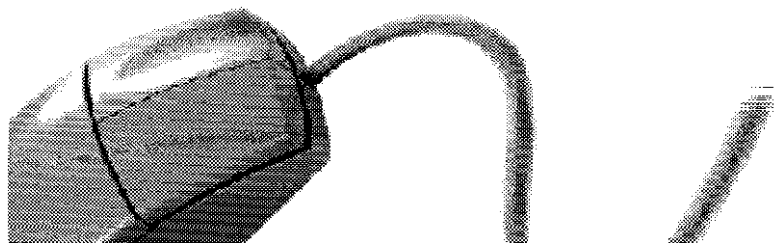
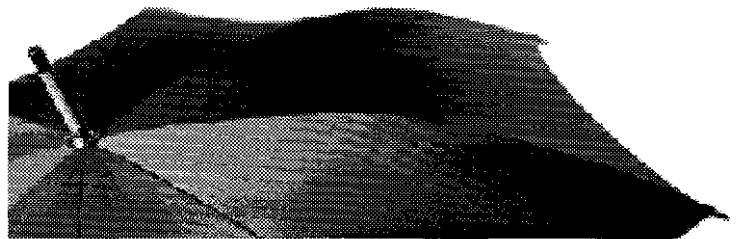
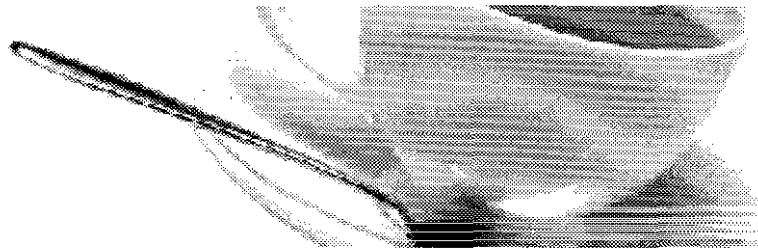

Severn Trent Water



COMPANY NO: 2366686
Annual Report and Accounts 1999
Your Water. Safe in our hands

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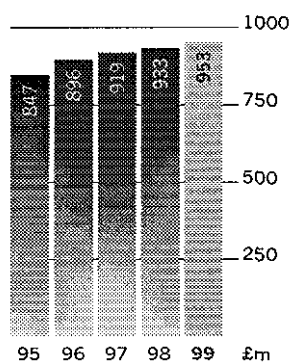
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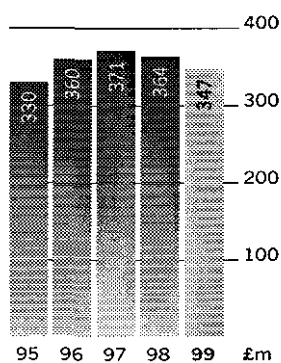
1999 marks a number of significant milestones in the history of Severn Trent Water. The company celebrates its twenty-fifth year since its formation and 10 years since privatisation.

Financial highlights

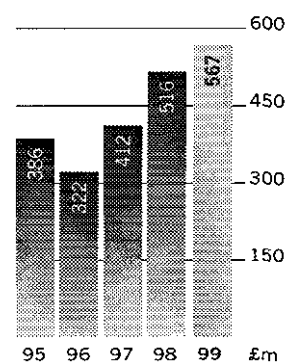
	1999	1998
Turnover (£m)	953	933
Operating costs (£m)	(546)	(524)
Profit before interest (pre-exceptional) (£m)	420	411
Profit before interest (post-exceptional) (£m)	408	409
Profit before tax (£m)	335	362
Gearing (%)	74.9	62.7
Investment (£m)	567	516



Turnover



Profit before tax
(before exceptional items)



Investment

Your Water. Safe in our hands



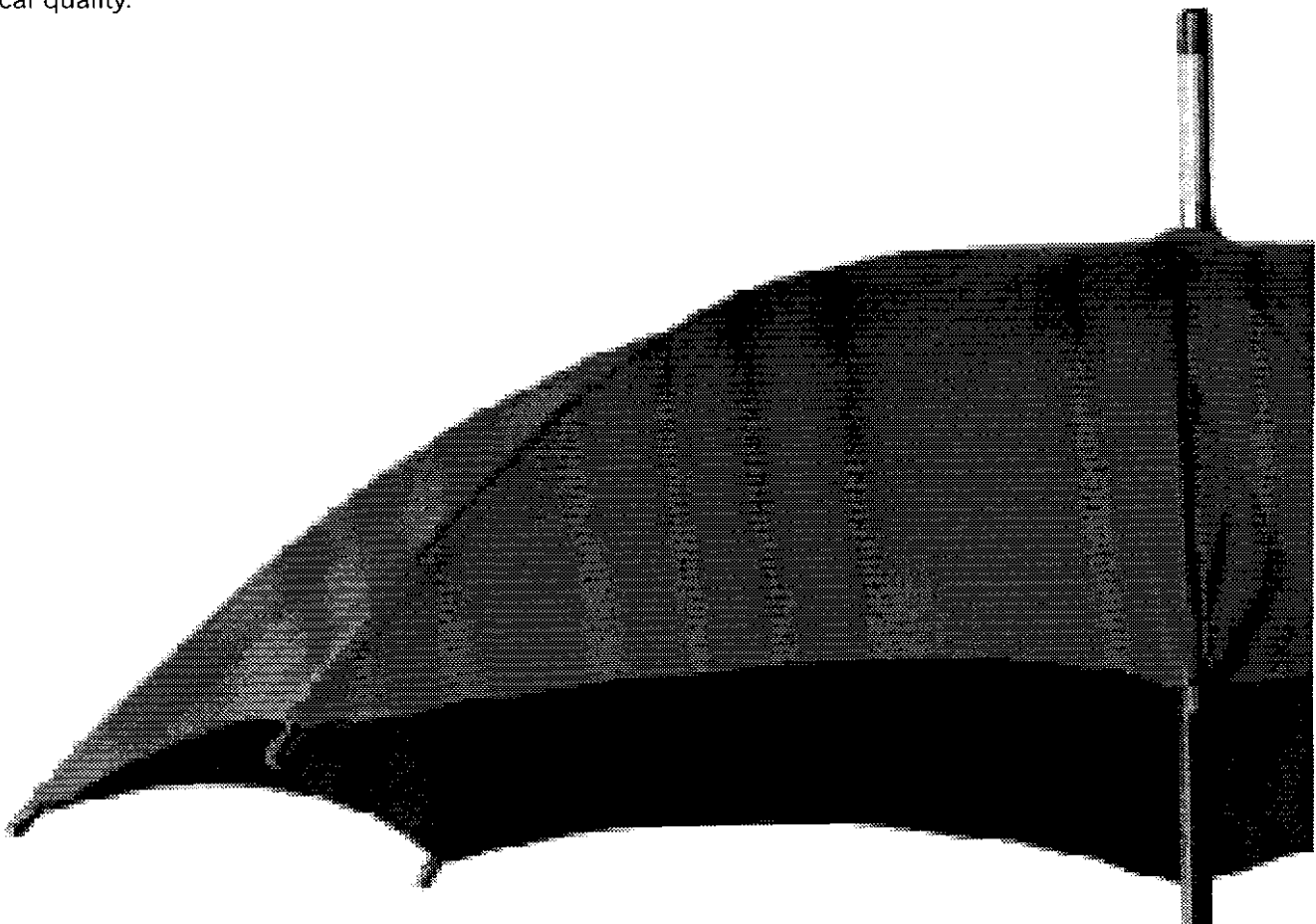
Protecting the health and well-being of our customers

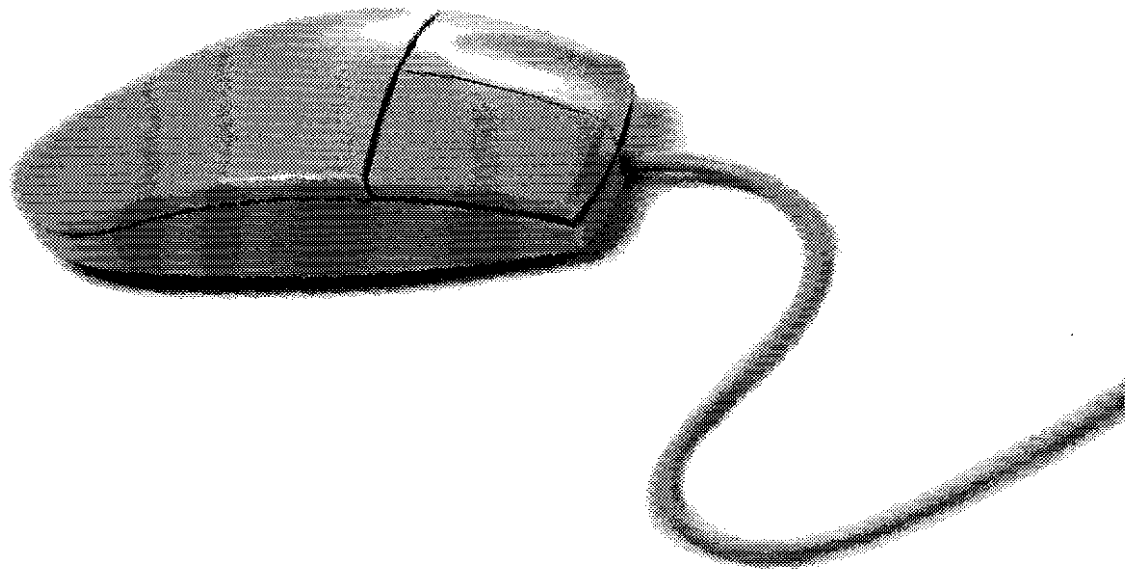
For the second successive year we have achieved 99.9% compliance with European drinking water standards. As well as quality, taste is important to our customers and we are aiming to further improve the taste of drinking water by optimising chlorine levels without compromising microbiological quality.

The company's culture and people combined with its investment and operational processes put us in a strong position to meet the challenges of the next review period.

Meeting the challenges of unpredictable weather

Extreme weather conditions such as storms, floods, record temperatures and drought are becoming more common. As climatic uncertainty increases we continue to focus our investment and planning to secure long-term sustainable supplies for all of our customers.





Making communication easier and providing choice

The company is continually reviewing how to improve customer service both in terms of the services provided and the technology that is used. To make calling the company easier we have reduced the number of telephone numbers that customers need to use to contact us. We have also introduced e-mail for those customers who wish to contact us electronically – customer.relations@severntrent.co.uk .

Providing a sustainable environment for the communities we serve

At Newhall Service Reservoir in Nottinghamshire, the pyramidal orchid is one of the many rare flowers forming a wild flower meadow. This area is classified as a Site of Special Scientific Interest (SSSI) and is amongst the 4,855 hectares of special conservation sites managed by the company.



Managing Director's review

£4.4 billion

invested since privatisation. This represents an investment of more than £1,250 for each of our customers.

Introduction

1999 marks a number of significant milestones in the history of Severn Trent Water. The company celebrates its twenty-fifth year since its formation and 10 years since privatisation. Since its creation the company has undergone many changes. From an under-funded, inefficient and poor customer service organisation it has been transformed into an efficient customer service focused business; many of these improvements have resulted from the significant investment made in the last 10 years. However, we must not be complacent; we will continue to develop the business to meet the needs of our customers in an environment where expectations continue to increase.

Financial overview

Company turnover increased by 2.1% to £970.5 million, less than RPI + K, or £952.7 million (1998: £932.8 million) after the rebate of £6.50 to customers.

Metering of industrial customers and free domestic metering continued to emphasise the company's commitment to water conservation. However, the impact of the metering programme reduced the company's income by £10.7 million. In addition, the consumption of our existing industrial customers continues to fall as customers seek economies in water use. These shortfalls in income were partially offset by new business and the continued identification of additional income.

Despite these shortfalls in income, we have completed our five-year programme of rebates amounting in aggregate to £30 per customer. The final rebate of £6.50 was made in April 1999.

Operating profit increased to £418.4 million, an improvement of 1.7%, excluding the impact of Year 2000 costs.

Good control over operating costs continued during the year, particularly from the benefits of the restructuring which commenced in April 1997. These efficiencies have more than

offset the running costs from new capital schemes to meet higher environmental standards and improvements to customer service levels. Direct operating costs, excluding Year 2000 costs, continued to fall.

The company is fully committed to dealing with the Year 2000 issue and incurred costs of £11.8 million during the year. The full cost is estimated to be between £20 million and £22 million. Using the Action 2000 national rating, the company as at the end of June has had 100% of its systems and sites classified as 'blue'. A rating of 'blue' indicates that an independent assessment has not identified any risk of material disruption. More information on this classification is available by visiting the Action 2000 website, www.bug2000.co.uk.

During the year we invested £567 million in new plant and equipment, an increase of 10% on the previous year. This was in line with the company's five-year investment plan. During the current year capital investment is expected to be in the order of £550 million.

The depreciation charge continued to increase as a result of our continuing investment in new assets and spending on our underground systems.

As stated last year, we remain committed to the effective maintenance of the underground sewerage and water distribution networks and to reinforce our water resources. We are concerned that any future impacts of climate change need to be provided for. In order to meet our supply commitment to customers over the five years to the year 2000, we will have spent £220 million more than we originally provided for.

Interest charges continued to increase as a consequence of the growth in the level of gearing. The main cause of the increase is the new borrowing to finance new investment and the windfall levy, the second instalment of which was paid in December 1998. It will not be until the year ending March



Brian Duckworth, Managing Director

2000 that the full effect of the financing of the windfall levy will impact in the profit and loss account. As stated in July 1997, the cost of financing this levy will be met by the company and not passed on to our customers. During the year the company benefited from the fall in interest rates and has consequently taken the opportunity to seek funds from new sources. In February 1999 the company was able to place a bond issue for £300 million at a rate of 6.125%.

The company will continue to finance its day-to-day operations and long-term investment by careful and prudent management of its debt portfolio to ensure that we acquire finance at the most favourable rates available to us.

Water resources and supply

The company's water resources position has remained strong, with reservoir storage high throughout the year, *reflecting above average rainfall. Frequent spells of wet weather ensured reservoirs remained almost full, even through the summer, leaving a very satisfactory water resources situation at the end of the winter.*

After a prolonged groundwater drought which has seen falling water levels in aquifers across the Midlands since 1995, levels in the south and west recovered well during the past year. However lower rainfall in the east has left water levels in the sandstone aquifer underlying much of Nottinghamshire at the lowest levels ever recorded. Although this has no immediate impact on our ability to abstract and supply water, it does have implications on the local environment and on the availability of future water resources.

Further emphasis on leakage reduction saw overall demands for water continue to decline, albeit at a reduced rate. Average consumption during the year was 2% lower than the previous year, but some 15% less than the corresponding figure in 1995/96. The lower level of demand allows a more *flexible use of sources of supply and, coupled with the wetter weather, generally allowed the fullest possible use of lower cost sources of supply.*

Good progress has been made on capital works at water supply locations, particularly the Millennium Project at Ladybower Reservoir and the new water treatment works at Little Eaton and at Homesford, all in Derbyshire. Works at Witches Oak Waters and at Church Wilne have progressed to enable trials on the River Trent abstraction scheme to take place during the spring of 1999. These projects will significantly enhance our security of supply across the company. The Ladybower Millennium Project has involved extensive consultation and careful environmental management to reflect its very sensitive location in the Peak District National Park.

We have continued to meet extremely high levels of compliance with drinking water standards; for a second year in succession we achieved 99.9% compliance with some of the toughest standards in the world.

Reducing our customers' concerns about the taste of water in some locations remains a priority. This again reflects the importance we place on water quality, and how we work hard to provide water which is not only safe, but looks and tastes good to customers.

To ensure our customers receive drinking water of the highest quality we also maintain close working relationships with our public health colleagues across the Midlands and regularly receive their advice and support. During the year particular attention was placed on enhanced multibarrier systems to protect our supply systems from microbiological contamination, including the organism cryptosporidium.

Like any good business, we continually strive to maximise our efficiency whilst maintaining these very high quality standards. Last year saw a large number of efficiency gains in water treatment operation resulting in particular from careful site control and energy management. These gains, *along with other efficiency initiatives and new support systems developed and trialled during the year, leave us well placed for the future.*

Managing Director's review continued

100%

of the company's systems and sites have been classified as 'blue' using the Action 2000 national ratings for millennium compliance.

As ever, we continue to ensure that improved efficiency does not result in any increased risk to our employees, customers or the environment. A formal Risk Management process is now established as part of our everyday 'business as usual' approach in key parts of the business. Similarly, our plans for dealing with the Year 2000 issues will ensure our customers' supplies remain protected. Surveys of all key sites have been completed, and we are very well advanced with all the improvements identified. In addition, contingency plans for the Millennium period have been agreed and are in place.

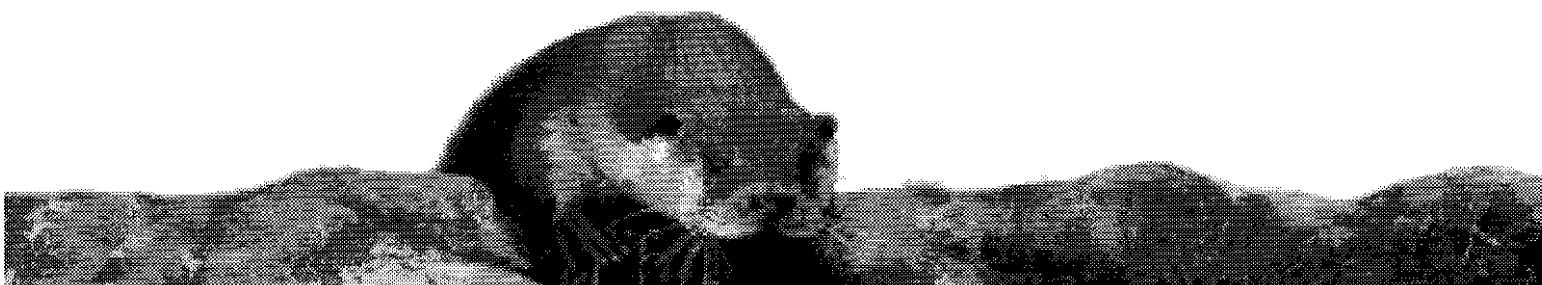
Sewage treatment

We operate our 1,004 sewage treatment works and associated sludge treatment facilities under a single management structure which is focused on maximising quality outputs and improving efficiency. During 1998, compliance with the standards set by the Environment Agency for discharges to watercourses continued to improve. Of the 731 sewage treatment works with 'numeric' standards, 730 achieved full compliance with sanitary standards. Our record against non sanitary parameters (predominantly metals and colour effluents) has shown a substantial improvement. The company's investment programme continues to deliver measurable benefits to the rivers and streams in the Midlands.

In promoting new investment schemes, we strive to maximise the benefits to all stakeholders; for example, we have invested £44 million in sewage treatment works that discharge into the River Erewash. This river was

recognised by the Environment Agency as one of the priority catchments for investment in the period 1995–2000 through the National Environmental Programme. Seven sewage treatment works serve the small industrial towns on the borders of Derbyshire and Nottinghamshire, which discharge to the Erewash. By working with business and community groups, local authorities, the Environment Agency and environmentalists, including the Nottinghamshire Wildlife Trust, we have established a 'green corridor', re-establishing flora and fauna that was lost many decades ago. Bird life has benefited too, with a number of reports of Kingfisher sightings; the numbers of species of fish has also expanded. The green corridor gives the community a pleasant and interesting recreational asset and makes the area more attractive to inward investment.

Implementation of the European Urban Waste Water Treatment Directive impacts on seven of our sewage treatment works requiring reductions in the level of phosphate in discharges to watercourses. Phosphates act as nutrients to microscopic biological life in rivers and can result in eutrophication which causes problems due to excessive growth of algae and aquatic plants. The source of phosphates includes both domestic and industrial discharges to watercourses, particularly related to the use of detergents. During 1998 we introduced new treatment processes to reduce phosphate levels at the works serving Coventry, Redditch, Rugby, Solihull and Stratford on Avon; all the works are now meeting the required phosphate removal standards.





Shona Hudson

Shona Hudson from the company's water supply group was the 1998 winner of the ISM Award for Excellence in First Line Management. This is the second year that a Severn Trent employee has won this award. Training and development plays an important part in the success of the company and by encouraging individuals to add value and maximise their potential we aim to develop all of our people.

Meeting new effluent quality standards has the inevitable consequence that we produce more sludge from our sewage treatment processes. Of the total sludge produced, 49% is applied to agricultural land for beneficial re-use, 22% is used in the restoration of derelict land, 13% is incinerated in our two plants at Coleshill and Stourbridge and the remainder is disposed of to landfill. We are meeting all of the new requirements for safe and beneficial disposal of sludge.

Networks

We have continued to invest heavily in improving the quality of operational performance within our 'Networks' business unit, which is responsible for the management and control of the company's underground water distribution pipes and sewer systems.

The continued reduction in leakage plays a key role in our long-term water resource strategy and since 1996 the company has achieved the best performance in leakage reductions in the industry. Total leakage for the year was a commendable 344 MI/d, against a mandatory target set by OFWAT of 348 MI/d. Since 1994, we have reduced leakage by a massive 320 MI/d, from about 30% of total supply to under 18%. This means we have saved the equivalent of the daily supply to the city of Birmingham.

We have every expectation of achieving our OFWAT leakage target for 1999/2000 of 342 MI/d. However, as expected, it is becoming increasingly difficult to make further

significant savings as we approach the company's economic level of leakage.

Progress made on pressure management has had a significant effect on reducing leakage levels as well as helping to manage demand. Over 43% of customers are now under a positive pressure management regime, but without impacting on the service which customers expect. We continue to offer free repairs to domestic customers' supply pipes as an integral part of the leakage programme, with over 12,500 repairs completed during the year.

Significant progress has been made on reducing the number of properties at risk of poor mains pressure; we achieved a 15% reduction on last year's figures. At 31 March 1999, 4,595 properties were at risk, representing just 0.14% of customers – the company's best ever position. Investment schemes have been identified to target further reductions.

An increasing focus of effort is to reduce the number of incidents giving rise to customers receiving discoloured water which is caused primarily by iron and manganese deposits in old water mains. Problems relating to discolouration have been alleviated by the continuing programme of water mains replacement and relining. We have also undertaken a discolouration assessment for the entire distribution system to enable us to identify and better manage areas where the deposits are heaviest.

The return of the otter

Severn Trent has invested millions of pounds to improve river quality. The otter has a key role to play as an indicator of water quality as they rely on a healthy river environment to survive. Working in partnership with the local Wildlife Trusts our support has helped to provide experts to manage schemes which will encourage more otters to move back into our region.

Managing Director's review continued

99.2%

of our 2.9 million customer billing enquiries were dealt with in five days.

On 1 April 1999, 13 Sewerage Agencies previously operated by local Councils were successfully integrated within the in-house sewerages function, bringing a further 6,200 km of sewer network into our direct management and control. We have now given notice to the remaining 41 Councils that we will be terminating all Agency agreements with effect from 1 April 2000.

I would like to formally place on record my thanks for the excellent service these Agencies have given to the customers of Severn Trent Water. However, with future investment levels and the need to invest in new technology we have decided to change the arrangements.

Flooding from sewers can be extremely distressing for our customers and we have made good progress in reducing the number of events and risk of future events. For the year under review, we recorded a 42% reduction on last year's figures bringing the total number of properties which actually flooded to just 1,040.

One of the major investment schemes undertaken during the year was in Derby. The scheme has already benefited 300 properties which were prone to frequent flooding. The scheme will benefit a further 300 properties when it is completed during the current year.

The number of properties at risk of flooding from public sewers no more than twice in 10 years has been reduced by 27% from 1,662 in March 1998 to 1,207 in March 1999. This is the company's best ever position, with 99.96% of our customers at no risk.

Customer Service

Our focus on the continuous improvement of the services we provide to our customers has concentrated this year on simplifying contact with us and widening customer choice. There are now just three telephone numbers through which customers contact the company (these are quoted on page 57).

To make this possible we have developed the systems and technology to enable any of our operators answering calls on these numbers to have sufficient information about what is happening within the business to be able to respond effectively. The new software is mounted on our new intranet system, ASSIST, making information transfer within the company much easier and more efficient.

We also have a direct e-mail link from our corporate website and more customers are contacting us now electronically on customer.relations@severntrent.co.uk.

Customer contact with the company has increased with over 3.6 million calls this year. Against this background we have further improved our speed of response to telephone calls, with the average now at 9.8 seconds.

We have continued to improve our processes and systems and further invested in training our people. This has resulted in a continued improvement compared to the performance criteria set by OFWAT with over 99% of our 2.9 million billing enquires being answered within five working days; and over 95% of written complaints being answered within five working days and nearly 100% within 10 days.

Beautiful gardens the 'green' way

More than 40,000 water butts have been distributed to customers throughout our region as part of our continuing programme for promoting water efficiency. Every day our customers are making a significant contribution to water conservation by saving water at home, in the garden and at work.



John Firth

As Planning and Environmental Assessment Manager, John Firth ensures that we continue to demonstrate environmental leadership throughout all our schemes and projects. Witches Oak Waters is a series of lakes that have been created on the banks of the River Trent where, as well as enabling the company to develop new water sources, the site is a nature conservation area making a significant contribution to local and regional biodiversity.

In the year under review, 99.7% of domestic customers with a meter received a bill based on an actual reading; our best ever performance, compared to 99.5% in the previous year. The improvement in performance was achieved even though there was a significant increase in the number of free meters installed. 163,000 free water meters have been fitted since 1996, the second highest number in the UK water industry as a whole.

To further increase choice to customers on where they can pay their bills, we have supported the development of PayPoint which has created a further 1,200 locations in shops, garages and supermarkets. This is a project which we have jointly developed with other utility companies for the convenience of customers who wish to pay us in cash.

We have been preparing for the Government's proposed ban on domestic disconnections and have been working for some time to re-engineer our credit management processes to make more effective use of the enforcement options available through the County Court system. We are now in a position to apply charges to properties, income and bank accounts to ensure that domestic customers who may seek to avoid our charges are made to pay. We have continued to disconnect customers for non-payment of water charges by targeting those customers who try to avoid payment by choice, rather than through circumstance.

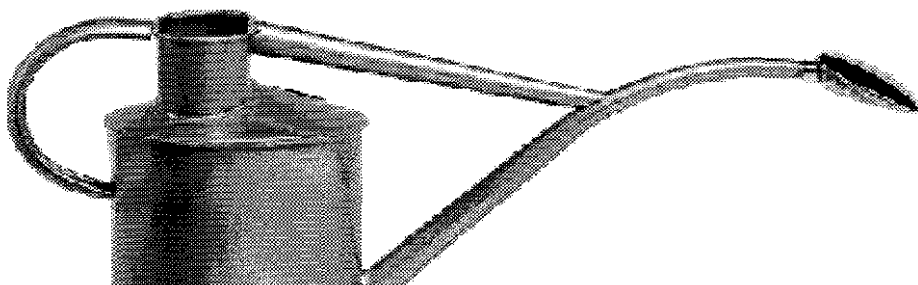
At the same time, our support for those customers who have genuine difficulties in paying their utility bills continues by way of a substantial contribution to an independent charitable trust.

Severn Trent has also supported hundreds of community projects either directly or by encouraging staff to become involved. Our support for customers with special needs is continuing to grow and we have a network of Area Co-ordinators whose role is to understand and support the needs of these customers and liaise closely with local caring agencies and support groups.

The company has also continued its support for the highly regarded Prince's Trust Volunteers programme, by funding 14 places for 16–25 year old staff so that they can both improve their personal skills and become more involved with local community projects, helping people in need and caring for the local environment.

The environment

Over the last 12 months we have comprehensively reviewed and updated our Environmental Policy in line with our goal of environmental leadership. The objective of our policy is a 'sustainable environment for the communities we serve'.



Managing Director's review continued

163,000

free meters installed, the second highest number in the UK water industry as a whole.

By measuring the impact of our activities on the environment and setting appropriate targets for improvement we believe we are in a better position to reduce any adverse effects of our activity. These include the continuing investment to secure high river quality and reducing leakage to the minimum sustainable level. In addition we have set targets in other key areas, for example energy use. We continue to publish progress against these targets in our annual environmental report.

As an environmentally responsible business, we are already striving to adopt best environmental practices in all our business activities. During this last year we have focused particularly on waste management to ensure that all our sites fully comply with Duty of Care requirements, and that relevant staff are fully trained at those sites requiring waste management licences. We are also actively seeking to minimise waste generation.

Environmental leadership requires that we promote debate on key environmental issues. We have taken a particular stance on climate change, which we believe will be of fundamental importance to the whole water industry as well as many other sectors. It is our view that a genuine and far-reaching debate needs to take place about the way that society should tackle the issues involved.

We also have numerous other awareness initiatives across the whole of the Midlands, including participation in national campaigns such as *Going for Green*, *Turning the Tide*, *Are You Doing Your Bit?*, *Conservers at Work* and *Global Action Plan*.

We are also mindful of our huge responsibility for encouraging and actively promoting biodiversity across our company area. We have developed a comprehensive Biodiversity Action Plan, which is fully in line with national and regional initiatives, and has been put together in close consultation with local wildlife and conservation groups. We will be working closely with these organisations as we

jointly encourage the richness of the natural environment in our area. A very visible indicator of the increasingly healthy state of our rivers is the reappearance of the otter. Our continued support of conservation groups has enabled them to create habitats for securing the long-term survival and re-establishment of the otter as a common sight on our river banks.

Our people

1999 was another challenging year for the company and I would like to take this opportunity to thank all the employees for their commitment and effort throughout the year.

The next few years will see more new challenges being placed on the company, which will involve a continuing process of change and development to meet these challenges, but particularly to meet the needs and the growing expectations of our customers. Inevitably this will lead to more demands being placed on our employees. However, on my regular visits around the company when I see at first hand the enthusiasm, dedication and commitment of all of our staff, I am confident that we will meet those challenges.

We do, however, recognise the increasing demands and expectations that are being placed on our employees and we have taken a number of initiatives to manage the impact of those changes across the company. One such initiative, still in its infancy, is the creation of the company's Intranet. The potential for development of this is immense, and alongside the other information technology changes we are making will revolutionise the way the company communicates and operates.

I would like to place on record my thanks to the employees for all their efforts and for making this company what I believe is the best water company in the world. I am confident we will rise to the challenges that await us with enthusiasm.



Louise Matthews

Louise Matthews is a process engineer working in South Derbyshire. Her job involves monitoring the quality of the River Trent between Derby and Nottingham where a £40 million investment programme means for the first time water from the river can be used to support supplies for up to 3 million customers throughout the East Midlands.

The future

At the time of preparing this report, the company awaits the Draft Determination from OFWAT of the company's price proposals to meeting investment requirements up to 2005. In our proposals we have sought to achieve a balance between price reductions for our current customers, whilst sustaining water quality and environment improvements for several years to come.

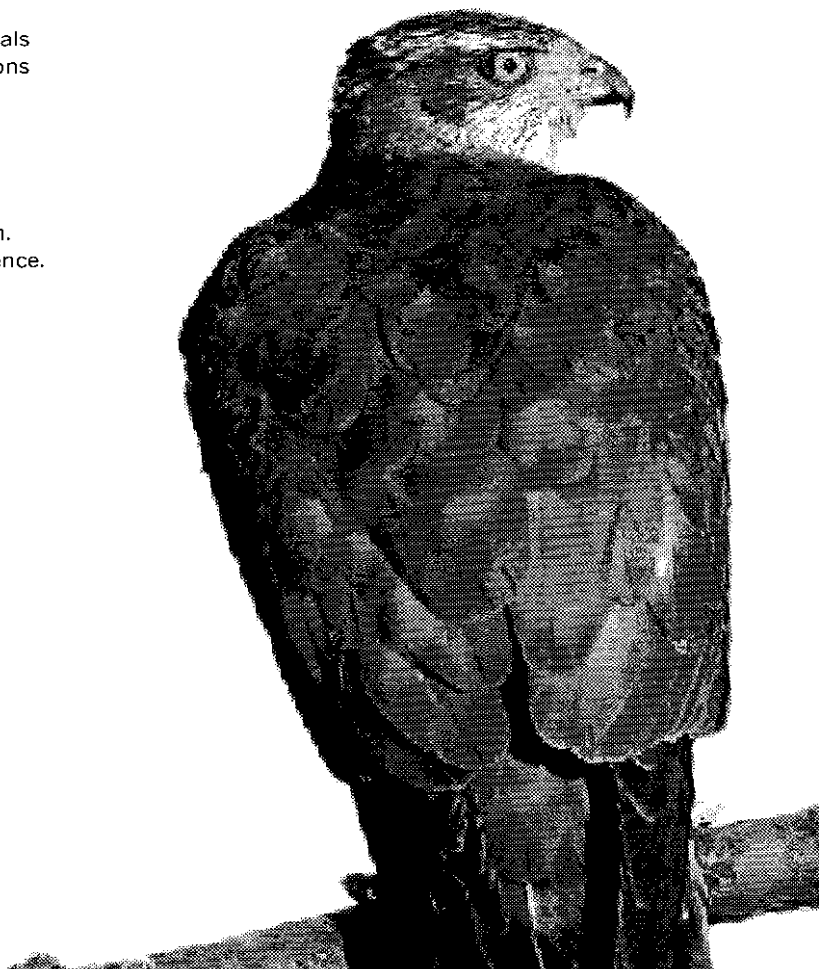
Out of all 10 water and sewerage companies, our proposals were the only ones which promised overall price reductions whilst still providing for a very significant level of new investment which will benefit future generations.

The company's culture and people combined with its investments and operational processes put us in a strong position to meet the challenges of the next quinquennium. We look forward to meeting those challenges with confidence.

Brian Duckworth
Managing Director

Letting nature take its course

At Ladybower Reservoir in the Derbyshire Peak District we are investing £23 million to strengthen the dam and modernise Bamford water treatment works. Recognising the environmental sensitivity of the reservoir area careful planning was undertaken to ensure there would be no long-term impacts on the environment – work on the scheme was actually halted for several months to allow breeding Goshawks to nest undisturbed.



Directors' report

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

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 £952.7 million (1998: £932.8 million), and operating profit was £406.6 million (1998: £409.4 million). Profit on ordinary activities before taxation was £334.6 million (1998: £361.6 million).

Business review and future developments

A review of business activities and future developments is contained within the Managing Director's review on pages 4 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 £138.0 million (1998: £439.6 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 change. Consistent with this policy, the dividend declared by the company in 1999 amounted to £138 million (1998: £130 million). The company also declared in 1998 an exceptional dividend of £309.6 million to fund the windfall levy introduced by the Government in July 1997. Half this amount was then returned to the company by way of an interest free loan pending final payment of the levy, which occurred in December 1998. The net result was 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.

Proposed transfers to reserves are set out in note 15 to the financial statements on page 27.

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
T D G Arculus	Appointed 29 September 1998
J K Banyard	
I Elliot	
J M Foster	
R Ireland	Resigned 29 July 1998
T Kitson	
G P Noone	
F A Osborn	Appointed 1 March 1999
A Q Todd	
R M Walker	Resigned 1 March 1999
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 21.

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 37 days after the invoice date.

Research and development

The company's expenditure on research and development activities in 1999 was £6.8 million, compared to £6.5 million in 1998, including £2.9 million (1998: £2.6 million) on fixed assets.

During the year work continued on the advanced water treatment facility at Church Wilne where the company is evaluating the most appropriate technology for using River Trent water as a new water resource. In conjunction with this project a state of the art on-line monitoring station has been developed on the bank-side of the River Trent, assessing organic pollutant levels, and providing the necessary intake protection for the raw water storage lakes at Witches Oaks Waters.

After extensive development over a number of years, the company is installing the first large-scale on-site plant for the generation of chlorine gas from hydrochloric acid at the Frankley water treatment works. The development of this technology will allow a significant reduction of chlorine gas stored on site.

Recent pressures on the traditional recycling of digested sludge to agricultural land has prompted the company to undertake a comprehensive review of the available technologies for pasteurisation of sludge and elimination of pathogens prior to disposal. A full scale trial of one of the most promising technologies is currently underway at Coalport sewage treatment works.

In line with the company's commitment to energy conservation, a number of new projects have been initiated looking at techniques for optimising both the production of biogas from sludge processes but, most importantly, the use of this biogas for generating recyclable energy.

Employees

The company employed 5,228 people on 31 March 1999 (1998: 5,320).

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.

Consultation has begun, regarding proposals to set up a European Consultative Council at group level. The aim is to conclude a voluntary agreement with the Trade Unions under Article 13 of the European Directive. It is hoped that the Council will have its first meeting in the Autumn of 1999.

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 arrangements involve Joint Consultative Committees at county 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 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 front line staff have been briefed in order to promote awareness across the company and ensure best practice. The company's internal procedures have been reviewed and updated in order to ensure that it meets the requirements of the Act e.g., recruitment and selection.

The company is continually reviewing the facilities it offers to disabled and older customers and as part of this commitment it ensures that front line staff are trained and certified to national customer service standards.

Along with a number of other major companies, the company is a member of the Employers Forum on Disability. The Forum promotes an awareness of disability issues within member companies. The company has endorsed the Employers Forum 'Agenda for Customers'. By doing so it has given its commitment to ensure that the services which it provides are accessible to customers who have individual needs.

Year 2000 compliance (Y2K)

Millennium issues are being addressed and information on progress is being shared with external customers.

Commercial computer applications and hardware have been assessed and retired, refurbished or replaced with compliant

equipment and/or software as appropriate. At 31st March 1999 virtually all IT upgrade and replacement work had been completed as planned with remaining work scheduled for completion by September 1999.

A comprehensive review and remediation programme of operational sites is being undertaken and is on target for completion by the end of June 1999. Although there may still be some residual work at this time this will not compromise the company's ability to provide water services.

Contingency plans including a Millennium operating regime are being developed around the company's existing emergency plans and a continuing review of the preparedness of key customers and suppliers will continue throughout the remainder of 1999.

The company actively and openly participated in two OFWAT reviews of the water industry's Year 2000 readiness carried out by independent consultants during August 1998 and March 1999. In October 1998 the company signed up to Pledge 2000 and recently committed itself to the Action 2000's Mentoring Scheme. Over the last two years the company has worked with the other water company's and utilities through Water UK and the Y2K Utilities Group to ensure Year 2000 preparedness.

In the region of £22 million has been committed to actioning compliance all of which is being charged against profits. This included £2.2 million spent in 1997/98, £11.8 million in 1998/99 with approximately £8 million expected to be spent during 1999/2000.

Regulation: 'Ring fencing'

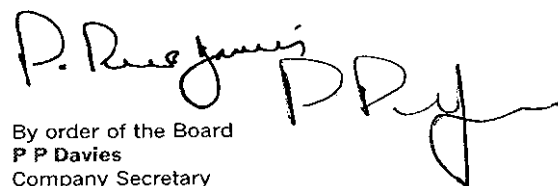
In accordance with the requirements of the Director General of Water Services, the Board confirmed that as at 31 March 1999 it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of 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

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



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

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 28, 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, any material departures being disclosed and explained in the financial statements.

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 at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

Auditors' report

to the members of Severn Trent Water Limited

We have audited the financial statements on pages 15 to 28 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

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

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

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

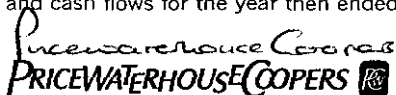
Basis of audit opinion

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

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

Opinion

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

The logo for Price Waterhouse Coopers, featuring the company name in a stylized, cursive font above the name in a bold, sans-serif font, with a small square icon containing the letters 'PC' to the right.

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

Profit and loss account

Year ended 31 March 1999

	Notes	1999 £m	1998 £m
Turnover	2a	952.7	932.8
Operating costs before exceptional Year 2000 costs		(534.3)	(521.2)
Exceptional Year 2000 costs		(11.8)	(2.2)
Operating costs	2b	(546.1)	(523.4)
Operating profit		406.6	409.4
Other income		0.9	–
Income from shares in subsidiary undertaking		–	0.1
Profit before interest		407.5	409.5
Net interest payable	4	(72.9)	(47.9)
Profit on ordinary activities before taxation		334.6	361.6
Taxation on profit on ordinary activities	5	(111.0)	(115.3)
Profit for the financial year		223.6	246.3
Dividend	6	(138.0)	(130.0)
Exceptional dividend	6	–	(309.6)
Retained profit/(loss) for the financial year	15	85.6	(193.3)

All activities are continuing activities.

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

	1999 £m	1998 £m
Profit for the financial year	223.6	246.3
Dividends	(138.0)	(439.6)
Net addition to/(reduction in) shareholders' funds	85.6	(193.3)
Shareholders' funds at 1 April 1998	2,059.5	2,252.8
Shareholders' funds at 31 March 1999	2,145.1	2,059.5


Balance sheet


As at 31 March 1999

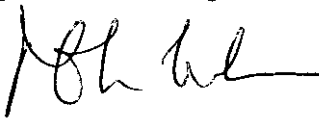
	Notes	1999 £m	1998* £m
Fixed assets			
Tangible assets	7	4,042.8	3,706.6
Investments	8	1.8	1.3
		4,044.6	3,707.9
Current assets			
Stocks		5.4	5.3
Debtors	9	150.3	134.3
Cash at bank and in hand		0.1	0.1
		155.8	139.7
Creditors: amounts falling due within one year	10	(691.7)	(788.5)
Net current liabilities		(535.9)	(648.8)
Total assets less current liabilities		3,508.7	3,059.1
Creditors: amounts falling due after more than one year	11	(1,358.0)	(983.8)
Provisions for liabilities and charges	13a	(5.6)	(15.8)
Net assets		2,145.1	2,059.5
Capital and reserves			
Called up share capital	14	1,000.0	1,000.0
Profit and loss account	15	1,145.1	1,059.5
Equity shareholders' funds		2,145.1	2,059.5

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

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


V Cocker
Chairman


M R Wilson
Finance, Regulation and Planning Director



Cash flow statement

Year ended 31 March 1999

	Notes	1999 £m	1999 £m	1998 £m	1998* £m
Net cash inflow from operating activities	18a		565.4		601.4
Returns on investments and servicing of finance					
Interest received		0.6		3.2	
Interest paid		(57.9)		(39.3)	
Interest element of finance lease rental payments		(0.1)	(57.4)	(0.1)	(36.2)
Taxation			(110.2)		(35.5)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(593.8)		(496.1)	
Grants received		27.2		19.4	
Sale of tangible fixed assets		6.0		6.7	
Loans repaid by associated undertakings		-		0.2	
Investment in other fixed asset investments		(0.4)	(561.0)	(0.1)	(469.9)
Equity dividends paid			(138.0)		(564.6)
Net cash outflow before financing			(301.2)		(504.8)
Financing					
Loans advanced		747.5		279.7	
Loans repaid		(576.9)		(27.8)	
New finance lease arrangements		-		84.6	
Finance lease capital repaid		(8.4)	162.2	(7.9)	328.6
Net decrease in cash			(139.0)		(176.2)

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

Reconciliation of net cash flow to movement in net debt

	Notes	1999 £m	1999 £m	1998 £m	1998 £m
Net decrease in cash as above		(139.0)		(176.2)	
Cash flow from movement in net debt and financing		(162.2)		(244.0)	
Change in net debt resulting from cash flows			(301.2)		(420.2)
Inception of finance leases			(15.4)		(94.4)
Increase in net debt			(316.6)		(514.6)
Opening net debt			(1,291.4)		(776.8)
Closing net debt	18b		(1,608.0)		(1,291.4)

Notes to the financial statements

Year ended 31 March 1999

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.

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

- FRS 11 'Impairment of Fixed Assets and Goodwill'
- FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'

The following accounting standard, which is not mandatory until the company's next accounting period will be adopted in the next financial statements:

- FRS 15 'Tangible Fixed Assets'

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 and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included at cost after deducting grants and contributions.

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

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12, as it is no longer permissible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence, the balance sheet and cash flow statement have been restated to take account of necessary changes since the year ended 31 March 1989, when renewals accounting was first adopted, and any previous provisions or prepayments have been subsumed into fixed assets. Further information is given in note 7. This change of accounting has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

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.

1 Accounting policies continued

f) Grants and contributions

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

g) Investments

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

h) Stocks

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

i) Pension costs

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

j) Foreign currency

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

k) Research and development

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

l) Deferred taxation

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

m) Year 2000 and euro costs

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

2 Analysis of turnover and operating costs

a) Turnover

Turnover is net of customer rebates as follows:

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

Notes to the financial statements continued

Year ended 31 March 1999

2 Analysis of turnover and operating costs continued

b) Operating costs

	1999 £m	1998 £m
Wages and salaries	111.5	108.4
Social security costs	9.7	9.2
Pension costs (note 17)	11.7	11.4
Total employee costs	132.9	129.0
Power	31.5	28.7
Raw materials and consumables	29.7	30.2
Rates	36.6	37.8
Service charges	21.0	20.3
Agencies	17.5	18.3
Other operating costs	76.5	68.2
Depreciation charge (note 7)	198.5	178.0
Deferred income released	(2.7)	(3.3)
Hired and contracted services	53.2	55.4
Hire of plant and machinery	1.9	2.0
Other operating leases	0.5	0.6
Audit fees	0.2	0.2
Research and development expenditure	3.9	3.9
Profit on disposal of tangible fixed assets	(3.2)	(1.6)
	598.0	567.7
Own work capitalised	(51.9)	(44.3)
	546.1	523.4

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

Employee costs	0.4	0.4
Hired and contracted services	2.0	0.7
Depreciation	3.1	–
Other operating costs	6.3	1.1
	11.8	2.2

Exceptional Year 2000 costs in the year ended 31 March 1999 of £11.8 million (1998: £2.2 million) relate to the costs of ensuring that all company computer and operating systems are Millennium compliant.

Other fees paid to the auditors, PricewaterhouseCoopers included within other operating costs amounted to £83,000 (1998: £3,000).

As a result of the introduction of FRS 12, 'Provisions, Contingent Liabilities and Contingent Assets' (explained in note 1 d) i)) the infrastructure renewals charge in the prior year of £63.6 million has been reclassified as depreciation. This reclassification has no impact on operating profit in absolute terms.

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 1998		31 March 1999		1 April 1998	Exercised during the year	Lapsed during the year	Granted during the year	31 March 1999
	Ordinary shares of 65½p each	B shares of 38p each	Ordinary shares of 65½p each	B shares of 38p each					
I Elliot	743	62	1,874	62	7,406	3,943	-	-	3,463
J M Foster	6,893	118	6,445	118	8,465	2,013	-	568	7,020
T Kitson	3,290	118	2,369	118	8,734	-	-	-	8,734
G P Noone	21,872	21,357	22,070	21,357	3,356	-	-	-	3,356
A Q Todd	3,793	118	3,875	118	3,924	-	-	-	3,924
M R Wilson	106	62	149	62	1,908	-	-	-	1,908

- i) Messrs Arculus, Banyard, Cocker, Duckworth and Osborn are Directors of Severn Trent Plc, the ultimate parent undertaking and their interests in the share capital of that company are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 1999. Share options were granted and exercised in accordance with the Severn Trent (Executive) Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.
- ii) The Directors have further interests in Severn Trent Plc ordinary shares of 65½p by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 23 September 1997 and 30 July 1998. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria are based on the company's total shareholder return compared to the total shareholder return of 14 other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 1998 Number of ordinary shares of 65½p each	Awarded during year	At 31 March 1999 Number of ordinary shares of 65½p each
I Elliot	3,527	3,452	6,979
J M Foster	4,068	3,422	7,490
T Kitson	3,635	3,610	7,245
G P Noone	4,212	3,810	8,022
A Q Todd	4,544	4,356	8,900
M R Wilson	4,659	4,453	9,112

b) Emoluments

	1999 £'000	1998 £'000
Aggregate emoluments (excluding pension contributions)	1,136.5	959.3

- 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 £382,491 (1998: £200,687) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.
- iii) Retirement benefits are accruing to nine Directors (1998: nine Directors) under a defined benefit scheme.

c) Highest paid Director

	1999 £'000	1998 £'000
Aggregate emoluments (excluding pension contributions)	224.8	175.3

The accrued pension at 31 March 1999 for the highest paid Director was £95,775 (1998: £75,397). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

Notes to the financial statements continued

Year ended 31 March 1999

3 Information regarding Directors and employees continued

Employee numbers

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

	1999 Number	1998 Number
Staff	3,022	3,008
Industrial staff	2,254	2,351
	5,276	5,359

4 Net interest payable

	1999 £m	1998 £m
Interest receivable and similar income	0.6	2.8
Interest payable and similar charges:		
Bank loans and overdrafts	(54.5)	(39.0)
Other loans	(1.7)	(1.6)
Finance leases	(15.4)	(10.0)
To parent undertaking	(0.1)	(0.1)
To subsidiary undertaking	(1.8)	-
	(72.9)	(47.9)

5 Taxation on profit on ordinary activities

	1999 £m	1998 £m
UK corporation tax @ 31% (1998:31%)		
Current year	121.4	115.3
Prior year	(12.8)	-
Group relief payable @ 31% (1998:31%)		
Current year	2.4	-
Prior year	-	-
	111.0	115.3

6 Dividends

	1999 £m	1998 £m
Dividend paid	138.0	130.0
Exceptional dividend	-	309.6
	138.0	439.6

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 1999 amounted to £138 million.

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

7 Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost				
At 1 April 1998	1,377.4	1,648.7	1,513.2	4,539.3
Reclassification – infrastructure renewals	–	598.9	–	598.9
As at 1 April 1998 (restated)	1,377.4	2,247.6	1,513.2	5,138.2
Additions	93.6	237.4	235.6	566.6
Grants and contributions	–	(29.1)	–	(29.1)
Assets sold or written off	(1.8)	(0.7)	(19.4)	(21.9)
At 31 March 1999	1,469.2	2,455.2	1,729.4	5,653.8
Depreciation				
At 1 April 1998	363.6	–	461.7	825.3
Reclassification – infrastructure renewals	–	606.3	–	606.3
As at 1 April 1998 (restated)	363.6	606.3	461.7	1,431.6
Charge for year	31.9	65.3	101.3	198.5
Assets sold or written off	(1.8)	(0.7)	(16.6)	(19.1)
At 31 March 1999	393.7	670.9	546.4	1,611.0
Net book value				
At 31 March 1999	1,075.5	1,784.3	1,183.0	4,042.8
At 1 April 1998 (restated)	1,013.8	1,641.3	1,051.5	3,706.6

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

	1999 £m	1998 £m
Cost	277.5	278.9
Accumulated depreciation	(37.0)	(36.7)
Net book value	240.5	242.2

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

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

	1999 £m	1998 £m
Freehold	1,075.5	1,013.6
Short leasehold	–	0.2
	1,075.5	1,013.8

iv) Depreciation incurred during the year has been charged as follows:

	1999 £m	1998 £m
Owned assets non infrastructure	125.5	106.9
Owned assets infrastructure	65.3	63.6
Assets held under finance leases	7.7	7.5
	198.5	178.0

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

	1999 £m	1998 £m
Land	23.1	19.9
Assets in the course of construction	395.3	353.4
	418.4	373.3

Notes to the financial statements continued

Year ended 31 March 1999

7 Tangible fixed assets continued

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

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

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

8 Investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
At 1 April 1998	1.1	0.2	1.3
Additions	0.1	0.4	0.5
At 31 March 1999	1.2	0.6	1.8

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

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

9 Debtors

	1999 £m	1998 £m
Trade debtors	66.4	70.7
Amounts owed by parent and fellow subsidiary undertakings	1.0	0.9
Amounts owed by subsidiary undertaking	-	5.1
Other debtors	10.3	0.4
Prepaid pension contributions	0.3	0.3
Prepayments and accrued income	72.3	56.9
	150.3	134.3

Debtors include £7.8 million (1998: £0.7 million) which falls due after more than one year.

10 Creditors: amounts falling due within one year

	1999 £m	1998 £m
Bank overdrafts	243.6	104.6
Bank loans	73.0	113.4
Interest free loan from parent undertaking	–	154.8
Borrowings (note 12)	316.6	372.8
Trade creditors	18.5	30.6
Amounts owed to parent and fellow subsidiary undertakings	102.8	103.8
Amounts owed to subsidiary undertakings	1.8	5.2
Other creditors	4.7	4.4
Taxation and social security	4.0	7.0
Corporation tax payable	49.0	50.1
Accruals and deferred income	194.3	214.6
	691.7	788.5

11 Creditors: amounts falling due after more than one year

	1999 £m	1998 £m
Bank loans	521.8	452.2
Interest free loan from parent undertaking	193.0	193.0
Amounts owed to subsidiary undertakings	297.9	–
Other loans	12.9	14.6
Obligations under finance leases	265.9	258.9
Borrowings (note 12)	1,291.5	918.7
Deferred income	55.7	57.1
Other creditors	10.8	8.0
	1,358.0	983.8

12 Borrowings

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	1999 £m	1998 £m
Within one year (note 10)	243.6	4.4	68.6	–	316.6	372.8
Between one and two years	–	4.4	226.1	–	230.5	31.4
Between two and five years	–	13.1	203.3	0.4	216.8	337.1
After more than five years	–	280.8	297.9	265.5	844.2	550.2
	243.6	302.7	795.9	265.9	1,608.1	1,291.5

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	1999 £m	1998 £m
European Investment Bank loans – 2004-2008	5.06 – 9.11	289.7	277.7
Local authority loans – 2010-2035	6.00 – 14.39	13.0	14.8
Amounts owed to subsidiary undertakings – 2024	6.125	297.9	–
Other loans	3.50 – 5.00	–	0.1
		600.6	292.6

Notes to the financial statements continued

Year ended 31 March 1999

13 Provisions

a) Provisions for liabilities and charges comprise:

	Balance at 1 April 1998 £m	Reclassification of infrastructure renewals £m	Balance at 1 April 1998 restated £m	Credited to profit and loss account £m	Utilised £m	Balance at 31 March 1999 £m
Infrastructure renewals	7.4	(7.4)	-	-	-	-
Restructuring	15.8	-	15.8	(3.0)	(7.2)	5.6
	23.2	(7.4)	15.8	(3.0)	(7.2)	5.6

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

As more fully explained in note 1 d) i) the infrastructure renewals provision at 1 April 1998 has been restated to reflect a change in accounting policy for infrastructure renewals, required as a result of the introduction of FRS 12. Prior to 1 April 1998, the financial statements included a provision for infrastructure renewal costs. As a consequence of the adoption of FRS 12, this provision and the movements therein have been reclassified to reflect expenditure on infrastructure renewals and the subsequent depreciation of this expenditure, separately within fixed assets.

b) Full potential deferred taxation

In accordance with the accounting policy there is no requirement for a provision for deferred taxation at 31 March 1999.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30% (1998: 31%) is:

	1999 £m	1998 £m
Accelerated capital allowances	608.1	638.7
Other timing differences	(16.5)	(8.5)
	591.6	630.2

Had provision for deferred taxation been made on the full liability method there would have been a reduction in the tax charge of £38.6 million (1998: reduction of £35.4 million).

As infrastructure assets are now depreciated, accelerated capital allowances on infrastructure assets of £337.3 million (1998: £364.5 million) have been included in the amounts set out above. Comparative figures have been restated to include the effect of this change in accounting.

14 Share capital

	1999 £m	1998 £m
Authorised		
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0
Issued and fully paid		
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0

The ultimate parent undertaking is Severn Trent Plc which is registered in England. Copies of the 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.

15 Profit and loss account

	£m
At 1 April 1998	1,059.5
Retained profit for the year	85.6
At 31 March 1999	1,145.1

16 Commitments and contingent liabilities

a) Investment expenditure commitments

	1999	1998
	£m	£m
Contracted for but not provided in the financial statements	177.3	233.3

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:

	1999		1998	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	-	0.4	0.1	0.1
Between one and five years	-	0.6	-	0.2
After five years	0.4	-	0.3	-
	0.4	1.0	0.4	0.3

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 others' overdrawn balances to the extent of their credit balances and the credit balances can be offset against overdrawn balances of participating companies.

17 Pensions

The company participates in two schemes, the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS), 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 £11.7 million (1998: £11.4million).

STWPS

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

	% per annum
Investment returns	7.5
Salary increases	5.0
Pension increases	3.5
Inflation	3.5
Dividend growth	4.0

The actuarial value of the scheme's assets was £528.0 million, which exceeded by 4% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The surplus is being spread over the estimated remaining period of employees' average service lives with the company on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £699.6 million.

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

Notes to the financial statements continued

Year ended 31 March 1999

17 Pensions continued

STMIS

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

	% per annum
Investment returns	8.0
Salary increases	6.0
Pension increases	4.5
Inflation	4.5
Dividend growth	4.0

The actuarial value of the scheme's assets was £64.4 million, which exceeded by 18% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings. The surplus is being spread over the estimated remaining period of employees' average service lives with the company on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £74.0 million.

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

18 Cash flow statement

a) Reconciliation of profit before interest to net cash inflow from operating activities

	1999 £m	1998 £m
Profit before interest	407.5	409.5
Income from shares in subsidiary undertaking	-	(0.1)
Depreciation charge (note 7 iv)	198.5	178.0
Profit on sale of tangible fixed assets	(3.2)	(1.6)
Deferred income received	1.4	1.3
Deferred income written back	(2.7)	(3.3)
Restructuring provision	(3.0)	-
Utilisation of restructuring provision	(7.2)	(12.9)
Diminution in value of investments	-	0.2
(Increase)/decrease in stocks	(0.1)	1.0
(Increase)/decrease in debtors	(14.4)	6.0
(Decrease)/increase in creditors	(11.4)	23.3
Net cash inflow from operating activities	565.4	601.4

The utilisation of the restructuring provision relates to an exceptional restructuring provision charged to the profit and loss account in the year ended 31 March 1997.

b) Analysis of changes in net debt

	Balance at 1 April 1998 £m	Cash flow £m	Other non cash changes £m	Balance at 31 March 1999 £m
Cash at bank and in hand	0.1	-	-	0.1
Overdrafts (note 12)	(104.6)	(139.0)	-	(243.6)
Debt due within one year (note 12)	(268.2)	268.2	(73.0)	(73.0)
Debt due after one year (note 12)	(659.8)	(438.8)	73.0	(1,025.6)
Finance leases (note 12)	(258.9)	8.4	(15.4)	(265.9)
	(1,291.4)	(301.2)	(15.4)	(1,608.0)

Group profit and loss account

Year ended 31 March 1999

	1999 £m	1998 £m
Turnover	952.7	932.8
Operating costs	(549.3)	(525.0)
Other operating income	3.2	1.6
Operating profit	406.6	409.4
Other income	1.0	-
Net interest payable	(72.9)	(47.9)
Profit on ordinary activities before taxation	334.7	361.5
Taxation on profit on ordinary activities	(111.0)	(115.3)
Profit for the financial year	223.7	246.2
Dividend	(138.0)	(130.0)
Exceptional dividend	-	(309.6)
Retained profit/(loss) for the financial year	85.7	(193.4)

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

Group balance sheet

As at 31 March 1999

	1999 £m	1998 £m
Fixed assets		
Tangible assets	4,032.5	3,714.0
Investments	0.9	0.4
	4,033.4	3,714.4
Current assets		
Stocks	5.4	5.3
Debtors	160.6	129.2
Cash at bank and in hand	0.5	0.1
	166.5	134.6
Creditors: amounts falling due within one year		
Borrowings	(316.2)	(372.6)
Other creditors	(372.5)	(407.6)
	(688.7)	(780.2)
Net current liabilities	(522.2)	(645.6)
Total assets less current liabilities	3,511.2	3,068.8
Creditors: amounts falling due after more than one year		
Borrowings	(1,291.6)	(918.8)
Other creditors	(10.8)	(8.0)
	(1,302.4)	(926.8)
Provisions for liabilities and charges	(5.6)	(23.2)
Deferred income	(58.5)	(59.8)
Net assets	2,144.7	2,059.0
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	1,144.7	1,059.0
Shareholders' funds	2,144.7	2,059.0

Group profit and loss account

Year ended 31 March 1999

	Notes	1999 £m	1998 £m
Turnover	2a	952.7	932.8
Total current cost operating costs	2d	(597.4)	(576.8)
Other operating income	2b	2.4	0.8
		357.7	356.8
Working capital adjustment	2c	2.9	3.5
Current cost operating profit		360.6	360.3
Other income		1.0	–
Net interest payable		(72.9)	(47.9)
Financing adjustment		30.6	30.5
Current cost profit before taxation		319.3	342.9
Taxation on profit on ordinary activities		(111.0)	(115.3)
Current cost profit attributable to shareholders		208.3	227.6
Dividend		(138.0)	(130.0)
Exceptional dividend		–	(309.6)
Current cost profit/(loss) retained		70.3	(212.0)

Group balance sheet

As at 31 March 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	3	26,981.5	26,096.9
Third party contributions since 1989/90		(691.5)	(603.4)
Working capital	4	(63.4)	(138.3)
Net operating assets		26,226.6	25,355.2
Cash and investments		1.4	0.4
Non-trade debtors		8.4	8.7
Non-trade creditors due within one year		(467.7)	(523.6)
Creditors due after one year		(1,302.5)	(926.8)
Provisions for liabilities and charges		(5.6)	(15.8)
Net assets employed		24,460.6	23,898.1
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account		368.1	297.8
Current cost reserve	5	23,092.5	22,600.3
		24,460.6	23,898.1

Group cash flow statement

Year ended 31 March 1999

	Notes	1999 £m	1999 £m	1998 £m	1998 £m
Net cash inflow from operating activities	6		566.0		601.3
Returns on investments and servicing of finance					
Interest received		0.6		3.2	
Interest paid		(57.9)		(39.3)	
Interest element of finance lease rental payments		(0.1)	(57.4)	(0.1)	(36.2)
Taxation			(110.2)		(35.5)
Capital expenditure					
Purchase of tangible fixed assets		(506.9)		(416.9)	
Grants received		27.2		19.4	
Infrastructure renewals expenditure		(86.9)		(79.2)	
Disposal of fixed assets		6.0		6.7	
Loans repaid by associated undertakings		-		0.2	
Investment in other fixed asset investments		(0.4)	(561.0)	(0.1)	(469.9)
Equity dividends paid			(138.0)		(564.6)
Net cash outflow before financing			(300.6)		(504.9)
Financing					
Loans advanced		747.5		279.7	
Loans repaid		(576.9)		(27.8)	
New finance lease arrangements		-		84.6	
Finance lease capital repaid		(8.4)	162.2	(7.9)	328.6
Net decrease in cash			(138.4)		(176.3)

Reconciliation of net cash flow to movement in net debt

	1999 £m	1999 £m	1998 £m	1998 £m
Net decrease in cash as above	(138.4)		(176.3)	
Cash flow from movement in net debt and financing	(162.2)		(244.0)	
Change in net debt resulting from cash flows		(300.6)		(420.3)
Inception of finance leases		(15.4)		(94.4)
Increase in net debt		(316.0)		(514.7)
Opening net debt		(1,291.3)		(776.6)
Closing net debt		(1,607.3)		(1,291.3)

Notes to the financial statements

Year ended 31 March 1999

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 28, 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 below 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 onto 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.

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.

2 Analysis of current cost turnover and operating costs

a) Analysis of turnover

	1999			1998		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Measured	161.9	166.7	328.6	148.9	153.4	302.3
Unmeasured	239.7	326.9	566.6	230.5	330.4	560.9
Trade effluent	-	40.1	40.1	-	43.4	43.4
Revenue grants	0.2	-	0.2	0.2	-	0.2
Third parties	2.1	0.4	2.5	8.9	0.4	9.3
Other sources	9.6	5.1	14.7	9.9	6.8	16.7
Total turnover	413.5	539.2	952.7	398.4	534.4	932.8

b) Other operating income

Current cost profit on disposal of tangible fixed assets	2.1	0.3	2.4	0.6	0.2	0.8
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c) Working capital adjustment

	(0.6)	3.5	2.9	(1.2)	4.7	3.5
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Notes to the financial statements continued

Year ended 31 March 1999

2 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets

	1999										
	Water services				Sewerage services				Business analysis		
	Resources and treatment	Distribution	Water services sub-total	Sewerage treatment	Sewerage treatment	Sludge and disposal	Sewage treatment sub-total	Sewerage services sub-total	Customer services	Scientific services	Cost of regulation
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Direct costs											
Employment costs	7.1	17.9	25.0	1.6	10.9	6.2	17.1	18.7			
Power	6.0	10.6	16.6	2.5	8.4	2.6	11.0	13.5			
Agencies	-	-	-	17.5	-	-	-	17.5			
Hired and contracted	2.9	10.5	13.4	1.4	2.0	8.3	10.3	11.7			
Associated companies	0.9	0.8	1.7	0.6	0.3	2.2	2.5	3.1			
Materials and consumables	5.3	3.7	9.0	0.5	3.4	3.2	6.6	7.1			
Service charges	7.8	-	7.8	1.2	4.2	0.1	4.3	5.5			
Bulk supply imports	7.7	-	7.7	-	-	-	-	-			
Other direct costs	0.5	0.7	1.2	0.4	1.0	0.5	1.5	1.9			
Total direct costs	38.2	44.2	82.4	25.7	30.2	23.1	53.3	79.0	25.4	11.0	2.3
General and support	19.8	15.7	35.5	3.5	19.6	14.0	33.6	37.1	7.3	3.7	0.7
Functional expenditure	58.0	59.9	117.9	29.2	49.8	37.1	86.9	116.1	32.7	14.7	3.0
Business activities recharge			22.4					28.0	(32.7)	(14.7)	(3.0)
Rates			25.3					11.3			
Doubtful debts			8.1					9.4			
Exceptional items			4.6					4.1			
			178.3					168.9			
Services for third parties			5.6					0.8			
Total operating expenditure			183.9					169.7			
Capital costs											
Infrastructure renewals:											
Expenditure	8.2	24.5	32.7	50.4	-	-	-	50.4			
Accrual	(6.7)	8.4	1.7	(19.5)	-	-	-	(19.5)			
Current cost depreciation	42.5	33.5	76.0	12.2	74.1	18.4	92.5	104.7			
Amortisation of deferred income			(1.2)					(1.5)			
Business activity capital costs			0.1					0.1			
			109.3					134.2			
Services for third parties depreciation			0.3					-			
Total capital maintenance			109.6					134.2			
Total operating costs			293.5					303.9			
Analysis of tangible fixed assets											
Service activities	1,871.7	4,702.5	6,574.2	17,996.7	1,597.0	314.9	1,911.9	19,908.6			
Business activities			149.0	22.5			109.7	132.2			
Service totals			6,723.2	18,019.2			2,021.6	20,040.8			
Services for third parties			217.5				-				
Total			6,940.7					20,040.8			

2 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets

1998

	Water services				Sewerage services				Business analysis		
	Resources and treatment £m	Distrib- ution £m	Water services sub-total £m	Sewerage treatment £m	Sludge and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m	
Direct costs											
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			
Total direct costs	37.7	48.1	85.8	24.6	28.1	19.8	47.9	72.5	24.3	11.1	2.3
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 activity 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			
Total operating expenditure			191.2					159.1			
Capital costs											
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					-			
Total capital maintenance			106.9					119.6			
Total operating costs			298.1					278.7			
Analysis of tangible fixed assets											
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			
Service totals			6,437.4	17,561.2			1,887.7	19,448.9			
Services for third parties			210.6					-			
Total			6,648.0					19,448.9			

e) Non appointed business

The group has not identified for the purpose of its 1998/99 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 1999 in respect of infrastructure assets amounted to £23.9 million on water services (1998: £25 million) and £8.4 million for sewerage services (1998: £8.3 million).

Expenditure on reactive and planned maintenance included in operating costs for 1999 in respect of non-infrastructure assets amounted to £10.3 million on water services (1998: £10 million) and £21.6 million for sewerage services (1998: £19.6 million).

Notes to the financial statements continued

Year ended 31 March 1999

3 Analysis of tangible fixed assets by asset type within service

a) Water services tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 1998	1,960.5	112.2	5,330.4	221.4	7,624.5
RPI adjustment	39.7	2.3	110.3	3.8	156.1
Additions	64.6	1.4	127.5	42.3	235.8
Disposals and amounts written off	(3.8)	(0.9)	–	(13.5)	(18.2)
At 31 March 1999	2,061.0	115.0	5,568.2	254.0	7,998.2

Depreciation

At 1 April 1998	835.9	33.7	–	106.9	976.5
RPI adjustment	17.7	0.7	–	2.3	20.7
Charge for year	50.4	1.9	–	24.1	76.4
Disposals and amounts written off	(3.7)	(0.6)	–	(11.8)	(16.1)
At 31 March 1999	900.3	35.7	–	121.5	1,057.5

Net book value

At 31 March 1999	1,160.7	79.3	5,568.2	132.5	6,940.7
At 1 April 1998	1,124.6	78.5	5,330.4	114.5	6,648.0

b) Sewerage services tangible fixed assets analysed by asset type

Gross replacement cost

At 1 April 1998	3,919.2	116.1	17,363.7	172.4	21,571.4
RPI adjustment	78.0	2.4	363.8	3.0	447.2
Additions	172.8	1.8	80.6	40.4	295.6
Disposals and amounts written off	(45.5)	(0.5)	–	(11.9)	(57.9)
At 31 March 1999	4,124.5	119.8	17,808.1	203.9	22,256.3

Depreciation

At 1 April 1998	2,006.1	30.3	–	86.1	2,122.5
RPI adjustment	42.3	0.6	–	1.8	44.7
Charge for year	83.7	1.7	–	19.4	104.8
Disposals and amounts written off	(45.5)	(0.5)	–	(10.5)	(56.5)
At 31 March 1999	2,086.6	32.1	–	96.8	2,215.5

Net book value

At 31 March 1999	2,037.9	87.7	17,808.1	107.1	20,040.8
At 1 April 1998	1,913.1	85.8	17,363.7	86.3	19,448.9

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

c) Total tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 1998	5,879.7	228.3	22,694.1	393.8	29,195.9
RPI adjustment	117.7	4.7	474.1	6.8	603.3
Additions	237.4	3.2	208.1	82.7	531.4
Disposals and amounts written off	(49.3)	(1.4)	-	(25.4)	(76.1)
At 31 March 1999	6,185.5	234.8	23,376.3	457.9	30,254.5
Depreciation					
At 1 April 1998	2,842.0	64.0	-	193.0	3,099.0
RPI adjustment	60.0	1.3	-	4.1	65.4
Charge for year	134.1	3.6	-	43.5	181.2
Disposals and amounts written off	(49.2)	(1.1)	-	(22.3)	(72.6)
At 31 March 1999	2,986.9	67.8	-	218.3	3,273.0
Net book value					
At 31 March 1999	3,198.6	167.0	23,376.3	239.6	26,981.5
At 1 April 1998	3,037.7	164.3	22,694.1	200.8	26,096.9

4 Working capital

	1999 £m	1998 £m
Stocks	5.4	5.3
Trade debtors	66.4	70.7
Trade creditors	(4.4)	(9.7)
Short-term capital creditors	(14.1)	(20.0)
Infrastructure renewals accrual	10.3	(7.4)
Accruals	(120.1)	(147.2)
Payments in advance	(56.1)	(47.3)
Tax and social security	(4.0)	(7.0)
Group trade debtors/(creditors)	(16.2)	(19.4)
Other trade debtors/(creditors)	(4.6)	(4.0)
Prepayments	74.0	47.7
	(63.4)	(138.3)

Notes to the financial statements continued

Year ended 31 March 1999

5 Reserves – current cost reserve

	1999 £m	1998 £m
At 1 April 1998	22,600.3	21,789.4
RPI adjustments:		
Fixed assets	537.9	855.6
Working capital	(2.9)	(3.5)
Financing	(30.6)	(30.5)
Grants and third party contributions	(12.7)	(18.6)
Other adjustments	0.5	7.9
At 31 March 1999	23,092.5	22,600.3

6 Reconciliation of current cost operating profit to net cash inflow from operating activities

	1999 £m	1998 £m
Current cost operating profit	360.6	360.3
Working capital adjustment	(2.9)	(3.5)
(Increase)/decrease in stocks	(0.1)	1.0
Other income	1.0	–
Current cost depreciation	181.2	165.5
Current cost profit on disposal of tangible fixed assets	(2.4)	(0.8)
(Increase)/decrease in debtors	(19.5)	6.0
(Decrease)/increase in creditors	(5.7)	23.2
Release of provisions	(21.6)	(15.6)
Infrastructure renewals expenditure	86.9	79.2
Effect of other deferrals and accruals on operating activity cash flow	(11.5)	(14.0)
Net cash inflow from operating activities	566.0	601.3

Five year summary

At 1998/99 out-turn prices

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit and loss account					
Turnover	952.7	961.7	979.8	977.1	954.6
Current cost operating costs	(597.4)	(594.7)	(618.8)	(596.8)	(673.6)
Share of results of associated undertakings	0.1	-	-	0.1	(0.1)
Other operating income	2.4	0.8	2.7	4.8	4.7
	357.8	367.8	363.7	385.2	285.6
Working capital adjustment	2.9	3.6	4.2	4.0	5.6
Current cost operating profit	360.7	371.4	367.9	389.2	291.2
Other income	0.9	-	-	-	-
Net interest payable	(72.9)	(49.4)	(37.4)	(38.0)	(28.4)
Financing adjustment	30.6	31.4	21.4	14.2	16.5
Current cost profit before taxation	319.3	353.4	351.9	365.4	279.3
Taxation	(111.0)	(118.9)	(37.1)	(33.1)	(7.1)
Current cost profit attributable to shareholders	208.3	234.5	314.8	332.3	272.2
Dividend	(138.0)	(134.0)	(293.2)	(130.9)	(157.8)
Exceptional dividend	-	(319.2)	-	(421.1)	-
Current cost profit/(loss) retained	70.3	(218.7)	21.6	(219.7)	114.4
	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Balance sheet					
Fixed assets					
Tangible assets	26,981.5	26,644.9	26,324.9	26,069.9	25,942.8
Third party contributions since 1989/90	(691.5)	(616.1)	(560.9)	(490.9)	(425.7)
Working capital	(63.4)	(141.2)	(106.4)	(163.4)	(153.5)
Net operating assets	26,226.6	25,887.6	25,657.6	25,415.6	25,363.6
Cash and investments	1.4	0.4	76.8	188.9	92.0
Non-trade debtors	8.4	8.9	11.9	7.1	14.7
Non-trade creditors due within one year	(467.7)	(534.6)	(106.6)	(96.4)	(35.2)
Creditors due after one year	(1,302.5)	(946.3)	(872.8)	(916.8)	(557.8)
Provision for liabilities and charges	(5.6)	(16.1)	(30.9)	(20.9)	(48.5)
Dividends payable	-	-	(132.0)	-	-
Net assets employed	24,460.6	24,399.9	24,604.0	24,577.5	24,828.8
Capital and reserves					
Called up share capital	1,000.0	1,021.0	1,056.0	1,083.0	1,113.0
Profit and loss account	368.1	304.1	538.4	530.1	768.5
Current cost reserve	23,092.5	23,074.8	23,009.6	22,964.4	22,947.3
	24,460.6	24,399.9	24,604.0	24,577.5	24,828.8

Water Industry Act 1991

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

- a) Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve 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 arms length;
- e) Keep proper accounting records which comply with Condition F.

Diversification and the protection of the core business – Condition F6a

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.



B Duckworth
Managing Director
For and on behalf of the Board
7 June 1999

Report of the auditors

to the Director General of Water Services

We have audited the regulatory financial statements on page 29 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 30 to 39 which have been prepared under the current cost convention and the accounting policies set out on page 32.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 40 the regulatory financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

Basis of opinion

We conducted our audit in accordance with Accounting 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.

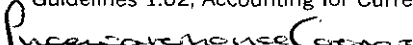

Opinion – qualified solely as regards the historical cost regulatory balance sheet

The historical cost regulatory balance sheet on page 29 has been drawn up in accordance with the Office of Water Services' instructions of 21 April 1999 that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 disapplied. As a consequence an amount of £10.3 million has been included under prepayments in the regulatory balance sheet and has been taken to reduce the amount of fixed assets as shown in the statutory balance sheet on page 16.

In our opinion, the regulatory financial statements contain the information for the year to 31 March 1999 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 Account Guidelines numbers 1 to 4 issued by the Office of Water Services;
- c) The regulatory financial statements on page 29 give, under the historical cost convention, a true and fair view of the revenues, cost and, except for accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the appointee and its appointed business;
- d) The current cost financial information on pages 30 to 39 has been properly prepared in accordance with Regulatory Accounting Guidelines 1.02, Accounting for Current Costs issued in May 1992 by the Office of Water Services.


PRICEWATERHOUSECOOPERS 

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

Supplementary Regulatory Accounting Disclosures

Year ended 31 March 1999

Information in respect of transactions during the year with any other business or activity of the Appointee or any Associated Company

a) Borrowings or sums lent

No sums were lent by the appointee to associated companies during the year.

Sums borrowed or repaid by the appointee during the year from/to associated companies were:

Lender		Principal amount £m	Repayment date	Interest rate %
Severn Trent Water Utilities Finance Plc	Borrowed	300.0	2024	6.125
Severn Trent Plc	Repaid	(154.8)	Dec. 1998	Interest free

b) Dividends paid to associated companies

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 1999 amounted to £138 million.

c) Transfer of assets/liabilities

During the course of the year sale proceeds in respect of assets sold by the appointee to associated companies at market value amounted to £0.8m.

d) Supply of services

Services supplied by the appointee to associated companies.

Nature of transactions	Company	Terms	Amount £m
Rental of office accommodation	Various	Market rent	0.7
Service charges in respect of payroll, legal, transport and other	Various	Cost including overheads	1.7
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	0.7
			3.1

Services supplied to the appointee by associated companies

Nature of transactions	Company	Terms	Total £m
Provision of waste services	Biffa Waste Services Ltd	Competitive tendering	3.6
Meter installation and provision of other engineering services	Capital Controls Ltd	Competitive tendering/ negotiated market rates	18.1
Provision of engineering and design services	Charles Haswells and Partners Ltd	Other market testing/ negotiated market rates	14.7
Asset management	Cognica Ltd	Negotiated market rates	0.4
Insurance services	Derwent Insurance Ltd	Other market testing	3.8
Supply of materials	Fusion Meters Ltd	Competitive tendering	8.2
Mailing and postal services	Paperflow Services Ltd	Competitive tendering/ other market testing	4.7
Analytical services	Severn Trent Laboratories Ltd	Other market testing	5.8
Management fee	Severn Trent Plc	Recharge of costs	4.6
Management fee	Severn Trent Property Ltd	Negotiated market rates	0.1
Project development and managed service contract	Severn Trent Systems Ltd	Competitive tendering/ negotiated market rates/ other market testing	59.5
Network analysis	Stoner Associates	Negotiated market rates/ other market testing	1.5
			125.0

Of the £125 million, £77.6 million was spent on investment expenditure.

e) Omission of rights

None

f) Waivers

None

g) Guarantees

None

Financial and operating statistics

Severn Trent Water has made a commitment to publish information on its financial, customer service, operational and quality performance. This statistical 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 1999 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.

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Financial

	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Profit and loss accounts					
Turnover	847.0	895.6	919.1	932.8	952.7
Operating profit	300.5*	394.4	386.2†	409.4‡	407.6§
Net interest payable	(25.2)	(34.8)	(35.1)	(47.9)	(72.9)
Profit for the financial year	275.3*	359.6	351.1†	361.5‡	334.7§
Taxation	(6.3)	(29.9)	(34.8)	(115.3)	(111.0)
Dividend	(140.0)	(120.0)	(275.0)	(130.0)	(138.0)
Exceptional dividend	-	(386.0)	-	(309.6)	-
Retained profit/(loss)	129.0*	(176.3)	41.3†	(193.4)‡	85.7§

*After restructuring provision of £55 million.

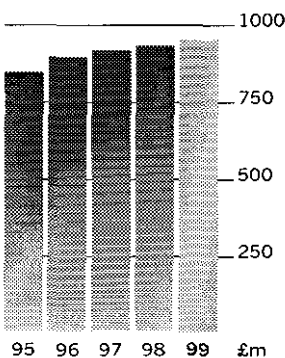
†After Year 2000 costs of £2.2 million.

‡After restructuring provision of £20 million.

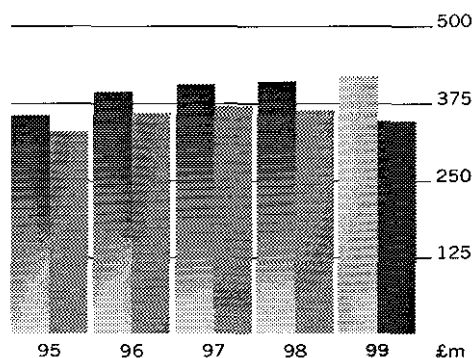
§After Year 2000 costs of £11.8 million.

	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Balance sheets					
Fixed assets	3,073.1	3,205.0	3,412.7	3,714.4	4,033.4
Net current liabilities	(36.1)	(35.2)	(224.5)	(645.6)	(522.2)
	3,037.0	3,169.8	3,188.2	3,068.8	3,511.2
Creditors: amounts falling due after more than one year	(501.1)	(846.5)	(826.5)	(926.8)	(1,302.4)
Provisions for liabilities, charges and deferred income	(148.5)	(112.2)	(109.3)	(83.0)	(64.1)
	2,387.4	2,211.1	2,252.4	2,059.0	2,144.7
Capital and reserves					
Called up share capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	1,387.4	1,211.1	1,252.4	1,059.0	1,144.7
	2,387.4	2,211.1	2,252.4	2,059.0	2,144.7

	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Turnover by category					
Measured charges	255.3	274.6	286.8	302.3	328.6
Unmeasured charges	527.4	552.9	562.9	560.9	566.6
Trade effluent	38.9	43.1	43.4	43.4	40.1
Other	25.4	25.0	26.0	26.2	17.4
	847.0	895.6	919.1	932.8	952.7



Turnover



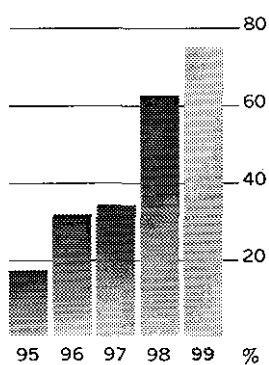
Profit (excluding exceptionals)

Operating profit
Profit for the financial year

Net borrowings	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Cash at bank and in hand	76.7	167.0	72.0	0.1	0.5
Borrowings	(491.8)	(872.5)	(848.6)	(1,291.4)	(1,607.8)
	(415.1)	(705.5)	(776.6)	(1,291.3)	(1,607.3)

Key ratios	1995	1996	1997	1998	1999
Liquidity					
Current ratio (times)	0.85	0.89	0.49	0.17	0.24
Profitability					
Gross profit margin (%)	35.48	44.04	42.02	43.89	42.78
Return on capital employed (%): Historic cost	9.89	12.44	12.11	13.34	11.61
Return on fixed assets (%): Historic cost	9.78	12.31	11.32	11.02	10.11
Return on fixed assets (%): Current cost	1.11	1.48	1.38	1.38	1.34
Gearing					
Debt to equity (%)	17.39	31.91	34.48	62.71	74.94
Other					
Turnover per employee (£)	129,689	151,029	160,038	174,062	180,572
Operating profit per employee (£)	46,011	66,509	67,247	76,395	77,255

Employee numbers	1995 No.	1996 No.	1997 No.	1998 No.	1999 No.
Employee number (average)	6,531	5,930	5,743	5,359	5,276
Employee number (year end)	6,324	5,862	5,653	5,320	5,228



Gearing

The gearing ratio is used as an indicator of the amount of debt compared to the company's equity i.e. shareholders' funds.

Customer service

Charges (1999/2000)

	Water £	Sewerage £	Total £
Average annual unmeasured water charges (including customer rebates)			
Severn Trent Water	108	117	225
Average of other 9 water and sewerage companies	106	147	253

Equivalent cost per day per household

Severn Trent Water	62p
Other water and sewerage companies average	69p

Measured water charges

Water Supply	77.67p/cubic metre
Sewerage	59.30p/cubic metre

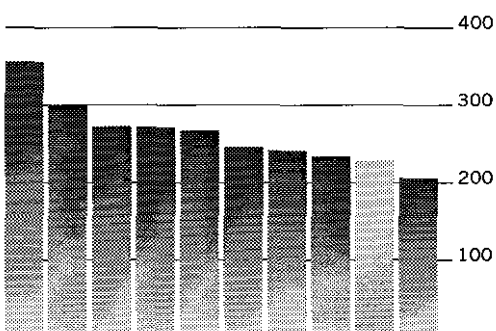
Average household bill (including measured, unmeasured water charges and customer rebates)

Severn Trent Water	£222
Average of other 9 water and sewerage companies	£239

Customer payment statistics	1995 '000	1996 '000	1997 '000	1998 '000	1999 '000
Number of customers paying by instalments	1,121	1,205	1,295	1,369	1,486
Number of summonses	90	90	94	101	105
Percentage of unmeasured customers summoned (%)	3.3	2.8	2.3	3.1	3.0

Disconnections	No.	No.	No.	No.	No.
Domestic	557	462	457	323	47
Non domestic	220	159	230	203	184
Percentage of customers disconnected (%)	0.03	0.02	0.02	0.02	0.01

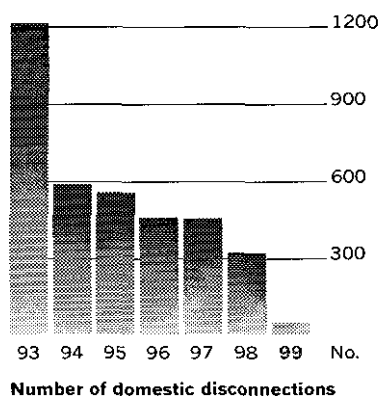
Customer complaints	'000	'000	'000	'000	'000
	9	10	10	10	11



Average annual household bill for 1999/2000 £

Other water companies
Severn Trent Water

	1995 No. '000	1996 No. '000	1997 No. '000	1998 No. '000	1999 No. '000
Customer contacts					
By letter	966	952	684	758	819
Telephone calls	1,252	1,224	1,593	1,859	2,125
Total	2,218	2,176	2,277	2,617	2,944
Population					
Water Supply	7,224	7,250	7,280	7,305	7,331
Sewerage	8,262	8,280	8,300	8,200	8,225
Billed properties					
Water					
Unmeasured domestic	2,582	2,579	2,554	2,500	2,452
Unmeasured non-domestic	53	52	50	40	25
Sub-total	2,635	2,631	2,604	2,540	2,477
Measured domestic					
Measured domestic	210	240	290	365	433
Measured non-domestic	168	168	170	180	196
Sub-total	378	408	460	545	629
Total	3,013	3,039	3,064	3,085	3,106
Sewerage	3,376	3,402	3,417	3,446	3,468
New connections during year					
Water supply	26	23	22	23	24
Sewerage	29	25	25	25	25



Customer service continued

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 specified performance criteria.

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

	1995 %	1996 %	1997 %	1998 %	1999 %
(DG1) Raw water availability Percentage of the population who live in areas where resources are adequate to meet demands	94.50	99.80	100.00	100.00	100.00
(DG2) Pressure of mains water Percentage of properties not at risk of receiving water at a pressure less than one and a half atmospheres at the stop tap on the boundary of the property	99.40	98.90	99.70	99.83	99.86
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.80	99.84	99.94	99.96	99.91
(DG4) Water usage restrictions Percentage of properties not affected by:					
Ban on hosepipes	99.10	0.0	49.20	100.00	100.00
Drought orders	100.00	100.00	100.00	100.00	100.00
(DG5) Flooding from sewers Percentage of properties where there is no risk of flooding from public sewers at a frequency of more than twice in ten years	99.95	99.95	99.95	99.95	99.96
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 2 days	69.3	72.8	84.7	90.7	91.6
Under 5 days	80.1	81.5	89.8	96.3	99.2
Under 10 days	92.2	91.6	96.5	98.9	99.7
Under 20 days	99.0	99.4	99.8	99.9	99.9
Over 20 days	1.0	0.6	0.2	0.1	0.1
In 1999 there were 2.9 million customer contacts. The company's performance in 1999 based on OFWAT's 1998/99 criteria would meet the 'Good' category.					
(DG7) Response to written complaints Response time for replies to written complaints					
Under 2 days	26.9	28.3	32.2	34.0	37.2
Under 5 days	81.7	76.5	74.5	84.5	95.2
Under 10 days	98.0	96.6	90.6	98.8	99.7
Under 20 days	99.8	99.4	99.1	100.0	100.0
Over 20 days	0.2	0.6	0.9	-	-

The number of customer complaints received in 1999 has increased from those received in 1998. The company's performance in 1999 based on OFWAT's 1998/99 criteria would meet the 'Good' category.

Levels of service continued

(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.

	1995 %	1996 %	1997 %	1998 %	1999 %
Company read	N/a	94.7	96.1	97.7	98.3
Customer read	N/a	2.1	2.9	1.8	1.4
Total read and billed in year	N/a	96.8	99.0	99.5	99.7

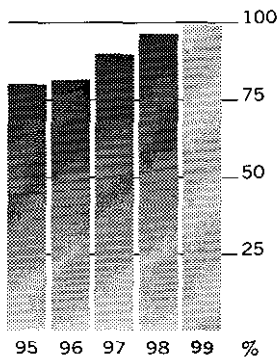
The company's performance in 1999 based on OFWAT's 1998/99 criteria would meet the 'Good' category.

(DG9) Telephone contacts

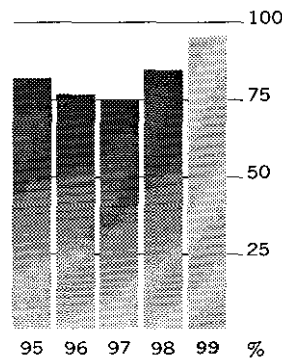
Response times to answering telephone call to the principal customer contact points

Under 15 seconds	N/a	65.0	73.5	82.0	82.4
Under 30 seconds	N/a	73.7	82.7	91.1	91.0
Over 30 seconds	N/a	26.3	17.3	8.9	9.0
<i>Average response times (seconds)</i>	N/a	40.2	19.7	10.2	9.8

Guaranteed standards scheme	1995	1996	1997	1998	1999
Complaints answered within the guaranteed standards scheme time period	99.3%	98.5%	97.7%	99.8%	99.9%
Number of claims automatically accepted for guaranteed standard payments	63	157	1,230	2,713	4,699



Response to billing queries within 5 days



Response to written complaints within 5 days

Climate

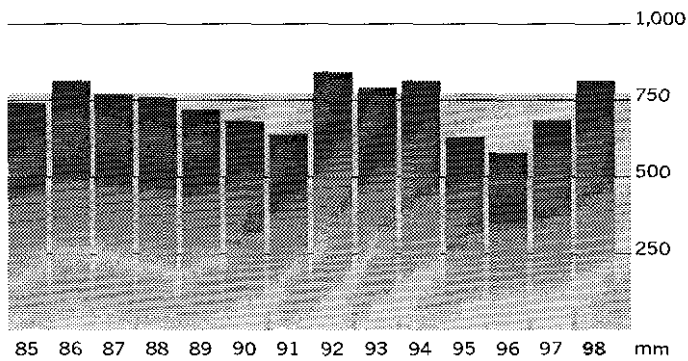
Rainfall

Severn Trent Region – Area Rainfall

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Severn Trent region															
- Rainfall (mm)	777	741	814	769	759	718	683	639	842	792	814	631	579	684	815
- % long-term average	99	96	105	99	98	93	88	83	110	102	105	81	75	88	108
Severn Basin															
- Rainfall (mm)	842	813	856	805	811	777	732	702	872	797	844	674	624	716	857
- % long-term average	102	98	103	97	98	94	88	87	108	99	104	83	76	87	108
Trent Basin															
- Rainfall (mm)	715	685	790	747	723	676	647	576	808	781	785	585	540	661	783
- % long-term average	97	93	103	101	98	92	88	78	110	106	107	80	73	90	109

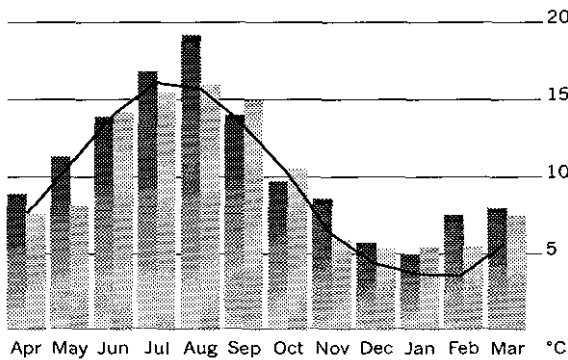
Note:

% long-term average for data is based on figures from 1941 to 1970 up to 1997 and on figures from 1961 to 1990 for 1998. Figures relate to calendar year.



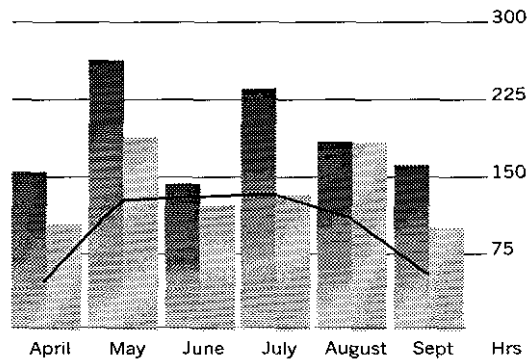
Area Rainfall

▨ Long-term average
 ▤ Actual



Mean temperature °C recorded at Coleshill

▤ 1998 — Long-term average
 ▨ 1999



Hours of sunshine recorded in Birmingham

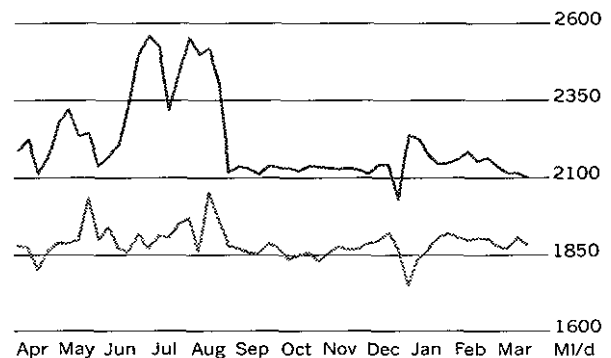
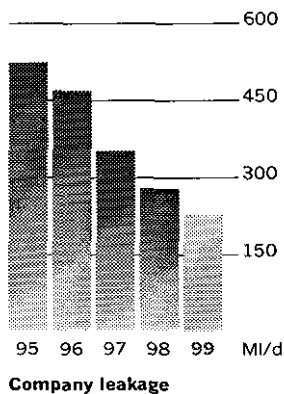
▤ 1997 — Long-term average
 ▨ 1998

Demand

Analysis of water supply sources	1995 MI/d	1996 MI/d	1997 MI/d	1998 MI/d	1999 MI/d
Reservoirs	587	526	476	537	510
River intakes	782	876	802	650	692
Groundwater	770	788	733	719	651
Total production	2,139	2,190	2,011	1,906	1,853
Treated water imports	17	21	20	20	24
Treated water exports	(9)	(9)	(9)	(8)	(8)
Total water into supply	2,147	2,202	2,022	1,918	1,869

Water demand	1995 MI/d	1996 MI/d	1997 MI/d	1998 MI/d	1999 MI/d
Household demand	1,059	1,166	1,139	1,108	1,117
Non-household demand	548	551	552	524	515
Water delivered to billed customers	1,607	1,717	1,691	1,632	1,632
Total water into supply	2,147	2,202	2,022	1,918	1,869
Company unaccounted for water	524	469	325	280	229

Operational statistics	1995	1996	1997	1998	1999
Number of repairs carried out on mains pipes	8,298	12,228	10,908	6,025	6,792
Average time taken to repair bursts on mains pipes (days)	N/a	2.85	1.88	0.37	0.36
Number of repairs carried out on communication pipes	N/a	14,247	12,552	14,415	15,629
Average time taken to repair bursts on communication pipes (days)	N/a	6.74	3.49	0.14	0.13
Number of repairs carried out on customers supply pipes (service commenced January 1995)	917	2,519	8,294	10,942	12,030
Number of calls to 'Leakline' service (service commenced December 1995)	N/a	16,703	19,088	27,788	35,642



Average weekly water demand (comparison between last year's demand and four years ago during the drought).

— 1995/96
 1998/99

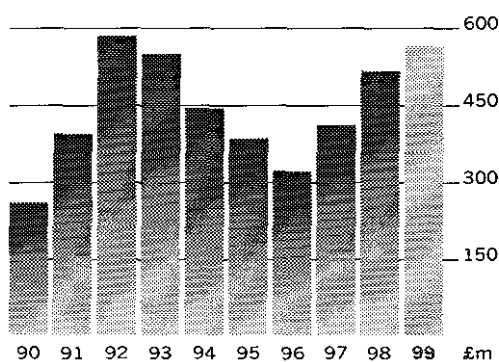
Investment

Investment expenditure	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Resources and treatment	37	57	96	116	117	89	79	72	47	56
Distribution	74	97	161	137	107	104	97	141	160	152
Sewerage	47	67	108	90	76	73	45	57	68	88
Sewage treatment	74	126	152	147	108	85	61	91	165	176
Recreation and amenity	–	1	11	4	2	2	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14
Other	10	9	11	7	3	3	23	29	54	80
	261	395	585	550	445	386	322	412	516	567

Analysis of investment expenditure

Capital expenditure	225	348	482	462	380	320	252	335	437	480
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87
	261	395	585	550	445	386	322	412	516	567
Cumulative investment since 1990	261	656	1,241	1,791	2,236	2,622	2,944	3,356	3,872	4,439

Physical outputs	1995	1996	1997	1998	1999
Mains – added (Km)	309	239	248	148	48
– renewals (Km)	392	499	577	714	807
– relined (Km)	878	408	347	81	4
– number of communication pipes replaced	31,011	29,985	48,508	40,848	54,118
Sewers – added (Km)	224	325	289	242	724
– improved (Km)	4	5	11	6	2
Approximate number of properties where problems of poor pressure alleviated by investment	5,000	15,500	33,400	8,300	4,000
Number of properties where risk of flooding from sewers has been removed	190	187	427	450	638



Annual investment expenditure since privatisation

Investment continued

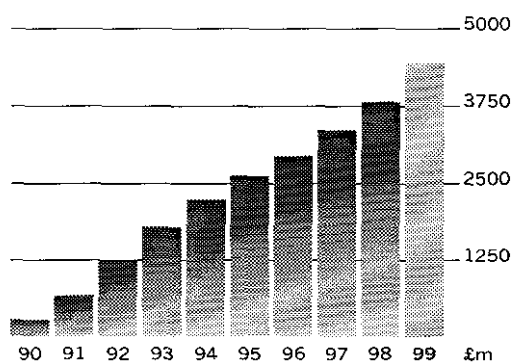
Major operational schemes carried out during year	1999	Operational assets	1999
	Total £m		No.
Minworth sewage treatment works	35.6	Impounding reservoirs	41
Roundhill sewage treatment works	13.6	Groundwater sources	188
Ashopton to Ladybower remedial works	13.2	River water intakes	16
Perry Hall and Satley link sewer	12.4	Surface water treatment works	20
Finham sewage treatment works	11.8	Water supply booster stations	578
Kidderminster improvements	5.9	Service reservoirs sites	554
Redditch to Cheadle strategic link main	3.8	Mains (Km)	41,960
Hayden sewage treatment works	3.7	Sewers (Km)	52,885
Homesford water treatment works	3.7	Sewage treatment works	1,004
Erewash sludge digestion plant	2.8	Sewage pumping stations	649
		Sewerage pumping stations	2,219
		Sludge treatment facilities	58

Quality

Water supply	1994	1995	1996	1997	1998
Overall quality of drinking water					
Number of samples	86,524	79,020	77,654	77,327	74,802
% compliance with standards	99.82%	99.83%	99.84%	99.89%	99.88%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of samples	29,502	22,719	23,419	22,547	20,580
% compliance with standards	99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of samples	35,914	35,706	34,243	34,047	33,314
% compliance with standards	99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of samples	21,108	20,595	20,262	20,733	20,908
% compliance with standards	99.8%	99.9%	99.8%	99.8%	99.8%
Physical and chemical quality of drinking water					
Water at customers' taps					
Number of samples	21,108	20,595	20,262	20,733	20,908
% compliance with standards	99.8%	99.8%	99.8%	99.9%	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 266,500 being made during 1998. % compliance with standards as detailed in the Water Supply (Water Quality) regulations.



Cumulative investment expenditure since privatisation

Quality continued**Sewage treatment quality**

Overall compliance with standards	1995	1996	1997	1998	1999
Total number of sewage treatment works	1,013	1,014	1,014	1,007	1,004
Number of sewage treatment works failing consents	9	18	15	21	19
Number of prosecutions by Environment Agency (EA) resulting in convictions					
Discharge from sewerage system	2	3	2	1	2
Sewage treatment works	0	4	0	0	0
Water treatment works	0	1	1	0	0
Other	1	1	1	0	0
Compliance of numerically consented works					
	1994	1996 ¹	1997 ¹	1997	1998
Number of works within numeric consents	739	741	741	719	731
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.4%	99.5%	99.5%	99.4%	99.6%
By works	99.1%	99.6%	100.0%	100.0% ³	99.9% ³
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.9%	>99.9%	>99.9%	99.7%	99.8%
By works	98.9%	98.4%	98.6%	96.5%	99.4%
Compliance with non-sanitary standards					
By tests to measure quality	99.1%	95.2%	94.3% ²	92.2% ²	97.2% ²
By works	86.7%	80.0%	81.4%	71.4%	77.0%

Notes:

Overall compliance with standards relates to financial year

¹ Compliance of numerically consented works figures for 1996 and 1997 are based on financial year, all other calendar year.

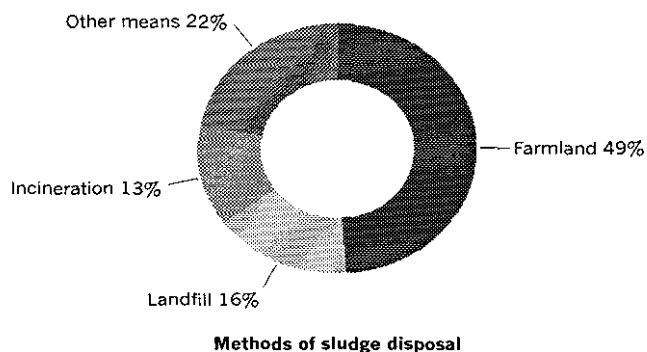
² Most failures relate to works which experience problems with colour derived from dye works.

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

Sewage

Sludge disposal	1995 tds	1996 tds	1997 tds	1998 tds	1999 tds
Method of sludge disposal					
Farmland	86,000	80,000	81,000	82,500	85,800
Landfill	56,000	62,000	42,000	24,700	28,000
Incineration	14,000	19,000	28,000	24,900	22,800
Sea	0	0	0	0	0
Other	3,000	4,000	5,000	26,200	38,600
Total	159,000	165,000	156,000	158,300	175,200

tds = tonnes dry solids



Visitors and education centres

Education centres

The company is committed to enhancing school pupils' 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.

	1995 No.	1996 No.	1997 No.	1998 No.	1999 No.
Education Centres and Come and See Education in Schools					
Number of classes involved in educational programmes	597	1,156	1,906	1,824	1,433
Number of pupils attending programmes (note 1)	17,073	31,398	65,458	54,666	43,169
Number of teachers attending programmes	2,036	2,407	3,155	2,776	2,306
Number of other adults attending educational programmes	2,033	1,933	2,344	2,902	2,339
Come and See Centres					
Number of classes attending Severn Trent sites	150	232	221	215	242
Number of pupils touring operational sites	3,676	5,843	6,496	6,030	7,270
Number of adults touring operational sites	32,325	21,423	15,759	12,992	11,160
External talks					
Number of talks given to adult customers	1,421	1,918	2,731	4,961	3,748

Note 1 Reduction since 1997 is due to the refocus of the National Curriculum on literacy and numeracy which has restricted schools' available time for attendance.

Go and tell

The company attended a wide variety of large and small events throughout the Midlands. Through these we have made contact with some 24,000 people at 218 events. These have included Gardeners' days at several locations, various county agricultural shows, the Ideal Home Exhibition in Cheltenham, the National Forest Festival near Burton on Trent and a family day at the Botanical Gardens in Birmingham. The company continues to work closely with Severn Trent Engineering and the Networks section particularly over the River Stour Project.

Awards

During the course of the year the company has won many prestigious awards including:

British Environment and Media Award

Best public information campaign for 'Turning the Tide' partnership

CIWEM Award

For sustainable Water Management 1999

Civic Trust Partnership

Awarded to Boughton Pumping Station for converting and making use of building for community and small local businesses

Art and Business Cymru Award

For Lake Vrynwy, Sculpture Trail

BBC Gardener's World Live Environmental Award

For Best Environmental contribution to the show

Royal Horticultural Society Silver Medal

For water conservation show garden at BBC Gardener's World Live

Utility Industry Achievement Award

For the best Internet initiative in the Utility Week Magazine Awards

BACB Award of Excellence

For internal newsletters and news magazines put out 10 or more times a year

BACB Certificate of Merit

For news magazines with over six issues a year

FEIEA European Grand Prix of House Journals

Highly commended for company news magazine

Loo of the Year Awards

Issued by English, Scottish and Welsh Tourist Boards on behalf of Cannon Hygiene

Tittesworth – Overall Award England – 'Leisure'

Lake Vrynwy – Overall Award Wales – 'Leisure'

Carsington – Award

Foremark – Award

Linacre – Award

Fairholme – (Upper Derwent Valley) Commended

The Bratch Pumping Station Wolverhampton Civic Award – Design and Community Use

National Training Award – Presented by DfEE

In partnership with PowerGen gained an award for excellence in training and development. The company also won an additional award for training on the NVQ 3 Multiskilling programme

ISM Award for Excellence in First Line Management

The 1998 winner of this award was Shona Hudson of the company's Water Supply Group

The Edinburgh Quaich Trophy

Awarded to Shona Hudson in recognition of Quality of Team Leaders

UK Society for Trenchless Technology Renovation Award for Underground Utilities

Sponsored by Thames Water. Joint submission with Staffordshire County Council Highways division for the Cheadle Improvements Scheme

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

Company number: 2366686

Directors

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

Business telephone numbers

Billing enquiries:
Tel: 08457 500 500

Operations and emergencies:
Tel: 0800 783 4444

All other enquiries:
Tel: 0121 722 4000

Web site
www.severn-trent.com

E-mail
customer.relations@severntrent.co.uk

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Birmingham B16 9DD

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Derby DE21 7JA

Severn Trent Water Limited
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Staverton Airport
Cheltenham Road East
Gloucester GL2 9QY

Severn Trent Water Limited
Leicester Water Centre
Gorse Hill
Anstey
Leicester LE7 7GU

Severn Trent Water Limited
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Nottingham NG5 1FH

Severn Trent Water Limited
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Stoke-on-Trent ST6 4JT

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Bromwich Road
Lower Wick
Worcester WR2 4BN

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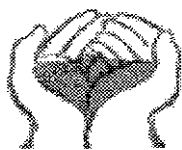
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Your Water. *Safe in our hands*

a part of Severn Trent Plc

