Annual Report and Accounts 2000

Severn Trent Plc

Report & Accounts for the Year Ended 31 March 2000

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Severn Trent Plc is now acknowledged as the UK's leading environmentally engaged company. The group, which includes Severn Trent Water, Biffa Waste Services and Severn Trent Services, generates revenues of £1.6bn and employs almost 14,000 people across the UK, US and Europe.

As an international environmental solutions company, we are a leading provider of water, waste and utility services.

We are increasingly focused on the industrial and commercial sectors where we see increasing opportunities to generate future shareholder value.

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Financial highlights

	2000	1999	% change
Turnover (£m)	**1,567**	1,364	14.8
Profit before interest (pre-exceptionals) (£m)	**459***	462*	(0.5)
Profit before interest (post-exceptionals) (£m)	**395**	451	(12.4)
Profit before tax (pre-exceptionals) (£m)	**339***	361*	(6.3)
Profit before tax (post-exceptionals) (£m)	**274**	350	(21.8)
Earnings per share (pre-exceptionals) (p)	**92.8***	92.4*	0.4
Earnings per share (post-exceptionals) (p)	**73.8**	89.2	(17.3)
Gearing (%)	**76.1**	60.4	15.7
Final dividend (p)	**28.00**	26.69	4.9
Interim dividends (p)	**17.00**	16.31	4.2
Total equity dividends for the year (p)	**45.00**	43.00	4.7

* Excludes effect of restructuring costs of £56.1 million and Year 2000 costs of £8.6 million in 2000 and £11.0 million of Year 2000 costs in 1999.

Spurred by the opportunities in the market place, we continue our transformation from a regulated UK water utility to an international environmental services business.

Our guiding principle at Severn Trent is environmental leadership. This means, first of all, that our own environmental standards must be exemplary. As evidence of our success, we were delighted this year to gain first place in Business in the Environment's Index of Corporate Environmental Engagement. Secondly, environmental leadership means using our environmental expertise to help our customers to discharge their own environmental responsibilities. The environment is our business.

With commerce and industry under growing pressure to improve their standards, we have the opportunity to generate value for shareholders by providing environmental solutions. Although the bulk of our profits still comes from our capital-intensive, regulated water business, an increasing proportion of our revenue now derives from non-regulated services to commercial and industrial customers.

Our recent conditional acquisition of UK Waste from Waste Management Inc. will propel our waste business Biffa to UK market leadership. Our analytical laboratories businesses in the UK and US also enjoy number one position in their markets.

The new regulatory regime

Our transformation from a regulated UK water utility to an international environmental services business gained further impetus when, in November 1999, the Director General of the Office for Water Services (OFWAT) published his final determination of water and sewerage charges for the five years to March 2005. This set tough targets for operating expenditure, capital efficiency and cost of capital and will radically change the way we operate.

Although we did not agree that the OFWAT determination was the best way forward, we are now preparing to meet OFWAT's tough targets while maintaining for our customers the service and environmental standards that our stakeholders expect. However, with profits from our regulated water business now sharply reduced, we are more determined than ever to accelerate the development of our non-regulated activities.

The new regime has also contributed to the fall in our share price – a trend which was exacerbated by the flow of investment funds into high-tech stocks. Our response is to continue building a business that will generate value in the longer term. We remain a high-yield stock and we are committed to maintaining our dividend for the next five years. We also expect our share price performance to benefit over time from the successful development of our non-regulated businesses.

Group results

During the year, group turnover rose 14.8% to £1,566.6 million (98/99: £1,364.3 million). Turnover from our non-regulated businesses increased by 30.0% to £698.3 million (98/99: £537.3 million) and accounted for 42% of our revenues as against 36% the previous year.

Group profit before interest and exceptional costs fell by 0.5% to £459.4 million (98/99: £461.7 million). Of this, the non-regulated businesses contributed £52.0 million (98/99: £51.6 million). Basic earnings per share before exceptional costs were 92.8p (98/99: 92.4p).

On these results the Board is recommending a final dividend of 28.0p per ordinary share, bringing the total for the year to 45.0p (98/99: 43.0p).

Severn Trent Plc at a glance

Water	Waste	Services	Systems
Severn Trent Water is the group's regulated water business. It provides high quality water and sewerage services to over three million households and businesses in central England and parts of mid Wales.	Biffa Waste Services is the leading integrated waste management company in the UK. It is also a leading player in Belgium.	Severn Trent Services supplies products, processes and services associated with water and waste water, including contract operations and consultancy, to industrial and municipal markets.	Severn Trent Systems provides IT services and software solutions to utilities.

Property, Engineering consultancy and Insurance

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 clients in the UK and overseas.
Derwent Insurance, based in Guernsey, provides insurance cover to Severn Trent group companies.

Board, management and staff
Vic Cocker, our Group Chief Executive for the last six years, retires in October 2000 after 26 years with Severn Trent. Vic has made a tremendous contribution to the group's development and has been largely instrumental in creating the diversified environmental services business we see today. He enjoys an international reputation in the environmental services industry and will be greatly missed by his colleagues at Severn Trent.

Vic's successor will be our Deputy Group Chief Executive, Robert Walker, formerly a Division President at PepsiCo International, whose commercial and marketing skills will be invaluable as we speed up the development of our non-regulated activities.

In August 1999, we were delighted to welcome Bill Cook as President and CEO of Severn Trent Services. His challenge – and one he is energetically addressing – is to turn our US businesses into a cohesive whole and convert their rapidly growing turnover into profits.

Most importantly, I must thank our employees whose talents and dedication have been fundamental in transforming the business and enhancing our reputation among our customers and in the wider community. Despite the requirement to reduce staff numbers in the water business, the total number of employees in the group continues to grow through the expansion of our non-regulated businesses. Together with our high calibre people, I look forward with confidence to another year of growth.

David Arculus
Chairman

Our strategy has prepared us for a future with lower earnings from our regulated water business. Our priority now is the profitable development of our non-regulated activities.

This has been a pivotal year for Severn Trent. As well as marking the end of our second five-year period as a privatised water company, it was also the year which defined the regulatory environment for the next five years. The year's developments endorse our current strategy and increase our determination to move further and faster in the same direction.

The OFWAT final determination
The OFWAT final determination in November 1999 required that Severn Trent Water should reduce its charges by 14.1% in April 2000 with a further 1% reduction in real terms in each of the following two years – effectively taking £115 million in revenues out of the regulated water business in the first year, with a further £9 million a year in each of the following two years.

As a result, we are having to operate an even leaner business than we had planned. In December 1999 we announced a restructuring programme expected to cost £52.5 million and involving the loss of 1,100 jobs as well as the closure of some non-operational locations.

We believe we can meet the OFWAT demands and we believe our plans will not affect the quality of service to our customers.

Transforming the group
Five years ago we were primarily a regional water company. Since then, our strategy has made us less dependent on revenues from our regulated business. Our waste, services, systems and property businesses – all of which offer non-regulated services to business customers – accounted for 42% of our revenues in 1999/2000 and are expected to contribute over 50% in the current year. They also now employ well over half our people.

In early June, we announced the strategic acquisition of UK Waste from US-based Waste Management Inc. Upon completion the deal will redefine the shape of the UK waste industry and is in line with the government's recently announced waste strategy. It also clearly positions Biffa as the leading player in the UK waste market.

Leadership positions have already been established in environmental laboratories in both the UK and US, helping to secure a strong non-regulated platform for growth.

We are well prepared, therefore, to weather the cutback in revenues imposed on our regulated water business by the OFWAT determination. The priority now is to continue raising the turnover from our non-regulated businesses and, more importantly, to translate turnover into higher earnings.

Performance and growth in 1999/2000
Our results in 1999/2000 build upon the steady progress of recent years.

Turnover from Severn Trent Water rose 3.1% to £982.1 million (98/99: £952.7 million). Profit before interest and exceptional costs was almost level with last year at £423.5 million (98/99: £423.9 million). Direct operating costs (excluding depreciation, infrastructure renewals and exceptional costs) rose £16.6 million to £356.8 million. Capital investment in the year was £556 million (98/99: £567 million). Once we have taken the one-off pricing hit imposed by the OFWAT determination, we expect the profitability of Severn Trent Water to remain broadly stable.

The company continues to invest heavily to ensure the best possible service to its customers. This year, its customer service ratings and compliance with drinking water and sanitary standards again reached record levels.

Biffa Waste Services increased its turnover by 17.5% to £291.1 million (98/99: £247.8 million). Profit before interest fell by 9.4% to £31.0 million (98/99: 34.2 million), largely because of higher depreciation charges following the adoption of the FRS 15 accounting standard and because the weaker euro affected the sterling value of profits from Belgium.

Biffa's collection division had an excellent year with volumes growing by 11% and more success in winning large industrial contracts. Schemes such as Biffpack are assisting companies to meet their recycling obligations and EU packing regulations. It was also a good year for the special waste business which increased its profits by 28.6%. The landfill operation did less well with declining volumes and prices in the profitable contaminated soil market. The special waste division has also been developing innovative and pioneering technologies to recover metals from sludge wastes. The technique recently used at Biffa's West Midlands facility, yielded a 60% recovery rate from a tin rich sludge. In Belgium, the performance of the special waste pre-treatment centre at Antwerp continued to improve, though results as a whole suffered from a drop in landfill volumes.

Severn Trent Services accelerated its growth with revenues rising 63.4% to £242.8 million (98/99: £148.6 million). Profit before interest and exceptional costs increased by 42.7% to £15.7 million (98/99: £11.0 million). The fastest growth was in Laboratory Services which consolidated its market leadership with the acquisition of 24 more laboratories. The Purification division also expanded, while Operating Services held its profits at last year's level.

After a period of rapidly rising turnover, largely driven by acquisitions, the priority for Severn Trent Services is to translate revenues into earnings. Under its new President and CEO, Bill Cook, the business has undergone a major reorganisation to capitalise on its critical mass in the market place and facilitate a new phase of profitable growth.

In Severn Trent Systems, delays in delivering the CIS-OV customer information system resulted in an operating loss of £2.6 million (98/99: Profit of £0.1 million). It has been decided to restructure Severn Trent Systems, separating it from Severn Trent Services, so that a thorough review of the strategic alternatives can be undertaken.

Our Property, Engineering consultancy and Insurance businesses produced good results with profit before interest and exceptional costs rising 25.4% to £7.9 million (98/99: £6.3 million).

A new commercial edge

The new regulatory regime makes us more determined than ever to extract greater value from our skills and assets. One way of doing so is to sell more services to our eight million water customers. In the spring, we launched Severn Trent Talks in association with TCI Corporation to offer telecommunications products to small and medium sized businesses. Later this year we plan to launch Severn Trent Energy, a joint venture with Amerada to offer gas and electricity. Both will capitalise on the strong Severn Trent brand.

As we move from a regulated utility to an international environmental services business, the emphasis clearly shifts from domestic customers with no choice of supplier to business customers with a great deal of choice. We are therefore looking to create an ever more entrepreneurial culture and to exploit the full range of our expertise in meeting the needs of our customers. Among other developments, we are sharpening our commercial and marketing skills and Biffa and Severn Trent Water are seeking ways to offer joint services.

Prospects and people
Since privatisation, the group as a whole has made huge strides in efficiency and quality, enhancing its service, expanding the business and laying the basis for future growth.

Severn Trent Water has an excellent record in cost control and capital asset procurement. In the last five years, we have spent £2.37 billion in line with regulatory targets; we invested half as much again in new assets as we earned in profits. The £52.5 million restructuring programme will secure the necessary efficiencies to achieve the rate of return built into the OFWAT price determination for the next five years.

Biffa, meanwhile, contributes expertise in service delivery, the development of national contracts and product innovation. The acquisition of UK Waste will clearly position Biffa as the leading player in the UK waste market.

Severn Trent Services is benefiting from its work developing superior service delivery in laboratories and has some exciting opportunities in the US. We are also expanding in Europe. Severn Trent Water International (part of Severn Trent Services), which offers consultancy expertise around the world and contract operations in Europe, has strengthened its European presence with a series of acquisitions in northern Italy to take advantage of Italy's moves towards privatisation.

Today, our management and technical capabilities are in high demand and potentially of great commercial value. Of all the privatised water companies, we believe we are the most advanced in building up our non-regulated businesses. The challenge now is to market those capabilities and develop those businesses in such a way as to generate maximum returns for our shareholders.

We are well placed to do so. We have strong positions in water, waste and services in the UK, the US and Europe. We operate in markets we understand and which offer attractive potential for growth. We have proved our ability to stretch and reinvent ourselves and are well on the way to becoming an international environmental services group.

In drawing greater value from our business, we benefit particularly from the skills of our management and staff.

This is my last review as Group Chief Executive and I would like to express my thanks to colleagues and staff who have helped to transform us from a water utility into an international operation with huge environmental interests and over half its revenue derived from non-regulated activities. This has been an extraordinary achievement and the entire company must take the credit. For me, personally, being part of the change has been a great privilege and extremely enjoyable. The business goes forward in excellent hands with my very best wishes for the future.

Vic Cocker
Group Chief Executive

Operating review

Severn Trent Water continues to invest in service and quality. This year its customer service ratings and compliance with drinking water and sanitary standards again reached record levels.

Water

Severn Trent Water is the group's largest operation and one of the UK's leading water and sewerage companies. Serving over eight million people, it supplies more than two billion litres of high quality drinking water every day through 42,000 km of water mains. It also takes away used water, treats it at over 1,000 sewage works and puts it safely back into rivers and streams. Its skills in both clean and waste water are central to the group's commitment to environmental leadership.

1999/2000 marked ten years since Severn Trent Water was privatised. Over that period, the company has invested £5.0 billion – £2.2 billion more than its profits after tax – in improving its infrastructure and service. It has cut its leakage rate, raised the quality of the water it supplies and avoided hosepipe bans for the last four years with every prospect of continuing to do so. Its domestic charges are the second lowest in the industry and, compared with ten years ago, the company provides demonstrably better service with 30% fewer staff.

1999/2000 performance

In 1999/2000, turnover from Severn Trent Water rose 3.1% to £982.1 million (98/99: £952.7 million) after customer rebates of £18.0 million (98/99: £17.8 million). The increase was less than the allowed tariff increase of 3.5% for two reasons – domestic customers opting to switch to the metered tariff and a 2.3% fall in consumption by industrial and commercial customers. These factors reduced turnover by £11.2 million and were only partially offset by increases from other sources such as new customers moving into the region.

Profit before interest and exceptional costs was virtually in line with the previous year at £423.5 million (98/99: £423.9 million). Exceptional costs totalled £61.1 million (98/99: £11.8 million). These comprised Year 2000 costs of £8.6 million (98/99: £11.8 million) and restructuring charges of £52.5 million (98/99: nil) following the OFWAT final determination in November 1999 that cut charges by 14.1% from April 2000.

Direct operating costs (excluding depreciation, infrastructure renewals and exceptional costs) rose £16.6 million to £356.8 million. While inflation and pay increases were offset by greater operating efficiencies, the company incurred extra costs particularly in running the major capital schemes implemented in the last two years and through additional bad debts.

Depreciation including infrastructure renewals was £14.1 million higher at £206.8 million. The increase reflects the high level of capital investment in both of the last two years and the accelerated write-off of surplus assets following the restructuring plans announced in December 1999. Depreciation is expected to fall to around £200 million in the current year as these write-offs are not expected to recur.

Capital investment in the year was £556 million (98/99: £567 million), bringing the total for the five-year period to £2,373 million. Severn Trent Water expects to invest some £350 million in the current year and a total of £2 billion over the next five years.

Following the OFWAT final determination, Severn Trent Water announced plans to shed 1,100 jobs and the process is under way. By 31 March 2000, the number of employees was 4,933 compared with 5,228 a year previously.

Quality and customer service
Compliance with drinking water standards reached 99.91%, making 1999/2000 the best-ever year for water quality. Of 2.9 million billing enquiries, 99.6% were answered within five days compared with 99.2% the previous year. Of 17,300 written complaints, 98.6% received a response within the same time limit (98/99: 95.2%). The number of telephone contacts also remained constant at 3.7 million and the average response time was under 10 seconds.

Resources and security of supply
Severn Trent Water is committed to providing all its customers with all the water they need, whatever the weather. Once again there have been no supply problems this year, due in part to higher-than-average rainfall and the company's continuing programme of reducing leaks. Severn Trent Water has again met OFWAT's statutory leakage targets and has one of the best leakage records in the industry. Plentiful supplies of water have also enabled the company to make maximum use of its most cost-efficient sources. With reservoirs 100% full at the end of the year, Severn Trent Water is well placed to meet demand during the summer.

As climate change makes weather patterns less predictable, Severn Trent Water has put together a drought contingency plan in consultation with the Environment Agency. Among other preparations, it has shown that water from the River Trent can be treated and introduced into the supply.

Severn Trent Water is also working with consumers and businesses to help them conserve water in every possible way.

Developing the business
As a result of the OFWAT determination, Severn Trent Water is having to become even more efficient and effective in the way it operates. Its £52.5 million restructuring programme will secure the necessary efficiencies to achieve the rate of return built into the OFWAT price determination for the next five years.

Longer term, Severn Trent Water's response is to look for more opportunities to provide other value added services to its customers. Following the enactment of the Competition Act, all qualified suppliers can now have access to the pipe systems of water companies. Severn Trent was one of the first to provide a network access code to facilitate the new arrangement and is using its brand and reputation to win business outside its region. It is also lobbying for the proper licensing of new entrants to ensure that competition does not compromise standards of health, quality and safety.

In October 1999, Severn Trent Water agreed to supply water conservation and management services to more than 50 Northern Foods sites across the country. This was the UK water industry's first national account and Severn Trent is negotiating several more of the same kind.

Severn Trent has also formed a new business venture with TCI Corporation for the supply of telecommunications and another with Amerada to enable it to offer gas and electricity across the country from autumn 2000. The partner in each case will provide the product and back-office systems with Severn Trent contributing its brand, reputation and 3.5 million-strong customer base.

Biffa is looking to succeed through the scale of its operations, by controlling its means of disposal and by using its special waste skills to win large industrial contracts.

Waste

Upon completion of the UK Waste acquisition Biffa will become the clear leader in waste management in the UK. It is already a leading player in the Belgian waste market. Biffa Waste Services offers a comprehensive range of services to industry, commerce, retail customers and the health and public sectors. It handles 6% of the UK's waste – some six million tonnes a year. Its three divisions deal with waste collection and recycling, the management of landfill sites and the treatment of special or hazardous waste. It employs over 2,800 people.

Biffa's strategy is to be a leading integrated waste company. Its success depends on three factors: scale (achieving wide geographic coverage and high operating efficiencies in the collection of waste); control of disposal (owning landfill sites across the country and forging partnerships to deal with other forms of disposal); and special waste capabilities – increasingly important as more types of waste need special treatment. Biffa is one of only a few waste companies in the UK with strong capabilities in all three areas.

The principal driver to current and future opportunities in the waste sector, is the pace and extent of European and UK regulatory and fiscal strategies in relation to sustainability. Biffa is uniquely poised to benefit from these trends because of close involvement with the processes, close dialogue with major sources of waste generation in the economy and the potential for economies of scale in handling material flows differently in coming years.

Since 1992, Biffa has nearly tripled both its revenues and its profits – and done so mainly by organic growth rather than by acquisition. Its expansion has been fuelled by new legislation that has made companies more responsible for the way their waste is managed and has generated a variety of treatments for different types of waste.

1999/2000 performance

Biffa's turnover in 1999/2000 rose by 17.5% to £291.1 million (98/99: £247.8 million). Excluding Landfill Tax, the increase was 13.5%. UK turnover rose £45.0 million to £248.3 million while Belgian turnover fell by £1.7 million to £42.8 million. Stripping out the £2.4 million adverse effect of the weakening euro, Belgian turnover rose by £0.7 million.

Profit before interest fell by 9.4% to £31.0 million (98/99: £34.2 million). Of the reduction, £1.8 million was purely an accounting change, the adoption of the new FRS 15 accounting standard increasing the landfill depreciation charge by this amount. A further £0.4 million resulted from the weaker euro which affected the sterling value of profits in Belgium. These were down £0.7 million to £7.1 million. Before the extra depreciation charge, UK profit before interest also fell £0.7 million to £25.7 million.

Biffa's UK collection business continued its rapid growth with turnover rising 19.1% to £151.6 million. Competitive conditions prevented it passing on the full effect of the Landfill Tax and higher fuel costs, with the result that profits rose by 4.7% to £20.0 million. During the year, Biffa gained new municipal contracts at Burnley, Forest of Dean and Penwith, extended three more in the East Riding of Yorkshire, West Devon and Basingstoke, and opened new collection depots at Weymouth, Lampeter and Bury St Edmunds. It also won new business with industrial and commercial customers such as Bass Breweries and the Inland Revenue.

The UK landfill business increased its turnover by 28.1% to £74.7 million. Excluding Landfill Tax, the increase was 10.5%. Total volumes increased by 20% (including acquisitions), but profits (before the depreciation adjustment) fell by 10.3% to £11.3 million as the Landfill Tax hit the small but profitable contaminated soils market. This in turn meant greater competition for other waste streams with the result that average unit revenues fell by 5.6%. During the year, Biffa's acquisition of Premco with its three landfill sites secured long-term availability of void space in the Midlands. Biffa's capacity to generate electricity from landfill gas increased by 44% from 16 Mw in 1998/1999 to 23 Mw in 1999/2000.

In the UK special waste business, turnover rose by 24.3% to £22.0 million and profits by 28.6% to £1.8 million. Successes in the year ranged from cleaning up contaminated caverns under Dudley Castle to developing a service that removes both dry and wet waste from petrol station forecourts. The division's strategy of providing value-added treatment solutions to its customers is working well.

In Belgium, turnover fell by 3.8% to £42.8 million while profits were down 9.0% at £7.1 million – largely driven by the weaker euro. Results were strongly influenced by the landfill business which saw a slowing of volumes into its Cour au Bois site. In its fifth year of operation, the advanced special waste pre-treatment plant at Antwerp increased its volumes by 25.9% and further improved its financial performance.

Recycling

The integrated collection, recycling and disposal contract for the Isle of Wight council had another good year. With limited landfill on the island, this innovative scheme rewards Biffa's Island Waste Services business in relation to the amount of domestic waste recycled. Through a combination of recycling, composting and the production of waste-derived fuel, the proportion of waste diverted from landfill now stands at 45% – higher than anywhere else in the UK. During the year, Island Waste Services gained Investors in People accreditation and the international environmental certification, ISO 14001.

Elsewhere, Biffa continued to develop alliances to increase its recycling capability. It was the first to forge links with a paper recycling company and now has recycling partners handling a variety of waste from car tyres to fluorescent light tubes. In addition the Special Waste Division has been developing innovative and pioneering technologies to recover metals from sludge wastes. The technique, recently used at Biffa's West Midlands facility yielded a 60% recovery rate from a tin rich sludge. It has also expanded its Biffpack scheme which helps companies to meet their recycling obligations under EU packaging regulations.

Outlook

Following the conditional acquisition of UK Waste, the merger of this primarily waste collection and recycling business with Biffa creates a waste business with a current turnover of nearly £500 million. Biffa's priorities are to keep expanding its collection business, enhance landfill rates as the market allows and capitalise on its special waste skills to win large, integrated, industrial contracts.

Services

Severn Trent Services is one of the leading environmental services companies in the US. Focusing on industrial and municipal customers, it offers laboratory analysis, water purification products, operating services and an international arm serving customers in the same sectors in the UK and Europe. It employs over 4,600 people, of whom 3,700 work in the US.

1999/2000 performance

The business continued its rapid growth in revenues with turnover rising 63.4% to £242.8 million (98/99: £148.6 million). Profit before interest and exceptional costs was 42.7% higher at £15.7 million (98/99: £11.0 million).

The priority for Severn Trent Services is to turn rapidly rising revenues into higher earnings. The recent reorganisation is a major step in this direction.

Severn Trent Laboratories had a particularly strong year. A series of successful acquisitions nearly trebled the size of the business and consolidated Severn Trent's leadership in environmental laboratory testing in both the US and the UK. Now three times larger than its nearest US competitor, the business operates 32 laboratories on both sides of the Atlantic. As well as growing by acquisition, it is also seeking to expand organically by increasing its market share and moving into services such as on-site monitoring. Turnover rose 161% to £80.0 million – and the intention now is to replicate the success of Severn Trent Laboratories in the other US operations.

It was also a good year for the Water Purification Solutions business. One of the world's leading providers of disinfection technologies, this division provides products and services for treating water and waste water for municipal and industrial customers. Recent technological advances include the innovative Electrochlor technique that allows chlorine to be manufactured on site and so avoids the risks of transportation and storage. Turnover in 1999/2000 rose by 35.3% to £78.2 million.

With over 400 contracts in 31 states, Environmental Operating Services is one of the leading US providers of management services for municipal and industrial water and waste water systems. It is also a leader in maintaining pipeline distribution systems for municipal clients. Among other developments this year, it has started to commercialise an innovative water meter with no moving parts, for which there is huge potential demand in the US and other countries.

Environmental Operating Services also applies the group's asset management expertise overseas. The purchase of the Italian regional water operator, Ecotecnica, in February 2000 was the latest of a series of acquisitions in northern Italy to take advantage of the privatisation of the Italian water industry. Through its 20% shareholding in Aquafin, the business is also involved in the provision of sewerage services for the Flanders region of Belgium.

In 1999/2000, Environmental Operating Services turnover increased by 40.5% to £84.6 million.

Reorganisation

Over the last five years, Severn Trent Services has made 43 acquisitions – so not surprisingly, many customers still relate to individual businesses rather than to Severn Trent Services, and are unaware of its total capability. Accordingly, when Bill Cook took over as President and CEO in August 1999, he began a process of pulling the business together into one cohesive whole with a single, powerful brand.

The reorganisation has consolidated the top management of the business. It has established a new head office, put new people in key positions and cut costs by £6 million a year – the benefits of which will be reflected in future results. Longer term, the new structure will raise the company's profile, sharpen its sales and marketing focus and allow it to offer an expanded range of higher-value services to more customers. It also marks a shift in emphasis from off-the-shelf products and services to integrated solutions that exploit the full breadth of Severn Trent's expertise. The exceptional costs of the reorganisation reflected in the 1999/2000 results, amounted to £3.5 million.

Outlook

Along with Biffa, Severn Trent Services is crucial to the group's strategy of developing its non-regulated activities. Its target – and one the business is on track to meet – is to raise its revenues from £243 million in 1999/2000 to £600 million by 2005. While the acquisition programme will continue, the business will increasingly focus on accelerating its organic growth and improving its profitability.

Severn Trent Systems has key technology skills which are already helping Severn Trent Water to meet the challenges of the regulatory determination.

Systems
In its first five years to 31 March 1998, Severn Trent Systems grew in turnover from £35 million to £79 million and delivered cumulative operating profits of £16.2 million while investing heavily in new and leading utility systems.

The IT Services team within Severn Trent Systems has key technology skills which are already helping Severn Trent Water to meet the challenges of the regulatory determination. These capabilities will enable the business to take the lead in important new areas such as e-commerce, knowledge management and global networking and can also be applied across the group.

Over the last two years, delays in the delivery of its CIS-OV customer information and billing system have required additional investment and delayed some revenues. The result has been an operating loss of £2.6 million for the year ended 31 March 2000 (98/99: profit £0.1 million).

The CIS-OV system is now in use with four leading utilities in the US and Australia. Four additional contracts are due for delivery in 2000/2001 and further sales are expected. Demand for the company's other successful software products in work management, fieldworking, network modelling and systems integration remains strong – not least from Severn Trent Water which is due to implement both CIS-OV and work management software from Severn Trent Systems in the coming year.

However, the Board recognises that software products require ongoing investment and a global marketing capability in order to realise their full potential sales and profits.

It has therefore been decided to restructure the business, separating Severn Trent Systems from Severn Trent Services, so that a thorough review of strategic alternatives for this business can be undertaken.

Property, Engineering consultancy and Insurance
Total turnover from the Property, Engineering consultancy and Insurance businesses was £77.7 million (98/99: £60.5 million), generating profit before interest and exceptional costs of £7.9 million (98/99: £6.3 million). The profit improvement was mainly the result of a strong performance by Severn Trent Property.

Property
Severn Trent Property was established to exploit the development potential of land becoming surplus to Severn Trent Water's requirements. In recent years, the company has also undertaken projects on sites acquired from third parties.

The largest of these – a 174 hectare site at Daventry – includes the International Rail Freight Terminal (DIRFT) and has had an outstanding year. Two buildings, totalling 346,000 sq ft, have been completed for Eddie Stobart Limited and are now occupied. Work is well advanced on a 260,000 sq ft development for Ingram Micro (a US multinational computer distribution company) and a new rail-linked building for W H Malcolm Limited is due for completion in June. Twenty four acres of land have been sold to Tesco for a new cold storage facility and contracts have been exchanged with Tibbett & Britten Plc for the construction of a second rail-linked distribution building of 300,000 sq ft.

Severn Trent Property has a 51% interest in Thorpe Park, Leeds, a 65 hectare site adjacent to the Al/Ml link. The site has planning permission for the development of a business park providing 1.2 million sq ft of office space. A 25,000 sq ft office for Regus UK Limited has recently been completed and sold to an institutional investor. In addition, contracts have been exchanged for the sale of a site to Shires Hotels for a new four star hotel and conference facility. Contracts have also been exchanged with Time Retail Systems (a subsidiary of Kingfisher Plc) for a 40,000 sq ft office and call centre.

Severn Trent Property also completed a pre-let manufacturing facility of 60,000 sq ft for Kidsgrove Industries Limited in Stoke-on-Trent.

During the year, a number of former Severn Trent Water sites have been granted planning permission and development is expected to begin over the next 12 months.

Engineering consultancy
Charles Haswell and Partners provides engineering consultancy and project management services and continues to grow. Clients during the year included Scottish water authorities, BG Transco, Castle Cement and Railtrack. The business also secured a five-year design consultancy with Yorkshire Water and continued its overseas interests with support to major projects in Hong Kong, Israel, Canada and Denmark.

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

Financial review

Results
Group turnover of £1.57 billion (98/99: £1.36 billion) was 14.8% up on the previous year. Turnover in the group's non-regulated businesses grew by 30.0% to £698.3 million, whereas in Severn Trent Water, the increase was 3.1% to £982.1 million. Non-regulated turnover now represents 42% of the group total (98/99: 36%).

Group profit before interest was £394.7 million (98/99: £450.7 million). Exceptional costs in the year totalled £64.7 million (98/99: £11.0 million) comprising restructuring costs of £56.1 million (98/99: £ nil) of which £52.5 million arose in Severn Trent Water, and Year 2000 costs of £8.6 million (98/99: £11.0 million). Excluding these costs, profit before interest at £459.4 million (98/99: £461.7 million) was 0.5% lower than last year.

Severn Trent Water's profit before interest and exceptional costs was virtually in line with last year at £423.5 million (98/99: £423.9 million). Profit before interest and exceptional costs from the group's non-regulated businesses increased by 0.8% to £52.0 million (98/99: £51.6 million).

Net interest payable by the group was £120.7 million (98/99: £100.3 million). The £20.4 million increase in net interest cost reflected a £461 million increase in the group's net borrowings, discussed below. Net interest charges were covered 3.3 times (98/99: 4.5 times) by profit before interest.

Group profit on ordinary activities before taxation was £274.0 million (98/99: £350.4 million), £338.7 million (98/99: £361.4 million) before exceptional costs.

The group charge for taxation on ordinary activities for the year ended 31 March 2000 was £22.1 million (98/99: £46.6 million), an effective tax rate of 8.1% (98/99: 13.3%). The effective tax rate for 1999/2000 has benefited from capital allowances generated by the high level of capital expenditure and from the utilisation of taxation allowances disclaimed in earlier years, which will also benefit subsequent years. The effective tax rate for 2000/2001 is expected to be approximately 7%.

Profit after tax for the financial year was £251.9 million (98/99: £303.8 million), £316.6 million (98/99: £314.8 million) before exceptional costs.

Earnings per share was 73.8p (98/99: 89.2p). Before exceptional costs, earnings per share rose to 92.8p (98/99: 92.4p).

The proposed dividends for the full year, amounting to 45.0p per share, are covered 1.64 times by profit after taxation, 2.00 times before the exceptional restructuring costs of £56.1 million.

Consolidated net debt at 31 March 2000 was £1,939 million, an increase of £461 million over the previous year-end. With net cash inflow from operating activities of £672 million, the increase in consolidated net debt was primarily the result of £575 million capital expenditure and financial investment, £145 million expended on and a further £15 million debt assumed with acquisitions, and £247 million equity dividends. The cost of dividend payments was unusually high because of the delayed payment of the second interim and final dividends for 1997/1998. Net financing costs paid amounted to £95 million and tax payments totalled £49 million. Net debt at 31 March 2000 represented 76.1% of shareholders funds (98/99: 60.4%).

In 2000/2001 net debt before expenditure on acquisitions is expected to increase significantly less than it did in 1999/2000, with lower capital expenditure in Severn Trent Water following OFWAT's AMP 3 final determination, and dividend payments limited to those in respect of 1999/2000. However, following the recently announced conditional acquisition of UK Waste for £380 million, net debt at 31 March 2001 is expected to be around £2.5 billion, excluding any further acquisition expenditure.

Treasury management
The group's borrowings at 31 March 2000 included £716.4 million of issued Bonds (of which £125 million is due in less than one year) and £921.9 million of other long term debt (of which £38.3 million is due in less than one year). In addition, the group has borrowed £135.6 million on total committed facilities of £395.0 million, leaving £259.4 million undrawn. A further £209.7 million has been borrowed on uncommitted facilities (including £21.0 million on overdraft). The group had cash and short-term deposits at 31 March 2000 of £44.2 million.

On 12 May 1999 Severn Trent Water, through its wholly owned subsidiary Severn Trent Water Utilities Finance Plc, issued £300 million bonds repayable 2029 with interest payable at 6.25% per annum. On 12 July 1999 Severn Trent Plc repaid £150 million bonds on which interest was payable at the rate of 11.5% per annum. On 23 March 2001 Severn Trent Plc will repay £125 million bonds on which interest is payable at the rate of 11.625% per annum. On 5 June 2000 Severn Trent Plc entered into an agreement with four major banks for the provision of committed loan facilities totalling £1.2 billion. These, together with the group's other undrawn committed borrowing facilities, are adequate to finance the anticipated cash outflow in 2000/2001, including the acquisition of UK Waste.

The group's policy for the management of interest rate risk, which is reviewed at least every six months, currently requires that not less than 60% 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 2000 interest rates on 61.6% of the group's borrowings were so fixed, for periods ranging from 1 to 30 years. In addition during the year, the group entered into 30 year forward start interest rate swaps on £400 million of its future funding requirements at fixed rates between 5.01% and 5.55% (excluding borrowing margin) with start dates ranging over the next five 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 euro. The group's current policy is to hedge an element of the currency translation risk associated with certain US dollar and euro denominated assets.

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.

Dividends
The cost of the proposed equity dividends to the company's shareholders for the year ended 31 March 2000 was £153.7 million (98/99: £146.5 million). Dividends received or receivable by the company from its subsidiaries comprised £145.0 million from Severn Trent Water (98/99: £138.0 million) plus a special dividend of £125.0 million to effect a capital restructuring to more closely reflect the assumption made by OFWAT in the AMP 3 determination, and £11.6 million from non-regulated businesses (98/99: £5.1 million). The group also received dividends of £1.5 million from associates and joint ventures (98/99: £1.6 million).

Board of Directors

David Arculus MA MSc Chairman (54)*
Mr Arculus joined the Board in May 1996 as a non-executive Director and was appointed Chairman on 29 July 1998. He is currently the Chairman of IPC Group Limited. He was Chief Operating Officer of United News and Media plc. 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 and The Guiton Group Plc.

Vic Cocker BA (Econ) FCIWEM (59)
Mr Cocker joined the Board in August 1989 and was appointed Group Chief Executive of Severn Trent Plc on 1 April 1995, having been Managing Director of Severn Trent Water Limited for the previous four years. Mr Cocker is currently a non-executive Director of Railtrack Group 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 also 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.

Alan Costin FCA (57)
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.

Robert Walker MA (55)
Mr Walker joined the Board as a non-executive Director in May 1996. He was until recently a Division President at PepsiCo International, the beverages subsidiary of PepsiCo Inc. After joining PepsiCo in 1976 he became responsible for its beverage businesses in Europe, the Middle East, Asia and Africa. Mr Walker is currently a non-executive Director of Thomson Travel Group plc and Wolseley plc and has formerly worked for Procter & Gamble Limited and McKinsey and Company. Mr Walker was appointed Deputy Group Chief Executive on 12 July 1999.

Clare Tritton BA QC (64)*
Mrs Tritton joined the Board in November 1991. She is also a Trustee Director of certain of the Severn Trent Pension Schemes. Mrs Tritton has wide legal experience with emphasis on European Community Law and particularly on competition law. She served on the Monopolies and Mergers Commission and on FIMBRA until May 1998. 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.

Eric Anstee FCA (49)*
Mr Anstee joined the Board in July 1999. He has been Group Finance Director of Old Mutual plc since November 1998 and was previously Finance Director of The Energy Group PLC which was acquired by Texas Utilities in 1998. Prior to that, he was Group Finance Director of Eastern Group plc between 1993 and 1997. Before joining Eastern, he was a senior partner with Ernst & Young and a member of the Management Board of the Management Consultancy arm. He is a member of the Accounting Standards Board's Urgent Issues Task Force and a member of the Senate of the Institute of Chartered Accountants in England & Wales.

Brian Duckworth BA FCCA FCIWEM (51)
Mr Duckworth joined the Board in November 1994. He has been with Severn Trent since 1974 and has worked in various financial roles, and as Customer Services Director. Mr Duckworth was appointed Managing Director of Severn Trent Water Limited on 1 April 1995. He is also Chairman of Severn Trent Water International Limited.

Martin Bettington BSc MechEng MBA (47)
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 (55)
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 and a member of the Court of Cranfield University. 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.

Martin Flower BA (53)*
Mr Flower joined the Board in June 1996. He is an executive Director of Coats Viyella Plc and Chairman of its Thread Division. During his career at Coats Viyella he has been based in different parts of Europe, Asia Pacific and South America. He has a particular interest in and knowledge of European and EU affairs. Mr Flower is also a non-executive Director of William Prym of Stolberg in Germany.

Derek Osborn CB (59)*
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 chaired the UNED Forum and the Earth Centre in Conisbrough since 1996 and the International Institute for Environment and Development since 1998. He was Director General of Environment Protection in the Department of the Environment from 1990 to 1995 and Chairman of the Management Board of the European Environment Agency from 1995 to 1999.

Andrew Simon OBE BSc MBA (55)*
Mr Simon joined the Board in October 1986 and is currently the senior independent non-executive Director. He was formerly Chairman of the Evode Group Plc and is now a non-executive Director of Associated British Ports Holdings PLC, Novara PLC and Property Internet PLC and is on the Supervisory Board of SGL Carbon AG in Germany and on the Board of Finning International Inc. in Canada. Mr Simon has also recently become Executive Vice-Chairman of Diamant Boart S.A. in Belgium.

* Non-executive Director

Board Committees
Membership of Board Committees is as detailed below:

Audit Committee
A H Simon (Chairman), T D G Arculus, F A Osborn, 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, R M Walker, 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, R M Walker, M J Bettington, B Duckworth, J K Banyard, Secretary – P P Davies

Remuneration Committee
M C Flower (Chairman), T D G Arculus, Mrs C Tritton, 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
E E Anstee (Chairman), V Cocker, R A S Costin, R M Walker, T D G Arculus, M C Flower, M R Wilson, Secretary – P P Davies

Senior independent non-executive Director
A H Simon, OBE, BSc, MBA

Company Secretary
P P Davies, LL.B. Solicitor

Directors' report

The Directors present their report, together with the audited financial statements of the group for the year ended 31 March 2000.

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 7 to 13 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 2000 appear in notes 11 and 24 to the financial statements on pages 42 to 43 and 55 to 56.

Dividend and reserves
Details of dividends paid, payable and proposed are set out in note 7 to the financial statements on page 40. Subject to approval at the Annual General Meeting the recommended final dividend of 28.00p (1999: 26.69p) net for each ordinary share will be paid on 2 October 2000 to shareholders on the register at the close of business on 18 August 2000 bringing the total for the year to 45.00p (1999: 43.00p). Proposed transfers to reserves are set out in note 19 to the financial statements on page 50.

Share capital
Details of movements in share capital are shown in note 18 to the financial statements on pages 48 and 49.

The Directors are proposing a reorganisation of the company's share capital. The proposed reorganisation will simplify the company's share capital and is in line with the intention indicated at the time of the capital reorganisation of the company in August 1997. The Directors propose:

- a reduction of the company's share capital by returning to the holders of B shares the nominal value of the B shares together with any outstanding dividend payable; and
- the cancellation of those B shares.

Further details of the reorganisation may be found in the accompanying Shareholders' Guidance Notes.

A special resolution will be put to shareholders at the Annual General Meeting which, if passed, will renew the Directors' power to issue equity securities for cash without first having to offer these securities to existing shareholders, as is required by Section 89 of the Companies Act 1985. An explanation of the resolution is set out in the Shareholders' Guidance Notes.

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 shares. The Directors have no present intention that the company should purchase its own ordinary 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. An explanation of the resolution is set out in the Shareholders' Guidance Notes.

New All-Employee Share Ownership Plan
Following an announcement by the Chancellor in the 1999 Budget, the Inland Revenue published draft legislation for a new employee share plan last November. The objective behind the new plan is to promote long-term shareholding by employees and widespread employee share ownership. Following a period of consultation, the final legislation for the plan has now been published and will form part of the Finance Act 2000.

A resolution will be proposed at this year's Annual General Meeting that the Directors are authorised to establish a New All-Employee Share Ownership Plan as announced by the Chancellor on 10 November 1999, in accordance with the relevant legislation to be contained in the Finance Act 2000. The resolution also gives the Directors the authority to set up similar schemes for employees working overseas. Further details of this proposal are contained in the Shareholders' Guidance Notes.

Articles of Association
In accordance with the statement made in the last Annual Report and Accounts, the Articles of Association of the company have been reviewed and a resolution will be put to shareholders at the Annual General Meeting to introduce certain changes. The amendments, which are of a minor nature, will ensure that the company's Articles are in line with current practice and comply fully with the Combined Code. Further details of the proposed changes may be found in the Shareholders' Guidance Notes.

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.

The effect of the group's payment policy is that its trade creditors at the year-end represented some 34 days purchases.

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £243,436 (1999: £465,926). No political donations were made during the year.

Employees
The group employed 13,637 people as at 31 March 2000 (1999:11,573). Of these 4,933 (36%) were employed in the regulated water business, Severn Trent Water, 2,830 (21%) in the waste business and 4,630 (34%) in the Severn Trent Services business. There are now in excess of 4,000 employees in the USA (1999: 2000) and over 600 employees in other parts of the world, mainly Belgium and Italy. The expansion and increased diversity of our workforce reflect the continuing growth of the group's international activities.

All group companies continue to encourage positive dialogue with employees not only by a variety of traditional means such as in-house magazines, but increasingly by the use of their own intranets.

Group companies continue to have good relationships with the trade unions they recognise and with their directly elected employee representatives. A Voluntary Agreement under Article 13 of the European Directive has been concluded and the first meeting of the European Consultative Council took place in October 1999.

There has 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.

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

Group companies are committed to development at all levels not only for senior managers. For example, companies such as Biffa have also been instrumental in introducing NVQ levels 1/2 accreditation for their refuse collection loaders/drivers.

The company makes significant efforts to ensure not only that it complies with employment legislation in all the countries in which it operates but that it is also seen to be operating best practice.

To date the company has relied on existing systems for conveying the company's people values throughout the organisation but, with the new geographical and functional diversity of the group, there is now a need for these to be more explicit. For example, the company is finalising a written Code of Conduct which will be disseminated to employees during the year

Equal opportunities and disabled persons
All group companies continually review 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 have fully endorsed their Agenda on customers.

Health and safety
The company continues to positively address health and safety policy and performance across the group. During the year we have reviewed a number of aspects of our processes and undertaken a series of health and safety audits, both of which have confirmed we are making progress and improving performance. However, some areas were identified where more has to be done.

To address these areas and to enable greater impetus to be injected into the management of health and safety throughout the Severn Trent group, the Group Chief Executive has established, and chairs, a Group Health and Safety Executive Committee, comprising Managing Directors drawn from each of the operating companies.

In addition to these actions and in line with our objectives of continually improving how we manage health and safety throughout the Severn Trent group, the Group Health and Safety Policy is currently being revised and updated to reflect the requirements of the Occupational Health and Safety Management Systems Specification – OHSAS18001:1999. Defining our policy in this way provides us with a platform for continual improvement and allows us to manage health and safety issues across the group in a manner more suited to the international nature of our business.

Through these initiatives we seek to continue to develop a strong base from which we can more proactively manage health and safety issues throughout the Severn Trent group.

Substantial shareholdings
As at 5 June 2000 the company had been notified of the following substantial shareholdings:

	Number of ordinary shares of $65\frac{5}{19}$ pence each	% of class
Fidelity International Limited and FMR Corporation	14,063,992	4.11
Legal & General Investment Management Limited	10,420,112	3.05

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.

Research and Development
Expenditure on R&D, including fixed assets, amounted to £10.5 million (98/99: £7.5 million). Severn Trent Water has invested in R&D in order to develop products, processes and techniques which will enable the group to meet ever increasing demands from Regulators around the world both in areas where Severn Trent operates and for sale to other companies. Part of the increase is the result of a number of prototype plants that have been installed during the year. Work on cost-effective removal of trace heavy metals by adsorption has produced a process which will allow the company to meet the new European drinking water standards and will also find application in the USA where similar standards are being introduced.

The work on producing drinking water from the River Trent has continued throughout the year, and last year Trent water was put into supply for the first time.

A significant effort has been put into the evaluation of novel techniques for meeting the demanding AMP3 standard in sewage treatment. The work has emphasised the importance of developing a full understanding of process parameters, and demonstrated yet again the propensity for vendors to overestimate the performance of new processes.

Work has also started on identifying new regulatory drivers that are likely to emerge in the coming years, and developing techniques for the removal of substances likely to be affected by these.

Within Biffa, R&D follows four broad themes. There is pure research that is applied to industrial treatment activities particularly in respect of pesticides, dyestuffs and agrochemicals. Secondly, there is work on innovative applications of waste-specific information technology.

In addition, Biffa is working with a number of universities on various aspects of landfill activities, for example, utilising methane for methagenosis and fuel cell technologies with Nottingham and Birmingham Universities.

Finally, there is the development of resource flow life cycle analyses in specific industry sectors, materials streams, or specific regions.

Corporate governance

The Financial Services Authority Combined Code (the '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 that can provide increased benefits for shareholders. The company regards the Code as a valuable development of previous corporate governance arrangements and recommendations that it has embraced in recent years. The Financial Services Authority Listing Rules require the Board to report on compliance with the Code provisions throughout the accounting year to 31 March 2000. Except for the matter noted below, the company complied throughout the year with the provisions set out in the Code. Statements by the Directors covering their responsibilities in relation to the group's system of internal control and the adoption of the going concern basis for the preparation of the financial statements are set out on pages 19 and 20 respectively.

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. The Board has reviewed the existing Articles of Association and modifications to address this and other minor changes they consider to be appropriate are the subject of a resolution to be proposed at the Annual General Meeting. In addition, Vic Cocker 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.

The Board

A list of Directors and their background details appears on page 15. The Board currently consists of six 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 is set out on page 15.

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 set out in the Remuneration Report on pages 21 to 23.

The main responsibilities of the Audit Committee and Treasury Committee are referred to later under 'Statement on internal control'.

The Environmental Advisory Committee's principal terms of reference are to help to further develop the company's environmental leadership, strategy and objectives.

The Charitable Contributions Committee 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 page 15.

Mr V Cocker will step down as Group Chief Executive at the Annual General Meeting but, subject to his reappointment, will continue as a Director of the company until 30 October 2000. Mr R M Walker, subject also to his reappointment, will succeed him as Group Chief Executive.

Mr E E Anstee joined the Board as a non-executive Director on 30 July 1999 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 T D G Arculus, Mr R M Walker and Mrs C Tritton 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 V Cocker, who was last re-appointed as a Director of the company at the Annual General Meeting on 30 July 1997, will offer himself for re-appointment in accordance with the spirit and principles of the Code as referred to above.

Mr Cocker has a service contract that provides 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 Walker has a service contract that provides for not less than 12 months' written notice of termination by the company expiring at any time on or after 11 July 2001 and not less than 12 months' written notice by the Director expiring at any time. Mr Arculus, Mr Anstee and Mrs Tritton, being non-executive Directors, do not have service contracts with the company.

The Directors of the company at 31 March 2000 and their interests in the shares of the company can be found on pages 24 and 25. 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.

Statement on internal control
The narrative below sets out how the company has applied principle D.2 in section 1 of the Combined Code. The company has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies on 27 September 1999.

The Board of Directors has overall responsibility for the group's system of internal control. The Board has formally established policies and processes during the last financial year for identifying, evaluating and managing the significant risks faced by the group.

The executive Directors and senior management team of each of the business units have identified the risks facing their businesses and have made an assessment of the impact of those risks. The controls that are in place to manage each of the more significant risks in each unit have been identified within a comprehensive control framework and an assessment has been made of the effectiveness of these controls.

The Directors of each of the business units regularly consider new risks and threats and control weaknesses that may have become apparent and report on a six monthly frequency to the Group Chief Executive. They also conduct an annual review of the risks facing their businesses and report on this review in one of the six monthly reports.

The Board reviews risk management and the effectiveness of the system of internal control through the Audit Committee. The Audit Committee receives reports on a six monthly frequency from the Group Chief Executive on the significant risks faced by the group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary. Any significant control weaknesses identified are also reported to the Audit Committee. The Audit Committee also receives reports from the external auditors, internal audit and from management on specific control issues, agrees audit strategies and reviews reports from management on the financial results of the group. The Chairman of the Audit Committee reports to the Board.

The Directors consider that there is an ongoing process for the identification, evaluation and management of the significant risks faced by the group. This formal process has been in place since December 1999.

A sound system of internal control is designed to manage risks but not necessarily eliminate them and therefore provides reasonable but not absolute assurance against a company failing to meet its business objectives or against material errors, losses or fraud or breaches of laws or regulations.

The Board has established an organisational 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 business units. Financial results and other key business monitors are reviewed and reported on 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 Treasury Committee determines matters of treasury policy and its approval is required for certain treasury transactions. 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 financial control systems operated in each of the group's business units 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 1999 until 5 June 2000 being the date on which the accounts were signed. The review has been based upon a self-assessment process appropriately tailored to each business unit. The findings have been considered by management, the Audit Committee and the Board.

Year 2000 issue
The group began planning how to deal with the Year 2000 issue as early as 1996. Work undertaken since then has been designed

to ensure that its operations and relationships with customers were not adversely affected by problems resulting from the potential inability of electronic systems to accommodate the date change to the Year 2000. The project has now been completed and all indications to date are that the work was successful.

In the year ended 31 March 2000, the costs associated with the Year 2000 issue, which have been expensed, amounted to £8.6 million. Taking account of the £11.0 million incurred last year and £2.2 million in the previous year, the total cost to the group of resolving the Year 2000 issue has amounted to £21.8 million. An analysis of the charge against profits in the two years ended 31 March 2000 is provided in note 3 to the financial statements on page 38.

Economic and Monetary Union
Severn Trent started preparations for the introduction of the euro in mid 1997. Our subsidiary and associated companies in the 'first wave' countries were ready for euro trading by 1 January 1999 and are now advanced in their preparations to switch base accounting currencies prior to 1 January 2002.

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 the EMU. Where appropriate the company is now taking advantage of any system changes to introduce euro compliant software. As part of the preparation process, the company is working closely with HM Treasury and contributed directly to the second Outline National Changeover Plan, as well as being 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, Centrica and the Electricity Association to assess a code of practice for the utilities sector in the UK.

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 will be 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, on request, provide a summary of the proceedings of the Annual General 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 2000/01, 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 28 to 56 have been prepared on the going concern basis.

Post balance sheet event
On 5 June 2000 Severn Trent Plc announced the conditional acquisition of UK Waste from Waste Management Inc. for £380 million.

Auditors
A resolution proposing the reappointment of PricewaterhouseCoopers as auditors will be put to the Annual General Meeting.

By order of the Board
P P Davies LL.B. Solicitor
Company Secretary

5 June 2000

Remuneration report
to the shareholders of Severn Trent Plc

The Remuneration Committee ('the Committee') of the Board comprises the following non-executive Directors: M C Flower (Chairman), T D G Arculus and Mrs C Tritton.

The Committee's role is to determine the remuneration policy and levels of pay and employment benefits 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 Financial Services Authority 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 scope and complexity of their roles and having regard to performance as well as recognising the need to be competitive with businesses of similar size, complexity and geographical spread. The company seeks to attract, retain and motivate the highest quality of management for the ongoing efficient running and development of the company, taking into account 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. 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. This approach has been taken in the case of Mr Walker, whose contract entitles him to an initial notice period of 24 months reducing to 12 months at the end of the first year of service. Mr Cocker will retire from the company on reaching normal retirement age on 30 October 2000. No compensation is due or will be paid, and the effect will be to reduce by one the number of existing Directors with 24 month contracts.

Mr Walker and Mr Cocker 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 justify 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 23 shows the basic fees and salaries of executive Directors for the financial year ended 31 March 2000.

For the financial year beginning 1 April 2000 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 Committee determined that base salaries for executive Directors should be increased by 3.25% from 1 April 2000. The Committee recognises that it has a responsibility to shareholders to ensure salary and benefit levels remain competitive for the scale and sectors of the company's operations. Notwithstanding this the company will ensure its remuneration levels continue to reflect a prudent and responsible approach to executives' pay.

During the year the company has continued to operate an Inland Revenue Profit Related Pay Scheme open to employees at all levels, including executive Directors. The scheme was ended on 31 March 2000 in accordance with legislation.

The principal remuneration benefits for 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 half of the bonus potential and the other half is dependent on performance in respect of the remaining factors. The performance requirements are stretching and involve an assessment of up to ten parameters for each executive Director. The maximum amount payable under the bonus scheme is 40% of basic salary. The actual bonuses awarded for the year ended 31 March 2000 are shown in the table on page 23.

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. 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, 1 April 1998 and 1 April 1999 and details of individual allocations to executive Directors are included in the table on page 24. The performance criteria are specific to each of the awards and changes in the number of comparator companies have been necessary as a result of consolidation and merger activity in the privatised utility sectors. The 1997 and 1998 awards are based on a comparator table of 14 companies, the 1999 award includes 11 comparators. No award is made for comparator performance below the median. Neither the Chairman nor the other non-executive Directors participate in the Long Term Incentive Plan.

The performance period for allocations of shares made in 1997 ended on 31 March 2000. The Remuneration Committee have subsequently determined, based on the company's TSR performance over the three year performance period, that participants are entitled to 75% of the shares allocated. The shares in respect of the 1997 award were released to executive Directors following the announcement on 5 June 2000 of the company's results for the year ended 31 March 2000.

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 six.

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 retirement 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 reported in previous years, 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 and Mr R M Walker who joined this Scheme after 1 June 1989 and are therefore subject to the Inland Revenue earnings cap (1999/2000: £90,600), to pay the difference between their pension entitlement based upon the relevant portion of their salaries 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 £53,649 (1999: £79,021) for Mr Costin and £59,519 (1999: Nil) for Mr Walker 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 23.

4 Chairman and other non-executive Directors

Mr 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 his private pension arrangements as well as providing a driver's allowance, private health scheme insurance and car provision. Mr Arculus has requested that his fees for 2000/2001 should remain at the 1999/2000 level. He does not participate in any of the company's pension arrangements, share or bonus schemes, nor does he 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 Director to the company's pension schemes receive an additional fee of £2,500 per annum and the senior independent non-executive Director receives £2,250. The fees for Mr Simon reflect the fact that for a period in 1999/2000, he acted as Chairman of the Audit Committee and was appointed the senior independent non-executive Director during the year. 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.

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	Total 1999/2000 £000	Total 1998/1999 £000
Chairman and other non-executive Directors						
T D G Arculus (Chairman)	100.0	7.3	–	5.2	112.5	86.0
R Ireland (Chairman to 29.7.98)	–	–	–	–	–	77.6
E E Anstee (appointed 30.7.99)	17.4	–	–	0.8	18.2	–
R H Boissier (to 29.7.98)	–	–	–	–	–	8.8
M C Flower	27.5	–	–	–	27.5	26.0
F A Osborn	28.5	–	–	4.4	32.9	13.4
A H Simon	29.2	–	–	1.4	30.6	31.5
C Tritton	27.5	–	–	0.7	28.2	26.0
R M Walker (to 11.7.99)	7.7	–	–	–	7.7	28.4
Executive Directors						
J K Banyard	133.9	15.1	36.3	0.4	185.7	165.9
M J Bettington	160.0	13.8	–[3]	–	173.8	211.3
V Cocker[2]	284.0	10.3	46.4	0.4	341.1	348.9
R A S Costin	180.7	20.7	29.5	0.1	231.0	235.0
B Duckworth	180.7	15.4	45.4	0.1	241.6	236.6
R M Walker (from 12.7.99)[4]	180.3	73.5	32.5	1.6	287.9	–
	1,357.4	156.1	190.1	15.1	1,718.7	1,495.4
Aggregate gain on exercise of share options					21.1	33.4
Total emoluments					1,739.8	1,528.8

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 £341,100 (1999: £348,900).

3 Mr Bettington was entitled to an annual bonus of £23,489 but has decided to waive his right to this amount.

4 Included in Benefits in kind for Mr Walker is a contribution to relocation expenses of £65,897. Not included above is £17,708 paid to the company by Thomson Travel Group Plc in respect of time spent by Mr Walker in his role as a non-executive Director of that company, which Mr Walker has decided not to receive. Mr Walker ceases to be a non-executive Director of Thomson Travel Group Plc in July 2000.

	Increase/(decrease) in accrued pension (excluding inflation) *in the year to* 31 March 2000[1] £000	Accumulated total accrued pension *31 March* 2000 £000	Transfer value of the increase/ (decrease) *in accrued* benefits[2] £000
Directors' pension provisions			
J K Banyard	10.3	91.5	169.5
M J Bettington	3.7	62.7	41.0
V Cocker	(2.9)	197.8	(73.2)
R A S Costin	3.7	51.1	56.4
B Duckworth	(0.9)	97.0	(25.7)
R M Walker	6.0	6.0	93.5

1 The amount of increase/(decrease) in accrued pension during the year excludes the effects of inflation, measured by reference to an estimate of the increase in the retail prices index between March 1999 and March 2000.

2 The transfer value of the increase/(decrease) 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.

3 In addition, the company contributes £26,280 per annum to Mr Arculus' private pension arrangements.

Directors' interests

The Directors of the company at 31 March 2000 and their beneficial interests in the shares of the company were as follows:

i) *Beneficial holdings*

	At 1 April 1999 or subsequent date of appointment		At 31 March 2000		At 5 June 2000	
	Number of ordinary shares of 65⁵⁄₁₉p each	Number of B shares of 38p each	Number of ordinary shares of 65⁵⁄₁₉p each	Number of B shares of 38p each	Number of ordinary shares of 65⁵⁄₁₉p each	Number of B shares of 38p each
Chairman and other non-executive Directors						
T D G Arculus (Chairman)	10,000	–	10,000	–	10,000	–
E E Anstee	–	–	–	–	–	–
M C Flower	–	–	–	–	–	–
F A Osborn	–	–	510	–	510	–
A H Simon	1,985	–	1,985	–	1,985	–
C Tritton	2,727	–	2,727	–	2,727	–
Executive Directors						
J K Banyard	8,625	118	8,740	118	8,740	118
M J Bettington	6,111	62	6,158	62	6,158	62
V Cocker	9,746	118	19,795	118	19,795	118
R A S Costin	1,202	118	1,249	118	1,249	118
B Duckworth	6,306	62	9,854	62	9,854	62
R M Walker	498	–	498	–	498	–

Messrs Banyard, Bettington, Cocker, Costin and Duckworth have further interests in Severn Trent Plc ordinary shares of 65⁵⁄₁₉p 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, 30 July 1998 and 30 July 1999. 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 a number of 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 1999		At 31 March 2000
	Number of ordinary shares of 65⁵⁄₁₉p each	Awarded during year	Number of ordinary shares of 65⁵⁄₁₉p each
J K Banyard	10,312	6,369	16,681
M J Bettington	12,172	7,895	20,067
V Cocker	22,325	14,596	36,921
R A S Costin	17,241	9,288	26,529
B Duckworth	14,539	9,288	23,827

No further awards have been made under the Plan as at 5 June 2000.

The performance period for the contingent awards of shares made in 1997 ended on 31 March 2000. The Remuneration Committee has subsequently determined, based on the company's Total Shareholder Return over the three year performance period, that participants are entitled to 75% of the award. The 1997 contingent awards of shares are included in the table above and the actual number of shares to which each individual has become entitled from the 1997 award is as follows:

	Number of ordinary shares of 65⁵⁄₁₉p each vested from the 1997 award
J K Banyard	4,002
M J Bettington	4,760
V Cocker	8,006
R A S Costin	6,924
B Duckworth	5,625

ii) *Options over ordinary shares*

	At the start of the year No. of shares	Exercised during the year No. of shares	Granted during the year No. of shares	At the end of the year No. of shares	Year of grant of option	Exercise price (p)	Market price at date of exercise (p)	Gain on exercise 1999/2000 (£)	Date from which exercisable	Expiry date
Executive share options										
J K Banyard	7,800	–	–	7,800	1993	625	–	–	Dec 1996	Dec 2003
V Cocker	13,307	–	–	13,307	1993	625	–	–	Dec 1996	Dec 2003
R A S Costin	18,560	–	–	18,560	1993	625	–	–	Dec 1996	Dec 2003
B Duckworth	8,528	–	–	8,528	1993	625	–	–	Dec 1996	Dec 2003
Sharesave options										
J K Banyard	2,078	–	–	2,078	1995	415	–	–	Apr 2000	Sep 2000
	1,633	–	–	1,633	1997	528	–	–	Apr 2002	Sep 2002
	–	–	1,024	1,024	2000	473	–	–	May 2003	Oct 2003
M J Bettington	2,158	–	–	2,158	1998	799	–	–	Apr 2003	Sep 2003
V Cocker	2,493	–	–	2,493	1995	415	–	–	Apr 2000	Sep 2000
	738	–	–	738	1997	528	–	–	Apr 2000	Sep 2000
R A S Costin	1,960	–	–	1,960	1997	528	–	–	Apr 2002	Sep 2002
	–	–	819	819	2000	473	–	–	May 2003	Oct 2003
B Duckworth	3,501	(3,501)	–	–	1992	257	859	21,076	Apr 1999	Sep 1999
	2,493	–	–	2,493	1995	415	–	–	Apr 2000	Sep 2000
	1,306	–	–	1,306	1997	528	–	–	Apr 2002	Sep 2002
	–	–	1,228	1,228	2000	473	–	–	May 2003	Oct 2003

1 The executive Directors, in common with all eligible UK employees of the group, are entitled to participate in the company's Inland Revenue approved Sharesave Scheme.

2 The 'Gain on exercise' column in the table shows the notional gain, before taxation, based on the difference between the exercise price and the mid-market price at the close of business on the date of exercise. It does not indicate that this was the actual gain realised on the sale of shares or that the shares in question have necessarily been sold.

3 No executive share options in respect of executive Directors were granted or lapsed during the year. At 31 March 2000 there were 120 other executives participating in the group's Share Option Scheme (31 March 1999: 103).

4 At the close of business on 31 March 2000, the mid-market price of the company's shares was 565p (31 March 1999: 839.5p) and the range during the year was 467p to 1,000p.

Five year summary

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Profit and loss account					
Turnover: group and share of joint ventures	**1,580.2**	1,378.6	1,255.6	1,221.1	1,161.9
Less: share of joint ventures' turnover	**(13.6)**	(14.3)	(4.3)	(5.8)	(4.4)
Turnover	**1,566.6**	1,364.3	1,251.3	1,215.3	1,157.5
Profit before interest and exceptional items	**459.4**	461.7	449.6	443.7	425.5
Exceptional items	**(64.7)**	(11.0)	(2.2)	(24.5)	–
Net interest payable	**(120.7)**	(100.3)	(73.4)	(52.7)	(52.5)
Profit on ordinary activities before taxation	**274.0**	350.4	374.0	366.5	373.0
Taxation on profit on ordinary activities	**(22.1)**	(46.6)	(49.5)	(49.8)	(45.3)
Exceptional taxation – Windfall Tax	**–**	–	(309.6)	–	–
Profit for the financial year	**251.9**	303.8	14.9	316.7	327.7
Dividends	**(154.0)**	(147.0)	(140.0)	(128.5)	(118.8)
Retained profit/(loss) for the financial year	**97.9**	156.8	(125.1)	188.2	208.9
Net assets employed					
Fixed assets	**4,794.6**	4,319.2	3,899.7	3,589.9	3,386.1
Net liabilities excluding net debt	**(212.2)**	(351.8)	(488.1)	(289.7)	(318.7)
Provisions for liabilities and charges	**(96.0)**	(42.7)	(48.9)	(75.3)	(75.0)
	4,486.4	3,924.7	3,362.7	3,224.9	2,992.4
Financed by					
Called up share capital	**231.7**	231.1	230.3	350.5	366.7
Reserves	**2,315.0**	2,214.8	2,050.1	2,179.7	2,144.1
Total shareholders' funds	**2,546.7**	2,445.9	2,280.4	2,530.2	2,510.8
Minority shareholders' interest	**0.3**	0.3	0.3	0.3	0.3
Net debt	**1,939.4**	1,478.5	1,082.0	694.4	481.3
	4,486.4	3,924.7	3,362.7	3,224.9	2,992.4
Statistics					
Earnings per share	**73.8p**	89.2p	4.3p	87.2p	89.6p
Earnings per share before exceptional items	**92.8p**	92.4p	95.0p	93.9p	89.6p
Dividends per share	**45.00p**	39.16p	35.92p	32.66p	28.53p
Second interim dividend	**–**	3.84p	3.84p	3.84p	3.84p
Final dividend enhancement	**–**	–	1.36p	–	–
Dividend cover (before restructuring costs in 2000 and 1997, and before Windfall Tax in 1998)	**2.0**	2.1	2.3	2.6	2.8
Gearing	**76.1%**	60.4%	47.4%	27.4%	19.2%
Ordinary share price at 31 March	**565p**	840p	1050p	690p	594p
B share price at 31 March	**32p**	33p	34p	–	–
Average number of employees – Water and sewerage	**5,144**	5,276	5,359	5,743	5,930
– Other	**7,724**	5,819	5,054	4,315	4,107

Directors' responsibilities in relation to the financial statements

The Directors are required by the United Kingdom 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 28 to 56, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all United Kingdom 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 United Kingdom 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 28 to 56, including the additional disclosures on pages 23 to 25 relating to the remuneration of the Directors specified for our review by the Financial Services Authority, which have been prepared under the historic cost convention and the accounting policies set out on pages 32 to 34.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and 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 United Kingdom 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 page 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and controls procedures.

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 2000 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
Temple Court
35 Bull Street
Birmingham B4 6JT
5 June 2000

Group profit and loss account
Year ended 31 March 2000

	Notes	2000 £m	1999 £m
Turnover: group and share of joint ventures		**1,580.2**	1,378.6
Less: share of joint ventures' turnover		**(13.6)**	(14.3)
Continuing operations		**1,485.0**	1,364.3
Acquisitions		**81.6**	–
Turnover	2	**1,566.6**	1,364.3
Operating costs before exceptional costs		**(1,115.8)**	(911.9)
Exceptional restructuring costs	3	**(56.1)**	–
Exceptional Year 2000 costs	3	**(8.6)**	(11.0)
Total operating costs	3	**(1,180.5)**	(922.9)
Operating profit			
Continuing operations		**378.6**	441.4
Acquisitions		**7.5**	–
		386.1	441.4
Joint ventures and associates			
Continuing operations	2	**8.6**	9.3
Profit before interest			
Before exceptional costs	2	**459.4**	461.7
Total exceptional costs (above)	2	**(64.7)**	(11.0)
	2	**394.7**	450.7
Net interest payable	5	**(120.7)**	(100.3)
Profit on ordinary activities before taxation		**274.0**	350.4
Taxation on profit on ordinary activities	6	**(22.1)**	(46.6)
Profit for the financial year		**251.9**	303.8
Dividends (including non-equity dividends)	7	**(154.0)**	(147.0)
Retained profit for the financial year	19	**97.9**	156.8
Earnings per share (pence)			
Basic	8	**73.8**	89.2
Diluted	8	**73.5**	88.5
Basic before Year 2000 and restructuring costs	8	**92.8**	92.4
Diluted before Year 2000 and restructuring costs	8	**92.3**	91.7

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

Balance sheets
At 31 March 2000

		Group		Company	
		2000	*1999*	**2000**	*1999*
	Notes	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets – goodwill	9	**138.0**	56.6	**–**	–
Tangible assets	10	**4,630.9**	4,237.9	**7.1**	7.2
Investments in joint ventures					
Share of gross assets		**7.3**	5.9	**–**	–
Share of gross liabilities		**(6.9)**	(6.2)	**–**	–
Loans to joint ventures		**4.5**	4.7	**0.1**	0.1
		4.9	4.4	**0.1**	0.1
Investments in associates		**16.3**	17.2	**–**	–
Investments in subsidiaries		**–**	–	**1,785.6**	1,618.7
Other investments		**4.5**	3.1	**3.3**	2.2
Total Investments	11	**25.7**	24.7	**1,789.0**	1,621.0
		4,794.6	4,319.2	**1,796.1**	1,628.2
Current assets					
Stocks	12	**77.3**	82.2	**–**	–
Debtors	13	**353.8**	284.9	**151.2**	94.3
Short-term deposits		**35.8**	22.9	**–**	–
Cash at bank and in hand		**8.4**	9.3	**291.4**	396.8
		475.3	399.3	**442.6**	491.1
Creditors: amounts falling due within one year	14	**(1,089.2)**	(923.4)	**(599.6)**	(478.4)
Net current (liabilities)/assets		**(613.9)**	(524.1)	**(157.0)**	12.7
Total assets less current liabilities		**4,180.7**	3,795.1	**1,639.1**	1,640.9
Creditors: amounts falling due after more than one year	15	**(1,537.7)**	(1,306.2)	**–**	(125.4)
Provisions for liabilities and charges	17	**(96.0)**	(42.7)	**–**	–
Net assets		**2,547.0**	2,446.2	**1,639.1**	1,515.5
Capital and reserves					
Called up share capital	18	**231.7**	231.1	**231.7**	231.1
Share premium account	19	**12.2**	5.4	**12.2**	5.4
Capital redemption reserve	19	**147.0**	147.0	**147.0**	147.0
Profit and loss account	19	**2,155.8**	2,062.4	**1,248.2**	1,132.0
Total shareholders' funds		**2,546.7**	2,445.9	**1,639.1**	1,515.5
Equity shareholders' funds		**2,537.6**	2,436.8	**1,630.0**	1,506.4
Non-equity shareholders' funds		**9.1**	9.1	**9.1**	9.1
Minority shareholders' interest (equity)		**0.3**	0.3	**–**	–
		2,547.0	2,446.2	**1,639.1**	1,515.5

Signed on behalf of the Board who approved the accounts on 5 June 2000.

David Arculus Chairman

Alan Costin *Group Finance Director*

Group cash flow statement

Year ended 31 March 2000

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Net cash inflow from operating activities	23a		**671.5**		628.0
Dividends received from associates and joint ventures			**1.5**		1.6
Returns on investments and servicing of finance	23b		**(94.5)**		(79.1)
Taxation			**(49.3)**		(209.6)
Capital expenditure and financial investment	23c		**(575.5)**		(609.7)
Acquisitions	23d		**(145.1)**		(81.3)
Equity dividends paid			**(247.1)**		(35.7)
Net cash outflow before use of liquid resources and financing			**(438.5)**		(385.8)
Management of liquid resources	23e		**(13.8)**		10.1
Financing					
Increase in debt		**428.0**		364.2	
Issue of shares		**3.6**		2.9	
	23f		**431.6**		367.1
Decrease in cash			**(20.7)**		(8.6)

Reconciliation of net cash flow to movement in net debt

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Decrease in cash (as above)		**(20.7)**		(8.6)	
Cash flow from movement in net debt and financing		**(428.0)**		(364.2)	
Cash flow from movement in liquid resources		**13.8**		(10.1)	
Change in net debt resulting from cash flows			**(434.9)**		(382.9)
Net debt assumed with acquisitions	23d		**(14.9)**		(1.5)
Inception of finance leases			**(11.3)**		(15.5)
Rolled up interest on debt			**(0.2)**		-
Currency translation differences			**0.4**		3.4
Increase in net debt			**(460.9)**		(396.5)
Opening net debt			**(1,478.5)**		(1,082.0)
Closing net debt	23g		**(1,939.4)**		(1,478.5)

Statement of total recognised gains and losses

Year ended 31 March 2000

	Group	
	2000	1999
	£m	£m
Profit for the financial year – group	**250.0**	301.7
– joint ventures	**0.8**	0.6
– associates	**1.1**	1.5
Total profit for the financial year	**251.9**	303.8
Currency translation differences	**(0.7)**	3.9
Total recognised gains and losses for the year	**251.2**	307.7

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

Reconciliation of movements in shareholders' funds

		Group		*Company*	
		2000	1999	**2000**	1999
	Notes	**£m**	£m	**£m**	£m
Profit for the financial year		**251.9**	303.8	**274.0**	215.5
Dividends (including non-equity dividends)		**(154.0)**	(147.0)	**(154.0)**	(147.0)
		97.9	156.8	**120.0**	68.5
Other recognised gains and losses relating to the year		**(0.7)**	3.9	**–**	–
Shares issued	18a	**3.6**	2.9	**3.6**	2.9
Scrip dividend		**–**	3.4	**–**	3.4
Goodwill written off direct to reserves		**–**	(1.5)	**–**	–
Net addition to shareholders' funds		**100.8**	165.5	**123.6**	74.8
Opening shareholders' funds		**2,445.9**	2,280.4	**1,515.5**	1,440.7
Closing shareholders' funds		**2,546.7**	2,445.9	**1,639.1**	1,515.5

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 United Kingdom 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 15 'Tangible Fixed Assets'

- FRS 16 'Current Taxation'

Adoption of FRS 15 has necessitated a change in the depreciation method applied by the group to its UK landfill sites. As a result of changing methodology, an additional £1.8 million depreciation has been expensed in the current year results. This book adjustment has no impact on the group's cash flows.

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 subsidiaries, joint ventures and associated 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, after taking account of relevant grants and contributions based on the company's independently certified asset management plan.

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

This represents a change in methodology in the current year (see note 1a).

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	2–15

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

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 recognised in 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 cost of fixed assets is £236.1 million lower than it would otherwise have been (1999: £206.1 million).

Those grants and contributions relating solely to maintaining the operating capability of the infrastructure network are taken into account in determining the depreciation charge for infrastructure assets.

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 currency denominated 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 arising during the year are dealt with through the profit and loss account.

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 assets acquired.

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 5 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 1d).

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 translation into sterling of the foreign currency borrowings and similar instruments used to finance long-term equity investments, are taken directly to reserves and reported in the statement of total recognised gains and losses.

2 Segmental analysis

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

	United Kingdom		Other – principally USA and Europe		Group	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Group turnover						
Water and sewerage	**982.1**	952.7	**–**	–	**982.1**	952.7
Waste management	**248.3**	203.3	**42.8**	44.5	**291.1**	247.8
Services	**52.9**	53.5	**189.9**	95.1	**242.8**	148.6
Systems	**71.2**	63.4	**15.5**	17.0	**86.7**	80.4
Property, Engineering consultancy and Insurance	**77.1**	60.0	**0.6**	0.5	**77.7**	60.5
Inter segment trading	**(113.5)**	(123.8)	**(0.3)**	(1.9)	**(113.8)**	(125.7)
	1,318.1	1,209.1	**248.5**	155.2	**1,566.6**	1,364.3
Group profit before interest and exceptional costs						
Water and sewerage	**423.5**	423.9	**–**	–	**423.5**	423.9
Waste management – underlying	**25.7**	26.4	**7.1**	7.8	**32.8**	34.2
Depreciation adjustment (note 1a)	**(1.8)**	–	**–**	–	**(1.8)**	–
Waste management	**23.9**	26.4	**7.1**	7.8	**31.0**	34.2
Services	**(0.3)**	1.4	**16.0**	9.6	**15.7**	11.0
Systems	**(2.6)**	(0.8)	**–**	0.9	**(2.6)**	0.1
Property, Engineering consultancy and Insurance	**7.9**	6.3	**–**	–	**7.9**	6.3
Unrealised profit on inter segment trading	**(2.5)**	(3.2)	**–**	–	**(2.5)**	(3.2)
	449.9	454.0	**23.1**	18.3	**473.0**	472.3
Corporate overheads					**(13.6)**	(10.6)
					459.4	461.7
Exceptional costs						
Water and sewerage (Year 2000)	**(8.6)**	(11.8)	**–**	–	**(8.6)**	(11.8)
Water and sewerage (Restructuring)	**(52.5)**	–	**–**	–	**(52.5)**	–
Services (Restructuring)	**(0.9)**	–	**(2.6)**	–	**(3.5)**	–
Property, Engineering consultancy and Insurance (Restructuring)	**(0.1)**	–	**–**	–	**(0.1)**	–
Elimination of inter segment profit (Year 2000)	**–**	0.8	**–**	–	**–**	0.8
	(62.1)	(11.0)	**(2.6)**	–	**(64.7)**	(11.0)
Group profit before interest						
Water and sewerage	**362.4**	412.1	**–**	–	**362.4**	412.1
Waste management – underlying	**25.7**	26.4	**7.1**	7.8	**32.8**	34.2
Depreciation adjustment (note 1a)	**(1.8)**	–	**–**	–	**(1.8)**	–
Waste management	**23.9**	26.4	**7.1**	7.8	**31.0**	34.2
Services	**(1.2)**	1.4	**13.4**	9.6	**12.2**	11.0
Systems	**(2.6)**	(0.8)	**–**	0.9	**(2.6)**	0.1
Property, Engineering consultancy and Insurance	**7.8**	6.3	**–**	–	**7.8**	6.3
Unrealised profit on inter segment trading	**(2.5)**	(2.4)	**–**	–	**(2.5)**	(2.4)
	387.8	443.0	**20.5**	18.3	**408.3**	461.3
Corporate overheads					**(13.6)**	(10.6)
					394.7	450.7

Turnover by origin and destination does not differ materially.

2 Segmental analysis continued

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

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

	2000 £m	1999 £m
Gross turnover	**1,000.1**	970.5
Customer rebate	**(18.0)**	(17.8)
	982.1	952.7

The segmental analysis has been amended to exclude from Services the results of Severn Trent Systems which are now shown separately above.

In addition, Services' overseas profit before interest in 2000 is shown after deducting US corporate overheads of £1.8 million. Services' comparative figures have been amended to reflect a charge of £0.7 million previously reported within Corporate overheads.

b) Joint ventures and associates

	United Kingdom		Other – principally USA and Europe		Group	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Share of joint venture's turnover	**3.3**	7.3	**10.3**	7.0	**13.6**	14.3
Share of operating profit of joint ventures and associates:						
Joint ventures	**1.0**	1.1	**0.2**	0.1	**1.2**	1.2
Associates	**–**	–	**7.4**	8.1	**7.4**	8.1
	1.0	1.1	**7.6**	8.2	**8.6**	9.3

c) Acquisitions

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

	Turnover			Operating profit		
	United Kingdom £m	Other – principally USA and Europe £m	**Total £m**	United Kingdom £m	Other – principally USA and Europe £m	**Total £m**
Waste management	19.2	–	**19.2**	0.3	–	**0.3**
Services	–	61.7	**61.7**	–	7.4	**7.4**
Systems	–	0.7	**0.7**	–	(0.2)	**(0.2)**
	19.2	62.4	**81.6**	0.3	7.2	**7.5**

Waste management operating profit in the table above is after charging £0.3 million of the £1.8 million depreciation adjustment referred to in note 1a).

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

	United Kingdom		Other – principally USA and Europe		Group	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Water and sewerage	**4,155.4**	3,902.2	**–**	–	**4,155.4**	3,902.2
Waste management	**157.6**	139.6	**18.0**	16.0	**175.6**	155.6
Services	**19.0**	21.8	**127.7**	42.0	**146.7**	63.8
Systems	**10.7**	6.4	**8.8**	8.5	**19.5**	14.9
Property, Engineering consultancy and Insurance	**28.0**	35.0	**1.8**	(2.7)	**29.8**	32.3
Net operating assets	**4,370.7**	4,105.0	**156.3**	63.8	**4,527.0**	4,168.8
Goodwill:						
Waste management					**13.6**	1.4
Services					**123.5**	55.2
Systems					**0.9**	–
Short-term deposits, cash, borrowings, taxation and dividends payable					**(2,118.0)**	(1,779.2)
					2,547.0	2,446.2

Notes to the financial statements continued

3 Operating costs

	Continuing operations 2000 £m	Acquisitions 2000 £m	**Total 2000 £m**	Total 1999 £m
Wages and salaries	313.0	21.1	**334.1**	239.4
Social security costs	24.4	1.5	**25.9**	22.0
Pension costs (note 22)	38.5	0.4	**38.9**	18.5
Total employee costs	375.9	23.0	**398.9**	279.9
Power	37.3	1.5	**38.8**	36.5
Raw materials and consumables	89.7	10.3	**100.0**	86.9
Rates	43.2	0.1	**43.3**	40.2
Service charges	21.1	–	**21.1**	21.0
Agencies	15.5	–	**15.5**	17.5
Waste disposal costs	42.4	0.9	**43.3**	37.4
Other operating costs	219.2	24.0	**243.2**	161.9
Depreciation – on owned assets	187.9	4.1	**192.0**	165.0
– on assets held under finance leases	8.5	–	**8.5**	1.8
– on infrastructure assets	51.6	–	**51.6**	65.3
Amortisation – goodwill	3.4	3.0	**6.4**	1.3
Hired and contracted services	99.0	4.8	**103.8**	96.3
Environmental and landfill restoration costs	5.3	–	**5.3**	6.1
Operating lease rentals – land and buildings	6.1	1.0	**7.1**	4.4
– other	3.8	0.7	**4.5**	2.4
Hire of plant and machinery	8.6	0.7	**9.3**	7.7
Research and development expenditure	4.1	–	**4.1**	4.6
Auditors' remuneration – audit work	0.5	–	**0.5**	0.5
– non audit work	0.7	–	**0.7**	0.3
Profit on disposal of fixed assets	(2.5)	–	**(2.5)**	(1.0)
Profit on disposal of fixed asset investments	–	–	**–**	(0.2)
	1,221.3	74.1	**1,295.4**	1,035.8
Own work capitalised	(114.9)	–	**(114.9)**	(112.9)
Total operating costs	1,106.4	74.1	**1,180.5**	922.9

Exceptional restructuring costs included in the above analysis within continuing operations are as follows:

Employee costs (including pension costs of £18.7 million)	**56.0**	–
Other operating costs	**0.1**	–
	56.1	–

Exceptional restructuring costs in the year ended 31 March 2000 of £56.1 million (1999: nil) relate to the costs of restructuring Severn Trent Water following the AMP3 determination, and a restructuring of Severn Trent Services.

Exceptional Year 2000 costs included in the above analysis within continuing operations are as follows:

Employee costs	**–**	1.6
Hired and contracted services	**2.9**	3.8
Depreciation	**–**	3.1
Other operating costs	**5.7**	2.5
	8.6	11.0

Exceptional Year 2000 costs in the year ended 31 March 2000 of £8.6 million (1999: £11.0 million) relate to the costs of ensuring that all group computer and operating systems are Millennium compliant.

Included in auditors' remuneration is £52,000 (1999: £52,000) in respect of the audit of the company.

Details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 21 to 23.

4 Employee numbers

Average number of employees during the year (full time equivalent):

	2000 Number	1999 Number
By type of business:		
Water and sewerage	**5,144**	5,276
Waste management	**2,723**	2,365
Services	**3,742**	2,275
Systems	**822**	722
Property, Engineering consultancy and Insurance	**437**	457
	12,868	11,095
By geographical location:		
United Kingdom	**9,288**	9,016
Other – principally USA and Europe	**3,580**	2,079
	12,868	11,095

5 Net interest payable

	2000 £m	1999 £m
Interest receivable and similar income	**9.6**	7.5
Interest payable and similar charges:		
Bank loans and overdrafts	**(64.2)**	(80.5)
Other loans	**(47.5)**	(5.4)
Interest on discounted provisions	**(0.9)**	(0.5)
Finance leases	**(12.1)**	(15.4)
Group	**(115.1)**	(94.3)
Share of joint ventures	**(0.3)**	(0.6)
Share of associates	**(5.3)**	(5.4)
	(120.7)	(100.3)

6 Taxation

		2000 £m	1999 £m
UK corporation tax	– current year at 30%/31%	**22.4**	135.0
	– prior year	**(3.3)**	(16.8)
Double taxation relief		**(0.9)**	(1.0)
Overseas taxation	– current year	**3.3**	4.3
	– prior year	**–**	(0.1)
Share of taxation charges of	– joint ventures	**0.1**	–
	– associates	**1.0**	1.2
Advance corporation tax	– current year	**–**	(86.3)
	– prior year	**(0.5)**	10.3
		22.1	46.6

The corporation tax charge for the year has been reduced by the excess of capital allowances over depreciation.

No provision for deferred taxation is required for the year ended 31 March 2000. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £65.7 million (1999: £36.8 million).

At 31 March 2000, the group had tax losses of approximately £56.0 million (prior year £59.0 million) which will be available for offset against future profits.

7 Dividends

	2000		1999	
	Pence per share	**£m**	Pence per share	£m
Interim dividend declared	**17.00**	**58.0**	12.47	42.4
Second interim dividend declared	**–**	**–**	3.84	13.1
Final dividend proposed	**28.00**	**95.7**	26.69	91.0
	45.00	**153.7**	43.00	146.5
B share interim dividend declared	**0.76**	**0.1**	1.07	0.2
B share final dividend declared	**0.80**	**0.2**	1.10	0.3
	1.56	**154.0**	2.17	147.0

8 Earnings per share

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 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 potential dilutive 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 1999 and 2000 and exceptional restructuring costs in 2000. The Directors consider that the supplementary figures provide a useful additional indication of performance.

	2000			1999		
	Earnings £m	**Weighted average number of shares m**	**Per share amount pence**	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	**251.5**	**340.8**	**73.8**	303.3	340.0	89.2
Effect of dilutive securities:						
Options	**–**	**1.6**	**(0.3)**	–	2.6	(0.7)
Diluted earnings per share	**251.5**	**342.4**	**73.5**	303.3	342.6	88.5
Supplementary earnings per share						
Basic earnings per share	**251.5**	**340.8**	**73.8**	303.3	340.0	89.2
Effect of:						
Exceptional Year 2000 costs	**8.6**	**–**	**2.5**	11.0	–	3.2
Exceptional restructuring costs	**56.1**	**–**	**16.5**	–	–	–
Basic earnings per share before Year 2000 costs and restructuring costs	**316.2**	**340.8**	**92.8**	314.3	340.0	92.4
Diluted earnings per share	**251.5**	**342.4**	**73.5**	303.3	342.6	88.5
Effect of:						
Exceptional Year 2000 costs	**8.6**	**–**	**2.5**	11.0	–	3.2
Exceptional restructuring costs	**56.1**	**–**	**16.3**	–	–	–
Diluted earnings per share before Year 2000 costs and restructuring costs	**316.2**	**342.4**	**92.3**	314.3	342.6	91.7

9 Goodwill

	2000 £m
Cost	
At 1 April 1999	57.9
Arising on acquisitions in the year	86.1
Arising on prior year acquisitions	1.2
Exchange adjustments	0.5
At 31 March 2000	**145.7**
Amortisation	
At 1 April 1999	1.3
Charge for year	6.4
At 31 March 2000	**7.7**
Net book value	
At 31 March 2000	**138.0**
At 31 March 1999	56.6

10 Tangible assets

	Group				Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
Cost					
At 1 April 1999	1,604.2	2,455.2	1,960.9	6,020.3	9.6
Acquisition of businesses	45.8	–	30.0	75.8	–
Additions	113.1	232.9	267.5	613.5	0.5
Grants and contributions	–	(30.0)	–	(30.0)	–
Disposals	(4.9)	(0.7)	(53.5)	(59.1)	(0.2)
Reclassifications and transfers	0.5	–	(3.5)	(3.0)	–
Exchange adjustments	(1.1)	–	(3.6)	(4.7)	–
At 31 March 2000	**1,757.6**	**2,657.4**	**2,197.8**	**6,612.8**	**9.9**
Depreciation					
At 1 April 1999	437.7	670.9	673.8	1,782.4	2.4
Charge for year	43.4	51.6	157.1	252.1	0.5
Disposals	(4.0)	(0.7)	(45.6)	(50.3)	(0.1)
Reclassifications and transfers	–	–	0.4	0.4	–
Exchange adjustments	(0.9)	–	(1.8)	(2.7)	–
At 31 March 2000	**476.2**	**721.8**	**783.9**	**1,981.9**	**2.8**
Net book value					
At 31 March 2000	**1,281.4**	**1,935.6**	**1,413.9**	**4,630.9**	**7.1**
At 31 March 1999	1,166.5	1,784.3	1,287.1	4,237.9	7.2

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

	2000 £m	1999 £m
Cost	**278.5**	279.1
Accumulated depreciation	**(47.0)**	(38.5)
Net book value	**231.5**	240.6

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

10 Tangible assets continued

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

	2000 £m	1999 £m
Freehold	**1,225.3**	1,144.6
Long leasehold	**54.9**	13.7
Short leasehold	**1.2**	8.2
	1,281.4	1,166.5

iv) The net book value of land and buildings includes £94.2 million (1999: £67.5 million) in respect of landfill sites.

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

	2000 £m	1999 £m
Land	**26.0**	28.4
Assets in the course of construction	**320.9**	395.7
	346.9	424.1

vi) At 31 March 2000, the company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.9 million (1999: £6.9 million) and plant and equipment with a net book value of £0.2 million (1999: £0.3 million).

11 Investments

	Group			
		2000 £m		1999 £m
Investments in joint ventures				
Share of gross assets	**7.3**		5.9	
Share of gross liabilities	**(6.9)**		(6.2)	
Loans	**4.5**		4.7	
		4.9		4.4
Investments in associates				
Share of net assets	**14.5**		16.5	
Loans	**1.8**		0.7	
		16.3		17.2
Other investments		**1.5**		1.2
Own shares		**3.0**		1.9
		25.7		24.7

	Interests in joint ventures £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Group					
At 1 April 1999	4.4	17.2	1.2	1.9	24.7
Loans advanced	0.3	1.1	–	–	1.4
Additions	–	–	0.3	1.1	1.4
Loans repaid	(0.5)	–	–	–	(0.5)
Share of profits	0.8	1.1	–	–	1.9
Dividends receivable	(0.1)	(1.4)	–	–	(1.5)
Currency translation differences	–	(1.7)	–	–	(1.7)
At 31 March 2000	**4.9**	**16.3**	**1.5**	**3.0**	**25.7**

11 Investments continued

Interests in joint ventures and associates at 31 March 2000 comprised the group's share of net assets less provisions, of £14.9 million (1999: £16.2 million) and loans of £6.3 million (1999: £5.4 million). The group's share of the post acquisition accumulated profits of joint ventures at 31 March 2000 was £0.4 million (1999: losses of £0.4 million). The group's share of the post acquisition accumulated losses of associates at 31 March 2000 was £1.8 million (1999: £2.9 million). Particulars of the group's principal joint venture and associated undertakings at 31 March 2000 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

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 1999.

Interests in own shares represent ordinary shares of 65⁵⁄₁₉p each held in trust for certain senior employees under the Long Term Incentive Plan. The main features of the Plan are set out in the Remuneration Committee Report on pages 21 and 22. At 31 March 2000, the trust held 320,905 shares (1999: 191,923 shares). The market value of these shares was £1.8 million (1999: £1.6 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.

	Subsidiary undertakings: Shares £m	Subsidiary undertakings: Loans £m	Joint ventures: Loans £m	Other investments £m	Own shares £m	Total £m
Company						
At 1 April 1999	1,234.5	384.2	0.1	0.3	1.9	1,621.0
Additions/loans advanced	–	168.1	–	–	1.1	169.2
Loans repaid	–	(1.2)	–	–	–	(1.2)
At 31 March 2000	**1,234.5**	**551.1**	**0.1**	**0.3**	**3.0**	**1,789.0**

Notes to the financial statements continued

12 Stocks

	Group	
	2000	1999
	£m	£m
Stocks and work in progress	**25.4**	17.9
Development land and properties	**51.9**	64.3
	77.3	82.2

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

13 Debtors

	Group		Company	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Trade debtors	**203.8**	154.5	**–**	–
Amounts owed by group undertakings	**–**	–	**145.4**	86.3
Amounts owed by associated undertakings	**0.1**	0.1	**–**	–
Corporation tax recoverable	**1.3**	0.9	**–**	–
Other debtors	**19.0**	22.0	**5.1**	1.8
Prepaid pension contributions	**1.0**	1.0	**0.4**	0.4
Prepayments and accrued income	**128.6**	106.4	**0.3**	5.8
	353.8	284.9	**151.2**	94.3

Group debtors include £12.2 million (1999: £13.1 million) which falls due after more than one year.

14 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Bank overdrafts	**21.0**	4.7	**27.3**	–
Bank loans	**308.2**	130.5	**270.7**	–
Other loans	**178.5**	150.6	**125.0**	207.3
Obligations under finance leases	**0.9**	0.2	**–**	–
Borrowings (note 16)	**508.6**	286.0	**423.0**	207.3
Trade creditors	**58.7**	38.2	**0.2**	0.1
Other creditors	**35.2**	18.0	**12.8**	8.2
Taxation and social security	**18.6**	16.0	**–**	–
Advance corporation tax payable	**–**	0.1	**–**	0.1
Corporation tax payable	**26.2**	54.4	**–**	–
Dividends payable	**153.7**	247.1	**153.7**	247.1
Accruals and deferred income	**288.2**	263.6	**9.9**	15.6
	1,089.2	923.4	**599.6**	478.4

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Bank loans	**585.3**	522.9	**–**	–
Other loans	**603.4**	435.7	**–**	125.0
Obligations under finance leases	**286.3**	266.1	**–**	–
Borrowings (note 16)	**1,475.0**	1,224.7	**–**	125.0
Deferred income	**54.4**	58.2	**–**	–
Other creditors	**8.3**	23.3	**–**	0.4
	1,537.7	1,306.2	**–**	125.4

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 14.

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		
	2000 Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Currency					
Sterling	**1,904.6**	**683.8**	**1,220.8**	**7.15**	**15.43**
Belgian Franc	**0.9**	**–**	**0.9**	**6.27**	**1.37**
US Dollars	**50.8**	**50.8**	**–**		
Euro	**27.3**	**27.3**	**–**		
Total borrowings at 31 March 2000	**1,983.6**	**761.9**	**1,221.7**		
Total borrowings at 31 March 1999	1,510.7	626.9	883.8		

Floating rate borrowings bear interest based on London Interbank Offered Rate (LIBOR).

b) Investments in interest bearing assets

	2000 £m	1999 £m
Currency		
Sterling deposits	**28.1**	14.4
Belgian Franc deposits	**7.7**	8.5
	35.8	22.9

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.

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

	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	US dollar £m	Lira £m	Other £m	**Total £m**
Functional currency of operation					
Sterling	–	4.2	2.5	0.5	**7.2**
Belgian franc	0.2	0.1	–	–	**0.3**
US dollar	1.8	–	–	–	**1.8**
	2.0	**4.3**	**2.5**	**0.5**	**9.3**

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.

Notes to the financial statements continued

16 Financial instruments continued

d) Borrowings analysed by maturity date

	Overdrafts £m	Loans: Repayable by instalments any of which are payable after five years £m	Loans: Other repayment terms £m	Finance leases £m	2000 Total £m	1999 Total £m
Group						
Borrowings due within one year (note 14)	**21.0**	**4.3**	**482.4**	**0.9**	**508.6**	286.0
Borrowings due after one year:						
Between one and two years	–	**4.4**	**11.1**	**0.6**	**16.1**	162.7
Between two and five years	–	**13.0**	**253.0**	**4.1**	**270.1**	217.2
After more than five years	–	**15.8**	**891.5**	**281.5**	**1,188.8**	844.8
Total borrowings due after one year (note 15)	–	**33.2**	**1,155.6**	**286.2**	**1,475.0**	1,224.7
	21.0	**37.5**	**1,638.0**	**287.1**	**1,983.6**	1,510.7

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2000 £m	1999 £m
European Investment Bank loans – 2004-2008	5.3–6.5	**325.7**	289.7
Sterling bond (STWUF*) – 2024	6.1	**297.9**	297.9
Sterling bond (STWUF*) – 2029	6.3	**293.5**	–
Local authority loans – 2026-2035	6.0–14.4	**11.8**	13.0
Other loans	3.0–5.0	**0.1**	1.1
		929.0	601.7

* Severn Trent Water Utilities Finance Plc

Company

The company has other loans and overdrafts totalling £423.0 million (1999: £332.3 million) which are repayable within five years.

e) Borrowings facilities

The group has the following undrawn committed borrowing facilities available at 31 March 2000:

	2000 £m	1999 £m
Expiring within one year	**84.3**	179.0
Expiring in more than one but not more than two years	**28.1**	50.0
Expiring after two years	**147.0**	150.0
	259.4	379.0

16 Financial instruments continued

f) Fair values of financial instruments

Financial instruments by category: Asset/(liability)	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 Fair value £m
Primary financial instruments held or issued to finance the group's operations				
Short-term deposits	**35.8**	**35.8**	22.9	22.9
Cash at bank and in hand	**8.4**	**8.4**	9.3	9.3
Borrowings falling due within one year	**(508.6)**	**(508.8)**	(286.0)	(288.4)
Borrowings falling due after more than one year	**(1,475.0)**	**(1,451.1)**	(1,224.7)	(1,284.4)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	**–**	**23.5**	–	(1.8)
Currency swaps	**–**	**(13.6)**	–	0.7
Other long-term assets/(liabilities)				
Interest in own shares	**3.0**	**1.8**	1.9	1.6
Other fixed asset investments	**1.5**	**1.5**	1.2	1.2
B shares	**(9.1)**	**(7.7)**	(9.1)	(7.9)

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 2000

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and loses on hedges at 1 April 1999	11.0	(12.9)	**(1.9)**
Arising in previous years that were recognised in the year	–	–	**–**
Arising before 1 April 1999 that were not recognised in the financial year	11.0	(12.9)	**(1.9)**
Unrecognised gains and losses arising during the financial year	15.0	(3.2)	**11.8**
Unrecognised gains and losses on hedges at 31 March 2000	26.0	(16.1)	**9.9**
Expected to be recognised			
In one year or less	–	–	**–**
In later years	26.0	(16.1)	**9.9**

The instruments used for hedging group exposures to movements in interest rates and exchanges rates are detailed in the Financial Review on page 14. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

£13.6 million of the unrecognised net losses above of £16.1 million are offset by foreign exchange gains on the related foreign currency denominated borrowings.

Notes to the financial statements continued

17 Provisions for liabilities and charges

	Balance at 1 April 1999 £m	Acquired with subsidiaries £m	Charged to profit & loss account £m	Exchange adjustments £m	Utilised £m	**Balance at 31 March 2000 £m**
a) Provisions comprise:						
Environmental and landfill restoration	23.7	2.9	6.2	(0.6)	(3.9)	**28.3**
Restructuring	5.6	0.2	56.1	0.1	(15.7)	**46.3**
Insurance	13.0	–	5.4	–	(4.9)	**13.5**
Onerous contracts	–	9.0	–	–	(1.7)	**7.3**
Other	0.4	0.1	0.1	–	–	**0.6**
	42.7	12.2	67.8	(0.5)	(26.2)	**96.0**

As more fully explained in notes 1 i) 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 £6.2 million charge against profit in the current year is £0.9 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 two years 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.

The onerous contract provision relates to onerous contractual liabilities assumed with a business acquired in the year. The associated outflows are estimated to crystallise over the relevant contract periods of up to six years from the balance sheet date.

b) In accordance with the group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2000. The group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 30% (1999: 30%), is:

	2000 £m	1999 £m
Capital allowances	**685.0**	607.0
Other timing differences	**(34.3)**	(21.0)
Available tax losses	**(16.8)**	(17.8)
	633.9	568.2

In the opinion of the Directors, the likelihood of a deferred tax liability crystallising in the foreseeable future is remote. Comparative figures have been restated to take account of computations submitted to relevant tax authorities.

18 Called up share capital

	2000 £m	1999 £m
Authorised :		
520,175,751 ordinary shares of 65⁵⁄₁₉p	**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:		
341,122,304 (1999: 340,213,386) ordinary shares of 65⁵⁄₁₉p	**222.6**	222.0
23,845,584 B shares of 38p (non-equity)	**9.1**	9.1
Total Issued and Fully Paid Share Capital	**231.7**	231.1

a) Shares issued during the year

870,446 ordinary shares of 65⁵⁄₁₉p were issued at 822p, 415p, 528p, 535p, 799p, 826p, 900p, 945p, 910p, 870p, 931.5p, 872.5p, 770.5p, 593p, 500p or 559p under the group's Employee Sharesave Scheme and 38,472 ordinary shares of 65⁵⁄₁₉p were issued at 497p or 625p under the group's Share Option Scheme (formerly Executive Share Option Scheme). The aggregate consideration in respect of these allotments was £7.4 million.

18 Called up share capital continued

b) B shares

The B shares are irredeemable and carry a net non-cumulative preferential dividend set at 75% of six month London Interbank Offered Rate (LIBOR), 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 584,014 ordinary shares of 65⁵⁄₁₉p and no B shares of 38p (1999: 621,667 ordinary shares of 65⁵⁄₁₉p and 225,390 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 three, five or seven years, the right to purchase ordinary shares in the company. Options outstanding at 31 March 2000 were as follows:

			Number of shares	
Date of grant	Normal date of exercise	Option price	**2000**	1999
January 1992	1997 or 1999	257p	–	361,828
January 1993	1998 or 2000	360p	**292,497**	306,186
January 1994	1999 or 2001	482p	**177,062**	614,777
January 1995	2000 or 2002	415p	**1,016,541**	1,073,226
January 1996	2001 or 2003	535p	**607,980**	669,132
January 1997	2000, 2002 or 2004	528p	**939,276**	1,016,739
January 1998	2001, 2003 or 2005	799p	**532,486**	975,196
January 1999	2002, 2004 or 2006	831p	**457,079**	861,495
January 2000	2003, 2005 or 2007	473p	**3,281,473**	–

iii) *Approved 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 2000 were as follows:

				Number of shares	
Date of grant	Number of option holders	Normal date of exercise	Option price	**2000**	1999
March 1993	12	1996-2003	497p	**53,631**	57,403
December 1993	50	1996-2003	625p	**216,672**	251,372
June 1998	57	2001-2008	1005p	**111,518**	115,607
June 1999	58	2002-2009	934p	**79,168**	–

iv) *Unapproved Share Option Scheme*

The Board has granted executives options to purchase ordinary shares in the company under an unapproved Share Option scheme. Options outstanding under this scheme at 31 March 2000 were as follows:

				Number of shares	
Date of grant	Number of option holders	Normal date of exercise	Option price	**2000**	1999
June 1998	23	2001-2008	1005p	**43,717**	43,717
June 1999	70	2002-2009	934p	**168,906**	–

19 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
Group			
At 1 April 1999	5.4	147.0	2,062.4
Retained profit for the year	–	–	97.9
Shares issued	3.0	–	–
Adjustment for shares issued under Quest scheme	3.8	–	(3.8)
Currency translation differences	–	–	(0.7)
At 31 March 2000	**12.2**	**147.0**	**2,155.8**

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
Company			
At 1 April 1999	5.4	147.0	1,132.0
Retained profit for the year	–	–	120.0
Shares issued	3.0	–	–
Adjustment for shares issued under Quest scheme	3.8	–	(3.8)
At 31 March 2000	**12.2**	**147.0**	**1,248.2**

The profit attributable to shareholders, dealt with in the accounts of the company was £274.0 million (1999: £215.5 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the company.

At 31 March 2000 cumulative goodwill written off against group reserves amounted to £290.1 million (1999: £290.1 million).

20 Acquisitions

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

Name of business	Date of acquisition
Waste management:	
Poplars Resource Management Ltd	26 April 1999
Trash	18 June 1999
KP Waste	9 July 1999
Portland Plant Hire	20 August 1999
Portland Waste	20 August 1999
Cory Environmental	8 October 1999
LAS Waste	30 November 1999
Services:	
Baden Italia SPA	24 April 1999
Samsco	27 April 1999
EA Laboratories	1 May 1999
Precision Environmental	1 June 1999
Tetra Processes	25 June 1999
Upstate Consultants of Greene County Inc	30 June 1999
Savannah Laboratories	5 July 1999
Parsons Engineering Science Inc	17 September 1999
Core Laboratories	1 October 1999
Law Environmental	1 October 1999
Caputo	1 October 1999
Byrd Forbes	1 October 1999
La Biodepuratrice SPA	8 October 1999
Avatar Utility Services Inc	12 October 1999
Radian	8 November 1999
Clortec	30 November 1999
Quanterra Inc	31 January 2000
Ecotechnica SRL	1 February 2000
Systems:	
Marshall Computing	1 October 1999

All acquisitions were accounted for using the acquisition method.

20 Acquisitions continued

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	71.6	3.8	0.4	–	75.8
Stocks	7.2	–	0.3	–	7.5
Debtors due within one year	36.2	–	(0.5)	–	35.7
Cash at bank and in hand	3.8	–	–	–	3.8
Bank overdrafts	(0.2)	–	–	–	(0.2)
Creditors due within one year	(26.2)	–	(0.7)	–	(26.9)
Loans and finance leases	(18.5)	–	–	–	(18.5)
Provisions for liabilities and charges	(7.6)	–	(2.0)	(2.6)	(12.2)
	66.3	**3.8**	**(2.5)**	**(2.6)**	**65.0**
Consideration					**151.1**
Goodwill					**86.1**

The £2.0 million accounting policy harmonisation in respect of provisions for liabilities and charges relates to aligning the environmental and landfill provisions with group policy. All other accounting policy harmonisations are minor in nature and reflect adjustments in accordance with group policy.

The £2.6 million movement in other adjustments, is in respect of provisions for onerous contractual liabilities carried by a business acquired in the year, the quantum of which has been reassessed to reflect the commercial obligation at the date of acquisition.

All fair value adjustments will be reviewed during 2000/01. Any revision 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.

21 Commitments and contingent liabilities

	2000 £m	1999 £m
a) Investment expenditure commitments		
Contracted for but not provided in the financial statements	**146.6**	182.8

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:

	2000		1999	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**1.2**	**1.7**	0.5	0.9
Between one and five years	**2.9**	**1.6**	2.1	1.9
After five years	**2.2**	–	2.4	–
	6.3	**3.3**	5.0	2.8

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 2000 was £38.9 million (1999: £18.5 million). This includes £18.7 million in relation to the exceptional restructuring charge (see note 3).

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.

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

	2000 £m	1999 £m
a) Reconciliation of profit before interest to operating cash flows		
Profit before interest	**394.7**	450.7
Share of operating profit of associates and joint ventures	**(8.6)**	(9.3)
Depreciation charge	**252.1**	232.1
Amortisation of goodwill	**6.4**	1.3
Profit on sale of tangible fixed assets	**(2.5)**	(1.0)
Profit on sale of fixed asset investments	**-**	(0.2)
Deferred income received	**0.8**	0.9
Deferred income written back	**(4.6)**	(2.7)
Provisions for liabilities and charges	**67.8**	8.4
Utilisation of provisions for liabilities and charges	**(26.2)**	(15.0)
Decrease in stocks	**12.5**	4.0
Increase in debtors	**(27.1)**	(36.5)
Increase/(decrease) in creditors	**6.2**	(4.7)
Net cash inflow from operating activities	**671.5**	628.0

The utilisation of provisions for liabilities and charges includes £15.7 million in respect of an exceptional restructuring provision charged to the profit and loss account in the years ended 31 March 2000 and 31 March 1997.

	2000 £m	1999 £m
b) Returns on investments and servicing of finance		
Interest received	**5.8**	7.5
Interest paid	**(99.2)**	(86.1)
Non-equity dividend paid	**(0.3)**	(0.5)
Interest element of finance lease rental payments	**(0.8)**	-
Net cash outflow for returns on investments and servicing of finance	**(94.5)**	(79.1)

	2000 £m	1999 £m
c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(616.1)**	(647.1)
Grants received	**31.6**	27.2
Sale of tangible fixed assets	**11.3**	6.9
Sale of fixed asset investments	**-**	1.2
Loans advanced to associates and joint ventures	**(1.4)**	(6.4)
Loans repaid by associates and joint ventures	**0.5**	10.5
Investment in other fixed asset investments	**(0.3)**	(1.0)
Investment in own shares	**(1.1)**	(1.0)
Net cash outflow for capital expenditure and financial investment	**(575.5)**	(609.7)

23 Cash flow statement continued

	Book and provisional fair value of assets acquired 2000 £m	1999 £m
d) Acquisitions		
Acquisitions		
Tangible fixed assets	**75.8**	11.0
Current assets	**43.2**	16.1
Liabilities	**(39.1)**	(7.2)
Provisional fair value of net assets acquired (excluding net borrowings)	**79.9**	19.9
Goodwill – capitalised	**86.1**	57.9
Goodwill – written off to reserves	**–**	1.5
Consideration for businesses acquired	**166.0**	79.3
Net borrowings of businesses acquired	**(14.9)**	(1.5)
Net consideration	**151.1**	77.8
Satisfied by:		
Cash consideration relating to current year acquisitions	**(141.8)**	(69.5)
Cash consideration relating to previous years' acquisitions	**–**	(1.5)
Deferred consideration relating to current year acquisitions	**(9.3)**	(6.8)
	(151.1)	(77.8)
Cash consideration – as above	**(141.8)**	(71.0)
Cash settlement of opening accrued consideration	**(3.3)**	(10.3)
	(145.1)	(81.3)

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

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

	2000 £m	1999 £m
f) Financing		
Loans advanced	**611.8**	795.3
Repayments of amounts borrowed	**(175.3)**	(422.6)
Finance lease capital repaid	**(8.5)**	(8.5)
Increase in debt	**428.0**	364.2
Receipts from shares issued	**3.6**	2.9
Net cash inflow from financing	**431.6**	367.1

g) Analysis of changes in net debt

	At 1 April 1999 £m	Cash flow £m	Acquisitions £m	Other non cash changes £m	Exchange movement £m	At 31 March 2000 £m
Cash at bank and in hand	9.3	(4.6)	3.8	–	(0.1)	**8.4**
Overdrafts (note 14)	(4.7)	(16.1)	(0.2)	–	–	**(21.0)**
	4.6	(20.7)	3.6	–	(0.1)	**(12.6)**
Debt due within one year (note 14)	(281.1)	(205.2)	(0.4)	–	–	**(486.7)**
Debt due after one year (note 15)	(958.6)	(231.3)	–	(0.2)	1.4	**(1,188.7)**
Finance leases (note 14 and 15)	(266.3)	8.5	(18.1)	(11.3)	–	**(287.2)**
	(1,501.4)	(448.7)	(14.9)	(11.5)	1.3	**(1,975.2)**
Short-term deposits	22.9	13.8	–	–	(0.9)	**35.8**
Total	(1,478.5)	(434.9)	(14.9)	(11.5)	0.4	**(1,939.4)**

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 H Bailey
J K Banyard
I Elliott
J M Foster
J A Hill
G P Noone
F A Osborn
R M Walker
M R Wilson

WASTE MANAGEMENT

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Coronation Road
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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

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Pennsylvania 19034-2707
USA
Telephone 001 215 283 3450
(Incorporated and operational in the United States of America)

Directors
R M Walker
W R Cook
R Brydon Jannetta
D L Chester
L F Graziano
M Lily
P K 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)

Directors
W R Cook
P P Davies
K J Kelly
J R Whalen (Jr)

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

Directors
B Duckworth
A Edees
J A Hill
B M Horner
A Norman
A E Roe
R M Walker
W G Weatherdon

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.
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Texas 77084
USA
Telephone 001 281 578 4277
(Incorporated and operational in the United States of America)

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I S Burrowes
D L Chester
L F Graziano
J A Graziose (Jr)
K J Kelly

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2308 Coventry Road
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Telephone 0121 722 6000

Directors
V Cocker
R K Peace
N A Rummens
R M Walker

Capital Controls Limited #
Park Lane
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Telephone 0121 313 2300

Directors
R K Peace
P P Davies

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3000 Advance Lane
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(Incorporated and operational in the United States of America)

Directors
W R Cook
D L Chester
H Fleming
K J Kelly

Excel Technologies International Corp.
1110 Industrial Blvd
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USA
Telephone 001 281 240 6770
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Directors
W R Cook
D L Chester
H Fleming
K J Kelly

Fusion Meters Limited #
(75% owned)
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Chesterfield Trading Estate
Chesterfield, S41 9PZ
Telephone 01246 456658

Directors
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

Director
N A Rummens
R K Peace

Pitometer Associates Inc.
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Directors
W R Cook
I S Burrowes
D L Chester
L F Graziano
J A Graziose (Jr)
W J Hall
K J Kelly

24 Principal subsidiary undertakings and their Directors continued

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STL Business Centre
Torrington Avenue
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Telephone 024 76421213

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R Brydon Jannetta
R K Peace

Severn Trent Laboratories Inc.
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Colmar
Pennsylvania 18915
USA
Telephone 001 215 997 4000
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Directors
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R Brydon Jannetta
D L Chester
K J Kelly

SYSTEMS

Severn Trent Systems Limited #
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Birmingham B37 7YL
Telephone 0121 717 7755

Directors
V Cocker
M Lily
I P Clark
J Franey
R M Walker

Computer Systems and Applications Inc.
(Trading as Severn Trent Systems)
Two Chasewood Park
20405 State Highway 249
Suite 600
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Texas 77070,
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Directors
W R Cook
M Lily
B Albers
I P Clark
K J Kelly

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Telephone 0121 717 7755

Directors
J R Kroon
M Lily

Stoner Associates Inc.
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USA
Telephone 001 717 243 1900
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Directors
W R Cook
D L Chester
K J Kelly
J R Kroon
M Lily

PROPERTY AND OTHERS

Severn Trent Property Limited #
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000
(Property Development)

Directors
G P F Inge
P A Ludlow
R A S Costin
P P Davies
J S R Haynes

Daventry International Rail Freight Terminal Limited
(85% owned)
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000
(Property Development)

Directors
P A Ludlow
J S R Haynes
J Jones
M J Roper

Charles Haswell and Partners Limited #
99 Great Russell Street
London, WC1B 3LA
Telephone 020 7580 2412
(Engineering Design Consultants)

Directors
D J Pickett
J K Banyard
I Elliott
D R Gutteridge
C J G Jones
D J Keeling
P T Simpson
M R Wilson

Derwent Insurance Limited
PO Box 34
Albert House
South Esplanade
St Peter Port
Guernsey, GY1 4AU
Telephone 01481 715300
(Insurance company – incorporated and operational in Guernsey)

Directors
G M de Cruz
J E Langlois
J C Mann
M R Miles
P K Tandon

Severn Trent Overseas Holdings Limited #
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 6000
(Holding company)

Directors
V Cocker
P P Davies

Held directly by the company

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

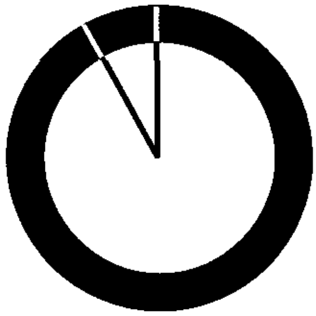
All subsidiary undertakings are wholly owned unless otherwise indicated and all shareholdings are in ordinary shares.

All subsidiary undertakings have been included in the consolidation.

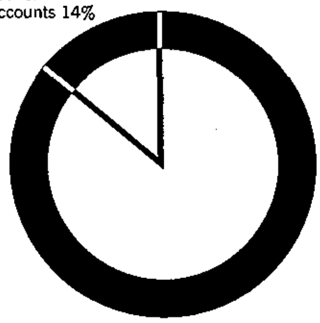
Shareholder information

Analysis of shareholdings at 31 March 2000

Shareholdings	Number of shareholders	Percentage of total shareholders %	Number of ordinary shares million	Percentage of ordinary shares %
1-499	62,533	60.6%	12.3	3.6%
500-999	24,625	23.9%	16.9	5.0%
1,000-4,999	14,547	14.1%	22.0	6.4%
5,000-9,999	432	0.4%	2.9	0.9%
10,000-49,999	468	0.5%	10.7	3.1%
50,000-99,999	164	0.2%	11.5	3.4%
over 100,000	345	0.3%	264.8	77.6%
	103,114	100.0%	341.1	100.0%



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



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

*Others e.g insurance companies, nominee companies, banks, pension funds, other corporate bodies, limited and public limited 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	June

Dividend payments

Dividend payments in respect of the year ended 31 March 2000:

Interim dividend	paid 6 April 2000
Proposed final dividend	payable 2 October 2000

Annual General Meeting

1 August 2000 2.30pm at the International Convention Centre, Birmingham

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Severn Trent Plc

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For more information

Access our website:
www.severn-trent.com

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Financial

Severn Trent Plc	Annual Review 2000
Severn Trent Water	Annual Report and Accounts 2000 (including Regulatory Accounts)

Environmental

Severn Trent Plc	Stewardship Report 2000 (Group Environment Report)
Severn Trent Water	Environmental Review
Severn Trent Water	Biodiversity Action Plan
Biffa	Environment Report
Biffa	Book 4 - 'A Question of Balance'

Social

Severn Trent Plc	Community Report 'Taking Care'

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