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Severn Trent Water



Annual Report and Accounts 2000

Your Water. *Safe in our hands*



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Annual Report and Accounts 2000

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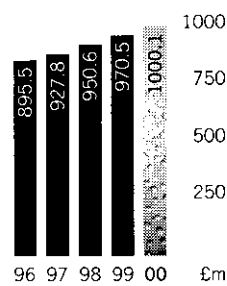
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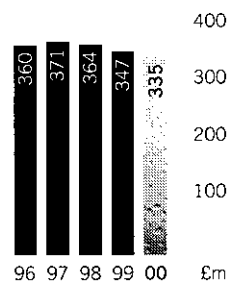
The Year 2000 marks the successful completion of the second 5 year programme of Severn Trent Water since privatisation and the achievements have been impressive.

Financial highlights

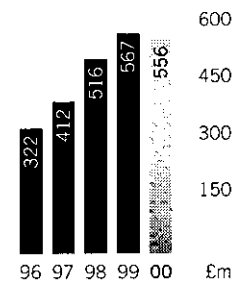
	2000	1999
Turnover before customer rebates (£m)	1000	971
Turnover after customer rebates (£m)	982	953
Operating costs (£m)	(625)	(546)
Profit before interest (pre-exceptionals) (£m)	418	420
Profit before interest (post-exceptionals) (£m)	358	408
Profit before tax (post-exceptionals) (£m)	274	335
Gearing (%)	87.3	74.9
Investment (£m)	556	567



Turnover
(before customer rebates)

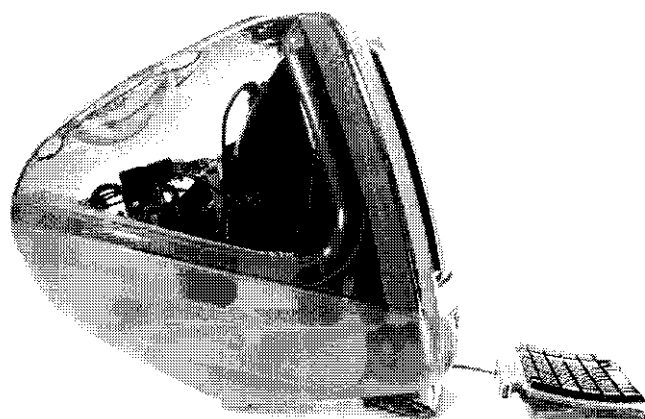


Profit before tax
(before exceptional items)



Investment

During the year we invested £556 million. This brings the total invested over the five year period 1996 – 2000 to £2,373 million.



Surf with our new internet site

In March 2000 we launched our new internet site www.stwater.co.uk. The site, which has already been commended in *The Sunday Times*, offers useful information on anything and everything to do with water; from monthly gardening tips and money saving offers, to details of fly fishing for trout at our reservoirs and family days out at our many visitor centres.

Our site already offers a range of on-line transactions including meter readings and applications for payment by Direct Debit. Future development plans for the site will mean that in the future our customers will be able to perform even more of their transactions via the internet.

Beating the competition

We continue to play a leading role in the development of effective competition in the water industry. In June 2000, we published the industry's first Network Access Code which will govern agreements between suppliers for using each other's pipes to serve customers.

We will allow other companies to use this code as the basis for their own – we are already using it as the basis for our negotiations with other water companies to supply over 50 Northern Foods sites nationwide. Reflecting our leadership this was the first ever national water services contract.

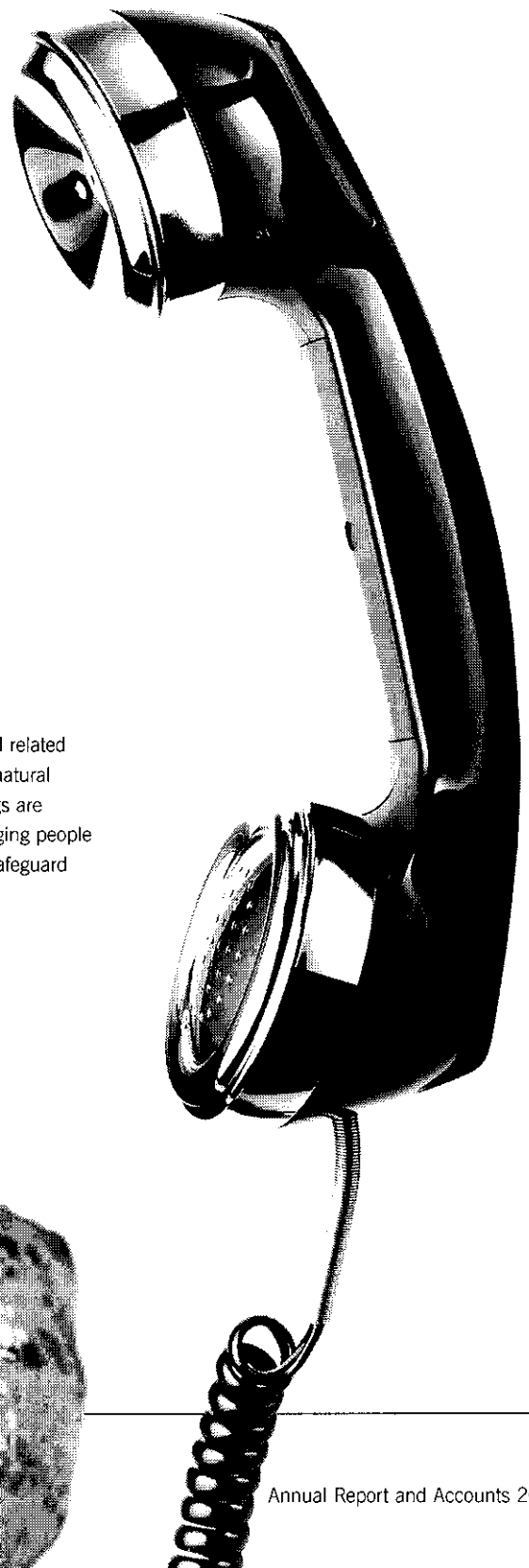
Customer service levels

Overall, our levels of customer service are better than ever before. We received almost 3.3 million enquiries of which 99.56% were answered within 5 days, and 98.65% of written complaints were responded to within 5 days. At the same time we have maintained our average telephone response time within 10 seconds.

Our customers' water bills have fallen to around 54 pence a day since April 2000. This cuts the average annual water bill to our domestic customers down to around £197 – amongst the lowest in the country. Despite these bill cuts, we will still be carrying out a £2 billion programme of further improvements to maintain the record quality levels reached over the past ten years.

Safeguarding the environment

In support of our Biodiversity Plan, and to tie in with Millennium Pledges, we have launched 'Pondemonium'. Working in conjunction with the Wildlife Trust, Pondemonium supports pond related projects that ensure the continued existence of a wide variety of animals and plants in their natural environments. With so much wetlands and pond habitat disappearing, creatures such as frogs are finding it more and more difficult to survive. Pondemonium helps to address this by encouraging people to make existing ponds more inviting to frogs and other creatures at the same time helping safeguard our wildlife and the environment.



Managing Director's review



“Severn Trent Water is well placed to ensure that the objectives and financial targets set by the Periodic Review can be fully met. Our customers in the Midlands will continue to receive the best value water services”.

Brian Duckworth | Managing Director

Introduction

The Year 2000 marks the successful completion of the second 5 year programme of Severn Trent Water since privatisation and the achievements have been impressive. Water quality standards are at their highest, Midlands rivers are cleaner than ever before and continuing improvements have been made to customer service; all these have been delivered with impressive financial out-performance which has been shared between our customers, the environment and our shareholders.

The completion of the 1999 Periodic Review by our regulator OFWAT also marks a serious challenge to the company. Significant further investment and improvements need to be delivered over the next 5 years, but now with substantially less resources as a result of the price reductions required by the regulator. The company had foreseen much of the challenge and over the last 2 years has planned and developed its capability to be able to respond positively. Severn Trent Water is thus well placed to ensure that the objectives and financial targets set by the Periodic Review can be fully met. Our customers in the Midlands will continue to receive the best value water services.

Financial review

Turnover increased to just over £1 billion (1999: £970.5 million) before customer rebates of £18.0 million (1999: £17.8 million). The increase in turnover (after customer rebates) of 3.1% was less than the allowed tariff increase of 3.5%. This resulted from domestic customers choosing to switch to a metered tariff and a continuing decline in industrial and commercial consumption.

Our People

Operating profit before exceptional items was in line with the previous year at £418.4 million (1999: £418.4 million). Operating costs (before exceptional items and depreciation) increased by £18.5 million to £357.0 million. The additional costs resulted from completion of a number of new investment schemes; these increases were only partially offset by efficiencies.

Exceptional items amounted to £61.1 million (1999: £11.8 million). These were £8.6 million for ensuring systems complied with the millennium date change and £52.5 million for severance and redundancy costs. In order to meet the cost reduction challenges of the Periodic Review we anticipate that the number of people employed by the company will fall by around 1,100 in the next two years.

Depreciation, including infrastructure renewals expenditure, increased by £14.1 million. The increase reflects higher depreciation resulting from the high level of investment of the last five years and the write-off of assets following the restructuring plans announced in December 1999. Depreciation is expected to fall in the current year with the lower capital expenditure anticipated for 2000 – 2005

During the year we invested a further £556 million (1999: £560 million). This brings the total invested over the five year period 1996 – 2000 to £2,373 million, in line with the regulatory expectations.

Net interest payable increased by 15.9% from £72.9 million to £84.5 million, reflecting the increased borrowings, to finance new investment and the full financing costs of the windfall tax, the second installment of which was paid in December 1998.

The company took advantage of favourable interest rates in June 1999 and raised £300 million in the public bond markets at a rate of 6.25%.

Water resources and supply

This year has seen the highest water quality standards ever. Overall, drinking water compliance reached 99.91% continuing the trend of year on year excellent performance and improvement. The Drinking Water Inspector's Report showed that Severn Trent Water was one of only two companies in the UK Water Industry with an overall water quality which was 'statistically significantly above average'. The report also noted that Severn Trent Water was one of only three companies which could show a 'statistically significant improvement in the trend from 1996 – 1999'. As the UK Water Industry's regulatory reporting is arguably the toughest and most transparent in the world, and the standards reported are amongst the highest, we can reasonably claim that Severn Trent Water's water quality is one of the best in the world. This quality reflects the continued emphasis we place on maintaining the highest standards of reliability and safety. The achievement of such high standards has been assisted by the sophisticated operational control procedures underpinned by investments in new information technology systems.

Once again, there have been no water resource problems this year due in part to higher than average rainfall, a reduction in demand and our programme of leakage reduction. Reservoir storage at the end of the financial year was 100% and this leaves the company in a strong position for the summer and for the coming year.

During the year we completed the work to prepare for quality regulations which were introduced by Government to further protect drinking water supplies from cryptosporidium. The UK Water Industry now has probably the strictest statutory safety regime anywhere. Cryptosporidium is a micro-organism that occurs commonly in the environment, but which can cause sickness if ingested. There has never been an outbreak for water supplies in the Severn Trent Water region, but the new regulations required a detailed examination of all our raw

Our People

water catchments and treatment facilities to find out if any further protective barriers were appropriate.

We were satisfied that the measures we had already put in place were robust, but as a precaution we are planning to introduce new membrane filtration process for certain groundwater sources.

Networks

The networks operations are being significantly re-organised. Throughout the year, we have undertaken a significant re-organisation of our operational management activity, through investment in two new network management centres. The first in Wolverhampton controls all network activity for the five counties of West Midlands, Staffordshire, Gloucestershire, Shropshire and Worcestershire. The centre provides a 24 hour, 365 days per year capability to proactively manage network operations and will lead to significantly improved levels of dependability of service.

A further network management centre is being developed in Leicester for the Eastern part of the Region to cover operations in Nottinghamshire, Derbyshire, Leicestershire and Warwickshire. It will be opened in October 2000.

We reported total leakage of 340 MI/d for 1999/2000 again beating the OFWAT leakage target. For 2000/2001, we have been targeted by OFWAT to reduce leakage by a further 7 MI/d from 340 MI/d to 333 MI/d. These targeted reductions are becoming increasingly tougher to beat, particularly as we head through the economic level of leakage. However, we are confident that investment in new leakage detection technology – in combination with a programme of pressure management – will enable us to make further progress.

Water quality standards are at their highest, Midlands rivers are cleaner than ever before and continuing improvements have been made to customers service; all these have been delivered with impressive financial out-performance which has been shared between our customers, the environment and our shareholders.

Minimising the potential for discoloured water to our customers continues to be a significant focus and is one where the proactive management of all network activity using up-front risk assessments will lead to improvements. During 1999/2000 we introduced a targeted mains cleaning programme to remove iron and manganese deposits from mains in areas with the greatest risk. This work was carried out in parallel with our continuing rehabilitation and renewal programme and will continue into next year.

With regard to levels of service, we have maintained our best ever DG2 position for the number of properties 'at risk' of poor mains pressure, with only 0.14% of customers even at risk. Over the last five years, a range of improvements have reduced the number of properties 'at risk' from a peak of 36,551 in 1996 to just 4,654 this year. Another key level of service indicator is the number of properties affected by planned and unplanned supply interruptions. Again, over the last five years, performance against this indicator has improved as response times and improvements in asset management have reduced the risk of longer supply

interruptions. However, a single event in Nuneaton in 1999 which affected a strategic main, interrupted supplies to more than 17,000 properties for more than six hours.

As part of our commitment to environmental leadership, we have introduced improvements to the highway reinstatement process through the use of cold lay tarmacs. In addition, we now recycle all excavation material, which is then used to back fill holes. This ensures that we no longer dispose of excavated material to precious landfill resource. This also leads to savings in quarrying new stone.

From 1 April 2000, all of the remaining 41 Sewerage Agencies that were formerly operated by the local councils came within our direct management and control. The transition to an in-house operation was a major change management exercise, involving the transfer of over 300 former council employees to the company, and was undertaken without any detrimental impact on customer service. The focus for the coming year will be the consolidation of the former Agencies into the business, in order that we can begin to realise the benefits of a consistently high level of service company wide.

Environmental leaders

Our company Environmental Awards competition not only provides a powerful way of raising the environmental awareness of our employees but also strengthens our links with the local community. Prize money was presented to the winners of this year's annual employee environmental awards. The money was then recycled to local communities in support of worthwhile environmental projects of the winners' choice. Its success was recognised in the 1999 Green Apple Awards for Environment Best Practice where we were awarded a crystal trophy in the public utilities section.

"The competitive landscape is likely to change significantly over the next few years. My role is to build upon our current excellent platform reinforced as it is by nearly a decade of successful account management. From my experience elsewhere I'm convinced that our expertise, reputation and resultant brand strength will enable us to continue to lead the industry in truly competitive business to business sales."

Andy Camp | National Sales Manager



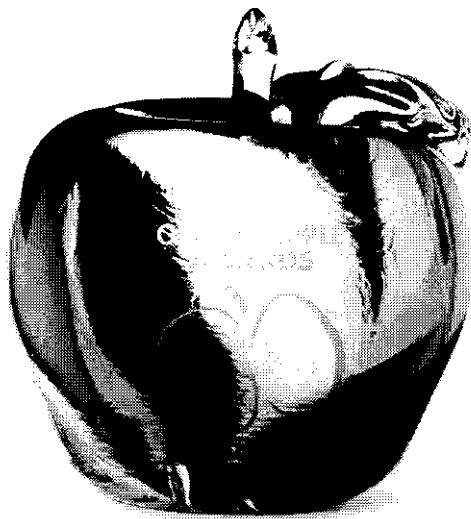
Flooding from sewers will always be the worst service problem anyone can experience and we continue to do all we can to minimise the problem. Our investment programme has reduced the number of properties at risk of such flooding to its lowest level ever, with 943 (22%) fewer properties below the standard than in March 1999. More than 99.97% of our customers have a level of service above the standard.

The year under review has however seen some exceptional rainfall storms during the summer which have exceeded the capacity of sewerage networks in some areas, resulting in 1,204 properties being flooded. Five such storms with statistical severities of up to 1 in 100 years account for over 55% of these incidents. This adds to mounting evidence that climate change is leading to a higher incidence of intensive storm events. We are currently undertaking a number of research programmes with the Meteorological Office and the Water Research Centre (WRc) to model the impact that these storms can have on some of our older sewerage systems.

Sewage treatment

We have continued to focus on improving the efficiency of the operation of our 999 sewage works while maintaining our excellent quality record. During 1999/2000 quality continued to improve with all of the 730 sewage treatment works with numeric Environment Agency consents complying with sanitary standards at the end of the year. The position on non sanitary standards (metals, pesticides and colour) also continued to improve.

In 1999 additional consent standards were introduced through the implementation of the European Urban Waste Water Directive. This legislation introduced phosphorous removal standards at six sewage treatment works (serving Coventry, Redditch, Rugby, Solihull, Stratford upon Avon and Warwick). All six works have met the new standards throughout the year.



Significant further investment and improvements need to be delivered over the next 5 years, but now with substantially less resources as a result of the price reductions required by the regulator. The company had foreseen much of the challenge and over the last 2 years has planned and developed its capability to be able to respond positively.

Our People

As part of the second 5 year investment programme, many sewage treatment works improvement schemes were completed and the works commissioned. At our largest works at Minworth, which serves a population of over 1 million in the Birmingham area, the final phase of the scheme to replace the old bacteria bed works with an activated sludge process was completed. Also, as part of the scheme, the sewage sludge digesters and power generation facility was up-rated. As a result of the investment at Minworth, higher effluent quality standards are being met. Potential for causing nuisance to our neighbours has been reduced and additional electricity is being generated to ensure the works is self-sufficient for power during most of the day.

Customer service

During the year, our focus has again been on the delivery of quality customer service. We have increased the number of ways our customers can contact us and continue to find ways to improve our customer contact. Our customer service is now extending to 24 hours a day, 7 days a week, providing trained customer service operators to answer operational enquiries at any time, and customer contact has increased by 12%.

Our People

Our performance in answering nearly 3.3 million enquiries has again improved with 99.56% being answered within 5 days; 98.65% of written complaints were also responded to within 5 days. The volume of telephone contacts have similarly increased and we maintained our average response time within 10 seconds.

We began the development of a new website for Severn Trent Water, which was launched in March 2000. The address is www.stwater.co.uk. The website incorporates features which enable some of our simpler customer transactions to be actioned via the internet. Customers can now sign up for Direct Debit, tell us of a change of address or send us their meter reading. The site is proving to be an attraction to our customers, with over 20,000 hits in its first month of operation. Further services are progressively scheduled to go on line. The internet will become an important transfer medium for customer contact, further improving our services.

The Severn Trent Water brand is known throughout the Midlands. To stretch and strengthen our brand, new products and services are being introduced which combine offerings from innovative partners with the power of the Severn Trent Water name.

Promoting water conservation

We continue to deliver a wide range of promotions and initiatives to raise awareness of the importance of water conservation amongst our customers. We have encouraged the purchase of well over 50,000 cut price water butts, and have sponsored projects assessing the possibilities of rainwater recycling, and also sponsored a gardening course at Coventry University and The Water Efficient Garden of the Year Competition. Our mobile caravans continue to spread the water conservation message at a whole range of events throughout our region.

Our commitment to water conservation will continue in the future as it underpins our goal of building a sustainable future for all.

"I am responsible for recreation, conservation and heritage activities across the whole region. This includes over forty reservoir sites that are open to the public, receiving over four million visitors each year. One of my key roles is to ensure that our obligations also provide for public access and recreation, alongside caring for and enhancing nature conservation in the most constructive way.

As an environmental services company, protection of the environment is a fundamental part of our business strategy. Promoting biodiversity is a cornerstone of our Environmental Policy. The scale and scope of our operations places us in a unique position to protect and enhance the biodiversity across our region, particularly its aquatic ecosystems."

Geoff Nickolds | Conservation, Access and Recreation Manager



Already Severn Trent Searches, which provides drainage search information for house buyers and conveyancers, is helping over a third of all house purchasers in our area. In March 2000 we launched 'Severn Trent Talks', offering a unique flat-rate local and national calls service for small and medium sized businesses.

In September 2000 'Severn Trent Energy' will be launched, offering low-cost gas and electricity to our 3.2 million household customers.

We continue to develop our water services competitive position following the announcement of the first National Contract in the Industry with the Northern Foods Group and the publication by the company of the Industry's first Network Access Code. Severn Trent Water has taken a leadership position across the whole front of competition issues and will continue to be the 'first mover'.



The Environment

The Board of Severn Trent Water is fully committed to the principles of sustainable development as exemplified by our goal of 'A sustainable environment for the communities we serve'.

This year we have widened the scope of our annual environment report to include social and economic progress. Together with our CARE (Conservation, Access, Recreation and Education) Report, our Biodiversity Action Plan, and our Water Quality Report, we believe these represent one of the most open commitments to sustainability of any water company.

Our words have to be matched by our achievements. Over the last ten years we have made a massive contribution to improve the environment of the Midlands. For example, the Environment Agency has independently reported an improvement in rivers in the Midlands of over 35% between 1990 and 1999. This is principally attributed to better quality effluent from Severn Trent Water's sewage treatment works. The continuing programme of work enhancements should yield further improvements. This improvement of river quality arises not only from those

In September 2000 'Severn Trent Energy' will be launched, offering low-cost gas and electricity to our 3.2 million household customers.

schemes agreed with the Environment Agency, but also some additional schemes funded out of efficiencies which provided an environmental dividend to match that received by our customers and our shareholders.

Our environmental policy is based on four cornerstones, each of which contributes to this goal. The first is measurements and targets by which we assess the impact of all our activities on the environment and set and publish targets for improvement. Last year we met all of our targets, including important ones for leakage, energy use, transport, as well as those related to wastewater improvements. For the future we have now set ourselves some key 5 year strategic targets for improvement as well as specific yearly targets.

The second cornerstone relates to our environmental management system, which provides a structured approach to building environmental care into our every day business activities. During the year we continued to develop and refine our procedures and we started the process of including these procedures on our company Intranet system to ensure that they are easily accessible by all employees.

Our third and very important cornerstone is environmental awareness through which we will promote key environmental messages to the wide variety of stakeholders across our region. This is an essential part of demonstrating our values of environmental leaders by encouraging other stakeholders to work with us towards our goal of sustainable development.

Our final particularly key cornerstone is promoting biodiversity. We have formally launched our Biodiversity Action Plan which had been developed in partnership with a wide variety of local wildlife and conservation groups. We will be continuing to work closely with these groups to protect and enhance the richness of the natural environment in our area.



"In October 1999, I won the Chartered Institution of Water and Environmental Management's Geoff Greaves Memorial Trophy for its Scientific Group's Young Authors Competition. The award was for my paper which discussed the possibility of using particle counters to predict any risk of Cryptosporidium at our water treatment works. This was based upon research which I completed over a two year period as part of my role within our Technology and Development Department."

Rosie Wilson | Assistant Process Engineer



Our people

None of our achievements or plans would be possible without the commitment and hard work of our employees. I would like to take this opportunity to thank them for continuing to make Severn Trent Water one of the best water companies in the world. They also need to be praised for the fortitude with which they are facing the challenge of the 1999 Periodic Review. In order to meet the cost reduction targets, and customer price reductions, approximately 1,100 (20%) of our colleagues will be leaving the company over the next two years.

However, we are committed to there being no deterioration in our current water quality, environmental standards and customer service, and we are committed to achieving the delivery of a new investment programme which will lead to further improvements.

To help our employees in this challenge, substantial efforts have been made to further improve processes, work arrangements, information technology, training and development. We can only continue to be a successful water company through the commitment of suitable qualified people who are given the necessary support for their endeavours.

The future

The 1999 Periodic Review presented the company with the most significant challenge in its history. The reduction in prices of 14.1% from April 2000 will reduce earnings in 2000/2001. However, we anticipated the tough price review and we had developed improvements in productivity to meet the financial targets from the lower revenue base.

Our customers and regulators continue to tell us that they want the highest quality standards and excellent customer service delivered dependably 24 hours a day, 365 days a year. The company which achieves total dependability in delivery of such standards will be the company that differentiates itself from the rest. I am confident that Severn Trent Water will achieve this goal so that we can continue to demonstrate to all our customers that 'Your Water is Safe in our Hands'.

A handwritten signature in black ink, reading "B Duckworth". The signature is written in a cursive style and is underlined with a single horizontal line.

Brian Duckworth
Managing Director

Our education programme

Our extensive education programme entered its seventh year and remains as popular as ever with pupils both young and old. This year we have welcomed over 25,000 school children to our six purpose built site classrooms. Each class has their own tailored day of environmental education and both the materials used and the days contents meet the National Curriculum requirements.

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

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 before customer rebates was £1,000.1 million (1999: £970.5 million), and operating profit was £357.3 million (1999: £406.6 million). Profit on ordinary activities before taxation was £273.5 million (1999: £334.6 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 £270 million (1999: £138 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 2000 amounted to £145 million (1999: £138 million).

The company also undertook a capital restructuring, through a special dividend of £125 million, to bring gearing into line with that assumed by Ofwat in making its Periodic Review price determination in November 1999.

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	
J H Bailey	Appointed 30 May 2000
J K Banyard	
I Elliott	

J M Foster

J A Hill

T Kitson

G P Noone

F A Osborn

A Q Todd

R M Walker

M R Wilson

Appointed 1 January 2000

Resigned 16 September 1999

Resigned 31 May 2000

Appointed 12 July 1999

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 from these, as part of the tender process. On average trade creditors are paid 31 days after the invoice date.

Research and development

Expenditure on research and development was £10.2 million including £6.4 million spent on fixed assets, compared to £6.8 million in 1999, (including £2.9m on fixed assets). This change in profile reflects a number of prototype plants being installed to confirm technologies required to deliver outputs in AMP3.

Work on cost-effective removal of trace heavy metals by adsorption has produced a process which will allow the company to meet the new European drinking water standards and will also find application in the USA where similar standards are being introduced.

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

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

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

Employees

The company employed 4,993 people on 31 March 2000 (1999: 5,228)

As a result of the Final Price Determination by the Industry Regulator the company announced on 3 December 1999 its plans to make efficiency savings in both manpower and non manpower related costs. This involves a reduction of approximately 1,100 in the workforce over the next five years, the majority of which will be achieved during the next two years.

The Severn Trent Water Joint Negotiating Committee (JNC) which negotiates the main terms and conditions of employment, has a role in discussing business developments and relevant information. It has been a key mechanism in the formal consultation regarding the impact of Price Determination on the company and its employees.

The JNC also acts as a parent body and point of reference and advice for a number of joint sub committees which develop and monitor aspects of the reward mechanism.

Severn Trent Water's emphasis on good industrial relations is also demonstrated by its representation (of both management and the trade union side) on the European Works Council (EWC) which operates at Group level. The inaugural meeting of the EWC took place in October 1999 and the next meeting is scheduled for October 2000.

Joint consultation arrangements also exist at local level. These are currently under review to ensure they are appropriate to the company's new organisation structure. Since 1998 the local arrangements have included opportunities for employees who are not trade union members to stand for membership.

Employees have continued to benefit from the Group's Sharesave and profit sharing 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 channels including the award winning in-house magazine. Monthly 'Team Talk' briefings, which are face to face discussions with employees, supplement the normal day to day communication channels

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

Opportunities and disabled persons

The company is continually reviewing its equal opportunities policies to ensure that no current or potential employee is disadvantaged because of colour, ethnic or national origin, gender, religion, marital status or disability.

The company is a member of the Employers' Forum on Disability and there have been particular efforts during the year to promote awareness of the Disability Discrimination Act and ensure best practice. The recruitment and selection procedures have been reviewed in order to meet the requirements of the Act. Other policies have similarly been reviewed to ensure fairness in dealing with retirements and redundancies.

Procedures are also in place to deal with allegations of potential harassment along with guidelines for managers and employees.

Year 2000 compliance (Y2k)

In total, the company has spent £22.6 million of which £8.6 million was spent in the current financial year dealing with Y2k problems in its computer and control systems and putting in place contingency plans for 31 December 1999. All computer systems were checked, replaced or decommissioned as appropriate.

The Millennium dates passed without any significant malfunctions or difficulties and there were no disruptions to water supply or sewage treatment operations.

Regulation: 'Ring Fencing'

In accordance with the requirements of the Director General of Water Services, the Board confirmed that as at 31 March 2000 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

The company has adopted the elective regime and is not required to reappoint auditors each year. PricewaterhouseCoopers will, therefore, remain as auditors until further notice.



By Order of the Board
P P Davies
Company Secretary
5 June 2000

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 page 18 and 19

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors

Temple Court

35 Bull street

Birmingham

B4 6JT

5 June 2000

Profit and loss account

As at 31 March 2000

	Notes	2000 £m	1999 £m
Turnover		1,000.1	970.5
Customer rebates		(18.0)	(17.8)
Operating costs before exceptional costs	2	(563.7)	(534.3)
Exceptional restructuring costs	2	(52.5)	-
Exceptional Year 2000 costs	2	(8.6)	(11.8)
Total operating costs	2	(624.8)	(546.1)
Operating profit		357.3	406.6
Other income		0.7	0.9
Profit before interest		358.0	407.5
Net interest payable	4	(84.5)	(72.9)
Profit on ordinary activities before taxation		273.5	334.6
Taxation on profit on ordinary activities	5	(20.4)	(111.0)
Profit for the financial year		253.1	223.6
Dividend	6	(145.0)	(138.0)
Exceptional dividend	6	(125.0)	-
Retained (loss) / profit for the financial year	15	(16.9)	85.6

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

	2000 £m	1999 £m
Profit for the financial year	253.1	223.6
Dividends	(270.0)	(138.0)
Net (reduction in) / addition to shareholders' funds	(16.9)	85.6
Shareholders' funds at 1 April 1999	2,145.1	2,059.5
Shareholders' funds at 31 March 2000	2,128.2	2,145.1

Balance sheet

As at 31 March 2000

	Notes	2000 £m	1999 £m
Fixed assets			
Tangible assets	7	4,352.0	4,042.8
Investments	8	1.8	1.8
		4,353.8	4,044.6
Current assets			
Stocks		4.0	5.4
Debtors	9	165.4	150.3
Cash at bank and in hand		0.1	0.1
		169.5	155.8
Creditors: amounts falling due within one year	10	(834.0)	(691.7)
Net current liabilities		(664.5)	(535.9)
Total assets less current liabilities		3,689.3	3,508.7
Creditors: amounts falling due after more than one year	11	(1,517.8)	(1,358.0)
Provisions for liabilities and charges	13a	(43.3)	(5.6)
Net assets		2,128.2	2,145.1
Capital and reserves			
Called up share capital	14	1,000.0	1,000.0
Profit and loss account	15	1,128.2	1,145.1
Equity shareholders' funds		2,128.2	2,145.1

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



V Cocker
Chairman



M R Wilson
Finance and Regulation Director

Cash flow statement

Year ended 31 March 2000

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Net cash inflow from operating activities	18a		585.6		565.4
Returns on investments and servicing of finance					
Interest received		2.8		0.6	
Interest paid		(59.4)		(57.9)	
Interest element of finance lease rental payments		-	(56.6)	(0.1)	(57.4)
Taxation			(109.3)		(110.2)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(557.4)		(593.8)	
Grants received		31.6		27.2	
Sale of tangible fixed assets		11.9		6.0	
Investment in other fixed asset investments		-	(513.9)	(0.4)	(561.0)
Equity dividends paid			(145.0)		(138.0)
Net cash outflow before financing			(239.2)		(301.2)
Financing					
Loans advanced		733.9		747.5	
Loans repaid		(361.3)		(576.9)	
Finance lease capital repaid		(8.1)	364.5	(8.4)	162.2
Net increase / (decrease) in cash			125.3		(139.0)

Reconciliation of net cash flow to movement in net debt

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Net increase / (decrease) in cash as above		125.3		(139.0)	
Cash flow from movement in net debt and financing		(364.5)		(162.2)	
Change in net debt resulting from cash flows			(239.2)		(301.2)
Rolled up interest on debt			(0.2)		-
Inception of finance leases			(10.9)		(15.4)
Increase in net debt			(250.3)		(316.6)
Opening net debt			(1,608.0)		(1,291.4)
Closing net debt	18b		(1,858.3)		(1,608.0)

Notes to the financial statements

Year ended 31 March 2000

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 requirements of the Act is given in the policy on grants and contributions below.

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

- FRS 15 'Tangible Fixed Assets'
- FRS 16 'Current Taxation'

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 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 the defined standards of service is treated as an addition and included at cost after deducting grants and contributions.

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

ii) 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	2-15

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 recognised in the profit and loss account over the useful economic life of those assets. Grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions to be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this departure is that the cost of fixed assets is £236.1 million lower than it would otherwise have been (1999: £206.1 million).

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

g) Investments

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

h) Stocks

Stocks are stated at cost less 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).

Notes to the financial statements

Year ended 31 March 2000

2 Analysis of operating costs

	2000 £m	1999 £m
Operating costs		
Wages and salaries	148.7	111.5
Social security costs	9.1	9.7
Pension costs (note 17)	30.1	11.7
Total employee costs	187.9	132.9
Power	31.9	31.5
Raw materials and consumables	29.0	29.7
Rates	38.6	36.6
Service charges	21.2	21.0
Agencies	15.5	17.5
Other operating costs	86.6	76.5
Depreciation charge (note 7)	209.5	198.5
Deferred income released	(2.8)	(2.7)
Hired and contracted services	54.4	53.2
Hire of plant and machinery	2.1	1.9
Other operating leases	1.4	0.5
Audit fees	0.3	0.2
Research and development expenditure	3.8	3.9
Profit on disposal of tangible fixed assets	(4.3)	(3.2)
	675.1	598.0
Own work capitalised	(50.3)	(51.9)
Total operating costs	624.8	546.1

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

Wages and salaries	34.0	-
Pension costs	18.5	-
Employee costs	52.5	-

Exceptional restructuring costs in the year ended 31 March 2000 of £52.5 million relate to the costs of restructuring following the AMP 3 determination.

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

Employee costs	-	0.4
Hired and contracted services	2.9	2.0
Depreciation	-	3.1
Other operating costs	5.7	6.3
	8.6	11.8

Exceptional Year 2000 costs in the year ended 31 March 2000 of £8.6 million (1999: £11.8 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 £157,000 (1999: £83,000).

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 provision of the Companies Act 1985 were as follows:

	1 April 1999		31 March 2000		1 April 1999	Exercised during the year	Lapsed during the year	Granted during the year	31 March 2000
	Ordinary shares of 65 ¹ / ₁₆ p each	B shares of 38p each	Ordinary shares of 65 ¹ / ₁₆ p each	B shares of 38p each					
I Elliott	1,874	62	2,350	62	3,463	429	-	-	3,034
J M Foster	6,445	118	7,494	118	7,020	1,002	1,544	3,567	8,041
J A Hill	1,185*	62*	1,185	62	7,951*	-	-	2,048	9,999
G P Noone	22,070	21,357	19,576	21,357	3,356	-	-	3,567	6,923
A Q Todd	3,875	118	4,048	118	3,924	1,431	-	-	2,493
M R Wilson	149	62	196	62	1,908	-	-	-	1,908

* At date of appointment

i) Messrs Arculus, Banyard, Cocker, Duckworth, Osborn and Walker 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 2000. 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 65¹/₁₆p by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 23 September 1997, 30 July 1998 and 30 July 1999. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria are based on the company's total shareholder return compared to the total shareholder return of a number of other private utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 1999 Number of ordinary shares of 65 ¹ / ₁₆ p each	Awarded during year	At 31 March 2000 Number of ordinary shares of 65 ¹ / ₁₆ p each
I Elliott	6,979	4,325	11,304
J M Foster	7,490	4,578	12,068
J A Hill	7,307*	4,140	11,447
G P Noone	8,022	4,445	12,467
A Q Todd	8,900	5,095	13,995
M R Wilson	9,112	5,321	14,433

* At date of appointment

The performance period for the contingent awards of shares made in 1997 ended on 31st March 2000. Subsequent to this the following have become entitled to shares which represent 75% of the 1997 contingent award, included in the above table:

	Number of ordinary shares of 65 ¹ / ₁₆ p each
I Elliott	2,645
J M Foster	3,051
J A Hill	2,895
G P Noone	3,159
A Q Todd	3,408
M R Wilson	3,494

Notes to the financial statements

Year ended 31 March 2000

3 Information regarding Directors and employees continued

2000
£000

1999
£000

b) Emoluments

Aggregate emoluments (excluding pension contributions) 1,127.3 1,136.5

- 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 £405,871 (1999: £382,491) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.
- iii) Retirement benefits are accruing to ten Directors (1999: nine Directors) under a defined benefit scheme.

c) Highest paid Director

Aggregate emoluments (excluding pension contributions) 229.5 224.8

The accrued pension at 31 March 2000 for the highest paid Director was £97,029 (1999: £95,775). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

	2000 Number	1999 Number
Employees:		
Average number of employees during the year (full time equivalent):		
Staff	3,003	3,022
Industrial staff	2,141	2,254
	5,144	5,276

4 Net interest payable

2000
£m

1999
£m

Interest receivable and similar income	2.8	0.6
Interest payable and similar charges:		
Bank loans and overdrafts	(40.6)	(54.5)
Other loans	(1.3)	(1.7)
Finance leases	(10.9)	(15.4)
To parent undertaking	(0.2)	(0.1)
To subsidiary undertaking	(34.3)	(1.8)
	(84.5)	(72.9)

5 Taxation on profit on ordinary activities

2000
£m

1999
£m

UK corporation tax @ 30% (1999:31%)		
Current year	21.3	121.4
Prior year	(0.7)	(12.8)
Group relief payable @ 30% (1999:31%)		
Current year	0.3	2.4
Prior year	(0.5)	-
	20.4	111.0

6 Dividends

	2000 £m	1999 £m
Dividend paid	145.0	138.0
Exceptional dividend	125.0	-
	270.0	138.0

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 2000 amounted to £145 million.

The company has also undertaken a capital restructuring, through a special dividend of £125 million, to bring gearing into line with that assumed by Ofwat in making its Periodic Review price determination in November 1999.

Customers have also benefited from a programme of rebates amounting in aggregate to £30 per customer over the period 1995 to 2000.

7 Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Costs				
At 1 April 1999	1,469.2	2,455.2	1,729.4	5,653.8
Additions	97.6	232.9	225.6	556.1
Reclassifications and transfers	-	-	0.2	0.2
Grants and contributions	-	(30.0)	-	(30.0)
Assets sold or written off	(4.1)	(0.7)	(41.0)	(45.8)
At 31 March 2000	1,562.7	2,657.4	1,914.2	6,134.3
Depreciation				
At 1 April 1999	393.7	670.9	546.4	1,611.0
Charge for year	31.4	51.6	126.5	209.5
Assets sold or written off	(3.8)	(0.7)	(33.7)	(38.2)
At 31 March 2000	421.3	721.8	639.2	1,782.3
Net book value				
At 31 March 2000	1,141.4	1,935.6	1,275.0	4,352.0
At 1 April 1999	1,075.5	1,784.3	1,183.0	4,042.8

	2000 £m	1999 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:		
Cost	276.8	277.5
Accumulated depreciation	(45.5)	(37.0)
Net book value	231.3	240.5

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:

Freehold	1,141.1	1,075.5
Short leasehold	0.3	-
	1,141.4	1,075.5

Notes to the financial statements

Year ended 31 March 2000

7 Tangible fixed assets continued

	2000 £m	1999 £m
iv) Depreciation incurred during the year has been charged as follows:		
Owned assets non infrastructure	149.3	125.5
Owned assets infrastructure	51.6	65.3
Assets held under finance leases	8.6	7.7
	209.5	198.5
v) Included in the above are the following tangible fixed assets not subject to depreciation:		
Land	23.4	23.1
Assets in the course of construction	319.8	395.3
	343.2	418.4

8 Investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
At 1 April 1999	1.2	0.6	1.8
Additions	-	-	-
At 31 March 2000	1.2	0.6	1.8

Subsidiary undertakings	Country of registration and operation	Percentage and class of share capital held	Nature of business
East Worcester Water Plc	England	100% ordinary 100% non voting ordinary	Water undertaking
Grafham Carbons Limited	England	100% 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

	2000 £m	1999 £m
Trade debtors	67.9	66.4
Amounts owed by parent and fellow subsidiary undertakings	1.7	1.0
Other debtors	8.9	10.3
Prepaid pension contributions	0.3	0.3
Prepayments and accrued income	86.6	72.3
	165.4	150.3

Debtors include £8.0 million (1999: £7.8 million) which falls due after more than one year.

10 Creditors: amounts falling due within one year

	2000 £m	1999 £m
Bank overdrafts	118.3	243.6
Bank loans	90.8	73.0
Interest free loan from parent undertaking	193.0	-
Borrowings (note 12)	402.1	316.6
Trade creditors	27.8	18.5
Amounts owed to parent and fellow subsidiary undertakings	30.8	102.8
Amounts owed to subsidiary undertakings	17.0	1.8
Other creditors	2.6	4.7
Taxation and social security	4.0	4.0
Corporation tax payable	28.9	49.0
Proposed dividend payable to parent undertaking	125.0	-
Accruals and deferred income	195.8	194.3
	834.0	691.7

11 Creditors: amounts falling due after more than one year

	2000 £m	1999 £m
Bank loans	584.3	521.8
Interest free loan from parent undertaking	-	193.0
Amounts owed to subsidiary undertakings	591.4	297.9
Other loans	11.9	12.9
Obligations under finance leases	268.7	265.9
Borrowings (note 12)	1,456.3	1,291.5
Deferred income	53.2	55.7
Other creditors	8.3	10.8
	1,517.8	1,358.0

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	2000 £m	1999 £m
Within one year (note 10)	118.3	4.4	279.4	-	402.1	316.6
Between one and two years	-	4.4	10.1	-	14.5	230.5
Between two and five years	-	13.0	252.9	2.1	268.0	216.8
After more than five years	-	15.9	891.3	266.6	1,173.8	844.2
	118.3	37.7	1,433.7	268.7	1,858.4	1,608.1

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2000 £m	1999 £m
European Investment Bank loans – 2005-2009	5.38 - 7.56	325.7	289.7
Local authority loans – 2010-2035	6.00 - 14.39	11.9	13.0
Amounts owed to subsidiary undertakings – 2024-2029	6.125 - 6.25	591.4	297.9
		929.0	600.6

Notes to the financial statements

Year ended 31 March 2000

13 Provisions

	Balance at 1 April 1999 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2000 £m
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a) Provisions for liabilities and charges comprise:

Restructuring	5.6	52.5	(14.8)	43.3
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The restructuring provision reflects costs to be incurred in respect of committed programmes. All of the associated outflows are estimated to occur within two years of the balance sheet date.

b) Full potential deferred taxation

In accordance with the accounting policy there is no requirement for a provision for deferred taxation at 31 March 2000.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30% (1999: 30%) is:

	2000 £m	1999 £m
Accelerated capital allowances	687.2	613.4
Other timing differences	(27.1)	(14.7)
	660.1	598.7

Had provision for deferred taxation been made on the full liability method there would have been a reduction in the tax charge of £61.4 million (1999: reduction of £31.5 million).

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

14 Share capital

	2000 £m	1999 £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 1999	1,145.1
Retained loss for the year	(16.9)
At 31 March 2000	1,128.2

16 Commitments and contingent liabilities

	2000 £m	1999 £m
a) Investment expenditure commitments		
Contracted for but not provided in the financial statements	140.6	177.3

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:

	2000		1999	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	1.0	-	0.4
Between one and five years	0.3	0.2	-	0.6
After five years	-	-	0.4	-
	0.3	1.2	0.4	1.0

c) 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. 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 £30.1 million this includes £18.7 million in relation to the exceptional restructuring charge note 2 (1999: £11.7million).

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

Notes to the financial statements

Year ended 31 March 2000

17 Pensions continued

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.

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

	2000 £m	1999 £m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	358.0	407.5
Depreciation charge (note 7 iv)	209.5	198.5
Profit on sale of tangible fixed assets	(4.3)	(3.2)
Deferred income received	0.8	1.4
Deferred income written back	(2.8)	(2.7)
Provision for liabilities and charges	52.5	(3.0)
Utilisation of restructuring provision	(14.8)	(7.2)
Decrease / (increase) in stocks	1.4	(0.1)
Increase in debtors	(16.7)	(14.4)
Increase / (decrease) in creditors	2.0	(11.4)
Net cash inflow from operating activities	585.6	565.4

The utilisation of the provision for liabilities and charges relates to an exceptional restructuring provision charged to the profit and loss account in the years ended 31 March 2000 and 31 March 1997.

b) Analysis of changes in net debt

	At 1 April 1999 £m	Cash flow £m	Other non cash changes £m	At 31 March 2000 £m
Cash at bank and in hand	0.1	-	-	0.1
Overdrafts (note 12)	(243.6)	125.3	-	(118.3)
Debt due within one year (note 12)	(73.0)	73.0	(283.8)	(283.8)
Debt due after one year (note 12)	(1,025.6)	(445.6)	283.6	(1,187.6)
Finance leases (note 12)	(265.9)	8.1	(10.9)	(268.7)
	(1,608.0)	(239.2)	(11.1)	(1,858.3)

Group profit and loss account

Year ended 31 March 2000

	2000 £m	1999 £m
Turnover	982.1	952.7
Operating costs	(629.1)	(549.3)
Other operating income	4.3	3.2
Operating profit	357.3	406.6
Other income	0.7	1.0
Net interest payable	(84.5)	(72.9)
Profit on ordinary activities before taxation	273.5	334.7
Taxation on profit on ordinary activities	(20.4)	(111.0)
Profit for the financial year	253.1	223.7
Dividend	(270.0)	(138.0)
Retained (loss) / profit for the financial year	(16.9)	85.7

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

Group balance sheet

As at 31 March 2000

	2000 £m	1999 £m
Fixed assets		
Tangible assets	4,399.7	4,032.5
Investments	0.6	0.9
	4,400.3	4,033.4
Current assets		
Stocks	4.0	5.4
Debtors	165.4	160.6
Cash at bank and in hand	0.1	0.5
	169.5	166.5
Creditors: amounts falling due within one year		
Borrowings	(401.4)	(316.2)
Other creditors	(428.3)	(372.5)
	(829.7)	(688.7)
Net current liabilities	(660.2)	(522.2)
Total assets less current liabilities	3,740.1	3,511.2
Creditors: amounts falling due after more than one year		
Borrowings	(1,456.3)	(1,291.6)
Other creditors	(8.3)	(10.8)
	(1,464.6)	(1,302.4)
Provisions for liabilities and charges	(91.0)	(5.6)
Deferred income	(56.7)	(58.5)
Net assets	2,127.8	2,144.7
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	1,127.8	1,144.7
Shareholders' funds	2,127.8	2,144.7

Group profit and loss account

Year ended 31 March 2000

	Notes	2000 £m	1999 £m
Turnover	2a	982.1	952.7
Current cost operating costs	2d	(655.4)	(597.4)
Other operating income	2b	3.9	2.4
		330.6	357.7
Working capital adjustment	2c	1.6	2.9
Current cost operating profit		332.2	360.6
Other income		0.7	1.0
Net interest payable		(84.5)	(72.9)
Financing adjustment		45.9	30.6
Current cost profit before taxation		294.3	319.3
Taxation on profit on ordinary activities		(20.4)	(111.0)
Current cost profit attributable to shareholders		273.9	208.3
Dividend		(270.0)	(138.0)
Current cost profit retained		3.9	70.3

Group balance sheet

As at 31 March 2000

	Notes	2000 £m	1999 £m
Fixed assets			
Tangible assets	3	22,813.3	26,981.5
Third party contributions since 1989/90		(761.7)	(691.5)
Working capital	4	(110.8)	(63.4)
Net operating assets		21,940.8	26,226.6
Cash and investments		0.7	1.4
Non-trade debtors		8.4	8.4
Non-trade creditors due within one year		(480.8)	(467.7)
Creditors due after one year		(1,464.6)	(1,302.5)
Provisions for liabilities and charges		(43.3)	(5.6)
Dividend payable		(125.0)	-
Net assets employed		19,836.2	24,460.6
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account		372.0	368.1
Current cost reserve	5	18,464.2	23,092.5
		19,836.2	24,460.6

Group cash flow statement

Year ended 31 March 2000

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Net cash inflow from operating activities	6		585.3		566.0
Returns on investments and servicing of finance					
Interest received		2.8		0.6	
Interest paid		(59.4)		(57.9)	
Interest element of finance lease rental payments		-	(56.6)	(0.1)	(57.4)
Taxation			(109.3)		(110.2)
Capital expenditure					
Purchase of tangible fixed assets		(546.4)		(506.9)	
Grants received		31.6		27.2	
Infrastructure renewals expenditure		(11.0)		(86.9)	
Disposal of fixed assets		11.9		6.0	
Investment in other fixed asset investments		0.3	(513.6)	(0.4)	(561.0)
Equity dividends paid			(145.0)		(138.0)
Net cash outflow before financing			(239.2)		(300.6)
Financing					
Loans advanced		733.9		747.5	
Loans repaid		(361.4)		(576.9)	
Finance lease capital repaid		(8.1)	364.4	(8.4)	162.2
Net increase / (decrease) in cash			125.2		(138.4)

Reconciliation of net cash flow to movement in net debt

	2000 £m	2000 £m	1999 £m	1999 £m
Net increase / (decrease) in cash as above	125.2		(138.4)	
Cash flow from movement in net debt and financing	(364.4)		(162.2)	
Change in net debt resulting from cash flows		(239.2)		(300.6)
Rolled up interest on debt		(0.2)		-
Inception of finance leases		(10.9)		(15.4)
Increase in net debt		(250.3)		(316.0)
Opening net debt		(1,607.3)		(1,291.3)
Closing net debt		(1,857.6)		(1,607.3)

Notes to the current cost financial statements

Year ended 31 March 2000

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 adjustment has been made in order to comply with Regulatory Accounting Guideline (RAG 1.02) and the guidance letter RD 11/00 as published by Ofwat on the 6 April 2000. An Asset Management Plan (AMP) survey of existing assets as at 31 March 1998 was undertaken during 1998/99 and the adjustment to asset values, as a result of that exercise, has been included within the tangible fixed asset note together with an adjustment to reflect efficiency assumptions used by Ofwat in the final determination. In intervening years, between AMP surveys, values will be 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 current terms by adjusting for movements in property values.

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 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

	2000			1999		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
a) Analysis of turnover						
Measured	170.7	165.7	336.4	161.9	166.7	328.6
Unmeasured	262.2	327.4	589.6	239.7	326.9	566.6
Trade effluent	-	38.8	38.8	-	40.1	40.1
Revenue grants	0.4	-	0.4	0.2	-	0.2
Third parties	1.8	0.5	2.3	2.1	0.4	2.5
Other sources	10.4	4.2	14.6	9.6	5.1	14.7
Total turnover	445.5	536.6	982.1	413.5	539.2	952.7
b) Other operating income						
Current cost profit on disposal of tangible fixed assets	1.9	2.0	3.9	2.1	0.3	2.4
c) Working capital adjustment						
	(1.5)	3.1	1.6	(0.6)	3.5	2.9

Notes to the current cost financial statements

Year ended 31 March 2000

2 Analysis of current cost turnover and operating costs continued

	2000										
	Water services				Sewerage services				Business analysis		
	Resources and treatment £m	Distribution £m	Water services sub-total £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m
d) Analysis of operating costs and tangible fixed assets											
Direct costs											
Employment costs	7.7	18.3	26.0	2.5	13.1	6.7	19.8	22.3			
Power	6.6	10.9	17.5	2.7	8.3	2.9	11.2	13.9			
Agencies	-	-	-	15.4	-	-	-	15.4			
Hired and contracted	2.5	12.4	14.9	2.5	2.0	7.8	9.8	12.3			
Associated companies	1.3	1.3	2.6	0.6	0.4	2.8	3.2	3.8			
Materials and consumables	5.3	3.1	8.4	0.6	4.0	3.1	7.1	7.7			
Service charges	8.1	-	8.1	1.2	4.3	0.1	4.4	5.6			
Bulk supply imports	7.5	-	7.5	-	-	-	-	-			
Other direct costs	0.7	1.3	2.0	0.7	1.4	0.5	1.9	2.6			
Total direct costs	39.7	47.3	87.0	26.2	33.5	23.9	57.4	83.6	23.7	11.2	2.4
General and support	20.2	17.1	37.3	5.1	21.0	14.0	35.0	40.1	7.8	4.2	0.8
Functional expenditure	59.9	64.4	124.3	31.3	54.5	37.9	92.4	123.7	31.5	15.4	3.2
Business activities recharge			23.8					26.3	(31.5)	(15.4)	(3.2)
Rates			25.1					13.4			
Doubtful debts			8.6					9.8			
Exceptional items			30.7					30.4			
			212.5					203.6			
Services for third parties			5.1					1.2			
Total operating expenditure			217.6					204.8			
Capital costs											
Infrastructure renewals:											
Expenditure	8.9	(43.2)	(34.3)	27.9	-	-	-	27.9			
Accrual	(7.4)	74.2	66.8	(8.8)	-	-	-	(8.8)			
Current cost depreciation	46.7	35.9	82.6	14.1	66.4	20.4	86.8	100.9			
Amortisation of deferred income			(1.3)					(1.5)			
Business activity capital costs			0.1					0.1			
			113.9					118.6			
Services for third parties depreciation			0.5					-			
Total capital maintenance			114.4					118.6			
Total operating costs			332.0					323.4			
Analysis of tangible fixed assets											
Service activities	1,409.9	5,529.9	6,939.8	14,081.3	1,132.9	260.9	1,393.8	15,475.1			
Business activities			131.0	19.8			96.4	116.2			
Service totals			7,070.8	14,101.1			1,490.2	15,591.3			
Services for third parties			151.2					-			
Total			7,222.0					15,591.3			

2 Analysis of current cost turnover and operating costs continued

	Water services				Sewerage services				Business analysis		
	Resources and treatment £m	Distribution £m	Water services sub-total £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m
d) Analysis of operating costs and tangible fixed assets											
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			
Services for third parties			178.3					168.9			
			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			
Services for third parties depreciation			109.3					134.2			
			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			

e) Non appointed business

The group has not identified for the purpose of its 1999/2000 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 2000 in respect of infrastructure assets amounted to £22.8 million on water services (1999: £23.9 million) and £9.7 million for sewerage services (1999: £8.4 million).

Expenditure on reactive and planned maintenance included in operating costs for 2000 in respect of non-infrastructure assets amounted to £8.6 million on water services (1999: £10.3 million) and £18.2 million for sewerage services (1999: £21.6 million).

Notes to the current cost financial statements

Year ended 31 March 2000

3 Analysis of tangible fixed assets by asset type within service

	Specialised operational assets £m	Non specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
a) Water services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 1999	2,061.0	115.0	5,568.2	254.0	7,998.2
AMP and other adjustments	(668.1)	(26.7)	257.9	(51.6)	(488.5)
RPI adjustment	32.9	2.3	153.7	4.5	193.4
Additions	92.3	1.7	183.1	37.3	314.4
Disposals and amounts written off	(9.9)	(1.2)	-	(10.4)	(21.5)
At 31 March 2000	1,508.2	91.1	6,162.9	233.8	7,996.0
Depreciation					
At 1 April 1999	900.3	35.7	-	121.5	1,057.5
AMP and other adjustment	(330.5)	(14.5)	-	(22.5)	(367.5)
RPI adjustment	14.8	0.6	-	2.8	18.2
Charge for year	55.9	1.1	-	26.2	83.2
Disposals and amounts written off	(9.9)	(0.9)	-	(6.6)	(17.4)
At 31 March 2000	630.6	22.0	-	121.4	774.0
Net book value					
At 31 March 2000	877.6	69.1	6,162.9	112.4	7,222.0
At 1 April 1999	1,160.7	79.3	5,568.2	132.5	6,940.7
b) Sewerage services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 1999	4,124.5	119.8	17,808.1	203.9	22,256.3
AMP and other adjustments	(1,402.0)	(21.4)	(4,314.3)	(36.8)	(5,774.5)
RPI adjustment	59.9	2.5	350.4	3.8	416.6
Additions	156.5	1.8	76.6	37.3	272.2
Disposals and amounts written off	(89.4)	(1.1)	-	(8.8)	(99.3)
At 31 March 2000	2,849.5	101.6	13,920.8	199.4	17,071.3
Depreciation					
At 1 April 1999	2,086.6	32.1	-	96.8	2,215.5
AMP and other adjustments	(744.5)	(13.3)	-	(16.3)	(774.1)
RPI adjustment	30.3	0.6	-	2.3	33.2
Charge for year	77.7	1.0	-	22.3	101.0
Disposals and amounts written off	(89.4)	(0.8)	-	(5.4)	(95.6)
At 31 March 2000	1,360.7	19.6	-	99.7	1,480.0
Net book value					
At 31 March 2000	1,488.8	82.0	13,920.8	99.7	15,591.3
At 1 April 1999	2,037.9	87.7	17,808.1	107.1	20,040.8

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

	Specialised operational assets £m	Non specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
c) Total tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 1999	6,185.5	234.8	23,376.3	457.9	30,254.5
AMP and other adjustments	(2,070.1)	(48.1)	(4,056.4)	(88.4)	(6,263.0)
RPI adjustment	92.8	4.8	504.1	8.3	610.0
Additions	248.8	3.5	259.7	74.6	586.6
Disposals and amounts written off	(99.3)	(2.3)	-	(19.2)	(120.8)
At 31 March 2000	4,357.7	192.7	20,083.7	433.2	25,067.3
Depreciation					
At 1 April 1999	2,986.9	67.8	-	218.3	3,273.0
AMP and other adjustment	(1,075.0)	(27.8)	-	(38.8)	(1,141.6)
RPI adjustment	45.1	1.2	-	5.1	51.4
Charge for year	133.6	2.1	-	48.5	184.2
Disposals and amounts written off	(99.3)	(1.7)	-	(12.0)	(113.0)
At 31 March 2000	1,991.3	41.6	-	221.1	2,254.0
Net book value					
At 31 March 2000	2,366.4	151.1	20,083.7	212.1	22,813.3
At 1 April 1999	3,198.6	167.0	23,376.3	239.6	26,981.5

4 Working capital

	2000 £m	1999 £m
Stocks	4.0	5.4
Trade debtors	67.9	66.4
Trade creditors	(7.4)	(4.4)
Short-term capital creditors	(20.3)	(14.1)
Infrastructure renewals accrual	(47.7)	10.3
Accruals	(116.4)	(124.7)
Payments in advance	(61.3)	(56.1)
Tax and social security	(4.0)	(4.0)
Group trade debtors / (creditors)	(13.1)	(16.2)
Prepayments	87.5	74.0
	(110.8)	(63.4)

Notes to the current cost financial statements

Year ended 31 March 2000

5 Reserves – current cost reserves

	2000 £m	1999 £m
At 1 April 1999	23,092.5	22,600.3
AMP adjustment	(5,121.4)	-
RPI adjustments:		
Fixed assets	558.6	537.9
Working capital	(1.6)	(2.9)
Financing	(45.9)	(30.6)
Grants and third party contributions	(18.0)	(12.7)
Other adjustments	-	0.5
At 31 March 2000	18,464.2	23,092.5

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

	2000 £m	1999 £m
Current cost operating profit	332.2	360.6
Working capital adjustment	(1.6)	(2.9)
Decrease / (increase) in stocks	1.4	(0.1)
Other income	0.7	1.0
Current cost depreciation	184.2	181.2
Current cost profit on disposal of tangible fixed assets	(3.9)	(2.4)
Increase in debtors	(16.7)	(19.5)
Increase / (decrease) in creditors	1.7	(5.7)
Increase / (decrease) in provisions	78.3	(21.6)
Infrastructure renewals expenditure	11.0	86.9
Effect of other deferrals and accruals on operating activity cash flow	(2.0)	(11.5)
Net cash inflow from operating activities	585.3	566.0

Five year summary

At 1999/2000 out-turn prices

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Profit and loss account					
Turnover	982.1	967.9	977.6	995.4	993.2
Current cost operating costs	(655.4)	(607.0)	(604.5)	(628.7)	(606.6)
Share of results of associated undertaking	-	0.1	-	-	0.1
Other operating income	3.9	2.4	0.8	2.7	4.9
	330.6	363.4	373.9	369.4	391.6
Working capital adjustment	1.6	2.9	3.7	4.2	4.1
Current cost operating profit	332.2	366.3	377.6	373.6	395.7
Other income	0.7	0.9	-	-	-
Net interest payable	(84.5)	(74.1)	(50.2)	(38.0)	(38.6)
Financing adjustment	45.9	31.1	32.0	21.8	14.4
Current cost profit before taxation	294.3	324.2	359.4	357.4	371.5
Taxation	(20.4)	(112.8)	(120.8)	(37.7)	(33.7)
Current cost profit attributable to shareholders	273.9	211.4	238.6	319.7	337.8
Dividend	(145.0)	(140.2)	(136.2)	(297.8)	(133.1)
Exceptional dividend	(125.0)	-	(324.5)	-	(428.1)
Current cost profit / (loss) retained	3.9	71.2	(222.1)	21.9	(223.4)
Balance sheet					
Fixed assets					
Tangible assets	22,813.3	27,683.1	27,323.5	27,022.9	26,768.0
Third party contributions since 1989/90	(761.7)	(709.5)	(631.8)	(575.8)	(504.1)
Working capital	(110.8)	(65.0)	(144.8)	(109.3)	(167.8)
Net operating assets	21,940.8	26,908.6	26,546.9	26,337.8	26,096.1
Cash and investments	0.7	1.4	0.4	78.8	193.9
Non-trade debtors	8.4	8.6	9.1	12.2	7.3
Non-trade creditors due within one year	(480.8)	(479.9)	(548.2)	(109.4)	(99.0)
Creditors due after one year	(1,464.6)	(1,336.4)	(970.4)	(895.9)	(941.2)
Provision for liabilities and charges	(43.3)	(5.7)	(16.5)	(31.8)	(21.5)
Dividends payable	(125.0)	-	-	(135.5)	-
Net assets employed	19,836.2	25,096.6	25,021.3	25,256.2	25,235.6
Capital and reserves					
Called up share capital	1,000.0	1,026.0	1,047.0	1,084.0	1,112.0
Profit and loss account	497.0	377.7	311.8	552.6	544.4
Current cost reserve	18,339.2	23,692.9	23,662.5	23,619.6	23,579.2
	19,836.2	25,096.6	25,021.3	25,256.2	25,235.6

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
5 June 2000

We have audited the regulatory financial statements on pages 29 to 39.

Respective responsibilities of Directors and auditors

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

We read the other information contained in the Annual Report and accounts 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements in terms of generally accepted accounting principles, the Regulatory Accounting Guidelines and consistency with the statutory 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 6 April 2000 that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 and 15 disapplied. As a consequence an amount of £47.7 million has been included under accruals in the regulatory balance sheet and has been taken to decrease the amount of fixed assets as shown in the statutory balance sheet on page 16.

In our opinion, the regulatory financial statements and other information contain the information for the year to 31 March 2000 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 and has been properly prepared in accordance with the requirements of Condition F of the Instruments of Appointment and the Regulatory Accounting 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, costs and, except for accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the Appointees and their appointed businesses;
- d) The current cost financial information on pages 30 to 39 has been properly prepared in accordance with Regulatory Accounting Guideline 1.02, Accounting for Current Costs issued in May 1992 by the Office of Water Services.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors

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

Supplementary Regulatory Accounting Disclosures

Year ended 31 March 2000

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:

		Principal amount £m	Repayment date	Interest Rate %
Severn Trent Water Utilities Finance Plc	Borrowed	300.0	2029	6.25

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 2000 amounted to £145 million.

The company undertook a capital restructuring, through a special dividend of £125 million to bring gearing into line with that assumed by Ofwat in making its Periodic Review price determination in November 1999.

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 £0.3m

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	1.9
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	1.7
			4.3

Services supplied to the appointee by associated companies

Nature of transactions	Company	Terms	Amount £m
Provision of waste services	Biffa Waste Services Ltd	Competitive tendering	4.9
Meter installation and provision of other engineering services	Capital Controls Ltd	Competitive tendering/ negotiated market rates	14.4
Provision of engineering and design services	Charles Haswells and Partners Ltd	Other market testing/ negotiated market rates	13.4
Asset management	Cognica Ltd	Negotiated market rates	2.1
Insurance services	Derwent Insurance Ltd	Other market testing	3.9
Supply of materials	Fusion Meters Ltd	Competitive tendering	5.4
Mailing and postal services	Paperflow Services Ltd	Competitive tendering/ negotiated market rates	4.4
Analytical services	Severn Trent Laboratories Ltd	Other market testing	5.7
Management fee	Severn Trent Plc	Recharge of costs	4.4
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	54.9
Network analysis	Stoner Associates	Negotiated market rates	0.4
			114.0

Of the £114.0 million, £62.5 million was spent on investment expenditure.

e) Omission of rights

None

f) Waivers

None

g) Guarantees

None

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 'June 2000 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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Visitor and education centres	55
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Profit and loss accounts

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Turnover	895.6	919.1	932.8	952.7	982.1
Operating profit	394.4	386.2 *	409.4 †	407.6 ‡	358.0 §
Net interest payable	(34.8)	(35.1)	(47.9)	(72.9)	(84.5)
Profit for the financial year	359.6	351.1 *	361.5 †	334.7 ‡	273.5 §
Taxation	(29.9)	(34.8)	(115.3)	(111.0)	(20.4)
Dividend	(120.0)	(275.0)	(130.0)	(138.0)	(145.0)
Exceptional dividend	(386.0)	-	(309.6)	-	(125.0)
Retained profit / (loss)	(176.3)	41.3 *	(193.4)†	85.7 ‡	(16.9)§

* After restructuring of £20 million

† After Year 2000 costs of £2.2 million

‡ After Year 2000 costs of £11.8 million

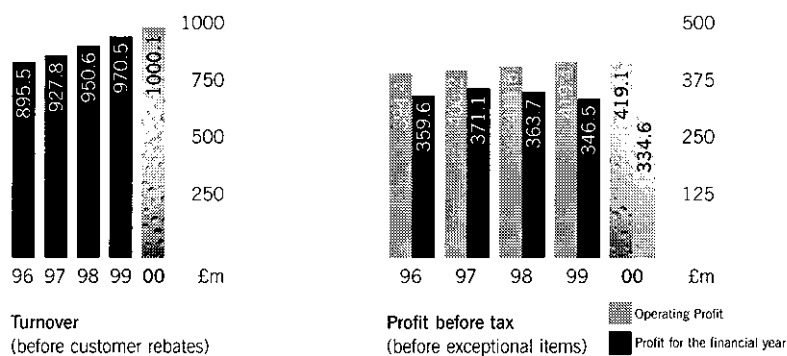
§ After Year 2000 costs of £8.6 million and restructuring £52.5 million

Balance sheets

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Fixed assets	3,205.0	3,412.7	3,714.4	4,033.4	4,400.3
Net current liabilities	(35.2)	(224.5)	(645.6)	(522.2)	(660.2)
	3,169.8	3,188.2	3,068.8	3,511.2	3,740.1
Creditors: amounts falling due after more than one year	(846.5)	(826.5)	(926.8)	(1,302.4)	(1,464.6)
Provisions for liabilities, charges and deferred income	(112.2)	(109.3)	(83.0)	(64.1)	(147.7)
	2,211.1	2,252.4	2,059.0	2,144.7	2,127.8
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	1,211.1	1,252.4	1,059.0	1,144.7	1,127.8
	2,211.1	2,252.4	2,059.0	2,144.7	2,127.8

Turnover by category

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Measured charges	274.6	286.8	302.3	328.6	336.4
Unmeasured charges	552.9	562.9	560.9	566.6	589.6
Trade effluent	43.1	43.4	43.4	40.1	38.8
Other	25.0	26.0	26.2	17.4	17.3
	895.6	919.1	932.8	952.7	982.1



Net borrowings

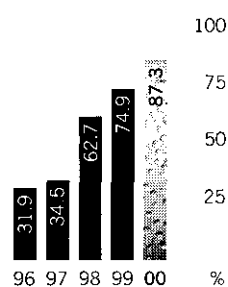
	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Cash at bank and in hand	167.0	72.0	0.1	0.5	0.1
Borrowings	(872.5)	(848.6)	(1,291.4)	(1,607.8)	(1,857.7)
	(705.5)	(776.6)	(1,291.3)	(1,607.3)	(1,857.6)

Key ratios

	1996	1997	1998	1999	2000
Liquidity					
Current ratio (times)	0.89	0.49	0.17	0.24	0.20
Profitability					
Gross profit margin (%)	44.04	42.02	43.89	42.78	36.45
Return on capital employed (%): Historic cost	12.44	12.11	13.34	11.61	9.57
Return on fixed assets (%): Historic cost	12.31	11.32	11.02	10.11	8.14
Return on fixed assets (%): Current cost	1.48	1.38	1.38	1.34	1.46
Gearing					
Debt to equity (%)	31.91	34.48	62.71	74.94	87.30
Other					
Turnover per employee (£)	151,029	160,038	174,062	180,572	190,921
Operating profit per employee (£)	66,509	67,247	76,395	77,255	69,596

Employee numbers

	1996 No.	1997 No.	1998 No.	1999 No.	2000 No.
Employee number (average)	5,930	5,743	5,359	5,276	5,144
Employee number (year end)	5,862	5,653	5,320	5,228	4,993



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 (2000/2001)

	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Severn Trent Water	109	94	203
Average of other 9 water and sewerage companies	109	140	249
Equivalent cost per day per household			
Severn Trent Water			56 pence
Other water and sewerage companies average			68 pence
Measured water charges			
Water supply		76.19 pence/cubic metre	
Sewerage		47.71 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Severn Trent Water			£198
Average of other 9 water and sewerage companies			£235

Customer payment statistics

	1996 '000	1997 '000	1998 '000	1999 '000	2000 '000
Number of customers paying by instalments	1,205	1,295	1,369	1,486	1,552
Number of summonses	90	94	101	105	114
Percentage of unmeasured customers summoned (%)	2.8	2.3	3.1	3.0	3.5

Disconnections

	No.	No.	No.	No.	No.
Domestic	462	457	323	47	25
Non domestic	159	230	203	184	206
Percentage of customers disconnected (%)	0.02	0.02	0.02	0.01	0.01

Customer complaints

	'000	'000	'000	'000	'000
	10	10	10	11	17*

* The number of complaints received during the year increased. This is not the result of a deterioration in customer service, but follows the re-classification of complaints arising out of the 1999 Certifiers report.

Customer contacts

	1996 No. '000	1997 No. '000	1998 No. '000	1999 No. '000	2000 No. '000
By letter	952	684	758	819	919
Telephone calls	1,224	1,593	1,859	2,125	2,183
Total	2,176	2,277	2,617	2,944	3,102

Population

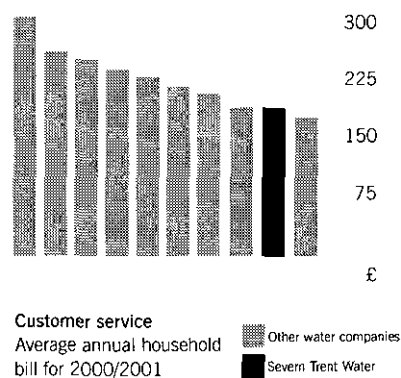
Water supply	7,250	7,280	7,305	7,331	7,356
Sewerage	8,280	8,300	8,200	8,225	8,250

Billed properties

Water					
Unmeasured domestic	2,579	2,554	2,500	2,452	2,400
Unmeasured non-domestic	52	50	40	25	18
Sub-total	2,631	2,604	2,540	2,477	2,418
Measured domestic	240	290	365	433	505
Measured non-domestic	168	170	180	196	204
Sub-total	408	460	545	629	709
Total	3,039	3,064	3,085	3,106	3,127
Sewerage	3,402	3,417	3,446	3,468	3,495

New connections during year

Water supply	23	22	23	24	24
Sewerage	25	25	25	25	25



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)

	1996 %	1997 %	1998 %	1999 %	2000 %
(DG1) Raw water availability Percentage of the population who live in areas where resources are adequate to meet demands	99.80	100.00	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	98.90	99.70	99.83	99.86	99.86
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.84	99.94	99.96	99.91	99.96
(DG4) Water usage restrictions Percentage of properties not affected by:					
Ban on hosepipes	0.0	49.20	100.00	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	99.96	99.97
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 2 days	72.8	84.7	90.7	91.6	91.0
Under 5 days	81.5	89.8	96.3	99.2	99.6
Under 10 days	91.6	96.5	98.9	99.7	100.0
Under 20 days	99.4	99.8	99.9	99.9	100.0
Over 20 days	0.6	0.2	0.1	0.1	0.0

In 1999/2000 there were 2.8 million customer contacts. The company's performance in 1999/2000 based on OFWAT's 1998/1999 criteria would meet the 'Good' category.

(DG7) Response to written complaints Response time for replies to written complaints					
Under 2 days	28.3	32.2	34.0	37.2	34.2
Under 5 days	76.5	74.5	84.5	95.2	98.7
Under 10 days	96.6	90.6	98.8	99.7	99.9
Under 20 days	99.4	99.1	100.0	100.0	100.0
Over 20 days	0.6	0.9	0.0	0.0	0.0

The number of customer complaints received in 1999/2000 has increased from those received in 1998/1999. The company's performance in 1999/2000 based on OFWAT's 1998/1999 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.

	1996 %	1997 %	1998 %	1999 %	2000 %
Company read	94.7	96.1	97.7	98.3	98.3
Customer read	2.1	2.9	1.8	1.4	1.2
Total read and billed in year	96.8	99.0	99.5	99.7	99.5

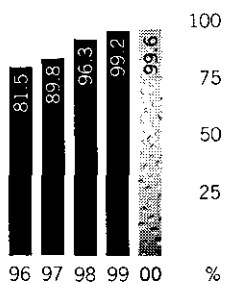
The company's performance in 1999/2000 based on OFWAT's 1998/1999 criteria would meet the 'Good' category.

(DG9) Telephone contacts

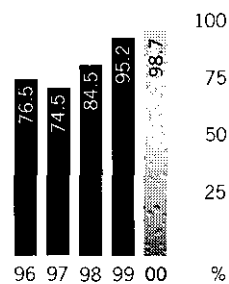
Response times to answering telephone call to the principal customer contact points

Under 15 seconds	65.0	73.5	82.0	82.4	82.2
Under 30 seconds	73.7	82.7	91.1	91.0	90.6
Over 30 seconds	26.3	17.3	8.9	9.0	9.4
Average response times (seconds)	40.2	19.7	10.2	9.8	9.9

Guaranteed standards scheme	1996	1997	1998	1999	2000
Complaints answered within the guaranteed standards scheme time period	98.5%	97.7%	99.8%	99.9%	100.0%
Number of claims automatically accepted for guaranteed standard payments	157	1,230	2,713	4,699	4,130



Response to billing queries within 5 days



Response to written complaints within 5 days

Rainfall

1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999

Severn Trent Region - Area Rainfall

Severn Trent region

- Rainfall (mm)	777	741	814	769	759	718	683	639	842	792	814	631	579	684	815	849
- % long-term average	99	96	105	99	98	93	88	83	110	102	105	81	75	88	108	113

Severn Basin

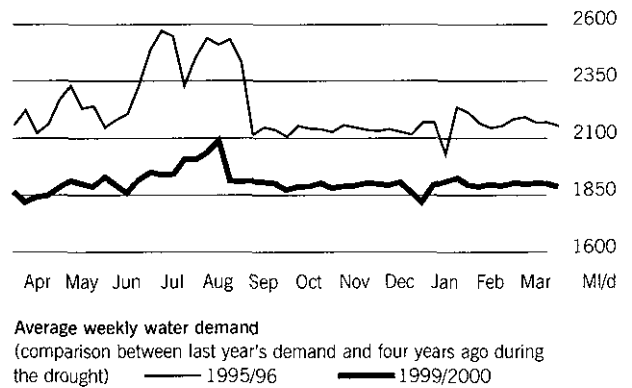
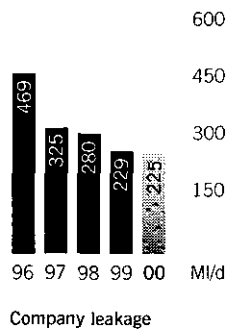
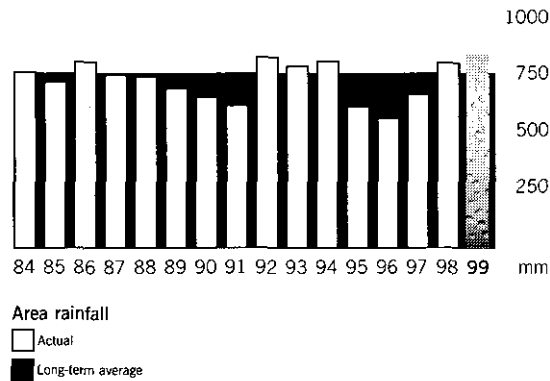
- Rainfall (mm)	842	813	856	805	811	777	732	702	872	797	844	674	624	716	857	931
- % long-term average	102	98	103	97	98	94	88	87	108	99	104	83	76	87	108	117

Trent Basin

- Rainfall (mm)	715	685	790	747	723	676	647	576	808	781	785	585	540	661	783	777
- % long-term average	97	93	103	101	98	92	88	78	110	106	107	80	73	90	109	108

Note:

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



Demand

Analysis of water supply sources

	1996 M/d	1997 M/d	1998 M/d	1999 M/d	2000 M/d
Reservoirs	526	476	537	510	517
River intakes	876	802	650	692	727
Groundwater	788	733	719	651	618
Total production	2,190	2,011	1,906	1,853	1,862
Treated water imports	21	20	20	24	23
Treated water exports	(9)	(9)	(8)	(8)	(7)
Total water into supply	2,202	2,022	1,918	1,869	1,878

Water demand

	1996 M/d	1997 M/d	1998 M/d	1999 M/d	2000 M/d
Household demand	1,166	1,139	1,108	1,117	1,132
Non-household demand	551	552	524	515	491
Water delivered to billed customers	1,717	1,691	1,632	1,632	1,623
Total water into supply	2,202	2,022	1,918	1,869	1,878
Company unaccounted for water	469	325	280	229	225

Operational statistics

	1996	1997	1998	1999	2000
Number of repairs carried out on mains pipes	12,228	10,908	6,025	6,792	7,033
Average time taken to repair bursts on mains pipes (days)	2.85	1.88	0.37	0.36	0.32
Number of repairs carried out on communication pipes	14,247	12,552	14,415	15,629	13,769
Average time taken to repair bursts on communication pipes (days)	6.74	3.49	0.14	0.13	0.14
Number of repairs carried out on customers supply pipes (service commenced January 1995)	2,519	8,294	10,942	12,030	12,560
Number of calls to 'Leakline' service (service commenced December 1995, ceased March 1999)	16,703	19,088	27,788	35,642	N/a
Number of calls to 'Operational helpline' service (service commenced April 1999)	N/a	N/a	N/a	N/a	487,096

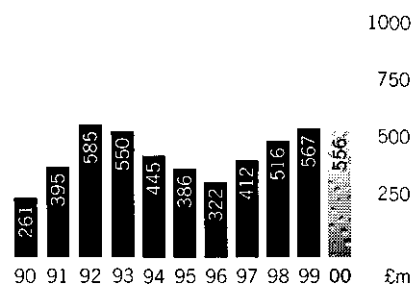
Investment

Investment expenditure

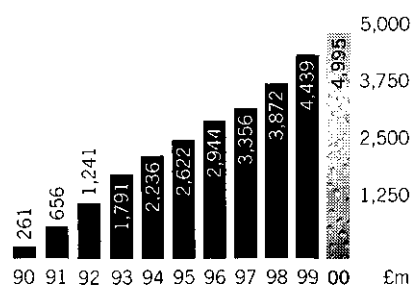
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54
Distribution	74	97	161	137	107	104	97	141	160	152	170
Sewerage	47	67	108	90	76	73	45	57	68	88	75
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14	18
Other	10	9	11	7	3	3	23	29	54	80	76
	261	395	585	550	445	386	322	412	516	567	556
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11
	261	395	585	550	445	386	322	412	516	567	556
Cumulative investment since 1990	261	656	1,241	1,791	2,236	2,622	2,944	3,356	3,872	4,439	4,995

Physical outputs

	1996	1997	1998	1999	2000
Mains - added (Km)	239	248	148	48	42
- renewals (Km)	499	577	714	807	1,010
- relined (Km)	408	347	81	4	160
- number of communication pipes replaced	29,985	48,508	40,848	54,118	54,088
Sewers - added (Km)	325	289	242	724	410
- improved (Km)	5	11	6	2	4
Approximate number of properties where problems of poor pressure alleviated by investment	15,500	33,400	8,300	4,000	5
Number of properties where risk of flooding from sewers has been removed	187	427	450	638	591



Investment
Annual investment expenditure since privatisation



Investment
Cumulative investment expenditure since privatisation

Investment continued and Quality

Major operational schemes carried out during year

	2000 Total £m
Finham sewage treatment works	17.0
Perry Hall and Saitley link sewer	14.2
Derby sewage treatment works	11.4
Goscote sewage treatment works	8.8
Erewash sludge digestion plant	8.6
Ladybower reservoir dam refurbishments	8.3
Redditch sewage treatment works	6.5
Ashopton to Ladybower viaduct remedial works	5.6
Strongford sludge digestion plant	5.5
Barnhurst sewage treatment works	4.9

Operational assets

	2000 No.
Impounding reservoirs	41
Groundwater sources	188
River water intakes	16
Surface water treatment works	20
Water supply booster stations	562
Service reservoirs sites	535
Mains (Km)	42,956
Sewers (Km)	53,181
Sewage treatment works	999
Sewage pumping stations	647
Sewerage pumping stations	2,260
Sludge treatment facilities	57

Quality

Water supply

	1995	1996	1997	1998	1999
Overall quality of drinking water					
Number of samples	79,020	77,654	77,327	74,802	72,651
% compliance with standards	99.83%	99.84%	99.89%	99.88%	99.91%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of samples	22,719	23,419	22,547	20,580	19,646
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of samples	35,706	34,243	34,047	33,314	32,234
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of samples	20,595	20,262	20,733	20,908	20,771
% compliance with standards	99.9%	99.8%	99.8%	99.8%	99.8%
Physical and chemical quality of drinking water					
Water at customers' taps					
Number of samples	20,595	20,262	20,733	20,908	20,771
% compliance with standards	99.8%	99.8%	99.9%	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 260,200 being made during 1999. % Compliance with standards as detailed in the Water Supply (Water Quality) regulations.

Sewage treatment quality Overall compliance with standards

	1996	1997	1998	1999	2000
Total number of sewage treatment works	1,014	1,014	1,007	1,004	999
Number of sewage treatment works failing consents	18	15	21	19	7
Number of prosecutions by Environment Agency (EA) resulting in convictions					
Discharge from sewerage system	3	2	1	2	0
Sewage treatment works	4	0	0	0	0
Water treatment works	1	1	0	0	0
Other	1	1	0	0	0
Compliance of numerically consented work					
	1996 ¹	1997 ¹	1997	1998	1999
Number of works with numeric consents	741	741	719	731	745
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.5%	99.5%	99.4%	99.6%	99.6% ⁴
By works	99.6%	100.0%	100.0% ³	99.9% ³	99.9% ⁴
Compliance with sanitary standards (upper tier)					
By tests to measure quality	>99.9%	>99.9%	99.7%	99.8%	99.9% ⁴
By works	98.4%	98.6%	96.5%	99.4%	99.3% ⁴
Compliance with non-sanitary standards					
By tests to measure quality	95.2%	94.3% ²	92.2% ²	97.2% ²	99.4% ⁴
By works	80.0%	81.4%	71.4%	77.0%	91.7% ⁴

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.

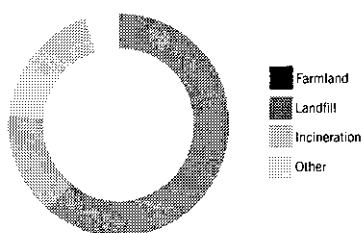
⁴ Provisional results

Quality

Sludge disposal

	1996 tds	1997 tds	1998 tds	1999 tds	2000 tds
Farmland	80,000	81,000	82,500	85,800	96,900
Landfill	62,000	42,000	24,700	28,000	23,800
Incineration	19,000	28,000	24,900	22,800	30,200
Sea	0	0	0	0	0
Other	4,000	5,000	26,200	38,600	7,900
Total	165,000	156,000	158,300	175,200	158,800

tds = tonnes dry solids



Methods of sludge disposal

Visitors and education centres

Education centres

The company is committed to enhancing school pupil's knowledge about water, the environment and the company's long commitment to conservation and biodiversity. 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. All activities at our centres are closely linked to the National Curriculum.

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

Come and See centres

The company has 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.

	1996 No.	1997 No.	1998 No.	1999 No.	2000 No.
Education centres and Come and See Education in Schools					
Number of classes involved in educational programmes	1,156	1,906	1,824	1,433	1,137
Number of pupils attending programmes	31,398	65,458	54,666	43,169	33,182
Number of teachers attending programmes	2,407	3,155	2,776	2,306	1,784
Number of other adults attending educational programmes	1,933	2,344	2,902	2,339	2,392
Come and See centres					
Number of classes attending Severn Trent sites	232	221	215	242	212
Number of pupils touring operational sites	5,843	6,496	6,030	7,270	6,387
Number of adults touring operational sites	21,423	15,759	12,992	11,160	8,295
External talks					
Number of talks given to adult customers	1,918	2,731	4,961	3,748	4,256

Go and Tell

We have continued to attend a wide variety of large and small events throughout the Midlands, making contact with over 25,000 people at 131 events. These have included an Agenda 21 event in Telford, an Environment day at Derby and various county agricultural shows.

The section also works closely with Severn Trent Engineering for example in connection with the rehabilitation programme undertaken in Cheltenham.

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 H Bailey

J K Banyard

I Elliott

J M Foster

J A Hill

G P Noone

F A Osborn

R M Walker

M R Wilson

Business telephone numbers

Billing enquiries:

Tel: 08457 500 500

Operations and emergencies:

Tel: 0800 783 4444

All other enquiries:

Tel: 0121 722 4000

Company website

www.stwater.co.uk

Group website

www.severn-trent.com

E-mail

customer.relations@severntrent.co.uk

Severn Trent Water Limited
Edgbaston Depot
Waterworks Road
Birmingham B16 9DD

Severn Trent Water Limited
Sherbourne House
St Martin's Road
Finham
Coventry CV3 6P3

Severn Trent Water Limited
PO Box 5T
Raynesway
Derby DE21 7JA

Severn Trent Water Limited
Staverton Depot
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
Hucknall Road
Nottingham NG5 1FH

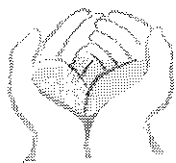
Severn Trent Water Limited
Shelton
Shrewsbury SY3 8BJ

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