# Preliminary Announcement of Annual Results
**29 May 2014**
**Results for the year to 31 March 2014**

## Highlights

- In-line or below inflation bill increases for last four years – Severn Trent remains lowest average combined bill in England and Wales
- Increased investment - £602 million capital expenditure (+8% year on year) - continues to improve services for the benefit of customers
- Customer service, sewer flooding and supply interruptions all improving
  - Improved or stable performance on 10 out of 14 Ofwat KPIs year on year
  - Customer satisfaction (SIM score) improved for 3rd consecutive year
- Continued growth in RCV[1,2] from £7,364 million to £7,618 million (+3.4%)
- Group underlying PBIT rose 4.3% year on year
  - Severn Trent Water underlying PBIT rose 4.0%
- Delivering on dividend policy – 6.0% growth year on year to 80.40 pence
- Constructive engagement with Ofwat on 2015-2020 business plan. Revised plan submission 27 June, draft determination expected 29 August, final determination expected 12 December

1. Regulatory Capital Value
2. March 2014 vs. March 2013

## Group Results

| **Underlying performance** | **2014** | 2013 Restated[4] | Increase/ (decrease) |
|---|---|---|---|
| | **£m** | £m | |
| Group turnover | **1,856.7** | 1,831.6 | 1.4% |
| Underlying group PBIT[1] | **516.8** | 495.4 | 4.3% |
| Underlying group profit before tax[2] | **269.1** | 251.3 | 7.1% |
| | **pence/ share** | pence/ share | |
| Adjusted basic eps[3] | **88.4** | 92.6 | (4.5%) |
| Total ordinary dividends | **80.40** | 75.85 | 6.0% |

| **Reported results** | **2014** | 2013 Restated[4] | Increase/ (decrease) |
|---|---|---|---|
| | **£m** | £m | |
| Group PBIT | **472.4** | 489.6 | (3.5%) |
| Group profit before tax | **282.7** | 200.2 | 41.2% |
| Group profit for the year | **434.9** | 218.9 | 98.7% |
| | **pence/ share** | pence/ share | |
| Basic earnings per share | **182.1** | 90.9 | 100.3% |

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 adoption of IAS 19 Revised (see note 1)

**Liv Garfield, Chief Executive Severn Trent Plc, said:**

"I'm delighted to have joined Severn Trent, a business which is proud to supply water and waste water services at the lowest price in England and Wales to its 4.3 million customers across the heart of the country. I am pleased to report that the business has delivered another year of good financial performance in 2013/14.

In my first 8 weeks I've really enjoyed exploring the organisation from top to toe, and have relished spending time out and about listening to the views of thousands of my colleagues. I have seen a great deal of teamwork, enthusiasm and commitment to serving our customers and to continually improving our performance. We know there is much more we need to do to improve our processes, speed up decision making and raise our standards.

I look forward to continuing our discussions with Ofwat in the next few weeks and submitting a revised plan for 2015-2020 on 27 June. I would like to thank all my colleagues for their hard work over the last 12 months. I am really looking forward to working with the great people in Severn Trent, as we continue to deliver for our customers and communities, shareholders, and the environment."

**Enquiries:**


| | | |
|---|---|---|
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**Preliminary Results Presentation and Webcast**

There will be a presentation of these results at 9:30am on Thursday 29 May 2014 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**

Severn Trent Water delivered a good financial performance in 2013/14, with growth in underlying PBIT year on year. Increases in directly managed costs were limited to inflation, with indirectly managed costs rising above inflation, largely due to higher power costs.

As part of our ongoing commitment to higher levels of service to customers, we made a further £602 million investment to deliver operational improvements in 2013/14, making the customer experience better, whilst also managing below inflation rises in customer bills. Key operational performance improvements included fewer interruptions to supply, fewer sewer flooding incidents, and serious pollution incidents down by 41%. We also remain on track to deliver our leakage reduction target over the current regulatory period. However as the operating review details, some other performance areas were not up to our required standards and we have assessed our asset serviceability in three areas as marginal. Actions are in progress to address this.

Our tax position this year reflects an outline agreement we have reached with HMRC on a long standing discussion regarding overpayments of tax in prior periods and we have now factored this into our business plan for 2015 - 2020 to support lower customer prices in AMP6.

We are acutely aware that many of our customers are facing serious cost of living pressures and we have kept our bill increases to at or below inflation for 4 years running, as well as working hard to help customers who are struggling, through our range of social tariffs. Keeping customers' bills down in the future remains a critical driver for us.

In our non–regulated business, Severn Trent Services, there was a mixed performance. Operating Services grew year on year on the back of new contract wins, while in Products our performance was disappointing, with customer project and delivery delays impacting both revenue and profits. We have taken swift action to restructure this business, to improve the cost base and be closer to expected growth markets. Costs of these actions taken during the year are reflected in these results, while the benefits will be seen progressively through the coming year.

We have a strong balance sheet and I am pleased to report we are continuing to deliver on our dividend policy, with 6.0% growth year on year to 80.40 pence. This will be followed by growth of 5.6% in 2014/15 to 84.90 pence.

We are continuing our constructive engagement with Ofwat on our 2015-2020 business plan and as previously announced, in order to give sufficient time and opportunity to fully engage with Ofwat, we will submit our revised business plan on 27 June, with a draft determination expected on 29 August, and a final determination expected 12 December. Following the final determination we will be able to elaborate on our dividend policy for 2015-2020.

Wales remains an important area of operation for us. We welcome the publication of the Welsh government's Water Strategy and we will be playing our full part to make a success of its implementation.

My focus for the next 12 months will be on achieving a good outcome from the current price review process, delivering operational and process improvements, making sure our customers are right at the heart of Severn Trent, supported by highly engaged and motivated people, and that we are ready to deliver on our plan for the next 5 years.

## Operating Review

### Regulated - Severn Trent Water

Turnover in Severn Trent Water increased by 2.2% year on year to £1,544.8 million, while underlying PBIT increased by 4.0% to £518.6 million.

Customer bills increased by less than inflation, and Severn Trent Water's customers continue to benefit from the lowest average combined water and sewerage bills in England and Wales. We saw a positive impact on turnover from measured consumption in the year, especially from domestic customers.

We have continued to manage our bad debt effectively, maintaining our bad debt charge at 2.2% of turnover, one of the lowest levels in the industry.

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

We continue to make good progress in delivering our capital investment programme, with an 8% increase year on year in capital expenditure to £602.1 million (UK GAAP, net of grants and contributions), compared to £555.4 million in the prior year, increasing activity on our trunk mains, cleansing sewers, investing more in leakage reduction and making improvements at sewage treatment works. This supports our Regulatory Capital Value (RCV) growth. To date we have invested £120 million or 80% of the additional £150 million investment programme we announced in May 2012. We remain on track to reach an RCV of around £8 billion by March 2015.

Turning to Ofwat's key performance indicators (KPIs), during the year we made good progress on a number of KPIs, including sewer flooding with a reduction of 20%, supply interruptions reducing by 45% and serious pollution incidents down 41% - Severn Trent was one of only two companies to deliver a year on year reduction in serious pollutions, as recognised by the Environment Agency. We have also seen an improvement in customer satisfaction, as measured by the SIM (Service Incentive Mechanism) score, but still need to continue improving our performance.

There is room for improvement in 3 areas which impact serviceability, namely sewer blockages, water quality at our water treatment works and supply interruptions over 12 hours, where our performance was below the standards we set ourselves. As a result we have assessed our serviceability in water infrastructure and non-infrastructure, and sewage infrastructure as marginal for this year. We will continue to drive sewer blockages down, which saw a 13% year on year reduction, and we have conducted a thorough end to end review of our water treatment processes to improve performance, which will start to deliver benefits in the current year. We have included shortfalls in our current 2015-2020 business plan in recognition that we have not delivered the level of performance we set ourselves.

Including these shortfalls and other legacy adjustments, any changes to the assumptions in our current business plan are not anticipated to be material to RCV.

We also made good progress on our own KPIs during the year. Since 2007 Severn Trent Water has published a set of KPIs annually, which have changed and evolved over time in line with the operational priorities of the business. Of Severn Trent Water's 16 KPIs we have seen a stable or improved performance in 12. The appendix provides more information on our KPI performance year on year.

### Non-regulated - Severn Trent Services

Our non-regulated business delivered a mixed performance, with growth in Operating Services contrasting with a disappointing performance in Products, which recorded a loss for the year. Overall there was like for like growth in sales but underlying PBIT, measured on the same basis, was lower vs. the prior year.

In Products, shipments were below expectations due to continuing customer project and delivery delays across a number of markets and this, along with poor execution on some internal projects, impacted negatively on both revenues and PBIT. Swift action has already been taken to address these issues. A new management team has been installed with plans launched to restructure and return this business to profitable growth over the next twelve months. Nevertheless we have taken a cautious view of the risks relating to these actions and have recorded an impairment of £24.7 million against the goodwill in this business.

In Italy we have now completed, with our partners, the longer term financing arrangements for our associate business (SII). This included an agreement to reduce the levels of any shareholder supporting guarantees and set up contracted and remunerated repayment arrangements over 15 years for loans provided by shareholders. SII has already paid over the first amounts due under these new arrangements which will over time reduce the fully provided gross exposure of the group.

Operating Services continued to perform well, with growth in revenue and PBIT year on year driven by new contract wins in the US, such as a 10 year contract with the city of Bridgeport, Connecticut, and the acquisition of 14 contracts in California from US based SouthWest Water. In the UK, our relationship with First Milk progressed with a 10 year design, build and operate contract to provide a new effluent treatment plant in South Wales.

**Group financial performance**

The group has delivered a good financial performance overall with year on year improvements at Severn Trent Water and the Operating Services part of our non regulated business Severn Trent Services, while the Products side has struggled with both market dynamics and execution on a number of projects.

In the regulated business, Severn Trent Water, costs that we directly control were held at inflation, while other costs over which we have less direct influence, notably power costs, continued to increase at levels higher than inflation, a trend we have seen in prior years. We maintained our good performance on bad debts at 2.2% of turnover (UK GAAP), which is creditable in the current climate where household incomes remain under pressure. We continued to sustain our planned investment in the assets and infrastructure that support this long term business with total capital expenditure at £602 million up 8% on the prior year though infrastructure maintenance expenditure included in this figure and expensed under IFRS accounting rules was down £7.4 million (5%) driven by shorter term operational requirements.

With no substantial change in financing structures this year, finance costs increased to £247.9 million (£244.3 million) largely as a result of the higher level of net debt.

In this preliminary results announcement PBIT is profit before interest and tax; underlying PBIT is PBIT excluding exceptional items before tax as set out in note 3. Our tax position this year reflects an outline agreement we have reached with HMRC on a long standing discussion regarding overpayments of tax in prior periods (as set out in note 6) and we have now factored this into our business plan for 2015 – 2020 to support lower customer prices in AMP6. Prior period comparative figures have been restated, where indicated, for the change in the accounting policy for retirement benefits. The impact is to decrease profit previously reported by £11.5 million, with an equal and opposite movement in reserves.

Group turnover was £1,856.7 million (£1,831.6 million), an increase of 1.4% over last year.

Underlying group PBIT increased by 4.3% to £516.8 million (£495.4 million). The primary factors affecting underlying PBIT are described in the commentary on Severn Trent Water and Severn Trent Services below.

There were net exceptional items before tax of £44.4 million (£5.8 million). Group PBIT decreased 3.5% to £472.4 million (£489.6 million).

**Regulated - Severn Trent Water**

Turnover in Severn Trent Water increased by 2.2% in 2013/14, to £1,544.8 million. Prices were increased by 1% less than November 2012 inflation of 3.0% from 1 April 2013 which gave rise to an increase in turnover of £29.8 million. The 2013 dry summer led to higher consumption from metered customers which increased turnover by £7.1 million year on year. Growth, net of the impact of meter optants, increased turnover by £1.3 million which was offset by other decreases amounting to £4.4 million.

Underlying PBIT increased by 4.0% to £518.6 million.

Operating costs increased by 3.1% to £600.3 million in line with expectations. Depreciation increased by £3.3 million due to the impact of capital expenditure increasing the size of the asset base and there was a decrease in infrastructure renewals expenditure of £7.4 million.

Directly managed costs increased in line with the level of inflation at 3.0% year on year, while indirectly managed costs, over which we have less control, increased by 3.2%.

| | **2014** | 2013 | Increase/ (decrease) | |
|---|---|---|---|---|
| | **£m** | £m | £m | % |
| **Directly managed costs** | | | | |
| Employee costs | **238.6** | 226.6 | 12.0 | 5.3 |
| Hired and contracted | **154.1** | 147.5 | 6.6 | 4.5 |
| Raw materials and consumables | **42.5** | 43.4 | (0.9) | (2.1) |
| Other | **48.8** | 49.5 | (0.7) | (1.4) |
| Costs capitalised | **(92.6)** | (87.1) | (5.5) | 6.3 |
| | **391.4** | 379.9 | 11.5 | 3.0 |
| **Indirectly managed costs** | | | | |
| Bad debts | **31.3** | 31.8 | (0.5) | (1.6) |
| Power | **65.3** | 60.6 | 4.7 | 7.8 |
| Rates and service charges | **112.3** | 110.1 | 2.2 | 2.0 |
| | **208.9** | 202.5 | 6.4 | 3.2 |
| **Operating costs** | **600.3** | 582.4 | 17.9 | 3.1 |

Overall net labour costs, including hired and contracted and after costs capitalised, were 4.6% higher period on period. Raw materials and consumables were lower than the prior year primarily due to savings within waste water.

Bad debts remained stable at 2.2% of turnover (UK GAAP) due to our continuing proactive approach and range of social tariffs to help customers pay their bills. The increase in power costs arose due to higher strike prices on our energy swaps.

During the year, Severn Trent Water invested £602.1 million (£555.4 million) (UK GAAP, net of grants and contributions) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure maintenance expenditure of £140.3 million (£147.7 million), charged to the income statement under IFRS.

**Non-regulated – Severn Trent Services**

| | **2014** | 2013 | Increase/ (decrease) |
|---|---|---|---|
| | **£m** | £m | % |
| **Turnover** | | | |
| Services as reported | **311.4** | 328.5 | (5.2%) |
| Structural changes | **-** | (21.1) | |
| Impact of exchange rate fluctuations | **-** | 0.1 | |
| Like for like | **311.4** | 307.5 | 1.3% |

| | **2014** | 2013 | Increase/ (decrease) |
|---|---|---|---|
| | **£m** | £m | % |
| **Underlying PBIT** | | | |
| Services as reported | **7.1** | 12.6 | (43.7%) |
| Structural changes | **-** | 1.2 | |
| Like for like | **7.1** | 13.8 | (48.6%) |

In Severn Trent Services there was like for like growth in sales but underlying PBIT, measured on the same basis, was lower.

The like for like results show the prior year results using current year exchange rates and exclude the amounts in the prior year that arose from the Analytical Services and Metering Services businesses, which were sold in that year.

Performance was mixed. Operating Services performed well and like for like turnover was £209.9 million, an increase of 8.0% compared to the prior year. However, in Water Purification shipments were below expectations due to continuing customer project and delivery delays leading to lower like for like turnover at £101.5 million, a decrease of 10.3% compared to the prior year.

Both businesses were impacted by net exceptional costs totalling £31.5 million, the detail of which is in the exceptional items section below.

**Corporate and other**

Corporate overheads amounted to £13.6 million (£14.6 million). Our other businesses generated an underlying profit of £2.5 million (loss of £2.7 million). This included an underlying profit on our captive insurance activity of £2.3 million (loss of £1.8 million) and an underlying loss of £0.4 million (loss of £0.9 million ) in our renewables business arising mainly from new investment feasibility and other similar costs taken to charge. There were exchange losses in Corporate of £0.7 million (gains of £0.4 million).

**Exceptional items before tax**

There were net exceptional operating costs in the year to 31 March 2014 of £44.4 million (£4.3 million) which are described in further detail below and in the prior year in Severn Trent Services a net exceptional loss on disposal of businesses of £1.5 million.

Exceptional operating items included:

- In Severn Trent Water, a profit of £8.2 million arising from the disposal of a number of properties;
- In Severn Trent Services exceptional costs of £31.5 million comprising:
    - In Water Purification, a goodwill impairment of £24.7 million as the prospects for this business depend on the successful execution of a plan to reduce the structural cost base of the business and move it closer to growth markets. Management has taken a cautious view of the risks of delivery of the expected benefits of this plan and, in line with the requirements of accounting standards, has not included these benefits in its assessment of the recoverability of the goodwill. At 31 March 2014 the group was committed to restructuring costs of £3.4 million arising from the implementation of this plan. A write down of software development costs of £2.4 million arising from the termination of a planned ERP system replacement that will no longer be required as a result of this reorganisation has also been recorded as an exceptional cost.
    - In Operating Services costs of £1.2 million arising from the reorganisation of the business in the UK following the acquisition of Costain's minority share in that business and £1.0 million in Italy to complete a reorganisation of the senior management structure commenced in the prior year.
    - Release of £1.2 million from a provision recorded in the prior year for a commercial legal dispute that was settled in the current year for an amount lower than had been estimated.
- In Corporate there were exceptional costs of £18.7 million arising from advisory, legal and other services related to LongRiver Partners approach and an additional provision of £2.4 million relating to potential liabilities from warranties granted on disposal of a business in a prior year.

**Net finance costs**

The group's net finance costs were £247.9 million, compared with £244.3 million in the prior year.

The effective interest rate, including index linked debt, for 2013/14 was 5.8% (5.9%). The cash interest rate was 4.9% (4.9%). The non-cash interest charge was lower year on year following repayment of an index linked loan during the year. This was offset by an increased cash interest charge on a higher level of net debt. Changes to the accounting standard IAS19 have resulted in an increase of £17.2 million in net pension finance cost (prior year figures have been restated by £12.4 million to reflect these changes).

**Gains/(losses) on financial instruments**

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

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

Accounting rules 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 the derivatives are held to their full term, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the group presents adjusted earnings figures that exclude these non-cash items. An analysis of the amounts credited to the income statement in the period is presented in note 5 to the financial statements.

**Profit before tax**

Underlying group profit before tax increased by 7.1% to £269.1 million (£251.3 million). Group profit before tax was £282.7 million (£200.2 million).

**Taxation**

The current year tax charge for 2013/14 before exceptional items was £56.5 million (charge of £27.9 million). This includes a charge of £9.3 million arising from adjustments to prior year tax computations. In the previous year adjustments to prior year tax computations resulted in a current tax credit of £29.2 million due primarily to an industry agreement over the treatment of infrastructure income in those computations. The deferred tax charge before exceptional tax was £21.5 million (credit of £8.2 million).

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

There was a further exceptional credit to deferred tax of £114.8 million (£36.7 million) arising from the reduction in corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% from 1 April 2015.

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

The total tax credit for the year was £152.2 million (credit of £18.7 million).

See note 6 for further detail.

The underlying effective rate of current tax, excluding prior year credits, exceptional tax credits and tax on exceptional items and financial instruments, calculated on profit before tax, exceptional items before tax and gains/(losses) on financial instruments was 17.3% (25.4%).

We expect the effective rate of current tax, as defined above, for 2014/15 to be in the range of 20% to 22%.

**Profit for the year and earnings per share**

Profit for the year was £434.9 million (£218.9 million).

Adjusted basic earnings per share (before exceptional items, gains/(losses) on financial instruments and deferred tax) were 88.4 pence (92.6 pence) (see note 8). Although underlying profit before tax was higher year on year, the previous year current tax charge benefited from a large prior year current tax credit and so adjusted earnings per share are lower year on year. Basic earnings per share were 182.1 pence (90.9 pence).

## Cash flow

| | **2014 £m** | 2013 £m |
|---|---|---|
| Cash generated from operations | **730.2** | 731.2 |
| Net capital expenditure | **(463.9)** | (401.8) |
| Net interest paid | **(204.5)** | (233.4) |
| Tax received/(paid) | **27.2** | (72.5) |
| Other cash flows | **(0.6)** | (0.5) |
| Free cash flow | **88.4** | 23.0 |
| Acquisitions and disposals | **(11.4)** | 11.1 |
| Dividends | **(185.3)** | (322.0) |
| Net issue of shares | **2.3** | 5.3 |
| Change in net debt from cash flows | **(106.0)** | (282.6) |
| Non cash movements | **(44.2)** | (46.9) |
| Change in net debt | **(150.2)** | (329.5) |
| Net debt 1 April | **(4,297.3)** | (3,967.8) |
| Net debt at 31 March | **(4,447.5)** | (4,297.3) |
| **Net debt comprises:** | | |
| Cash and cash equivalents | **123.2** | 403.6 |
| Bank overdrafts | **-** | (0.4) |
| Cross currency swaps hedging debt | **51.4** | 100.7 |
| Bank loans | **(594.9)** | (758.7) |
| Other loans | **(3,826.0)** | (3,840.9) |
| Finance leases | **(201.2)** | (201.6) |
| | **(4,447.5)** | (4,297.3) |

Cash generated from operations was £730.2 million (£731.2 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £463.9 million (£401.8 million). Net interest paid decreased to £204.5 million (£233.4 million).

In the first part of the year the group made payments of tax, however, the exceptional credits in prior periods arising from the water industry's outline agreement with HMRC resulted in tax refunds in the second half of the year. In total the group paid £48.5 million of tax and received tax refunds of £75.7 million resulting in net tax received of £27.2 million.

Net debt at 31 March 2014 was £4,447.5 million (£4,297.3 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 80.3% (83.6%). Net debt, expressed as a percentage of RCV at 31 March 2014 of £7,618 million was 58.4% (58.4%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.3 times (3.2 times) by profit before interest, tax, depreciation and exceptional items, and 2.1 times (2.0 times) by underlying PBIT.

Following the introduction of the new accounting standard, IFRS 13 'Fair Value Measurement', the group is required to amend its approach to estimating the fair value of its debt instruments to comply with the new standard which now places more emphasis on quoted prices in active markets rather than expected cash flows discounted using rates derived from market data. The fair value of net debt at 31 March 2014 is estimated to be £4,799.8 million (£4,880.4 million) compared to the book value of £4,447.5 million (£4,297.3 million).

**Treasury management and liquidity**

The group's principal treasury management objectives are:

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

The group continues to carefully monitor liquidity. At 31 March 2014 the group had £123.2 million (£403.6 million)in cash and cash equivalents and committed undrawn facilities amounting to £500 million (£500 million). Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs up to January 2015 without recourse to committed facilities or new debt.

Cash is invested in deposits with highly rated banks and liquidity funds and the list of counterparties is regularly reviewed.

The group's current policy for the management of interest rate risk requires that not less than 45% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2014, interest rates for 77% of the group's net debt of £4,447.5 million were fixed.

The group holds interest rate swaps with a net notional principal of £591.4 million and cross currency swaps with a net notional principal of £610.2 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a credit of £66.7 million in relation to these instruments.

The group has entered into a series of forward starting interest rate swaps with a notional principal amount of £450 million that hedge the interest rate risk on the anticipated borrowing requirements of Severn Trent Water for AMP5. These swaps are treated as cash flow hedges and the changes in fair value are taken to other comprehensive income. During the year swaps with a notional principal amount of £225 million reached their start dates. Hedge accounting for these swaps was terminated as at 1 April 2013 because the group was not able to identify specific debt instruments that would qualify as the hedged items in a future hedging relationship. The fair value held in other comprehensive income at the date of termination will be amortised to the income statement over their remaining lives.

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

The group's long term credit ratings are:

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

## Pensions

The group operates two defined benefit pension schemes, of which the UK Severn Trent Pension Scheme (STPS) is by far the largest. Formal triennial actuarial valuations and funding agreements as at 31 March 2013 for the STPS and the other smaller defined benefit pension scheme have been agreed and renewed in the year. Deficit reduction contributions in total include a payment of £40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and then £12 million per annum in subsequent years to 2024/25. Further payments of £8 million per annum through an asset backed funding arrangement will also continue to 31 March 2032.

As previously announced, the final salary sections of the pension schemes will close to future accrual on 31 March 2015. The final salary sections were closed to new entrants in 2006. Consequently the age profile of scheme participants is expected to rise and hence service costs are also expected to rise until future accrual ceases in March 2015.

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

The key actuarial assumptions for the defined benefit schemes have been updated for these accounts. On an IAS 19 basis, the estimated net position of the schemes was a deficit of £348.3 million as at 31 March 2014. This compares to a deficit of £383.7 million as at 31 March 2013. The movements in the net deficit are summarised in note 9. The funding level has increased to 84.0% (81.8%).

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

| | **2014** | 2013 |
|---|---|---|
| Price inflation | **3.3%** | 3.2% |
| Pension increases in payment | **3.3%** | 3.2% |
| Pension increases in deferment | **3.3%** | 3.2% |
| Discount rate | **4.4%** | 4.4% |
| | | |
| Remaining life expectancy for members currently aged 65 (years) | | |
| - men | **21.3** | 21.5 |
| -women | **24.4** | 24.6 |
| Remaining life expectancy for members currently aged 45 upon retirement at 65 (years) | | |
| - men | **22.6** | 22.7 |
| -women | **26.0** | 26.2 |

The following table summarises the estimated impact on scheme liabilities resulting from changes to key actuarial assumptions whilst holding all other assumptions constant.

| **Assumption** | **Change in assumption** | **Impact on scheme liabilities** |
|---|---|---|
| Discount rate | Increase/decrease by 0.1% | Decrease/increase by £38 million |
| Price inflation | Increase/decrease by 0.1% | Increase/decrease by £35 million |
| Mortality | Increase in life expectancy by 1 year | Increase by £55 million |

**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 AMP 5 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 48.24 pence (45.51 pence). This would give a total ordinary dividend for the year of 80.40 pence, an increase of 6.0% over the 2012/13 total ordinary dividend (75.85 pence). The final ordinary dividend is payable on 25 July 2014 to shareholders on the register at 20 June 2014. The policy for the remainder of the AMP5 period remains unchanged.

**Regulatory Update**

On 2 December 2013 Severn Trent Water submitted its business plan for 2015-2020 to Ofwat. Ofwat announced on 10 March that Severn Trent Water's business plan had not been rated as pre-qualified for Enhanced status and on 4 April published further detail on its assessment of company plans.

As noted in our publication on 17 April, we have a number of challenges to address in our plan for 2015-2020. These include, legacy adjustments for AMP5, outcome delivery incentives (ODIs) and in particular one element of wholesale water costs, namely the Birmingham strategic resilience project, which accounts for £255 million of totex (total expenditure) over the 5 years.

In order to ensure there is sufficient time and opportunity to fully engage with Ofwat Severn Trent Water has decided to submit its revised plan to Ofwat on 27 June. Once we have submitted our plan we will publish an RNS announcement detailing the key components.

We expect a draft determination from Ofwat on 29 August, followed by a final determination on 12 December 2014. Only after that date will we be able to decide and communicate our new dividend policy.

We look forward to continuing our constructive and positive dialogue with Ofwat, our customer challenge group, the Severn Trent Water Forum, and other stakeholders over the coming weeks.

The Water Act is now on the statute books. Among other measures, it provides the framework for allowing all commercial and public sector entities to choose their retail supplier by April 2017. Non-household retail separation will also be allowed and wholesale competition will be introduced for raw water and sludge. Severn Trent has anticipated and supported these changes and will look to capture opportunities that competition in these markets will bring. With the legislative framework in place, our priority now is to work with our regulators and other stakeholders to develop the detail for how these new markets will function.

**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.
- Developing and delivering a 5-year business plan which is acceptable to Ofwat, our customers and other stakeholders and which is financeable within the assumptions we have used.
- The regulatory landscape is complex and subject to on-going change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.

**Operations, assets and people:**

- Failure of our assets or processes, resulting in injury to an employee, contractor, customer or member of the public.
- Achieving all our regulatory targets from Ofwat in relation to ongoing operational performance of our assets failure of which may result in regulatory penalties.
- Inability to provide a continuous supply of quality water to large populations within our area, or asset failure resulting in damage to third party property.

**Financial risks:**

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

**Outlook**

**Regulated business**
Prices at Severn Trent Water rose by 1.5% in April 2014, reflecting November RPI of 2.6% and a k-factor of minus 1.1%.

Consumption across our measured income base is expected to be lower year on year.

We aim to maintain our bad debt level at around 2.2% of turnover and we continue to monitor developments such as unemployment levels and changes to the UK benefits system closely.

Operating costs are expected to rise year on year due to the impact of inflation, increases in quasi taxes and power costs, partially offset by efficiency improvements. Operating expenditure is expected to be in line, on a like for like basis, with the level of the AMP5 Final Determination.

We estimate net capital expenditure (UK GAAP, net of grants and contributions) to complete our AMP5 programme of £2.5 billion will be in the range £510 million to £530 million, including an estimated £15 million related to private drains and sewers The level of net infrastructure renewals expenditure included in this range is expected to be £125 million to £135 million.

**Non-regulated business**
For our non-regulated business, we expect further growth in Operating Services. In Products we expect to see the benefits of the restructuring programme, which is currently being implemented, through the second half of the year.

**Group**
The group interest charge is expected to be higher year on year due to a higher level of net debt.

The effective current tax rate for the group is expected to be between 20% and 22%.

Under our dividend policy of RPI+3% growth the dividend is set to be 84.90p, representing growth of 5.6% year on year.

Severn Trent Plc will announce its Interim results for the period ending 30 September 2014 on 25 November 2014.

**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 2014**

| | | 2014 | 2013 Restated |
|---|---|---|---|
| **Turnover** | | **1,856.7** | 1,831.6 |
| Operating costs before exceptional items | | **(1,339.9)** | (1,336.2) |
| Exceptional operating costs | 3 | **(44.4)** | (4.3) |
| **Total operating costs** | | **(1,384.3)** | (1,340.5) |
| Exceptional loss on disposal of business | 3 | **–** | (1.5) |
| Profit before interest, tax and exceptional items | 2 | **516.8** | 495.4 |
| Exceptional items before interest and tax | 3 | **(44.4)** | (5.8) |
| **Profit before interest and tax** | | **472.4** | 489.6 |
| Finance income | 4 | **80.8** | 78.4 |
| Finance costs | 4 | **(328.7)** | (322.7) |
| Net finance costs | 4 | **(247.9)** | (244.3) |
| Gains/(losses) on financial instruments | 5 | **58.0** | (45.3) |
| Share of results of associates and joint ventures | | **0.2** | 0.2 |
| Profit before tax, gains/(losses) on financial instruments and exceptional items | | **269.1** | 251.3 |
| Exceptional items before tax | 3 | **(44.4)** | (5.8) |
| Gains/(losses) on financial instruments | 5 | **58.0** | (45.3) |
| **Profit on ordinary activities before taxation** | | **282.7** | 200.2 |
| Current tax excluding exceptional credit | 6 | **(56.5)** | (27.9) |
| Deferred tax excluding exceptional credit | 6 | **(21.5)** | 8.2 |
| Exceptional tax credit | 6 | **230.2** | 38.4 |
| Total taxation on profit on ordinary activities | | **152.2** | 18.7 |
| **Profit for the year** | | **434.9** | 218.9 |
| Attributable to: | | | |
| Owners of the company | | **433.8** | 216.0 |
| Non-controlling interests | | **1.1** | 2.9 |
| | | **434.9** | 218.9 |
| **Earnings per share (pence)** | | | |
| Basic | 8 | **182.1** | 90.9 |
| Diluted | 8 | **181.3** | 90.5 |

## Consolidated statement of comprehensive income

## Year ended 31 March 2014

| | **2014** | 2013 Restated |
|---|---|---|
| | **£m** | £m |
| **Profit for the year** | **434.9** | 218.9 |
| **Other comprehensive income** | | |
| Items that will not be reclassified to the income statement: | | |
| Net actuarial gain/(loss) on defined benefit pension schemes | **3.7** | (39.2) |
| Tax on net actuarial gain/loss | **(0.8)** | 9.0 |
| Deferred tax arising on change of rate | **(12.3)** | (3.4) |
| | **(9.4)** | (33.6) |
| Items that may be reclassified to the income statement: | | |
| Gain/(loss) on cash flow hedges | **15.1** | (39.0) |
| Deferred tax on gain/loss on cash flow hedges | **(3.0)** | 9.0 |
| Amounts on cash flow hedges transferred to the income statement in the year | **8.1** | 14.8 |
| Deferred tax on transfers to income statement | **(1.6)** | (3.4) |
| Exchange movement on translation of overseas results and net assets | **(9.7)** | 5.4 |
| | **8.9** | (13.2) |
| **Other comprehensive loss for the year** | **(0.5)** | (46.8) |
| **Total comprehensive income for the year** | **434.4** | 172.1 |
| **Attributable to:** | | |
| Owners of the company | **434.3** | 168.7 |
| Non-controlling interests | **0.1** | 3.4 |
| | **434.4** | 172.1 |

## Consolidated statement of changes in equity

## Year ended 31 March 2014

| | 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 2012 | 232.6 | 83.8 | 400.2 | 256.9 | 973.5 | 7.9 | 981.4 |
| Profit for the period (restated see Note 3) | – | – | – | 216.0 | 216.0 | 2.9 | 218.9 |
| Losses on cash flow hedges | – | – | (39.0) | – | (39.0) | – | (39.0) |
| Deferred tax on losses on cash flow hedges | – | – | 9.0 | – | 9.0 | – | 9.0 |
| Amounts on cash flow hedges transferred to the income statement | – | – | 14.8 | – | 14.8 | – | 14.8 |
| Deferred tax on transfers to the income statement | – | – | (3.4) | – | (3.4) | – | (3.4) |
| Exchange movement on translation of overseas results and net assets | – | – | 4.9 | – | 4.9 | 0.5 | 5.4 |
| Actuarial losses (restated see Note 3) | – | – | – | (39.2) | (39.2) | – | (39.2) |
| Tax on actuarial losses (restated see Note 3) | – | – | – | 9.0 | 9.0 | – | 9.0 |
| Deferred tax arising from rate change | – | – | – | (3.4) | (3.4) | – | (3.4) |
| Total comprehensive income for the period | – | – | (13.7) | 182.4 | 168.7 | 3.4 | 172.1 |
| Share options and LTIPs | | | | | | | |
| - proceeds from shares issued | 0.7 | 5.9 | – | – | 6.6 | – | 6.6 |
| - value of employees' services | – | – | – | 6.9 | 6.9 | – | 6.9 |
| - own shares purchased | – | – | – | (1.3) | (1.3) | – | (1.3) |
| Current tax on share based payments | – | – | – | 0.8 | 0.8 | – | 0.8 |
| Transfer of infrastructure reserve | – | – | (314.2) | 314.2 | – | – | – |
| Dividends paid | – | – | – | (322.0) | (322.0) | (0.5) | (322.5) |
| At 31 March 2013 | 233.3 | 89.7 | 72.3 | 437.9 | 833.2 | 10.8 | 844.0 |
| 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** |

## Consolidated balance sheet

## At 31 March 2014

| | Notes | 2014 £m | 2013 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **14.8** | 41.7 |
| Other intangible assets | | **80.2** | 99.3 |
| Property, plant and equipment | | **7,023.5** | 6,760.0 |
| Interests in joint ventures | | **0.3** | 0.3 |
| Interests in associates | | **4.9** | 4.7 |
| Derivative financial assets | | **72.4** | 130.1 |
| Available for sale financial assets | | **0.1** | 0.1 |
| | | **7,196.2** | 7,036.2 |
| **Current assets** | | | |
| Inventory | | **27.2** | 32.1 |
| Trade and other receivables | | **513.2** | 506.0 |
| Current tax receivable | | **16.5** | 40.5 |
| Derivative financial assets | | **12.9** | 1.0 |
| Cash and cash equivalents | | **123.2** | 403.6 |
| | | **693.0** | 983.2 |
| **Total assets** | | **7,889.2** | 8,019.4 |
| **Current liabilities** | | | |
| Borrowings | | **(206.1)** | (170.3) |
| Derivative financial liabilities | | **(24.8)** | (0.6) |
| Trade and other payables | | **(412.7)** | (399.0) |
| Provisions for liabilities and charges | | **(12.1)** | (11.1) |
| | | **(655.7)** | (581.0) |
| **Non-current liabilities** | | | |
| Borrowings | | **(4,416.0)** | (4,631.3) |
| Derivative financial liabilities | | **(206.2)** | (309.6) |
| Trade and other payables | | **(492.4)** | (453.4) |
| Deferred tax | | **(654.0)** | (785.8) |
| Retirement benefit obligations | 9 | **(348.3)** | (383.7) |
| Provisions for liabilities and charges | | **(26.5)** | (30.6) |
| | | **(6,143.4)** | (6,594.4) |
| **Total liabilities** | | **(6,799.1)** | (7,175.4) |
| **Net assets** | | **1,090.1** | 844.0 |
| Equity | | | |
| Called up share capital | | **233.9** | 233.3 |
| Share premium account | | **94.2** | 89.7 |
| Other reserves | | **82.2** | 72.3 |
| Retained earnings | | **667.3** | 437.9 |
| **Equity attributable to owners of the company** | | **1,077.6** | 833.2 |
| Non-controlling interests | | **12.5** | 10.8 |
| **Total equity** | | **1,090.1** | 844.0 |

## Consolidated cash flow statement

## Year ended 31 March 2014

| | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| Cash generated from operations | 10 | **730.2** | 731.2 |
| Tax received/(paid) | | **27.2** | (72.5) |
| **Net cash generated from operating activities** | | **757.4** | 658.7 |
| **Investing activities** | | | |
| Interest received | | **6.5** | 3.7 |
| Net cash inflow from sale of businesses | | **–** | 12.4 |
| Acquisition of subsidiaries | | **–** | (1.3) |
| Acquisition of non-controlling interests | | **(11.4)** | – |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **10.3** | 16.1 |
| Purchases of intangible assets | | **(13.9)** | (16.0) |
| Purchases of property, plant and equipment | | **(490.6)** | (429.2) |
| Contributions and grants received | | **30.3** | 27.3 |
| **Net cash used in investing activities** | | **(468.8)** | (387.0) |
| Interest paid | | **(206.9)** | (186.8) |
| Closed out swaps | | **–** | (44.3) |
| Interest element of finance lease payments | | **(4.2)** | (6.0) |
| Dividends paid to shareholders of the parent | | **(185.3)** | (322.0) |
| Dividends paid to non-controlling interests | | **(0.6)** | (0.5) |
| Repayments of borrowings | | **(172.4)** | (259.9) |
| Repayments of obligations under finance leases | | **(0.4)** | (17.4) |
| New loans raised | | **0.7** | 668.3 |
| Issues of shares | | **5.1** | 6.6 |
| Purchase of own shares | | **(2.8)** | (1.3) |
| **Net cash used in financing activities** | | **(566.8)** | (163.3) |
| **(Decrease)/increase in cash and cash equivalents** | | **(278.2)** | 108.4 |
| Net cash and cash equivalents at beginning of period | | **403.2** | 294.7 |
| Effect of foreign exchange rates | | **(1.8)** | 0.1 |
| **Net cash and cash equivalents at end of period** | | **123.2** | 403.2 |
| Total cash and cash equivalents | | **123.2** | 403.6 |
| Bank overdrafts | | **–** | (0.4) |
| | | **123.2** | 403.2 |

## 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 2014 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 then Companies Act 2006, for the years ended 31 March 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 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) New accounting policies

The group has adopted the provisions of IAS 19 'Employee benefits' (revised). As well as requiring additional disclosures in the group's financial statements for the year ending 31 March 2014, the revised standard changes the method of calculating the net finance cost on defined benefit pension schemes. Previously the discount rate used to calculate the scheme's liabilities was applied to the liabilities and the expected return on the scheme's assets was applied to the assets. Under the revised standard the discount rate is applied to the net deficit. Scheme administration costs were previously deducted from the expected return on assets. Such costs are now included in operating costs. There is no change to the measurement of the net surplus or deficit recognised in the balance sheet. The difference between the interest income calculated on the scheme assets and the actual return is recognised in other comprehensive income as an actuarial gain or loss. The net impact of this change is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£m** | £m |
| **Profit for the period** | | |
| Operating profit | **(3.0)** | (2.6) |
| Net finance cost | **(17.2)** | (12.4) |
| Decrease in profit before tax for the period | **(20.2)** | (15.0) |
| Deferred tax | **4.0** | 3.5 |
| Decrease in profit for the period | **(16.2)** | (11.5) |
| | | |
| **Other comprehensive income** | | |
| Net actuarial gains | **20.2** | 15.0 |
| Tax on actuarial gains | **(4.0)** | (3.5) |
| Decrease in other comprehensive loss | **16.2** | 11.5 |
| **Impact on net assets** | **-** | - |

The group has adopted IFRS 13 'Fair value measurement' with effect from 1 April 2013. This standard sets out the approach to determining fair values in financial statements. The standard requires the group to take account of its own credit risk in determining the fair value of financial liabilities in its financial statements. The standard is applied prospectively and hence has no impact on amounts previously recognised. In the current period the fair value of derivative financial liabilities and the gain on financial instruments was £3.6 million lower as a result of the adoption of the standard. Following adoption of the standard the group has reviewed and amended its methodology for calculating the fair value of debt. If this methodology had been adopted at the previous year end the fair value of debt disclosed would have been £190 million lower .

The impacts of these changes on basic and diluted earnings per share are shown in 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.

| **2014** | **Severn Trent Water £m** | **Severn Trent Services £m** |
|---|---|---|
| External sales | 1,542.6 | 310.0 |
| Inter-segment sales | 2.2 | 1.4 |
| Total sales | **1,544.8** | **311.4** |
| Profit before interest, tax and exceptional items | 518.6 | 7.1 |
| Exceptional items | 8.2 | (31.5) |
| Profit/(loss) before interest and tax | **526.8** | **(24.4)** |
| **Profit before interest, tax and exceptional items is stated after:** | | |
| Amortisation of intangible assets | 28.0 | 1.3 |
| Depreciation of property, plant and equipment | 267.5 | 4.3 |
| Profit on disposal of fixed assets | (0.3) | (0.2) |

| 2013 | Severn Trent Water Restated £m | Severn Trent Services Restated £m |
|---|---|---|
| External sales | 1,509.3 | 320.6 |
| Inter-segment sales | 1.7 | 7.9 |
| Total sales | 1,511.0 | 328.5 |
| Profit before interest, tax and exceptional items | 498.5 | 12.6 |
| Exceptional items | 13.3 | (16.1) |
| Profit/(loss) before interest and tax | 511.8 | (3.5) |
| Profit before interest, tax and exceptional items is stated after: | | |
| Amortisation of intangible assets | 28.9 | 1.5 |
| Depreciation of property, plant and equipment | 261.4 | 5.3 |
| Loss/(profit) on disposal of fixed assets | 1.5 | (1.4) |

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

| | **2014** | 2013 Restated |
|---|---|---|
| | **£m** | £m |
| **Underlying PBIT** | | |
| - Severn Trent Water | **518.6** | 498.5 |
| - Severn Trent Services | **7.1** | 12.6 |
| - Corporate and other costs | **(11.5)** | (16.9) |
| Consolidation adjustments | **2.6** | 1.2 |
| **Group underlying PBIT** | **516.8** | 495.4 |
| Exceptional items allocated to segments | | |
| - Severn Trent Water | **8.2** | 13.3 |
| - Severn Trent Services | **(31.5)** | (16.1) |
| - Corporate and other | **(21.1)** | (3.0) |
| Share of results of associates and joint ventures | **0.2** | 0.2 |
| Net finance costs | **(247.9)** | (244.3) |
| Gains/(losses) on financial instruments | **58.0** | (45.3) |
| **Profit before tax** | **282.7** | 200.2 |

The segmental analysis of capital employed was as follows:

| **2014** | **Severn Trent Water £m** | **Severn Trent Services £m** |
|---|---|---|
| Operating assets | 7,442.2 | 172.8 |
| Goodwill | 1.3 | 14.6 |
| Interests in joint ventures and associates | 0.1 | 5.0 |
| Segment assets | 7,443.6 | 192.4 |
| Segment operating liabilities | (1,155.7) | (92.2) |
| **Capital employed** | **6,287.9** | **100.2** |

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

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:

| **2014** | **Severn Trent Water £m** | **Severn Trent Services £m** |
|---|---|---|
| Other intangible assets | 8.2 | 5.5 |
| Property, plant and equipment | 519.6 | 6.9 |

| 2013 | Severn Trent Water £m | Severn Trent Services £m |
|---|---|---|
| Other intangible assets | 13.6 | 2.2 |
| Property, plant and equipment | 451.7 | 8.6 |

## 3 Exceptional items before tax

| | 2014 £m | 2013 £m |
|---|---|---|
| **Exceptional operating costs** | | |
| **Severn Trent Water** | | |
| Profit on disposal of fixed assets | **(8.2)** | (13.3) |
| | **(8.2)** | (13.3) |
| **Severn Trent Services** | | |
| Restructuring costs | **5.6** | 1.6 |
| Impairment of intangible assets | **4.8** | 4.5 |
| Impairment of goodwill | **24.7** | 4.6 |
| Provision for customer contractual dispute | **(3.6)** | 3.9 |
| | **31.5** | 14.6 |
| **Corporate and Other** | | |
| Professional fees on proposed transaction that did not proceed | **–** | 3.0 |
| Professional fees related to LongRiver proposal | **18.7** | – |
| Provision for terminated operations and disposals | **2.4** | – |
| | **21.1** | 3.0 |
| **Total exceptional operating costs** | **44.4** | 4.3 |
| **Exceptional loss on disposal of businesses** | **–** | 1.5 |
| **Exceptional items before tax** | **44.4** | 5.8 |

Exceptional tax is disclosed in note 6.

## 4 Net finance costs

| | 2014 | 2013 |
|---|---|---|
| | **Total £m** | Total £m |
| **Investment income** | | |
| Bank deposits | **1.8** | 2.6 |
| Other financial income | **3.0** | - |
| Total interest revenue | **4.8** | 2.6 |
| Interest income on defined benefit scheme assets | **76.0** | 75.8 |
| | **80.8** | 78.4 |
| **Finance costs** | | |
| Interest on bank loans and overdrafts | **(22.0)** | (27.7) |
| Interest on other loans | **(205.0)** | (191.6) |
| Interest on finance leases | **(7.7)** | (8.5) |
| Total borrowing costs | **(234.7)** | (227.8) |
| Other financial expenses | **(2.3)** | (2.7) |
| Interest cost on defined benefit scheme obligations | **(91.7)** | (92.2) |
| Total finance costs | **(328.7)** | (322.7) |
| Net finance costs | **(247.9)** | (244.3) |

In accordance with IAS 23 borrowing costs of £13.8 million (2013: £10.4 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.11% (2013: 5.12%).

## 5 Gains/(losses) on financial instruments

| | 2014 £m | 2013 £m |
|---|---|---|
| Loss on cross currency swaps used as hedging instruments in fair value hedges | **(26.5)** | (7.3) |
| Gain arising on adjustment for foreign currency debt in fair value hedges | **21.9** | 3.4 |
| Exchange gain/(loss) on other loans | **24.2** | (1.1) |
| Loss on cash flow hedges transferred from equity | **(8.1)** | (14.8) |
| Hedge ineffectiveness on cash flow hedges | **2.0** | – |
| Gain/(loss) arising on swaps where hedge accounting is not applied | **44.5** | (25.5) |
| | **58.0** | (45.3) |

## 6 Taxation

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Before exceptional tax** | **Exceptional tax** | **Total** | Before exceptional tax Restated | Exceptional tax | Total Restated |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| **Current tax** | | | | | | |
| Current year at 23% (2013:24%) | **47.2** | **–** | **47.2** | 57.1 | (40.5) | 16.6 |
| Prior years at 24% (2013: 26%) | **9.3** | **(59.2)** | **(49.9)** | (29.2) | – | (29.2) |
| **Total current tax** | **56.5** | **(59.2)** | **(2.7)** | 27.9 | (40.5) | (12.6) |
| **Deferred tax** | | | | | | |
| Origination and reversal of temporary differences - current year | **30.2** | **–** | **30.2** | (3.8) | 38.8 | 35.0 |
| Origination and reversal of temporary differences - prior year | **(8.7)** | **(56.2)** | **(64.9)** | (4.4) | – | (4.4) |
| Exceptional credit arising from rate change | **–** | **(114.8)** | **(114.8)** | – | (36.7) | (36.7) |
| **Total deferred tax** | **21.5** | **(171.0)** | **(149.5)** | (8.2) | 2.1 | (6.1) |
| | **78.0** | **(230.2)** | **(152.2)** | 19.7 | (38.4) | (18.7) |

The current tax charge before exceptional tax was £56.5 million (£27.9 million). This includes a charge of £9.3 million arising from adjustments to prior year tax computations. In the previous year a current tax credit of £29.2 million arose due primarily to an industry agreement over the treatment of infrastructure income in prior years computations.

Tax credits arising from unusual items in each year have been disclosed as exceptional. An exceptional current tax credit of £59.2 million has been recognised, reflecting the anticipated refund of overpayment of tax in prior periods as HMRC has now agreed that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery. This has also resulted in an exceptional deferred tax credit of £56.2 million.

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

The Finance Act 2013 was enacted in the period and 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 has resulted in a 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 equity holders in the period:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Pence per share** | **£m** | Pence per share | £m |
| Final dividend for the year ended 31 March 2013 (2012) | 45.51 | 108.6 | 45.51 | 99.9 |
| Interim dividend for the year ended 31 March 2014 (2013) | 32.16 | 76.7 | 30.34 | 72.2 |
| Total ordinary dividends | 77.67 | 185.3 | 75.85 | 172.1 |
| Special dividend | – | – | 63.00 | 149.9 |
| Total dividends | 77.67 | 185.3 | 138.85 | 322.0 |
| **Proposed final dividend for the year ended 31 March 2014** | 48.24 | | | |

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

## 8 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

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

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

**Earnings**

| | **2014** | 2013 Restated |
|---|---|---|
| | **£m** | £m |
| Profit for the period attributable to the equity holders of the company | **433.8** | 216.0 |

**Number of shares**

| | **2014** | 2013 |
|---|---|---|
| | **m** | m |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **238.2** | 237.7 |
| Effect of dilutive potential ordinary shares<br>- share options and LTIPs | **1.1** | 1.1 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **239.3** | 238.8 |

**Adjusted earnings per share**

| | **2014** | 2013 Restated |
|---|---|---|
| | **pence** | pence |
| Adjusted basic earnings per share | **88.4** | 92.6 |
| Adjusted diluted earnings per share | **88.0** | 92.1 |

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, gains/(losses) on financial instruments and exceptional items in both 2014 and 2013. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

**Adjustments to earnings**

| | **2014** | 2013 Restated |
|---|---|---|
| | **£m** | £m |
| **Earnings for the purpose of basic and diluted earnings per share from continuing operations** | **433.8** | 216.0 |
| Adjustments for | | |
| - exceptional items before tax | **44.4** | 5.8 |
| - current tax related to exceptional items at 23% (2013: 24%) | **(0.9)** | (0.5) |
| - (gain)/loss on financial instruments | **(58.0)** | 45.3 |
| - deferred tax excluding exceptional credit/(charge) | **21.5** | (8.2) |
| - exceptional tax | **(230.2)** | (38.4) |
| **Earnings for the purpose of adjusted basic and diluted earnings per share** | **210.6** | 220.0 |

**c) Impact of changes in accounting policy**

*Basic earnings per share*

As described in note 3, the group has adopted IAS 19R and IFRS 13 in the period. The impact on basic and diluted earnings per share in the current and prior year is shown below.

| | **2014** | 2013 |
|---|---|---|
| | **Pence** | Pence |
| Basic earnings per share under previous accounting policies | **185.3** | 95.7 |
| Impact of IAS 19 revised | **(6.8)** | (4.8) |
| Impact of change in valuation of derivative liabilities | **3.6** | - |
| **Basic earnings per share under revised accounting policies** | **182.1** | 90.9 |

| | **2014** | 2013 |
|---|---|---|
| | **Pence** | Pence |
| Adjusted basic earnings per share under previous accounting policies | **96.9** | 98.9 |
| Impact of IAS 19 revised | **(8.5)** | (6.3) |
| **Adjusted basic earnings per share under revised accounting policies** | **88.4** | 92.6 |

*Diluted earnings per share*

| | **2014 Pence** | 2013 Pence |
|---|---|---|
| Diluted earnings per share under previous accounting policies | **184.5** | 95.2 |
| Impact of IAS 19 revised | **(6.8)** | (4.7) |
| Impact of change in valuation of derivative liabilities | **3.6** | - |
| **Diluted earnings per share under revised accounting policies** | **181.3** | 90.5 |

| | **2014 Pence** | 2013 Pence |
|---|---|---|
| Adjusted diluted earnings per share under previous accounting policies | **96.4** | 98.4 |
| Impact of IAS 19 revised | **(8.4)** | (6.3) |
| **Adjusted diluted earnings per share under revised accounting policies** | **88.0** | 92.1 |

## 9 Retirement benefit obligations

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

| | **2014 £m** | 2013 £m |
|---|---|---|
| Present value at 1 April | **(383.7)** | (345.8) |
| Service cost | **(22.5)** | (23.2) |
| Net interest cost | **(15.7)** | (16.4) |
| Contributions from the sponsoring companies | **73.0** | 43.5 |
| Actuarial losses recognised in the statement of comprehensive income | **3.6** | (39.2) |
| Scheme administration costs | **(3.0)** | (2.6) |
| Present value at 31 March | **(348.3)** | (383.7) |

## 10 Cash flow statement

### a) Reconciliation of operating profit to operating cash flows

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Profit before interest and tax** | **472.4** | 489.6 |
| Depreciation of property, plant and equipment | **270.0** | 264.6 |
| Amortisation of intangible assets | **29.3** | 30.5 |
| Exceptional impairment | **29.5** | 8.2 |
| Pension service cost | **22.5** | 23.2 |
| Defined benefit pension scheme administration costs | **3.0** | 2.6 |
| Pension contributions | **(73.0)** | (43.5) |
| Share based payments charge | **6.2** | 6.8 |
| Profit on sale of property, plant and equipment and intangible assets | **(8.6)** | (10.4) |
| Loss on disposal of businesses | **–** | 1.5 |
| Deferred income movement | **(9.5)** | (9.3) |
| Provisions charged to the income statement | **11.0** | 11.6 |
| Utilisation of provisions for liabilities and charges | **(13.8)** | (14.3) |
| Operating cashflows before movements in working capital | **739.0** | 761.1 |
| Decrease in inventory | **4.4** | 1.9 |
| Increase in amounts receivable | **(17.2)** | (29.4) |
| Increase/(decrease) in amounts payable | **4.0** | (2.4) |
| **Cash generated from operations** | **730.2** | 731.2 |
| Tax received/(paid) | **27.2** | (72.5) |
| **Net cash generated from operating activities** | **757.4** | 658.7 |

### b) Exceptional cash flows

| | **2014 £m** | 2013 £m |
|---|---|---|
| Restructuring costs | **(4.3)** | (4.4) |
| Disposal of fixed assets | **9.4** | 15.1 |
| Settlement of customer contractual disputes | **(1.9)** | (0.6) |
| Obligations arising from disposal of businesses | **(1.6)** | – |
| Professional fees relating to LongRiver proposal | **(18.7)** | – |
| | **(17.1)** | 10.1 |

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

| | As at 1 April 2013 £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 2014 £m** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 403.6 | (278.6) | – | – | (1.8) | – | **123.2** |
| Bank overdrafts | (0.4) | 0.4 | – | – | – | – | **–** |
| **Net cash and cash equivalents** | 403.2 | (278.2) | – | – | (1.8) | – | **123.2** |
| Bank loans | (758.7) | 169.9 | – | (6.1) | – | – | **(594.9)** |
| Other loans | (3,840.9) | 1.9 | 21.9 | (30.8) | 24.2 | (2.3) | **(3,826.0)** |
| Finance leases | (201.6) | 0.4 | – | – | – | – | **(201.2)** |
| Cross currency swaps | 100.7 | – | (48.6) | – | – | (0.7) | **51.4** |
| **Net debt** | (4,297.3) | (106.0) | (26.7) | (36.9) | 22.4 | (3.0) | **(4,447.5)** |

## 11 Contingent liabilities

### a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

The group has during the current year given certain modified and lower guarantees in respect of the borrowings of its associate, Servizio Idrico Integrato S.c.p.a. The guarantees are now limited to €5.1 million (2013: €11.2 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

### b) Disposal of subsidiaries

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

On 1 April 2010 the Commercial Court in Belgium rendered judgment in favour of the group in relation to a claim from Veolia Proprete S.A. ('Veolia') arising from the sale of Biffa Belgium to Veolia in 2006. The judgment declared all of Veolia's claims to be unfounded. Veolia's appeal against this decision was rejected by the Court in a judgment delivered on 16 April 2014.

The group is not aware of any other liability that is likely to result from these guarantees and indemnities that has not been provided for in these financial statements.

## 12 Related party transactions

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

## 13 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 48.24 pence per share. Further details of this are shown in note 7.

## 14 Annual report

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

## 15 Annual general meeting

The Annual General Meeting will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 16 July 2014.

## APPENDIX

### KPI performance 2013/14 vs. 2012/13

Severn Trent Water measures its performance against the 16 KPIs set out below. Ofwat measures all water and sewerage companies against the KPIs set out on the following page.

### Severn Trent Water KPIs

| KPI | 2014 | 2013 |
|---|---|---|
| KPI 01: Lost time incidents (per 100,000 hrs worked)[1] | 0.21 | 0.21 |
| KPI 02: Employee Engagement[2] | 81% | 79% |
| KPI 03: DWI Reportable events (Cat 3,4,5) | 24 | 23 |
| KPI 04: Service Incentive Mechanism - Qualitative | 4.48 | 4.36 |
| KPI 05: Service Incentive Mechanism - Quantitative[3] | 143 | 167 |
| KPI 06: Water supply interruptions (per property, mins)[4] | 16 | 29 |
| KPI 07: Sewerage Serviceability (internal) | 57 | 78 |
| KPI 08: Water Serviceability (internal) | 202 | 80 |
| KPI 09: Capex £m (UK GAAP, net of grants and contributions)[5] | 583.2 | 541.8 |
| KPI 10: Debtor days[6] | 34.5 | 36.7 |
| KPI 11: Opex £m | 585.3 | 566.5 |
| KPI 12: Pollution incidents (sewerage cat 1,2,3)[7,8,9] | 449 | 376 |
| KPI 13: Sewage treatment works – failing consents limits[7] | 0.71% | 0.85% |
| KPI 14: Security of Supply Index | 99 | 99 |
| KPI 15: Net energy use (GWh)[3] | 691 | 690 |
| KPI 16: Leakage levels (ml/d) | 441 | 441 |

**Notes:**

1. Actual performance across all employees and agency staff
2. Performance based on annual survey of all employees.
3. Actual performance based wholly or partially on internal data
4. Number of minutes lost due to supply interruptions for 3 hours or longer per property served
5. Investment excluding PDAS and IFRS adjustments
6. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2014
7. Measured on a calendar year basis
8. Total number of pollution incidents (category 1,2,3)
9. 2012/13 figures not comparable. In 2013 the Environment Agency changed its reporting methodology for small incidents. As a result of this reclassification we now report more smaller incidents.

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

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

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

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

## Ofwat KPIs

| KPI | 2014 | 2013 |
|---|---|---|
| Water Quality Compliance[1,2] | 99.96% | 99.98% |
| Service Incentive Mechanism | 81.55 | 78.11 |
| Internal sewer flooding repeats (no. of incidents) | 204 | 255 |
| Water supply interruptions index (per properties, mins)[3] | 16 | 29 |
| Water Serviceability: Non infrastructure[4] | Marginal | Stable |
| Water Serviceability: Infrastructure[4] | Marginal | Stable |
| Sewerage Serviceability: Non infrastructure[4] | Stable | Stable |
| Sewerage Serviceability: Infrastructure[4] | Marginal | Stable |
| Leakage levels (ml/day) | 441 | 441 |
| Security of supply index (SoSI) | 100 | 100 |
| Greenhouse gas emissions (ktCO2e) | 510.9 | 520.4 |
| Pollution incidents (Infrastructure Category 1,2,3, per 10,000km network)[2,5,6] | 77.97 | 66.10 |
| Serious pollution incidents (Infrastructure Category 1,2 per 10,000km network)[2,5] | 1.27 | 2.17 |
| Discharge permit compliance[2] | 99.29% | 99.15% |
| Satisfactory sludge disposal | 100.00% | 99.93% |

**Notes:**

1. No longer 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. 2012/13 figures not comparable. In 2013 the Environment Agency changed its reporting methodology for small incidents. As a result of this reclassification we now report more smaller incidents.

### 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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