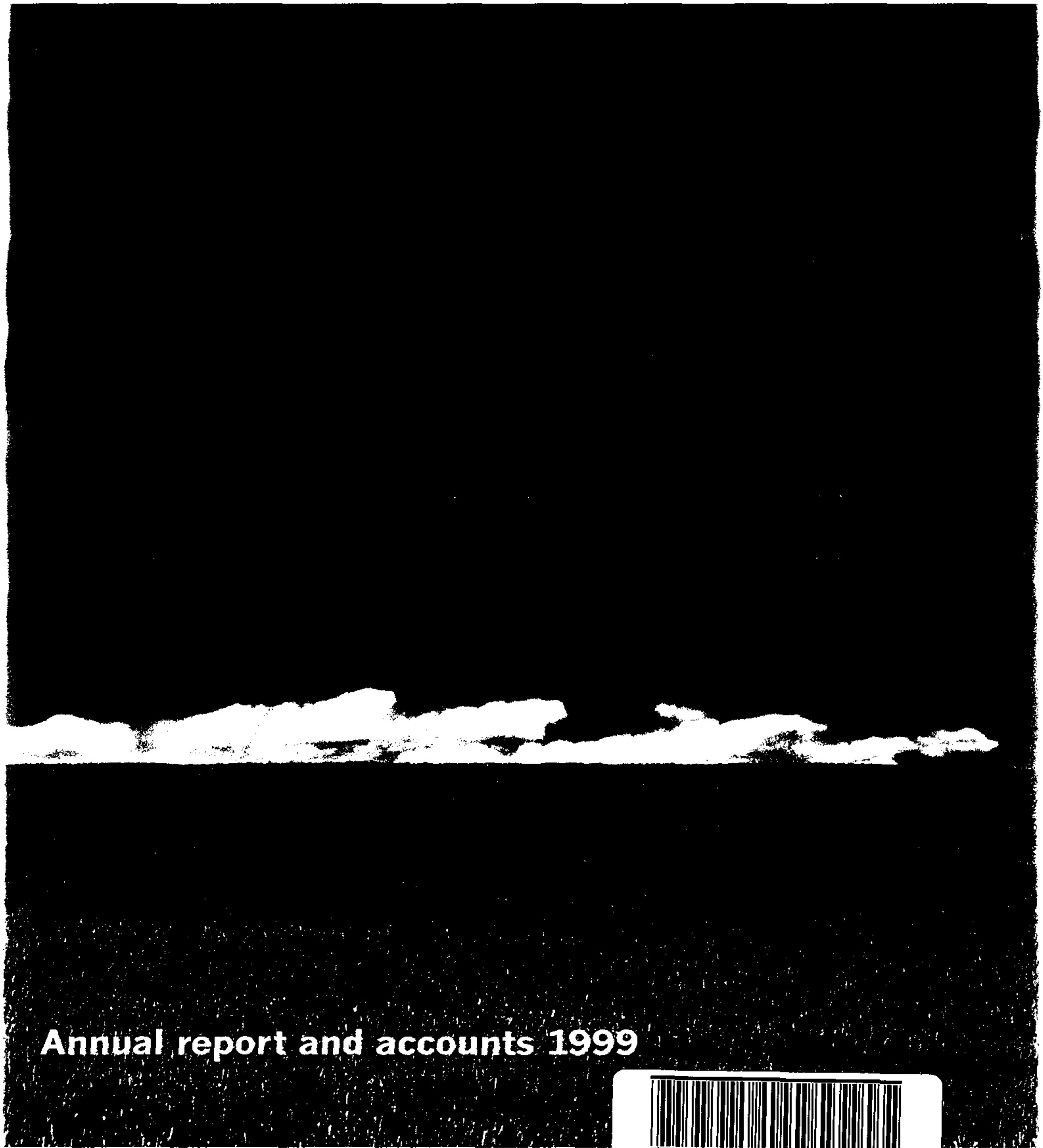
COMPANY NUMBER: 2366619

SEVERN TRENT

ENVIRONMENTAL LEADERSHIP



Annual report and accounts 1999

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Contents

Severn Trent Plc includes Severn Trent Water, Biffa Waste Services and Severn Trent Services.

To us, environmental leadership and commercial success go hand in hand. As a leading provider of water, waste and utility services around the world, we employ almost 12,000 people in the UK, North America and Europe, generating sales of more than £1.3 billion.

As individuals, we can all work to improve the environment. But a company the size of Severn Trent can really make an impact.

Severn Trent at a glance

Water

Severn Trent Water is the group's regulated water business providing high quality water and sewerage services to over three million households, businesses and other establishments in central England and parts of mid Wales.

1999 highlights

- Turnover of £952.7 million (£932.8 million).
- Profit before interest, tax and Year 2000 costs increased 1.8% to £423.9 million (£416.4 million).
- Virtually 100% compliance with water quality standards and sanitary standards for waste water.
- Capital investment for the year amounted to £567 million (£516 million).
- 3.8% reduction in direct operating costs (excluding Year 2000 costs).

Waste

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

1999 highlights

- Turnover of £247.8 million (£218.6 million).
- Profit before interest and tax of £34.2 million (£28.4 million).
- Sixth consecutive year of significant profit growth.
- Particularly strong performance from the UK collection division and Biffa Belgium.
- Established on the Isle of Wight the UK's first completely integrated domestic waste collection, recycling and disposal scheme.

Environmental Leadership, supported by a commitment to quality and service, is the value that increasingly binds together Severn Trent's businesses.

Services

Property, Engineering consultancy and Insurance

Severn Trent Services supplies products, processes and services associated with water and waste water, including contract operations and consultancy. to industrial and municipal markets and provides software solutions and IT services to water and other utilities.

1999 highlights

- Turnover of £229.0 million (£187.6 million).
- Profit before interest and tax of £11.8 million.
- During the year, ten businesses acquired in the USA, comprising four environmental laboratory businesses, three disinfection equipment organisations and three companies providing water-related services to municipalities and other customers.
- In the USA, the company is the fourth largest private operator of municipal and industrial water and waste water systems.

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

Charles Haswell & Partners is an engineering and project management consultancy working for Severn Trent Water and for a range of external clients in the UK and overseas.

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

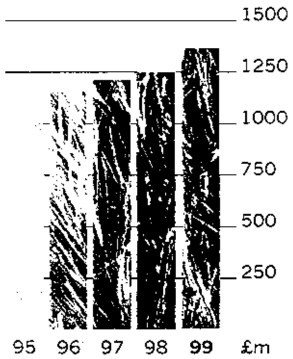
1999 highlights

- Turnover of £60.5 million (£24.8 million).
- Profit before interest and tax of £6.3 million (£0.8 million).
- Good performance by Severn Trent Property where an increased number of property developments were completed or advanced during the year.
- Major projects for Charles Haswell & Partners include the design of the Millennium Pier at Greenwich and a major tunnel to the new Route 9 highway between Hong Kong airport and Kowloon.

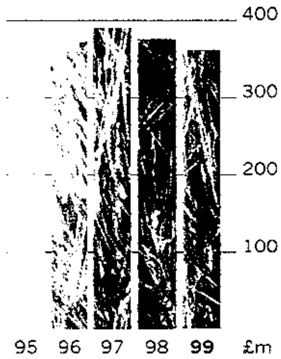
Financial highlights

	1999	1998	% change
Turnover (£m)	**1,364**	1,251	9.0
Profit before interest (pre-exceptionals) (£m)	**462***	449*	2.7
Profit before interest (post-exceptionals) (£m)	**451**	447	0.7
Profit before tax (pre-exceptionals) (£m)	**361***	376*	(3.9)
Profit before tax (post-exceptionals) (£m)	**350**	374	(6.3)
Earnings per share (pre-exceptionals) (p)	**92.4***	95.0*	(2.7)
Earnings per share (post-exceptionals) (p)	**89.2**	4.3	–
Gearing (%)	**60.4**	47.4	13.0
Underlying final dividend (p)	**26.69**	24.37	9.5
Underlying dividends for year (excluding second interim dividend) (p)	**39.16**	35.92	9.0
Second interim dividend (p)	**3.84**	3.84	–
Final dividend enhancement (p)	**–**	1.36	–
Total equity dividends for the year (p)	**43.00**	41.12	4.6

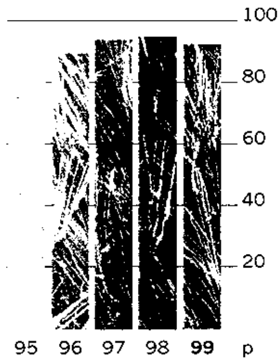
* Excludes effect of Year 2000 costs of £11.0 million in 1999 and £2.2 million in 1998 and £309.6 million of Windfall Tax in 1998.



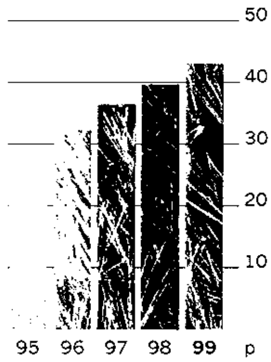
Group turnover



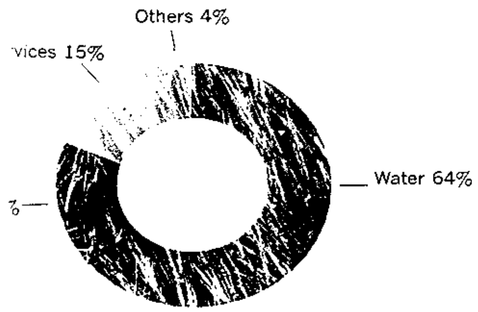
Group profit before tax
(before exceptional items)



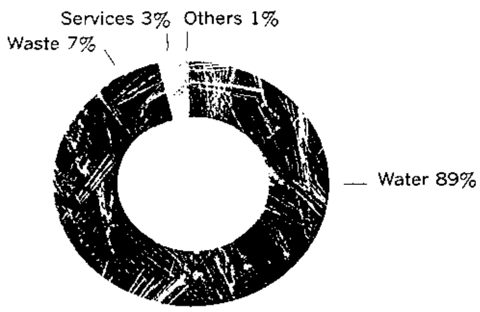
Earnings per share
(before exceptional items)



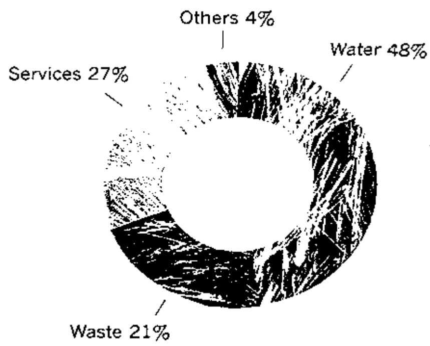
Dividends per share
(excluding 1997/98 final dividend enhancement)



Turnover
(% of group total)



Profit before interest and tax
(% of group total)



Number of employees (average)
(% of group total)

Chairman's statement

Environmental leadership and committed people
Environmental leadership, supported by a commitment to quality and service, is the value which increasingly binds together Severn Trent's businesses. This is why it is one of the major themes of this annual report.

This desire to pursue environmental leadership underpins the group's success across all our businesses. For example, in the UK water business, Severn Trent Water has led the field in driving down leakage and driving up quality. Biffa have created an imaginative and far sighted approach to waste management that has won significant customer support resulting in the visionary launch of 'Biffpack', one of the UK's major compliance schemes helping companies to meet their recycling obligations. Severn Trent Services have provided us with the expertise to put together a first rate laboratory business in the USA and UK. Many of our businesses are subject to environmental regulation and as regulation evolves there will be increasing opportunities for the best companies in each sector.

Across the group, our values determine the way in which people carry out their jobs at all levels of the organisation and the systems we have developed to support them. Our vision is that environmental leadership will become the hallmark of a truly successful environmental services business.

My first year
I took over as Chairman of Severn Trent after the 1998 Annual General Meeting. My priority has been to see as much as possible of the company's extensive operations which now employs around 10,000 people in the UK and continental Europe and a further 2,000 in the USA. Our people operate drinking water treatment works, reservoirs, pipelines, sewers, sewage treatment works, landfill sites, waste collection depots, recycling centres, laboratories, metering services, engineering consultancy, contract operations, computer software, call centres and mailing services as well as supplying many types of equipment to a range of companies around the world. We also have education centres, recreational facilities and substantial catchment areas which are open to the public. Wherever I go, I am met by unsung heroes who do a commendable job serving their communities and helping to make this a great company. I thank all our people for their dedication and considerable endeavours.

One of the things you realise as Chairman of an environmental services company is that our customers have the highest expectations of us. We aim to match those expectations and that is why, alongside our growing environmental spend, we invest heavily in asset maintenance and replacement and in training our people. Our next five year plan for Severn Trent Water envisages that we will continue to spend more on capital projects than we earn in profits.

I have been pleased with the way we work with the communities of which we are an integral part. As well as being major employers, we are also major buyers of services and equipment and major spenders on the environment. As a group, we also give several million pounds a year to charities, environmental groups and community projects. For example, Biffaward since its inception has sponsored a large number of new environmental projects using £10 million of Landfill Tax Credits, and Severn Trent Water continues to support a charitable trust which has been created to help those domestic customers who have genuine difficulty paying their water bills.

Vic Cocker has recently been appointed Vice Chairman of WaterAid, which is one of our major charities and for which customers, staff and the company combined, raise some £0.5 million per year. In addition to these headline schemes, we also have many more modest but equally important charities and projects which we support in our local communities where a small amount of money can often do a large amount of good.

What matters most of all is the quality and dependability of the service we give to our customers, both domestic and business. Our water and sewage treatment is of the highest quality ever and our rankings in the various OFWAT indicators are the best we have ever achieved. We again gave our domestic customers a rebate of £6.50 per household, being the fifth year of an efficiency gains sharing programme benefiting customers and shareholders.

The Board and corporate governance
Derek Osborn joined the Board as a non-executive Director on 21 September 1998. Two years ago Derek chaired Severn Trent's Independent Advisory Panel on the 'Long-term Environmental Issues Facing the Water Industry'. He is the Chairman of the group's Environmental Advisory Committee and we congratulate him on his recent appointment as Chairman of the UK Round Table on Sustainable Development.

Eric Anstee will be joining the Board as a non-executive Director with effect from 30 July 1999. Eric is a former Finance Director of Eastern Group Plc and is currently Finance Director of Old Mutual Plc.

Our very important Treasury Committee, now chaired by Martin Flower, has presided over two substantial long-term bond issues during the last six months.

Peter Davies joined Severn Trent as Company Secretary in May 1998 and has provided invaluable support to the Board in his first year with us.

The effect of these changes is that we have a strong non-executive team to complement our established executive management led by Vic Cocker.

The publication of the London Stock Exchange's Combined Code has produced further encouragement to companies to reassess their corporate governance and internal control arrangements. The section 'Corporate governance' on page 30 contains information relating to the company's compliance with the Combined Code.

Results and dividends
The past year has been one in which Severn Trent made significant progress in developing the scale of our non-regulated businesses. Biffa Waste Services increased its profit before interest by 20.4% and Severn Trent Services made a number of acquisitions, mainly in the USA, and increased its turnover by 22.1%. Severn Trent Water delivered another steady financial performance at the same time as maintaining the very high quality of its water and sewerage services plus delivering further improvements in customer service.

Group turnover for the year increased by 9.0% to £1.36 billion (£1.25 billion).

The group's profit before interest was £450.7 million (£447.4 million) after the effect of Year 2000 compliance costs amounting to £11.0 million (£2.2 million).

Net interest costs increased by 36.6% to £100.3 million (£73.4 million) as the net borrowings of the group rose to £1,478 million (£1,082 million). The increase of £396 million in net borrowings included £154.8 million for the second and final instalment of the Windfall Tax and £81.3 million cash paid for acquisitions.

Profit before tax was £350.4 million (£374.0 million).

The group's tax charge for the year was £46.6 million (£49.5 million excluding exceptional cost of full provision for Windfall Tax of £309.6 million).

Earnings per share increased to 89.2p (4.3p); earnings per share before Year 2000 compliance costs and the Windfall Tax last year declined by 2.7% to 92.4p (95.0p).

The Board is recommending a final dividend of 26.69p net per share, bringing the total for the year excluding the second interim dividend to 39.16p, an underlying increase of 9.0%. In addition, the Board has declared a second interim dividend of 3.84p, unchanged from last year, which brings total dividends for the year to 43.00p (41.12p including 1.36p enhancement to reflect the delay in payment of the second interim and final dividends for the year ended 31 March 1998).

The total dividend is covered 2.07 times by profit after taxation for the financial year. It remains the Board's intention, barring unforeseen circumstances, to arrive at dividend cover of two times earnings by the year ending 31 March 2000. The Board's policy for dividends beyond that date will be reviewed when the outcome of OFWAT's Periodic Review of charges for the five years commencing 1 April 2000 has been finally determined.

The second interim dividend will be paid on 2 August 1999 and the final dividend on 1 October 1999, subject to approval by shareholders at the company's Annual General Meeting.

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

The future
The group faces several major opportunities and challenges over the coming year and beyond.

Perhaps the biggest challenge is to maintain the acceleration in the rate of development of our non-regulated businesses.

In Biffa we have a business of the highest quality which has the potential for significant expansion. Severn Trent Services is at an earlier stage in its development. Turnover is growing rapidly and the challenge is to convert that turnover growth into higher profitability. In total some 36% of the group's turnover now comes from our non-regulated businesses.

The challenges in the regulated business of Severn Trent Water are different. Our strategic business plan provides the basis for delivering further benefits to customers and the environment at the same time as providing a fair return on a growing regulatory asset base for our shareholders. Uniquely amongst the major water and sewerage companies, we have proposed a one-off price cut of 5% in 2000. The proposals constitute a carefully considered plan, which we believe to be defensible. Ian Byatt, the Director General, Office of Water Services, will announce his draft determination in July 1999. The final determination will be announced in November. The outcome will be of major importance for all our stakeholders.

In the meantime, Severn Trent Water will complete its capital investment programme for the five year period ending March 2000, with expenditure in the current year expected to be around £550 million. The company will achieve the outputs to which it is committed for this period. The costs associated with this programme and the delivery of further benefits to customers and the environment are coupled with some further loss of revenue as industrial and commercial customers continue to reduce consumption and domestic customers switch to the metered tariff. This will result in Severn Trent Water's profit before interest for the current year remaining at a level very close to that achieved in 1998/99.

As a consequence of the anticipated growth of our non-regulated businesses and the continued high level of capital expenditure in Severn Trent Water, the group's net borrowings will increase significantly again in the current year.

This is the first opportunity I have had to give an end of year report to the shareholders of this business. I hope I have conveyed a strong impression that despite the considerable pressures Severn Trent is facing in the context of the UK water industry, your company is in good heart and is working hard, both to meet the challenges faced by its traditional business and to build its non-regulated businesses. At the centre of all that we do and our future successes will be committed people and environmental leadership.

David Arculus

David Arculus
Chairman

Group Chief Executive's review

The group's results for the year show that we have continued to make good progress towards the achievement of our strategy of becoming an international environmental services group. We have developed a world-class water services business and are rapidly building earnings from waste management, and the supply of products and services related to water, waste water and environmental solutions. Our Environmental Leadership campaign, which clearly defines the group's strategy for the future, is outlined in the pages following this review.

Severn Trent Water again achieved further cost efficiencies in its operations at the same time as improving service levels to customers. As anticipated, Severn Trent Water's profit before interest, tax and Year 2000 costs increased at marginally less than the rate of inflation. The development and submission of its strategic business plan for the period 2000-2005 demonstrates a determination to deliver further benefits to both customers and the environment whilst producing a fair return for shareholders.

The shape of the group has changed significantly in the last few years. The scale of our non-regulated businesses grew during the course of the year and we completed seventeen acquisitions at a total cost of £76 million. These purchases were focused primarily in the USA where we are rapidly building our products and services business and annualised turnover is already some $240 million. In total the non-regulated businesses produced profit before interest and tax of £52.3 million, representing 11.6% of the group total. At 31 March 1999, the non-regulated businesses employed 6,345 people, one thousand more than the number in Severn Trent Water. Non-regulated turnover of £537 million represented 36% of the total for the year. The current annualised run rate is now around £575 million.

The growth of our organisation has led to many new employees joining in the UK, the USA and Italy. I am delighted to welcome them to Severn Trent, and I thank all our employees for the invaluable contribution they make to our businesses.

My predecessor and former colleague Roderick Paul, who retired in 1995, sadly died in September 1998. He was a great influence in shaping the company's strategic direction and continued to contribute to WaterAid and national environmental initiatives through the CBI after his retirement from Severn Trent. He will be greatly missed.

Regulated water services
Severn Trent Water's profit before interest, tax and Year 2000 costs was £423.9 million (£416.4 million), an increase of 1.8%. Year 2000 compliance costs were £11.8 million (£2.2 million), including a margin of £0.8 million on services provided by other group companies.

The company maintained virtually 100% compliance with water quality standards and sanitary standards for waste water.

Customer service levels improved again, with further improvements in seven of the nine OFWAT measures.

Leakage from the water distribution system was reduced to 344 megalitres per day, improving upon the very challenging target agreed with OFWAT. This represents a reduction of 48% since 1995. The water saved is equivalent to more than the daily demand of Birmingham. The company's leadership position on water resources management and leakage control resulted in Terry Kitson, Director of Asset Planning & Investment, being awarded the 1999 CIWEM award for Sustainable Water Management.

The continued improvement in service levels and the reduction in leakage have been achieved through a combination of capital investment and standardisation based upon best operating practices. Capital investment for the year amounted to £567 million (£516 million).

Waste services
The medium-term target for Biffa, our integrated waste management company, is to achieve £450 million annual turnover with a margin on sales of 12% or better.

In the year ended 31 March 1999 Biffa produced turnover of £247.8 million (£218.6 million) and achieved profit before interest and tax of £34.2 million (£28.4 million). This very good result, which represented the sixth consecutive year of significant profit growth, included increased profit contributions from all divisions of the business, with particularly strong performances from the UK collection division and from Biffa Belgium.

We have developed a world-class water services business and are rapidly building earnings from waste management, and the supply of products and services related to water, waste water and environmental solutions.

The collection division continued to strengthen its competitive position, which is based upon the most comprehensive depot network of any waste company operating in England, Wales and Scotland. The Scottish operation, acquired in March 1998, had a successful first year under Biffa's ownership. Tuckunder acquisitions in North London and Cambridge were also successfully integrated during the year. A further company was acquired in York during April 1999. The collection service offering is differentiated according to customers' needs, and the efficiency of operations is driven by economies of scale and a strong and continually evolving IT system.

The UK landfill division opened a new site at Stockport, near Manchester, and finished the year with 42.6 million cubic metres consented void space and 18.0 million cubic metres in development. This void bank has subsequently been increased following the acquisition of Poplars Resource Management Company Limited in April 1999, giving access to a further 11.5 million cubic metres.

Biffa continued to expand its network of facilities capable of segregating waste streams, positioning it well to help customers meet their recycling obligations.

Severn Trent Services
Severn Trent Services supplies products and services related to water and waste water as well as providing software solutions for utilities.

In the year ended 31 March 1999 Severn Trent Services produced turnover of £229.0 million and a profit before interest and tax of £11.8 million.

The medium term target for Severn Trent Services is to achieve $1,000 million per annum turnover (equivalent to approximately £600 million at current exchange rates) with a margin on sales of 10% or better.

Although operating in the UK and Europe, the business is focused largely upon the USA, where we have steadily built our position in the market over the last nine years. We are able to exploit that position by adding value to acquired businesses through applying our technical knowledge, expertise and systems. The returns available through this strategy are currently much more attractive than those to be derived from direct ownership of US water utilities, whilst avoiding the higher risk associated with large-scale projects in developing countries.

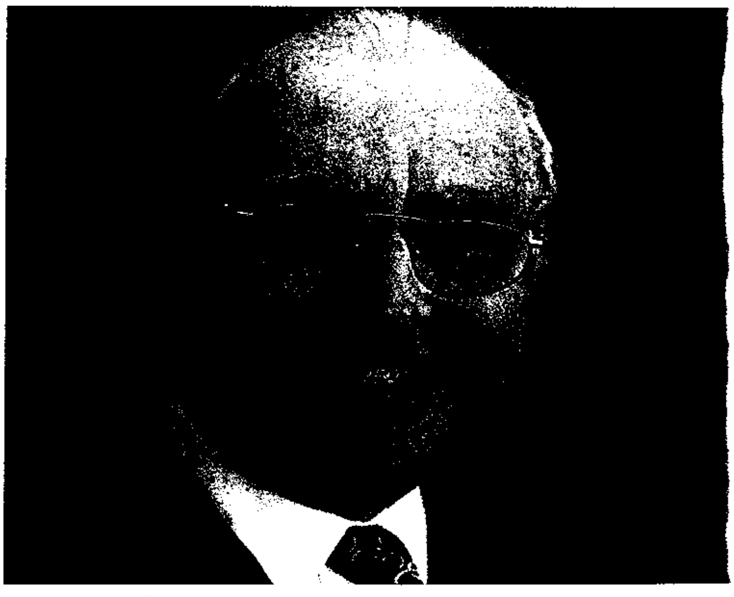
We are now at the rapid growth phase for the products and services business in the USA. Our strategy is to target businesses where we can leverage our technical knowledge and environmental leadership to build a dominant position in clearly defined markets. During the year we acquired ten businesses in the USA, comprising four environmental laboratory businesses, three disinfection equipment organisations and three companies providing water related services to municipalities and other clearly defined markets. Since the end of the year we have acquired two more environmental laboratories, a water treatment process company and a small contract operations business.

Property, Engineering consultancy and Insurance
Profit before interest and tax from these businesses was £6.3 million (£0.8 million).

Our strategy for these businesses is to exploit the expertise which they have developed over the years as they meet the needs of Severn Trent Water and other customers. They can make a useful contribution to the group's non-regulated earnings.

Year 2000 issue
The Severn Trent group began planning how to deal with the Year 2000 issue during 1996. The Managing Directors of each business unit are responsible for their operations and they regularly report progress directly to me. At a group level the project is being co-ordinated by the Group Finance Director, who reports progress to the Audit Committee.

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



Group Chief Executive's review continued

The replacement or amendment of hardware and software that was found to be non-compliant is well advanced in all our businesses. Severn Trent Water already has 100% of its systems and sites classified as 'blue' using the Action 2000 national rating, ie there will be no potential disruption caused by the Year 2000 problem. In Biffa all UK business systems are now compliant; replaced or amended systems have been rigorously tested. Belgian systems are progressively scheduled to be compliant no later than October 1999. All landfill hardware and third party weighbridge software is scheduled to be compliant by 30 June 1999. Within Severn Trent Services, the majority of systems are now Year 2000 compliant and detailed plans exist for replacing or amending those systems not yet compliant; with completion no later than September 1999.

Notwithstanding the progress achieved towards ensuring Year 2000 compliance, contingency plans are being prepared to ensure that critical business functions can be maintained without the support of systems and processes should any subsequently prove to be vulnerable.

Key suppliers have been contacted to ascertain their readiness for Year 2000, and to obtain confirmation that their service will be maintained at the level our businesses require.

Within Severn Trent Services we operate assets, including systems, which are owned by and are the responsibility of our clients. Where this is the case, we have advised the client accordingly, and have requested those with sophisticated plant operating systems to engage with us in joint testing programmes and to participate in the development of any necessary corrective actions and contingency plans. Out of 388 sites, 86% are now assessed as being Year 2000 compliant.

In the year ended 31 March 1999, the net costs associated with the Year 2000 issue amounted to £11.0 million after eliminating £0.8 million margin on services provided intra-group. We anticipate that around £8 million will be incurred in the current year. Taking account of £2.2 million incurred in 1997/98, the total cost of resolving the Year 2000 issue is expected to be around £22 million. Capitalised costs arising wholly from Year 2000 compliance are not expected to be material. An analysis of the costs included in the charge against profits in the two years ended 31 March 1999 is provided in note 3 to the accounts.

Economic and Monetary Union
Severn Trent started preparations for the introduction of the euro in mid 1997. Our subsidiary and associate companies in the first wave countries were ready for euro trading by 1 January 1999.

Severn Trent Water has developed an internal changeover plan at an early stage to be ready for the significant system changes that would be necessary if the UK enters EMU. As part of the process, the company worked closely with HM Treasury and contributed directly to the outline National Changeover Plan.

We are very active in Water UK's EMU Group which is developing a code of practice for the water industry. The company has also joined forces with BT, BG and the Electricity Association to assess a code of practice for the utilities sector in the UK.

The operating and financial review on pages 12 to 25 describes in more detail the results, activities and achievements of the businesses within the group.

Vic Cocker
Group Chief Executive

All Severn Trent businesses are well advanced with implementing their plans to resolve problems associated with the Year 2000 issue.

Environmental leadership

Looking towards the 21st century, the challenge is to profitably grow our businesses in a long-term sustainable way.

Throughout the 1990s we have increasingly understood that running water and waste management services profitably for the long term can only be sustainable by securing a balance between economic, environmental and social issues. For us, an evolving environmental agenda is a developing and growing business agenda. Environmental leadership lies at the heart of our business strategy.

Over the last decade Severn Trent has reported its environmental performance in a series of annual Stewardship reports, and two years ago the company established a 'first' for the industry – an Independent Advisory Panel on Long-term Environmental Issues. The Panel was chaired by Derek Osborn CB and last September Severn Trent Water published its formal response to the Panel's report. In looking forward we have embraced the concept of environmental leadership into our businesses and earlier this year established a Board Environmental Advisory Committee. In addition, we continue to seek external views on our plans from our Advisory Panel, which is now chaired by Professor Rod Aspinwall OBE.

Running our business in a more sustainable way is about minimising environmental impact and identifying areas where we can become more efficient thereby reducing our cost base. Transport is a case in point. Improved use of IT infrastructures has facilitated local office working, home working and the use of video conferencing. These initiatives are already reducing employee mileage and are leading to cost savings. To further reduce the environmental impact of travel, in both our water business and in Biffa Waste Services, we are evaluating and utilising alternative fuels. These will assist in reducing emissions from our vehicle fleet. Similarly, using methane gas to generate electricity at several of our landfill sites and sewage treatment works saves costs, and also reduces emissions of one of the more damaging greenhouse gases contributing to climate change.

The environmental agenda however is not just about becoming more cost effective in the way we do things: it is also about developing business opportunities. Our customers increasingly require services which make a positive contribution to their environmental performance. The market requires waste management activities to be undertaken responsibly and 'drivers', such as the Duty of Care, the Packaging Directive, new initiatives under integrated pollution control and the cost pressures on businesses from the landfill tax, create opportunities for strategic development and business growth aligned with satisfying enhanced customer requirements.

Environmental leadership is important to the company in one further respect: it will enable us to articulate a series of values – the ethics by which we do business – to our key stakeholder groups particularly our employees.

The business challenge is to satisfy our customers' requirements by adding value and providing services which contribute to our earning potential at the same time as minimising impact and improving the environment.

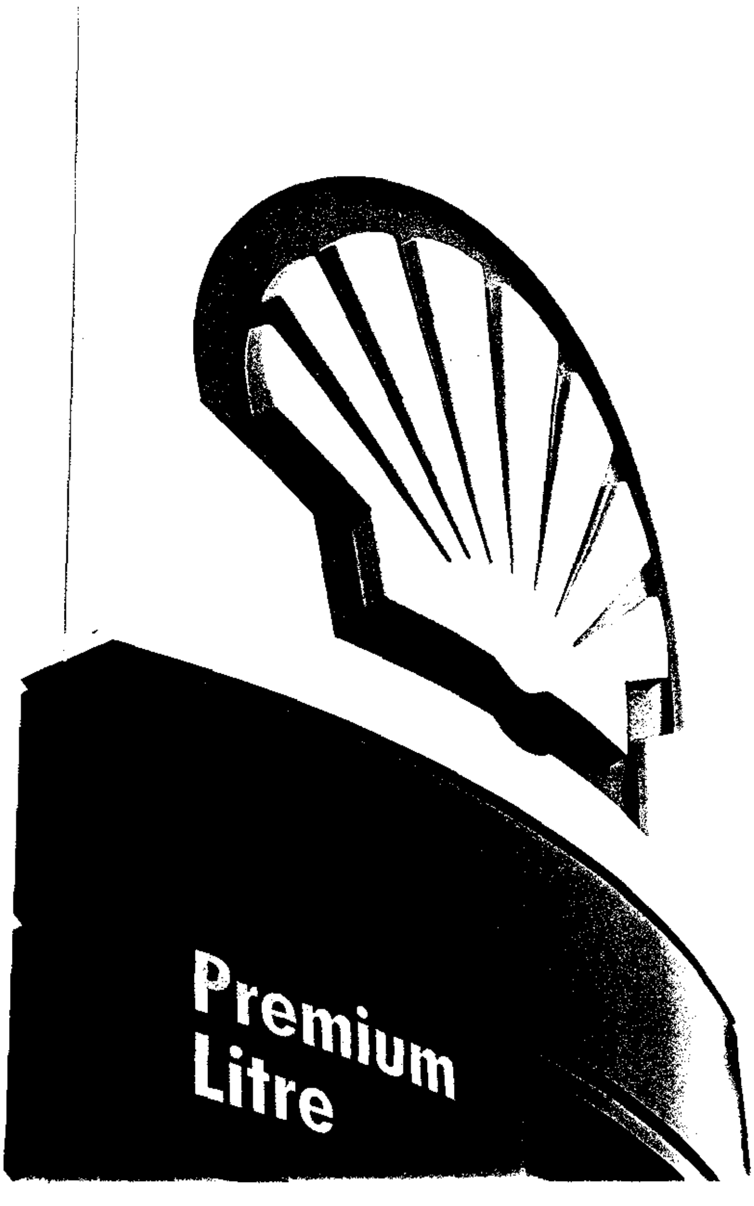
The next few pages illustrate some of the ways in which Severn Trent is responding to the needs of our customers in helping them achieve higher environmental standards, while growing and enhancing the earnings potential for the company.

One example is Severn Trent Laboratories in the USA which is responding to customer needs driven by stringent new federal environmental legislation thereby helping them achieve necessary environmental standards compliance.

Severn Trent Laboratories is the largest environmental analysis service in the USA. The BP contract requires testing samples from gasoline stations, distribution terminals, refineries and pipeline facilities across the USA.

Southern California Gas Co (SoCalGas) is America's largest natural gas utility, supplying energy through 45,000 miles of pipe to 18 million people over 23,000 square miles. Since 1970, SoCalGas has relied on network modelling software and service by Stoner Associates, a Severn Trent subsidiary.

Stoner's software helps SoCalGas plan pipeline layouts and regulators, to reduce the amount of energy necessary to distribute natural gas to its customers and to calculate the precise volumes needed to avoid laying unnecessary pipes. In Southern California, where they take environmental issues seriously, Stoner supports SoCalGas to meet its environmental targets.



Biffa provides a total waste management service for Shell UK Downstream, serving its company-owned petrol filling stations, distribution depots and aviation fuel sites. The contract includes both wet and dry waste, where Biffa is incentivised to deliver continuous service improvements alongside effective waste management.

Specialised vehicles have been introduced into the Biffa fleet which utilise the latest cleaning, dewatering and decanting technology, designed to minimise the volume of effluent that needs to be transported away from the site. Further discussions are underway between Biffa and Shell management in an effort to reduce the total amount of dry waste produced from shop stock goods.

Cadbury's Bristol factory produces millions of bars of Crunchie, Picnic, and Double Decker each year. Manufacturing chocolate at the plant requires two large boilers delivering huge volumes of steam. In August 1998 Capital Controls, a division of Severn Trent, installed a 'reverse osmosis' water treatment process that clears the water supply of solids, salts and bacteria.

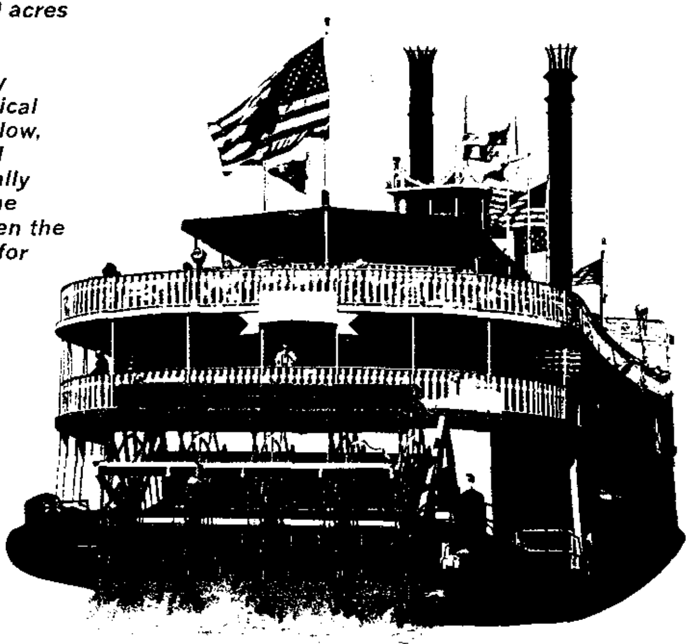
Thanks to Severn Trent, Cadbury's can use water from a local borehole and release waste water safely into the River Avon with Environment Agency approval. The new process produces no other effluent, is chemical-free, improves safety and even helps reduce the plant's fuel bill.

The US Air Force Center for Environmental Excellence uses Severn Trent Laboratories' testing facilities to monitor its success in clearing up old sites – some of which have handled large volumes of toxic and hazardous substances.

The Griffiss Air Force Base in the Mohawk Valley, New York State, was once the home of the 4039th Strategic Wing. With Severn Trent's help, the site is now being cleaned up and this year the old airbase will host 250,000 US citizens at the Woodstock '99 rock festival.

The 'overland flow' waste water plant in Cleveland, Mississippi, is one of the largest municipally owned sites of its kind in the world. Managed under a Severn Trent Environmental Services contract, the site comprises 160 acres of purpose-built lagoons processing on average three million gallons of waste water per day. Effluent is used for the production of hay on 460 acres of associated fields.

The treatment process is entirely biological. Compared to mechanical systems, maintenance costs are low, less electricity is used, the visual impact is minimal and it is virtually odour-free. The lagoons are home to colonies of wild geese and even the hay from the fields is harvested for cattle feed.



Biffa's contract with BT involves servicing approximately 2,500 locations nationwide, handling both dry and wet waste and managing recycling initiatives, as well as collecting special and hazardous waste.

In addition Biffa's 'Backtrack' scheme recycles BT's fluorescent tubes. A typical fluorescent tube contains 20mg of mercury which is a valuable natural resource. As well as collecting and recycling glass and other metals, the process retrieves and purifies the mercury so that it can be re-used.

During 1998 the 'Bottleback' scheme was launched in which Biffa and one other partner now collect bottles from pubs, clubs, hotels and restaurants all over Britain. During 1999 more than 90,000 sites could participate. The economies of scale produced by the size of the operation, make glass recycling far more commercially viable. Bass, one of the champions of the scheme are now able to move towards meeting the glass recovery requirements under the packaging waste regulations with a flexible scheme suited to their needs.

Britain is required to recycle 750,000 tonnes of glass a year. We currently only recycle 420,000 tonnes. Ultimately the Bottleback scheme will generate one third of all the recycled glass in Britain, helping the country towards its environmental targets.

Working in partnership with Jaguar Severn Trent Water has helped to improve water efficiency across many business areas. Part of the initiative involved a roadshow raising awareness amongst employees about water use in both the workplace and the home.

Thanks to these initiatives, industry throughout the Midlands now uses four million fewer gallons per day – this is equivalent to the daily use of a town the size of Warwick.

Water

Severn Trent Water is the group's regulated water business providing high quality water and sewerage services to over three million households, businesses and other establishments in central England and parts of mid-Wales. The company is the largest in the Severn Trent group and remains at the heart of the group's activities. It operates 41 impounding reservoirs, over 1,000 sewage treatment works, over 200 water treatment plants, 52,000 kilometres of sewers plus 42,000 kilometres of water mains. It is a flagship for the group's commitment to environmental leadership.

Turnover
Turnover increased by 2.2% to £952.7 million (£932.8 million), after customer rebates of £17.8 million (£17.8 million). The percentage increase was less than the allowed tariff increase of 4.2%, primarily as a result of the impact of domestic customers opting to switch to the metered tariff and reduced consumption amongst industrial and commercial customers, where consumption fell by 2.5%.

Consumption by domestic customers who were on the metered tariff in both 1997/98 and 1998/99 also reduced, by 6.1%. These factors reduced turnover by some £17 million and were only partially offset by turnover from new customers moving into the region and other income initiatives, which together generated £7 million. Despite the negative impact on its short-term financial results, the company will continue to help its customers reduce water consumption. This is to the immediate benefit of both customers and the environment, and protects the long-term interests of shareholders.

Profit before interest and tax
Profit before interest and tax was £412.1 million (£414.2 million), after incurring Year 2000 costs of £11.8 million (£2.2 million).

Operating costs
Severn Trent Water achieved further efficiencies in its operations, with direct operating costs excluding Year 2000 costs reducing by 3.8% in real terms. The efficiencies continue to be driven primarily by applying standardisation and best practice throughout each of the key functions of water supply, sewage treatment, distribution and sewerage networks and customer service. The number of people employed in the company reduced during the course of the year, finishing at 5,228 at 31 March 1999.

Direct operating costs, which comprise all costs of the business other than depreciation and infrastructure renewals, were £340.2 million (£343.5 million) before Year 2000 costs.

Depreciation charges (excluding infrastructure renewals and accelerated depreciation arising as a result of the Year 2000 issue) amounted to £127.4 million (£111.0 million), an increase of 14.8%. The higher depreciation was a direct consequence of the very high level of capital investment in both 1997/98 and 1998/99. This trend is planned to continue in the current year and beyond 2000; the depreciation charge for 1999/2000 is expected to be around £145 million.

Following the change in accounting policy prescribed by FRS12, expenditure on infrastructure renewals is now accounted for as an addition to fixed assets. Fixed assets are then depreciated by the anticipated long run average cost of infrastructure renewals. The depreciation charge for the year relating to infrastructure renewals amounted to £65.3 million (£63.6 million).

Investment
Capital investment amounted to £567 million for the year (£516 million). This brings the total since privatisation to more than £4.4 billion, representing an investment of more than £1,250 for each of our customers. Investment in 1999/2000 is planned to be around £550 million.

More than

12,500

free repairs to domestic customer supply pipes as part of our leakage programme

This continuing high level of investment is essential to the delivery of ever higher standards in the quality of water supplied and treatment of sewage, and to ensure that the company's asset base and infrastructure are maintained in proper working order and not allowed to deteriorate as they did for decades prior to privatisation.

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

The company has achieved further improvements in the quality of customer service; the company's rating, as measured by OFWAT, improved in seven out of nine measures and two remained unchanged at 100%.

The number of properties at risk of receiving low water pressure has been reduced by 15% to just 4,595, the lowest level ever recorded for the region.

Almost three million customer billing contacts were handled during the year, of which 99.2% were comprehensively responded to within five days. 11,257 written complaints were handled, with 95.2% comprehensively responded to within five days and the vast majority of the remainder within ten days.

Jo Foster is Director of Customer Relations at Severn Trent Water. Her staff dealt with 3.6 million telephone contacts in an average response time of 9.8 seconds.

The company received more than 3.6 million telephone contacts from customers, with the average response time reduced to 9.8 seconds, a 3% improvement over the previous year.

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

The company's water resources position remained strong, with reservoir storage high throughout the year, reflecting above average rainfall. The wet summer ensured reservoirs remained almost full even through the summer, allowing economies to be made in winter pumping to refill storage and leaving a very satisfactory water resources situation at the end of the winter for the coming year.

After a prolonged groundwater drought which saw falling water levels in aquifers across the Midlands since 1995, levels generally recovered well during the past year, except in the East Midlands. Lower rainfall totals in the east left water levels in the sandstone aquifer underlying much of Nottinghamshire at the lowest levels ever recorded. Although this has no immediate impact on our ability to abstract and supply water, it does have implications on the local environment and on future water resources availability. As a result, we are discussing with the Environment Agency the surrender of some of our abstraction licences, an early example of the impact of climate change.

Severn Trent works to form water planning partnerships such as that with the Rover Group. For example, to reduce solvent emissions Rover has recently commissioned its third new paint shop using a water-borne paint technology process. The future relationship with companies like Rover is not just based on water supply but on long-term water management consultancy.

Supported by Severn Trent, Rover was the first UK vehicle manufacturing group to achieve the British environmental management standard BS 7750 and subsequently the international standard ISO 14001. Rover has also won awards for encouraging its component suppliers to raise their environmental standards.

Further emphasis on leakage reduction saw overall demands for water continue to decline. Average annual water demands are now 15% lower than four years ago. The lower level of demand allowed more flexible use of sources of supply and facilitated the achievement of good progress on capital works on water supply assets, in particular on the Millennium Project at Ladybower Reservoir and on the new water treatment works at Little Eaton and at Homesford, all in Derbyshire. Works at Witches Oak Waters and at Church Wilne progressed to enable trials on the River Trent abstraction scheme to take place during the spring of 1999.

Strategic business plan
On 9 April 1999, Severn Trent Water submitted to OFWAT its strategic business plan for the five year period beginning 1 April 2000.

The plan proposed a cut of 5% in real terms in water and sewerage charges from 1 April 2000, followed by small increases in the following four years of 1.5% pa above inflation. The company proposed to invest £2.3 billion in improving and maintaining its asset base, to achieve further improvements in the quality of drinking water and standards of sewage treatment, and service levels to customers. The investment would be spread widely across nearly all areas of the Severn Trent region. The programme would include work at 65 different water treatment works, the rehabilitation of 1,900 km of water main, the replacement of over 150,000 lead communication pipes, improvements at nearly 400 sewage treatment works and the removal of nearly 370 combined sewer overflows.

The plan would benefit the environment in a number of ways and includes proposals to continue to improve a number of rivers in the company's region through raising standards of treatment, and utilising advanced nutrient removal techniques. Sustainability is a key issue for the company, particularly in relation to water resources. The company proposes to relinquish a number of abstraction licenses to ensure sites of special scientific interest and wetlands can survive, but we will need to replace this water from other sources. The plan proposes utilising the rising groundwater under Birmingham to reinforce resources.

The programme of encouraging customers to conserve water will also continue. In addition to promoting the use of low consumption domestic devices, we will continue to encourage customers to have meters installed because we have seen some reduction in consumption as a result of this activity; we will continue to insist that all new homes and the owners of properties with swimming pools or those who use sprinklers will pay metered charges. The plan provides for further reduction in leakage from our own networks, although we already have one of the lowest levels of leakage in the industry.

The plan represents an equitable balance between the interests of customers, shareholders and the environment. The return earned by the company on its regulated asset base would average 5.7% over the five years.

Severn Trent Water's management is enthusiastic to discuss the plan with Mr Ian Byatt, Director General, Office of Water Services. Mr Byatt will announce his draft determination of water charges at the end of July 1999, and his final determination during November.

163,000

water meters fitted, the second highest number in the UK water industry as a whole

Phil Wain is the head ranger at Tittesworth Reservoir where our new visitor centre was opened in July 1998. The reservoir attracts more than 300,000 visitors a year including bird watchers, wildlife lovers and walkers. Through preserving wetland areas and careful land management, once threatened wild flowers such as the Marsh Marigold are now flourishing at this site.

Waste

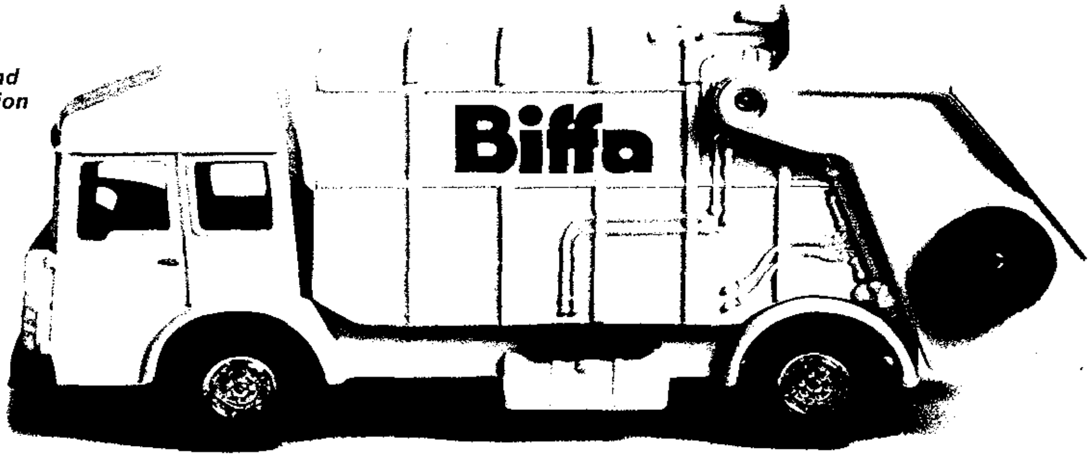
Biffa
Biffa Waste Services had another very successful twelve months, delivering increased profit for the sixth consecutive year. All divisions achieved higher profits, as the business reinforced its strong market position in both the UK and Belgium.

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

Recycling of waste is becoming an essential element of the service offering. Biffa is exceptionally well placed to meet this need for municipal, commercial and industrial customers. The company brings together the resources of its own strong collection fleet, unrivalled nationwide depot network and growing number of waste transfer stations, with the outlets for waste provided by the processors of recycled materials: Biffa has alliances covering paper, card, newsprint, glass, plastics, and fluorescent light tubes. Eleven landfill sites have recycling facilities for soils and aggregates. The Biffpack scheme, which helps companies meet their obligations under the Packaging Regulations, now has 208 members covering over 650 companies.

Biffa is leading the industry in the provision of differentiated services to meet the differing requirements of individual segments of the market. In an industry where regulation is driving

Biffa has one of the largest and most modern fleets of collection vehicles in the UK. The Biffa brand – big enough to appear on a Corgi truck!



6th

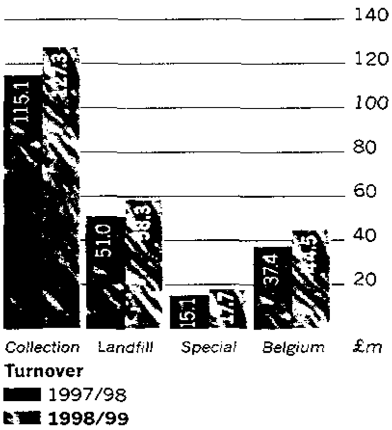
consecutive year of continuous profit growth change, it is utilising its economies of scale, strong IT systems and the initiative and skills of its people to keep ahead of the market.

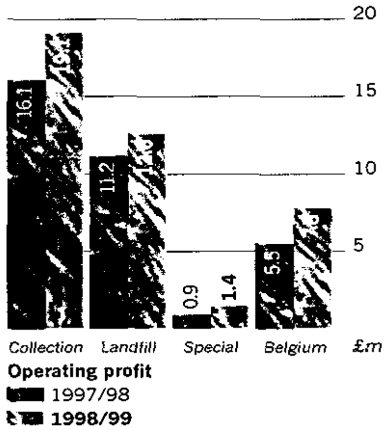
Results
Biffa's profit before interest and tax increased to £34.2 million (£28.4 million), an increase of 20.4% on turnover of £247.8 million (£218.6 million). Profit before interest and tax in the UK increased by 15.3% to £26.4 million (£22.9 million).

The UK collection division continued to deliver strong growth, with profit before interest and tax up 18.6%. Commercial volumes increased by 14%, including the collection business of Paterson's Quarries Limited acquired at the end of 1997/98 and the two tuckunder acquisitions completed during the year. On a like-for-like basis, volumes increased by 7%. Biffa now operates from 40 collection depots across England, Scotland and Wales, with a collection fleet over 800 vehicles. Its customer base numbers approximately 30,000 and it provides a nationwide service to many 'household name' companies in the High Street.

Profit before interest and tax from the UK landfill division increased by 12.5%. Landfill volumes in the UK increased by 5%, including the sites at Salisbury, Swindon and Canford Heath acquired during the final quarter of 1997/98. On a like-for-like basis, volumes were static. Average unit revenues increased by 6.5% (1.6% on a like-for-like basis). During the course of the year, the division filled approximately 3.5 million cubic metres of void. Electricity generation from landfill gas made a useful contribution to the division's profits as well as being beneficial to the environment. The division's sites have a generation capacity of 16Mw of electricity.

The special waste division in the UK increased profit before interest and tax by 55.6%. This good performance was achieved primarily through the development of innovative and individual treatment solutions designed for specific customers.

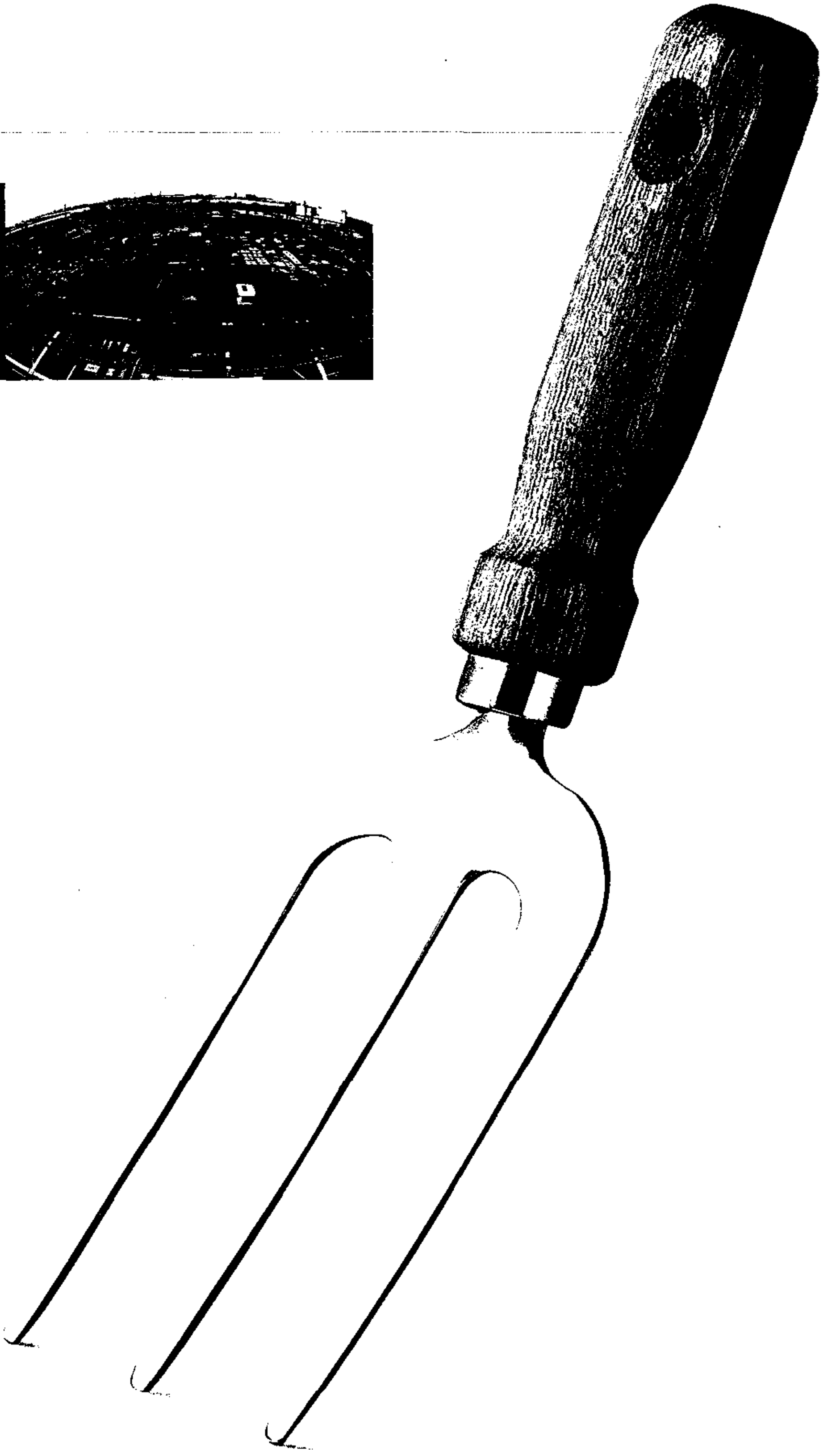




Tim Ward (right) is the site manager at Trecatti Landfill site in South Wales, pictured here with an Environment Agency inspector explaining the leachate management system and cell construction of the next phase of development.

Miriam Savels, gatekeeper at the Antwerp Pre Treatment centre in Belgium.

Biffa Belgium increased profit before interest and tax by 41.8%. This excellent result reflected increased profits from both the collection and landfill activities. The company's waste pre-treatment centre at Antwerp continued to make progress, with volumes up 41% on the previous year. Landfill gas generates 2Mw of electricity at the recently installed generation facility at the Cour au Bois landfill site.



Working with the Isle of Wight council, Biffa is the first waste management company in the UK to establish a completely integrated domestic waste collection, recycling and disposal scheme. Biffa's Island Waste Services contract will run for another ten years and is targeted to annually recycle 28% of all waste for the first four years, growing to 36% in the final contracted year.

Newspapers and magazines are being collected separately from households for recycling. All steel and aluminium cans, aerosols, foil and scrap aluminium are extracted in the Waste Derived Fuel plant and recycled. The plant utilises combustible material, turning waste into pellets for the nearby power station. This produces enough electricity to power 500 homes. Meanwhile all the garden and kitchen organic waste goes to a composting plant – again the first of its kind in the UK – which produces its own brand of Isle of Wight compost.

Services

Severn Trent Services supplies products, processes and services associated with water and waste water, including contract operations and consultancy, to industrial and municipal markets and provides software solutions and IT services to water and other utilities. Turnover for the year was £229.0 million (£187.6 million) generating profit before interest and tax of £11.8 million (£15.9 million). The business comprises:

- Water treatment equipment and processes; USA, UK and exports worldwide.
- Water meters; UK.
- Environmental laboratories; USA and UK.
- Contract operations and consultancy; USA, Belgium, Germany, Italy, Portugal and worldwide.
- Pipeline services; USA.
- Printing, mailing and document handling; UK.
- Software solutions and IT services; USA, UK and exports worldwide.

The business is based in the USA, its primary target market. It also has significant turnover in the UK, as well as operations in other European countries. Sales in the USA and UK accounted respectively for 45.8% and 51.0% of turnover in the year. UK sales included £97.8 million to Severn Trent Water Limited, of which £20.2 million comprised materials resold at no margin.

Severn Trent Services employs some 3,400 people, of whom approximately 2,000 are in the USA.

	Turnover		Profit before Interest	
	1998/99 £m	1997/98 £m	**1998/99** £m	1997/98 £m
Products and Services	**97.8**	67.0	**6.2**	3.2
Contract Operations	**50.8**	42.0	**5.5**	7.8
Software Solutions	**80.4**	78.6	**0.1**	4.9
	229.0	187.6	**11.8**	15.9

Turnover and profit from products and services grew rapidly in the year as a result of a significant acquisition programme. The chlorine disinfection business of Fischer & Porter was purchased on 31 March 1998, significantly increasing Severn Trent Services' share of the municipal market, and Exceltec, a business that sells disinfection equipment to the offshore oil and natural gas industry, was acquired in December 1998. Two other businesses were also acquired, one specialising in closed vessel ultra violet disinfection equipment, and the other focused on polymer dosing equipment. These are often marketed together with

22.1%

increase in turnover during 1999

disinfection equipment as part of a water treatment system. Since the year-end, Severn Trent Services has also acquired a waste water treatment equipment business that has strong relationships in the industrial market.

The US market for water and waste water treatment equipment is extensive and diverse. It comprises customers in the municipal and industrial sectors and is estimated to be worth £11 billion a year. The market is still served by a very fragmented industry. Over the last year, Severn Trent Services has targeted the disinfection segment knowing that this is pivotal to customer needs, and Services is now one of the largest suppliers in the market.

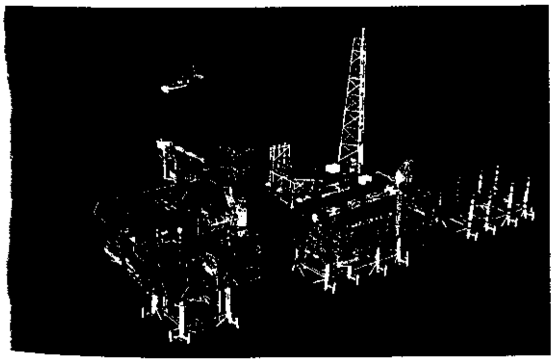
Severn Trent Services has also targeted the environmental laboratory sector, building on our management capabilities and laboratory computer systems developed in the UK, and on the experience of the US market gained via a small US business acquired in 1997. During the last year, nine environmental laboratories were acquired, and two more have been purchased since the year-end.

The US market for environmental laboratory services went through a savage recession in the early 1990s but is now showing signs of growth with customers seeking quality of data and service, in contrast to straight discounting. Severn Trent Services is well placed to deliver these needs and is now positioning itself to be the pre-eminent business in this sector.

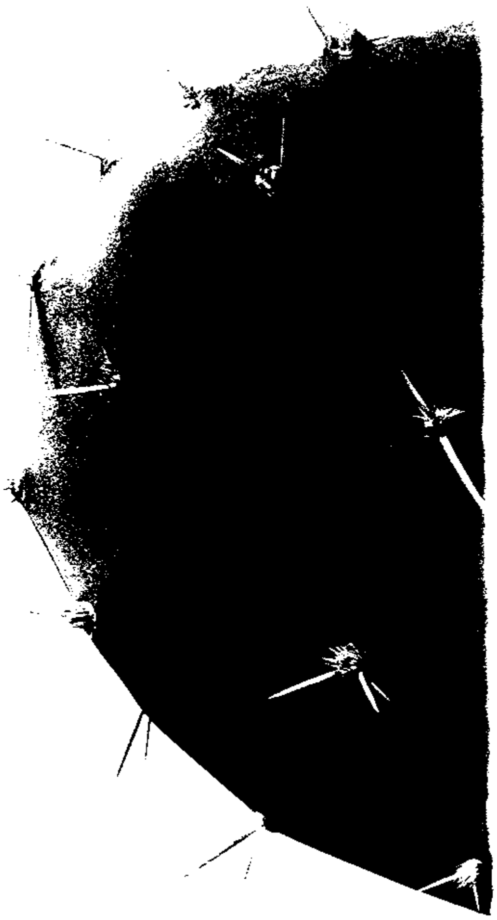
Turnover from contract operations including pipeline services also grew significantly in the year, including four small acquisitions. Two important new contracts were won at Henry County, Virginia, and Rio Rancho, New Mexico, bringing the total number of operating contracts in the USA to 400.

Severn Trent Services is positioned as the fourth largest private operator of municipal and industrial water and waste water systems in the USA. The market grew by 26% last year, with new contracts totalling in excess of $1 billion. Further growth opportunities are extensive as more cities and municipalities explore the potential for privatisation. Tax laws have been changed which permit contracts to be awarded for up to 20 years and a number of cities are now taking advantage of this.

Severn Trent Services is also well positioned in the pipeline services market. This market is currently worth about $300 million/year and will grow significantly as the projected pipeline repair and rehabilitation programme of $200 billion over the next 20 years is implemented.



Exceltec, acquired in December 1998 sells disinfection equipment to the offshore oil and natural gas industries.



Severn Trent Services is winning water management contracts around the world, serving more than 400 communities in the USA alone.

The acquisition of Baltea/ISECO established Severn Trent's presence in Italy, and since the year end this has been reinforced by a further small acquisition. In Portugal, Severn Trent's joint venture company Indaqua won two important long-term water supply concessions for Santo Tirso and Santa Maria da Feira.

Profit before interest was adversely impacted by costs associated with preparing to bid for contracts in major cities, including Berlin where Severn Trent decided not to submit a final bid without a suitable German partner.

In Belgium, Severn Trent's successful public-private partnership with the government of Flanders continued. The joint venture company, Aquafin, is responsible for operating the sewerage and sewage treatment infrastructure for a population of 5.8 million people in the Flanders region.

Jim Oliver, the founder of Computer Systems & Applications, the business around which our software solutions business was built recently, retired as Managing Director. We wish him a long and happy retirement and welcome Mike Lily, who has succeeded him.

Increased levels of turnover from software solutions and IT services was maintained, with an increase of 2.3% during the year.

Installation of STORMS, the client-server work management system at BG Transco was completed in the year with 600 users now connected to the system. Further extensions are planned. New sales were secured with Florida Light and Power, Kansas City Power and Light, and PREPA in Puerto Rico.

Demand for the SynerGEE network modelling product continued to be strong.

However, profit before interest was adversely impacted by the costs of delivering the new CIS-Open Vision customer information system. The system is now operational in Los Angeles District Water and Power, and Bermuda Electric; six further systems will become operational during the next twelve months. Client interest in this product remains strong, with new sales secured with Alinta Gas and Powercor in Australia and Intellisource in the USA. This level of demand is expected to grow further when utilities have negotiated the Millennium date change.

Progress towards the original, innovative strategy for a 'Solutionsuite' of systems for Water, Gas and Electric utilities has, in the meantime, been maintained.

The 'first generation' is nearing completion with STORMS – the work management product, MarKIT – for competitive customer management, CIS-Open Vision – for high volume multi-utility billing and customer information, and SynerGEE – for network modelling.

The past year saw significant investment to develop the 'second generation':

- the acquisition of PROCIS fieldworking technology;
- the development of work scheduling in conjunction with Transco;
- the development of a comprehensive asset management suite in conjunction with Severn Trent Water;
- the addition of consultancy services and GIS integration services.

These baseline investments will afford some future protection against the cyclical nature of product development costs and the market demand in the software solution and IT services markets.

Severn Trent Services now has annualised sales of around £275 million and plans to maintain the rapid growth rate achieved over the last year.

Severn Trent Services employs some 3,400 people, of whom approximately 2,000 are in the USA.

Property, Engineering consultancy and Insurance

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

Severn Trent Property is primarily engaged in the development of employment and distribution facilities. However, it also has a 51% interest in Thorpe Park (Leeds) Ltd, which controls 65 hectares of land to the east of Leeds. The site is located immediately adjacent to the recently opened A1/M1 link and has planning permission for development of a business park providing up to 1.8 million sq ft of office space. Construction of a 50,000 sq ft office development for National Grid Plc has recently been completed and a 25,000 sq ft office development for Regus Plc is currently in progress, scheduled for completion early in 2000.

During the course of the year Severn Trent Property completed warehouse and employment developments at Midpoint Park for Remainder Books Limited (95,000 sq ft) and MGI Coutier Limited (55,000 sq ft), bringing to a conclusion this 37 hectare scheme.

Work is proceeding on seeking planning permission for other surplus Severn Trent Water sites and during the course of the year outline consent has been granted at Hinckley on a site of 55 acres, for employment and distribution purposes.

Since the end of the financial year, a rail linked warehouse of 211,000 sq ft has been completed for Tibbett & Britten Plc at DIRFT and contracts have been exchanged with Eddie Stobart Limited for a second development at DIRFT, totalling 346,000 sq ft.

Engineering consultancy
Charles Haswell & Partners is an engineering and project management consultancy working for Severn Trent Water and for a range of external clients in the UK and overseas. Recent commissions include work for Hong Kong Highways, Blue Circle, London Underground, Proctor & Gamble, Tate & Lyle, New Millennium Experience and Southern Water.

Prestigious projects currently in hand include the design of the Millennium Pier at Greenwich and a major tunnel to the new Route 9 highway between Hong Kong airport and Kowloon.

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

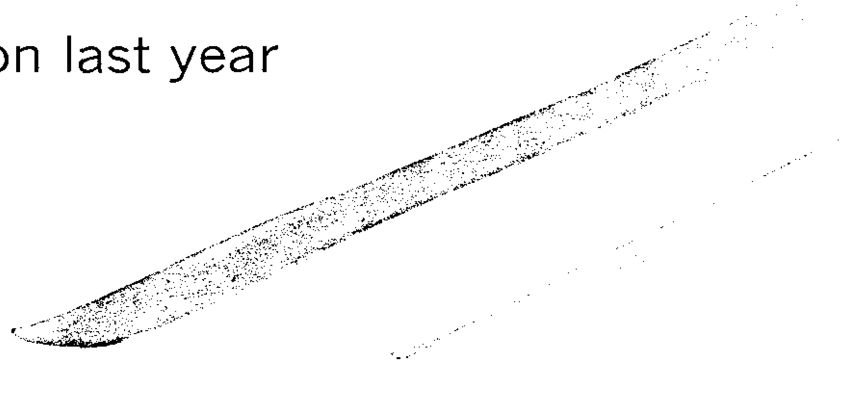
Total turnover from the three businesses in the year was £60.5 million (£24.8 million) generating profit before interest and tax of £6.3 million (£0.8 million). The significant profit improvement was primarily the result of the increased number of property developments completed or advanced during the year.

The Daventry International Rail Freight Terminal (DIRFT) is the UK's first multi-million pound purpose-built railport, developed by Severn Trent, located just off the M1 and connected to the West Coast Main Line. Operated by Tibbett & Britten Limited, the railport embraces the EU's transport policy aim of combining the high volume/low cost advantages of rail with the flexibility of road haulage over shorter distribution journeys.

Severn Trent's environmental leadership even makes a difference to the traffic. With the capacity to handle up to ten full-length Channel Tunnel trains a day, DIRFT can facilitate taking thousands of long-haul trucks off Britain's roads, thus cutting congestion and pollution. Sainsburys are one of the many household names who see the benefits of using the railport. They are currently bringing fresh and dried pasta produce from Italy to DIRFT by rail.

£60.5m

turnover – up 144% on last year



Community

Severn Trent is a successful group of companies providing quality services to the communities in which it operates all over the world. We recognise that we have an important role to play in these communities in helping make a real difference to the quality of life for the local people. Furthermore by investing in the community, we are investing in our future. Our community affairs programme is based on our 'environmental leadership' applied in a community and social context. We are:

- Addressing issues such as homelessness and deprivation.
- Developing environmental awareness and responsibility among young people and in the field of education.
- Funding and supporting projects through Biffaward and Severn Trent Water's Environmental Awards.
- Raising money for self-help water schemes in developing countries through the water industry's charity, WaterAid.

Employee participation
The company encourages its employees to become actively involved in the charities we support. We have introduced a 'Top Up Fund' which donates between £100 and £1,000 to a registered charity where an employee has been involved in fundraising. Severn Trent employees have also volunteered their services to international appeals such as Bosnia, Romania and Kosovo.

Social exclusion
For the past three years we have provided corporate support to the Cromford Venture Centre near Matlock in Derbyshire. The Venture Centre is managed by members of the Arkwright Society and the Derbyshire Committee of the Prince's Trust. The Centre seeks to inspire and enable young people, particularly the most disadvantaged, to develop themselves and to serve the community. More than 1,000 young people visited Cromford last year. For the majority, acquiring 'life skills' and gaining an appreciation of the elements of sustainable development were vital components of their residential visits.

Severn Trent has sponsored a number of these visits, including pupils from the Shirebrook Community School in Nottinghamshire and young people with emotional, social and behavioural problems or medical conditions such as epilepsy, asthma and abdominal muscle disorders from the Rock Camp Trust in Staffordshire.

Severn Trent supports a charitable trust which was created in 1997 to help relieve distress caused by financial hardship and to provide money advice and debt counselling through its association with other charities and organisations. Every year £2 million is made available to support this extremely important commitment to the community.

Education
Our policy is to locate, and then donate, surplus equipment from within the group for recycling, so that it has a second useful 'life' for others. We have donated over 400 computers to local schools as well as furniture and a variety of vehicles in this way.

Severn Trent Water prides itself on its internationally recognised education services, which help pupils to understand the importance of water, its conservation and the work of the company. It has constructed six purpose-built, fully equipped classrooms, strategically placed around the region in operational sites. Each classroom has a full-time dedicated teacher seconded from the local authority. The work is mainly geared to pupils of primary school age (7-11 years) and centres around the water cycle which can be applied to any subject in the National Curriculum.

Severn Trent Water Environmental Awards
The annual awards were inaugurated in 1994 as a competition to help raise awareness of environmental issues throughout the company and support community involvement by 'recycling' prize money to worthy local projects. Last year a team from the company's Nottinghamshire area won the 'community affairs' category, helping a variety of projects in Nottinghamshire including:

- Funding the sensory garden at the **Nottinghamshire Hospice.**
- Supporting the **Terry Marsh Wildlife Rescue Service.**

Some £0.5 million was raised last year in the Severn Trent region by the company, its employees and customers to support the UK's specialist development charity, WaterAid.

Severn Trent is a major supporter and sponsor of the Cromford Venture Centre in Derbyshire which was a derelict building and has been restored as a residential centre for young people.

Biffaward
In December 1997, Biffa Waste Services agreed to donate its Landfill Tax Credits to the Royal Society for Nature Conservation to administer under the fund name Biffaward. The scheme has allowed £10 million to be put back into the environment.

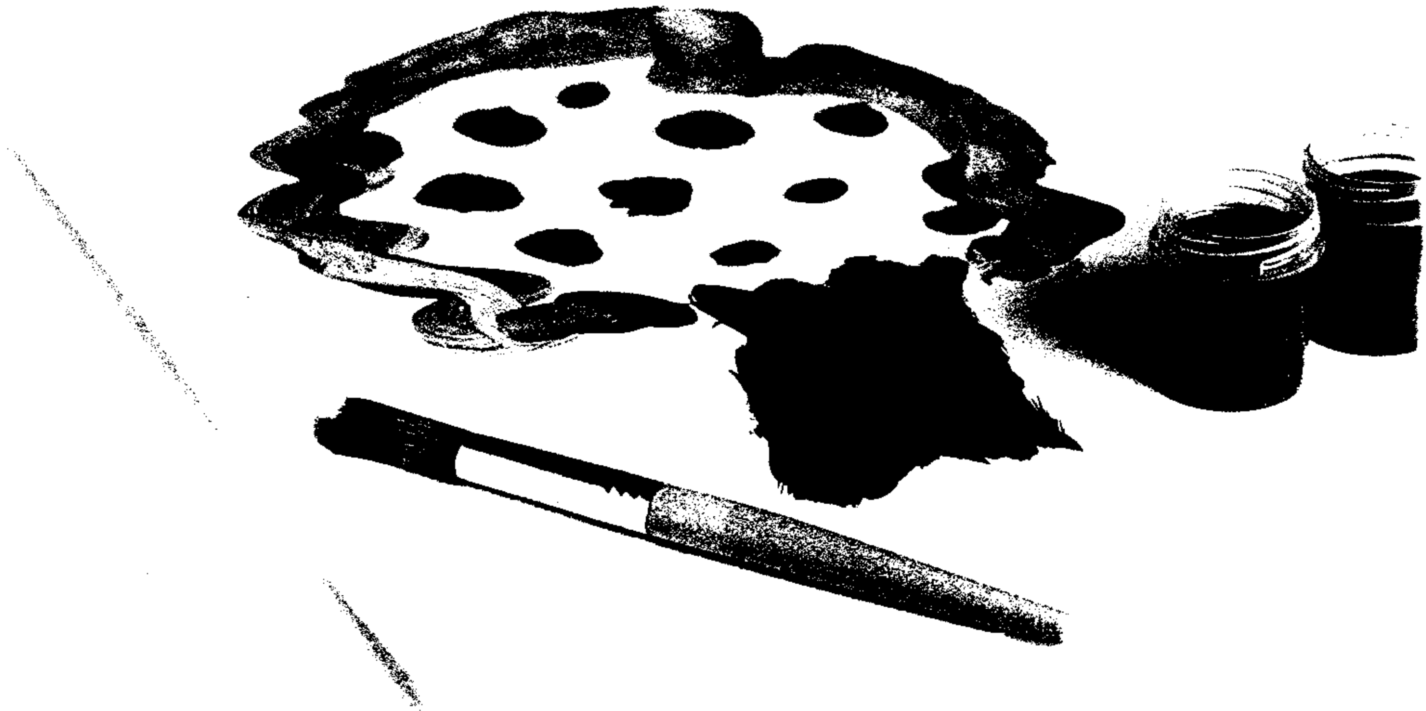
Two examples from the 76 projects supported by Biffaward are:

- **Going for Green** – The Green Code Programme for Schools received £1 million. It will form part of the National Curriculum and provides every school in the UK with a complete suite of CD-ROM based interactive games and learning programmes. These learning programmes are designed to be entertaining, educational and fun and have a serious message about the impact that everyday actions can have on the environment.
- **Otters and Rivers Project** – Biffaward directed funding of £225,000 to a network of conservation officers based at wildlife trusts throughout the country working to restore the otter population and improve wildlife habitats associated with rivers. The Wildlife Trust and Environment Agency are jointly leading a species recovery for the otter under the government's UK Biodiversity Action Plan's targets for Endangered Species.

WaterAid
Severn Trent strongly supports the charity WaterAid, which is helping some of the poorest communities in Africa and Asia by implementing self-help schemes to provide safe drinking water and effective sanitation close to their homes. Severn Trent makes an annual corporate donation of £55,000. In total, some £500,000 is raised from within the Severn Trent region by corporate hospitality events, local employee fundraising, payroll giving and a customer appeal leaflet enclosed with water bills each year.

As a result WaterAid has been able to fund many projects in Ethiopia where over 80% of the population live in rural areas and only 19% have access to safe water and 7% have access to effective sanitation. The outcome is that water related diseases are rife and child mortality figures are as high as 200 per 1,000 children under 5 years old.

We are helping to introduce primary school children to the water cycle at our purpose-built classroom at Carsington Water, Derbyshire.



Financial review

Results
Group turnover of £1.36 billion (£1.25 billion) was 9.0% up on the previous year. The rate at which turnover increased was greater in the group's non-regulated businesses, up 24.7% in total, than in Severn Trent Water, up just 2.2%.

The group's share of turnover in its joint ventures was £14.3 million (£4.3 million).

Group profit before interest was £450.7 million (£447.4 million), an increase of 0.7%. Year 2000 costs in the year amounted to £11.0 million net (£2.2 million); excluding these costs, profit before interest increased by 2.7%. Profit before interest includes the group's share of operating profit of associated undertakings amounting to £9.3 million (£7.9 million).

Severn Trent Water's profit before interest and Year 2000 costs increased by 1.8% to £423.9 million (£416.4 million). Profit before interest from the group's non-regulated businesses increased by 16.0% to £52.3 million (£45.1 million), accounting for 11.6% of the group result. Year 2000 costs in the non-regulated businesses were not material.

	Turnover		Profit before Interest	
	1998/99 £m	1997/98 £m	**1998/99 £m**	1997/98 £m
Biffa	**247.8**	218.6	**34.2**	28.4
Severn Trent Services	**229.0**	187.6	**11.8**	15.9
Property, etc	**60.5**	24.8	**6.3**	0.8
	537.3	431.0	**52.3**	45.1

Profit before interest included a charge of £1.3 million for amortisation of goodwill arising on acquisitions completed since 1 April 1998.

Group net operating assets (excluding goodwill, net debt, taxation balances and dividends payable) were £4,169 million, an increase of 12.0%, compared with an increase of 2.7% in profit before interest and Year 2000 costs. Severn Trent Water's return on year end net operating assets declined to 10.9% (11.9%) before Year 2000 costs. Biffa's return increased to 22.0% (20.2%) whilst that of Services declined to 15.0% (42.5%).

Net interest payable by the group was £100.3 million (£73.4 million) which included £6.0 million (£5.1 million) being the group's share of net interest payable by joint ventures and associates. The £26.9 million increase in net interest cost included £3.9 million arising from the full year impact of the capital reorganisation implemented in August and October 1997, together with £11.4 million interest expense arising from the payment of the second of two equal instalments of the Windfall Tax on 1 December 1998 and the full year impact of the first instalment paid one year earlier. Net interest charges were covered 4.5 times (6.1 times) by profit before interest. Net interest payable in 1999/2000 will increase again, reflecting the full year impact of the second instalment of the Windfall Tax and the very high capital investment programme in Severn Trent Water in 1998/99, together with the anticipated further increase in the group's net borrowings which is discussed below.

Group profit on ordinary activities before taxation was £350.4 million (£374.0 million) a decrease of 6.3%.

The group charge for taxation on ordinary activities for the year ended 31 March 1999 was £46.6 million (£49.5 million), an effective tax rate of 13.3%. The group's effective tax rate is significantly lower than the standard rate of UK corporation tax, due primarily to the recovery of Advance Corporation Tax written off in earlier years. The charge comprised principally £118.2 million of UK corporation tax offset in part by the recovery of £76.0 million of Advance Corporation Tax. Overseas tax charges, double taxation relief and the share of taxation of associated undertakings totalled £4.4 million (£1.6 million). Following the abolition of Advance Corporation Tax with effect from 6 April 1999, the decision was taken to disclaim certain capital allowances for taxation purposes for the year 1998/99; the increase in mainstream corporation tax payable as a consequence enables Advance Corporation Tax, previously written off, to be recovered. The effective tax rate for 1999/2000 and subsequent years will benefit from the utilisation of taxation allowances disclaimed in earlier years: the effective tax rate for 1999/2000 is expected to be approximately 9%.

Profit after tax for the financial year was £303.8 million (£324.5 million before the exceptional Windfall Tax of £309.6 million).

Earnings per share was 89.2p (4.3p): earnings per share before Year 2000 costs (and Windfall Tax) was 92.4p (95.0p).

The proposed dividends for the full year, amounting to 43.00p per share, are covered 2.07 times by profit after taxation on ordinary activities.

Consolidated net debt at 31 March 1999 was £1,478 million, an increase of £396 million over the previous year end. The increase was primarily the result of the payment of £154.8 million Windfall Tax in December 1998, £610 million capital expenditure and financial investment and £81.3 million expended on acquisitions. Net debt at 31 March 1999 represented 60.4% of shareholders' funds (47.4%). Net debt will increase significantly again in the year 1999/2000, reflecting another year of heavy capital expenditure in Severn Trent Water and the delayed payment of the second interim and final dividends for 1997/98 in addition to the payment of the total dividends for 1998/99. Net debt at 31 March 2000 is expected to be between £1.75 billion and £1.8 billion, before expenditure on acquisitions.

The group's operating activities generated a net cash inflow of £628.0 million (£628.2 million) including £566 million from Severn Trent Water and £61 million from Biffa. Capital expenditure (net of disposals and grants received) together with investment in associated undertakings amounted to £610 million including £561 million in Severn Trent Water (£385 million) and £40 million in Biffa (£31 million). The group incurred cash outflows of £79.1 million on net interest and other financing costs; £209.6 million on taxation including the second installment of Windfall Tax; and £81.3 million on acquisitions. Free cashflow, ie before payment of equity dividends and other returns to shareholders and proceeds from share issues, amounted to an outflow of £350.1 million (£77.5 million outflow). Dividends of £35.7 million (£91.4 million) were paid in the year. Cash raised from the issue of shares was £2.9 million (£3.9 million; purchase of own shares cost £128.1 million). As a consequence, the group's net cash outflow was £382.9 million (£293.1 million). Inception of finance leases amounted to £15.5 million (£94.5 million) and net debt acquired with subsidiary undertakings was £1.5 million (£0.5 million). After currency exchange translation differences of £3.4 million (£0.5 million), the increase in net debt over the course of the year was £396.5 million (£387.6 million).

Treasury management

The group had committed borrowing facilities at 31 March 1999 of £1,861 million, of which £1,482 million was utilised. In addition the group had borrowed £24 million from uncommitted facilities. The group had cash and short-term deposits at 31 March 1999 amounting to £32.2 million. Of the group's committed facilities £1,566 million are available to Severn Trent Water, of which £1,207 million was utilised.

On 27 January 1999 Severn Trent Water, through its wholly owned subsidiary Severn Trent Water Utilities Finance Plc, issued £300 million bonds repayable 2024 with interest payable at 6.125% per annum. On 12 May 1999 Severn Trent Water, through the same subsidiary, issued a further £300 million bonds repayable 2029 with interest payable at 6.25% per annum. The proceeds of these bonds, together with the group's undrawn committed borrowing facilities, are adequate to finance the anticipated cash outflow in 1999/2000. On 12 July 1999 Severn Trent Plc will repay £150 million bonds on which interest is payable at the rate of 11.5% per annum.

The group's policy for the management of interest rate risk requires that not less than 50% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 1999 interest rates on 58.5% of the group's borrowings were so fixed, for periods ranging from 1 to 25 years.

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

The group has investments in various assets denominated in foreign currencies, principally the US dollar and the Belgian franc. The group's current policy is to hedge an element of the currency translation risk associated with certain US dollar denominated assets through the use of currency swaps. The sterling value of foreign currency denominated assets excluding capitalised goodwill exceeded the value of liabilities, including borrowings, in foreign currencies by £22.1 million at 31 March 1999 (£10.0 million). An unrealised net translation gain of £3.9 million arose in the year (£4.3 million loss).

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

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

Dividends

The cost of the proposed equity dividends to the company's shareholders for the year ended 31 March 1999 was £146.5 million (£139.8 million). Dividends received or receivable by the company from its subsidiaries comprised £138.0 million from Severn Trent Water (£130.0 million, plus a special dividend of £309.6 million to cover the cost of the Windfall Tax) and £5.1 million from non-regulated businesses (£3.7 million). The group also received dividends of £1.6 million from associated undertakings (£1.7 million).

Alan Costin
Group Finance Director

Over one third of turnover now comes from non-regulated activities.

From left: Vic Cocker, David Arculus, (Chairman), Derek Osborn.

David Arculus MSc Chairman (53)*
Mr Arculus joined the Board in May 1996 as a non-executive Director and was appointed Chairman on 28 July 1998. He is currently the Chairman of IPC Group Ltd. He was Chief Operating Officer of United News and Media Plc from April 1997 until March 1998. Before this he was the Group Managing Director of Emap Plc, the international media company, where he played a significant role in the growth of that company. Mr Arculus was formerly a journalist and a producer at the BBC and is a non-executive Director of Barclays plc.

Vic Cocker BA (Econ) FCIWEM (58)
Mr Cocker joined the Board in August 1989 and was appointed Group Chief Executive of Severn Trent Plc on 1 April 1995. He joined Severn Trent in 1974 having previously worked as an economist and planner in the gas industry. Mr Cocker was the Managing Director of Severn Trent Water Limited from January 1991 to March 1995. Mr Cocker is currently a non-executive Director of Railtrack plc and Aquafin NV, a member of the Council and National Fundraising Committee of the RNLI, Vice-Chairman of WaterAid and a Director of Midlands Excellence. He is a member of the World Business Council for Sustainable Development, of the Midlands Leadership Team of Business in the Community and of the Government Advisory Committee on Business in the Environment.

Derek Osborn CB (58)*
Mr Osborn joined the Board on 21 September 1998. He is also a non-executive Director of Severn Trent Water Limited. Mr Osborn is a leading figure in the environmental world. In May 1999 he was invited to take on the chair of the UK Round Table on Sustainable Development. He has been Chairman of the Management Board of the European Environment Agency since 1995, and Chair of UNED/UK and of the Earth Centre in Conisbrough since 1996.

From left: Andrew Simon, Alan Costin.

Andrew Simon OBE BSc MBA (54)*
Mr Simon joined the Board in October 1986. He was formerly Chairman of the Evode Group Plc and is now a non-executive Directc of Laporte Plc, Associated British Ports Holdings Plc, Novara Plc and is on the Supervisory Board of SGL Carbon AG in Germany. Mr Simon has also recently been appointed to the board of Finning International Inc. in Vancouver, Canada.

Alan Costin FCA (56)
Mr Costin joined the Board as Group Finance Director in May 1992. He is also a Trustee Director of certain of the Severn Trent Pension Schemes. Mr Costin is a Chartered Accountant with many years experience and was previously Finance Director of Lex Service Plc.

Martin Flower BA (52)*
Mr Flower joined the Board in June 1996. He is an executive Director of Coats Viyella Pl and Chairman of its Thread Division. During his career at Coats Viyella he has been basec in different parts of Europe, Asia Pacific and South America. He has a particular interest i and knowledge of European and EU affairs. Mr Flower is also a non-executive Director of William Prym of Stolberg in Germany.

Clare Tritton BA QC (63)*
Mrs Tritton joined the Board in November 1991. She is also a Trustee Director of certair of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law and served on the Monopolies and Mergers Commission and on FIMBRA until May 1997. Mrs Tritton is a non-executive Director of the Birmingham Royal Ballet Trust Company, Chief Executive of Throckmorton Estates and a Director of Throckmorton Enterprises Limited.

Board of Directors

Martin Bettington BSc MechEng MBA (46)
Mr Bettington joined the Board in November 1994. He is the Managing Director of Severn Trent's waste management business, Biffa Waste Services. Mr Bettington was previously employed by BET Plc, Biffa's former holding company. He holds an MBA from Manchester Business School.

John Banyard BScEng FEng FICE FCIWEM (54)
Mr Banyard joined the Board in January 1998. He is an executive Director of Severn Trent Water Limited with responsibility for asset management. He is also a Director of UK Water Industry Research Limited. Mr Banyard is a Chartered Civil Engineer and has worked in a number of engineering roles within the group since joining Severn Trent in 1974. He was elected a Fellow of the Royal Academy of Engineering in 1997.

Robert Walker MA (54)*
Mr Walker joined the Board in May 1996. Mr Walker has until recently been a Division President at PepsiCo International, the beverages subsidiary of PepsiCo Inc. After joining PepsiCo in 1976 he became responsible for PepsiCo's beverage businesses in Europe, the Middle East, Asia and Africa. Mr Walker also served on the Board of Severn Trent Water Limited from June 1997 to March 1999. Mr Walker is currently a non-executive Director of Thomson Travel Group Plc and has formerly worked for Procter & Gamble Limited and McKinsey and Company.

Above – from left: Martin Bettington, John Banyard, Robert Walker.

Brian Duckworth BA FCCA FCIWEM (50)
Mr Duckworth joined the Board in November 1994. He has been with Severn Trent since 1974 and has worked in various financial roles. Mr Duckworth was appointed as Managing Director of Severn Trent Water Limited on 1 April 1995. Prior to this he was Customer Service Director. Mr Duckworth is Chairman of Water UK, the water industry's trade association.

Board Committees
Membership of Board Committees is as detailed below:

Audit Committee
A H Simon (Chairman), F A Osborn, T D G Arculus. Secretary – P P Davies.

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

Environmental Advisory Committee
F A Osborn (Chairman), T D G Arculus, V Cocker, M J Bettington, B Duckworth, J W Oatridge. Secretary – P P Davies.

Executive Committee
V Cocker (Chairman), T D G Arculus, R A S Costin, M J Bettington, B Duckworth, J K Banyard. Secretary – P P Davies.

Remuneration Committee
R M Walker (Chairman), T D G Arculus, Mrs C Tritton, A H Simon. Secretary – P P Davies.

Nominations Committee
T D G Arculus (Chairman), A H Simon, Mrs C Tritton, M C Flower. Secretary – P P Davies.

Treasury Committee
M C Flower (Chairman), V Cocker, R A S Costin, T D G Arculus, M Wilson, A Vaughan. Secretary – P P Davies.

Company Secretary
Peter Davies, LL.B. Solicitor.

Below – from left: Martin Flower, Clare Tritton, Brian Duckworth.

* Non-executive Director

Directors' report

The Directors present their report, together with the audited financial statements of the group for the year ended 31 March 1999.

Principal activities
The principal activities of the group continued to be the supply of water and sewerage services, waste management and the development of utility services. These are described in more detail, together with a review of the group's business and future developments, on pages 4 to 21 which should be read in conjunction with this report.

Details of the principal joint venture, associated and subsidiary undertakings of the group at 31 March 1999 appear in notes 11 and 24 to the financial statements on pages 53 and 54 and pages 66 and 67.

Dividend and reserves
Details of dividends paid, payable and proposed are set out in note 7 to the financial statements on page 50. A second interim dividend of 3.84p net for each ordinary share will be paid on 2 August 1999 to shareholders on the register at the close of business on 18 June 1999. Subject to approval at the Annual General Meeting the recommended final dividend of 26.69p (24.37p) net for each ordinary share will be paid on 1 October 1999 to shareholders on the register at the close of business on 18 June 1999 bringing the total for the year to 43.00p. Proposed transfers to reserves are set out in note 19 to the financial statements on page 60.

Share capital
Details of movements in share capital are shown in note 18 to the financial statements on pages 59 and 60. At the Annual General Meeting of the company in July 1994 shareholders passed a resolution granting Directors authority to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) of the company for a period of five years. This authority will expire on 29 July 1999. Accordingly, shareholders will be asked to renew this authority at the Annual General Meeting this year to expire five years from the passing of the resolution granting the authority or, if earlier, at the conclusion of the Annual General Meeting of the company in 2004. The ordinary resolution (Resolution 13) is set out in full in the Notice of Meeting which accompanies the Report and Accounts. If passed, the resolution will authorise the Directors to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to a maximum aggregate nominal value of £74,011,333 being one third of the ordinary share capital in issue as at 31 March 1999. The Directors have no present intention of exercising the authority.

Subject to the passing of the resolution authorising Directors to allot relevant securities as outlined above, a special resolution (Resolution 14) will be put to shareholders at the Annual General Meeting which, if passed, will renew the Directors' power to issue equity securities for cash without first having to offer these securities to existing shareholders, as is required by Section 89 of the Companies Act 1985. The power extends to issuing equity securities in relation to a rights issue or up to a maximum amount equal to 5% of the issued ordinary shares of the company. For these purposes equity securities are ordinary shares in the company, but they do not include shares which are allotted under employee share schemes. By exempting the company from the requirements of Section 89, the Directors will have greater flexibility to raise finance. The power will be valid for 15 months or until the next Annual General Meeting, whichever is sooner.

A rights issue would involve the company offering existing shareholders the opportunity to buy new ordinary shares. The number of ordinary shares which a shareholder can buy in a rights issue depends on the number he/she already owns. The rules in some countries prevent shareholders from participating in a rights issue and the resolution will allow the Directors to make alternative arrangements for those shareholders.

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

The proposed authority is set out in Resolution 15. In respect of ordinary shares the authority will be limited to approximately 10% of the company's issued ordinary share capital as at 31 March 1999 but will not be limited with respect to B shares. The minimum price per ordinary share payable by the company (exclusive of expenses) will be 65$\frac{5}{19}$p, the nominal value of each ordinary share. The maximum to be paid per ordinary share on any exercise of such authority (exclusive of expenses) will be an amount not more than 5% above the average of the middle market quotations for ordinary shares of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of each purchase. B shares will only be purchased at their nominal value of 38p. Purchases will only be made on the London Stock Exchange and only in circumstances where the Board believes that they are in the interests of shareholders generally. Furthermore, purchases of ordinary shares will only be made if the Board believes that they would result in an increase in earnings per share. Any purchases will be financed out of profits lawfully available for distribution.

Renewal of share schemes
The Severn Trent Share Option Scheme ('Option Scheme') and the Severn Trent Sharesave Scheme ('Sharesave Scheme') were both established by the company on 13 October 1989. The two schemes were expressed to expire, so that no further options could be granted, on the tenth anniversary of the date on which the company established them. Accordingly, both schemes will expire on 13 October 1999 unless extended with shareholder approval.

The Board considers that both the Option Scheme and the Sharesave Scheme have provided valuable incentives to employees and have, therefore, played a role in the development of the company and the delivery of shareholder value. (Since 1993 Directors have not received any options under the Option Scheme.) As a result the Board propose that both schemes be extended for a further ten year period so as to expire on 28 July 2009, unless extended further on the authority of shareholders.

Resolutions 9 and 11, if passed by shareholders, would authorise the Board to make the necessary amendments to the schemes so that options can be granted under them for a further ten years.

The Board has also taken the opportunity to review each scheme to consider whether any further amendments are appropriate.

Both schemes contain a numerical limit, of 35,364,600, on the number of shares that can be placed under option. The figure represents 10% of the issued share capital immediately following the company's listing on the Stock Exchange in 1989. The inclusion of this limit was a requirement of the Stock Exchange rules at that time. This limit has now been removed from those rules. The Board therefore propose that the limit should also be removed from the rules of both the Option Scheme and the Sharesave Scheme.

Notwithstanding that the numerical limits will be removed from the rules of both schemes the number of new issued shares which can be placed under option will continue to be subject to limits. Such anti-dilution limits are based on percentages of issued share capital and are in accordance with the guidelines issued by the Association of British Insurers.

Resolutions 10 and 12, if passed by shareholders, would authorise the Board to make the necessary amendments to both schemes to remove the numerical limit on the number of shares that can be placed under option.

Supplier payment policy
Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Severn Trent Water Limited either uses its own standard terms and conditions entitled 'General Conditions of Contract relating to the supply of Goods/Services or to the Execution of Works' (copies of which can be obtained from the Purchasing or Legal departments, Severn Trent Water Limited, 2297 Coventry Road, Birmingham, B26 3PU), or nationally agreed terms and conditions of contract such as the ICE 6th Edition for Civil Engineering Works, and the G90 Terms and Conditions for Mechanical and Electrical Works.

The effect of the group's payment policy is that its trade creditors at the year-end represented some 35 days purchases.

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £465,926 (1998 £271,274). No political donations were made during the year.

Employees
The group employed 11,573 people as at 31 March 1999 (1998: 10,635). Of these, 5,228 (45.2%) were employed in the regulated water business, Severn Trent Water and 6,345 (54.8%) in our non-regulated businesses in the UK, the rest of Europe and North America. There are now in excess of 2,000 employees in the USA (1998: 1,500), and this number is expected to grow further in 1999/2000 and over 400 employees in other parts of the world, mainly Belgium and Italy. The changing nature of our workforce reflects the continuing expansion of the group's international activities.

All group companies continue to encourage positive dialogue with employees by a variety of means such as in-house magazines, 'Newstream' and 'Biffa Buzz' and increasingly IT-based communication mechanisms.

Group companies continue to have good relationships with the trade unions they recognise and with their directly elected employee representatives. Consultation has commenced on proposals to set up a European Consultative Council. It is hoped that a Voluntary Agreement under Article 13 of the European Directive will be concluded in the near future.

There have been a number of initiatives within the group to ensure that there is an appropriate resource of good quality managers and employees not only to meet quality expectations of our current customers but also to resource business expansion plans. We continue to recruit each year an appropriate number of graduates to train and develop in support of our business growth aspirations.

Some group companies have recognised the benefits of external accreditation of their people management processes and have sought and gained 'Investors in People' awards; these actions are ones we both support and encourage.

Other companies, such as Biffa, have undertaken significant training programmes to meet statutory quality standards and 75 of their employees will train to Certificate of Technical Competence level under the Waste Industry's standards covering landfill and waste transfer operations.

The group's UK companies have actively participated in programmes such as the New Deal for young unemployed people; however, there has been limited success in attracting suitable candidates for employment opportunities.

We will continue to participate in all of these types of programmes as part of our commitment to local communities.

Equal opportunities and disabled persons
All group companies are continually reviewing their equal opportunity policies and management practices to ensure that no current or potential employee is disadvantaged because of colour, ethnic or national origin, gender, religion, marital status or disability. Procedures are also in place to deal with allegations of potential harassment along with guidelines for managers and employees.

We are a member of the Employers' Forum on Disability and we have fully endorsed their Agenda on customers.

Health and safety
The company recognises the importance of creating a safe working environment for all our employees and is committed to establishing, maintaining and improving standards of performance. We regularly review and report on safety performance and during the year a series of group wide Health and Safety Management Systems Audits were commenced. The object of these audits is to determine the current general status of health and safety management throughout the group, and also the level of compliance being achieved with regard to the standards set out in the Group Health and Safety Policy and the Group Health and Safety Management Manual.

The audits have identified many areas of strength upon which we can build and areas where further development is required. Generally the levels of knowledge, expertise and enthusiasm that exists with regard to the management of Health and Safety within our businesses are encouraging.

Substantial shareholdings
As at 1 June 1999 the company had been notified that Legal and General Investment Management Ltd held 10,420,112 ordinary shares of $65\frac{5}{19}$p each representing 3.06% of the issued ordinary share capital.

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

Accounts of Severn Trent Water Limited
Separate accounts for Severn Trent Water Limited are prepared and sent to the Director General of Water Services. A copy of these accounts will be available on written request to the Company Secretary (at the address given on the back cover). There is no charge for this publication.

Directors' report continued

Research and Development
The group invests in Research and Development in order to develop products, processes and techniques that will enable the group to meet ever increasing demands from Regulators around the world. In 1998/99 group expenditure on Research and Development amounted to £7.5 million (£8.6 million) including £2.9 million (£2.6 million) on fixed assets.

Research into enhanced water treatment to meet the demanding standards imposed by the new European Drinking Water Directive has resulted in the development of a new filter medium and the associated process parameters that will have application in respect of metal removal for Severn Trent Water and many other water companies.

After extensive development over a number of years, Severn Trent Water is installing the first large-scale on-site plant for the generation of chlorine gas from hydrochloric acid at its Frankley Water Treatment Works. The development of this technology will allow a significant reduction of chlorine gas stored on site.

The joint research facilities established with Anglian Water to evaluate various process streams available for purification of drinking water has continued through the year, and contributed significantly to the first full-scale use of River Trent water for potable supply from the Church Wilne plant.

The development of Operational and Maintenance Manuals on CD-ROM using multimedia techniques has progressed to the point where over 100 sites have now had their manuals transferred to this format. This technique is attracting increasing interest from other utilities and from overseas.

The year has seen considerable advances in the potential for applying Field Working Systems (hand-held computers) and a number of pilot trials are underway at the present time. Early indications are that there is potential for improved service levels and efficiency from the further development and application of this technology.

Corporate governance
The London Stock Exchange Combined Code–Compliance Statement
Severn Trent Plc attaches great significance to the maintenance of good corporate governance procedures, recognising that they play their part in creating a framework which can provide increased benefits for shareholders.

The London Stock Exchange Combined Code ('the Code') was introduced on 25 June 1998. The company regards the Code as a valuable development of previous corporate governance arrangements and recommendations which it has embraced in recent years.

The London Stock Exchange Listing Rules require the Board to report on compliance with the Code provisions throughout the accounting period to the 31 March 1999. Except for the matters noted below, the company complied throughout that period with the provisions set out in the Code.

i) The Code requires companies at their Annual General Meetings to count all proxy votes and announce the results after each resolution has been dealt with on a show of hands. This procedure was not adopted at the 1998 Annual General Meeting which took place shortly after the publication of the Code but will be implemented at future meetings.

ii) The Remuneration Committee has reviewed its policy with respect to service contracts for the executive Directors and has made changes to that policy to bring it into line with the recommendations in the Code. These are described in more detail in the Remuneration Report on page 32.

iii) The provisions of the articles of association of the company require that on the occasion of each Annual General Meeting the number nearest to, but not exceeding one third of Directors retire, but may offer themselves for re-appointment. However, the Code suggests that all Directors should be required to submit themselves for re-appointment at regular intervals and at least every three years. It is the current intention of the Board to review the existing articles of association and to consider modifications to address this and any other changes which they might consider appropriate prior to the next Annual General Meeting. In this regard, Andrew Simon has offered to retire and seek re-appointment in line with the spirit and principles of the Code although he is not required by the articles to do so. His continued contribution and knowledge of the group are considered to provide an independent and valuable perspective which strengthens the Board. (He is currently the Chairman of the Audit Committee and is a member of three other committees.)

iv) It is also intended by the Board to appoint a senior, independent, non-executive Director as recommended by the Code, shortly after the Annual General Meeting.

The Board
A list of Directors and their background details appears on pages 26 and 27. The Board currently consists of five executive Directors and six non-executive Directors.

The Board has reviewed the status of the non-executive Directors and has confirmed that it regards them as being independent.

The Board meets at least 12 times each year and convenes additional meetings to deal with major matters as and when these arise. The Board has established a formal schedule of matters which are specifically reserved to it for decision thereby ensuring that it maintains control over strategies, financial and key operational issues. It has also put in place an organisational structure with clearly defined lines of responsibility and delegations of authority which are reviewed from time to time.

Board committees
The Board has delegated certain powers and duties to the Board committees all of which operate within clearly defined terms of reference and in accordance with the Code, where applicable. All the committees meet regularly throughout the year except for the Nominations Committee which meets when required. The membership of the committees are set out on page 27.

The Nominations Committee makes recommendations to the Board on the appointment to the Board of both executive and non-executive Directors, considers succession planning and related issues.

The Remuneration Committee's principal terms of reference are mentioned in the Remuneration Report on page 32. The Audit Committee's main responsibilities are referred to later under 'Internal financial control'. The Treasury Committee's main terms of reference are also referred to below under 'Internal financial control' and certain of the business conducted during the year is described in the Chairman's statement on page 2.

The Board were particularly pleased that Derek Osborn was able to accept the chairmanship of the new Environmental Advisory Committee whose principal terms of reference are to help to further develop the company's environmental leadership, strategy and objectives.

The Charitable Contributions Committee, chaired by Brian Duckworth, meets regularly throughout the year to decide upon donations and support to charities and similar worthy causes.

Finally, the Severn Trent Executive Committee has delegated authority to approve capital and other expenditure within defined limits. Proposals involving major undertakings or matters of strategic significance are subject to the detailed review and approval of the main Board. The Executive Committee is responsible for reviewing the financial and operational performance of all companies within the Severn Trent group. It also establishes, or supports the Board to establish, policies covering organisational and employment matters within the Severn Trent group.

Directors

Details of current Directors are shown on pages 26 and 27. Mr F A Osborn joined the Board as a non-executive Director on 21 September 1998 and in accordance with the articles of association of the company will retire at this year's Annual General Meeting and offer himself for re-appointment. Mr R A S Costin, Mr M J Bettington and Mr M C Flower retire from the Board by rotation in accordance with the articles of association of the company and being eligible offer themselves for re-appointment. Mr A H Simon, who was last re-appointed as a Director of the company at the Annual General Meeting on 30 July 1996, shall offer himself for re-appointment in accordance with the spirit and principles of the Code as referred to above. Mr R Ireland stood down as Chairman at the conclusion of last year's Annual General Meeting on 29 July 1998 and was succeeded by Mr T D G Arculus, then a non-executive Director. Mr R H Boissier retired as a Director of the company on 29 July 1998.

Mr R A S Costin and Mr M J Bettington each have service contracts which provide for not less than two years' written notice of termination by the company and not less than six months' written notice by the Director expiring at any time. Mr A H Simon, Mr M C Flower and Mr F A Osborn, being non-executive Directors do not have service contracts with the company. The Directors of the company at 31 March 1999 and their interests in the shares of the company can be found on pages 35 and 36. Mr E Anstee will join the Board as a non-executive Director on 30 July 1999. No Director had an interest in the shares of any subsidiary undertaking. No contract significant to the company's business in which a Director had a material interest was entered into during the year.

Internal financial control

As permitted by the London Stock Exchange, pending further guidance on the scope, extent, nature and review of internal controls to which the Code refers (principle D.2 and provision D.2.1), the paragraphs which follow have been restricted to reporting solely on internal financial control.

The Board of Directors has overall responsibility for the group's system of internal financial control. The Board has established an organisation structure with clear lines of accountability. Formal structures and processes are in place for the preparation, review and approval of business plans, budgets and investment proposals for the group as a whole and the individual operating units. Financial results and other key business monitors are reviewed and reported regularly and variances from approved budgets identified and used to initiate action.

The Board has published internally a group Accounting Policies and Procedures Manual, which is supplemented in each business unit by financial and operating control procedures appropriate thereto. The group's treasury affairs are managed centrally and in accordance with its Treasury Policies and Procedures Manual. Compliance with these policies and procedures is monitored by management, by the group's internal auditors and, to the extent necessary to support their audit report, by the external auditors. The Board has established an Audit Committee which agrees audit strategies and receives reports from management on the financial results of the group, and from the external and the internal auditors on their findings. The Board has also established a Treasury Committee which determines matters of treasury policy and whose approval is required for certain treasury transactions.

The financial control systems operated in each of the group's business activities have been designed in the light of the principal areas of financial risk to which it is exposed. The Board has reviewed the effectiveness of the system of internal financial control in respect of the period beginning 1 April 1998 until 7 June 1999 being the date on which the accounts were signed. The review has been based upon a self-assessment process using standard software packages appropriately tailored to each business. The findings have been considered by management, the Audit Committee and the Board.

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

Communications with shareholders and the Annual General Meeting

The company attaches considerable importance to the effectiveness of its communications with shareholders. Prior to the Annual General Meeting private investors are given the opportunity to meet the Board and also to question them during the Meeting itself. They are encouraged to participate in the Meeting. Photographic displays and literature, as well as a video to be shown prior to the commencement of the Meeting, are available to shareholders at the Annual General Meeting to demonstrate the nature and extent of the group's environmental services. The company also responds to enquiries from shareholders as they arise throughout the year. The company will provide a summary of the proceedings of the Annual General Meeting, on request, after the Meeting.

Regular communication is maintained with institutional shareholders and fund managers through meetings and presentations. Such communications are sensitive to the need not to disclose potentially price-sensitive information.

Going concern

Based upon its review of the group's budget for 1999/2000, outline business plans for the next five years and the committed borrowing facilities available to the group, the Board has a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements set out on pages 39 to 67 have been prepared on the going concern basis.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors and the new firm PricewaterhouseCoopers were appointed by the Board to fill the casual vacancy. The Companies Act 1985 requires that special notice be given of the resolution to appoint PricewaterhouseCoopers as auditors at the forthcoming Annual General Meeting. The appropriate special notice has been served on the company and accordingly a resolution proposing the re-appointment of PricewaterhouseCoopers and authorising the Board to fix their remuneration will be put to the Annual General Meeting.

By order of the Board
P P Davies
Company Secretary
7 June 1999

Remuneration report
to the shareholders of Severn Trent Plc

The Remuneration Committee ('the Committee') of the Board comprises the following non-executive Directors:

R M Walker (Chairman)
T D G Arculus
A H Simon
C Tritton

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

The Committee considers that the company has complied with the principles set out in the London Stock Exchange Combined Code ('the Code') concerning the Remuneration Committee's composition and operation.

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

1 Remuneration policy
The policy of the Committee is to determine, and regularly review and update, as appropriate, a framework within which total remuneration packages for executive Directors can be considered. The aims of the policy are to remunerate executive Directors at levels appropriate to the scale of their roles and performance as well as being competitive with businesses of similar size and complexity. The company aims to attract, retain and motivate the high quality of management necessary for the ongoing efficient running of the company, whilst balancing profit enhancement with the interests of shareholders, customers, employees and the local community. In framing its remuneration policy the company has given full consideration to Schedules A and B of the Code.

2 Service contracts
Existing executive Directors' service contracts are terminable by the company giving not less than two years' written notice and by the Directors giving not less than six months' notice of termination. The Committee believes that this practice is in the best interests of the company in respect of the existing Directors and is in line with current market practice. In the event of any earlier termination of an existing service contract the Committee will take a robust view of the mitigation which should be taken into account when computing any compensation payable. The Committee continues to monitor the situation, and, in accordance with the Code, has set as an objective an intention to limit the duration of contracts for new Directors to one year or less, and to express in such contracts the level of compensation that might be payable in the event of early termination where this is compatible with the need to attract and retain the highest calibre of executive Director.

Mr R A S Costin and Mr M J Bettington are the subject of re-appointment as executive Directors at the Annual General Meeting and the Committee believes that their extensive knowledge and experience fully justifies the continuation of the contractual arrangements which are outlined above.

3 Executive Directors
i) *Basic salary and benefits*
The Committee has received independent advice on the appropriate level of salaries for executive Directors which takes into account the need to attract, retain and motivate executive Directors as well as the competitive position of the company within the market. The table on page 34 shows the basic fees and salaries of executive Directors for the financial year ended 31 March 1999.

For the financial year beginning 1 April 1999 the Remuneration Committee has given consideration to the level of basic salaries to be paid to executive Directors. The Committee has balanced the need to continue to pay salaries designed to attract, retain and motivate executive Directors with a requirement to be responsible and prudent in the interest of shareholders as well as having regard to the general level of inflation. Having regard to all these factors the company determined that base salaries for executive Directors should be increased by 3.3% from 1 April 1999. The company believes its current remuneration levels continue to reflect a prudent and responsible approach to executives' pay.

The company continues to operate an Inland Revenue Profit Related Pay Scheme which is open to employees at all levels, including all executive Directors; this scheme will be phased out by March 2000 in accordance with legislation.

Principal benefits of the executive Directors include the use of a motor car, fuel, membership of private medical insurance, life assurance and an incapacity benefits scheme.

ii) *Performance related annual bonus*
Executive Directors are awarded annual bonuses to encourage improved performance, as measured by reference to both financial and non-financial factors. Performance targets are established to align Directors' interests with shareholders and are measured by reference to profitability, together with specific targets for quality, service, environmental performance and the achievement of personal objectives. Benchmarks to monitor overall performance are established at the beginning of each year under review. Financial performance accounts for 50% of the bonus potential and the other 50% is dependent on performance in respect of the remaining factors. The maximum amount payable under the bonus scheme is 40% of basic salary. The actual bonuses awarded for the year ended 31 March 1999 are shown in the table on page 34.

iii) *Long-term incentives*
A Long Term Incentive Plan for executive Directors was approved by shareholders at the 1997 Annual General Meeting.

Performance is measured by reference to Total Shareholder Return ('TSR') over a three year period compared to the TSR of similar privatised utility companies. The maximum allocation which may be made to an individual Director in any year is such number of shares as have a market value equal to 50% of basic salary. Shares are allocated annually by the Committee but are not released to executive Directors for a period of three years thereafter, provided that the TSR has achieved a prescribed ranking in comparison with the other companies. The maximum award is payable should the company achieve first, second, or third place when compared with the rankings of 14 companies. Achievement of fourth or fifth place qualifies for 75% of the allocation, and positions sixth or seventh are rewarded by 50% of the shares. No award is made for eighth place or below. An allocation of shares equivalent to 50% of salary was awarded to executive Directors and other senior executives for the performance periods effective from 1 April 1997 and 1 April 1998. Neither the Chairman nor the other non-executive Directors participate in the Long Term Incentive Plan.

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

This Scheme is a funded Inland Revenue approved final salary occupational pension scheme which provides:
- a normal retirement age of 60 years;
- an overall pension at normal pension age of two-thirds of final pensionable salary subject to the completion of 20 years pensionable service;
- life cover of 4 x pensionable earnings;
- pension payable in the event of retirement on grounds of ill health;
- a spouse's pension on death.

As previously reported the bonus element of pensionable earnings is in the process of being phased out.

The company has a future obligation in respect of Mr R A S Costin who joined this Scheme after 1 June 1989 and is therefore subject to the Inland Revenue earnings cap (1998/99 £87,600), to pay the difference between his pension entitlement based upon the relevant portion of his salary and the maximum amount payable had the cap not been in place. The obligation is unfunded. The amount charged to the profit and loss account for this future obligation was £79.021 (1998: £180,732) for which there was a compensatory reduction in the liabilities of the Scheme.

A table detailing the Directors' pension provisions as required by the Code is shown on page 34.

4 Chairman and other non-executive Directors
Richard Ireland, who stepped down from the company at the Annual General Meeting on 29 July 1998, was paid fees of £130,000 per annum.

David Arculus became Chairman of the company on 29 July 1998 and he is paid fees of £100,000 per annum. In addition, the company contributes £26,280 per annum to Mr Arculus's private pension arrangements as well as providing a driver's allowance, private health scheme insurance and car provision. David Arculus has requested that his fees for 1999/2000 should not be increased.

Neither Richard Ireland nor David Arculus participated in any of the company's pension arrangements or share or bonus scheme, and David Arculus also does not have the benefit of the provision of fuel for the car.

The other non-executive Directors are paid fees which are reviewed from time to time by the Board. They were last increased in 1995 and are set at £25,000 per annum. In addition non-executive Directors who chair Committees of the Board, or act as a trustee to the company's pension schemes receive an additional fee of £2,500 per annum. The fees for Andrew Simon reflect the fact that for a period in 1998/99 he acted as Chairman of both the Remuneration and Audit Committees. Non-executive Directors do not participate in any incentive plan nor is any pension provision made for them except as mentioned above in relation to the Chairman. The non-executive Directors do not have service contracts with the company.

Remuneration report continued

to the shareholders of Severn Trent Plc

5 *Directors' emoluments*

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

	Basic salary and fees £000	Benefits in kind £000	Annual bonus £000	Other[1] £000	1998/99 £000	Total 1997/98 £000
Chairman and other non-executive Directors						
T D G Arculus (Chairman from 29.7.98)	78.0	6.7	–	1.3	86.0	25.0
R Ireland (Chairman to 29.7.98)	73.3	4.3	–	–	77.6	142.0
M C Flower	26.0	–	–	–	26.0	25.0
F A Osborn (appointed 21.9.98)	12.5	–	–	0.9	13.4	–
A H Simon	29.7	–	–	1.8	31.5	31.4
C Tritton	26.0	–	–	–	26.0	25.6
R M Walker	26.0	–	–	2.4	28.4	25.0
R H Boissier (to 29.7.98)	8.3	–	–	0.5	8.8	25.7
Executive Directors						
J K Banyard	119.7	13.3	32.6	0.3	165.9	26.1
M J Bettington	148.4	12.4	50.5	–	211.3	156.2
V Cocker[2]	274.7	8.2	65.6	0.4	348.9	292.7
R A S Costin	174.7	18.4	41.8	0.1	235.0	206.8
B Duckworth	174.7	14.3	47.5	0.1	236.6	184.6
	1,172.0	77.6	238.0	7.8	1,495.4	1,166.1
Aggregate gain on exercise of share options					33.4	66.1
Total emoluments					1,528.8	1,232.2

1 Other emoluments represent expenses chargeable to UK income tax paid to Directors.

2 Aggregate emoluments for Mr Cocker, as highest paid Director, amounted to £348,900 (1998: £305,200).

	Increase in accrued pension (excluding inflation) in the year to 31 March 1999[1] £000	Accumulated total accrued pension 31 March 1999 £000	Transfer value of the increase in accrued benefits[2] £000
Directors' pension provisions			
J K Banyard	12.7	79.4	195.1
M J Bettington	10.3	57.7	112.9
V Cocker	20.6	196.2	365.5
R A S Costin	6.6	46.3	100.8
B Duckworth	14.7	95.8	192.5

1 The amount of increase in accrued pension during the year excludes the effects of inflation, measured by reference to the increase in the retail prices index between March 1998 and March 1999.

2 The transfer value of the increase in accrued benefits is calculated in accordance with Actuarial Guidance Note GN11, less a deduction in respect of each member's own pension contributions during the period. It does not represent a sum payable to individual Directors and cannot therefore meaningfully be added to annual remuneration.

Directors' interests

Directors' interests
The Directors of the company at 31 March 1999 and their beneficial interests in the shares of the company were as follows:

i) *Beneficial Holdings*

	At 1 April 1998 or subsequent date of appointment		At 31 March 1999		At 1 June 1999	
	Number of ordinary shares of $65\frac{5}{19}$p each	Number of B shares of 38p each	Number of ordinary shares of $65\frac{5}{19}$p each	Number of B shares of 38p each	Number of ordinary shares of $65\frac{5}{19}$p each	Number of B shares of 38p each
Chairman and other non-executive Directors						
T D G Arculus	–	–	10,000	–	10,000	–
M C Flower	–	–	–	–	–	–
F A Osborn	–	–	–	–	–	–
A H Simon	3,865	–	1,985	–	1,985	–
C Tritton	2,696	–	2,727	–	2,727	–
R M Walker	–	–	498	–	498	–
Executive Directors						
J K Banyard	11,071	118	8,625	118	8,625	118
M J Bettington	1,056	62	6,111	62	6,111	62
V Cocker	9,635	118	9,746	118	9,746	118
R A S Costin	1,158	118	1,202	118	1,202	118
B Duckworth	11,134	118	6,306	62	9,807	62

Messrs Banyard, Bettington, Cocker, Costin and Duckworth have further interests in Severn Trent Plc ordinary shares of $65\frac{5}{19}$p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 23 September 1997 and 30 July 1998. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria are based on the company's Total Shareholder Return compared to the Total Shareholder Return of 14 other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 1998		At 31 March 1999
	Number of ordinary shares of $65\frac{5}{19}$p each	Awarded during year	Number of ordinary shares of $65\frac{5}{19}$p each
J K Banyard	5,337	4,975	10,312
M J Bettington	6,347	5,825	12,172
V Cocker	10,675	11,650	22,325
R A S Costin	9,232	8,009	17,241
B Duckworth	7,501	7,038	14,539

No further awards have been made under the Plan as at 1 June 1999.

Five year summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit and loss account					
Turnover: group and share of joint ventures	**1,378.6**	1,255.6	1,221.1	1,161.9	1,082.1
Less: share of joint ventures' turnover	**(14.3)**	(4.3)	(5.8)	(4.4)	(5.7)
Turnover	**1,364.3**	1,251.3	1,215.3	1,157.5	1,076.4
Profit before interest and exceptional items	**461.7**	449.6	443.7	425.5	376.8
Exceptional items	**(11.0)**	(2.2)	(24.5)	–	(55.0)
Net interest payable	**(100.3)**	(73.4)	(52.7)	(52.5)	(54.3)
Profit on ordinary activities before taxation	**350.4**	374.0	366.5	373.0	267.5
Taxation on profit on ordinary activities	**(46.6)**	(49.5)	(49.8)	(45.3)	(29.5)
Exceptional taxation – Windfall Tax	**–**	(309.6)	–	–	–
Profit for the financial year	**303.8**	14.9	316.7	327.7	238.0
Dividends	**(147.0)**	(140.0)	(128.5)	(118.8)	(105.0)
Retained profit/(loss) for the financial year	**156.8**	(125.1)	188.2	208.9	133.0
Net assets employed					
Fixed assets	**4,319.2**	3,899.7	3,589.9	3,386.1	3,248.3
Net liabilities excluding net debt	**(351.8)**	(488.1)	(289.7)	(318.7)	(279.2)
Provisions for liabilities and charges	**(42.7)**	(48.9)	(75.3)	(75.0)	(111.8)
	3,924.7	3,362.7	3,224.9	2,992.4	2,857.3
Financed by					
Called up share capital	**231.1**	230.3	350.5	366.7	363.9
Reserves	**2,214.8**	2,050.1	2,179.7	2,144.1	1,926.1
Total shareholders' funds	**2,445.9**	2,280.4	2,530.2	2,510.8	2,290.0
Minority shareholders' interest	**0.3**	0.3	0.3	0.3	0.2
Net debt	**1,478.5**	1,082.0	694.4	481.3	567.1
	3,924.7	3,362.7	3,224.9	2,992.4	2,857.3
Statistics					
Earnings per share	**89.2p**	4.3p	87.2p	89.6p	66.0p
Earnings per share before exceptional items	**92.4p**	95.0p	93.9p	89.6p	81.3p
Dividends per share	**39.16p**	35.92p	32.66p	28.53p	25.03p
Second interim dividend	**3.84p**	3.84p	3.84p	3.84p	3.84p
Final dividend enhancement	**–**	1.36p	–	–	–
Dividend cover (1998 before Windfall Tax)	**2.1**	2.3	2.5	2.8	2.3
Gearing	**60.4%**	47.4%	27.4%	19.2%	24.8%
Ordinary share price at 31 March	**840p**	1,050p	690p	594p	514p
B share price at 31 March	**33p**	34p	–	–	–
Average number of employees – Water and sewerage	**5,276**	5,359	5,743	5,930	6,531
– Other	**5,819**	5,054	4,315	4,107	4,097

The 1998 balance sheet figures above for Fixed assets and Provisions for liabilities and charges have been restated to reflect a change in accounting for infrastructure renewals expenditure, following the adoption of FRS12 'Provisions, Contingent Liabilities and Contingent Assets' in 1999. Figures for 1995, 1996 and 1997 have not been restated. This change in accounting, explained in note 1d)i), has no impact on the absolute level of reported profit in any year.

Directors' responsibilities in relation to the financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for the financial year.

The Directors consider that in preparing the financial statements on pages 39 to 67. 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 applicable have been followed, any material departures being disclosed and explained in the financial statements.

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

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

Auditors' report to the shareholders of Severn Trent Plc

We have audited the financial statements on pages 39 to 67, including the additional disclosures on pages 34 to 36 relating to the remuneration of the Directors specified for our review by the London Stock Exchange, which have been prepared under the historic cost convention and the accounting policies set out on pages 43 to 45.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 30 and 31 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

Basis of audit 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 1999 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
7 June 1999

Group profit and loss account

Year ended 31 March 1999

	Notes	1999 £m	1998 £m
Turnover: group and share of joint ventures		**1,378.6**	1,255.6
Less: share of joint ventures' turnover		**(14.3)**	(4.3)
Continuing operations		**1,331.1**	1,251.3
Acquisitions		**33.2**	–
Turnover	2	**1,364.3**	1,251.3
Operating costs before exceptional Year 2000 costs	3	**(911.9)**	(809.6)
Exceptional Year 2000 costs	3	**(11.0)**	(2.2)
Total operating costs	3	**(922.9)**	(811.8)
Operating profit			
Continuing operations		**437.8**	439.5
Acquisitions		**3.6**	–
		441.4	439.5
Joint ventures and associates			
Continuing operations	2	**9.3**	7.9
Profit before interest	2	**450.7**	447.4
Net interest payable	5	**(100.3)**	(73.4)
Profit on ordinary activities before taxation		**350.4**	374.0
Taxation on profit on ordinary activities	6	**(46.6)**	(49.5)
Exceptional taxation – Windfall Tax	6	**–**	(309.6)
Total taxation		**(46.6)**	(359.1)
Profit for the financial year		**303.8**	14.9
Dividends (including non-equity dividends)	7	**(147.0)**	(140.0)
Retained profit/(loss) for the financial year	19	**156.8**	(125.1)
Earnings per share (pence)			
Basic	8	**89.2**	4.3
Diluted	8	**88.5**	4.2
Basic before Year 2000 costs/Windfall Tax	8	**92.4**	95.0
Diluted before Year 2000 costs/Windfall Tax	8	**91.7**	94.2

There is no difference between the profit on ordinary activities before taxation and the retained profit/(loss) for the financial year stated above, and their historical cost equivalents.

Balance sheets

At 31 March 1999

	Notes	Group 1999 £m	Group 1998* £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Intangible assets – goodwill	9	**56.6**	–	**–**	–
Tangible assets	10	**4,237.9**	3,873.8	**7.2**	7.4
Investments in joint ventures					
Share of gross assets		**5.9**	7.9	**–**	–
Share of gross liabilities		**(6.2)**	(8.6)	**–**	–
Loans to joint ventures		**4.7**	9.0	**0.1**	–
		4.4	8.3	**0.1**	–
Investments in associates		**17.2**	16.3	**–**	–
Investments in subsidiaries		**–**	–	**1,618.7**	1,725.9
Other investments		**3.1**	1.3	**2.2**	1.1
Total Investments	11	**24.7**	25.9	**1,621.0**	1,727.0
		4,319.2	3,899.7	**1,628.2**	1,734.4
Current assets					
Stocks	12	**82.2**	82.1	**–**	–
Debtors	13	**284.9**	234.0	**94.3**	92.1
Short-term deposits		**22.9**	32.7	**–**	–
Cash at bank and in hand		**9.3**	14.7	**396.8**	226.3
		399.3	363.5	**491.1**	318.4
Creditors: amounts falling due within one year	14	**(923.4)**	(754.1)	**(478.4)**	(235.2)
Net current (liabilities)/assets		**(524.1)**	(390.6)	**12.7**	83.2
Total assets less current liabilities		**3,795.1**	3,509.1	**1,640.9**	1,817.6
Creditors: amounts falling due after more than one year	15	**(1,306.2)**	(1,179.5)	**(125.4)**	(376.9)
Provisions for liabilities and charges	17	**(42.7)**	(48.9)	**–**	–
Net assets		**2,446.2**	2,280.7	**1,515.5**	1,440.7
Capital and reserves					
Called up share capital	18	**231.1**	230.3	**231.1**	230.3
Share premium account	19	**5.4**	3.3	**5.4**	3.3
Capital redemption reserve	19	**147.0**	147.0	**147.0**	147.0
Profit and loss account	19	**2,062.4**	1,899.8	**1,132.0**	1,060.1
Total shareholders' funds		**2,445.9**	2,280.4	**1,515.5**	1,440.7
Equity shareholders' funds		**2,436.8**	2,271.3	**1,506.4**	1,431.6
Non-equity shareholders' funds		**9.1**	9.1	**9.1**	9.1
Minority shareholders' interest (equity)		**0.3**	0.3	**–**	–
		2,446.2	2,280.7	**1,515.5**	1,440.7

* Group 1998 comparative figures for Tangible assets and Provisions for liabilities and charges have been restated following the adoption of Financial Reporting Standard 12, 'Provisions, Contingent Liabilities and Contingent Assets'. (Note 1d)i)).

Signed on behalf of the Board who approved the accounts on 7 June 1999.

David Arculus Chairman

Alan Costin Group Finance Director

Group cash flow statement

Year ended 31 March 1999

	Notes	1999 £m	1999 £m	1998 £m	1998* £m
Net cash inflow from operating activities	23a		**628.0**		628.2
Dividends received from associated undertakings			**1.6**		1.7
Returns on investments and servicing of finance	23b		**(79.1)**		(54.5)
Taxation			**(209.6)**		(194.8)
Capital expenditure and financial investment	23c		**(609.7)**		(426.2)
Acquisitions	23d		**(81.3)**		(31.9)
Equity dividends paid			**(35.7)**		(91.4)
Net cash outflow before use of liquid resources and financing			**(385.8)**		(168.9)
Management of liquid resources	23e		**10.1**		196.7
Financing					
Increase in debt		**364.2**		99.8	
Issue of shares		**2.9**		3.9	
Purchase of own shares		**–**		(128.1)	
	23f		**367.1**		(24.4)
(Decrease)/increase in cash			**(8.6)**		3.4

* 1998 comparative figures in the group cash flow statement for cash inflow from operating activities, and capital expenditure and financial investment have been restated following the adoption of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' (Note 1d)i)).

Reconciliation of net cash flow to movement in net debt

	Notes	1999 £m	1999 £m	1998 £m	1998 £m
(Decrease)/increase in cash (as above)		**(8.6)**		3.4	
Cash flow from movement in net debt and financing		**(364.2)**		(99.8)	
Cash flow from movement in liquid resources		**(10.1)**		(196.7)	
Change in net debt resulting from cash flows			**(382.9)**		(293.1)
Net debt assumed with acquisitions	23d		**(1.5)**		(0.5)
Inception of finance leases			**(15.5)**		(94.5)
Currency translation differences			**3.4**		0.5
Increase in net debt			**(396.5)**		(387.6)
Opening net debt			**(1,082.0)**		(694.4)
Closing net debt	23g		**(1,478.5)**		(1,082.0)

Statement of total recognised gains and losses

Year ended 31 March 1999

	Group	
	1999 £m	1998 £m
Profit for the financial year – group	**301.7**	13.4
– joint ventures	**0.6**	–
– associates	**1.5**	1.5
Total profit for the financial year	**303.8**	14.9
Currency translation differences	**3.9**	(4.3)
Total recognised gains and losses for the year	**307.7**	10.6

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

Reconciliation of movements in shareholders' funds

		Group		Company	
	Notes	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Profit for the financial year		**303.8**	14.9	**215.5**	197.9
Dividends (including non-equity)		**(147.0)**	(140.0)	**(147.0)**	(140.0)
		156.8	(125.1)	**68.5**	57.9
Other recognised gains and losses relating to the year		**3.9**	(4.3)	**–**	–
Shares issued (net of expenses)	18a	**2.9**	3.9	**2.9**	3.9
Scrip dividend	19	**3.4**	36.8	**3.4**	36.8
Goodwill written off	19	**(1.5)**	(33.0)	**–**	–
Purchase of own shares		–	(128.1)	**–**	(128.1)
Net addition to/(reduction in) shareholders' funds		**165.5**	(249.8)	**74.8**	(29.5)
Opening shareholders' funds		**2,280.4**	2,530.2	**1,440.7**	1,470.2
Closing shareholders' funds		**2,445.9**	2,280.4	**1,515.5**	1,440.7

Notes to the financial statements

1 Accounting policies

a) Basis of accounting
The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards and, except for the treatment of certain grants and contributions, comply with the requirements of the Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the policy on grants and contributions below.

The following accounting standards have been adopted in these financial statements for the first time:

- FRS 10 'Goodwill and Intangible Assets';
- FRS 11 'Impairment of Fixed Assets and Goodwill';
- FRS 12 'Provisions, Contingent Liabilities and Contingent Assets';
- FRS 13 'Derivatives and other Financial Instruments: Disclosures'
- FRS 14 'Earnings per Share'.

The following accounting standards, which are not mandatory until the group's next accounting period, will be adopted in the next financial statements:

- FRS 15 'Tangible Fixed Assets'.

b) Basis of consolidation
The financial statements include the results of Severn Trent Plc and its subsidiary, joint venture and associated undertakings.

The results of subsidiary undertakings acquired are included from the date of acquisition. The results of joint venture undertakings are accounted for on a gross equity basis where the company's holding is 50% and the company exercises joint control under a contractual arrangement. The results of associates are accounted for on an equity basis where the company's holding is 20% or more and the company exercises significant influence.

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

d) Tangible fixed assets and depreciation
Tangible fixed assets comprise:
i) *Infrastructure assets*
Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with the defined standards of service is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charged for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, based on the company's independently certified asset management plan.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS12, as it is no longer permissible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence, the balance sheet and cash flow statement have been restated to take account of necessary changes since the year ended 31 March 1989, when renewals accounting was first adopted, and any previous provisions or prepayments have been subsumed into fixed assets. Further information is given in note 10. This change of accounting has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

ii) *Landfill sites*
Landfill sites are included within Land and Buildings at cost less accumulated depreciation.

The cost of landfill sites is amortised over the estimated life of the site, taking account of the usage of void space. Cost includes the cost of acquiring and developing sites but does not include interest. Each landfill site is divided into a number of operational cells; the depreciation charge is calculated for each individual cell over its estimated life, taking account of the usage of the void space within the cell concerned.

iii) *Other assets*
Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated over their estimated economic lives, which are principally as follows:

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

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

Notes to the financial statements continued

1 Accounting policies continued

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

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

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

Grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions to be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this departure is that the net book value of fixed assets is £206.1 million lower than it would otherwise have been (1998: £177.0 million).

g) Investments
Investments held as fixed assets are stated at cost less amounts written off.

h) Stocks
Stocks are stated at cost less provisions necessary to account for any damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

Development land and properties are included at the lower of cost and net realisable value. Cost includes the cost of acquiring and developing the sites. The net realisable value of development land is based upon its value as a serviced site, after taking account of the cost of providing infrastructure services. Turnover and attributable profits on properties under development are determined by reference to valuation of work carried out to date.

i) Landfill restoration costs
Provision for the cost of restoring landfill sites is made over the operational life of each landfill site and charged to the profit and loss account on the basis of the usage of void space.

j) Environmental control and aftercare costs
Environmental control and aftercare costs are incurred over the operational life of each landfill site and may be incurred for a considerable period thereafter. Provision for such costs is made over the operational life of the site and charged to the profit and loss account on the basis of the usage of void space.

k) Insurance
Provision is made for claims notified and for claims incurred but which have not yet been notified based on advice from the group's external insurance advisers.

l) Pension costs
Costs of defined benefit pension schemes are determined by an independent actuary so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives with the group. Costs of defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due.

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

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

All other foreign assets and liabilities of the company and its United Kingdom subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year-end. In those instances where forward cover has been arranged, the forward rate is used. Any exchange differences so arising are dealt with through the profit and loss account.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange realised during the year are dealt with through the profit and loss account.

1 Accounting policies continued

n) Research and development
Research and development expenditure is charged to the profit and loss account in the year in which it is incurred. Expenditure on fixed assets relating to research and development projects is written off over the expected useful life of those assets.

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

p) Goodwill
Goodwill represents the excess of purchase consideration over the fair value of the net separable assets acquired.

Following the introduction of FRS10, the group has changed its accounting policy for goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible fixed asset in the balance sheet and stated at cost less accumulated amortisation. Capitalised goodwill is amortised on a straight line basis over its useful economic life. Useful economic lives are currently estimated at between 15 and 20 years.

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

r) Derivatives and other financial instruments
The financial costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the cost of issue and any discount to face value arising on issue, or any premium arising on maturity.

Differences arising from the movement in exchange rates during the year on the translation into sterling of foreign currency borrowings and similar instruments used to finance long-term equity investments, are taken directly to distributable reserves and reported in the statement of total recognised gains and losses.

Notes to the financial statements continued

2 Segmental analysis

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

	United Kingdom		Other – principally Europe and USA		Group	
	1999 £m	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Group turnover						
Water and sewerage	**952.7**	932.8	**–**	–	**952.7**	932.8
Waste management	**203.3**	181.2	**44.5**	37.4	**247.8**	218.6
Services	**116.9**	118.7	**112.1**	68.9	**229.0**	187.6
Property, Engineering consultancy and Insurance	**60.0**	24.8	**0.5**	–	**60.5**	24.8
Inter segment trading	**(123.8)**	(109.7)	**(1.9)**	(2.8)	**(125.7)**	(112.5)
	1,209.1	1,147.8	**155.2**	103.5	**1,364.3**	1,251.3
Joint ventures' turnover						
Water and sewerage	**0.5**	0.8	**–**	–	**0.5**	0.8
Waste management	**2.0**	0.8	**–**	–	**2.0**	0.8
Services	**–**	–	**7.0**	2.5	**7.0**	2.5
Property, Engineering consultancy and Insurance	**4.8**	0.2	**–**	–	**4.8**	0.2
	7.3	1.8	**7.0**	2.5	**14.3**	4.3
Group operating profit						
Water and sewerage	**412.0**	414.1	**–**	–	**412.0**	414.1
Waste management	**25.8**	22.6	**7.8**	5.5	**33.6**	28.1
Services	**0.6**	2.8	**3.0**	5.6	**3.6**	8.4
Property, Engineering consultancy and Insurance	**5.9**	0.8	**–**	–	**5.9**	0.8
Unrealised profit on inter segment trading	**(2.4)**	(1.3)	**–**	–	**(2.4)**	(1.3)
	441.9	439.0	**10.8**	11.1	**452.7**	450.1
Share of operating profit of joint ventures						
Water and sewerage	**0.1**	0.1	**–**	–	**0.1**	0.1
Waste management	**0.6**	0.3	**–**	–	**0.6**	0.3
Services	**–**	–	**0.1**	0.1	**0.1**	0.1
Property, Engineering consultancy and Insurance	**0.4**	–	**–**	–	**0.4**	–
	1.1	0.4	**0.1**	0.1	**1.2**	0.5
Share of operating profit of associates						
Services	**–**	(0.1)	**8.1**	7.5	**8.1**	7.4
Share of operating profit of joint ventures and associates	**1.1**	0.3	**8.2**	7.6	**9.3**	7.9
Group profit before interest						
Water and sewerage	**412.1**	414.2	**–**	–	**412.1**	414.2
Waste management	**26.4**	22.9	**7.8**	5.5	**34.2**	28.4
Services	**0.6**	2.7	**11.2**	13.2	**11.8**	15.9
Property, Engineering consultancy and Insurance	**6.3**	0.8	**–**	–	**6.3**	0.8
Unrealised profit on inter segment trading	**(2.4)**	(1.3)	**–**	–	**(2.4)**	(1.3)
	443.0	439.3	**19.0**	18.7	**462.0**	458.0
Corporate overheads					**(11.3)**	(10.6)
Group profit before interest					**450.7**	447.4

2 Segmental analysis continued

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

The segmental analysis includes the following amounts in respect of businesses acquired during the year:

	Turnover			Operating profit		
	United Kingdom £m	Other – principally Europe and USA £m	**Total £m**	United Kingdom £m	Other – principally Europe and USA £m	**Total £m**
Waste management	0.7	1.1	**1.8**	–	0.1	**0.1**
Services	2.2	29.2	**31.4**	(0.2)	3.7	**3.5**
	2.9	30.3	**33.2**	(0.2)	3.8	**3.6**

Operating profit of businesses acquired during the year is stated after charging goodwill amortisation of £1.3 million. Turnover by origin and destination does not differ materially.

Water and sewerage turnover is net of customer rebate as follows:

	1999 £m	1998 £m
Gross turnover	**970.5**	950.6
Customer rebate	**(17.8)**	(17.8)
	952.7	932.8

b) Analysis of net operating assets by geographical location and type of business

	United Kingdom		Other – principally Europe and USA		Group	
	1999 £m	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Water and sewerage	**3,902.2**	3,499.4	**–**	–	**3,902.2**	3,499.4
Waste management	**139.6**	124.5	**16.0**	16.4	**155.6**	140.9
Services	**28.2**	7.8	**50.5**	29.6	**78.7**	37.4
Property, Engineering consultancy and Insurance	**35.0**	43.3	**(2.7)**	–	**32.3**	43.3
Net operating assets	**4,105.0**	3,675.0	**63.8**	46.0	**4,168.8**	3,721.0
Goodwill:						
Waste management					**1.4**	–
Services					**55.2**	–
Short-term deposits, cash, borrowings, taxation and dividends payable					**(1,779.2)**	(1,440.3)
					2,446.2	2,280.7

Notes to the financial statements continued

3 Operating costs

		Continuing operations 1999 £m	Acquisitions 1999 £m	**Total 1999 £m**	Total 1998 £m
Wages and salaries		228.5	10.9	**239.4**	209.5
Social security costs		21.2	0.8	**22.0**	19.2
Pension costs (note 22)		18.1	0.4	**18.5**	16.6
Total employee costs		267.8	12.1	**279.9**	245.3
Power		36.1	0.4	**36.5**	33.4
Raw materials and consumables		78.9	8.0	**86.9**	71.5
Rates		40.1	0.1	**40.2**	41.1
Service charges		21.0	–	**21.0**	20.3
Agencies		17.5	–	**17.5**	18.3
Waste disposal costs		36.9	0.5	**37.4**	31.8
Other operating costs		156.8	5.1	**161.9**	121.7
Depreciation	– on owned assets	164.0	1.0	**165.0**	134.9
	– on assets held under finance leases	1.8	–	**1.8**	7.5
	– on infrastructure assets	65.3	–	**65.3**	63.6
Amortisation	– goodwill	–	1.3	**1.3**	–
Hired and contracted services		95.5	0.8	**96.3**	90.8
Environmental and landfill restoration costs (note 17a)		6.1	–	**6.1**	5.6
Operating lease rentals	– land and buildings	4.1	0.3	**4.4**	3.6
	– other	2.4	–	**2.4**	2.2
Hire of plant and machinery		7.7	–	**7.7**	7.7
Research and development expenditure		4.6	–	**4.6**	6.0
Auditors' remuneration	– audit work	0.5	–	**0.5**	0.5
	– non audit work	0.3	–	**0.3**	0.2
Profit on disposal of fixed assets		(1.0)	–	**(1.0)**	(1.3)
Profit on disposal of fixed asset investments		(0.2)	–	**(0.2)**	–
		1,006.2	29.6	**1,035.8**	904.7
Own work capitalised		(112.9)	–	**(112.9)**	(92.9)
Total operating costs		893.3	29.6	**922.9**	811.8
Exceptional Year 2000 costs included within the above analysis are as follows:					
Employee costs				**1.6**	0.4
Hired and contracted services				**3.8**	0.7
Depreciation				**3.1**	–
Other operating costs				**2.5**	1.1
				11.0	2.2

Exceptional Year 2000 costs in the year ended 31 March 1999 of £11.0 million (1998: £2.2 million) relate to the costs of ensuring that all group computer and operating systems are Millennium compliant.

Included in auditors' remuneration is £52,000 (1998: £52,000) in respect of the audit of the company.

Details of Directors' remuneration, shareholdings and share options are set out on pages 32 to 36.

As a result of the introduction of FRS12 'Provisions, Contingent Liabilities and Contingent Assets' (explained in note 1d)i)) the infrastructure renewals charge in the prior year of £63.6 million has been reclassified as depreciation. This reclassification has no impact on operating profit in absolute terms.

4 Employee numbers (average)

	1999 Number	1998 Number
By type of business:		
Water and sewerage	**5,276**	5,359
Waste management	**2,365**	2,258
Services	**2,997**	2,413
Property, Engineering consultancy, Insurance and Corporate	**457**	383
	11,095	10,413
By geographical location:		
United Kingdom	**9,016**	8,912
Other – principally Europe and USA	**2,079**	1,501
	11,095	10,413

5 Net interest payable

	1999 £m	1998 £m
Interest receivable and similar income	**7.5**	17.8
Interest payable and similar charges:		
Bank loans and overdrafts	**(80.5)**	(35.0)
Other loans	**(5.4)**	(41.1)
Interest on discounted provisions	**(0.5)**	–
Finance leases	**(15.4)**	(10.0)
Group	**(94.3)**	(68.3)
Share of joint ventures	**(0.6)**	(0.4)
Share of associates	**(5.4)**	(4.7)
	(100.3)	(73.4)

6 Taxation

		1999 £m	1998 £m
UK corporation tax	– current year at 31%	**135.0**	125.5
	– prior year at 31%/33%	**(16.8)**	(0.3)
Double taxation relief		**(1.0)**	(3.3)
Overseas taxation	– current year	**4.3**	3.6
	– prior year	**(0.1)**	–
Share of taxation charges of	– joint ventures	**–**	0.1
	– associates	**1.2**	1.2
Advance corporation tax written off/(back)	– current year	**(86.3)**	(69.1)
	– prior year	**10.3**	(8.2)
		46.6	49.5
Exceptional taxation – Windfall tax		**–**	309.6

No provision for deferred taxation is required for the year ended 31 March 1999. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £33.2 million (1998: £38.3 million).

The tax charge reflects action taken by the group to prevent the existing Advance Corporation Tax surplus from being increased and to utilise part of the Advance Corporation Tax surplus brought forward from previous years.

Notes to the financial statements continued

7 Dividends

	1999 Pence per share	1999 £m	1998 Pence per share	1998 £m
Interim dividend declared	**12.47**	**42.4**	11.55	39.2
Second interim dividend declared	**3.84**	**13.1**	3.84	13.1
Final dividend proposed	**26.69**	**91.0**	24.37	82.9
Final dividend enhancement proposed	**–**	**–**	1.36	4.6
	43.00	**146.5**	41.12	139.8
B share interim dividend declared	**1.07**	**0.2**	–	–
B share final dividend declared	**1.10**	**0.3**	1.04	0.2
	2.17	**147.0**	1.04	140.0

8 Earnings per share

The calculation of earnings per share has been performed in accordance with FRS14 'Earnings per Share' and comparative figures have been restated.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust (see note 11) which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

Supplementary earnings per share figures are presented. These exclude the effects of exceptional Year 2000 costs in both 1998 and 1999 and exceptional tax (Windfall Tax) in 1998. The Directors consider that the supplementary figures provide a useful additional indication of performance.

	1999 Earnings £m	1999 Weighted average number of shares m	1999 Per share amount pence	1998 Earnings £m	1998 Weighted average number of shares m	1998 Per share amount pence
Basic earnings per share	**303.3**	**340.0**	**89.2**	14.7	343.6	4.3
Effect of dilutive securities						
Options	**–**	**2.6**	**(0.7)**	–	2.8	(0.1)
Diluted earnings per share	**303.3**	**342.6**	**88.5**	14.7	346.4	4.2
Supplementary earnings per share						
Basic earnings per share	**303.3**	**340.0**	**89.2**	14.7	343.6	4.3
Effect of:						
Exceptional Year 2000 costs	**11.0**	**–**	**3.2**	2.2	–	0.6
Exceptional taxation – Windfall tax	**–**	**–**	**–**	309.6	–	90.1
Basic earnings per share before Year 2000 costs/Windfall tax	**314.3**	**340.0**	**92.4**	326.5	343.6	95.0
Diluted earnings per share	**303.3**	**342.6**	**88.5**	14.7	346.4	4.2
Effect of:						
Exceptional Year 2000 costs	**11.0**	**–**	**3.2**	2.2	–	0.6
Exceptional taxation – Windfall tax	**–**	**–**	**–**	309.6	–	89.4
Diluted earnings per share before Year 2000 costs/Windfall tax	**314.3**	**342.6**	**91.7**	326.5	346.4	94.2

9 Goodwill

	£m
Cost	
At 1 April 1998	–
Arising on acquisitions in the year	57.9
At 31 March 1999	**57.9**
Amortisation	
At 1 April 1998	–
Charge for the year	1.3
At 31 March 1999	**1.3**
Net book value	
At 31 March 1999	**56.6**
At 31 March 1998	–

10 Tangible assets

	Group				Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
Cost					
At 1 April 1998	1,496.6	1,648.7	1,703.9	4,849.2	9.4
Reclassification – infrastructure renewals	–	598.9	–	598.9	–
At 1 April 1998 (restated)	1,496.6	2,247.6	1,703.9	5,448.1	9.4
Acquisition of businesses	1.4	–	9.6	11.0	–
Additions	110.3	237.4	272.5	620.2	0.2
Grants and contributions	–	(29.1)	–	(29.1)	–
Disposals	(4.4)	(0.7)	(26.6)	(31.7)	–
Reclassifications and transfers	(0.3)	–	(1.2)	(1.5)	–
Exchange adjustments	0.6	–	2.7	3.3	–
At 31 March 1999	**1,604.2**	**2,455.2**	**1,960.9**	**6,020.3**	**9.6**
Depreciation					
At 1 April 1998	399.1	–	568.9	968.0	2.0
Reclassification – infrastructure renewals	–	606.3	–	606.3	–
At 1 April 1998 (restated)	399.1	606.3	568.9	1,574.3	2.0
Charge for year	40.5	65.3	126.3	232.1	0.4
Disposals	(2.0)	(0.7)	(23.1)	(25.8)	–
Reclassification and transfers	(0.2)	–	0.3	0.1	–
Exchange adjustments	0.3	–	1.4	1.7	–
At 31 March 1999	**437.7**	**670.9**	**673.8**	**1,782.4**	**2.4**
Net book value					
At 31 March 1999	**1,166.5**	**1,784.3**	**1,287.1**	**4,237.9**	**7.2**
At 31 March 1998 (restated)	1,097.5	1,641.3	1,135.0	3,873.8	7.4

Notes to the financial statements continued

10 Tangible assets continued

i) Cost and accumulated depreciation at 1 April 1998 have been restated to reflect a change in accounting for infrastructure renewals. Prior to 1 April 1998, the financial statements included a provision for infrastructure renewal costs. As at 1 April 1998, this provision has been reclassified to reflect expenditure on infrastructure renewals and the subsequent depreciation of this expenditure separately within fixed assets.

An analysis of the infrastructure renewal asset depreciation and expenditure follows:

	1999 £m	1998 £m
Excess of depreciation over expenditure on maintaining the operating capacity of the network at beginning of the year	**7.4**	18.2
Depreciation for the year	**65.3**	63.6
Grants and contributions received	**3.9**	4.8
Expenditure on maintaining operating capability for the year	**(86.9)**	(79.2)
Excess of (expenditure over depreciation)/depreciation over expenditure on maintaining the operating capacity of the network at end of year	**(10.3)**	7.4

ii) Included in tangible fixed assets are assets held under finance leases as follows:

	1999 £m	1998 £m
Cost	**279.1**	280.9
Accumulated depreciation	**(38.5)**	(38.2)
Net book value	**240.6**	242.7

iii) 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).

iv) The net book value of land and buildings is analysed as follows:

	1999 £m	1998 £m
Freehold	**1,144.6**	1,079.7
Long leasehold	**13.7**	4.8
Short leasehold	**8.2**	13.0
	1,166.5	1,097.5

v) The net book value of land and buildings includes £50.6 million (1998: £48.9 million) in respect of landfill sites.

vi) Included in the above are the following tangible fixed assets not subject to depreciation:

	1999 £m	1998 £m
Land	**28.4**	21.9
Assets in the course of construction	**395.7**	353.4
	424.1	375.3

vii) At 31 March 1999, the company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.9 million (1998: £6.9 million) and plant and equipment with a net book value of £0.3 million (1998: £0.5 million).

11 Investments

		1999 £m		1998 £m
Investments in joint ventures				
Share of gross assets	**5.9**		7.9	
Share of gross liabilities	**(6.2)**		(8.6)	
Loans	**4.7**		9.0	
		4.4		8.3
Investments in associates				
Share of net assets	**16.5**		15.8	
Loans	**0.7**		0.5	
		17.2		16.3
Other investments		**1.2**		0.4
Own shares		**1.9**		0.9
		24.7		25.9

Group

	Interests in joint ventures £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Group					
At 1 April 1998	8.3	16.3	0.4	0.9	25.9
Loans advanced	6.2	0.2	–	–	6.4
Additions	0.1	0.1	0.8	1.0	2.0
Disposals	–	(1.0)	–	–	(1.0)
Loans repaid	(10.5)	–	–	–	(10.5)
Share of profits	0.6	1.5	–	–	2.1
Dividends receivable	(0.1)	(1.6)	–	–	(1.7)
Reclassification	(0.2)	0.2	–	–	–
Currency translation differences	–	1.5	–	–	1.5
At 31 March 1999	**4.4**	**17.2**	**1.2**	**1.9**	**24.7**

Interests in joint ventures and associates at 31 March 1999 comprised the group's share of net assets less provisions, of £16.2 million (1998: £15.1 million) and loans of £5.4 million (1998: £9.5 million). The group's share of the post acquisition accumulated losses of joint ventures at 31 March 1999 was £0.4 million (1998: £1.0 million). The group's share of the post acquisition accumulated losses of associates at 31 March 1999 was £2.9 million (1998: £4.4 million). Particulars of the group's principal joint venture and associated undertakings at 31 March 1999 are:

	Nature of business	Percentage of share capital held	Issued share capital: A ordinary shares of £1	B ordinary shares of £1	Other classes of shares
Biogas Generation Limited	Power Generation	50%	20,000#	20,000	–
Biogeneration Limited	Power Generation	50%	500#	500	–
GMI Rovinian Limited	Property Development	50%	25,000	25,000#	–
Capital Controls India Private Limited	Chlorination Equipment	50%	–	–	75,000 equity shares at Rs10/share
Trinidad and Tobago Water Services Limited (TTWS)	Water Undertaking	50%	–	–	2 shares at TT$100/share
Aquafin NV	Sewerage Undertaking	20%	–	–	800,000 shares at 10,000 BEF/share
Indaqua Industria e Gestao de Aguas	Water Undertaking	30%	–	–	100,000 shares at 1,000 Escudos/share
Cognica Limited	Asset Management	50%	100,000#	100,000	–

Held by the group

Notes to the financial statements continued

11 Investments continued

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

The group financial statements incorporate a trading period for Aquafin, Indaqua and TTWS of twelve months to their accounting reference date of 31 December 1998.

Interests in own shares represent ordinary shares of 65$\frac{5}{19}$p each held in the Severn Trent Employee Share Ownership Trust for certain senior employees under the Long Term Incentive Plan. The main features of the Plan are set out in the Remuneration Report on page 33. At 31 March 1999, the trust held 191,923 shares (1998: 105,219 shares). The market value of these shares was £1.6 million (1998: £1.1 million). The costs of acquiring the shares are charged to the profit and loss account over the three year period for which the performance criteria are measured.

Details of the principal operating subsidiaries by type of business are set out in note 24. A complete list of subsidiary undertakings is available on request to the company and will be filed with the next Annual Return to the Registrar of Companies.

	Subsidiary undertakings		Joint ventures			
	Shares £m	Loans £m	Loans £m	Other investments £m	Own shares £m	Total £m
Company						
At 1 April 1998	1,234.6	491.3	–	0.2	0.9	1,727.0
Additions/loans advanced	–	171.5	0.1	0.1	1.0	172.7
Write down of investments	(0.1)	–	–	–	–	(0.1)
Loans repaid	–	(278.6)	–	–	–	(278.6)
At 31 March 1999	**1,234.5**	**384.2**	**0.1**	**0.3**	**1.9**	**1,621.0**

12 Stocks

	Group	
	1999 £m	1998 £m
Stocks and work in progress	**17.9**	13.1
Development land and properties	**64.3**	69.0
	82.2	82.1

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

13 Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Trade debtors	**154.5**	132.8	**–**	–
Amounts owed by group undertakings	**–**	–	**86.3**	85.2
Amounts owed by associated undertakings	**0.1**	1.4	**–**	–
Corporation tax recoverable	**0.9**	0.5	**–**	–
Other debtors	**22.0**	5.6	**1.8**	0.3
Prepaid pension contributions	**1.0**	1.0	**0.4**	0.4
Prepayments and accrued income	**106.4**	92.7	**5.8**	6.2
	284.9	234.0	**94.3**	92.1

Group debtors include £13.1 million (1998: £10.2 million) which falls due after more than one year.

14 Creditors: amounts falling due within one year

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Bank overdrafts	**4.7**	3.4	**–**	–
Bank loans	**130.5**	113.3	**–**	–
Other loans	**150.6**	11.6	**207.3**	11.2
Obligations under finance leases	**0.2**	0.1	**–**	–
Borrowings (note 16)	**286.0**	128.4	**207.3**	11.2
Trade creditors	**38.2**	59.3	**0.1**	–
Other creditors	**18.0**	14.7	**8.2**	5.8
Taxation and social security	**16.0**	16.0	**–**	0.1
Advance corporation tax payable	**0.1**	9.0	**0.1**	9.0
Corporation tax payable	**54.4**	55.2	**–**	–
Exceptional tax payable	**–**	154.8	**–**	154.8
Dividends payable	**247.1**	39.2	**247.1**	39.2
Accruals and deferred income	**263.6**	277.5	**15.6**	15.1
	923.4	754.1	**478.4**	235.2

15 Creditors: amounts falling due after more than one year

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Bank loans	**522.9**	452.3	**–**	–
Other loans	**435.7**	289.7	**125.0**	275.0
Obligations under finance leases	**266.1**	259.0	**–**	–
Borrowings (note 16)	**1,224.7**	1,001.0	**125.0**	275.0
Deferred income	**58.2**	57.1	**–**	–
Other creditors	**23.3**	20.8	**0.4**	1.3
Dividends payable	**–**	100.6	–	100.6
	1,306.2	1,179.5	**125.4**	376.9

16 Financial instruments

The group's policies in respect of foreign currency and interest rate risk management and the related use of financial instruments are set out in the Treasury management section of the Financial review on page 25.

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

				Fixed borrowings	
	1999 Total £m	Floating interest £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Currency					
Sterling	**1,503.7**	**620.9**	**882.8**	**8.20**	**10.91**
Belgian Franc	**1.0**	**–**	**1.0**	**6.27**	**2.24**
US Dollars	**3.1**	**3.1**	**–**		
Italian Lira	**2.9**	**2.9**	**–**		
Total borrowings at 31 March 1999	**1,510.7**	**626.9**	**883.8**		
Total borrowings at 31 March 1998	1,129.4	524.3	605.1	9.25	4.47

Floating rate borrowings bear interest based on LIBOR.

Notes to the financial statements continued

16 Financial instruments continued

b) Investments in interest bearing assets

	1999 £m	1998 £m
Currency		
Sterling deposits	**14.4**	16.1
US Dollar deposits	**–**	13.2
Belgian Franc deposits	**8.5**	3.4
Total	**22.9**	32.7

Investments in interest bearing assets comprise short-term deposits placed on money markets with a maturity date not exceeding one year, and certificates of deposit. All interest rates are floating.

c) Monetary assets and liabilities by currency, excluding the functional currency

	Net foreign currency monetary assets/(liabilities)			
	US Dollar £m	Deutschmark £m	Other £m	**Total £m**
Functional currency of operation				
Sterling	1.7	(0.6)	0.4	**1.5**
Belgian Franc	–	–	(0.1)	**(0.1)**
Total	1.7	(0.6)	0.3	**1.4**

Net currency gains arising from monetary assets/(liabilities) not in the functional currency of an operation are recognised in its profit and loss account. Those arising from the translation of US Dollar and Belgian Franc functional currency financial statements into sterling are recognised in the statement of total recognised gains and losses.

d) Borrowings analysed by maturity date

		Loans			1999	1998
	Overdrafts £m	**Repayable by instalments any of which are payable after five years £m**	**Other repayment terms £m**	**Finance leases £m**	**Total £m**	Total £m
Group						
Borrowings due within one year (note 14)	**4.7**	**4.4**	**276.7**	**0.2**	**286.0**	128.4
Borrowings due after one year:						
Between one and two years	**–**	**4.5**	**158.1**	**0.1**	**162.7**	181.4
Between two and five years	**–**	**13.5**	**203.2**	**0.5**	**217.2**	269.3
After more than five years	**–**	**21.6**	**557.7**	**265.5**	**844.8**	550.3
Total borrowings due after one year (note 15)	**–**	**39.6**	**919.0**	**266.1**	**1,224.7**	1,001.0
	4.7	**44.0**	**1,195.7**	**266.3**	**1,510.7**	1,129.4

	Rate of interest %	**1999 £m**	1998 £m
Loans repayable partly or wholly after five years comprise:			
European Investment Bank loans – 2004-2008	5.1 – 7.9	**289.7**	277.8
Sterling bond (STWUF) – 2024	6.1	**297.9**	–
Local authority loans – 2010-2035	6.0 – 14.4	**13.0**	14.8
Other loans	3.5 – 6.3	**1.1**	0.1
		601.7	292.7

Company

The company has other loans totalling £332.3 million (1998: £286.2 million) which are repayable within five years.

16 *Financial instruments continued*

e) Borrowings facilities

The group has the following undrawn committed borrowing facilities available at 31 March 1999:

	1999 £m	1998 £m
Expiring within one year	**179.0**	175.0
Expiring in more than one but not more than two years	**50.0**	235.0
Expiring after two years	**150.0**	75.0
	379.0	485.0

f) Fair values of financial instruments

	1999		1998	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations				
Short-term deposits	**22.9**	**22.9**	32.7	32.7
Cash at bank and in hand	**9.3**	**9.3**	14.7	14.7
Borrowings falling due within one year	**(286.0)**	**(288.4)**	(128.4)	(128.4)
Borrowings falling due after more than one year	**(1,224.7)**	**(1,284.4)**	(1,001.0)	(1,037.1)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	**–**	**(1.8)**	–	(2.7)
Currency swaps	**–**	**0.7**	–	–
Other long-term assets/(liabilities)				
Interest in own shares	**1.9**	**1.6**	0.9	1.1
Other fixed asset investments	**1.2**	**1.2**	0.4	0.4
B Shares	**(9.1)**	**(7.9)**	(9.1)	(8.1)

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

Short-term debtors and creditors have been excluded from the above analysis.

g) Unrecognised gains and losses on hedges at 31 March 1999

	Gains £m	Losses £m	**Total net gains/(losses) £m**
Unrecognised gains and losses on hedges at 1 April 1998	10.0	(11.0)	**(1.0)**
Arising in previous years that were recognised in the year	–	–	**–**
Arising before 1 April 1998 that were not recognised in the financial year	10.0	(11.0)	**(1.0)**
Unrecognised gains and losses arising during the financial year	1.0	(1.9)	**(0.9)**
Unrecognised gains and losses on hedges at 31 March 1999	11.0	(12.9)	**(1.9)**
Expected to be recognised			
In one year or less	–	–	**–**
In later years	11.0	(12.9)	**(1.9)**

The instruments used for hedging group exposure to movements in interest rates and exchanges rates are detailed in the Financial Review on page 25. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

Notes to the financial statements continued

17 Provisions for liabilities and charges

	Balance at 1 April 1998 as originally stated £m	Reclassification £m	Balance at 1 April 1998 as restated £m	Acquired with subsidiaries £m	Charged/ (credited) to profit & loss account £m	Exchange adjustments £m	Utilised £m	**Balance at 31 March 1999 £m**
a) Provisions comprise:								
Infrastructure renewals	7.4	(7.4)	–	–	–	–	–	**–**
Environmental and landfill restoration	20.6	–	20.6	–	6.1	0.2	(3.2)	**23.7**
Restructuring	15.8	–	15.8	–	(3.0)	–	(7.2)	**5.6**
Insurance	12.1	–	12.1	–	5.4	–	(4.5)	**13.0**
Other	0.4	–	0.4	0.2	(0.1)	–	(0.1)	**0.4**
	56.3	(7.4)	48.9	0.2	8.4	0.2	(15.0)	**42.7**

As more fully explained in note 1d)i) the infrastructure renewals provision at 1 April 1998 has been restated to reflect a change in accounting for infrastructure renewals, required as a result of the introduction of FRS12. Prior to 1 April 1998, the financial statements included a provision for infrastructure renewal costs. As a consequence of the adoption of FRS12, this provision and the movements therein have been reclassified, to reflect expenditure on infrastructure renewals and the subsequent depreciation of this expenditure, separately within fixed assets.

As more fully explained in notes 1i) and j), environmental and landfill restoration provisions reflect costs to be incurred over the operational life of individual landfill sites and in the case of aftercare costs, for a considerable period thereafter. Discounting is applied. Included in the £6.1 million charge against profit in the current year is £0.5 million interest resulting from the use of discounting.

The restructuring provision reflects costs to be incurred in respect of committed programmes. All of the associated outflows are estimated to occur within twelve months of the balance sheet date.

Derwent Insurance Limited, a captive insurance company, is a wholly owned subsidiary of the group. Provisions for insurance claims are made as set out in note 1k). The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

	1999 £m	1998 £m
b) Potential deferred taxation liabilities not provided:		
Capital allowances	**602.4**	638.0
Other timing differences	**(23.0)**	(15.3)
Available tax losses	**(14.8)**	(15.1)
Advance corporation tax not immediately recoverable	**–**	(76.2)
	564.6	531.4

In the opinion of the Directors, the likelihood of a deferred tax liability crystallising in the foreseeable future is remote. As infrastructure assets are now depreciated, accelerated capital allowances on infrastructure assets of £337.3 million (1998: £364.5 million) have been included in the amounts set out above. Comparative figures have been restated to include the effect of this change in accounting.

18 Called up share capital

	1999 **£m**	1998 £m
Authorised:		
520,175,751 *Ordinary Shares of* $65\frac{5}{19}$*p*	**339.5**	339.5
356,623,364 B shares of 38p (non-equity)	**135.5**	135.5
Total Authorised Share Capital	**475.0**	475.0
Issued and fully paid:		
340,213,386 (1998: 339,008,035) Ordinary Shares of $65\frac{5}{19}$p	**222.0**	221.2
23,845,584 B shares of 38p (non-equity)	**9.1**	9.1
Total Issued and Fully Paid Share Capital	**231.1**	230.3

a) Shares issued during the year
343,605 Ordinary Shares of $65\frac{5}{19}$p were issued in lieu of cash of £3.4 million in respect of the first interim dividend for the year ended 31 March 1998. Scrip issue costs were £0.1 million.

786,545 Ordinary Shares of $65\frac{5}{19}$p were issued at 239p, 257p, 360p, 482p, 415p, 535p, 528p, 799p or 831p under the group's Employee Sharesave Scheme and 75,201 Ordinary Shares of $65\frac{5}{19}$p were issued at 311p, 497p or 625p under the group's Share Option Scheme (formerly Executive Share Option Scheme). The aggregate consideration in respect of these allotments was £3.0 million.

b) Capital reorganisation
In the prior year, as a result of the 19 for 20 share consolidation and issue of B shares on 8 August 1997, 356,623,364 Ordinary *Shares of £1 became 338,792,195 Ordinary Shares of* $65\frac{5}{19}$*p and 356,623,364 B shares of 38p.*

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

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

c) Employee share schemes
i) *The Severn Trent Share Schemes (Profit Sharing Scheme)*
The issued and paid up share capital of the company includes 621,667 Ordinary Shares of $65\frac{5}{19}$p and 225,390 B shares of 38p (1998: 748,471 Ordinary Shares of $65\frac{5}{19}$p and 564,791 B shares of 38p) issued under the Severn Trent Share Schemes. These *shares are held in trust on behalf of employees who are beneficially entitled to the shares.*

ii) *Employee Sharesave Scheme*
Under the terms of the Sharesave Scheme, the Board may grant those employees who have entered into an Inland Revenue approved Save as You Earn (SAYE) contract for a period of 3, 5 or 7 years, the right to purchase Ordinary Shares in the company. Options outstanding at 31 March 1999 were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares **1999**	Number of shares 1998
January 1991	1996 or 1998	239p	**–**	191,365
January 1992	1997 or 1999	257p	**361,828**	392,137
January 1993	1998 or 2000	360p	**306,186**	850,786
January 1994	1999 or 2001	482p	**614,777**	656,469
January 1995	2000 or 2002	415p	**1,073,226**	1,124,145
January 1996	2001 or 2003	535p	**669,132**	696,233
January 1997	2000, 2002 or 2004	528p	**1,016,739**	1,065,980
January 1998	2001, 2003 or 2005	799p	**975,196**	1,015,524
January 1999	2002, 2004 or 2006	831p	**861,495**	–

Notes to the financial statements continued

18 Called up share capital continued

iii) *Approved Share Option Scheme (formerly Executive Share Option Scheme)*
Under the terms of the Share Option Scheme (formerly Executive Share Option Scheme), the Board has granted Directors and other executives options to purchase Ordinary Shares in the company. Options outstanding under this scheme at 31 March 1999 were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares 1999	Number of shares 1998
January 1992	–	1995 – 2002	311p	**–**	13,665
March 1993	12	1996 – 2003	497p	**57,403**	87,116
December 1993	59	1996 – 2003	625p	**251,372**	272,415
June 1998	59	2001 – 2008	1005p	**115,607**	–

iv) *Unapproved Share Option Scheme*
The Board has granted executives options to purchase Ordinary Shares in the company under an unapproved Inland Revenue scheme. Options outstanding under this scheme at 31 March 1999 were as follows:

Date of grant	Number of option holders	Normal date of exercise	Option price	Number of shares 1999	Number of shares 1998
June 1998	23	2001 – 2008	1005p	**43,717**	–

19 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
Group			
At 1 April 1998	3.3	147.0	1,899.8
Goodwill	–	–	(1.5)
Retained profit for the year	–	–	156.8
Shares issued	2.4	–	–
Scrip dividend (including expenses)	(0.3)	–	3.4
Currency translation differences	–	–	3.9
At 31 March 1999	**5.4**	**147.0**	**2,062.4**

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
Company			
At 1 April 1998	3.3	147.0	1,060.1
Retained profit for the year	–	–	68.5
Shares issued	2.4	–	–
Purchase of own shares	–	–	–
Scrip dividend (including expenses)	(0.3)	–	3.4
At 31 March 1999	**5.4**	**147.0**	**1,132.0**

The profit attributable to shareholders, dealt with in the accounts of the company was £215.5 million (1998: £197.9 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the company.

Goodwill of £1.5 million written off against group reserves in the year to 31 March 1999 relates principally to adjustments to consideration paid on prior year acquisitions.

At 31 March 1999 cumulative goodwill written off against group reserves amounted to £290.1 million (1998: £288.6 million).

20 Acquisitions

During the year, the group acquired interests in the following businesses:

Name of business	Date of acquisition
Waste management:	
Algemeen Sorteer – en behandelingsbedrijf van Afvalstoffen	17 April 1998
Tenants	1 May 1998
Express Waste	28 August 1998
CDL Waste Management	29 January 1999
North Riding Waste	26 March 1999
Services:	
American Environmental Network	29 June 1998
Semblex company	30 June 1998
Acrite Limited group	28 July 1998
Intertek Testing Services	14 August 1998
Glassco Ultraviolet Systems Inc.	9 September 1998
Baltea Impianti Depurazione SRL group	1 October 1998
Envirotech Research Inc.	9 October 1998
Utility Pipeline Services Inc.	21 October 1998
Gary L. Moyer, PA group	30 October 1998
Excel Technologies International	1 December 1998
Recra	31 December 1998
Speciality Sewer Services Inc.	21 January 1999

All acquisitions were accounted for using the acquisition method.

The operating assets and liabilities of the above acquisitions were:

	Book value £m	Revaluations £m	Accounting policy harmonisation £m	Other adjustments £m	Provisional fair value total £m
Tangible fixed assets	8.9	2.1	–	–	11.0
Stocks	3.5	–	0.4	(0.1)	3.8
Debtors due within one year	12.9	–	–	(0.6)	12.3
Cash at bank and in hand	0.5	–	–	–	0.5
Bank overdrafts	(0.4)	–	–	–	(0.4)
Creditors due within one year	(6.9)	–	–	(0.1)	(7.0)
Loans	(1.6)	–	–	–	(1.6)
Provisions for liabilities and charges	(0.2)	–	–	–	(0.2)
	16.7	**2.1**	**0.4**	**(0.8)**	**18.4**
Consideration					**76.3**
Goodwill					**57.9**

Accounting policy harmonisation in respect of stocks was necessitated where businesses acquired either did not value stocks and work in progress, or the valuation previously used was not in accordance with group policy.

Within Other adjustments, the reduction in stocks relates to the write down of slow moving stocks. The adjustment to debtors relates to an increase in bad debt provisions. The additional creditors falling due in less than one year relates to unrecorded liabilities held in respect of Chapter 11 payments to US employees.

All fair value adjustments will be reviewed during 1999/2000. Any revisions made will be accounted for as adjustments to goodwill.

None of the businesses acquired during the year had pre-acquisition trading results which were individually significant in the context of the group.

Notes to the financial statements continued

21 Commitments and contingent liabilities

	1999 £m	1998 £m
a) Investment expenditure commitments		
Contracted for but not provided in the financial statements	**182.8**	238.1

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

b) Operating lease commitments
The group is committed to making the following payments during the next year in respect of operating leases which expire as follows:

	1999		1998	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**0.5**	**0.9**	0.8	0.6
Between one and five years	**2.1**	**1.9**	2.7	1.4
After five years	**2.4**	–	1.4	–
	5.0	**2.8**	4.9	2.0

c) Group undertakings have entered into bonds in the normal course of business. The company has entered into guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

d) The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances. Credit balances can be offset against overdrawn balances of participating companies.

22 Pensions and retirement benefits

The principal pension schemes operated by the group in the UK are the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS). These defined benefit schemes are fully funded to cover future salary and pension increases and their assets are held in a separate fund administered by the trustees. In addition, there is a defined benefit scheme for senior staff and defined contribution schemes operated by certain overseas subsidiary undertakings. The pension charge for the year ended 31 March 1999 was £18.5 million (1998: £16.6 million).

STWPS
An actuarial valuation of STWPS was carried out at 31 March 1998 by an independent professionally qualified actuary using the projected unit method. The principal assumptions used were as follows:

	Per annum
Investment return	7.5%
Salary increases	5.0%
Pension increases	3.5%
Inflation	3.5%
Dividend growth	4.0%

The actuarial value of the scheme's assets was £528.0 million, which exceeded by 4% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings.

The surplus is being spread over the estimated remaining period of employees' average service lives with the group on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £699.6 million.

The employer's contribution rate to STWPS has been increased from 1 April 1999 to 12.36%, 10.3% or 6.18% of pensionable pay (previously 11.88%, 9.9% or 5.94%) of STWPS members. Employees' contributions continue at the rate of 6%, 5% or 3% of pensionable pay.

22 Pensions and retirement benefits continued

STMIS

The most recent valuation of STMIS was carried out at 31 March 1997 by an independent professionally qualified actuary using the attained age method, which is considered the most appropriate method of valuation for a scheme which is closed to new members. The principal assumptions used were:

	Per annum
Investment return	8.0%
Salary increases	6.0%
Pension increases	4.5%
Inflation	4.5%
Dividend growth	4.0%

The actuarial value of the scheme's assets was £64.4 million, which exceeded by 18%. the actuarial value of benefits accrued to members, after allowing for future increases in earnings.

The surplus is being spread over the estimated remaining period of employees' average service lives with the group on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £74.0 million.

Following the valuation, the employer's contribution to STMIS has been reduced to a rate of 1.08% or 0.9% of pensionable pay (previously 9.54% or 7.95%) of STMIS members. Employees' contributions are at the rate of 6% or 5% respectively.

23 Cash flow statement

	1999 £m	1998 £m
a) Reconciliation of profit before interest to operating cash flows		
Profit before interest	**450.7**	447.4
Share of operating profit of associated undertakings	**(9.3)**	(7.9)
Depreciation charge	**232.1**	206.0
Amortisation of goodwill	**1.3**	–
Profit on sale of tangible fixed assets	**(1.0)**	(1.3)
Profit on sale of fixed asset investments	**(0.2)**	–
Deferred income received	**0.9**	1.3
Deferred income written back	**(2.7)**	(3.3)
Provisions for liabilities and charges (note 17a)	**8.4**	7.7
Utilisation of provisions for liabilities and charges	**(15.0)**	(18.1)
Non-cash write back of investment	**–**	(0.7)
Decrease/(increase) in stocks	**4.0**	(13.9)
Increase in debtors	**(36.5)**	(16.2)
(Decrease)/increase in creditors	**(4.7)**	27.2
Net cash inflow from operating activities	**628.0**	628.2

The utilisation of provisions for liabilities and charges includes £7.2 million (1998: £13.5 million) in respect of an exceptional restructuring provision charged to the profit and loss account in the year ended 31 March 1997.

	1999 £m	1998 £m
b) Returns on investments and servicing of finance		
Interest received	**7.5**	20.5
Interest paid	**(86.1)**	(74.7)
Non-equity dividend paid	**(0.5)**	(0.2)
Interest element of finance lease rental payments	**–**	(0.1)
Net cash outflow for returns on investments and servicing of finance	**(79.1)**	(54.5)

Notes to the financial statements continued

23 Cash flow statement continued

	1999 £m	1998 £m
c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(647.1)**	(449.3)
Grants received	**27.2**	19.5
Sale of tangible fixed assets	**6.9**	7.7
Sale of fixed asset investments	**1.2**	–
Loans advanced to associated undertakings	**(6.4)**	(4.1)
Loans repaid by associated undertakings	**10.5**	1.0
Investment in own shares	**(1.0)**	(0.9)
Investment in other fixed asset investments	**(1.0)**	(0.1)
Net cash outflow for capital expenditure and financial investment	**(609.7)**	(426.2)

	Book and provisional fair value of assets acquired	
	1999 £m	1998 £m
d) Acquisitions		
Tangible fixed assets	**11.0**	6.8
Current assets	**16.1**	6.9
Liabilities	**(7.2)**	(3.6)
Provisional fair value of net assets acquired (excluding net borrowings)	**19.9**	10.1
Goodwill – capitalised	**57.9**	–
Goodwill – written off to reserves	**1.5**	33.0
Consideration for businesses acquired	**79.3**	43.1
Net borrowings of businesses acquired	**(1.5)**	(0.5)
Net consideration	**77.8**	42.6
Satisfied by:		
Cash consideration relating to current year acquisitions	**(69.5)**	(31.5)
Cash consideration relating to previous years' acquisitions	**(1.5)**	(0.4)
Deferred consideration relating to current year acquisitions	**(6.8)**	(10.7)
	(77.8)	(42.6)
Cash consideration – as above	**(71.0)**	(31.9)
Cash settlement of opening accrued consideration	**(10.3)**	–
	(81.3)	(31.9)

Acquisitions have not materially impacted on the group's operating cash flow for the year.

23 Cash flow statement continued

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

	1999 £m	1998 £m
f) Financing		
Loans advanced	**795.3**	1,268.0
Repayments of amounts borrowed	**(422.6)**	(1,160.1)
Finance lease capital repaid	**(8.5)**	(8.1)
Increase in debt	**364.2**	99.8
Receipts from shares issued net of expenses	**2.9**	3.9
Purchase of own shares	**–**	(128.1)
Net cash inflow/(outflow) from financing	**367.1**	(24.4)

g) Analysis of changes in net debt

	At 1 April 1998 £m	Cash flow £m	Acquisitions £m	Other non cash changes £m	Exchange movement £m	At 31 March 1999 £m
Cash at bank and in hand	14.7	(8.0)	0.5	–	2.1	**9.3**
Overdrafts (note 14)	(3.4)	(0.6)	(0.4)	–	(0.3)	**(4.7)**
	11.3	(8.6)	0.1	–	1.8	**4.6**
Debt due within one year (note 14)	(124.9)	(32.1)	(0.6)	(125.0)	1.5	**(281.1)**
Debt due after one year (note 15)	(742.0)	(340.6)	(1.0)	125.0	–	**(958.6)**
Finance leases (notes 14 and 15)	(259.1)	8.5	–	(15.5)	(0.2)	**(266.3)**
	(1,114.7)	(372.8)	(1.5)	(15.5)	3.1	**(1,501.4)**
Short-term deposits	32.7	(10.1)	–	–	0.3	**22.9**
Total	(1,082.0)	(382.9)	(1.5)	(15.5)	3.4	**(1,478.5)**

Notes to the financial statements continued

24 Principal subsidiary undertakings and their Directors

WATER AND SEWERAGE

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

Directors
V Cocker
B Duckworth
T D G Arculus
J K Banyard
I Elliott
J M Foster
T Kitson
G P Noone
F A Osborn
A Q Todd
M R Wilson

WASTE MANAGEMENT

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

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

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

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

SERVICES

Severn Trent Services, Inc.
2980 Advance Lane
Colmar
Pennsylvania 18915
USA
Telephone 001 215 997 6530
(Incorporated and operational in the United States of America)

Directors
V Cocker
I J Hislop
K J Kelly
M Lily
R T Quinn

International Water Contract Operations

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

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

Severn Trent Water International (Overseas Holdings) Limited
2308 Coventry Road
Birmingham B26 3JZ
Telephone 0121 722 6000

Directors
R A S Costin
J A Hill

Severn Trent Environmental Services, Inc.
Park 10
16337 Park Row
Houston
Texas 77084
USA
Telephone 001 281 578 4277
(Incorporated and operational in the United States of America)

Directors
R T Quinn
I S Burrowes
J A Graziose (Jr)
K J Kelly
M M Watel

Systems

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

Directors
V Cocker
M Lily
I P Clark
J Franey

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

Directors
M Lily
B Albers
I P Clark
K J Kelly

Stoner Associates Europe Limited #
2800 The Crescent
Birmingham Business Park
Birmingham B37 7YL
Telephone 0121 717 7755

Directors
A M Schulte
J R Kroon

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

Directors
J R Kroon
K J Kelly
M Lily

24 Principal subsidiary undertakings and their Directors continued

SERVICES (continued)

Technology

Company	Directors
Severn Trent Technology Limited # 2308 Coventry Road Birmingham B26 3JZ Telephone 0121 722 6000	V Cocker I J Hislop R K Peace N A Rummens
Capital Controls Limited # Park Lane Minworth Sutton Coldfield West Midlands B76 9BL Telephone 0121 313 2300	I J Hislop R K Peace
Capital Controls Company, Inc. 3000 Advance Lane Colmar Pennsylvania 18915 USA Telephone 001 215 997 4000 (Incorporated and operational in the United States of America)	I J Hislop K J Kelly M J Ashley R K Peace
Excel Technologies International Corp. *1110 Industrial Blvd* Sugarland Texas 77478 USA Telephone 001 281 240 6770 (Incorporated and operational in the United States of America)	*I J Hislop* K J Kelly R K Peace A C Rykaczewski
Fusion Meters Ltd # (75% owned) Smeckley Wood Close Chesterfield Trading Estate Chesterfield S41 9PZ Telephone 01246 456658	I J Hislop G G Archibald D W Reynolds E A W Dunkey R K Peace K J C Cameron
Paperflow Services Limited # Ashbourne Way Solihull West Midlands B90 4QU Telephone 0121 609 0800	I J Hislop N A Rummens
Pitometer Associates, Inc. 100 Morris Avenue Glen Cove New York 11542 USA Telephone 001 516 674 6032 (Incorporated and operational in the United States of America)	R T Quinn *I S Burrowes* J A Graziose (Jr) K J Kelly M M Watel
Severn Trent Laboratories Limited # STL Business Centre Torrington Avenue Coventry CV4 9GU Telephone 01203 692692	R Brydon Jannetta I J Hislop R K Peace
Severn Trent Laboratories, Inc. 3000 Advance Lane Colmar Pennsylvania 18915 USA Telephone 001 215 997 4000 (Incorporated and operational in the United States of America)	R Brydon Jannetta R L Ferrara I J Hislop K J Kelly R K Peace

PROPERTY AND OTHERS

Company	Directors
Severn Trent Property Limited # 2308 Coventry Road Birmingham B26 3JZ Telephone 0121 722 6000 (Property Development)	P A Ludlow R A S Costin P P Davies J S R Haynes G P F Inge
Daventry International Rail Freight Terminal Limited (85% owned) 2308 Coventry Road Birmingham B26 3JZ Telephone 0121 722 6000 (Property Development)	P A Ludlow J S R Haynes J Jones M J Roper
Charles Haswell and Partners Limited 99 Great Russell Street *London WC1B 3LA* Telephone 0171 580 2412 (Engineering Design Consultants)	J K Banyard *I Elliott* D R Gutteridge C J G Jones D J Keeling C M Nunn P T Simpson M R Wilson
Derwent Insurance Limited Dixcart House Sir William Place St Peter Port Guernsey Telephone 01481 710555 (Insurance company – incorporated and operational in Guernsey)	G M de Cruz J E Langlois J Mann M R Miles P Tandon
Severn Trent (Del), Inc. 300 Delaure Avenue Suite 1704 Wilmington Delaware 19801-1612 USA Telephone 001 302 427 5990 *(Holding company – incorporated and operational in the United States of America)*	K J Kelly J R Whalen (Jr) C L Wilkinson
Severn Trent Overseas Holdings Limited # 2297 Coventry Road Birmingham B26 3PU Telephone 0121 722 6000 (Holding company)	V Cocker C L Wilkinson

Held directly by the company

Country of incorporation, registration and main operation is Great Britain unless otherwise stated.

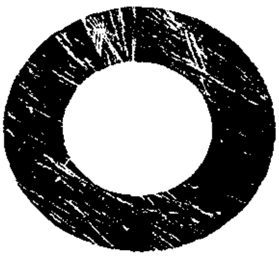
All subsidiary undertakings are wholly owned unless otherwise indicated and all shareholdings are in Ordinary Shares.

All subsidiary undertakings have been included in the consolidation.

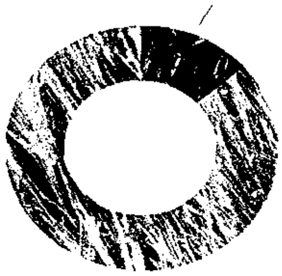
Shareholder information

Analysis of shareholdings at 31 March 1999

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of ordinary shares million	Percentage of ordinary shares %
1 – 499	62.134	61.3	12.2	3.6
500 – 999	24.242	23.9	16.7	4.9
1,000 – 4,999	13.621	13.4	20.3	6.0
5,000 – 9,999	379	0.4	2.6	0.7
10,000 – 49,999	454	0.4	10.8	3.2
50,000 – 99,999	157	0.2	10.9	3.2
over 100,000	362	0.4	266.7	78.4
	101.349	100.0	340.2	100.0



Shares by category of shareholder
(% of total shareholders)



Shares held by category of shareholder
(% of total shares)

*Eg Nominees, other corporate bodies, limited and public limited companies, banks, pension funds and insurance companies.

Financial calendar

Announcement of results

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

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

Dividend payments

Dividend payments in respect of the year ended 31 March 1999:

First interim dividend	paid 6 April 1999
Second interim dividend	payable 2 August 1999
Proposed final dividend	payable 1 October 1999

Annual General Meeting

28 July 1999 at the International Convention Centre, Birmingham

Registrars

Lloyds TSB Registrars
54 Pershore Road South
Birmingham B22 1AD
Telephone 0121 433 8000

Severn Trent Plc

Registered number: 2366619
Registered office:
2297 Coventry Road
Birmingham B22 3PU
Telephone 0121 722 4000