Preliminary Announcement of Annual Results
22 May 2015
Results for the year to 31 March 2015

Successful end to AMP5, ready for AMP6

Highlights

- Good financial performance:
  - Adjusted EPS up 15.9% year on year
  - Underlying group PBIT £540.3 million, up 3.2% year on year
  - Reported group PBIT up 2.6% year on year
- Focus on operational improvement
  - Improved or stable performance on 12 out of 14 Ofwat KPIs year on year
  - Achieved target of 10% reduction in leakage over AMP5
- Invested a further £547.4 million to complete AMP5 programme of £2.6 billion; RCV[1] £7.7 billion at April 2015
- Customer bills remain the lowest in Britain at an average combined bill of £329 for 2015/16
- Severn Trent Services re-focused – disposal of Water Purification business (US$ 81.2 million[2])
- Industry leader in renewable energy - self generation equivalent to 28% of Severn Trent Water's energy needs
- Reported group PBT £148.2 million, reflecting fair value losses on financial instruments
- Well positioned for AMP6
  - Largest investment programme ever - £3.3[3] billion capital investment
  - New organisational structure and management team
  - £300 million of £372 million[3] target efficiencies already locked in
  - Focused on outperformance
  - 2015/16 dividend 80.66 pence, followed by annual growth of no less than RPI until 2020

1. Regulatory Capital Value
2. Severn Trent Plc share of total enterprise value. See announcement 13 May 2015
3. At 12/13 prices

Liv Garfield, Chief Executive Severn Trent Plc, said:

"I am pleased to have closed out AMP5 with a good all round performance. Underlying group PBIT was up 3.2% year on year to £540.3 million. Our focus remains on the customer and with average bills falling year on year and the lowest average bills in Britain until at least 2020, our customers are receiving good value for money. We are pleased to have launched our "Big Difference Scheme", helping more customers who struggle to pay their bill over the next five years.

Our performance over the last year has also demonstrated where we are strong and the areas we need to focus on to drive improvement. Water quality remains a key focus area for us. We have hit our target of a 10% reduction in leakage over AMP5 and improved our customer service performance, creating 100 new front line roles in the process.

We've made some significant cultural and operational changes to get our business in the best possible shape for AMP6. As a result, we are facing the future with confidence, despite one of the toughest price settlements in our history. The strategy we have put in place over the last year is designed to deliver an outstanding customer experience, the best value service and environmental leadership. In doing so we will create long term value for our customers, our communities and our investors.

We have also re-focused our non-regulated business on our core activities - operating water and waste water assets, retail and renewables – leading to the sale of the Water Purification business. I would like to thank all of my colleagues for the work they have done over the last 12 months to get our business ready for what has the potential to be a fantastic five years ahead of us.”

Group Results

Underlying performance	**2015**	2014 Restated[4]	Increase/ (decrease)
	£m	£m	
Group turnover	**1,801.3**	1,756.7	2.5%
Underlying group PBIT[1]	**540.3**	523.8	3.2%
Underlying group profit before tax[2]	**300.4**	276.1	8.8%
	pence/ share	pence/ share	
Adjusted basic eps from continuing operations[3]	**107.2**	92.5	15.9%
Total ordinary dividends	**84.90**	80.40	5.6%
Reported results	**2015**	2014 Restated[4]	Increase/ (decrease)
	£m	£m	
Group PBIT	**521.6**	508.6	2.6%
Group profit before tax	**148.2**	318.9	(53.5%)
Group profit for the year	**120.2**	434.9	(72.4%)
	pence/ share	pence/ share	
Basic earnings per share	**49.9**	182.1	(72.6%)

1 before exceptional items (see note 3)
2 before exceptional items and gains/losses on financial instruments
3 before exceptional items, gains/losses on financial instruments and deferred tax
4 restated due to discontinued operations (see note 1)

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am on Friday 22 May at BAFTA, 195 Piccadilly, London W1J 9LN. 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 past year has been one of change. Back in May 2014 I outlined my focus areas for the year - transforming our culture, driving operational excellence, putting customers at the heart of what we do, managing a successful price review and getting the business ready to deliver in AMP6. The changes we have made over the last year have been built on those foundations.

I have been out to meet everyone in our business personally, to listen to their views and share our vision of the kind of company we want to create. We have a new executive team and new organisational structure, with fewer management layers, meaning we will be a more responsive business.

We have maintained a constructive dialogue with Ofwat and our final determination, whilst tough, is one we believe we can outperform against. For customers, we continue to have the lowest bills in Britain and have again improved our levels of customer service. We have also continued to drive operational improvements, with 12 out of 14 Ofwat KPIs stable or improving year on year. This puts us in a good position for the new era of outcome delivery incentives. Over the past 5 years we have reinvested over £250 million for the benefit of customers.

As outlined at our capital markets day, the changes we have made mean we are ready for AMP6, and we have now locked in £300 million of our target efficiencies for AMP6 of £372 million (12/13 prices).

Regulated - Severn Trent Water

Severn Trent Water delivered a good financial performance in 2014/15, with growth of 3.9% to £539 million in underlying PBIT year on year. Turnover was stronger than expected due to higher measured consumption, increasing 2.4%, to £1,581 million. We have had at or below inflation increases in our customer bills for six consecutive years, and Severn Trent Water's customers continue to benefit from the lowest average combined water and sewerage bills in Britain.

We have made improvements in managing our bad debt, reducing the bad debt charge to 2.0% of turnover, one of the lowest levels in the industry through better credit management.

We also continue to offer customers support through a wide range of social tariff and support options such as the WaterSure and WaterDirect tariffs, the Severn Trent Trust Fund, and bill reductions for single occupiers.

We successfully completed our £2.6 billion AMP5 capital programme, with investment over the year of £547 million (UK GAAP, net of grants and contributions), improving our trunk mains, cleansing sewers, and investing more at our water treatment works to deliver further operational improvements. Over AMP5 our RCV has grown by 21% or £1.3 billion, to reach £7,683 million at 1 April 2015. We also made some early investments for our AMP6 programme, bringing forward £15m of capital expenditure and progressing with our Birmingham resilience project by concluding our first land purchases.

During the year we made good progress on a number of Ofwat's key performance indicators (KPIs), including a 20% decline in internal sewer flooding incidents, pollution incidents down by 18%, a 4% reduction in greenhouse gas emissions and a 38% reduction in supply interruptions greater than 3 hours. We also delivered on our leakage reduction target of 10% over the AMP5 regulatory period and saw improvement in our customer service levels, with our SIM (Service Incentive Mechanism) quantitative score improving for the third year in a row and our qualitative score, based on Ofwat's new methodology, placing us sixth among 18 companies in our sector, up from thirteenth last year. During the year we created 100 new front line roles and have had a real focus on resolving customer issues faster. The number of written complaints has decreased by 22%, but still need to continue improving our performance.

Water quality remains a key focus for us. We provide our customers with very high quality water, achieving 99.96% compliance, but we want to be even better. We are implementing a seven point improvement plan and prioritising £35 million of investment to water quality. The investment will replace and refurbish water quality assets, as well as provide a greater degree of resilience in both our networks and our water treatment works.

We will continue to focus on reducing sewer blockages and whilst our performance improved by over 8% year on year, it remains above the challenging target agreed with Ofwat.

Of the 20 serviceability measures, these two are performing below our expectations and have led to a marginal serviceability assessment for sewerage infrastructure and deteriorating for water non-infrastructure for this year. Serviceability on both sewerage non-infrastructure and water infrastructure is assessed as stable. The serviceability assessments are consistent with the AMP5 legacy adjustments to RCV in the Final Determination.

From 2015/16 we will be reporting on our performance against our 27 ODIs (Outcome Delivery Incentives) and 45 associated performance commitments and any associated rewards or penalties.

Prepared for AMP6

We accepted Ofwat's final determination in January. This means that our customers will continue to have the lowest combined average bills in the land until at least 2020. We are also making provision to help four times as many customers who struggle to pay their bill over the next five years and we have launched our new "Big Difference Scheme" in partnership with the Citizens Advice Bureau, offering eligible customers discounts on their bill.

Over the next 5 years we are committed to our largest ever five year expenditure programme, totalling £6.2 billion (12/13 prices), the majority of which will help to support the economy in the Midlands. This includes our largest ever capital investment programme of £3.3 billion (12/13 prices) to improve service and quality for customers. Our RCV is expected to grow to c. £9.6 billion by 2020[1].

In accepting Ofwat's final determination, we also took the opportunity to look at the implications for our capital structure and dividend policy. After careful consideration, we decided to reduce the dividend by 5% in the 2015/16 financial year, with a policy of growth in subsequent years by at least RPI until 2020. We also announced that we would commence a £100 million share buy back programme in order to move closer to Ofwat's guideline 62.5% gearing. To date, this programme is around 40% complete, with the remaining shares expected to be repurchased by November this year.

Over the year we made important organisational changes, including significant reductions in our cost base and de-layering of management levels, which will deliver £100 million of savings in AMP6. At our capital markets day in March we outlined an additional £100 million of supply chain efficiencies, and today we are pleased to announce a further £100 million, which includes a new single supplier contract on waste water and additional contracts delivering further capital efficiencies. This equates to £300 million of efficiencies already locked in for the coming five year period, demonstrating excellent progress towards the £372 million (12/13 prices) target in our final determination. We will relentlessly pursue further efficiency opportunities in our drive to outperform our AMP6 targets.

We've worked hard over the last 12 months to ensure we're prepared. It's the start of a brand new regulatory period and we feel we're in a good place. The strategy we have implemented over the last year is designed to deliver an outstanding customer experience, the best value service and environmental leadership. In doing so, we will create long term value for our customers, our communities and our investors.

1. *Assumes average of 2.7% year end RPI for 2015-2020, based on Office of Budget Responsibility forecasts*

Non-regulated - Severn Trent Services

As outlined at our capital markets day, we have reorganised and brought together our non-regulated businesses - Operating Services US, Operating Services UK (including Severn Trent Water non-household retail), and renewable energy - into a new “Business Services” division. As part of this reorganisation, Water Purification was considered non-core and as a result we have sold this business. While we have delivered on our commitment to return the Water Purification business to profitable growth this year, the business is best placed to fulfil its future potential under a new owner. These operations have been classified as discontinued in our reported results.

This reorganisation will allow the management team to focus on creating value from our core activities - operating water and waste water assets, retail and renewables.

Operating Services saw revenue grow year on year, driven by contract wins in the US and new business wins in the UK, including a 10 year contract with the Coal Authority. The Ministry of Defence contract also continued to perform well. Investment in business development in US concessions impacted profit year on year, and we have taken the opportunity to reduce the cost base of this business, the benefits of which will be seen next year. This, along with a number of one-off favourable items in the prior year, resulted in lower underlying PBIT in 2014/15.

We announced in March a £190 million investment in renewable energy to take self generation from an equivalent 28% of Severn Trent Water’s gross energy consumption to around 50% by 2020. We are already making good progress on this - we were trending towards 30% as an exit rate position for 2014/15 and we will commission and build our first solar arrays this year. Our wind turbines at Derby are now turning, and we are on track to produce 25 GWh p.a. from wind by March 2016. Our food waste anaerobic digestion plant at Coleshill is ahead of plan, with 14 GWh planned generation in 2015/16 and our next site is well on track.

Technical Guidance 2015/16

Regulated business
Prices at Severn Trent Water decreased by 1.8% from April 2015

Wholesale Totex (total expenditure) is expected to be £1,030 million to £1,060 million, of which 34.7% will be capitalised onto the RCV.

Operating costs under IFRS are expected to be lower year on year due to the impact of the organisational changes and the supply chain efficiencies already secured.

We estimate net capital expenditure (cash) under IFRS will be £410 million to £430 million. In addition, we expect a further £125 million to £135 million of net infrastructure renewals expenditure, which will be charged to the income statement.

Business Services
From 2015/16 onwards, we will report a new segment called “Business Services”, which will include our Operating Services business in the US and UK (including Severn Trent Water non-household retail) and the non-regulated part of our renewables business.

For 2015/16 we expect growth in revenues and PBIT.

Group
The group interest charge is expected to be higher year on year, with lower average interest costs offset by a higher level of net debt.

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

As announced on 28 January 2015 the dividend is set to be 80.66p for 2015/16. The Board's policy is then to grow the dividend annually by at least RPI until March 2020.

A Q1 trading update will be published on the date of our AGM, Wednesday 15 July 2015.

Severn Trent Plc will announce its Interim results for the period ending 30 September 2015 on 26 November 2015.

Chief Financial Officer's Review

The group has delivered a good financial performance in 2014/15, underpinned by continuing improvements and growth in our regulated business, and continued revenue growth in our non-regulated Severn Trent Services business.

On 13 May we announced the sale of our Water Purification business to Industrie De Nora. The disposal follows a successful turnaround of the business, and will enable our reorganised Business Services division to focus on its core strengths in water, waste, retail and renewables. The Water Purification business has been classified as a discontinued operation, and our prior year results have been restated to reflect this.

We made some important changes to our financing structure at the end of the year, to reduce short term financing risk and increase exposure to currently low floating interest rates. These included replacing our revolving credit facility with a new £900 million facility and negotiating and drawing down on a new £530 million EIB facility. In addition, we cancelled some floating to fixed interest rate swaps and purchased €183 million of our fixed rate €700 million Eurobond loan, due for repayment in March 2016, which resulted in a one time financing charge of £6.6 million in 2014/15. As a result, we have reduced the interest cost on £415 million of debt and swaps from an average interest rate of 5.1% to a floating rate, currently 1%. This has moved the proportion of our debt that is at floating rates to 10%, in line with our stated policy for AMP6 to increase the level of variable rate debt. Further details are set out in the Treasury management and liquidity section below.

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

Group turnover from continuing operations was £1,801.3 million (2013/14: £1,756.7 million), an increase of 2.5%.

Underlying PBIT[1] increased by 3.2% to £540.3 million (2013/14: £523.8 million).

Net exceptional charges before tax totalled £18.7 million (2013/14: £15.2 million).

Reported group PBIT[1] was £521.6 million (2013/14: £508.6 million).

Net finance costs were £240.0 million (2013/14: £247.9 million).

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

Regulated - Severn Trent Water

In Severn Trent Water, underlying PBIT increased by 3.9% to £539.0 million (2013/14: £518.6 million).

Turnover increased by £36.4 million, or 2.4% to £1,581.2 million as a result of price increases of 1.5% (£23.0 million); higher consumption from metered commercial customers (£1.9 million); growth, net of meter optants (£1.0 million) and other increases including tariff mix effects of £10.5 million.

Operating costs, excluding depreciation and infrastructure maintenance expenditure, increased in line with expectations by 3.1% to £619.1 million.

	2015	2014	Increase/ (decrease)	
	£m	£m	£m	%
Employee costs	**248.4**	242.0	6.4	2.6
Hired and contracted	**163.8**	154.1	9.7	6.3
Costs capitalised	**(92.4)**	(92.6)	0.2	(0.2)
Raw materials and consumables	**47.4**	42.5	4.9	11.5
Power	**63.9**	65.3	(1.4)	(2.1)
Bad debts	**28.4**	31.3	(2.9)	(9.3)
Rates and service charges	**113.2**	112.3	0.9	0.8
Other	**46.4**	45.4	1.0	2.2
	619.1	600.3	18.8	3.1

Employee costs were 2.6% higher, broadly in line with annual pay inflation. The benefits of the recent re-organisation, which included a reduction of 500 roles, will be seen from 2015/16. Hired and contracted costs were 6.3% higher as we invested in key operational areas, such as sewer blockages and mains cleaning, to make a fast start in AMP6. The benefits of this will flow through to 2015/16. Raw materials and consumables increased by £4.9 million due to inflation and additional spending on water quality improvements.

Power costs decreased by £1.4 million. We continue to make good progress on our renewable energy generation, and generated the equivalent of 28% of gross consumption from self generation in the year, providing an effective hedge against energy price volatility.

Bad debt charges improved to 2.0% of turnover (UK GAAP) - down from 2.2% in 2013/14 as we saw the benefit of improved collection of older household debt and a range of social tariffs which help customers pay their bills.

Depreciation increased by £2.7 million due to the growing asset base. Infrastructure maintenance expenditure declined £5.5 million due to operational efficiencies and programme phasing as we closed out AMP5.

We completed our planned capital programme for AMP5, investing £547.4 million (UK GAAP, net of grants and contributions) during the year. Included in this total was net infrastructure maintenance expenditure of £134.8 million, which is charged to the income statement under IFRS.

Non-regulated – Severn Trent Services

	2015	2014 Restated	Increase/ (decrease)
	£m	£m	%
Turnover			
Services as reported	**216.3**	210.2	2.9%
Impact of exchange rate fluctuations	**–**	(3.5)	
Like for like	**216.3**	206.7	4.6%
Underlying PBIT			
Services as reported	**9.7**	13.3	(27.1%)
Like for like	**9.7**	13.3	(27.1%)

The results above exclude the Water Purification business, which has been classified as a discontinued operation.

In Severn Trent Services we saw good growth in turnover, up 4.6% on a constant currency basis to £216.3 million.

Underlying PBIT was down £3.6 million to just under £10 million. This was due to business development investment in US concessions and a number of one off favourable items in the prior year.

Corporate and other

Corporate overheads totalled £13.2 million (2013/14: £13.6 million). Our other businesses generated a net profit of £1.1 million (2013/14: £2.5 million).

Exceptional items before tax

Net exceptional operating costs totalled £18.7 million (2013/14: £15.2 million) and included:

- In our regulated business:
    - £28.3 million of restructuring costs to transform the business for AMP6, reducing the cost base and de-layering the management levels; offset by
    - £7.7 million of profit on disposal of property.
- In our non-regulated business:
    - £4.4 million of restructuring costs to prepare the business for retail competition in AMP6 and to reduce the cost base; offset by
    - The release of a £6.3 million provision previously made against accounts receivable in Italy.

Net finance costs

The group's net finance costs were £240.0 million, down from £247.9 million in the prior year. The benefits of lower interest rates (in particular on our RPI-linked debt) were partially offset by higher levels of net debt.

In addition, in March 2015 the group reduced 2015/16 financing risk by purchasing approximately 26% of the €700 million, fixed rate Eurobond which is due for repayment in March 2016. This led to a charge of £6.6 million in finance costs.

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.

In February and March 2015, the group took a number of financing steps in readiness for AMP6, aimed at reducing short term refinancing risk and increasing exposure to currently low floating interest rates. These steps included:

- Entering into a new £530 million, floating rate, nine year facility with the European Investment Bank. At 31 March 2015, £200 million of the facility had been drawn, with the balance drawn down in April 2015.

- On 31 March 2015 the group purchased €182.6 million of its €700 million Eurobond which is due for repayment in March 2016. On the same date the equivalent amount of the corresponding swap, paying fixed rate 6.325%, was cancelled.

- In March 2015 the group cancelled floating to fixed interest rate swaps with a notional principal amount of £275 million, for a cash payment of £139.2 million. The average fixed rate interest on the swaps was 5.2%. The cash payment was charged against the fair value liability on the balance sheet, and £11 million that had been recognised in reserves was recycled through the income statement.

- On 19 March 2015 the group amended and extended the revolving credit facility which was due to mature in October 2018. The new £900 million facility has a period of five years, with two one year extension options exercisable with lender consent. At 31 March 2015 £485 million of the facility was drawn.

The group continues to ensure it has adequate liquidity to support business requirements and provide headroom for downside risk. At 31 March 2015 the group had £176.7 million (2013/14: £123.2 million) in cash and cash equivalents and committed undrawn facilities amounting to £745 million (2013/14: £500 million).

The group is funded for its projected investment and cash flow needs up to at least July 2016.

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

The group's 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. 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 2015, interest rates for 67% (2013/14: 77%) of the group's net debt of £4,752.6 million were at fixed rates of interest.

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 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.

Derivatives are typically held to their full term and 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 adjusted 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 net notional principal of £583.6 million and cross currency swaps with a net notional principal of £396.6 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore 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 £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 100% of the wholesale energy cost for the first two years of AMP6 and around 50% of the energy cost for the third year of AMP6.

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

Taxation

The total tax charge for the year was £32.7 million (2013/14: credit of £152.9 million).

The current year tax charge for 2014/15 was £37.8 million (2013/14: £55.8 million before exceptional tax). The deferred tax credit was £5.1 million (2013/14: charge of £21.5 million before exceptional tax).

In the prior year there was an exceptional current tax credit of £59.2 million and an exceptional deferred tax credit of £171.0 million.

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 17.6% (2013/14: 17.3%).

We expect the effective rate of current tax, as defined above, for 2015/16 to be in the range of 17% to 19%.

Reported group profit for the period and earnings per share

After a profit of £4.7 million (2013/14: loss of £36.9 million) from discontinued operations, reported group profit for the period was £120.2 million (2013/14: £434.9 million). The decrease was a result of a fair value loss on financial instruments, largely due to lower expectations for future interest rates, and an exceptional tax credit in the prior year which arose from an agreement with HMRC on a long standing discussion regarding overpayments of tax in prior periods.

Adjusted basic earnings per share (from continuing operations, before exceptional items, gains/(losses) on financial instruments, current tax on gains/(losses) on financial instruments and deferred tax) was 107.2 pence (2013/14: 92.5 pence) (see note 9). The main drivers of the increase were an increase in underlying PBIT, as described above, a lower interest charge due to lower RPI year on year, and a lower current tax charge arising from adjustments of prior year computations.

Basic earnings per share were 49.9 pence (2013/14: 182.1 pence).

Group cash flow

	2015 £m	2014 £m
Cash generated from operations	**760.1**	730.2
Net capital expenditure	**(416.1)**	(463.9)
Net interest paid	**(218.2)**	(204.5)
Payment to close out interest rate swaps	**(139.2)**	-
Tax (paid)/received	**(28.6)**	27.2
Other cash flows	**(1.4)**	(0.6)
Free cash flow	**(43.4)**	88.4
Acquisitions and disposals	**-**	(11.4)
Dividends	**(196.9)**	(185.3)
Net issue of shares	**(16.7)**	2.3
Change in net debt from cash flows	**(257.0)**	(106.0)
Non cash movements	**(48.1)**	(44.2)
Change in net debt	**(305.1)**	(150.2)
Net debt at 1 April	**(4,447.5)**	(4,297.3)
Net debt at 31 March	**(4,752.6)**	(4,447.5)
Net debt comprises:		
Cash and cash equivalents	**176.7**	123.2
Bank loans	**(1,279.2)**	(594.9)
Other loans	**(3,467.5)**	(3,826.0)
Finance leases	**(180.0)**	(201.2)
Cross currency swaps	**(2.6)**	51.4
	(4,752.6)	(4,447.5)

Tax paid was £28.6 million (2013/14: received £27.2 million). The group has obtained agreement with HMRC to offset quarterly tax payments for the current year against a refund of overpayment of tax in prior periods, as outlined in the prior year results announcement.

Net debt at 31 March 2015 was £4,752.6 million (2013/14: £4,447.5 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 85.2% (2013/14: 80.3%). Net debt, expressed as a percentage of RCV at 31 March 2015 of £7,740 million was 61.4% (2013/14: 58.4%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.5 times (2013/14: 3.3 times) by profit before interest, tax, depreciation and exceptional items, and 2.3 times (2013/14: 2.1 times) by underlying PBIT.

The fair value of net debt at 31 March 2015 is estimated to be £5,645.4 million (2013/14: £4,799.7 million) compared to the book value of £4,752.6 million (2013/14: £4,447.5 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.

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.

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 £468.9 million as at 31 March 2015. This compares to a deficit of £348.3 million as at 31 March 2014. The movements in the net deficit can be summarised as follows:

	£m
Present value at 1 April 2014	(348.3)
Change in actuarial assumptions	(336.8)
Asset outperformance	193.4
Contributions in excess of income statement charge	22.8
Present value at 31 March 2015	(468.9)

The funding level has decreased to 81.7% (2013/14: 84.0%).

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 AMP5 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 50.94 pence (2013/14: 48.24 pence). This would give a total ordinary dividend for the year of 84.90 pence, an increase of 5.6% over the 2013/14 total ordinary dividend of 80.40 pence. The final ordinary dividend is payable on 24 July 2015 to shareholders on the register at 19 June 2015.

Regulatory Update

We continue to engage in the regulatory debate. We are collaborating constructively on Water 2020, the body that debates future reform and we are working with Ofwat, through an industry working group, on various position papers covering RPI/CPI, RCV allocation and access pricing.

We also work closely with other companies on thought leadership issues – for example, our recent report with Wessex Water and South West Water on catchment management and contestable catchment services.

We are fully engaged with Defra and Ofwat to make the implementation of the Water Act successful. We have seconded our people to support the Open Water programme and are active on various technical working groups to define the evolving detail of how the non retail household market will work from 2017.

We are engaging constructively with the Welsh government on Silk Commission proposals for devolving water policy.

On 25 March Ofwat published its consultation on the "PR14 reconciliation rulebook". The reconciliation rulebook seeks to explain how Ofwat will take into account performance over 2015-20, along with those factors not reconciled from the 2009 price review (PR09), at the 2019 price review (PR19). We disagree with Ofwat's proposed methodology, and believe no overnight adjustment to RCV is warranted in March 2020. We have submitted our representations on this issue and await Ofwat's conclusions.

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 levels of customer service in order to deliver what our customers tell us they want.
- Taking full advantage of the opportunities presented by 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.
- 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:

- Loss of data or interruptions to our key business systems as a result of cyber threats.
- 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 or in injury to an employee, contractor, customer or member of the public.

Financial risks:

- Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably.

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 2015

	Notes	2015 £m	2014 Restated £m
Turnover	2	**1,801.3**	1,756.7
Operating costs before exceptional items		**(1,261.0)**	(1,232.9)
Exceptional operating costs	3	**(18.7)**	(15.2)
Total operating costs		**(1,279.7)**	(1,248.1)
Profit before interest, tax and exceptional items	2	**540.3**	523.8
Exceptional items before interest and tax	3	**(18.7)**	(15.2)
Profit before interest and tax		**521.6**	508.6
Finance income	4	**81.7**	80.8
Finance costs	4	**(321.7)**	(328.7)
Net finance costs	4	**(240.0)**	(247.9)
(Losses)/gains on financial instruments	5	**(133.5)**	58.0
Share of results of associates and joint ventures		**0.1**	0.2
Profit before tax, (losses)/gains on financial instruments and exceptional items		**300.4**	276.1
Exceptional items before tax	3	**(18.7)**	(15.2)
(Losses)/gains on financial instruments	5	**(133.5)**	58.0
Profit on ordinary activities before taxation		**148.2**	318.9
Current tax excluding exceptional credit	6	**(37.8)**	(55.8)
Deferred tax excluding exceptional credit	6	**5.1**	(21.5)
Exceptional tax credit	6	**–**	230.2
Total taxation on profit on ordinary activities	6	**(32.7)**	152.9
Profit for the year from continuing operations		**115.5**	471.8
Profit/(loss) for the year from discontinued operations	8	**4.7**	(36.9)
Profit for the year		**120.2**	434.9
Attributable to:			
Owners of the company		**119.1**	433.8
Non-controlling interests		**1.1**	1.1
		120.2	434.9
Earnings per share (pence)			
From continuing operations			
Basic	9	**48.3**	198.5
Diluted	9	**48.1**	197.6
From continuing and discontinued operations			
Basic	9	**49.9**	182.1
Diluted	9	**49.6**	181.3

Consolidated statement of comprehensive income

Year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	**120.2**	434.9
Other comprehensive loss		
Items that will not be reclassified to the income statement:		
Net actuarial (loss)/gain on defined benefit pension schemes	**(143.4)**	3.7
Tax on net actuarial loss/gain	**28.8**	(0.8)
Deferred tax arising on change of rate	**-**	(12.3)
	(114.6)	(9.4)
Items that may be reclassified to the income statement:		
(Loss)/gain on cash flow hedges	**(13.8)**	15.1
Deferred tax on loss/gain on cash flow hedges	**2.8**	(3.0)
Amounts on cash flow hedges transferred to the income statement in the year	**23.6**	8.1
Deferred tax on transfers to income statement	**(4.7)**	(1.6)
Exchange movement on translation of overseas results and net assets	**8.9**	(9.7)
	16.8	8.9
Other comprehensive loss for the year	**(97.8)**	(0.5)
Total comprehensive income for the year	**22.4**	434.4
Attributable to:		
Owners of the company	**19.6**	434.3
Non-controlling interests	**2.8**	0.1
	22.4	434.4

Consolidated statement of changes in equity

Year ended 31 March 2015

	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 2013	233.3	89.7	72.3	437.9	833.2	10.8	844.0
Profit for the period	–	–	–	433.8	433.8	1.1	434.9
Gains on cash flow hedges	–	–	15.1	–	15.1	–	15.1
Deferred tax on gains on cash flow hedges	–	–	(3.0)	–	(3.0)	–	(3.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.1	–	8.1	–	8.1
Deferred tax on transfers to the income statement	–	–	(1.6)	–	(1.6)	–	(1.6)
Exchange movement on translation of overseas results and net assets	–	–	(8.7)	–	(8.7)	(1.0)	(9.7)
Actuarial gains	–	–	–	3.7	3.7	–	3.7
Tax on actuarial gains	–	–	–	(0.8)	(0.8)	–	(0.8)
Deferred tax arising from rate change	–	–	–	(12.3)	(12.3)	–	(12.3)
Total comprehensive income for the period	–	–	9.9	424.4	434.3	0.1	434.4
Share options and LTIPs							
- proceeds from shares issued	0.6	4.5	–	–	5.1	–	5.1

- value of employees' services	–	–	–	5.8	5.8	–	5.8
- own shares purchased	–	–	–	(2.8)	(2.8)	–	(2.8)
Current tax on share based payments	–	–	–	1.0	1.0	–	1.0
Adjustment arising from change in non-controlling interest	–	–	–	(13.7)	(13.7)	2.2	(11.5)
Dividends paid	–	–	–	(185.3)	(185.3)	(0.6)	(185.9)
At 31 March 2014	233.9	94.2	82.2	667.3	1,077.6	12.5	1,090.1
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
Actuarial losses	–	–	–	(143.4)	(143.4)	–	(143.4)
Tax on 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	**233.7**	**100.2**	**98.2**	**377.8**	**809.9**	**13.4**	**823.3**

Consolidated balance sheet

At 31 March 2015

	Note	**2015**	2014
		£m	£m
Non-current assets			
Goodwill		**14.3**	14.8
Other intangible assets		**66.7**	80.2
Property, plant and equipment		**7,239.8**	7,023.5
Interests in joint ventures and associates		**4.6**	5.2
Derivative financial assets		**13.5**	72.4
Available for sale financial assets		**0.1**	0.1
		7,339.0	7,196.2
Current assets			
Inventory		**16.7**	27.2
Trade and other receivables		**492.0**	513.2
Current tax receivable		**11.2**	16.5
Derivative financial assets		**13.5**	12.9
Cash and cash equivalents		**176.7**	123.2
Assets held for sale	8	**107.9**	–
		818.0	693.0
Total assets		**8,157.0**	7,889.2

	Note	2015	2014
Current liabilities			
Borrowings		**(463.0)**	(206.1)
Derivative financial liabilities		**(32.2)**	(24.8)
Trade and other payables		**(494.0)**	(412.7)
Provisions for liabilities and charges		**(15.9)**	(12.1)
Liabilities associated with assets held for sale	8	**(35.3)**	–
		(1,040.4)	(655.7)
Non-current liabilities			
Borrowings		**(4,463.7)**	(4,416.0)
Derivative financial liabilities		**(175.1)**	(206.2)
Trade and other payables		**(542.0)**	(492.4)
Deferred tax		**(625.1)**	(654.0)
Retirement benefit obligations	10	**(468.9)**	(348.3)
Provisions for liabilities and charges		**(18.5)**	(26.5)
		(6,293.3)	(6,143.4)
Total liabilities		**(7,333.7)**	(6,799.1)
Net assets		**823.3**	1,090.1
Equity			
Called up share capital		**233.7**	233.9
Share premium account		**100.2**	94.2
Other reserves		**98.2**	82.2
Retained earnings		**377.8**	667.3
Equity attributable to owners of the company		**809.9**	1,077.6
Non-controlling interests		**13.4**	12.5
Total equity		**823.3**	1,090.1

Consolidated cash flow statement

Year ended 31 March 2015

	Note	**2015 £m**	2014 £m
Cash generated from operations	11	**760.1**	730.2
Tax (paid)/received		**(28.6)**	27.2
Net cash generated from operating activities		**731.5**	757.4
Investing activities			
Interest received		**1.8**	6.5
Acquisition of non-controlling interests		**–**	(11.4)
Proceeds on disposal of property, plant and equipment and intangible assets		**11.6**	10.3
Purchases of intangible assets		**(17.7)**	(13.9)
Purchases of property, plant and equipment		**(446.2)**	(490.6)
Contributions and grants received		**36.2**	30.3
Net cash used in investing activities		**(414.3)**	(468.8)
Financing activities			
Interest paid		**(213.1)**	(206.9)
Payments to close out interest rate swaps		**(139.2)**	–
Interest element of finance lease payments		**(6.9)**	(4.2)
Dividends paid to owners of the company		**(196.9)**	(185.3)
Dividends paid to non-controlling interests		**(1.4)**	(0.6)
Repayments of borrowings		**(334.2)**	(172.4)
Repayments of obligations under finance leases		**(21.2)**	(0.4)
New loans raised		**685.0**	0.7

Issue of shares		**6.7**	5.1
Share buy back		**(17.5)**	–
Purchase of own shares		**(5.9)**	(2.8)
Net cash used in financing activities		**(244.6)**	(566.8)
Increase/(decrease) in cash and cash equivalents		**72.6**	(278.2)
Net cash and cash equivalents at beginning of period		**123.2**	403.2
Effect of foreign exchange rates		**0.2**	(1.8)
Transferred to assets held for sale	8	**(19.3)**	–
Net cash and cash equivalents at end of period		**176.7**	123.2
Net cash and cash equivalents comprise:			
Cash at bank and in hand		**24.9**	46.4
Short term deposits		**151.8**	76.8
Net cash and cash equivalents at end of period		**176.7**	123.2

Notes

1 Basis of preparation

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2015 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 2015 or 2014, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 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

Prior year figures in the consolidated income statement and related notes have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details see note 8.

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 and waste water principally in the US, UK and Europe.

a) Segmental results

		2015		2014
	Severn Trent Water	**Severn Trent Services**	Severn Trent Water	Severn Trent Services
				Restated

	£m	£m	£m	£m
External sales	**1,579.1**	**216.2**	1,542.6	209.9
Inter-segment sales	**2.1**	**0.1**	2.2	0.3
Total sales	**1,581.2**	**216.3**	1,544.8	210.2
Profit before interest, tax and exceptional items	**539.0**	**9.7**	518.6	13.3
Exceptional items	**(20.6)**	**1.9**	8.2	(2.3)
Profit before interest and tax	**518.4**	**11.6**	526.8	11.0
Profit before interest, tax and exceptional items is stated after:				
Amortisation of intangible assets	**22.2**	**1.0**	28.0	0.9
Depreciation of property, plant and equipment	**276.7**	**3.5**	267.5	3.2
Profit on disposal of fixed assets	**(0.4)**	**(0.1)**	(0.3)	(0.2)

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

	2015 £m	2014 Restated £m
Underlying PBIT		
- Severn Trent Water	**539.0**	518.6
- Severn Trent Services	**9.7**	13.3
- Corporate and other costs	**(12.1)**	(11.5)
Consolidation adjustments	**3.7**	3.4
Group underlying PBIT	**540.3**	523.8
Exceptional items allocated to segments		
- Severn Trent Water	**(20.6)**	8.2
- Severn Trent Services	**1.9**	(2.3)
- Corporate and other	**–**	(21.1)
Share of results of associates and joint ventures	**0.1**	0.2
Net finance costs	**(240.0)**	(247.9)
(Losses)/gains on financial instruments	**(133.5)**	58.0
Profit before tax and discontinued operations	**148.2**	318.9

b) Segmental capital employed

The segmental analysis of capital employed was as follows:

	2015		2014	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Operating assets	7,679.9	100.9	7,442.2	172.8
Goodwill	1.3	14.3	1.3	14.8
Interests in joint ventures and associates	0.1	4.5	0.1	5.0
Segment assets	7,681.3	119.7	7,443.6	192.6
Segment operating liabilities	(1,350.1)	(58.8)	(1,155.7)	(92.2)
Capital employed	**6,331.2**	**60.9**	**6,287.9**	**100.4**

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:

	2015		2014	
	Severn Trent Water £m	**Severn Trent Services £m**	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	15.4	1.0	8.2	5.5
Property, plant and equipment	481.3	2.7	519.6	6.9

3 Exceptional items before tax

	2015 £m	2014 Restated £m
Severn Trent Water		
Restructuring costs	**28.3**	–
Profit on disposal of fixed assets	**(7.7)**	(8.2)
	20.6	(8.2)
Severn Trent Services		
Restructuring costs	**4.4**	2.3
Release of bad debt provision	**(6.3)**	–
	(1.9)	2.3
Corporate and Other		
Professional fees related to LongRiver proposal	**–**	18.7
Provision for terminated operations and disposals	**–**	2.4
	–	21.1
Total exceptional operating items before tax	**18.7**	15.2

Exceptional tax is disclosed in note 6.

4 Net finance costs

	2015 £m	2014 £m
Investment income		
Bank deposits	**0.6**	1.8
Other financial income	**1.0**	3.0
Total interest revenue	**1.6**	4.8
Interest income on defined benefit scheme assets	**80.1**	76.0
Total investment income	**81.7**	80.8
Finance costs		
Interest on bank loans and overdrafts	**(17.1)**	(22.0)
Interest on other loans	**(201.8)**	(205.0)
Interest on finance leases	**(6.9)**	(7.7)
Total borrowing costs	**(225.8)**	(234.7)
Other financial expenses	**(1.4)**	(2.3)
Interest cost on defined benefit scheme obligations	**(94.5)**	(91.7)
Total finance costs	**(321.7)**	(328.7)
Net finance costs	**(240.0)**	(247.9)

5 (Losses)/gains on financial instruments

	2015	2014

	£m	£m
Loss on cross currency swaps used as hedging instruments in fair value hedges	**(2.6)**	(26.5)
Gain arising on adjustment for foreign currency debt in fair value hedges	**–**	21.9
Exchange gain on other loans	**73.3**	24.2
Loss on cash flow hedges transferred from equity	**(23.6)**	(8.1)
Hedge ineffectiveness on cash flow hedges	**2.8**	2.0
(Loss)/gain arising on swaps where hedge accounting is not applied	**(183.4)**	44.5
	(133.5)	58.0

6 Taxation

	2015			2014 Restated
	Total	Before exceptional tax	Exceptional tax	Total
	£m	£m	£m	£m
Current tax				
Current year at 21% (2014: 23%)	**46.4**	46.5	–	46.5
Prior years at 23% (2014: 24%)	**(8.6)**	9.3	(59.2)	(49.9)
Total current tax	**37.8**	55.8	(59.2)	(3.4)
Deferred tax				
Origination and reversal of temporary differences - current year	**(11.3)**	30.2	–	30.2
Origination and reversal of temporary differences - prior year	**6.2**	(8.7)	(56.2)	(64.9)
Exceptional credit arising from rate change	**–**	–	(114.8)	(114.8)
Total deferred tax	**(5.1)**	21.5	(171.0)	(149.5)
	32.7	77.3	(230.2)	(152.9)

The current tax charge was £37.8 million (2014: £55.8 million before exceptional tax). This includes a credit of £8.6 million (2014: charge of £9.3 million) arising from adjustments to prior year tax computations.

In the prior year an exceptional current tax credit of £59.2 million was recognised, reflecting the anticipated refund of overpayment of tax in prior periods. This was following an agreement with HMRC that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery. This also resulted in an exceptional deferred tax credit of £56.2 million.

The Finance Act 2013 was enacted in the prior year which implemented a reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015. This resulted in an additional exceptional deferred tax credit of £114.8 million in the income statement and a deferred tax charge of £12.3 million in reserves.

7 Dividends

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

	2015		2014	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2014 (2013)	**48.24**	**115.5**	45.51	108.6
Interim dividend for the year ended 31 March 2015 (2014)	**33.96**	**81.4**	32.16	76.7
Total dividends	**82.20**	**196.9**	77.67	185.3
Proposed final dividend for the year ended 31 March 2015	**50.94**			

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.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The proceeds of disposal are expected to exceed the carrying value of the group's share of the disposal group's net assets and hence no impairment loss has been recognised on the classification of these operations as held for sale.

The results of the discontinued operations were as follows:

	2015	2014
	£m	£m
Turnover	**108.2**	100.0
Operating costs before exceptional items	**(103.3)**	(107.0)
Exceptional operating items	**–**	(29.2)
Total operating costs	**(103.3)**	(136.2)
Profit/(loss) before interest and tax	**4.9**	(36.2)
Finance costs	**–**	–
Profit/(loss) before tax	**4.9**	(36.2)
Attributable tax expense	**(0.2)**	(0.7)
Profit/(loss) for the year	**4.7**	(36.9)
Attributable to:		
Owners of the company	**3.7**	(39.1)
Non-controlling interests	**1.0**	2.2
	4.7	(36.9)

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

	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)**
Bank overdrafts	**–**
Other borrowings	**–**
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:

	2015	2014
	£m	£m
Net cash flows attributable to:		
- operating activities	**1.8**	(8.3)
- investing activities	**(2.1)**	(4.3)
- financing activities	**3.6**	12.9

	3.3	**0.3**

Basic and diluted earnings per share from discontinued operations are as follows:

	2015			2014		
	Earnings	**Weighted average number of shares**	**Per share amount**	Earnings	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	pence
Basic earnings per share	**3.7**	**238.8**	**1.5**	(39.1)	238.2	(16.4)
Diluted earnings per share	**3.7**	**239.9**	**1.5**	(39.1)	239.3	(16.3)

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. 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 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

	2015	2014
	£m	£m
Profit for the period attributable to owners of the company	**119.1**	433.8
Adjusted for (profit)/loss from discontinued operations (see note 8)	**(3.7)**	39.1
Profit for the period from continuing operations attributable to owners of the company	**115.4**	472.9

Number of shares

	2015	2014
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.8**	238.2
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	**239.9**	239.3

b) Adjusted earnings per share from continuing operations

	2015	2014
	pence	pence
Adjusted basic earnings per share	**107.2**	92.5
Adjusted diluted earnings per share	**106.7**	92.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, exceptional tax, losses/gains on financial instruments, current tax related to losses/gains on financial instruments, exceptional items and current tax related to exceptional items. 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.

Adjustments to earnings

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

	2015 £m	2014 Restated £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**115.4**	472.9
Adjustments for		
- exceptional items before tax	**18.7**	15.2
- current tax related to exceptional items	**(4.7)**	(0.9)
- loss/(gain) on financial instruments	**133.5**	(58.0)
- current tax related to loss/(gain) on financial instruments	**(1.8)**	(0.1)
- deferred tax excluding exceptional charge	**(5.1)**	21.5
- exceptional tax	**–**	(230.2)
Earnings for the purpose of adjusted basic and diluted earnings per share	**256.0**	220.4

10 Retirement benefit obligations

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

	2015 £m	2014 £m
Present value at 1 April	**(348.3)**	(383.7)
Service cost	**(22.8)**	(22.5)
Past service cost	**(18.1)**	-
Net interest cost	**(14.4)**	(15.7)
Contributions from the sponsoring companies	**81.0**	73.0
Actuarial losses recognised in the statement of comprehensive income	**(143.4)**	3.6
Scheme administration costs	**(2.9)**	(3.0)
Present value at 31 March	**(468.9)**	(348.3)

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

	2015	2014
Price inflation	**3.0%**	3.3%
Pension increases in payment	**3.0%**	3.3%
Pension increases in deferment	**3.0%**	3.3%
Discount rate	**3.3%**	4.4%
Remaining life expectancy for members currently aged 65 (years)		
- men	**21.4**	21.3
- women	**24.5**	24.4
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**22.7**	22.6
- women	**26.1**	26.0

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 £50 million
Price inflation	Increase/decrease by 0.1%	Decrease/increase by £45 million
Mortality	Increase in life expectancy by 1 year	Increase by £75 million

11 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2015	2014

	£m	£m
Profit before interest and tax from continuing operations	**521.6**	508.6
Profit/(loss) before interest and tax from discontinued operations	**4.9**	(36.2)
Profit before interest and tax	**526.5**	472.4
Depreciation of property, plant and equipment	**281.6**	270.0
Amortisation of intangible assets	**24.2**	29.3
Impairment	**0.2**	29.5
Pension service cost	**40.9**	22.5
Defined benefit pension scheme administration costs	**2.9**	3.0
Pension contributions	**(81.0)**	(73.0)
Share based payments charge	**7.7**	6.2
Profit on sale of property, plant and equipment and intangible assets	**(8.6)**	(8.6)
Deferred income movement	**(10.1)**	(9.5)
Provisions charged to the income statement	**20.0**	11.0
Utilisation of provisions for liabilities and charges	**(26.0)**	(13.8)
Operating cashflows before movements in working capital	**778.3**	739.0
(Increase)/decrease in inventory	**(5.7)**	4.4
Increase in amounts receivable	**(32.5)**	(17.2)
Increase in amounts payable	**20.0**	4.0
Cash generated from operations	**760.1**	730.2
Tax (paid)/received	**(28.6)**	27.2
Net cash generated from operating activities	**731.5**	757.4

b) Exceptional cash flows

	2015 £m	2014 £m
Restructuring costs	**(25.4)**	(4.3)
Disposal of fixed assets	**9.4**	9.4
Disposal of subsidiaries	**(3.5)**	–
Settlement of customer contractual disputes	**–**	(1.9)
Obligations arising from disposal of businesses	**–**	(1.6)
Professional fees relating to LongRiver proposal	**–**	(18.7)
	(19.5)	(17.1)

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

	As at 1 April 2014 £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 2015 £m**
Net cash and cash equivalents	**123.2**	**72.6**	**–**	**–**	**0.2**	**(19.3)**[1]	**176.7**
Bank loans	(594.9)	(683.0)	–	(1.3)	–	–	**(1,279.2)**
Other loans	(3,826.0)	332.2	–	(20.7)	73.3	(26.3)	**(3,467.5)**
Finance leases	(201.2)	21.2	–	–	–	–	**(180.0)**
Cross currency swaps	51.4	–	(78.1)	–	–	24.1	**(2.6)**
Net debt	(4,447.5)	(257.0)	(78.1)	(22.0)	73.5	(21.5)	**(4,752.6)**

1. Other non cash movements on cash and cash equivalents represent amounts transferred to assets held for sale (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 (2014: €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

Following the year end the board of directors has proposed a final dividend of 50.94 pence per share. Further details of this are shown in note 7.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The proceeds of disposal are expected to exceed the carrying value of the group's share of the disposal group's net assets and hence no impairment loss has been recognised on the classification of these operations as held for sale. Further details of this are shown in note 8.

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 International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 15 July 2015.

Ofwat KPI performance 2014/15 vs. 2013/14

Ofwat measures all water and sewerage companies against a suite of KPIs. Our performance against these operational KPIs is set out in the table below.

KPI	2015	2014
Water Quality compliance[1,2]	99.96%	99.96%
Water Serviceability - Non infrastructure[4]	Deteriorating	Marginal
Water supply interruptions[3] (per properties, mins)	10	16
Leakage (ml/day)	441	441
Security of Supply	100	100
Water Serviceability – Infrastructure[4]	Stable	Marginal
Internal sewer flooding	164	204
Sewerage serviceability – Infrastructure[4]	Marginal	Marginal
Service Incentive Mechanism - (Quantitative)[6]	105	143
Pollution incidents (Infrastructure Category 1,2,3, per 10,000km network)[2,5,]	63.88	77.97
Serious pollution incidents (Infrastructure Category 1,2 per 10,000km network)[2,5]	1.62	1.27
Discharge permit compliance[2]	99.86%	99.29%
Sewerage serviceability - Non infrastructure[4]	Stable	Stable
Greenhouse gas emissions (ktCO2e)	490.6	510.9
Satisfactory sludge disposal	100%	100%

Notes:

1. Not a required Ofwat KPI but still reported
2. Measured on a calendar year basis
3. Number of minutes lost due to supply interruptions for 3 hours or longer per property served
4. Ofwat serviceability score assesses how effectively we are maintaining our network and assets against a range of measures. Assessed as either improving, stable, marginal or deteriorating.
5. Number of incidents adjusted to reflect company size.
6. The SIM qualitative score this year is not compatible with prior years due to a methodology change, so only the quantitative score is presented.

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’ or ‘estimates’ 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 Annual Report as at May 2013 (which have not been updated since); 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. Subject to compliance with applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so,

Nothing in this document should be regarded as a profits forecast.

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