

Company balance sheet

At 31 March 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible fixed assets	2	0.5	–
Investments in subsidiaries	3	3,390.7	3,387.1
Derivative financial instruments		22.4	4.6
		3,413.6	3,391.7
Current assets			
Debtors	4	58.8	49.8
Derivative financial instruments		17.7	1.0
Cash at bank and in hand		418.0	190.0
		494.5	240.8
Creditors: amounts falling due within one year	5	(1,041.3)	(748.4)
		(546.8)	(507.6)
Net current liabilities			
Total assets less current liabilities		2,866.8	2,884.1
Creditors: amounts falling due after more than one year	6	(143.1)	(131.2)
		2,723.7	2,752.9
Net assets			
Capital and reserves attributable to the company's equity shareholders			
Called up share capital	10	231.0	229.7
Share premium account	11	71.9	64.3
Other reserves	12	146.3	144.0
Retained earnings	13	2,274.5	2,314.9
		2,723.7	2,752.9
Equity attributable to the company's equity shareholders			

Signed on behalf of the board who approved the accounts on 28 May 2009.



Sir John Egan
Chairman



Michael McKeon
Finance Director

Company statement of total recognised gains and losses

For the year ended 31 March 2009

	2009 £m	2008 £m
Transfers		
Transfers to profit and loss account on cashflow hedges	3.2	3.2
Deferred tax on transfers to income statement	(0.9)	(0.9)
	2.3	2.3
(Loss)/profit for the period	113.3	(40.7)
Total recognised gains and losses for the period	115.6	(38.4)

Notes to the company financial statements

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the United Kingdom Companies Act 1985 (the Act).

b) Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated on a straight line basis over their estimated economic lives, which are principally as follows:

	Years
Buildings	30 – 60
Vehicles, computers and software	2 – 15

c) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the fair values of minimum lease payments are shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the profit and loss account over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period. All other leases are accounted for as operating leases. Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

d) Impairment of fixed assets and investments

Impairments of fixed assets and investments are calculated as the difference between the carrying values of net assets of income generating units, including where appropriate investments and goodwill, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the net amount that can be generated through sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit. Impairment reviews are carried out if there is some indication that an impairment may have occurred, or, where otherwise required, to ensure that goodwill and fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account and, where material, are disclosed as exceptional.

e) Financial instruments

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 the profit and loss account (see below).

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised or impaired, as well as through the amortisation process.

Derivative financial instruments and hedging activities

The company 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 for the reported balance sheet. 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.

In relation to fair value hedges which meet the conditions for hedge accounting, the gain or loss on the hedging instrument is taken to the profit and loss account 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 reserves, and the ineffective portion in the profit and loss account. The gains or losses deferred in reserves in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the profit and loss account in the period.

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 reserves is kept in reserves until the forecast transaction occurs, or transferred to the profit and loss account if the forecast transaction is no longer expected to occur.

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 or the host contract is not carried at fair value with gains and losses reported in the profit and loss account.

1 Accounting policies continued

f) Investments

Investments in subsidiary undertakings are held at historical cost.

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as held for trading or available for sale are measured at fair value, with gains or losses recognised in income or equity respectively. When an available for sale investment is disposed of, or impaired, the gain or loss previously recognised in reserves is taken to the profit and loss account.

Other investments are classified as held to maturity when the company 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 subsequently measured at amortised cost using the effective interest rate method, with any gains or losses being recognised in the profit and loss account.

g) Share based payments

The company 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 a pricing model, excluding the impact of any non market conditions. The number of awards 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 based condition.

h) Cash flow statement

The company has taken advantage of the exemption under Financial Reporting Statement 1 'Cash flow statements' and not produced a cash flow statement.

i) Deferred taxation

Deferred taxation is fully provided for in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the group has an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are only recognised to the extent that taxable profits are expected to arise in the future. Material deferred taxation balances arising are discounted by applying an appropriate risk free discount rate.

j) Pensions

The company participates in the group's defined benefit and defined contribution pension schemes, details of which are set out in note 29 to the group financial statements. However, the company is currently unable to identify its share of assets and liabilities relating to the defined benefit schemes. The pension costs charged against the operating profit are the contributions payable to the scheme in respect of the accounting period in respect of the defined benefit and defined contribution schemes.

2 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2008	0.7	4.2	4.9
Additions	–	0.5	0.5
Assets sold or written off	–	(4.2)	(4.2)
At 31 March 2009	0.7	0.5	1.2
Depreciation			
At 1 April 2008	0.7	4.2	4.9
Charge for year	–	–	–
Assets sold or written off	–	(4.2)	(4.2)
At 31 March 2009	0.7	–	0.7
Net book value			
At 31 March 2009	–	0.5	0.5
At 31 March 2008	–	–	–

3 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
At 1 April 2008	3,105.5	281.6	3,387.1
Additions/loans advanced	119.7	–	119.7
Disposals/loans repaid	–	(116.1)	(116.1)
At 31 March 2009	3,225.2	165.5	3,390.7

Details of the principal subsidiaries of the company are given in note 42 of the group financial statements.

4 Debtors

	2009 £m	2008 £m
Amounts owed by group undertakings	31.6	4.5
Deferred tax	11.8	5.9
Corporation tax recoverable	15.4	37.7
Other debtors	–	0.1
Prepayments and accrued income	–	1.6
	58.8	49.8

5 Creditors: amounts falling due within one year

	2009 £m	2008 £m
Bank overdrafts	24.7	–
Other loans	65.3	142.5
Borrowings (note 9)	90.0	142.5
Derivative financial instruments	–	4.2
Amounts due to group undertakings	936.5	590.6
Other creditors	6.0	–
Taxation and social security	–	0.2
Accrued expenses	8.8	10.9
	1,041.3	748.4

6 Creditors: amounts falling due after more than one year

	2009 £m	2008 £m
Borrowings – other loans (note 9)	86.9	108.1
Amounts due to group undertakings	10.4	–
Derivative financial instruments	45.8	23.1
	143.1	131.2

7 Employee costs and auditors remuneration

	2009 £m	2008 £m
Wages and salaries	1.4	1.0
Social security costs	0.1	0.3
Pension costs	2.8	2.5
Total employee costs	4.3	3.8

For details of directors' remuneration see the Directors' remuneration report on pages 40 to 53.

Auditors' fees in respect of the company were £77,000 (2008: £152,770). For full details of the fees paid to the auditors by the group, see note 7 of the group financial statements.

Fees payable to Deloitte LLP and their associates for non audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

8 Employee numbers

Average number of employees of the company (including executive directors) during the year was 10 (2008: 14).

All were based in the United Kingdom.

9 Borrowings

Borrowings analysed by maturity date

	2009 £m	2008 £m
Borrowings due within one year	90.0	142.5
Borrowings due after one year:		
Between one and two years	10.6	46.1
Between two and five years	21.5	23.8
After more than five years	54.8	38.2
Total borrowings due after one year	86.9	108.1
	176.9	250.6

After taking into account interest and cross currency swaps, 100% of the company's borrowings are at fixed interest rates (2008: 100%).

Fixed rate debt has a weighted average interest rate of 6.4% (2008: 6.4%) for a weighted average period of 5.2 years (2008: 6.2 years).

The company's borrowings are denominated in sterling, after taking account of cross currency swaps the company has entered into. The fair values of the company's borrowings were:

	2009 £m	2008 £m
Bank overdrafts	24.7	–
Other loans	152.2	240.7
	176.9	240.7

Fair values are based on expected future cash flows discounted using LIBOR forward interest rates related to the expected timing of payments.

9 Borrowings continued

Borrowing facilities

The company has the following undrawn committed borrowing facilities available at 31 March:

	2009 £m	2008 £m
Expiring in more than one but not more than two years	–	41.7
Expiring in between two and five years	500.0	458.3
	500.0	500.0

10 Share capital

	2009 £m	2008 £m
Total authorised share capital: 346,783,834 ordinary shares of 97 ¹⁷ / ₁₉ p (2008: 346,783,834 ordinary shares of 97 ¹⁷ / ₁₉ p)	339.5	339.5
Total issued and fully paid share capital: 238,938,946 ordinary shares of 97 ¹⁷ / ₁₉ p (2008: 234,600,076 ordinary shares of 97 ¹⁷ / ₁₉ p)	231.0	229.7

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 ¹⁷ / ₁₉ p 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	–
At 31 March 2009	235,938,946	231.0

11 Share premium

	2009 £m	2008 £m
At 1 April	64.3	57.5
Employee Share Option Scheme	7.6	6.8
At 31 March	71.9	64.3

12 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total other reserves £m
At 1 April 2007	156.1	(15.3)	140.8
Cash flow hedges – transfer to net profit	–	3.2	3.2
At 1 April 2008	156.1	(12.1)	144.0
Cash flow hedges – transfer to net profit	–	2.3	2.3
At 31 March 2009	156.1	(9.8)	146.3

The capital redemption reserve arose on the repurchase of B shares. This is not distributable.

13 Reconciliation of 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
At 1 April 2007	228.3	57.5	140.8	2,500.6	2,927.2
Cash flow hedges					
– Transfers to net profit	–	–	3.2	–	3.2
Share options and LTIPs					
– proceeds from shares issued	1.4	6.8	–	–	8.2
– value of employees' services	–	–	–	4.0	4.0
Net profit for the year	–	–	–	(40.7)	(40.7)
Dividends	–	–	–	(147.3)	(147.3)
Deferred tax on items posted directly to equity	–	–	–	(1.7)	(1.7)
At 1 April 2008	229.7	64.3	144.0	2,314.9	2,752.9
Cash flow hedges					
– Transfers to net profit	–	–	2.3	–	2.3
Share options and LTIPs					
– proceeds from shares issued	1.3	7.6	–	–	8.9
– value of employees' services	–	–	–	0.1	0.1
– awards granted by subsidiaries	–	–	–	5.2	5.2
– tax and social security paid on awards vesting	–	–	–	(0.2)	(0.2)
Net profit for the year	–	–	–	113.3	113.3
Dividends	–	–	–	(158.8)	(158.8)
At 31 March 2009	231.0	71.9	146.3	2,274.5	2,723.7

In previous years £1,221.2 million of the company's retained profit arose as a result of group restructuring exercises, and is not considered likely to be distributable. As permitted by Section 230 of the Companies Act 1985, no profit or loss account is presented for the company.

14 Employee Share Schemes

For details of employee share schemes and options granted over the shares of the company, see note 35 of the consolidated financial statements. Details of LTIP conditional awards and share options granted by the company to its employees are set out below.

The company has charged £0.1 million (2008: £1.4 million) to the profit and loss account in respect of share based payments.

	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	1,237	598.5p	1,259	589.7p
	1,237		1,259	

14 Employee Share Schemes continued

i) Long Term Incentive Plan (LTIP)

Changes in the number of awards outstanding during the year:

	Number of awards
Outstanding at 1 April 2007	706,826
Granted during the year	45,148
Cancelled during the year	(12,708)
Lapsed during the year	(315,712)
Outstanding at 1 April 2008	423,554
Granted during the year	3,566
Vested during the year	(50,770)
Lapsed during the year	(64,590)
Transferred to other group companies	(231,620)
Outstanding at 31 March 2009	80,140

Awards outstanding at 31 March were:

Date of grant	Normal date of vesting	Number of shares	
		2009	2008
July 2005	2008	–	208,922
July 2006	2009	76,574	169,484
July 2007	2010	–	45,148
July 2008	2011	3,566	–
		80,140	423,554

ii) Employee Sharesave Scheme

Changes in the number of options outstanding during the year:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2007	9,382	1,029p
Cancelled during the year	(3,007)	898p
Exercised during the year	(3,292)	487p
Outstanding at 31 March 2008	3,083	780p
Cancelled during the year	(461)	1,172p
Exercised during the year	(1,146)	809p
Forfeited during the period	(239)	823p
Outstanding at 31 March 2009	1,237	599p

Options outstanding at 31 March 2009 were:

Date of grant	Normal date of vesting	Option price	Number of shares	
			2009	2008
January 2002	2009	548p	1,010	1,010
January 2005	2008, 2010 or 2012	759p	–	249
January 2006	2009, 2011 or 2013	823p	227	1,363
January 2007	2010, 2012 or 2014	1,172p	–	461
			1,237	3,083

15 Pensions

The company operates a number of defined benefit schemes (being the Severn Trent Pension Scheme, the Severn Trent Water Mirror Image Pension Scheme and the Severn Trent Senior Staff Pension Scheme). In addition, the group operates an unfunded arrangement for certain employees whose earnings are above the pension cap.

Further details regarding the operation of these schemes are given in note 29 of the group financial statements.

The company is currently unable to identify its share of the underlying assets and liabilities from the group's defined benefit schemes, and hence it continues to account for the cost of contributions as if the scheme was a defined contribution scheme.

The pension charge for the year was £2.4 million (2008: £2.6 million).

16 Related party transactions

The company has taken advantage of the exemption under FRS 8 and not disclosed details of transactions with other undertakings within the Severn Trent group of companies.

17 Contingent liabilities

a) Bonds and guarantees

The company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies.

18 Post balance sheet events

On 28 May 2009 the board of directors proposed a final dividend of 41.05 pence per share.

19 Dividends

For details of the dividends paid in 2008/09 and 2007/08 see note 15 in the group financial statements.