	20	5
Number of time limited consents	34	1	0	0
Number of prosecutions	3	0	1	0
<b>Compliance of numerically consented works</b>				
Number of works within numeric consents	752	746	743	740
<b>Overall quality of sewage works effluent</b>				
By works	94.3%	97.3%	97.8%	97.0%
By tests to measure quality	N/A	98.7%	99.0%	99.0%
<b>Compliance with sanitary standards (percentile)</b>				
By works	96.4%	98.9%	98.9%	98.8%
By tests to measure quality	N/A	98.5%	99.0%	99.0%
<b>Compliance with sanitary standards (upper tier)</b>				
By works	94.2%	97.1%	96.4%	95.6%
By tests to measure quality	N/A	99.9%	99.9%	99.9%
<b>Compliance with non-sanitary standards</b>				
By works	80.0%	80.3%	90.0%	88.2%
By tests to measure quality	N/A	99.3%	98.1%	99.2%

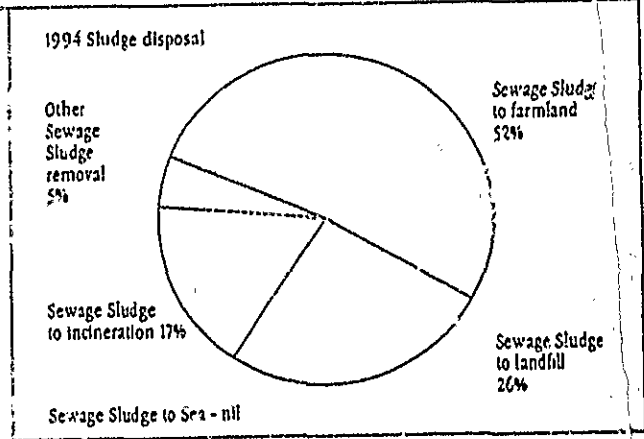
Notes: Overall compliance with standards relates to financial year. Compliance of numerically consented works figures are based on calendar years. Data not available (N/A) indicates where information is not readily available in a form consistent with previous years.

### Sludge disposal

Method of sludge disposal	1991 tds	1992 tds	1993 tds	1994 tds
Farmland	62,000	65,000	83,000	85,600
Landfill	35,000	41,000	51,000	43,000
Incineration	31,000	29,000	27,000	28,000
Sea	0	0	0	0
Other	33,000	30,000	9,000*	9,000*
<b>Total</b>	<b>161,000</b>	<b>165,000</b>	<b>170,000</b>	<b>165,000</b>

tds = tonnes dry solids

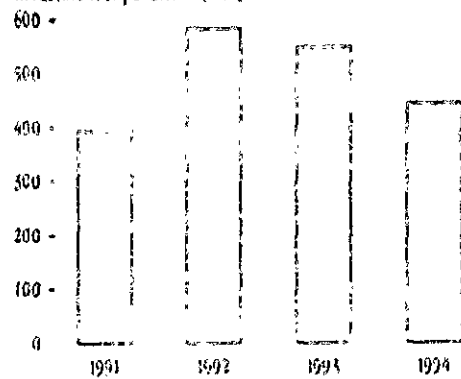
\* 1994 the definition of dedicated farmland was amended. This has resulted in an increase in the amount of sludge sent to farmland.



## Investment expenditure

	1991 £m	1992 £m	1993 £m	1994 £m
Wastewater treatment	57	96	116	117
Water supply	7	161	137	107
Sewerage	67	108	90	76
Drainage treatment	136	157	147	108
Recreation and amenity	1	11	4	2
Operational support	38	46	49	32
Other	9	11	7	3
	395	585	550	445
Analysis of investment expenditure				
Capital expenditure	348	482	462	380
- gross infrastructure expenditure	47	103	88	65
	395	585	550	445

Investment expenditure (£m)



## Physical outputs

	1991	1992	1993	1994
Mains - added (Km)	252	506	673	289
- renewals (Km)	363	562	511	408
- relined (Km)	1,334	1,305	969	1,016
Sewers - added (Km)	65	160	168	86
- improved (Km)	10	35	21	8
Approximate number of schemes in programme	4,100	5,000	5,000	5,500
Approximate number of new starts during year	1,000	1,000	1,200	800
Approximate number of schemes completed during year	900	1,000	1,300	1,200
Drainage area studies completed	155	201	234	261
Drainage area studies completed during year	38	34	33	27
Drainage study areas	260	260	261	261

## Major operational schemes during year

	1993/94 £m	Total projected costs £m
Frankley water treatment works	12.1	76.0
Spenshall water treatment works	15.2	40.0
Mvthe water treatment works	15.5	39.1
Melbourne water treatment works	10.0	37.2
Colshill sludge disposal plant	13.0	25.9
Netheridge sewage treatment works	10.6	24.8
Trimpley water treatment works	6.4	16.0
Fittesworth water treatment works	8.6	15.2
Mitcheldean water treatment works	7.8	14.6
The Abbey sewer tunnel Leicester	5.8	11.9

## Assets

	1994
Impounding reservoirs	41
Groundwater sources	175
River water intakes	21
Surface water treatment works	25
Water supply booster stations	674
Service reservoirs	636
Mains (Km)	40,380
Sewers (Km)	50,998
Sewage treatment works	1,014
Sewage pumping stations	2,162

## Recreation and visitor facilities

The Company is committed to develop the recreation potential and conservation needs of the natural and manmade resources in its care. Countryside visits are of vital importance to the quality of life and it has always been important to the Company, as a custodian of major land and water resources to make them available to everyone. We have set ourselves new targets; the quality of facilities; visitor care and service; and we intend to rank amongst the very best providers of countryside recreation opportunities. Listed below are the facilities available at the larger sites.

Carsington
Church Wilne Lagoon
Clywedog
Draycote
Foremark
Lake Yrnwy
Lightwood
Linacre
Nanpantan
Ogston
Papplewick
Priorslee Lake
Shustoke
Stanford Reservoir
Staunton Harold
Stoke Bardolph Estate
Thornton
Tittesworth
Trimpley
Upper Derwent Valley

Recreational facilities are also provided at other sites within the Severn Trent Water region but are not listed above.

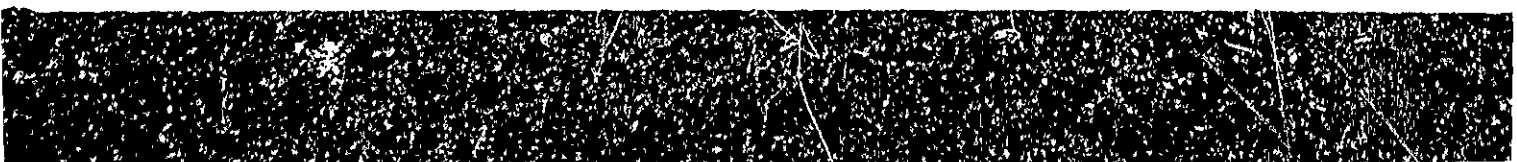
The Company also publishes a pocket guide to reservoirs and nature trails and a Recreation and Conservation annual report.

In addition to the recreational facilities, the Company has a number of educational centres and 'Come and See' sites. For further information about the facilities listed above, and publications please contact the Director of Marketing, whose address appears on the inside front cover of this publication.

Game fishing	Sub-aqua	Fishing lodge	Nature trails	Children's play area
Coarse fishing	Water-skiing	Visitor centre	Public rights of way and permissive paths	Disabled persons' access
Sailing	Horse riding	Viewing point	Access areas	Cycle hire
Sailboarding	Bird watching	Car parks		
Canoeing	Picnic sites	Toilets		

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## NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company contain some documents which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologies for any inconvenience this may cause.



Govt No. PS 21059  
Personnel & Training



AWARDED FOR EXCELLENCE



INVESTOR IN PEOPLE

CHPM 4 (07/02)