

A promising start to the new regulatory period

- Group financial results in line with expectations and reflect a promising start to the AMP6¹:
 - Group turnover of £1,787 million, down 0.8% year-on-year due to regulated price decrease
 - Group underlying PBIT² of £523 million, down 3.2%
 - Group reported PBIT £524 million up 0.4%
 - Return on Regulatory Equity (RoRE) of 8.4%³
 - Underlying basic EPS² of 108.7p
 - Final dividend of 48.40p, in line with dividend policy, taking the 2015/16 dividend to 80.66p
- Customers remain at the heart of our business:
 - Lowest combined average bills in Britain - £329 in 2016/17, flat year-on-year
 - Doubled the number of vulnerable customers supported
 - Customer complaints down 28% year-on-year
- Delivering on our levers of outperformance:
 - **ODIs**: net reward of £23.2 million³
 - **Efficiencies**: now forecasting £670 million of totex efficiencies⁴ across AMP6. Equates to £260 million outperformance; ~50% of this (£120 million) to be reinvested for the benefit of customers
 - **Totex**: 2015/16 Wholesale totex⁴ of £1,017 million, £38 million lower than Final Determination
 - **Energy**: now generating equivalent of 33% of energy needs through our renewables programme; on track for 50% by 2020
 - **Financing**: effective interest rate reduced by 90 basis points to 4.5%
- Sector-leading environmental performance again - provisional Environment Agency 4* rating
- Water Plus joint venture established with United Utilities to deliver a market-leading non-household retail offer when the market opens for competition in 2017

1. AMP6 – Asset Management Plan regulatory period 2015 to 2020

2. Underlying Profit before Interest and Tax (PBIT) excludes exceptional operating items. Underlying Earnings per Share (EPS) is set out in note 9 to the financial statements

3. RoRE at 2012/13 prices, and ODIs quoted pre-tax at 2012/13 prices

4. Efficiencies and totex costs quoted at actual and forecast nominal prices

5. FD = Final Determination

Liv Garfield, Chief Executive Severn Trent Plc, said:

“Putting our customers at the heart of our business has led to a promising start to the current regulatory period.

We continue to drive down costs and have the lowest combined bills in Britain, with our customers paying on average less than a pound a day for their water and waste water services. Further efficiencies are also allowing us to invest even more for the long-term benefit of our customers and shareholders.

Our performance continues to improve with customer complaints down 28% year-on-year. We still lead the sector on waste water and have made strong progress in areas such as internal sewer flooding that is down 31%. These achievements are a credit to the hard work of my colleagues, who are truly embracing our customer-focused culture.

There remains more to do to ensure that we are consistently achieving a great customer service every day, and I am confident that we have the momentum and plans in place to achieve this.”

Group Results

Underlying performance

	2016	2015	Increase/ (decrease)
	£m	£m	
Group turnover	1,786.9	1,801.3	(0.8%)
Underlying group PBIT ¹	522.8	540.3	(3.2%)
Underlying group PBT ²	313.6	300.4	4.4%

	pence/ share	pence/ share	
Underlying basic earnings per share from continuing operations ³	108.7	107.2	1.4%
Total ordinary dividends	80.66	84.90	(5.0%)

Reported results

	2016	2015	Increase/ (decrease)
	£m	£m	
Group PBIT	523.8	521.6	0.4%
Group PBT	322.3	148.2	117.5%
Group profit for the year	331.3	120.2	175.6%

	pence/ share	pence/ share	
Basic earnings per share	139.8	49.9	180.2%

¹ Profit Before Interest and Tax (PBIT) before exceptional items (see note 3)

² Profit Before Tax (PBT) before exceptional items and gains/losses on financial instruments

³ Before exceptional items, gains/losses on financial instruments and deferred tax

Note: FY2016/17 technical guidance is included in the Chief Financial Officer's section of this RNS

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Interim Results Presentation and Webcast

There will be a presentation of these results at 9:30am BST on Tuesday 24 May at Rothschilds Sky Pavilion, New Court, St Swithin's Lane, London. EC4N 8AL. This presentation will be available as a simultaneous webcast on the Severn Trent website (www.severntrent.com) and will remain on the website for subsequent viewing.

Chief Executive's Review

The beginning of the current regulatory period, AMP6, brought considerable uncertainty, driven by changes to the regulatory regime which shifted the balance of risk and reward. This has created opportunities for companies to outperform the allowed regulatory return by delivering benefits to customers and the environment.

We have made a promising start to this AMP but equally we know there is more to be done. Our new customer-focused culture is being embedded in the organisation and we believe the changes we have implemented over the past two years set us on the right trajectory.

We continue to place emphasis on 'our winning formula', shown below, as the driving force behind our actions:

- Customers at the heart of our business
- Operational excellence
- Winners in a world of incentivisation
- At the frontier of sector efficiency
- Standard setters in renewable energy
- Successful in competitive markets

Customers at the heart of our business

Given our position as a regional monopoly, it is imperative that we put customers at the heart of our decision making process, ensuring that their needs and circumstances are reflected in our actions.

Our customers continue to benefit from the lowest combined average bills in the UK at £329 per annum, which are flat year-on-year. We have also more than doubled the number of vulnerable customers who benefit from our payment assistance initiatives, and we've worked hard to reduce customer complaints, which are down 28% year-on-year.

We have implemented a range of new digital services to help customers access information when they need it, for example our new 'Track My Job' app keeps customers up to date on the progress of any work. We will continue to expand our range of digital services, including a refresh of our corporate website later this year.

We continue to improve our Service Incentive Mechanism (SIM) score which measures customer service but have more work to do to improve our performance from our mid-table position. Our aspiration is to be the leader in customer experience in our industry.

Operational excellence

We have remained the sector leader in waste water efficiency and delivered good performance on key metrics, such as as internal sewer flooding that is down 31%. We have done this while achieving high environmental standards, reflected in our provisional Environment Agency (EA) 4* rating for the second time in three years. Underpinning this was our performance on some key environmental metrics, including a 21% reduction in the number of category 3 pollution incidents and an 80% reduction in the number of serious pollution incidents.

In Water, we started the AMP knowing we needed to improve and we have established a clear action plan to do this. The changes will not come overnight but we are ambitious in our targets and expect to report positive outcomes in due course. On the positive side we have seen reductions of 62% since last year in coliform detections, and water-quality complaints have been resolved 85% faster than the prior year.

On the downside there were some high profile events which left customers unable to access their water. We are learning from these to continually improve our processes and systems.

Winners in a world of incentivisation

The new regulatory environment incentivises companies to outperform the allowed regulatory return through mechanisms including Outcome Delivery Incentives (ODIs).

We have chosen to take the majority of ODI rewards or penalties in AMP through bills, rather than on RCV at the end of the AMP. The targets we agreed with Ofwat were very challenging, requiring a significant step change in our performance levels to avoid penalties. We are therefore pleased to report a net real reward of £23.2 million (at 2012/13 prices) in the first year of the AMP.

We have incentivised our workforce and key contractors through our ODI-linked employee bonus scheme and performance-based incentive contracts.

ODI targets for the rest of the AMP continue to get tougher. We are responding to this challenge, including for example further multi-skilling in our contact centres to enhance customer service, and initiatives geared to improving and sustaining reductions in leakages, pollutions and flooding. As a result of these plans, we are targeting £15 million of net ODI rewards for 2016/17 (at 12/13 prices).

Ofwat also incentivises companies to seek the lowest cost of finance to enable them to outperform the regulatory allowed cost of debt. We remain focused on sourcing sustainable, low-cost, long-term finance from a range of sources, all supported by an investment grade credit rating. We have reduced our effective cost of debt from 5.4% at the end of 2014/15, to 4.5% this year, and we have taken advantage of low interest rates by moving a greater proportion of our debt to floating rates. We see further opportunities to reduce interest costs through refinancing existing debt and raising new debt to finance our investment plans.

Outperformance in ODIs, totex and financing all translates into our Return on Regulated Equity (RoRE) which for 2015/16 is 8.4%.

At the frontier of sector efficiency

We have set ourselves clear efficiency targets to maintain our number one position in waste water and ensure that we end AMP6 towards the upper quartile of peer companies in water.

We are pleased to share today our forecast for totex savings across AMP6 of £670 million (at nominal prices). This includes the £372 million (at 2012/13 prices, £410 million at nominal prices) of savings announced in November to reach the final determination level of totex; a further £80 million (nominal) of savings locked in today, and an additional £180 million (nominal) that we are confident in delivering over the remainder of the AMP. Efficiencies have been achieved across our operational and capital investment activities, through innovation, smarter procurement and tighter cost control.

We are committed to investing not only for today but also for future generations and as such have decided to reinvest around half (or £120 million) of the forecast £260m of totex outperformance into areas that are important to our customers, such as improving water quality, enhancing security, and assisting vulnerable customers.

Our largest capital programme, the Birmingham Resilience scheme, is progressing well and remains on track for on-time delivery to budget. We invited tenders for two elements of the scheme: the first, for the river inlet pumping station and new cross-country water main, has now been awarded, with the second, the new treatment processes at Frankley Water Treatment Works, expected to be awarded in July 2016.

Standard setters in renewable energy

Our renewable energy programme remains core to our strategy, combining a responsible approach to the environment with good financial sense. All our programmes are targeted with delivering double-digit post-tax rates of return on investment.

With energy being our second largest direct cost, we are focused on using less, generating more, and paying the lowest energy prices.

We have previously announced that we plan to invest up to £190 million in renewables across AMP6. This year we have increased renewable energy generation by 17% (44GWh) meaning that we now generate energy equivalent to 33% of our own energy needs. We remain on track for 50% by 2020.

Successful in competitive markets

The arrival of non-household retail competition in 2017 is the first major step towards competition in our regulated business.

Our new 'Water Plus' joint venture (JV) with United Utilities will combine the complementary skills of both companies, including sales, customer service, business strategy and credit management, to deliver an attractive proposition for large and small business customers across England and Scotland.

Investor Timetable

24 th May 2016	Full-year results 2015/16
16 th June 2016	Ex-dividend date (Final)
17 th June 2016	Dividend record date (Final)
20 th July 2016	AGM and Q1 Trading Update
22 nd July 2016	Final dividend payment date
30 th September 2016	Close period commences
24 th November 2016	Half-year results 2016/17
1 st December 2016	Ex-dividend date (Interim)
2 nd December 2016	Dividend record date (Interim)
6 th January 2017	Interim dividend payment date
For more information please visit: https://www.severntrent.com/investors/financial-calendar	

Chief Financial Officer's Review

The group has delivered strong financial results in the first year of the new AMP. Our Regulated Water and Waste Water business has performed well, with reduced operating costs helping to offset the impact of the lower prices we agreed in the final determination. Business Services has delivered growth in both sales and underlying PBIT¹ this year and has made good progress in renewable energy generation and with the formation of the joint venture, Water Plus, we have made good progress in getting ready for non-household retail competition in England.

We saw the benefits of our rebalanced financing strategy, increasing the proportion of our debt that is at floating rates, which has helped to deliver a £30.7 million reduction in financing costs year on year. Our effective interest rate for the year was 4.5%.

Our underlying tax rate was 18.5% (2014/15: 17.6%).

A brief summary of our financial performance for the year is as follows:

- Group turnover from continuing operations was £1,786.9 million (2014/15: £1,801.3 million), a decrease of £14.4 million or 0.8% reflecting primarily £31 million lower regulated revenues following the agreed price reduction in the Final Determination.
- Underlying PBIT¹ of £522.8 million (2014/15: £540.3 million) was £17.5 million lower as the reduction in turnover in regulated water and waste water was partially offset by lower operating costs in the regulated business and increased operating profits in our non-regulated business.
- Reported group PBIT¹ was £523.8 million (2014/15: £521.6 million).
- We recorded an exceptional credit of £1.0 million from the release of a prior year provision (2014/15: charge of £18.7 million).
- Net finance costs were £209.3 million (2014/15: £240.0 million).

¹ PBIT is profit before interest and tax; underlying PBIT excludes exceptional items as set out in note 3

Changes to segmental presentation

The group is now organised into two main business segments, “Regulated Water and Waste Water” and “Business Services”.

- Regulated Water and Waste Water comprises Severn Trent Water's wholesale operations and household retail activities and related support functions.
- Business Services comprises the Operating Services businesses in the USA, UK, Ireland and Italy, the group's renewable energy business and Severn Trent Water's non-household retail business.

The Water Purification business, which was sold on 2 July 2015, has been treated as a discontinued operation.

The tables below reconcile our results for the year ended 31 March 2016 under the old segmental basis (Severn Trent Water, Severn Trent Services, and Corporate and Other) to the new basis.

Regulated Water and Waste Water					
	Severn Trent Water	Renewable energy (regulated)	Non household retail	Additional inter-segment sales	Regulated Water and Waste
	£m	£m	£m	£m	£m
Total sales	1,550.2	(17.5)	(391.3)	364.7	1,506.1
Underlying PBIT	520.3	(17.6)	(10.6)	-	492.1
Business Services					
	Severn Trent Services	Renewable energy (regulated and non-regulated)	Non household retail	Additional inter-segment sales	Business Services
	£m	£m	£m	£m	£m
Total sales	233.2	34.0	391.3	16.1	674.6
Underlying PBIT	10.7	16.9	10.6	-	38.2
Corporate and Other					
		Corporate and Other (old basis)	Renewable energy (non-regulated)	Additional inter-segment sales	Corporate and Other (new basis)
		£m	£m	£m	£m
Total sales		11.7	(8.5)	-	3.2
Underlying PBIT		(8.6)	0.7	-	(7.9)

The new segments reflect the way we organise and manage the group. Our renewable energy business, including the electricity and gas generating assets owned by Severn Trent Water's regulated business, is now all managed in Business Services. We transferred management responsibility for non-household retail to Business Services, in preparation for further competition in these activities from April 2017. This created a clear separation between our regulated wholesale and non-regulated retail activities.

On 3 May 2016 the Competition and Markets Authority ('CMA') announced clearance of the proposal to form the Water Plus joint venture with United Utilities PLC. On that date the disposal of the non-household retail activities to Water Plus became highly probable and these activities were reclassified as a discontinued operation and equity accounted. However, as this transaction was still subject to CMA approval at 31 March 2016, the results of the non-household retail activities are included in continuing operations in these financial statements.

Comparative financial information for the 2014/15 on the new basis is not available across all segments and so the commentary that follows describes year on year performance on the old basis.

Regulated Water and Waste Water

Turnover for the new Regulated Water and Waste Water segment was £1,506.1 million and underlying PBIT was £492.1 million.

On a like for like basis, turnover decreased by £31.0 million. The price reduction in our Final Determination reduced turnover by £30.2 million. This was partially offset by growth from new customers and consumption increases of £6.7 million. Tariff mix and other effects reduced turnover by £7.5 million. Underlying PBIT decreased by £18.7 million as lower operational costs partially offset the decline in turnover.

Within our 2015/16 revenue, there is around £11.5 million of over-billing against the Final Determination as a result of higher consumption and growth in our customer base; this, together with a small penalty of about £0.5 million for being outside the forecasting corridor, will be returned to customers through adjusted bills in 2017/18.

	New basis 2016 £m	Old basis			
		2016 £m	2015 £m	Better/(worse) £m %	
Turnover	1,506.1	1,550.2	1,581.2	(31.0)	(2.0)
Net labour costs	(135.1)	(142.1)	(156.0)	13.9	8.9
Hired and contracted costs	(157.2)	(172.3)	(163.8)	(8.5)	(5.2)
Bad debts	(20.3)	(23.7)	(28.4)	4.7	16.5
Power	(89.1)	(61.8)	(63.9)	2.1	3.3
Other costs	(179.2)	(193.8)	(196.4)	2.6	1.3
Total opex	(580.9)	(593.7)	(608.5)	14.8	2.4
Infrastructure maintenance	(126.0)	(126.0)	(134.8)	8.8	6.5
Depreciation	(307.1)	(310.2)	(298.9)	(11.3)	(3.8)
Underlying PBIT	492.1	520.3	539.0	(18.7)	(3.5)
Adjustment for new segmental basis		(28.2)			
		492.1			

Net labour costs were 8.9% lower. The benefits of the reorganisation carried out at the end of 2014/15 and the closure of the defined benefit pension scheme to future accrual more than offset the costs of the new employee incentive scheme.

Hired and contracted costs increased by £8.5 million. This is partly due to costs incurred in preparation for market opening including an increase in contributions to Open Water. In addition, we have seen an increase in distribution and tankering costs in our waste business and have paid a bonus to our supply chain for support on delivering our strong ODI performance.

Bad debt charges improved to 1.5% of turnover - down from 1.8% in 2014/15 as a result of improved collection performance on amounts billed in the year and better management of aged debt balances. The provision level against our household debt is typically higher than for non-household debt and we therefore expect that after the transfer of our non-household business to Water Plus, this ratio will increase.

Power costs decreased by £2.1 million mainly due to the benefit of a full year of biogas to grid generation. We continue to make good progress on our renewable energy generation, and self-generated the equivalent of 33% of gross consumption in the year, providing an increasingly effective hedge against energy price volatility.

Material and Other costs were £2.6 million lower year-on-year. Higher costs in particular on business rates and abortive capital write offs were more than offset by the £4.4m refund from the Environmental Agency at half year, and second-half gains on property disposals were in line with those for the first half.

Depreciation increased by £11.3 million, primarily due to the growing asset base and an accelerated charge of £3.6 million arising from the decommissioning of older assets as part of our water quality improvement programme. Infrastructure maintenance expenditure was £8.8 million lower due to a lower level of activity at the start of the year, and improved efficiencies in delivering the programme, as highlighted in our interim results.

Return on Regulatory Equity (RoRE)

A key indicator of the performance of the regulated business is the Return on Regulatory Equity or "RoRE". Outperformance against the Final Determination for totex, ODIs and financing is included in RoRE.

Profits reported under IFRS do not reflect all of the regulatory impacts in the year of performance and may reflect the impacts of performance in previous years.

Severn Trent Water's RoRE for the year ended 31 March 2016 is set out in the following table:

	% ¹
Base return ²	5.7
Totex outperformance ³	0.7
ODI outperformance ⁴	0.7
Financing outperformance ⁵	1.4
Other ⁶	(0.1)
Regulatory return for the year	8.4

1 Based on RCV of £7,324 million in 2012/13 prices

2 Per Final Determination

3 Company share of totex outperformance in the year

4 Company assessment of performance, subject to Ofwat review process in Autumn 2016

5 Based on actual financing cost and actual gearing

6 Includes non-household revenue, land sales and disposals, other income and the Wholesale Revenue Forecasting Incentive Mechanism

Severn Trent Water's totex benefit to RoRE, after taking account of sharing with customers was £19 million in 2012/13 prices after tax.

Our assessment of performance on our Outcome Delivery Incentives ("ODI"s) will be published in Severn Trent Water Limited's Annual Performance Report in July. We earned a net reward for performance in 2015/16 of £23.2 million before tax at 2012/13 prices, which is subject to the Ofwat review process in Autumn 2016. All of this relates to "in AMP" measures, which will be reflected in increased prices that we will set for 2017/18.

Severn Trent Water's financing costs in 2015/16 were £40 million lower than the Final Determination in 2012/13 prices after tax. This is due to the impact of lower inflation on our index linked debt and nominal interest rates achieved lower than assumed in the Final Determination - a consequence of low market interest rates and savings arising from our AMP6 financing activities. In addition, we have a lower debt requirement than assumed in the Final Determination.

Business Services

Turnover for the new Business Services segment was £674.6 million and underlying PBIT was £38.2 million.

Turnover and underlying PBIT on a like for like basis at actual exchange rates and on a constant currency basis are shown below:

	2016 £m	2015 £m	Increase/ (decrease) %
Turnover			
Services as reported	233.2	216.3	7.8%
Impact of exchange rate fluctuations	–	8.3	
Constant currency	233.2	224.6	3.8%
Underlying PBIT			
Services as reported	10.7	9.7	10.3%
Impact of exchange rate fluctuations	–	(0.1)	
Constant currency	10.7	9.6	11.5%

The results above exclude the Water Purification business, which was classified as a discontinued operation in 2014/15.

In our Operating Services business we saw good growth in turnover, up 3.8% on a constant currency basis to £233.2 million, mainly due to contract gains and additional work in our UK business. Underlying PBIT was up £1.1 million to £10.7 million with higher profits across all regions.

Corporate and other

Corporate overheads totalled £10.6 million (2014/15: £13.4 million). Our other businesses generated a net profit of £2.4 million (2014/15: £1.2 million).

Exceptional items before tax

There was an exceptional operating credit of £1.0 million arising from the release of a provision originally recorded as an exceptional charge (2014/15: charge of £18.7 million).

Net finance costs

The group's net finance costs were £209.3 million, down from £240.0 million in the prior year. The reduction resulted from the actions we took at the end of the 2015 financial year to increase our exposure to floating rates, lower costs achieved on new floating rate debt and lower finance costs on our index linked debt as a result of lower inflation in the year. Finance costs capitalised were £3.3 million lower mainly due to the lower finance cost incurred.

The effective interest rate, including index linked debt, for the year ended 31 March 2016 was 4.5% (2014/15: 5.4%). The effective cash cost of interest (excluding the RPI uplift on index linked debt) was 4.2% (2014/15: 4.9%).

The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 4.3 times (2014/15: 3.7 times) by profit before interest, tax, depreciation and exceptional items, and 2.7 times (2014/15: 2.4 times) by underlying PBIT.

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 exposure on floating rate borrowings; and
- Exposure to increases in electricity prices.

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the 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 derivatives are held to their full term mismatches will net out over the life of the instrument. The changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the group presents underlying earnings figures that exclude these non-cash items. In exceptional circumstances the group may terminate swap contracts before their maturity date. The payments or receipts arising from the cancellations are charged or credited against the liability or asset on the balance sheet, and amounts previously recognised in reserves are recycled through the income statement.

The group holds interest rate swaps with a notional principal of £518.1 million and cross currency swaps with a sterling principal of £98.3 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 credit of £53.8 million (2014/15 charge of £183.4 million) in relation to these instruments.

An analysis of the amounts charged to the income statement in the period is presented in note 5 to the financial statements.

The group manages its electricity costs through a combination of self generation forward price contracts and financial derivatives. The group has fixed around 37% of the estimated wholesale energy usage for 2016/17.

Taxation

The total tax credit for the year was £9.7 million (2014/15: charge of £32.7 million).

The current tax charge for 2015/16 was £55.2 million (2014/15: £37.8 million). The deferred tax charge before exceptional tax was £13.7 million (2014/15: credit of £5.1 million).

There was an exceptional deferred tax credit of £78.6 million arising from the change in tax rates (2014/15 £nil). This was a result of the Finance Act 2015 being enacted in the current year, reducing the corporation tax rate from 20% to 18% with effect from 1 April 2020.

See note 6 for further detail.

The underlying effective rate of current tax on continuing operations, excluding prior year credits, exceptional tax credits and tax on exceptional items and financial instruments, calculated on profit from continuing operations before tax, exceptional items before tax and gains/(losses) on financial instruments was 18.5% (2014/15: 17.6%).

Reported group profit for the period and earnings per share

After a loss of £0.7 million (2014/15: profit of £4.7 million) from discontinued operations, reported group profit for the period was £331.3 million (2014/15: £120.2 million). Profit before interest and tax was broadly flat year on year. Net finance costs were £30.7 million lower. Amounts charged to the income statement relating to financial instruments improved by £141.2 million. Tax charged excluding exceptional tax was £36.2 million higher before an exceptional deferred tax credit of £78.6 million arising from the change in corporation tax rate to 18%.

Underlying basic earnings per share (from continuing operations, before exceptional items, gains/(losses) on financial instruments, current tax on gains/(losses) on exceptional items and financial instruments and deferred tax) was 108.7 pence (2014/15: 107.2 pence) (see note 9). Lower financing costs largely offset the lower underlying PBIT and higher current tax charge.

Basic earnings per share were 139.8 pence (2014/15: 49.9 pence).

Group cash flow

	2016 £m	2015 £m
Cash generated from operations	797.5	760.1
Net capital expenditure	(410.0)	(416.1)
Net interest paid	(189.6)	(218.2)
Payment to close out interest rate swaps	-	(139.2)
Tax received	11.5	10.5
Tax paid	(44.9)	(39.1)
Other cash flows	-	(1.4)
Free cash flow	164.5	(43.4)
Disposal of subsidiaries	45.7	-
Dividends	(197.0)	(196.9)
Net purchase of shares	(89.8)	(16.7)
Change in net debt from cash flows	(76.6)	(257.0)
Non cash movements	5.8	(48.1)
Change in net debt	(70.8)	(305.1)
Net debt 1 April	(4,752.6)	(4,447.5)
Net debt at 31 March	(4,823.4)	(4,752.6)
Net debt comprises:		
Cash and cash equivalents	55.2	176.7
Bank loans	(1,249.8)	(1,279.2)
Other loans	(3,539.7)	(3,467.5)
Finance leases	(117.2)	(180.0)
Cross currency swaps	28.1	(2.6)
	(4,823.4)	(4,752.6)

Net debt at 31 March 2016 was £4,823.4 million (2014/15: £4,752.6 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 82.6% (2014/15: 86.1%). Net debt, expressed as a percentage of RCV at 31 March 2016 of £7,829 million was 61.6% (2014/15: 61.4%).

The fair value of net debt at 31 March 2016 is estimated to be £5,686.4 million (2014/15: £5,645.4 million) compared to the book value of £4,823.4 million (2014/15: £4,752.6 million). The difference between the book value and fair value of debt arises from fixed rate and index linked debt where the interest rate on the debt is higher than prevailing market rates at the year end.

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 manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise counterparty credit exposure risk;
- to provide the group with an appropriate degree of certainty as to its foreign exchange exposure;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The group continues to ensure it has adequate liquidity to support business requirements and provide headroom for downside risk. At 31 March 2016 the group had £55.2 million (2014/15: £176.7 million) in cash and cash equivalents and committed undrawn facilities amounting to £875 million (2014/15: £745 million).

The group is funded for its projected investment and cash flow needs up to at least January 2018.

Cash is invested in deposits with financial institutions benefiting from high credit ratings and the list of counterparties is reviewed regularly.

In November 2015 Severn Trent Water completed its first US Private Placement debt issue raising the equivalent of £471 million at competitive pricing with maturities ranging from 11 to 15 years. The proceeds were received in March 2016 and were used to repay the remaining £396 million of our €700 million bond.

The group's policy for the management of interest rate risk requires that not less than 40% of the group's borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. Going forward, the group intends to manage its existing debt portfolio and future debt issuance to increase the proportion of debt which is at floating rates. At 31 March 2016, interest rates for 56% (2014/15: 67%) of the group's net debt of £4,823.4 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+

The outlook is stable for Standard and Poor's, negative for Moody's

Pensions

The group operates two defined benefit pension schemes for its UK employees, of which the UK Severn Trent Pension Scheme (STPS) is by far the largest. The most recent formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2013 for both schemes. As a result, deficit reduction contributions of £40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and £12 million per annum in subsequent years to 2024/25 were agreed. Further payments of £8 million per annum through an asset backed funding arrangement will also continue to 31 March 2032. The next triennial valuation, as at 31 March 2016, is underway.

As previously announced, the defined benefit schemes closed to future accrual on 31 March 2015. On 1 April 2015, members of the defined benefit schemes were transferred to the defined contribution Severn Trent Group Personal Pension Scheme, which was opened on 1 April 2012.

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 £309.5 million as at 31 March 2016. This compares to a deficit of £468.9 million as at 31 March 2015. The movements in the net deficit can be summarised as follows:

	2016 £m	2015 £m
Present value at 1 April	(468.9)	(348.3)
Change in actuarial assumptions	194.2	(336.8)
Asset (under)/outperformance	(45.9)	193.4
Contributions in excess of income statement charge	11.1	22.8
Present value at 31 March	(309.5)	(468.9)

The funding level has increased to 87.1% (2014/15: 81.7%).

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 Business Services above.

Dividend

In line with its announced AMP6 policy the board has proposed a final ordinary dividend of 48.40 pence (2015: 50.94 pence). This gives a total ordinary dividend for the year of 80.66 pence (2015: 84.90 pence). The final ordinary dividend is payable on 22 July 2016 to shareholders on the register at 17 June 2016.

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

- Failure to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.
- Failure to take full advantage of the opportunities presented by the opening up of the non-household retail market to competition.

Legal & Regulatory environment

- Failure to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.
- The regulatory landscape is complex and subject to on-going change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation leading to the risk of non-compliance.

Operations, assets & people

- Loss of data or interruptions to our key business systems as a result of cyber threats.
- Failure to achieve our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.
- Failure of certain key assets or processes may result in inability to provide a continuous supply of clean water and safely take waste water away within our area.
- Our operations could endanger the health and safety of our people, contractors and members of the public as well as negatively impact our local and wider environment.
- Inability to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or inability to successfully plan for future water resource supply and demand due to climate change.

Financial risks

- Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.
- Inability to fund the business sufficiently in order to meet our liabilities as they fall due.

Technical Guidance 2016/17

Regulated Water and Waste Water:

Revenues are expected to be in the range of £1.50 billion to £1.54 billion (2015/16: £1.51 billion).

We expect operating costs (IFRS) to be lower year-on-year (2015/16: £581 million) as we recognise the benefits of efficiencies. In addition, we expect a further £130 million to £155 million of net infrastructure renewals expenditure (2015/16: £126 million), which will be charged to the income statement.

We expect to earn net rewards for 2016/17 ODI outperformance of £15¹ million (2015/16: £23.2 million). Wholesale Totex² is expected to be £1.11 billion to £1.13 billion (2015/16: £1.02 billion), of which 42.1% will be capitalised onto the RCV.

Business Services

We expect to deliver growth in revenues and PBIT year-on-year (2015/16 £277 million and £28 million respectively, after adjusting for the impact of transferring non household retail to Water Plus).

Group

The group interest charge is now expected to be flat year-on-year (2015/16: £209 million), benefiting from the impact of lower interest rates on new floating rate debt offset by higher overall debt and higher RPI.

The effective current tax rate for the group for 2016/17 is expected to be between 17% and 19% (2015/16: 18.5%.)

We estimate net capital expenditure (cash) under IFRS will be £450 million to £490 million (2015/16: £410 million).

In line with our announced policy, the dividend for 2016/17 will be 81.5p (2015/16: 80.66p) and will grow by at least RPI annually over AMP6.

Our RCV in March 2020 is now expected to be £9.3 billion³, impacted by lower RPI assumptions and savings on our totex programme.

1. ODIs quoted real at FY2012/13 prices
2. Excludes retail costs, includes regulated renewables
3. Assumes average of 2.5% year end RPI for 2016-2020, based on Office of Budget Responsibility forecasts and includes £670m of announced forecast efficiencies

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 2016

	Notes	2016 £m	2015 £m
Turnover	2	1,786.9	1,801.3
Net operating costs before exceptional items		(1,264.1)	(1,261.0)
Exceptional operating items	3	1.0	(18.7)
Total operating costs		(1,263.1)	(1,279.7)
Profit before interest, tax and exceptional items	2	522.8	540.3
Exceptional items before interest and tax	3	1.0	(18.7)
Profit before interest and tax		523.8	521.6
Finance income	4	73.1	81.7
Finance costs	4	(282.4)	(321.7)
Net finance costs	4	(209.3)	(240.0)
Gains/(losses) on financial instruments	5	7.7	(133.5)
Share of results of associates and joint ventures		0.1	0.1
Profit before tax, gains/(losses) on financial instruments and exceptional items		313.6	300.4
Exceptional items before tax	3	1.0	(18.7)
Gains/(losses) on financial instruments	5	7.7	(133.5)
Profit on ordinary activities before taxation		322.3	148.2
Current tax excluding exceptional credit	6	(55.2)	(37.8)
Deferred tax excluding exceptional credit	6	(13.7)	5.1
Exceptional tax credit	6	78.6	–
Total taxation on profit on ordinary activities	6	9.7	(32.7)
Profit for the year from continuing operations		332.0	115.5
(Loss)/profit for the year from discontinued operations	8	(0.7)	4.7
Profit for the year		331.3	120.2
Attributable to:			
Owners of the company		330.0	119.1
Non-controlling interests		1.3	1.1
		331.3	120.2

Earnings per share (pence)

From continuing operations

Basic	9	140.0	48.3
Diluted	9	139.4	48.1

From continuing and discontinued operations

Basic	9	139.8	49.9
Diluted	9	139.1	49.6

Consolidated statement of comprehensive income

Year ended 31 March 2016

	2016 £m	2015 £m
Profit for the year	331.3	120.2
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gain/(loss) on defined benefit pension schemes	148.3	(143.4)
Tax on net actuarial gain/loss	(26.7)	28.8
Deferred tax arising on change of rate	(9.6)	-
	112.0	(114.6)
Items that may be reclassified to the income statement:		
Loss on cash flow hedges	(2.7)	(13.8)
Deferred tax on loss on cash flow hedges	0.4	2.8
Amounts on cash flow hedges transferred to the income statement in the year	12.2	23.6
Deferred tax on transfers to income statement	(2.2)	(4.7)
Exchange movement on translation of overseas results and net assets	(1.1)	8.9
Cumulative exchange losses transferred to income statement	11.7	-
	18.3	16.8
Other comprehensive income/(loss) for the year	130.3	(97.8)
Total comprehensive income for the year	461.6	22.4
Attributable to:		
Owners of the company	460.2	19.6
Non-controlling interests	1.4	2.8
	461.6	22.4

Consolidated statement of changes in equity

Year ended 31 March 2016

	Equity attributable to owners of the company				Total £m	Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m			
At 1 April 2014	233.9	94.2	82.2	667.3	1,077.6	12.5	1,090.1
Restatement	-	-	-	(54.3)	(54.3)	-	(54.3)
At 1 April 2014 after restatement	233.9	94.2	82.2	613.0	1,023.3	12.5	1,035.8
Profit for the period	-	-	-	119.1	119.1	1.1	120.2
Losses on cash flow hedges	-	-	(13.8)	-	(13.8)	-	(13.8)
Deferred tax on losses on cash flow hedges	-	-	2.8	-	2.8	-	2.8
Amounts on cash flow hedges transferred to the income statement	-	-	23.6	-	23.6	-	23.6
Deferred tax on transfers to the income statement	-	-	(4.7)	-	(4.7)	-	(4.7)
Exchange movement on translation of overseas results and net assets	-	-	7.2	-	7.2	1.7	8.9
Net actuarial losses	-	-	-	(143.4)	(143.4)	-	(143.4)
Tax on net actuarial losses	-	-	-	28.8	28.8	-	28.8
Total comprehensive income for the period	-	-	15.1	4.5	19.6	2.8	22.4
Share options and LTIPs							
- proceeds from shares issued	0.7	6.0	-	-	6.7	-	6.7
- value of employees' services	-	-	-	7.7	7.7	-	7.7
- own shares purchased	-	-	-	(5.9)	(5.9)	-	(5.9)
Current tax on share based payments	-	-	-	0.7	0.7	-	0.7
Deferred tax on share based payments	-	-	-	(0.1)	(0.1)	-	(0.1)
Share buy back	-	-	-	(100.0)	(100.0)	-	(100.0)
Share cancellation	(0.9)	-	0.9	-	-	-	-
Transfer	-	-	-	0.5	0.5	(0.5)	-
Dividends paid	-	-	-	(196.9)	(196.9)	(1.4)	(198.3)
At 31 March 2015 after restatement	233.7	100.2	98.2	323.5	755.6	13.4	769.0
Profit for the period	-	-	-	330.0	330.0	1.3	331.3
Losses on cash flow hedges	-	-	(2.7)	-	(2.7)	-	(2.7)
Deferred tax on losses on cash flow hedges	-	-	0.4	-	0.4	-	0.4
Amounts on cash flow hedges transferred to the income statement	-	-	12.2	-	12.2	-	12.2
Deferred tax on transfers to the income statement	-	-	(2.2)	-	(2.2)	-	(2.2)
Exchange movement on translation of overseas results and net assets	-	-	(1.2)	-	(1.2)	0.1	(1.1)
Cumulative exchange losses transferred to income statement	-	-	11.7	-	11.7	-	11.7
Net actuarial gains	-	-	-	148.3	148.3	-	148.3
Tax on net actuarial gains	-	-	-	(26.7)	(26.7)	-	(26.7)
Deferred tax arising from rate change	-	-	-	(9.6)	(9.6)	-	(9.6)
Total comprehensive income for the period	-	-	18.2	442.0	460.2	1.4	461.6
Share options and LTIPs							
- proceeds from shares issued	0.7	6.6	-	-	7.3	-	7.3
- value of employees' services	-	-	-	5.2	5.2	-	5.2
- own shares purchased	-	-	-	(4.6)	(4.6)	-	(4.6)
Current tax on share based payments	-	-	-	1.2	1.2	-	1.2
Deferred tax on share based payments	-	-	-	(0.5)	(0.5)	-	(0.5)
Share buy back	-	-	-	(10.0)	(10.0)	-	(10.0)
Share cancellation	(0.1)	-	0.1	-	-	-	-
Disposal of minority interest	-	-	-	-	-	(13.7)	(13.7)
Dividends paid	-	-	-	(197.0)	(197.0)	-	(197.0)
At 31 March 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5

Consolidated balance sheet

At 31 March 2016

	Note	2016 £m	2015 Restated £m
Non-current assets			
Goodwill		14.8	14.3
Other intangible assets		72.2	69.3
Property, plant and equipment		7,718.6	7,531.7
Interests in joint ventures and associates		5.1	4.6
Derivative financial assets		40.2	13.5
Available for sale financial assets		0.1	0.1
		7,851.0	7,633.5
Current assets			
Inventory		21.0	16.7
Trade and other receivables		516.6	492.0
Current tax receivable		–	9.3
Derivative financial assets		0.7	13.5
Cash and cash equivalents		55.2	176.7
Assets held for sale	8	–	107.9
		593.5	816.1
Total assets		8,444.5	8,449.6
Current liabilities			
Borrowings		(280.6)	(463.0)
Derivative financial liabilities		(1.1)	(32.2)
Trade and other payables		(450.0)	(494.0)
Current income tax liabilities		(11.1)	–
Provisions for liabilities and charges		(12.3)	(15.9)
Liabilities associated with assets held for sale	8	–	(35.3)
		(755.1)	(1,040.4)
Non-current liabilities			
Borrowings		(4,626.1)	(4,463.7)
Derivative financial liabilities		(178.0)	(175.1)
Trade and other payables		(874.9)	(823.0)
Deferred tax		(664.7)	(691.0)
Retirement benefit obligations	10	(309.5)	(468.9)
Provisions for liabilities and charges		(17.7)	(18.5)
		(6,670.9)	(6,640.2)
Total liabilities		(7,426.0)	(7,680.6)
Net assets		1,018.5	769.0
Equity			
Called up share capital		234.3	233.7
Share premium account		106.8	100.2
Other reserves		116.5	98.2
Retained earnings		559.8	323.5
Equity attributable to owners of the company		1,017.4	755.6
Non-controlling interests		1.1	13.4
Total equity		1,018.5	769.0

Consolidated cash flow statement

Year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash generated from operations	11	797.5	760.1
Tax received		11.5	10.5
Tax paid		(44.9)	(39.1)
Net cash generated from operating activities		764.1	731.5
Investing activities			
Interest received		5.3	1.8
Net cash inflow from sale of businesses	8	45.7	–
Proceeds on disposal of property, plant and equipment and intangible assets		10.8	11.6
Purchases of intangible assets		(24.3)	(17.7)
Purchases of property, plant and equipment		(431.4)	(446.2)
Contributions and grants received		34.9	36.2
Net cash used in investing activities		(359.0)	(414.3)
Financing activities			
Interest paid		(188.1)	(213.1)
Payments to close out interest rate swaps		–	(139.2)
Interest element of finance lease payments		(6.8)	(6.9)
Dividends paid to owners of the company		(197.0)	(196.9)
Dividends paid to non-controlling interests		–	(1.4)
Repayments of borrowings		(924.6)	(334.2)
Repayments of obligations under finance leases		(62.8)	(21.2)
New loans raised		926.7	685.0
Issue of shares		7.3	6.7
Share buy back		(92.5)	(17.5)
Purchase of own shares		(4.6)	(5.9)
Net cash used in financing activities		(542.4)	(244.6)
(Decrease)/increase in cash and cash equivalents		(137.3)	72.6
Net cash and cash equivalents at beginning of period		196.0	123.2
Effect of foreign exchange rates		(3.5)	0.2
Amounts included in assets held for sale	8	–	(19.3)
Net cash and cash equivalents at end of period		55.2	176.7
Net cash and cash equivalents comprise:			
Cash at bank and in hand		23.4	24.9
Short term deposits		31.8	151.8
Net cash and cash equivalents at end of period		55.2	176.7

Cash and cash equivalents at the beginning of the period includes £19.3 million which was classified as assets held for sale (see note 8).

Notes

1 Basis of preparation

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2016 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 in this announcement does not constitute the company's statutory accounts, within the meaning of section 430 of the Companies Act 2006, for the years ended 31 March 2016 or 2015, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not comply with the disclosure requirements of IFRS. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The auditors have consented to the publication of the Preliminary Announcement as required by Listing Rule 9.7a having completed their procedures under APB bulletin 2008/2.

b) Prior year restatement

The comparative balance sheet has been restated to reflect a reclassification between property plant and equipment and non-current trade and other payables. Contributions which had been received in previous years in relation to infrastructure assets, and which had a carrying value of £294.5 million as at 31 March 2014 were identified as being deducted from the carrying value of property, plant and equipment. In order to comply with the requirements of IAS 16 and IAS 18, these contributions have been reclassified from property, plant and equipment to non-current trade and other payables.

Whilst finalising the proposed adjustments, it was noted that amortisation was not charged on these contributions before 2004 when the accounting treatment was clarified and therefore an additional £13.5m of amortisation has been credited to opening retained earnings.

In addition, the restated balances result in an increased total tax liability of £67.8 million (£1.9 million current tax and £65.9 million deferred tax) as the carrying value of the underlying infrastructure assets previously shown net reduced the deferred tax liability previously calculated and there were other non-material adjustments to deferred tax arising from leases and financial instruments. The total tax restatement of £67.8 million was charged to opening retained earnings.

Property, plant and equipment and other intangible fixed assets have been analysed to disclose separately the carrying value of assets under construction. This resulted in a further adjustment between property, plant and equipment and other intangible fixed assets of £2.6 million.

The adjustment to the opening balances at 1 April 2014 is:

	Property plant and equipment £m	Other intangible assets	Current tax receivable £m	Deferred income £m	Deferred tax £m	Retained earnings £m
At 31 March 2014						
As previously stated	7,023.5	80.2	16.5	(491.9)	(654.0)	667.3
Impact of amounts transferred to deferred income	291.9	2.6	(1.9)	(281.0)	(65.9)	(54.3)
As restated	7,315.4	82.8	14.6	(772.9)	(719.9)	613.0
At 31 March 2015						
As previously stated	7,239.8	66.7	11.2	(542.0)	(625.1)	377.8
Impact of amounts transferred to deferred income	291.9	2.6	(1.9)	(281.0)	(65.9)	(54.3)
As restated	7,531.7	69.3	9.3	(823.0)	(691.0)	323.5

2 Segmental analysis

The group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of the group's regulated subsidiary Severn Trent Water Limited and its retail services to domestic customers.

Business Services includes the group's Operating Services businesses in the US and the UK, Severn Trent Water Limited's non-household retail activities and the group's renewable energy business.

In the prior year results all of Severn Trent Water Limited's activities comprised a single segment and Severn Trent Services comprised the group's Operating Services and Water Purification businesses. Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore the current year results have been presented on both the old basis and new basis of segmentation in accordance with IFRS 8.

The Water Purification business was classified as a discontinued operation in the year ended 31 March 2015 and the sale of this business was completed on 2 July 2015. The prior year segmental results have been restated to present the Water Purification business as a discontinued operation.

a) Segmental results

The tables below shows the changes from the old to the new segmentation for turnover and PBIT for the year ended 31 March 2016:

Regulated Water and Waste Water					
	Severn Trent Water £m	Renewable energy (regulated) ¹ £m	Non household retail ² £m	Additional inter-segment sales ³ £m	Regulated Water and Waste Water £m
External sales	1,548.5	(17.5)	(391.3)	–	1,139.7
Inter-segment sales	1.7	–	–	364.7	366.4
Total sales	1,550.2	(17.5)	(391.3)	364.7	1,506.1
Profit before interest, tax and exceptional items	520.3	(17.6)	(10.6)	–	492.1
Exceptional items (see note 3)	1.0	–	–	–	1.0
Profit before interest and tax	521.3	(17.6)	(10.6)	–	493.1
Business Services					
	Severn Trent Services £m	Renewable energy (regulated and non-regulated) ¹ £m	Non household retail ² £m	Additional inter-segment sales ⁴ £m	Business Services £m
External sales	233.1	30.7	391.3	–	655.1
Inter-segment sales	0.1	3.3	–	16.1	19.5
Total sales	233.2	34.0	391.3	16.1	674.6
Profit before interest, tax and exceptional items	10.7	16.9	10.6	–	38.2
Profit before interest and tax	10.7	16.9	10.6	–	38.2
Corporate and Other					
	Corporate and Other (old basis) £m	Renewable energy (non-regulated) ¹ £m	Non household retail ² £m	Additional inter-segment sales £m	Corporate and Other (new basis) £m
External sales	5.2	(5.2)	–	–	-
Inter-segment sales	6.5	(3.3)	–	–	3.2
Total sales	11.7	(8.5)	–	–	3.2
Loss before interest, tax and exceptional items	(8.6)	0.7	–	–	(7.9)
Profit before interest and tax	(8.6)	0.7	–	–	(7.9)

2 Segmental analysis (continued)

¹ The electricity generating assets owned by Severn Trent's regulated and non-regulated businesses are now managed by the Business Services segment. Business Services external sales includes £8 million of income that was treated as a reduction in operating costs in Severn Trent Water.

² Management of Severn Trent Water's non-household retail activities has been transferred to the Business Services segment

³ The additional inter-segment sales in Regulated Water and Waste Water represent the wholesale water and waste water charges to non-household retail within Business Services

⁴ The additional inter-segment sales in Business Services represent sales from the Regulated Renewable Energy business to Regulated Water and Waste Water

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

	2016		2015	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
External sales	1,548.5	233.1	1,579.1	216.2
Inter-segment sales	1.7	0.1	2.1	0.1
Total sales	1,550.2	233.2	1,581.2	216.3
Profit before interest, tax and exceptional items	520.3	10.7	539.0	9.7
Exceptional items	1.0	–	(20.6)	1.9
Profit before interest and tax	521.3	10.7	518.4	11.6

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

Amortisation of intangible assets	20.0	1.7	22.2	1.0
Depreciation of property, plant and equipment	290.3	3.2	276.7	3.5
Profit on disposal of fixed assets	(3.0)	(0.1)	(0.4)	(0.1)

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

Year ended 31 March	2016 (new basis) £m	2016 (old basis) £m	2015 £m
Underlying PBIT:			
Severn Trent Water	–	520.3	539.0
Severn Trent Services	–	10.7	9.7
Regulated Water and Waste Water	492.1	–	–
Business Services	38.2	–	–
Corporate and other	(7.9)	(8.6)	(12.1)
Consolidation adjustments	0.4	0.4	3.7
Group underlying PBIT	522.8	522.8	540.3
Exceptional items:			
Severn Trent Water	–	1.0	(20.6)
Severn Trent Services	–	–	1.9
Regulated Water and Waste Water	1.0	–	–
Share of results of associates and joint ventures	0.1	0.1	0.1
Net finance costs	(209.3)	(209.3)	(240.0)
Net gains/(losses) on financial instruments	7.7	7.7	(133.5)
Profit before tax	322.3	322.3	148.2

2 Segmental analysis (continued)

b) Segmental capital employed

The tables below show the changes from the old to the new segmentation for capital employed as at 31 March 2016:

Regulated Water and Waste Water					
	Severn Trent Water	Renewable energy (regulated)	Non household retail	Inter-segment payables & receivables	Regulated Water and Waste Water
	£m	£m	£m	£m	£m
Operating assets	8,142.6	(59.6)	-	27.8	8,110.8
Goodwill	1.3	-	-	-	1.3
Interests in joint ventures and associates	0.1	-	-	-	0.1
Segment assets	8,144.0	(59.6)	-	27.8	8,112.2
Segment operating liabilities	(1,555.9)	4.0	9.6	(4.0)	(1,546.3)
Capital employed	6,588.1	(55.6)	9.6	23.8	6,565.9
Business Services					
	Severn Trent Services	Renewable energy (regulated and non-regulated)	Non household retail	Inter-segment payables & receivables	Business Services
	£m	£m	£m	£m	£m
Operating assets	111.0	141.1	-	4.0	256.1
Goodwill	14.8	-	-	-	14.8
Interests in joint ventures and associates	5.1	-	-	-	5.1
Segment assets	130.9	141.1	-	4.0	276.0
Segment operating liabilities	(64.2)	(24.2)	(9.6)	(27.8)	(125.8)
Capital employed	66.7	116.9	(9.6)	(23.8)	150.2
Corporate and other					
	Corporate and other	Renewable energy (non-regulated)	Non household retail	Inter-segment payables & receivables	Corporate and other
	£m	£m	£m	£m	£m
Operating assets	110.6	(81.5)	-	-	29.1
Segment assets	110.6	(81.5)	-	-	29.1
Segment operating liabilities	(60.3)	20.2	-	-	(40.1)
Capital employed	50.3	(61.3)	-	-	(11.0)

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

	2016		2015	
	Severn Trent Water	Severn Trent Services	Severn Trent Water	Severn Trent Services
	£m	£m	Restated £m	£m
Operating assets	8,142.6	111.0	7,974.4	100.9
Goodwill	1.3	14.8	1.3	14.3
Interests in joint ventures and associates	0.1	5.1	0.1	4.5
Segment assets	8,144.0	130.9	7,975.8	119.7
Segment operating liabilities	(1,555.9)	(64.2)	(1,631.1)	(58.8)
Capital employed	6,588.1	66.7	6,344.7	60.9

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.

Capital employed does not include assets held for sale or liabilities associated with assets held for sale.

2 Segmental analysis (continued)

The tables below show the changes from the old to the new segmentation for additions to other intangible assets and property plant and equipment as at 31 March 2016:

Regulated Water and Waste Water

	Severn Trent Water £m	Renewable energy (regulated) £m	Non household retail £m	Regulated Water and Waste Water £m
Other intangible assets	21.9	–	–	21.9
Property, plant and equipment	459.1	(6.7)	–	452.4

Business Services

	Severn Trent Services £m	Renewable energy (regulated and non-regulated) £m	Non household retail £m	Business Services £m
Other intangible assets	1.8	–	–	1.8
Property, plant and equipment	2.2	36.7	–	38.9

Corporate and other

	Corporate and other £m	Renewable energy (non- regulated) £m	Non household retail £m	Corporate and other £m
Other intangible assets	0.3	–	–	0.3
Property, plant and equipment	30.0	(30.0)	–	–

The following table shows the additions to other intangible assets and property, plant and equipment on the old basis:

	2016		2015	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	21.9	1.8	15.4	1.0
Property, plant and equipment	459.1	2.2	481.3	2.7

3 Exceptional items before tax

	2016	2015
	£m	£m
Severn Trent Water		
Restructuring costs	(1.0)	28.3
Profit on disposal of fixed assets	–	(7.7)
	(1.0)	20.6
Severn Trent Services		
Restructuring costs	–	4.4
Release of bad debt provision	–	(6.3)
	–	(1.9)
Total exceptional operating items before tax	(1.0)	18.7

Exceptional tax is disclosed in note 6.

4 Net finance costs

	2016	2015
	£m	£m
Investment income		
Bank deposits	0.4	0.6
Other financial income	5.0	1.0
	5.4	1.6
Total interest revenue	5.4	1.6
Interest income on defined benefit scheme assets	67.7	80.1
	73.1	81.7
Finance costs		
Interest on bank loans and overdrafts	(21.9)	(17.1)
Interest on other loans	(170.6)	(201.8)
Interest on finance leases	(6.8)	(6.9)
	(199.3)	(225.8)
Total borrowing costs	(199.3)	(225.8)
Other financial expenses	(0.3)	(1.4)
Interest cost on defined benefit scheme obligations	(82.8)	(94.5)
	(282.4)	(321.7)
Total finance costs	(282.4)	(321.7)
Net finance costs	(209.3)	(240.0)

5 Gains/(losses) on financial instruments

	2016 £m	2015 £m
Loss on swaps used as hedging instruments in fair value hedges	(0.7)	(2.6)
Loss arising on debt in fair value hedges	(1.1)	–
Exchange (loss)/gain on other loans	(32.6)	73.3
Loss on cash flow hedges transferred from equity	(12.2)	(23.6)
Hedge ineffectiveness on cash flow hedges	0.5	2.8
Gain/(loss) arising on swaps where hedge accounting is not applied	53.8	(183.4)
	7.7	(133.5)

6 Taxation

	Before exceptional tax £m	Exceptional tax £m	2016 Total £m	2015 Total £m
Current tax				
Current year at 20% (2015: 21%)	57.6	–	57.6	46.4
Prior years at 21% (2015: 23%)	(2.4)	–	(2.4)	(8.6)
Total current tax	55.2	–	55.2	37.8
Deferred tax				
Origination and reversal of temporary differences - current year	10.9	–	10.9	(11.3)
Origination and reversal of temporary differences - prior year	2.8	–	2.8	6.2
Exceptional credit arising from rate change	–	(78.6)	(78.6)	–
Total deferred tax	13.7	(78.6)	(64.9)	(5.1)
	68.9	(78.6)	(9.7)	32.7

The current tax charge was £55.2 million (2015: £37.8 million). This includes a credit of £2.4 million (2015: credit of £8.6 million) arising from adjustments to prior year tax computations.

The Finance Act 2015 was enacted in the current year which implemented a reduction in the corporation tax rate from 20% to 18% with effect from 1 April 2020. This resulted in an additional exceptional deferred tax credit of £78.6 million in the income statement and a deferred tax charge of £9.6 million in reserves.

A further reduction to 17% with effect from 1 April 2020 has been announced but not yet substantively enacted. The estimated impact of this rate change will be a reduction in the deferred tax liability of approximately £37 million.

7 Dividends

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

	2016		2015	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2015 (2014)	50.94	121.2	48.24	115.5
Interim dividend for the year ended 31 March 2016 (2015)	32.26	75.8	33.96	81.4
Total dividends	83.20	197.0	82.20	196.9
Proposed final dividend for the year ended 31 March 2016	48.40			

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

8 Discontinued operations

On 23 January 2015 the board approved a process to dispose of the group's Water Purification business which formed part of the Severn Trent Services segment. These operations were classified as discontinued and as a disposal group held for sale as at 31 March 2015. The results of discontinued operations are disclosed separately in the income statement and the assets and liabilities of the disposal group are presented separately in the balance sheet at 31 March 2015.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The sale was completed on 2 July 2015.

The results of the discontinued operations were as follows:

	2016 £m	2015 £m
Turnover	29.7	108.2
Total operating costs	(27.6)	(103.3)
Profit before tax	2.1	4.9
Attributable tax expense	(0.1)	(0.2)
Loss on disposal of discontinued operations	(2.7)	–
Attributable tax expense on loss on disposal	–	–
(Loss)/profit for the year	(0.7)	4.7
Attributable to:		
Owners of the company	(0.6)	3.7
Non-controlling interests	(0.1)	1.0
	(0.7)	4.7

The major classes of assets and liabilities comprising the operations classified as held for sale were as follows:

	31 March 2015 £m
Goodwill	1.8
Other intangible assets	7.2
Property, plant and equipment	5.0
Inventories	17.3
Trade and other receivables	57.3
Cash and bank balances	19.3
Total assets classified as held for sale	107.9
Trade and other payables	(33.6)
Tax liabilities	(0.2)
Provisions for liabilities and charges	(1.5)
Total liabilities associated with assets held for sale	(35.3)
Net assets of disposal group	72.6

Cash flows arising from the disposal group were as follows:

	2016 £m	2015 £m
Net cash flows attributable to:		
- operating activities	(0.5)	1.8
- investing activities	(11.6)	(2.1)
- financing activities	(6.4)	3.6
	(18.5)	3.3

8 Discontinued operations (continued)

Basic and diluted (loss)/earnings per share from discontinued operations are as follows:

	2016			2015		
	Result £m	Weighted average number of shares m	Per share amount pence	Result £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(0.6)	236.1	(0.3)	3.7	238.8	1.5
Diluted (loss)/earnings per share	(0.6)	237.2	(0.3)	3.7	239.9	1.5

The net assets of the business at the date of disposal were:

	£m
Goodwill	1.8
Other intangible assets	6.5
Property, plant and equipment	3.6
Investments	0.1
Inventories	14.6
Trade and other receivables	59.9
Cash and bank balances	11.0
Trade and other payables	(36.1)
Tax liabilities	(0.2)
Intercompany borrowings	(18.1)
Provisions for liabilities and charges	(1.5)
	41.6
Attributable to:	
Owners of the company	27.9
Non-controlling interest	13.7
	41.6

The net loss on disposal is calculated as follows:

	£m
Consideration	42.8
Net assets attributable to owners of the company	(27.9)
Disposal costs	(4.8)
Provisions arising on disposal	(1.1)
Net gain on disposal before foreign exchange losses	9.0
Foreign exchange losses recycled from reserves	(11.7)
Net loss on disposal	(2.7)

The net cash flows arising from disposal in the year were:

	£m
Consideration received in cash and cash equivalents	42.8
Settlement of intercompany loans	18.1
Disposal costs paid in cash and cash equivalents	(4.2)
Cash and bank balances disposed of	(11.0)
	45.7

9 Earnings per share

a) Basic and diluted 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.

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

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

Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2016 £m	2015 £m
Profit for the period attributable to owners of the company	330.0	119.1
Adjusted for loss/(profit) from discontinued operations (see note 8)	0.6	(3.7)
Profit for the period from continuing operations attributable to owners of the company	330.6	115.4

Number of shares

	2016 m	2015 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	236.1	238.8
Effect of dilutive potential ordinary shares - share options and LTIPs	1.1	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	237.2	239.9

b) Underlying earnings per share from continuing operations

	2016 pence	2015 pence
Underlying basic earnings per share	108.7	107.2
Underlying diluted earnings per share	108.2	106.7

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, exceptional tax, gains/losses on financial instruments, current tax related to gains/losses on financial instruments, exceptional items and current tax related to exceptional items. The directors consider that the underlying figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

Adjustments to earnings

The adjustments to earnings that are made in calculating underlying earnings per share are as follows:

	2016 £m	2015 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	330.6	115.4
Adjustments for		
- exceptional items before tax	(1.0)	18.7
- current tax related to exceptional items	(0.2)	(4.7)
- gain/loss on financial instruments	(7.7)	133.5
- current tax related to gain/loss on financial instruments	(0.2)	(1.8)
- deferred tax excluding exceptional credit	13.7	(5.1)
- exceptional tax credit	(78.6)	-
Earnings for the purpose of underlying basic and diluted earnings per share	256.6	256.0

10 Retirement benefit obligations

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

	2016 £m	2015 £m
Present value at 1 April	(468.9)	(348.3)
Service cost	-	(22.8)
Past service cost	0.7	(18.1)
Net interest cost	(15.1)	(14.4)
Contributions from the sponsoring companies	27.8	81.0
Actuarial gains/(losses) recognised in the statement of comprehensive income	148.3	(143.4)
Scheme administration costs	(2.3)	(2.9)
Present value at 31 March	(309.5)	(468.9)

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

	2016	2015
Price inflation	3.0%	3.0%
Pension increases in payment	3.0%	3.0%
Pension increases in deferment	3.0%	3.0%
Discount rate	3.6%	3.3%
Remaining life expectancy for members currently aged 65 (years)		
- men	21.4	21.4
- women	24.6	24.5
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	22.8	22.7
- women	26.1	26.1

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 £45 million
Price inflation	Increase/decrease by 0.1%	Decrease/increase by £40 million
Mortality	Increase in life expectancy by 1 year	Increase by £65 million

11 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2016 £m	2015 £m
Profit before interest and tax from continuing operations	523.8	521.6
(Loss)/profit before interest and tax from discontinued operations	(0.6)	4.9
Profit before interest and tax	523.2	526.5
Depreciation of property, plant and equipment	294.2	281.6
Amortisation of intangible assets	22.0	24.2
Impairment	–	0.2
Pension service cost	(0.7)	40.9
Defined benefit pension scheme administration costs	2.3	2.9
Defined benefit pension scheme contributions	(27.8)	(81.0)
Share based payments charge	5.2	7.7
Profit on sale of property, plant and equipment and intangible assets	(0.9)	(8.6)
Loss on disposal of businesses	2.7	–
Deferred income movement	(10.5)	(10.1)
Provisions charged to the income statement	5.9	20.0
Utilisation of provisions for liabilities and charges	(10.7)	(26.0)
Operating cashflows before movements in working capital	804.9	778.3
Increase in inventory	(2.8)	(5.7)
Increase in amounts receivable	(24.1)	(32.5)
Increase in amounts payable	19.5	20.0
Cash generated from operations	797.5	760.1
Tax received	11.5	10.5
Tax paid	(44.9)	(39.1)
Net cash generated from operating activities	764.1	731.5

b) Exceptional cash flows

	2016 £m	2015 £m
Restructuring costs	(4.0)	(25.4)
Disposal of fixed assets	–	9.4
Disposal of subsidiaries	–	(3.5)
	(4.0)	(19.5)

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

	As at 1 April 2015 £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 2016 £m
Net cash and cash equivalents	176.7	(137.3)	–	–	(3.5)	19.3 ¹	55.2
Bank loans	(1,279.2)	30.9	–	(1.4)	–	(0.1)	(1,249.8)
Other loans	(3,467.5)	(33.0)	(1.1)	(13.4)	(32.6)	7.9	(3,539.7)
Finance leases	(180.0)	62.8	–	–	–	–	(117.2)
Cross currency swaps	(2.6)	–	39.8	–	–	(9.1)	28.1
Net debt	(4,752.6)	(76.6)	38.7	(14.8)	(36.1)	18.0	(4,823.4)

1. Other non cash movements on cash and cash equivalents represent amounts transferred to assets held for sale in the prior year (see note 8).

12 Contingent liabilities

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 €5.1 million (2015: €5.1 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

13 Related party transactions

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

14 Post balance sheet events

Dividends

Following the year end the board of directors has proposed a final dividend of 48.40 pence per share. Further details of this are shown in note 7.

Water Plus joint venture

On 1 March 2016 the group announced its intention, subject to approval from the Competition and Markets Authority ('CMA'), to enter into a joint venture with United Utilities PLC to compete in the non-household water and waste water retail markets in Great Britain. On 3 May 2016 the CMA announced approval of the joint venture. On this date the group determined that completion of the proposed transaction became highly probable and the non-household retail business was classified as a disposal group and discontinued operation with effect from this date.

15 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.

16 Annual general meeting

The Annual General Meeting will be held at the Ricoh Arena, Phoenix Way, Foleshill, Coventry, CV6 6GE at 11am on Wednesday 20 July 2016.

Cautionary statement regarding Forward Looking Statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal', 'estimates' or words with a similar meaning, and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

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

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

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