

Company number 2914860

Severn Trent Water Utilities Finance Plc

Financial Statements

Year ended 31 March 2006



Severn Trent Water Utilities Finance Plc

Year ended 31 March 2006

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Severn Trent Water Utilities Finance Plc

Company information

Company number	2914860
Directors	T E Jack A P Wray (Appointed 22 August 2005)
Secretary	C J Mottram
Registered office	2297 Coventry Road Birmingham B26 3PU
Bankers	Lloyds TSB Bank PLC 125 Colmore Row Birmingham B3 2DT
Solicitors	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS
Auditors	Deloitte & Touche LLP Chartered Accountants Birmingham

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 2006.

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 £31.9 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.

Financial risk management objectives and policies

The main risks faced by the company relate to material external changes to current arrangements. In the debt markets, factors such as borrowing restrictions or changes to credit ratings could mean we will be forced to pay too high a price for that finance. In terms of our borrowings a significant proportion is subject to variable interest rates and any increase in those rates could substantially increase our borrowing costs. In addition we undertake financial transactions with a number of institutions and we could suffer a financial loss if any of those counterparties were to fail.

Future developments

The company will continue in operation for the foreseeable future.

Results and dividends

The profit for the year, after taxation, amounted to £17,200 (2005: £18,300) and the Directors do not recommend payment of a dividend (2005: £nil).

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. No trade creditors were outstanding at year end (2005: £nil).

Directors and their interests

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

P P Davies	(Resigned 22 August 2005)
T E Jack	
M R Wilson	(Resigned 31 December 2005)
A P Wray	(Appointed 22 August 2005)

Severn Trent Water Utilities Finance Plc

Directors' report (continued)

Directors and their interests (continued)

None of the Directors held any interests 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 A P Wray 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.

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 2005 Ordinary shares of 65 ^{5/19} p each	31 March 2006 Ordinary shares of 65 ^{5/19} p each
T E Jack	107	165

Share Options under Approved Schemes

	1 April 2005	Exercised during year	Cancelled during year	Granted during year	31 March 2006
T E Jack	2,981	(1,733)	-	-	1,248

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 13 August 2003, 15 December 2004 and 5 September 2005. 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.

Severn Trent Water Utilities Finance Plc

Directors' report (continued)

Directors and their interests (continued)

The individual interests, which represent the maximum aggregate number of shares to which Mr Jack could become entitled, are as follows:

	1 April 2005							31 March 2006
	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	25,852	(9,243)	1029.75	95.2	-	6,866	1017	23,475

The performance period for allocations of shares made in 2003 ended on 31 March 2006. 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 not entitled to an award.

Directors' responsibilities

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Directors' Indemnities

The company's Articles of Association provide that directors of the company shall be indemnified by the company against any costs incurred by them in carrying out their duties including defending any proceedings arising out of their positions as directors in which they are acquitted or judgement is given in their favour or relief from any liability is granted to them by the court.

Auditors

Deloitte & Touche LLP has indicated its willingness to continue as auditors and a resolution to reappoint them will be proposed at the next AGM.

On behalf of the board



A P Wray
Director

30 October 2006

Severn Trent Water Utilities Finance Plc

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985.

In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 of Severn Trent Water Utilities Finance Plc. for the year ended 31 March 2006 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

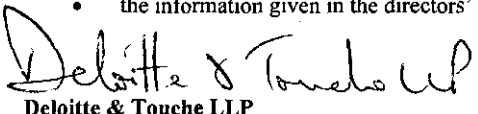
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.


Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
30 October 2006

Severn Trent Water Utilities Finance Plc

Profit and loss account

Year ended 31 March 2006

	Notes	2006 £'000	2005 £'000
Operating costs	3	(1.3)	(1.2)
Operating loss		<u>(1.3)</u>	<u>(1.2)</u>
Net interest receivable	4	25.8	27.3
Profit on ordinary activities before taxation		<u>24.5</u>	<u>26.1</u>
Tax on profit on ordinary activities	5	(7.3)	(7.8)
Retained profit for the financial year	11	<u>17.2</u>	<u>18.3</u>

All results are derived from continuing activities.

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

The accompanying notes are an integral part of this profit and loss account.

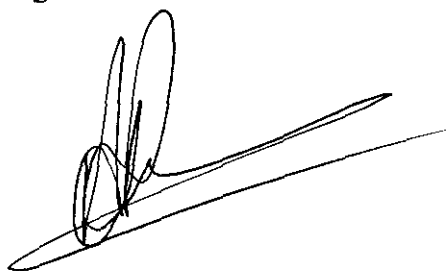
Severn Trent Water Utilities Finance Plc

Balance sheet

As at 31 March 2006

	Notes	2006 £'000	2005 £'000
Current assets			
Debtors: amounts falling due within one year	6	37,273.6	44,861.2
Debtors: amounts falling due after more than one year	6	1,301,742.9	1,272,490.2
Cash at bank and in hand		531.5	514.0
		<u>1,339,548.0</u>	<u>1,317,865.4</u>
Creditors: amounts falling due within one year	7	(37,276.6)	(44,863.9)
Net current assets		<u>1,302,271.4</u>	<u>1,273,001.5</u>
Creditors: amounts falling due after more than one year	8	(1,301,742.9)	(1,272,490.2)
Net assets		<u>528.5</u>	<u>511.3</u>
Capital and reserves			
Share capital	10	50.0	50.0
Profit and loss account	11	478.5	461.3
Shareholders' funds	12	<u>528.5</u>	<u>511.3</u>

Signed on behalf of the Board who approved the accounts on 30 October 2006.



A P Wray
Director

Severn Trent Water Utilities Finance Plc

Notes to the financial statements

Year ended 31 March 2006

1. Accounting policies

a. Accounting convention

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

Where relevant, the requirements of all new Accounting Standards and pronouncements, whose implementation dates were during the year, have been adopted.

b. Current and Deferred taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the company has an obligation to pay more tax in the future or a right to pay less tax in the future. Material deferred taxation balances arising are discounted by applying an appropriate risk free discount rate.

c. Capital instruments

The financial costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the cost of issue and any discount to face value arising on issue, or any premium arising on maturity.

d. 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 (2005: nil).

None of the directors received any fees or emoluments for their services to the Company (2005: £ nil).

Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued) Year ended 31 March 2006

3. Operating loss

This is stated after charging audit fees payable to Deloitte & Touche LLP of £1,292 (2005: £1,234 PricewaterhouseCoopers LLP).

4. Net interest receivable

	2006 £'000	2005 £'000
Interest paid on loans	(71,572.6)	(68,644.4)
Interest receivable and similar income	71,598.4	68,671.7
	<u>25.8</u>	<u>27.3</u>

Included within the interest receivable is £71,572,592 (2005: £68,644,389) due from the immediate parent undertaking.

5. Taxation on profit on ordinary activities

	2006 £'000	2005 £'000
Group relief payable current year	7.5	7.8
Group relief prior year	(0.2)	-
Current tax charge	<u>7.3</u>	<u>7.8</u>

The tax assessed for the year is lower than (2005: the same as) the standard rate of Corporation tax in the United Kingdom (30%). The differences are explained below:

	2006 £'000	2005 £'000
Profit/(loss) on ordinary activities before tax	<u>24.5</u>	<u>26.1</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax of 30% (2005: 30%)	7.4	7.8
Effects of:		
Expenses not deductible for tax purposes	0.1	-
Adjustments to tax charge in respect of prior periods	(0.2)	-
	<u>7.3</u>	<u>7.8</u>

There is no requirement for a provision for deferred taxation at 31 March 2006. The Company's full potential deferred taxation liability at 31 March 2006 was £nil (2005: £nil).

Severn Trent Water Utilities Finance Plc
Year ended 31 March 2006

Notes to the financial statements (continued)

6. Debtors

	2006	2005
	£'000	£'000
Amounts falling due within one year		
Amounts due from parent undertakings	36,977.3	44,564.8
Other debtors	2.2	2.3
Prepayments	294.1	294.1
	<u>37,273.6</u>	<u>44,861.2</u>
Amounts falling due after more than one year	2006	2005
	£'000	£'000
Amounts due from parent undertaking	1,296,771.4	1,267,224.6
Prepayments	4,971.5	5,265.6
	<u>1,301,742.9</u>	<u>1,272,490.2</u>
Total debtors	<u>1,339,016.5</u>	<u>1,317,351.4</u>

7. Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Medium term loans	6,975.0	14,998.1
Amounts due to parent undertaking	3.8	3.8
Other creditors	294.1	294.1
Accruals	30,003.7	29,567.9
	<u>37,276.6</u>	<u>44,863.9</u>

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2006

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

	2006	2005
	£'000	£'000
Guaranteed Bonds 2024 6.125% (Note 9)	298,455.8	298,369.6
Guaranteed Bonds 2029 6.25% (Note 9)	294,795.4	294,570.8
Guaranteed Bonds 2029 6.25% (Note 9)	119,250.9	119,002.8
Medium term loans (Note 9)	584,269.3	555,281.4
Other	4,971.5	5,265.6
	1,301,742.9	1,272,490.2

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 carrying value of the related bonds and amortised at a constant rate over the life of the bond.

	Interest rate	Net Proceeds	Net issue Costs	Nominal value	Unamortised Issue Costs	Carrying Value
	%	£m	£m	£m	£m	£m
Bond 2024	6.125	297,844.0	(2,156.0)	300,000.0	(1,544.2)	298,455.8
Bond 2029	6.25	293,265.0	(6,735.0)	300,000.0	(5,204.6)	294,795.4
Bond 2029	6.25	119,136.5	(5,863.5)	125,000.0	(5,749.1)	119,250.9
Total		710,245.5	(14,754.5)	725,000.0	(12,497.9)	712,502.1

b. Borrowings analysed by maturity dates – repayment terms

	2006	2005
	£'000	£'000
Within one year	6,975.0	14,998.1
Between one and two years	27,533.0	6,975.0
Between two and five years	111,584.6	139,117.6
After more than five years	1,157,653.8	1,121,132.0
	1,303,746.4	1,282,222.7

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2006

9. Loans (continued)

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

	Rate of interest	2006 £'000	2005 £'000
European Medium term loan notes - 2011 - 2028	4.1% - 5.3%	445,151.7	409,188.8
Sterling bonds - 2024 - 2029	6.125% - 6.25%	712,502.1	711,943.2
		<u>1,157,653.8</u>	<u>1,121,132.0</u>

d. Borrowings analysed by interest rate

	Total £'000	Floating interest rate £'000	Fixed interest rate £'000	Weighted average fixed interest rate %	Weighted average period for which interest is fixed Years
Total borrowings at 31 March 2006	<u>1,303,746.4</u>	<u>591,244.3</u>	<u>712,502.1</u>	<u>6.20</u>	<u>21.0</u>
Total borrowings at 31 March 2005	<u>1,282,222.7</u>	<u>570,279.5</u>	<u>711,943.2</u>	<u>6.20</u>	<u>22.0</u>

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.

Severn Trent Water Utilities Finance Plc
Notes to the financial statements (continued)
Year ended 31 March 2006

9. Loans (continued)

	2006	2006	2005	2005
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Cash at bank and in hand	531.5	531.5	514.0	514.0
Borrowings falling due within one year	(6,975.0)	(5,752.8)	(14,998.1)	(15,150.1)
Borrowings falling due after more than one year	(1,296,771.4)	(1,459,399.1)	(1,267,224.6)	(1,363,923.6)
Total net debt	<u>(1,303,214.9)</u>	<u>(1,464,620.4)</u>	<u>(1,281,708.7)</u>	<u>(1,378,559.7)</u>

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.

10. Share capital

Authorised, allotted, called up and fully paid

	Number of shares	£'000
Ordinary shares of £1 each	<u>50,000</u>	<u>50.0</u>

11. Profit and loss account

	2006	2005
	£'000	£'000
Opening balance	461.3	443.0
Profit for the financial year	17.2	18.3
Closing balance	<u>478.5</u>	<u>461.3</u>

12. Reconciliation of movement in shareholders' funds

	2006	2005
	£'000	£'000
Profit for the financial year	17.2	18.3
Opening shareholder's funds	511.3	493.0
Closing shareholder's funds	<u>528.5</u>	<u>511.3</u>

Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued)

Year ended 31 March 2006

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 immediate parent company of this company is Severn Trent Water Limited and the ultimate parent company is Severn Trent Plc, both of which are incorporated in England and Wales. The smallest group into which the results of this company are consolidated is the Severn Trent Water Limited group and largest group into which they are consolidated is the Severn Trent Plc group. Copies of the consolidated accounts can be obtained from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.