

Company number 2914860

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Severn Trent Water Utilities Finance Plc

Financial Statements

Year ended 31 March 2005



Severn Trent Water Utilities Finance Plc

Year ended 31 March 2005

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Severn Trent Water Utilities Finance Plc

Company information

Company number: 2914860

Secretary D Chettle Resigned 4 March 2005
C J Mottram Appointed 4 March 2005

Registered office: 2297 Coventry Road
Birmingham
B26 3PU

Auditors: PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Severn Trent Water Utilities Finance Plc

Directors' report

The Directors present their report, together with the audited financial statements for the year ended 31 March 2005.

Principal activities

The Company's principal activity is the provision of long term finance for Severn Trent Water Limited.

Business review

During the course of the year the Company took out additional loans to the value of £107.4 million on behalf of Severn Trent Water Limited, its immediate parent undertaking.

A review of the immediate parent undertaking's activities is contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU. There is no charge for this publication.

Results and dividends

The profit for the year is shown on page 8 and the Directors do not recommend payment of a dividend (2004: £nil).

Directors and their interests

The Directors of the Company who served during the year are listed below:

P P Davies	Appointed 4 March 2005
A S Perelman	Resigned 31 August 2004
T E Jack	
R M Walker	Resigned 3 February 2005
M R Wilson	Appointed 1 September 2004

Since the year-end, Mr P P Davies resigned as a Director of the Company with effect from 22 August 2005. Mr A P Wray was appointed as a Director with effect from 22 August 2005.

None of the Directors had any interest in the share capital of the Company.

None of the Directors had during the year, or at the end of the year, a material interest in any contract of significance to the Company's affairs.

Mr Wilson is a Director of Severn Trent Plc, the Company's ultimate parent undertaking. Details of his interests in the share capital of Severn Trent Plc, can be found in the accounts of that company.

Severn Trent Water Utilities Finance Plc

Directors' report (continued)

Directors and their interests (continued)

Mr Davies is a Director of Severn Trent Water Services Plc, the Company's penultimate parent undertaking. Details of his interests in the share capital of Severn Trent Plc, can be found in the accounts of Severn Trent Water Services Plc.

The interests of Mr T E Jack in the ordinary share capital of the ultimate parent undertaking, Severn Trent Plc, by way of a beneficial holding or through options to subscribe for shares, according to the register maintained under the provisions of the United Kingdom Companies Act 1985, were as follows:

Beneficial Holdings in Ordinary Shares

	1 April 2004 Ordinary shares of 65 ^{5/19} p each	31 March 2005 Ordinary shares of 65 ^{5/19} p each
T E Jack	76	107

Share Options under Approved Schemes

	1 April 2004	Exercised during year	Cancelled during year	Granted during year	31 March 2005
T E Jack	1,733	-	-	1,248	2,981

Share options were granted in accordance with the rules of the Severn Trent Sharesave Scheme. Details of prices and periods within which options are exercisable are set out in the financial statements of Severn Trent Plc.

Mr Jack has further interests in Severn Trent Plc ordinary shares of 65 ^{5/19} p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 24 September 2002, 13 August 2003 and 15 December 2004. The LTIP operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria for the awards are based on a combination of Severn Trent Plc's Total Shareholder Return ('TSR') compared to the TSR of a number of other privatised utility companies and Economic Profit targets. The individual interests, which represent the maximum aggregate number of shares to which Mr Jack could become entitled, are as follows:

Severn Trent Water Utilities Finance Plc **Directors' report (continued)**

Directors and their interests (continued)

	1 April 2004							31 March 2005
	Number of Ordinary shares of 65 ^{5/19} p each	Awards vested during the year	Market price at time of vesting (p)	Gain on vesting (£'000)	Awards lapsed during year	Awarded during year	Market price at time of award (p)	Number of Ordinary shares of 65 ^{5/19} p each
T E Jack	25,397	(7,142)	820.75	58.6	-	7,597	946	25,852

The performance period for allocations of shares made in 2002 ended on 31 March 2005. Severn Trent Plc's Remuneration Committee has subsequently determined, based on that company's TSR and Economic Profit targets over the three year period that participants are entitled to 100% of the award. The 2002 contingent awards of shares are included in the table above and the actual number of shares to which Mr Jack has become entitled from the 2002 award is as follows:

	Date of award	Market price at time of award (p)	Market price on date of vesting (p)	Number of Ordinary shares of 65 ^{5/19} p each vested from the 2002 award	Gain on vesting (£'000)
T E Jack	24 September 2002	598.5	1,029.75	9,243	95.1

Supplier payment policy

For trade creditors it is the company's policy to agree the terms of payment at the start of the business with that supplier, to ensure that suppliers are aware of the terms on which payment will take place and to pay in accordance with its contractual and other legal obligations.

Severn Trent Water Utilities Finance Plc

Statement of Directors' responsibilities

The Directors are required by the United Kingdom Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

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

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

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

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

Auditors

The Directors' wish to change the Auditors from PricewaterhouseCoopers LLP ('PwC') to Deloitte & Touche LLP ('Deloittes'). PwC, having completed the audit for the year ended 31 March 2005, have agreed that they will resign at the Annual General Meeting. Accordingly, a resolution proposing the appointment of Deloittes as Auditors will be put to the Annual General Meeting, provided that special notice of such a resolution is received in accordance with sections 379 and 388 of the Companies Act 1985.

On behalf of the board



M R Wilson

Director

21 October 2005

Severn Trent Water Utilities Finance Plc

Independent auditors' report to the shareholders of Severn Trent Water Utilities Finance Plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities in the Directors' report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding Directors' remuneration and transactions is not disclosed.

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

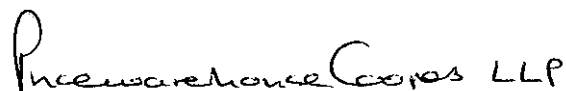
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
21 October 2005

Severn Trent Water Utilities Finance Plc

Profit and loss account Year ended 31 March 2005

	Notes	2005 £'000	2004 £'000
Operating costs	3	(1.2)	(1.4)
Operating loss		<u>(1.2)</u>	<u>(1.4)</u>
Net interest receivable	4	27.3	207.6
Profit on ordinary activities before taxation		<u>26.1</u>	<u>206.2</u>
Tax on profit on ordinary activities	5	(7.8)	(61.9)
Retained profit for the financial year	11	<u>18.3</u>	<u>144.3</u>

All activities relate to continuing activities.

The Company has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit before taxation and the retained profit for the year as shown in the profit and loss account and their historical cost equivalent.

Severn Trent Water Utilities Finance Plc

Balance sheet

As at 31 March 2005

	Notes	2005 £'000	2004 £'000
Current assets			
Debtors: amounts falling due within one year	6	44,861.2	53,334.3
Debtors: amounts falling due after more than one year	6	1,272,490.2	1,175,695.0
Cash at bank and in hand		514.0	515.0
		<u>1,317,865.4</u>	<u>1,229,544.3</u>
Creditors: amounts falling due within one year	7	(44,863.9)	(53,356.3)
Net current assets		<u>1,273,001.5</u>	<u>1,176,188.0</u>
Creditors: amounts falling due after more than one year	8	(1,272,490.2)	(1,175,695.0)
Net assets		<u>511.3</u>	<u>493.0</u>
Capital and reserves			
Share capital	10	50.0	50.0
Profit and loss account	11	461.3	443.0
Equity shareholders' funds	12	<u>511.3</u>	<u>493.0</u>

Signed on behalf of the Board who approved the accounts on 21 October 2005.



M R Wilson
Director

Severn Trent Water Utilities Finance Plc
Notes to the financial statements
Year ended 31 March 2005

1. Accounting policies

a. Accounting convention

The financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable Accounting Standards and comply with the requirements of the United Kingdom Companies Act 1985.

There have been no new Accounting Policies adopted during the current year.

b. Interest receivable

Interest receivable represents the recharge to Severn Trent Water Limited of costs and interest in respect of the raising of finance on that company's behalf.

c. Deferred taxation

Provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. A deferred tax asset is only recognised to the extent that it may be considered recoverable. Deferred tax assets and liabilities are not discounted.

d. Capital instruments

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowing and represent a constant proportion of the balance of capital repayments outstanding.

e. Cash flow statement

The Company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated financial statements of Severn Trent Plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised).

2. Directors and employees

The average number of employees during the year was nil (2004: nil).

None of the directors received any fees or emoluments for their services to the Company (2004: £ nil).

Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued) **Year ended 31 March 2005**

3. Operating loss

Profit on ordinary activities before taxation is stated after charging:

Payment of audit fees to PricewaterhouseCoopers LLP of £1,234 (2004: £1,350).

4. Net interest (payable) / receivable

	2005 £'000	2004 £'000
Interest paid on loans	(68,644.4)	(63,243.3)
Interest receivable and similar income	68,671.7	63,450.9
	<u>27.3</u>	<u>207.6</u>

Included within the interest receivable is £68,644,389 (2004: £63,245,338) due from the immediate parent undertaking.

5. Taxation on profit on ordinary activities

	2005 £'000	2004 £'000
Group relief payable current year at 30% (2004: 30%)	7.8	61.9
Group relief prior year	-	-
	<u>7.8</u>	<u>61.9</u>

The tax assessed for the year is the same as (2004 same as) the standard rate of tax of 30% (2004: 30%).

In accordance with the company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2005. The Company's full potential deferred taxation liability at 31 March 2005 was £nil (2004: £nil).

6. Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year		
Amounts due from parent undertakings	44,564.8	53,037.9
Other debtors	2.3	2.3
Prepayments	294.1	294.1
	<u>44,861.2</u>	<u>53,334.3</u>

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2005

6. Debtors (continued)

Amounts falling due after more than one year	2005 £'000	2004 £'000
Amounts due from parent undertaking	1,267,224.6	1,170,135.4
Prepayments	5,265.6	5,559.6
	<u>1,272,490.2</u>	<u>1,175,695.0</u>
 Total debtors	 <u>1,317,351.4</u>	 <u>1,229,029.3</u>

7. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Medium term loans	14,998.1	24,017.4
Amounts due to parent undertaking	3.8	23.1
Other creditors	294.1	294.1
Accruals	29,567.9	29,021.7
	<u>44,863.9</u>	<u>53,356.3</u>

8. Creditors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Guaranteed Bonds 2024 6.125% (Note 9)	298,369.6	298,283.3
Guaranteed Bonds 2029 6.25% (Note 9)	294,570.8	294,346.3
Guaranteed Bonds 2029 6.25% (Note 9)	119,002.8	118,754.7
Medium term loans (Note 9)	555,281.4	458,751.1
Other	5,265.6	5,559.6
	<u>1,272,490.2</u>	<u>1,175,695.0</u>

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2005

9. Loans

a. Guaranteed Bonds

Net issue costs including premium on issue of £14.6 million have been incurred in relation to the bonds and are credited to the net proceeds at a constant rate over the life of the bond.

	Interest rate %	Net Proceeds £m	Net issue Costs £m	Nominal value £m	Unamortised Amount £m	Carrying Value £m
Bond 2024	6.125	297.8	(2.2)	300.0	(1.6)	298.4
Bond 2029	6.25	293.3	(6.7)	300.0	(5.4)	294.6
Bond 2029	6.25	119.3	(5.7)	125.0	(6.0)	119.0
Total		710.4	(14.6)	725.0	(13.0)	712.0

b. Borrowings analysed by maturity dates – repayment terms

	2005 £'000	2004 £'000
Within one year	14,998.1	24,017.4
Between one and two years	6,975.0	14,995.8
Between two and five years	139,117.6	113,365.6
After more than five years	1,121,132.0	1,041,774.0
	<u>1,282,222.7</u>	<u>1,194,152.8</u>

c. Loans repayable partly or wholly after five years comprise:

	Rate of interest	2005 £'000	2004 £'000
European Medium term loan notes - 2009 - 2028	3.8% -6.145%	409,188.8	330,389.7
Sterling bonds - 2024 - 2029	6.125% - 6.25%	711,943.2	711,384.3
		<u>1,121,132.0</u>	<u>1,041,774.0</u>

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2005

9. Loans (continued)

d. Borrowings analysed by interest rate

	Total £'000	Floating interest rate £'000	Fixed interest rate £'000	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings at 31 March 2005	1,282,222.7	570,279.5	711,943.2	6.20	22.0
Total borrowings at 31 March 2004	1,194,152.8	482,768.5	711,384.3	6.20	23.0

e. Fair values of financial instruments

The Company's policy for the management of interest rate risk is to have a balanced portfolio of debt with a mix of term and interest rate structures that diversifies its risk and is appropriate to the long life of the asset base of Severn Trent Water Limited, for whom this Company acquires finance. The details are periodically reviewed to respond to changing market conditions and to have regard to regulatory pronouncements affecting Severn Trent Water Limited. The Company's business does not involve exposure to foreign exchange transactions.

	2005 Book value £'000	2005 Fair value £'000	2004 Book value £'000	2004 Fair value £'000
Cash at bank and in hand	514.0	514.0	515.0	515.0
Borrowings falling due within one year	(14,998.1)	(15,150.1)	(24,017.4)	(21,047.6)
Borrowings falling due after more than one year	(1,267,224.6)	(1,363,923.6)	(1,170,135.4)	(1,258,039.6)
Total net debt	(1,281,708.7)	(1,378,559.7)	(1,193,637.8)	(1,278,572.2)

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

Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued) Year ended 31 March 2005

10. Share capital

Authorised, allotted, called up and fully paid

	2005 £'000	2004 £'000
Ordinary shares of £1 each	50.0	50.0

11. Profit and loss account

	2005 £'000	2004 £'000
Opening balance	443.0	298.7
Profit for the financial year	18.3	144.3
Closing balance	461.3	443.0

12. Reconciliation of movement in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	18.3	144.3
Opening shareholders' funds	493.0	348.7
Closing shareholders' funds	511.3	493.0

13. Related party disclosures

The Company has taken advantage of the exemption of Financial Reporting Standard 8 (FRS 8) Related Party Transactions relating to ninety per cent subsidiary undertakings. Accordingly the Company has not disclosed any transactions with other group companies.

14. Ultimate parent undertaking

The ultimate parent undertaking for which group accounts are prepared is Severn Trent Plc which is registered in England and Wales. The immediate parent undertaking is Severn Trent Water Limited which is registered in England and Wales. Copies of the group accounts are available from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.