

Severn Trent Services International Limited

Report and financial statements

for the year ended 31 March 2011

Company number 02387816

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Severn Trent Services International Limited

Report and financial statements for the year ended 31 March 2011

Contents	Page
Company information	1
Directors' report	2
Independent auditor's report	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8

Severn Trent Services International Limited

Company information

Company number	02387816
Directors	R C McPheely K A A Porritt P M Senior (resigned 1 November 2011) LF Graziano G P Tyler (appointed 1 November 2011)
Secretary	M Armitage
Registered office	Severn Trent Centre 2 St John's Street Coventry CV1 2LZ
Bankers	Lloyds TSB Bank Plc 125 Colmore Row Birmingham B3 2DS
Solicitors	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS
Auditor	Deloitte LLP Chartered Accountants Four Brindleyplace Birmingham B1 2HZ

Severn Trent Services International Limited

Directors' report

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2011

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 Severn Trent Services business

The principal activity of the company is as a cost centre for the Operating Services group for which revenue is recognised from other group companies

This marks a significant change in the company's principal activities in the year under review. The company's strategy of seeking worldwide reactive consultancy and operation and management services has been changed. The company now supports existing contracts undertaken by other group companies in the UK, Ireland and Italy.

The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

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 Severn Trent 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).

Results and dividends

The company's loss for the financial year after taxation was £1,653,000 (2010: loss £1,064,000). The directors do not recommend the payment of a dividend.

Principal risks and uncertainties

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 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.

Asset Values

In the opinion of the directors, the difference between the market value and the balance sheet value of assets is not significant.

Environment

The company 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).

Employees

Details of the number of employees and related costs can be found in note 4 to the financial statements.

Severn Trent Services International Limited

Directors' report

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 15 days purchases (2010 11 days)

Directors

The directors who served during the year are shown on page 1. On 18 February 2011 R P Brierley resigned and M Armitage was appointed as Company Secretary. On 1 November 2011 P M Senior resigned and G P Tyler was appointed as a director of the company.

No emoluments were paid by the company in respect of the services of the directors to the company. Their emoluments are paid by other companies within the Severn Trent group.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern and financial position

The directors have considered the financial position and future prospects of the company. The directors believe that the company has access to sufficient resources to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and annual accounts.

Severn Trent Services International Limited

Directors' report

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

Auditor and disclosure of information to auditor

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 auditor is 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 auditor is aware of that information

Relevant audit information means information needed by the company's auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP has indicated its willingness to continue as auditor

By order of the board



R C McPheely
Director
16 December 2011

Independent auditor's report to the members of Severn Trent Services International Limited

We have audited the financial statements of Severn Trent Services International Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Christopher Robertson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
United Kingdom

16 December 2011

Severn Trent Services International Limited

Profit and loss account For the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	2,881	2,491
Operating costs	3	(4,872)	(4,100)
Operating loss		(1,991)	(1,609)
Net interest receivable	6	36	252
Loss before tax		(1,955)	(1,357)
Taxation on loss on ordinary activities	7	302	293
Loss for the financial year		(1,653)	(1,064)

All results are from continuing operations in both the current and preceding year

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


Movements in shareholders' funds are disclosed in note 14

Severn Trent Services International Limited

Balance sheet As at 31 March 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Tangible fixed assets	8	223	141
		223	141
Current assets			
Debtors amounts falling due in less than one year	9	9,498	10,801
Debtors amounts falling due in more than one year	9	91	255
Cash at bank and in hand		440	187
		10,029	11,243
Creditors amounts falling due within one year	10	(1,545)	(1,045)
Net current assets		8,484	10,198
Total assets less current liabilities		8,707	10,339
Net assets		8,707	10,339
Capital and reserves			
Share capital	12	10,000	10,000
Profit and loss account	13	(1,293)	339
Total shareholders' funds		8,707	10,339

The financial statements were approved by the board of directors on 16 December 2011. They were signed on its behalf by


R C McPheely
Director
16 December 2011
Company Number 02387816

Severn Trent Services International Limited

Notes to the financial statements

1. Accounting policies

a) Accounting convention

The financial statements have been prepared on the going concern basis (see Directors' report) under the historical cost convention, and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the United Kingdom Companies Act 2006 ('the Act'). The principal accounting policies, which have been applied consistently in the current and preceding year are set out below

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 and revenue recognition

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 as permitted by FRS 17

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

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

Severn Trent Services International Limited

Notes to the financial statements

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.

Freehold land is not depreciated. Other 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

Assets in the course of construction are not depreciated.

h) Leased assets

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

All other leases are accounted for as operating leases. Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

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.

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.

Severn Trent Services International Limited

Notes to the financial statements

2. Turnover

The company's activities consist solely of acting as a cost centre for Severn Trent Services' Operating Services group

The company's turnover analysed by geographical destination was

	2011 £'000	2010 £'000
UK	2,351	2,021
Continental Europe	261	28
Rest of world	269	442
	2,881	2,491

3. Operating costs

	2011 £'000	2010 £'000
Operating profit is stated after charging		
Wages and salaries	2,017	1,708
Social security costs	186	165
Pension costs	599	415
Share based payments	21	9
Staff costs	2,823	2,297
Raw materials and consumables	-	18
Charge for bad and doubtful debts	113	(114)
Depreciation of tangible fixed assets	131	101
Hired and contracted services	574	323
Operating lease rentals		
- land and buildings	300	299
- other	122	70
Foreign exchange (gains)/losses	(6)	-
Other operating costs	806	1,086
Fees payable to the company's auditor		
- fees payable for the audit of the company's accounts	9	9
- fees payable for other services	-	11
	4,872	4,100

There were no fees payable to the company's auditor other than those shown above

Severn Trent Services International Limited

Notes to the financial statements

4. Employee information

The average monthly number of employees (including executive directors) during the year was

By activity	2011 Number	2010 Number
Administration	42	32
	42	32

5 Directors' remuneration

The emoluments of the directors are paid by other companies within the Severn Trent group. The directors do not receive any remuneration for services to this company.

6. Net interest receivable

	2011 £'000	2010 £'000
Interest receivable on		
Amounts due from group undertakings	36	252
Total interest receivable	36	252

Severn Trent Services International Limited

Notes to the financial statements

7. Tax on profit on ordinary activities

	2011 £'000	2010 £'000
Current tax		
Group relief at 28% (2010 28%)		
- current year	(474)	(347)
- adjustment in respect of prior years	(79)	(42)
Foreign tax		
- current year	2	5
- adjustment in respect of prior years	175	51
Total current tax	(376)	(333)
Deferred tax		
Origination and reversal of timing differences		
- current year	(22)	5
- adjustment in respect of prior years	84	35
Effect of change in tax rate	12	-
Total deferred tax	74	40
Total tax on loss on ordinary activities	(302)	(293)

The tax assessed for the year is higher than (2010 higher than) the standard rate of corporation tax in the UK, 28% (2010 28%) The differences are explained below

	2011 £'000	2010 £'000
Loss on ordinary activities before tax	(1,955)	(1,357)
Tax on ordinary activities at standard UK corporation rate of 28% (2010 28%)	(547)	(380)
Effects of		
Expenses not deductible for tax purposes	48	43
Share options deductions	4	-
Depreciation in excess of capital allowances	8	1
Movement in short term timing differences	14	(6)
Higher tax rates on overseas earnings	1	-
Adjustments to tax charge in respect of previous periods	96	9
Current tax credit for the year	(376)	(333)

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 28%

On 23 March 2011 the Government announced that the main rate of Corporation Tax would reduce to 26% with effect from 1 April 2011, with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014 The reduction to 26% was substantively enacted on 29 March 2011 and therefore has been reflected in the financial statements for the purpose of calculating deferred tax assets and liabilities

Severn Trent Services International Limited

Notes to the financial statements

8. Tangible fixed assets

	Plant & machinery £'000	Fixtures & fittings £'000	Total £'000
Cost			
At 1 April 2010	170	326	496
Additions	213	-	213
At 31 March 2011	383	326	709
Depreciation			
At 1 April 2010	(129)	(226)	(355)
Charge for the year	(32)	(99)	(131)
At 31 March 2011	(161)	(325)	(486)
Net book value			
At 31 March 2011	222	1	223
At 31 March 2010	41	100	141

9. Debtors

Amounts falling due within one year

	2011 £'000	2010 £'000
Trade debtors	210	358
Amounts owed by group undertakings	9,068	10,197
VAT	32	-
Other debtors	16	41
Prepayments and accrued income	172	205
	9,498	10,801

Amounts falling due after more than one year

	2011 £'000	2010 £'000
Deferred tax	91	166
Prepayments and accrued income	-	89
	91	255

Severn Trent Services International Limited

Notes to the financial statements

9. Debtors (continued)

Deferred tax	2011 £'000	2010 £'000
Accelerated capital allowance	55	63
Other timing differences	36	103
	91	166
	2011 £'000	2010 £'000
Deferred tax asset at start of year	166	206
Credit for year	(75)	(40)
Deferred tax asset at end of year	91	166

The above deferred tax asset has been recognised as, in the directors' opinion, future taxable profits are expected to be sufficient to ensure realisation of the asset

10. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	90	141
Amounts owed to parent and fellow subsidiary undertakings	783	172
Other creditors	379	314
Taxation and social security	59	225
Corporation tax payable	-	51
Accruals and deferred income	234	142
	1,545	1,045

Amounts due to group undertakings are unsecured, interest free and repayable on demand

Severn Trent Services International Limited

Notes to the financial statements

11. Share based payments

The weighted average share price during the period was £13.40 (2010 £10.50)

During the period, the company recognised total expenses of £21,000 (2010 £9,000) relating to equity settled share based payment transactions

At 31 March 2011 the number of shares that were exercisable under each of the share based remuneration schemes was as follows

	2011		2010	
	Number of exercisable options/awards	Weighted average exercise price (pence)	Number of exercisable options/awards	Weighted average exercise price (pence)
Long Term Incentive Plan	-	-	-	-
Employee Sharesave Scheme	2,705	876	2,472	845
	2,705		2,472	

Long Term Incentive Plan

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. The awards vest in three equal tranches which are subject to the achievement of turnover and profit targets in the years ending 31 March 2011, 31 March 2012 and 31 March 2013.

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

No awards of shares were made under the LTIP in the current year (2010 nil)

	Number of awards	Number of awards
	2011	2010
Outstanding at 1 April 2010	16,369	11,247
Vested during the year	(2,257)	-
Lapsed during the year	(1,488)	(6,686)
Transferred during the year	-	11,808
Outstanding at 31 March 2011	12,624	16,369

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.

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

Severn Trent Services International Limited

Notes to the financial statements

11. Share based payments (continued)

	2011		2010	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at 1 April	25,466	875	35,317	848
Granted during the year	2,053	1,137	5,417	806
Forfeited during the year	(269)	1,058	(322)	1,172
Exercised during the year	(2,102)	787	(13,394)	745
Lapsed during the year	(290)	1,172	-	-
Cancelled during the year	(157)	1,221	(1,552)	1,071
Outstanding at 31 March	24,701	876	25,466	875

Sharesave options outstanding at 31 March were as follows

	Exercise Date	Option price	Number of shares	
			2011	2010
January 2003	2010	536p	-	-
January 2004	2011	592p	-	-
January 2005	2010 or 2012	759p	-	1,958
January 2006	2011 or 2013	823p	2,346	2,346
January 2007	2010, 2012 or 2014	1,172p	223	737
January 2008	2011, 2013 or 2015	1,221p	1,695	1,930
January 2009	2012, 2014	862p	12,967	13,078
January 2010	2013, 2015	802p	5,417	5,417
January 2011	2014, 2016	1,137p	2,053	-
Outstanding at 31 March			24,701	25,466

The weighted average contractual life of outstanding options was 1.8 years (2010 2.3 years)

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

	2011		2010	
	3 year scheme	5 year scheme	3 year scheme	5 year scheme
Expected volatility (%)	27.0	27.0	25.0	25.0
Risk free rate (%)	1.6	2.2	1.8	2.8
Expected dividend yield (%)	4.4	4.4	4.0	4.0
Proportion of employees expected to cease employment (%)	15.0	17.0	15.0	17.0
Expected life (years)	3.5	5.5	3.5	5.5
Fair value per share - sharesave (pence)	348	359	264	280

Severn Trent Services International Limited

Notes to the financial statements

11. Share based payments (continued)

Expected volatility is based on historical weekly volatility over a three year period. Weekly volatility in the observed data was between 25-31%.

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:

	2011		2010	
	3 year scheme	5 year scheme	3 year scheme	5 year scheme
Share price at grant date (pence)	1,486	1,486	1,080	1,080
Vesting period (years)	3	5	3	5
Option life (years)	3.5	5.5	3.5	5.5

12. Share capital

	2011 £'000	2010 £'000
Total issued and fully paid		
10,000,000 ordinary shares of £1 each	10,000	10,000
	10,000	10,000

13. Reserves

	Profit and loss account £'000
At 1 April 2010	339
Credit to equity for share based payments	21
Loss for the financial year	(1,653)
At 31 March 2011	(1,293)

14. Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Loss for the financial year	(1,653)	(1,064)
Share based payments	21	9
Net addition to shareholders funds	(1,632)	(1,055)
Opening shareholders' funds	10,339	11,394
Closing shareholders' funds	8,707	10,339

Severn Trent Services International Limited

Notes to the financial statements

15. Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2011		2010	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date				
Within one year	175	34	-	-
Between two and five years	-	88	300	122
	175	122	300	122

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs

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 2011 the company's maximum liability under this arrangement was £440,000 (2010: £187,000)

17. Related party transactions

Transactions with the directors of the company are disclosed in note 5

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

Severn Trent Services International Limited

Notes to the financial statements

18. Retirement benefit scheme

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. The trustees are required to act in the best interests of the schemes' beneficiaries. 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:

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

*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 £597,000 (2010 £414,000). An amount of £43,000 (2010 £35,000) 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 2011 was £2,000 (2010 £1,000).

The deficit in the group's defined benefit pension schemes as at 31 March 2011 measured under the requirements of IAS 19 was £292.1 million (2010 £354.9 million).

On 11 May 2011, Severn Trent Water announced it was consulting with its UK employees on proposed changes to the group's pension arrangements, which would see all existing pensions replaced by one new defined contribution scheme. Under the new proposals, the defined benefit schemes would close to future accrual, whilst protecting the benefits already built up by members. The existing defined contribution schemes would also be replaced by the new pension arrangements. The company is also proposing to automatically enrol new employees into the new pension from 2012 and automatically enrol those employees who are not currently members of a Severn Trent Water scheme from 2013. The consultation period has now closed and the proposals have been approved by the Trustees.

19. 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 Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.