

SEVERN TRENT PLC
2366647

Annual Report and Accounts 2001

**the environment
is our business**



Directors' report

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

Principal activities

The principal activities of the group continued to be the supply of water and sewerage services, waste management and the development of utility services. These are described in more detail, together with a review of the group's business and future developments, on pages 6 to 11 which should be read in conjunction with this report.

Details of the principal joint venture, associated and subsidiary undertakings of the group at 31 March 2001 appear in notes 11 and 24 to the financial statements on pages 43 to 44 and 58 to 59.

Dividend and reserves

Details of dividends paid, payable and proposed are set out in note 7 to the financial statements on page 41. Subject to approval at the Annual General Meeting the recommended final dividend of 28.00p (28.00p) net for each ordinary share will be paid on 1 October 2001 to shareholders on the register at the close of business on 29 June 2001 bringing the total for the year to 45.00p (45.00p). Proposed transfers to reserves are set out in note 19 to the financial statements on page 52.

Share capital

Details of movements in share capital are shown in note 18 to the financial statements on pages 50 and 51.

A special resolution (Resolution 10) will be put to shareholders at the Annual General Meeting which, if passed, will renew the Directors' authority to issue equity securities for cash without first having to offer these securities to existing shareholders, as is required by Section 89 of the Companies Act 1985. The authority allows the Directors to allot equity securities in connection with a rights issue. It also permits the Directors to allot equity securities up to a maximum amount equal to 5% of the issued ordinary shares of the company. For these purposes equity securities are ordinary shares in the company, but they do not include shares which are allotted under employee share schemes. By exempting the company from the requirements of Section 89 of the Companies Act 1985, the Directors will have greater flexibility to raise finance. The authority will be valid until the conclusion of the next Annual General Meeting.

A rights issue would involve the company offering existing shareholders the opportunity to buy new ordinary shares. The number of ordinary shares that a shareholder can buy in a rights issue depends on the number he/she already owns. The rules in some countries prevent shareholders from participating in a rights issue and the resolution will allow the Directors to make alternative arrangements for those shareholders.

Renewal of authority to purchase own shares

A special resolution will be proposed at this year's Annual General Meeting to authorise the Directors to purchase in the market the company's own ordinary shares. The Directors have no present intention that the company should purchase its own ordinary shares. Nevertheless they would wish to be able to act quickly if circumstances arise in which they consider such purchases to be in the interests of shareholders generally. The proposed authority is set out in Resolution 11. The authority will be limited to approximately 10% of the company's issued ordinary share capital as at 31 March 2001. The minimum price per ordinary share payable by the company (exclusive of expenses) will be 65½p, the nominal value of each ordinary share. The maximum to be paid per ordinary share on any exercise of such authority (exclusive of expenses) will be an amount not more than 5% above the average of the middle market quotations for ordinary shares of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of each purchase. Purchases will only be made on the London Stock Exchange and only in circumstances where the Board believes that they are in the interests of shareholders generally. Furthermore, purchases of ordinary shares will only be made if the Board believes that they would result in an increase in earnings per share. Any purchases will be financed out of profits available for distribution.

Amendment to Long Term Incentive Plan

Following a review of the remuneration structures within the group that was undertaken earlier this year, the Remuneration Committee concluded that changes should be made to the company's Long Term Incentive Plan (the 'LTIP'). The Committee felt that such changes would ensure the LTIP continued to link rewards to the creation of shareholder value and also that the benefits paid to senior executives remained consistent with competitive practice. An ordinary resolution (Resolution 8) will be proposed at this year's Annual General Meeting to increase the maximum annual allocation of shares that can be made to an individual under the LTIP. Further details of this proposal are contained in the Shareholders' Guidance Notes.

Articles of Association

A special resolution (Resolution 9) will be proposed at this year's Annual General Meeting to amend the Articles of Association of the company. The proposed amendments are to increase the maximum aggregate fees which may be paid to non-executive Directors and to make provision for the use of electronic communications between the company and its shareholders. Further details of the proposed changes may be found in the Shareholders' Guidance Notes.

Supplier payment policy

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that, provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

The effect of the group's payment policy is that its trade creditors at the year-end represented some 34 days purchases.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £284,235 (£243,436). No political donations were made during the year.

Employees

The group employed 14,318 people as at 31 March 2001 (13,637). Of these 4,544 (31.7%) were employed in the regulated water business, 4,074 (28.5%) in the Biffa waste business and 4,565 (31.9%) in Severn Trent Services businesses. More than one third of our employees are now outside the UK, mainly in the USA, Belgium and Italy.

Severn Trent Water has, following the OFWAT Periodic Review, reduced its employee numbers by 1,070. The effect of this reduction has been partly offset by an increase of 300 following the termination of a number of sewerage agency operations contracts, which were previously undertaken by local councils.

Following the acquisition of UK Waste, Biffa is now one of the leading employers in the UK waste industry. The integrated company now has a large pool of talent to meet its customers' requirements and to give many new opportunities to its employees.

The proportions of employees in each of the major business units reflect the increasing diversity of our workforce in line with the continuing growth of the group's international activities.

The major thrust in employee issues in the Severn Trent Services organisation in the US has been to rationalise the payroll and health care arrangements amongst the many individual businesses acquired over the last 12-18 months.

Group companies continue to encourage positive dialogue with and between employees using traditional means such as team briefs, in-house magazines etc., and also increasingly by the use of their own intranets. Internal communications will be further enhanced by the introduction in the summer of 2001 of a group-wide intranet facility.

The company's Code of Business Principles and Conduct was formally endorsed by the Board in December 2000. A summary of these main principles now appears on the group website. (www.severn-trent.com).

To support the practical application of the code, a number of more detailed values and protocols in areas such as people, environment, and health and safety have been developed and are being disseminated to managers and employees. Systems are being developed to monitor our achievement of the criteria set out in the Code.

Group companies continue to maintain good relationships with their recognised trade unions and the directly elected employee representatives.

The second meeting took place in October 2000 of the European Consultative Council, established under a Voluntary Agreement under Article 13 of the European Directive.

There are a number of ongoing mechanisms within the group to ensure that there is an appropriate resource of technically and managerially competent staff available to meet not only the expectations of our current stakeholders, but to also resource our business development strategy.

The Board will ensure that there is an appropriate resource at the highest levels across the group and, to this end, a more formal system is being introduced for succession planning and management development, based on agreed competencies, covering the top 150 managers.

These higher level developments are complemented by the group's continuing commitment to appropriate training, development and education at all levels.

Group companies continue to recognise the external and internal benefits of formal quality accreditation schemes for areas such as people management processes. In the UK this is formalised under the Investors in People scheme which is in place, or being pursued in many parts of the group, including the corporate headquarters.

Directors' report

It has been recognised that the benefit preferences of our employees vary as their lifestyles change and to accommodate this a flexible benefits package has been introduced into a number of pilot areas. It is envisaged that this will be significantly extended over the next 2-3 years.

Significant efforts are made to ensure that group companies not only meet the minimum requirements of local employment legislation in each of the countries in which we have employees but they also seek to operate at best practice levels.

Equal opportunities and disabled persons

Group companies continually review their equal opportunity policies and management practices to ensure they comply with, not only the company's Code of Business Principles and Conduct, but also with the legislative requirements for each of the countries (or States) in which we operate. These will ensure that no current or potential employee is disadvantaged because of colour, ethnic or national origin, gender, religion, marital status, disability, etc.

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

We continue to be members of the Employers Forum on Disability and fully endorse their Agenda for Customers.

Health and safety

The company continues to pro-actively address the management of health and safety issues across the group. During the year the group Health and Safety Policy was revised and updated incorporating the requirements of the Occupational Health and Safety Management Systems Specification – OHSAS18001. This has provided us with a strong base for continual improvement and has given a clear lead as to how risks should be managed and losses controlled throughout our businesses.

Since its formation 18 months ago, the group Health and Safety Executive Committee has made good progress towards achieving the group's Health and Safety Action Plan Objectives. This year attention has been focused upon ensuring that our group companies have in place the most effective and efficient systems for the management of health and safety issues.

Through these initiatives we have established, and are further developing, a robust approach to the proactive management of health and safety issues across our businesses, designed to achieve the continued reduction of risk, the control of loss and the improvement of health and safety across the group.

Substantial shareholdings

As at 6 June 2001 the company had been notified of the following substantial shareholdings:

	Number of ordinary shares of 65½p each	%
FMR Corporation and Fidelity International Limited	17,216,938	5.02
Legal & General Investment Management Limited	10,376,057	3.03
Putnam Investment Management LLC and The Putnam Advisory Company LLC	10,330,260	3.01

Accounts of Severn Trent Water Limited

Separate accounts for Severn Trent Water Limited are prepared and sent to the Director General of Water Services. A copy of these accounts is available from the web site of Severn Trent Water Limited (www.stwater.co.uk) or on written request to the Company Secretary (at the address given on the back cover). There is no charge for this publication.

Research and development

Expenditure on R&D, including fixed assets amounted to £5.7 million (£10.5 million).

Within Severn Trent Water, the R&D strategy has been concentrated on innovation driven by the requirements of new regulatory standards and by higher customer expectations. The process to remove heavy metals from potable water, Sorb33, has been developed further during the year and, while utilities in the USA have delayed investing in this technology due to the change in the US Administration, work to meet EU standards is well on target and should provide significant opportunities for the company. This technology is capable of both scale up and scale down to meet worldwide market requirements.

There is a good understanding of market requirements for differing technologies across the group businesses and recent examples of filtration technology in both water and wastewater applications are demonstrating technological leads. One example is the storm water treatment filter developed by Tetra in the USA, with the first full scale plant being installed at Village Creek.

Membrane technology is becoming increasingly important for industrial and municipal customers. Severn Trent Water are evaluating the operational cost effectiveness of cryptosporidium barrier treatment and are also considering the wider application of this technology.

New regulatory standards are being developed for the disposal of wastewater sludges, and this has necessitated the evaluation of potential technologies to meet these standards.

Research and development
continued

The majority of R&D work undertaken within Biffa has been initiated through the mechanism of the Government's Landfill Tax Credit Scheme. Under this scheme, landfill operators have the option to divert up to 20% of total revenues from Landfill Tax charges to designated objectives.

Whilst a proportion of these funds has been targeted at local amenities in areas adjacent to landfill sites, Biffa has committed the highest proportion of all landfill operators to pure and applied research relating to waste management and resource efficiency. In Biffa's case this amounts to around 55% of the current annualised funding flow of £12 million per annum. Since the scheme's inception £25 million has been committed, of which 20% relates to an integrated programme of resource flow studies within designated industry sectors, geographic regions and specific material streams. These programmes are allied to the Government's strategic framework programme targeting the need for improved data availability and collection in the waste sector. Working partnerships have also been developed with leading universities in conjunction with Government funded research programmes – notably Surrey, Nottingham, York, Sheffield, Leeds and Manchester in areas as diverse as packaging design and future trends, collection/logistics software programmes, environmental footprinting on the Isle of Wight, alternative cementitious basal lining systems in landfill sites and aggregates flows in north west England.

Severn Trent Services have a number of current R&D projects.

The new SE700 meter, designed with greater functionality, has gone into production for the US market. Modified versions are now being developed for the UK and European markets.

The new Talisman P2000 reading probe design and evaluation continued and its functionality was extended. Specific versions have been developed for various customers to connect to different handheld computers as well as a stand-alone version that can store up to 4,000 meter readings without the need for a handheld computer. A new generic wall pad has also been developed that enables any water meter to be read by the P2000 or any other reading probe available in the market.

Three versions of a radio system have been developed, each version designed to meet the different regulatory requirements of the UK, European and US markets. The European version is shortly to enter production whilst further design and testing is required for the other two versions.

Corporate governance

The Financial Services Authority Combined Code (the 'Code') Compliance Statement.

The company attaches great significance to the maintenance of good corporate governance procedures, recognising that they play their part in creating a framework which can provide increased benefits for shareholders. The company regards the Code as a valuable development of previous corporate governance arrangements and recommendations which it has embraced in recent years. Throughout the year ended 31 March 2001 the company has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance, with the exception of Mr Costin's service contract, as explained in the Remuneration Report on page 23.

Statements by the Directors covering their responsibilities in relation to the group's system of internal control and the adoption of the going concern basis for the preparation of the financial statements are set out on pages 20 and 22 respectively.

The Board

A list of Directors and their background details appears on pages 14 and 15. The Board currently consists of five executive Directors and seven non-executive Directors. The Board has reviewed the status of the non-executive Directors and has confirmed that it regards them as being independent. The Board meets at least 12 times each year and convenes additional meetings to deal with major matters as and when these arise. The Board has established a formal schedule of matters which are specifically reserved to it for decision thereby ensuring that it maintains control over strategies, financial and key operational issues. It has also put in place an organisational structure with clearly defined lines of responsibility and delegations of authority which are reviewed from time to time.

Board committees

The Board has delegated certain powers and duties to the Board committees all of which operate within clearly defined terms of reference and in accordance with the Code, where applicable. All the committees meet regularly throughout the year except for the Nominations Committee which meets when required. The membership of the committees is set out on page 15.

The Nominations Committee makes recommendations to the Board on the appointment to the Board of both executive and non-executive Directors, considers succession planning and related issues.

The Remuneration Committee's principal terms of reference are set out in the Remuneration Report on pages 23 to 25.

The main responsibilities of the Audit Committee are referred to later under 'Internal control'.

Directors' report

Board committees continued

The Treasury Committee determines matters of Treasury policy and its approval is required for certain treasury transactions. The group's treasury affairs are managed centrally and in accordance with its Treasury Policies and Procedures Manual. Compliance with these policies and procedures is monitored by management, by the group's internal auditors and, to the extent necessary to support their audit report, by the external auditors.

The Environmental Advisory Committee's principal terms of reference are to help to further develop the company's environmental leadership, strategy and objectives. Additional details of the company's environmental objectives may be found on page 21.

The Charitable Contributions Committee meets regularly throughout the year to decide upon donations and support to charities and similar worthy causes.

Finally, the Severn Trent Executive Committee has delegated authority to approve capital and other expenditure within defined limits. Proposals involving major undertakings or matters of strategic significance are subject to the detailed review and approval of the main Board. The Executive Committee is responsible for reviewing the financial and operational performance of all companies within the group and in establishing, or supporting the Board in establishing, policies covering organisational and employment matters.

Directors

Details of current Directors are shown on pages 14 and 15.

Dr J D G McAdam joined the Board as a non-executive Director on 18 September 2000 and, in accordance with the Articles of Association of the company, will retire at this year's Annual General Meeting and offer himself for re-appointment.

Mr J K Banyard, Mr B Duckworth and Mr F A Osborn retire from the Board by rotation in accordance with the Articles of Association of the company and, being eligible, offer themselves for re-appointment. Mr J K Banyard and Mr B Duckworth each have service contracts which provide for not less than 12 months' written notice of termination by the company and not less than 6 months' written notice by the Director expiring at any time. Dr J D G McAdam and Mr F A Osborn, being non-executive Directors, do not have service contracts with the company.

The Directors of the company at 31 March 2001 and their interests in the shares of the company can be found on pages 26 and 27. No Director had an interest in the shares of any subsidiary undertaking. No contract significant to the company's business in which a Director had a material interest was entered into during the year.

Internal control

The Board of Directors has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The Board has formally established policies and processes for identifying and evaluating the significant risks faced by the group. There are established procedures for managing the risks facing the group, of which the key elements are: an organisation structure with clear lines of accountability; regular, structured reviews of business risk by senior management; a scheme of delegated authority; pre-approval of plans, budgets and significant investments; and monthly reporting of financial results and other key business monitors.

The executive Directors and senior management team of each of the principal subsidiary companies have identified the risks facing their businesses and have made an assessment of the impact of those risks. The controls that are in place to manage each of the more significant risks in each unit have been identified within a comprehensive control framework and an assessment has been made of the effectiveness of these controls.

The directors of each of the principal subsidiary companies regularly consider new risks and threats and control weaknesses that may have become apparent and report on a six monthly frequency to the Group Chief Executive. They also conduct an annual review of the risks facing their businesses and report on this review in one of the six monthly reports.

The Board reviews risk management and the effectiveness of the system of internal control through the Audit Committee. The Audit Committee receives reports on a six monthly frequency from the Group Chief Executive on the significant risks faced by the group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary. Any significant control weaknesses that have been identified are also reported to the Audit Committee. The Audit Committee also receives reports from internal audit and from management on specific control issues, agrees audit strategies and reviews reports from management on the financial results of the group. In addition, the external auditors present their audit strategy to the Audit Committee and report on significant control issues upon completion of their audit. The Chairman of the Audit Committee reports to the Board as do the external auditors.

Internal control
continued

The Directors confirm that there is an ongoing process for the identification, evaluation and management of the significant risks faced by the group. This process has been in place throughout the year ended 31 March 2001 and up to the date of approval of the Annual Report and Accounts. It accords with the guidance in the report on 'Internal Control Guidance for Directors on the Combined Code'.

A sound system of internal control is designed to manage risks but not necessarily eliminate them and therefore provides reasonable but not absolute assurance against a company failing to meet its business objectives or against material errors, losses or fraud or breaches of laws or regulations.

Environmental leadership and sustainable development

Environmental leadership, alongside quality and service, is a core value of the company. The company's objective is to deliver the environmental services that are required by its customers while maintaining exemplary environmental standards in the conduct of its own operations.

The company is fully committed to sustainable development as a principle which should guide future growth in the economies of the world. It believes that the pursuit of sustainable development will underpin the growth in demand for environmental services on which the strategy of the company is based. The company aims to contribute to all aspects of sustainable development but focuses in particular on the environmental aspects.

The company's environmental policy and its contribution to sustainable development are the responsibility of the Group Chief Executive and are overseen by the Board. To support this process:

- the Board has constituted an Environmental Advisory Committee;
- the company's Environmental Management group, which includes senior representatives from each of the businesses, co-ordinates implementation;
- there is a company-wide environmental management system certified to the international environmental management system standard ISO 14001.

In addition, the company maintains an external Environmental Advisory Panel, chaired by Professor Rod Aspinwall OBE, whose remit is to give independent advice to the Board to help it achieve its strategic commitment to environmental leadership and sustainable development.

The company reports annually and publicly on its environmental performance and contribution to sustainable development; the same report sets out the group's strategy and targets for the future. The most recent edition of this report, 'Stewardship' may be obtained from our website, www.severn-trent.com, or by sending a request for a free copy to the address given on the back cover.

It is part of the company's strategy to play an active part in promoting policies and actions that will contribute to the protection of the environment and to sustainable development. For example, the company is a member of the World Business Council for Sustainable Development and sits on the Leadership Team of Business in the Environment – a UK based, business-led campaign for corporate environmental responsibility. The company engages regularly with representatives of local, regional and national Governments and with non-Governmental organisations on matters concerning environmental protection and sustainable development; the company and its subsidiary businesses also contribute to the discussions of their relevant trade associations. The policies that are advocated in these arenas are described in the 'Stewardship' report.

Environmental taxation

Environmental taxes (e.g. on the use of fossil fuels or on the disposal of waste) may be a means of stimulating the adoption of environmentally-sustainable practices which will foster sustainable development.

The strategy of the group is based on growth in demand for such practices and the UK landfill tax (intended to encourage waste minimisation and recycling) is helping to convert the UK Government's waste strategy into business opportunities for Biffa. In addition, through the operation of Biffaward under the Landfill Tax Credit Scheme, more than £7 million of the tax monies collected by Biffa have been donated to local and national environmental projects.

In common with other businesses, however, we incur the costs of environmental taxes within our own operations. We have since 1994 paid tax in the UK on the landfilling of sludges and other wastes and, as from 1 April 2001, our UK businesses are subject to the climate change levy.

The climate change levy has the potential to increase our costs by approximately £3.7 million per annum (taking account of the reduced national insurance contributions that accompany the levy). Our plans to further improve our energy efficiency and exploit more renewable energy will help to offset the levy but to the extent that it cannot be fully offset, it will constitute an increased cost. In the case of Severn Trent Water, which anticipates an underlying upward trend in energy consumption as a result of new obligations, opportunities to offset the levy are limited. In this respect it remains a disappointment that the UK Government has denied the water sector access to its scheme of 'negotiated agreements' under which the rate of levy may be reduced in return for sector-specific agreements.

Directors' report

Environmental taxation continued

Similarly, the proposed aggregates levy has the potential to increase Severn Trent Water's capital programme costs by £6.4 million in the first intended year of operation (2002/2003). Where the levy cannot be avoided by the use of alternatives to virgin aggregate, a direct cost to the business will occur.

These considerations illustrate the company's view that environmental taxes can be effective in promoting sustainable development only where the businesses subject to them have opportunities to adopt the environmentally-sustainable alternative practices that such taxes are intended to encourage.

Economic and Monetary Union

Severn Trent started preparations for the introduction of the euro in mid 1997. Our subsidiary and associated companies in the 'first wave' countries were ready for euro trading by 1 January 1999. Some have already switched base accounting currencies whilst the remainder are now well advanced to change prior to 1 January 2002.

Severn Trent Water has developed an internal changeover plan at an early stage to be ready for the significant system changes that would be necessary if the UK enters the EMU. Where appropriate it is now taking advantage of any system changes to introduce euro compliant software. As part of the preparation process, Severn Trent Water is working closely with HM Treasury and contributed directly to the second Outline National Changeover Plan, as well as taking an active leading role in Water UK's EMU group, which is developing a code of practice for the water industry. Severn Trent Water has also joined forces with BT, Centrica and Electricity Association to assess a code of practice for the utilities sector in the UK.

Communications with shareholders and the Annual General Meeting

The company attaches considerable importance to the effectiveness of its communications with shareholders. Prior to the Annual General Meeting private investors are given the opportunity to meet the Board and also to question them during the meeting itself. They are encouraged to participate in the meeting. Photographic displays and literature are available to shareholders at the Annual General Meeting to demonstrate the nature and extent of the group's environmental services. The company also responds to enquiries from shareholders as they arise throughout the year. The company will, on request, provide a summary of the proceedings of the Annual General Meeting. Regular communication is maintained with institutional shareholders and fund managers through meetings and presentations. Such communications are sensitive to the need not to disclose potentially price-sensitive information.

Going concern

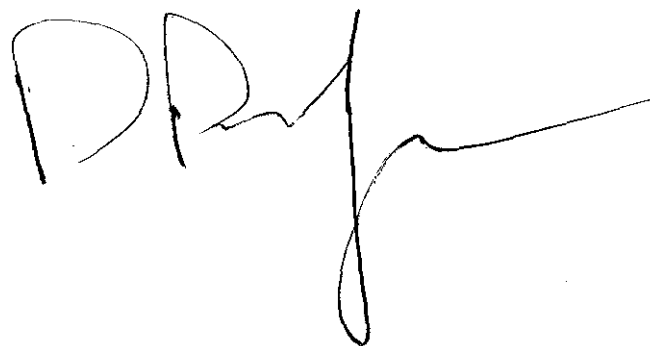
Based upon its review of the group's budget for 2001/2002, outline business plans for the next five years and the committed borrowing facilities available to the group, the Board has a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements set out on pages 30 to 57 have been prepared on the going concern basis.

Auditors

A resolution proposing the reappointment of PricewaterhouseCoopers as auditors will be put to the Annual General Meeting.

By order of the Board
P P Davies LL.B. Solicitor
Group General Counsel and Company Secretary

6 June 2001



Remuneration report

The Remuneration Committee ('the Committee') of the Board comprises the following non-executive Directors:

M C Flower (Chairman), T D G Arculus, Mrs C Tritton (to 30 April 2001), J D G McAdam (from 1 January 2001).

The Committee's role is to determine the remuneration policy and levels of pay and employment benefits for the executive Directors of Severn Trent Plc. The Committee does not deal with the fees payable to non-executive Directors, including the Chairman, for which the Board has the sole determination.

The Committee considers that the company has complied with the principles set out in the Financial Services Authority Combined Code ('the Code') concerning the Remuneration Committee's composition and operation.

In carrying out its responsibilities, the Committee receives professional advice from Andersen.

1 Remuneration policy

The policy of the Committee is to determine, and regularly review and update, as appropriate, a framework within which total remuneration packages for executive Directors can be considered. The aims of the policy are to remunerate executive Directors at levels appropriate to the scope and complexity of their roles and having regard to performance as well as recognising the need to be competitive with businesses of similar size, complexity and geographical spread. The company seeks to attract, retain and motivate the highest quality of management for the ongoing efficient running and development of the company, taking into account the interests of shareholders, customers, employees and the local community. In framing its remuneration policy the company has given full consideration to Schedule A of the Code.

2 Service contracts

The service contracts of most of the existing executive Directors have been amended and are now terminable by the company giving not less than 12 months written notice and by the Directors giving not less than six months notice of termination. This is in line with the recommendations of the Code.

In the case of Mr R A S Costin, who is 58, the Committee has decided that he should retain his two-year contract.

In the cases of Directors who previously had written notice periods in excess of 12 months, contractual terms have been put in place which define levels of compensation payments that might be payable in the event of early termination.

It is considered that the current approach is compatible with the need to attract and retain the highest calibre of executive Director. It is envisaged that the approach taken in the case of Mr Walker will be adopted in the case of any new appointments i.e. the contract will give an initial entitlement to a 24 month notice period reducing to 12 months at the end of the first year of service.

Mr Cocker retired from the company on reaching normal retirement age at the end of October 2000. No compensation was due or paid, and it reduced to one the number of existing Directors with 24 month contracts.

Mr Banyard and Mr Duckworth are the subject of re-appointment as executive Directors at the Annual General Meeting and the Committee believes that their extensive knowledge and experience fully justifies the continuation of the amended contractual arrangements which are outlined above.

3 Executive Directors

i Basic salary and benefits

The Committee has received independent advice on the appropriate level of salaries for executive Directors which takes into account the need to attract, retain and motivate executive Directors as well as maintaining the competitive position of the company within the market. The table on page 25 shows the basic fees and salaries of executive Directors for the financial year ended 31 March 2001.

For the financial year beginning 1 April 2001 the Remuneration Committee has given consideration to the level of basic salaries to be paid to executive Directors. The Committee has balanced the need to continue to pay salaries designed to attract, retain and motivate executive Directors with a requirement to be responsible and prudent in the interest of shareholders as well as having regard to the general level of inflation. Having regard to all these factors the company determined that base salaries for executive Directors should generally be increased by 3.0% from 1 April 2001. The Committee recognises that it has a responsibility to shareholders to ensure salary and benefit levels remain competitive for the sectors in which the company operates. To fulfil this obligation further advice was sought from Andersen in the light of the completion of the acquisition of UK Waste, and following appropriate consideration, the level of salary and benefits of the executive Directors affected were reviewed during the year. Notwithstanding this the Committee will ensure that its remuneration levels continue to reflect a prudent and responsible approach to executives' pay.

The principal remuneration benefits for executive Directors include the use of a motor car, fuel, membership of private medical insurance, life assurance and an incapacity benefits scheme.

Remuneration report

- ii Performance related annual bonus
- Executive Directors are awarded annual bonuses to encourage improved performance, as measured by reference to both financial and non-financial factors. Performance targets are established to align Directors' interests with shareholders and are measured by reference to profitability, together with specific targets for quality, service, environmental performance and the achievement of personal objectives. Benchmarks to monitor overall performance are established at the beginning of each year under review. Financial performance accounts for half of the bonus potential and the other half is dependent on performance in respect of the remaining factors. The performance requirements are stretching and involve an assessment of up to ten parameters for each executive Director. The maximum amount payable under the bonus scheme in 2000/2001 was 40% of basic salary. For 2001/2002 the maximum payable is being raised to 50% of basic salary, but the additional 10% payable will only be awarded for superior financial performance. The actual bonuses awarded for the year ended 31 March 2001 are shown in the table on page 25.
- iii Long-term incentives
- A Long Term Incentive Plan ('LTIP') for executive Directors was approved by shareholders at the 1997 Annual General Meeting.
- Performance is measured by reference to Total Shareholder Return ('TSR') over a three year period compared to the TSR of similar privatised utility companies. The maximum allocation which may be made to an individual Director in any year is such number of shares as have a market value equal to 50% (proposed to change at AGM to 100%) of basic salary. Shares are allocated annually by the Committee but are not released to executive Directors for a period of three years thereafter, provided that the TSR has achieved a prescribed ranking in comparison with the other companies. An allocation of shares equivalent to 50% of salary was awarded to executive Directors and other senior executives for the performance periods effective from 1 April 1997, 1 April 1998, 1 April 1999 and 1 April 2000. The performance criteria are specific to each of the Awards and changes in the number of comparator companies have been necessary as a result of consolidation and merger activity in the privatised utility sectors. The 1997 Award matured in 2000, the 1998 Award is based on a comparator table of 14 companies, the 1999 and 2000 Awards include 11 comparators. No award is made for comparator performance below the median. Neither the Chairman nor the other non-executive Directors participate in the Long Term Incentive Plan.
- The performance period for allocations of shares made in 1998 ended on 31 March 2001. The Remuneration Committee has subsequently determined, based on the company's TSR performance over the three year performance period, that participants are not entitled to any of the shares allocated. The shares in respect of the 1998 Award will, therefore, not be released to executive Directors.
- It is intended that the performance for the 2001 LTIP will be measured by reference to a combination of TSR and Economic Profit targets.
- iv Pensions
- The company's policy is to offer all executive Directors membership of the Senior Staff Pension Scheme ('the Scheme'). The total number of executive Directors who participate in the Scheme is five.
- This Scheme is a funded Inland Revenue approved final salary occupational pension scheme which provides:
- a normal retirement age of 60 years;
 - an overall pension at normal retirement age of two-thirds of final pensionable salary subject to the completion of 20 years pensionable service;
 - life cover of 4 x pensionable earnings;
 - pension payable in the event of retirement on grounds of ill health;
 - a spouse's pension on death.
- As previously reported the bonus element of pensionable earnings is in the process of being phased out.
- The company has a future obligation in respect of Mr R A S Costin and Mr R Walker who joined this Scheme after 1 June 1989 and are therefore subject to the Inland Revenue earnings cap (2000/2001: £91,800), to pay the difference between their pension entitlement based upon the relevant portion of their salary and the maximum amount payable had the cap not been in place. The obligation is unfunded. The amount charged to the profit and loss account in the year for this future obligation was £60,305 for Mr Costin and £120,391 for Mr Walker.
- The Committee decided that in cases of executive Directors where the employees' pension contribution based on their actual annual salary exceeds the Inland Revenue Limit (15% of pension cap) the executive Director would only be required to contribute up to the Inland Revenue Limit although their pension would still be based on their actual earnings.
- A table detailing the Directors' pension provisions as required by the Code is shown on page 25.

4 Chairman and other non-executive Directors

Mr Arculus became Chairman of the company on 29 July 1998 and he is paid fees of £100,000 per annum. In addition, the company contributes £26,280 per annum to Mr Arculus's private pension arrangements as well as providing a driver's allowance, private health scheme insurance and car provision. Mr Arculus agreed that his fees for 2000/2001 should remain at the 1999/2000 level.

Mr Arculus does not participate in any of the company's pension arrangements, share or bonus scheme, nor does he have the benefit of the provision of fuel for the car.

The other non-executive Directors are paid fees which are reviewed from time to time by the Board. They were last increased in 1995 and are set at £25,000 per annum. In addition non-executive Directors who chair Committees of the Board, or act as a trustee to the company's pension schemes receive an additional fee of £2,500 per annum and the senior independent non-executive Director receives £2,250 per annum. Non-executive Directors who are appointed as non-executive Directors of subsidiary companies receive an additional fee of £10,000 per annum for each such appointment. (Non-executive Directors do not participate in any incentive plan nor is any pension provision made for them except as mentioned above in relation to the Chairman). The non-executive Directors do not have service contracts with any group company.

5 Directors' emoluments

The emoluments of the Chairman, the executive Directors and fees payable to the non-executive Directors are as follows:

	Basic salary and fees £000	Benefits in kind £000	Annual bonus £000	Other ¹ £000	Total 2001 £000	Total 2000 £000
Chairman and other non-executive Directors						
T D G Arculus	100.0	10.0	-	5.2	115.2	112.5
E E Anstee	27.5	-	-	1.8	29.3	18.2
M C Flower	29.5	-	-	-	29.5	27.5
J D G McAdam (from 18.09.00)	13.5	-	-	-	13.5	-
F A Osborn	31.5	-	-	4.8	36.3	32.9
A H Simon	29.8	-	-	0.5	30.3	30.6
C Tritton	27.5	-	-	0.5	28.0	28.2
R M Walker (to 11.07.99)	-	-	-	-	-	7.7
Executive Directors						
J K Banyard	151.6	16.0	59.9	0.4	227.9	185.7
M J Bettington	191.8	14.3	67.4	-	273.5	173.8
V Cocker (to 30.10.00)	174.5	6.5	-	0.2	181.2	341.1
R A S Costin	186.7	21.0	56.0	0.2	263.9	231.0
B Duckworth	202.2	16.2	81.9	0.2	300.5	241.6
R M Walker ²	297.7	19.1	97.5	0.1	414.4	287.9
Total emoluments	1,463.8	103.1	362.7	13.9	1,943.5	1,718.7

1 Other emoluments represent expenses chargeable to UK income tax paid to Directors.

2 Aggregate emoluments to Mr Walker, as highest paid Director, amounted to £414,400 (2000: aggregate emoluments to Mr V Cocker, as highest paid Director, amounted to £341,100).

3 Not included above for Mr Walker is £25,000 (£17,708) paid to the company by Thomson Travel Group Plc in respect of time spent by Mr Walker in his role as a non-executive Director of that company, which Mr Walker has decided not to receive. Mr Walker ceased to be a non-executive Director of Thomson Travel Group Plc in July 2000, although fees for the full year were paid.

	Increase in accrued pension (excluding inflation) in the year to 31 March 2001 ¹ £000	Accumulated total accrued pension 31 March 2001 £000	Transfer value of the increase in accrued benefits ² £000
Directors' pension provisions			
Mr J K Banyard	8.5	103.0	127.1
Mr M J Bettington	12.0	76.7	132.8
Mr R A S Costin	3.9	56.6	55.1
Mr B Duckworth	7.7	107.8	93.0
Mr R M Walker	10.9	17.1	160.1

1 The amount of increase in accrued pension during the year excludes the effects of inflation, measured by reference to the increase in the retail prices index between March 2000 and March 2001.

2 The transfer value of the increase in accrued benefits is calculated in accordance with Actuarial Guidance Note GN11, less a deduction in respect of each member's own pension contributions during the period. It does not represent a sum payable to individual Directors and cannot therefore meaningfully be added to annual remuneration.

3 In addition, the company contributes £26,280 per annum to Mr Arculus's private pension arrangements.

Directors' interests

The Directors of the company at 31 March 2001 and their beneficial interests in the shares of the company were as follows:

i Beneficial holdings

	At 1 April 2000 or subsequent date of appointment		At 31 March 2001		At 6 June 2001	
	Number of ordinary shares of 65½p each	Number of B shares of 38p each	Number of ordinary shares of 65½p each	Number of B shares of 38p each	Number of ordinary shares of 65½p each	Number of B shares of 38p each
Chairman and other non-executive Directors						
T D G Arculus (Chairman)	10,000	–	10,000	–	10,000	–
E E Anstee	–	–	2,000	–	2,000	–
M C Flower	–	–	1,000	–	1,000	–
J D G McAdam	–	–	–	–	–	–
F A Osborn	510	–	510	–	510	–
A H Simon	1,985	–	1,985	–	1,985	–
C Tritton	2,727	–	2,727	–	2,727	–
Executive Directors						
J K Banyard	8,740	118	14,988	–	15,017	–
M J Bettington	6,158	62	9,085	–	9,085	–
R A S Costin	1,249	118	8,244	–	8,244	–
B Duckworth	9,854	62	18,061	–	18,098	–
R M Walker	498	–	569	–	569	–

Messrs Banyard, Bettington, Costin, Duckworth and Walker have further interests in Severn Trent Plc ordinary shares of 65½p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 30 July 1998, 30 July 1999 and 10 August 2000. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria are based on the company's Total Shareholder Return compared to the Total Shareholder Return of a number of other privatised utility companies. The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	At 1 April 2000		At 31 March 2001			Gain on vesting (£'000)
	Number of ordinary shares of 65½p each	Awards vested during year	Awards lapsed during year	Awarded during year	Number of ordinary shares of 65½p each	
J K Banyard	16,681	(4,002)	(1,335)	9,637	20,981	23.4
M J Bettington	20,067	(4,760)	(1,587)	11,518	25,238	27.8
R A S Costin	26,529	(6,924)	(2,308)	13,005	30,302	40.4
B Duckworth	23,827	(5,625)	(1,876)	13,005	29,331	32.8
R M Walker	–	–	–	13,012	13,012	–
Total gains on vesting						124.4

In addition to the above, Mr V Cocker, who resigned on 30 October 2000, received a gain on vesting of £46,735.

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

The performance period for allocations of shares made in 1998 ended on 31 March 2001. The Remuneration Committee has subsequently determined, based on the company's Total Shareholder Return over the three year performance period, that participants are not entitled to any of the shares allocated. The 1998 contingent allocations of shares are included in the table above.

ii Options over ordinary shares

	At the start of the year (No. of shares)	Exercised during the year (No. of shares)	Granted during the year (No. of shares)	At the end of the year (No. of shares)	Year of grant of option	Exercise price (p)	Market price at date of exercise (p)	Gain on exercise 2000/2001 ² (£)	Date from which exercisable	Expiry date
Executive share options										
J K Banyard	7,800	-	-	7,800	1993	625	-	-	Dec 1996	Dec 2003
R A S Costin	18,560	-	-	18,560	1993	625	-	-	Dec 1996	Dec 2003
B Duckworth	8,528	-	-	8,528	1993	625	-	-	Dec 1996	Dec 2003
Sharesave options¹										
J K Banyard	2,078	(2,078)	-	-	1995	415	704	6,005	Apr 2000	Sep 2000
	1,633	-	-	1,633	1997	528	-	-	Apr 2002	Sep 2002
	1,024	-	-	1,024	2000	473	-	-	May 2003	Oct 2003
M J Bettington	2,158	-	-	2,158	1998	799	-	-	Apr 2003	Sep 2003
R A S Costin	1,960	-	-	1,960	1997	528	-	-	Apr 2002	Sep 2002
	819	-	-	819	2000	473	-	-	May 2003	Oct 2003
B Duckworth	2,493	(2,493)	-	-	1995	415	699	7,080	Apr 2000	Sep 2000
	1,306	-	-	1,306	1997	528	-	-	Apr 2002	Sep 2002
	1,228	-	-	1,228	2000	473	-	-	May 2003	Oct 2003
R M Walker	-	-	3,235	3,235	2001	568	-	-	May 2008	Oct 2008

- 1 The executive Directors, in common with all eligible UK employees of the group, are entitled to participate in the company's Inland Revenue approved Sharesave Scheme.
- 2 The 'Gain on exercise' column in the table shows the notional gain, before taxation, based on the difference between the exercise price and the mid-market price at the close of business on the date of exercise. It does not indicate that this was the actual gain realised on the sale of shares or that the shares in question have necessarily been sold.
- 3 Total gains on exercising options in the year noted above totalled £13,085 (2000: £21,076).
- 4 No executive share options in respect of executive Directors were granted or lapsed during the year. At 31 March 2001 there were 123 other executives participating in the group's Share Option Scheme (2000: 120).
- 5 At the close of business on 30 March 2001 (last business day) the mid-market price of the company's shares was 694.5p (31 March 2000: 565p) and the range during the year was 550p to 802.5p.

Five year summary

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profit and loss account					
Turnover: group and share of joint ventures	1,685.9	1,580.2	1,378.6	1,255.6	1,221.1
Less: share of joint ventures' turnover	(4.3)	(13.6)	(14.3)	(4.3)	(5.8)
Turnover	1,681.6	1,566.6	1,364.3	1,251.3	1,215.3
Profit before interest, goodwill amortisation and exceptional items	400.2	465.8	463.0	449.6	443.7
Goodwill amortisation	(17.4)	(6.4)	(1.3)	-	-
Profit before interest and exceptional items	382.8	459.4	461.7	449.6	443.7
Exceptional items	(15.5)	(64.7)	(11.0)	(2.2)	(24.5)
Net interest payable	(161.1)	(120.7)	(100.3)	(73.4)	(52.7)
Profit on ordinary activities before taxation	206.2	274.0	350.4	374.0	366.5
Taxation on profit on ordinary activities	(12.4)	(22.1)	(46.6)	(49.5)	(49.8)
Exceptional taxation – Windfall Tax	-	-	-	(309.6)	-
Profit on ordinary activities after taxation	193.8	251.9	303.8	14.9	316.7
Equity minority interests	(0.4)	-	-	-	-
Dividends	(154.5)	(154.0)	(147.0)	(140.0)	(128.5)
Retained profit/(loss) for the financial year	38.9	97.9	156.8	(125.1)	188.2
Net assets employed					
Fixed assets	5,304.5	4,794.6	4,319.2	3,899.7	3,589.9
Net liabilities excluding net debt	(190.2)	(212.2)	(351.8)	(488.1)	(289.7)
Provisions for liabilities and charges	(93.7)	(96.0)	(42.7)	(48.9)	(75.3)
	5,020.6	4,486.4	3,924.7	3,362.7	3,224.9
Financed by					
Called up share capital	223.6	231.7	231.1	230.3	350.5
Reserves	2,385.3	2,315.0	2,214.8	2,050.1	2,179.7
Total shareholders' funds	2,608.9	2,546.7	2,445.9	2,280.4	2,530.2
Minority shareholders' interest	1.2	0.3	0.3	0.3	0.3
Net debt	2,410.5	1,939.4	1,478.5	1,082.0	694.4
	5,020.6	4,486.4	3,924.7	3,362.7	3,224.9
Statistics					
Earnings per share	56.5p	73.8p	89.2p	4.3p	87.2p
Earnings per share before exceptional items	61.0p	92.8p	92.4p	95.0p	93.9p
Dividends per share	45.00p	45.00p	43.00p	39.76p	36.50p
Final dividend enhancement	-	-	-	1.36p	-
Gearing	92.4%	76.1%	60.4%	47.4%	27.4%
Ordinary share price at 31 March	694.5p	565p	840p	1050p	690p
Average number of employees – Water and sewerage	4,837	5,144	5,276	5,359	5,743
– Other	9,220	7,724	5,819	5,054	4,315

Directors' responsibilities in relation to the financial statements

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 the group as at the end of the financial year and of the profit or loss of the group for the financial year.

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

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

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

Independent auditors' report to the members of Severn Trent Plc

We have audited the financial statements which comprise the group profit and loss account, the group and company balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes together with the additional disclosures relating to the remuneration of the Directors specified for our review by the Financial Services Authority, which have been prepared under the historical cost convention and the accounting policies set out in note 1 to the financial statements.

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 in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 information specified by law or the Listing Rules 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 Chairman's statement, the Group Chief Executive's review, the Financial review and the Directors' report, including the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

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.

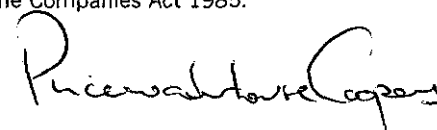
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 as at 31 March 2001 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

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



6 June 2001

Group profit and loss account

Year ended 31 March 2001

	Notes	Continuing operations £m	Acquisitions £m	Total 2001 £m	Total continuing 2000 £m
Turnover: group and share of joint ventures		1,568.1	117.8	1,685.9	1,580.2
Less: share of joint ventures' turnover		(4.3)	-	(4.3)	(13.6)
Turnover	2	1,563.8	117.8	1,681.6	1,566.6
Operating costs before goodwill amortisation and exceptional costs		(1,188.7)	(101.5)	(1,290.2)	(1,109.4)
Goodwill amortisation	3	(8.8)	(8.6)	(17.4)	(6.4)
Exceptional restructuring costs	3	-	(15.5)	(15.5)	(56.1)
Exceptional Year 2000 costs	3	-	-	-	(8.6)
Total operating costs	3	(1,197.5)	(125.6)	(1,323.1)	(1,180.5)
Group operating profit/(loss)		366.3	(7.8)	358.5	386.1
Share of operating profit of joint ventures and associates	2	8.8	-	8.8	8.6
Profit before interest, goodwill and exceptional costs	2	383.9	16.3	400.2	465.8
Goodwill amortisation	2	(8.8)	(8.6)	(17.4)	(6.4)
Profit before interest and exceptional costs	2	375.1	7.7	382.8	459.4
Exceptional costs	2	-	(15.5)	(15.5)	(64.7)
Profit/(loss) before interest	2	375.1	(7.8)	367.3	394.7
Net interest payable	5			(161.1)	(120.7)
Profit after interest before exceptional costs				221.7	338.7
Exceptional costs				(15.5)	(64.7)
Profit on ordinary activities before taxation				206.2	274.0
Taxation on profit on ordinary activities	6			(12.4)	(22.1)
Profit on ordinary activities after taxation				193.8	251.9
Equity minority interests				(0.4)	-
Profit for the financial year				193.4	251.9
Dividends (including non-equity dividends)	7			(154.5)	(154.0)
Retained profit for the financial year	19			38.9	97.9
Earnings per share (pence)					
Basic	8			56.5	73.8
Diluted	8			56.2	73.5
Basic before exceptional costs	8			61.0	92.8
Diluted before exceptional costs	8			60.7	92.3

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

Balance sheets

At 31 March 2001

	Notes	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Intangible assets – goodwill	9	461.3	138.0	-	-
Tangible assets	10	4,815.6	4,630.9	7.5	7.1
Investments in joint ventures					
Share of gross assets		6.6	7.3	-	-
Share of gross liabilities		(5.4)	(6.9)	-	-
Loans to joint ventures		3.8	4.5	-	0.1
Investments in associates		5.0	4.9	-	0.1
Investments in subsidiaries		17.2	16.3	-	-
Other investments		-	-	3,039.6	1,785.6
		5.4	4.5	3.6	3.3
Total Investments	11	27.6	25.7	3,043.2	1,789.0
		5,304.5	4,794.6	3,050.7	1,796.1
Current assets					
Stocks	12	82.6	77.3	-	-
Debtors	13	414.7	353.8	17.5	151.2
Short-term deposits		81.0	35.8	59.2	-
Cash at bank and in hand		35.0	8.4	511.1	291.4
		613.3	475.3	587.8	442.6
Creditors: amounts falling due within one year	14	(1,444.0)	(1,089.2)	(922.6)	(599.6)
Net current liabilities		(830.7)	(613.9)	(334.8)	(157.0)
Total assets less current liabilities		4,473.8	4,180.7	2,715.9	1,639.1
Creditors: amounts falling due after more than one year	15	(1,770.0)	(1,537.7)	(75.5)	-
Provisions for liabilities and charges	17	(93.7)	(96.0)	-	-
Net assets		2,610.1	2,547.0	2,640.4	1,639.1
Capital and reserves					
Called up share capital	18	223.6	231.7	223.6	231.7
Share premium account	19	20.2	12.2	20.2	12.2
Capital redemption reserve	19	156.1	147.0	156.1	147.0
Profit and loss account	19	2,209.0	2,155.8	2,240.5	1,248.2
Total shareholders' funds		2,608.9	2,546.7	2,640.4	1,639.1
Equity shareholders' funds		2,608.9	2,537.6	2,640.4	1,630.0
Non-equity shareholders' funds		-	9.1	-	9.1
Minority shareholders' interest (equity)		1.2	0.3	-	-
		2,610.1	2,547.0	2,640.4	1,639.1

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

David Arculus Chairman

Alan Costin Group Finance Director

Group cash flow statement

Year ended 31 March 2001

	Notes	2001		2000	
		£m	£m	£m	£m
Net cash inflow from operating activities	23a		617.8		671.5
Dividends received from associates and joint ventures			1.0		1.5
Returns on investments and servicing of finance	23b		(126.8)		(94.5)
Taxation			(6.4)		(49.3)
Capital expenditure and financial investment	23c		(365.7)		(575.5)
Acquisitions	23d		(427.9)		(145.1)
Equity dividends paid			(153.7)		(247.1)
Net cash outflow before use of liquid resources and financing			(461.7)		(438.5)
Management of liquid resources	23e		(44.9)		(13.8)
Financing					
Increase in debt		515.7		428.0	
Redemption of shares		(9.1)		-	
Issue of shares		6.7		3.6	
	23f		513.3		431.6
Increase/(decrease) in cash			6.7		(20.7)

Reconciliation of net cash flow to movement in net debt

	Notes	2001		2000	
		£m	£m	£m	£m
Increase/(decrease) in cash (as above)		6.7		(20.7)	
Cash flow from movement in net debt and financing		(515.7)		(428.0)	
Cash flow from movement in liquid resources		44.9		13.8	
Change in net debt resulting from cash flows			(464.1)		(434.9)
Net cash/(debt) assumed with acquisitions	23d		13.7		(14.9)
Rolled up interest on finance leases			(14.4)		(11.3)
Rolled up interest on debt			(0.3)		(0.2)
Currency translation differences			(6.0)		0.4
Increase in net debt			(471.1)		(460.9)
Opening net debt			(1,939.4)		(1,478.5)
Closing net debt	23g		(2,410.5)		(1,939.4)

Statement of total recognised gains and losses

Year ended 31 March 2001

	Group	
	2001 £m	2000 £m
Profit for the financial year – group	191.8	250.0
– joint ventures	0.6	0.8
– associates	1.0	1.1
Total profit for the financial year	193.4	251.9
Currency translation differences	25.7	(0.7)
Total recognised gains and losses for the year	219.1	251.2

The company had no recognised gains or losses in either year other than the profit for that year.

Reconciliation of movements in shareholders' funds

	Notes	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Profit for the financial year		193.4	251.9	1,158.2	274.0
Dividends (including non-equity dividends)		(154.5)	(154.0)	(154.5)	(154.0)
		38.9	97.9	1,003.7	120.0
Other recognised gains and losses relating to the year		25.7	(0.7)	–	–
Shares issued	18a	6.7	3.6	6.7	3.6
Redemption of shares		(9.1)	–	(9.1)	–
Net addition to shareholders' funds		62.2	100.8	1,001.3	123.6
Opening shareholders' funds		2,546.7	2,445.9	1,639.1	1,515.5
Closing shareholders' funds		2,608.9	2,546.7	2,640.4	1,639.1

Notes to the financial statements

1 Accounting policies

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

The accounting standards FRS 17 'Retirement Benefits', FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' were released in the current financial year. All three standards will first impact the group accounts in the financial year ending 31 March 2002. FRS 17 will require added disclosures only in the next financial year. It is anticipated that FRS 18 will have minimal impact. FRS 19 however will require deferred tax to be fully provided. The impact this standard would have on the group accounts if it had been applied in the current year is disclosed in note 17 to these accounts.

b Basis of consolidation The financial statements include the results of Severn Trent Plc and its subsidiary, joint venture and associated undertakings. The results of subsidiaries, joint ventures and associated undertakings acquired are included from the date of acquisition. The results of joint venture undertakings are accounted for on a gross equity basis where the company's holding is 50% and the company exercises joint control under a contractual arrangement. The results of associates are accounted for on an equity basis where the company's holding is 20% or more and the company exercises significant influence.

c Turnover Turnover represents income receivable in the ordinary course of business for services provided.

d Tangible fixed assets and depreciation Tangible fixed assets comprise:

i Infrastructure assets Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with the defined standards of service is treated as an addition and included at cost after deducting grants and contributions.

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

ii Landfill sites Landfill sites are included within Land and Buildings at cost less accumulated depreciation.

The cost of landfill sites is amortised over the estimated life of the site, on the basis of the usage of void space. Cost includes the cost of acquiring and developing sites but does not include interest. Each landfill site is divided into a number of operational cells; the depreciation charge is calculated for each individual cell over its estimated life, on the basis of the usage of the void space within the cell concerned.

iii Other assets Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated.

Other assets are depreciated over their estimated economic lives, which are principally as follows:

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

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

e	Leased assets	<p>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.</p> <p>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.</p>
f	Grants and contributions	<p>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.</p> <p>Grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions to be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this departure is that the cost of fixed assets is £267.6 million lower than it would otherwise have been (2000: £236.1 million).</p> <p>Those grants and contributions relating solely to maintaining the operating capability of the infrastructure network are taken into account in determining the depreciation charged for infrastructure assets.</p>
g	Investments	Investments held as fixed assets are stated at cost less amounts written off.
h	Stocks	Stocks are stated at cost less provisions necessary to account for any 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. Development land and properties are included at the lower of cost and net realisable value. Cost includes the cost of acquiring and developing the sites. The net realisable value of development land is based upon its value as a serviced site, after taking account of the cost of providing infrastructure services. Turnover and attributable profits on properties under development are determined by reference to valuation of work carried out to date.
i	Landfill restoration costs	Provision for the cost of restoring landfill sites is made over the operational life of each landfill site and charged to the profit and loss account on the basis of the usage of void space.
j	Environmental control and aftercare costs	Environmental control and aftercare costs are incurred over the operational life of each landfill site and may be incurred for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the profit and loss account on the basis of the usage of void space.
k	Insurance	Provision is made for claims notified and for claims incurred but which have not yet been notified, based on advice from the group's external insurance advisers.

Notes to the financial statements

- l 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 group. Costs of defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due.
- m Foreign currency** The trading results of overseas subsidiary and associated undertakings are translated into sterling using average rates of exchange ruling during the year.
- The net equity interests in overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year-end. Exchange differences thus arising are treated as movements in reserves together with exchange differences on loans between group companies. Exchange differences arising in respect of foreign exchange instruments taken out as hedges of overseas investments are also treated as movements in reserves.
- All other foreign currency denominated assets and liabilities of the company and its United Kingdom subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year-end. In those instances where forward cover has been arranged, the forward rate is used. Any exchange differences so arising are dealt with through the profit and loss account.
- Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the profit and loss account.
- n Research and development** Research and development expenditure is charged to the profit and loss account in the year in which it is incurred. Expenditure on fixed assets relating to research and development projects is written off over the expected useful life of those assets.
- o Deferred taxation** Deferred taxation relating to capital allowances and other timing differences is provided for to the extent it is probable that a liability will crystallise.
- p Goodwill** Goodwill represents the excess of purchase consideration over the fair value of the net assets acquired.
- Goodwill arising on all acquisitions prior to 1 April 1998 remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible fixed asset in the balance sheet and stated at cost less accumulated amortisation. Capitalised goodwill is amortised on a straight line basis over its useful economic life. Useful economic lives are currently estimated at between 5 and 20 years.
- q Euro costs** Costs of preparing systems and other applications for the introduction of the Euro are written off to the profit and loss account as incurred, unless there is a significant enhancement to the system or application, in which case, the costs are capitalised and depreciated in line with the policy stated in d.
- r Derivatives and other financial instruments** The financial costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the cost of issue and any discount to face value arising on issue, or any premium arising on maturity.
- Differences arising from the movement in exchange rates during the year on translation into sterling of the foreign currency borrowings and similar instruments used to finance long-term equity investments, are taken directly to reserves and reported in the statement of total recognised gains and losses.

2 Segmental analysis

a Analysis of turnover and profit before interest by geographical origin and type of business

	United Kingdom		Other – principally USA and Europe		Group	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Group turnover						
Water and sewerage	887.2	982.1	-	-	887.2	982.1
Waste management	353.7	248.3	42.3	42.8	396.0	291.1
Services	49.1	52.9	301.3	189.9	350.4	242.8
Systems	45.4	71.2	24.6	15.5	70.0	86.7
Property, Engineering consultancy and Insurance	92.6	77.1	-	0.6	92.6	77.7
Inter segment trading	(114.0)	(113.5)	(0.6)	(0.3)	(114.6)	(113.8)
	1,314.0	1,318.1	367.6	248.5	1,681.6	1,566.6
Group profit before interest, goodwill amortisation and exceptional costs						
Water and sewerage	330.5	423.5	-	-	330.5	423.5
Waste management	41.8	24.5	3.9	7.1	45.7	31.6
Services	4.5	0.1	33.6	21.3	38.1	21.4
Systems	(2.9)	(2.6)	(2.5)	0.1	(5.4)	(2.5)
Property, Engineering consultancy and Insurance	4.4	7.9	-	-	4.4	7.9
Unrealised profit on inter segment trading	(1.0)	(2.5)	-	-	(1.0)	(2.5)
Corporate overheads	(12.1)	(13.6)	-	-	(12.1)	(13.6)
	365.2	437.3	35.0	28.5	400.2	465.8
Goodwill amortisation	(9.7)	(1.0)	(7.7)	(5.4)	(17.4)	(6.4)
Group profit before interest and exceptional costs						
Water and sewerage	330.5	423.5	-	-	330.5	423.5
Waste management	33.2	23.9	3.8	7.1	37.0	31.0
Services	3.4	(0.3)	26.2	16.0	29.6	15.7
Systems	(2.9)	(2.6)	(2.7)	-	(5.6)	(2.6)
Property, Engineering consultancy and Insurance	4.4	7.9	-	-	4.4	7.9
Unrealised profit on inter segment trading	(1.0)	(2.5)	-	-	(1.0)	(2.5)
Corporate overheads	(12.1)	(13.6)	-	-	(12.1)	(13.6)
	355.5	436.3	27.3	23.1	382.8	459.4
Exceptional costs	(15.5)	(62.1)	-	(2.6)	(15.5)	(64.7)
Group profit before interest						
Water and sewerage	330.5	362.4	-	-	330.5	362.4
Waste management	17.7	23.9	3.8	7.1	21.5	31.0
Services	3.4	(1.2)	26.2	13.4	29.6	12.2
Systems	(2.9)	(2.6)	(2.7)	-	(5.6)	(2.6)
Property, Engineering consultancy and Insurance	4.4	7.8	-	-	4.4	7.8
Unrealised profit on inter segment trading	(1.0)	(2.5)	-	-	(1.0)	(2.5)
Corporate overheads	(12.1)	(13.6)	-	-	(12.1)	(13.6)
	340.0	374.2	27.3	20.5	367.3	394.7

Turnover by origin and destination does not differ materially.

Water and sewerage turnover in the year ended 31 March 2000 was net of customer rebates of £18.0 million. There were no customer rebates in the year ended 31 March 2001.

Notes to the financial statements

2 Segmental analysis continued

b Joint ventures and associates

	United Kingdom		Other – principally USA and Europe		Group	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Share of joint venture's turnover	3.5	3.3	0.8	10.3	4.3	13.6
Share of operating profit of joint ventures and associates:						
Joint ventures	0.9	1.0	–	0.2	0.9	1.2
Associates	–	–	7.9	7.4	7.9	7.4
	0.9	1.0	7.9	7.6	8.8	8.6

c Acquisitions

The segmental analysis includes the following amounts in respect of businesses acquired during the year:

	Turnover			Operating profit/(loss)		
	United Kingdom £m	Other – principally USA and Europe £m	Total £m	United Kingdom £m	Other – principally USA and Europe £m	Total £m
Waste management	87.3	1.5	88.8	(10.0)	0.2	(9.8)
Services	9.5	17.6	27.1	0.2	1.7	1.9
Property	1.9	–	1.9	0.1	–	0.1
	98.7	19.1	117.8	(9.7)	1.9	(7.8)

Waste management operating profit in the table above is after charging £15.5 million exceptional restructuring costs and goodwill amortisation of £8.0 million.

Services' and Property's operating profit in the table above is after charging goodwill amortisation of £0.6 million and £nil respectively.

d Analysis of net operating assets by geographical location and type of business

	United Kingdom		Other – principally USA and Europe		Group	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Water and sewerage	4,272.6	4,155.4	–	–	4,272.6	4,155.4
Waste management	223.2	157.6	19.0	18.0	242.2	175.6
Services	20.3	19.0	169.0	127.7	189.3	146.7
Systems	6.9	10.7	12.3	8.8	19.2	19.5
Property, Engineering consultancy and Insurance	23.3	28.0	–	1.8	23.3	29.8
Net operating assets	4,546.3	4,370.7	200.3	156.3	4,746.6	4,527.0
Goodwill:						
Waste management					299.5	13.6
Services					161.1	123.5
Systems					0.7	0.9
Short-term deposits, cash, borrowings, taxation and dividends payable					(2,597.8)	(2,118.0)
					2,610.1	2,547.0

3 Operating costs

	Continuing operations 2001 £m	Acquisitions 2001 £m	Total 2001 £m	Total continuing 2000 £m
Wages and salaries	331.0	24.0	355.0	334.1
Social security costs	29.5	2.1	31.6	25.9
Pension costs (note 22)	21.9	1.3	23.2	38.9
Total employee costs	382.4	27.4	409.8	398.9
Power	40.2	0.6	40.8	38.8
Raw materials and consumables	119.4	11.4	130.8	100.0
Rates	45.4	1.6	47.0	43.3
Service charges	21.6	-	21.6	21.1
Agencies	-	-	-	15.5
Waste disposal costs	44.6	13.8	58.4	43.3
Other operating costs	226.6	40.0	266.6	243.2
Depreciation				
- on owned assets	197.3	12.6	209.9	192.0
- on assets held under finance leases	3.6	-	3.6	8.5
- on infrastructure assets	53.9	-	53.9	51.6
Amortisation				
- goodwill	8.8	8.6	17.4	6.4
Hired and contracted services	115.7	3.1	118.8	103.8
Environmental and landfill restoration costs	6.1	2.1	8.2	5.3
Operating lease rentals				
- land and buildings	9.2	1.0	10.2	7.1
- other	5.8	0.6	6.4	4.5
Hire of plant and machinery	9.3	2.0	11.3	9.3
Research and development expenditure	3.4	-	3.4	4.1
Auditors' remuneration				
- audit work	0.6	-	0.6	0.5
- non audit work	0.6	-	0.6	0.7
Profit on disposal of fixed assets	(1.1)	0.8	(0.3)	(2.5)
	1,293.4	125.6	1,419.0	1,295.4
Own work capitalised	(95.9)	-	(95.9)	(114.9)
Total operating costs	1,197.5	125.6	1,323.1	1,180.5

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

Employee costs (including pension costs of £0.1 million, 2000: £18.7 million)	4.2	56.0
Other operating costs	11.3	0.1
	15.5	56.1

Exceptional restructuring costs in the year ended 31 March 2001 of £15.5 million are included within acquisitions above and relate to the costs of restructuring Biffa Waste Services following the acquisition of UK Waste. Restructuring costs in the year ended 31 March 2000 of £56.1 million substantially related to the costs of restructuring Severn Trent Water following the AMP3 determination and a restructuring of Severn Trent Services.

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

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

Exceptional Year 2000 costs in the year ended 31 March 2000 of £8.6 million related to the costs of ensuring that all group computer and operating systems were Millennium compliant.

Included in auditors' remuneration is £52,000 (2000: £52,000) in respect of the audit of the company. In addition to the amounts disclosed above, £2.3 million was paid to the auditors in respect of acquisitions during the year, and have been capitalised as part of the acquisition costs.

Details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 23 to 27.

Notes to the financial statements

4 Employee numbers

Average number of employees during the year (full time equivalent):

	2001 Number	2000 Number
By type of business:		
Water and sewerage	4,837	5,144
Waste management	3,358	2,723
Services	4,686	3,742
Systems	826	822
Property, Engineering consultancy, Insurance and Corporate	350	437
	14,057	12,868
By geographical location:		
United Kingdom	9,417	9,288
Other – principally USA and Europe	4,640	3,580
	14,057	12,868

5 Net interest payable

	2001 £m	2000 £m
Interest receivable and similar income	22.3	9.6
Interest payable and similar charges:		
Bank loans and overdrafts	(110.2)	(64.2)
Other loans	(38.9)	(47.5)
Interest on discounted provisions	(1.7)	(0.9)
Finance leases	(26.3)	(12.1)
Group	(154.8)	(115.1)
Share of joint ventures	(0.3)	(0.3)
Share of associates	(6.0)	(5.3)
	(161.1)	(120.7)

6 Taxation

		2001 £m	2000 £m
UK corporation tax	– current year at 30%	8.9	22.4
	– prior year	0.3	(3.3)
Double taxation relief		(0.5)	(0.9)
Overseas taxation	– current year	3.0	3.3
	– prior year	(0.2)	–
Share of taxation charges of	– joint ventures	–	0.1
	– associates	0.9	1.0
Advance corporation tax written off	– prior year	–	(0.5)
		12.4	22.1

The corporation tax charge for the year has been reduced by the excess of capital allowances over depreciation.

No provision for deferred taxation is required for the year ended 31 March 2001. If the full potential liability to deferred taxation had been provided on an ongoing basis, there would have been an additional tax charge of £65.1 million (2000: £60.9 million).

At 31 March 2001, the group had tax losses of approximately £50.7 million (2000: £67.0 million) which will be available for offset against future profits.

The comparative figures have been re-stated to take account of computations submitted to the relevant tax authorities.

7 Dividends

	2001		2000	
	Pence per share	£m	Pence per share	£m
Interim dividend declared	17.00	58.2	17.00	58.0
Final dividend proposed	28.00	96.1	28.00	95.7
	45.00	154.3	45.00	153.7
B share interim dividend declared	1.02	0.2	0.76	0.1
B share final dividend declared	-	-	0.80	0.2
	1.02	154.5	1.56	154.0

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

Supplementary earnings per share figures are presented. These exclude the effects of exceptional Year 2000 costs in 2000 and exceptional restructuring costs in both 2000 and 2001. The Directors consider that the supplementary figures provide a useful additional indication of performance.

	2001			2000		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	193.2	342.1	56.5	251.5	340.8	73.8
Effect of dilutive securities						
Options	-	1.5	(0.3)	-	1.6	(0.3)
Diluted earnings per share	193.2	343.6	56.2	251.5	342.4	73.5
Supplementary earnings per share						
Basic earnings per share	193.2	342.1	56.5	251.5	340.8	73.8
Effect of:						
Exceptional restructuring costs	15.5	-	4.5	56.1	-	16.5
Exceptional Year 2000 costs	-	-	-	8.6	-	2.5
Basic earnings per share before exceptional costs	208.7	342.1	61.0	316.2	340.8	92.8
Diluted earnings per share	193.2	343.6	56.2	251.5	342.4	73.5
Effect of:						
Exceptional restructuring costs	15.5	-	4.5	56.1	-	16.3
Exceptional Year 2000 costs	-	-	-	8.6	-	2.5
Diluted earnings per share before exceptional costs	208.7	343.6	60.7	316.2	342.4	92.3

Notes to the financial statements

9 Goodwill

	2001 £m
Cost	
At 1 April 2000	145.7
Arising on acquisitions in the year (note 20)	322.5
Arising on prior year acquisitions	4.4
Exchange adjustments	14.9
At 31 March 2001	487.5
Amortisation	
At 1 April 2000	7.7
Charge for year	17.4
Exchange adjustments	1.1
At 31 March 2001	26.2
Net book value	
At 31 March 2001	461.3
At 31 March 2000	138.0

10 Tangible assets

				Group	Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Total £m
Cost					
At 1 April 2000	1,757.6	2,657.4	2,197.8	6,612.8	9.9
Acquisition of businesses	46.8	-	65.7	112.5	-
Additions	67.1	136.9	173.1	377.1	0.9
Grants and contributions	-	(31.5)	-	(31.5)	-
Disposals	(5.0)	(0.7)	(44.9)	(50.6)	-
Reclassifications and transfers	7.9	7.2	(15.5)	(0.4)	-
Exchange adjustments	3.6	-	10.8	14.4	-
At 31 March 2001	1,878.0	2,769.3	2,387.0	7,034.3	10.8
Depreciation					
At 1 April 2000	476.2	721.8	783.9	1,981.9	2.8
Charge for year	49.0	53.9	164.5	267.4	0.5
Disposals	(3.0)	(0.7)	(33.9)	(37.6)	-
Reclassifications and transfers	-	-	2.2	2.2	-
Exchange adjustments	0.6	-	4.2	4.8	-
At 31 March 2001	522.8	775.0	920.9	2,218.7	3.3
Net book value					
At 31 March 2001	1,355.2	1,994.3	1,466.1	4,815.6	7.5
At 31 March 2000	1,281.4	1,935.6	1,413.9	4,630.9	7.1

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

	2001 £m	2000 £m
Cost	443.9	278.5
Accumulated depreciation	(50.6)	(47.0)
Net book value	393.3	231.5

10 Tangible assets continued

- 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:

	2001 £m	2000 £m
Freehold	1,255.2	1,225.3
Long leasehold	70.2	54.9
Short leasehold	29.8	1.2
	1,355.2	1,281.4

- iv The net book value of land and buildings includes £125.9 million (2000: £94.2 million) in respect of landfill sites.

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

	2001 £m	2000 £m
Land	23.4	26.0
Assets in the course of construction	224.2	320.9
	247.6	346.9

- vi At 31 March 2001, the company's tangible fixed assets comprised freehold land and buildings with a net book value of £6.8 million (2000: £6.9 million) and plant and equipment with a net book value of £0.7 million (2000: £0.2 million).

11 Investments

	Group	
	2001 £m	2000 £m
Investments in joint ventures:		
Share of gross assets	6.6	7.3
Share of gross liabilities	(5.4)	(6.9)
Loans	3.8	4.5
	5.0	4.9
Investments in associates:		
Share of net assets	14.9	14.5
Loans	2.3	1.8
	17.2	16.3
Other investments	1.8	1.5
Own shares	3.6	3.0
	27.6	25.7

	Interests in joint ventures £m	Interests in associates £m	Other investments £m	Own shares £m	Total £m
Group					
At 1 April 2000	4.9	16.3	1.5	3.0	25.7
Loans advanced	1.8	0.5	-	-	2.3
Additions	-	-	0.3	1.5	1.8
Loans repaid	(2.5)	-	-	-	(2.5)
Share of profits	0.6	1.0	-	-	1.6
Dividends receivable	-	(1.2)	-	-	(1.2)
Currency translation differences	-	0.6	-	-	0.6
Other movements	0.2	-	-	(0.9)	(0.7)
At 31 March 2001	5.0	17.2	1.8	3.6	27.6

Notes to the financial statements

11 Investments continued

Interests in joint ventures and associates at 31 March 2001 comprised the group's share of net assets less provisions, of £16.1 million (2000: £14.9 million) and loans of £6.1 million (2000: £6.3 million). The group's share of the post acquisition accumulated profits of joint ventures at 31 March 2001 was £1.0 million (2000: £0.4 million). The group's share of the post acquisition accumulated losses of associates at 31 March 2001 was £0.8 million (2000: £1.8 million). Particulars of the group's principal joint venture and associated undertakings at 31 March 2001 are:

	Nature of business	Percentage of share capital held	Issued share capital		
			A ordinary shares of £1	B ordinary shares of £1	Other classes of shares
Biogeneration Limited	Power Generation	50%	500#	500	-
GMI Rovinian Limited	Property Development	50%	25,000	25,000#	-
Capital Controls India Private Limited	Chlorination Equipment	50%	-	-	75,000 equity shares at Rs10/share
Aquafin NV	Sewerage Undertaking	20%	-	-	800,000 shares at 10,000 BEF/share
Indaqua Industria e Gestao de Aguas	Water Undertaking	30%	-	-	100,000 shares at 1,000 Escudos/share
Cognica Limited	Asset Management	50%	100,000#	100,000	-

Held by the group

The country of incorporation, registration and main operation is Great Britain with the exceptions of Capital Controls India (India), Aquafin (Belgium) and Indaqua (Portugal).

The group financial statements incorporate a trading period for Aquafin and Indaqua of 12 months to their accounting reference date of 31 December 2000.

Interests in own shares represent Ordinary Shares of 65 $\frac{1}{2}$ p each held in trust for certain senior employees under the Long Term Incentive Plan. The main features of the Plan are set out in the Remuneration Committee Report on page 24. At 31 March 2001, the trust held 401,262 shares (2000: 320,905 shares). The market value of these shares was £2.8 million (2000: £1.8 million). The costs of acquiring the shares are charged to the profit and loss account over the three year period for which the performance criteria are measured.

Details of the principal operating subsidiaries by type of business are set out in note 24. A complete list of subsidiary undertakings is available on request to the company.

Company	Subsidiary undertakings		Joint ventures	Other investments	Own shares	Total
	Shares £m	Loans £m	Loans £m	£m	£m	£m
At 1 April 2000	1,234.5	551.1	0.1	0.3	3.0	1,789.0
Additions/loans advanced	496.7	1,970.9	-	-	1.5	2,469.1
Loans repaid	-	(193.0)	-	-	-	(193.0)
Disposals/provisions	(1,020.6)	-	(0.1)	(0.3)	(0.9)	(1,021.9)
At 31 March 2001	710.6	2,329.0	-	-	3.6	3,043.2

12 Stocks

	Group	
	2001 £m	2000 £m
Stocks and work in progress	59.3	25.4
Development land and properties	23.3	51.9
	82.6	77.3

The replacement value of stocks and work in progress is not materially different from their book value.

13 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade debtors	249.1	203.8	-	-
Amounts owed by group undertakings	-	-	7.9	145.4
Amounts owed by associated undertakings	-	0.1	-	-
Corporation tax recoverable	1.7	1.3	0.8	-
Other debtors	35.4	19.0	8.0	5.1
Prepaid pension contributions	1.0	1.0	0.4	0.4
Prepayments and accrued income	127.5	128.6	0.4	0.3
	414.7	353.8	17.5	151.2

Group debtors include £11.5 million (2000: £12.2 million) which falls due after more than one year.

14 Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank overdrafts	30.0	21.0	29.8	27.3
Bank loans	724.2	308.2	709.6	270.7
Other loans	61.5	178.5	-	125.0
Obligations under finance leases	3.4	0.9	-	-
Borrowings (note 16)	819.1	508.6	739.4	423.0
Trade creditors	60.4	58.7	0.2	0.2
Other creditors	36.9	35.2	13.0	12.8
Taxation and social security	31.3	18.6	-	-
Corporation tax payable	34.7	26.2	-	-
Dividends payable	154.3	153.7	154.3	153.7
Accruals and deferred income	307.3	288.2	15.7	9.9
	1,444.0	1,089.2	922.6	599.6

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	570.9	585.3	69.2	-
Other loans	677.8	603.4	-	-
Obligations under finance leases	458.7	286.3	-	-
Borrowings (note 16)	1,707.4	1,475.0	69.2	-
Deferred income	51.3	54.4	-	-
Other creditors	11.3	8.3	6.3	-
	1,770.0	1,537.7	75.5	-

Notes to the financial statements

16 Financial instruments

The group's policies in respect of foreign currency and interest rate risk management and the related use of financial instruments are set out in the Treasury management section of the Financial Review on page 13.

a Borrowings analysed by currency and interest rate after taking account of various currency and interest rate swaps entered into by the group

Currency	2001 Total £m	Floating interest rate £m	Fixed interest rate £m	Fixed borrowings	
				Weighted average interest rate %	Weighted average period for which interest is fixed Years
Sterling	2,495.7	767.1	1,728.6	6.36	11.71
Belgian Franc	1.0	-	1.0	6.27	0.44
Euro	29.8	29.8	-		
Total borrowings at 31 March 2001	2,526.5	796.9	1,729.6		
Total borrowings at 31 March 2000	1,983.6	761.9	1,221.7		

Floating rate borrowings bear interest based on LIBOR.

b Investments in interest bearing assets

Currency	2001 £m	2000 £m
Sterling deposits	73.4	28.1
Belgian Franc deposits	7.6	7.7
Total	81.0	35.8

Investments in interest bearing assets comprise short term deposits placed on money markets with a maturity date not exceeding one year, and certificates of deposit.

c Monetary assets and liabilities by currency, excluding the functional currency

Functional currency of operation	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	U S Dollar £m	Euro £m	Other £m	Total £m
Sterling	-	3.8	(29.6)	1.7	(24.1)
Belgian Franc	0.2	-	-	-	0.2
Dollar	0.4	-	-	-	0.4
Total	0.6	3.8	(29.6)	1.7	(23.5)

Net currency gains arising from monetary assets/(liabilities) not in the functional currency of an operation are recognised in its profit and loss account. Those arising from the translation of US Dollar and Belgian Franc functional currency financial statements into Sterling are recognised in the statement of total recognised gains and losses.

d Borrowings analysed by maturity date

	Loans				2001 Total £m	2000 Total £m
	Overdrafts £m	Repayable by instalments any of which are payable after five years £m	Other repayment terms £m	Finance leases £m		
Group						
Borrowings due within one year (note 14)	30.0	0.2	785.5	3.4	819.1	508.6
Borrowings due after one year:						
Between one and two years	-	0.1	131.5	2.8	134.4	16.1
Between two and five years	-	0.3	297.9	12.9	311.1	270.1
After more than five years	-	2.2	816.7	443.0	1,261.9	1,188.8
Total borrowings due after one year (note 15)	-	2.6	1,246.1	458.7	1,707.4	1,475.0
	30.0	2.8	2,031.6	462.1	2,526.5	1,983.6

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2001 £m	2000 £m
European Investment Bank loans – 2006-2009	5.3-6.5	225.0	325.7
Sterling bond (STWUF*) – 2024	6.1	298.0	297.9
Sterling bond (STWUF*) – 2029	6.3	293.7	293.5
Local authority loans – 2026-2035	6.0-14.4	-	11.8
Other loans	3.0-7.0	2.8	0.1
		819.5	929.0

* Severn Trent Water Utilities Finance Plc

Company

The company has loans and overdrafts totalling £808.6 million (2000: £423.0 million) which are repayable within five years.

e Borrowings facilities

The group has the following undrawn committed borrowing facilities available at 31 March 2001

	2001 £m	2000 £m
Expiring within one year	90.0	84.3
Expiring in more than one but not more than two years	50.0	28.1
Expiring after two years	600.0	147.0
	740.0	259.4

Notes to the financial statements

16 Financial instruments continued

f Fair values of financial instruments

Financial instruments by category: Asset/(liability)	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations				
Short-term deposits	81.0	81.0	35.8	35.8
Cash at bank and in hand	35.0	35.0	8.4	8.4
Borrowings falling due within one year	(819.1)	(819.1)	(508.6)	(508.8)
Borrowings falling due after more than one year	(1,707.4)	(1,636.7)	(1,475.0)	(1,451.1)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	-	(27.3)	-	23.5
Currency swaps	-	(1.2)	-	(13.6)
Other long-term assets/(liabilities)				
Interest in own shares	3.6	2.8	3.0	1.8
Other fixed asset investments	1.8	1.8	1.5	1.5
B Shares	-	-	(9.1)	(7.7)

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

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

g Unrecognised gains and losses on hedges at 31 March 2001

	Gains £m	Losses £m	Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 1 April 2000	26.0	(16.1)	9.9
Arising in previous years that were recognised in the year	-	-	-
Arising before 1 April 2000 that were not recognised in the financial year	26.0	(16.1)	9.9
Unrecognised gains and losses arising during the financial year	(7.3)	(31.1)	(38.4)
Unrecognised gains and losses on hedges at 31 March 2001	18.7	(47.2)	(28.5)
Expected to be recognised			
In one year or less	-	-	-
In later years	18.7	(47.2)	(28.5)

The instruments used for hedging group exposures to movements in interest rates and exchange rates are explained in the Financial Review on page 13. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

17 Provisions for liabilities and charges

a Provisions comprise:

	Balance at 1 April 2000 £m	Acquired with subsidiaries £m	Charged to profit & loss account £m	Exchange adjustments £m	Utilised £m	Balance at 31 March 2001 £m
Environmental and landfill restoration	28.3	26.4	8.2	0.2	(5.5)	57.6
Restructuring	46.3	-	0.9	0.2	(38.1)	9.3
Insurance	13.5	-	7.5	-	(5.7)	15.3
Onerous contracts	7.3	6.5	(2.7)	-	-	11.1
Other	0.6	-	-	-	(0.2)	0.4
	96.0	32.9	13.9	0.4	(49.5)	93.7

As more fully explained in notes 1 i and j, environmental and landfill restoration provisions reflect costs to be incurred over the operational life of individual landfill sites and in the case of aftercare costs, for a considerable period thereafter. Discounting is applied. Included in the £8.2 million charge against profit in the current year is £1.7 million interest resulting from the use of discounting.

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

Derwent Insurance Limited, a captive insurance company, is a wholly owned subsidiary of the group. Provisions for claims are made as set out in note 1k. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

The onerous contract provision relates to onerous contractual liabilities assumed with businesses acquired. The associated outflows are estimated to crystallise over the relevant contract periods of up to six years from the balance sheet date.

b In accordance with the group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2001. This is because, in the opinion of the Directors, the likelihood of a deferred tax liability crystallising in the foreseeable future is remote.

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

	2001 £m	2000 £m
Capital allowances	750.0	685.3
Other timing differences	(35.3)	(36.1)
Available tax losses	(15.2)	(20.1)
	699.5	629.1

Comparative figures have been restated to take account of computations submitted to relevant tax authorities.

Notes to the financial statements

17 Provisions for liabilities and charges continued

The accounting standard FRS 19, requiring full provision for deferred tax, will be adopted by the group in the year ended 31 March 2002. It is intended that, where material, the group will adopt a policy of discounting. If FRS 19 had been adopted for the year ended 31 March 2001, the tax charge would have been increased by £52.6 million, and a deferred tax liability of £324.1 million would have been reflected in the balance sheet as follows:

	2001 £m
Origination and reversal of timing differences	65.1
Increase in discount	(12.5)
Total deferred tax charge	52.6

The provision for deferred tax would be disclosed as follows:

	2001 £m	2000 £m
Accelerated capital allowances	750.0	685.3
Tax losses/other reliefs carried forward	(50.5)	(56.2)
Undiscounted provision for deferred tax	699.5	629.1
Discount	(375.4)	(362.9)
Discounted provision for deferred tax	324.1	266.2
Provision at start of period	266.2	
Deferred tax charge for period (above)	52.6	
Movements arising on acquisition of businesses	5.3	
Provision at end of period	324.1	

18 Called up share capital

	2001 £m	2000 £m
Authorised:		
520,175,751 Ordinary Shares of 65½/19p	339.5	339.5
356,623,364 B Shares of 38p (non-equity)	-	135.5
Total Authorised Share Capital	339.5	475.0
Issued and fully paid:		
342,647,070 (2000: 341,122,304) Ordinary Shares of 65½/19p	223.6	222.6
Nil (2000: 23,845,584) B Shares of 38p (non-equity)	-	9.1
Total Issued and Fully Paid Share Capital	223.6	231.7

a Shares issued during the year

1,461,219 Ordinary Shares of 65½/19p were issued at 550p, 600p, 673p, 528p, 415p, 675p, 585p, 680p, 613p, 721p, 738p, 775p, 795p, 708p, 697p or 683p under the group's Employee Sharesave Scheme and 63,547 Ordinary Shares of 65½/19p were issued at 497p or 625p under the group's Share Option Scheme (formerly Executive Share Option Scheme). The aggregate consideration in respect of these allotments was £9.0 million.

b B Shares

Following a resolution passed by shareholders at last year's AGM, the High Court confirmed the cancellation of the B shares on 1 November 2000. The B shares were redeemed at par.

18 Called up share capital
continued

c Employee share schemes

i The Severn Trent Share Schemes (Profit Sharing Scheme)

The issued and paid up share capital of the company includes 653,868 Ordinary Shares of 65⁵/₁₉p (2000: 584,014) issued under the Severn Trent Share Schemes. These shares are held in trust on behalf of employees who are beneficially entitled to the shares.

ii Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant those employees who have entered into an Inland Revenue approved Save as You Earn (SAYE) contract for a period of three, five or seven years, the right to purchase Ordinary Shares in the company.

Options outstanding at 31 March 2001 were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			2001	2000
January 1993	2000	360p	-	292,497
January 1994	2001	482p	153,371	177,062
January 1995	2002	415p	197,754	1,016,541
January 1996	2001 or 2003	535p	522,873	607,980
January 1997	2002 or 2004	528p	560,609	939,276
January 1998	2001, 2003 or 2005	799p	384,225	532,486
January 1999	2002, 2004 or 2006	831p	278,646	457,079
January 2000	2003, 2005 or 2007	473p	2,903,541	3,281,473
January 2001	2004, 2006 or 2008	568p	1,191,917	-

iii Approved Share Option Scheme

Under the terms of the Share Option Scheme (formerly Executive Share Option Scheme), the Board has granted Directors and other executives options to purchase Ordinary Shares in the company. Options outstanding under this scheme at 31 March 2001 were as follows:

Date of grant	Number	Normal date of exercise of option holders	Option price	Number of shares	
				2001	2000
March 1993	7	1996-2003	497p	32,186	53,631
December 1993	34	1996-2003	625p	154,303	216,672
June 1998	57	2001-2008	1005p	111,518	111,518
June 1999	58	2002-2009	934p	79,168	79,168
June 2000	32	2003-2010	688p	78,891	-

iv Unapproved Share Option Scheme

The Board has granted executives options to purchase Ordinary Shares in the company under an unapproved Share Option scheme. Options outstanding under this scheme at 31 March 2001 were as follows:

Date of grant	Number	Normal date of exercise of option holders	Option price	Number of shares	
				2001	2000
June 1998	23	2001-2008	1005p	43,717	43,717
June 1999	70	2002-2009	934p	168,906	168,906
June 2000	78	2003-2010	688p	286,305	-

Notes to the financial statements

19 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
Group			
At 1 April 2000	12.2	147.0	2,155.8
Retained profit for the year	-	-	38.9
Shares issued	5.7	-	-
Repurchase of B shares	-	9.1	(9.1)
Adjustment for shares issued under Quest scheme	2.3	-	(2.3)
Currency translation differences	-	-	25.7
At 31 March 2001	20.2	156.1	2,209.0
Company			
At 1 April 2000	12.2	147.0	1,248.2
Retained profit for the year	-	-	1,003.7
Shares issued	5.7	-	-
Repurchase of B shares	-	9.1	(9.1)
Adjustment for shares issued under Quest scheme	2.3	-	(2.3)
At 31 March 2001	20.2	156.1	2,240.5

The profit attributable to shareholders, dealt with in the accounts of the company was £1,158.2 million (2000: £274.0 million). £1,001.2 million of the company's retained profit in the current year arose as a result of a group restructuring exercise, and is not considered likely to be distributable. As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the company.

At 31 March 2001 cumulative goodwill written off against group reserves amounted to £290.1 million (2000: £290.1 million).

During the year, the group acquired interests in the following businesses:

Name of business	Date of acquisition
Waste management:	
Garwig et Cie Charleroi SA	1 July 2000
UK Waste	22 September 2000
Services:	
Hyder Laboratories Ltd	1 April 2000
Hydra-Stop Inc	31 May 2000
Vermont Pipeline Services Inc	1 August 2000
QED Environmental Inc	27 September 2000
On-Site Environmental Laboratories Inc	1 October 2000
Universal Aqua Technologies Inc	6 December 2001
Environmental Sampling Supply Inc	2 January 2001
Chromolab Inc	3 January 2001
Property:	
Abbcott Properties Ltd	22 March 2001

All acquisitions were accounted for using the acquisition method.

From the dates of acquisition to 31 March 2001 the acquisitions contributed £117.8 million to turnover (UK Waste £87.3 million) and a loss before interest of £7.8 million (UK Waste loss before interest £10.0 million), after charging exceptional restructuring costs of £15.5 million (all of which relate to UK Waste) and goodwill amortisation of £8.6 million (UK Waste £7.9 million). As a result of the integration of the acquisitions with the group's existing businesses, it has not been possible to separately identify their cash flows.

In its last financial year to 31 December 1999, UK Waste made a profit after tax and minority interests of £1.5 million. For the period since that date to the date of acquisition, UK Waste's management accounts show:

	£m
Turnover	133.2
Operating profit	13.9
Profit before taxation	7.4
Taxation and minority interests	(19.4)
Loss for the financial period	(12.0)

There were no other recognised gains or losses in the period.

None of these other businesses acquired during the year had pre-acquisition trading results which were individually significant in the context of the group.

a Acquisition of UK Waste

The net assets acquired and the provisional fair value adjustments were as follows:

	Book value £m	Revaluations £m	Accounting policy harmonisation £m	Other adjustments £m	Provisional fair value total £m
UK Waste					
Tangible fixed assets	128.5	(1.0)	(23.8)	-	103.7
Stocks	0.7	-	-	-	0.7
Debtors due within one year	44.2	-	-	(1.6)	42.6
Cash at bank and in hand	16.1	-	-	-	16.1
Creditors due within one year	(37.5)	-	-	(2.6)	(40.1)
Loans and finance leases	(2.1)	-	-	-	(2.1)
Provisions for liabilities and charges	(26.6)	-	(3.9)	(1.7)	(32.2)
	123.3	(1.0)	(27.7)	(5.9)	88.7
Consideration – cash paid					372.7
– expenses paid					5.2
– deferred					2.6
Goodwill					291.8

Notes to the financial statements

20 Acquisitions continued

The £23.8 million accounting policy harmonisation in respect of tangible fixed assets relates to the alignment of the useful lives of those assets with group policy.

The £3.9 million accounting policy harmonisation is the net effect of an adjustment in respect of provisions for liabilities and charges of £14.9 million relating to the alignment of environmental and landfill provisions with group policy and an £11.0 million adjustment to align the treatment of deferred taxation with group policy.

The £2.6 million movement in other adjustments in respect of creditors, includes £2.2 million of dilapidations reserves, in respect of leasehold properties acquired.

The £1.7 million movement in other adjustments, is in respect of provisions for onerous contractual liabilities, the quantum of which has been reassessed to reflect the commercial obligation at the date of acquisition.

b Other acquisitions

The net assets acquired and the provisional fair value adjustments of other acquisitions were as follows:

	Book value £m	Revaluations £m	Accounting policy harmonisation £m	Other adjustments £m	Provisional fair value total £m
Tangible fixed assets	8.4	0.4	-	-	8.8
Stocks	5.0	1.4	0.4	-	6.8
Debtors due within one year	5.2	-	-	-	5.2
Cash at bank and in hand	1.1	-	-	-	1.1
Creditors due within one year	(5.0)	-	(0.7)	-	(5.7)
Loans and finance leases	(1.4)	-	-	-	(1.4)
Provisions for liabilities and charges	-	-	(0.7)	-	(0.7)
	13.3	1.8	(1.0)	-	14.1
Consideration - paid					40.6
Consideration - deferred					2.0
- expenses paid					1.7
- expenses deferred					0.5
Goodwill					30.7

The £1.4 million revaluation adjustment in respect of stocks relates to a revaluation of land held for development.

All fair value adjustments in respect of current year acquisitions in the tables above will be reviewed during 2001/2002. Any revision will be accounted for as adjustments to goodwill.

The total consideration for acquisitions noted above was £425.3 million generating goodwill of £322.5 million.

The finalisation of provisional fair values on acquisitions made in the financial year to 31 March 2000 has resulted in additional goodwill of £3.0 million. A further £1.4 million of goodwill on prior year acquisitions has resulted from additional consideration which had not been accrued.

21 Commitments and contingent liabilities

a Investment expenditure commitments

	2001 £m	2000 £m
Contracted for but not provided in the financial statements	127.5	146.6

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

b Operating lease commitments

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

	2001		2000	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	1.1	2.5	1.2	1.7
Between one and five years	3.5	0.3	2.9	1.6
After five years	1.6	-	2.2	-
	6.2	2.8	6.3	3.3

c Group undertakings have entered into bonds in the normal course of business. The company has entered into guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

d The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances. Credit balances can be offset against overdrawn balances of participating companies.

22 Pensions and retirement benefits

The principal pension schemes operated by the group in the UK are the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS). These defined benefit schemes are fully funded to cover future salary and pension increases and their assets are held in a separate fund administered by the trustees. In addition, there is a defined benefit scheme for senior staff and defined contribution schemes operated by certain overseas subsidiary undertakings. The pension charge for the year ended 31 March 2001 was £23.2 million (2000: £38.9 million). This includes £0.1 million in relation to the exceptional restructuring charge (2000: £18.7 million), see note 3.

STWPS

An actuarial valuation of STWPS was carried out at 31 March 1998 by an independent professionally qualified actuary using the projected unit method. The principal assumptions used were as follows:

	Per annum
Investment return	7.5%
Salary increases	5.0%
Pension increases	3.5%
Inflation	3.5%
Dividend growth	4.0%

The actuarial value of the scheme's assets was £528.0 million, which exceeded by 4% the actuarial value of the benefits accrued to members, after allowing for future increases in earnings.

The surplus is being spread over the estimated remaining period of employees' average service lives with the group on the basis of a constant percentage of payroll. The market value of the scheme's assets at the date of valuation was £699.6 million.

The employer's contribution rate to STWPS was increased from 1 April 1999 to 12.36%, 10.3% or 6.18% of pensionable pay (previously 11.88%, 9.9% or 5.94%) of STWPS members. Employees' contributions continue at the rate of 6%, 5% or 3% of pensionable pay.

Notes to the financial statements

22 Pensions and retirement benefits continued

STMIS

The most recent valuation of STMIS was carried out at 31 March 2000 by an independent professionally qualified actuary using the attained age method, which is considered the most appropriate method of valuation for a scheme which is closed to new members. The principal assumptions used were:

	Per annum
Investment return	4.5%
Salary increases	4.0%
Pension increases	2.5%
Inflation	2.5%

The market value of the scheme's assets was £102.1 million, which exceeded by 22%, the actuarial value of benefits accrued to members, after allowing for future increases in earnings.

The surplus is being spread over the estimated remaining period of employees' average service lives with the group on the basis of a constant percentage of payroll.

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

23 Cash flow statement

a Reconciliation of profit before interest to operating cash flows

	2001 £m	2000 £m
Profit before interest	367.3	394.7
Share of operating profit of associates and joint ventures	(8.8)	(8.6)
Depreciation charge	267.4	252.1
Amortisation of goodwill	17.4	6.4
Profit on sale of tangible fixed assets	(0.3)	(2.5)
Deferred income received	1.0	0.8
Deferred income written back	(2.9)	(4.6)
Provisions for liabilities and charges	12.2	67.8
Utilisation of provisions for liabilities and charges	(49.5)	(26.2)
Decrease in stocks	3.7	12.5
Decrease/(increase) in debtors	4.6	(27.1)
Increase in creditors	5.7	6.2
Net cash inflow from operating activities	617.8	671.5

The utilisation of provisions for liabilities and charges includes £38.1 million in respect of exceptional restructuring provisions charged to the profit and loss account in the year ended 31 March 2000.

b Returns on investments and servicing of finance

	2001 £m	2000 £m
Interest received	22.5	5.8
Interest paid	(137.2)	(99.2)
Non-equity dividend paid	(0.2)	(0.3)
Interest element of finance lease rental payments	(11.9)	(0.8)
Net cash outflow for returns on investments and servicing of finance	(126.8)	(94.5)

c Capital expenditure and financial investment

	2001 £m	2000 £m
Purchase of tangible fixed assets	(409.1)	(616.1)
Grants received	31.7	31.6
Sale of tangible fixed assets	13.3	11.3
Loans advanced to associates and joint ventures	(2.3)	(1.4)
Loans repaid by associates and joint ventures	2.5	0.5
Investment in other fixed asset investments	(0.3)	(0.3)
Investment in own shares	(1.5)	(1.1)
Net cash outflow for capital expenditure and financial investment	(365.7)	(575.5)

23 Cash flow statement
continued

d Acquisitions

	Book and provisional fair value of assets acquired	
	2001 £m	2000 £m
Acquisitions		
Tangible fixed assets	112.5	75.8
Current assets	55.3	43.2
Liabilities	(78.7)	(39.1)
Provisional fair value of net assets acquired (excluding net borrowings)	89.1	79.9
Goodwill – capitalised	322.5	86.1
Consideration for businesses acquired	411.6	166.0
Net cash/(debt) of businesses acquired	13.7	(14.9)
Net consideration	425.3	151.1
Satisfied by:		
Cash consideration relating to current year acquisitions	(420.2)	(141.8)
Deferred consideration relating to current year acquisitions	(5.1)	(9.3)
	(425.3)	(151.1)
Cash consideration – as above	(420.2)	(141.8)
Cash consideration relating to previous years' acquisitions	(1.4)	–
Cash settlement of opening accrued consideration	(6.3)	(3.3)
	(427.9)	(145.1)

Acquisitions have not materially impacted on the group's operating cash flow for the year, with the exception of UK Waste. As described in note 20, as a result of the integration of the acquisitions with the group's existing businesses, it has not been possible to separately identify their cashflows.

e Liquid resources comprise short-term deposits, certificates of deposit and other investments with a maturity date of less than one year.

f Financing

	2001 £m	2000 £m
Loans advanced	863.3	611.8
Repayments of amounts borrowed	(507.7)	(175.3)
New finance lease funding	168.6	–
Finance lease capital repaid	(8.5)	(8.5)
Increase in debt	515.7	428.0
Repurchase of shares	(9.1)	–
Receipts from shares issued net of expenses	6.7	3.6
Net cash inflow from financing	513.3	431.6

g Analysis of changes in net debt

	At 31 March 2000 £m	Cash flow £m	Acquisitions £m	Other non cash changes £m	Exchange movement £m	At 31 March 2001 £m
Cash at bank and in hand	8.4	9.3	17.2	–	0.1	35.0
Overdrafts (note 14)	(21.0)	(2.6)	–	–	(6.4)	(30.0)
	(12.6)	6.7	17.2	–	(6.3)	5.0
Debt due within one year (note 14)	(486.7)	(296.0)	(3.0)	–	–	(785.7)
Debt due after one year (note 15)	(1,188.7)	(59.7)	–	(0.3)	–	(1,248.7)
Finance leases (note 14 and 15)	(287.2)	(160.0)	(0.5)	(14.4)	–	(462.1)
	(1,962.6)	(515.7)	(3.5)	(14.7)	–	(2,496.5)
Short-term deposits	35.8	44.9	–	–	0.3	81.0
Total	(1,939.4)	(464.1)	13.7	(14.7)	(6.0)	(2,410.5)

Notes to the financial statements

24 Principal subsidiary undertakings and their Directors

Water and sewerage

Severn Trent Water Limited
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 4000

Directors

R M Walker
B Duckworth
T D G Arculus
J H Bailey
J K Banyard
I Elliott
J A Hill
G P Noone
F A Osborn
M R Wilson

Waste management

Biffa Plc #
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 4000
(Holding company)

Directors

R M Walker
M J Bettington
D A Brown
M C Flower
N H Manning
F A Osborn
R B Tate
R E Tweedale

Biffa Waste Services Limited
Coronation Road, Cressex
High Wycombe, HP12 3TZ
Telephone 01494 521221

Directors

M J Bettington
D A Brown
R A S Costin
B J Griffiths
P T Jones
N H Manning
M L Saville
R B Tate
R E Tweedale

UK Waste Management Limited
Coronation Road, Cressex
High Wycombe, HP12 3TZ
Telephone 01494 521221

Directors

M J Bettington
D A Brown
R E Tweedale

Biffa Waste Management Limited
Coronation Road, Cressex
High Wycombe, HP12 3TZ
Telephone 01494 521221

Directors

M J Bettington
D A Brown
R E Tweedale

Biffa Waste Services SA
Mechelsesteenweg 642,
B-1800
Vilvoorde
Belgium
Telephone 003 22251 0198
(Incorporated and operational
in Belgium)

Directors

M J Bettington
D A Brown
P Canivet
K Smits
W Tytgat

Services

Severn Trent Services Inc.
Suite 300
580 Virginia Drive
Ft Washington
Pennsylvania 19034 2707
USA
Telephone 001 215 283 3450
(Incorporated and operational
in the United States of America)

Directors

R M Walker
W R Cook
R Brydon Jannetta
D L Chester
L F Graziano
P K Tandon
J K Banyard
H L Fleming

Severn Trent (Del) Inc.
300 Delaure Avenue
Suite 1704
Wilmington
Delaware 19801 1612
USA
Telephone 001 302 427 5990
(Holding company –
incorporated and operational in
the United States of America)

Directors

W R Cook
P P Davies
K J Kelly
J R Whalen (Jr)

Severn Trent Water International
Limited
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000

Directors

B Duckworth
J A Hill
A Edees
B M Horner
A Norman
A E Roe
R M Walker
W G Weatherdon

Severn Trent Water International
(Overseas Holdings) Limited
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000

Directors

R A S Costin
J A Hill

Severn Trent Environmental
Services Inc.
Park 10
16337 Park Row
Houston
Texas 77084
USA

Telephone 001 281 578 4277
(Incorporated and operational
in the United States of America)

Directors

W R Cook
I S Burrowes
D L Chester
L F Graziano
J A Graziose (Jr)
K J Kelly

Severn Trent Services Limited #
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000

Directors

R M Walker
R K Peace

Capital Controls Limited #
Park Lane
Minworth
Sutton Coldfield
West Midlands, B76 9BL
Telephone 0121 313 2300

Directors

R K Peace
R A Henton

Capital Controls Company Inc.
3000 Advance Lane
Colmar
Pennsylvania 18915
USA

Telephone 001 215 997 4000
(Incorporated and operational
in the United States of America)

Directors

W R Cook
D L Chester
H L Fleming
K J Kelly

Held directly by the
company.

Country of incorporation,
registration and main operation
is Great Britain unless
otherwise stated.

All subsidiary undertakings are
wholly owned unless otherwise
indicated and all shareholdings
are in ordinary shares.

All subsidiary undertakings
have been included in the
consolidation.

24 Principal subsidiary undertakings and their Directors
continued

Services continued
Excel Technologies International Corp.

1110 Industrial Blvd
Sugarland
Texas 77478
USA
Telephone 001 281 240 6770
(Incorporated and operational in the United States of America)

Directors

W R Cook
D L Chester
H L Fleming
K J Kelly

Fusion Meters Limited #
Smeckley Wood Close
Chesterfield Trading Estate
Chesterfield, S41 9PZ

Telephone 01246 456658

Directors

G G Archibald
R K Peace

Severn Trent Laboratories Limited #
STL Business Centre
Torrington Avenue
Coventry, CV4 9GU
Telephone 024 764 21213

Directors

R Brydon Jannetta
R K Peace

Severn Trent Laboratories Inc.
Suite 300
580 Virginia Drive
Ft Washington
Pennsylvania 19034 2707
USA
Telephone 001 215 283 3450
(Incorporated and operational in the United States of America)

Directors

W R Cook
R Brydon Jannetta
D L Chester
K J Kelly

Systems

Severn Trent Systems Limited #
2800 The Crescent
Birmingham Business Park
Birmingham B37 7YL
Telephone 0121 717 7755

Directors

R M Walker
M Lily
I P Clark

Computer Systems and Applications Inc.
(Trading as Severn Trent Systems)
Two Chasewood Park
20405 State Highway 249
Suite 600
Houston
Texas 77070, USA
Telephone 001 713 320 7100
(Incorporated and operational in the United States of America)

Directors

W R Cook
M Lily
I P Clark
K J Kelly

Property

Severn Trent Property Limited #
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000
(Property development)

Directors

G P F Inge
P A Ludlow
R A S Costin
P P Davies
J S R Haynes
V J O'Connell

Daventry International Rail Freight Terminal Limited
(85% owned)
2308 Coventry Road
Birmingham, B26 3JZ
Telephone 0121 722 6000
(Property development)

Directors

P A Ludlow
J S R Haynes
J Jones
M J Roper

Engineering Consultancy and Insurance

Charles Haswell and Partners Limited
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 717 7744
(Engineering design consultants)

Directors

D J Pickett
I Elliott
D R Gutteridge
P T Simpson
M R Wilson

Derwent Insurance Limited
PO Box 34
Albert House
South Esplanade
St Peter Port
Guernsey, GY1 4AU
Telephone 01481 715300
(Insurance company – incorporated and operational in Guernsey)

Directors

G M de Cruz
J E Langlois
J C Mann
M R Miles
P K Tandon

Others

Severn Trent Water Services Plc #
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 4000
(Holding company)

Directors

R M Walker
B Duckworth
P P Davies
M R Wilson

Severn Trent Overseas Holdings Limited #
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 6000
(Holding company)

Directors

R A S Costin
P P Davies

Severn Trent Utility Services Limited
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 4000
(Utility services company)

Directors

B Duckworth
R T Bell
J N Myers

Severn Trent Retail Services Limited
2297 Coventry Road
Birmingham, B26 3PU
Telephone 0121 722 4000
(Retail services company)

Directors

J H Bailey
D P Sherwood