Preliminary Announcement of Annual Results
27 May 2011
Results for the year to 31 March 2011

SEVERN TRENT

Highlights

- Good start to AMP5 regulatory period – realising benefits of efficiency improvement programmes and planned outputs delivered
- Severn Trent Water opex below level allowed in Final Determination
- Self-generated renewables now supplying 22% of Severn Trent Water's power requirements
- Real price reduction in 1st year of new AMP has rebased underlying profitability
- Full year dividend 65.09 pence per share. Dividend for 2011/12 to grow by 7.7%* to 70.10p
- On track to deliver further efficiencies – ambition remains to outperform over AMP5

	31 March 2011 £m	31 March 2010 £m	Increase/ (decrease) %
Group turnover	1,711.3	1,703.9	0.4%
Underlying group PBIT[1]	519.1	557.1	(6.8%)
Underlying group profit before tax[2]	288.6	338.4	(14.7%)
Profit before tax[3]	253.0	334.4	(24.3%)
	pence/share	pence/share	
Adjusted basic eps[4]	105.6	122.8	(14.0%)
Basic earnings per share[5]	115.2	105.6	9.1%
Total ordinary dividends	65.09	72.32	(10.0%)

1 before exceptional items (see note 3)
2 before exceptional items and gains/(losses) on financial instruments
3 includes (losses)/gains on financial instruments of £14.2m (2010: gain of 45.7m)
4 before exceptional items, gains/(losses) on financial instruments and deferred tax
5 2011: after exceptional deferred tax credit of 28.6 pence per share

*November 2010 RPI of 4.7%, + 3%.

Tony Wray, Chief Executive Severn Trent Plc, said:

“We have made a good start to our new regulatory period, with planned operational expenditure for the year below the level of the Final Determination. We have delivered on planned outputs and are realising the benefits of efficiency programmes such as the move of 1,300 people into our new operations centre in Coventry.

Thanks to the support and dedication of our people, Severn Trent Water responded to the coldest December on record by deploying additional resources to restore service to our customers. We also made good progress with contractors on our capital programme and are delivering efficiencies. As a result of the weather impacts on our 2010/11 capital programme and plans to improve resilience we will invest more in our network this coming year.

Our full year dividend of 65.09p is as we announced in January 2010. In line with our stated dividend policy of RPI +3% growth per annum for the next four years, the dividend for 2011/12 will grow by 7.7% (based on November 2010 RPI of 4.7%) to 70.10p.

In summary, our strategy of sustainable growth built on our focus on water, continues to deliver value for both our customers and shareholders. We remain well placed to deliver our plan for AMP5, and our ambition remains to outperform our Final Determination.”

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am on Friday 27 May 2011 at the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS. This presentation 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

Our focus remains on operational excellence and continuous improvement, delivering the highest service and environmental standards, the lowest possible bills for our customers and sustainable, progressive returns for our shareholders.

During the past year we dealt with a number of challenges, most notably a dry summer followed by the coldest December in 100 years. Severn Trent Water saw an increase in leakage above normal levels due to two periods of freezing temperatures followed by a thaw. Our people showed tremendous dedication, working around the clock to keep supplies running. Despite deploying additional resources to bring leakage rates back down as rapidly as possible we were unable to achieve our Ofwat leakage target of 483 Ml/d as a direct result of the weather. However, we were able to maintain leakage at last year's levels of 497 Ml/d. We have reduced leakage significantly since the winter and have plans in place to achieve our targets in 2012. We have taken into account recent experiences and have already commenced with plans to improve the resilience of our network.

Our ability to respond to such events is supported by the new processes and systems we have been progressively rolling out across the business. We are already seeing the benefits of restructuring our support functions on the SAP platform and have now completed the roll out to our asset management and field force teams. Despite the complexities of the project, we are already seeing some of the benefits in terms of productivity.

This year we moved to our new operating centre, Severn Trent Centre in Coventry, which not only delivers savings on our real estate costs but enables a new way of collaborative working, with 1,300 employees now in one place, running virtual applications that can also be accessed at any location.

We have made further progress in areas such as 1st time job resolution and sewer flooding, two areas we know have a significant impact on our customers. Given the ongoing economic climate, we have continued to help customers who are having difficulties paying their bill with our WaterSure tariff, "Water Direct" and trust fund contributions. Our proactive approach to debt management and collections is reflected in the reduction of the bad debt charge in 2010/11 to 2.3% of turnover, from 2.5% the previous year.

During the year we produced 22% of Severn Trent Water's energy requirements from renewables, cementing our lead in the production of renewable electricity from sewage, and the group delivered the UK's 1st commercial scale "energy crop" power plant, using maize and wheat to generate 15 GWh per annum of electricity, enough to power 4,500 homes. The group has recently received planning permission to build its first wind turbine which will help us achieve the goal of 30% of Severn Trent Water's power requirements being generated from our own renewables by 2014/15.

Our capital programme has made a good start, and by working in partnership with our contractors we are delivering efficiencies. For example, at our Derwent Valley Aqueduct, converting existing redundant pipelines will realise a saving of £4m and avoid laying 26km of new pipe. However, the combination of the coldest December on record and ensuring the most efficient delivery of projects has meant our spend in 2010/11 was at the low end of our estimated revised range of expenditure. Despite this slower start, we are still on target to deliver our AMP5 programme.

Consumption was higher in the first six months of the year, due to increases in household demand (weather related) and robust commercial consumption (due in part to re-stocking). The second half of the year showed a more normal period on period trend, leading to an overall 0.3% increase in turnover year on year.

Operational expenditure for the year was in line with expectations, with reductions year on year in gross manpower costs, although quasi taxes and raw material costs increased year on year. Given the lower level of capital spend this year compared to the previous year, the level of own work capitalised was also lower.

Since publication of our report “Changing Course” in April 2010, setting out our views on how to deliver a sustainable future for the Water Industry in England and Wales, we have been very pleased with the response received and the engagement we have had with many stakeholders. There are a number of ongoing reviews in the sector, and the time is right to examine the issues of sustainability, financeability and better optimisation of an increasingly scarce resource in many parts of the UK, namely water. We look forward to the planned Government White paper this year and to engage further with stakeholders to help shape the future of the sector. Our strategy of continuous improvement, and focus on the highest standards, lowest charges and great people, puts us in a strong position to take advantage of the opportunities that change will bring.

Delivering higher standards

As in previous years, we measure, review and benchmark our performance on 20 KPIs, which we continue to renew and refresh. During the year 2 KPIs were revised (capex and opex), and as this is the first year of AMP5, benchmarks for these will not be updated until September 2011. We also had 2 in development (capital process quality and efficient billing). For the remaining 16, 8 KPIs are at upper quartile performance (2009/10 – 7), 3 at median (2009/10 – 5), and 5 at lower quartile (2009/10 - 4).

Health and Safety performance continues to be at upper quartile and we lead the sector. However, we did not improve our performance during the year. This is the first time in a number of years that we have not seen a year on year improvement and we are seeking to address the underlying causes to enable the business to attain further progress in this important performance measure.

Customer service levels continue to show improvements year on year, particularly first time call resolution for billing and first time job resolution, and we delivered a 10% reduction in billing related complaints. However, the extreme winter temperatures had an impact on our leakage and supply availability.

A targeted sewer cleanse and repair programme has reduced the level of sewer flooding and whilst an improvement in the way we monitor and report minor pollutions has resulted in a rise in the overall number of incidents, the number of serious pollution incidents has halved.

Our performance on unplanned interruptions was impacted by three large scale incidents, which accounted for 56% of all properties during the year whose water was interrupted for over 6 hours. Root cause analysis has been undertaken to identify common themes of failure and an improvement programme is in place to improve both our response performance and the resilience of our network.

We will review our performance again against updated benchmarks in September 2011 when we understand the performance of other companies in our sector and beyond.

To reflect the evolution of the regulatory environment, in 2011/12 we plan to include the new Ofwat Service Incentive Mechanism (SIM) measure in our KPIs along with capital process quality.

KPI Performance 2010/11 vs. 2009/10

Description	Year	Basis	Note	Lower Quartile	Median	Upper Quartile	No benchmark
Lost time incidents per 100,000 hrs worked	2011	MAT	1			0.37	
	2010					0.36	
Employee motivation %	2011	QR	2	74%			
	2010			74%			
Water quality (test failure rate) ppm	2011	MAT				210	
	2010					131	
Customer written complaints per 1,000 properties	2011	MAT	3,4			5.73	
	2010					4.95	
First time call resolution for billing %	2011	MAT	5		90%		
	2010				89%		
Unplanned interruptions > 6 hrs per 1,000 properties	2011	MAT	3	23.85			
	2010			10.09			
Properties at risk of low pressure per 1,000 properties	2011	NPR	3			0.07	
	2010				0.12		
First time job resolution %	2011	MAT	5			97.5%	
	2010					96.5%	
Non performance against Regulatory Obligations %	2011	QR	5			4%	
	2010					5%	
Capex (Gross) vs Final Determination	2011	ACT	6,14				7.4%
	2010						6.1%
Debtor days	2011	ACT	7		33.8		
	2010				32.6		
Opex - £m	2011	ACT	6, 7				519.0
	2010						492.4
Pollution incidents (cat 1, 2 & 3)	2011	MAT	8, 9		378		
	2010				322		
Sewer flooding incidents - other causes per 1,000 properties	2011	MAT	3,13			0.103	
	2010					0.131	
Sewage Treatment Works - failing consent limit %	2011	ACT	9, 10	1.69%			
	2010			1.80%			
Supply availability %	2011	ACT	11	94.4%			
	2010			91.9%			
Net Energy Use – GWh	2011	MAT	5,12			706	
	2010					714	
Leakage Ml/d	2011	MLE	3,6				497
	2010						497

Notes:
Benchmarks updated in September.

MAT = Moving Annual Total
QR = Quarterly Review
NPR = Number of properties on register
AMP = AMP5 to date
PPS = Percentage of population served
MLE = Maximum Likelihood Estimate
ACT = Year end actual

1. Actual performance across all employees and agency staff.
2. Performance based on annual survey of all employees (2009/10 based on mini quest wave 3, 10% of STW employees).
3. As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 10 June 2011.
4. Performance excludes properties billed by other water companies.
5. Actual performance based partially or wholly on internal data.
6. As this is the first year of AMP5, benchmark data is unavailable until September 2011.

7. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2011
8. Metrics of this KPI changed from pollution incidents per 1,000 properties to number of pollution incidents. Prior year performance has been restated accordingly.
9. Measure for calendar year to 31 December 2010.
10. Metrics of this KPI changed to align with Environmental Agency approach. Prior year performance has been restated accordingly.
11. Metrics of this KPI changed from security of supply to supply availability. Prior year performance has been restated accordingly. The KPI measures how much of our designed capacity is available taking into account known restrictions and works outages. There were no supply failures resulting from works restrictions during the year.
12. Metrics of this KPI changed from Kwh/Ml to GWh. Prior year performance has been restated accordingly.
13. Excludes minor escape of sewage.
14. Percentage outperformance against the Final Determination.

Severn Trent Services

Our Severn Trent Services business is also focused on water, leveraging our expertise in global clean and waste water markets.

While the fundamental drivers in our markets remain strong, late cycle customer financing issues and the wider social and economic environment continued to be challenging, impacting our markets particularly in the second half of the year. Client projects experienced delays due to financing across most markets, while in the US, the Gulf coast deep well drilling moratorium, and in the Middle East the social and political unrest, impacted negatively on Water Purification's performance by changing the mix of products sold and in particular reduced sales of higher margin electrochlorination products.

Operating services in the US performed well, delivering growth year on year and gaining market share. In Europe, we experienced some project delays due to financing, especially in Italy, however, new project opportunities remain good – for example, we have just been awarded a 20 year design, build, operate contract for the municipality of Alassio in Northern Italy.

In Water Purification, the first 6 months saw growth period on period, while the second half of the year saw lower sales of electrochlorination products due to the factors mentioned above.

Recently with some easing in the Gulf coast deep well drilling permits in the US, we have seen an increase in proposals and orders, while in the Middle East we continue to monitor political and social developments to assess the pace of return of orders from projects that are currently suspended and with decisions pending.

Analytical Services was impacted by lower volumes and some operational disruption at its Bridgend facility. Following an audit by the Drinking Water Inspectorate (DWI), inorganic testing was temporarily suspended in September 2010 at Bridgend. Following corrective action, this facility is now fully operational and with new accreditation.

Group financial performance

We are now some two years on from the full effect of the financial crisis and many, but not all, financial activities and markets have returned to what may be considered normal levels. We are however, yet to see the return of a fully functioning commercial paper market and have continued to support our liquidity position by holding cash reserves from earlier bond market issuances. In other areas, we are yet to see any material effect on the finances of our customer base from the package of measures the UK Government has announced on public spending. Indeed, we have improved our customer collections performance year on year. The ability of domestic and commercial customers alike to support their water bills in this new environment has yet to be seen, though we remain confident that our debt recovery processes are in good shape to address any challenge that may arise.

In this preliminary results announcement: PBIT is profit before interest and tax; underlying PBIT is PBIT excluding exceptional items as set out in note 3.

Group turnover was £1,711.3 million (£1,703.9 million), an increase of 0.4% over last year. Severn Trent Water's prices were reduced by an average of 0.7% but measured consumption increased so that turnover was broadly similar to the prior year.

Underlying group PBIT decreased by 6.8% to £519.1 million (£557.1 million). The primary factors affecting underlying PBIT are described in the commentary on Severn Trent Water and Severn Trent Services below. There were net exceptional charges of £21.4 million (£49.7 million). Group PBIT decreased 1.9% to £497.7 million (£507.4 million).

Severn Trent Water

Turnover in Severn Trent Water increased by 0.3% in 2010/11 to £ 1,389.8 million. Sales prices decreased by 0.7% (including inflation) from 1 April 2010. In the first half of the year consumption was higher period on period, as a result of strong household and robust commercial consumption. The second half of the year showed a more normal period on period declining trend, leading to the 0.3% increase in turnover over the full year.

Underlying PBIT decreased by 6.9% on the previous year to £503.7 million. Beyond the increase in turnover of £4.5 million, a number of factors impacted underlying PBIT. Employee costs decreased by £8.1 million as lower headcount offset higher pension costs but hired and contracted services were £9.8 million higher. Depreciation increased by £16.4 million due to the growing asset base and write down of £6.4 million on one experimental sludge dryer. There was a reduction in infrastructure renewals expenditure of £7.6 million. Own work capitalised was £21.2 million lower in line with the lower levels of capital expenditure in the year. Bad debt costs were £1.4 million lower and other costs increased by £11.8 million.

During the financial year, Severn Trent Water invested £405.3 million (UK GAAP net of grants and contributions) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure renewals expenditure of £96.9 million, charged to the income statement under IFRS.

Severn Trent Services

	2011	2010	Increase/ (decrease)
	£m	£m	%
Turnover			
Services as reported	**336.1**	336.5	(0.1%)
Impact of exchange rate fluctuations	**-**	(4.4)	
Like for like businesses in constant currency	**336.1**	332.1	1.2%

	2011	2010	Increase/ (decrease)
	£m	£m	%
Underlying PBIT			
Services as reported	**25.7**	28.7	(10.5%)
Impact of exchange rate fluctuations	**-**	(0.3)	
Like for like businesses in constant currency	**25.7**	28.4	(9.5%)

Reported turnover in Severn Trent Services was £336.1 million in 2010/11, a decrease of 0.1% vs. the prior year, and reported underlying PBIT decreased by 10.5% to £25.7 million.

After adjusting for the impact of exchange rate fluctuations, turnover on a constant currency basis increased 1.2% but underlying PBIT measured on the same basis was down 9.5%. The first half year saw profits rise period on period but the second half was impacted by the factor mentioned in the operating review.

Operating Services

Turnover for the year was £201.3 million, a decrease of 3.2% compared to the prior year on a constant currency basis. In the US and UK the Operating Services businesses broadly maintained their levels of activity from the previous year. However, the business was impacted by project delays in Italy and reduced activity in our metering services and searches businesses in the UK, both of which are driven to some extent by the housing market.

Water Purification

Turnover for the year was £105.6 million, an increase of 9.2% compared to the prior year on a constant currency basis. However, the strong growth experienced in the first half of the year did not continue into the second half of the year and turnover in the second half of 2010/11 was at broadly the same level as the same period in the previous year.

Analytical Services

Turnover for the year was £29.2 million, an increase of 6.2%. This represented an improvement due to growth in revenue from new contracts.

Corporate and other

Corporate overheads amounted to £9.2 million (£12.7 million). Our captive insurance company and other businesses generated a loss of £0.6 million (loss of £2.3 million). The group's captive insurance company insures Severn Trent group risks only and does not write any external business.

Exceptional items

There were net exceptional charges in the year to 31 March 2011 of £21.4 million (£49.7 million) comprising:

Restructuring costs:

- a charge of £13 million in Severn Trent Water arising from programmes to restructure and realign the business; and
- a charge of £0.7 million in Severn Trent Services from the programmes to restructure the Water Purification and Analytical Services businesses.

Regulatory matters:

- a charge of £3.8 million in Severn Trent Services arising from the group's response to an audit in September 2010 by the Drinking Water Inspectorate (DWI) of aspects of the services provided by Severn Trent Laboratories Limited from its Bridgend laboratory; and
- a charge of £3.9 million in Corporate overheads arising from the group's response to a request from Ofwat to provide certain information under the Competition Act in connection with Severn Trent Laboratories Limited's contracts with Severn Trent Water Limited and certain other water companies.

Net finance costs

The group's net finance costs were £230.6 million, compared to £218.8 million in the prior year. The group has fixed the interest rate of its non-index linked debt for the five year period to March 2015. The group's cost of index linked debt is however linked to movements in the Retail Prices Index (RPI). This debt provides an economic hedge for Severn Trent Water's revenues and regulatory asset values that are also RPI linked under its regulatory regime. The increase in the full interest charge is therefore largely due to higher interest charges on index linked debt as inflation was higher than the prior year and in addition, average group net debt increased during the year. The effective interest rate for 2010/11 was 6.4% (5.6%) of which cash interest cost is 5.0% vs 5.4% in the prior year.

Gains/(losses) 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 the cross currency swaps are recorded in the balance sheet at their fair values and the changes in fair values are taken to gains/(losses) 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 group holds interest rate swaps with a net notional principal amount of £462.3 million and cross currency swaps with a net notional principal amount of £536.6 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore these swaps are carried in the balance sheet at fair value. The changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the period there has been a decrease of £15.7 million in the fair value of these instruments.

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 changes in fair value will net out.

Profit before tax

Underlying group profit before tax decreased by 14.7% to £288.6 million (£338.4 million). Group profit before tax was £253.0 million (£334.4 million).

Taxation

The total tax credit for the full year was £21.5 million (charge of £82.9 million), of which current tax represented a charge of £32.1 million (£40.7 million) and deferred tax (see note 6) was a credit of £53.6 million (£42.2 million).

A prior year tax credit amounting to £34.4 million arose during the year, mainly as a result of the agreement of open tax positions covering a number of years.

The effective rate of current tax, excluding prior year items and exceptional items, calculated on profit before tax, exceptional items and gains/(losses) on financial instruments was 24.4% (22.6%). The change in effective rate is as a result of lower capital allowances in Severn Trent Water.

Going forward, we expect the effective current tax rate for 2011/12 to be in the range of 26% to 27%.

Profit for the period and earnings per share

Profit for the period was £274.5 million (£251.5 million)

Basic earnings per share were 115.2 pence (105.6 pence). Adjusted basic earnings per share (before exceptional items, gains/(losses) on financial instruments and deferred tax) were 105.6 pence (122.8 pence) (see note 8).

Cash flow

	2011 £m	2010 £m
Cash generated from operations	**753.0**	708.0
Net capital expenditure	**(399.5)**	(487.8)
Net interest paid	**(180.3)**	(194.2)
Tax (paid)/received	**(32.4)**	(53.8)
Other cash flows	**(1.5)**	(1.6)
Free cash flow	**139.3**	(29.4)
Acquisitions and disposals	**-**	(11.0)
Dividends	**(169.4)**	(159.7)
Net issue of shares	**2.7**	2.4
Change in net debt from cash flows	**(27.4)**	(197.7)
Non cash movements	**(80.0)**	(3.8)
Change in net debt	**(107.4)**	(201.5)
Net debt 1 April	**(3,761.4)**	(3,559.9)
Net debt at 31 March	**(3,868.8)**	(3,761.4)
Net debt comprises:		
Cash and cash equivalents	**315.2**	227.8
Cross currency swaps	**160.4**	187.3
Bank loans	**(846.8)**	(689.8)
Other loans	**(3,230.9)**	(3,185.9)
Finance leases	**(266.7)**	(300.8)
	(3,868.8)	(3,761.4)

Cash generated from operations was £753 million (£708 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £399.5 million (£487.8 million). Net interest paid decreased to £180.3 million (£194.2 million).

Net debt at 31 March 2011 was £3,868.8 million (£3,761.4 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 77.8% (79.9%). Net debt, expressed as a percentage of Regulatory Capital Value at 31 March 2011 was 57% (58%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.5 times (3.9 times) by profit before interest, tax, depreciation and exceptional items, and 2.3 times (2.7 times) by underlying PBIT.

The fair value of the group’s borrowings at 31 March 2011 is estimated to be £4,671.8 million (£4,267.9 million) compared to the book value of £4,344.4 million (£4,176.5 million). The group’s debt instruments are not traded in an active market and hence the fair value disclosed above is based on a theoretical discounted cash flow calculation and does not represent an estimate of the amount for which the debt could be settled.

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 for the STPS are in the course of being renewed as at 31 March 2010. The key actuarial assumptions from these valuations have been updated for the accounts as at 31 March 2011 with overall contribution levels remaining unchanged, including deficit reduction payments of £10 million per annum, until new agreements are agreed.

On an IAS 19 basis, the estimated net position (before deferred tax) of the group's defined benefit pension schemes was a deficit of £292.1 million as at 31 March 2011. This compares to a deficit of £354.9 million as at 31 March 2010. The movements in the net deficit are summarised in note 9.

On an IAS 19 basis, the funding level has increased from around 79.7% at 31 March 2010 to around 83.5% at 31 March 2011.

	2011	2010
	%	%
Price inflation	**3.50**	3.60
Salary increases	**4.00**	4.10
Pension increases in payment	**3.50**	3.60
Pension increases in deferment	**3.50**	3.60
Discount rate	**5.60**	5.70
Long term rate of return on equities	**7.85**	8.00
Age to which current pensioners aged 65 are expected to live		
- men	**87.4**	85.3
- women	**91.0**	88.6
Age to which future pensioners aged 45 at the balance sheet date are expected to live		
- men	**88.0**	86.5
- women	**91.8**	89.6

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 £30 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £25 million
Mortality	Increase in life expectancy by 1 year	Increase by £45 million

On 11 May 2011, Severn Trent announced it is consulting with its 6,000 plus UK employees on proposed changes to its pension arrangements, which would see all existing pensions replaced by one new defined contribution scheme. Under the new proposals, the defined benefit schemes would close to future accrual, whilst protecting the benefits already built up by members. The existing defined contribution scheme would also be replaced by the new pension arrangements. The proposal is to automatically enrol new employees into the new pension from 2012 and automatically enrol those employees who are not currently members of a Severn Trent scheme from 2013. Severn Trent is consulting with its employees from June for three months, with changes introduced no earlier than April 2012.

Treasury management and liquidity

The group continues to monitor liquidity carefully. At 31 March 2011 the group had £315.2 million in cash and cash equivalents. The group also has an undrawn £500 million committed bank facility of which £41.7 million matures in 2012 and the balance matures in 2013. Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs up to March 2013.

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

The group's current 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 2011, interest rates for some 76% of the group's net debt of £3,868.8 million were fixed.

Exchange rates

The trading results of overseas subsidiaries are translated to sterling at the average rate of exchange ruling during the period and their net assets are translated at the closing rate on the balance sheet date. The impact of changing exchange rates on net assets was immaterial. Details of the impact of changing exchange rates on turnover and underlying PBIT are set out in the commentary on Severn Trent Services above.

Dividend

In line with its previous statements, the board has proposed a final ordinary dividend of 39.05p (2009/10 45.61p). This would give a total ordinary dividend for the year of 65.09p, a decrease of 10.0% over the 2009/10 total ordinary dividend (72.32p). The final ordinary dividend is payable on 29 July 2011 to shareholders on the register at 24 June 2011. As stated in November 2010, for the remainder of the AMP5 period, our policy is for annual growth of RPI+3%, using November RPI of the prior year. This aligns the dividend with the price setting mechanism for Severn Trent Water, and provides for a clear sustainable and progressive dividend. The interim / final split is anticipated to be around 40% / 60%.

Principal risks and uncertainties

The board considers the principal risks and uncertainties affecting the business activities of the Group to be those detailed below:

Strategic: Risks associated with the delivery of the strategic objectives for Severn Trent Water, including our ability to influence the regulatory framework towards creating a sustainable Water Industry in England and Wales and our ability to continue to develop a sustainable water company. Additionally, in the current ongoing and challenging economic climate, the risks which may affect our strategic objective to grow Severn Trent Services such as the political situations in some of our markets and the threat of new competitors.

Stakeholder: Risks associated with meeting the needs and expectations of key stakeholders (investors, regulators, customers, staff and suppliers) in order to protect and enhance our financial position, brand, reputation and investor confidence.

Operational and asset related: Risks associated with our daily operations, including the failure of assets, processes or systems which in turn may affect our ability to serve our customers, could impact on Health & Safety or security at our sites and on our ability to meet regulatory targets.

Financial: Risks associated with our financial activities including our ability to effectively manage counterparty risk, attract funding at commercially attractive rates, fund pensions promises sustainably and meet the challenging targets we have set ourselves within our Severn Trent Water and Severn Trent Services businesses.

Legal, regulatory and compliance: Risks associated with potential non compliance with the numerous and increasingly demanding obligations reflecting the international spread of our operations. Management of these is often dispersed throughout the organisation. We pay particular attention to risks in areas subjected to changing legal and regulatory requirements. Current areas of focus include:

- The UK Bribery Act
- The taking on of private sewers and lateral drains (PDaS)
- The introduction of Service Incentive Mechanism (SIM) by Ofwat.

Private Drains and Sewers (PDaS): Severn Trent Water has already mobilised its supply chain in advance of transfer, and has adopted a flexible approach, leveraging the expertise of contractors and keeping fixed cost to a minimum. The transfer of sewers is currently anticipated for 1st October 2011, and on that basis the impact in 2011/12 is estimated to be in the region of:

- One –off set up costs of around £6m
- Opex cost in the range of £12m to £15m
- Capex cost in the range of £8m to £12m

For the remainder of AMP 5 we estimate that the total cost of PDaS could be in the region of:

- Opex cost in the range of £40m to £70m
- Capex cost in the range of £35m to £75m

Privately owned pumping stations are anticipated to be adopted on a phased basis between 1 October 2011 and 1 October 2016. Therefore there is a large degree of discretion around investment levels in pumping stations prior to 2016 which will impact on actual reported capex cost. The above stated costs for the introduction of PDaS represent a "best estimate" range established on current information and current assumptions. The experience of these new processes, when implemented, may differ from our planning assumptions, leading to different costs. There are no costs associated with the transfer included in our existing business plan. There is a regulatory mechanism, known as an IDoK (Interim Determination of K), which can be used to adjust prices to account for these additional costs. Severn Trent Water will be required to evidence these costs to support any IDoK submission and Ofwat will determine any change to prices. Severn Trent Water will also be required to bear these costs in advance of any future recoveries.

Outlook

Severn Trent enters 2011/12 in a sound position. In Severn Trent Water, we continue to build on our lead-in investments and drive performance improvements to deliver higher standards and efficiencies, enabling us to meet the challenges and opportunities ahead. The management team of Severn Trent has a clear and focused strategy - delivering continuous improvement and higher standards - to achieve higher levels of operational excellence and sustainable, attractive returns to shareholders. We are well placed to achieve our business plan and outperform our regulatory targets.

Capital programme on track to outperform Final Determination across AMP5
Given the impact on the capital programme in 2010/11 from the weather, our net capital expenditure (UK GAAP, net of grants and contributions) for 2011/12 is expected to be higher year on year, in the range of £450 million to £470 million. Within that range, net infrastructure renewals expenditure will be in the region of £120 million to £130 million, reflecting our programme of leakage reduction and improvement to security of supply.

We remain on track to deliver a capital programme for AMP5 of £2.2 billion (UK GAAP, net of grants, contributions and other income, including current estimated COPI indexation adjustment) below the level for AMP4 due to our early start contracting strategy pursuing innovative construction techniques and process improvements with our partners. Given continued successful delivery of efficiencies, we believe we can deliver our required outputs for a capital spend less than that allowed in the Final Determination for the whole of AMP5.

Continuing to deliver opex control
Operational expenditure will show an increase year on year in 2011/12, although by a lesser rate than that seen from 2009/10 to 2010/11. This increase will be driven by inflation, rising input costs and quasi taxes (including the Carbon Reduction Commitment scheme), offset by efficiency savings derived from our ongoing improvement programmes. Given successful delivery of remaining improvement plans, we believe we can continue to deliver operational expenditure below the level allowed in the Final Determination over the whole of AMP5.

Assuming no significant deterioration in the economy, especially in relation to unemployment levels, bad debt is expected to be around 2.2% of turnover in 2011/12 and we are targeting a bad debt level of around 2% by the end of AMP5.

Investing in STS to drive sustainable long term growth
The opportunity for sustained future growth in Severn Trent Services remains. Around 60 ATO's in Italy are expected to move from the public to private sector in the medium term and the market for municipality outsourcing in the US is expected to double to around $3bn. In the Products arena MicroDynamics and BalPure offer attractive medium and longer term growth. As a result, in 2011/12 we will be investing around £5 million, in total, in our business development resources in the USA and Italy, and building our market and technology resources to support the launch of our BalPure and MicroDynamics product lines. Our base business of Operating Services and Water Purification is expected to deliver increased top line growth year on year in 2011/12, despite current difficult market conditions, although the first 6 months may still be challenging. At the PBIT level, growth in the base business is expected to be offset by the investment in new opportunities, leaving Severn Trent Services PBIT in 2011/12 lower year on year. Investment in these growth areas will, in the medium term, enable Severn Trent Services to deliver higher levels of sustainable growth.

The effective rate of current tax (current tax charge on profit before tax, before exceptional items and gains/(losses) on financial instruments) is expected to be in the range 26% - 27%.

We retain a flexible balance sheet and the business is funded until March 2013. We will embark on our refinancing programme of £850 million for AMP5 towards the end of the year.

Further information

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

Consolidated income statement

Year ended 31 March 2011

	Notes	2011 £m	2010 £m
Turnover	2	**1,711.3**	1,703.9
Operating costs before exceptional items		**(1,192.2)**	(1,146.8)
Exceptional restructuring costs	3	**(13.7)**	(48.0)
Exceptional charge relating to regulatory matters	3	**(7.7)**	–
Total operating costs		**(1,213.6)**	(1,194.8)
Exceptional loss on disposal of businesses	3	**–**	(1.7)
Profit before interest, tax and exceptional items	2	**519.1**	557.1
Exceptional items	3	**(21.4)**	(49.7)
Profit before interest and tax		**497.7**	507.4
Finance income		**100.7**	80.9
Finance costs		**(331.3)**	(299.7)
Net finance costs		**(230.6)**	(218.8)
(Losses)/gains on financial instruments	5	**(14.2)**	45.7
Share of results of associates and joint ventures		**0.1**	0.1
Profit before tax, (losses)/gains on financial instruments and exceptional items		**288.6**	338.4
Exceptional Items	3	**(21.4)**	(49.7)
(Losses)/gains on financial instruments	5	**(14.2)**	45.7
Profit on ordinary activities before taxation		**253.0**	334.4
Taxation on profit on ordinary activities			
Current tax	6	**(32.1)**	(40.7)
Deferred tax	6	**(14.1)**	(42.2)
Exceptional deferred tax credit arising from prior year rate change	6	**67.7**	–
Total taxation	6	**21.5**	(82.9)
Profit for the period		**274.5**	251.5
Attributable to:			
Equity holders of the company		**272.6**	249.2
Non-controlling interests		**1.9**	2.3
		274.5	251.5
Earnings per share (pence)			
Basic	8	**115.2**	105.6
Diluted	8	**114.6**	105.5

Consolidated statement of comprehensive income

Year ended 31 March 2011

	2011 £m	2010 £m
Profit for the period	**274.5**	251.5
Gains/(losses) on cash flow hedges taken to equity	**16.0**	(13.2)
Deferred tax on gains/losses on cash flow hedges taken to equity	**(4.1)**	3.7
Amounts on cash flow hedges transferred to the income statement in the period	**4.5**	7.6
Deferred tax on transfers to income statement	**(1.2)**	(2.1)
Exchange movement on translation of overseas results and net assets	**(6.3)**	(9.0)
Tax on exchange differences on foreign currency	**(0.4)**	(0.4)
Actuarial gains/(losses) on defined benefit pension schemes	**50.7**	(124.4)
Tax on actuarial gains/losses	**(13.2)**	34.8
Deferred tax movement arising from rate change	**0.7**	–
Other comprehensive income/(loss) for the period	**46.7**	(103.0)
Total comprehensive income for the period	**321.2**	148.5
Attributable to:		
Equity shareholders of the company	**319.7**	146.5
Non-controlling interests	**1.5**	2.0
	321.2	148.5

Consolidated statement of changes in equity

Year ended 31 March 2011

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity attributable to equity holders of Severn Trent Plc £m	Non-controlling interests £m	Total £m
At 1 April 2009	231.0	71.9	468.7	174.5	946.1	6.0	952.1
Profit for the period	–	–	–	249.2	249.2	2.3	251.5
Losses on cashflow hedges taken to equity	–	–	(13.2)	–	(13.2)	–	(13.2)
Deferred tax on losses on cashflow hedges taken to equity	–	–	3.7	–	3.7	–	3.7
Amounts on cash flow hedges transferred to the income statement	–	–	7.6	–	7.6	–	7.6
Deferred tax on transfers to the income statement	–	–	(2.1)	–	(2.1)	–	(2.1)
Exchange movement on translation of overseas results and net assets	–	–	(8.7)	–	(8.7)	(0.3)	(9.0)
Tax on exchange differences	–	–	(0.4)	–	(0.4)	–	(0.4)
Actuarial losses	–	–	–	(124.4)	(124.4)	–	(124.4)
Tax on actuarial losses	–	–	–	34.8	34.8	–	34.8
Total comprehensive income for the period	–	–	(13.1)	159.6	146.5	2.0	148.5
Share options and LTIPs							
- Proceeds from shares issued	0.6	4.0	–	–	4.6	–	4.6
- Value of employees' services	–	–	–	5.1	5.1	–	5.1
- Free shares issued	–	–	–	(2.2)	(2.2)	–	(2.2)
Current tax on share based payments	–	–	–	0.3	0.3	–	0.3
Dividends paid	–	–	–	(159.7)	(159.7)	(1.7)	(161.4)
At 31 March 2010	231.6	75.9	455.6	177.6	940.7	6.3	947.0
Profit for the period	–	–	–	272.6	272.6	1.9	274.5
Gains on cashflow hedges taken to equity	–	–	16.0	–	16.0	–	16.0
Deferred tax on gains on cashflow hedges taken to equity	–	–	(4.1)	–	(4.1)	–	(4.1)
Amounts on cash flow hedges transferred to the income statement	–	–	4.5	–	4.5	–	4.5
Deferred tax on transfers to the income statement	–	–	(1.2)	–	(1.2)	–	(1.2)
Exchange movement on translation of overseas results and net assets	–	–	(5.9)	–	(5.9)	(0.4)	(6.3)
Tax on exchange differences	–	–	(0.4)	–	(0.4)	–	(0.4)
Actuarial gains	–	–	–	50.7	50.7	–	50.7
Tax on actuarial gains	–	–	–	(13.2)	(13.2)	–	(13.2)
Deferred tax arising from rate change	–	–	–	0.7	0.7	–	0.7
Total comprehensive income for the period	–	–	8.9	310.8	319.7	1.5	321.2
Share options and LTIPs							
- Proceeds from shares issued	0.6	4.1	–	–	4.7	–	4.7
- Value of employees' services	–	–	–	4.6	4.6	–	4.6
- Free shares issued	–	–	–	(2.0)	(2.0)	–	(2.0)
Current tax on share based payments	–	–	–	0.3	0.3	–	0.3
Deferred tax on share based payments	–	–	–	1.2	1.2	–	1.2
Dividends paid	–	–	–	(169.4)	(169.4)	(1.5)	(170.9)
At 31 March 2011	**232.2**	**80.0**	**464.5**	**323.1**	**1,099.8**	**6.3**	**1,106.1**

Consolidated balance sheet

At 31 March 2011

	Note	2011 £m	2010 (Restated see note 1) £m
Non-current assets			
Goodwill		**68.3**	70.6
Other intangible assets		**134.9**	138.5
Property, plant and equipment		**6,427.0**	6,302.0
Interests in joint ventures		**0.2**	0.3
Interests in associates		**4.8**	4.6
Derivative financial instruments		**188.1**	203.8
Available for sale financial assets		**0.1**	0.1
		6,823.4	6,719.9
Current assets			
Inventory		**27.1**	26.5
Trade and other receivables		**478.5**	472.8
Derivative financial instruments		**4.3**	2.9
Cash and cash equivalents		**315.2**	227.8
		825.1	730.0
Total assets		**7,648.5**	7,449.9
Current liabilities			
Borrowings		**(23.9)**	(260.9)
Derivative financial instruments		**(0.1)**	(4.4)
Trade and other payables		**(391.2)**	(464.4)
Current income tax liabilities		**(67.0)**	(67.2)
Provisions for liabilities and charges		**(12.6)**	(25.5)
		(494.8)	(822.4)
Non-current liabilities			
Borrowings		**(4,320.5)**	(3,915.6)
Derivative financial instruments		**(122.4)**	(140.3)
Trade and other payables		**(367.8)**	(284.9)
Deferred tax		**(919.4)**	(956.4)
Retirement benefit obligations		**(292.1)**	(354.9)
Provisions for liabilities and charges		**(25.4)**	(28.4)
		(6,047.6)	(5,680.5)
Total liabilities		**(6,542.4)**	(6,502.9)
Net assets		**1,106.1**	947.0
Capital and reserves attributable to the company's equity shareholders			
Called up share capital		**232.2**	231.6
Share premium account		**80.0**	75.9
Other reserves		**464.5**	455.6
Retained earnings		**323.1**	177.6
Equity attributable to the company's equity shareholders		**1,099.8**	940.7
Non-controlling interests		**6.3**	6.3
Total equity		**1,106.1**	947.0

Consolidated cash flow statement

Year ended 31 March 2011

	Note	2011 £m	2010 £m
Cash generated from operations	10	**753.0**	708.0
Tax paid		**(32.4)**	(53.8)
Net cash generated from operating activities		**720.6**	654.2
Investing activities			
Interest received		**10.3**	10.5
Dividends received from associates and joint ventures		**–**	0.1
Net cash inflow from sale of investments		**–**	2.2
Acquisition of subsidiaries		**–**	(13.2)
Proceeds on disposal of property, plant and equipment		**5.1**	6.9
Purchases of intangible assets		**(20.9)**	(47.8)
Purchases of property, plant and equipment		**(403.1)**	(464.9)
Contributions and grants received		**19.4**	18.0
Net cash used in investing activities		**(389.2)**	(488.2)
Financing activities			
Interest paid		**(179.8)**	(194.7)
Closed out swap		**20.5**	–
Interest element of finance lease payments		**(10.8)**	(10.0)
Dividends paid to shareholders of the parent		**(169.4)**	(159.7)
Dividends paid to non-controlling interests		**(1.5)**	(1.7)
Repayments of borrowings		**(28.7)**	(180.0)
Repayments of obligations under finance leases		**(47.3)**	(43.2)
New loans raised		**171.2**	1.0
Issues of shares		**4.7**	4.6
Purchase of own shares		**(2.0)**	(2.2)
Net cash used in financing activities		**(243.1)**	(585.9)
Increase/(decrease) in cash and cash equivalents		**88.3**	(419.9)
Net cash and cash equivalents at beginning of period		**227.8**	648.1
Effect of foreign exchange rates		**(0.9)**	(0.4)
Net cash and cash equivalents at end of period		**315.2**	227.8

Notes

1 Basis of preparation

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 2011 and those parts of the Companies Act 2006 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 2011. 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 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 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 430 of then Companies Act 2006, for the years ended 31 March 2011 or 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 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.

During the year the group has adopted IFRIC 18 "Transfers of assets from customers". Prior year figures have been restated for the impact of the Interpretation on assets transfers that occurred after 1 July 2009. The impact of this restatement was as follows:

		Trade and other payables	
	Property plant and equipment	Current liabilities	Non-current liabilities
At 31 March 2010	£m	£m	£m
As previously stated	6,260.5	(464.2)	(243.6)
Fair value of assets transferred	41.5	(0.2)	(41.3)
As restated	**6,302.0**	**(464.4)**	**(284.9)**

2 Segmental analysis

The group is operated in two main segments:

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

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

2 Segmental analysis (continued)

2011	Severn Trent Water £m	Severn Trent Services £m
External sales	1,388.9	321.7
Inter-segment sales	0.9	14.4
Total sales	1,389.8	336.1
Profit before interest, tax and exceptional items	503.7	25.7
Exceptional items	(13.0)	(4.5)
Profit before interest and tax	490.7	21.2
Profit before interest, tax and exceptional items is stated after:		
Amortisation of intangible assets	23.6	1.6
Depreciation of property plant and equipment	247.4	6.4
Profit on disposal of fixed assets	(2.1)	(0.5)

2010	Severn Trent Water £m	Severn Trent Services £m
External sales	1,383.6	320.3
Inter-segment sales	1.7	16.2
Total sales	1,385.3	336.5
Profit before interest, tax and exceptional items	541.3	28.7
Exceptional items	(42.1)	(7.6)
Profit before interest and tax	499.2	21.1
Profit before interest, tax and exceptional items is stated after charging:		
Amortisation of intangible assets	23.4	1.6
Depreciation of property plant and equipment	232.5	6.1
Profit on disposal of fixed assets	(4.3)	(0.2)

The segmental profit before interest tax and exceptional items is reconciled to the consolidated income statement below:

	2011 £m	2010 £m
Underlying PBIT:		
- Severn Trent Water	**503.7**	541.3
- Severn Trent Services	**25.7**	28.7
Corporate and other costs	**(12.5)**	(14.2)
Consolidation adjustments	**2.2**	1.3
Group underlying PBIT	**519.1**	557.1
Exceptional items:		
- Severn Trent Water	**(13.0)**	(42.1)
- Severn Trent Services	**(4.5)**	(7.6)
Corporate	**(3.9)**	–
Share of results of associates and joint ventures	**0.1**	0.1
Net finance costs	**(230.6)**	(218.8)
(Losses)/gains on financial instruments	**(14.2)**	45.7
Profit before tax and discontinued operations	**253.0**	334.4

3 Exceptional items

	2011 £m	2010 £m
Restructuring programmes:		
- Severn Trent Water	**13.0**	42.1
- Severn Trent Services	**0.7**	5.9
Exceptional restructuring costs	**13.7**	48.0
Costs relating to regulatory matters (see note 11)		
- Severn Trent Services	**3.8**	–
- Corporate and other	**3.9**	–
Exceptional costs relating to regulatory matters	**7.7**	–
Total exceptional operating costs	**21.4**	48.0
Exceptional loss on disposal of business	**–**	1.7
Total exceptional items	**21.4**	49.7

4 Net finance costs

	2011 £m	2010 £m
Investment income		
Bank deposits	**3.8**	7.0
Other financial income	**3.7**	2.8
Total interest revenue	**7.5**	9.8
Expected return on defined benefit scheme assets	**93.2**	71.1
	100.7	80.9
Finance costs		
Interest on bank loans and overdrafts	**(6.9)**	(7.6)
Interest on other loans	**(214.1)**	(195.0)
Interest on finance leases	**(11.1)**	(10.1)
Total borrowing costs	**(232.1)**	(212.7)
Other financial expenses	**(0.8)**	(0.9)
Interest cost on defined benefit scheme obligations	**(98.4)**	(86.1)
Total finance costs	**(331.3)**	(299.7)
Net finance costs	**(230.6)**	(218.8)

In accordance with IAS 23 borrowing costs of £11.4 million (2010:£2.6 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.99% (2010: 5.65%).

5 (Losses)/gains on financial instruments

	2011 £m	2010 £m
Gain/(loss) on cross currency swaps used as hedging instruments in fair value hedges	**17.6**	(10.9)
(Loss)/gain arising on adjustment for foreign currency debt in fair value hedges	**(10.4)**	22.3
Exchange gain on other loans	**(1.2)**	–
Loss on cash flow hedges transferred from equity	**(4.5)**	(7.6)
(Loss)/gain arising on swaps where hedge accounting is not applied	**(15.7)**	41.9
	(14.2)	45.7

6 Taxation

	2011 £m	2010 £m
Current tax		
Current year at 28% (2010: 28%)	**66.5**	71.3
Prior year at 28% (2010: 28%)	**(34.4)**	(30.6)
Total current tax	**32.1**	40.7
Deferred tax		
Origination and reversal of temporary differences - current year	**4.6**	25.9
Origination and reversal of temporary differences - prior year	**9.5**	16.3
Exceptional credit arising from rate change	**(67.7)**	–
Total deferred tax	**(53.6)**	42.2
Total tax (credit)/charge	**(21.5)**	82.9

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2011		2010	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2010 (2009)	**45.6**	**107.8**	41.1	96.5
Interim dividend for the year ended 31 March 2011 (2010)	**26.0**	**61.6**	26.7	63.2
	71.7	**169.4**	67.8	159.7
Proposed final dividend for the year ended 31 March 2011	**39.1**			

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 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 year, 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 year.

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

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

Earnings

	2011 **£m**	2010 £m
Earnings for the purpose of basic and diluted earnings per share from operations being:		
Profit for the period attributable to the equity holders of the company	**272.6**	249.2

Number of shares

	2011 **m**	2010 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**236.7**	236.0
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	**1.1**	0.3
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**237.8**	236.3

Adjusted earnings per share

	2011 **Pence**	2010 Pence
Adjusted basic earnings per share	**105.6**	122.8
Adjusted diluted earnings per share	**105.1**	122.6

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, (losses)/gains on financial instruments and exceptional items in both 2011 and 2010. 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:

Adjustments to earnings

	2011 **£m**	2010 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**272.6**	249.2
Adjustments for:		
Exceptional items	**21.4**	49.7
Current tax related to exceptional items at 28% (2010: 28%)	**(4.7)**	(5.6)
Losses/(gains) on financial instruments	**14.2**	(45.7)
Deferred tax	**(53.6)**	42.2
Earnings for the purpose of adjusted basic and diluted earnings per share	**249.9**	289.8

9 Retirement benefit obligations

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

	2011 **£m**	2010 £m
Present value at 1 April	**(354.9)**	(232.9)
Service cost	**(22.7)**	(14.7)
Curtailment	**-**	(7.5)
Interest cost	**(5.2)**	(15.0)
Contributions from the sponsoring companies	**40.0**	39.6
Actuarial gains/(losses) recognised in the statement of comprehensive income	**50.7**	(124.4)
Present value at 31 March	**(292.1)**	(354.9)

10 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2011 **£m**	2010 £m
Profit before interest and tax	**497.7**	507.4
Depreciation of property, plant and equipment	**251.5**	236.1
Amortisation of intangible assets	**25.4**	25.2
Exceptional impairment and depreciation	**–**	6.6
Pension service cost	**22.7**	14.7
Curtailment cost	**–**	7.4
Pension contributions	**(40.0)**	(39.6)
Share based payments charge	**4.6**	5.1
Profit on sale of property, plant and equipment	**(2.6)**	(4.5)
Loss on disposal of businesses	**–**	1.7
Deferred income movement	**(8.4)**	(7.4)
Provisions charged to the income statement	**6.8**	24.2
Utilisation of provisions for liabilities and charges	**(19.0)**	(10.5)
(Increase)/decrease in stocks	**(0.5)**	3.9
Increase in debtors	**(7.5)**	(26.4)
Increase/(decrease) in creditors	**22.3**	(35.9)
Cash generated from operations	**753.0**	708.0
Tax paid	**(32.4)**	(53.8)
Net cash generated from operating activities	**720.6**	654.2

10 Cash flow statement (continued)

b) Exceptional cash flows

	2011 £m	2010 £m
Restructuring costs	**(27.6)**	(15.9)
Regulatory matters	**(3.8)**	–
Fines and penalties	**–**	(2.0)
Loss on disposal of businesses	**–**	(0.9)
	(31.4)	(18.8)

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

	As at 1 April 2010 £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 2011 £m**
Cash and cash equivalents	227.8	88.3	–	–	(0.9)	–	**315.2**
Net cash and cash equivalents	227.8	88.3	–	–	(0.9)	–	**315.2**
Bank loans	(689.8)	(150.0)	–	(7.0)	–	–	**(846.8)**
Other loans	(3,185.9)	7.5	(10.4)	(42.9)	(1.2)	2.0	**(3,230.9)**
Finance leases	(300.8)	47.3	–	–	–	(13.2)	**(266.7)**
Cross currency swaps hedging debt	187.3	(20.5)	(4.1)	–	–	(2.3)	**160.4**
Net debt	(3,761.4)	(27.4)	(14.5)	(49.9)	(2.1)	(13.5)	**(3,868.8)**

11 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees 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 ('Veolia') alleging breach of warranty in relation to the disposal of Biffa Belgium. The group subsequently received notice from Veolia of a further claim for €5 million relating to the same matter. The group considered that there was no basis for this claim and hence no provision was recorded in the financial statements in relation to this matter. Following a hearing in the Commercial Court in Belgium in February 2010, the Court rendered judgment in favour of the group on 1 April 2010 and declared all of Veolia's claims to be unfounded. The group has received notice that Veolia has filed an appeal against this decision.

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.

c) Regulatory matters

Following an audit in September 2010 by the Drinking Water Inspectorate (DWI) of aspects of the services provided by Severn Trent Laboratories Ltd from its Bridgend laboratory, inorganic testing services provided by that laboratory were temporarily suspended, and transferred to another of the Group's laboratories, pending completion of an investigation commissioned by Severn Trent Plc. The results of this investigation have been discussed with the DWI. Inorganics testing resumed at Bridgend in January following accreditation by UKAS of revised testing processes.

At this stage it is not possible to determine what, if any, liability will arise as a result of this incident.

On 17 December 2010 Severn Trent Plc, Severn Trent Water Ltd and Severn Trent Laboratories Ltd received a request from Ofwat to provide certain information under the Competition Act in connection with Severn Trent Laboratories Ltd's contracts with Severn Trent Water Ltd and certain other water companies. The information requested has subsequently been provided to Ofwat.

At this stage it is not possible to determine what, if any, liability will arise as a result of this request.

12 Related party transactions

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

13 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 39.05 pence per share. Further details of this are shown in note 7.

14 Annual report

The annual report will be made available to shareholders in June 2011. Copies may be obtained from the Company Secretary, Severn Trent Plc, PO Box 5309, Coventry CV3 9FH.

15 Annual general meeting

The Annual General Meeting will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 20 July 2011.

16 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).