

Company number 3995023

Severn Trent Water Services Plc

Financial Statements

Year ended 31 March 2003



Severn Trent Water Services Plc

Year ended 31 March 2003

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Severn Trent Water Services Plc
Company Information

Company Number: 3995023

Registered Office: 2297 Coventry Road
Birmingham
B26 3PU

Auditors: PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Severn Trent Water Services Plc Directors' Report

The Directors present their report, together with the audited financial statements for the year ended 31 March 2003.

Principal activities

The principal activities of the group continued to be the supply of water, the treatment and disposal of sewerage and the provision of environmental services.

Details of the principal joint venture, associated and subsidiary undertakings of the group at 31 March 2003 appears in note 10 to the financial statements on pages 22 to 24.

The Company began trading on 30 March 2001, at which date it acquired its 100% investment in the subsidiary undertakings noted in note 10, apart from Severn Trent Water International (Overseas Holdings) Limited, which was acquired in the year ended 31 March 2002. The principal activity of the Company is to act as holding company for the water related group of subsidiary companies.

Business review

A review of the Company's activities is contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU. Alternatively the report can be viewed and downloaded from Severn Trent Plc's website at www.severntrent.com/Reports2003.

Results and dividends

The results for the period are shown on page 9. A dividend of £78,000,000 (2002: £47,176,000) was declared and paid during the year on the ordinary shares and a dividend of £29,000 (2002: £35,000) was declared on the 'A' redeemable preference shares.

Directors

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

P P Davies
B Duckworth
J A Hill
R M Walker
M R Wilson

Directors interests

No Director had any interest in the share capital of the Company.

No Director had, during the period or at the end of the year, a material interest in any contract of significance to the Company's affairs.

Severn Trent Water Services Plc Directors' Report (continued)

Directors' interests (continued)

Messrs Duckworth and Walker are also Directors of Severn Trent Plc, the ultimate parent undertaking. Details of their interests in the share capital of Severn Trent Plc, can be found in the accounts of that company. The interests of the other Directors at the year end in the share capital of Severn Trent Plc, by way of a beneficial holding or through options to subscribe for shares, according to the register maintained under the provisions of the United Kingdom Companies Act 1985, were as follows:

Beneficial Holdings in Ordinary Shares

	1 April 2002 ordinary shares of 65 ^{5/19} p each	31 March 2003 ordinary shares of 65 ^{5/19} p each
P P Davies	177	217
J A Hill	6,468	6,656
M R Wilson	6,102	10,142

Share Options under Approved Schemes

	1 April 2002	Exercised during year	Cancelled during year	Granted during year	31 March 2003
P P Davies	2,048	-	-	3,064	5,112
J A Hill	6,768	-	-	1,763	8,531
M R Wilson	3,451	-	(431)	-	3,020

Share options were granted in accordance with the rules of the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme. Details of prices and periods within which options are exercisable are set out in the financial statements of Severn Trent Plc.

Messrs P P Davies, J A Hill and M R Wilson have further interests in Severn Trent Plc ordinary shares of 65^{5/19} p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'LTIP') on 10 August 2000, 30 August 2001 and 24 September 2002. The LTIP operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied. The performance criterion for the 2000 award is based on Severn Trent Plc's Total Shareholder Return ('TSR') compared to the TSR of a number of other privatised utility companies. The performance criteria for the 2001 and 2002 awards are based on a combination of 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:

	1 April 2002 Number of ordinary shares of 65 ^{5/19} p each	Awards lapsed during year	Awarded during year	31 March 2003 Number of ordinary shares of 65 ^{5/19} p each
P P Davies	24,751	(4,504)	15,776	36,023
J A Hill	16,985	(4,140)	8,605	21,450
M R Wilson	22,145	(5,321)	11,952	28,776

Severn Trent Water Services Plc Directors' Report (continued)

Directors' interests (continued)

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

As at 26 January 2004 the following further awards have been made under the LTIP:

	Number of shares awarded
P P Davies	15,140
B Duckworth	25,739
J A Hill	8,651
R M Walker	69,214
M R Wilson	12,977

The performance period for allocations of shares made in 2000 ended on 31 March 2003. Severn Trent Plc's Remuneration Committee has subsequently determined, based on that company's TSR over the three year period, that participants are entitled to 50% of the award. The 2000 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 2000 awards is as follows:

	Date of Award	Market price at time of award (p)	Number of ordinary shares of 65 ^{5/19} p each vested from the 2000 award	Gain on vesting (£'000)
P P Davies	10 August 2000	699.25	4,001	28.0
J A Hill	10 August 2000	699.25	3,021	21.1
M R Wilson	10 August 2000	699.25	3,759	26.3

Supplier Payment Policy

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their supplier. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is group policy to ensure that suppliers know the terms on which payment will take place when business is agreed. On average trade creditors are paid 33 days after the invoice date.

Research and development

Expenditure on research and development was £4.6 million including £1.0 million spent on fixed assets (2002: £4.4m including £1.3m fixed assets), all of which was carried out through the Severn Trent Water Limited subsidiary company (further details can be found in the Severn Trent Water Limited statutory accounts).

Employees

The average number of employees employed by the group during the year was 5,227 (2002: 5,090). Group companies continue to encourage communication with and between employees. Each of the major business units has its own in-house magazine, uses employee surveys, team briefings and 'tool-box' talks, and has an intranet facility covering all main locations.

Group companies continue to maintain good relationships with recognised trade unions and their directly elected representatives.

Each business unit has ongoing training and development and succession planning mechanisms to ensure that there are sufficient technically and managerially competent employees available to meet current and future business needs and customer expectations. All group companies continue to invest in the development of their employees at all levels. Much of this development is externally verified either by process such as Investors in People or by the achievement of a wide range of accredited qualifications.

Severn Trent Water Services Plc Directors' Report (continued)

Employees (continued)

Group companies continue to meet the minimum requirements of the employment legislation in each of the countries in which we operate and we also seek to operate at local best practice levels.

Opportunities and disabled persons

The Company continues to review its diversity policies and practices to ensure that they comply with the legislative requirements of each location in which we operate and also meet the company's Code of Business Principles and Conduct.

During the year we have reviewed processes to ensure the accuracy of the data of the composition of the current workforce and during the last year many business units have undertaken training programmes to emphasise the importance of diversity and equality. This and similar initiatives will ensure that we continue to attract and retain the best possible workforce that reflects the diversity of manpower resources available.

The Company continues to actively participate in the Employers' Forum on Disability, embracing its approaches for both employees and customers.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the group and Company as at the end of the financial year and of the profit or loss of the group and Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the Directors appointed its successor, PricewaterhouseCoopers LLP, as Auditors. A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors will be put to the Annual General Meeting.

On behalf of the Board

M R Wilson, Director
26 January 2004



Severn Trent Water Services Plc

Independent Auditors' Report to the members of Severn Trent Water Services Plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the statement of total recognised gains and losses and the related notes, which have been prepared under the historical cost convention, and the accounting policies set out in the statement of accounting policies.

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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2003, and of their profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
26 January 2004

Severn Trent Water Services Plc
Group profit and loss account

Year ended 31 March 2003

	Notes	2003 £m	2002 £m
Turnover : group and share of joint ventures		948.6	920.7
Less: share of joint ventures turnover		(0.5)	(0.4)
Turnover	2	948.1	920.3
Operating costs before goodwill amortisation and exceptional costs	3	(628.9)	(590.8)
Goodwill amortisation	3	(8.5)	(13.4)
Total operating costs	3	(637.4)	(604.2)
Group operating profit		310.7	316.1
Share of operating (loss)/profit of joint ventures and associates	2	(0.2)	8.0
Exceptional profit on disposal of associate	2	-	9.7
Profit before interest, goodwill amortisation and exceptional items	2	319.0	337.5
Goodwill amortisation	2	(8.5)	(13.4)
Profit before interest and exceptional items	2	310.5	324.1
Exceptional profits on disposal of associate	2	-	9.7
Profit before interest	2	310.5	333.8
Net interest payable	5	(210.2)	(225.5)
Profit on ordinary activities before taxation		100.3	108.3
Taxation on profit on ordinary activities - current tax	6	16.3	2.6
- deferred tax	6	(55.5)	(35.8)
Total taxation	6	(39.2)	(33.2)
Profit on ordinary activities after taxation		61.1	75.1
Equity minority interests		(0.1)	(0.1)
Profit for the financial year		61.0	75.0
Dividends	7	(78.0)	(47.2)
Retained (loss)/profit for the financial year	18	(17.0)	27.8

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

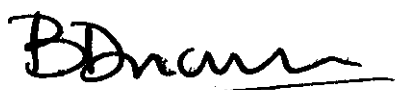
All items dealt with arriving at operating profit relate to continuing activities.

Severn Trent Water Services Plc
Balance sheets

At 31 March 2003

		Group		Company	
	Notes	2003 £m	2002 £m	2003 £m	2002 £m
Fixed assets					
Intangible assets - goodwill	8	149.7	156.4	-	-
Tangible assets	9	4,707.0	4,537.8	-	-
Investments in joint ventures				-	-
Share of gross assets		1.0	1.4	-	-
Share of gross liabilities		(0.7)	(0.4)	-	-
Loans to joint ventures		0.1	0.3	-	-
Investments in associates		0.4	1.3	-	-
Investments in subsidiaries		2.0	1.8	-	-
Other investments		-	-	2,044.0	2,044.0
		0.9	0.7	-	-
Total Investments	10	3.3	3.8	2,044.0	2,044.0
		4,860.0	4,698.0	2,044.0	2,044.0
Current assets					
Stocks	11	12.8	7.6	-	-
Debtors	12	228.0	190.2	37.7	13.3
Cash at bank and in hand		67.3	53.1	58.4	43.9
		308.1	250.9	96.1	57.2
Creditors: amounts falling due within one year	13	(706.5)	(587.6)	(39.7)	(39.7)
Net current (liabilities)/assets		(398.4)	(336.7)	56.4	17.5
Total assets less current liabilities		4,461.6	4,361.3	2,100.4	2,061.5
Creditors: amounts falling due after more than one year	14	(3,511.4)	(3,448.5)	(1,598.4)	(1,559.6)
Provisions for liabilities and charges	16	(438.6)	(384.2)	-	-
Net assets		511.6	528.6	502.0	501.9
Capital and reserves					
Called up share capital	17	501.1	501.1	501.1	501.1
Profit and loss account	18	10.4	27.4	0.9	0.8
Total equity shareholders' funds		511.5	528.5	502.0	501.9
Minority shareholders' interest (equity)		0.1	0.1	-	-
		511.6	528.6	502.0	501.9

Signed on behalf of the Board who approved the accounts on 26 January 2004



Brian Duckworth Director



Mark Wilson Director

Severn Trent Water Services Plc

Statement of total recognised gains and losses Year ended 31 March 2003

	2003 £m	Group 2002 £m
Profit/(loss) for the financial year - group	61.2	74.4
- joint ventures	(0.3)	(0.3)
- associates	0.1	0.9
Total profit for the financial year	61.0	75.0
Currency translation differences	-	0.2
Total recognised gains and losses for the year	61.0	75.2

The Company had no recognised gains or losses other than the profit for the year.

Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Profit for the financial year	61.0	75.0	78.1	48.6
Dividends (including non-equity dividends)	(78.0)	(47.2)	(78.0)	(47.2)
	(17.0)	27.8	0.1	1.4
Other recognised gains and losses relating to the period	-	0.2	-	-
Shares issued	-	1.0	-	1.0
Net addition to shareholders' funds	(17.0)	29.0	0.1	2.4
Opening shareholders' funds	528.5	499.5	501.9	499.5
Closing shareholders' funds	511.5	528.5	502.0	501.9

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

1. Accounting policies

a) Accounting convention

The financial statements have been prepared under the historical cost convention 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.

There have been no new accounting standards adopted in the year.

b) Basis of preparation

The financial statements include the results of the Company and its subsidiary, joint venture and associated undertakings. The results of these entities are included from the date of acquisition or incorporation, and excluded from the date of disposal.

c) Turnover

Turnover represents income receivable in the ordinary course of business for services provided. Income in respect of Severn Trent Water Limited includes an estimation of the amount of main 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 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 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 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.

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

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 corresponding capital cost is 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 expensed in the year in which they are incurred.

f) Grants and contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred income and 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 costs 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 the depreciation of infrastructure assets, these assets do not have determinable finite lives 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 £327.0 million lower than it would otherwise have been (2002: £294.5 million).

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

g) Investments

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

h) Stocks

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Profit is taken on long-term contracts by reference to the work completed. Cost includes labour, materials, transport and an element of overheads.

i) 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 Company.

j) Foreign currency

The trading result of overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences thus arising are treated as movements in reserves together with exchange differences on loans between group companies. Exchange differences arising in respect of foreign exchange instruments taken out as hedges of overseas investments are also treated as movements in reserves.

All other foreign currency denominated assets and liabilities of the company and its United Kingdom subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year-end. In those instances where forward cover has been arranged, the forward rate is used. Any exchange differences so arising are dealt with through the profit and loss account.

Severn Trent Water Services Plc

Notes to the Financial Statements – Year ended 31 March 2003

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the profit and loss account.

k) 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 fixed assets relating to research and development projects is written off over the expected useful life of those assets.

l) Deferred taxation

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

m) Euro costs

Costs of preparing systems and other applications for the introduction of the Euro are written off to the profit and loss account as incurred, unless there is a significant enhancement to the system or application, in which case, the costs are capitalised and depreciated in line with the policy stated in (d).

n) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of the net assets acquired. Capitalised goodwill is amortised on a straight-line basis over its economic life. Useful economic lives are currently estimated at 15 and 20 years.

o) Derivatives and other financial instruments

i) 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 costs of issue and any discount to face value arising on issue, or any premium arising on maturity.

ii) Derivative financial instruments

Financial instruments, in particular, interest rate and 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 re-valued to fair value prior to maturity.
- Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is re-valued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that on the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 15 to the accounts.

Severn Trent Water Services Plc

Notes to the Financial Statements – Year ended 31 March 2003

p) Cashflow statement

The company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated financial statements of Severn Trent Plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (Revised).

2. Segmental analysis

a) Analysis of turnover and profit before interest by geographical origin and type of business

	United Kingdom	Other – principally Europe	Group	United Kingdom	Other – principally Europe	Group
	2003 £m	2003 £m	2003 £m	2002 £m	2002 £m	2002 £m
Group Turnover						
Water and sewerage	919.1	-	919.1	899.9	-	899.9
Contract services	3.4	17.4	20.8	3.0	11.6	14.6
Engineering consultancy and corporate	15.3	6.5	21.8	14.8	2.0	16.8
Inter segment trading	(13.6)	-	(13.6)	(11.0)	-	(11.0)
	924.2	23.9	948.1	906.7	13.6	920.3
Group profit before interest, exceptional items and goodwill amortisation						
Water and sewerage	318.2	-	318.2	329.8	-	329.8
Contract services	(0.5)	1.9	1.4	(2.3)	9.6	7.3
Engineering consultancy and corporate	(0.2)	-	(0.2)	0.7	-	0.7
Unrealised profit on inter segment trading	(0.4)	-	(0.4)	(0.3)	-	(0.3)
	317.1	1.9	319.0	327.9	9.6	337.5
Goodwill amortisation	(7.9)	(0.6)	(8.5)	(7.9)	(5.5)	(13.4)
Group profit before interest and exceptional items						
Water and sewerage	310.4	-	310.4	322.1	-	322.1
Contract services	(0.5)	1.3	0.8	(2.3)	4.1	1.8
Engineering consultancy and corporate	(0.3)	-	(0.3)	0.5	-	0.5
Unrealised profit on inter segment trading	(0.4)	-	(0.4)	(0.3)	-	(0.3)
	309.2	1.3	310.5	320.0	4.1	324.1
Exceptional items						
Profit on disposal of associate – Contract services	-	-	-	-	9.7	9.7
Group profit before interest						
Water and sewerage	310.4	-	310.5	322.1	-	322.1
Contract services	(0.5)	1.3	0.8	(2.3)	13.8	11.5
Engineering consultancy and corporate	(0.3)	-	(0.3)	0.5	-	0.5
Unrealised profit on inter segment trading	(0.4)	-	(0.4)	(0.3)	-	(0.3)
	309.2	1.3	310.5	320.0	13.8	333.8

Turnover by origin and destination do not differ materially.

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

2. Segmental analysis (continued)

b) Joint ventures and associates

	United Kingdom	Other – principally Europe	Group	United Kingdom	Other – principally Europe	Group
	2003 £m	2003 £m	2003 £m	2002 £m	2002 £m	2002 £m
Share of joint venture's turnover	0.3	0.2	0.5	0.2	0.2	0.4
Share of operating profit of joint ventures and associates:						
Joint ventures	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Associates	-	0.1	0.1	-	8.3	8.3
	(0.3)	0.1	(0.2)	(0.3)	8.3	8.0

c) Analysis of net operating assets by geographical location and type of business

	United Kingdom		Other – principally Europe		Group	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Water and sewerage	4,537.4	4,366.3	-	-	4,537.4	4,366.3
Contract services	11.9	12.1	6.8	6.4	18.7	18.5
Engineering consultancy and corporate	42.2	19.7	-	-	42.2	19.7
Net operating assets	4,591.5	4,398.1	6.8	6.4	4,598.3	4,404.5
Goodwill:						
Water and sewerage					140.4	146.8
Contract services					6.5	6.7
Engineering consultancy and corporate					2.8	2.9
Short-term deposits, cash, borrowings, taxation and dividends payable					(4,236.4)	(4,032.3)
					511.6	528.6

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

3. Analysis of operating costs and exceptional items

	Notes	2003 £m	2002 £m
Analysis of operating costs			
Wages and salaries		131.5	123.7
Social security costs		9.3	9.4
Pension costs	20	16.0	12.8
Total employee costs		156.8	145.9
Power raw materials and consumables		59.2	65.5
Rates		50.7	49.4
Service charges		23.3	22.8
Other operating costs		93.9	72.3
Depreciation charge	9	222.2	211.3
Amortisation of goodwill (2002 including exceptional charge of £4.9m)		8.5	13.4
Deferred income released		(3.0)	(3.4)
Hired and contracted services		77.8	75.9
Hire of plant and machinery		5.4	5.4
Other operating leases		2.6	1.8
Audit fees		0.3	0.3
Research and development expenditure		3.6	3.1
Profit on disposal of tangible fixed assets		(6.5)	(5.5)
		694.8	658.2
Own work capitalised		(57.4)	(54.0)
Total operating costs		637.4	604.2

Other fees paid to the auditors, PricewaterhouseCoopers LLP included within other operating costs amounted to £72,000 (2002: £63,000).

Included within goodwill amortisation for 2002 is an exceptional write-off charge in the year of £4.9m. This relates to goodwill on the acquisition of Severn Trent Water International Limited. Following the transfer of ownership of the trading subsidiaries of Severn Trent Water International Limited to the Company, the Directors consider goodwill attributable to this business to be fully impaired.

4. Employee numbers

Average number of employees during the year (full time equivalent):

	2003 Number	2002 Number
By type of business:		
Water and sewerage	4,780	4,662
Contract services	172	183
Engineering consultancy and corporate	275	245
	5,227	5,090
By geographical location:		
United Kingdom	5,092	4,933
Other – principally Europe	135	157
	5,227	5,090

The Directors have not received any fees or emoluments in respect of their services to the Company during the year (2002: £nil).

Severn Trent Water Services Plc

Notes to the Financial Statements – Year ended 31 March 2003

5. Net interest payable

	2003 £m	2002 £m
Interest receivable and similar income	2.8	6.3
Interest payable and similar charges:		
Bank loans and overdrafts	(127.7)	(145.7)
Other loans	(64.3)	(56.9)
Finance leases	(20.9)	(22.9)
	(210.1)	(219.2)
Share of associates	(0.1)	(6.3)
	(210.2)	(225.5)

6. Taxation

a) Analysis of charge in the year

	2003 £m	2002 £m
Current tax		
UK corporation tax	2.5	0.6
- current year at 30%		
- prior year	(7.4)	(5.0)
Double taxation relief	(0.1)	(0.6)
Group relief	(12.2)	-
- current year at 30%		
- prior year	(0.2)	0.9
Total UK tax	(17.4)	(4.1)
Overseas taxation	0.8	0.7
- current year		
- prior year	0.3	(0.3)
Total overseas tax	1.1	0.4
Total current tax	(16.3)	(3.7)
Share of tax charges of	-	-
- joint ventures		
- associates	-	1.1
Total current tax	(16.3)	(2.6)
Deferred tax		
Origination and reversal of timing differences	42.1	52.8
- current year		
- prior year	7.4	5.0
Increase/(decrease) in discount	6.0	(22.0)
Total deferred tax	55.5	35.8
Total tax charge	39.2	33.2

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

6. Taxation (continued)

b) Factors affecting the current tax charge in the year

The current tax assessed for the year is lower than the standard rate of corporation tax in the UK 30% (2002 :30%). The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before tax	100.3	108.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002:30%)	30.1	32.5
Effects of:		
Expenses not deductible for tax purposes	2.6	(0.8)
Capital allowances for year in excess of depreciation	(42.7)	(50.7)
Utilisation of/movement in short-term timing differences	0.6	(2.9)
Utilisation of/movement in tax losses	-	0.8
Tax losses surrendered as group relief not yet paid for	-	22.0
Share of associates tax	0.1	1.1
Overseas tax rate differences	0.2	(0.2)
Adjustments to tax charge in respect of prior periods	(7.2)	(4.4)
Total current tax	(16.3)	(2.6)

c) Factors affecting future rates

The group's deferred tax charge in future years is more difficult to predict as, in particular, its impact by changes in interest rates form one balance sheet date to the next.

7. Dividends

	Pence per share	2003 £m	Pence per share	2002 £m
Declared on:				
Ordinary shares	15.60	78.0	9.38	47.2
Preference shares	2.90	-	3.00	-
Total dividends		78.0		47.2

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

8. Goodwill

	2003 £m
Cost	
At 1 April 2002	170.8
Additions	1.8
At 31 March 2003	172.6
Amortisation	
At 1 April 2002	14.4
Charge for year	8.5
At 31 March 2003	22.9
Net book value	
At 31 March 2003	149.7
At 31 March 2002	156.4

9. Tangible assets

	Land and buildings £m	Infrastructure assets £m	Plant & equipment £m	Group Total £m
Cost				
At 1 April 2002	1,668.0	2,894.3	2,131.4	6,693.7
Acquisition of businesses	-	-	0.5	0.5
Additions	69.8	186.1	170.9	426.8
Grants and contributions	-	(32.4)	-	(32.4)
Disposals	(2.5)	(0.7)	(24.5)	(27.7)
Reclassifications and transfers	-	-	(0.3)	(0.3)
Exchange adjustments	0.1	-	0.5	0.6
At 31 March 2003	1,735.4	3,047.3	2,278.5	7,061.2
Depreciation				
At 1 April 2002	473.1	828.4	854.4	2,155.9
Acquisition of businesses	-	-	0.3	0.3
Charge for year	34.2	55.6	132.4	222.2
Reclassifications and transfers	-	-	0.3	0.3
Disposals	(2.3)	(0.7)	(21.2)	(24.2)
Exchange adjustments	-	-	(0.3)	(0.3)
At 31 March 2003	505.0	883.3	965.9	2,354.2
Net book value				
At 31 March 2003	1,230.4	2,164.0	1,312.6	4,707.0
At 31 March 2002	1,194.9	2,065.9	1,277.0	4,537.8

i) Included in tangible fixed assets are assets held under finance leases as follows:

	2003 £m	2002 £m
Cost	276.0	277.8
Accumulated depreciation	(64.5)	(58.1)
Net book value	211.5	219.7

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

9. Tangible assets (continued)

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 are analysed as follows:

	2003 £m	2002 £m
Freehold	1,230.1	1,193.7
Short leasehold	0.3	1.2
	1,230.4	1,194.9

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

	2003 £m	2002 £m
Owned assets non infrastructure	158.4	150.0
Owned assets infrastructure	55.6	54.1
Assets held under finance leases	8.2	7.5
	222.2	211.6

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

	2003 £m	2002 £m
Land	24.3	23.8
Assets in the course of construction	297.7	224.4
	322.0	248.2

10. Investments

	2003 £m	2002 £m
Investments in joint ventures:		
Share of gross assets	1.0	1.4
Share of gross liabilities	(0.7)	(0.4)
Loans	0.1	0.3
	0.4	1.3
Investments in associates:		
Share of net assets	(0.9)	(0.8)
Loans	2.9	2.6
	2.0	1.8
Other investments	0.9	0.7
	3.3	3.8

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

10. Investments (continued)

	Interests in Joint Ventures £m	Interests in Associates £m	Other Investments £m	Total £m
Group				
At 1 April 2002	1.3	1.8	0.7	3.8
Additions	-	0.3	0.2	0.5
Share of profits/(losses)	0.2	(0.1)	-	0.1
Other movements	(1.1)	-	-	(1.1)
At 31 March 2003	0.4	2.0	0.9	3.3

Interests in joint venture and associates at 31 March 2003 comprised the group's share of net liabilities less provisions, of £0.6 million (2002: net assets less provisions £0.2 million) and loans of £3.0 million (2002: £2.9 million). The group's share of the post acquisition accumulated profits of joint ventures at 31 March 2003 was £0.2 million (2002: losses of £0.2 million). The group's share of the post acquisition accumulated losses of associates at 31 March 2003 was £1.3 million (2002: £1.2 million). Particulars of the group's principal joint venture and associated undertakings at 31 March 2003 are:

	Nature of business	Percentage of share capital held	Issued share capital		
			A ordinary shares of £1	B ordinary shares of £1	Other classes of share
Biogeneration Limited	Power Generation	50%	500#	500	-
Indagua Industria e Gestao de Aguas	Water Undertaking	30%	-	-	300,000 shares at 5 Euros/Share #
Cognica Limited	Asset Management	50%	100,000#	100,000	-

Held by the group

The country of incorporation, registration and main operation is Great Britain with the exception of Indagua Industria e Gestao de Aguas (Portugal).

The group financial statements incorporate a trading period for Indagua of twelve months to its accounting reference date of 31 December 2002.

	2003 £m	2002 £m
Shares in subsidiary undertakings:		
Opening balance	2,044.0	2,013.1
Additions in year	-	31.0
Transfer to group undertaking	-	(0.1)
Closing balance	2,044.0	2,044.0

On 23 November 2001 the Company acquired a 100% interest in the share capital of Severn Trent Water International (Overseas Holdings) Limited for a consideration of £31,000,000.

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

A complete list of subsidiary undertakings is detailed on page 23.

Severn Trent Water Services Plc

Notes to the Financial Statements – Year ended 31 March 2003

10. Investments (continued)

	Country of registration and operation	Percentage and class of share capital held	Nature of business
Subsidiary undertakings:			
Severn Trent Water Limited*	England	100% Ordinary	Water and sewerage undertaker
Biogas Generation Limited	England	100% Ordinary	Power Generation
East Worcester Water Plc	England	100% Ordinary	Water undertaking
		100% non voting ordinary	
Grafham Carbons Limited	England	100% Ordinary	Carbon regeneration
Severn Trent Water Reservoir Limited	England	100% Ordinary	Finance company
Severn Trent Water Utilities Finance Plc	England	100% Ordinary	Finance company
Severn Trent Water International Limited*	England	100% Ordinary	Water services consultancy
Severn Trent Water International (Overseas Holdings) Limited*	England	100% Ordinary	Holding company
ST Wasser and Abwasser GMBH (Germany)	Germany	100%	Water services consultancy
Betriebführungsgesellschaft Nohra mbH	Germany	50%	Waste water plant management
Trinidad and Tobago Water Services Limited	Trinidad and Tobago	100%	Dormant
Severn Trent Africa (Pty) Limited	South Africa	100%	Water services consultancy
Severn Trent Italia S.p.a	Italy	100%	Waste water plant management
Baltea Impianti Depurazioke S.r.l	Italy	100%	Holding company
La Biodepuratrice S.p.a	Italy	100%	Waste water and clean water plant management
Umbria Due S.c.a.r.l	Italy	64%	ATO services provider
Iseco Spa	Italy	80%	Waste water plant management
Consortio Valle D'Aosta Ambiente	Italy	80%	Waste water plant operator
SII Terni S.c.p.a	Italy	16%	ATO Management company
Cara Utilities Limited	Ireland	100%	Dormant
C2C Energy Limited	England	100% Ordinary	Dormant
C2C Group Limited	England	100% Ordinary	Dormant
C2C Services Limited	England	100% Ordinary	Dormant
C2C Telecoms Limited	England	100% Ordinary	Dormant
C2C Utilities Limited	England	100% Ordinary	Dormant
C2C Water Services Limited	England	100% Ordinary	Dormant
Seven Trent Retail Services Limited*	England	100% Ordinary	Retail services
Gunthorpe Fields Limited	England	100% Ordinary	Property development
UK Talks Limited	England	78.42% £1 Ordinary shares	Telecomms
Angliatalks Limited	England	100% Ordinary	Dormant
Internettalks Limited	England	100% Ordinary	Dormant
Northumbriatalks Limited	England	100% Ordinary	Dormant
Surfonwater Limited	England	100% Ordinary	Dormant
Talkonwater Limited	England	100% Ordinary	Dormant
Yorkshiretalks Limited	England	100% Ordinary	Dormant
Severn Trent Utility Services Limited*	England	100% Ordinary	Contract service provider
Severn Trent Power Generation Limited	England	100% Ordinary	Non trading company
Water Direct Limited	England	100% Ordinary	Retail services
Charles Haswell and Partners Limited*	England	100% Ordinary	Engineering design consultancy

* Held directly by the Company.

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

11. Stocks

	Group	
	2003	2002
	£m	£m
Stocks and work in progress	12.8	7.6

The replacement value of stocks and work in progress is not materially different from their book value.

12. Debtors

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Trade debtors	151.3	140.7	-	-
Amount owed by group undertakings	46.5	23.1	37.5	13.3
Other	20.9	18.4	0.2	-
Prepayments and accrued income	9.3	8.0	-	-
	228.0	190.2	37.7	13.3

Included within the group debtors is £6.7 million (2002: £6.9 million) which falls due after more than one year.

13. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Bank overdrafts	159.8	50.8	-	-
Bank loans	97.3	104.4	-	-
Other loans	64.6	73.4	-	-
Amounts owed to parent undertakings	38.9	39.7	38.9	39.7
Obligations under finance leases	4.7	3.7	-	-
Borrowings (note 15)	365.3	272.0	38.9	39.7
Trade creditors	63.4	57.0	-	-
Amounts owed to parent and fellow subsidiary undertakings	28.4	6.3	0.8	-
Other creditors	9.0	5.9	-	-
Taxation and social security	4.8	5.2	-	-
Corporation tax payable	31.1	38.8	-	-
Accruals and deferred income	204.5	202.4	-	-
	706.5	587.6	39.7	39.7

The amount owed by the Company to the ultimate parent undertaking at 31 March 2003 and 31 March 2002 within borrowings is interest due on the longer term inter company borrowings noted below (note 14).

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

14. Creditors: amounts falling due after one year

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Bank loans	488.9	465.6	-	-
Other loans	929.9	924.6	-	-
Amounts owed to parent undertakings	1,598.4	1,559.6	1,598.4	1,559.6
Obligations under finance leases	440.1	442.4	-	-
Borrowings (note 15)	3,457.3	3,392.2	1,598.4	1,559.6
Deferred income	47.4	49.4	-	-
Other creditors	6.7	6.9	-	-
	3,511.4	3,448.5	1,598.4	1,559.6

Details of borrowings owed to parent undertaking (group and Company):

	2003	2002
	£m	£m
£1bn convertible loan note due 12 April 2011 at 2.71% plus RPI per annum	1076.1	1,040.0
£544.2 m Convertible loan note due 12 April 2011 at 6 months LIBOR plus 0.69% per annum	522.3	519.6
	1,598.4	1,559.6

15. Financial Instruments

a) Borrowings analysed by maturity date

Group	Overdrafts	Amounts owed to ultimate parent undertaking	Loans with other repayment terms	Finance leases	2003	2002
	£m	£m	£m	£m	£m	£m
Within one year (note 13)	159.8	38.9	161.9	4.7	365.3	272.0
Between one and two years	-	-	88.0	5.2	93.2	122.6
Between two and five years	-	-	253.8	25.0	278.8	258.7
After more than five years	-	1,598.4	1,077.0	409.9	3,085.3	3,010.9
	159.8	1,637.3	1,580.7	444.8	3,822.6	3,664.2

External loans repayable partly or wholly after five years comprise:

	Rate of interest	2003	2002
	%	£m	£m
European Investment Bank loans – 2008 - 2013	2.8 – 6.1	220.7	175.0
European Medium Term loan notes – 2008 - 2028	3.7 – 4.5	145.2	143.8
Sterling bonds – 2024 – 2029	6.125 – 6.25	710.8	711.3
Other loans	3.9	0.3	-
		1,077.0	1,030.1

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

15. Financial Instruments (continued)

- b) External borrowing analysed by interest rate after taking into account of various interest rate swaps entered into by the group.

				Group 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 borrowings at 31 March 2003	2,185.3	703.6	1,481.7	6.04	20.12
Total borrowings at 31 March 2002	2,064.9	588.5	1,476.4	6.17	19.68

In addition to the fixed debt above, the group has £125 million of forward start interest rate swaps (floating to fixed) that commence during the financial year ending 31 March 2004. These forward start interest rate swaps have a weighed average interest rate of 5.1% and a weighed average duration of 30 years.

Floating rate borrowings bear interest based on Libor.

c) Fair values of financial instruments

The group uses financial derivatives solely for the purpose 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 2003, interest rates on 68.1% of the group's borrowings were fixed for periods up to 26 years.

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

		2003		Group
Financial instruments by category (excluding amounts owed to parent undertaking):	Book value	Fair value	Book Value	Book Value
Asset/ (liability)	£m	£m	£m	£m

Primary financial instruments held or issued to finance business activities

Cash at bank in hand	67.3	67.3	53.1	53.1
Borrowings falling due within one year	(324.2)	(322.9)	(224.7)	(217.9)
Borrowings falling due after more than one year	(1,850.0)	(1,937.2)	(1,823.2)	(1,831.4)

Derivative financial instruments held to manage the currency and interest rate profile

Interest rate swaps and similar instruments	-	(40.5)	-	1.3
Currency instruments – cross currency swaps	(11.1)	(7.3)	(17.0)	(11.5)
Total external net debt	(2,118.0)	(2,240.6)	(2,011.8)	(2,006.4)

Other long term assets

Other fixed asset investments	0.9	0.9	0.7	0.7
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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.

Short term debtors and creditors have been excluded from the above analysis.

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

15. Financial Instruments (continued)

d) Unrecognised gains and losses on hedges at 31 March 2003

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 or interest rate hedges to the group and Company at 31 March 2003, given prevailing economic conditions.

	Gains	Losses	Total net gains
	£m	£m	£m
Unrecognised gains and losses on hedges at 1 April 2002	7.8	(1.0)	6.8
Arising in previous years that were recognised in the year	(2.0)	-	(2.0)
Arising before 1 April 2002 that were not recognised in the financial year	5.8	(1.0)	4.8
Unrecognised gains and losses arising during the financial year	4.5	(45.9)	(41.4)
Unrecognised gains and losses on hedges at 31 March 2003	10.3	(46.9)	(36.6)
Expected to be recognised			
In one year or less	1.0	(0.3)	0.7
In later years	9.3	(46.6)	(37.3)

e) Borrowings facilities

The group had the following undrawn committed borrowing facilities available at 31 March 2003.

	2003 £m	2002 £m
Expiring within one year	-	50.0
In later years	600.0	600.0
	600.0	650.0

16. Provisions

Provisions for liabilities and charges comprise:

	Balance at 1 April 2002	Charged to profit and loss account	Utilised	Balance at 31 March 2003
	£m	£m	£m	£m
Restructuring	1.8	-	(1.1)	0.7
Deferred tax	382.4	55.5	-	437.9
	384.2	55.5	(1.1)	438.6

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

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

16. Provisions (continued)

The group has applied FRS 19, 'Deferred tax', for the first time in preparing this set of group accounts. The full deferred tax liability, calculated under the liability method at a tax rate of 30% (2002: 30%), is:

	2003 £m	2002 £m
Capital allowance	841.7	799.0
Other timing differences	(10.0)	(19.4)
Tax losses	(2.6)	-
Undiscounted provision for deferred tax	829.1	779.6
Discount	(391.2)	(397.2)
Discounted provision for deferred tax	437.9	382.4
Provisions at start of year	382.4	346.6
Deferred tax charge for year	55.5	35.8
Provision at the end of year	437.9	382.4

17. Share capital

	Group and company	
	2003 £m	2002 £m
Authorised:		
A redeemable preference shares of £1 each	1,025.0	1,025.0
B preference shares of £1 each	550.0	550.0
Ordinary shares	500.1	500.1
	2,075.1	2,075.1
	2003 £m	2002 £m
Issued, allotted, called up and fully paid:		
A redeemable preference shares of £1 each	1.0	1.0
B preference shares of £1 each	-	-
Ordinary shares	500.1	500.1
	501.1	501.1

'A' Redeemable Preference Shares of £1 each are entitled to a cumulative preferential dividend and shall be redeemed without notice on 11 April 2016. 'B' Preference Shares of £1 each are entitled to a fixed cumulative preferential dividend. 'A' Redeemable Preference Shares of £1 each rank in priority to any 'B' Preference Shares of £1 each in issue. Holders of 'A' Redeemable Preference Shares of £1 each and/or 'B' Preference Shares of £1 each are entitled to receive notice of, attend, speak and vote at a General Meeting of the Company only if a resolution is to be proposed that relates to the rights or privileges attached to the respective class of shares.

18. Profit and loss account

	Group £m	Company £m
At 1 April 2002	27.4	0.8
Retained (loss)/profit for the year	(17.0)	0.1
At 31 March 2003	10.4	0.9

As permitted by Section 230 of the Companies Act 1985, no profit or loss account is prepared for the Company.

Severn Trent Water Services Plc
Notes to the Financial Statements – Year ended 31 March 2003

19. Acquisitions

On the 20 June 2002, the group acquired UK Talks Limited. UK Talks was a previous joint venture of the group, and the acquisition date, is the date at which the investment ceased being a joint venture and became a subsidiary of the group.

The acquisition was accounted for using the acquisition method. Since the date of acquisition to 31 March 2003, UK Talks Limited has contributed £1.1 million to turnover and a loss before interest of £0.7 million.

On acquisition the company had no significant pre-acquisition results which were significant in the context of the group.

The book value of the net assets acquired and the provisional fair value were as follows:

	Book value and provisional fair value total £m
Tangible fixed assets	0.2
Debtors due within one year	0.5
Bank loans	(0.5)
Creditors due within one year	(0.8)
	(0.6)
Consideration – paid	0.8
Total consideration	0.8
Goodwill	1.4

There have been no accounting policy harmonisations to reflect adjustments in accordance with group policy in the current period.

All fair value adjustments will be reviewed during 2003/2004. Any revision will be accounted for as adjustments to goodwill in that year.

20. Commitments and contingent liabilities

a) Investment expenditure commitments:

	Group	
	2003 £m	2002 £m
Contracted for but not provided in the financial statements	194.6	144.3

In addition to these commitments, the group has longer term expenditure plans, which includes 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.

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Notes to the Financial Statements – Year ended 31 March 2003

20. Commitments and contingent liabilities (continued)

b) Operating lease commitments

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

	2003		2002	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.2	0.5	0.3	0.7
Between one and five years	-	1.3	-	0.1
After five years	0.7	-	0.7	-
	0.9	1.8	1.0	0.8

The banking arrangements for the group 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.

21. Pensions

The group 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 20a below.

In November 2000, the Accounting Standards Board issued FRS 17 'Retirement Benefits', which will replace SSAP 24. Full adoption of FRS17 is not required by Severn Trent Plc, until 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 20b below.

a) SSAP 24 'Accounting for pension cost' disclosures

The group participates in the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Water Mirror Image Pension Scheme (STMIS), (together "the Schemes") both of which are defined benefit schemes and are fully funded to cover future salary and pension increases. The assets of the Schemes are held in a separate fund administered by trustees. Employer's contributions to the Schemes during the year were £16.0 million (2002: £12.8 million).

STWPS

An actuarial valuation of STWPS was carried out at 31 March 2001 by an independent professional qualified actuary using the project unit method. The principal assumptions used were as follows:

	% per annum
Salary increases	4.0
Pension increases	2.5
Inflation	2.5
Discount rate	6.0

The market value of the scheme's assets was £793.7 million, which exceeded by 7% the present value of scheme liabilities, after allowing for future increases in earnings. The surplus is being spread over the estimated remaining period of employees' average service lives with the Company on the basis of a constant percentage of payroll.

The employers' contribution rate to STWPS has been increased from 1 April 2002 to 14.64%, 12.2% or 7.32% of pensionable pay (previously 12.36%, 10.3% or 6.18%) of STWPS members whose contributions are at the rate of 6%, 5% or 3% of pensionable pay.

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21. Pensions (continued)

STMIS

The most recent actuarial valuation of STMIS was carried out at 31 March 2000 by an independent professionally qualified actuary using the attained age method, which is considered the most appropriate method of valuation for a scheme which is closed to new members. The principal assumptions used were as follows:

	% per annum
Investment returns	4.5
Salary increases	4.0
Pension increases	2.5
Inflation	2.5

The market value of the scheme's assets was £102.1 million, which exceeded by 22% the present value of schemes liabilities after allowing for future increases in earnings. The surplus is being spread over the estimated remaining period of employees' average service lives with the Company on the basis of a constant percentage payroll.

Following the valuation, an employer's contribution holiday was introduced to STMIS beginning on 1 April 2001 (previous rates of 1.08% or 0.9% of pensionable pay of STMIS members). Employees' contributions continue at the rate of 6% and 5% respectively.

b) FRS 17, 'Retirement benefits' – disclosures

The group is required to provide disclosure under the transitional arrangements within FRS17 'Retirement Benefits'. The group principally contributes to two defined benefit schemes, STWPS and STMIS. Both schemes are accounted for as multi-employer schemes as defined by FRS17 as the group is not able to identify its share of the underlying assets and liabilities.

Schemes assets, liabilities and deficits are disclosed in the Annual Report and Accounts of the ultimate parent undertaking, Severn Trent Plc in accordance with FRS 17. The net pension schemes deficits, calculated under FRS 17 as at 31 March 2003 amounted to £325.1 million (2002: £57.1 million surplus).

22. Ultimate and immediate parent company and related party transactions

The ultimate and immediate parent undertaking is Severn Trent Plc, which is registered in England and Wales. 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/reports2003.

As a wholly owned subsidiary, the Company has taken advantage of the exception not to disclose related party transactions with other group undertakings in accordance with Accounting Standards FRS 8 'Related Party Disclosures'.