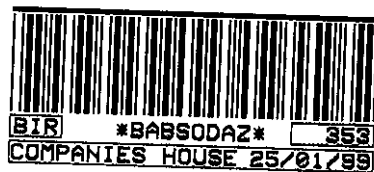


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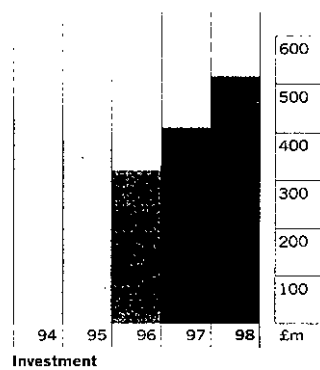
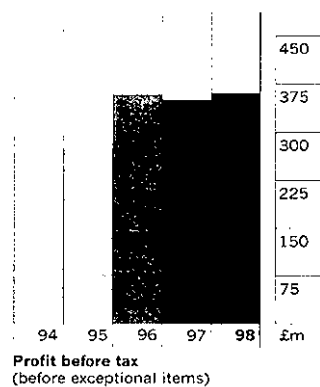
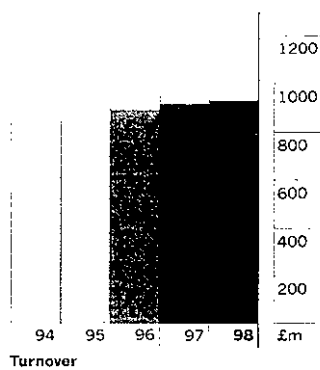


Promoting water efficiency, by providing customers with practical advice on saving water and fitting meters free of charge, is a key element of our resources management. To maintain security of supplies the company continues to invest in additional sources such as the abstraction scheme at Witches Oak Waters.

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**Financial highlights**

	1998	1997
Turnover (£m)	933	919
Operating costs (£m)	(524)	(533)
Profit before interest (pre-exceptional) (£m)	409	406
Profit before interest (post-exceptional) (£m)	409	386
Profit before tax (£m)	362	352
Gearing (%)	62.7	34.5
Investment (£m)	516	412



## Managing Director's review

### A year of change and progress

1997/98 has seen substantial internal change, but significant progress and achievement. On 1 April 1997 we implemented a restructuring of our operational activities, which had previously been organised on multifunctional lines in 15 geographical districts.

The new operating organisation is coordinated through four functional business units; Water Supply, Sewage Treatment, Networks (underground assets) and Customer Relations. This change has enabled greater focus, and secured critical mass, to deliver improved levels of service in a more efficient way. We are already experiencing substantial benefits in outputs and efficiency.

The management team which led this business change project very deservedly won the Utility Industry Achievement award for 'Extraordinary People' for the quality of its planning and implementation.

#### **Water resources and quality**

The commitment made last year – that whatever the weather we will deliver all our customers' legitimate needs for water – continues to be one of the key business drivers for the company. Once again, we have made excellent progress in ensuring this commitment remains sustainable within our wider responsibilities to the environment. The leakage targets determined by the Office of Water Services (OFWAT) have again been more than fully achieved and at the end of the financial year reservoir storage stood at almost 100%, positioning the company well for this summer's demands.

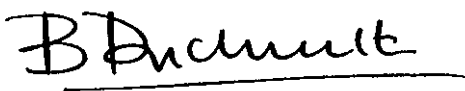
As well as meeting our commitment on supply, we continue to produce some of the best quality water in the world. Compliance with Drinking Water Standards for the Drinking Water Inspectorate's calendar year 1997 was 99.89%, our best ever performance. With waste water, our performance has again been excellent; we achieved virtually 100% compliance with standards that are amongst the toughest in the UK and internationally.

#### **Price review 2000 – 2005**

In 1997 we began preparing for the 1999 Regulatory Review which will determine the prices for water services in the period 2000 – 2005. The financial year 1997/98 is the base year which OFWAT will use to compare efficiency and service across the industry. It is also an important year for investment planning as companies must demonstrate progress on their 1995 – 2000 investment obligations. Severn Trent is soundly positioned on all relevant criteria. With the help of the restructuring changes already mentioned, we have markedly improved both efficiency and the levels of service we provide for our customers over earlier years.

The 1995 – 2000 Investment Programme is also well advanced and all investment obligations, apart from a small shortfall on the uptake of optional domestic metering, will be fully achieved on time. For two years we have offered a free domestic meter installation and demand for meters continue to rise.

Brian Duckworth Managing Director



### **Listening to customers**

The company takes an active role in the very important debate over the balance which needs to be struck between future price levels, improvements to the environment and customer service. Research shows that the majority of our customers would prefer to see further environmental improvements. They are most concerned about reliable water supplies, water quality, reducing pollution and reducing the likelihood of foul flooding. The majority of customers would prefer price stability, with further investment to address their concerns, rather than a reduction in their bills.

Our own research is supported by other research carried out separately for the Department of Environment, Transport and Regions and the Environment Agency (EA). We are pleased that this dialogue between customers, the companies, regulators and Government remains open and transparent.

### **Millennium systems**

We are managing the Millennium issue through four initiatives dealing with Information Technology (IT) hardware, IT applications, plant and processes with embedded chips, and business continuity. Computer applications and hardware identified as non-compliant will be abandoned, amended or replaced. Detailed plans are well advanced for amendment and replacement of applications and hardware as necessary, with completion no later than July 1999.

The embedded chip problem is more complex as the equipment suppliers are often unclear whether their equipment is compliant. Again detailed plans are in place to correct or replace all embedded chips in business critical equipment during 1998 and 1999.

In addition, business continuity plans are being developed to work with our customers and suppliers to provide greater security against a failure by their systems on our processes.

The total cost of achieving compliance is currently estimated as being in the order of £20 million, all of which will be charged against profits, including £2.2 million incurred in 1997/98. The majority of the cost is expected to arise in 1998/99.

### **Financial performance**

The turnover of the company increased by 2.5% to £950.6 million, 0.7% less than RPI+K, or £932.8 million (£919.1 million) after the rebate of £6.50 to customers.

The company's continuing commitment to water conservation through its free domestic meter option and initiatives for industrial customers reduced measured water consumption and, as a consequence, income. The company's bills for 1997/98 also included a 0.2% abatement for our domestic customers, in recognition of a difference between our investment profile in 1995/96 compared to that assumed by OFWAT at the time of the 1994/95 price review.

These shortfalls in income were only partially offset by new business and continued improvement in the identification of additional income.

Operating profit increased to £409.4 million (£406.2 million), an improvement of 0.8%, excluding the effect of a reorganisation provision in 1996/97.

We continued our excellent record of cost control, further enhanced by the restructuring put in place on 1 April 1997. Total direct operating costs fell in real terms by 4.7%. Additional running costs from new schemes to meet higher environmental standards and the costs of dealing with the 'Millennium Bug' have continued to be offset by greater efficiencies elsewhere in the business.

During the year, we invested £516 million, an increase of 25% on the previous year, in accordance with the company's Five Year Investment Plan. During the current year capital investment is expected to be in the order of £570 million.

The depreciation charge continues to increase as a result of our continuing investment in new assets. The infrastructure renewals charge, which represents spending on our underground system, also continues to rise. As stated last year, we remain committed to the effective maintenance of the underground sewerage and water distribution networks.

The company is similarly committed to investing to reinforce its water resources and distribution network over and above that assumed at the last price review, in order to meet our supply commitment over the next decade. Up to the year 2000, we will be spending £220 million more than we originally provided for. In addition, the five year programme of rebates amounting in aggregate to £30 per customer (£87 million total cost) is planned to continue until 1999.

### **Protecting the environment**

As an environmental service company, it is essential that we strive to be a leader on environmental issues. During the year the company has undertaken a thorough review of its approach to the environment, and has developed a totally updated environmental policy framework to help us deliver our environmental vision. Our goal is 'a sustainable environment for the communities we serve'.

A key environmental issue in recent years has been water resources and growing climatic uncertainty. Although our pledge to our customers is that we will provide for all their legitimate water needs, we will not do it at a cost to the environment. Where there are reduced yields from traditional water sources, we will reduce the amount we take or stop using the source completely. We have developed detailed plans to replace such lost yield from environmentally sustainable sources.

### **Our future**

This year has seen enormous achievements as we have simultaneously restructured the organisation to secure our platform for the future, with enhanced quality and service levels, whilst achieving further efficiencies. As a result our prices remain amongst the lowest in the country.

I would once again like to place on record my thanks to all employees of the company who have made all these achievements happen, for their support last year and for their continuing commitment for the future.

## Water resources and water supply

April 1997 saw the integration of all water supply sources in a single business unit responsible for their operation and maintenance. This enhanced our ability to supply customer demands across the region through the careful management of these sources and our strategic supply grid.

The improvement in the reservoir storage position has been achieved by a programme of careful water resource management over the last three years, involving four key elements. Resources in vulnerable areas have been conserved by utilising more costly supplies from elsewhere in the region; the company has encouraged commercial and domestic customers to conserve water, even though this has reduced income and profits; leakage from the water distribution system has been very substantially reduced; and capital investment has been carefully targeted to improve treatment capacity and reinforce the distribution system.

Additional abstraction licences have also been secured from the EA. Of these, the most important is a five year licence to abstract water from the River Trent at Shardlow, near Nottingham. Under this scheme, known as 'Witches Oak Waters', we are able to use the River Trent for drinking water purposes for the first time. Whilst the supply will always be expensive because of the advanced water treatment necessary, it will make a significant contribution to the security of water supplies across the company. Discussions are in progress with the EA to turn the temporary abstraction licence into a permanent one.

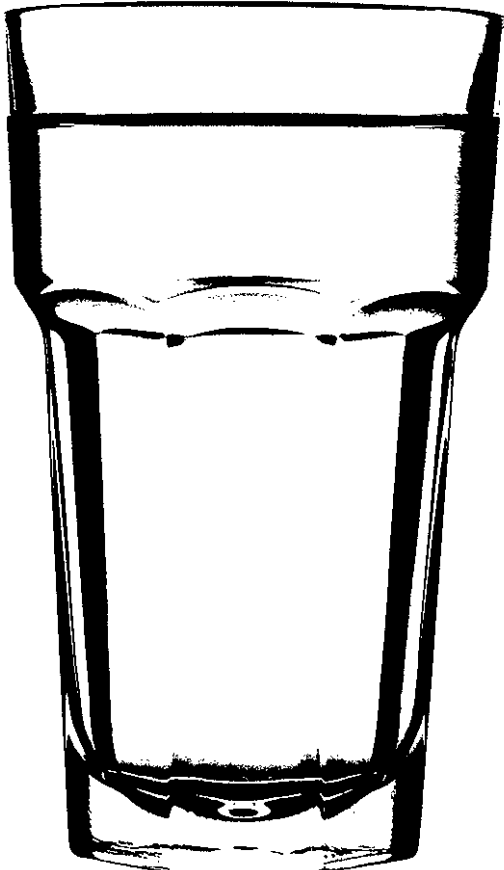
Our customers have an important role to play in conserving water. To help them we have designed a water audit checklist, and provide a range of advice leaflets on saving water inside and outside the home.

In response to the Government's 'Water Summit', in May 1997, Severn Trent waived the charge for repairing leaks on customers' supply pipes. Last year over 10,000 customer supply pipes were repaired free of charge.

In addition to our continued commitment to deliver all our customers' legitimate needs for water, there have also been significant improvements in other areas critical to the business and our customers. For example, we continue to maintain and improve water quality; our customers not only expect drinking water to meet quality standards, but also to taste and look good. To help us meet these needs, more than 795km of distribution mains were renovated or replaced in 1997/98.

As well as quality and quantity achievements, substantial efficiency gains have been made by implementing our energy management strategy at all key sites, accompanied by the introduction of new advanced monitoring systems.

Changing weather patterns continue to challenge both the company and the UK water industry as a whole. Careful management and targeted investment, whilst working with our customers to conserve water, means that whatever the weather we can keep supplying customers with drinking water of the highest quality.



## Sewage treatment

All sewage treatment activities have also been combined in a new management structure.

We continue to make a major contribution to the quality of Midland's rivers and the environment as we invest in new plant and equipment to meet more stringent quality standards for waste water set by the EA. As an example, the River Trent below Stoke Bardolph sewage works was classified as poor in 1990. The quality has greatly improved, such that the river is now capable of supporting a good fishery. This improvement can be directly attributed to the operation of the newly refurbished sewage treatment works.

Compliance with the main sanitary consent limits continued to run at a very high level during 1997, with 718 out of the 719 sewage works which have numeric consents complying with the limits. Over 99% of our sewage works provide at least secondary treatment, whereas only 84% of sewage is treated to this standard across the rest of England and Wales.

To meet higher standards we have spent about £1 billion since the late 1980s on improving our sewage works. We are also continuing to improve our waste water collection system, removing some combined sewer overflows and upgrading others. Over the year we improved or abandoned another 25 combined sewer overflows.

A priority list of further storm overflows to be tackled by 2000 has been agreed with the EA. A programme to uprate a number of sewage works, which together serve 5.5 million people, is also well under way. Most of this work will be completed during 1998 or 1999, and will bring further benefits to river quality. In addition, as a result of efficiency savings, we have agreed some further investment with the EA as part of an 'environmental dividend'.

In Derby we are integrating improvements to waste water management by investing £36 million in the sewer system to eliminate the risk of flooding at 600 properties, along with £40 million to refurbish the local sewage works. This investment will improve river quality and remove fly and odour problems.

One of the consequences of high levels of sewage treatment is that we produce large quantities of sewage sludge. Severn Trent has been in the forefront of developing strict procedures for recycling fully treated sludge back to agriculture as a valuable soil conditioner. We believe this is the most environmentally sustainable route for dealing with sludge.



Major investment projects at sewage treatment works such as Minworth and Finham will enable us to continue to deal safely with the community's waste water whilst safeguarding the environment we operate in. Discharges from our treatment works are treated to very high quality standards and represent a vital contribution to river flow as well as environmental quality.



## Our network of pipes

The responsibility for the day to day operation of water distribution and sewerage has been brought together under a new business unit 'Networks'. We maintain over 40,000 kms of mains, and 50,000 kms of sewers.

There have been substantial developments of the underground systems this year. Firstly, the number of properties at risk from poor water pressure reduced significantly to just 5,415 properties, the company's best ever position. This compares with the 1995/96 peak of over 36,000.

We are also continuing to invest in the sewerage system to reduce the number of properties at risk from sewer flooding incidents. The percentage of the population where there is no risk of flooding from public sewers at a frequency of no more than twice in 10 years, remained the same at 99.95%. However, abnormally intense storms during the year resulted in an increase in the number of properties actually flooded. We are continuing to invest significantly in order to alleviate such problems; we recognise that this is the worst form of service our customers could experience.

The company continues to take an industry-leading position on leakage. Our own targets were seen as sufficiently stretching to be accepted without any adjustment by OFWAT. That target of 410 MI/d at 31 March 1998 was more than fully delivered at 399 MI/d. The company is now on course to deliver its target of 348 MI/d by 31 March 1999.

Our impressive position on leakage has been achieved through a careful and multifaceted programme, targeting even more investment in monitoring equipment and replacement pipes, together with increased expenditure on detection and repair.

However, as leakage levels continue to fall, detection becomes more difficult with the economics of repair activities becoming much less favourable. With the help of the Water Research Council, we have determined the economic level of leakage; our leakage targets are matched to that definition to ensure investment in this area is kept to the optimal level.

We continue to place an extremely high level of importance on water efficiency in the garden, emphasised through gardening advice leaflets and promotions such as the sale of water butts. Our low water use gardens continue to receive high numbers of visitors and win awards. The water conservation message is further promoted as part of the company's Come and See and Go and Tell schemes.

During the year we installed 54,000 meters for domestic customers who opted to transfer from an unmeasured supply. In addition, 21,000 meters were installed in new properties and 10,000 commercial customers changed to meters. Metered properties now represent 13% of all billed domestic properties.

### **Cheadle**

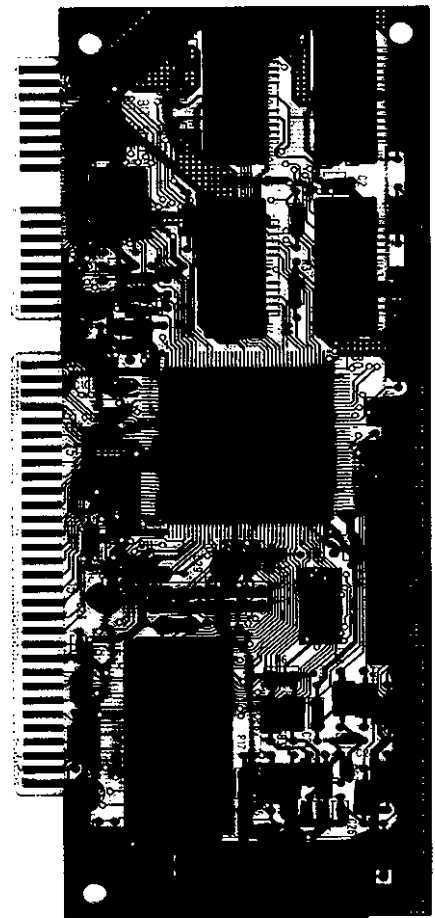
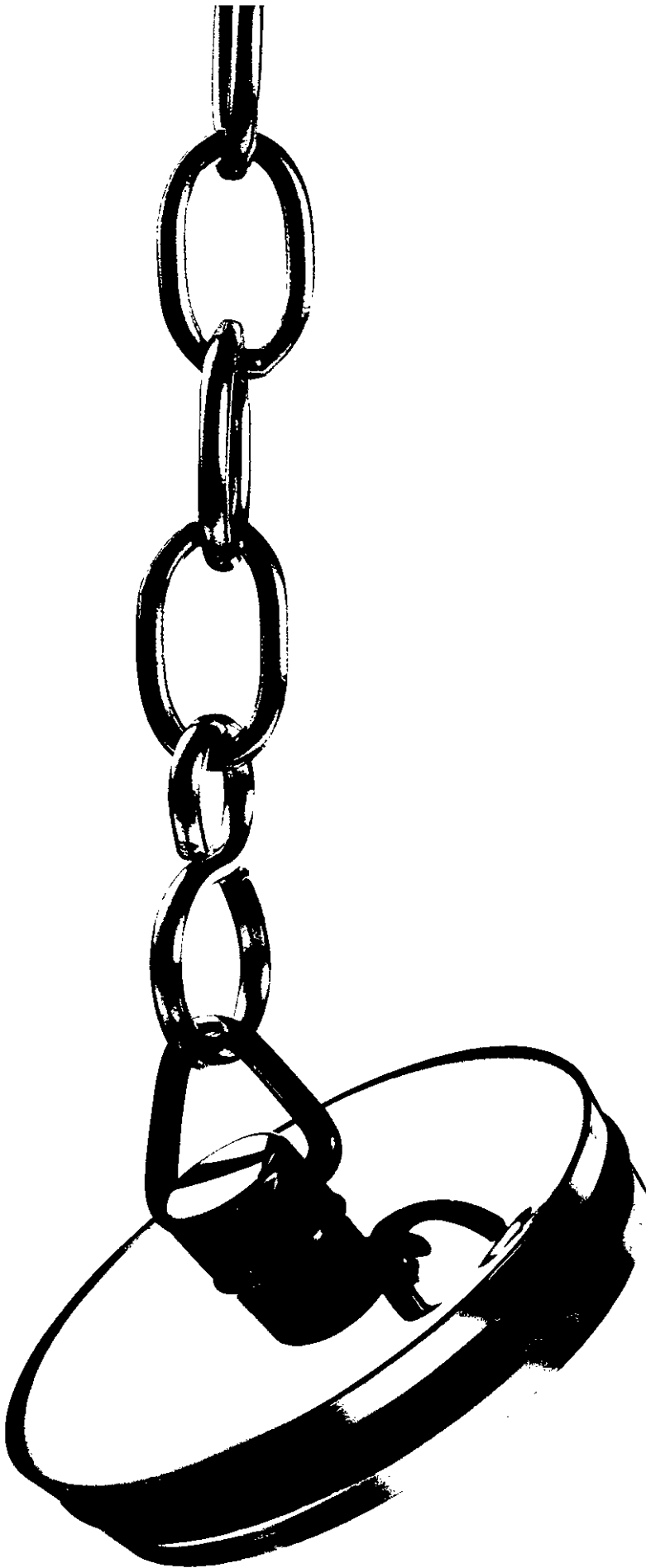
The company took over the ailing Cheadle Waterworks in April 1997, with the result that the 12,000 population of Cheadle are experiencing much better service levels and guaranteed water supplies. We have also adopted a unique approach to the improvement of the distribution networks in the town.

When we took over, we found that much of the network was in a very poor state, resulting in up to 50% of the water being lost through leakage and a hosepipe ban was in place. We removed the hosepipe ban within days of taking over and decided to replace the town's entire pipe system.

The £7 million scheme includes the rebuilding of Cheadle's two service reservoirs, modernising the local borehole and replacing the whole of the distribution system, including the supply pipes to around 4,000 properties. This summer, all premises will be fitted with a water meter so that water usage can be monitored. However, domestic customers will be able to decide whether to pay for metered water or remain on unmeasured charges.

As a result of our revolutionary approach, Cheadle will become the first town in Britain where leakage has been systematically reduced to a minimum level. The total water supplied to all customers, as well as flows at strategic points throughout the distribution system, will be measured. This investment will provide unique and valuable information on the cost, maintenance and dynamics of a modern distribution system.

Advanced monitoring and leakage detection equipment, combined with an extensive programme of pipe renewals and repair, has enabled the company to reduce leakage across its 40,000km water distribution system to its lowest level ever. The company has also made significant investment in its sewage system to reduce the number of properties at risk from flooding incidents.



## Customer service

From April 1997 all contacts with Severn Trent's customers were brought together into a new business unit – Customer Relations. This structural change, to focus solely on customers, has led to significant service improvements and emphasises our commitment to providing excellence in customer service.

We are responding to our customers' needs and expectations and improving our range of services accordingly. For instance, customers told us that providing a full customer service during normal office hours was no longer sufficient for their busy lifestyles. Therefore, we now provide a full customer service from 8.00am to 8.00pm Monday to Friday and from 8.00am to 1.00pm on Saturdays.

These changes have already resulted in improvements in the performance standards set by OFWAT. Last year, we dealt with 96% of our 2.6 million billing enquiries within five working days. 85% of written complaints were answered within five days, and over 98% within 10 days. Our average response time for the 3.5 million telephone calls we received improved to 10 seconds.

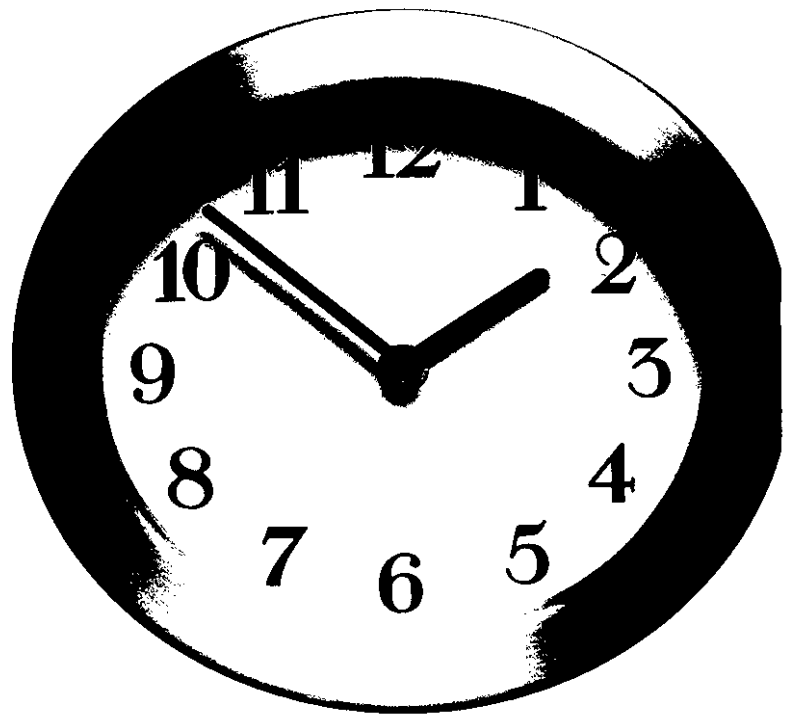
We have an extensive training programme to further improve the skills of our staff dealing with customers' enquiries. This has led to 95% of customer contacts by telephone being resolved at the point of contact.

The changes we have made to improve customer service enabled us to win the 'Accessible Business' category at the Utility Industry Achievement Awards. In addition, we are proud to retain the Charter Mark for customer service.

For many years the company has maintained a clear policy to differentiate between customers who can't pay their bills and those who won't pay bills. Those who are unable to pay their bills are not disconnected but given substantial help in payment arrangements and, where appropriate, support from an independent charitable trust, supported by Severn Trent.

However, for those customers who won't pay their bills, we believe that we should be able to disconnect their water supply. We do not agree with the Government's proposals to outlaw disconnections as we do not believe this is fair on other customers who will inevitably be faced with higher bills.

Listening to our customers' views and developing our services to meet their needs and expectations, emphasises our commitment to provide the highest level of service. Our fully trained customer relations staff are now available to deal with enquiries outside 'normal office hours'.



# Directors' report

The directors present their report, together with the audited financial statements for the year ended 31 March 1998.

## Principal activities

The principal activities of the company and its subsidiary undertakings are the supply of water and the treatment and disposal of sewage.

## Results

The company's turnover was £932.8 million (1997: £919.1 million), and operating profit was £409.4 million (1997: £386.2 million). Profit on ordinary activities before taxation was £361.6 million (1997: £351.5 million).

## Business review and future developments

A review of business activities and future developments is contained within the Managing Director's review on pages 2 to 11.

A review of activities is also contained within the annual report and accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU. There is no charge for this publication.

## Dividends and reserves

Dividends of £439.6 million (1997: £275.0 million) were declared during the year.

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including; regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements, and balance sheet considerations. The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared by the company in 1997/98 amounts to £130 million. In addition, the company has also declared an exceptional dividend of £309.6 million to fund the windfall levy introduced by the Government in July 1997. Half of this amount, however, was returned to the company by way of an interest free loan pending final payment of the levy in December 1998. The net result is to increase external borrowing with the resulting interest payments from the levy charged against the profits of the water business and not passed on as an extra charge to customers.

Proposed transfers to reserves are set out in note 15 to the financial statements on page 25.

## Directors

The directors of the company who served during the year and up to the date of this report are listed below:

V Cocker	Chairman
B Duckworth	Managing Director
J K Banyard	
I Elliott	Appointed 23 January 1998
J M Foster	Appointed 2 June 1997
R Ireland	Appointed 9 June 1997
T Kitson	Appointed 23 January 1998
M Lily	Resigned 31 October 1997
D W Mattin	Resigned 8 December 1997
G P Noone	
A Q Todd	
R M Walker	Appointed 9 June 1997
M R Wilson	

## Directors' interests

The interests of the directors at the year end in the share capital of Severn Trent Plc, according to the register maintained under the provisions of the Companies Act 1985, are set out in note 3 to the financial statements on page 20.

## Policy on the payment of creditors

The company either uses its own standard terms and conditions entitled 'General Conditions of Contract relating to the Supply of Goods/Services or the Execution of Work' (Copies are available from the Purchasing department, Severn Trent Water Limited, 2297 Coventry Road, Birmingham, B26 3PU) or nationally agreed terms and conditions of contract such as ICE 6th Edition for Civil Engineering Works and G90 Terms and Conditions for Mechanical and Electrical Works.

Each purchase order issued by the company has stated on it the terms of payment. Suppliers are able to negotiate their own payment terms which can differ to these, as part of the tender process. On average, trade creditors are paid between 30 and 35 days after the invoice date.

## Research and development

The company's expenditure on research and development activities in 1998 was £3.9 million, compared to £4.3 million in 1997.

During the year the company carried out a comprehensive review of its research and development strategy to ensure innovation is aligned to the company's business needs, with the strategic objectives of improving customer perception, meeting new regulatory standards, ensuring dependability and optimising our processes.

Our investigations for the development of the River Trent as a raw water resource have continued. As part of this initiative we have completed construction of a pilot scale treatment plant with conventional and membrane streams at Church Wilne water treatment works.

Work on the development of the rapid micro biological techniques for the identification of bacteria is nearing fruition, as is new technology for the on-site generation of chlorine gas from acid. This latter technology will reduce the requirement for bulk storage of chlorine gas on our major water treatment works.

#### **Employees**

The company employed 5,320 people on 31 March 1998 (1997: 5,653).

The company continues to operate a profit-related pay scheme as part of the group 'STEPS' enhanced pay scheme, in which almost all employees participate. During the year employees also benefited from the group's Sharesave and profit-sharing share allocation schemes. Over 90% of the company's eligible employees participate in one or both schemes.

An active programme of internal communication keeps employees informed through established communication channels supported by an award-winning in-house magazine, 'Newstream'. Communicating change is a high priority and has been achieved through an extensive programme, led by directors, of face-to-face briefings and discussions with all employees.

The company places great importance on good industrial relations for the mutual benefit of the company and its employees. The company has in place a single table bargaining arrangement which has facilitated continuing agreements on pay and conditions. The Severn Trent Water Joint Negotiating Committee (JNC) negotiates the main terms and conditions of employment and has a role in discussing business developments and relevant information. It also acts as a parent body and point of reference and advice for a number of joint subcommittees which develop and monitor aspects of the reward mechanism.

Joint consultation arrangements also exist at local level and these were revised from July 1997 to make them more appropriate to the company's new organisation structure. The new two-tier arrangements involve Joint Consultative Committees at both County and Regional level. From July 1998 they include opportunities for employees who are not trade union members to stand for membership.

The reward packages for both craft-industrial and staff employees are linked to the company's performance. At least part of their remuneration is based on the quality of the product, level of customer service or the overall company performance.

#### **Equal opportunities and disabled persons**

The company is continually reviewing its equal opportunities policies to ensure that none of its employees or prospective employees are disadvantaged because of colour, ethnic or national origin, gender, religion, marital status or disability.

A procedure for dealing with allegations of potential harassment has now been implemented and volunteer counsellors are now in place, along with guidelines for employees and management.

Following the development of an action plan as a result of the Disability Discrimination Act, both managers and all front-line staff have been briefed in order to promote awareness across the company and ensure best practice. Our internal procedures have been reviewed and updated in order to ensure that we meet the requirements of the Act, e.g. recruitment and selection.

The company is continually reviewing the facilities we offer to our disabled and older customers and as part of this commitment we ensure that our front-line staff are trained and certified to national customer service standards.

Along with a number of other major companies, we are a member of the Employers Forum on Disability. The Forum promotes an awareness of disability issues within member companies. This year we were very pleased to endorse the Employers Forum 'Agenda on Customers'. By doing so we have given our commitment to ensure that the services which we provide are accessible to our customers who have individual needs.

#### **Regulation: 'Ring fencing'**

In accordance with the requirements of the Director General of Water Services, the board confirmed that as at 31 March 1998 it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made.

#### **Regulation: 'Cross directorships'**

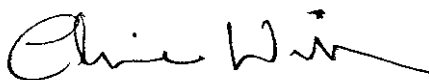
It is the policy of the company that directors and employees of the company may be directors of related companies when this is in the best interests of the company, and where appropriate arrangements are in place to avoid conflicts of interest.

#### **Auditors**

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

The directors are aware that Price Waterhouse are proposing to merge their firm with Coopers & Lybrand and it is their present intention to appoint the merged firm in the future.

By order of the board  
**C L Wilkinson** Company Secretary  
8 June 1998



# Statement of directors' responsibilities

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

The directors consider that in preparing the financial statements on pages 15 to 26, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Accounting Standards which they consider to be applicable have been followed.

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

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

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

## Auditors' report to the shareholders of Severn Trent Water Limited

We have audited the financial statements on pages 15 to 26 which have been prepared under the historical cost convention and the accounting policies set out on pages 18 and 19.

### Respective responsibilities of directors and auditors

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

### Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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 as at 31 March 1998 and of the profit and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

The logo for Price Waterhouse, featuring a circular emblem with a globe-like design to the left of the company name written in a stylized, cursive font.

Chartered Accountants and Registered Auditors

Cornwall Court

19 Cornwall Street

Birmingham

B3 2DT

8 June 1998



## Profit and loss account year ended 31 March 1998

	Notes	1998 £m	1997 £m
Turnover		932.8	919.1
Operating costs (before exceptional costs)	2a	(523.4)	(512.9)
Exceptional costs	2b	-	(20.0)
Total operating costs	2b	(523.4)	(532.9)
Operating profit		409.4	386.2
Income from shares in subsidiary undertaking		0.1	0.4
Profit before interest		409.5	386.6
Net interest payable	4	(47.9)	(35.1)
Profit on ordinary activities before taxation		361.6	351.5
Taxation on profit on ordinary activities	5	(115.3)	(34.8)
Profit for the financial year		246.3	316.7
Dividend	6	(130.0)	(275.0)
Exceptional dividend	6	(309.6)	-
Retained (loss)/profit for the financial year	15	(193.3)	41.7

All activities are continuing operations.

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit for the year.


## Reconciliation of movements in shareholders' funds


	1998 £m	1997 £m
Profit for the financial year	246.3	316.7
Dividends	(439.6)	(275.0)
Net (reduction in) addition to shareholders' funds	(193.3)	41.7
Shareholders' funds at 1 April 1997	2,252.8	2,211.1
Shareholders' funds at 31 March 1998	2,059.5	2,252.8

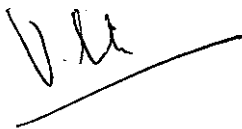
# Balance sheet as at 31 March 1998

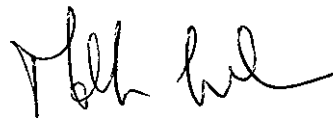
	Notes	1998 £m	1997 £m
<b>Fixed assets</b>			
Tangible assets	7	3,714.0	3,412.0
Investments	8	1.3	5.1
		<b>3,715.3</b>	<b>3,417.1</b>
<b>Current assets</b>			
Stocks		5.3	6.3
Debtors	9	134.3	139.2
Cash at bank and in hand		0.1	71.7
		<b>139.7</b>	<b>217.2</b>
<b>Creditors: amounts falling due within one year</b>	10	<b>(785.8)</b>	<b>(445.8)</b>
<b>Net current liabilities</b>		<b>(646.1)</b>	<b>(228.6)</b>
<b>Total assets less current liabilities</b>		<b>3,069.2</b>	<b>3,188.5</b>
<b>Creditors: amounts falling due after more than one year</b>	11	<b>(926.7)</b>	<b>(826.4)</b>
<b>Provisions for liabilities and charges</b>	13a	<b>(23.2)</b>	<b>(47.5)</b>
<b>Provision for deferred income</b>	13b	<b>(59.8)</b>	<b>(61.8)</b>
<b>Net assets</b>		<b>2,059.5</b>	<b>2,252.8</b>
<b>Capital and reserves</b>			
Called up share capital	14	1,000.0	1,000.0
Profit and loss account	15	1,059.5	1,252.8
<b>Equity shareholders' funds</b>		<b>2,059.5</b>	<b>2,252.8</b>

Signed on behalf of the board who approved the accounts on 8 June 1998.

  
 \_\_\_\_\_  
 V Cocker Chairman

  
 M R Wilson Finance, Regulation and Planning Director

  
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## Cash flow statement year ended 31 March 1998

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
<b>Net cash inflow from operating activities</b>	18a		<b>522.2</b>		<b>463.4</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		3.2		11.2	
Interest paid		(39.3)		(40.0)	
Interest element of finance lease rental payments		(0.1)	(36.2)	(0.7)	(29.5)
<b>Taxation</b>			<b>(35.5)</b>		<b>(20.9)</b>
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(416.9)		(355.5)	
Grants received		19.4		18.2	
Sale of tangible fixed assets		6.7		5.5	
Loans repaid by associated undertakings		0.2		6.9	
Investment in other fixed asset investments		(0.1)	(390.7)	(0.1)	(325.0)
<b>Equity dividends paid</b>			<b>(564.6)</b>		<b>(150.0)</b>
<b>Net cash outflow before financing</b>			<b>(504.8)</b>		<b>(62.0)</b>
<b>Financing</b>					
Loans advanced		279.7		199.9	
Loans repaid		(27.8)		(220.8)	
New finance lease arrangements		84.6		-	
Finance lease capital repaid		(7.9)	328.6	(12.1)	(33.0)
<b>Net decrease in cash</b>	18b		<b>(176.2)</b>		<b>(95.0)</b>

## Reconciliation of net cash flow to movement in net debt

	1998 £m	1998 £m	1997 £m	1997 £m
Net decrease in cash as above	(176.2)		(95.0)	
(Increase)/decrease in net debt and financing	(244.0)		33.0	
Change in net debt resulting from cash flows		(420.2)		(62.0)
Inception of finance lease contracts		(94.4)		(9.1)
<b>Increase in net debt</b>		<b>(514.6)</b>		<b>(71.1)</b>
<b>Net debt at 1 April 1997</b>		<b>(776.8)</b>		<b>(705.7)</b>
<b>Net debt at 31 March 1998</b>	18b	<b>(1,291.4)</b>		<b>(776.8)</b>

# Notes to the financial statements year ended 31 March 1998

## 1 Accounting policies

### a) Accounting convention

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

### b) Basis of preparation

Consolidated financial statements have not been prepared in accordance with Section 228 of the Act as the company is a wholly owned subsidiary undertaking. The financial information presented is for the company as an individual undertaking and does not include its subsidiary and associated undertakings' results.

### c) Turnover

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

### 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 is treated as additions and capitalised at cost after deducting grants and contributions.

Expenditure on maintaining the serviceability of the network in accordance with defined standards of service is charged as an operating cost (note 1f).

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

#### ii) Other assets

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

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

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

### 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) Infrastructure renewals accounting

The charge to the profit and loss account for infrastructure renewals expenditure takes account of planned expenditure on maintaining the serviceability of infrastructure assets in accordance with the operational policies and standards underlying the company's investment programme, and is indexed to reflect the impact of price changes since the programme was prepared. Expenditure during the year is charged to the infrastructure renewals provision.

### g) Grants and contributions

Grants and contributions received in respect of non-infrastructure assets are treated as deferred income and are transferred to the profit and loss account in accordance with the lives 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 no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to the profit and loss account. The effect of this departure is that the net book value of fixed assets is £149.1 million lower than it would otherwise have been (1997: £134.4 million).

## 1 Accounting policies continued

### h) Investments

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

### i) Stocks

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

### j) Pension costs

Pension costs are determined by an independent actuary so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives with the company.

### k) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Foreign currency balances which are covered by forward exchange contracts are translated into sterling at the contract rate. Other foreign currency balances are translated at the rate ruling at the balance sheet date. All profits and losses on exchange realised during the year are dealt with through the profit and loss account.

### l) Research and development

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

### m) 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.

## 2 Analysis of turnover and operating costs

### a) Turnover

Turnover is net of customer rebates and utilisation of the tariff rebalancing provision as follows:

	1998 £m	1998 £m	1997 £m	1997 £m
Gross turnover		950.6		927.8
Customer rebates	(17.8)		(20.0)	
Tariff rebalancing provision	-		11.3	
		(17.8)		(8.7)
		932.8		919.1

	1998			1997
	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
<b>b) Operating costs</b>				
Wages and salaries	108.4	111.7	13.0	124.7
Social security costs	9.2	9.5	-	9.5
Pension costs (note 17)	11.4	11.3	6.0	17.3
Total employee costs	129.0	132.5	19.0	151.5
Power	28.7	33.3	-	33.3
Raw materials and consumables	30.2	29.4	-	29.4
Rates	37.8	38.7	-	38.7
Service charges	20.3	18.6	-	18.6
Agencies	18.3	17.9	-	17.9
Other operating costs	68.2	71.2	1.0	72.2
Infrastructure renewals charge (note 13a)	63.6	61.0	-	61.0
Depreciation charge (note 7)	114.4	104.3	-	104.3
Deferred income released (note 13b)	(3.3)	(3.9)	-	(3.9)
Hired and contracted services	55.4	46.9	-	46.9
Hire of plant and machinery	2.0	2.0	-	2.0
Other operating leases	0.6	0.7	-	0.7
Audit fees	0.2	0.2	-	0.2
Research and development expenditure	3.9	4.3	-	4.3
Profit on disposal of tangible fixed assets	(1.6)	(2.7)	-	(2.7)
	567.7	554.4	20.0	574.4
Own work capitalised	(44.3)	(41.5)	-	(41.5)
	523.4	512.9	20.0	532.9

Other fees paid to the auditors, Price Waterhouse, included within other operating costs amounted to £3,000 (1997: £26,000).

# Notes to the financial statements

## 3 Information regarding directors and employees

### Directors:

a) The interests of the directors at the year end in the Ordinary Share capital of Severn Trent Plc, according to the register maintained under the provisions of the Companies Act 1985, were as follows:

	Beneficial holdings in Ordinary Shares			Share options under approved schemes				
	1 April 1997	31 March 1998		1 April 1997	Exercised during the year	Lapsed during the year	Granted during the year	31 March 1998
	Ordinary Shares of £1 each	Ordinary Shares of 65p each	B shares of 38p each					
I Elliott	see note ii)*	743	62	7,406*	–	–	–	7,406
J M Foster	9,090*	6,893	118	7,489*	–	–	976	8,465
T Kitson	see note ii)*	3,290	118	8,734*	–	–	–	8,734
G P Noone	19,159	21,872	21,357	5,411	2,918	–	863	3,356
A Q Todd	3,695	3,793	118	3,924	–	–	–	3,924
M R Wilson	62	106	62	1,477	–	–	431	1,908

\*At date of appointment

i) After the close of business on 8 August 1997 Severn Trent Plc effected a Capital Reorganisation by way of sub-division and consolidation. Each ordinary share of £1.00 each was divided into one ordinary share of 62 pence and one B share of 38 pence. Following this sub-division, every 20 ordinary shares of 62 pence each were consolidated into 19 ordinary shares of 65p pence each.

ii) Messrs Elliott and Kitson were appointed as directors of the company with effect from 23 January 1998. At that time their beneficial holdings were in ordinary shares of 65p pence and B shares of 38 pence each in the company as follows:

	Ordinary Shares of 65p each	B shares of 38p each
I Elliott	743	62
T Kitson	3,290	118

iii) Messrs Banyard, Cocker, Duckworth, Ireland and Walker are directors of Severn Trent Plc, the ultimate parent undertaking and their interest in the share capital of that company are disclosed in the annual report of that company for the year ended 31 March 1998. Share options were granted and exercised in accordance with the Severn Trent (Executive) Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.

iv) All of the directors have further interests in Severn Trent Plc ordinary shares of 65p pence each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan'). The Plan operates on a three year rolling basis. An Employee Benefit Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and have satisfied performance criteria. The initial performance target will be based on the company's total shareholder return compared to the total shareholder return of 14 other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	31 March 1998	1 April 1997
I Elliott	3,527	Nil
J M Foster	4,068	Nil
T Kitson	3,635	Nil
G P Noone	4,212	Nil
A Q Todd	4,544	Nil
M R Wilson	4,659	Nil

b) Emoluments	1998 £'000	1997 £'000
Aggregate emoluments (excluding pension contributions)	959.3	856.4

i) Non-cash benefits included in aggregate emoluments consist mainly of the provision of cars and health care insurance.

ii) No emoluments were paid to certain of the directors in respect of their services to the company. Their emoluments are paid by other companies within the Severn Trent group. In aggregate, £200,687 (1997: £166,700) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.

iii) Two directors exercised share options in the year.

**3 Information regarding directors and employees** continued

iv) Retirement benefits are accruing to nine directors under a defined benefit scheme.

<b>Highest paid director</b>	1998 £'000	1997 £'000
Aggregate emoluments (excluding pension contributions)	175.3	166.7

The accrued pension at 31 March 1998 for the highest paid director was £75,397 (1997: £68,747).

The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

<b>Employee numbers</b>	1998 No.	1997 No.
Average number of employees during the year (full time equivalent)		
Staff	3,008	3,285
Industrial staff	2,351	2,458
	5,359	5,743

<b>4 Net interest payable</b>	1998 £m	1997 £m
Interest receivable and similar income	2.8	10.9
Interest payable and similar charges:		
Bank loans and overdrafts	(39.0)	(27.5)
Interest due to parent undertaking	(0.1)	(7.2)
Finance leases	(10.0)	(9.4)
Other loans	(1.6)	(1.9)
	(47.9)	(35.1)

<b>5 Taxation on profit on ordinary activities</b>	1998 £m	1997 £m
UK corporation tax @ 31% (1997: 33%)		
Current year	115.3	47.0
Prior year	-	(10.9)
Group relief payable		
Current year	-	1.1
Prior year	-	(2.4)
	115.3	34.8

<b>6 Dividends</b>	1998 £m	1997 £m
Dividend paid	130.0	150.0
Dividend payable	-	125.0
Exceptional dividend	309.6	-
	439.6	275.0

As stated in last year's annual report, the company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared by the company in 1998 amounted to £130 million. In addition, the company has also declared an exceptional dividend of £309.6 million to fund the windfall levy introduced by the Government in July 1997. Half this amount, however, has been returned to the company by way of an interest free loan pending final payment of the levy in December 1998. The net result is to increase external borrowing, with the resulting interest payments from the levy charged against the profits of the company and not passed on as an extra charge to customers.

Customers are also benefiting from a programme of rebates amounting in aggregate to £30 per customer over the period 1995 to 1999 (£87 million in total).

# Notes to the financial statements

	Land and buildings £m	Infra-structure assets £m	Plant and equipment £m	Total £m
<b>7 Tangible fixed assets</b>				
<b>Cost</b>				
At 1 April 1997	1,333.7	1,537.3	1,331.2	4,202.2
Additions	102.9	100.5	233.4	436.8
Grants and contributions	-	(14.7)	-	(14.7)
Assets sold or written off	(2.3)	-	(50.2)	(52.5)
Reclassification and transfers	(56.9)	25.6	(1.2)	(32.5)
<b>At 31 March 1998</b>	<b>1,377.4</b>	<b>1,648.7</b>	<b>1,513.2</b>	<b>4,539.3</b>
<b>Depreciation</b>				
At 1 April 1997	372.5	-	417.7	790.2
Charge for year	25.4	-	89.0	114.4
Assets sold or written off	(2.0)	-	(44.8)	(46.8)
Reclassification and transfers	(32.3)	-	(0.2)	(32.5)
<b>At 31 March 1998</b>	<b>363.6</b>	<b>-</b>	<b>461.7</b>	<b>825.3</b>
<b>Net book value</b>				
<b>At 31 March 1998</b>	<b>1,013.8</b>	<b>1,648.7</b>	<b>1,051.5</b>	<b>3,714.0</b>
At 1 April 1997	961.2	1,537.3	913.5	3,412.0
			1998 £m	1997 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:				
Cost			278.9	174.1
Accumulated depreciation			(36.7)	(44.3)
Net book value			242.2	129.8
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 1g.				
			1998 £m	1997 £m
iii) The net book value of land and buildings is analysed as follows:				
Freehold			1,013.6	961.0
Short leasehold			0.2	0.2
			1,013.8	961.2
			1998 £m	1997 £m
iv) Depreciation incurred during the year has been charged as follows:				
Owned assets			106.9	94.7
Assets held under finance leases			7.5	9.6
			114.4	104.3
			1998 £m	1997 £m
v) Included in the above are the following tangible fixed assets not subject to depreciation:				
Land			19.9	18.1
Infrastructure assets			1,648.7	1,537.3
Assets in the course of construction			353.4	253.8
			2,022.0	1,809.2

vi) During the course of the year a review was undertaken of asset classifications. This review identified the requirement to reclassify a number of assets to infrastructure. The effect of this review is disclosed within the reclassification and transfers category.



	Subsidiary undertaking Shares £m	Associated undertakings Loans £m	Other investments £m	Total £m
<b>8 Investments</b>				
At 1 April 1997	4.6	0.2	0.3	5.1
Additions	–	–	0.1	0.1
Amounts repaid	(3.5)	(0.2)	–	(3.7)
Amounts written off	–	–	(0.2)	(0.2)
<b>At 31 March 1998</b>	<b>1.1</b>	<b>–</b>	<b>0.2</b>	<b>1.3</b>

During the course of the year East Worcester Water Plc redeemed at par the 10.75% preference shares.

Subsidiary undertaking	Country of registration and operation	Percentage and class of share capital held	Nature of business
East Worcester Water Plc	England	100% ordinary 100% non voting ordinary	Water undertaking
<b>Associated undertakings</b>			
Grafham Carbons Limited (cost of investment £20,000)	England	50% ordinary	Carbon regeneration
Biogas Generation Limited (cost of investment £19,999)	England	50% ordinary	Power generation

In the opinion of the directors the value of the company's investments is not less than the amount at which they are stated in the balance sheet.

	1998 £m	1997 £m
<b>9 Debtors</b>		
Trade debtors	70.7	70.0
Amounts owed by parent and fellow subsidiary undertakings	0.9	5.3
Amounts owed by subsidiary undertakings	5.1	1.5
Other debtors	0.4	6.9
Prepaid pension contributions	0.3	0.3
Prepayments and accrued income	56.9	55.2
	<b>134.3</b>	<b>139.2</b>

Debtors include £0.7 million (1997: £0.8 million) which falls due after more than one year.

	1998 £m	1997 £m
<b>10 Creditors: amounts falling due within one year</b>		
Bank overdrafts	104.6	–
Bank loans	113.4	27.8
Interest free loan from parent undertaking	154.8	–
Obligations under finance leases	–	1.3
Borrowings (note 12)	372.8	29.1
Trade creditors	30.6	21.3
Amounts owed to parent and fellow subsidiary undertakings	103.8	46.1
Amounts owed to subsidiary undertakings	5.2	5.5
Other creditors	4.4	2.2
Taxation and social security	7.0	3.2
Corporation tax payable	50.1	22.2
Proposed dividend payable to parent undertaking	–	125.0
Accruals and deferred income	211.9	191.2
	<b>785.8</b>	<b>445.8</b>

# Notes to the financial statements

11 Creditors: amounts falling due after more than one year	1998 £m	1997 £m
Bank loans	452.2	440.4
Interest free loan from parent undertaking	193.0	193.0
Other loans	14.6	14.9
Obligations under finance leases	258.9	171.1
Borrowings (note 12)	918.7	819.4
Other	8.0	7.0
	<b>926.7</b>	<b>826.4</b>

12 Borrowings	Loans				1998 Total £m	1997 Total £m
	Overdrafts £m	Repayable by instalments any of which are payable after five years £m	Other repayment terms £m	Finance leases £m		
Within one year (note 10)	104.6	0.3	267.9	–	372.8	29.1
Between one and two years	–	0.3	31.1	–	31.4	136.5
Between two and five years	–	0.7	336.4	–	337.1	345.2
After more than five years	–	13.5	277.8	258.9	550.2	337.7
	104.6	14.8	913.2	258.9	1,291.5	848.5

	Rate of interest %	1998 £m	1997 £m
Loans repayable partly or wholly after five years comprise			
European Investment Bank loans – 2003 – 2008	6.49 – 7.89	277.7	152.7
Local authority loans – 2010 – 2035	6.00 – 14.39	14.8	15.3
Other loans	3.50 – 5.00	0.1	0.1
		<b>292.6</b>	<b>168.1</b>

13 Provisions	Balance at 1 April 1997 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 1998 £m
a) Provisions for liabilities and charges comprise				
Infrastructure renewals	18.2	63.6	(74.4)	7.4
Restructuring	29.3	–	(13.5)	15.8
	47.5	63.6	(87.9)	23.2

The utilisation of the infrastructure renewals provision is shown net of grants and contributions of £4.8 million (1997: £4.3 million).

b) Deferred income	Balance at 1 April 1997 £m	Released to profit and loss account £m	Received £m	Balance at 31 March 1998 £m
	61.8	(3.3)	1.3	59.8

#### c) Potential deferred taxation liabilities not provided

In accordance with the accounting policy there is no requirement for a provision for deferred taxation at 31 March 1998.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 31% (1997: 33%) is:

	1998 £m	1997 £m
Accelerated capital allowances	270.4	278.3
Other timing differences	(9.1)	(18.0)
	<b>261.3</b>	<b>260.3</b>

Had provision for deferred taxation been made on the full liability method there would have been a reduction in the tax charge of £39.8 million (1997: increase of £65.0 million).

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of a disposal of such assets at amounts in excess of their tax written down value. In the opinion of the directors, the likelihood of a liability crystallising in the foreseeable future is remote. Accelerated capital allowances on infrastructure assets of £364.5 million (1997: £405.3 million) have therefore been excluded from the amounts set out above, assuming a tax rate of 31% (1997: 33%).

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

<b>14 Share capital</b>	1998 £m	1997 £m
<b>Authorised</b>		
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0
<b>Issued and fully paid</b>		
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0

The ultimate parent undertaking is Severn Trent Plc which is registered in England. Copies of the annual report and accounts of Severn Trent Plc, which are the only accounts within which the results of the company are consolidated, are available from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

As a wholly owned subsidiary, the company has taken advantage of the exemption not to disclose related party transactions with other group undertakings in accordance with Financial Reporting Standard number 8.

<b>15 Profit and loss account</b>	£m
At 1 April 1997	1,252.8
Retained loss for the year	(193.3)
<b>At 31 March 1998</b>	<b>1,059.5</b>

<b>16 Commitments and contingent liabilities</b>	1998 £m	1997 £m
<b>a) Investment expenditure commitments</b>		
Contracted for but not provided in the financial statements	233.3	224.5

In addition to these commitments, the company 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 company is committed to making the following payments during the next year in respect of operating leases which expire as follows:

	1998		1997	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.1	0.1	-	0.1
Between one and five years	-	0.2	0.1	0.2
After five years	0.3	-	0.3	-
	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.3</b>

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

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

# Notes to the financial statements

## 17 Pensions

The company participates in two schemes, the Severn Trent Mirror Image Scheme (STMIS) and the Severn Trent Water Pension Scheme (STWPS), both of which are defined benefit schemes and are fully funded to cover future salary and pension increases. The assets of the schemes are held in a separate fund administered by trustees. Employer's contributions during the year were £11.4 million (1997: £11.3 million before the exceptional restructuring provision).

### STWPS

An actuarial valuation of STWPS was carried out at 31 March 1995 by an independent professionally qualified actuary using the projected unit method. The principal assumptions used were as follows:

	% per annum
Investment returns	9
Salary increases	7
Pension increases	5.5
Inflation	5.5
Dividend growth	4.5

The actuarial value of the scheme's assets was £392.9 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 period of employees' average service lives with the company on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £398.0 million.

The employers' contribution to STWPS continues unchanged at the rate of 11.88%, 9.9% or 5.94% of pensionable pay of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay.

### STMIS

The most recent actuarial valuation of STMIS was carried out at 31 March 1994 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 assumption used were the same as noted for STWPS above. The actuarial value of the scheme's assets was £51.7 million, which exceeded by 11% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The surplus is being spread over the estimated period of employees' average service lives with the company on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £58.3 million.

The employers' contribution to STMIS continues unchanged at the rate of 9.54% or 7.95% of pensionable pay of STMIS members whose contributions are at the rate of 6% or 5% respectively.

## 18 Cash flow statement

	1998 £m	1997 £m
<b>a) Reconciliation of profit before interest to net cash inflow from operating activities</b>		
Profit before interest	409.5	386.6
Income from shares in subsidiary undertaking	(0.1)	(0.4)
Depreciation charge (note 7iv)	114.4	104.3
Profit on sale of tangible fixed assets	(1.6)	(2.7)
Infrastructure renewals charge (note 13a)	63.6	61.0
Utilisation of infrastructure renewals provision (note 13a)	(79.2)	(76.8)
Deferred income received (note 13b)	1.3	1.8
Deferred income written back (note 13b)	(3.3)	(3.9)
Restructuring provision	-	20.0
Utilisation of restructuring provision	(12.9)	(10.0)
Diminution in value of investments	0.2	-
Decrease in stocks	1.0	0.3
Decrease/(increase) in debtors	6.0	(14.4)
Increase/(decrease) in creditors	23.3	(2.4)
<b>Net cash inflow from operating activities</b>	<b>522.2</b>	<b>463.4</b>

The utilisation of the restructuring provision relates to an exceptional restructuring provision charged to the profit and loss account in a previous year.

	Balance at 1 April 1997 £m	Cash flow £m	Other non-cash changes £m	Balance at 31 March 1998 £m
<b>b) Analysis of changes in net debt</b>				
Cash at bank and in hand	71.7	(71.6)	-	0.1
Overdrafts	-	(104.6)	-	(104.6)
Debt due within one year (note 12)	(27.8)	(126.9)	(113.5)	(268.2)
Debt due after one year (note 12)	(648.3)	(125.0)	113.5	(659.8)
Finance leases (note 12)	(172.4)	7.9	(94.4)	(258.9)
	(776.8)	(420.2)	(94.4)	(1,291.4)

## Group profit and loss account year ended 31 March 1998

	1998 £m	1997 £m
<b>Turnover</b>	<b>932.8</b>	919.1
<b>Operating costs before exceptional costs</b>	<b>(525.0)</b>	(515.6)
Exceptional costs	-	(20.0)
<b>Total operating costs</b>	<b>(525.0)</b>	(535.6)
<b>Other operating income</b>	<b>1.6</b>	2.7
<b>Operating profit</b>	<b>409.4</b>	386.2
Net interest payable	(47.9)	(35.1)
<b>Profit on ordinary activities before taxation</b>	<b>361.5</b>	351.1
Taxation on profit on ordinary activities	(115.3)	(34.8)
<b>Profit for the financial year</b>	<b>246.2</b>	316.3
Dividend	(130.0)	(275.0)
Exceptional dividend	(309.6)	-
<b>Retained (loss)/profit for the financial year</b>	<b>(193.4)</b>	41.3

The group results presented are for Severn Trent Water Limited and its subsidiary and associated undertakings.

# Group balance sheet as at 31 March 1998

	1998 £m	1997 £m
<b>Fixed assets</b>		
Tangible assets	3,714.0	3,412.0
Investments	0.4	0.7
	<b>3,714.4</b>	<b>3,412.7</b>
<b>Current assets</b>		
Stocks	5.3	6.3
Debtors	129.2	137.7
Cash at bank and in hand	0.1	72.0
	<b>134.6</b>	<b>216.0</b>
<b>Creditors: amounts falling due within one year</b>		
Borrowings	(372.6)	(29.1)
Dividends payable	-	(125.0)
Other creditors	(407.6)	(286.4)
	<b>(780.2)</b>	<b>(440.5)</b>
<b>Net current liabilities</b>	<b>(645.6)</b>	<b>(224.5)</b>
<b>Total assets less current liabilities</b>	<b>3,068.8</b>	<b>3,188.2</b>
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	(918.8)	(819.5)
Other creditors	(8.0)	(7.0)
	<b>(926.8)</b>	<b>(826.5)</b>
<b>Provisions for liabilities and charges</b>	<b>(23.2)</b>	<b>(47.5)</b>
<b>Provision for deferred income</b>	<b>(59.8)</b>	<b>(61.8)</b>
<b>Net assets</b>	<b>2,059.0</b>	<b>2,252.4</b>
<b>Capital and reserves</b>		
Called up share capital	1,000.0	1,000.0
Profit and loss account	1,059.0	1,252.4
<b>Shareholders' funds</b>	<b>2,059.0</b>	<b>2,252.4</b>

## Group profit and loss account year ended 31 March 1998

	Notes	1998 £m	1997 £m
<b>Turnover</b>	2a	<b>932.8</b>	919.1
<b>Current cost operating costs before exceptional costs</b>	2d	<b>(576.8)</b>	(560.5)
Exceptional costs	2d	–	(20.0)
<b>Total current cost operating costs</b>		<b>(576.8)</b>	(580.5)
<b>Other operating income</b>	2b	<b>0.8</b>	2.5
		<b>356.8</b>	341.1
<b>Working capital adjustment</b>	2c	<b>3.5</b>	3.9
<b>Current cost operating profit</b>		<b>360.3</b>	345.0
Net interest payable		<b>(47.9)</b>	(35.1)
Financing adjustment		<b>30.5</b>	20.1
<b>Current cost profit before taxation</b>		<b>342.9</b>	330.0
Taxation on profit on ordinary activities		<b>(115.3)</b>	(34.8)
<b>Current cost profit attributable to shareholders</b>		<b>227.6</b>	295.2
Dividend		<b>(130.0)</b>	(275.0)
Exceptional dividend		<b>(309.6)</b>	–
<b>Current cost (loss)/profit retained</b>		<b>(212.0)</b>	20.2

## Group balance sheet as at 31 March 1998

	Notes	1998 £m	1997 £m
<b>Fixed assets</b>			
Tangible assets	3	26,096.9	24,928.9
Third party contributions since 1989/90		(603.4)	(531.2)
Working capital	4	(138.3)	(100.8)
<b>Net operating assets</b>		<b>25,355.2</b>	<b>24,296.9</b>
Cash and investments		0.4	72.7
Non-trade debtors		8.7	11.3
Non-trade creditors due within one year		(523.6)	(100.9)
Creditors due after one year		(926.8)	(826.5)
Provisions for liabilities and charges		(15.8)	(29.3)
Dividends payable		-	(125.0)
<b>Net assets employed</b>		<b>23,898.1</b>	<b>23,299.2</b>
<b>Capital and reserves</b>			
Called up share capital		1,000.0	1,000.0
Profit and loss account		297.8	509.8
Current cost reserve	5	22,600.3	21,789.4
		<b>23,898.1</b>	<b>23,299.2</b>



## Group cash flow statement year ended 31 March 1998

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
<b>Net cash inflow from operating activities</b>	6		<b>601.3</b>		<b>540.2</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		3.2		11.2	
Interest paid		(39.3)		(40.0)	
Interest element of finance lease rental payments		(0.1)	(36.2)	(0.7)	(29.5)
<b>Taxation</b>			<b>(35.5)</b>		<b>(20.9)</b>
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(416.9)		(355.5)	
Grants received		19.4		18.2	
Infrastructure renewals expenditure		(79.2)		(76.8)	
Disposal of fixed assets		6.7		5.5	
Loans repaid by associated undertakings		0.2		6.9	
Investment in other fixed asset investments		(0.1)	(469.9)	(0.1)	(401.8)
<b>Equity dividends paid</b>			<b>(564.6)</b>		<b>(150.0)</b>
<b>Net cash outflow before financing</b>			<b>(504.9)</b>		<b>(62.0)</b>
<b>Financing</b>					
Loans advanced		279.7		199.9	
Loans repaid		(27.8)		(220.8)	
New finance lease arrangements		84.6		-	
Finance lease capital repaid		(7.9)	328.6	(12.1)	(33.0)
<b>Net decrease in cash</b>			<b>(176.3)</b>		<b>(95.0)</b>

## Reconciliation of net cash flow to movement in net debt

	1998 £m	1998 £m	1997 £m	1997 £m
Net decrease in cash as above	(176.3)		(95.0)	
(Increase)/decrease in net debt and financing	(244.0)		33.0	
Change in net debt resulting from cash flows		(420.3)		(62.0)
Inception of finance lease contracts		(94.4)		(9.1)
<b>Increase in net debt</b>		<b>(514.7)</b>		<b>(71.1)</b>
<b>Net debt at 1 April 1997</b>		<b>(776.6)</b>		<b>(705.5)</b>
<b>Net debt at 31 March 1998</b>		<b>(1,291.3)</b>		<b>(776.6)</b>

# Notes to the current cost financial statements year ended 31 March 1998

## **1 Accounting policies**

### **a) Basis of preparation**

The regulatory financial statements have been prepared in accordance with the requirements contained in Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers, and Regulatory Accounting Guidelines as issued by the Office of Water Services.

The regulatory financial statements have been prepared on a group basis for Severn Trent Water Limited and its subsidiary undertaking East Worcester Water Plc to meet the requirements of the Director General of Water Services.

### **b) General**

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

The accounting policies used are the same as those adopted in the statutory historical cost financial statements on pages 15 to 26, except as set out below.

### **c) Tangible fixed assets**

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

An Asset Management Plan (AMP) survey of existing assets as at 31 March 1993 was undertaken during 1994/95 and the adjustment to asset values, as a result of that exercise, was included within the tangible fixed asset note. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

### **i) Non-infrastructure assets**

#### Specialised operational assets:

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

The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described at the top of page 33 in note 1d).

#### Non-specialised operational assets:

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

### **ii) Infrastructure assets**

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

### **iii) Other assets**

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

### **iv) Surplus land**

Surplus land is valued at current market value. Any proceeds on disposal to be passed on to customers will be taken into account, in accordance with the requirements contained in Condition B of the Instruments of Appointment as Water and Sewerage Undertakers.

**1 Accounting policies continued****d) Grants and other third party contributions**

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

**e) Real financial capital maintenance adjustments**

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

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

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

	1998			1997		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
<b>2 Analysis of current cost turnover and operating costs</b>						
<b>a) Analysis of turnover</b>						
Measured	148.9	153.4	302.3	144.4	142.4	286.8
Unmeasured	230.5	330.4	560.9	229.4	333.5	562.9
Trade effluent	–	43.4	43.4	–	43.4	43.4
Revenue grants	0.2	–	0.2	0.1	–	0.1
Third parties	8.9	0.4	9.3	9.5	0.6	10.1
Other sources	9.9	6.8	16.7	9.4	6.4	15.8
<b>Total turnover</b>	<b>398.4</b>	<b>534.4</b>	<b>932.8</b>	<b>392.8</b>	<b>526.3</b>	<b>919.1</b>
<b>b) Other operating income</b>						
Current cost profit on disposal of tangible fixed assets	0.6	0.2	0.8	1.9	0.6	2.5
<b>c) Working capital adjustment</b>						
	(1.2)	4.7	3.5	(0.6)	4.5	3.9

# Notes to the current cost financial statements

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

	Water Services					Sewerage services			Business analysis		
	Resources and treatment	Distribution	Water services sub-total	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewage treatment /disposal sub-total	Sewerage services sub-total	Customer services	Scientific services	Cost of regulation
<b>d) Analysis of operating costs and tangible fixed assets</b>	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	1998 £m
<b>Direct costs</b>											
Employment costs	7.4	18.2	25.6	1.6	10.6	6.3	16.9	18.5			
Power	6.6	10.4	17.0	0.8	8.3	1.8	10.1	10.9			
Agencies	-	-	-	18.5	-	-	-	18.5			
Hired and contracted	2.5	14.2	16.7	1.6	1.2	6.6	7.8	9.4			
Associated companies	0.6	1.0	1.6	0.2	0.2	1.2	1.4	1.6			
Materials and consumables	4.7	3.8	8.5	0.5	3.2	3.4	6.6	7.1			
Service charges	7.7	-	7.7	1.0	3.6	-	3.6	4.6			
Bulk supply imports	7.9	-	7.9	-	-	-	-	-			
Other direct costs	0.3	0.5	0.8	0.4	1.0	0.5	1.5	1.9			
<b>Total direct costs</b>	<b>37.7</b>	<b>48.1</b>	<b>85.8</b>	<b>24.6</b>	<b>28.1</b>	<b>19.8</b>	<b>47.9</b>	<b>72.5</b>	<b>24.3</b>	<b>11.1</b>	<b>2.3</b>
General and support	20.0	17.0	37.0	3.9	20.6	14.1	34.7	38.6	7.5	3.9	0.7
Functional expenditure	57.7	65.1	122.8	28.5	48.7	33.9	82.6	111.1	31.8	15.0	3.0
Business activities recharge			23.5					26.3	(31.8)	(15.0)	(3.0)
Rates			24.5					13.3			
Doubtful debts			5.4					6.5			
Exceptional items			-					-			
			176.2					157.2			
Services for third parties			15.0					1.9			
<b>Total operating expenditure</b>			<b>191.2</b>					<b>159.1</b>			
<b>Capital costs</b>											
Infrastructure renewals:											
Expenditure	1.3	35.6	36.9	37.5	-	-	-	37.5			
Accrual	0.2	(4.6)	(4.4)	(6.4)	-	-	-	(6.4)			
Current cost depreciation	43.1	32.0	75.1	11.2	61.9	16.8	78.7	89.9			
Amortisation of deferred income			(1.1)					(1.5)			
Business activity capital costs			0.1					0.1			
			106.6					119.6			
Services for third parties depreciation			0.3					-			
<b>Total capital maintenance</b>			<b>106.9</b>					<b>119.6</b>			
<b>Total operating costs</b>			<b>298.1</b>					<b>278.7</b>			
<b>Analysis of tangible fixed assets</b>											
Service activities	1,820.4	4,475.7	6,296.1	17,539.9	1,488.0	295.7	1,783.7	19,323.6			
Business activities			141.3	21.3			104.0	125.3			
<b>Service totals</b>			<b>6,437.4</b>	<b>17,561.2</b>			<b>1,887.7</b>	<b>19,448.9</b>			
Services for third parties			210.6					-			
<b>Total</b>			<b>6,648.0</b>					<b>19,448.9</b>			

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

	Water Services					Sewerage services			Business analysis		
	Resources and treatment	Distribution	Water services sub-total	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewage treatment /disposal sub-total	Sewerage services sub-total	Customer services	Scientific services	Cost of regulation
<b>d) Analysis of operating costs and tangible fixed assets</b>	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	1997 £m
<b>Direct costs</b>											
Employment costs	7.4	17.4	24.8	1.4	11.4	6.4	17.8	19.2			
Power	8.1	12.6	20.7	0.8	8.7	1.8	10.5	11.3			
Agencies	-	-	-	17.8	-	-	-	17.8			
Hired and contracted	1.5	12.7	14.2	1.0	1.0	4.7	5.7	6.7			
Associated companies	0.5	0.9	1.4	0.4	0.4	1.7	2.1	2.5			
Materials and consumables	6.0	3.5	9.5	0.3	2.0	2.7	4.7	5.0			
Service charges	7.4	-	7.4	1.1	3.6	-	3.6	4.7			
Bulk supply imports	6.2	-	6.2	-	-	-	-	-			
Other direct costs	0.3	0.9	1.2	0.4	0.6	0.6	1.2	1.6			
<b>Total direct costs</b>	<b>37.4</b>	<b>48.0</b>	<b>85.4</b>	<b>23.2</b>	<b>27.7</b>	<b>17.9</b>	<b>45.6</b>	<b>68.8</b>	<b>22.8</b>	<b>11.1</b>	<b>2.3</b>
General and support	19.9	19.3	39.2	4.2	22.2	12.5	34.7	38.9	7.7	4.0	0.7
Functional expenditure	57.3	67.3	124.6	27.4	49.9	30.4	80.3	107.7	30.5	15.1	3.0
Business activity recharge			23.6					25.0	(30.5)	(15.1)	(3.0)
Rates			23.3								
Doubtful debts			7.4					9.4			
Exceptional items			9.2					10.8			
			188.1					168.1			
Services for third parties			16.0					2.0			
<b>Total operating expenditure</b>			<b>204.1</b>					<b>170.1</b>			
<b>Capital costs</b>											
Infrastructure renewals:											
Expenditure	(0.7)	35.1	34.4	37.7	-	0.4	0.4	38.1			
Accrual	2.2	(2.4)	(0.2)	(10.9)	-	(0.4)	(0.4)	(11.3)			
Current cost depreciation	39.9	22.2	62.1	10.5	55.9	16.1	72.0	82.5			
Amortisation of deferred income			(1.2)					(1.9)			
Business activity capital costs			1.9					1.7			
			97.0					109.1			
Services for third parties depreciation			0.2					-			
<b>Total capital maintenance</b>			<b>97.2</b>					<b>109.1</b>			
<b>Total operating costs</b>			<b>301.3</b>					<b>279.2</b>			
<b>Analysis of tangible fixed assets</b>											
Service activities	1,689.3	4,264.6	5,953.9	16,886.6	1,349.3	284.2	1,633.5	18,520.1			
Business activities			133.1	9.4			108.6	118.0			
Service totals			6,087.0	16,896.0			1,742.1	18,638.1			
Services for third parties			203.8					-			
<b>Total</b>			<b>6,290.8</b>					<b>18,638.1</b>			

### e) Non-appointed business

The group has not identified for the purpose of its 1997/98 accounts, any businesses or activities other than the Appointed Business. The amounts in respect of the non-appointed businesses are not material under the guidelines issued by the Office of Water Services.

### f) Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for 1998 in respect of infrastructure assets amounted to £25.0 million on water services and £8.3 million for sewerage services.

## Notes to the current cost financial statements

	Specialised operational assets £m	Non- specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
<b>3 Analysis of tangible fixed assets by asset type within service</b>					
<b>a) Water services tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 1997	1,814.5	107.7	5,081.0	191.0	7,194.2
RPI adjustment	77.5	3.6	174.5	8.2	263.8
Additions	87.0	1.6	74.9	49.7	213.2
Disposals and amounts written off	(18.5)	(0.7)	–	(27.5)	(46.7)
<b>At 31 March 1998</b>	<b>1,960.5</b>	<b>112.2</b>	<b>5,330.4</b>	<b>221.4</b>	<b>7,624.5</b>
<b>Depreciation</b>					
At 1 April 1997	766.3	31.6	–	105.5	903.4
RPI adjustment	34.6	0.8	–	5.7	41.1
Charge for year	53.4	1.8	–	20.3	75.5
Disposals and amounts written off	(18.4)	(0.5)	–	(24.6)	(43.5)
<b>At 31 March 1998</b>	<b>835.9</b>	<b>33.7</b>	<b>–</b>	<b>106.9</b>	<b>976.5</b>
<b>Net book value</b>					
<b>At 31 March 1998</b>	<b>1,124.6</b>	<b>78.5</b>	<b>5,330.4</b>	<b>114.5</b>	<b>6,648.0</b>
At 1 April 1997	1,048.2	76.1	5,081.0	85.5	6,290.8
<b>b) Sewerage services tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 1997	3,674.7	112.5	16,713.7	152.4	20,653.3
RPI adjustment	106.1	3.7	583.6	4.2	697.6
Additions	163.6	0.7	66.4	40.1	270.8
Disposals and amounts written off	(25.2)	(0.8)	–	(24.3)	(50.3)
<b>At 31 March 1998</b>	<b>3,919.2</b>	<b>116.1</b>	<b>17,363.7</b>	<b>172.4</b>	<b>21,571.4</b>
<b>Depreciation</b>					
At 1 April 1997	1,899.1	28.3	–	87.8	2,015.2
RPI adjustment	59.9	0.9	–	3.9	64.7
Charge for year	72.3	1.6	–	16.1	90.0
Disposals and amounts written off	(25.2)	(0.5)	–	(21.7)	(47.4)
<b>At 31 March 1998</b>	<b>2,006.1</b>	<b>30.3</b>	<b>–</b>	<b>86.1</b>	<b>2,122.5</b>
<b>Net book value</b>					
<b>At 31 March 1998</b>	<b>1,913.1</b>	<b>85.8</b>	<b>17,363.7</b>	<b>86.3</b>	<b>19,448.9</b>
At 1 April 1997	1,775.6	84.2	16,713.7	64.6	18,638.1

### 3 Analysis of tangible fixed assets by asset type within service continued

	Specialised operational assets £m	Non- specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
<b>c) Total tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 1997	5,489.2	220.2	21,794.7	343.4	27,847.5
RPI adjustment	183.6	7.3	758.1	12.4	961.4
Additions	250.6	2.3	141.3	89.8	484.0
Disposals and amounts written off	(43.7)	(1.5)	–	(51.8)	(97.0)
<b>At 31 March 1998</b>	<b>5,879.7</b>	<b>228.3</b>	<b>22,694.1</b>	<b>393.8</b>	<b>29,195.9</b>
<b>Depreciation</b>					
At 1 April 1997	2,665.4	59.9	–	193.3	2,918.6
RPI adjustment	94.5	1.7	–	9.6	105.8
Charge for year	125.7	3.4	–	36.4	165.5
Disposals and amounts written off	(43.6)	(1.0)	–	(46.3)	(90.9)
<b>At 31 March 1998</b>	<b>2,842.0</b>	<b>64.0</b>	<b>–</b>	<b>193.0</b>	<b>3,099.0</b>
<b>Net book value</b>					
<b>At 31 March 1998</b>	<b>3,037.7</b>	<b>164.3</b>	<b>22,694.1</b>	<b>200.8</b>	<b>26,096.9</b>
At 1 April 1997	2,823.8	160.3	21,794.7	150.1	24,928.9

## Notes to the current cost financial statements

	1998 £m	1997 £m
<b>4 Working capital</b>		
Stocks	5.3	6.3
Trade debtors	70.7	70.0
Trade creditors	(9.7)	(7.7)
Short term capital creditors	(20.0)	(13.6)
Infrastructure renewals accrual	(7.4)	(18.2)
Accruals	(147.2)	(129.8)
Payments in advance	(47.3)	(43.9)
Tax and social security	(7.0)	(3.2)
Group trade debtors/(creditors)	(19.4)	(9.2)
Other trade debtors/(creditors)	(4.0)	4.0
Prepayments	47.7	44.5
	<b>(138.3)</b>	<b>(100.8)</b>

	1998 £m	1997 £m
<b>5 Reserves – current cost reserve</b>		
At 1 April 1997	21,789.4	21,204.3
RPI adjustments:		
Fixed assets	855.6	613.0
Working capital	(3.5)	(3.9)
Financing	(30.5)	(20.1)
Grants and third party contributions	(18.6)	(11.8)
Other adjustments	7.9	7.9
<b>At 31 March 1998</b>	<b>22,600.3</b>	<b>21,789.4</b>

	1998 £m	1997 £m
<b>6 Reconciliation of current cost operating profit to net cash inflow from operating activities</b>		
Current cost operating profit	360.3	345.0
Working capital adjustment	(3.5)	(3.9)
Decrease in stocks	1.0	0.3
Current cost depreciation	165.5	148.4
Current cost profit on disposal of tangible fixed assets	(0.8)	(2.5)
(Decrease)/increase in debtors	6.0	(14.4)
Increase/(decrease) in creditors	23.2	(2.4)
Release of provisions	(15.6)	(15.8)
Infrastructure renewals expenditure	79.2	76.8
Restructuring provision	–	20.0
Effect of other deferrals and accruals on operating activity cash flow	(14.0)	(11.3)
<b>Net cash inflow from operating activities</b>	<b>601.3</b>	<b>540.2</b>



## Five year summary at 1997/98 out-turn prices

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
<b>Profit and loss account</b>					
Turnover	932.8	949.4	947.5	924.9	886.2
Current cost operating costs	(576.8)	(599.7)	(578.7)	(652.7)	(602.2)
Share of results of associated undertakings	–	–	0.1	(0.1)	0.1
Other operating income	0.8	2.6	4.7	4.6	4.2
	356.8	352.3	373.6	276.7	288.3
Working capital adjustment	3.5	4.0	3.9	5.5	2.7
Current cost operating profit	360.3	356.3	377.5	282.2	291.0
Net interest payable	(47.9)	(36.3)	(36.8)	(27.5)	(24.9)
Financing adjustment	30.5	20.8	13.8	15.9	8.4
Current cost profit before taxation	342.9	340.8	354.5	270.6	274.5
Taxation	(115.3)	(35.9)	(31.9)	(6.9)	(5.9)
Current cost profit attributable to shareholders	227.6	304.9	322.6	263.7	268.6
Dividend	(130.0)	(284.1)	(127.0)	(152.9)	(151.5)
Exceptional dividend	(309.6)	–	(408.4)	–	–
Current cost (loss)/profit retained	(212.0)	20.8	(212.8)	110.8	117.1
<b>Balance sheet</b>					
	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
<b>Fixed assets</b>					
Tangible assets	26,096.9	25,801.4	25,540.3	25,406.7	25,187.6
Third party contributions since 1989/90	(603.4)	(549.8)	(481.0)	(416.9)	(349.8)
Working capital	(138.3)	(104.3)	(160.1)	(150.3)	(161.4)
Net operating assets	25,355.2	25,147.3	24,899.2	24,839.5	24,676.4
Cash and investments	0.4	75.2	185.0	90.1	83.6
Non-trade debtors	8.7	11.7	7.0	14.4	11.8
Non-trade creditors due within one year	(523.6)	(104.4)	(94.4)	(34.4)	(34.6)
Creditors due after one year	(926.8)	(855.4)	(898.1)	(546.3)	(525.8)
Provision for liabilities and charges	(15.8)	(30.3)	(20.5)	(47.5)	(4.4)
Dividends payable	–	(129.4)	–	–	–
Net assets employed	23,898.1	24,114.7	24,078.2	24,315.8	24,207.0
<b>Capital and reserves</b>					
Called up share capital	1,000.0	1,035.0	1,061.0	1,090.0	1,128.0
Profit and loss account	297.8	527.7	519.4	752.6	664.4
Current cost reserve	22,600.3	22,552.0	22,497.8	22,473.2	22,414.6
	23,898.1	24,114.7	24,078.2	24,315.8	24,207.0

## Statement of directors' responsibilities

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

The directors consider that in preparing the financial statements on pages 27 to 39, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

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

## Water Industry Act 1991

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

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

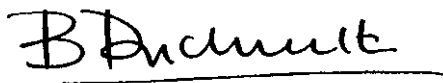
## Diversification and the protection of the core business – Condition F6a

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Severn Trent Water Limited hereby advise:

a) That in the opinion of the directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and

b) That in the opinion of the directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.



For and on behalf of the board  
**B Duckworth** Managing Director  
8 June 1998

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

We have audited the regulatory financial statements on pages 27 and 28 which have been prepared under the historical cost convention and the accounting policies set out on pages 18 and 19, and the regulatory financial statements on pages 29 to 39 which have been prepared under the current cost convention and the accounting policies set out on page 32 and 33.

## Respective responsibilities of directors and auditors

As described on page 40 the company's directors are responsible for the preparation of regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory 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 regulatory financial statements.

## Opinion

In our opinion, the regulatory financial statements contain the information for the year to 31 March 1998 required to be published and submitted to you by Severn Trent Water Limited, and its subsidiary undertaking East Worcester Water Plc (together 'the Group' or the 'appointees'), to comply with Condition F of the instruments of Appointment granted by the Secretary of State for the Environment of the group as Water and Sewerage Undertakers under the Water Industry Act 1991.

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

- a) Proper accounting records have been kept by the Appointees as required by paragraph 3 of Condition F of the Instruments of Appointment;
- b) The information is in agreement with the Appointees' accounting records, complies with the requirements of Condition F of the Instruments of Appointment and has been properly prepared in accordance with the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;
- c) The regulatory financial statements on pages 27 and 28 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointees and their Appointed Businesses; and
- d) The current cost financial information on pages 29 to 39 has been properly prepared in accordance with Regulatory Accounting Guideline 1.02, Accounting for Current Costs issued in May 1992 by the Office of Water Services.

**Price Waterhouse**



*Price Waterhouse*

Chartered Accountants and Registered Auditors

Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT  
8 June 1998

## Financial and operating statistics

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Severn Trent Water has made a commitment to publish information on its financial, customer service, operational and quality performance. This statistics section uses information primarily from this report and accounts, the company's annual drinking water quality report and information submitted to the Director General of Water Services as part of the company's July 1998 return.

The financial information contained in this section does not constitute statutory accounts within the meaning of the Companies Act 1985. Statutory accounts relating to the financial information contained within this supplement have been delivered to the Registrar of Companies, together with an unqualified report from the auditor.

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

Financial	43
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# Financial

<b>Profit and loss accounts</b>	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Turnover	789.8	847.0	895.6	919.1	<b>932.8</b>
Operating profit	316.3	300.5*	394.4	386.2~	<b>409.4</b>
Net interest payable	(22.2)	(25.2)	(34.8)	(35.1)	<b>(47.9)</b>
Profit for the financial year	294.1	275.3*	359.6	351.1~	<b>361.5</b>
Taxation	(5.3)	(6.3)	(29.9)	(34.8)	<b>(115.3)</b>
Dividend	(135.0)	(140.0)	(120.0)	(275.0)	<b>(130.0)</b>
Exceptional dividend	-	-	(386.0)	-	<b>(309.6)</b>
Retained profit/(loss)	153.8	129.0*	(176.3)	41.3~	<b>(193.4)</b>

\*After restructuring provision of £55 million

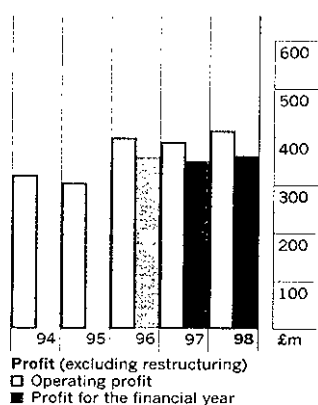
~After restructuring provision of £20 million

<b>Balance sheets</b>	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Fixed assets	2,871.5	3,073.1	3,205.0	3,412.7	<b>3,714.4</b>
Net current liabilities	(38.9)	(36.1)	(35.2)	(224.5)	<b>(645.6)</b>
	2,832.6	3,037.0	3,169.8	3,188.2	<b>3,068.8</b>
Creditors: amounts falling due after more than one year	(466.1)	(501.1)	(846.5)	(826.5)	<b>(926.8)</b>
Provisions for liabilities, charges and deferred income	(108.1)	(148.5)	(112.2)	(109.3)	<b>(83.0)</b>
	2,258.4	2,387.4	2,211.1	2,252.4	<b>2,059.0</b>

### Capital and reserves

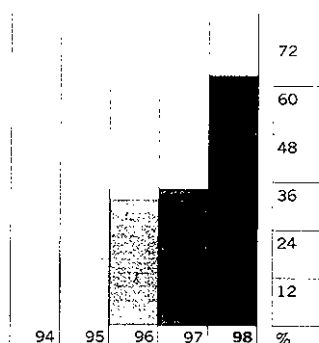
Called up share capital	1,000.0	1,000.0	1,000.0	1,000.0	<b>1,000.0</b>
Profit and loss account	1,258.4	1,387.4	1,211.1	1,252.4	<b>1,059.0</b>
	2,258.4	2,387.4	2,211.1	2,252.4	<b>2,059.0</b>

<b>Turnover by category</b>	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Measured charges	240.8	255.3	274.6	286.8	<b>302.3</b>
Unmeasured charges	486.8	527.4	552.9	562.9	<b>560.9</b>
Trade effluent	37.2	38.9	43.1	43.4	<b>43.4</b>
Other	25.0	25.4	25.0	26.0	<b>26.2</b>
	789.8	847.0	895.6	919.1	<b>932.8</b>



# Financial

<b>Net borrowings</b>	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Cash at bank and in hand	69.8	76.7	167.0	72.0	<b>0.1</b>
Borrowings	(473.4)	(491.8)	(872.5)	(848.6)	<b>(1,291.4)</b>
	<b>(403.6)</b>	<b>(415.1)</b>	<b>(705.5)</b>	<b>(776.6)</b>	<b>(1,291.3)</b>
<b>Key ratios</b>	1994	1995	1996	1997	1998
<b>Liquidity</b>					
Current ratio (times)	0.83	0.85	0.89	0.49	<b>0.17</b>
<b>Profitability</b>					
Gross profit margin (%)	40.05	35.48	44.04	42.02	<b>43.89</b>
Return on capital employed (%): Historic cost	11.17	9.89	12.44	12.11	<b>13.34</b>
Return on fixed assets (%): Historic cost	11.02	9.78	12.31	11.32	<b>12.90</b>
Return on fixed assets (%): Current cost	1.16	1.11	1.48	1.38	<b>1.38</b>
<b>Gearing</b>					
Debt to equity (%)	17.87	17.39	31.91	34.48	<b>62.71</b>
<b>Other</b>					
Turnover per employee (£)	113,575	129,689	151,029	160,038	<b>174,062</b>
Operating profit per employee (£)	45,485	46,011	66,509	67,247	<b>76,395</b>
<b>Employee numbers</b>	1994 No.	1995 No.	1996 No.	1997 No.	1998 No.
Employee number (average)	6,954	6,531	5,930	5,743	<b>5,359</b>
Employee number (year end)	6,757	6,324	5,862	5,653	<b>5,320</b>



**Gearing**  
Gearing is the ratio of debt to the company's equity, i.e. shareholders' funds.

It is used as an indicator of the amount of debt in proportion to the equity of the company.

# Customer service

<b>Charges (1998/99)</b>	Water £	Sewerage £	Total £
Average annual unmeasured water charges (including customer rebates)			
Severn Trent Water	<b>97</b>	<b>118</b>	<b>215</b>
Average of other nine water and sewerage companies	116	150	266

Equivalent cost per day per household	
Severn Trent Water	<b>59 pence</b>
Other water and sewerage companies average	73 pence

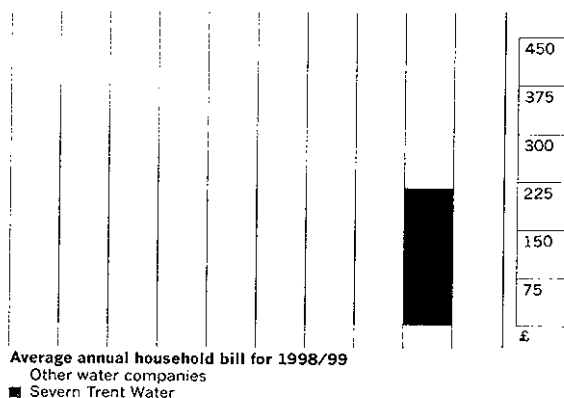
Measured water charges	
Water Supply	<b>73.93 pence/cubic metre</b>
Sewerage	<b>59.10 pence/cubic metre</b>

Average household bill (including measured, unmeasured water charges and customer rebates)	
Severn Trent Water	<b>£215</b>
Average of other nine water and sewerage companies	£258

<b>Customer payment statistics</b>	1994 '000	1995 '000	1996 '000	1997 '000	1998 '000
Number of customers paying by instalments	943	1,121	1,205	1,295	<b>1,369</b>
Number of summonses	71	90	90	94	<b>101</b>
Percentage of unmeasured customers summoned (%)	2.7	3.3	2.8	2.3	<b>3.1</b>

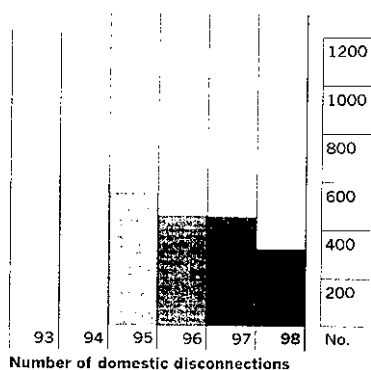
<b>Disconnections</b>	No.	No.	No.	No.	No.
Domestic	590	557	462	457	<b>323</b>
Non-domestic	269	220	159	230	<b>203</b>
Percentage of customers disconnected (%)	0.03	0.03	0.02	0.02	<b>0.02</b>

	'000	'000	'000	'000	'000
<b>Customer complaints</b>	9	9	10	10	<b>10</b>



## Customer service

	1994 No. '000	1995 No. '000	1996 No. '000	1997 No. '000	1998 No. '000
<b>Customer contacts</b>					
By letter	1,042	966	952	684	<b>745</b>
Telephone calls	1,109	1,252	1,224	1,593	<b>1,820</b>
<b>Total</b>	<b>2,151</b>	<b>2,218</b>	<b>2,176</b>	<b>2,277</b>	<b>2,565</b>
<b>Population</b>					
Water supply	7,201	7,224	7,250	7,280	<b>7,305</b>
Sewerage	8,226	8,262	8,280	8,300	<b>8,200</b>
<b>Billed properties</b>					
Water					
Unmeasured domestic	2,592	2,582	2,579	2,554	<b>2,500</b>
Unmeasured non-domestic	59	53	52	50	<b>40</b>
<b>Sub-total</b>	<b>2,651</b>	<b>2,635</b>	<b>2,631</b>	<b>2,604</b>	<b>2,540</b>
Measured domestic	170	210	240	290	<b>365</b>
Measured non-domestic	177	168	168	170	<b>180</b>
<b>Sub-total</b>	<b>347</b>	<b>378</b>	<b>408</b>	<b>460</b>	<b>545</b>
<b>Total</b>	<b>2,998</b>	<b>3,013</b>	<b>3,039</b>	<b>3,064</b>	<b>3,085</b>
Sewerage					
	3,383	3,376	3,402	3,417	<b>3,556</b>
<b>New connections during year</b>					
Water supply	25	26	23	22	<b>23</b>
Sewerage	28	29	25	25	<b>25</b>





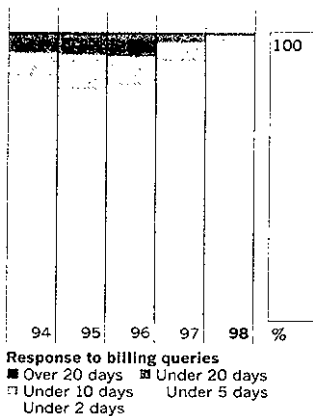
**Levels of service**

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

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

	1994 %	1995 %	1996 %	1997 %	1998 %
<b>(DG1) Raw water availability</b>					
Percentage of the population who live in areas where resources are adequate to meet demands	99.20	94.50	99.80	100.00	<b>100.00</b>
<b>(DG2) Pressure of mains water</b>					
Percentage of properties not at risk of receiving water at a pressure less than one and a half atmospheres at the stop tap on the boundary of the property	99.53	99.40	98.90	99.70	<b>99.83</b>
<b>(DG3) Interruption to supply</b>					
Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.99	99.80	99.84	99.94	<b>99.96</b>
<b>(DG4) Water usage restrictions</b>					
Percentage of properties not affected by:					
Ban on hosepipes	100.00	99.10	0.00	49.20	<b>100.00</b>
Drought orders	100.00	100.00	100.00	100.00	<b>100.00</b>
1997 Ban on hosepipes includes the effect of the continuation for 29 days into April 1996 of the 1995 hosepipe pipe in the East Midlands area.					
<b>(DG5) Flooding from sewers</b>					
Percentage of properties where there is no risk of flooding from public sewers at a frequency of more than twice in ten years	99.95	99.95	99.95	99.95	<b>99.95</b>
<b>(DG6) Response to billing contacts</b>					
Response time for replies to billing contacts					
Under 2 days	71.5	69.3	72.8	84.7	<b>90.7</b>
Under 5 days	84.5	80.1	81.5	89.8	<b>96.3</b>
Under 10 days	92.8	92.2	91.6	96.5	<b>98.9</b>
Under 20 days	99.0	99.0	99.4	99.8	<b>99.9</b>
Over 20 days	1.0	1.0	0.6	0.2	<b>0.1</b>

In 1998 there were 2.56 million customer contacts. The company's performance in 1998 based on OFWAT's 1996/97 criteria would have resulted in an assessment of 'Well above average'.



## Customer service

Levels of service continued	1994 %	1995 %	1996 %	1997 %	1998 %
<b>(DG7) Response to written complaints</b>					
Response time for replies to written complaints					
Under 2 days	25.3	26.9	28.3	32.2	<b>34.0</b>
Under 5 days	82.1	81.7	76.5	74.5	<b>84.5</b>
Under 10 days	97.9	98.0	96.6	90.6	<b>98.8</b>
Under 20 days	99.9	99.8	99.4	99.1	<b>100.0</b>
Over 20 days	0.1	0.2	0.6	0.9	<b>0.0</b>

The number of customer complaints received in 1998 has decreased from those received in 1997. The company's performance in 1998 based on OFWAT's 1996/97 criteria would have resulted in an assessment of 'Well above average'.

### (DG8) Billing of metered customers

Percentage of customers who receive bills for metered accounts during the year based on actual readings as opposed to those based on estimates

Company read	N/a	N/a	94.7	96.1	<b>97.7</b>
Customer read	N/a	N/a	2.1	2.9	<b>1.8</b>
Total read and billed in year	N/a	N/a	96.8	99.0	<b>99.5</b>

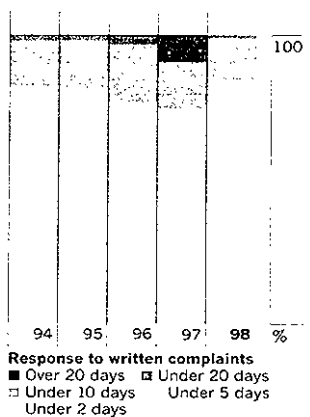
The company's performance in 1998 based on OFWAT's 1996/97 criteria would have resulted in an assessment of 'Well above average'.

### (DG9) Telephone contacts

Response times to answering telephone call to the principal customer contact points

Under 15 seconds	N/a	N/a	65.0	73.5	<b>82.0</b>
Under 30 seconds	N/a	N/a	73.7	82.7	<b>91.1</b>
Over 30 seconds	N/a	N/a	26.3	17.3	<b>8.9</b>
Average response times (seconds)	N/a	N/a	40.2	19.7	<b>10.2</b>

Guaranteed standards scheme	1994	1995	1996	1997	1998
Complaints answered within the guaranteed standards scheme time period	99.5%	99.3%	98.5%	97.7%	<b>99.8%</b>
Number of claims automatically accepted for guaranteed standard payments	51	63	157	1,230	<b>2,713</b>

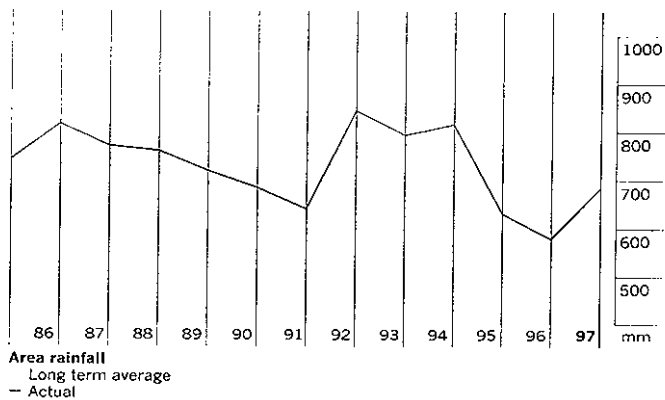


# Climate

## Severn Trent Region – Area Rainfall

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Severn Trent region														
- Rainfall (mm)	777	741	814	769	759	718	683	639	842	792	814	631	579	<b>684</b>
- % long term average	99	96	105	99	98	93	88	83	110	102	105	81	75	<b>88</b>
Severn Basin														
- Rainfall (mm)	842	813	856	805	811	777	732	702	872	797	844	674	624	<b>716</b>
- % long term average	102	98	103	97	98	94	88	87	108	99	104	83	76	<b>87</b>
Trent Basin														
- Rainfall (mm)	715	685	790	747	723	676	647	576	808	781	785	585	540	<b>661</b>
- % long term average	97	93	103	101	98	92	88	78	110	106	107	80	73	<b>90</b>

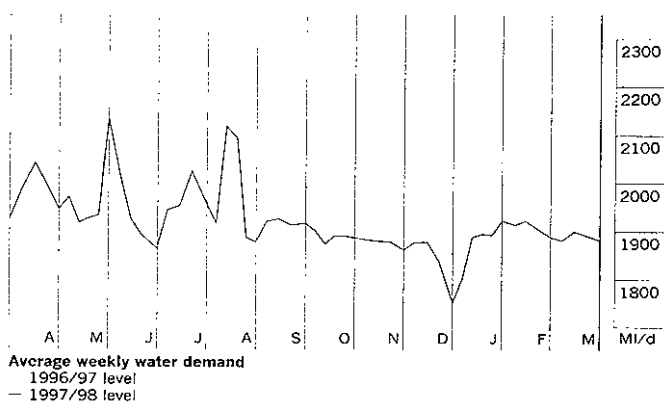
**Note** % long term average is based on figures from 1941 to 1970.  
Figures relate to calendar year.



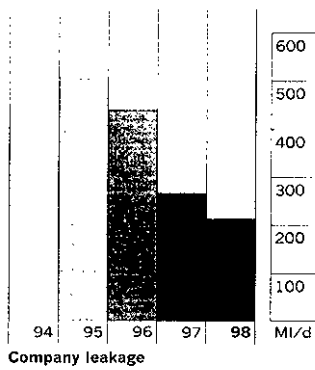
# Demand

<b>Analysis of water supply sources</b>	1994 ML/d	1995 ML/d	1996 ML/d	1997 ML/d	1998 ML/d
Reservoirs	576	587	526	476	<b>537</b>
River intakes	726	782	876	802	<b>650</b>
Groundwater	773	770	788	733	<b>719</b>
Total production	2,075	2,139	2,190	2,011	<b>1,906</b>
Treated water imports	17	17	21	20	<b>20</b>
Treated water exports	(9)	(9)	(9)	(9)	<b>(8)</b>
Total water into supply	2,083	2,147	2,202	2,022	<b>1,918</b>

<b>Water demand</b>	1994 ML/d	1995 ML/d	1996 ML/d	1997 ML/d	1998 ML/d
Household demand	1,047	1,059	1,166	1,139	<b>1,108</b>
Non-household demand	543	548	551	552	<b>524</b>
Water delivered to billed customers	1,590	1,607	1,717	1,691	<b>1,632</b>
Total water into supply	2,083	2,147	2,202	2,022	<b>1,918</b>
Company unaccounted for water	477	524	469	325	<b>280</b>



	1995	1996	1997	1998
Number of repairs carried out on mains pipes	8,298	12,228	10,908	<b>7,050</b>
Average time taken to repair bursts on mains pipes (days)	N/a	2.85	1.88	<b>1.03</b>
Number of repairs carried out on communication pipes	N/a	14,247	12,552	<b>16,038</b>
Average time taken to repair bursts on communication pipes (days)	N/a	6.74	3.49	<b>0.47</b>
Number of repairs carried out on customers' supply pipes (service commenced January 1995)	917	2,519	8,294	<b>10,942</b>
Number of applications for free meter installation service (service commenced January 1996)	N/a	11,200	59,027	<b>62,748</b>
Number of calls to 'Leakline' service (service commenced December 1995)	N/a	16,703	19,088	<b>27,788</b>



# Investment

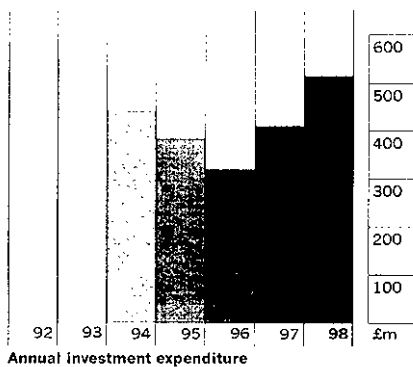
<b>Investment expenditure</b>	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Resources and treatment	57	96	116	117	89	79	72	47
Distribution	97	161	137	107	104	97	141	160
Sewerage	67	108	90	76	73	45	57	68
Sewage treatment	126	152	147	108	85	61	91	165
Recreation and amenity	1	11	4	2	2	1	1	1
Operational support	38	46	49	32	30	16	21	21
Other	9	11	7	3	3	23	29	54
	395	585	550	445	386	322	412	516

## Analysis of investment expenditure

Capital expenditure	348	482	462	380	320	252	335	437
Gross infrastructure expenditure	47	103	88	65	66	70	77	79
	395	585	550	445	386	322	412	516
Cumulative investment since 1991	395	980	1,530	1,975	2,361	2,683	3,095	3,611

## Physical outputs

	1994	1995	1996	1997	1998
Mains – added (Km)	293	309	239	248	148
– renewals (Km)	408	392	499	577	714
– relined (Km)	1,016	878	408	347	81
– number of communication pipes replaced	37,147	31,011	29,985	48,508	40,848
Sewers – added (Km)	86	224	325	289	242
– improved (Km)	8	4	5	11	6
Approximate number of schemes in programme	5,500	5,000	5,900	6,500	6,700
Approximate number of new starts during year	800	650	1,800	1,600	1,400
Approximate number of schemes completed during year	1,200	1,600	1,950	1,600	1,400
Approximate number of properties where problems of poor pressure alleviated by investment	7,000	5,000	15,500	33,400	8,300
Number of properties where risk of flooding from sewers has been removed	210	190	187	427	450



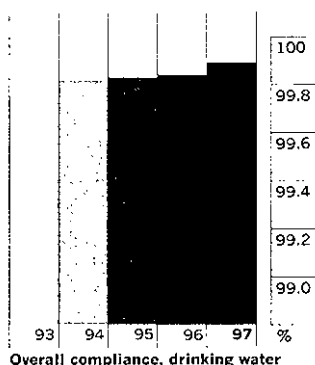
## Investment and quality

Major operational schemes carried out during year	1997/98 costs £m	Operational assets	1998 No.
Minworth sewage treatment works	22.6	Impounding reservoirs	41
Finham water treatment works	15.0	Groundwater sources	188
Little Eaton water treatment works	8.4	River water intakes	16
Stoke Bardolph sewage treatment works	6.5	Surface water treatment works	20
Hayden sewage treatment works	5.7	Water supply booster stations	660
River Trent to Church Waine water treatment works	4.2	Service reservoirs	636
Llanwrin to Llandinam link	4.1	Mains (Km)	41,759
Toton sewage treatment works	3.9	Sewers (Km)	52,296
Milnhay sewage treatment works	3.6	Sewage treatment works	1,007
Freehold to Gigmill foul water sewer	3.6	Sewage pumping stations	656
		Sewerage pumping stations	2,247
		Sludge treatment facilities	60

### Quality

Water supply	1993	1994	1995	1996	1997
Overall quality of drinking water					
Number of samples	84,808	86,524	79,020	77,654	77,327
% compliance with standards	99.75%	99.82%	99.83%	99.84%	99.89%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of samples	29,745	29,502	22,719	23,419	22,547
% compliance with standards	99.9%	99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of samples	34,249	35,914	35,706	34,243	34,047
% compliance with standards	99.8%	99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of samples	20,814	21,108	20,595	20,262	20,733
% compliance with standards	99.7%	99.8%	99.9%	99.8%	99.8%
Physical and chemical quality of drinking water					
Water at customers' taps					
Number of samples	20,814	21,108	20,595	20,262	20,733
% compliance with standards	99.7%	99.8%	99.8%	99.8%	99.9%

**Notes** Information on quality is based on calendar year in accordance with current Drinking Water regulations. Many tests are carried out on each sample. Compliance is based on these tests with over 280,000 being made during 1997. Percentage compliance with standards as detailed in the Water Supply (Water Quality) regulations.



# Sewage

Sewage treatment quality	1994	1995	1996	1997	1998
<b>Overall compliance with standards</b>					
Total number of sewage treatment works	1,014	1,013	1,014	1,014	1,007
Number of sewage treatment works failing consents	15	9	18	15	21

## Number of prosecutions by Environment Agency (EA) resulting in convictions

Discharge from sewerage system	1	2	3	2	1
Sewage treatment works	0	0	4	0	0
Water treatment works	3	0	1	1	0
Other	1	1	1	1	0

## Compliance of numerically consented works

	1993	1994	1996 <sup>1</sup>	1997 <sup>1</sup>	1997
Number of works within numeric consents	740	739	741	741	719
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.0%	99.4%	99.5%	99.5%	99.4%
By works	98.8%	99.1%	99.6%	100.0%	100.0%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.9%	99.9%	>99.9%	>99.9%	99.7%
By works	95.6%	98.9%	98.4%	98.6%	96.5%
Compliance with non-sanitary standards					
By tests to measure quality	99.2%	99.1%	95.2%	94.3%	92.2%
By works	88.2%	86.7%	80.0%	81.4%	71.4%

**Notes** Overall compliance with standards relates to financial year.

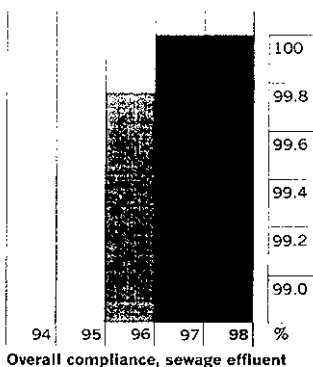
<sup>1</sup> Compliance of numerically consented works figures for 1996 and 1997 are based on financial year, all others calendar year.

<sup>2</sup> Most failures relate to works which experience problems with colour derived from dye works.

<sup>3</sup> This excludes one small works where the consent is subject to appeal with the EA.

Sludge disposal	1994 tds	1995 tds	1996 tds	1997 tds	1998 tds
Method of sludge disposal					
Farmland	85,000	86,000	80,000	81,000	82,500
Landfill	43,000	56,000	62,000	42,000	24,700
Incineration	28,000	14,000	19,000	28,000	24,900
Sea	0	0	0	0	0
Other	9,000	3,000	4,000	5,000	26,200
<b>Total</b>	<b>165,000</b>	<b>159,000</b>	<b>165,000</b>	<b>156,000</b>	<b>158,300</b>

tds = tonnes dry solids





## Visitor and education centres

### Education centres

The company is committed to enhancing school children's knowledge about water, the environment and the company's long-standing policy on conservation. The company's education centres permit a completely flexible approach to learning about the local environment and the work that the company does from first hand practical experience. The school visits last for a whole day and are pre-planned with the visiting teacher and the Severn Trent resident teacher.

Education centres are located at the following sites:

Cropston water treatment works	Carsington reservoir
Stoke Bardolph sewage treatment works	Hayden sewage treatment works
Barston sewage treatment works	Roundhill sewage treatment works

One other centre is planned for the future at:

Frankley water treatment works

### Come and See centres

The company has opened a number of Come and See centres throughout the region. At these specially equipped venues, usually on operational sites, our experienced guides explain in everyday terms the processes we use to treat water for drinking, or to clean water before returning it to the environment. Visits usually involve a tour of the works, audio visual presentations and the opportunity to ask our staff questions relating to the industry. Come and See centres are currently situated at the following sites:

Tittesworth water treatment works	Cropston water treatment works
Carsington reservoir	Minworth sewage treatment works
Church Wilne water treatment works	Trimpley water treatment works
Derby sewage treatment works	Campion Hills water treatment works
Shelton water treatment works	Hayden sewage treatment works
Cannock sewage treatment works	Redditch sewage treatment works
Strongford sewage treatment works	

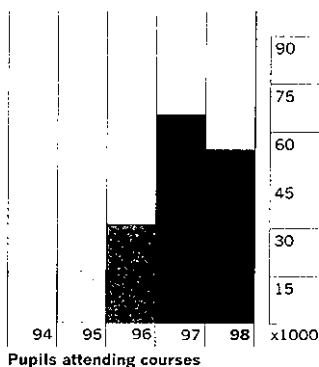
For further information on how to arrange a visit to one of our Come and See centres or to arrange for a group to attend at one of our education centres, please contact the Marketing department, Severn Trent Water Limited, 2297 Coventry Road, Birmingham B26 3PU.

	1994 No.	1995 No.	1996 No.	1997 No.	1998 No.
<b>Education Centres and Come and See Education in Schools</b>					
Number of classes involved in educational programmes	426	597	1,156	1,906	<b>1,824</b>
Number of pupils attending programmes	16,688	17,073	31,398	65,458	<b>54,666</b>
Number of teachers attending programmes	2,787	2,036	2,407	3,155	<b>2,776</b>
Number of other adults attending educational programmes	1,238	2,033	1,933	2,344	<b>2,902</b>
<b>Come and See Centres</b>					
Number of classes attending Severn Trent sites	245	150	232	221	<b>215</b>
Number of pupils touring operational sites	6,044	3,676	5,843	6,496	<b>6,030</b>
Number of adults touring operational sites	29,675	32,325	21,423	15,759	<b>12,992</b>
<b>External talks</b>					
Number of talks given to adult customers	854	1,421	1,918	2,731	<b>4,961</b>

### Go and tell

The company has pursued a full programme of appearances with the publicity caravans at both large and small events in the Midlands. These events included the Three Counties Show at Malvern, the Peugeot Gala day at Ryton, a Steam day at Bratch Pumping Station, Leicester Riverside Festival and various shopping centres. Severn Trent Engineering has been supported in its awareness campaign for the new Perry Hall to Gravelly Sewer with displays in local shopping complexes and by visits to local schools to inform and involve the pupils.

The company has attended 90 events and contacted approximately 19,000 people.



# Main offices

Information on the company may be obtained at any of the following main Severn Trent Water offices:

## Registered Office

**Severn Trent Water Limited**  
2297 Coventry Road  
Birmingham B26 3PU  
Telephone (0121) 722 4000  
Company number: 2366686

**Directors**  
V Cocker  
B Duckworth  
J K Banyard  
I Elliot  
J M Foster  
T Kitson  
R Ireland  
G P Noone  
A Q Todd  
R M Walker  
M R Wilson

**Severn Trent Water Limited**  
Edgbaston Depot  
Waterworks Road  
Birmingham B16 9DD  
Telephone Birmingham (0121) 456 1011

**Severn Trent Water Limited**  
Sherbourne House  
St Martin's Road  
Finham, Coventry CV3 6P3  
Telephone Coventry (01203) 693333

**Severn Trent Water Limited**  
PO Box 5T  
Raynesway  
Derby DE21 7JA  
Telephone Derby (01332) 661481

**Severn Trent Water Limited**  
Staverton Depot  
Staverton Airport  
Cheltenham Road East  
Gloucester GL2 9QY  
Telephone Gloucester (01452) 712795

**Severn Trent Water Limited**  
Leicester Water Centre  
Gorse Hill  
Anstey  
Leicester LE7 7GU  
Telephone Leicester (0116) 234 0340

**Severn Trent Water Limited**  
Hucknall Road  
Nottingham NG5 1FH  
Telephone Nottingham (0115) 960 8161

**Severn Trent Water Limited**  
Shelton  
Shrewsbury SY3 8BJ  
Telephone Shrewsbury (01743) 265000

**Severn Trent Water Limited**  
Westport Road  
Burslem  
Stoke-on-Trent ST6 4JT  
Telephone Stoke (01782) 836336

**Severn Trent Water Limited**  
Bromwich Road  
Lower Wick  
Worcester WR2 4BN  
Telephone Worcester (01905) 748484