

Delivering environmental sense



Severn Trent Plc is a leading environmental services group providing water, waste and utility services. Our objective is to grow by providing services that solve environmental problems, that respond to new environmental expectations and that help to deliver sustainable development.

Our businesses activities

Severn Trent Water is the group's regulated water business. It supplies water and wastewater collection and treatment services for around 8 million people across the Midlands and Mid-Wales.

Biffa is one of the largest single suppliers of waste management services in the UK. It collects, treats, recovers and disposes of municipal, commercial and industrial waste nation-wide and in Belgium.

Severn Trent Laboratories is a leading environmental testing laboratory company in the US and the UK.

Severn Trent Services supplies products and services associated with water, wastewater and contaminated land.

Severn Trent Water International provides a range of private sector management and consultancy services in Europe and the developing world.

Severn Trent Systems – 'Aseriti' supplies IT services and solutions focusing upon managed services, e-business and consultancy. 'Worksuite' supplies a range of work management software products and related services.

Severn Trent Retail Services provides a series of products to domestic and commercial markets including energy, insurance, telecoms and conveyancing services.

Severn Trent Utility Services provides asset management and customer service solutions to other utilities and local authorities.

Severn Trent Property develops facilities in the UK primarily for the distribution, retail and industrial sectors.

Charles Haswell and Partners is an international consultancy with experience in a wide range of engineering and environmental disciplines.

You can find out more about Severn Trent Plc and the businesses within our group by visiting our website www.severntrent.com or the sites listed below:

Severn Trent Water: www.stwater.co.uk

Biffa: www.biffa.co.uk

Severn Trent Laboratories, US: www.stl-inc.com

Severn Trent Laboratories, UK: www.stl-analytical.co.uk

Severn Trent Services: www.severntrentservices.com

Severn Trent Water International: www.stwaterinternational.com

Severn Trent Systems: www.aseriti.com

www.worksuite.com

Severn Trent Energy: www.stenergy.co.uk

Severn Trent Utility Services: www.stutilityservices.co.uk

Severn Trent Property: www.severntrentproperty.com

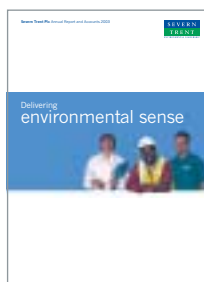
Charles Haswell and Partners: www.haswell.co.uk

Group turnover £m		Group profit before tax £m before exceptional items		Earnings per share pence before exceptional items and deferred tax		Dividends per share pence	
03	1,852.0	03	225.2	03	58.1	03	45.90
02	1,794.3	02	233.3	02	63.2	02	45.90
01	1,681.6	01	221.7	01	61.0	01	45.00
00	1,566.6	00	338.7	00	92.8	00	45.00
99	1,364.3	99	361.4	99	92.4	99	43.00

- Final dividend of 28.56p bringing the total for the year to 45.9p.
- Group turnover of £1,852.0 million (£1,794.3 million).
- Group profit before tax of £184.4 million (£216.3 million); before exceptional items £225.2 million (£233.3 million).
- Earnings per share of 28.9p (45.9p); before exceptional items and deferred tax 58.1p (63.2p).
- Severn Trent Water achieves its best ever customer service performance. £425 million invested in capital schemes.
- Leadership positions in the UK waste market and in environmental testing in the USA and the UK.

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Annual Report and Accounts 2003

You can view and download a copy of the group's Annual Report and Accounts on our website at www.severntrent.com/reports2003 or request a copy free of charge by contacting us using the details on the back cover of this report.

Group turnover was up 3.2% at

£1,852.0 million



We made a clear statement that for the period up to 31 March 2005, barring unforeseen circumstances, full year dividends per share would be a minimum of 45.9p. In line with our longer-term goals of delivering attractive yields and sustainable dividends, we also worked to grow the business.

David Arculus
Chairman



Introduction

During a turbulent economic and political year, Severn Trent was a haven of stability for investors. Against a background of a fall of around 30% in the FTSE All-Share Index, our share price remained relatively stable. In addition, our shares delivered one of the higher dividend yields in the index.

We made a clear statement that it is the Board's intention that for the period up to 31 March 2005, barring unforeseen circumstances, full year dividends per share would be a minimum of 45.9p (this being the full year dividend for 2001/2002). In line with our longer-term goals of delivering attractive yields and sustainable dividends, we also worked to grow the business.

Business performance

To achieve continued stability, Severn Trent concentrated on further reducing the risks facing the company and our investors. In 2002/2003, we strengthened our focus on our core business areas of water, waste, and laboratories.

Our organisational and financial management systems are designed to help protect us from risk. In particular, Severn Trent's mixed equity and debt model is, we believe, the best way to provide continued investment for the water industry. However, the regulatory regime must allow an adequate rate of return and encourage management incentives. Severn Trent Water's debt was 49.5% of regulatory capital value, at 31 March 2003.

The Severn Trent Water team convinced the regulator, OFWAT, to allow us to recover some of the growing cost pressures on the company by increasing charges. As a result, water bills will rise slightly above the rate of inflation for the next two years. This will mean that prices to customers are still below those in 2000, the beginning of the last regulatory review.

Contributing to Severn Trent's drive for growth is a move towards public sector contracts. We were named as preferred bidder for a

There are significant opportunities for the group, particularly from the increasing pace of legislation in the waste sector, with Biffa well positioned to take advantage of growing demand for predisposal treatment and sorting.

Turnover by business
% of group total in 2002/2003



substantial long-term strategic partnership with Solihull Metropolitan Borough Council. In our non-regulated businesses, Biffa won a significant contract to manage the collection, recycling and disposal of waste for Leicester City Council.

In Severn Trent Services, our successful Laboratories operation, STL, strengthened their suite of water, ground and air testing products, growing their profits organically by over 10%. Severn Trent Water International, led by Tony Hill, recently awarded an MBE, continued to pursue opportunities in the UK, Belgium, Italy and further afield.

Group results

Group turnover was £1,852.0 million, up 3.2%. The non-regulated businesses increased turnover by 5.0% to £1,030.6 million. Turnover from water and sewerage increased by 2.0% to £917.9 million.

Goodwill amortisation was £25.2 million (£26.5 million). There was a net exceptional charge in the year of £40.8 million (£17.0 million).

Group profit before interest, tax, goodwill amortisation and exceptional items was 2.1% lower at £409.8 million. The water and sewerage business was down by 2.6% to £325.5 million reflecting the tight regulatory determination whilst the group's non-regulated businesses were up 3.7% to £104.5 million, representing 24.3% of the group total.

Group profit before interest, tax and exceptional items was £384.6 million (£392.3 million). Group profit before interest and tax was £343.8 million (£375.3 million).

After interest charges of £159.4 million, group profit before tax, goodwill amortisation and exceptional items was 3.6% lower at £250.4 million. Group profit before tax and exceptional items was £225.2 million (£233.3 million), a reduction of 3.5%. Group profit before tax was £184.4 million (£216.3 million).

Corporate social responsibility

Severn Trent is committed to high standards of corporate governance. We are actively involved in the debate surrounding the Higgs Report into the role of non-executive Directors, which was published following recent, high-profile corporate failures. While many of the Higgs recommendations are sound, we feel that the report is too prescriptive and we are articulating our concerns in the hope of achieving a sensible conclusion to the debate.

Severn Trent aims to achieve high environmental and social standards. We were ranked top of our sector in the Dow Jones Sustainability Index for the second consecutive year.

Biffa is recognised as making a substantial and positive contribution to the national environmental debate as well as boosting sustainability through its landfill gas to energy projects. During 2002/2003, our landfill tax credit scheme, Biffaward, which recycles landfill tax credits, provided £17 million for environmental and community projects.

Through our group community affairs programme we have 11 long-term partnerships with Midlands' charities. Many of our employees have given their own time to help community projects. Employee volunteering is now being used by many businesses within the group as a way of enhancing and introducing new skills to employees. We are a founding member of 'Birmingham Cares' which delivers volunteering opportunities in Birmingham.

We are also members of Business in the Community's PerCent Club, by virtue of investing more than 1% of our pre-tax profits in the community.

Management and staff

Our Board and top management team remained unchanged during the year, bringing stability and consistency of vision and strategy.

However, Clare Tritton has now decided to stand down as a non-executive Director after almost 12 years and I would like to thank her for her outstanding contribution to the Board. Eric Anstee took over the Chairmanship of the Audit Committee and Marisa Cassoni succeeded him as Chairman of the Treasury Committee.

My greatest thanks, however, must go to our hard working staff in the UK, US, Europe and other parts of the world, who once again worked tirelessly to achieve our business goals and uphold our reputation for both service delivery and environmental concern. Our continuing success will be due to their skill and dedication.

Outlook

There are significant opportunities for the group, particularly from the increasing pace of legislation in the waste sector, with Biffa well positioned to take advantage of growing demand for predisposal treatment and sorting.

Growing synergies between our water and waste companies will lead to future opportunities. A significant proportion of Severn Trent Water's income comes from processing waste products and we see considerable scope for sharing expertise and technology.

In the current financial year our key virtues of integrity, consistent performance and sound management will be more important than ever given the continuing economic challenges. Looking further ahead, the dual drivers of increasing environmental legislation and greater understanding of the water industry's investment needs offer further growth opportunities.

The group's strategy continues to be to increase shareholder value by establishing Severn Trent as the UK's leading integrated environmental services business. Management aims to build on the group's leadership positions in the UK waste market and in environmental testing in the USA and the UK, with Severn Trent Water continuing to outperform its regulatory targets.

£2 billion

Severn Trent Water continued to deliver efficiencies against its £2 billion investment programme for the five-year period 2000/2001 to 2004/2005.



The group's core businesses – water, waste and laboratories – all finished the year in robust shape with waste and laboratories particularly well positioned to take advantage of the economic upturn whenever it comes.

Robert Walker
Group Chief Executive



I am pleased to report a satisfactory set of results achieved in what can be described as a difficult year, with broadly unchanged pricing in the water business and challenging economic conditions in our main UK and US markets.

The group's core businesses – water, waste and laboratories – all finished the year in robust shape with waste and laboratories particularly well positioned to take advantage of the economic upturn, whenever it comes.

Management confronted problem areas and has largely dealt with them. Agreement has been reached with those customers in the US over the Systems' contracts that were in dispute; the Water Purification Division of Services showed a strong improvement in the second half and Biffa Belgium had a significantly better year.

And we have successfully targeted major multi-year contracts in highly competitive areas of our business.

Water

The water and sewerage business produced another credible performance, given broadly unchanged pricing and continuing cost pressures, which mostly offset the company's outperformance against regulatory targets for gross operating cost efficiencies.

The business continues on track to outperform its regulated targets, and indeed, to meet its own stretched targets. Gross operating cost efficiencies amounted to £61 million per annum in 2002/2003. However, these savings are being offset by cost pressures.

That is why it is important to continue to look for new opportunities to make operating cost savings.

Severn Trent Water continued to deliver efficiencies against its £2 billion investment programme for the five-year period 2000/2001 to 2004/2005 and is on track to deliver average capex efficiencies of around 7% over that period. I am pleased that the company has achieved its best ever customer service

The water and sewerage business produced another creditable performance, given broadly unchanged pricing and continuing cost pressures. The markets for Biffa and Services are expected to remain difficult into 2003/2004, though their leadership positions in waste in the UK and in environmental testing in the US and the UK should provide platforms for future growth when the economic climate improves.

performance, as measured against the OFWAT customer service standards.

In addition, of course, there are increased costs that are specific to the water sector. These formed the basis of our successful IDOK application last Autumn and most of these costs were allowed.

The AMP4 pricing review process is now well under way.

While we are pleased with the Regulator's commitment to greater transparency in the process and the considerable efforts he is making with City and investor audiences, we remain concerned about three central issues:

- The need to retain equity in the sector, both as a source of capital and as an incentive towards greater efficiency, is as critical as ever – it is the best way of ensuring sustained investment and performance;
- There is still uncertainty about the varying demands of the quality regulators, particularly the EA, around the capital programme. We must have clear guidance and coordination between the various regulators;
- We need to improve the mechanics and effectiveness of interim price determinates between reviews. The objective should be to deal with material charges to company obligations as and when they occur, leaving companies in the same financial position as if the charges had been foreseen during the review.

Waste

The key theme for the whole year has been lower industrial and commercial volumes, resulting from the slowing down in the UK's manufacturing and commercial sectors. This has impacted all three of Biffa's UK divisions – collection, landfill and special waste.

However, Biffa has delivered a solid performance in difficult market conditions, particularly in the UK. Excluding the contribution from foot-and-mouth, in 2001/2002 Biffa has produced a broadly flat performance year on year.

We remain convinced of our analysis of the attractiveness of the waste sector.

- The UK waste sector has the most potential for growth in Europe;
- Our integrated business model of collection, landfill disposal and special waste treatment is right for the future;
- Our focus on industrial and commercial waste remains the right one;
- New municipal contracts combining collection, recycling, treatment and disposal open up a significant market opportunity for Biffa.

I am confident Biffa will continue to be the benchmark waste operator in the UK.

Services

Severn Trent Laboratories (STL), performed strongly throughout the year, delivering organic growth in profit before interest, tax and goodwill amortisation of over 10%, and is now well positioned to take advantage of growth opportunities in new areas of testing.

Operating Services continued to add profitable new municipal outsourcing businesses, although weaknesses remain in the smaller pipeline services businesses.

Reflecting management actions, Water Purification's performance improved in the second half.

Severn Trent Water International (STWI), improved profitability in its Aquafin investment in Belgium and commenced work at Terni, the only privatised contract in Italy to start operations so far.

Major long-term contracts

We have successfully bid for long-term contracts amounting to more than £1 billion in revenues.

- A contract to operate a strategic partnership with Solihull Metropolitan Borough Council. This is worth £750 million in revenues over the next 15 years, and is due to be signed in the Autumn of 2003;
- The integrated City of Leicester waste contract, producing revenues of £300 million over 25 years.

In addition, we have been shortlisted to the final two on long-term contracts with the Ministry of Defence (£1 billion revenues) and another integrated waste contract.

These all demonstrate the group's abilities to bring resources together from all our companies to compete for valuable long-term business.

Core businesses

Our core businesses of water, waste and laboratories have four basic advantages:

- Leadership, scale and low cost advantage;
- Among the best management teams in each sector;
- Consistent strong past performance;
- Long-term opportunities for profitable growth.

These will stand us in good stead as we face up to another testing year in 2003/2004 with confidence and commitment.

People

None of what I have reported would have been possible without the excellent performance of our staff throughout this year. I am grateful for the resourcefulness and enthusiasm shown by employees in the face of continual challenge.

Outlook

Overall, the group is likely to experience another challenging year in 2003/2004. Severn Trent Water will benefit from the outcome of the IDOK and is expected to continue to outperform its regulatory targets for gross operating cost efficiencies. However offsetting cost pressures are expected to grow. In addition, increases in depreciation are also expected, reflecting the growing capital expenditure programme.

The markets for Biffa and Services are expected to remain difficult into 2003/2004, though their leadership positions in waste in the UK and in environmental testing in the US and the UK should provide platforms for future growth when the economic climate improves.



As part of a continuing process aimed at gaining permits for all our sites that fall under the IPPC legislation, our partnership with Severn Trent Water has been key as we prepare for the implementation of our environmental management system.

Brian How
Operations Manager, Rank Hovis Ltd



I am consistently impressed by the management's in-depth understanding of the commercial and regulatory framework in which its three core businesses operate.

Verity Mitchell
Utilities Analyst,
HSBC Corporate Banking



Severn Trent has been a component of the DJSI for four years in a row and has consistently outperformed the rest of the industry. Over the years, the company has displayed superior strategy, management tools and improvement programs in all three dimensions of corporate sustainability.

Dow Jones Sustainability Index
Commenting on Severn Trent's performance
in the 2003 Index



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To ensure compliance with our environmental, health and safety standards we have created a database management system that allows managers to constantly track their performance and measure exposure to risks at every Biffa site across the UK.

Amanda Richards
Business Systems Improvement Manager, Biffa

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It's fundamental that we continue to deliver a high-quality service to our customers. In ensuring this happens, it's really our people who make the difference, constantly striving to improve efficiency and environmental, health and safety performance.

Pervinder Johal
Head of Microbiology, Severn Trent Laboratories



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In the long run we recognise that exemplary environmental and social performance contributes to raising our financial performance and increasing shareholder value.

Roger Peace
Director of Sustainable Development and Risk Assurance, Severn Trent Plc

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Turnover

£917.9
million

Profit before interest

£325.4
million

During the year, we achieved further operating cost efficiencies through a wide range of measures including the better use of new technology and by generating more of our own power.



2002/2003 performance

In 2002/2003, turnover from water and sewerage increased by 2.0% to £917.9 million (£899.9 million). Profit before interest, tax and goodwill amortisation was down 2.6% to £325.5 million (£334.1 million). After goodwill amortisation of £0.1 million (£nil), profit before interest and tax was £325.4 million (£334.1 million).

Direct operating costs of the regulated water business were £362.5 million, a reduction in real terms of £1.4 million or 0.4%. Excluding the impact of inflation, gross operating cost efficiencies in 2002/2003 amounted to £14.4 million, a reduction of 4.1% compared to the previous year. However, these efficiencies were offset by cost pressures of £13.0 million.

The programme for reducing costs in Severn Trent Water has continued to make good progress. Since the beginning of the third asset management plan post privatisation (AMP3), gross operating cost efficiencies have now reached £61 million per annum, offset by cost pressures amounting to £49 million. The £61 million of gross operating cost efficiencies is £16 million ahead of the OFWAT target for Year 3 of the 5 year Plan period.

The interim determination

Last autumn, OFWAT allowed our appeal to increase prices to finance several new challenges faced by the company since the last price review in 1999 when customer charges were reduced by almost 12%. The new price limits – bills will rise by 2.1% above inflation in 2003 and 2.2% above inflation in 2004 – will mean that average household bills will rise by around £10 in 2003/2004.

Beating the regulatory contract

During the year, we achieved further operating cost efficiencies through a wide range of measures including the better use of new technology and by generating more of our own power.

In the year we invested approximately £425 million to deliver improvements in

Highlights

- Continued to deliver capital expenditure efficiencies against our £2 billion investment programme for the period 2000/2001 to 2004/2005. On track to deliver around 7% efficiencies over AMP3.
- Won a Customer Care Award at the Utility Industry Achievement Awards.
- Awarded further contracts across the UK with such organisations as Rank Hovis McDougalls, Dairy Crest and Northampton General Hospital.
- Named as the preferred bidder for a 15-year contract, with revenues of £750 million, with Solihull Metropolitan Borough Council.

Market opportunities

The strengthening of our account management and the quality of our service means we are well-positioned to benefit from greater competition amongst business customers. Also, our business has opportunities to grow in the areas of debt management, local authority contracts, conveyancing searches and telecoms.



We are working closely with OFWAT and the other regulatory bodies to improve the regulatory framework to ensure that the needs of both customers and shareholders are met.

Brian Duckworth
Managing Director,
Severn Trent Water



Previous page:

Upgrading the sewerage infrastructure in Redditch. Investment to alleviate and avoid sewer-flooding incidents is a high priority.

Above right:

Derby sewage treatment works, where a £70 million investment programme is delivering significant improvements to the River Derwent.

Below:

Working closely with PZ Cussons, Nottingham, on initiatives covering waste minimisation, leakage detection and repair.



customer service and higher standards in drinking water and sewage effluent quality.

Severn Trent Water continued to deliver efficiencies against its approximate £2 billion investment programme for the five-year period 2000/2001 to 2004/2005 and is on track to deliver average capex efficiencies of around 7% over the AMP3 period.

Service and quality

In the year we delivered our best ever levels of service as measured by the OFWAT customer service standards. We continued to maintain the highest levels of drinking water quality and protection for our rivers.

Our efforts to provide a top quality service to our customers were recognised when we won a Customer Care Award at the Utility Industry Achievement Awards for the success of measures to tackle sewer flooding.

Industry competition

We believe that the quality of our services positions us well to benefit from greater competition.

During 2002/2003, we continued to cultivate opportunities across the UK and won further contracts with such organisations as Rank Hovis McDougalls, Dairy Crest and Northampton General Hospital.

Growing the business

In 2002/2003, Severn Trent Utility Services, which provides asset management and customer service solutions became the preferred bidder for a 15-year contract with Solihull Metropolitan Borough Council.

Our Severn Trent Retail Services business, which was created to offer products such as gas, electricity, insurance and telecommunications services, continued to perform strongly.

The 2005 pricing review

During the year we began to prepare our submission to OFWAT for the next pricing review. These plans will take into account the state of our existing assets and new legislation which we have to meet.



Community and environment

We strive to be a responsible company and support many hundreds of projects – all with a sustainability agenda – across the Severn Trent region. Our achievements in this area are measured externally and ranked against our peers in the Business in the Community corporate responsibility index.

Outlook

To ensure that we can deliver what customers want and meet rising costs, it seems likely that water bills will need to rise after the next pricing review.

Severn Trent is working closely with OFWAT and the other regulatory bodies to improve the regulatory framework to ensure that the needs of both customers and shareholders are met.

While there are challenges ahead, we believe that the strengthening of dialogue with government, coupled with our ability to take advantage of a more competitive environment, positions us well for future growth.

Turnover

£510.9
million

Profit before interest
and goodwill amortisation*

£67.9
million

*goodwill amortisation £16.6 million

In the UK, we saw significant growth in the municipal sector, pre treatment activities and electricity generation. Biffa Belgium also performed well.



A raft of legislation and increases in landfill tax are likely to drive further demand for recycling, composting and other alternatives to landfill. Our experience in the European waste disposal sector leaves us well placed to seize these growing opportunities.

Martin Bettington
Managing Director,
Biffa



Biffa

In 2002/2003, conditions in the UK waste market were difficult as the economic slowdown impacted industrial and commercial volumes in Biffa's three business sectors of collection, landfill and special waste.

However, in the UK, we saw significant growth in the municipal sector, pre treatment activities and electricity generation. Biffa Belgium also performed well.

In 2002/2003, waste management's turnover increased by 3.3% to £510.9 million. Turnover in the UK increased by 1.7% to £457.3 million, while Belgian turnover increased by 18.3% to £53.6 million. Biffa's profit before interest, tax and goodwill amortisation (including Biffa Belgium) was down by 7.0%, to £67.9 million but broadly flat year-on-year if the contribution from foot-and-mouth in 2001/2002 is excluded. After goodwill amortisation of £16.6 million (£16.8 million), profit before interest and tax was £51.3 million (£56.2 million).

Legislation continued to drive the move away from landfill towards alternative methods of disposal, such as recycling and composting.

This increased focus on alternatives to landfill enabled us to extend and win significant contracts with local authorities. For example, we were awarded a 25-year contract to manage all waste collection, recycling and disposal facilities for Leicester City Council with revenues of £300 million.

Collection

Our collection turnover in the UK was £270.7 million (£260.8 million). The economic slowdown affected industrial/commercial collection volumes, resulting in a decline (volumes down 3%). Before interest, tax and goodwill amortisation, the collection division contributed a profit of £43.6 million (£45.3 million).

Biffa services a total of 53 municipal collection contracts which include waste and recyclables, collection, street cleaning, civic amenity and transfer station sites. Biffa also works with more than 60,000 industrial and commercial clients in the UK.

Our long-running contract on the Isle of Wight provides essential experience for such integrated municipal contracts. During the year, 49% of the island's waste was diverted from landfill, and Island Waste Services was awarded European Eco-Management and Audit Scheme (EMAS) accreditation.

We took steps to reduce the environmental impact of our trucks by switching the entire fleet to ultra low sulphur diesel, the cleanest mass-market fuel available.

Landfill

Despite the growing demand for recycling, landfill remains the UK's major waste disposal route. In 2002/2003, our landfill turnover in the UK was £141.6 million (£147.4 million). Landfill volumes decreased by around 7% (3% for sites open in both 2001/2002 and 2002/2003) and average unit revenues were up by around 2% (excluding the impact of foot-and-mouth). Profit from the landfill division, before interest, tax and goodwill amortisation, was down 15.2% at £28.9 million (£34.1 million).

Highlights

- Awarded a contract to manage all waste collection and disposal facilities for Leicester City Council with revenues of £300 million over 25 years.
- Reduced the environmental impact of our trucks by switching the entire fleet to ultra low sulphur diesel, the cleanest mass-market fuel available.
- Awarded a three year contract by Shell to service 630 retail forecourts, collect office waste from distribution terminals, and manage waste at the Stanlow and Eastham oil refineries.
- Significant growth in the municipal, pre-disposal treatment and electricity generation sectors.

Market opportunities

Biffa's integrated business model of collection, landfill disposal and special waste treatment positions the company as the 'benchmark' waste company in the UK. The Landfill Directive opens up significant opportunities for long-term municipal contracts and this combined with a focus on industrial and commercial waste accounts creates significant opportunities.



Previous page: Skelton Grange Waste Management Centre, near Leeds. One of around 30 landfill sites operated nationally by Biffa.

Above: The new Leicester City Council integrated waste management contract will aim to reach a recycling target of 40% by 2005.

Below: Biffa's largest landfill gas generation location at Risley. The plant is capable of generating more than 10MW of electricity.



The EU Landfill Directive started to take effect during 2002.

Special waste

The special waste division in the UK, which includes the important power generation activity, achieved a 9.0% increase in turnover to £45.0 million and contributed profit before interest, tax and goodwill amortisation of £5.9 million (£6.1 million).

In 2002/2003, we were awarded a three year contract by Shell to service 630 retail forecourts, collect office waste from distribution terminals, and manage waste at the Stanlow and Eastham oil refineries. Previously, Shell employed several regional waste management companies for this work.

We continued to generate electricity from landfill gas, having increased our interests in capacity to 83MW in the UK. We are seeking to increase our generating capacity to around 100MW by 2006.

Belgium

In Belgium, turnover increased by 18.3% to £53.6 million and profit before interest, tax and goodwill amortisation increased to £3.1 million (£1.3 million).

Environment and community

During the year we provided significant support to environment and community initiatives.

Our Landfill Tax Credit Scheme, Biffaward, provided £17 million to community and environment projects. Since Biffaward began in 1997 we have donated £57 million to more than 600 schemes.

We also launched our third biannual environmental report – Biffaecology.

Outlook

A raft of legislation and increases in landfill tax are likely to drive further demand for recycling, composting and other alternatives to landfill. Our experience in the European waste disposal sector leaves us well placed to seize these growing opportunities.

Turnover

£385.4
million

Profit before interest

goodwill amortisation and exceptional items*

£34.2
million

*goodwill amortisation £8.5 million and
 exceptional charges £46.8 million

The scale and breadth of Severn Trent Laboratories offering remains key to our success. The laboratories business works for 200 of the Fortune 500 companies and, during 2002/2003, continued to win new work with large blue chip clients.



Above:
 At the STL Business Centre, Coventry, the laboratory processes around 2 million test results a year for more than 1,000 UK customers.

Right:
 BP taking water samples at their Llandarcy site, South Wales, that will then be analysed at the STL Bridgend facilities.



2002/2003 performance

Services' turnover increased by 1.0% to £385.4 million. Profit before interest, tax, goodwill amortisation and exceptional items increased by 6.9% to £34.2 million. After goodwill amortisation of £8.5 million (£9.6 million), profit before interest, tax and exceptional items was £25.7 million (£22.4 million). After an exceptional charge of £46.8 million, Services' profit before interest and tax was a loss of £21.1 million (profit of £22.4 million).

The exceptional charge of £46.8 million, represents a write down for impairment in the carrying value of Water Purification and Operating Services (principally in pipeline services). The charge for impairment has no impact on cash flows.

Some 81% of Services' turnover arose in the USA. Excluding the impact of exchange rates, Services' turnover increased by approximately 7% and profit before interest, tax, goodwill amortisation and exceptional items increased by approximately 10%. After eliminating the share of associated undertakings' profit, where the corresponding turnover is not consolidated into Services' results, Services' sales margin increased to 6.3% (6.0%).



STL's leadership position and wide spectrum of services places us in pole position to win major contracts and continue to improve our business model.

Rachel Brydon Jannetta
 President and
 Chief Executive Officer,
 Severn Trent Laboratories



Highlights

- Launched a major restructuring programme that integrated some US and European businesses.
- Severn Trent Water International begun a 30-year contract to supply water and wastewater services in Terni, Italy.
- In STL, we continued to expand our geographic presence with new service centres in key locations in the US.
- In Water Purification Solutions we increased the proportion of our sales outside the US to 45% as we renewed our focus on global markets.

Market opportunities

For laboratories, the scale and breadth of our offering remains key to its success. In the UK, to offset potential reduced demand from the water sector STL are seeking to capitalise on new legislation such as the Landfill Directive and IPPC regulations. For our services businesses we will continue to increase our focus on international markets.

Severn Trent Laboratories

Leadership

In 2002/2003, Severn Trent Laboratories (STL), strengthened its leadership position in the US and UK environmental testing markets despite the difficult economic conditions. Turnover increased by 0.1% to £171.8 million, but turnover in the US (in US\$) grew by 4.4%, and turnover in the UK (in £) grew by 24.0%.

STL serves these markets with 29 laboratories in the US and 4 in the UK.

Scale and breadth

The scale and breadth of STL's offering remains key to our success. The laboratories business works for 200 of the Fortune 500 companies and, during 2002/2003, continued to win new work with large blue chip clients.

UK

In the UK, STL has two centres of excellence in Coventry, which specialise in waste water and soil analysis, one in South Wales, that focuses on drinking water, and another in Cheshire, with expertise in eco-toxicity, microbiology and biology.

Outlook

STL's leadership and wide spectrum of services places us in pole position to win major contracts and continue to improve our business model.

Severn Trent Services

Improving efficiency

In 2002/2003 Severn Trent Services took action to both improve efficiency and reduce its exposure to the troubled US economy.

We appointed a new chief executive who launched a major restructuring programme that integrated some US and European businesses, reduced layers of management, consolidated manufacturing operations and closed four US sites, which reduced headcount by approximately 140 people.

Water Purification Solutions

Our Water Purification division delivers water disinfection and filtration products to municipal and industrial customers. Its turnover decreased by 2.1% to £87.5 million. Its performance was impacted by its difficult market place; there was a fall in demand for

filtration systems, as industrial clients reined in spending and municipal clients reallocated already tight budgets to security areas. However, following management action, performance improved in the second half.

Operating Services (including Severn Trent Water International)

The Operating Services division operates water and wastewater facilities plus other related services for customers who are largely based in the US. Its experience in realising operating efficiencies and delivering new technology enables the division to achieve significant cost savings for many clients. Turnover in Operating Services increased by 4.6% to £126.1 million.

Contract operations delivered organic turnover growth of around 7%. It was buoyed by demand from US municipalities seeking ways to reduce costs in order to ease budget deficits.

Pipelines services performed poorly in a difficult market, as municipalities sought to rein in spending on their water and sewerage infrastructure. In response to the fall in demand for pipeline assessment work, we closed sites in Texas, Tennessee, North Carolina and Connecticut.

During the year, we combined the US and European operations of our water metering business and introduced new software that will enable us to read a wider range of water meters in use across the US.

Our international arm, Severn Trent Water International, focused on providing private sector management in Western Europe, where state-owned water authorities are being restructured. In 2002/2003, it increased turnover by 43%. We began our 30-year Italian contract to operate water and wastewater services in Terni, Umbria.

Outlook

The restructuring of the business has laid a strong foundation for growth when the economy recovers. We also believe that our increased focus on international markets will help to insulate the business from future economic difficulties in particular regions.

“

The restructuring of the business has laid a strong foundation for growth when the economy recovers.

Len Graziano
President and
Chief Executive Officer,
Severn Trent Services

”

Below:

In Italy, Severn Trent Water International remains in a strong position as the market for regional water service managers continues to grow.



Highlights

- Aseriti, the new brand for Severn Trent Systems in the UK, was created to help move the business forward with a new and exciting strategy of development and growth.
- Systems' work management business, under the Worksuite brand, is being transformed into a stand-alone business. Based in Houston, it has global reach through its partner network. Through restructuring, it lowered its cost base while retaining its leadership position in North America.



Above:
Aseriti, the new brand name for Severn Trent Systems in the UK.

Systems

2002/2003 performance

Total turnover for Systems reduced to £61.3 million (£62.0 million). Systems produced a loss before interest, tax and exceptional items of £3.1 million (loss of £5.8 million). After an exceptional credit of £6.0 million (net exceptional charge £17.0 million), profit before interest and tax was £2.9 million (loss of £22.8 million).

Agreement has been reached with those customers in the US over the CIS-Open Vision contracts that were in dispute, with the associated costs of these problem contracts expected to be covered by the £25.0 million exceptional charge in 2001/2002. An exceptional credit of £6.0 million has been taken in the year, representing the release of part of the £25.0 million exceptional charge. Systems continues to provide some support and maintenance for these customers.

Aseriti, the new brand for Severn Trent Systems in the UK, was created to help move the business forward with a new and exciting strategy of development and growth.

In Severn Trent Water, Aseriti delivered a number of very large projects, including a field asset management system, and 5,000 seat technology refresh.

Systems' work management business, under the Worksuite brand, is being transformed into a stand-alone business. Based in Houston, it has global reach through its partner network. Through restructuring, it lowered its cost base while retaining its leadership position in North America. Its customer reception continues to be strong. National Grid became a Worksuite customer in the past year. Industry leaders such as AEP, LG&E, PPL, and We Energies put Worksuite products into production.

Property, Engineering consultancy and Insurance

2002/2003 performance

Total turnover from these businesses in the year was £73.0 million (£43.0 million) generating profit before interest and tax of £5.5 million (£1.5 million).

Property

Development activity during 2002/2003 continued at an encouraging level, with significant progress being made.

At Thorpe Park, Leeds, which has an ultimate capacity of 1.8 million sq. ft of office development, pre let buildings are in course of construction for WS Atkins plc and Boxwood plc, whilst a regional office for Bryant Homes Limited was handed over in March.

Daventry International Rail Freight Terminal remains the largest scheme to be undertaken by the company.

Engineering consultancy

During the year Charles Haswell and Partners has been recognised as one of the top three medium-sized consulting engineers by a leading industry journal.

The company has continued to make a major contribution to the successful delivery of Severn Trent Water's capital programme for 2002/2003.

Charles Haswell and Partners is a key member of the team delivering the Dublin Port Tunnel Project which is the largest civil engineering project in Ireland and is a major contributor to the Channel Tunnel Rail Link project.

Insurance

Derwent Insurance, based in Guernsey, provides insurance cover to Severn Trent group companies.

**Above:**

We continue to support the Fairbridge charity in the West Midlands, offering disadvantaged young people long-term personal development programmes.

Left:

A restored area of the Risley landfill site. Biffa are now undertaking ecological assessments to establish the biodiversity significance of land under their stewardship.

Our corporate vision is to be at the forefront of the environmental services industry. Our corporate values of environmental leadership, service and quality, enshrined in our Code of Business Principles and Conduct, define our business culture and guide our strategies.

Our policy

We strive to be a responsible corporate citizen and recognise that Severn Trent has an important role to play in achieving sustainable development for society as a whole. As part of this commitment we seek to conserve natural resources and to support the communities in which we operate.

Our role as an environmental services company means that our activities are of intrinsic benefit to society. However, our ability to achieve business success also makes a significant contribution to building a sustainable future. As well as delivering shareholder value, we support the wider community in ways that range from the employment opportunities we offer to our charitable donations.

Vision, values and principles

We aspire to high standards of corporate behaviour as we pursue our vision of leadership in the environmental services industry. To set an ethical framework for our activities we have published our values and a code of business principles, which are available on our website www.severntrent.com

Our values articulate the company's commitment to disposing of waste safely, providing value for money, conserving natural resources, maintaining infrastructure, and complying with all appropriate standards. The code of business principles guides our

people as they face day-to-day challenges and covers issues ranging from obeying the law to displaying integrity.

Community support

Our community affairs programme focuses on the key themes of environmental education, the built environment and the natural environment.

In 2002/2003, we donated more than £0.2 million to community projects. Among the charities to benefit were Bridle Gate in Staffordshire, which provides educational opportunities for children with special needs, and the Cromford Venture Centre in Derbyshire, which helps young people build confidence and self-esteem.

Through our employee volunteering programme, we encourage our people to share their expertise with the charities we support. In 2002/2003, we supported employees in holding workshops with the Fairbridge charity in the West Midlands to provide disadvantaged young people with guidance about setting up their own businesses.

In addition to the community affairs programme, our Biffaward landfill tax credit scheme, which is administered by the Royal Society for Nature Conservation, provided £17 million for environment and community projects.

To set an ethical framework for our activities we have published our values and a code of business principles, which are available on our website www.severntrent.com

The code of business principles guides our people as they face day-to-day challenges and covers issues ranging from obeying the law to displaying integrity.

Around the world

Severn Trent Water International shares its skills to improve water management in the developing world and in Eastern and Central Europe.

For example, we are an active participant in the UK Government's Partners for Water and Sanitation initiative. Under this scheme, we are working to improve water and sanitation services in Nigeria, South Africa and Uganda.

Environmental management

We have a robust environmental management system, which has achieved the international ISO 14001 accreditation. To ensure that environmental management is pursued at a strategic level, it is overseen by our Environmental Advisory Committee, which reports directly to the Board.

Our progress

We are committed to being open about our corporate social responsibility performance. During the year we were again ranked top of our sector in the Dow Jones Sustainability Index and featured in the FTSE4Good Index. We publish full details of our progress in our Stewardship report and on our website.



Alan Perelman
Derek Osborn
Brian Duckworth

David Arculus
Eric Anstee
Clare Tritton
Martin Bettington
John Banyard

Robert Walker
Marisa Cassoni
John McAdam
Martin Flower

Board Committees
Membership of Board Committees is as detailed below:

Audit Committee
E E Anstee (Chairman)
T D G Arculus
M L Cassoni
F A Osborn
Secretary – P P Davies

Charitable Contributions Committee
B Duckworth (Chairman)
R M Walker
Secretary – P P Davies

Environmental and Corporate Social Responsibility Advisory Committee

F A Osborn (Chairman)
T D G Arculus
M J Bettington
R Brydon Jannetta
B Duckworth
L F Graziano
J W Oatridge
R M Walker
Secretary – P P Davies

Executive Committee
R M Walker (Chairman)
T D G Arculus
J K Banyard
M J Bettington
P P Davies (and Secretary)
B Duckworth
P J Gavan
J W Oatridge
A S Perelman
P K Tandon

Remuneration Committee
M C Flower (Chairman)
T D G Arculus
J D G McAdam
Secretary – P P Davies

Nominations Committee
T D G Arculus (Chairman)
M C Flower
J D G McAdam
Secretary – P P Davies

Treasury Committee
M L Cassoni (Chairman)
E E Anstee
T D G Arculus
T E Jack
A S Perelman
R M Walker
M R Wilson
Secretary – P P Davies

Senior independent non-executive Director

M C Flower

Group General Counsel and Company Secretary

P P Davies LL.B. Solicitor

David Arculus MA MSc Chairman (57)*

Mr Arculus joined the Board in May 1996 as a non-executive Director and was appointed Chairman on 29 July 1998. He is Chairman of Earls Court & Olympia Group Ltd and is a non-executive Director of Barclays PLC. He was recently appointed as a non-executive Director of MmO₂. From 1998 to October 2001 he was Chairman of IPC Group Ltd. Until 1997 he was Group Managing Director of Emap Plc, the international media company, where he played a significant role in the growth of that company. Mr Arculus was formerly a journalist and a producer at the BBC. In April 2002, he was appointed by the Government to chair its Better Regulation Task Force.

Robert Walker MA (58)

Mr Walker joined the Board in May 1996 as a non-executive Director. He was appointed Deputy Chief Executive in July 1999 and became Group Chief Executive in August 2000. He has previously worked for Procter & Gamble, McKinsey & Company and PepsiCo Inc. where he was a Division President. Mr Walker is also a non-executive Director of Wolseley Plc.

Eric Anstee FCA (52)*

Mr Anstee joined the Board in July 1999. He is Chairman of Mansell plc and a non-executive Director of SSL International plc. He was appointed Chairman of D P Communications (UK) plc in May 2002. Until August 2001 he was Chief Executive – Financial Services of Old Mutual Group, having been Group Finance Director from November 1998 to December 1999. Prior to that, he was Group Finance Director of The Energy Group PLC, which was acquired by Texas Utilities in 1998, and Group Finance Director of Eastern Group plc between 1993 and 1995 prior to its acquisition by Hanson plc. Before joining Eastern, he was a senior partner with Ernst & Young and a member of the Management Board of the Management Consultancy arm. He is a member of the Accounting Standards Board's Urgent Issues Task Force and a member of the Senate of the Institute of Chartered Accountants in England & Wales.

John Banyard BScEng FREng FICE FCIWEM (58)

Mr Banyard joined the Board in January 1998. He is an executive Director of Severn Trent Water Limited with responsibility for asset management. He is also a Director of UK Water Industry Research Limited, a member of the Court of Cranfield University and the Royal Academy of Engineering Visiting Professor of Water Engineering at Loughborough University. Mr Banyard is a Chartered Civil Engineer and has worked in a number of engineering roles within the group since joining Severn Trent in 1974. He was elected a Fellow of the Royal Academy of Engineering in 1997. He is currently President of the Pipeline Industries Guild.

Martin Bettington BSc MechEng MBA (50)

Mr Bettington joined the Board in November 1994. He is the Managing Director of Severn Trent's waste management business, Biffa Waste Services. Mr Bettington was previously employed by BET Plc, Biffa's former holding company. He holds an MBA from Manchester Business School.

Marisa Cassoni BSc ACA (51)*

Ms Cassoni joined the Board on 1 September 2001. She is currently Group Finance Director of Royal Mail plc, having previously been Group Finance Director at Britannic Assurance plc from 1998 to 2001. Ms Cassoni qualified as an accountant with Deloitte where she rose to be Corporate Finance Manager. She later moved to the Prudential Corporation, becoming Group Finance Director of the Prudential's UK Division in 1994.

Brian Duckworth BA FCCA FCIWEM FWO (54)

Mr Duckworth joined the Board in November 1994. He has worked in various roles since joining Severn Trent in 1974 and was appointed Managing Director of Severn Trent Water Limited on 1 April 1995. Mr Duckworth was appointed as a non-executive Director of Avon Rubber plc and Redrow Plc in 2002. He has served as the President of the Institution of Water Officers and Chairman of Water UK, the water industry's trade association.

Martin Flower BA (56)*

Mr Flower joined the Board in June 1996 and is the senior independent non-executive Director. He is Group Chief Executive of Coats plc and, during his career at Coats, has been based in different parts of Europe, Asia Pacific and South America. He has a particular interest in and knowledge of European and EU affairs.

John McAdam BSc PhD (55)*

Dr McAdam joined the Board on 18 September 2000. He is Chief Executive and a member of the Board of ICI PLC. He joined ICI in 1997 following the acquisition of the Specialty Chemical Businesses from Unilever where he held a number of senior positions in Birds Eye Walls Ltd, Unichema International and Quest International. He was appointed Executive Vice President Coatings and Chief Executive of ICI Paints in 1998, and joined the Board of ICI PLC soon after when he also became responsible for Corporate Research & Technology. He took over as Chief Executive of ICI PLC in April 2003. He is a member of the University of Surrey Business Advisory Group.

Derek Osborn CB (62)*

Mr Osborn joined the Board on 21 September 1998 and is a leading figure in the environmental world. He was Chairman of the UK Round Table on Sustainable Development from 1999 to 2000 and is now a member of the UK Commission on Sustainable Development. He has been Chairman of UNED UK since 1996 and was Chairman of the International Institute for Environment and Development from 1998 to 2002. He is Chairman of Jupiter Global Green Investment Trust and of the international advisory board of ERM CVS. Mr Osborn was Director General of Environment Protection in the Department of the Environment from 1990 to 1995 and Chairman of the Management Board of the European Environment Agency from 1995 to 1999.

Alan Perelman MA MSc (55)

Mr Perelman joined the Board in October 2001 and was appointed Group Finance Director in December 2001. Prior to this he was Group Finance Director at Whitbread from 1990 to 2001. Previous positions held were Group Finance Director at The Gateway Corporation and various positions at Rio Tinto both in the UK and overseas.

Clare Tritton BA QC (67)*

Mrs Tritton joined the Board in November 1991. She is also a Trustee Director of certain of the Severn Trent pension schemes. Mrs Tritton has wide legal experience with emphasis on European Community law and particularly on competition law. She served on the Monopolies and Mergers Commission and on FIMBRA until May 1998. Mrs Tritton is Chief Executive of Throckmorton Estates and was, until recently, a non-executive Director of the Birmingham Royal Ballet Trust Company. She is also Chair of the Primary Immunodeficiency Association and serves on the Country Land and Business Association.

*Non-executive Director

Independent auditors' statement to the members of Severn Trent Plc

We have examined the summary financial statement of Severn Trent Plc.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Review 2003 in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review 2003 with the annual financial statements, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review 2003 and consider the implications for our

report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by

the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the annual financial statements, the directors' report and the directors' remuneration report of Severn Trent Plc for the year ended 31 March 2003 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors, Birmingham 10 June 2003

Summary Directors' report

Principal activities

The principal activities of the group continued to be the supply of water and sewerage services, waste management and the provision of environmental services. A review of the group's business activities, their performance and future developments can be found on pages 8 to 14.

Final dividend

Subject to approval at the Annual General Meeting the recommended final dividend of 28.56p (2002: 28.56p) net for each ordinary share will be paid on 1 October 2003 to shareholders on the register at the close of business on 20 June 2003.

Directors

Details of the current members of the Board are shown on pages 16 and 17.

Mr E E Anstee, Mr T D G Arculus and Mr R M Walker retire from the Board by rotation in accordance with the Articles of Association of the company and, being eligible, offer themselves for reappointment.

Mrs C Tritton will retire from the Board at the conclusion of this year's Annual General Meeting but will not be seeking reappointment.

Mr Walker has a service contract which provides for not less than 12 months' written notice of termination by the company and not less than 12 months' written notice by him expiring at any time. Mr Anstee and Mr Arculus, being non-executive Directors, do not have service contracts with the company.

Corporate governance

The Board is committed to business integrity and professionalism in all its activities. As part of this commitment the Board supports the highest standards of corporate governance and the development of best practice. The Annual Report and Accounts 2003 contains the full corporate governance statement.

Health and safety

The company continues to pro-actively address the management of health and safety issues across the group.

Employees

Group companies continue to encourage communication with and between employees. Each of the major business units has its own in-house magazine, uses employee surveys, team briefings and 'tool box' talks, and has an intranet facility covering all of their main locations.

Intranets are increasingly used as the basis for open forum discussions and for 'suggestion' schemes.

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

Severn Trent Water have successfully implemented a new Partnership Agreement with its recognised trade unions and this has received recognition from the TUC and Government ministers.

The Board endorsed Code of Business Principles and Conduct defines the values and vision of the group and underpins the strategies that guide business activities. The group's business goals are long term and the Code has been developed to provide

appropriate ethical direction to sustain their achievement. The Code is available at the group website (www.severntrent.com).

Further details of the company's achievements vis-à-vis our stated sustainable development targets are detailed in the company's Stewardship Report.

'Whistle blowing' procedures are in place in every group company to deal with allegations of harassment, bullying etc., and any other breaches of the company's codes and values.

Diversity

Group companies continue to review their diversity policies and practices to ensure that they comply with the legislative requirements of each location in which we operate and also meet the company's Code of Business Principles and Conduct.

Further information on the group's diversity position is detailed in the company's Stewardship report.

Auditors' report

The auditors' report on the full annual accounts of the group for the year ended 31 March 2003 was unqualified and did not contain a statement under either section 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

By order of the Board
P P Davies LL.B Solicitor
Group General Counsel
and Company Secretary
10 June 2003

Summary group profit and loss account

Year ended 31 March 2003

	2003 £m	2002 £m
Turnover	1,852.0	1,794.3
Operating costs before goodwill amortisation and exceptional items	(1,453.0)	(1,385.4)
Goodwill amortisation	(25.2)	(26.5)
Exceptional impairment of goodwill and tangible fixed assets	(46.8)	–
Exceptional contract provision release/(costs)	6.0	(25.0)
Total operating costs	(1,519.0)	(1,436.9)
Group operating profit	333.0	357.4
Share of operating profit of joint ventures and associates	10.8	9.9
Exceptional profit on disposal of business	–	8.0
Profit before interest, goodwill amortisation and exceptional items	409.8	418.8
Goodwill amortisation	(25.2)	(26.5)
Profit before interest and exceptional items	384.6	392.3
Exceptional costs	(46.8)	(25.0)
Exceptional provision release/profits	6.0	8.0
Profit before interest	343.8	375.3
Net interest payable	(159.4)	(159.0)
Profit after interest before goodwill amortisation and exceptional items	250.4	259.8
Goodwill amortisation	(25.2)	(26.5)
Profit after interest before exceptional items	225.2	233.3
Exceptional items	(40.8)	(17.0)
Profit on ordinary activities before taxation	184.4	216.3
Taxation on profit on ordinary activities – current tax	(24.8)	(16.1)
– deferred tax	(59.5)	(42.3)
Total taxation	(84.3)	(58.4)
Profit on ordinary activities after taxation	100.1	157.9
Equity minority interests	(0.9)	(0.6)
Profit for the financial year	99.2	157.3
Dividends	(157.6)	(157.6)
Retained loss for the financial year	(58.4)	(0.3)
Earnings per share (pence)		
Basic	28.9	45.9
Adjusted basic before exceptional items and deferred tax	58.1	63.2

Important note: The summary financial statement does not contain sufficient information to allow a full understanding of the results of the group and of the state of affairs of the company or of the group nor of the policies and arrangements concerning Directors' remuneration. For further details, the Annual Report and Accounts 2003, which includes the Directors' report and the Auditors' report on the financial statements, should be consulted.

A copy can be obtained, free of charge, by writing to the Company Secretary at 2297 Coventry Road, Birmingham B26 3PU. Alternatively it can be accessed on the website at www.severntrent.com/reports2003. Shareholders can elect to obtain the full Annual Report and Accounts for all future financial years by contacting the company's registrars, Lloyds TSB Registrars whose details appear on page 24.

Summary group balance sheet

At 31 March 2003

	2003 £m	2002 £m
Fixed assets	5,480.6	5,395.7
Current assets	583.1	535.7
Creditors: amounts falling due within one year	(1,219.2)	(1,112.8)
Net current liabilities	(636.1)	(577.1)
Total assets less current liabilities	4,844.5	4,818.6
Creditors: amounts falling due after more than one year	(2,101.6)	(2,042.8)
Provisions for liabilities and charges	(523.1)	(480.4)
Net assets	2,219.8	2,295.4
Capital and reserves	2,217.6	2,294.0
Minority shareholders' interest (equity)	2.2	1.4
	2,219.8	2,295.4

Signed on behalf of the Board who approved the accounts on 10 June 2003.

David Arculus
Chairman

Alan Perelman
Group Finance Director

Summary group cash flow statement

Year ended 31 March 2003

	2003		2002	
	£m	£m	£m	£m
Net cash inflow from operating activities		682.7		665.5
Dividends received from associates and joint ventures		1.6		1.2
Returns on investments and servicing of finance		(146.7)		(144.9)
Taxation		(14.3)		(6.7)
Capital expenditure and financial investment		(454.0)		(352.1)
Acquisitions and disposals		(11.5)		-
Equity dividends paid		(157.5)		(154.1)
Net cash (outflow)/inflow before use of liquid resources and financing		(99.7)		8.9
Management of liquid resources		(6.5)		62.0
Financing				
Increase/(decrease) in debt	114.1		(81.5)	
Issue of shares	3.3		3.4	
		117.4		(78.1)
Increase/(decrease) in cash		11.2		(7.2)

Remuneration Committee

The Remuneration Committee determines, on behalf of the Board, the company's policy on the remuneration of executive Directors.

The Committee determines the total remuneration packages and contractual terms and conditions for these individuals.

The policy framework for remunerating all senior executives is consistent with the approaches taken for executive Directors.

The Remuneration Committee is comprised exclusively of independent non-executive Directors of the company. The members of the Remuneration Committee during the year were:

M C Flower (Chairman)
T D G Arculus
J D G McAdam

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

The constitution and operation of the Committee complies with the Combined Code for Corporate Governance of the Financial Services Authority. In setting performance related remuneration the Committee has regard to the provisions set out in Schedule A to the Code.

Advisers

To ensure that Severn Trent's remuneration practices are market competitive, the Remuneration Committee has access to detailed external research on market data and trends from experienced international consultants.

The Committee has received material advice from Deloitte & Touche (who replaced Andersen on 1 August 2002), Hay Management Consultants and Watson Wyatt who have been appointed by the Committee for the purpose of providing this advice.

In relation to other services provided to the group, Deloitte & Touche provide overseas tax advice and Watson Wyatt are the actuaries to the group's main UK pension schemes.

All three consultants provide employee benefits services and/or remuneration advice to the group below Board level.

The appointment of the principal adviser (currently Deloitte & Touche) will be formally reviewed by the Committee during the financial year 2003/2004.

The Group Chief Executive and the Group Services Director also provide advice and are invited to attend meetings to respond to specific questions raised by the Committee.

This specifically excludes any matter concerning their own remuneration. The Group Company Secretary acts as Secretary to the Committee.

Remuneration policy

The company's ongoing remuneration policy for executive Directors is to review regularly and update as appropriate the framework to provide remuneration in a form and amount which will attract, retain, motivate and reward high calibre individuals. To achieve this, the remuneration package is based on the following principles:

- Incentives are aligned with the interests of shareholders and reward the creation of long-term value;
- Reward elements are designed to reinforce the link between performance and reward. Performance related elements should form a significant proportion of the total remuneration package and at maximum vary between 120% and 150% of basic pay;
- The total compensation package for on-target performance should be fully competitive in the relevant market;
- Packages are structured flexibly to meet critical resource needs and retain key executives.

The Committee seeks to take a prudent and responsible approach taking into account the interests of shareholders, customers, employees and the local community.

Personal shareholdings

The company does not have a policy which requires executive Directors to have a minimum holding of ordinary shares in Severn Trent but, through a variety of share schemes, encourages all employees to hold shares in the company.

External directorships

Executive Directors are encouraged to take on external non-executive directorships. In order to avoid a conflict of interest all such appointments are subject to the approval of the Remuneration Committee and the Board. Directors are normally only able to retain the fees arising from one such appointment.

Chairman and other non-executive Directors

The remuneration policy for non-executive Directors is determined by the Board, within the limits set out in the Articles of Association.

Remuneration comprises an annual fee for acting as a non-executive Director of the company and additional fees for acting as:

- Chairman of a Board Committee;
- Senior non-executive Director;
- Trustee of a company pension scheme;
- Non-executive Director of a subsidiary company;
- Chairman of the company.

Non-executive Directors are not eligible to participate in incentive plans nor is any pension provision made except as detailed in relation to Mr Arculus.

Non-executive Directors receive payment of part of their fees in the form of Severn Trent ordinary shares.

The non-executive Directors do not have service contracts or consultancy agreements with any group company.

Remuneration package for executive Directors

The remuneration package for executive Directors comprises the following elements:

- Base salary and benefits;
- Annual bonus plan;
- Long Term Incentive Plan;
- Post-retirement benefits.

The performance related elements, when valued at on-target performance, comprise more than 60% of the total potential package (excluding post-retirement benefits).

Details of each of the above elements are as follows:

Base salaries and benefits

Base salaries are a fixed cash sum payable monthly. The company's policy is to set the salary for each executive Director within a range having regard to the market median for similar roles in large publicly quoted companies. Salaries for individual Directors are reviewed annually by the Remuneration Committee recognising the individuals' performance and contribution and developments in the relevant employment market.

The principal non-salary benefits for executive Directors include the use of a motor car, fuel, private medical insurance, life assurance and an incapacity benefits scheme. Since January 2002, the executive Directors have been allowed to 'flex' these benefits under the company's Lifestyle scheme. As they are flexing within the same value of overall package, their individual choices are not reflected in the table of Directors' emoluments on page 23.

Annual bonus plan

Executive Directors are eligible for annual bonuses to encourage improved performance, measured by reference to both financial and non-financial factors. Performance targets are established by the Remuneration Committee to align executive 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. The maximum amount payable under the bonus scheme in 2002/2003 was 50% of base salary which is paid only for superior financial performance. Financial performance accounts for 60% of the total bonus potential and 40% 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. Annual bonus payments are not taken into account in calculating pension entitlements. The actual bonuses awarded by the Remuneration Committee for the year ended 31 March 2003 are shown in the table of Directors' emoluments on page 23.

Long-term incentives

A Long Term Incentive Plan ('LTIP') for executive Directors was approved by shareholders at the 1997 Annual General Meeting and amended with shareholder approval at the 2001 Annual General Meeting.

The performance for the 2001 and 2002 LTIPs is measured by reference to a combination of Total Shareholder Return ('TSR') and Economic Profit ('EP') targets.

The maximum allocation that may be made to an individual executive Director in any year is such number of shares as have a market value equal to 100% of base 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 a number of selected comparator companies and that the EP targets have also been met. The performance criteria are specific to each Award. For the performance periods effective from 1 April 2001 and 1 April 2002, Mr Walker received an allocation of shares equivalent to 100% of his salary and the remaining executive Directors received allocations equivalent to 70% of their salaries.

For the 2001 and 2002 Awards the comparator group consists of:

AWG Plc, Kelda Plc, Pennon Group Plc, Shanks Plc, United Utilities Plc and Waste Recycling Group Plc.

For the executive Directors an award under the 2001 and 2002 LTIP schemes will be triggered if the comparator TSR performance is at the median or above and the EP meets the scaled targets set. EP is calculated by reference to a rate of return of 7.5%.

It is considered that the performance conditions are appropriate since we compare our performance against companies in a similar sector, whilst at the same time strengthening the alignment with shareholders by placing emphasis on EP and sustained long-term value creation.

TSR performance will be assessed using an external data source such as Datastream, for

share price and dividends in the period. The calculations of EP will be based on information from the company's financial statements and will be verified by external advisers.

The performance period for allocations of shares made in 2000 ended on 31 March 2003. The Remuneration Committee has determined, based on the company's TSR performance over the three year performance period, that participants are entitled to 50% of the shares allocated. In respect of the 2000 LTIP the qualifying condition for vesting was that the company's TSR performance was ranked median against the following comparators: AWG, BG, National Power, Kelda, Pennon, ScottishPower, Scottish and Southern Energy and United Utilities. Hyder, Powergen and Thames Water were constituents of the original comparator group but were acquired during the performance period and it was determined that they should be excluded from the comparator group. The measurement of the performance of BG and National Power incorporated the performance of Innogy and Lattice subsequent to the demerger. The shares in respect of the 2000 award will be released to executive Directors as soon as practicable following the announcement on 10 June 2003 of the company's results for the year ended 31 March 2003.

Post-retirement benefits

The company's policy is to offer all executive Directors membership of the Senior Staff Pension Scheme ('the Scheme'). All current executive Directors participate in the Scheme.

The 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;

- A pension payable in the event of retirement on grounds of ill health;
- A spouse's pension on death.

The five executive Directors are members of defined benefit pension arrangements and in the year to 31 March 2003 the company contributed £501,355 on their behalf into these arrangements. In addition, £436,319 was charged to the profit and loss account in the year in respect of an unfunded obligation to provide pension benefits based on salaries in excess of the Inland Revenue earnings cap. The company also contributes £28,680 per annum to Mr Arculus's private pension arrangement.

Forward-looking statement

The Committee will keep the existing remuneration arrangements, as detailed in this report, under review during the next year to ensure that the company's reward programmes remain competitive and provide appropriate incentives. No significant changes to the reward arrangements for executive Directors are anticipated. However, as usual there will be individual reviews of base salary, annual bonus and LTIP awards. The performance targets for incentive arrangements will also be reviewed to ensure alignment with the group strategy.

Directors' service agreements and letters of engagement

The current policy of the Remuneration Committee is that executive Directors are employed on contracts subject to no more than 12 months' notice, in accordance with current corporate governance best practice. The executive Directors are required to give not less than six months' notice of termination (12 months in the case of the Group Chief Executive). In the case of new appointments from outside the group, in order to attract and retain high calibre individuals, there may be an entitlement to a 24 months' notice period reducing to 12 months at the end of the first year of employment.

In the case of executive Directors who were appointed prior to 1999 and who previously had written notice periods in excess of 12 months, contractual terms were put in place in March 2000 which define levels of compensation payments that might be payable in the event of redundancy or breach of contract, such payment not being triggered in the event of dismissal for misconduct or poor performance.

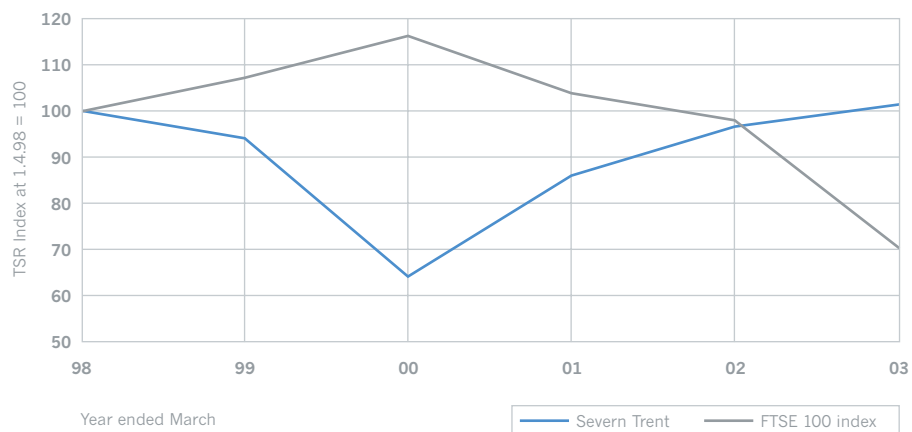
The obligations under the arrangements are service related with four weeks pay for each year of service to a maximum of 25 years, one year's bonus and £20,000 for loss of benefits (car, health insurance etc).

There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the company.

Page 23 and the table thereon comprise the 'auditable part' of the summary remuneration report, being the information required by Part 3 of Schedule 7A to the Companies Act 1985.

Performance graph

Our reward programmes are designed to support the generation of total shareholder return. The graph below shows the total shareholder return for the FTSE 100 and the company since 1 April 1998. The FTSE 100 has been chosen because it is considered to be the most appropriate basis for comparison as it is a broad equity index in which the company is a constituent.



The dates of the current executive Directors' agreements, the dates on which their appointments became effective and the current expiry dates of their agreements are as follows:

Executive Director	Date of agreement	Effective date	Expiry date
J K Banyard	20 April 1998	23 January 1998	Terminable on 12 months' notice
M J Bettington	28 December 1994	8 November 1994	Terminable on 12 months' notice
B Duckworth	11 January 1995	8 November 1994	Terminable on 12 months' notice
A S Perelman	11 September 2001	1 October 2001	Terminable on 12 months' notice
R M Walker	7 July 1999	12 July 1999	Terminable on 12 months' notice

Mr R M Walker is the subject of reappointment as an executive Director at the Annual General Meeting and the Committee believes that his extensive knowledge and experience fully justifies the continuation of the contractual arrangement outlined above.

In respect of the Chairman and current non-executive Directors the dates on which their appointments took effect and the current expiry dates are as follows:

Chairman and non-executive Directors	Effective date	Current expiry date
T D G Arculus	20 May 1996	28 July 2004
E E Anstee	30 July 1999	29 July 2005
M L Cassoni	1 September 2001	31 August 2004
M C Flower	11 June 1996	10 June 2005
J D G McAdam	18 September 2000	17 September 2003
D A Osborn	21 September 1998	20 September 2004
C Tritton	1 November 1991	30 July 2003

It is the normal practice of the company for non-executive Directors to serve three three-year terms. Non-executive Directors have no right to compensation on the early termination of their appointment.

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 ² £000	Benefits ⁵ in kind £000	Annual bonus £000	Other ¹ £000	Total 2002/2003 £000	Total 2001/2002 £000
Chairman and other non-executive Directors						
T D G Arculus (Chairman)	127.6	21.2	–	6.0	154.8	140.9
E E Anstee	32.5	–	–	0.4	32.9	31.5
M L Cassoni	28.9	–	–	0.5	29.4	16.0
M C Flower	44.0	–	–	0.4	44.4	40.9
J D G McAdam	27.5	–	–	0.4	27.9	26.7
F A Osborn	50.0	–	–	0.2	50.2	50.9
A H Simon (resigned 26.07.02)	11.4	–	–	0.1	11.5	33.8
C Tritton	32.9	–	–	–	32.9	31.1
Executive Directors						
J K Banyard	175.0	21.3	83.1	0.4	279.8	240.3
M J Bettington	250.0	20.1	63.7	–	333.8	282.0
R A S Costin (retired 21.12.01) ⁴	–	–	–	–	–	214.6
B Duckworth	235.0	21.1	105.8	0.1	362.0	314.3
A S Perelman	335.0	25.3	151.4	0.5	512.2	336.8
R M Walker ²	406.0	34.9	170.5	0.1	611.5	492.7
Total emoluments	1,755.8	143.9	574.5	9.1	2,483.3	2,252.5

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

2 Aggregate emoluments for Mr Walker, as highest paid Director, amounted to £611,500 (2002: £492,700).

3 Included within fees for the non-executive Directors, are amounts elected to be received by way of shares rather than as emoluments, to encourage participation in line with corporate governance best practice. 224 shares with a gross value of £2,500 were received by all of the non-executive Directors for the period, with the exception of Mr Arculus who received 908 shares with a gross value of £10,000. Mr Simon, who resigned in the year, received his time apportioned award of £801 in cash.

4 Mr Costin's salary and benefits in kind in the previous financial year are those amounts earned up to the date he retired as a member of the Board (21 December 2001). In the remainder of the previous financial year he received a further £52,700 in salary and £6,100 of benefits in kind in relation to the period following his retirement from the Board to 31 March 2002. Mr Costin retired from the company on 12 May 2002 aged 59. He received a further £214,925 of salary, bonus of £58,963 and £25,732 of benefits in kind in the current financial year being the balance of his contract which terminated at the age of 60.

5 Benefits in kind include the use of a motor car, fuel, private medical insurance, life assurance and an incapacity benefits scheme.

6 During the year two executive Directors exercised share options with an aggregate gain on exercise of £6,083. Since the year-end they have exercised further share options with an aggregate gain on exercise of £5,551. No awards vested during the year under the Severn Trent Plc Long Term Incentive Plan ('LTIP') and, consequently, there has been no gain on vesting (2002: nil). Since the year-end, the Remuneration Committee has determined that 50% of the 2000 LTIP award should vest but, as at 10 June 2003, this has not taken place.

Annual General Meeting

The Annual General Meeting will be held at 2.30pm on Wednesday 30 July 2003 at the National Motorcycle Museum, Birmingham B92 0EJ. The Notice of the Meeting and a form of proxy are enclosed with this Review.

Registrars

Lloyds TSB Registrars are the company's share registrars and they will deal with any queries you may have regarding:

- Shareholdings
- Dividends
- Lost share certificates
- Change of name or address
- Death of a shareholder
- Request for the full Report and Accounts

If you wish to have your dividends paid directly into your bank or building society account you should contact the registrars and they will send you a dividend mandate form. Alternatively, you will find a form of mandate attached to your last dividend mailing which you may complete and return to the registrars. Please note you will still receive tax vouchers at your usual address.

Their contact details are:

Lloyds TSB Registrars

The Causeway

Worthing

West Sussex BN99 6DA

You can also ring them on the Severn Trent dedicated telephone line: 0870 600 3967.

Alternatively, if you have access to the Internet, you can look directly at details of your shareholder account by visiting www.shareview.co.uk. This is a service offered by Lloyds TSB Registrars that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can register for this free portfolio service by logging onto www.shareview.co.uk and following a simple registration process.

Key dates in 2003

Dividends – ordinary shares

18 June 2003

Ex-dividend date for final dividend

20 June 2003

Record date for final dividend

1 October 2003

Payment of final dividend

Electronic proxy appointments

For this year's Annual General Meeting you may, if you wish, register the appointment of a proxy electronically by logging onto the website www.sharevote.co.uk. You will need your voting reference numbers (the three 8 digit numbers shown on your form of proxy).

Alternatively if you have registered for a shareview portfolio, log onto your portfolio at www.shareview.co.uk and click on Company Meetings.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

Low cost postal dealing service

Lloyds TSB Registrars also offer a low cost postal dealing service for anyone who wishes to buy or sell Severn Trent Plc shares.

The charge for this service is 0.5% of the transaction value (minimum charge – £7.50) and deals are completed once a week on Fridays. Stamp Duty of 0.5% is payable, in addition to the above charge, on the value of purchases.

See left for contact details.

Unsolicited mail

We are obliged, whenever requested, to provide copies of our shareholder register to any third parties so it is quite likely that you may receive unsolicited mail from time to time.

You can limit the amount of unsolicited mail you receive by contacting: The Mailing Preference Service
Freepost 22
London W1E 7EZ

Forward-looking statements

This document contains certain 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Shareholder communications

30 July 2003

Annual General Meeting at the National Motorcycle Museum, Birmingham

December 2003

Announcement of half year results

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates'. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the regulatory framework in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

All subsequent written or verbal forward-looking statements attributable to Severn Trent or any other member of the group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Severn Trent does not intend to update these forward-looking statements.

www.severntrent.com

Shareholders are likely to find the Financial Performance section of particular interest, containing a range of shareholder information such as detailed coverage of our share price, dividend payments, key dates, our registrars as well as corporate, financial and environmental news releases and City presentations.

Our Annual Review and Annual Report and Accounts are available on the website, accessed directly via www.severntrent.com/reports2003

We are constantly looking at how best to provide the information our stakeholders need quickly and cost effectively. We also seek to minimise the resources used wherever possible.

If you are a shareholder you too can 'do your bit'. If you currently receive the full Annual Report and Accounts why not consider switching to the Annual Review only? You can still view or download a copy of the full Annual Report and Accounts on-line at www.severntrent.com/reports2003. You can also elect not to receive paper copies of the Annual Report and other shareholder documents. Instead you will receive an email containing a link to a website, where electronic copies of the documents can be viewed or downloaded.

Please call Lloyds TSB Registrars on 0870 600 3967 to request the Annual Review only or to register for e-delivery.

For more information about Severn Trent Plc and its businesses see our website

www.severntrent.com

The following publications are also available

Severn Trent Plc

- Annual Report and Accounts
- Stewardship – Sustainable Development report

Severn Trent Water

- Annual Report and Accounts
(including Regulatory Accounts)
- Delivering Sustainability
- Biodiversity Action Plan
- Conservation, Access Recreation
and Education Report

Biffa

- Biffaecology – Environment report
- Future Perfect – Biffa Book V
- Biffa and Biodiversity
- Biffaward Annual Report and Accounts

Contact us at the address below
for copies of publications

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For more information about Severn Trent Plc
and its businesses see our website

www.severntrent.com



The paper used in the production of this report, Zanders Megamatt, is produced using chlorine free processes from 50% recycled pre and post consumer waste. It is certified to the Nordic Swan Standard, which requires products to meet a strict range of standards. In addition the printing process is taken into account – this report is printed by WACE who operate an Environmental Management System certified to ISO 14001.

Front cover:

Lisa Roberts Severn Trent Laboratories
Neville Moore Biffa fleet maintenance team
Ben Young Severn Trent Water ranger services

Back cover:

Alex Mirkovic Biffa business development team

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