

# Notes to the group financial statements

## 1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the annual report and accounts.

Severn Trent Plc is listed on the London Stock Exchange.

## 2 Accounting policies

### a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2009 and those parts of the Companies Act 1985 applicable to companies reporting under IFRS as adopted by the European Union.

The financial statements have been prepared on the going concern basis (see Directors' report on page 38) and under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

### b) Basis of consolidation

The financial statements include the results of Severn Trent Plc and its subsidiaries, joint ventures and associated undertakings. The results of subsidiaries, joint ventures and associated undertakings are included from the date of acquisition or incorporation, and excluded from the date of disposal.

The results of subsidiaries are consolidated where the group has the power to control a subsidiary.

The results of joint venture undertakings are accounted for on an equity basis where the company exercised joint control under a contractual arrangement.

The results of associates are accounted for on an equity basis where the company holding is 20% or more or the company has the power to exercise significant influence.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since that date. Losses attributable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra group transactions, balances, income and expenses are eliminated on consolidation.

### c) Revenue recognition

Revenue represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter company sales, in the ordinary course of business for goods and services provided.

Revenue is not recognised until the service has been provided to the customer, or the goods to which the sale relates have either been despatched to the customer or, where they are held on the customer's behalf, title has passed to the customer.

Turnover includes an estimate 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.

In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the group's rights to receive payment have been established. Interest and dividend income are included in finance income.

### d) Exceptional items

Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

### e) Taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have then been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

## 2 Accounting policies continued

### f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates is included in investments in associates. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible fixed asset.

Goodwill is tested for impairment in accordance with the policy set out above and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

### g) Intangible non current assets

Intangible assets acquired separately are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, the historical cost model is applied to intangible assets. Amortisation charged on assets with finite lives is taken to the income statement through operating expenses.

Finite life intangible assets are amortised on a straight line basis over their estimated useful economic lives as follows:

	Years
Software	3-10
Other assets	2-20

Intangible assets are reviewed for impairment where indicators of impairment exist.

### h) Research and development

Research expenditure is expensed when it is incurred. Development expenditure is capitalised and written off over its expected useful economic life where the following criteria are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost can be measured reliably.

Expenditure on property, plant and equipment relating to research and development projects is capitalised and written off over the expected useful life of those assets.

### i) Pre-contract costs

Pre-contract costs are expensed as incurred except where it is probable that the contract will be awarded, in which case they are recognised as a prepayment which is written off to the income statement over the life of the contract.

### j) Property, plant and equipment

Property, plant and equipment comprises:

#### i) Infrastructure assets

Infrastructure assets are included at cost (or deemed cost on transition to IFRS) less accumulated depreciation. The costs of like for like replacement of infrastructure components are recognised in the income statement as they arise. Where it is probable that the money spent will cause future economic benefits to flow to the group, then costs are capitalised. Infrastructure assets are depreciated over their useful economic lives, which are as follows:

	Years
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80-150
Sewers	150-200

#### ii) Other assets

Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated over their estimated economic lives to their residual value, which are principally as follows:

	Years
Buildings	30-80
Fixed plant and equipment	20-40
Vehicles and mobile plant	2-15

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

Interest costs of debt raised to finance new property, plant and equipment are not included within the cost of those fixed assets, but are expensed to the income statement as they arise.

### k) Leased assets

Where the group obtains assets under leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the group as lessee (finance leases), the lower of the fair value of the leased asset or the present value of the minimum lease payments is capitalised as an asset with a corresponding liability representing the 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 income statement at a constant rate 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 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. Leases of land are normally treated as operating leases, unless ownership is transferred to the group at the end of the lease.

### l) Grants and contributions

Grants and contributions received in respect of non current assets, including charges made for new connections to the water and sewerage networks, are treated as deferred income and released to the income statement over the useful economic life of those non current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the income statement in the period that they become receivable.

## 2 Accounting policies continued

### m) Impairment of non current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the assets in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash generating unit or asset.

The discount rate used is based on the group's cost of capital adjusted for the risk profiles of individual businesses.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

### n) Investments

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as available for sale are measured at fair value, with gains or losses recognised in equity. When an available for sale investment is disposed of, or impaired, the gain or loss previously recognised in equity is taken to the income statement. Where there is no active market in the investments and the fair value cannot be measured reliably, the investments are held at cost.

Other investments are classified as held to maturity when the group has the positive intention and ability to hold to maturity. Investments held for an undefined period are excluded from this classification. Such investments (and those held to maturity) are measured at amortised cost using the effective interest rate method, with any gains or losses being recognised in the income statement.

### o) Financial instruments

#### (i) Debt instruments

All loans and borrowings are initially recognised at cost, being the net fair value of the consideration received. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement (see below).

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### (ii) Derivative financial instruments and hedging activities

The group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative instruments are initially recorded at cost and subsequently remeasured at fair value at the balance sheet date. The fair value of cross currency swaps, interest rate swaps and forward currency contracts is calculated by reference to market

exchange rates and interest rates at the period end. Net interest receivable or payable in respect of derivative financial instruments is included in finance income or finance costs.

In relation to fair value hedges which meet the conditions for hedge accounting, the gain or loss on the hedging instrument is taken to gains/losses on financial instruments in the income statement where the effective portion of the hedge will offset the gain or loss on the hedged item (see above).

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion in gains/losses on financial instruments in the income statement. The gains or losses deferred in equity in this way are recycled through gains/losses on financial instruments in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

Where forward currency contracts and foreign currency borrowings are used to hedge net investments in foreign currency denominated operations, to the extent that they are designated and effective as net investment hedges, they are matched in equity against changes in value of the related assets. Any ineffectiveness is taken to gains/losses on financial instruments in the income statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that date any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to gains/losses on financial instruments in the income statement in the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in gains/losses on financial instruments in the income statement.

### p) Inventory

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

### q) Trade receivables

Trade receivables are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method unless there is objective evidence that the asset is impaired, where it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the group's historical collection experience for receivables of similar age.

### r) Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

## 2 Accounting policies continued

### s) Retirement benefits

The group operates both defined benefit and defined contribution pension schemes.

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured using bid price. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is included in operating costs. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other finance income or cost.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to equity and recorded in the statement of recognised income and expense.

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

### t) 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.

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.

### u) Purchase of own shares

The group balance sheet includes the shares held by the Severn Trent Employee Share Ownership Trust (the Trust) and which have not vested unconditionally by the balance sheet date. These are shown as a deduction from shareholders' funds until such time as they vest.

### v) Share based payments

The group operates a number of equity settled, share based compensation plans for employees. 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.

### w) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally

those with less than three months' maturity from the date of acquisition and include cash and bank balances and investments in liquid funds. Cash and cash equivalents also include overdrafts repayable on demand.

### x) Foreign currency

The results of overseas subsidiary and associated undertakings are translated into sterling, the presentational currency of the group, using average rates of exchange ruling during the year.

The net investments in overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences thus arising are treated as movements in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in equity since 1 April 2004 relating to that entity is recognised in the income statement under the transitional rule of IFRS 1.

Exchange differences arising in respect of foreign exchange instruments taken out as hedges of overseas investments are also treated as movements in equity to the extent that the hedge is effective (see note 2 o).

All other foreign currency denominated assets and liabilities of the company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement. Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the income statement.

### y) Discontinued operations and assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year then the disposal group is deemed as held for sale. The disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

Where a group of assets which comprises operations that can be clearly distinguished operationally and for financial reporting purposes from the rest of the group (a component) has been disposed of or classified as held for sale, and it

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

then the component is classified as a discontinued operation.

Non current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Depreciation is not charged on such assets.

## 3 New accounting policies and future requirements

The group has adopted IFRIC 12 'Service Concession Arrangements' in the current year. The interpretation draws a distinction between two types of service concession arrangements; those where the operator receives a financial asset, specifically an unconditional contractual right to receive cash or another financial asset from a government body in return for constructing or upgrading a public sector asset; and those where the operator receives an intangible asset, the right to charge for the use of the public sector asset that it constructs or upgrades. The interpretation is applicable to the group's contracts with the UK Ministry of Defence but did not result in any material change to the group's accounting for such contracts.

### 3 New accounting policies and future requirements continued

Two further interpretations issued by the International Financial Reporting Committee are effective for the current period. These are IFRIC 13 'Customer loyalty programmes' and IFRIC 14 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'. The adoption of these interpretations has not led to any changes in the group's accounting policies.

The following statements have been issued by the International Accounting Standards Board and are likely to affect future financial statements.

International Financial Reporting Standard 8 'Operating Segments' (IFRS 8) was issued in November 2006 and is required to be implemented by Severn Trent from 1 April 2009. The standard requires identification of operating segments based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. The impact of the standard on Severn Trent's financial statements is not expected to be significant since the group's segmental reporting already closely reflects reports regularly reviewed by the Chief Executive and the board.

IAS 23 (revised) was issued in March 2007 and is required to be implemented by Severn Trent from 1 April 2009. The revision to the standard removes the option of immediately recognising as an expense, borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale. Such costs are therefore required to be capitalised as part of the cost of the asset. The revised standard will require Severn Trent to change its existing policy and is likely to result in a proportion of borrowing costs that are currently expensed being capitalised in property plant and equipment or intangible assets. The costs will then be amortised over the expected useful lives of the relevant assets.

IAS 1 (revised) was issued in September 2007 and is required to be implemented by Severn Trent from 1 April 2009. The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. Since Severn Trent already presents a statement of recognised income and expense, the changes will have no significant impact on the group financial statements.

IAS 27 (revised) was issued in January 2008 and is required to be implemented by Severn Trent from 1 April 2010. The revised standard requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control. The standard also specifies the accounting when control is lost. Severn Trent has had no transactions in the current or prior year that would have been impacted by the revised standard.

IFRS 3 (revised) was issued in January 2008 and is required to be implemented by Severn Trent from 1 April 2010. The standard continues to apply the acquisition method to business combinations, with some significant changes. Severn Trent has had no transactions in the current or prior year that would have been impacted by the revised standard.

The directors assess that the other standards and interpretations issued but not yet effective are not applicable to the group.

### 4 Significant accounting judgments and key sources of estimation uncertainty

In the process of applying the group's accounting policies, the group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available.

The more significant judgments were:

#### i) Tax provisions

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

#### ii) Provisions for other liabilities and charges

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

The key accounting estimates were:

#### i) Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to calculate present value. Details of the assumptions used are set out in note 17 to the financial statements.

#### ii) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the group's experience of similar assets. Details are set out in note 2 j).

#### iii) 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 29 to the financial statements.

#### iv) Unbilled revenue

Severn Trent Water 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, judgment and assumptions.

#### v) Provision for impairment of trade receivables

Provisions are made against Severn Trent Water's 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.

## 5 Segmental analysis

The group is organised into two main business segments:

### Severn Trent Water (formerly Water and Sewerage)

Provides water and sewerage services to domestic and commercial customers in England and Wales.

### Severn Trent Services (formerly Water Technologies and Services)

Provides services and products associated with water, waste water and contaminated land principally in the US, UK and Europe.

The group is also organised into geographical regions, UK, US and Europe. Geographical information is classified by the location of the principal operations of each business unit.

#### a) Primary reporting format – business segment

	Severn Trent Water £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
<b>2009</b>					
External sales	1,323.5	318.7	–	–	1,642.2
Inter segment sales	1.4	20.6	4.7	(26.7)	–
<b>Total sales</b>	<b>1,324.9</b>	<b>339.3</b>	<b>4.7</b>	<b>(26.7)</b>	<b>1,642.2</b>
Profit before interest, tax and exceptional items	456.0	30.5	(16.4)	(0.2)	469.9
Exceptional items (note 8)	(19.4)	(0.7)	1.2	–	(18.9)
<b>Profit before interest and tax</b>	<b>436.6</b>	<b>29.8</b>	<b>(15.2)</b>	<b>(0.2)</b>	<b>451.0</b>
Share of results of associates and joint ventures	0.1	(0.1)	–	–	–
<b>Segment result</b>	<b>436.7</b>	<b>29.7</b>	<b>(15.2)</b>	<b>(0.2)</b>	<b>451.0</b>
Total net finance costs and net gains/(losses) on financial instruments					(283.4)
Profit before tax					167.6
Tax					(223.6)
Loss from continuing operations					(56.0)
Profit from discontinued operations (note 14)					–
<b>Loss for the period</b>					<b>(56.0)</b>
<b>2008</b>					
External sales	1,263.0	289.4	–	–	1,552.4
Inter segment sales	2.3	23.6	5.2	(31.1)	–
<b>Total sales</b>	<b>1,265.3</b>	<b>313.0</b>	<b>5.2</b>	<b>(31.1)</b>	<b>1,552.4</b>
Profit before interest, tax and exceptional items	456.4	26.6	(11.2)	(2.3)	469.5
Exceptional items (note 8)	(63.3)	(4.5)	(1.0)	–	(68.8)
<b>Profit before interest and tax</b>	<b>393.1</b>	<b>22.1</b>	<b>(12.2)</b>	<b>(2.3)</b>	<b>400.7</b>
Share of results of associates and joint ventures	–	0.1	–	–	0.1
<b>Segment result</b>	<b>393.1</b>	<b>22.2</b>	<b>(12.2)</b>	<b>(2.3)</b>	<b>400.8</b>
Total net finance costs and net gains/(losses) on financial instruments					(208.4)
Profit before tax					192.4
Tax					18.2
Profit from continuing operations					210.6
Profit from discontinued operations (note 14)					0.8
<b>Profit for the period</b>					<b>211.4</b>

## 5 Segmental analysis continued

### a) Primary reporting format – business segment continued

Other segment items are;

	Severn Trent Water £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
<b>2009</b>					
Capital expenditure	501.7	8.0	0.5	(2.2)	508.0
Depreciation and amortisation	242.9	7.4	–	(2.4)	247.9
<b>2008</b>	Severn Trent Water £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
Capital expenditure	445.7	7.6	0.4	(4.4)	449.3
Depreciation and amortisation	227.2	6.6	0.1	(2.1)	231.8

The segment assets and liabilities are as follows:

	Severn Trent Water £m	Severn Trent Services £m	Unallocated Corporate and Other £m	Eliminations £m	Consolidated £m
<b>2009</b>					
<b>Assets</b>					
Segment assets	6,537.4	322.4	710.3	(19.6)	7,550.5
Interests in associates and joint ventures	0.2	4.8	–	–	5.0
Group total assets	6,537.6	327.2	710.3	(19.6)	7,555.5
<b>Liabilities</b>					
Segment liabilities	(797.2)	(95.7)	(5,710.9)	0.2	(6,603.6)
<b>2008</b>	Severn Trent Water £m	Severn Trent Services £m	Unallocated Corporate and Other £m	Eliminations £m	Consolidated £m
<b>Assets</b>					
Segment assets	6,579.3	256.7	241.9	(19.3)	7,058.6
Interests in associates and joint ventures	–	4.2	–	–	4.2
Group total assets	6,579.3	260.9	241.9	(19.3)	7,062.8
<b>Liabilities</b>					
Segment liabilities	(705.6)	(89.3)	(5,062.7)	–	(5,857.6)

Segment assets comprise goodwill and other intangible assets, property plant and equipment, inventories, derivatives designated as hedges for future transactions, receivables and operating cash. Deferred taxation, investments and derivatives designated as hedges of borrowings are all included in unallocated corporate assets.

Segment liabilities comprise operating liabilities. Taxation and corporate borrowings and related hedging derivatives are all included in unallocated corporate liabilities.

## 5 Segmental analysis continued

Restatement of prior year analysis

With effect from 1st April 2008 Severn Trent Retail Services Limited and its subsidiary company Complete Credit Management Limited (together STRS) were transferred from the Severn Trent Water segment to the Severn Trent Services segment. The comparative information has been restated to reflect this revised classification as follows:

	Severn Trent Water £m	Severn Trent Services £m
<b>Sales</b>		
External sales as originally stated	1,278.0	274.4
Transfer STRS group external sales	(15.0)	15.0
Restated external sales	1,263.0	289.4
<hr/>		
Inter segment sales as originally stated	1.2	22.9
Reanalysis of inter segment sales following transfer	1.1	0.7
Restated inter segment sales	2.3	23.6
<hr/>		
Total sales as originally stated	1,279.2	297.3
Transfer STRS group external sales	(15.0)	15.0
Reanalysis of inter segment sales following transfer	1.1	0.7
Restated total sales	1,265.3	313.0
<hr/>		
<b>Profit before interest, tax and exceptional items</b>		
Profit before interest, tax and exceptional items as originally stated	462.3	20.7
Transfer STRS group	(5.9)	5.9
Restated profit before interest, tax and exceptional items	456.4	26.6
<hr/>		
<b>Capital expenditure</b>		
Capital expenditure as originally stated	446.3	7.0
Transfer STRS group	(0.6)	0.6
Restated capital expenditure	445.7	7.6
<hr/>		
<b>Depreciation and amortisation</b>		
Depreciation and amortisation as originally stated	227.5	6.3
Transfer STRS group	(0.3)	0.3
Restated depreciation and amortisation	227.2	6.6
<hr/>		
<b>Assets</b>		
Segment assets as originally stated	6,590.1	245.9
Transfer STRS group	(10.8)	10.8
Segment assets restated	6,579.3	256.7
<hr/>		
Interest in associates and joint ventures as originally stated	0.2	4.0
Transfer STRS group	(0.2)	0.2
Interest in associates and joint ventures as restated	–	4.2
<hr/>		
Group total assets as originally stated	6,590.3	249.9
Transfer STRS group	(11.0)	11.0
Group total assets as restated	6,579.3	260.9
<hr/>		
Segment liabilities as originally stated	(708.8)	(86.1)
Transfer STRS group	3.2	(3.2)
Segment liabilities as restated	(705.6)	(89.3)

## 5 Segmental analysis continued

### b) Secondary reporting format – geographical segments

The group's turnover analysed by geographical market (by destination) was as follows:

	2009 £m	2008 £m
<b>Turnover</b>		
UK	<b>1,406.6</b>	1,355.0
US	<b>142.6</b>	109.9
Europe	<b>42.7</b>	42.5
Other	<b>50.3</b>	45.0
	<b>1,642.2</b>	1,552.4

The carrying amount of the group's assets and additions to property plant and equipment analysed by the geographical area in which the assets are located was as follows:

	Total assets – based on location		Capital expenditure	
	2009 £m	2008 £m	2009 £m	2008 £m
UK	<b>7,330.1</b>	6,898.1	<b>503.5</b>	444.7
US	<b>157.8</b>	111.9	<b>4.2</b>	4.2
Europe	<b>65.7</b>	52.3	<b>0.2</b>	0.4
Other	<b>1.9</b>	0.5	<b>0.1</b>	–
	<b>7,555.5</b>	7,062.8	<b>508.0</b>	449.3

## 6 Revenue

	2009 £m	2008 £m
Water and sewerage services	<b>1,317.6</b>	1,279.2
Other services	<b>227.2</b>	205.7
Sales of goods	<b>76.2</b>	50.1
Revenue from long term contracts	<b>48.0</b>	46.7
Eliminations	<b>(26.8)</b>	(29.3)
<b>Total turnover</b>	<b>1,642.2</b>	1,552.4
Interest receivable (note 10)	<b>36.4</b>	23.7
<b>Total revenue</b>	<b>1,678.6</b>	1,576.1

## 7 Operating costs

	2009			2008		
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	257.4	1.4	258.8	234.6	8.1	242.7
Social security costs	19.8	0.1	19.9	18.3	0.1	18.4
Pension costs	28.9	–	28.9	33.0	–	33.0
Share based payments	5.3	–	5.3	4.0	–	4.0
<b>Total employee costs</b>	<b>311.4</b>	<b>1.5</b>	<b>312.9</b>	289.9	8.2	298.1
Power	56.3	–	56.3	42.0	0.2	42.2
Raw materials and consumables	128.7	0.9	129.6	112.6	6.4	119.0
Rates	59.2	–	59.2	60.1	–	60.1
Charge for bad and doubtful debts	26.8	5.1	31.9	22.7	–	22.7
Service charges	30.0	–	30.0	28.6	–	28.6
Depreciation of property, plant and equipment	223.7	–	223.7	204.5	–	204.5
Amortisation of intangible fixed assets	24.2	–	24.2	27.3	–	27.3
Hired and contracted services	142.8	2.6	145.4	151.8	14.2	166.0
Operating lease rentals						
– land and buildings	4.0	–	4.0	4.5	–	4.5
– other	1.6	–	1.6	1.6	–	1.6
Hire of plant and machinery	7.1	–	7.1	6.1	1.2	7.3
Research and development expenditure	5.6	–	5.6	4.9	–	4.9
Profit on disposal of fixed assets	(3.9)	–	(3.9)	(1.7)	–	(1.7)
Foreign exchange gains	(0.3)	–	(0.3)	0.1	–	0.1
Water and sewerage infrastructure maintenance expenditure	130.1	–	130.1	111.2	–	111.2
Other operating costs	105.7	8.8	114.5	96.2	38.6	134.8
	<b>1,253.0</b>	<b>18.9</b>	<b>1,271.9</b>	1,162.4	68.8	1,231.2
Release from deferred income	(5.3)	–	(5.3)	(5.1)	–	(5.1)
Own work capitalised	(75.4)	–	(75.4)	(74.4)	–	(74.4)
<b>Total operating costs</b>	<b>1,172.3</b>	<b>18.9</b>	<b>1,191.2</b>	1,082.9	68.8	1,151.7

Further details of exceptional costs are given in note 8. The pension costs shown above include current and past service costs. Other pension costs (interest costs, expected returns on assets and actuarial gains and losses) are included in finance costs and the statement of recognised income and expense.

During the year the following fees were charged by the auditors in respect of continuing and discontinued activities:

	2009 £m	2008 £m
Fees payable to the company's auditors for:		
The audit of the company's annual accounts	0.1	0.2
The audit of the company's subsidiaries pursuant to legislation	0.4	0.3
Audit fees payable to associates of the company's auditors	0.1	0.1
<b>Total audit fees</b>	<b>0.6</b>	0.6
Fees payable to the company's auditors and their associates for other services to the group		
– Other services pursuant to legislation	0.3	0.2
– Corporate finance	0.1	0.1
<b>Total non audit fees</b>	<b>0.4</b>	0.3

Details of directors' remuneration are set out in the Directors' remuneration report on pages 40 to 53.

## 8 Exceptional items

	2009 £m	2008 £m
Severn Trent Water restructuring programme	13.7	13.9
Corporate restructuring programme	–	1.0
Severn Trent Services write down of meters business assets	2.1	–
Corporate and other release of disposal provisions made in previous periods	(1.2)	–
<b>Exceptional restructuring costs and termination of operations</b>	<b>14.6</b>	<b>14.9</b>
Flood costs	13.1	29.6
Insurance recoverable	(14.6)	(16.0)
<b>Severn Trent Water flood costs</b>	<b>(1.5)</b>	<b>13.6</b>
Fine and costs relating to leakage reporting	2.2	–
Contribution to charitable trust	5.0	–
Penalty relating to customer service data and Guaranteed Standards of Service	–	35.8
<b>Severn Trent Water fines and penalties</b>	<b>7.2</b>	<b>35.8</b>
<b>Severn Trent Services provision for third party legal costs</b>	<b>(1.4)</b>	<b>4.5</b>
<b>Total exceptional items</b>	<b>18.9</b>	<b>68.8</b>

## 9 Employee numbers

Average number of employees (including executive directors) during the year:

	2009 Number	2008 Number
<b>By type of business:</b>		
Severn Trent Water	5,624	5,696
Severn Trent Services	3,120	2,985
Other Businesses and Corporate	24	26
	<b>8,768</b>	<b>8,707</b>

## 10 Finance income

	2009 £m	2008 £m
<b>Interest revenue earned on:</b>		
Bank deposits	32.0	17.3
Other financial income	4.4	6.4
Total interest revenue	36.4	23.7
Expected return on defined benefit scheme assets	89.8	93.4
<b>Total finance income</b>	<b>126.2</b>	<b>117.1</b>

All interest revenue relates to loans and receivables.

## 11 Finance costs

	2009 £m	2008 £m
Interest on bank loans and overdrafts	13.0	13.6
Interest on other loans	191.7	177.5
Interest on finance leases	16.3	20.6
<b>Total borrowing costs</b>	<b>221.0</b>	<b>211.7</b>
Other financial expenses	9.7	2.2
Interest cost on defined benefit scheme obligations	91.9	80.6
<b>Total finance costs</b>	<b>322.6</b>	<b>294.5</b>

## 12 (Losses)/gains on financial instruments

	2009 £m	2008 £m
Gain on derivatives in a designated fair value hedge accounting relationship	221.1	93.8
Loss arising on adjustment for the hedged item in a designated fair value hedging relationship	(222.7)	(95.9)
Fair value loss on cash flow hedges transferred from equity	(4.9)	(4.6)
Loss arising on revaluation of derivatives not in a designated hedge accounting relationship	(80.5)	(24.3)
	<b>(87.0)</b>	<b>(31.0)</b>

## 13 Taxation

### a) Analysis of tax charge/(credit) in the year

	2009 £m	2008 £m
<b>Current tax</b>		
Continuing operations		
Current year at 28% (2008: 30%)	65.0	68.7
Prior year at 28% (2008: 30%)	(12.9)	(12.5)
<b>Total current tax</b>	<b>52.1</b>	<b>56.2</b>
<b>Deferred tax</b>		
Continuing operations		
Origination and reversal of temporary differences – current year	(23.3)	(2.4)
Origination and reversal of temporary differences – prior year	9.2	(17.3)
Exceptional deferred tax charge/(credit)	185.6	(54.7)
<b>Total deferred tax</b>	<b>171.5</b>	<b>(74.4)</b>
<b>Total tax charge/(credit)</b>	<b>223.6</b>	<b>(18.2)</b>

The Finance Act 2008 includes legislation which will prevent the group claiming industrial building allowances on affected assets after 2011. This change is being introduced by reducing the rate of allowances that may be claimed from 1 April 2008 to 31 March 2011 at which point the allowances will be removed. The removal of these allowances has resulted in an exceptional deferred tax charge of £185.6 million in the period.

The Finance Act 2007 implemented a reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008. The impact of this rate reduction on the deferred tax provision was reflected in the prior year and resulted in deferred tax credits of £54.7 million in the profit and loss account and £5.4 million in reserves.

### 13 Taxation continued

#### b) Factors affecting the tax charge/(credit) in the year

The tax expense for the current year is higher (2008: lower) than the standard rate of corporation tax in the UK, 28% (2008: 30%). The differences are explained below:

	2009 £m	2008 £m
<b>Profit on ordinary activities before tax:</b>		
Continuing operations	167.6	192.4
Discontinued operations	–	0.8
	<b>167.6</b>	<b>193.2</b>
Tax at the standard rate of corporation tax in the UK 28% (2008: 30%)	46.9	58.0
Tax effect of share of results of associates and joint ventures	–	0.1
Tax effect of (income not taxable)/expenditure not deductible in determining taxable profit	(5.9)	8.7
Effect of different rates of tax in overseas jurisdictions	0.7	(0.5)
Adjustments in respect of prior years	(3.7)	(29.8)
Exceptional deferred tax	185.6	(54.7)
<b>Total tax charge/(credit)</b>	<b>223.6</b>	<b>(18.2)</b>

In 2008 the adjustments in respect of prior years arose as a result of agreeing open computations with the relevant tax authorities and the reduction of tax rate for deferred tax from 30% to 28%.

#### c) Tax credited directly to equity

In addition to the amount charged/(credited) to the income statement, the following amounts of tax have been credited directly to equity.

	2009 £m	2008 £m
<b>Current tax</b>		
Tax on share based payments	(1.3)	(2.7)
Tax on pension contributions in excess of profit and loss charge	(3.8)	–
Tax on exchange differences on foreign currency hedging	(2.5)	(4.1)
<b>Total current tax credited directly to equity</b>	<b>(7.6)</b>	<b>(6.8)</b>
<b>Deferred tax</b>		
Tax on actuarial gains/losses	(30.0)	(7.8)
Tax on cash flow hedging	(0.9)	0.6
Tax on share based payments	3.3	4.1
Effect of change of tax rate	–	(5.4)
<b>Total deferred tax credited directly to equity</b>	<b>(27.6)</b>	<b>(8.5)</b>

### 14 Discontinued operations and disposal groups

There were no transactions during the year that resulted in operations being classified as discontinued. In the previous year, the profit from discontinued operations in the year arose from the settlement of outstanding matters relating to the disposal of the US business, Severn Trent Laboratories Inc.

#### a) Profit from discontinued operations

	2009 £m	2008 £m
<b>Profit after tax</b>	–	–
Exceptional net gain on disposal of discontinued operations	–	0.8
Attributable tax expense	–	–
<b>Net profit attributable to discontinued operations</b>	<b>–</b>	<b>0.8</b>

## 14 Discontinued operations and disposal groups continued

### b) Cash flows from discontinued operations

	2009 £m	2008 £m
Net cash flows from operating activities	–	–
Net cash flows from investing activities	–	3.1
Net cash flows from financing activities	–	–
	–	3.1

### c) Earnings per share from discontinued operations

	2009			2008		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share from discontinued operations	–	234.9	–	0.8	233.6	0.3
Diluted earnings per share from discontinued operations	–	235.6	–	0.8	235.3	0.3

### d) Disposal groups

On 27 February 2009 the group entered into an agreement to sell its meters business. The agreement was subject to Office of Fair Trading approval which was received on 8 May 2009 and the transaction was completed. Accordingly the assets and liabilities of the meters business, which are summarised below, were classified as held for sale at 31 March 2009.

	£m
Intangible assets	0.2
Property, plant and equipment	0.8
Inventory	1.8
Trade and other receivables	1.8
Assets held for sale	4.6
Liabilities directly associated with assets held for sale	
Trade and other payables	(0.4)

## 15 Dividends

Amounts recognised as distributions to equity holders in the period:

	2009		2008	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2008 (2007)	41.29	97.0	38.68	90.4
Interim dividend for the year ended 31 March 2009 (2008)	26.29	61.8	24.34	56.9
	67.58	158.8	63.02	147.3
<b>Proposed final dividend for the year ended 31 March 2009</b>	<b>41.05</b>	<b>96.5</b>		

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

## 16 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

Basic and diluted earnings per share from continuing operations are calculated on the basis of profit from continuing operations attributable to the equity holders of the company.

The calculation of basic and diluted earnings per share is based on the following data:

### Earnings

	2009 £m	2008 £m
Earnings for the purpose of basic and diluted earnings per share from continuing and discontinued operations being:		
(Loss)/profit for the period attributable to the equity holders of the company	(57.8)	209.5
Adjustment to exclude:		
Profit for the period from discontinued operations	–	(0.8)
<b>Earnings for the purpose of basic and diluted earnings per share from continuing operations</b>	<b>(57.8)</b>	<b>208.7</b>

### Number of shares

	2009 m	2008 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	234.9	233.6
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	0.7	1.7
<b>Weighted average number of ordinary shares for the purpose of diluted earnings per share</b>	<b>235.6</b>	<b>235.3</b>

### Adjusted earnings per share

	2009 Pence	2008 Pence
Adjusted basic earnings per share	92.7	97.8
Adjusted diluted earnings per share	92.4	97.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, gains/losses on financial instruments and exceptional items in both 2009 and 2008. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

### Adjustments to earnings

	2009 £m	2008 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	(57.8)	208.7
Adjustments for:		
Exceptional items	18.9	68.8
Current tax related to exceptional items at 28% (30%)	(1.8)	(5.6)
Losses on financial instruments	87.0	31.0
Deferred tax	171.5	(74.4)
<b>Earnings for the purpose of adjusted basic and diluted earnings per share</b>	<b>217.8</b>	<b>228.5</b>

## 17 Goodwill

	2009 £m	2008 £m
Cost and net book value		
At 1 April	50.2	49.1
Additions	–	0.4
Exchange adjustments	13.1	0.7
<b>At 31 March</b>	<b>63.3</b>	50.2

### Goodwill impairment tests

Goodwill is allocated to the group's cash generating units (CGUs) identified according to country of operation and business segment.

A summary of the goodwill allocation by CGU is presented below:

	2009 £m	2008 £m
<b>Severn Trent Services</b>		
Water Purification US	29.4	21.2
Contract Operations US	13.1	9.5
UK Services	0.2	0.2
UK Laboratories	12.0	12.0
Services Italy	8.6	7.3
	<b>63.3</b>	50.2

The recoverable amount of a CGU is determined using value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. The key assumption underlying these budgets is the revenue growth. Assumptions are determined by management of each CGU based on past experience, current market trends and expectations of future developments.

Cash flows beyond the five year period are extrapolated using an estimated nominal growth rate stated below. The growth rate does not exceed the long term average growth rate for the economy in which the CGU operates. The assumptions used in relation to growth rates beyond the five year period and discount rates were:

	Nominal growth rate		Discount rate	
	2009 %	2008 %	2009 %	2008 %
Water Purification US	3.0	3.0	8.7	11.5
Contract Operations US	3.0	3.0	9.2	11.5
UK Services	3.0	3.0	9.5	11.5
UK Laboratories	3.0	3.0	9.5	11.5
Services Italy	3.0	3.0	11.7	11.5

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

Changes in the growth rate outside the five year period or in the discount rate applied to the cash flows could cause the CGUs' carrying amounts to exceed their recoverable amounts. The amount by which the recoverable amount of each CGU exceeded its carrying value and the amount by which the growth rate or discount rate would have to change in order to reduce the recoverable amount of the CGU to its carrying value is set out below.

	Surplus of recoverable amount over carrying amount £m	Change required for recoverable amount to equal carrying amount	
		Growth rate Percentage points	Discount rate Percentage points
Water Purification US	167.4	(28.4)	12.5
Contract Operations US	30.6	(6.6)	4.4
UK Services	18.6	(79.7)	19.0
UK Laboratories	11.5	(4.2)	2.8
Services Italy	2.7	(1.1)	0.8

## 18 Intangible assets

	Computer software		Other	Total £m
	Internally generated £m	Purchased £m	Internally generated £m	
<b>Cost</b>				
At 1 April 2007	92.0	129.0	16.8	237.8
Additions	8.0	22.5	2.6	33.1
Disposals	–	(6.5)	(0.2)	(6.7)
Exchange adjustments	(0.4)	0.3	0.6	0.5
At 1 April 2008	99.6	145.3	19.8	264.7
Additions	12.6	20.8	0.7	34.1
Disposals	(8.0)	(14.9)	–	(22.9)
Transfers	–	2.9	(2.9)	–
Transfers to assets held for sale	–	–	(0.5)	(0.5)
Exchange adjustments	0.1	0.8	1.6	2.5
<b>At 31 March 2009</b>	<b>104.3</b>	<b>154.9</b>	<b>18.7</b>	<b>277.9</b>
<b>Amortisation</b>				
At 1 April 2007	(51.5)	(75.0)	(10.1)	(136.6)
Amortisation for year	(10.4)	(15.7)	(1.2)	(27.3)
Disposals	–	6.5	0.2	6.7
Exchange adjustments	–	(0.2)	(0.1)	(0.3)
At 1 April 2008	(61.9)	(84.4)	(11.2)	(157.5)
Amortisation for year	(8.4)	(14.6)	(1.2)	(24.2)
Disposals	8.0	16.3	1.0	25.3
Transfers	–	(1.3)	1.3	–
Transfers to assets held for sale	–	–	0.3	0.3
Exchange adjustments	0.3	(0.1)	(0.7)	(0.5)
<b>At 31 March 2009</b>	<b>(62.0)</b>	<b>(84.1)</b>	<b>(10.5)</b>	<b>(156.6)</b>
<b>Net book value</b>				
<b>At 31 March 2009</b>	<b>42.3</b>	<b>70.8</b>	<b>8.2</b>	<b>121.3</b>
At 31 March 2008	37.7	60.9	8.6	107.2

Other assets primarily comprise capitalised development costs and patents.

## 19 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Total £m
<b>Cost</b>					
At 1 April 2007	2,062.6	3,786.5	2,507.4	58.2	8,414.7
Additions	129.3	94.2	188.1	4.6	416.2
Disposals	(4.0)	–	(11.3)	(4.9)	(20.2)
Transfers	0.2	–	(0.3)	0.1	–
Exchange adjustments	(0.1)	–	1.6	(1.0)	0.5
At 1 April 2008	2,188.0	3,880.7	2,685.5	57.0	8,811.2
Additions	146.1	61.5	257.0	9.3	473.9
Disposals	(5.4)	–	(45.3)	(9.5)	(60.2)
Transfers to assets held for sale	(0.3)	–	(3.3)	–	(3.6)
Exchange adjustments	1.6	–	8.2	3.6	13.4
<b>At 31 March 2009</b>	<b>2,330.0</b>	<b>3,942.2</b>	<b>2,902.1</b>	<b>60.4</b>	<b>9,234.7</b>
<b>Depreciation</b>					
At 1 April 2007	(643.2)	(998.2)	(1,228.0)	(24.2)	(2,893.6)
Charge for year	(42.9)	(22.1)	(132.0)	(7.5)	(204.5)
Disposals	4.0	–	10.9	3.6	18.5
Exchange adjustments	–	–	0.1	(0.5)	(0.4)
At 1 April 2008	(682.1)	(1,020.3)	(1,349.0)	(28.6)	(3,080.0)
Charge for year	(48.6)	(19.9)	(147.7)	(7.5)	(223.7)
Disposals	5.5	–	42.0	7.4	54.9
Transfers to assets held for sale	0.3	–	2.5	–	2.8
Exchange adjustments	(0.9)	–	(5.3)	(2.4)	(8.6)
<b>At 31 March 2009</b>	<b>(725.8)</b>	<b>(1,040.2)</b>	<b>(1,457.5)</b>	<b>(31.1)</b>	<b>(3,254.6)</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>1,604.2</b>	<b>2,902.0</b>	<b>1,444.6</b>	<b>29.3</b>	<b>5,980.1</b>
At 31 March 2008	1,505.9	2,860.4	1,336.5	28.4	5,731.2

The carrying amount of property plant and equipment includes the following amounts in respect of assets held under finance leases:

	Land and Buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Total £m
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>–</b>	<b>122.1</b>	<b>140.9</b>	<b>–</b>	<b>263.0</b>
At 31 March 2008	–	123.1	162.7	–	285.8

Plant and equipment includes £571.8 million (2008: £388.3 million) in respect of assets in the course of construction for which no depreciation is charged.

## 20 Interests in joint ventures

	2009 £m	2008 £m
<b>Group's share of:</b>		
Long term assets	–	0.1
Current assets	<b>2.0</b>	0.4
Current liabilities	<b>(1.7)</b>	(0.5)
Amounts due from joint ventures	–	0.1
	<b>0.3</b>	0.1
<b>Group's share of:</b>		
Turnover	<b>1.6</b>	0.6
Operating costs	<b>(1.6)</b>	(0.6)
Profit before tax	–	–
Tax	–	–
Profit after tax	–	–

The joint ventures have no significant contingent liabilities to which the group is exposed and the group does not have any significant contingent liabilities in relation to its interests in the joint ventures. The group has no capital commitments in relation to its interests in the joint ventures.

Particulars of the group's principal joint venture undertakings at 31 March 2009 are:

Name	Country of Incorporation	Proportion of ownership	Proportion of voting power
Cognica Limited	Great Britain	50%	50%
Jackson Water Partnership	USA	70%	See below

The partnership agreement for the Jackson Water Partnership requires that certain key decisions require the unanimous consent of the partners and consequently the partnership has been accounted for as a joint venture.

## 21 Interests in associates

	2009 £m	2008 £m
At 1 April	<b>4.1</b>	3.4
Share of profits	–	0.1
Other movements	<b>0.7</b>	0.6
<b>At 31 March</b>	<b>4.8</b>	4.1
<b>Group's share of:</b>		
Total assets	<b>26.4</b>	19.4
Total liabilities	<b>(21.6)</b>	(15.3)
	<b>4.8</b>	4.1
Turnover	<b>7.0</b>	5.5
Profit before tax	–	0.3

The associate company has no significant contingent liabilities to which the group is exposed and the group does not have any significant contingent liabilities in relation to its interest in the associate. The group has no capital commitments in relation to its interests in the associate.

The principal associate at 31 March 2009 was:

	Equity interest	Percentage of share capital held	Nature of business
S.I.I. Societa Consortile per Azioni	15,312,000 of €1	25%	Water and sewerage

The country of incorporation and main operation is Italy.

## 22 Financial instruments

### (a) Capital management

It is the group's strategy to access a broad range of sources of finance to obtain both the quantum required and the lowest cost compatible with the need for continued availability. The group is funded using a mixture of equity and debt (including fixed rate, index linked and floating rate).

At 31 March 2009 the group's equity and debt capital comprised the following:

	2009 £m	2008 £m
Cash and short term deposits	(648.1)	(654.4)
Bank overdrafts	–	1.0
Bank loans	789.8	742.7
Other loans	3,310.9	2,958.1
Obligations under finance leases	344.4	385.4
Net debt	3,797.0	3,432.8
Equity attributable to the company's equity shareholders	946.1	1,201.0
Total capital	4,743.1	4,633.8

### (b) Categories of financial assets

	2009 £m	2008 £m
<b>Fair value through profit and loss</b>		
Derivatives that do not qualify for hedge accounting		
Cross currency swaps	–	–
Interest rate swaps	18.1	3.7
	18.1	3.7
<b>Derivatives that are designated and effective as hedging instruments carried at fair value</b>		
Cross currency swaps	237.1	52.8
Interest rate swaps	–	0.1
	237.1	52.9
<b>Available for sale investments carried at fair value</b>		
Unquoted shares	0.1	0.1
<b>Loans and receivables (including cash and cash equivalents)</b>		
Trade receivables	201.1	199.4
Short term deposits	586.5	608.4
Cash at bank in hand	61.6	46.0
	849.2	853.8
<b>Total financial assets</b>	1,104.5	910.5
Disclosed in the balance sheet as:		
Non current assets		
Derivative financial instruments	225.4	51.3
Available for sale financial assets	0.1	0.1
	225.5	51.4
Current assets		
Derivative financial instruments	29.8	5.3
Cash and cash equivalents	648.1	654.4
Trade and other receivables (note 24)	201.1	199.4
	879.0	859.1
	1,104.5	910.5

## 22 Financial instruments continued

### (c) Categories of financial liabilities

	2009 £m	2008 £m
<b>Fair value through profit and loss</b>		
Derivatives that do not qualify for hedge accounting		
Interest rate swaps	(162.0)	(67.8)
Foreign exchange forward contracts	(0.4)	–
	<b>(162.4)</b>	<b>(67.8)</b>
<b>Derivatives that are designated and effective as hedging instruments carried at fair value</b>		
Cross currency swaps	–	(13.2)
Interest rate swaps	(9.6)	(1.7)
	<b>(9.6)</b>	<b>(14.9)</b>
<b>Other financial liabilities</b>		
Bank loans	(789.8)	(742.7)
Other loans	(3,310.9)	(2,958.1)
Obligations under finance leases	(344.4)	(385.4)
Overdraft	–	(1.0)
Trade payables	(46.3)	(40.3)
	<b>(4,491.4)</b>	<b>(4,127.5)</b>
<b>Total financial liabilities</b>	<b>(4,663.4)</b>	<b>(4,210.2)</b>
Disclosed in the balance sheet as:		
Non current liabilities		
Derivative financial instruments	(171.6)	(73.8)
Borrowings	(4,188.9)	(3,627.7)
	<b>(4,360.5)</b>	<b>(3,701.5)</b>
Current liabilities		
Derivative financial instruments	(0.4)	(8.9)
Borrowings	(256.2)	(459.5)
Trade payables (note 27)	(46.3)	(40.3)
	<b>(302.9)</b>	<b>(508.7)</b>
	<b>(4,663.4)</b>	<b>(4,210.2)</b>

### (d) Derivative contracts

	2009		2008	
	Asset £m	Liability £m	Asset £m	Liability £m
Cross currency swaps – fair value hedges	237.1	–	52.8	(13.2)
Interest rate swaps – cash flow hedges	–	(9.6)	0.1	(1.7)
Interest rate swaps – derivatives not in a formal hedge relationship	18.1	(162.0)	3.7	(67.8)
Foreign exchange forward contracts	–	(0.4)	–	–
<b>Total</b>	<b>255.2</b>	<b>(172.0)</b>	<b>56.6</b>	<b>(82.7)</b>
Less non current portion:				
Cross currency swaps – fair value hedges	207.3	–	47.6	(4.4)
Interest rate swaps – cash flow hedges	–	(9.6)	–	(1.6)
Interest rate swaps – derivatives not in a formal hedge relationship	18.1	(162.0)	3.7	(67.8)
<b>Total non current</b>	<b>225.4</b>	<b>(171.6)</b>	<b>51.3</b>	<b>(73.8)</b>
<b>Current Portion</b>	<b>29.8</b>	<b>(0.4)</b>	<b>5.3</b>	<b>(8.9)</b>

## 22 Financial instruments continued

### (e) Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Discounted future cash flows are used to determine fair values for debt. Discount rates are derived from yield curves based on quoted interest rates.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Cross currency swaps and forward exchange contracts are valued by reference to quoted forward exchange rates at the balance sheet date and yield curves derived from quoted interest rates matching the maturities of the contracts.

The fair values of available for sale financial assets, which comprise unquoted equity instruments, cannot be measured reliably since there is no active market in the instruments. Hence the investments are held at cost. It is not possible to determine a range of estimates within which the fair values are highly likely to lie.

The nominal values less impairment provisions of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Trade receivables	201.1	201.1	199.4	199.4
Short term deposits	586.5	586.5	608.4	608.4
Cash at bank and in hand	61.6	61.6	46.0	46.0
Borrowings falling due within one year	(256.2)	(296.9)	(459.5)	(433.4)
Borrowings falling due after more than one year	(4,188.9)	(4,953.8)	(3,627.7)	(3,429.4)
Trade payables	(46.3)	(46.3)	(40.3)	(40.3)
<b>Derivative financial instruments held to manage the currency and interest rate profile</b>				
Interest rate swaps and similar instruments	(153.5)	(153.5)	(65.7)	(65.7)
Currency instruments – cross currency swaps	237.1	237.1	39.6	39.6
Foreign exchange forward contracts	(0.4)	(0.4)	–	–
<b>Other financial assets</b>				
Available for sale financial assets	0.1	0.1	0.1	0.1

### (f) Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk) credit risk, liquidity risk and inflation risk. The group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the group's financial performance or position.

Financial risks are managed by a central treasury department (Group Treasury) under policies approved by the board of directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk, the use of derivative and non derivative financial instruments and the investment of surplus funds. Derivative financial instruments are used to hedge exposures to changes in exchange rates and interest rates. The group's policy is that derivative financial instruments are not held for trading.

## 22 Financial instruments continued

### (f) Financial risk factors continued

#### (i) Market risk

The principal market risk that the group is exposed to is fluctuations in interest rates. Since substantially all of the group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, the sensitivity of the group's results to changes in exchange rates is not material.

#### Interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain 45-90% of its net debt in fixed rate instruments. At 31 March 2009 some 82% of the group's net debt was fixed (2008: 70%).

The group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the terms of the interest rate swaps, the group agrees with other parties to exchange, semi annually, the difference between fixed contract and floating rate interest rates calculated by reference to the agreed notional principal amounts. The group has entered into a series of long dated interest rate swaps to hedge future debt. Economically these act to fix debt within the group which is denominated as floating rate, but do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a £80.5 million charge (2008: charge of £24.3 million) in the income statement.

Some of the group's debt is index linked, that is its cost is linked to changes in the Retail Price Index (RPI). This debt provides an economic hedge for Severn Trent Water's revenues and regulatory asset values that are also RPI linked under its regulatory regime.

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

*Financial liabilities analysed by interest rate after taking account of various interest rate swaps entered into by the group*

	Non interest bearing liabilities £m	Floating interest rate £m	Fixed interest rate £m	Index linked £m	Total £m
<b>As at 31 March 2009</b>					
Bank loans and overdrafts	–	501.5	140.5	147.8	789.8
Other loans	–	328.6	2,089.4	892.9	3,310.9
Finance leases	–	175.6	168.8	–	344.4
Other financial liabilities	46.3	–	–	–	46.3
	46.3	1,005.7	2,398.7	1,040.7	4,491.4
Impact of interest rate swaps not matched against specific debt instruments	–	(720.7)	720.7	–	–
	46.3	285.0	3,119.4	1,040.7	4,491.4
Weighted average interest rate			5.9%		
Weighted average period for which interest is fixed (years)			12.1		
<b>As at 31 March 2008</b>					
Bank loans and overdrafts	–	500.8	101.0	141.9	743.7
Other loans	–	745.2	1,334.0	878.9	2,958.1
Finance leases	–	209.1	176.3	–	385.4
Other financial liabilities	40.3	–	–	–	40.3
	40.3	1,455.1	1,611.3	1,020.8	4,127.5
Impact of interest rate swaps not matched against specific debt instruments	–	(873.4)	873.4	–	–
	40.3	581.7	2,484.7	1,020.8	4,127.5
Weighted average interest rate			5.9%		
Weighted average period for which interest is fixed (years)			15.6		

## 22 Financial instruments continued

### (f) Financial risk factors continued

#### Investments in interest earning assets

	Non interest bearing assets £m	Floating interest rate £m	Fixed interest rate £m	Index linked £m	Total £m
<b>31 March 2009</b>					
Available for sale financial assets	0.1	–	–	–	0.1
Loans and receivables	201.1	–	–	–	201.1
Cash and cash equivalents	–	648.1	–	–	648.1
	201.2	648.1	–	–	849.3
<b>31 March 2008</b>					
Available for sale financial assets	0.1	–	–	–	0.1
Loans and receivables	199.4	–	–	–	199.4
Cash and cash equivalents	–	654.4	–	–	654.4
	199.5	654.4	–	–	853.9

#### Interest rate sensitivity analysis

The sensitivity after tax of the group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March was as follows:

	2009		2008	
	+1.0%	-1.0%	+0.5%	-0.5%
Profit or loss	(65.8)	78.8	32.7	(35.7)
Cash	(15.1)	14.0	9.9	9.9
Equity	(67.2)	80.3	33.5	36.5

#### Inflation rate sensitivity analysis

The sensitivity after tax of the group's profits and equity to changes in inflation at 31 March is set out in the following table. This analysis excludes any impact on Severn Trent Water's revenues and Regulated Capital Value.

	2009		2008	
	+1.0%	-1.0%	+1.0%	-1.0%
Profit or loss	(7.5)	7.5	(7.4)	7.4
Equity	(7.5)	7.5	(7.4)	7.4

#### Exchange rate risk

The group operates internationally and is exposed to foreign exchange risk arising from net investments in foreign operations, primarily with respect to the US dollar and the euro. However, since substantially all of the group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, the sensitivity of the group's results to changes in exchange rates is not material.

The group has a significant value of foreign currency debt, primarily in yen and euros. Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency. To manage the foreign exchange risk arising from foreign currency debt the group enters into cross currency swaps with external parties.

The group's risk management policy is to hedge 100% of all foreign currency denominated debt. At 31 March 2009 all foreign currency denominated debt was hedged (2008: 100%).

#### Foreign currency sensitivity analysis

Since substantially all of the group's profits and net assets arise from Severn Trent Water which has no exposure to changes in exchange rates, the sensitivity of the group's results to changes in exchange rates is not material.

## 22 Financial instruments continued

### (f) Financial risk factors continued

#### Monetary assets and liabilities by currency, excluding functional currency

Certain of the group's subsidiaries operate in markets where the local currency is different from the functional currency of the operation. Exchange risks relating to such operations are managed centrally by Group Treasury through forward contracts to buy or sell currency. External foreign exchange contracts are designated at group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis. The net amount of foreign currency assets and liabilities and the forward contracts that have been taken out to hedge the exchange risks on these assets and liabilities and on future committed transactions are summarised below.

#### Net foreign currency monetary assets

As at 31 March 2009	US Dollar £m	Euro £m	Other £m	Total £m
<b>Functional currency of operation</b>				
Sterling	–	(0.6)	–	(0.6)
US Dollar	–	–	–	–
Euro	28.4	–	–	28.4
<b>Total</b>	<b>28.4</b>	<b>(0.6)</b>	<b>–</b>	<b>27.8</b>

  

As at 31 March 2008	US Dollar £m	Euro £m	Other £m	Total £m
<b>Functional currency of operation</b>				
Sterling	(0.3)	1.0	–	0.7
US Dollar	–	3.8	–	3.8
Euro	–	–	–	–
<b>Total</b>	<b>(0.3)</b>	<b>4.8</b>	<b>–</b>	<b>4.5</b>

### (ii) Credit risk

Operationally, the group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited, whose operating licence obliges it to continue to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 24.

For financing purposes, derivative counterparties and cash transactions are limited to high credit quality financial institutions. The group has policies that limit the amount of credit exposure to any one financial institution.

#### Credit risk analysis

At 31 March the credit limits and amounts deposited were as follows:

Rating	Credit limit		Amount outstanding at 31 March	
	2009 £m	2008 £m	2009 £m	2008 £m
AAA	400	750	219.8	20.4
Double A range	525	1,250	112.9	537.7
Single A range	375	50	253.8	1.2
	<b>1,300</b>	<b>2,050</b>	<b>586.5</b>	<b>559.3</b>

The amounts of derivative assets analysed by credit ratings of counterparties were as follows:

Rating	Cross currency swaps		Interest rate swaps not hedged		Interest rate swaps – cash flow hedges	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
AAA	–	35.6	–	–	–	–
Double A range	55.0	15.2	18.1	3.7	–	0.1
Single A range	182.1	2.0	–	–	–	–
	<b>237.1</b>	<b>52.8</b>	<b>18.1</b>	<b>3.7</b>	<b>–</b>	<b>0.1</b>

## 22 Financial instruments continued

### (f) Financial risk factors continued

#### (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash balances and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities and by keeping committed credit lines available.

At the balance sheet date the group had the following committed undrawn borrowing facilities available:

	2009 £m	2008 £m
Expiring within one year	–	–
Expiring in more than one, but not more than two years	–	41.7
Expiring in more than two, but not more than five years	500.0	458.3
	<b>500.0</b>	500.0

#### Financial liabilities analysed by maturity date

The following tables detail the group's remaining contractual maturity for its non derivative financial liabilities. The information presented is based on the earliest date on which the group can be required to pay and represents the undiscounted cash flows including principal and interest.

	Financial liabilities falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
<b>31 March 2009</b>					
Bank loans	122.9	17.2	432.1	397.7	969.9
Other loans	220.9	144.3	488.2	8,237.7	9,091.1
Finance leases	56.0	58.6	77.3	286.3	478.2
Other financial liabilities	64.7	–	–	–	64.7
<b>Total</b>	<b>464.5</b>	<b>220.1</b>	<b>997.6</b>	<b>8,921.7</b>	<b>10,603.9</b>

Other loans includes index linked debt with maturities of up to 58 years.

	Financial liabilities falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
<b>31 March 2008</b>					
Bank overdrafts	1.0	–	–	–	1.0
Bank loans	238.5	128.3	69.0	547.7	983.5
Other loans	337.1	198.7	448.2	8,954.4	9,938.4
Finance leases	57.3	61.4	113.5	311.2	543.4
Other financial liabilities	40.3	–	–	–	40.3
<b>Total</b>	<b>674.2</b>	<b>388.4</b>	<b>630.7</b>	<b>9,813.3</b>	<b>11,506.6</b>

## 22 Financial instruments continued

### (f) Financial risk factors continued

The following tables detail the group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the balance sheet date.

	Financial assets falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
<b>31 March 2009</b>					
Instruments settled net					
Interest rate swaps	6.3	5.4	6.1	1.8	19.6
Instruments settled gross					
Cross currency swaps					
Cash receipts	156.7	54.3	221.0	1,129.6	1,561.6
Cash payments	(121.5)	(47.3)	(194.8)	(846.4)	(1,210.0)
Net cash flow	35.2	7.0	26.2	283.2	351.6
<b>Total</b>	<b>41.5</b>	<b>12.4</b>	<b>32.3</b>	<b>285.0</b>	<b>371.2</b>

	Financial liabilities falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
<b>31 March 2009</b>					
Instruments settled net					
Interest rate swaps	(33.7)	(31.7)	(39.0)	(112.9)	(217.3)
Instruments settled gross					
Cross currency swaps					
Cash receipts	–	–	–	–	–
Cash payments	–	–	–	–	–
Net cash flow	–	–	–	–	–
<b>Total</b>	<b>(33.7)</b>	<b>(31.7)</b>	<b>(39.0)</b>	<b>(112.9)</b>	<b>(217.3)</b>

	Financial assets falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
<b>31 March 2008</b>					
Instruments settled net					
Interest rate swaps	29.7	1.1	0.9	34.9	66.6
Instruments settled gross					
Cross currency swaps					
Cash receipts	47.7	46.2	60.6	44.6	199.1
Cash payments	(34.4)	(36.4)	(48.7)	(35.3)	(154.8)
Net cash flow	13.3	9.8	11.9	9.3	44.3
<b>Total</b>	<b>43.0</b>	<b>10.9</b>	<b>12.8</b>	<b>44.2</b>	<b>110.9</b>

## 22 Financial instruments continued

### (f) Financial risk factors continued

	Financial liabilities falling due				Total £m
	within one year £m	between one and two years £m	between two and five years £m	after more than five years £m	
31 March 2008					
Instruments settled net					
Interest rate swaps	(3.1)	(6.4)	(12.6)	(82.4)	(104.5)
Instruments settled gross					
Cross currency swaps					
Cash receipts	70.8	64.2	77.1	386.1	598.2
Cash payments	(89.5)	(68.9)	(93.2)	(383.7)	(635.3)
	(18.7)	(4.7)	(16.1)	2.4	(37.1)
Total	(21.8)	(11.1)	(28.7)	(80.0)	(141.6)

### (g) Hedge accounting

The group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IAS 39 are met.

#### (i) Fair value hedges

The group raises debt denominated in currencies other than sterling – principally Japanese Yen and Euro. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the group's exposure to exchange rate fluctuations. The terms of the receivable leg of the swap closely match the terms of the underlying debt hence the swaps are expected to be effective hedges. At the year end the amounts of cross currency swaps designated as fair value hedges was as follows:

	Notional principal amount		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
US Dollar	27.0	55.5	9.9	(6.7)
Euro	550.0	581.0	108.9	21.8
Yen	205.9	251.8	85.7	(2.0)
Czech Krona	65.7	100.3	25.6	24.6
Other	11.4	14.7	7.0	1.9
	860.0	1,003.3	237.1	39.6

#### (ii) Cash flow hedges

The group has entered into interest rate swap contracts under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the future cash flow exposures arising from issued variable rate debt. The group has also entered into a number of interest rate swap contracts with start dates set at annual intervals throughout the AMP4 regulatory period. Such contracts enable the group to mitigate the risk of changing interest rates on debt which is highly probable to be issued over the AMP4 period to fund Severn Trent Water's capital programme and have been accounted for as cash flow hedges. The fair value of interest rate swaps at the balance sheet date is determined by discounting the future cash flows using the yield curves prevailing at the balance sheet date and the credit risk inherent in the contract.

The interest rate swaps settle net on a biannual basis. The floating rate on the interest rate swaps is six months LIBOR.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

Period to maturity	Average contract fixed interest rate		Notional principal amount		Fair value	
	2009 %	2008 %	2009 £m	2008 £m	2009 £m	2008 £m
Less than 1 year	–	–	–	–	–	–
1 to 2 years	4.74	–	106.0	–	(3.3)	–
2 to 5 years	–	4.76	–	142.0	–	(0.1)
More than 5 years	5.18	5.18	40.5	14.7	(6.3)	(1.5)
			146.5	156.7	(9.6)	(1.6)

## 22 Financial instruments continued

### (g) Hedge accounting continued

Changes in the amounts deferred in equity during the period relating to cash flow hedges were as follows:

	2009 £m	2008 £m
Fair value gains deferred in equity at start of the period	6.4	4.1
Fair value (losses)/gains recognised in equity in the period	(7.8)	(2.3)
Fair value losses transferred to finance costs in the period	4.9	4.6
Fair value gains deferred in equity at end of the period	3.5	6.4

During the period the group has ceased to account for certain forward start swaps as cash flow hedges because the group was not able to identify specific debt instruments that would enable the strict hedge accounting criteria of IAS 39 to be met when the swaps started. Fair value losses amounting to £0.3m relating to these swaps that had been taken directly to equity will be transferred to the income statement on a straight line basis over the remaining lives of the swaps. Any future changes in the fair values of the swaps will be recorded in the income statement.

Details of interest rate swaps that have not been accounted for as cash flow hedges, including those where hedge accounting has been discontinued in the period, are summarised below:

Period to maturity	Average contract fixed interest rate		Notional principal amount		Fair value	
	2009 %	2008 %	2009 £m	2008 £m	2009 £m	2008 £m
Less than 1 year	–	–	–	–	–	–
1 to 2 years	5.66	–	249.0	–	(18.6)	–
2 to 5 years	–	5.34	–	213.0	–	(1.8)
5 to 10 years	6.32	6.32	225.0	235.0	(33.3)	(18.8)
10 to 20 years	–	–	–	–	–	–
20 to 30 years	5.65	4.83	446.7	560.0	(110.1)	(42.7)
			920.7	1,008.0	(162.0)	(63.3)

Contracts where the group receives fixed interest are summarised below:

Period to maturity	Average contract fixed interest rate		Notional principal amount		Fair value	
	2009 %	2008 %	2009 £m	2008 £m	2009 £m	2008 £m
5 to 10 years	5.18	5.18	200.0	200.0	18.1	(0.8)

## 23 Inventory

	2009 £m	2008 £m
Inventory and work in progress	30.6	24.8

## 24 Trade and other receivables

	2009 £m	2008 £m
Trade receivables	294.1	282.8
Less provision for impairment of receivables	(93.0)	(83.4)
Trade receivables – net	201.1	199.4
Receivables from related parties	0.2	0.2
Other amounts receivable	18.4	24.9
Prepayments and accrued income	227.4	209.6
	447.1	434.1

## 24 Trade and other receivables continued

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Prepayments and accrued income include £24.2 million (2008: £13.3 million) in respect of amounts due from customers for contract work and £44.2 million (2008: £42.4 million) which is recoverable after more than one year.

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Severn Trent Water Limited, which represents 80% of group turnover and 60% of trade receivables. Severn Trent Water has a statutory obligation to provide water and sewerage services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables and the credit quality of its customer base reflects the wealth and prosperity of all of the commercial businesses and domestic households within its region. None of the other business units are individually significant to the group.

Movements on the doubtful debts provision were as follows:

	2009 £m	2008 £m
Balance at the beginning of the period	83.4	74.7
Amounts written off during the period	(22.9)	(14.0)
Amounts recovered during the year	–	(0.7)
Increase in allowance recognised in profit or loss	31.9	23.4
Exchange adjustments	0.6	–
Balance at end of year	<b>93.0</b>	83.4

Included in trade receivables are balances with a carrying amount of £165.4 million (2008: £170.5 million) which were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non collection of such balances.

The aged analysis of past due receivables that were not individually impaired was as follows:

	2009 £m	2008 £m
0 – 90 days	60.2	70.6
91 – 365 days	67.4	61.0
1 – 2 years	22.2	22.7
2 – 3 years	7.8	13.3
More than 3 years	7.8	2.9
<b>Total</b>	<b>165.4</b>	170.5

Included in the allowance for doubtful debts are provisions against specific trade receivables amounting to £12.8 million (2008: £7.4m).

The age of the impaired receivables was as follows:

	2009 £m	2008 £m
0 – 90 days	0.1	0.2
91 – 365 days	2.6	0.9
1 – 2 years	1.5	0.7
2 – 3 years	0.8	3.6
More than 3 years	8.7	3.1
<b>Total</b>	<b>13.7</b>	8.5

## 25 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	61.6	46.0
Short term bank deposits	586.5	608.4
	<b>648.1</b>	654.4

Of the £586.5 million (2008: £608.4 million) of short term bank deposits, £31.1 million (2008: £47.7 million) is held as security deposits for insurance obligations and is not available for use by the group.

## 25 Cash and cash equivalents continued

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2009 £m	2008 £m
Cash and cash equivalents	648.1	654.4
Bank overdrafts (note 26)	–	(1.0)
	<b>648.1</b>	<b>653.4</b>

## 26 Borrowings

	2009 £m	2008 £m
Bank overdrafts	–	1.0
Bank loans	789.8	742.7
Other loans	3,310.9	2,958.1
Obligations under finance leases	344.4	385.4
Borrowings	<b>4,445.1</b>	<b>4,087.2</b>

	2009 £m	2008 £m
The borrowings are repayable as follows:		
On demand or within one year (included in current liabilities)	256.2	459.5
In the second year	56.4	233.5
In the third to fifth years inclusive	487.7	155.3
After five years	3,644.8	3,238.9
Included in non current liabilities	<b>4,188.9</b>	<b>3,627.7</b>
	<b>4,445.1</b>	<b>4,087.2</b>

The group's borrowings are denominated in the following currencies after taking account of cross currency swaps:

	2009 £m	2008 £m
Sterling	4,442.7	4,085.4
Euro	2.4	1.8
	<b>4,445.1</b>	<b>4,087.2</b>

The fair values of the group's borrowings were:

	2009 £m	2008 £m
Bank overdrafts	–	1.0
Bank loans	807.4	611.4
Other loans	4,006.1	2,646.7
Obligations under finance leases	437.2	603.7
	<b>5,250.7</b>	<b>3,862.8</b>

## 26 Borrowings continued

Fair values are based on expected future cash flows discounted using LIBOR forward interest rates related to the expected timing of payments. Fixed interest debt has a weighted average interest rate of 5.9% (2008: 5.9%) for a weighted average period of 12.1 years (2008: 15.6 years). Further details of bank facilities are given in note 22.

Obligations under finance leases are as follows:

	2009 £m	2008 £m
Gross obligations under finance leases	478.3	543.5
Less future finance charges	(133.9)	(158.1)
Present value of lease obligations	344.4	385.4

A maturity analysis of gross obligations under finance leases is presented in note 22.

Net obligations under finance leases fall due as follows:

	2009 £m	2008 £m
Within one year (included in current liabilities)	43.4	39.6
In the second year	46.9	43.0
In the third to fifth years inclusive	47.7	74.9
After five years	206.4	227.9
Included in non current liabilities	301.0	345.8
	344.4	385.4

The remaining terms of finance leases ranged from 4 to 23 years at 31 March 2009. Interest terms are set at the inception of the lease. Leases with capital outstanding of £168.4 million (2008: £176 million) bear fixed interest at a weighted average rate of 5.4% (2008: 5.4%). The lease obligations are secured against the related assets. The fair value of the finance lease obligations is not significantly different from their carrying value.

There were no contingent rents, escalation clauses or material renewal or purchase options. The terms of the finance leases do not impose restrictions on dividend payments, additional debt or further leasing.

## 27 Trade and other payables

	2009 £m	2008 £m
<b>Current liabilities</b>		
Trade payables	46.3	40.3
Social security and other taxes	6.1	6.9
Other payables	34.9	41.4
Accruals and deferred income	355.4	334.8
	442.7	423.4
<b>Non current liabilities</b>		
Other payables	0.2	–
Deferred income	233.5	214.6
Accrued expenses	7.4	5.8
	241.1	220.4

The directors consider that the carrying value of trade payables is not materially different from their fair values.

Accruals and deferred income includes nil (2008: nil) in respect of amounts due to customers for contract work.

## 28 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Tax losses £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2007	919.6	(40.6)	(7.7)	(12.9)	32.7	891.1
Charge/(credit) to income	(57.0)	14.2	(1.1)	(8.3)	(22.2)	(74.4)
Charge/(credit) to equity	–	(8.9)	–	1.7	(1.3)	(8.5)
Exchange differences	–	–	0.1	–	–	0.1
At 1 April 2008	862.6	(35.3)	(8.7)	(19.5)	9.2	808.3
Charge/(credit) to income	202.8	–	1.4	(23.8)	(8.9)	171.5
Charge/(credit) to equity	–	(30.0)	–	(0.9)	3.3	(27.6)
Exchange differences	0.6	–	(3.2)	–	(1.2)	(3.8)
<b>At 31 March 2009</b>	<b>1,066.0</b>	<b>(65.3)</b>	<b>(10.5)</b>	<b>(44.2)</b>	<b>2.4</b>	<b>948.4</b>

Certain deferred tax assets and liabilities have been offset. The offset amounts are as follows:

	2009 £m	2008 £m
Deferred tax asset to be recovered after more than 12 months	(26.2)	(23.9)
Deferred tax asset to be recovered within 12 months	(3.6)	–
	<b>(29.8)</b>	<b>(23.9)</b>
Deferred tax liability to be recovered after more than 12 months	959.4	832.2
Deferred tax liability to be recovered within 12 months	18.8	–
	<b>978.2</b>	<b>832.2</b>
	<b>948.4</b>	<b>808.3</b>

## 29 Retirement benefit schemes

### Defined benefit schemes

#### a) Amount included in the balance sheet arising from the group's obligations under defined benefit schemes

	2009 £m	2008 £m
Fair value of scheme assets:		
Equities	542.8	757.5
Gilts	236.0	362.6
Corporate bonds	230.1	125.0
Property	52.1	76.6
Cash	14.0	10.6
Total fair value of assets	<b>1,075.0</b>	1,332.3
Present value of defined benefit obligations – funded schemes	<b>(1,301.8)</b>	(1,451.9)
	<b>(226.8)</b>	(119.6)
Present value of defined benefit obligations – unfunded schemes	<b>(6.2)</b>	(6.4)
Liability recognised in the balance sheet	<b>(233.0)</b>	(126.0)

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

	2009 £m	2008 £m
Fair value at 1 April	<b>1,332.3</b>	1,364.6
Expected return on scheme assets	<b>89.8</b>	93.4
Contributions from the sponsoring companies	<b>42.0</b>	55.6
Contributions from scheme members	<b>8.0</b>	8.1
Actuarial losses recognised in the statement of recognised income and expense	<b>(329.8)</b>	(125.7)
Benefits paid	<b>(67.3)</b>	(63.7)
Fair value at 31 March	<b>1,075.0</b>	1,332.3

Movements in the present value of the defined benefit obligations were as follows:

	2009 £m	2008 £m
Present value at 1 April	<b>1,458.3</b>	1,499.7
Service cost	<b>23.8</b>	31.5
Interest cost	<b>91.9</b>	80.6
Contributions from scheme members	<b>8.0</b>	8.1
Actuarial gains recognised in the statement of recognised income and expense	<b>(206.7)</b>	(97.9)
Benefits paid	<b>(67.3)</b>	(63.7)
Present value at 31 March	<b>1,308.0</b>	1,458.3

Of which:

	2009 £m	2008 £m
Amounts relating to funded schemes	<b>1,301.8</b>	1,451.9
Amounts relating to the unfunded scheme	<b>6.2</b>	6.4
Present value at 31 March	<b>1,308.0</b>	1,458.3

## 29 Retirement benefit schemes continued

### b) Amounts recognised in the income statement in respect of these defined benefit schemes

	2009 £m	2008 £m
<b>Amounts charged to operating costs</b>		
Current service cost	(23.3)	(31.5)
Past service cost	(0.5)	–
	<b>(23.8)</b>	(31.5)
<b>Amounts charged to finance costs</b>		
Interest cost	(91.9)	(80.6)
<b>Amounts credited to finance income</b>		
Expected return on scheme assets	89.8	93.4
<b>Total amount charged to the income statement</b>	<b>(25.9)</b>	(18.7)

The actual return on scheme assets was a loss of £240.0 million (2008: gain of £32.3 million).

Actuarial gains and losses have been reported in the statement of recognised income and expense. The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since the adoption of IFRSs is a net loss of £95.7 million (2008: net gain of 27.4 million).

### c) Background

The group operates a number of defined benefit pension schemes in the UK, covering the majority of UK employees. The defined benefit schemes are funded to cover future salary and pension increases and their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit schemes, members are entitled to retirement benefits calculated as a proportion (varying between  $\frac{1}{30}$  and  $\frac{1}{60}$  for each year of service) of their salary for the final year of employment with the group or, if higher, the average of the highest three consecutive years salary in the last ten years of employment. 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.

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

UK defined benefit scheme	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2007
Severn Trent Water Mirror Image Pension Scheme	31 March 2006

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

The group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £6.2 million (2008: £6.4 million) is included in an unfunded scheme within the retirement benefit obligation.

### d) Actuarial assumptions

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:

	2009 %	2008 %
Price inflation	2.90	3.40
Salary increases	3.90	4.90
Pension increases in payment	3.00	3.40
Pension increases in deferment	2.90	3.40
Discount rate	6.70	6.40
Long term rate of return on:		
Equities	8.00	8.00
Gilts	4.20	4.55
Corporate bonds	6.70	6.40
Property	6.10	6.30
Cash	0.50	5.25

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index linked gilts. The discount rate is based on the annualised yield from the iBoxx over 15 year AA rated sterling corporate bond index. At 31 March 2008 the yield on this index was distorted by certain bonds that were exhibiting unusually high yields. These bonds were excluded from the calculation of the discount rate at that date.

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 obligation. For gilts and corporate bonds the expected rates of return are based on market yields. For equities, an equity risk premium has been added to the gilt rate.

## 29 Retirement benefit schemes continued

### d) Actuarial assumptions continued

The mortality assumptions adopted are based on mortality tables applicable to the sex and year of birth of individual members, with the 'medium cohort' allowance for future improvements in longevity. For men the assumptions are based on the '00' series tables and for women the '92' series, both projected to calendar year 2005 with medium cohort improvements to 2005 and a two year age rating applied. These have been based on a mortality investigation carried out in conjunction with the valuation of the STPS, carried out on behalf of the trustees, as at 31 March 2007.

The life expectancies implied by the mortality assumptions adopted at each year end are as follows

	2009	2008
Age to which current pensioners aged 65 are expected to live		
– men (years)	<b>85.1</b>	85.1
– women (years)	<b>88.2</b>	88.2
Age to which future pensioners aged 45 at the balance sheet date are expected to live		
– men (years)	<b>85.9</b>	85.9
– women (years)	<b>88.9</b>	88.9

The calculation of the scheme liabilities is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation and mortality. The following table summarises the estimated impact on scheme liabilities and service cost resulting from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £21 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £21 million
Mortality	Increase life expectancy by 1 year	Increase by £28 million

### e) Contributions to the 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 ending 31 March 2010 will be in the order of £32 million and lump sum deficit reduction contributions of £10 million are planned.

### f) History of actual and expected performance of pension scheme assets and liabilities

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	<b>(1,308.0)</b>	(1,458.3)	(1,499.7)	(1,624.8)	(1,394.4)
Fair value of scheme assets	<b>1,075.0</b>	1,332.3	1,364.6	1,402.9	1,076.9
Deficit in the schemes	<b>(233.0)</b>	(126.0)	(135.1)	(221.9)	(317.5)
Difference between actual and expected return on scheme assets	<b>(329.8)</b>	(125.7)	(10.6)	179.1	37.5
Experience adjustments on scheme liabilities	<b>(7.9)</b>	(64.3)	(3.7)	(152.8)	5.7

### Defined contribution schemes

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

The total cost charged to operating costs of £5.1 million (2008: £1.5 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2009, all contributions (2008: 100%) due in respect of the current reporting period had been paid over to the schemes.

### 30 Provisions

	Restructuring £m	Insurance £m	Onerous contracts £m	Terminated operations and disposals £m	Regulatory fines and penalties £m	Other £m	Total £m
At 1 April 2007	3.3	26.1	3.1	5.9	–	0.5	38.9
Charged to income statement	4.5	3.9	0.4	(0.1)	35.8	5.0	49.5
Utilisation of provision	(3.7)	(7.6)	–	–	–	(0.1)	(11.4)
Unwinding of discount	–	–	–	0.2	–	–	0.2
At 1 April 2008	4.1	22.4	3.5	6.0	35.8	5.4	77.2
Charged to income statement	0.4	6.9	1.2	(0.4)	2.2	0.5	10.8
Utilisation of provision	(3.0)	(6.1)	(0.2)	–	(38.0)	(1.6)	(48.9)
Exchange differences	–	–	–	0.3	–	0.2	0.5
<b>At 31 March 2009</b>	<b>1.5</b>	<b>23.2</b>	<b>4.5</b>	<b>5.9</b>	<b>–</b>	<b>4.5</b>	<b>39.6</b>
						<b>2009 £m</b>	2008 £m
<b>Included in</b>							
Current liabilities						<b>9.2</b>	50.4
Non current liabilities						<b>30.4</b>	26.8
						<b>39.6</b>	77.2

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes.

Derwent Insurance Limited, a captive insurance company, is a wholly owned subsidiary of the group. Provisions for claims are made as set out in note 2 t. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

The onerous or loss making contract provision relates to specific contractual liabilities, where estimated future costs are not expected to be recovered in revenues. The associated outflows are estimated to occur over a period of nine years from the balance sheet date.

Provisions relating to terminated operations and disposals include amounts that it is probable will be paid in respect of claims arising from services performed by these businesses; and the indemnities described in note 37 b.

On 8 April 2008, Ofwat published its proposals to fine Severn Trent Water £35.8 million for misreporting customer service data and failure to meet Guaranteed Standards of Service in 2005/06. This amount was paid in the year ended 31 March 2009.

Other provisions include a provision of £1.8 million (2008: £4.5 million) relating to third party legal costs incurred in the conclusion of a Severn Trent Services arbitration to settle an interpretation on a long term operating service contract.

### 31 Share capital

	2009 £m	2008 £m
<b>Total authorised share capital:</b>		
346,783,834 ordinary shares of 97 <sup>17</sup> / <sub>19</sub> p (2008: 346,783,834)	<b>339.5</b>	339.5
<b>Total issued and fully paid share capital:</b>		
235,938,946 ordinary shares of 97 <sup>17</sup> / <sub>19</sub> p (2008: 234,600,076)	<b>231.0</b>	229.7

Changes in share capital were as follows:

	Number	£m
<b>Ordinary shares of 97<sup>17</sup>/<sub>19</sub>p</b>		
At 1 April 2008	234,600,076	229.7
Shares issued at 473p, 536p, 548p, 568p, 592p, 759p, 823p or 831p under the group's Employee Sharesave Scheme	1,322,252	1.3
Shares issued at 680.5p, 688p, 720p, 738p, 934p, or 1,005.3p under the group's Share Option Scheme	16,618	–
<b>At 31 March 2009</b>	<b>235,938,946</b>	<b>231.0</b>

### 32 Share premium

	2009 £m	2008 £m
At 1 April	64.3	57.5
Share premium arising on issue of shares for Employee Share Option Scheme	7.6	6.8
<b>At 31 March</b>	<b>71.9</b>	<b>64.3</b>

### 33 Other reserves

	Capital redemption reserve £m	Infrastructure reserve £m	Translation exchange reserve £m	Hedging reserves £m	Total other reserves £m
At 1 April 2007	156.1	314.2	(7.7)	(43.6)	419.0
Total recognised income for the period	–	–	6.7	1.7	8.4
Transfers	–	–	(1.5)	1.5	–
At 1 April 2008	156.1	314.2	(2.5)	(40.4)	427.4
Total recognised income/(expense) for the period	–	–	43.3	(2.0)	41.3
<b>At 31 March 2009</b>	<b>156.1</b>	<b>314.2</b>	<b>40.8</b>	<b>(42.4)</b>	<b>468.7</b>

The capital redemption reserve arose on the redemption of B shares.

The infrastructure reserve arose on restating infrastructure assets to fair value as deemed cost on transition to IFRS.

The translation reserve arises from exchange differences on translation of the results and financial position of foreign subsidiaries as well as foreign exchange differences arising from hedges of net investment.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IAS 39 and the transition rules of IFRS 1.

### 34 Movement in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity attributable to the equity holders of Severn Trent Plc £m	Minority interests £m	Total £m
At 1 April 2007	228.3	57.5	419.0	429.4	1,134.2	3.1	1,137.3
Share options and LTIPs							
– proceeds from shares issued	1.4	6.8	–	–	8.2	–	8.2
– value of employees' services	–	–	–	4.0	4.0	–	4.0
Dividends	–	–	–	(147.3)	(147.3)	(0.8)	(148.1)
Current tax on share based payments	–	–	–	2.7	2.7	–	2.7
Deferred tax on share based payments	–	–	–	(4.1)	(4.1)	–	(4.1)
Total recognised income for the period	–	–	8.4	194.9	203.3	1.9	205.2
At 1 April 2008	229.7	64.3	427.4	479.6	1,201.0	4.2	1,205.2
Share options and LTIPs							
– proceeds from shares issued	1.3	7.6	–	–	8.9	–	8.9
– value of employees' services	–	–	–	5.3	5.3	–	5.3
– payroll tax paid on awards vesting	–	–	–	(2.5)	(2.5)	–	(2.5)
Dividends	–	–	–	(158.8)	(158.8)	–	(158.8)
Current tax on share based payments	–	–	–	1.3	1.3	–	1.3
Deferred tax on share based payments	–	–	–	(3.3)	(3.3)	–	(3.3)
Total recognised income/(expense) for the period	–	–	41.3	(147.1)	(105.8)	1.8	(104.0)
<b>At 31 March 2009</b>	<b>231.0</b>	<b>71.9</b>	<b>468.7</b>	<b>174.5</b>	<b>946.1</b>	<b>6.0</b>	<b>952.1</b>

Retained earnings are stated after deducting £5.8 million (2008: £7.3 million) which represents own shares purchased by the Severn Trent Employee Share Ownership Trust for certain senior employees under the Long Term Incentive Plans. The main features of the LTIPs are set out in the Directors' remuneration report on page 46. At 31 March 2009, the trust held 613,457 ordinary shares of 97<sup>17</sup>/<sub>19p</sub> (2008: 768,910).

The market value of these shares at 31 March 2009 was £6.1 million (2008: £10.9 million).

### 35 Share based payments

The group operates a number of share based remuneration schemes for employees. During the period, the group recognised total expenses of £5.3 million (2008: £4.0 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £12.70 (2007: £14.20).

At 31 March 2009 the number of options that were exercisable under each of the share based remuneration schemes was as follows:

	2009		2008	
	Number of exercisable options/awards	Weighted average exercise price	Number of exercisable options/awards	Weighted average exercise price
Long Term Incentive Plan	–	–	–	–
Employee Sharesave Scheme	626,053	715p	970,995	638p
Approved Share Option Scheme	4,759	724p	12,012	770p
Unapproved Share Option Scheme	40,763	728p	49,304	724p
	<b>671,575</b>		1,032,311	

#### i) Long Term Incentive Plan (LTIP)

Under the LTIP annual conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period. During the year awards were made on different bases to Severn Trent Plc and Severn Trent Water employees (the LTIP) and to Severn Trent Services employees (the Services LTIP). Awards over 123,743 shares (2008: 126,189 shares) with a fair value each of £7.49 (2008: £ 4.77) were made to 23 employees (2008: 32 employees) under the LTIP. Awards over 118,489 shares (2008: nil) with a fair value of £12.80 were made to 13 employees under the Services LTIP.

The LTIP awards are subject to total shareholder return over three years measured relative to the companies ranked 51 – 150 by market capitalisation in the FTSE index (excluding investment trusts). The Services LTIP awards vest in three equal tranches and are subject to achievement of turnover and profit targets in the years ending 31 March 2011, 2012 and 2013.

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

	Number of awards	
	LTIP	Services LTIP
Outstanding at 1 April 2007	1,457,637	–
Granted during the year	126,189	–
Cancelled during the year	(16,635)	–
Lapsed during the year	(672,662)	–
Outstanding at 1 April 2008	894,529	–
Granted during the year	123,743	118,489
Vested during the year	(227,490)	–
Cancelled during the year	(4,799)	–
Lapsed during the year	(203,801)	–
<b>Outstanding at 31 March 2009</b>	<b>582,182</b>	<b>118,489</b>

Details of LTIP awards outstanding at 31 March were as follows.

Date of grant	Normal date of vesting	Number of shares	
		2009	2008
July 2005	2008	–	431,291
July 2006	2009	334,990	337,049
July 2007	2010	123,449	126,189
July 2008	2011	163,240	–
July 2008	2012	39,496	–
July 2008	2013	39,496	–
		<b>700,671</b>	894,529

### 35 Share based payments continued

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

Assumptions	2008/09	2007/08
Expected volatility – Severn Trent Plc	17%	15%
– comparator group	30%	20%
Correlation between Severn Trent Plc and comparator group	30%	30%
Proportion of employees expected to cease employment before vesting	0%	0%

Severn Trent share price volatility is based on observations of historical weekly volatility over a three year period. Weekly volatility in the observed data varied between 10% and 20%.

For the 2008/09 LTIP award and the 2007/08 award the comparator group is the companies ranked 51 – 150 in the FTSE index. Comparator group volatility was therefore based on observed volatility for the FTSE 250 index. Correlation between Severn Trent and the comparator group was based on the average pairwise correlation for companies in the FTSE 250.

The share price at the grant date was £12.80 (2008: £13.70). The vesting period commences before the grant date. Performance in the vesting period prior to the grant date is taken into account in determining the fair value of the award.

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

The Services LTIP is based entirely on non market based conditions and hence market assumptions are not required to determine the fair value of the award. For 2008/09 it has been assumed that performance against the Services LTIP non market vesting conditions will be 80%.

Details of the basis of the LTIP schemes are set out in the remuneration report on page 46.

#### ii) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the board may grant the right to purchase ordinary shares in the company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

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

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2007	4,885,552	717p
Granted during the year	643,788	1,221p
Forfeited during the year	(128,895)	823p
Cancelled during the year	(55,175)	914p
Exercised during the year	(1,293,356)	559p
Expired during the year	(18,277)	712p
Outstanding at 1 April 2008	4,033,637	843p
Granted during the year	1,671,207	862p
Forfeited during the year	(59,628)	937p
Cancelled during the year	(568,290)	1,093p
Exercised during the year	(1,321,735)	660p
Expired during the year	(30,379)	735p
<b>Outstanding at 31 March 2009</b>	<b>3,724,812</b>	<b>877p</b>

Sharesave options outstanding at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			2009	2008
January 2001	2008	568p	–	79,406
January 2002	2009	548p	69,236	82,807
January 2003	2008 or 2010	536p	77,253	560,996
January 2004	2009 or 2011	592p	266,288	401,026
January 2005	2008, 2010 or 2012	759p	346,747	894,078
January 2006	2009, 2011 or 2013	823p	597,749	860,438
January 2007	2010, 2012 or 2014	1,172p	351,518	513,194
January 2008	2011 or 2013	1,221p	347,912	641,692
January 2009	2012 or 2014	862p	1,668,109	–
			<b>3,724,812</b>	4,033,637

### 35 Share based payments continued

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

Scheme year	2008/09		2007/08	
	3 year	5 year	3 year	5 year
Expected volatility	17%	17%	15%	15%
Risk free rate	2.24%	2.74%	4.24%	4.29%
Expected dividend yield	4.0%	4.0%	4.0%	4.0%
Proportion of employees expected to cease employment before vesting	15.0%	17.0%	15.0%	17.0%
Fair value per share – sharesave	272p	268p	307p	312p

Expected volatility is based on observations of historical weekly volatility over a three year period. Weekly volatility in the observed data was between 10 – 20%.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the Sharesave contracts.

The proportion of employees expected to cease employment before vesting is based on historically observed data.

The following data was used in the calculation of the fair value of the sharesave options.

Scheme year	2008/09		2007/08	
	3 year	5 year	3 year	5 year
Share price at grant date	1,080p	1,080p	1520p	1520p
Vesting period (years)	3	5	3	5
Option life (years)	3.5	5.5	3.5	5.5

The number of employees entering into sharesave contracts and the number of options granted during the year were as follows:

Scheme year	2008/09		2007/08	
	3 year	5 year	3 year	5 year
Number of employees	2,007	869	1,638	630
Number of options granted	931,272	739,935	384,033	259,755

#### iii) Share Incentive Plan (SIP)

Under the SIP the board may grant share awards to employees of group companies. During the year the board has announced that it will make awards under the SIP based on performance against Severn Trent Water's targets for its Key Performance Indicators. Eligible employees will be entitled to shares to a maximum value of £750. It is expected that these awards will be made in August 2009. SIP shares vest with the employees on the date of grant.

#### iv) Approved Share Option Scheme

Under the terms of the Share Option Scheme (formerly Executive Share Option Scheme), the board has granted directors and other executives options to purchase ordinary shares in the company. No awards have been made under this scheme since July 2003.

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2007	51,382	816p
Exercised during the year	(39,370)	830p
Outstanding at 1 April 2008	12,012	770p
Forfeited during the year	(3,415)	638p
Exercised during the year	(3,838)	899p
<b>Outstanding at 31 March 2009</b>	<b>4,759</b>	<b>724p</b>

Options outstanding under this scheme at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			2009	2008
June 1999	2002 – 2009	934p	–	3,211
June 2000	2003 – 2010	688p	–	3,416
July 2001	2004 – 2011	738p	1,016	1,016
June 2002	2005 – 2012	720p	3,743	4,369
			<b>4,759</b>	12,012

### 35 Share based payments continued

#### v) Unapproved Share Option Scheme

The board has granted executives options to purchase ordinary shares in the company under an unapproved share option scheme. No awards have been made under this scheme since July 2003.

Details of the movements in the share awards outstanding during the year are as follows:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2007	151,008	728p
Exercised during the year	(101,704)	729p
Outstanding at 1 April 2008	49,304	724p
Exercised during the year	(8,541)	670p
<b>Outstanding at 31 March 2009</b>	<b>40,763</b>	<b>728p</b>

Options outstanding under this scheme at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of shares	
			2009	2008
June 1999	2002 – 2009	934p	–	108
June 2000	2003 – 2010	688p	–	5,449
July 2001	2004 – 2011	738p	<b>18,848</b>	18,848
June 2002	2005 – 2012	720p	<b>21,915</b>	24,899
			<b>40,763</b>	49,304

### 36 Cash flow statement

#### a) Reconciliation of operating profit to operating cash flows

	2009 £m	2008 £m
Profit before interest and tax from continuing operations	<b>451.0</b>	400.7
Profit before interest and tax from discontinued operations	–	0.8
	<b>451.0</b>	401.5
Depreciation of property, plant and equipment	<b>223.7</b>	204.5
Amortisation of intangible assets	<b>24.2</b>	27.3
Pension service cost	<b>23.8</b>	31.5
Pension contributions	<b>(42.0)</b>	(55.6)
Share based payments charge	<b>5.3</b>	4.0
Profit on sale of property, plant and equipment	<b>(4.0)</b>	(1.7)
Deferred income released	<b>(5.3)</b>	(5.2)
Provisions charged to income statement	<b>10.8</b>	49.5
Utilisation of provisions for liabilities and charges	<b>(48.9)</b>	(11.4)
Increase in stocks	<b>(2.7)</b>	(2.4)
Increase in debtors	<b>(9.2)</b>	(44.3)
Increase in creditors	<b>16.8</b>	48.2
Cash generated from operations	<b>643.5</b>	645.9
Tax received/(paid)	<b>1.1</b>	(76.2)
Net cash inflow from operating activities	<b>644.6</b>	569.7

### 36 Cash flow statement continued

#### b) Non cash transactions

No additions to property plant and equipment during the year were financed by new finance leases (2008: nil).

#### c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

	2009 £m	2008 £m
Restructuring costs	(16.2)	(14.1)
Flood income/(costs)	–	(13.6)
Fines and penalties	(40.0)	–
Third party legal costs	(1.4)	–
	<b>(57.6)</b>	<b>(27.7)</b>

#### d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	As at 1 April 2008 £m	Cash flow £m	Fair value adjustments £m	RPI uplift on index linked debt £m	Foreign exchange £m	Other non cash movements £m	As at 31 March 2009 £m
Cash and cash equivalents	654.4	(11.6)	–	–	5.3	–	648.1
Bank overdrafts	(1.0)	1.0	–	–	–	–	–
Net cash and cash equivalents	653.4	(10.6)	–	–	5.3	–	648.1
Bank loans	(742.7)	(2.4)	–	(5.9)	(0.1)	(38.7)	(789.8)
Other loans	(2,958.1)	(176.2)	(222.7)	(13.2)	0.7	58.6	(3,310.9)
Finance leases	(385.4)	41.0	–	–	–	–	(344.4)
<b>Net debt</b>	<b>(3,432.8)</b>	<b>(148.2)</b>	<b>(222.7)</b>	<b>(19.1)</b>	<b>5.9</b>	<b>19.9</b>	<b>(3,797.0)</b>

### 37 Contingent liabilities

#### a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

#### b) Disposal of subsidiaries

The group has given certain guarantees and indemnities in relation to disposals of businesses.

On 5 March 2007 the group received notice of a claim for €23.4 million from Veolia Proprete S.A (Veolia) alleging breach of warranty in relation to the disposal of Biffa Belgium. The group has subsequently received notice from Veolia of a further claim for €5 million relating to the same matter. The group considers that there is no basis for this claim and hence no provision has been recorded in the financial statements in relation to this matter. The matter has been set down for a hearing in the Commercial Court in Belgium on 4 February 2010.

The group is not aware of any other liability that is likely to result from these guarantees and indemnities that has not been provided for in these financial statements.

### 38 Financial and other commitments

#### a) Investment expenditure commitments

	2009 £m	2008 £m
Contracted for but not provided in the financial statements	<b>181.7</b>	261.4

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and sewerage services.

#### b) Leasing commitments

At the balance sheet date the group had outstanding commitments for future minimum operating lease payments under non cancellable operating leases, which fall due as follows:

	2009 £m	2008 £m
Within one year	<b>6.8</b>	6.2
In the second to fifth years inclusive	<b>13.4</b>	13.6
After more than five years	<b>8.2</b>	10.3
	<b>28.4</b>	30.1

Operating lease payments represent rentals payable by the group for certain of its office properties, plant and equipment.

### 39 Post balance sheet events

Following the year end the board has proposed a final dividend of 41.05 pence per share. Further details of this are shown in note 15.

On 13 May 2009 the group completed the acquisition of PS Apliclor S.A., a small distribution operation in Spain. This business currently has annual turnover of around €10 million.

### 40 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the group and its associates and joint ventures are disclosed below.

#### Trading transactions

	Sale of goods		Purchase of goods		Amounts due from related parties		Amounts due to related parties	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Cognica	–	–	<b>0.1</b>	0.1	–	–	–	–
SII	<b>9.4</b>	12.4	–	–	<b>13.8</b>	13.7	–	–
Detroit Water	–	0.1	–	–	–	0.1	–	–
Jackson Water Partnership	<b>1.4</b>	–	–	–	<b>1.7</b>	–	–	–
	<b>10.8</b>	12.5	<b>0.1</b>	0.1	<b>15.5</b>	13.8	–	–

The related parties are associates and joint ventures in which the group has a participating interest.

#### Remuneration of key management personnel

Key management personnel comprise the executive directors and senior management of Severn Trent Plc, Severn Trent Water and Severn Trent Services.

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 50 to 53.

	2009 £m	2008 £m
Short term employee benefits	<b>6.2</b>	4.4
Post employment benefits	<b>0.7</b>	0.5
Termination benefits	–	1.1
Share based payments	<b>0.8</b>	0.8
	<b>7.7</b>	6.8

## 41 Principal subsidiary undertakings and their directors

Details of the principal operating subsidiaries are given below. A complete list of subsidiary undertakings is available on request to the company and will be filed with the next annual return.

### Severn Trent Water

#### Severn Trent Water Limited

2297 Coventry Road, Birmingham B26 3PU  
Telephone 0121 722 4000

#### Directors

Sir John Egan	A J Ballance
B Bulkin	R H Davey
G Fryett*	M J Lamb
M J Kane	Baroness Noakes
M J E McKeon	A P Wray

A P Smith

\* appointed with effect from 1 July 2009

### Severn Trent Services

#### Severn Trent Services Inc.

Suite 300, 580 Virginia Drive,  
Ft Washington Pennsylvania 19034 2707, USA  
Telephone 001 215 646 9201  
(Incorporated and operational in the United States of America)

#### Directors

D L Chester	L F Graziano
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#### Severn Trent Environmental Services Inc.

Park 10, 16337 Park Row  
Houston, Texas 77084, USA  
Telephone 001 281 578 4200  
(Incorporated and operational in the United States of America)

#### Directors

D L Chester	L F Graziano
K J Kelly	

#### Severn Trent Services Limited

Park Lane, Minworth, Sutton Coldfield, West Midlands B76 9BL  
Telephone 0121 313 2300

#### Directors

L F Graziano	R C McPheely
K A A Porritt	P M Senior

#### Severn Trent Water Purification Inc.

3000 Advance Lane, Colmar  
Pennsylvania 18915, USA  
Telephone 001 215 997 4000  
(Incorporated and operational in the United States of America)

#### Directors

D L Chester	L F Graziano
K J Kelly	

### Severn Trent Metering Services Limited

Smeckley Wood Close  
Chesterfield Trading Estate  
Chesterfield S41 9DZ  
Telephone 01246 456658

#### Directors

L F Graziano	R C McPheely
K A A Porritt	P M Senior

### Severn Trent Services International Limited

2308 Coventry Road, Birmingham B26 3JZ  
Telephone 0121 722 6000

#### Directors

L F Graziano	R C McPheely
K A A Porritt	P M Senior

### C2C Services Limited

(80% owned)

2308 Coventry Road, Birmingham B26 3JZ  
Telephone 0121 722 6000

#### Directors

W F Earp	A J Handford
B M Horner	R J Phillips
W G Weatherdon	E A Wilson

### Severn Trent Laboratories Limited

STL Business Centre, Torrington Avenue  
Coventry CV4 9GU  
Telephone 0247 642 1213

#### Directors

L F Graziano	R C McPheely
K A A Porritt	P M Senior

### Other Businesses

#### Derwent Insurance Limited

6A Queensway, PO Box 64, Gibraltar  
Telephone 00 350 47529  
(Insurance company, incorporated and operational in Gibraltar)

#### Directors

J Davies	N Feetham
F B Smith	F White

### Severn Trent Luxembourg Overseas Holdings SA

1A rue Thomas Edison L-1445 Strassen, Luxembourg  
(Finance company, registered and operational in Luxembourg)

#### Directors

D L Chester	L F Graziano
M J E McKeon	X Pauwels
D Robyns	F B Smith

Country of incorporation, and main operation is Great Britain and registration is England and Wales unless otherwise stated. All subsidiary undertakings are wholly owned unless otherwise indicated. All shareholdings are in ordinary shares.

All subsidiary undertakings have been included in the consolidation.

As at 28 May 2009

## Independent auditors' report to the members of Severn Trent Plc

We have audited the parent company financial statements of Severn Trent Plc for the year ended 31 March 2009 which comprise the Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 19. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Severn Trent Plc for the year ended 31 March 2009 and on the information in the Directors' remuneration report that is described as having been audited.

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

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executives Review and the Performance Reviews that are cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

### Deloitte LLP

Chartered Accountants and Registered Auditors  
London, UK  
28 May 2009