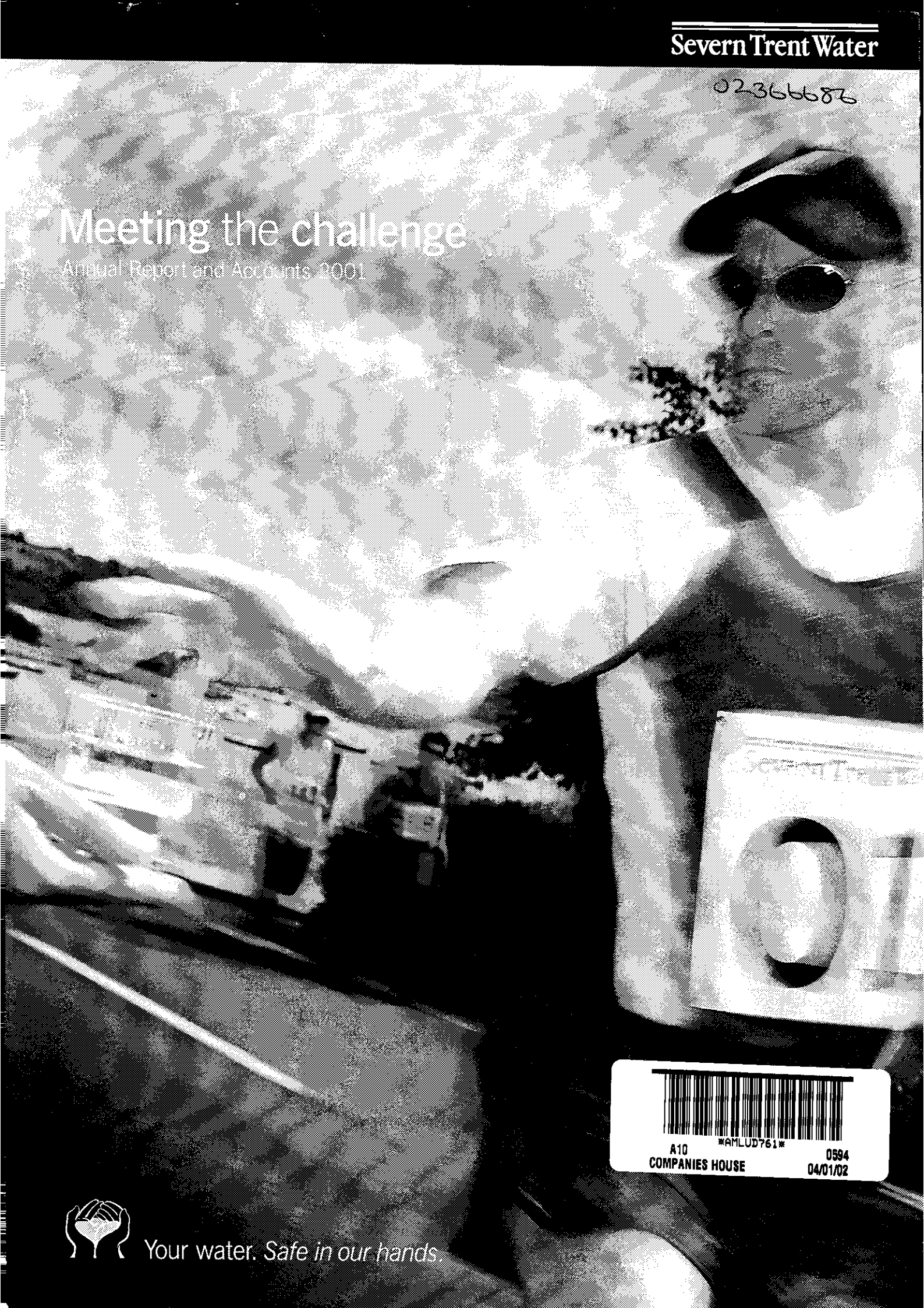


023666876

Meeting the challenge

Annual Report and Accounts 2001



A10 #AMLUD761# 0594
 COMPANIES HOUSE 04/01/02



Your water. Safe in our hands.

Severn Trent Water is committed to protecting the health and well-being of our customers, our communities and the environment, both now and in the future.

Contents

Managing Director's review	02
Financial highlights	02
Directors' report	16
Statement of Directors' responsibilities	18
Auditors' report	18
Historical cost financial statements	
Profit and loss account	19
Statement of total recognised gains and losses	19
Reconciliation of movements in shareholders' funds	19
Balance sheets	20
Cash flow statement	21
Reconciliation of net cash flow to movements in net debt	21
Notes to the financial statements	22
Regulatory accounts	
Water Industry Act 1991	35
Diversification and protection of the core business – Condition F6a	35
Report of the auditors	36
Historical cost financial statements	
Group profit and loss account	37
Group balance sheet	37
Current cost financial statements	
Group profit and loss account	38
Group balance sheet	38
Group cash flow statement	39
Reconciliation of net cash flow to movements in net debt	39
Notes to the current cost financial statements	40
Five year summary	47
Supplementary regulatory accounting disclosures	48
Financial and operating statistics	49





Managing Director's review

Brian Duckworth | Managing Director

Meeting the challenge

Last year I reported that the 1999 periodic review of prices, which defined Severn Trent Water's prices and obligations for the five years 2000 to 2005, presented the company with the most significant challenge in its history.

I am pleased to report that the careful preparation and implementation across all parts of the company has resulted in productivity improvements to enable the company to meet that challenge.

We have achieved or exceeded all the financial targets for this first year and we are well placed to out perform over the remaining four years.

This performance was achieved despite a combination of unusual operational events, which included the fuel crisis, severe autumn floods, adverse winter weather conditions and most recently the foot-and-mouth crisis. It is a credit to all employees that we were able to respond positively and ensure that our customers continued to receive our normal excellent service.

Financial highlights	2001	2000
Turnover before customer rebates (£m)	884	1,000
Turnover after customer rebates (£m)	884	982
Operating costs (£m)	(560)	(625)
Profit before interest (pre-exceptionals) (£m)	326	419
Profit before interest (post-exceptionals) (£m)	326	358
Profit before tax (post-exceptionals) (£m)	208	274
Gearing (debt/equity) (%)	92.5	87.3
Investment (£m)	320	556

Turnover - £m (before customer rebates)	
97	927.8
98	950.6
99	970.5
00	1000.1
01	884.4

Profit before tax - £m (before exceptional items)	
97	371
98	364
99	347
00	335
01	208

Investment - £m	
97	412
98	516
99	567
00	556
01	320

The company is investing now to make sure that we maintain and further improve quality in the years to come.

Water supply

Last year and for the fourth consecutive year the company achieved very high water quality standards at 99.9% compliance, one of the best in the industry. This level of compliance was achieved by closely controlling essential operational and maintenance activities on individual water treatment works, with priority given to those activities which enhance water quality and improve operational efficiency. Similar efforts have been made in the Networks activities to ensure that water delivered to customers remains of extremely high quality.

In 2003, even tighter standards for drinking water quality will be introduced. The company is therefore investing now to make sure that we maintain and further improve quality in the years to come. Over the next four years further improvements are scheduled at 53 water treatment works.

Protection of public health through the provision of reliable and high quality water supplies remains an absolute priority for the company. During last year the company fully implemented new procedures to comply with stringent new regulations designed to provide even higher levels of protection against the micro-organism cryptosporidium. The company also continued to enhance its close working partnerships with the health authorities across our region.

During the year over 500km of water mains were rehabilitated to improve water quality and a new strategic link main was laid to provide added security of supplies in the Birmingham area. A scheme to raise the dam wall at Ladybower reservoir in Derbyshire was recently completed and received widespread acclaim for the sensitive handling of environmental issues.

The water resource position of the company is very healthy following the exceptionally wet winter and spring. This has enabled the company to optimise energy usage in filling pumped storage reservoirs and, at the same time, has ensured that all reservoirs were 100% full at the year end. This means the company is in the strongest possible position to maintain supplies to customers over the coming summer.

A continuous programme of efficiency improvements is in place to ensure regulatory requirements can be met and exceeded.

This programme is linked closely to a parallel programme of risk evaluation to ensure that efficiencies are not being achieved at the expense of unacceptable operational risk. This has enabled the company to make a 10% reduction in manpower in the water supply function. Savings have also resulted from energy efficiency schemes, reducing the use of chemicals in the water treatment process and minimising the new operating costs arising from the investment programme.

Maintaining a high level of alert and the associated emergency planning procedures continues to be a priority requirement for the company. These procedures have been well tested by this year's operational events. At all times the procedures proved effective in ensuring no impact on water supplies to customers whilst, at the same time, minimising the inevitable financial consequences of the disruption.

The company is well positioned to continue delivering efficiency savings for the remainder of the five year price review.

Networks

The networks function manages the underground 'pipe' assets for both water supply and sewerage. During the year it launched a significant reorganisation with the twin objectives of significantly improving the dependability of service and improvements in productivity. The results were dramatic and the company has seen significant benefits with improved job prioritisation and delivery, a more secure sewerage organisation and fewer water discolouration incidents.

Both of the company's new Network Management Centres (NMCs) are now fully operational and have already been tested under extreme conditions. The NMCs provide a 24 hour, seven days a week capability to monitor and manage the assets of the company. The NMCs have played a pivotal role in securing productivity improvements as well as meeting the challenges raised by the operational events.

The year also saw significant changes for the sewerage operations, as all arrangements with local councils to act as sewerage agencies ceased on the 31st March 2000. A new organisation has been built and over 300 former local council staff have been welcomed into the company. The new organisation has been severely tested in responding to the many flooding incidents during the autumn throughout the region, but in particular at Worcester, Bewdley and Shrewsbury.

The severe winter weather had a particularly adverse effect on the company's leakage effort and resulted in certain targets being missed by the year end, but we are confident about achieving these targets early in the new financial year.

Nevertheless, the company's expertise and commitment in this area remains as strong as ever. This was demonstrated by a commendation in the Water UK and Environment Agency Water Efficiency Awards last year. The commendation recognised our substantial achievements in reducing leakage in Worcestershire where the company had developed the use of a new technology in our campaign to reduce leakage.

The company's focus on minimising incidents which cause discoloured water to be supplied to customers was maintained during the year. The proactive management of the distribution network and our mains cleaning and renovation programme significantly reduced the number of discoloured water events. It is anticipated that this improvement in service will continue in future years.

The number of customers who experienced poor mains pressure fell to a new low last year, with only 0.14% (4,591) on the register.

This represents a strong improvement from the peak of 36,551 in 1996. The number of properties affected by planned and unplanned supply interruptions also reduced last year.

In order to further enhance service in this area new methods of maintaining supplies in the company's network during asset failure have been developed and tested, for full implementation in the coming year.

Our people

The year saw the departure of 847 employees as a result of the restructuring activities throughout the company. It is anticipated that a further 100 employees will leave within the next twelve months, in total some 20% of the work force.

I would like to place on record my sincere thanks to all those employees who have left, for their sustained hard work and commitment. It has been difficult to see so many colleagues leaving the company, but the harsh price review meant that all areas of the business and all costs had to be rigorously examined.

The impact of employees departing during the year has inevitably affected the remaining employees and I would like to thank them too for their continuing hard work and support, particularly in coping with the operational challenges during the year.

The company recognises that our employees are the lifeblood of the business and in an ever-changing environment we need to continue to invest in new processes, working arrangements and information technology to give them all the best opportunities to grow themselves and the company as a whole.

Systems are also in place to ensure that employees are equipped to deal with the roles they are required to undertake – this includes continuing training and development. It is the energy and commitment of our employees allied to good processes that ensures that the company continues to develop and meet the challenges that it has to face.

The future

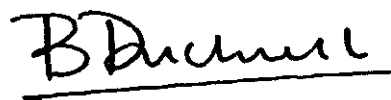
As described earlier, our company has made a good start in meeting the challenges arising from the price review imposed by Ofwat, and attention must now focus on improving the industry framework within which the company operates.

The key issue for the future is that Severn Trent Water has significant long term capital investment commitments if we are to provide the quality of service to customers that we consider to be essential.

I continue to believe that the integrated, equity-based model is the right one for the water industry and Severn Trent Water as it delivers greater efficiency and a more responsive service. It has also encouraged innovation in the form of new technologies and processes which have transformed customer services and product quality. However, the equity-based model does depend on transparent regulation to be successful – this is a key part of a framework to give investors a stable, long-term vision of the industry's future and an attractive return on their investment.

The company is energetically addressing these issues with Government, as we must if we are to maintain and develop the right infrastructure for this most fundamental of all industries.

The company has responded well to the difficulties posed by the 1999 price review, but there is still much to deliver, which will no doubt test its abilities and resources. I am confident that we will rise to those challenges and will continue to demonstrate to all our customers that 'your water remains safe in our hands' as we protect their health and well-being.



Brian Duckworth
Managing Director

The Directors present their report, together with the audited financial statements for the year ended 31 March 2001.

Principal activities

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

The results prepared are for Severn Trent Water Limited, and its subsidiary undertakings.

Charges in parent undertaking

On 30 March 2001 the entire share capital of Severn Trent Water Limited was acquired by Severn Trent Water Services Plc from Severn Trent Plc and as a result the Directors regard Severn Trent Water Services Plc to be the immediate parent undertaking.

Results

The group's turnover was £884.4 million (2000: £1,000.1 million before customer rebates), and operating profit was £324.7 million (2000: £357.3 million). Profit on ordinary activities before taxation was £208.0 million (2000: £273.5 million).

Business review and future developments

A review of business activities and future developments is contained within the Managing Director's review on pages 2 to 15.

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). Alternatively the report can be viewed and downloaded from Severn Trent Plc's website at www.severn-trent.com/reports2001.

Dividends and reserves

Dividends of £135.5 million (2000 : £270 million including a special dividend of £125 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 2001 amounted to £135.5 million (2000 : £145 million).

The company also undertook in 1999/2000 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 32.

Directors

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

R M Walker	Chairman
B Duckworth	Managing Director
T D G Arculus	

J H Bailey	Appointed 30 May 2000
J K Banyard	
V Cocker	Resigned 30 October 2000
I Elliott	
J M Foster	Resigned 30 June 2000
J A Hill	
G P Noone	
F A Osborn	
A Q Todd	Resigned 31 May 2000
M R Wilson	

Directors' interests

The interests of the Directors at the year end in the share capital of Severn Trent Plc, according to the register maintained under the provisions of the United Kingdom Companies Act 1985, are set out in note 3 to the financial statements on page 25.

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 38 days after the invoice date.

Research and development

Expenditure on research and development was £5.9 million including £2.3 million spent on fixed assets, compared to £10.2 million in 2000, (including £6.4 million on fixed assets). The programme has refocused on refining our investment projects to optimise performance against Asset Management Plan 3 (AMP) targets, where a good return on research and development knowledge is being achieved. The company also supports continuing research to understand the impact of potential new standards in AMP4.

Work to meet EU standards to remove heavy metals from potable water is on target, and provides a simple to operate cost effective solution to these new criteria. The intellectual property created in this and similar work is secured wherever possible through the normal routes.

Membrane technology has continued to advance. There are now several areas where it potentially provides cost effective applicability in the water industry. The company is evaluating the operational cost effectiveness for cryptosporidium barrier treatment at a number of sites, in addition to operational optimisation at others. It is also testing the technology for wider application, with particular reference to potable water treatment where catchment degradation is an issue.

Wastewater sludge disposal remains an area where a number of technical solutions are available, and the company is evaluating potential options. New standards expected shortly will clarify which solution matrix is the most appropriate.

The company continues to work with industry partners, research groups and academia to drive forward our research and development programme in the most cost effective way, and create intellectual property rights assets where appropriate.

Employees

The company employed 4,544 people on 31 March 2001 (2000: 4,993)

Following the Periodic Review price determination by Ofwat in November 1999, the company has begun implementing its plans to make efficiency savings in both manpower and non manpower related costs. This will involve a reduction of approximately 1,100 in the workforce over the five year period 2000-2005. Since the announcement to 31st March 2001, 1,070 people have left the company. All of these redundancies were achieved on a voluntary basis and harmonious industrial relations were maintained throughout this particularly difficult period which also saw the influx of a number of new teams to the company such as the transfer back in house of over 300 former local council sewerage agency staff.

This success was due in part to our positive working relationship with our trade union colleagues and our involvement of employees in planning and implementing the necessary changes.

The Severn Trent Water Joint Negotiating Committee (JNC) which negotiates the main terms and conditions of employment, has an important role in discussing business developments and relevant information. The JNC has played a key role in the formal consultation around the impact of the business change plans on employees and the associated redundancies.

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.

At local level, consultation arrangements exist which have been reviewed to ensure alignment with the company's new organisation structure, and there are opportunities for employees who are not trade union members to stand for membership.

At a group level, Severn Trent Water is represented by both the management and trade union side on the European Works Council (EWC). The EWC met once during 2000 in October.

Employees also have the opportunity to benefit from the group's sharesave and profit sharing schemes.

An active programme of internal communication keeps employees informed through established channels including the award winning in-house magazine. There are monthly 'Team Talk' briefings, which are face to face discussions with employees, and use of the company's intranet to share current news, both of which supplement the communication process.

There is a strong emphasis on the training and development of managers to ensure that they are equipped to meet the current and future expectations of our customers and to take the business forward in supporting business growth.

Our sophisticated career management process allows us to identify and nurture our future managers. In addition the company continues to recruit a number of graduates to participate in its graduate training programme and develop into future managerial roles.

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 is keen to share and learn from best practice elsewhere. Our recruitment and selection procedures and our policies in relation to dealing with redundancies are fair and in compliance with the Disability Discrimination Act and the implementation of such policies is carefully monitored.

Procedures for dealing with allegations of potential harassment are in existence and have been reviewed to ensure effectiveness.

Regulation: 'Ring Fencing'

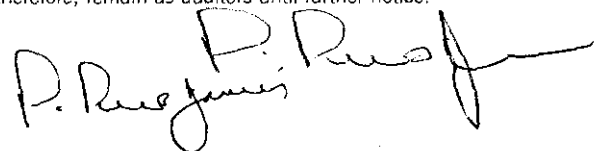
In accordance with the requirements of the Director General of Water Services, the Board confirmed that as at 31 March 2001 it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation: 'Cross Directorships'

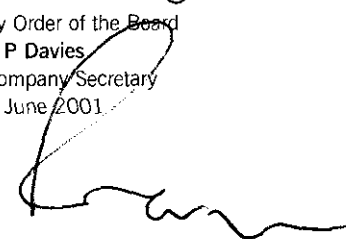
It is the policy of the company that Directors and employees of the company may be Directors of related companies when this is in the best interests of the company, and where appropriate arrangements are in place to avoid conflicts of interest.

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
6 June 2001



Statement of Directors' responsibilities

The Directors are required by the United Kingdom Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and 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, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all United Kingdom Accounting Standards which they consider 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 United Kingdom Companies Act 1985.

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

Independent auditors' report to the members of Severn Trent Water Limited

We have audited the financial statements which comprise the group and company profit and loss account, the group and company balance sheet, the group cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 1985. 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. The other information comprises only the Managing Directors review and the Directors' report.

Basis of audit opinion

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

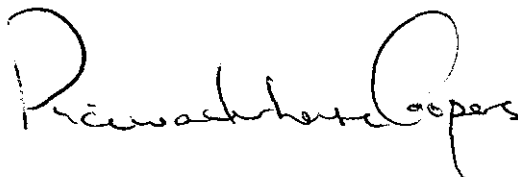
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and the company at 31 March 2001 and of the profit of the group and company and cash flows of the group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT
6 June 2001



Profit and loss accounts

Year ended 31 March 2001

	Notes	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Turnover		884.4	1,000.1	884.4	1,000.1
Customer rebates		-	(18.0)	-	(18.0)
Net turnover		884.4	982.1	884.4	982.1
Operating costs before exceptional costs	2	(559.7)	(563.7)	(575.6)	(563.7)
Exceptional restructuring costs	2	-	(52.5)	-	(52.5)
Exceptional Year 2000 costs	2	-	(8.6)	-	(8.6)
Total operating costs	2	(559.7)	(624.8)	(575.6)	(624.8)
Operating profit		324.7	357.3	308.8	357.3
Other income		1.0	0.7	1.0	0.7
Profit before interest and exceptional profit on disposal of fixed assets		325.7	358.0	309.8	358.0
Profit on disposal of fixed assets	2	-	-	231.7	-
Net interest payable	4	(117.7)	(84.5)	(103.5)	(84.5)
Profit on ordinary activities before taxation		208.0	273.5	438.0	273.5
Taxation on profit on ordinary activities	5	0.4	(20.4)	0.5	(20.4)
Profit for the financial year		208.4	253.1	438.5	253.1
Dividend	6	(135.5)	(145.0)	(135.5)	(145.0)
Exceptional dividend	6	-	(125.0)	-	(125.0)
Retained profit / (loss) for the financial year	15	72.9	(16.9)	303.0	(16.9)

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Profit for the financial year	208.4	253.1	438.5	253.1
Dividends	(135.5)	(270.0)	(135.5)	(270.0)
Net addition to / (reduction in) shareholders' funds	72.9	(16.9)	303.0	(16.9)
Shareholders' funds at 1 April 2000	2,127.8	2,144.7	2,128.2	2,145.1
Shareholders' funds at 31 March 2001	2,200.7	2,127.8	2,431.2	2,128.2

Balance sheets

As at 31 March 2001

	Notes	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Tangible assets	7	4,428.8	4,352.0	4,426.8	4,352.0
Investments	8	1.3	0.6	68.0	1.8
		4,430.1	4,352.6	4,494.8	4,353.8
Current assets					
Stocks		2.9	4.0	2.9	4.0
Debtors	9	161.4	165.4	165.2	165.4
Cash at bank and in hand		0.2	0.1	0.1	0.1
		164.5	169.5	168.2	169.5
Creditors: amounts falling due within one year	10	(711.4)	(833.2)	(715.7)	(834.0)
Net current liabilities		(546.9)	(663.7)	(547.5)	(664.5)
Total assets less current liabilities		3,883.2	3,688.9	3,947.3	3,689.3
Creditors: amounts falling due after more than one year	11	(1,674.3)	(1,517.8)	(1,507.9)	(1,517.8)
Provisions for liabilities and charges	13a	(8.2)	(43.3)	(8.2)	(43.3)
Net assets		2,200.7	2,127.8	2,431.2	2,128.2
Capital and reserves					
Called up share capital	14	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	15	1,200.7	1,127.8	1,431.2	1,128.2
Equity shareholders' funds		2,200.7	2,127.8	2,431.2	2,128.2

Signed on behalf of the Board who approved the accounts on 6 June 2001.



R M Walker
Chairman



M R Wilson
Finance and Regulation Director




Group cash flow statement

Year ended 31 March 2001

	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Net cash inflow from operating activities	18a		509.4		585.3
Returns on investments and servicing of finance					
Interest received		1.5		2.8	
Interest paid		(82.8)		(59.4)	
Interest element of finance lease rental payments		(10.7)	(92.0)	-	(56.6)
Taxation			(9.0)		(109.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(351.8)		(557.4)	
Grants received		31.7		31.6	
Sale of tangible fixed assets		9.6		11.9	
Investment in other fixed asset investments		(0.7)	(311.2)	0.3	(513.6)
Equity dividends paid			(260.5)		(145.0)
Net cash outflow before financing			(163.3)		(239.2)
Financing					
Loans advanced		270.1		733.9	
Loans repaid		(488.9)		(361.4)	
New finance leases		168.2		-	
Finance lease capital repaid		(7.4)	(58.0)	(8.1)	364.4
Net (decrease) / increase in cash			(221.3)		125.2

Reconciliation of net cash flow to movement in net debt

	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Net (decrease) / increase in cash as above		(221.3)		125.2	
Cash flow from movement in net debt and financing		58.0		(364.4)	
Change in net debt resulting from cash flows			(163.3)		(239.2)
Rolled up interest on debt			(0.2)		(0.2)
Rolled up interest on finance leases			(14.4)		(10.9)
Increase in net debt			(177.9)		(250.3)
Opening net debt			(1,857.6)		(1,607.3)
Closing net debt	18b		(2,035.5)		(1,857.6)

Year ended 31 March 2001

1 Accounting policies

a) Accounting convention

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

The accounting standards FRS 17 'Retirement benefits', FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' were released in the current year. All three standards will first impact on the company in the financial year ended 31 March 2002.

b) Basis of preparation

The Directors have voluntarily decided to prepare group accounts for Severn Trent Water Limited, including its subsidiary undertakings, in order to be consistent with the regulatory accounts. The group accounts presented also include the company profit and loss account.

The consolidated profit and loss account and balance sheet include the results of the company and its subsidiary undertakings listed in note 8 made up to 31 March 2001. Intergroup sales and profits are eliminated fully on consolidation.

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 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 £267.6 million lower than it would otherwise have been (2000: £236.1 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) Euro costs

Costs of preparing systems and other applications for 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).

n) Goodwill

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

Goodwill arising on acquisitions prior to 1 April 1998 remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible asset in the balance sheet and stated at cost less accumulated amortisation. Capitalised goodwill is amortised on a straight line basis over its economic life.

o) Derivatives and other financial instruments

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

Notes to the financial statements

Year ended 31 March 2001

2 Analysis of total operating costs and exceptional items	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
a) Analysis of total operating costs				
Wages and salaries	113.1	148.7	113.1	148.7
Social security costs	9.4	9.1	9.4	9.1
Pension costs (note 17)	12.0	30.1	12.0	30.1
Total employee costs	134.5	187.9	134.5	187.9
Power	30.5	31.9	30.5	31.9
Raw materials and consumables	30.4	29.0	30.4	29.0
Rates	40.5	38.6	40.5	38.6
Service charges	21.6	21.2	21.6	21.2
Agencies	-	15.5	-	15.5
Other operating costs	83.4	86.6	83.4	86.6
Depreciation charge (note 7)	206.1	209.5	206.1	209.5
Deferred income released	(2.9)	(2.8)	(2.9)	(2.8)
Hired and contracted services	65.5	54.4	65.5	54.4
Hire of plant and machinery	3.0	2.1	3.0	2.1
Other operating leases	0.9	1.4	16.8	1.4
Audit fees	0.2	0.3	0.2	0.3
Research and development expenditure	3.6	3.8	3.6	3.8
Profit on disposal of tangible fixed assets	(4.1)	(4.3)	(4.1)	(4.3)
	613.2	675.1	629.1	675.1
Own work capitalised	(53.5)	(50.3)	(53.5)	(50.3)
Total operating costs	559.7	624.8	575.6	624.8

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

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

Hired and contracted services	-	2.9	-	2.9
Other operating costs	-	5.7	-	5.7
	-	8.6	-	8.6

Exceptional Year 2000 costs in the year ended 31 March 2000 of £8.6 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 £62,000 (2000: £157,000).

b) Analysis of exceptional profit on disposal of fixed assets

During the year the company disposed of a 99 year interest on three reservoirs as part of a sale and lease back arrangement. The group subsequently entered into a finance lease arrangement in respect of the three reservoirs. The leases are for a period of 99 years with annual rentals payable by the group for the first 20 years.

3 Information regarding Directors and employees

Directors:

- a) The interests of the Directors at the year end in the ordinary share capital of Severn Trent Plc, according to the register maintained under the provisions of the United Kingdom Companies Act 1985 were as follows:

	1 April 2000		31 March 2001		1 April 2000	Exercised during the year	Lapsed during the year	Granted during the year	Share options under approved schemes
	Ordinary shares of 65 ⁵ / ₁₆ p each	B shares of 38p each	Ordinary shares of 65 ⁵ / ₁₆ p each	B shares of 38p each					
J H Bailey	2,200*	62*	1,151	-	2,140*	-	-	682	2,822
I Elliott	2,350*	62*	3,283	-	4,175*	(831)	-	682	4,026
J A Hill	1,185*	62*	6,285	-	9,999*	(3,231)	-	-	6,768
G P Noone	19,576*	21,357*	25,336	-	6,923*	(2,493)	-	-	4,430

* At date of appointment

- i) Messrs Arculus, Banyard, 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 2001. Mr M R Wilson is a Director of Severn Trent Water Services Plc, the immediate parent undertaking and his interests in the share capital of the ultimate parent undertaking are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 2001. Share options were granted and exercised in accordance with the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.
- ii) The Directors have further interests in Severn Trent Plc ordinary shares of 65⁵/₁₆p by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 30 July 1998, 30 July 1999 and 10 August 2000. 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 Severn Trent Plc's total shareholder return compared to the total shareholder return of a number of other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 2000		At 31 March 2001			Gain on vesting (£'000)
	Number of ordinary shares of 65 ⁵ / ₁₆ p each	Awards vested during year	Awards lapsed during year	Awards during year	Number of ordinary shares of 65 ⁵ / ₁₆ p each	
J H Bailey	2,952*	-	-	4,355	7,307	-
I Elliott	11,304	(2,645)	(882)	6,194	13,971	15.4
J A Hill	11,447	(2,895)	(966)	6,043	13,629	16.9
G P Noone	12,467	(3,159)	(1,053)	6,384	14,639	18.4

* At date of appointment

In addition to the above, Mrs J M Foster, who resigned on 30 June 2000, received a gain on vesting of £17,810 and Mr A Q Todd, who resigned on 31 May 2000 received a gain on vesting of £19,894.

No further awards have been made under the Plan as at 6 June 2001.

The performance period for the allocations of shares made in 1998 ended on 31 March 2001. Based on Severn Trent Plc's total shareholder return over the three year performance period, it has been determined that participants are not entitled to any of the shares allocated. The 1998 contingent allocations of shares are included in the table above.

Notes to the financial statements

Year ended 31 March 2001

3 Information regarding Directors and employees continued

	2001 £'000	2000 £'000
b) Emoluments		
Aggregate emoluments (excluding pension contributions)	1,117.1	1,127.3
<p>i) Non cash benefits included in aggregate emoluments consist mainly of the provision of cars and health care insurance.</p> <p>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 £501,947 (2000: £405,871) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.</p> <p>iii) Retirement benefits are accruing to eight Directors (2000: ten Directors) under a defined benefit scheme.</p> <p>iv) In addition to the emoluments disclosed above compensation payments were made to Mrs J M Foster of £77,500 and Mr A Q Todd of £200,450 for early termination of their contracts of employment.</p>		
c) Highest paid Director	2001 £'000	2000 £'000
Aggregate emoluments (excluding pension contributions)	285.5	229.5
<p>The accrued pension at 31 March 2001 for the highest paid Director was £107,796 (2000: £97,029). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.</p>		
	Group and company	
	2001 Number	2000 Number
Employees:		
Average number of employees during the year (full time equivalent):		
Staff	2,984	3,003
Industrial staff	1,853	2,141
	4,837	5,144

4 Net interest payable

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Interest receivable and similar income	1.5	2.8	5.0	2.8
Interest payable and similar charges:				
Bank loans and overdrafts	(54.7)	(40.6)	(54.7)	(40.6)
Other loans	(39.4)	(35.6)	(1.2)	(1.3)
Finance leases	(25.1)	(10.9)	(14.4)	(10.9)
To parent undertaking	-	(0.2)	-	(0.2)
To subsidiary undertaking	-	-	(38.2)	(34.3)
	(117.7)	(84.5)	(103.5)	(84.5)

5 Taxation on profit on ordinary activities

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
UK corporation tax @ 30% (2000:30%)				
Current year	-	21.3	-	21.3
Prior year	-	(0.7)	-	(0.7)
Group relief payable @ 30% (2000:30%)				
Current year	-	0.3	(0.1)	0.3
Prior year	(0.4)	(0.5)	(0.4)	(0.5)
	(0.4)	20.4	(0.5)	20.4

6 Dividends

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Dividend paid	135.5	145.0	135.5	145.0
Exceptional dividend	-	125.0	-	125.0
	135.5	270.0	135.5	270.0

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 2001 amounted to £135.5 million.

The company in 1999/2000 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.

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

7 Tangible fixed assets

	Group				Company			
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost								
At 1 April 2000	1,562.7	2,657.4	1,914.2	6,134.3	1,562.7	2,657.4	1,914.2	6,134.3
Additions	57.5	136.9	125.6	320.0	57.5	136.9	125.6	320.0
Reclassifications and transfers	-	7.2	(7.2)	-	-	7.2	(7.2)	-
Grants and contributions	-	(31.5)	-	(31.5)	-	(31.5)	-	(31.5)
Assets sold or written off	(3.6)	(0.7)	(24.8)	(29.1)	(3.6)	(3.0)	(24.7)	(31.3)
At 31 March 2001	1,616.6	2,769.3	2,007.8	6,393.7	1,616.6	2,767.0	2,007.9	6,391.5
Depreciation								
At 1 April 2000	421.3	721.8	639.2	1,782.3	421.3	721.8	639.2	1,782.3
Charge for year	28.8	53.9	123.4	206.1	28.8	53.9	123.4	206.1
Assets sold or written off	(2.6)	(0.7)	(20.2)	(23.5)	(2.6)	(0.9)	(20.2)	(23.7)
At 31 March 2001	447.5	775.0	742.4	1,964.9	447.5	774.8	742.4	1,964.7
Net book value								
At 31 March 2001	1,169.1	1,994.3	1,265.4	4,428.8	1,169.1	1,992.2	1,265.5	4,426.8
At 1 April 2000	1,141.4	1,935.6	1,275.0	4,352.0	1,141.4	1,935.6	1,275.0	4,352.0

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Cost	443.8	276.8	275.6	276.8
Accumulated depreciation	(50.6)	(45.5)	(50.6)	(45.5)
Net book value	393.2	231.3	225.0	231.3

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:

	Group	Company
	2001 £m	2000 £m
Freehold	1,168.8	1,141.1
Short leasehold	0.3	0.3
	1,169.1	1,141.4

Notes to the financial statements

Year ended 31 March 2001

7 Tangible fixed assets continued	2001 £m	Group		Company	
		2000 £m	2001 £m	2000 £m	
iv) Depreciation incurred during the year has been charged as follows:					
Owned assets non infrastructure	144.8	149.3	144.8	149.3	
Owned assets infrastructure	53.9	51.6	53.9	51.6	
Assets held under finance leases	7.4	8.6	7.4	8.6	
	206.1	209.5	206.1	209.5	

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

Land	23.4	23.4	23.4	23.4
Assets in the course of construction	222.7	319.8	222.7	319.8
	246.1	343.2	246.1	343.2

8 Investments

	Group	
	Other investments £m	Total £m
At 1 April 2000	0.6	0.6
Additions	0.7	0.7
At 31 March 2001	1.3	1.3

	Company		
	Shares in subsidiary undertakings £m	Loans in subsidiary undertakings £m	Other investments £m
At 1 April 2000	1.2	-	0.6
Additions	-	65.5	0.7
At 31 March 2001	1.2	65.5	1.3

Subsidiary undertakings	Country of registration and operation	Percentage and class of share capital held	Nature of business
Biogas Generation Limited	England	100% ordinary	Power generation
East Worcester Water Plc	England	100% ordinary 100% non voting ordinary	Water undertaking
Grafham Carbons Limited	England	100% ordinary	Carbon regeneration
Severn Trent Water Reservoirs Ltd	England	100% ordinary	Finance company
Severn Trent Water Utilities Finance Plc	England	100% ordinary	Finance company

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

9 Debtors	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade debtors	65.1	67.9	65.1	67.9
Amounts owed by parent and fellow subsidiary undertakings	1.1	1.7	11.6	8.7
Other debtors	7.2	8.9	7.2	8.9
Prepaid pension contributions	0.3	0.3	0.3	0.3
Prepayments and accrued income	87.7	86.6	81.0	79.6
	161.4	165.4	165.2	165.4

Debtors include £11.4 million (2000: £8.0 million) which falls due after more than one year.

10 Creditors: amounts falling due within one year	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank overdrafts	338.9	117.6	339.9	118.3
Bank loans	14.4	90.8	14.4	90.8
Amounts owed to subsidiary undertaking	-	-	50.0	-
Other loans	61.8	-	11.8	-
Obligations under finance leases	2.3	-	0.5	-
Interest free loan from parent undertaking	-	193.0	-	193.0
Borrowings (note 12)	417.4	401.4	416.6	402.1
Trade creditors	27.1	27.8	27.1	27.8
Amounts owed to parent and fellow subsidiary undertakings	19.6	30.8	19.6	30.8
Amounts owed to subsidiary undertakings	-	-	17.5	17.0
Other creditors	4.8	2.6	4.8	2.6
Taxation and social security	4.0	4.0	4.0	4.0
Corporation tax payable	25.9	28.9	26.0	28.9
Proposed dividend payable to parent undertaking	-	125.0	-	125.0
Accruals and deferred income	212.6	212.7	200.1	195.8
	711.4	833.2	715.7	834.0

11 Creditors: amounts falling due after more than one year	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	570.0	584.3	570.0	584.3
Amounts owed to subsidiary undertakings	-	-	606.7	591.4
Other loans	606.7	603.3	-	11.9
Obligations under finance leases	441.6	268.7	275.2	268.7
Borrowings (note 12)	1,618.3	1,456.3	1,451.9	1,456.3
Deferred income	51.3	53.2	51.3	53.2
Other creditors	4.7	8.3	4.7	8.3
	1,674.3	1,517.8	1,507.9	1,517.8

Notes to the financial statements

Year ended 31 March 2001

12 Financial Instruments	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	Group	
					2001 £m	2000 £m
a) Borrowings analysed by maturity date						
Within one year (note 10)	338.9	-	76.2	2.3	417.4	401.4
Between one and two years	-	-	104.4	2.0	106.4	14.5
Between two and five years	-	-	255.6	10.8	266.4	268.0
After more than five years	-	-	816.7	428.8	1,245.5	1,173.8
	338.9	-	1,252.9	443.9	2,035.7	1,857.7

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2001 £m	2000 £m
European Investment Bank loans – 2006-2009	6.10 - 6.89	225.0	325.7
Local authority loans – 2026-2035	6.00 - 14.39	-	11.9
Sterling bonds – 2024-2029	6.125 - 6.25	591.7	591.4
		816.7	929.0

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	Company	
					2001 £m	2000 £m
Within one year (note 10)	339.9	-	76.2	0.5	416.6	402.1
Between one and two years	-	-	104.4	-	104.4	14.5
Between two and five years	-	-	255.6	3.9	259.5	268.0
After more than five years	-	-	816.7	271.3	1,088.0	1,173.8
	339.9	-	1,252.9	275.7	1,868.5	1,858.4

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2001 £m	2000 £m
European Investment Bank loans – 2006-2009	6.10 - 6.89	225.0	325.7
Local authority loans – 2026-2035	6.00 - 14.39	-	11.9
Amounts owed to subsidiary undertakings – 2024-2029	6.125 - 6.25	591.7	591.4
		816.7	929.0

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

	Group					Company				
	Fixed borrowings					Fixed borrowings				
	2001 Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years	2001 Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings at 31 March 2001	2,035.7	845.1	1,190.6	6.35	11.00	1,868.5	677.9	1,190.6	6.35	11.00
Total borrowings at 31 March 2000	1,857.7	506.1	1,351.6			1,858.4	506.8	1,351.6		

Floating rate borrowings bear interest based on Libor

12 Financial Instruments *continued*

c) Fair values of financial instruments

The group uses financial derivatives solely for the purposes of managing the interest rate risks associated with financing business activities. The group's policy for the management of interest rate risk is to have a balanced portfolio of debt with a mix of term and interest rate structures that diversifies its risk and is appropriate to the long life of its asset base. The details are periodically reviewed to respond to changing market conditions and to have regard to regulatory pronouncements. At 31 March 2001 interest rates on 58.5% of the group's borrowings were fixed for periods up to 28 years.

Financial instruments by category: Asset / (liability)	Group				Company			
	2001		2000		2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance business activities								
Cash at bank and in hand	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings falling due within one year	(417.4)	(419.2)	(401.4)	(395.4)	(416.6)	(418.4)	(402.1)	(396.1)
Borrowings falling due after more than one year	(1,618.3)	(1,547.3)	(1,456.3)	(1,432.7)	(1,451.9)	(1,380.9)	(1,456.3)	(1,432.7)
Derivative financial instruments held to manage the currency and interest rate profile								
Interest rate swaps and similar instruments	-	4.9	-	17.6	-	4.9	-	17.6
Other long term assets / (liabilities)								
Other fixed asset investments	1.3	1.3	0.6	0.6	1.3	1.3	0.6	0.6

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

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

d) Unrecognised gains and losses on hedges at 31 March 2001

Gains or losses on derivative instruments are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains or losses on hedges at the balance sheet date are summarised in the table below. These gains or losses represent the expected future benefit of interest rate hedges to the group and company at 31 March 2001 given prevailing economic conditions.

	Group and company		
	Gains £m	Losses £m	Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 1 April 2000	33.7	(16.1)	17.6
Arising in previous years that were recognised in the year	-	-	-
Arising before 1 April 2000 that were not recognised in the financial year	33.7	(16.1)	17.6
Unrecognised gains and losses arising during the financial year	(15.8)	3.1	(12.7)
Unrecognised gains and losses on hedges at 31 March 2001	17.9	(13.0)	4.9
Expected to be recognised			
In one year or less	-	-	-
In later years	17.9	(13.0)	4.9

e) Borrowings facilities

The group and company had the following undrawn committed borrowing facilities available at 31 March 2001.

	Group and company	
	2001 £m	2000 £m
Expiring within one year	-	84.3
Expiring in more than one year but no more than two years	-	28.1
Expiring after two years	550.0	147.0
	550.0	259.4

Notes to the financial statements

13 Provisions

	Group and company			
	Balance at 1 April 2000 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2001 £m

a) Provisions for liabilities and charges comprise:

Restructuring	43.3	-	(35.1)	8.2
---------------	------	---	--------	-----

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

b) Full potential deferred taxation

In accordance with the accounting policy there is no requirement for a provision for deferred taxation at 31 March 2001.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30% (2000: 30%) is:

	Group and company	
	2001 £m	2000 £m
Accelerated capital allowances	743.5	687.2
Other timing differences	(18.5)	(27.1)
	725.0	660.1

Had provision for deferred taxation been made on the full liability method there would have been an additional tax charge of £64.9 million (2000: addition of £61.4 million).

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

14 Share capital

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m

Authorised

1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0	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	1,000.0	1,000.0
--	---------	---------	---------	---------

The ultimate parent undertaking is Severn Trent Plc which is registered in England. The immediate parent undertaking is Severn Trent Water Services 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 group and company are consolidated, are available from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

Alternatively, the report can be viewed and downloaded from Severn Trent Plc's website at www.severn-trent.com/reports2001.

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 accounting standard FRS 8 'Related party disclosures'.

15 Profit and loss account

	Group	Company
	£m	£m
At 1 April 2000	1,127.8	1,128.2
Retained profit for the year	72.9	303.0
At 31 March 2001	1,200.7	1,431.2

At 31 March 2001 cumulative goodwill written off against group reserves amounted to £29.2 million (2000: £29.2 million).

16 Commitments and contingent liabilities	Group and company	
	2001 £m	2000 £m

a) Investment expenditure commitments

Contracted for but not provided in the financial statements	120.1	140.6
---	-------	-------

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

	2001		2000	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.7	-	1.0
Between one and five years	0.3	-	0.3	0.2
After five years	0.3	-	-	-
	0.6	0.7	0.3	1.2

The company is committed to making the following payments during the next year in respect of operating leases which expire as follows:

	2001		2000	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.7	-	1.0
Between one and five years	0.3	-	0.3	0.2
After five years	0.3	18.6	-	-
	0.6	19.3	0.3	1.2

c) The banking arrangements for both the group and 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 group and 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 £12.0 million (2000: £30.1 million which included £18.5 million in relation to the exceptional restructuring charge (note 2)).

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 2001

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 2000 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	4.5
Salary increases	4.0
Pension increases	2.5
Inflation	2.5

The market value of the scheme's assets was £102.1 million, which exceeded by 22% 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.

Following the valuation, there is to be an employer's contribution holiday to STMIS beginning on 1st April 2001 (previous rates of 1.08% or 0.9% of pensionable pay of STMIS members). Employees' contributions are to continue at the rate of 6% or 5% respectively.

18 Group cash flow statement

	2001 £m	2000 £m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	325.7	358.0
Depreciation charge (note 7 iv)	206.1	209.5
Profit on sale of tangible fixed assets	(4.1)	(4.3)
Deferred income received	1.0	0.8
Deferred income written back	(2.9)	(2.8)
Provision for liabilities and charges	-	52.5
Utilisation of restructuring provision	(35.1)	(14.8)
Decrease in stocks	1.1	1.4
Decrease / (increase) in debtors	1.0	(16.7)
Increase in creditors	16.6	1.7
Net cash inflow from operating activities	509.4	585.3

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

b) Analysis of changes in net debt

	At 1 April 2000 £m	Cash flow £m	Other non cash changes £m	At 31 March 2001 £m
Cash at bank and in hand	0.1	0.1	-	0.2
Overdrafts (note 12)	(117.6)	(221.3)	-	(338.9)
Debt due within one year (note 12)	(283.8)	283.8	(76.2)	(76.2)
Debt due after one year (note 12)	(1,187.6)	(65.3)	76.2	(1,176.7)
Finance leases (note 12)	(268.7)	(160.8)	(14.4)	(443.9)
	(1,857.6)	(163.5)	(14.4)	(2,035.5)

Water industry Act 1991	35
Diversification and protection of the core business – Condition F6a	35
Report of the auditors	36
Historical cost financial statements	
Group profit and loss account	37
Group balance sheet	37
Current cost financial statements	
Group profit and loss account	38
Group balance sheet	38
Group cash flow statement	39
Reconciliation of net cash flow to movements in net debt	39
Notes to the current cost financial statements	40
Five year summary	47

Water Industry Act 1991

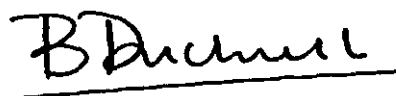
Further to the requirements of company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a Water and Sewerage Undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines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

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

Diversification and the protection of the core business – Condition F6a

Severn Trent Water Limited hereby advise:

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



B Duckworth
Managing Director
For and on behalf of the Board
6 June 2001

We have audited the regulatory financial statements on pages 37 to 47.

Respective responsibilities of Directors and auditors

As described on page 35 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 United Kingdom 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 37 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 £42.5 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 20.

In our opinion, the regulatory financial statements and other information contain the information for the year to 31 March 2001 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 37 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 38 to 47 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
6 June 2001

Group profit and loss account

Year ended 31 March 2001	2001 £m	2000 £m
Turnover	884.4	982.1
Operating costs	(563.8)	(629.1)
Other operating income	4.1	4.3
Operating profit	324.7	357.3
Other income	1.0	0.7
Net interest payable	(117.7)	(84.5)
Profit on ordinary activities before taxation	208.0	273.5
Taxation on profit on ordinary activities	0.4	(20.4)
Profit for the financial year	208.4	253.1
Dividend	(135.5)	(270.0)
Retained profit / (loss) for the financial year	72.9	(16.9)

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

Group balance sheet

As at 31 March 2001	2001 £m	2000 £m
Fixed assets		
Tangible assets	4,471.3	4,399.7
Investments	1.3	0.6
	4,472.6	4,400.3
Current assets		
Stocks	2.9	4.0
Debtors	161.4	165.4
Cash at bank and in hand	0.2	0.1
	164.5	169.5
Creditors: amounts falling due within one year		
Borrowings	(417.4)	(401.4)
Other creditors	(290.5)	(428.3)
	(707.9)	(829.7)
Net current liabilities	(543.4)	(660.2)
Total assets less current liabilities	3,929.2	3,740.1
Creditors: amounts falling due after more than one year		
Borrowings	(1,618.3)	(1,456.3)
Other creditors	(4.7)	(8.3)
	(1,623.0)	(1,464.6)
Provisions for liabilities and charges	(50.7)	(91.0)
Deferred income	(54.8)	(56.7)
Net assets	2,200.7	2,127.8
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	1,200.7	1,127.8
Shareholders' funds	2,200.7	2,127.8

Group profit and loss account

Year ended 31 March 2001	Notes	2001 £m	2000 £m
Turnover	2a	884.4	982.1
Current cost operating costs	2d	(608.9)	(655.4)
Other operating income	2b	4.0	3.9
		279.5	330.6
Working capital adjustment	2c	2.6	1.6
Current cost operating profit		282.1	332.2
Other income		1.0	0.7
Net interest payable		(117.7)	(84.5)
Financing adjustment		45.5	45.9
Current cost profit before taxation		210.9	294.3
Taxation on profit on ordinary activities		0.4	(20.4)
Current cost profit attributable to shareholders		211.3	273.9
Dividend		(135.5)	(270.0)
Current cost profit retained		75.8	3.9

Group balance sheet

As at 31 March 2001	Notes	2001 £m	2000 £m
Fixed assets			
Tangible assets	3	23,394.7	22,813.3
Third party contributions since 1989/90		(817.9)	(761.7)
Working capital	4	(95.6)	(110.8)
Net operating assets		22,481.2	21,940.8
Cash and investments		1.5	0.7
Non-trade debtors		5.6	8.4
Non-trade creditors due within one year		(496.3)	(480.8)
Creditors due after one year		(1,623.0)	(1,464.6)
Provisions for liabilities and charges		(8.2)	(43.3)
Dividend payable		-	(125.0)
Net assets employed		20,360.8	19,836.2
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account		447.8	372.0
Current cost reserve	5	18,913.0	18,464.2
		20,360.8	19,836.2

Group cash flow statement

Year ended 31 March 2001

	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Net cash inflow from operating activities	6		509.4		585.3
Returns on investments and servicing of finance					
Interest received		1.5		2.8	
Interest paid		(82.8)		(59.4)	
Interest element of finance lease rental payments		(10.7)	(92.0)	-	(56.6)
Taxation			(9.0)		(109.3)
Capital expenditure					
Purchase of tangible fixed assets		(277.4)		(546.4)	
Grants received		31.7		31.6	
Infrastructure renewals expenditure		(74.4)		(11.0)	
Disposal of fixed assets		9.6		11.9	
Investment in other fixed asset investments		(0.7)	(311.2)	0.3	(513.6)
Equity dividends paid			(260.5)		(145.0)
Net cash outflow before financing			(163.3)		(239.2)
Financing					
Loans advanced		270.1		733.9	
Loans repaid		(488.9)		(361.4)	
New finance leases		168.2		-	
Finance lease capital repaid		(7.4)	(58.0)	(8.1)	364.4
Net (decrease) / increase in cash			(221.3)		125.2

Reconciliation of net cash flow to movement in net debt

	2001 £m	2001 £m	2000 £m	2000 £m
Net (decrease) / increase in cash as above	(221.3)		125.2	
Cash flow from movement in net debt and financing	58.0		(364.4)	
Change in net debt resulting from cash flows		(163.3)		(239.2)
Rolled up interest on debt		(0.2)		(0.2)
Rolled up interest on finance leases		(14.4)		(10.9)
Increase in net debt		(177.9)		(250.3)
Opening net debt		(1,857.6)		(1,607.3)
Closing net debt		(2,035.5)		(1,857.6)

Notes to the current cost financial statements

Year ended 31 March 2001

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 undertakings 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 19 to 34, except as set out below.

c) Tangible fixed assets

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

An Asset Management Plan (AMP) survey of existing assets as at 31 March 1998 was undertaken during 1998/99 and the adjustments to asset values, as a result of that exercise, was included within the tangible fixed asset note. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

i) Non infrastructure assets

Specialised operational assets:

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

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

Non specialised operational assets:

Non specialised operational assets are valued on the basis of open market value for existing use at 31 March 1991 and have been expressed in 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

	2001			2000		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
a) Analysis of turnover						
Measured	152.9	150.1	303.0	170.7	165.7	336.4
Unmeasured	262.3	259.5	521.8	262.2	327.4	589.6
Large user tariffs	14.3	-	14.3	-	-	-
Trade effluent	-	29.9	29.9	-	38.8	38.8
Revenue grants	0.4	-	0.4	0.4	-	0.4
Third parties	1.3	0.5	1.8	1.8	0.5	2.3
Other sources	10.0	3.2	13.2	10.4	4.2	14.6
Total turnover	441.2	443.2	884.4	445.5	536.6	982.1
b) Other operating income						
Current cost profit on disposal of tangible fixed assets	2.9	1.1	4.0	1.9	2.0	3.9
c) Working capital adjustment						
	0.3	2.3	2.6	(1.5)	3.1	1.6

Notes to the current cost financial statements

Year ended 31 March 2001

2 Analysis of current cost turnover and operating costs continued

	2001										
	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	7.3	15.9	23.2	5.3	10.0	5.0	15.0	20.3			
Power	5.0	10.6	15.6	2.9	9.5	1.8	11.3	14.2			
Agencies	-	-	-	-	-	-	-	-			
Hired and contracted	3.2	10.9	14.1	10.4	2.3	13.4	15.7	26.1			
Associated companies	0.8	0.9	1.7	1.4	0.7	1.8	2.5	3.9			
Materials and consumables	4.2	3.1	7.3	1.0	3.1	3.8	6.9	7.9			
Service charges	8.4	-	8.4	1.4	4.9	-	4.9	6.3			
Bulk supply imports	6.9	-	6.9	-	-	-	-	-			
Other direct costs	0.1	0.9	1.0	3.3	1.3	0.1	1.4	4.7			
Total direct costs	35.9	42.3	78.2	25.7	31.8	25.9	57.7	83.4	22.9	10.6	2.1
General and support	19.2	15.9	35.1	8.7	22.5	16.5	39.0	47.7	7.2	3.9	0.7
Functional expenditure	55.1	58.2	113.3	34.4	54.3	42.4	96.7	131.1	30.1	14.5	2.8
Business activities recharge			21.3					26.1	(30.1)	(14.5)	(2.8)
Rates			29.1					11.9			
Doubtful debts			10.1					11.4			
Exceptional items			-					-			
			173.8					180.5			
Services for third parties			4.3					2.0			
Total operating expenditure			178.1					182.5			
Capital costs											
Infrastructure renewals:											
Expenditure	(0.8)	33.1	32.3	26.8	-	-	-	26.8			
Accrual	2.3	(3.9)	(1.6)	(3.6)	-	-	-	(3.6)			
Current cost depreciation	44.3	33.3	77.6	20.0	70.5	28.4	98.9	118.9			
Amortisation of deferred income			(1.4)					(1.5)			
Business activity capital costs			0.1					0.2			
			107.0					140.8			
Services for third parties depreciation			0.5					-			
Total capital maintenance			107.5					140.8			
Total operating costs			285.6					323.3			
Analysis of tangible fixed assets											
Service activities	1,430.1	5,696.4	7,126.5	14,444.2	1,147.6	278.8	1,426.4	15,870.6			
Business activities			131.6	20.1			96.9	117.0			
Service totals			7,258.1	14,464.3			1,523.3	15,987.6			
Services for third parties			149.0					-			
Total			7,407.1					15,987.6			

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			
Services for third parties			212.5					203.6			
			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			
Services for third parties depreciation			113.9					118.6			
			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			

e) Non appointed business

The group has not identified for the purpose of its 2000/2001 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 2001 in respect of infrastructure assets amounted to £17.8 million on water services (2000: £22.8 million) and £13.2 million for sewerage services (2000: £9.7 million).

Expenditure on reactive and planned maintenance included in operating costs for 2001 in respect of non-infrastructure assets amounted to £9.2 million on water services (2000: £8.6 million) and £22.4 million for sewerage services (2000: £18.2 million).

Notes to the current cost financial statements

Year ended 31 March 2001

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 2000	1,508.2	91.1	6,162.9	233.8	7,996.0
RPI and other adjustment	34.0	1.7	138.9	3.5	178.1
Additions	42.6	3.0	50.1	9.0	104.7
Disposals and amounts written off	(4.0)	(0.9)	-	(7.1)	(12.0)
At 31 March 2001	1,580.8	94.9	6,351.9	239.2	8,266.8
Depreciation					
At 1 April 2000	630.6	22.0	-	121.4	774.0
RPI and other adjustment	15.0	0.4	-	2.0	17.4
Charge for year	59.3	1.1	-	17.8	78.2
Disposals and amounts written off	(4.0)	(0.6)	-	(5.3)	(9.9)
At 31 March 2001	700.9	22.9	-	135.9	859.7
Net book value					
At 31 March 2001	879.9	72.0	6,351.9	103.3	7,407.1
At 1 April 2000	877.6	69.1	6,162.9	112.4	7,222.0
b) Sewerage services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 2000	2,849.5	101.6	13,920.8	199.4	17,071.3
RPI and other adjustments	61.1	2.7	319.2	5.2	388.2
Additions	96.5	5.5	45.0	18.7	165.7
Disposals and amounts written off	(50.6)	(1.3)	-	(12.2)	(64.1)
At 31 March 2001	2,956.5	108.5	14,285.0	211.1	17,561.1
Depreciation					
At 1 April 2000	1,360.7	19.6	-	99.7	1,480.0
RPI and other adjustments	31.2	0.7	-	3.0	34.9
Charge for year	89.8	1.9	-	27.4	119.1
Disposals and amounts written off	(50.6)	(0.9)	-	(9.0)	(60.5)
At 31 March 2001	1,431.1	21.3	-	121.1	1,573.5
Net book value					
At 31 March 2001	1,525.4	87.2	14,285.0	90.0	15,987.6
At 1 April 2000	1,488.8	82.0	13,920.8	99.7	15,591.3

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 2000	4,357.7	192.7	20,083.7	433.2	25,067.3
RPI and other adjustment	95.1	4.4	458.1	8.7	566.3
Additions	139.1	8.5	95.1	27.7	270.4
Disposals and amounts written off	(54.6)	(2.2)	-	(19.3)	(76.1)
At 31 March 2001	4,537.3	203.4	20,636.9	450.3	25,827.9
Depreciation					
At 1 April 2000	1,991.3	41.6	-	221.1	2,254.0
RPI and other adjustment	46.2	1.1	-	5.0	52.3
Charge for year	149.1	3.0	-	45.2	197.3
Disposals and amounts written off	(54.6)	(1.5)	-	(14.3)	(70.4)
At 31 March 2001	2,132.0	44.2	-	257.0	2,433.2
Net book value					
At 31 March 2001	2,405.3	159.2	20,636.9	193.3	23,394.7
At 1 April 2000	2,366.4	151.1	20,083.7	212.1	22,813.3

4 Working capital

	2001 £m	2000 £m
Stocks	2.9	4.0
Trade debtors	65.0	67.9
Trade creditors	(7.8)	(7.4)
Short-term capital creditors	(19.2)	(20.3)
Infrastructure renewals accrual	(42.5)	(47.7)
Accruals	(97.5)	(116.4)
Payments in advance	(69.2)	(61.3)
Tax and social security	(4.0)	(4.0)
Group trade debtors / (creditors)	(8.1)	(13.1)
Prepayments	84.8	87.5
	(95.6)	(110.8)

Notes to the current cost financial statements

Year ended 31 March 2001

5 Reserves – current cost reserves	2001 £m	2000 £m
At 1 April 2000	18,464.2	23,092.5
AMP adjustment	-	(5,121.4)
RPI adjustments:		
Fixed assets	514.0	558.6
Working capital	(2.6)	(1.6)
Financing	(45.5)	(45.9)
Grants and third party contributions	(17.5)	(18.0)
Other adjustments	0.4	-
At 31 March 2001	18,913.0	18,464.2

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

	2001 £m	2000 £m
Current cost operating profit	282.1	332.2
Working capital adjustment	(2.6)	(1.6)
Decrease in stocks	1.1	1.4
Other income	1.0	0.7
Current cost depreciation	197.3	184.2
Current cost profit on disposal of tangible fixed assets	(4.0)	(3.9)
(Decrease) / increase in debtors	1.0	(16.7)
Increase in creditors	16.6	1.7
(Decrease) / increase in provisions	(55.6)	78.3
Infrastructure renewals expenditure	74.4	11.0
Effect of other deferrals and accruals on operating activity cash flow	(1.9)	(2.0)
Net cash inflow from operating activities	509.4	585.3

7 Regulatory capital values

At each price review, the Office of Water Services sets price limits which it considers will enable companies to earn a reasonable return on capital. The Office of Water Services bases that return on the Regulatory Capital Value (RCV).

The projected outturn for the Company's RCV (after clawback for rolling five year adjustments) from the November 1999 Determination is as follows:

As at 31 March 2001	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Closing value	4,070	4,150	4,376	4,653	4,930
Year average	4,037	4,157	4,313	4,569	4,850

Five year summary

At 2000/2001 out-turn prices

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profit and loss account					
Turnover	884.4	1,010.6	996.5	1,006.5	1,023.9
Current cost operating costs	(608.9)	(674.4)	(624.9)	(622.4)	(646.7)
Share of results of associated undertaking	-	-	0.1	-	-
Other operating income	4.0	4.0	2.5	0.9	2.8
	279.5	340.2	374.2	385.0	380.0
Working capital adjustment	2.6	1.6	3.0	3.8	4.3
Current cost operating profit	282.1	341.8	377.2	388.8	384.3
Other income	1.0	0.7	0.9	-	-
Net interest payable	(117.7)	(87.0)	(76.3)	(51.7)	(39.1)
Financing adjustment	45.5	47.2	32.0	32.9	22.4
Current cost profit before taxation	210.9	302.7	333.8	370.0	367.6
Taxation	0.4	(21.0)	(116.1)	(124.4)	(38.8)
Current cost profit attributable to shareholders	211.3	281.7	217.7	245.6	328.8
Dividend	(135.5)	(149.2)	(144.3)	(140.3)	(306.4)
Exceptional dividend	-	(128.6)	-	(334.1)	-
Current cost profit / (loss) retained	75.8	3.9	73.4	(228.8)	22.4
Balance sheet					
Fixed assets					
Tangible assets	23,394.7	23,338.1	28,303.7	27,923.7	27,621.2
Third party contributions since 1989/90	(817.9)	(779.2)	(725.4)	(645.6)	(588.6)
Working capital	(95.6)	(113.3)	(66.5)	(148.0)	(111.7)
Net operating assets	22,481.2	22,445.6	27,511.8	27,130.1	26,920.9
Cash and investments	1.5	0.7	1.5	0.4	80.6
Non-trade debtors	5.6	8.6	8.8	9.3	12.5
Non-trade creditors due within one year	(496.3)	(491.9)	(490.6)	(560.3)	(111.8)
Creditors due after one year	(1,623.0)	(1,498.3)	(1,366.3)	(991.7)	(915.8)
Provision for liabilities and charges	(8.2)	(44.3)	(5.9)	(16.9)	(32.5)
Dividends payable	-	(127.9)	-	-	(138.5)
Net assets employed	20,360.8	20,292.5	25,659.3	25,570.9	25,815.4
Capital and reserves					
Called up share capital	1,000.0	1,023.0	1,049.0	1,070.0	1,108.0
Profit and loss account	447.8	508.5	386.1	318.6	564.9
Current cost reserve	18,913.0	18,761.0	24,224.2	24,182.3	24,142.5
	20,360.8	20,292.5	25,659.3	25,570.9	25,815.4

Supplementary regulatory accounting disclosures

Year ended 31 March 2001

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

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	65.0	2001/2006	Libor+

Sums lent by the appointee to associated companies during the year:

		Principal amount £m	Repayment date	Interest Rate %
Severn Trent Retail Services Ltd	Lent	0.8	2002	Market rates

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 2001 amounted to £135.5 million.

c) Transfer of assets / liabilities

During the course of the year sale proceeds in respect of assets sold by the appointee to associated companies at market value amounted to £2.0 million.

d) Supply of services

Services supplied by the appointee to associated companies

Nature of transactions	Company	Terms	£m
Rental of office accommodation	Various	Market rent	1.2
Service charges in respect of payroll, legal, transport and other	Various	Cost including overheads	2.5
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	1.3
			5.0

Services supplied to the appointee by associated companies

Nature of transactions	Company	Terms	£m
Provision of waste services	Biffa Waste Services Ltd	Competitive letting	4.5
Meter installation and provision of other engineering services	Capital Controls Ltd	Competitive letting/ no market	5.4
Provision of engineering and design services	Charles Haswell and Partners Ltd	Other market testing	10.1
Asset management	Cognica Ltd	Competitive letting	1.7
Insurance services	Derwent Insurance Ltd	Other market testing	2.8
Supply of materials	Fusion Meters Ltd	Competitive letting	3.7
Mailing and postal services	Paperflow Services Ltd (Up to date of disposal)	Competitive letting/ no market	2.6
Analytical services	Severn Trent Laboratories Ltd	Competitive letting	6.1
Management fee	Severn Trent Plc	No market	4.2
Supply of electricity	Severn Trent Power Generation Ltd	Competitive letting	0.2
Management fee	Severn Trent Property Ltd	Negotiated market rates	0.1
Project development and managed service contract	Severn Trent Systems Ltd	Other market testing	42.8
Network analysis	Stoner Associates	No market	0.1

84.3

Of the £84.3 million (2000: £114.0 million), £40.6 million (2000: £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 2001 return'.

The financial information contained in this section does not constitute statutory accounts within the meaning of the United Kingdom 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.

Contents	Page
Financial	50
Customer service	52
Climate	56
Demand	57
Investment	58
Investment and quality	59
Sewage	60
Community education	61
Main offices	62

Profit and loss accounts	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Turnover	919.1	932.8	952.7	982.1	884.4
Operating profit	386.2 *	409.4 †	407.6 ‡	358.0 §	325.7
Net interest payable	(35.1)	(47.9)	(72.9)	(84.5)	(117.7)
Profit for the financial year	351.1 *	361.5 †	334.7 ‡	273.5 §	208.0
Taxation	(34.8)	(115.3)	(111.0)	(20.4)	0.4
Dividend	(275.0)	(130.0)	(138.0)	(145.0)	(135.5)
Exceptional dividend	-	(309.6)	-	(125.0)	-
Retained profit / (loss)	41.3 *	(193.4)†	85.7 ‡	(16.9)§	72.9

* After restructuring of £20 million

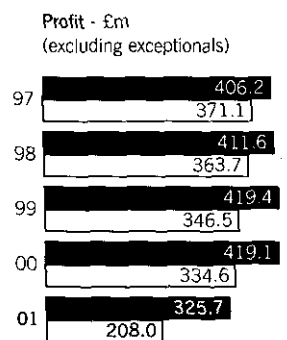
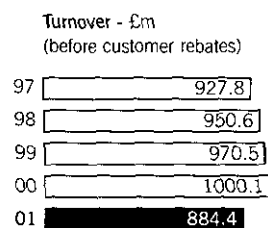
‡ After Year 2000 costs of £11.8 million

† After Year 2000 costs of £2.2 million

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

Balance sheets	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Fixed assets	3,412.7	3,714.4	4,033.4	4,400.3	4,472.6
Net current liabilities	(224.5)	(645.6)	(522.2)	(660.2)	(543.4)
	3,188.2	3,068.8	3,511.2	3,740.1	3,929.2
Creditors: amounts falling due after more than one year	(826.5)	(926.8)	(1,302.4)	(1,464.6)	(1,623.0)
Provisions for liabilities, charges and deferred income	(109.3)	(83.0)	(64.1)	(147.7)	(105.5)
	2,252.4	2,059.0	2,144.7	2,127.8	2,200.7
Capital and reserves					
Called up share capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	1,252.4	1,059.0	1,144.7	1,127.8	1,200.7
	2,252.4	2,059.0	2,144.7	2,127.8	2,200.7

Turnover by category	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Measured charges	286.8	302.3	328.6	336.4	317.3
Unmeasured charges	562.9	560.9	566.6	589.6	521.8
Trade effluent	43.4	43.4	40.1	38.8	29.9
Other	26.0	26.2	17.4	17.3	15.4
	919.1	932.8	952.7	982.1	884.4



■ Operating Profit
□ Profit for the financial year

Net borrowings	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Cash at bank and in hand	72.0	0.1	0.5	0.1	0.2
Borrowings	(848.6)	(1,291.4)	(1,607.8)	(1,857.7)	(2,035.7)
	(776.6)	(1,291.3)	(1,607.3)	(1,857.6)	(2,035.5)

Key ratios	1997	1998	1999	2000	2001
Liquidity					
Current ratio (times)	0.49	0.17	0.24	0.20	0.23
Profitability					
Gross profit margin (%)	42.02	43.89	42.78	36.45	36.83
Return on capital employed (%): Historic cost	12.11	13.34	11.61	9.57	8.29
Return on fixed assets (%): Historic cost	11.32	11.02	10.11	8.14	7.28
Return on fixed assets (%): Current cost	1.38	1.38	1.34	1.46	1.21
Gearing					
Debt to equity (%)	34.48	62.71	74.94	87.30	92.49
Other					
Turnover per employee (£)	160,038	174,062	180,572	190,921	182,841
Operating profit per employee (£)	67,247	76,395	77,255	69,596	67,335

Employee numbers	1997 No.	1998 No.	1999 No.	2000 No.	2001 No.
Employee number (average)	5,743	5,359	5,276	5,144	4,837
Employee number (year end)	5,653	5,320	5,228	4,993	4,544

Gearing - %

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

97	34.5
98	62.7
99	74.9
00	87.3
01	92.5

Charges (2001/2002)	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Severn Trent Water	113	97	210
Average of other 9 water and sewerage companies	112	147	259
Equivalent cost per day per household			
Severn Trent Water			58 pence
Other water and sewerage companies average			71 pence
Measured water charges			
Water supply		77.08 pence/cubic metre	
Sewerage		47.74 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Severn Trent Water			£203
Average of other 9 water and sewerage companies			£241

Customer payment statistics	1997 '000	1998 '000	1999 '000	2000 '000	2001 '000
Number of customers paying by instalments	1,295	1,369	1,486	1,552	1,616
Number of summonses	94	101	105	114	97
Percentage of unmeasured customers summoned (%)	2.3	3.1	3.0	3.5	3.0

Disconnections	No.	No.	No.	No.	No.
Domestic	457	323	47	25	0
Non domestic	230	203	184	206	304
Percentage of customers disconnected (%)	0.02	0.02	0.01	0.01	0.01

Customer complaints	'000	'000	'000	'000	'000
	10	10	11	17*	18

* 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	1997 No. '000	1998 No. '000	1999 No. '000	2000 No. '000	2001 No. '000
By letter	684	758	819	919	870
Telephone calls	1,593	1,859	2,125	2,183	2,714
Total	2,277	2,617	2,944	3,102	3,584

Population

Water supply	7,280	7,305	7,331	7,356	7,382
Sewerage	8,300	8,200	8,225	8,250	8,270

Billed properties

Water					
Unmeasured domestic	2,554	2,500	2,452	2,400	2,365
Unmeasured non-domestic	50	40	25	18	14
Sub-total	2,604	2,540	2,477	2,418	2,379
Measured					
Measured domestic	290	365	433	505	560
Measured non-domestic	170	180	196	204	208
Sub-total	460	545	629	709	768
Total	3,064	3,085	3,106	3,127	3,147
Sewerage	3,417	3,446	3,474	3,495	3,520

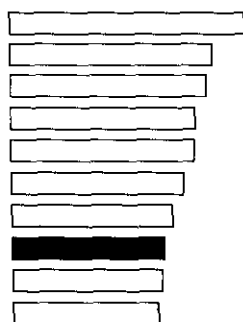
New connections during year

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

Customer service - £

Average annual household bill for 2001/2002

0 100 200 300



Other water companies
 Severn Trent Water

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)

	1997 %	1998 %	1999 %	2000 %	2001 %
(DG1) Raw water availability Percentage of the population who live in areas where resources are adequate to meet demands	100.00	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	99.70	99.83	99.86	99.86	99.86
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.94	99.96	99.91	99.96	99.80
(DG4) Water usage restrictions Percentage of properties not affected by:					
Ban on hosepipes	49.20	100.00	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	99.96	99.97	99.97
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 5 days	89.8	96.3	99.2	99.6	99.1
Under 10 days	96.5	98.9	99.7	100.0	99.9
Under 20 days	99.8	99.9	99.9	100.0	100.0
Over 20 days	0.2	0.1	0.1	0.0	0.0

In 2000/2001 there were 3.2 million customer contacts. The company's performance in 2000/2001 based on Ofwat's 1999/2000 criteria would meet the 'Good' category.

(DG7) Response to written complaints
Response time for replies to written complaints

Under 5 days	74.5	84.5	95.2	98.7	88.5
Under 10 days	90.6	98.8	99.7	99.9	99.1
Under 20 days	99.1	100.0	100.0	100.0	99.8
Over 20 days	0.9	0.0	0.0	0.0	0.2

The number of customer complaints received in 2000/2001 has increased marginally from those received in 1999/2000. The company's performance in 2000/2001 based on Ofwat's 1999/2000 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.

	1997 %	1998 %	1999 %	2000 %	2001 %
Company read	96.1	97.7	98.3	98.3	97.9
Customer read	2.9	1.8	1.4	1.2	1.6
Total read and billed in year	99.0	99.5	99.7	99.5	99.5

The company's performance in 2000/2001 based on Ofwat's 1999/2000 criteria would meet the 'Good' category.

(DG9) Telephone contacts

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

Under 15 seconds	73.5	82.0	82.4	82.2	85.7
Under 30 seconds	82.7	91.1	91.0	90.6	92.0
Over 30 seconds	17.3	8.9	9.0	9.4	8.0
Average response times (seconds)	19.7	10.2	9.8	9.9	10.4

Guaranteed standards scheme	1997	1998	1999	2000	2001
Complaints answered within the guaranteed standards scheme time period	97.7%	99.8%	99.9%	100.0%	99.1%
Number of claims automatically accepted for guaranteed standard payments	1,230	2,713	4,699	4,130	2,996

Response to billing queries within 5 days - %

97	89.8
98	96.3
99	99.2
00	99.6
01	99.1

Response to written complaints queries within 5 days - %

97	74.5
98	84.5
99	95.2
00	98.7
01	88.5

Rainfall

1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000

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	931
- % long-term average	99	96	105	99	98	93	88	83	110	102	105	81	75	88	108	113	123

Severn basin

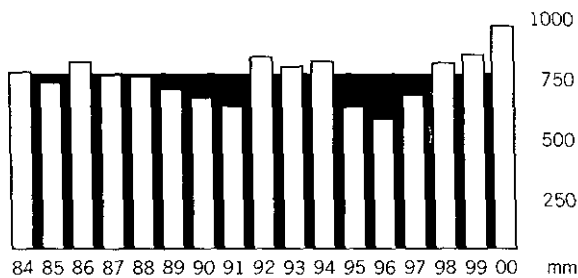
- Rainfall (mm)	842	813	856	805	811	777	732	702	872	797	844	674	624	716	857	931	1,013
- % long-term average	102	98	103	97	98	94	88	87	108	99	104	83	76	87	108	117	127

Trent basin

- Rainfall (mm)	715	685	790	747	723	676	647	576	808	781	785	585	540	661	783	777	861
- % long-term average	97	93	103	101	98	92	88	78	110	106	107	80	73	90	109	108	120

Note:

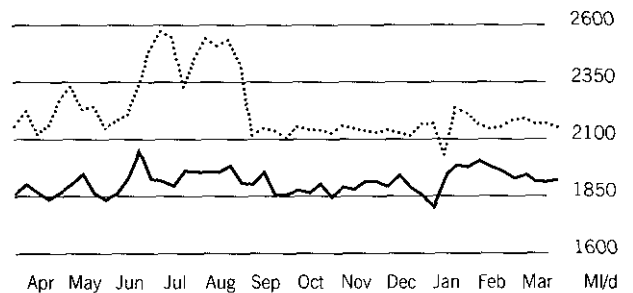
% long-term average for data is based on figures from 1941 to 1970 up to 1997 and on figures from 1961 to 1990 since 1998. Figures relate to calendar year.



Area rainfall
 □ Actual
 ■ Long-term average

Company leakage - M/d

97	325
98	280
99	229
00	225
01	226



Average weekly water demand
 (comparison between last year's demand and during the drought year)
 1995/96 — 2000/2001

Analysis of water supply sources	1997 Ml/d	1998 Ml/d	1999 Ml/d	2000 Ml/d	2001 Ml/d
Reservoirs	476	537	510	517	501
River intakes	802	650	692	727	733
Groundwater	733	719	651	618	619
Total production	2,011	1,906	1,853	1,862	1,853
Treated water imports	20	20	24	23	22
Treated water exports	(9)	(8)	(8)	(7)	(7)
Total water into supply	2,022	1,918	1,869	1,878	1,868

Water demand	1997 Ml/d	1998 Ml/d	1999 Ml/d	2000 Ml/d	2001 Ml/d
Household demand	1,139	1,108	1,117	1,132	1,132
Non-household demand	552	524	515	491	480
Water delivered to billed customers	1,691	1,632	1,632	1,623	1,612
Total water into supply	2,022	1,918	1,869	1,878	1,868
Company unaccounted for water	325	280	229	225	226

Operational statistics	1997	1998	1999	2000	2001
Number of repairs carried out on mains pipes	10,908	6,025	6,792	7,033	7,022
Average time taken to repair bursts on mains pipes (days)	1.88	0.37	0.36	0.32	0.45
Number of repairs carried out on communication pipes	12,552	14,415	15,629	13,769	11,530
Average time taken to repair bursts on communication pipes (days)	3.49	0.14	0.13	0.14	0.16
Number of repairs carried out on customers supply pipes	8,294	10,942	12,030	12,560	10,742
Number of calls to 'Leakline' service (service commenced December 1995, ceased March 1999)	19,088	27,788	35,642	N/a	N/a
Number of calls to 'Operational helpline' service (service commenced April 1999)	N/a	N/a	N/a	487,096	539,026

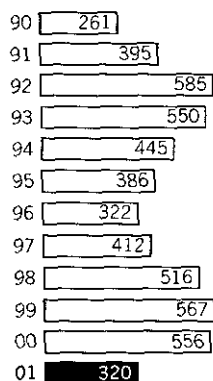
Investment

Investment expenditure	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54	27
Distribution	74	97	161	137	107	104	97	141	160	152	170	85
Sewerage	47	67	108	90	76	73	45	57	68	88	75	51
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162	89
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14	18	6
Other	10	9	11	7	3	3	23	29	54	80	76	61
	261	395	585	550	445	386	322	412	516	567	556	320
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545	246
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11	74
	261	395	585	550	445	386	322	412	516	567	556	320
Cumulative investment since 1990	261	656	1,241	1,791	2,236	2,622	2,944	3,356	3,872	4,439	4,995	5,315

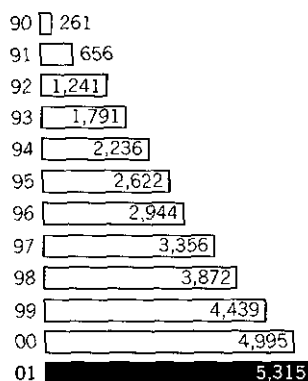
Physical outputs

	1997	1998	1999	2000	2001
Mains - added (Km)	248	148	48	42	111
- renewals (Km)	577	714	807	1,010	140
- relined (Km)	347	81	4	160	270
- number of communication pipes replaced	48,508	40,848	54,118	54,088	13,706
Sewers - added (Km)	289	242	724	410	147
- improved (Km)	11	6	2	4	0
Approximate number of properties where problems of poor pressure alleviated by investment	33,400	8,300	4,000	5	2,920
Number of properties where risk of flooding from sewers has been removed	427	450	638	591	119

Investment - £m
Annual investment expenditure since privatisation



Investment - £m
Cumulative investment expenditure since privatisation



Major operational schemes carried out during year	2001 Total £m	Operational assets	2001 No.
Derby sewage treatment works	21.9	Impounding reservoirs	41
Birches Head combined sewer storage	4.6	Groundwater sources	187
Roundhill sewage treatment works	3.6	River water intakes	16
Meriden to Highters Heath link main	3.4	Surface water treatment works	20
Leicester Northgate sewer	3.1	Water supply booster stations	569
Pershore re sewerage	2.9	Service reservoirs sites	534
Goscote sewage treatment works	2.7	Mains (Km)	42,980
Wing to Owston renewal	2.4	Sewers (Km)	53,325
Roundhill incinerator improvements	2.4	Sewage treatment works	1,001
Minworth sewage treatment works	2.4	Sewage pumping stations	653
		Sewerage pumping stations	2,283
		Sludge treatment facilities	57

Quality

Water supply	1996	1997	1998	1999	2000
Overall quality of drinking water					
Number of samples	77,654	77,327	74,802	72,651	66,840
% compliance with standards	99.84%	99.89%	99.88%	99.91%	99.90%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of samples	23,419	22,547	20,580	19,646	15,571
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of samples	34,243	34,047	33,314	32,234	31,241
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of samples	20,262	20,733	20,908	20,771	20,028
% compliance with standards	99.8%	99.8%	99.8%	99.8%	99.8%
Physical and chemical quality of drinking water					
Water at customers' taps					
Number of samples	20,262	20,733	20,908	20,771	20,028
% compliance with standards	99.8%	99.9%	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 231,100 being made during 2000. % Compliance with standards as detailed in the Water Supply (Water Quality) regulations.

Sewage treatment quality

Overall compliance with standards

	1997	1998	1999	2000	2001
Total number of sewage treatment works	1,014	1,007	1,004	999	1,001
Number of sewage treatment works failing consents	15	21	19	7	19
Number of prosecutions by Environment Agency (EA) resulting in convictions					
Discharge from sewerage system	2	1	2	0	0
Sewage treatment works	0	0	0	1	1
Water treatment works	1	0	0	0	0
Other	1	0	0	0	0
Compliance of numerically consented work					
	1997 ¹	1997	1998	1999	2000
Number of works with numeric consents	741	719	731	745	685
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.5%	99.4%	99.6%	99.6%	99.3%
By works	100.0%	100.0% ³	99.9% ³	99.9%	99.6%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	>99.9%	99.7%	99.8%	99.9%	99.9%
By works	98.6%	96.5%	99.4%	99.3%	99.7%
Compliance with non-sanitary standards					
By tests to measure quality	94.3% ²	92.2% ²	97.2% ²	99.4%	99.4%
By works	81.4%	71.4%	77.0%	91.7%	87.7%

Notes

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

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

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

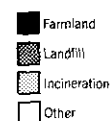
Sewage

Sludge disposal

	1997 tds	1998 tds	1999 tds	2000 tds	2001 tds
Farmland	81,000	82,500	85,800	96,900	66,800
Landfill	42,000	24,700	28,000	23,800	15,100
Incineration	28,000	24,900	22,800	30,200	20,500
Sea	0	0	0	0	0
Other	5,000	26,200	38,600	7,900	5,400
Total	156,000	158,300	175,200	158,800	107,800

tds = tonnes dry solids

Methods of sludge disposal - %



Community education

Education centres

This year saw our Education and Come and See operations combining to form a new Community education section. This change brings together our five education centres and six site based visitor centres enabling us to meet the needs of all our visitors be they seven or seventy. This year we welcomed over 30,000 pupils and 8,000 adults onto our sites and we took Seven Trent Water presentations out to schools and community groups throughout the region. Our touring caravans have attended 68 shows and events with a total attendance in excess of 600,000 people, offering our customers the opportunity to raise questions about their domestic water services to general issues about our future investment plans or our environmental improvement programme.

We have continued to produce resources to support teachers in the classroom. In January this year we were pleased to launch a new CD ROM for schools called 'Waterwise' which covers all aspects of the water cycle and the water industry. Working in partnership with teachers from Derbyshire we were able to ensure that this CD ROM meets the requirements of the National Curriculum. A copy of 'Waterwise' and the teacher support materials are available free of charge to all schools in the Severn Trent Water region.

Community education centres are located at the following sites:

Barston sewage treatment works*	Campion Hills water treatment works	Carsington reservoir*
Cropston water treatment works*	Hayden sewage treatment works*	Minworth sewage treatment works
Stoke Bardolph sewage treatment works*	The Mythe water treatment works	Trimpley water treatment works

* Sites with a purpose built classroom and resident teacher

Other Severn Trent Water sites are available for organised visitor groups by arrangement with the Community education team.

For further information on how to arrange a visit to one of our centre or to request a talk at your own venue please contact Community education, Severn Trent Water Limited, 2297 Coventry Road, Birmingham B26 3PU.

	1999 No.	2000 No.	2001 No.
Visitors to Severn Trent sites			
Number of pupils visits	31,604	31,067	30,210
Number of adult/teacher visits	15,805	12,471	8,237
Talks given at non Severn Trent sites			
Number of pupils	18,835	8,502	10,460
Number of adults	3,748	4,256	2,597

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

B Duckworth

J H Bailey

J K Banyard

I Elliott

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

Designed by Switch Design Consultancy, 0121 233 2727.

Main photography by Ian Winstanley and Ian Gilkes.

Printed in the United Kingdom by Lithograde (Birmingham) Limited.

Printed on REVIVE: chlorine free; recycled content 75%;
Eugropa Approved; NAPM Approved.