Preliminary Announcement of Annual Results
20 May 2020
Results for the year to 31 March 2020

SEVERN TRENT

Operationally and financially resilient as we begin our new regulatory period

Responding to COVID-19 by supporting our colleagues, customers and communities:

- The health, safety and wellbeing of colleagues remains our first priority with adapted ways of working, mental health support and financial security assurances for frontline and home-working teams.
- Operations remain resilient, as our agile approach enables us to continue delivering services reliably.
- Customers supported with well-established social tariff schemes for those struggling to pay their bills and £3.5 million available through Severn Trent Trust Fund to further support those in need.
- COVID-19 £1 million emergency fund[1] established with over £500k already donated to c.200 organisations.
- Supporting SME suppliers with immediate payment and commitments to invest, providing much needed certainty for our supply chain.

Well placed for AMP7[2] after strong final year of AMP6[2]:

- Continued improvements in key customer measures[3] with year-on-year reductions in leakage (4%), supply interruptions (61%), water quality complaints (14%) and pollutions (11%).
- Environmental performance contributing strongly to annual customer ODI[4] outperformance of £36 million, taking total for AMP6 to £174 million, with £191 million (in nominal prices) deferred to AMP7 revenue.
- Substantial £800 million capex investment in year completes £3 billion AMP6 programme, delivers flagship Birmingham Resilience Programme, improves 1,600km of river quality and provides a fast start to AMP7.
- Industry leading 4* EPA accreditation anticipated[5] from EA, reflecting strong environmental performance.
- 491GWh of renewable energy generated, equivalent to 51% of our energy needs, with the remainder purchased from renewable sources from 1 April 2020 – ten years ahead of our 2030 target.
- £10 million Severn Trent Community Fund, made up of 1% of Severn Trent Water AMP7 profits, launched in April with over £400k already awarded in addition to amounts donated through our emergency fund.

Financially resilient, with results in line with expectations:

- Group turnover of £1,844 million, up £76 million (4.3%).
- Group underlying PBIT[6] of £570 million, down £3 million (0.6%) following the deferral of customer ODIs to AMP7, an increase in our bad debt provision and a significant property sale in the prior year.
- Group reported PBIT[7] of £568 million, up £5 million (0.9%).
- Effective interest cost reduced by a further 20bps to 3.7%, taking the total reduction over five years to 170bps.
- Cumulative AMP6 RoRE[8] of 8.5%, delivered across all three levers of outperformance.
- Underlying basic EPS[9] of 146.0 pence (up 0.1%) reflects lower underlying PBIT offset by improved finance costs.
- We have recorded an exceptional loss of £46.8 million and provided £4.9 million against a loan receivable in relation to our joint venture, Water Plus; largely driven by impact of COVID-19 on the non-household retail market.
- Reported profit after tax of £159 million (down 49.6%) and basic EPS of 66.7 pence (down 50.0%) after exceptional Water Plus losses and exceptional deferred tax charge from the rate change[10] of £91.8 million.
- Well positioned to manage the financial impacts of COVID-19 with £755 million undrawn debt facilities, £200 million raised on US Private Placement market and less than 2.5% of debt maturing in FY21.
- IAS19 pension deficit of £234 million – down £219 million, reflecting temporary spike in credit spreads at year end, and lower long-term RPI forecast. Triennial contributions agreed in November 2019.
- Proposed final dividend of 60.05 pence, in line with policy.

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

"Operationally, this has been another year where we have delivered for all of our stakeholders. However, the last few weeks have been extraordinary; not only for our business, but for the country. I want to say thank you to all of my awesome colleagues; it has been a challenging time, and across each and every part of the business, they have shown amazing commitment to ensuring our customers have continued access to one of life's essentials. We know that this is a difficult time for our customers, and I am incredibly proud of the ways in which the business has responded. We also understand that for many people this will be a difficult time financially, and we have stepped up our support for those on our Priority Services Register and customers that need extra help with their bills.

Our business remains strong and we have made further progress against the things that really matter to our customers with leakage, supply interruptions and water quality complaints all improving. We have invested £3 billion in our long-term future over the past five years and are now very focused on emerging from this crisis in the best possible shape to deliver against the exciting plans we have set out for the next five years."

Group results

	2020 £m	2019 £m	Increase/ (decrease) %
Group turnover	**1,843.5**	1,767.4	4.3
Underlying Group PBIT[6]	**570.3**	573.6	(0.6)
Group PBIT	**568.2**	563.3	0.9

	pence /share	pence /share	Increase/ (decrease) %
Underlying basic EPS[9]	**146.0**	145.8	0.1
Basic earnings per share	**66.7**	133.4	(50.0)
Total ordinary dividends	**100.08**	93.37	7.2

Footnotes to pages 1 and 2 of this RNS

1. Comprising £500,000 re-directed from our newly established Community Fund and £500,000 of historical share forfeiture proceeds.
2. AMP: Asset Management Plan; AMP6: the regulatory period from 2015-2020; AMP7: the regulatory period from 2020-2025.
3. References to 2019/20 or year-on-year movement on performance commitments relate to Severn Trent Water as it operates today, following the realignment to the Welsh boundary. In order to allow for a like-for-like comparison, all references to performance over the AMP relate to Severn Trent Water as it operated prior to the realignment.
4. ODIs = Outcome Delivery Incentives, quoted pre-tax and in 2012/13 prices unless otherwise stated.
5. Environmental Performance Assessment (EPA) status is expected to be confirmed by the Environment Agency (EA) later this year.
6. Underlying profit before interest and tax (PBIT) excludes exceptional operating items and amortisation of acquired intangible assets.
7. Exceptional items before tax are set out in note 4.
8. Return on Regulated Equity quoted net, pre-tax at 2012/13 prices, using Ofwat's RoRE methodology.
9. Underlying basic earnings per share is set out in note 11.
10. In March 2020 the Government's proposal to reverse its previous decision to reduce the corporation tax rate to 17% with effect from 1 April 2020 was substantively enacted.

Note: FY2020/21 technical guidance is included in the Chief Financial Officer's section of this announcement.

Enquiries

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Preliminary Results presentation and conference call

A presentation of these results hosted by Liv Garfield, CEO, and James Bowling, CFO, will be available on our website (severntrent.com) from 8.30am BST today, 20 May 2020. We will be hosting a live Q&A session with Liv, James and our wider Executive team at 9.30am BST today via conference call.

You can access the conference call via:

UK Freefone: 0800 012 1327
International direct: +44 1296 480 180
Participant passcode: 335 619#

For a complete list of dial-in numbers available by country, please visit:
http://www.btconferencing.com/globalaccess/?bid=54_automated

Managing the impact of COVID-19 on our business and our stakeholders

The COVID-19 pandemic continues to have a profound impact across the globe, our country and our region. As a provider of essential services, we have rapidly deployed our well-practised incident management processes to reorganise our activities and minimise disruption to customers, while keeping our people safe and well. Beyond the operational challenges, we have carefully considered how we can make a positive impact for the good of all our stakeholders and the communities we serve and live in. The sections below outline the impact on our business, and the actions we have taken to help our stakeholders, in more detail.

Supporting our colleagues

The health, safety and wellbeing of our people remains our first priority. In line with this, we have:

- Revised working practices, with virtual remote technicians and at-home network monitoring, to ensure we keep people as safe as possible while delivering essential services;
- Maintained regular two-way communication and collaboration with our trade unions;
- Committed to not make anyone redundant or furlough any employees as a result of COVID-19;
- Maintained our all-employee bonus in recognition of our colleagues' hard work over the last year;
- Agreed a headline annual pay increase of 2.3% for our colleagues for the next three years;
- Continued to provide full pay to our colleagues who are unable to work, in line with our existing policy; and
- Launched a 'Caring for our Colleagues' campaign, providing mental and physical wellbeing support, and agreed individual care plans for our colleagues living in a vulnerable situation.

Helping customers through this difficult time

Our teams are working hard to continue providing essential services for our customers with minimal disruption, despite the new ways of working.

We know many of our customers will be facing difficult situations, so we are offering support through:

- Initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers;
- Making £3.5 million available as part of our Severn Trent Trust Fund for those who may be unable to pay their household bills at this time; and
- Making sure our vulnerable customers know we are there for them with targeted communications and support through our Priority Services Register.

Playing our part in the communities where we live and work

We recognise that as a large, local company, we can offer further support to our communities, through:

- Our £1 million emergency fund[1], which has already donated over £500k to around 200 organisations, including foodbanks, regional Age UK branches and charities supporting the most vulnerable in society;
- Working closely with organisations such as Business in the Community and local resilience forums to ensure local communities are receiving the support they need;
- Helping our SME suppliers by moving to immediate processing of payments for three months – in April we paid £38 million to our smaller suppliers early;
- Recognising the value to our suppliers of committing to future work, we have accelerated the promotion of activity and are progressing capital construction projects where it is safe to do so; and
- Our Chair, CEO, and CFO have each asked the Company to donate 25% of their salaries for three months to local charities.

[1] Comprising £500,000 re-directed from our newly established Community Fund and £500,000 of historical share forfeiture proceeds.

An agile approach to a challenging situation

Multi-skilled teams, agile ways of working and a 'can-do' culture mean we can adapt quickly and flex parts of our AMP7 plan, to compensate for disruption elsewhere. For example:

- We have been able to adopt remote working quickly and strengthen our IT capability to provide enhanced monitoring of our network and some treatment sites, and improve fault diagnostics;
- Our operations teams have been able to complete work ahead of schedule, reducing work in progress thanks to the significant reduction in road traffic;

- We have brought forward projects scheduled for later in the year to minimise public disruption - for example, renewing parts of our network in Derby, providing additional resilience for customers, several months early;
- Home-working employees have been volunteering to use their daily exercise to take care of the network in their neighbourhood, carrying out centrally co-ordinated checks for issues such as leakage; and
- Our customer education team has developed an online lesson for children, supporting families at home while delivering key messages on water scarcity and sewer misuse.

Maintaining financial resilience

As a responsible business, we place great emphasis on maintaining financial resilience and are well-positioned to manage the current situation, with a strong balance sheet, appropriate gearing levels and healthy liquidity. This reflects:

- £755 million of undrawn credit facilities, from a total £1.1 billion committed facilities, as at 31 March 2020;
- £200 million of funds raised on the US Private Placement market in early March 2020; and
- Less than 2.5% of our debt maturing in the year ending 31 March 2021.

We are experiencing a financial impact from the COVID-19 pandemic in three primary areas:

Household bad debt – while our priority will be to help those customers who struggle to pay, we do expect to see an increase in related bad debt from higher unemployment and stressed household finances. In the year ended 31 March 2020 we recorded a bad debt charge of £42.5 million, including £2.2 million for direct COVID-19 risks, and expect to see further COVID-19 related increases to our bad debt in future periods, based on the latest economic forecasts.

Non-household wholesale revenue – due to the nationwide restrictions on non-essential business activity, we expect to see a reduction in volumes billed in the year ending 31 March 2021, only partially offset by increased household consumption. The Ofwat regulatory model allows us to recover this revenue in two years.

Water Plus joint venture – as a retailer in the non-household market, Water Plus has been significantly impacted by the COVID-19 outbreak, the resulting lockdown and its effects on commercial customers, and it expects to see lower economic activity leading to increases in business customer failures. Taking account of an impairment of its long-term assets, an additional bad debt charge, and trading losses recorded before the impact of COVID-19, we have recorded an exceptional loss of £46.8 million in the year ended 31 March 2020, reducing the value of our investment to nil, and also provided £4.9 million against a loan receivable from Water Plus.

On 30 April 2020, Ofwat published the outcome of its consultation on proposals to address the liquidity and bad debt challenges in the non-household retail market. We view these measures to strengthen the non-household retail market positively for both Severn Trent Water and Water Plus. Further detail can be found here:

https://www.ofwat.gov.uk/wp-content/uploads/2020/04/Proposals-to-address-liquidity-challenges-and-increases-in-bad-debt-–-decision-document.pdf

Further information on the financial impact of COVID-19 can be found in the Chief Financial Officer's review.

Chief Executive's Review

I'm immensely proud of the way the organisation has adapted to the turbulent and unprecedented challenges we are faced with. Never has it been more evident that our people live the values we created together of 'having courage', 'taking pride' and most importantly 'showing care'. As an organisation it has been essential we demonstrate those same values in the way we treat our stakeholders. Having courage to make the right choices in the face of an unprecedented situation, taking pride in doing the best possible job we can for those that need our services the most and making sure we show care for all those affected have all been top of our agenda at the end of a very busy year.

It has been a strong final year of the AMP, most notably on the water side of our business where our targeted investment and catchment approach has delivered improvements across a number of key measures. The average number of minutes our customers were off supply reduced by over 60% year-on-year to 7 minutes and 18 seconds. We reduced leakage by 19 ML/d, hitting our target for the eighth time in nine years, delivering an 8% reduction over the AMP, and achieved our lowest number of water quality complaints in a decade.

On the waste side of the business, in this final year we completed a number of environmental programmes including those under the Water Framework Directive, which helped deliver 1,600km of river quality improvements. We anticipate achieving 4* EPA status from the Environment Agency, reflecting our strong performance across the range of measures it uses to assess the impact we have on the environment. But we have also incurred penalties on some of our flooding measures, as we faced substantially more stretching targets that were agreed to lift the waste customer ODI cap, combined with persistent wet weather over the second half of the year.

We have delivered net customer ODI outperformance payments of £36 million for the year, made possible by the lifting of the waste customer ODI cap. This takes the total amount earned in AMP6 to £174 million, providing us with £191 million (in nominal prices) of additional revenue in AMP7.

During the year we generated a Return on Regulated Equity of 6.7% as outperformance on customer ODIs (+1.0%) and financing (+2.2%) was partly offset by totex (-2.0%). This totex performance reflects our reinvestment of efficiencies from earlier in the AMP, enhancing our resilience and supporting customer ODI performance, as well as increased spend on maintenance schemes, and a higher bad debt charge. Over the AMP we have generated a cumulative Return on Regulated Equity of 8.5%.

Across AMP6 we have made a number of achievements which put us in a strong position as we enter AMP7:

- Our customers have benefitted from improved service performance, with reductions in leakage (8%), external sewer flooding (48%), water quality complaints (28%) and category 3 pollutions (21%) over the AMP.
- We have maintained the lowest bills in England and Wales and increased the number of customers we help with their bills to around 70,000 a year, while donating over £17 million to the Severn Trent Trust Fund.
- We have positively improved our environment, reducing pollutions, sewer flooding and leakage; improving river water quality and influencing customers' and farmers' behaviour to protect the water cycle.
- We have increased our renewable energy production to 491GWh, meaning we now generate the equivalent of 51% of our energy needs, with our remaining electricity now supplied from 100% renewable sources.
- Our resilience has been strengthened with the completion of the £300 million Birmingham Resilience Programme, taking the total invested in our capital programme over the AMP to £3 billion.
- We have delivered sustained and balanced outperformance to the benefit of both customers and shareholders, culminating in a Return on Regulated Equity among the best in the sector.

We are now almost two months into the new AMP and, despite the ongoing challenges of COVID-19, we are pleased with how the business is performing. Operationally, we remain on track to deliver improvements across a range of measures, and expect to outperform on customer ODIs this year. The work we have done over AMP6 in tightening our cost base means we are confident we can deliver improved services within our allowed AMP7 totex. Our capital programme is on track, with 80% of year one work contracted, while noting that capex will reduce from the end of one AMP into the first year of the next.

The Severn Trent culture underpins our response to COVID-19 and our continued performance. At our Capital Markets Day in March, we showed how doing the right thing, whether for our customers, colleagues, communities, or the environment, can deliver a multitude of benefits and ultimately ensure the long-term success of our business.

We look forward to delivering our sustainability ambitions, including our Triple Carbon Pledge, the improvement of 5,000 hectares for biodiversity, and our newly launched Community Fund, for the benefit of all stakeholders over the next five years and beyond. We will be reporting against these commitments in our first Sustainability Report, to be released on our website on 12 June.

2019/20 performance

Operationally, we have had a good year in water, as our reinvestment of totex efficiencies, accelerated rollout of new technology and targeted insourcing have driven significant improvements across a range of measures.

- **Supply interruptions** – our 'Prevent, Restore, Repair' strategy, including the insourcing of Network Response and Trunk Main Repair teams, and investment in new tankers and equipment, has made a significant difference to our performance. This year our customers were off supply for an average of 7 minutes and 18 seconds, our best ever performance, down from 20 minutes last year, and 34 minutes the year before.
- **Leakage** – last year we accelerated our AMP7 leakage plan, rolling out new technology and new ways of working at speed. This has helped deliver a 4% reduction year-on-year, hitting our target for the eighth time in nine years and taking the total reduction over the AMP to 8%.
- **Water quality complaints** – after a challenging start to the AMP we have delivered consistent improvements in this measure over the past four years, helped by learnings from Dee Valley's expertise. While we missed our target marginally, we have delivered a 14% improvement year-on-year, taking our total AMP6 improvement to 28%.

In waste, we have delivered a number of key environmental programmes and performance commitments, but have had a challenging year on our flooding measures.

- **Internal and external sewer flooding** – our targeting of 'hot spots' and identifying and managing root causes of sewer flooding continues to yield results. However we saw an increase year-on-year as the persistent wet weather we experienced in the second half led to increased run-off from highly saturated ground into our waste water network. Over the AMP our sewer flooding performance has improved significantly, but due to the tougher targets agreed as part of uncapping, we incurred a penalty of £19.5 million across the two measures. In order to drive the necessary improvements for AMP7, we are educating customers on sewer misuse, and stepping up our training and investment in 'right first time' and repeat flooding prevention activities.
- **Category 3 pollutions** – we achieved our best category 3 pollutions performance in a decade this year, taking our AMP6 reduction to 21%. Our ambition is to reduce pollutions by 50% over the next five years, going further than our regulatory commitment.
- **4* EPA status** – we anticipate achieving 4* EPA status from the Environment Agency this year, for the third time in the AMP. This assessment covers a range of environmental measures and truly reflects our strong track record on protecting and enhancing the local environment we rely on.
- **Water Framework Directive** – we set ourselves an ambitious target at the beginning of the AMP to deliver meaningful improvements in the quality of our region's rivers. Over the last five years, this programme has also generated customer ODI outperformance payments of £42.6 million. In AMP7, we have an even more ambitious plan to improve the quality of a further 2,100km of rivers and have already started work on delivering this programme.

We have invested £800 million in our capital programme this year, taking our total capital investment over AMP6 to £3 billion, with an additional £689 million in infrastructure renewals over five years, driving real RCV growth of around 9%. The Birmingham Resilience Programme was a significant part of this and we are pleased to have seen our largest ever capital scheme completed on time, to budget and delivering more resilience than initially planned.

This year also saw the creation of our in-house design team, who have been designing assets for our AMP7 programme for several months. In particular, they are exploring low carbon, low cost solutions, such as wetlands, as alternatives to building new assets, supporting both our totex efficiency and Triple Carbon Pledge.

We have enhanced the digital experience we offer our customers. We have made it easier to pay bills online, taking 850,000 payments through self-service in the past year, and introduced a virtual assistant that can offer a third of customers an end-to-end service, giving our service agents more time to deal with complex and sensitive issues. As well as improving accessibility and enhancing the service we offer customers, this technology drives down our cost to serve, helping keep bills low.

The new measure of customer experience, C-MeX, takes into account customer perception, making the work we do in our local communities even more important. Shadow reporting of C-MeX places us ninth in the sector for the year. While this is an improvement from our position under the previous SIM measure, we are determined to progress further over the next five years.

In April our new Community Fund, consisting of 1% of Severn Trent Water's profits, issued its first payments to local causes, having already awarded over £400k in funding. In addition, we have also paid over £500k from our £1 million COVID-19 emergency fund to around 200 organisations, including many foodbanks, community groups and charities that look after the most vulnerable in society.

It was an important year for Hafren Dyfrdwy, being its first full year of operation under the new Welsh Licence. We recently completed the £14 million Service Reservoir Programme – a significant capital scheme for a business of this size – replacing a number of ageing distribution service reservoirs in Wrexham and securing water quality in the area for years to come. There is still work to be done on some key measures, but we were pleased to see notable year-on-year improvements in supply interruptions (down 66%) and leakage (down 13%), and continued low levels of external sewer flooding and category 3 pollutions.

In our non-regulated business, the successful integration of Agrivert has increased our food waste capacity, adding five anaerobic digestion plants to our asset base. These plants contributed to overall energy generation of 491GWh, equivalent to 51% of our energy needs. Our remaining electricity is now purchased solely from renewable sources, achieving the first of our three carbon pledges ten years early.

Elsewhere in the non-regulated business, we have continued to see excellent customer service and strong margin improvement in Operating Services, and our property development team remain on track with our commitment to deliver £100 million PBIT over the ten years to 2027.

Reflections on AMP6

Over the course of AMP6 we have worked hard to deliver for all of our stakeholders, keeping bills low, improving service standards, investing for the long term and generating a cumulative RoRE of 8.5%. While we are proud of what we have achieved, we have had to learn and adapt to tougher regulatory commitments, more weather extremes and the evolving expectations of society. The lessons we have learned informed our AMP7 plan and will be essential to its execution in the next five years.

A key strength of Severn Trent is our ability to take successes and quickly scale these up across the wider business. We have broken down some of the silos between our water and waste processes, taking the best from both and adapting them where needed. This shared success is equally evident in how we have invested over the AMP. In the earlier years of AMP6 we delivered substantial totex and customer ODI outperformance on the waste side of the business and reinvested some of this outperformance into water, increasing the resilience of our network and improving service performance in key measures.

We have brought core skills in-house and used our culture and broader view of the network to drive performance. For example, in 2016 we took the decision to insource our mains flushing team, directly contributing to a customer ODI benefit of around £5 million. As we head into AMP7, we have taken some bold decisions on further activities to insource, with our newly established design teams set to change the way we deliver our capital programme, taking a much more holistic view of the impact on our business, the environment, and local communities.

A thorough understanding of our operational end-to-end processes and interdependencies enables us to deliver multiple benefits through targeted interventions. Essential to this understanding is timely, accurate data and network modelling. For example, the installation of 40,000 acoustic and pressure loggers across our network has played a crucial role in finding and fixing leaks much quicker. We have designed our AMP7 customer ODIs with this insight in mind.

The environment is an essential part of our supply chain. By embracing a catchment approach and nature-based solutions we can improve performance and reduce operating costs, while making a positive impact on our local environment. This approach forms a key part of our AMP7 strategy, with several initiatives already underway, including the improvement of 5,000 hectares for biodiversity, strategically planting 1.3 million trees and working with 9,000 farmers to improve 44 catchments with innovative methods such as phosphate socks.

We know that culture is our key strength, especially in challenging moments. Over the AMP we have had periods of extreme weather but we have always focused on the best interests of our customers while delivering efficiencies and customer ODIs in line with expectations. While smart investment is important, it is our people who step up and deliver when we need it. This culture isn't something that just happens and we will continue to work hard to ensure our people can deliver their best performance every day.

Looking ahead to AMP7

The head start we gained through the 'fast tracking' of our AMP7 plan in January 2019 has helped us to deliver our commitments despite the ongoing challenges related to COVID-19. The work we have done in the past year means that:

- We are already on the right run-rates to deliver our commitments within our allowed totex, having made the necessary savings across the business. This includes a 23% real reduction in head office costs over the past two years through process improvement, re-skilling colleagues, and close monitoring of attrition levels;
- The reinvestment made over the past year in asset health, innovative technology and new equipment has increased the resilience of our network and helped prepare the business for a number of key commitments;
- Our capital programme is on track with the certainty from fast-track enabling us to start work with our supply chain and new design team early; and
- We have robust plans in place for the delivery of customer ODIs and understand how we can best re-deploy resource. While some customer ODIs, such as Per Capita Consumption, will be more difficult to deliver in the current situation, we can pull forward work on others to support a net positive outcome.

We are pleased with our start to the AMP on our key performance commitments. Strong performance in the last year on common measures such as leakage and category 3 pollutions put us on the right run-rate for our year one targets. We also have a range of new customer ODIs, such as public sewer flooding and risk of low pressure, which we have been shadow reporting for many months, and are pleased with our progress so far.

Despite these challenging times, we remain confident we can deliver positive net outperformance payments this year, and across the AMP. Due to the nature of some of our customer ODIs, including those that require capital investment, we expect the level of outperformance payments to grow over the AMP.

Our AMP7 capital programme remains on track with 80% of year one spend contracted. Due to the essential nature of our work, following the implementation of appropriate safeguards, design and construction activity has continued apace since the outbreak of COVID-19, with limited impact on our planned capital activity for year one.

We expect the amount of capital expenditure in the first year of the AMP to be the lowest of the five years, as projects to meet our AMP7 targets are planned and designed before we take them through to delivery. Group capital expenditure is expected to be between £430 million and £510 million this year, across a broad range of projects including new Thermal Hydrolysis Plants, increasing our energy generation capabilities, and work to enhance the resilience of our waste network in Stroud.

Innovation will play a key role in AMP7, as we find new ways of achieving more stringent targets, more efficiently and with a positive impact on the environment. In 2019 we established our new Resource Recovery and Innovation Centre where we are now trialling large scale innovative technology, supported by a range of global research partners, including members of the World Water Innovation Fund. The Centre is currently trialling a range of exciting new projects, including the use of mainstream anaerobic treatment which could substantially reduce both the cost and carbon associated with waste water treatment.

Our people

We have one of the most engaged workforces in the sector, with our latest engagement survey placing us in the top 5% of utilities globally, and our colleagues are invested in the long-term future of our organisation, with 72% participating in our Sharesave scheme.

We strive to provide a fair, inclusive and safe place to work for our people. In line with this priority, in the past year we have committed to:

- paying the real living wage to everyone who works both for and with Severn Trent, becoming an accredited member of the Living Wage Foundation in March 2020; and
- adopting the recommendations of the Parker Review on ethnic diversity of Boards, recognising the need for us to represent the communities we serve in every way.

We have worked hard this year to embed sustainable thinking throughout our organisation. We recently dedicated a day to our commitments in this area for our top 300 business leaders, and we are now holding events to ensure every one of our 6,800 colleagues hears the same, key messages about why sustainability is important to Severn Trent, and what they can do to support our ambitions.

This year our Board and Executive teams have continued to evolve, demonstrating the attractiveness of Severn Trent to external talent, and our strong internal talent pipeline. We were pleased to welcome Christine Hodgson as our Chair, following the retirement of Andrew Duff, after nine successful years on the Board. Christine has had an extensive induction into the business, spending time with many colleagues across the front-line, customer service and support functions, and understanding what our Purpose and Values mean to us as an organisation.

Most recently we supplemented the Board with the appointment of Sharmila Nebhrajani as a Non-Executive Director. Shar brings a wealth of experience from regulated sectors including medicine, bioethics, financial services and the media that will complement the broader skill-set of the Board and provide fresh thinking as the Company continues to develop.

Continuing to provide a fair return to shareholders

The Board carefully considered the unprecedented circumstances in relation to this year's dividend and took into account the Group's prospects and financial position; stakeholder interests including customers, shareholders, colleagues and our communities; and the Board's decision not to use any of the Government's business support measures.

Recognising the critical role that dividends play in providing necessary income for pensioners and savers, and the significant number of employee and former employee investors, the Board determined that, based on the strong performance in 2019/20 and the underlying financial position of the Company, it remains appropriate to recommend to shareholders that the final dividend for year ended 31 March 2020 of 60.05 pence be paid in line with policy.

Chief Financial Officer's Review

These are unprecedented economic circumstances. The extent of the impact of the COVID-19 outbreak on the UK economy is uncertain. We are not immune to the impacts on the wider economy and we expect to see a continued reduction in consumption from non-household customers, an increase in bad debt costs from household customers, even after allowing for an increase in the use of our range of social tariffs, and a severe impact on our non-household joint venture, Water Plus. We have reflected these on our balance sheet at 31 March 2020, where appropriate, and further details are set out below.

Our funding position continues to be strong and we are carefully monitoring our liquidity and working capital. Our balance sheet at 31 March 2020 showed net cash of £48.6 million and we had undrawn facilities amounting to £755 million. All of our projected investment and other cash flow needs are covered by cash or committed facilities through to January 2022. At the year end the Group's regulatory gearing was 64.9%.

This strong financial position was a factor in our decision to declare a final dividend of 60.05 pence in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. Other matters, over and above our strong financial position, that the Board took into account in reaching this decision are noted in the Chief Executive's review above.

At the half year we flagged the market data issues that were impacting our non-household retail joint venture, Water Plus. In the second half of the year we have seen some performance improvement as the monthly losses relating to these issues have reduced and cash collection improved. However, Water Plus expects the economic impact of COVID-19 on non-household customers to be severe and this has resulted in the joint venture recording losses from the impairment of its trade debtors, goodwill and certain intangible assets. Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year. We also recorded a provision of £4.9 million against our loans to Water Plus.

Our total share of the Water Plus losses, £51.7 million, was greater than the value of our long-term investment of £46.8 million and as a result we did not record £4.9 million of these losses in the income statement. We have shown the amount of our share of the losses from Water Plus recorded in the income statement as an exceptional item.

Turning now to our core business, we have built on good financial performance in the first half of the year to deliver another good set of results for 2019/20. Although underlying PBIT in our Regulated Water and Waste Water business was slightly lower than the previous year, this was expected as we chose to defer customer ODI rewards worth £78 million into AMP7, taking £22 million less in revenue than in the previous year, and increased our planned IRE programme to deliver remaining AMP6 commitments, offsetting the £22 million comparative benefit of hot weather costs in the previous year. In Business Services, stronger performance in the second half of the year in Operating Services and Bioresources produced growth in both revenues and PBIT for the full year. There were no individually significant land sales in 2019/20 but the £6.9 million earned this year means we remain on track to deliver £100 million of PBIT from property sales over the ten years to 2027.

Our underlying basic earnings per share was up 0.1% to 146.0 pence per share. Basic earnings per share were 66.7 pence.

We have delivered good performance on RoRE, which was 6.7% for the year ended 31 March 2020. The delivery of substantial environmental programmes meant another strong year on customer ODIs, and we continued to outperform on financing. This was partly offset by the impact of our reinvestment of totex efficiencies delivered earlier in the AMP. On a cumulative basis, we outperformed across all three levers over AMP6 and achieved a RoRE of 8.5%, sustaining our position amongst the very best in the sector.

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy as well as the corporation tax shown in our tax charge in the income statement. This year we will again publish a Tax Report that sets out details of all of the taxes we incur at www.severntrent.com/sustainability-strategy/reports-and-publications/tax/. Our corporation tax charge for the year, excluding the exceptional deferred tax charge, was higher than the statutory rate reflecting non-deductible items charged to our income statement. Cash tax payments were reduced by the benefit of tax allowances on our capital programme and contributions to our pension schemes, partly offset by the timing of instalment payments to HMRC under the current rules.

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

- Group turnover was £1,843.5 million (2018/19: £1,767.4 million), an increase of 4.3% as Regulated Water and Waste Water revenue increased by 2.4%, mainly due to the RPI-linked tariff increases and Business Services' turnover increased by 19.7%, (including £21.8 million from a full year contribution from the Agrivert business acquired in the previous year).

- Underlying PBIT (see note 18) was down 0.6% to £570.3 million (2018/19: £573.6 million). Underlying PBIT in our Regulated Water and Waste Water business was £15.5 million lower, Business Services grew by £0.8 million and Corporate and other results improved by £2.6 million.

- We recorded no exceptional operating costs (2018/19: £9.6 million arising from the High Court judgment in the Lloyds Bank case relating to Guaranteed Minimum Pension rights).

- Reported Group PBIT was up by 0.9% to £568.2 million (2018/19: £563.3 million).

- Net finance costs were £188.4 million (2018/19: £194.2 million). Our effective interest cost of 3.7% (see note 18) was down from 2018/19 (3.9%) due to the continued benefit of replacing expensive fixed rate debt with new low cost fixed rate debt, low variable interest rates and reduced RPI inflation on our index-linked debt.

- Our full effective tax rate was 48.9%, including the exceptional deferred tax charge arising from the change in corporation tax rate for 2020/21. Our underlying effective tax rate (see note 18) was 10.4%, down from 11.6% in 2018/19 largely due to higher capital allowances from the larger capital programme in the year.

- Reported Group profit after tax was £158.8 million (2019: £315.3 million).

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,620.7 million (2018/19: £1,583.1 million) and underlying PBIT was £511.5 million (2018/19: £527.0 million).

	2020	2019	Increase/(decrease)	
	£m	£m	£m	%
Turnover	**1,620.7**	1,583.1	37.6	2.4
Net labour costs	**(135.8)**	(124.0)	(11.8)	(9.5)
Net hired and contracted costs	**(155.9)**	(161.9)	6.0	3.7
Power	**(105.8)**	(102.1)	(3.7)	(3.6)
Bad debts	**(42.5)**	(25.5)	(17.0)	(66.7)
Other costs	**(192.6)**	(186.2)	(6.4)	(3.4)
	(632.6)	(599.7)	(32.9)	(5.5)
Infrastructure renewals expenditure	**(149.6)**	(141.4)	(8.2)	(5.8)
Depreciation	**(327.0)**	(315.0)	(12.0)	(3.8)
Underlying PBIT	**511.5**	527.0	(15.5)	(2.9)

Turnover increased by £37.6 million. The components of this were:
- Higher tariffs, including the impact of the annual RPI increase on prices, which increased revenue by £48.2 million;
- A net increase of £8.1 million to revenue as a result of a lower year-on-year adjustment for wholesale revenue in prior periods billed in excess of the wholesale revenue allowance; offset by
- A reduction year-on-year of £21.7 million on the outperformance payments earned from customer ODIs taken into revenue this year;
- A number of other smaller variances resulted in an additional net increase of £3.0 million.

Net labour costs were £11.8 million (9.5%) higher. Gross employee costs increased by 10.8% due to the annual pay award and the continuation of our strategy to bring more work in-house. The significant step up in activity on capital projects this year increased the level of own labour capitalised, up £16.7 million on the previous year.

Net hired and contracted costs were down £6.0 million (3.7%). Increases in job volumes and some outsourced debt collection activity offset the benefit from the in-sourced capital design team and the costs incurred in the hot, dry summer in the previous year.

Power costs were up £3.7 million driven by the anticipated rise in pass-through costs. Energy consumption was flat year-on-year as increased efficiency across the business offset the impact of new capital schemes and increased pumping required in the wetter winter. The Group manages its power costs through a combination of demand management, self-generation and forward price contracts.

Our bad debt charge increased by £17.0 million this year and represented 3.2% of household revenue (2018/19: 2.0%). We continued to perform well in collecting recent debt and our new targeted approach to older debt is showing some promising results, although the uncollected balance falling into older age categories this year increased the provision. The impact of COVID-19 has directly led to £2.2 million of the increase in the provision to take account of the expected impact of the forecast economic downturn next year on collection of our year end receivables.

Other costs rose by £6.4 million. The increase was predominantly driven by higher chemical prices and usage due to the completion of new capital schemes.

Infrastructure renewals expenditure was £8.2 million higher in the year reflecting the completion of AMP6 projects, including our Trunk Mains Renewal Programme, enhancing the resilience of our network as we enter AMP7.

Depreciation of £327.0 million was £12.0 million higher than the prior year, following the capitalisation of new assets and increased investment in data technology assets with shorter lives creating operational efficiencies in our network.

Return on Regulated Equity (RoRE)

RoRE is a key performance indicator for the regulated business and reflects our combined performance on totex, customer ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2020 and for the five year period ended on that date is set out in the following table:

	2019/20 %	AMP6 %
Base return	5.5	5.6
Totex performance	(2.0)	0.5
ODI performance[1]	1.0	0.9
Financing performance	2.2	1.5
Regulatory return for the year[2]	**6.7**	**8.5**

1 For years 2015/16 to 2018/19, customer ODI performance has been restated by 0.1% p.a. to recognise the impact of the PR14 SIM penalty over the years when the penalty was earned.
2 Calculated in accordance with Ofwat guidance set out in RAG 4.07.

We have delivered RoRE of 6.7% in the year, outperforming the base return by 1.2% as a result of:
- Continued outperformance on financing, reflecting our effective interest cost of 3.7%;
- Customer ODI performance of 1.0%, primarily following successful delivery of our Water Framework Directive and Sustainable Sewage Treatment programmes, both the culmination of five years of investment; and
- Our totex position of negative 2.0%, reflecting our reinvestment of efficiencies from earlier in the AMP, enhancing our resilience and supporting customer ODI performance, as well as increased spend on maintenance schemes, and a higher bad debt charge.

Our cumulative AMP6 RoRE of 8.5% highlights a strong AMP performance where we have outperformed the final determination on all components of RoRE. Over the five year period we have delivered a sector-leading customer ODI performance, overall net totex efficiencies, and strong upper quartile performance on financing.

Business Services

	2020	2019	Increase/(decrease)	
	£m	£m	£m	%
Turnover				
Operating Services	**70.7**	60.2	10.5	17.4
Green Power	**53.5**	29.7	23.8	80.1
Bioresources	**102.4**	97.5	4.9	5.0
Other	**13.8**	13.5	0.3	2.2
	240.4	200.9	39.5	19.7
Underlying PBIT				
Operating Services	**14.8**	7.0	7.8	111.4
Green Power	**6.6**	0.6	6.0	1,000.0
Bioresources	**29.3**	29.5	(0.2)	(0.7)
Property Development	**7.7**	19.9	(12.2)	(61.3)
Other	**6.5**	7.1	(0.6)	(8.5)
	64.9	64.1	0.8	1.2

Business Services turnover was £240.4 million (up 19.7%) and underlying PBIT was £64.9 million (up 1.2%).

In our Operating Services business, turnover and underlying PBIT increased by £10.5 million and £7.8 million respectively. Improved performance across all areas within the business, as well as an increase in the expected whole life revenues and profits on the contract with the Ministry Of Defence, have driven the increase.

In Green Power, turnover increased by £23.8 million and underlying PBIT increased by £6.0 million. Strong energy generation complemented by the first full year of Agrivert, the food waste company acquired in November 2018, (increasing turnover by £21.8 million and underlying PBIT by £7.2 million in the current year) have generated the increase.

Turnover from Bioresources increased by £4.9 million, but underlying PBIT decreased by £0.2 million due to lower wholesale energy prices.

Turnover and underlying PBIT in our other businesses (principally Affinity Products and Developer Services) was broadly flat year–on-year. Profits from Property Development were £12.2 million lower as there were no individually significant disposals in the current year. We remain on track to deliver £100 million of PBIT from property sales by 2027 although we expect market conditions to be less favourable in the next year following the COVID-19 pandemic, resulting in a rephasing of our planned disposals.

Corporate and other

Corporate overheads were £8.6 million (2018/19: £8.6 million) and our other businesses generated PBIT of £3.0 million (2018/19: £0.4 million).

Exceptional items before tax

We recorded no exceptional operating costs (2018/19: £9.6 million from a High Court judgment in the Lloyds Bank case in relation to gender equality in Guaranteed Minimum Pension rights).

In 2019/20 we recorded exceptional losses before tax of £51.7 million arising from the impact of COVID-19 on our joint venture Water Plus, including £46.8 million from our share of its losses and an exceptional impairment charge of £4.9 million in relation to our loans receivable from Water Plus (see below). In view of the materiality of these impacts and the unprecedented nature of the impact of COVID-19 on Water Plus, we consider these items to be exceptional.

Net finance costs

Despite higher net debt, our net finance costs for the year were £188.4 million, £5.8 million lower than the prior year due to a combination of lower interest rates, and effective management of our debt portfolio. Capitalised interest of £44.2 million increased by £11.0 million year-on-year due to the higher level of capital activity in the year.

Our effective interest cost was 3.7% (2018/19: 3.9%) and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was 3.1% (2018/19: 3.1%). Net pension finance costs were broadly in line with the previous year.

Our earnings before interest, tax, depreciation and amortisation (EBITDA) interest cover was 5.3 times (2018/19: 5.1 times) and underlying PBIT interest cover was 3.2 times (2018/19: 3.2 times). See note 18 for further details.

Gains/losses on financial instruments

We use financial derivatives solely to hedge risks associated with our normal business activities including:

- Exchange rate exposure on foreign currency borrowings;
- Interest rate exposures on floating rate borrowings;
- Exposures to increases in electricity prices; and
- Forthcoming changes in the regulatory model from RPI to CPIH.

We hold interest rate swaps with a net notional principal of £50 million, fixed to floating, £423 million floating to fixed, £250 million of forward starting interest rate swaps, floating to fixed, and cross currency swaps with a sterling principal of £141 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings.

We revalue the derivatives at each balance sheet date and take the changes in value to the income statement, unless the derivative is part of a cash flow hedge.

Where hedge accounting is not applied, if the risk that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the year there was a loss of £9.8 million (2018/19: gain of £28.5 million) in relation to these instruments.

Note 7 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed 62.4% of our estimated wholesale energy usage for 2020/21.

Share of loss of joint venture

Our joint venture, Water Plus, had a difficult year. Billing and revenue assurance issues identified early in the year impacted trading results in the first half and the recovery that was starting to bear fruit in the second half was stopped in its tracks by the COVID-19 outbreak.

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak, the resulting lockdown and its effects on commercial customers, and expects to see lower economic activity leading to increases in business customer failures. Water Plus reworked its business plan to take account of the expected impacts of the COVID-19 outbreak on its customer base and recorded impairments of its goodwill, intangible assets and trade receivables as a result.

Water Plus has updated its impairment assessment for its long-term assets, in particular goodwill and customer relationships recognised under the acquisition accounting rules of IFRS 3. The updated impairment tests identified an impairment of £51.1 million against these assets. In addition, Water Plus has already seen a significant reduction in cash collected from its non-household customers and, using prospective economic data to estimate the likely impact of future economic circumstances on its debt book at 31 March 2020, has recognised an additional £29.3 million bad debt provision.

Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year.

We have recognised £46.8 million, our share of these losses capped at the level of our long-term investment, as an exceptional loss from our joint venture. We have not recognised £4.9 million of losses in excess of our investment.

We have also recorded an exceptional impairment of £4.9 million in our loans receivable from Water Plus (see above).

Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy as well as the corporation tax shown in our tax charge in the income statement. Our corporation tax charge for the year, excluding the exceptional deferred tax charge, was higher than the statutory rate reflecting non-deductible items charged to our income statement, such as losses from the joint venture which are reported after tax, partially offset against tax credits arising from overpayments in the previous year. Cash tax payments were reduced by the benefit of tax allowances on our capital programme, contributions to our pension schemes partly offset by the timing of instalment payments to HMRC under the current rules.

	2020 £m	2019 £m
Tax incurred:		
Corporation tax	**26.7**	31.5
Business rates and property taxes	**81.6**	80.7
Employer's National Insurance	**28.9**	25.5
Environmental taxes	**6.6**	9.6
Other taxes	**4.9**	3.5
	148.7	150.8

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2019/20", which will be made available at www.severntrent.com/sustainability-strategy/reports-and-publications/tax/ when our Annual Report and Accounts is published in June

The corporation tax charge for the year recorded in the income statement, before exceptional taxes, was £59.2 million (2018/19: £67.6 million) and we made net corporation tax payments of £33.9 million in the year (2018/19: £21.3 million). The difference between the tax charged and the tax paid is summarised below:

	2020 £m	2019 £m
Tax on profit on ordinary activities	**59.2**	69.4
Tax on exceptional items	**0.9**	–
Exceptional deferred tax charge arising from rate change	**91.8**	–
Tax effect of timing differences	**(120.9)**	(37.6)
Current tax credits recorded in Other Comprehensive Income or equity	**(9.5)**	(9.7)
Overprovisions in previous years	**5.2**	9.4
Corporation tax payable for the year	**26.7**	31.5
Payable by instalments next year	–	(15.9)
Instalments due in the year	**26.7**	15.6
Repayments received	**(0.4)**	–
Payments relating to prior years	**4.5**	5.7
Overpayments	**3.1**	–
Net tax paid in the year	**33.9**	21.3

The overpayments arose from prudent estimates of the tax charge for the year when calculating quarterly instalment payments.

Note 8 in the financial statements sets out the tax charges and credits in the year, which are described below.

The current tax charge for the year was £31.0 million (2018/19: £31.8 million) and the deferred tax charge, before the exceptional deferred tax charge arising from the change of rate, was £29.1 million (2018/19: £37.6 million).

In March 2020 the UK Government announced that it would reverse the previously planned reduction in the corporation tax rate that was due to take effect from 1 April 2020. This change was substantively enacted in

March 2020 and we have therefore remeasured our deferred tax assets and liabilities at 31 March 2020 at the new rate of 19%. This resulted in an exceptional deferred tax charge in the income statement of £91.8 million and a credit to reserves amounting to £2.7 million.

Our full effective tax rate this year was 48.9% (2018/19: 18.0%), which is higher than the UK rate of corporation tax (19%), due to the exceptional deferred tax charge.

UK tax rules specify the rate of tax relief available on capital expenditure. Typically this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our underlying effective current tax rate and corporation tax payments in the year. By the same token we make a provision for the tax that we will pay in future periods when the tax relief on the capital expenditure has been received and we receive no allowance for the depreciation charge arising on that expenditure. This is the most significant component of our deferred tax position.

Our underlying effective current tax rate was 10.4% (2018/19: 11.6%) (see note 18).

The exceptional losses recorded in relation to our joint venture, Water Plus, are recorded after tax and therefore there is no impact on our tax charge from these losses.

Profit for the year and earnings per share

Total profit for the year was £158.8 million (2018/19: £315.3 million).

Basic earnings per share decreased by 50.0% to 66.7 pence (2018/19: 133.4 pence). Underlying basic earnings per share was 146.0 pence (2018/19: 145.8 pence). For further details see note 11.

Cash flow

	2020 £m	2019 £m
Operational cash flow	**888.5**	826.3
Cash capex	**(799.5)**	(769.3)
Net interest paid	**(184.2)**	(161.6)
Purchase of subsidiaries net of cash acquired	**–**	(50.9)
Payments for swap terminations	**(16.8)**	–
Proceeds from swap terminations	**16.5**	–
Net tax paid	**(33.9)**	(21.3)
Free cash flow	**(129.4)**	(176.8)
Dividends	**(228.4)**	(211.9)
Issue of shares	**9.6**	11.1
Purchase of own shares	**–**	(1.1)
Change in net debt from cash flows	**(348.2)**	(378.7)
Debt acquired in subsidiaries	**–**	(63.0)
Non-cash movements	**(49.2)**	(35.8)
Change in net debt	**(397.4)**	(477.5)
Opening net debt	**(5,834.1)**	(5,356.6)
Closing net debt	**(6,231.5)**	(5,834.1)

	2020 £m	2019 £m
Bank loans	**(1,251.9)**	(1,120.1)
Other loans	**(5,058.5)**	(4,820.5)
Lease liabilities	**(122.7)**	(112.2)
Net cash and cash equivalents	**48.6**	39.6
Cross currency swaps	**60.4**	37.1
Loans due from joint ventures	**92.6**	142.0
Net debt	**(6,231.5)**	(5,834.1)

Operational cashflow (see note 18) was £888.5 million (2018/19: £826.3 million) mainly due to higher PBIT, depreciation and amortisation and our increase in working capital was lower than the previous year.

Our biggest year of capital investment in more than a decade led to cash capex (see note 18) of £799.5 million (2018/19: £769.3 million). In 2018/19 the acquisition of Agrivert resulted in a net cash outflow of £50.9 million and we also repaid £63.0 million of debt that was acquired with the business.

Our net interest payments were higher at £184.2 million (2018/19: £161.6 million). Our net tax payments were £33.9 million, an increase of £12.6 million, largely due to the acceleration of quarterly instalment payments introduced by the government this year.

We received £9.6 million (2018/19: £11.1 million) from the exercise of options under the employee Save As You Earn share scheme and our dividends paid increased in line with our policy.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £397.4 million in net debt (2018/19: £477.5 million).

At 31 March 2020 we held £48.6 million (2019: £39.6 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2019: 14 years). Including committed facilities, our cash flow requirements are funded until January 2022.

Net debt at 31 March 2020 was £6,231.5 million (2019: £5,834.1 million) and balance sheet gearing (net debt/net debt plus equity) was 83.4% (2019: 83.3%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2020 was 64.9% (2019: 63.0%) and Severn Trent Water Group RCV gearing was 64.4% (2019: 62.3%).

The estimated fair value of debt at 31 March 2020 was £951.8 million higher than book value (2019: £1,219.6 million higher). The decrease in the difference to book value is largely due to higher credit spreads at the balance sheet date.

Our policy for the management of interest rates is that at least 40% of our borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. We continue to carefully monitor market conditions and our interest rate exposure. Given the flatness of the yield curve we believe it is appropriate to reduce our exposure to floating rates of interest. At 31 March 2020, 64% of our gross debt of £6,433.1 million was at fixed rate, 12% was in floating and 24% was index-linked. In March 2020 we raised £200 million at fixed rates of interest through a US Private Placement.

Our long-term credit ratings are:

Long-term ratings	**Severn Trent Plc**	**Seven Trent Water**	**Outlook**
Moody’s	Baa2	Baa1	Stable
Standard and Poor’s	BBB	BBB+	Stable

We invest cash in deposits with highly rated banks and liquidity funds. We regularly review the list of counterparties and report to the Treasury Committee.

Pensions

We have three defined benefit pensions arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual.

The most recent formal actuarial valuations for the Severn Trent schemes ('the Schemes') were completed as at 31 March 2019. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, included:

- Inflation-linked payments of £15.0 million per annum through an asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed;
- Payments under another asset-backed funding arrangement of £8.2 million per annum to 31 March 2032; and
- Deficit reduction payments totalling £32.4 million increasing in line with inflation through to 31 March 2027.

In addition to these payments, the Company will directly pay the annual PPF levy incurred by the STPS (£1.4 million in 2019/20).

The Schemes have entered into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme ("the Section"). The Section funds are administered by trustees and are held separately from the assets of the Group. The Section is closed to new entrants. The most recent formal actuarial valuation of the Section was completed as at 31 March 2017 and as a result deficit reduction contributions to the Section ceased.

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £234.0 million (2019: £452.9 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

On an IAS 19 basis, the funding level has improved to 91% (31 March 2019: 84%).

The movements in the net deficit during the year were:

	Fair value of scheme assets	Defined benefit obligations	Net deficit
	£m	£m	£m
At start of the year	2,418.9	(2,871.8)	(452.9)
Amounts credited/(charged) to income statement	54.8	(69.5)	(14.7)
Actuarial (losses)/gains taken to reserves	(0.4)	187.8	187.4
Net contributions received and benefits paid	(59.2)	105.4	46.2
At end of the year	**2,414.1**	**(2,648.1)**	**(234.0)**

During the year lower inflation expectations had been largely offset by lower discount rates. However, at the year end we saw an increase in corporate bond yields resulting in a higher discount rate than would have applied earlier in the year, which in turn led to a reduction in the net deficit.

Dividends

In line with our AMP6 policy to increase the dividend by at least RPI+4% each year, the Board has proposed a final ordinary dividend of 60.05 pence per share for 2019/20 (2018/19: 56.02 pence per share). This gives a total ordinary dividend for the year of 100.08 pence (2018/19: 93.37 pence). In January we announced that our dividend policy for AMP7 will be growth of at least CPIH.

The final ordinary dividend is payable on 17 July 2020 to shareholders on the register at 12 June 2020.

Principal risks and uncertainties

The Board considers the principal risks and uncertainties affecting the Group's business activities to be those detailed below:

Customer Perception:

- We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Legal, Political and Regulatory Environment:

- We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.
- The regulatory landscape is complex and subject to ongoing 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. We specifically continue to engage with the Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector.

Operations, assets and people:

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

Financial risks:

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

COVID-19:

- At the time of writing, the COVID-19 global pandemic continues to dominate the focus of the world. Whilst global pandemics have not previously been noted as a principal risk, they do feature on our horizon scanning and many of the associated risks are captured within our ERM framework.
- Management continues to assess the impact of COVID-19 on the Company's operations and finances. Internal Strategic and Tactical Incident Teams were established, comprising Executive Committee members, to lead the swift implementation of contingency plans and continuously monitor plans in response to the rapidly changing situation.
- We have modelled plausible and extreme scenarios to determine expected impacts and test our financial resilience. The modelled outcomes are based on regularly updated assumptions, including:
  - The longevity of the incident (initial lockdown and recovery) - using latest Government advice;
  - The expected macroeconomic impacts of the incident (GDP, inflation and unemployment rates) using independent economic forecasts;
  - The impact on household bad debt rates, using our experience during previous recessions;
  - An estimate of incremental operating costs both during the incident and in the recovery phase, required to ensure service levels are maintained, using our experience of previous incidents; and
  - The impact on our revenues in 2020/21 and subsequent years, based on the expected revenue true-up mechanisms in the regulatory model.

- All modelled scenarios generate outcomes consistent with, and within the parameters used to support our Viability Statement, to be published with our Annual Report and Accounts in June 2020.
- Our modelling to date shows that, while there will be a financial impact, neither the plausible or extreme scenarios we have modelled would result in an impact to the Group's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions, and are therefore not considered threats to the Group's financial resilience. However, there remains a risk that the impact of COVID-19 is greater than that modelled by the Group.
- Our priority remains the health and safety of our people and customers, and we are taking all possible actions to support them whilst continuing to deliver our essential services.
- The Board continues to receive weekly updates on the Group's COVID-19 response in order to assess, monitor and promptly respond to the evolving impact of COVID-19 on our operations and business, including impacts for all our stakeholders.

The UK's decision to leave the European Union (EU):

- We continue to monitor and prepare for various scenarios relating to the customs exit of the UK Brexit plan. Despite uncertainty on timescales and details of agreements we remain confident that Brexit does not give rise to new principal risk for the Group and the risk has materially reduced since the terms of Brexit were resolved and the UK formally left the EU on 31 January 2020.
- Preparations are well advanced at a company and industry level but it has been agreed to pause industry plans through the Water UK co-ordinated group called the Operations Strategy Group, this will reconvene subject to Government timelines but it is not envisaged that there are likely to be any significant risks not previously considered as part of the 'No Deal' preparations.
- Progress during the Brexit transition phase and trade negotiations will continue to be monitored and the risks and uncertainties will be managed through our existing ERM process.

Technical Guidance 2020/21

Year-end guidance		**2019/20**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover	£1.51 billion to £1.55 billion. Lower year-on-year as a result of: - £50 million to £85 million from the expected impact of COVID-19 (non-household consumption down, partly offset by increased household usage). *Assumes government's published path out of lockdown, with a gradual recovery in economic activity over the year. We will provide an update on expected outturn at our quarterly trading update in July. The Ofwat regulatory model allows us to recover this revenue in two years.* - £24 million of regulated revenue now allocated to Bioresources (reported in the Business Services segment) in line with the FD.	£1.62bn	▼
Operating costs (incl. IRE)	Higher year-on-year due to increasing chemical usage to meet tighter effluent consents and expected COVID-19 related increases in household bad debt, partially offset by our insourcing strategy and a reduction in our IRE programme following completion of AMP6 programmes.	£782m	▲
Customer ODIs	We expect to be in positive territory and earn a net reward across Water and Waste measures.	£36m	▼
Business Services			
Underlying PBIT (excl. Property)	Higher year-on-year. Corresponding £24 million increase in Bioresources revenue allocated from Regulated Water and Waste Water, partially offset by the impact of lower energy prices on renewable energy revenue and COVID-19.	£57m	▲
Underlying Property PBIT	Between £1 million and £5 million, based on an expected pause in property market activity. We remain on track with commitment to deliver £100 million PBIT over ten years to 2027.	£8m	▼
Group			
Interest charge	Higher year-on-year due to increased total debt and lower capitalised borrowing costs.	£188m	▲
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 9% and 11%.	10.4%	↔
Group capex	£430 million to £510 million. Lower capital expenditure year-on-year following completion of significant AMP6 programmes.	£800m	▼
Dividend[1]	Annual dividend growth of CPIH. 2020/21 dividend 101.58p.	100.08p	▲

Footnotes to Technical Guidance

1. 2020/21 dividend growth is based on November 2019 CPIH of 1.50%.

Further Information

For further information, including the Group's full-year results presentation, see the Severn Trent website (www.severntrent.com).

Investor Timetable

Ex-dividend date (Final)	11 June 2020
Dividend record date (Final)	12 June 2020
DRIP election date (Final)	26 June 2020
AGM Q1 Trading Update	15 July 2020
Final dividend payment date	17 July 2020
Half year results announcement 2020/21	26 November 2020
Ex-dividend date (Interim)	3 December 2020
Dividend record date (Interim)	4 December 2020
DRIP election date (Interim)	11 December 2020
Interim dividend payment date	6 January 2021

For more information please visit:
https://www.severntrent.com/investors/financial-calendar-and-regulatory-news/

Consolidated income statement

For the year ended 31 March 2020

		2020			2019		
	Note	**Underlying £m**	**Non-underlying items[1] £m**	**Total £m**	Underlying £m	Non-underlying items[1] £m	Total £m
Turnover	2,3	**1,843.5**	**–**	**1,843.5**	1,767.4	–	1,767.4
Other income		**6.9**	**–**	**6.9**	19.9	–	19.9
Operating costs before charge for bad and doubtful debts		**(1,237.2)**	**(2.1)**	**(1,239.3)**	(1,188.1)	(10.3)	(1,198.4)
Charge for bad and doubtful debts		**(42.9)**	**–**	**(42.9)**	(25.6)	–	(25.6)
Total operating costs		**(1,280.1)**	**(2.1)**	**(1,282.2)**	(1,213.7)	(10.3)	(1,224.0)
Profit before interest and tax		**570.3**	**(2.1)**	**568.2**	573.6	(10.3)	563.3
Finance income	5	**59.9**	**–**	**59.9**	68.9	–	68.9
Finance costs	6	**(248.3)**	**–**	**(248.3)**	(263.1)	–	(263.1)
Net finance costs		**(188.4)**	**–**	**(188.4)**	(194.2)	–	(194.2)
Impairment of loans receivable	4	**–**	**(4.9)**	**(4.9)**	–	–	–
Net (losses)/gains on financial instruments	7	**(17.4)**	**–**	**(17.4)**	16.0	–	16.0
Share of net loss of joint ventures accounted for using the equity method		**–**	**(46.8)**	**(46.8)**	(0.4)	–	(0.4)
Profit on ordinary activities before taxation		**364.5**	**(53.8)**	**310.7**	395.0	(10.3)	384.7
Current tax	8	**(30.1)**	**(0.9)**	**(31.0)**	(31.8)	–	(31.8)
Deferred tax	8	**(29.1)**	**(91.8)**	**(120.9)**	(39.4)	1.8	(37.6)
Taxation on profit on ordinary activities	8	**(59.2)**	**(92.7)**	**(151.9)**	(71.2)	1.8	(69.4)
Profit for the year		**305.3**	**(146.5)**	**158.8**	323.8	(8.5)	315.3

Earnings per share (pence)

	2020	2019
Basic	**66.7**	133.4
Diluted	**66.3**	133.2

1 For definition of non-underlying items see note 18.

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Profit for the year		**158.8**	315.3
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains	13	**187.4**	57.9
Current tax on pension contributions in prior periods		**9.5**	9.5
Deferred tax on pension contributions in prior periods		**(9.5)**	(9.5)
Deferred tax on net actuarial gains		**(32.9)**	(12.2)
Deferred tax arising on rate change		**2.7**	–
		157.2	45.7
Items that may be reclassified to the income statement:			
Losses on cash flow hedges		**(38.9)**	(8.6)
Deferred tax on losses on cash flow hedges		**7.4**	1.5
Amounts on cash flow hedges transferred to the income statement	7	**8.2**	8.2
Deferred tax on transfer to the income statement		**(1.6)**	(1.3)
		(24.9)	(0.2)
Other comprehensive income for the year		**132.3**	45.5
Total comprehensive income for the year		**291.1**	360.8

Consolidated statement of changes in equity

For the year ended 31 March 2020

		Equity attributable to owners of the Company				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	£m	£m	£m	£m	£m
As at 1 April 2018		235.1	117.7	93.0	551.1	996.9
Profit for the year		–	–	–	315.3	315.3
Losses on cash flow hedges		–	–	(8.6)	–	(8.6)
Deferred tax on losses on cash flow hedges		–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	7	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement		–	–	(1.3)	–	(1.3)
Net actuarial gains	13	–	–	–	57.9	57.9
Current tax on pension contributions in prior periods		–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods		–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains		–	–	–	(12.2)	(12.2)
Total comprehensive income for the year		–	–	(0.2)	361.0	360.8
Share options and LTIPs						
- proceeds from shares issued		0.8	10.3	–	–	11.1
- value of employees' services		–	–	–	8.1	8.1
- own shares purchased		–	–	–	(1.1)	(1.1)
Current tax on share based payments		–	–	–	0.2	0.2
Dividends paid	10	–	–	–	(211.9)	(211.9)
As at 31 March 2019		235.9	128.0	92.8	707.4	1,164.1
Adjustment on adoption of IFRS 16	1	–	–	–	(1.6)	(1.6)
As at 1 April 2019		235.9	128.0	92.8	705.8	1,162.5
Profit for the year		–	–	–	158.8	158.8
Losses on cash flow hedges		–	–	(38.9)	–	(38.9)
Deferred tax on losses on cash flow hedges		–	–	7.4	–	7.4
Amounts on cash flow hedges transferred to the income statement	7	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement		–	–	(1.6)	–	(1.6)
Net actuarial gains	13	–	–	–	187.4	187.4
Current tax on pension contributions in prior periods		–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods		–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains		–	–	–	(32.9)	(32.9)
Deferred tax arising from rate change		–	–	–	2.7	2.7
Total comprehensive income for the year		–	–	(24.9)	316.0	291.1
Share options and LTIPs						
- proceeds from shares issued		0.6	9.0	–	–	9.6
- value of employees' services		–	–	–	8.1	8.1
Deferred tax on share based payments		–	–	–	0.8	0.8
Dividends paid	10	–	–	–	(228.4)	(228.4)
As at 31 March 2020		**236.5**	**137.0**	**67.9**	**802.3**	**1,243.7**

Consolidated balance sheet
At 31 March 2020

	Note	31 March 2020 £m	31 March 2019 £m
Non-current assets			
Goodwill		**91.4**	90.9
Other intangible assets		**153.8**	124.2
Property, plant and equipment		**9,580.8**	9,085.6
Right-of-use assets		**128.8**	–
Investments in joint ventures	12	**–**	37.0
Derivative financial instruments		**65.5**	68.4
Trade and other receivables		**153.7**	204.0
Retirement benefit surplus	13	**21.3**	18.6
		10,195.3	9,628.7
Current assets			
Inventory		**29.2**	20.8
Trade and other receivables		**525.5**	513.5
Current tax receivable		**3.1**	–
Derivative financial instruments		**–**	0.1
Cash and cash equivalents		**48.6**	41.0
		606.4	575.4
Current liabilities			
Borrowings		**(475.4)**	(197.0)
Derivative financial instruments		**(4.4)**	–
Trade and other payables		**(573.6)**	(496.7)
Current tax payable		**–**	(9.3)
Provisions for liabilities		**(18.9)**	(32.2)
		(1,072.3)	(735.2)
Net current liabilities		**(465.9)**	(159.8)
Non-current liabilities			
Borrowings		**(5,957.7)**	(5,857.2)
Derivative financial instruments		**(159.2)**	(126.5)
Trade and other payables		**(1,187.3)**	(1,082.9)
Deferred tax		**(901.1)**	(747.5)
Retirement benefit obligations	13	**(255.3)**	(471.5)
Provisions for liabilities		**(25.1)**	(19.2)
		(8,485.7)	(8,304.8)
Net assets		**1,243.7**	1,164.1
Equity			
Called up share capital		**236.5**	235.9
Share premium account		**137.0**	128.0
Other reserves		**67.9**	92.8
Retained earnings		**802.3**	707.4
Total equity		**1,243.7**	1,164.1

Consolidated cash flow statement
For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Cash generated from operations[1]	14	**928.1**	872.8
Tax received	14	**0.4**	–
Tax paid	14	**(34.3)**	(21.3)
Net cash generated from operating activities		**894.2**	851.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**–**	(50.9)
Investments in associates and joint ventures		**–**	(6.2)
Purchases of property, plant and equipment		**(777.2)**	(782.1)
Purchases of intangible assets and goodwill		**(74.8)**	(35.1)
Proceeds on disposal of property, plant and equipment		**12.9**	1.4
Net loans repaid by joint ventures		**35.6**	–
Interest received		**2.0**	0.8
Net cash outflow from investing activities		**(801.5)**	(872.1)
Cash flow from financing activities			
Interest paid		**(181.9)**	(158.0)
Interest element of lease payments		**(4.3)**	(4.4)
Dividends paid to shareholders of the parent		**(228.4)**	(211.9)
Repayments of borrowings		**(3.0)**	(166.5)
Principal elements of lease payments		**(5.5)**	(1.7)
New loans raised		**330.1**	554.2
Issues of shares		**9.6**	11.1
Payments for swap terminations		**(16.8)**	–
Proceeds from swap terminations		**16.5**	–
Purchase of own shares		**–**	(1.1)
Net cash (outflow)/inflow from financing activities		**(83.7)**	21.7
Net movement in cash and cash equivalents		**9.0**	1.1
Net cash and cash equivalents at the beginning of the period		**39.6**	38.5
Net cash and cash equivalents at end of period		**48.6**	39.6
Cash at bank and in hand		**37.3**	41.0
Bank overdrafts		**–**	(1.4)
Short term deposits		**11.3**	–
		48.6	39.6

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

Notes to the financial statements

1. General information

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 2020 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union. 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.

Including undrawn committed credit facilities, the Group is fully funded for its investment and cash flow needs until January 2022. After making enquiries, including considering the potential impacts of COVID-19 as described in this RNS, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and hence the financial statements have been prepared on the going concern basis.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

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 2020 or 2019, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not comply with the disclosure requirements of IFRS. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 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.

i) Changes in accounting policies – IFRS 16 'Leases'

The Group has adopted IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for prior reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of IFRS 16
On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 April 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.14%.

For leases previously classified as finance leases the Group recognised the carrying amount of the right-of-use asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. There have been no remeasurement amounts of leases previously classified as finance leases under IFRS 16 principles.

	£m
Operating lease commitments disclosed as at 31 March 2019	17.5
Add: adjustments as a result of a different treatment of extension and termination options	10.6
Add: finance lease liabilities recognised as at 31 March 2019	112.2
Less: short-term leases recognised on a straight-line basis as an expense	(1.0)
Less: low-value leases recognised on a straight-line basis as an expense	(0.1)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(11.1)
Lease liability recognised as at 1 April 2019	**128.1**
Recognised at 31 March 2020 as:	
Current lease liabilities	5.8
Non-current lease liabilities	116.9
	122.7

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or

accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.
The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 £m	1 April 2019 £m
Land and buildings	**10.4**	11.7
Infrastructure assets	**113.8**	114.8
Fixed plant and equipment	**4.2**	7.8
Moveable plant	**0.4**	0.8
Total right-of-use assets	**128.8**	135.1

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	£m
Property, plant and equipment	(118.8)
Right-of-use assets	135.1
Deferred tax	0.4
Provisions	(2.4)
Borrowings	(15.9)
Retained earnings	1.6

Impact on segment disclosure and earnings per share

Year ended 31 March 2020

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m
Segment assets	7.1	6.4	1.0
Segment liabilities	–	(2.4)	–
	7.1	**4.0**	**1.0**

Basic and diluted earnings per share decreased by 0.3 pence per share for the year ended 31 March 2020 as a result of the adoption of IFRS 16. Underlying basic and diluted earnings per share also decreased by 0.3 pence per share.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with a remaining lease term of less than 12 months at 1 April 2019 as short-term leases per asset class;
- accounting for operating leases of low value assets as at 1 April 2019 on an individual basis;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Leasing activities
The Group leases various land and buildings, plant and equipment and vehicles. Rental agreements are typically made for fixed periods of 1 to 999 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the current financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use assets with a corresponding liability at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following; the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs, and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the current financial year, there has been no financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

2. Segmental analysis

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited (excluding Bioresources and Developer Services), its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses in the UK & Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including Developer Services, affinity products and searches.

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in joint ventures are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT. A segmental analysis of turnover and underlying PBIT is presented below.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

a) Segmental results

The following table shows the segmental turnover and PBIT:

	2020		2019	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
External turnover	**1,620.7**	**222.8**	1,583.1	183.4
Inter-segment turnover	**–**	**17.6**	–	17.5
Total turnover	**1,620.7**	**240.4**	1,583.1	200.9
Underlying PBIT	**511.5**	**64.9**	527.0	64.1
Exceptional operating items and amortisation of acquired intangible assets	**–**	**(2.1)**	(8.9)	(1.0)
Profit before interest and tax	**511.5**	**62.8**	518.1	63.1

The reportable segments' turnover is reconciled to Group turnover as follows:

	2020 **£m**	2019 £m
Regulated Water and Waste Water	**1,620.7**	1,583.1
Business Services	**240.4**	200.9
Corporate and other	**0.7**	0.4
Consolidation adjustments	**(18.3)**	(17.0)
	1,843.5	1,767.4

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

	2020 **£m**	2019 £m
Regulated Water and Waste Water	**511.5**	527.0
Business Services	**64.9**	64.1
Corporate and other	**(5.6)**	(8.2)
Consolidation adjustments	**(0.5)**	(9.3)
Underlying PBIT	**570.3**	573.6
Exceptional operating items and amortisation of acquired intangible assets:		
Regulated Water and Waste Water	**–**	(8.9)
Business Services	**(2.1)**	(1.0)
Corporate and other	**–**	(0.4)
Net finance costs	**(188.4)**	(194.2)
Impairment of loans receivable	**(4.9)**	–
Net (losses)/gains on financial instruments	**(17.4)**	16.0
Share of net loss of joint ventures accounted for using the equity method	**(46.8)**	(0.4)
Profit on ordinary activities before taxation	**310.7**	384.7

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

The following table shows the segmental capital employed:

	2020		2019	
	Regulated Water and Waste Water **£m**	**Business Services** **£m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**9,883.0**	**626.3**	9,214.4	622.3
Goodwill	**63.5**	**29.2**	63.5	28.7
Investments in joint ventures	**–**	**–**	–	37.0
Segment assets	**9,946.5**	**655.5**	9,277.9	688.0
Segment operating liabilities	**(1,991.8)**	**(42.4)**	(1,986.3)	(68.7)
Capital employed	**7,954.7**	**613.1**	7,291.6	619.3

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

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

3. Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by business segment below:

Year ended 31 March 2020

	Regulated Water and Waste Water £m	**Business Services £m**	**Corporate and other £m**	**Consolidation adjustments £m**	**Group £m**
Water and waste water services	1,616.4	57.1	–	–	1,673.5
Operating services	–	70.7	–	–	70.7
Renewable energy	–	81.2	–	–	81.2
Other sales	4.3	13.8	–	–	18.1
Intra-group sales	–	17.6	0.7	(18.3)	–
	1,620.7	**240.4**	**0.7**	**(18.3)**	**1,843.5**

Year ended 31 March 2019

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,581.7	54.5	–	–	1,636.2
Operating services	–	57.1	–	–	57.1
Renewable energy	–	46.2	–	–	46.2
Other sales	1.4	25.7	–	0.8	27.9
Intra-group sales	–	17.4	0.4	(17.8)	–
	1,583.1	200.9	0.4	(17.0)	1,767.4

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year and revenue is recognised on a straight line basis over the financial year.

Income from diversions of £6.8 million (2018/19: £8.4 million), which is reimbursement of costs for diversions, is included within infrastructure maintenance expenditure within operating costs.

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract the Group bills the customer based on an inflation-linked volumetric tariff and invoices are payable on normal commercial terms. The performance obligations, which are satisfied as the services are performed, are: operating and maintaining the customer's infrastructure assets; upgrading the customer's infrastructure assets; administrating the services received from statutory water and sewerage undertakers; administrating billing services of the customer's commercial and Non Base Dependent customers. Revenue is allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Changes to projected margins are adjusted on a cumulative basis in the period that they are identified.

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. At 31 March 2020 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £459.3 million (2019: £509.6 million). This amount is expected to be recognised as revenue as follows:

	2020 £m	2019 £m
In the next year	**43.6**	43.5
Between one and five years	**177.6**	178.1
After more than five years	**238.1**	288.0
	459.3	509.6

The assumptions and other sources of estimation uncertainty in relation to this contract do not present a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year and therefore are not included as a source of estimation uncertainty.

Revenue recognised in excess of amounts billed is recorded as a contract asset and amounts billed in excess of revenue recognised is recorded as a contract liability. Changes in contract assets in the year were as follows:

	2020	2019
	£m	£m
Contract asset at 1 April	**35.1**	39.1
Amounts billed	**(47.6)**	(46.1)
Revenue recognised	**49.1**	42.1
Contract asset at 31 March	**36.6**	35.1

No revenue recognised in the year was included as a contract liability at the beginning of the year (2019: nil). No revenue recognised in the year is from performance obligations satisfied in previous periods (2019: nil).

4. Exceptional items before tax

The Group classifies items of income or expenditure as exceptional if, individually or in aggregate if of a similar type, they should, in the opinion of the Directors be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

	2020	2019
	£m	£m
Regulated Water and Waste Water		
GMP equalisation costs	**–**	(8.9)
	–	(8.9)
Business Services		
GMP equalisation costs	**–**	(0.3)
	–	(0.3)
Corporate and other		
GMP equalisation costs	**–**	(0.4)
	–	(0.4)
Exceptional operating costs	**–**	(9.6)
Other exceptional items		
Exceptional impairment of loans receivable from joint venture	**(4.9)**	–
Exceptional share of net losses of joint venture (see note 12)	**(46.8)**	–
	(51.7)	(9.6)

5. Finance income

	2020	2019
	£m	£m
Interest income earned on bank deposits	**0.4**	0.2
Other financial income	**1.3**	7.7
Total interest receivable	**1.7**	7.9
Interest income on defined benefit scheme assets	**58.2**	61.0
	59.9	68.9

6. Finance costs

	2020	2019
	£m	£m
Interest expense charged on:		
Bank loans and overdrafts	**21.6**	21.3
Other loans	**150.5**	153.0
Lease liabilities	**4.3**	4.4
Total borrowing costs	**176.4**	178.7
Other financial expenses	**2.6**	9.6
Interest cost on defined benefit scheme liabilities	**69.3**	74.8
	248.3	263.1

7. Net (losses)/gains on financial instruments

	2020	2019
	£m	£m
Gain on swaps used as hedging instruments in fair value hedges	**5.1**	0.3
(Loss)/gain arising on debt in fair value hedges	**(1.6)**	0.5
Exchange loss on other loans	**(6.7)**	(8.1)
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**2.7**	1.9
(Loss)/gain arising on swaps where hedge accounting is not applied	**(9.8)**	28.5
Amortisation of fair value adjustment on debt	**1.1**	1.1
	(17.4)	16.0

8. Tax

	2020	2019
	£m	£m
Current tax		
Current year at 19% (2019: 19%)	**36.2**	41.2
Prior years	**(5.2)**	(9.4)
Total current tax	**31.0**	31.8
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**29.8**	30.1
Prior years	**(0.7)**	7.5
Exceptional charge on rate change	**91.8**	–
Total deferred tax	**120.9**	37.6
	151.9	69.4

9. Acquisitions

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited. For a total consideration of £61.3 million and the assumption of £59.7 million of existing debt.

The acquisition was accounted for using the acquisition method. Goodwill of £28.7 million was capitalised, attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired.

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria. The adjustments to fair values recognised at 31 March 2020 are set out below:

	£m
Goodwill recognised at 1 April based on provisional fair values	28.7
Adjustment to estimated fair value of trade and other receivables	0.5
Goodwill recognised at 31 March 2020 based on final fair values	**29.2**

During the 12 month period post-acquisition, new information was obtained regarding accrued income held within the entities acquired. This new information related to disputed amounts and amounts related to debtors that had gone into administration. The provision for the doubtful collection of accrued income as at the acquisition date has therefore been adjusted in the fair values of trade and other receivables on acquisition.

10. Dividends

Amounts recognised as distributions to owners of the Company in the year:

	2020		2019	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2019 (2018)	**56.02**	**133.1**	51.92	122.9
Interim dividend for the year ended 31 March 2020 (2019)	**40.03**	**95.3**	37.35	89.0
Total dividends paid	**96.05**	**228.4**	89.27	211.9
Proposed final dividend for the year ended 31 March 2020	**60.05**	**145.0**		

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.

11. Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and 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 dilutive potential 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 period.

Basic and diluted earnings per share is calculated on the basis of profit attributable to the owners of the Company.

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

i) Earnings for the purpose of basic and diluted earnings per share

	2020	2019
	£m	£m
Profit for the year	**158.8**	315.3

ii) Number of shares

	2020	2019
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.0**	236.3
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**1.4**	0.4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	236.7

b) Underlying earnings per share

	2020	2019
	pence	pence
Underlying basic earnings per share	**146.0**	145.8
Underlying diluted earnings per share	**145.1**	145.6

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

The adjustments to earnings are as follows:

	2020 £m	2019 £m
Earnings for the purpose of basic and diluted earnings per share	**158.8**	315.3
Adjustments for:		
- exceptional items before tax	**51.7**	9.6
- current tax on exceptional items	**(0.9)**	–
- amortisation of acquired intangible assets	**2.1**	0.7
- net losses/(gains) on financial instruments	**17.4**	(16.0)
- current tax on net losses/gains on financial instruments	**(2.6)**	(2.6)
- deferred tax	**120.9**	37.6
Earnings for the purpose of underlying basic and diluted earnings per share	**347.4**	344.6

12. Interests in joint ventures

Our principal joint venture undertaking as at 31 March 2020, is Water Plus Limited, which is the largest business retailer in the non-household retail water market in England.

Movements in our investment were as follows:

	2020 £m	2019 £m
Carrying value of joint venture investment at 1 April	**37.0**	37.6
Amortisation of discount on zero coupon loan note	**–**	(0.2)
Zero coupon loan note classified as part of net investment	**9.8**	–
Group's share of loss after tax and comprehensive loss	**(46.8)**	(0.4)
As at 31 March	**–**	37.0

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak; the resulting lockdown; and its effects on commercial customers and expects to see lower economic activity leading to increases in business customer failures.

Water Plus has updated its business plan to take account of the expected impacts of the COVID-19 outbreak, and the impairment assessment for its long-term assets, in particular goodwill and customer relationships recognised under the acquisition accounting rules of IFRS 3. The updated impairment tests identified an impairment of £51.1 million against these assets. In addition, Water Plus has already seen a significant reduction in cash collected from its non-household customers and, using economic forecasts to estimate the likely impact of future economic circumstances on their debt book at 31 March, has recognised an additional £29.3 million bad debt provision.

Before taking account of our share of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year.

We have recognised £46.8 million, our share of these losses capped at the level of our long-term investment, as an exceptional loss from our joint venture. As we have no obligation to make further contributions to Water Plus we have not recognised £4.9 million of losses in excess of our investment.

We have also recorded an exceptional impairment of £4.9 million in our loans receivable from Water Plus.

13. Retirement benefit schemes

The Group operates three defined benefit schemes in the UK, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual. The Group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The most recent actuarial valuations of the Severn Trent schemes were at 31 March 2019. The Group participates in the Dee Valley Water plc Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. The most recent actuarial valuation of this scheme was at 31 March 2017.

The assumptions used in calculating the defined benefit obligations as at 31 March 2020 have been updated to reflect market conditions prevailing at the balance sheet date as follows.

	2020 %	2019 %
Price inflation - RPI	**2.5**	3.2
Price inflation - CPI	**1.7**	2.2
Discount rate	**2.4**	2.5
Pension increases in payment	**2.5**	3.2
Pension increases in deferment	**2.5**	3.2

	2020	2019
Remaining life expectancy for members currently aged 65 (years)		
- men	**22.2**	21.9
- women	**23.9**	23.6
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**23.1**	22.9
- women	**25.1**	24.8

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the group's obligations 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% pa	Decrease/increase by £41/£42 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £36/£35 million
Mortality	Increase in life expectancy by 1 year	Increase by £97 million

The defined benefit assets have been updated to reflect their market value as at 31 March 2020. Due to the unprecedented market situation related to COVID-19, valuation of the asset categories requiring judgment (in particular, property included at £261.9 million) is subject to significant uncertainty at the balance sheet date. Consequently, a higher degree of caution should be attached to the valuation of those assets than would normally be the case. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

Movements in the net deficit recognised in the balance sheet were as follows:

	Fair value of plan assets £m	**Defined benefit obligations £m**	**Net deficit £m**
At 31 March 2019	2,418.9	(2,871.8)	(452.9)
Current service cost	–	(0.2)	(0.2)
Scheme administration costs	(3.4)	–	(3.4)
Interest income/(cost)	58.2	(69.3)	(11.1)
Return on plan assets	(0.4)	–	(0.4)
Actuarial gains recognised in the statement of comprehensive income	–	187.8	187.8
Contributions from the sponsoring companies	46.2	–	46.2
Employees' contributions and benefits paid	(105.4)	105.4	–
At 31 March 2020	**2,414.1**	**(2,648.1)**	**(234.0)**

The net deficit is presented on the balance sheet as follows:

	2020 £m	2019 £m
Retirement benefit surplus	**21.3**	18.6
Retirement benefit obligation	**(255.3)**	(471.5)
	(234.0)	(452.9)

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2020 **£m**	2019 £m
Profit before interest and tax	**568.2**	563.3
Depreciation of property, plant and equipment	**327.4**	315.4
Depreciation of right-of-use assets	**6.6**	–
Amortisation of intangible assets	**30.8**	29.8
Amortisation of acquired intangible assets	**2.1**	0.7
Impairment of property, plant and equipment	**0.5**	–
Pension service cost	**0.2**	9.8
Defined benefit pension scheme administration costs	**3.4**	2.3
Defined benefit pension scheme contributions	**(46.2)**	(34.9)
Share based payment charge	**8.1**	8.1
Loss on sale of property, plant and equipment and intangible assets	**1.2**	0.6
Release from deferred credits	**(15.4)**	(14.7)
Contributions and grants received[1]	**39.6**	46.5
Provisions charged to the income statement	**3.3**	12.2
Utilisation of provisions for liabilities	**(13.1)**	(12.8)
Operating cash flows before movements in working capital	**916.7**	926.3
Increase in inventory	**(8.4)**	(1.7)
Increase in amounts receivable	**(12.8)**	(60.0)
Increase in amounts payable	**32.6**	8.2
Cash generated from operations	**928.1**	872.8
Tax received	**0.4**	–
Tax paid	**(34.3)**	(21.3)
Net cash generated from operating activities	**894.2**	851.5

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new leases (2019: nil). Assets transferred from developers and under Private Drains and Sewers legislation at no cost were recognised at their fair value of £71.0 million (2019: £42.1 million).

c) Reconciliation of movements in net debt

	Net cash and cash equivalents £m	**Bank loans £m**	**Other loans £m**	**Lease liabilities £m**	**Cross currency swaps £m**	**Loans due from joint ventures £m**	**Net debt £m**
As at 31 March 2019	39.6	(1,120.1)	(4,820.5)	(112.2)	37.1	142.0	(5,834.1)
Recognised on adoption of IFRS 16 (see note 1)	–	–	–	(15.9)	–	–	(15.9)
As at 1 April 2019	39.6	(1,120.1)	(4,820.5)	(128.1)	37.1	142.0	(5,850.0)
Cash flow	9.0	(128.1)	(199.0)	5.5	–	(35.6)	(348.2)
Fair value adjustments	–	–	(0.5)	–	23.3	–	22.8
Inflation uplift on index-linked debt	–	(2.2)	(31.8)	–	–	–	(34.0)
Foreign exchange	–	–	(6.7)	–	–	–	(6.7)
Other non-cash movements	–	(1.5)	–	(0.1)	–	(13.8)	(15.4)
As at 31 March 2020	**48.6**	**(1,251.9)**	**(5,058.5)**	**(122.7)**	**60.4**	**92.6**	**(6,231.5)**

15. Post balance sheet events

Dividends

Following the year end the Board of Directors have approved a final dividend of 60.05 pence per share. Further details of this are shown in note 10.

16. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2019: nil) is expected to arise in respect of either bonds or guarantees.

17. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture, Water Plus, are disclosed below.

	2020	2019
	£m	£m
Sale of services	**306.6**	335.0
Net interest income	**3.2**	3.8
	309.8	338.8

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2020	2019
	£m	£m
Trade and other receivables due from related parties	**12.1**	2.3
Loans receivable from joint ventures	**92.6**	142.0
	104.7	144.3

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 13.

18. Alternative performance measures (APMs)

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually or, in aggregate if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by these items and reflecting the operational performance of the acquired subsidiaries. Following the acquisition of Agrivert, this APM was updated to include adjustment of amortisation on acquired intangible assets. The calculation of this APM is shown on the face of the income statement and in note 2 for reportable segments.

c) Underlying earnings per share

Underlying earnings per share figures exclude the effects of exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, net (losses)/gains on financial instruments, current tax on exceptional items and on net (losses)/gains on financial instruments, exceptional current tax and deferred tax. The Directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 11.

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 14.

e) Effective interest cost

The effective interest cost is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

$$\frac{\textit{(net finance costs – net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2020	2019
	£m	£m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Capitalised finance costs	**44.2**	33.2
	221.5	213.6
Average net debt	**5,972.2**	5,547.7
Effective interest cost	**3.7%**	3.9%

This APM is used as it shows the average finance cost for the net debt of the business.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally RPI adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2020	2019
	£m	£m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Inflation adjustments	**(34.0)**	(39.7)
Capitalised finance costs	**44.2**	33.2
	187.5	173.9
Average net debt	**5,972.2**	5,547.7
Effective cash cost of interest	**3.1%**	3.1%

This is used as it shows the average finance cost that is paid in cash.

g) Underlying PBIT interest cover

The ratio of underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{Underlying PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding net finance costs from pensions	**177.3**	180.4

	ratio	ratio
Underlying PBIT interest cover	**3.2**	3.2

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

h) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{(underlying PBIT + depreciation + amortisation)}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Depreciation (including right-of-use assets)	**334.0**	315.4
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**30.8**	29.8
EBITDA	**935.1**	918.8
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding finance costs from pensions	**177.3**	180.4

	ratio	ratio
EBITDA interest cover	**5.3**	5.1

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

i) Underlying effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit before tax, net losses/gains on financial instruments, exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries and share of net loss of joint ventures accounted for using the equity method.

$$\frac{\textit{(Current year current tax charge in the income statement – current tax on exceptional items – current tax on financial instruments – current tax on amortisation of acquired intangible assets)}}{\textit{(PBT – share of net loss of JVs – exceptional items – net losses/gains on financial instruments – amortisation of acquired intangible assets)}}$$

	2020	**2020 Current tax thereon**	2019	2019 Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**310.7**	**(36.2)**	384.7	(41.2)
Adjustments				
Share of net loss of joint ventures	**46.8**	**–**	0.4	–
Amortisation of acquired intangible assets	**2.1**	**–**	0.7	–
Exceptional items	**4.9**	**(0.9)**	9.6	–
Net (losses)/gains on financial instruments	**17.4**	**(2.6)**	(16.0)	(2.6)
	381.9	**(39.7)**	379.4	(43.8)
Underlying effective current tax rate		**10.4%**		11.6%

This APM is used to be remove distortions in the tax charge and create a metric consistent with the calculation of underlying earnings per share in note 11. Share of net loss of joint ventures is excluded from the calculation because the loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

j) Operational cashflow

Cash generated from operations less contributions and grants received.

	2020	2019
	£m	£m
Cash generated from operations	**928.1**	872.8
Contributions and grants received	**(39.6)**	(46.5)
Operational cashflow	**888.5**	826.3

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

k) Cash capex

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2020	2019
	£m	£m
Purchase of property, plant and equipment	**777.2**	782.1
Purchase of intangible assets	**74.8**	35.1
Contributions and grants received	**(39.6)**	(46.5)
Proceeds on disposal of property, plant and equipment	**(12.9)**	(1.4)
Cash capex	**799.5**	769.3

This APM is used to show the cash impact of the Group's capital programmes.

Glossary

Asset Management Plan (AMP)
Price limit periods are sometimes known as AMP (Asset Management Plan) periods. The period from 1 April 2015 to 31 March 2020 is known as AMP6 because it is the sixth cycle since the water industry was privatised in 1989.

C-MeX (Customer Measure of Experience)
The proposed Customer Measure of Experience (C-MeX) will replace the SIM as the incentive for companies to improve the experience of residential customers from 1 April 2020 onwards.

Customer ODI (Outcome Delivery Incentive)
A framework made up of outcomes, measures, targets and incentives which provides companies with rewards for achieving stretching performance targets and compensates customers if performance is below performance targets. This was first introduced at the 2014 price review (PR14) by the regulator, Ofwat.

Final Determination (FD)
The outcome of the price review process that sets price, investment and services packages that customers receive.

Ofwat
The water industry's economic regulator in England & Wales.

PR14 / PR19
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewage companies are set every five years. PR19 (Price Review 2019) set wholesale price controls for water and sewerage companies for 2020 to 2025.

Price limits
The price limits are set to enable water companies to deliver the services required of them over the AMP period. These include allowing for capital maintenance of assets, ensuring security of supply and meeting drinking water and environmental quality requirements.

Regulatory Capital Value (RCV)
The regulatory capital value is used to measure the capital base of a company when setting price limits. The regulatory capital value represents the initial market value of a company, including debt, plus new capital expenditure.

RoRE
Return on Regulated Equity (RoRE) measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt.

Service Incentive Mechanism (SIM)
The SIM allows comparison of companies' customer service performance. It measures the following aspects of service delivery:

i) Where customers have made contact regarding a service issue, for example, phoning about a billing error or writing to complain about a water supply problem.
ii) A customer survey measuring how well companies have handled all types of customer contacts, not just when things have gone wrong.

Companies receive rewards or penalties in the Price Review depending on their SIM performance.

Totex
Totex (shortened form of total expenditure) includes operating expenditure (opex), infrastructure renewals expenditure (IRE) and capital expenditure (capex).

Waste cap
The limit on the amount of outperformance payments for waste water related customer ODIs. For Severn Trent in AMP6 this was £190 million.

Cautionary statement regarding forward-looking statements

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

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

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