Preliminary Announcement of Annual Results
29 May 2009
Results for the year to 31 March 2009

DELIVERING PERFORMANCE THROUGH HIGHER STANDARDS AND CONTINUOUS IMPROVEMENT

Highlights

- Delivered planned operating cost savings
- On track to deliver higher than targeted savings in 2009/10
- Now upper quartile performance in 14 of 20 Key Performance Indicators
  - Outperformed against Ofwat 2008/09 leakage target
  - Continued improvement in customer service
- Full year dividend up 2.6% to 67.34 pence per share (3% above RPI inflation)
- Strong liquidity position; funded for up to the next two years
- Basic loss per share of (24.6) pence after 79.1 pence (£185.6 million) exceptional deferred tax charge relating to the abolition of Industrial Buildings Allowances

Financial highlights

	31 March 2009 £m	31 March 2008 £m	Increase/ (Decrease) %
Group turnover	**1,642.2**	1,552.4	5.8%
Underlying Group PBIT [1]	**469.9**	469.5	0.1%
Underlying Profit before tax [2]	**273.5**	292.2	(6.4%)
Profit before tax	**167.6**	192.4	(12.9%)
	pence/ share	pence/ share	
Adjusted basic EPS [3]	**92.7**	97.8	(5.2%)
Basic (loss)/earnings per share	**(24.6)**	89.7	(127.4%)
Total ordinary dividends declared	**67.34**	65.63	2.6%

Underlying Group PBIT [1] stable at £469.9 million after sustained investment in infrastructure renewals (year on year increase of £18.9 million), increased year on year Severn Trent Water bad debt charges of £6.6 million and £20.8 million lower income through decline in commercial consumption.

[1] before exceptional items (see note 3)
[2] before exceptional items and losses on financial instruments
[3] from continuing operations, before exceptional items, losses on financial instruments and deferred tax (see note 9)

Sir John Egan, Chairman Severn Trent Plc, said:
"I am pleased to report today on a second successive year of encouraging progress. Despite the impact of the current economic environment on consumption and bad debts, and our already announced increase in investment in infrastructure renewals, Tony Wray and his team delivered stable underlying Group PBIT. That's because we continue to deliver on our plans to raise standards and keep down charges through our focus on continuous improvement in all our processes.

In line with our stated policy, our full year dividend has increased by 2.6% to 67.34 pence per share, an annual increase of 3% above the rate of inflation."

Tony Wray, Chief Executive Severn Trent Plc, said:
"These results demonstrate continued improvement across the business. We now have 14 of our 20 Key Performance Indicators at upper quartile. We continue to drive significantly higher customer service standards, have outperformed against our leakage target for the second year running and maintained high standards across our key environmental obligations.

We have delivered our planned operating cost savings this year and are on track to deliver higher than targeted operating cost savings in 2009/10. We remain on track to successfully deliver our capital programme over the final year of AMP4. We are committed to raising standards still higher and investing further in improving operational efficiency, because we believe that this approach will deliver improved customer service and enhanced shareholder value.

Looking forward to the next Price Review (PR09), preparations have gone well. There is still a way to go in the regulatory process, but we have what we believe to be a high quality, holistic and balanced plan that has customers at its heart, is supported by all the key stakeholders and will enable a fair and appropriate return for our investors."

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Preliminary Results Presentation and Webcast
There will be a preliminary results presentation at 9.30am on Friday 29 May 2009. This presentation, together with the presentation slides, will be available as a simultaneous webcast on the Severn Trent web site (www.severntrent.com) and will remain on the web site for subsequent viewing.

Operating Review

Severn Trent Water

We continue to execute on our plans to raise standards and drive greater efficiency across the business. The year under review has seen continued progress and delivery of tangible improvements. The 20 Key Performance Indicators (KPIs) remain the primary basis on which we measure and demonstrate raised standards.

We now have 14 KPIs where we are achieving upper quartile performance (2007/08 – 10), with 5 at median (2007/08 - 7) and 1 at lower quartile (2007/08 - 3).

We continue to make significant, sustainable improvements in levels of customer service. We have invested in our people, increasing capability and also continued our focus on process and technology improvements. We are now achieving upper quartile performance in both customer call and job resolution KPIs, and have delivered a 41% reduction in customer complaints over last year. As a result, this KPI has moved from lower quartile to upper quartile.

On leakage, we believe we have, for the second year running, outperformed against our Ofwat annual target despite the coldest winter in 13 years. We have continued to make improvements in measurement and detection, better response times in finding and fixing leaks, more efficient resource allocation and targeting the replacement of our network.

We have also maintained our high standards across water quality, control of pollutions and have maintained 100% consent compliance across our sewage treatment network.

Our continued focus on creating and maintaining a safe working environment has resulted in a 30% reduction in lost time incidents over last year.

Despite the downturn in the economy, the continued focus on improving debt management processes has delivered an 11% improvement in debtor days performance, to 33.1 days at March 2009 (March 2008 – 37.4 days). Whilst our overall performance has improved, the challenging economic conditions have seen an increase in customer insolvencies and greater difficulty in collecting debt over one year old. As a result, we have increased our bad debt charge and it now represents around 2.3% of turnover, up from around 1.8% last year.

We have achieved our planned cost savings this year and, before the impact of the increase in the bad debt charge mentioned above, have delivered the absolute level of expenditure we committed to. As we look forward into the final year of AMP4, we have accelerated our plans to deliver cost savings and now plan to invest £20 million (compared to our previous expectation of around £12 million) to deliver an additional £5 million of cost savings in 2009/10 and further cost efficiencies in AMP5.

The capital programme is proceeding according to plan and we continue to expect to deliver on our regulatory commitments. In common with operating costs, recent rapid falls in the index (COPI) used to adjust the Ofwat determination is likely to lead to a lower than anticipated baseline as we proceed into the final year of AMP4. We remain focussed on the successful delivery of the absolute levels of expenditure previously announced and we will continue our efforts to identify and pursue additional opportunities across our operating and capital expenditure base in this low inflation environment.

The table below sets out our actual performance for the period under review. Based on the latest benchmarking exercise, carried out during the year, our performance is shown in one of three categories of what we consider to be either lower quartile, upper quartile or median (representing 2nd and 3rd quartile) performance. In 2008/09 we improved year on year in 7 of our KPIs, maintained high standards in 9 and remained static in 4. We have made significant progress in the year but there is still more to do to achieve our aim of upper quartile performance. We will continue to update our benchmarks on an annual basis to ensure that as companies in our sector or elsewhere redefine what upper quartile means, our objectives move with them.

Description		**Basis**	**Note**	**Lower Quartile**	**Median**	**Upper Quartile**
Lost time incidents per 100,000 hrs worked	2009	MAT	2			0.43
	2008				*0.61*	
Employee motivation %	2009	QR	3			83%
	2008					*77%*
Water quality (test failure rate) ppm	2009	MAT	1,4			200.4
	2008					*240.1*
Customer written complaints per 1,000 properties	2009	MAT	1,5			6.44
	2008			*10.90*		
First time call resolution for billing %	2009	MAT	6			88%
	2008					*85%*
Unplanned interruptions > 6 hrs per 1,000 properties	2009	MAT	1,7	7.29		
	2008			*21.86*		
Properties at risk of low pressure per 1,000 properties	2009	NPR	8,9			1.21
	2008					*0.46*
First time job resolution %	2009	MAT	6			96%
	2008				*85%*	
Non performance against Regulatory Obligations %	2009	QR	6		10%	
	2008				*15%*	
Capex (Gross) vs Final Determination %	2009	ATD	10			5.0%
	2008					*1.7%*
Capital process quality (no. of defects per £100k)	2009	MAT	6			0.00
	2008					*0.03*
Debtor days	2009		8,10		33.1	
	2008				*37.4*	
Opex vs Final Determination (UK GAAP) - £m	2009	MAT	10		500.9	
	2008				*480.9*	
Cost to serve per property - £	2009	MAT	11			236.53
	2008				*236.82*	
Pollution incidents (cat 1, 2 & 3) per 1,000 properties	2009	MAT	4,12			0.08
	2008					*0.11*
Sewer flooding incidents - other causes per 1,000 properties	2009	MAT	1		0.17	
	2008			*0.21*		
Sewage Treatment Works - breach of consents %	2009	PPS	1,8			0.0%
	2008					*0.0%*
Security of supply	2009		8		98	

	2008			*95*		
Net Energy Use – Kwh/Ml	2009	MAT	6			622
	2008				*608*	
Leakage Ml/d	2009	MLE	1,14			492
	2008					*491*

Notes:
All measures are for the period to 31 March 2009, except as stated.

MAT = Moving Annual Total
QR = Quarterly Review
NPR = Number of properties on register
ATD = AMP4 to date
PPS = Percentage of population served
MLE = Maximum Likelihood Estimate

1. As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 12 June 2009.
2. Actual performance across all employees and agency staff.
3. Performance based on quarterly survey of 10% of permanent employees.
4. Measure for calendar year to 31 December 2008. Measure now expressed as test failure rate (parts per million). 2008 performance restated accordingly.
5. Performance excludes properties billed by other water companies.
6. Actual performance based on internal data.
7. 2008 performance excludes impact of Summer 2007 flooding. 2008 performance is 184.5 if impact of Summer 2007 flooding included.
8. Measure as at 31 March 2009.
9. 2009 and 2008 performance includes impact of new pressure loggers installed in 2007/08. Excluding pressure loggers, 2009 performance is 0.005 (2008 0.06) as there has been a significant reduction in reactive identification.
10. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2009 and expressed in absolute terms.
11. Actual performance based on audited regulatory accounts for the year ended 31 March 2009.
12. Measure expressed as percentage non performance against regulatory obligations.

In June 2008 we announced our plans to invest £24 million over the final two years of the AMP in order to raise standards and improve efficiency. During 2008/09 we have invested £11.9 million (total exceptional charges £13.7 million, less £1.8 million charge in relation to onerous lease provisions on property). This investment has delivered the sustainable operating cost savings we had targeted. Notwithstanding the progress made to date, we continue to develop this major programme to optimise the performance of the company and sustain the improvements in the longer term. This programme is focused on three broad areas:

- Process improvements,
- The technology and systems that support these processes, and
- The location, training and development of our people to operate in this new environment.

These improvement plans are integrated into our 2009/10 plans, are the basis of our future improvements in effective and efficient operation and form a major part of the Company's AMP5 Final Business Plan submitted to Ofwat in April 2009. As mentioned above, we have accelerated our improvement plans and now expect to incur around £20 million of exceptional restructuring costs in 2009/10. This investment is planned to deliver around £5 million of additional operating cost savings in 2009/10 when compared to previous guidance.

Severn Trent Water Final Business Plan

In April 2009, we submitted our Final Business Plan to Ofwat. It is a stakeholder led plan that aligns to the company's 25 year Strategic Direction Statement (www.stwater.co.uk/sds) and reflects the changing economic environment since submission of the Draft Business Plan in August 2008. The outcomes of our final business plan include:

- Lowest possible bills - average household bills will rise by 4% in real terms over the life of the plan (an annual average of 0.8%) by 2015.
- Challenging efficiency targets delivering a reduction in controllable operating costs of £63 million per year by 2014/15 and over £200 million of capital efficiencies over AMP5. The early appointment of the 11 principal AMP5 contractors, announced on 2 March 2009, is an important part of our plans to deliver these capital efficiencies.
- An AMP5 capital investment programme of similar levels to AMP4 at around £2.6 billion (net of efficiencies, grants and contributions at 2007/08 prices). This investment will deliver improved services, such as stronger network resilience and reductions in sewer flooding; provide environmental improvements through improving sewage treatment; and ensure that environmental and drinking water quality improvements achieved in the past two decades are maintained.
- An assumed cost of capital of 5.0% real, post tax, consistent with maintaining an appropriate credit rating to allow the company to raise the funds it requires to finance future investment at a reasonable rate and deliver an appropriate return to equity investors. The component parts of the assumed cost of capital are; real post tax cost of equity of 7.7% (AMP4 7.7%), real post tax cost of debt of 3.3% (AMP4 3.0%) and 60% gearing (AMP4 55%).

We are engaged with Ofwat in reviewing the plan. We believe it to be a high quality, holistic and balanced plan that has customers at its heart, is supported by all the key stakeholders and will enable a fair and appropriate return for our investors.

Severn Trent Services

Severn Trent Services is one of the world's leading suppliers of water and waste water treatment solutions. The global market for water and waste water is substantial and growing at around 4% per year. Although growth has slowed since last year in the face of the global economic downturn, the fundamental drivers - water scarcity, higher regulatory requirements, population growth and climate change - remain strong.

The business is focused on four key strategic initiatives:

- Geographic expansion of our products and services into selected markets. Our new branch office in China has already bid for and won its first filtration order and our branch in Abu Dhabi established last year has exceeded our expected turnover this year.
- Expanding the scope of our operating services around the world. We have won three design, build and operate contracts during the year, two in Italy and one in the UK.
- Enhancing products and operations to improve our effectiveness and efficiency. A full technology roadmap has been developed this year for all our disinfection and filtration product groups. This has allowed us to focus on filling technology gaps, for example enhancements to our TETRA® brand of filtration products.

- Developing new technologies at the forefront of water and waste water solutions. The development of our BALPURE® ballast water treatment system means we are well placed to exploit the opportunities created by the new International Maritime Organisation (IMO) regulation coming into effect in January 2010.

There are three main business groups: Water Purification, Operating Services and Analytical Services. Water Purification is a leader in developing advanced technologies and products focused on disinfection, filtration, arsenic removal and ballast water treatment. Operating Services is a leader in running and maintaining water and waste water treatment plants around the world and Analytical Services is a leader in UK environmental water testing services. These three main areas of the business are targeted to deliver against three key financial criteria; continued revenue growth, profit growth and an appropriate return on invested capital.

In February 2009 we announced the sale of the meters business, which completed after receiving Office of Fair Trading approval on 8 May 2009.

On 13 May 2009, consistent with our strategic aim of geographic expansion of our products and services into selected markets, we completed the acquisition of PS Aplicor S.A., a small distribution operation in Spain. This business currently has an annual turnover of around €10 million.

Group Financial Performance

In this Preliminary Results announcement: PBIT is profit from continuing operations before interest and tax; underlying PBIT also excludes exceptional items as set out in note 3.

Group turnover from continuing operations was £1,642.2 million (£1,552.4 million), an increase of 5.8% over last year. The growth in turnover was mainly due to the price increases in Severn Trent Water, offset by the impact of lower consumption across our measured commercial income base, which reduced year on year revenues by around £20 million.

Underlying Group PBIT increased by 0.1% to £469.9 million (£469.5 million). Beyond the net increase in turnover, the main factors affecting underlying PBIT were increased energy and commodity costs and an increase in infrastructure renewals expenditure and depreciation in Severn Trent Water and increased contribution to underlying PBIT of £4 million from Severn Trent Services. There were net exceptional costs of £18.9 million (£68.8 million). Group statutory PBIT was £451.0 million (£400.7 million).

As described in our preliminary results published in June 2008, Severn Trent Retail and Utility Services (previously reported in Severn Trent Water) is now reported within Severn Trent Services. All comparatives have been restated to reflect this change (see note 2).

Severn Trent Water

Turnover in Severn Trent Water increased by 4.7% in 2008/09, to £1,324.9 million. Sales prices increased by 5.07% (including inflation) from 1 April 2008, with the previously noted decline in commercial consumption reducing revenues by around £20 million.

The rapid rise in the first half year and then fall in retail price inflation (RPI) has presented a number of challenges. At Severn Trent Water, which operates under an RPI model as regulated by Ofwat, we faced rising costs in the first half year which we worked hard to contain, while seeking to obtain value from the falling rates in the latter half. In a business such as Severn Trent Water where lead times on procured items, particularly on the capital investment programme, are longer this challenge has been difficult.

Underlying PBIT was flat on the previous year at £456.0 million. Beyond the increase in turnover, a number of factors impacted underlying PBIT, principally; an increase in infrastructure renewals expenditure of £18.9 million, an increase in energy and commodity costs of £12.5 million, an increase in the bad debt charge of £6.6 million, increase in depreciation charges of £11.5 million and an increase of £4.8 million, net of efficiency savings, across the balance of our cost base.

During the financial year, Severn Trent Water invested £635.3 million (gross, UK GAAP) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure renewals expenditure of £130 million.

Adjusting for minor timing differences and modifications to the AMP4 capital programme (notified to Ofwat through the change control process) we continue to be in line to achieve this programme with capital expenditure, net of grants, contributions and other income (UK GAAP) of around £2.6 billion.

Severn Trent Services

Reported turnover in Severn Trent Services was £339.3 million in 2008/09, up 8.4% on 2007/08. Underlying reported PBIT increased by 14.7% to £30.5 million.

As set out in the table below, excluding the impact of Retail and Utility Services (STRS), where margins have fallen due to the declining property market, removing the impact of changing exchange rates and adjusting for the effect of the sale of the meters businesses (completed after the year end), like for like turnover was up around 0.5% and underlying PBIT was up 17.4%. Return on invested capital remained at around 15% (2007/08 15%).

Turnover				**PBIT[1]**		
2008/09	2007/08	**Increase/ Decrease**		**2008/09**	2007/08	**Increase/ Decrease**
£m	£m	**%**		**£m**	£m	**%**
339.3	313.0	**8.4%**	**As reported**	**30.5**	26.6	**14.7%**
(12.5)	(15.7)		STRS	**(4.0)**	(5.9)	
326.8	297.3	**9.9%**	**Excluding STRS**	**26.5**	20.7	**28.0%**
-	31.0		Exchange rate impact	**-**	1.9	
(7.6)	(10.8)		Sale of business	**1.2**	1.0	
319.2	317.5	**0.5%**	**Adjusted "like for like"**	**27.7**	23.6	**17.4%**

Corporate and Other

Corporate and Other Businesses' turnover was down 9.6% to £4.7 million and is now mostly internal charges from our captive insurance company. This turnover is eliminated on consolidation as the captive exists to insure Severn Trent group risks only and does not write any external business. The finalisation of the insurance position in relation to the 2007 floods was the primary reason for an underwriting loss of around £2 million being recorded in the year, which forms part of the £3.7 million loss related to other businesses. Corporate overheads amounted to £12.7 million (£10.9 million). In total, Corporate and Other incurred a loss before interest, tax and exceptional items of £16.4 million (loss of £11.2 million).

Exceptional items
There was a net exceptional charge, on continuing operations, in the year to 31 March 2009 of £18.9 million (£68.8 million) comprising:

- Restructuring costs of £14.6 million comprising: a charge of £13.7 million in Severn Trent Water arising from the programme to restructure and realign the business, a charge of £2.1 million in Severn Trent Services arising from the write down of the meters business to its expected recoverable amount and a credit of £1.2 million in Corporate arising from the release of provisions and adjustments to sale proceeds for businesses sold in previous periods;
- A net credit of £1.5 million arising from the flooding incidents that affected Severn Trent Water's water and sewerage networks during the summer of 2007. This includes insurance recoveries of £14.6 million less costs of £13.1 million;
- A charge of £7.2 million arising from Severn Trent Water's settlement and closure of the regulatory issues that arose in previous years. This includes a court imposed fine of £2 million and costs of £0.2 million from two offences relating to leakage data supplied to Ofwat in 2001 and 2002 and a provision of £5 million for additional contributions to the Severn Trent Charitable Trust as agreed with Ofwat; and
- In Severn Trent Services, a credit of £1.4 million arising from the release of the exceptional provision made in the prior year relating to third party legal costs.

Net finance costs
The Group's net finance costs were £196.4 million, compared to £177.4 million in the prior period. The increase was largely due to higher finance costs on pension obligations which increased as a result of a higher discount rate, whilst the expected return on assets was lower because the value of investments declined. Interest charges on the increased average Group net debt during the year were largely offset by lower interest on index linked debt through falling RPI. The effective cost to the Group of holding cash during the year was around £4 million. The effective interest rate for 2008/09 was 5.6%.

Losses/gains on financial instruments
The group issues notes in foreign currency under its EMTN programme and uses cross currency swaps to convert the proceeds to sterling. The effect of these swaps is that interest and principal payments on the borrowings are denominated in sterling and hence the currency risk is eliminated. The foreign currency notes and swaps are recorded in the balance sheet at their fair values and the changes in fair values are taken to losses/gains on financial instruments in the profit and loss account. Since the terms of the swaps closely match those of the underlying notes, such changes tend to be broadly equal and opposite. The changes in fair value of debt are shown in the reconciliation of movements in net debt in note 12.

The group holds interest rate swaps with a net notional principal amount of £761 million under which it pays fixed rate interest and receives floating rate interest. These swaps are carried in the balance sheet at fair value. The changes in fair value are taken to losses/gains on financial instruments in the profit and loss account. During the year there has been a decrease of £80.5 million in the fair value of these instruments because market interest rates were lower at 31 March 2009 than at 2008 and hence the difference between market rates and the rates payable in the fixed legs of the swaps has increased. This loss has been charged to losses/gains on financial instruments (see note 5).

It is important to note that we intend to and typically do hold these swaps to maturity. Further, this is not a cash movement and, over the life of the swaps, these charges will net out because the swaps will have a zero fair value when they mature.

Profit from continuing operations
Underlying Group profit from continuing operations before tax, decreased by 6.4% to £273.5 million (£292.2 million). Group profit from continuing operations before tax was £167.6 million (£192.4 million).

Taxation
The total tax charge for the full year was £223.6 million (credit of £18.2 million), of which current tax represented a charge of £52.1 million (£56.2 million) and deferred tax (see note 6) was a charge of £171.5 million (credit of £74.4 million), including an exceptional charge of £185.6 million in relation to the phased withdrawal of Industrial Buildings Allowances.

The effective rate of current tax on continuing businesses, excluding prior year settlements and exceptional items, calculated on profit before tax, exceptional items and gains/losses on financial instruments was 24.7% (25.6%). The decrease in effective rate is as a result of the reduction in corporation tax rate to 28%, higher year on year capital expenditure leading to a greater level of capital allowances and other adjustments.

Going forward, we expect the effective current tax rate for 2009/10 to be in the range of 24% to 26%.

Loss for the period and earnings per share
Loss for the period (after tax) from continuing operations was £56.0 million (Profit of £210.6 million).

Basic loss per share from continuing and discontinued operations were 24.6 pence (earnings per share 89.7 pence). Adjusted basic earnings per share from continuing operations (before exceptional items, gains/losses on financial instruments and deferred tax) were 92.7 pence (97.8 pence) (see note 9).

Cash flow

	Total	Total
	31 Mar 2009	31 Mar 2008
Cash generated from operations	**643.5**	645.9
Net capital expenditure	**(465.0)**	(439.6)
Net interest paid	**(173.9)**	(150.1)
Tax received/(paid)	**1.1**	(76.2)
Other cash flows	**(1.3)**	(1.2)
Free cash flow	**4.4**	(21.2)
Dividends	**(158.8)**	(147.3)
Net issue of shares	**6.2**	8.2
Change in net debt from cash flows	**(148.2)**	(160.3)
Non cash movements	**(216.0)**	(144.9)
Change in net debt	**(364.2)**	(305.2)
Net debt at 1 April	**(3,432.8)**	(3,127.6)
Net debt at 31 March	**(3,797.0)**	(3,432.8)
Net debt comprises:		
Cash and cash equivalents	**648.1**	654.4
Borrowings – current liabilities	**(256.2)**	(459.5)
Borrowings – non-current liabilities	**(4,188.9)**	(3,627.7)
	(3,797.0)	(3,432.8)

Net debt (including fair value adjustments) at 31 March 2009 was £3,797.0 million (£3,432.8 million). Economic net debt (excluding fair value adjustments of £248.2 million) at 31 March 2009 was £3,548.8 million (£3,386.4 million). Cash generated from operations was £643.5 million (£645.9 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £465.0 million (£439.6 million). Net interest paid increased to £173.9 million (£150.1 million).

Dividends paid in the year were as follows:

	31-Mar-09	31-Mar-08
	£m	£m
Final ordinary dividend for the year ended 31 March 2008/2007	**97.0**	90.4
Interim ordinary dividend for the year ended 31 March 2009/2008	**61.8**	56.9
	158.8	147.3

Balance sheet gearing (net debt/net debt plus equity) at the year end is 80.0% (74.0%). Economic net debt (excluding fair value adjustments), expressed as a percentage of 31 March 2009 Regulatory Capital Value (RCV) was 57.3% (57.2%), based on RCV at 31 March 2009 of £ 6,198 million (£5,922 million). The group's net interest charge, excluding gains/losses on financial instruments, was covered 3.7 times (3.7 times) by profit before interest, tax, depreciation and exceptional items, and 2.4 times (2.5 times) by underlying PBIT.

Pensions

The Group operates two defined benefit pension schemes, of which the Severn Trent Pension Scheme (STPS) is by far the largest. Formal triennial actuarial valuations and funding agreements were last undertaken for the STPS as at 31 March 2007. The key actuarial assumptions from these valuations have been updated for the accounts as at 31 March 2009 though overall contribution levels remain unchanged.

On an IAS 19 basis, the estimated net position (before deferred tax) of the group's defined benefit pension schemes was a deficit of £233 million as at 31 March 2009. This compares to a deficit of £126.0 million as at 31 March 2008. See note 10 for details of the year on year movement in this net position.

Total employer cash contributions to the schemes in the year were £42.0 million (£55.6 million).

The key actuarial assumptions were:

	2009	2008
Price inflation	**2.9%**	3.4%
Salary increases	**3.9%**	4.9%
Discount rate	**6.7%**	6.4%
Pension increases in payment	**3.0%**	3.4%
Pension increases in deferment	**2.9%**	3.4%
Expected return on equities	**8.00%**	8.00%
Longevity at age 65*		
Men	**20.1 years**	20.1 years
Women	**23.2 years**	23.2 years
Longevity at age 65**		
Men	**20.9 years**	20.9 years
Women	**23.9 years**	23.9 years

* for pensioners retiring now

** for pensioners retiring in 20 years

The following table summarises the estimated impact on scheme liabilities resulting 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%	Decrease/increase by £21 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £21 million
Mortality	Increase life expectancy by 1 year	Increase by £28 million

On an IAS 19 basis, the funding level has declined to around 83% (91.4%) as at 31 March 2009.

As at 31 March 2009 the group's defined benefit pension schemes had total assets of approximately £1,075 million and total liabilities of approximately £1,308 million.

Treasury management and liquidity

The past year has seen an unprecedented period of disruption to financial markets, the banking sector and other financial institutions. These events have combined to create the so called "credit crunch" and a wider economic recession. The speed of these events have also presented their own challenges and we have witnessed first, a rapid rise in retail price inflation followed by a rapid decline with annual RPI inflation at a negative 0.4% and declining by the March 2009 year end.

The Group reacted quickly to events, meeting the challenges, sustaining a sound financial performance throughout the year and ending it in a strong liquidity position. When it became apparent that credit was becoming more difficult to obtain, with some traditional funding sources and markets effectively closed, the Board took the decision to "pre fund" a major part of our investment and cash needs for up to the next two years. Following this decision, we took a number of steps including successfully issuing new bonds to the Sterling market in January 2009, raising £400 million repayable in January 2018. These decisions have of course a short term economic cost as we are now holding cash, deposited on lower rates than our current borrowing costs. However, it is the view of the Board that, despite the cost, in these unprecedented times, we should secure the funding required maintaining our services to customers and sustaining our investment programme, particularly at Severn Trent Water.

We continue to watch carefully the evolution of both the credit markets and the general economic situation so we may seek out the best options to manage the business in these volatile economic times. We finished the year ended 31 March 2009 in a strong liquidity position

The Group renewed for 5 years a £200 million committed bank facility in July 2008. The Group has £648.1 million in cash and cash equivalents, following the issue of a £400 million 6% 9 year Sterling bond in January 2009. The Group also has an undrawn £500 million committed bank facility that matures in 2013 and post year end has signed a further European Investment Bank (EIB) facility of £150 million, which is available for the Group to draw down over the next two years. The average debt maturity is around 19 years (20 years).

The Board continues to watch the debt markets carefully and will consider appropriate opportunities to raise funds consistent with the Group's needs. However, the Group is funded for its investment and cash flow needs for up to the next two years.

Cash is invested in deposits with highly rated (A+) banks and liquidity funds (AAA) and the list of counterparties is regularly reviewed and reported to the Board.

The Group's policy for the management of interest rate risk requires that no less than 45% of the Group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2009, interest rates for some 82% of the Group's net debt of £3,797.0 million were fixed. The effective interest rate for 2008/09 was 5.6%.

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

Dividend
In line with its policy for growing dividends by 3% above the rate of inflation to 31 March 2010, the Board is proposing a final ordinary dividend of 41.05 pence per share (2007/08 41.29 pence per share). This would give a total ordinary dividend for the year of 67.34 pence per share, an increase in real terms of 3% over the 2007/08 total ordinary dividend (65.63 pence per share). The final ordinary dividend is payable on 31 July 2009 to shareholders on the register at 19 June 2009.

Principal risks and uncertainties
The Board consider the principal risks and uncertainties affecting the business activities of the Group to be those detailed below:

External financial market factors could adversely impact on our financial position.

Compliance requirements, particularly changes in law or regulation in the countries and types of business in which we operate could have an adverse effect on our business and operations.

The results of our operations depend on a number of factors including achieving an acceptable Final Determination from Ofwat for Severn Trent Water, achieving our growth plan for our unregulated business and our ability to achieve sustainable benefits through the Severn Trent Water change programme.

The failure of our assets, processes or systems could affect our ability to carry out critical operations and could have a significant impact on the Health & Safety of our people or customers, or on our financial position and our reputation.

Our ability to influence customer behaviour or to operate in an environmentally responsible way could affect our financial position and our reputation.

Outlook
As we progress into the final year of AMP4, we continue to drive performance improvements across Severn Trent Water. These improvements, measured by our 20 KPIs, will deliver higher

standards and efficiencies; enabling us to meet the challenges and opportunities of the current economic environment and providing the momentum for the successful delivery of our AMP5 plan.

We have accelerated some of our improvement plans and expect to incur around £20 million of restructuring costs in 2009/10. This investment is planned to deliver around £5 million of additional operating cost savings in 2009/10 beyond our previous plans, and further cost efficiencies in AMP5.

The capital programme is proceeding according to plan. We continue to expect to deliver on our regulatory commitments and anticipate total capital expenditure (UK GAAP, net of grants, contributions and other income) of £2.6 billion for the AMP4 period. We maintain our objective to invest efficiencies in options to enhance long term value, support our improvement plans and deliver greater efficiency into AMP5. The three key areas we are focused on are:

- Accelerating our renewable energy programme to deliver greater operational efficiency, enhance our natural hedge to energy costs and reduce our carbon footprint,
- To engage with our supply chain to further our “early start” contracting strategy, delivering benefits in the AMP5 investment programme, and
- Investments in economically enhancing technology and locations, principally the construction of the new Severn Trent Centre.

In April 2009, we submitted our Final Business Plan to Ofwat. We believe it is a high quality, holistic and balanced plan that has customers at its heart is supported by all the key stakeholders and will enable a fair and appropriate return for our investors. It also reflects the changing economic environment since submission of the Draft Business Plan in August 2008. The plan proposes a capital programme of £2.6 billion (net of efficiencies, grants and contributions at 2007/08 prices), challenging efficiencies and an assumed weighted average cost of capital of 5%.

In Severn Trent Services, the market for all three areas of activity still provides the opportunity for growth. We are working to a focused growth strategy, capitalising on organic and other growth opportunities in the downturn economy by building on our brand recognition and reputation, our strong market positions, our international scale and our advanced technologies.

In the challenging economic environment, we maintain our focus on liquidity and funding. The Group has a strong liquidity position and is funded for its investment and cash flow needs for up to the next two years.

Severn Trent is a high quality business whose investment programme drives strong growth prospects. The management team has a clear and focused strategy and is engaged in the single minded pursuit of higher standards as the means to achieve both higher levels of customer satisfaction, and also sustained strong financial returns to shareholders.

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

Consolidated income statement
For the year ended 31 March 2009

	Note	2009 £m	2008 £m
Turnover	2	**1,642.2**	**1,552.4**
Operating costs before exceptional items		(1,172.3)	(1,082.9)
Exceptional restructuring costs and termination of operations	3	(14.6)	(14.9)
Exceptional flood costs net of insurance recoveries	3	1.5	(13.6)
Exceptional provision for fines and penalties	3	(7.2)	(35.8)
Exceptional provision for third party legal costs	3	1.4	(4.5)
Total operating costs		(1,191.2)	(1,151.7)
Profit before interest, tax and exceptional items	2	469.9	469.5
Exceptional items	3	(18.9)	(68.8)
Profit before interest and tax		**451.0**	**400.7**
Finance income	4	126.2	117.1
Finance costs	4	(322.6)	(294.5)
Net finance costs	4	(196.4)	(177.4)
(Losses) on financial instruments	5	(87.0)	(31.0)
Share of results of associates and joint ventures		-	0.1
Profit before tax, losses on financial instruments and exceptional items		273.5	292.2
Exceptional items	3	(18.9)	(68.8)
Losses on financial instruments	5	(87.0)	(31.0)
Profit on ordinary activities before taxation		**167.6**	**192.4**
Taxation on profit on ordinary activities			
– current tax	6	(52.1)	(56.2)
– deferred tax	6	14.1	19.7
Exceptional deferred tax (charge)/credit	6	(185.6)	54.7
Total taxation	6	(223.6)	18.2
(Loss)/profit for the period from continuing operations		(56.0)	210.6
Discontinued operations			
Profit for the period from discontinued operations	8	-	0.8
(Loss)/profit for the period		**(56.0)**	**211.4**
Attributable to:			
Equity holders of the company		(57.8)	209.5
Equity minority interests		1.8	1.9
		(56.0)	211.4
(Loss)/earnings per share (pence)			
From continuing operations			
Basic	9	(24.6)	89.3
Diluted	9	(24.6)	88.7
From continuing and discontinued operations			
Basic	9	(24.6)	89.7
Diluted	9	(24.6)	89.0

Consolidated balance sheet
At 31 March 2009

	Notes	2009 £m	2008 £m
Non current assets			
Goodwill		63.3	50.2
Other intangible assets		121.3	107.2
Property, plant and equipment		5,980.1	5,731.2
Interests in joint ventures		0.3	0.1
Interests in associates		4.8	4.1
Derivative financial instruments		225.4	51.3
Available for sale financial assets		0.1	0.1
		6,395.3	5,944.2
Current assets			
Inventory		30.6	24.8
Trade and other receivables		447.1	434.1
Derivative financial instruments		29.8	5.3
Cash and cash equivalents		648.1	654.4
		1,155.6	1,118.6
Assets held for sale		4.6	-
Total assets		7,555.5	7,062.8
Current liabilities			
Borrowings		(256.2)	(459.5)
Derivative financial instruments		(0.4)	(8.9)
Trade and other payables		(442.7)	(423.4)
Current income tax liabilities		(81.1)	(32.4)
Provisions for other liabilities and charges		(9.2)	(50.4)
Liabilities directly associated with assets held for sale		(0.4)	-
		(790.0)	(974.6)
Non-current liabilities			
Borrowings		(4,188.9)	(3,627.7)
Derivative financial instruments		(171.6)	(73.8)
Trade and other payables		(241.1)	(220.4)
Deferred tax liabilities		(948.4)	(808.3)
Retirement benefit obligations	10	(233.0)	(126.0)
Provisions for other liabilities and charges		(30.4)	(26.8)
		(5,813.4)	(4,883.0)
Total liabilities		(6,603.4)	(5,857.6)
Net assets		952.1	1,205.2
Capital and reserves attributable to the company's equity shareholders			
Called up share capital	11	231.0	229.7
Share premium account	11	71.9	64.3
Other reserves	11	468.7	427.4
Retained earnings	11	174.5	479.6
Equity attributable to the company's equity shareholders	11	946.1	1,201.0
Minority interests	11	6.0	4.2
Total equity	11	952.1	1,205.2

Consolidated cash flow statement
for the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Cash generated from operations	12	643.5	645.9
Tax received/(paid)	12	1.1	(76.2)
Net cash generated from operating activities	12	644.6	569.7
Investing activities			
Interest received		32.5	24.0
Dividends received from associates and joint ventures		-	0.3
Net loans advanced to associates and joint ventures		-	(0.7)
Proceeds on disposal of property, plant and equipment		5.9	3.4
Purchases of intangible assets and goodwill		(34.1)	(33.5)
Purchases of property, plant and equipment		(462.7)	(443.6)
Contributions and grants received		25.9	34.1
Net cash used in investing activities		(432.5)	(416.0)
Financing activities			
Interest paid		(190.2)	(153.5)
Interest element of finance lease rental payments		(16.2)	(20.6)
Repayments of borrowings		(221.5)	(634.6)
Repayment of obligations under finance leases		(41.0)	(23.1)
New loans raised		400.1	1,327.1
Dividends paid to shareholders of the parent		(158.8)	(147.3)
Dividends paid to minority interests		(1.3)	(0.8)
Issue of shares to shareholders of the parent		8.9	8.2
Issue of shares to minorities		-	1.0
Purchase of own shares		(2.7)	-
Net cash used in financing activities		(222.7)	356.4
(Decrease)/increase in cash and cash equivalents		(10.6)	510.1
Net cash and cash equivalents at beginning of the period		653.4	143.1
Effect of foreign exchange rates		5.3	0.2
Net cash and cash equivalents at the end of the period	12	648.1	653.4
Net cash and cash equivalents comprise			
Cash and cash equivalents	12	648.1	654.4
Bank overdrafts	12	-	(1.0)
Net cash and cash equivalents at the end of the period	12	648.1	653.4

Consolidated statement of recognised income and expense
for the year ended 31 March 2009

	2009 £m	2008 £m
Exchange movement on translation of overseas results and net assets	40.8	2.9
Tax on exchange differences on foreign currency hedging	2.5	4.1
(Losses) on cash flow hedges taken to equity	(7.8)	(2.3)
Deferred tax on (losses)/gains on cash flow hedges taken to equity	2.2	0.7
Actuarial losses on defined benefit pension schemes	(123.1)	(28.1)
Deferred tax on actuarial losses	33.8	7.8
Change of tax rate on deferred tax previously recognised directly in equity	-	5.4
Net expense recognised directly in equity	(51.6)	(9.5)
Transfers		
Amounts on cash flow hedges transferred to the income statement in the period	4.9	4.6
Deferred tax on transfers to income statement	(1.3)	(1.3)
	3.6	3.3
(Loss)/profit for the period	(56.0)	211.4
Total recognised (expense)/income for the period	(104.0)	205.2
Attributable to:		
Equity shareholders of the company	(105.8)	203.3
Minority interests	1.8	1.9
	(104.0)	205.2

Notes

1 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 2009 and those parts of the Companies Act 1985 applicable to companies reporting under IFRS as adopted by the European Union. While the financial information included in this Preliminary Announcement of Annual Results ("the Preliminary Announcement") has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), the Preliminary Announcement does not itself contain sufficient information to comply with IFRSs. The company will publish full financial statements that comply with IFRSs in June 2009. The Preliminary Announcement has been prepared in accordance with the Disclosure and Transparency rules of the Financial Services Authority.

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

The group is funded for its investment and cash flow needs for up to the next two years (see "Treasury management and liquidity" on page 13). After making enquiries the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and hence the financial statements and the Preliminary Announcement have been prepared on the going concern basis.

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 information set out above does not constitute the company's statutory accounts, within the meaning of Section 240 of the Companies Act 1985, for the years ended 31 March 2009 and 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 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 s237(2) or (3) Companies Act 1985.

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.

2 Segmental analysis

The group is organised into two main business segments:

Severn Trent Water
Provides water and sewerage services to domestic and commercial customers in England and Wales.

Severn Trent Services
Provides services and products associated with water, waste water and contaminated land principally in the US, UK and Europe.

Segmental analysis (continued)

2009	Severn Trent Water £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
External sales	1,323.5	318.7	-	-	1,642.2
Inter-segment sales	1.4	20.6	4.7	(26.7)	-
Total Sales	1,324.9	339.3	4.7	(26.7)	1,642.2
Profit before interest, tax and exceptional items	456.0	30.5	(16.4)	(0.2)	469.9
Exceptional items (note 3)	(19.4)	(0.7)	1.2	-	(18.9)
Profit before interest and tax	436.6	29.8	(15.2)	(0.2)	451.0
Share of results of associates and joint ventures	0.1	(0.1)	-	-	-
Segment result	436.7	29.7	(15.2)	(0.2)	451.0
Total net finance costs and gains on financial instruments					(283.4)
Profit before tax					167.6
Tax					(223.6)
Loss from continuing operations					(56.0)
Profit from discontinued operations					-
Loss for the period					(56.0)

2008	Severn Trent Water £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
External sales	1,263.0	289.4	-	-	1,552.4
Inter-segment sales	2.3	23.6	5.2	(31.1)	-
Total Sales	1,265.3	313.0	5.2	(31.1)	1,552.4
Profit before interest, tax and exceptional items	456.4	26.6	(11.2)	(2.3)	469.5
Exceptional items (note 3)	(63.3)	(4.5)	(1.0)	-	(68.8)
Profit before interest and tax	393.1	22.1	(12.2)	(2.3)	400.7
Share of results of associates and joint ventures	-	0.1	-	-	0.1
Segment result	393.1	22.2	(12.2)	(2.3)	400.8
Total net finance costs and losses on financial instruments					(208.4)
Profit before tax					192.4
Tax					18.2
Profit from continuing operations					210.6
Profit from discontinued operations					0.8
Profit for the period					211.4

Segmental analysis (continued)

With effect from 1st April 2008 Severn Trent Retail Services Ltd and its subsidiary company Complete Credit Management Ltd (together "STRS") were transferred from the Severn Trent Water segment to the Severn Trent Services segment. The comparative information has been restated to reflect this revised classification as follows:

	Severn Trent Water	Severn Trent Services
	£m	£m
External sales as originally stated	1,278.0	274.4
Transfer STRS Group sales	(15.0)	15.0
Restated external sales	1,263.0	289.4
Inter-segment sales as originally stated	1.2	22.9
Reanalysis of inter segment sales following transfer	1.1	0.7
Restated inter-segment sales	2.3	23.6
Total sales as originally stated	1,279.2	297.3
Transfer STRS external group sales	(15.0)	15.0
Reanalysis of inter segment sales following transfer	1.1	0.7
Restated total sales	1,265.3	313.0
Profit before interest, tax and exceptional items as originally stated	462.3	20.7
Transfer STRS group	(5.9)	5.9
Restated profit before interest, tax and exceptional items	456.4	26.6

3 Exceptional items

	2009	2008
	£m	£m
Severn Trent Water restructuring programme	13.7	13.9
Corporate restructuring programme	-	1.0
Severn Trent Services write down of meters business assets	2.1	-
Corporate and other release of disposal provisions made in previous periods	(1.2)	-
Exceptional restructuring costs and termination of operations	14.6	14.9
Flood costs	13.1	29.6
Insurance recoverable	(14.6)	(16.0)
Severn Trent Water net flood (income)/costs	(1.5)	13.6
Fine and costs relating to leakage reporting	2.2	-
Contribution to charitable trust	5.0	-
Penalty relating to customer service data and Guaranteed Standards of Service	-	35.8
Severn Trent Water fines and penalties	7.2	35.8
Severn Trent Services provision for third party legal costs	(1.4)	4.5
Total exceptional items	18.9	68.8

4 Net finance costs

	2009 £m	2008 £m
Investment income		
Interest receivable on bank deposits	32.0	17.3
Other financial income	4.4	6.4
Total interest revenue	36.4	23.7
Expected return on defined benefit scheme assets	89.8	93.4
	126.2	117.1
Finance costs		
Interest on bank loans and overdrafts	(13.0)	(13.6)
Interest on other loans	(191.7)	(177.5)
Interest on finance leases	(16.3)	(20.6)
Total borrowing costs	(221.0)	(211.7)
Other financial expenses	(9.7)	(2.2)
Interest cost on defined benefit obligations	(91.9)	(80.6)
	(322.6)	(294.5)
Net finance costs	(196.4)	(177.4)

5 (Losses)/gains on financial instruments

	2009 £m	2008 £m
Gain on derivatives in a designated fair value hedge accounting relationship	221.1	93.8
Loss arising on adjustment for the hedged item in a designated fair value hedging relationship	(222.7)	(95.9)
Fair value loss on cash flow hedges transferred from equity	(4.9)	(4.6)
(Loss)/gain arising on revaluation of derivatives not in a designated fair value hedge accounting relationship	(80.5)	(24.3)
	(87.0)	(31.0)

6 Taxation

	2009 £m	2008 £m
Current tax		
Current year at 28% (2008: 30%)	65.0	68.7
Prior year at 28% (2008: 30%)	(12.9)	(12.5)
Total current tax	52.1	56.2
Deferred tax		
Origination and reversal of temporary differences– current year	(23.3)	(2.4)
Origination and reversal of temporary differences– prior year	9.2	(17.3)
Exceptional deferred tax charge/(credit)	185.6	(54.7)
Total deferred tax	171.5	(74.4)
Total tax charge/(credit)	223.6	(18.2)

The Finance Act 2008 includes legislation which will prevent the group claiming industrial building allowances on affected assets after 2011. This change is being introduced by reducing the rate of allowances that may be claimed from 1 April 2008 to 31 March 2011 at which point the allowances will be removed. The removal of these allowances has resulted in an exceptional deferred tax charge of £185.6 million in the period.

The Finance Act 2007 implemented a reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008. The impact of this rate reduction on the deferred tax provision was reflected in the prior year and resulted in deferred tax credits of £54.7 million in the profit and loss account and £5.4 million in reserves.

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2009		2008	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2008 (2007)	41.29	97.0	38.68	90.4
Interim dividend for the year ended 31 March 2009 (2008)	26.29	61.8	24.34	56.9
	67.58	158.8	63.02	147.3
Proposed final dividend for the year ended 31 March 2009	41.05	96.5		

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.

8 Discontinued operations

There were no transactions during the year that resulted in operations being classified as discontinued. In the previous year, the profit from discontinued operations arose from the settlement of outstanding mattersrelating to the disposal of the US business, Severn Trent Laboratories Inc.

a) Profit from discontinued operations

	2009 £m	2008 £m
Profit after tax	**-**	**-**
Exceptional impairment of goodwill	-	-
Exceptional gain on disposal of discontinued operations	-	0.8
Attributable tax expense	-	-
Net profit attributable to discontinued operations	-	0.8

b) Cash flows from discontinued operations

	2009 £m	2008 £m
Net cash flows from operating activities	-	-
Net cash flows from investing activities	-	3.1
Net cash flows from financing activities	-	-
	-	3.1

9 Earnings per share

Basic earnings per share are 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 and LTIP awards where the vesting conditions have been satisfied at the balance sheet date.

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

	2009 £m	2008 £m
Earnings for the purpose of basic and diluted earnings per share from continuing and discontinued operations being:		
Profit for the period attributable to the equity holders of the Company	(57.8)	209.5
Adjustment to exclude:		
Profit for the period from discontinued operations	-	(0.8)
(Loss)/earnings for the purpose of basic and diluted earnings per share from continuing	(57.8)	208.7

operations

Earnings per share (continued)

Number of shares

	2009 £m	2008 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	234.9	233.6
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	0.7	1.7
Weighted average number of ordinary shares for the purpose of diluted earnings per share	235.6	235.3

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, gains/losses on financial instruments and exceptional items for both 2009 and 2008. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used for calculations of earnings per share from continuing and discontinued and from continuing operations are the same.

	2009 Pence	2008 Pence
Adjusted basic earnings per share	92.7	97.8
Adjusted diluted earnings per share	92.4	97.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, gains/losses on financial instruments and exceptional items and current tax on these in both 2009 and 2008. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted 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:

	2009 £m	2008 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	(57.8)	208.7
Adjustments for:		
Exceptional items	18.9	68.8
Current tax related to exceptional items at 28% (30%)	(1.8)	(5.6)
Losses on financial instruments	87.0	31.0
Deferred tax	171.5	(74.4)
Earnings for the purpose of adjusted basic and diluted earnings per share	217.8	228.5

10 Retirement benefit schemes

Movements in the present value of the defined benefit obligation were as follows:

	2009 £m	2008 £m
At 1 April	(126.0)	(135.1)
Service cost	(23.8)	(31.5)
Expected return on scheme assets	89.8	93.4
Interest cost	(91.9)	(80.6)
Contributions from the sponsoring companies	42.0	55.6
Actuarial gains and losses recognised in the statement of recognised income and expense	(123.1)	(27.8)
At 31 March	(233.0)	(126.0)

11 Movement in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity attributable to the equity holders of Severn Trent Plc £m	Minority interests £m	Total £m
At 1 April 2007	228.3	57.5	419.0	429.4	1,134.2	3.1	1,137.3
Share options and LTIPs							
– proceeds from shares issued	1.4	6.8	-	-	8.2	-	8.2
– value of employees' services	-	-	-	4.0	4.0	-	4.0
Dividends	-	-	-	(147.3)	(147.3)	(0.8)	(148.1)
Current tax on share based payments	-	-	-	2.7	2.7	-	2.7
Deferred tax on share based payments	-	-	-	(4.1)	(4.1)	-	(4.1)
Total recognised income for the period	-	-	8.4	194.9	203.3	1.9	205.2
At 1 April 2008	229.7	64.3	427.4	479.6	1,201.0	4.2	1,205.2
Share options and LTIPs							
– proceeds from shares issued	1.3	7.6	-	-	8.9	-	8.9
– value of employees' services	-	-	-	5.3	5.3	-	5.3
– payroll taax paid on awards vesting	-	-	-	(2.5)	(2.5)	-	(2.5)
Current tax on share based payments	-	-	-	1.3	1.3	-	1.3
Deferred tax on share based payments	-	-	-	(3.3)	(3.3)	-	(3.3)
Dividends	-	-	-	(158.8)	(158.8)	-	(158.8)
Total recognised income for the period	-	-	41.3	(147.1)	(105.8)	1.8	(104.0)
At 31 March 2009	231.0	71.9	468.7	174.5	946.1	6.0	952.1

12 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2009 £m	2008 £m
Profit before interest and tax from continuing operations	451.0	400.7
Profit before interest and tax from discontinued operations	-	0.8
	451.0	401.5
Depreciation of property, plant and equipment	223.7	204.5
Amortisation of intangible assets	24.2	27.3
Pension service cost	23.8	31.5
Pension contributions	(42.0)	(55.6)
Share based payments charge	5.3	4.0
Profit on sale of property, plant and equipment	(4.0)	(1.7)
Deferred income released	(5.3)	(5.2)
Provisions for liabilities and charges	10.8	49.5
Utilisation of provisions for liabilities and charges	(48.9)	(11.4)
Increase in stocks	(2.7)	(2.4)
Increase in debtors	(9.2)	(44.3)
Increase in creditors	16.8	48.2
Cash generated from operations	643.5	645.9
Tax Received/(paid)	1.1	(76.2)
Net cash inflow from operating activities	644.6	569.7

b) Exceptional cash flows

	2009 £m	2008 £m
Restructuring costs	(16.2)	(14.1)
Flood income/(costs)	–	(13.6)
Fines and penalties	(40.0)	–
Third party legal costs	(1.4)	–
	(57.6)	(27.7)

c) Reconciliation of movement in cash and cash equivalents to movement in net debt

	As at 1 April 2008 £m	Cash flow £m	Fair value adjustments £m	RPI uplift on index linked debt £m	Foreign exchange £m	Other non cash movements £m	As at 31 March 2009 £m
Cash and cash equivalents	654.4	(11.6)	-	-	5.3	-	648.1
Bank overdrafts	(1.0)	1.0	-	-	-	-	-
Net cash and cash equivalents	653.4	(10.6)	-	-	5.3	-	648.1
Bank loans	(742.7)	(2.4)	-	(5.9)	(0.1)	(38.7)	(789.8)
Other loans	(2,958.1)	(176.2)	(222.7)	(13.2)	0.7	58.6	(3,310.9)
Finance leases	(385.4)	41.0	-	-	-	-	(344.4)
Net debt	(3,432.8)	(148.2)	(222.7)	(19.1)	5.9	19.9	(3,797.0)

13 Contingent liabilities

a) Bonds and guarantees
Group undertakings have entered into bonds in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

b) Disposal of subsidiaries
The group has given certain guarantees and indemnities in relation to disposals of businesses.

On 5 March 2007 the group received notice of a claim for €23.4 million from Veolia Proprete S.A alleging breach of warranty in relation to the disposal of Biffa Belgium. The group has subsequently received notice from Veolia of a further claim for €5 million relating to the same matter. The group considers that there is no basis for this claim and hence no provision has been recorded in the financial statements in relation to this matter. The matter has been set down for a hearing in the Commercial Court in Belgium on 4 February 2010.

The group is not aware of any other liability that is likely to result from these guarantees and indemnities that has not been provided for in these financial statements.

14 Related party transactions

There have been no related party transactions that materially affected the financial position of performance of the group during the period.

15 Post balance sheet events

Following the year end the board has proposed a final dividend of 41.05 pence per share. Further details of this are shown in note 7.

On 13 May 2009 the group completed the acquisition of PS Aplicor SA, asmall distribution operation in Spain. This business currently has an annual turnover of around €10 million.

16 Annual report

The annual report will be made available to shareholders in June. Copies may be obtained from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

17 Annual General Meeting

The Annual General Meeting will be held at The International Convention Centre, Broad Street, Birmingham B1 2EA on Tuesday 21 July 2009 at 2 pm.

18 Cautionary Statement regarding Forward Looking Statements

This document contains certain ‘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’, ‘should’, ‘expects’, ‘believes’, ‘intends’, ‘plans’, ‘potential’, ‘reasonably possible’, ‘targets’, ‘goal’ or ‘estimates’. 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 will occur in the future.
There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, 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. Severn Trent does not intend to update these forward looking statements.

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).