

**Company number 2914860**

**Severn Trent Water Utilities Finance Plc**

**Financial Statements**

**Year ended 31 March 2003**



# **Severn Trent Water Utilities Finance Plc**

**Year ended 31 March 2003**

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# **Severn Trent Water Utilities Finance Plc**

## **Company information**

**Company number:** 2914860

**Registered office:** 2297 Coventry Road  
Birmingham  
B26 3PU

**Auditors:** PricewaterhouseCoopers LLP  
Temple Court  
35 Bull Street  
Birmingham  
B4 6JT

# **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 2003.

## **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 £68.6 million on behalf of Severn Trent Water Limited, its immediate parent undertaking.

A review of the immediate parent undertakings 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 results for the year are shown on page 7 and the Directors do not recommend payment of a dividend (2002: £nil).

## **Directors and their interests**

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

T E Jack  
A S Perelman  
R M Walker

Neither Director had any interest in the share capital of the Company.

Neither Director 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 Walker is a Director of Severn Trent Water Limited, the Company's immediate parent undertaking and Severn Trent Plc, the ultimate parent undertaking. Mr Perelman is a Director of Severn Trent Plc. Details of their 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)

The interests of Mr T E Jack in the share capital of 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 2002 Ordinary Shares of 65 <sup>5/19</sup> p each	31 March 2003 Ordinary Shares of 65 <sup>5/19</sup> p each
T E Jack	-	40

#### Share Options under Approved Schemes

	1 April 2002	Exercised during year	Cancelled during year	Granted during year	31 March 2003
T E Jack	1,733	-	-	-	1,733

Mr T E Jack has further interests in Severn Trent Plc ordinary shares of 65 <sup>5/19</sup> p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 30 August 2001 and 24 September 2002. 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 criterion have been satisfied. The performance criteria for the 2001 and 2002 awards are based on a combination of Total Shareholder Return 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 2002 Number of Ordinary shares of 65 <sup>5/19</sup> p each	Awards lapsed during year	Awarded during year	Market price at time of award (p)	31 March 2003 Number of Ordinary shares of 65 <sup>5/19</sup> p each
T E Jack	7,142	-	9,243	695	16,385

No awards vested during the year, consequently there has been no gain on vesting (2002: £nil).

No further awards have been made under the Plan as at 21 July 2003.

# **Severn Trent Water Utilities Finance Plc**

## **Directors' report (continued)**

### **Statement of Directors' responsibilities**

The Directors are required by UK company law to prepare financial statements for each financial year that 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.

The Directors are responsible for keeping proper accounting records that 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 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.

The Directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained in note 1 to the financial statements, 'Principal accounting policies'. Reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2003. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

### **Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors will be put to the Annual General Meeting.

### **On behalf of the board**



**A S Perelman**  
**Director**

**21 July 2003**

## **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.

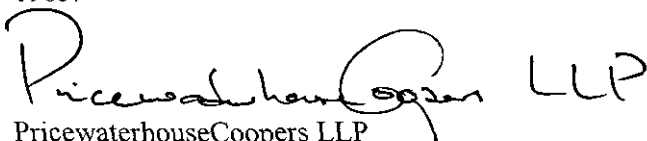
#### **Basis of audit opinion**

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 2003 and of its loss 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 July 2003

# Severn Trent Water Utilities Finance Plc

## Profit and loss account

Year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Operating costs	3	(1.0)	-
<b>Operating loss</b>		<u>(1.0)</u>	<u>-</u>
Net interest (payable) / receivable	4	(26.6)	271.6
<b>(Loss) / profit on ordinary activities before taxation</b>		<u>(27.6)</u>	<u>271.6</u>
Tax on profit on ordinary activities	5	8.4	(82.0)
<b>Net (loss) / profit transferred to reserves</b>	11	<u>(19.2)</u>	<u>189.6</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 2003

	Notes	2003 £'000	2002 £'000
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	90,879.0	99,023.1
Debtors: amounts falling due after more than one year	6	935,403.1	930,696.0
Cash at bank and in hand		292.3	402.8
		<u>1,026,574.4</u>	<u>1,030,121.9</u>
<b>Creditors: amounts falling due within one year</b>	7	<u>(90,822.6)</u>	<u>(99,058.0)</u>
<b>Net current assets</b>		<u>935,751.8</u>	<u>931,063.9</u>
<b>Creditors: amounts falling due after more than one year</b>	8	<u>(935,403.1)</u>	<u>(930,696.0)</u>
<b>Net assets</b>		<u><u>348.7</u></u>	<u><u>367.9</u></u>
<b>Capital and reserves</b>			
Share capital	10	50.0	50.0
Profit and loss account	11	298.7	317.9
<b>Shareholders' funds</b>	12	<u><u>348.7</u></u>	<u><u>367.9</u></u>

Signed on behalf of the Board who approved the accounts on 21 July 2003.



**A S Perelman**  
Director

# **Severn Trent Water Utilities Finance Plc**

## **Notes to the financial statements**

**Year ended 31 March 2003**

### **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**

Deferred taxation is fully provided for in respect of all timing differences between the treatment of certain items for taxation and accounting purposes.

#### **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. Cashflow 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 cashflow statement under the terms of Financial Reporting Standard 1 (Revised).

### **2. Directors and employees**

The average number of employees during the year was nil (2002: nil).

None of the directors received any fees or emoluments for their services to the Company (2002: £ nil).

# Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued)  
Year ended 31 March 2003

## 3. Operating costs

Profit on ordinary activities before taxation is stated after charging:

Payment of audit fees to PricewaterhouseCoopers LLP £1,000.

## 4. Net interest (payable) / receivable

	2003 £'000	2002 £'000
Interest paid on other loans	(55,199.1)	(54,724.3)
Interest receivable and similar income	55,172.5	54,995.9
	<u>(26.6)</u>	<u>271.6</u>

Included within the interest receivable is £55,085,720 (2002: £54,683,321) due from the immediate parent undertaking.

## 5. Taxation on profit on ordinary activities

	2003 £'000	2002 £'000
Group relief current year at 30% (2002 : 30%)	(8.3)	82.0
Group relief prior year	(0.1)	-
	<u>(8.4)</u>	<u>82.0</u>

The Company's full potential deferred taxation liability at 31 March 2003 was £nil (2002: £nil).

## 6. Debtors

	2003 £'000	2002 £'000
<b>Amounts falling due within one year</b>		
Amounts due from parent undertakings	90,584.4	98,727.8
Other debtors	0.5	1.2
Prepayments	294.1	294.1
	<u>90,879.0</u>	<u>99,023.1</u>

# **Severn Trent Water Utilities Finance Plc**

**Notes to the financial statements (continued)**  
**Year ended 31 March 2003**

## **6. Debtors (continued)**

### **Amounts falling due after more than one year**

Amounts due from parent undertaking	<b>929,549.4</b>	924,548.2
Prepayments	<b>5,853.7</b>	6,147.8
	<b>935,403.1</b>	930,696.0
Total debtors	<b>1,026,281.8</b>	1,029,719.1

## **7. Creditors: amounts falling due within one year**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Medium term loans	<b>64,636.5</b>	73,230.2
Corporation tax payable	-	-
Amounts due to parent undertaking	-	36.1
Other creditors	<b>294.1</b>	294.1
Accruals	<b>25,892.0</b>	25,497.6
	<b>90,822.6</b>	99,058.0

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

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Guaranteed Bonds 2024 6.125% (Note 9)	<b>298,197.1</b>	298,110.9
Guaranteed Bonds 2029 6.25% (Note 9)	<b>294,121.8</b>	293,897.3
Guaranteed Bonds 2029 6.25% (Note 9)	<b>118,506.5</b>	119,293.8
Medium term loans (Note 9)	<b>218,724.0</b>	213,246.2
Other	<b>5,853.7</b>	6,147.8
	<b>935,403.1</b>	930,696.0

# Severn Trent Water Utilities Finance Plc

## Notes to the financial statements (continued) Year ended 31 March 2003

### 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	(1.8)	298.2
Bond 2029	6.25	293.3	(6.7)	300.0	(5.9)	294.1
Bond 2029	6.25	119.3	(5.7)	125.0	(6.5)	118.5
Total		<u>710.4</u>	<u>(14.6)</u>	<u>725.0</u>	<u>(14.2)</u>	<u>710.8</u>

#### b. Borrowings analysed by maturity dates – repayment terms

	2003 £'000	2002 £'000
Within one year	64,636.5	73,230.2
Between one and two years	24,017.4	23,531.0
Between two and five years	49,501.6	45,983.7
After more than five years	856,030.4	855,033.5
	<u>994,185.9</u>	<u>997,778.4</u>

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

	Rate of interest	2003 £'000	2002 £'000
European Medium term loan notes - 2008 - 2028	3.86% - 5.69%	145,205.0	143,731.5
Sterling bonds - 2024 - 2029	6.125% - 6.25%	710,825.4	711,302.0
		<u>856,030.4</u>	<u>855,033.5</u>

# Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued)  
Year ended 31 March 2003

## 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
<b>Total borrowings at 31 March 2003</b>	<b>994,778.4</b>	<b>283,953.0</b>	<b>710,825.4</b>	<b>6.20</b>	<b>24.0</b>
Total borrowings at 31 March 2002	997,778.4	286,476.4	711,302.0	6.20	25.0

### 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.

	2003 Book value £'000	2003 Fair value £'000	2002 Book value £'000	2002 Fair value £'000
Cash at bank and in hand	292.3	292.3	402.8	402.8
Borrowings falling due within one year	(64,636.5)	(62,435.0)	(73,230.2)	(73,069.5)
Borrowings falling due after more than one year	(929,549.4)	(1,023,788.0)	(924,548.2)	(952,039.2)
<b>Total net debt</b>	<b>(993,893.6)</b>	<b>(1,085,840.7)</b>	<b>(997,375.6)</b>	<b>(1,024,705.9)</b>

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 2003

## 10. Share capital

Authorised, allotted, called up and fully paid

	2003 £'000	2002 £'000
Ordinary shares of £1 each	50.0	50.0

## 11. Profit and loss account

	2003 £'000	2002 £'000
Opening balance	317.9	128.3
(Loss) / profit for the financial year	(19.2)	189.6
Closing balance	298.7	317.9

## 12. Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
(Loss) / profit for the financial year	(19.2)	189.6
Opening shareholders' funds	367.9	178.3
Closing shareholders' funds	348.7	367.9

## 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.