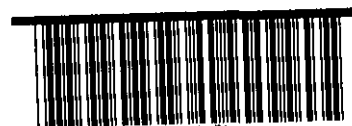


Making the difference

Annual Report and Accounts 2003

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COMPANIES HOUSE 06/08/03



Your water. *Safe in our hands.*

The foundation of our business success in Severn Trent Water is that we care; we care about our customers, our colleagues, our company and our communities.

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Managing Director's review

Brian Duckworth | Managing Director

This year we have continued to make progress with the two key objectives set out in last year's review. The first was to meet and beat the challenges of the 1999 price determination set by Ofwat, our Economic Regulator; the second was to encourage improvements to the Regulatory Framework within which the company operates. To these two we have added a third; to ensure that the next price determination, to be completed in 2004, secures the necessary resources and investment to enable long-term sustained service delivery to our customers.

Against the first challenge, we have again achieved or exceeded all the financial, quality and customer service targets set by Ofwat in 1999. 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. Performance on customer contact, low water pressure and supply interruption are also all at their best ever.

Last year I stated that improvements to the water industry's Regulatory Framework were necessary to enhance investors' confidence and ensure the sustained investment this industry needs. We are pleased that Government and Regulators are listening and that certain positive steps have already been taken. The company's operating licence, which was due to revert to only a 10 year

rolling commitment from 2003, has now been extended to a 25 year rolling commitment, giving greater certainty to lenders of long-term funds.

In addition, the Government has published a long-term vision for the Industry to provide an overall context within which the price review can be judged.

In addition, Ofwat has made a public commitment to adhere to the principles of the Better Regulation Task Force and has taken a number of practical steps in that direction. All this is doing much to improve investors' confidence which is beginning to recover from the damage done by the 1999 price review. However, that confidence will remain fragile until any new Regulatory approaches are positively tested through the rigours of the 2004 review.

Our preparation for the 2004 review starts from the continuing proposition that customers should be at the heart of our business; we exist solely to provide services to them and it is they who pay for everything we do.

Our customers require total assurance on drinking water safety which they generally judge by its taste, colour and odour. Through regular programmes of market research, they tell us they value a greater dependability in these services and it is our challenge to meet our customers' expectations.

Financial highlights	2003	2002
Turnover (£m)	905	893
Operating costs (£m)	(591)	(566)
Profit before interest (£m)	314	328
Profit before tax (£m)	198	209
Gearing (%)(debt/equity)	116	109
Investment (£m)	425	350

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

Our customers do value the environment and we have made enormous improvements to the Midlands environment since privatisation in 1989. There is now, however, a long list of new environmental standards which will affect the water industry. These are largely being driven by European Directives, many of which may be invisible or of little interest to our customers, who will ultimately be asked to pay for them. It is important that such new standards deliver clear benefits; otherwise they could displace the resources needed to maintain the advances in quality and resilience already made, or the customer priorities referred to above.

We are a long-term industry and our customers' long-term interests will only be served if we sustain all our stakeholders' confidence. In particular we never fail to recognise the contributions of our employees and suppliers who deliver the services and our investors who finance them. In all our planning to meet our customers'

short-term needs it is therefore important that we do not prejudice their long-term interests by putting unsustainable pressures on these other stakeholders.

In our preparation for the 2004 price review, we are looking to Ofwat to set realistic efficiency targets that do not damage our future capability to deliver a service which twenty-first century customers require. We are also looking for fair returns and confidence-building measures which will allow investors to sustain continuing investment finance. Investment is not only required for the immediate demands to 2010 but also beyond that date for future challenges such as the EU Water Framework Directive; long-term climate change impacts as well as the continued maintenance of our infrastructure will also require new finance. There is still much to do and a long-term balance is essential between all stakeholders.

Severn Trent Water provides a fundamental infrastructure to protect the health and well-being of millions of homes and businesses across the Midlands. This requires that our infrastructure is well maintained and fit for purpose. Good progress continues but much will depend on how our plans for the future are received by Government, Regulators and our other stakeholders.

Caring for our company

Severn Trent Water achieved its second internationally recognised five star award from the British Safety Council (BSC) for health and safety standards. Following an award for the Melbourne (Leicestershire) works, the water treatment works in Shrewsbury received a similar award this year. Severn Trent Water is the first water company to receive two five star awards.

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

Financial review

The financial statements on pages 19 to 34 report both the company and consolidated results of the Severn Trent Water Limited group of companies.

The group report provides a complete view of activities, as certain financing arrangements for the benefit of the group 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 1.3% to £905.0 million (2002: £893.2 million). There were no changes in prices and the growth arose from improvements in meter reading and other income initiatives recovering the volume reduction seen in the previous year. However, we continue to experience some underlying reduction in consumption by our industrial customers.

Operating profits reduced by £13.6 million to £314.0 million (2002: £327.6 million). Profit on ordinary activities before taxation was £198.0 million (2002: £209.1 million).

Operating costs (before depreciation) were £372.6 million, an increase of £14.3 million (2002: £358.3 million). Cost savings of £14.4 million were achieved through further productivity improvements and supply chain efficiencies throughout the company. However, these savings were largely offset by additional operating costs of £13.0 million to meet new quality obligations, the impact of the climate change levy, increased rates bills and other unavoidable costs.

Depreciation, including infrastructure renewals expenditure, increased by £10.7 million to £221.4 million (2002: £210.7 million). This increase reflects the continued effect of the high level of investment.

Capital expenditure in the year was £425.5 million (2002: £350.4 million). This increase reflected the profile of investment expected in the third year of our 5 year programme 2000 to 2005. Expenditure is expected to increase further in the current year. The new programme management and contract delivery strategy continues to secure timely and efficient delivery.

Total group borrowing at 31 March 2003 amounted to £2,174.7 million (2002: £2,058.6 million). Of this 68.1% (2002: 71.7%) was represented by fixed interest borrowings and 68.4% (2002: 70.5%) was represented by amount payable after 5 years. Net interest payable fell by £0.5 million to £118.9 million, reflecting the current level of interest rates.

During the year the company was granted an Interim Determination of prices by Ofwat. This was to recover the costs of certain new obligations not included in the price review of 1999. The Interim Determination amended the amount of allowable real price increases to customer bills - from 0% to 2.1% in 2003/4 and from 1% to 2.2% in 2004/5.

Financial highlights

Turnover – £m (before customer rebates)	Profit before tax – £m (before exceptional items)	Investment – £m
99 971	99 347	99 567
00 1000	00 335	00 556
01 884	01 208	01 320
02 893	02 209	02 350
03 905	03 198	03 425

Caring for our colleagues

The injuries caused through poor lifting and handling can be a source of real misery and can have a significant impact on the business. Based on solid research, a revolutionary approach has been taken to the avoidance and management of lifting related injuries. As part of this approach a completely new way of training people to lift in real life situations has been developed.

For the fifth consecutive year we have achieved the extremely high level of 99.9% compliance with drinking water standards.

Water quality

Our absolute focus continues to be the vital task of public health protection through the provision of clean and safe drinking water. For the fifth 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 are independently reviewed by the Government's Drinking Water Inspectorate (DWI).

The relatively small number of test failures that did occur in the year were minor in nature and not of significance to 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.

We are on target to deliver our commitment to rehabilitate a further 1,900 km of unlined iron pipe by the end of 2003. In addition, we are stepping up the amount of mains cleaning. All this work is reducing the likelihood of occasional

discoloration of water due to the disturbance of iron deposits which can sometimes be found in pipes.

Whilst customers in the Severn Trent region currently receive some of the best and safest drinking water in the world, this position can only be maintained in the future if there is a sustained programme of appropriate investment.

In defining our work programmes for the five year period 2005 to 2010, we intend to expand the maintenance and cleaning work to further reduce risk of water discoloration. In addition, there are two new areas of attention. Firstly, new investment will be required in water treatment to protect ground water supplies from rising nitrate levels caused by agricultural pollution. Secondly, we are proposing improvement at treatment works and in the distribution system to improve the taste and odour of supplies. We are presently discussing this proposal with the DWI.

Maintaining quality

Severn Trent Water has consistently achieved 99.9% compliance with water quality standards since 1997.

Water supply

Despite a particularly dry spring, the company remains in a secure position to maintain supplies to customers over the coming months. We continue our policy of prudent water supply management, carefully husbanding our reservoirs to protect against drought. Good progress continues on the Birmingham Ground Water Scheme. By 2005 this scheme will allow rising groundwater under parts of Birmingham to be transferred via the River Tame to the East Midlands where it will supplement water resources.

The company has changed its method of assessing leakage from the distribution network for 2002/3. Before this recalibration, total leakage on the company's and customers' pipes was 335 MI/d, marginally better than last year and better than Ofwat's target.

This performance has been delivered through sustained detection and repair coupled with continued investment in new technology. Over the last 3 years we have installed 28,000 Permaiog units, semi permanent logging devices to detect leaks. This is the largest deployment of these devices in the UK and indeed worldwide.

In addition we are also leading in the deployment of automatic meter reading devices which use GPM telephones to send real time text messages of unusual water flows. This technology enables us to identify and repair leaks faster.

Leakage reporting is a complex process of assessments which includes a large number of assumptions. However, it is important that

companies strive to improve their assessments as they are central to future water resource planning, demand management and investment prioritisation. Accordingly, over the last few years, the company has invested in detailed re-analysis of the complex sub-elements that build leakage estimation.

Based on this new and improved information the recalibrated leakage is 549 MI/d for 2002/3.

There are three important issues that arise from this calibration. Firstly, the amount of water used inside the homes of our unmeasured customers in the Severn Trent region has been re-assessed as lower than previously estimated; per capita consumption is significantly lower than that estimated by other water companies in England and Wales. Secondly, the amount of water lost by leakage from customers' pipes (customers are currently responsible for all pipework on their properties) is much greater than previously estimated. This indicates that this part of the supply network is significantly degrading through lack of systematic maintenance. We believe that public policy will need to address this in due course. Thirdly, our new leakage calculation provides better information to prioritise future investment and maintenance activity on the company's network.

We believe that our new data on leakage, which is based on good science and up-to-date information, will promote constructive debate on investment policy and better planning for the future.

Stepping up the battle against leakage

Severn Trent Water is turning to text technology as it steps up its battle against leakage, with a £2.6 million scheme to install hi tech telecoms monitoring onto its 46,000 kilometre long pipe network.

The units will sit on the company's 4,500 meters which monitor the water flow through the network and will send daily text messages to a central computer flagging up any likely leaks on the system.

A truly sustainable company looks beyond compliance with narrow regulatory requirements.

Caring for the environment

As a major environmental services business, providing vital public health services to 8 million people across the Midlands, we continue to strive to make sustainability a key part of our culture and corporate values. Our policy goal is to help ensure a sustainable environment for all the communities we serve. We do this by making environmental protection an integral part of our business processes and links with our customers and our suppliers.

During the year, we have maintained an excellent performance in terms of compliance, with virtually 100% of our sewage treatment works meeting their sanitary discharge consent requirements; and all works meet the requirements of the Urban Wastewater Treatment Directive. This sustained performance has been crucial to achieving the massive 47% improvement in river quality since 1990, as reported by the Environment Agency (EA). Moreover, the health of the Midlands' river system is visibly reinforced by the dramatic return of both the otter and salmon across large areas of our waterways.

The third year of our 5 year investment programme to 2005 has seen the delivery of a substantial number of improvement schemes at sewage treatment works. Currently the largest scheme in progress is the reconstruction of Derby sewage treatment works to meet tighter EA consent standards and reduce the impact of the works on the local community. It will be completed this summer.

We are on course to deliver all the new quality outputs agreed with Regulators for the period up to 2005, which, following the use of Change Control Procedures set up by DEFRA, now include improvements at some 330 sewage works and 336 sewer overflows. This investment will not only help to secure the environmental gains we have already made, but we will make further improvements to those rivers which still do not achieve their long-term quality targets.

However, environmental improvement on this scale is also energy intensive. Whilst working on making our plant and equipment as energy-efficient as possible, we also continue to increase the amount of energy we generate from renewable sources; namely the combustion of methane gas from sewage sludge. Production from the current 9 sites which generate electricity in this way has increased by 15% over last year; we are now producing over 9% of the electricity needs of our sewage works from our own renewable resources. This compares favourably with the Government's target of 5% of the UK's electricity demand being supplied from renewable sources by the end of 2003.

The Government's new renewable energy incentives have also made additional schemes economical as well as environmentally attractive. We are now seeking to double our generating capacity by 2006.

There have been substantial changes in practices for recycling sewage sludge to agricultural land during the year. New legislation on sludge

treatment is anticipated during 2003 as well as additional requirements on sludge digester monitoring. In addition, the Government has introduced new Regulations on Nitrate Vulnerable Zones (NVZ) in agriculture which came into effect in December 2002. The impact of the new NVZ requirements has been a substantial reduction in the quantity of sludge we can recycle to agricultural land. There has been a substantial cost impact from the NVZ regulations which, unfortunately, was not accepted by Ofwat for last year's otherwise successful application for an Interim Determination of prices.

A truly sustainable company looks beyond compliance with narrow regulatory requirements. Our published five year plan for sustainable development sets targets across the whole business in areas such as water resources, leakage, climate change, transport, energy, materials management, chemical usage and biodiversity. Each year we publicly report progress against these targets so that our environmental commitment is transparent and accountable.

Looking ahead, there is a significant amount of new legislation which derives from Europe and which may lead to a major environmental programme for the period 2005 to 2010. In addition, the progressive implementation of the new EU Water Framework Directive will demand a fundamentally new approach to the way we think about and manage water, particularly its interaction with land. It is essential that all this work delivers real visible benefits, commensurate with the cost of deployment and Government will need to make clear decisions in this area.

Giving otters a bit of a lift

Britain's first otter ladder was constructed this year to help otters take shortcuts and avoid getting into difficulties. The special ladder has been put up to help otters to navigate their way round dam walls and reduce the need for them to cross potentially hazardous roads.

We have delivered 846 permanent solutions to properties at risk of flooding in the first 3 years of the review period, against a Regulatory target of 525.

Sewer flooding

Apart from the continued demand for safe and dependable water supplies, our customers 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 decreased from 514 (in 2001/2) to 328 (in 2002/3). To help alleviate the situation, the company continues to deploy a number of low cost interim flood relief measures and we have made greater use of new weather forecasting information to alert customers whose properties we believe to be at risk from flash storms.

We have delivered 846 solutions to properties at risk of flooding in the first 3 years of the review period, against a Regulatory target of 525. We were also pleased to have successfully agreed an increase in investment in this area as a result of the Interim Determination. This will increase the number of solutions to be delivered by 2005.

All this helps, but we continue to be concerned that nineteenth century sewers will not be able to cope with the twenty-first century storm conditions predicted by the Meteorological Office's Hadley Centre. An urgent start is therefore needed to replace many undersized sewers.

Customer services for domestic customers

Beyond the key service delivery of reliable and safe water supplies and avoidance of sewer flooding, our customers value helpful and efficient ways to contact us and have their problems resolved. We are pleased that we achieved our best ever performance against the customer related Ofwat performance standards of DG 6,7,8 and 9.

In practical terms this means that we have answered customers' telephone calls more quickly, dealt with their enquiries and complaints faster and read more meters than ever before. Independent benchmarking (NOP National Survey) of our service delivery, carried out throughout the year, has demonstrated that our customer contact delivery is rated as good as or better than, other water companies, utilities and banks.

Our customer base has an increasing age and diversity. In particular we know that many of our customers with mobility or communication difficulties need special attention. As a result we have completely revised and extended the provision of special services. They now comprise large print and Braille bills, spoken bills, textphone, personal security passwords, nominated agents, written and spoken translation services.

Customer contacts

99.96% of billing contacts, either by letter or telephone, are responded to within 5 working days.

Caring for our customers

Severn Trent Water's touring beach bar is helping people to re-discover the health benefits of good old-fashioned tap water, one of the best quality drinking waters in the UK and the world and great value-for-money. Drinking the recommended two litres of tap water a day costs just 60 pence per year, against around £550 for bottled water.

Continually meeting customers' expectations is the only way to ensure we provide the highest standards of customer care.

Industrial and commercial sales

The environment in which we operate is ever changing and so we are constantly improving and adapting in order to meet the needs of our business customers. Whether an existing or new customer, we are continually seeking new and innovative ways to raise the value and service we provide, throughout the UK.

Continually meeting customers' expectations is the only way to ensure we provide the highest standards of customer care. This is shown by the successes experienced during the past 12 months. International, high profile companies such as BMW Group and Cadbury have seen the benefits of working alongside us and deploying our extensive product portfolio.

Our commitment to help business customers reduce their water consumption continues with a significant number of customers using our Leak Locator and Data Monitor services. We are working closely with PZ Cussons in Nottingham on initiatives covering leakage detection and repair. Customers such as Thomtons, The University of Nottingham, Staffordshire General Hospital and Mayflower Vehicle Systems have all seen the advantages of using Data Monitor to obtain regular, remote access to their water, energy and trade effluent data.

We have continued to add to our capabilities to meet the needs of our business customers, particularly with regard to present and future pressures of legislative matters. For example, we have launched 'Waste Guardian', a total package of solutions designed to help companies address certain aspects of Integrated Plant Pollution and Control regulations and improve their water usage and wastewater control.

Competition

The Government introduced the Water Bill into Parliament in February this year and when it becomes law, the Bill is likely to impact Severn Trent Water in a number of areas.

The Bill proposes alterations to the abstraction licensing regime, the implementation of major changes to the regulatory framework and it is also expected to extend competition in the water industry. We were pleased to have been able to make significant input to the Government's wide consultation in advance of the Bill.

Waste Guardian

Our recently launched Waste Guardian service examines areas such as waste minimisation, emissions and legislative compliance and helps customers to identify inefficiencies within their operations.

Commercial teamwork

We have been working in partnership with Manor Bakeries, manufacturers of the Mr Kipling product range, on a waste minimisation programme, helping them to drive down costs and demonstrate greater environmental responsibility.

The continuing drive for efficiency and effectiveness in all that we do requires motivated and well-trained colleagues.

Our people

Successful delivery and the out-performance against our financial, quality and customer services targets could not happen without our people's sustained hard work and commitment. I would like to sincerely thank them for their continued support.

The continuing drive for efficiency and effectiveness in all that we do requires motivated and well-trained colleagues. We continue to offer competitive training and skill enhancement at all levels in the company.

In recognising the value of our employees, we continue to develop competitive reward and benefits packages. This year we also implemented a Flexible Benefits plan called "Lifestyle" for all our people. This offers different benefit choices ranging from personal computers to healthcare insurance.

Our new Partnership arrangements with Trades Unions and employee representatives have proved highly successful. Our Partnership model has been highly commended by the TUC Partnership Institute and highest levels in Government.

Employee volunteering is a strong component of our Community Affairs Programme and we are active members of Business in the Community. By giving employee time and expertise to our partnership charities, we invest in those communities that are local to our centres of business. As well as communities and the company benefiting, teams and individuals gain enormously. We see team working is enhanced, with better individual working relationships and strengthened leadership skills and a real sense of personal satisfaction.

Looking forward

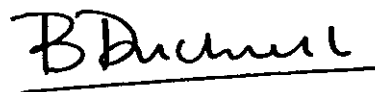
Having delivered all our regulatory, financial, environmental and customer service targets for this year we have created an excellent platform from which to look forward.

We have also successfully agreed an amendment to our prices for the years 2003/4 and 2004/5 to offset some of the new cost pressures that have arisen as a result of recent legislative changes. We are particularly pleased that good progress is still being made to develop a new consensus between Government, Regulators, water companies and other opinion formers about the future sustainability of this Industry. Some important initial practical steps have been taken to enhance investor confidence.

A sound platform is necessary as there is still much to do and many challenges to overcome. Our customers rightly demand an ever increasing standard of water quality and dependability of supplies. There is still a significant stream of environmental legislation deriving from the European Union which must be addressed; and climate change is challenging the sewerage infrastructure. In addition our substantial infrastructure requires sustained maintenance.

All this requires finance but investors must have confidence they will earn reasonable returns. This will be one of our key challenges when we debate with Ofwat our business plan for the period 2005 to 2010.

However, I am confident we can overcome these challenges so that our customers have the services they need at a fair price. Our commitment to our customers remains: their water services and their health and well-being are "safe in our hands".



Brian Duckworth – Managing Director

Caring for our communities

New playground equipment has been installed at Tittesworth Reservoir, enhancing our wide range of activities for children of all ages.

The Directors present their report, together with the audited financial statements for the year ended 31 March 2003.

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 £905.0 million (2002: £893.2 million), and operating profit was £314.0 million (2002: £327.6 million). Profit on ordinary activities before taxation was £198.0 million (2002: £209.1 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/reports2003.

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 changes. Consistent with this policy, the dividend declared by the company in 2003 amounted to £141.9 million (2002: £139.1 million).

Proposed transfers from 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	Resigned 31 December 2002
P A Stephenson	Appointed 18 July 2002
S Stubbs	Appointed 16 September 2002
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 24.

None of the Directors retains any notifiable interest in the shares of the company or any other group company as at 31 March 2003.

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 33 days (2002: 36 days) after the invoice date.

Research and development

Expenditure on research and development was £4.6 million including £1.0 million spent on fixed assets, compared to £4.4 million in 2002, (including £1.3m on fixed assets).

The company has aligned its research and development activities to the likely requirements of AMP4 and in particular to the forthcoming standards that relate to nutrient removal from sewage sludge, to the control of odour at sewage treatment works and the efficiency of the anaerobic digestion process.

Appropriate opportunities continue to be explored for membrane technologies in both wastewater and potable water treatment applications. Sustainability remains a key theme, not least through participation in the DTI's Sustainable Water Management programme. Participation also continues in grant-aided consortia projects and with academic and research organisations.

This year considerable effort has been put into commissioning schemes to remove heavy metals from drinking water using the Sorb 33 process. The schemes are progressing well and the Sorb 33 media is performing exactly as earlier research had indicated.

Rising levels of natural organic matter in raw waters are increasing the drinking water treatment challenge and the company is both optimising existing treatment technologies and evaluating new treatment technologies to remove these compounds cost effectively.

Research continues into the fate of persistent organic pollutants with Endocrine Disrupting chemicals, pharmaceuticals and personal care products featuring particularly.

Work is continuing to examine ways in which we can treat wastewater to produce less sludge, and of treating the sludge better to meet future regulatory demands.

Employees

The average number of employees during the year was 4,724. (2002: 4,653).

During the last 12 months, we have sustained a very robust performance in our people management practices including new working practices such as working from home to support the field-working programme for maintenance and customer support activities.

We have pro-actively reviewed and improved our family friendly and work life balance policies, these benefits continue to be over and above employment legislation requirements.

We continue to benchmark our pay and benefits to ensure our position is competitive and yet affordable. In order to make this more attractive to employees we introduced 'Lifestyle' our Flexible Benefits plan to all employees, offering a dozen different benefit choices ranging from holiday insurance to Personal Computer purchases.

The continuing drive for efficiency and effectiveness in all that we do, and our reliance upon the motivation and commitment of our staff, places a heavy responsibility on our first line managers. In the past year we have introduced an ambitious programme to develop their skills and capabilities with over 200 managers having completed or about to complete the programmes.

We have extended the use of our performance management appraisal process this year, which ensures that employees receive a regular review of their behaviour and contribution to the business, gain feedback on their performance, discuss their aspirations and plan their development.

Our succession planning process covers over 1,000 people in the business. Through this process, we create opportunities to grow and develop the talent in our business, and ensure we have potential successors identified to fill all key roles across the organisation. This year's recruitment campaigns for graduates and apprentices have been very successful, resulting in some 30 appointments.

Our new partnership arrangements with trades unions and employee representatives which we announced last year have proved highly successful, with an increasing number of managers and employees involved in regular, active dialogue on business policy and learning and development support, at departmental level. Our partnership model has been commended at the highest levels in Government and by the TUC Partnership Institute. We have continued to invest in creating the right environment with our trade union partners through extensive training for employee representatives involved in managing change at departmental level.

At the Group level, we continue to actively participate in the European Works Council through representation for our managers and trade union partners.

An active programme of internal communications keeps employees informed through established channels including monthly Team Talk, our internal intranet and NewStream our in-house award winning magazine. The new Company Value and Business Goals have been launched this year and communicated widely to employees.

Quest our annual employee opinion survey continues to show an improvement in the overall mean score with significant gains in most departments in recognition of improvements to make Severn Trent Water a great place to work.

Opportunities for Disabled persons

We continue to conduct an annual employee disability audit. Our occupational health programme provides regular health screening and workplace assessments for some 700 employees each year.

A new Diversity strategy and action plan has been agreed by the Executive and communicated. This has resulted in the introduction of a new Diversity Policy and the establishment of a Director and Business led Equality and Diversity Forum. The Forum will have responsibility for overseeing the implementation of the new strategy and provide leadership and best practice guidance to the business on equality and diversity issues.

The new centralised Recruitment team have run two recruitment fairs this year in Customer Relations aimed at attracting disabled candidates. Specific recruitment campaigns are regularly profiled with local organisations, which promote awareness and recruitment of disabled candidates.

We continue to ensure that the products and services provided to all customers comply with the requirements of the Disability Discrimination Acts. We have expanded our individual needs customer database to approximately 17,000 people currently registered for our 'Access' services. The Access team provide individual services for customers with specific requirements, including Braille bills, special services for dialysis patients, password schemes and bill reading services for customers with sight impairments.

Regulation: 'Ring Fencing'

In accordance with the requirements of the Director General of Water Services, the Board confirmed that as at 31 March 2003 it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made.

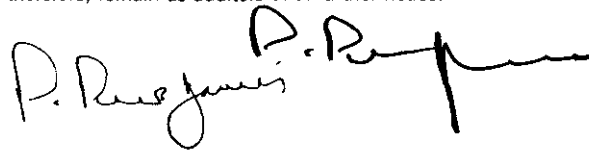
Regulation: 'Cross Directorships'

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

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will, therefore, remain as auditors until further notice.



By Order of the Board
P P Davies
Company Secretary
7 July 2003

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 company and group 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 and the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all United Kingdom Accounting Standards which they consider to be applicable have been followed, any material departures being disclosed and explained in the financial statements.

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

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

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and 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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the United Kingdom Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 the information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Managing Director's review and the Directors' report.

Basis of audit opinion

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

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

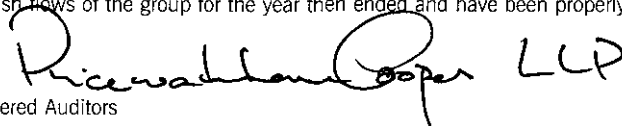
Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2003 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 LLP

Chartered Accountants and Registered Auditors

Temple Court
35 Bull Street
Birmingham B4 6JT
7 July 2003



Profit and loss accounts

Year ended 31 March 2003

	Notes	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
Turnover		905.0	893.2	905.0	893.2
Operating costs	2	(591.0)	(565.6)	(603.2)	(575.5)
Operating profit		314.0	327.6	301.8	317.7
Other income		2.9	0.9	2.9	0.9
Profit before interest and taxation		316.9	328.5	304.7	318.6
Net interest payable	4	(118.9)	(119.4)	(105.2)	(104.1)
Profit on ordinary activities before taxation		198.0	209.1	199.5	214.5
Taxation on profit on ordinary activities					
current tax	5	(8.8)	(1.2)	(9.9)	(2.3)
deferred tax	5	(55.4)	(36.5)	(55.4)	(36.5)
Taxation	5	(64.2)	(37.7)	(65.3)	(38.8)
Profit for the financial year		133.8	171.4	134.2	175.7
Dividends	6	(141.9)	(139.1)	(141.9)	(139.1)
Retained (loss) / profit for the financial year	15	(8.1)	32.3	(7.7)	36.6

All activities are continuing activities

Statement of total recognised gains and losses

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

Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Opening shareholders' funds	1,884.3	1,852.0	2,118.0	2,081.4
Profit for the financial year	133.8	171.4	134.2	175.7
Dividends	(141.9)	(139.1)	(141.9)	(139.1)
Net (reduction in) / addition to shareholders' funds	(8.1)	32.3	(7.7)	36.6
Closing shareholders' funds	1,876.2	1,884.3	2,110.3	2,118.0

Balance sheets

As at 31 March 2003

	Notes	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
Fixed assets					
Tangible assets	7	4,702.2	4,534.2	4,700.2	4,532.2
Investments	8	0.6	0.6	67.3	67.3
		4,702.8	4,534.8	4,767.5	4,599.5
Current assets					
Stocks		3.5	3.4	3.5	3.4
Debtors	9	164.5	155.2	175.8	163.1
Cash at bank and in hand		0.1	0.1	0.1	0.1
		168.1	158.7	179.4	166.6
Creditors: amounts falling due within one year	10	(640.7)	(533.2)	(650.4)	(543.0)
Net current liabilities		(472.6)	(374.5)	(471.0)	(376.4)
Total assets less current liabilities		4,230.2	4,160.3	4,296.5	4,223.1
Creditors: amounts falling due after more than one year	11	(1,912.7)	(1,889.0)	(1,743.8)	(1,717.0)
Provisions for liabilities and charges	13	(441.3)	(387.0)	(442.4)	(388.1)
Net assets		1,876.2	1,884.3	2,110.3	2,118.0
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	876.2	884.3	1,110.3	1,118.0
Equity shareholders' funds		1,876.2	1,884.3	2,110.3	2,118.0

Signed on behalf of the Board who approved the accounts on 7 July 2003.



R M Walker
Chairman



M R Wilson
Finance and Regulation Director



Group cash flow statement

Year ended 31 March 2003

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	18a		534.5		530.4
Returns on investments and servicing of finance					
Interest received		0.3		2.1	
Interest paid		(94.5)		(100.6)	
Interest element of finance lease rental payments		(22.2)		(20.7)	
			(116.4)		(119.2)
Taxation			(1.5)		1.3
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(429.2)		(334.3)	
Grants received		29.9		27.3	
Sale of tangible fixed assets		10.1		12.7	
Investment in other fixed asset investments		-		0.7	
			(389.2)		(293.6)
Equity dividends paid			(141.9)		(139.1)
Net cash outflow before financing			(114.5)		(20.2)
Financing					
Loans advanced		188.4		390.8	
Loans repaid		(178.7)		(76.6)	
New finance leases		-		-	
Finance lease capital repaid		-		-	
			9.7		314.2
Net (decrease) / increase in cash			(104.8)		294.0

Reconciliation of net cash flow to movement in net debt

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Net (decrease) / increase in cash as above		(104.8)		294.0	
Cash flow from movement in net debt and financing		(9.7)		(314.2)	
Change in net debt resulting from cash flows			(114.5)		(20.2)
Rolled up interest on debt			(2.9)		(0.7)
Rolled up interest on finance leases			1.3		(2.2)
Increase in net debt			(116.1)		(23.1)
Opening net debt			(2,058.6)		(2,035.5)
Closing net debt	18b		(2,174.7)		(2,058.6)

Notes to the financial statements

Year ended 31 March 2003

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.

There have been no new accounting standards adopted in the year.

b) Basis of preparation

The Directors have not taken advantage of the exemption available under Section 228 of the United Kingdom Companies Act 1985 from preparing group accounts.

The Directors have 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 2003. 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.

Income includes an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

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 (1f).

The depreciation charged for infrastructure assets is the estimated, anticipated level of annual expenditure required to maintain the operating capability of the network less the estimated, anticipated level of relevant annual grants and contributions, based on the company's independently certified asset management plan (1f).

ii) Other assets

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

	Years
Buildings	30-60
Operational structures	40-80
Fixed plant	20-40
Vehicles, mobile plant and computers	2-15

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

e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

All other leases are accounted for as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

1 Accounting policies *continued*

f) Grants and contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred income and recognised in the profit and loss account over the useful economic life of those assets.

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 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 £327.0 million lower than it would otherwise have been (2002: £294.5 million).

Those grants and contributions relating to the maintenance of 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 tangible fixed assets relating to research and development projects is written off over the expected useful life of those assets.

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 only to the extent that the company has an obligation to pay more tax in the future or a right to pay less tax in the future. Material deferred taxation balances arising are discounted by applying an appropriate risk free discount rate. 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.

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 15 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 cost 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 to a lesser extent 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 value 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 2003

2 Analysis of operating costs and exceptional items	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
a) Analysis of total operating costs				
Wages and salaries	115.7	110.8	115.7	110.8
Social security costs	8.3	8.5	8.3	8.5
Pension costs (note 17)	14.9	12.0	14.9	12.0
Total employee costs	138.9	131.3	138.9	131.3
Power	27.4	28.8	27.4	28.8
Raw materials and consumables	31.7	33.8	31.7	33.8
Rates	50.5	49.2	50.5	49.2
Service charges	23.3	22.8	23.3	22.8
Other operating costs	86.3	74.6	86.9	74.6
Depreciation charge (note 7)	221.4	210.7	221.4	210.7
Deferred income released	(3.0)	(3.4)	(3.0)	(3.4)
Hired and contracted services	67.3	67.6	67.3	67.6
Hire of plant and machinery	5.4	5.4	5.4	5.4
Other operating leases	1.9	1.0	14.1	10.9
Audit fees	0.2	0.2	0.2	0.2
Research and development expenditure	3.6	3.1	3.0	3.1
Profit on disposal of tangible fixed assets	(6.5)	(5.5)	(6.5)	(5.5)
	648.4	619.6	660.6	629.5
Own work capitalised	(57.4)	(54.0)	(57.4)	(54.0)
Total operating costs	591.0	565.6	603.2	575.5

Other fees paid to the auditors, PricewaterhouseCoopers LLP included within other operating costs amounted to £72,000 (2002: £63,000).

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		Share options under approved schemes				
	1 April 2002	31 March 2003	1 April 2002	Exercised during the year	Cancelled during the year	Granted during the year	31 March 2003
	Ordinary shares of 65 ¹ / ₁₀₀ p each	Ordinary shares of 65 ¹ / ₁₀₀ p each					
J H Bailey	1,210	1,250	8,627	-	-	-	8,627
I Elliott	3,199	4,348	2,737	(914)	-	-	1,823
G P Noone	25,467	12,442	4,430	-	-	-	4,430
P A Stephenson	220*	260	3,567*	-	-	-	3,567
S Stubbs	-*	-	-*	-	-	-	-

* At date of appointment

i) Messrs Arculus, Banyard, Duckworth 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 2003. 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 2003. Share options were granted and exercised in accordance with the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.

3 Information regarding Directors and employees *continued*

Directors: *continued*

ii) Mr. I. Elliott exercised 914 shares during the year at £5.28. The market price at exercise date was £7.455 and the gain on exercise amounted to £1,988. This is a notional gain, before taxation, based on the difference between the exercise price and the mid-market price at the close of business on the date of exercise. It does not indicate that this was the actual gain realised on the sale of shares or that the shares in question have necessarily been sold.

iii) The Directors have further interests in Severn Trent Plc ordinary shares of 65^{1/10}p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 10 August 2000, 30 August 2001 and 24 September 2002. The LTIP operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP. 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 2000 award is 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 and 2002 awards are based on a combination of TSR and Economic Profit Targets. The individual interest, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 2002		At 31 March 2003		
	Number of ordinary shares of 65 ^{1/10} p each	Awards lapsed during year	Awarded during year	Market price at time of award(p)	Number of ordinary shares of 65 ^{1/10} p each
J H Bailey	13,769	(2,952)	8,286	695	19,103
I Elliott	19,090	(4,325)	11,474	695	26,239
G P Noone	17,485	(4,445)	8,286	695	21,326
P A Stephenson	10,449*	-	7,968	695	18,417
S Stubbs	- *	-	-	-	-

* At date of appointment

No awards vested during the year, consequently there has been no gain on vesting (2002: £nil).

No further awards have been made under the LTIP as at 7 July 2003.

The performance period for allocations of shares made in 2000 ended on 31 March 2003. The Remuneration Committee has subsequently determined, based on Severn Trent Plc's TSR over the three year period, that participants are entitled to 50% of the award. The 2000 contingent awards of shares are included in the table above and the actual number of shares to which each individual has become entitled from the 2000 awards is as follows:

	Date of award	Market price at time of award (p)	Market price on date of vesting (p)	Number of ordinary shares of 65 ^{1/10} p each vested from the 2000 award	Gain on vesting (£'000)
J H Bailey	10 Aug 2000	735	699.25	2,177	15.2
I Elliott	10 Aug 2000	735	699.25	3,097	21.7
G P Noone	10 Aug 2000	735	699.25	3,192	22.3
P A Stephenson	10 Aug 2000	735	699.25	2,512	17.6
				2003 £'000	2002 £'000

b) Emoluments

Aggregate emoluments (excluding pension contributions)	1,473.5	1,145.7
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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 £609,608 (2002: £526,957) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.

iii) Retirement benefits are accruing to seven Directors (2002: six Directors) under a defined benefit scheme.

c) Highest paid Director

Aggregate emoluments (excluding pension contributions)	343.9	298.6
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The accrued pension at 31 March 2003 for the highest paid Director was £124,558 (2002: £116,801). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

Employees:	2003 Number	2002 Number
Average number of employees during the year (full time equivalent):		
Staff	3,219	2,987
Industrial staff	1,505	1,666
	4,724	4,653

Notes to the financial statements

Year ended 31 March 2003

4 Net interest payable	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Interest receivable and similar income	0.3	2.1	0.3	5.8
Interest payable and similar charges:				
Bank loans and overdrafts	(33.9)	(40.1)	(33.9)	(40.1)
Other loans	(64.4)	(58.5)	(9.3)	(3.8)
Finance leases	(20.9)	(22.9)	(7.2)	(11.3)
To subsidiary undertaking	-	-	(55.1)	(54.7)
	(118.9)	(119.4)	(105.2)	(104.1)

5 Taxation on profit on ordinary activities	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
a) Analysis of charge in the year				
Current tax				
UK corporation tax @ 30% (2002:30%)				
Current year	2.4	-	2.4	-
Prior year	(7.4)	(5.0)	(7.4)	(5.0)
Group relief payable @ 30% (2002:30%)				
Current year	13.9	7.3	15.0	8.4
Prior year	(0.1)	(1.1)	(0.1)	(1.1)
Total current tax	8.8	1.2	9.9	2.3
Deferred tax				
Origination and reversal of timing differences				
Current year	42.0	53.5	42.0	53.5
Prior year	7.4	5.0	7.4	5.0
Decrease / (increase) in discount	6.0	(22.0)	6.0	(22.0)
Total deferred tax	55.4	36.5	55.4	36.5
Total tax charge	64.2	37.7	65.3	38.8

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	198.0	209.1	199.5	214.5
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2002:30%)	59.4	62.7	59.9	64.4
Effects of:				
Items not taxable and not deductible for tax purposes	(1.1)	(1.9)	(0.5)	(2.5)
Capital allowances for period in excess of depreciation	(42.7)	(50.6)	(42.7)	(50.6)
Utilisation of / movement in short term timing difference	0.7	(2.9)	0.7	(2.9)
Utilisation of / movement in tax losses	-	-	-	-
Adjustment to tax charge in respect of prior periods	(7.5)	(6.1)	(7.5)	(6.1)
	8.8	1.2	9.9	2.3

c) Factors affecting future rates

The group's current tax charge of £8.8 million (2002: £1.2 million credit) represents 4.4% (2002: 0.6%) of the group's profit before tax.

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	
	2003 £m	2002 £m	2003 £m	2002 £m
Dividend paid	141.9	139.1	141.9	139.1

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 2003 amounted to £141.9 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 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
Additions	69.8	186.1	169.6	425.5	69.8	186.1	169.6	425.5
Reclassifications and transfers	-	-	-	-	-	-	-	-
Grants and contributions	-	(32.5)	-	(32.5)	-	(32.5)	-	(32.5)
Assets sold or written off	(2.5)	(0.7)	(24.3)	(27.5)	(2.5)	(0.7)	(24.3)	(27.5)
At 31 March 2003	1,734.4	3,047.2	2,270.2	7,051.8	1,734.4	3,044.9	2,270.3	7,049.6
Depreciation								
At 1 April 2002	472.9	828.4	850.8	2,152.1	472.9	828.2	850.8	2,151.9
Charge for year	34.2	55.6	131.6	221.4	34.2	55.6	131.6	221.4
Assets sold or written off	(2.2)	(0.7)	(21.0)	(23.9)	(2.2)	(0.7)	(21.0)	(23.9)
At 31 March 2003	504.9	883.3	961.4	2,349.6	504.9	883.1	961.4	2,349.4
Net book value								
At 31 March 2003	1,229.5	2,163.9	1,308.8	4,702.2	1,229.5	2,161.8	1,308.9	4,700.2
At 1 April 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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:				
Cost	276.0	277.8	273.6	275.4
Accumulated depreciation	(64.5)	(58.1)	(64.2)	(57.8)
Net book value	211.5	219.7	209.4	217.6
ii) Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view as set out in note 1f.				
iii) The net book value of land and buildings is analysed as follows:				
Freehold	1,229.2	1,193.9	1,229.2	1,193.9
Short leasehold	0.3	0.3	0.3	0.3
	1,229.5	1,194.2	1,229.5	1,194.2

Notes to the financial statements

Year ended 31 March 2003

7 Tangible fixed assets continued	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
iv) Depreciation incurred during the year has been charged as follows:				
Owned assets non infrastructure	157.6	149.1	157.6	149.1
Owned assets infrastructure	55.6	54.1	55.6	54.1
Assets held under finance leases	8.2	7.5	8.2	7.5
	221.4	210.7	221.4	210.7

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

Land	24.3	23.8	24.3	23.8
Assets in the course of construction	296.8	224.4	296.8	224.4
	321.1	248.2	321.1	248.2

8 Investments

	Other investments £m	Group Total £m
Cost and net book value at 1 April 2002 and 31 March 2003	0.6	0.6

	Shares in subsidiary undertakings £m	Loans in subsidiary undertakings £m	Other investments £m	Company Total £m
Cost and net book value at 1 April 2002 and 31 March 2003	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	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	72.0	63.7	72.0	63.7
Amounts owed by parent and fellow subsidiary undertakings	0.7	1.0	18.2	8.8
Other debtors	9.9	6.7	9.9	6.7
Prepaid pension contributions	0.3	0.3	0.3	0.3
Prepayments and accrued income	81.6	83.5	75.4	83.6
	164.5	155.2	175.8	163.1

Included within group debtors is £6.6 million (2002: £6.9 million) which falls due after more than one year, company £18.0 million (2002: £14.7 million).

10 Creditors: amounts falling due within one year	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank overdrafts	149.6	44.8	151.3	46.6
Bank loans	97.3	104.4	97.3	104.4
Amounts owed to subsidiary undertakings	-	-	64.6	73.2
Other loans	64.6	73.2	-	-
Obligations under finance leases	4.7	3.7	1.4	0.4
Borrowings (note 12)	316.2	226.1	314.6	224.6
Trade creditors	22.1	14.7	22.1	14.7
Amounts owed to parent and fellow subsidiary undertakings	44.2	26.8	45.9	27.4
Amounts owed to subsidiary undertakings	-	-	34.1	36.0
Other creditors	5.2	3.8	5.2	3.8
Taxation and social security	2.8	4.2	2.8	4.2
Corporation tax payable	16.0	21.0	16.0	21.0
Accruals and deferred income	234.2	236.6	209.7	211.3
	640.7	533.2	650.4	543.0

11 Creditors: amounts falling due after more than one year	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans	488.9	465.6	488.9	465.6
Amounts owed to subsidiary undertakings	-	-	929.6	924.6
Other loans	929.6	924.6	-	-
Obligations under finance leases	440.1	442.4	271.2	270.4
Borrowings (note 12)	1,858.6	1,832.6	1,689.7	1,660.6
Deferred income	47.4	49.5	47.4	49.5
Other creditors	6.7	6.9	6.7	6.9
	1,912.7	1,889.0	1,743.8	1,717.0

Notes to the financial statements

Year ended 31 March 2003

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	
					2003 £m	2002 £m
a) Borrowings analysed by maturity date						
Within one year (note 10)	149.6	-	161.9	4.7	316.2	226.1
Between one and two years	-	-	88.0	5.2	93.2	122.6
Between two and five years	-	-	253.8	25.0	278.8	258.7
After more than five years	-	-	1,076.7	409.9	1,486.6	1,451.3
	149.6	-	1,580.4	444.8	2,174.8	2,058.7

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2003 £m	2002 £m
European Investment Bank loans – 2008-2013	2.8 - 6.1	220.7	175.0
European Medium Term loans notes – 2008-2028	3.7 - 4.5	145.2	143.8
Sterling bonds – 2024-2029	6.125 - 6.25	710.8	711.3
		1,076.7	1,030.1

	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	
					2003 £m	2002 £m
Within one year (note 10)	151.3	-	161.9	1.4	314.6	224.6
Between one and two years	-	-	88.0	2.8	90.8	122.2
Between two and five years	-	-	253.8	12.7	266.5	248.9
After more than five years	-	-	1,076.7	255.7	1,332.4	1,289.5
	151.3	-	1,580.4	272.6	2,004.3	1,885.2

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2003 £m	2002 £m
European Investment Bank loans – 2008-2013	2.8 - 6.1	220.7	175.0
Amounts owed to subsidiary undertakings – 2008-2029	3.7 - 6.25	856.0	855.1
		1,076.7	1,030.1

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

	Group					Company				
	Total £m	Floating interest rate £m	Fixed interest rate £m	Fixed borrowings		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 as at 31 March 2003	2,174.8	693.1	1,481.7	6.04	20.12	2,004.3	522.6	1,481.7	6.04	20.12
Total borrowings as 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

In addition to the fixed debt above, the group has £125 million of forward start interest rate swaps (floating to fixed) that commence during the financial year ending March 2004. These forward start interest rate swaps have a weighed average interest rate of 5.1% and a weighed average duration of 30 years.

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 2003 interest rates on 68.1% of the group's borrowings were fixed for periods up to 26 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)	Group				Company			
	2003		2002		2003		2002	
	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	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings falling due within one year	(314.0)	(312.3)	(218.5)	(211.7)	(312.4)	(310.5)	(217.0)	(210.2)
Borrowings falling due after more than one year	(1,849.7)	(1,937.2)	(1,823.2)	(1,831.4)	(1,680.8)	(1,768.3)	(1,651.2)	(1,659.4)
Derivative financial instruments held to manage the currency and interest rate profile								
Interest rate swaps and similar instruments	-	(40.5)	-	1.3	-	(40.5)	-	1.3
Currency instruments – cross currency swaps	(11.1)	(7.3)	(17.0)	(11.5)	(11.1)	(7.3)	(17.0)	(11.5)
Total net debt	(2,174.7)	(2,297.2)	(2,058.6)	(2,053.2)	(2,004.2)	(2,126.5)	(1,885.1)	(1,879.7)
Other long term assets								
Other fixed asset investments	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

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

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

d) Unrecognised gains and losses on hedges at 31 March 2003

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 2003 given prevailing economic conditions.

	Group and company		
	Gains	Losses	Total net gains
	£m	£m	£m
Unrecognised gains and losses on hedges at 1 April 2002	7.8	(1.0)	6.8
Arising in previous years that were recognised in the year	(2.0)	-	(2.0)
Arising before 1 April 2002 that were not recognised in the financial year	5.8	(1.0)	4.8
Unrecognised gains and losses arising during the financial year	4.5	(45.9)	(41.4)
Unrecognised gains and losses on hedges at 31 March 2003	10.3	(46.9)	(36.6)
Expected to be recognised			
In one year or less	1.0	(0.3)	0.7
In later years	9.3	(46.6)	(37.3)

e) Borrowings facilities

The group and company had the following undrawn committed borrowing facilities available at 31 March 2003:

	Group and company	
	2003 £m	2002 £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	600.0
	600.0	650.0

Notes to the financial statements

Year ended 31 March 2003

13 Provisions	Group			
	Balance at 1 April 2002 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2003 £m
Provisions for liabilities and charges comprise:				
Restructuring	1.8	-	(1.1)	0.7
Deferred tax	385.2	55.4	-	440.6
	387.0	55.4	(1.1)	441.3

13 Provisions	Company			
	Balance at 1 April 2002 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2003 £m
Restructuring	1.8	-	(1.1)	0.7
Deferred tax	386.3	55.4	-	441.7
	388.1	55.4	(1.1)	442.4

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

The full deferred tax liability, calculated under the liability method at a tax rate of 30% (2002: 30%), is:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Capital allowance	841.8	799.1	841.8	799.1
Other timing differences	(10.0)	(16.7)	(8.9)	(15.6)
Undiscounted provision for deferred tax	831.8	782.4	832.9	783.5
Discount	(391.2)	(397.2)	(391.2)	(397.2)
Discounted provision for deferred tax	440.6	385.2	441.7	386.3
Provision at start of year	385.2	348.7	386.3	349.8
Deferred tax charge for year (above)	55.4	36.5	55.4	36.5
Provision at end of year	440.6	385.2	441.7	386.3

14 Share capital	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £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 2002	884.3	1,118.0
Retained loss for the year	(8.1)	(7.7)
At 31 March 2003	876.2	1,110.3

At 31 March 2003 cumulative goodwill written off against group reserves amounted to £29.2 million (2002: £29.2 million).

16 Commitments and contingent liabilities

	2003 £m	2002 £m
Group and company		
a) Investment expenditure commitments		
Contracted for but not provided in the financial statements	194.6	144.3

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:

	2003		2002	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.2	0.4	0.3	0.7
Between one and five years	-	1.1	-	-
After five years	0.2	-	0.2	-
	0.4	1.5	0.5	0.7

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

	2003		2002	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.2	0.4	0.3	0.7
Between one and five years	-	1.1	-	-
After five years	0.2	11.3	0.2	12.0
	0.4	12.8	0.5	12.7

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. The contingent liability at 31 March 2003 is £nil (2002: £nil).

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 Board 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 2006. 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 the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS) (together 'the Schemes'), 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 to the Schemes during the year were £14.9 million (2002: £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 2003

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 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 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 deficits 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 deficit, calculated under FRS 17 as at 31 March 2003 amounted to £325.1 million (2002: £57.1 million surplus).

18 Group cash flow statement

	2003 £m	2002 £m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	316.9	328.5
Depreciation charge (note 7 iv)	221.4	210.7
Profit on sale of tangible fixed assets	(6.5)	(5.5)
Deferred income received	0.3	1.8
Deferred income written back	(3.0)	(3.4)
Utilisation of restructuring provision	(1.1)	(6.4)
Increase in stocks	(0.1)	(0.5)
(Increase) / decrease in debtors	(9.9)	9.5
Increase / (decrease) in creditors	16.5	(4.3)
Net cash inflow from operating activities	534.5	530.4

b) Analysis of changes in net debt

	At 1 April 2002 £m	Cash flow £m	Other non cash changes £m	At 31 March 2003 £m
Cash at bank and in hand	0.1	-	-	0.1
Overdrafts (note 10)	(44.8)	(104.8)	-	(149.6)
Debt due within one year (note 10)	(177.6)	15.7	-	(161.9)
Debt due after one year (note 11)	(1,390.2)	(25.4)	(2.9)	(1,418.5)
Finance leases (notes 10 and 11)	(446.1)	-	1.3	(444.8)
	(2,058.6)	(114.5)	(1.6)	(2,174.7)

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/reports2003.

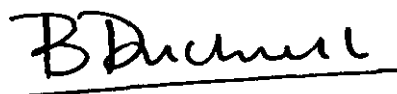
As a wholly owned subsidiary, the company has taken advantage of the exemption not to disclose related party transactions with other group undertakings in accordance with accounting standard FRS 8 'Related party disclosures'.

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Diversification and the protection of the core business – Condition F6a

Severn Trent Water Limited and its subsidiary East Worcester Water Plc (together referred to as “the Appointees”) hereby advise:

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



B Duckworth
 Managing Director
 For and on behalf of the Board
 7 July 2003

Independent Auditors’ report to the Director General of Water Services (“the Regulator”) and the Directors of Severn Trent Water Limited and East Worcester Water Plc (“together the Appointees”)

We have audited the Regulatory Accounts of Severn Trent Water Limited which incorporate East Worcester Water Plc and its other subsidiary undertakings, on pages 37 to 46 which comprise:

- the regulatory historical cost accounting statements comprising the historical cost profit and loss account and balance sheet; and
- the regulatory current cost accounting statements comprising the current cost profit and loss account, balance sheet, cash flow statement and the related notes including the statement of accounting policies.

This report is made solely to the Appointees and the Regulator in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Appointees as Water and Sewage undertakers under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Appointees and the Regulator those matters we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not

accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to any other person than those to whom we have agreed in writing to accept responsibility.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention. As such, the Regulatory Accounts are separate from the statutory financial statements of the Appointees and have not necessarily been prepared under the basis of 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 as shown in financial statements prepared in accordance with the Companies Act 1985.

Independent Auditors' report to the Director General of Water Services ("the Regulator") and the Directors of Severn Trent Water Limited and East Worcester Water Plc ("together the Appointees") *continued*

Respective responsibilities of the Regulator, the Directors and Auditors
The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with the Regulatory Accounting Guidelines are set out on page 46.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion", below.

We report to you our opinion as to whether the regulatory historical cost accounting 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' Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 38 to 46 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Appointees have not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the Five year summary and the Supplementary regulatory accounting disclosures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Appointees 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 Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Appointees, 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 audits of the Appointees' statutory financial statements required by the Companies Act 1985.

The regulatory historical cost accounting statements on page 37 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in 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 disapplied. This represents a departure from Generally Accepted Accounting Principles. As a consequence an amount of £8.4m has been included under accruals in the historical cost regulatory balance sheet and this amount has been deducted from fixed assets as shown in the statutory financial statements balance sheet on page 20.

Opinion

In our opinion the Regulatory Accounts of the Appointees contain the information for the year ended 31 March 2003 to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Appointees as Water and Sewage 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 instrument;
- (b) the information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (c) the regulatory historical cost accounting 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' Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 38 to 46 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
7 July 2003

1. The maintenance and integrity of the Appointees' web sites are the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; 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 Regulatory Accounts since they were initially presented on the web sites.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

Group profit and loss account

Year ended 31 March 2003	2003 £m	2002 £m
Turnover	905.0	893.2
Operating costs	(597.5)	(571.1)
Other operating income	6.5	5.5
Operating profit	314.0	327.6
Other income	2.9	0.9
Net interest payable	(118.9)	(119.4)
Profit on ordinary activities before taxation	198.0	209.1
Taxation on profit on ordinary activities	(8.8)	(1.2)
Deferred tax	(55.4)	(36.5)
Taxation	(64.2)	(37.7)
Profit for the financial year	133.8	171.4
Dividend	(141.9)	(139.1)
Retained (loss) / profit for the financial year	(8.1)	32.3

The group results presented are for Severn Trent Water Limited and its subsidiary undertakings, including East Worcester Water Plc.

Group balance sheet

As at 31 March 2003	2003 £m	2002 £m
Fixed assets		
Tangible assets	4,710.6	4,560.0
Investments	0.6	0.6
	4,711.2	4,560.6
Current assets		
Stocks	3.5	3.4
Debtors	164.5	155.2
Cash at bank and in hand	0.1	0.1
	168.1	158.7
Creditors: amounts falling due within one year		
Borrowings	(316.2)	(226.1)
Other creditors	(321.6)	(303.6)
	(637.8)	(529.7)
Net current liabilities	(469.7)	(371.0)
Total assets less current liabilities	4,241.5	4,189.6
Creditors: amounts falling due after more than one year		
Borrowings	(1,858.6)	(1,832.6)
Other creditors	(6.7)	(6.9)
	(1,865.3)	(1,839.5)
Provisions for liabilities and charges	(449.7)	(412.8)
Deferred income	(50.3)	(53.0)
Net assets	1,876.2	1,884.3
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	876.2	884.3
Shareholders' funds	1,876.2	1,884.3

Regulatory accounts – current cost financial statements

Group profit and loss account

Year ended 31 March 2003

	Notes	2003 £m	2002 £m
Turnover	2a	905.0	893.2
Current cost operating costs	2d	(642.3)	(610.4)
Other operating income	2b	5.5	3.4
		268.2	286.2
Working capital adjustment	2c	3.1	1.3
Current cost operating profit		271.3	287.5
Other income		2.9	0.9
Net interest payable		(118.9)	(119.4)
Financing adjustment		66.3	27.6
Current cost profit before taxation		221.6	196.6
Taxation on profit on ordinary activities		(8.8)	(1.2)
Deferred tax		(55.4)	(36.5)
Taxation		(64.2)	(37.7)
Current cost profit attributable to shareholders		157.4	158.9
Dividend		(141.9)	(139.1)
Current cost profit retained		15.5	19.8

Group balance sheet

As at 31 March 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Tangible assets	3	24,696.9	23,807.5
Third party contributions since 1989/90		(974.3)	(894.4)
Working capital	4	(81.4)	(98.4)
Net operating assets		23,641.2	22,814.7
Cash and investments		0.7	0.7
Non-trade debtors		6.1	9.3
Non-trade creditors due within one year		(402.9)	(307.8)
Creditors due after one year		(1,865.3)	(1,839.5)
Provisions for liabilities and charges		(441.3)	(387.0)
Dividend payable		-	-
Net assets employed		20,938.5	20,290.4
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account	5	134.4	118.9
Current cost reserve	6	19,804.1	19,171.5
		20,938.5	20,290.4

Group cash flow statement

Year ended 31 March 2003

	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	7		534.5		530.4
Returns on investments and servicing of finance					
Interest received		0.3		2.1	
Interest paid		(94.5)		(100.6)	
Interest element of finance lease rental payments		(22.2)		(20.7)	
			(116.4)		(119.2)
Taxation			(1.5)		1.3
Capital expenditure					
Purchase of tangible fixed assets		(340.9)		(247.9)	
Grants received		29.9		27.3	
Infrastructure renewals expenditure		(88.3)		(86.4)	
Disposal of fixed assets		10.1		12.7	
Investment in other fixed asset investments		-		0.7	
			(389.2)		(293.6)
Equity dividends paid			(141.9)		(139.1)
Net cash outflow before financing			(114.5)		(20.2)
Financing					
Loans advanced		188.4		390.8	
Loans repaid		(178.7)		(76.6)	
New finance leases		-		-	
Finance lease capital repaid		-		-	
			9.7		314.2
Net (decrease) / increase in cash			(104.8)		294.0

Reconciliation of net cash flow to movement in net debt

	2003 £m	2003 £m	2002 £m	2002 £m
Net (decrease) / increase in cash as above	(104.8)		294.0	
Cash flow from movement in net debt and financing	(9.7)		(314.2)	
Change in net debt resulting from cash flows		(114.5)		(20.2)
Rolled up interest on debt		(2.9)		(0.7)
Rolled up interest on finance leases		1.3		(2.2)
Increase in net debt		(116.1)		(23.1)
Opening net debt		(2,058.6)		(2,035.5)
Closing net debt		(2,174.7)		(2,058.6)

Notes to the current cost financial statements

Year ended 31 March 2003

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

	2003			2002		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
a) Analysis of turnover						
Measured	156.5	150.5	307.0	148.9	147.4	296.3
Unmeasured	264.4	264.6	529.0	267.8	268.6	536.4
Large user tariffs	15.9	19.4	35.3	16.3	3.9	20.2
Trade effluent	-	11.0	11.0	-	24.7	24.7
Revenue grants	-	0.1	0.1	0.3	-	0.3
Third parties	14.0	4.4	18.4	6.0	1.4	7.4
Other sources	2.0	2.2	4.2	4.7	3.2	7.9
Total turnover	452.8	452.2	905.0	444.0	449.2	893.2
b) Other operating income						
Current cost profit on disposal of tangible fixed assets	1.4	4.1	5.5	2.2	1.2	3.4
c) Working capital adjustment						
	0.2	2.9	3.1	(0.1)	1.4	1.3

Regulatory accounts – current cost financial statements

Notes to the current cost financial statements

Year ended 31 March 2003

2 Analysis of current cost turnover and operating costs continued

	2003										
	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	6.1	14.8	20.9	8.0	10.0	5.0	15.0	23.0			
Power	5.8	10.9	16.7	2.7	5.6	1.3	6.9	9.6			
Agencies	-	-	-	-	-	-	-	-			
Hired and contracted	2.6	9.3	11.9	5.8	2.8	16.2	19.0	24.8			
Associated companies	0.3	0.3	0.6	2.7	0.7	1.2	1.9	4.6			
Materials and consumables	4.6	3.2	7.8	0.9	2.8	4.1	6.9	7.8			
Service charges	8.5	-	8.5	1.5	5.3	0.1	5.4	6.9			
Bulk supply imports	7.8	-	7.8	-	-	-	-	-			
Other direct costs	0.5	1.4	1.9	4.0	0.6	0.2	0.8	4.8			
Total direct costs	36.2	39.9	76.1	25.6	27.8	28.1	55.9	81.5	27.0	13.6	2.5
General and support	19.8	14.6	34.4	11.3	25.3	12.4	37.7	49.0	6.7	3.9	0.6
Functional expenditure	56.0	54.5	110.5	36.9	53.1	40.5	93.6	130.5	33.7	17.5	3.1
Business activities recharge			25.1					29.2	(33.7)	(17.5)	(3.1)
Rates			32.1					18.4			
Doubtful debts			8.2					8.2			
Exceptional items			-					-			
Services for third parties			175.9					186.3			
			12.4					4.5			
Total operating expenditure			188.3					190.8			
Capital costs											
Infrastructure renewals:											
Expenditure	2.4	31.6	34.0	39.0	-	-	-	39.0			
Accrual	(0.9)	(1.5)	(2.4)	(15.0)	-	-	-	(15.0)			
Current cost depreciation	53.6	46.5	100.1	14.0	71.4	24.5	95.9	109.9			
Amortisation of deferred income			(1.4)					(1.6)			
Business activity capital costs			0.1					-			
Services for third parties depreciation			130.4					132.3			
			0.5					-			
Total capital maintenance			130.9					132.3			
Total operating costs			319.2					323.1			
Analysis of tangible fixed assets											
Service activities	1,499.3	6,035.2	7,534.5	15,238.0	1,219.2	289.1	1,508.3	16,746.3			
Business activities			133.3	23.3			104.8	128.1			
Service totals			7,667.8	15,261.3			1,613.1	16,874.4			
Services for third parties			154.7					-			
Total			7,822.5					16,874.4			

2 Analysis of current cost turnover and operating costs continued

2002											
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	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			-					-			
Services for third parties			179.1					172.0			
			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			
Services for third parties depreciation			109.9					136.2			
			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			

e) Non appointed business

The group has not identified for the purpose of its 2002/2003 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 2003 in respect of infrastructure assets amounted to £17.8 million on water services (2002: £17.5 million) and £8.2 million for sewerage services (2002: £11.6 million).

Expenditure on reactive and planned maintenance included in operating costs for 2003 in respect of non-infrastructure assets amounted to £8.7 million on water services (2002: £9.8 million) and £22.7 million for sewerage services (2002: £23.1 million).

Notes to the current cost financial statements

Year ended 31 March 2003

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 2002	1,652.2	96.8	6,479.7	248.4	8,477.1
RPI and other adjustments	40.0	2.2	201.8	15.1	259.1
Additions	66.8	3.1	57.1	34.4	161.4
Disposals and amounts written off	(6.1)	(1.9)	-	(12.8)	(20.8)
At 31 March 2003	1,752.9	100.2	6,738.6	285.1	8,876.8
Depreciation					
At 1 April 2002	765.7	23.3	-	147.8	936.8
RPI and other adjustments	24.2	3.5	-	5.7	33.4
Charge for year	65.0	2.4	-	33.3	100.7
Disposals and amounts written off	(6.0)	(1.2)	-	(9.4)	(16.6)
At 31 March 2003	848.9	28.0	-	177.4	1,054.3
Net book value					
At 31 March 2003	904.0	72.2	6,738.6	107.7	7,822.5
At 1 April 2002	886.5	73.5	6,479.7	100.6	7,540.3
b) Sewerage services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 2002	3,040.9	110.9	14,542.3	232.4	17,926.5
RPI and other adjustments	92.4	3.8	449.5	6.9	552.6
Additions	124.6	0.6	73.2	14.9	213.3
Disposals and amounts written off	(54.2)	(0.3)	-	(0.8)	(55.3)
At 31 March 2003	3,203.7	115.0	15,065.0	253.4	18,637.1
Depreciation					
At 1 April 2002	1,498.9	21.9	-	138.5	1,659.3
RPI and other adjustments	47.1	3.8	-	(2.5)	48.4
Charge for year	99.4	0.8	-	9.7	109.9
Disposals and amounts written off	(54.2)	-	-	(0.7)	(54.9)
At 31 March 2003	1,591.2	26.5	-	145.0	1,762.7
Net book value					
At 31 March 2003	1,612.5	88.5	15,065.0	108.4	16,874.4
At 1 April 2002	1,542.0	89.0	14,542.3	93.9	16,267.2

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

	Specialised operational assets £m	Non specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
c) Total tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 2002	4,693.1	207.7	21,022.0	480.8	26,403.6
RPI and other adjustments	132.4	6.0	651.3	22.0	811.7
Additions	191.4	3.7	130.3	49.3	374.7
Disposals and amounts written off	(60.3)	(2.2)	-	(13.6)	(76.1)
At 31 March 2003	4,956.6	215.2	21,803.6	538.5	27,513.9
Depreciation					
At 1 April 2002	2,264.6	45.2	-	286.3	2,596.1
RPI and other adjustments	71.3	7.3	-	3.2	81.8
Charge for year	164.4	3.2	-	43.0	210.6
Disposals and amounts written off	(60.2)	(1.2)	-	(10.1)	(71.5)
At 31 March 2003	2,440.1	54.5	-	322.4	2,817.0
Net book value					
At 31 March 2003	2,516.5	160.7	21,803.6	216.1	24,696.9
At 1 April 2002	2,428.5	162.5	21,022.0	194.5	23,807.5

4 Working capital

	2003 £m	2002 £m
Stocks	3.5	3.4
Trade debtors	72.0	63.7
Trade creditors	(5.0)	(3.7)
Short-term capital creditors	(17.1)	(11.0)
Infrastructure renewals accrual	(8.4)	(25.8)
Accruals	(116.7)	(122.4)
Payments in advance	(73.5)	(67.4)
Tax and social security	(2.8)	(4.2)
Group trade debtors / (creditors)	(13.9)	(8.5)
Prepayments	80.5	77.5
	(81.4)	(98.4)

5 Reserves – profit and loss account

	£m
At 1 April 2002	118.9
Retained current cost profit for the year	15.5
At 31 March 2003	134.4

6 Reserves – current cost reserves

	2003 £m	2002 £m
At 1 April 2002	19,171.5	18,913.0
AMP adjustment	-	-
RPI adjustments:		
Fixed assets	729.9	301.7
Working capital	(3.1)	(1.3)
Financing	(66.3)	(27.6)
Grants and third party contributions	(27.7)	(10.6)
Other adjustments	(0.2)	(3.7)
At 31 March 2003	19,804.1	19,171.5

Notes to the current cost financial statements

Year ended 31 March 2003

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

	2003 £m	2002 £m
Current cost operating profit	271.3	287.5
Working capital adjustment	(3.1)	(1.3)
Increase in stocks	(0.1)	(0.5)
Other income	2.9	0.9
Current cost depreciation	210.6	195.9
Current cost profit on disposal of tangible fixed assets	(5.5)	(3.4)
(Decrease) / increase in debtors	(9.9)	9.5
Increase / (decrease) in creditors	16.5	(4.3)
Decrease in provisions	(33.8)	(38.7)
Infrastructure renewals expenditure	88.3	86.4
Effect of other deferrals and accruals on operating activity cash flow	(2.7)	(1.6)
Net cash inflow from operating activities	534.5	530.4

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	4,397	4,693	4,970
Year average	4,037	4,126	4,273	4,532	4,821

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.

Five year summary

At 2002/2003 out-turn prices

	(restated)				
	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profit and loss account					
Turnover	905.0	911.7	916.4	1,047.6	1,032.4
Current cost operating costs	(642.3)	(623.0)	(630.9)	(699.1)	(647.4)
Share of results of associated undertaking	-	-	-	-	0.1
Other operating income	5.5	3.5	4.1	4.2	2.6
	268.2	292.2	289.6	352.7	387.7
Working capital adjustment	3.1	1.3	2.7	1.7	3.1
Current cost operating profit	271.3	293.5	292.3	354.4	390.8
Other income	2.9	0.9	1.0	0.7	1.0
Net interest payable	(118.9)	(121.9)	(122.0)	(90.1)	(79.0)
Financing adjustment	66.3	28.2	47.1	49.0	33.2
Current cost profit before taxation	221.6	200.7	218.4	314.0	346.0
Taxation	(8.8)	(1.2)	0.4	(21.7)	(120.3)
Deferred tax	(55.4)	(37.3)	(53.1)	-	-
Current cost profit attributable to shareholders	157.4	162.2	165.7	292.3	225.7
Dividend	(141.9)	(142.0)	(140.4)	(154.6)	(149.5)
Exceptional dividend	-	-	-	(133.3)	-
Current cost profit / (loss) retained	15.5	20.2	25.3	4.4	76.2
Balance sheet					
Fixed assets					
Tangible assets	24,696.9	24,544.2	24,440.8	24,371.2	29,579.4
Third party contributions since 1989/90	(974.3)	(922.1)	(854.5)	(813.7)	(758.1)
Working capital	(81.4)	(101.4)	(99.9)	(118.4)	(69.5)
Net operating assets	23,641.2	23,520.7	23,486.4	23,439.1	28,751.8
Cash and investments	0.7	0.7	1.6	0.7	1.5
Non-trade debtors	6.1	9.6	5.9	9.0	9.2
Non-trade creditors due within one year	(402.9)	(317.3)	(518.5)	(513.6)	(512.7)
Creditors due after one year	(1,865.3)	(1,896.4)	(1,695.6)	(1,564.6)	(1,427.9)
Provision for liabilities and charges	(441.3)	(399.0)	(372.9)	(46.3)	(6.1)
Dividends payable	-	-	-	(133.5)	-
Net assets employed	20,938.5	20,918.3	20,906.9	21,190.8	26,815.8
Capital and reserves					
Called up share capital	1,000.0	1,030.9	1,044.7	1,068.3	1,096.3
Profit and loss account	134.4	122.6	103.5	397.4	403.6
Current cost reserve	19,804.1	19,764.8	19,758.7	19,725.1	25,315.9
	20,938.5	20,918.3	20,906.9	21,190.8	26,815.8

Profit and loss account

Turnover has fallen since 2000 primarily due to the consequences of the 1999 Periodic Review which resulted in the company having to reduce its main charges by 14.1%.

Operating profits have fallen as a result of the fall in turnover and a rise in operating costs.

Operating costs have risen specifically in 2003 mainly due to the increased level of depreciation being charged as a consequence of the effects of the company's investment programme. However, since 2000, reductions in operating costs have been achieved by the restructuring of the company's activities to provide efficiency improvements. These efficiency improvements continue to make an impact despite the continuing increases in the level of upward cost pressures.

Net interest has increased due to the effects of an increased level of borrowing by the company to finance its investment programmes. The reduction in 2003 has arisen due to the impact of lower interest rates.

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 this period creditors due after one year have also increased significantly, 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.

Supplementary regulatory accounting disclosures

Year ended 31 March 2003

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:

Lender		Principal amount £m	Repayment date	Interest Rate %
Severn Trent Water Utilities Finance Plc	Borrowed	68.6	2003/2007	4% - 4.7%

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 2003 amounted to £141.9 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 £3.9 million.

d) Supply of services

Services supplied by the appointee to associated companies

Nature of transactions	Company	Terms	£m
Rental of office accommodation	Various	Market rent	1.0
Service charges in respect of payroll, legal, transport and other	Various	Cost including overheads	3.4
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	1.1
			5.5

Services supplied to the appointee by associated companies

Nature of transactions	Company	Terms	£m
Provision of waste services	Biffa Waste Services Ltd	Competitive letting / no market	5.5
Meter installation and provision of other engineering services	Capital Controls Ltd	Competitive letting no market	7.1
Provision of engineering and design services	Charles Haswell and Partners Ltd	Other market testing	8.8
Asset management	Cognica Ltd	Other market testing	0.4
Insurance services	Derwent Insurance Ltd	Other market testing	3.9
Supply of materials	Fusion Meters Ltd	Competitive letting	2.5
Analytical services	Severn Trent Laboratories Ltd	Competitive letting	7.0
Management fee	Severn Trent Plc	No market	4.6
Management fee	Severn Trent Property Ltd	No market	0.1
Project development and managed service contract	Severn Trent Systems Ltd	Other market testing / no market	47.3
Provision of customer care facilities	Severn Trent Utility Services Ltd	Other market testing	0.7
Project development	Severn Trent Water International Ltd	No market	1.7
			89.6

Of the £89.6 million (2002: £80.7 million), £46.0 million (2002: £40.3 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 2003 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

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Turnover	952.7	982.1	884.4	893.2	905.0
Operating profit	407.6 ‡	358.0 §	325.7	328.5	316.9
Net interest payable	(72.9)	(84.5)	(117.7)	(119.4)	(118.9)
Profit for the financial year	334.7 ‡	273.5 §	208.0	209.1	198.0
Taxation	(111.0)	(20.4)	0.4	(1.2)	(8.8)
Deferred tax	-	(297.5)	(51.2)	(36.5)	(55.4)
Dividend	(138.0)	(145.0)	(135.5)	(139.1)	(141.9)
Exceptional dividend	-	(125.0)	-	-	-
Retained profit / (loss)	85.7 ‡	(314.4)§	21.7	32.3	(8.1)

‡ After Year 2000 costs of £11.8 million

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

Balance sheets

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Fixed assets	4,033.4	4,400.3	4,472.6	4,560.6	4,711.2
Net current liabilities	(522.2)	(660.2)	(543.4)	(371.0)	(469.7)
	3,511.2	3,740.1	3,929.2	4,189.6	4,241.5
Creditors: amounts falling due after more than one year	(1,302.4)	(1,464.6)	(1,623.0)	(1,839.5)	(1,865.3)
Provisions for liabilities, charges and deferred income	(64.1)	(445.2)	(454.2)	(465.8)	(500.0)
	2,144.7	1,830.3	1,852.0	1,884.3	1,876.2
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	1,144.7	830.3	852.0	884.3	876.2
	2,144.7	1,830.3	1,852.0	1,884.3	1,876.2

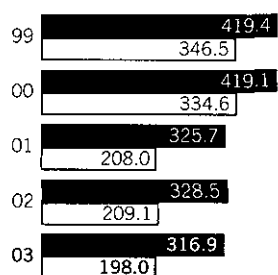
Turnover by category

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Measured charges	328.6	336.4	317.3	316.5	328.1
Unmeasured charges	566.6	589.6	521.8	536.4	529.0
Trade effluent	40.1	38.8	29.9	24.7	25.2
Other	17.4	17.3	15.4	15.6	22.7
	952.7	982.1	884.4	893.2	905.0

Turnover – £m
(before customer rebates)



Profit – £m
(excluding exceptionals)



■ Operating Profit
□ Profit for the financial year

Net borrowings	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Cash at bank and in hand	0.5	0.1	0.2	0.1	0.1
Borrowings	(1,607.8)	(1,857.7)	(2,035.7)	(2,058.7)	(2,174.8)
	(1,607.3)	(1,857.6)	(2,035.5)	(2,058.6)	(2,174.7)

Key ratios	1999	2000	2001	2002	2003
Liquidity					
Current ratio (times)	0.2	0.2	0.2	0.3	0.3
Profitability					
Gross profit margin (%)	42.8	36.5	36.8	36.8	35.0
Return on capital employed (%): Historic cost	11.6	9.6	8.3	7.8	7.5
Return on fixed assets (%): Historic cost	10.1	8.1	7.3	7.2	6.7
Return on fixed assets (%): Current cost	1.3	1.5	1.2	1.2	1.1
Gearing					
Debt to equity (%)	74.9	101.5	109.9	109.2	116.2
Other					
Turnover per employee (£)	180,572	190,921	182,841	191,962	191,575
Operating profit per employee (£)	77,255	69,596	67,335	70,600	67,083

Employee numbers	1999 No.	2000 No.	2001 No.	2002 No.	2003 No.
Employee number (average)	5,276	5,144	4,837	4,653	4,724
Employee number (year end)	5,228	4,993	4,544	4,698	4,819

Gearing - %

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

Restated from 2000 to reflect adjustment in respect of deferred taxation.

99	74.9
00	101.5
01	109.9
02	109.2
03	116.2

Charges 2003/2004

	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Sewern Trent Water	117	103	220
Average of other 9 water and sewerage companies	118	157	275
Equivalent cost per day per household			
Sewern Trent Water			60 pence
Other water and sewerage companies average			75 pence
Measured water charges			
Water supply		80.28 pence/cubic metre	
Sewerage		49.82 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Sewern Trent Water			£213
Average of other 9 water and sewerage companies			£254

Customer payment statistics

	1999 '000	2000 '000	2001 '000	2002 '000	2003 '000
Number of customers paying by instalments	1,486	1,552	1,616	1,666	1,710
Number of summonses	105	114	97	97	83
Percentage of unmeasured customers summoned	3.0%	3.5%	3.0%	2.8%	2.5%

Disconnections

	No.	No.	No.	No.	No.
Domestic	47	25	0	0	0
Non domestic	184	206	304	594	990
Percentage of customers disconnected	0.01%	0.01%	0.01%	0.01%	0.02%

Customer complaints

	'000	'000	'000	'000	'000
	11	17*	18	21	24

* 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 2003/2004

0 100 200 300



■ Other water companies
□ Severn Trent Water

	1999 No. '000	2000 No. '000	2001 No. '000	2002 No. '000	2003 No. '000
Customer contacts					
By letter	819	919	870	948	847
Telephone calls	2,125	2,183	2,714	2,447	2,227
Total	2,944	3,102	3,584	3,395	3,074

Population

Water supply	7,331	7,356	7,382	7,407	7,271
Sewerage	8,225	8,250	8,270	8,290	8,290

Billed properties

Water					
Unmeasured domestic	2,452	2,400	2,365	2,355	2,331
Unmeasured non-domestic	25	18	14	14	15
Sub-total	2,477	2,418	2,379	2,369	2,346
Measured domestic	433	505	560	602	646
Measured non-domestic	196	204	208	209	211
Sub-total	629	709	768	811	857
Total	3,106	3,127	3,147	3,180	3,203
Sewerage	3,474	3,495	3,520	3,563	3,606

New connections during year

Water supply	24	24	22	23	25
Sewerage	25	25	25	28	27

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)

	1999 %	2000 %	2001 %	2002 %	2003 %
(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	99.86	99.86	99.86	99.92	99.96
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.91	99.96	99.80	99.62(1)	99.93
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	99.96	99.97	99.97	99.98	99.98
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 5 days	99.2	99.6	99.1	99.2	99.96
Under 10 days	99.7	100.0	99.9	99.9	100.0
Under 20 days	99.9	100.0	100.0	100.0	100.0
Over 20 days	0.1	0.0	0.0	0.0	0.0

In 2002/2003 there were 2.5 million customer contacts. The company's performance in 2002/2003, based on Ofwat's 2001/2002 criteria, would meet the 'Good' category.

(DG7) Response to written complaints Response time for replies to written complaints					
Under 5 days	95.2	98.7	88.5	90.1	97.0
Under 10 days	99.7	99.9	99.1	99.5	99.9
Under 20 days	100.0	100.0	99.8	99.9	100.0
Over 20 days	0.0	0.0	0.2	0.1	0.0

The number of customer complaints received in 2002/2003 has increased marginally from those received in 2001/2002. The company's performance in 2002/2003, based on Ofwat's 2001/2002 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.

	1999 %	2000 %	2001 %	2002 %	2003 %
Company read	98.3	98.3	95.10	96.9	98.80
Customer read	1.4	1.2	1.57	1.4	0.96
Total read and billed in year	99.7	99.5	96.67	98.3	99.76

The company's performance in 2002/2003, based on Ofwat's 2001/2002 criteria, would meet the 'Good' category.

(DG9) Telephone contacts

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

Under 15 seconds	82.4	82.2	85.7	86.1	87.0
Under 30 seconds	91.0	90.6	92.0	92.9	98.1
Over 30 seconds	9.0	9.4	8.0	7.1	1.9
Average response times (seconds)	9.8	9.9	10.4	7.5	3.0

Guaranteed Standards Scheme (GSS)	1999	2000	2001	2002	2003
Complaints answered within the guaranteed standards scheme time period	99.9%	100.0%	99.1%	99.5%	99.9%
Number of GSS claims automatically accepted for guaranteed standard payments	4,699	4,130	2,996	2,408	2,810

Response to billing queries within 5 days - %

99	99.2
00	99.6
01	99.1
02	99.2
03	99.9

Response to written complaints queries within 5 days - %

99	95.2
00	98.7
01	88.5
02	90.1
03	97.0

Rainfall

1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002

Severn Trent region – area rainfall

Severn Trent region

- Rainfall (mm)	741	814	769	759	718	683	639	842	792	814	631	579	684	815	849	931	729	817
- % long-term average	96	105	99	98	93	88	83	110	102	105	81	75	88	108	113	123	97	109

Severn basin

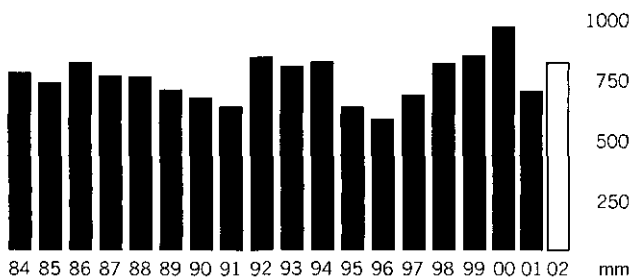
- Rainfall (mm)	813	856	805	811	777	732	702	872	797	844	674	624	716	857	931	1,013	761	863
- % long-term average	98	103	97	98	94	88	87	108	99	104	83	76	87	108	117	127	96	109

Trent basin

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

Note: % long-term average for data is based on figures from 1941 to 1970 up to 1997 and on figures from 1961 to 1990 since 1998.

Figures relate to calendar year.



Area rainfall

■ Actual

Company leakage

99	229
00	225
01	226
02	225
03	345

Demand

Analysis of water supply sources	1999 M/d	2000 M/d	2001 M/d	2002 M/d	2003 M/d
Reservoirs	510	517	501	527	542
River intakes	692	727	733	734	780
Groundwater	651	618	619	593	620
Total production	1,853	1,862	1,853	1,854	1,942
Treated water imports	24	23	22	23	23
Treated water exports	(8)	(7)	(7)	(7)	(7)
Total water into supply	1,869	1,878	1,868	1,870	1,958

Water demand	1999 M/d	2000 M/d	2001 M/d	2002 M/d	2003 M/d
Household demand	1,117	1,132	1,132	1,143	1,113
Non-household demand	515	491	480	471	470
Water delivered to billed customers	1,632	1,623	1,612	1,614	1,583
Total water into supply	1,869	1,878	1,868	1,870	1,958
Company unaccounted for water	229	225	226	225	345*

* 2003 is based on a revised method of assessment, if original method was used company unaccounted for leakage would be approximately 220 M/d

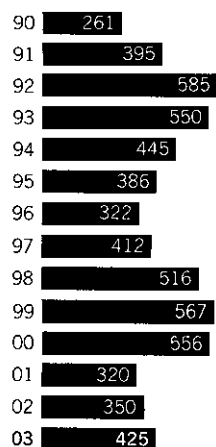
Operational statistics	1999	2000	2001	2002	2003
Number of repairs carried out on mains pipes	6,792	7,033	7,022	6,902	6,667
Average time taken to repair bursts on mains pipes (days)	0.36	0.32	0.45	0.35	0.32
Number of repairs carried out on communication pipes	15,629	13,769	11,530	13,736	16,072
Average time taken to repair bursts on communication pipes (days)	0.13	0.14	0.16	0.15	0.15
Number of repairs carried out on customers supply pipes	12,030	12,560	10,472	8,100	8,345
Number of calls to 'Leakline' service (service commenced December 1995, ceased March 1999)	35,642	N/a	N/a	N/a	N/a
Number of calls to 'Operational helpline' service (service commenced April 1999)	N/a	487,096	539,026	605,466	604,170

Investment expenditure	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54	27	40	47
Distribution	74	97	161	137	107	104	97	141	160	152	170	85	93	108
Sewerage	47	67	108	90	76	73	45	57	68	88	75	51	69	93
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162	89	79	120
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14	18	6	14	9
Other	10	9	11	7	3	3	23	29	54	80	76	61	54	47
	261	395	585	550	445	386	322	412	516	567	556	320	350	425
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545	246	264	337
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11	74	86	88
	261	395	585	550	445	386	322	412	516	567	556	320	350	425
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	6,090

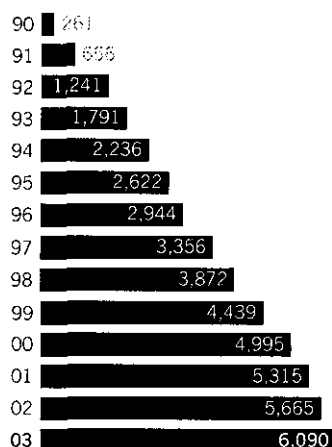
Physical outputs

	1999	2000	2001	2002	2003
Mains – added (Km)	48	42	111	103	109
– renewals (Km)	807	1,010	140	143	410
– relined (Km)	4	160	270	316	101
– number of communication pipes replaced	54,118	54,088	13,706	11,927	13,598
Sewers – added (Km)	724	410	147	354	265
– improved (Km)	2	4	0	10	28
Approximate number of properties where problems of poor pressure alleviated by investment	4,000	5	2,920	1,156	3,478
Number of properties where risk of flooding from sewers has been removed	638	591	119	282	445

Investment – £m
Annual investment expenditure since privatisation



Investment – £m
Cumulative investment expenditure since privatisation



Major operational schemes carried out during year	2003 Total £m	Operational assets	2003 No.
Derby sewage treatment works reconstruction phase 2	12.8	Impounding reservoirs	32
Redditch to Henley strategic link main	4.8	Groundwater sources	203
Bamford water treatment works improvements	4.3	River water intakes	16
Llandinam water treatment works extensions	3.1	Surface water treatment works	20
Meriden to Highters Heath / Northfield link main	2.9	Water supply booster stations	679
Church Wilne additional granular activated carbon plant	2.9	Service reservoirs sites	529
Pershore fisheries consent	2.8	Mains (Km)	45,783
Coaley sewage treatment works urban waste water directive	2.7	Sewers (Km)	53,868
Bromsgrove sewage treatment works river quality outflow	2.7	Sewage treatment works	1,014
Campion Hills treatment works improvements	2.6	Sewage pumping stations	2,929
Coventry outer ring main extension and booster pumping station	2.6	Sludge treatment facilities	56

Quality

Water supply	1998	1999	2000	2001	2002
Overall quality of drinking water					
Number of determinations	263,174	260,282	231,111	237,907	282,799
% 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	41,160	39,292	31,142	29,102	30,018
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of determinations	66,628	64,468	62,482	62,648	62,426
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of determinations	41,816	41,542	40,056	39,890	39,196
% 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	1999	2000	2001	2002	2003
Total number of sewage treatment works	1,004	999	1,001	1,016	1,014
Number of sewage treatment works failing consents	19	7	19	16	18
Number of prosecutions by Environment Agency (EA) resulting in convictions					
Discharge from sewerage system	2	0	0	0	0
Sewage treatment works	0	1	1	0	0
Water treatment works	0	0	0	0	0
Other	0	0	0	0	2
Compliance of numerically consented work					
	1999	2000	2001	2002	2003
Number of works with numeric consents	731	745	685	694	750
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.6%	99.6%	99.3%	99.45%	99.49%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.8%	99.9%	99.9%	99.96%	100.0%
Compliance with non-sanitary standards					
By tests to measure quality	97.2% ¹	99.4%	99.4%	99.72%	99.87%

Notes

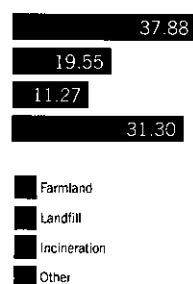
¹ Most failures relate to works which experience problems with colour derived from dye works.

Sewage

Sludge disposal	1999 tds	2000 tds	2001 tds	2002 tds	2003 tds
Farmland	85,800	96,900	66,500	81,400	82,800
Landfill	28,000	23,800	14,800	36,600	42,700
Incineration	22,800	30,200	20,700	27,200	24,600
Sea	0	0	0	0	0
Other	38,600	7,900	45,800	67,400	68,400
Total	175,200	158,800	147,800	212,600	218,500

tds = tonnes dry solids

Methods of sludge disposal - %



Community education

This year has seen a continuation of our work with schools with increasing numbers visiting our on site centres and more talks delivered in schools. We have continued to host 'Safety Zone' events on our sites working alongside other organisations involved with children's safety.

Education for Sustainable Development has been introduced into the National Curriculum and we have been able to support teachers with our materials on Climate Change. We worked in partnership with the Department for International Development and Teachers in Development Education to produce a new resource for teachers called 'Lessons in Sustainable Development'

A particular focus this year has been the transference of some of our teaching materials into an electronic format that is more easily accessible by teachers and pupils and far more economic for storage and delivery. We now have two CD ROMs available Waterwise, which enables pupils to explore the Water Cycle at their own pace and Starting Points KS1/2 which provides teachers with downloadable activities in science.

Our major challenge in 2002/3 was a poetry competition for all aged pupils called 'Poems from a Blue Planet'. Over 4500 poems were received from pupils and 100 have been chosen to be included in a publication of the same name, which will be available in June 2003. Following on from this success the challenge for 2003/4 is 'Images of Water' a photographic competition for schools.

2003 will see the launch of Severn Trent Water's own Wet Water Wizard. This character is the star of a DVD, which takes children on an exciting adventure around the water cycle and will form the basis for teaching the water cycle and related topics to our younger audience. We have expanded on our partnership with the Sea Life Centre in Birmingham by introducing 'Stories from the Riverbank' a story telling experience hosted in our Otter Academy.

We joined in the DWI Children's competition and were pleased when our local winner became overall national Champion and wins a trip to Stockholm in the autumn.

We are working closely with our colleagues in Marketing to take the 'Water Bar' roadshow into towns and cities across the Midlands. This roadshow is designed to promote the drinking of tapwater as the healthy alternative.

Water Conservation remains a high priority for us and we are working with several schools to audit their use of water and to investigate ways to reduce water consumption and increase recycling. The web-site 'waterintheschool' is supporting this and many of the new resources, which we are developing, are being added to the Severn Trent Web-site.

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 centres 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.	2003 No.
Visitors to Severn Trent sites					
Number of pupils visits	31,604	31,067	30,210	29,973	35,084
Number of adult/teacher visits	15,805	12,471	8,237	8,230	7,544
Talks given at non Severn Trent sites					
Number of pupils	18,835	8,502	10,460	8,195	11,290
Number of adults	3,748	4,256	2,597	2,555	2,112

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

P A Stephenson

S Stubbs

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 6SD

Severn Trent Water Limited

PO Box 51

Raynesway

Derby DE21 7JA

Severn Trent Water Limited

Staverton Depot

Cheltenham Road East

Gloucester GL2 9QY

Severn Trent Water Limited

Leicester Water Centre

Anstey Lane

Leicester LE7 7GU

Severn Trent Water Limited

Hucknall Road

Nottingham NG5 1FH

Severn Trent Water Limited

Shelton

Shrewsbury SY3 8BJ

Severn Trent Water

Severn Trent Water Ltd
2297 Coventry Road
Birmingham B26 3PU

www.stwater.co.uk

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