SEVERN
TRENT
WATER

Building a sustainable business

Annual Report and Accounts 2010

Contents

Registered number 2366686

At a glance

We provide high quality water and sewerage services to over 3.7 million households and businesses in the Midlands and mid-Wales.

Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from mid-Wales to the East Midlands

Our physical assets include
- **46,000 km of water mains**
- **134 water treatment works**
- **54,000 km of sewers**
- **1,021 sewage treatment works**

Drinking water supplied per day

1.8bn litres

Treated waste water per day

2.7bn litres

Employees

5,686

Turnover £m
2009/10 (up 4.6%)

2010	1,385.3
2009	1,324.9

Operating profit* £m
2009/10 (up 16 9%)

2010	571.0
2009	488.3

*before exceptional items

Our industry
The water industry in England and Wales invests more than £3 billion a year and employs over 27,000 people There are 10 regional water and sewerage companies in England and Wales We are seeking ways to address the long term challenges the industry faces, including the possible introduction of water trading and other measures to improve the national distribution of water (see 'Our industry' page 4)

Our prices
Every five years, Ofwat, our economic regulator, sets annual price limits for each water company which determine how much income we collect from our customers These five year cycles are referred to as Asset Management Plan (AMP) periods We have just reached the end of the period 2005–10 (AMP4) and are about to enter our next five year regulatory period (AMP5) The price limits for 2010–15 were set in November 2009 (see 'Focusing on the next regulatory period' on page 7)

Our performance
Like all water companies we submit a detailed annual breakdown of our performance to Ofwat each June, known as the June Return This information enables Ofwat to monitor and compare water companies' performances

Our performance is also regulated by the Drinking Water Inspectorate, which is responsible for ensuring that we comply with drinking water quality regulations and the Environment Agency, which controls water abstraction, river pollution and flooding

In addition, we work closely with other agencies, such as the Department for Environment, Food and Rural Affairs (Defra), the Consumer Council for Water, and Natural England as we aim to achieve the highest customer service and environmental standards, while offering our customers the lowest possible prices

Key strengths

- Our bills for customers are now the lowest on average in the UK industry
- We continuously work to improve our performance and deliver cost and operational efficiencies against 20 Key Performance Indicators, each of which is aligned with our long term strategy
- The drinking water and waste water quality we provide is amongst the best in the industry
- We are committed to the long term responsible stewardship of the business, the environment, customers and the communities in which we live and work
- We are led by a focused management team with a clear business plan and strategic direction statement

Our industry

The achievements of the water industry in the 20 years since privatisation are well documented – service to customers has improved, new drinking water standards have been met, tighter environmental standards have been achieved and new investment attracted.

These successes have been driven by an effective regulatory framework which has incentivised companies to become more efficient, so keeping bills lower than they would otherwise have been The framework has also provided investor confidence, allowing companies to attract financing for an investment programme of around £85 billion over the last 20 years to deliver the improvements

However, the successes of the last 20 years have not been without consequences Water company debt has increased significantly, customers face higher bills and carbon emissions have increased In addition, there is a significant projected level of capital investment required over the next 20 years to deliver further statutory environmental improvements and adapt our services and provide asset resilience in the face of climate change

Changing course

Given these circumstances, we believe now is a critical time for all of us with a stake in the industry to question what future direction we should take

We have therefore developed our position on these issues and published a report, entitled 'Changing Course Delivering a sustainable future for the water industry in England and Wales', which sets out six key changes we believe are required to meet these continuing challenges We believe that implementing these changes would deliver better outcomes for customers, investors and the environment The report is available on our website, **www stwater co uk/changingcourse**

We have engaged with our key stakeholders, including those described on page 4, in developing our thinking and we believe there is a degree of consensus about the need for, and the direction of, change

We will continue to develop our thinking on these issues and work with our stakeholders to influence the way in which the sector develops

“There are some very significant challenges ahead and we need to ensure we plan effectively our own destiny”

Michael McKeon
Finance Director

“We've taken the first step in setting out how we believe the industry should change We now want to work with Government, our regulators and other companies to make it happen.”

Tony Ballance
Strategy and Regulation Director

“It's no longer enough just to meet regulatory requirements – regulators and politicians want to know you're prepared to go further As a business that's what we want too – we know we've got a lot more to give, that's one of the reasons we're so excited about the future.”

Tony Wray
Chief Executive

Changing course – six key changes required to meet future challenges

Policy changes
- More flexible implementation of EU Directives to ensure a better trade off between costs and carbon emissions
- Developing competition through water trading, which would also optimise resources nationally rather than just regionally

Regulatory changes
- A more flexible approach to environmental consents to allow for more cost effective approaches
- An improved price setting process to provide the right incentives for sustainable financing, more sustainable solutions and increased innovation

Industry changes
- Companies must take the lead in driving innovation, both in terms of the strategic and technical solutions they pursue and in shaping the wider direction the sector takes

Changes to the institutional framework
- Government should prioritise national policy outcomes and ensure the regulatory framework is set up to deliver them

Utility Company of the Year
Severn Trent Water was named Utility Company of the Year in December 2009

The award judges – a cross section of independent figures from consumer organisations, the industry, trade journalists and the City – commended Severn Trent Water for its "professionalism, willingness to engage and good practice in dealings across the spectrum from customers to the supply chain"

The judges believe "the company's ability to learn the lessons of difficult years and use them to transform performance" will see Severn Trent Water continue to make strides in the future

Chief Executive's review

> **We head into the first year of AMP5 confident that the hard work our people have been doing in recent years makes us well prepared to meet the challenges of the future**

In 2009/10 we continued to deliver what we set out to do in our KPIs and business strategy, focusing on improving our performance and successfully completing AMP4. At the same time we set about preparing our business for the next regulatory period and gearing up for the longer term issues facing the water industry as a whole.

Improving performance

In 2009/10 we faced pressures on two fronts – continuing impact from the economic downturn and the additional challenge of coping with the coldest winter for 30 years Nevertheless, we performed well on the financial front, continued to make process and efficiency improvements throughout our businesses and delivered excellent service

As we reach the end of the regulatory period our performance has improved to position us better for AMP5 AMP4 was not without its difficulties but we used our learning to transform our business, putting our performance and our company in a strong position to meet the challenges of the next five years and beyond

Prepared for the future

Over the past five years we have been setting ever higher standards to achieve better levels of customer satisfaction and improve our environmental, financial and regulatory performance We delivered good results and maintained our dividend promise We significantly reduced customer complaints, tackling sewer flooding and increasing the reliability of water supplies across our region We achieved our own financial targets and those set by Ofwat to meet our ongoing commitment to be the best water and waste water company in the UK, with the highest standards, the lowest possible charges for our customers and with great people

In December 2009 our journey of continuous improvement was recognised by our peers in the utility sector who named us Utility Company of the Year, a prestigious award, one we feel very proud of winning That journey has been paving the way for the next regulatory period, backed by significant lead-in investments to improve our processes and the capabilities of our people Along the way we have invested in systems and technologies, implementing SAP and building our new telemetry systems to improve monitoring of our network and lower our operating costs We rolled out our Safer Better Faster (SBF) process improvement programme to more areas of our business to ensure we work in smarter and leaner ways We made early progress with our future capital plans, and the new Severn Trent Centre in Coventry is already close to completion and ready for us to move in some 1,700 staff this autumn All of which means we enter AMP5 with our plans for the period well advanced

Looking to the longer term

As we make the transition from one regulatory period to another, the water industry in England and Wales is reaching a critical point

We believe we are in a strong position to deal with the challenges ahead Our operational performance, financial strength, geography and low cost base differentiate us from other companies We relish the challenge of finding innovative solutions to tough problems and are firmly committed to delivering the lowest charges in England and Wales for our customers

We are, of course, committed to responsible business conduct Every day we're delivering water and waste water services to our customers, we're investing in local and regional economies, and we're doing this with a focus on minimising our carbon footprint This is the real heart of corporate responsibility and for us it's business as usual It's about keeping our prices down for our customers, being a good, safe and attractive employer and safeguarding the environments in which we work

Last, but by no means least, we have a great team of people in Severn Trent Water and in our supply chain partners Wherever I go in our business I'm impressed by the motivation and commitment of our people, whether they're keeping our customers supplied with quality water, reducing pollution incidents and sewer flooding, producing record levels of renewables, improving customer service metrics in a tough economic environment, or delivering technological solutions and getting it right first time It's thanks to them that we move in to AMP5 with confidence and the kind of strength you would expect from a company with ambitions to be the best water and waste water company in the UK

A. P. Wray

Tony Wray
Chief Executive

Operating and financial review
Our strategy

Our aim is to become the best water and waste water company in the UK, delivering the highest standards, lowest possible charges with great people, through continuous improvement and innovation

Our Strategic Direction Statement (SDS) sets out our direction of travel To develop the statement, we consulted widely with key stakeholders, such as the EA, DWI, Defra, Ofwat, CCWater and Natural England We also carried out detailed market research among our domestic and business customers

The proposals set out in our strategy are based on making the improvements our customers tell us they want, while ensuring that the economic and environmental impacts of our actions are sustainable They also address the complex and demanding long term challenges facing our industry

Key strategic intentions

Our strategic direction is based upon eight key strategic intentions (KSIs) which reflect what matters to our customers and wider stakeholder groups We measure our performance within each KSI against our 20 Key Performance Indicators (KPIs), and organise the information in this report around them

1. Providing a continuous supply of quality water
2. Dealing effectively with waste water
3. Responding to customers' needs
4. Minimising our carbon footprint
5. Having the lowest possible charges
6. Having the right skills to deliver
7. Maintaining investor confidence
8. Promoting an effective regulatory regime

More information www stwater co uk

Focusing on the next regulatory period 2010-2015

Our commitments at a glance

Lower bills on average	Our average household bills (in today's prices) will be £13 lower in 2014-15 than in 2009/10 Our customers will start, and end, the five year period with the lowest average bills of any water and waste water company in England and Wales
Further investment	We are investing around £1 3 million a day in our services, ensuring we continue to deliver a safe, reliable supply of drinking water and carry away and treat waste water effectively
A more efficient water company	We will continually improve the way we work to help keep bills down By 2015, our efficiency improvements will make up £8 of the £13 reduction of the average household bill

Delivering against our KPIs

Our 20 Key Performance Indicators (KPIs) remain the primary basis through which we measure our performance and during the year we continued to improve our scores in many key areas of the business and achieved our targets

Customer service levels showed further improvement, a result of investing in our people, increasing capability and focusing on process and technology improvements – for example, over 100,000 customers registered for our online account management system in its first year We improved performance in customer call resolution, maintained our high performance in job resolution and delivered a 23% reduction in customer written complaints over last year

Water quality improved again in 2009/10, while for the third year running we achieved our leakage target, despite the coldest winter for 30 years Our teams reacted quickly to the prolonged period of freezing temperatures to bring leakage rates back down as rapidly as possible

We also maintained our high standards in control of pollutions and made further improvements, reducing sewer flooding incidents and our continued focus on creating and maintaining a safe working environment resulted in a 16% reduction in lost time incidents over last year

We have improved our debt management processes and helped customers with our WaterSure tariff and Water Direct, a scheme from the Department for Work and Pensions which allows payments direct from benefits to help customers manage their bills Against the backdrop of the downturn in the economy, debtor days performance improved to 32 6 days at March 2010 (March 2009 33 1) although it has become more difficult to collect debt over one year old As a result, we have increased our bad debt charge, which now represents around 2 5% of turnover (£35 0 million), up from around 2 3% (£31 7 million) at the end of last year We continue to monitor developments closely

16%
Improvement in lost time incidents

89%
First time call resolution – billing

23%
Fewer customer written complaints

74%
Employee motivation

The table opposite sets out our actual performance on the KPIs and includes benchmarking against other comparable companies in the water and waste water sector, as well as other companies with similar characteristics in other sectors Our performance is classified in one of three categories, lower quartile, upper quartile or median performance We now have nine KPIs where we are achieving upper quartile performance (2008/09 11), with nine at median (2008/09 8) and two at lower quartile (2008/09 1) The movement between categories is partly due to improved benchmarks, which we update in September every year, but there are still areas where we need to do more For example, on unplanned interruptions, one of the KPIs in the lower quartile, we have not fully addressed issues such as poor network condition and incident response, but we have an action plan in place focused on improving network monitoring and resilience, and how we deal with incidents causing supply interruptions The other KPI in lower quartile, breach of consents, was impacted by non-compliance with processes during some site upgrades or routine maintenance, and again we have taken action to address these issues The implementation of SAP release 2 will help to provide a more structured approach to routine maintenance

Although we have made progress in a number of areas we recognise there is more to do, and as companies in our sector or elsewhere redefine what upper quartile means, our objectives move with them

Looking forward to 2010/11

In our drive for higher standards we have reviewed the measures we will need in the future to demonstrate our progress and to reflect the evolution of the regulatory environment In most cases our objectives and regulatory requirements are unchanged as we move from AMP4 into AMP5 and so the majority of our KPIs, twelve, will remain unchanged

However five KPIs will have improved measures

- KPI 10 Gross capex vs final determination
- KPI 11 Capital process quality to be introduced in 2011/12
- KPI 15 Pollution incidents per (cat 1, 2 and 3) 1,000 properties
- KPI 17 Sewage treatment works – breach of consents
- KPI 19 Net energy use

And two new KPIs will be introduced

- KPI 18 Supply availability, replacing security of supply
- KPI 14 Ofwat efficient billing factor to be introduced in 2011/12, replacing cost to serve per property

We will provide more detail on these during 2010/11

KPI Sewer Flooding Incidents Promoting the proper disposal of fats, oils and greases (FOG)

Last year we outlined this trial as part of our work to reduce sewer flooding through community support This year we are pleased to bring you a further update and some good results

Through a partnership with national charity Community Service Volunteers (CSV), a project called 'Grease Lightening' was set up in south east Birmingham to raise awareness of the problems caused by disposing of FOG down the sink

The scheme has shown positive results The proportion of households in the area that dispose of FOG down the drain reduced from 26% in February 2009 to 17% in October 2009

This also resulted in a reduction in actual sewer flooding incidents in the area There were 52 flooding incidents as a result of FOG between April and November 2008 This reduced to just 17 incidents in the same period in 2009

Basis	KPI	2008/09 performance	2009/10 performance	2009/10 quartile	At a glance
MAT	Lost time incidents per 100,000 hrs worked [1]	0 43	**0 36**	**Upper**	
QR	Employee motivation % [2]	83%	**74%**	**Median**	
MAT	Water quality (test failure rate) ppm	200	**131**	**Upper**	
MAT	Customer written complaints per 1,000 properties [3 4]	6 44	**4 95**	**Upper**	
MAT	First time call resolution for billing % [5]	88%	**89%**	**Median**	
MAT	Unplanned interruptions > 6 hrs per 1,000 properties [3]	7 29	**10.09**	**Lower**	
NPR	Properties at risk of low pressure per 1,000 properties [3 6]	1 21	**0.12**	**Median**	
MAT	First time job resolution % [5]	96 0%	**96 5%**	**Upper**	
QR	Non-performance against regulatory obligations % [5]	10%	**5%**	**Upper**	
AMP	Capex (gross) vs final determination % [7]	5 0%	**6.1%**	**Median**	
MAT	Capital process quality (no defects per £100k) [5]	0 00	**0 07**	**Median**	
ACT	Debtor days [8]	33 1	**32.6**	**Median**	
MAT	Opex vs final determination (UK GAAP) £m [8]	500 9	**492 4**	**Upper**	
MAT	Cost to serve per property £ [9]	236 53	**231 03**	**Upper**	
MAT	Pollution incidents (cat 1, 2 and 3) per 1,000 properties [10 11]	0 08	**0 08**	**Median**	
MAT	Sewer flooding incidents – other causes per 1,000 properties [3]	0 172	**0.131**	**Upper**	
PPS	Sewage treatment works – breach of consents % [10]	0 00%	**0 31%**	**Lower**	
IDX	Security of supply	98	**99**	**Median**	
MAT	Net energy use – kWh/Ml [5 12]	440	**435**	**Upper**	
MLE	Leakage Ml/d [3]	492	**497**	**Median**	

Key Improved quartile Maintained quartile Declined quartile

Notes

MAT = Moving Annual Total
QR = Quarterly Review
NPR = Number of Properties on Register
AMP = Asset Management Plan 4
PPS = Percentage of Population Served
MLE = Maximum Likelihood Estimate
ACT = Year end Actual
IDX = Year end Index

1 Actual performance across all employees and agency staff
2 Performance based on quarterly survey of 10% of permanent employees
3 As reported in June Return to Ofwat Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 11 June 2010
4 Performance excludes properties billed by other water companies
5 Actual performance based wholly or partially on internal data
6 Benchmark has been compiled using data inclusive of information from pressure loggers, previously calculated exclusive of pressure logger data
7 Actual performance based on audited UK GAAP financial statements for AMP4 ended 31 March 2010
8 Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2010
9 Actual performance based on audited regulatory accounts for the year ended 31 March 2010
10 Measure for calendar year to 31 December 2009
11 Actual performance for calendar year 2009 equates to 322 pollution incidents (2008 313)
12 Metrics of this KPI changed from waste water returned in 08/09 to waste water treated in 09/10 Prior year performance has been restated accordingly

Performance

In the final year of AMP4 we continued to improve our financial and operational performance, and make our corporate responsibilities part and parcel of the way we operate and plan for the future At the same time we prepared for AMP5 with lead-in capital investments, putting us in a strong position to meet the challenges of the new regulatory period and beyond

Focus on highest standards

In 2009/10 and throughout AMP4 we continued to improve our standards in water, waste water and customer services while minimising our carbon footprint

KSI Providing a continuous supply of quality water
In 2009 we delivered 99 97% overall compliance with DWI water quality regulatory standards, maintaining one of the best records in the industry We completed our programme of pressure logger deployment and implemented improvements to our network to reduce the numbers of customers experiencing low pressure from 1,546 to 424 and achieve our KPIs

During the year we have made significant organisational changes We designed and introduced a 24/7 shift system, giving us teams available at all times to meet customer needs We have also made major structural changes in our Asset Creation team to create the "expert client" capability we need as part of our "one supply chain" strategy (see page 14) for AMP5 These changes have been built upon and continue the Safer Better Faster (SBF) process improvement programme way of working

The severe winter's snow and ice prevented us reaching parts of our network, caused issues on production works and resulted in a 12% increase in the number of burst pipes Thanks to our teams' rapid response we were still able to achieve Ofwat's leakage target for the third successive year However, there was an increase in the number of unplanned supply interruptions and this will remain an area of focus for us in 2010/11

From AMP4 to AMP5
We have completed a major programme of capital works at our biggest treatment works in Frankley, Birmingham, investing £54 million to enable us to treat 120Ml/d of water pumped from the River Severn at Trimpley works This additional supply resilience and capacity contributed to our improved Security Of Supply Index (SOSI), moving to 99, and fulfilling our section 19 undertaking with Ofwat Additionally we have installed a new works control system and have decommissioned the bulk chlorine gas system used for disinfection and replaced it with a system using on site generation Having removed this safety risk for local residents and employees we will continue our programme of bulk chlorine removal in AMP5

Building on lessons learned following the 2007 floods, we have included in our business plan £165 million of investment to improve the resilience of our supply system We have commenced our planning for AMP5 early and have made a good start to creating the "one supply chain" with our contract partners taking accountability for the detailed design of our schemes as well as their construction

AMP4 highlights included
- completing the Frankley scheme and reducing leakage to achieve a SOSI of 99 and fulfil the section 19 undertaking,
- renewing 1,289km of mains, and
- reinforcing of the network in Derbyshire, Nottinghamshire, Powys and Shropshire to improve water supplies during periods of peak demand

In AMP5 we will improve our asset investment processes using the improved operational and plant performance information, available due to our investments in information technology We will improve the resilience and performance of our assets through better maintenance and operation We will also continue to increase our standards and reduce our costs through process improvement and SBF

KPI Opex vs Final Determination
Operating more efficiently through Safer Better Faster (SBF) process improvement programmes

Based on lean management techniques used widely in manufacturing but relatively uncommon in our own industry, we launched SBF in Severn Trent Water three years ago The programme upskills managers and front line employees and enables them to continuously improve processes and performance

SBF is becoming the way we work on a day to day basis The efficiency gains we are reporting and the new ways of working proved invaluable during the cold winter For instance, we were able to call on staff from our billing call centre and meter reading teams to help tackle our leakage effort, and transfer teams across regions to where they were needed most

KSI Dealing effectively with waste water
In 2009/10 we reduced the number of pollution incidents for the third consecutive year, this time by 12 5% We successfully installed more remote monitoring on our sewerage network and rolled out SBF to around 1,020 staff, saving over £2 million in operating costs whilst responding faster to customers' needs We were also more effective when we responded, with an average of 90% of all jobs resolved first time, an improvement of 20% over two years

Due to a small rise in the number of failures at our works, particularly during the first seven months of 2009, our sewage treatment breach of consents KPI deteriorated to lower quartile We are dissatisfied with this position but as a result of detailed incident investigations we do understand in each case why this has happened We have put in place a detailed performance improvement plan which will ensure the correct level of focus and activity whilst we get performance back on track

From AMP4 to AMP5
Overall, we ended AMP4 with stable serviceability and continued improvements to our network The work we undertook through the period is now bearing fruit, with 15% fewer customer complaints and 12 5% fewer pollution incidents

AMP4 highlights included
- improving river quality through a 95% reduction in the number of unsatisfactory intermittent sewerage discharges,
- sustaining high levels of effluent and sludge quality through a £450 million maintenance programme, and
- generating 176 gigawatt hours of renewable energy from sewerage and waste water, saving the equivalent of 95,766 tonnes of carbon

In AMP5 we will continue to build on the successes we have had in serviceability, customer services and the performance of our people and our assets A significant change for us and our customers in AMP5 will be the transfer of some individual customers' private sewers into water company ownership This is designed to reduce the risk of future liability and repair costs to the benefit of customers and help promote the integrated management of the sewerage network The transfer is currently forecast to happen in October 2011 This will see approximately 37,000 km of existing private sewers transfer into our ownership, along with responsibility for repair and maintenance We also expect that up to 4,000 private pumping stations will transfer on a phased basis over 5-10 years following the sewer transfer We await the consultation on the regulations which will confirm the scope and timing of transfer In the meantime, we have continued to engage with regulators and government to put in place the necessary regulatory and business response, with the aim of delivering an efficient service to customers following transfer

A key challenge we face is the need to strike a good balance between improving river ecology and carbon production Large scale capital projects are not always the best answer We need to become more innovative, finding ways of improving river quality while keeping down carbon emissions and costs One example is catchment management where we are working with farmers and industrialists, providing incentives for them to discharge less effluent or toxic waste at their sites into water courses We have also joined forces with the Environment Agency to explore options around the way sewage treatment discharge consents are set and enforced

KSI Responding to customers' needs
2009/10 was a year of continuous improvement, where we have built on initiatives already in place through staff training and capabilities For the third year running we reduced written customer complaints per 1,000 properties by 23% and our first time call resolution for billing improved slightly to 89% We also maintained our first time job resolution performance at 96 5% Our goal of 34 3 debtor days was harder to achieve because unemployment and insolvencies were higher than anticipated We achieved 32 6 days which, after allowing for increased levels of bad debt write off, was aligned to last year's performance This helped to mitigate the impact on income through a difficult period

KPI Capex (gross) vs Final Determination
AMP4 has seen the completion of a significant number of investment programmes

In Albrighton, Shropshire, we invested a significant amount to improve the infrastructure and, in turn, prevent sewer flooding A £6 million investment provided the solution and took 15 months to complete

This comprised installing a combination of tunnelled and open cut sewers Throughout the scheme we worked hard to minimise the impact on the local community and businesses Public meetings, a resident engineer and drop in centres were fundamental in establishing community wide trust and a shared vision The successful delivery of the Albrighton scheme has directly benefited local internally and externally flooded properties and it now forms a key part of our strategic solution for Albrighton

Following the launch of our online account management service over 100,000 customers have already registered They will now have direct control over their accounts, being able to update personal details including changing address, choosing their payment methods and the option to receive their bill electronically

The recession meant more vulnerable people needed help to pay their bills We invested £5 5 million in the Severn Trent Trust Fund in 2009/10, set up to support customers in genuine need of financial assistance, and helped over 4,000 customers through our WaterSure tariff More people signed up to Water Direct, a third party deduction scheme from the Department for Work and Pensions, and opted to pay their bills through a payment plan or direct debit We also set up a relationship team to work with landlords such as councils and housing associations This will help us tackle bad debt by encouraging landlords to provide us with information that can help track tenants moving in and out of properties, in particular those who move often

From AMP4 to AMP5
We improved performance against many of our customer service KPIs in AMP4, moving them from lower quartile to upper quartile a year ahead of schedule in 2010

One of our challenges in AMP5 will be maintaining high standards while changing the way we measure our performance In AMP4 we measured our progress against one set of performance indicators, in AMP5 we will shift to Ofwat's recently set service incentive measurements For instance, as well as measuring how quickly we answer a call we will also evaluate how happy the customer is with the interaction

Benchmark tests show we are strong on process compliance and have highly trained contact centre staff – we will continue to focus our efforts on improving further the service we provide to all our customers through continued upskilling of all our teams With a strong operating platform in place and opportunities to outsource routine back office processes, we will achieve these service improvements with minimal investment and without disruption to our service

For AMP5 we elected to retain optional metering Our research showed customers preferred to have a choice and at this point we do not feel compulsory metering is necessary New homes, however, will continue to be metered

KSI Minimising our carbon footprint
We are always on the lookout for ways to reduce our energy usage, with targets set for every aspect of our business Overall company electricity usage was 897 gigawatt hours, a reduction of 19 gigawatt hours when compared to 2008/9

In 2009/10 we focused on reducing energy usage at our small sites by initiating a read programme for all meters where bills were previously calculated on estimated readings

The production of renewable energy reached a record level of 183 gigawatt hours, a 12% increase on the previous year and around 20% of our total consumption This was despite the impact of the cold weather which reduced the production of biogas from our sewage treatment works

From AMP4 to AMP5
We made good progress in developing other sources of renewable energy during this period and are now moving forward with the planning and development of wind turbines as well as energy from a new crop plant at Stoke Bardolph in Nottinghamshire

AMP4 highlights include
- achieving the UK government goal of 20% renewable energy by 2020, 10 years ahead of schedule, in 2010,
- receiving the Carbon Trust Standard by showing a reduction in carbon emissions over the last three years and having a robust carbon management programme in place, and
- being on course to achieve our goal to produce 30% renewable energy by 2014/15 We keep a close eye on government incentives in this area, where the economic or technological viability of initiatives and processes are changing

KPI Net Energy Use

We have been awarded the Carbon Trust Standard, an independent assessment and endorsement of the company's carbon reduction and management programme To achieve this third party recognition, we had to demonstrate a reduction in our carbon emissions and a robust carbon management standard "Holding the Standard not only gives external recognition of our carbon management approach and achievements, but is also an important metric for the Carbon Reduction Commitment (CRC)," said Andrew Gardner, General Manager Energy and Carbon Management

The CRC is the government's carbon cap and trade scheme which came into force in April 2010 and is part of its strategy to reduce UK carbon emissions

A safer workplace

In 2009/10 we improved our lost time incidents per 100,000 hours to 0 36, a reduction of 16% on the previous year Our performance is now close to best in class Our RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences (Regulations)) rate was 0 31, falling short of our measure of 0 28

As part of the business planning process we commissioned an independent safety risk expert to analyse the risk profile of our activities, allowing us to prioritise our improvement projects

We won 18 awards one of which was a company Gold award for our overall improvement programme As well as winning RoSPA (Royal Society for the Prevention of Accidents) awards ourselves, we organised a joint ceremony with RoSPA for our award-winning contractors and suppliers Twenty-two of our suppliers won RoSPA awards in 2009/10, eight of which were gold

From AMP4 to AMP5

The most significant shift in engaging people to make Severn Trent Water a safer place to work came about through fresh approaches to safety More employees are taking on the roles of Safety Representatives and Safety Coaches, working with managers to improve our culture and environment The culture has improved to such an extent that, from 1 April 2010, health and safety will continue as the responsibility of specific business areas working on improvement plans with only a small central team to help with planning and coordination

Focus on lowest charges

To ensure we meet our commitment to have the lowest possible charges we need to make the right investments in the right programmes to deliver the right customer and environmental standards as efficiently as possible

KSI Having the lowest possible charges

Despite continuing economic pressures during 2009/10 our financial and operational performance showed continued improvement across the board as we ended the fiscal year and closed out AMP4 Trading was in line with our expectations, as were operating costs and capital expenditure The continuing rise in unemployment and a record number of insolvencies in the first half of the year meant bad debt charge moved up slightly to 2 5% of turnover While insolvency levels are returning to normal levels, we will continue to monitor developments closely

From AMP4 to AMP5

The tough efficiency plans we set out in our Final Business Plan are reflected in Ofwat's Final Determination Considerable lead-in investments during the final year of AMP4, however, mean we are well prepared to meet the requirements of AMP5 The investments were focused in four areas

1 **Systems and technologies** – Phase 1 of SAP went live in December 2009 in Human Resources, Finance and Procurement Implemented on time and to cost, it has allowed us to make savings in our business service areas early in AMP5

2 **People and processes** – We rolled out the Safer Better Faster process improvement programme to more of our teams This helps us to make our processes leaner, improving our ability to get it right first time every time, upskilling our workforce to enable it to work in different ways and areas of the business, and giving our people a better understanding of how their work fits into our business as a whole

KPI Lost Time Incidents

There is clear evidence that effective reporting of near misses helps to improve overall safety performance An analysis of health and safety incident reporting in our sewage treatment team suggested a significant under reporting of near misses

To address this, a Near Miss Reporting Project team was formed with the objective of developing a process that would increase the number of near misses reported within Sewage Treatment This in turn lead to a safer working environment and a reduction in the number of injuries The team produced a simple and clear process for reporting near misses and tracking closure of any remedial actions Following a trial the process was fully implemented across Sewage Treatment

An objective of the project was also to develop a process which could be replicated across other departments The Water Distribution department has adapted the near miss reporting process and consequently has also had a marked increase in near misses reported which has helped to reduce its lost time injury rate

The implementation of the process has helped to create a safer working environment and by involving staff in developing solutions has helped in overall improvement of health and safety behaviour

3 **Accommodation** – As we reported last year our accommodation strategy is set and work is now well in hand to create the right property portfolio to support us for the future The key project within our programme is the construction of Severn Trent Centre in Coventry This building has been certified BREEAM (Building Research Establishment Environmental Assessment Method) excellent and its exceptionally low carbon output is matched by its exceptionally low water consumption From autumn onwards, 1,700 people will be moving into our new Centre

4 **Energy** – Investment in our renewable energy programme provides a natural hedge against rising wholesale energy prices We are in the process of growing the UK's first commercial scale energy crop at Stoke Bardolph, Nottinghamshire, as well as planning wind turbines and further renewable energy generation from sewage sludge

KSI Maintaining investor confidence

This was a challenging price review, with the Draft Determination for the AMP5 period, published by Ofwat in July 2009, being significantly different to our Final Business Plan This prompted investor concerns over our ability to deliver the required outputs within the capital and operational expenditure limits set, and to finance this investment We made a number of representations to Ofwat over the autumn, as well as encouraging our shareholders and other stakeholders to express their own views

This was a constructive process, and the Final Determination published in November 2009 more closely reflected our Final Business Plan, the one remaining area of significant difference being the weighted average cost of capital, which Ofwat set at 4 5% compared with 5% in our Final Business Plan We have confidence in our ability to meet the challenges ahead

From AMP4 to AMP5

We will continue to be open and proactive in our communications with shareholders and other stakeholders We have updated our KPIs to ensure they continue to demonstrate our drive for higher standards in the future, and to reflect the evolution of the regulatory environment We will continue to report on our progress each year

KSI Promoting an effective regulatory regime

Our regulatory performance is on track and we are in a strong position to tackle whatever challenges the future might hold

From AMP4 to AMP 5

We believe we have done more than many other water companies to help shape the future of the regulatory framework and we are well placed to contribute to the debate with policymakers and Ofwat There is a growing consensus that the current policy and regulatory framework of the industry is not sustainable long term, and we have made our own contribution to the debate with our "Changing Course" report, published in 2010 and available on our website We will continue to have discussions with shareholders and policymakers alike to help shape the future of our industry in the interests of our customers, the environment and our shareholders

Focus on great people

To become the best water and waste water company in the UK we need to have the right people and provide them with the right technology and facilities, and a safe, modern environment in which to do their jobs both within the company and in our supply chain

KSI Having the right skills to deliver

The final year of AMP4 has been one of considerable change for our employees involving upskilling, an impending

KPI Capital Process Quality
Focus on innovation in our supply chain

Innovation has been a key theme of the latter part of AMP4 and will be central to meeting our targets during the next regulatory period

Over the past year we further developed "one supply chain" with our contractors and suppliers in readiness for AMP5, investing in strengthening relationships, reviewing the way we share experiences and knowledge, and creating shared offices for our capital programme teams Such collaboration is essential if we are to continuously improve and encourage the sharing of best practice major office move, the introduction of new technology and a new pay system as we gear up for AMP5 We report that our employee surveys show our workforce remains positively engaged at 74% (2009 83%), even though it was challenged by many changes

We are committed to creating a diverse workforce which reflects the communities in which we operate We believe that a diverse and inclusive culture is a key factor in being a successful business We aim to have employees who are inspired and motivated and who are on a journey towards our vision of a diverse, engaged workforce Our diversity strategy is aimed beyond basic compliance towards a more proactive approach We do not badge diversity, but ensure that it is an integral part of how we work by integrating the concepts of treating everyone fairly and valuing differences in how we think, behave and operate Our aim is to reflect the community we work in and serve and to ensure that we are an attractive employer We measure our diversity performance against external benchmarks and our recruitment and training initiatives are resulting in a gradual increase in the diversity of our people

From AMP4 to AMP5

By the end of AMP4, nearly 60% of our employees had been introduced to tools and techniques that help them continuously improve their performance through the SBF way of working Our employees have shown tremendous commitment in improving our company by supporting the programme, which we will roll out to the rest of the business over the next two years

During the latter part of AMP4 we invested in technology and workplace improvements that will help us meet the efficiency savings of AMP5 and aid our business into the future

- we aligned our technology strategy to our KSIs, allowing us to measure how our IT investments are helping us improve our business and services,
- the first release of our £70 million SAP implementation program went ahead without any significant disruption to our operations, improving our back office operations and reducing costs Release 2 is now in development and is planned to go live in summer 2010, improving operating systems for our operational workforce and asset management teams,
- following consultations with employees over the move to the Severn Trent Centre in Coventry we have developed support systems, such as assisted travel costs, to ease the transition and aid green travel plans,
- we have embarked on a £20 million transformation of the technology our people use to do their day to day work This includes a new, virtual desktop and a secure system that allows our employees to adopt mobile working practices, such as desk sharing and access to data and systems from wherever they need to, and
- through our Emerging Talent programme we are identifying and developing future leaders We also plan succession for our executive team and management population

One of the consequences of introducing new systems and improving our performance is that we are able to operate more efficiently at a higher standard with fewer people Unfortunately, that has led to the loss of around 275 posts in our central functions All of these will be through voluntary redundancy and we will ensure everyone affected is treated with care and respect

Looking forward to 2010/11

Looking forward to the next five years, we enter AMP5 in a stronger position, with our plans well advanced due to our 'early start' approach with contractors, SAP implementation and real estate rationalisation The business is well placed to achieve higher levels of operational excellence and we will continue to work hard to maintain the lowest charges for our customers working with our great people

KPI Capex (gross) vs Final Determination
Streamlining our procurement process

Ahead of AMP5, we selected seven contractors for the period to take design, build and work on our biggest infrastructure projects, compared to 22 in AMP4, and introduced new, innovative ways of working with them

We have reorganised our procurement department to take full advantage of purchasing best practice by improving category management and end to end technological innovation This will enable us to optimise our contracts and continue to reduce the number of suppliers we do business with

Financial Review

We have in the past year, moved from a "credit crunch" through a deep economic recession Our prompt action in early 2009, to pre-fund our investment and cash needs for the following 24 months, meant that we retained a sound financial position throughout the year We were, however, not immune to the economic stresses that our customers were experiencing and we have seen a rise in bad debt charges

Against this background, our financial performance has continued to show progress and as described elsewhere, we have invested much time, effort and money to improve our base operations These improvements are backed by a continuing drive to sustain a strong liquidity position at the lowest possible cost

We enter the new five year regulatory period in a strong financial position

Results

The group's turnover increased by 4 6% in 2010, to £1,385 3 million Sales prices increased by 5 3% (including inflation) from 1 April 2009, with a decline in commercial consumption reducing revenues by around £1 6 million

Operating profit before exceptional items (underlying operating profit) increased by £82 7 million on the previous year to £571 0 million Beyond the increase in turnover, a number of factors impacted underlying operating profit, principally reductions in depreciation of £12 4 million, hired and contracted services of £8 1 million and net increases in our cost base of £1 4 million

There was a net exceptional charge of £42 1 million (2009 £19 4 million) comprising restructuring costs This included redundancy costs and pension curtailment costs relating to the reduction in posts in central functions amounting to £16 2 million and costs arising from previously announced redundancy programmes amounting to £5 million Costs relating to the implementation of SAP were £9 9 million including accelerated depreciation of £5 9 million Provisions for onerous leases and other costs relating to Severn Trent Centre amounted to £6 8 million Other exceptional costs principally arose from the SBF programme

The group's net interest payable was £201 6 million (2009 £187 3 million) Net finance costs on pension obligations increased by £11 2 million as a result of a higher discount rate, whilst the expected return on assets was lower because the value of investments declined The total tax charge for the year was £70 5 million (2009 £117 6 million) of which current tax represented a charge of £49 3 million (2009 £65 2 million) and deferred tax a charge of £21 2 million (2009 £52 4 million credit) The current tax charge before adjustments in respect of prior years represents 22 5% (2009 26 3%) of the group's profits before tax Profit for the financial year was £256 8 million (2009 £164 0 million)

Capital structure

The group is funded using a mixture of equity and debt (including fixed rate, index linked and floating rate)

	2010 £m	2009 £m
Cash and short term deposits	**(6 8)**	(160 0)
Bank overdrafts	-	0 2
Bank loans	**445 6**	547 8
Other loans	**3,129.8**	2,964 7
Obligations under finance leases	**300.8**	343 9
Net debt	**3,869.4**	3,696 6
Equity shareholders' funds	**1,186 5**	1,175 8
Total capital	**5,055.9**	4,872 4

Net debt at 31 March 2010 was £3,869 4 million (2009 £3,696 6 million) Of the net debt 71% (2009 69%) was represented by fixed interest borrowings and 79% (2009 91%) was represented by amounts payable after five years

Cash flows

Operating activities generated a net cash inflow of £812 9 million (2009 £767 9 million) Net interest paid was £171 4 million (2009 £161 4 million) Net investing activities used £565 8 million (2010 £588 8 million) which mainly included the continuing capital expenditure to meet the company's obligations under the AMP4 capital programme Dividend outflows amounted to £170 0 million (2009 £154 7 million)

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 Manual and Policy 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 does not hold or issue derivative financial instruments for financial trading purposes

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, and energy swaps to fix the future cost of expected electricity 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 Except for debt raised in foreign currency, which is fully hedged, the group's business does not involve significant exposure to foreign exchange transactions The group has £6 8 million in cash and cash equivalents The group also has an undrawn £500 million committed bank facility that matures in 2012 and 2013 and a European Investment Bank (EIB) facility of £150 million, which has to be drawn on or before April 2011 Cash is invested in deposits with highly rated (A+) banks and liquidity funds (AAA) and the list of counterparties is regularly reviewed and reported to the board The group's policy for the management of interest rate risk requires that no less than 45% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements The long term credit ratings of Severn Trent Water Limited are

Long term ratings	
Moody's	A3
Standard & Poor's	BBB+

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

Investment

The financial year 2009-10 was the final year of the AMP4 period (covering 2005-10) During the financial year, the group invested £644 8 million (before contributions to infrastructure assets) in fixed assets Adjusting for minor timing differences and modifications to the AMP4 capital programme (notified to Ofwat through the change control process) the company successfully completed the five year programme (2005/06 to 2009/10) with capital expenditure, net of grants contributions and other income, of around £2 6 billion

Critical accounting policies

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

Depreciation and carrying amounts of tangible fixed assets

Calculating the depreciation charge and hence the carrying value for tangible fixed assets 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 1d to the financial statements

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 Assessing the extent to which the deferred tax provision should be discounted requires judgments to be made regarding the reversal of timing differences and the discount rate to be applied

Provisions for liabilities and charges

Assessing the financial outcome of uncertain commercial and legal positions requires judgments 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

Directors' report

The directors present their report, together with the audited financial statements for the year ended 31 March 2010

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 provision and the treatment of water and the removal of waste water 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 2010, 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 6–17
Operational performance	Page 8–15
Financial performance	Page 16–17
KPIs	Page 8–9
Severn Trent Water Changing Course	Page 4–5

Principal risks and uncertainties are detailed on page 24 of the Governance and risk assurance report

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 2010 amounted to £170 0 million (2009 £154 7 million)

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	
Bernard Bulkin*	
Richard Davey*	
Andrew Duff*	Appointed 10 May 2010
Sir John Egan*	
Gordon Fryett*	Appointed 1 July 2009
Martin Kane	
Martin Lamb*	
Michael McKeon	
Baroness Noakes*	
Andy Smith	
Tony Wray	

*non-executive director

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 2010

None of the directors retain any notifiable interest in the shares of the company or any other subsidiaries as at 31 March 2010

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

- base salary and benefits
- annual bonus scheme
- 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 non-executive Chairman, Sir John Egan, and non-executive directors, do not participate in the company's incentive arrangements, i e annual bonus or share schemes

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 car allowance, membership of company pension scheme or cash allowance in lieu, private medical insurance, life assurance and incapacity benefits scheme

Annual bonus scheme

The directors' bonus scheme focuses on the achievement of specific strategic goals which are intended to drive the creation of operational efficiencies and improvements in business performance The bonus scheme operates on a balanced scorecard of measures based on the KPIs, which include operational performance, leakage and customer service The scheme 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 Bonus targets were set and measured for the period 1 April 2009 to 31 March 2010

The Chief Executive and Finance Director also have 10% of their bonus opportunity linked to the performance of Severn Trent Services and all directors have 10% of their bonus opportunity measured against a set of personal performance targets

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, directors' remuneration is clearly linked to the standards of performance in connection with carrying out the functions of a relevant undertaker

Consistent with the latest developments in institutional guidelines, the rules of the annual bonus scheme provide that the committee may reclaim some or all of the after tax part of any bonuses awarded to executive directors if it 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 was 120% of salary For the achievement of target performance, 60% of salary would be earned The table below shows the extent to which the KPI targets were achieved during 2009/10

KPI	Measure	08/09 outturn	09/10 outturn	Points scored
1	Lost time incidents per 100,000 hours worked	0 43	0 36	106
2	Employee motivation %	83%	74%	54
3	Water quality (test failure rate) ppm	200	131	242
4	Customer written complaints per 1,000 properties	6 44	4 95	106
5	First time call resolution for billing %	88%	89%	115
6	Unplanned interruptions > 6 hours per 1,000 properties	7 29	10 09	0
7	Properties at risk of low pressure per 1,000 properties	1 21	0 12	150
8	First time job resolution %	96 0%	96 5%	25
9	Non-performance against regulatory obligations %	10%	5%	130
10	Capex (Gross) vs final determination %	5 0%	6 1%	107

11	Capital process quality (number of defects per £100k)	0 00	0 07	0
12	Debtor days	33 1	32 6	97
13	Opex vs final determination (UK GAAP) £m	500 9	492 4	106
14	Cost to serve per property – £	236 53	231 03	104
15	Pollution incidents (cat 1, 2 and 3) per 1,000 properties	0 08	0 08	133
16	Sewer flooding incidents – other causes per 1,000 properties	0 172	0 131	129
17	Sewage treatment works – breach of consents	0 00%	0 31%	0
18	Security of supply	98	99	120
19	Net energy use – kWh/Ml	440	435	100
20	Leakage Ml/d	492	497	0
Total KPI points achieved				1,824

The score of 1,824 points delivers a bonus payment of 45 6% of the bonus maximum for the Severn Trent Water element The actual bonus payments awarded to each director incorporate amounts in respect of personal targets and, in the case of the Chief Executive and Finance Director, Severn Trent Services' performance The bonus payments awarded are detailed below

Director	Value of bonus award £
Tony Ballance	102,897
Martin Kane	128,621
Michael McKeon	257,448
Andy Smith	151,620
Tony Wray	277,992

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 executives, one third of the bonus award is deferred into shares

Details of bonus awards for the year ended 31 March 2010 are shown in the table of directors' emoluments in the Severn Trent Plc Annual Report and Accounts

Share Matching Plan
At the 2009 Annual General Meeting of Severn Trent Plc, shareholder approval was received for the introduction of a Share Matching Plan The plan allows executive directors to receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus scheme as described above Further details of the proposed Share Matching Plan can be found 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 the KPIs Employees of Severn Trent Plc and Severn Trent Water Limited participate in the plan For the year 2009/10 awards of shares to the value of £342 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 Limited, 2297 Coventry Road, Birmingham B26 3PU) or nationally agreed terms and conditions of contract such as ICE 6th Edition for Civil Engineering Works and G90 terms and conditions for Mechanical and Electrical Works

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 43 9 days purchases (2009 26 days)

Research and development
Expenditure on research and development is set out in note 2 to the accounts on page 32 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 8 to 17

Employees
The average number of employees during the year was 5,686 (2009 5,624)

Regulation 'Ring fencing'
In accordance with the requirements of Ofwat, the board confirmed that, as at 31 March 2010, 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

Conflict of interests
Last year, the Directors' report described in full the process that the board had put in place to authorise situational conflicts in accordance with the provisions of the Companies Act 2006

For any actual or potential conflicts, the following procedure has been adopted by the board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the company

- the director will notify the Chairman and Company Secretary of the actual or potential conflict,
- the Severn Trent Plc Nominations Committee will consider the notification and determine whether it needs to be proposed to a board meeting for authorisations, and
- the conflict will be considered by the board at a scheduled board meeting

Full details of the conflict will be sent to directors in advance of the meeting If there is a major conflict or it is decided that authorisation should not wait until the next scheduled meeting, the board would be asked to authorise the conflict by way of written resolution

In addition to reviewing any conflicts notified and proposing them for authorisation by the board, the Severn Trent Plc Nominations Committee monitors changes to previously notified conflicts and any conditions imposed Half yearly reports are made to the board of all directors' conflicts and directors are reminded from time to time of their obligations An annual review of conflicts is carried out and this is incorporated into the year end process of verifying directors' interests

Going concern
The company operates in an industry that is currently subject to economic regulation rather than market competition Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities As a consequence the directors believe that the company and the group are well placed to manage their business risks despite the current uncertain economic outlook The company and the group are funded for their investment and cash flow needs at least the next year

After making enquiries and having considered the steps being taken by Severn Trent Plc to remedy the technical breach of the borrowing limits set out in Severn Trent Plc's articles of association, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future Accordingly we continue to adopt the going concern basis in preparing the Annual Report and Accounts

Auditors

Deloitte LLP have indicated their willingness to continue as auditors and, in accordance with Section 487 of the Companies Act 2006, are deemed to be reappointed

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 418 of the Companies Act 2006

By order of the board

Fiona Smith
General Counsel and Company Secretary
27 May 2010

Governance and risk assurance

Severn Trent Governance
Severn Trent Plc is the ultimate holding company of Severn Trent Water Limited Since March 2007, as part of the strategy of focusing on water, the boards of directors of Severn Trent Plc and Severn Trent Water Limited have been identical

Severn Trent Plc and Severn Trent Water Limited operate as distinct legal entities The boards have regard to the Severn Trent Plc Board Governance document and the Severn Trent Water Limited Matters Reserved to the Board, and are assisted through the management of separate agendas, meetings and minutes by the Company Secretariat and are advised in their meetings by the Company Secretary where appropriate

The relationships between Severn Trent Water Limited, the regulated entity, and our non-regulated businesses such as Severn Trent Services are monitored and controlled to ensure that we comply with our Ofwat obligations on arm's length transactions

From 1 July 2009 to the year ended 31 March 2010, Severn Trent Plc was compliant in its application of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008 (2008 Combined Code) From 1 April 2009 to 30 June 2009, Severn Trent Plc did not comply with Code provision A 3 2 which requires that at least half the board, excluding the chairman, should comprise independent non-executive directors Due to other work commitments, Martin Houston resigned as an independent non-executive director in January 2009 Gordon Fryett was appointed to the board with effect from 1 July 2009

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 2008 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 Company Secretary at the address given on the back cover of this document

Severn Trent has made solid progress in implementing the key components of its governance framework which are based on clear organisational structure and decision making, sound policies and standards, and assurance of the outcomes The board and other key stakeholders need a transparent methodology which delivers and validates the outcome of activities

The company expects roles to be performed in line with the specific annual job objectives Employees performing their roles properly, preparing and reporting outcomes on time and to the required standard is a key component in our Assurance Framework

The company continues to embed the compliance, verification and performance activities in Severn Trent These are within business areas and sometimes within discrete functions These confirm that operational activities have been performed properly in the line

Lastly, the company maintains an independent perspective on the overall framework by obtaining confirmation that the governance structure is working properly In Severn Trent, this is obtained primarily from the Internal Audit function

In order to provide an appropriate understanding of how these responsibilities come together for Severn Trent, the company has developed a description of the key elements over which assurance is required by the board This is maintained by the Director of Internal Audit on behalf of the Executive

Internal Audit deliver an audit plan to confirm that a key business risks are being mitigated It also delivers specific, tested opinions on those areas for which it, as a function, is responsible

Severn Trent Water Limited
Operating structure
Day to day operational priorities within Severn Trent Water are led by the Chief Executive of Severn Trent Plc and his executive management team, who together comprise the Executive Committee During the year, the Executive Committee comprised the executive directors and senior executive managers responsible for key central and operational areas

The Executive Committee oversees the development and performance of the Severn Trent strategy It also has accountability for achieving business results During the year, the Executive Committee structured its meetings to focus on strategy, business management, policy and planning and operational performance

The operational structure aligns the organisation with the processes that matter to customers and drives 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 2008 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 Severn Trent Plc 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 Internal Audit department provides objective assurance and advice on risk management and control The external auditors also report on significant control issues to this committee

The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks faced by the company and its subsidiary undertakings have been in place for the year to 31 March 2010 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, and
- monthly reporting and monitoring of financial results, regulatory compliance and other operational performance indicators, and independent assurance provided by both internal and external auditors

Principal risks and uncertainties
The board considers the principal risks and uncertainties affecting the business activities of the company to be those detailed below

- Risks relating to the ongoing implementation of our co-ordinated change programme and achieving the significant and sustainable forecasted benefits
- As a regulated business, we are subject to numerous and changing obligations with which we must comply, and management of these is often dispersed across and through the organisation We pay particular attention to management of risks in these areas, particularly in relation to changing legal and regulatory requirements
- External financial market factors could adversely impact on our financial position
- Due to the nature of our business we continue to face risks arising during our normal course of business, including risk of failure of our assets, processes, or systems which could otherwise impact on the health, safety and security of our people or customers, or on our financial position and our reputation
- Whilst acceptance of the price determination from Ofwat leads to greater certainty over what we need to achieve for the coming AMP period, nevertheless we must still manage the risk associated with our ability to effectively meet the challenging targets set
- Our ability to influence customer behaviour or to operate in an environmentally responsible way could affect our financial position and our reputation

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, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and 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 2006 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 financial statements of Severn Trent Water Limited for the year ended 31 March 2010 which comprise the group and parent company profit and loss account, the group and parent company balance sheets, the group cash flow statement, the group reconciliation of net cash flow to movement in net debt, the group and parent company statement of total recognised gains and losses, the group and parent company reconciliation of movements in shareholders' funds and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's and the parent company's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Christopher Robertson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, United Kingdom
27 May 2010

Profit and loss accounts

Year ended 31 March 2010

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Turnover		**1,385.3**	1,324 9	**1,385 3**	1,324 9
Operating costs before exceptional items	2	**(818 1)**	(840 0)	**(829 0)**	(855 8)
Exceptional operating costs	2	**(42.1)**	(19 4)	**(42 1)**	(19 4)
Total operating costs	2	**(860 2)**	(859 4)	**(871 1)**	(875 2)
Other income		**3 8**	3 4	**3.8**	3 4
Operating profit before exceptional items		**571.0**	488 3	**560.1**	472 5
Exceptional operating costs	2	**(42 1)**	(19 4)	**(42 1)**	(19 4)
Operating profit		**528.9**	468 9	**518.0**	453 1
Income from shares in other group undertakings		**-**	-	**8.6**	14 8
Net interest payable	4	**(201 6)**	(187 3)	**(200 7)**	(186 5)
Profit on ordinary activities before taxation		**327.3**	281 6	**325.9**	281 4
Taxation on profit on ordinary activities - current tax	5	**(49 3)**	(65 2)	**(48 2)**	(62 6)
- deferred tax	5	**(21 2)**	(52 4)	**(21 2)**	(52 4)
Taxation	5	**(70.5)**	(117 6)	**(69 4)**	(115 0)
Profit for the financial year	15	**256.8**	164 0	**256.5**	166 4

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

Statements of total recognised gains and losses

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Profit for the financial year	**256.8**	164 0	**256.5**	166 4
Actuarial loss	**(109.8)**	(110 4)	**(109 8)**	(110 4)
Tax on actuarial loss	**30 8**	30 9	**30.8**	30 9
Total recognised gains and losses for the financial year	**177.8**	84 5	**177 5**	86 9

Reconciliations of movements in shareholder's funds

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Profit for the financial year		**256 8**	164 0	**256 5**	166 4
Dividends	6	**(170 0)**	(154 7)	**(170.0)**	(154 7)
Retained profit for the financial year		**86.8**	9 3	**86.5**	11 7
Share based payments		**2 9**	3 0	**2.9**	3 0
Net actuarial loss		**(79.0)**	(79 5)	**(79.0)**	(79 5)
Net addition to/(reduction in) shareholder's funds		**10.7**	(67 2)	**10.4**	(64 8)
Opening shareholder's funds		**1,175.8**	1,243 0	**1,391 8**	1,456 6
Closing shareholder's funds		**1,186.5**	1,175 8	**1,402 2**	1,391 8

Balance sheets

As at 31 March 2010

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Fixed assets					
Tangible assets	7	**5,980 0**	5,684 9	**5,977 9**	5,682 9
Investments	8	**-**	-	**235.7**	235 7
		5,980.0	5,684 9	**6,213 6**	5,918 6
Current assets					
Stocks		**6 4**	8 0	**6.4**	8 0
Debtors amounts falling due within one year	9a	**317 0**	278 7	**319 5**	286 0
Debtors amounts falling due after more than one year	9b	**-**	2 4	**36 5**	32 8
Short term deposits	12b	**1.7**	147 1	**1 7**	147 1
Cash at bank and in hand	12b	**5.1**	12 9	**2 8**	11 7
		330.2	449 1	**366.9**	485 6
Creditors amounts falling due within one year	10	**(681 2)**	(593 1)	**(734 0)**	(634 1)
Net current liabilities		**(351 0)**	(144 0)	**(367 1)**	(148 5)
Total assets less current liabilities		**5,629 0**	5,540 9	**5,846.5**	5,770 1
Creditors amounts falling due after more than one year	11	**(3,669 1)**	(3,705 2)	**(3,670 9)**	(3,718 4)
Provisions for liabilities and charges	13	**(545.4)**	(509 1)	**(545.4)**	(509 1)
Net assets excluding pension deficit		**1,414 5**	1,326 6	**1,630 2**	1,542 6
Pension deficit	17	**(228 0)**	(150 8)	**(228.0)**	(150 8)
Net assets including pension deficit		**1,186.5**	1,175 8	**1,402.2**	1,391 8
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	**186 5**	175 8	**402 2**	391 8
Shareholder's funds		**1,186 5**	1,175 8	**1,402 2**	1,391 8

Signed on behalf of the board who approved the accounts on 27 May 2010

Sir John Egan
Chairman

Michael McKeon
Finance Director

Company number 2366686

Group cash flow statement

Year ended 31 March 2010

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Net cash inflow from operating activities	19a		**812.9**		767 9
Returns on investments and servicing of finance					
Interest received		**3 0**		12 5	
Interest paid		**(164 4)**		(157 7)	
Interest element of finance lease rental payments		**(10 0)**		(16 2)	
			(171.4)		(161 4)
Taxation			**(61.1)**		(57 8)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(592.1)**		(624 2)	
Grants and contributions received		**19.6**		29 4	
Sale of tangible fixed assets		**6.7**		6 0	
			(565 8)		(588 8)
Equity dividends paid			**(170 0)**		(154 7)
Net cash outflow before management of liquid resources and financing			**(155 4)**		(194 8)
Management of liquid resources			**145.4**		301 6
Net cash flow before financing			**(10 0)**		106 8
Financing					
Finance leases repaid		**(43 2)**		(41 1)	
Loans received		**195.5**		410 5	
Loans repaid		**(147.7)**		(78 8)	
Share based payments made on awards vesting in the period		**(2 2)**		(1 7)	
			2 4		288 9
Net (decrease)/increase in cash			**(7 6)**		395 7

Reconciliation of net cash flow to movement in net debt

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Net (decrease)/increase in cash as above		**(7.6)**		395 7	
Cash flow from movement in net debt		**(4.6)**		(290 6)	
Cash flow from movement in liquid resources		**(145.4)**		(301 6)	
Change in net debt resulting from cash flows			**(157 6)**		(196 5)
Rolled up interest on net debt			**(15 2)**		(20 0)
Increase in net debt			**(172 8)**		(216 5)
Opening net debt			**(3,696.6)**		(3,480 1)
Closing net debt	19b		**(3,869.4)**		(3,696 6)

Notes to the financial statements

Year ended 31 March 2010

1 Accounting policies

a) Accounting convention

The financial statements have been prepared on the going concern basis (see Directors' report) 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 2006 (the Act) An explanation of this departure from the requirements of the Act is given in the policy on grants and contributions below

b) Consolidation

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 2010 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

Income includes an estimation of the amount of mains water and waste water 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

Turnover is not recognised in respect of unoccupied properties Properties are classified as unoccupied when

- The company is informed that a customer has left a property and it is not expected to be reoccupied immediately,
- New properties are connected but are not occupied, or
- Properties are disconnected following a customer's request

Where properties are not classified as unoccupied but the identity of the customer is unknown, the properties are classified as 'The Occupier' premises Income is only recognised for such premises when

- Cash is received, or
- The identity of the occupier becomes known

Where amounts invoiced are being recovered through charges on income, turnover is recognised in accordance with the policy set out above and provisions are charged to operating costs to reflect the company's assessment of the risk of non recoverability

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

ii) Other assets

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

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

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

Assets in the course of construction are not depreciated until commissioned

e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the fair value of the minimum lease payments 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

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 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 £566 1 million lower than it would otherwise have been (2009 £550 3 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

1 Accounting policies continued

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

j) Self-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 and past service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service 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 are 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

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

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 Energy swaps are used to manage the risks of future fluctuations in electricity prices 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 but are recognised in the balance sheet at the difference between the swap rate and the spot rate at the balance sheet date

Energy 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 financial statements

1 Accounting policies continued

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 charge 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		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Analysis of total operating costs				
Raw materials and consumables (including exceptional costs £0 4 million (2009 £0 3 million))	**41 8**	40 2	**41.8**	40 2
Staff costs (including exceptional costs £21 1 million (2009 £0 9 million))	**227.4**	212 8	**227 4**	212 8
Depreciation and other amounts written off tangible assets (including exceptional costs £5 9 million (2009 £nil))	**331 5**	338 0	**331 5**	338 0
Other operating costs (including exceptional costs £14 7 million (2009 £18 2 million))	**340 6**	343 8	**351 5**	359 6
Own work capitalised	**(81 1)**	(75 4)	**(81.1)**	(75 4)
Total operating costs	**860 2**	859 4	**871 1**	875 2
Staff costs comprise:				
Wages and salaries (including exceptional costs £12 9 million (2009 £0 7 million))	**189.2**	172 5	**189.2**	172 5
Social security costs (including exceptional costs £0 5 million (2009 £0 1 million))	**14 1**	14 6	**14.1**	14 6
Pension costs (including exceptional costs £7 7 million (2009 £0 1 million)) (note 17)	**24 1**	25 7	**24.1**	25 7
Total staff costs	**227 4**	212 8	**227.4**	212 8
Depreciation and other amounts written off tangible assets comprise				
Depreciation on owned assets non-infrastructure	**205 5**	197 4	**205 5**	197 4
Depreciation on owned assets infrastructure	**95.9**	118 5	**95.9**	118 5
Depreciation on assets held under finance leases	**24.2**	22 1	**24 2**	22 1
Depreciation on assets treated as exceptional	**5.9**	-	**5 9**	-
Total depreciation	**331.5**	338 0	**331 5**	338 0
Other operating costs comprise				
Power	**50.6**	51 1	**50 6**	51 1
Rates	**60.3**	58 4	**60 3**	58 4
Service charges	**31.2**	30 0	**31 2**	30 0
Other operating costs (including exceptional costs £5 1 million (2009 £16 1 million))	**34 2**	43 1	**34.2**	62 4
Charge for bad and doubtful debts	**33.9**	30 3	**33.9**	30 3
Deferred income released	**(3 1)**	(3 3)	**(3.1)**	(3 3)
Hired and contracted services (including exceptional costs £4 1 million (2009 £2 1 million))	**117.6**	123 7	**117 6**	104 2
Hire of plant and machinery (including exceptional costs £0 1 million (2009 £nil))	**7 6**	6 8	**7 6**	6 8
Other operating leases (including exceptional costs £5 4 million (2009 £nil))	**7 5**	2 6	**18.4**	18 6
Research and development expenditure	**5.1**	5 1	**5 1**	5 1
Profit on disposal of fixed assets	**(4 3)**	(4 0)	**(4.3)**	(4 0)
Total other operating costs	**340 6**	343 8	**351 5**	359 6

2 Analysis of total operating costs and exceptional items continued

Exceptional items

	Group and company	
	2010	2009
	£m	£m
Exceptional restructuring costs and termination of operations	**(42 1)**	(13 7)
Exceptional flood costs net of insurance recoveries	-	1 5
Exceptional fines and penalties	-	(7 2)
	(42 1)	(19 4)

A £42 1 million exceptional charge was incurred (2009 £13 7 million) arising from the programme to restructure and realign the business

An exceptional credit of £1 5 million arose in the prior year from the flooding incidents that affected the water and sewerage networks during the summer of 2007 This includes costs of £13 1 million less insurance recoveries of £14 6 million

A charge of £7 2 million was incurred in the prior year relating to the settlement of the regulatory issues that arose in previous years This included a court imposed fine of £2 0 million and costs of £0 2 million from offences relating to leakage data supplied to Ofwat in 2001 and 2002 and a charge of £5 0 million for additional contributions to the Severn Trent Charitable Trust as agreed with Ofwat

Auditors' remuneration

During the year Deloitte LLP earned the following fees

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Fees payable to the company's auditors for the audit of the company's annual accounts	**0.3**	0 3	**0.3**	0 3
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

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 2010 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 $97^{17}/_{19}$p each by virtue of having received contingent awards of shares under the Severn Trent Long Term Incentive Plan (LTIP) on 18 July 2007, 14 July 2008 and 7 July 2009 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 Severn Trent Plc's Total Shareholder Return (TSR)

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 2010

3 Information regarding directors and employees continued

b) Emoluments

	2010 £000	2009 £000
Aggregate emoluments (excluding pension contributions)	**3,279 4**	3,426 5

i) Non-cash benefits included in aggregate emoluments consist mainly of the provision of 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

iii) Retirement benefits are accruing to three directors (2009 three directors) under a defined benefit scheme

c) Highest paid director

	2010 £000	2009 £000
Aggregate emoluments (excluding pension contributions)	**878.1**	921 3

The highest paid director in 2010 is the same as that in 2009

The accrued pension at 31 March 2010 for the highest paid director was £20,882 (2009 £15,949) 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 No LTIP awards vested in respect of the highest paid director during the year

Employees

	Group and company	
	2010 Number	2009 Number
Average number of employees during the year	**5,686**	5,624

4 Net interest payable

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Interest receivable and similar income	**2 8**	14 1	**4 0**	14 6
Finance income on defined benefit pension schemes	**63 4**	79 8	**63 4**	79 8
Interest receivable	**66.2**	93 9	**67 4**	94 4
Interest payable and similar charges on				
Bank loans and overdrafts	**(0 1)**	(4 7)	**(0.1)**	(4 7)
Other loans	**(181 2)**	(178 7)	**(23.6)**	(38 2)
Finance leases	**(10 0)**	(16 1)	**(10 0)**	(16 1)
Amounts due to subsidiary undertaking	**-**	-	**(157 9)**	(140 2)
Interest cost on defined benefit pension schemes	**(76.5)**	(81 7)	**(76 5)**	(81 7)
Interest payable	**(267.8)**	(281 2)	**(268 1)**	(280 9)
	(201.6)	(187 3)	**(200.7)**	(186 5)

5 Taxation on profit on ordinary activities

a) Analysis of charge in the year

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Current tax				
UK Corporation tax at 28%				
- Current year	**56.4**	31 8	**55 0**	28 3
- Adjustment in respect of prior years	**(24.4)**	(14 2)	**(24 4)**	(14 2)
Group relief payable at 28%				
- Current year	**17 2**	42 3	**17.5**	43 2
- Adjustment in respect of prior years	**0.1**	5 3	**0.1**	5 3
Total current tax	**49.3**	65 2	**48.2**	62 6
Deferred tax				
Origination and reversal of timing differences				
- Current year	**(15.0)**	(23 8)	**(15 0)**	(23 8)
- Adjustment in respect of prior years	**17 4**	8 4	**17.4**	8 4
- (Increase)/decrease in discount	**(11.2)**	40 4	**(11 2)**	40 4
Total deferred tax (credit)/charge	**(8.8)**	25 0	**(8.8)**	25 0
Deferred tax included in the statement of recognised gains and losses	**30 0**	27 4	**30.0**	27 4
Deferred tax charge included in profit and loss account	**21 2**	52 4	**21.2**	52 4
Total tax charge	**70.5**	117 6	**69.4**	115 0

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 (28%) The differences are explained below

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Profit on ordinary activities before tax	**327.3**	281 6	**325 9**	281 4
Profit on ordinary activities multiplied by the standard rate of corporation tax of 28%	**91.6**	78 8	**91 3**	78 8
Effects of				
Items not taxable or not deductible for tax purposes	**(1.9)**	(1 8)	**(2 6)**	(4 4)
Capital allowances for period in excess of depreciation	**(17.1)**	(3 2)	**(17 1)**	(3 2)
Movement in short term timing differences	**1 0**	0 3	**1.0**	0 3
Adjustment to tax charge in respect of prior periods	**(24 3)**	(8 9)	**(24 4)**	(8 9)
	49.3	65 2	**48.2**	62 6

Of the current year charge, £4 9 million (2009 £1 9 million) relates to current tax credits on exceptional items and £6 5 million credit (2009 £2 9 million credit) in respect of deferred tax

5 Taxation on profit on ordinary activities continued

c) Tax charged directly to equity

In addition to the amount charged to the profit and loss account the following amounts have been credited directly to equity

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Current tax relief on pension contributions in excess of amounts charged to the profit and loss account	**0 8**	3 5	**0.8**	3 5
Deferred tax on actuarial gains and losses	**30.0**	27 4	**30.0**	27 4
Tax credited directly to equity	**30 8**	30 9	**30 8**	30 9

d) Factors affecting future tax rates

The group's current tax charge of £73 6 million (2009 £74 1 million) before adjustments to the tax charge in respect of prior periods represents 22 5% (2009 26 3%) of the group's profit before tax

The company's current tax charge of £72 5 million (2009 £71 5 million) before adjustments to the tax charge in respect of prior periods represents 22 2% (2009 25 4%) of the company's profit before tax

The group and company's tax charge will continue to be affected in future years by the levels of capital expenditure, which is driven by the requirements of AMP5, and by the extent and timing of tax deductions that will be available for such expenditure

The group's 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

6 Dividends

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Dividends paid	**170.0**	154 7	**170.0**	154 7

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 year ended 31 March 2010 amounted to £170 million, being 17p per share (2009 15 47p per share)

7 Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Vehicles and mobile plant £m	Group Total £m
Cost					
At 1 April 2009	2,314 6	3,980 4	3,160 6	47 3	9,502 9
Additions	155 8	184 4	296 2	8 4	644 8
Grants and contributions	-	(15 8)	-	-	(15 8)
Assets sold or written off	(7 3)	-	(20 6)	(8 9)	(36 8)
At 31 March 2010	**2,463.1**	**4,149.0**	**3,436.2**	**46.8**	**10,095.1**
Depreciation					
At 1 April 2009	(715 8)	(1,487 7)	(1,592 1)	(22 4)	(3,818 0)
Charge for the year	(50 8)	(95 9)	(177 9)	(6 9)	(331 5)
Assets sold or written off	7 1	-	20 3	7 0	34 4
At 31 March 2010	**(759.5)**	**(1,583 6)**	**(1,749.7)**	**(22 3)**	**(4,115 1)**
Net book value					
At 31 March 2010	**1,703.6**	**2,565 4**	**1,686 5**	**24 5**	**5,980.0**
At 31 March 2009	1,598 8	2,492 7	1,568 5	24 9	5,684 9

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Vehicles and mobile plant £m	Company Total £m
Cost					
At 1 April 2009	2,314 6	3,978 1	3,160 7	47 3	9,500 7
Additions	155 8	184 4	296 1	8 5	644 8
Grants and contributions	-	(15 8)	-	-	(15 8)
Assets sold or written off	(7 3)	-	(20 6)	(9 0)	(36 9)
At 31 March 2010	**2,463.1**	**4,146 7**	**3,436 2**	**46.8**	**10,092.8**
Depreciation					
At 1 April 2009	(715 8)	(1,487 5)	(1,592 1)	(22 4)	(3,817 8)
Charge for the year	(50 8)	(95 9)	(177 9)	(6 9)	(331 5)
Assets sold or written off	7 1	-	20 3	7 0	34 4
At 31 March 2010	**(759.5)**	**(1,583 4)**	**(1,749.7)**	**(22.3)**	**(4,114 9)**
Net book value					
At 31 March 2010	**1,703.6**	**2,563.3**	**1,686 5**	**24.5**	**5,977.9**
At 31 March 2009	1,598 8	2,490 6	1,568 6	24 9	5,682 9

7 Tangible fixed assets continued

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

	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Cost	**404.3**	411 7	**401 9**	409 3
Accumulated depreciation	**(166 9)**	(143 9)	**(160 5)**	(143 6)
Net book value	**237.4**	267 8	**241 4**	265 7

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

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

	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Freehold	**1,703.3**	1,598 5	**1,703.3**	1,598 5
Short leasehold	**0 3**	0 3	**0.3**	0 3
	1,703.6	1,598 8	**1,703 6**	1,598 8

iv) Tangible fixed assets not subject to depreciation are

	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Land	**26.1**	23 7	**26 1**	23 7
Assets in the course of construction	**478 0**	571 7	**478 0**	571 7
	504.1	595 4	**504 1**	595 4

8 Investments

The group had no investments The company's investments are set out below

				Company
	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Other investments	Total
	£m	£m	£m	£m
Cost and net book value at 31 March 2010	**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 & 100% non-voting	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 fair 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	
	2010 £m	2009 £m	2010 £m	2009 £m
Trade debtors	**122.3**	120 1	**122.3**	120 1
Amounts owed by parent and fellow subsidiary undertakings	**3 0**	2 3	**3 0**	6 9
Other debtors	**38 8**	12 9	**40 7**	12 9
Prepayments and accrued income	**152.9**	143 4	**153.5**	146 1
	317 0	278 7	**319 5**	286 0

b) Amounts falling due after more than one year

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Amounts owed by parent and fellow subsidiary undertakings	-	-	**36.3**	30 4
Other debtors	-	-	**0.2**	-
Prepayments and accrued income	-	2 4	-	2 4
	-	2 4	**36 5**	32 8
Total debtors	**317.0**	281 1	**356 0**	318 8

10 Creditors: amounts falling due within one year

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Bank overdrafts	-	0 2	-	-
Bank loans	-	100 0	-	100 0
Loans due to parent and fellow subsidiary undertakings	**195.5**	15 0	**195 5**	-
Other loans	**1.8**	31 7	-	-
Obligations under finance leases	**47.2**	43 4	**47.2**	43 4
Borrowings (note 12)	**244.5**	190 3	**242 7**	143 4
Trade creditors	**8 2**	20 2	**8.2**	20 2
Amounts owed to parent and fellow subsidiary undertakings	**11.8**	32 0	**94.9**	157 1
Other creditors	**3.5**	2 4	**16.3**	7 2
Taxation and social security	**4.3**	4 4	**4.3**	4 4
Corporation tax payable	**53.2**	45 7	**51 8**	42 8
Accruals and deferred income	**355.7**	298 1	**315 8**	259 0
	681.2	593 1	**734 0**	634 1

11 Creditors: amounts falling due after more than one year

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Bank loans	**445.6**	447 8	**445 6**	447 8
Loans due to parent and fellow subsidiary undertakings	**-**	-	**2,934 3**	2,918 0
Other loans	**2,932.5**	2,918 0	**-**	-
Obligations under finance leases	**253.6**	300 5	**253.6**	300 5
Borrowings (note 12)	**3,631 7**	3,666 3	**3,633 5**	3,666 3
Other creditors	**2.4**	4 5	**2.4**	17 7
Deferred income	**35.0**	34 4	**35 0**	34 4
	3,669 1	3,705 2	**3,670 9**	3,718 4

12 Financial instruments

The group's policy in respect of interest rate risk management and the related use of financial instruments are set out in the accounting policy's note 1 o) on page 31

a) Borrowings analysed by maturity date

	Loan with other repayment terms	Finance leases	**2010**	2009
	£m	£m	**£m**	£m
Financial liabilities due within one year (note 10)	(197 3)	(47 2)	**(244 5)**	(190 3)
Between one and two years	(6 6)	(13 0)	**(19 6)**	(46 9)
Between two and five years	(481 3)	(57 3)	**(538 6)**	(239 4)
After more than five years	(2,890 2)	(183 3)	**(3,073.5)**	(3,380 0)
Total financial liabilities after one year (note 11)	(3,378 1)	(253 6)	**(3,631 7)**	(3,666 3)
	(3,575 4)	(300 8)	**(3,876 2)**	(3,856 6)

£445 7 million (2009 £548 0 million) of funding instruments contain certain financial covenants, breach of which can trigger early repayment

Loans repayable partly or wholly after five years comprise

	Rate of interest	**2010**	2009
	%	**£m**	£m
European Investment Bank loan - 2016-17 (2009 2016-17)	0 7	**300 0**	300 0
European medium term loan notes - 2015-2067 (2009 2014-67)	1 2-6 3	**1,489 5**	1,763 7
Sterling bonds 2018-29 (2009 2018-29)	6 0-6 3	**1,100 7**	1,110 3
Total capital		**2,890 2**	3,174 0

12 Financial instruments continued

b) Investments in interest earning assets

	Group 2010 £m	2009 £m
Cash at bank and in hand	**5 1**	12 9
Short term deposits	**1.7**	147 1
	6.8	160 0

Sterling deposits include £1 7 million (2009 £1 8 million) held on short term deposit with a maturity 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 account of various interest rate swaps entered into by the group and company

Group	Fixed interest rate £m	Floating interest rate £m	Index linked rate £m	Total £m
Maturity profile				
Less than one year	208 7	35 8	-	244 5
Between one and two years	15 6	4 0	-	19 6
Between two and five years	261 1	131 8	145 7	538 6
Between five and twenty years	1,710 2	454 8	156 4	2,321 4
In more than twenty years	-	-	752 1	752 1
Total borrowings excluding overdrafts	**2,195 6**	**626.4**	**1,054.2**	**3,876 2**
Overdrafts	-	-	-	-
Total borrowings including overdrafts	**2,195 6**	**626.4**	**1,054 2**	**3,876 2**
Impact of interest rate swaps entered into by the group and company	535 0	(535 0)	-	-
Total borrowings after the impact of interest rate swaps	**2,730 6**	**91.4**	**1,054.2**	**3,876.2**
Short term deposits and cash at bank and in hand	-	(6 8)	-	(6 8)
Net debt as at 31 March 2010	**2,730 6**	**84.6**	**1,054.2**	**3,869.4**
Total borrowings after the impact of interest rate swaps as at 31 March 2009	2,543 4	272 5	1,040 7	3,856 6
Short term deposits and cash at bank and in hand	-	(160 0)	-	(160 0)
Net debt as at 31 March 2009	2,543 4	112 5	1,040 7	3,696 6

Fixed interest debt incurs interest at a weighted average rate of 5 8% (2009 5 9%) Interest on these borrowings is fixed for a weighted average period of 11 5 years (2009 12 7 years)

Included in the fixed interest debt above, the group has entered into a number of forward starting accreting interest rate swaps These have a notional value of £40 million (2009 £31 7 million) and accrete value up to 2032 The maximum notional value of these swaps is £135 million (2009 £135 million) These swaps are floating to fixed and bear fixed interest at between 5 29% and 5 52%

The group has ten (2009 two) forward dated swaps (floating to fixed) with a total notional value of £450 million (2009 £106 million) that bear interest between 4 92% and 5 16% (2009 4 61% and 4 87%) These interest rate swaps commence in 2013 and 2014 and end in 2023 and 2024

Floating rate borrowings bear interest based on LIBOR

The principal outstanding under index linked debt is adjusted by the change in the Retail Prices Index at regular intervals Interest is charged at fixed rates on the adjusted amount

12 Financial instruments continued

d) Fair value of financial instruments

The group uses financial derivatives primarily 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 2010 interest rates on 70 4% of the group's borrowings were fixed for periods up to 11 5 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

	2010		2009	
Financial instrument by category asset/(liability)	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance business activities				
Short term deposits	**1 7**	**1.7**	147 1	147 1
Cash at bank and in hand	**5 1**	**5.1**	12 9	12 9
Short term debtors and creditors	**70.2**	**70.2**	70 2	70 2
Borrowings falling due within one year	**(244 5)**	**(243 9)**	(190 3)	(231 6)
Borrowings falling due after more than one year	**(3,631.7)**	**(3,885.8)**	(3,666 3)	(4,616 1)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	**-**	**(68.9)**	-	(101 5)
Currency instruments - cross currency swaps	**168 0**	**174 2**	205 9	197 1
Energy swaps	**-**	**(9.8)**	-	-
Total net financial liabilities	**(3,631.2)**	**(3,957 2)**	(3,420 5)	(4,521 9)
Other long term assets				
Other fixed asset investments	**0.1**	**0 1**	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

At the balance sheet date the group had committed undrawn borrowing facilities of £41 7 million expiring between one and two years (2009 £nil) and £458 3 million (2009 £500 million) expiring between two and five years

These facilities are held jointly with Severn Trent Plc

12 Financial instruments continued

f) Unrecognised gains and losses

Gains or losses on derivative instruments are not recognised until the expense 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 recognise the expected future benefit or cost of interest rate and foreign currency hedges to the group and company at 31 March 2010 given prevailing economic conditions

			Group
	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges 1 April 2009	23 2	(133 5)	(110 3)
Arising in previous years that were recognised in the year	-	13 1	13 1
Arising before 1 April 2009 that were not recognised in the financial year	23 2	(120 4)	(97 2)
Unrecognised gains and losses arising during the financial year	6 8	17 9	24 7
Unrecognised gains and losses at 31 March 2010	**30.0**	**(102.5)**	**(72.5)**
Expected to be recognised			
In one year or less	0 2	(2 4)	(2 2)
In later years	29 8	(100 1)	(70 3)

13 Provisions

Provisions for liabilities and charges comprise

				Group
	Balance at 1 April 2009 £m	Charged to profit and loss account £m	Utilised £m	**Balance at 31 March 2010 £m**
Restructuring	0 5	10 1	(0 1)	**10 5**
Self-insurance	0 9	-	(0 2)	**0 7**
Dilapidation and onerous leasehold properties	4 4	5 2	0 1	**9.7**
Deferred tax	503 3	21 2	-	**524 5**
	509 1	36 5	(0 2)	**545.4**

				Company
	Balance at 1 April 2009 £m	Charged to profit and loss account £m	Utilised £m	**Balance at 31 March 2010 £m**
Restructuring	0 5	10 1	(0 1)	**10 5**
Self-insurance	0 9	-	(0 2)	**0 7**
Dilapidation and onerous leasehold properties	4 4	5 2	0 1	**9.7**
Deferred tax	503 3	21 2	-	**524.5**
	509 1	36 5	(0 2)	**545.4**

13 Provisions continued

The restructuring provision reflects costs to be incurred in respect of committed programmes Substantially all of the associated outflows are expected to occur within one year (2009 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 (2009 up to four years) 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 eight years from the balance sheet date

Deferred tax

The full deferred tax liability, calculated at a tax rate of 28% is

	Group		Company	
	£m	£m	**£m**	£m
Capital allowances	**855 1**	820 3	**855 1**	820 3
Other timing differences	**(12.6)**	(11 4)	**(12 6)**	(11 4)
Deferred tax asset relating to pension liability	**(88 7)**	(58 7)	**(88.7)**	(58 7)
Share schemes	**(1 0)**	-	**(1.0)**	-
Undiscounted provision for deferred tax	**752 8**	750 2	**752.8**	750 2
Discount	**(317.0)**	(305 6)	**(317.0)**	(305 6)
Discounted provision for deferred tax	**435 8**	444 6	**435.8**	444 6
Adjustment for deferred tax asset relating to pension liability (note 17)	**88 7**	58 7	**88 7**	58 7
Deferred tax as disclosed in provisions	**524.5**	503 3	**524 5**	503 3
Provision at start of year	**503 3**	450 9	**503 3**	450 9
Deferred tax charge included in profit and loss account	**21 2**	52 4	**21 2**	52 4
Deferred tax charge included in statement of total recognised gains and losses	**(30 0)**	(27 4)	**(30.0)**	(27 4)
Adjustment for deferred tax relating to pension liability (note 17) - Included in statement of total recognised gains and losses charge	**30 0**	27 4	**30.0**	27 4
Provision at end of year	**524 5**	503 3	**524.5**	503 3

14 Share capital

	Group		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Authorised				
1,000,000,000 ordinary shares of £1 each (2009 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 (2009 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 2009	175 8	391 8
Profit for the financial year	256 8	256 5
Share based payments	2 9	2 9
Actuarial loss	(109 8)	(109 8)
Tax on actuarial loss	30 8	30 8
Dividends paid	(170 0)	(170 0)
At 31 March 2010	**186.5**	**402 2**

At 31 March 2010 cumulative goodwill written off against group reserves amounted to £29 2 million (2009 £29 2 million)

16 Commitments and contingent liabilities

a) Investment expenditure commitments

	Group and company	
	2010 £m	2009 £m
Contracted for but not provided in the financial statements	**320.9**	182 3

In addition to these commitments, the group and company have 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

	2010		2009	
	Land and buildings £m	**Other** £m	Land and buildings £m	Other £m
Within one year	**0 4**	-	0 2	0 6
Between one year and five years	-	-	0 7	-
After five years	**1.1**	-	1 4	-
	1 5	-	2 3	0 6

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

	2010		2009	
	Land and buildings £m	**Other** £m	Land and buildings £m	Other £m
Within one year	**0.4**	-	0 2	0 6
Between one year and five years	-	-	0 7	-
After five years	**12.1**	-	17 4	-
	12.5	-	18 3	0 6

16 Commitments and contingent liabilities continued

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 Therefore, as at 31 March 2010, the group and company had contingent liabilities of £5 1 million (2009 £12 9 million)

17 Pensions

The group and company participates in the Severn Trent Pension Scheme (STPS) and the Severn Trent Mirror Image Scheme (STMIS) (together 'the Schemes'), both of which are defined benefit schemes and are funded to cover future salary and pension increases The assets of the schemes are held in a separate fund administered by trustees

As from 1 April 2004, the STPS 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

	Date of last formal actuarial valuation
Severn Trent Pension Scheme*	31 March 2007
Severn Trent Mirror Image Pension Scheme	31 March 2009

*The STPS is by far the largest of the group's UK defined benefit schemes The Severn Trent Senior Staff Pension Scheme was merged with the STPS on 31 March 2009

Following the valuation of the STPS, the employers' contribution rates were increased to 33 24%, 27 70% or 16 62% of pensionable pay until 1 July 2008 when rates were set at 22 4% 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 2010 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

Valuation method	2010 Projected unit	2009 Projected unit
Price inflation	**3 60%**	2 90%
Salary increase	**4.10%**	3 90%
Pension increases in payment*	**3 60%**	3 00%
Pension increases in deferment*	**3 60%**	2 90%
Discount rate	**5 70%**	6 70%
Longevity at age 65 for pensioners retiring now		
- men (years)	**20 3**	20 1
- women (years)	**23 6**	23 2
Longevity at age 65 for pensioners retiring in 20 years		
- men (years)	**21 5**	20 9
- women (years)	**24 6**	23 9

* In excess of any Guaranteed Minimum Pension

17 Pensions continued

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

	Group and company	
	2010	2009
	£m	£m
Amounts charged to operating costs		
Current service cost	**(13 6)**	(21 2)
Past service cost	**-**	(0 5)
Curtailment loss	**(6.8)**	-
	(20.4)	(21 7)
Amounts charged to net finance costs		
Interest cost	**(76.5)**	(81 7)
Expected return on scheme assets	**63.4**	79 8
	(13 1)	(1 9)
Total amount charged in profit and loss account	**(33.5)**	(23 6)

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

An element of the service cost 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	
	2010	2009
	£m	£m
Present value of defined benefit obligations - funded schemes	**(1,557 1)**	(1,162 4)
Total fair value of assets	**1,240.4**	956 6
	(316.7)	(205 8)
Asset not recognised	**-**	(3 7)
Liability recognised in the balance sheet (before deferred tax)	**(316.7)**	(209 5)
Deferred tax	**88.7**	58 7
Liability recognised in the balance sheet	**(228.0)**	(150 8)

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

	Group and company	
	2010	2009
	£m	£m
At 1 April	**1,162 4**	1,295 5
Current service cost	**13.6**	21 2
Past service costs	**-**	0 5
Curtailment loss	**6.8**	-
Interest cost	**76.5**	81 7
Contributions from scheme members	**6.3**	7 6
Actuarial loss/(gain)	**353 4**	(184 5)
Benefits paid	**(61.9)**	(59 6)
At 31 March	**1,557.1**	1,162 4

17 Pensions continued

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

	Group and company	
	2010 £m	2009 £m
At 1 April	**956 6**	1,184 0
Expected return on scheme assets	**63.4**	79 8
Contributions	**26.0**	26 8
Special contributions	**10.1**	9 2
Contributions from scheme members	**6.3**	7 6
Actuarial gain/(loss)	**239 9**	(291 2)
Benefits paid	**(61 9)**	(59 6)
At 31 March	**1,240.4**	956 6

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

	Group and Company			
	2010		2009	
	Expected return	Fair value of assets £m	Expected return	Fair value of assets £m
Equities	**8.00%**	**665 2**	8 00%	484 2
Gilts	**4.50%**	**239 3**	4 20%	208 4
Corporate bonds	**5.70%**	**273 8**	6 70%	205 0
Property	**7.00%**	**54 6**	6 10%	46 5
Cash	**4.50%**	**7 5**	0 50%	12 5
Total fair value of assets		**1,240 4**		956 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 previous balance sheet date

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

The actual return on scheme assets was a gain of £303 3 million (2009 £211 4 million loss)

The estimated amount of normal contributions expected to be paid to the schemes during the year ending 31 March 2011 is £26 0 million and lump sum deficit contributions of £9 3 million are planned

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

	Group and company				
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	**(1,557.1)**	(1,162 4)	(1,295 5)	(1,314 1)	(1,254 6)
Fair value of scheme assets	**1,240 4**	956 6	1,184 0	1,208 6	1,104 4
Asset not recognised	**-**	(3 7)	-	-	-
Surplus/(deficit) of scheme	**(316 7)**	(209 5)	(111 5)	(105 5)	(150 2)
Experience adjustments on scheme liabilities	**17.9**	(8 5)	71 7	(8 9)	(111 5)
Difference between actual and expected return on scheme assets	**239.9**	(291 2)	(109 8)	(10 9)	137 5

17 Pensions continued

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 £3 0 million (2009 £4 0 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes As at 31 March 2010 all (2009 100%) contributions due in respect of the current reporting period have been paid over to the schemes

18 Share based payments

a) Share Option Schemes

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	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 April 2008	3,224,174	866p	10,379	776p
Granted during the year	1,566,089	862p	-	-
Forfeited during the year	(49,413)	971p	-	-
Cancelled during the year	(268,840)	1,333p	-	-
Exercised during the year	(881,148)	659p	(3,838)	899p
Expired during the year	(20,585)	762p	(3,416)	688p
Transferred to other group companies	(123,094)	965p	-	-
Outstanding at 1 April 2009	3,447,183	876p	3,125	720p
Granted during the year	926,225	806p	-	-
Forfeited during the year	(68,974)	996p	-	-
Cancelled during the year	(299,587)	977p	-	-
Exercised during the year	(565,574)	714p	-	-
Expired during the year	(19,682)	944p	-	-
Transferred to other group companies	(18,237)	948p	-	-
Outstanding at 31 March 2010	**3,401,354**	**872p**	**3,125**	**720p**

The weighted average share price during the period was £10 50 (2009 £12 70)

18 Share based payments continued

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 an HM Revenue and Customs approved Save as You Earn contract for a period of three or five years, the right to purchase ordinary shares in Severn Trent Plc Options outstanding at 31 March were as follows

			Number of shares	
	Normal date of exercise	Option price	2010	2009
January 2002	2009	548p	-	63,899
January 2003	2008 or 2010	536p	**72,210**	75,784
January 2004	2009 or 2011	592p	**52,956**	242,076
January 2005	2008, 2010 or 2012	759p	**311,337**	324,075
January 2006	2009, 2011, 2013	823p	**221,506**	537,724
January 2007	2010, 2012 or 2014	1,172p	**265,319**	322,203
January 2008	2011 or 2013	1,221p	**230,890**	318,431
January 2009	2012 or 2014	862p	**1,326,703**	1,562,991
January 2010	2013 or 2015	808p	**920,433**	-
			3,401,354	3,447,183

ii) Share Incentive Plan (SIP)

Under the SIP the board of Severn Trent Plc may grant awards to employees of Severn Trent group companies During the year the board of Severn Trent Plc has announced that it will make awards under the SIP based on performance against the company's KPI targets Eligible employees will be entitled to shares to a maximum value of £750 It is expected that these awards will be made in August 2010 SIP shares vest with employees on the date of grant

iii) Approved share options

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 were as follows

			Number of shares	
	Normal date of exercise	Option price	2010	2009
January 2002	2005-12	720p	**3,125**	3,125

b) Long Term Incentive Plan (LTIP)

Under the LTIP conditional awards are made to executive directors and senior staff Awards are subject to performance conditions and continued employment throughout the vesting period

The LTIP awards are subject to total shareholder return for Severn Trent Plc measured relative to the companies ranked 51-150 by market capitalisation in the FTSE index (excluding investment trusts)

18 Share based payments continued

c) Fair values of awards made in the year

	2010		2009	
	Number	Fair value £m	Number	Fair value £m
LTIP awards	**158,608**	**0.9**	123,743	0 9
Sharesave options	**926,225**	**2 5**	1,566,089	4 2

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

LTIP award year	2010	2009
Share price at grant date	**1,134p**	1,280p
Number of shares awarded	**158,608**	123,743
Number of employees	**20**	23
Vesting period (years)	**3**	3
Expected volatility	**25%**	17%
Expected life (years)	**3**	3
Expected dividend yield	**n/a**	n/a
Proportion of employees expected to cease employment before vesting	**0%**	0%
Fair value per share	**541p**	749p

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

Scheme year	2010		2009	
Scheme type	**3 year**	**5 year**	3 year	5 year
Share price at grant date	**1,080p**	**1,080p**	1,189p	1,189p
Number of options granted	**544,829**	**381,396**	858,622	707,467
Number of employees	**1,480**	**531**	1,880	827
Vesting period (years)	**3**	**5**	3	5
Expected volatility	**25%**	**25%**	17%	17%
Option life (years)	**3 5**	**5.5**	3 5	5 5
Expected life (years)	**3 25**	**5.25**	3 25	5 25
Risk free rate	**1.80%**	**2 78%**	2 24%	2 74%
Expected dividend yield	**4 0%**	**4 0%**	4 0%	4 0%
Proportion of employees expected to cease employment before vesting	**15 0%**	**17 0%**	15 0%	17 0%
Fair value per share	**264p**	**280p**	272p	268p

Volatility is based on historical observations as adjusted for unusual market fluctuations

During the period, the group recognised total expenses of £5 1 million (2009 £4 7 million) related to equity settled share based payment transactions

19 Group cash flow statement

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

	2010 £m	2009 £m
Operating profit	**528.9**	468 9
Depreciation charge (note 7)	**325.6**	338 0
Profit on disposal of fixed assets	**(4 3)**	(4 0)
Exceptional depreciation of fixed assets	**5 9**	-
Deferred income received	**3.8**	1 4
Deferred income credited to the profit and loss account	**(3 1)**	(3 3)
Provisions for liabilities and charges charged to the profit and loss account	**15.3**	4 3
Utilisation of provisions for liabilities and charges	**(0 2)**	(41 0)
Pension service and curtailment costs less contributions paid	**(15 7)**	(14 3)
Decrease/(increase) in stocks	**1 6**	(1 8)
(Increase)/decrease in debtors	**(35 1)**	3 6
(Decrease)/increase in creditors	**(14 9)**	11 4
Share based payments charge	**5 1**	4 7
Net cash flow from operating activities	**812 9**	767 9

b) Analysis of changes in net debt

	At 1 April 2009 £m	Cash flow £m	Other non-cash changes £m	At 31 March 2010 £m
Cash at bank and in hand	12 9	(7 8)	-	**5 1**
Overdrafts (note 10)	(0 2)	0 2	-	**-**
Net cash	12 7	(7 6)	-	**5 1**
Debt due within one year (note 10)	(146 7)	(50 6)	-	**(197 3)**
Debt due after one year (note 11)	(3,365 8)	2 8	(15 1)	**(3,378.1)**
Finance leases (notes 10 and 11)	(343 9)	43 2	(0 1)	**(300 8)**
Short term deposits (note 12)	147 1	(145 4)	-	**1.7**
Net debt (note 12)	(3,696 6)	(157 6)	(15 2)	**(3,869.4)**

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) Limited which is registered in England and Wales Copies of the Annual Report and Accounts of Severn Trent Plc, are available from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU

Alternatively, the report can be viewed and downloaded from Severn Trent Plc's website at **www.severntrent.com/reports2010**

As a wholly owned subsidiary, the company has taken advantage of the exemption from disclosing 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 arm's length, and

e) Keep proper accounting records which comply with Condition F

Diversification and the protection of the core business – Condition F6a

Severn Trent Water Limited and its subsidiary East Worcester Water Limited (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
27 May 2010

Report of the auditors

To the Water Services Regulation Authority

Independent auditors' report to the Water Services Regulation Authority (WSRA) and Severn Trent Water Limited and subsidiary undertakings (the group)

We have audited the Regulatory Accounts of the group which incorporates East Worcester Water Limited and its other subsidiary undertakings for the year ended 31 March 2010 set out on pages 56 to 70 which comprise

• the regulatory historical cost accounting statements for the group, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet and the reconciliation between statutory and regulatory accounts, 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 11 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 2006

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 directors' responsibilities for regulatory information on page 25

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 59 to 70 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 judgments 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 Chapter 3 of Part 16 of the Companies Act 2006 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 responsibility 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 56 to 57 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 2006 is given on page 58

Audit opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2010 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 2010 on a 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 56 to 57 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 59 to 70 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 LLP
Chartered Accountants
Birmingham UK
27 May 2010

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 2010

	2010				2009			
	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m
Turnover	1,370 2	8 5	-	1,378 7	1,309 5	7 1	(0 1)	1,316 5
Operating costs	(622 1)	(13.3)	8.0	(627 4)	(623 2)	(13 0)	7 9	(628 3)
Historical cost depreciation	(232 5)	-	-	(232 5)	(216 2)	-	-	(216 2)
Other operating income	4.3	8.0	(8.0)	4 3	4 0	7 8	(7 8)	4 0
Operating profit	519.9	3 2	-	523 1	474 1	1 9	-	476 0
Other income	2.0	1 8	-	3.8	1 4	2 0	-	3 4
Net interest payable	(201.6)	-	-	(201 6)	(187 3)	-	-	(187 3)
Profit on ordinary activities before taxation	320 3	5.0	-	325 3	288 2	3 9	-	292 1
Taxation on profit on ordinary activities								
- Current tax	(47 9)	(1.4)	-	(49.3)	(64 1)	(1 1)	-	(65 2)
- Deferred tax	(21 2)	-	-	(21.2)	(52 4)	-	-	(52 4)
Taxation	(69.1)	(1.4)	-	(70 5)	(116 5)	(1 1)	-	(117 6)
Profit on ordinary activities after taxation	251 2	3 6	-	254 8	171 7	2 8	-	174 5
Dividends	(166 4)	(3 6)	-	(170.0)	(151 9)	(2 8)	-	(154 7)
Retained profit for the financial year	84.8	-	-	84.8	19 8	-	-	19 8

Statement of total recognised gains and losses year ended 31 March 2010

	2010				2009			
	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m
Profit for the financial year	251 2	3.6	-	254 8	171 7	2 8	-	174 5
Actuarial loss	(109.8)	-	-	(109.8)	(110 4)	-	-	(110 4)
Tax on actuarial loss	30.8	-	-	30 8	30 9	-	-	30 9
Total recognised gains and losses for the financial year	172.2	3 6	-	175.8	92 2	2 8	-	95 0

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

Group balance sheet as at 31 March 2010

	2010				2009			
	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m	Appointed business £m	Non-appointed business £m	Inter segment £m	Total £m
Fixed assets								
Tangible assets	**5,959 6**	**3.4**	-	**5,963 0**	5,673 9	2 6	-	5,676 5
Current assets								
Stocks	**6 4**	-	-	**6.4**	8 0	-	-	8 0
Debtors	**317 0**	-	-	**317.0**	281 1	-	-	281 1
Short term deposits	**1 7**	-	-	**1.7**	147 1	-	-	147 1
Cash at bank and in hand	**5.1**	-	-	**5.1**	12 9	-	-	12 9
	330 2	-	-	**330.2**	449 1	-	-	449 1
Creditors amounts falling due within one year								
Overdrafts	-	-	-	-	(0 2)	-	-	(0 2)
Creditors	**(377 2)**	**(3.4)**	-	**(380 6)**	(351 8)	(2 6)	-	(354 4)
Borrowings	**(244.5)**	-	-	**(244.5)**	(190 1)	-	-	(190 1)
Corporation tax payable	**(53 2)**	-	-	**(53 2)**	(45 7)	-	-	(45 7)
Infrastructure renewal accrual	**(1 8)**	-	-	**(1 8)**	(8 4)	-	-	(8 4)
	(676.7)	**(3.4)**	-	**(680 1)**	(596 2)	(2 6)	-	(598 8)
Net current liabilities	**(346.5)**	**(3 4)**	-	**(349.9)**	(147 1)	(2 6)	-	(149 7)
Total assets less current liabilities	**5,613 1**	-	-	**5,613 1**	5,526 8	-	-	5,526 8
Creditors amounts falling due after more than one year								
Borrowings	**(3,631.7)**	-	-	**(3,631.7)**	(3,666 3)	-	-	(3,666 3)
Other creditors	**(2 4)**	-	-	**(2 4)**	(4 5)	-	-	(4 5)
	(3,634.1)	-	-	**(3,634.1)**	(3,670 8)	-	-	(3,670 8)
Provisions for liabilities and charges								
- Deferred taxation	**(524.5)**	-	-	**(524.5)**	(503 3)	-	-	(503 3)
- Other provisions	**(20.9)**	-	-	**(20.9)**	(5 8)	-	-	(5 8)
Deferred income	**(37 9)**	-	-	**(37.9)**	(37 1)	-	-	(37 1)
Pension deficit	**(228 0)**	-	-	**(228.0)**	(150 8)	-	-	(150 8)
Net assets	**1,167 7**	-	-	**1,167 7**	1,159 0	-	-	1,159 0
Capital and reserves								
Called up share capital	**1,000 0**	-	-	**1,000.0**	1,000 0	-	-	1,000 0
Profit and loss account	**167 7**	-	-	**167 7**	159 0	-	-	159 0
Shareholders' funds	**1,167.7**	-	-	**1,167.7**	1,159 0	-	-	1,159 0

Reconciliation between statutory accounts and regulatory accounts

	2010 £m	Explanation
Profit and Loss		
Turnover as per statutory accounts	**1,385 3**	
ROC ıncome	(6 6)	Income related to exported energy Renewable Oblıgatıon Certıficates (ROC's) and ROC bonuses are deducted from operatıng costs for the regulatory accounts
Turnover as per regulatory accounts	**1,378 7**	
Depreciatıon as per statutory accounts	**(331 5)**	
Depreciatıon - ınfrastructure	95 9	Reclassıfied ın regulatory accounts
Deferred credıts wrıtten back	3 1	Reclassıfied ın regulatory accounts
Depreciatıon as per regulatory HCA accounts	**(232 5)**	
Operatıng costs per statutory accounts	**(860.2)**	
Add back Other operatıng profit	(4 3)	Reclassıfied ın regulatory accounts
ROC ıncome	6 6	From turnover as explaıned above
HC ınfrastructure assets	(97 9)	
Statutory ınfrastructure assets	95 9	
Total ınfrastructure assets dıfference	(2 0)	Adjustment to ınfrastructure renewals charge
Operating costs per regulatory accounts	**(859 9)**	
Operatıng profit as per statutory accounts	**528.9**	
Non operatıng ıncome	(3 8)	Rental ıncome ıs ıncluded wıthın operatıng profit for statutory accounts
HC ınfrastructure assets	(2 0)	Adjustment to ınfrastructure renewals charge
Operatıng profit as per regulatory HCA accounts	**523 1**	
Profit before tax as per statutory accounts	**327 3**	
HC ınfrastructure assets	(2 0)	Adjustment to ınfrastructure renewals charge
Profit before tax as per regulatory accounts	**325 3**	
Balance sheet		
Net assets as per statutory accounts	**1,186 5**	
Infrastructure renewals accrual	(18 8)	Adjustment to ınfrastructure renewals charge (prıor and current years)
Net assets as per regulatory HCA accounts	**1,167 7**	

Regulatory accounts – current cost financial statements

Group profit and loss account: appointed business year ended 31 March 2010

	Notes	2010 £m	2009 £m
Turnover	3a	**1,370 2**	1,309 5
Current operating cost	3d	**(894 4)**	(896 4)
Other operating income	3b	**4 3**	3 9
		480 1	417 0
Working capital adjustment	3c	**(0.3)**	0 1
Current cost operating profit		**479 8**	417 1
Other income		**2 0**	1 4
Net interest payable		**(201 6)**	(187 3)
Financing adjustment		**130 8**	(10 6)
Current cost profit before taxation		**411 0**	220 6
Taxation on profit on ordinary activities			
- Current tax		**(47.9)**	(64 1)
- Deferred tax		**(21 2)**	(52 4)
Taxation		**(69.1)**	(116 5)
Current cost profit attributable to shareholders after taxation		**341 9**	104 1
Dividend		**(166.4)**	(151 9)
Current cost profit/(loss) retained		**175 5**	(47 8)

Statement of total recognised gains and losses: appointed business year ended 31 March 2010

	2010 £m	2009 £m
Profit for the financial year	**341 9**	104 1
Actuarial loss	**(109 8)**	(110 4)
Tax on actuarial loss	**30 8**	30 9
Total recognised gains and losses for the financial year	**262 9**	24 6

Group balance sheet· Appointed business as at 31 March 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	4	**31,761.0**	30,134 9
Third party contributions since 1989/90		**(1,752.6)**	(1,611 2)
		30,008 4	28,523 7
Working capital	5	**(8.2)**	6 3
Short term deposits		**6 8**	160 0
Overdrafts		**-**	(0 2)
Infrastructure renewals accrual		**(1.8)**	(8 4)
Net operating assets		**30,005 2**	28,681 4
Non operating assets and liabilities			
Borrowings		**(244 5)**	(190 1)
Non trade debtors		**6.4**	2 2
Non trade creditors due within one year		**(52.0)**	(71 2)
Corporation tax payable		**(53.2)**	(45 7)
Total non operating assets and liabilities		**(343.3)**	(304 8)
Creditors amounts falling due after more than one year			
Borrowings		**(3,631.7)**	(3,666 3)
Other creditors		**(2 4)**	(4 5)
		(3,634.1)	(3,670 8)
Provision for liabilities and charges			
Deferred taxation		**(524 5)**	(503 3)
Other provisions		**(20.9)**	(5 8)
Pension deficit		**(228 0)**	(150 8)
Net provisions		**(773 4)**	(659 9)
Total assets		**25,254 4**	24,045 9
Capital and reserves			
Called up share capital		**1,000 0**	1,000 0
Profit and loss account	6	**(327.7)**	(427 1)
Current cost reserve	7	**24,582.1**	23,473 0
		25,254.4	24,045 9

Group cash flow statement year ended 31 March 2010

	Notes	2010 Appointed business £m	2010 Non-appointed business £m	2010 Total £m	2009 Appointed business £m	2009 Non-appointed business £m	2009 Total £m
Net cash inflow from operating activities	8	**807 1**	**5.8**	**812 9**	761 4	6 5	767 9
Returns on investments and servicing of finance							
Interest received		**3 0**	-	**3.0**	12 5	-	12 5
Interest paid		**(164.4)**	-	**(164 4)**	(157 7)	-	(157 7)
Interest element of finance lease rental payments		**(10.0)**	-	**(10.0)**	(16 2)	-	(16 2)
Net cash inflow from returns on investing and servicing of finance		**(171.4)**	-	**(171 4)**	(161 4)	-	(161 4)
Taxation		**(59.7)**	**(1.4)**	**(61.1)**	(56 7)	(1 1)	(57 8)
Capital expenditure							
Purchase of tangible fixed assets		**(486 8)**	**(0.8)**	**(487.6)**	(491 5)	(2 6)	(494 1)
Grants and contributions received		**19.6**	-	**19.6**	29 4	-	29 4
Infrastructure renewals expenditure		**(104.5)**	-	**(104 5)**	(130 1)	-	(130 1)
Disposal of fixed assets		**6.7**	-	**6.7**	6 0	-	6 0
Net cash inflow from investing activities		**(565.0)**	**(0.8)**	**(565 8)**	(586 2)	(2 6)	(588 8)
Equity dividends paid		**(166 4)**	**(3 6)**	**(170 0)**	(151 9)	(2 8)	(154 7)
Net cash outflow before management of liquid resources and financing		**(155 4)**	-	**(155.4)**	(194 8)	-	(194 8)
Management of liquid resources		**145.4**	-	**145 4**	301 6	-	301 6
Net cash flow before financing		**(10.0)**	-	**(10.0)**	106 8	-	106 8
Financing							
Finance leases repaid		**(43.2)**	-	**(43.2)**	(41 1)	-	(41 1)
Loans advanced		**195.5**	-	**195 5**	410 5	-	410 5
Loans repaid		**(147.7)**	-	**(147.7)**	(78 8)	-	(78 8)
Purchase of shares		**(2 2)**	-	**(2.2)**	(1 7)	-	(1 7)
		2.4	-	**2.4**	288 9	-	288 9
Net (decrease)/increase in cash		**(7 6)**	-	**(7.6)**	395 7	-	395 7

Reconciliation of net cash flow to movement in net debt

	2010 Appointed business £m	2010 Non-appointed business £m	2010 Total £m	2009 Appointed business £m	2009 Non-appointed business £m	2009 Total £m
Net (decrease)/increase in cash as above	**(7.6)**	-	**(7.6)**	395 7	-	395 7
Cash flow from movement in net debt	**(4.6)**		**(4 6)**	(290 6)		(290 6)
Cash flow from movement in liquid resources	**(145.4)**		**(145 4)**	(301 6)		(301 6)
Change in net debt resulting from cash flows	**(157.6)**	-	**(157.6)**	(196 5)	-	(196 5)
Rolled up interest on net debt	**(15 2)**		**(15 2)**	(20 0)		(20 0)
Increase in net debt	**(172 8)**	-	**(172.8)**	(216 5)	-	(216 5)
Opening net debt	**(3,696 6)**		**(3,696.6)**	(3,480 1)		(3,480 1)
Closing net debt	**(3,869 4)**	-	**(3,869.4)**	(3,696 6)	-	(3,696 6)

Notes to the current cost financial statements

Year ended 31 March 2010

1 Regulatory reporting

The regulatory accounts as reported on pages 56 to 70 should be read in conjunction with the operating and financial review on pages 7 to 18 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 reduced to reflect this

In particular, attention is drawn to pages 19 and 20 of the Directors' report which sets out the link between Directors' pay and standards of performance and page 22 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 Limited 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 2006

b) General

The accounting policies used are the same as those adopted in the statutory historical cost financial statements on pages 27 to 52, except as set out below

c) Operating costs

Income relating to electricity generation is deducted from operating costs The difference between this treatment and that adopted in the statutory accounts is described on page 58

d) 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 1d)

Non-specialised operational assets

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

ii) Infrastructure assets

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

iii) Other assets

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

iv) Surplus land

Surplus land 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

e) 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

2 Accounting polıcies contınued

f) Real financıal capıtal maintenance adjustments

These adjustments are made to hıstorıcal cost operatıng profit ın order to arrıve at profit after the maıntenance of financıal capıtal ın real terms

Workıng capıtal adjustment – thıs ıs calculated by applyıng the change ın RPI over the year to the openıng total of trade debtors and stock, less trade credıtors

Fınancıng adjustment – thıs ıs calculated by applyıng the change ın RPI over the year to the openıng balance of net finance, whıch comprıses all assets and lıabılıtıes ın the balance sheet apart from those ıncluded ın workıng capıtal and excludıng fixed assets, deferred taxatıon provısıon, ındex lınked debt and dıvıdends payable

3 Analysis of current cost turnover and operating costs

a) Turnover

	2010			2009		
	Water services £m	**Sewerage services £m**	**Total £m**	Water servıces £m	Sewerage servıces £m	Total £m
Unmeasured - household	**328.9**	**375 2**	**704 1**	322 0	365 9	687 9
Unmeasured - non-household	**3.0**	**7.0**	**10.0**	2 7	4 8	7 5
Unmeasured	**331.9**	**382 2**	**714 1**	324 7	370 7	695 4
Measured - household	**142 4**	**148 6**	**291.0**	127 5	136 2	263 7
Measured - non-household	**124.3**	**156 4**	**280 7**	114 8	154 3	269 1
Measured	**266 7**	**305.0**	**571.7**	242 3	290 5	532 8
Trade effluent	**-**	**11.1**	**11 1**	-	12 0	12 0
Larger user tarıffs and specıal agreements	**25 4**	**33 5**	**58 9**	24 0	29 7	53 7
Revenue grants	**-**	**0.6**	**0.6**	-	0 4	0 4
Rechargeable works	**1 1**	**-**	**1.1**	1 6	0 5	2 1
Bulk supplıes/ınter-company	**4 7**	**-**	**4.7**	4 0	-	4 0
Other	**4 0**	**-**	**4.0**	4 0	0 1	4 1
Thırd partıes	**9.8**	**-**	**9.8**	9 6	0 6	10 2
Other sources	**1 3**	**2.7**	**4 0**	1 8	3 2	5 0
Total turnover	**635 1**	**735.1**	**1,370 2**	602 4	707 1	1,309 5

b) Other operatıng ıncome

	2010			2009		
	Water services £m	**Sewerage services £m**	**Total £m**	Water servıces £m	Sewerage servıces £m	Total £m
Current cost profit on dısposal of tangıble fixed assets	**2.2**	**2.1**	**4.3**	1 1	2 8	3 9

c) Working capıtal adjustment

	2010			2009		
	Water services £m	**Sewerage services £m**	**Total £m**	Water servıces £m	Sewerage servıces £m	Total £m
Workıng capıtal adjustment	**(0.1)**	**(0.2)**	**(0 3)**	0 1	-	0 1

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets

2010	Water services: Resources and treatment £m	Water services: Distribution £m	Water services: Water services subtotal £m	Sewerage services: Sewerage £m	Sewerage services: Sewerage treatment £m	Sewerage services: Sludge treatment and disposal £m	Sewerage services: Sewerage services total £m
Direct costs							
Employment costs	5 9	18 5	24 4	9 1	10 4	4 9	24 4
Power	11 5	18 9	30 4	5 8	10 4	(4 6)	11 6
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4 3	17 9	22 2	6 7	4 5	15 6	26 8
Associated companies	1 1	0 1	1 2	-	-	-	-
Materials and consumables	8 3	3 9	12 2	1 0	3 9	8 0	12 9
Service charges	11 9	-	11 9	2 8	5 7	-	8 5
Bulk supply imports	10 2	-	10 2	-	-	-	-
Other direct costs	0 4	3 2	3 6	1 5	0 4	0 2	2 1
Total direct costs	**53 6**	**62 5**	**116.1**	**26 9**	**35 3**	**24 1**	**86.3**
General and support expenditure	28 3	27 6	55 9	17 5	33 4	13 1	64 0
Functional expenditure	**81.9**	**90.1**	**172.0**	**44 4**	**68.7**	**37 2**	**150 3**
Business activities							
Customer services			20 3				23 0
Scientific services			6 8				5 9
Other business activities			3 3				3 3
			202.4				**182.5**
Local authority rates			39 3				18 1
Doubtful debts			15 7				18 2
Exceptional items			18 7				17 5
			276.1				**236 3**
Services for third parties			10 8				1 0
Total operating expenditure			**286.9**				**237 3**
Capital maintenance							
Infrastructure renewals charge	1 6	60 1	61 7	36 2	-	-	36 2
Current cost depreciation	51 8	51 3	103 1	36 6	103 4	32 2	172 2
Amortisation of deferred income			(1 4)				(1 7)
Business activity capital costs			-				-
			163.4				**206 7**
Services for third parties depreciation			0 1				-
Total capital maintenance			**163.5**				**206 7**
Total operating costs			**450.4**				**444.0**
Analysis of tangible fixed assets							
Service activities	1,798 4	7,779 8	9,578 2	19,497 0	1,769 0	368 6	21,634 6
Business activities			180 9	66 1	94 4	19 7	180 2
Service totals			**9,759.1**				**21,814.8**
Services for third parties			187 1				-
Total			**9,946.2**				**21,814.8**

Included within customer service costs is £3 5 million (2009 £3 5 million) and within 2009 exceptional items is £5 0 million payable 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

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs and tangible fixed assets continued

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 costs 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

	Water services			Sewerage services			
2009	Resources and treatment £m	Distribution £m	Water services subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewerage service total £m
Direct costs							
Employment costs	6 7	16 7	23 4	7 4	11 8	5 8	25 0
Power	10 2	16 9	27 1	5 6	10 7	(3 0)	13 3
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4 1	13 2	17 3	8 9	5 1	15 4	29 4
Associated companies	1 0	0 1	1 1	-	-	-	-
Materials and consumables	7 9	3 2	11 1	1 1	4 5	7 7	13 3
Service charges	11 4	-	11 4	3 2	5 9	-	9 1
Bulk supply imports	9 0	-	9 0	-	-	-	-
Other direct costs	0 3	4 5	4 8	1 3	0 7	0 4	2 4
Total direct costs	**50.6**	**54 6**	**105.2**	**27 5**	**38 7**	**26.3**	**92.5**
General and support expenditure	26 6	28 6	55 2	24 3	35 9	17 5	77 7
Functional expenditure	**77.2**	**83 2**	**160.4**	**51 8**	**74 6**	**43.8**	**170.2**
Business activities							
Customer services			21 4				24 3
Scientific services			6 4				6 1
Other business activities			3 7				3 7
			191.9				**204.3**
Local authority rates			37 7				18 3
Doubtful debts			13 9				16 4
Exceptional items			8 6				10 8
			252.1				**249.8**
Services for third parties			11 6				1 6
Total operating expenditure			**263.7**				**251.4**
Capital maintenance							
Infrastructure renewals charge	3 0	64 4	67 4	40 6	-	-	40 6
Current cost depreciation	55 4	49 8	105 2	32 9	105 2	32 8	170 9
Amortisation of deferred income			(1 3)				(1 9)
Business activity capital costs			-				-
			171.3				**209.6**
Services for third parties depreciation			0 4				-
Total capital maintenance			**171.7**				**209.6**
Total operating costs			**435.4**				**461 0**
Analysis of tangible fixed assets							
Service activities	1,736 5	7,361 6	9,098 1	18,472 7	1,767 3	342 9	20,582 9
Business activities			138 0	50 4	-	87 0	137 4
Service totals			**9,236.1**				**20,720.3**
Services for third parties			178 5				-
Total			**9,414.6**				**20,720.3**

3 Analysis of current cost turnover and operating costs continued

e) Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for 2010 in respect of infrastructure assets amounted to £26 1 million on water services (2009 £24 1 million) and £11 8 million for sewerage services (2009 £16 1 million)

Expenditure on reactive and planned maintenance included in operating costs for 2010 in respect of non-infrastructure assets amounted to £10 7 million on water services (2009 £10 0 million) and £30 7 million for sewerage services (2009 £33 7 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	Infrastructure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2009	2,384 8	127 6	8,194 0	351 2	11,057 6
RPI and other adjustments	98 2	5 2	363 5	16 5	483 4
Additions	102 8	19 3	45 8	56 2	224 1
Disposals and amounts written off	(17 8)	(1 3)	-	(5 5)	(24 6)
At 31 March 2010	**2,568.0**	**150.8**	**8,603 3**	**418 4**	**11,740.5**
Depreciation					
At 1 April 2009	1,358 2	40 9	-	241 5	1,640 6
RPI and other adjustments	60 1	1 8	-	12 2	74 1
Charge for the year	73 0	2 3	-	27 9	103 2
Disposals and amounts written off	(17 9)	(1 2)	-	(4 5)	(23 6)
At 31 March 2010	**1,473 4**	**43 8**	-	**277.1**	**1,794 3**
Net book value					
At 31 March 2010	**1,094.6**	**107 0**	**8,603 3**	**141.3**	**9,946 2**
At 1 April 2009	1,026 6	86 7	8,194 0	109 7	9,417 0

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

b) Sewerage services tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2009	4,603 8	145 0	18,202 7	320 3	23,271 8
RPI and other adjustments	194 8	6 1	803 3	20 7	1,024 9
Additions	199 7	19 7	96 7	50 0	366 1
Disposals and amounts written off	(44 4)	(1 3)	-	(5 5)	(51 2)
At 31 March 2010	**4,953 9**	**169.5**	**19,102.7**	**385.5**	**24,611 6**
Depreciation					
At 1 April 2009	2,302 9	39 1	-	211 9	2,553 9
RPI and other adjustments	107 6	1 8	-	11 1	120 5
Charge for the year	140 5	2 3	-	29 4	172 2
Disposals and amounts written off	(44 1)	(1 2)	-	(4 5)	(49 8)
At 31 March 2010	**2,506.9**	**42.0**	**-**	**247.9**	**2,796.8**
Net book value					
At 31 March 2010	**2,447 0**	**127 5**	**19,102 7**	**137 6**	**21,814 8**
At 1 April 2009	2,300 9	105 9	18,202 7	108 4	20,717 9

c) Total tangible fixed assets analysed by asset type

	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other assets £m	Total £m
Gross replacement cost					
At 1 April 2009	6,988 6	272 6	26,396 7	671 5	34,329 4
RPI and other adjustments	293 0	11 3	1,166 8	37 2	1,508 3
Additions	302 5	39 0	142 5	106 2	590 2
Disposals and amounts written off	(62 2)	(2 6)	-	(11 0)	(75 8)
At 31 March 2010	**7,521.9**	**320 3**	**27,706 0**	**803 9**	**36,352.1**
Depreciation					
At 1 April 2009	3,661 1	80 0	-	453 4	4,194 5
RPI and other adjustments	167 7	3 6	-	23 3	194 6
Charge for the year	213 5	4 6	-	57 3	275 4
Disposals and amounts written off	(62 0)	(2 4)	-	(9 0)	(73 4)
At 31 March 2010	**3,980 3**	**85 8**	**-**	**525.0**	**4,591 1**
Net book value					
At 31 March 2010	**3,541.6**	**234 5**	**27,706.0**	**278.9**	**31,761 0**
At 1 April 2009	3,327 5	192 6	26,396 7	218 1	30,134 9

5 Working capital

	2010 £m	2009 £m
Stocks	**6.4**	8 0
Trade debtors		
Measured household	**33.1**	31 0
Unmeasured household	**55.8**	53 3
Measured non-household	**30 2**	31 9
Unmeasured non-household	**1 0**	1 1
Other	**3 1**	2 3
Measured income accrual	**134.5**	125 6
Prepayments and other debtors	**52 9**	33 7
Trade creditors	**(8 2)**	(20 3)
Deferred income - customer advance receipts	**(120 0)**	(115 8)
Capital creditors and accruals	**(124 7)**	(71 2)
Accruals and other creditors	**(72 3)**	(73 3)
Working capital	**(8 2)**	6 3

6 Reserves – profit and loss account

	2010 £m	2009 £m
At 1 April	**(427 1)**	(302 8)
Retained current cost profit/(loss) for the year	**175 5**	(47 8)
Share based payments	**2 9**	3 0
FRS 17 actuarial loss	**(109.8)**	(110 4)
Tax on actuarial loss	**30 8**	30 9
At 31 March	**(327 7)**	(427 1)

7 Reserves – current cost reserve

	2010 £m	2009 £m
At 1 April	**23,473.0**	23,566 2
AMP adjustment	**-**	-
RPI adjustments		
Fixed assets	**1,313.7**	(109 4)
Working capital	**0 3**	(0 1)
Financing	**(130 8)**	10 6
Grants and third party contributions	**(74 1)**	5 7
At 31 March	**24,582 1**	23,473 0

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

	2010 £m	2009 £m
Current cost operating profit	**479.8**	417 1
Working capital adjustment	**0 3**	(0 1)
Working capital changes	**(39 0)**	10 6
Other income	**2 0**	1 4
Current cost depreciation after amortisation of deferred income	**272 3**	273 3
Current cost profit on disposal of tangible assets	**(4.3)**	(3 9)
Infrastructure renewals charge	**97.9**	108 0
Other non-cash profit and loss items	**(1 9)**	(45 0)
Net cash inflow from operating activities	**807.1**	761 4

9 Analysis of net debt

Interest rate risk profile

	Fixed interest rate £m	Floating interest rate £m	Index linked rate £m	Total £m
Maturity profile				
Less than one year	208 7	35 8	-	244 5
Between one and two years	15 6	4 0	-	19 6
Between two and five years	261 1	131 8	145 7	538 6
Between five and twenty years	1,710 2	454 8	156 4	2,321 4
In more than twenty years	-	-	752 1	752 1
Total borrowings excluding overdrafts	**2,195 6**	**626 4**	**1,054.2**	**3,876.2**
Overdrafts	-	-	-	-
Total borrowings including overdrafts	**2,195.6**	**626 4**	**1,054.2**	**3,876.2**
Impact of interest rate swaps entered into by the group and company	535 0	(535 0)	-	-
Total borrowings after the impact of interest rate swaps	**2,730 6**	**91 4**	**1,054.2**	**3,876 2**
Short term deposits and cash at bank and in hand	-	(6 8)	-	(6 8)
Net debt as at 31 March 2010	**2,730 6**	**84.6**	**1,054 2**	**3,869 4**
Total borrowings after the impact of interest rate swaps as at 31 March 2009	2,543 4	272 5	1,040 7	3,856 6
Short term deposits and cash at bank and in hand	-	(160 0)	-	(160 0)
Net debt as at 31 March 2009	2,543 4	112 5	1,040 7	3,696 6

Fixed interest debt incurs interest at a weighted average rate of 5 8% (2009 5 9%) Interest on these borrowings is fixed for a weighted average period of 11 5 years (2009 12 7 years)

10 Reconciliation of HCA operating profit to CCA operating profit

	2010 £m	2009 £m
HCA operating profit per regulatory accounts	**523 1**	476 0
Less non appointed activities	**(3.2)**	(1 9)
Sub total HCA accounts	**519 9**	474 1
Less difference in profit on disposals	**-**	(0 1)
Add working capital adjustment	**(0 3)**	0 1
Add HCA depreciation including infrastructure renewals charge	**333 5**	327 5
Less CCA depreciation	**(275 4)**	(276 5)
Less infrastructure renewals charge	**(97.9)**	(108 0)
CCA operating profit	**479 8**	417 1

As in previous years the principal reconciling item between the historical cost profit and the current cost profit is the difference in depreciation charges

11 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 Values (RCV)

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

	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	6,198	6,347

Regulatory capital values at 2009/10 prices

	2010 £m
Opening regulatory capital value for the year	**6,198**
Indexation	**28**
Opening regulatory capital value at average 2009/10 prices	**6,226**
Capital expenditure	**514**
Infrastructure renewals expenditure	**94**
Grants and contributions	**(42)**
Depreciation	**(297)**
Infrastructure renewals charge	**(96)**
Outperformance of regulatory assumptions	**(52)**
Closing regulatory capital value	**6,347**
Average regulatory capital value	**6,287**

The RCVs in this table are based on those published by Ofwat in its letter RD08/06, inflated to 2009/10 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 benefits 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

Supplementary Regulatory Accounting Disclosures – unaudited

Year ended 31 March 2010

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 %
Severn Trent Utilities Finance Plc	Borrowed	17 5	August 2009	2 05
Severn Trent Reservoirs Limited	Borrowed	9 8	October 2009	6 41
Severn Trent Utilities Finance Plc	Borrowed	400 0	January 2018	6 00

b) Dividends

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 factors changes The ordinary dividend declared and paid by the company in 2009/10 amounted to £170 0 million (2009 £154 7 million), being 17p per share (2009 15 47p per share)

c) Transfer of assets/liabilities

During 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 and office accommodation	Various	Market rent	-
Service charges in respect of payroll, legal, transport and other	Various	Cost	0 7
Water, tankering, reception, treatment and disposal of waste	Various	Market rent	0 5
			1 2

Services supplied to the Appointees by associated companies

Nature of transactions	Company	Competitive letting £m	Other market testing £m	No market £m	**Total turnover £m**
Asset management	Cognica Ltd	0 1	-	-	**0 1**
Provision of customer care facilities	Complete Credit Management Ltd	0 1	-	-	**0 1**
Insurance services	Derwent Insurance Ltd	-	3 5	-	**3 5**
Analytical services	Severn Trent Laboratories Ltd	6 0	-	-	**6 0**
Supply of materials	Severn Trent Metering Services Ltd	-	-	-	**-**
Meter installation and maintenance	Severn Trent Metering Services Ltd	8 8	-	-	**8 8**
Provision of customer services	Severn Trent Select Limited	-	0 1	-	**0.1**
Supply of materials and other engineering services	Severn Trent Services Ltd	0 7	-	0 5	**1 2**
Pass through costs	Severn Trent Plc	-	-	1 2	**1 2**
		15 7	3 6	1 7	**21.0**

Of the £21 0 million, £9 2 million was spent on investment expenditure

e) Omission rights

None

f) Waivers

None

g) Guarantees

None

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