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SEVERN TRENT WATER LIMITED

Focus on water

Annual Report and Accounts 2008

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Contents

Company number 2366686

Operating and financial review

About us

At Severn Trent Water, we provide high quality water and sewerage services to over 3 7 million households and businesses in the Midlands and mid Wales We are part of the Severn Trent Plc group of companies and are the second biggest water company in the FTSE 100

- We provide water to 7 4 million people
- We provide sewerage services to 8.5 million people
- For every £2 we make in profit we invest approximately £3 back in to water and sewerage assets
- Our region covers around 21,000 km²
 in the Midlands and mid Wales
- We employ 5,452 people

Financial highlights

	2008 £m
Turnover	**1,265.3**
Profit before tax	**240.3**
Profit for the financial year	**197.0**

Our key strengths

- Amongst the lowest charges in the industry
- Drinking water and waste water quality above the industry average
- Focused management team with a clear strategy
- Streamlined business delivering against Key Performance Indicators (KPIs)
- Commitment to long term responsible stewardship of the business, the environment, our customers and the communities in which we live and work

Our region

Our region covers around 21,000 km² from mid Wales to Rutland and from the Bristol Channel to the Humber Estuary We deliver nearly 2 billion litres of water a day to homes and businesses through 46,000 km of pipes We take away around 2 5 billion litres of waste water per day through 54,000 km of sewers – treating it at over 1,000 sewage treatment works

Long term strategic direction

In 2007, each water company was required by Ofwat to produce a 25 year Strategic Direction Statement for the years 2010-2035 This forms the key foundation for the long term direction and development of our company You can find ours at **www.stwater.co.uk/focusonwater**

The water industry in England and Wales

The industry is monitored and controlled by government appointed regulators who report each year on standards and progress

Water quality and environmental standards

Drinking water quality is regulated by the Drinking Water Inspectorate (DWI) Compliance with EU and UK environmental standards is regulated by the Environment Agency

The DWI publishes an annual report assessing the quality of water supplied by us It also reviews our standards in the previous calendar year The report includes the results of thousands of tests carried out across our region According to these tests, we have consistently achieved 99 9% compliance with water quality standards since 1997 DWI annual reports are published on their website **www dwi gov uk**

Economic regulation

The industry's economic regulator is the Water Services Regulation Authority (Ofwat) Ofwat ensures that we finance and carry out our business properly and also sets our price limits to enable us to finance our activities

Each water company has to submit an annual return (the June Return) to Ofwat covering its activities

Ofwat measures each company's customer and operational service against a number of so called DG performance indicators Ofwat produces an annual league table of performance against these indicators across the industry

The June Return and the DG indicators enable Ofwat to monitor and compare the performance and progress of the companies, and ensure that customers' service standards are protected

Every five years, Ofwat sets annual price limits for each water company The current price limits were set in 2004 for the 2005-2010 Asset Management Plan period (AMP4) The next price review (PR09) will take place late in 2009, setting the prices for the period 2010-2015 (AMP5)

More information can be found at **www ofwat gov uk**

The right team aligned with process

continuous improvement

Water
Waste water
Customer relations

Strategic Direction Statement

In delivering our strategic focus on water, we have three connected touch points highest standards, lowest charges and great people This is at the heart of our commitment to continuous improvement

When you drive for highest standards, you find more efficient, effective and safer ways of working This helps reduce operating costs, which feeds through to keeping tariffs as low as we possibly can for our customers And of course to do all this you need a skilled set of people – hence our belief in and backing of our great people

The Strategic Direction Statement is the result of a very thorough process of engagement with all our stakeholders, including customers, customers' representatives, employees, environmental groups, investors and local authorities It is a living document which will be refined in response to changing times

In summary, the eight Key Strategic Intentions (KSIs) we identified are

Providing a continuous supply of quality water
We are committed to ensuring a safe, reliable supply of drinking water, which is the top priority of our customers

We need to ensure that there is enough available, getting the right balance between water storage and abstraction, reducing leakage and reducing demand and balancing these with environmental pressures

Responding to customers' needs
Our customers expect to see and experience higher standards of customer service The benefits of satisfying their expectation extend to both customers and the company itself As an example, improving the quality of our bill reminders or notices about planning interruptions to supply, will reduce the need for customers to contact us and make it easier to offer a high speed of response and standard of service, to those customers who do need and want to contact us

Having the lowest possible charges
Our customers want us to make significant but affordable improvements in services Increases in bills in recent years have raised concerns about the ability of low income customers to pay their water bills So over and above the way we do business, we will continue to develop payment options to help the most needy and least able to pay

We are continuing on our journey to change the culture of our organisation, improving efficiency and ultimately improving the standards that we set for ourselves and the service we provide to our customers

Having our business reorganised and streamlined around the three key processes of water, waste water and customer relations has, as intended, enabled us to drive the improvements against our KPIs outlined on the following pages

The cost of all water and waste water activities for every household in our region today is on average around 80p a day, one of the lowest costs in our industry

Dealing effectively with waste water
Our customers should have confidence that we will take away their waste and treat it to the highest environmental standards before returning it to our region's rivers And new higher standards will drive further new investment, increasing our costs

The population is growing To meet this additional demand we will need to ensure that treatment works capacity for both water and sewerage can be planned and timed to provide services for new residents

In the 21st century, customers justifiably expect that homes should not be flooded by sewers overflowing It is not acceptable, and we will invest to reduce the risk of that happening We already work hard to avoid serious pollution incidents and meet environmental standards for discharges to rivers

Minimising our carbon footprint
We are an industry leader in terms of minimising our carbon footprint by generating renewable electricity, and we intend to maintain that position We are already the biggest generator of green, renewable energy in our sector Most of our production is used on the host site with the remainder exported to the grid The total electricity produced is equal to 17% of the total energy we consume

We believe we can maintain a leading position in sustainable operations but, as always, in doing so we will not compromise standards or increase bills beyond levels which customers are willing to pay

Having the right skills to deliver
If we are to deliver the service improvements we are aiming for, we need to have the right people and resources available to us That means attracting and critically, retaining the right skills among our employees and suppliers We must also play a leading role in the communities in which we live and work, helping our customers understand what we do, why, and how we can all assist in managing water resources

Maintaining investor confidence
The water industry is a long term undertaking, and that means continuing to provide stable returns for investors and limiting the extent of the future capital programme to that which can be financed without excessive increases in the cost of raising finance There will be a continuing large capital programme to be financed

The annual income provided by customers has always been insufficient, in itself, to finance the capital programme over the past 18 years, and borrowing has increased steadily This situation will continue and is critically dependent upon a stable and transparent regulatory framework, it should guarantee a fair and appropriate return to equity and debt investors through a fair return on capital or, in regulatory terms, the weighted average cost of capital (WACC)

We are committed to continually review and reset our KPI targets and expectations, in line with our Strategic Direction Statement

Promoting an effective regulatory regime
The regulatory regime has played a major role in developing increased efficiency and service improvements over the last 18 years But nothing is set in stone, and we believe that the UK framework should now develop to respond to the new challenges facing the industry going forward in particular to encourage innovation and long term sustainable solutions

A full version of the Strategic Direction Statement can be found at **www stwater co uk/focusonwater**

During 2006/07 we examined every aspect of our performance and thoroughly benchmarked it against comparable companies in the water and sewerage sector, and also in other sectors As a result, we identified 20 Key Performance Indicators (KPIs) against which we have measured our performance and progress The KPIs were chosen with great care to represent what we believe are the key concerns for our customers, employees, regulators and shareholders

Everyone in our company is aligned to and rewarded based on the 20 KPIs

Throughout 2007/08, we have been measuring ourselves against these KPIs in line with our commitment to raise standards, drive greater efficiency and develop our great people

We are committed to constantly review and reset our KPI targets and expectations, in line with our Strategic Direction Statement

We are now making progress in changing the culture of our organisation, changing the efficiency of the organisation and ultimately improving the standards that we set for ourselves and the service we provide to our customers

Having our business reorganised to align our three key processes of water, waste water and customer relations has, as intended, enabled us to drive the improvements against our KPIs outlined on the following pages

Key performance indicators

Key area	Objective	Basis	Measure	Performance 2007	2008	Quartile 2008
Employee	**Provide a safe working environment**	MAT	**1** Lost time incidents per 100 000 hrs worked[2]	0 59	**0 61**	Median
	Develop a confident and productive workforce	QR	**2** Employee motivation %[3]	76%	**77%**	Upper
Customer	**Provide a high quality product**	MAA	**3** Water quality (mean zonal compliance) %[1,4]	99 98%	**99 96%**	Upper
	Quality interaction with the customer	MAT	**4** Customer written complaints per 1,000 properties[1,5]	16 58	**10 90**	Lower
		MAT	**5** First time call resolution for billing %[6]	80%	**85%**	Upper
	Provide a high standard of operational service	MAT	**6** Unplanned interruptions > 6 hours per 1,000 properties[1,7]	10 70	**21 86**	Lower
		NPR	**7** Properties at risk of low pressure per 1,000 properties[8,9]	0 09	**0 06**	Upper
		MAT	**8** First time job resolution %[6]	84%	**85%**	Median
	Development of a sustainable service	QR	**9** Performance against regulatory obligations %[6]	26%	**15%**	Median
Financial	**Asset base enhancement**	ATD	**10** Capex (gross) vs final determination %[10]	2 7%	**1 7%**	Upper
		MAT	**11** Capital process quality (no defects per 100k)[6]	N/A	**0 03**	Upper
	Manage trade debt		**12** Debtor days[6,10]	37 5	**37 4**	Median
	Management of cost base	MAT	**13** Opex vs final determination (UK GAAP) £m[10]	479 1	**480 9**	Median
		MAT	**14** Cost to serve per property £[11]	226 93	**236 82**	Median
Environment	**Minimise environmental impact**	MAT	**15** Pollution incidents (cat 1, 2 and 3) per 1 000 properties[4,12]	0 14	**0 11**	Upper
		MAT	**16** Sewer flooding incidents – other causes[1,13]	0 17	**0 21**	Lower
		PPS	**17** Sewage treatment works – breach of consents %[1]	0 00%	**0 00%**	Upper
	Optimise use of resources	MAA	**18** Raw water storage %[6]	90%	**92%**	Upper
		MAT	**19** Net energy use – kWh/Ml[6]	618	**608**	Median
		MLE	**20** Leakage Ml/d[1,14]	524	**491**	Upper

Notes

All measures are for the period to 31 March 2008, except as stated
MAT = Moving Annual Total
QR = Quarterly Review
MAA = Moving Annual Average
NPR = Number of properties on register
MLE = Maximum Likelihood Estimate
PPS = Percentage of population served
ATD = AMP4 (Asset Management Period) to date

1 As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 13 June 2008
2 Actual performance across all employees and agency staff 2007 performance restated to include road traffic accidents
3 Performance based on quarterly survey of 10% of permanent employees
4 Measure for calendar year to 31 December 2007
5 Performance excludes properties billed by other water companies.
6 Actual performance based on internal data
7 2007 performance restated to include the impact of unplanned interruptions over 6 12 and 24 hours 2008 performance excludes impact of Summer 2007 flooding 2008 performance is 184 5 if impact of Summer 2007 flooding included
8 Measure as at 31 March 2008
9 2008 performance excludes impact of new pressure loggers installed in 2007/08 Including pressure loggers, 2008 performance is 0 455
10 Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2008
11 Actual performance based on audited regulatory accounts for the year ended 31 March 2008.
12 Restated to reflect all Environment Agency types of category 1, 2 and 3 pollution incidents.
13 2007 restated to reflect numbers of incidents as opposed to number of affected properties.
14 2007 restated to MLE leakage as opposed to DMA (District Metered Area) leakage

Chief Executive's review | Tony Wray

In 2007/08 we turned a significant corner We have revitalised our business, aligning our operations to focus on driving up standards, driving down costs, and improving customer service through process efficiency We have improved our operational performance in many areas, while continuing to build on those areas which need greater focus recognising there are still further improvements to be made As a result, I believe we are well positioned for the 2009 Price Review (PR09) and the delivery of the outputs from our Strategic Direction Statement and we are actively working towards both of these priorities

Legacy issues

I am now able to say we are finally resolving the legacy issues and putting this organisation back into the position our customers and our employees deserve

We pleaded guilty to two offences relating to leakage data supplied to Ofwat in 2001 and 2002 The sentencing hearing started on 2 June 2008 and is scheduled to resume on 1 July 2008 Once that is concluded, we will be able to commence discussions with Ofwat concerning the resolution of Ofwat's interim report of March 2006 which may result in further amends being made to customers

Our economic regulator, Ofwat, has proposed fines of £35 8 million for misreporting customer service data and failing to meet Guaranteed Service Standards in 2005/06 We accept the principle of a financial sanction but we have raised issues in relation to the amounts and the approach taken by Ofwat to determine them

In addition to paying fines, we have already credited customers' accounts and altered bills appropriately for subsequent years to ensure we have not profited in any way from these past misdeeds

Achieving significant and lasting improvements

Throughout our business we have been focusing on finding and fixing the root causes of problems in order to achieve significant and lasting improvements As a result we have, for example, outperformed our leakage target after failing to meet it for the last two years We have improved customer service levels, achieving for example a 34% reduction in the number of written complaints per 1,000 properties, and we have reduced the number of pollution incidents per 1,000 properties, to 417 from 530 Alongside these successes, we have also maintained our high levels of performance in areas such as water quality and compliance with environmental standards at our sewage treatment works

Last year, we identified £24 million of restructuring costs to be incurred in the remaining three years of AMP4 in order to raise standards and improve efficiency We also highlighted that we expected staffing levels to reduce (permanent and agency) in Severn Trent Water by around 600 posts over a five year period

In 2007/08 we expected to incur £8 million of restructuring costs, to eliminate 130 posts and to meet the Ofwat determination for operating costs During 2007/08 we have actually invested £13 9 million (classified as exceptional operating costs) This investment has delivered sustainable improvements in 2007/08, with operating costs around 1% lower than that assumed in the Final Determination and resulted in 150 posts being eliminated from the organisation Notwithstanding the progress made to date, we continue to develop our plans to optimise the performance of the company and sustain the improvements in the longer term These plans are now focused on three broad areas, process improvements, the technology and systems that support these processes, and the location, training and development of our people to operate in this new environment

These improvement plans are integrated into our business plan, are the basis of our future improvements in effective and efficient operation and will form a major part of the company's draft business plan to be submitted to Ofwat in August 2008 Over the next two years, we now expect to incur exceptional restructuring costs of around £24 million These costs represent the continuing implementation of our improvement plans that extend beyond the end of the current AMP period as we continue to deliver against our objective of raising standards and improving efficiency As we describe in our outlook statement, we remain on track to deliver around 3% annual outperformance against the Ofwat determination for operating costs in 2008/09 and 2009/10

The summer floods

Summer 2007 was the wettest on record, causing widespread flooding In the face of unprecedented challenges in the Gloucestershire floods in particular, our people showed great dedication and single minded focus on getting 138,000 households back on supply Supported by our customers, suppliers, local authorities, other water companies, the emergency services and armed forces, as well as the community of Gloucestershire, we deployed 1,500 bowsers during the 17 days and made available 50 million litres of water through alternative means

We have established a £3 5 million recovery fund for Gloucestershire, in recognition of the huge amount of effort and energy everyone involved in the local community devoted to tackling the event

In response to the floods, we are improving our contingency planning and we are looking at system resilience throughout our area In particular, we are working on a proposed pipeline from Strensham Water Treatment Works to The Mythe network near Tewkesbury

Looking ahead

We will continue building on the significant progress made in 2007/08 Preparations for PR09 and AMP5 are underway and will intensify We are well placed to produce a high quality plan for PR09 that balances the interests of all stakeholders customers, economic and environmental regulators, and investors

We will continue working closely with everyone concerned on regulatory reforms, notably competition and the adoption of private sewers We welcome these changes and aim to make sure we are positioned to best advantage for our customers and our shareholders We will look to apply our robust funding strategy in order to continue securing the finance we need to fund investment over the next 25 years and beyond

Above all, we aim to make sure we are constantly looking at the long term stewardship of the business to ensure continuous sustainable improvements to achieve higher standards, lower costs and further develop our great people in the years ahead

Operational performance

Focusing on water, waste water and customer relations
Our business is streamlined and organised around the three key processes of water, waste water and customer relations

Water

Outperforming our leakage target
We have outperformed against our leakage target for 2007/08 We are determined to maintain our performance, in line with our written commitment to Ofwat, for the remaining years of AMP4

With water scarcity potentially increasing, being able to reduce leakage becomes ever more important for our customers, for the environment and for our business We have succeeded this year as a result of better network maintenance, better response times to finding and fixing leaks and a better understanding of where water is used and where it is wasted in our system

In 2007/08, we found and fixed over 39,000 leaks, compared with 37,000 in 2006/07

We have also continued to encourage water efficiency amongst our customers See page 12 for further details

High water quality
We have a strong track record of providing high quality drinking water to our customers We have consistently achieved 99 9% compliance with water quality standards set by the Drinking Water Inspectorate (DWI) since 1997 This is amongst the best compliance records in our industry

The DWI's performance tables for the 2007 calendar year showed that we achieved 99 96% mean zonal compliance, based on over 500,000 tests from samples of our water As a result of this we did not improve on last year's 99 98% compliance Nevertheless, we have maintained a high performance level

Our water quality KPI is currently based on an overall DWI measure of compliance at the customer's tap We plan to change our measure so that it takes in compliance along the whole supply chain, from reservoir to tap This more challenging measure should allow us to gain a broader and deeper picture of water quality and be able to identify the root causes of any problems more accurately and efficiently This in turn should allow us to implement more effective long term solutions, driving up water quality even higher

KPI 20
Leakage Ml/d

491

We have outperformed our leakage target

Reliable water supply
Our customers expect not only high quality water but also a reliable supply

Our KPI for unplanned interruptions to supply is based on Ofwat's DG3 level of service measure Our performance against this measure in 2007/08 deteriorated This year, around 195,000 properties experienced unplanned interruptions to supply for six hours or more, compared to around 23,400 properties in 2006/07 This represents 5 7% of the properties connected to our network, compared to 0 7% in 2006/07 The flooding of The Mythe Water Treatment Works in July accounted for 138,000 properties in total We recognise that, despite the exceptional incident, this performance is not good enough and we apologise to our customers We are working to identify and fix the root causes of the problem and are committed to achieving an underlying improvement in performance in the coming year

Our other KPI for water supply is based on Ofwat's DG2 level of service measure for properties at risk from low pressure

We have deployed 3,500 pressure loggers this year to understand better the performance of our network By measuring pressure throughout the system, we should be able to identify more points of low pressure and their root causes This has led to a short term deterioration in our low pressure KPI, but it should result in a long term improvement in our delivery of a reliable water supply to customers We have removed 1,082 properties from the register this year but have identified 2,314 more This means we end the year with 1,546 properties compared to 314 properties in 2006/07 This represents less than 0 05% of the properties we serve

Investing in water
In 2007/08 we invested a total of £220 million in the water services part of our business

Each year, we invest in maintaining, repairing and modernising our extensive water network, some of which is over 100 years old The Ofwat Determination for AMP4 included around £184 million of expenditure on mains renewal over five years (in nominal terms) So far, we have invested £156 million in our network and expect to invest in total around £256 million, some 39% more than the amount assumed in the Determination

Given the demands of climate change and population growth, investing in improving the resilience and capacity of our network is likely to become increasingly important We have significant investment underway, notably a £60 million scheme to pump additional water from our works at Trimpley on the River Severn through for treatment at our biggest water treatment works at Frankley in Birmingham Our draft Water Resources Management Plan, summarised on page 9, describes our proposed strategy for maintaining the balance between supply and demand in our region over the next 25 years

Our research and development programme for drinking water is focused on improving our capabilities to provide a continuous supply of quality water efficiently In 2007/08 we have evaluated treatment options to improve even further the removal of naturally occurring organic matter from our raw water This will help us provide the most cost effective method for delivering improved water quality in relation to taste and reducing the use of chlorine in the distribution system In addition, we have increased research into providing practical solutions for distribution issues such as unplanned interruptions and leakage, where we have made significant advances in the development of leak detection technology on plastic pipes

Operational performance continued

Waste water

Minimising our environmental impact

In the 2007 calendar year, our sewage treatment works complied with the discharge consents issued by the Environment Agency We had no breaches of consent for sanitary and urban waste water parameters in 2007 This consistently high level of compliance is among the best in the industry Our standards are however always tightening and we aim to maintain our high performance year after year

The standard for our pollution incidents KPI has to be zero We have made good progress on this front in 2007/08 Pollution incidents in the calendar year 2007 are significantly down to 417, from 530 in 2006 Of the total recorded, three were in the most severe category 1, compared with two in 2006, and 10 were in category 2, compared with eight in 2006 In terms of our KPI for pollution incidents, we achieved 0 11 per 1,000 properties

Tackling sewer flooding

The first few months of 2007/08 were challenging in terms of sewer flooding From April to July 2007 we had significantly more incidents than the long term average level Our performance for this KPI was 0 21 However, from August onwards we did significantly better than previous years over a five year profile, which shows that our improvement plans are delivering

Sewer flooding can also be caused by overloaded sewers Properties flooded in this way are put on a register Currently, more properties in our region are being added to this register than taken off and we are concentrating on making the necessary improvements to address this deterioration in performance

We take sewer flooding very seriously Our Strategic Direction Statement underlines our commitment to invest in our network to eliminate sewer flooding as much as possible An example of our investment is the £18 million scheme to build a 21st century sewer network for Kenilworth When it is completed towards the end of 2008, the network will be capable of transferring 4,000 cubic metres of surface water away from the town for safe disposal and therefore play a major role in dramatically reducing the risk of future flooding

We have also continued to raise awareness of our customers to the problems caused by discharging fats, oils and greases to the sewers We offer free fat traps to all of our domestic customers as well as information on how to dispose of products that shouldn't be flushed into the sewer system

KPI 15
Pollution incidents per 1,000 properties

0.11

We reduced the number of pollution incidents to 417 in 2007 from 530 in 2006

To tackle the many complexities surrounding flooding in the most effective way, we work closely with all concerned, including local authorities, the community and the Environment Agency

Investing in waste water

We invest heavily in every aspect of our waste water process and network In 2007/08, we invested £296 million in this part of our business Improving Minworth Sewage Treatment Works is our biggest ongoing scheme, and one of the biggest schemes in the industry The works serves over two million people in Birmingham and the Black Country Other big projects underway include improvements at Leicester, Stoke-on-Trent and Derby Sewage Treatment Works

We are working closely with the government and other agencies on the requirement for us to take ownership of private sewers in our region We welcome this new obligation subject to reaching agreement on appropriate regulatory treatment It should grow our sewer network by around 50% Equally importantly, it should enable us to improve our service to customers both in terms of being able to manage these sewers effectively and being able to answer any queries customers may have concerning them without the need to first establish ownership

Our research and development investment in waste has concentrated on improving the efficiency and lowering the carbon impact of existing technologies and establishing new efficient processes for compliance with emerging tighter discharge standards Several pilot plants have been installed to demonstrate that the use of low energy and low carbon nutrient removal processes can safely be adopted across a wider number of treatment works Further investment has been made on customer focused issues such as improved prediction of sewer flooding This has been through our continuing work on fats, oils and greases within the sewerage network, their origins, formations and treatment Further consideration of the separation of rain from sewage has been undertaken and is reflected in our Strategic Direction Statement and proposals for management of Sustainable Drainage Systems

Our 2007/08 expenditure on research and development for both water and waste water can be found on page 18

Customer relations

Improving the way we interact with customers

Our performance has improved on all fronts in terms of interacting with customers This is a significant turnaround on poor performance in previous years Our first KPI for customer service performance is written customer complaints per 1,000 properties We met this target, with written complaints down 34%, from 68,874 in 2006/07 to 45,710 in 2007/08

Resolving calls first time

In our billing contact centre we handle a huge number of calls each year Resolving these calls first time is good both for our customers and for us

We have invested heavily in our billing call handling service by increasing the number of phone lines and improving the capabilities and motivation of all our staff through a comprehensive programme of upskilling linked to performance based personal rewards As a result, customers should get straight through to us when they call and it is now highly likely that their query will be dealt with at the first point of contact

Resolving jobs first time

In our 24/7 Customer Operations Service Centre (COSC) we handle all customer queries related to our water and waste water operations In 2007/08, we continued to refine our processes at the centre in order to be able to handle customer contacts and in turn find and fix operational problems as quickly and effectively as possible, first time

We measure our job resolutions in this area in terms of the whole operational job As we said we would, in 2007/08 we have established a measure for this KPI We are measuring the number of calls to COSC where a customer rings back to say a job, or part of it, hasn't been done We are currently developing the Information Technology to enable us to measure this

Improving performance on DG service standards

Alongside our KPI performance measures and in line with what we said we would do, we have improved our performance across Ofwat's DG service standards, notably DG6 (response to written billing queries), DG7 (response to written complaints), DG8 (meter readings) and DG9 (customer satisfaction with telephone calls)

For DG6 we achieved 90 7%, a significant improvement on 2006/07 Our performance in the last three months of the financial year has been particularly strong and we are well placed to progress in 2008/09

In order to improve our performance, we carried out root cause analysis on the top complaint areas telephone contact, people moving home and bill explanation To tackle these areas we significantly increased our telephone line capacity, retrained our staff in how to help people moving home and are looking at the language and layout of our bills as well as making a full bill explanation available on our website and in the magazine that accompanies every bill

KPI 4

Written customer complaints reduced by

34%

We reduced the number of written complaints per 1,000 properties by 34%

We implemented a host of other improvements throughout the year, including improving the performance of our billing system so it is easier to use, introducing a new workforce manager tool which allows us to accurately forecast and schedule workloads, and vehicle tracking for meter readers, helping drivers take the best route and reducing vehicle emissions

Looking ahead, we will be investing in our website with the aim to improve it further to become a genuine customer service centre The ambition over the next 12 to 18 months is to move to an environment where our customers are able to interact with us in whichever way is the most appropriate for them, be it email, website, phone, letter or text message To this end, we will continue to invest in our systems and in improving the skills of our operators

Fitting meters free

Our free meter option scheme allows customers to change from the traditional billing method of Rateable Value, to paying for the water they use measured by a water meter In 2007/08 we installed 33,215 meters under the scheme, increasing the total metered domestic base to 30 2% We anticipate that during 2008/09 we will install approximately 37,000 meters under the scheme, attributable to a drive towards water conservation and the potential for customers to exercise some control over their annual bill

New connections

Our new connections team manages, from application to delivery, the connections of customers to water and waste water services In 2007/08 we have continued to look at ways of improving the service we offer our customers We have introduced two dedicated teams to address the specific needs of developers and the more individual needs of the owner/builder The two teams intend to work with their respective customer groups to understand the level of service each requires and to establish how they wish to interact with us These changes continue to build upon improvements in our performance, with connections completed within 21 working days increasing from 81% in 2006/07 to 86% in 2007/08

Business customers

The Water Supply Licensing regime allows business customers using more than 50,000 litres of water a year to choose their water supplier Our access code provides relevant information on the regime and how prospective participants can access our services

Developing a sustainable service for customers

Serving customers also means looking after their long term interests as well as their immediate concerns Our main aim is to ensure that we are maintaining the serviceability of our assets This means carrying out the work necessary to make sure our water and sewerage systems deliver reliable service in the future for customers and the environment It takes into consideration above ground and below ground water and sewerage assets Our most recent assessment shows that we have stable serviceability across our asset base

Customer research

In 2007/08, we completed the final phase of a four phase programme of customer 'willingness to pay' research The aim of the research has been to ascertain customer priorities and their willingness to pay for service improvements over and above base levels We are incorporating the results in to our cost benefit analysis for our business plans for PR09

Managing our resources for the long term

Physical assets

Investing in assets more efficiently
Year after year, we invest in improving the quality, resilience and maintenance of our network During 2007/08, we invested £111 million (net of grants received) in maintaining our infrastructure network Capital expenditure, excluding spending on infrastructure maintenance, was £446 million Gross capital expenditure (including infrastructure maintenance expenditure) increased to £567 million

We are meeting our obligations on investments and making them more efficiently, as we said we would Our capex (gross) vs final determination KPI measures our performance on managing the financial aspects of the delivery of our investment programme This measures the percentage variance between our capital expenditure and Ofwat's final determination for AMP4 We continue to be on track to meet our regulatory obligations KPI with an overall capex efficiency of 6% compared to Ofwat's final determination We are taking the opportunity presented by this efficiency to invest in some other return enhancing investments that will provide value in the longer term These will include further renewable energy generation, the early development of capital plans for AMP5 and the new Severn Trent Centre in Coventry

Our capex (gross) vs final determination KPI covers one aspect of our performance against our objective of delivering services to customers at the lowest costs Other KPIs, notably the capital process quality measure, will assess our ability to deliver a high quality product and service We are now trialling the use of our capital process quality measure in the field

We have made significant progress in meeting our performance against regulatory obligations KPI, which covers the key outputs that we are expected to deliver as part of our regulatory contract over the AMP4 period We have improved during the year and have reduced the number of areas with significant issues from 26% in 2006/07 to 15% in 2007/08

Making the most of our property portfolio
Our property portfolio includes over 7,000 sites across 21,000 km^2 In 2007/08, we focused on a strategy to deliver the right space, at the right cost, of the right quality, in the right location and held for the right amount of time Our flagship project in this respect is the development of the new Severn Trent Centre in Coventry, due to open in 2010 The centre will be home to around 1,700 of our employees, from customer relations to engineering to finance

We are doing a lot of work on process re-engineering and are starting lean management reviews of some of our detailed processes As we learn and refine our approach, we are aiming to achieve better and better solutions

Costs

Back on track in managing our cost base
Last year we exceeded our opex vs final determination KPI, which measures the variance between our actual forecast of operating costs and Ofwat's Final Determination for AMP4 This year we are back on track and our outlook for the remaining two years of AMP4 will be that we will do slightly better than the Ofwat target

Our KPI cost to serve per property measures the total cost (including operating costs, depreciation, infrastructure renewals and third party costs) associated with serving a single property During 2007/08 we continued to maintain a cost base that supports our position of having some of the lowest charges in the industry

Managing debt
We continue to manage our trade debt as efficiently as possible Year on year, there was no significant increase in bad debts

Assuming our billing and collection performance stays the same, we would expect our debtor days to increase each year by approximately two days, due to customers switching from unmetered to metered billing We installed 63,454 meters in 2007/08 (including our free meter option and new meter installations) We have previously reported the number based on accounts set up on our billing system This year, in order to align with data published in our regulatory returns, we are reporting on the number of meters actually installed Our debtor days KPI has remained broadly unchanged at 37 4 days in 2007/08, compared to 37 5 days in 2006/07

Our plan has focused on increasing contacts with our customers in debt and providing a designated team to assist these customers when they contact us We have increased outbound dialling to customers in arrears and have introduced alternative forms of customer contact such as the use of text messaging and telemessaging (a modern day telegram)

We actively pursue those who are able but unwilling to pay their bills whilst offering flexibility for those who are genuinely struggling to pay

As consumer debt increases, the number of customers who are struggling to pay for water services grows For those customers who experience severe financial hardship, in 2007/08 we increased the contribution to the Severn Trent Trust Fund to £4 5m For customers in arrears and in receipt of eligible benefits, deductions directly from their benefits ensure they make regular payments for their current charges and reduce their arrears by an affordable amount We have received a 34% increase in the number of direct payments received this way during 2007/08 Also, we continue to promote the WaterSure tariff to cap charges for vulnerable customers and work together with caring agencies to assist them

We have experienced a continued increase in the amount of aged debt and therefore, where our recovery process has been unsuccessful and litigation has not obtained payment, we continue to use and expand the use of specialist external debt collection agencies as an extension of our own practices

Natural resources

We performed well against our raw water storage KPI, having an average 92% of total raw water capacity available over the year Our performance was the result of effective resource management and high rainfall

We have decided to change this KPI, moving to a more complete measure of our ability to supply treated water to customers as opposed to the amount of raw water in our reservoirs The new measure will be the Ofwat Security of Supply Index

Our draft Water Resources Management Plan 2009 sets out our proposed 25 year strategy for maintaining the balance between the supply and demand for water in our region and maintaining our service level of no more than three hosepipe bans per 100 years We estimate we could face a shortfall in our capacity to meet demand of around 240 megalitres (Ml/d) by 2035 For the period from 2010 to 2015 our outline plan is

- To reduce leakage to a new economic level of 475Ml/d by 2015 This will provide an additional 21Ml/d of water to meet demand
- To accelerate domestic customer metering in our most water stressed zones through a policy of compulsory metering when a property changes occupier and further promotion of our existing free meter option This is expected to reduce demand by around 3Ml/d
- To get the most value out of our existing water resources by improving the connectivity of our network For example, we propose to increase the capacity of our Derwent Valley Aqueduct which will enable us to move more water from the north of our region, where we have a surplus, to the south, where we have a deficit This should provide around 60Ml/d of additional water in the south
- To increase water efficiency through working with our domestic and commercial customers to install more water efficient equipment and to promote water conserving behaviour We will develop our proposals further once we have the results later this year of the industry wide Waterwise work and our own water efficiency trials We expect these activities to reduce demand by around 2Ml/d
- We do not propose to develop any new sources of water in the 2010 to 2015 period In the longer term, we have identified the need to develop new water resources schemes that will deliver around 125Ml/d of new supply capability

Corporate responsibility

Organisations use different terminology to describe the way they address the impact that their resources and activities have on the environment, wider society and future generations The UK government's strategy in this area is referred to as sustainable development We refer to corporate responsibility to describe the way we respond to these issues as a business

Corporate responsibility runs throughout our business Rather than being a separate add on element, it is at the heart of the way we develop, manage and operate our company for long term sustainable benefit For this reason we no longer produce a separate corporate responsibility report Instead we are integrating reports on our corporate responsibility performance within our company and group annual reports, our company and group websites and other communications

Our approach to corporate responsibility is based on considering what it means to be a responsible organisation as an integral part of the way we operate and plan our future strategy We communicate what this means in practice to our staff and other stakeholders with reference to the four areas shown below workplace, marketplace, community and environment

Workplace
- Employee motivation
- Health and safety
- Code of conduct
- Diversity

Marketplace
- Supply chain
- Customers and vulnerable customers

Community
- Community investment
- Charitable donations
- Education
- Employee volunteering

Environment
- Water quality
- Resource management
- Preventing pollution
- Biodiversity
- Climate change

Many of our 20 KPIs link directly to our focus on corporate responsibility, for example our KPIs on health and safety, employee motivation, water quality, pollution incidents, net energy use and leakage

In addition, we have a number of corporate responsibility objectives which we track internally through the Severn Trent Plc Corporate Responsibility Committee, a committee of the board chaired by a non-executive director, Bernard Bulkin, and which we report on the Severn Trent Plc website **www severntrent com** The Chairman and Chief Executive sit on the committee, which meets four times a year to develop, review and promote policies covering the community, environment, workplace and marketplace

Managing our resources for the long term continued

Workplace

Developing a competent and productive workforce
We are committed to constantly improving the engagement, skills and working environment of our employees

Currently, we hold an annual employee survey and three mini surveys to gain a clear ongoing measure of staff morale and motivation In 2007/08, our KPI for employee motivation was 77%, compared with 76% in 2006/07 The January 2008 survey revealed improvements in terms of employees feeling they have the opportunity to progress in the business, being happy to go the extra mile at work and in overall levels of morale However, we recognise that we have more to do and are committed to improving in this area

Health and safety
Creating a safe place to work is central to our commitment to creating a great place to work Our health and safety initiatives are part of a broader move to improve safety, quality and standards throughout the business A safe organisation is also a successful one

In 2007/08, our performance on our health and safety KPI of lost time incidents per 100,000 hours worked was 0 61

Although the figure for the year overall has not come down, in the last few months of 2007/08 we did achieve reductions, with some areas of the business going without a single incident This lays the ground for improvement in 2008/09 We remain committed to improving this performance for the benefit of all our employees and for those who work with us

We significantly reduced the number of lost days per 100,000 hours worked, from 19 days in 2006/07 to eight days in 2007/08 This measure reflects absence over an average working life Our progress is due to a number of factors We found we had an increase in incidents of manual handling accidents, so we focused our training awareness for staff on that area Also I talk personally to everyone who has a lost time injury so that learning can be applied across the whole organisation

In 2007/08, following on from the business reorganisation, we set out a 10 point action plan on safety, quality and standards

The plan includes setting a standard for the minimum acceptable personal protective equipment, improving our incident investigation to allow us to get to the root cause and tracking all actions to ensure they are all closed down, developing safety hazard workshops for the senior managers, so they understand their high risk activities and can manage them properly, developing an audit programme based on that hazard and risk priority work, working to try and improve the performance of our contractors, engaging our employee representatives in safety committees, and having our directors carry out safety and environmental tours, to underline senior management commitment and increase dialogue at all levels

Our SUSA (Safe and UnSafe Acts) management system involves one to one discussions where SUSA trained managers talk regularly with their team members about the safety aspects of their work We introduced it in 2005/06 and, in line with our undertaking, have now trained all of our managers on SUSA This involved an additional 532 days' training of 426 managers in 2007/08

SUSA is now very much an active part of the way we build safety into our everyday business

In 2006/07, we began a comprehensive health and safety process review of all our water and waste water sites In line with our undertaking, we completed this survey in 2007/08 In total we surveyed 6,646 of 7,081 sites and as a result are carrying out a large number and wide range of improvements

Our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) rate is slightly higher in 2007/08 at 0 54 than in 2006/07 which was 0 47 This is due to an increased identification of Hand Arm Vibration Syndrome (HAVS) In 2006/07, there were two cases, in 2007/08, there were 15 cases In addition we have had one case of carpal tunnel syndrome, also related to the use of vibrating equipment We have embarked on a more intensive programme to identify and reduce employees' exposure to vibrating equipment

We have set up an engineering standards organisation which is looking at the asset safety process review and also at our contractors' safety We recently had a forum for contractor safety management, covering the AMP4 asset delivery programme We are also looking forward to AMP5 and the more unified and intense standards that we expect for the operational management, engineering, safety, quality assurance and design of our assets

For 2008/09, we are refocusing our operational audit programme on the basis of hazard and risk identified both through the number of accidents in the past and the relative risk of the outcomes This will allow us to concentrate on work in high risk areas

In 2007/08, we had six British Safety Council audits at a variety of facilities Two received five stars, the highest grade, and four received four stars

Investing in technology
We are investing in new technology to improve key processes that enable us to work better together and improve our performance in water, waste water and customer relations Investing in telemetry, for example, helps us gain more detailed and accurate data, which in turn results in better informed decisions around how to achieve long term improvements

New ways of working
We are always looking for ways to improve and increase our skills and capabilities We are developing a programme to introduce new ways of working which combines a series of upskilling initiatives and tools, simplified processes and improved communication Drawing on the results of a series of pilots, we are developing a new operating model for the way we work together and develop our people, which we intend to use throughout the company The first area of focus is on managing performance – equipping our managers with enhanced skills and tools to be able to get the best out of their teams The intention is to cascade these programmes throughout the business

We have launched a leadership and an employee behavioural model, both forming part of our commitment to develop a modern workplace where people treat each other respectfully and together work to achieve both the organisation's and their own personal goals

We have developed a leadership forum for employees in senior management and leadership roles and we also have formal succession talent management reviews through the year

In 2007/08, we have continued to run our Developing Talent programme with 30 participants joining the scheme in 2007/08 In addition our apprenticeship scheme has, for the first time, extended to roles in finance, health and safety and customer relations as well as our usual operational areas, and we recruited 15 apprentices across these areas in 2007

Creating a great place to work

We are committed to improving the diversity of our workforce in order to reflect the environment in which we operate, developing programmes to improve our attractiveness as an employer to all groups within society We also recognise the importance of people having a work life balance and provide flexible working arrangements In 2007/08, we extended the right to request flexible working arrangements to all staff with 26 weeks service As a result there is a single process for all staff requesting a change in their working arrangements such as flexitime, part time working, career breaks and job sharing We have also retained the Lifestyle benefits package, so that employees can tailor some of their employment package to their needs

We aim for open and honest relationships at work, where people work together as a team and everyone has the opportunity to improve their skills and capabilities and progress through their careers We also encourage our staff to share ideas or issues and to let us know if they are concerned about the way any part of the business is operating

Through a share incentive plan, every employee has an element of their pay based on our performance against our 20 KPIs The top 250 managers are bonused based on our KPI performance

Details of group employee policies can be found in the Severn Trent Plc Annual Report and Accounts

Creating a modern working environment

We are planning to move to our new Severn Trent Centre in 2010 and are keeping our workforce up to date on developments as they progress The Centre will be our flagship location – a modern working environment where around 1,700 of our employees can work together more effectively, efficiently and comfortably Our other employees will benefit from ongoing improvements across our property portfolio as well as opportunities for flexible working

Marketplace

We aim to manage the whole supply chain responsibly, working with our suppliers and delivering for our customers

Suppliers

Building strong long term relationships with suppliers

We make sure as a minimum requirement that we are working with responsible suppliers, based on their health and safety, environment, ethics and human rights track record We are also looking at identifying areas where our suppliers will be able to help us achieve some of our strategic objectives, such as reducing our carbon footprint It is about long term relationship building – focusing on managing the contract and supplier relationships to maximise value We have challenged ourselves and suppliers to reduce waste by working more closely together The results of this innovative programme have been impressive, with the first two contractors involved identifying potential savings of £19 4 million over a five year AMP period

Smoothing the investment rollercoaster

In 2007/08, we began work on smoothing the so called investment rollercoaster, where investment rises steeply in years two, three and four of the AMP cycle before falling off sharply in year five Smoothing this out so that there is a steady amount of investment throughout the five years is beneficial for our supply chain, because it allows them to plan their resources more easily and cost effectively, and for us and our customers, because we can gain from efficiencies and smooth out the impact on our own activities As a result, it supports long term mutually beneficial relationships We have begun smoothing the investment by bringing forward feasibility work on schemes for a two year rolling programme and are building up a full programme for 2010 and 2011 We have started procurement for AMP5 as part of our commitment to secure the best resources

An innovative award winning programme

In 2007, we won Utility Week's Supply Chain Excellence Award for our holistic two year supply chain management programme with Nottingham Trent University Participants are drawn from throughout our business and our supply chain and suppliers Judges were particularly impressed by the way we examined costs throughout the supply chain and focused on understanding and resolving the core issues We are continuing to run the programme and are getting enquiries from non-suppliers and other water companies, underlining the success and uniqueness of the course

We intend to increase our focus on corporate responsibility in the supply chain, particularly in terms of reducing the carbon footprint We will be finding ways we can measure the carbon footprint on our future sourcing and taking that into account in our decision making We will be taking steps to measure the carbon footprint of our capital programmes throughout the whole cycle, from procurement to design and build

Supplier health and safety

As well as the two general supplier forums we run each year, we also hold around four health and safety supplier workshops a year These involve getting 40 to 50 of our key suppliers together to share best practice We provide updates on our policies and practices and ask suppliers to do the same, with guest speakers from suppliers sharing experiences at each event

Managing our resources for the long term continued

Measuring our effectiveness
We are measuring our effectiveness in the supply chain with key suppliers through a new software application The software allows both parties to put in data on various elements of the relationship and scores performance to show the perceived relationship We can then make improvements where required

E-sourcing
We have introduced the Ariba e-sourcing platform, enabling us to increase the transparency, speed and efficiency of procuring our products and services

Customers
Our responsible approach to customers takes in many activities, from customer education on water conservation to a special tariff for low income customers

Encouraging water efficiency
We actively promote the efficient use of water among our customers To this end, we take a twin track approach targeting behaviours and products In 2007/08, we distributed 137,800 cistern displacement devices, 3,169 water butts and 512 other water efficient products including showerheads and shower timers To raise awareness of water efficiency and influence customer behaviour we distributed 201,686 self audit guides

To help improve our knowledge on how best to advise our customers on water efficiency we completed two trials The first involved the installation of water efficient products in domestic homes and a second installing efficient products in schools We are using the outputs of these trials to inform our strategy and develop our programme to deliver effective water efficiency methods for our customers We will continue to build on our programme and develop more ways to encourage customers to use water efficiently

Accessibility
We are investing in making it easy for customers to interact with us in ways that fit in with them For example, transactions such as requesting a meter, reporting a leak or telling us about a change of address can now be carried out via our website 24 hours a day Our aim is to enable all our customers to deal with us when and how they want – from over the phone to online

So that all our customers can access information, we provide printed communications in large print and Braille formats, offer a textphone service and can provide translations of documents into a number of languages

Support for vulnerable customers
We offer a range of options for customers who have difficulty paying their bills This is detailed on page 8 of this document

Community
Community investment
We have an active community programme investing £4 6 million in 2007/08 through donations, in kind contributions and employee time in social welfare, environment, health and education

Charitable donations
Donations to charitable organisations during 2007/08 amounted to £374,939

During the year we continued our work with six partner charities operating at a local and international level The six partners were

- Bridlegate
- Cromford Venture Centre
- Crash IT
- Friends of the Ackers
- Stonebridge City Farm
- WaterAid

In response to the floods of July 2007 Severn Trent Water established a £3 5 million recovery fund for Gloucestershire Of the £1 6 million paid during the financial year, approximately £1 1 million was paid to charitable organisations in the Gloucestershire area The remainder of the total donation to the Flood Relief Fund was paid through Gloucestershire local authorities and Gloucestershire First (a partnership between public sector bodies and local businesses) to support other recovery projects A further £1 9 million, as agreed by the board, is due to be paid during the 2008/09 financial year

Education
We continue to develop and promote our education programme via two main initiatives our educational centres and our award winning BeSmart scheme BeSmart aims to raise awareness among school children of the importance of water and water efficiency as well as sewerage and the responsible use of resources In 2007/08, around 20,000 children visited our four educational centres and 33 schools took part in BeSmart

Employee volunteering
We have a well developed and supported employee volunteer programme One of the ways we use employee volunteers is through BeSmart, where we are able to link employee development with a community benefit

Environment
We place great emphasis on our environmental responsibilities How we abstract water, manage waste water discharges, operate over 1,000 sewage treatment works and almost 3,000 sewage pumping stations, operate our 54,000 km of sewers and manage resources all have a huge potential impact on the local environment We have a responsibility to minimise our environmental impact and use our resources efficiently

Underlining the seriousness with which we take our responsibilities, six of our 20 KPIs are linked to environmental performance, while also reflecting our broader operational performance The six KPIs are breach of consents at sewage treatment works, pollution incidents, sewer flooding, raw water storage, net energy use, and leakage

We have agreed a 13 point plan with the Environment Agency and Ofwat to improve our environmental performance related to pollutions A key theme of the plan is to get better data So, for example, we now always carry out a camera survey of the vicinity of a pollution incident to help us accurately identify the root cause Also, if we have an area that is prone to blockages, we will add it to our routine cleansing programme Better data allows us to drive much harder to get to root causes and fix fundamental problems This in turn helps prevent the unnecessary repetition of problems

Reducing greenhouse gas emissions
We are committed to reducing greenhouse gas emissions by being more efficient in our operational processes and also by increasing renewable energy generation

Improving our use of energy
We are leaders in the water industry in renewable energy and it forms an important part of our environmental programme Developing our own renewable energy sources ensures that we have security of supply It also helps safeguard our energy prices in a market where prices are currently increasing

Our net energy use KPI measures how much energy (net of renewable energy generated by us) we consume per megalitre of water or waste water treated In 2007/08 we achieved 608 kWh/Ml compared with 618 kWh/Ml in 2006/07 This represents an encouraging improvement in performance and puts us in a good position for future achievement of improvement plans

We generated more renewable energy in 2007/08 We also did a lot of work on energy efficiency, from increasing awareness of our processes on site and managing them more effectively to acting on data to target high cost processes and investing in more efficient plants

We have ambitious plans to expand our approach to renewable energy These include increasing use of our two established methods hydro power and combined heat and power (CHP) using biogas from our sewage treatment works We are also looking at new methods wind energy and biomass energy crops We are at relatively early planning stages with both these methods but are confident of their potential to help us significantly increase our generation of renewable energy

We have engaged a partner and are reviewing a number of potential sites for wind energy We are also working with a partner on biomass energy crops This is a particularly interesting potential source of renewable energy for us as it would make good use of land where we can grow crops for energy but not for human consumption due to historic sludge disposal practices

Biodiversity
We own 24 Sites of Special Scientific Interest (SSSIs) We have agreements and partnerships in place to manage these SSSIs for biodiversity and public access We welcome around three million visitors each year to these and other public access sites Through these sites we aim to deliver high quality conservation, access, recreation and education for our customers and communities More information is available at **www moretoexperience co uk**

The last condition assessment of our English SSSIs remains unchanged from 2006/07, at 60 2% by area defined as favourable or unfavourable recovering condition Natural England did discharge a number of remedies at our Charnwood Reservoirs and praised us for the significant progress we were making towards the 2010 target Our Charnwood Reservoirs Catchment Project is a Severn Trent Water funded partnership between ourselves, the Environment Agency, Natural England, the Farming & Wildlife Advisory Group, DEFRA and Leicestershire & Rutland Wildlife Trust It has spoken to almost 66% of the landowners around the reservoirs, encouraging several of them to take up Environmental Stewardship which will help to reverse the declining condition of the three SSSIs

Aligning our responsibility to our long term strategic direction
Our focus going forward is to improve our corporate responsibility performance in line with our core business strategies To this end, we will be reviewing our corporate responsibility principles and policies to make sure they are in line with our 25 year Strategic Direction Statement

So, for example, we will be concentrating even more on minimising our carbon footprint

In response to anticipated shortfalls in water, as demand outstrips supply over the next 25 years, we will also be increasing our focus on water efficiency This involves improving our own efficient use of water and engaging with our customers and the wider community around water efficiency and water resources

Climate change is set to produce more severe forms of weather, from droughts to deluges To respond to these changes, we are investing in the resilience of our Severn Trent Water network and in helping to protect communities from flooding

Financial performance

The financial statements on pages 23 to 44 report both the company and consolidated results of the Severn Trent Water Ltd group of companies The group report provides a complete view of activities, as certain financing arrangements for the benefit of the group are facilitated though the company's subsidiaries This financial review therefore refers to the consolidated results of the Severn Trent Water Ltd group

Results
The group's turnover increased by 4 8% in 2007/08 to £1,265 3 million Sales prices of Severn Trent Water increased by 5 87% (including inflation) from 1 April 2007 The price rise represented the 6 52% allowed by Ofwat less a 0 65% voluntary abatement of K, previously announced in 2005/06 The growth impact of new customers was offset by the effect of conservation activities, such as more customers switching to metering and reduced consumption as a result of the wet summer in 2007

Operating costs before exceptional items of £798 8 million (2007 £788 4 million) excluding depreciation of £322 4 million (2007 £309 2 million) were £476 4 million (2007 £479 2 million) a decrease of £2 8 million This was impacted by a number of factors including reduced energy costs of £19 2 million due to fixed price energy supply contracts

Depreciation before exceptional items (of nil) was £322 4 million (2007 £309 2 million being total depreciation of £321 1 million including exceptionals of £11 9 million) This increase reflects the continued effect of our investment programme

Exceptional charges of £35 8 million in respect of proposed Ofwat fines (2007 nil), £13 6 million (net of £16 million insurance recoveries) relating to flood costs (2007 nil), and £13 9 million in relation to restructuring costs arising from the ongoing developing programme to restructure and realign the business by improving standards through process improvement, enhancements to supporting technology systems and facilities, and retraining of our people (2007 £14 9 million) were incurred In 2006/07 an exceptional profit on disposal of assets of £36 2 million was also recognised in the year

The total tax charge for the year was £43 3 million (2007 £32 3 million) of which current tax represented a charge of £64 8 million (2007 £71 6 million) and deferred tax a credit of £21 5 million (2007 £39 3 million credit) The current tax charge before adjustments in respect of prior years represents 30 3% (2007 22 2%) of the group's profits before tax Profit for the financial year was £197 0 million (2007 £267 4 million)

Capital structure
The group is funded using a mixture of equity and debt (including fixed rate, index linked and floating rate) The group's target for gearing (measured by the ratio of net debt to regulatory capital value) for the current regulatory period is 60% Severn Trent Water's Regulatory Capital Value (RCV) at 31 March 2008 was £5,922 million (2007 £5,546 million) At 31 March 2008 the gearing ratio calculated by this method was 58 8% (2007 56 3%)

	2008 £m	2007 £m
Short term deposits	**(448 7)**	(1 9)
Bank overdrafts	**383 0**	611 7
Bank loans	**620 5**	460 9
Other loans	**2,540 3**	1,641 1
Obligations under finance lease	**385 0**	408 1
Net debt	**3,480 1**	3,119 9
Equity shareholders' funds	**1,243 0**	1,332 6
Total capital	**4,723 1**	4,452 5

Net debt at 31 March 2008 was £3,480 1 million (2007 £3,119 9 million) Of the net debt 60 2% (2007 58%) was represented by fixed interest borrowings and 89 9% (2007 63 4%) was represented by amounts payable after five years Net interest payable increased by £23 1 million to £166 8 million, this reflects the overall increase in the underlying debt levels

Cashflows
Operating activities generated a net cash inflow of £676 3 million (2007 £644 3 million) An outflow of £139 8 million (2007 £137 3 million) was utilised in the servicing of financing arrangements Net investing activities used £543 9 million (2007 £403 7 million) which mainly included the continuing capital expenditure to meet the company's obligations under the AMP4 capital programme Dividend outflows amounted to £263 1 million (2007 £655 8 million which included a special dividend of £576 0 million)

£542 million of funding instruments contain certain financial covenants, breach of which can trigger early payment

Treasury management
The Severn Trent Water group's treasury affairs are managed centrally as part of the Severn Trent Plc group and in accordance with its treasury procedures policy and manual statement The treasury operation's primary role is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in interest and (to a lesser extent) currency rates and counterparty credit risk Its activities are subject to a set of controls commensurate with the magnitude of the borrowings and investments under its management The board determines matters of treasury policy and its approval is required for certain treasury transactions

The group uses financial derivatives solely for the purposes of managing risk associated with financing its normal business activities The group uses a limited number of currency swaps and interest rate swaps to redenominate external borrowings into the currencies and interest rate coupon required for group purposes 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 and regulatory conditions and with regard to regulatory pronouncements At 31 March 2008 interest rates on 53 3% of the group's borrowings were fixed for periods up to 27 years

In the context of a more general "liquidity crunch" today, the group is in a strong liquidity position at the end of March 2008 It has in excess of £400 million in cash and liquid reserves and £580 million of undrawn committed joint bank facilities with Severn Trent Plc During the year, the group issued a further £400 million of 50 to 60 year maturities bonds to the index linked bond markets and index linked bonds total £1,021 million at the balance sheet date The group also borrowed £150 million from the European Investment Bank The group extended the range of markets from where it obtains funds through a February 2008 debut €700 million, eight year Eurobond issue (entirely swapped into sterling) This market is of strategic importance to the future funding of the group and it was a successful first step into this market in what were challenging markets at the time

The group is well funded for the investment demands of this price review period and for those demands that will come with the next Ofwat price review from April 2010

The long term credit ratings of Severn Trent Water Ltd are

Moody's	A2	January 2008
Standard & Poor's	A	February 2008

Further details of the group's borrowings, investments and financial instruments are contained in note 12 to the accounts

Critical accounting policies
In the process of applying the group's accounting policies, the directors are required to make certain judgements, estimates and assumptions that they believe are reasonable based on the information available The more significant judgements and key assumptions and sources of estimation uncertainty are summarised below

Depreciation and carrying amounts of property, plant and equipment
Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets The estimates are based on engineering data and the group's experience of similar assets Details are set out in note 1(d)

Retirement benefit obligations
Determining the amount of the group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits The group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries Details of the assumptions made are set out in note 17 to the financial statements

Tax provisions
Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with, and enquiries from, tax authorities The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities

Provisions for liabilities and charges
Assessing the financial outcome of uncertain commercial and legal positions requires judgements to be made regarding the relative merits of each party's case and the extent to which any claim against the group is likely to be successful The assessments made are based on advice from the group's internal counsel and, where appropriate, independent legal advice

Investment
The financial year 2007/08 was the third year of the AMP4 period (covering 2005-2010) In the three years to date we have mobilised 5,333 projects of which 3,536 have been completed The group has invested £220 million on its water production and distribution service, with the focus on improving levels of service to customers and upgrading our treatment works and distribution network We have invested £296 million on sewerage services, with a focus on repairing our ageing sewers and maintaining and upgrading our sewage treatment works to meet tighter quality standards We are continuing to explore ways of exploiting our by-products to generate electricity In addition we have spent £51 million on our support services to improve customer service and business services

This year net capital expenditure, net of grants and contributions, excluding spending on infrastructure maintenance of £111 million, was £409 million for the year Adjusting for the changes to the programme, to be agreed with Ofwat through the change control process and for timing differences, we have generated approximately 6% efficiencies over and above the determination This was largely driven by the use of better technologies, better designs and greater efficiencies

Over the five year AMP4 period we will continue to invest approximately £2 7 billion maintaining and improving the quality of service we provide to customers in our region This includes

- more than £400 million on maintaining water supplies
- £150 million on improving drinking water quality
- approximately £850 million on maintaining and improving river quality
- more than £350 million improving sewers and dealing with sewer flooding
- more than £260 million on reducing leakage

Outlook
The outlook for the coming year is one of continued improvement

Our improvement plans are progressing well We expect to incur around £24 million of restructuring costs over the remaining two years of the AMP4 period These restructuring costs will help drive increases in standards and deliver efficiency savings in the current AMP4 period and beyond We expect that the achievement of our plans will enable us to deliver around £30 million of cost efficiencies over the last two years of the AMP4 period, which represents around 3% annual out performance against the Ofwat determination for operating costs in 2008/09 and 2009/10

Risks to the achievement of these objectives include the potential impact of new, externally imposed requirements on the business, principally the Traffic Management Act, which became law in April 2008, and unforeseen variations in commodity prices or unhedged energy costs Our energy costs are hedged to 93% of estimated value in 2008/09 and to 86% in 2009/10

We have a strong liquidity position and our capital programme is proceeding according to plan We continue to expect to deliver on our regulatory commitments whilst achieving around 6% efficiency over the AMP4 period Achieving this level of efficiency allows us to consider further options to enhance long term value, support our improvement plans and deliver greater efficiency The three key areas we are focused on are

- accelerating our renewable energy programme to deliver greater operational efficiency, enhance our natural hedge to energy costs and reduce our carbon footprint,
- to engage with our supply chain to develop an "early start" contracting strategy and investment plan to deliver benefits in the AMP5 investment programme, and
- investments in economically enhancing technology and locations, principally the construction of the new Severn Trent Centre

Our decisions to invest in these areas to provide sustainable future improvements in efficiency will be equivalent to around the 6% capex efficiency

Directors' report

The directors present their report, together with the audited financial statements for the year ended 31 March 2008

Principal activities
The company is a wholly owned subsidiary of Severn Trent Plc

The principal activities of the company and its subsidiary undertakings are the supply of water and the treatment and disposal of sewage in the UK There have not been any significant changes to the company's principal activities in the year under review The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year

Business review
The company is required to set out in this report a fair review of the business of the company during the financial year ended 31 March 2008 and of the position of the company at the end of the financial year and a description of the principal risks and uncertainties facing the company (known as a 'business review')

The information that fulfils the requirements of the business review can be found in the following sections of the operating and financial review

Review of results	Page 1-4, 14-15
Operational performance	Page 5-7
Financial performance	Page 14-15
KPIs	Page 2-3
Managing our resources for the long term	Page 8-13

Risks and uncertainties are detailed on pages 19 to 20 of the corporate governance section

Dividends and reserves
The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations The amount declared is expected to vary each year further to consideration of these obligations The ordinary dividend declared by the company in 2008 amounted to £263 1 million (2007 £79 8 million)

A special dividend of £576 0 million was paid on 4 September 2006

Transfers to reserves are set out in note 15 to the financial statements

Directors
The directors of the company who served during the year and up to the date of this report are set out below

Tony Ballance	Appointed 2 October 2007
Bernard Bulkin*	
Richard Davey*	
Sir John Egan*	
Martin Houston*	
Martin Kane	Appointed 2 October 2007
Martin Lamb*	Appointed 29 February 2008
Michael McKeon	
Baroness Noakes*	Appointed 29 February 2008
Andy Smith	Appointed 2 October 2007
John Smith*	Retired 29 February 2008
Tony Wray	
Colin Matthews	Retired 2 October 2007

*Non-executive directors

Directors' interests
All of the directors at the year end are also directors of Severn Trent Plc In accordance with the UKLA Listing Rule 9 8 6, their interests in the share capital of Severn Trent Plc are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 2008

None of the directors retains any notifiable interest in the shares of the company or any other subsidiaries as at 31 March 2008

Directors' remuneration and annual bonus plan
Remuneration for executive directors comprises the following elements

- base salary and benefits
- annual bonus plan
- long term incentive plan
- pension plan

As all directors are also directors of Severn Trent Plc, details of their emoluments can be found in the Annual Report and Accounts of Severn Trent Plc

As outlined in the Severn Trent Plc Report and Accounts, the Chairman, Sir John Egan, and non-executive directors, do not participate in the company's incentive arrangements i e annual bonus or share schemes

Full details of directors' emoluments are disclosed in the directors' remuneration report in the Severn Trent Plc Report and Accounts

Base salaries
Base salaries are reviewed annually for each director and are determined with regard to the market median for similar roles in publicly quoted utility companies of a comparable size and so far as practicable, undertaking similar activities Salaries are set with reference to individual performance, experience and contribution together with developments in the relevant employment market and internal relativities

In addition directors receive a benefits package which includes company car or allowance, fuel, membership of company pension scheme or cash allowance in lieu, private medical insurance, life assurance and incapacity benefits scheme

Annual bonus plan
The directors' bonus plan focuses on the achievement of specific strategic goals that are closely linked to the company's KPIs and which are intended to drive the creation of operational efficiencies The bonus outturn operates on a balanced scorecard of measures, based on 18 of the 20 KPIs which include operational performance, leakage and customer service The plan attributes a points score to each KPI and bonus entitlement is determined by reference to the aggregate number of points achieved across all the KPIs Zero bonus is payable if performance against each KPI is less than or equal to the 2006/07 outturn Bonus targets were set and measured for the period 1 April 2007 to 31 March 2008

All of the targets are considered by the board to have an impact on the longer term financial performance of the company and a number of them are reported to Ofwat As such, director remuneration is clearly linked to the standards of performance in connection with the carrying out of functions of a relevant undertaker

The Severn Trent Plc Remuneration Committee reserves the discretion to reduce (but not increase) bonus payments if health and safety targets are not fully met or if the company's overall financial performance is not felt to warrant the indicative level of bonus

Consistent with the latest developments in institutional guidelines, the rules of the annual bonus plan now provide that the committee may reclaim some or all of the after tax part of any bonuses awarded to executive directors if it subsequently transpires that the bonus calculation was based on calculations which are subsequently demonstrated to be materially incorrect

The annual bonus opportunity for the executive directors (other than Colin Matthews) was 120% of salary For the achievement of target performance, 60% of salary would be earned

Colin Matthews' incentive arrangements reflected the fact that he left the company in October 2007 His annual bonus maximum for 2007/08 was 150% and he was set specific personal targets He did not receive an LTIP award in 2007 Further details of of his incentive arrangements are contained in the Severn Trent Plc Report and Accounts

The table below shows the extent to which the KPI targets were achieved during 2007/08

KPI	Measure	06/07 outturn	07/08 outturn	Points scored
1	Lost time incidents per 100,000 hrs worked	0 59	0 61	0
2	Employee motivation %	76%	77%	25
3	Water quality (mean zonal compliance) %	99 98%	99 96%	0
4	Customer written complaints per 1,000 properties	16 58	10 90	99
5	First time call resolution for billing %	80%	85%	99
6	Unplanned interruptions > 6 hours per 1,000 properties	10 70	21 86	0
7	Properties at risk of low pressure per 1,000 properties	0 09	0 06	128
8	First time job resolution %	84%	85%	NA
9	Performance against regulatory obligations %	26%	15%	72
10	Capex (gross) vs final determination %	2 7%	1 7%	100
11	Capital process quality (no defects per 100k)	N/A	0 03	NA
12	Debtor days	37 5	37 4	3
13	Opex vs final determination (UK GAAP) £m	479 1	480 9	110
14	Cost to serve per property £	226 93	236 82	109
15	Pollution incidents (cat 1, 2 and 3) per 1,000 properties	0 14	0 11	130
16	Sewer flooding incidents – other causes	0 17	0 21	0
17	Sewage treatment works – breach of consents %	0 00%	0 00%	100
18	Raw water storage %	90%	92%	100
19	Net energy use – kWh/Ml	618	608	80
20	Leakage Ml/d	524	491	130
Total KPI points achieved				1,285

The score of 1,285 points equates to 71 3% of target performance and delivers a bonus payment of 35 6% of the bonus maximum The actual bonus payments awarded to each director are detailed below

Director	Value of bonus award £
Tony Ballance	56,754
Martin Kane	60,769
Michael McKeon	171,333
Andy Smith	87,861
Tony Wray	152,058

50% of the above bonus awards is deferred into shares to be held for three years following payment and subject to continued employment unless the Severn Trent Plc Remuneration Committee determines it is appropriate to release the shares in 'good leaver' cases In the case of below board level directors, one third of the bonus award is deferred into shares The bonus payments for Tony Ballance, Martin Kane, Andy Smith and Tony Wray have been adjusted on a pro rata basis to reflect their mid year appointment to executive director and Chief Executive roles respectively The payments stated in the table above are for the 12 month period ending 31 March 2008

The actual bonuses awarded for the year ended 31 March 2008 are shown in the table of directors' emoluments as disclosed in the Severn Trent Plc Annual Report and Accounts

Long Term Incentive Plan

Directors may also participate in the Severn Trent Plc Long Term Incentive Plan (LTIP) Under this plan conditional awards of performance shares are made to directors up to an annual maximum limit This seeks to reward the creation of long term value and align the company's incentive arrangements with the interests of shareholders Further details are contained in the Severn Trent Plc Annual Report and Accounts

Share Incentive Plan

In 2007 the company relaunched an all employee Share Incentive Plan which included a performance condition based on achievement of 18 of the KPIs Employees of Severn Trent Plc and Severn Trent Water Ltd participate in the plan For the year 2007/08 awards of shares to the value of £268 will be made to all eligible employees

Directors' and officers' indemnities

Directors and officers are indemnified by the company against any costs incurred by them in carrying out their duties including defending any proceedings brought against them arising out of their positions as directors in which they are acquitted or judgment is given in their favour or relief from any liability is granted to them by the court

Policy on the payment of creditors

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

Terms of payment are stated on each purchase order issued by the company Suppliers are able to negotiate their own payment terms which can differ from these, as part of the tender process Trade creditors at year end reflected 30 days purchases (2007 41 days)

Research and development
In 2007/08 we have used a new and more accurate allocation of costs and resources to calculate our research and development data

Expenditure on research and development was £4 3 million including £0 7 million spent on fixed assets, (2007 £5 3 million including £0 8 million on fixed assets) Details of the research and development activity undertaken by the company during the year are set out in the operating and financial review on pages 5 and 6

Employees
The average number of employees during the year was 5,452 (2007 5,352)

Regulation· 'Ring fencing'
In accordance with the requirements of the Water Services Regulatory Authority, the board confirmed that, as at 31 March 2008, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made

Regulation 'Cross directorships'
It is the policy of the company that directors and employees of the company may be directors of related companies when this is in the best interests of the company, and where appropriate arrangements are in place to avoid conflicts of interest

Auditors
In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually Deloitte & Touche LLP will, therefore, remain as auditors until further notice

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Relevant audit information means information needed by the company's auditors in connection with preparing their report

This confirmation is given and should be interpreted with the provisions of section 234ZA of the Companies Act 1985

By order of the board

Fiona Smith
General Counsel and Company Secretary
4 June 2008

Corporate governance

All Severn Trent Water group's trading activities are conducted through Severn Trent Water Ltd and consequently the matters relating to corporate governance refer to the activities of that company

Since March 2007, as part of the strategy of focusing on water, the boards of directors of Severn Trent Plc and Severn Trent Water Ltd have been identical

Board committees
The Severn Trent Plc board has established an effective committee structure to assist in the discharge of its responsibilities to the group The terms of reference of the Audit, Remuneration and Nominations Committees comply with the provisions of the 2006 Combined Code and are available for inspection, together with the terms of reference of the Corporate Responsibility Committee and Executive Committee, on the Severn Trent Plc website **(www severntrent com)** or on written request from the General Counsel and Company Secretary at the address given on the back cover of this document

Throughout the year ended 31 March 2008, the company has complied with the Combined Code provisions set out in section 1 of the Combined Code apart from the matter detailed below Following the announcement of the appointment of three additional executive directors, made on 2 October 2007, the company did not comply with provision A 3 2 which states that at least half of the board, excluding the Chairman, should comprise non-executive directors determined by the board to be independent As stated in the regulatory announcement dated 2 October 2007, the board was actively engaged in appointing an additional non-executive director to restore the balance of executive and non-executive directors Following the appointments of Baroness Noakes and Martin Lamb on 29 February 2008, the company complied fully with the provisions of the Combined Code

Operating structure
Day to day operational priorities within Severn Trent Water are managed by the Severn Trent Executive Committee, led by the Chief Executive The Executive Committee includes the executive directors and senior managers responsible for the teams focused on water, waste, customer relations, safety, quality and standards, finance and information systems

The operational structure has aligned the organisation with the processes that matter to customers and will drive greater efficiency

Internal control and risk management
The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness

The board reviews the effectiveness of the system of internal control, including financial, operational, compliance and risk management, at least annually in accordance with the requirements of the Combined Code and the guidance set out within it The system of internal control is reviewed for effectiveness and adequacy

The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives

The board reviews risk management and the effectiveness of the system of internal control through the Audit Committee The board also keeps under review ways in which to enhance the control and audit arrangements in the group The Audit Committee receives reports every six months from the Chief Executive on the significant risks faced by the group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary Any significant control weaknesses that have been identified as requiring remedy are also reported to the Audit Committee The auditors also report on significant control issues to this committee The Internal Audit department provides objective assurance and advice on risk management and control

The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks faced by the group have been in place for the year to 31 March 2008 and up to the date of the approval of the Annual Report

Key elements of the group's processes and procedures are

- clearly defined and communicated strategic and business objectives,
- an organisation structure with clear lines of accountability and responsibility,
- performance management and succession planning systems,
- regular, structured reviews of business risk by senior management and the Executive Committee, including a self assessment of control effectiveness,
- a scheme of delegated authority, approval of plans, budgets and significant investments,
- robust business planning including the identification and implementation of relevant improvement plans,
- monthly reporting and monitoring of financial results, regulatory compliance and other operational performance indicators, and
- independent assurance provided by both internal and external auditors

During the course of the year, a new Risk and Compliance team has taken steps to enhance the existing risk management process, to improve consistency in assessment and reporting and create greater transparency around the risk of non compliance Graphics that set out the group's risk profile and any significant changes to this between reporting periods have been designed to aid debate by the Executive Committee and Audit Committee twice a year In addition, we have embarked upon a programme of work designed to better align risk outputs with other activities including performance monitoring, business planning, performance management, insurance, business resilience and internal audit

Principal risks

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, operations and reputation, as well as the value and liquidity of our securities Not all of these factors are within our control and, in addition, other factors besides those listed below may have an adverse effect on the group Where the need for control improvement has been identified, necessary action plans have been put in place

Changes in law or regulation could have an adverse effect on our business and operations

Regulatory decisions in relation to our business, e g on the structure of the water industry, on whether licences or approvals to operate are renewed, whether market developments have been satisfactorily implemented, on the level of permitted revenues for our business, whether there has been any breach of the terms of a licence approval or other obligation, could have an adverse impact on the results of our operations, cash flows, financial condition of our business and the ability to develop it in the future

The results of our operations depend on a number of factors relating to business performance, including the ability to outperform regulatory targets and our anticipated cost and efficiency savings

Earnings from our business will be affected by our ability to meet or better our regulatory targets set by Ofwat, the Environment Agency, Drinking Water Inspectorate and other regulators To meet these targets, we must continue to improve management systems, processes and operational performance In addition, earnings also depend on meeting service quality standards set by regulators To meet these standards we must improve service reliability and customer service If we do not meet these targets and standards, both our results and our reputation may be adversely affected and penalties could be imposed

Various government environmental protection and health and safety laws and regulations govern our businesses

These laws and regulations establish, amongst other things, standards for drinking water and discharges into the environment which affect our operations In addition, we are required to obtain various environmental permissions from regulatory agencies for our operations Environmental laws and regulations are complex and change frequently These laws and their enforcement have tended to become more stringent over time, both in relation to their requirements and in the levels of proof required to demonstrate compliance While we believe we have taken account of the future capital and operating expenditure necessary to achieve and maintain compliance with current and foreseeable changes in laws and regulations, it is possible that new or stricter standards could be imposed or current interpretation of existing legislation amended, which will increase our operating costs or capital expenditure by requiring changes and modifications to our operations in order to comply with any new environmental or health and safety laws and regulations

The failure of our assets or our inability to carry out critical operations could have a significant impact on our financial position and our reputation

We may suffer a major failure in any of our assets which could arise from a failure to deliver the capital investment programme for our business or to maintain the health of our systems Any failure could cause us to be in breach of a licence or approval and even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming our reputation We control and operate water and sewerage networks and undertake maintenance of the associated assets with the objective of providing a continuous service The failure of a key asset could cause a significant interruption to the supply of services, which may have an adverse effect on our operating results or financial position In addition water supplies may, inter alia, be subject to contamination from the development of naturally occurring compounds and pollution from man made sources and these may have an adverse effect on our operating results or financial position We could also be held liable for human exposure to hazardous substances or other environmental damage

In addition, we are subject to other risks which are largely outside our control, such as energy costs, the impact of climate change, weather or unlawful acts or third parties, including terrorist attacks, sabotage or other international acts which may also physically damage our business or otherwise significantly affect corporate activities and, as a consequence, affect the results of our operations or our financial position

External factors could affect the group's pension schemes and adversely impact on our financial position

Pension assets and liabilities (pre-tax) of £1,184 0 million and £1,295 5 million are held in the group's balance sheet as at 31 March 2008 Movements in equity markets, interest rates and life expectancy could materially affect the level of surpluses and deficits in the schemes and could prompt the need for the group to make additional pension contributions in the future The key assumptions used to value our pension liabilities are set out in note 17 on page 40

External financial market factors could adversely impact on our financial position

The main risks we face in our treasury operations relate to external conditions in the banking and capital markets or in the credit rating of the water industry as a whole These factors could result in us not being able to service our existing debt, refinance our loans as they fall due, raise new money to finance our activities in the future and enter into derivative contracts to manage our financial risks

In addition we could face materially higher interest rates and suffer a financial loss

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the company and group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditors' report

To the members of Severn Trent Water Ltd

We have audited the group and parent company financial statements (the financial statements) of Severn Trent Water Limited for the year ended 31 March 2008 which comprise the group and company profit and loss accounts, the group and company balance sheets, the group cash flow statement, the group and company statements of total recognised gains and losses, the group and company reconciliation of movements in shareholders funds, and the related notes 1 to 20 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the directors' report is consistent with the financial statements The information given in the directors' report includes that specific information presented in the chief executive's review and the performance reviews that are cross referred from the business review section of the directors' report

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's and company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, UK
4 June 2008

Profit and loss accounts

Year ended 31 March 2008

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Turnover		**1,265 3**	1,206 9	**1,265 3**	1,206 9
Operating costs before exceptional items	2	**(798 8)**	(788 4)	**(814 1)**	(802 3)
Exceptional operating costs	2	**(63 3)**	(14 9)	**(63 3)**	(14 9)
Total operating costs	2	**(862 1)**	(803 3)	**(877 4)**	(817 2)
Other income		**3 9**	3 6	**3 9**	3 6
Operating profit		**407 1**	407 2	**391 8**	393 3
Exceptional profit on disposal of fixed assets	2	**-**	36 2	**-**	36 2
Net interest payable	4	**(166 8)**	(143 7)	**(164 1)**	(140 5)
Profit on ordinary activities before taxation		**240 3**	299 7	**227.7**	289 0
Taxation on profit on ordinary activities – current tax	5	**(64 8)**	(71 6)	**(62 6)**	(72 0)
– deferred tax	5	**21 5**	39 3	**21 5**	39 3
Taxation	5	**(43 3)**	(32 3)	**(41 1)**	(32 7)
Profit for the financial year	15	**197 0**	267 4	**186 6**	256 3

The results arise from continuing operations in both the current and preceding year

Statement of total recognised gains and losses

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Profit for the financial year	**197 0**	267 4	**186 6**	256 3
FRS 17 actuarial loss	**(38 1)**	(19 8)	**(38 1)**	(19 8)
Deferred tax on actuarial loss	**10 7**	5 9	**10 7**	5 9
Adjustment in respect of tax rate change on deferred tax	**0 8**	–	**0 8**	–
Total recognised gains and losses for the financial year	**170 4**	253 5	**160 0**	242 4

Reconciliation of movements in shareholders' funds

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Profit for the financial year		**197 0**	267 4	**186 6**	256 3
Dividends	6	**(263 1)**	(655 8)	**(263 1)**	(655 8)
Retained loss for the financial year		**(66 1)**	(388 4)	**(76 5)**	(399 5)
Share based payments		**3 1**	(0 2)	**3.1**	(0 2)
Net FRS17 actuarial loss		**(27 4)**	(13 9)	**(27 4)**	(13 9)
Adjustment in respect of tax rate change on deferred tax		**0 8**	-	**0 8**	–
Net reduction to shareholders' funds		**(89 6)**	(402 5)	**(100 0)**	(413 6)
Opening shareholders' funds		**1,332 6**	1,735 1	**1,556 6**	1,970 2
Closing shareholders' funds		**1,243 0**	1,332 6	**1,456 6**	1,556 6

Balance sheets

As at 31 March 2008

Fixed Assets	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Tangible assets	7	**5,417 5**	5,220 1	**5,415 5**	5,218 1
Investments	8	**-**	0 1	**235 7**	236 8
		5,417 5	5,220 2	**5,651 2**	5,454 9
Current assets					
Stocks		**6 2**	6 0	**6 2**	6 0
Debtors amounts falling due within one year	9a	**299 1**	270 8	**295 9**	270 8
Debtors amounts falling due after more than one year	9b	**2 1**	3 4	**27 3**	27 0
Short term deposits	12b	**448 7**	1 9	**448 7**	1 9
		756 1	282 1	**778 1**	305 7
Creditors amounts falling due within one year	10	**(889 1)**	(1,189 8)	**(1,467 7)**	(1,224 1)
Net current liabilities		**(133 0)**	(907 7)	**(689 6)**	(918 4)
Total assets less current liabilities		**5,284 5**	4,312 5	**4,961 6**	4,536 5
Creditors amounts falling due after more than one year	11	**(3,467 8)**	(2,417 1)	**(2,931 3)**	(2,417 1)
Provisions for liabilities and charges	13	**(493 4)**	(489 0)	**(493 4)**	(489 0)
Net assets excluding pension deficit		**1,323.3**	1,406 4	**1,536 9**	1,630 4
Pension deficit	17	**(80 3)**	(73 8)	**(80 3)**	(73 8)
Net assets including pension deficit		**1,243 0**	1,332 6	**1,456 6**	1,556 6
Capital and reserves					
Called up share capital	14	**1,000 0**	1,000 0	**1,000 0**	1,000 0
Profit and loss account	15	**243 0**	332 6	**456 6**	556 6
Equity shareholders' funds		**1,243 0**	1,332 6	**1,456 6**	1,556 6

Signed on behalf of the board who approved the accounts on 4 June 2008

Tony Wray
Chief Executive

Michael McKeon
Finance Director

Group cash flow statement

Year ended 31 March 2008

	Notes	2008 £m	2008 £m	2007 £m	2007 £m
Net cash inflow from operating activities	19a		**676 3**		644 3
Returns on investments and servicing of finance					
Interest received		**8 8**		1 3	
Interest paid		**(128 0)**		(118 5)	
Interest element of finance lease rental payments		**(20 6)**		(20 1)	
			(139 8)		(137 3)
Taxation			**(52 7)**		(68 6)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(591 0)**		(479 4)	
Grants and contributions received		**44 2**		34 5	
Sale of tangible fixed assets		**2 9**		41 2	
			(543 9)		(403 7)
Equity dividends paid			**(263 1)**		(655 8)
Net cash outflow before management of liquid resources and financing			**(323 2)**		(621 1)
Management of liquid resources			**(446 8)**		0 2
Financing					
Finance leases repaid		**(23 1)**		(33 7)	
Loans received		**1,124 3**		490 2	
Loans repaid		**(102 5)**		(57 0)	
			998 7		399 5
Net increase/(decrease) in cash			**228 7**		(221 4)

Reconciliation of net cash flow to movement in net debt

	Notes	2008 £m	2008 £m	2007 £m	2007 £m
Net increase/(decrease) in cash as above		**228 7**		(221 4)	
Cash flow from movement in net debt and financing		**(998.7)**		(399 5)	
Cash flow from movement in liquid resources		**446 8**		(0 2)	
Change in net debt resulting from cash flows			**(323 2)**		(621 1)
Rolled up interest on debt			**(37 0)**		(14 0)
Increase in net debt			**(360 2)**		(635 1)
Opening net debt			**(3,119 9)**		(2,484 8)
Closing net debt	19b		**(3,480 1)**		(3,119 9)

Notes to the financial statements

Year ended 31 March 2008

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

b) Basis of preparation
The directors have not taken advantage of the exemption available under Section 228 of the Act from preparing group accounts

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

The consolidated profit and loss account and balance sheet include the results of the company and its subsidiary undertakings listed in note 8 prepared for the year ended 31 March 2008 Intra group sales and profits are eliminated fully on consolidation

The company has taken advantage of the exemption in FRS 1 'Cash Flow Statements' and has not presented a cash flow statement

c) Turnover
Turnover represents income receivable from regulated water activities, excluding value added tax and trade discounts, in the ordinary course of business for services provided within the United Kingdom

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

d) Tangible fixed assets and depreciation
Tangible fixed assets comprise

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

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

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

ii) Other assets
Other assets are included at cost less accumulated depreciation Additions are included at cost

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

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

Assets in the course of construction are not depreciated until commissioned

e) Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the fair value of the minimum lease payments 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 charged to the profit and loss account on a straight line basis over the life of the lease

1 **Accounting policies** continued

f) Grants and contributions

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

In accordance with industry practice, grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets This is not in accordance with Schedule 4 to the Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions to be presented as deferred income This departure from the requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, finite lives have not been determined for these assets, and therefore no basis exists on which to recognise grants and contributions as deferred income The effect of this departure is that the cost of fixed assets is £522 4 million lower than it would otherwise have been (2007 £476 8 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 charged for infrastructure assets

g) Impairment of goodwill and fixed assets

Impairments of goodwill and fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate investments and goodwill, and their recoverable amounts Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken

Net realisable value represents the net amount that can be generated through sale of assets Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit

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

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

h) Investments

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

i) Stocks

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

j) Insurance

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

k) Pension costs

The group and company operate both defined benefit and defined contribution schemes

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past services costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately the costs are recognised over the period until vesting occurs The interest costs and the expected return on assets is shown as a net amount of other finance costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

Costs of defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due

l) Research and development

Expenditure on tangible fixed assets relating to research and development projects is capitalised and written off over the expected useful life of those assets

Other research and development expenditure is charged to the profit and loss account in the year in which it is incurred

Notes to the financial statements continued

Year ended 31 March 2008

1 Accounting policies continued

m) Current and deferred taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the group has an obligation to pay more tax in the future or a right to pay less tax in the future Material deferred taxation balances arising are discounted by applying an appropriate risk free discount rate For the purposes of discounting, the period over which accelerated capital allowances in respect of infrastructure assets reverse is determined by the estimated annual cost of maintaining the operating capability of the network, based on an allocation of the infrastructure renewals charge to existing and future infrastructure assets

n) Goodwill

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

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

o) Derivatives and other financial instruments

Debt instruments

The costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount Such costs include the cost of issue and any discount to face value arising on issue, or any premium arising on maturity

Derivative financial instruments

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

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

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

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

p) Pre-contract costs

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

Deferred costs are amortised over the life of the contract

q) Share based payments

The group operates a number of equity settled, share based compensation plans for employees utilising the shares of the ultimate parent company The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant

The fair value of employee services is determined by reference to the fair value of the awards granted calculated using an appropriate pricing model, excluding the impact of any non market vesting conditions The number of awards that are expected to vest takes into account non market vesting conditions including, where appropriate, continuing employment by the group The change is adjusted to reflect shares that do not vest as a result of failing to meet a non market condition

2 Analysis of total operating costs and exceptional items

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Analysis of total operating costs				
Raw materials and consumables (including exceptional costs £6 4 million (2007 nil))	**41 2**	34 0	**41 2**	34 0
Staff costs (including exceptional costs £8 0 million (2007 £3 0 million))	**207 8**	188 5	**207 8**	187 9
Depreciation and other amounts written off tangible assets	**322 4**	321 1	**322 4**	321 1
Other operating costs	**365 1**	336 6	**380 4**	351 1
Own work capitalised	**(74 4)**	(76 9)	**(74 4)**	(76 9)
Total operating costs	**862 1**	803 3	**877 4**	817 2
Staff costs comprise				
Wages and salaries	**165 2**	145 0	**165 2**	144 4
Social security costs	**12 4**	11 5	**12.4**	11 5
Pension costs (note 17)	**30 2**	32 0	**30 2**	32 0
Total staff costs	**207 8**	188 5	**207 8**	187 9
Depreciation and other amounts written off tangible assets comprises				
Depreciation on owned assets non-infrastructure	**182 0**	183 1	**182 0**	183 1
Depreciation on owned assets infrastructure	**117 9**	102 3	**117 9**	102 3
Depreciation on assets held under finance leases	**22 5**	23 8	**22 5**	23 8
Depreciation on assets treated as exceptional item	**-**	11 9	**-**	11 9
	322 4	321 1	**322 4**	321 1
Other operating costs comprises				
Power (including exceptional costs £0 2 million (2007 nil))	**37 6**	56 8	**37 6**	56 8
Rates	**59 5**	56 6	**59 5**	56 6
Service charges	**28 6**	27 6	**28 6**	27 6
Other operating costs (including exceptional costs £45 6 million (2007 nil))	**112 3**	81 5	**112 3**	81 7
Deferred income released	**(2.8)**	(2 8)	**(2 8)**	(2 8)
Hired and contracted services (including exceptional costs £1 9 million (2007 nil))	**116 5**	103 9	**116 5**	103 9
Hire of plant and machinery (including exceptional costs £1 2 million (2007 nil))	**7 1**	5 0	**7 1**	5 0
Other operating leases	**2 2**	3 5	**17 5**	17 8
Research and development expenditure	**4.1**	4 5	**4 1**	4 5
Total other operating costs	**365 1**	336 6	**380 4**	351 1

Exceptional items

A £13 9 million exceptional charge was incurred (2007 £14 9 million) arising from the ongoing and developing programme to restructure and realign the business by improving standards through process improvement, enhancements to supporting technology, systems and facilities, and the development and retraining of our people

An exceptional charge of £13 6 million arose from the flooding incidents that affected the water and severage networks during the summer of 2007 This includes costs of £29 6 million less insurance recoveries of £16 million Costs still to be incurred are expected to relate mainly to the replacement of damaged assets which will be covered by insurance recoveries

An exceptional charge of £35 8 million arose from Ofwat's proposal to fine the company in relation to the misreporting of customer service data and failing to meet Guaranteed Standards of Service

An exceptional profit of £36 2 million from the disposal of land and buildings arose in 2007

During the year Deloitte & Touche LLP earned the following fees

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	**0 2**	0 2	**0 2**	0 2
Fees payable to the company's auditors and their associates for other services to the group				
The audit of the company's subsidiaries pursuant to legislation	**0 1**	0 1	**0 1**	0 1
Total audit fees	**0 3**	0 3	**0 3**	0 3
Other services pursuant to legislation				
Other services	**0 1**	0 1	**0 1**	0 1
Total non audit fees	**0 1**	0 1	**0 1**	0 1

Fees in respect of other services relate to a review of internal controls

Year ended 31 March 2008

3 Information regarding directors and employees

Directors

a) Directors' interests

All of the directors as at the end of the year are also directors of Severn Trent Plc, the ultimate parent undertaking, and their interests in the share capital of that company are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 2008 Share options were granted and exercised in accordance with the Severn Trent Share Option Scheme and the Severn Trent Sharesave Scheme as appropriate

The executive directors have further interests in Severn Trent Plc ordinary shares of 97 17/19p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (LTIP) on 5 September 2005, 19 June 2006 and 18 July 2007 The LTIP operates on a three year rolling basis The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied The performance criteria for the awards are based on a combination of Severn Trent Plc's Total Shareholder Return (TSR) and Economic Profit targets

The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are disclosed in the Annual Report and Accounts of Severn Trent Plc for the year ended 31 March 2008

b) Emoluments

	2008 £000	2007 £000
Aggregate emoluments (excluding pension contributions)	**2,267.4**	1,487 3

i) Non cash benefits included in aggregate emoluments consist mainly of the provision of cars and health care insurance
ii) No emoluments were paid by the company to certain of the directors in respect of their services to the company Their emoluments are paid by other companies within the Severn Trent group Included in aggregate emoluments is the element of these directors' emoluments which are recharged to the company, based on the relevant portion of their time
iii) Retirement benefits are accruing to three directors (2007 seven directors) under a defined benefit scheme
iv) In 2007, in addition to the emoluments disclosed above, payments totalling £466,302 were made to three directors for early termination of their contracts Two retained options over 5,280 shares (granted under the Severn Trent Plc Incentive Plan on 19 June 2006), 15,487 shares (granted on 15 December 2004) and 13,460 shares (granted on 13 August 2003) Additionally, one director also retained options over 1,188 shares granted in accordance with approved schemes

c) Highest paid director

	2008 £000	2007 £000
Aggregate emoluments (excluding pension contributions)	**620 5**	419 9

The highest paid director in 2008 is the same as that in 2007

The accrued pension at 31 March 2008 for the highest paid director was £11,538 (2007 £7,488) The pension entitlement is that which would be paid annually on retirement based on service to the end of the year The highest paid director did not exercise any share options during the year

d) Employees

	Group and company	
	2008 Number	2007 Number
Average number of employees during the year	**5,452**	5,352

4 Net interest payable

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Interest receivable and similar income	**8 8**	1 3	**11 6**	4 5
Finance income on defined benefit pension schemes	**83 0**	72 3	**83 0**	72 3
Interest receivable	**91 8**	73 6	**94 6**	76 8
Interest payable and similar charges on				
Bank loans and overdrafts	**(13 4)**	(50 8)	**(13 4)**	(50 8)
Other loans	**(153 0)**	(86 3)	**(43 7)**	(8 5)
Finance leases	**(20 6)**	(20 1)	**(20 5)**	(20 1)
Amounts due to subsidiary undertaking	**-**	-	**(109 5)**	(77 8)
Interest cost on defined benefit pension schemes	**(71 6)**	(60 1)	**(71 6)**	(60 1)
Interest payable	**(258 6)**	(217 3)	**(258 7)**	(217 3)
	(166 8)	(143 7)	**(164 1)**	(140 5)

5 Taxation on profit on ordinary activities

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
a) Analysis of charge in the year				
Current tax				
UK corporation tax at 30% (2007 30%)				
Current year	**34 5**	47 4	**30 9**	47 4
Adjustment in respect of prior years	**(8 1)**	0 1	**(8 1)**	0 1
Group relief payable at 30% (2007 30%)				
Current year	**38 2**	19 1	**39 6**	17 3
Adjustment in respect of prior years	**0 2**	5 0	**0 2**	7 2
Total current tax	**64 8**	71 6	**62 6**	72 0
Deferred tax				
Origination and reversal of timing differences				
Current year	**(4 3)**	16 9	**(4 3)**	16 9
Adjustment in respect of prior year	**(92 8)**	(27 8)	**(92 8)**	(27 8)
(Increase)/decrease in discount	**64 1**	(34 3)	**64 1**	(34 3)
Total deferred tax credit	**(33 0)**	(45 2)	**(33 0)**	(45 2)
Less deferred tax included in statement of recognised gains and losses	**11 5**	5 9	**11 5**	5 9
Deferred tax credit included in profit and loss account	**(21 5)**	(39 3)	**(21 5)**	(39 3)
Total tax charge	**43 3**	32 3	**41 1**	32 7

b) Factors affecting the tax charge in the year

The current tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (30%) The differences are explained below

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Profit on ordinary activities before tax	**240 3**	299 7	**227.7**	289 0
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2007 30%)	**72 1**	89 9	**68 3**	86 7
Effects of				
Items not taxable and not deductible for tax purposes	**(1 8)**	(9 8)	**(0 2)**	(8 5)
Profit on disposal, treated as exceptional, on which no tax is payable due to rollover relief	**-**	(10 9)	**-**	(10 9)
Capital allowances for period in excess of depreciation	**(1 8)**	0 7	**(1 8)**	0 7
Utilisation of/movement in short term timing difference	**4 2**	(3 3)	**4 2**	(3 3)
Adjustment to tax charge in respect of prior periods	**(7 9)**	5 0	**(7 9)**	7 3
	64 8	71 6	**62 6**	72 0

Of the current year charge, £5 5 million (2007 nil) relates to current tax charges on exceptional items and £1 6 million credit (2007 £3 0 million credit) in respect of deferred tax

c) Factors affecting future tax rates

The group's current tax charge of £72 7 million (2007 £66 5 million) before adjustments to the tax charge in respect of prior periods represents 30 3% (2007 22 2%) of the group's profit before tax

The company's current tax charge of £70 5 million (2007 £64 7 million) before adjustments to the tax charge in respect of prior periods represents 30 9% (2007 22 2%) of the company's profit before tax

The group and the company's tax charge will continue to be affected in future years by the requirements of AMP4 which will impact both depreciation and capital allowances

The deferred tax adjustment in respect of prior years includes an amount to reflect the decrease in the main corporation tax rate to 28% with effect from 1 April 2008, being the rate at which deferred tax will reverse

The Finance Act 2007 included legislation which stopped balancing allowances and balancing charges arising on the sale of an industrial building Under FRS 19 an adjustment of £29 7 million to remove the element of deferred tax which relates to industrial buildings has been included in the deferred tax prior year adjustment

The group and company's deferred tax charge in future years is difficult to predict as it is impacted by changes to interest rates from one balance sheet date to the next

Year ended 31 March 2008

6 Dividends

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Dividend declared and paid	**263 1**	79 8	**263 1**	79 8
Special dividend declared and paid	**-**	576 0	**-**	576 0
Dividends paid	**263 1**	655 8	**263 1**	655 8

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

The amount declared is expected to vary each year as the impact of these factors changes The ordinary dividend declared and paid by the company in 2007/08 amounted to £263 1 million, being 26 31p per share (2007 7 98p per share)

7 Tangible fixed assets

Group

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Vehicles and mobile plant £m	Total £m
Cost					
At 1 April 2007	2,049 8	3,643 3	2,731 7	48 2	8,473 0
Additions	128 7	215 5	219 0	3 5	566 7
Grants and contributions	-	(45 6)	-	-	(45 6)
Assets sold or written off	(4 0)	-	(16 6)	(4 1)	(24 7)
At 31 March 2008	**2,174 5**	**3,813 2**	**2,934 1**	**47 6**	**8,969 4**
Depreciation					
At 1 April 2007	635 5	1,251 3	1,346 2	19 9	3,252 9
Charge for year	42 1	117 9	156 2	6 2	322 4
Assets sold or written off	(4 0)	-	(16 6)	(2 8)	(23 4)
At 31 March 2008	**673 6**	**1,369 2**	**1,485 8**	**23 3**	**3,551 9**
Net book value					
At 31 March 2008	**1,500 9**	**2,444 0**	**1,448 3**	**24 3**	**5,417 5**
At 31 March 2007	1,414 3	2,392 0	1,385 5	28 3	5,220 1

Company

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Vehicles and mobile plant £m	Total £m
Cost					
At 1 April 2007	2,049 8	3,641 0	2,731 8	48 2	8,470 8
Additions	128 7	215 5	219 0	3 5	566 7
Grants and contributions	-	(45 6)	-	-	(45 6)
Assets sold or written off	(4 0)	-	(16 6)	(4 1)	(24 7)
At 31 March 2008	**2,174 5**	**3,810 9**	**2,934 2**	**47 6**	**8,967 2**
Depreciation					
At 1 April 2007	635 5	1,251 1	1,346 2	19 9	3,252 7
Charge for year	42 1	117 9	156 2	6 2	322 4
Assets sold or written off	(4 0)	-	(16 6)	(2 8)	(23 4)
At 31 March 2008	**673 6**	**1,369 0**	**1,485 8**	**23 3**	**3,551 7**
Net book value					
At 31 March 2008	**1,500 9**	**2,441 9**	**1,448 4**	**24 3**	**5,415 5**
At 31 March 2007	1,414 3	2,389 9	1,385 6	28 3	5,218 1

7 Tangible fixed assets continued

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
i) Included in tangible fixed assets are assets held under finance leases as follows				
Cost	**416 4**	419 6	**414 0**	417 2
Accumulated depreciation	**(126 6)**	(107 3)	**(126 3)**	(107 0)
Net book value	**289 8**	312 3	**287 7**	310 2

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 1(f)

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
iii) The net book value of land and buildings is analysed as follows				
Freehold	**1,500 5**	1,414 0	**1,500 5**	1,414 0
Short leasehold	**0 3**	0 3	**0 3**	0 3
	1,500 8	1,414 3	**1,500 8**	1,414 3
iv) Depreciation incurred during the year has been charged as follows				
Owned assets non infrastructure	**182 0**	183 1	**182 0**	183 1
Owned assets infrastructure	**117 9**	102 3	**117 9**	102 3
Depreciation on assets held under finance leases	**22 5**	23 8	**22 5**	23 8
Depreciation on assets treated as an exceptional item	**-**	11 9	**-**	11 9
	322 4	321 1	**322 4**	321 1
v) Included in the above are the following tangible fixed assets not subject to depreciation				
Land	**22 6**	24 6	**22 6**	24 6
Assets in the course of construction	**425 2**	320 0	**425 2**	320 0
	447 8	344 6	**447 8**	344 6

8 Investments

Group	Other investments £m	Total £m
Cost and net book value at 1 April 2007	0 1	0 1
Disposals	(0 1)	(0 1)
Cost and net book value at 31 March 2008	**-**	**-**

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Other investments £m	Total £m
Cost and net book value at 1 April 2007	171 2	65 5	0 1	236 8
Disposals	(1 1)	–	–	(1 1)
Cost and net book value at 31 March 2008	**170 1**	**65 5**	**0 1**	**235 7**

	Country of registration and operation	Percentage and class of share capital held	Nature of business
Subsidiary undertakings (all directly held)			
Biogas Generation Limited	England and Wales	100% ordinary	Power generation
East Worcester Water Limited	England and Wales	100% ordinary and 100% non voting ordinary	Water undertaking
Severn Trent Power Generation Limited	England and Wales	100% ordinary	Power generation
Severn Trent Reservoirs Limited	England and Wales	100% ordinary	Finance company
Severn Trent Utilities Finance Plc	England and Wales	100% ordinary	Finance company

In the opinion of the directors the values of the group's and company's investments are not less than the amount at which they are stated in the balance sheet

9 Debtors

a) Amounts falling due within one year

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade debtors	**129 6**	123 9	**129 6**	123 9
Amounts owed by parent and fellow subsidiary undertakings	**2 5**	4 5	**4 5**	4 5
Other debtors	**17 3**	21 9	**15 4**	21 9
Prepayments and accrued income	**149 7**	120 5	**146 4**	120 5
	299 1	270 8	**295 9**	270 8

b) Amounts falling due after more than one year

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade debtors	**0 1**	–	**0 1**	–
Other debtors	**0 1**	–	**0 1**	–
Amounts owed by parent and fellow subsidiary undertakings	**–**	–	**27 1**	26 9
Prepayments and accrued income	**1 9**	3 4	**–**	0 1
	2 1	3 4	**27 3**	27 0
Total debtors	**301 2**	274 2	**323 2**	297 8

10 Creditors amounts falling due within one year

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank overdrafts	**383 0**	611 7	**419 9**	632 9
Bank loans	**78 6**	75 0	**78 6**	75 0
Amounts owed to subsidiary undertakings	**–**	–	**–**	27 6
Other loans	**–**	27 2	**–**	–
Obligations under finance leases	**39 6**	32 7	**39 6**	32 7
Borrowings (note 12)	**501 2**	746 6	**538 1**	768 2
Trade creditors	**15 7**	29 4	**15 7**	29 4
Amounts owed to parent and fellow subsidiary undertakings	**28 4**	97 8	**38 9**	98 9
Amounts owed to subsidiary undertakings	**–**	–	**532 7**	31 3
Other creditors	**10 7**	5 9	**8 9**	5 9
Taxation and social security	**4 8**	4 0	**4 8**	4 0
Corporation tax payable	**42 8**	44 1	**43 9**	44 1
Accruals and deferred income	**285 5**	262 0	**284 7**	242 3
	889 1	1,189 8	**1,467 7**	1,224 1

11 Creditors amounts falling due after more than one year

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank loans	**541 9**	385 9	**541 9**	385 9
Amounts owed to subsidiary undertakings	**–**	–	**2,003 8**	1,613 9
Other loans	**2,540 3**	1,613 9	**–**	–
Obligations under finance leases	**345 4**	375 4	**345 4**	375 4
Borrowings (note 12)	**3,427 6**	2,375 2	**2,891 1**	2,375 2
Deferred income	**36 1**	38 9	**36 1**	38 9
Other creditors	**4 1**	3 0	**4 1**	3 0
	3,467 8	2,417 1	**2,931 3**	2,417 1

12 Financial instruments

The groups policy in respect of interest rate risk management and the related use of financial instruments are set out in the accounting policy note 1(o) on page 28

a) Borrowings analysed by maturity date

	Overdrafts £m	Loans with other repayment terms £m	Finance leases £m	2008 £m	Group 2007 £m
Financial liabilities due within one year (note 10)	383 0	78 6	39 6	**501 2**	746 6
Between one and two years	–	132 4	42 9	**175 3**	119 5
Between two and five years	–	47 5	74 7	**122 2**	242 9
After more than five years	–	2,902 3	227 8	**3,130 1**	2,012 8
Total financial liabilities after one year	–	3,082 2	345 4	**3,427 6**	2,375 2
	383 0	3,160 8	385 0	**3,928 8**	3,121 8

£542 million (2007 £461 million) of funding instruments contain certain financial convenants, breach of which can trigger early repayment

Loans repayable partly or wholly after five years comprise

	Rate of interest %	2008 £m	2007 £m
European Investment Bank loans – 2013-2016 (2007 2013-2016)	3 1-3 3	**441 9**	285 9
European medium term loan notes - 2012-2057 (2007 2012-2057)	1 4-6 1	**1,750 0**	789 0
Sterling bonds – 2024-2029 (2007 2024-2029)	6 1-6 3	**710 4**	709 0
		2,902 3	1,783 9

b) Investment in interest earning assets

	2008 £m	Group 2007 £m
Sterling deposits	**448 7**	1 9

Sterling deposits include £1 8 million (2007 £1 9 million) held on short term deposit with a maturity date of less than one year as security for self insurance obligations

Sterling deposits receive interest based on LIBID

c) Borrowings analysed by interest rate after taking into account of various interest rate swaps entered into by the group and company

	Total £m	Floating interest rate £m	Fixed interest rate £m	Group Fixed borrowings Weighted average interest rate %	Weighted average period for which interest is fixed Years
Total borrowings as at 31 March 2008	**3,928 8**	**1,834 0**	**2,094 8**	**5.83**	**16 9**
Total borrowings as at 31 March 2007	3,121 8	1,298 0	1,823 8	5 62	15 54

Included in the fixed debt above, the group has entered into a number of forward start accruing interest rate swaps These had an initial notional value of £19 6 million and began accreting notional value between 31 March 2007 and 2032 The maximum notional value of these swaps is £135 million (2007 £135 million) These swaps are floating to fixed and bear fixed interest at between 5 32% and 5 52%

The group has also entered into £138 million (2007 £236 million) of forward start interest rate swaps (floating to fixed) that commence between 31 March 2008 and May 2009 These swaps all terminate in 2010 These interest rate swaps bear fixed interest between 4 54% and 4 87%

Floating rate borrowings bear interest based on LIBOR

Notes to the financial statements continued

Year ended 31 March 2008

12 Financial instruments continued

d) Fair value of financial instruments

The group uses financial derivatives solely for the purposes of managing the interest rate and currency risks associated with financing business activities The group's policy for the management of interest rate risk is to have a balanced portfolio of debt with a mix of term and interest rate structures that diversifies its risk and is appropriate to the long life of its asset base The details are periodically reviewed to respond to changing market conditions and to have regard to regulatory pronouncements At 31 March 2008 interest rates on 53 3% 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

Financial instrument by category	2008 Book value	2008 Fair value	Group 2007 Book value	Group 2007 Fair value
Asset/(liability)	**£m**	**£m**	£m	£m
Primary financial instruments held or issued to finance business activities				
Short term deposits	**448 7**	**448 7**	1 9	1 9
Short term debtors and creditors	**(88 8)**	**(88 8)**	(177 2)	(177 2)
Borrowings falling due within one year	**(500 9)**	**(465 0)**	(740 7)	(708 6)
Borrowings falling due after more than one year	**(3,475 8)**	**(3,277 5)**	(2,350 2)	(2,307 2)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	**-**	**(42 9)**	–	(25 9)
Currency instruments – cross currency swaps	**47 9**	**40 2**	(30 9)	(34 5)
Total net financial liabilities	**(3,568 9)**	**(3,385 3)**	(3,297 1)	(3,251 5)
Other long term assets				
Other fixed asset investments	**-**	**-**	0 1	0 1

Where available, market rates have been used to determine fair values When market prices are not available, fair values have been calculated by discounting cash flows at prevailing interest rates

e) Borrowing facilities

The group and company had the following undrawn committed facilities available at 31 March 2008

	Group and company 2008 £m	Group and company 2007 £m
Expiring within one year	**-**	-
Expiring in more than one year but not more than two years	**41 7**	-
Expiring after two years but less than five years	**458 3**	500 0
	500.0	500 0

These facilities are joint with Severn Trent Plc

In addition, the company has a joint committed facility with Severn Trent Plc of £80 0 million (2007 £80 0 million), of which up to £60 million may be drawn in the form of money market borrowings and the balance not utilised by such drawings may be drawn as overdraft The amount undrawn at year end was £80 0 million (2007 £47 2 million)

f) Unrecognised gains and losses on hedges at 31 March 2008

Gains or losses on derivative instruments are not recognised until the exposure that is being hedged is itself recognised Unrecognised gains or losses on hedges at the balance sheet date are summarised in the table below These gains or losses represent the expected future benefit of interest rate hedges to the group and company at 31 March 2008 given prevailing economic conditions

	Gains £m	Losses £m	Group Total net gains/(losses) £m
Unrecognised gains and losses on hedges 1 April 2007	17 3	(46 8)	(29 5)
Arising in previous years that were recognised in the year	(11 2)	–	(11 2)
Arising before 1 April 2007 that were not recognised in the financial year	6 1	(46 8)	(40 7)
Unrecognised gains and losses arising during the financial year	6 2	(0 7)	5 5
Unrecognised gains and losses at 31 March 2008	**12 3**	**(47 5)**	**(35 2)**
Expected to be recognised			
In one year or less	0 1	(0 2)	(0 1)
In later years	12 2	(47 3)	(35 1)

13 Provisions

Provisions for liabilities and charges comprise

	Balance at 1 April 2007 £m	Charged to profit and loss account £m	Utilised £m	Group Balance at 31 March 2008 £m
Restructuring	1 0	5 1	(3 3)	**2 8**
Insurance	1 2	–	(0 1)	**1 1**
Dilapidation and onerous leasehold properties	2 4	0 4	–	**2 8**
Regulatory fines	–	35 8	–	**35 8**
Deferred tax	484 4	(33 5)	–	**450 9**
	489 0	7 8	(3 4)	**493 4**

	Balance at 1 April 2007 £m	Charged to profit and loss account £m	Utilised £m	Company Balance at 31 March 2008 £m
Restructuring	1 0	5 1	(3 3)	**2 8**
Insurance	1 2	–	(0 1)	**1 1**
Dilapidation and onerous leasehold properties	2 4	0 4	–	**2 8**
Regulatory fines	–	35 8	–	**35 8**
Deferred tax	484 4	(33 5)	–	**450 9**
	489 0	7 8	(3 4)	**493 4**

The restructuring provision reflects costs to be incurred in respect of committed programmes All of the associated outflows are estimated to occur within one year (2007 one year) of the balance sheet date

Provision is made for insurance claims notified and for claims incurred but which have not yet been notified The associated outflows are expected to arise over a period of up to four years (2007 up to a year) from the balance sheet date

Provision is made for dilapidation costs and leasehold property costs The associated outflows are expected to arise over a period of up to 10 years from the balance sheet date

On 8 April 2008, Ofwat published its proposals to fine the company £35 8 million for misreporting customer service data and failure to meet Guaranteed Standard of Service in 2005/06 The provision has been recorded on the basis that the best available evidence for making an estimate of the fines that will be payable is Ofwat's proposals However, Ofwat's consultation relating to the fines remains open, and there is a right of appeal at its conclusion, so the amounts that finally become payable might not be the amounts proposed by Ofwat

Deferred tax

The full deferred tax liability, calculated at a tax rate of 28% (2007 30%) is

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Capital allowances	**809 0**	901 5	**809 0**	901 5
Other timing differences	**(12 1)**	(7 0)	**(12 1)**	(7 0)
Deferred tax asset relating to FRS 17 pension liability	**(31 2)**	(31 7)	**(31 2)**	(31 7)
Undiscounted provision for deferred tax	**765 7**	862 8	**765 7**	862 8
Discount	**(346 0)**	(410 1)	**(346 0)**	(410 1)
Discounted provision for deferred tax	**419 7**	452 7	**419 7**	452 7
Adjustment for deferred tax asset relating to FRS 17 pension liability (included in note 17 pensions)	**31 2**	31 7	**31 2**	31 7
Deferred tax as disclosed in provisions	**450 9**	484 4	**450 9**	484 4
Provision at start of year	**484 4**	543 9	**484 4**	543 9
Deferred tax charge included in profit and loss account	**(21 5)**	(39 3)	**(21 5)**	(39 3)
Deferred tax charge included in statement of recognised gains and losses	**(11 5)**	(5 9)	**(11 5)**	(5 9)
Adjustment for deferred tax relating to pension liability FRS 17 (included in note 17 pensions)				
Included in profit and loss account charge	**(12 0)**	(20 2)	**(12 0)**	(20 2)
Included in statement of recognised gains and losses charge	**11 5**	5 9	**11 5**	5 9
Provision at end of year	**450 9**	484 4	**450 9**	484 4

14 Share capital

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Authorised				
1,000,000,000 ordinary shares of £1 each (2007 1,000,000,000)	**1,000 0**	1,000 0	**1,000 0**	1,000 0
Issued and fully paid				
1,000,000,000 ordinary shares of £1 each (2007 1,000,000,000)	**1,000 0**	1,000 0	**1,000 0**	1,000 0

15 Profit and loss account

	Group £m	Company £m
At 1 April 2007	**332 6**	556 6
Profit for the financial year	**197 0**	186 6
Share based payments	**3 1**	3 1
FRS 17 actuarial loss	**(38 1)**	(38 1)
Deferred tax on actuarial loss	**10 7**	10 7
Adjustment in respect of tax rate change on deferred tax	**0 8**	0 8
Dividends paid	**(263 1)**	(263 1)
At 31 March 2008	**243 0**	456 6

At 31 March 2008 cumulative goodwill written off against group reserves amounted to £29 2 million (2007 £29 2 million)

16 Commitments and contingent liabilities

a) Investment expenditure commitments

	Group and company 2008 £m	Group and company 2007 £m
Contracted for but not provided in the financial statements	**261 5**	242 7

In addition to these commitments, the group and company has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services and to provide for growth in demand for water and sewerage services

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

	2008 Land and buildings £m	2008 Other £m	2007 Land and buildings £m	2007 Other £m
Within one year	**0 2**	**0 1**	0 2	–
Between one and five years	**0 1**	**0 5**	0 5	0 5
After five years	**1 5**	–	1 0	0 1
	1 8	**0 6**	1 7	0 6

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

	2008 Land and buildings £m	2008 Other £m	2007 Land and buildings £m	2007 Other £m
Within one year	**0 2**	**0 1**	0 2	–
Between one and five years	**0 1**	**0 5**	0 5	0 5
After five years	**1 5**	**15 8**	1 0	15 0
	1 8	**16 4**	1 7	15 5

c) Banking arrangements

The banking arrangements for both the group and company operate on a pooled basis with certain other group undertakings

Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances Credit balances can be offset against overdrawn balances of participating companies The contingent liability as at 31 March 2008 is nil (2007 nil)

16 Commitments and contingent liabilities continued

d) Regulatory matters

In May 2004 an employee of Severn Trent Water raised a number of allegations relating, in particular, to alleged accounting inaccuracies and regulatory returns

On 7 March 2006 Ofwat published its interim report concerning the allegations of false reporting made against Severn Trent Water in 2004

In responding to the report the company agreed to credit customers' accounts and reduce future tariffs

The company also acknowledged that Ofwat may expect further amends to be made to customers

The company has pleaded guilty to two offences relating to leakage data supplied to Ofwat in 2001 and 2002 A sentencing hearing to determine the amount of the fine began on 2 June 2008 and is due to resume on 1 July 2008 When concluded, the company will be able to commence discussions with Ofwat concerning further amends to be made to customers

No reliable estimate can currently be made of the amount that will become payable as a result of the SFO charges or Ofwat's final conclusion in respect of the allegations of false reporting Consequently no provision has been included in these financial statements in respect of these matters

17 Pensions

The group and company participates in the Severn Trent Water Pension Scheme (STPS) and the Severn Trent Mirror Image Scheme (STMIS) and the Severn Trent Senior Staff Pension Scheme (STSSPS) (together 'the Schemes'), all of which are defined benefit schemes and are fully funded to cover future salary and pension increases The assets of the schemes are held in a separate fund administered by trustees in addition The STSSPS now includes the unfunded defined benefit promise formerly held by the Severn Trent Supplementary Pension Scheme

As from 1 April 2004, the Severn Trent Pension Scheme was amended with new defined benefit and defined contribution sections introduced

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

UK defined benefit scheme	Date of last formal actuarial valuation
Severn Trent Pension Scheme*	31 March 2004
Severn Trent Senior Staff Pension Scheme	31 March 2004
Severn Trent Mirror Image Pension Scheme	31 March 2006

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

Following the valuation of the STPS, the employers' contribution rates were increased to 33 24%, 27 70% or 16 62% of pensionable pay STPS members contributions continue at a rate of 6%, 5% or 3% of pensionable pay

The schemes are closed to new entrants and hence the current service costs are expected to increase as members in the schemes approach retirement

The actuarial liabilities and market values of the assets at 31 March 2008 of the group's defined benefit schemes, details of which are provided above, have been assessed by the group's actuaries in accordance with the requirements of FRS 17

The major assumptions used in the valuation of the STPS (also the approximate weighted average of assumptions used for the valuations of all group schemes) were as follows

	2008	2007
Valuation Method	**Projected unit**	Projected unit
Price inflation	**3 40%**	3 00%
Salary increase	**4 90%**	4 50%
Pension increase in payment and deferment *	**3 40%**	3 00%
Discount rate	**6 40%**	5 40%
Longevity at age 65 for pensioners retiring now		
men	**20 1**	19 2
women	**23 2**	22 1
Longevity at age 65 for pensioners retiring in 20 years		
men	**20 9**	19 9
women	**23 9**	23 0

* In excess of any Guaranteed Minimum Pension (GMP)

Notes to the financial statements continued

Year ended 31 March 2008

17 Pensions continued

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows

	Group and company 2008 £m	2007 £m
Amounts charged to operating costs		
Current service costs	**(29 8)**	(31 0)
Past service costs	**-**	(0 3)
	(29 8)	(31 3)
Amounts charged to net finance costs		
Interest cost	**(71 6)**	(60 1)
Expected return on scheme assets	**83 0**	72 3
	11 4	12 2
Total amount charged in profit and loss account	**(18 4)**	(19 1)

Actuarial gains and losses have been reported in the statement of recognised gains and losses

Of the amounts charged to the profit and loss account, an element is capitalised in line with the group's accounting policies

The amount included in the balance sheet arising from the group's obligations under defined benefit schemes is as follows

	Group and company 2008 £m	2007 £m
Present value of defined benefit obligations – funded schemes	**(1,295 5)**	(1,314 1)
Total fair value of assets	**1,184 0**	1,208 6
Liability recognised in the balance sheet (before deferred tax)	**(111 5)**	(105 5)
Deferred tax	**31 2**	31 7
Liability recognised in the balance sheet	**(80 3)**	(73 8)

Movements in the present value of the defined obligation were as follows

	Group and company 2008 £m	2007 £m
At 1 April	**1,314 1**	1,254 6
Service cost	**29 8**	31 0
Past service costs	**-**	0 3
Interest cost	**71 6**	60 1
Contributions from scheme members	**7 7**	6 7
Actuarial (gain)/loss	**(71 7)**	8 9
Benefits paid	**(56 0)**	(47 5)
At 31 March	**1,295 5**	1,314 1

Movements in the fair value of the schemes assets were as follows

	Group and company 2008 £m	2007 £m
At 1 April	**1,208 6**	1,101 4
Expected return on scheme assets	**83 0**	72 3
Contributions	**38 9**	10 6
Special contributions	**11 6**	76 0
Contributions from scheme members	**7 7**	6 7
Actuarial loss	**(109 8)**	(10 9)
Benefits paid	**(56.0)**	(47 5)
At 31 March	**1,184 0**	1,208 6

17 Pensions continued

The analysis of the assets in the schemes and the expected rates or return were

			Group and company	
		2008		2007
	Expected return	**Fair value of assets £m**	Expected return	Fair value of assets £m
Equities	**8 00%**	**674 6**	8 25%	664 8
Gilts	**4 55%**	**320 7**	4 65%	292 2
Corporate bonds	**6 40%**	**111 0**	5 40%	101 7
Property	**6 30%**	**68 3**	6 55%	64 8
Cash	**5 25%**	**9 4**	5 25%	85 1
Total fair value of assets		**1,184 0**		1,208 6

The expected rate of return on scheme assets is based on market expectations at the beginning of the period for returns over the life of the benefit obligations For gilts and corporate bonds the expected rates of return are based on market yields at the balance sheet date

For equities, an equity risk premium has been added to the gilt rate

The actual return on scheme assets was a loss of £26 8 million (2007 £61 3 million gain)

The estimated amount of contributions expected to be paid to the schemes in the normal course during the year ending 31 March 2009 is £43 million

The history of the actual and expected performance of pension scheme assets and liabilities is

			Group and company	
	2008 £m	2007 £m	2006 £m	2005 £m
Difference between actual and expected return on scheme assets	**(109 8)**	(10 9)	137 5	29 5
Percentage of scheme assets	**9 3%**	0 9%	12 5%	3 6%
Experience adjustments on scheme liabilities	**71 7**	(8 9)	(111 5)	5 8
Percentage of scheme liabilities	**5 5%**	0 7%	8 9%	0 6%
Actuarial (loss)/gain in the statement of recognised gains and losses	**(38 1)**	(19 8)	26 0	35 3
Percentage of scheme liabilities	**2 9%**	1 5%	2 1%	3 4%

Defined contribution schemes

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

The total cost charged to operating costs of £0 4 million (2007 £0 7 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes As at 31 March 2008 all (2007 100%) contributions due in respect of the current reporting period have been paid over to the schemes

18 Share based payment

The group operates a number of share based remuneration schemes for employees and details of the share awards outstanding during the year are as follows

		Employee Sharesave Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 April 2006	3,835,741	645p	102,824	739p	169,591	715p
Granted during the year	487,078	1172p	–	–	–	–
Forfeited during the year	(83,777)	693p	(39,096)	690p	(53,200)	693p
Cancelled during the year	(67,917)	768p	–	–	–	–
Exercised during the year	(745,913)	558p	(47,170)	758p	(96,099)	724p
Expired during the year	(10,445)	579p	–	–	–	–
Outstanding at 1 April 2007	3,414,767	736p	16,558	801p	20,292	729p
Granted during the year	583,803	1,221p	–	–	–	–
Forfeited during the year	(73,442)	869p	–	–	–	–
Cancelled during the year	173,496	678p	–	–	–	–
Exercised during the year	(866,224)	554p	(3,035)	988p	(5,498)	771p
Expired during the year	(8,226)	743p	–	–	–	–
Transferred to other group companies	–	–	(3,145)	705p	(6,253)	692p
Outstanding at 31 March 2008	**3,224,174**	**866p**	**10,378**	**776p**	**8,541**	**729p**

The weighted average share price during the period was £14 20 (2007 £13 82)

Year ended 31 March 2008

18 Share based payment continued

Share option schemes

The options outstanding at the end of the period are exercisable as shown below

i) **Employee Sharesave Scheme**

Under the terms of the Sharesave Scheme, the Severn Trent Plc board may grant those employees who have entered into a HM Revenue and Customs approved Save As You Earn contract for a period of three, five or seven years, the right to purchase ordinary shares in Severn Trent Plc Options outstanding at 31 March 2008 were as follows

Date of grant	Normal date of exercise	Option price	Number of shares 2008	Number of shares 2007
January 2000	2007	473p	–	220,278
January 2001	2008	568p	**55,346**	52,565
January 2002	2007 or 2009	548p	**68,358**	311,244
January 2003	2008 or 2010	536p	**415,556**	388,121
January 2004	2007, 2009 or 2011	592p	**253,835**	578,334
January 2005	2008, 2010 or 2012	759p	**713,957**	714,457
January 2006	2009, 2011 or 2013	823p	**664,742**	668,034
January 2007	2010, 2012 or 2014	1172p	**470,359**	481,734
January 2008	2011 or 2013	1221p	**582,021**	–
			3,224,174	3,414,767

ii) **Approved Share Option Scheme**

Under the terms of the Share Option Scheme (formerly Executive Share Option Scheme), the Severn Trent Plc board has granted directors and other executives options to purchase ordinary shares in Severn Trent Plc Options outstanding under this scheme at 31 March 2008 were as follows

Date of grant	Normal date of exercise	Option price	Number of shares 2008	Number of shares 2007
June 1998	2001-2008	1005p	–	2,312
June 1999	2002-2009	934p	**3,211**	3,934
June 2000	2003-2010	688p	**3,416**	5,455
July 2001	2004-2011	738p	–	1,106
June 2002	2005-2012	720p	**3,751**	3,751
July 2003	2006-2013	680 5p	–	–
			10,378	16,558

iii) **Unapproved Share Option Scheme**

The Severn Trent Plc board has granted executives options to purchase ordinary shares in Severn Trent Plc under an unapproved share option scheme Options outstanding under this scheme at 31 March 2008 were as follows

Date of grant	Normal date of exercise	Option price	Number of shares 2008	Number of shares 2007
June 1998	2001-2008	1005p	–	–
June 1999	2002-2009	934p	**108**	1,973
June 2000	2003-2010	688p	**5,449**	9,082
July 2001	2004-2011	738p	–	2,574
June 2002	2005-2012	720p	**2,984**	6,663
July 2003	2006-2013	680 5p	–	–
			8,541	20,292

iv) Fair values of awards made in the year	2008 Number	2008 Fair value £m	2007 Number	2007 Fair value £m
LTIP awards	**89,539**	**0.4**	80,534	0 5
Sharesave options	**583,803**	**1 8**	487,078	1 5

18 Share based payment continued

The fair value of the LTIP awards was calculated using the Monte Carlo method The principal assumptions were as follows

LTIP award year	2007/08	2006/07	2005/06
Share price at grant date	**1,370p**	1178p	1017p
Number of shares awarded	**89,539**	80,534	180,020
Number of employees	**20**	16	57
Vesting period (years)	**3**	3	3
Expected volatility	**15%**	15%	17%
Expected life (years)	**3**	3	3
Expected dividend yield	**n/a**	n/a	n/a
Proportion of employees expected to cease employment before vesting	**0%**	0%	0%
Expectation of meeting economic profit performance criteria	**n/a**	n/a	100%
Fair value per share (EP scheme/TSR scheme)	**477p**	604p	1017p/468p

The fair value of the Sharesave options was calculated using the Black Scholes model The principal assumptions were as follows

Scheme year	2007/08		2006/07			2005/06		
Scheme type	**3 year**	**5 year**	3 year	5 year	7 year	3 year	5 year	7 year
Share price at grant date	**1,520p**	**1,520p**	1428p	1428p	1428p	1069p	1069p	1069p
Number of options granted	**350,196**	**233,607**	294,531	156,000	36,547	410,041	252,063	50,112
Number of employees	**1,638**	**630**	1,420	511	96	1,775	676	111
Vesting period (years)	**3**	**5**	3	5	7	3	5	7
Expected volatility	**15%**	**15%**	15%	15%	15%	17%	17%	17%
Option life (years)	**3 5**	**5 5**	3 5	5 5	7 5	3 5	5 5	7 5
Expected life (years)	**3 25**	**5 25**	3 25	5 25	7 25	3 25	5 25	7 25
Risk free rate	**4 24%**	**4 29%**	5 19%	5 04%	4 92%	4 31%	4 28%	4 24%
Expected dividend yield	**4 0%**	**4 0%**	4 0%	4 0%	4 0%	6 5%	6 5%	6 5%
Proportion of employees expected to cease employment before vesting	**15 0%**	**17 0%**	15 0%	17 0%	13 0%	15 0%	17 0%	13 0%
Fair value per share – sharesave	**307p**	**312p**	295p	305p	306p	189p	168p	149p

The SIP shares are purchased on the open market and vest with the employees immediately and hence the value of the shares purchased is charged straight to the income statement During the period, the group recognised total expenses of £3 4 million (2007 £1 1million) related to equity settled share based payment transactions Volatility is based on historical observations as adjusted for unusual market fluctuations

19 Group cash flow statement

a) Reconciliation of profit before interest to net cash inflow from operating activities

	2008 £m	2007 £m
Operating profit	**407 1**	407 2
Depreciation charge (note 7)	**322 4**	321 1
Profit on disposal of fixed assets	**(1 6)**	(34 1)
Deferred income received	**0 1**	0 1
Deferred income credited to profit and loss account	**(2 8)**	(2 8)
Provisions for liabilities and charges charged to profit and loss account	**41 3**	3 0
Utilisation of provisions for liabilities and charges	**(3 4)**	(5 0)
Movement in pension scheme	**(20 7)**	20 5
(Increase)/decrease in stocks	**(0 2)**	0 1
Increase in debtors	**(23 7)**	(67 7)
(Decrease)/increase in creditors	**(45 2)**	2 1
Investment written off	**(0 1)**	–
Share based payments	**3 1**	(0 2)
Net cash inflow from operating activities	**676 3**	644 3

b) Analysis of changes in net debt

	At 1 April 2007 £m	Cash flow £m	Other non cash changes £m	At 31 March 2008 £m
Overdrafts (note 10)	(611 7)	228 7	–	**(383 0)**
Debt due within one year (note 10)	(102 2)	23 6	–	**(78 6)**
Debt due after one year (note 11)	(1,999 8)	(1,045 4)	(37 0)	**(3,082 2)**
Finance leases (notes 10 and 11)	(408 1)	23 1	–	**(385 0)**
	(3,121 8)	(770 0)	(37 0)	**(3,928 8)**
Short term deposits (note 12(b))	1 9	446 8	–	**448 7**
	(3,119 9)	(323 2)	(37 0)	**(3,480 1)**

Notes to the financial statements continued

Year ended 31 March 2008

20 Ultimate and immediate parent company and related party transactions
The ultimate parent undertaking and controlling entity is Severn Trent Plc which is registered in England and Wales The immediate parent undertaking is Severn Trent (W&S) Ltd which is registered in England and Wales Copies of the Annual Report and Accounts of Severn Trent Plc, are available from the General Counsel and 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/reports2008**

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

Regulatory Accounts

Regulatory accounts index

Water Industry Act 1991
Further to the requirements of company law, the directors are required to prepare financial statements which comply with the requirements of Condition F Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Water Services Regulation Authority This additionally requires the directors to

a) Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve months,

b) Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company,

c) Report to the Water Services Regulation Authority changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities,

d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arms length,

e) Keep proper accounting records which comply with Condition F

Diversification and the protection of the core business – Condition F6a
Severn Trent Water Ltd and its subsidiary East Worcester Water Ltd (together referred to as 'the Appointees') hereby advise

a) That in the opinion of the directors, the Appointees will have available to them sufficient financial resources and facilities to enable them to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointees' obligations under the Appointment), and

b) That in the opinion of the directors, the Appointees will for at least the next 12 months, have available to them management resources which are sufficient to enable them to carry out those functions

Tony Wray
Chief Executive
For and on behalf of the board

4 June 2008

Report of the auditors to the Water Services Regulation Authority

Year ended 31 March 2008

Independent auditors' report to the Water Services Regulation Authority (WSRA) and Severn Trent Water Ltd and subsidiary undertakings (the group)
We have audited the Regulatory Accounts of the group which incorporates East Worcester Water Ltd and its other subsidiary undertakings for the year ended 31 March 2008 set out on pages 48 to 61 which comprise

- the regulatory historical cost accounting statements for the group, comprising the regulatory historical cost profit and loss account and the regulatory historical balance sheet, and
- the regulatory current cost accounting statements for the Appointed Business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes numbered 1 to 12 to the current cost financial statements including the statement on accounting policies on which the Regulatory Accounts have been prepared

This report is made, on terms that have been agreed, solely to the company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as water and sewerage undertaker under the Water Industry Act 1991 (the Regulatory Licence) Our audit work has been undertaken so that we might state to the company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the company to meet its obligations under the company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the WSRA, for our audit work, for this report, or for the opinion we have formed

Basis of preparation
The Regulatory Accounts have been prepared in accordance with Condition F of the Regulatory Licence and the Regulatory Accounting Guidelines (being versions 1 04, 2 03, 3 06, 4 03 and 5 04), the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

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

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

The directors' responsibilities for preparing the Regulatory Accounts in accordance with the Regulatory Accounting Guidelines are set in the statement of director's responsibilities for regulatory information on page 45

Our responsibility is to audit the Regulatory Accounts in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit Technical Release 05/03 "Reporting to Regulators of Regulated Entities"

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and the Appointed Business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2 03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4 03 (Guideline for the analysis of operating costs and assets) and whether the regulatory current cost accounting statements on pages 50 to 61 have been properly prepared in accordance with Regulatory Accounting Guidelines 1 04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F of the Regulatory Licence and whether the information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the company circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the company on which we report, which are prepared for a different purpose Our audit report in relation to the statutory accounts of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our Statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a statutory auditors' report and for no other purpose

In those circumstances, to the fullest permitted by law, we do not accept or assume any responsibly to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit

The regulatory historical cost accounting statements on pages 48 to 49 have been drawn up in accordance with Regulatory Accounting Guideline 3 06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied This represents a departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given in note 11

Audit opinion
In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2008 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out in note 2 to the Regulatory Accounts the state of the company's affairs at 31 March 2008 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies

We are also required to report in respect of various specific obligations of the company as set out in its Instrument of Appointment In respect of these obligations, we report that in our opinion

a) proper accounting records have been kept by the Appointees as required by paragraph 3 of Condition F of the Instrument,

b) the information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines 1 04, Regulatory Accounting Guidelines 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,

c) the regulatory historical cost accounting statements on pages 48 to 49 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the company and its appointed business in accordance with the Appointees' Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,

d) The regulatory current cost accounting statements on pages 50 to 61 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
4 June 2008

The maintenance and integrity of the Severn Trent Water's website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters or any changes that may have occurred to the financial statements since they were initially presented on the website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Regulatory accounts – historical cost financial statements

Group profit and loss account year ended 31 March 2008

	Appointed business 2008 £m	Non-appointed business 2008 £m	Inter segment 2008 £m	2008 £m	Appointed business 2007 £m	Non-appointed business 2007 £m	Inter segment 2007 £m	2007 £m
Turnover	1,256 8	9 4	(0 9)	1,265 3	1,195 7	12 3	(1 1)	1,206 9
Operating costs	(683 7)	(13 2)	7 5	(689 4)	(577 9)	(10 5)	1 1	(587 3)
Historical cost depreciation	(201 7)	–	–	(201 7)	(216 0)	–	–	(216 0)
Other operating income	1 7	6 6	(6 6)	1 7	36 2	–	–	36 2
Operating profit	373 1	2 8	–	375 9	438 0	1 8	–	439 8
Other income	1.7	2 2	–	3 9	1 5	2 1	–	3 6
Net interest payable	(166 8)	–	–	(166 8)	(143 7)	–	–	(143 7)
Profit on ordinary activities before taxation	208 0	5 0	–	213 0	295 8	3 9	–	299 7
Taxation on profit on ordinary activities								
Current tax	(62 0)	(2 8)	–	(64 8)	(71 6)	–	–	(71 6)
Deferred tax	21 5	–	–	21 5	39 3	–	–	39 3
Taxation	(40 5)	(2 8)	–	(43 3)	(32 3)	–	–	(32 3)
Profit on ordinary activities after taxation	167 5	2 2	–	169 7	263 5	3 9	–	267 4
Dividend	(260 9)	(2 2)	–	(263 1)	(651 9)	(3 9)	–	(655 8)
Retained loss for the financial year	(93 4)	–	–	(93 4)	(388 4)	–	–	(388 4)

Statement of total recognised gains and losses year ended 31 March 2008

	Appointed business 2008 £m	Non-appointed business 2008 £m	Inter segment 2008 £m	2008 £m	Appointed business 2007 £m	Non-appointed business 2007 £m	Inter segment 2007 £m	2007 £m
Profit for the financial year	167 5	2 2	–	169 7	263 5	3 9	–	267 4
FRS 17 actuarial loss	(38 1)	–	–	(38 1)	(19 8)	–	–	(19 8)
Deferred tax on actuarial loss	10 7	–	–	10 7	5 9	–	–	5 9
Adjustment in respect of tax rate change on deferred tax	0 8	–	–	0 8				
Total recognised gains and losses for the financial year	140 9	2 2	–	143.1	249 6	3 9	–	253 5

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

Group balance sheet as at 31 March 2008

	Notes	Appointed business 2008 £m	Non-appointed business 2008 £m	Inter segment 2008 £m	2008 £m	Appointed business 2007 £m	Non appointed business 2007 £m	Inter segment 2007 £m	2007 £m
Fixed assets									
Tangible assets	11	**5,420 7**	-	-	**5,420 7**	5,216 7	-	-	5,216 7
Investments		-	-	-	-	0 1	-	-	0 1
		5,420 7	-	-	**5,420 7**	5,216 8	-	-	5,216 8
Current assets									
Stocks		**6 2**	-	-	**6 2**	6 0	-	-	6 0
Debtors	11	**301 2**	-	-	**301 2**	274 2	-	-	274 2
Short term deposits		**448 7**	-	-	**448 7**	1 9	-	-	1 9
Infrastructure renewals prepayment		-	-	-	-	3 4	-	-	3 4
		756 1	-	-	**756 1**	285 5	-	-	285 5
Creditors									
amounts falling due within one year									
Overdrafts		**(383 0)**	-		**(383 0)**	(611 7)	-	-	(611 7)
Creditors		**(342 4)**	-	-	**(342 4)**	(396 3)	-	-	(396 3)
Borrowings		**(118 2)**	-	-	**(118 2)**	(134 9)	-	-	(134 9)
Corporation tax payable		**(42 8)**	-	-	**(42 8)**	(44 1)	-	-	(44 1)
Infrastructure renewal accrual		**(30 5)**	-	-	**(30 5)**	-	-	-	-
		(916 9)	-	-	**(916 9)**	(1,187 0)	-	-	(1,187 0)
Net current liabilities		**(160 8)**	-	-	**(160 8)**	(901 5)	-	-	(901 5)
Total assets less current liabilities		**5,259 9**	-	-	**5,259 9**	4,315 3	-	-	4,315 3
Creditors									
amounts falling due after more than one year									
Borrowings		**(3,427 6)**	-	-	**(3,427 6)**	(2,375 2)	-	-	(2,375 2)
Other creditors		**(4 1)**	-	-	**(4 1)**	(3 0)	-	-	(3 0)
		(3,431 7)	-	-	**(3,431 7)**	(2,378 2)	-	-	(2,378 2)
Provision for liabilities and charges									
– Deferred taxation		**(450 9)**	-	-	**(450 9)**	(484 4)	-	-	(484 4)
– Other provisions		**(42 5)**	-	-	**(42 5)**	(4 6)	-	-	(4 6)
Deferred income		**(38 8)**	-	-	**(38 8)**	(41 7)	-	-	(41 7)
Pension deficit		**(80 3)**	-	-	**(80 3)**	(73 8)	-	-	(73 8)
Net assets		**1,215 7**	-	-	**1,215 7**	1,332 6	-	-	1,332 6
Capital and reserves									
Called up share capital		**1,000 0**	-	-	**1,000 0**	1,000 0	-	-	1,000 0
Profit and loss account		**215.7**	-	-	**215 7**	332 6	-	-	332 6
Shareholders' funds		**1,215 7**	-	-	**1,215 7**	1,332 6	-	-	1,332 6

Regulatory accounts – current cost financial statements

Group profit and loss account· appointed business year ended 31 March 2008

	Notes	2008 £m	2007 £m
Turnover	3a	**1,256 8**	1,195 7
Current cost operating costs	3d	**(939 6)**	(837 6)
Other operating income	3b	**1.6**	34 1
		318 8	392 2
Working capital adjustment	3c	**(0 4)**	3 4
Current cost operating profit		**318 4**	395 6
Other income		**1 7**	1 5
Net interest payable		**(166 8)**	(143 7)
Financing adjustment		**104 9**	116 2
Current cost profit before taxation		**258 2**	369 6
Taxation on profit on ordinary activities			
Current tax		**(62.0)**	(71 6)
Deferred tax		**21 5**	39 3
Taxation		**(40 5)**	(32 3)
Current cost profit attributable to shareholder after taxation		**217 7**	337 3
Dividend		**(260 9)**	(651 9)
Current cost loss retained		**(43 2)**	(314 6)

Statement of total recognised gains and losses appointed business year ended 31 March 2008

	2008 £m	2007 £m
Current cost profit for the financial year	**217 7**	337 3
FRS 17 actuarial loss	**(38 1)**	(19 8)
Deferred tax on actuarial loss	**10 7**	5 9
Adjustment in respect of tax rate change on deferred tax	**0 8**	–
Total recognised gains and losses for the financial year	**191 1**	323 4

Group balance sheet appointed business as at 31 March 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	4c	**29,937 4**	28,651 5
Third party contributions since 1989-90		**(1,507 8)**	(1,388 3)
		28,429 6	27,263 2
Working capital		**28 7**	11 8
Short term deposits		**448 7**	1 9
Overdrafts		**(383 0)**	(611 7)
Infrastructure renewals (accrual)/prepayment		**(30 5)**	3 4
Net operating assets		**28,493 5**	26,668 6
Non operating assets and liabilities			
Borrowings		**(118.2)**	(134 9)
Non trade debtors		**3 5**	0 1
Non trade creditors due within one year		**(67.2)**	(128 0)
Investments		**-**	0 1
Corporation tax payable		**(42 8)**	(44 1)
Total non operating assets and liabilities		**(224 7)**	(306 8)
Creditors amounts falling due after more than one year			
Borrowings		**(3,427 6)**	(2,375 2)
Other creditors		**(4 1)**	(3 0)
		(3,431 7)	(2,378 2)
Provision for liabilities and charges			
- Deferred taxation		**(450 9)**	(484 4)
- Other provisions		**(42 5)**	(4 6)
Pension deficit		**(80 3)**	(73 8)
Net provisions		**(573 7)**	(562 8)
Total assets		**24,263 4**	23,420 8
Capital and reserves			
Called up share capital		**1,000 0**	1,000 0
Profit and loss account	6	**(302 8)**	(236 1)
Current cost reserve	7	**23,566 2**	22,656 9
		24,263 4	23,420 8

Regulatory accounts – current cost financial statements continued

Group cash flow statement year ended 31 March 2008

	Notes	2008 £m	Appointed business 2008 £m	2008 £m	Non-appointed business 2008 £m	2008 £m	Total 2008 £m	2007 £m	Appointed business 2007 £m	2007 £m	Non appointed business 2007 £m	2007 £m	Total 2007 £m
Net cash inflow from operating activities	8		671 3		5 0		676 3		640 4		3 9		644 3
Returns on investments and servicing of finance													
Interest received		8 8		-		8 8		1 3		-		1 3	
Interest paid		(128 0)		-		(128 0)		(118 5)		-		(118 5)	
Interest element of finance lease rental payments		(20 6)		-		(20 6)		(20 1)		-		(20 1)	
Net cashflow from returns on investment and servicing of finance			(139 8)		-		(139 8)		(137 3)		-		(137 3)
Taxation			(49 9)		(2 8)		(52 7)		(68 6)		-		(68 6)
Capital expenditure													
Purchase of tangible fixed assets		(479 7)		-		(479 7)		(381 3)		-		(381 3)	
Grants and contributions received		44 2		-		44 2		34 5		-		34 5	
Infrastructure renewals expenditure		(111 3)		-		(111 3)		(98 1)		-		(98 1)	
Disposal of fixed assets		2 9		-		2 9		41 2		-		41 2	
Sale of other fixed asset investments		-		-		-		-		-		-	
Net cashflow from investing activities			(543 9)		-		(543 9)		(403 7)		-		(403 7)
Equity dividends paid			(260 9)		(2 2)		(263 1)		(651 9)		(3 9)		(655 8)
Net cash outflow before management of liquid resources and financing			(323 2)		-		(323 2)		(621 1)		-		(621 1)
Management of liquid resources			(446 8)		-		(446 8)		0 2		-		0 2
Net cashflow before financing			(770 0)		-		(770 0)		(620 9)		-		(620 9)
Financing													
Finance leases repaid		(23 1)				(23 1)		(33 7)		-		(33 7)	
Loans advanced		1,124 3				1,124 3		490 2		-		490 2	
Loans repaid		(102 5)				(102 5)		(57 0)		-		(57 0)	
			998 7		-		998 7		399 5		-		399 5
Net increase/(decrease) in cash			228 7		-		228 7		(221 4)		-		(221 4)

Reconciliation of net cash flow to movement in net debt

	2008 £m	Appointed business 2008 £m	2008 £m	Non-appointed business 2008 £m	2008 £m	Total 2008 £m	2007 £m	Appointed business 2007 £m	2007 £m	Non appointed business 2007 £m	2007 £m	Total 2007 £m
Net increase/(decrease) in cash as above	228 7		-		228 7		(221 4)		-		(221 4)	
Cash flow from movement in net debt and financing	(998 7)		-		(998 7)		(399 5)		-		(399 5)	
Cash flow from movement in liquid resources	446 8		-		446 8		(0 2)		-		(0 2)	
Change in net debt resulting from cash flows		(323 2)		-		(323 2)		(621 1)		-		(621 1)
Rolled up interest on debt		(37 0)		-		(37 0)		(14 0)		-		(14 0)
Rolled up interest on finance leases		-		-		-		-		-		-
Increase in net debt		(360 2)		-		(360 2)		(635 1)		-		(635 1)
Opening net debt		(3,119 9)		-		(3,119 9)		(2,484 8)		-		(2,484 8)
Closing net debt		(3,480 1)		-		(3,480 1)		(3,119 9)		-		(3,119 9)

Notes to the current cost financial statements year ended 31 March 2008

1 Regulatory Reporting

The regulatory accounts as reported on pages 48 to 61 should be read in conjunction with the operating and financial review on pages 1 to 15 for further understanding of the performance of the business

It should also be noted that the company has reassessed its forecast for infrastructure renewal expenditure and thus the infrastructure renewals charge has been increased to reflect this

In particular, attention is drawn to pages 16 to 17 of the directors' report which sets out the link between directors' pay and standards of performance and page 18 of the directors' report in respect of the statement of disclosure of information to auditors

2 Accounting policies

a) Basis of preparation

The regulatory financial statements have been prepared on a group basis for Severn Trent Water Ltd and its subsidiary undertakings to meet the requirements of the Water Services Regulation Authority (WSRA)

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

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

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

b) General

The accounting policies used are the same as those adopted in the statutory historical cost financial statements on pages 23 to 44, except as set out below

c) Tangible fixed assets

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

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

i) Non infrastructure assets

Specialised operational assets

The gross replacement cost of specialised operational assets has been derived using the latest cost information provided by the AMP

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

Non specialised operational assets

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

ii) Infrastructure assets

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

iii) Other assets

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

iv) Surplus land

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

d) Grants and other third party contributions

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

Regulatory accounts – current cost financial statements continued

Notes to the current cost financial statements year ended 31 March 2008 continued

2 Accounting policies continued

e) Real financial capital maintenance adjustments

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

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

Financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable

3 Analysis of current cost turnover and operating costs

a) Turnover

	Water services £m	Sewerage services £m	2008 Total £m	Water services £m	Sewerage services £m	2007 Total £m
Unmeasured – household	**318 0**	**347 1**	**665.1**	306 6	331 6	638 2
Unmeasured – non household	**2 5**	**4 0**	**6 5**	2 5	4 4	6 9
Unmeasured	**320 5**	**351 1**	**671 6**	309 1	336 0	645 1
Measured – household	**113 9**	**129 4**	**243 3**	105 0	112 7	217 7
Measured – non household	**115 1**	**140 1**	**255 2**	110 5	137 3	247 8
Measured	**229 0**	**269 5**	**498.5**	215 5	250 0	465 5
Trade effluent	**–**	**17 6**	**17 6**	–	16 0	16 0
Large user tariffs and special agreements	**24 0**	**26 9**	**50 9**	24 0	28 4	52 4
Revenue grants	**–**	**0 4**	**0 4**	–	0 3	0 3
Non potable large user tariffs and special agreements	**–**	**–**	**–**	–	–	–
Rechargeable works	**1 5**	**0 2**	**1 7**	1 6	0 3	1 9
Bulk supplies/inter company	**4 2**	**–**	**4 2**	3 9	–	3 9
Other	**4 1**	**0 3**	**4 4**	4 1	0 5	4 6
Third parties	**9 8**	**0 5**	**10 3**	9 6	0 8	10 4
Other sources	**3 2**	**4 3**	**7 5**	2 2	3 8	6 0
Total turnover	**586 5**	**670 3**	**1,256 8**	560 4	635 3	1,195 7

b) Other operating income						
Current cost profit on disposal of tangible fixed assets	**0 8**	**0 8**	**1 6**	4 8	29 3	34 1
Other operating income	**–**	**–**	**–**	–	–	–
Total	**0 8**	**0 8**	**1 6**	4 8	29 3	34 1
c) Working capital adjustment	**(0 1)**	**(0 3)**	**(0 4)**	1 1	2 3	3 4

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets

	Water services			Sewerage services								2008 Business analysis
	Resources and treatment £m	Distribution £m	Water services subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal subtotal £m	Sewerage services subtotal £m	Customer services £m	Scientific services £m	Cost of regulation £m	Total £m
Direct costs												
Employment costs	6 2	15 1	21 3	7 9	12 3	6 6	18 9	26 8				
Power	8 4	13 7	22 1	4 0	9 8	-	9 8	13 8				
Agencies	-	-	-	-	-	-	-	-				
Hired and contracted	1 8	11 6	13 4	9 9	6 6	13 0	19 6	29 5				
Associated companies	1 3	0 1	1 4	-	-	-	-	-				
Materials and consumables	6 6	2 8	9 4	1 1	3 4	6 5	9 9	11 0				
Service charges	10 5	-	10 5	3 2	5 3	-	5 3	8 5				
Bulk supply imports	9 1	-	9 1	-	-	-	-	-				
Other direct costs	-	5 4	5 4	1.3	-	0 1	0 1	1 4				
Total direct costs	43 9	48 7	92 6	27 4	37 4	26 2	63 6	91 0	36 3	13 0	5 0	237 9
General and support	27 1	25 9	53 0	22 4	37 1	17 0	54 1	76 5	9 9	2 0	1 2	142.6
Functional expenditure	71 0	74 6	145.6	49 8	74 5	43 2	117 7	167 5	46 2	15 0	6 2	380 5
Business activities recharge			30 9					36 5	(46 2)	(15 0)	(6 2)	-
Rates			35 9					21 1				57 0
Doubtful debts			10 6					12 1				22 7
Exceptional items			27 2					36 1				63 3
			250 2					273 3				523 5
Services for third parties			13 0					2 0				15 0
Total operating expenditure			263 2					275 3				538 5
Capital costs												
Infrastructure renewals charge	1 5	94 0	95 5	49.7			-	49 7				145 2
Current cost depreciation	52 1	48 6	100 7	26 0	100 5	31 1	131 6	157 6				258 3
Amortisation of deferred income			(1 3)					(1 5)				(2 8)
Business activity capital costs			-					-				-
			194 9					205 8				400 7
Services for third parties depreciation			0 4					-				0 4
Total capital maintenance			195 3					205 8				401 1
Total operating costs			458 5					481 1				939 6
Analysis of tangible fixed assets												
Service activities	1,695 2	7,359 0	9,054 2	18,412 4	1,692 9	340 8	2,033 7	20,446 1				29,500 3
Business activities			128 7	25 4			102 8	128 2				256 9
Service totals			9,182 9	18,437 8			2,136 5	20,574.3				29,757 2
Services for third parties			180 2					-				180 2
Total			9,363 1					20,574 3				29,937 4

Included within customer service costs are payments amounting to £4 5 million (2007 £3 5 million) to the Severn Trent Trust Fund

The tables on the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guideline number 4 03 on the analysis of operating costs and assets Direct costs have been charged directly to the service to which they relate General and support costs are where possible allocated directly to the service to which they relate Any remaining general and support costs which cannot be directly allocated to a service are then allocated over the service activity costs on a pro rata basis, based on the value of direct cost and overhead costs already directly allocated Business activity costs are analysed firstly on a direct basis, then together with the general and support costs allocated, are apportioned again over the service activity using relevant activity drivers where possible

Regulatory accounts – current cost financial statements continued

Notes to the current cost financial statements year ended 31 March 2008 continued

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets

	Water services			Sewerage services					2007 Business analysis			
	Resources and treatment £m	Distribution £m	Water services subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment /disposal subtotal £m	Sewerage services subtotal £m	Customer services £m	Scientific services £m	Cost of regulation £m	Total £m
Direct costs												
Employment costs	6 1	16 4	22 5	7 5	11 6	6 8	18 4	25 9				
Power	13 9	21 3	35 2	3 4	14 9	0 3	15 2	18 6				
Agencies	–	–	–	–	–	–	–	–				
Hired and contracted	1 3	14 4	15 7	9 6	3 6	12 1	15 7	25 3				
Associated companies	0 9	0 1	1 0	2 9	0 4	1 9	2 3	5 2				
Materials and consumables	6 0	2 9	8 9	1 1	3 1	6 2	9 3	10 4				
Service charges	9 8	0 1	9 9	3 2	5 9	–	5 9	9 1				
Bulk supply imports	8 1	–	8 1	–	–	–	–	–				
Other direct costs	1 2	2 5	3 7	1 5	0 1	0 3	0 4	1 9				
Total direct costs	47 3	57 7	105 0	29 2	39 6	27 6	67 2	96 4	32 4	11 5	4 6	249 9
General and support	24 0	22 3	46 3	21 6	36 9	13 2	50 1	71 7	7 9	3 0	1 0	129 9
Functional expenditure	71 3	80 0	151 3	50 8	76 5	40 8	117 3	168 1	40 3	14 5	5 6	379 8
Business activities recharge			28 6					31 8	(40 3)	(14 5)	(5 6)	–
Rates			36 0					19 7				55 7
Doubtful debts			10 4					11 9				22 3
Exceptional items			1 1					1 9				3 0
			227 4					233 4				460 8
Services for third parties			12 3					2 4				14 7
Total operating expenditure			239 7					235 8				475 5
Capital costs												
Infrastructure renewals charge	1 5	68 5	70 0	32 3	–	–	–	32 3				102 3
Current cost depreciation	52 0	49 5	101 5	24 9	93 1	42 6	135 7	160 6				262 1
Amortisation of deferred income			(1 3)					(1 5)				(2 8)
Business activity capital costs			0 1					–				0 1
			170 3					191 4				361 7
Services for third parties depreciation			0 4					–				0 4
Total capital maintenance			170 7					191 4				362 1
Total operating costs			410 4					427 2				837 6
Analysis of tangible fixed assets												
Service activities	1,625 9	7,035 2	8,661 1	17,667 2	1,562 9	331 2	1,894 1	19,561 3				28,222 4
Business activities			130 1	23 0			102 0	125 0				255 1
Service totals			8,791 2	17,690 2			1,996 1	19,686 3				28,477 5
Services for third parties			174 0					–				174 0
Total			8,965 2					19,686 3				28,651 5

e) Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for 2007 in respect of infrastructure assets amounted to £21 1 million on water services (2007 £23 8 million) and £14 1 million for sewerage services (2007 £20 4 million)

Expenditure on reactive and planned maintenance included in operating costs for 2007 in respect of non infrastructure assets amounted to £10 9 million on water services (2007 £9 9 million) and £30 7 million for sewerage services (2007 £29 2 million)

4 Analysis of tangible fixed assets by asset type within service

a) Water services tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non specialised operational assets £m	Infra structure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2007	2,164 3	112 5	7,841 4	321 0	10,439 2
RPI and other adjustments	79 4	4 1	294 4	11 0	388 9
Additions	84 0	2 6	53 2	29 3	169 1
Disposals and amounts written off	(7 8)	(0 5)	–	(6 9)	(15 2)
At 31 March 2008	**2,319 9**	**118 7**	**8,189 0**	**354 4**	**10,982 0**
Depreciation					
At 1 April 2007	1,217 9	35 5	–	220 6	1,474 0
RPI and other adjustments	46 5	1 3	–	8 1	55 9
Charge for year	70 8	2 5	–	27 8	101 1
Disposals and amounts written off	(7 9)	(0 4)	–	(6 2)	(14 5)
At 31 March 2008	**1,327 3**	**38 9**	**–**	**250 3**	**1,616 5**
Net book value					
At 31 March 2008	**992 6**	**79 8**	**8,189 0**	**104 1**	**9,365 5**
At 1 April 2007	946 4	77 0	7,841 4	100 4	8,965 2

b) Sewerage services tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non specialised operational assets £m	Infra structure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2007	4,138 4	129 8	17,429 0	297 9	21,995 1
RPI and other adjustments	150 6	4 8	655 4	11 1	821 9
Additions	211 3	2 7	73 3	23 3	310 6
Disposals and amounts written off	(50 1)	(0 5)	–	(6 8)	(57 4)
At 31 March 2008	**4,450 2**	**136 8**	**18,157 7**	**325 5**	**23,070 2**
Depreciation					
At 1 April 2007	2,086 7	33 9	–	188 2	2,308 8
RPI and other adjustments	79 5	1 3	–	7 8	88 6
Charge for year	125 9	2 4	–	29 3	157 6
Disposals and amounts written off	(50 0)	(0 5)	–	(6 2)	(56 7)
At 31 March 2008	**2,242 1**	**37 1**	**–**	**219 1**	**2,498 3**
Net book value					
At 31 March 2008	**2,208 1**	**99 7**	**18,157 7**	**106 4**	**20,571 9**
At 1 April 2007	2,051 7	95 9	17,429 0	109 7	19,686 3

Notes to the current cost financial statements year ended 31 March 2008 continued

4 Analysis of tangible fixed assets by asset type within service continued

c) Total tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non specialised operational assets £m	Infra structure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2007	6,302 7	242 3	25,270 4	618 9	32,434 3
RPI and other adjustments	230 0	8 9	949 8	22 1	1,210 8
Additions	295 3	5 3	126 5	52 6	479 7
Disposals and amounts written off	(57 9)	(1 0)	–	(13 7)	(72 6)
At 31 March 2008	**6,770 1**	**255 5**	**26,346 7**	**679 9**	**34,052 2**
Depreciation					
At 1 April 2007	3,304 6	69 4	–	408 8	3,782 8
RPI and other adjustments	126 0	2 6	–	15 9	144 5
Charge for year	196 7	4 9	–	57 1	258 7
Disposals and amounts written off	(57 9)	(0 9)	–	(12 4)	(71 2)
At 31 March 2008	**3,569 4**	**76 0**	**–**	**469 4**	**4,114.8**
Net book value					
At 31 March 2008	**3,200 7**	**179 5**	**26,346 7**	**210 5**	**29,937 4**
At 1 April 2007	2,998 1	172 9	25,270 4	210 1	28,651 5

5 Working capital

	2008 £m	2007 £m
Stocks	**6 2**	6 0
Trade debtors		
Measured household	**32 3**	31 7
Unmeasured household	**54 4**	49 5
Measured non household	**37 4**	35 3
Unmeasured non household	**1 1**	0 2
Other	**4 3**	7 2
Measured income accrual	**119 3**	108 7
Prepayments and other debtors	**48 9**	41 5
Trade creditors	**(15 7)**	(10 1)
Deferred income – customer advance receipts	**(104 8)**	(96 5)
Capital creditors and accruals	**(59 4)**	(85 1)
Accruals and other creditors	**(95 3)**	(76 6)
	28 7	11 8

6 Reserves – profit and loss account

	£m
At 1 April 2007	(236 1)
Retained current cost loss for the year	(43 2)
Share based payments	3 1
FRS 17 actuarial loss	(38 1)
Deferred tax on actuarial loss	10 7
Adjustment in respect of rate change on deferred tax	0 8
At 31 March 2008	**(302 8)**

7 Reserves – current cost reserve

	2008 £m	2007 £m
At 1 April	**22,656 9**	21,538 3
AMP adjustment		-
RPI adjustments		
Fixed assets	**1,066 3**	1,299 3
Working capital	**0 4**	(3 4)
Financing	**(104 9)**	(116 2)
Grants and third party contributions	**(52 5)**	(61 1)
At 31 March	**23,566 2**	22,656 9

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

	2008 £m	2007 £m
Current cost operating profit	**318 4**	395 6
Working capital adjustment	**0 4**	(3 4)
Working capital changes	**8 8**	(99 8)
Other income	**1 7**	1 5
Current cost depreciation after amortisation of deferred income	**255 9**	259 8
Current cost profit on disposal of tangible fixed assets	**(1 6)**	(34 1)
Infrastructure renewals charge	**145 2**	102 3
Movement in provisions including pensions	**(57 5)**	18 5
Net cash inflow from operating activities	**671 3**	640 4

9 Analysis of net debt
Interest rate risk profile

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Maturity profile				
Less than one year	39 3	78 9	–	118 2
Between one and two years	145 4	29 9	–	175 3
Between two and five years	76 5	45 7	–	122 2
Between five and twenty years	511 2	1,168 2	171 9	1,851 3
In more than twenty years	421 5	72 9	784 4	1,278 8
Total borrowings	1,193 9	1,395 6	956 3	3,545 8
Overdrafts	-	388 0	–	383 0
Short term deposits	-	(448 7)	–	(448 7)
Net debt as at 31 March 2008	1,193 9	1,329 9	956 3	3,480 1

10 Reconciliation of HCA operating profit to CCA operating profit

	2008 £m	2007 £m
HCA operating profit per regulatory accounts	**375 9**	439 8
Less non appointed activities	**(2 8)**	(1 8)
Add back inter segment	**-**	-
Sub total HCA accounts	**373 1**	438 0
Less difference in profit on disposals	**(0 1)**	(2 0)
Add back working capital adjustment	**(0 4)**	3 4
Add HCA depreciation including infrastructure renewals charge	**322 4**	321 1
Less CCA depreciation	**(258 7)**	(262 6)
Less infrastructure renewals charge	**(117 9)**	(102 3)
CCA operating profit	**318 4**	395 6

As in previous years the principal reconciling item between the Historical Cost profit and the Current Cost profit is the difference in depreciation charges

Regulatory accounts – current cost financial statements continued

Notes to the current cost financial statements year ended 31 March 2008 continued

11 Reconciliation of historic balance sheet per statutory accounts to historic balance sheet in regulatory accounts
In preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 'Tangible Fixed Assets' However, for the purposes of the Regulatory Accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a consistent basis with prior years A reconciliation to the balance sheet shown in the statutory accounts is set out below

Fixed assets

	2008 £m	2007 £m
Infrastructure assets – cost		
As per regulatory accounts	**7,603 4**	7,218 3
Adjustment to opening balance	**1,254 7**	1,158 1
Disposal in year	**–**	(1 4)
Infrastructure renewals expenditure capitalised in year	**111 3**	98 0
Cost as per statutory accounts	**8,969 4**	8,473 0
Infrastructure assets – depreciation		
As per regulatory accounts	**2,182 7**	2,001 6
Adjustment to opening balance	**1,251.3**	1,150 4
Disposal in year	**–**	(1 4)
Depreciation charge in year	**117 9**	102 3
Depreciation as per statutory accounts	**3,551 9**	3,252 9
Infrastructure assets – net		
As per regulatory accounts	**5,420 7**	5,216 7
Infrastructure	**(3 2)**	3 4
Net book values as per statutory accounts	**5,417 5**	5,220 1
Debtors		
As per regulatory accounts	**301 2**	274 2
Non appointed business debtors	**–**	–
Total debtors as per statutory accounts	**301.2**	274 2

Deferred income – grants and contributions
In the statutory accounts deferred income relating to grants and contributions of £38 8 million is classified as follows
- Creditors due within one year £2 7 million
- Creditors due after more than one year £36 1 million

12 Regulatory capital values

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

The projected outturn for the company's RCV from the December 2004 determination is as follows

At 31 March

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Per determination (at 2002/03 prices)	4,853	4,981	5,107	5,191	5,292
Actual/estimated outturn (at average prices)	5,209	5,546	5,922	6,238	6,519

Regulatory capital values at 2007/08 prices

	2008 £m
Opening regulatory capital value for the year	**5,546**
Indexation	**230**
Opening regulatory capital value at average 2007/08 prices	**5,776**
Capital expenditure	**522**
Infrastructure renewals expenditure	**96**
Grants and contributions	**(41)**
Depreciation	**(287)**
Infrastructure renewals charge	**(93)**
Outperformance of regulatory assumptions	**(51)**
Closing regulatory capital value	**5,922**
Average regulatory capital value	**5,849**

The RCVs in this table are based on those published by Ofwat in its letter RD08/06, inflated to 2007/08 prices The value of the RCV is protected against inflation by increasing the value each year by RPI

Capital expenditure and infrastructure renewals expenditure assumed in setting price limits are added to the RCV Price setting assumptions on current cost depreciation, the infrastructure renewals charge, and capital grants and contributions received are deducted each year

A company has an incentive to outperform Ofwat's regulatory assumptions and earn a higher rate of return than was assumed when setting price limits The RCV is the mechanism used to reflect past capital outperformance and transfer the benefit of this to customers through lower price limits The level of outperformance is assessed by comparing net actual capital expenditure in the year with Ofwat projections, with the outperformance adjustment deducted from the RCV The benefits of the outperformance are passed on to customers five years after it has been achieved

The RCV grows in real terms in the period to 2010, reflecting the scale of the capital programme

Five year summary – unaudited

At 2007/2008 outturn prices

	2008 £m	(Restated) 2007 £m	(Restated) 2006 £m	(Restated) 2005 £m	(Restated) 2004 £m
Profit and loss account					
Turnover	**1,256 8**	1,291 7	1,249 7	1,132 6	1,110 7
Current cost operating costs	**(939 6)**	(904 8)	(857 6)	(830 6)	(782 5)
Other operating income	**1 6**	36 8	3 4	9 4	22 1
	318 8	423 7	395 5	311 4	350 3
Working capital adjustment	**(0 4)**	3 7	1 8	2 3	2 5
Current cost operating profit	**318 4**	427 4	397 3	313 7	352 8
Other income	**1 7**	1 6	3 7	3 1	3 1
Net interest payable	**(166 8)**	(155 2)	(143 4)	(148 6)	(145 5)
Financing adjustment	**104 9**	125 5	82 8	105 3	82 6
Current cost profit before taxation	**258 2**	399 3	340 4	273 5	293 0
Taxation	**(62 0)**	(77 3)	(64 1)	12 2	(25 4)
Deferred tax	**21 5**	42 5	(44 0)	(44 0)	(47 4)
Current cost profit attributable to shareholders	**217 7**	364 5	232 3	241 7	220 2
Dividend	**(260 9)**	(704 2)	(169 4)	(168 1)	(185 7)
Current cost (loss)/profit retained	**(43 2)**	(339 7)	62 9	73 6	34 5
	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Balance Sheet					
Fixed assets					
Tangible assets	**29,937 4**	31,164 0	30,278 5	30,395 3	30,053 1
Third party contributions since 1989/90	**(1,507 8)**	(1,510 0)	(1,411 6)	(1,357 3)	(1,287 1)
	28,429 6	29,654 0	28,866 9	29,038 0	28,766 0
Working capital	**28 7**	12 8	(77 7)	(79 5)	(74 3)
Short term deposits	**448 7**	2 1	2 3	–	–
Overdrafts	**(383 0)**	(665 3)	(434 6)	–	–
Infrastructure renewals (accrual)/prepayment	**(30 5)**	3 7	8 6	–	–
Cash and investments	**–**	–	–	3 0	0 8
Net operating assets	**28,493 5**	29,007 3	28,365 5	28,961 5	28,692 5
Non operating assets and liabilities					
Borrowings	**(118 2)**	(146 8)	(102 9)	–	–
Non trade debtors	**3 5**	0 1	1 7	11 4	12 0
Non trade creditors due within one year	**(67 2)**	(139 2)	(39 5)	(423 6)	(430 1)
Investments	**–**	0 1	0 1	–	–
Corporation tax payable	**(42 8)**	(48 0)	(60 6)	–	–
Total non operating assets and liabilities	**(224 7)**	(333 8)	(201 2)	(412 2)	(418 1)
Creditors amounts falling due after more than one year					
Borrowings	**(3,427 6)**	(2,583 5)	(2,231 4)	–	–
Other creditors	**(4 1)**	(3 3)	(3 7)	–	–
Creditors due after one year	**–**	–	–	(2,441 7)	(2,408 0)
	(3,431 7)	(2,586 8)	(2,235 1)	(2,441 7)	(2,408 0)
Provision for liabilities and charges					
– Deferred taxation	**(450 9)**	(526 9)	(605 6)	(593 1)	(567 0)
– Other provisions	**(42 5)**	(5 0)	(7 3)	(13 2)	(0 4)
Pension deficit	**(80 3)**	(80 3)	(119 4)	(176 5)	–
Net provisions	**(573 7)**	(612 2)	(732 3)	(782 8)	(567 4)
Net assets employed	**24,263 4**	25,474 5	25,196 9	25,324 8	25,299 0
Capital and reserves					
Called up share capital	**1,000 0**	1,087 7	1,113 4	1,149 0	1,179 0
Profit and loss account	**(302 8)**	(256 8)	103 1	20 2	135 0
Current cost reserve	**23,566 2**	24,643 6	23,980 4	24,155 6	23,985 0
	24,263 4	25,474 5	25,196 9	25,324 8	25,299 0

The profit and loss account and balance sheet for the year ended 31 March 2006 has been restated to reflect the revision to the disclosure requirements arising from the amendments to Regulatory Accounting Guidelines 1 04 and 3 06

The profit and loss accounts and balance sheets for the years ended 31 March 2005, and 31 March 2004 and have not been restated to reflect the revision to disclosure requirements arising from the revision to Regulatory Accounting Guidelines 1 04 and 3 06

Supplementary Regulatory Accounting Disclosures – unaudited

Year ended 31 March 2008

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

a) Borrowings or sums lent

Sums borrowed by the Appointees during the year from associated companies were

			Principal amounts £m	Repayment dates	Interest rates between %
Severn Trent Utilities Finance Plc	Borrowed	index linked	400 0	2057-2067	1 457-1 6675 plus RPI
	Borrowed		37 8	2012-2029	6 months LIBOR plus 0 19-035bp

Sums borrowed repaid by the Appointees during the year to associated companies were

Severn Trent Utilities Finance Plc	Repaid		27 5

b) Dividends paid

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

The amount declared is expected to vary each year as the impact of these factors changes The ordinary dividend declared and paid by the company in 2007/08 amounted to £263 1 million (2007 £79 8 million), being 26 31p per share (2007 7 98p per share) During the prior year a special dividend of 57 6p per share was paid

c) Transfer of assets/liabilities

During the course of the year the Appointees did not acquire any assets/liabilities from any associated business

d) Supply of services

Services supplied by the Appointees to associated companies

Nature of transactions	Company	Terms	£m
Rental of office accommodation	Various	Market rent	0 5
Service charges in respect of payroll, legal, transport and other	Various	Cost	1 5
Water, tankering, reception, treatment and disposal of waste	Various	Market rates	0 7
			2 7

Services supplied to the Appointees by associated companies

Nature of transactions	Company	Competitive letting	Other market testing	No market	Total turnover £m
Asset management	Cognica Ltd	0 1			1 1
Provision of customer care facilities	Complete Credit Management Ltd	0 5		0 2	2 8
Insurance services	Derwent Insurance Ltd		3 5		5 2
Analytical services	Severn Trent Laboratories Ltd	6 4	0 2		32 3
Supply of materials	Severn Trent Metering Services Ltd	13 7	0 8	0 1	24 5
Emergency assistance (flood related)	C2C Services Ltd			0 0	27 9
Meter installation and provision of other engineering services	Severn Trent Services Ltd	0 6		0 7	11 6
		21 3	4 5	1 0	105 4

Of the £26 8 million (2007 £40 8 million), £14 6 million (2007 £17 9 million) was spent on investment expenditure

e) Omission of rights

None

f) Waivers

None

g) Guarantees

None

Unaudited financial and operating statistics

Information on Severn Trent Water's financial, customer service, operational and quality performance will be available on its website **www.stwater co uk** from 15 July 2008