

AZTEC ENVIRONMENTAL CONTROL LIMITED
(REGISTERED NUMBER 1361365)

DIRECTORS' REPORT AND ACCOUNTS

31 March 1997



AZTEC ENVIRONMENTAL CONTROL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1997

The directors present their report and the audited financial statements for the year ended 31 March 1997.

PRINCIPAL ACTIVITY

The principal activity of the company is that of manufacturers and suppliers of specialist equipment and instrumentation for the water and associated industries.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Following the reorganisation of the business there has been an improvement in turnover and a substantial reduction in the operating loss.

TRADING RESULTS

The trading results for the year ended 31 March 1997 are set out on page 4. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the year were as follows:

SW Fierce (USA) (resigned 10 May 1996)
IJ Hislop
RK Peace

The interests of the directors in office at the year end in the ordinary share capital of Severn Trent Plc, the ultimate parent company were as follows:

	<u>Beneficial holdings in ordinary shares</u>	
	<u>31 March 1997</u>	<u>1 April 1996</u>
IJ Hislop	5,665	3,069
RK Peace	224	155

	<u>Share options under approved schemes</u>			
	<u>1 April 1996 No of shares</u>	<u>Exercised No of shares</u>	<u>Granted 31 March 1997 No of shares</u>	<u>No of shares</u>
Executive Share Options				
IJ Hislop	28,457	(21,177)	-	7,280
RK Peace	3,200	(2,500)	-	700
Sharesave Options				
IJ Hislop	9,506	(2,386)	653	7,773

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

Options have been granted in accordance with the Severn Trent Executive Share Option Scheme and the Severn Trent Sharesave Scheme.

AZTEC ENVIRONMENTAL CONTROL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1997 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board



IJ HISLOP
Director

27 June 1997

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF AZTEC ENVIRONMENTAL CONTROL LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's 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 affairs of the company as at 31 March 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

**PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors**

27 June 1997

AZTEC ENVIRONMENTAL CONTROL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000
TURNOVER	2	2,528	2,337
Cost of sales		(1,742)	(1,694)
GROSS PROFIT		786	643
Distribution and selling costs		(204)	(245)
Administrative expenses		(732)	(964)
OPERATING LOSS	3	(150)	(566)
Interest payable	4	(45)	(69)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(195)	(635)
Taxation	7	—	—
RETAINED LOSS FOR THE FINANCIAL YEAR		(195)	(635)
RETAINED (LOSS)/PROFIT BROUGHT FORWARD		(287)	348
RETAINED LOSS CARRIED FORWARD		(482)	(287)

The notes on pages 6 to 12 form part of these financial statements.

All recognised gains and losses are reflected within the profit and loss account above.


There is no material difference between the results on an unmodified historic cost basis and those presented above.

AZTEC ENVIRONMENTAL CONTROL LIMITED

BALANCE SHEET - 31 MARCH 1997

	<u>Notes</u>	<u>1997</u>	<u>1996</u>
		£'000	£'000
FIXED ASSETS			
Intangible assets	8	5	7
Tangible assets	9	<u>407</u>	<u>167</u>
		412	174
CURRENT ASSETS			
Stocks	10	470	563
Debtors	11	<u>551</u>	<u>625</u>
		1,021	1,188
CREDITORS (amounts falling due within one year)	12	<u>(1,570)</u>	<u>(1,304)</u>
NET CURRENT LIABILITIES		<u>(549)</u>	<u>(116)</u>
NET (LIABILITIES)/ASSETS		<u>(137)</u>	<u>58</u>
CAPITAL AND RESERVES		<u>==</u>	<u>==</u>
Called up share capital	13	340	340
Share premium account		5	5
Profit and loss account		<u>(482)</u>	<u>(287)</u>
SHAREHOLDER'S FUNDS	14	<u>(137)</u>	<u>58</u>
		<u>==</u>	<u>==</u>

Approved by the Board on 27 June 1997


DIRECTOR

IJ Hislop

The notes on pages 6 to 12 form part of these financial statements.

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997

1 ACCOUNTING POLICIES

(1) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(2) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

(3) Turnover

Turnover represents the invoiced value of goods and services supplied stated net of VAT.

(4) Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation, is carried forward. Such expenditure is amortised at a rate of 20% per annum on a reducing balance basis.

(5) Depreciation

Depreciation is calculated so as to write off the cost of fixed assets over the expected useful economic lives of the assets concerned. The principal rates used for this purpose are:

Leasehold improvements	Over the remaining life of the lease
Plant and machinery	25% per annum reducing balance
Fixtures and fittings	25% per annum straight line
Motor vehicles	25% per annum reducing balance
Electronic equipment	25% per annum reducing balance

(6) Deferred tax

Deferred taxation relating to capital allowances and other timing differences is provided for to the extent that it is probable that a liability will crystallise.

(7) Cash flow statement

The parent undertaking, Severn Trent Plc, has included a cash flow statement in its financial statements for the year ended 31 March 1997. In accordance with FRS1 (Revised), no cash flow statement is required in the accounts of this company.

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(8) Pension costs

The company operates a defined contribution scheme and a number of employees are members of the Severn Trent Water Limited Scheme (a defined benefit scheme). Payments made to the schemes are charged annually in the accounts as part of employment costs as they fall due. The rates of contribution of the defined benefit scheme are determined by the actuary whilst contributions by employees and the company to the defined benefit scheme are administered by trustees in funds independent from the company's assets.

(9) Related party transactions

Advantage has been taken of the exemption under FRS8 to dispense with the requirement to disclose transactions and balances with fellow subsidiary undertakings, 90% or more of whose voting rights are held within the group and which are included in the consolidated accounts of Severn Trent Plc.

2 TURNOVER

Turnover and profit before taxation arise wholly from the company's principal activity. Turnover is analysed geographically by destination as follows:

	<u>1997</u> £'000	<u>1996</u> £'000
United Kingdom	2,228	1,995
Rest of Europe	180	116
USA	107	193
Rest of World	<u>13</u>	<u>33</u>
	2,528	2,337
	<u>=====</u>	<u>=====</u>

Turnover is sourced entirely in the United Kingdom.

3 OPERATING LOSS

	<u>1997</u> £'000	<u>1996</u> £'000
Operating loss is stated after charging:		
Depreciation	47	39
Directors' remuneration (note 6)	-	22
Auditors' remuneration	5	4
Staff costs (note 5)	1,314	924
Operating lease rentals:		
Land and buildings	89	87
Hire of motor vehicles	62	70
Development expenditure	2	2
	<u>=====</u>	<u>=====</u>

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

4 INTEREST PAYABLE

	<u>1997</u> £'000	<u>1996</u> £'000
Bank loans and overdrafts	45	69
	<u> </u>	<u> </u>

5 STAFF COSTS

	<u>1997</u> £'000	<u>1996</u> £'000
Wages and salaries (including directors' remuneration)	1,177	833
Social security costs	81	78
Other pension costs (note 16)	<u>56</u>	<u>13</u>
	1,314	924
	<u> </u>	<u> </u>

The average number of employees during the period was 58 (1996 - 47).

6 DIRECTORS' EMOLUMENTS

The emoluments of the directors excluding pension contributions were £Nil (1996 - £22,000).

Two of the directors exercised share options during the year.

7 TAXATION

	<u>1997</u> £'000	<u>1996</u> £'000
Based on the results for the period:		
UK corporation tax at 33% (1996 - 33%)	-	-
	<u> </u>	<u> </u>

In accordance with the company's accounting policy there is no requirement for a provision for deferred taxation at 31 March.

The Company's full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:

	<u>1997</u> £'000	<u>1996</u> £'000
Accelerated capital allowances	3	2
	<u> </u>	<u> </u>

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

8 INTANGIBLE FIXED ASSETS

	<u>1997</u> £'000	<u>1996</u> £'000
Deferred development expenditure:		
At 1 April 1996	7	9
Amortisation at 20% per annum	<u>(2)</u>	<u>(2)</u>
At 31 March 1997	5	7
	<u>=</u>	<u>=</u>

9 TANGIBLE FIXED ASSETS

	<u>Land and buildings</u> £'000	<u>Plant and equipment</u> £'000	<u>Motor vehicles</u> £'000	<u>Total</u> £'000
<u>Cost</u>				
At 1 April 1996	76	316	2	394
Transfer from group companies	299	-	-	299
Additions	-	45	-	45
Disposals	<u>(12)</u>	<u>-</u>	<u>-</u>	<u>(12)</u>
At 31 March 1997	363	361	2	726
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>Depreciation</u>				
At 1 April 1996	29	196	2	227
Transfer from group companies	48	-	-	48
Charge for the period	12	35	-	47
Disposals	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
At 31 March 1997	86	231	2	319
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>Net book amount</u>				
At 31 March 1997	277	130	-	407
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>
At 31 March 1996	47	120	-	167
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>

Included within land and buildings is freehold land at a cost of £75,000, on which no depreciation is charged.

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

9 TANGIBLE FIXED ASSETS (CONTINUED)

Included within tangible fixed assets are assets held under finances leases as follows:

	<u>1997</u> £'000	<u>1996</u> £'000
Cost	-	2
Accumulated depreciation	-	(2)
Net book amount	-	-
	<u>==</u>	<u>==</u>

10 STOCKS

	<u>1997</u> £'000	<u>1996</u> £'000
Raw materials and consumables	358	292
Work in progress	35	88
Finished goods	<u>77</u>	<u>183</u>
	470	563
	<u>==</u>	<u>==</u>

11 DEBTORS

	<u>1997</u> £'000	<u>1996</u> £'000
Trade debtors	405	516
Amounts owed by group undertakings	<u>146</u>	<u>109</u>
	551	625
	<u>==</u>	<u>==</u>

12 CREDITORS (amounts falling due within one year)

	<u>1997</u> £'000	<u>1996</u> £'000
Bank loans and overdrafts	547	450
Trade creditors	57	189
Amounts owed to group undertakings	498	249
Other taxes and social security costs	43	40
Accruals and deferred income	<u>425</u>	<u>376</u>
	1,570	1,304
	<u>==</u>	<u>==</u>

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

13 CALLED UP SHARE CAPITAL

	<u>1997</u>	<u>1996</u>
Authorised:		
350,000 Ordinary shares of £1 each	£350,000	£350,000
	<u> </u>	<u> </u>
Issued and fully paid:		
340,120 Ordinary shares of £1 each	£340,120	£340,120
	<u> </u>	<u> </u>

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1997</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>
Loss for the financial year	(195)	(635)
	<u> </u>	<u> </u>
Net reduction in shareholders' funds	(195)	(635)
Opening shareholders' funds	<u>58</u>	<u>693</u>
Closing shareholders' funds	<u>(137)</u>	<u>58</u>

15 OPERATING LEASE COMMITMENTS

	<u>Land and buildings</u> <u>£'000</u>	<u>Other</u> <u>£'000</u>
Current annual rental commitments under operating leases are as follows:		
Leases which expire:		
- within 1 year	-	-
- between 1 and 5 years	70	67
- after 5 years	<u>-</u>	<u>23</u>
	<u>70</u>	<u>90</u>

AZTEC ENVIRONMENTAL CONTROL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1997 (CONTINUED)

16 PENSION COMMITMENTS

The company operates a defined contribution pension scheme and a number of employees are members of the Severn Trent Water Scheme (a defined benefit scheme). Details of the defined benefit scheme may be found in the accounts of Severn Trent Water Limited. This scheme was made available to employees from 1 January 1997. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost represents contributions payable by the company to the schemes as follows:

	1997 <u>£'000</u>	1996 <u>£'000</u>
Defined contribution scheme	12	13
Defined benefit scheme	<u>44</u>	<u>-</u>
	56	13
	<u>==</u>	<u>==</u>

17 ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent undertaking and controlling party is Severn Trent Plc which is incorporated in England and Wales. Copies of the group accounts may be obtained from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

Severn Trent Plc has indicated its intention to continue to provide financial support to the company to enable it to meet its obligations as and when they fall due.