Preliminary Announcement of Annual Results
30 May 2013
Results for the year to 31 March 2013

Delivering for all stakeholders

Highlights

- Delivering on dividend policy – 8.2% growth vs. 2011/12
- Total shareholder return in the current regulatory period (AMP5)[1] – 72%
- Creating long term value through efficient investment - £555 million invested this year
- Continued growth in RCV[2] from £7,089 million to £7,364 million (+3.9%)
- Delivered significant operational improvements and higher levels of customer service
  - Improved or stable performance on 13 out of 14 Ofwat KPIs year on year
  - Customer satisfaction (SIM score) improving
- Efficiency improvements at Severn Trent Water helping to offset additional infrastructure investments
- Non-regulated business delivered revenue growth year on year[3]
- Well prepared for next price review
- Full year dividend for 2013/14 set to be 80.40p, up 6% in line with current RPI+3% growth policy

1. 1st April 2010 to 31st March 2013. TSR assumes reinvestment of ordinary and special dividends
2. Regulatory Capital Value
3. Excluding the impact of structural changes, exchange movements and exceptionals

	31 March 2013 £m	31 March 2012 £m	Increase/ (decrease) %
Group turnover	1,831.6	1,770.6	3.4%
Underlying group PBIT[1]	498.0	504.2	(1.2%)
Underlying group profit before tax[2]	266.3	275.3	(3.3%)
Profit before tax[3]	215.2	156.7	37.3%
	pence/share	pence/share	
Adjusted basic eps[4]	98.9	88.9	11.2%
Basic earnings per share	95.7	72.5	32.0%
Total ordinary dividends	75.85	70.10	8.2%

1 before exceptional items (see note 3)
2 before exceptional items and losses on financial instruments
3 includes losses on financial instruments of £45.3 million (2012: losses of £67.7 million)
4 before exceptional items, losses on financial instruments and deferred tax

Tony Wray, Chief Executive Severn Trent Plc, said:

"Our focus on continuous improvement has once again delivered a good financial and operational performance.

Severn Trent Water invested £555 million during the year, supporting growth of our RCV by 3.9% to £7,364 million and delivering operational improvements in the areas we targeted, with leakage at a 20 year low and 13 out of the 14 Ofwat key performance indicators (KPIs) showing an improved or stable performance year on year. We expect to invest around £600 million to £620 million this year to further improve our operational performance and service levels.

Customer satisfaction, as measured by the SIM (Service Incentive Mechanism), also continues to improve, and our combined average household water bill remains the lowest in England and Wales.

From a financial perspective, Severn Trent Water delivered further efficiency gains, with PBIT stable year on year, despite incurring additional infrastructure investment costs and costs related to the adoption of private drains and sewers (PDaS), which together totalled £25 million.

In our non-regulated business we delivered like for like revenue growth of 5% as expected, and we continued to invest in growth areas of the business.

For shareholders, we have delivered sustainable, progressive returns, with the full year dividend growing by 8.2%, in line with our policy of growth of RPI+3% until March 2015. In accordance with this policy the dividend for the current year, 2013/14, is set to be 80.40p, an increase of 6%.

For the remainder of AMP5 we will continue to execute on our capital programme of £2.6 billion and expect RCV to grow to £7,997[1] million, representing growth of 24.6% over the AMP.

On the regulatory front, we are pleased to see that the framework for the next price review PR14 is aligned with much of our own thinking, and we look forward to submitting a high quality plan to Ofwat in December of this year."

[1] Based on year end RPI forecast from Experian of 3.4% for 13/14 and 3.3% for 14/15. For RCV values see: www.ofwat.gov.uk/regulating/prs_web_rcvupdates

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am on Thursday 30 May 2013 at 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

Regulated - Severn Trent Water
We continue to make good progress with the additional £150 million 3 year capital investment programme we announced in May 2012. This year we have invested just over a third of the total (£54 million), increasing activity on our trunk mains and sewers, investing more in leakage reduction and making improvements at water treatment works, which supports our RCV growth. This underpins our plans to improve network serviceability, which has now improved to a “stable” rating. Overall our capital programme grew by 17% year on year to £555.4 million (UK GAAP, net of grants and contributions), of which £11 million related to private drains and sewers which we adopted in October 2011.

Customer measured consumption was lower by 1.4% year on year, driven primarily by weaker commercial consumption than expected in the first half of the year, as noted in our interim results in November 2012. This lower annual consumption was compensated by the allowed price increase of 5.2%, leaving turnover up by 3.7% year on year. PBIT was stable year on year, after an increase in infrastructure renewals expenditure of £18.8 million and an increase in costs relating to private drains and sewers of £5.7 million.

In order to give a consistent view of operating costs year on year we have split out the impact of private drains and sewers in the following analysis and in the financial review on page 5. Excluding £10.4 million of costs in the period relating to private drains and sewers, which we adopted in October 2011 (£4.7 million incurred in prior year), operating expenditure was up 2.5%, slightly below the level allowed in the Final Determination on a like for like basis. We were pleased with our cost management, as controllable costs (direct employee costs and hired and contracted net of own work capitalised, plus materials and other costs) were flat year on year. Non-controllable costs (quasi taxes, bad debts, power) increased by 6.6%.

Overall net labour costs, including hired and contracted, were flat year on year. Direct employee costs increased by 12.1% due to the delivery of service improvements, the contracting in of some water testing activities from the now sold Severn Trent Analytical Services and increased capital programme, which was also reflected in labour costs capitalised increasing by 12.9%. Hired and contracted costs were 8.9% lower year on year, due to efficiency improvements.

In non-controllable costs, bad debt was stable at 2.2% of turnover (UK GAAP). Power costs increased by 11.4% due to higher unit price and higher energy usage, as a result of the wet weather. Quasi taxes, including the CRC levy, rates and service charges, increased by 4.5%.

Depreciation was £14.4 million higher period on period due to the impact of capital expenditure increasing the size of the asset base.

Renewable power generated in the year accounted for 23.5% of our gross consumption. Plans are on track to install four wind turbines later this year which will move us further towards our target of 30% of our gross energy needs to be produced from our own renewable resources by 2015.

Turning to our operational performance, 13 out of the 14 Ofwat key performance indicators showed an improved or stable performance year on year. Leakage was reduced to 441 Ml/d, a reduction of 5% year on year and below Ofwat’s target of 468 Ml/d. We also reduced the number of supply interruptions by over 20% year on year, and the serviceability of our water distribution network improved to stable. On the waste water side, we reduced the number of pollution incidents year on year, but did see a rise in internal sewer flooding. This was largely due to the very high rainfall – last year was the second wettest year on record and some areas in our region suffered severe flooding. We also made improvements to reduced the risk of flooding for a further 228 homes, leaving the number of homes on the risk of sewer flooding register at its lowest ever level.

Customer service levels continue to improve, with our SIM (Service Incentive Mechanism) score improving by 12% year on year. This included a 10% improvement in the qualitative element, making Severn Trent

Water the most improved company on this measure (across the industry company scores moved between -5% to +10% year on year), and a 19% improvement in the quantitative element.

Finally, our health and safety performance improved significantly, as measured by the number of lost time incidents, which fell by 30% year on year.

Based on data for 2011/12, benchmarking our Ofwat KPI data reveals 8 KPIs where our performance was upper quartile (4 in the prior year), 4 where our performance was median (7) and 2 where our performance put us in the lower quartile (3). We will update these benchmarks in November when we have KPI data for 2012/13 for the rest of the industry.

Non-regulated

During the year there were a number of structural changes to the non-regulated operations to make them more focused for the future, including the sale of the Metering Services business and Analytical Services as well as a small technology acquisition in Japan. There were also exceptional charges totaling £14.6 million, including a goodwill write down in Spain to reflect the deteriorating macroeconomic outlook, the write down of certain product development expenditure, and restructuring costs in Italy. More details are provided in the exceptional items note on page 7. Excluding the impact of structural changes (i.e. businesses sold and acquisitions) and exchange movements, revenue grew by 5.3%. Underlying PBIT, on the same basis, fell slightly, after another year of investment in business development activities of £3.6 million, which was an increase of £1.6 million year on year. Excluding this investment PBIT would have risen by 6.7%. Reported revenue (including the impact of structural changes) fell by 1.1% and reported underlying PBIT fell by 29.4%, mainly due to the loss of earnings from the Metering Services business and Analytical Services.

In Operating Services, excluding structural changes, revenue was flat, and underlying PBIT was down, largely due to reductions in work volumes in Italy. In the United States we secured 31 new projects and renewed 46 contracts. We expect to see the benefits of our investment in business development in the US in 2013/14. In the UK, our 25 year operation and maintenance contract with the Ministry of Defence (MoD) continued to perform well and cut leakage to an all time low, exceeding the MoD's targets.

In Water Purification (Products) revenue and PBIT both grew year on year due to strong demand for disinfection and filtration products in China, while demand for offshore electrochlorination products in Brazil and Malaysia rose due to increased oil and gas exploration. North America and European markets continued to be more challenging, due to macroeconomic conditions and limited customer investment in water and waste water projects.

Our BALPURE® product line contributed £5.5 million of sales in the year, from zero last year.

In total the Products order book remained healthy, with £49.6 million at the end of March.

Group financial performance

The group has delivered a good financial performance. At the regulated business, Severn Trent Water, revenues were negatively impacted by lower consumption, with bad weather in the early part of the year also driving higher operational activities and thus costs, to meet the operating performance standards our customers and regulators expect. We delivered a good performance on those costs that we directly control. For those costs where we have less influence – power, quasi taxes and bad debts - we saw increases in the first two, while we maintained performance on bad debts at 2.2% of rising revenues (UK GAAP). To complete the picture at Severn Trent Water we maintained our long term plans for investment in year three of this five year regulatory plan and invested £19 million more than the previous year in infrastructure which is expensed under IFRS accounting rules.

In our non regulated business, Severn Trent Services, we refocused its business activities and continued to invest in business development where we see future growth potential. If we exclude these factors the business achieved revenue and profit growth year on year which is encouraging for the future.

The group continued to look to its long term financing, successfully issuing its first bond into the nascent UK retail bond market and issuing a new 13 year bond into the sterling wholesale market raising £500m at 3.625%, the lowest cost Severn Trent has issued in its recent history.

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 £1,831.6 million (£1,770.6 million), an increase of 3.4% over last year.

Underlying group PBIT decreased by 1.2% to £498.0 million (£504.2 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 items before tax of £5.8 million (£50.9 million). Group PBIT increased 4.8% to £492.2 million (£469.8 million).

Severn Trent Water

Turnover in Severn Trent Water increased by 3.7% in 2012/13, to £1,511.0 million. Prices were increased by inflation from 1 April 2012 which gave rise to an increase in turnover of £76.2 million. The wet summer weather reduced consumption from metered customers and overall lower metered consumption year on year reduced turnover by £19.3 million. New growth, net of the impact of meter optants, increased turnover by £1.1 million which was offset by other decreases amounting to £4.5 million.

PBIT before exceptionals was stable year on year at £500.9 million (£500.0 million). Direct operating costs increased by £19.4 million (see below), there was an increase in infrastructure renewals expenditure of £18.8 million and depreciation, profit on disposal of fixed assets and release of deferred income, increased by £14.4 million.

In the following analysis costs related to private drains and sewers of £10.4 million (£4.7 million incurred in the prior year) have been excluded to give a consistent view of operating costs year on year. In total, controllable costs were up £1.2 million, or 0.3%. Employment costs increased by 12.1% to £225.0 million partly due to delivery of service improvements and the growth in our capital programme which led to labour and related overheads capitalised £9.9 million higher than in 2012 at £86.8 million. Hired and contracted costs decreased by £13.6 million to £139.1 million. Overall net labour costs, including hired and contracted, were 0.3% higher year on year. Raw materials and consumables at £43.4 million were 7.3% lower than the same period in the prior year. Other operating costs increased by £3.8 million to £46.7 million.

In total, non-controllable costs were up £12.5 million or 6.6%. Bad debts were 5.0% higher at £31.8 million, representing 2.2% of turnover (UK GAAP, stable year on year). An increase of £6.1 million in net power costs to £57.9 million arose due to increased consumption as a result of the wet weather and higher strike prices on our energy swaps. Quasi taxes, which comprise rates, service charges and the CRC, increased by £4.9 million to £112.5 million, mainly due to an increase in rates.

During the financial year, Severn Trent Water invested £555.4 million (UK GAAP after deducting grants and contributions) (£474.2 million) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure renewals expenditure of £147.7 million (£128.9 million), charged to the income statement under IFRS.

Non-regulated – Severn Trent Services

	2013	2012	Increase/ (decrease)
	£m	£m	%
Turnover			
Services as reported	**328.5**	332.3	(1.1%)
Structural changes	**(21.1)**	(40.7)	
Impact of exchange rate fluctuations	**-**	0.3	
Like for like	**307.4**	291.9	5.3%

	2013	2012	Increase/ (decrease)
	£m	£m	%
Underlying PBIT			
Services as reported	**12.7**	18.0	(29.4%)
Structural changes	**1.2**	(3.5)	
Impact of exchange rate fluctuations	**-**	(0.1)	
Like for like	**13.9**	14.4	(3.5%)

In Severn Trent Services, the sale of our Analytical Services and Metering Services businesses further focussed this segment on the water and waste water markets we serve. There was like for like growth in sales year on year in both our core Operating Services and Water Purification businesses. However, both businesses were impacted by exceptional costs totalling £14.6 million, the detail of which is in the exceptional items section below.

Reported turnover was £328.5 million in 2012/13, a decrease of 1.1% vs. the prior year, and reported underlying PBIT decreased by 29.4% to £12.7 million.

After adjusting for changes in the group and the impact of exchange rate fluctuations, turnover on a like for like constant currency basis was up 5.3% and underlying PBIT measured on the same basis was down 3.5%, after investment in growth areas of the business of £3.6 million.

Operating Services

Turnover for the year on a like for like basis was £194.1 million, an increase of 0.2% compared with the prior year.

Water Purification

Turnover for the year on a like for like basis was £113.4 million, an increase of 15.7% compared with the prior year.

Corporate and other

Corporate overheads amounted to £14.1 million (£15.6 million). Our other businesses generated an underlying loss of £3.2 million (profit of £0.1 million). This included an underlying loss on our captive insurance activity of £1.8 million and an underlying loss of £0.9 million in our renewables business arising mainly from feasibility and other similar costs written off. There were exchange gains in Corporate of £0.3 million (£0.1 million).

Exceptional items before tax

There were net exceptional items before tax in the year to 31 March 2013 of £5.8 million (£50.9 million) including exceptional operating costs of £4.3 million (£34.4 million) which are described in further detail below and in Severn Trent Services a net exceptional loss on disposal of businesses of £1.5 million.

Exceptional operating items included:

- In Severn Trent Water, a profit of £13.3 million arising from the disposal of a number of properties;
- In Severn Trent Services exceptional costs of £14.6 million comprising:
    - Impairment charges totalling £9.1 million; including writing off the remaining goodwill invested in Spain (£4.6 million) as economic conditions in this country show no signs of improvement and the balance (£4.5 million) impairing all historical investment in the development of a purification product which is showing poor performance in testing;
    - Provisions totalling £5.5 million; including provisions for a commercial legal dispute and for senior personnel restructuring charges at Operating Services in Italy; and
- In Corporate there were exceptional costs of £3.0 million related to professional fees for a transaction that did not proceed.

Net finance costs

The group's net finance costs before exceptional items were £231.9 million, compared with £229 million in the prior year. There were exceptional finance costs in the prior year of £16.5 million arising from the early redemption of debt. Total finance costs were £231.9 million (£245.5 million).

The effective interest rate, including index linked debt, for 2012/13 was 5.9% (6.4%). The cash interest rate was 4.9% (5.0%). RPI was lower year on year resulting in a reduction in the non-cash interest charge. This was offset by an increased cash interest charge on a higher level of net debt.

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 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.

Where the derivatives are held to their full term, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives, unless crystallised, 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 3.3% to £266.3 million (£275.3 million). Group profit before tax was £215.2 million (£156.7 million).

Taxation

The current year tax charge for 2012/13 before exceptional items was £57.1 million (charge of £69.2 million). A prior year current tax credit of £29.2 million (credit of £8.7 million) has arisen due to adjustments to prior year tax computations. These primarily related to an industry agreement over the treatment of infrastructure income. The deferred tax credit before exceptional tax was £4.7 million (credit of £9.1 million).

The group's UK subsidiary companies have adopted the new accounting standard FRS 101 in the current year. This has changed the statutory accounts that form the basis for those companies' corporation tax computations. The most significant impact of this change is that certain amounts that had been taxed in previous years will now be taxed in future periods. Therefore, to prevent such items being taxed twice, the tax already paid on such items is repayable. The impact of this change was an exceptional credit of £40.5 million to current tax and an exceptional charge of £38.8 million to deferred tax.

There was a further exceptional credit to deferred tax of £36.7 million (£69.1 million) arising from the reduction in corporation tax rate from 24% to 23% with effect from 1 April 2013.

The total tax credit for the year was £15.2 million (credit of £17.7 million).

See note 6 for further detail.

The underlying effective rate of current tax, excluding prior year credits and exceptional tax credits, calculated on profit before tax, exceptional items before tax and gains/(losses) on financial instruments was 25.4% (25.7%).

We expect the effective rate of current tax, as defined above, for 2013/14 to be in the range of 23% to 25%.

Profit for the period and earnings per share

Profit for the period was £230.4 million (£174.4 million).

Adjusted basic earnings per share (before exceptional items, gains/(losses) on financial instruments and deferred tax) were 98.9 pence (88.9 pence) (see note 8). Basic earnings per share were 95.7 pence (72.5 pence).

Cash flow

	2013 £m	2012 £m
Cash generated from operations	**731.2**	725.9
Net capital expenditure	**(401.8)**	(351.2)
Net interest paid	**(233.4)**	(210.4)
Tax (paid)/received	**(72.5)**	(72.0)
Other cash flows	**(0.5)**	(1.0)
Free cash flow	**23.0**	91.3
Acquisitions and disposals	**11.1**	-
Dividends	**(322.0)**	(159.0)
Net issue of shares	**5.3**	2.4
Change in net debt from cash flows	**(282.6)**	(65.3)
Non cash movements	**(46.9)**	(33.7)
Change in net debt	**(329.5)**	(99.0)
Net debt 1 April	**(3,967.8)**	(3,868.8)
Net debt at 31 March	**(4,297.3)**	(3,967.8)
Net debt comprises:		
Cash and cash equivalents	**403.6**	295.1
Bank overdrafts	**(0.4)**	(0.4)
Cross currency swaps hedging debt	**100.7**	135.9
Bank loans	**(758.7)**	(852.5)
Other loans	**(3,840.9)**	(3,326.9)
Finance leases	**(201.6)**	(219.0)
	(4,297.3)	(3,967.8)

Cash generated from operations was £731.2 million (£725.9 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £401.8 million (£351.2 million). Net interest paid increased to £233.4 million (£210.4 million).

Net debt at 31 March 2013 was £4,297.3 million (£3,967.8 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 83.6% (80.2%). Net debt, expressed as a percentage of RCV at 31 March 2013 of £7,364 million was 58.4% (56.0%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.4 times (3.4 times) by profit before interest, tax, depreciation and exceptional items, and 2.1 times (2.2 times) by underlying PBIT.

The fair value of the group's net debt at 31 March 2013 is estimated to be £5,071.1 million (£4,579.3 million) compared to the book value of £4,297.3 million (£3,967.8 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 an estimate of the group's credit risk.

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 were renewed as at 31 March 2010. The next triennial valuation as at 31 March 2013 is currently underway. 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.

The final salary sections of the pension schemes were closed to new entrants in 2006 and the age profile of scheme participants is expected to rise and hence service costs are also expected to rise until the schemes are closed to future accrual.

The defined benefit pension schemes will close to future accrual on 31 March 2015. A new defined contribution pension scheme has been established and members of the defined benefit pension schemes will then become members of the new defined contribution pension scheme. The existing defined contribution pension scheme will also be replaced by the new pension arrangements with effect from 1 April 2015. From 1 April 2012 new employees have been automatically enrolled into this scheme and those employees who were not members of a Severn Trent scheme were automatically enrolled into this scheme from 1 April 2013.

The key actuarial assumptions for the defined benefit schemes have been updated for these accounts. On an IAS 19 basis, the estimated net position of the schemes was a deficit of £383.7 million as at 31 March 2013. This compares to a deficit of £345.8 million as at 31 March 2012. The movements in the net deficit are summarised in note 9. The funding level has remained constant at 81.8%.

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

	2013 %	2012 %
Price inflation	**3.2**	3.1
Salary increases	**3.0**	3.6
Pension increases in payment	**3.2**	3.1
Pension increases in deferment	**3.2**	3.1
Discount rate	**4.4**	4.9
Long term rate of return on equities	**6.6**	6.8
Remaining life expectancy for members currently aged 65 (years)		
- men	**21.5**	21.2
- women	**24.6**	25.1
Remaining life expectancy at age 65 for members currently aged 45 (years)		
- men	**22.7**	21.8
- women	**26.2**	25.9

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 £38 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £35 million
Mortality	Increase in life expectancy by 1 year	Increase by £55 million

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 2013 the group had £403.6 million in cash and cash equivalents and committed undrawn facilities amounting to £500 million. Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs up to January 2015.

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 2013, interest rates for 76.8% of the group's net debt of £4,297.3 million were fixed.

The group holds interest rate swaps with a net notional principal of £364.9 million and cross currency swaps with a net notional principal of £610.2 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 the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a charge of £26.0 million in relation to these instruments.

Some of these swaps, which were entered into in 2000 – 2005, include options for the counterparty to terminate the contracts at specified points in their lives. During the year the group terminated three of these contracts at a cash outlay of £44.3 million. These swaps had a notional principal amount of £100 million. As a result of the termination the corresponding amount of our net debt will now be subject to current market interest rates, which are presently lower than the amounts that were payable under the swaps.

The fair value at 31 March 2013 of remaining swaps with termination options was a liability of £110.0 million and their aggregate notional principal amount was £275.0 million. The next termination options for the remaining swaps occur between November 2014 and May 2016 and the group will actively manage its exposure to these contracts over that period.

The group has entered into a series of forward starting interest rate swaps with a notional principal amount of £450 million that hedge the interest rate risk on the anticipated borrowing requirements of Severn Trent Water for AMP5. These swaps are treated as cash flow hedges and the changes in fair value are taken to other comprehensive income.

The group manages its electricity costs through a combination of forward price contracts and financial derivatives. All of our power requirements for the first four years of AMP5 and some of the remaining year have been hedged in this way, at prices below those allowed in the Final Determination.

In July 2012 the group issued a £75 million sterling denominated RPI linked bond in the UK retail bond market. A coupon of 1.3% is payable on the notes which are due to mature in July 2022.

In January 2013 the group issued £500 million 3.625% Guaranteed Notes under its Euro Medium Term Note programme. The notes have a 13 year term.

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+

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 policy of increasing the dividend by RPI+3% until March 2015, using November RPI of the prior year, the board has proposed a final ordinary dividend of 45.51 pence (42.06 pence). This would give a total ordinary dividend for the year of 75.85 pence, an increase of 8.2% over the 2011/12 total ordinary dividend (70.10 pence). The final ordinary dividend is payable on 26 July 2013 to shareholders on the register at 21 June 2013. The policy for the remainder of the AMP5 period remains unchanged.

Regulatory update

Through our Changing Course publications and other platforms we have been advocating the reform of the water industry over a number of years. We are pleased to see that our thought leadership on many issues is reflected in the regulatory changes now being proposed by Ofwat and the policy changes being proposed by Defra. We welcome the approach being taken by the Government and Ofwat and believe we are in a strong position to benefit from them.

We are supportive of the increased role for customer and stakeholder engagement in developing company plans for the period 2015-2020, and the additional flexibility companies will have in the delivery of those plans, by setting higher level outcomes and choosing the risk / reward balance they are prepared to accept.

We were pleased to see no changes to the regulatory capital value, and the continuation of indexing both revenues and RCV to RPI (Retail Price Index). Ofwat will continue to set an allowed return on the RCV for each 5 year period.

However, PR14 will include 4 price controls – in retail operations one for household and one for non-household, and in wholesale one for water and one for sewage. Companies will propose outcomes and incentives as part of their business plan, with new incentives planned on water trading and abstraction. For both of the retail controls Ofwat are requesting companies propose their own profit margins. A total expenditure, or "totex", menu approach to expenditure is to be introduced, with choices of remuneration on a pay as you go basis (so called fast money) or through the RCV (slow money).

We support these changes, which are aligned with our own proposals and Severn Trent is well prepared to take advantage of opportunities that the regulatory changes will bring.

We have made good progress in preparing a high quality business plan to be submitted in December 2013, and over the past year have spoken to over 100 stakeholders (including local authorities, housing associations, and environmental groups) and, using market research, over 7,000 customers. In April we issued the next phase of our customer consultation "Your Water Your Choices" our outline proposals for the period 2015-2020. Our plan sets out the service improvements we want to deliver, how we'll invest in our networks and our company, and what it will mean for our 8 million customers and their bills. We set out ten long-term objectives to meet our customers' and stakeholders' expectations. The consultation is open until 31 May 2013 (www.severntrent.com/future/plans-and-strategy/your-choices).

Regarding the proposed modifications to licences, Severn Trent Water agreed in January to accept the Section 13 Notice issued by Ofwat on 21 December 2012 setting out proposed changes to its Licence. We continue to be supportive of the principles of reform of the water industry and will continue to contribute constructively to help shape the future regulatory framework.

Principal risks and uncertainties

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

Customer Perception:

- Effectively improving and maintaining our performance in relation to customer service in order to deliver what our customers tell us they want.
- Responding effectively to the opening up of the business retail market to competition.

Legal and Regulatory Environment:

- Effectively anticipating and/or influencing future developments in the UK Water industry in order for our business plans to remain sustainable.
- Securing support from Ofwat for our STW business plan for 2015 to 2020 and achieving all of the challenging targets agreed with Ofwat for our business plan from 2010 to 2015 failure of which could result in changes to future funding.
- 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.

Operations, assets and people:

- 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 failure of 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.

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 the remainder of AMP5 we maintain our plans to deliver efficiencies on operational expenditure, continue to improve customer service levels and continue re-investing the efficiencies in our capital programme.

We plan to invest £2.6 billion over the AMP5 period, in line with capex allowed in the final determination, consistent with RCV growing from £6,418 million to £7,997 million by March 20151. As we look to AMP 6, we still see significant drivers for capital expenditure, in addition to maintaining the networks and standards we have already achieved, we have further environmental quality standards to achieve such as the Water Framework Directive and for our customers we have the challenge of delivering security of supply of water resources and protection from the effects of flooding on the sewerage networks.

In our non-regulated business we will continue to pursue value creation opportunities in renewable power generation, including food waste anaerobic digestion, and the development of surplus land.

The group maintains a strong, flexible and sustainable balance sheet, the structure of which is kept under regular review. The management team of Severn Trent has a clear and focused strategy - by delivering continuous improvement and higher standards we aim to achieve higher levels of operational excellence and sustainable, attractive returns to shareholders. We are committed to our dividend policy of growth of RPI+3% until March 2015.

2013/14

Prices at Severn Trent Water rose by 2.0% in April 2013, reflecting November RPI of 3.0% and a k-factor of minus 1%.

We expect operating expenditure to be driven by inflation and continued investment in our networks, partially offset by efficiency savings from our ongoing improvement programmes.

We estimate net capital expenditure (UK GAAP, net of grants and contributions) will be in the range £600 million to £620 million. The level of net infrastructure renewals expenditure included in this range is expected to be £135 million to £145 million.

For our non-regulated business, we expect to see the benefits of our previous investments in growth areas.

The group interest charge is expected to be higher year on year due to higher net debt and adoption of the revisions to IAS19.

Under our dividend policy of RPI+3% growth the dividend is set to be 80.40p, representing growth of 6% year on year[2].

Severn Trent Plc will announce its Interim results for the period ending 30 September 2013 on 26 November 2013.

[1] Based on year end RPI forecast from Experian of 3.4% for 13/14 and 3.3% for 14/15. For RCV values see: www.ofwat.gov.uk/regulating/prs_web_rcvupdates
[2] Based on November 2012 RPI of 3%

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 2013

	Notes	2013 £m	2012 £m
Turnover		**1,831.6**	1,770.6
Operating costs before exceptional items		**(1,333.6)**	(1,266.4)
Exceptional operating costs	3	**(4.3)**	(34.4)
Total operating costs		**(1,337.9)**	(1,300.8)
Exceptional loss on disposal of businesses	3	**(1.5)**	–
Profit before interest, tax and exceptional items	2	**498.0**	504.2
Exceptional items before interest and tax	3	**(5.8)**	(34.4)
Profit before interest and tax		**492.2**	469.8
Finance income	4	**90.8**	107.7
Finance costs excluding exceptional costs	4	**(322.7)**	(336.7)
Exceptional finance costs	4	**–**	(16.5)
Net finance costs		**(231.9)**	(245.5)
Losses on financial instruments	5	**(45.3)**	(67.7)
Share of results of associates and joint ventures		**0.2**	0.1
Profit before tax, losses on financial instruments and exceptional items		**266.3**	275.3
Exceptional items before tax	3	**(5.8)**	(50.9)
Losses on financial instruments	5	**(45.3)**	(67.7)
Profit on ordinary activities before taxation		**215.2**	156.7
Current tax excluding exceptional credit	6	**(27.9)**	(60.5)
Deferred tax excluding exceptional charge/(credit)	6	**4.7**	9.1
Exceptional tax credit	6	**38.4**	69.1
Total taxation	6	**15.2**	17.7
Profit for the year		**230.4**	174.4
Attributable to:			
Owners of the company		**227.5**	171.8
Non-controlling interests		**2.9**	2.6
-		**230.4**	174.4
Earnings per share (pence)			
Basic	8	**95.7**	72.5
Diluted	8	**95.2**	72.1

Consolidated statement of comprehensive income

Year ended 31 March 2013

	2013 £m	2012 £m
Profit for the year	**230.4**	174.4
Losses on cash flow hedges taken to equity	**(39.0)**	(86.5)
Deferred tax on losses on cash flow hedges taken to equity	**9.0**	20.8
Amounts on cash flow hedges transferred to the income statement	**14.8**	3.7
Deferred tax on transfers to income statement	**(3.4)**	(0.9)
Exchange movement on translation of overseas results and net assets	**5.4**	(1.4)
Actuarial losses on defined benefit pension schemes	**(54.2)**	(110.7)
Tax on actuarial losses	**12.5**	26.6
Deferred tax movement arising from rate change	**(3.4)**	1.7
Other comprehensive loss for the year	**(58.3)**	(146.7)
Total comprehensive income for the year	**172.1**	27.7
Attributable to:		
Owners of the company	**168.7**	25.1
Non-controlling interests	**3.4**	2.6
	172.1	27.7

Consolidated statement of changes in equity

Year ended 31 March 2013

	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 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 cash flow hedges	–	–	(86.5)	–	(86.5)	–	(86.5)
Deferred tax on losses on cash flow 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
Profit for the period	–	–	–	227.5	227.5	2.9	230.4
Losses on cash flow hedges	–	–	(39.0)	–	(39.0)	–	(39.0)
Deferred tax on losses on cash flow hedges	–	–	9.0	–	9.0	–	9.0
Amounts on cash flow hedges transferred to the income statement	–	–	14.8	–	14.8	–	14.8
Deferred tax on transfers to the income statement	–	–	(3.4)	–	(3.4)	–	(3.4)
Exchange movement on translation of overseas results and net assets	–	–	4.9	–	4.9	0.5	5.4
Actuarial losses	–	–	–	(54.2)	(54.2)	–	(54.2)
Tax on actuarial losses	–	–	–	12.5	12.5	–	12.5
Deferred tax arising from rate change	–	–	–	(3.4)	(3.4)	–	(3.4)
Total comprehensive income for the period	–	–	(13.7)	182.4	168.7	3.4	172.1
Share options and LTIPs							
- proceeds from shares issued	0.7	5.9	–	–	6.6	–	6.6
- value of employees' services	–	–	–	6.9	6.9	–	6.9
- free shares issued	–	–	–	(1.3)	(1.3)	–	(1.3)
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Transfer of infrastructure reserve	–	–	(314.2)	314.2	–	–	–
Dividends paid	–	–	–	(322.0)	(322.0)	(0.5)	(322.5)
At 31 March 2013	**233.3**	**89.7**	**72.3**	**437.9**	**833.2**	**10.8**	**844.0**

Consolidated balance sheet

At 31 March 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Goodwill		**41.7**	44.9
Other intangible assets		**99.3**	116.0
Property, plant and equipment		**6,760.0**	6,577.8
Interests in joint ventures		**0.3**	0.2
Interests in associates		**4.7**	4.6
Derivative financial instruments		**130.1**	132.6
Available for sale financial assets		**0.1**	0.1
		7,036.2	6,876.2
Current assets			
Inventory		**32.1**	34.4
Trade and other receivables		**506.0**	479.4
Current tax receivable		**40.5**	–
Derivative financial instruments		**1.0**	30.0
Cash and cash equivalents		**403.6**	295.1
		983.2	838.9
Total assets		**8,019.4**	7,715.1
Current liabilities			
Borrowings		**(170.3)**	(89.3)
Derivative financial instruments		**(0.6)**	(0.5)
Trade and other payables		**(399.0)**	(397.6)
Current income tax liabilities		**–**	(46.5)
Provisions for liabilities and charges		**(11.1)**	(17.0)
		(581.0)	(550.9)
Non-current liabilities			
Borrowings		**(4,631.3)**	(4,309.5)
Derivative financial instruments		**(309.6)**	(288.0)
Trade and other payables		**(453.4)**	(411.0)
Deferred tax		**(785.8)**	(801.5)
Retirement benefit obligations	9	**(383.7)**	(345.8)
Provisions for liabilities and charges		**(30.6)**	(27.0)
		(6,594.4)	(6,182.8)
Total liabilities		**(7,175.4)**	(6,733.7)
Net assets		**844.0**	981.4
Equity			
Called up share capital		**233.3**	232.6
Share premium account		**89.7**	83.8
Other reserves		**72.3**	400.2
Retained earnings		**437.9**	256.9
Equity attributable to owners of the company		**833.2**	973.5
Non-controlling interests		**10.8**	7.9
Total equity		**844.0**	981.4

Consolidated cash flow statement

Year ended 31 March 2013

	Note	2013 £m	2012 £m
Cash generated from operations	10	**731.2**	725.9
Tax paid		**(72.5)**	(72.0)
Net cash generated from operating activities		**658.7**	653.9
Investing activities		**–**	–
Interest received		**3.7**	6.7
Net cash inflow from sale of businesses		**12.4**	–
Acquisition of subsidiaries		**(1.3)**	–
Proceeds on disposal of property, plant and equipment and intangible assets		**16.1**	9.1
Purchases of intangible assets		**(16.0)**	(12.0)
Purchases of property, plant and equipment		**(429.2)**	(371.1)
Contributions and grants received		**27.3**	22.8
Net cash used in investing activities		**(387.0)**	(344.5)
Financing activities		**–**	–
Interest paid		**(186.8)**	(203.5)
Closed out swaps		**(44.3)**	–
Interest element of finance lease payments		**(6.0)**	(13.6)
Dividends paid to shareholders of the parent		**(322.0)**	(159.0)
Dividends paid to non-controlling interests		**(0.5)**	(1.0)
Repayments of borrowings		**(259.9)**	(157.4)
Repayments of obligations under finance leases		**(17.4)**	(47.6)
New loans raised		**668.3**	250.0
Issues of shares		**6.6**	4.2
Purchase of own shares		**(1.3)**	(1.8)
Net cash used in financing activities		**(163.3)**	(329.7)
Increase/(decrease) in cash and cash equivalents		**108.4**	(20.3)
Net cash and cash equivalents at beginning of period		**294.7**	315.2
Effect of foreign exchange rates		**0.1**	(0.2)
Net cash and cash equivalents at end of period		**403.2**	294.7
Net cash and cash equivalents comprise:			
Total cash and cash equivalents		**403.6**	295.1
Bank overdrafts		**(0.4)**	(0.4)
Net cash and cash equivalents at end of period		**403.2**	294.7

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 2013 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 2013 or 2012, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 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.

2013	Severn Trent Water £m	Severn Trent Services £m
External sales	1,509.3	320.6
Inter-segment sales	1.7	7.9
Total sales	**1,511.0**	**328.5**
Profit before interest, tax and exceptional items	500.9	12.7
Exceptional items	13.3	(16.1)
Profit/(loss) before interest and tax	**514.2**	**(3.4)**
Profit before interest, tax and exceptional items is stated after:		
Amortisation of intangible assets	28.9	1.5
Depreciation of property, plant and equipment	261.4	5.3
Loss/(profit) on disposal of fixed assets	1.5	(1.4)

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)

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

	2013 £m	2012 £m
Underlying PBIT		
- Severn Trent Water	**500.9**	500.0
- Severn Trent Services	**12.7**	18.0
- Corporate and other costs	**(16.8)**	(15.3)
Consolidation adjustments	**1.2**	1.5
Group underlying PBIT	**498.0**	504.2
Exceptional items allocated to segments		
- Severn Trent Water	**13.3**	10.3
- Severn Trent Services	**(16.1)**	(44.7)
- Corporate and other	**(3.0)**	–
Share of results of associates and joint ventures	**0.2**	0.1
Net finance costs	**(231.9)**	(245.5)
Losses on financial instruments	**(45.3)**	(67.7)
Profit before tax	**215.2**	156.7

The segmental analysis of capital employed was as follows:

2013	**Severn Trent Water £m**	**Severn Trent Services £m**
Operating assets	7,218.7	173.1
Goodwill	1.3	41.7
Interests in joint ventures and associates	0.1	4.9
Segment assets	7,220.1	219.7
Segment operating liabilities	(1,137.4)	(94.0)
Capital employed	**6,082.7**	**125.7**

2012	Severn Trent Water £m	Severn Trent Services £m
Operating assets	7,022.9	185.5
Goodwill	–	44.8
Interests in joint ventures and associates	0.1	4.6
Segment assets	7,023.0	234.9
Segment operating liabilities	(1,064.3)	(95.3)
Capital employed	5,958.7	139.6

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

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

Additions to other intangible assets and property plant and equipment were as follows:

2013	**Severn Trent Water £m**	**Severn Trent Services £m**
Other intangible assets	13.6	2.2
Property, plant and equipment	451.6	8.6

2012	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	9.8	2.1
Property, plant and equipment	405.3	5.5

3 Exceptional items before tax

	2013 £m	2012 £m
Exceptional operating costs		
Severn Trent Water		
Profit on disposal of fixed assets	**(13.3)**	–
Restructuring costs	–	11.5
Curtailment gains on defined benefit pension schemes	–	(21.8)
	(13.3)	(10.3)
Severn Trent Services		
Impairment of development costs and related assets	**4.5**	–
Impairment of goodwill	**4.6**	22.9
Provisions for commercial dispute and restructuring	**5.5**	–
Provisions for commercial disputes and bad debts	–	23.1
Curtailment gains on defined benefit pension schemes	–	(1.3)
	14.6	44.7
Corporate and Other		
Professional fees on proposed transaction that did not proceed	**3.0**	–
	3.0	–
Total exceptional operating costs	**4.3**	34.4
Exceptional loss on disposal of businesses	**1.5**	–
Exceptional finance costs		
Costs incurred on early redemption of debt	–	16.5
Exceptional items before tax	**5.8**	50.9

Exceptional tax is disclosed in note 6.

4 Net finance costs

	2013			2012
	Total	Before exceptional costs	Exceptional costs	Total
	£m	£m	£m	£m
Investment income				
Bank deposits	**2.6**	4.1	-	4.1
Other financial income	**-**	2.9	-	2.9
Total interest revenue	**2.6**	7.0	-	7.0
Expected return on defined benefit scheme assets	**88.2**	100.7	-	100.7
	90.8	107.7	-	107.7
Finance costs				
Interest on bank loans and overdrafts	**(27.7)**	(28.9)	-	(28.9)
Interest on other loans	**(191.6)**	(198.9)	-	(198.9)
Interest on finance leases	**(8.5)**	(9.7)	-	(9.7)
Total borrowing costs	**(227.8)**	(237.5)	-	(237.5)
Other financial expenses	**(2.7)**	(1.5)	(16.5)	(18.0)
Interest cost on defined benefit scheme obligations	**(92.2)**	(97.7)	-	(97.7)
Total finance costs	**(322.7)**	(336.7)	(16.5)	(353.2)
Net finance costs	**(231.9)**	(229.0)	(16.5)	(245.5)

Exceptional finance costs in 2012 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 £10.4 million (2012: £10.5 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.12% (2012: 5.93%).

5 Losses on financial instruments

	2013	2012
	£m	£m
Loss on cross currency swaps used as hedging instruments in fair value hedges	**(7.3)**	(5.1)
Gain arising on adjustment for foreign currency debt in fair value hedges	**3.4**	1.9
Exchange (loss)/gain on other loans	**(1.1)**	41.5
Loss on cash flow hedges transferred from equity	**(14.8)**	(3.7)
Loss arising on swaps where hedge accounting is not applied	**(25.5)**	(102.3)
	(45.3)	(67.7)

6 Taxation

	2013			2012
	Before exceptional tax £m	Exceptional tax £m	Total £m	Total £m
Current tax				
Current year at 24% (2012: 26%)	**57.1**	**(40.5)**	**16.6**	69.2
Prior years at 28% (2012: 28%)	**(29.2)**		**(29.2)**	(8.7)
Total current tax	**27.9**	**(40.5)**	**(12.6)**	60.5
Deferred tax				
Origination and reversal of temporary differences - current year	**(0.3)**	**38.8**	**38.5**	(14.0)
Origination and reversal of temporary differences - prior year	**(4.4)**	**–**	**(4.4)**	4.9
Exceptional credit arising from rate change	**–**	**(36.7)**	**(36.7)**	(69.1)
Total deferred tax	**(4.7)**	**2.1**	**(2.6)**	(78.2)
	23.2	**(38.4)**	**(15.2)**	(17.7)

The group's UK subsidiary companies have adopted the new accounting standard FRS 101 in the current year. This has changed the statutory accounts that form the basis for those companies' corporation tax computations. The most significant impact of this change is that certain amounts that had been taxed in previous years will now be recognised as profits and taxed in future periods. Therefore, to prevent such items being taxed twice, the tax already paid on such items is repayable. The impact of this change was an exceptional credit of £40.5 million to current tax and an exceptional charge of £38.8 million to deferred tax.

The prior year current tax credit has arisen due to adjustments to prior year tax computations. These primarily related to an industry agreement over the treatment of infrastructure income.

The exceptional deferred tax credit arises from the reduction in the rate at which the temporary differences are expected to reverse from 24% to 23%. On 20 March 2013 the Government announced that the main rate of corporation tax in the UK would reduce to 23% with effect from 1 April 2013 with subsequent reductions per annum to reach 20% by 1 April 2015.

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2013		2012	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2012 (2011)	**42.06**	**99.9**	39.05	92.5
Interim dividend for the year ended 31 March 2013 (2012)	**30.34**	**72.2**	28.04	66.5
Total ordinary dividends	**72.40**	**172.1**	67.09	159.0
Special dividend	**63.00**	**149.9**	–	–
Total dividends	**135.40**	**322.0**	67.09	159.0
Proposed final dividend for the year ended 31 March 2013	**45.51**			

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

	2013 £m	2012 £m
Profit for the period attributable to the equity holders of the company	**227.5**	171.8

Number of shares

	2013 m	2012 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**237.7**	237.0
Effect of dilutive potential ordinary shares		
- share options and LTIPs	**1.1**	1.2
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**238.8**	238.2

Adjusted earnings per share

	2013 pence	2012 pence
Adjusted basic earnings per share	**98.9**	88.9
Adjusted diluted earnings per share	**98.4**	88.5

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 2013 and 2012. 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

	2013 £m	2012 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**227.5**	171.8
Adjustments for		
- exceptional items before tax	**5.8**	50.9
- current tax related to exceptional items at 24% (2012: 26%)	**(0.5)**	(1.5)
- losses on financial instruments	**45.3**	67.7
- deferred tax excluding exceptional charge	**(4.7)**	(9.1)
- exceptional tax	**(38.4)**	(69.1)
Earnings for the purpose of adjusted basic and diluted earnings per share	**235.0**	210.7

9 Retirement benefit obligations

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

	2013 £m	2012 £m
Present value at 1 April	**(345.8)**	(292.1)
Service cost	**(23.2)**	(22.6)
Net curtailment gain	**-**	23.1
Net interest cost	**(4.0)**	3.0
Contributions from the sponsoring companies	**43.5**	53.5
Actuarial losses recognised in the statement of comprehensive income	**(54.2)**	(110.7)
Present value at 31 March	**(383.7)**	(345.8)

10 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2013 £m	2012 £m
Profit before interest and tax	**492.2**	469.8
Depreciation of property, plant and equipment	**264.6**	256.0
Amortisation of intangible assets	**30.5**	30.8
Exceptional impairment	**8.2**	22.9
Pension service cost	**23.2**	22.6
Curtailment gain	**–**	(23.1)
Pension contributions	**(43.5)**	(53.5)
Share based payments charge	**6.8**	4.1
Profit on sale of property, plant and equipment and intangible assets	**(10.4)**	(4.4)
Loss on disposal of businesses	**1.5**	–
Deferred income movement	**(9.3)**	(8.7)
Provisions charged to the income statement	**11.6**	16.8
Utilisation of provisions for liabilities and charges	**(14.3)**	(11.1)
Decrease/(increase) in inventory	**1.9**	(7.4)
(Increase)/decrease in amounts receivable	**(29.4)**	6.1
(Decrease)/increase in amounts payable	**(2.4)**	5.0
Cash generated from operations	**731.2**	725.9
Tax paid	**(72.5)**	(72.0)
Net cash generated from operating activities	**658.7**	653.9

b) Exceptional cash flows

	2013 £m	2012 £m
Restructuring costs	**(4.4)**	(14.4)
Disposal of fixed assets	**15.1**	–
Customer contractual disputes	**(0.6)**	–
Regulatory matters	**–**	(3.9)
Finance costs	**–**	(16.5)
	10.1	(34.8)

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

	As at 1 April 2012 £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 2013 £m**
Cash and cash equivalents	295.1	108.4	–	–	0.1	–	**403.6**
Bank overdrafts	(0.4)	–	–	–	–	–	**(0.4)**
Net cash and cash equivalents	294.7	108.4	–	–	0.1	–	**403.2**
Bank loans	(852.5)	101.3	–	(7.5)	–	–	**(758.7)**
Other loans	(3,326.9)	(509.8)	3.4	(32.1)	(1.1)	25.6	**(3,840.9)**
Finance leases	(219.0)	17.4	–	–	–	–	**(201.6)**
Cross currency swaps	135.9	–	(8.0)	–	–	(27.2)	**100.7**
Net debt	(3,967.8)	(282.7)	(4.6)	(39.6)	(1.0)	(1.6)	**(4,297.3)**

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 (2012: €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.

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 45.51 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 17 July 2013.

APPENDIX

KPI performance 2012/13 vs. 2011/12

Description	Year	Basis	Note	Outturn
1. Lost time incidents per 100,000 hrs worked	2013	MAT	1	0.2
	2012			0.3
2. Employee motivation %	2013	QR	2	79%
	2012			75%
3. DWI Reportable events (Category 3,4,5)	2013	MAT	6	23
	2012			30
4. Service Incentive Mechanism - Qualitative	2013	MAT	3	4.36
	2012			3.96
5. Service Incentive Mechanism - Quantitative	2013	MAT	3,4	167
	2012			205
6. Unplanned interruptions (per 1000 properties)	2013	MAT		12.48
	2012			11.12
7. Serviceability Waste	2013	MAT		78
	2012			n/a
8. Serviceability Water	2013	MAT		80
	2012			n/a
9. Capex - £m	2013	ACT		541.8
	2012			n/a
10. Debtor days	2013	ACT	5	36.7
	2012			35.8
11. Opex - £m	2013	ACT		566.5
	2012			548
12. Pollution incidents (Category 1,2,3)	2013	MAT	3,6	376
	2012			458
13. Sewage treatment works - failing consent limits %	2013	ACT		0.85%
	2012			2.54%
14. Security of Supply	2013	ACT	3	99
	2012			99
15. Net energy use GWh	2013	MAT	4	690
	2012			679
16. Leakage Ml/d - Post MLE	2013	MLE	3	441
	2012			464

Notes:

MAT = Moving Annual Total
QR = Quarterly Review
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 Ofwat Annual Return. Performance figures are provisional at this stage as the Ofwat Annual Return will be published on STW website June 2013
4. Actual performance based wholly or partially on internal data
5. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2013
6. Measure for calendar year to 31 December 2012

KPI 3
Drinking Water Inspectorate – Reportable events . This KPI measures the number of significant events reported to the DWI.

KPI 7
Serviceability Waste Water. This KPI is an index based on pollutions and blockages (both measures of how our below ground assets are performing) and sewage treatment works non compliance (above ground). The index reflects a 50:50 weighting for above and below ground assets.

KPI 8
Serviceability Water. This index is based on mains bursts and supply interruptions greater than 12 hours (both measures of how our below ground assets are performing) and Water Treatment Works (WTW) non compliance (above ground). The index reflects a 50:50 weighting for above and below ground assets.

KPI 14
Security of Supply Index (SOSI) is a measure of how resilient we are against periods of drought. The index calculation is based upon the difference between the water available to use and the volume of water we expect to put into our supply network in order to meet demand.

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.

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