Preliminary Announcement of Annual Results
23 May 2018
Results for the year to 31 March 2018

Customer focus, significant investment and operational delivery drive strong performance

- **Keeping customers at the heart of our business:**
  - **Delivering for customers:** sewer flooding (down 34%), water quality complaints (down 12%) and serious pollution incidents (down 71%), but disappointing performance on supply interruptions
  - Upper quartile position overall in the year in the **UK Customer Service Index** for utility companies
  - **Lowest bills in Britain**: less than £1 per day at £348[1], and beating our target to help over 50,000 vulnerable customers
- **Delivering sustainable benefits for all stakeholders:**
  - **Customer ODIs[2]**: strong service delivery earning a net outperformance payment of £80 million
  - **Efficiencies**: Forecast AMP6 totex efficiencies[3] increased from £770 million to £870 million. Choosing to reinvest the additional £100 million mainly in our Water business, to improve performance in preparation for AMP7
  - **Environmental performance**: confident of achieving 4* status from the Environment Agency for 2017 and reaccredited to the Carbon Trust Standard. Renewables generation now at 38%[4]
  - **An engaged workforce:** six percentage point increase in our employee engagement score. Commenced investment in a training academy to deliver excellent training for our people
  - **Sale of property** near Nottingham, providing land for 830 homes, generating £18.2 million PBIT[5] in 2018/19 and helping to keep customers' bills low
  - **PR19**: good progress on our PR19 business plan, ready for submission in September
- **Strong group financial results:**
  - Group turnover of £1,694 million, an increase of £56 million (3.4%)
  - Group underlying PBIT[6] of £541 million, up £21 million (4.0%)
  - Group reported PBIT of £528 million, down £8 million (1.5%)
  - 2017/18 Return on Regulatory Equity (RoRE) of 11.5%[7]
  - Underlying basic EPS[8] of 121.0 pence (up 4.6%), reported basic EPS from continuing operations 102.2 pence (down 25.3%)
  - Proposed final dividend of 51.92 pence, taking the 2017/18 dividend to 86.55 pence

Liv Garfield, Chief Executive, Severn Trent Plc, said:

"I'm pleased that keeping customers at the heart of our business and investing for the long term has continued to drive positive results. We've had another very strong year on customer ODIs, which we know are the metrics our customers care about most. This, allied with a strong set of financial results, and a backdrop of the lowest average combined bill in the land demonstrates our ability to deliver for our stakeholders in a balanced and sustainable way.

We anticipate receiving the top 4* rating from the Environment Agency for the second time in three years, which acknowledges the hard work and importance we place on protecting the environment. We are proud of the overall service we deliver for our customers but we know there are areas to improve. Our customers rightly expect excellence every day and that's what we will continue striving to achieve.

As such I'm pleased to announce plans to invest a further £100 million of totex efficiencies across our core assets and network for the benefit of our customers. This, coupled with our extensive customer engagement programme and performance track record, gives us confidence in our PR19 plan and optimism for the challenges of AMP7."

Footnotes included on page 2 of this RNS

Group results from continuing operations

Underlying results

Year ended 31 March	**2018**	2017 (restated)[9]	Increase
	£m	£m	%
Group turnover	**1,694.1**	1,638.0	3.4
Underlying group PBIT[6]	**541.0**	520.1	4.0

	pence/ share	pence/ share	
Underlying basic EPS [8]	**121.0**	115.7	4.6
Total ordinary dividends	**86.55**	81.50	6.2

Reported results

Year ended 31 March	**2018**	2017 (restated)[9]	Increase/ (decrease)
	£m	£m	%
Group turnover	**1,694.1**	1,638.0	3.4
Group PBIT	**528.4**	536.7	(1.5)

	pence/ share	pence/ share	
Basic earnings per share from continuing operations	**102.2**	136.8	(25.3)

Footnotes to pages 1 and 2 of this RNS

1. Average combined water and sewerage bill for households in 2018/19
2. ODIs = Outcome Delivery Incentives, quoted pre-tax and in 2012/13 prices
3. Efficiencies quoted in nominal prices
4. Generating the equivalent of 38% of our energy needs
5. Profit before interest and tax
6. Underlying PBIT excludes exceptional operating items
7. RoRE quoted net, pre-tax at 2012/13 prices, using Ofwat's RoRE methodology. Under our previously reported methodology, RoRE for 2017/18 was 10.6% (2016/17: 11.0%)
8. Underlying basic EPS is set out in note 11
9. Restated for discontinued operations

Note: **FY2018/19 technical guidance is included in the Chief Financial Officer's section of this announcement**

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am BST on Wednesday 23 May at the Rothschild Sky Pavilion, New Court, St Swithin's Lane, London EC4N 8AL. This presentation will be available as a simultaneous webcast on the Severn Trent website (www.severntrent.com) and will remain on the website for subsequent viewing.

Chief Executive's Review

Our performance needs to satisfy the goals of our many stakeholders in a balanced way; with customers receiving great service at affordable prices, investors being fairly rewarded for the risk they take, a healthy local environment and our community benefitting from the positive impact we can have through employment and volunteering to support local initiatives. We have an obligation to provide a service that customers would choose if they could.

Over the first three years of this AMP we are proud to be delivering on this commitment. We have generated savings which will result in £120 million being shared with customers that will help lower bills in AMP7. We also chose to reinvest £220 million of our totex outperformance back into making our business better for customers, our people and the environment, and we're supporting our pensioners by making more than £150 million of pension scheme contributions during AMP6. Our investors too have benefitted through our base dividend commitment of growth at RPI+4%, and this has all been achieved whilst maintaining a sustainable, resilient financial structure.

Balanced investment for our stakeholders is made possible by continuing to deliver in our day to day business activities and this year has been no exception. A clear demonstration of this is our RoRE performance for the year of 11.5% which shows the combined success across customer ODIs, totex, financing and retail performance.

Operationally, our net performance on customer ODI measures, as well as the expected industry recognition through the Environment Agency, are indicators of a successful year overall. Our Waste business in particular continues to deliver high performance across a range of measures that indicates a strong, resilient network. Our focus is on replicating this resilience in our Water business with some encouraging results. However we must acknowledge that short term incidents over the course of a harsh winter let some of our customers down and we must work hard to reduce the risk of this happening in future.

Looking a little further ahead, it is encouraging to see the next price review (PR19) places customers firmly at its core alongside long-term resilience, affordable bills and innovation. We believe our own ambitions are closely aligned to these and that the future regulatory framework will allow top performing companies to earn material outperformance in AMP7, through delivery of great customer service, assessed by customer ODIs, and totex efficiencies, which will help keep customer bills low in future. At the same time, it supports sustainable investment in critical projects, enhancing long term resilience for our customers, improving the health of our environment and creating significant value for investors.

We believe our strategy is the right one to drive the behaviours and actions needed to become the most trusted water company by 2020. Our five areas of priority support our ambition:

- Embedding customers at the heart of all we do
- Driving operational excellence and continuous innovation
- Investing responsibly for sustainable growth
- Changing the market for the better
- Creating an awesome place to work

Embedding customers at the heart of all we do

Ofwat has rightly identified great customer service as a key component of high quality business plans for PR19. We are working hard on this in AMP6 and are proud of our progress to date. We have achieved an upper quartile position in the UK Customer Service Index for 2017/18, out of 27 companies across the utilities sector.

We are passionate about improving the experience our customers have when dealing with us, so we were pleased to see a good reduction in total written household complaints, which were down 17% on last year. The latest comparative view positioned us ahead of our listed peers, however we know we have scope for further improvement and we believe this will translate into an improved SIM place in the future.

Connecting new properties to our network is an important part of our service offering. This year we are proud to have been ranked first for Water, with a compliance score of 99.7%, and second for Waste, with a compliance score of 99.9%, in the industry wide KPIs reported by Water UK.

We need to understand the longer term preferences and priorities of our customers in order to shape our PR19 plan. With this in mind, we are running the most intensive customer engagement programme in our history, including targeted research with over 17,000 customers, and analysis of 1.9 million customer contacts and seven million social media conversations.

We have used new approaches, including launching an online community, Tap Chat, to engage customers in discussion topics, quizzes and research. Our Board and Executive Committee members have attended customer workshops to gain a fuller understanding of views on key issues. We are confident that the views of our customers and wider stakeholders will be strongly reflected in our AMP7 plan.

A great business plan starts with affordable bills. Severn Trent continues to have the lowest average combined bills in England and Wales, at £348 for 2018/19. That's £57 (14%) lower than the average for England and Wales, £35 (9%) lower than the next cheapest and £15 (4%) below the average bill in Scotland. Data from the 2017 Global Water Intelligence Tariff Survey shows that bills in our region also compare favourably to cities in many other developed countries. For example, bills in Birmingham, the largest city in our region, are 17% cheaper than those in Paris and almost half the cost of Berlin.

Affordability is a particular concern for the most vulnerable customers in our region, so we are pleased to have once again exceeded our target to support 50,000 customers through a range of initiatives and social tariffs.

Our customers have benefitted from significant improvements in service this AMP. We recognise that the significant customer ODI outperformance payments we have earnt will impact customer bills, so we have volunteered to defer much of this to future periods, to help reduce the impact on bills in the remaining years of AMP6.

Driving operational excellence and continuous innovation

Since the beginning of AMP6, we have made huge strides in performance on many of our customer ODIs. On internal and external sewer flooding, the ODIs that customers deemed most important, we have achieved improvements of 43% and 62% respectively. Our performance across a range of other measures has also been strong; category 3 pollutions are 11% lower, we are helping 53% more vulnerable customers and we have reduced water quality complaints by 12%.

Looking at 2017/18 performance, we have had a strong year overall on customer ODIs, earning a net outperformance payment of £80 million. Our Waste measures have been the driver of this, with year on year improvements across a range of measures, including internal sewer flooding (down 27%), external sewer flooding (down 35%) and serious pollution incidents (down 71%). We are pleased that not a single one of our in-year waste measures was in penalty territory this year. This has helped us earn £109 million of outperformance payments on Waste.

We have continued to make progress in our Water business, but this year has been a challenging one for supply interruptions, following a small number of major bursts in our region and the impact of the harsh conditions in March 2018. Having beaten our targets for this performance measure for the last two years, this is hugely disappointing and we have rightly incurred a significant net underperformance penalty of £29 million on our Water ODIs. The extreme weather has also had consequences for our leakage performance. Disappointingly, despite being on track to hit our performance target up until the extreme weather, we missed our challenging target for the year.

We are encouraged by other areas of our Water performance, particularly in water quality. This year we have achieved our best performance since 2011, through an extensive programme of cleaning and flushing water mains, using a multi-channel approach to contact customers as soon as issues are identified, and by protecting our network from illegal standpipe use.

Dee Valley has had a very strong year operationally, with good improvements across the majority of its customer ODIs. Severn Trent's customers have benefitted from best practices learned from Dee Valley; indeed one of the Dee Valley Water team members is now leading the Severn Trent water quality improvement programme.

We are confident that we will once again achieve 4* status from the Environment Agency for our 2017 performance. This will be the second time in three years that we have achieved this, showing we are one of the sector leaders in environmental compliance. We are also proud to have been reaccredited to the Carbon Trust Standard, reflecting our reduction in absolute carbon emissions year by year.

Performance on our end of AMP measures is also encouraging. We are on track to meet our commitments under the Water Framework Directive, and we have made significant progress in improving the health of 1,800 kilometres of river by 2020. Our approach to catchment management has been recognised by the Drinking Water Inspectorate (DWI) as industry leading and has received praise from the Environment Agency, Natural England, local MPs and MEPs.

Ofwat want to see companies find new ways of delivering more of what matters to customers and the environment through innovation. We are looking beyond our sector and internationally for innovation that will help us deliver higher standards and greater efficiency. For example, we are now using bio-augmentation products to prevent the build-up of "fatbergs" and their use so far has yielded great results. We have further innovation in the pipeline, including detector robots for use in our Water network. Based on technology first developed in North America, this innovative solution uses small touch sensors to spot the nature and exact location of leaks, rather than current visual and acoustic techniques.

Investing responsibly for sustainable growth

The introduction of the totex methodology to the sector has provided a clear incentive for companies to focus on total cost efficiency, creating benefits for both customers and investors through the sharing mechanism. Today, we announce a further £100 million of totex efficiencies, taking our gross efficiencies for AMP6 to £870 million.

We recognise the importance of being an upper quartile company across all of our activities and able to deliver enhanced customer service levels. While the efficiency and performance of our Waste business is widely recognised, our Water business is less strong and so we are committing to reinvest the majority of the additional £100 million of efficiencies to improve Water performance. These investments will include increased monitoring and logging of our network to help identify current issues, the targeting of underperforming assets to improve non-infrastructure asset health and investment in advanced analytics, helping predict and prevent future failures. This investment is in addition to the £120 million previously announced.

Taking account of our £220 million total reinvestment plans, we expect our net totex outperformance versus the Final Determination to be £240 million, of which half will be shared with our customers through lower bills in AMP7.

Investment in our renewable energy programme continues at pace. We have invested around 70% of the £190 million we committed to and in 2017/18, generated the equivalent of 38% of our energy needs, helped by our second food waste anaerobic digestion site near Stourbridge in the West Midlands. As well as providing attractive returns on investment, this site is helping reduce the amount of waste going to landfill and generates a cleaner gas which is directly injected into the national grid. It also acts as a natural hedge against rising energy costs. Construction of our third food waste site in Derby is well advanced, as are two additional thermal hydrolysis plants in our Bioresources business. We remain on-track to reach our 50% self-generation target by 2020, providing a good financial return and a natural hedge in times of rising energy costs.

We're also supporting our customers in their efforts to be more water efficient. We have completed over 15,000 home water efficiency checks, providing advice to customers on how they can save water and money. We have educated over 200,000 customers on key water and waste water efficiency messages.

On our Birmingham Resilience Scheme, we have made great progress on the Lickhill to Frankley pipeline, having installed 18km of the 26km required, and the first section of the new pumping station at Lickhill has been finished. We also completed extensive customer engagement on the second supply. The programme remains on track for the planned completion date.

This year we launched our new Water Resources Management plan which considers the impacts of population growth, environmental obligations and climate change uncertainty, ensuring that we have reliable and sustainable water supplies for all of our current and future customers. The plan includes our proposals to reduce leakage to record low levels, help customers use less water through water efficiency activities and education, and increase the coverage of water meters across the network to reduce consumption and help us better understand water demand patterns.

Resilience isn’t just about our assets; we also need a resilient workforce, to ensure that our assets run efficiently and we have the capability to manage incidents effectively. Key to this is having the right technical skills, so we are creating a Severn Trent training academy to make our workforce the most technically skilled in the industry.

Changing the market for the better

Ofwat published its Final Methodology for the 2019 price review in December 2017 and the main changes to the framework came as no surprise, having been well signposted in the preceding months. We are very clear on the opportunities these changes create for top performing companies and have maintained a constructive dialogue with Ofwat throughout the review process on key topics such as cost modelling.

We have made good progress on our PR19 business plan, starting with a deeper understanding of the needs of our customers, which we’ve used to shape our performance commitments for AMP7. Alongside the 14 common performance commitments defined by Ofwat in their Final Methodology, we have identified a number of bespoke customer performance commitments aligned to areas important to our customers and the environment.

We submitted our proposed PR19 strategic cost adjustments to Ofwat on 3 May 2018. Working with our customers and other stakeholders enabled us to understand key priorities and build up the detailed evidence base required to support the claims. We have identified a number of schemes that we believe should be completed in AMP7 which will address new environmental legislation on abstraction and waste water quality, and improvements to the resilience of customer supplies.

This year we have made excellent progress in establishing a separate Bioresources business unit, which is ready to drive value in the new market. We have taken early action to streamline logistics and optimise our treatment strategy to focus on advanced treatment techniques. We have now created six regional treatment hubs, which are ready to trade with other companies. This process has identified several less efficient sites for closure, which has resulted in £21 million of exceptional charges in 2017/18.

Dee Valley integration is approaching completion following the acquisition in February 2017. We are now realigning Dee Valley Water and Severn Trent Water along national boundaries. Our new Welsh business has been named Hafren Dyfrdwy, meaning Severn Dee. Once the border realignment is complete in July 2018, there will be clearer lines of accountability for both businesses.

For many years we have been championing the importance of financial resilience and strong corporate governance through our Changing Course publications. As a FTSE100 listed company, we meet the strict guidelines on corporate governance, transparency and financial resilience expected of us, and our gearing is broadly in line with Ofwat notional levels. We welcome Ofwat’s recent consultation on these subjects and agree with the proposals specified in the consultation, in both spirit and in practice. We consider that they would help the sector address a number of factors that have eroded trust in recent times.

Creating an awesome place to work

We aim to create a place where people enjoy coming to work, where they are safe, fairly rewarded and treated with respect. Our annual employee engagement survey is our key way to gauge this, so we are very proud of the six percentage point increase in engagement scores that we saw this year. This places us seven percentage points higher than the average benchmark for engaged companies in the UK and Ireland.

Our Lost Time Injury (LTI) frequency rate this year was 0.17 per 100,000 hours worked, our best ever performance and a 23% decrease compared to the previous year. We continue on our “Goal Zero” journey; driving innovation in working practices to further reduce risk exposure and get lost time incidents down to zero. We have also been focused on general well-being, through greater support for employees with mental health issues, and raising awareness of sensitive subjects such as cancer and the menopause.

We believe in our people and encourage them to be the drivers of change in the business. This year, we launched a fund for employees, to pursue projects that will help stimulate innovation. The response has been exciting and we have seen great enthusiasm from our people to seek out innovations and global best practice that may be applied in our business.

Our people are our most valuable assets. We believe investment in technical ability is essential to future-proof our organisation. This starts with our highly regarded apprentice and graduate schemes, but continues right through people's careers at Severn Trent. During the year one of our apprentices, Heeran Basi, was named Apprentice of the Year at the National Apprenticeship Awards, a clear demonstration of the talent we're able to attract and the strength of our programme.

We have embraced the apprentice levy scheme, which came into effect in April 2017 and are committed to spending the full value of the levy on employee training by 2020.

The population in the East and West Midlands is among the least socially mobile in the country. As a major employer in the region, we have an opportunity to drive change and, to this end we've reviewed and made changes to the recruitment process for our graduate scheme. Our recruitment team are also actively targeting schools in government identified social mobility cold spots.

We believe in the benefits of having a diverse workforce which reflects the communities that we serve. We are proud of what we are achieving, particularly with our apprentices and graduates, where 16% of those currently on the scheme are from BAME backgrounds. Gender diversity is also of huge importance, so being placed second among FTSE100 companies by the Hampton-Alexander Review for female representation on our Board was a great achievement. Our mean gender pay gap is one of the lowest in the FTSE100, at just 2.4%, while the median gap is 14.6%, although we strive to reduce this further.

We're pleased to announce that Severn Trent has signed up to the Slave Free Alliance, an organisation set up by Hope for Justice, championing the issues around modern slavery and human trafficking. We've also been working with Hope for Justice and PwC to deliver bespoke training to our employees.

We recognise the importance of the work that WaterAid does and are proud to have them as our corporate charity, this year raising £300,000 for them through a range of events.

We're achieving great things through our 'Community Champions' scheme, which encourages our workforce to support local initiatives by giving each of them two volunteering days to put to good use in our communities. We're working with a number of partners, including the Canal & River Trust and The Wildlife Trust, and so far over 40% of our colleagues have taken part.

Investor Timetable

Ex Dividend Date (Final)	14 June 2018
Record Date (Final)	15 June 2018
AGM	18 July 2018
Q1 Trading Update	18 July 2018
Dividend Payment Date (Final)	20 July 2018
Half Year Results Announcement 2018/19	22 November 2018
Ex Dividend Date (Interim)	29 November 2018
Record Date (Interim)	30 November 2018
Dividend Payment Date (Interim)	4 January 2019

For more information please visit:
https://www.severntrent.com/investors/financial-calendar

Chief Financial Officer's Review

We have delivered a good financial performance in 2017/18, absorbing the upward pressures from sector-wide changes in business rates and energy pass-through costs. In our Regulated Water and Waste Water business, a full year's contribution from Dee Valley Water and higher revenues more than offset the impact of these pressures on our operating costs. In Business Services we have delivered good growth both in revenues and PBIT.

Underlying basic earnings per share increased by 4.6% to 121.0 pence per share in the current year. Reported basic EPS from continuing operations was 102.2 pence.

Our Return on Regulated Equity (RoRE) at 11.5% is 1.5 percentage points higher than the previous year, driven by a strong performance across all three levers – totex, customer ODIs and financing. Last year our RoRE was amongst the best in the sector and we expect to be in a similar position when this year's results for all companies are published in July.

In line with the revised dividend policy announced last year of growth of RPI plus at least 4% per annum, the proposed dividend for the year has increased by 6.2%.

On financing, we have a strong funding position, with all our projected investment and other cash flow needs covered by cash or committed facilities through to March 2020. This year saw the first rate increase from the Bank of England in more than ten years. We actively monitor and manage our interest rate exposure and took steps to hold our proportion of debt at floating rates at 26% through the year end. We are also preparing for the introduction of CPIH indexation in AMP7, entering into CPI/RPI swaps with a notional value of £100 million in the second half of the year, which increased the total amount of these swaps to £150 million at 31 March 2018. And we have entered into a further swap for £100 million since the year end.

We are committed to paying the right amount of tax at the right time. In addition to the corporation tax which is included in our tax charge in the income statement we also pay business rates, employers' national insurance and environmental taxes such as the Climate Change Levy and the Carbon Reduction Commitment. In 2017/18 we incurred £146.5 million in these taxes, charges and levies (2016/17: £146.6 million). Our corporation tax charge for the year was just above the statutory rate of 19% with our cash tax payments reduced by the benefit of allowances on our capital programme, contributions to our pension schemes and by the timing of instalment payments to HMRC under the current rules.

A brief overview of our financial performance for the year is as follows:

- Group turnover from continuing operations was £1,694.1 million (2016/17: £1,638.0 million), an increase of 3.4% as Regulated Water and Waste Water revenue increased by 3.0%, mainly due to the RPI-linked tariff increases and a full year of Dee Valley Water, and Business Services' external turnover grew by 9.2%.
- We increased underlying PBIT by 4.0% to £541.0 million (2016/17: £520.1 million). The first full year of Dee Valley Water contributed an additional £5.7 million and, excluding Dee Valley Water, underlying PBIT in our Severn Trent Regulated Water and Waste Water business grew by £14.5 million. Business Services underlying PBIT grew by £3.8 million, offset by a reduction in corporate and other PBIT of £3.7 million.
- We recorded net exceptional costs of £12.6 million (2016/17: credit of £16.6 million). Costs to prepare our Bioresources business for the introduction of the competitive market in 2020 were £20.9 million, partially offset by a credit from the Pension Exchange Arrangement reported at the half year. Reported group PBIT was down as a result by 1.5% to £528.4 million (2016/17: £536.7 million).
- Net finance costs were £219.5 million (2016/17: £205.1 million). Our effective interest rate of 4.5% was up only marginally from 2016/17 (4.4%) despite the impact of higher RPI on our index linked debt.
- Our full effective tax rate was 20.5% and our underlying effective tax rate was 12.7%, down from 16.6% in 2016/17 largely due to higher capital allowances from the larger capital programme in the year.

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,574.6 million (2016/17: £1,528.8 million) and underlying PBIT was £514.9 million (2016/17: £494.7 million).

	2018			2017			Better/(worse)	
	Excluding Dee Valley	Dee Valley	**Total**	Excluding Dee Valley	Dee Valley	Total	Excluding Dee Valley	
	£m	£m	**£m**	£m	£m	£m	£m	%
Turnover	**1,546.7**	27.9	**1,574.6**	1,526.6	2.2	1,528.8	20.1	1.3
Net labour costs	**(136.4)**	(5.4)	**(141.8)**	(139.8)	(1.0)	(140.8)	3.4	2.4
Net hired and contracted costs	**(145.8)**	(1.9)	**(147.7)**	(144.6)	–	(144.6)	(1.2)	(0.8)
Power	**(93.6)**	(2.3)	**(95.9)**	(86.7)	(0.1)	(86.8)	(6.9)	(8.0)
Bad debts	**(25.1)**	(0.6)	**(25.7)**	(20.4)	(0.2)	(20.6)	(4.7)	(23.0)
Other costs	**(188.1)**	(4.8)	**(192.9)**	(187.7)	(0.6)	(188.3)	(0.4)	(0.2)
	(589.0)	(15.0)	**(604.0)**	(579.2)	(1.9)	(581.1)	(9.8)	(1.7)
Infrastructure renewals expenditure	**(134.4)**	(0.8)	**(135.2)**	(136.2)	–	(136.2)	1.8	1.3
Depreciation	**(314.3)**	(6.2)	**(320.5)**	(316.7)	(0.1)	(316.8)	2.4	0.8
Underlying PBIT	**509.0**	5.9	**514.9**	494.5	0.2	494.7	14.5	2.9

Dee Valley Water was acquired on 15 February 2017 so this is its first full year in the group. It contributed £27.9 million to turnover and £5.9 million to underlying PBIT in the year. The following commentary on the Regulated Water and Waste Water business excludes Dee Valley Water and is therefore on a like-for-like basis.

Turnover increased by 1.3%, as higher tariffs, including the impact of the annual RPI increase on prices, increased revenue by £33.8 million. Customer ODI rewards earned in 2015/16 increased turnover by £25.8 million but this was offset by a reduction from the Wholesale Revenue Forecasting Incentive Mechanism of £24.5 million arising from revenue billed in excess of the wholesale price control also in 2015/16. Our successful drive to help more vulnerable customers reduced revenue by £4.6 million due to greater take-up of social tariffs. Other movements of £10.4 million (net) including the impact of customers opting for metered status, offset by consumption increases further reduced turnover. In the current year our billed revenue was around £3 million below the wholesale price control and this will be added to revenue to be billed in 2019/20.

Net labour costs were £3.4 million (2.4%) lower. Gross employee costs increased by 5.3%, due to the annual pay award and our strategy to bring more work in-house. The increase in activity on capital projects resulted in an increase in the level of own labour capitalised, up £16.0 million on the previous year.

Net hired and contracted costs were up £1.2 million (0.8%).

Power costs were £6.9 million higher year-on-year driven as forecasted by higher pass-through costs, greater consumption from a higher volume of water produced and the costs of responding to incidents. The group manages its power costs through a combination of demand management, self-generation and forward price contracts.

Our bad debt charge increased by £4.7 million this year, and represented 2.2% of household revenue (up from 1.8% last year). In the year we improved cash collections on our current debt, but saw a decline in the amounts collected on older debt – both in accounts collected by us and by other water companies on our behalf. The prudent provisioning we apply to this older debt increased both our charge and the level of bad debt as a percentage of household revenue for the year.

Other costs increased by £0.4 million in total after higher profits on disposal of fixed assets (up £5.8 million) offset by higher business rates of around £3 million and other cost increases.

Infrastructure renewals expenditure was £1.8 million lower in the year, at the lower end of our guidance range; we expect to see growth in the programme next year.

Depreciation of £314.3 million was £2.4 million lower than the prior year. Our underlying depreciation rate increased in line with our asset base, but the change was lower year on year due to impairments recorded in 2016/17.

Return on Regulated Equity (RoRE)

RoRE is a key performance indicator for the regulated business and reflects our combined performance on totex, customer ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2018 and for the three years ended on that date is set out in the following table:

	2017/18	AMP6 to Date
Base return	5.6%	5.6%
Totex outperformance	0.8%	1.3%
ODI outperformance	2.3%	1.5%
Financing outperformance	2.8%	0.9%
RoRE[1]	**11.5%**	**9.3%**

1 Calculated in accordance with Ofwat guidance set out in RAG 4.07

We have delivered strong returns across the board – with outstanding Customer ODI performance, improved operational and investment efficiency driving totex savings, and continuing outperformance on financing.

Business Services

	2018 £m	2017 (restated) £m	Increase £m	%
Turnover				
Operating Services	**78.3**	74.4	3.9	5.2
Renewable Energy	**60.4**	54.0	6.4	11.9
	138.7	128.4	10.3	8.0
Underlying PBIT				
Operating Services	**15.9**	12.8	3.1	24.2
Renewable Energy	**20.1**	19.4	0.7	3.6
	36.0	32.2	3.8	11.8

Our Business Services division delivered good growth in revenues (up 8.0%) and underlying PBIT (up 11.8%).

In our Operating Services business, turnover and underlying PBIT increased by £3.9 million and £3.1 million respectively, due in part to higher income from our new contract with plumbing and drainage insurers.

In the Renewable Energy business, turnover increased by 11.9% largely driven by increased generating capacity in the non-regulated business from our new food waste plant at Roundhill. Underlying PBIT increased by 3.6%, with our operating margin impacted by start-up costs in the new plant.

The results above exclude the US Operating Services business, which was sold on 30 June 2017; the Italian Operating Services business (sold on 23 February 2017); and the non-household Retail business (transferred to the Water Plus joint venture during the prior year). All of these businesses have been classified as discontinued operations in the current and previous periods and the results for the previous period have been restated to reflect this.

Corporate and Other

Corporate overheads were £8.9 million (2016/17: £6.9 million) and our other businesses generated a net loss of £0.8 million (2016/17: profit of £0.9 million).

Exceptional items before tax

We recorded a net exceptional charge of £12.6 million (2016/17: credit of £16.6 million).

We have made an early start in preparing our Bioresources business for AMP7. We have developed our business model and identified the actions that we need to take to compete effectively in the new market, determining the lowest cost structure from our existing network of sites, optimising our tanker fleet operations and identifying opportunities for trading in the new market. We have implemented a programme to reorganise the business to deliver our business model, reducing from 20 sites to 12, and as a result incurred exceptional costs of £20.9 million as follows:

- Set up and restructuring costs £2.1 million;
- Write-off of assets that will not be used in the new business £16.8 million; and
- Provision for costs to decommission these assets of £2.0 million.

An exceptional gain of £8.3 million arose (2016/17: gain of £16.6 million) from the net benefit, after implementation costs, of a Pension Increase Exchange arrangement, under which members of the defined benefit schemes will be offered the opportunity at retirement to exchange future non-statutory inflationary increases in a portion of their pensions earned prior to 1997 for a higher pension payment now. In the prior year the exceptional gain arose from a similar exercise for existing pensioners.

Net finance costs

Our net finance costs for the year were £219.5 million, up £14.4 million on the prior year. Our effective cash cost of interest (excluding the RPI uplift on index linked debt and pensions-related charges) was 3.4%, 40 basis points lower than 2016/17. Higher RPI inflation on our index-linked debt (up £23.9 million) and pensions-related charges meant our overall effective interest rate increased marginally year-on-year to 4.5% (2016/17: 4.4%), but still compares favourably to our position at the start of AMP6 (5.4%).

Capitalised finance costs were higher than the prior year due to the increased level of capital activity in the year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 4.3 times (2016/17: 4.3 times) and PBIT interest cover was 2.7 times (2016/17: 2.7 times). See note 17 for further details.

Gains/losses on financial instruments

We use financial derivatives solely to hedge risks associated with our normal business activities including:

- Exchange rate exposure on foreign currency borrowings;
- Interest rate exposure on floating rate borrowings; and
- Exposure to increases in electricity prices.

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the strict criteria for cash flow hedge accounting are met, the changes in value are taken to the income statement. If the risk that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement.

During the period a counterparty requested to terminate four interest rate swaps with a notional principal of £150 million. The fair value of the swaps at termination was a £42.6 million liability and the termination payment was £40.0 million. The gain on termination has been included in finance income.

We hold interest rate swaps with a net notional principal of £251.3 million, fixed to floating, and cross currency swaps with a sterling principal of £98.3 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and so the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a loss of £12.6 million (2016/17: gain of £11.1 million) in relation to these instruments.

Note 6 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed around 95% of our estimated wholesale energy usage for 2018/19.

Taxation

We are committed to paying the right amount of tax at the right time. As well as corporation tax on profits, which is included in the tax charge in our accounts, we incur a range of taxes, charges and levies imposed by government agencies:

	2018 **£m**	2017 £m
Tax borne:		
Corporation tax	**26.7**	32.4
Business rates and property taxes	**82.4**	78.8
Employer's National Insurance	**23.2**	21.6
Climate Change Levy	**4.0**	3.2
Carbon Reduction Commitment	**5.9**	6.3
Other taxes	**4.3**	4.3
	146.5	146.6

The corporation tax charge for the year recorded in the income statement was £61.9 million (2016/17: £6.5 million) and we made net corporation tax payments of £6.5 million in the year (2016/17: £21.8 million). The difference between the tax charged and the tax paid is summarised below:

	2018 **£m**	2017 £m
Tax on profit on ordinary activities	**61.9**	6.5
Tax effect of timing differences	**(29.0)**	(26.4)
Current tax credits recorded in Other Comprehensive Income or equity	**(10.1)**	(14.9)
Overprovisions in previous years	**3.9**	27.4
Impact of rate change	**–**	39.8
Corporation tax payable for the year	**26.7**	32.4
Payable by instalments next year	**(12.2)**	(18.0)
Instalments paid in the year	**14.5**	14.4
Repayments received	**(8.0)**	(20.6)
Payments relating to prior years	**–**	28.0
Net tax paid in the year	**6.5**	21.8

Tax payments were reduced by £29.0 million (2016/17: £26.4 million) as a result of capital allowances and other timing differences where tax relief is given ahead of the cost being recognised in the income statement.

The total tax incurred was further reduced by £10.1 million (2016/17: £14.9 million) representing tax credits that we receive on charges that are shown in the statement of comprehensive income or equity – the tax for these items is also shown in the statement of comprehensive income or equity so is not included in the income statement charge.

The tax charge includes a credit of £3.9 million (2016/17: £27.4 million) for amounts overprovided in prior years. In 2016/17 there was also a credit of £39.8 million from the impact of adjusting our deferred tax liability to reflect the tax rate reductions announced by the Government to take effect in 2020. These accounting adjustments do not impact the amount payable to HMRC.

Together these amounts represent the corporation tax payable for 2018 of £26.7 million (2016/17: £32.4 million).

Corporation tax liabilities are currently settled in four instalments, two in the year of assessment and two in the following year. In the current year we have paid instalments on this year's tax amounting to £14.5 million (2016/17: £14.4 million) and received repayments of tax overpaid in previous years of £8.0 million (2016/17: £20.6 million), net of the instalments due from 2016/17, resulting in a net tax payment of £6.5 million (2016/17: net payment of £21.8 million including payments of £28.0 million relating to prior years).

Instalments of £12.2 million (2016/17: £18.0 million) are due to be paid to HMRC next year in respect of the current year's liability.

Note 7 in the financial statements sets out the tax charges and credits in the period, which are described in more detail below.

The current tax charge for the year was £32.9 million (2016/17: £19.9 million). In the previous year there was an exceptional credit of £16.4 million from adjustments following agreement with HMRC of prior years' tax matters.

The deferred tax charge before exceptional tax was £29.0 million (2016/17: £22.4 million). In the previous year there was an exceptional deferred tax credit of £35.8 million comprising an exceptional charge of £4.0 million following agreement with HMRC of prior years' tax matters and an exceptional credit of £39.8 million arising from a reduction in the corporation tax rate, enacted in that year, to 17% with effect from 1 April 2020.

Our full effective tax rate this year was 20.5% (2016/17: 2.0% after the exceptional tax credits described above). We expect this rate to be close to the corporation tax rate in the UK of 19% (2016/17: 20%) because substantially all of our business is in the UK and the profits of these businesses are chargeable to UK corporation tax.

UK tax rules specify the period over which tax relief can be obtained for capital expenditure. Typically this is a shorter period than that over which the assets are depreciated in the accounts and this tends to reduce the corporation tax charge in the year and the group underlying effective current tax rate. We make provision for tax that will be paid in future periods when the tax relief on the capital expenditure has been received and we receive no allowance for the depreciation charge arising from that expenditure. This is the most significant component of our deferred tax position.

Our underlying effective current tax rate was 12.7% (2016/17: 16.6%).

Profit for the year and earnings per share

Profit for the year from continuing operations decreased by 25.2% to £240.5 million (2016/17: £321.5 million).

The profit for the year from discontinued operations was £13.2 million (2016/17: £21.1 million).

Total profit for the year including discontinued operations was £253.7 million (2016/17: £342.6 million).

Basic earnings per share from continuing operations decreased by 25.3% to 102.2 pence (2016/17: 136.8 pence). Underlying basic earnings per share was 121.0 pence (2016/17: 115.7 pence). For further details see note 11.

Cash flow

	2018 £m	2017 £m
Cash generated from operations	**773.3**	851.0
Net capital expenditure	**(591.0)**	(501.3)
Net interest paid	**(182.1)**	(177.0)
Purchase of subsidiaries net of cash acquired	**(0.2)**	(77.7)
Proceeds on disposal of subsidiaries net of cash disposed and disposal costs	**25.1**	(19.2)
Proceeds on maturity of forward contracts	**–**	4.3
Swap termination payment	**(40.0)**	–
Tax paid	**(6.5)**	(21.8)
Free cash flow	**(21.4)**	58.3
Dividends	**(197.0)**	(190.4)
Issue of shares	**5.6**	6.1
Change in net debt from cash flows	**(212.8)**	(126.0)
Non-cash movements	**(61.4)**	(133.0)
Change in net debt	**(274.2)**	(259.0)
Opening net debt	**(5,082.4)**	(4,823.4)
Closing net debt	**(5,356.6)**	(5,082.4)

	2018 £m	2017 £m
Net cash and cash equivalents	**38.5**	44.6
Bank loans	**(1,217.4)**	(1,073.3)
Other loans	**(4,223.9)**	(4,090.0)
Finances leases	**(113.9)**	(115.7)
Cross currency swaps	**24.5**	43.4
Loans due from joint ventures and associated undertakings	**135.6**	108.6
Net debt	**(5,356.6)**	(5,082.4)

At 31 March 2018 we held £38.5 million (2017: £44.6 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2017: 15 years). Including committed facilities, our cash flow requirements are funded until March 2020.

Net debt at 31 March 2018 was £5,356.6 million (2017: £5,082.4 million) and balance sheet gearing (net debt/net debt plus equity) was 84.4% (2017: 84.6%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2018 was 60.6% (2017: 61.6%).

The estimated fair value of debt at 31 March 2018 was £1,184.3 million higher than book value (2017: £1,444.0 million higher). The decrease in the difference to book value is largely due to the increase in the discount rates applied, driven by higher prevailing market interest rates.

Treasury management and liquidity

Our principal treasury management objectives are:

- To access a broad range of sources of finance to obtain both the quantum and lowest cost compatible with the need for continued availability;
- To manage our exposure to movements in interest rates to provide an appropriate degree of certainty as to our cost of funds;
- To minimise our exposure to counterparty credit risk;
- To provide an appropriate degree of certainty as to our foreign exchange exposure;
- To maintain an investment grade credit rating for our regulated subsidiary Severn Trent Water Limited; and
- To maintain a flexible and sustainable balance sheet structure.

We invest cash in deposits with highly rated banks and liquidity funds. We regularly review the list of counterparties and report to the Treasury Committee.

Our policy for the management of interest rates is that at least 40% of our borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2018, interest rates for 48% (2017: 51%) of our net debt of £5,356.6 million were fixed.

Our long term credit ratings are:

Long term ratings	Severn Trent Plc	Seven Trent Water	Outlook
Moody's	Baa1	A3	Negative
Standard and Poor's	BBB	BBB+	Stable

Pensions

We have three defined benefit pensions arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes closed to future accrual on 31 March 2015.

Formal three-yearly actuarial valuations have been completed as at 31 March 2016 for the Severn Trent schemes ('the Schemes') and we have agreed the future funding plan for the Schemes with the Trustee. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, includes:

- Deficit reduction contributions of £25 million were paid in the year ended 31 March 2017 and payments of £10 million for each of the subsequent financial years ending 31 March 2019.
- Inflation-linked payments of £15 million per annum through an asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.
- Payments under another asset-backed funding arrangement of £8.2 million per annum to 31 March 2032.
- In addition to these payments, the company will directly pay the annual PPF levy incurred by the STPS (£1.1 million in 2017/18).

The Schemes have entered into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Dee Valley Water participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme ('the Section'). The Section funds are administered by trustees and are held separately from the assets of the group.

On an IAS 19 basis, the net position (before deferred tax) of all of the group's defined benefit pension schemes was a deficit of £519.8 million (2017: £574.6 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

The movements in the net deficit during the period were:

	Fair value of plan assets £m	Defined benefit obligations £m	Net deficit £m
At start of the period	2,352.8	(2,927.4)	(574.6)
Amounts credited/(charged) to income statement	60.2	(69.7)	(9.5)
Actuarial (losses)/gains taken to reserves	(1.3)	30.4	29.1
Net contributions received and benefits paid	(71.9)	107.1	35.2
At end of the period	**2,339.8**	**(2,859.6)**	**(519.8)**

On an IAS 19 basis, the funding level has improved to 82% (31 March 2017: 80%).

Exchange rates

The trading results of overseas subsidiaries are translated to sterling at the average rate of exchange ruling during the period and their net assets are translated at the closing rate on the balance sheet date. The impact of changing exchange rates on the subsidiaries' trading results was immaterial.

Dividends

In line with our policy for the remainder of AMP6 announced last year to increase the dividend by at least RPI+4% each year, the Board has proposed a final ordinary dividend of 51.92 pence per share for 2017/18 (2016/17: 48.90 pence per share). This gives a total ordinary dividend for the year of 86.55 pence (2016/17: 81.50 pence). The final ordinary dividend is payable on 20 July 2018 to shareholders on the register at 15 June 2018.

Principal risks and uncertainties

The Board considers the principal risks and uncertainties affecting the group's business activities to be those detailed below:

Customer Perception:

- We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Legal and Regulatory Environment:

- We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.
- The regulatory landscape is complex and subject to ongoing change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance. The Labour Party included in their 2017 manifesto a commitment to renationalise the water sector, including Severn Trent Water Limited the Group's principal operating subsidiary. We continue to engage constructively with stakeholders, and note that the debate is now reflecting both the benefits to customers of the current model and the legal and democratic difficulties of renationalisation.

Operations, assets and people:

- We may experience loss of data or interruptions to our key business systems as a result of cyber threats.
- We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.
- Failure of certain key assets or processes may result in inability to provide a continuous supply of clean water and safely take waste water away within our area.
- Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public as well as negatively impact our local and wider environment.
- We are unable to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or are unable to successfully plan for future water resource supply and demand due to climate change.

Financial risks:

- Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.
- We may be unable to fund the business sufficiently in order to meet our liabilities as they fall due.

The UK's decision to leave the European Union (EU):

- Severn Trent is less affected than other companies from the decision to leave the European Union – we operate principally in the UK and our supplier base and customers are predominantly domestic. We are, however, subject to some of the broader developments that flow from the decision, such as:
    - The effect on interest rates. Interest rates fell in the wake of the referendum decision. Lower rates reduce our cost of variable rate debt but they have an adverse impact on our pension deficit. Following the Brexit vote we have completed additional inflation and interest rate hedging and introduced downside protection to the fund's equity holdings.
    - The impact on our sources of finance. Where we borrow money from will be affected by broader macro-economic considerations and we do not expect to have access to the European Investment Bank (or its equivalent) after leaving the European Union. Following the Brexit vote we have been successful in raising £900 million through three sterling bond issues.
    - Future changes to environmental regulation. EU-derived environmental regulation has historically been a major driver of our investment programmes. The extent to which the UK government will follow or deviate from EU environmental legislation in the future is unclear.
    - The impact on the domestic economy. The health of the domestic economy can impact the ability of some of our customers to pay their bills.
- We don't consider the uncertainty surrounding the Brexit negotiations as a Principal Risk in itself, but it will be an influencing factor on the potential causes of some of our Principal Risks. Understanding the implications of the Brexit negotiations will therefore form a key part of our future ERM risk review process and the assessment of our Principal Risks.

Technical Guidance 2018/19

Year-end guidance		**FY 17/18**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover	£1.62 billion to £1.65 billion	£1.57bn	▲
Opex	Higher year-on-year as upward cost pressures of EA licence fees and continued higher energy pass-through costs offset ongoing efficiency programmes	£604m	▲
IRE	£135 million to £155 million	£135m	▲
Customer ODIs[(1)]	Expected to outturn in a net neutral position as only £7m of Waste cap remains, which we expect to hit in 2018/19	£80m	▼
Business Services			
Turnover	Higher year-on-year	£139m	▲
PBIT	Marginally higher year-on-year, impacted by new plant start-up costs	£36m	▲
Group			
Property PBIT	Around £20 million, including the sale of Teal Close	£7m	▲
Interest charge	Down year-on-year due to lower interest rates on new and replacement debt and lower forecast RPI	£220m	▼
Tax rate	Total tax rate expected to be around 19% and the underlying effective current tax rate between 11% and 13% due to higher capital allowances from increased capex	12.7%	▼
Group capex	£650 million to £750 million	£591m	▲
Dividend	Annual dividend growth of at least RPI+4% until March 2020. 2018/19 dividend set at 93.37p[(2)]	86.55p	▲

1. Customer Outcome Delivery Incentives (ODIs), quoted pre-tax at 2012/13 prices
2. 2018/19 dividend growth is based on November 2017 RPI of 3.88% plus 4%

Further Information

For further information, including the group's preliminary results presentation, see the Severn Trent website (www.severntrent.com).

Consolidated income statement
Year ended 31 March 2018

	Note	2018 £m	2017 (restated) £m
Turnover	2	**1,694.1**	1,638.0
Operating costs before exceptional items		**(1,153.1)**	(1,117.9)
Exceptional items	3	**(12.6)**	16.6
Total operating costs		**(1,165.7)**	(1,101.3)
Profit before interest, tax and exceptional items	2	**541.0**	520.1
Exceptional items	3	**(12.6)**	16.6
Profit before interest and tax		**528.4**	536.7
Finance income	4	**67.7**	72.2
Finance costs	5	**(287.2)**	(277.3)
Net finance costs		**(219.5)**	(205.1)
Net losses on financial instruments	6	**(6.7)**	(1.8)
Share of net profit/(loss) of joint ventures accounted for using the equity method		**0.2**	(1.8)
Profit on ordinary activities before taxation		**302.4**	328.0
Current tax	7	**(32.9)**	(36.3)
Deferred tax	7	**(29.0)**	(22.4)
Exceptional tax	7	**–**	52.2
Taxation on profit on ordinary activities	7	**(61.9)**	(6.5)
Profit for the year from continuing operations		**240.5**	321.5
Profit for the year from discontinued operations	9	**13.2**	21.1
Profit for the year		**253.7**	342.6
Attributable to:			
Owners of the company		**253.7**	342.8
Non-controlling interests		**–**	(0.2)
		253.7	342.6

	2018	2017
Earnings per share (pence)		
From continuing operations		
Basic	**102.2**	136.8
Diluted	**101.9**	136.2
From continuing and discontinued operations		
Basic	**107.8**	145.9
Diluted	**107.5**	145.3

Consolidated statement of comprehensive income
Year ended 31 March 2018

	2018 £m	2017 £m
Profit for the year	**253.7**	342.6
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gain/(loss)	**29.1**	(311.2)
Tax on net actuarial gain/loss	**(7.6)**	56.3
Deferred tax arising on change of rate	**–**	(3.1)
	21.5	(258.0)
Items that may be reclassified to the income statement:		
Gains/(losses) on cash flow hedges	**5.8**	(8.0)
Deferred tax on gains/losses on cash flow hedges	**(1.0)**	1.3
Amounts on cash flow hedges transferred to the income statement	**8.2**	2.9
Deferred tax on transfer to the income statement	**(1.4)**	(0.4)
Exchange movement on translation of overseas results and net assets	**(1.6)**	5.2
Cumulative exchange gains taken to the income statement	**(29.8)**	(2.8)
	(19.8)	(1.8)
Other comprehensive income/(loss) for the year	**1.7**	(259.8)
Total comprehensive income for the year	**255.4**	82.8
Attributable to:		
Owners of the company	**255.4**	83.1
Non-controlling interest	**–**	(0.3)
	255.4	82.8

Consolidated statement of changes in equity
Year ended 31 March 2018

	Equity attributable to owners of the company						
	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**	**Non-controlling interests £m**	**Total equity £m**
As at 1 April 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5
Profit for the year	–	–	–	342.8	342.8	(0.2)	342.6
Losses on cash flow hedges	–	–	(8.0)	–	(8.0)	–	(8.0)
Deferred tax on losses on cash flow hedges	–	–	1.3	–	1.3	–	1.3
Amounts on cash flow hedges transferred to the income statement	–	–	2.9	–	2.9	–	2.9
Deferred tax on transfer to the income statement	–	–	(0.4)	–	(0.4)	–	(0.4)
Exchange movement on translation of overseas results and net assets	–	–	5.3	–	5.3	(0.1)	5.2
Cumulative exchange losses transferred to income statement	–	–	(2.8)	–	(2.8)	–	(2.8)
Net actuarial losses	–	–	–	(311.2)	(311.2)	–	(311.2)
Tax on net actuarial losses	–	–	–	56.3	56.3	–	56.3
Deferred tax arising from rate change	–	–	–	(3.1)	(3.1)	–	(3.1)
Transfer net of deferred tax	–	–	7.0	(7.0)	–	–	–
Total comprehensive income/(loss) for the year	–	–	5.3	77.8	83.1	(0.3)	82.8
Share options and LTIPs							
- proceeds from shares issued	0.4	5.7	–	–	6.1	–	6.1
- value of employees' services	–	–	–	6.2	6.2	–	6.2
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Deferred tax on share based payments	–	–	–	0.1	0.1	–	0.1
Disposal of non-controlling interest	–	–	–	–	–	(0.8)	(0.8)
Dividends paid	–	–	–	(190.4)	(190.4)	–	(190.4)
As at 31 March 2017	234.7	112.5	121.8	454.3	923.3	–	923.3
Profit for the year	–	–	–	253.7	253.7	–	253.7
Gains on cash flow hedges	–	–	5.8	–	5.8	–	5.8
Deferred tax on gains on cash flow hedges	–	–	(1.0)	–	(1.0)	–	(1.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.4)	–	(1.4)	–	(1.4)
Exchange movement on translation of overseas results and net assets	–	–	(1.6)	–	(1.6)	–	(1.6)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	29.1	29.1	–	29.1
Tax on net actuarial gains	–	–	–	(7.6)	(7.6)	–	(7.6)
Transfer between reserves	–	–	(9.0)	9.0	–	–	–
Total comprehensive (loss)/income for the year	–	–	(28.8)	284.2	255.4	–	255.4
Share options and LTIPs							
- proceeds from shares issued	0.4	5.2	–	–	5.6	–	5.6
- value of employees' services	–	–	–	6.9	6.9	–	6.9
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Deferred tax on share based payments	–	–	–	(1.3)	(1.3)	–	(1.3)
Dividends paid	–	–	–	(197.0)	(197.0)	–	(197.0)
As at 31 March 2018	**235.1**	**117.7**	**93.0**	**547.9**	**993.7**	**–**	**993.7**

Consolidated balance sheet
At 31 March 2018

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill		**62.2**	81.0
Other intangible assets		**88.4**	80.9
Property, plant and equipment		**8,471.9**	8,116.4
Investments in joint ventures and associates		**37.6**	37.4
Derivative financial instruments		**36.0**	67.0
Trade and other receivables		**181.3**	58.1
Retirement benefit surplus	12	**18.2**	9.8
		8,895.6	8,450.6
Current assets			
Inventory		**18.5**	16.2
Trade and other receivables		**456.4**	517.8
Current tax receivable		**–**	7.3
Derivative financial instruments		**0.2**	–
Cash and cash equivalents		**51.1**	44.6
		526.2	585.9
Current liabilities			
Borrowings		**(308.7)**	(559.4)
Derivative financial instruments		**–**	(0.6)
Trade and other payables		**(462.6)**	(451.9)
Current tax payable		**(8.6)**	–
Provisions for liabilities and charges		**(40.6)**	(17.5)
		(820.5)	(1,029.4)
Net current liabilities		**(294.3)**	(443.5)
Non-current liabilities			
Borrowings		**(5,259.1)**	(4,719.6)
Derivative financial instruments		**(116.0)**	(184.1)
Trade and other payables		**(1,009.4)**	(955.7)
Deferred tax		**(674.4)**	(623.7)
Retirement benefit obligations	12	**(538.0)**	(584.4)
Provisions for liabilities		**(10.7)**	(16.3)
		(7,607.6)	(7,083.8)
Net assets		**993.7**	923.3
Equity			
Called up share capital		**235.1**	234.7
Share premium account		**117.7**	112.5
Other reserves		**93.0**	121.8
Retained earnings		**547.9**	454.3
Total equity		**993.7**	923.3

Consolidated cash flow statement
Year ended 31 March 2018

	Note	**2018 £m**	2017 £m
Cash generated from operations	13	**773.3**	851.0
Tax received	13	**8.0**	20.6
Tax paid	13	**(14.5)**	(42.4)
Net cash generated from operating activities		**766.8**	829.2
Purchase of subsidiaries net of cash acquired	8	**(0.2)**	(77.7)
Investments in associates and joint ventures		**–**	(13.5)
Purchases of property, plant and equipment		**(608.5)**	(519.2)
Purchases of intangible assets and goodwill		**(27.3)**	(29.1)
Contributions and grants received		**36.8**	39.5
Proceeds on disposal of subsidiaries and other businesses net of cash disposed		**25.1**	5.1
Cash flows from transfer of business to joint venture		**–**	(10.8)
Proceeds on disposal of property, plant and equipment		**8.0**	7.5
Net loans advanced to joint ventures and associates		**(26.6)**	(109.0)
Proceeds on maturity of forward contract		**–**	4.3
Interest received		**6.4**	1.4
Net cash from investing activities		**(586.3)**	(701.5)
Interest paid		**(183.4)**	(172.6)
Interest element of finance lease payments		**(5.1)**	(5.8)
Dividends paid to shareholders of the parent		**(197.0)**	(190.4)
Repayments of borrowings		**(552.6)**	(276.2)
Repayments of obligations under finance leases		**(1.8)**	(1.5)
New loans raised		**789.2**	498.0
Issues of shares		**5.6**	6.1
Swap termination payment		**(40.0)**	–
Net cash flow from financing activities		**(185.1)**	(142.4)
Net movement in cash and cash equivalents		**(4.6)**	(14.7)
Net cash and cash equivalents at the beginning of the year		**44.6**	55.2
Effect of foreign exchange rates		**(1.5)**	4.1
Net cash and cash equivalents at end of year		**38.5**	44.6
Cash and cash equivalents		**34.7**	25.8
Bank overdrafts		**(12.6)**	–
Short term deposits		**16.4**	18.8
		38.5	44.6

Notes to the financial statements

1. General information

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2018 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

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

The financial information set out in this announcement does not constitute the company's statutory accounts, within the meaning of section 430 of the Companies Act 2006, for the years ended 31 March 2018 or 2017, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not comply with the disclosure requirements of IFRS. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The auditors have consented to the publication of the Preliminary Announcement as required by Listing Rule 9.7a having completed their procedures under APB bulletin 2008/2.

Prior year figures in the consolidated income statement and related notes, including Alternative Performance Measures in note 17, have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details, see note 9.

2. Segmental analysis

The group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, and Dee Valley Water Limited.

Business Services includes the group's Operating Services businesses in the UK & Ireland and the group's Renewable Energy business.

The disposal of the group's Operating Services businesses in Italy and the USA was completed on 23 February and 30 June 2017 respectively. The businesses have been classified as discontinued operations. The prior year segmental results have been restated to present the Italian and US Operating Services businesses as discontinued operations as set out in the stock market announcement dated 19 July 2017.

The disposal of the group's non-household retail business to the newly created Water Plus joint venture with United Utilities was also classified as a discontinued operation in the prior year. This transaction was completed on 1 June 2016.

The Severn Trent Executive Committee (STEC) is considered to be the group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Regulated Water and Waste Water and Business Services operations are described in the Annual Report and Accounts.

Results from interests in joint ventures and associates are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT. A segmental analysis of sales and underlying PBIT is presented below.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with group accounting policies. These are eliminated on consolidation.

	2018		2017 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,574.1**	**119.9**	1,527.6	109.8
Inter-segment turnover	**0.5**	**18.8**	1.2	18.6
Total turnover	**1,574.6**	**138.7**	1,528.8	128.4
Profit before interest, tax and exceptional items	**514.9**	**36.0**	494.7	32.2
Exceptional items (see note 3)	**(11.1)**	**(1.8)**	26.4	0.6
Profit before interest and tax	**503.8**	**34.2**	521.1	32.8

The reportable segments' turnover is reconciled to group turnover as follows:

	2018 £m	2017 (restated) £m
Regulated Water and Waste Water	**1,574.6**	1,528.8
Business Services	**138.7**	128.4
Corporate and other	**9.0**	6.2
Consolidation adjustments	**(28.2)**	(25.4)
	1,694.1	1,638.0

Segmental underlying PBIT is reconciled to the group's profit before tax as follows:

	2018 £m	2017 (restated) £m
Regulated Water and Waste Water	**514.9**	494.7
Business Services	**36.0**	32.2
Corporate and other	**(9.7)**	(6.0)
Consolidation adjustments	**(0.2)**	(0.8)
Profit before interest, tax and exceptional items	**541.0**	520.1
Exceptional items:		
Regulated Water and Waste Water	**(11.1)**	26.4
Business Services	**(1.8)**	0.6
Corporate and other	**0.3**	(10.4)
Net finance costs	**(219.5)**	(205.1)
Net losses on financial instruments	**(6.7)**	(1.8)
Share of profit/(loss) of joint ventures	**0.2**	(1.8)
Profit on ordinary activities before taxation	**302.4**	328.0

The following table shows the segmental capital employed:

	2018		2017	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**8,900.8**	**196.6**	8,477.1	213.1
Goodwill	**63.5**	**–**	67.3	14.9
Interests in joint ventures and associates	**–**	**37.6**	–	37.4
Segment assets	**8,964.3**	**234.2**	8,544.4	265.4
Segment operating liabilities	**(1,957.6)**	**(41.9)**	(1,970.9)	(55.9)
Capital employed	**7,006.7**	**192.3**	6,573.5	209.5

Operating assets comprise other intangible assets, property, plant and equipment, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

The Business Services capital employed at 31 March 2017 includes Operating Services US, which was sold on 30 June 2017.

3. Exceptional items before tax

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

	2018 **£m**	2017 (restated) £m
Regulated Water and Waste Water		
Profit on disposal of fixed assets	**–**	11.0
Gain arising on pension exchange arrangement	**7.7**	15.4
Restructuring costs	**(18.8)**	–
	(11.1)	26.4
Business Services		
Gain arising on pension exchange arrangement	**0.3**	0.6
Restructuring costs	**(2.1)**	–
	(1.8)	0.6
Corporate and Other		
Elimination of intra-group profit on disposal of fixed assets	**–**	(11.0)
Gain arising on pension exchange arrangement	**0.3**	0.6
	0.3	(10.4)
	(12.6)	16.6

In 2017 Regulated Water and Waste Water realised a gain of £11.0 million from sales of property on an arm's length basis to other group companies. The gain was treated as exceptional in the segment results and was eliminated on consolidation in the group results. The consolidation adjustment is shown in Corporate and Other in the table above.

4. Finance income

	2018 **£m**	2017 (restated) £m
Interest income earned on bank deposits	**0.5**	0.2
Other financial income	**5.2**	0.2
Total interest receivable	**5.7**	0.4
Interest income on defined benefit scheme assets	**62.0**	71.8
	67.7	72.2

5. Finance costs

	2018 **£m**	2017 £m
Interest expense charged on:		
Bank loans and overdrafts	**19.2**	22.7
Other loans	**183.4**	167.4
Finance leases	**4.4**	4.2
Total borrowing costs	**207.0**	194.3
Other financial expenses	**2.7**	0.3
Interest cost on defined benefit scheme liabilities	**77.5**	82.7
	287.2	277.3

6. Net losses on financial instruments

	2018 £m	2017 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(1.1)**	17.6
Loss arising on debt in fair value hedges	**–**	(16.9)
Exchange gain/(loss) on other loans	**12.7**	(11.1)
Loss on cash flow hedges transferred from equity	**(8.2)**	(2.9)
Hedge ineffectiveness on cash flow hedges	**1.4**	(0.1)
(Loss)/gain arising on swaps where hedge accounting is not applied	**(12.6)**	11.1
Amortisation of fair value adjustment on debt	**1.1**	0.5
	(6.7)	(1.8)

7. Tax

	2018			2017 (restated)
	£m	Before exceptional tax £m	Exceptional tax £m	Total £m
Current tax at 19% (2017: 20%)				
Current year	**36.8**	47.3	–	47.3
Prior years	**(3.9)**	(11.0)	(16.4)	(27.4)
Total current tax	**32.9**	36.3	(16.4)	19.9
Deferred tax				
Origination and reversal of temporary differences:				
Current year	**21.4**	16.4	–	16.4
Prior years	**7.6**	6.0	4.0	10.0
Exceptional credit from rate change	**–**	–	(39.8)	(39.8)
Total deferred tax	**29.0**	22.4	(35.8)	(13.4)
	61.9	58.7	(52.2)	6.5

The current tax charge was £32.9 million (2016/17: £36.3 million before exceptional tax). In 2016/17, there was an exceptional current tax credit of £16.4 million which arose from agreeing a number of prior year tax items with HMRC.

The deferred tax charge was £29.0 million (2016/17: £22.4 million before exceptional tax). In 2016/17, there was a net exceptional deferred tax credit of £35.8 million arising from agreeing a number of prior year tax items with HMRC and a reduction in the corporation tax rate, enacted in that year, to 17% with effect from 1 April 2020.

8. Acquisitions

On 15 February 2017, Severn Trent Water Limited acquired 100% of the issued share capital of Dee Valley Group Limited comprising all subsidiaries including the regulated water company Dee Valley Water Limited. This acquisition was made through a scheme of arrangement including cash consideration of £79.0 million and the issue of loan notes with a value of £5.2 million. In the current year a further £0.2 million was paid to acquire shares held by non-assenting shareholders.

The acquisition was accounted for using the acquisition method. Goodwill of £66.0 million was capitalised attributable to the anticipated future synergies and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired. Given the proximity to the year end, full detailed fair value exercises were not able to be completed before the approval of the financial statements for the year ended 31 March 2017.

The fair value exercises were completed in the current year and resulted in the revisions to the provisional fair values as set out in the following table.

	2018 £m
Goodwill recognised at 1 April 2017 based on provisional fair values	**66.0**
Additional consideration in respect of acquisition	**0.2**
Adjustments to provisional fair values for:	
Recognition of Dee Valley Water Limited's Instrument of Appointment	**(4.3)**
Revisions to estimated fair value of Property, plant and equipment	**(0.8)**
Deferred tax on changes in fair value	**1.1**
Goodwill recognised at 31 March 2018 based on final fair values	**62.2**

Details of the adjustments made to the provisional fair values are set out below.

Dee Valley Water Limited holds an Instrument of Appointment as a water undertaker under the Water Act 1989 issued by the Secretary of State for Wales (the Licence). The Licence has no fixed term and requires 25 years notice of termination. Under the Licence, Dee Valley Water Limited has an exclusive right to supply water to household and non-household customers within a geographic area defined in the Licence. On 23 March 2018 Ofwat announced that it had agreed to vary the terms of the Licence with effect from 1 July 2018 to amend the geographic area to include those parts of Wales previously served by Severn Trent Water and to exclude certain parts of England previously served by Dee Valley Water.

Water undertakers are subject to a framework of economic regulation operated by the Water Services Regulation Authority (Ofwat). Under this framework water undertakers are permitted to set wholesale tariffs that would enable an efficient company to earn a post-tax return on a notional amount known as the Regulatory Capital Value (RCV). They are also allowed to earn a net margin on their retail costs. Ofwat sets the post-tax return at a rate that it considers to be the weighted average cost of capital for companies operating in the sector based on an assumed gearing level. Therefore the Licence, together with the net operating assets, enables Dee Valley Water Limited to earn post-tax returns with a net present value equivalent to the RCV plus a net return on retail activities.

To determine the fair value of the Licence we have taken the RCV at 31 March 2017 from Ofwat's Final Price Control Determination published in December 2014 adjusted to current prices at the acquisition date, added an allowance for the value of the Retail business and compared this with the fair value of the operating assets acquired. This resulted in a valuation of £4.3 million for the Licence.

The goodwill acquired represents future outperformance of the regulatory settlement and synergies arising from the combination of the group's regulated water businesses.

9. Discontinued operations

Operating Services US and Italy

The disposal of the group's US business (Operating Services, US), which formed part of the Business Services segment, to US investors PPC Enterprises LLC and Alston Capital Partners LLC was completed on 30 June 2017. The group disposed of the Operating Services business in Italy, which formed part of the Business Services segment, on 23 February 2017 to Acea S.P.A.

Prior period figures in the consolidated income statement and related notes have been restated to present separately amounts relating to discontinued operations, as detailed in the stock market announcement dated 19 July 2017 – "Trading update for the period 1 April to 19 July 2017".

Water Plus joint venture

On 1 March 2016 the group announced its intention, subject to approval from the Competition and Markets Authority ('CMA'), to enter into a joint venture with United Utilities PLC to compete in the non-household water and waste water retail markets in England and Scotland. On 3 May 2016 the CMA announced approval of the joint venture. On this date the group determined that completion of the proposed transaction became highly probable and the non-household retail business was classified as a disposal group and discontinued operation with effect from this date. On 31 May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1 June it exchanged the entire share capital of Severn Trent Select Limited for 50% of the share capital of Water Plus.

During the year, the remaining balance on the non-household retail receivable amounts that were retained when that business was transferred to Water Plus was written off. An additional £1.5 million was charged to operating costs in discontinued operations in respect of this.

The results of discontinued operations are disclosed separately in the income statement and comprise:

	2018			2017 (restated)			
	Operating Services US (3 months)	**Non-household retail**	**Total**	Operating Services US (12 months)	Operating Services Italy (10 months)	Non-household retail (2 months)	Total
	£m	**£m**	**£m**	£m	£m	£m	£m
Turnover	**42.1**	**–**	**42.1**	160.4	20.8	66.0	247.2
Total operating costs	**(40.7)**	**(1.5)**	**(42.2)**	(156.0)	(20.2)	(67.3)	(243.5)
(Loss)/profit before interest and tax	**1.4**	**(1.5)**	**(0.1)**	4.4	0.6	(1.3)	3.7
Net finance income	**–**	**–**	**–**	0.9	0.2	–	1.1
(Loss)/profit before tax	**1.4**	**(1.5)**	**(0.1)**	5.3	0.8	(1.3)	4.8
Attributable tax expense	**–**	**0.3**	**0.3**	(0.6)	–	0.3	(0.3)
Gain on disposal of discontinued operations	**13.0**	**–**	**13.0**	–	2.0	14.6	16.6
Profit/(loss) for the year	**14.4**	**(1.2)**	**13.2**	4.7	2.8	13.6	21.1
Attributable to:							
Owners of the company	**14.4**	**(1.2)**	**13.2**	4.7	3.0	13.6	21.3
Non-controlling interests	**–**	**–**	**–**	–	(0.2)	–	(0.2)
	14.4	**(1.2)**	**13.2**	4.7	2.8	13.6	21.1

Basic and diluted earnings per share from discontinued operations are as follows:

	2018			2017 (restated)		
	Profit attributable to owners of the company	**Weighted average number of shares**	**Per share amount**	Profit attributable to owners of the company	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	pence
Basic earnings per share	**13.2**	**235.3**	**5.6**	21.3	235.0	9.1
Diluted earnings per share	**13.2**	**236.1**	**5.6**	21.3	236.0	9.0

Net cash flows arising from the discontinued operations in the year were:

	2018	2017 (restated)			
	Operating Services US (3 months)	Operating Services US (12 months)	Operating Services Italy (10 months)	Non household retail (2 months)	Total
	£m	£m	£m	£m	£m
Net cash flows attributable to:					
- Operating activities	**1.9**	5.1	(0.7)	2.9	7.3
- Investing activities	**(0.6)**	(3.7)	0.4	–	(3.3)
- Financing activities	**–**	(1.1)	1.1	(3.5)	(3.5)
	1.3	0.3	0.8	(0.6)	0.5

The net gain on disposals are calculated as follows:

	2018	2017	
	Operating Services US	Operating Services Italy	Non household retail
	£m	£m	£m
Consideration	**47.8**	7.9	25.5
Net assets attributable to owners of the company	**(45.5)**	(7.1)	(3.6)
	2.3	0.8	21.9
Tax on gain on disposal	**(0.7)**	–	–
Disposal costs and provisions on disposal	**(18.4)**	(1.6)	(7.3)
Foreign exchange gain recycled from reserves	**29.8**	2.8	–
Net gain on disposal	**13.0**	2.0	14.6

The net assets of the businesses at the date of disposal were:

	2018	2017	
	Operating Services US	Operating Services Italy	Non-household retail
	£m	£m	£m
Goodwill	**14.4**	2.0	–
Other intangible assets	**2.9**	1.4	–
Property, plant and equipment	**9.4**	1.2	–
Investments	**–**	4.2	–
Inventories	**0.6**	7.5	–
Trade and other receivables	**28.2**	11.3	0.6
Cash and bank balances	**9.9**	1.5	3.5
Trade and other payables	**(19.9)**	(15.0)	(0.5)
Borrowings	**–**	(3.9)	–
Provisions for liabilities	**–**	(2.3)	–
	45.5	7.9	3.6
Attributable to:			
Owners of the company	**45.5**	7.1	3.6
Non-controlling interest	**–**	0.8	–
	45.5	7.9	3.6

The net cash flows arising from disposals were:

	Operating Services US	Operating Services Italy	Non-household retail
	£m	£m	£m
Consideration received in cash and cash equivalents	**39.3**	0.3	–
Settlement of intercompany loans	**–**	7.6	–
Disposal costs paid in cash and cash equivalents	**(4.6)**	(1.6)	(7.3)
Cash and bank balances disposed of	**(9.9)**	(1.5)	(3.5)
	24.8	4.8	(10.8)

10. Dividends

Amounts recognised as distributions to owners of the company in the period:

	2018		2017	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2017 (2016)	**48.90**	**115.2**	48.40	114.0
Interim dividend for the year ended 31 March 2018 (2017)	**34.63**	**81.8**	32.60	76.4
Total dividends paid	**83.53**	**197.0**	81.00	190.4
Proposed final dividend for the year ended 31 March 2018	**51.92**	**122.7**		

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

11. Earnings per share

a) Basic and diluted earnings per share

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

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

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

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

Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2018	2017 (restated)
	£m	£m
Profit for the period attributable to owners of the company	**253.7**	342.8
Adjusted for profit from discontinued operations attributable to owners of the company	**(13.2)**	(21.3)
Profit for the period from continuing operations attributable to owners of the company	**240.5**	321.5

Number of shares

	2018	2017
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**235.3**	235.0
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.8**	1.0
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.1**	236.0

b) Underlying earnings per share

	2018	2017 (restated)
	pence	pence
Underlying basic earnings per share	**121.0**	115.7
Underlying diluted earnings per share	**120.6**	115.2

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments and deferred tax in both 2018 and 2017. The directors consider that the underlying figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

	2018 **£m**	2017 (restated) £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**240.5**	321.5
Adjustments for:		
- exceptional items before tax	**12.6**	(16.6)
- current tax related to exceptional items	**(0.7)**	(0.1)
- net losses on financial instruments	**6.7**	1.8
- current tax on net losses on financial instruments	**(3.3)**	(4.9)
- exceptional current tax	**–**	(16.4)
- deferred tax	**29.0**	(13.4)
Earnings for the purpose of underlying basic and diluted earnings per share	**284.8**	271.9

12. Retirement benefit schemes

The group operates three defined benefit schemes in the UK, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual. The group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The most recent actuarial valuation of the Severn Trent schemes was at 31 March 2016. Dee Valley Water participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. The most recent actuarial valuation of this scheme was at 31 March 2017.

The assumptions used in calculating the defined benefit obligations as at 31 March 2018 have been updated to reflect market conditions prevailing at the balance sheet date as follows.

	2018 **%**	2017 %
Price inflation - RPI	**3.1**	3.1
Price inflation - CPI	**2.1**	2.1
Discount rate	**2.7**	2.7
Pension increases in payment	**3.1**	3.1
Pension increases in deferment	**3.1**	3.1

	2018	2017
Remaining life expectancy for members currently aged 65 (years)		
- men	**22.4**	22.5
- women	**24.1**	24.1
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**23.4**	23.6
- women	**25.3**	25.3

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

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase/decrease by 0.1% pa	Decrease/increase by £48 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £43 million
Mortality	Increase in life expectancy by 1 year	Increase by £107 million

The defined benefit assets have been updated to reflect their market value as at 31 March 2018. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

Movements in the net deficit recognised in the balance sheet were as follows:

	Fair value of plan assets £m	Defined benefit obligations £m	Net deficit £m
At 1 April 2017	2,352.8	(2,927.4)	(574.6)
Exceptional past service credit	–	8.3	8.3
Current service cost	–	(0.5)	(0.5)
Scheme administration costs	(1.8)	–	(1.8)
Interest income/(cost)	62.0	(77.5)	(15.5)
Return on plan assets	(1.3)	–	(1.3)
Actuarial gains recognised in the statement of comprehensive income	–	30.4	30.4
Contributions from the sponsoring companies	35.2	–	35.2
Employees' contributions and benefits paid	(107.1)	107.1	–
At 31 March 2018	**2,339.8**	**(2,859.6)**	**(519.8)**

The net deficit is presented on the balance sheet as follows:

	2018 £m	2017 £m
Retirement benefit surplus	**18.2**	9.8
Retirement benefit obligations	**(538.0)**	(584.4)
	(519.8)	(574.6)

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2018 £m	2017 (restated) £m
Profit before interest and tax from continuing operations	**528.4**	536.7
Profit before interest and tax from discontinued operations	**13.6**	20.6
Profit before interest and tax	**542.0**	557.3
Depreciation of property, plant and equipment	**308.8**	308.8
Amortisation of intangible assets	**20.8**	19.3
Pension service credit	**(7.8)**	(17.3)
Defined benefit pension scheme administration costs	**1.8**	3.3
Defined benefit pension scheme contributions	**(35.2)**	(33.2)
Share based payment charge	**6.9**	6.1
Profit on sale of property, plant and equipment and intangible assets	**(7.3)**	(5.0)
Exceptional depreciation - property, plant and equipment	**16.8**	–
Profit on disposal of businesses	**(13.7)**	(17.2)
Deferred income movement	**(14.3)**	(13.9)
Provisions charged to the income statement	**13.8**	16.5
Utilisation of provisions for liabilities and charges	**(5.4)**	(10.5)
Operating cash flows before movements in working capital	**827.2**	814.2
Increase in inventory	**(2.9)**	(1.3)
(Increase)/decrease in amounts receivable	**(58.4)**	60.3
Increase/(decrease) in amounts payable	**7.4**	(22.2)
Cash generated from operations	**773.3**	851.0
Tax received	**8.0**	20.6
Tax paid	**(14.5)**	(42.4)
Net cash generated from operating activities	**766.8**	829.2

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2017: nil). Assets transferred from developers and under Private Drains and Sewers legislation at no cost were recognised as their fair value of £35.3 million (2017: £51.4 million).

c) Exceptional cash flows

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

	2018 £m	2017 (restated) £m
Costs of Pension Exchange Arrangement	–	(0.7)

d) Reconciliation of movements in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2017	44.6	(1,073.3)	(4,090.0)	(115.7)	43.4	108.6	(5,082.4)
Cashflow	(4.6)	(138.5)	(98.1)	1.8	–	26.6	(212.8)
Fair value adjustments	–	–	2.0	–	(18.9)	–	(16.9)
RPI uplift on index-linked debt	–	(4.4)	(49.7)	–	–	–	(54.1)
Foreign exchange	(1.5)	–	12.7	–	–	–	11.2
Other non-cash movements	–	(1.2)	(0.8)	–	–	0.4	(1.6)
As at 31 March 2018	**38.5**	**(1,217.4)**	**(4,223.9)**	**(113.9)**	**24.5**	**135.6**	**(5,356.6)**

Liabilities from financing activities comprise bank loans, other loans and finance leases.

14. Post balance sheet events

Sale of Land in Nottinghamshire

On 30 April 2018, the sale of land from Midlands Land Portfolio Limited, a subsidiary of Severn Trent Plc, to Persimmon Homes was completed. The sale values the land at £21.8 million, realising a group profit of £18.2 million in the year ending 31 March 2019.

Payments will be made in cash and phased over the life of the project with £2.3 million payable on 30 April 2018 and the remainder phased evenly over five further yearly payments of £3.9 million each ending on 30 April 2023.

Dividends

Following the year end the board of directors have approved a final dividend of 51.92 pence per share. Further details of this are shown in note 10.

15. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2017: £nil) is expected to arise in respect of either bonds or guarantees.

16. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the group and its joint venture, Water Plus, are disclosed below.

	Water Plus	
	2018 £m	2017 £m
Sale of services	**354.9**	317.5
Net interest income	**2.2**	1.3
	357.1	318.8

Outstanding balances between the group and the joint venture as at 31 March were as follows:

	Water Plus	
	2018	2017
	£m	£m
Trade and other receivables due from related parties	**44.9**	37.6
Amounts due to related parties	**–**	(8.8)
Loans receivable from joint ventures	**135.6**	108.6
	180.5	137.4

The retirement benefit schemes operated by the group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 12.

17. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The group uses such measures for performance analysis because they provide additional useful information on the performance and position of the group. Since the group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

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

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and restated for discontinued operations. This provides a consistent measure of operating performance excluding distortions caused by exceptional items. The calculation of this AMP is shown on the face of the income statement and in note 2 for reportable segments.

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments, exceptional current tax and deferred tax. The directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 11.

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures.

See note 13.

e) Effective interest rate

The effective interest rate is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

$$\frac{\text{(net finance costs – net finance costs from pensions + capitalised finance costs)}}{\text{(monthly average net debt)}}$$

	2018	2017
		(restated)
	£m	£m
Net finance costs	**219.5**	205.1
Net finance costs from pensions	**(15.5)**	(10.9)
Capitalised interest	**26.2**	18.6
	230.2	212.8
Average net debt	**5,134.4**	4,812.5
Effective interest rate	**4.5%**	4.4%

This APM is used as it shows the average interest rate that is attributable to the net debt of the business.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest rate except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally RPI adjustments on index-linked debt).

$$\frac{\text{(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)}}{\text{(monthly average net debt)}}$$

	2018 **£m**	2017 (restated) £m
Net finance costs	**219.5**	205.1
Net finance costs from pensions	**(15.5)**	(10.9)
RPI interest	**(54.1)**	(30.2)
Capitalised interest	**26.2**	18.6
	176.1	182.6
Average net debt	**5,134.4**	4,812.5
Effective cash cost of interest	**3.4%**	3.8%

This is used as it shows the average cash interest rate based on the net debt of the business.

g) PBIT interest cover

The ratio of profit from continuing operations before interest, tax and exceptional items to net finance costs excluding net finance costs from pensions.

$$\frac{\text{Underlying PBIT}}{\text{(net finance costs – net finance costs from pensions)}}$$

	2018 **£m**	2017 (restated) £m
Underlying PBIT	**541.0**	520.1
Net finance costs	**219.5**	205.1
Net finance costs from pensions	**(15.5)**	(10.9)
Net finance costs excluding finance costs from pensions	**204.0**	194.2
	ratio	ratio
PBIT interest cover ratio	**2.7**	2.7

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

h) EBITDA and EBITDA interest cover

The ratio of profit from continuing operations before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{(underlying PBIT + depreciation + amortisation)}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2018	2017 (restated)
	£m	£m
Underlying PBIT	**541.0**	520.1
Depreciation	**308.2**	305.9
Amortisation	**20.5**	17.8
EBITDA	**869.7**	843.8
Net finance costs	**219.5**	205.1
Net finance costs from pensions	**(15.5)**	(10.9)
Net finance costs excluding finance costs from pensions	**204.0**	194.2
	ratio	ratio
EBITDA interest cover ratio	**4.3**	4.3

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

i) Underlying effective current tax rate

Current tax charge for the year on continuing operations, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, net losses on financial instruments, exceptional items and share of net profit of joint ventures accounted for using the equity method.

$$\frac{\textit{(Current year current tax charge in the income statement – tax on exceptional items – tax on financial instruments)}}{\textit{(PBT – share of net profit of JVs – exceptional items – net losses on financial instruments)}}$$

	2018		2017 (restated)	
		Current tax thereon		Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**302.4**	**(36.8)**	328.0	(47.3)
Adjustments:				
Share of net (profit)/loss of joint ventures accounted for using the equity method	**(0.2)**	**–**	1.8	–
Exceptional items	**12.6**	**(0.7)**	(16.6)	(0.1)
Net losses on financial instruments	**6.7**	**(3.3)**	1.8	(4.9)
	321.5	**(40.8)**	315.0	(52.3)
		12.7%		16.6%

This APM is used to remove distortions in the underlying tax charge and create a metric consistent with the calculation of underlying earnings per share in note 11. Share of net (profit)/loss of joint ventures is excluded from the calculation because this is included after tax and the tax on joint venture results is therefore not included in the current tax charge.

Glossary

Asset Management Plan (AMP)
Price limit periods are sometimes known as AMP (Asset Management Plan) periods. The current period is known as AMP6 (2015-2020) because it is the sixth cycle since the water industry was privatised in 1989.

C-MeX (Customer Measure of Experience)
The proposed Customer Measure of Experience (C-MeX) will replace the SIM as the incentive for companies to improve the experience of residential customers from 1 April 2020 onwards.

Customer ODI (Outcome Delivery Incentive)
A framework made up of outcomes, measures, targets and incentives which provides companies with rewards for achieving stretching performance targets and compensates customers if performance is below performance targets. This was first introduced at the 2014 price review (PR14) by the regulator, Ofwat.

Final Determination (FD)
The outcome of the price review process that sets price, investment and services packages that customers receive.

Ofwat
The water industry's economic regulator in England & Wales.

PR14 / PR19
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewage companies are set every five years. PR19 (Price Review 2019) will set wholesale price controls for water and sewerage companies for 2020 to 2025.

Price limits
The price limits are set to enable water companies to deliver the services required of them over the AMP period. These include allowing for capital maintenance of assets, ensuring security of supply and meeting drinking water and environmental quality requirements.

Regulatory Capital Value (RCV)
The regulatory capital value is used to measure the capital base of a company when setting price limits. The regulatory capital value represents the initial market value of a company, including debt, plus new capital expenditure.

RoRE
Return on Regulated Equity (RoRE) measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt.

Service Incentive Mechanism (SIM)
The SIM allows comparison of companies' performance. It measures the following aspects of service delivery:

i) Where customers have made contact regarding a service issue, for example, phoning about a billing error or writing to complain about a water supply problem.
ii) A customer survey measuring how well companies have handled all types of customer contacts, not just when things have gone wrong.

Companies receive rewards or penalties in the Price Review depending on their SIM performance.

Totex
Totex (shortened form of total expenditure) includes operating expenditure (opex), infrastructure renewals expenditure (IRE) and capital expenditure (capex).

Waste cap
The limit on the amount of outperformance payments for waste water related customer ODIs. For Severn Trent in AMP6 this is £190 million.

Wholesale Revenue Forecasting Incentive Mechanism (WRFIM)
A mechanism to reduce the impact of deviations on customer bills arising from revenue forecasting deviations by adjusting companies' allowed revenues for each year to take account of differences between actual and projected revenues, and incentivising companies to avoid revenue forecasting errors through applying a penalty to variations that fall outside a set uncertainty band (or 'revenue flexibility threshold').

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This document contains statements that are, or may be deemed to be, ‘forward-looking statements’ with respect to Severn Trent’s financial condition, results of operations and business and certain of Severn Trent’s plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as ‘anticipates’, ‘aims’, ‘due’, ‘could’, ‘may’, 'will', 'would', ‘should’, ‘expects’, ‘believes’, ‘intends’, ‘plans’, 'projects', ‘potential’, ‘reasonably possible’, ‘targets’, ‘goal’, ‘estimates’ or words with a similar meaning, and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

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