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Our customers Our future

Annual Report and Accounts 2002



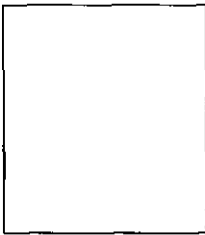
Your water. *Safe in our hands.*

Quality Inspection

Our Quality Inspectors visit around 20,000 homes each year to take samples to check that the water reaching customers is of the highest standard.

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Managing Director's review

Brian Duckworth | Managing Director

The company had two key objectives this year. The first was to continue to meet the challenges of the 1999 Price Determination set by Ofwat; the second was to encourage improvements to the Industry Regulatory Framework within which the company operates.

Against the first challenge we have achieved or exceeded all the financial, quality and customer service targets set by the Determination. We have continued to supply our customers with drinking water which is amongst the best and the safest in the world, whilst also delivering near perfect environmental compliance against current standards. We are well placed to continue making progress during the current year.

However, as I reported last year, improvements to the Industry Regulatory Framework are necessary, because a repeat in 2004 of the 'short termist' 1999 Price Determination would serve neither our customers nor our investors. There is still a great deal to be done for customers and the environment. This can only be delivered through sustained investment, which in turn requires that Government, Regulators and Companies enhance investors' confidence in this Industry.

Customers are at the heart of our business and they require total assurance on drinking water safety - its taste, colour and odour. They tell us they value a greater dependability in these services and it is our ambition to meet our customers' expectations.

At the same time there is still an unacceptable incidence of flooding from parts of our old sewerage systems; and climate change will require investment to reinforce water supplies and upgrade the sewerage infrastructure to cope with storm events.

In addition, a long list of new environmental standards is being driven by European Directives. All these competing demands require a more strategic approach to the Industry; one that is not based on cost-cutting for short term price reductions.

What is needed is long term planning, with policies that sustain all stakeholders' confidence and a programme for maintaining the infrastructure. We also need from Ofwat more realistic efficiency targets at the next price review; targets that do not damage the future capability of water companies like Severn Trent Water to deliver a service which twenty-first century customers expect.

Severn Trent Water provides a fundamental infrastructure protecting the health and well-being of millions of homes and businesses across the Midlands.

We will strive to ensure that our infrastructure is modern, maintained, and fit for purpose. However, we need sensible Government policies and balanced regulation to achieve that end. I am pleased to say that the last 12 months are seeing the start of some positive moves in that direction.

Financial highlights	2002	2001
Turnover (£m)	893	884
Operating costs (£m)	(565)	(560)
Profit before interest (£m)	328	326
Profit before tax (£m)	209	208
Gearing (debt/equity) (%)	109	110
Investment (£m)	350	320

Investing in the future

Over the current five year price determination period, Severn Trent Water will invest over £1 million a day to ensure the quality and reliability of tap water and protect the environment.

Severn Trent Water provides a fundamental infrastructure protecting the health and well-being of millions of homes and businesses across the Midlands.

Financial review

The financial statements on pages 19 to 34 report both the company and consolidated results of the Severn Trent Water group of companies. The group report provides a complete view of activities, as certain financing arrangements for the benefit of Severn Trent Water Limited are facilitated through the company's subsidiaries. This financial review therefore refers to the consolidated results of Severn Trent Water Limited group.

Turnover rose by 1%, to £893.2 million (2001: £884.4 million). This increase was less than that allowed under the regulatory formula of 2.2%. This was because of a deferred impact of major price reductions in April 2000 together with some reductions in consumption by both domestic and industrial customers.

Operating profits increased by £2.9 million to £327.6 million (2001: £324.7 million). Profit on ordinary activities before taxation was £209.1 million (2001: £208.0 million).

Operating costs (before depreciation) were £358.3 million, an increase of £1.8 million (2001: £356.5 million). Before inflation cost savings of £21.0 million were achieved through further productivity improvements and supply chain efficiencies throughout the company.

However, these savings were offset by additional operating costs of £18.3 million to meet new quality obligations, the impact of the climate change levy and an increased rates bill. In addition, we had to meet some additional costs associated with the impact of the foot and mouth outbreak on our operations.

Depreciation, including infrastructure renewals expenditure, increased by £4.6 million to £210.7 million (2001: £206.1 million). This increase reflected the normal cycle of investment which occurs at the start of a new price review period.

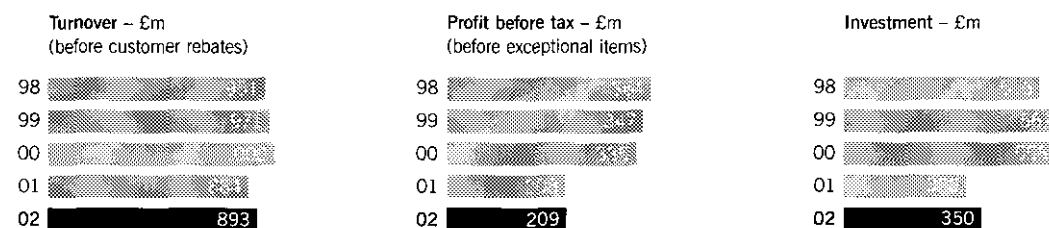
Capital expenditure in the year, at £350.4 million (2001: £320 million), reflected the increased investment expected in the second year of the 5 year programme 2000 – 2005. Expenditure is expected to increase further in year 3.

The new programme management and contract delivery strategy continues to enable timely and efficient delivery.

Total group borrowing at 31 March 2002 amounted to £2,058.7 million (2001: £2,035.7 million). Of this, 72% (2001: 59%) was represented by fixed interest borrowings, and 70% (2001: 61%) was represented by amount payable after 5 years.

Net interest payable increased by £1.7 million to £119.4 million, reflecting the increased indebtedness. The group benefited from lower interest rates but the overall cost reflects the full year impact of last year's increased borrowings in 2001 including the sale and lease bank transaction of three of Severn Trent Water's reservoirs.

Financial highlights



Water quality

Our absolute focus continues on the vital task of public health protection through the provision of clean and safe drinking water. For the fourth consecutive year we have achieved the extremely high level of 99.9% compliance with drinking water standards; these standards are amongst the toughest in the world and they are independently reviewed by the Government's Drinking Water Inspectorate (DWI).

The development of 'state of the art' Network Management Centres and sophisticated maintenance procedures have resulted in a steady reduction in the number of incidents which can occasionally stretch our normal high standards.

Our performance has been rated by the DWI as "significantly above average", both for our overall compliance as well as against the Inspectorate's own operational index.

The relatively small number of test failures that did occur in the year were minor in nature and had no effect on health. To ensure this position can be sustained, the company follows a rigorous risk-based approach to investment planning, including action teams that investigate every failure.

All this has resulted in more investment activity on water services than that assumed in the 1999 Price Determination. For example, we have improved our pipe network through the rehabilitation of a further 959 km of unlined iron pipes. This adds to the 11,000 km of pipes already improved over the last 10 years. This work has reduced the likelihood of occasional discoloration of water due to disturbed rust deposits which can sometimes be found in pipes.

All of this work enables us to claim that we continue to supply our region with some of the best and safest drinking water in the world. However, this position can only be maintained in the future if there is a sustained programme of appropriate investment and recognition by Ofwat that greater funding should be invested in water mains cleaning.

We are currently defining our work programmes for the five year period 2005 – 2010 to ensure that we meet our customers expectations of their water supplies.

Water in the curriculum

Severn Trent Water's five Education Centres provide a free day's National Curriculum teaching for around 30,000 children each year. This year, as part of National Science week, children were invited to test water quality and make 'sewage soup' to better understand and appreciate the process involved in providing water and sewerage services.

All reservoirs were virtually 100% full at the year end; so the company is in the strongest possible position to maintain supplies to customers over the coming months.

Security of water supplies

All reservoirs were virtually 100% full at the year end; so the company is in the strongest possible position to maintain supplies to customers over the coming months.

The benefits of a generally wet year have been maximised by prudent water supply management and excellent leakage performance, where we have again met our targets.

We continue to progress the Birmingham Groundwater Scheme. When completed in 2005 this scheme will allow rising groundwater under parts of Birmingham to be transferred to the East Midlands where it will help address an existing resource deficiency.

This year we have reduced by nearly half the number of properties experiencing low water pressure; the number of properties experiencing poor pressure is now at an historically low level. The number of interruptions to supply caused by burst pipes has also reduced, except where our customers are impacted by bursts on single supply strategic mains. For example, some communities in the Telford area were affected by such an event this year. This is an area for increased attention.

Looking forward, we continue to assess the impact of climate change on water resources. We agree with Government that a precautionary approach has to be adopted and we have urged both Ofwat and the Environment Agency to adopt a similar approach, given the long lead times to develop alternative supplies. In addition, we continue to advise our customers of the conservation benefits of water meters and we actively promote water conservation programmes.

Leakage on our distribution network is being carefully managed, but there appears to be a growing level of leakage from our customers' supply pipes. Whilst we provide a free leak repair service, we do not have any responsibility for this side of the network and so there can be no structured and financed maintenance programme.

Customers' pipe networks are growing older and we believe these systems will need to be better maintained in the future. To this end we have suggested to Government and Regulators that the proposed Water Bill, due later this year, might provide a good opportunity to address what we see as a major deficiency in our service delivery.

Meeting the challenge of climate change

Our business is strongly affected by continuing climate change. 2001 was a record-breaking year for both temperatures and rainfall. Sudden heavy downpours of rain are becoming a much more common feature of our climate, placing extreme pressure on drainage systems, often causing flooding. Nine of the ten hottest years on record have occurred since 1990. It is imperative that the water industry is properly funded to manage these challenges to protect the health and well-being of our customers in the future.

Making water fun

Severn Trent Water provides access and recreation facilities at many of our reservoirs. Over 5 million people visit our sites every year.

As well as meeting our statutory environmental obligations we continue to demonstrate commitment to environmental leadership in its widest sense.

Caring for the environment

The performance of our sewage treatment works continues to be extremely high, with virtually 100% of works meeting their sanitary discharge consent requirements; and all works meet the requirements of the Urban Wastewater Treatment Directive. This high level of performance, coupled with our continuing work to improve the sewerage system, means that rivers in the Midlands are now cleaner than they have been for decades.

Nearly 47% of rivers have improved in quality over the past 12 years, due in large measure to the efforts of Severn Trent Water. Salmon are returning to the River Trent, which was once one of the most heavily polluted rivers in the UK, and otters have been seen not far from many urban centres, such as Birmingham and Derby.

Whilst we have achieved much, there is still more to do. For example, we have recently started to upgrade sewers and sewage works, as part of major urban renewals projects in Stoke and Birmingham. This work will continue for the next 3 years. These are challenging programmes, not only for the company but also for the Environment Agency and local planning authorities with whom we are working closely.

Looking to the future we have already started to work with the Environment Agency, Ofwat, English Nature and the Countryside Commission for Wales to anticipate the potential investment needs for the period 2005 to 2010 and beyond. However, before committing to further improvements it is vital that we all first ensure that sufficient resources are allocated to maintain the assets which we currently operate. We do not want to compromise the significant environmental improvements which we have already achieved.

Many of the water related environmental issues for the future will not be solved by Severn Trent Water alone. For example, the growing problem of diffuse pollution and issues such as the greater adoption of SUDS (Sustainable Urban Drainage Systems) will need the concerted efforts of a number of parties.

We are working hard to be supportive of such techniques and are looking for a reciprocal response from other agencies, particularly planning and local authorities. At the same time, we are actively supporting the development of new national guidelines to address some of the existing policy deficiencies in this complex area.

As well as meeting our statutory environmental obligations we continue to demonstrate commitment to environmental leadership in its widest sense. Our environmental management philosophy and practices underpin the delivery of the action plan targets which demonstrate this commitment.

By working in partnership with both our business customers and our suppliers, we encourage others to share in our environmental vision. In addition, we have reshaped our Environmental Management System (EMS) in accordance with the requirements of ISO 14001, the international environmental management standard.

The huge strides in improving river quality have come at a price, because enhanced treatment significantly increases pressures on the energy needs of the business. To counter this we constantly seek to improve energy efficiency and help minimise the extra energy demand. In addition, we have increased the amount of "green" energy exported to the Grid. This is generated from biogas combustion or hydro schemes on our sites. Last year we produced over 26,000 MWh, a significant contribution to the Government's strategy to increase the proportion of energy from 'renewable' sources.

Another key area for continual improvement is waste management. The resolution of last year's foot and mouth outbreak enabled us to reopen sludge recycling routes which had been temporarily closed to us.

We reduced the amount of sludge disposed to landfill to just over 3,000 tonnes, the lowest level since current records were started. Over three quarters of all our sewage sludge was

put to beneficial use, either in agriculture or land reclamation. Our other principal operational waste stream is excavated spoil from both our major construction programme and the maintenance work on our underground assets. The amount recycled rose this year by 15% to 67,000 tonnes.

It has been another successful year for our Biodiversity Action Plan (BAP). We now have over 1,700 of our operational sites surveyed for ecological significance using a standardised assessment methodology. This gives us the information to determine each site's potential to contribute to our BAP.

One hugely successful project last year was the restoration of natural drainage and the re-creation of floodplain wet grassland at our site at Aston Hall in Staffordshire. The work resulted in a significant increase in the number of wading bird species using the site and it is now being used as an exemplar for demonstrating best practice by the Farming and Wildlife Advisory Group and by the Environment Agency for promoting river restoration.

Sewer flooding

Apart from the continuing demand for safe and dependable water supplies, customers tell us they regard the alleviation and avoidance of sewer flooding incidents as their highest priority.

During the year the reported number of incidents of property flooding from overloaded sewers (excluding extreme events) increased by 44% from 356 incidents in 2000/01 to 514 in 2001/02. This increase was due to a 47% increase in the number of extreme storms causing flooding during the year.

To help alleviate the situation the company has introduced a number of low cost interim flood relief measures. These measures were applied to 158 properties during the year and were successful in preventing internal flooding.

Since September 2001 we have been using a new Meteorological Office weather forecasting tool called MIST, which allows us to identify areas that may be affected by extreme weather, sometimes days in advance. By aligning this data with known "at risk" properties we have started to introduce other temporary measures to reduce incidents of flooding. As yet it is too early to comment on the success of this work but it is hoped that benefits will be experienced this year.

Research recently published by the Meteorological Office's Hadley Centre for Climate Prediction and Research continues to point to the probability of rainstorms of an increasing frequency and intensity, resulting in increased sewer loads which expose the inadequate capacity of many local sewerage systems. We continue to be concerned that nineteenth century sewers will not be able to cope with twenty-first century storm conditions and that an urgent start is needed on the accelerated replacement of undersized sewers.

Helping the community

Many of Severn Trent Water's employees are actively involved in supporting their local community.

Recently, 18 members of our payments team gave up their weekend to build a wildlife garden at Acorn Children's Hospice in Birmingham.

Service enhancements provide benefits for all of our domestic customers but in addition we have particularly targeted groups whose needs and requirements are more unusual.

Customer service for domestic customers

Beyond the key service delivery of reliable, safe water supplies and avoidance of sewer flooding our customers value helpful and efficient ways to contact us and have their queries and problems resolved.

Last year we reported that we had rationalised our Customer Service function into four sites at Derby, Coventry, Shrewsbury and Birmingham. Over the course of this year, we have improved business processes at these sites and recruited over 300 new people to work at these new centres.

The improved processes and a better trained workforce will enable us to provide a more efficient response to customers' contacts. Over 600 employees have received further Customer Service training to develop their listening skills and deal with issues immediately.

These service enhancements provide benefits for all of our domestic customers but in addition we have particularly targeted groups whose needs and requirements are more unusual.

Our customers in the Midlands represent a wide range of national and ethnic backgrounds.

To make sure we can better understand their needs we have introduced an on-line translation service so we can communicate with customers in over 100 languages.

An increasing number of our customers live alone and are elderly. To help them feel more secure we have worked with the Home Office and local Police Forces to reinforce actions to prevent distraction burglaries by bogus officials.

All of our staff carry personal identification and a password system gives added protection. To make sure that we can communicate with customers whose sight is impaired, we have talking bills, text phones, big print and Braille bills.

Our 24 hour Freephone service for customer service contacts lets customers tell us when they have a problem so that we can respond quickly and effectively. Our latest development automatically tracks customer contacts to allow early identification of customer reported service problems. Now we can identify and respond to these events much earlier and provide customers with automatic progress reports.

For our domestic customers we have increased the range of payment facilities, including accepting payments via our website. Our website also provides access to a wide range of new services including an innovative Water Quality enquiry service and 'Contact Us' e-mails.

Effective payment and debt management services are important to all of our customers. Our new credit management systems allow us to tailor payment, collection and recovery actions to suit a wide range of customer needs, giving us an industry leading debt-handling capability.

Customer contacts

Our call centres handled 2.4 million calls this year, with an average response time of 7.5 seconds.

Improving customer service

Over 600 customer relations employees have received training this year to further improve service.

This year, a number of high profile national brands such as Dairy Crest plc, have entrusted us to provide services to a larger proportion of their business, across sites throughout the UK.

Industrial and commercial sales

By carefully listening to their needs, we are seeking to raise the standards of service for business customers to new levels, both within the Midlands and increasingly in other parts of England and Wales.

Meeting customers' expectations is the best way to win in a competitive environment and our focus on account management and enhancing value explains why we have welcomed industrial customer competition for customers who use more than 50 megalitres of water each year. It is now widely acknowledged by Regulators, the Government and Trade Associations, that a clear framework for competition is essential to ensuring sustainable competition. We believe this will be achieved in the proposed Water Bill.

This year, a number of high profile national brands such as Dairy Crest plc, have entrusted us to provide services to a larger proportion of their business, across sites throughout the UK. Customers such as Vitacress Salads Limited, Derby City Council and Cheltenham Racecourse have also benefited from our extended product portfolio.

We secured an inset agreement to supply Northern Foods' Bowyers site in Trowbridge, Wiltshire.

The site officially became a customer of Severn Trent Water at the end of March. Ofwat granted Severn Trent Water two inset appointments, for water supply and trade effluent. This initiative is expected to yield significant savings for Northern Foods on their annual water and trade effluent bill at the Bowyers site.

We continue to enhance our capability to provide our business customers with product and services to meet their individual needs.

For example we offer 'Water Guardian', an innovative on-site water audit and accreditation scheme and 'Data Monitor', a process for remotely collecting and interpreting water, energy and trade effluent data.

A further significant step in our service offerings was realised through the introduction of an enhanced billing system for our business customers in April 2002. Our investment in new technology will transform the range of billing and management information services we can offer on a national scale; the new system will make it easier for business customers to identify and manage water costs across all areas of their business.

Leak Locator

Severn Trent Water's new range of business-to-business products are proving to be beneficial for many customers. Keele University recently saved an estimated 10,000 litres of water an hour by taking up our Leak Locator service. A site assessment located five burst mains in their 17km of pipes.

Commercial teamwork

Through our professional business approach, we have been working with Dairy Crest plc to provide and manage effluent treatment plants at their sites throughout the United Kingdom.

Our customers are our future and this is the way we will continue to demonstrate to them that their water services are "safe in our hands".

Our people

The need to deliver tough efficiency targets means our employees have to continue to deliver more for less. Whilst this challenge is assisted by good systems and processes and careful preparation and planning, it could not happen without our people's sustained hard work and commitment. I would like to thank them for their continued support.

We continue to offer comprehensive training and skill enhancement programmes at all levels in the company. Increasingly this is being provided electronically so that our employees can have better, faster training tailored to their own individual needs.

It is increasingly important that all our employees - and not just those who are office based, are IT literate. To assist this we subsidised an initiative to enable all our employees to purchase a PC for their use at home.

This year has seen important and positive developments in our continuing dialogue with Trades Unions and employee representatives. This is set out in the Directors' report (on page 16).

We are committed to continuous improvement in the way we manage Health and Safety risks, both to our employees and others who may be affected by what we do. As evidence of our success in this area we qualified this year for the British Safety Council 5 star award at the first time of trying. We believe this to be a first in the UK Water Industry. Such a prestigious achievement can only happen with the full participation of our employees and we congratulate them all on their success.

Our customers. Our future

As described earlier, our company has achieved its regulatory, financial, environmental and customer service targets for this year. We are well positioned to continue this progress next year.

Our desire to retain customers at the heart of our business means not only striving to improve current services but also ensuring that the Industry Framework within which Severn Trent Water operates will enable us to meet our customers' needs in the future.

To that end we are working with the Government, Regulators, other water companies and important opinion formers to develop a new consensus over the future purpose and sustainability of the Industry.

We are seeking to ensure that the future direction and policies which impact water companies are decided within a long term, sustainable framework; that success requires a constructive relationship.

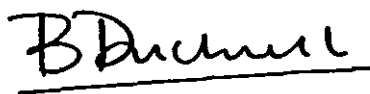
It is also imperative that all involved recognise that maintaining investor confidence and the operating capability of water companies is crucial to service delivery and that all partners benefit from the removal of unnecessary regulatory and political risk.

I am encouraged that we seem to be achieving a broad consensus around these key issues.

On 3 May 2002, Margaret Beckett, Secretary of State of the Department of Environment, Food and Rural Affairs said "Let us make this clear - the UK Water Industry is a success story".

I believe there is a clear desire by all parties to build on this success because there is still a great deal to do. Severn Trent Water is committed to ensuring our customers have the service they need, supported by a modern, well maintained twenty-first century infrastructure.

Our customers are our future and this is the way we will continue to demonstrate to them that their water services are "safe in our hands".



Brian Duckworth - Managing Director

The Directors present their report, together with the audited financial statements for the year ended 31 March 2002.

Principal activities

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

Results

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

The group's turnover was £893.2 million (2001: £884.4 million), and operating profit was £327.6 million (2001: £324.7 million). Profit on ordinary activities before taxation was £209.1 million (2001: £208.0 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.severntrent.com/reports2002.

Dividends and reserves

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 2002 amounted to £139.1 million (2001: £135.5 million).

Proposed transfers to reserves are set out in note 15 to the financial statements on page 33.

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	
J K Banyard	
I Elliott	
J A Hill	
G P Noone	
F A Osborn	
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 36 days (2001: 38 days) after the invoice date.

Research and development

Expenditure on research and development was £4.4 million including £1.3 million spent on fixed assets, compared to £5.9 million in 2001, (including £2.3 million on fixed assets).

This year the focus has principally been on commissioning major schemes, both to meet regulatory milestones and learn from full scale implementation results. This ensures the designs can be further developed to meet tighter standards in the next Asset Management Plan Period (2005/2010) (AMP4).

Catchment degradation for some upland areas, either as a result of climate change or other environmental damage, is adversely affecting the quality of raw water collected from these catchments. The company is researching the ability of current and newly-emerging processes to treat these more difficult waters. Results of this work will feed through to capital investment needs for future water treatment plants.

Operational implementation of the Sorb 33™ process to remove heavy metals from drinking water is progressing well on 16 plants where enhanced treatment is required to meet new EU standards.

Future environmental requirements for higher proportions of wastewater flow to receive full treatment to exacting standards during wet weather is expected to adversely affect process performance and new or modified treatment processes to reduce this decline are being studied.

Work to understand the occurrence and fate of some persistent organic pollutants potentially affecting wastewater and water treatment processes is a key part of planning for AMP4. The company continues its research in both collaborative and unique programmes to maintain our leading position in this area.

Employees

The average number of employees employed by the company during the year was 4,653 (2001: 4,837).

As a result of Ofwat's price determination in 1999, around 1,200 employees have since left the company. All of these redundancies were achieved on a voluntary basis and harmonious industrial relations have been maintained through this particularly difficult period. The company continues to work positively with Trades Unions and involved employees in planning and implementing the necessary changes.

Following detailed discussions with the Trades Unions a new consultation and negotiation structure has been jointly agreed and implemented with effect from April 2002. The Severn Trent Water Joint Negotiating Committee, which previously negotiated the main terms and conditions of employment, has been replaced by a Company Forum. These new arrangements provide a much stronger business focus and will help to build a stronger partnership between the company and employee representatives; we will continue to encourage active participation.

The Company Forum will also act as a parent body for a number of joint sub committees, principally associated with our reward mechanisms.

As part of the new framework, at a local level, four new business forums have been created to ensure representation at all levels. There are also opportunities for employees who are not Trades Unions members to stand for membership.

Within the larger Severn Trent group, Severn Trent Water is represented by both management and Trades Unions representatives on the European Works Council (EWC). The EWC last met on 17 December 2001.

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 which was re-launched in January 2002. There are monthly team meetings with employees, and use of the company intranet to share current news.

Our managers are trained and developed to ensure that they are equipped to meet current and future customer expectations and to take the business forward in supporting future growth. Our sophisticated career management process enables us to identify and develop future talent. In addition the company continues to recruit new graduates to participate in its graduate training and development programme and develop into future managerial roles.

Opportunities and Disabled Persons

The company is continually reviewing its diversity 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 current employment legislation.

Procedures for dealing with allegations of potential harassment are in place and are regularly monitored 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 2002 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. 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
11 June 2002

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 group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of Severn Trent Water's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 above.

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.

Basis of audit opinion

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

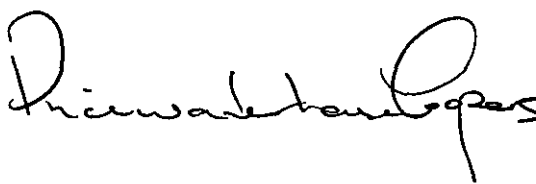
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2002 and of the profit of the company and group and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT
11 June 2002



Profit and loss accounts

Year ended 31 March 2002

	Notes	Group (restated)		Company (restated)	
		2002 £m	2001 £m	2002 £m	2001 £m
Turnover		893.2	884.4	893.2	884.4
Operating costs	2	(565.6)	(559.7)	(575.5)	(575.6)
Operating profit		327.6	324.7	317.7	308.8
Other income		0.9	1.0	0.9	1.0
Profit before interest and exceptional profit on disposal of fixed assets		328.5	325.7	318.6	309.8
Profit on disposal of fixed assets	2	-	-	-	231.7
Net interest payable	4	(119.4)	(117.7)	(104.1)	(103.5)
Profit on ordinary activities before taxation		209.1	208.0	214.5	438.0
Taxation on profit on ordinary activities					
current tax	5	(1.2)	0.4	(2.3)	0.5
deferred tax	5	(36.5)	(51.2)	(36.5)	(52.3)
Taxation	5	(37.7)	(50.8)	(38.8)	(51.8)
Profit for the financial year		171.4	157.2	175.7	386.2
Dividend	6	(139.1)	(135.5)	(139.1)	(135.5)
Retained profit for the financial year	15	32.3	21.7	36.6	250.7

All activities are continuing activities

The results for the year ended 31 March 2001 have been restated as a result of applying FRS 19 'Deferred tax' (note 1a).

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 (restated)		Company (restated)	
	2002 £m	2001 £m	2002 £m	2001 £m
Opening shareholders' funds as previously stated	1,852.0	2,127.8	2,081.4	2,128.2
Prior year adjustment	-	(297.5)	-	(297.5)
Opening shareholders' funds as restated	1,852.0	1,830.3	2,081.4	1,830.7
Profit for the financial year as previously stated	171.4	208.4	175.7	438.5
Prior year adjustment	-	(51.2)	-	(52.3)
Profit for the financial year as restated	171.4	157.2	175.7	386.2
Dividends	(139.1)	(135.5)	(139.1)	(135.5)
Net addition to shareholders' funds	32.3	21.7	36.6	250.7
Shareholders' funds at 31 March 2002	1,884.3	1,852.0	2,118.0	2,081.4

The reconciliation of movements in shareholders' funds for the year ended 31 March 2001 have been restated as a result of applying FRS 19 'Deferred tax' (note 1a).

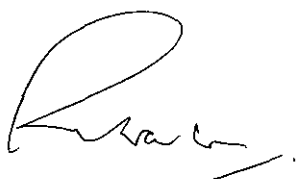
Balance sheets

As at 31 March 2002

	Notes	2002 £m	Group (restated) 2001 £m	2002 £m	Company (restated) 2001 £m
Fixed assets					
Tangible assets	7	4,534.2	4,428.8	4,532.2	4,426.8
Investments	8	0.6	1.3	67.3	68.0
		4,534.8	4,430.1	4,599.5	4,494.8
Current assets					
Stocks		3.4	2.9	3.4	2.9
Debtors	9	155.2	161.4	163.1	165.2
Cash at bank and in hand		0.1	0.2	0.1	0.1
		158.7	164.5	166.6	168.2
Creditors: amounts falling due within one year	10	(533.2)	(711.4)	(543.0)	(715.7)
Net current liabilities		(374.5)	(546.9)	(376.4)	(547.5)
Total assets less current liabilities		4,160.3	3,883.2	4,223.1	3,947.3
Creditors: amounts falling due after more than one year	11	(1,839.0)	(1,674.3)	(1,717.0)	(1,507.9)
Provisions for liabilities and charges	13	(387.0)	(356.9)	(383.1)	(358.0)
Net assets		1,884.3	1,852.0	2,118.0	2,081.4
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	884.3	852.0	1,118.0	1,081.4
Equity shareholders' funds		1,884.3	1,852.0	2,118.0	2,081.4

The group and company balance sheets at 31 March 2001 have been restated as a result of applying FRS 19 'Deferred tax' (note 1a).

Signed on behalf of the Board who approved the accounts on 11 June 2002.

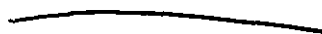


R M Walker
Chairman



M R Wilson
Finance and Regulation Director





Group cash flow statement

Year ended 31 March 2002

	Notes	2002 £m	2002 £m	2001 £m	2001 £m
Net cash inflow from operating activities	18a		530.4		509.4
Returns on investments and servicing of finance					
Interest received		2.1		1.5	
Interest paid		(100.6)		(82.8)	
Interest element of finance lease rental payments		(20.7)	(119.2)	(10.7)	(92.0)
Taxation			1.3		(9.0)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(534.3)		(351.8)	
Grants received		27.3		31.7	
Sale of tangible fixed assets		12.7		9.6	
Investment in other fixed asset investments		0.7	(293.6)	(0.7)	(311.2)
Equity dividends paid			(139.1)		(260.5)
Net cash outflow before financing			(20.2)		(163.3)
Financing					
Loans advanced		390.8		270.1	
Loans repaid		(76.6)		(488.9)	
New finance leases		-		168.2	
Finance lease capital repaid		-	314.2	(7.4)	(58.0)
Net increase / (decrease) in cash			294.0		(221.3)

Reconciliation of net cash flow to movement in net debt

	Notes	2002 £m	2002 £m	2001 £m	2001 £m
Net increase / (decrease) in cash as above		294.0		(221.3)	
Cash flow from movement in net debt and financing		(314.2)		58.0	
Change in net debt resulting from cash flows			(20.2)		(163.3)
Rolled up interest on debt			(0.7)		(0.2)
Rolled up interest on finance leases			(2.2)		(14.4)
Increase in net debt			(23.1)		(177.9)
Opening net debt			(2,035.5)		(1,857.6)
Closing net debt	18b		(2,058.6)		(2,035.5)

Notes to the financial statements

Year ended 31 March 2002

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.

In preparing these financial statements the group has adopted the following Financial Reporting Standards for the first time;

FRS 17 Retirement benefits
FRS 18 Accounting policies
FRS 19 Deferred tax

The group has adopted the transitional provisions of FRS 17, requiring certain additional disclosures which are set out in the notes to those accounts.

No changes have been effected to the group's accounting policies as a result of a review carried out on the adoption of FRS 18.

FRS 19 introduces a form of full provisioning for deferred tax, replacing the partial provision method previously followed under SSAP15.

In complying with SSAP 15, the group did not previously provide for deferred tax.

As a consequence of adopting FRS 19, the group has been required to reflect a full provision for deferred tax, and to restate prior year figures.

A deferred tax provision of £297.5 million has been introduced at 31 March 2000 with a corresponding reduction in shareholders' funds.

The tax charge for the year ended 31 March 2001 has been increased by £51.2 million and the tax charge in the year to 31 March 2002 increased by £36.5 million as a result of adopting the new policy. As permitted by the Standard, discounting has been applied.

As a consequence of adopting FRS 19, the company has been required to reflect a full provision for deferred tax, and to restate prior year figures. A deferred tax provision of £297.5 million has been introduced at 31 March 2000 with a corresponding reduction in shareholders' funds. The tax charge for the year ended 31 March 2001 has been increased by £52.3 million and the tax charge in the year to 31 March 2002 increased by £36.5 million as a result of adopting the new policy. As permitted by the Standard, discounting has been applied.

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 2002. 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.

I. 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.

In accordance with industry practice, 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 the 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 £294.5 million lower than it would otherwise have been (2001: £267.6 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. For the purposes of discounting, the period over which accelerated capital allowances in respect of infrastructure assets reverse, is determined by the estimated annual cost of maintaining the operating capability of the network.

l) Deferred taxation

Deferred taxation is fully provided for in respect of all timing differences between the treatment of certain items for taxation and accounting purposes. Material deferred tax balances arising are discounted by applying an appropriate risk free discount rate.

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. Useful economic lives are currently estimated at between 5 and 20 years.

o) Derivatives and other financial instruments

Debt 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.

Derivative financial instruments

Financial instruments, in particular, interest rate and currency swaps, are used to manage the financial risks arising from the business activities of the group and the financing of those activities. There is no trading activity in financial instruments. Financial instruments are accounted for as follows:

- interest rate swaps are used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.
- currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that on the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 12 to the accounts.

Notes to the financial statements

Year ended 31 March 2002

2 Analysis of operating costs and exceptional items	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
a) Analysis of operating costs				
Wages and salaries	110.8	113.1	110.8	113.1
Social security costs	8.5	9.4	8.5	9.4
Pension costs (note 17)	12.0	12.0	12.0	12.0
Total employee costs	131.3	134.5	131.3	134.5
Power	28.8	30.5	28.8	30.5
Raw materials and consumables	33.8	30.4	33.8	30.4
Rates	49.2	40.5	49.2	40.5
Service charges	22.8	21.6	22.8	21.6
Other operating costs	74.6	83.4	74.6	83.4
Depreciation charge (note 7)	210.7	206.1	210.7	206.1
Deferred income released	(3.4)	(2.9)	(3.4)	(2.9)
Hired and contracted services	67.6	65.5	67.6	65.5
Hire of plant and machinery	5.4	3.0	5.4	3.0
Other operating leases	1.0	0.9	10.9	16.8
Audit fees	0.2	0.2	0.2	0.2
Research and development expenditure	3.1	3.6	3.1	3.6
Profit on disposal of tangible fixed assets	(5.5)	(4.1)	(5.5)	(4.1)
	619.6	613.2	629.5	629.1
Own work capitalised	(54.0)	(53.5)	(54.0)	(53.5)
Total operating costs	565.6	559.7	575.5	575.6

Other fees paid to the auditors, PricewaterhouseCoopers included within other operating costs amounted to £63,000 (2001: £62,000).

b) Analysis of exceptional profit on disposal of fixed assets

In the year ended 31 March 2001 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 the ultimate parent undertaking Severn Trent Plc, according to the register maintained under the provisions of the United Kingdom Companies Act 1985 were as follows:

	Beneficial holdings in ordinary shares		1 April 2001	Exercised during the year	Lapsed during the year	Granted during the year	Share options under approved schemes
	1 April 2001	31 March 2002					
	Ordinary shares of 65% ¹ p each	Ordinary shares of 65% ¹ p each					
J H Bailey	1,151	1,210	8,627	-	-	-	8,627
I Elliott	3,283	3,199	4,026	(1,289)	-	-	2,737
G P Noone	25,336	25,467	4,430	-	-	-	4,430

- 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 2002. Messrs Hill and Wilson are Directors of Severn Trent Water Services Plc, the immediate parent undertaking and their interests in the share capital of the ultimate parent undertaking are disclosed in the Annual Report and Accounts of that company for the the year ended 31 March 2002. 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 65%¹p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 30 July 1999, 10 August 2000 and 30 August 2001. 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 for the 1999 and 2000 awards are based on Severn Trent Plc's Total Shareholder Return ('TSR') compared to the TSR of a number of other privatised utility companies. The performance criteria for the 2001 award are based on a combination of TSR and Economic Profit Targets. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 2001		At 31 March 2002			
	Number of ordinary shares of 65% ¹ p each	Awards vested during year	Awards lapsed during year	Awarded during year	Number of ordinary shares of 65% ¹ p each	Gain on vesting (£'000)
J H Bailey	7,307	-	-	6,462	13,769	-
I Elliott	13,971	-	(3,452)	8,571	19,090	-
G P Noone	14,639	-	(3,810)	6,656	17,485	-

No further awards have been made under the Plan as at 11 June 2002.

The performance period for the allocations of shares made in 1999 ended on 31 March 2002. 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 1999 contingent allocations of shares are included in the table above.

b) Emoluments	2002 £'000	2001 £'000
Aggregate emoluments (excluding pension contributions)	1,145.7	1,117.1

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

- ii) No emoluments were paid to certain of the Directors in respect of their services to the company. Their emoluments are paid by other companies within the Severn Trent group. In aggregate £526,957 (2001: £501,947) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.

- iii) Retirement benefits are accruing to six Directors (2001: eight Directors) under a defined benefit scheme.

c) Highest paid Director	2002 £'000	2001 £'000
Aggregate emoluments (excluding pension contributions)	298.6	285.5

The accrued pension at 31 March 2002 for the highest paid Director was £116,801 (2001: £107,796). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

Employees:	Group and company	
	2002 Number	2001 Number
Average number of employees during the year (full time equivalent):		
Staff	2,987	2,984
Industrial staff	1,666	1,853
	4,653	4,837

Notes to the financial statements

Year ended 31 March 2002

4 Net interest payable	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Interest receivable and similar income	2.1	1.5	5.8	5.0
Interest payable and similar charges:				
Bank loans and overdrafts	(40.1)	(54.7)	(40.1)	(54.7)
Other loans	(58.5)	(39.4)	(3.8)	(1.2)
Finance leases	(22.9)	(25.1)	(11.3)	(14.4)
To subsidiary undertaking	-	-	(54.7)	(38.2)
	(119.4)	(117.7)	(104.1)	(103.5)

5 Taxation on profit on ordinary activities	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
a) Analysis of charge in the year				
Current tax				
UK corporation tax @ 30% (2001:30%)				
Prior year	(5.0)	-	(5.0)	-
Group relief payable @ 30% (2001:30%)				
Current year	7.3	-	8.4	(0.1)
Prior year	(1.1)	(0.4)	(1.1)	(0.4)
Total current tax	1.2	(0.4)	2.3	(0.5)
Deferred tax				
Origination and reversal of timing differences				
Current year	53.5	63.8	53.5	64.9
Prior year	5.0	-	5.0	-
Increase in discount	(22.0)	(12.6)	(22.0)	(12.6)
Total deferred tax	36.5	51.2	36.5	52.3
Total tax charge	37.7	50.8	38.8	51.8

The group and company has adopted FRS 19 'deferred tax' in the year ended 31 March 2002. This has resulted in an increase in the tax charge of £36.5 million in the current year for the group and company and a restatement of prior year charge (£51.2 million higher than that previously reported for the group and £52.3 million higher than that previously reported for the company)

b) Factors affecting the current tax charge in the year

The current tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

Profit on ordinary activities before tax	209.1	208.0	214.5	438.0
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2001:30%)	62.7	62.4	64.4	131.4
Effects of:				
Expenses not deductible for tax purposes	(1.9)	(0.1)	(2.5)	(68.1)
Capital allowances for period in excess of depreciation	(50.6)	(56.3)	(50.6)	(56.3)
Utilisation of / movement in short term timing difference	(2.9)	(7.5)	(2.9)	(8.6)
Utilisation of / movement in tax losses	-	1.5	-	1.5
Adjustment to tax charge in respect of prior periods	(6.1)	(0.4)	(6.1)	(0.4)
	1.2	(0.4)	2.3	(0.5)

c) Factors affecting future rates

The group's current tax charge of £1.2 million (2001: £0.4 million credit) represents 0.6% of the group's profit after interest.

The group's deferred tax charge in future years is more difficult to predict as, in particular, it is impacted by changes in interest rates from one balance sheet date to the next.

6 Dividends	Group			Company
	2002 £m	2001 £m	2002 £m	2001 £m
Dividend paid	139.1	135.5	139.1	135.5

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 2002 amounted to £139.1 million.

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 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
Additions	57.8	152.8	139.8	350.4	57.8	152.8	139.8	350.4
Reclassifications and transfers	-	(0.2)	-	(0.2)	-	(0.2)	-	(0.2)
Grants and contributions	-	(26.9)	-	(26.9)	-	(26.9)	-	(26.9)
Assets sold or written off	(7.3)	(0.7)	(22.7)	(30.7)	(7.3)	(0.7)	(22.7)	(30.7)
At 31 March 2002	1,667.1	2,894.3	2,124.9	6,686.3	1,667.1	2,892.0	2,125.0	6,684.1
Depreciation								
At 1 April 2001	447.5	775.0	742.4	1,964.9	447.5	774.8	742.4	1,964.7
Charge for year	31.7	54.1	124.9	210.7	31.7	54.1	124.9	210.7
Assets sold or written off	(6.3)	(0.7)	(16.5)	(23.5)	(6.3)	(0.7)	(16.5)	(23.5)
At 31 March 2002	472.9	828.4	850.8	2,152.1	472.9	828.2	850.8	2,151.9
Net book value								
At 31 March 2002	1,194.2	2,065.9	1,274.1	4,534.2	1,194.2	2,063.8	1,274.2	4,532.2
At 1 April 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

i) Included in tangible fixed assets are assets held under finance leases as follows:	Group			Company
	2002 £m	2001 £m	2002 £m	2001 £m
Cost	450.7	443.8	275.4	275.6
Accumulated depreciation	(57.8)	(50.6)	(57.8)	(50.6)
Net book value	392.9	393.2	217.6	225.0

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:

	2002 £m	2001 £m	2002 £m	2001 £m
Freehold	1,193.9	1,168.8	1,193.9	1,168.8
Short leasehold	0.3	0.3	0.3	0.3
Total	1,194.2	1,169.1	1,194.2	1,169.1

Notes to the financial statements

Year ended 31 March 2002

7 Tangible fixed assets continues	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
iv) Depreciation incurred during the year has been charged as follows:				
Owned assets non infrastructure	149.1	144.8	149.1	144.8
Owned assets infrastructure	54.1	53.9	54.1	53.9
Assets held under finance leases	7.5	7.4	7.5	7.4
	210.7	206.1	210.7	206.1

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

Land	23.8	23.4	23.8	23.4
Assets in the course of construction	224.4	222.7	224.4	222.7
	248.2	246.1	248.2	246.1

8 Investments	Group	
	Other investments £m	Total £m
At 1 April 2001	1.3	1.3
Disposal to fellow subsidiary undertakings	(0.7)	(0.7)
At 31 March 2002	0.6	0.6

	Company			
	Shares in subsidiary undertakings £m	Loans in subsidiary undertakings £m	Other investments £m	Total £m
At 1 April 2001	1.2	65.5	1.3	68.0
Disposal to fellow subsidiary undertakings	-	-	(0.7)	(0.7)
At 31 March 2002	1.2	65.5	0.6	67.3

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 Limited	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	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade debtors	63.7	65.1	63.7	65.1
Amounts owed by parent and fellow subsidiary undertakings	1.0	1.1	8.8	11.6
Other debtors	6.7	7.2	6.7	7.2
Prepaid pension contributions	0.3	0.3	0.3	0.3
Prepayments and accrued income	83.5	87.7	83.6	81.0
	155.2	161.4	163.1	165.2

Included within debtors (both group and company) is £6.9 million (2001: £7.6 million) which falls due after more than one year.

10 Creditors: amounts falling due within one year	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank overdrafts	44.8	338.9	46.6	339.9
Bank loans	104.4	14.4	104.4	14.4
Amounts owed to subsidiary undertakings	-	-	73.2	50.0
Other loans	73.2	61.8	-	11.8
Obligations under finance leases	3.7	2.3	0.4	0.5
Borrowings (note 12)	226.1	417.4	224.6	416.6
Trade creditors	14.7	27.1	14.7	27.1
Amounts owed to parent and fellow subsidiary undertakings	26.8	19.6	27.4	19.6
Amounts owed to subsidiary undertakings	-	-	36.0	17.5
Other creditors	3.8	4.8	3.8	4.8
Taxation and social security	4.2	4.0	4.2	4.0
Corporation tax payable	21.0	25.9	21.0	26.0
Accruals and deferred income	236.6	212.6	211.3	200.1
	533.2	711.4	543.0	715.7

11 Creditors: amounts falling due after more than one year	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans	465.6	570.0	465.6	570.0
Amounts owed to subsidiary undertakings	-	-	924.6	606.7
Other loans	924.6	606.7	-	-
Obligations under finance leases	442.4	441.6	270.4	275.2
Borrowings (note 12)	1,832.6	1,618.3	1,660.6	1,451.9
Deferred income	49.5	51.3	49.5	51.3
Other creditors	6.9	4.7	6.9	4.7
	1,889.0	1,674.3	1,717.0	1,507.9

Notes to the financial statements

Year ended 31 March 2002

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	
					2002 £m	2001 £m

a) Borrowings analysed by maturity date

Within one year (note 10)	44.8	-	177.6	3.7	226.1	417.4
Between one and two years	-	-	120.8	1.8	122.6	106.4
Between two and five years	-	-	239.3	19.4	258.7	266.4
After more than five years	-	-	1,030.1	421.2	1,451.3	1,245.5
	44.8	-	1,567.8	446.1	2,058.7	2,035.7

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2002 £m	2001 £m
European Investment Bank loans – 2008-2009	6.10 - 6.49	175.0	225.0
European Medium Term loans notes – 2008-2028	3.87 - 5.69	143.8	-
Sterling bonds – 2024-2029	6.125 - 6.25	711.3	591.7
		1,030.1	816.7

	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	
					2002 £m	2001 £m
Within one year (note 10)	46.6	-	177.6	0.4	224.5	416.6
Between one and two years	-	-	120.8	1.4	122.2	104.4
Between two and five years	-	-	239.3	9.6	248.9	259.5
After more than five years	-	-	1,030.1	259.4	1,289.5	1,088.0
	46.6	-	1,567.8	270.8	1,885.2	1,868.5

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2002 £m	2001 £m
European Investment Bank loans – 2008-2009	6.10 - 6.49	175.0	225.0
Amounts owed to subsidiary undertakings – 2008-2029	3.87 - 6.25	855.1	591.7
		1,030.1	816.7

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

	Group					Company				
	2002 Total £m	Floating interest rate £m	Fixed interest rate £m	Fixed borrowings		2002 Total £m	Floating interest rate £m	Fixed interest rate £m	Fixed borrowings	
				Weighted average interest rate %	Weighted average period for which interest is fixed Years				Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings at 31 March 2002	2,058.7	582.3	1,476.4	6.17	19.68	1,885.2	408.8	1,476.4	6.17	19.68
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

Floating rate borrowings bear interest based on Libor.

12 Financial Instruments *continued*

c) Fair values of financial instruments

The group and company uses financial derivatives solely for the purposes of managing the interest rate and currency 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 2002 interest rates on 71.7% of the group's borrowings were fixed for periods up to 27 years.

The group and company's business does not involve significant exposure to foreign exchange transactions. Cross currency swaps are employed to exchange foreign currency borrowings for Sterling.

Financial instruments by category: Asset / (liability)	2002		Group 2001		2002		Company 2001	
	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	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Borrowings falling due within one year	(218.5)	(211.7)	(417.4)	(419.2)	(217.0)	(210.2)	(416.6)	(418.4)
Borrowings falling due after more than one year	(1,823.2)	(1,831.4)	(1,618.3)	(1,547.3)	(1,651.2)	(1,659.4)	(1,451.9)	(1,380.9)
Derivative financial instruments held to manage the currency and interest rate profile								
Interest rate swaps and similar instruments	-	1.3	-	4.9	-	1.3	-	4.9
Currency instruments – cross currency swaps	(17.0)	(11.5)	-	-	(17.0)	(11.5)	-	-
Total net debt	(2,058.6)	(2,053.2)	(2,035.5)	(1,961.4)	(1,885.1)	(1,879.7)	(1,868.4)	(1,794.3)
Other long term assets								
Other fixed asset investments	0.6	0.6	1.3	1.3	0.6	0.6	1.3	1.3

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 2002

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 2002 given prevailing economic conditions.

	Group and company		
	Gains £m	Losses £m	Total net gains £m
Unrecognised gains and losses on hedges at 1 April 2001	17.9	(13.0)	4.9
Arising in previous years that were recognised in the year	-	-	-
Arising before 1 April 2001 that were not recognised in the financial year	17.9	(13.0)	4.9
Unrecognised gains and losses arising during the financial year	(10.1)	12.0	1.9
Unrecognised gains and losses on hedges at 31 March 2002	7.8	(1.0)	6.8
Expected to be recognised			
In one year or less	0.2	-	0.2
In later years	7.6	(1.0)	6.6

e) Borrowings facilities

The group and company had the following undrawn committed borrowing facilities available at 31 March 2002:

	Group and company	
	2002 £m	2001 £m
Expiring within one year	50.0	-
Expiring in more than one year but no more than two years	-	-
Expiring after two years	600.0	550.0
	650.0	550.0

Notes to the financial statements

Year ended 31 March 2002

13 Provisions	Group					
	Balance at 1 April 2001 (as previously reported) £m	Prior year adjustment (note 1a) £m	Balance at 1 April 2001 (restated) £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2002 £m
Provisions for liabilities and charges comprise:						
Restructuring	8.2	-	8.2	-	(6.4)	1.8
Deferred tax	-	348.7	348.7	36.5	-	385.2
	8.2	348.7	356.9	36.5	(6.4)	387.0

Company	Company					
	Balance at 1 April 2001 (as previously reported) £m	Prior year adjustment (note 1a) £m	Balance at 1 April 2001 (restated) £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2002 £m
Restructuring	8.2	-	8.2	-	(6.4)	1.8
Deferred tax	-	349.8	349.8	36.5	-	386.3
	8.2	349.8	358.0	36.5	(6.4)	388.1

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.

Both the group and company has applied FRS 19, 'Deferred tax', for the first time. Prior years figures have been restated (note 1a). The full deferred tax liability, calculated under the liability method at a tax rate of 30% (2001: 30%), is:

	Group (restated)		Company (restated)	
	2002 £m	2001 £m	2002 £m	2001 £m
Capital allowance		799.1	743.5	799.1
Other timing differences		(16.7)	(19.6)	(15.6)
Undiscounted provision for deferred tax		782.4	723.9	783.5
Discount		(397.2)	(375.2)	(397.2)
Discounted provision for deferred tax		385.2	348.7	386.3
Provision at start of year		348.7	297.5	349.8
Deferred tax charge for year (above)		36.5	51.2	36.5
Provision at end of year		385.2	348.7	386.3

14 Share capital	Group			
	2002 £m	2001 £m	2002 £m	2001 £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

15 Profit and loss account

	Group £m	Company £m
At 1 April 2001 as previously stated	1,200.7	1,431.2
Prior year adjustment (note 1a)	(348.7)	(349.8)
At 1 April 2001 as restated	852.0	1,081.4
Retained profit for the year	32.3	36.6
At 31 March 2002	884.3	1,118.0

At 31 March 2002 cumulative goodwill written off against group reserves amounted to £29.2 million (2001: £29.2 million).

16 Commitments and contingent liabilities

	2002 £m	2001 £m
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a) Investment expenditure commitments

Contracted for but not provided in the financial statements	144.3	120.1
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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:

	2002		2001	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.3	0.7	-	0.7
Between one and five years	-	-	0.3	-
After five years	0.2	-	0.3	-
	0.5	0.7	0.6	0.7

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

	2002		2001	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.3	0.7	-	0.7
Between one and five years	-	-	0.3	-
After five years	0.2	12.0	0.3	18.6
	0.5	12.7	0.6	19.3

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 continues to account for pension arrangements in accordance with SSAP 24 'Accounting for Pension Costs'. Disclosures required under SSAP 24 are set out in note 17a below.

In November 2000, the Accounting Standards Plc issued FRS 17 'Retirement Benefits', which will replace SSAP 24. Full adoption of FRS 17 is not required in the case of the Severn Trent Plc group, until the year ending 31 March 2004. In the interim, certain additional disclosures are required under the transitional provisions of FRS 17, details of which are provided in note 17b below.

a) SSAP 24 'Accounting for pension cost' disclosures

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 (2001: £12.0 million).

STWPS

An actuarial valuation of STWPS was carried out at 31 March 2001 by an independent professionally qualified actuary using the projected unit method. The principal assumptions used were as follows:

	% per annum
Salary increases	4.0
Pension increases	2.5
Inflation	2.5
Discount rate	6.0

Notes to the financial statements

Year ended 31 March 2002

17 Pensions continued

The market value of the scheme's assets was £793.7 million, which exceeded by 7% the present value of scheme liabilities, 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 employers' contribution rate to STWPS has been increased from 1 April 2002 to 14.64%, 12.2% or 7.32% of pensionable pay (previously 12.36%, 10.3% or 6.18%) 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 present value of scheme liabilities 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.

b) FRS 17, 'Retirement benefits' – disclosures

The group and company are required to provide disclosure under the transitional arrangements within FRS 17 'Retirement Benefits'. The group and company principally contribute to two defined benefit schemes, STWPS and STMIS. Both schemes are accounted for as multi-employer schemes as defined by FRS 17 as neither the group nor company is able to identify its share of the underlying assets and liabilities.

Schemes assets, liabilities and surpluses are disclosed in the Annual Report and Accounts of the ultimate parent undertaking, Severn Trent Plc in accordance with FRS 17. The net pension schemes surpluses, calculated under FRS 17 as at 31 March 2002 amounted to £57.1 million.

18 Group cash flow statement

	2002 £m	2001 £m		
a) Reconciliation of profit before interest to net cash inflow from operating activities				
Profit before interest	328.5	325.7		
Depreciation charge (note 7 iv)	210.7	206.1		
Profit on sale of tangible fixed assets	(5.5)	(4.1)		
Deferred income received	1.8	1.0		
Deferred income written back	(3.4)	(2.9)		
Utilisation of restructuring provision	(6.4)	(35.1)		
(Increase) / decrease in stocks	(0.5)	1.1		
Decrease in debtors	9.5	1.0		
Decrease / (increase) in creditors	(4.3)	16.6		
Net cash inflow from operating activities	530.4	509.4		
b) Analysis of changes in net debt				
	At 1 April 2001 £m	Cash flow £m	Other non cash changes £m	At 31 March 2002 £m
Cash at bank and in hand	0.2	(0.1)	-	0.1
Overdrafts (note 12)	(338.9)	294.1	-	(44.8)
Debt due within one year (note 12)	(76.2)	(101.4)	-	(177.6)
Debt due after one year (note 12)	(1,176.7)	(212.8)	(0.7)	(1,390.2)
Finance leases (note 12)	(443.9)	-	(2.2)	(446.1)
	(2,035.5)	(20.2)	(2.9)	(2,058.6)

19 Ultimate and immediate parent company and related party transactions

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.severntrent.com/reports2002.

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'.

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Water Industry Act 1991

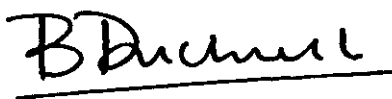
Further to the requirements of company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a Water and Sewerage Undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines 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
11 June 2002

We have audited the financial statements which comprise the group and company profit and loss account, the group and company balance sheet, the statement of total recognised gains and losses, the group cash flow statement and the related notes ('the statutory financial statements'), the supplementary regulatory historical cost statements ('the supplementary historical cost statements') and the current cost accounting statements which comprise the current cost profit and loss account, the current cost balance sheet, the cash flow statement and the related notes ('the current cost financial statements') (together, the 'regulatory financial statements').

Basis of preparation

The regulatory financial statements have been prepared in accordance with Regulatory Accounting Guidelines 1-4 issued by the Office of Water Services (Ofwat).

The regulatory financial statements are separate from the statutory financial statements of the group and company and have not necessarily been prepared under the generally accepted accounting principles. Financial information other than that prepared on the basis of generally accepted accounting principles does not necessarily represent a true and fair view of the financial position of a company.

The nature, form and content of regulatory financial statements are determined by Ofwat. It is not appropriate for the auditors to assess whether the nature of the information being reported upon is suitable or appropriate for Ofwat's purposes. Accordingly we make no assessment.

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 regulatory financial statements, performed in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, and to report our opinion to you.

Our responsibility is to Severn Trent Water Limited and East Worcester Water Plc (together the "Appointees"). We do not accept any duty of care or responsibility to any other person and deny all liability whether in contract, tort (including negligence), statutory duty or otherwise to any other person who chooses to rely on this report.

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

Basis of opinion

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

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

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements, which are prepared for a different purpose. We do not and will not, by virtue of this report, assume any responsibility, whether in contract, negligence or otherwise, in relation

to our audit of the statutory financial statements required by the Companies Act 1985; we and our employees shall have no liability whether in contract, negligence or otherwise to any parties other than the company in relation to our audit of the statutory financial statements.

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, except as modified in respect of the following:

(a) the supplementary historical cost financial statements on page 37 have been drawn up in accordance with the Ofwat instruction of 29 April 2002 that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disappplied. This represents a departure from generally accepted accounting principles. As a consequence an amount of £25.8 million has been included under accruals in the regulatory balance sheet and this amount has been deducted from fixed assets as shown in the statutory balance sheet on page 20; and

(b) the current cost financial information on pages 38 to 47 has been drawn up in accordance with Regulatory Accounting Guideline 1.02 'Accounting for Current Costs', issued in May 1992 by Ofwat.

Opinion

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 2002 required to be published and submitted to you by the Appointees to comply with Condition F of the Instruments of Appointment granted by the Secretary of State for the Environment to the Appointees 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;

(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, as appropriate, Regulatory Accounting Guidelines 1-4 issued by Ofwat;

(c) the statutory financial statements on pages 19 to 34 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointees and their appointed businesses;

(d) the supplementary historical cost statements on page 37 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointees and their Appointed Businesses in accordance with the Appointees' Instruments of Appointment and Regulatory Accounting Guidelines 2.02 and 4.01;

(e) the current cost financial statements on pages 38 to 47 have been properly prepared in accordance with Regulatory Accounting Guideline 1 'Accounting for Current Costs', issued in May 1992 by Ofwat and Regulatory Accounting Guideline 4 'Analysis of Operating Costs and Assets', issued in June 1992 by Ofwat.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT
11 June 2002

Group profit and loss account

Year ended 31 March 2002	(restated)	
	2002 £m	2001 £m
Turnover	893.2	884.4
Operating costs	(571.1)	(563.8)
Other operating income	5.5	4.1
Operating profit	327.6	324.7
Other income	0.9	1.0
Net interest payable	(119.4)	(117.7)
Profit on ordinary activities before taxation	209.1	208.0
Taxation on profit on ordinary activities	(1.2)	0.4
Deferred tax	(36.5)	(51.2)
Taxation	(37.7)	(50.8)
Profit for the financial year	171.4	157.2
Dividend	(139.1)	(135.5)
Retained profit for the financial year	32.3	21.7

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

Group balance sheet

As at 31 March 2002	(restated)	
	2002 £m	2001 £m
Fixed assets		
Tangible assets	4,560.0	4,471.3
Investments	0.6	1.3
	4,560.6	4,472.6
Current assets		
Stocks	3.4	2.9
Debtors	155.2	161.4
Cash at bank and in hand	0.1	0.2
	158.7	164.5
Creditors: amounts falling due within one year		
Borrowings	(226.1)	(417.4)
Other creditors	(303.6)	(290.5)
	(529.7)	(707.9)
Net current liabilities	(371.0)	(543.4)
Total assets less current liabilities	4,189.6	3,929.2
Creditors: amounts falling due after more than one year		
Borrowings	(1,832.6)	(1,618.3)
Other creditors	(6.9)	(4.7)
	(1,839.5)	(1,623.0)
Provisions for liabilities and charges	(412.8)	(399.4)
Deferred income	(53.0)	(54.8)
Net assets	1,884.3	1,852.0
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	884.3	852.0
Shareholders' funds	1,884.3	1,852.0

Regulatory accounts – current cost financial statements

Group profit and loss account

		(restated)	
Year ended 31 March 2002	Notes	2002 £m	2001 £m
Turnover	2a	893.2	884.4
Current cost operating costs	2d	(610.4)	(608.9)
Other operating income	2b	3.4	4.0
		286.2	279.5
Working capital adjustment	2c	1.3	2.6
Current cost operating profit		287.5	282.1
Other income		0.9	1.0
Net interest payable		(119.4)	(117.7)
Financing adjustment		27.6	45.5
Current cost profit before taxation		196.6	210.9
Taxation on profit on ordinary activities		(1.2)	0.4
Deferred tax		(36.5)	(51.2)
Taxation		(37.7)	(50.8)
Current cost profit attributable to shareholders		158.9	160.1
Dividend		(139.1)	(135.5)
Current cost profit retained		19.8	24.6

Group balance sheet

		(restated)	
As at 31 March 2002	Notes	2002 £m	2001 £m
Fixed assets			
Tangible assets	3	23,807.5	23,394.7
Third party contributions since 1989/90		(894.4)	(817.9)
Working capital	4	(98.4)	(95.6)
Net operating assets		22,814.7	22,481.2
Cash and investments		0.7	1.5
Non-trade debtors		9.3	5.6
Non-trade creditors due within one year		(307.8)	(496.3)
Creditors due after one year		(1,839.5)	(1,623.0)
Provisions for liabilities and charges		(387.0)	(356.9)
Dividend payable		-	-
Net assets employed		20,290.4	20,012.1
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account	5	118.9	99.1
Current cost reserve	6	19,171.5	18,913.0
		20,290.4	20,012.1

Group cash flow statement

Year ended 31 March 2002

	Notes	2002 £m	2002 £m	2001 £m	2001 £m
Net cash inflow from operating activities	7		530.4		509.4
Returns on investments and servicing of finance					
Interest received		2.1		1.5	
Interest paid		(100.6)		(82.8)	
Interest element of finance lease rental payments		(20.7)	(119.2)	(10.7)	(92.0)
Taxation			1.3		(9.0)
Capital expenditure					
Purchase of tangible fixed assets		(247.9)		(277.4)	
Grants received		27.3		31.7	
Infrastructure renewals expenditure		(86.4)		(74.4)	
Disposal of fixed assets		12.7		9.6	
Investment in other fixed asset investments		0.7	(293.6)	(0.7)	(311.2)
Equity dividends paid			(139.1)		(260.5)
Net cash outflow before financing			(20.2)		(163.3)
Financing					
Loans advanced		390.8		270.1	
Loans repaid		(76.6)		(488.9)	
New finance leases		-		168.2	
Finance lease capital repaid		-	314.2	(7.4)	(58.0)
Net increase / (decrease) in cash			294.0		(221.3)

Reconciliation of net cash flow to movement in net debt

	2002 £m	2002 £m	2001 £m	2001 £m
Net increase / (decrease) in cash as above	294.0		(221.3)	
Cash flow from movement in net debt and financing	(314.2)		58.0	
Change in net debt resulting from cash flows		(20.2)		(163.3)
Rolled up interest on debt		(0.7)		(0.2)
Rolled up interest on finance leases		(2.2)		(14.4)
Increase in net debt		(23.1)		(177.9)
Opening net debt		(2,035.5)		(1,857.6)
Closing net debt		(2,058.6)		(2,035.5)

Notes to the current cost financial statements

Year ended 31 March 2002

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

	2002			2001		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
a) Analysis of turnover						
Measured	148.9	147.4	296.3	150.9	150.1	301.0
Unmeasured	267.8	268.6	536.4	262.3	259.5	521.8
Large user tariffs	16.3	3.9	20.2	16.3	-	16.3
Trade effluent	-	24.7	24.7	-	29.9	29.9
Revenue grants	0.3	-	0.3	0.4	-	0.4
Third parties	6.0	1.4	7.4	1.3	0.5	1.8
Other sources	4.7	3.2	7.9	10.0	3.2	13.2
Total turnover	444.0	449.2	893.2	441.2	443.2	884.4
b) Other operating income						
Current cost profit on disposal of tangible fixed assets	2.2	1.2	3.4	2.9	1.1	4.0
c) Working capital adjustment						
	(0.1)	1.4	1.3	0.3	2.3	2.6

Regulatory accounts – current cost financial statements

Notes to the current cost financial statements

Year ended 31 March 2002

2 Analysis of current cost turnover and operating costs continued

	Water services					Sewerage services			Business analysis		
	Resources and treatment £m	Distribution £m	Water services sub-total £m	Sewerage £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewerage 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	6.4	15.0	21.4	5.6	9.2	5.0	14.2	19.8			
Power	4.9	10.5	15.4	2.8	7.6	1.7	9.3	12.1			
Agencies	-	-	-	-	-	-	-	-			
Hired and contracted	2.4	13.9	16.3	6.5	6.2	7.7	13.9	20.4			
Associated companies	0.6	1.0	1.6	1.7	0.7	1.1	1.8	3.5			
Materials and consumables	3.5	2.5	6.0	0.8	3.4	4.6	8.0	8.8			
Service charges	8.2	-	8.2	1.4	5.1	-	5.1	6.5			
Bulk supply imports	7.8	-	7.8	-	-	-	-	-			
Other direct costs	0.4	1.5	1.9	0.6	1.0	-	1.0	1.6			
Total direct costs	34.2	44.4	78.6	19.4	33.2	20.1	53.3	72.7	24.3	13.2	2.3
General and support	19.4	17.0	36.4	10.0	24.4	10.2	34.6	44.6	5.8	3.6	0.5
Functional expenditure	53.6	61.4	115.0	29.4	57.6	30.3	87.9	117.3	30.1	16.8	2.8
Business activities recharge			23.0					26.7	(30.1)	(16.8)	(2.8)
Rates			32.0					17.7			
Doubtful debts			9.1					10.3			
Exceptional items			-					-			
			179.1					172.0			
Services for third parties			9.6					3.1			
Total operating expenditure			188.7					175.1			
Capital costs											
Infrastructure renewals:											
Expenditure	(1.0)	34.9	33.9	36.9	-	-	-	36.9			
Accrual	2.5	(5.0)	(2.5)	(14.2)	-	-	-	(14.2)			
Current cost depreciation	45.0	35.2	80.2	19.4	68.5	27.0	95.5	114.9			
Amortisation of deferred income			(1.8)					(1.6)			
Business activity capital costs			0.1					0.2			
			109.9					136.2			
Services for third parties depreciation			0.5					-			
Total capital maintenance			110.4					136.2			
Total operating costs			299.1					311.3			
Analysis of tangible fixed assets											
Service activities	1,451.2	5,804.2	7,255.4	14,703.9	1,161.0	281.1	1,442.1	16,146.0			
Business activities			134.3	21.6			99.6	121.2			
Service totals			7,389.7	14,725.5			1,541.7	16,267.2			
Services for third parties			150.6					-			
Total			7,540.3					16,267.2			

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			-					-			
Services for third parties			173.8					180.5			
			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			
Services for third parties depreciation			107.0					140.8			
			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			

e) Non appointed business

The group has not identified for the purpose of its 2001/2002 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 2002 in respect of infrastructure assets amounted to £17.5 million on water services (2001: £17.8 million) and £11.6 million for sewerage services (2001: £13.2 million).

Expenditure on reactive and planned maintenance included in operating costs for 2002 in respect of non-infrastructure assets amounted to £9.8 million on water services (2001: £9.2 million) and £23.1 million for sewerage services (2001: £22.4 million).

Notes to the current cost financial statements

Year ended 31 March 2002

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 2001	1,580.8	94.9	6,351.9	239.2	8,266.8
RPI and other adjustments	19.8	1.0	82.0	2.0	104.8
Additions	58.1	2.6	45.8	16.1	122.6
Disposals and amounts written off	(6.5)	(1.7)	-	(8.9)	(17.1)
At 31 March 2002	1,652.2	96.8	6,479.7	248.4	8,477.1
Depreciation					
At 1 April 2001	700.9	22.9	-	135.9	859.7
RPI and other adjustments	8.7	0.3	-	1.2	10.2
Charge for year	62.5	1.1	-	17.2	80.8
Disposals and amounts written off	(6.4)	(1.0)	-	(6.5)	(13.9)
At 31 March 2002	765.7	23.3	-	147.8	936.8
Net book value					
At 31 March 2002	886.5	73.5	6,479.7	100.6	7,540.3
At 1 April 2001	879.9	72.0	6,351.9	103.3	7,407.1
b) Sewerage services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 2001	2,956.5	108.5	14,285.0	211.1	17,561.1
RPI and other adjustments	37.4	1.6	185.3	3.1	227.4
Additions	84.2	3.8	72.0	33.6	193.6
Disposals and amounts written off	(37.2)	(3.0)	-	(15.4)	(55.6)
At 31 March 2002	3,040.9	110.9	14,542.3	232.4	17,926.5
Depreciation					
At 1 April 2001	1,431.1	21.3	-	121.1	1,573.5
RPI and other adjustments	18.0	0.4	-	1.9	20.3
Charge for year	86.9	1.8	-	26.4	115.1
Disposals and amounts written off	(37.1)	(1.6)	-	(10.9)	(49.6)
At 31 March 2002	1,498.9	21.9	-	138.5	1,659.3
Net book value					
At 31 March 2002	1,542.0	89.0	14,542.3	93.9	16,267.2
At 1 April 2001	1,525.4	87.2	14,285.0	90.0	15,987.6

3 Analysis of tangible fixed assets by asset type *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 2001	4,537.3	203.4	20,636.9	450.3	25,827.9
RPI and other adjustments	57.2	2.6	267.3	5.1	332.2
Additions	142.3	6.4	117.8	49.7	316.2
Disposals and amounts written off	(43.7)	(4.7)	-	(24.3)	(72.7)
At 31 March 2002	4,693.1	207.7	21,022.0	480.8	26,403.6
Depreciation					
At 1 April 2001	2,132.0	44.2	-	257.0	2,433.2
RPI and other adjustments	26.7	0.7	-	3.1	30.5
Charge for year	149.4	2.9	-	43.6	195.9
Disposals and amounts written off	(43.5)	(2.6)	-	(17.4)	(63.5)
At 31 March 2002	2,264.6	45.2	-	286.3	2,596.1
Net book value					
At 31 March 2002	2,428.5	162.5	21,022.0	194.5	23,807.5
At 1 April 2001	2,405.3	159.2	20,636.9	193.3	23,394.7

4 Working capital

	2002 £m	2001 £m
Stocks	3.4	2.9
Trade debtors	63.7	65.0
Trade creditors	(3.7)	(7.8)
Short-term capital creditors	(11.0)	(19.2)
Infrastructure renewals accrual	(25.8)	(42.5)
Accruals	(122.4)	(97.5)
Payments in advance	(67.4)	(69.2)
Tax and social security	(4.2)	(4.0)
Group trade debtors / (creditors)	(8.5)	(8.1)
Prepayments	77.5	84.8
	(98.4)	(95.6)

Notes to the current cost financial statements

Year ended 31 March 2002

5 Reserves – profit and loss account

	£m
At 1 April 2001 as previously stated	447.8
Prior year adjustment	(348.7)
At 1 April 2001 as restated	99.1
Retained current cost profit for the year	19.8
At 31 March 2002	118.9

6 Reserves – current cost reserves

	2002 £m	2001 £m
At 1 April 2001	18,913.0	18,464.2
AMP adjustment	-	-
RPI adjustments:		
Fixed assets	301.7	514.0
Working capital	(1.3)	(2.6)
Financing	(27.6)	(45.5)
Grants and third party contributions	(10.6)	(17.5)
Other adjustments	(3.7)	0.4
At 31 March 2002	19,171.5	18,913.0

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

	2002 £m	2001 £m
Current cost operating profit	287.5	282.1
Working capital adjustment	(1.3)	(2.6)
(Increase) / decrease in stocks	(0.5)	1.1
Other income	0.9	1.0
Current cost depreciation	195.9	197.3
Current cost profit on disposal of tangible fixed assets	(3.4)	(4.0)
Increase in debtors	9.5	1.0
(Decrease) / increase in creditors	(4.3)	16.6
Decrease in provisions	(38.7)	(55.6)
Infrastructure renewals expenditure	86.4	74.4
Effect of other deferrals and accruals on operating activity cash flow	(1.5)	(1.9)
Net cash inflow from operating activities	530.4	509.4

8 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 £m	2002 £m	2003 £m	2004 £m	2005 £m
Closing value	4,092	4,132	4,387	4,665	4,943
Year average	4,037	4,126	4,268	4,522	4,799

Five year summary

At 2001/2002 out-turn prices

	(restated)				
	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Profit and loss account					
Turnover	893.2	897.8	1,026.4	1,011.4	1,021.5
Current cost operating costs	(610.4)	(618.1)	(684.9)	(634.2)	(631.6)
Share of results of associated undertaking	-	-	-	0.1	-
Other operating income	3.4	4.1	4.1	2.5	0.9
	286.2	283.8	345.6	379.8	390.8
Working capital adjustment	1.3	2.6	1.7	3.1	3.8
Current cost operating profit	287.5	286.4	347.3	382.9	394.6
Other income	0.9	1.0	0.7	1.0	-
Net interest payable	(119.4)	(119.5)	(88.3)	(77.4)	(52.5)
Financing adjustment	27.6	46.2	48.0	32.5	33.4
Current cost profit before taxation	196.6	214.1	307.7	339.0	375.5
Taxation	(1.2)	0.4	(21.3)	(117.8)	(126.3)
Deferred tax	(36.5)	(52.0)	-	-	-
Current cost profit attributable to shareholders	158.9	162.5	286.4	221.2	249.2
Dividend	(139.1)	(137.6)	(151.5)	(146.5)	(142.4)
Exceptional dividend	-	-	(130.6)	-	(339.0)
Current cost profit / (loss) retained	19.8	24.9	4.3	74.7	(232.2)
Balance sheet					
Fixed assets					
Tangible assets	23,307.5	23,707.2	23,639.7	28,691.5	28,320.3
Third party contributions since 1989/90	(894.4)	(828.8)	(789.3)	(735.3)	(654.8)
Working capital	(98.4)	(96.9)	(114.8)	(67.4)	(150.1)
Net operating assets	22,314.7	22,781.5	22,735.6	27,888.8	27,515.4
Cash and investments	0.7	1.5	0.7	1.5	0.4
Non-trade debtors	9.3	5.7	8.7	8.9	9.4
Non-trade creditors due within one year	(307.8)	(502.9)	(498.2)	(497.3)	(568.2)
Creditors due after one year	(1,839.5)	(1,644.7)	(1,517.7)	(1,385.0)	(1,005.8)
Provision for liabilities and charges	(387.0)	(361.7)	(44.9)	(6.0)	(17.1)
Dividends payable	-	-	(129.5)	-	-
Net assets employed	20,290.4	20,279.4	20,554.7	26,010.9	25,934.1
Capital and reserves					
Called up share capital	1,000.0	1,013.4	1,036.2	1,063.4	1,085.2
Profit and loss account	118.9	100.4	385.5	391.5	323.1
Current cost reserve	19,171.5	19,165.6	19,133.0	24,556.0	24,525.8
	20,290.4	20,279.4	20,554.7	26,010.9	25,934.1

Commentary

Profit and loss account – over the last five years turnover has fallen primarily due to the effect of the price determination in 2001 which imposed on the company a reduction of 14.1%.

As a consequence of this reduction operating profits have fallen, however, this fall has now been arrested in 2002 due to the effects of productivity improvements and supply chain efficiencies which commenced in 2000 and are still continuing. Reductions in operating costs have also been achieved by a restructuring of the company activities, which saw 1,100 employees leave the company. Interest has increased due to the effects of increased borrowing by the company to finance its capital investment programme.

Balance Sheet – the most significant movements have occurred in Fixed Assets due to the investment programme that the company has undertaken over the last five years, during that period creditors due after one year have also increased significantly, this is primarily due to the increased borrowings of the company, required to finance the investment programme.

Following the implementation of FRS 19 'Deferred tax', the 2001 figures have been restated, other prior year comparatives for FRS 19 have not been restated in the above table.

Supplementary regulatory accounting disclosures

Year ended 31 March 2002

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 by 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	271.8	2002/2028	Libor+

Sums repaid by associated companies to the Appointee during the year:

		Principal amount £m	Repayment date	Interest Rate %
Severn Trent Retail Services Ltd	Repaid	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 2002 amounted to £139.1 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 £2.1 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	0.9
Service charges in respect of payroll, legal, transport and other	Various	Cost including overheads	3.0
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	1.1
			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	3.4
Meter installation and provision of other engineering services	Capital Controls Ltd	Competitive letting/other market testing/ no market	6.3
Provision of engineering and design services	Charles Haswell and Partners Ltd	Other market testing	8.2
Asset management	Cognica Ltd	Other market testing	1.1
Insurance services	Derwent Insurance Ltd	Other market testing	2.9
Supply of materials	Fusion Meters Ltd	Competitive letting	3.0
Analytical services	Severn Trent Laboratories Ltd	Competitive letting	6.6
Management fee	Severn Trent Plc	No market	4.4
Management fee	Severn Trent Property Ltd	No market	0.1
Project development and managed service contract	Severn Trent Systems Ltd	Other market testing	42.6
Provision of customer care facilities	Severn Trent Utility Services Ltd	Other market testing	0.6
Project development	Severn Trent Water International Ltd	No market	1.5
			80.7

Of the £80.7 million (2001: £84.3 million), £40.3 million (2001: £40.6 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 2002 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.

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Profit and loss accounts

	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Turnover	932.8	952.7	982.1	884.4	893.2
Operating profit	409.4 †	407.6 ‡	358.0 §	325.7	328.5
Net interest payable	(47.9)	(72.9)	(84.5)	(117.7)	(119.4)
Profit for the financial year	361.5 †	334.7 ‡	273.5 §	208.0	209.1
Taxation	(115.3)	(111.0)	(20.4)	0.4	(1.2)
Deferred tax	-	-	(297.5)	(51.2)	(36.5)
Dividend	(130.0)	(138.0)	(145.0)	(135.5)	(139.1)
Exceptional dividend	(309.6)	-	(125.0)	-	-
Retained profit / (loss)	(193.4)†	85.7 ‡	(314.4)§	21.7	32.3

‡ 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

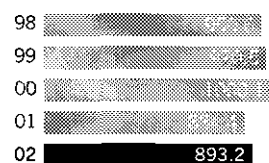
Balance sheets

	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Fixed assets	3,714.4	4,033.4	4,400.3	4,472.6	4,560.6
Net current liabilities	(645.6)	(522.2)	(660.2)	(543.4)	(371.0)
	3,068.8	3,511.2	3,740.1	3,929.2	4,189.6
Creditors: amounts falling due after more than one year	(926.8)	(1,302.4)	(1,464.6)	(1,623.0)	(1,839.5)
Provisions for liabilities, charges and deferred income	(83.0)	(64.1)	(445.2)	(454.2)	(465.8)
	2,059.0	2,144.7	1,830.3	1,852.0	1,884.3
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	1,059.0	1,144.7	830.3	852.0	884.3
	2,059.0	2,144.7	1,830.3	1,852.0	1,884.3

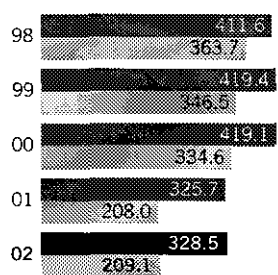
Turnover by category

	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Measured charges	302.3	328.6	336.4	317.3	316.5
Unmeasured charges	560.9	566.6	589.6	521.8	536.4
Trade effluent	43.4	40.1	38.8	29.9	24.7
Other	26.2	17.4	17.3	15.4	15.6
	932.8	952.7	982.1	884.4	893.2

Turnover – £m
(before customer rebates)



Profit – £m
(excluding exceptionals)



■ Operating Profit
▨ Profit for the financial year

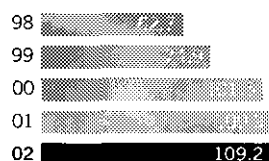
Net borrowings	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Cash at bank and in hand	0.1	0.5	0.1	0.2	0.1
Borrowings	(1,291.4)	(1,607.8)	(1,857.7)	(2,035.7)	(2,058.7)
	(1,291.3)	(1,607.3)	(1,857.6)	(2,035.5)	(2,058.6)

Key ratios	1998	1999	2000	2001	2002
Liquidity					
Current ratio (times)	0.2	0.2	0.2	0.2	0.3
Profitability					
Gross profit margin (%)	43.9	42.8	36.5	36.8	36.8
Return on capital employed (%): Historic cost	13.3	11.6	9.6	8.3	7.8
Return on fixed assets (%): Historic cost	11.0	10.1	8.1	7.3	7.2
Return on fixed assets (%): Current cost	1.4	1.3	1.5	1.2	1.2
Gearing					
Debt to equity (%)	62.7	74.9	101.5	109.9	109.2
Other					
Turnover per employee (£)	174,062	180,572	190,921	182,841	191,962
Operating profit per employee (£)	76,395	77,255	69,596	67,335	70,600

Employee numbers	1998 No.	1999 No.	2000 No.	2001 No.	2002 No.
Employee number (average)	5,359	5,276	5,144	4,837	4,653
Employee number (year end)	5,320	5,228	4,993	4,544	4,698

Gearing - %

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



Charges (2002/2003)	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Severn Trent Water	113	98	211
Average of other 9 water and sewerage companies	114	150	264
Equivalent cost per day per household			
Severn Trent Water			58 pence
Other water and sewerage companies average			72 pence
Measured water charges			
Water supply		77.07 pence/cubic metre	
Sewerage		48.20 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Severn Trent Water			£204
Average of other 9 water and sewerage companies			£245

Customer payment statistics	1998 '000	1999 '000	2000 '000	2001 '000	2002 '000
Number of customers paying by instalments	1,369	1,486	1,552	1,616	1,666
Number of summonses	101	105	114	97	97
Percentage of unmeasured customers summoned (%)	3.1	3.0	3.5	3.0	2.8

Disconnections	No.	No.	No.	No.	No.
Domestic	323	47	25	0	0
Non domestic	203	184	206	304	594
Percentage of customers disconnected (%)	0.02	0.01	0.01	0.01	0.01

Customer complaints	'000	'000	'000	'000	'000
	10	11	17*	18	21

* 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 service – £
Average annual household bill for 2002/2003



Customer contacts	1998 No. '000	1999 No. '000	2000 No. '000	2001 No. '000	2002 No. '000
By letter	758	819	919	870	948
Telephone calls	1,859	2,125	2,183	2,714	2,447
Total	2,617	2,944	3,102	3,584	3,395

Population

Water supply	7,305	7,331	7,356	7,382	7,407
Sewerage	8,200	8,225	8,250	8,270	8,290

Billed properties

Water					
Unmeasured domestic	2,500	2,452	2,400	2,365	2,365
Unmeasured non-domestic	40	25	18	14	14
Sub-total	2,540	2,477	2,418	2,379	2,379
Measured domestic	365	433	505	560	602
Measured non-domestic	180	196	204	208	209
Sub-total	545	629	709	768	811
Total	3,085	3,106	3,127	3,147	3,190
Sewerage	3,446	3,474	3,495	3,520	3,563

New connections during year

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

Levels of service

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

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

	1998 %	1999 %	2000 %	2001 %	2002 %
(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	99.83	99.86	99.86	99.86	99.92
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.96	99.91	99.96	99.80	99.62(1)
Note 1 99.95% excluding single event at Telford.					
(DG4) Water usage restrictions Percentage of properties not affected by:					
Ban on hosepipes	100.00	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	99.96	99.97	99.97	99.98
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 5 days	96.3	99.2	99.6	99.1	99.2
Under 10 days	98.9	99.7	100.0	99.9	99.9
Under 20 days	99.9	99.9	100.0	100.0	100.0
Over 20 days	0.1	0.1	0.0	0.0	0.0

In 2001/2002 there were 2.8 million customer contacts. The company's performance in 2001/2002, based on Ofwat's 2000/2001 criteria, would meet the 'Good' category.

(DG7) Response to written complaints

Response time for replies to written complaints

Under 5 days	84.5	95.2	98.7	88.5	90.1
Under 10 days	98.8	99.7	99.9	99.1	99.5
Under 20 days	100.0	100.0	100.0	99.8	99.9
Over 20 days	0.0	0.0	0.0	0.2	0.1

The number of customer complaints received in 2001/2002 has increased marginally from those received in 2000/2001. The company's performance in 2001/2002, based on Ofwat's 2000/2001 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.

	1998 %	1999 %	2000 %	2001 %	2002 %
Company read	97.7	98.3	98.3	95.10	96.9
Customer read	1.8	1.4	1.2	1.57	1.4
Total read and billed in year	99.5	99.7	99.5	96.67	98.3

The company's performance in 2001/2002, based on Ofwat's 2000/2001 criteria, would meet the 'Acceptable' category.

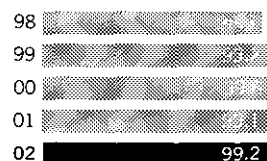
(DG9) Telephone contacts

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

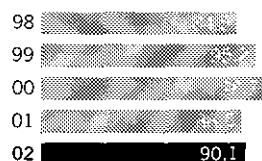
Under 15 seconds	82.0	82.4	82.2	85.7	86.1
Under 30 seconds	91.1	91.0	90.6	92.0	92.9
Over 30 seconds	8.9	9.0	9.4	8.0	7.1
Average response times (seconds)	10.2	9.8	9.9	10.4	7.5

Guaranteed standards scheme	1998	1999	2000	2001	2002
Complaints answered within the guaranteed standards scheme time period	99.8%	99.9%	100.0%	99.1%	99.5%
Number of claims automatically accepted for guaranteed standard payments	2,713	4,699	4,130	2,996	2,408

Response to billing queries within 5 days - %



Response to written complaints queries within 5 days - %



Rainfall

1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

Severn Trent region – area rainfall

Severn Trent region

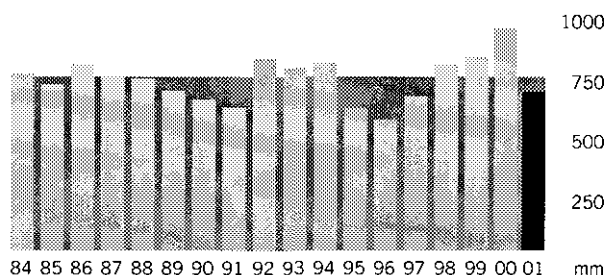
– Rainfall (mm)	777	741	814	769	759	718	683	639	842	792	814	631	579	684	815	849	931	729
– % long-term average	99	96	105	99	98	93	88	83	110	102	105	81	75	88	108	113	123	97

Severn basin

– Rainfall (mm)	842	813	856	805	811	777	732	702	872	797	844	674	624	716	857	931	1,013	761
– % long-term average	102	98	103	97	98	94	88	87	108	99	104	83	76	87	108	117	127	96

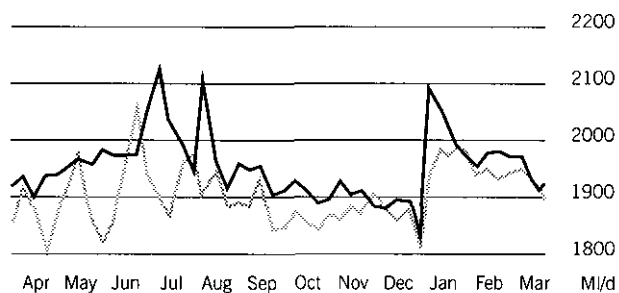
Trent basin

– Rainfall (mm)	715	685	790	747	723	676	647	576	808	781	785	585	540	661	783	777	861	706
– % long-term average	97	93	103	101	98	92	88	78	110	106	107	80	73	90	109	108	120	93



Area rainfall

Actual
Long-term average



Average weekly water demand

(comparison between last year's demand and previous year)

..... 2000/2001 ——— 2001/2002

Demand

Analysis of water supply sources	1998 Ml/d	1999 Ml/d	2000 Ml/d	2001 Ml/d	2002 Ml/d
Reservoirs	537	510	517	501	527
River intakes	650	692	727	733	734
Groundwater	719	651	618	619	593
Total production	1,906	1,853	1,862	1,853	1,854
Treated water imports	20	24	23	22	23
Treated water exports	(8)	(8)	(7)	(7)	(7)
Total water into supply	1,918	1,869	1,878	1,868	1,870

Water demand	1998 Ml/d	1999 Ml/d	2000 Ml/d	2001 Ml/d	2002 Ml/d
Household demand	1,108	1,117	1,132	1,132	1,143
Non-household demand	524	515	491	480	471
Water delivered to billed customers	1,632	1,632	1,623	1,612	1,614
Total water into supply	1,918	1,869	1,878	1,868	1,870
Company unaccounted for water	280	229	225	226	225

Operational statistics	1998	1999	2000	2001	2002
Number of repairs carried out on mains pipes	6,025	6,792	7,033	7,022	6,902
Average time taken to repair bursts on mains pipes (days)	0.37	0.36	0.32	0.45	0.35
Number of repairs carried out on communication pipes	14,415	15,629	13,769	11,530	13,736
Average time taken to repair bursts on communication pipes (days)	0.14	0.13	0.14	0.16	0.15
Number of repairs carried out on customers supply pipes	10,942	12,030	12,560	10,472	8,100
Number of calls to 'Leakline' service (service commenced December 1995, ceased March 1999)	27,788	35,642	N/a	N/a	N/a
Number of calls to 'Operational helpline' service (service commenced April 1999)	N/a	N/a	487,096	539,026	605,466

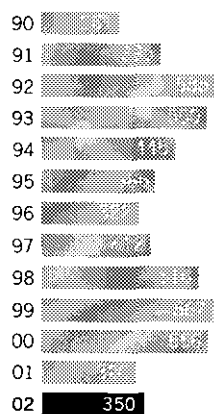
Investment

Investment expenditure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54	27	40
Distribution	74	97	161	137	107	104	97	141	160	152	170	85	93
Sewerage	47	67	108	90	76	73	45	57	68	88	75	51	69
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162	89	79
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14	18	6	14
Other	10	9	11	7	3	3	23	29	54	80	76	61	54
	261	395	585	550	445	386	322	412	516	567	556	320	350
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545	246	264
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11	74	86
	261	395	585	550	445	386	322	412	516	567	556	320	350
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	5,665

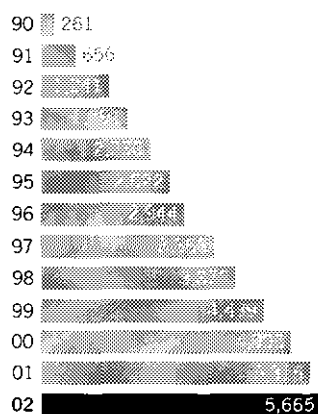
Physical outputs

	1998	1999	2000	2001	2002
Mains – added (Km)	148	48	42	111	103
– renewals (Km)	714	807	1,010	140	143
– relined (Km)	81	4	160	270	316
– number of communication pipes replaced	40,848	54,118	54,088	13,706	11,927
Sewers – added (Krn)	242	724	410	147	354
– improved (Km)	6	2	4	0	10
Approximate number of properties where problems of poor pressure alleviated by investment	8,300	4,000	5	2,920	1,156
Number of properties where risk of flooding from sewers has been removed	450	638	591	119	282

Investment – £m
Annual investment expenditure since privatisation



Investment – £m
Cumulative investment expenditure since privatisation



Major operational schemes carried out during year	2002 Total £m	Operational assets	2002 No.
Meriden to Highters Heath link main	12.8	Impounding reservoirs	32
Derby sewage treatment works reconstruction phase 1	5.1	Groundwater sources	203
Derby sewage treatment works replacement of pumping station	3.5	River water intakes	16
Lillington foul and surface water flood alleviation	3.4	Surface water treatment works	20
Derby sewage treatment works reconstruction phase 2	3.1	Water supply booster stations	569
Droitwich river quality improvements	2.4	Service reservoirs sites	534
Chalford Cryptosporidium plant	2.1	Mains (Km)	45,674
Minworth sludge dewatering works	2.1	Sewers (Km)	53,659
Bamford to Hallgates network refurbishments	2.0	Sewage treatment works	1,016
Brockhursts enhanced water treatment plant	1.9	Sewage pumping stations	653
		Sewerage pumping stations	2,290
		Sludge treatment facilities	56

Quality

Water supply	1997	1998	1999	2000	2001
Overall quality of drinking water					
Number of determinations	280,000	263,174	260,282	231,111	237,907
% compliance with standards	99.9%	99.9%	99.9%	99.9%	99.9%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of determinations	45,094	41,160	39,292	31,142	29,102
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of determinations	68,094	66,628	64,468	62,482	62,648
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of determinations	41,466	41,816	41,542	40,056	39,890
% compliance with standards	99.8%	99.8%	99.8%	99.8%	99.8%

Notes:

Information on quality is based on calendar year in accordance with current Drinking Water Regulations. Percent compliance with standards as detailed in the Water Supply (Water Quality) regulations.

Sewage treatment quality

Overall compliance with standards	1998	1999	2000	2001	2002
Total number of sewage treatment works	1,007	1,004	999	1,001	1,016
Number of sewage treatment works failing consents	21	19	7	19	16
Number of prosecutions by Environment Agency (EA) resulting in convictions					
Discharge from sewerage system	1	2	0	0	0
Sewage treatment works	0	0	1	1	0
Water treatment works	0	0	0	0	0
Other	0	0	0	0	0
Compliance of numerically consented work					
Number of works with numeric consents	719	731	745	685	694
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.4%	99.6%	99.6%	99.3%	99.45%
By works	100.0% ²	99.9% ²	99.9%	99.6%	100.00%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.7%	99.8%	99.9%	99.9%	99.96%
By works	96.5%	99.4%	99.3%	99.7%	98.44%
Compliance with non-sanitary standards					
By tests to measure quality	92.2% ¹	97.2% ¹	99.4%	99.4%	99.72%
By works	71.4%	77.0%	91.7%	87.7%	82.89%

Notes

¹ Most failures relate to works which experience problems with colour derived from dye works.

² This excludes one small works where the consent is subject to appeal with the EA.

Sewage

Sludge disposal	1998 tds	1999 tds	2000 tds	2001 tds	2002 tds
Farmland	82,500	85,800	96,900	66,500	76,600
Landfill	24,700	28,000	23,800	14,800	3,200
Incineration	24,900	22,800	30,200	20,700	27,200
Sea	0	0	0	0	0
Other	26,200	38,600	7,900	45,800	55,200
Total	158,300	175,200	158,800	147,800	162,200

tds = tonnes dry solids

Methods of sludge disposal - %



Community education

Education centres

Community Education has continued to build on the work and reputation of our visitor and education centres, at the same time developing closer links with the other customer facing departments in the company. The consistency of our commitment to working with schools enables us to form partnerships with Local Education Authorities and other Non Government Organisations for the delivery of safety, conservation and environmental messages for young people. We have hosted several 'Safety Zone' events at our sites this year where pupils are confronted with potentially hazardous situations by the police, the ambulance service, the fire brigade and others concerned with improving children's awareness and understanding of danger. Our technology challenge this year was to build a water powered car and the winning schools demonstrated their devices to Severn Trent Water managers at our Cropston Centre.

We have worked closely with the Sea life centre in Birmingham to create an 'Otter Academy' where visitors will be able to investigate how the company has contributed to the reintroduction of the otter to Midlands rivers. Climate change is increasingly important to all our customers and we have organised two conferences on the subject for sixth formers and are currently developing some teaching resources for Key Stage two pupils.

We have reduced the number of large events that we attended, focusing on those where the water conservation message would be most relevant, nevertheless the 49 events we went to had a total estimated attendance of more than 410,000. 'Lifting the Lid' is our campaign to promote the improvements in health associated with improved sanitation. The campaign was launched at a public event in Leicestershire that attracted 3,500 people and will continue around Midland towns and cities throughout the summer. Finally our Carsington centre in Derbyshire is hoping to achieve Eco-Centre status in the near future at the same time supporting two local schools to reach their own Eco-School Awards.

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.	2002 No.
Visitors to Severn Trent sites				
Number of pupils visits	31,604	31,067	30,210	29,973
Number of adult/teacher visits	15,805	12,471	8,237	8,230
Talks given at non Severn Trent sites				
Number of pupils	18,835	8,502	10,460	8,195
Number of adults	3,748	4,256	2,597	2,555

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.severntrent.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 51

Raynesway

Derby DE21 7JA

Severn Trent Water Limited

Staverton Depot

Staverton Airport

Cheltenham Road East

Gloucester GL2 9QY

Severn Trent Water Limited

Leicester Water Centre

Gorse Hill

Anstey

Leicester LE7 7GU

Severn Trent Water Limited

Hucknall Road

Nottingham NG5 1FH

Severn Trent Water Limited

Shelton

Shrewsbury SY3 8BJ

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