

Severn Trent Utilities Finance Plc
(formerly Severn Trent Water Utilities Finance Plc)

Report and financial Statements

Year ended 31 March 2007

Company number 2914860



Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Year ended 31 March 2007

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Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Company information

Company number 2914860

Directors

T E Jack	
R C McPheely	Appointed 1 April 2007
K A A Porritt	Appointed 1 April 2007
P M Senior	Appointed 1 April 2007
A P Wray	

Secretary

C J Mottram	Resigned 31 March 2007
K A A Porritt	Appointed 1 April 2007

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
Four Brindley Place
Birmingham
B1 2HZ

Severn Trent Utilities Finance Plc (formerly 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 2007

Business review and principal activities

The company is a wholly owned subsidiary of Severn Trent Plc and operates as part of the group's Water and Sewerage business

The principal activity of the company is the provision of long term finance for Severn Trent Water Limited. The directors are not aware, at the date of this report of any likely major changes in the company's activities in the next year

During the course of the year the company took out additional loans to the value of £340.2 million on behalf of Severn Trent Water Limited, its immediate parent undertaking

Severn Trent Plc manages its operations on a divisional basis and the company's directors do not believe that further key performance indicators for the company are necessary to enhance the understanding of the development, performance or position of the business. The performance of the Water and Sewerage business, which includes the company, is discussed in Severn Trent Plc's Annual Report (which does not form part of this report)

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 were unable to finance ourselves or be forced to pay too high a price for that finance. In terms of our borrowings a proportion is subject to variable interest rates and any increase in those rates could 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.

The Severn Trent Utilities Finance treasury affairs are managed centrally as part of the Severn Trent plc group and in accordance with its treasury procedures policy and manual statement. The treasury operations primary role is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in interest and (to a lesser extent) currency rates and counterparty credit risk. Its activities are subject to a set of controls commensurate with the magnitude of the borrowings and investments under its management. The Board determines matters of treasury policy and its approval is required for certain treasury transactions.

Results and dividends

The profit for the year, after taxation, amounted to £51,700 (2006: £17,200) and the directors do not recommend payment of a dividend (2006: 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 (2006: nil)

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

Directors and their interests

The directors of the company who served during the year are set out below

T E Jack
A P Wray

Subsequent to the year-end Mr R C McPheely, Mr P M Senior and Mrs K A A Porritt were appointed as directors with effect from 1 April 2007

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

	At 1 April 2006 Number of ordinary shares of 65 ^{5/19} p each	At 6 October 2006 Number of ordinary shares of 65 ^{5/19} p each	At 9 October 2006 Number of ordinary shares of 97 ^{17/19} p each	At 31 March 2007 Number of ordinary shares of 97 ^{17/19} p each
T E Jack	165	165	122	122

During the year, Severn Trent Plc held an Extraordinary General Meeting ("EGM") on 6 October 2006. Following the EGM, Severn Trent Plc's ordinary shares of 65 ^{5/19} p were consolidated into ordinary shares of 97 ^{17/19} p, on 9 October 2006, on the basis of 2 new shares for every 3 held.

Share Options under Approved Schemes

	1 April 2006	Exercised during year	Cancelled during year	Granted during year	31 March 2007
T E Jack	1,248	-	-	-	1,248

Share options were granted and are exercisable 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. Following the consolidation of Severn Trent Plc's ordinary shares, no adjustment was made to options granted under the Severn Trent Sharesave Scheme and options will be exercised over ordinary shares of 97 ^{17/19} p each.

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Directors' report (continued)

Directors and their interests (continued)

Mr Jack has further interests in Severn Trent Plc ordinary shares of 97 ^{17/19} p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 15 December 2004, 5 September 2005 and 19 June 2006. 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 a selection of FTSE 100 'high yield' stocks 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:

	1 April 2006							31 March 2007
	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 97 ^{17/19} p each
T E Jack	23,475	-	-	-	(9,012)	5,449	1,178	19,912

Following the consolidation of Severn Trent Plc's ordinary shares no adjustment was made to the shares awarded under the LTIP. LTIP awards will vest over ordinary shares of 97 ^{17/19} p each.

The performance period for allocations of shares made in 2004 ended on 31 March 2007. 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. The 2004 contingent awards of shares are included in the table above.

Post balance sheet event

With effect from 20 June 2007 the company changed its name to Severn Trent Utilities Finance Plc.

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.

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

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 (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, 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.

Statement on information given to auditors

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.

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


K A A Porritt

Director

20 July 2007



Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

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

We have audited the financial statements of Severn Trent Utilities Finance plc (formerly Severn Trent Water Utilities Finance plc) for the year ended 31 March 2007 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 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 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 consider the implications for our report if we become aware of any apparent misstatements within it.

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.

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Independent auditors' report to the shareholders of Severn Trent Utilities Finance Plc (continued)

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 2007 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

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Birmingham, United Kingdom

17 July 2007

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Profit and loss account

Year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Operating costs	3	-	(1 3)
Operating loss		-	(1 3)
Net interest receivable	4	73.7	25 8
Profit on ordinary activities before taxation		73.7	24 5
Tax on profit on ordinary activities	5	(22.0)	(7 3)
Retained profit for the financial year	11	51.7	17 2

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 Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

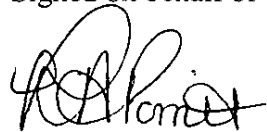
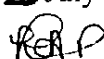
Balance sheet

As at 31 March 2007

	Notes	2007 £'000	2006 £'000
Current assets			
Debtors amounts falling due within one year	6	65,051.0	37,273 6
Debtors amounts falling due after more than one year	6	1,642,317.0	1,301,742 9
Cash at bank and in hand		597.7	531 5
		<u>1,707,965.7</u>	<u>1,339,548 0</u>
Creditors: amounts falling due within one year	7	(65,068.5)	(37,276 6)
Net current assets		1,642,897.2	1,302,271 4
Creditors: amounts falling due after more than one year	8	(1,642,317.0)	(1,301,742 9)
Net assets		580.2	528 5
Capital and reserves			
Share capital	10	50.0	50 0
Profit and loss account	11	530.2	478 5
Shareholders' funds	12	580.2	528 5

The accompanying notes are an integral part of this balance sheet

Signed on behalf of the Board who approved the accounts on **20** July 2007

K A A Porritt
Director

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Notes to the financial statements
Year ended 31 March 2007

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

In preparing these accounts the company has adopted for the first time the requirements of FRS 26 – ‘Financial Instruments – measurement’

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 substantively 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)

e. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate

2. Directors and employees

The average number of employees during the year was nil (2006 nil)

None of the directors received any fees or emoluments for their services to the company (2006 £ nil)

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Notes to the financial statements (continued)
Year ended 31 March 2007

3. Operating loss

This is stated after charging

During the year Deloitte and Touche LLP earned the following fees

	2007	2006
	£	£
Fees payable to the company's auditors for the audit of the company's annual accounts	1,292	1,292
Fees payable to the company's auditors and their associates for other services to the company		
The audit of the company's subsidiaries pursuant to legislation	-	-
Total audit fees	1,292	1,292
	2007	2006
	£	£
Other services pursuant to legislation		
Other services	-	-
Total non-audit fees	-	-

The 2007 audit fee has been paid by the parent undertaking on behalf of the company

4. Net interest receivable

	2007	2006
	£'000	£'000
Interest paid on loans	(102,842.9)	(71,572.6)
Interest receivable and similar income	102,916.6	71,598.4
	73.7	25.8

Included within the interest receivable is £102,842,912 (2006 £71,572,592) due from the immediate parent undertaking

5. Taxation on profit on ordinary activities

	2007	2006
	£'000	£'000
Group relief payable current year	22.1	7.5
Group relief prior year	(0.1)	(0.2)
Current tax charge	22.0	7.3

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Year ended 31 March 2007
Notes to the financial statements (continued)

The tax assessed for the year is lower than (2006 lower than) the standard rate of corporation tax in the United Kingdom (30%) The differences are explained below

	2007	2006
	£'000	£'000
Profit on ordinary activities before tax	73.7	24.5
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2006 30%)	22.1	7.4
Effects of		
Expenses not deductible for tax purposes	-	0.1
Adjustments to tax charge in respect of prior periods	(0.1)	(0.2)
	22.0	7.3

There is no requirement for a provision for deferred taxation at 31 March 2007 The company's full potential deferred taxation liability at 31 March 2007 was £nil (2006 £nil)

6. Debtors

	2007	2006
	£'000	£'000
Amounts falling due within one year		
Amounts due from parent undertakings	64,754.4	36,977.3
Other debtors	2.5	2.2
Prepayments	294.1	294.1
	65,051.0	37,273.6
Amounts falling due after more than one year		
	2007	2006
	£'000	£'000
Amounts due from parent undertaking	1,637,639.6	1,296,771.4
Prepayments	4,677.4	4,971.5
	1,642,317.0	1,301,742.9
Total debtors	1,707,368.0	1,339,016.5

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Notes to the financial statements (continued)
Year ended 31 March 2007

7. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Medium term loans	33,475.8	6,975 0
Amounts due to parent undertaking	20.0	3 8
Other creditors	294.1	294 1
Accruals	31,278.6	30,003 7
	<u>65,068.5</u>	<u>37,276 6</u>

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

	2007 £'000	2006 £'000
Guaranteed Bonds 2024 6 125% (Note 9)	298,542.1	298,455 8
Guaranteed Bonds 2029 6 25% (Note 9)	295,019.8	294,795 4
Guaranteed Bonds 2029 6 25% (Note 9)	119,499.1	119,250 9
Medium term loans (Note 9)	924,578.6	584,269 3
Other	4,677.4	4,971 5
	<u>1,642,317.0</u>	<u>1,301,742 9</u>

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 £m	Net issue Costs £m	Nominal value £m	Unamortised Issue Costs £m	Carrying Value £m
Bond 2024	6 125	297,844 0	(2,156 0)	300,000 0	1,457 9	298,542 1
Bond 2029	6 25	293,265 0	(6,735 0)	300,000 0	4,980 2	295,019 8
Bond 2029	6 25	119,136 5	(5,863.5)	125,000 0	5,500 9	119,499 1
Total		<u>710,245 5</u>	<u>(14,754 5)</u>	<u>725,000 0</u>	<u>11,939 0</u>	<u>713,061 0</u>

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)
Notes to the financial statements (continued)
Year ended 31 March 2007

9. Loans (continued)

b. Borrowings analysed by maturity dates – repayment terms

	2007	2006
	£'000	£'000
Within one year	33,475.8	6,975 0
Between one and two years	90,090.9	27,533 0
Between two and five years	38,138.4	111,584 6
After more than five years	1,509,410.3	1,157,653 8
	<u>1,671,115.4</u>	<u>1,303,746 4</u>

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

	Rate of interest	2007	2006
		£'000	£'000
European Medium term loan notes - 2012 - 2057	1.4% - 6.1%	796,349.3	445,151 7
Sterling bonds - 2024 - 2029	6.1% - 6.3%	713,061.0	712,502 1
		<u>1,509,410.3</u>	<u>1,157,653 8</u>

d. Borrowings analysed by interest rate

	Total	Floating interest rate	Fixed interest rate	Weighted average fixed interest rate %	Weighted average period for which interest is fixed Years
	£'000	£'000	£'000		
Total borrowings at 31 March 2007	<u>1,671,115.4</u>	<u>958,054.4</u>	<u>713,061.0</u>	<u>6.20</u>	<u>20.0</u>
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>

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Notes to the financial statements (continued)

Year ended 31 March 2007

9. Loans (continued)

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.

	2007	2007	2006	2006
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Cash at bank and in hand	597.7	597.7	531.5	531.5
Short term debtors and creditors	33,458.3	33,458.3	6,972.0	6,972.0
Borrowings falling due within one year	(33,475.8)	(21,562.7)	(6,975.0)	(5,752.8)
Borrowings falling due after more than one year	(1,637,639.6)	(1,511,756.1)	(1,296,771.4)	(1,459,399.1)
Total net debt	<u>(1,637,059.4)</u>	<u>(1,499,262.8)</u>	<u>(1,296,242.9)</u>	<u>(1,457,648.4)</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

	2007	2006
	£'000	£'000
Opening balance	478.5	461.3
Profit for the financial year	51.7	17.2
Closing balance	<u>530.2</u>	<u>478.5</u>

Severn Trent Utilities Finance Plc (formerly Severn Trent Water Utilities Finance Plc)

Notes to the financial statements (continued)

Year ended 31 March 2007

12. Reconciliation of movement in shareholders' funds

	2007	2006
	£'000	£'000
Profit for the financial year	51.7	17.2
Opening shareholder's funds	528.5	511.3
Closing shareholder's funds	580.2	528.5

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.