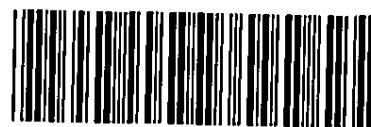


**Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)**

**Report and financial statements  
for the year ended 31 March 2008**

Company number 2387816

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Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

**Report and Financial Statements  
for the year ended 31 March 2008**

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Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

**Company information**

<b>Company number</b>	2387816
<b>Directors</b>	W F Earp (resigned 30 April 2007) L F Graziano B M Horner (resigned 30 April 2007) A Norman (resigned 30 April 2007) R C McPheely (appointed 25 April 2007) K A A Porritt (appointed 25 April 2007) P M Senior (appointed 25 April 2007) W G Weatherdon (resigned 30 April 2007)
<b>Secretary</b>	J R M Davey (resigned 30 April 2007) K A A Porritt (appointed 25 April 2007)
<b>Registered office</b>	2297 Coventry Road Birmingham B26 3PU
<b>Bankers</b>	Lloyds TSB Bank Plc 125 Colmore Row Birmingham B3 2DT
<b>Solicitors</b>	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS
<b>Auditors</b>	Deloitte & Touche LLP Chartered Accountants Four Brindleyplace Birmingham B1 2HZ

## **Directors' Report**

The directors present their report and the audited financial statements of the company for the year ended 31 March 2008.

### **Business review and principal activities**

The company is a wholly owned subsidiary of Severn Trent (W&S) Limited and operates as part of the Severn Trent group's Water Technologies and Services business.

The principal activities of the company are providing consultancy and management services to its worldwide customer base

There have not been any significant changes in the company's principal activities in the year under review. The directors are extending the activities of the company into Operations and Maintenance (O&M) markets within focused areas including the Middle East/Gulf and South East Asia

Severn Trent Plc manages its operations on a divisional basis and the company's directors do not believe that further key performance indicators for the company are necessary to enhance the understanding of the development, performance or position of the business. The performance of the Water Technologies and Services business, which includes this company, is discussed in Severn Trent Plc's Annual Report and Accounts (which does not form part of this report)

### **Principal risks and uncertainties**

Competitive pressure from around the world puts continuing pressure on the business' order book. To ensure the order book is maximised, the business works closely with key clients which include the World Bank, the European Bank for Restructuring and Development (EBRD), the Asian Development Bank (ADB), various European Union bodies, the Department for International Development (DFID) and the Swedish International Development Agency (SIDA). Longer term management contracts and O&M contracts will provide the company with the stability which helps mitigate this risk.

The company does have contracts in various currencies which provides exposure to movements to the pound exchange rate. Currently management do not judge these to be of sufficient exposure to require specific hedging instruments to be put in place.

### **Treasury management**

The Severn Trent group manages its treasury operations on a group basis. Financial risk management is performed by Severn Trent's Group Treasury department. This includes assessment and mitigation of price risk, credit risk, liquidity risk and interest rate cash flow risk. The group's treasury

## **Directors' report (continued)**

management policies and operations are discussed in Severn Trent Plc's Annual Report and Accounts (which does not form part of this report).

The company has implemented policies to manage credit risk relating to trade debtors both internally, through the issuing of monthly reports to management and externally, with management working closely with the company's clients.

## **Environment**

Severn Trent Services International Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. The company operates in accordance with the group policies of Severn Trent Plc which are described in the group's Annual Report and Accounts, which does not form part of this report.

## **Results and dividends**

The company's profit for the financial year after taxation was £424,000 (2007 £338,000)

## **Directors**

The directors who served during the year are shown on page 2

No emoluments were paid by the company in respect of the services of the directors to the company.

## **Statement of directors' responsibilities**

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

**Directors' report (continued)**

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Directors' indemnities**

The company's Articles of Association provide that directors of the company shall be indemnified by the company against any costs incurred by them in carrying out their duties including defending any proceedings arising out of their positions as directors in which they are acquitted or judgment is given in their favour or relief from any liability is granted to them by the court.

**Change of name**

With effect from 4 June 2007 the company changed its name to Severn Trent Services International Limited.

**Supplier payment policy**

For trade creditors it is the company's policy to agree the terms of payment at the start of the business with that supplier, to ensure that suppliers are aware of the terms on which payment will take place and to pay in accordance with its contractual and other legal obligations. Trade creditors at the year end represented 25 days purchases (2007: 18 days).

Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

**Directors' report (continued)**

**Auditors and disclosure of information to auditors**

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

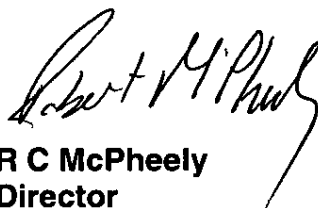
- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish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

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP has indicated its willingness to continue as auditors

By order of the board



**R C McPheely**  
**Director**

**26 September 2008**

## **Independent auditors' report to the members of Severn Trent Services Limited (formerly Severn Trent Water International Limited)**

We have audited the financial statements of Severn Trent Services International Limited for the year ended 31 March 2008 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein

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

### **Respective responsibilities of directors and auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

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 other information contained in the Annual report, and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside of the annual report



**Independent auditors' report to the members of Severn Trent Services Limited (formerly Severn Trent Water International Limited) (continued)**

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

Birmingham,

United Kingdom

29 September 2008

Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

**Profit and loss account**  
**For the year ended 31 March 2008**

	Notes	2008 £'000	2007 £'000
<b>Turnover</b>	2	<b>3,990</b>	4,777
Operating costs	3	(4,985)	(5,620)
<b>Operating loss</b>		<b>(995)</b>	(843)
Net interest receivable	4	<b>448</b>	355
<b>Loss on ordinary activities before taxation</b>		<b>(547)</b>	(488)
Taxation on loss on ordinary activities	6	<b>971</b>	826
<b>Profit for the financial year</b>	13	<b>424</b>	338

The above results are derived from continuing operations

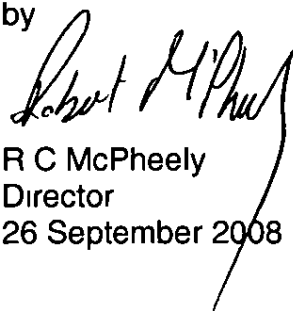
The company has no recognised gains or losses other than the gains above and therefore no separate statement of total recognised gains and losses has been presented

Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

**Balance Sheet**  
**At 31 March 2008**

	Notes	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible fixed assets	8	298	314
<b>Current assets</b>			
Debtors: amounts falling due within one year	9	3,293	2,463
Debtors: amounts falling due after more than one year	9	89	89
Cash at bank and in hand		9,503	10,658
Total current assets		12,885	13,210
Creditors: amounts falling due within one year	10	(1,771)	(2,400)
Net current assets		11,114	10,810
Total assets less current liabilities		11,412	11,124
Creditors: amounts falling due after more than one year	11	(78)	(225)
<b>Net assets</b>		<b>11,334</b>	<b>10,899</b>
<b>Capital and reserves</b>			
Called-up share capital	12	10,000	10,000
Profit and loss account	13	1,334	899
<b>Shareholders' funds</b>	14	<b>11,334</b>	<b>10,899</b>

The financial statements were approved by the board of directors and authorised for issue on 26 September 2008. They were signed on its behalf by



R C McPheely  
Director  
26 September 2008

**Notes to the financial statements 31 March 2008**

**1. Accounting policies**

**a) Accounting convention**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom Accounting Standards comply with the requirement of the United Kingdom Companies Act 1985 ('the Act')

**b) Basis of preparation**

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

**c) Turnover**

Turnover represents the fair value of consideration receivable, excluding value added tax and trade discounts, in the ordinary course of business for goods and services provided. Turnover is not recognised until the service has been provided to the customer, or the goods to which the sale relates have been despatched to the customer or, where they are held on the customer's behalf, title has passed to the customer.

In respect of long term contracts, turnover 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 the contracts

**d) Pension costs**

The company participates in the Severn Trent group's defined benefit and defined contribution pension schemes. 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 operating profit are the contributions payable to the schemes in the accounting period

**e) Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate

Exchange differences are included in the profit and loss account

**Notes to the financial statements (continued) 31 March 2008**

**1. Accounting policies (continued)**

**f) Current and deferred taxation**

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

Deferred taxation is provided in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the company has an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax laws enacted or substantively enacted by the balance sheet date.

**g) Tangible fixed assets and depreciation**

Tangible fixed assets are included at cost less accumulated depreciation and any provision for impairment. Additions are included at cost.

Assets are depreciated on a straight line basis over their estimated economic lives, which are principally as follows:

Plant and machinery	5 years
Fixtures and fittings	7 years

**h) Operating leases**

Rental costs arising under operating leases are charged to the profit and loss account in the year in which they are incurred.

**i) Share-based payments**

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

The fair value of employee services is determined by reference to the fair value of 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.

**Notes to the financial statements (continued) 31 March 2008**

**1. Accounting policies (continued)**

The grant of awards of shares of the ultimate parent company is treated as a capital contribution and credited to reserves. When awards vest, payments made to the ultimate parent company for the issue of shares are charged against the capital contributions previously received in respect of the same awards. Any payments in excess of capital contributions are treated as distributions.

**2. Segmental reporting**

The company's activities consist solely of providing consultancy and management services to its worldwide customer base.

The company's turnover analysed by geographical destination was

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>2,351</b>	2,387
Continental Europe	<b>131</b>	155
Rest of world	<b>1,508</b>	2,235
	<b>3,990</b>	<b>4,777</b>

Prior year amounts charged to parent undertaking (£269,000) and amounts charged to other group companies (£2,118,000) have been reclassified from operating costs to turnover.

**Notes to the financial statements (continued) 31 March 2008**

	2008	2007
	£'000	£'000
Total employee costs (Note 5)	<b>2,861</b>	2,985
Depreciation of tangible fixed assets	<b>127</b>	80
Materials and consumables	<b>43</b>	91
<b>Other operating costs:</b>		
Fees paid to auditor: audit fees	<b>8</b>	9
other fees	<b>8</b>	19
Rents payable for land and buildings	<b>282</b>	188
Hired and contracted services	<b>971</b>	1,245
Travel and related costs	<b>246</b>	325
Bad debts	<b>(30)</b>	31
Other	<b>469</b>	647
<b>Total operating costs</b>	<b>4,985</b>	5,620

#### 4 Net interest receivable

	2008 £'000	2007 £'000
Interest receivable on bank balances	448	355

**Notes to the financial statements (continued) 31 March 2008**

**5 Information regarding directors and employees**

The average number of employees (including executive directors) was.

	<b>2008 Number</b>	<b>2007 Number</b>
Administration	<b>36</b>	<b>42</b>

<b>Directors:</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Aggregate directors' emoluments during the year excluding pension contributions	-	577
Company contributions to money purchase schemes	-	128

The emoluments of K A A Porritt, R C McPheely and P M Senior are paid by the ultimate parent company, and L F Graziano is paid by Severn Trent Services Inc, as their services to Severn Trent Services International Limited are incidental to their services provided to other group companies. Accordingly, no emoluments have been disclosed in these financial statements in respect of the directors.

<b>Employees:</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Staff costs	<b>2,006</b>	<b>2,233</b>
Social security	<b>199</b>	<b>224</b>
Pension costs	<b>656</b>	<b>528</b>
<b>Total employee costs</b>	<b>2,861</b>	<b>2,985</b>



**Notes to the financial statements (continued) 31 March 2008**

**6 Tax on profit on ordinary activities**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
Group relief	(110)	44
	(110)	44
Foreign tax	39	-
	39	-
Adjustments in respect of prior years		
UK corporation tax	(576)	(89)
Group relief	(44)	(781)
Foreign tax	(31)	-
	(651)	(870)
<b>Total current tax</b>	<b>(722)</b>	<b>(826)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences-current year	37	-
Origination and reversal of timing differences-prior year	(286)	-
<b>Total deferred tax</b>	<b>(249)</b>	<b>-</b>
<b>Total tax credit</b>	<b>(971)</b>	<b>(826)</b>

**Notes to the financial statements (continued) 31 March 2008**

**6 Tax on profit on ordinary activities (continued)**

The tax assessed for the period is lower (2007 lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Loss on ordinary activities before tax	<b>(547)</b>	(488)
Tax on loss on ordinary activities at standard UK corporation rate of 30% (2007: 30%)	<b>(164)</b>	(146)
Effects of		
Expenses not deductible for tax purposes	<b>94</b>	132
Foreign tax	<b>39</b>	-
Capital allowances in excess of depreciation	<b>(9)</b>	(29)
Movement in short term timing differences	<b>(28)</b>	87
Difference between current tax and deferred tax rates	<b>(3)</b>	-
Adjustments to tax charge in respect of previous periods	<b>(651)</b>	(870)
Current tax credit for the period	<b>(722)</b>	(826)

The company earns profits primarily in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

**Deferred tax asset**

The deferred tax asset may be analysed as follows

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Decelerated capital allowances	<b>(58)</b>	-
Short term timing differences	<b>(191)</b>	-
Deferred tax asset	<b>(249)</b>	-

**Notes to the financial statements (continued) 31 March 2008**

**6 Tax on profit on ordinary activities (continued)**

	2008 £'000	2007 £'000
Provision at 1 April 2007	-	-
Deferred tax credit for year (above)	(249)	-
Deferred tax asset at 31 March 2008	(249)	-

The deferred tax assets above have been recognised as, in the Directors' opinion, the company's future activities are expected to enable their realisation

**7 Share based payments**

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

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

Under the LTIP annual conditional awards of shares in the ultimate parent company 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 of 1,603 shares (2007: 4,212 shares) were made to one employees (2007: one employees) The fair value of each award was £4.77 (2007: £6.04).

**Notes to the financial statements (continued) 31 March 2008**

**7 Share based payments (continued)**

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

	Number of awards
Outstanding at 1 April 2006	92,745
Granted during the year	4,212
Expired during the year	(37,184)
Outstanding at 1 April 2007	59,773
Granted during the year	1,603
Expired during the year	(33,874)
<b>Outstanding at 31 March 2008</b>	<b>27,502</b>

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:

<b>Assumptions</b>	<b>2007/08</b>	<b>2006/07</b>
Expected volatility - Severn Trent Plc	<b>15%</b>	15%
- comparator group	<b>20%</b>	15 – 20%
Correlation between Severn Trent Plc and comparator group	<b>30%</b>	25%
Expected life (years)	<b>3</b>	3
Proportion of employees expected to cease employment before vesting	<b>0%</b>	0%

Severn Trent share price volatility is based on observations of historical weekly volatility over a 3 year period. Weekly volatility in the observed data varied between 10% and 20%

For 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. For the 2006/07 award the comparator group volatility was based on the actual observed volatility for the companies within the comparator group and the correlation between Severn Trent and the comparator group was calculated from the average pairwise correlation between Severn Trent and the companies within the comparator group

The share price at the grant date was £13.70 (2007: £11.78)

**Notes to the financial statements (continued) 31 March 2008**

**7 Share based payments (continued)**

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.

**ii) Employee Sharesave Scheme**

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

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

	<b>Number of share options</b>	<b>Weighted average exercise price</b>
Outstanding at 1 April 2006	54,537	645p
Granted during the year	2,578	1,172p
Forfeited during the year	(239)	783p
Lapsed during the year	(141)	536p
Exercised during the year	(11,050)	550p
Outstanding at 1 April 2007	45,685	722p
Granted during the year	5,347	1,221p
Forfeited during the year	(3,178)	813p
Exercised during the year	(11,336)	564p
Cancelled during the year	(2,161)	633p
Early vesting	(2,855)	601p
<b>Outstanding at 31 March 2008</b>	<b>31,502</b>	<b>835p</b>

**Notes to the financial statements (continued) 31 March 2008**

**7 Share based payments (continued)**

Sharesave options outstanding at 31 March 2008 were as follows:

<b>Date of grant</b>	<b>Normal date of exercise</b>	<b>Option price</b>	<b>Number of shares</b>	
			<b>2008</b>	<b>2007</b>
January 2000	2007	473p	-	2,020
January 2001	2008	568p	<b>647</b>	647
January 2002	2007 or 2009	548p	-	1,811
January 2003	2008 or 2010	536p	<b>3,797</b>	6,247
January 2004	2007, 2009 or 2011	592p	<b>3,424</b>	12,933
January 2005	2008, 2010 or 2012	759p	<b>5,174</b>	7,878
January 2006	2009, 2011 or 2013	823p	<b>11,246</b>	11,571
January 2007	2010, 2012 or 2014	1,172p	<b>2,181</b>	2,578
January 2008	2011, 2013 or 2015	1,221p	<b>5,033</b>	-
			<b>31,502</b>	<b>45,685</b>

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	<b>2007/08</b>			<b>2006/07</b>		
	<b>3 year</b>	<b>5 year</b>	<b>7 year</b>	<b>3 year</b>	<b>5 year</b>	<b>7 year</b>
Scheme type						
Expected volatility	<b>15%</b>	<b>15%</b>	<b>15%</b>	15%	15%	15%
Risk free rate	<b>4.24%</b>	<b>4.29%</b>	<b>4.4%</b>	5.19%	5.04%	4.92%
Expected dividend yield	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	4.0%	4.0%	4.0%
Proportion of employees expected to cease employment before vesting	<b>15.0%</b>	<b>17.0%</b>	<b>13.0%</b>	15.0%	17.0%	13.0%
Expected life (years)	<b>3.25</b>	<b>5.25</b>	<b>7.25</b>	3.25	5.25	7.25
Fair value per share – sharesave	<b>307p</b>	<b>312p</b>	<b>316p</b>	295p	305p	306p

Expected volatility is based on observations of historical weekly volatility over a 3 year period. Weekly volatility in the observed data was between 10 – 20%.

**Severn Trent Services International Limited**  
**(formerly Severn Trent Water International Limited)**

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

**Notes to the financial statements (continued) 31 March 2008**

**7 Share based payments (continued)**

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	2007/08			2006/07		
Scheme type	3 year	5 year	7 year	3 year	5 year	7 year
Share price at grant date	1520p	1520p	1520p	1428p	1428p	1428p
Vesting period (years)	3	5	7	3	5	7
Option life (years)	3.5	5.5	7.5	3.5	5.5	7.5

**8 Tangible fixed assets**

	Vehicles £'000	Plant & machinery £'000	Fixtures & fittings £'000	Total £'000
<b>Cost</b>				
At 1 April 2007	132	670	275	1,077
Additions	-	20	91	111
Disposals	(65)	-	-	(65)
<b>At 31 March 2008</b>	<b>67</b>	<b>690</b>	<b>366</b>	<b>1,123</b>
<b>Depreciation</b>				
At 1 April 2007	82	587	94	763
Charge for the year	24	40	63	127
Disposals	(65)	-	-	(65)
<b>At 31 March 2008</b>	<b>41</b>	<b>627</b>	<b>157</b>	<b>825</b>
<b>Net book value</b>				
<b>At 31 March 2008</b>	<b>26</b>	<b>63</b>	<b>209</b>	<b>298</b>

Severn Trent Services International Limited  
(formerly Severn Trent Water International Limited)

At 31 March 2007	50	83	181	314
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**Notes to the financial statements (continued) 31 March 2008**

**9 Debtors**

	2008 £'000	2007 £'000
<b>Amounts falling due within one year.</b>		
Trade debtors	583	529
Amounts owed by parent undertaking	440	269
Amounts owed by group undertakings	1,662	1,455
Other debtors	49	34
Prepayments and accrued income	225	176
Corporation tax – group relief	85	-
Deferred tax asset	249	-
	<b>3,293</b>	<b>2,463</b>

**Amounts falling due after one year:**

Prepayments and accrued income	89	89
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**10 Creditors: Amounts falling due within one year**

	2008 £'000	2007 £'000
Trade creditors	573	587
Amounts owed to group undertakings	137	108
Corporation tax - UK	-	680
Corporation tax - overseas	39	31
Corporation tax – group relief	-	49
Other taxation and social security	208	155
Other creditors	603	670
Accruals and deferred income	211	120
	<b>1,771</b>	<b>2,400</b>

**11 Creditors: Amounts falling due after one year**

	2008 £'000	2007 £'000
Accruals and deferred income	78	225



**Notes to the financial statements (continued) 31 March 2008**

**12 Share capital**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Authorised 10,000,000 ordinary shares of £1 each	<b>10,000</b>	10,000
Allotted called up and fully paid 10,000,000 ordinary shares of £1 each	<b>10,000</b>	10,000

**13 Reserves**

	<b>Profit and loss account £'000</b>
At 1 April 2007	899
Profit for the financial period	424
Share based payments	11
<b>At 31 March 2008</b>	<b>1,334</b>

**14 Reconciliation of movement in shareholders' funds**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial year	<b>424</b>	338
Share based payments	<b>11</b>	-
Net addition to shareholders funds	<b>435</b>	338
Opening shareholders' funds	<b>10,899</b>	10,561
Closing shareholders' funds	<b>11,334</b>	10,899

**Notes to the financial statements (continued) 31 March 2008**

**15 Retirement benefit schemes**

**Defined benefit schemes**

The Severn Trent 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. A formal actuarial valuation of each scheme is carried out at regular intervals by an independent professionally qualified actuary. Under the defined benefit schemes, members are entitled to retirement benefits calculated as a proportion (varying between one thirtieth and one eightieth for each year of service) of their salary for the final year of employment with the group or, if higher, the average of the three consecutive years salary in the last ten years of employment. The final salary sections of all the pension schemes listed below are closed to new entrants and the age profile of the scheme participants is expected to rise and hence service costs are expected to rise in the future.

The UK defined benefit scheme 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 Senior Staff Pension Scheme ('SSPS')	31 March 2007
Severn Trent Water Mirror Image Pension Scheme	31 March 2006

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

Severn Trent Plc, the ultimate holding company, operates group defined benefit pension schemes, of which some employees of the company are members. However, the contributions paid by the company are accounted as if the schemes were defined contribution schemes, as the company is currently unable to identify its share of the underlying assets and liabilities in the schemes. The cost of contributions to the group schemes amount to £656,000 (2007: £528,000), being 32.6% (2007: 25.9%) of pensionable salary, and is based on pension costs across the group as a whole. An amount of £37,000 (2007: £44,000) is included in creditors being the outstanding contributions to the STPS and STMIPS.

The company also operates a defined contribution scheme. This scheme is operated as part of the Severn Trent Group Pension Scheme and commenced operation on 1 September 2001. The pension charge for this scheme for the year ended 31 March 2008 was £2,000 (2007: £nil).

**Notes to the financial statements (continued) 31 March 2008**

**16 Contingent liabilities**

The banking arrangements of the company operate on a pooled basis with certain fellow group undertakings. Under these arrangements participating companies guarantee each others balances only to the extent that their credit balances can be offset against group overdrawn balances.

At 31 March 2008 the company's maximum liability under this arrangement was £9,385,000 (2007: £10,410,000).

**17 Related party transactions**

In accordance with the exemption allowed by paragraph 3(c) of Financial Reporting Standard 8, no disclosure is made of transactions with other member companies of the Severn Trent Plc group.

**18 Ultimate parent undertaking**

The immediate parent undertaking is Severn Trent (W&S) Limited

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the smallest and largest group to consolidate these financial statements. Copies of the Severn Trent Plc consolidated financial statements can be obtained from the Company Secretary at 2297 Coventry Road, Birmingham, B26 3PU