Preliminary Announcement of Annual Results

30 May 2012
Results for the year to 31 March 2012

Sustaining Delivery

Highlights

- Maintaining the lowest combined water and waste water bills for our customers
- No usage restrictions in the Severn Trent Water region forecast for this year
- Leakage reduced by 7% year on year to a record low level, and below Ofwat target
- Severn Trent Water operating expenditure below level assumed in Ofwat's Final Determination
- Additional investment of £150 million in Severn Trent Water's networks over the next 3 years to enhance security and resilience for our customers, on top of £1.6 billion previously planned
- Proposed capital return of £150 million to shareholders maintains an efficient and sustainable balance sheet with a strong investment grade credit rating

	31 March 2012 £m	31 March 2011 £m	Increase/ (decrease) %
Group turnover	1,770.6	1,711.3	3.5%
Underlying group PBIT[1]	504.2	519.1	(2.9%)
Underlying group profit before tax[2]	275.3	288.6	(4.6%)
Profit before tax[3]	156.7	253.0	(38.1%)
	pence/share	pence/share	
Adjusted basic eps[4]	88.9	105.6	(15.8%)
Basic earnings/(loss) per share[5]	72.5	115.2	(37.1%)
Total ordinary dividends	70.10	65.09	7.7%
Special dividend	63.00	-	

1 before exceptional items (see note 3)
2 before exceptional items and losses on financial instruments
3 includes losses on financial instruments of £67.7 million (2011: losses of £14.2 million)
4 before exceptional items, losses on financial instruments and deferred tax
5 after exceptional deferred tax credit of 29.2 pence per share (2011: credit of 28.6 pence per share)

Tony Wray, Chief Executive Severn Trent Plc, said:

"During the period we have delivered on our commitments to our stakeholders. We have beaten our leakage target, reduced supply interruptions, continue to forecast no water usage restrictions for our region this year and we maintained the lowest average charges for our customers.

We delivered stable underlying PBIT in Severn Trent Water, despite incurring additional network investment costs, new costs such as private drains and sewers and the new Carbon Reduction Commitment levy. In aggregate these added over £40 million to our cost base year on year.

Our ability to achieve this performance is due to the great work our people have put in over the last 3 years and the productivity and capital efficiency improvements that have been delivered.

At Severn Trent Services, whilst activity levels have started to improve, full year performance was down.

For the group as a whole, our strong balance sheet and investment grade credit rating enable us to share that benefit with our customers and investors by increasing our investment programme in our water and waste water networks by £150 million, to improve further our services to customers, and return an additional £150 million to our shareholders."

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am on Wednesday 30 May The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. This presentation will be available as a simultaneous webcast on the Severn Trent website (www.severntrent.com) and will remain on the website for subsequent viewing.

Operating review

Severn Trent Water

Our focus remains on the delivery of operational excellence through the highest service and environmental standards, value for our customers and sustainable, progressive returns for our shareholders.

Five years ago in June 2007, we were the first water company to publish key performance indicators (KPIs) to measure and benchmark our performance across a wide range of activities. Of those 16 KPIs that are comparable over the five years, we have made absolute progress in 12 with 7 currently benchmarked at upper quartile, 6 at median and only 3 at lower quartile. Our KPIs continue to be a core element of all employee's performance assessment, aligning our people to the goal of delivering the highest service and environmental standards through operational excellence and continuous improvement.

As we move into 2012/13, we have updated our KPIs to reflect those measures now tracked by our economic regulator Ofwat.

Turning to 2011/12, measured consumption was lower year on year by 1.6%, reflecting more efficient water use by our commercial customers, while turnover was up by 4.9%. This was due to the positive volume and price mix effects in non-tariff basket revenue lines.

Operational expenditure was in line with expectations and below the level allowed in the Final Determination, with total employment costs marginally ahead and a small reduction in bad debts. Included in total costs was a 14.3% increase in quasi taxes, including the government's new Carbon Reduction Commitment (CRC) energy efficiency levy, which totalled £5.9 million (2011: nil). There were also additional operating costs of £4.7 million related to the ownership of private drains and sewers (PDaS), which were transferred on 1 October 2011.

Depreciation was higher period on period, mainly due to £3.7 million of accelerated depreciation on retirement of an experimental sludge dryer.

PBIT was broadly flat year on year due to rising operational costs, as detailed above, and increased infrastructure renewals, which totalled £128.9 million compared to £96.9 million in the prior year, reflecting our increased capital investment and maintenance programme.

Turning to our operational performance, this year sees the introduction of 4 new KPIs – Service Incentive Mechanism (SIM) Qualitative and Quantitative, Efficient billing factor and Capital process quality. More detail on these, and the table of all 20 KPIs, can be found on page 28.

Last year we highlighted a number of areas for improvement, including unplanned interruptions, leakage and supply availability. Leakage performance this year was 464 Ml/d, the lowest level the company has ever achieved and below the Ofwat target of 474 Ml/d. Due in part to the increased resilience and network flexibility our capital programme has already delivered, we do not currently envisage any water usage restriction for this year (2012/13).

As a result of our targeted mains renewal programme and innovative techniques to keep customers on supply during repair works, unplanned interruptions improved by over 50% to 11.12 per 1,000 properties, compared to 23.85 last year.

Customer written complaints have reduced to our previous low levels of 4.9 per 1,000 properties. This represents a 70% reduction compared to the level reported in the first year we published our 20 KPIs, 2006/07.

Our customer service levels continue to improve, with our SIM – quantitative score for 2011/12 progressing year on year. Whilst our SIM - qualitative score for the year overall stayed flat, in the fourth quarter of the year we achieved our highest score to date. We are maintaining this focus through our “Customer Experience Programme” designed to deliver sustained improvement.

We improved our health and safety performance during the year, with lost time incidents (LTIs) showing a 20% improvement year on year. Our LTI rate fell to 0.30 per 100,000 hours, and even more teams in Severn Trent Water now have long periods with zero LTIs. Over the five years we have now improved our safety performance by 50%.

Our net energy use fell by 3.8% year on year, and we now generate 23.8% of our gross consumption from our own renewable sources compared with 22.0% in the prior year. We continue to target 30% of our gross energy needs to be produced by our own renewable sources by 2015.

Debtor days increased to 35.8 from 33.8, reflecting increased numbers of metered householders moving to payment plans. At 2.2% of turnover our bad debt charge for the full year was an improvement over last year’s level of 2.3%. Our own target for the end of 2014/15, of 2.0% of turnover, will be challenging in the current economic environment, and we therefore continue to be proactive in our approach to bad debt, with a range of options to help those customers who have difficulties paying their bill.

We have done less well in some areas in 2011/12. Pollution incidents rose to 458 vs. 378 last year and we are addressing this issue with increased operational maintenance, increased sewer rehabilitation and increased customer education to reduce disposal of fats and oils into sewers.

The number of sewage works failing consents increased from 12 to 18 works out of a total of 709. We are addressing this issue through investment in improved telemetry and controls at these works.

Our total capital programme increased by 17.0% year on year, to £474.2 million (net UK GAAP), compared to £405.3 million for the prior year, reflecting catch up from the severe winter of 2010/11, increased focus on leakage reduction, improving unplanned interruptions, and £2.8 million of costs related to PDaS.

Severn Trent Services
Severn Trent Services had a challenging start to the year, with economic and operating conditions in many of our markets impacting negatively on both turnover and profit. However, performance in the second half improved.

Operating Services was affected by constrained municipal budgets and the loss of some contracts taken back “in house” by municipalities in the US, although the total number of contracts remained broadly stable at 401. We began to realise the benefits of our continued investment in business development in the second half of the year, as we won several projects in new states such as Georgia and improved our opportunity pipeline.

As noted at the half year, political and economic uncertainty impacted our Italian business. In that period we recorded a £21.5 million provision against our economic interest in an ATO service business outside Rome (Servizio Idrico Integrato S.c.p.a. or “SII”). While the SII business is profitable and cash generative, the economic crisis in Italy in the Autumn of 2011 hampered the efforts of all partners to achieve a re-financing package. We continue to support SII in seeking a longer term solution. We have discontinued any further investment in resources to support future market growth in Italy.

Project growth in the UK and Ireland exceeded our expectations, driven by new contract wins, including a five year contract to design, build and operate waste water treatment for a major European food manufacturer worth £2 million, and a four year water hygiene contract for £2 million with the London Borough of Hammersmith and Fulham.

In Water Purification (Products) market conditions were mixed. The US saw limited investment by local municipalities due to their weaker finances, while activity in the Gulf of Mexico increased due to the lifting of the drilling ban and the strong oil price, in turn increasing demand for our sewage treatment and disinfection products. Emerging markets in Asia Pacific and the Middle East and North Africa also grew. In the UK the second year of the regulatory cycle saw water companies' capital investment programmes ramp up.

Interest in our BALPURE® product line exceeded expectations, with orders of £5 million. Orders were received from various shipyards and ship owners, including Greenway Shipping and Sasaki Shipbuilding. During the year we invested £1.6 million in establishing a dedicated BALPURE® sales organisation and we will continue to develop our channels to market.

Increased Network Investment at Severn Trent Water and Capital Return

The past few years (severe winters, dry winters and summers) have demonstrated the increasing challenges to our networks in delivering secure services to our customers. Whilst we have been able to manage those challenges to date, we have decided to enhance our AMP5 capital investment programme by an additional £150 million to deliver improved customer service and network performance. This investment will be targeted at further reductions in unplanned interruptions, increased water network serviceability, reductions in pollution incidents and improved sewage treatment.

Severn Trent Water will also fund the costs of PDaS (private drains and sewers), currently estimated to be £90 million to £138 million in total for AMP5, in advance of the likely recovery of those costs through the interim price review process known as an IDoK. This estimate includes a range of £30 million to £36 million for opex and £55 million to £97 million for capex. At this time it is not clear for how long these costs will have to be borne by the company.

The capital programme for AMP5 has therefore been revised to £2.54 billion from £2.2 billion, which reflects the costs of PDaS, increased network investment detailed above, and inflationary increases due to changes in the COPI index. This is still within the overall levels agreed in the final determination for AMP5.

We keep our balance sheet structure under review. Taking into account the group's funding requirements over the remainder of AMP5, including the revised level of capital programme and capital efficiencies delivered, PDaS costs, the proportion of index linked debt currently in issue, historical and forecast RPI and COPI levels, and maintaining our strong investment grade credit rating, we have concluded that there is an opportunity to deliver additional returns to shareholders. The board has therefore proposed a return to shareholders of £150 million, which equates to 63.0 pence per share, payable with the final dividend on 27 July to holders on the register at 22 June.

Group financial performance

We have sought, since the start of the financial crisis in 2008, to retain a cautious view on management of our cost base and financing. At Severn Trent Water we were pleased to see that the ability of our customers to pay their bills did not see any serious deterioration, and indeed our level of bad debt charges improved in the year as we continue our proactive efforts in this area. Costs remain a key focus and while we saw increases in environmental taxes and other charges we do not control, our performance on controlled costs was satisfactory.

Access to long term secure financing in these economic conditions has remained a key focus and our actions over the last year reflect this. We renewed our five year £500 million revolving credit facility (RCF) with 11 banks and issued a 30 year Sterling bond at 4.875%, the lowest rate we have seen to date. We called in early £150 million of our bonds due for redemption in 2014, the year of the next price review for Severn Trent Water, a time which traditionally has been difficult for regulated water companies to refinance in public bond markets. This latter action resulted in a one off finance charge of £16.5 million in the year but considerably reduces the risk of not being able to refinance our bonds that were due in 2014.

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 £1,770.6 million (£1,711.3 million), an increase of 3.5% over last year.

Underlying group PBIT decreased by 2.9% to £504.2 million (£519.1 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 £50.9 million (charges of £21.4 million). Group PBIT decreased 5.6% to £469.8 million (£497.7 million).

Severn Trent Water

Turnover in Severn Trent Water increased by 4.9% in 2011/12, to £1,457.5 million. Sales prices were increased by inflation from 1 April 2011 which gave rise to an increase in turnover of £73.1 million. Consumption from metered customers was lower year on year reducing turnover by £10.5 million. New growth and meter optants increased turnover by £0.2 million and there were other increases amounting to £4.9 million.

Underlying PBIT was down by 0.7% on the same period last year, to £500.0 million. Direct operating costs increased by £32.5 million (see below), there was an increase in infrastructure renewals expenditure of £32.0 million and depreciation increased by £7.5 million including £3.7 million in respect of the early retirement of an experimental sludge dryer.

Employment costs increased by 2.1% to £202.4 million. Hired and contracted costs increased by £36.1 million to £155.6 million partly as a result of increased leakage detection and repair work performed by sub-contractors and also due to £2.9 million of costs relating to PDaS. Raw materials and consumables at £46.8 million were 1.3% higher than the same period in the prior year. Bad debts were 9.8% lower at £30.3 million, representing 2.2% of turnover (2.3%). An increase of only £1.3 million in power costs to £51.8 million reflected the success of our strategy of fixing these costs through our supply contract and by using energy swaps. Quasi taxes, which comprise rates, service charges and the CRC, increased by £13.5 million to £107.6 million, mainly due to the introduction of the CRC. Other operating costs decreased by £2.9 million to £44.0 million. Labour and related overheads capitalised at £76.8 million were £16.9 million higher than in 2010/11, due to the higher level of capital expenditure in 2011/12.

During the financial year, Severn Trent Water invested £474.2 million (UK GAAP after deducting grants and contributions) (£405.3 million) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure renewals expenditure of £128.9 million (£96.9 million), charged to the income statement under IFRS.

Severn Trent Services

	2012	2011	Increase/ (decrease)
	£m	£m	%
Turnover			
Services as reported	**332.3**	336.1	(1.1%)
Impact of exchange rate fluctuations	**-**	(5.9)	
In constant currency	**332.3**	330.2	0.6%

	2012	2011	Increase/ (decrease)
	£m	£m	%
Underlying PBIT			
Services as reported	**18.0**	25.7	(30.0%)
Impact of exchange rate fluctuations	**-**	(1.2)	
In constant currency	**18.0**	24.5	(26.5%)

In Severn Trent Services, some activities saw improvements in the second half of the year. However, looking forward the scale of our activities in Analytical Services will be reducing. Also the macro economic outlook has deteriorated in Spain and Italy. We have therefore, as required by IAS 36, reviewed the underlying forward looking assumptions supporting the carrying value of the goodwill in these businesses and adjusted goodwill values to lower levels. More details are provided in the exceptional items section below.

Reported turnover was £332.3 million in 2011/12, a decrease of 1.1% vs. the prior year, and reported underlying PBIT decreased by 30.0% to £18.0 million.

After adjusting for the impact of exchange rate fluctuations turnover on a like for like constant currency basis was up 0.6% and underlying PBIT measured on the same basis was down 26.5%.

Operating Services

Turnover for the year was £204.6 million, an increase of 3.2% compared to the prior year on a constant currency basis. In the UK new contract wins and increased activity on our C2C contract delivered revenue growth but this was offset by contract losses in the US and lower activity in Italy.

Water Purification

Turnover for the year was £97.3 million, a decrease of 5.4% compared to the prior year on a constant currency basis as US market conditions remained difficult and in Europe, sales remained flat.

Analytical Services

Turnover for the year was £30.4 million, an increase of 4.1%. Towards the end of the year and early in the new financial year we have been informed that certain contracts from utilities companies will not be renewed and will be taken back in house. Management is developing a plan to reduce the scale of the business accordingly.

Corporate and other

Corporate overheads amounted to £15.6 million (£13.0 million). Our other businesses generated an underlying profit of £0.2 million (loss of £0.6 million) and there were exchange gains in Corporate of £0.1 million (£1.1 million).

Exceptional items

There were net exceptional charges in the year to 31 March 2012 of £50.9 million (£21.4 million) including exceptional operating costs of £34.4 million (£21.4 million) which are described in further detail below and exceptional finance costs of £16.5 million arising on the early redemption of debt.

Exceptional operating costs included:

- Costs arising from Severn Trent Water's programme to restructure and realign the business which resulted in an exceptional charge of £11.5 million (£13.0 million);
- Exceptional provisions in Severn Trent Services of £23.1 million including £21.5 million against our economic interest in SII, an associate company in Italy, as previously reported;
- Impairments of £22.9 million were recorded against the carrying value of goodwill comprising:
    - £12.0 million against our UK Laboratories business to recognise the smaller scale of the business going forward; and
    - £10.9 million against our businesses in Italy (£5.7 million) and Spain (£5.2 million) against a more cautious backdrop for growth of these Eurozone countries; and
- An exceptional credit arising from the agreement to close the group's defined benefit pension schemes to future accrual with effect from 31 March 2015. This resulted in exceptional credits of £21.8 million in Severn Trent Water and £1.3 million in Severn Trent Services.

Net finance costs

The group's net finance costs before exceptional items were £229.0 million, compared to £230.6 million in the prior year.

The refinancing exercise referred to in the Treasury management and liquidity section resulted in exceptional finance costs of £16.5 million on the early redemption of debt. Total finance costs were £245.5 million (£230.6 million).

The effective interest rate, including index linked debt, for 2011/12 was 6.4% (6.4%). The cash interest rate was 4.9% (5.0%).

Gains/(losses) on financial instruments

The group uses financial derivatives solely to hedge risks associated with its normal business activities including:

- Exchange rate exposure on borrowings denominated in foreign currencies;
- Interest rate exposures on floating rate borrowings; and
- Exposures to increases in electricity prices.

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

Over the lives of the derivatives, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives do not represent cash flows.

Therefore the group presents adjusted earnings figures that exclude these non-cash items. An analysis of the amounts charged to the income statement in the period is presented in note 5 to the financial statements.

Profit before tax

Underlying group profit before tax decreased by 4.6% to £275.3 million (£288.6 million). Group profit before tax was £156.7 million (£253.0 million).

Taxation

The total tax charge for the full year was £17.7 million (£21.5 million). Current tax represented a charge of £60.5 million (£32.1 million), including credits relating to adjustments to prior year computations of £8.7 million (£34.4 million). Deferred tax (see note 4) was a credit of £78.2 million (credit of £53.6 million) including an exceptional credit of £69.1 million (£67.7 million) arising from the reduction in corporation tax rate from 26% to 24% with effect from 1 April 2012.

The effective rate of current tax, excluding prior year charges and exceptional items, calculated on profit before tax, exceptional items and gains/(losses) on financial instruments was 25.7% (24.4%).

Going forward, we expect the effective current tax rate for 2012/13 to be in the range of 24% to 26%.

Profit for the period and earnings per share

Profit for the period was £174.4 million (£274.5 million).

Adjusted basic earnings per share (before exceptional items, gains/(losses) on financial instruments and deferred tax) were 88.9 pence (105.6 pence) (see note 8). Basic earnings per share were 72.5 pence (115.2 pence).

Cash flow

	2012 £m	2011 £m
Cash generated from operations	**725.9**	753.0
Net capital expenditure	**(351.2)**	(399.5)
Net interest paid	**(210.4)**	(180.3)
Tax (paid)/received	**(72.0)**	(32.4)
Other cash flows	**(1.0)**	(1.5)
Free cash flow	**91.3**	139.3
Dividends	**(159.0)**	(169.4)
Net issue of shares	**2.4**	2.7
Change in net debt from cash flows	**(65.3)**	(27.4)
Non cash movements	**(33.7)**	(80.0)
Change in net debt	**(99.0)**	(107.4)
Net debt 1 April	**(3,868.8)**	(3,761.4)
Net debt at 31 March	**(3,967.8)**	(3,868.8)
Net debt comprises:		
Cash and cash equivalents	**295.1**	315.2
Bank overdrafts	**(0.4)**	-
Cross currency swaps hedging debt	**135.9**	160.4
Bank loans	**(852.5)**	(846.8)
Other loans	**(3,326.9)**	(3,230.9)
Finance leases	**(219.0)**	(266.7)
	(3,967.8)	(3,868.8)

Cash generated from operations was £725.9 million (£753.0 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £351.2 million (£399.5 million). Net interest paid increased to £210.4 million (£180.3 million).

Net debt at 31 March 2012 was £3,967.8 million (£3,868.8 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 80.2% (77.8%). Net debt, expressed as a percentage of Regulatory Capital Value at 31 March 2012 was 56.0% (56.8%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.3 times (3.4 times) by profit before interest, tax, depreciation and exceptional items, and 2.2 times (2.3 times) by underlying PBIT.

The fair value of the group's net debt at 31 March 2012 is estimated to be £4,579.3 million (£4,196.2 million) compared to the book value of £3,967.8 million (£3,868.8 million). Discounted future cash flows are used to determine fair values for debt. Discount rates are derived from yield curves based on quoted interest rates and are adjusted for the group's credit risk.

Treasury management and liquidity

The group's principal treasury management objectives are:

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The group continues to carefully monitor liquidity. At 31 March 2012 the group had £295.1 million in cash and cash equivalents.

In January 2012 the group issued £250 million 4.875% Guaranteed Notes under its Euro Medium Term Note Programme. The notes have a 30 year term. Part of the proceeds were used to redeem £150.6 million 5.25% Notes which were due for repayment in 2014. The notes were redeemed at a premium to par of 10.5% which represents a 1.1% premium to market value, resulting in an exceptional finance cost of £16.5 million.

A new 5 year £500 million revolving credit facility was agreed in October 2011. This replaced the existing £500 million revolving credit facility. A new 10 year £100 million bilateral facility was agreed in March 2012. This facility was drawn on 18 April 2012. Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs up to December 2013.

Cash is invested in deposits with highly rated 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 not 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 2012, interest rates for 74.0% of the group's net debt of £3,967.8 million were fixed.

The group's long term credit ratings are:

Long term ratings	Severn Trent Plc	Severn Trent Water
Moody's	Baa1	A3
Standard and Poor's	BBB-	BBB+

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 have been renewed as at 31 March 2010. The key actuarial assumptions from these valuations have been updated for these accounts as at 31 March 2012. The valuations left the level of current service contributions unchanged. Deficit reduction contributions include a payment of £10 million per annum in cash and a further £8 million per annum through an asset backed funding arrangement.

On 11 May 2011, Severn Trent announced that it was 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. Following the period of consultation and after discussion with the Schemes' Trustees, final proposals have been accepted by the employees' representatives and the Trustees. A new defined contribution scheme has been established and from 1 April 2012, new employees have been auto enrolled into this scheme. The defined benefit schemes will close to future accrual on 31 March 2015 and members of the defined benefit schemes will then become members of the new defined contribution scheme. The existing defined contribution scheme will also be replaced by the new pension arrangements with effect from 1 April 2015 and it is proposed to automatically enrol those employees who are not currently members of a Severn Trent scheme from April 2013.

On an IAS 19 basis, the estimated net position of the group's defined benefit pension schemes was a deficit of £345.8 million as at 31 March 2012. This compares to a deficit of £292.1 million as at 31 March 2011. The movements in the net deficit are summarised in note 9. The funding level has reduced from 83.5% at 31 March 2011 to 81.8% at 31 March 2012.

The major assumptions used in the valuation of the defined benefit pension schemes were as follows:

	2012	2011
	%	%
Price inflation	**3.1**	3.5
Salary increases	**3.6**	4.0
Pension increases in payment	**3.1**	3.5
Pension increases in deferment	**3.1**	3.5
Discount rate	**4.9**	5.6
Long term rate of return on equities	**6.8**	7.9
Age to which current pensioners aged 65 are expected to live		
- men	**87.5**	87.4
- women	**91.1**	91.0
Age to which future pensioners aged 45 at the balance sheet date are expected to live		
- men	**88.0**	88.0
- women	**91.9**	91.8

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 £35 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £30 million
Mortality	Increase in life expectancy by 1 year	Increase by £45 million

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 42.06 pence (39.05 pence). This would give a total ordinary dividend for the year of 70.10 pence, an increase of 7.7% over the 2010/11 total ordinary dividend (65.09 pence). The final ordinary dividend is payable on 27 July 2012 to shareholders on the register at 22 June 2012. 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.

In addition to the final ordinary dividend the board proposes, subject to shareholder approval, to pay a special dividend of 63.00 pence per share at the same time as the final ordinary dividend.

Regulatory update

The UK Government's White Paper *Water for Life* published in December mirrored much of our own thinking from our *Changing Course* series of policy papers. We welcome the objectives and strategic direction of the White Paper. We are particularly encouraged by the White Paper's support for water trading, upstream competition and catchment management. We also welcome the Government's strong and explicit acknowledgement of the need to maintain the confidence of investors.

We welcome Ofwat's publication of *Future price limits – statement of principles,* which also reflects much of our own thinking. The key elements of the new framework are:

- Ofwat will separate price controls for retail and wholesale activities, as has been well trailed.
- Prices will continue to be set for a five year period.

- The Regulatory Capital Value approach will continue and will be indexed using the RPI measure of inflation.
- Ofwat has not yet decided whether to set a “water resources sub limit” within the wholesale price limit.
- The timetable remains unclear, except that Ofwat will allow more time between draft and final determination of prices for consultation with customers.
- Ofwat will be consulting on the impact of their proposals on overall risk and the split of this between wholesale and retail activities.

In terms of general principles set out in *Future price limits*, we particularly support:

- Ofwat’s overall objectives of creating a more targeted, proportionate and appropriate regulatory framework which focuses on the most important outcomes.
- The aim of reducing the regulatory burden and a move to a more targeted, risk based approach for the next price review.
- More involvement from customer groups in the price setting process.

We were also pleased to see the strong encouragement by Ofwat for water trading, building on the policy direction set by ministers in the White Paper. We now look forward to Ofwat consulting in the autumn on the details of the methodology it will use to set future price limits.

We support the Environment Agency’s work to reform the abstraction licensing process.

We will contribute constructively to future consultations on the issue. In the White Paper, the Government said it did not believe that a new system would be fully functional until the mid 2020s.

Principal risks and uncertainties

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

Risks arising from our business model:

- Achieving all of the challenging targets agreed with Ofwat for our business plan from 2010 to 2015 which results in changes to future funding.
- Effectively improving our performance in relation to customer service in order to deliver what our customers tell us they want.
- Operational failure in our Waste Water operations which results in damage to the local environment.
- Failure of our assets or processes, resulting in injury to an employee, contractor, customer or member of the public.
- Achieving all our regulatory targets from Ofwat in relation to ongoing operational performance of our assets which may result in regulatory penalties.
- Inability to provide a continuous supply of quality water to large populations within our area, or asset failure resulting in damage to third party property.

Legal and regulatory risks:

- Effectively anticipating and/or influencing future developments in the UK Water industry in order for our business plans to remain sustainable.
- The regulatory landscape is complex and subject to on-going change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation leading to the risk of non-compliance.

Financial risks:

- The current crisis in the eurozone may increase the difficulties associated with obtaining funding for the group at similar rates to those assumed in our business plans.
- Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably.
- Counterparties with whom we have invested money may fail putting our investment at risk.

Outlook for 2012/13

In Severn Trent Water, we are continuing to execute our programmes to raise standards and drive efficiency improvements and deliver an improved service for customers.

Prices rose by 5.2% in April 2012, in line with November 2011 RPI, while measured consumption in 2012/13 is expected to be consistent with the trend in the previous year of a decrease of around 2%.

Operating expenditure will show an increase year on year, driven by inflation, prudent investment in our networks to maintain serviceability and the costs of PDaS, offset by efficiency savings derived from our ongoing improvement programmes. However, the expectation is that opex for the full year will be in line with the level allowed in the Final Determination.

Assuming no significant deterioration in the economy, especially in relation to unemployment levels, bad debts are expected to remain stable at around 2.2%.

Our net capital expenditure programme (UK GAAP) is expected to be in the range £570 - £590 million. The level of net infrastructure renewals expenditure included in this figure is anticipated to be £140 - £150 million. This reflects our increased network investment plan detailed above.

In Severn Trent Services, market environments remain challenging, but we expect to see continued progress. However, PBIT will be impacted by around £2 million from ongoing investment in business development.

The expected effective current tax rate for 2012/13 is expected to be in the range 24% - 26%.

The management team of Severn Trent has a clear and focused strategy. By delivering continuous improvement and higher standards for our customers, we aim to achieve both higher levels of operational excellence and sustainable, attractive 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

Year ended 31 March 2012

	Notes	2012 £m	2011 £m
Turnover		**1,770.6**	1,711.3
Operating costs before exceptional items		**(1,266.4)**	(1,192.2)
Exceptional operating costs	3	**(34.4)**	(21.4)
Total operating costs		**(1,300.8)**	(1,213.6)
Profit before interest, tax and exceptional items		**504.2**	519.1
Exceptional items before interest and tax	3	**(34.4)**	(21.4)
Profit before interest and tax		**469.8**	497.7
Finance income		**107.7**	100.7
Finance costs excluding exceptional costs	4	**(336.7)**	(331.3)
Exceptional finance costs	4	**(16.5)**	–
Net finance costs		**(245.5)**	(230.6)
Losses on financial instruments	5	**(67.7)**	(14.2)
Share of results of associates and joint ventures		**0.1**	0.1
Profit before tax, losses on financial instruments and exceptional items		**275.3**	288.6
Exceptional items before tax	3	**(50.9)**	(21.4)
Losses on financial instruments	5	**(67.7)**	(14.2)
Profit on ordinary activities before taxation		**156.7**	253.0
Taxation on profit on ordinary activities			
Current tax	6	**(60.5)**	(32.1)
Deferred tax excluding exceptional credits	6	**9.1**	(14.1)
Exceptional deferred tax credit	6	**69.1**	67.7
Total taxation	6	**17.7**	21.5
Profit for the year		**174.4**	274.5
Attributable to:			
Owners of the company		**171.8**	272.6
Non-controlling interests		**2.6**	1.9
		174.4	274.5
Earnings per share (pence)			
Basic	8	**72.5**	115.2
Diluted	8	**72.1**	114.6

Consolidated statement of comprehensive income

Year ended 31 March 2012

	2012 £m	2011 £m
Profit for the year	**174.4**	274.5
(Losses)/gains on cash flow hedges taken to equity	**(86.5)**	16.0
Deferred tax on losses/gains on cash flow hedges taken to equity	**20.8**	(4.1)
Amounts on cash flow hedges transferred to the income statement	**3.7**	4.5
Deferred tax on transfers to income statement	**(0.9)**	(1.2)
Exchange movement on translation of overseas results and net assets	**(1.4)**	(6.3)
Tax on exchange movement	**–**	(0.4)
Actuarial (losses)/gains on defined benefit pension schemes	**(110.7)**	50.7
Tax on actuarial losses/gains	**26.6**	(13.2)
Deferred tax movement arising from rate change	**1.7**	0.7
Other comprehensive (loss)/income for the year	**(146.7)**	46.7
Total comprehensive income for the year	**27.7**	321.2
Attributable to:		
Owners of the company	**25.1**	319.7
Non-controlling interests	**2.6**	1.5
	27.7	321.2

Consolidated statement of changes in equity

Year ended 31 March 2012

	Equity attributable to owners of the company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 April 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	–	–	16.0	–	16.0	–	16.0
Deferred tax on gains on cashflow hedges	–	–	(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
Profit for the period	–	–	–	171.8	171.8	2.6	174.4
Losses on cashflow hedges	–	–	(86.5)	–	(86.5)	–	(86.5)
Deferred tax on losses on cashflow hedges	–	–	20.8	–	20.8	–	20.8
Amounts on cash flow hedges transferred to the income statement	–	–	3.7	–	3.7	–	3.7
Deferred tax on transfers to the income statement	–	–	(0.9)	–	(0.9)	–	(0.9)
Exchange movement on translation of overseas results and net assets	–	–	(1.4)	–	(1.4)	–	(1.4)
Actuarial losses	–	–	–	(110.7)	(110.7)	–	(110.7)
Tax on actuarial losses	–	–	–	26.6	26.6	–	26.6
Deferred tax arising from rate change	–	–	–	1.7	1.7	–	1.7
Total comprehensive income for the period	–	–	(64.3)	89.4	25.1	2.6	27.7
Share options and LTIPs							
- proceeds from shares issued	0.4	3.8	–	–	4.2	–	4.2
- value of employees' services	–	–	–	4.5	4.5	–	4.5
- free shares issued	–	–	–	(1.8)	(1.8)	–	(1.8)
Current tax on share based payments	–	–	–	0.4	0.4	–	0.4
Deferred tax on share based payments	–	–	–	0.3	0.3	–	0.3
Dividends paid	–	–	–	(159.0)	(159.0)	(1.0)	(160.0)
At 31 March 2012	**232.6**	**83.8**	**400.2**	**256.9**	**973.5**	**7.9**	**981.4**

Consolidated balance sheet

At 31 March 2012

	Note	**2012 £m**	2011 £m
Non-current assets			
Goodwill		**44.9**	68.3
Other intangible assets		**116.0**	134.9
Property, plant and equipment		**6,577.8**	6,427.0
Interests in joint ventures		**0.2**	0.2
Interests in associates		**4.6**	4.8
Derivative financial instruments		**132.6**	188.1
Available for sale financial assets		**0.1**	0.1
		6,876.2	6,823.4
Current assets			
Inventory		**34.4**	27.1
Trade and other receivables		**479.4**	478.5
Derivative financial instruments		**30.0**	4.3
Cash and cash equivalents		**295.1**	315.2
		838.9	825.1
Total assets		**7,715.1**	7,648.5
Current liabilities			
Borrowings		**(89.3)**	(23.9)
Derivative financial instruments		**(0.5)**	(0.1)
Trade and other payables		**(397.6)**	(391.2)
Current income tax liabilities		**(46.5)**	(67.0)
Provisions for liabilities and charges		**(17.0)**	(12.6)
		(550.9)	(494.8)
Non-current liabilities			
Borrowings		**(4,309.5)**	(4,320.5)
Derivative financial instruments		**(288.0)**	(122.4)
Trade and other payables		**(411.0)**	(367.8)
Deferred tax		**(801.5)**	(919.4)
Retirement benefit obligations	9	**(345.8)**	(292.1)
Provisions for liabilities and charges		**(27.0)**	(25.4)
		(6,182.8)	(6,047.6)
Total liabilities		**(6,733.7)**	(6,542.4)
Net assets		**981.4**	1,106.1
Equity			
Called up share capital		**232.6**	232.2
Share premium account		**83.8**	80.0
Other reserves		**400.2**	464.5
Retained earnings		**256.9**	323.1
Equity attributable to owners of the company		**973.5**	1,099.8
Non-controlling interests		**7.9**	6.3
Total equity		**981.4**	1,106.1

Consolidated cash flow statement

Year ended 31 March 2012

	Note	2012 £m	2011 £m
Cash generated from operations	10	**725.9**	753.0
Tax paid		**(72.0)**	(32.4)
Net cash generated from operating activities		**653.9**	720.6
Investing activities			
Interest received		**6.7**	10.3
Proceeds on disposal of property, plant and equipment and intangible assets		**9.1**	5.1
Purchases of intangible assets		**(12.0)**	(20.9)
Purchases of property, plant and equipment		**(371.1)**	(403.1)
Contributions and grants received		**22.8**	19.4
Net cash used in investing activities		**(344.5)**	(389.2)
Financing activities			
Interest paid		**(203.5)**	(179.8)
Closed out swap		**–**	20.5
Interest element of finance lease payments		**(13.6)**	(10.8)
Dividends paid to shareholders of the parent		**(159.0)**	(169.4)
Dividends paid to non-controlling interests		**(1.0)**	(1.5)
Repayments of borrowings		**(157.4)**	(28.7)
Repayments of obligations under finance leases		**(47.6)**	(47.3)
New loans raised		**250.0**	171.2
Issues of shares		**4.2**	4.7
Purchase of own shares		**(1.8)**	(2.0)
Net cash used in financing activities		**(329.7)**	(243.1)
(Decrease)/increase in cash and cash equivalents		**(20.3)**	88.3
Net cash and cash equivalents at beginning of period		**315.2**	227.8
Effect of foreign exchange rates		**(0.2)**	(0.9)
Net cash and cash equivalents at end of period		**294.7**	315.2
Net cash and cash equivalents comprise:			
Total cash and cash equivalents		**295.1**	315.2
Bank overdrafts		**(0.4)**	–
Net cash and cash equivalents at end of period		**294.7**	315.2

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 2012 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union.

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 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 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.

2 Segmental analysis

The group is organised into two main 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.

2012	Severn Trent Water £m	Severn Trent Services £m
External sales	1,456.1	313.3
Inter-segment sales	1.4	19.0
Total sales	**1,457.5**	**332.3**
Profit before interest, tax and exceptional items	**500.0**	**18.0**
Exceptional items	10.3	(44.7)
Profit/(loss) before interest and tax	**510.3**	**(26.7)**

Profit before interest, tax and exceptional items is stated after:

Amortisation of intangible assets	28.7	1.9
Depreciation of property, plant and equipment	252.1	5.9
Profit on disposal of fixed assets	(4.2)	(0.2)

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)

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

	2012 £m	2011 £m
Underlying PBIT		
- Severn Trent Water	**500.0**	503.7
- Severn Trent Services	**18.0**	25.7
- Corporate and other costs	**(15.3)**	(12.5)
Consolidation adjustments	**1.5**	2.2
Group underlying PBIT	**504.2**	519.1
Exceptional operating costs		
- Severn Trent Water	**10.3**	(13.0)
- Severn Trent Services	**(44.7)**	(4.5)
- Corporate and other	**–**	(3.9)
Share of results of associates and joint ventures	**0.1**	0.1
Net finance costs	**(245.5)**	(230.6)
Losses on financial instruments	**(67.7)**	(14.2)
Profit before tax	**156.7**	253.0

3 Exceptional items before tax

	2012	2011
	£m	£m
Exceptional operating costs		
Severn Trent Water		
Restructuring costs	**11.5**	13.0
Curtailment gains on defined benefit pension schemes	**(21.8)**	–
	(10.3)	13.0
Severn Trent Services		
Provisions for commercial disputes and bad debts	**23.1**	–
Curtailment gains on defined benefit pension schemes	**(1.3)**	–
Impairment of goodwill	**22.9**	–
Restructuring costs	**–**	0.7
Costs relating to regulatory matters (see note 11)	**–**	3.8
	44.7	4.5
Corporate and Other		
Costs relating to regulatory matters (see note 11)	**–**	3.9
	–	3.9
Total exceptional operating costs	**34.4**	21.4
Exceptional finance costs		
Costs incurred on early redemption of debt	**16.5**	–
Exceptional items before tax	**50.9**	21.4

4 Net finance costs

	2012			2011
	Before exceptional costs £m	Exceptional costs £m	Total £m	£m
Investment income				
Bank deposits	**4.1**	**-**	**4.1**	3.8
Other financial income	**2.9**	**-**	**2.9**	3.7
Total interest revenue	**7.0**	**-**	**7.0**	7.5
Expected return on defined benefit scheme assets	**100.7**	**-**	**100.7**	93.2
	107.7	**-**	**107.7**	100.7
Finance costs				
Interest on bank loans and overdrafts	**(28.9)**	**-**	**(28.9)**	(25.3)
Interest on other loans	**(198.9)**	**-**	**(198.9)**	(195.7)
Interest on finance leases	**(9.7)**	**-**	**(9.7)**	(11.1)
Total borrowing costs	**(237.5)**	**-**	**(237.5)**	(232.1)
Other financial expenses	**(1.5)**	**(16.5)**	**(18.0)**	(0.8)
Interest cost on defined benefit scheme obligations	**(97.7)**	**-**	**(97.7)**	(98.4)
Total finance costs	**(336.7)**	**(16.5)**	**(353.2)**	(331.3)
Net finance costs	**(229.0)**	**(16.5)**	**(245.5)**	(230.6)

Exceptional finance costs amounting to £16.5 million were incurred on the early redemption of £150.6 million bonds that were due for repayment in 2014.

In accordance with IAS 23 borrowing costs of £10.5 million (2011:£11.4 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.93% (2011: 5.99%).

5 Losses on financial instruments

	2012 £m	2011 £m
(Loss)/gain on cross currency swaps used as hedging instruments in fair value hedges	**(5.1)**	17.6
Gain/(loss) arising on adjustment for foreign currency debt in fair value hedges	**1.9**	(10.4)
Exchange gain/(loss) on other loans	**41.5**	(1.2)
Loss on cash flow hedges transferred from equity	**(3.7)**	(4.5)
Loss arising on swaps where hedge accounting is not applied	**(102.3)**	(15.7)
	(67.7)	(14.2)

6 Taxation

	2012 £m	2011 £m
Current tax		
Current year at 26% (2011: 28%)	**69.2**	66.5
Prior year at 28% (2011: 30%)	**(8.7)**	(34.4)
Total current tax	**60.5**	32.1
Deferred tax		
Origination and reversal of temporary differences - current year	**(14.0)**	4.6
Origination and reversal of temporary differences - prior year	**4.9**	9.5
Exceptional credit arising from rate change	**(69.1)**	(67.7)
Total deferred tax	**(78.2)**	(53.6)
	(17.7)	(21.5)

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2012		2011	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2011 (2010)	**39.05**	**92.5**	45.61	107.8
Interim dividend for the year ended 31 March 2012 (2011)	**28.04**	**66.5**	26.04	61.6
	67.09	**159.0**	71.65	169.4
Proposed final dividend for the year ended 31 March 2012	**42.06**			
Proposed special dividend	**63.00**			

The proposed final and special dividends are 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

	2012 **£m**	2011 £m
Earnings for the purpose of basic and diluted earnings per share from operations Profit for the period attributable to the equity holders of the company	**171.8**	272.6

Number of shares

	2012 **m**	2011 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**237.0**	236.7
Effect of dilutive potential ordinary shares - share options and LTIPs	**1.2**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**238.2**	237.8

Adjusted earnings per share

	2012 **pence**	2011 pence
Adjusted basic earnings per share	**88.9**	105.6
Adjusted diluted earnings per share	**88.5**	105.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, losses on financial instruments and exceptional items in both 2012 and 2011. 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

	2012 **£m**	2011 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**171.8**	272.6
Adjustments for		
- exceptional items	**50.9**	21.4
- current tax related to exceptional items at 26% (2011: 28%)	**(1.5)**	(4.7)
- losses on financial instruments	**67.7**	14.2
- deferred tax	**(78.2)**	(53.6)
Earnings for the purpose of adjusted basic and diluted earnings per share	**210.7**	249.9

9 Retirement benefit obligations

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

	2012 **£m**	2011 £m
Present value at 1 April	**(292.1)**	(354.9)
Service cost	**(22.6)**	(22.7)
Net curtailment gain	**23.1**	-
Interest cost	**3.0**	(5.2)
Contributions from the sponsoring companies	**53.5**	40.0
Actuarial losses recognised in the statement of comprehensive income	**(110.7)**	50.7
Present value at 31 March	**(345.8)**	(292.1)

10 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2012 £m	2011 £m
Profit before interest and tax	**469.8**	497.7
Depreciation of property, plant and equipment	**256.0**	251.5
Amortisation of intangible assets	**30.8**	25.4
Exceptional impairment	**22.9**	–
Pension service cost	**22.6**	22.7
Curtailment gain	**(23.1)**	–
Pension contributions	**(53.5)**	(40.0)
Share based payments charge	**4.1**	4.6
Profit on sale of property, plant and equipment and intangible assets	**(4.4)**	(2.6)
Deferred income movement	**(8.7)**	(8.4)
Provisions charged to the income statement	**16.8**	6.8
Utilisation of provisions for liabilities and charges	**(11.1)**	(19.0)
Increase in inventory	**(7.4)**	(0.5)
Decrease/(increase) in amounts receivable	**6.1**	(7.5)
Increase in amounts payable	**5.0**	22.3
Cash generated from operations	**725.9**	753.0
Tax paid	**(72.0)**	(32.4)
Net cash generated from operating activities	**653.9**	720.6

b) Exceptional cash flows

	2012 £m	2011 £m
Restructuring costs	**(14.4)**	(27.6)
Regulatory matters	**(3.9)**	(3.8)
Finance costs	**(16.5)**	–
	(34.8)	(31.4)

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

	As at 1 April 2011 £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 2012 £m**
Cash and cash equivalents	315.2	(19.9)	–	–	(0.2)	–	**295.1**
Bank overdrafts	–	(0.4)	–	–	–	–	**(0.4)**
Net cash and cash equivalents	315.2	(20.3)	–	–	(0.2)	–	**294.7**
Bank loans	(846.8)	1.9	–	(7.6)	–	–	**(852.5)**
Other loans	(3,230.9)	(94.5)	1.9	(46.0)	41.5	1.1	**(3,326.9)**
Finance leases	(266.7)	47.6	–	–	–	0.1	**(219.0)**
Cross currency swaps	160.4	–	(26.6)	–	–	2.1	**135.9**
Net debt	(3,868.8)	(65.3)	(24.7)	(53.6)	41.3	3.3	**(3,967.8)**

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.

The group has given certain guarantees in respect of the borrowings of its associate, Servizio Idrico Integrato S.c.p.a. The guarantees are limited to €11.2 million (2011: €11.2 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

b) Disposal of subsidiaries

The group has given certain guarantees and indemnities in relation to disposals of businesses.

Following a hearing in the Commercial Court in Belgium in February 2010 in relation to a claim from Veolia Proprete S.A. ('Veolia') arising from the sale of Biffa Belgium to Veolia in 2006, the Court rendered judgment in favour of the group on 1 April 2010 and declared all of Veolia's claims to be unfounded. Veolia has filed an appeal against this decision, however, the group considers that Veolia's case remains unfounded and no provision has been recorded in respect of this matter.

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

On 17 December 2010 Severn Trent Plc, Severn Trent Water Limited and Severn Trent Laboratories Limited received 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. 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 42.06 pence per share and a special dividend of 63.00 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. 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 18 July 2012.

APPENDIX

KPI performance 2011/12 vs. 2010/11

Description	Year	Basis	Note	Lower Quartile	Median	Upper Quartile	No Benchmark
1. Lost time incidents per 100,000 hrs worked	2012	MAT	1			0.30	
	2011					0.37	
2. Employee motivation %	2012	QR	2		75%		
	2011				74%		
3. Water quality (test failure rate) ppm	2012	MAT			225		
	2011					210	
4. SIM - Qualitative	2012	MAT	3		3.96		
	2011				-		
5. SIM - Quantitative	2012	MAT	3			205	
	2011					-	
6. Unplanned interruptions > 6 hrs per 1,000 properties	2012	MAT	3	11.12			
	2011			23.85			
7. Properties at risk of low pressure per 1,000 properties	2012	NPR	3			0.06	
	2011					0.07	
8. First time job resolution %	2012	MAT	4			93.8%	
	2011					97.5%	
9. Non performance against Regulatory Obligations %	2012	QR	4			6%	
	2011					4%	
10. Capex (net)	2012	ACT	5,6				4.31%
	2011						7.40%
11. Capital process quality	2012	MAT	4				972
	2011						-
12. Debtor days	2012	ACT	6		35.8		
	2011				33.8		
13. Opex - £m	2012	ACT	5,6				548
	2011						519
14. Efficient billing factor per 1,000 properties	2012	ACT	4				3,306
	2011						-
15. Pollution incidents (cat 1, 2 & 3)	2012	MAT	7		458		
	2011				378		
16. Sewer flooding incidents - other causes per 1,000 properties	2012	MAT	3,8		0.141		
	2011				0.154		
17. Sewage Treatment Works - failing consent limits %	2012	ACT	7	2.54%			
	2011				1.69%		
18. Supply availability %	2012	ACT	4	96.5%			
	2011			94.4%			
19. Net Energy Use - Gwh	2012	MAT	4			679	
	2011					706	
20. Leakage Ml/d	2012	MLE	3			464	
	2011				497		

Notes:
Benchmarks updated in September. Excludes PDaS.

MAT = Moving Annual Total
QR = Quarterly Review
NPR = Number of properties on register
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.
3. As reported in Annual Return to Ofwat. Performance figures are provisional at this stage as the Annual Return will be submitted to Ofwat on in July 2012.
4. Actual performance based partially or wholly on internal data.
5. Benchmark data is unavailable until September 2012.
6. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2012
7. Measure for calendar year to 31 December 2011.
8. Includes minor escape of sewage. Prior year restated.

KPIs 4 & 5
SIM (Service Incentive Mechanism). Consists of 2 equally weighted measures: Quantitative looks at the number of complaints, unwanted contacts and engaged / abandoned calls. Qualitative looks at the end to end customer service by completing 200 customers surveys 4 times a year. Customers rate us based on a score of 1 (very dissatisfied) to 5 (very satisfied). The 2 SIM measures replace customer written complaints per 1,000 properties and first time call resolution for billing.

KPI 11
Capital process quality. This covers the capital work undertaken by the One Supply Chain. There is no external benchmark available for this measure. The KPI is based on an index of four areas (people, process, customer and finance) incorporating a number of metrics such as health and safety, programme management, customer service, and financial performance.

KPI 14
Efficient billing factor ('000 properties connected). Ofwat have introduced a Billing Incentive which is designed to ensure that companies are appropriately rewarded for the efficiency of their billing in terms of maintaining and growing their chargeable customer base. It looks at the average number of billable properties connected to water services

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).