


2366686.

Focusing on performance

Annual Report and Accounts 2004



A11
COMPANIES HOUSE
A0U5Q12R 0557
14/12/04
A45
COMPANIES HOUSE
AGXHDR8 0784
03/12/04



Your water. *Safe in our hands.*

At Severn Trent Water our people are focused on performance, working together to deliver excellent results for our customers – the highest quality and the best value.

Contents

Managing Director's review	02
Directors' report	16
Statement of Directors' responsibilities	18
<i>Independent auditors' report</i>	18
Historic cost financial statements	
Profit and loss accounts	19
Statement of total recognised gains and losses	19
Reconciliation of movements in shareholders' funds	19
Balance sheets	20
<i>Cash flow statement</i>	21
Reconciliation of net cash flow to movement in net debt	21
Notes to the financial statements	22
Regulatory accounts	
Diversification and protection of the core business – Condition F6a	36
Independent auditors' report to the Director General of Water Services	37
Historic cost financial statements	
Group profit and loss account	39
Group balance sheet	39
Current cost financial statements	
Group profit and loss account	40
Group balance sheet	40
Group cash flow statement	41
Reconciliation of net cash flow to movement in net debt	41
Notes to the current cost financial statements	42
Water Industry Act 1991	48
<i>Five year summary</i>	49
Supplementary regulatory accounting disclosures	50
Financial and operating statistics	51

Managing Director's review

Brian Duckworth | Managing Director

This year's two key themes have both sought to position the business for the future. Whilst there has been much work preparing the business for the next price review, it has been equally important to continue to demonstrate good operational performance across all our activities.

Much of management's focus for the last year has been engaged in preparing for the forthcoming regulatory price review. Our fourth Asset Management Plan (AMP4) was submitted to Ofwat in May 2004; as this review was being finalised we were still awaiting the draft determination of prices from Ofwat.

The asset management planning process and the subsequent price determination will be critical in shaping both the direction of the business and our ability to meet customers' expectations of service for the five year period 2005-2010. As I said last year, the price determination process needs to ensure that we have both the necessary financial resources and the associated investment to enable long-term and sustained service delivery to our customers.

Despite our involvement in planning for the future, the company has not been distracted from the operational challenges during the year. Indeed, the year saw record achievements in both drinking water and waste water quality, together with our best ever performances in terms of the customer service standards defined by Ofwat. For example, in the annual report of the Chief Inspector of the Drinking Water Inspectorate (DWI) published in July 2004, Severn Trent Water was the only company to record drinking water quality performances which were "statistically above

average" for both of the key indices used by the DWI to measure water companies' comparative performance.

Along with the record performances, however, the company faced some key operational challenges during the year, the most critical of which was the very warm and dry summer followed by an equally dry autumn.

Whilst our financial results reflect a modest increase in income from our metered household customers as a result of more water being used last summer, the ability to meet customers' high demands for water at peak times was both challenging and costly.

The lessons learned from last summer's experiences have been built into our AMP4 submission; we hope Ofwat will support what we have described as our "hot weather plans". Implementing these plans will help reinforce the water delivery systems to a number of communities where we acknowledged our service did not meet our normally high standards in the summer of 2003.

In preparing our AMP4 submission, we have tried to strike a balance between all the different stakeholders involved in the process. Our overarching ambition, however, has been to prepare a plan which delivers improvements in customer service to the 8 million customers we serve. Over the next five years, the prices which customers can expect to pay for their water services will increase; accordingly, we have urged all the regulatory bodies to demonstrate that above all, customers will be able to notice improvements in the services that we provide.

Financial highlights	2004	2003
Turnover (£m)	945	905
Operating costs (£m)	(616)	(591)
Operating profit (£m)	329	314
Profit before tax (£m)	228	198
Gearing (%)(debt/equity)	121	116
Investment (£m)	442	425

All water companies in England and Wales face a wide range of new challenges over the next five years. There are more new EU standards to meet for both drinking water and waste water quality; more attention needs to be given to replacing old and unreliable plant and equipment, especially our underground water pipes and sewers; and bills will also increase as a result of higher payments for taxes, rates and pensions.

To balance the different stakeholder expectations we have recognised the key challenge is to keep water bills as low as possible. At the same time our investors have expectations of reasonable returns; equally, our quality regulators – the Environment Agency (EA) and the DWI – continue to expect us to invest to meet new quality and environmental standards and achieve improvements in the general environment.

We will continue the dialogue with Ofwat to deliver what we believe to be the best value for customers. We expect that Ofwat's final determination of prices for the period 2005-2010 will be published in December 2004.

Many commentators have found it difficult to reconcile the need for higher prices for water services at a time when the company is celebrating its best ever levels of service. The reality is that we continue to need to invest in our extensive infrastructure if service levels are not to degrade. Not only are we required to invest in new plant to meet new standards, but one of the critical aspects of our future plans is the overwhelming need to invest to maintain our existing plant and equipment.

Some of our water pipes and sewers date back to the late 19th century and the early 20th century; what is long overdue in the water industry is a commitment to replace those parts of our systems where the pipes are old, leaking and undersized.

Such assets are incapable of delivering the level of service our customers rightly expect in the 21st century. Poor water pressure, frequent interruptions to service and property flooding, resulting from the inability of our sewerage system to cope with storm conditions, reflect unacceptable standards of service. Again, we hope that Ofwat will support these critical parts of our plan.

During the year we have worked very closely with WaterVoice, the local regional customer service committee of Ofwat, to help resolve problems experienced by customers. We have also shared our future plans with WaterVoice and encouraged them to help us prioritise some of the areas of customer service improvement. In a similar way we have been involved in a dialogue with our large industrial customers to understand how we can better meet their future service requirements.

When Parliament passed the Water Act 2003 last year, some of the expectations of our larger customers were met because from 2005 those customers who use over 50 megalitres of water each year will have a greater ability to choose their supplier. However, there are currently no plans to extend competition in water to other customer groups.

Alongside the customer service improvements we delivered last year, our record of supporting the environment continues. We work with many customer and environmental groups to help promote a sustainable environment; this is most noticeable through our improvements to Midlands rivers. However, our work with communities is equally important to both the company and our staff. Through our involvement in organisations such as Business in the Community and our support for many local charities, we can demonstrate a real commitment to the Corporate Responsibility agenda.

Improving Customer Experience (ICE)

ICE is a system implemented to support the Severn Trent Water contact centres in delivering an effective and efficient service to customers. The new system helps reduce call times by providing staff easier access to customer and company information.

We continued to invest heavily in improving drinking water and waste water quality, renewing our assets and generally improving customer service.

Financial report

The financial statements on pages 19 to 35 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 the Severn Trent Water Limited group.

Turnover rose by 4.4%, to £945.1 million (2003: £905.0 million). Prices rose by 4.7%, primarily as a result of the effect of the Interim Determination of prices (IDOK) approved by Ofwat to recover the costs of certain new obligations not included in the last full review of prices in 1999. As a result of the IDOK, real price increases of 2.1% were allowed in 2003/04.

We continued to experience growth in income from improvements in meter reading and other income initiatives as well as a one off benefit from increased household consumption due to last summer's hot weather. However, we are still experiencing reductions in consumption by some of our industrial customers.

Operating profits increased by £15.5 million to £329.5 million (2003: £314.0 million). Profit on ordinary activities before taxation was £228.0 million (2003: £198.0 million).

Operating costs (before depreciation and amortisation of deferred credits) were £386.7 million, an increase of £7.6 million (2003: £379.1 million).

Cost savings of £8.1 million were achieved through further productivity improvements and supply chain efficiencies throughout the company. However, these savings were offset by additional operating costs of £7.4 million to meet costs associated with increased water consumption and new quality obligations.

Depreciation, including infrastructure renewals expenditure, increased by £10.3 million to £231.9 million (2003: £221.6 million). This increase reflects the continued effect of the high level of investment.

Capital expenditure in the year was £441.8 million (2003: £425.5 million). We continued to invest heavily in improving drinking water and waste water quality, renewing our assets and generally improving customer service.

Capital expenditure is expected to increase further next year, the last year of our third Asset Management Plan (AMP3). The new programme management and contract delivery strategy continues to enable timely and efficient delivery.

Total group borrowing at 31 March 2004 amounted to £2,292.4 million (2003: £2,174.8 million). Of this 65.4% (2003: 68.1%) was represented by fixed interest borrowings, and 72.7% (2003: 68.4%) was represented by amounts payable after 5 years. Net interest payable increased by £4.9 million to £123.8 million, reflecting the additional borrowings being made by the company to finance its continued high level of investment.

Financial highlights

	Turnover - £m (before customer rebates)	Profit before tax - £m (before exceptional items)	Investment - £m
00	1000	335	556
01	884	208	320
02	893	209	350
03	905	198	425
04	945	208	442

Investing in excellence

As part of our continual investment plan, Ledbury is benefiting from an £8 million upgrade to its sewage works. The new works will use some of the latest technology which will enable us to clean and treat waste water to some of the highest standards in the world.

Once again we have achieved the extremely high standard of 99.9% compliance with all drinking water standards.

Capital investment

Following another successful year of delivery, the AMP3 capital investment programme continues to be on target, with the majority of the year 4 obligations being met. Indeed, in some areas we have been able to deliver early the formal outputs we have agreed with our Regulators. Through effective resource planning we are on track to deliver all of our obligations and outputs by the end of AMP3.

We are continuing to drive further efficiency benefits from improvements to the delivery process and our revised contract strategy. These capital efficiencies will ultimately be passed back to customers through lower prices.

We are also on course to deliver the additional customer benefits agreed as part of the company's successful IDOK application, through a series of investment schemes to resolve internal and external flooding problems.

Water supply

Customers remain at the heart of our business and above all they require total assurance on drinking water quality and security of water supplies. As far as water quality is concerned, our absolute focus continues to be the vital task of public health protection through the provision of clean and safe drinking water. Once again we have achieved the extremely high standard of 99.9% compliance with all drinking water standards; these standards are amongst the toughest in the world and they are independently reviewed by the DWI.

We have continued our programme of investment to ensure that we have the best and safest drinking water in the world. The investment has been focused on completion of work to protect against cryptosporidium and lead and further work on enhanced water treatment.

The security of water supplies was a key issue for us last year during the drought conditions we experienced in the summer and autumn.

Our investments over past years provided us with a greater degree of resilience; and the reinforced links between our aqueduct and trunk main systems allowed us to move water around the company's area.

We ensured that supplies in our upland reservoirs were protected as far as possible by using river and groundwater sources as alternatives. This meant that we used more expensive sources of water but it also ensured that our key reservoirs in Derbyshire and Wales did not fall below 40% capacity at any time. As a result of these actions, we were able to fully replenish all our reservoirs so that by the spring of 2004 they were virtually 100% full. One of the key targets of our water resource managers is to ensure that our reservoirs are filled during winter so that we are able to maintain supplies to customers in the summer.

One of the ways in which we were able to conserve our supplies in the dry conditions was by encouraging our customers to fit a 'save-a-flush' device in their toilet cisterns. Thousands of these devices were given away to customers to both raise the awareness of the drought situation and help customers to adopt very practical water conservation measures.

During the year we completed the new strategic link into Birmingham from the east of the region to improve security of supplies to Birmingham in the event of any disruption of the Elan Valley supplies. In addition we completed a further strategic link between key parts of the aqueduct system south of Birmingham. This will provide further resilience to the supplies into many towns and cities in the West Midlands.

Caring for the environment

Our sewage treatment department also experienced an excellent year. Our near 100% quality record was maintained whilst meeting the challenges of delivering an investment programme which was mainly in place to deliver even higher effluent standards. The scale of our AMP3 investment programme in the period up to 2005 is challenging, but we are currently ahead of target in delivering the required improvements at a further 320 sewage works and 300 sewer overflows.

This investment is essential not just to secure the environmental gains we have already made, but to build on this foundation by making further steady progress to improve those rivers which still do not achieve their long-term quality targets. In addition, the introduction of the Nitrate Vulnerable Zone Regulations at the beginning of the year gave significant challenges to our sludge recycling teams. Despite this, our 100% record on complying with sludge to land requirements has been maintained.

We have also continued to maintain an excellent performance in terms of compliance with all environmental permits and this has been recognised by the Environment Agency in attributing much of the 47% increase in improvement in river quality since 1990 to investment by Severn Trent Water. Moreover, the health of the Midlands river system is visibly demonstrated by the dramatic return of both the otter and salmon across large areas of our waterways.

Striving for ever greater efficiency continues to be a key theme in sewage treatment. Good examples of this are the continuing delivery of our combined heat and power electricity generation programme and the deployment of a new computerised system for asset maintenance which can be used by staff away from their normal reporting bases. Power generation capacity totalling more than 4 megawatts was installed during the year at sewage treatment works in Stoke-on-Trent, Burton-upon-Trent and Redditch.

We already produce about 8% of our electricity needs from our own renewable resources. This performance 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.

In preparing our business plan for AMP4, we have been working closely with the EA to understand the quality improvements which they and Government will require in the five years to 2010. It is clear from the scale of new regulatory obligations that the environmental programme for AMP4 will be similar to the one we are currently completing. Although the expected programme will only affect around 10% of our sewage works, they account for almost 50% of the total treated flow.

Beating the cistern

2003 was one of the driest years on record and to encourage customers to conserve water, Severn Trent Water launched a series of town centre giveaways. A save-a-flush is a perforated sachet containing granules which absorb water and swell to save a minimum of one litre of water with each flush. The devices were given away free to be placed in toilet cisterns.

Our sustained investments in river water quality improvements were rewarded by increasing numbers of salmon in the River Trent.

Caring for our communities

Whilst the warm dry weather last year presented challenges for water supplies, it had a much more positive benefit on our access, recreation and education activities. Attendance at our visitor sites and education centres increased by over 10%. We hosted over 200 events for our visitors, amongst the most popular being our first large concert at Carsington Water, where folk group Lindisfarne attracted an audience of 1,500 paying customers.

The care we input to our visitor activities was reflected with a RoSPA Health and Safety Gold award. Next year will see further investment in our visitor service with the construction of a new visitor centre at Draycote Water and the extension of our successful retail operation at Carsington Water.

One of the key opportunities to reach our customers of tomorrow is through our education activities. During the year we introduced our Wet Water Wizard to thousands of Midlands schoolchildren. Through our Wet Water Wizard we have been able to communicate and reinforce a wide range of water-related issues to children of all ages.

Growing our biodiversity agenda

The black grouse population declined in the Peak National Park during the last century, finally disappearing in 2000. Based on our research at Lake Vyrnwy and following much detailed work to obtain the necessary support and consents, we achieved a UK first in successfully re-introducing these spectacular birds to the Peak National Park.

In partnership with the National Trust 30 birds were released in the Upper Derwent Valley in October 2003, with another 60 birds set to follow over the next two years.

In another first, two years of investigation and preparation also bore fruit at Carsington Water where we introduced native white clawed crayfish to the ideal habitat we have provided. The crayfish were transferred from our Nanpantan reservoir near Loughborough where we already have a large and thriving population.

Our sustained investments in river water quality improvements were rewarded by increasing numbers of salmon in the River Trent. The results of the National Otter Survey also confirmed a 383% increase in activity in the River Trent catchment since 1986 – the largest for any river in the UK.

Introducing the Wet Water Wizard

Our magical Wet Water Wizard will take children on an exciting journey around the water cycle, explaining the reasons why it is so important that we value every drop. Suitable for children from nursery school onwards this film is a fun way to understand the importance of water to all of us.

Working with the community

Severn Trent Water is working with Rainbow Children's Hospice in the East Midlands, creating an Eco Garden that demonstrates how gardening and wildlife work in harmony. The finished garden will include a wildflower meadow, a bee and butterfly garden and a water conservation garden. Regular volunteers from Networks, Facilities and Marketing are helping to complete this project. We hope to leave a legacy where parents and children can have time to reflect and think.

One of the company's key targets is to ensure that we maintain a sustainable environment for all the communities we serve.

Growing our biodiversity agenda *continued*

We also continued to deliver our Biodiversity Action Plan across the region with over 100 new management plans being implemented at our operational sites with continuing roll out planned for the coming years.

The quality of our work and our commitment were rewarded when, after a detailed and rigorous assessment, we became the first water company to be awarded the Wildlife Trust's Biodiversity Benchmark. *We were also delighted to uniquely win two prizes in the Green Apple Awards for our Aston Hall Farm wetland scheme and the Meriden to Highters Heath Trunk Main project. The Aston Hall Farm project also won first prize in the CIWEM/RSPB Living Wetlands Awards.*

Towards sustainability

One of the company's key targets is to ensure that we maintain a sustainable environment for all the communities we serve. We do this by making environmental and community care integral to the way we operate our business.

Our sustainability objectives extend beyond compliance and we have set targets in areas such as water resources, leakage, climate change, transport, energy, materials management, chemical usage and biodiversity.

Sustainable development must address not only environmental matters but also social and economic issues. We have a proven record in the area of corporate responsibility and we are building this more fully into an integrated sustainability

policy. This includes a major commitment to environmental education with the number of school pupils benefiting from our community education programmes steadily increasing.

We maintain and renovate many historic buildings which are part of our heritage. In addition we work with a number of key partnership charities and support staff are actively involved in community volunteering.

Sustainability can only be delivered by organisations staffed by people committed to achieving that goal. Last December we celebrated the 10th Anniversary of our annual in-house Environmental Awards competition, now updated to cover all aspects of sustainable development. The Awards celebrate the success and achievements of our employees in finding innovative ways of incorporating the principles of sustainable development into their everyday work.

Moving towards a truly sustainable future presents immense challenges. The progressive implementation of the new EU Water Framework Directive will demand a fundamentally new approach to the way we manage water, particularly its interaction with the land. We believe that its implementation of this new Directive must consider all aspects of sustainable development. It is particularly important that the problem of diffuse pollution is tackled by Government and Regulators with creativity. We will play our part in this challenge but it must involve all stakeholders, not just water companies.

Customer services for domestic customers

The year has been an excellent one for Severn Trent Water customers. We have achieved or exceeded all of our customer service targets and we are hoping to sustain our high scores in Ofwat's Overall Performance Assessment (OPA). During the year Ofwat reported that we achieved first place in the OPA in respect of 2002/03.

A number of new computer systems helped to improve customer service. The introduction of our Incident Recognition and Management System for water and drainage telephone contacts has meant that no customers calling our 0800 emergency number received the engaged tone in the year. The recent launch of new software in our Coventry Customer Contact Centre – Improving Customer Experience (ICE) – has further enhanced our response to service contacts. These technologies have also helped us to reduce customer complaints by over 20% in the last year.

'Access' is our range of services for less able and older customers. These services have been completely reviewed and updated. All of the customers registered for such services have been contacted and their requirements updated. As well as large print or Braille bills and bottled water in emergencies for less mobile customers our password scheme for home visits has proved extremely popular.

We have successfully migrated nearly half a million customers to our new billing system, TARGET. The remaining customers will be transferred to the new system during 2004/05. This system gives us the opportunity to improve the format of our bills, deal with more customers at first point of contact and ensure customers are billed accurately for the services they receive. The feedback from our metered domestic customers has already been very positive.

Achieving recognition for best practice

Severn Trent Water's continued environmental best practice has been awarded first and second place in the national Green Apple Environment Awards in London.

Our Customer Promise commitments will help us focus on what really matters to our business customers.

Industrial and commercial customer service

Our commitment to business customers continues to strengthen, with innovative solutions developed to reduce costs and consumption, protect the environment and increase knowledge of water use and safety across all industry sectors.

Our enhanced billing service for large multi-site commercial customers has also proved very popular. The Billing Manager and Data Monitor products operating through a fast, single point of contact offer consolidated bills and detailed management information, providing a value added service tailored to business needs.

Last year we launched two Customer Promises for business customers and housing developers. These make clear the standards of service offered. *Our Customer Promise commitments will help us focus on what really matters to our business customers – efficient provision of water and waste water services.*

Protecting the environment is paramount and we are proud to support our customers on a national basis in their efforts to improve the way they use, reuse and dispose of resources. Innovative thinking provided an environmentally sustainable solution to waste generated by brewer Carlsberg UK, using carbon dioxide, a natural by-product of brewing, to correct the pH levels of caustic wash water. This then ensured that effluent flow remained within environmental consent limits and maximized the use of a resource already available.

Protecting our customers' reputations helps shape our business products. Warwick Racecourse, Delta Biotechnology, MG Rover and the Rank Group Gaming Division, across the UK, chose Water Guardian. This product ensures on-site water supply meets current legislative requirements regarding Legionella bacteria.

Competition

The ability of existing water companies to compete for large industrial customers will be extended in the autumn of 2005 as the competition elements of the Water Act 2003 come into effect. We are currently considering how best to use our existing strengths to take advantage of these new competitive opportunities. The Act allows for prospective new entrants to apply for a licence to compete for eligible customers, those consuming more than 50 megalitres a year.

The Water Act 2003 also implemented changes to the regulatory framework under which companies operate, altering the abstraction licensing regime and making provisions for improvements to water conservation.

We have been working to ensure that the competition elements of the Water Act are implemented in a sensible and practical way to ensure safe, sustainable competition with minimal adverse impact on our customers. We were pleased to have a significant input to the Ofwat Advisory Groups that are guiding the implementation process.

Reducing cost, improving performance

Network Guardian, launched this year, helps customers minimise costs and improve the environmental performance of on-site water supply infrastructure. Providing comprehensive mapping of underground networks (a requirement of IPPC and other environmental legislation) it also offers leak location and asset condition reports. Our Network Guardian work at Bristol Port Company helped reduce on-site leakage, saving over £55,000 per year in lost water; and food processing company Dawkins will save £3,500. George Eliot Hospital used Network Guardian to secure supplies to its new renal unit and maintenance teams at Rolls Royce have completed the training element of Network Guardian.

Taking care of quality

We are working in partnership with MG Rover Group to make sure on-site water usage and storage at the Longbridge site complies with the Water Regulations, using our Water Guardian service.

Once again Severn Trent Water has delivered all its regulatory, financial, environmental and customer service targets during the year.

Our people

Excellent teamwork and the commitment of all our people have delivered outstanding results this year. This performance is a huge credit to the combined efforts and professionalism of everyone. Our annual employee opinion survey showed the best ever level of employee satisfaction and the highest ever response rate.

The high quality of our learning and development programmes has been recognised with three external awards and we continue to develop the *capability of our people through new skills and learning solutions*.

Our new diversity strategy was launched this year and we continue to make progress on building ever stronger relationships with our communities. This is resulting in a more diverse range of applicants for jobs and appointments.

Communication is a great strength in our company. During the year we launched our new company intranet "Streamline" which provides a superb platform for keeping our people informed and up-to-date.

Health and safety

The Health and Safety of our employees, contractors and visitors to our sites has always been a major area of focus. Although our record is good, we continue to strive for further improvements through a number of initiatives.

Issues targeted in the year included manual handling and lifting, hand-arm vibration syndrome and stress. In addition we have created a much greater focus on the personal health of all our employees with the encouragement of work:life balance initiatives. Our Harmony project was introduced to encourage all employees to be more *proactive in improving and maintaining good health*.

During the year we achieved our third British Safety Council 5 Star Award at the Little Eaton water treatment works in Derby.

Looking ahead

Once again Severn Trent Water has delivered all its regulatory, financial, environmental and customer service targets during the year and we can again expect to achieve a high score in Ofwat's OPA assessment.

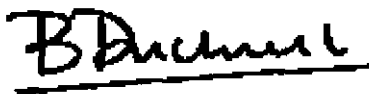
Such achievements do not come without much hard work. In Severn Trent Water we have never taken for granted the magnificent effort from all our people everyday to maintain these standards.

Our AMP4 submission to Ofwat earlier this year should help us further develop those standards, although the improvements will inevitably result in higher prices for customers.

The support of both our customers and investors is also critical for the future, so I am sure the Severn Trent Water team will continue to ensure that these key stakeholders' expectations are met.

Earlier this year I announced that after ten years as Managing Director of Severn Trent Water, I would be leaving the company later this year. The company has achieved much during this period and I have been proud to lead what I believe is the best water company in the UK. I leave the company in excellent shape, with a very committed and reliable group of people managing those vital for life services for over eight million users in the East and West Midlands.

Just a few weeks ago, in the Queen's Birthday Honours, it was announced that I had been awarded an OBE for my services to the water industry. I share that award with all those people in the Severn Trent Water team who have supported me over the years and whose commitment to the sustainability of Severn Trent Water is second to none. I leave Severn Trent Water knowing that the business and the services we provide are "*safe in their hands*".



Brian Duckworth – Managing Director

Nurturing a healthy workforce

In caring for the health and well-being of our colleagues, we have introduced the Harmony lifestyle programme. It provides advice and guidance to employees on *maintaining a healthy lifestyle and ensuring a work life balance.*

The Directors present their report, together with the audited financial statements for the year ended 31 March 2004.

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 £945.1 million (2003: £905.0 million), and operating profit was £329.5 million (2003: £314.0 million). Profit on ordinary activities before taxation was £228.0 million (2003: £198.0 million).

Business review and future developments

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

A review of activities is also contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU. (There is no charge for this publication). Alternatively the report can be viewed and downloaded from Severn Trent Plc's website at www.severntrent.com/reports2004

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 2004 amounted to £158.0 million (2003: £141.9 million).

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

Directors

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

R M Walker	Chairman
B Duckworth	Managing Director
T D G Arculus	
J H Bailey	
J K Banyard	
I Elliott	
J A Hill	
G P Noone	
P F Stephenson	
S Stubbs	
M R Wilson	

The company has recently announced a number of changes regarding its Directors. Mr R M Walker will retire as chairman on 2 February 2005 and Mr T D G Arculus will retire on 31 December 2004. Mr B Duckworth will step down from the board at the end of August 2004. Mr G C Messham, Mr R S S Martin and Mr S H Reilly will all join the Board in September 2004.

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 pages 24 and 25.

None of the Directors retains any notifiable interest in the shares of the company or any other group company as at 31 March 2004.

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 34 days (2003: 33 days) after the invoice date.

Research and development

Expenditure on research and development was £4.5 million including £1.0 million spent on fixed assets, compared to £4.6 million in 2003, (including £1.0 million on fixed assets).

Work has continued to minimise the production of sludge and to support beneficial sludge recycling. A feasibility trial has been carried out to demonstrate the suitability of a combined centrifuge and sludge drier to operate at the scale demanded by the AMP4 programme.

Efforts continue to ensure the company has secured its position to meet forthcoming directives, standards and regulations including the removal of heavy metals and nutrients such as phosphorus and nitrogen from wastewater effluents. Identifying the most beneficial processes and technology for wastewater effluents which vary from site to site will enable capital and ongoing revenue expenditure to be optimised.

Research has continued into the removal of endocrine disrupting chemicals, pharmaceuticals and persistent organic pollutants within wastewater treatment.

The Sorb 33 process, extensively researched last year, is now in successful, full scale operation at 16 sites enabling the company to meet the new heavy metal standards for drinking water. Ongoing work will seek to maximise applications for the media and its derivatives.

Optimisation and stabilisation of drinking water quality to improve customer satisfaction has been a significant achievement this year. Innovations such as a novel reservoir management system will lead to more stable chlorine concentrations and improved management of filtration will achieve reduced numbers of discolouration events.

Work on processes such as coagulation, filtration and clarification is assisting in ensuring we achieve the maximum efficiency from our operational activities.

Employees

The average number of employees during the year was 4,847 (2003: 4,724).

2004 has been a busy year with many important developments in our people policies and practices – these are contributing significant benefits to the company supporting the excellent business results achieved this year. The Human Resources team has assisted the continuing drive for efficiency while *introducing best in class approaches*.

The small increase in the number of employees is a result of changes in the resourcing of activities previously undertaken by contractors and agencies. Some of these have been *integrated into the business to deliver better economies and control*. We have also introduced new working arrangements into operational areas such as annualised hours work patterns and working from home to enable greater flexibility and responsiveness.

Our worklife balance and flexible working policies continue to evolve and provide attractive options, including part time hours, for many more employees yet also helping to improve retention levels and customer service.

Lifestyle, our flexible benefits programme, is now extensively used by most employees who value it as an important part of our employment package. This differentiates us from many other companies in our sector.

Last year we extended the use of our performance management appraisal process to all staff, which has ensured our people not only receive regular feedback on their contribution and personal development but also provides a direct link with our business goals and values. It has also provided the best possible foundation for the introduction of our new reward framework allowing employees to be recognised and rewarded for their contribution. This new reward framework takes us away from a history of “across the board” pay settlements and enables the recognition of individual performance. We have taken great care to ensure all employees are fully familiar with the new reward framework to ensure transparency and openness.

Through our active use of succession planning we have been able to foresee and plan for any areas of resource vulnerability and enable career moves for our talented people. Our graduate and apprentice recruitment campaigns have been successful with 38 appointments.

Our excellent management development portfolio operating with leading business schools has been strengthened with the addition of the “First Base” programme for new line managers. The high quality of our training programmes received recognition with three awards. *The Institute of Leadership and Management* award for excellence in Supervisory Management and the Sector Skills Council (formerly Gwinto) award for our BSc programme in Water and Environmental management and our partnership with Warwick Business School.

An important goal for us is to make learning opportunities available and accessible to all employees. We have therefore extended the number of learning resource centres providing materials and resources for employees including e-learning options via the new company intranet and internet providers.

Quest, our annual employee survey, provides important feedback on what it is like to work for us. This year we have achieved our best ever results with a high company mean score and an excellent response rate.

Although the market for talented people continues to be a challenge for many companies, our new centralised recruitment team has had great success this year not only improving our employer brand, and thereby our ability to resource all key positions, but also using new technologies to shorten lead times to appointment.

The use of new Human Resources information systems is proving a worthy investment as we have not only improved our process management but are now well on the way towards enabling employees to select parts of the employment package via the company intranet.

At the beginning of 2004 we announced the introduction of new sections to our pension scheme including the option of a career average defined benefit plan and a defined contribution investment plan for all new employees from April 2004.

Our partnership agreement with trade unions continues to strengthen with an active dialogue on business plans and activities with managers and employee representatives working together to enable progress. We have some excellent examples of joint working including local change plans and policy development e.g New Reward Framework.

Our well structured arrangements for internal communications including monthly teamtalk and the award winning in-house magazine “Newstream”, have been further enhanced by the launch of our new company intranet “Streamline”. This is an internet site designed exclusively for our people covering a wide range of topics including news, announcements, reference materials and contact details.

Diversity in employment: Opportunities for disabled persons. We are committed to promoting equality and welcome diversity in all aspects of business practices. Our regular monitoring helps us track levels and trends which continue to improve.

With our diversity strategy and policy in place we have made important progress by working closely with community organisations and using more innovative approaches. This has resulted in a more diverse range of applicants and subsequent appointments. We continue to benchmark and develop our policies and practices in this area, taking guidance from best practice advisors such as Race for Opportunity and the Employers’ Forum on Disability.

Our dedicated access team continues to manage and review services offered to customers with individual needs.

Regulation: ‘Ring Fencing’

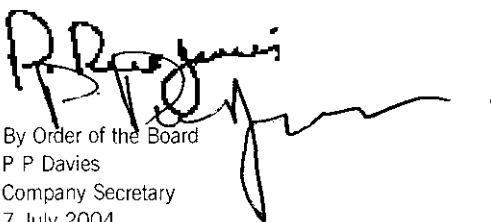
In accordance with the requirements of the Director General of Water Services, the Board confirmed that, as at 31 March 2004, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property 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

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 2004

Statement of Directors' responsibilities

The Directors are required by the United Kingdom Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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 have 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 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 the group 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, movements in shareholders' funds, reconciliation of net cashflow to movements in net debt 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 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 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.

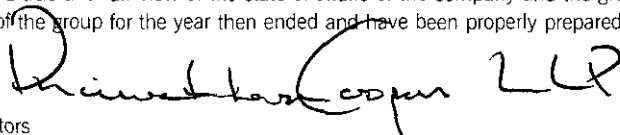
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2004 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
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT
7 July 2004



Profit and loss accounts

Year ended 31 March 2004

	Notes	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
Turnover		945.1	905.0	945.1	905.0
Operating costs	2	(615.6)	(591.0)	(626.5)	(603.2)
Operating profit		329.5	314.0	318.6	301.8
Other income		2.6	2.9	2.6	2.9
Profit before interest and exceptional profit on disposal of fixed assets		332.1	316.9	321.2	304.7
Exceptional profit on disposal of fixed assets	2	19.7	-	19.7	-
Net interest payable	4	(123.8)	(118.9)	(112.0)	(105.2)
Profit on ordinary activities before taxation		228.0	198.0	228.9	199.5
Taxation on profit on ordinary activities					
current tax	5	(21.6)	(8.8)	(22.5)	(9.9)
deferred tax	5	(40.3)	(55.4)	(40.3)	(55.4)
Taxation	5	(61.9)	(64.2)	(62.8)	(65.3)
Profit for the financial year		166.1	133.8	166.1	134.2
Dividends	6	(158.0)	(141.9)	(158.0)	(141.9)
Retained profit / (loss) for the financial year	15	8.1	(8.1)	8.1	(7.7)

All activities are continuing activities

There is no difference between the profit on ordinary activities before taxation and the retained profit / (loss) for the financial years stated above, and their historical cost equivalents.

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

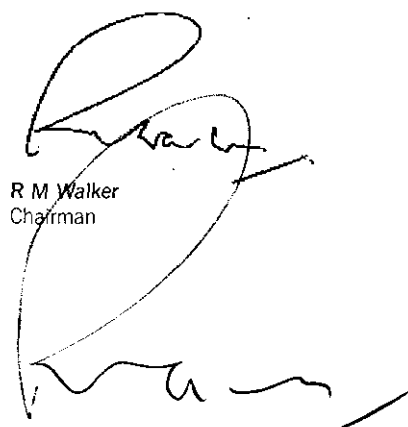
	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Opening shareholders' funds	1,876.2	1,884.3	2,110.3	2,118.0
Profit for the financial year	166.1	133.8	166.1	134.2
Dividends	(158.0)	(141.9)	(158.0)	(141.9)
Net addition to / (reduction in) shareholders' funds	8.1	(8.1)	8.1	(7.7)
Closing shareholders' funds	1,884.3	1,876.2	2,118.4	2,110.3

Balance sheets

As at 31 March 2004

	Notes	2004 £m	Group 2003 £m	2004 £m	Company 2003 £m
Fixed assets					
Tangible assets	7	4,872.9	4,702.2	4,870.9	4,700.2
Investments	8	0.6	0.6	67.3	67.3
		4,873.5	4,702.8	4,938.2	4,767.5
Current assets					
Stocks		4.1	3.5	4.1	3.5
Debtors	9	184.0	164.5	198.9	175.8
Cash at bank and in hand		0.1	0.1	0.1	0.1
		188.2	168.1	203.1	179.4
Creditors: amounts falling due within one year	10	(608.4)	(640.7)	(620.3)	(650.4)
Net current liabilities		(420.2)	(472.6)	(417.2)	(471.0)
Total assets less current liabilities		4,453.3	4,230.2	4,521.0	4,296.5
Creditors: amounts falling due after more than one year	11	(2,087.8)	(1,912.7)	(1,920.3)	(1,743.8)
Provisions for liabilities and charges	13	(481.2)	(441.3)	(482.3)	(442.4)
Net assets		1,884.3	1,876.2	2,118.4	2,110.3
Capital and reserves					
Called up share capital	14	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	15	884.3	876.2	1,118.4	1,110.3
Equity shareholders' funds		1,884.3	1,876.2	2,118.4	2,110.3

Signed on behalf of the Board who approved the accounts on 7 July 2004.



R M Walker
Chairman



M R Wilson
Finance and Regulation Director

Group cash flow statement

Year ended 31 March 2004

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	18a		559.6		534.5
Returns on investments and servicing of finance					
Interest received		1.1		0.3	
Interest paid		(98.8)		(94.5)	
Interest element of finance lease rental payments		(19.4)		(22.2)	
			(117.1)		(116.4)
Taxation			(4.0)		(1.5)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(451.6)		(429.2)	
Grants received		36.3		29.9	
Sale of tangible fixed assets		23.5		10.1	
			(391.8)		(389.2)
Equity dividends paid			(158.0)		(141.9)
Net cash outflow before financing			(111.3)		(114.5)
Financing					
Loans advanced		259.0		188.4	
Loans repaid		(161.9)		(178.7)	
			97.1		9.7
Net decrease in cash			(14.2)		(104.8)

Reconciliation of net cash flow to movement in net debt

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Net decrease in cash as above		(14.2)		(104.8)	
Cash flow from movement in net debt and financing		(97.1)		(9.7)	
Change in net debt resulting from cash flows			(111.3)		(114.5)
Rolled up interest on debt			(8.8)		(2.9)
Rolled up interest on finance leases			2.5		1.3
Increase in net debt			(117.6)		(116.1)
Opening net debt			(2,174.7)		(2,058.6)
Closing net debt	18b		(2,292.3)		(2,174.7)

Notes to the financial statements

Year ended 31 March 2004

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 2004. 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 mains 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 on a straight line basis 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.

f) Grants and contributions

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

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 £362.6 million lower than it would otherwise have been (2003: £327.0 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.

1 Accounting policies *continued*

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 capitalised and written off over the expected useful life of those assets.

l) Deferred taxation

Deferred taxation is fully provided in respect of 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 based on consistent year on year assumptions.

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 (1d).

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 2004

2 Analysis of operating costs and exceptional items	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
a) Analysis of total operating costs				
Wages and salaries	121.3	115.7	121.3	115.7
Social security costs	9.7	8.3	9.7	8.3
Pension costs (note 17)	15.5	14.9	15.5	14.9
Total employee costs	146.5	138.9	146.5	138.9
Power	26.2	27.4	25.3	27.4
Raw materials and consumables	29.2	31.7	29.2	31.7
Rates	48.1	50.5	48.1	50.5
Service charges	24.8	23.3	24.8	23.3
Other operating costs	86.6	86.3	86.6	86.9
Depreciation charge (note 7)	231.9	221.6	231.9	221.6
Deferred income released	(3.0)	(3.0)	(3.0)	(3.0)
Hired and contracted services	73.8	67.3	74.7	67.3
Hire of plant and machinery	4.6	5.4	4.6	5.4
Other operating leases	1.1	1.9	12.0	14.1
Audit fees	0.2	0.2	0.2	0.2
Research and development expenditure	3.5	3.6	3.5	3.0
Profit on disposal of tangible fixed assets	-	(6.7)	-	(6.7)
	673.5	648.4	684.4	660.6
Own work capitalised	(57.9)	(57.4)	(57.9)	(57.4)
Total operating costs	615.6	591.0	626.5	603.2

Other fees paid to the auditors, PricewaterhouseCoopers LLP included within other operating costs for both group and company amounted to £156,000 (2003: £72,000).

b) Exceptional profit on disposal of fixed assets

Profits on disposal of fixed assets, expressed on a like for like basis, comprising only sales of land and property, have arisen as follows in the reported periods:

Profits on disposal of fixed assets	19.7	6.7	19.7	6.7

In the current period, profit on disposal of fixed assets amounted to £19.7 million have been shown separately as exceptional on the face of the profit and loss account, after operating profit, due to the materiality of the amounts involved. In previous periods such profits on disposal (shown above) were not treated as exceptional and were reported within operating costs, given their relative magnitude.

Change in analysis

In prior periods, profit on disposal of fixed assets other than land and property were also reported within operating costs as part of a total figure for profits on disposal of fixed assets. They are now regarded more appropriately as minor adjustments to depreciation. A £0.2 million loss arising from such adjustments in the current year have been included within the depreciation charge. A £0.2 million depreciation charge arose in the year to 31 March 2003.

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 2003	31 March 2004	1 April 2003	Exercised during the year	Cancelled during the year	Granted during the year	31 March 2004
	Ordinary shares of 65 ¹ / ₁₉ p each	Ordinary shares of 65 ¹ / ₁₉ p each					
J H Bailey	1,250	3,120	8,627	(3,120)	-	623	6,130
I Elliott	4,348	4,607	1,823	-	-	-	1,823
G P Noone	12,442	12,757	3,567	-	-	-	3,567
P F Stephenson	260	228	3,567	-	-	-	3,567
S Stubbs	-	-	-	-	-	-	-

3 Information regarding Directors and employees *continued*

Directors: *continued*

- 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 2004. 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 year ended 31 March 2004. Share options were granted and exercised in accordance with the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.
- ii) The executive Directors have further interests in Severn Trent Plc ordinary shares of 65^{5/16}p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 30 August 2001, 24 September 2002 and 13 August 2003. 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 awards are based on a combination of Severn Trent Plc's Total Shareholder Return ('TSR') and Economic Profit Targets. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 2003				At 31 March 2004			
	Number of ordinary shares of 65 ^{5/16} p each	Awards vested during year	Market price at time of vesting(p)	Gain on vesting (£'000)	Awards lapsed during year	Awarded during year	Market price at time of award(p)	Number of ordinary shares of 65 ^{5/16} p each
J H Bailey	19,103	(2,177)	699.25	15.2	(2,178)	8,074	660.5	22,822
I Elliott	26,239	(3,097)	699.25	21.7	(3,097)	11,679	660.5	31,724
G P Noone	21,326	(3,192)	699.25	22.3	(3,192)	8,074	660.5	23,016
P F Stephenson	18,417	(2,512)	699.25	17.6	(2,512)	8,074	660.5	21,467

No further awards have been made under the LTIP as at 7 July 2004.

The performance period for allocations of shares in 2001 ended on 31 March 2004. Severn Trent Plc's Remuneration Committee has subsequently determined, based on that company's TSR and Economic Profit Targets over the three year performance period, that participants are entitled to 100% of the award. The 2001 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 2001 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 ^{5/16} p each vested from the 2001 award	Gain on vesting (£'000)
J H Bailey	30 August 2001	750	820.75	6,462	53.0
I Elliott	30 August 2001	750	820.75	8,571	70.3
G P Noone	30 August 2001	750	820.75	6,656	54.6
P F Stephenson	30 August 2001	750	820.75	5,425	44.5

	2004 £'000	2003 £'000
b) Emoluments		
Aggregate emoluments (excluding pension contributions)	1,672.2	1,473.5

- i) Non cash benefits included in aggregate emoluments consist mainly of the provision of cars and health care insurance.
- ii) No emoluments were paid to certain of the Directors in respect of their services to the company. Their emoluments are paid by other companies within the Severn Trent group. In aggregate £669,940 (2003: £609,608) 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 (2003: seven Directors) under a defined benefit scheme.

	2004 £'000	2003 £'000
c) Highest paid Director		
Aggregate emoluments (excluding pension contributions)	381.4	343.9

The accrued pension at 31 March 2004 for the highest paid Director was £139,506 (2003: £124,558).

The pension entitlement is that which would be paid annually on retirement based on service to the end of the year.

	Group and company	
	2004 Number	2003 Number
Employees:		
Average number of employees during the year (full time equivalent):	4,847	4,724

Notes to the financial statements

Year ended 31 March 2004

4 Net interest payable	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Interest receivable and similar income	1.1	0.3	0.8	0.3
Interest payable and similar charges:				
Bank loans and overdrafts	(35.4)	(33.9)	(35.4)	(33.9)
Other loans	(72.6)	(64.4)	(9.4)	(9.3)
Finance leases	(16.9)	(20.9)	(8.2)	(7.2)
To subsidiary undertaking	-	-	(59.8)	(55.1)
	(123.8)	(118.9)	(112.0)	(105.2)

5 Taxation on profit on ordinary activities	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
a) Analysis of charge in the year				
Current tax				
UK corporation tax @ 30% (2003:30%)				
Current year	20.4	2.4	20.4	2.4
Prior year	(8.2)	(7.4)	(8.2)	(7.4)
Group relief payable @ 30% (2003:30%)				
Current year	9.4	13.9	10.3	15.0
Prior year	-	(0.1)	-	(0.1)
Total current tax	21.6	8.8	22.5	9.9
Deferred tax				
Origination and reversal of timing differences				
Current year	36.7	42.0	36.7	42.0
Prior year	8.2	7.4	8.2	7.4
(Increase) / decrease in discount	(4.6)	6.0	(4.6)	6.0
Total deferred tax	40.3	55.4	40.3	55.4
Total tax charge	61.9	64.2	62.8	65.3

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	228.0	198.0	228.9	199.5
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2003:30%)	68.4	59.4	68.7	59.9
Effects of:				
Items not taxable and not deductible for tax purposes	(1.9)	(1.1)	(1.3)	(0.5)
Capital allowances for period in excess of depreciation	(34.1)	(42.7)	(34.1)	(42.7)
Utilisation of / movement in short-term timing difference	(2.6)	0.7	(2.6)	0.7
Adjustment to tax charge in respect of prior periods	(8.2)	(7.5)	(8.2)	(7.5)
	21.6	8.8	22.5	9.9

Of the current year tax charge, £4.2 million relates to tax charges arising on the exceptional item.

c) Factors affecting future tax rates

The group's current tax charge, excluding tax arising from exceptional items, of £17.4 million (2003: £8.8 million) represents 8.4% (2003: 4.4%) of the group's profit after interest but before exceptional items.

The group's current tax charge will be affected in future years by the requirements of AMP4 which will impact both depreciation and capital allowances.

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
	2004 £m	2003 £m	2004 £m	2003 £m
Dividend paid	158.0	141.9	158.0	141.9

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 2004 amounted to £158.0 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 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
Additions	76.4	193.5	171.9	441.8	76.4	193.5	171.9	441.8
Grants and contributions	-	(35.6)	-	(35.6)	-	(35.6)	-	(35.6)
Assets sold or written off	(7.0)	(0.6)	(48.8)	(56.4)	(7.0)	(0.6)	(48.8)	(56.4)
At 31 March 2004	1,803.8	3,204.5	2,393.3	7,401.6	1,803.8	3,202.2	2,393.4	7,399.4
Depreciation								
At 1 April 2003	504.9	883.3	961.4	2,349.6	504.9	883.1	961.4	2,349.4
Charge for year	34.0	56.6	141.3	231.9	34.0	56.6	141.3	231.9
Assets sold or written off	(5.5)	(0.6)	(46.7)	(52.8)	(5.5)	(0.6)	(46.7)	(52.8)
At 31 March 2004	533.4	939.3	1,056.0	2,528.7	533.4	939.1	1,056.0	2,528.5
Net book value								
At 31 March 2004	1,270.4	2,265.2	1,337.3	4,872.9	1,270.4	2,263.1	1,337.4	4,870.9
At 1 April 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

	Group			Company
	2004 £m	2003 £m	2004 £m	2003 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:				
Cost	275.8	276.0	273.4	273.6
Accumulated depreciation	(71.7)	(64.5)	(71.4)	(64.2)
Net book value	204.1	211.5	202.0	209.4
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	1,270.1	1,229.2	1,270.1	1,229.2
Short leasehold	0.3	0.3	0.3	0.3
	1,270.4	1,229.5	1,270.4	1,229.5

Notes to the financial statements

Year ended 31 March 2004

7 Tangible fixed assets continued	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
iv) Depreciation incurred during the year has been charged as follows:				
Owned assets non infrastructure	168.0	157.8	168.0	157.8
Owned assets infrastructure	56.6	55.6	56.6	55.6
Assets held under finance leases	7.3	8.2	7.3	8.2
	231.9	221.6	231.9	221.6

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

Land	25.7	24.3	25.7	24.3
Assets in the course of construction	234.7	296.8	234.7	296.8
	260.4	321.1	260.4	321.1

8 Investments				Group
				Total £m
Cost and net book value at 1 April 2003 and 31 March 2004			Other investments £m	0.6
				0.6
				Company
	Shares in subsidiary undertakings £m	Loans in subsidiary undertakings £m	Other investments £m	Total £m
Cost and net book value at 1 April 2003 and 31 March 2004	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	
	2004 £m	2003 £m	2004 £m	2003 £m
Trade debtors	70.1	72.0	70.1	72.0
Amounts owed by parent and fellow subsidiary undertakings	1.5	0.7	22.2	18.2
Other debtors	9.2	9.9	9.2	9.9
Prepaid pension contributions	0.3	0.3	0.3	0.3
Prepayments and accrued income	102.9	81.6	97.1	75.4
	184.0	164.5	198.9	175.8

Included within group debtors is £6.4 million (2003: £6.6 million) which falls due after more than one year. Company £21.2 million (2003: £18.0 million).

10 Creditors: amounts falling due within one year	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank overdrafts	163.8	149.6	165.8	151.3
Bank loans	64.0	97.3	64.0	97.3
Amounts owed to subsidiary undertakings	-	-	24.0	64.6
Other loans	24.0	64.6	-	-
Obligations under finance leases	4.3	4.7	2.8	1.4
	256.1	316.2	256.6	314.6
Borrowings (note 12)				
Trade creditors	24.7	22.1	24.7	22.1
Amounts owed to parent and fellow subsidiary undertakings	45.2	44.2	47.7	45.9
Amounts owed to subsidiary undertakings	-	-	37.5	34.1
Other creditors	5.5	5.2	5.5	5.2
Taxation and social security	3.2	2.8	3.2	2.8
Corporation tax payable	28.2	16.0	28.2	16.0
Accruals and deferred income	245.5	234.2	216.9	209.7
	608.4	640.7	620.3	650.4

11 Creditors: amounts falling due after more than one year	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans	428.2	488.9	428.2	488.9
Amounts owed to subsidiary undertakings	-	-	1,170.1	929.6
Other loans	1,170.1	929.6	-	-
Obligations under finance leases	438.0	440.1	270.5	271.2
	2,036.3	1,858.6	1,868.8	1,689.7
Borrowings (note 12)				
Deferred income	45.4	47.4	45.4	47.4
Other creditors	6.1	6.7	6.1	6.7
	2,087.8	1,912.7	1,920.3	1,743.8

Notes to the financial statements

Year ended 31 March 2004

12 Financial Instruments

The group's policy in respect of interest rate risk management and the related use of financial instruments are set out in the Accounting policy note 1o) on page 23. Short-term debtors and creditors have been excluded from disclosures.

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	2004 £m	2003 £m	Group
a) Borrowings analysed by maturity date							
Within one year (note 10)	163.8	-	88.0	4.3	256.1	316.2	
Between one and two years	-	-	94.3	5.1	99.4	93.2	
Between two and five years	-	-	238.4	33.1	271.5	278.8	
After more than five years	-	-	1,265.6	399.8	1,665.4	1,486.6	
	163.8	-	1,686.3	442.3	2,292.4	2,174.8	
Loans repayable partly or wholly after five years comprise:							
				Rate of interest %	2004 £m	2003 £m	
European Investment Bank loans – 2009-2013				3.0 - 6.1	223.8	220.7	
European Medium Term loans notes – 2009-2028				3.8 - 5.25	330.4	145.2	
Sterling bonds – 2024-2029				6.125 - 6.25	711.4	710.8	
					1,265.6	1,076.7	

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	2004 £m	2003 £m	Company
Within one year (note 10)	165.8	-	88.0	2.8	256.6	314.6	
Between one and two years	-	-	94.3	2.9	97.2	90.8	
Between two and five years	-	-	238.4	18.0	256.4	266.5	
After more than five years	-	-	1,265.6	249.6	1,515.2	1,332.4	
	165.8	-	1,686.3	273.3	2,125.4	2,004.3	
Loans repayable partly or wholly after five years comprise:							
				Rate of interest %	2004 £m	2003 £m	
European Investment Bank loans – 2009-2013				3.0 - 6.1	223.8	220.7	
Amounts owed to subsidiary undertakings – 2009-2029				3.8 - 6.25	1,041.8	856.0	
					1,265.6	1,076.7	

12 Financial Instruments continued

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

	Group					Company				
	Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years	Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings as at 31 March 2004	2,292.4	792.4	1,500.0	6.00	19.80	2,125.4	625.4	1,500.0	6.00	19.80
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

In addition to the fixed debt above, the group has a £50 million forward start interest rate swap (floating to fixed) that commences during the financial year ending 31 March 2005. This forward start interest rate swap has an interest rate of 5.0% and a duration of 30 years.

Floating rate borrowings bear interest based on LIBOR.

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 2004 interest rates on 65.4% of the group's borrowings were fixed for periods up to 25 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)	2004		Group 2003		2004		Company 2003	
	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	(247.6)	(248.2)	(314.0)	(312.3)	(248.1)	(248.7)	(312.4)	(310.5)
Borrowings falling due after more than one year	(2,030.7)	(2,141.4)	(1,849.7)	(1,937.2)	(1,863.2)	(1,973.9)	(1,680.8)	(1,768.3)
Derivative financial instruments held to manage the currency and interest rate profile								
Interest rate swaps and similar instruments	-	(29.8)	-	(40.5)	-	(29.8)	-	(40.5)
Currency instruments – cross currency swaps	(14.1)	(14.2)	(11.1)	(7.3)	(14.1)	(14.2)	(11.1)	(7.3)
Total net debt	(2,292.3)	(2,433.5)	(2,174.7)	(2,297.2)	(2,125.3)	(2,266.5)	(2,004.2)	(2,126.5)
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.

d) Borrowings facilities

The group and company had the following undrawn committed borrowing facilities available at 31 March 2004:

	Group and company	
	2004 £m	2003 £m
Expiring within one year	-	-
Expiring in more than one year but no more than two years	-	-
Expiring after two years	600.0	600.0
	600.0	600.0

On 5 April 2004 the group put in place a new £700 million Revolving Credit Facility (RCF). This facility replaced the existing £600 million RCF. The new RCF comprises two elements: a £200 million tranche maturing in 364 days with a one year term-out option and a £500 million tranche having a five year maturity.

Notes to the financial statements

Year ended 31 March 2004

12 Financial Instruments *continued*

e) Unrecognised gains and losses on hedges at 31 March 2004

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 2004 given prevailing economic conditions.

	Group and company			
	Gains £m	Losses £m	Total net gains/(losses) £m	
Unrecognised gains and losses on hedges at 1 April 2003	10.3	(46.9)	(36.6)	
Arising in previous years that were recognised in the year	1.0	(0.3)	0.7	
Arising before 1 April 2003 that were not recognised in the financial year	11.3	(47.2)	(35.9)	
Unrecognised gains and losses arising during the financial year	(6.9)	12.0	5.1	
Unrecognised gains and losses on hedges at 31 March 2004	4.4	(35.2)	(30.8)	
Expected to be recognised				
In one year or less	2.0	(0.3)	1.7	
In later years	2.4	(34.9)	(32.5)	
			Group	
	Balance at 1 April 2003	Charged to profit and loss account	Utilised	Balance at 31 March 2004
	£m	£m	£m	£m

13 Provisions

Provisions for liabilities and charges comprise:

	Balance at 1 April 2003	Charged to profit and loss account	Utilised	Balance at 31 March 2004
	£m	£m	£m	£m
Deferred tax	440.6	40.3	-	480.9
Restructuring	0.7	-	(0.4)	0.3
	441.3	40.3	(0.4)	481.2

	Balance at 1 April 2003	Charged to profit and loss account	Utilised	Balance at 31 March 2004
	£m	£m	£m	£m
Deferred tax	441.7	40.3	-	482.0
Restructuring	0.7	-	(0.4)	0.3
	442.4	40.3	(0.4)	482.3

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 at a tax rate of 30% (2003: 30%), is:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Capital allowance	880.8	841.8	880.8	841.8
Other timing differences	(4.1)	(10.0)	(3.0)	(8.9)
Undiscounted provision for deferred tax	876.7	831.8	877.8	832.9
Discount	(395.8)	(391.2)	(395.8)	(391.2)
Discounted provision for deferred tax	480.9	440.6	482.0	441.7
Provision at start of year	440.6	385.2	441.7	386.3
Deferred tax charge for year (above)	40.3	55.4	40.3	55.4
Provision at end of year	480.9	440.6	482.0	441.7

14 Share capital	2004 £m	Group		2003 £m
		2004 £m	2003 £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		Company
	£m		
At 1 April 2003		876.2	1,110.3
Retained profit for the year		8.1	8.1
At 31 March 2004		884.3	1,118.4

At 31 March 2004 cumulative goodwill written off against group reserves amounted to £29.2 million (2003: £29.2 million).

16 Commitments and contingent liabilities	Group and company	
	2004 £m	2003 £m

a) Investment expenditure commitments

Contracted for but not provided in the financial statements	191.7	194.6
---	-------	-------

In addition to these commitments, the group and company has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services and to provide for growth in demand for water and sewerage services.

b) Operating lease commitments

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

	2004		2003	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.2	0.2	0.4
Between one and five years	0.2	0.6	-	1.1
After five years	0.2	-	0.2	-
	0.4	0.8	0.4	1.5

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

	2004		2003	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.2	0.2	0.4
Between one and five years	0.2	0.6	-	1.1
After five years	0.2	11.8	0.2	11.3
	0.4	12.6	0.4	12.8

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 2004 is nil (2003: £ nil).

Year ended 31 March 2004

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, at the earliest, 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 £15.5 million (2003: £14.9 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
Discount rate	5.7
Salary increases	4.0
Pension increases in payment and deferment	2.5
Price inflation	2.5

The market value of the scheme's assets was £793.7 million, which exceeded by 6.2% 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 rates to STWPS were 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. The contributions continued at this level in 2003/2004. Employees' contributions continue at the rate of 6%, 5% or 3% of pensionable pay.

As from 1 April 2004, the STWPS has been amended with new defined benefit and defined contributions sections introduced. As a result the scheme's name has been changed to the Severn Trent Pension Scheme.

STMIS

The most recent actuarial valuation of STMIS was carried out at 31 March 2003 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
Discount rate	5.4
Salary increases	4.0
Pension increases in payment and deferment	2.5
Price inflation	2.5

The market value of the scheme's assets was £79.6 million, which is 16.6% below the present value of scheme liabilities after allowing for future increases in earnings. The deficit 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, employer's contribution to STMIS beginning on 1 April 2004 increased to 60.1% of pensionable pay of STMIS members. From 1 April 2001 to 31 March 2004 there was an employer's contribution holiday. Employees' contributions continue at the rate of 6% or 5% of pensionable pay.

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 currently 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 2004 amounted to £367.5 million (2003: £325.1 million deficit).

18 Group cash flow statement

	2004 £m	2003 £m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	332.1	316.9
Depreciation charge (note 7 iv)	231.9	221.6
Profit on sale of tangible fixed assets (note 2b)	-	(6.7)
Deferred income received	0.9	0.3
Deferred income written back	(3.0)	(3.0)
Utilisation of restructuring provision	(0.4)	(1.1)
Increase in stocks	(0.6)	(0.1)
Increase in debtors	(16.1)	(9.9)
Increase in creditors	14.8	16.5
Net cash inflow from operating activities	559.6	534.5

b) Analysis of changes in net debt

	At 1 April 2003 £m	Cash flow £m	Other non cash changes £m	At 31 March 2004 £m
Cash at bank and in hand	0.1	-	-	0.1
Overdrafts (note 10)	(149.6)	(14.2)	-	(163.8)
Debt due within one year (note 10)	(161.9)	73.9	-	(88.0)
Debt due after one year (note 11)	(1,418.5)	(171.0)	(8.8)	(1,598.3)
Finance leases (notes 10 and 11)	(444.8)	-	2.5	(442.3)
	(2,174.7)	(111.3)	(6.3)	(2,292.3)

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/reports2004

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'.

Diversification and protection of the core business – Condition F6a	36
Report of the auditors	37
Historical cost financial statements	
Group profit and loss account	39
Group balance sheet	39
Current cost financial statements	
Group profit and loss account	40
Group balance sheet	40
Group cash flow statement	41
Reconciliation of net cash flow to movements in net debt	41
Notes to the current cost financial statements	42
Water Industry Act 1991	48
Five year summary	49
Supplementary regulatory accounting disclosures	50

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 2004

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 39 to 48 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 on terms that have been agreed, solely to the Appointees and the Regulator in order to meet the requirements of 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 (the Regulatory Licence). 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, in order (a) to assist the Appointees to meet their obligations under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Appointees and the Regulator, for our audit work, for this report or for the opinion we have formed.

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. The Regulatory Accounts are separate from the statutory financial statements of the Appointees and have not been prepared under the basis of Generally Accepted Accounting Principles (UK GAAP). Financial information other than that prepared on the basis of UK GAAP 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.

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 in the statement of Director's responsibilities for regulatory information on page 48.

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 and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities."

We report to you our opinion as to whether the regulatory historical cost accounting statements 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 40 to 48 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 accounts of the Appointees on which we reported on 7 July 2004, which are prepared for a different purpose.

Our audit report in relation to the statutory accounts of the Appointees (our "Statutory" audit) was made solely to the Appointees' members, as a body, in accordance with Section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Appointees' members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Appointees and the Appointees' members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on page 39 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 disappplied. This represents a departure from Generally Accepted Accounting Principles. As a consequence an amount of £0.4m 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.

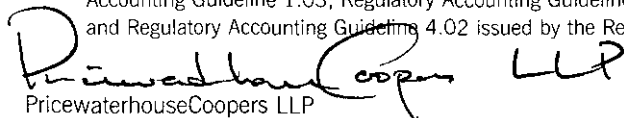
Independent Auditors' report to the Director General of Water Services ('the Regulator') and the Directors of Severn Trent Water Limited and East Worcester Water Plc ('together the Appointees') continued

Opinion

In our opinion the Regulatory Accounts of the Appointees contain the information for the year ended 31 March 2004 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 39 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 40 to 48 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
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT
7 July 2004

1. The maintenance and integrity of the Appointees' websites are the responsibility of the Directors and the maintenance and integrity of the Regulator's website 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 websites.

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 2004	2004 £m	2003 £m
Turnover	945.1	905.0
Operating costs	(615.6)	(597.5)
Other operating income	19.7	6.5
Operating profit	349.2	314.0
Other income	2.6	2.9
Net interest payable	(123.8)	(118.9)
Profit on ordinary activities before taxation	228.0	198.0
Taxation on profit on ordinary activities	(21.6)	(8.8)
Deferred tax	(40.3)	(55.4)
Taxation	(61.9)	(64.2)
Profit for the financial year	166.1	133.8
Dividend	(158.0)	(141.9)
Retained profit / (loss) for the financial year	8.1	(8.1)

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 2004	2004 £m	2003 £m
Fixed assets		
Tangible assets	4,873.3	4,710.6
Investments	0.6	0.6
	4,873.9	4,711.2
Current assets		
Stocks	4.1	3.5
Debtors	184.0	164.5
Cash at bank and in hand	0.1	0.1
	188.2	168.1
Creditors: amounts falling due within one year		
Borrowings	(256.1)	(316.2)
Other creditors	(349.5)	(321.6)
	(605.6)	(637.8)
Net current liabilities	(417.4)	(469.7)
Total assets less current liabilities	4,456.5	4,241.5
Creditors: amounts falling due after more than one year		
Borrowings	(2,036.3)	(1,858.6)
Other creditors	(6.1)	(6.7)
	(2,042.4)	(1,865.3)
Provisions for liabilities and charges	(481.6)	(449.7)
Deferred income	(48.2)	(50.3)
Net assets	1,884.3	1,876.2
Capital and reserves		
Called up share capital	1,000.0	1,000.0
Profit and loss account	884.3	876.2
Shareholders' funds	1,884.3	1,876.2

Group profit and loss account

Year ended 31 March 2004	Notes	2004 £m	2003 £m
Turnover	2a	945.1	905.0
Current cost operating costs	2d	(665.8)	(642.3)
Other operating income	2b	18.8	5.5
		298.1	268.2
Working capital adjustment	2c	2.1	3.1
Current cost operating profit		300.2	271.3
Other income		2.6	2.9
Net interest payable		(123.8)	(118.9)
Financing adjustment		70.3	66.3
Current cost profit before taxation		249.3	221.6
Taxation on profit on ordinary activities		(21.6)	(8.8)
Deferred tax		(40.3)	(55.4)
Taxation		(61.9)	(64.2)
Current cost profit attributable to shareholders		187.4	157.4
Dividend		(158.0)	(141.9)
Current cost profit retained		29.4	15.5

Group balance sheet

As at 31 March 2004	Notes	2004 £m	2003 £m
Fixed assets			
Tangible assets	3	25,490.6	24,696.9
Third party contributions since 1989/90		(1,042.4)	(974.3)
Working capital	4	(63.0)	(81.4)
Net operating assets		24,385.2	23,641.2
Cash and investments		0.7	0.7
Non-trade debtors		10.2	6.1
Non-trade creditors due within one year		(364.8)	(402.9)
Creditors due after one year		(2,042.4)	(1,865.3)
Provisions for liabilities and charges		(481.2)	(441.3)
Net assets employed		21,507.7	20,938.5
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account	5	163.8	134.4
Current cost reserve	6	20,343.9	19,804.1
		21,507.7	20,938.5

Group cash flow statement

Year ended 31 March 2004	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	7		559.6		534.5
Returns on investments and servicing of finance					
Interest received		1.1		0.3	
Interest paid		(98.8)		(94.5)	
Interest element of finance lease rental payments		(19.4)		(22.2)	
			(117.1)		(116.4)
Taxation			(4.0)		(1.5)
Capital expenditure					
Purchase of tangible fixed assets		(368.9)		(340.9)	
Grants received		36.3		29.9	
Infrastructure renewals expenditure		(82.7)		(88.3)	
Disposal of fixed assets		23.5		10.1	
			(391.8)		(389.2)
Equity dividends paid			(158.0)		(141.9)
Net cash outflow before financing			(111.3)		(114.5)
Financing					
Loans advanced		259.0		188.4	
Loans repaid		(161.9)		(178.7)	
			97.1		9.7
Net decrease in cash			(14.2)		(104.8)

Reconciliation of net cash flow to movement in net debt

	2004 £m	2004 £m	2003 £m	2003 £m
Net decrease in cash as above	(14.2)		(104.8)	
Cash flow from movement in net debt and financing	(97.1)		(9.7)	
Change in net debt resulting from cash flows		(111.3)		(114.5)
Rolled up interest on debt		(8.8)		(2.9)
Rolled up interest on finance leases		2.5		1.3
Increase in net debt		(117.6)		(116.1)
Opening net debt		(2,174.7)		(2,058.6)
Closing net debt		(2,292.3)		(2,174.7)

Notes to the current cost financial statements

Year ended 31 March 2004

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 35, 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

	2004			2003		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
a) Analysis of turnover						
Measured	160.2	163.2	323.4	156.5	150.5	307.0
Unmeasured	273.6	276.1	549.7	264.4	264.6	529.0
Large user tariffs	16.1	19.5	35.6	15.9	19.4	35.3
Trade effluent	-	11.6	11.6	-	11.0	11.0
Revenue grants	0.3	-	0.3	-	0.1	0.1
Third parties	14.2	4.9	19.1	14.0	4.4	18.4
Other sources	2.2	3.2	5.4	2.0	2.2	4.2
Total turnover	466.6	478.5	945.1	452.8	452.2	905.0
b) Other operating income						
Current cost profit on disposal of tangible fixed assets	4.2	14.6	18.8	1.4	4.1	5.5
c) Working capital adjustment						
	(0.1)	2.2	2.1	0.2	2.9	3.1

Notes to the current cost financial statements

Year ended 31 March 2004

2 Analysis of current cost turnover and operating costs continued

	Water services					Sewerage services			Business analysis		
	Resources and treatment £m	Distribution £m	Water services sub-total £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m
d) Analysis of operating costs and tangible fixed assets											
Direct costs											
Employment costs	6.5	15.8	22.3	5.6	10.0	5.4	15.4	21.0			
Power	5.2	11.5	16.7	2.9	8.4	2.1	10.5	13.4			
Agencies	-	-	-	-	-	-	-	-			
Hired and contracted	3.0	11.5	14.5	7.3	2.0	11.2	13.2	20.5			
Associated companies	0.3	0.4	0.7	3.7	-	1.1	1.1	4.8			
Materials and consumables	5.2	2.3	7.5	0.9	2.5	4.9	7.4	8.3			
Service charges	8.8	-	8.8	3.1	5.4	0.1	5.5	8.6			
Bulk supply imports	7.2	-	7.2	-	-	-	-	-			
Other direct costs	0.1	2.1	2.2	1.6	0.4	0.2	0.6	2.2			
Total direct costs	36.3	43.6	79.9	25.1	28.7	25.0	53.7	78.8	28.2	13.8	3.1
General and support	20.5	15.9	36.4	10.5	28.7	11.2	39.9	50.4	7.2	4.1	0.7
Functional expenditure	56.8	59.5	116.3	35.6	57.4	36.2	93.6	129.2	35.4	17.9	3.8
Business activities recharge			26.0					31.1	(35.4)	(17.9)	(3.8)
Rates			30.5					17.7			
Doubtful debts			8.4					8.8			
Exceptional items			-					-			
			181.2					186.8			
Services for third parties			12.8					5.9			
Total operating expenditure			194.0					192.7			
Capital costs											
Infrastructure renewals:											
Expenditure	3.1	26.0	29.1	35.5	-	-	-	35.5			
Accrual	(1.6)	5.0	3.4	(11.4)	-	-	-	(11.4)			
Current cost depreciation	57.9	42.0	99.9	20.1	77.3	27.6	104.9	125.0			
Amortisation of deferred income			(1.4)					(1.6)			
Business activity capital costs			0.1					-			
			131.1					147.5			
Services for third parties depreciation			0.5					-			
Total capital maintenance			131.6					147.5			
Total operating costs			325.6					340.2			
Analysis of tangible fixed assets											
Service activities	1,508.6	6,242.7	7,751.3	15,721.6	1,289.0	304.1	1,593.1	17,314.7			
Business activities			135.8	24.0			106.5	130.5			
Service totals			7,887.1	15,745.6			1,699.6	17,445.2			
Services for third parties			158.3					-			
Total			8,045.4					17,445.2			

Included within customer services costs are payments amounting to £2.6 million (2003: £2.6 million) to the Severn Trent Water Charitable Trust Fund.

The tables on the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guideline number 4.02 on the analysis of operating costs and assets. Direct costs have been allocated directly to the services to which they relate. General and support costs are where possible allocated directly to the services to which they relate, any remaining general and support costs which cannot be directly allocated to a service are apportioned across all services.

2 Analysis of current cost turnover and operating costs continued

	Water services					Sewerage services			Business analysis		
	Resources and treatment £m	Distribution £m	Water services sub-total £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m
d) Analysis of operating costs and tangible fixed assets											
Direct costs											
Employment costs	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			

e) Non appointed business

The group has not identified for the purpose of its 2003/2004 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 2004 in respect of infrastructure assets amounted to £18.8 million on water services (2003: £17.8 million) and £12.3 million for sewerage services (2003: £8.2 million).

Expenditure on reactive and planned maintenance included in operating costs for 2004 in respect of non-infrastructure assets amounted to £9.4 million on water services (2003: £8.7 million) and £25.2 million for sewerage services (2003: £22.7 million).

Notes to the current cost financial statements

Year ended 31 March 2004

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 2003	1,752.9	100.2	6,738.6	285.1	8,876.8
RPI and other adjustments	44.1	2.5	175.0	6.7	228.3
Additions	43.4	1.1	56.5	23.8	124.8
Disposals and amounts written off	(20.1)	(1.6)	-	(39.5)	(61.2)
At 31 March 2004	1,820.3	102.2	6,970.1	276.1	9,168.7
Depreciation					
At 1 April 2003	848.9	28.0	-	177.4	1,054.3
RPI and other adjustments	22.3	0.7	-	4.5	27.5
Charge for year	74.2	1.7	-	24.6	100.5
Disposals and amounts written off	(20.1)	(0.3)	-	(38.6)	(59.0)
At 31 March 2004	925.3	30.1	-	167.9	1,123.3
Net book value					
At 31 March 2004	895.0	72.1	6,970.1	108.2	8,045.4
At 1 April 2003	904.0	72.2	6,738.6	107.7	7,822.5
b) Sewerage services tangible fixed assets analysed by asset type					
Gross replacement cost					
At 1 April 2003	3,203.7	115.0	15,065.0	253.4	18,637.1
RPI and other adjustments	81.1	3.0	393.0	6.2	483.3
Additions	151.5	1.9	78.9	29.5	261.8
Disposals and amounts written off	(37.7)	(1.5)	-	(38.6)	(77.8)
At 31 March 2004	3,398.6	118.4	15,536.9	250.5	19,304.4
Depreciation					
At 1 April 2003	1,591.2	26.5	-	145.0	1,762.7
RPI and other adjustments	42.2	0.7	-	4.0	46.9
Charge for year	99.6	1.7	-	23.7	125.0
Disposals and amounts written off	(37.5)	(0.3)	-	(37.6)	(75.4)
At 31 March 2004	1,695.5	28.6	-	135.1	1,859.2
Net book value					
At 31 March 2004	1,703.1	89.8	15,536.9	115.4	17,445.2
At 1 April 2003	1,612.5	88.5	15,065.0	108.4	16,874.4

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 2003	4,956.6	215.2	21,803.6	538.5	27,513.9
RPI and other adjustments	125.2	5.5	568.0	12.9	711.6
Additions	194.9	3.0	135.4	53.3	386.6
Disposals and amounts written off	(57.8)	(3.1)	-	(78.1)	(139.0)
At 31 March 2004	5,218.9	220.6	22,507.0	526.6	28,473.1
Depreciation					
At 1 April 2003	2,440.1	54.5	-	322.4	2,817.0
RPI and other adjustments	64.5	1.4	-	8.5	74.4
Charge for year	173.8	3.4	-	48.3	225.5
Disposals and amounts written off	(57.6)	(0.6)	-	(76.2)	(134.4)
At 31 March 2004	2,620.8	58.7	-	303.0	2,982.5
Net book value					
At 31 March 2004	2,598.1	161.9	22,507.0	223.6	25,490.6
At 1 April 2003	2,516.5	160.7	21,803.6	216.1	24,696.9

4 Working capital

	2004 £m	2003 £m
Stocks	4.1	3.5
Trade debtors	70.1	72.0
Trade creditors	(9.1)	(5.0)
Short-term capital creditors	(8.3)	(17.1)
Infrastructure renewals accrual	(0.4)	(8.4)
Accruals	(114.7)	(116.7)
Payments in advance	(89.7)	(73.5)
Tax and social security	(3.2)	(2.8)
Group trade debtors / (creditors)	(8.6)	(13.9)
Prepayments	96.8	80.5
	(63.0)	(81.4)

5 Reserves – profit and loss account

	£m
At 1 April 2003	134.4
Retained current cost profit for the year	29.4
At 31 March 2004	163.8

6 Reserves – current cost reserves

	2004 £m	2003 £m
At 1 April 2003	19,804.1	19,171.5
AMP adjustment		
RPI adjustments:		
Fixed assets	637.2	729.9
Working capital	(2.1)	(3.1)
Financing	(70.3)	(66.3)
Grants and third party contributions	(25.3)	(27.7)
Other adjustments	0.3	(0.2)
At 31 March 2004	20,343.9	19,804.1

Notes to the current cost financial statements

Year ended 31 March 2004

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

	2004 £m	2003 £m
Current cost operating profit	300.2	271.3
Working capital adjustment	(2.1)	(3.1)
Increase in stocks	(0.6)	(0.1)
Other income	2.6	2.9
Current cost depreciation	225.5	210.6
Current cost profit on disposal of tangible fixed assets	(18.8)	(5.5)
Increase in debtors	(16.1)	(9.9)
Increase in creditors	14.8	16.5
Decrease in provisions	(26.5)	(33.8)
Infrastructure renewals expenditure	82.7	88.3
Effect of other deferrals and accruals on operating activity cash flow	(2.1)	(2.7)
Net cash inflow from operating activities	559.6	534.5

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	4,688	4,976
Year average	4,037	4,126	4,274	4,547	4,835

	2004 £m
Regulatory capital values at 2003/2004 prices	
Opening regulatory capital value for the year	4,511.9
Capital expenditure	402.2
Infrastructure renewals expenditure	81.1
Grants and contributions	(21.5)
Depreciation	(212.5)
Infrastructure renewals charge	(59.5)
Outperformance of regulatory assumptions	(13.3)
Closing regulatory capital value	4,688.4
Average regulatory capital value	4,547.0

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:

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

Five year summary

At 2003/2004 outturn prices

	2004 £m	2003 £m	2002 £m	(restated) 2001 £m	2000 £m
Profit and loss account					
Turnover	945.1	930.5	937.4	942.2	1,077.1
Current cost operating costs	(665.8)	(660.4)	(640.6)	(648.7)	(718.8)
Share of results of associated undertaking	-	-	-	-	-
Other operating income	18.8	5.7	3.6	4.3	4.3
	298.1	275.8	300.4	297.8	362.6
Working capital adjustment	2.1	3.2	1.4	2.8	1.8
Current cost operating profit	300.2	279.0	301.8	300.6	364.4
Other income	2.6	3.0	0.9	1.1	0.8
Net interest payable	(123.8)	(122.2)	(125.3)	(125.4)	(92.7)
Financing adjustment	70.3	68.2	29.0	48.5	50.3
Current cost profit before taxation	249.3	228.0	206.4	224.8	322.8
Taxation	(21.6)	(9.0)	(1.3)	0.4	(22.3)
Deferred tax	(40.3)	(57.0)	(38.3)	(54.5)	-
Current cost profit attributable to shareholders	187.4	162.0	166.8	170.7	300.5
Dividend	(158.0)	(145.9)	(146.0)	(144.4)	(158.9)
Exceptional dividend	-	-	-	-	(137.1)
Current cost profit retained	29.4	16.1	20.8	26.3	4.5
Balance sheet					
Fixed assets					
Tangible assets	25,490.6	25,342.2	25,185.6	25,079.3	25,008.0
Third party contributions since 1989/90	(1,042.4)	(999.8)	(946.2)	(876.8)	(835.0)
Working capital	(63.0)	(83.5)	(104.1)	(102.5)	(121.5)
Net operating assets	24,385.2	24,258.9	24,135.3	24,100.0	24,051.5
Cash and investments	0.7	0.7	0.7	1.6	0.8
Non-trade debtors	10.2	6.3	9.8	6.0	9.2
Non-trade creditors due within one year	(364.8)	(413.4)	(325.6)	(532.0)	(527.1)
Creditors due after one year	(2,042.4)	(1,914.2)	(1,946.0)	(1,739.9)	(1,605.5)
Provision for liabilities and charges	(481.2)	(452.8)	(409.4)	(382.6)	(47.5)
Dividends payable	-	-	-	-	(137.0)
Net assets employed	21,507.7	21,485.5	21,464.8	21,453.1	21,744.4
Capital and reserves					
Called up share capital	1,000.0	1,026.1	1,057.9	1,072.0	1,096.2
Profit and loss account	163.8	137.9	125.8	106.2	407.8
Current cost reserve	20,343.9	20,321.5	20,281.1	20,274.9	20,240.4
	21,507.7	21,485.5	21,464.8	21,453.1	21,744.4

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%, however in 2004 turnover increased as a consequence of the interim price determination (IDoK).

Operating profits have increased in 2004 over the prior year as a result of the increase in turnover of the IDoK offset by an increase in operating costs but primarily as a consequence of an exceptional profit of £18.8 million from the sale of land and property.

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 2004

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	259.0	2008/2014	4% – 5.25%

b) Dividends paid to associated companies

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared by the company in 2004 amounted to £158.0 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 £8.3 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	3.1
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	1.0
			5.1

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	7.6
Provision of engineering and design services	Charles Haswell and Partners Ltd	Other market testing/no market	10.5
Asset management	Cognica Ltd	Other market testing	0.2
Insurance services	Derwent Insurance Ltd	Other market testing	4.2
Analytical services	Severn Trent Laboratories Ltd	Competitive letting/other market testing	7.3
Supply of materials	Severn Trent Metering Services Ltd	Competitive letting/no market	5.6
Management fee	Severn Trent Plc	No market	4.7
Management fee	Severn Trent Property Ltd	No market	0.1
Meter installation and provision of other engineering services	Severn Trent Services Ltd	Competitive letting/no market	4.7
Project development and managed service contract	Severn Trent Systems Ltd	Other market testing/no market	49.3
Provision of customer care facilities	Severn Trent Utility Services Ltd	Other market testing	0.7
Project development	Severn Trent Water International Ltd	No market	2.2
			97.1

Of the £97.1 million (2003: £89.6 million), £49.1 million (2003: £46.0 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 2004 return'.

The financial information contained in this section does not constitute statutory accounts within the meaning of the United Kingdom Companies Act 1985. Statutory accounts relating to the financial information contained within this supplement have been delivered to the Registrar of Companies, together with an unqualified report from the auditor.

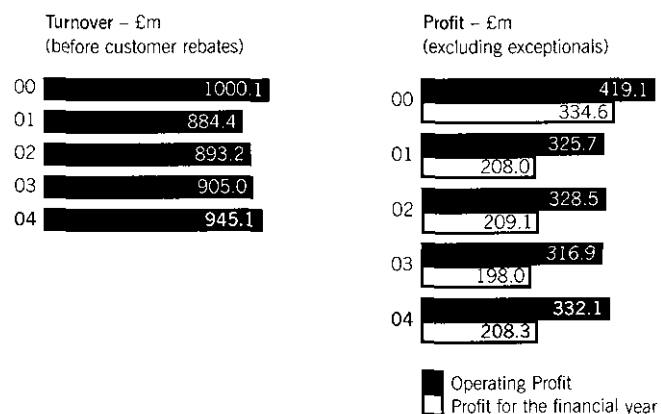
Contents	Page
Financial	52
Customer service	54
Climate	58
Demand	59
Investment	60
Investment and quality	61
Sewage	62
Community education	63
Main offices	64

Profit and loss accounts	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Turnover	982.1	884.4	893.2	905.0	945.1
Operating profit	358.0*	325.7	328.5	316.9	351.8
Net interest payable	(84.5)	(117.7)	(119.4)	(118.9)	(123.8)
Profit for the financial year	273.5*	208.0	209.1	198.0	228.0
Taxation	(20.4)	0.4	(1.2)	(8.8)	(21.6)
Deferred tax	(297.5)	(51.2)	(36.5)	(55.4)	(40.3)
Dividend	(145.0)	(135.5)	(139.1)	(141.9)	(158.0)
Exceptional dividend	(125.0)	-	-	-	-
Retained profit / (loss)	(314.4)*	21.7	32.3	(8.1)	8.1

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

Balance sheets	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Fixed assets	4,400.3	4,472.6	4,560.6	4,711.2	4,873.9
Net current liabilities	(660.2)	(543.4)	(371.0)	(469.7)	(417.4)
	3,740.1	3,929.2	4,189.6	4,241.5	4,456.5
Creditors: amounts falling due after more than one year	(1,464.6)	(1,623.0)	(1,839.5)	(1,865.3)	(2,042.4)
Provisions for liabilities, charges and deferred income	(445.2)	(454.2)	(465.8)	(500.0)	(529.8)
	1,830.3	1,852.0	1,884.3	1,876.2	1,884.3
Capital and reserves					
Called up share capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	830.3	852.0	884.3	876.2	884.3
	1,830.3	1,852.0	1,884.3	1,876.2	1,884.3

Turnover by category	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Measured charges	336.4	317.3	316.5	328.1	344.4
Unmeasured charges	589.6	521.8	536.4	529.0	549.7
Trade effluent	38.8	29.9	24.7	25.2	26.2
Other	17.3	15.4	15.6	22.7	24.8
	982.1	884.4	893.2	905.0	945.1



Net borrowings	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Cash at bank and in hand	0.1	0.2	0.1	0.1	0.1
Borrowings	(1,857.7)	(2,035.7)	(2,058.7)	(2,174.8)	(2,292.4)
	(1,857.6)	(2,035.5)	(2,058.6)	(2,174.7)	(2,292.3)

Key ratios	2000	2001	2002	2003	2004
Liquidity					
Current ratio (times)	0.2	0.2	0.3	0.3	0.3
Profitability					
Gross profit margin (%)	36.5	36.8	36.8	35.0	37.2
Return on capital employed (%): Historic cost	9.6	8.3	7.8	7.5	7.9
Return on fixed assets (%): Historic cost	8.1	7.3	7.2	6.7	7.2
Return on fixed assets (%): Current cost	1.5	1.2	1.2	1.1	1.2
Gearing					
Debt to equity (%)	101.5	109.9	109.2	115.9	121.7
Other					
Turnover per employee (£)	190,921	182,841	191,962	191,575	194,987
Operating profit per employee (£)	69,596	67,335	70,600	67,083	72,581

Employee numbers	2000 No.	2001 No.	2002 No.	2003 No.	2004 No.
Employee number (average)	5,144	4,837	4,653	4,724	4,847
Employee number (year end)	4,993	4,544	4,698	4,819	4,935

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.

00	101.5
01	109.9
02	109.2
03	115.9
04	121.7

Charges 2004/2005	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Severn Trent Water	121	107	228
Average of other 9 water and sewerage companies	126	167	293
Equivalent cost per day per household			
Severn Trent Water			62 pence
Other water and sewerage companies average			80 pence
Measured water charges			
Water supply		86.23 pence/cubic metre	
Sewerage		53.68 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Severn Trent Water			£221
Average of other 9 water and sewerage companies			£269

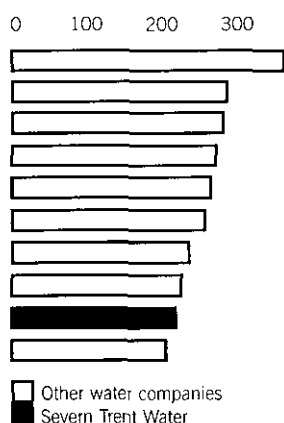
Customer payment statistics	2000 '000	2001 '000	2002 '000	2003 '000	2004 '000
Number of customers paying by instalments	1,552	1,616	1,666	1,710	1,759
Number of summonses	114	97	97	83	61
Percentage of unmeasured customers summoned	3.5%	3.0%	2.8%	2.5%	2.1%

Disconnections	No.	No.	No.	No.	No.
Domestic	25	0	0	0	0
Non domestic	206	304	594	990	732
Percentage of customers disconnected	0.01%	0.01%	0.01%	0.02%	0.02%

Customer complaints	'000	'000	'000	'000	'000
	17*	18	21	24	21

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

Customer service – £
Average annual household bill for 2004/2005



Customer contacts	2000 No. '000	2001 No. '000	2002 No. '000	2003 No. '000	2004 No. '000
By letter	919	870	948	847	779
Telephone calls	2,183	2,714	2,447	2,227	2,172
Total	3,102	3,584	3,395	3,074	2,951

Population

Water supply	7,356	7,382	7,407	7,271	7,281
Sewerage	8,250	8,270	8,290	8,290	8,189

Billed properties

Water					
Unmeasured domestic	2,400	2,365	2,355	2,331	2,308
Unmeasured non-domestic	18	14	14	15	17
Sub-total	2,418	2,379	2,369	2,346	2,325
Measured domestic	505	560	602	646	688
Measured non-domestic	204	208	209	211	211
Sub-total	709	768	811	857	899
Total	3,127	3,147	3,180	3,203	3,224
Sewerage	3,495	3,520	3,563	3,606	3,626

New connections during year

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

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)

	2000 %	2001 %	2002 %	2003 %	2004 %
(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	99.92	99.96	99.97
(DG3) Interruption to supply					
Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.96	99.80	99.62(1)	99.93	99.99
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	99.97	99.97	99.98	99.98	99.99
(DG6) Response to billing contacts					
Response time for replies to billing contacts					
Under 5 days	99.6	99.1	99.2	99.96	99.98
Under 10 days	100.0	99.9	99.9	100.0	100.0
Under 20 days	100.0	100.0	100.0	100.0	100.0
Over 20 days	0.0	0.0	0.0	0.0	0.0
In 2003/2004 there were 2.5 million customer contacts. The company's performance in 2003/2004, based on Ofwat's 2002/2003 criteria, would meet the 'Good' category.					
(DG7) Response to written complaints					
Response time for replies to written complaints					
Under 5 days	98.7	88.5	90.1	97.0	98.7
Under 10 days	99.9	99.1	99.5	99.9	100.0
Under 20 days	100.0	99.8	99.9	100.0	100.0
Over 20 days	0.0	0.2	0.1	0.0	0.0

The number of customer complaints received in 2003/2004 has decreased from those received in 2002/2003. The company's performance in 2003/2004, based on Ofwat's 2002/2003 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.

	2000 %	2001 %	2002 %	2003 %	2004 %
Company read	98.3	95.10	96.9	98.80	99.10
Customer read	1.2	1.57	1.4	0.96	0.74
Total read and billed in year	99.5	96.67	98.3	99.76	99.84

The company's performance in 2003/2004, based on Ofwat's 2002/2003 criteria, would meet the 'Good' category.

(DG9) Telephone contacts

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

Under 30 seconds	90.6	92.0	92.9	98.1	98.9
Over 30 seconds	9.4	8.0	7.1	1.9	1.1
Average response times (seconds)	9.9	10.4	7.5	3.0	2.0

Guaranteed Standards Scheme (GSS)	2000	2001	2002	2003	2004
Complaints answered within the guaranteed standards scheme time period	100.0%	99.1%	99.5%	99.9%	100.0%
Number of GSS claims automatically accepted for guaranteed standard payments	4,130	2,996	2,408	2,810	1,926

Response to billing queries within 5 days - %	
00	99.6
01	99.1
02	99.2
03	99.96
04	99.98

Response to written complaints queries within 5 days - %	
00	98.7
01	88.5
02	90.1
03	97.0
04	98.7

Rainfall

1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003

Severn Trent region

- area rainfall

Severn Trent region

- Rainfall (mm)

- % long-term average

741	814	769	759	718	683	639	842	792	814	631	579	684	815	849	970	729	817	569
96	105	99	98	93	88	83	110	102	105	81	75	88	108	113	129	97	109	76

Severn basin

- Rainfall (mm)

- % long-term average

813	856	805	811	777	732	702	872	797	844	674	624	716	857	931	1,013	761	863	601
98	103	97	98	94	88	87	108	99	104	83	76	87	108	117	127	96	109	76

Trent basin

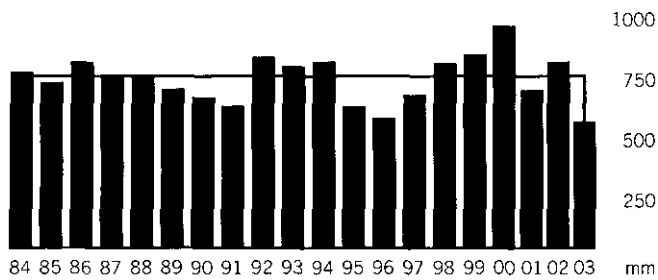
- Rainfall (mm)

- % long-term average

685	790	747	723	676	647	576	808	781	785	585	540	661	783	777	861	706	781	498
93	103	101	98	92	88	78	110	106	107	80	73	90	109	108	120	93	108	69

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

Figures relate to calendar year.

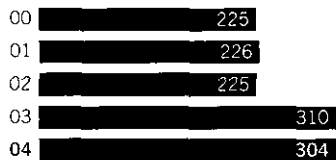


Area rainfall

■ Actual

□ Long-term average

Company leakage



Demand

Analysis of water supply sources	2000 Ml/d	2001 Ml/d	2002 Ml/d	2003 Ml/d	2004 Ml/d
Reservoirs	517	501	527	534	503
River intakes	727	733	734	769	841
Groundwater	618	619	593	610	612
Total production	1,862	1,853	1,854	1,913	1,956
Treated water imports	23	22	23	23	18
Treated water exports	(7)	(7)	(7)	(7)	(7)
Total water into supply	1,878	1,868	1,870	1,929	1,967

Water demand	2000 Ml/d	2001 Ml/d	2002 Ml/d	2003 Ml/d	2004 Ml/d
Household demand	1,132	1,132	1,143	1,118	1,168
Non-household demand	491	480	471	470	462
Water delivered to billed customers	1,623	1,612	1,614	1,588	1,630
Total water into supply	1,878	1,868	1,870	1,929	1,967
Company unaccounted for water *	225	226	225	310	304

* Since 2003 company unaccounted for water has been based on a revised method of assessment.

Operational statistics	2000	2001	2002	2003	2004
Number of repairs carried out on mains pipes	7,033	7,022	6,902	6,667	7,513
Average time taken to repair bursts on mains pipes (days)	0.32	0.45	0.35	0.32	0.34
Number of repairs carried out on communication pipes	13,769	11,530	13,736	16,072	16,702
Average time taken to repair bursts on communication pipes (days)	0.14	0.16	0.15	0.15	0.15
Number of repairs carried out on customers supply pipes	12,560	10,472	8,100	8,345	8,556
Number of calls to 'Operational helpline' service	487,096	539,026	605,466	604,170	640,561

Investment

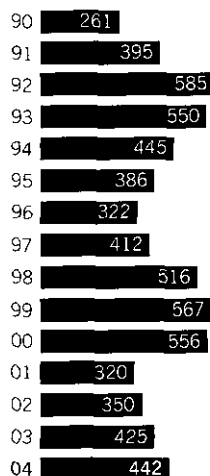
Investment expenditure	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54	27	40	47	25
Distribution	74	97	161	137	107	104	97	141	160	152	170	85	93	108	102
Sewerage	47	67	108	90	76	73	45	57	68	88	75	51	69	93	111
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162	89	79	120	143
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1	1	1	1	1
Operational support	19	38	46	49	32	30	16	21	21	14	18	6	14	9	7
Other	10	9	11	7	3	3	23	29	54	80	76	61	54	47	53
	261	395	585	550	445	386	322	412	516	567	556	320	350	425	442
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545	246	264	337	360
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11	74	86	88	82
	261	395	585	550	445	386	322	412	516	567	556	320	350	425	442
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	6,532

Physical outputs

	2000	2001	2002	2003	2004
Mains – added (Km)	42	111	103	109	178
– renewals (Km)	1,010	140	143	410	373
– relined (Km)	160	270	316	101	125
– number of communication pipes replaced	54,088	13,706	11,927	13,598	11,468
Sewers – added (Km)	410	147	354	265	239
– improved (Km)	4	0	10	28	22
Approximate number of properties where problems of poor pressure alleviated by investment	5	2,920	1,156	3,478	1,172
Number of properties where risk of flooding from sewers has been removed	591	119	282	445	400

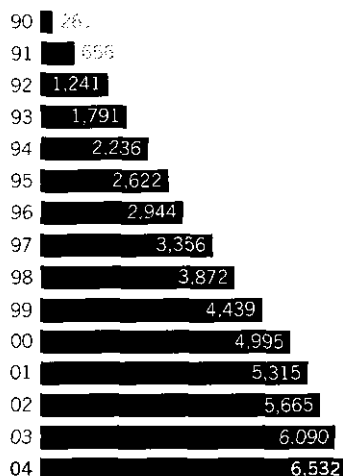
Investment – £m

Annual investment expenditure since privatisation



Investment – £m

Cumulative investment expenditure since privatisation



Major operational schemes carried out during year	2004 Total £m	Operational assets	2004 No.
Mansfield Bath Lane sewage treatment works	6.9	Impounding reservoirs	27
Buxton sewage treatment works	6.7	Groundwater sources	181
Nuneaton Hartshill	4.8	River water intakes	18
Packington sewage treatment works	3.8	Surface water treatment works	19
Wanlip sewage treatment works	3.7	Water supply booster stations	686
Derby sewage treatment works reconstruction phase 2	3.6	Service reservoirs sites	516
Eastern region sewerage emergencies	3.5	Mains (Km)	45,949
Worksop sewage treatment works	3.2	Sewers (Km)	54,040
Stoke Bardolph sewage treatment works	2.6	Sewage treatment works	1,017
Worksop sewage treatment works	2.6	Sewage pumping stations	2,881
		Sludge treatment facilities	56

Quality

Water supply

	1999	2000	2001	2002	2003
Overall quality of drinking water					
Number of determinations	260,282	231,111	237,907	279,891	277,419
% 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	39,292	31,142	29,102	30,018	30,914
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at service reservoirs					
Number of determinations	64,468	62,482	62,648	62,426	62,126
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	>99.9%
Water at customers' taps					
Number of determinations (bacteriological)	41,542	40,056	39,890	39,196	38,388
% compliance with standards	99.8%	99.8%	99.8%	99.8%	99.8%
Number of determinations (chemical)	114,980	97,431	106,267	148,251	145,991
% compliance with standards	99.9%	99.9%	99.9%	99.9%	>99.9%

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

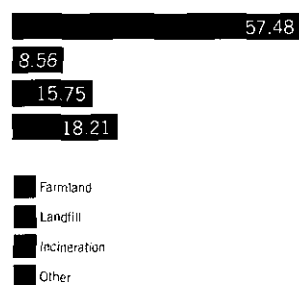
Overall compliance with standards	1999	2000	2001	2002	2003
Total number of sewage treatment works	999	1,001	1,016	1,014	1,017
Number of sewage treatment works failing consents	7	19	16	18	19
Information on compliance is based on calendar year					
Number of prosecutions by Environment Agency (EA) resulting in convictions	2000	2001	2002	2003	2004
Discharge from sewerage system	0	0	0	0	0
Sewage treatment works	1	1	0	0	0
Water treatment works	0	0	0	0	0
Other	0	0	0	2	0
Compliance of numerically consented work	2000	2001	2002	2003	2004
Number of works with numeric consents	745	685	694	750	738
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.6%	99.3%	99.4%	99.5%	99.5%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.9%	99.9%	>99.9%	100.0%	>99.9%
Compliance with non-sanitary standards					
By tests to measure quality	99.4%	99.4%	99.7%	99.9%	99.6%

Sewage

Sludge disposal	2000 tds	2001 tds	2002 tds	2003 tds	2004 tds
Farmland	96,900	66,500	81,400	82,800	135,500
Landfill	23,800	14,800	36,600	42,700	20,200
Incineration	30,200	20,700	27,200	24,600	37,200
Sea	0	0	0	0	0
Other	7,900	45,800	67,400	68,400	42,900
Total	158,800	147,800	212,600	218,500	235,800

tds := tonnes dry solids

Methods of sludge disposal – %



Community education

Our community education programme continues to raise awareness amongst our customers of the benefits of using water wisely. Following the success of our schools water auditing website www.waterintheschool.co.uk launched in 2003 Severn Trent Water are taking a leading role in the development of a new site to be launched in September 2004 called 'the water family'. This site promotes water efficiency in the home and garden and is designed in a game format that will interest pupils to engage with other members of the family to meet the water efficiency targets. We have promoted this site through the Water Education Forum and it has gained sponsorship from 12 water companies as well as Water UK, Drinking Water Inspectorate, Environment Agency and WaterAid.

Projects for 2004

Our Community Education team have developed a Be Smart with Water Schools Award scheme based on the Eco-Schools concept. Schools entering the scheme will need to demonstrate that they have met certain water related educational targets to our assessors before receiving the award. We hope to pilot this scheme in 50 schools in September 2004.

Education centres

Water Efficiency, conservation and sustainability provides a major focus for the education programmes offered at our five education centres. In 2003/04 a further 27,500 pupils from more than 930 schools across the Midlands visited our centres for a days activities focused on the water cycle. Our Community Education team visited schools and community centres delivering talks to a further 15,000 pupils and 10,000 adults as well as hosting tours of Severn Trent Water operational sites. We firmly believe that when customers can observe the 'value added' by the treatment processes they are less inclined to waste water.

The 'Good Food Show' at the NEC gave us an ideal opportunity to promote drinking tap water as the healthy option. In 2004 we intend to return to promote our save-a-flush water saving device. We have used our Water Bar in towns and city centres to promote the Be Smart with Water campaign and to distribute save-a-flushes, in early 2004 we visited 10 towns and distributed over 1,000 save-a-flushes on each occasion.

Our Wet Water Wizard DVD is now freely available to all schools in the Severn Trent area. This film and game package promotes the message that 'water is precious and we need to value every drop' to our very youngest customers. We launched to DVD in eleven counties and received local press coverage in all of them. The activities are also available on the website www.wetwaterwizard.co.uk

Community education centres are located at the following sites:

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

*Sites with a 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.

	2000 No.	2001 No.	2002 No.	2003 No.	2004 No.
Community Education visitor numbers					
Visitors to Severn Trent Water sites					
Number of pupils visits	31,067	30,210	29,973	35,084	37,935
Number of adult/teacher visits	12,471	8,237	8,230	7,544	8,055
Talks given at non Severn Trent Water sites					
Number of pupils	8,502	10,460	8,195	11,290	9,039
Number of adults	4,256	2,597	2,555	2,112	2,159

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 F 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

a member of the Severn Trent Group

