

Severn Trent Water Limited

Report and financial statements for the year ended 31 March 2012

Company number 2366686

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Report and financial statements

For the year ended 31 March 2012

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At a glance

Severn Trent Water provides high quality water and sewerage services to over 4.2 million households and businesses in the Midlands and mid-Wales

Our vision

Our vision is to be the best water and waste water company in the UK by providing the highest standards, and lowest possible charges, through our great people

Key strengths

- We are committed to long term sustainability, keeping in balance the needs of our customers, the environment and our investors
- Our high standards and efficiencies keep our costs low and generate progressive, sustainable returns for our shareholders
- Our bills for water and sewerage combined are the lowest on average in England and Wales
- We have one of the lowest per capita consumption rates in the UK
- We continually work to improve our performance and deliver cost and operational efficiencies against Key Performance Indicators (KPIs), each of which is aligned to our long term strategy
- We have a clear business plan and a strong management team

Where we operate

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

Key Facts

Drinking water supplied per day
1.8bn litres

Employees at 31 March 2012

5,294

Turnover £m

1,457.5 2012 **1,389.8 2011**

Profit* £m

500.0 2012 **503.7 2011**

*Before interest, tax and exceptional items

Waste water collected per day

1.4bn litres

The industry

The water industry in England and Wales invests more than £3 billion a year and employs over 27,000 people. There are currently 10 water and sewerage companies in England and Wales. Our sector is facing significant long term challenges. The privatisation of the industry in 1989 led to improvements in services to customers, better quality drinking water and higher environmental standards. Our proposals for changes in our industry are helping us to play a role in shaping the debate.

Our business

Severn Trent Water is a regulated business. We work within five year planning cycles, with the prices we charge our customers set at the beginning of each cycle by our economic regulator, Ofwat. These five year cycles are known as Asset Management Plan (AMP) periods. We have just reached the end of the second year of AMP5.

How we measure success

Water companies are required to publish performance against a set of indicators. These indicators provide Ofwat with an overall picture of company performance against the commitments made as part of the AMP5 price review.

As well as being regulated by Ofwat, our performance is also monitored by

- the Drinking Water Inspectorate, which is responsible for making sure we comply with drinking water quality regulations, and
- the Environment Agency, which controls water abstraction, river pollution and flooding

We also work with the UK Government (including the Department for Environment, Food and Rural Affairs and the Welsh Assembly Government) and other agencies such as the Consumer Council for Water, Natural England and Countryside Council for Wales to make sure we meet the highest customer service and environmental standards, while offering our customers the lowest prices

Key strategic intentions

Our strategy is based on 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)

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

Delivering our strategy through areas of focus

We focus on four key areas – customers, people, process and finance – to deliver the highest standards and lowest charges to our customers, through a highly skilled and committed workforce

Customers

Our household customers have on average, the lowest bills in England and Wales. But keeping customers satisfied is not just about low charges and value for money. We also need to deliver reliability, reflect their needs and priorities in our plans, communicate clearly, keep our promises and put things right if they go wrong.

People

Our people are the cornerstone of our success. We strive to recruit, train and retain the best people, underpinned by great workplaces and a strong culture of safety and personal responsibility.

Process

Our drive to work safer, better and faster is the foundation of our approach to continuous improvement. Making sure we have the right processes and systems in place is a fundamental part of our drive for operational excellence.

Finance

The higher our standards the more effectively and efficiently we work. In turn this improves our ability to keep our costs low and generate progressive, sustainable returns which earns the trust of our investors and shareholders. We always look to finance the company in an efficient, sustainable way and maintain an investment grade credit rating.

Chief Executive's review

Our household customers still have the lowest bills, on average, in England and Wales, and our prices will increase by less than the industry average in 2012/13. We've also been able to keep bad debts down, despite rising unemployment, by helping customers in need to pay their bills.

During the year, we remained focused on improving our service and efficiency. We stepped up our network replacement, which helped us in the aftermath of the harsh December in 2010, which was the coldest in 100 years. Leakage was reduced to a new low, ahead of our target, and we dramatically reduced interruptions to supply.

Despite the driest 18 months on record, we managed our resources carefully and kept our customers supplied with high quality water, without having a hosepipe ban. As we enter the next financial year, our water resources mean that we do not presently expect any usage restrictions.

One of the year's key achievements was our smooth adoption of 37,000 km of private drains and sewers. Feedback from customers has been positive and the extra work required to repair and maintain these assets has so far been at the lower end of our expectations.

Any company that wants long term, sustainable success has to work in the right way. We call our approach 'Safer, Better, Faster'. It's a combination of management disciplines and our belief in people taking responsibility for the way they work. We want our people to do the right thing the Severn Trent way, to get things right first time, to help cut waste from our systems and processes, and to care about one another. We've built our ability to continuously improve, developing our people and upgrading our workplaces and technology, so we have a better working environment. All of these help us to deliver great service efficiently.

Key areas for continued improvement include our environmental management, further reducing water supply interruptions and our customers' experience of our services.

We're not content with what we've achieved, so we're always looking for new areas for success. For example, we're increasingly using technology to make it easier for our customers to contact us and for us to stay in touch with them. And we're introducing new water and waste water treatment processes that will cut energy use and make us more efficient.

Severn Trent Water already has a sector leading position in renewable energy and we're on track to generate up to 30% of our electricity by 2015. We have no strong desire to be a big electricity generator – our motivation is to keep prices low for customers and reduce our carbon emissions. The next steps include increasing our use of anaerobic digestion and wind turbines.

The UK economy will remain tough for both consumers and businesses. This means we must continue to focus on delivering efficient, high quality and low cost services, and be attentive to our customers' needs. The UK climate will also be a challenge and we will have to manage our water resources carefully. The coming year will see us continuing with our preparations for the next price review in 2014 (PR14). Engaging with our customers and other stakeholders will be key, as we develop with them our plans for investment in our water and waste water networks to maintain the services provided, deliver our environmental obligations and ensure security of supply.

For several years, Severn Trent Water has been at the forefront of shaping the future of the water sector in the UK through the development of a series of publications known as 'Changing Course'. We're encouraged that our ideas are reflected in Ofwat's publications on regulatory compliance and future price limits, and in the UK Government's Water White Paper. These ideas will lead to optimal use of water resources, better financial and environmental outcomes for customers and more certainty for investors. Looking to future opportunities for growth, Severn Trent Water is ideally placed to benefit from water trading and to help other water companies meet their strategic shortfalls in supply – something we first championed in 'Changing Course' and that has now been picked up by Ofwat and the UK Government.

Tony Wray
Chief Executive

Strategy

Our strategy is focused on delivering sustainable growth. This is crucial to us because we have to plan far ahead – often over decades. To be truly sustainable, we must maintain the appropriate balance across our customers, people, the environment and investors.

Water is vital to life, so we look to offer the highest quality at a price customers can afford. We need to attract investment, so we can fund the infrastructure our service depends on. Our people must have the skills, support and motivation to continually improve our service. We have to protect the environment because our business and our customers depend upon it to provide the resources we need.

Achieving this balance leads directly to good financial performance. It allows us to deliver organic growth and reliable returns over the long term, without excessive risk.

The timescales we work to are long, but our industry doesn't stand still. Politics, regulation, climate and the availability of finance all change over time, both in the UK and internationally. For this reason, our board considers strategic topics regularly and formally reviews our strategy every year. The experience of recent years supports our view that we're following the right strategy. Whatever happens to economies around the world, the need for clean water and sanitation remains.

Our strategy Sustainable

Strategy aim	Highlights 2012	Key measures	
Delivering value for our customers and investors.	<ul style="list-style-type: none"> At Severn Trent Water we are focused on delivering key service improvements we have met our leakage targets, interruptions to supply have been reduced, we have maintained security of supply in a dry year and we have maintained the lowest charges in the UK 	<p>4.88</p> <p>Customer written complaints per 1,000 properties (STW)</p> <p>(2011 5.72)</p>	<p>464 MI/d</p> <p>Leakage megalitres per day</p> <p>(2011 497)</p>
Sustainable financing, ensuring we have a strong and flexible balance sheet.	<ul style="list-style-type: none"> We are well financed We have successfully refinanced part our debt We have maintained a strong credit rating We have kept our dividend promise 	<p>£844.7m</p> <p>Cash generated from operations</p> <p>(2011 £827.1m)</p>	<p>58%</p> <p>Net Debt/RCV Gearing</p> <p>(2011 59%)</p>
Responsible leadership, protecting the environment, thinking long term and setting high standards in everything we do.	<ul style="list-style-type: none"> We have improved our health and safety performance We have generated record levels of renewable energy We have completed a series of successful catchment management pilots We have influenced the regulatory debate around the future of our industry 	<p>Support for water trading in the UK Government's Water White Paper, 'Water for Life'</p>	

Growth

Strategy aim	Highlights 2012	Key measures
Growing Severn Trent in the UK through investment in our networks and service.	<ul style="list-style-type: none"> • We have made good progress in preparation for the next price review in 2014 (PR14) • We have successfully transferred private drains and sewers to our asset database • We grew our Regulated Capital Value (RCV) by £275 million 	<p style="text-align: center;">4.0%</p> <p>RCV growth (2011 6.2%)</p>
Positioning Severn Trent to capitalise on opportunities in a changing regulatory framework.	<ul style="list-style-type: none"> • We are well placed geographically to benefit from future water trading 	<p>Severn Trent Water is looking at opportunities to provide water to other areas of the country</p>

Our business model

Water is essential to life and to the communities in which we live and work. Severn Trent Water is intrinsically linked to the life cycle of water. The customer is at the heart of our continuous drive to improve our operations and services across collection, delivery and cleaning of water.

Severn Trent Water is a regulated business. We work within five year planning cycles, with customer prices set by our economic regulator, Ofwat, to allow us to fund our investment programme and cover an efficient level of operating costs. We are also subject to regulation by two quality regulators – the DWI and the EA.

Our prices and asset base are adjusted by RPI inflation each year. In certain circumstances we can ask for prices to be reviewed within the five year period due to costs associated with 'notified items' or 'relevant changes of circumstance'. Customer bad debt and the adoption of private drains and sewers are included in these categories for the current five year period.

The company earns a return on our asset base. We can generate additional returns if we outperform Ofwat's assumptions by becoming more efficient in the delivery of our capital programme, managing our operational costs more effectively, and by financing our business at a lower cost.

Our operating performance is assessed and benchmarked against the sector by Ofwat. At the next price review there is scope to earn additional income, or suffer penalties, based on our performance.

Risks

We operate within a complex legal and regulatory environment as a water and sewerage service provider in England and Wales. As a result we face a number of risks including those associated with possible non-compliance with our legal and regulatory framework and failure to meet the terms of our regulatory contract as set out in our agreed business plan for 2010-2015. We also face risks associated with possible future changes in legislation which may result in our business plans becoming unsustainable.

Business review

Performance

As we explain on page 4, Severn Trent Water strives for high standards and focuses on four key areas – customers, people, process and finance. Having the right people with the right skills, using the right processes, enables us to offer high quality, low cost services to our customers. This in turn drives our financial results.

The following pages describe what we delivered for our customers during the year, along with the development of our people and processes. Severn Trent Water's financial performance is explained in the financial review, on page 20.

Customers

We want to deliver the highest standards and lowest possible prices for our customers. Our water and sewerage bills are the lowest on average in England and Wales, at £311. We're also increasing prices slower than most other companies. In 2012/13, the industry average price increase will be 5.7%, compared to 5.0% for our customers.

A continuous supply of quality water

We aim to deliver water that's good to drink, meaning that it's safe, tastes and looks good, and is always available.

Although the last 18 months were the driest ever recorded, we avoided any hosepipe bans or other limits on our customers' water use. We did this by reacting quickly to conditions and by effective, forward and proactive planning. We draw our water from reservoirs, rivers and underground aquifers. By making sure we always used the most appropriate source, even if it was not always the most cost effective, we preserved water in areas where levels were lower. We improved our networks, so we could move water around more effectively, and invested in additional equipment at our water treatment works, so we could get water to the right place at the right time.

Our water quality remained high and once again we achieved 99.97% compliance with the Drinking Water Inspectorate's standards. We continued to deliver water at the right pressure and significantly reduced supply interruptions. However, interruptions are still higher than we would like and we expect to reduce them further in the coming year. To do this, we're investing in training, better incident management and further improving our network.

We continue to invest to ensure we provide the best water quality. This includes improvements to our biggest water treatment works at Frankley, West Birmingham and a major investment programme at Bamford, Derbyshire.

We're also progressing with our catchment management programme, as a key part of our water supply strategy. We're encouraging farmers and other large land users to change the way they work, so they reduce their impact on water resources. For example, we've developed an online nutrient budget calculator for farmers, which allows them to make quick and easy savings through efficient fertiliser use. If we can help farmers to apply fertiliser more efficiently, it saves them money and reduces the water treatment we need to do.

Customer experience

We recognise that most of our customers don't have a choice about who supplies them. That doesn't mean they are not our first priority. We recognise that we will not be in business if they are not satisfied with the service we provide.

Ofwat's Service Incentive Mechanism (SIM) measures our customers' experience of dealing with us and helps us to track our performance. Our SIM score is based on the number of times customers have to contact us and the quality of service we deliver when they do.

While we're much better than average for the number of contacts, the quality of our service has not been as good as it should be. We've done a lot of work over the last year to put this right. Areas we've focused on include

- fixing problems before customers have to contact us,
- resolving problems first time, when they do have to contact us, and
- providing more ways to keep in touch with customers, for example by making better use of web channels and using text messages to confirm appointments

We've also improved our bills. They're now simpler to understand and we can add targeted messages for customers, letting them know about different ways to pay or tips for saving water.

It's also important to get direct feedback about how we're doing. We're now surveying many customers at the end of their calls, asking whether their problem was solved, how helpful our agent was and for their general views of our service. This process will be fully rolled out by the middle of 2012 and will inform us how to do better.

We are starting to see the benefits of our actions with a continuous increase in SIM qualitative scores through the first half of 2012 and an improvement in performance relative to other water companies in the final quarter of the year.

We have reduced the number of written complaints by 14%, which brings us to a record low number of complaints. This was helped by the actions we've taken and the milder winter.

Customer written complaints per 1,000 properties	4.88 2012	5.72 2011
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Average water and sewage bill	£311 2012
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Properties at risk of low pressure per 1,000 properties	0.06 2012	0.07 2011
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Average cost per day	85p 2012
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First time call resolution	93.8% 2012	97.5% 2011
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Managing debt

We aim to keep bad debts down, while helping people who want to pay but are struggling to do so. Despite the weak economy and rising unemployment, we were able to limit bad debts to 2.2% of sales, a similar level to last year.

We have several tariffs and schemes to help people pay. During the year we piloted the Together Scheme for people with debt problems, whereby we match the customer's payments. The WaterSure tariff caps bills for people with low incomes, who use large amounts of water because of a medical condition or because they have a big family. We also have a scheme called Water Direct, which allows customers to make payments directly from their benefits. During the year, we helped 139 people through the Together Scheme, 6,347 through WaterSure and over 42,000 through Water Direct.

The Severn Trent Trust Fund distributes money to people who are finding it difficult to pay their bills. We donated £3.5 million during the year. We're also looking at ways to help vulnerable customers more broadly, by working with the Citizens Advice Bureau to advise people about managing their money and give them a sustainable solution to their debt issues.

Engaging with Customers

As we approach the next price review in 2014 (PR14), we'll be working closely with customers and other stakeholders to find out what they want from us and what they're willing to pay for. Their input will be a key part of the plan we put forward to Ofwat.

As part of this, we've created the Severn Trent Water Forum with representatives from a wide range of stakeholders. The Forum will engage with us to help us develop our plan to ensure we take account of their views. We will be holding workshops on issues such as climate change and how we manage waste water. We've also published a document called 'Making the Right Choices', which explains our challenges, the choices we have to make and asks for our stakeholders' input.

Case study: Making the Right Choices

During 2012, Severn Trent Water will be consulting with customers and stakeholders on our investment plans for 2015–2020. We have published a consultation document, 'Making the Right Choices' which can be downloaded from our website. Stakeholder workshops will be held throughout the summer, supported by customer research and a wider programme of customer awareness and engagement.

People

Our aim is to have people with the right skills and the right approach to work, personal development and customer focus. To encourage the behaviours we think are important, we launched a new Code of Conduct in September 2011 across Severn Trent, called 'Doing the Right Thing, the Severn Trent Way'. This sets out our approach to corporate responsibility issues ranging from health and safety, to ethics and honesty, to delivering excellent customer service. 'Doing the Right Thing, the Severn Trent Way' is supported by 15 group policies and their supporting standards and guidance notes.

A safe and healthy workforce

Protecting the health and safety of our people and contractors is our number one priority. We were pleased to have reduced the number of lost time injuries and can report that Severn Trent Water's overall performance remains in the industry's upper quartile.

Our employee survey shows that we have a strong safety culture. This year, 95% of our people said they were clear about their role and their responsibility for doing their job safely, while 89% said that we provided the right support for them to do their job safely.

One example of the actions we are taking was the launch of the Waste Water Services Safety Improvement Strategy, with the aim of eliminating all accidents in the workplace. This involves 12 safety improvement workstreams, which are being developed through teams of employees, and five safety improvement projects. By the end of the financial year, we had completed five of the workstreams, including site standards and leadership behaviour, and two of the projects – occupational road risk and managing contractors.

We focused on health and safety training and education during the year. This included piloting the MindSafety™ behavioural training programme. It teaches people about different states of awareness, so they understand why we want them to work in certain ways and they can take responsibility for their own safety. Attendees found the programme changed their behaviour and made them think more positively about health and safety.

We've also worked closely with our supply chain partners to make sure we both prioritise health and safety performance. This includes ensuring we have the same vision and values focused on health and safety, the right systems and training, and share lessons about safe working.

While we are rightly focused on safety, we also want to support our employees' health. More than 600 people attended our wellbeing days, which included blood pressure, cholesterol and diabetes checks. We also piloted a back pain clinic and launched a physiotherapy helpline.

Engaging our people

Our annual employee survey once again showed that our people are positive about working for us. Our overall Engagement Index revealed 75% of our employees remain positively engaged.

Some notable results included

- 92% saying they took responsibility for 'Doing the Right Thing the Severn Trent Way',
- 87% being happy to go the extra mile at work, and
- 85% understanding how their role contributes to customers' experience

The survey also highlighted areas where we need to improve. For example, only 39% said that the changes we have made over the last 12 months were well implemented. Our people also wanted visibility of the Severn Trent Executive Committee and to see that it is leading the business effectively.

We know that our employees often haven't had the chance to discuss with the Executive Committee face to face what we're doing and why, and that these conversations can really help people to connect their role to the aims of the business. As a result, we have set up a rolling 12 month programme of discussions. The aim is for members of the Executive Committee to meet around 1,500 people from all parts of the business in small groups, in their workplaces. The conversations are open ended, so employees can ask whatever they want and share their view of the challenges and opportunities we face. As we can't meet all of our people, we're encouraging the invitees to talk to their colleagues before and after the meetings so everyone gains from the process.

Improving our organisation

We continue to review the structure and organisation of our teams to deliver improved efficiency and effectiveness. For example, in November 2011 we changed our operating model in Waste Water. This involved moving around 750 people into new teams. Each team covers a smaller geographic area but now has more responsibility for customer service and repairing assets. In the run up to the change we trained our people so they could work on any of our assets in their area. The model gives us a platform on which to build service improvements.

Following our successful move to Coventry, we refurbished our Shrewsbury and Derby offices and adopted the same tools and ways of working, such as collaborative workspaces. This ongoing programme is giving our people a modern and effective working environment.

Case study: New Shrewsbury office building improves effectiveness

In January 2012, more than 200 of our employees moved into our new 29,000 sq ft office building in Shrewsbury. The layout of the innovative building was designed in conjunction with key managers to enable the optimal use of office areas and collaborative work spaces, the best mix of purpose-built facilities as well as an effective common space at the heart of the building to encourage teams to meet and share ideas. The result is an engaging environment that has dramatically improved employees' working experience and created an opportunity for them to work at their best every day.

Developing our people

We invest heavily in training and developing our people. This year involved a significant amount of technical training, as well as leadership development. We continued to encourage our people to use our 'Safer Better Faster' approach to continuous improvement and we refocused our line manager training to help them manage and engage their teams more effectively.

The talent review process is ongoing and we have assessed over 600 managers and potential leaders this year. We're increasingly creating individual development plans and moving people on our talent list around the company to broaden their experience.

Our apprenticeship programme continues to grow, helping young people into work and giving us the skills we'll need in the future. We currently have 81 apprentices – in customer relations, water and waste water. One of our apprentices – Michael Williams – won the national EEF Outstanding Achievement by a Final Year Apprentice Award, for introducing process changes that saved money for the company by improving efficiency and reliability. We plan to recruit another 20 apprentices during 2012.

Diversity

Having the right people means having a suitably diverse workforce. This year, we focused on understanding gender issues and conducted gender diversity research with women employed by Severn Trent Water to understand more about the perceptions and experiences of women employees. This focused particularly on issues relating to job progression and the achievement of senior positions. The insights from the research will help us to improve our policies and practices in developing women in our organisation. We plan to use the same methodology to explore ethnic diversity in the near future, so we can gain more insights into this aspect of our workforce composition.

Process

To deliver great service to our customers we are continuously improving our processes and technology, whether it's for treating water, monitoring our network, or scheduling our staff.

At our Minworth Sewage Treatment Works in Birmingham, we're using an anaerobic ammonium oxidation treatment process, which is new to the UK. It's a more efficient biological treatment process for waste water, which allows us to reduce the energy and chemicals we use.

Another UK first is an activated sludge process known as HYBACS, which we're installing at Ashbourne, Derbyshire. This technique is used extensively in the Far East and allows us to process higher volumes, with much lower energy use and on a much smaller footprint.

We continued to add sensors to our telemetry system, which monitors the health and performance of our network, checking, for example, the pressure and flow of water, water quality and reservoir levels. This gives us an early warning of problems, so we can proactively fix them with minimum disruption for customers.

We also invested to exploit new and existing features in our SAP and telemetry systems to deliver a better service to our customers. SAP now supports all our key processes and holds our operational data allowing us to make better operational and investment decisions. We have an ongoing programme of improvement to increasingly exploit SAP's and other systems' functionality to drive performance.

We have invested in giving our customers access to data from our telemetry and SAP systems through our website, helping our customers find out if there is work going on in their area and what the latest status is.

We've also introduced a shared support organisation. This brings together people from operations and information systems, who between them understand how our employees, technology and processes work. Their goal is to continuously improve, optimise and exploit SAP and other systems. We're now seeing step changes in our use of the system. For example, we've reengineered our process for handling bursts on private properties, so we can offer quicker service.

New processes have also been added to automate operational fieldwork crews. SAP holds data on the skills of all our operational employees. When a job is raised, the system automatically schedules a

nearby work crew with the right skills to go and fix the problem. It also provides them with the information they need, such as plans and maps, and records the time and materials used.

Environment

Delivering our environmental obligations is central to the way we work and has a real impact on our customers and the communities in which they live and work. The case studies on page 16 provide details of our investment in renewable energy.

Managing waste water

The driest 18 months on record contributed to a deterioration in our performance in the first six months last year. Pollution incidents rose and we suffered a higher level of sewage treatment works breaches of consent.

We responded by increasing our asset maintenance activities, inspection regimes and installed more remote monitoring on our assets to help pre-empt potential failures. This has improved our performance from the summer onwards. We also continued our policy of self-reporting to the Environment Agency, to raise our standards and highlight areas where we need to do better. Even so, for the year as a whole our performance fell short of the standards we aim for. There were 445 reported pollution incidents (2011: 353), 14 serious pollution incidents (2011: 4) and our sewage treatment works failing consent limit was 2.54% (2011: 1.69%). Our maintenance and inspection programme should deliver further improvements in the coming year.

Successful delivery of our investment programme is very important in delivering good service to our customers. We've invested in major schemes, particularly in Gloucester and Leamington Spa, which have improved our network reliability and have removed the risk of sewer flooding – one of the worst service failures that can happen to a customer – for around 150 properties, gardens and other areas. We've also tried to minimise disruption to our customers while we carried out this work, for example by working with other utility companies to reduce road closures. In addition, we have a programme to refurbish some of our largest sewage treatment works, which will make them more resilient and improve river quality.

The transfer of private drains and sewers to us on 1 October 2011 went smoothly, adding 37,000 km to our existing 55,000 km network. So far, we've had to do less repair work than we expected and customer feedback has been good. We've cleared around 12,000 sewer blockages on the transferred assets, which was 41% of the total blockages cleared since the transfer on 1 October 2011. We're now seeing fewer blockages and better management of pollution incidents on these assets. To help the transfer, we reorganised our supply chain so we have fewer contractor companies looking after our assets. Our remaining contractors have scaled up their operations so they can handle the greater workload.

Deploying water resources wisely

Severn Trent is the only company to have targeted a significant reduction in leakage during AMP5. We were pleased to improve our performance again during the year. We cut leakage to 464 megalitres per day (Ml/d), compared to 497 Ml/d last year and our target of 474 Ml/d.

Leakage – megalitres per day (Ml/d)	
464 2012	497 2011

The investment we've made in SAP and in our 'Safer Better Faster' approach has helped us to improve our repair processes, so we can fix leaks more quickly. We're also benefiting from our investment in a system to help us improve detection of leaks.

Customers also have an important part to play and our water efficiency programme helps them to reduce their usage. For example, customers can use our website to view their water usage and understand where they can make savings. We also offer water saving devices such as aerated taps.

and shower timers. In addition, we work with schools and colleges to help them view and reduce their water usage, and with social housing providers to fit water efficient devices.

This work ensures our customers continue to have among the lowest water usage in the UK. During the year, our customers used an average of 125 litres per person each day, compared to the national average of 148 litres.

Cutting our carbon footprint

We've been investing in renewable energy for nearly a decade. Renewables provided 23.7% of the electricity we needed during the year and we're on track to meet our target of generating 30% of our electricity by 2014/15.

The 'energy crop' anaerobic digestion plant next to the Stoke Bardolph Sewage Treatment Works in Nottinghamshire is the UK's first on an industrial scale. It converts crops into electricity, using crops grown on land unsuitable for food production, and has been so successful that it's received three awards. It's also given us valuable experience that is helping us to improve the performance of our sludge anaerobic digestion plants.

In 2013, our first large wind turbine will start generating electricity on land next to our Wanlip Sewage Treatment Works in Leicestershire, with another at Newthorpe in Nottinghamshire due to come on stream soon after. These, and four others currently in planning, could generate 6% of our electricity needs.

We're also pursuing a gas-to-grid project, which will allow us to provide cleaned up sewage gas to the national grid, and we are looking at several hydroelectric projects.

Protecting biodiversity

Severn Trent has a role in protecting and enhancing biodiversity at our sites or sites affected by our activities. We own or partly manage 37 sites of special scientific interest and work in partnership with our tenants and other partners to safeguard them. We have 21 rangers who manage our 12 public access sites working with volunteers and organisations like the RSPB and Wildlife Trusts. The sites provide the opportunity to engage with customers whilst enhancing and protecting the sites for nationally and internationally important species such as butterflies, water voles and tree sparrows.

Finance

Our business is funded by receipts from customer bills, by raising money (debt) on the capital markets, and by shareholders retaining equity in the business. We aim to finance the company in an efficient and sustainable way. By keeping financing costs low we can keep customer bills low. We currently have an investment grade credit rating, with a stable outlook. In January we successfully issued a £250 million, 30 year bond, with an interest rate of 4.875%, the lowest rate we have seen to date.

Outlook

We continue to deliver on our programmes to raise standards and drive efficiency improvements. We are committed to enhancing our capital investment programme and delivering improved customer service and network performance. Whilst we are seeing signs of improvement in our SIM performance, industry benchmarks have moved forward and so must we. In terms of prospects for regulatory and industry change, Severn Trent remains at the forefront of industry thinking and we were pleased to see some of our ideas reflected in consultations from both our regulator and the UK Government. We will continue to make a positive contribution to the debate. Throughout our operations, our goal continues to be to deliver long term sustainable growth. This strategy, underpinned by a clear focus on customers, people, environmental performance and shareholder value will continue.

Case study: Water efficiency

We are working closely with the Environment Agency, social housing providers, Global Action Plan and South Staffordshire Water on a joint programme 'Plug-In'. The aim of this programme is to encourage water and energy efficiency. Through it we are educating consumers and installing water efficiency measures including tap and shower flow regulators, dual flush systems and shower heads in 10,000 properties.

Case study: Renewables

We've been investing in renewable energy for nearly a decade. This year we have continued the growth generating 212 GWh of electricity from renewable sources. This equates to 23.7% of the electricity that Severn Trent Water needs to provide its water and waste water services and represents another significant step towards our target of 30% by 2014/15. In 2013, our first large wind turbine will start generating electricity on land next to our Wanlip Sewage Treatment Works in Leicestershire, with another at Newthorpe in Nottinghamshire due to come on stream soon after. These, and four others currently in planning, could produce 6% of our electricity needs.

Case study: Always innovating

The Renewable Heat Incentive scheme aims to stimulate investment in the supply of renewable heat and the injection of renewable gas (bio-methane) into the gas grid. We can benefit from this scheme by diverting gas away from electricity generation and into the gas grid. This is an emerging field with no commercial installations in operation yet which means an inevitable variety of technical and regulatory challenges that have to be negotiated for the first time. But we are making good progress and hope to be injecting gas in 2013.

Business review

Looking forward

Severn Trent is committed to helping shape the future of the water industry so it is better able to meet future challenges

In 2010 we published the first of our 'Changing Course' documents setting out our contribution to the debate on the future of the industry. We have been encouraged by how many of these ideas were reflected in recent UK Government and Ofwat publications

In December 2011, the UK Government published 'Water for Life', its Water White Paper setting out its strategic vision for the water industry. We welcome the objectives and strategic direction of the White Paper. We are particularly encouraged by the White Paper's support for water trading, upstream competition and catchment management. We also welcome the UK Government's strong and explicit acknowledgement of the need to maintain the confidence of investors

Earlier in May, Ofwat published 'Future price limits – statement of principles' setting out how it proposes to regulate the industry in the future. We welcome this document and look forward to working with Ofwat and others to achieve the best possible outcomes for our stakeholders

In terms of general principles set out in 'Future price limits', we particularly support:

- Ofwat's overall objectives of creating a more targeted, proportionate and appropriate regulatory framework which focuses on the most important outcomes,
- the aim of reducing the regulatory burden and a move to a more targeted, risk based approach for the next price review, and
- more involvement from customer groups in the price setting process

We were also pleased to see the strong encouragement by Ofwat for water trading, building on the policy direction set by ministers in the White Paper

We will continue to work constructively with the UK Government, our regulators and others to help shape the water industry so it can meet future challenges

The challenges for the next 20 years

The challenge of the last 20 years was ensuring higher quality. The challenges for the next 20 will be no less demanding, with climate change putting resilience and security of supply at the top of the agenda

'Water for Life' emphasises the need for making the true social, economic and environmental cost of water visible. We think that's right. The UK has a growing water scarcity problem, particularly in the south and east, which will affect everyone over the next two decades. We all have a part to play in maintaining supplies and delivering high standards

We're particularly pleased that the White Paper supports more focus on network interconnection and water trading, with the Environment Agency challenging companies' Water Resource Management Plans where alternative water sources are available. Applied effectively, this will help to correct the UK's supply-demand imbalance and increase water trading. Moving water across areas should be cheaper and have less environmental impact than current practices, which increase carbon emissions and capital intensive local investment

We're also pleased to see support for the trading of abstraction licences. Change in this significant area needs full consultation, so the UK Government's timetable is sensible, with the new regime expected to start in the mid to late 2020s

The encouragement to reduce pollution through catchment management, instead of expensive 'end of pipe' solutions, is also welcome. We're keen to share our experience of this over the last few years

Taken together, these initiatives should improve the UK's resilience to drought and water scarcity, while reducing carbon emissions. There are also possible incentives for water companies to reduce consumption and for the sustainable 'economic level' of leakage calculation to be revisited.

The customers' role

Customers have a key role in reducing water use. The industry needs to change the way that customers think about and value water, and encourage them to use less.

We're pleased that the White Paper rules out universal metering. Metering must make sense in the context of an area's supply and demand balance, and our experience shows that it's more effective alongside behavioural change.

Affordability is also a key theme and there's no doubt that customers want value for money. Bills could be lower if the industry were to tackle bad debts and follow the White Paper's principles, which emphasise catchment management and smarter environmental solutions.

Still more work to do

There are aspects of 'Water for Life' that we like but that need further work, to keep regulation clear and predictable.

There's no doubt that the sector will need to invest significant sums and will rely on the capital markets for financing. The UK Government recognises the need to reassure investors and has said that reforms will be evolutionary, rather than revolutionary. It has also avoided fundamental structural change, such as legally separating companies' retail operations. Even so, there are areas where we need to move cautiously and in full consultation with all stakeholders.

One of the key talking points is the shift towards more competition. While the UK Government has ruled out retail competition for domestic customers, it will take long overdue steps to improve retail competition for business customers.

Scrapping the 'cost principle' could promote competition but it needs to be replaced with something more sensible. We would like to see Ofwat working with the Office of Fair Trading to design a better access price system, and not rushing to a conclusion that risks passing the cost to domestic customers. This may mean waiting to abolish the cost principle from law and not leaving the industry in limbo. Changes to the Water Services licence to introduce upstream competition should also be treated with caution, in case it's seen as weakening the fundamental business model.

The case for change has been made

In summary, the case for change has been made and the direction is set. 'Water for Life' is the start of a process of breaking down the sector's rigidity, by creating space for competition and allowing more flexibility, so we can meet the challenges of climate change, affordability and carbon reduction. As an industry, we should get behind it and work out the best outcomes.

Sustainable financing

The water industry has been investing heavily to renew ageing infrastructure, to meet growing demand and to deliver environmental improvements. Much has been achieved, but significant further investment is needed.

At the same time, public sector finances are stretched and there is growing competition for limited private sector funds that can be used to invest in infrastructure.

Against this backdrop it is essential that the financial structure of the companies in the sectors enables finance for the future investment programme to be raised, when required, and at reasonable cost.

Up to now most of the additional finance that has been needed to fund their growing asset base has been raised by borrowing and many companies have even reduced their equity financing. We think that this financing model cannot be relied on indefinitely.

There are risks in highly geared financial structures and there may be limits to the capacity of the debt market to continue to provide low cost finance. In addition, one company getting into financial difficulties could have long term impacts on the financial market's confidence in the regulatory framework and its assessment of risk in the utility sectors.

The financial and banking crisis in 2008, the credit crunch that followed, and more recently the sovereign debt crisis and associated turmoil in financial markets all underline that there may be benefits from a lower risk approach to financing in the sector, in which not all future finance is raised from borrowing.

Severn Trent has worked with National Grid to examine how to make the financing of the utility sector more sustainable in the longer term. We think that action needs to be taken to encourage additional equity financing, rather than waiting for problems to develop. We will shortly be publishing a report proposing modest but important evolutionary change.

Business review

Finance

The general economic climate in which our business operates has seen no real improvement over the past year and we have sought, since the start of the financial crisis in 2008, to retain a conservative view on management of our cost base and financing. In these circumstances, we were pleased to see that the ability of our customers to pay their bills did not see any serious deterioration, and indeed our level of bad debt charges improved slightly in the year as we continue our proactive efforts in this area. Costs remain a key focus and while we saw increases in environmental taxes and other charges we do not control, our performance on controlled costs was good.

Access to long term secure financing in these economic conditions has, since 2008, remained a key focus and our actions over the last year reflect this. We renewed our five year £500 million revolving credit facility (RCF) with 11 banks, of which £200 million is held jointly with Severn Trent Plc, issued a 30 year Sterling bond at 4.875%, the lowest rate we have seen to date, and we called in early some £150.6 million of our bonds due for redemption in 2014, the year of the next price review, a time which traditionally has been difficult for regulated water companies to refinance in public bond markets. This latter action, which raises a one off interest charge of £16.5 million in the year, reduces considerably the risk of not being able to refinance our bonds that were due in 2014 and will bring future economic benefits.

We therefore end the year with a well-financed and stronger balance sheet, which has given us the opportunity to increase over the next three years our investment in the networks by £150 million and propose to return £150 million to shareholders. After these actions the group will still retain a strong balance sheet.

Results

Turnover in Severn Trent Water increased by 4.9% in 2012 to £1,457.5 million. Sales prices were increased by inflation from 1 April 2011 which gave rise to an increase in turnover of £73.1 million. Consumption from metered customers was lower year on year reducing turnover by £10.5 million. New growth and meter optants increased turnover by £0.2 million and there were other increases amounting to £4.9 million.

Operating profit before exceptional items (underlying operating profit) increased by £1.8 million from the previous year to £515.2 million. Direct operating costs increased by £66.4 million. Employment costs increased by 2.1% to £202.4 million as headcount decreased by 1.7% but the average employee cost increased by 3.9%. Hired and contracted costs increased by £36.1 million to £155.6 million partly as a result of the increased work on leakage reduction. Raw materials and consumables at £46.8 million were 1.3% higher than the same period in the prior year. Bad debts were 1.9% lower at £31.2 million, representing 2.2% of turnover (2011 2.3%). A limited increase of 2.5% in power costs (excluding quasi taxes) to £51.8 million reflected the success of our strategy of fixing these costs through our supply contract and by using energy swaps. Quasi taxes, which comprise rates, service charges and the CRC, increased by £13.5 million to £107.6 million, mainly due to the introduction of the CRC. There were also additional operating costs of £4.7 million related to the ownership of private drains and sewers, which were transferred on 1 October 2011. Other operating costs reduced by £1.0 million to £37.8 million. Labour and related overheads capitalised were £16.9 million higher than in 2010/11, mainly due to the higher level of capital expenditure in 2011/12. Infrastructure renewals expenditure increased by £29.6 million and depreciation increased by £8.6 million including £3.7 million in respect of the write off of an experimental sludge dryer.

There was an exceptional credit to operating profit of £10.3 million (2011 charge of £13.0 million). This comprised an exceptional credit of £21.8 million (2011 nil) arising from the agreement to close the group's defined benefit pension schemes to future accrual with effect from 31 March 2015, and costs arising from the ongoing programme to restructure and realign the business which resulted in an exceptional charge of £11.5 million (2011 £13.0 million).

Net interest payable fell by £8.6 million from the prior year to £241.0 million. Interest receivable and similar income fell by £19.9 million as the group closed out a cross currency swap during May 2010 and received £20.5 million proceeds. The swap was not recognised under UK GAAP and hence the proceeds represented a gain to the group which was included in interest receivable and similar income in the prior year. Interest payable on bank loans and overdrafts and interest payable on other loans decreased in total by £7.1 million. In the prior year a £31.0 million charge arose on the termination and redesignation of an economic hedge of a medium term note. In the current year a cost arose following the group's issuance of £250.0 million 4.875% Guaranteed 30 year Notes under its Euro Medium Term Note Programme. Part of the proceeds were used to redeem £150.6 million 5.25% Notes which were due for repayment in 2014. This resulted in an interest cost of £16.5 million. Interest payable on finance leases fell by £14.6 million as the group rolled over an interest rate swap in December 2010, and instead of paying a cash settlement of £13.4 million, re-negotiated the terms of a finance lease with the same counterparty. The swap was not recognised under UK GAAP and hence this was recognised as an increase in the finance lease creditor and finance lease interest payable during the prior year.

The total tax charge for the year was £177.0 million (2011: £37.1 million charge) of which current tax represented a charge of £68.5 million (2011: £57.4 million charge) and deferred tax a charge of £108.5 million (2011: £94.5 million credit), including an exceptional credit of £55.7 million (2011: £53.8 million credit) arising from the reduction in corporation tax rate from 26.0% to 24.0% with effect from 1 April 2012 (2011: reduction in corporation tax rate from 28.0% to 26.0% with effect from 1 April 2011). The current tax charge before adjustments in respect of prior years represents 26.0% (2011: 26.1%) of the group's profit before tax. Profit for the financial year was £107.5 million (2011: £305.4 million). The group measures its return on capital using the ratio of post tax return on regulatory capital value, which is calculated as current cost operating profit (before other operating income) less tax payable, over average regulatory capital value. For the year ended 31 March 2012 post tax return on capital was 5.7% (2011: 5.9%).

Capital structure

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

	2012	2011
	£m	£m
Cash and short term deposits	(0.9)	(10.5)
Bank loans	610.3	602.7
Other loans	3,335.6	3,106.6
Obligations under finance leases	218.9	266.7
Net debt	4,163.9	3,965.5
Equity shareholder's funds	1,134.0	1,362.4
Total capital	5,297.9	5,327.9

Net debt at 31 March 2012 was £4,163.9 million (2011: £3,965.5 million). Of the net debt 61.2% (2011: 63.0%) was represented by fixed interest borrowings and 67.0% (2011: 67.7%) was represented by amounts payable after five years. Net debt as calculated in the regulatory accounts, as a percentage of year end regulatory capital value at 31 March 2012 was 58.7% (2011: 58.2%).

Cash flows

Operating activities generated a net cash inflow of £844.7 million (2011: £827.1 million). Net interest paid was £193.1 million (2011: £172.0 million). Net investing activities used £471.7 million (2011: £461.9 million) which mainly included capital expenditure to meet the company's obligations under the AMP5 capital programme. Dividend outflows amounted to £266.0 million (2011: £153.6 million).

Treasury management

The 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 Severn Trent Water Limited board ('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 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 future expected electricity costs. 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 £0.9 million in cash and cash equivalents. A new £500 million Revolving Credit Facility was agreed in October 2011, of which £200 million is held jointly with Severn Trent Plc. In addition, a new ten year £100.0 million bilateral bank facility was agreed in March 2012. Cash is invested in deposits with highly rated banks and liquidity funds 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 45.0% 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 group's net interest charge, excluding net finance costs from pensions, was covered 3.7 times (2011: 3.5 times) by profit before interest, tax, depreciation and exceptional items, and 2.2 times (2011: 2.1 times) by underlying profit before interest and tax.

The group's long term credit ratings 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 2011-12 was the second year of the AMP5 period (covering 2010-15). During the financial year, the group invested £498.5 million (excluding contributions received towards infrastructure assets) in fixed assets.

Critical accounting policies

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

Depreciation and carrying amounts of 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 14 to the financial statements.

Tax provisions

Assessing the outcome of uncertain tax positions requires judgements 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 judgements to be made regarding the reversal of timing differences and the discount rate to be applied.

Unbilled revenue

The company raises bills and recognises revenue in accordance with its right to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and waste water customers with water meters, the amount recognised is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter read and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing to the end of the financial year. The estimated usage is based on historical data, judgement and assumptions.

Provision for impairment of trade receivables

Provisions are made against trade receivables based on historical experience of levels of recovery from accounts in a particular ageing category. The actual amounts collected could differ from the estimated level of recovery which could impact operating results.

Directors' report

The directors present their report, together with the audited financial statements of Severn Trent Water Limited for the year ended 31 March 2012

Principal activities

The company is a wholly owned subsidiary of Severn Trent Plc

The principal activities of the company and its subsidiary undertakings (together 'the group') 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 2012, 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 business review:

Review of results pages 5-23

Strategy and growth pages 7-8 and 17-19

Operational performance pages 9-16

Financial performance pages 20-23

KPIs page 84

Principal risks and uncertainties are detailed on pages 32 and 33 of the Governance 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 2012 amounted to £266.0 million (2011: £153.6 million).

Transfers to reserves are set out in note 16 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*
Gordon Fryett*
Martin Kane**
Martin Lamb*
Michael McKeon
Baroness Noakes*
Andy Smith
Tony Wray

* non-executive director

** non-executive director with effect from 1 January 2012

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 2012.

None of the directors retain any notifiable interest in the shares of the company or any other subsidiaries as at 31 March 2012.

Directors' remuneration and annual bonus scheme

Remuneration for executive directors comprises the following elements:

- base salary and benefits,
- annual bonus scheme and share matching plan,
- long term incentive plan, and
- 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.

Martin Kane was promoted to the role of Chief Executive Officer – Severn Trent Services with effect from 1 January 2012. From that date his salary was increased to £250,600 and a disturbance allowance of £29,400 has been put in place in recognition of the international nature of his role and Martin's continued board duties. Following his promotion Martin became a non-executive director of Severn Trent Water Limited and his salary is apportioned between Severn Trent Services and Severn Trent Plc.

Martin's bonus, LTIP and Share Matching Plan award levels remain unchanged. However, the structure of his bonus award will change to reflect the balance of his duties in Severn Trent Services and his wider board responsibilities.

As outlined in the Severn Trent Plc Annual Report and Accounts, the non-executive Chairman, Andrew Duff, and non-executive plc directors, do not participate in the company's incentive arrangements, i.e. annual bonus or share schemes.

Base salaries and benefits

Base salaries are reviewed annually for each director and are determined with regard to the market median salary for similar roles in publicly quoted utility companies of a comparable size, that so far as practicable, are undertaking similar work 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 contractually includes car allowance, membership of company pension scheme or cash allowance in lieu, private medical insurance, life assurance and incapacity benefits scheme. Directors may also take advantage of the Severn Trent flexible benefit scheme open to all employees.

Annual Bonus Scheme

The directors' Annual Bonus Scheme ('ABS') 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 company Key Performance Indicators (KPIs), which include operational performance, leakage and customer service. The scheme attributes a points score to each KPI and bonus outturn is determined by reference to the aggregate number of points awarded across all the KPIs. Bonus targets were set and measured for the period 1 April 2011 to 31 March 2012.

Annual Bonus 2011/2012

In 2011/2012 the Chief Executive and Finance Director 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 metrics

The directors' Annual Bonus Scheme (ABS) encourages improved performance, with targets established by the Severn Trent Plc Remuneration Committee to align executive directors' interests with shareholders

The maximum annual bonus opportunity for the executive directors was 120% of salary. For the achievement of target performance, 60% of salary is awarded. The table on the following page shows the extent to which the KPI targets were achieved during 2011/12

Key Area	KPI	Measure	2011/12 target	2011/12 actual	Points awarded
Employee	1	Lost Time Incidents per 100,000 hours worked	0.34	0.3	226
	2	Employee motivation- Quest (engagement index)	70%	75%	137
Customer	3	Water Quality (Test Failure Rate)-ppm	189	225	0
	4	Service Incentive Mechanism- Qualitative	4.08	3.96	0
	5	Service Incentive Mechanism- Quantitative	35	205	25
	6	Unplanned Interruptions per 1,000 properties	7.5	11.12	0
	7	Properties at risk of low pressure per 1,000 properties	0.09	0.06	143
	8	First Time Job Resolution (COSC)%	95.40%	93.83%	0
	9	Non performance against regulatory obligations %	6%	6%	100
Financial	10	Capex (net) versus FD- % Outperformance	4.80%	4.31%	90
	11	Capex Process Quality (Points)	850	972	100
	12	Debtor Days	34.2	35.8	50
	13	Opex (UK GAAP)	£560m	£548m	96
	14	Efficient Billing Factor	3.353m	3.306m	130
Environment	15	Pollution Incidents (cat 1,2 &3)	361	458	0
	16	Sewer Flooding Incidents- Other Causes	0.148	0.141	138
	17	Sewage Treatment works- failing consent limits	1.54%	2.54%	0
	18	Supply Availability	94.90%	96.50%	148
	19	Net Energy Use- GWh	687	679	123
	20	Leakage ml/d- Post MLE	474	464	141

The bonus outturn in respect of Severn Trent Water performance was operated by reference to a balanced scorecard of measures, based on the KPIs. The Severn Trent Plc Remuneration Committee believes that the use of the Severn Trent Water KPIs continues to be both an effective and challenging annual bonus metric and meets the needs of the business. The bonus entitlement was determined by reference to the aggregate number of points awarded across all the KPIs. The targets taken together 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.

The table above shows the points awarded by the Remuneration Committee for bonus purposes under each of the 20 KPIs in relation to the 2011/2012 ABS. As a consequence the bonus award was 41.2%.

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 overleaf.

Director	Value of bonus award £
Tony Ballance	111,268
Martin Kane	139,775
Michael McKeon	238,217
Andy Smith	144,419
Tony Wray	305,976

Half of the above bonus awards is deferred into shares to be held for three years following payment and subject to continued employment. If the executive is summarily dismissed without notice under his/her employment contract then the deferred bonuses are forfeited. In all other cases of cessation of employment the deferred bonus is not lost and the shares automatically vest on the dealing day after the cessation of employment.

For several years, the rules of the ABS have provided that the Committee may reclaim ('clawback') 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. In the light of the publication of the UK Corporate Governance Code ('the Governance Code'), the Remuneration Committee considered the structure of the company's clawback provisions (including those in the LTIP and Share Matching Plan ('SMP')), looking at best practice and evolving market practice. As a result, the clawback provisions are being amended as follows for the forthcoming year's annual bonus payments and future awards under the LTIP and SMP:

- the circumstances which could trigger clawback are being widened to include gross misconduct (resulting in dismissal) and an error in the calculation of the performance condition, in addition to the existing misstatement of financial results,
- there will be a period of three years following payment in which the clawback could be applied, and
- the clawback should be satisfied by a reduction being made to future annual bonus payments which would otherwise be paid or the next vesting of share based awards. In the event that a cash clawback were necessary, this would normally be to reclaim the net of tax amounts only.

Annual bonus payments to executive directors are not pensionable. The Remuneration Committee determines whether it is appropriate to release the shares in 'good leaver' cases. Full details of executive director bonus awards for the year ended 31 March 2012 are shown in the table of directors' emoluments in the Severn Trent Plc Annual Report and Accounts.

Annual Bonus Targets for 2012/2013

The Committee has reviewed the operation of the plan and concluded that it should operate on a similar basis for 2012/13. However, under the Severn Trent Water element, a change is being made to reduce the number of KPIs from 20 to 10. This change reflects that Ofwat has published a revised suite of KPIs against which they have indicated that they will assess water companies, and it is therefore appropriate to measure the company's performance consistently with those externally published measures of success.

As a result of his promotion to Chief Executive Officer – Severn Trent Services, Martin Kane's bonus will now comprise 70% linked to the performance of Severn Trent Services, 10% linked to the performance of Severn Trent Water and 20% on personal performance. For the other executive directors, their bonus weightings will remain unchanged.

Share Matching Plan

Under the SMP directors are eligible 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 SMP can be found in the Severn Trent Plc Annual Report and Accounts.

Long Term Incentive Plan

Directors may also participate in the Severn Trent 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

A company-wide Share Incentive Plan ('SIP') operates which includes a performance condition based on the award of points for the KPIs. For the year 2011/12 awards of shares to the value of £309 will be made to all eligible employees.

Shareholding Requirements

The company operates shareholding guidelines under which executive directors are expected to build and maintain a minimum holding of shares in the company. The Chief Executive is expected to build and maintain a holding of shares to the value of 1.5 x base salary and other executive directors 1 x base salary. Executive directors are expected to retain all of the net of tax number of shares they receive through the LTIP and other share based plans and good progress is being made to meet the guideline holdings. Full details of the directors shareholding requirements can be found in the Annual Report and Accounts of Severn Trent Plc.

Directors' and officers' indemnities

The company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors and officers. In accordance with the company's Articles of Association, and to the extent permitted by law, in November 2011 the company indemnified each of its directors and other officers of the group against certain liabilities that may be incurred as a result of their positions with the group. Severn Trent does not have in place any indemnities for the benefit of the auditor.

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, Severn Trent Centre, PO Box 5309, Coventry CV3 9FH) or nationally agreed terms and conditions of contract such as NEC Engineering and Construction Contract Third Edition June 2005 (incorporating NEC Amendments dated June 2006) and NEC3 Professional Services Contract June 2005.

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 the year end reflected 19.2 days purchases (2011: 23.8 days).

Charitable and political donations

Donations to charitable organisations during the year amounted to £57,023 (2011: £143,836). Severn Trent Water's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly we have not made any political donations or incurred any political expenditure in the financial year under review.

Research and development

Expenditure on research and development is set out in note 2 to the accounts on page 41. Details of the research and development activity undertaken by the company during the year are set out in the operating and financial review on pages 5 to 23.

Employees

The average number of employees during the year was 5,162 (2011: 5,237).

Severn Trent Water believes that a diverse and inclusive culture is a key factor in being a successful business. Apart from ensuring an individual has the ability to do the job we do not discriminate in any way and make every effort to ensure that those with disabilities are able to be employed by us. We endeavour to retain employees in the workforce if they become disabled, we make all reasonable adjustments to their role and, if necessary, look for redeployment opportunities to support them in seeking an alternative role within Severn Trent Water. We ensure that training, career development and promotion opportunities are available for all our employees irrespective of their gender, race, age or disability.

Regulation: 'Ring fencing'

In accordance with the requirements of Ofwat, the board confirmed that, as at 31 March 2012, 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

The board has a full process 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 authorisation, 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 for the next year.

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 auditor 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 auditor is 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 auditor is aware of that information

Relevant audit information means information needed by the company's auditor in connection with preparing their report. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

By order of the board



Bronagh Kennedy
General Counsel and Company Secretary
29 May 2012

Governance

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 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.

During the year ended 31 March 2012, Severn Trent Plc was compliant in its application of the Governance Code issued by the Financial Reporting Council, which replaced the Combined Code, on Corporate Governance.

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 Governance 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 Severn Trent Centre, PO Box 5309, Coventry CV3 9FH.

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 system of internal control.

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.

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. Internal Audit deliver an audit plan to confirm that key business risks are being mitigated.

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 and 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 Governance 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 adequacy 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. These include an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where necessary. Any significant control weaknesses that have been identified 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 2012 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,
- 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 arising from our business model:

- We may not be able to achieve all of the challenging targets agreed with Ofwat for our business plan from 2010 to 2015 resulting in reduction in funding
- We may be unable to sufficiently improve our performance in relation to customer service in order to deliver what our customers tell us they want
- We may suffer operational failure in our waste water operations which results in damage to the local environment
- Our assets or processes may fail resulting in injury to an employee, contractor, customer or member of the public
- We may fail to meet all of our regulatory targets including targets from Ofwat in relation to ongoing operational performance of our assets
- Failure of certain key assets may result in inability to provide a continuous supply of quality water to large populations within our area, or in damage to third party property

Legal Risks:

- We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable
- The regulatory landscape is complex and subject to on-going change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation

Financial Risks:

- The current crisis in the eurozone may increase the difficulties associated with obtaining funding for the Group at similar rates to those assumed in our business plans
- Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably
- Counterparties with whom we have invested money may fail putting our investment at risk

These risks and other significant risks are managed through our established Enterprise Risk Management (ERM) process. This requires risk owners to consider possible causes and potential impacts of each risk and to assess the adequacy of mitigating controls in place. Where additional mitigation is needed, risk improvement actions are put in place and these are tracked to monitor that they are completed to schedule and have the anticipated impact to improve the management of the risk. Significant risks identified within our ERM process are reported to the Executive Committee, the Audit Committee and to the Board on a regular basis.

Directors' responsibilities statement

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 auditor's report

To the members of Severn Trent Water Limited

We have audited the financial statements of Severn Trent Water Limited for the year ended 31 March 2012 which comprise the group and parent company profit and loss accounts, 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 shareholder's 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 auditor's 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 auditor

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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 behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
29 May 2012

Profit and loss accounts

Year ended 31 March 2012

	Notes	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
Turnover		1,457 5	1,389 8	1,457 5	1,389 8
Operating costs before exceptional items	2	(946 4)	(880 0)	(958 8)	(891 0)
Exceptional operating income/(costs)	2	10 3	(13 0)	10.3	(13 0)
Total operating costs	2	(936 1)	(893 0)	(948 5)	(904 0)
Other income		4 1	3 6	4 1	3 6
Operating profit before exceptional items		515 2	513 4	502 8	502 4
Exceptional operating income/(costs)	2	10 3	(13 0)	10 3	(13 0)
Operating profit		525 5	500 4	513 1	489 4
Income from shares in other group undertakings		-	-	3 5	-
Profit on disposal of tangible fixed assets	2	-	17 5	-	17 5
Net interest payable before exceptional items	4	(224.5)	(249 6)	(225 7)	(248 6)
Exceptional interest costs	4	(16 5)	-	(16 5)	-
Net interest payable	4	(241 0)	(249 6)	(242 2)	(248 6)
Profit on ordinary activities before taxation		284 5	268 3	274 4	258 3
Taxation on profit on ordinary activities - current tax	5	(68 5)	(57 4)	(67 5)	(56 8)
- deferred tax	5	(108 5)	94 5	(108 5)	94 5
Taxation	5	(177 0)	37 1	(176 0)	37 7
Profit for the financial year	16	107 5	305 4	98 4	296 0

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

Statements of total recognised gains and losses

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Profit for the financial year	107 5	305 4	98 4	296 0
Actuational (loss)/gain	(105 7)	37 1	(105 7)	37 1
Tax credit/(charge) on actuational loss/gain	28 3	(9 6)	28 3	(9 6)
Adjustment in respect of tax rate change on deferred tax	(2 9)	(6 2)	(2 9)	(6 2)
Tax charge on pension contributions	(2 9)	-	(2 9)	-
Total recognised gains and losses for the financial year	24 3	326 7	15 2	317 3

Reconciliations of movements in shareholder's funds

	Notes	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
Profit for the financial year		107 5	305 4	98 4	296 0
Dividends	6	(266 0)	(153 6)	(266 0)	(153 6)
Retained profit for the financial year		(158 5)	151 8	(167 6)	142 4
Share based payments		2 7	2 8	2 7	2 8
Net actuational (loss)/gain		(77 4)	27 5	(77 4)	27 5
Adjustment in respect of tax rate change on deferred tax		(2 9)	(6 2)	(2 9)	(6 2)
Tax charge on pension contributions		(2 9)	-	(2 9)	-
Net (reduction in)/addition to shareholder's funds		(239 0)	175 9	(248 1)	166 5
Opening shareholder's funds		1,362 4	1,186 5	1,568 7	1,402 2
Closing shareholder's funds		1,123 4	1,362 4	1,320 6	1,568 7

Balance sheets

As at 31 March 2012

	Notes	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
Fixed assets					
Tangible assets	7	6,113.2	6,031.9	6,111.1	6,029.8
Investments	8	-	-	413.5	235.7
		6,113.2	6,031.9	6,524.6	6,265.5
Current assets					
Stocks		6.4	6.3	6.4	6.3
Debtors amounts falling due within one year	9a	364.5	332.1	370.6	345.4
Debtors amounts falling due after more than one year	9b	1.4	5.4	137.6	43.2
Short term deposits	12b	0.1	4.0	0.1	4.0
Cash at bank and in hand	12b	0.8	6.5	0.2	6.1
		373.2	354.3	514.9	405.0
Creditors amounts falling due within one year	10	(598.6)	(475.4)	(686.8)	(552.3)
Net current liabilities		(225.4)	(121.1)	(171.9)	(147.3)
Total assets less current liabilities		5,887.8	5,910.8	6,352.7	6,118.2
Creditors amounts falling due after more than one year	11	(3,971.6)	(3,911.7)	(4,348.2)	(3,912.8)
Provisions for liabilities	13	(537.6)	(438.3)	(513.8)	(438.3)
Net assets excluding pension deficit		1,378.6	1,560.8	1,490.7	1,767.1
Pension deficit	14	(244.6)	(198.4)	(170.1)	(198.4)
Net assets including pension deficit		1,134.0	1,362.4	1,320.6	1,568.7
Capital and reserves					
Called up share capital	15	1,000.0	1,000.0	1,000.0	1,000.0
Profit and loss account	16	123.4	362.4	320.6	568.7
Shareholder's funds		1,123.4	1,362.4	1,320.6	1,568.7
Minority interests	20	10.6	-	-	-
Capital employed		1,134.0	1,362.4	1,320.6	1,568.7

Signed on behalf of the board who approved the accounts on 29 May 2012



Andrew Duff
Chairman



Michael McKeon
Finance Director

Company number 2366686

Group cash flow statement

Year ended 31 March 2012

	Notes	2012 £m	2012 £m	2011 £m	2011 £m
Net cash inflow from operating activities	19a		844.7		827.1
Returns on investments and servicing of finance					
Interest received		3.6		1.4	
Interest paid		(183.1)		(162.6)	
Interest element of finance lease rental payments		(13.6)		(10.8)	
			(193.1)		(172.0)
Taxation			(68.6)		(58.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(504.8)		(506.4)	
Grants and contributions received		24.3		24.9	
Sale of tangible fixed assets		8.8		19.6	
			(471.7)		(461.9)
Equity dividends paid			(266.0)		(153.6)
Net cash outflow before management of liquid resources and financing			(154.7)		(18.7)
Management of liquid resources			3.9		(2.3)
Net cash flow before financing			(150.8)		(21.0)
Financing					
Finance leases repaid		(47.8)		(47.3)	
Loans received		568.0		528.4	
Closed out swap		-		20.5	
Loans repaid		(383.9)		(477.4)	
Equity interest in subsidiary issued to minority		10.6		-	
Cash payments on employee incentive plans		(1.8)		(1.9)	
			145.1		22.3
Net (decrease)/increase in cash			(5.7)		1.3
Reconciliation of net cash flow to movement in net debt					
	Notes	2012 £m	2012 £m	2011 £m	2011 £m
Net increase/(decrease) in cash as above		(5.7)		1.3	
Cash flow from movement in net debt		(136.3)		(3.8)	
Cash flow from movement in liquid resources		(3.9)		2.3	
Change in net debt resulting from cash flows			(145.9)		(0.2)
Rolled up interest on net debt			(52.5)		(51.7)
Termination of financial instruments			-		(44.2)
Increase in net debt			(198.4)		(96.1)
Opening net debt			(3,965.5)		(3,869.4)
Closing net debt	19b		(4,163.9)		(3,965.5)

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 and exemptions

The consolidated profit and loss account and balance sheet include the results of the company and its subsidiary undertakings as listed in note 8. Intra group sales and profits are eliminated fully on consolidation. The company has taken advantage of the following exemptions:

- FRS 1 'Cash Flow Statements' – a cash flow statement has not been presented
- FRS 8 'Related Party Disclosures' – related party transactions with other group undertakings have not been disclosed
- SSAP 25 'Segmental Reporting' – segmental information has not been disclosed

Severn Trent Water Limited is a partner in Severn Trent Limited Partnership ("the partnership"), which is registered in Scotland. As the partnership is included in the Severn Trent Water Limited consolidated accounts, the company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

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,
- Properties are disconnected following a customer's request, or
- The identity of the customer is unknown.

Where bills have been raised in respect of properties where the identity of the customer is unknown, income is only recognised 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 and equipment	20 - 40
Vehicles, mobile plant and computers	2 - 15

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

e) Leased assets

Where the company or the group obtains assets under 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.

Where the company or the group obtains assets under leasing arrangements where substantially all the risks and rewards of ownership remain with the lessor, these are classified as operating leases. Rental costs arising under operating leases are expensed on a straight line basis over the term of the lease.

Where the company or group transfers substantially all the risks and rewards of ownership of an asset to a lessee (finance lease), the assets are accounted for as if they had been sold, and the net investment in the lease is shown as a receivable due from the lessee. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance lease income, such that finance lease income produces a constant rate of return on the net cash investment in the lease. Finance lease income is included within interest receivable and similar income.

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

1 Accounting policies continued

f) Grants and contributions (continued)

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 £609.8 million lower than it would otherwise have been (2011 £585.5 million).

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

g) 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.

h) 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.

i) Investments

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

j) Stock

Stock is stated at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads.

k) Provisions

Provisions are recognised where

- There is a present obligation as a result of a past event,
- It is probable that there will be an outflow of economic benefits to settle this obligation, and
- A reliable estimate of this amount can be made.

Self-insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified,

based on advice from the group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

l) 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 is shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at bid price 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 when they fall due.

m) 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.

n) 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.

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.

1 Accounting policies continued

o) Derivatives and other financial instruments (continued)

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 and offset against the associated hedged borrowings

Energy swaps are not revalued to fair value

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 12 Finance to the financial statements

p) 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 operating items

	Group					
	2012			2011		
	Before exceptional costs	Exceptional costs	Total	Before exceptional costs	Exceptional costs	Total
	£m	£m	£m	£m	£m	£m
Wages and salaries	159.2	2.6	161.8	156.4	3.9	160.3
Social security costs	14.0	0.2	14.2	13.0	0.4	13.4
Pension costs (note 14)	25.3	(21.8)	3.5	24.4	0.6	25.0
Share based payments	3.8	-	3.8	4.7	-	4.7
Total employee costs	202.3	(19.0)	183.3	198.5	4.9	203.4
Power	57.7	-	57.7	50.5	-	50.5
Raw materials and consumables	46.8	0.4	47.2	46.2	0.5	46.7
Rates	68.4	-	68.4	61.5	-	61.5
Charge for bad and doubtful debts	31.2	-	31.2	31.8	-	31.8
Service charges	33.3	-	33.3	32.6	-	32.6
Depreciation on owned assets non infrastructure	252.0	-	252.0	243.4	-	243.4
Depreciation on owned assets infrastructure	136.3	-	136.3	106.7	-	106.7
Depreciation of tangible fixed assets	388.3	-	388.3	350.1	-	350.1
Hired and contracted services	155.6	4.3	159.9	119.5	3.4	122.9
Other operating lease rentals	0.4	-	0.4	1.5	0.2	1.7
Hire of plant and machinery	4.8	-	4.8	6.6	-	6.6
Research and development expenditure	4.0	-	4.0	4.1	-	4.1
(Profit)/loss on disposal of fixed assets	(4.2)	-	(4.2)	1.1	-	1.1
Other operating costs	37.8	4.0	41.8	38.8	4.0	42.8
	1,026.4	(10.3)	1,016.1	942.8	13.0	955.8
Release from deferred income	(3.2)	-	(3.2)	(2.9)	-	(2.9)
Own work capitalised	(76.8)	-	(76.8)	(59.9)	-	(59.9)
Total operating costs	946.4	(10.3)	936.1	880.0	13.0	893.0

2 Analysis of total operating costs and exceptional operating items continued

	Company					
	2012			2011		
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	159.2	2.6	161.8	156.4	3.9	160.3
Social security costs	14.0	0.2	14.2	13.0	0.4	13.4
Pension costs (note 14)	25.3	(21.8)	3.5	24.4	0.6	25.0
Share based payments	3.8	-	3.8	4.7	-	4.7
Total employee costs	202.3	(19.0)	183.3	198.5	4.9	203.4
Power	57.7	-	57.7	50.5	-	50.5
Raw materials and consumables	46.8	0.4	47.2	46.2	0.5	46.7
Rates	68.4	-	68.4	61.5	-	61.5
Charge for bad and doubtful debts	31.2	-	31.2	31.8	-	31.8
Service charges	33.3	-	33.3	32.6	-	32.6
Depreciation on owned assets non infrastructure	252.0	-	252.0	243.4	-	243.4
Depreciation on owned assets infrastructure	136.3	-	136.3	106.7	-	106.7
Depreciation of tangible fixed assets	388.3	-	388.3	350.1	-	350.1
Hired and contracted services	155.6	4.3	159.9	119.5	3.4	122.9
Other operating leases rentals	12.8	-	12.8	12.5	0.2	12.7
Hire of plant and machinery	4.8	-	4.8	6.6	-	6.6
Research and development expenditure	4.0	-	4.0	4.1	-	4.1
(Profit)/loss on disposal of fixed assets	(4.2)	-	(4.2)	1.1	-	1.1
Other operating costs	37.8	4.0	41.8	38.8	4.0	42.8
	1,038.8	(10.3)	1,028.5	953.8	13.0	966.8
Release from deferred income	(3.2)	-	(3.2)	(2.9)	-	(2.9)
Own work capitalised	(76.8)	-	(76.8)	(59.9)	-	(59.9)
Total operating costs	958.8	(10.3)	948.5	891.0	13.0	904.0

Auditors' remuneration

During the year the following fees were charged by the auditors

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	0.3	0.4	0.3	0.4
Fees payable to the company's auditors for non-audit services	-	-	-	-
	0.3	0.4	0.3	0.4

2 Analysis of total operating costs and exceptional operating items continued

Exceptional items	Group and company	
	2012	2011
	£m	£m
Exceptional restructuring costs	(11.5)	(13 0)
Exceptional pensions curtailment gain	21.8	-
	10.3	(13 0)
Profit on disposal of tangible fixed assets	-	17 5

An £11.5 million exceptional charge (2011 £13.0 million) arose from the programme to restructure and realign the business. A £21.8 million (2011 nil) exceptional pension curtailment gain was also realised (note 14).

In 2011, exceptional profit of £17.5 million was realised from property disposals and was classified as non-operating in accordance with FRS 3 'Reporting financial performance'. In 2012, no equivalent exceptional profit has arisen.

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 2012. 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 97¹⁷/_{19p} each by virtue of having received contingent awards of shares under the Severn Trent Long Term Incentive Plan (LTIP) on 7 July 2009, 21 June 2010 and 22 June 2011, deferred shares under the Severn Trent Annual Bonus Scheme on 7 July 2009, 21 May 2010 and 20 May 2011, and contingent shares under the Share Matching Plan on 21 May 2010 and 20 May 2011.

The LTIP operates on a three year rolling basis. The Severn Trent Employee Share ownership Trust is operated in conjunction with the LTIP and Annual Bonus Scheme. 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).

During the year, the executive directors received half of their bonus for the year ended 31 March 2011 in deferred shares under the Annual Bonus Scheme and contingent matching shares (being 50% of their deferred share award) under the Share Matching Plan. Performance targets apply to the Share Matching Plan award in the same manner as the LTIP.

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 2012.

b) Emoluments

	2012	2011
	£000	£000
Aggregate emoluments (excluding pension contributions)	3,688.9	3,344.8
Pension contributions (defined contribution arrangements)	121.2	239.7
	3,810.1	3,584.5

i) The emoluments of the non-executive directors are paid by Severn Trent Plc.

ii) Retirement benefits are accruing to three directors (2011 three directors) under a defined benefit scheme and two directors (2011 two directors) under a defined contribution scheme.

iii) Five directors (2011 five directors) exercised share options or received LTIP awards which vested during the year.

c) Highest paid director

	2012	2011
	£000	£000
Aggregate emoluments (excluding pension contributions)	1,034.9	905.1

The accrued pension at 31 March 2012 for the highest paid director was £29,471 (2011 £25,002). 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. The highest paid director's 2008 LTIP award did not vest during the performance year.

3 Information regarding directors and employees continued**Employees**

	Group and company	
	2012	2011
	Number	Number
Average number of employees during the year	5,162	5,237

4 Net interest payable and exceptional interest costs

			Group	
	Before exceptional costs	Exceptional costs	2012	2011
	£m	£m	Total £m	Total £m
Interest receivable and similar income	2.4	-	2.4	22.3
Finance income on defined benefit pension schemes	89.1	-	89.1	82.9
Interest receivable	91.5	-	91.5	105.2
Interest payable and similar charges on				
Bank loans and overdrafts	(21.8)	-	(21.8)	(18.4)
Other loans	(197.8)	(16.5)	(214.3)	(224.8)
Finance leases	(9.4)	-	(9.4)	(24.0)
Interest cost on defined benefit pension schemes	(87.0)	-	(87.0)	(87.6)
Interest payable	(316.0)	(16.5)	(332.5)	(354.8)
	(224.5)	(16.5)	(241.0)	(249.6)

			Company	
	Before exceptional costs	Exceptional costs	2012	2011
	£m	£m	Total £m	Total £m
Interest receivable and similar income	3.6	-	3.6	23.6
Finance income on defined benefit pension schemes	89.1	-	89.1	82.9
Interest receivable	92.7	-	92.7	106.5
Interest payable and similar charges on				
Bank loans and overdrafts	(21.8)	-	(21.8)	(18.4)
Other loans	(8.0)	-	(8.0)	(15.3)
Finance leases	(11.5)	-	(11.5)	(24.0)
Amounts due to subsidiary undertaking	(190.1)	(16.5)	(206.6)	(209.8)
Interest cost on defined benefit pension schemes	(87.0)	-	(87.0)	(87.6)
Interest payable	(318.4)	(16.5)	(334.9)	(355.1)
	(225.7)	(16.5)	(242.2)	(248.6)

On 24 January 2012 the group issued a £250.0 million bond with a coupon of 4.875% and a maturity of 30 years. On 27 January 2012, the group purchased £150.6 million of a £200.0 million bond maturing in 2014 as part of a tender offer launched simultaneously with the bond issue. The costs of the tender offer give rise to an exceptional interest charge of £16.5 million, representing the difference between the purchase price and the carrying value of the bond (see note 12).

5 Taxation on profit on ordinary activities

a) Analysis of charge in the year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current tax				
UK Corporation tax at 26% (2011 28%)				
- Current year	51.3	52.2	50.0	51.2
- Adjustment in respect of prior years	(8.4)	(13.1)	(8.4)	(13.1)
Group relief payable at 26% (2011 28%)				
- Current year	22.6	17.8	22.9	18.2
- Adjustment in respect of prior years	3.0	0.5	3.0	0.5
Total current tax	68.5	57.4	67.5	56.8
Deferred tax				
Origination and reversal of timing differences				
- Current year	(10.8)	13.7	(10.8)	13.7
- Adjustment in respect of prior years	4.1	10.7	4.1	10.7
- Effect of change in tax rate	(55.7)	(53.8)	(55.7)	(53.8)
- Increase in discount	156.3	(49.3)	156.3	(49.3)
Total deferred tax credit	93.9	(78.7)	93.9	(78.7)
Deferred tax included in the statement of recognised gains and losses	14.6	(15.8)	14.6	(15.8)
Deferred tax charge/(credit) included in profit and loss account	108.5	(94.5)	108.5	(94.5)
Total tax charge/(credit)	177.0	(37.1)	176.0	(37.7)

b) Factors affecting the tax charge in the year

The current tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (26%) (2011 28%). The differences are explained below

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Profit on ordinary activities before tax	284.5	268.3	274.4	258.3
Profit on ordinary activities multiplied by the standard rate of corporation tax of 26% (2011 28%)	74.0	75.1	71.3	72.3
Effects of				
Items not taxable or not deductible for tax purposes	(5.7)	(3.5)	(4.0)	(1.3)
Capital allowances for period less than/(in excess of) depreciation	4.0	1.4	4.0	1.4
Movement in short term timing differences	1.6	(3.0)	1.6	(3.0)
Adjustment to tax charge in respect of prior periods	(5.4)	(12.6)	(5.4)	(12.6)
	68.5	57.4	67.5	56.8

Of the current year charge, £2.8 million credit (2011 £3.2 million credit) relates to current tax on exceptional items and £5.2 million charge (2011 £6.5 million credit) relates to deferred tax on exceptional items

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)/charged directly to equity

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current tax relief on pension contributions	(7.9)	-	(7.9)	-
Deferred tax on actuarial gains and losses	(25.4)	(15.8)	(25.4)	(15.8)
Deferred tax relief on pension contributions	10.8	-	10.8	-
Tax credited directly to equity	(22.5)	(15.8)	(22.5)	(15.8)

d) Factors affecting future tax rates

The group's current tax charge of £73.9 million (2011 £70.0 million) before adjustments to the tax charge in respect of prior periods represents 26.0% (2011 26.1%) of the group's profit before tax

The company's current tax charge of £72.9 million (2011 £69.4 million) before adjustments to the tax charge in respect of prior periods represents 26.6% (2011 26.9%) of the company's profit before tax

The 'effect of change in tax rate' deferred tax credit is an amount which reflects the decrease in the main corporation tax rate to 24% from 1 April 2012 (2011 decrease in the main corporation tax rate from 28% to 26%), being the rate at which deferred tax is expected to reverse. The group and company's tax charge will continue to be affected in future years by the level 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 is difficult to predict as it is impacted by changes to discount rates.

6 Dividends

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Dividends paid	266.0	153.6	266.0	153.6

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, 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 2012 amounted to £266.0 million, being 26.6p per share (2011 15.4p per share).

7 Tangible fixed assets

	Group				Total £m
	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Vehicles and mobile plant £m	
Cost					
At 1 April 2011	2,541.8	4,296.7	3,542.2	44.4	10,425.1
Additions	106.4	202.5	186.3	3.3	498.5
Grants and contributions	-	(24.3)	-	-	(24.3)
Assets sold or written off	(3.3)	(0.1)	(24.3)	(2.7)	(30.4)
At 31 March 2012	2,644.9	4,474.8	3,704.2	45.0	10,868.9
Depreciation					
At 1 April 2011	(805.3)	(1,690.3)	(1,873.2)	(24.4)	(4,393.2)
Charge for the year	(54.5)	(136.3)	(192.3)	(5.2)	(388.3)
Assets sold or written off	3.1	-	20.3	2.4	25.8
At 31 March 2012	(856.7)	(1,826.6)	(2,045.2)	(27.2)	(4,755.7)
Net book value					
At 31 March 2012	1,788.2	2,648.2	1,659.0	17.8	6,113.2
At 31 March 2011	1,736.5	2,606.4	1,669.0	20.0	6,031.9

	Company				Total £m
	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Vehicles and mobile plant £m	
Cost					
At 1 April 2011	2,541.8	4,294.4	3,542.2	44.4	10,422.8
Additions	106.4	202.5	186.3	3.3	498.5
Grants and contributions	-	(24.3)	-	-	(24.3)
Assets sold or written off	(3.3)	(0.1)	(24.3)	(2.7)	(30.4)
At 31 March 2012	2,644.9	4,472.5	3,704.2	45.0	10,866.6
Depreciation					
At 1 April 2011	(805.3)	(1,690.1)	(1,873.2)	(24.4)	(4,393.0)
Charge for the year	(54.5)	(136.3)	(192.3)	(5.2)	(388.3)
Assets sold or written off	3.1	-	20.3	2.4	25.8
At 31 March 2012	(856.7)	(1,826.4)	(2,045.2)	(27.2)	(4,755.5)
Net book value					
At 31 March 2012	1,788.2	2,646.1	1,659.0	17.8	6,111.1
At 31 March 2011	1,736.5	2,604.3	1,669.0	20.0	6,029.8

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Cost	402.3	402.9	615.6	400.5
Accumulated depreciation	(198.7)	(179.4)	(226.2)	(179.1)
Net book value	203.6	223.5	389.4	221.4

Group depreciation during the year was £19.3 million and company depreciation was £47.1 million

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)

7 Tangible fixed assets continued

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Freehold	1,787.9	1,736.2	1,787.9	1,736.2
Short leasehold	0.3	0.3	0.3	0.3
	1,788.2	1,736.5	1,788.2	1,736.5

iv) Tangible fixed assets not subject to depreciation are

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Land	32.0	30.6	32.0	30.6
Assets in the course of construction	367.3	433.8	367.3	433.8
	399.3	464.4	399.3	464.4

8 Investments

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

	Company			Total £m
	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Other investments £m	
Cost and net book value				
At 1 April 2011	170.1	65.5	0.1	235.7
Additions in the year	177.8	-	-	177.8
At 31 March 2012	347.9	65.5	0.1	413.5

	Country of registration and operation	Percentage and class of share capital held	Nature of business
Subsidiary undertakings (all directly held)			
East Worcester Water Limited	England and Wales	100% Ordinary & 100% non-voting	Finance company
Severn Trent Reservoirs Limited	England and Wales	100% Ordinary	Finance company
Severn Trent Utilities Finance Plc	England and Wales	100% Ordinary	Finance company
Severn Trent LCP Limited ¹	England and Wales	100% Ordinary	Leasing Company
Severn Trent Leasing Limited ¹	England and Wales	100% Ordinary	Leasing Company
Severn Trent General Partnership Limited ¹	Scotland	100% Ordinary	Finance company
Biogas Generation Limited	England and Wales	100% Ordinary	Dormant
Severn Trent Power Generation Limited	England and Wales	100% Ordinary	Dormant
Severn Trent Funding Limited	England and Wales	100% Ordinary	Dormant

¹ additions during the year

The company also has an indirect investment in Severn Trent Limited Partnership, a limited partnership registered in Scotland, as a result of Severn Trent General Partnership Limited being the general partner

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	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade debtors	142.3	126.9	142.3	126.9
Amounts owed by parent and fellow subsidiary undertakings	8.9	5.8	8.9	5.8
Other debtors	28.8	36.2	28.8	38.6
Amounts receivable under finance leases	-	-	5.7	-
Prepayments and accrued income	184.5	163.2	184.9	174.1
	364.5	332.1	370.6	345.4

b) Amounts falling due after more than one year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Amounts owed by parent and fellow subsidiary undertakings	-	-	38.8	37.8
Amounts receivable under finance leases	-	-	97.4	-
Prepayments and accrued income	1.4	5.4	1.4	5.4
	1.4	5.4	137.6	43.2
Total debtors	365.9	337.5	508.2	388.6

c) Amounts receivable under finance leases

Net investment in finance leases comprises

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Total amounts receivable	-	-	289.5	-
Less interest allocated to future periods	-	-	(186.4)	-
	-	-	103.1	-

Rentals receivable by the company during the year under finance leases amounted to £113.5 million (2011: £nil)

10 Creditors: amounts falling due within one year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Loans due to parent and fellow subsidiary undertakings	186.0	96.5	186.0	96.5
Other loans	43.4	4.9	-	-
Obligations under finance leases	-	13.5	13.9	13.5
Borrowings (note 12)	229.4	114.9	199.9	110.0
Trade creditors	14.8	12.2	14.8	12.2
Amounts owed to parent and fellow subsidiary undertakings	19.0	18.2	165.0	116.7
Other creditors	5.8	8.2	18.7	32.5
Taxation and social security	4.3	4.1	4.3	4.1
Corporation tax payable	37.7	46.6	36.8	45.8
Accruals and deferred income	287.6	271.2	247.3	231.0
	598.6	475.4	686.8	552.3

11 Creditors: amounts falling due after more than one year

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Bank loans	610.3	602.7	610.3	602.7
Loans due to parent and fellow subsidiary undertakings	-	-	3,278.9	3,006.3
Other loans	3,106.2	3,005.2	-	-
Obligations under finance leases	218.9	253.2	422.7	253.2
Borrowings (note 12)	3,935.4	3,861.1	4,311.9	3,862.2
Other creditors	1.6	13.0	1.7	13.0
Deferred income	34.6	37.6	34.6	37.6
	3,971.6	3,911.7	4,348.2	3,912.8

12 Financial instruments

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

a) Borrowings analysed by maturity date

	Group					
	2012			2011		
	Loan with other repayment terms £m	Finance leases £m	Total £m	Loan with other repayment terms £m	Finance leases £m	Total £m
Financial liabilities due within one year (note 10)	(229.4)	-	(229.4)	(101.4)	(13.5)	(114.9)
Between one and two years	(160.3)	(17.7)	(178.0)	(43.4)	(16.4)	(59.8)
Between two and five years	(882.1)	(85.5)	(967.6)	(1,034.3)	(84.1)	(1,118.4)
After more than five years	(2,674.1)	(115.7)	(2,789.8)	(2,530.2)	(152.7)	(2,682.9)
Total financial liabilities due after one year (note 11)	(3,716.5)	(218.9)	(3,935.4)	(3,607.9)	(253.2)	(3,861.1)
	(3,945.9)	(218.9)	(4,164.8)	(3,709.3)	(266.7)	(3,976.0)

£610.3 million (2011: £602.7 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 %	2012 £m	2011 £m
European Investment Bank loan - 2017-20 (2011: 2016-20)	1.1-4.5	300.0	450.0
European medium term loan notes - 2018-2067 (2011: 2016-67)	1.5-6.3	1,661.0	1,368.0
Sterling bonds 2024-29 (2011: 2024-29)	6.1-6.3	713.1	712.2
Total capital		2,674.1	2,530.2

On 24 January 2012 the group issued a £250.0 million bond with a coupon of 4.875% and a maturity of 30 years. On 27 January 2012, the group purchased £150.6 million of a £200.0 million bond maturing in 2014 as part of a tender offer launched simultaneously with the bond issue. The costs of the tender offer give rise to an exceptional interest charge of £16.5 million, representing the difference between the purchase price and the carrying value of the bond.

12 Financial instruments continued

a) Borrowings analysed by maturity date continued

Future minimum payments under finance leases are as follows

	2012 £m	Group 2011 £m
Within one year	4.4	19.0
In more than one year, but not more than five years	129.0	132.3
After five years	158.7	201.3
	292.1	352.6
Less finance charges included above	(73.2)	(85.9)
Present value of lease obligations	218.9	266.7

b) Investments in interest earning assets

	2012 £m	Group 2011 £m
Cash at bank and in hand	0.8	6.5
Short term deposits	0.1	4.0
	0.9	10.5

Short term Sterling deposits include £nil (2011 £1.4 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

	Fixed interest rate £m	Floating interest rate £m	Index linked rate £m	Group Total £m
Maturity profile				
Less than one year	-	229.4	-	229.4
Between one and two years	17.7	-	160.3	178.0
Between two and five years	670.3	297.4	-	967.7
Between five and twenty years	1,375.7	170.0	171.4	1,717.1
In more than twenty years	246.6	-	826.0	1,072.6
Total borrowings	2,310.3	696.8	1,157.7	4,164.8
Impact of interest rate swaps entered into by the group and company	238.6	(238.6)	-	-
Total borrowings after the impact of interest rate swaps	2,548.9	458.2	1,157.7	4,164.8
Short term deposits and cash at bank and in hand	-	(0.9)	-	(0.9)
Net debt as at 31 March 2012	2,548.9	457.3	1,157.7	4,163.9
Total borrowings after the impact of interest rate swaps as at 31 March 2011	2,496.8	374.9	1,104.3	3,976.0
Short term deposits and cash at bank and in hand	-	(10.5)	-	(10.5)
Net debt as at 31 March 2011	2,496.8	364.4	1,104.3	3,965.5

Fixed interest debt incurs interest at a weighted average rate of 5.8% (2011 5.9%). Interest on these borrowings is fixed for a weighted average period of 13.6 years (2011 9.8 years).

Included in the fixed interest debt above, the group has entered into one (2011 one) accruing interest rate swap. This has a notional value of £23.6 million (2011 £22.3 million) and accretes value up to 2030 (2011 2030). The maximum notional value of this swap is £35.0 million (2011 £35.0 million). The group pays fixed interest at 5.52% (2011 5.52%).

The group has ten (2011 ten) forward dated swaps (floating to fixed) with a total notional value of £450.0 million (2011 £450.0 million) that bear interest between 4.92% and 5.16% (2011 4.92% and 5.16%). 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 2012 interest rates on 61.2% of the group's borrowings were fixed for a weighted average period of up to 13.6 years (2011: 62.8%, fixed up to 9.8 years).

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

Financial instrument by category asset/(liability)	2012		2011	
	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	0.1	0.1	4.0	4.0
Cash at bank and in hand	0.8	0.8	6.5	6.5
Short term debtors and creditors	117.4	117.4	105.3	105.3
Borrowings falling due within one year	(229.4)	(43.6)	(114.9)	(112.0)
Borrowings falling due after more than one year	(4,033.2)	(4,669.6)	(4,001.0)	(4,256.9)
Derivative financial instruments held to manage the currency and interest rate profile				
Interest rate swaps and similar instruments	-	(213.3)	-	(67.2)
Currency instruments - cross currency swaps	97.8	108.5	139.9	132.2
Energy swaps	-	1.0	-	14.6
Total net financial liabilities	(4,046.5)	(4,698.7)	(3,860.2)	(4,173.5)
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 £600.0 million expiring in greater than 5 years (2011: £41.7 million expiring in less than one year, £458.3 million expiring between two and five years and £nil expiring in greater than 5 years). In October 2011 a new five year £500.0 million Revolving Credit Facility was agreed, £200.0 million of which is held jointly with Severn Trent Plc. In March 2012 a new ten year £100.0 million bilateral bank facility was also agreed.

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 2012 given prevailing economic conditions.

	Group		
	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges 1 April 2011	69.6	(129.2)	(59.6)
Arising in previous years that were recognised in the year	(2.5)	-	(2.5)
Arising before 1 April 2011 that were not recognised in the financial year	67.1	(129.2)	(62.1)
Unrecognised gains and losses arising during the financial year	(24.6)	(114.9)	(139.5)
Unrecognised gains and losses at 31 March 2012	42.5	(244.1)	(201.6)
Expected to be recognised			
In one year or less	2.6	-	2.6
In later years	39.9	(244.1)	(204.2)

13 Provisions for liabilities

Provisions for liabilities comprise:

	Group				
	Restructuring	Self insurance	Leasehold properties	Deferred tax	Total
	£m	£m	£m	£m	£m
At 1 April 2011	3 0	0 2	8 3	426 8	438 3
Charged/(credited) to profit and loss account	1 5	(0 2)	0 4	(54 9)	(53 2)
Utilisation of provision	(2 7)	-	(1 5)	-	(4 2)
Unwind of discount	-	-	0 4	156 3	156 7
At 31 March 2012	1.8	-	7 6	528.2	537 6

	Company				
	Restructuring	Self insurance	Dilapidation & onerous leasehold	Deferred tax	Total
	£m	£m	£m	£m	£m
At 1 April 2011	3 0	0 2	8 3	426 8	438 3
Charged/(credited) to profit and loss account	1 5	(0 2)	0 4	(78 7)	(77 0)
Utilisation of provision	(2 7)	-	(1 5)	-	(4 2)
Unwind of discount	-	-	0 4	156 3	156 7
At 31 March 2012	1 8	-	7 6	504 4	513 8

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 (2011: one year) of the balance sheet date.

Provision is made for dilapidation costs and onerous leasehold property costs. The associated outflows are expected to arise over a period of up to eight years (2011: seven years) from the balance sheet date.

Deferred tax

The full deferred tax liability, calculated at a tax rate of 24% (2011: 26%) is

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Capital allowances	740 3	802 6	740 3	802 6
Other timing differences	(0 8)	(8 1)	(1.1)	(8 1)
Deferred tax asset relating to pension liability	(77 2)	(69 7)	(77.2)	(69 7)
Share schemes	(1 3)	(1 4)	(1.3)	(1 4)
Undiscounted provision for deferred tax	661 0	723 4	660 7	723 4
Discount	(210.0)	(366 3)	(210.0)	(366 3)
Discounted provision for deferred tax	451 0	357 1	450 7	357 1
Adjustment for deferred tax asset relating to pension liability (note 14)	77 2	69 7	53 7	69 7
Deferred tax as disclosed in provisions	528 2	426 8	504 4	426 8
Provision at start of year	426 8	524 5	426 8	524 5
Deferred tax charge/(credit) included in profit and loss account	108 5	(94 5)	108 5	(94 5)
Deferred tax (credit)/charge included in statement of recognised gains and losses	(14 6)	15 8	(14.6)	15 8
Adjustment for deferred tax relating to pension liability (note 14)				
- Included in profit and loss account (credit)/charge	(15 0)	(3 2)	(15.0)	(3 2)
- Included in statement of recognised gains and losses (credit)/charge	22 5	(15 8)	(1.3)	(15 8)
Provision at end of year	528 2	426 8	504 4	426 8

14 Pensions

The group and company participate 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.

The date of their last formal actuarial valuations are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme*	31 March 2010
Severn Trent Mirror Image Pension Scheme	31 March 2009

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

Contribution rates are set in consultation with the trustees for each scheme and each participating employer. It is anticipated that normal contributions to the scheme in the year ended 31 March 2012 will be in the order of £10.0 million and lump sum deficit contributions of £8.0 million are planned.

The final salary sections of all of the pension schemes listed below are closed to new entrants and the age profile of scheme participants is expected to rise and hence service costs are also expected to rise in the future.

On 11 May 2011, Severn Trent announced that it was consulting with its 6,000 plus UK employees on proposed changes to its pension arrangements, which would see all existing pensions replaced by one new defined contribution scheme. Following the period of consultation and after discussion with the Schemes' Trustees, final proposals have been accepted by the employees' representatives and the Trustees. A new defined contribution scheme has been established and new employees have been auto enrolled into this scheme with effect from 1 April 2012. The defined benefit schemes will close to future accrual on 31 March 2015 and members of the defined benefit scheme will become members of the new defined contribution scheme. The existing defined contribution scheme will also be replaced by the new pension arrangements with effect from 1 April 2015 and it is proposed to automatically enrol those employees who are not currently members of a Severn Trent scheme from 2013.

In March 2012, the group agreed with the trustees of the STPS to transfer to the STPS the entitlement to receive cash flows from an intra-group asset backed funding arrangement of approximately £8.2 million per annum for a period of up to 20 years, subject to funding levels. This entitlement was valued at £98.0 million, representing the net present value of those cash flows. The cash flows arise from entities within the Severn Trent Water Limited Group and therefore this contribution does not reduce the defined benefit pension deficit disclosed in the group balance sheet.

The actuarial liabilities and market values of the assets at 31 March 2012 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	2012 Projected unit	2011 Projected unit
Price inflation	3.10%	3.50%
Salary increase	3.60%	4.00%
Pension increases in payment*	3.10%	3.50%
Pension increases in deferment*	3.10%	3.50%
Discount rate	4.90%	5.60%
Longevity at age 65 for pensioners retiring now		
- men (years)	22.5	22.4
- women (years)	26.1	26.0
Longevity at age 65 for pensioners retiring in 20 years		
- men (years)	23.0	23.0
- women (years)	26.9	26.8

* In excess of any Guaranteed Minimum Pension

14 Pensions continued

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

	Group and company	
	2012 £m	2011 £m
Amounts charged to operating costs		
Current service cost	(21.2)	(21.1)
Curtailment gain	21.8	-
	0.6	(21.1)
Amounts charged to net finance costs		
Interest cost	(87.0)	(87.6)
Expected return on scheme assets	89.1	82.9
	2.1	(4.7)
Total amount charged in profit and loss account	2.7	(25.8)

Actuarial gains and losses have been reported in the statement of recognised gains and losses. The cumulative amount of actuarial gains and losses recognised in the statement of recognised gains and losses since the adoption of FRS 17 'Retirement benefits' is a net loss of £234.5 million (2011 net loss of £133.8 million). The cumulative limitation on actuarial gains recognised under FRS 17 where it is deemed that a surplus cannot be recovered in full either through reduced contributions or scheme refunds is a total of £14.1 million gains not recognised (2011 £9.1 million gains not recognised).

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		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Present value of defined benefit obligations - funded schemes	(1,693.3)	(1,570.0)	(1,693.3)	(1,570.0)
Total fair value of assets	1,385.6	1,311.0	1,483.6	1,311.0
	(307.7)	(259.0)	(209.7)	(259.0)
Asset not recognised	(14.1)	(9.1)	(14.1)	(9.1)
Liability recognised in the balance sheet (before deferred tax)	(321.8)	(268.1)	(223.8)	(268.1)
Deferred tax	77.2	69.7	53.7	69.7
Liability recognised in the balance sheet	(244.6)	(198.4)	(170.1)	(198.4)

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

	Group and company	
	2012 £m	2011 £m
At 1 April	1,570.0	1,557.1
Current service cost	21.2	21.1
Curtailment gain	(21.8)	-
Interest cost	87.0	87.6
Contributions from scheme members	5.1	5.6
Actuarial loss/(gain)	95.1	(38.5)
Benefits paid	(63.3)	(62.9)
At 31 March	1,693.3	1,570.0

14 Pensions continued

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
At 1 April	1,311 0	1,240 4	1,311 0	1,240 4
Expected return on scheme assets	89 1	82 9	89.1	82 9
Contributions	22 4	22 9	22.4	22 9
Special contributions	28 9	14 4	126 9	14 4
Contributions from scheme members	5 1	5 6	5.1	5 6
Contributions due from other group companies	(1 9)	-	(1 9)	-
Actuarial (loss)/gain	(5 6)	7 7	(5 6)	7 7
Benefits paid	(63 4)	(62 9)	(63 4)	(62 9)
At 31 March	1,385 6	1,311 0	1,483 6	1,311 0

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

	Group			
	2012		2011	
	Expected return	Fair value of assets £m	Expected return	Fair value of assets £m
Equities	6 80 %	711 3	7 85 %	711 7
Gilts	3 30 %	208 5	4 35 %	35 5
Corporate bonds	4 90 %	301 2	5 60 %	472 2
Hedge fund	6 30 %	47 0	- %	-
Property	5 80 %	94 4	6 85 %	84 8
Cash	3 90 %	23 2	4 35 %	6 8
Total fair value of assets		1,385 6		1,311 0

	Company			
	2012		2011	
	Expected return	Fair value of assets £m	Expected return	Fair value of assets £m
Equities	6 80 %	711 3	7 85 %	711 7
Gilts	3.30 %	208.5	4 35 %	35 5
Corporate bonds	4 90 %	301.2	5 60 %	472 2
Hedge fund	6 30 %	47 0	- %	-
Property	5 80 %	94 4	6 85 %	84 8
Cash	3 90 %	23.2	4 35 %	6 8
Asset backed funding investment	3 90 %	98 0	- %	-
Total fair value of assets		1,483 6		1,311 0

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 £83.5 million (2011: £90.6 million gain).

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

	Group				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	(1,693 3)	(1,570 0)	(1,557 1)	(1,162 4)	(1,295 5)
Fair value of scheme assets	1,385 6	1,311 0	1,240 4	956 6	1,184 0
Asset not recognised	(14.1)	(9 1)	-	(3 7)	-
Scheme deficit	(321 8)	(268 1)	(316 7)	(209 5)	(111 5)
Experience adjustments on scheme liabilities	(0 2)	(97 6)	17 9	(8 5)	71 7
Difference between actual and expected return on scheme assets	(5 6)	7 7	239 9	(291 2)	(109 8)

14 Pensions continued

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

	Company				
	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	(1,693.3)	(1,570.0)	(1,557.1)	(1,162.4)	(1,295.5)
Fair value of scheme assets	1,483.6	1,311.0	1,240.4	956.6	1,184.0
Asset not recognised	(14.1)	(9.1)	-	(3.7)	-
Scheme deficit	(223.8)	(268.1)	(316.7)	(209.5)	(111.5)
Experience adjustments on scheme liabilities	(0.2)	(97.6)	17.9	(8.5)	71.7
Difference between actual and expected return on scheme assets	(5.6)	7.7	239.9	(291.2)	(109.8)

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. Refer page 56 for details of changes to pension arrangement from 1 April 2012.

The total cost charged to operating costs of £4.2 million (2011 £3.9 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2012 100% (2011 100%) contributions due in respect of the current reporting period have been paid over to the schemes.

15 Share capital

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Issued and fully paid				
1,000,000,000 ordinary shares of £1 each (2011 1,000,000,000)	1,000.0	1,000.0	1,000.0	1,000.0

16 Profit and loss account

	Group	Company
	£m	£m
At 1 April 2011	362.4	568.7
Profit for the financial year	107.5	98.4
Share based payments	2.7	2.7
Actuarial loss	(105.7)	(105.7)
Tax on actuarial loss	28.3	28.3
Adjustment in respect of rate change on deferred tax	(2.9)	(2.9)
Tax on pension contributions	(2.9)	(2.9)
Dividends paid	(266.0)	(266.0)
At 31 March 2012	123.4	320.6

At 31 March 2012 cumulative goodwill written off against group reserves amounted to £29.2 million (2011 £29.2 million)

17 Commitments and contingent liabilities

a) Investment expenditure commitments

	Group and company	
	2012	2011
	£m	£m
Contracted for but not provided in the financial statements	159.8	91.7

In addition to these commitments, the group and company have longer term expenditure plans which include investments to achieve improvements in performance mandated by Ofwat and to provide for growth in demand for water and sewerage services.

17 Commitments and contingent liabilities continued

b) Operating lease commitments

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

	2012		Group 2011	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	-	-	-	0.1
Between one year and five years	0.7	-	0.7	-
After five years	0.5	-	0.5	-
	1.2	-	1.2	0.1

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

	2012		Company 2011	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	-	-	-	0.1
Between one year and five years	0.7	-	0.7	-
After five years	13.3	-	12.7	-
	14.0	-	13.4	0.1

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 2012, the group and company had contingent liabilities of £0.8 million (2011: £6.5 million).

18 Share based payments

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 (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at 1 April 2010	3,401,354	872	3,125	720
Granted during the year	341,137	1137	-	-
Forfeited during the year	(135,239)	896	-	-
Cancelled during the year	(87,271)	874	-	-
Exercised during the year	(520,711)	839	(3,125)	720
Expired during the year	(77,640)	1058	-	-
Transferred to other group companies	(5,293)	889	-	-
Outstanding at 1 April 2011	2,916,337	903	-	-
Granted during the year	528,509	1177	-	-
Forfeited during the year	(57,567)	905	-	-
Cancelled during the year	(46,624)	947	-	-
Exercised during the year	(407,517)	925	-	-
Expired during the year	(50,663)	912	-	-
Transferred to other group companies	1,873	839	-	-
Outstanding at 31 March 2012	2,884,348	949	-	-

The weighted average share price during the period was £15.00 (2011: £13.40)

18 Share based payments continued

a) Share Option Schemes

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

i) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Severn Trent Plc board may grant those employees who have entered into 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

	Normal date of exercise	Option price (pence)	Number of shares	
			2012	2011
January 2004	2009 or 2011	592	-	44,914
January 2005	2008, 2010 or 2012	759	52,207	52,960
January 2006	2009, 2011 or 2013	823	19,057	196,401
January 2007	2010, 2012 or 2014	1172	72,593	86,768
January 2008	2011 or 2013	1221	69,883	197,972
January 2009	2012 or 2014	862	1,072,590	1,167,150
January 2010	2013 or 2015	806	756,888	829,949
January 2011	2014 or 2016	1137	313,614	340,223
January 2012	2015 or 2017	1177	527,516	-
			2,884,348	2,916,337

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 2012. SIP shares vest with employees on the date of grant.

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 over three years for Severn Trent Plc measured relative to the companies ranked 51-150 by market capitalisation in the FTSE index (excluding investment trusts).

Details of changes in the number of awards outstanding during the year are set out below

	Number of awards
Outstanding at 1 April 2010	348,453
Granted during the year	136,689
Vested during the year	(53,632)
Forfeited during the year	(10,671)
Expired during the year	(30,940)
Outstanding at 1 April 2011	389,899
Granted during the year	108,744
Forfeited during the year	(14,946)
Expired during the year	(113,148)
Outstanding at 31 March 2012	370,549

18 Share based payments continued

Details of LTIP awards outstanding at 31 March were as follows

Date of grant	Normal date of vesting	Number of shares	
		2012	2011
July 2008	2011	–	113,148
July 2009	2012	146,972	146,973
July 2010	2013	123,305	129,778
July 2011	2014	100,272	–
		370,549	389,899

c) Share Matching Plan (SMP)

Under the Share Matching Plan executive directors receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus scheme. Matching shares may be awarded at a maximum ratio of one matching share for every one deferred share and are subject to a three year vesting period. During the year matching shares were awarded at a ratio of 0.5 to 1.

Matching shares are subject to Severn Trent Plc total shareholder return over three years measured relative to the companies ranked 51-150 by market capitalisation in the FTSE Index (excluding investment trusts). This replicates the LTIP performance condition for the 2011 award.

The number of shares subject to an award will increase to reflect dividends paid through the performance period on the basis of such notional dividends being reinvested at the then prevailing share price. Awards will normally vest as soon as the committee determines that the performance conditions have been met provided that the participant remains in employment at the end of the performance period.

During the year 18,251 (2011: 23,100) matching shares with a fair value of £8.84 (2011: £6.79) were made to 9 (2011: 9) employees.

	Number of share options
Outstanding at 1 April 2011	23,100
Granted during the year	18,251
Cancelled during the year	(1,900)
Vested during the year	(909)
Outstanding at 31 March 2012	38,542

Details of share matching awards outstanding at 31 March 2012 were as follows

Date of grant	Normal date of vesting	Number of shares	
		2012	2011
May 2010	June 2013	20,291	23,100
May 2011	June 2014	18,251	–

d) Fair values of awards made in the year

	2012		2011	
	Number	Fair value £m	Number	Fair value £m
LTIP awards	108,744	1.4	136,689	1.1
Sharesave options	528,509	1.7	341,137	1.2
Share matching plan	18,251	0.2	23,100	0.2

18 Share based payments continued

The fair value of the LTIP awards was calculated using the Black Scholes model. The principal assumptions and inputs into the valuation were as follows:

LTIP award year	2012
Expected volatility (%)	27
Risk free rate (%)	1.57
Expected dividend yield (%)	4.66

The fair value of the LTIP awards for July 2010 was calculated using the Monte Carlo method. The principal assumptions and inputs into the valuation were as follows:

LTIP award year	2011
Share price at grant date (pence)	1228
Number of shares awarded	136,689
Number of employees	19
Vesting period (years)	3
Expected volatility (%)	27
Expected life (years)	3
Expected dividend yield (%)	n/a
Proportion of employees expected to cease employment before vesting (%)	-
Fair value per share (pence)	791

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

Scheme year	2012		2011	
	3 year	5 year	3 year	5 year
Scheme type				
Share price at grant date (pence)	1,520	1,520	1,486	1,486
Number of options granted	408,618	119,891	210,562	130,575
Number of employees	1,471	335	1,012	414
Vesting period (years)	3	5	3	5
Expected volatility (percentage)	27%	27%	27%	27%
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 (percentage)	0.53	1.75	1.63	2.24
Expected dividend yield (percentage)	4.6	4.6	4.4	4.4
Fair value per share (pence)	320	339	348	359

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

The fair value of the SMP awards made during the year was calculated using the Monte Carlo method using the principal assumptions set out below:

Assumptions	2012	2011
	%	%
Expected volatility		
Severn Trent group	26	27
Comparator group	41	46
Correlation between Severn Trent Plc and comparator group	n/a	33

Share price volatility is based on observations over a historical period prior to the date of grant, commensurate of the expected term of the performance period. The comparator group is the companies ranked 51-150 in the FTSE Index. The share price at the grant date was £15.02 (2011: £11.26).

Dividends paid on the shares during the vesting period are accumulated during the vesting period and released subject to the achievement of the performance condition, in the same manner as the underlying shares. As a result a dividend yield assumption is not required.

During the period, the group recognised total expenses of £3.8 million (2011: £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

	2012 £m	2011 £m
Operating profit	525.5	500.4
Depreciation charge (note 7)	388.3	350.1
(Profit)/loss on disposal of tangible fixed assets	(4.2)	1.1
Deferred income credited to the profit and loss account	(3.2)	(2.9)
Provisions for liabilities charged to the profit and loss account	1.7	1.0
Utilisation of provisions for liabilities	(4.2)	(10.4)
Pension service and curtailment costs less contributions paid	(51.8)	(16.3)
(Increase)/decrease in stocks	(0.1)	0.4
Increase in debtors	(19.5)	(17.8)
Increase in creditors	8.4	16.8
Share based payments charge	3.8	4.7
Net cash flow from operating activities	844.7	827.1

b) Analysis of changes in net debt

	At 1 April 2011 £m	Cash flow £m	Other non- cash changes £m	At 31 March 2012 £m
Cash at bank and in hand	6.5	(5.7)	-	0.8
Net cash	6.5	(5.7)	-	0.8
Debt due within one year (note 10)	(101.4)	(89.5)	(38.5)	(229.4)
Debt due after one year (note 11)	(3,607.9)	(94.6)	(14.0)	(3,716.5)
Finance leases (notes 10 and 11)	(266.7)	47.8	-	(218.9)
Short term deposits (note 12)	4.0	(3.9)	-	0.1
Net debt (note 12)	(3,965.5)	(145.9)	(52.5)	(4,163.9)

20 Ultimate and immediate parent company

The immediate parent undertaking is Severn Trent Draycote Limited which is registered in England and Wales

The ultimate parent undertaking and controlling entity is Severn Trent Plc which is registered in England and Wales and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Annual Report and Accounts of Severn Trent Plc are available from the Company Secretary, Severn Trent Plc, Severn Trent Centre, PO Box 5309, Coventry CV3 9FH

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

A minority interest of £10.6 m (2011: nil) is held by Severn Trent Plc in the Severn Trent Water group by virtue of its holding in Severn Trent Limited Partnership, an indirect investment of Severn Trent Water Limited

Regulatory accounts

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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

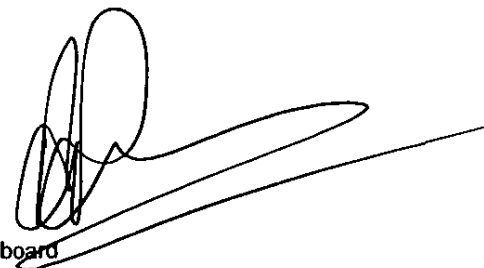
- a) Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve months,
- b) Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the 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 hereby advises

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

Tony Wray
Chief Executive
For and on behalf of the board
29 May 2012



Report of the auditor

To the Water Services Regulation Authority

Independent auditors' report to the Water Services Regulation Authority ("WSRA") and Directors of Severn Trent Water Limited

We have audited the Regulatory Accounts of Severn Trent Water Limited for the year ended 31 March 2012 on pages 66 to 82 which comprise

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses, the historical cost reconciliation between statutory and regulatory accounts, and the related notes 1 to 2e to the 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 1 to 11g to the regulatory accounts, including the statement of accounting policies

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies

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 a water and sewerage undertaker under the Water Industry Act 1991. 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 obligation under Condition F 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 opinions we have formed

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 Regulatory Accounts. In addition, we read all the financial and non-financial information presented with the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, 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 International Standards on Auditing (UK & Ireland).

As permitted in IN 12/01 the Company has elected to replace certain tables set out in Regulatory Accounting Guideline 3.06 with the Accounting Separation Tables. The Company is under an obligation to present the Accounting Separation Tables in accordance with its Accounting Separation Methodology Statement provided by the Company to WSRA on 28 May 2012, (the "Methodology Statement"). We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA, in respect of the Accounting Separation Tables, the Methodology Statement, and the accounting policies set out on page 72, the state of the Company's affairs at 31 March 2012 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended,
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies and the Methodology statement

Report of the auditor

To the Water Services Regulation Authority

Emphasis of matter - Basis of preparation

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006 Furthermore, the regulatory historical cost accounting statements on pages 66 and 67 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 The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 68

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records In our opinion

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F, and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts

Other matters

- 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
- Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2012 on which we report, which are prepared for a different purpose Our audit report in relation to the statutory financial statements 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 audit report and for no other purpose In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing



Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
29 May 2012

Regulatory accounts – historical cost financial statements

Group profit and loss account year ended 31 March 2012

	2012				2011			
	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	1,438 5	9 0	-	1,447 5	1,372 1	8 8	-	1,380 9
Operating costs	(668 7)	(9 7)	6 1	(672 3)	(644 3)	(11 6)	6 2	(649 7)
Historical cost depreciation	(248 8)	-	-	(248 8)	(240 5)	-	-	(240 5)
Other operating income	4 1	6 1	(6 1)	4 1	16 4	6 2	(6 2)	16 4
Operating profit	525 1	5 4	-	530 5	503 7	3 4	-	507 1
Other income	1 9	2 2	-	4 1	1 7	1 9	-	3 6
Net interest payable	(241 0)	-	-	(241 0)	(249 6)	-	-	(249 6)
Profit on ordinary activities before taxation	286 0	7 6	-	293 6	255 8	5 3	-	261 1
Taxation on profit on ordinary activities								
- Current tax	(66 6)	(1 9)	-	(68 5)	(55 9)	(1 5)	-	(57 4)
- Deferred tax	(108 5)	-	-	(108 5)	94 5	-	-	94 5
Taxation	(175 1)	(1 9)	-	(177 0)	38 6	(1 5)	-	37 1
Profit on ordinary activities after taxation	110 9	5 7	-	116 6	294 4	3 8	-	298 2
Dividends	(260 3)	(5 7)	-	(266 0)	(149 8)	(3 8)	-	(153 6)
Retained (loss)/profit for the financial year	(149 4)	-	-	(149 4)	144 6	-	-	144 6

Statement of total recognised gains and losses year ended 31 March 2012

	2012				2011			
	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	110 9	5 7	-	116 6	294 4	3 8	-	298 2
Actuational (loss)/gain	(105 7)	-	-	(105 7)	37 1	-	-	37 1
Tax credit/(charge) on actuational (loss)/gain	28 3	-	-	28 3	(9 6)	-	-	(9 6)
Adjustment in respect of tax rate change on deferred tax	(2 9)	-	-	(2 9)	(6 2)	-	-	(6 2)
Tax charge on pension contributions	(2 9)	-	-	(2 9)	-	-	-	-
Total recognised gains and losses for the financial year	27 7	5 7	-	33 4	315 7	3 8	-	319 5

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

Group balance sheet as at 31 March 2012

	2012				2011			
	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	6,113.4	-	-	6,113.4	6,024.7	-	-	6,024.7
Current assets								
Stocks	6.4	-	-	6.4	6.3	-	-	6.3
Debtors	365.9	-	-	365.9	337.5	-	-	337.5
Short term deposits	0.1	-	-	0.1	4.0	-	-	4.0
Cash at bank and in hand	0.8	-	-	0.8	6.5	-	-	6.5
	373.2	-	-	373.2	354.3	-	-	354.3
Creditors amounts falling due within one year								
Creditors	(328.4)	-	-	(328.4)	(311.1)	-	-	(311.1)
Borrowings	(229.4)	-	-	(229.4)	(114.9)	-	-	(114.9)
Corporation tax payable	(37.7)	-	-	(37.7)	(46.6)	-	-	(46.6)
Infrastructure renewal accrual	(17.2)	-	-	(17.2)	(18.8)	-	-	(18.8)
	(612.7)	-	-	(612.7)	(491.4)	-	-	(491.4)
Net current liabilities	(239.5)	-	-	(239.5)	(137.1)	-	-	(137.1)
Total assets less current liabilities	5,873.9	-	-	5,873.9	5,887.6	-	-	5,887.6
Creditors amounts falling due after more than one year								
Borrowings	(3,935.4)	-	-	(3,935.4)	(3,861.1)	-	-	(3,861.1)
Other creditors	(1.6)	-	-	(1.6)	(13.0)	-	-	(13.0)
	(3,937.0)	-	-	(3,937.0)	(3,874.1)	-	-	(3,874.1)
Provisions for liabilities								
- Deferred taxation	(528.2)	-	-	(528.2)	(426.8)	-	-	(426.8)
- Other provisions	(9.4)	-	-	(9.4)	(11.5)	-	-	(11.5)
Deferred income	(37.7)	-	-	(37.7)	(40.4)	-	-	(40.4)
Pension deficit	(244.6)	-	-	(244.6)	(198.4)	-	-	(198.4)
Net assets	1,117.0	-	-	1,117.0	1,336.4	-	-	1,336.4
Capital and reserves								
Called up share capital	1,000.0	-	-	1,000.0	1,000.0	-	-	1,000.0
Profit and loss account	106.4	-	-	106.4	336.4	-	-	336.4
Shareholder's funds	1,106.4	-	-	1,106.4	1,336.4	-	-	1,336.4
Minority interests	10.6	-	-	10.6	-	-	-	-
Capital employed	1,117.0	-	-	1,117.0	1,336.4	-	-	1,336.4

Reconciliation between statutory accounts and historical cost (HC) regulatory accounts

	2012 £m	Explanation
Profit and Loss		
Turnover as per statutory accounts	1,457.5	
ROC income	(10 0)	Income related to exported energy, Renewable Obligation Certificates (ROC's) and ROC bonuses is deducted from operating costs for the regulatory accounts
Turnover as per regulatory HC accounts	1,447 5	
Depreciation as per statutory accounts		
Depreciation - infrastructure	136 3	Reclassified in regulatory accounts
Deferred credits written back	3 2	Reclassified in regulatory accounts
Depreciation as per regulatory HC accounts	(248 8)	
Operating costs per statutory accounts		
Deduct other operating income	(4 1)	Reclassified in regulatory accounts
ROC income	10 0	From turnover as explained above
HC infrastructure assets	(127 2)	
Statutory infrastructure assets	136 3	
Total infrastructure assets difference	9 1	Adjustment to infrastructure renewals charge
Operating costs per regulatory HC accounts	(921 1)	
Operating profit as per statutory accounts		
Non operating income	(4 1)	Rental income is included within operating profit for statutory accounts
HC infrastructure assets	9 1	Adjustment to infrastructure renewals charge
Operating profit as per regulatory HC accounts	530.5	
Profit before tax as per statutory accounts		
HC infrastructure assets	9 1	Adjustment to infrastructure renewals charge
Profit before tax as per regulatory HC accounts	293 6	
Balance sheet		
Net assets as per statutory accounts	1,134 0	
Infrastructure renewals accrual	(17 0)	Adjustment to infrastructure renewals charge (prior and current years)
Net assets as per regulatory HC accounts	1,117 0	

Regulatory accounts – current cost financial statements

Group profit and loss account: appointed business year ended 31 March 2012

	Notes	2012 £m	2011 £m
Turnover	3a	1,438.5	1,372.1
Current operating cost	3d	(969.6)	(922.3)
Other operating income	3b	3.9	11.9
		472.8	461.7
Working capital adjustment	3c	(3.2)	0.4
Current cost operating profit		469.6	462.1
Other income		1.9	1.7
Net interest payable		(241.1)	(249.6)
Financing adjustment		114.4	169.3
Current cost profit before taxation		344.8	383.5
Taxation on profit on ordinary activities			
- Current tax		(66.6)	(55.9)
- Deferred tax		(108.5)	94.5
Taxation		(175.1)	38.6
Current cost profit attributable to shareholders after taxation		169.7	422.1
Dividend		(260.3)	(149.8)
Current cost retained (loss)/profit		(90.6)	272.3

Statement of total recognised gains and losses: appointed business year ended 31 March 2012

	2012 £m	2011 £m
Profit for the financial year	169.7	422.1
Actuanal (loss)/gain	(105.7)	37.1
Tax charge/(credit) on actuanal (loss)/gain	28.3	(9.6)
Adjustment in respect of tax rate change on deferred tax	(2.9)	(6.2)
Tax charge on pension contributions	(2.9)	-
Total recognised gains and losses for the financial year	86.5	443.4

Group balance sheet: appointed business as at 31 March 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Tangible assets	4	69,948.4	48,724.3
Third party contributions since 1989/90		(21,454.1)	(1,921.1)
		48,494.3	46,803.2
Working capital			
Working capital	5	92.5	89.1
Short term deposits		0.9	10.5
Infrastructure renewals accrual		(17.2)	(18.8)
		48,570.5	46,884.0
Non operating assets and liabilities			
Borrowings		(229.4)	(114.9)
Non trade debtors		9.5	4.9
Non trade creditors due within one year		(35.6)	(61.3)
Corporation tax payable		(60.4)	(46.6)
		(315.9)	(217.9)
Creditors amounts falling due after more than one year			
Borrowings		(3,935.4)	(3,861.1)
Other creditors		(1.5)	(13.0)
		(3,936.9)	(3,874.1)
Provision for liabilities			
Deferred taxation		(528.2)	(426.8)
Other provisions		(9.4)	(11.5)
Pension deficit		(244.6)	(198.4)
		(782.2)	(636.7)
Net provisions		(782.2)	(636.7)
Total assets		43,535.5	42,155.3
Capital and reserves			
Called up share capital		1,000.0	1,000.0
Profit and loss account	6	(202.5)	(31.3)
Current cost reserve	7	42,727.4	41,186.6
Minority interests		10.6	-
		43,535.5	42,155.3

Group cash flow statement year ended 31 March 2012

	Notes	2012			2011		
		Appointed business £m	Non-appointed business £m	Total £m	Appointed business £m	Non-appointed business £m	Total £m
Net cash inflow from operating activities	8	837.1	7.6	844.7	821.8	5.3	827.1
Returns on investments and servicing of finance							
Interest received		3.6	-	3.6	1.4	-	1.4
Interest paid		(183.1)	-	(183.1)	(162.6)	-	(162.6)
Interest element of finance lease rental payments		(13.6)	-	(13.6)	(10.8)	-	(10.8)
Net cash inflow from returns on investing and servicing of finance		(193.1)	-	(193.1)	(172.0)	-	(172.0)
Taxation		(66.6)	(2.0)	(68.6)	(56.8)	(1.5)	(58.3)
Capital expenditure							
Purchase of tangible fixed assets		(375.9)	-	(375.9)	(409.5)	-	(409.5)
Grants and contributions received		24.3	-	24.3	24.9	-	24.9
Infrastructure renewals expenditure		(128.9)	-	(128.9)	(96.9)	-	(96.9)
Disposal of fixed assets		8.8	-	8.8	19.6	-	19.6
Net cash inflow from investing activities		(471.7)	-	(471.7)	(461.9)	-	(461.9)
Equity dividends paid		(260.4)	(5.6)	(266.0)	(149.8)	(3.8)	(153.6)
Net cash outflow before management of liquid resources and financing		(154.7)	-	(154.7)	(18.7)	-	(18.7)
Management of liquid resources		3.9	-	3.9	(2.3)	-	(2.3)
Net cash flow before financing		(150.8)	-	(150.8)	(21.0)	-	(21.0)
Financing							
Finance leases repaid		(47.8)	-	(47.8)	(47.3)	-	(47.3)
Loans advanced		568.0	-	568.0	528.4	-	528.4
Closed out swap		-	-	-	20.5	-	20.5
Loans repaid		(383.9)	-	(383.9)	(477.4)	-	(477.4)
Equity interest in subsidiary issued to minority		10.6	-	10.6	-	-	-
Cash payments on employee incentive plans		(1.8)	-	(1.8)	(1.9)	-	(1.9)
		145.1	-	145.1	22.3	-	22.3
Net (decrease)/increase in cash		(5.7)	-	(5.7)	1.3	-	1.3

Reconciliation of net cash flow to movement in net debt

	2012			2011		
	Appointed business £m	Non-appointed business £m	Total £m	Appointed business £m	Non-appointed business £m	Total £m
Net (decrease)/increase in cash as above	(5.7)	-	(5.7)	1.3	-	1.3
Cash flow from movement in net debt	(136.3)	-	(136.3)	(3.8)	-	(3.8)
Cash flow from movement in liquid resources	(3.9)	-	(3.9)	2.3	-	2.3
Change in net debt resulting from cash flows	(145.9)	-	(145.9)	(0.2)	-	(0.2)
Rolled up interest on net debt	(52.5)	-	(52.5)	(51.7)	-	(51.7)
Termination of financial instruments	-	-	-	(44.2)	-	(44.2)
Increase in net debt	(198.4)	-	(198.4)	(96.1)	-	(96.1)
Opening net debt	(3,965.5)	-	(3,965.5)	(3,869.4)	-	(3,869.4)
Closing net debt	(4,163.9)	-	(4,163.9)	(3,965.5)	-	(3,965.5)

Notes to the regulatory accounts

1 Regulatory reporting

The regulatory accounts as reported on pages 66 to 82 should be read in conjunction with the operating and financial review on pages 5 to 23 for further understanding of the performance of the business

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

In particular, attention is drawn to pages 25 and 27 of the Directors' report which sets out the link between Directors' pay and standards of performance and page 30 of the Directors' report in respect of the statement of disclosure of information to auditors

2 Accounting policies for historical cost and current cost financial statements

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

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 39 to 41, except as set out below

c) Turnover

The group's policy for recognition of turnover is set out in note 1 to the statutory accounts and applied consistently except where noted on page 68

During the year, the company's process for dealing with properties where the identity of the customer is unknown has been amended. Previously, bills were raised in the name of the 'Occupier' for such properties

Billing for unoccupied properties follows the process described below

- Where the company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the company,
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection,
- Meter readings are taken for metered unoccupied properties, where consumption is recorded, a letter is sent to the property, and
- Inspections with the aim of confirming the status of unoccupied properties are undertaken

d) 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 68

e) Infrastructure renewal costs

In accordance with RAG 1.04 the difference between the infrastructure renewals charge and infrastructure renewals expenditure is held as an accrual or prepayment within the balance sheet. This is a departure from the provisions of FRS 15, which requires the infrastructure renewals charge to be recorded as a deduction to depreciation and deducted from the carrying amount of the asset, and FRS 12 which does not allow provisions for future maintenance. The difference is set out in the reconciliation between statutory accounts and historical cost regulatory accounts on page 68. The infrastructure renewals charge in the regulatory accounts varies from that in the statutory accounts as in accordance with RAG 1.04 the infrastructure renewals charge is calculated over a medium to long period (being 15 years) rather than the Asset management plan (five years)

The following policies apply to the current cost financial statements only

f) Basis of preparation

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

g) 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 2008 was undertaken during 2008/09 and the adjustments to asset values as a result of that exercise were included within the tangible fixed asset note. In the

2 Accounting policies continued

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 in note 1d) to the UK GAAP financial statements

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

h) 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

i) Real financial capital maintenance adjustments

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

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

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

3 Analysis of current cost turnover and operating costs

a) Turnover

	2012			2011		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Unmeasured - household	342.6	362.2	704.8	339.8	350.5	690.3
Unmeasured - non-household	3.4	9.2	12.6	4.0	8.7	12.7
Unmeasured	346.0	371.4	717.4	343.8	359.2	703.0
Measured - household	176.3	160.7	337.0	159.4	147.6	307.0
Measured - non-household	132.0	159.0	291.0	128.7	148.3	277.0
Measured	308.3	319.7	628.0	288.1	295.9	584.0
Trade effluent	-	10.7	10.7	-	11.0	11.0
Larger user tariffs and special agreements	30.5	37.9	68.4	28.7	32.0	60.7
Revenue grants	-	0.4	0.4	-	0.4	0.4
Rechargeable works	0.7	-	0.7	0.9	-	0.9
Bulk supplies/inter-company	4.8	-	4.8	4.7	-	4.7
Other	4.3	-	4.3	4.0	-	4.0
Third parties	9.8	-	9.8	9.6	-	9.6
Other sources	1.1	2.7	3.8	1.1	2.3	3.4
Total turnover	695.7	742.8	1,438.5	671.3	700.8	1,372.1

3 Analysis of current cost turnover and operating costs continued

b) Other operating income

	2012			2011		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Current cost profit on disposal of tangible fixed assets	1.9	2.0	3.9	5.7	6.2	11.9

c) Working capital adjustment

	2012			2011		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Working capital adjustment	(1.5)	(1.7)	(3.2)	0.2	0.2	0.4

d) Analysis of operating costs

2012	Water services				
	Water resources £m	Raw water distribution £m	Water treatment £m	Treated water distribution £m	Water services total £m
Direct costs					
Employment costs	2.8	0.5	13.4	28.7	45.4
Power	8.4	-	22.0	5.8	36.2
Hired and contracted services	1.5	0.1	7.8	28.6	38.0
Associated companies	-	-	1.6	-	1.6
Materials and consumables	0.6	0.1	9.4	6.3	16.4
Service charges	13.3	-	0.4	-	13.7
Bulk supply imports	6.4	-	3.7	-	10.1
Other direct costs	0.2	0.1	0.9	6.9	8.1
Total direct costs	33.2	0.8	59.2	76.3	169.5
Operating expenditure					
General and support expenditure	3.9	0.2	9.7	15.5	29.3
Scientific services	0.9	-	2.6	3.3	6.8
Other business activities	0.5	-	0.8	1.0	2.3
Local authority rates	4.4	1.4	18.4	16.2	40.4
Exceptional items	(0.3)	(0.1)	(2.5)	(5.7)	(8.6)
Third party services - opex	3.7	-	1.0	0.6	5.3
Total operating expenditure	46.3	2.3	89.2	107.2	245.0
Reactive and planned maintenance (including opex)					
Reactive and planned maintenance infrastructure	0.2	0.6	-	52.9	53.7
Reactive and planned maintenance non-infrastructure	1.3	-	13.0	3.5	17.8
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	-	4.5	-	77.2	81.7
Current cost depreciation	8.6	4.5	46.4	38.5	98.0
Amortisation of deferred credits	(0.1)	(0.1)	(0.7)	(0.6)	(1.5)
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Third party services - current cost depreciation	0.2	-	0.4	-	0.6
Third party services - infrastructure renewals charge	-	-	-	-	-
Total capital maintenance	8.7	8.9	46.1	115.1	178.8
Total operating costs	55.0	11.2	135.3	222.3	423.8

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs continued

2012	Sewerage services				Sewerage services total £m
	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	
Direct costs					
Employment costs	13.8	23.5	10.5	0.7	48.5
Power	5.3	11.2	(7.4)	-	9.1
Hired and contracted services	15.2	14.9	8.5	9.9	48.5
Associated companies	0.1	0.1	-	-	0.2
Materials and consumables	1.9	9.4	10.7	0.4	22.4
Service charges	3.4	5.7	-	-	9.1
Other direct costs	2.4	0.9	2.3	0.1	5.7
Total direct costs	42.1	65.7	24.6	11.1	143.5
Operating expenditure					
General and support expenditure	6.5	10.9	4.2	0.8	22.4
Scientific services	-	2.0	-	0.9	2.9
Other business activities	0.6	1.0	0.4	0.2	2.2
Local authority rates	0.2	23.4	4.0	-	27.6
Exceptional items	3.7	(1.5)	(0.8)	0.2	1.6
Third party services - opex	-	-	-	1.7	1.7
Total operating expenditure	53.1	101.5	32.4	14.9	201.9
Reactive and planned maintenance (including opex)					
Reactive and planned maintenance infrastructure	12.0	-	-	-	12.0
Reactive and planned maintenance non-infrastructure	3.7	17.0	3.5	1.6	25.8
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	45.5	-	-	-	45.5
Current cost depreciation	34.3	108.7	30.0	0.5	173.5
Amortisation of deferred credits	(1.4)	(0.2)	-	-	(1.6)
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Third party services - current cost depreciation	-	-	-	-	-
Third party services - infrastructure renewals charge	-	-	-	-	-
Total capital maintenance	78.4	108.5	30.0	0.5	217.4
Total operating costs	131.5	210.0	62.4	15.4	419.3

3 Analysis of current cost turnover and operating costs continued

d) Analysis of operating costs continued

2012	Retail services				
	Retail household £m	Retail household general & support memo £m	Retail non-household £m	Retail non-household general & support memo £m	Retail services total ¹ £m
Direct costs					
Billing	66	18	08	01	74
Payment handling, remittance and cash handling	23	04	02	01	25
Debt management	91	24	18	04	109
Doubtful debts	267	03	45	-	312
Charitable trust donations	35	-	-	-	35
Vulnerable customer schemes	01	-	-	-	01
Non network customer enquires and complaints	78	26	05	02	83
Meter reading	48	15	08	02	56
Meter maintenance/installation non capex	13	03	02	-	15
Network customer enquires and complaints	59	17	04	01	63
Disconnections	01	-	-	-	01
Demand side water efficiency initiatives	08	01	-	-	08
Services to developers	-	-	01	-	01
Support for trade effluent compliance	-	-	16	03	16
Customer side leaks	17	-	17	-	34
Other direct costs	04	01	-	-	04
Total direct costs	71.1	11.2	12.6	1.4	83.7
Operating expenditure					
General and support expenditure	11.2	-	1.4	-	12.6
Scientific services	-	-	0.4	-	0.4
Other business activities	0.5	-	0.1	-	0.6
Local authority rates	0.5	-	-	-	0.5
Exceptional items	(2.7)	-	(0.6)	-	(3.3)
Third party services	-	-	-	-	-
Total operating expenditure	80.6	-	13.9	-	94.5
Capital maintenance					
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	29.0	-	3.0	-	32.0
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance	29.0	-	3.0	-	32.0
Total operating costs	109.6	-	16.9	-	126.5

¹ "Retail Services total" excludes the "Retail household general & support memo" and "Retail Non-household general & support memo" columns as these provide further analysis of the "General and supportive expenditure" included within Operating expenditure

As permitted in IN 12/01 the Company has elected to replace certain tables set out in Regulatory Accounting Guideline 3 06 with the Accounting Separation Tables above. There is no requirement to present comparative values in respect of these tables

4 Analysis of tangible fixed assets by asset type within service

a) Tangible fixed assets analysed by asset type

	Water resources						Raw water distribution						Water treatment						Treated water distribution						Water services Total		
	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m			
Gross replacement cost																											
At 1 April 2011	1,003.7	373.8	20.4	1,397.9	1,271.0	100.6	101.1	1,381.7	2.8	1,463.0	82.8	1,548.6	11,316.9	1,257.0	169.8	12,743.7	17,071.9										
Reclassification adjustment	(16.1)	(3.1)	(1.8)	(21.0)	16.1	3.1	0.1	19.3	-	(0.5)	(2.7)	(3.2)	-	7.5	(7.3)	0.2	(4.7)										
RPI adjustment	35.3	13.3	0.6	49.2	45.9	3.8	0.4	50.1	-	49.8	2.6	52.4	403.1	43.4	6.4	452.9	604.6										
Disposals	-	(0.8)	-	(0.8)	-	-	-	-	-	(10.3)	(0.6)	(10.9)	-	(0.7)	(1.7)	(2.4)	(14.1)										
Additions	2.4	1.7	0.2	4.3	0.6	0.2	-	0.8	0.5	43.6	3.1	47.2	41.3	38.9	3.2	83.4	135.7										
At 31 March 2012	1,025.3	384.9	19.4	1,429.6	1,333.6	107.7	10.6	1,451.9	3.3	1,545.6	85.2	1,634.1	11,761.3	1,346.1	170.4	13,277.8	17,793.4										
Depreciation																											
At 1 April 2011	-	242.3	12.3	254.6	-	50.1	7.5	57.6	-	803.3	46.2	849.5	-	733.9	134.5	868.4	2,030.1										
Reclassification adjustment	-	(2.1)	(1.0)	(3.1)	-	2.1	0.1	2.2	-	(0.1)	(1.3)	(1.4)	-	4.7	(6.1)	(1.4)	(3.7)										
RPI adjustment	-	8.8	0.4	9.2	-	2.0	0.3	2.3	-	29.5	1.8	31.3	-	27.3	4.9	32.2	75.0										
Disposals	-	(0.6)	-	(0.6)	-	-	-	-	-	(10.1)	(0.4)	(10.5)	-	(0.6)	(1.2)	(1.8)	(13.1)										
Charge for the year	-	7.7	1.1	8.8	-	3.8	0.7	4.5	-	40.6	6.2	46.8	-	25.9	12.6	38.5	98.6										
At 31 March 2012	-	255.9	12.8	268.7	-	58.0	8.6	66.6	-	863.2	52.5	915.7	-	791.2	144.7	935.9	2,186.9										
Net book value																											
At 31 March 2012	1,025.3	129.0	6.6	1,160.9	1,333.6	49.7	2.0	1,385.3	3.3	682.4	32.7	718.4	11,761.3	554.9	25.7	12,341.9	15,606.5										
At 1 April 2011	1,003.7	131.5	8.1	1,143.3	1,271.0	50.5	2.6	1,324.1	2.8	659.7	36.6	699.1	11,316.9	523.1	35.3	11,875.3	15,041.8										

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

b) Tangible fixed assets analysed by asset type continued

	Sewage collection					Sewage treatment					Sludge treatment					Sewage services Total	
	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	£m
Gross replacement cost																	
At 1 April 2011	31,025.0	779.2	72.6	31,876.8	4.6	3,506.5	126.7	3,637.8	(0.3)	608.5	26.1	634.3	-	0.8	1.6	2.4	36,151.3
Reclassification adjustment	-	(2.9)	16.3	13.4	-	1.3	22.5	23.8	0.2	(16.9)	10.9	(5.8)	-	0.5	3.4	3.9	35.3
RPI adjustment	1,107.5	28.1	3.2	1,138.8	0.1	116.8	5.3	122.2	-	25.5	1.3	26.8	-	-	0.2	0.2	1,288.0
Disposals	(0.1)	(3.0)	(0.9)	(4.0)	-	(8.7)	(3.5)	(12.2)	-	(4.4)	(0.6)	(5.0)	-	-	(0.2)	(0.2)	(21.4)
Additions ¹	19,464.9	24.4	7.0	19,496.3	3.8	129.8	4.3	137.9	0.1	21.9	0.6	22.6	-	0.1	-	0.1	19,656.9
At 31 March 2012	51,597.3	825.8	98.2	52,521.3	8.5	3,745.7	155.3	3,909.5	-	634.6	38.3	672.9	-	1.4	5.0	6.4	57,110.1
Depreciation																	
At 1 April 2011	-	415.3	43.1	458.4	-	1,768.4	83.3	1,851.7	-	320.7	26.5	347.2	-	0.1	0.8	0.9	2,658.2
Reclassification adjustment	-	(1.2)	16.0	14.8	-	0.6	18.1	18.7	-	0.7	(4.2)	(3.5)	-	0.2	2.1	2.3	32.3
RPI adjustment	-	16.4	2.3	18.7	-	63.7	3.9	67.6	-	14.4	0.9	15.3	-	-	0.1	0.1	101.7
Disposals	-	(3.0)	(0.7)	(3.7)	-	(8.3)	(1.1)	(9.4)	-	(4.4)	(0.4)	(4.8)	-	-	(0.1)	(0.1)	(18.0)
Charge for the year	-	26.7	7.6	34.3	-	97.1	11.6	108.7	-	26.7	3.3	30.0	-	-	0.5	0.5	173.5
At 31 March 2012	-	454.2	68.3	522.5	-	1,921.5	115.8	2,037.3	-	358.1	26.1	384.2	-	0.3	3.4	3.7	2,947.7
Net book value																	
At 31 March 2012	51,597.3	371.6	29.9	51,998.8	8.5	1,824.2	39.5	1,872.2	-	276.5	12.2	288.7	-	1.1	1.6	2.7	54,162.4
At 1 April 2011	31,025.0	363.9	29.5	31,418.4	4.6	1,738.1	43.4	1,786.1	(0.3)	287.8	(0.4)	287.1	-	0.7	0.8	1.5	33,493.1

Additions to sewage collection infrastructure assets in the year reflect assets transferred to the company at 1 October 2011 under the Private Drains and Sewers Transfer Regulations (June 2011)

To meet the requirements of RAG1 04 these assets have been included in fixed asset additions at their MEA value with a corresponding credit to third party contributors. The value included is based on data estimating the length of private sewers to be adopted in each region as part of the private sewers transfer. To calculate the MEA value we have used average lengths of each type of drain or sewer, with different costs applied depending on the age and type of property. This valuation will be reviewed as further data becomes available.

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

c) Tangible fixed assets analysed by asset type continued

	Retail household					Retail non-household			Retail services
	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Total
Gross replacement cost									
At 1 April 2011	0.1	244.7	199.3	444.1	-	43.2	12.0	55.2	499.3
Reclassification adjustment	-	(0.9)	(22.2)	(23.1)	-	(6.1)	(1.4)	(7.5)	(30.6)
RPI adjustment	-	9.4	6.2	15.6	-	1.5	0.4	1.9	17.5
Disposals	-	(4.0)	(0.9)	(4.9)	-	(0.7)	(0.1)	(0.8)	(5.7)
Additions	0.1	14.3	1.9	16.3	-	2.2	0.1	2.3	18.6
At 31 March 2012	0.2	263.5	184.3	448.0	-	40.1	11.0	51.1	499.1
Depreciation									
At 1 April 2011	-	139.3	136.3	275.6	-	25.9	8.4	34.3	309.9
Reclassification adjustment	-	(0.7)	(22.5)	(23.2)	-	(3.8)	(1.6)	(5.4)	(28.6)
RPI adjustment	-	5.7	4.6	10.3	-	0.9	0.3	1.2	11.5
Disposals	-	(4.0)	(0.5)	(4.5)	-	(0.7)	-	(0.7)	(5.2)
Charge for the year	-	12.6	16.4	29.0	-	2.0	1.0	3.0	32.0
At 31 March 2012	-	152.9	134.3	287.2	-	24.3	8.1	32.4	319.6
Net book value									
At 31 March 2012	0.2	110.6	50.0	160.8	-	15.8	2.9	18.7	179.5
At 1 April 2011	0.1	105.4	63.0	168.5	-	17.3	3.6	20.9	189.4

5 Working capital

	2012	2011
	£m	£m
Stocks	6.4	6.3
Trade debtors		
Measured household	43.3	36.0
Unmeasured household	69.3	64.5
Measured non-household	25.7	24.4
Unmeasured non-household	0.8	0.9
Other	2.6	2.0
Measured income accrual	155.6	139.9
Prepayments and other debtors	59.0	64.9
Trade creditors	(14.8)	(12.2)
Deferred income - customer advance receipts	(132.9)	(124.7)
Capital creditors and accruals	(36.1)	(42.9)
Accruals and other creditors	(86.4)	(70.0)
Working capital	92.5	89.1

6 Reserves – profit and loss account

	2012	2011
	£m	£m
At 1 April	(31.3)	(327.7)
Retained current cost (loss)/profit for the year	(90.6)	272.3
Share based payments	2.6	2.8
FRS 17 actuarial (loss)/gain	(105.7)	37.1
Tax credit/(charge) on actuarial gain/loss	25.4	(15.8)
Tax charge on pension contributions	(2.9)	-
At 31 March	(202.5)	(31.3)

7 Reserves – current cost reserve

	2012	2011
	£m	£m
At 1 April	41,186.6	24,582.1
AMP adjustment	-	14,432.1
RPI adjustments		
Fixed assets	1,721.9	2,438.3
Working capital	3.2	(0.4)
Financing	(114.4)	(169.3)
Grants and third party contributions	(69.9)	(96.2)
At 31 March	42,727.4	41,186.6

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

	2012 £m	2011 £m
Current cost operating profit	469.6	462.1
Working capital adjustment	3.2	(0.4)
Working capital changes	3.4	(15.5)
Other income	1.9	1.7
Current cost depreciation after amortisation of deferred income	301.0	278.1
Current cost profit on disposal of tangible assets	(3.9)	(11.9)
Infrastructure renewals charge	127.2	113.9
Other non-cash profit and loss items	(65.3)	(6.2)
Net cash inflow from operating activities	837.1	821.8

The 2012 other non-cash profit and loss items consist primarily of 51.8 million (2011 16.3 million) excess of pension contributions paid and curtailment gain over pension current service charge

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	-	229.4	-	229.4
Between one and two years	17.7	-	160.3	178.0
Between two and five years	670.3	297.4	-	967.7
Between five and twenty years	1,375.7	170.0	171.4	1,717.1
In more than twenty years	246.6	-	826.0	1,072.6
Total borrowings	2,310.3	696.8	1,157.7	4,164.8
Impact of interest rate swaps entered into by the group and company	238.6	(238.6)	-	-
Total borrowings after the impact of interest rate swaps	2,548.9	458.2	1,157.7	4,164.8
Short term deposits and cash at bank and in hand	-	(0.9)	-	(0.9)
Net Debt as at 31 March 2012	2,548.9	457.3	1,157.7	4,163.9
Total borrowings after the impact of interest rate swaps as at 31 March 2011	2,496.8	374.9	1,104.3	3,976.0
Short term deposits and cash at bank and in hand	-	(10.5)	-	(10.5)
Net Debt as at 31 March 2011	2,496.8	364.4	1,104.3	3,965.5

Fixed interest debt incurs interest at a weighted average rate of 5.8% (2011 5.9%) Interest on these borrowings is fixed for a weighted average period of 13.6 years (2011 9.8 years)

10 Reconciliation of HCA operating profit to CCA operating profit

	2012	2011
	£m	£m
HCA operating profit per regulatory accounts	530.5	507.1
Less non appointed activities	(5.4)	(3.4)
Sub total HCA accounts	525.1	503.7
Less difference in profit on disposals	(0.2)	(4.5)
Add back working capital adjustment	(3.2)	0.4
Add HCA depreciation including infrastructure renewals charge	379.2	357.3
Less CCA depreciation	(304.1)	(280.9)
Less infrastructure renewals charge	(127.2)	(113.9)
CCA operating profit	469.6	462.1

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 2009 determination is as follows

	2011	2012	2013	2014	2015
At 31 March	£m	£m	£m	£m	£m
Per determination (at average 2007/08 prices)	6,114	6,141	6,177	6,236	6,279
Actual/estimated outturn (at average prices)	6,638	6,986	7,219	7,444	7,703

Regulatory capital values at 2011/12 prices

	2012
	£m
Opening regulatory capital value for the year	6,638.4
Indexation	316.5
Opening regulatory capital value at average 2011/12 prices	6,954.9
Capital expenditure	417.5
Infrastructure renewals expenditure	143.6
Grants and contributions	(24.0)
Depreciation	(327.3)
Infrastructure renewals charge	(132.9)
Outperformance of regulatory assumptions	(46.1)
Closing regulatory capital value	6,985.7
Average regulatory capital value	6,970.0

The RCVs in this table are based on those published by Ofwat in its letter RD04/10, inflated to 2011/12 prices. The value of the RCV is protected against inflation by increasing the value each year by RPI.

In the table above RCV has been uplifted by year average 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 2012

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 and repaid by the appointee during the year from associated companies were

		Principal amounts £m	Repayment dates	Interest rates %
East Worcester Water Limited	Borrowed	11.5	May 2011 to July 2011	3 Months LIBID
East Worcester Water Limited	Repaid	3.8	April 2011 to October 2011	3 Months LIBID
Severn Trent Plc	Borrowed	318.0	April 2011 to March 2012	LIBOR + 0.19%
Severn Trent Plc	Repaid	228.5	April 2011 to December 2011	LIBOR + 0.19%
Severn Trent Reservoirs Limited	Borrowed	0.5	October 2011	3 Months LIBID
Severn Trent Utilities Finance	Repaid	0.1	February 2012	3 Months LIBID
Severn Trent Leasing Limited	Borrowed	172.6	March 2032	4.75%

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 2011/12 amounted to £266.0 million (2011 £153.6 million), being 26.6p per share (2011 15.4p per share)

c) Transfer of assets/liabilities

During the year the appointee transferred £215.0 million of assets to Severn Trent Leasing Limited under finance leases. These were subsequently transferred back to Severn Trent Water Limited under separate finance leases. Both transactions occurred as part of an Asset backed funding arrangement.

d) Supply of services

Services supplied by the appointee to associated companies

Nature of transactions	Company	Terms	£m
Service charges in respect of payroll, legal, transport and other	Various	Cost	0.5
Water, tankering, reception, treatment and disposal of waste	Various	Market rent	0.8
Sale of crops	Severn Trent Green Power Ltd	Cost	0.6
Management charge	Severn Trent Plc	Cost	6.4
			8.3

Services supplied to the appointee by associated companies

Company	Turnover	Nature of transactions	Services supplied to the appointee			Total £m
			Competitive letting £m	Other market testing £m	No market £m	
Derwent Insurance Ltd	7.9	Insurance services	-	6.0	-	6.0
Severn Trent Laboratories Ltd	31.0	Analytical services	5.6	-	-	5.6
Severn Trent Metering Services Ltd	14.0	Meter installation and maintenance	11.6	0.2	-	11.8
Severn Trent Services Ltd	5.2	Supply of materials and other engineering services	0.8	-	0.9	1.7
Severn Trent Green Power Ltd	2.4	Supply of Electricity	-	1.0	-	1.0
Severn Trent Plc (mgmt charge)	-	Pass through costs	-	-	1.0	1.0
	60.5		18.0	7.2	1.9	27.1

Of the £27.1 million, £10.7 million was spent on investment expenditure

e) Omission rights

None

f) Waivers

None

g) Guarantees

None

Supplementary Regulatory Accounting Disclosures – unaudited

Year ended 31 March 2012

Delivering against our Key Performance Indicators (KPIs)

Basis	KPI	2010/11 Performance	2011/12 Performance	2011/12 Quartile	At a glance
MAT	Lost time incidents per 100,000 hrs worked ¹	0.37	0.30	Upper	—
QR	Employee motivation % ²	74%	75%	Median	—
MAT	Water quality (test failure rate) ppm	210	225	Median	▼
MAT	SIM Qualitative	-	3.96	Median	—
MAT	SIM Quantitative ⁴	-	205	Upper	—
MAT	Unplanned interruptions > 6 hrs per 1,000 properties ³	23.85	11.12	Lower	—
NPR	Properties at risk of low pressure per 1,000 properties ³	0.07	0.06	Upper	—
MAT	First time job resolution % ⁴	97.50%	93.83%	Upper	—
QR	Non-performance against Regulatory Obligations % ⁴	4%	6%	Upper	—
AMP	Capex (net) % ^{5,6}	7.40%	4.31%	N/A	N/A
MAT	Capital Process quality	-	972	N/A	N/A
ACT	Debtor days ⁶	33.8	35.8	Median	—
ACT	Opex - £m ^{5,6}	519	548	N/A	N/A
ACT	Efficient billing factor (properties connected)	-	3,306,489	N/A	N/A
MAT	Pollution incidents (cat 1, 2, & 3) ⁷	378	458	Median	—
MAT	Sewer flooding incidents – other causes per 1,000 properties ^{3,8}	0.154	0.141	Median	—
ACT	Sewage Treatment Works – breach of consents % ⁷	1.69%	2.54%	Lower	▼
ACT	Supply availability	94.40%	96.50%	Lower	—
MAT	Net Energy Use – GWh ⁴	706	679.4	Upper	—
MLE	Leakage MI/d ^{3,5}	497	464	Upper	▲

Key

- ▲ Improved quartile
- Maintained quartile
- ▼ Declined quartile

Notes

Benchmarks updated in September

MAT = Moving Annual Total
 QR = Quarterly Review
 NPR = Number of Properties on Register
 MLE = Maximum Likelihood Estimate
 ACT = Year end Actual

- 1 Actual performance across all employees and agency staff
- 2 Performance based on annual survey of all employees
- 3 As reported in Ofwat Annual Return. Performance figures are provisional at this stage as the Ofwat Annual Return will be submitted to Ofwat on 15 June 2012
- 4 Actual performance based wholly or partially on internal data
- 5 Benchmark data is unavailable until September 2012
- 6 Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2012
- 7 Measure for calendar year to 31 December 2011
- 8 Includes minor escape of sewage. Prior year restated

KPIs 4 & 5 SIM (Service Incentive Mechanism) Consists of 2 equally weighted measures. Quantitative looks at the number of complaints, unwanted contacts and engaged/abandoned calls. Qualitative looks at the end to end customer service by completing 200 customers surveys 4 times a year. Customers rate us based on a score of 1 (very dissatisfied) to 5 (very satisfied). The 2 SIM measures replace customer written complaints per 1,000 properties and first time call resolution for billing.

KPI 11 Capital process quality. This covers the capital work undertaken by the One Supply Chain. There is no external benchmark available for this measure. The KPI is based on an index of four areas (people, process, customer and finance) incorporating a number of metrics such as health and safety, programme management, customer service, and financial performance.

KPI 14 Efficient billing factor ('000 properties connected). Ofwat have introduced a Billing Incentive which is designed to ensure that companies are appropriately rewarded for the efficiency of their billing in terms of maintaining and growing their chargeable customer base. It looks at the average number of billable properties connected to water services.