

# **Severn Trent Utilities Finance Plc**

## **Report and financial statements for the year ended 31 March 2011**

Company number 2914860

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# **Severn Trent Utilities Finance Plc**

## **Report and Financial Statements for the year ended 31 March 2011**

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# **Severn Trent Utilities Finance Plc**

## **Company information**

<b>Company number</b>	2914860
<b>Directors</b>	R C McPheely K A A Porritt P M Senior A P Wray
<b>Secretary</b>	M Armitage
<b>Registered office</b>	Severn Trent Centre 2 St John's Street Coventry CV1 2LZ
<b>Bankers</b>	Lloyds TSB Bank Plc 125 Colmore Row Birmingham B3 2DT
<b>Solicitors</b>	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS
<b>Auditor</b>	Deloitte LLP Chartered Accountants Four Brindleyplace Birmingham B1 2HZ

# Severn Trent Utilities Finance Plc

## Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2011

### Business review and principal activity

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

The principal activity of the company is the provision of long term finance for its parent, Severn Trent Water Limited. There have not been any significant changes in the company's principal activity in the year under review.

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 did not take out any loans (2010: £nil) on behalf of Severn Trent Water Limited.

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 Waterbusiness, which includes this company, is discussed in Severn Trent Plc's Annual Report and Accounts (which does not form part of this report).

### Principal risks and uncertainties

#### *Treasury management*

The Severn Trent group manages its treasury operations on a group basis. Financial risk management is performed by Severn Trent's Group Treasury department. This includes assessment and mitigation of price risk, credit risk, liquidity risk and interest rate cash flow risk. The group's treasury management policies and operations are discussed in Severn Trent Plc's Annual Report and Accounts (which does not form part of this report).

#### **Environment**

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. The company operates in accordance with the group policies of Severn Trent Plc which are described in the group's Annual Report and Accounts (which does not form part of this report).

### Results and dividends

The company's loss for the financial year after taxation was £11.5m (2010: £nil). The directors do not propose a dividend, (2010: £nil).

### Financial instruments

During the year the company has recognised a gain of £64.1m (2010: £nil) on the measurement of a cross currency swap to fair value at 31 March 2011. The cross currency swap is not hedge accounted but is used as an economic hedge within the Severn Trent group.

### Directors

The directors who served during the year are shown on page 1.

No emoluments were paid by the company in respect of the services of the directors to the company. Their emoluments are paid by the parent company.

### Research and development

The company does not have research and development activities.

### Employees

The company does not have any employees.

# **Severn Trent Utilities Finance Plc**

## **Directors' report**

### **Directors' responsibilities statement**

The directors are responsible for preparing the Directors report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

### **Going Concern**

The directors have considered the financial position and future prospects of the company. The directors believe that the company has access to sufficient resources to manage its business risks successfully despite the current uncertain economic outlook. In particular, Severn Trent Water Limited acts as guarantor in relation to the company's borrowings.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **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 judgment is given in their favour or relief from any liability is granted to them by the court.

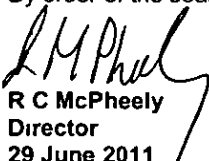
### **Auditor and disclosure of information to auditor**

In the case of each of the persons who are directors of the company at the date when this report is approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Relevant audit information means information needed by the company's auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the board

  
**R C McPheely**  
Director  
29 June 2011

## **Independent auditor's report to the members of Severn Trent Utilities Finance Plc**

We have audited the financial statements of Severn Trent Utilities Finance Plc for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations required for our audit.



Christopher Robertson (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP,  
Chartered Accountants and Statutory Auditor,  
Birmingham,  
United Kingdom  
29 June 2011

## Severn Trent Utilities Finance Plc

### Profit and loss account For the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Operating profit	2	-	0.1
<b>Operating profit</b>		-	0.1
Gains on financial instruments	4	64.1	-
Net finance costs	5	(81.8)	(0.1)
<b>Loss before tax</b>		(17.7)	-
Taxation on loss on ordinary activities	6	6.2	-
<b>Loss for the financial year</b>		(11.5)	-

All results are from continuing operations

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

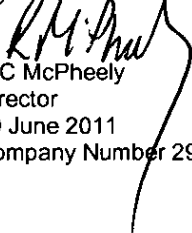
Movements in shareholders' funds are disclosed in note 14

# Severn Trent Utilities Finance Plc

## Balance sheet As at 31 March 2011

	Notes	2011 £m	2010 £m
<b>Fixed assets</b>			
Debtors amounts falling due in more than one year	7	3,060 6	2,932 5
Derivative financial assets	8	64 1	-
		<b>3,124 7</b>	<b>2,932 5</b>
<b>Current assets</b>			
Debtors amounts falling due in less than one year	7	71 6	42 6
		<b>71 6</b>	<b>42 6</b>
Creditors amounts falling due within one year	9	(47 8)	(41 7)
<b>Net current assets</b>		<b>23 8</b>	<b>0 9</b>
<b>Total assets less current liabilities</b>		<b>3,148 5</b>	<b>2,933 4</b>
Creditors amounts falling due after more than one year	10	(3,142 4)	(2,932 5)
Deferred tax	11	(16 7)	-
<b>Net (liabilities)/assets</b>		<b>(10 6)</b>	<b>0 9</b>
<b>Capital and reserves</b>			
Share capital	12	-	-
Share premium	13	-	-
Profit and loss account	13	(10 6)	0 9
<b>Total shareholders' (deficit)/funds</b>		<b>(10 6)</b>	<b>0 9</b>

The financial statements were approved by the board of directors and authorised for issue on 29 June 2011. They were signed on its behalf by

  
R C McPheely  
Director  
29 June 2011  
Company Number 2914860



# **Severn Trent Utilities Finance Plc**

## **Notes to the financial statements**

### **1. Accounting policies**

#### **a) Accounting convention**

The financial statements have been prepared on a going concern basis (see Directors' report) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value and, in accordance with applicable United Kingdom Accounting Standards, comply with the requirements of the United Kingdom Companies Act 2006 ('the Act'). The principal accounting policies are set out below

#### **b) Basis of preparation**

The company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated accounts of Severn Trent Plc

The company has taken advantage of the exemption of FRS 1 'Cash flow statements' and not presented a cash flow statement

The company has also taken advantage of the exemption to providing the disclosure required by FRS 29 'Financial instruments disclosures' not to present financial instrument disclosures for the company

#### **c) Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date

Exchange differences are included in the profit and loss account

#### **d) Current and deferred taxation**

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates 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. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax laws enacted or substantively enacted by the balance sheet date

#### **e) Financial instruments**

##### **i) Financial assets**

Financial assets are classified into the following specified categories

- At fair value through profit or loss,
- Held to maturity investments,
- Available for sale financial assets, and
- Loans and receivables

##### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is so designated or if it is held for trading. Derivative financial assets that are not designated and effective as hedging instruments are classified as held for trading. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in gains/losses on financial instruments in the income statement. Fair value is determined using the methodology described in note 8. Interest receivable in respect of derivative financial assets is included in net interest payable

##### *Held to maturity investments*

Where the group has the ability and intent to hold an investment to maturity the financial asset is classified as held to maturity. Such financial assets are measured at amortised cost using the effective interest rate method, with any gains or losses being recognised in the profit and loss account

# **Severn Trent Utilities Finance Plc**

## **Notes to the financial statements**

### **Accounting policies (continued)**

#### *Available for sale financial assets*

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as available for sale are measured at fair value, with gains or losses recognised in equity. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in equity is taken to the income statement. Where there is no active market in the investments and the fair value cannot be measured reliably, the investments are held at cost.

#### *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. Such assets are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method unless there is objective evidence that the asset is impaired, where it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense.

#### **ii) Financial liabilities**

Financial liabilities are classified as either

- financial liabilities at fair value through profit or loss, or
- other financial liabilities

#### *Financial liabilities at fair value through profit or loss*

A financial liability is classified at fair value through profit or loss if it is so designated or if it is held for trading. Derivative financial liabilities that are not designated and effective as hedging instruments are classified as held for trading. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in gains/losses on financial instruments in the income statement. Fair value is determined using the methodology described in note 8. Interest payable in respect of derivative financial liabilities is included in interest payable.

#### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially recognised at fair value less transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

# Severn Trent Utilities Finance Plc

## Notes to the financial statements

### 2. Operating profit

	2011 £m	2010 £m
Operating profit is stated after crediting Foreign exchange gains	-	0.1
<b>Total operating profit</b>	<b>-</b>	<b>0.1</b>

Fees payable to the company's auditor for the audit of the company's annual accounts of £8,000 (2010 £8,000) have been paid by the parent undertaking on behalf of the company

There were no fees payable to the auditor of the company for non-audit services

The average number of employees during the year was nil (2010 nil)

### 3. Directors' remuneration

The emoluments of R C McPheely, K A A Porritt, P M Senior, A P Wray are paid by the parent company as their services to Severn Trent Utilities Finance Plc are incidental to their services provided to other group companies

### 4. Gains on financial instruments

During the year the company has recognised a gain of £64.1m (2010 £nil) on the measurement of a cross currency swap to fair value at 31 March 2011. The cross currency swap is not hedge accounted but is used as an economic hedge within the Severn Trent group

In 2008 the company borrowed €700m and entered into a cross currency swap to convert the proceeds to sterling, which were then loaned to Severn Trent Water Limited. In previous years the borrowings and loan have been treated as currency liabilities and assets, and the swap has not been recognised in this company's financial statements. These errors have been corrected in the current year profit and loss account. The table below shows the effect of the prior year error on the loss before tax in the current and prior year

	2011 £m	2010 £m
Amounts reported		
- gains on financial instruments	64.1	-
- exchange gain on financial instruments	(81.8)	-
Reported loss before tax	(17.7)	-
Amounts that would have been reported had the error not arisen		
- loss on financial instruments	(19.2)	(10.1)
- exchange gain on financial instruments	5.0	24.3
(Loss)/profit before tax	(14.2)	14.2
Effect of the prior year error on loss before tax	(3.5)	(14.2)

# Severn Trent Utilities Finance Plc

## Notes to the financial statements

### 5. Net finance costs

	2011 £m	2010 £m
Interest payable and similar charges		
Interest payable on bonds and medium term notes	209 5	157 3
Exchange loss on financial instruments	81 8	-
<b>Interest payable</b>	<b>291 3</b>	<b>157 3</b>
Interest receivable and similar income		
Interest receivable from group undertakings	(209 5)	(157 2)
<b>Interest receivable</b>	<b>(209 5)</b>	<b>(157 2)</b>
<b>Net finance costs</b>	<b>81 8</b>	<b>0 1</b>

### 6. Tax on loss on ordinary activities

	2011 £m	2010 £m
<b>Current tax</b>		
Current year at 28% (2010 28%)	(22 9)	-
<b>Total current tax</b>	<b>(22 9)</b>	<b>-</b>
<b>Deferred tax</b>		
Origination of timing differences - current year	16 7	-
<b>Total deferred tax</b>	<b>16 7</b>	<b>-</b>
<b>Tax on loss on ordinary activities</b>	<b>(6 2)</b>	<b>-</b>

The current tax assessed for the year is higher (2010 lower) than the standard rate of corporation tax in the UK (28%) (2010 28%) The differences are reconciled below

	2011 £m	2010 £m
<b>Loss on ordinary activities before tax</b>	<b>(17 7)</b>	<b>-</b>
Tax on loss on ordinary activities at standard UK corporation rate of 28% (2010 28%)	(4 9)	-
Effects of		
Timing differences	(16 7)	-
Impact of change of tax rate	(1 3)	-
<b>Current tax credit for the year</b>	<b>(22 9)</b>	<b>-</b>

The company earns profits primarily in the UK Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 28%

On 23 March 2011 the Government announced that the main rate of Corporation Tax would reduce to 26% with effect from 1 April 2011, with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014 These tax rate reductions were substantively enacted on 29 March 2011 and therefore have been reflected in the financial statements for the purpose of calculating deferred tax assets and liabilities

# Severn Trent Utilities Finance Plc

## Notes to the financial statements

### 7. Debtors

	2011 £m	2010 £m
<b>Amounts falling due within one year</b>		
Amounts owed by group undertakings	48 7	40 8
Corporation tax recoverable	22 9	-
Prepayments and accrued income	-	1 8
	<b>71 6</b>	<b>42 6</b>
<b>Amounts falling due after one year</b>		
Amounts owed by group undertakings	3,060 6	2,923 3
Prepayments and accrued income	-	9 2
	<b>3,060 6</b>	<b>2,932 5</b>

### 8. Derivative Financial Instruments

	2011 £m	2010 £m
<b>Derivative financial assets</b>		
Cross currency swap	64 1	-

Cross currency swaps are valued by reference to quoted exchange rates at the balance sheet date and yield curves derived from quoted interest rates matching the maturities of the contracts

The company has taken advantage of the exemption to providing the disclosure required by FRS 29 'Financial instruments disclosures' not to present financial instrument disclosures for the company

### 9. Creditors. Amounts falling due within one year

	2011 £m	2010 £m
Medium term notes	7 5	-
Other loans	-	1 9
Borrowings	7 5	1 9
Accruals and deferred income	40 3	39 8
<b>Total</b>	<b>47 8</b>	<b>41 7</b>

# Severn Trent Utilities Finance Plc

## Notes to the financial statements

### 10. Creditors. Amounts falling due after one year

	2011 £m	2010 £m
Guaranteed bonds 2024	295 1	294 7
Guaranteed bonds 2029	295 9	295 7
Guaranteed bonds 2029	121 2	121 0
Medium term notes	2,430 2	2,211 9
Other loans	-	9 2
<b>Borrowings</b>	<b>3,142 4</b>	<b>2,932 5</b>
<b>Total</b>	<b>3,142 4</b>	<b>2,932 5</b>

Included in the above are the following amounts due after more than five years

	Interest rate %	Nominal value £m	2011 Carrying value £m
Guaranteed bond 2024	6 125	300 0	295 1
Guaranteed bond 2029	6 250	300 0	295 9
Guaranteed bond 2029	6 250	125 0	121 2
Medium term loan notes - Fixed	2 605-6 000	432 6	429 1
Medium term loan notes - Index Linked	1 399-3 992	950 8	951 5
			<b>2,092 8</b>
Weighted Average Interest Rate %	4 187		
Weighted Average Index Linked Interest Rate %	1 951		

	Interest rate %	Nominal value £m	2010 Carrying value £m
Guaranteed bond 2024	6 125	300 0	294 7
Guaranteed bond 2029	6 250	300 0	295 7
Guaranteed bond 2029	6 250	125 0	121 0
Medium term loan notes - Fixed	2 605-6 000	983 5	968 6
Medium term loan notes - Index Linked	1 399-3 992	907 8	908 6
			<b>2,588 6</b>
Weighted Average Interest Rate %	4 546		
Weighted Average Index Linked Interest Rate %	1 952		

Some of the company's debt is index-linked, that is its cost is linked to changes in the Retail Price Index (RPI). The principal is revalued at fixed intervals and is linked to movements in the RPI. Interest payments are made biannually based on the revalued amount.

# Severn Trent Utilities Finance Plc

## Notes to the financial statements

### 11. Deferred tax

	2011 £m
As at 1 April 2010	-
Origination of timing differences charged to profit and loss	16.7
As at 31 March 2011	16.7

The deferred tax liability has arisen due to the recognition of a cross currency swap at fair value

### 12. Called up share capital

	2011 £m	2010 £m
Allotted called up and fully paid 50,000 ordinary shares of £1 each	-	-

### 13. Reserves

	2011 £m
At 1 April 2010	0.9
Loss for the financial period	(11.5)
At 31 March 2011	(10.6)

### 14 Reconciliation of movement in shareholders' deficit

	2011 £m	2010 £m
Loss for the financial year	(11.5)	-
Net reduction to shareholders' deficit	(11.5)	-
Opening shareholders' funds	0.9	0.9
Closing shareholders' (deficit)/funds	(10.6)	0.9

### 15 Related party transactions

There have been no transactions with directors of the company over the last year

In accordance with the exemption allowed by FRS 8 'Related party disclosures', no disclosure is made of transactions with other member companies which are consolidated into the Severn Trent Plc group

## **Severn Trent Utilities Finance Plc**

### **Notes to the financial statements**

#### **16. Ultimate parent undertaking**

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the largest group to consolidate these financial statements. Severn Trent Plc is registered at Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ. The controlling party of the smallest group to consolidate these financial statements is Severn Trent Water Limited.

Copies of the Severn Trent Plc and Severn Trent Water Limited consolidated financial statements can be obtained from the Company Secretary at Severn Trent Plc, Severn Trent Centre PO Box 5309, Coventry CV3 9FH.