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# Protecting the future

Annual Report and Accounts 2005



Your water. *Safe in our hands.*



Severn Trent Water cares for the health and well-being of our customers, our communities and their environment.

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# Managing Director's review

Tony Wray | Managing Director

## Introduction

I succeeded Colin Matthews as Managing Director of Severn Trent Water on 7 March 2005. Colin had streamlined the management structure in order to shorten the lines of communication within the company. This will enable an even greater drive for efficiencies through the organisation, building on the sound base left by Brian Duckworth who had been Managing Director for the previous ten years.

There were two key features to this year.

We completed our third asset management programme (AMP3) and we agreed Ofwat's Price Determination for 2005-2010, covering AMP4.

We have exceeded the AMP3 customer service targets including our best ever reduction in the number of properties at risk of low water pressure.

We met our drinking water quality and environmental targets. We achieved our target for reducing leakage although the number of customers who opted to have a water meter installed was lower than we had forecast.

Ofwat's Determination of Prices and the fourth asset management programme (AMP4) were agreed in January 2005. This extremely challenging Determination included a reduction in the allowance for capital maintenance costs, particularly in respect of mains renewal, and a reduction in the costs allowed for alternative sludge disposal methods. The Determination also included only half the costs to fund Severn Trent Water's pension deficit and provided smaller allowances than forecast in the company's plans for some key operational costs, including business rates and electricity.

Severn Trent Water is already performing at or close to Ofwat's operating and capital efficiency frontiers and this was recognised by an incentive reward of 0.1% in the final determination. I want to maintain this position into the future by improving our performance. Revised business and operational plans are being developed within the company, and we are working on new ways with our contractors to meet the new set of challenges. At the same time I want to continue to improve professional standards throughout the company – in my view this is the only sustainable way of improving performance.

The AMP4 Determination allowed us to raise prices by 24% before inflation, equivalent to around £53 per property over the 2005–2010 period. Many of our customers have found the price increase difficult to understand as they already receive high levels of service from us. The key reason is to enable us to invest to maintain and improve our existing plant and equipment. Our customers, in general, recognise our high service levels but, due to the old age and lack of capacity of parts of our system, some customers still suffer from service interruptions and property flooding when storm conditions prevail. This is unacceptable in the 21st century. The price rise of £53 contrasts with the £640 of investment we will spend for every household in our £2.3 billion investment programme, and Severn Trent Water's average household bills will still remain among the lowest in the sector.

I believe that the way we work with customers is as important as the quality of services we provide. We continued the roll out of two major computer system projects in 2004/05. The first, TARGET, is a more effective billing system that for example, it makes processes such as changing customer information when moving house, much easier. More than two million customers were switched to this system in 2004/05 and the remainder will be transferred in the first half of 2005/06. The implementation of the second system, ICE, or Improved Customer Experience will enable our customers to further benefit from enhancements to service levels at a point of contact.

We also work with many customer and environmental groups to promote a sustainable environment. The most obvious sign of this work is the improving quality of Midlands rivers reflected

Financial highlights	2005	2004
Turnover (£m)	999	945
Operating costs (£m)	(683)	(616)
Operating profit (£m)	319	332
Profit before tax (£m)	196	228
Gearing (%)(debt/equity)	125	121
Investment (£m)	452	442

in the major re-introduction of water voles, white clawed crayfish and otter re-colonisation in the Severn and Trent rivers.

We aim to be a good corporate citizen in the communities we serve through a number of practical initiatives. For example, we generate some of the energy we use, we educate children about the water cycle and we allow our staff time to support local charities with their experience, talent and initiative.

#### Financial review

The financial statements on pages 15 to 35 report both the company and consolidated results of the Severn Trent Water Limited group of companies. The group report provides a complete view of activities, as certain financing arrangements for the benefit of the group are facilitated through the company's subsidiaries. This financial review therefore refers to the consolidated results of the Severn Trent Water Limited group.

Turnover rose by 5.7%, to £999.3 million (2004: £945.1 million). Prices rose by 4.7% to reflect the increase in RPI as well as the effect of the Interim Determination of prices (IDOK) approved by Ofwat to recover the costs of certain new obligations not included in the last full review of prices in 1999.

We continued to experience growth in income from a number of sources including increased consumption and improved billing following the introduction of a new billing system.

Operating profits decreased by £0.1 million to £332.0 million before exceptional items of £13.0 million (2004: £332.1 million) and after an incremental pension charge of £21.7 million to reflect the funding required to finance the deficit identified in the recent fund valuations.

Profit on ordinary activities before taxation was £195.8 million (2004: £228.0 million).

Operating costs (before exceptional items, depreciation and amortisation of deferred credits) were £426.1 million, an increase of £42.4 million (2004: £383.7 million).

Cost savings of £7.0 million were achieved through further productivity improvements and supply chain efficiencies throughout the company. However, these savings were offset by additional operating costs of £35.6 million to meet expenses associated with new quality obligations and pension contributions.

Depreciation, including infrastructure renewals expenditure, increased by £12.1 million to £244.0 million (2004: £231.9 million). This increase reflects the continued effect of the high level of investment.

Capital expenditure in the year was £452.4 million (2004: £441.8 million). Substantial investment continued to improve drinking water and wastewater quality, renewing our assets and generally improving customer service. Capital expenditure is expected to be around £442 million in the year ending 31 March 2006, the first year of our fourth Asset Management Plan (AMP4).

Total net group borrowing at 31 March 2005 amounted to £2,386.7 million (2004: £2,292.3 million). Of this 66.3% (2004: 65.4%) was represented by fixed interest borrowings, and 68.9% (2004: 72.7%) was represented by amounts payable after five years. Net interest payable increased by £7.0 million to £130.8 million, reflecting the additional borrowings being made by the company to finance its continued high level of investment.

Turnover – £m	Profit before tax – £m (excluding exceptional items)	Investment – £m
01 <input type="text" value="884.4"/>	01 <input type="text" value="208"/>	01 <input type="text" value="320"/>
02 <input type="text" value="893.2"/>	02 <input type="text" value="209"/>	02 <input type="text" value="350"/>
03 <input type="text" value="905.0"/>	03 <input type="text" value="198"/>	03 <input type="text" value="425"/>
04 <input type="text" value="945.1"/>	04 <input type="text" value="208"/>	04 <input type="text" value="442"/>
05 <input type="text" value="999.3"/>	05 <input type="text" value="201"/>	05 <input type="text" value="452"/>

## Our relative efficiency in our operational activities was recognised by Ofwat with an 'A' rating in both water and sewerage service unit cost analysis.

### Operational review

We have delivered successfully once again in our operations functions in 2005. Water quality performance was secured at 99.91% (all parameter index), and we met Ofwat's leakage target.

We also reduced the number of pollution incidents, improved sewage treatment effluent quality and reduced the number of health and safety incidents.

In June, we celebrated the centenary of both the Elan Valley reservoir and aqueduct, and the completion of the Birmingham security of supply scheme. This £26 million scheme, provides support to Birmingham in the event of difficulties at Frankley water treatment works and allows surplus water in the Birmingham system from Elan Valley to be exported into the East Midlands.

We have made substantial progress in the operation of the clean water distribution network. We met Ofwat's target for leakage, with an outturn reported leakage figure of 502 MI/d, albeit that the mild weather over the winter period reduced the rate of mains bursts. The leakage reduction was achieved through effective targeting of our activities, across aqueducts, trunk mains, service reservoirs and local distribution mains. We will continue to focus on achieving our economic level of leakage.

The number of customers receiving inadequate water pressure, as measured by Ofwat's DG standards, reduced from 1,100 to 500. This contrasts with over 36,000 only ten years ago.

We have concentrated on minimising the number of customers who experience supply interruptions and ensure, wherever possible, that customers are pre-warned of any supply interruptions.

We have also continued with our programme of mains cleaning, targeting areas affected by iron and manganese deposits ensuring that the instances of customers receiving discoloured water are reduced. All of the work that we do in our distribution network is risk assessed to minimise the potential impacts of discoloured water as well as continuing to protect water quality.

We are also improving the sewerage control operations. The flooding of properties internally with sewerage is the worst service failure our customers can suffer. During the year, 226 properties experienced internal flooding from overloaded sewers. Although this is more than

the previous year, the particularly adverse weather in August contributed significantly to this number. The number of properties which were flooded as a consequence of a blocked or collapsed sewer or other plant failure was reduced by 10%. Our STOP initiative (Severn Trent zero pollutions) has reduced the total number of pollution incidents caused by our sewerage networks by over 25%. The number of more serious pollution incidents, as defined by the Environment Agency's categories 1 and 2, has been reduced by an even more impressive 68%.

We have complied with effluent quality standards at our sewage treatment works with all works meeting sanitary 95 percentile and urban waste water directive standards. We have also met all the regulatory standards for our sewage sludge recycling programme.

Our relative efficiency in our operational activities was recognised by Ofwat with an 'A' rating in both water and sewerage service unit cost analysis.

A substantial number of efficiency improvement initiatives have been undertaken during the year. These included energy efficiency improvements at water and sewage treatment works, the introduction of mobile IT for our networks field staff, automated work scheduling for some field staff, annualised hours contracts for appropriate work groups and a reduction in the number of tiers of management. We have a defined schedule of improvements to allow us to both improve performance and reduce costs into AMP4.

### Growing our biodiversity agenda

During AMP3, we delivered scheduled improvements at 312 sewer catchments, installed phosphorus removal facilities at 37 sewage works, improved 328 unsatisfactory intermittent discharges and completed eight low flow alleviation sites. This ongoing investment programme has been vindicated in the last few years by the huge increase in otter activity in the River Trent catchment. In a similar vein, salmon have returned to breed in the River Dove and smolts have been caught going downstream. This bears testament to the sustained improvements in river water quality that have been achieved.

We wholly or partly own thirty six sites of Special Scientific Interest (SSSIs), including one in Wales,

and five sites of European importance for conservation. An assessment of our English SSSIs by English Nature (EN) shows 50.1% (by area) to be in favourable condition, set against the UK target of 95% favourability by 2010. We have engaged in partnership with EN to understand the reasons for this adverse status, largely due to diffuse pollution originating from other land managers on river and reservoir catchments, and to review and agree the actions required to improve SSSI conditions where possible.

Our Biodiversity Action Plan (BAP) identified 11 UK key habitats and 18 UK priority species in need of protection and enhancement to which we could make a significant contribution. Action Plans and targets have been produced for these, refined as necessary in the light of natural changes and survey results.

Progress against these targets and our contribution to local Biodiversity Action Plan is detailed in our recently published five year review.

For example, we have contributed 8.7% of Derbyshire's target for new reedbeds, 15.6% of the Peak National Park's target for restoring upland oak woodland on conifer plantations and 20% of Leicestershire's target for new wet woodland.

We have also achieved major re-introductions of black grouse, water vole and white clawed crayfish, a regionally-significant tree sparrow recovery project and nationally-significant support for otter re-colonisation in the Severn and Trent rivers. In addition to our Habitat and Species action plans, we developed more holistic strategies for conservation-friendly management of our forests, farmland and operational sites, as well as a protocol for undertaking emergency works on or near SSSIs. In addition, we organised four major media campaigns focusing on wildlife, and generated over 120 million impressions (opportunities to see or hear reports) through newspaper articles and radio and television coverage.

Many of our biodiversity initiatives are strategic partnership schemes. The total value of our non-regulatory investment in biodiversity during the AMP3 period has been calculated at around £2.5 million, a sum that does not include any revenue expenditure, such as staff salaries, or payments

'in kind'. We are now developing our plans for the next five year period from 2005–2010 and a consultation draft has been sent to our interested stakeholders for comment.

#### Towards sustainability

Our principal objective in this area is to ensure that we maintain a sustainable environment for all the communities we serve. As a consequence, we make environmental and community care integral to the way we do business. This means achieving more than just compliance and we have set ourselves targets in key environmental areas such as water resources, leakage, climate change, transport, energy, materials management, chemical usage and biodiversity.

In addition, our sustainability agenda extends beyond environmental matters to address both social and economic issues. We already have an enviable record in these areas and are building this more fully into an integrated Corporate Responsibility policy.

This is supported by maintaining a major commitment to environmental education and the stewardship of the many historic buildings which are part of our heritage. In addition, we work with a number of key partnership charities and a growing number of our staff are actively involved in community volunteering.

Our annual in-house sustainability awards are a good indication of our commitment to sustainable development. The awards, now in their eleventh year, have been expanded to include more social and economic issues and they celebrate the success and achievements of our employees in finding innovative ways of incorporating the principles of sustainable development into their everyday work. Each award carries a monetary prize which the winners 'recycle' to a charity or local community project of their choice.

Moving towards a truly sustainable future presents immense challenges. Climate change caused by global warming threatens the viability of a water company's long-term water resources. For this reason we see carbon management as being an important issue for the future. As an energy intensive business, we are indirectly contributing to global warming through our demand for electricity.

## Together with our sister company, Biffa and their landfill sites, we now account for 5% of the UK renewables energy market.

However, we are seeking to minimise this impact by becoming more energy efficient and by increasing the amount of renewable energy which we can produce from the combustion of methane arising from the anaerobic digestion of sewage sludge. Last year saw the completion of our new Combined Heat and Power (CHP) generators being installed at 23 sites, totalling over 10 megawatts of installed generation. This brings our overall power generation capacity to 29 sites and 27 megawatts installed capacity, providing over 50% of our power requirements at sewage treatment works – the equivalent to supplying 53,000 homes with electricity. Together with our sister company, Biffa and their landfill sites, we now account for 5% of the UK renewables energy market. In 2005 we will begin to look at the installation of microturbines at our smaller sewage treatment sites and we are also reviewing the possibility of hydro energy at our larger raw water reservoirs. However, the current constraints of the Renewable Obligation order reduces the viability of energy generation at several sites.

Discussions are ongoing with the Government on this.

Work is progressing on the implementation of the new EU Water Framework Directive. This requires a totally new approach to the way we manage water, particularly regarding its interaction with the land. The implementation of this new Directive must take account of all aspects of sustainable development. Tackling the problem of diffuse pollution will demand an enlightened approach from both Government and Regulators and needs to involve all stakeholders, not just water companies.

### A look back at our performance over the AMP3 period

Our investment to maintain compliance with drinking water has been substantially completed, including a major programme of rehabilitation of 1,975km of distribution main to reduce discolouration. Levels of service affected by investment include low pressure (DG2) where we have achieved our best ever reduction in properties affected. Future investment in this area will now switch to preventing leakage, bursts and service interruptions. We have completed a total of 120 schemes to improve or maintain drinking water

quality with a further three schemes being delivered in the early part of AMP4.

We have put in place two thirds of the support for our abstraction from the River Trent at Witches Oak Waters in Derbyshire. The remaining third part of the supply-demand balance programme is due to be in place early in AMP4.

Our investment to improve sewer flooding has achieved a net reduction of 185 in the number of properties 'at risk', with a total of 1,667 projects completed, achieving our AMP3 output requirements. Nevertheless, the significant storms last August resulted in a number of customers being flooded, and we continue to support research into both climate change and models to predict 'hot spot' blockage areas to ensure we can maintain our collection system at its maximum performance.

Our AMP3 wastewater quality investment programme has been substantially completed with improvements to over 320 intermittent discharges, 295 continuous discharges and 51 first time sewerage schemes being completed. A small number of sites have been delayed due to planning, land purchase and consent issues and will be delivered in the early part of AMP4.

Our investment to maintain the performance of our assets has been successful, with stable or improving supporting data on both water and wastewater infrastructure. Performance failures at water treatment works remain at a low level. We have seen a substantial reduction in sewer collapses from last year, and consequent flooding incidents. However flooding due to overloaded sewers has increased over the last year, whilst remaining below the levels of the first part of AMP3.

Climate change, and its affect on both raw water resources and performance of our wastewater collection and treatment system remains a concern, and we continue to work with interested parties to understand the impact of these changes on our assets.

### AMP4 and the future

Our final business plan submitted to Ofwat in 2004, has formed the basis of Ofwat's price determination for 2005-2010 – the AMP4 period. We are now proceeding to implement the investment programme



and associated operational changes to deliver the agreed outputs.

In relation to capital maintenance, around 27% of the investment will maintain performance of our above ground assets, split one third water and two thirds wastewater. Our network investment comprises 16%, by value, of our total programme, with approximately two thirds on water pipes and one third on wastewater pipes. This reflects our concern that investment in our water pipes is not currently at a level adequate to maintain performance, particularly with respect to leakage. Our programme for improving our understanding of leakage, both on our own network and on supply pipe leakage, will continue through AMP4. A significant element of our wastewater investment programme will improve the security of the disposal route for sewage sludge, by providing a dried intermediate product with associated odour reduction benefits.

Investment to meet growth requirements, both from new and existing customers, represents just over 15% of our programme. Significant investment is being made in additional water resources, including a new treatment works on the River Severn to maintain our projected supply headroom. We are also seeking to secure additional resources in the Oswestry area, to reinforce supplies to existing customers.

We are increasing flexibility in our treatment facilities supplying water to Birmingham, by adding an additional process to our Frankley Water Treatment Works. This will allow us to alternate between Elan Valley supplies and River Severn supplies to optimise resources and minimise environmental impact during droughts.

Our investment in sewerage will continue both to ensure wastewater treatment capacity is in place as required by new development, and sewage collection remains adequate to meet the growing needs of existing users and additional requirements of new developers, whilst at the same time addressing existing sewer flooding priorities.

Investment to improve our service provision is focused mainly on quality improvement, representing just under 30% of the investment total, split two thirds environmental and one third drinking water. The majority of investment in drinking water

is to treat rising levels of nitrate in raw water. Wastewater investment will improve intermittent discharges and meet new environmental discharge standards, together with investment to achieve European legislation to protect habitats and birds. In addition, a limited programme of investigative work into endocrine disruptors will be carried out.

A relatively small part of our overall programme, will focus on carefully targeted improvements in service for customers. We are making improvements to taste, odour and hardness at seven of our water treatment works, and responding to high priority low pressure problems caused by joint communication pipes for some of our customers. We will also reduce even further the number of customers experiencing problems with sewer flooding.

A new approach has been implemented for the AMP4 period, establishing long-term relationships with a reduced number of contractors and suppliers. We are seeking to move the relationship with our contractors and suppliers from co-operation to active collaboration. Development by all parties of a longer-term understanding of the investment programme will ensure that the efficiency levels currently achieved at an individual project level are delivered across the company's whole programme.

Design and project management will be further integrated with the delivery contractor to remove any inefficiencies.

We are seeking to apply more "factory processes" for plant installation. Increased assembly and fit out is carried out in a supplier's factory environment before site delivery, thereby reducing less efficient on-site fabrication. This has already been successfully achieved in membrane disinfection and combined heat and power (CHP) installations to date. This approach is already being developed further for other process plant applications.

At the same time we continue to evaluate promising new technologies which can offer either performance or efficiency benefits by comparison with our existing tried and trusted standards. Where these are successful, we will move to the new standard approach during AMP4, examples of these are drinking water nitrate removal processes and wastewater biological nutrient removal technologies.

## We successfully met all of our customer service targets last year, an excellent result founded on the hard work of all our people.

### Customer services for our domestic customers

We successfully met all of our customer service targets last year, an excellent result founded on the hard work of all our people. This means our customers continue to receive the high standards of services they expect and deserve, whilst still paying some of the lowest charges in the country. Of course, we have had more customers than ever contact us as a result of the increase in prices announced by our regulator, Ofwat and there has been a large increase in customers asking to be assessed on water usage via a meter. Our teams in the contact centres have been working at full stretch to meet our customers' demands as speedily as they can, but we know that in some cases we have taken longer than we would want to resolve their enquiries.

Customers always come first for Severn Trent Water and we have started a major programme of changes to further improve the way we operate and deliver the extra efficiencies demanded by Ofwat's pricing review. These changes are designed to 'build quality into everything we do' whilst maintaining our strategy of 'putting the customer first'. We are focussing on introducing these over the next 18 months.

We will need to invest in new technology to make these changes, but we have already achieved much in implementing systems to help us move forward. Our new billing system (TARGET) will help ensure that our customers are billed correctly for the services we deliver and help us to simplify the format and presentation of the bills. Most of our customers are already receiving bills from this new system, and the remainder will be transferred to the new system by August 2005.

A new system called ICE, or Improving Customer Experience will be extended to all of our teams in Customer Relations to help our people answer customers' enquiries at the first point of contact, wherever possible. This is already working successfully in our Operational Contact Centre in Coventry, helping to reduce the number of customer complaints we receive.

We have launched a Customer Promise for our domestic customers which documents the high standard of service our customers expect. This follows last year's success in implementing a Customer Promise for our business customers

and housing developers. Our customer contact centres have been awarded the prestigious Contact Centre Accreditation Award for best customer service practice, making Severn Trent Water the first water utility to receive this accolade. This is an excellent achievement and shows our continued commitment to improving the way we serve our customers and our people.

### Customer services for our industrial and commercial customers

We remain committed to working with our industrial and commercial customers to help them reduce costs whilst protecting the environment. The changes to be introduced over the next 18 months include improving the quality of service we provide to all of our industrial and commercial customers.

Our innovative, added-value solutions continue to help us enhance the performance of our business customers. Data Monitor has helped companies including S&A Foods and Unilever take control of their metered data by remotely monitoring consumption and making management information easy to produce. S&A Foods uses Data Monitor to capture details of gas, electricity and water use, as part of their energy consumption reporting strategy. Automatically collected every 15 minutes, meter readings taken by Data Monitor provide a comprehensive picture of daily, weekly and monthly usage, rather than the snapshot provided by quarterly bills. Simple analysis of the data has helped identify peaks and troughs of consumption, allowing improved productivity and efficiency.

Bostick, Masterfoods and the Ministry of Defence's Aquatrine project have all benefited from Network Guardian, a product which continues to help save businesses money by repairing and replacing their worn out water networks, preventing unnecessary water wastage. We continue to work as preferred supplier to the MOD and have developed strong working relationships, based on our ability to respond quickly, our expertise and our reliability.

Warwick Racecourse and HMP Stocken chose Water Guardian to check the quality of their on site water, keeping them in line with Legionella legislation and helping safeguard their reputations.

Large scale projects have also been completed around the UK. We installed a surface water drain diverter at Campbells Foods, using our Waste Guardian service. The new system helps Campbells comply with environmental legislation. Bostick also took advantage of Waste Guardian, using effluent flow recorders and sampling to stay within their consent levels.

Our environmental performance has again been sustained at a high level with no environmental prosecutions and our non-sanitary compliance above target. We are working together with all our stakeholders to protect the environment.

#### Our people

Again this year we have delivered outstanding results, through the commitment and dedication of our people. We were delighted to be recognised this year by the Sunday Times as one of the "10 Best Big Companies to Work For 2005" in the whole of the UK, based on feedback provided by our own employees. Notably, we are the only utility company included on the list. We have also been recognised by the Guardian as one of "Britain's Top Employers 2005". In addition, our annual employee attitude survey showed our best ever levels of employee satisfaction and the highest ever response rate.

In January 2005, following our price determination, we announced manpower efficiencies of up to 350 posts to be achieved over the five year regulatory period and are working closely in partnership with our recognised trade unions to achieve the necessary reductions. We plan to achieve savings through a combination of limiting external recruitment, voluntary staff turnover, and redundancy. We actively seek redeployment opportunities for those who are displaced.

We continue to develop the capability of our people and invest in high quality learning and development programmes. We received external recognition for our "Effective People Management" programme following our entry into the Energy and Utility Skills Training Awards.

We have made important progress on our diversity strategy and policy working closely with community organisations and using more innovative

approaches. This has resulted in a more diverse range of applicants and subsequent appointments. We continue to benchmark and develop our policies and practices in this area. We achieved a bronze award from Race for Opportunity for making significant progress since our previous assessment.

Communication remains a great strength in our company and we have well structured arrangements for internal communications including monthly "Teamtalk" meetings and our re-launched in-house magazine "Pulse". Our intranet site "Streamline" provides an excellent platform for keeping our people informed and up to date.

#### Health and safety

Improving the health and safety of our operations continues to be a critical area. We believe that effective health and safety management comes from the implementation of robust health and safety management systems. We are therefore particularly pleased that this year five of our sites; Minworth Sewage Treatment Works; Finham Sewage Treatment Works; Strensham Water Treatment Works, and the Engineering Department at Raynesway and at Alpha House in Warwick have achieved the maximum 5 star rating in audits conducted by the British Safety Council. A further site (the Engineering department at Shelton) gained a 4 star rating.

In May 2004, we launched Harmony, our health and well-being programme to all employees. We were delighted that our approach was recognised with the Personnel Today Managing Health at Work award. Although we achieved a year on year reduction in reportable accidents of 26%, we are not satisfied and seek to reduce the number of accidents suffered by our employees as far as we are able. To contribute to achieving this we have invested in research into slips, trips and falls and manual handling accidents.

As a company we fully accept the responsibility we have in helping our partners in the supply chain to improve their health and safety performance and we have developed a number of initiatives to help to spread best practice within our supply chain.

I know that it is only through the tremendous knowledge, skill and effort of our people every day that we have been able to achieve these results and create such a strong service focus.

#### Looking ahead

The results for the year ended 31 March 2005 demonstrate that Severn Trent Water has been largely successful in delivering its third asset management plan (AMP3). This confirms the strong service focus of the company which is based on:

- Continued high compliance against drinking water quality and environmental standards.
- Sustained improvements in customer service levels throughout the AMP3 period.
- A stable, and in some cases, an improving trend in serviceability.
- Strong financial performance backed by financial ratios which meet the financeability tests applied by Ofwat.

I know that it is only through the tremendous knowledge, skill and effort of our people every day that we have been able to achieve these results and create such a strong service focus.

Within the challenging Ofwat Determination we aim to:

- Maintain the levels of compliance achieved over the last five years against drinking water quality, environmental and customer service standards.
- Protect water resources in the event of prolonged dry weather conditions, through efficient infrastructure planning and improved economic leakage control.
- Deliver all new statutory drinking water and environmental improvements.
- Address those service concerns identified by customers being of the highest priority; in particular improvements in drinking water taste, odour and hardness, resolving sewer flooding problems and improvements to our customer contact systems.
- Provide an attractive investment opportunity by maintaining a strong investment grade credit rating for debt investors and achieving an adequate return to equity investors.

In this way, we should be able to meet the expectations of our key stakeholders, our customers and investors.

In the autumn of 2005, the competition regime for business customers, introduced by the Water Act 2003, comes into effect. This will mean that large business customers using more than 50 megalitres of water a year will have a greater ability to choose their supplier. We have good relationships with these organisations and are well placed to retain them as customers. We also believe we have the potential to win new national accounts and customers outside our region. We have put in place systems necessary to operate under the new regime, which provides some new, interesting opportunities.

I joined the company just before the start of the new five year regulatory period. For me this was highly opportune because it represented the start of a new chapter in the success story that is Severn Trent Water. I look forward to leading the company to the opportunities and through the challenges of the future.



Tony Wray – Managing Director

The Directors present their report, together with the audited financial statements for the year ended 31 March 2005.

## Principal activities

The principal activities of the company and its subsidiary undertakings are the supply of water and the treatment and disposal of sewage.

## Results

The results prepared are for Severn Trent Water Limited and its subsidiary undertakings.

The group's turnover was £999.3 million (2004: £945.1 million), and operating profit was £319.0 million (2004: £332.1 million). Profit on ordinary activities before taxation was £195.8 million (2004: £228.0 million).

## Business review and future developments

A review of business activities and future developments is contained within the Managing Director's review on pages 2 to 10.

A review of activities is also 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). Alternatively the report can be viewed and downloaded from Severn Trent Plc's website at [www.severntrent.com/reports2005](http://www.severntrent.com/reports2005).

In May 2004 an employee of the company raised a number of allegations relating, in particular, to alleged accounting inaccuracies and regulatory returns in respect of which an announcement was made by Severn Trent Plc on 22 November 2004. This can be viewed on the Severn Trent Plc website ([www.severntrent.com](http://www.severntrent.com)). PricewaterhouseCoopers LLP Forensic Services was appointed by Severn Trent Plc to carry out a thorough and independent investigation and in the light of their findings the Severn Trent Plc Board was, and remains, of the view that the matters raised have no effect upon the integrity of the accounts and that Severn Trent Water's customers have not been overcharged. However, as such findings revealed evidence of some behaviour which the Severn Trent Plc Board believed fell short of the high standards it expects from employees, a disciplinary investigation was instigated which, though substantially complete, is likely to continue at least until Ofwat's review of these matters is completed.

The Severn Trent Plc Board, with the support of the Severn Trent Plc Audit Committee, has taken, and intends to take, such actions as it thinks appropriate to ensure the maintenance of both high ethical and professional standards and resilient and effective controls throughout all group companies. The Company is supporting Ofwat in its review of these allegations.

## Dividends and reserves

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared by the company in 2005 amounted to £147.1 million (2004: £158.0 million).

Transfers to reserves are set out in note 15 to the financial statements on page 30.

## Directors

The Directors of the company who served during the year and up to the date of this report are listed below:

T D G Arculus	Resigned 31 December 2004
J H Bailey	
J K Banyard	Resigned 30 December 2004
B Duckworth	Resigned 31 August 2004
I Elliott	
J A Hill	Resigned 1 November 2004
R S S Martin	Appointed 1 September 2004
C S Matthews	Appointed 20 September 2004
G C Messham	Appointed 1 September 2004
G P Noone	Resigned 31 December 2004
S H Reilly	Appointed 1 September 2004
P F Stephenson	
S Stubbs	
R M Walker	Resigned 2 February 2005
M R Wilson	
A P Wray	Appointed 7 March 2005

Subsequent to the year end Mr I Elliott retired as a Director on the 30 June 2005.

## Directors' interests

The interests of the Directors at the year end in the share capital of Severn Trent Plc, according to the register maintained under the provisions of the United Kingdom Companies Act 1985, are set out in note 3 to the financial statements on page 21.

None of the Directors retains any notifiable interest in the shares of the company or any other group company as at 31 March 2005.

## Policy on the payment of creditors

The company either uses its own standard terms and conditions entitled 'General Conditions of Contract relating to the supply of Goods/Services or the Execution of Work' (copies are available from the Purchasing Department, Severn Trent Water Limited, 2297 Coventry Road, Birmingham, B26 3PU) or nationally agreed terms and conditions of contract such as ICE 6th Edition for Civil Engineering Works and G90 terms and conditions for Mechanical and Electrical Works.

Each purchase order issued by the company has stated on it the terms of payment. Suppliers are able to negotiate their own payment terms which can differ from these, as part of the tender process. On average, trade creditors are paid 35 days (2004: 34 days) after the invoice date.

### Research and development

Expenditure on research and development was £4.7 million including £0.9 million spent on fixed assets, compared to £4.5 million in 2004, (including £1.0 million on fixed assets).

Work during the last year has concentrated on ensuring that the company has the technologies in place to meet the standards required for drinking water and sewage works effluents over the next five years.

The research and development programme has identified processes capable of removing metals from drinking water to levels required by future standards. These cost effective solutions will use innovative processes and involve group companies.

Extensive test work has been undertaken to compare the options available to minimise the presence of disinfection by-products whilst meeting other water quality requirements.

Turning to waste water treatment, pilot work has shown that phosphorus can be removed biologically from sewage at several larger sites to meet EU directives. It is proposed to transfer knowledge from this work and the recent successful full scale installations to reduce capital and operating costs on a number of AMP4 schemes.

Work has been completed to demonstrate the ability of various treatment processes to reduce the amount of sludge produced and increase the potential for power generation. The benefits of using water treatment residuals to reduce odour on sewage treatment works have also been demonstrated.

A system has been developed to enable data to be collected from experimental sites using mobile phone technology and the existing company IT infrastructure. A study has been undertaken to compare the costs of this and more conventional methods of data acquisition and control on sewage works sites.

### Employees

The average number of employees during the year was 4,927 (2004: 4,847).

In January 2005, following Ofwat's price determination, we announced manpower efficiencies of up to 350 posts to be achieved over the 5 year regulatory period, the majority of these savings being achieved in the first 2 years of the cycle.

Wherever possible we intend to reduce numbers by not recruiting to vacant positions, through natural staff turnover, (although certain business critical roles are safeguarded) and where appropriate carefully consider requests from employees for voluntary redundancy to help achieve our resourcing objectives. We actively consider redeployment opportunities for those who are displaced.

In the spirit of our Partnership Agreement with the Trade Unions we have consulted and involved them in the process at an early stage to ensure both managers and employee representatives work together to enable delivery of change plans.

We have a range of attractive work/life balance policies, including part time working for many employees which help to retain staff whilst also improving customer service. We are also developing policies to enable some employees to work from home in the future.

In May 2004, we launched Harmony, our health and well-being programme to all employees. We were also delighted that our approach to managing health at work was recognised through winning the Personnel Today Managing Health at Work award.

Lifestyle, our flexible benefits programme is available to all employees and is valued as an important part of our employment package. This differentiates us from many other companies in our sector.

Our performance management appraisal process is used to provide regular feedback to all staff on their contribution and personal development and also links directly to our business values and goal. It is also the foundation of our new reward framework, successfully introduced in 2004, allowing employees to be recognised and rewarded for their contribution. This has enabled recognition of individual performance, taking away the history of "across the board" pay settlements and has been well received by employees across the business. The framework was introduced following a major planning and communications exercise to ensure understanding amongst all employees.

Our succession planning processes enable us to proactively foresee and plan for any areas of resource vulnerability and enable career moves for talented people. Despite our forecast manpower reductions, we continue with our graduate and apprentice recruitment campaigns to fuel talent for the future and have made 19 appointments to these positions. We were delighted to be recognised by the Association of Graduate Recruiters as having the best website for companies recruiting below 30 graduates.

Our excellent management development portfolio operates via a range of providers from leading European business schools such as Insead and Warwick to in house providers. One of our managers won an award from the Institute of Water Officers for his continuing professional development and we also received a commendation for our "Effective People Management" leadership programme following our entry into the Energy and Utility Skills (formally GWINTO) Training Awards.

We work hard to make learning opportunities available and accessible to all employees and now have two learning resource centres providing materials and resources for employees to access. We make use of e-learning opportunities where possible via our company intranet and have also produced a Career Guide which helps employees understand our succession management process and provides information to help them continue their career development.

We have a strong employer brand, both internally and externally. Quest, our annual employee attitude survey, provides valuable feedback on how our people feel about working for us. In 2004, for the second year running we achieved our best ever Quest results with a high company mean score and an excellent response rate. In October 2004 we launched our Employer Promise which underpins our commitment to employees. We were extremely proud to achieve external recognition as one of the Sunday Times "Top 10 Best Big Companies to Work For 2005", based on feedback from our own employees. We are the only utility company included on the list. We have also been recognised in the Guardian's publication "Britain's Top Employers 2005" based on an independent survey of our HR policies and practices.

We have continued to extend the use of our Human Resources information system and have improved our HR processes in recruitment, training and reporting. We have now implemented Self Service for Managers, giving them access to their employee records, and we will shortly be introducing Employee Self Service to enable all employees to view and amend their personal details. This will provide the foundation for further process improvements such as on-line expenses and overtime claims.

In April 2004 we introduced changes in our pension arrangements for new employees including the option of a career average defined benefit plan and a defined contribution investment plan.

Employee share ownership is encouraged through the operation of a number of employee share plans, including Save As You Earn Scheme and a Share Incentive Plan.

We have well structured arrangements for internal communications including monthly "Teamtalk" meetings and our re-launched in-house magazine "Pulse". Our intranet site "Streamline" covers a wide range of topics including news, announcements, reference materials and contact information.

#### Diversity in employment

We remain committed to creating an environment which values diversity and enhances the contribution made by each of our employees. We regularly review our working practices to ensure equality of opportunity for all our employees regardless of race, gender, religious belief, sexual orientation, disability, age or any other status unrelated to an individual's ability to perform their job. Reasonable adjustments are made to ensure the workplace is accessible to both current employees and potential recruits.

We are committed to promoting equality and welcome diversity in all aspects of business practices. Our regular monitoring helps us track levels and trends which continue to improve.

We launched our new Diversity policy to all employees in April 2004 and circulated a Diversity guide to all staff as part of the communication process, aimed at increasing awareness of diversity within the company.

With our diversity strategy and policy in place we have made important progress by working closely with community organisations and using more innovative approaches. This has resulted in a more diverse range of applicants and subsequent appointments. We continue to benchmark and develop our policies and practices in this area, taking guidance from best practice advisors such as Race for Opportunity and the Employers' Forum on Disability. We won a bronze award from Race for Opportunity for making significant progress since our previous assessment.

Our dedicated Access Team continues to manage and review services offered to customers with individual needs.

#### Regulation: 'Ring Fencing'

In accordance with the requirements of the Director General of Water Services, the Board confirmed, that as at 31 March 2005, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made.

#### Regulation: 'Cross Directorships'

It is the policy of the company that Directors and employees of the company may be Directors of related companies when this

is in the best interests of the company, and where appropriate arrangements are in place to avoid conflicts of interest.

#### Auditors

The Directors' wish to change the Auditors from PricewaterhouseCoopers LLP ("PwC") to Deloitte & Touche LLP ("Deloitte"). PwC, having completed the audit for the year ended 31 March 2005, have agreed that they will resign and the Directors will appoint Deloitte to fill the casual vacancy, in accordance with Section 388 of the Companies Act 1985 (as amended).



By Order of the Board

C J Mottram

Company Secretary

8 July 2005



## Statement of Directors' responsibilities

The Directors are required by the United Kingdom Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements, the company and the group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all United Kingdom Accounting Standards which they consider applicable have been followed, any material departures being disclosed and explained in the financial statements.

The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of Severn Trent Water's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent auditors' report to the members of Severn Trent Water Limited

We have audited the financial statements which comprise the group and company profit and loss accounts, the group and company balance sheets, the group cash flow statement, the statement of total recognised gains and losses, movements in shareholders' funds, reconciliation of net cash flow to movements in net debt 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 above.

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 in to 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 the Managing Director's review and 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 affairs of the company and the group at 31 March 2005 and of the profit of the company and group and cash flows of the group 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

8 July 2005

*PricewaterhouseCoopers LLP*



# Severn Trent Water Limited Profit and loss accounts

Year ended 31 March 2005

	Notes	Group		Company	
		2005 £m	2004 £m	2005 £m	2004 £m
Turnover		999.3	945.1	999.3	945.1
Operating costs before exceptional items	2	(670.1)	(615.6)	(682.4)	(626.5)
Exceptional restructuring costs	2	(13.0)	-	(13.0)	-
<b>Total operating costs</b>	<b>2</b>	<b>(683.1)</b>	<b>(615.6)</b>	<b>(695.4)</b>	<b>(626.5)</b>
Other income		2.8	2.6	2.8	2.6
<b>Operating profit</b>		<b>319.0</b>	<b>332.1</b>	<b>306.7</b>	<b>321.2</b>
Exceptional profit on disposal of assets	2	7.6	19.7	7.6	19.7
Net interest payable	4	(130.8)	(123.8)	(117.1)	(112.0)
<b>Profit on ordinary activities before taxation</b>		<b>195.8</b>	<b>228.0</b>	<b>197.2</b>	<b>228.9</b>
Taxation on profit on ordinary activities					
current tax	5	10.4	(21.6)	9.0	(22.5)
deferred tax	5	(35.3)	(40.3)	(35.3)	(40.3)
<b>Taxation</b>	<b>5</b>	<b>(24.9)</b>	<b>(61.9)</b>	<b>(26.3)</b>	<b>(62.8)</b>
<b>Profit for the financial year</b>		<b>170.9</b>	<b>166.1</b>	<b>170.9</b>	<b>166.1</b>
Dividends	6	(147.1)	(158.0)	(147.1)	(158.0)
<b>Retained profit for the financial year</b>	<b>15</b>	<b>23.8</b>	<b>8.1</b>	<b>23.8</b>	<b>8.1</b>

All activities are continuing activities.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial years stated above, and their historical cost equivalents.

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit for the year.

## Reconciliation of movements in shareholders' funds

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Opening shareholders' funds	1,884.3	1,876.2	2,118.4	2,110.3
Profit for the financial year	170.9	166.1	170.9	166.1
Dividends	(147.1)	(158.0)	(147.1)	(158.0)
Net addition to shareholders' funds	23.8	8.1	23.8	8.1
<b>Closing shareholders' funds</b>	<b>1,908.1</b>	<b>1,884.3</b>	<b>2,142.2</b>	<b>2,118.4</b>

# Balance sheets

As at 31 March 2005

		Group		Company	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
<b>Fixed assets</b>					
Tangible assets	7	5,039.3	4,872.9	5,037.3	4,870.9
Investments	8	0.2	0.6	66.9	67.3
		<b>5,039.5</b>	<b>4,873.5</b>	<b>5,104.2</b>	<b>4,938.2</b>
<b>Current assets</b>					
Stocks		4.4	4.1	4.4	4.1
Debtors	9	203.6	184.0	222.4	198.9
Short-term deposits	12b	2.3	-	2.3	-
Cash at bank and in hand		0.1	0.1	0.1	0.1
		<b>210.4</b>	<b>188.2</b>	<b>229.2</b>	<b>203.1</b>
<b>Creditors: amounts falling due within one year</b>	10	<b>(642.7)</b>	<b>(608.4)</b>	<b>(656.2)</b>	<b>(620.3)</b>
<b>Net current liabilities</b>		<b>(432.3)</b>	<b>(420.2)</b>	<b>(427.0)</b>	<b>(417.2)</b>
<b>Total assets less current liabilities</b>		<b>4,607.2</b>	<b>4,453.3</b>	<b>4,677.2</b>	<b>4,521.0</b>
<b>Creditors: amounts falling due after more than one year</b>	11	<b>(2,169.0)</b>	<b>(2,087.8)</b>	<b>(2,003.8)</b>	<b>(1,920.3)</b>
<b>Provisions for liabilities and charges</b>	13	<b>(530.1)</b>	<b>(481.2)</b>	<b>(531.2)</b>	<b>(482.3)</b>
<b>Net assets</b>		<b>1,908.1</b>	<b>1,884.3</b>	<b>2,142.2</b>	<b>2,118.4</b>
<b>Capital and reserves</b>					
Called up share capital	14	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	15	908.1	884.3	1,142.2	1,118.4
<b>Equity shareholders' funds</b>		<b>1,908.1</b>	<b>1,884.3</b>	<b>2,142.2</b>	<b>2,118.4</b>

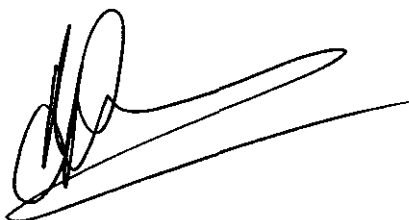
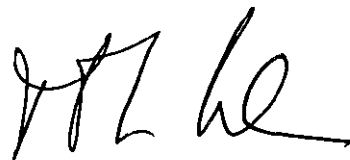
Signed on behalf of the Board who approved the accounts on 8 July 2005.



A P Wray  
Managing Director



M R Wilson  
Director

# Group cash flow statement

Year ended 31 March 2005

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
<b>Net cash inflow from operating activities</b>	18a		575.1		559.6
<b>Returns on investments and servicing of finance</b>					
Interest received		0.4		1.1	
Interest paid		(101.6)		(98.8)	
Interest element of finance lease rental payments		(12.8)		(19.4)	
			(114.0)		(117.1)
<b>Taxation</b>			0.5		(4.0)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(443.7)		(451.6)	
Grants received		36.7		36.3	
Sale of tangible fixed assets		12.1		23.5	
Sale of other fixed asset investments		1.9		-	
			(393.0)		(391.8)
<b>Equity dividends paid</b>			(147.1)		(158.0)
<b>Net cash outflow before financing</b>			(78.5)		(111.3)
<b>Management of liquid resources</b>			(2.3)		-
<b>Financing</b>					
Loans advanced		172.4		259.0	
Loans repaid		(88.0)		(161.9)	
			84.4		97.1
<b>Net increase / (decrease) in cash</b>			3.6		(14.2)

## Reconciliation of net cash flow to movement in net debt

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
Net increase / (decrease) in cash as above		3.6		(14.2)	
Cash flow from movement in net debt and financing		(84.4)		(97.1)	
Cash flow from movement in liquid resources		2.3		-	
<b>Change in net debt resulting from cash flows</b>			(78.5)		(111.3)
Rolled up interest on debt			(8.5)		(8.8)
Movement in rolled up interest on finance leases			(7.4)		2.5
<b>Increase in net debt</b>			(94.4)		(117.6)
<b>Opening net debt</b>			(2,292.3)		(2,174.7)
<b>Closing net debt</b>	18b		(2,386.7)		(2,292.3)

Year ended 31 March 2005

## 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 except for the treatment of certain grants and contributions, comply with the requirements of the United Kingdom Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the policy on grants and contributions below.

In preparing these financial statements the group and company have adopted UITF17 – 'Employee Share Schemes' (revised 2003), and has taken the exemption under UITF17 and not applied this to Inland Revenue approved Save As You Earn schemes.

The group and company continue to adopt the transitional provisions of FRS 17, requiring certain additional disclosures which are set out in note 17.

### b) Basis of preparation

The Directors have not taken advantage of the exemption available under Section 228 of the United Kingdom Companies Act 1985 from preparing group accounts.

The Directors have decided to prepare group accounts for Severn Trent Water Limited, including its subsidiary undertakings, in order to be consistent with the regulatory accounts. The group accounts presented also include the company profit and loss account.

The consolidated profit and loss account and balance sheet include the results of the company and its subsidiary undertakings listed in note 8 prepared for the year ended 31 March 2005. Intergroup sales and profits are eliminated fully on consolidation.

### c) Turnover

Turnover represents income receivable, excluding value added tax and trade discounts, in the ordinary course of business for services provided within the United Kingdom.

Income includes an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

### d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

#### i) Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with the defined standards of service is treated as an addition and included at cost after deducting grants and contributions (1f).

The depreciation charged for infrastructure assets is the estimated, anticipated level of annual expenditure required to maintain the operating capability of the network less the estimated, anticipated level of relevant annual grants and contributions, based on the company's independently certified asset management plan (1f).

#### ii) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated on a straight line basis over their estimated economic lives, which are principally as follows:

	Years
Buildings	30-60
Operational structures	40-80
Fixed plant	20-40
Vehicles, mobile plant and computers	2-15

Assets in the course of construction are not depreciated until commissioned.

### e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the fair value of the minimum lease payments are shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

All other leases are accounted for as operating leases. Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over life of the lease.

### f) Grants and contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred income and are recognised in the profit and loss account over the useful economic life of those assets.

In accordance with industry practice, grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions to be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, finite lives have not been determined for these assets, and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this departure is that the cost of fixed assets is £398.5 million lower than it would otherwise have been (2004: £362.6 million).

## 1 Accounting policies continued

### Grants and contributions *continued*

Those grants and contributions relating to the maintenance of the operating capability of the infrastructure network are taken into account in determining the depreciation charged for infrastructure assets.

### g) Impairment of goodwill and fixed assets

Impairments of goodwill and fixed assets are calculated as the difference between the carrying value of net assets of income generating units, including where appropriate investments and goodwill, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the net amount that can be generated through sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that an impairment may have occurred, or, where otherwise required, to ensure that goodwill and fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the profit and loss account and, where material, are disclosed as exceptional.

### h) Investments

Investments held as fixed assets are stated at cost less amounts written off.

### i) Stocks

Stocks are stated at cost less any provision necessary to account for any damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

### j) Insurance

Provision is made for claims notified and for claims incurred but which have not yet been notified, based on advice from the group's external insurance advisers.

### k) Pension costs

Costs of defined benefit pension schemes are determined by an independent actuary so as to spread the cost of providing pension benefits over the estimated period of employees' average service lives with the group. Costs of defined contribution schemes are charged to the profit and loss account in the period in which they fall due.

### l) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Foreign currency balances which are covered by forward exchange contracts are translated into sterling at the contract rate. Other foreign currency balances are translated at the rate ruling at the balance sheet date. All profits and losses on exchange realised during the year are dealt with through the profit and loss account.

### m) Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred. Expenditure on tangible fixed assets relating to research and development projects is capitalised and written off over the expected useful life of those assets.

### n) Deferred taxation

Deferred taxation is fully provided in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the group 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. For the purposes of discounting, the period over which accelerated capital allowances in respect of infrastructure assets reverse, is determined by the estimated annual cost of maintaining the operating capability of the network.

### o) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired.

Goodwill arising on acquisitions prior to 1 April 1998 remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible asset in the balance sheet and stated at cost less accumulated amortisation. Capitalised goodwill is amortised on a straight line basis over its useful economic life.

### p) Derivatives and other financial instruments

#### Debt 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.

#### Derivative financial instruments

Financial instruments, in particular, interest rate swaps and to a lesser extent currency swaps, are used to manage the financial risks arising from the business activities of the group and the financing of those activities. There is no trading activity in financial instruments. Financial instruments are accounted for as follows:

Interest rate swaps are used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

Currency swaps are used to hedge the group's exposure to movements in foreign exchange rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Currency swaps are not revalued to fair value prior to maturity.

The aggregate fair value at the balance sheet date of the hedging instruments described above are disclosed in note 12 to the accounts.

### q) Pre-contract costs

Pre-contract costs incurred are written off as an expense, until such time as award of the contract becomes virtually certain. These costs are amortised over the life of the contract.

# Notes to the financial statements

Year ended 31 March 2005

2 Analysis of operating costs and exceptional items	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Analysis of total operating costs				
Own work capitalised	(60.9)	(57.9)	(60.9)	(57.9)
Raw materials and consumables	31.7	29.2	31.7	29.2
Staff costs	189.1	146.5	189.1	146.5
Depreciation and other amounts written off tangible assets	244.0	231.9	244.0	231.9
Other operating costs	279.2	265.9	291.5	276.8
<b>Total operating costs</b>	<b>683.1</b>	<b>615.6</b>	<b>695.4</b>	<b>626.5</b>
Staff costs comprise:				
Wages and salaries	136.8	121.3	136.8	121.3
Social security costs	9.7	9.7	9.7	9.7
Pension costs (note 17)	42.6	15.5	42.6	15.5
	<b>189.1</b>	<b>146.5</b>	<b>189.1</b>	<b>146.5</b>
Depreciation and other amounts written off tangible assets comprises:				
Depreciation on owned assets non infrastructure	178.6	168.0	178.6	168.0
on owned assets infrastructure	58.1	56.6	58.1	56.6
on assets held under finance leases	7.3	7.3	7.3	7.3
	<b>244.0</b>	<b>231.9</b>	<b>244.0</b>	<b>231.9</b>
Other operating costs comprise:				
Power	31.9	26.2	31.9	25.3
Rates	49.7	48.1	49.7	48.1
Service charges	25.7	24.8	25.7	24.8
Other operating costs	91.1	86.8	91.1	86.8
Deferred income released	(3.2)	(3.0)	(3.2)	(3.0)
Hired and contracted services	75.2	73.8	75.2	74.7
Hire of plant and machinery	3.9	4.6	3.9	4.6
Other operating leases	1.1	1.1	13.4	12.0
Research and development expenditure	3.8	3.5	3.8	3.5
<b>Total operating costs</b>	<b>279.2</b>	<b>265.9</b>	<b>291.5</b>	<b>276.8</b>

A net exceptional charge of £5.4 million (2004: £19.7 million credit) arose in 2004/2005. This comprises:

A £13.0 million exceptional charge in respect of restructuring costs (£10.4 million in wages and salaries and £2.6 million in pension costs).

An exceptional profit of £7.6 million (2004: £19.7 million) from the disposal of fixed assets consisted of a £6.1 million (2004: £19.7 million) profit on the sale of land and buildings and a £1.5 million (2004: £nil) profit on disposal of a fixed asset investment.

During the year PricewaterhouseCoopers LLP earned the following fees:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Audit related				
Statutory	0.2	0.2	0.2	0.2
Regulatory	0.1	-	0.1	-
	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>
Other services	1.6	0.2	1.6	0.2
<b>Total fees</b>	<b>1.9</b>	<b>0.4</b>	<b>1.9</b>	<b>0.4</b>

Fees in respect of other services relate to an independent forensic investigation.

### 3 Information regarding Directors and employees

#### Directors:

- a) The interests of the Directors at the year end in the ordinary share capital of the ultimate parent undertaking, Severn Trent Plc, 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 2004	Exercised during the year	Cancelled during the year	Granted during the year	Share options under approved schemes 31 March 2005
	1 April 2004	31 March 2005					
	Ordinary shares of 65 <sup>5</sup> / <sub>100</sub> p each	Ordinary shares of 65 <sup>5</sup> / <sub>100</sub> p each					
J H Bailey	1,404	2,733	6,130	(682)	-	749	6,197
I Elliott	4,607	1,449	1,823	(682)	-	-	1,141
R S S Martin	2,318 *	3,093	- *	-	-	-	-
G C Messham	9,207 *	7,075	12,367 *	-	-	2,177	14,544
S H Reilly	135 *	135	- *	-	-	-	-
P F Stephenson	228	259	3,567	-	-	1,248	4,815
S Stubbs	-	-	-	-	-	-	-

\* At date of appointment

- i) Messrs Matthews, Wilson and Wray are Directors of Severn Trent Plc, the ultimate parent undertaking, and their interests in the share capital of that company are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 2005. Share options were granted and exercised in accordance with the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate.
- ii) The executive Directors have further interests in Severn Trent Plc ordinary shares of 65<sup>5</sup>/<sub>100</sub>p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 24 September 2002, 13 August 2003 and 15 December 2004. 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 Shareholders Return ('TSR') and Economic Profit Targets.

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

	At 1 April 2004				At 31 March 2005			
	Number of ordinary shares of 65 <sup>5</sup> / <sub>100</sub> p each	Awards vested during year	Market price at time of vesting (p)	Gain on vesting (£'000)	Awards lapsed during year	Awarded during year	Market price at time of award (p)	Number of ordinary shares of 65 <sup>5</sup> / <sub>100</sub> p each
J H Bailey	22,822	(6,462)	820.75	53.0	-	7,597	946	23,957
I Elliott	31,724	(8,571)	820.75	70.3	-	10,520	946	33,673
R S S Martin	12,445 *	-	-	-	-	6,428	946	18,873
G C Messham	10,085 *	-	-	-	-	5,844	946	15,929
S H Reilly	17,415 *	-	-	-	-	8,182	946	25,597
P F Stephenson	21,467	(5,425)	820.75	44.5	-	7,305	946	23,347

\* At date of appointment

No further awards have been made under the LTIP as at 8 July 2005.

The performance period for allocation of shares in 2002 ended on 31 March 2005. Severn Trent Plc's Remuneration Committee has subsequently determined, based on that company's TSR and Economic Profit Targets over the three year performance period, that participants are entitled to 100% of the award. The 2002 contingent awards of shares are included in the table above and the actual number of shares to which each individual has become entitled from the 2002 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</sup> / <sub>100</sub> p each vested from the 2002 award	Gain on vesting (£'000)
J H Bailey	24 September 2002	598.5	1,029.75	8,286	85.3
I Elliott	24 September 2002	598.5	1,029.75	11,474	118.1
R S S Martin	24 September 2002	598.5	1,029.75	6,436	66.2
G C Messham	24 September 2002	598.5	1,029.75	5,215	53.7
S H Reilly	24 September 2002	598.5	1,029.75	8,764	90.2
P F Stephenson	24 September 2002	598.5	1,029.75	7,968	82.0

# Notes to the financial statements

Year ended 31 March 2005

3 Information regarding Directors and employees <i>continued</i>	2005 £'000	2004 £'000
<b>b) Emoluments</b>		
Aggregate emoluments (excluding pension contributions)	2,323.5	1,672.2
<p>i) Non cash benefits included in aggregate emoluments consist mainly of the provision of cars and health care insurance.</p> <p>ii) No emoluments were paid by the company to certain of the Directors in respect of their services to the company. Their emoluments are paid by other companies within the Severn Trent group. In aggregate £383,415 (2004: £669,940) has been included above, representing the appropriate proportion of the emoluments in respect of service to the company.</p> <p>iii) Retirement benefits are accruing to seven Directors (2004: seven Directors) under a defined benefit scheme.</p> <p>iv) In addition to the emoluments disclosed above a payment of £309,115, was made to a Director for early termination of his contract. He also retained options over 7,013 shares (granted under the Severn Trent Plc Incentive Plan on 15 December 2004), 8,074 shares (granted on 13 August 2003) and 8,286 shares (granted on 24 September 2002). Additionally he also retained options over 3,567 shares granted in accordance with approved schemes.</p> <p>v) Mr B Duckworth remained employed in a consultancy capacity until 31 March 2005. His total emoluments from the date of his resignation from the Board to 31 March 2005 were £189,092 and his bonus relating to this period was £77,583.</p>		

c) Highest paid Director	2005 £'000	2004 £'000
Aggregate emoluments (excluding pension contributions)	383.4	381.4
<p>The accrued pension at 31 March 2005 for the highest paid Director was £1,928 (2004: £139,506). The pension entitlement is that which would be paid annually on retirement based on service to the end of the year. The highest paid Director did not exercise any share options during the year.</p>		

Employees:	Group and company	
	2005 Number	2004 Number
Average number of employees during the year (full time equivalent):	4,927	4,847

4 Net interest payable	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Interest receivable and similar income	0.4	1.1	0.3	0.8
Interest payable and similar charges:				
Bank loans and overdrafts	(30.4)	(35.4)	(30.4)	(35.4)
Other loans	(80.6)	(72.6)	(12.0)	(9.4)
Finance leases	(20.2)	(16.9)	(10.4)	(8.2)
To subsidiary undertaking	-	-	(64.6)	(59.8)
	<b>(130.8)</b>	<b>(123.8)</b>	<b>(117.1)</b>	<b>(112.0)</b>

5 Taxation on profit on ordinary activities	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>a) Analysis of charge in the year</b>				
<b>Current tax</b>				
UK corporation tax at 30% (2004: 30%)				
Current year	18.1	20.4	18.1	20.4
Prior year	(21.7)	(8.2)	(21.7)	(8.2)
Group relief payable at 30% (2004: 30%)				
Current year	15.4	9.4	16.7	10.3
Prior year	(22.2)	-	(22.1)	-
<b>Total current tax</b>	<b>(10.4)</b>	<b>21.6</b>	<b>(9.0)</b>	<b>22.5</b>
<b>Deferred tax</b>				
Origination and reversal of timing differences				
Current year	23.5	36.7	23.5	36.7
Prior year	12.6	8.2	12.6	8.2
Increase in discount	(0.8)	(4.6)	(0.8)	(4.6)
<b>Total deferred tax</b>	<b>35.3</b>	<b>40.3</b>	<b>35.3</b>	<b>40.3</b>
<b>Total tax charge</b>	<b>24.9</b>	<b>61.9</b>	<b>26.3</b>	<b>62.8</b>



## 5 Taxation on profit on ordinary activities continued

### b) Factors affecting the tax charge in the year

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
The current tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:				
Profit on ordinary activities before tax	195.8	228.0	197.2	228.9
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2004: 30%)	58.7	68.4	59.2	68.7
Effects of:				
Items not taxable and not deductible for tax purposes	(1.7)	(1.9)	(0.9)	(1.3)
Capital allowances for period in excess of depreciation	(29.1)	(34.1)	(29.1)	(34.1)
Utilisation of / movement in short-term timing difference	5.6	(2.6)	5.6	(2.6)
Adjustment to tax charge in respect of prior periods	(43.9)	(8.2)	(43.8)	(8.2)
	(10.4)	21.6	(9.0)	22.5

Of the current year charge, £0.1 million (2004: £4.2 million) relates to tax charges arising on the exceptional items.

Adjustments to tax charge in respect of prior periods: During the accounting year 2004/2005 the computations in respect of the years ended 31 March 1999, 2000 and 2001 were agreed with the Inland Revenue following completion of negotiations and correspondence. As a result a charge of £15.4 million has been released and a payment of £21.1 million for group relief surrendered has been recognised.

Additionally as a result of these agreements a further £16.4 million has been released in respect of the years ended 2003 and 2004.

### c) Factors affecting future tax rates

The group's current tax charge, of £33.6 million (2004: £29.8 million) before prior year adjustments represents 17.2% (2004: 13%) of the group's profit before tax.

The group's future current tax charge will be affected by the requirements of AMP4 which will impact both depreciation and capital allowances.

HM Revenue and Customs' revised views concerning tax deductions for deferred revenue expenditure, as published in Tax Bulletin 53, will increase the effective rate of tax in 2005/2006 et seq. The group's future deferred tax charge will be impacted by changes to interest rates.

## 6 Dividends

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Dividend paid	147.1	158.0	147.1	158.0

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations. The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared and paid by the company in 2005 amounted to £147.1 million.

## 7 Tangible fixed assets

	Group				Company			
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
<b>Cost</b>								
At 1 April 2004	1,803.8	3,204.5	2,393.3	7,401.6	1,803.8	3,202.2	2,393.4	7,399.4
Additions	95.4	173.3	183.7	452.4	95.4	173.3	183.7	452.4
Grants and contributions	-	(35.9)	-	(35.9)	-	(35.9)	-	(35.9)
Assets sold or written off	(6.5)	(0.6)	(72.6)	(79.7)	(6.5)	(0.6)	(72.6)	(79.7)
<b>At 31 March 2005</b>	<b>1,892.7</b>	<b>3,341.3</b>	<b>2,504.4</b>	<b>7,738.4</b>	<b>1,892.7</b>	<b>3,339.0</b>	<b>2,504.5</b>	<b>7,736.2</b>
<b>Depreciation</b>								
At 1 April 2004	533.4	939.3	1,056.0	2,528.7	533.4	939.1	1,056.0	2,528.5
Charge for year	38.1	58.1	147.8	244.0	38.1	58.1	147.8	244.0
Assets sold or written off	(5.5)	(0.6)	(67.5)	(73.6)	(5.5)	(0.6)	(67.5)	(73.6)
<b>At 31 March 2005</b>	<b>566.0</b>	<b>996.8</b>	<b>1,136.3</b>	<b>2,699.1</b>	<b>566.0</b>	<b>996.6</b>	<b>1,136.3</b>	<b>2,698.9</b>
<b>Net book value</b>								
At 31 March 2005	1,326.7	2,344.5	1,368.1	5,039.3	1,326.7	2,342.4	1,368.2	5,037.3
At 1 April 2004	1,270.4	2,265.2	1,337.3	4,872.9	1,270.4	2,263.1	1,337.4	4,870.9

# Notes to the financial statements

Year ended 31 March 2005

7 Tangible fixed assets continued	2005 £m	Group		Company	
		2004 £m	2005 £m	2004 £m	2004 £m
i) Included in tangible fixed assets are assets held under finance leases as follows:					
Cost	275.8	275.8	273.4	273.4	
Accumulated depreciation	(79.0)	(71.7)	(78.7)	(71.4)	
Net book value	196.8	204.1	194.7	202.0	

ii) Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view as set out in note 1f.

iii) The net book value of land and buildings is analysed as follows:

Freehold	1,326.4	1,270.1	1,326.4	1,270.1
Short leasehold	0.3	0.3	0.3	0.3
	1,326.7	1,270.4	1,326.7	1,270.4

iv) Depreciation incurred during the year has been charged as follows:

Owned assets non infrastructure	178.6	168.0	178.6	168.0
Owned assets infrastructure	58.1	56.6	58.1	56.6
Assets held under finance leases	7.3	7.3	7.3	7.3
	244.0	231.9	244.0	231.9

v) Included in the above are the following tangible fixed assets not subject to depreciation:

Land	27.0	25.7	27.0	25.7
Assets in the course of construction	230.7	234.7	230.7	234.7
	257.7	260.4	257.7	260.4

8 Investments	Group	
	Other investments £m	Total £m
Cost and net book value at 1 April 2004	0.6	0.6
Disposals	(0.4)	(0.4)
Cost and net book value at 31 March 2005	0.2	0.2

	Company			
	Shares in subsidiary undertakings £m	Loans in subsidiary undertakings £m	Other investments £m	Total £m
Cost and net book value at 1 April 2004	1.2	65.5	0.6	67.3
Disposals	-	-	(0.4)	(0.4)
Cost and net book value at 31 March 2005	1.2	65.5	0.2	66.9

8 Investments continued	Country of registration and operation	Percentage and class of share capital held	Nature of business
<b>Subsidiary undertakings</b>			
Biogas Generation Limited	England	100% ordinary	Power generation
East Worcester Water Plc	England	100% ordinary 100% non voting ordinary	Water undertaking
Grafham Carbons Limited	England	100% ordinary	Carbon regeneration
Severn Trent Water Reservoirs Limited	England	100% ordinary	Finance company
Severn Trent Water Utilities Finance Plc	England	100% ordinary	Finance company

In the opinion of the Directors' the value of the group and company's investments is not less than the amount at which they are stated in the balance sheet.

9 Debtors	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Trade debtors	79.7	70.1	79.7	70.1
Amounts owed by parent and fellow subsidiary undertakings	3.7	1.5	28.1	22.2
Other debtors	8.9	9.2	8.9	9.2
Prepaid pension contributions	0.3	0.3	0.3	0.3
Prepayments and accrued income	111.0	102.9	105.4	97.1
	<b>203.6</b>	<b>184.0</b>	<b>222.4</b>	<b>198.9</b>

Within group debtors of £203.6 million is £5.5 million (2004: £6.1 million) of prepayments and accrued income that falls due after one year.

Within company debtors of £222.4 million is £5.5 million (2004: £6.1 million) of prepayments and accrued income and £18.8 million (2004: £14.8 million) of amounts owed by parent and fellow subsidiary undertakings that fall due after one year.

10 Creditors: amounts falling due within one year	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank overdrafts	160.2	163.8	163.3	165.8
Bank loans	79.3	64.0	79.3	64.0
Amounts owed to subsidiary undertakings	-	-	15.0	24.0
Other loans	15.0	24.0	-	-
Obligations under finance leases	14.9	4.3	12.0	2.8
<b>Borrowings (note 12)</b>	<b>269.4</b>	<b>256.1</b>	<b>269.6</b>	<b>256.6</b>
Trade creditors	26.7	24.7	26.7	24.7
Amounts owed to parent and fellow subsidiary undertakings	61.3	45.2	64.1	47.7
Amounts owed to subsidiary undertakings	-	-	39.6	37.5
Other creditors	7.4	5.5	7.4	5.5
Taxation and social security	3.4	3.2	3.4	3.2
Corporation tax payable	20.8	28.2	20.8	28.2
Accruals and deferred income	253.7	245.5	224.6	216.9
	<b>642.7</b>	<b>608.4</b>	<b>656.2</b>	<b>620.3</b>

# Notes to the financial statements

Year ended 31 March 2005

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>11 Creditors: amounts falling due after more than one year</b>				
Bank loans	352.7	428.2	352.7	428.2
Amounts owed to subsidiary undertakings	-	-	1,332.2	1,170.1
Other loans	1,332.2	1,170.1	-	-
Obligations under finance leases	434.8	438.0	269.6	270.5
<b>Borrowings (note 12)</b>	<b>2,119.7</b>	<b>2,036.3</b>	<b>1,954.5</b>	<b>1,868.8</b>
Deferred income	44.0	45.4	44.0	45.4
Other creditors	5.3	6.1	5.3	6.1
	<b>2,169.0</b>	<b>2,087.8</b>	<b>2,003.8</b>	<b>1,920.3</b>

## 12 Financial Instruments

The groups policy in respect of interest rate risk management and the related use of financial instruments are set out in the Accounting policy note 1p) on page 19. Short-term debtors and creditors have been excluded from disclosures.

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	Group	
					2005 £m	2004 £m
<b>a) Borrowings analysed by maturity date</b>						
Financial liabilities due within one year (note 10)	160.2	-	94.3	14.9	269.4	256.1
Between one and two years	-	-	57.0	3.3	60.3	99.4
Between two and five years	-	-	379.1	36.0	415.1	271.5
After more than five years	-	-	1,248.8	395.5	1,644.3	1,665.4
<b>Total financial liabilities after one year</b>	<b>-</b>	<b>-</b>	<b>1,684.9</b>	<b>434.8</b>	<b>2,119.7</b>	<b>2,036.3</b>
	<b>160.2</b>	<b>-</b>	<b>1,779.2</b>	<b>449.7</b>	<b>2,389.1</b>	<b>2,292.4</b>

Loans repayable partly or wholly after five years comprise:

	Rate of interest %	2005 £m	2004 £m
European Investment Bank loans – 2013	3.1	127.7	223.8
European Medium Term Loans notes – 2010-2028	4.1-5.3	409.2	330.4
Sterling bonds – 2024-2029	6.125-6.25	711.9	711.4
		<b>1,248.8</b>	<b>1,265.6</b>

## 12 Financial Instruments continued

	Overdrafts £m	Loans repayable by instalments any of which are payable after five years £m	Loans with other repayment terms £m	Finance leases £m	Company	
					2005 £m	2004 £m
Financial liabilities due within one year (note 10)	163.3	-	94.3	12.0	269.6	256.6
Between one and two years	-	-	57.0	-	57.0	97.2
Between two and five years	-	-	379.1	19.5	398.6	256.4
After more than five years	-	-	1,248.8	250.1	1,498.9	1,515.2
Total financial liabilities after one year	-	-	1,684.9	269.6	1,954.5	1,868.8
	163.3	-	1,779.2	281.6	2,224.1	2,125.4
Loans repayable partly or wholly after five years comprise:						
				Rate of interest %	2005 £m	2004 £m
European Investment Bank loans – 2013				3.1	127.7	223.8
Amounts owed to subsidiary undertakings – 2010-2029				4.1-6.25	1,121.1	1,041.8
					1,248.8	1,265.6

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>b) Investment in interest earning assets</b>				
Sterling deposits	2.3	-	2.3	-

The above sterling deposits are held on short-term deposit with a maturity date of less than one year as security for self insurance obligations.

Sterling deposits receive interest based on LIBID.

# Notes to the financial statements

Year ended 31 March 2005

## 12 Financial Instruments continued

c) Borrowings analysed by interest rate after taking into account of various interest rate swaps entered into by the group and company	Group					Company				
	Fixed borrowings					Fixed borrowings				
	Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years	Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings as at 31 March 2005	2,389.1	806.0	1,583.1	5.90	18.80	2,224.1	641.0	1,583.1	5.90	18.80
Total borrowings as at 31 March 2004	2,292.4	792.4	1,500.0	6.00	19.80	2,125.4	625.4	1,500.0	6.00	19.80

In addition to the fixed debt above, the group entered into a number of forward start accruing interest rate swaps. These have an initial notional value of £17.0 million and commence accruing notional value between March 2005 and December 2032. The maximum notional value of these swaps is £135.0 million. These swaps are float to fixed and bear interest at between 5.26% and 5.52%.

Following the year end the group has entered into £227.0 million of forward start interest rate swaps (floating to fixed) that commence between May 2005 and September 2009. These swaps all terminate in May 2010. These interest rate swaps bears interest between 4.82% and 4.84%.

Floating rate borrowings bear interest based on LIBOR.

### d) Fair value of financial instruments

The group and company uses financial derivatives solely for the purposes of managing the interest rate and currency risks associated with financing business activities. The group'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 its asset base. The details are periodically reviewed to respond to changing market conditions and to have regard to regulatory pronouncements. At 31 March 2005 interest rates on 66.3% of the group's borrowings were fixed for periods up to 24 years.

The group and company's business does not involve significant exposure to foreign exchange transactions. Cross currency swaps are employed to exchange foreign currency borrowings for Sterling.

Financial instruments by category: Asset / (liability)	2005		Group 2004		2005		Company 2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Primary financial instruments held or issued to finance business activities</b>								
Short term deposits	2.3	2.3	-	-	2.3	2.3	-	-
Cash at bank and in hand	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings falling due within one year	(269.4)	(271.0)	(247.6)	(248.2)	(269.6)	(271.2)	(248.1)	(248.7)
Borrowings falling due after more than one year	(2,110.6)	(2,250.3)	(2,030.7)	(2,141.4)	(1,945.4)	(2,085.1)	(1,863.2)	(1,973.9)
<b>Derivative financial instruments held to manage the currency and interest rate profile</b>								
Interest rate swaps and similar instruments	-	(32.8)	-	(29.8)	-	(32.8)	-	(29.8)
Currency instruments - cross currency swaps	(9.1)	(11.3)	(14.1)	(14.2)	(9.1)	(11.3)	(14.1)	(14.2)
<b>Total net debt</b>	<b>(2,386.7)</b>	<b>(2,563.0)</b>	<b>(2,292.3)</b>	<b>(2,433.5)</b>	<b>(2,221.7)</b>	<b>(2,398.0)</b>	<b>(2,125.3)</b>	<b>(2,266.5)</b>
<b>Other long-term assets</b>								
Other fixed asset investments	0.2	0.2	0.6	0.6	0.2	0.2	0.6	0.6

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 interest rates.

e) Borrowings facilities	Group and company	
The group and company had the following undrawn committed facilities available at 31 March 2005:	2005 £m	2004 £m
Expiring within one year	-	-
Expiring in more than one year but not more than two years	200.0	600.0
Expiring after two years but less than five years	500.0	-
	<b>700.0</b>	<b>600.0</b>

## 12 Financial Instruments continued

### f) Unrecognised gains and losses on hedges at 31 March 2005

Gains or losses on derivative instruments are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains or losses on hedges at the balance sheet date are summarised in the table below. These gains or losses represent the expected future benefit of interest rate hedges to the group and company at 31 March 2005 given prevailing economic conditions.

	Gains £m	Losses £m	Group and company Total net gains/ (losses) £m	
Unrecognised gains and losses on hedges 1 April 2004	4.4	(35.2)	(30.8)	
Arising in previous years that were recognised in the year	2.0	(0.3)	1.7	
<b>Arising before 1 April 2004 that were not recognised in the financial year</b>	<b>6.4</b>	<b>(35.5)</b>	<b>(29.1)</b>	
Unrecognised gains and losses arising during the financial year	(4.8)	(1.1)	(5.9)	
<b>Unrecognised gains and losses at 31 March 2005</b>	<b>1.6</b>	<b>(36.6)</b>	<b>(35.0)</b>	
Expected to be recognised				
In one year or less	1.4	-	1.4	
In later years	0.2	(36.6)	(36.4)	
			Group	
	Balance at 1 April 2004 £m	Charged to profit and loss account £m	Utilised £m	Balance at 31 March 2005 £m

## 13 Provisions

### Provisions for liabilities and charges comprise:

Deferred tax	480.9	35.3	-	516.2
Restructuring	0.3	13.0	(1.8)	11.5
Insurance	-	2.4	-	2.4
	481.2	50.7	(1.8)	530.1

	Balance at 1 April 2004 £m	Charged to profit and loss account £m	Utilised £m	Company Balance at 31 March 2005 £m
Deferred tax	482.0	35.3	-	517.3
Restructuring	0.3	13.0	(1.8)	11.5
Insurance	-	2.4	-	2.4
	482.3	50.7	(1.8)	531.2

# Notes to the financial statements

Year ended 31 March 2005

13 Provisions continued	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>Deferred Tax</b>				
Capital allowance	922.5	880.8	922.5	880.8
Other timing differences	(9.7)	(4.1)	(8.6)	(3.0)
Undiscounted provision for deferred tax	912.8	876.7	913.9	877.8
Discount	(396.6)	(395.8)	(396.6)	(395.8)
Discounted provision for deferred tax	516.2	480.9	517.3	482.0
Provision at start of year	480.9	440.6	482.0	441.7
Deferred tax charge for year	35.3	40.3	35.3	40.3
Provision at end of year	516.2	480.9	517.3	482.0

**Other provisions:**

The restructuring provision reflects costs to be incurred in respect of committed programmes. All of the associated outflows are estimated to occur within two years of the balance sheet date.

Provision is made for claims notified and for claims incurred but which have not yet been notified. The associated outflows are expected to arise over a period of up to two years from the balance sheet date.

14 Share capital	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>Authorised</b>				
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0	1,000.0	1,000.0
<b>Issued and fully paid</b>				
1,000,000,000 ordinary shares of £1 each	1,000.0	1,000.0	1,000.0	1,000.0

15 Profit and loss account	Group	Company
	£m	£m
At 1 April 2004	884.3	1,118.4
Retained profit for the year	23.8	23.8
At 31 March 2005	908.1	1,142.2

At 31 March 2005 cumulative goodwill written off against group reserves amounted to £29.2 million (2004 : £29.2 million).

16 Commitments and contingent liabilities	Group and company	
	2005 £m	2004 £m

**a) Investment expenditure commitments**

Contracted for but not provided in the financial statements	163.7	191.7
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In addition to these commitments, the group and company has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services and to provide for growth in demand for water and sewerage services.



## 16 Commitments and contingent liabilities *continued*

b) Operating lease commitments	2005		2004	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
The group is committed to making the following payments during the next year in respect of operating leases which expire as follows:				
Within one year	-	0.2	-	0.2
Between one and five years	0.1	0.7	0.2	0.6
After five years	0.3	-	0.2	-
	0.4	0.9	0.4	0.8

The company is committed to making the following payments during the next year in respect of operating leases which expire as follows:

	2005		2004	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	-	0.2	-	0.2
Between one and five years	0.1	0.7	0.2	0.6
After five years	0.3	13.8	0.2	11.8
	0.4	14.7	0.4	12.6

c) The banking arrangements for both the group and company operate on a pooled basis with certain other group undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances. Credit balances can be offset against overdrawn balances of participating companies. The contingent liability as at 31 March 2005 is nil (2004: £nil).

## 17 Pensions

The group and company continues to account for pension arrangements in accordance with SSAP 24 'Accounting for Pension Costs'. Disclosures required under SSAP 24 are set out in note 17a below. SSAP 24 uses the results of the last formal actuarial valuation to determine the group's pension charge. Thus the group's and company's pension charge in 2004/2005 is based on formal actuarial valuations as at the dates set out below.

In November 2000, the Accounting Standards Board issued FRS 17 'Retirement Benefits', which will replace SSAP 24. Full adoption of FRS 17 is not required in the case of Severn Trent Water group, until, at the earliest, the year ending 31 March 2006. In the interim, certain additional disclosures are required under the transitional provisions of FRS 17, details of which are provided in note 17b.

### a) SSAP 24 'Accounting for pension cost' disclosures

The group and company participates in the Severn Trent Pension Scheme (STPS), the Severn Trent Mirror Image Scheme (STMIS) and the Severn Trent Senior Staff Pension Scheme (STSSPS) (together 'the Schemes') all of which are defined benefit schemes and are funded to cover future salary and pension increases. The assets of the schemes are held in a separate fund administered by trustees. The charge for all these pension arrangements during the year was £42.6 million (2004: £15.5 million). In addition, benefits were also provided by the group and company on an unfunded and unapproved basis to senior staff recruited since June 1989, whose benefits would otherwise be restricted by the Finance Act 1989 earnings cap. Provision is made for such benefits by an annual charge against the group and company's earnings totalling £0.3 million (2004: £0.3 million).

As from April 2004, the Severn Trent Pension Scheme was amended with new defined benefit and defined contribution sections introduced.

The UK defined benefit schemes and the date of their last formal actuarial valuation are as follows:

UK defined benefit scheme	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS) *	31 March 2004
Severn Trent Senior Staff Pension Scheme	31 March 2004
Severn Trent Mirror Image Pension Scheme	31 March 2003

\* The STPS is by far the largest of the group's defined benefit schemes.

Year ended 31 March 2005

## 17 Pensions continued

## a) SSAP 24 'Accounting for pension costs' – additional disclosures continued

The group also operates defined contribution arrangements for certain of its UK employees. In September 2001, the Severn Trent Group Pension Scheme (an occupational defined contribution scheme) was established to ensure compliance with stakeholder legislation and to provide the group with an alternative pension arrangement. This was closed to new entrants on 1 April 2005 and replaced by the Severn Trent Stakeholder Pension Scheme.

The most recent formal actuarial valuations of the STPS was carried out using the projected unit method, whilst for the Severn Trent Senior Staff Pension Scheme and the Severn Trent Mirror Image Pension Scheme, the attained age method was applied.

The unfunded supplemental scheme is valued each year using the assumptions used in the most recent formal actuarial valuation of the Severn Trent Senior Staff Pension Scheme.

The results of these valuations at the above dates (including the unfunded arrangement for senior staff as at 31 March 2005) for the Severn Trent Group were as follows:

	STPS £m	Others £m	Total £m
Market value of assets	798.6	137.1	935.7
Present value of scheme liabilities	(1,018.1)	(191.4)	(1,209.5)
Net deficits	(219.5)	(54.3)	(273.8)

The major assumptions used by the scheme actuary in the most recent valuation of the STPS (also the approximate weighted average of assumptions used for the most recent formal valuations of all group schemes) were as follows:

	2005	2004
Price inflation	2.75%	2.5%
Salary increases	4.25%	4.0%
Pension increases in payment and deferment	2.75%	2.5%
Weighted average discount rate	5.70%	5.7%

Following the valuation of the STPS scheme, the employers' contribution rates have been increased to 33.24%, 27.70% or 16.62% of pensionable pay (previously 14.64%, 12.2% or 7.32%). STPS members contributions continue at a rate of 6%, 5% or 3% of pensionable pay.

Employers' contributions to STPS in the year to 31 March 2005 amounted on average to 32.0% of pensionable payroll which was broadly equivalent to the pension charge for the year.

The triennial valuation of the STPS and STSSPS schemes at 31 March 2004, showed an increase in the scheme deficits since the preceding valuations. As a result of this the pension charge has increased.

## 17 Pensions continued

### b) FRS 17 'Retirement benefits' – additional disclosures continued

The actuarial liabilities and the market values of the assets at 31 March 2005 of the group's and company's defined benefit schemes, details of which are provided above, have been assessed by the group's actuaries in accordance with the requirements of FRS 17.

In 2004/2005 the group and company contributed to these defined benefit schemes, STPS, STMIS and STSSPS. All schemes were accounted for as multi-employer schemes as defined by FRS 17 in the prior year as neither the group nor company was able to identify its share of the underlying assets and liabilities.

Following work performed during 2004/2005 it has been possible to identify the group and company's share of the underlying assets and liabilities, accordingly the necessary disclosures under the FRS 17 transitional arrangements for the group and company are detailed below.

The weighted average of the major assumptions used by the actuary to calculate scheme liabilities under FRS 17 are:

	31 March 2005
Valuation method	Projected Unit
Price inflation	2.75%
Salary increases	4.25%
Pension increases	2.75%
Discount rate	5.50%

The assets and liabilities in the schemes and the expected rates of return were:

At 31 March 2005	Long-term rate of return expected at 31 March 2005	STPS £m	Others £m	Total fair value at 31 March 2005 £m
Equities	8.25%	511.4	48.0	559.4
Gilts	4.66%	104.0	38.6	142.6
Corporate bonds	5.50%	39.1	3.6	42.7
Property	6.46%	44.1	4.1	48.2
Cash	3.75%	20.9	2.2	23.1
Total market value of assets		719.5	96.5	816.0
Present value of scheme liabilities		(928.1)	(107.3)	(1,035.4)
Net deficit in schemes before deferred tax		(208.6)	(10.8)	(219.4)
		Total recoverable deficit £m	Deferred tax asset £m	Net group total after deferred tax £m
Total schemes at 31 March 2005		(219.4)	65.8	(153.6)
At 31 March 2004	Long-term rate of return expected at 31 March 2004	STPS £m	Others £m	Total fair value at 31 March 2004 £m
Equities	8.50%	477.1	46.3	523.4
Gilts	4.66%	73.9	35.5	109.4
Corporate bonds	5.50%	10.5	1.0	11.5
Property	6.58%	37.1	3.6	40.7
Cash	3.75%	30.7	2.9	33.6
Total market value of assets		629.3	89.3	718.6
Present value of scheme liabilities		(880.0)	(104.0)	(984.0)
Net deficit in schemes before deferred tax		(250.7)	(14.7)	(265.4)
		Total recoverable deficit £m	Deferred tax asset £m	Net group total after deferred tax £m
Total schemes at 31 March 2004		(265.4)	79.6	(185.8)

# Notes to the financial statements

Year ended 31 March 2005

17 Pensions continued	2005 P&L Reserves £m	2005 Net assets £m	2004 P&L Reserves £m	2004 Net assets £m
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## b) FRS 17 'Retirement benefits' – additional disclosures continued

If the above amounts were recognised in the financial statements, the group's net assets and profit and loss reserve at 31 March 2005 and 31 March 2004 would be as follows:

Excluding pension liability	908.1	1,908.1	884.3	1,884.3
Net pension liability under FRS 17	(153.6)	(153.6)	(185.8)	(185.8)
Net liabilities already recognised in accounts under SSAP 24 (net of deferred tax)	(1.4)	(1.4)	(3.7)	(3.7)
Including pension liability	753.1	1,753.1	694.8	1,694.8

The weighted average employer contributions rates to all group defined benefit schemes (expressed as a percentage of pensionable payroll) were 34.2% in the year ended 31 March 2005.

The amounts that would have been recognised in the profit and loss account and statement of total recognised gains and losses in respect of the pension schemes in the year to 31 March 2005 under FRS 17 would have been as follows:

### Analysis of amounts that would have been charged to operating profit for the year ended 31 March 2005.

	STPS £m	Others £m	Total £m
Loss on settlement and curtailment	(2.8)	(1.2)	(4.0)
Current service cost	(24.0)	(1.4)	(25.4)
Total operating charge	(26.8)	(2.6)	(29.4)

The loss on settlement and curtailment relates to charges in respect of the restructuring of Severn Trent Water.

### Analysis of amounts that would have been included as other finance income for the year ended 31 March 2005:

	STPS £m	Others £m	Total £m
Expected return on scheme assets	48.0	5.9	53.9
Interest on scheme liabilities	(47.6)	(5.5)	(53.1)
Net return	0.4	0.4	0.8

### History of experience gains and losses and analysis of amounts that would have been recognised in the statement of total recognised gains and losses for the year ended 31 March 2005:

	STPS	Others	Total
Actual return less expected return on scheme assets			
Amount (£m)	27.9	1.6	29.5
Percentage of scheme assets	3.9%	1.7%	3.6%
Experience gains and losses arising on the scheme liabilities			
Amount (£m)	5.4	0.4	5.8
Percentage of scheme liabilities	0.6%	0.4%	0.6%
Changes in assumptions underlying the present value of scheme liabilities			
Amount (£m)	-	-	-
Actuarial gain recognised in the statement of total recognised gains and losses			
Amount (£m)	33.3	2.0	35.3
Percentage of scheme liabilities	3.6%	1.9%	3.4%

### The following table reconciles the movements in pension scheme deficits during the period for the year ended 31 March 2005:

	STPS £m	Others £m	Total £m
Deficit in the scheme at the beginning of the year	(250.7)	(14.7)	(265.4)
Contributions	35.2	4.1	39.3
Current service cost	(24.0)	(1.4)	(25.4)
Loss on settlement and curtailment	(2.8)	(1.2)	(4.0)
Other financial costs	0.4	0.4	0.8
Actuarial gain	33.3	2.0	35.3
Deficit in scheme at end of year	(208.6)	(10.8)	(219.4)

## 18 Group cash flow statement

	2005 £m	2004 £m
a) Reconciliation of profit before interest to net cash inflow from operating activities		
Profit before interest	319.0	332.1
Depreciation charge (note 7 iv)	244.0	231.9
Deferred income received	1.9	0.9
Deferred income written back	(3.2)	(3.0)
Provision for liabilities and charges	15.4	-
Utilisation of provisions for liabilities and charges	(1.8)	(0.4)
Increase in stocks	(0.3)	(0.6)
Increase in debtors	(20.7)	(16.1)
Increase in creditors	20.8	14.8
<b>Net cash inflow from operating activities</b>	<b>575.1</b>	<b>559.6</b>

b) Analysis of changes in net debt	At 1 April 2004 £m	Cash flow £m	Other non cash changes £m	At 31 March 2005 £m
Cash at bank and in hand	0.1	-	-	0.1
Overdrafts (note 10)	(163.8)	3.6	-	(160.2)
	(163.7)	3.6	-	(160.1)
Debt due within one year (note 10)	(88.0)	(6.3)	-	(94.3)
Debt due after one year (note 11)	(1,598.3)	(78.1)	(8.5)	(1,684.9)
Finance leases (notes 10 and 11)	(442.3)	-	(7.4)	(449.7)
	(2,128.6)	(84.4)	(15.9)	(2,228.9)
Short-term deposits (note 12b)	-	2.3	-	2.3
	(2,292.3)	(78.5)	(15.9)	(2,386.7)

## 19 Ultimate and immediate parent company and related party transactions

The ultimate parent undertaking is Severn Trent Plc which is registered in England. The immediate parent undertaking is Severn Trent Water Services Plc which is registered in England. Copies of the Annual Report and Accounts of Severn Trent Plc, which are the only accounts within which the results of the group and company are consolidated, are available from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

Alternatively, the report can be viewed and downloaded from Severn Trent Plc's website at [www.severntrent.com/reports2005](http://www.severntrent.com/reports2005).

As a wholly owned subsidiary, the company has taken advantage of the exemption not to disclose related party transactions with other group undertakings in accordance with accounting standard FRS 8 'Related party disclosures'.

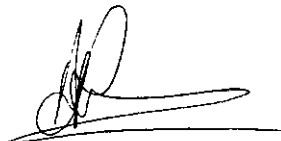
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## Diversification and the protection of the core business – Condition F6a

Severn Trent Water Limited and its subsidiary East Worcester Water Plc (together referred to as 'the Appointees') hereby advise:

- a) That in the opinion of the Directors, the Appointees will have available to them sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- b) That in the opinion of the Directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.



**A P Wray**  
Managing Director  
For and on behalf of the Board  
8 July 2005

## Independent Auditors' report to the Director General of Water Services and the Directors of Severn Trent Water Limited and East Worcester Water Plc (together 'the Appointees')

We have audited the Regulatory Accounts of Severn Trent Water Limited which incorporates East Worcester Water Plc and its other subsidiary undertakings on pages 39 to 48 which comprise:

- The regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account and the regulatory historical cost balance sheet; and
- The regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the Appointees and the Director General of Water Services ("the Regulator") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Appointees as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Appointees and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Appointees to meet their obligations under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Appointees and the Regulator, for our audit work, for this report or for the opinions we have formed.

### Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

### Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 48.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities".

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointees and their Appointed businesses in accordance with the Appointees' Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 40 to 48 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Appointees have not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the Appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on regulatory information, and the additional information required by the Appointees' Regulatory Licence.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Appointees' 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Appointees on which we reported on 8 July 2005, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Appointees (our "Statutory" audit) was made solely to the Appointees' members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Appointees' members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law,

we do not accept or assume any responsibility to anyone other than the Appointees and the Appointees' members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

## Independent Auditors' report to the Director General of Water Services and the Directors of Severn Trent Water Limited and East Worcester Water Plc (together 'the Appointees') continued

The regulatory historical cost accounting statements on page 39 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. This represents a departure from Generally Accepted Accounting Principles. As a consequence an amount of £4.4 million has been included under prepayments in the historical cost regulatory balance sheet and this amount has been deducted from fixed assets as shown in the statutory financial statements balance sheet on page 16.

### Opinions'

In our opinion the Regulatory Accounts of the Appointees for the year ended 31 March 2005 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Appointees as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on page 42, the state of the Appointees' affairs at 31 March 2005 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year then ended and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information we report that in our opinion:

- (a) proper accounting records have been kept by the Appointee's as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the Appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (c) the regulatory historical cost accounting statements on page 39 fairly present, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Appointees' Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 40 to 48 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP*

Chartered Accountants and Registered Auditors

Birmingham

8 July 2005

1. The maintenance and integrity of the Appointees website is the responsibility of the Directors and the maintenance and integrity of the Regulator's website is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the websites.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.



## Group profit and loss account

Year ended 31 March 2005	Appointed business 2005 £m	Non appointed business 2005 £m	Inter segment 2005 £m	2005 £m	2004 £m
Turnover	990.9	10.1	(1.7)	999.3	945.1
Operating costs	(675.7)	(9.1)	1.7	(683.1)	(615.6)
Other operating income	7.6	-	-	7.6	19.7
<b>Operating profit</b>	<b>322.8</b>	<b>1.0</b>	<b>-</b>	<b>323.8</b>	<b>349.2</b>
Other income	2.7	0.1	-	2.8	2.6
Net interest payable	(130.8)	-	-	(130.8)	(123.8)
<b>Profit on ordinary activities before taxation</b>	<b>194.7</b>	<b>1.1</b>	<b>-</b>	<b>195.8</b>	<b>228.0</b>
Taxation on profit on ordinary activities	10.7	(0.3)	-	10.4	(21.6)
Deferred tax	(35.3)	-	-	(35.3)	(40.3)
Taxation	(24.6)	(0.3)	-	(24.9)	(61.9)
<b>Profit for the financial year</b>	<b>170.1</b>	<b>0.8</b>	<b>-</b>	<b>170.9</b>	<b>166.1</b>
Dividend	(147.1)	-	-	(147.1)	(158.0)
<b>Retained profit for the financial year</b>	<b>23.0</b>	<b>0.8</b>	<b>-</b>	<b>23.8</b>	<b>8.1</b>

The group results presented are for Severn Trent Water Limited and its subsidiary undertakings including East Worcester Water Plc.

## Group balance sheet

As at 31 March 2005	Appointed business 2005 £m	Non appointed business 2005 £m	Inter segment 2005 £m	2005 £m	2004 £m
<b>Fixed assets</b>					
Tangible assets	5,034.9	-	-	5,034.9	4,873.3
Investments	0.2	-	-	0.2	0.6
	<b>5,035.1</b>	<b>-</b>	<b>-</b>	<b>5,035.1</b>	<b>4,873.9</b>
<b>Current assets</b>					
Stocks	4.4	-	-	4.4	4.1
Debtors	208.0	0.8	(0.8)	208.0	184.0
Short-term deposits	2.3	-	-	2.3	-
Cash at bank and in hand	0.1	-	-	0.1	0.1
	<b>214.8</b>	<b>0.8</b>	<b>(0.8)</b>	<b>214.8</b>	<b>188.2</b>
<b>Creditors: amounts falling due within one year</b>					
Borrowings	(269.4)	-	-	(269.4)	(256.1)
Other creditors	(371.2)	-	0.8	(370.4)	(349.5)
	<b>(640.6)</b>	<b>-</b>	<b>0.8</b>	<b>(639.8)</b>	<b>(605.6)</b>
<b>Net current (liabilities) / assets</b>	<b>(425.8)</b>	<b>0.8</b>	<b>-</b>	<b>(425.0)</b>	<b>(417.4)</b>
<b>Total assets less current liabilities</b>	<b>4,609.3</b>	<b>0.8</b>	<b>-</b>	<b>4,610.1</b>	<b>4,456.5</b>
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	(2,119.7)	-	-	(2,119.7)	(2,036.3)
Other creditors	(5.3)	-	-	(5.3)	(6.1)
	<b>(2,125.0)</b>	<b>-</b>	<b>-</b>	<b>(2,125.0)</b>	<b>(2,042.4)</b>
Provisions for liabilities and charges	(530.1)	-	-	(530.1)	(481.6)
Deferred income	(46.9)	-	-	(46.9)	(48.2)
<b>Net assets</b>	<b>1,907.3</b>	<b>0.8</b>	<b>-</b>	<b>1,908.1</b>	<b>1,884.3</b>
<b>Capital and reserves</b>					
Called up share capital	1,000.0	-	-	1,000.0	1,000.0
Profit and loss account	907.3	0.8	-	908.1	884.3
<b>Shareholders' funds</b>	<b>1,907.3</b>	<b>0.8</b>	<b>-</b>	<b>1,908.1</b>	<b>1,884.3</b>

## Group profit and loss account: appointed business

Year ended 31 March 2005

	Notes	2005 £m	2004 £m
Turnover	2a	990.9	945.1
Current cost operating costs	2d	(724.6)	(665.8)
Other operating income	2b	8.2	18.8
		274.5	298.1
Working capital adjustment	2c	2.0	2.1
<b>Current cost operating profit</b>		276.5	300.2
Other income		2.7	2.6
Net interest payable		(130.8)	(123.8)
Financing adjustment		92.1	70.3
<b>Current cost profit before taxation</b>		240.5	249.3
Taxation on profit on ordinary activities		10.7	(21.6)
Deferred tax		(35.3)	(40.3)
Taxation		(24.6)	(61.9)
<b>Current cost profit attributable to shareholders</b>		215.9	187.4
Dividend		(147.1)	(158.0)
<b>Current cost profit retained</b>		68.8	29.4

## Group balance sheet: appointed business

As at 31 March 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Tangible assets	3	26,454.4	25,490.6
Third party contributions since 1989/90		(1,117.5)	(1,042.4)
Working capital	4	(69.2)	(63.0)
<b>Net operating assets</b>		25,267.7	24,385.2
Cash and investments		2.6	0.7
Non-trade debtors		9.9	10.2
Non-trade creditors due within one year		(368.7)	(364.8)
Creditors due after one year		(2,125.0)	(2,042.4)
Provisions for liabilities and charges		(530.1)	(481.2)
<b>Net assets employed</b>		22,256.4	21,507.7
<b>Capital and reserves</b>			
Called up share capital		1,000.0	1,000.0
Profit and loss account	5	232.6	163.8
Current cost reserve	6	21,023.8	20,343.9
		22,256.4	21,507.7

## Group cash flow statement

Year ended 31 March 2005	Notes	2005 £m	2005 £m	2004 £m	2004 £m
<b>Net cash inflow from operating activities</b>	7		575.1		559.6
<b>Returns on investments and servicing of finance</b>					
Interest received		0.4		1.1	
Interest paid		(101.6)		(98.8)	
Interest element of finance lease rental payments		(12.8)		(19.4)	
			(114.0)		(117.1)
<b>Taxation</b>			0.5		(4.0)
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(361.6)		(368.9)	
Grants received		36.7		36.3	
Infrastructure renewals expenditure		(82.1)		(82.7)	
Disposal of fixed assets		12.1		23.5	
Sale of other fixed asset investments		1.9		-	
			(393.0)		(391.8)
Equity dividends paid			(147.1)		(158.0)
<b>Net cash outflow before financing</b>			(78.5)		(111.3)
Management of liquid resources			(2.3)		-
<b>Financing</b>					
Loans advanced		172.4		259.0	
Loans repaid		(88.0)		(161.9)	
			84.4		97.1
<b>Net increase / (decrease) in cash</b>			3.6		(14.2)

## Reconciliation of net cash flow to movement in net debt

	2005 £m	2005 £m	2004 £m	2004 £m
Net increase / (decrease) in cash as above	3.6		(14.2)	
Cash flow from movement in net debt and financing	(84.4)		(97.1)	
Cash flow from movement in liquid resources	2.3		-	
<b>Change in net debt resulting from cash flows</b>		(78.5)		(111.3)
Rolled up interest on debt		(8.5)		(8.8)
Rolled up interest on finance leases		(7.4)		2.5
<b>Increase in net debt</b>		(94.4)		(117.6)
<b>Opening net debt</b>		(2,292.3)		(2,174.7)
<b>Closing net debt</b>		(2,386.7)		(2,292.3)

## Notes to the current cost financial statements

Year ended 31 March 2005

### 1 Accounting policies

#### a) Basis of preparation

The regulatory financial statements have been prepared on a group basis for Severn Trent Water Limited and its subsidiary undertakings to meet the requirements of the Director General of Water Services.

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the Office of Water Services, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The regulatory financial statements are separate from the statutory financial statements of the company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

#### b) General

These accounts have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business, with the exception of specialised operational and infrastructure assets.

The accounting policies used are the same as those adopted in the statutory historical cost financial statements on pages 15 to 35, except as set out below.

#### c) Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of the tangible fixed assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

An Asset Management Plan (AMP) survey of existing assets as at 31 March 1998 was undertaken during 1998/99 and the adjustments to asset values, as a result of that exercise, was included within the tangible fixed asset note. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

##### i) Non infrastructure assets

Specialised operational assets:

The gross replacement cost of specialised operational assets has been derived using the latest cost information provided by the AMP. This value has been adjusted for inflation during the year as measured by changes in the RPI.

The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below in note 1d).

Non specialised operational assets:

Non specialised operational assets are valued on the basis of open market value for existing use at 31 March 1991 and have been expressed in current terms by adjusting for movements in property values.

##### ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines are valued at replacement cost, determined principally on the basis of unit cost data provided by the AMP.

##### iii) Other assets

All other assets are valued on the basis of data provided by the AMP.

##### iv) Surplus land

Surplus land is valued at current market value. Any proceeds on disposal to be passed onto customers will be taken into account, in accordance with the requirements contained in Condition B of the Instruments of Appointment as Water and Sewerage Undertakers.

#### d) Grants and other third party contributions

Grants, infrastructure and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year.

#### e) Real financial capital maintenance adjustments

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment - this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors.

Financing adjustment - this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and dividend payable.

## 2 Analysis of current cost turnover and operating costs

	2005			2004		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
<b>a) Turnover</b>						
Measured	174.5	182.1	356.6	160.2	163.2	323.4
Unmeasured	280.6	286.4	567.0	273.6	276.1	549.7
Large user tariffs	16.0	20.8	36.8	16.1	19.5	35.6
Trade effluent	-	9.9	9.9	-	11.6	11.6
Revenue grants	-	0.2	0.2	0.3	-	0.3
Third parties	10.4	2.4	12.8	14.2	4.9	19.1
Other sources	3.1	4.5	7.6	2.2	3.2	5.4
<b>Total turnover</b>	<b>484.6</b>	<b>506.3</b>	<b>990.9</b>	<b>466.6</b>	<b>478.5</b>	<b>945.1</b>
<b>b) Other operating income</b>						
Current cost profit on disposal of tangible fixed assets	3.4	3.3	6.7	4.2	14.6	18.8
Other operating income	0.7	0.8	1.5	-	-	-
<b>Total</b>	<b>4.1</b>	<b>4.1</b>	<b>8.2</b>	<b>4.2</b>	<b>14.6</b>	<b>18.8</b>
<b>c) Working capital adjustment</b>						
	(0.2)	2.2	2.0	(0.1)	2.2	2.1

## Notes to the current cost financial statements

Year ended 31 March 2005

## 2 Analysis of current cost turnover and operating costs continued

	Water services			Sewerage services					Business analysis			2005 Total
	Resources and treatment £m	Distrib- ution £m	Water services sub-total £m	Sewerage treatment £m	Sewage treatment and disposal £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m	£m
<b>d) Analysis of operating costs and tangible fixed assets</b>												
<b>Direct Costs</b>												
Employment costs	8.0	17.1	25.1	7.3	12.4	6.4	18.8	26.1				
Power	6.3	12.3	18.6	3.1	8.2	0.6	8.8	11.9				
Agencies	-	-	-	-	-	-	-	-				
Hired and contracted	2.3	11.3	13.6	6.6	2.2	12.5	14.7	21.3				
Associated companies	1.4	0.3	1.7	3.3	-	2.2	2.2	5.5				
Materials and consumables	4.9	3.0	7.9	0.8	2.7	5.1	7.8	8.6				
Service charges	9.2	-	9.2	1.5	6.0	-	6.0	7.5				
Bulk supply imports	7.3	-	7.3	-	-	-	-	-				
Other direct costs	0.8	1.9	2.7	2.5	0.3	0.2	0.5	3.0				
<b>Total direct costs</b>	<b>40.2</b>	<b>45.9</b>	<b>86.1</b>	<b>25.1</b>	<b>31.8</b>	<b>27.0</b>	<b>58.8</b>	<b>83.9</b>	<b>32.2</b>	<b>14.4</b>	<b>3.1</b>	<b>219.7</b>
General and support	24.4	20.1	44.5	12.1	37.4	12.4	49.8	61.9	9.7	5.0	0.8	121.9
Functional expenditure	64.6	66.0	130.6	37.2	69.2	39.4	108.6	145.8	41.9	19.4	3.9	341.6
Business activities recharge			30.2					35.0	(41.9)	(19.4)	(3.9)	0.0
Rates			31.8					17.9				49.7
Doubtful debts			8.9					9.4				18.3
Exceptional items			6.7					6.3				13.0
Services for third parties			208.2					214.4				422.6
			9.8					2.5				12.3
<b>Total operating expenditure</b>			<b>218.0</b>					<b>216.9</b>				<b>434.9</b>
<b>Capital costs</b>												
<b>Infrastructure renewals :</b>												
Expenditure	1.4	25.6	27.0	35.8	-	-	-	35.8				62.8
Accrual	0.1	6.4	6.5	(11.2)	-	-	-	(11.2)				(4.7)
Current cost depreciation	55.9	44.3	100.2	21.0	83.5	29.5	113.0	134.0				234.2
Amortisation of deferred income			(1.6)					(1.6)				(3.2)
Business activity capital costs			-					-				-
			132.1					157.0				289.1
Services for third parties depreciation			0.6					-				0.6
<b>Total capital maintenance</b>			<b>132.7</b>					<b>157.0</b>				<b>289.7</b>
<b>Total operating costs</b>			<b>350.7</b>					<b>373.9</b>				<b>724.6</b>
<b>Analysis of tangible fixed assets</b>												
Service activities	1,528.5	6,472.9	8,001.4	16,307.4	313.6	1,399.8	1,713.4	18,020.8				26,022.2
Business activities			137.3	24.3			107.7	132.0				269.3
Service totals			8,138.7	16,331.7			1,821.1	18,152.8				26,291.5
Services for third parties			162.9					-				162.9
<b>Total</b>			<b>8,301.6</b>					<b>18,152.8</b>				<b>26,454.4</b>

Included within customer services costs are payments amounting to £3.0 million (2004: £2.6 million) to the Severn Trent Water Charitable Trust Fund.

The tables on the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guideline number 4.02 on the analysis of operating costs and assets. Direct costs have been allocated directly to the service to which they relate. General and support costs are where possible allocated directly to the service to which they relate, any remaining general and support costs which cannot be directly allocated to a service are apportioned across all services.

## 2 Analysis of current cost turnover and operating costs continued

	Water services			Sewerage services				Business analysis			2004 Total	
	Resources and treatment £m	Distrib- ution £m	Water services sub-total £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal sub-total £m	Sewerage services sub-total £m	Customer services £m	Scientific services £m	Cost of regulation £m	£m
<b>d) Analysis of operating costs and tangible fixed assets</b>												
<b>Direct costs</b>												
Employment costs	6.5	15.8	22.3	5.6	10.0	5.4	15.4	21.0				
Power	5.2	11.5	16.7	2.9	8.4	2.1	10.5	13.4				
Agencies	-	-	-	-	-	-	-	-				
Hired and contracted	3.0	11.5	14.5	7.3	2.0	11.2	13.2	20.5				
Associated companies	0.3	0.4	0.7	3.7	-	1.1	1.1	4.8				
Materials and consumables	5.2	2.3	7.5	0.9	2.5	4.9	7.4	8.3				
Service charges	8.8	-	8.8	3.1	5.4	0.1	5.5	8.6				
Bulk supply imports	7.2	-	7.2	-	-	-	-	-				
Other direct costs	0.1	2.1	2.2	1.6	0.4	0.2	0.6	2.2				
<b>Total direct costs</b>	<b>36.3</b>	<b>43.6</b>	<b>79.9</b>	<b>25.1</b>	<b>28.7</b>	<b>25.0</b>	<b>53.7</b>	<b>78.8</b>	<b>28.2</b>	<b>13.8</b>	<b>3.1</b>	<b>203.8</b>
General and support	20.5	15.9	36.4	10.5	28.7	11.2	39.9	50.4	7.2	4.1	0.7	98.8
Functional expenditure	56.8	59.5	116.3	35.6	57.4	36.2	93.6	129.2	35.4	17.9	3.8	302.6
Business activity recharge			26.0					31.1	(35.4)	(17.9)	(3.8)	0.0
Rates			30.5					17.7				48.2
Doubtful debts			8.4					8.8				17.2
Exceptional items			-					-				-
			181.2					186.8				368.0
Services for third parties			12.8					5.9				18.7
<b>Total operating expenditure</b>			<b>194.0</b>					<b>192.7</b>				<b>386.7</b>
<b>Capital costs</b>												
Infrastructure renewals :												
Expenditure	3.1	26.0	29.1	35.5	-	-	-	35.5				64.6
Accrual	(1.6)	5.0	3.4	(11.4)	-	-	-	(11.4)				(8.0)
Current cost depreciation	57.9	42.0	99.9	20.1	77.3	27.6	104.9	125.0				224.9
Amortisation of deferred income			(1.4)					(1.6)				(3.0)
Business activity capital costs			0.1					-				0.1
			131.1					147.5				278.6
Services for third parties depreciation			0.5					-				0.5
<b>Total capital maintenance</b>			<b>131.6</b>					<b>147.5</b>				<b>279.1</b>
<b>Total operating costs</b>			<b>325.6</b>					<b>340.2</b>				<b>665.8</b>
<b>Analysis of tangible fixed assets</b>												
Service activities	1,508.6	6,242.7	7,751.3	15,721.6	1,289.0	304.1	1,593.1	17,314.7				25,066.0
Business activities			135.8	24.0			106.5	130.5				266.3
Service totals			7,887.1	15,745.6			1,699.6	17,445.2				25,332.3
Services for third parties			158.3				-					158.3
<b>Total</b>			<b>8,045.4</b>				<b>17,445.2</b>					<b>25,490.6</b>

### e) Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for 2005 in respect of infrastructure assets amounted to £18.3 million on water services (2004: £18.8 million) and £13.4 million for sewerage services (2004: £12.3 million).

Expenditure on reactive and planned maintenance included in operating costs for 2005 in respect of non-infrastructure assets amounted to £9.5 million on water services (2004: £9.4 million) and £28.7 million for sewerage services (2004: £25.2 million).

## Notes to the current cost financial statements

Year ended 31 March 2005

## 3 Analysis of tangible fixed assets by asset type within service

	Specialised operational assets £m	Non specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
<b>a) Water services tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	1,820.3	102.2	6,970.1	276.1	9,168.7
RPI and other adjustments	57.5	3.2	222.4	8.1	291.2
Additions	45.3	1.8	32.0	25.7	104.8
Disposals and amounts written off	(10.4)	(1.2)	-	(21.6)	(33.2)
<b>At 31 March 2005</b>	<b>1,912.7</b>	<b>106.0</b>	<b>7,224.5</b>	<b>288.3</b>	<b>9,531.5</b>
<b>Depreciation</b>					
At 1 April 2004	925.3	30.1	-	167.9	1,123.3
RPI and other adjustments	30.0	1.0	-	5.2	36.2
Charge for year	72.5	1.8	-	26.5	100.8
Disposals and amounts written off	(9.8)	(0.9)	-	(19.7)	(30.4)
<b>At 31 March 2005</b>	<b>1,018.0</b>	<b>32.0</b>	<b>-</b>	<b>179.9</b>	<b>1,229.9</b>
<b>Net book value</b>					
<b>At 31 March 2005</b>	<b>894.7</b>	<b>74.0</b>	<b>7,224.5</b>	<b>108.4</b>	<b>8,301.6</b>
At 1 April 2004	895.0	72.1	6,970.1	108.2	8,045.4
<b>b) Sewerage services tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	3,398.6	118.4	15,536.9	250.5	19,304.4
RPI and other adjustments	105.8	3.8	495.6	7.6	612.8
Additions	185.3	2.1	78.1	26.5	292.0
Disposals and amounts written off	(51.3)	(1.8)	-	(23.8)	(76.9)
<b>At 31 March 2005</b>	<b>3,638.4</b>	<b>122.5</b>	<b>16,110.6</b>	<b>260.8</b>	<b>20,132.3</b>
<b>Depreciation</b>					
At 1 April 2004	1,695.5	28.6	-	135.1	1,859.2
RPI and other adjustments	54.8	0.9	-	4.7	60.4
Charge for year	106.3	1.8	-	25.9	134.0
Disposals and amounts written off	(51.2)	(0.9)	-	(22.0)	(74.1)
<b>At 31 March 2005</b>	<b>1,805.4</b>	<b>30.4</b>	<b>-</b>	<b>143.7</b>	<b>1,979.5</b>
<b>Net book value</b>					
<b>At 31 March 2005</b>	<b>1,833.0</b>	<b>92.1</b>	<b>16,110.6</b>	<b>117.1</b>	<b>18,152.8</b>
At 1 April 2004	1,703.1	89.8	15,536.9	115.4	17,445.2



### 3 Analysis of tangible fixed assets by asset type within service continued

	Specialised operational assets £m	Non specialised operational assets £m	Infra- structure assets £m	Other assets £m	Total £m
<b>c) Total tangible fixed assets analysed by asset type</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	5,218.9	220.6	22,507.0	526.6	28,473.1
RPI and other adjustments	163.3	7.0	718.0	15.7	904.0
Additions	230.6	3.9	110.1	52.2	396.8
Disposals and amounts written off	(61.7)	(3.0)	-	(45.4)	(110.1)
<b>At 31 March 2005</b>	<b>5,551.1</b>	<b>228.5</b>	<b>23,335.1</b>	<b>549.1</b>	<b>29,663.8</b>
<b>Depreciation</b>					
At 1 April 2004	2,620.8	58.7	-	303.0	2,982.5
RPI and other adjustments	84.8	1.9	-	9.9	96.6
Charge for year	178.8	3.6	-	52.4	234.8
Disposals and amounts written off	(61.0)	(1.8)	-	(41.7)	(104.5)
<b>At 31 March 2005</b>	<b>2,823.4</b>	<b>62.4</b>	<b>-</b>	<b>323.6</b>	<b>3,209.4</b>
<b>Net book value</b>					
At 31 March 2005	2,727.7	166.1	23,335.1	225.5	26,454.4
At 1 April 2004	2,598.1	161.9	22,507.0	223.6	25,490.6

### 4 Working capital

	2005 £m	2004 £m
Stocks	4.4	4.1
Trade debtors	79.7	70.1
Trade creditors	(7.7)	(9.1)
Short-term capital creditors	(10.6)	(8.3)
Infrastructure renewals prepayment/(accrual)	4.4	(0.4)
Accruals	(123.1)	(114.7)
Payments in advance	(89.6)	(89.7)
Tax and social security	(3.4)	(3.2)
Group trade debtors / (creditors)	(26.1)	(8.6)
Prepayments	102.8	96.8
	<b>(69.2)</b>	<b>(63.0)</b>

### 5 Reserves – profit and loss account

	£m
At 1 April 2004	163.8
Retained current cost profit for the year	68.8
<b>At 31 March 2005</b>	<b>232.6</b>

### 6 Reserves – current cost reserves

	2005 £m	2004 £m
At 1 April	20,343.9	19,804.1
AMP adjustment	-	-
RPI adjustments:		
Fixed assets	807.4	637.2
Working capital	(2.0)	(2.1)
Financing	(92.1)	(70.3)
Grants and third party contributions	(33.4)	(25.3)
Other adjustments	-	0.3
<b>At 31 March</b>	<b>21,023.8</b>	<b>20,343.9</b>

## Notes to the current cost financial statements

Year ended 31 March 2005

## 7 Reconciliation of current cost operating profit to net cash inflow from operating activities

(restated)

	2005 £m	2004 £m
Current cost operating profit	276.5	300.2
Working capital adjustment	(2.0)	(2.1)
Other income	2.7	2.6
Current cost depreciation after amortisation of deferred income	231.6	222.5
Current cost profit on disposal of tangible fixed assets	(8.2)	(18.8)
Increase in stocks	(0.3)	(0.6)
Increase in debtors	(20.7)	(16.1)
Increase in creditors	21.9	14.8
Movement in provisions	(10.4)	(26.5)
Infrastructure renewals expenditure	82.1	82.7
Effect of other deferrals and accruals on operating activity cash flow	1.9	0.9
<b>Net cash inflow from operating activities</b>	<b>575.1</b>	<b>559.6</b>

The prior year figure for current cost depreciation has been adjusted by £3.0 million to reflect amortisation of deferred income.

## 8 Regulatory capital values

At each price review, The Office of Water Services sets price limits which it considers will enable companies to earn a reasonable return on capital. The Office of Water Services bases that return on the Regulatory Capital Value (RCV).

The projected outturn for the Company's RCV (after clawback for rolling five year adjustments) from the November 1999 Determination is as follows:

As at 31 March	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Closing value	4,092	4,132	4,397	4,688	5,009
Year average	4,037	4,126	4,274	4,547	4,863

	2005 £m
<b>Regulatory capital values at 2004/2005 prices</b>	
Opening regulatory capital value for the year	4,838.1
Capital expenditure	400.8
Infrastructure renewals expenditure	82.1
Grants and contributions	(21.7)
Depreciation	(224.7)
Infrastructure renewals charge	(61.3)
Outperformance of regulatory assumptions	(4.0)
Closing regulatory capital value	<b>5,009.3</b>
Average regulatory capital value	<b>4,863.0</b>

## Water Industry Act 1991

Further to the requirements of company law, the Directors are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a Water and Sewerage Undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Office of Water Services. This additionally requires the Directors to:

- Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve months;
- Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company;
- Report to the Director General of Water Services changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities;
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arms length;
- Keep proper accounting records which comply with Condition F.

## Five year summary

At 2004/2005 outturn prices

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
					(restated)
<b>Profit and loss account</b>					
Turnover	990.9	974.6	959.6	966.6	971.7
Current cost operating costs	(724.6)	(686.6)	(681.0)	(660.6)	(669.0)
Other operating income	8.2	19.4	5.8	3.7	4.4
	274.5	307.4	284.4	309.7	307.1
<b>Working capital adjustment</b>					
Working capital adjustment	2.0	2.2	3.3	1.4	2.9
Current cost operating profit	276.5	309.6	287.7	311.1	310.0
Other income	2.7	2.7	3.1	1.0	1.1
Net interest payable	(130.8)	(127.7)	(126.1)	(129.2)	(129.3)
Financing adjustment	92.1	72.5	70.3	29.9	50.0
Current cost profit before taxation	240.5	257.1	235.0	212.8	231.8
Taxation	10.7	(22.3)	(9.3)	(1.3)	0.4
Deferred tax	(35.3)	(41.6)	(58.8)	(39.5)	(56.3)
Current cost profit attributable to shareholders	215.9	193.2	166.9	172.0	175.9
Dividend	(147.1)	(163.0)	(150.3)	(151.9)	(149.9)
Current cost profit retained	68.8	30.2	16.6	20.1	26.0
<b>Balance sheet</b>					
<b>Fixed assets</b>					
Tangible assets	26,454.4	26,305.3	26,152.2	25,990.4	25,880.8
Third party contributions since 1989/90	(1,117.5)	(1,075.7)	(1,031.7)	(976.4)	(904.8)
Working capital	(69.2)	(65.0)	(86.2)	(107.4)	(105.8)
Net operating assets	25,267.7	25,164.6	25,034.3	24,906.6	24,870.2
Cash and investments	2.6	0.7	0.7	0.8	1.7
Non-trade debtors	9.9	10.5	6.5	10.2	6.2
Non-trade creditors due within one year	(368.7)	(376.5)	(426.6)	(336.0)	(549.0)
Creditors due after one year	(2,125.0)	(2,107.6)	(1,975.4)	(2,008.3)	(1,795.5)
Provision for liabilities and charges	(530.1)	(496.6)	(467.3)	(422.5)	(394.8)
Net assets employed	22,256.4	22,195.1	22,172.2	22,150.8	22,138.8
<b>Capital and reserves</b>					
Called up share capital	1,000.0	1,032.0	1,058.9	1,091.7	1,106.3
Profit and loss account	232.6	169.0	142.3	129.8	109.6
Current cost reserve	21,023.8	20,994.1	20,971.0	20,929.3	20,922.9
	22,256.4	22,195.1	22,172.2	22,150.8	22,138.8

### Profit and loss account

Turnover has increased since 2003 due to the consequences of the interim price determination (IDoK).

Operating profits have reduced in 2005 over the prior year as a result of the reduction in profit received from the sale of land and property and increased costs, primarily restructuring and pension costs.

Operating costs have increased in 2005 due to additional restructuring and pension costs, and the increased level of depreciation being charged as a consequence of the effects of the company's investment programme. However, the company continues to make reductions in operating costs through efficiency improvements, which continue to have an impact despite the continuing upward cost pressures.

Net interest has increased due to the effects of an increased level of borrowing by the company to finance its investment programme. The increase in interest charges being more than the benefit arising as a consequence of the impact of lower interest rates.

### Balance sheet

The most significant movements have occurred in Fixed Assets due to the investment programme that the company has undertaken over the last five years. During that period creditors due after one year have also increased significantly, this is primarily due to the increased borrowings of the company, required to finance the investment programme.

Following the implementation of FRS 19 'Deferred tax', the 2001 figure has been restated.

# Supplementary regulatory accounting disclosures

Year ended 31 March 2005

Information in respect of transactions during the year with any other business or activity of the Appointee or any Associated Company

**a) Borrowings or sums lent**

Sums borrowed by the Appointee during the year from associated companies were:

		Principal amount £m	Repayment date	Interest Rate %
Severn Trent Water Utilities Finance Plc	Borrowed	107.4	2009/2015	5.2% - 5.6%

Sums borrowed repaid by the Appointee during the year to associated companies were:

Severn Trent Water Utilities Finance Plc	Repaid	24.0		
--	--------	------	--	--

**b) Dividends paid to associated companies**

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of these factors changes. Consistent with this policy, the dividend declared by the company in 2005 amounted to £147.1 million.

**c) Transfer of assets/liabilities**

None

**d) Supply of services**

Services supplied by the appointee to associated companies

Nature of transactions	Company	Terms	£m
Rental of office accommodation	Various	Market rent	1.0
Service charges in respect of payroll, legal, transport and other	Various	Cost including overheads	2.5
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	0.7
			4.2

Services supplied to the appointee by associated companies

Nature of transactions	Company	Terms	Amount £m
Provision of waste services	Biffa Waste Services Ltd	Competitive letting/no market	5.5
Provision of engineering and design services	Charles Haswell and Partners Ltd	Competitive letting/other market testing/no market	9.6
Asset management	Cognica Ltd	Competitive letting/no market	0.1
Insurance services	Derwent Insurance Ltd	Other market testing	2.2
Analytical services	Severn Trent Laboratories Ltd	Other market testing	7.4
Supply of materials	Severn Trent Metering Services Ltd	Competitive letting/no market	9.9
Management fee	Severn Trent Plc	No market	6.5
Management fee	Severn Trent Property Ltd	No market	0.1
Meter installation and provision of other engineering services	Severn Trent Services Ltd	Competitive letting/no market	2.0
Project development and managed service contract	Severn Trent Systems Ltd	Other market testing/no market	42.3
Provision of customer care facilities	Severn Trent Utility Services Ltd	Other market testing	0.9
Project development	Severn Trent Water International Ltd	No market	0.7
			87.2

Of the £87.2 million (2004: £97.1 million), £38.7 million (2004: £49.1million) was spent on investment expenditure.

**e) Omission of rights**

None

**f) Waivers**

None

**g) Guarantees**

None

Severn Trent Water has made a commitment to publish information on its financial, customer service, operational and quality performance. This statistical section uses information primarily from this report and accounts, the company's annual drinking water quality report and information submitted to the Director General of Water Services as part of the company's 'June 2005 return'.

The financial information contained in this section does not constitute statutory accounts within the meaning of the United Kingdom Companies Act 1985. Statutory accounts relating to the financial information of Severn Trent Water Limited which is contained within this supplement have been delivered to the Registrar of Companies, together with an unqualified report from the auditor.

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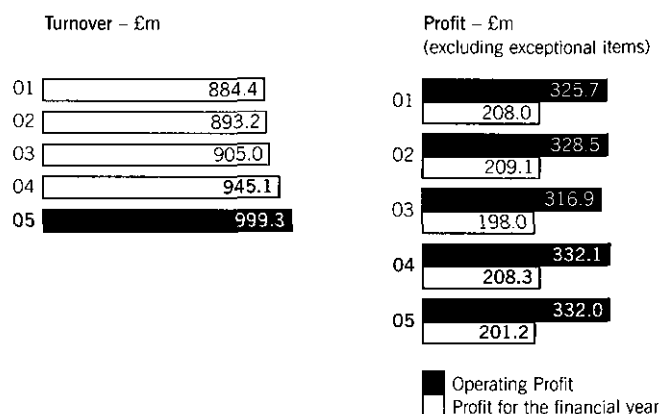
Profit and loss accounts	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Turnover	884.4	893.2	905.0	945.1	999.3
Operating profit	325.7	328.5	316.9	351.8†	326.6††
Net interest payable	(117.7)	(119.4)	(118.9)	(123.8)	(130.8)
Profit for the financial year	208.0	209.1	198.0	228.0†	195.8††
Taxation	0.4	(1.2)	(8.8)	(21.6)	10.4
Deferred taxation	(51.2)	(36.5)	(55.4)	(40.3)	(35.3)
Dividend	(135.5)	(139.1)	(141.9)	(158.0)	(147.1)
Retained profit/(loss)	21.7	32.3	(8.1)	8.1	23.8

† After exceptional profit on disposal of assets £19.7 million.

†† After exceptional profit on disposal of assets £7.6 million and restructuring provision of £13.0 million.

Balance sheets	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Fixed assets	4,472.6	4,560.6	4,711.2	4,873.9	5,035.1
Net current liabilities	(543.4)	(371.0)	(469.7)	(417.4)	(425.0)
	3,929.2	4,189.6	4,241.5	4,456.5	4,610.1
Creditors: amounts falling due after more than one year	(1,623.0)	(1,839.5)	(1,865.3)	(2,042.4)	(2,125.0)
Provisions for liabilities, charges and deferred income	(454.2)	(465.8)	(500.0)	(529.8)	(577.0)
	1,852.0	1,884.3	1,876.2	1,884.3	1,908.1
Capital and reserves					
Called up share capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	852.0	884.3	876.2	884.3	908.1
	1,852.0	1,884.3	1,876.2	1,884.3	1,908.1

Turnover by category	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Measured charges	317.3	316.5	328.1	344.4	379.1
Unmeasured charges	521.8	536.4	529.0	549.7	567.0
Trade effluent	29.9	24.7	25.2	26.2	25.7
Other	15.4	15.6	22.7	24.8	27.5
	884.4	893.2	905.0	945.1	999.3



Net borrowings	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Cash at bank and in hand	0.2	0.1	0.1	0.1	2.4
Borrowings	(2,035.7)	(2,058.7)	(2,174.8)	(2,292.4)	(2,389.1)
	(2,035.5)	(2,058.6)	(2,174.7)	(2,292.3)	(2,386.7)

Key ratios	2001	2002	2003	2004	2005
<b>Liquidity</b>					
Current ratio (times)	0.2	0.3	0.3	0.3	0.3
<b>Profitability</b>					
Gross profit margin (%)	36.8	36.8	35.0	37.2	32.7
Return on capital employed (%) : Historic cost	8.3	7.8	7.5	7.9	7.1
Return on fixed assets (%) : Historic cost	7.3	7.2	6.7	7.2	6.5
Return on fixed assets (%) : Current cost	1.2	1.2	1.1	1.2	1.1
<b>Gearing</b>					
Debt to equity (%)	109.9	109.2	115.9	121.7	125.1
<b>Other</b>					
Turnover per employee (£)	182,841	191,962	191,575	194,987	201,563
Operating profit per employee (£)	67,335	70,600	67,083	72,581	66,288

Employee numbers	2001 No.	2002 No.	2003 No.	2004 No.	2005 No.
Employee number (average)	4,837	4,653	4,724	4,847	4,927
Employee number (year end)	4,544	4,698	4,819	4,935	4,872

**Gearing - %**

The gearing ratio is used as an indicator of the amount of debt compared to the company's equity i.e. shareholders' funds.

01	109.9
02	109.2
03	115.9
04	121.7
05	125.1

Charges 2005/2006

	Water £	Sewerage £	Total £
Average annual unmeasured water charges			
Severn Trent Water	135	125	260
Average of other 9 water and sewerage companies	144	183	327
Equivalent cost per day per household			
Severn Trent Water			71 pence
Other water and sewerage companies average			90 pence
Measured charges			
Water Supply		100.49 pence/cubic metre	
Sewerage		65.92 pence/cubic metre	
Average household bill (including measured and unmeasured water charges)			
Severn Trent Water			£252
Average of other 9 water and sewerage companies			£299

Customer payment statistics

	2001 '000	2002 '000	2003 '000	2004 '000	2005 '000
Number of customers paying by instalments	1,616	1,666	1,710	1,759	1,689
Number of summonses	97	97	83	61	81
Percentage of unmeasured customers summoned	3.0%	2.8%	2.5%	2.1%	2.6%

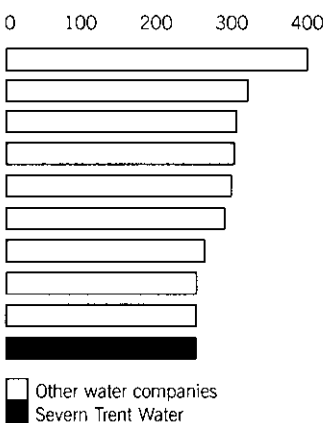
Disconnections

	No.	No.	No.	No.	No.
Domestic	0	0	0	0	0
Non domestic	304	594	990	732	489
Percentage of customers disconnected	0.01%	0.01%	0.02%	0.02%	0.01%

Customer complaints

	'000	'000	'000	'000	'000
	18	21	24	21	21

Customer service - £  
Average annual household bill for 2005/2006





Customer contacts	2001 No. '000	2002 No. '000	2003 No. '000	2004 No. '000	2005 No. '000
By letter	870	948	847	779	712
Telephone calls	2,714	2,447	2,227	2,172	2,474
	3,584	3,395	3,074	2,951	3,186

### Population

Water Supply	7,382	7,407	7,271	7,281	7,293
Sewerage	8,270	8,290	8,290	8,189	8,234

### Billed properties

Water					
Unmeasured domestic	2,365	2,355	2,331	2,308	2,286
Unmeasured non-domestic	14	14	15	17	21
Sub-total	2,379	2,369	2,346	2,325	2,307
Measured domestic	560	602	646	688	731
Measured non-domestic	208	209	211	211	207
Sub-total	768	811	857	899	938
Total	3,147	3,180	3,203	3,224	3,245
Sewerage	3,520	3,563	3,606	3,626	3,654

### New connections during year

Water supply	22	23	25	25	27
Sewerage	25	28	27	28	28

## Levels of service

Under Condition J of the Instrument of the Appointment of the Water and Sewerage Undertakers, the Director General of Water Services requires the company to provide information on a series of levels of service indicators which compare the service provided to specified performance criteria.

Company performance against Ofwat service indicators (properties/population meeting DG reference levels)

	2001 %	2002 %	2003 %	2004 %	2005 %
(DG1) Raw water availability Percentage of the population who live in areas where resources are adequate to meet demands	100.00	100.00	100.00	100.00	100.00
(DG2) Pressure of mains water Percentage of properties not at risk of receiving water at a pressure less than one and a half atmospheres at the stop tap on the boundary of the property	99.86	99.92	99.96	99.97	99.99
(DG3) Interruption to supply Percentage of properties not experiencing an unwarned loss of supply for more than twelve hours	99.80	99.62 (1)	99.93	99.99	99.99
Note 1 99.95% excluding single event at Telford					
(DG4) Water usage restrictions Percentage of properties not affected by:					
Ban on hosepipes	100.00	100.00	100.00	100.00	100.00
Drought orders	100.00	100.00	100.00	100.00	100.00
(DG5) Flooding from sewers Percentage of properties where there is no risk of flooding from public sewers at a frequency of more than twice in ten years	99.97	99.98	99.98	99.99	99.99
(DG6) Response to billing contacts Response time for replies to billing contacts					
Under 5 days	99.1	99.2	99.96	99.98	99.55
Under 10 days	99.9	99.9	100.0	100.0	100.0
Under 20 days	100.0	100.0	100.0	100.0	100.0
Over 20 days	0.0	0.0	0.0	0.0	0.0
In 2004/2005 there were 2.8 million customer contacts. The company's performance in 2004/2005 based on Ofwat's 2003/2004 criteria would meet the 'Good' category.					
(DG7) Response to written complaints Response time for replies to written complaints					
Under 5 days	88.5	90.1	97.0	98.7	100.0
Under 10 days	99.1	99.5	99.9	100.0	100.0
Under 20 days	99.8	99.9	100.0	100.0	100.0
Over 20 days	0.2	0.1	0.0	0.0	0.0

The number of customer complaints received in 2004/2005 has decreased from those received in 2003/2004. The company's performance in 2004/2005 based on Ofwat's 2003/2004 criteria would meet the 'Good' category.

Levels of service continued

(DG8) Billing of metered customers

Percentage of customers who receive bills for metered accounts during the year based on actual readings as opposed to those based on estimates.

	2001 %	2002 %	2003 %	2004 %	2005 %
Company read	95.10	96.9	98.80	99.10	98.92
Customer read	1.57	1.4	0.96	0.74	0.81
<b>Total read and billed in year</b>	<b>96.67</b>	<b>98.3</b>	<b>99.76</b>	<b>99.84</b>	<b>99.73</b>

The company's performance in 2004/2005 based on Ofwat's 2003/2004 criteria would meet the 'Good' category.

(DG9) Telephone contacts

Response times to answering telephone calls to the principal customer contact points

Under 30 seconds	92.0	92.9	98.1	98.9	97.7
Over 30 seconds	8.0	7.1	1.9	1.1	2.3
<b>Average response times (seconds)</b>	<b>10.4</b>	<b>7.5</b>	<b>3.0</b>	<b>2.0</b>	<b>3.0</b>

Guaranteed Standards Scheme (GSS)	2001	2002	2003	2004	2005
Complaints answered within the guaranteed standards scheme time period	99.1%	99.5%	99.9%	100.0%	100.0%
Number of GSS claims automatically accepted for guaranteed standard payments	2,996	2,408	2,810	1,926	1,208

Response to billing queries within 5 days - %

01	99.1
02	99.2
03	99.96
04	99.98
05	99.55

Response to written complaints queries within 5 days - %

01	88.5
02	90.1
03	97.0
04	98.7
05	100.0

Rainfall

1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004

Severn Trent region  
- area rainfall

Severn Trent region																				
- Rainfall (mm)	741	814	769	759	718	683	639	842	792	814	631	579	684	815	849	970	729	817	569	740
- % long-term average	96	105	99	98	93	88	83	110	102	105	81	75	88	108	113	129	97	109	76	98

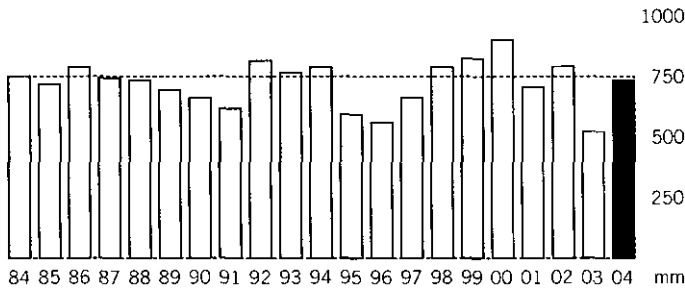
Severn basin

- Rainfall (mm)	813	856	805	811	777	732	702	872	797	844	674	624	716	857	931	1013	761	863	601	790
- % long-term average	98	103	97	98	94	88	87	108	99	104	83	76	87	108	117	127	96	109	76	100

Trent basin

- Rainfall (mm)	685	790	747	723	676	647	576	808	781	785	585	540	661	783	777	861	706	781	498	699
- % long-term average	93	103	101	98	92	88	78	110	106	107	80	73	90	109	108	120	93	108	69	97

Note: % long-term average for data is based on figures from 1941 to 1970 up to 1997 and on figures from 1961 to 1990 since 1998. Figures relate to calendar year.



Area rainfall  
 Actual  
 Long-term average

Company leakage

01	226
02	225
03	310
04	304
05	291

Analysis of water supply sources	2001 M/d	2002 M/d	2003 M/d	2004 M/d	2005 M/d
Reservoirs	501	527	534	503	521
River intakes	733	734	769	841	789
Groundwater	619	593	610	612	605
Total production	1,853	1,854	1,913	1,956	1,915
Treated water imports	22	23	23	18	18
Treated water exports	(7)	(7)	(7)	(7)	(8)
Total water into supply	1,868	1,870	1,929	1,967	1,925

Water demand	2001 M/d	2002 M/d	2003 M/d	2004 M/d	2005 M/d
Household demand	1,132	1,143	1,118	1,168	1,140
Non-household demand	480	471	470	462	460
Water delivered to billed customers	1,612	1,614	1,588	1,630	1,600
Total water into supply	1,868	1,870	1,929	1,967	1,925
Company unaccounted for water *	226	225	310	304	291

\* Since 2003 company unaccounted for water has been based on a revised method of assessment.

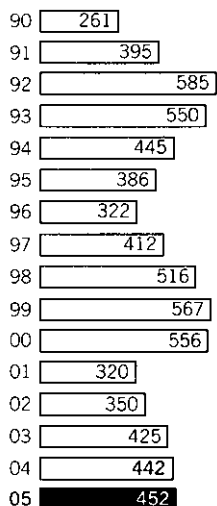
Operational statistics	2001	2002	2003	2004	2005
Number of repairs carried out on mains pipes	7,022	6,902	6,667	7,513	6,462
Average time taken to repair bursts on mains pipes (days)	0.45	0.35	0.32	0.34	0.19
Number of repairs carried out on communication pipes	11,530	13,736	16,072	16,702	21,357
Average time taken to repair bursts on communication pipes (days)	0.16	0.15	0.15	0.15	0.13
Number of repairs carried out on customers supply pipes	10,472	8,100	8,345	8,556	7,332
Number of calls to 'Operational helpline' service	539,026	605,466	604,170	640,561	608,802

Investment expenditure	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Resources and treatment	37	57	96	116	117	89	79	72	47	56	54	27	40	47	25	14
Distribution	74	97	161	137	107	104	97	141	160	152	170	85	93	108	102	87
Sewerage	47	67	108	90	76	73	45	57	68	88	75	51	69	93	111	112
Sewage treatment	74	126	152	147	108	85	61	91	165	176	162	89	79	120	143	175
Recreation and amenity	0	1	11	4	2	2	1	1	1	1	1	1	1	1	1	2
Operational support	19	38	46	49	32	30	16	21	21	14	18	6	14	9	7	17
Other	10	9	11	7	3	3	23	29	54	80	76	61	54	47	53	45
	261	395	585	550	445	386	322	412	516	567	556	320	350	425	442	452
Capital expenditure	225	348	482	462	380	320	252	335	437	480	545	246	264	337	360	372
Gross infrastructure expenditure	36	47	103	88	65	66	70	77	79	87	11	74	86	88	82	80
	261	395	585	550	445	386	322	412	516	567	556	320	350	425	442	452
Cumulative investment since 1990	261	656	1,241	1,791	2,236	2,622	2,944	3,356	3,872	4,439	4,995	5,315	5,665	6,090	6,532	6,984

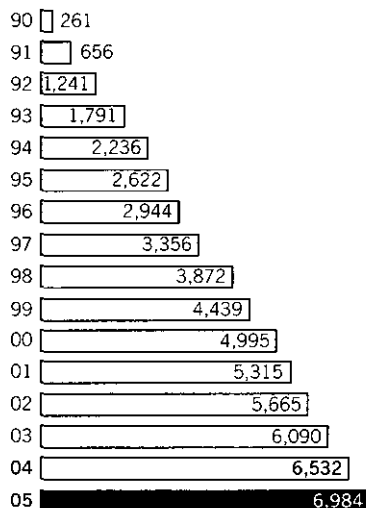
## Physical outputs

	2001	2002	2003	2004	2005
Mains – added (Km)	111	103	109	178	151
– renewals (Km)	140	143	410	373	164
– relined (Km)	270	316	101	125	10
– number of communication pipes replaced	13,706	11,927	13,598	11,468	15,819
Sewers – added (Km)	147	354	265	239	221
– improved (Km)	0	10	28	22	7
Number of properties where problems of poor pressure alleviated by investment	2,920	1,156	3,478	1,172	1,000
Number of properties where risk of flooding from sewers has been removed	119	282	445	400	421

Investment – £m  
Annual investment expenditure since privatisation



Investment – £m  
Cumulative investment expenditure since privatisation



Major operational schemes carried out during year	2005 Total £m	Operational assets	2005 No.
Mansfield Bath Lane sewage treatment works UWWTD	6.4	Impounding reservoirs	27
Sutton in Ashfield sewage treatment works UWWTD	4.9	Groundwater sources	181
Leek, Rear Westwood Hall Farm UID	4.8	River water intakes	18
Nottinghamshire additional sludge digestion	4.7	Surface water treatment works	19
Derby sewage treatment works reconstruction phase 2	4.5	Water supply booster stations	696
Hope sewage treatment works - closure and diversion to Bradwell	4.5	Service reservoirs sites	518
Ledbury sewage treatment works UWWTD	4.2	Mains (Km)	46,087
Coven Heath sewage treatment works RQO improvements	4.0	Sewers (Km)	54,226
Derby sewage treatment works Sinfin flooding alleviation	3.8	Sewage treatment works	1,053
Codsall sewage treatment works - Fisheries, RQO and asset renewal	3.7	Sewage pumping stations	3,075
		Sludge treatment facilities	68

## Quality

### Water supply

	2000	2001	2002	2003	2004
Overall quality of drinking water					
Number of determinations	231,111	273,907	279,891	277,419	*
% compliance with standards	99.9%	99.9%	99.9%	99.9%	99.9%
Microbiological quality of drinking water					
Water leaving treatment works					
Number of determinations	31,142	29,102	30,018	30,914	*
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	*
Water at service reservoirs					
Number of determinations	62,482	62,648	62,426	62,126	*
% compliance with standards	>99.9%	>99.9%	>99.9%	>99.9%	*
Water at customers' taps					
Number of determinations (bacteriological)	40,056	39,890	39,196	38,388	*
% compliance with standards	99.8%	99.8%	99.8%	99.8%	*
Number of determinations (chemical)	97,431	106,267	148,251	145,991	*
% compliance with standards	99.9%	99.9%	99.9%	>99.9%	*

Note: Information on quality is based on calendar year in accordance with current Drinking Water Regulations. Percentage compliance up to 2003 is in accordance with standards as detailed in the Water Supply (Water Quality) regulations 1989.

\* In 2004 the basis of compliance was amended, and is now assessed on Mean Zonal Compliance with Drinking Water Standards The Water Supply (Water Quality) Regulations 2000.

Sewage treatment quality

Overall compliance with standards

	2000	2001	2002	2003	2004
Total number of sewage treatment works	1,001	1,016	1,014	1,017	1,053
Number of sewage treatment works failing consents	19	16	18	19	17

Information on compliance is based on calendar year.

Number of prosecutions by Environment Agency (EA) resulting in convictions

	2001	2002	2003	2004	2005
Discharge from sewerage system	0	0	0	0	2
Sewage treatment works	1	0	0	0	1
Water treatment works	0	0	0	0	0
Other	0	0	2	0	2

Compliance of numerically consented work

	2001	2002	2003	2004	2005
Number of works with numeric consents	685	694	750	738	752
Compliance with sanitary standards (95 percentile)					
By tests to measure quality	99.3%	99.4%	99.5%	99.5%	99.6%
Compliance with sanitary standards (upper tier)					
By tests to measure quality	99.9%	>99.9%	100.0%	>99.9%	99.6%
Compliance with non-sanitary standards					
By tests to measure quality	99.4%	99.7%	99.9%	99.6%	99.6%

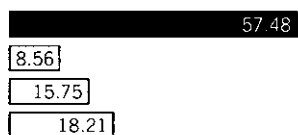
Sewage

Sludge disposal

	2001 tds	2002 tds	2003 tds	2004 tds	2005 tds
Farmland	66,500	81,400	82,800	135,500	125,500
Landfill	14,800	36,600	42,700	20,200	24,000
Incineration	20,700	27,200	24,600	37,200	33,400
Sea	0	0	0	0	0
Other	45,800	67,400	68,400	42,900	28,700
<b>Total</b>	<b>147,800</b>	<b>212,600</b>	<b>218,500</b>	<b>235,800</b>	<b>211,600</b>

tds = tonnes dry solids

Methods of sludge disposal - %



- Farmland
- Landfill
- Incineration
- Other



## Community education

Our community education programmes continue to raise awareness of the benefits of using water wisely at home and in the workplace.

In 2004 we launched the pilot version of the 'Be Smart Award' for schools. The award challenges participating schools to achieve four targets; audit their water use, promoting water conservation, promoting the healthy effects of drinking more water and studying water in a developing country. Twenty two schools agreed to take part in the scheme and we allocated each school a Severn Trent mentor to support the school to meet their targets. During June 2005 the first schools were given the award and the others are on target to gain the award by the end of July. There are many schools waiting to take part when the scheme begins again in September.

In April we launched the website [www.thewaterfamily.co.uk](http://www.thewaterfamily.co.uk). This family focused web site provides a fun way to understand how to use water wisely in the home and garden. Players are challenged to make decisions about using water, searching for clues and solving puzzles to reach a maximum score.

To reinforce our message about the positive health effects of drinking water to young children we commissioned a theatre group to produce a short play titled 'H2O the way to go'. We took the play out to twelve schools around our region and attracted media interest in all areas. Our community team supported the 'Flush Gordon' initiative which promotes healthy drinking to adults.

## Education centres

Health and sustainability provide the focus for the work in our five education centres, this year we again hosted visits from over 34,000 pupils with over 23,000 spending the day on one of our operational sites.

The Good Food Show was another great success this year, we gave away over 60,000 refreshing drinks of water to a very receptive audience. We will be visiting again in 2005.

The Wet Water Wizard DVD continues to prove very popular and we have distributed more than 2,000 copies to schools.

## Projects for 2005/2006

To support the work of our education centres and for inclusion in the 'Be Smart Award' schools pack we are developing a new resource called 'Water Issues Local and Global'. This pack is developed by teachers in Birmingham and the project is co-sponsored by DFID.

To meet our efficiency targets we will be reducing the number of centres we maintain for visitors but we will continue to operate all five education centres these are based at

Barston sewage treatment works  
Carsington reservoir  
Cropston water treatment works  
Hayden sewage treatment works  
Stoke Bardolph sewage treatment works

For further information on how to arrange a visit to one of our centres or to request a talk at your own venue please contact Community education, Severn Trent Water Limited, 2297 Coventry Road, Birmingham B26 3PU

	2001 No.	2002 No.	2003 No.	2004 No.	2005 No.
<b>Community Education visitor numbers</b>					
Visitors to Severn Trent Water sites:					
Number of pupils visits	30,210	29,973	35,084	37,935	34,320
Number of adult / teachers visits	8,237	8,230	7,544	8,055	8,560
Talks given at non Severn Trent Water sites:					
Number of pupils	10,460	8,195	11,290	9,039	10,921
Number of adults	2,597	2,555	2,112	2,159	3,150

Information on the company may be obtained at any of the following main Severn Trent Water offices:

**Registered Office**

Severn Trent Water Limited  
2297 Coventry Road  
Birmingham B26 3PU

Company number: 2366686

**Directors**

J H Bailey

I Elliott

R S S Martin

C S Matthews

G C Messham

S H Reilly

P F Stephenson

S Stubbs

M R Wilson

A P Wray

**Business telephone numbers**

Billing enquiries:  
Tel: 08457 500 500

Operations and emergencies:  
Tel: 0800 783 4444

All other enquiries:  
Tel: 0121 722 4000

**Company website**

[www.stwater.co.uk](http://www.stwater.co.uk)

**Group website**

[www.severntrent.com](http://www.severntrent.com)

**E-mail**

[customer.relations@severntrent.co.uk](mailto:customer.relations@severntrent.co.uk)

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Edgbaston Depot  
Waterworks Road  
Birmingham B16 9DD

Severn Trent Water Limited  
Sherbourne House  
St Martin's Road  
Finham  
Coventry CV3 6SD

Severn Trent Water Limited  
P O Box 51  
Raynesway  
Derby DE21 7JA

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Cheltenham Road East  
Gloucester GL2 9QY

Severn Trent Water Limited  
Leicester Water Centre  
Anstey Lane  
Leicester LE7 7GU

Severn Trent Water Limited  
Hucknall Road  
Nottingham NG5 1FH

Severn Trent Water Limited  
Shelton  
Shrewsbury SY3 8BJ



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# Severn Trent Water

Severn Trent Water Ltd  
2297 Coventry Road  
Birmingham B26 3PU  
[www.stwater.co.uk](http://www.stwater.co.uk)

a part of Severn Trent Plc

