Preliminary Announcement of Annual Results
21 May 2019
Results for the year to 31 March 2019

SEVERN TRENT

Continued momentum and fast-track status building a strong platform for AMP7

Continuing our leading AMP6 performance:

- Maintaining the lowest bills in England for ten years[1], set to continue to at least 2025
- Excellent progress on our capital programme with the largest year of capital spend in a decade of £769 million, supporting our commitment to invest £1,300 for every household we serve over AMP6
- Cumulative AMP6 ODI[2] outperformance of £138 million, including net £4.5 million penalty for FY18/19. Without the ODI cap, this would have been our best year to date, with ODI outperformance equivalent to £91 million
- Strong second half of operational improvements in Water gives confidence in FY19/20 and beyond
- On track to exceed 50% renewable energy self-generation target in FY19/20, boosted by acquisition of Agrivert UK renewables business, contributing to Group net carbon emissions reduction of 41% since the beginning of AMP6

Setting ourselves up for the future:

- Received Draft Determination for Severn Trent Water, confirming fast-track status for AMP7
- One of the first companies in the UK to make the triple pledge to achieve net zero carbon, 100% electric fleet[3] and 100% of energy from renewable sources by 2030
- Expect to earn at least £25 million in customer ODIs in FY2019/20[2], increasing the amount of outperformance payments rolled into AMP7 to at least £177 million[4]
- Partners appointed for around £1.5 billion of our £2 billion AMP7 capital programme. New capital delivery model, with a broader supply chain and in-house design team, progressing well

Delivering strong and resilient financial results:

- Group turnover of £1,767 million, up £71 million (4.2%)
- Group underlying PBIT[5] of £574 million, up £34 million (6.3%) having absorbed all hot weather costs
- Group reported PBIT of £563 million[6], up £36 million (6.8%)
- Cumulative RoRE of 9.1%[7] despite hitting the Waste customer ODI cap
- Reduction in effective interest rate by 60 basis points to 3.9%, driving underlying basic EPS[8] of 145.8 pence (up 21.0%), reported basic EPS from continuing operations 133.4 pence (up 31.0%)
- Proposed final dividend of 56.02 pence, in line with policy

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

"This has been a year where our teams have really stepped up, whether in response to customer needs in the face of one of the hottest and driest summers we've seen or by being named by Ofwat as one of the top companies in the sector when we received fast-track status for our future plans.

At the heart of all of that is our drive to succeed for all of our stakeholders, which is shown in the results we're announcing today. They demonstrate not only that we can deliver for our investors but also that we're putting ourselves at the heart of the communities in which we live and work by building a lasting legacy for future generations.

Whether that's spending time in our region's primary schools exploring the importance of using water the right way, bringing an employee's idea to life that finds an innovative new way to improve our services, or the investment we make day after day in maintaining our assets. By balancing the needs of everyone in this way, we are confident we are doing the right things for all of our stakeholders."

Footnotes included on page 2 of this RNS

Group results from continuing operations

Underlying results

Year ended 31 March	**2019** **£m**	2018 (restated)[9] £m	Increase %
Group turnover	**1,767.4**	1,696.4	4.2
Underlying group PBIT[5]	**573.6**	539.8	6.3

	pence/ share	pence/ share (restated) [9]	
Underlying basic EPS[8]	**145.8**	120.5	21.0
Total ordinary dividends	**93.37**	86.55	7.9

Reported results

Year ended 31 March	**2019** **£m**	2018 (restated)[9] £m	Increase %
Group turnover	**1,767.4**	1,696.4	4.2
Group PBIT	**563.3**	527.2	6.8

	pence/ share	pence/ share	
Basic earnings per share from continuing operations	**133.4**	101.8	31.0

Footnotes to pages 1 and 2 of this RNS

1. Based on 2019/20 average combined water and sewerage bill for households of £354
2. ODIs = Outcome Delivery Incentives, quoted pre-tax and in 2012/13 prices unless otherwise stated
3. Assumes suitable specialist vehicles such as tankers become available within that time window
4. £177 million is quoted pre-tax in nominal prices, assuming ODIs are spread evenly across AMP7. CPIH inflation assumptions are taken from the Oxford Economics March forecast. The equivalent in 2012/13 prices is £132m. Figure includes FY19/20 guidance of at least £25 million (pre-tax, 2012/13 prices) and excludes SIM, which we expect to be determined by Ofwat in July 2019.
5. Underlying Profit before interest and tax (PBIT) excludes exceptional operating items and amortisation of acquired intangible assets.
6. Exceptional items are set out in note 4
7. Return on Regulatory Equity using Ofwat's RoRE methodology.
8. Underlying basic EPS is set out in note 12
9. Restated for implementation of IFRS 15 (see note 1b)

Note: FY2019/20 technical guidance is included in the Chief Financial Officer's section of this announcement

Enquiries

Investors & Analysts

Richard Eadie *Head of Investor Relations*	Severn Trent Plc	+44 (0) 788 980 6578
Rachel Martin *Investor Relations Manager*	Severn Trent Plc	+44 (0) 782 462 4011

Media

Jonathan Sibun	Tulchan Communications	+44 (0) 207 353 4200
Press Office	Severn Trent Plc	+44 (0) 247 771 5640

Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am BST on Tuesday 21 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

At this pivotal point in the regulatory cycle, we can reflect on the progress we have made in AMP6, and look forward to AMP7, which will see us reduce bills by 5%, invest £6.55 billion, and deliver even more ambitious performance commitments for customers.

We have made pleasing progress in AMP6. We've kept our bills the lowest in England for ten years running, locked in £460 million outperformance on our totex plan, and we've reduced our financing costs by 150 basis points, placing us firmly in the upper quartile. We've delivered significant improvements in service for our customers, communities and the wider environment, with a reduction of 62% in external sewer flooding and 15% in water quality complaints, and educated over 672,000 customers on water scarcity and sewer misuse. We have earned net outperformance payments of £138 million – the equivalent of £234 million on an uncapped basis. And we've invested for the long term, strengthening the resilience of our network, and driving real growth in our RCV of around 9%.

It has also been a busy four years for Business Services, which is now focused on the following core areas:

- Green Power (non-regulated) and Bioresources (regulated): on track to exceed our target of 50% self-generation in 2019/20, boosted by the recent Agrivert acquisition;
- Property Development: delivered £27 million of our commitment to generate £100 million of cumulative PBIT by 2027, freeing up valuable land to help solve community housing shortages;
- Operating Services: strong performance from long term contracts with the MoD and Coal Authority.

In this fourth year of AMP6, we have successfully maintained our leading performance on Waste measures, and agreed an increase in the ODI cap, which we will see the full benefit of next year. We have had a mixed performance on Water, with an operationally challenging first half followed by a strong recovery in the second, providing good momentum as we head into the final year of the AMP. The hot, dry summer cost us £10 million in direct costs and £12 million in operational recovery, but we have managed to absorb this to deliver a good set of financial results. We have also had our biggest year of capital activity in a decade, with £769 million invested, and great progress being made on the Birmingham Resilience scheme. And it's been a good year for our people too, with an employee-voted Glassdoor award that places us in the top 50 companies to work for, and recognition as a top four company in the Hampton Alexander review.

Our track record gives us confidence that we are an organisation that can keep on delivering in the next AMP. We are taking full advantage of the head start that fast track status has provided. Clarity on performance commitments has enabled us to step up our preparation efforts, with Executive-led reviews of every commitment, ensuring we have the tools, resources, and know-how to deliver. We have already appointed our supply chain partners for around £1.5 billion of our capital programme, and begun to embed our new capital delivery strategy. We will be working with a much broader range of partners, and insourcing our design function, to better deliver our long-term asset strategy.

Finally, in the past couple of months we have announced two new initiatives which could be huge steps forward both for us, and for the sector as a whole. First, we have founded a new World Water Innovation Fund, which brings together water companies from around the globe, to collaboratively tackle some of the biggest challenges we face today, starting with leakage. And second, we have played a leading role in making a series of sector-wide pledges which we feel truly reflect our socially purposeful approach. These include net zero carbon emissions, the elimination of water poverty, and the prevention of four billion plastic bottles going to landfill – all by 2030. At Severn Trent, we want to go even further, with additional commitments, such as the use of 100% renewable energy and electric vehicles by 2030 and pledging 1% of our profits into community schemes, reflecting our belief that we can, and should be a force for good in society, for the benefit of all our stakeholders.

AMP6 and in-year performance

The most trusted water company in England – Four years ago we set ourselves the ambitious challenge of becoming the most trusted water company by 2020. Since then we've made good progress in delivering on the measures that our customers care about the most, investing in the resilience of our network and renewable energy, and pushing ourselves to do more for those customers who need a bit more help. As a result, we are now the most trusted water company in England, according to our most recent independent customer satisfaction tracker run by Future Thinking. But we know that we need to keep earning this trust and believe our plan for AMP7 will allow us to do so. We are keeping bills low, making bigger and bolder performance commitments that will further improve our service to customers and the wider environment, and will be delivering a substantial investment programme that will enhance our network for future generations.

Serving our customers to meet their needs – We have worked hard over this AMP to make sure our customers can interact with us in a way that suits them. We have:

- extended our customer contact centre to offer service 24 hours a day, seven days a week;
- launched an online web chat function;
- established a dedicated social media team;
- overhauled our website to make it easy for customers to self-serve;
- introduced virtual engineers to help serve customers more quickly and efficiently; and
- created our TapChat platform, an online forum of 15,000 customers that we can interact with.

Importantly, we have been able to achieve this wider service offering while continuing to drive cost efficiency, with one of the lowest retail costs to serve in the sector.

Help for those who need it – Despite having the lowest average combined bills in England and Wales, at £354 and £312 respectively, we know that some of our customers can still struggle to pay. Earlier this AMP, we committed to helping 50,000 customers a year, with 35,000 of these through our Big Difference Scheme which offers up to 90% off bills, and we've met that commitment once again this year. We're going even bigger in AMP7 with a target of helping 200,000 customers a year by 2025. With strong partnerships already established, and trials of new initiatives underway, we are confident we will be able to meet these targets and our customers will receive the help they need.

Maintaining our leading waste position – Over the course of AMP6 we have cemented our position as a leading company in waste operations, both on costs and performance. Our combination of advanced data modelling and rigorous delivery has earned ODI outperformance payments substantially higher than any other company in the sector. We have delivered this while driving down costs, enabling us to submit a PR19 plan that was more efficient than the Ofwat model. This year we continued to perform strongly against our Waste measures, delivering £103 million worth of benefits to our customers and the environment, though the inclusion of the cap for the first three quarters of the year reduced this to an outperformance payment of £7 million. The increase in the Waste ODIs cap to 2.6% of RoRE locked in frontier performance for our customers and the environment, and gives us the opportunity to earn outperformance payments on our end-of-AMP Waste ODIs, such as the Water Framework Directive, which will see us improve 1,600km of rivers over the course of AMP6.

Delivering efficiency through catchment management – Typically the industry has focused on spot interventions rather than addressing the true root causes and drivers of performance. We really understand our end-to-end process and how changes at a component level can cause a chain reaction through our system. This is clearly demonstrated in the area of catchment management, where we have delivered improvements in water quality, environmental benefits and long term totex efficiencies, and earned a specific ODI reward of £11 million this year, in recognition of four years of effort in this area. For example, by preventing pesticides from entering the watercourse from farms near our Tittesworth Water Treatment Works, we were able to save £400,000 of capital expenditure and £40,000 of annual operating costs.

Building momentum in water – The first half of this year was operationally challenging, with the tail end of the Freeze Thaw and the hot, dry summer putting pressure on some of our key water measures. We have seen a substantial turnaround in the second half however, which gives us confidence in our FY2019/20 delivery. Specifically:

- **Leakage:** We have worked exceptionally hard to hit our leakage performance commitment this year and delivered a reduction year-on-year of 16ML/d, by maintaining our strong operational focus on leakage recovery including a 67% increase in leakage fix teams, accelerated installation of acoustic loggers, targeted WIP reduction and the use of more innovative solutions such as satellite technology. We have also focussed on better understanding our leakage data at a more granular level - improving the accuracy of our leakage reporting and driving improvements in finding and fixing leaks more quickly. Having generated considerable momentum in this area, and delivered significantly better performance in the second half of 2018/19, our key focus is now on retaining that energy to keep us on track to meet the 15% challenge in AMP7.

- **Supply interruptions:** In the last quarter of this year we have implemented a new performance framework of 'Prevent, Restore, Repair'. Our aim is to prevent asset failure where we can by maintaining a calm network, for example reducing pressure transients in our network to lessen the number and impact of burst mains. If supplies are interrupted, we aim to restore supplies by moving water around the network in less than three hours. As a result, we incurred 2.8 minutes in supply interruptions in the last quarter of the year, compared to an average of 5.6 minutes in the first three quarters. Our total for the year of 19.7 minutes represents a 40% reduction year-on-year, but is clearly still not good enough for our customers. We are confident, however that our new strategy will deliver results, with the expectation of no penalty in FY2019/20.

- **Water Quality complaints:** We have delivered the 6% reduction year-on-year we promised, with focused efforts on mains flushing, abrasive cleansing, and catchment management continuing to drive improvement.

- **Low pressure:** The number of households on our low pressure register increased tenfold over the dry summer months. We recovered this position through great collaborative work across our business and supply chain, to deliver the right solutions for customers and ultimately beat our target by 32% in March 2019.

Biggest year of capital investment in a decade – At the beginning of AMP6 we committed to investing £1,300 for every home and business we serve in the five years to 2020. This year we have completed 28 projects to improve our waste network, replaced 230km of our water network, and met key milestones on the Birmingham Resilience Programme, the biggest AMP6 water scheme in the sector. We have invested £769 million in our asset base, as well as a further £141 million in renewing our infrastructure network. FY19/20 will be another big year as we complete our AMP6 programme, and continue to reinvest for a fast start in AMP7.

Delivering efficiency for all stakeholders – Over AMP6, we have locked in £460 million of efficiency above that required by our PR14 plan. We have achieved this through a range of initiatives including the roll out of standardised products, rebalancing risk with our supply chain, embracing 'plug and play' construction, and using smart programming to best utilise assets and resources. We have chosen to reinvest £120 million of this efficiency saving into security, water quality and vulnerable customers, and a further £100 million in smart data, proactive asset management and people, with most of this latter amount to be invested in the final year of AMP6.

The power of our people – It is the power of our people that really drives our business forward. Our Safer, Better, Faster framework, in particular our communication ('comm') cells which occur daily at a front line level, rolling up to an Executive level on a fortnightly basis, provides a constant focus on the underlying drivers of performance. It means that our people know what a good day looks like, and are able to quickly identify when things aren't going to plan, correct course, and ensure that we continue to deliver.

AMP7 readiness

Preparing for our AMP7 customer ODIs – We have already begun an Executive-led review of every performance commitment for AMP7, to ensure that:

- the measure and associated drivers of performance are well understood across relevant teams;
- we are aware of the costs and benefits associated with the range of solutions available to us;
- we have access to the right data and reporting tools; and
- we are mindful of the interdependencies that can drive performance.

This is particularly important for our 26 new bespoke performance commitments, such as collaborative flood resilience and green communities.

Acceleration of Capital Delivery preparation – With the benefit of clarity that fast-track status provides, we recently announced our supply chain partners for around £1.5 billion of our AMP7 capital programme, for which we will be using 20 partners, rather than the six tier one partners in AMP6. This will give us direct access to a much broader range of skills and expertise and allow bespoke supplier selection across our range of projects. All suppliers will be required to sign up to our Sustainable Supply Chain charter and comply with our Code of Conduct. We are also in the process of insourcing our design team which will give us more control over our investment programme, help us design assets to deliver operational efficiency and take a more holistic view of the environmental and societal impact of our schemes.

Strengthening customer perception – The new AMP7 measure of customer service (C-MeX) will be partly based on customer contact, as with SIM, and partly on customer perception. Our SIM performance has been disappointing in AMP6 – for those few customers that have reason to contact us, our response is just not consistently good enough. We are now using some of the frameworks and diagnostics that have been used to successfully deliver our Waste performance to provide insight into how we can deliver a great customer service. Customer perception, which is a much wider measure, encompasses our brand, reputation and presence in the community and we have already increased our efforts on these ahead of AMP7.

An organisation ready to deliver – Last year we reorganised our business into four distinct operational areas, bringing end-to-end processes together under the same directorate, and re-aligning our senior team to focus on the challenges of AMP7. One year on, we are seeing the benefits, and with our organisation and people in the right place, we're excited to get the most out of the final year of AMP6, and build the best possible platform for AMP7.

Sustainability and Culture

Committed to sustainable energy use – Increasing the generation of green energy helps reduce our Group costs, and is also the right thing to do environmentally. We completed the acquisition of Agrivert at the end of November 2018, which will boost our performance beyond our commitment to self-supply the equivalent of 50% of our energy needs by 2020. But we want to do more, which is why we're one of only a few companies in the UK to have signed up to the triple pledge of:

- Net zero carbon emissions by 2030;
- 100% renewable energy use by 2030; and
- 100% electric vehicles by 2030.

We'll achieve this through more efficient production and distribution, generating and buying more green energy, and working with our supply chain to find solutions to the environmental issues we all face.

World Water Innovation Fund – Water scarcity is a problem that is shared across the world, and in our own region we recognise the impact that climate change and population growth could have on the service we are able to offer our customers. So we have established a new innovation fund, bringing together water companies from around the globe, to collaboratively tackle some of the biggest challenges we face today, and ensure we leave a legacy for future generations of water users. This fund will initially focus on leakage, supporting our sector-wide 15% reduction challenge in AMP7.

Culture – While we are confident we're doing the right things to create an awesome place to work, what really matters is what our employees think. We are therefore proud to have been recently awarded a Glassdoor Employees' Choice Award, recognising us as a top 50 place to work in 2019, based solely on the input of employees' feedback, and encouraged to see our scores increase further from 3.7 in April 2018 to 3.9 in April 2019. We are also pleased to maintain our strong engagement scores, with our annual employee engagement survey, completed by 91% of our workforce, placing us five points above the average for the UK and Ireland.

Investing in skills – We want to have the most skilled and efficient workforce in the sector. We also recognise that we have a key part to play as a large, local employer, in helping the people in our region get the skills they need in an evolving labour market. So we are:

- Investing £10 million in a new technical training academy;
- Bringing new expertise, such as design engineering, into Severn Trent;
- Targeting social mobility coldspots for our apprentice schemes; and
- Working with the UK Government to develop a future skills strategy for the next generation of employees.

Progress in diversity and inclusion – We were proud to have been recognised as a top four company in the most recent Hampton Alexander review, reflecting female representation at a senior level of 43.1%, and 37.5% on our Board. Our graduate and apprenticeship schemes are also becoming more balanced, with female intake in our 2018 programme at 38%, up from 20% in our 2017 programme. We have also been working with local colleges to give people with additional needs the opportunity to learn new skills on year-long placements. And we have an active LGBT+ group who play a key role in ensuring that gender neutrality and LGBT+ inclusion are supported across the business.

We have strong momentum as we enter the last year of AMP6. Our track record of outperformance in the last four years, combined with an ambitious fast-track plan for the next five years, creates the perfect platform to deliver for all of our stakeholders, and we are excited to get started.

Chief Financial Officer's Review

We have built on our good financial performance in the first half of the year to deliver a strong set of full year results for 2018/19. Our Regulated Water and Waste Water business delivered good growth in PBIT, even after an additional £22 million of operating costs from the hot, dry summer and our recovery after it. In Business Services, stronger performance in the second half of the year produced growth in both revenues and PBIT for the year as a whole. In May we announced the sale of surplus land near Nottingham and this, together with other smaller disposals later in the year, generated property profits for the Group of £19.9 million.

Growth in underlying PBIT, lower finance costs and a reduction in our effective tax rate drove a strong increase in underlying basic earnings per share of 21.0% to 145.8 pence per share in the current year. Basic earnings per share from continuing operations were 133.4 pence.

We have delivered good performance on RoRE, which was 8.1% for the year ended 2018/19. While this year's return was partly held back by reaching our Waste ODI cap, our strong financial performance helped us to an AMP6 cumulative RoRE of 9.1%, putting us amongst the very best in the sector, with outperformance on all three levers.

In line with our dividend policy for the remainder of AMP6 of growth of RPI plus at least 4% per annum, the proposed dividend for the year has increased by 7.9%.

Our funding position continues to be strong, with all our projected investment and other cash flow needs covered by cash or committed facilities through to September 2021 and we continue to actively monitor and manage our interest rate exposure.

We completed the acquisition of Agrivert in November 2018 which has been combined with our Green Power business.

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy and the Carbon Reduction Commitment as well as the corporation tax shown in our tax charge in the income statement. This year we have published a Tax Report that sets out details of all of the taxes we incur at www.severntrent.com/responsibility/tax/. Our corporation tax charge for the year was just below the statutory rate at 18% as that some items will be taxed in future periods when the corporation tax rate falls to 17%. Cash tax payments were reduced by the benefit of tax allowances on our capital programme, contributions to our pension schemes and 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 £1,767.4 million (2017/18: £1,696.4 million), an increase of 4.2% as Regulated Water and Waste Water revenue increased by 4.0%, mainly due to the RPI-linked tariff increases and from growth in Business Services' external turnover.

- Underlying PBIT was up 6.3% to £573.6 million (2017/18: £539.8 million). Underlying PBIT in our Regulated Water and Waste Water business grew by £29.4 million, Business Services grew by £0.7 million and Corporate and other growth was £12.8 million.

- We recorded net exceptional costs of £9.6 million (2017/18: £12.6 million) arising from the High Court judgment in the Lloyds Bank case relating to Guaranteed Minimum Pension rights.

- Reported Group PBIT was up by 6.8% to £563.3 million (2017/18: £527.2 million).

- Net finance costs were £194.2 million (2017/18: £219.5 million). Our effective interest rate of 3.9% was down from 2017/18 (4.5%) due to the continued benefit of low interest rates on new and refinanced debt and reduced RPI inflation on our index-linked debt.

- Our full effective tax rate was 18.0% and our underlying effective tax rate was 11.6%, down from 12.7% in 2017/18 largely due to higher capital allowances from the larger capital programme in the year.

Changes to segmental presentation

In 2017/18 and prior years the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These combined activities are now managed as a single Bioresources business within Business Services.

Implementing innovative treatment techniques and finding ways to use our resources more effectively enables us to free up land for development. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the land's development potential. In 2017/18 and prior years the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

The segmental analysis that follows and in the financial statements shows:

- current period performance on the new and old basis; and
- comparative information on the old basis.

Comparative information for the new segments is not available and the cost to develop it would be excessive. All year-on-year comparisons are on the old segmental basis.

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,583.1 million and underlying PBIT was £527.0 million on the new reporting basis. On the old basis turnover was £1,637.6 million (2017/18: £1,574.6 million) and underlying PBIT was £544.3 million (2017/18: £514.9 million).

	New basis	Old basis			
	2019	**2019**	2018	Better/(worse)	
	£m	**£m**	£m	£m	%
Turnover	**1,583.1**	**1,637.6**	1,574.6	63.0	4.0
Net labour costs	**(124.0)**	**(134.4)**	(141.8)	7.4	5.2
Net hired and contracted costs	**(161.9)**	**(165.6)**	(147.7)	(17.9)	(12.1)
Power	**(102.1)**	**(105.8)**	(95.9)	(9.9)	(10.3)
Bad debts	**(25.5)**	**(25.5)**	(25.7)	0.2	0.8
Other costs	**(186.3)**	**(185.8)**	(192.9)	7.1	3.7
	(599.8)	**(617.1)**	(604.0)	(13.1)	(2.2)
Infrastructure renewals expenditure	**(141.4)**	**(141.4)**	(135.2)	(6.2)	(4.6)
Depreciation	**(315.0)**	**(334.8)**	(320.5)	(14.3)	(4.5)
Underlying PBIT	**527.0**	**544.3**	514.9	29.4	5.7
Adjustments for new segmental basis:					
Bioresources PBIT transferred to Business Services		**(8.7)**			
Property PBIT transferred to Business Services		**(8.6)**			
Underlying PBIT (new basis)		**527.0**			

Hafren Dyfrdwy (formerly Dee Valley Water) was acquired on 15 February 2017 and integrated into the Regulated Water and Waste Water segment. On 1 July 2018 the licences of Severn Trent Water and Hafren Dyfrdwy were amended to align with the national boundaries of England and Wales but the operating activities within the Regulated Water and Waste Water segment were unchanged by this. The following commentary on the Regulated Water and Waste Water business includes all of our Regulated Water and Waste Water activities in both years.

Turnover increased by 4.0% as:

- RPI and the K factor increased revenue by £55.7 million;
- Customer ODI rewards taken in the current year were £9.6 million lower than the previous year;
- The adjustment from the WRFIM mechanism was £13.9 million more favourable than the previous year;
- Additional revenue from the higher consumption during the hot weather was around £5 million; and
- Other small factors reduced revenue by £2.2 million.

Net labour costs were £7.4 million (5.2%) lower. Gross employee costs increased by 5.8%, due to the annual pay award and the continuation of our strategy to bring more work in-house (including the new design team). The growth in activity on capital projects increased the level of own labour capitalised, up £23.2 million on the previous year.

Net hired and contracted costs were up £17.9 million (12.1%) primarily in relation to costs incurred over the hot, dry summer and resulting operational recovery activities in the second half of the year.

Power costs were up £9.9 million driven by higher pass through costs, as forecasted, and a higher demand for water during the summer. The Group manages its power costs through a combination of demand management, self-generation and forward price contracts.

Our bad debt charge decreased by £0.2 million this year, and represented 2.0% of household revenue (2017/18: 2.2%). We continue to improve the pace of collection for new debt but this also experienced slightly slower recoveries of older debt, which we are actively targeting our efforts on this year.

Other costs decreased by £7.1 million relating to increased profit on the disposal of tangible assets (mainly property) during the year.

Infrastructure renewals expenditure was £6.2 million higher in the year. The increase was driven by additional activity to reduce leakage and an acceleration of our trunk mains renewal programme.

Depreciation of £334.8 million was £14.3 million higher than the prior year, partly driven by the shift towards more investment in technology assets with shorter lives and also by an increase in abandonment charges of £5.4 million as we upgraded some of our ageing assets.

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 2019 and for the four years ended on that date is set out in the following table:

	2018/19 %	AMP6 to Date %
Base return	5.6	5.6
Totex outperformance	–	1.2
ODI outperformance	(0.1)	1.0
Financing outperformance	2.6	1.3
Regulatory return for the year[1]	**8.1**	**9.1**

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

We have delivered RoRE of 8.1% in the year thanks to our significant outperformance on financing, ODIs were broadly neutral, impacted by hitting the Waste cap of 2% of RoRE. We reinvested totex savings for the benefit of our customers resulting in a flat in-year performance. Our cumulative AMP6 RoRE remains strong at 9.1%, with four-year outperformance broadly based across:

- sustained customer service delivery on ODIs;
- early delivery of totex efficiencies; and
- strong performance on financing.

Business Services

	New basis	Old basis			
	2019	**2019**	2018 (restated)	Increase/(decrease)	
	£m	**£m**	£m	£m	%
Turnover					
Operating Services	**60.2**	**73.8**	80.6	(6.8)	(8.4)
Green Power/Renewable Energy	**29.7**	**72.6**	60.4	12.2	20.2
Bioresources	**97.5**	**–**	–	–	–
Other	**13.5**	**–**	–	–	–
	200.9	**146.4**	141.0	5.4	3.8
Underlying PBIT					
Operating Services	**7.0**	**14.1**	14.7	(0.6)	(4.1)
Green Power/Renewable Energy	**0.6**	**21.4**	20.1	1.3	6.5
Bioresources	**29.5**	**–**	–	–	–
Property Development	**19.9**	**–**	–	–	–
Other	**7.1**	**–**	–	–	–
	64.1	**35.5**	34.8	0.7	2.0

Business Services turnover was £200.9 million and underlying PBIT was £64.1 million on the new basis.

The division delivered growth in revenues (up 3.8%) and underlying PBIT (up 2.0%) on a comparable basis. The prior year figures have been restated to reflect the impact of the implementation of IFRS 15 on the recognition of revenue and costs for the MOD contract (see note 1 to the financial statements).

In our Operating Services business, turnover and underlying PBIT decreased by £6.8 million and £0.6 million respectively. An improvement in performance on our Homeserve contract was offset by lower rechargeable activity on our MOD contract and additional costs as a result of the hot, dry summer.

In our Renewable Energy business, turnover increased by 20.2% and underlying PBIT increased by 6.5%. Higher energy prices contributed to the increase together with the expansion of our crop energy plant near Nottingham; the impact of a full year of operations for our West Birmingham food waste plant; and the purchase of Agrivert (a food waste company acquired in November 2018), which contributed £9.2 million of revenue and £1.6 million of underlying PBIT.

Corporate and Other

Corporate overheads of £13.4 million (2017/18: £8.9 million) included £3.6 million acquisition costs for Agrivert. Our other businesses generated PBIT of £11.7 million (2017/18: loss of £0.8 million) including a profit of £11.3 million from non-regulated Property Development (2017/18: £2.1 million), which is included in Business Services on the new basis.

Exceptional items before tax

We recorded a net exceptional charge of £9.6 million (2017/18: £12.6 million).

On 25 October 2018 the High Court issued a judgment in the Lloyds Bank case in relation to gender equality in Guaranteed Minimum Pension rights that has an impact on the Group's defined benefit pension liabilities. We have obtained independent advice from the Group's actuaries to determine the amount of the additional liability and have made provision for our best estimate in this year's financial statements.

In 2017/18 the exceptional charge of £12.6 million comprised exceptional restructuring costs of £20.9 million preparing our Bioresources business for AMP7 and an exceptional gain of £8.3 million from the net benefit of a Pension Increase Exchange arrangement.

Net finance costs

Our net finance costs for the year were £194.2 million, £25.3 million lower than the prior year. The reduction was driven by the continued benefit of low interest rates on new and refinanced debt and reduced RPI inflation on our index-linked debt (down £14.4 million), which more than offset the impact of higher average net debt.

Our effective interest rate was 3.9% (2017/18: 4.5%) and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was also down to 3.1% (2017/18: 3.4%). Net pension finance costs were broadly in line with the previous year.

Capitalised interest of £33.2 million increased by £7 million year-on-year due to the higher level of capital activity in the year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 5.1 times (2017/18: 4.3 times) and PBIT interest cover was 3.2 times (2017/18: 2.6 times). See note 18 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 exposures on floating rate borrowings;
- Exposures to increases in electricity prices; and
- Forthcoming changes in the regulatory model from RPI to CPIH.

Note 7 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 75.5% of our estimated wholesale energy usage for 2019/20.

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:

	2019 **£m**	2018 £m
Tax incurred:		
Corporation tax	**31.5**	26.7
Business rates and property taxes	**80.7**	82.4
Employer's National Insurance	**25.5**	23.2
Environmental taxes	**9.6**	9.9
Other taxes	**3.5**	4.3
	150.8	146.5

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2018/19", available at www.severntrent.com/responsibility/tax/.

The corporation tax charge for the year recorded in the income statement was £69.4 million (2017/18: £61.6 million) and we made net corporation tax payments of £21.3 million in the year (2017/18: £6.5 million). The difference between the tax charged and the tax paid is summarised below:

	2019 **£m**	2018 £m
Tax on profit on ordinary activities	**69.4**	61.6
Tax effect of timing differences	**(37.6)**	(28.7)
Current tax credits recorded in Other Comprehensive Income or equity	**(9.7)**	(10.1)
Overprovisions in previous years	**9.4**	3.9
Corporation tax payable for the year	**31.5**	26.7
Payable by instalments next year	**(15.9)**	(12.2)
Instalments paid in the year	**15.6**	14.5
Repayments received	**–**	(8.0)
Payments relating to prior years	**5.7**	–
Net tax paid in the year	**21.3**	6.5

Note 8 in the financial statements sets out the tax charges and credits in the year, which are described below.

The current tax charge for the year was £31.8 million (2017/18: £32.9 million) and the deferred tax charge was £37.6 million (2017/18: £28.7 million).

Our full effective tax rate this year was 18.0% (2017/18: 20.5%), which is lower than the UK rate of corporation tax (19%), reflecting the fact that some of the items in our income statement will be taxed in future periods when the UK corporation tax rate falls to 17%.

UK tax rules specify the rate of tax relief available on capital expenditure. Typically this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our underlying effective current tax rate and corporation tax payments in the year. By the same token we make a provision for the tax that we will pay in future periods when the tax relief on the capital expenditure has been received and we receive no allowance for the depreciation charge arising on that expenditure. This is the most significant component of our deferred tax position.

Our underlying effective current tax rate was 11.6% (2017/18: 12.7%) (see note 18).

Profit for the year and earnings per share

Profit for the year from continuing operations increased by 32% to £315.3 million (2017/18: £239.6 million).

There were no discontinued operations in the year (2017/18: profit of £13.2 million).

Total profit for the year including discontinued operations was £315.3 million (2017/18: £252.8 million).

Basic earnings per share from continuing operations increased by 31.0 % to 133.4 pence (2017/18: 101.8 pence). Underlying basic earnings per share was 145.8 pence (2017/18: 120.5 pence). For further details see note 12.

Cash flow

	2019 £m	2018 £m
Cash generated from operations	**826.3**	773.3
Net capital expenditure	**(769.3)**	(591.0)
Net interest paid	**(161.6)**	(182.1)
Purchase of subsidiaries net of cash acquired	**(50.9)**	(0.2)
Proceeds on disposal of subsidiary undertakings	**–**	25.1
Swap termination payment	**–**	(40.0)
Tax paid	**(21.3)**	(6.5)
Free cash flow	**(176.8)**	(21.4)
Dividends	**(211.9)**	(197.0)
Issue of shares	**11.1**	5.6
Purchase of own shares	**(1.1)**	–
Change in net debt from cash flows	**(378.7)**	(212.8)
Debt acquired in subsidiaries	**(63.0)**	–
Non-cash movements	**(35.8)**	(61.4)
Change in net debt	**(477.5)**	(274.2)
Opening net debt	**(5,356.6)**	(5,082.4)
Closing net debt	**(5,834.1)**	(5,356.6)

	2019 £m	2018 £m
Bank loans	**(1,120.1)**	(1,217.4)
Other loans	**(4,820.5)**	(4,223.9)
Finances leases	**(112.2)**	(113.9)
Net cash and cash equivalents	**39.6**	38.5
Cross currency swaps	**37.1**	24.5
Loans due from joint ventures and associated undertakings	**142.0**	135.6
Net debt	**(5,834.1)**	(5,356.6)

We generated £826.3 million cash from operations (2017/18: £773.3 million). Operating cash flows were higher mainly due to higher PBIT, depreciation and amortisation and our increase in working capital was lower than the previous year.

Our biggest year of capital investment in a decade led to net capital expenditure of £769.3 million (2017/18: £591.0 million). The acquisition of Agrivert resulted in a net cash outflow of £50.9 million and we also repaid £63.0 million of debt acquired with the business.

Our net interest payments were lower at £161.6 million (2017/18: £182.1 million). Our tax payments were £21.3 million, an increase of £14.8 million. The previous year benefited from a reduction of £8 million from overpayments in earlier years.

We received £11.1 million (2017/18: £5.6 million) from the exercise of options under the employee Save As You Earn share scheme and our dividends paid increased by 7.6% in line with our policy.

These cash flows, together with the debt acquired with Agrivert and accounting adjustments to the carrying value of debt, resulted in an increase of £477.5 million in net debt (2017/18: £274.2 million).

At 31 March 2019 we held £39.6 million (2018: £38.5 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2018: 14 years). Including committed facilities, our cash flow requirements are funded until September 2021.

Net debt at 31 March 2019 was £5,834.1 million (2018: £5,356.6 million) and balance sheet gearing (net debt/net debt plus equity) was 83.3% (2018: 84.4%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value (RCV gearing) at 31 March 2019 was 63.0% (2018: 60.6%) and STW Group RCV gearing was 62.3% (2018: 60.8%).

The estimated fair value of debt at 31 March 2019 was £1,219.6 million higher than book value (2018: £1,184.3 million higher). The increase in the difference to book value is largely due to lower prevailing market interest rates.

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 2019, 53% of our debt was at fixed rate, 22% was in floating and 25% was index-linked.

We continue to carefully monitor market conditions and our interest rate exposure and, given the low flat current yield curve, we believe it is the right time to start reducing our exposure to floating rates of interest. To that end we have:

- raised £200 million at competitive fixed rates prior to the end of the financial year;
- since the year end, cancelled £575 million of pay floating interest rate swaps that had a positive market value and
- used the proceeds of the cancellations to cancel £100 million of expensive pay fixed swaps with an average fixed rate of approximately 5%.

These actions reduced our floating rate exposure to around 15% of gross debt at the end of April 2019.

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

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.

Pensions

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

The most recent formal actuarial valuations for the Severn Trent schemes ('the Schemes') were completed as at 31 March 2016. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, included:

- 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; and
- A deficit reduction payment of £10 million for each of the three financial years ended 31 March 2019.

In addition to these payments, the company will directly pay the annual PPF levy incurred by the STPS (£1.4 million in 2018/19).

The next formal actuarial valuations of the Schemes are currently underway.

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.

Hafren Dyfrdwy 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. The Section is closed to new entrants. The most recent formal actuarial valuation of the Section was completed as at 31 March 2017 and as a result deficit reduction contributions to the Section ceased.

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 £452.9 million (2018: £519.8 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.

On an IAS 19 basis, the funding level has improved to 84% (31 March 2018: 82%).

The movements in the net deficit during the year were:

	Fair value of scheme assets	Defined benefit obligations	Net deficit
	£m	£m	£m
At start of the year	2,339.8	(2,859.6)	(519.8)
Amounts credited/(charged) to income statement	58.7	(84.6)	(25.9)
Actuarial gains/(losses) taken to reserves	95.9	(38.0)	57.9
Net contributions received and benefits paid	(75.5)	110.4	34.9
At end of the year	**2,418.9**	**(2,871.8)**	**(452.9)**

Dividends

In line with our policy for the remainder of AMP6 to increase the dividend by at least RPI+4% each year, the Board has proposed a final ordinary dividend of 56.02 pence per share for 2018/19 (2017/18: 51.92 pence per share). This gives a total ordinary dividend for the year of 93.37 pence (2017/18: 86.55 pence). The final ordinary dividend is payable on 19 July 2019 to shareholders on the register at 14 June 2019.

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, Political 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 on-going 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. We specifically continue to engage with the Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector. The renationalisation of the water industry remains a possibility in the event of a change of Government, and any associated changes in Government policy may fundamentally impact our ability to deliver the Group's strategic objectives, impacting shareholder value. Our aim is to ensure the water sector in England and Wales continues to deliver a world class service for customers, is able to invest for the future and maximises the benefits to wider society and all stakeholders through the social and environmental benefits the current model allows us to deliver. We seek to minimise potential risk and maximise opportunities through regular communication and robust scenario planning as Government policy evolves.

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):

- At the time of writing, the terms of the UK's departure from the EU ('Brexit') remain uncertain. Brexit does not give rise to a new principal risk for the Group. However, it does have the potential to impact risks in other areas of our operations, such as supply chain, interest rates, availability of funding, regulatory changes and uncertainty for the domestic economy.

- Our preparations for a no deal Brexit are well advanced and include a Brexit Steering Committee to oversee the contingency and scenario planning necessary to operate effectively if the UK leaves the EU without transition arrangements. The Committee covers; Incident Management, People, Procurement, Security and Resilience, Logistics, Communications, Finance and Capital Delivery. We have been actively engaged with a Water UK coordinated group called the Operations Strategy Group (OSG) at an executive level, focusing on industry preparedness and industry wide testing of response plans for a no deal scenario. The most significant risk identified is associated with the availability of chemicals imported into the UK. We identified this at an early stage and have ensured we have a robust process for maintaining stock levels.
- Progress in the Brexit negotiations will continue to be monitored and the risks and uncertainties will be managed through our existing ERM process.

Technical Guidance 2019/20

The following technical guidance is presented under the new segmental basis. Please refer to note 2 to the accounts in the RNS for more information regarding segmental changes.

Year-end guidance		**FY 18/19 (new basis)**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover[1]	£1.61 billion to £1.64 billion.	£1.58bn	▲
Opex	Higher year-on-year as continued upward sector-wide cost pressures from energy pass-through costs, licences and materials offset ongoing efficiency programmes.	£600m	▲
IRE	£145 million to £170 million.	£141m	▲
Customer ODIs[2]	At least £25 million net reward across Water and Waste measures.	£(5)m	▲
Business Services			
Underlying PBIT (excl. Property)	Higher year-on-year.	£44m	▲
Underlying Property PBIT	£5 million to £10 million.	£20m	▼
Group			
Interest charge	Higher year-on-year due to increased total debt reflecting end of AMP investment in our capital programme and the acquisition of Agrivert in the second half of the prior year.	£194m	▲
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 10% and 12%.	11.6%	▼
Group capex	£700 million to £800 million.	£769m	↔
Dividend[3]	Annual dividend growth of at least RPI + 4% until March 2020. 2019/20 dividend set at 100.08p.	93.37p	▲

Footnotes to technical guidance

1. Includes £7m net penalty for ODIs (Customer Outcome Delivery Incentives, quoted pre-tax at nominal prices) relating to 2017/18 with £79 million of that year's net reward deferred to AMP7
2. Excludes AMP6 SIM ODI outcome. An update will be provided later in the year following Ofwat's confirmation of the outcome
3. 2019/20 dividend growth is based on November 2018 RPI of 3.19% plus 4%

Further Information

For further information, including the Group's full-year results presentation, see the Severn Trent website (www.severntrent.com).

Investor Timetable

Ex Dividend Date (Final)	13 June 2019
Record Date (Final)	14 June 2019
AGM	17 July 2019
Q1 Trading Update	17 July 2019
Dividend Payment Date (Final)	19 July 2019
Half Year Results Announcement 2018/19	21 November 2019
Ex Dividend Date (Interim)	28 November 2019
Record Date (Interim)	29 November 2019
Dividend Payment Date (Interim)	3 January 2020

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

Consolidated income statement
For the year ended 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Turnover	2,3	**1,767.4**	1,696.4
Other income		**19.9**	3.9
Operating costs before charge for bad and doubtful debts, amortisation of acquired intangible assets and exceptional items		**(1,188.1)**	(1,134.7)
Charge for bad and doubtful debts		**(25.6)**	(25.8)
Operating costs before amortisation of acquired intangible assets and exceptional items		**(1,213.7)**	(1,160.5)
Amortisation of acquired intangible assets		**(0.7)**	-
Exceptional items	4	**(9.6)**	(12.6)
Total operating costs	7	**(1,224.0)**	(1,173.1)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items		**573.6**	539.8
Amortisation of acquired intangible assets		**(0.7)**	-
Exceptional items	4	**(9.6)**	(12.6)
Profit before interest and tax		**563.3**	527.2
Finance income	5	**68.9**	67.7
Finance costs	6	**(263.1)**	(287.2)
Net finance costs		**(194.2)**	(219.5)
Net gains/(losses) on financial instruments	7	**16.0**	(6.7)
Share of net (loss)/profit of joint ventures accounted for using the equity method		**(0.4)**	0.2
Profit on ordinary activities before taxation		**384.7**	301.2
Current tax	8	**(31.8)**	(32.9)
Deferred tax	8	**(37.6)**	(28.7)
Taxation on profit on ordinary activities	8	**(69.4)**	(61.6)
Profit for the year from continuing operations		**315.3**	239.6
Profit for the year from discontinued operations	10	**-**	13.2
Profit for the year		**315.3**	252.8

Earnings per share (pence)

	2019	2018 (restated)
From continuing operations		
Basic	**133.4**	101.8
Diluted	**133.2**	101.5
From continuing and discontinued operations		
Basic	**133.4**	107.4
Diluted	**133.2**	107.1

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 (restated see note 2 a) £m
Profit for the year	**315.3**	252.8
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Net actuarial gains	**57.9**	29.1
Tax on net actuarial gains	**(12.2)**	(7.6)
	45.7	21.5
Items that may be reclassified to the income statement:		
(Losses)/gains on cash flow hedges	**(8.6)**	5.8
Deferred tax on losses/gains on cash flow hedges	**1.5**	(1.0)
Amounts on cash flow hedges transferred to the income statement	**8.2**	8.2
Deferred tax on transfer to the income statement	**(1.3)**	(1.4)
Exchange movement on translation of overseas results and net assets	**–**	(1.6)
Cumulative exchange gains taken to the income statement	**–**	(29.8)
	(0.2)	(19.8)
Other comprehensive income for the year	**45.5**	1.7
Total comprehensive income for the year	**360.8**	254.5

Consolidated statement of changes in equity
For the year ended 31 March 2019

	Equity attributable to owners of the company				
	Share capital	Share premium	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m
As at 1 April 2017 as previously reported	234.7	112.5	121.8	454.3	923.3
Restatement (see note 2 a)	–	–	–	4.1	4.1
As at 1 April 2017 restated	234.7	112.5	121.8	458.4	927.4
Profit for the year	–	–	–	252.8	252.8
Gains on cash flow hedges	–	–	5.8	–	5.8
Deferred tax on gains on cash flow hedges	–	–	(1.0)	–	(1.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.4)	–	(1.4)
Exchange movement on translation of overseas results and net assets	–	–	(1.6)	–	(1.6)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	29.1	29.1
Tax on net actuarial gains	–	–	–	(7.6)	(7.6)
Transfer between reserves	–	–	(9.0)	9.0	–
Total comprehensive income/(loss) for the year	–	–	(28.8)	283.3	254.5
Share options and LTIPs					
- proceeds from shares issued	0.4	5.2	–	–	5.6
- value of employees' services	–	–	–	6.9	6.9
Current tax on share based payments	–	–	–	0.8	0.8
Deferred tax on share based payments	–	–	–	(1.3)	(1.3)
Dividends paid	–	–	–	(197.0)	(197.0)
As at 31 March 2018 restated	235.1	117.7	93.0	551.1	996.9
As at 1 April 2018 as previously reported	235.1	117.7	93.0	547.9	993.7
Restatement (see note 2 a)	–	–	–	3.2	3.2
As at 1 April 2018 restated	235.1	117.7	93.0	551.1	996.9
Profit for the year	–	–	–	315.3	315.3
Losses on cash flow hedges	–	–	(8.6)	–	(8.6)
Deferred tax on losses on cash flow hedges	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.3)	–	(1.3)
Net actuarial gains	–	–	–	57.9	57.9
Tax on net actuarial gains	–	–	–	(12.2)	(12.2)
Total comprehensive income/(loss) for the year	–	–	(0.2)	361.0	360.8
Share options and LTIPs					
- proceeds from shares issued	0.8	10.3	–	–	11.1
- value of employees' services	–	–	–	8.1	8.1
- own shares purchased	–	–	–	(1.1)	(1.1)
Current tax on share based payments	–	–	–	0.2	0.2
Dividends paid	–	–	–	(211.9)	(211.9)
As at 31 March 2019	**235.9**	**128.0**	**92.8**	**707.4**	**1,164.1**

Consolidated balance sheet
At 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Non-current assets			
Goodwill		**90.9**	62.2
Other intangible assets		**124.2**	88.4
Property, plant and equipment		**9,085.6**	8,471.9
Investments in joint ventures and associates		**37.0**	37.6
Derivative financial instruments		**68.4**	36.0
Trade and other receivables		**204.0**	185.3
Retirement benefit surplus	13	**18.6**	18.2
		9,628.7	8,899.6
Current assets			
Inventory		**20.8**	18.5
Trade and other receivables		**513.5**	456.4
Derivative financial instruments		**0.1**	0.2
Cash and cash equivalents		**41.0**	51.1
		575.4	526.2
Current liabilities			
Borrowings		**(197.0)**	(308.7)
Trade and other payables		**(496.7)**	(462.6)
Current tax payable		**(9.3)**	(8.6)
Provisions for liabilities		**(32.2)**	(40.6)
		(735.2)	(820.5)
Net-current liabilities		**(159.8)**	(294.3)
Non-current liabilities			
Borrowings		**(5,857.2)**	(5,259.1)
Derivative financial instruments		**(126.5)**	(116.0)
Trade and other payables		**(1,082.9)**	(1,009.4)
Deferred tax		**(747.5)**	(675.2)
Retirement benefit obligations	13	**(471.5)**	(538.0)
Provisions for liabilities		**(19.2)**	(10.7)
		(8,304.8)	(7,608.4)
Net assets		**1,164.1**	996.9
Equity			
Called up share capital		**235.9**	235.1
Share premium account		**128.0**	117.7
Other reserves		**92.8**	93.0
Retained earnings		**707.4**	551.1
Total equity		**1,164.1**	996.9

Consolidated cash flow statement
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash generated from operations	14	826.3	773.3
Tax received	14	–	8.0
Tax paid	14	(21.3)	(14.5)
Net cash generated from operating activities		805.0	766.8
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired	9	(50.9)	(0.2)
Investments in associates and joint ventures		(6.2)	–
Purchases of property, plant and equipment		(782.1)	(608.5)
Purchases of intangible assets and goodwill		(35.1)	(27.3)
Contributions and grants received		46.5	36.8
Proceeds on disposal of subsidiaries net of cash disposed	10	–	25.1
Proceeds on disposal of property, plant and equipment		1.4	8.0
Net loans advanced to joint ventures and associates		–	(26.6)
Interest received		0.8	6.4
Net cash from investing activities		(825.6)	(586.3)
Cash flow from financing activities			
Interest paid		(158.0)	(183.4)
Interest element of finance lease payments		(4.4)	(5.1)
Dividends paid to shareholders of the parent		(211.9)	(197.0)
Repayments of borrowings		(166.5)	(552.6)
Repayments of obligations under finance leases		(1.7)	(1.8)
New loans raised		554.2	789.2
Issues of shares		11.1	5.6
Swap termination payment		–	(40.0)
Purchase of own shares		(1.1)	–
Net cash flow from financing activities		21.7	(185.1)
Net movement in cash and cash equivalents		1.1	(4.6)
Net cash and cash equivalents at the beginning of the year		38.5	44.6
Effect of foreign exchange rates		–	(1.5)
Net cash and cash equivalents at end of year		39.6	38.5
Cash and cash equivalents		41.0	34.7
Bank overdrafts		(1.4)	(12.6)
Short term deposits		–	16.4
		39.6	38.5

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 2019 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 2019 or 2018, 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 2018 have been delivered to the Registrar of Companies and those for 2019 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.

b) Changes in accounting policies – IFRS 9 and IFRS 15

In the current financial year the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of IFRS 9 has not resulted in any significant changes to the Group's existing accounting practices for financial instruments.

The Group has elected to restate comparative information in the consolidated income statement and related notes, including Alternative Performance Measures in note 18, upon adoption of IFRS 15.

The core principle of IFRS15 is that an entity should recognise revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The impact of the adoption of IFRS 15 on the Group's business segments is set out below.

Regulated Water and Waste Water

There will be no change to the timing of recognition of revenue from charges for water or waste water services.

Business Services

The Operating Services business operates under a series of bespoke contracts with specific performance obligations. The Group has applied the methodology set out in IFRS 15 to each of these contracts in order to identify differences from the current accounting policy. The most significant differences arise in relation to the Group's contract to provide water and waste water services to the Ministry of Defence (MOD). The Group acts as the service provider under the MOD Project Aquatrine Package C – a 25 year contract spanning 1,295 sites across England covering the eastern sea border and from Lancashire in the North West to West Sussex on the South coast.

Under this contract the Group maintains and upgrades the MOD infrastructure assets and provides operating services for water and waste water. Both the operating services and maintenance and upgrade services are charged under a volumetric tariff, along with standing charges, which are adjusted with inflation as agreed in the contract.

Under IFRS 15, the expected revenue over the life of the contract is allocated to the performance obligations based on an expected margin for each performance obligation over the life of the contract under the following headings:

- Operating and maintaining the MOD infrastructure assets;
- Upgrading the MOD infrastructure assets;
- Administrating the services received from statutory water and sewerage undertakers;
- Administrating billing services of the MOD's commercial and Non Base Dependent customers.

Revenue is recognised in line with the delivery of each performance obligation. The expected whole life revenues and costs on the contract are updated regularly. Any changes to revenue relating to performance obligations already delivered are recognised in the period in which they are identified.

The previous accounting policy for this contract was to recognise revenue billed under the volumetric tariff at the point of billing. The expected costs for the upgrade services were recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract. The resulting asset was recognised as a financial asset in accordance with IFRIC 12.

The tables below show the effect of the IFRS 15 adoption on the income statement, balance sheet and earnings per share for the year ended 31 March 2018.

Consolidated income statement (extract)

Year ended 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Turnover	1,694.1	2.3	1,696.4
Operating costs	(1,165.7)	(3.5)	(1,169.2)
Profit before interest and tax	528.4	(1.2)	527.2
Net finance costs, losses on financial instruments and results of joint ventures	(226.0)	-	(226.0)
Profit on ordinary activities before taxation	302.4	(1.2)	301.2
Taxation on profit on ordinary activities	(61.9)	0.3	(61.6)
Profit for the period from continuing operations	240.5	(0.9)	239.6

Earnings per share

Year ended 31 March 2018

	As previously reported pence	IFRS 15 impact pence	Restated pence
Underlying earnings per share			
Underlying basic earnings per share	121.0	(0.3)	120.7
Underlying diluted earnings per share	120.6	(0.4)	120.2
Earnings per share from continuing operations			
Basic earnings per share	102.2	(0.4)	101.8
Diluted earnings per share	101.9	(0.4)	101.5
Earnings per share from continuing and discontinued operations			
Basic earnings per share	107.8	(0.4)	107.4
Diluted earnings per share	107.5	(0.4)	107.1

Consolidated balance sheet (extract)

As at 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Non-current trade and other receivables	181.3	4.0	185.3
Deferred tax	(674.4)	(0.8)	(675.2)
Retained earnings	547.9	3.2	551.1

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 Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Operating Services businesses in the UK & Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including affinity and searches.

In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

On 30 November 2018 the group completed the acquisition of Agrivert Holdings Limited. This business has been included in the Business Services segment with effect from that date. Further details of the acquisition are set out in note 9.

Surplus land in the regulated business is, in certain cases, sold to Group companies outside the regulatory ring-fence where its full development potential can be realised. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the development potential. In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore, the current period results have been presented on both the old and new basis of segmentation, in accordance with IFRS 8.

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 new 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 turnover and underlying PBIT is presented below.

Goodwill is allocated and monitored at the segment level.

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

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the year ended 31 March 2019.

a) Segmental results

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Regulated Water and Waste Water (new basis) £m
External turnover	1,637.6	(54.5)	–	1,583.1
Inter-segment turnover	–	–	–	–
Total turnover	1,637.6	(54.5)	–	1,583.1
Profit before interest, tax and exceptional items	544.3	(8.7)	(8.6)	527.0
Exceptional items	(8.9)	–	–	(8.9)
Profit before interest and tax	535.4	(8.7)	(8.6)	518.1

Business Services	Business Services (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Business Services (new basis) £m
External turnover	128.9	54.5	–	183.4
Inter-segment turnover	17.5	–	–	17.5
Total turnover	146.4	54.5	–	200.9
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	35.5	8.7	19.9	64.1
Exceptional items and amortisation of acquired intangible assets	(1.0)	–	–	(1.0)
Profit before interest and tax	34.5	8.7	19.9	63.1

Corporate and other	Corporate and other (old basis) £m	Property Development[2] £m	Corporate and other (new basis) £m
External turnover	–	–	–
Inter-segment turnover	0.4	–	0.4
Total turnover	0.4	–	0.4
Profit before interest, tax and exceptional items	3.1	(11.3)	(8.2)
Exceptional items	(0.4)	–	(0.4)
Profit before interest and tax	2.7	(11.3)	(8.6)

[1] In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These combined activities are now managed as a single Bioresources business within Business Services.

[2] In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

The following table shows the segmental turnover and PBIT on the old segmentation:

	2019		2018 (restated)	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
External turnover	1,637.6	128.9	1,574.1	122.2
Inter-segment turnover	–	17.5	0.5	18.8
Total turnover	1,637.6	146.4	1,574.6	141.0
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	544.3	35.5	514.9	34.8
Exceptional items and amortisation of acquired intangible assets(see note 4)	(8.9)	(1.0)	(11.1)	(1.9)
Profit before interest and tax	535.4	34.5	503.8	32.9

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

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	1,583.1	1,637.6	1,574.6
Business Services	200.9	146.4	141.0
Corporate and other	0.4	0.4	9.0
Consolidation adjustments	(17.0)	(17.0)	(28.2)
	1,767.4	1,767.4	1,696.4

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

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	527.0	544.3	514.9
Business Services	64.1	35.5	34.8
Corporate and other	(8.2)	3.1	(9.7)
Consolidation adjustments	(9.3)	(9.3)	(0.2)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	573.6	573.6	539.8
Exceptional items and amortisation of acquired intangible assets:			
Regulated Water and Waste Water	(8.9)	(8.9)	(11.1)
Business Services	(1.0)	(1.0)	(1.8)
Corporate and other	(0.4)	(0.4)	0.3
Net finance costs	(194.2)	(194.2)	(219.5)
Net losses on financial instruments	16.0	16.0	(6.7)
Share of (loss)/profit of joint ventures	(0.4)	(0.4)	0.2
Profit before tax	384.7	384.7	301.2

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

The following table shows the segmental capital employed:

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Property Development £m	Regulated Water and Waste Water (new basis) £m
Operating assets	9,501.9	(287.5)	–	9,214.4
Goodwill	63.5	–	–	63.5
Interests in joint ventures and associates	–	–	–	–
Segment assets	9,565.4	(287.5)	–	9,277.9
Segment operating liabilities	(1,993.4)	7.1	–	(1,986.3)
Capital employed	7,572.0	(280.4)	–	7,291.6

Business Services	Business Services (old basis) £m	Bioresources £m	Property Development £m	Business Services (new basis) £m
Operating assets	314.7	287.5	20.1	622.3
Goodwill	28.7	–	–	28.7
Interests in joint ventures and associates	37.0	–	–	37.0
Segment assets	380.4	287.5	20.1	688.0
Segment operating liabilities	(55.2)	(7.1)	(6.4)	(68.7)
Capital employed	325.2	280.4	13.7	619.3

Corporate and other	Corporate and other (old basis) £m	Property Development £m	Corporate and other (new basis) £m
Operating assets	24.1	(20.1)	4.0
Goodwill	–	–	–
Interests in joint ventures and associates	–	–	–
Segment assets	24.1	(20.1)	4.0
Segment operating liabilities	(68.7)	6.4	(62.3)
Capital employed	(44.6)	(13.7)	(58.3)

The following table shows segmental capital employed on the old basis:

	2019		2018 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	9,501.9	314.7	8,900.8	200.6
Goodwill	63.5	28.7	63.5	–
Interests in joint ventures and associates	–	37.0	–	37.6
Segment assets	9,565.4	380.4	8,964.3	238.2
Segment operating liabilities	(1,993.4)	(55.2)	(1,957.6)	(42.7)
Capital employed	7,572.0	325.2	7,006.7	195.5

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.

3. Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by type of revenue and by business below:

Year ended 31 March 2019	**Regulated Water and Waste Water** £m	**Operating Services** £m	**Green Power** £m	**Bioresources** £m	**Other** £m	**Group** £m
Water and waste water services	1,581.7	–	–	54.5	–	1,636.2
Operating services	–	57.1	–	–	–	57.1
Renewable energy	–	–	17.2	29.0	–	46.2
Other sales	1.4	–	–	–	26.5	27.9
	1,583.1	57.1	17.2	83.5	26.5	1,767.4

The tables below show segmental turnover on the old basis of segmentation:

Year ended 31 March 2019	**Regulated Water and Waste Water** £m	**Business Services** £m	**Group** £m
Water and waste water services	1,636.2	–	1,636.2
Operating services	–	57.1	57.1
Renewable energy	–	46.2	46.2
Other sales	1.4	26.5	27.9
	1,637.6	129.8	1,767.4

Year ended 31 March 2018	**Regulated Water and Waste Water** £m	**Business Services** £m	**Group** £m
Water and waste water services	1,568.9	–	1,568.9
Operating services	–	63.0	63.0
Renewable energy	–	41.6	41.6
Other sales	5.2	17.7	22.9
	1,574.1	122.3	1,696.4

4. 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.

	2019	2018
	£m	£m
Regulated Water and Waste Water		
Restructuring costs	**–**	(18.8)
Gain arising on pension exchange arrangement	**–**	7.7
GMP equalisation costs	**(8.9)**	–
	(8.9)	(11.1)
Business Services		
Restructuring costs	**–**	(2.1)
Gain arising on pension exchange arrangement	**–**	0.3
GMP equalisation costs	**(0.3)**	–
	(0.3)	(1.8)
Corporate and Other		
Gain arising on pension exchange arrangement	**–**	0.3
GMP equalisation costs	**(0.4)**	–
	(0.4)	0.3
	(9.6)	(12.6)

5. Finance income

	2019	2018
	£m	£m
Interest income earned on bank deposits	0.2	0.5
Other financial income	7.7	5.2
Total interest receivable	7.9	5.7
Interest income on defined benefit scheme assets	61.0	62.0
	68.9	67.7

6. Finance costs

	2019	2018
	£m	£m
Interest expense charged on:		
Bank loans and overdrafts	21.3	19.2
Other loans	153.0	183.4
Finance leases	4.4	4.4
Total borrowing costs	178.7	207.0
Other financial expenses	9.6	2.7
Interest cost on defined benefit scheme liabilities	74.8	77.5
	263.1	287.2

7. Net gains/(losses) on financial instruments

	2019 £m	2018 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	0.3	(1.1)
Gain arising on debt in fair value hedges	0.5	–
Exchange (loss)/gain on other loans	(8.1)	12.7
Loss on cash flow hedges transferred from equity	(8.2)	(8.2)
Hedge ineffectiveness on cash flow hedges	1.9	1.4
Gain/(loss) arising on swaps where hedge accounting is not applied	28.5	(12.6)
Amortisation of fair value adjustment on debt	1.1	1.1
	16.0	(6.7)

8. Tax

	2019 £m	2018 (restated) £m
Current tax at 19% (2018: 19%)		
Current year	41.2	36.8
Prior years	(9.4)	(3.9)
Total current tax	31.8	32.9
Deferred tax		
Origination and reversal of temporary differences:		
Current year	30.1	21.1
Prior years	7.5	7.6
Total deferred tax	37.6	28.7
	69.4	61.6

9. Acquisitions

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited.

The acquisition has been accounted for using the acquisition method. Goodwill of £28.7 million has been capitalised attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition.

No goodwill related to these acquisitions is expected to be deductible for tax purposes.

The residual excess over the net assets acquired has been recognised as goodwill.

	£m
Provisional fair values on acquisition	
Intangible assets	31.5
Property, plant and equipment	69.4
Inventories	0.6
Trade and other receivables	9.4
Cash and cash deposits	3.3
Borrowings	(63.0)
Trade and other payables	(4.9)
Provisions for liabilities	(0.5)
Deferred tax	(13.2)
Net assets acquired	32.6
Goodwill	28.7
Total consideration	61.3
Satisfied by:	
Cash	54.2
Deferred consideration	4.1
Contingent consideration	3.0
	61.3
Net cash flows arising on acquisition:	
Cash consideration	(54.2)
Cash and cash deposits acquired	3.3
	(50.9)
Agrivert Group Limited for the period since acquisition to 31 March 2019:	
Revenue	9.2
Profit before tax	0.9
Severn Trent Group for the year ended 31 March 2019 if acquisition had happened on 1 April 2018:	
Revenue	1,793.7
Profit before tax	385.7

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria.

Acquisition related costs amounting to £3.6 million were recognised as an expense in the income statement. No other acquisition costs were recognised.

10. Discontinued operations

Operating Services US

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

	2019	2018
	£m	£m
Turnover	–	42.1
Total operating costs	–	(42.2)
Loss before interest and tax	–	(0.1)
Net finance income	–	–
Loss before tax	–	(0.1)
Attributable tax expense	–	0.3
Gain on disposal of discontinued operations	–	13.0
Profit for the period attributable to owners of the company	–	13.2

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

			2019			2018
	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
Diluted earnings per share	–	–	–	13.2	236.1	5.6

11. Dividends

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

		2019		2018
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2018 (2017)	**51.92**	**122.9**	48.90	115.2
Interim dividend for the year ended 31 March 2019 (2018)	**37.35**	**89.0**	34.63	81.8
Total dividends paid	**89.27**	**211.9**	83.53	197.0
Proposed final dividend for the year ended 31 March 2019	**56.02**	**135.0**		

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.

12. 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

	2019	2018
		(restated)
	£m	£m
Profit for the year	315.3	252.8
Adjusted for profit from discontinued operations (see note 10)	–	(13.2)
Profit for the year from continuing operations	315.3	239.6

Number of shares

	2019	2018
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	236.3	235.3
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	0.4	0.8
Weighted average number of ordinary shares for the purpose of diluted earnings per share	236.7	236.1

b) Underlying earnings per share

	2019	2018
		(restated)
	pence	pence
Underlying basic earnings per share	145.8	120.5
Underlying diluted earnings per share	145.6	120.1

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 2019 and 2018. 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:

	2019	2018 (restated)
	£m	£m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	315.3	239.6
Adjustments for:		
- exceptional items before tax	9.6	12.6
- current tax related to exceptional items	–	(0.7)
- amortisation of acquired intangible assets	0.7	–
- net (gains)/losses on financial instruments	(16.0)	6.7
- current tax on net gains/losses on financial instruments	(2.6)	(3.3)
- deferred tax	37.6	28.7
Earnings for the purpose of underlying basic and diluted earnings per share	344.6	283.6

13. 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 valuations of the Severn Trent schemes were at 31 March 2016. The Group participates in the Dee Valley Water plc 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 2019 have been updated to reflect market conditions prevailing at the balance sheet date as follows.

	2019 %	2018 %
Price inflation - RPI	**3.2**	3.1
Price inflation - CPI	**2.2**	2.1
Discount rate	**2.5**	2.7
Pension increases in payment	**3.2**	3.1
Pension increases in deferment	**3.2**	3.1

	2019	2018
Remaining life expectancy for members currently aged 65 (years)		
- men	**21.9**	22.4
- women	**23.6**	24.1
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**22.9**	23.4
- women	**24.8**	25.3

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the group's obligations 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 £46/£47 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £40/£39 million
Mortality	Increase in life expectancy by 1 year	Increase by £106 million

The defined benefit assets have been updated to reflect their market value as at 31 March 2019. 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	**Defined benefit obligations**	**Net deficit**
	£m	**£m**	**£m**
At 31 March 2018	2,339.8	(2,859.6)	(519.8)
Exceptional past service cost	–	(9.6)	(9.6)
Current service cost	–	(0.2)	(0.2)
Scheme administration costs	(2.3)	–	(2.3)
Interest income/(cost)	61.0	(74.8)	(13.8)
Return on plan assets	95.9	–	95.9
Actuarial losses recognised in the statement of comprehensive income	–	(38.0)	(38.0)
Contributions from the sponsoring companies	34.9		34.9
Employees' contributions and benefits paid	(110.4)	110.4	–
At 31 March 2019	**2,418.9**	**(2,871.8)**	**(452.9)**

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

	2019	2018
	£m	£m
Retirement benefit surplus	**18.6**	18.2
Retirement benefit obligations	**(471.5)**	(538.0)
	(452.9)	(519.8)

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2019	2018 (restated)
	£m	£m
Profit before interest and tax from continuing operations	563.3	527.2
Profit before interest and tax from discontinued operations	–	13.6
Profit before interest and tax	563.3	540.8
Depreciation of property, plant and equipment	315.4	308.8
Amortisation of intangible assets	30.5	20.8
Pension service cost	9.8	(7.8)
Defined benefit pension scheme administration costs	2.3	1.8
Defined benefit pension scheme contributions	(34.9)	(35.2)
Share based payment charge	8.1	6.9
Loss/(profit) on sale of property, plant and equipment and intangible assets	0.6	(7.3)
Exceptional depreciation - property, plant and equipment	–	16.8
Profit on disposal of businesses"	–	(13.7)
Deferred income movement	(14.7)	(14.3)
Provisions charged to the income statement	12.2	13.8
Utilisation of provisions for liabilities and charges	(12.8)	(5.4)
Operating cash flows before movements in working capital	879.8	826.0
Increase in inventory	(1.7)	(2.9)
Increase in amounts receivable	(60.0)	(58.4)
Increase in amounts payable	8.2	8.6
Cash generated from operations	826.3	773.3
Tax received	–	8.0
Tax paid	(21.3)	(14.5)
Net cash generated from operating activities	805.0	766.8

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2018: nil). Assets transferred from developers and under Private Drains and Sewers legislation at no cost were recognised as their fair value of £42.1 million (2018: £35.3 million).

c) Reconciliation of movements in net debt

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

	Net cash and cash equivalents £m	Bank loans	Other loans	Finance leases	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2018	38.5	(1,217.4)	(4,223.9)	(113.9)	24.5	135.6	(5,356.6)
Cash flow	(2.2)	163.5	(551.8)	2.3	–	6.0	(382.2)
Fair value adjustments	–	–	1.6	–	12.6	–	14.2
RPI uplift on index-linked debt	–	(2.9)	(36.8)	–	–	–	(39.7)
Debt acquired on acquisition	3.3	(62.4)	–	(0.6)	–	–	(59.7)
Foreign exchange	–	–	(8.1)	–	–	–	(8.1)
Other non-cash movements	–	(0.9)	(1.5)	–	–	0.4	(2.0)
As at 31 March 2019	39.6	(1,120.1)	(4,820.5)	(112.2)	37.1	142.0	(5,834.1)

15. Post balance sheet events

Dividends

Following the year end the board of directors have approved a final dividend of 56.02 pence per share. Further details of this are shown in note 11.

16. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2018: £nil) is expected to arise in respect of either bonds or guarantees.

17. 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	
	2019 £m	2018 £m
Sale of services	335.0	354.9
Net interest income	3.8	2.2
	338.8	357.1

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

	Water Plus	
	2019 £m	2018 £m
Trade and other receivables due from related parties	2.3	44.9
Loans receivable from joint ventures	142.0	135.6
	144.3	180.5

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 13.

18. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). 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 amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by these items and reflecting the operational performance of the acquired subsidiaries. Following the acquisition of Agrivert this APM was updated to include adjustment of amortisation on acquired intangible assets. The calculation of this APM 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, amortisation of intangible assets recognised on acquisition of subsidiaries, 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 12.

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 14.

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.

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

	2019 £m	2018 (restated) £m
Net finance costs	194.2	219.5
Net finance costs from pensions	(13.8)	(15.5)
Capitalised interest	33.2	26.2
	213.6	230.2
Average net debt	5,547.7	5,134.4
Effective interest rate	3.9%	4.5%

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).

(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)
(monthly average net debt)

	2019 **£m**	2018 (restated) £m
Net finance costs	194.2	219.5
Net finance costs from pensions	(13.8)	(15.5)
RPI interest	(39.7)	(54.1)
Capitalised interest	33.2	26.2
	173.9	176.1
	-	-
Average net debt	5,547.7	5,134.4
	-	-
Effective cash cost of interest	3.1%	3.4%

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 underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

underlying PBIT
(net finance costs – net finance costs from pensions)

	2019 **£m**	2018 (restated) £m
Underlying PBIT	573.6	539.8
Net finance costs	194.2	219.5
Net finance costs from pensions	(13.8)	(15.5)
Net finance costs excluding finance costs from pensions	180.4	204.0
PBIT interest cover ratio	3.2	2.6

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.

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

	2019 £m	2018 (restated) £m
Underlying PBIT	573.6	539.8
Depreciation	315.4	308.2
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	29.8	20.5
EBITDA	918.8	868.5
Net finance costs	194.2	219.5
Net finance costs from pensions	(13.8)	(15.5)
Net finance costs excluding finance costs from pensions	180.4	204.0
EBITDA interest cover ratio	5.1	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 gains/losses on financial instruments, exceptional items and share of net profit of joint ventures accounted for using the equity method.

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

	2019		2018 (restated)	
	£m	Current tax thereon £m	£m	Current tax thereon £m
Profit before tax	384.7	(41.2)	301.2	(36.8)
Adjustments:				
Share of net (profit)/loss of joint ventures	0.4	–	(0.2)	–
Exceptional items	9.6	–	12.6	(0.7)
Net (gains)/losses on financial instruments	(16.0)	(2.6)	6.7	(3.3)
	378.7	(43.8)	320.3	(40.8)
		11.6%		12.7%

This APM is used to be remove distortions in the tax charge and create a metric consistent with the calculation of underlying earnings per share in note 12. Share of net profit of joint ventures is excluded from the calculation because this is included after tax and the tax on joint venture profits 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' customer service 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.
WRFIM (Wholesale Revenue Forecasting Incentive Mechanism)
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').

Cautionary statement regarding forward-looking statements

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.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest Annual Report and Accounts (which have not been updated since the date of its publication); changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. This document speaks as at the date of publication. Save as required by applicable laws and regulations, Severn Trent does not intend to update any forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

Nothing in this document should be regarded as a profits forecast.

This document is not an offer to sell, exchange or transfer any securities of Severn Trent Plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the United States absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).