

**Company number 2914860**

**Severn Trent Water Utilities Finance Plc**

**Financial Statements**

**Year ended 31 March 2004**



# **Severn Trent Water Utilities Finance Plc**

**Year ended 31 March 2004**

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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  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

# **Severn Trent Water Utilities Finance Plc**

## **Directors' report**

The Directors present their report, together with the audited financial statements for the year ended 31 March 2004.

## **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 £259.0 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 profit for the year is shown on page 7 and the Directors do not recommend payment of a dividend (2003: £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

Since the year-end, Mr A S Perelman resigned as a Director of the Company with effect from 31 August 2004. Mr M R Wilson was appointed as a Director of the Company with effect from 1 September 2004.

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

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

Mr Walker is a Director of Severn Trent Water Limited, the Company's immediate parent undertaking and Severn Trent Plc, the ultimate parent undertaking. At the year-end Mr Perelman was 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 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 2003 Ordinary shares of 65 <sup>5/19</sup> p each	31 March 2004 Ordinary shares of 65 <sup>5/19</sup> p each
T E Jack	40	76

#### Share Options under Approved Schemes

	1 April 2003	Exercised during year	Cancelled during year	Granted during year	31 March 2004
T E Jack	1,733	-	-	-	1,733

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 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, 24 September 2002 and 13 August 2003. The LTIP operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criteria for the awards are based on a combination of Severn Trent Plc's Total Shareholder Return ('TSR') compared to the TSR of a number of other privatised utility companies and Economic Profit targets. The individual interests, which represent the maximum aggregate number of shares to which Mr Jack could become entitled, are as follows:

	1 April 2003							31 March 2004
	Number of Ordinary shares of 65 <sup>5/19</sup> p each	Awards vested during the year	Market price at time of vesting (p)	Gain on vesting £000's	Awards lapsed during year	Awarded during year	Market price at time of award (p)	Number of Ordinary shares of 65 <sup>5/19</sup> p each
T E Jack	16,385	-	-	-	-	9,012	660.5	25,397

As at 7 October 2004 no further awards had been made under the LTIP.

## Severn Trent Water Utilities Finance Plc

### Directors' report (continued)

#### Directors and their interests (continued)

The performance period for allocations of shares made in 2001 ended on 31 March 2004. Severn Trent Plc's Remuneration Committee has subsequently determined, based on that company's TSR and Economic Profit targets over the three year period, that participants are entitled to 100% of the award. The 2001 contingent awards of shares are included in the table above and the actual number of shares to which Mr Jack has become entitled from the 2001 award is as follows:

	Date of award	Market price at time of award (p)	Market price on date of vesting (p)	Number of Ordinary shares of 65 <sup>5/19</sup> p each vested from the 2001 award	Gain on vesting (£'000)
T E Jack	30 August 2001	750	820.75	7,142	58.6

#### 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.

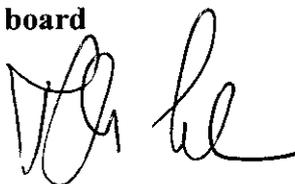
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets 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 2004. 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

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

#### On behalf of the board



M R Wilson  
Director

7 October 2004

**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.

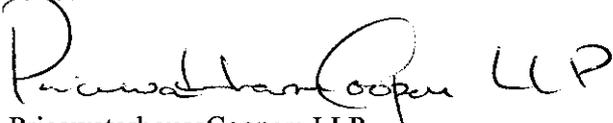
**Basis of audit opinion**

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Birmingham  
7 October 2004

## Severn Trent Water Utilities Finance Plc

### Profit and loss account Year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Operating costs	3	(1.4)	(1.0)
<b>Operating loss</b>		<u>(1.4)</u>	<u>(1.0)</u>
Net interest (payable) / receivable	4	207.6	(26.6)
<b>Profit / (loss) on ordinary activities before taxation</b>		<u>206.2</u>	<u>(27.6)</u>
Tax on profit on ordinary activities	5	(61.9)	8.4
<b>Retained profit / (loss) for the financial year</b>	11	<u>144.3</u>	<u>(19.2)</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 2004

	Notes	2004 £'000	2003 £'000
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	53,334.3	90,879.0
Debtors: amounts falling due after more than one year	6	1,175,695.0	935,403.1
Cash at bank and in hand		515.0	292.3
		<u>1,229,544.3</u>	<u>1,026,574.4</u>
<b>Creditors: amounts falling due within one year</b>	7	<b>(53,356.3)</b>	<b>(90,822.6)</b>
<b>Net current assets</b>		<b>1,176,188.0</b>	<b>935,751.8</b>
<b>Creditors: amounts falling due after more than one year</b>			
	8	<b>(1,175,695.0)</b>	<b>(935,403.1)</b>
<b>Net assets</b>		<b>493.0</b>	<b>348.7</b>
<b>Capital and reserves</b>			
Share capital	10	50.0	50.0
Profit and loss account	11	443.0	298.7
<b>Shareholders' funds</b>	12	<b>493.0</b>	<b>348.7</b>

Signed on behalf of the Board who approved the accounts on 7 October 2004.



**M R Wilson**  
Director

**Severn Trent Water Utilities Finance Plc**  
**Notes to the financial statements**  
**Year ended 31 March 2004**

**1. Accounting policies**

**a. Accounting convention**

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

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

**b. Interest receivable**

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

**c. Deferred taxation**

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

**d. Capital instruments**

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

**e. 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 (2003: nil).

None of the directors received any fees or emoluments for their services to the Company (2003: £ nil).

## Severn Trent Water Utilities Finance Plc

### Notes to the financial statements (continued)

Year ended 31 March 2004

#### 3. Operating loss

Profit on ordinary activities before taxation is stated after charging:

Payment of audit fees to PricewaterhouseCoopers LLP £1,350 (2003: £1,000).

#### 4. Net interest (payable) / receivable

	2004 £'000	2003 £'000
Interest paid on other loans	(63,243.3)	(55,199.1)
Interest receivable and similar income	63,450.9	55,172.5
	<u>207.6</u>	<u>(26.6)</u>

Included within the interest receivable is £63,245,338 (2003: £55,085,720) due from the immediate parent undertaking.

#### 5. Taxation on profit on ordinary activities

	2004 £'000	2003 £'000
Group relief payable / (receivable) current year at 30% (2003: 30%)	61.9	(8.3)
Group relief prior year	-	(0.1)
	<u>61.9</u>	<u>(8.4)</u>

In accordance with the company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2004.

The Company's full potential deferred taxation liability at 31 March 2004 was £nil (2003: £nil).

#### 6. Debtors

	2004 £'000	2003 £'000
<b>Amounts falling due within one year</b>		
Amounts due from parent undertakings	53,037.9	90,584.4
Other debtors	2.3	0.5
Prepayments	294.1	294.1
	<u>53,334.3</u>	<u>90,879.0</u>

## Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued)  
Year ended 31 March 2004

### 6. Debtors (continued)

Amounts falling due after more than one year	2004 £'000	2003 £'000
Amounts due from parent undertaking	1,170,135.4	929,549.4
Prepayments	5,559.6	5,853.7
	<u>1,175,695.0</u>	<u>935,403.1</u>
Total debtors	<u>1,229,029.3</u>	<u>1,026,282.1</u>

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

	2004 £'000	2003 £'000
Medium term loans	24,017.4	64,636.5
Amounts due to parent undertaking	23.1	-
Other creditors	294.1	294.1
Accruals	29,021.7	25,892.0
	<u>53,356.3</u>	<u>90,822.6</u>

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

	2004 £'000	2003 £'000
Guaranteed Bonds 2024 6.125% (Note 9)	298,283.3	298,197.1
Guaranteed Bonds 2029 6.25% (Note 9)	294,346.3	294,121.8
Guaranteed Bonds 2029 6.25% (Note 9)	118,754.7	118,506.5
Medium term loans (Note 9)	458,751.1	218,724.0
Other	5,559.6	5,853.7
	<u>1,175,695.0</u>	<u>935,403.1</u>

# Severn Trent Water Utilities Finance Plc

Notes to the financial statements (continued)  
Year ended 31 March 2004

## 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	(1.7)	298.3
Bond 2029	6.25	293.3	(6.7)	300.0	(5.7)	294.3
Bond 2029	6.25	119.3	(5.7)	125.0	(6.2)	118.8
Total		<u>710.4</u>	<u>(14.6)</u>	<u>725.0</u>	<u>(13.6)</u>	<u>711.4</u>

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

	2004 £'000	2003 £'000
Within one year	24,017.4	64,636.5
Between one and two years	14,995.8	24,017.4
Between two and five years	113,365.6	45,501.6
After more than five years	1,041,774.0	856,030.4
	<u>1,194,152.8</u>	<u>994,185.9</u>

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

	Rate of interest	2004 £'000	2003 £'000
European Medium term loan notes - 2009 - 2028	3.8% - 6.145%	330,389.7	145,205.0
Sterling bonds - 2024 - 2029	6.125% - 6.25%	711,384.3	710,825.4
		<u>1,041,774.0</u>	<u>856,030.4</u>

## Severn Trent Water Utilities Finance Plc

### Notes to the financial statements (continued)

Year ended 31 March 2004

#### 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 2004</b>	<b>1,194,152.8</b>	<b>482,768.5</b>	<b>711,384.3</b>	<b>6.20</b>	<b>23.0</b>
Total borrowings at 31 March 2003	994,185.9	283,360.5	710,825.4	6.20	24.0

##### 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.

	2004 Book value £'000	2004 Fair value £'000	2003 Book value £'000	2003 Fair value £'000
Cash at bank and in hand	515.0	515.0	292.3	292.3
Borrowings falling due within one year	(24,017.4)	(21,047.6)	(64,636.5)	(62,435.0)
Borrowings falling due after more than one year	(1,170,135.4)	(1,258,039.6)	(929,549.4)	(1,023,788.0)
<b>Total net debt</b>	<b>(1,193,637.8)</b>	<b>(1,278,572.2)</b>	<b>(993,893.6)</b>	<b>(1,085,840.7)</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 2004

### 10. Share capital

Authorised, allotted, called up and fully paid

	2004 £'000	2003 £'000
Ordinary shares of £1 each	50.0	50.0

### 11. Profit and loss account

	2004 £'000	2003 £'000
Opening balance	298.7	317.9
Profit / (loss) for the financial year	144.3	(19.2)
Closing balance	443.0	298.7

### 12. Reconciliation of movement in shareholders' funds

	2004 £'000	2003 £'000
Profit / (loss) for the financial year	144.3	(19.2)
Opening shareholders' funds	348.7	367.9
Closing shareholders' funds	493.0	348.7

### 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.