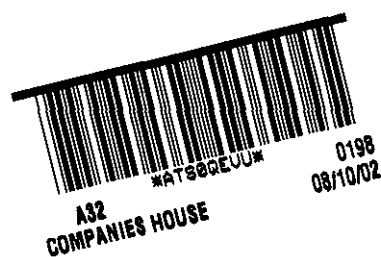


**Company number 3995023**

**Severn Trent Water Services Plc**

**Financial Statements**

**Year ended 31 March 2002**



# **Severn Trent Water Services Plc**

**Year ended 31 March 2002**

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**Severn Trent Water Services Plc**  
**Company Information**

**Company Number:** 3995023

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

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

## **Severn Trent Water Services Plc**

### **Directors' Report**

The Directors present their report, together with the audited financial statements for the year ended 31 March 2002.

#### **Principal activities**

The principal activities of the group continued to be the supply of water and 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 2002 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 current financial year. The principal activity of the company is to act as holding company for the water related group of subsidiary companies.

The company is producing consolidated accounts for the first time. Since the first of the subsidiaries were acquired on 30 March 2001 (the last working day of the previous financial year) the consolidated profit and loss account for the year ended 31 March 2001 is in essence simply the company profit and loss account for that year. The comparatives represent the period from the date of incorporation to 31 March 2001. The company was incorporated on 16 May 2000.

#### **Business review**

During the year under review, the company became the direct parent undertaking of Severn Trent Water International (Overseas Holdings) Limited, a company previously owned indirectly through Severn Trent Water International Limited, a fellow subsidiary. Severn Trent Water International (Overseas Holdings) Limited disposed of its 20% investment in Aquafin NV during the year to a fellow undertaking of the Severn Trent Plc group, realising a profit on disposal of £9.7 million.

A review of the holding 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/Reports2002](http://www.severntrent.com/Reports2002).

#### **Results and dividends**

The results for the period are shown on page 9. A dividend of £47,176,000 (2001: nil) was declared and paid during the year on the Ordinary shares and a dividend of £35,000 (2001: nil) 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 (appointed 10 December 2001)  
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 period 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 2001 Ordinary Shares of 65 <sup>5/19</sup> p each	31 March 2002 Ordinary Shares of 65 <sup>5/19</sup> p each
P P Davies	118	177
J A Hill	6,427*	6,468
M R Wilson	8,139	6,102

\* At date of appointment

## Share Options under Approved Schemes

	1 April 2001	Exercised during period	Lapsed during period	Granted during period	31 March 2002
P P Davies	2,514	-	-	-	2,514
J A Hill	6,768*	-	-	-	6,768
M R Wilson	431	-	-	3,020	3,451

\* At date of appointment

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.

Mr P P Davies, Mr J A Hill and Mr M R Wilson have further interests in Severn Trent Plc ordinary shares of 65<sup>5/19</sup> p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (the 'Plan') on 30 July 1999, 10 August 2000 and 30 August 2001. The Plan operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the Plan. 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 1999 and 2000 awards are 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 award 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 2001 Number of ordinary shares of 65 <sup>5/19</sup> p each	Awards vested during period	Awards lapsed during period	Awarded during period	31 March 2002 Number of ordinary shares of 65 <sup>5/19</sup> p each	Gain on vesting (£'000)
P P Davies	12,507	-	-	12,244	24,751	Nil
J A Hill	16,985*	-	-	-	16,985	Nil
M R Wilson	17,292	-	(4,453)	9,306	22,145	Nil

\* At date of appointment

## **Severn Trent Water Services Plc Directors' Report (continued)**

### Directors' interests (continued)

As at the date of signing the accounts the following further awards have been made under the Plan:

	Number of shares awarded
P P Davies	15,776
B Duckworth	26,215
J A Hill	8,605
R M Walker	64,701
M R Wilson	11,952

The performance period for allocations of shares made in 1999 ended on 31 March 2002. Based on Severn Trent Plc's total shareholder return over the three year performance period, it has been determined that participants are not entitled to any of the shares allocated. The 1999 contingent allocations of shares are included in the above table.

### **Share Capital**

Details of the share capital issued in the year are shown in note 17 to the financial statements.

### **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 36 days after the invoice date.

### **Research and development**

Expenditure on research and development was £4.4 million including £1.3 million spent on fixed assets (2001: £nil), all of which was carried out through the Severn Trent Water Ltd subsidiary company (further details can be found in the Severn Trent Water Ltd statutory accounts).

### **Employees**

The average number of employees employed by the group during the year was 5,090.

Employees have the opportunity to benefit from the group's sharesave and profit sharing schemes. An active programme of internal communications keeps employees informed through established channels including the award winning in-house magazine, which was re-launched in January 2002. There are monthly team meetings with employees, and use of the Severn Trent Plc (the ultimate parent undertaking) intranet to share current news.

Our managers are trained and developed to ensure that they are equipped to meet current and future customer expectations and to take the business forward in supporting future growth. Our sophisticated career management process enables us to identify and develop future talent. In addition the company continues to recruit new graduates to participate in its graduate training and development programme and develop into future managerial roles.

### **Opportunities and disabled persons**

The company is continually reviewing its diversity policies to ensure that no current or potential employee is disadvantaged because of colour, ethnic or national origin, gender, religion, marital status or disability.

The company is a member of the Employers' Forum on Disability and is keen to share and learn from best practise elsewhere. Our recruitment and selection procedures and our policies in relation to dealing with redundancies are fair and in compliance with current employment legislation. Procedures for dealing with allegations of potential harassment are in place and are regularly monitored to ensure effectiveness.

## **Severn Trent Water Services Plc**

### **Directors' Report (continued)**

#### **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**

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution proposing the reappointment of PricewaterhouseCoopers as auditors will be put to the Annual General Meeting.

On behalf of the Board



**M R Wilson**  
**Director**

**1 October 2002**

## **Severn Trent Water Services Plc**

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

We have audited the financial statements on pages 9 to 31.

#### **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 on page 7.

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.

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 United Kingdom 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 2002 and of the profit for the group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
**Birmingham**  
**1 October 2002**



**Severn Trent Water Services Plc**  
**Group profit and loss account**

Year ended 31 March 2002

	Notes	2002 £m	2001 £m
Turnover : group and share of joint ventures		920.7	-
Less: share of joint ventures turnover		(0.4)	-
<b>Turnover</b>	2	920.3	-
Operating costs before goodwill amortisation and exceptional costs	3	(590.8)	-
Goodwill amortisation	3	(13.4)	-
<b>Total operating costs</b>	3	(604.2)	-
<b>Group operating profit</b>		316.1	-
Share of operating profit of joint ventures and associates	2	8.0	-
Exceptional profit on disposal of associate	2	9.7	-
Profit before interest, goodwill amortisation and exceptional items	2	337.5	-
Goodwill amortisation	2	(13.4)	-
Profit before interest and exceptional items	2	324.1	-
Exceptional profits on disposal of associate	2	9.7	-
<b>Profit before interest</b>	2	333.8	-
Net interest payable	5	(225.5)	(0.6)
<b>Profit/(loss) on ordinary activities before taxation</b>		108.3	(0.6)
Taxation on profit on ordinary activities - current tax	6	2.6	-
- deferred tax	6	(35.8)	-
Total taxation	6	(33.2)	-
<b>Profit/(loss) on ordinary activities after taxation</b>		75.1	(0.6)
Equity minority interests		(0.1)	-
<b>Profit/(loss) for the financial year</b>		75.0	(0.6)
Dividends	7	(47.2)	-
<b>Retained profit/(loss) for the financial year</b>	18	27.8	(0.6)

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.

The company acquired its first subsidiaries on 30 March 2001. As a consequence, the comparative profit and loss account for the period ended 31 March 2001 (from the date of incorporation 16 May 2000) is the company profit and loss account for that period.

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

**Severn Trent Water Services Plc**  
**Balance sheets**

At 31 March 2002

	Notes	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
<b>Fixed assets</b>					
Intangible assets - goodwill	8	156.4	170.0	-	-
Tangible assets	9	4,537.8	4,431.8	-	-
Investments in joint ventures				-	-
Share of gross assets		1.4	0.1	-	-
Share of gross liabilities		(0.4)	-	-	-
Loans to joint ventures		0.3	-	-	-
		1.3	0.1		
Investments in associates		1.8	17.1	-	-
Investments in subsidiaries		-	-	2,044.0	2,013.1
Other investments		0.7	1.5	-	-
Total Investments	10	3.8	18.7	2,044.0	2,013.1
		4,698.0	4,620.5	2,044.0	2,013.1
<b>Current assets</b>					
Stocks	11	7.6	7.5	-	-
Debtors	12	190.2	172.0	13.3	-
Cash at bank and in hand		53.1	7.0	43.9	0.1
		250.9	186.5	57.2	0.1
<b>Creditors: amounts falling due within one year</b>	13	(587.6)	(2,244.9)	(39.7)	(1,513.7)
<b>Net current asset/( liabilities)</b>		(336.7)	(2,058.4)	17.5	(1,513.6)
<b>Total assets less current liabilities</b>		4,361.3	2,562.1	2,061.5	499.5
<b>Creditors: amounts falling due after more than one year</b>	14	(3,448.5)	(1,707.8)	(1,559.6)	-
<b>Provisions for liabilities and charges</b>	16	(384.2)	(354.8)	-	-
<b>Net assets</b>		528.6	499.5	501.9	499.5
<b>Capital and reserves</b>					
Called up share capital	17	501.1	500.1	501.1	500.1
Profit and loss account	18	27.4	(0.6)	0.8	(0.6)
<b>Total equity shareholders' funds</b>		528.5	499.5	501.9	499.5
Minority shareholders' interest (equity)		0.1	-	-	-
		528.6	499.5	501.9	499.5

Signed on behalf of the Board who approved the accounts on 1 October 2002.



Brian Duckworth

Director



Mark Wilson

Director

## Severn Trent Water Services Plc

### Statement of total recognised gains and losses

Year ended 31 March 2002

	2002 £m	Group 2001 £m
Profit / (loss) for the financial year - group	74.4	(0.6)
- joint ventures	(0.3)	-
- associates	0.9	-
Total profit / (loss) for the financial year	75.0	(0.6)
Currency translation differences	0.2	-
Total recognised gains and losses for the year	75.2	(0.6)

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

### Reconciliation of movements in shareholders' funds

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Profit / (loss) for the financial period	75.0	(0.6)	48.6	(0.6)
Dividends (including non-equity dividends)	(47.2)	-	(47.2)	-
	27.8	(0.6)	1.4	(0.6)
Other recognised gains and losses relating to the period	0.2	-	-	-
Shares issued	1.0	500.1	1.0	500.1
Net addition to shareholders' funds	29.0	499.5	2.4	499.5
Opening shareholders' funds	499.5	-	499.5	-
Closing shareholders' funds	528.5	499.5	501.9	499.5

The comparative information is for the financial period from the date of incorporation (16 May 2000) to the period end (31 March 2001).

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**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 financial statements the group has adopted the following Financial Reporting Standards for the first time:

FRS 17 Retirement benefits  
FRS 18 Accounting policies  
FRS 19 Deferred tax

The group has adopted the transitional provisions of FRS 17, requiring certain additional disclosures, which are set out in the notes to those accounts.

No changes have been effected to the groups' accounting policies as a result of a review carried out on the adoption of FRS 18.

FRS 19 introduces a form of full provisioning for deferred tax, replacing the partial provision method previously followed under SSAP15. The adoption of this standard has resulted in no changes to the consolidated results in the prior period.

In complying with SSAP15, the company did not previously provide for deferred tax. No provision is required for the company under FRS 19, hence no restatement is required of the company's results to 31 March 2001.

**b) Basis of preparation**

The financial statements include the results of Severn Trent Water Services Plc 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.

**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 and the network in accordance with the defined standards of services, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charged for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, after taking account of relevant grants and contributions, based on the company's independently certified asset management plan.

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**1. Accounting policies (continued)**

**Tangible fixed assets and depreciation (continued)**

**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

**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 costs 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 practise, 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 £294.5 million lower than it would otherwise have been (2001: £267.6 million).

Those grants and contributions relating solely to maintaining 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. Cost includes labour, materials, transport and an element of overheads.

## **Severn Trent Water Services Plc**

### **Notes to the Financial Statements – Year ended 31 March 2002**

#### **1. Accounting policies (continued)**

##### **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.

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.

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**1. Accounting policies (continued)**

**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.

**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).

# **Severn Trent Water Services Plc**

## **Notes to the Financial Statements – Year ended 31 March 2002**

### **2. Segmental analysis**

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

	United Kingdom	Other – principally Europe	Group
	2002 £m	2002 £m	2002 £m
<b>Group Turnover</b>			
Water and sewerage	899.9	-	899.9
Contract services	3.0	11.6	14.6
Engineering consultancy	14.8	2.0	16.8
Inter segment trading	(11.0)	-	(11.0)
	<b>906.7</b>	<b>13.6</b>	<b>920.3</b>
<b>Group profit before interest, exceptional items and goodwill amortisation</b>			
Water and sewerage	329.8	-	329.8
Contract services	(2.3)	9.6	7.3
Engineering consultancy	0.7	-	0.7
Unrealised profit on inter segment trading	(0.3)	-	(0.3)
	<b>327.9</b>	<b>9.6</b>	<b>337.5</b>
<b>Goodwill amortisation</b>	<b>(12.8)</b>	<b>(0.6)</b>	<b>(13.4)</b>
<b>Group profit before interest and exceptional items</b>			
Water and sewerage	322.1	-	322.1
Contract services	(2.3)	4.1	1.8
Engineering consultancy	0.5	-	0.5
Unrealised profit on inter segment trading	(0.3)	-	(0.3)
	<b>320.0</b>	<b>4.1</b>	<b>324.1</b>
<b>Exceptional items</b>			
Profit on disposal of associate – Contract services	-	9.7	9.7
<b>Group profit before interest</b>			
Water and sewerage	322.1	-	322.1
Contract services	(2.3)	13.8	11.5
Engineering consultancy	0.5	-	0.5
Unrealised profit on inter segment trading	(0.3)	-	(0.3)
	<b>320.0</b>	<b>13.8</b>	<b>333.8</b>

Turnover by origin and destination do not differ materially.

Group turnover and profit before interest were nil for the period ended 31 March 2001.



**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**2. Segmental analysis (continued)**

**b) Joint ventures and associates**

	United Kingdom	Other – principally Europe	Group
	2002	2002	2002
	£m	£m	£m
Share of joint venture's turnover	0.2	0.2	0.4
Share of operating profit of joint ventures and associates:			
Joint ventures	(0.3)	-	(0.3)
Associates	-	8.3	8.3
	(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	
	2002	2001	2002	2001	2002	2001
	£m	£m	£m	£m	£m	£m
Water and sewerage	4,366.3	4,272.6	-	-	4,366.3	4,272.6
Contract services	12.1	(12.1)	6.4	33.3	18.5	21.2
Engineering consultancy	19.7	3.1	-	-	19.7	3.1
Net operating assets	4,398.1	4,263.6	6.4	33.3	4,404.5	4,296.9
Goodwill:						
Water and sewerage					146.8	154.5
Contract services					6.7	12.4
Engineering consultancy					2.9	3.1
Short-term deposits, cash, borrowings, taxation and dividends payable					(4,032.3)	(3,967.4)
					528.6	499.5

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**3. Analysis of operating costs and exceptional items**

	Notes	2002 £m
<b>Analysis of operating costs</b>		
Wages and salaries		123.7
Social security costs		9.4
Pension costs	20	12.8
Total employee costs		145.9
Power raw materials and consumables		65.5
Rates		49.4
Service charges		22.8
Other operating costs		72.3
Depreciation charge	9	211.3
Amortisation of goodwill (including exceptional charge of £4.9m)		13.4
Deferred income released		(3.4)
Hired and contracted services		75.9
Hire of plant and machinery		5.4
Other operating leases		1.8
Audit fees		0.3
Research and development expenditure		3.1
Profit on disposal of tangible fixed assets		(5.5)
		658.2
Own work capitalised		(54.0)
Total operating costs		604.2

Other fees paid to the auditors, PricewaterhouseCoopers included within other operating costs amounted to £63,000 (2001: £nil)

Included within goodwill amortisation 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 ownership of the trading subsidiaries of Severn Trent Water International Limited to Severn Trent Water Services Plc, 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):

	2002 Number
<b>By type of business:</b>	
Water and sewerage	4,662
Contract services	183
Engineering consultancy	245
	5,090
<b>By geographical location:</b>	
United Kingdom	4,933
Other – principally Europe	157
	5,090

The directors have not received any fees or emoluments in respect of their services to the company during the year.

**Severn Trent Water Services Plc****Notes to the Financial Statements – Year ended 31 March 2002****5. Net interest payable**

	2002 £m
Interest receivable and similar income	6.3
Interest payable and similar charges:	
Bank loans and overdrafts	(145.7)
Other loans	(56.9)
Finance leases	(22.9)
	(219.2)
Share of associates	(6.3)
	(225.5)

**6. Taxation****a) Analysis of charge in the year**

	2002 £m
<b>Current tax</b>	
UK corporation tax	
- current year at 30%	0.6
- prior year	(5.0)
Double taxation relief	(0.6)
Group relief	
- prior year	0.9
Total UK tax	(4.1)
Overseas taxation	
- current year	0.7
- prior year	(0.3)
Total overseas tax	0.4
Total current tax	(3.7)
Share of tax charges of	
- joint ventures	-
- associates	1.1
Total current tax	(2.6)
<b>Deferred tax</b>	
Origination and reversal of timing differences	
- current year	52.8
- prior year	5.0
Increase in discount	(22.0)
Total deferred tax	35.8
Total tax charge	33.2

## Severn Trent Water Services Plc

### Notes to the Financial Statements – Year ended 31 March 2002

#### 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%). The differences are explained below:

	2002 £m
Profit on ordinary activities before tax	108.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001:30%)	32.5
Effects of:	
Expenses not deductible for tax purposes	(0.8)
Capital allowances for year in excess of depreciation	(50.7)
Utilisation of/movement in short-term timing differences	(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	1.1
Overseas tax rate differences	(0.2)
Adjustments to tax charge in respect of prior periods	(4.4)
Total current tax	(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 from one balance sheet date to the next.

#### 7. Dividends

	Pence per share	2002 £m
Declared on:		
Ordinary shares	9.38	46.9
Preference shares	30.00	0.3
Total dividends		47.2

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**8. Goodwill**

	2002 £m
<b>Cost</b>	
At 1 April 2001	171.0
Exchange adjustments	(0.2)
<b>At 31 March 2002</b>	<b>170.8</b>
<b>Amortisation</b>	
At 1 April 2001	1.0
Charge for year	8.5
Provision for impairment	4.9
<b>At 31 March 2002</b>	<b>14.4</b>
<b>Net book value</b>	
<b>At 31 March 2002</b>	<b>156.4</b>
At 31 March 2001	170.0

**9. Tangible assets**

	Land and buildings £m	Infrastructure assets £m	Plant & equipment £m	Group Total £m
<b>Cost</b>				
At 1 April 2001	1,617.4	2,769.3	2,013.2	6,399.9
Additions	57.8	152.8	141.5	352.1
Grants and contributions	-	(26.9)	-	(26.9)
Disposals	(7.3)	(0.7)	(22.9)	(30.9)
Reclassifications and transfers	0.1	(0.2)	(0.3)	(0.4)
Exchange adjustments	-	-	(0.1)	(0.1)
<b>At 31 March 2002</b>	<b>1,668.0</b>	<b>2,894.3</b>	<b>2,131.4</b>	<b>6,693.7</b>
<b>Depreciation</b>				
At 1 April 2001	447.6	775.0	745.5	1,968.1
Charge for year	31.8	54.1	125.7	211.6
Disposals	(6.3)	(0.7)	(16.8)	(23.8)
<b>At 31 March 2002</b>	<b>473.1</b>	<b>828.4</b>	<b>854.4</b>	<b>2,155.9</b>
<b>Net book value</b>				
<b>At 31 March 2002</b>	<b>1,194.9</b>	<b>2,065.9</b>	<b>1,277.0</b>	<b>4,537.8</b>
At 31 March 2001	1,169.8	1,994.3	1,267.7	4,431.8

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

	2002 £m	2001 £m
Cost	450.7	443.8
Accumulated depreciation	(57.8)	(50.6)
<b>Net book value</b>	<b>392.9</b>	<b>393.2</b>

**Severn Trent Water Services Plc****Notes to the Financial Statements – Year ended 31 March 2002****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:

	2002 £m	2001 £m
Freehold	1,193.7	1,168.9
Short leasehold	1.2	0.9
	<b>1,194.9</b>	<b>1,169.8</b>

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

	2002 £m
Owned assets non infrastructure	150.0
Owned assets infrastructure	54.1
Assets held under finance leases	7.5
	<b>211.6</b>

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

	2002 £m	2001 £m
Land	23.8	23.4
Assets in the course of construction	224.4	222.7
	<b>248.2</b>	<b>246.1</b>

**10. Investments**

	2002 £m	2001 £m
Investments in joint ventures:		
Share of gross assets	1.4	0.1
Share of gross liabilities	(0.4)	-
Loans	0.3	-
	<b>1.3</b>	<b>0.1</b>
Investments in associates:		
Share of net assets	(0.8)	14.8
Loans	2.6	2.3
	<b>1.8</b>	<b>17.1</b>
Other investments	0.7	1.5
	<b>3.8</b>	<b>18.7</b>

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**10. Investments (continued)**

	Interests in Joint Ventures £m	Interests in Associates £m	Other Investments £m	Total £m
Group				
At 1 April 2001	0.1	17.1	1.5	18.7
Loans advanced	0.3	-	-	0.3
Additions	1.2	0.4	-	1.6
Disposals	-	(15.4)	-	(15.4)
Share of profits	(0.3)	0.9	-	0.6
Dividends receivable	-	(1.2)	-	(1.2)
Other movements	-	-	(0.8)	(0.8)
<b>At 31 March 2002</b>	<b>1.3</b>	<b>1.8</b>	<b>0.7</b>	<b>3.8</b>

Interests in joint venture and associates at 31 March 2002 comprised the group's share of net assets less provisions, of £0.2 million (2001: £15.5 million) and loans of £2.9 million (2001: £2.3 million). The group's share of the post acquisition accumulated losses of joint ventures at 31 March 2002 was £0.2 million (2001: nil). The group's share of the post acquisition accumulated losses of associates at 31 March 2002 was £1.2 million (2001: nil). Particulars of the group's principal joint venture and associated undertakings at 31 March 2002 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	-
Indaqua Industria e Gestao de Aguas	Water Undertaking	30%	-	-	300,000 shares at 5 Euros/Share #
Cognica Limited	Asset Management	50%	100,000#	100,000	
UK Talks Limited	Telecommunication Service provider	49%	1,200	1,152#	

# Held by the group

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

The group financial Statements incorporate a trading period for Indaqua of twelve months to its accounting reference date of 31 December 2001.

Details of the principal operating subsidiaries by type of business are set out below. A complete list of subsidiary undertakings is available on request to the company.

	2002 £m	2001 £m
Shares in subsidiary undertakings:		
Opening balance	2,013.1	-
Additions in year	31.0	2,013.1
Transfer to group undertaking	(0.1)	-
Closing balance	2,044.0	2,013.1

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.

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**10. Investments (continued)**

	Country of registration and operation	Percentage and class of share capital held	Nature of business
<b>Subsidiary undertakings:</b>			
Severn Trent Water Limited	England	100% Ordinary	Water and sewerage undertaker
Severn Trent Water International Limited	England	100% Ordinary	Water services consultancy
Severn Trent Water International (Overseas Holdings) Limited	England	100% Ordinary	Water services consultancy
Seven Trent Retail Services Limited	England	100% Ordinary	Retail services
Severn Trent Utility Services Limited	England	100% Ordinary	Contract service provider
Charles Haswell and Partners Limited	England	100% Ordinary	Engineering design consultancy

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

**11. Stocks**

	2002 £m	Group 2001 £m
Stocks and work in progress	7.6	7.5

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

**12. Debtors**

	2002 £m	Group 2001 £m	2002 £m	Company 2001 £m
Trade debtors	140.7	139.8	-	-
Amount owed by group undertakings	23.1	1.0	13.3	-
Other	18.4	14.8	-	-
Prepayments and accrued income	8.0	16.4	-	-
	190.2	172.0	13.3	-

Included within the group debtors is £6.9 million (2001: £7.6 million) which falls due after more than one year.



# **Severn Trent Water Services Plc**

## **Notes to the Financial Statements – Year ended 31 March 2002**

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

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Bank overdrafts	50.8	348.3	-	-
Bank loans	104.4	14.4	-	-
Other loans	73.4	61.8	-	-
Amounts owed to parent undertakings	39.7	1,513.1	39.7	1,513.1
Obligations under finance leases	3.7	2.3	-	-
Borrowings (note 15)	272.0	1,939.9	39.7	1,513.1
Trade creditors	57.0	63.3	-	-
Amounts owed to parent undertakings	6.3	7.8	-	-
Other creditors	5.9	7.2	-	0.6
Taxation and social security	5.2	5.4	-	-
Corporation tax payable	38.8	36.1	-	-
Accruals and deferred income	202.4	185.2	-	-
	587.6	2,244.9	39.7	1,513.7

The amount owed to the parent undertaking at 31 March 2001 within borrowings, was repayable on demand with interest being charged at 1.5% above LSTOR (Lloyds TSB Short Term Offer Rate). This loan has been repaid during the year and replaced with longer term borrowings (see notes 14 and 15).

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

### **14. Creditors: amounts falling due after one year**

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Bank loans	465.6	570.0	-	-
Other loans	924.6	606.7	-	-
Amounts owed to parent undertakings	1,559.6	33.5	1,559.6	-
Obligations under finance leases	442.4	441.6	-	-
Borrowings (note 15)	3,392.2	1,651.8	1,559.6	-
Deferred income	49.4	51.3	-	-
Other creditors	6.9	4.7	-	-
	3,448.5	1,707.8	1,559.6	-

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

	2002	2001
	£m	£m
£1bn convertible loan note due 12 April 2011 at 2.71% plus RPI per annum	1,040.0	-
£544.2 m Convertible loan note due 12 April 2011 at 6 months LIBOR plus 0.69% per annum	519.6	-
	1,559.6	-

# Severn Trent Water Services Plc

## Notes to the Financial Statements – Year ended 31 March 2002

### 15. Financial Instruments

#### a) Borrowings analysed by maturity date

Group	Overdrafts £m	Amounts owed to parent undertaking £m	Loans with other repayment terms £m	Finance leases £m	2002 £m	2001 £m
Within one year (note 13)	50.8	39.7	177.8	3.7	272.0	1,939.9
Between one and two years	-	-	120.8	1.8	122.6	106.4
Between two and five years	-	-	239.3	19.4	258.7	266.4
After more than five years	-	1,559.6	1,030.1	421.2	3,010.9	1,279.0
	50.8	1,599.3	1,568.0	446.1	3,664.2	3,591.7

External loans repayable partly or wholly after five years comprise:

	Rate of interest %	2002 £m	2001 £m
European Investment Bank loans – 2008 - 2009	6.10 – 6.49	175.0	225.0
European Medium Term loans notes – 2008 - 2028	3.87 – 5.69	143.8	-
Sterling bonds – 2024 – 2029	6.125 – 6.25	711.3	591.7
		1,030.1	816.7

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

	Group fixed borrowings				
	2002 Total £m	Floating interest rate £m	Fixed interest rate £m	Weighted average interest rate %	Weighted average period for which interest is fixed Years
<b>Total borrowings at 31 March 2002</b>	<b>2,064.9</b>	<b>588.5</b>	<b>1,476.4</b>	<b>6.17</b>	<b>19.68</b>
Total borrowings at 31 March 2001	2,045.1	854.5	1,190.6	6.35	11.00

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 2002, interest rates on 71.7% of the group's borrowings were fixed for periods up to 27 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.

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**15. Financial Instruments (continued)**

		2002		Group 2001
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	53.1	53.1	7.0	7.0
Borrowings falling due within one year	(224.7)	(217.9)	(417.4)	(419.2)
Borrowings falling due after more than one year	(1,823.2)	(1,831.4)	(1,618.3)	(1,547.3)

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

Interest rate swaps and similar instruments	-	1.3	-	4.9
Currency instruments – cross currency swaps	(17.0)	(11.5)	-	-
<b>Total external net debt</b>	<b>(2,011.8)</b>	<b>(2,006.4)</b>	<b>(2,028.7)</b>	<b>(1,954.6)</b>

Other long term assets

Other fixed asset investments	0.6	0.6	1.3	1.3
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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.

**d) Unrecognised gains and losses on hedges at 31 March 2002**

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 2002, given prevailing economic conditions.

	Gains	Losses	Total net gains
	£m	£m	£m
<b>Unrecognised gains and losses on hedges at 1 April 2001</b>	17.9	(13.0)	4.9
Arising in previous years that were recognised in the year	-	-	-
<b>Arising before 1 April 2001 that were not recognised in the financial year</b>	17.9	(13.0)	4.9
Unrecognised gains and losses arising during the financial year	(10.1)	12.0	1.9
<b>Unrecognised gains and losses on hedges at 31 March 2002</b>	<b>7.8</b>	<b>(1.0)</b>	<b>6.8</b>
Expected to be recognised			
In one year or less	0.2	-	0.2
In later years	7.6	(1.0)	6.6

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**15. Financial Instruments (continued)**

**e) Borrowings facilities**

The group had the following undrawn committed borrowing facilities available at 31 March 2002:

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Expiring within one year	<b>50.0</b>	-
In later years	<b>600.0</b>	550.0
	<b>650.0</b>	550.0

**16. Provisions**

**Provisions for liabilities and charges comprise:**

	Balance at 1 April 2001	Charged to profit and loss account	Utilised	Balance at 31 March 2002
	£m	£m	£m	£m
Restructuring	8.2	-	(6.4)	1.8
Deferred tax	346.6	35.8	-	382.4
	<b>354.8</b>	<b>35.8</b>	<b>(6.4)</b>	<b>384.2</b>

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.

The group has applied FRS 19, 'Deferred tax', in preparing this first set of group accounts. The full deferred tax liability, calculated under the liability method at a tax rate of 30% (2001: 30%), is:

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Capital allowance	<b>799.0</b>	743.3
Other timing differences	<b>(19.4)</b>	(21.5)
Undiscounted provision for deferred tax	<b>779.6</b>	721.8
Discount	<b>(397.2)</b>	(375.2)
Discounted provision for deferred tax	<b>382.4</b>	346.6
Provisions at start of year	<b>346.6</b>	-
Deferred tax charge for year	<b>35.8</b>	-
Provisions acquired with subsidiaries at date of acquisition	-	346.6
<b>Provision at the end of year</b>	<b>382.4</b>	346.6

**Severn Trent Water Services Plc**  
**Notes to the Financial Statements – Year ended 31 March 2002**

**17. Share capital**

	Group and company	
	2002	2001
	£m	£m
<b>Authorised:</b>		
A redeemable preference shares of £1 each	1,025.0	-
B preference shares of £1 each	550.0	-
Ordinary shares	500.1	500.1
	<b>2,075.1</b>	<b>500.1</b>
	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
<b>Issued, allotted, called up and fully paid:</b>		
A redeemable preference shares of £1 each	1.0	-
B preference shares of £1 each	-	-
Ordinary shares	500.1	500.1
	<b>501.1</b>	<b>500.1</b>

'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	Company
	£m	£m
At 1 April 2001	(0.6)	(0.6)
Retained profit for the year	27.8	1.4
Exchange differences	0.2	-
<b>At 31 March 2002</b>	<b>27.4</b>	<b>0.8</b>

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

**19. Commitments and contingent liabilities**

**a) Investment expenditure commitments:**

	Group	
	2002	2001
	£m	£m
Contracted for but not provided in the financial statements	144.3	120.1

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.

## Severn Trent Water Services Plc

### Notes to the Financial Statements – Year ended 31 March 2002

#### 19. 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:

	2002		2001	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	0.3	0.7	-	0.7
Between one and five years	-	0.1	0.3	0.1
After five years	0.7	-	0.7	-
	1.0	0.8	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 balance can be offset against overdrawn balances of participating companies

#### 20. 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 Plc issued FRS 17 'Retirement Benefits', which will replace SSAP 24. Full adoption of FRS17 is not required in the case of Severn Trent Plc group, until the year ending 31 March 2004. 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 two schemes, the Severn Trent Water Pension Scheme (STWPS) and the Severn Trent Mirror Image Scheme (STMIS), 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 separate fund administered by trustees. Employer's contributions during the year were £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.

## Severn Trent Water Services Plc

### Notes to the Financial Statements – Year ended 31 March 2002

#### 20. 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 principally 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, there is to be an employer's contribution holiday to STMIS beginning on 1 April 2001 (previous rates of 1.08% or 0.9% of pensionable pay of STMIS members). Employees' contributions are to 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 contribute 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 surpluses 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 surpluses, calculated under FRS 17 as at 31 March 2002 amounted to £57.1 million.

#### 21. Ultimate and immediate parent company and related party transactions

The ultimate parent undertaking is Severn Trent 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/reports2002](http://www.severntrent.com/reports2002).

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'.