Preliminary Announcement of Annual Results
19 May 2021
Results for the year to 31 March 2021

SEVERN TRENT

Record reward for customer ODIs, and generating long-term RCV growth through investment to support the Green Recovery

Strong operational performance resulting in best ever ODIs for customers

- Sector-leading delivery on customer ODIs[1] leading to c.80% of measures in positive territory and a net outperformance reward of £79 million across all operational areas
- Strong year on water measures, with improvements in water quality metrics, resulting in net positive financial reward
- Best ever pollutions performance and consistent top performer in waste, including strong performance on blockages and sewer flooding
- Focused on our customers with top five position for utilities on UK Customer Satisfaction Index, and year-on-year progress in customer complaints and experience measures
- Fast start to AMP7[2] regulatory period seen through accelerated capital programme, with more than £590 million investment in year

Resilient financial performance in line with expectations

- Group turnover[3] of £1,827 million, down 0.9%, with c.£50 million net impact of lower consumption due to COVID-19 lockdowns, the regulatory model allows us to recover this later in the AMP
- Adjusted PBIT[4] of £473 million, in line with expectations, down 17.1% as a result of PR19 rebasing of tariffs, the net impact of COVID-19 on consumption and additional investment to drive our customer ODI performance. Reported PBIT of £471 million (2020: £568 million)
- Strong household cash collection, up £61 million (5.2%) year-on-year, helping reduce bad debt charge to 3.0% of household revenue
- Effective interest cost reduced 30 bps to 3.4%; RCF refinanced through our Sustainable Finance Framework; sufficient liquidity through to December 2022
- Adjusted basic EPS[5] at 105.4 pence and basic EPS at 89.1 pence, in line with expectations
- Proposed final dividend of 60.95 pence, bringing full year dividend to 101.58 pence

Supporting our environment, our communities, our colleagues

- On track to deliver our Triple Carbon Pledge, with Scope 2 emissions already near zero and gross greenhouse gas emissions reduced by more than 50% since last year[6]
- £6.9 million awarded to charities and communities in our region, including our response to COVID-19
- Leader in diversity, strong positions in Hampton-Alexander Review, Social Mobility Index, Equileap's 2021 Gender Equality Global Report and Ranking, Tortoise Responsibility100 and Stonewall Index

Creating jobs and helping the region bounce back through the Green Recovery

- Awarded £565 million[7] of new investment from Ofwat's Green Recovery programme; increasing RCV real growth this AMP from 3.8% to 10.4%
- Innovative environmental schemes will help create c.2,500 jobs, support customers and improve the environment
- Projects include plans to promote wild swimming in two rivers in our region, and using natural solutions to protect customers in Mansfield from flooding
- We have separately announced today our intention to conduct an equity placing through the issue of new ordinary shares to raise approximately £250 million of gross proceeds that will be used to fund the Green Recovery projects

Liv Garfield, Chief Executive, said:
"The last year has thrown up multiple challenges for us but it's clear everyone at Severn Trent has responded superbly to the new normal we find ourselves in. Our industry-leading customer ODI performance shows just how much we've been able to improve our services, often while working in very difficult circumstances.

At the same time, we've increased the support we give to our customers and the communities we serve, from schemes for the most vulnerable to the extra funding we've made available to help charities and not-for-profits get through the pandemic.

We took a very early decision to be at the forefront of efforts to help our region bounce back. That is why it was such good news that we'd been successful with our Green Economic Recovery proposal, meaning we can invest even more in sustainable projects and help create thousands of jobs. Add in our ambitious Kickstart programme, the launch of the Great Big Nature Boost, and our sustainability support for the Birmingham Commonwealth Games and it's clear, both operationally and environmentally, that it's been a strong year for Severn Trent."

Group results

	2021	2020	Increase/ (decrease)
	£m	£m	%
Group turnover	**1,827.2**	1,843.5	(0.9)
Adjusted Group PBIT[4]	**472.8**	570.3	(17.1)
Group PBIT	**470.7**	568.2	(17.2)
	pence/ share	pence/ share	
Adjusted basic EPS[5]	**105.4**	146.0	(27.8)
Basic earnings per share	**89.1**	66.7	33.6
Total ordinary dividends	**101.58**	100.08	1.5

Footnotes to pages 1 and 2 of this RNS

1. ODIs = Customer Outcome Delivery Incentives, quoted pre-tax and in 2017/18 prices unless otherwise stated. Our ODI outturn and percentage meeting or ahead of regulatory target (or within penalty deadband for compliance measures) reflects our in-period performance commitments - excluding per capita consumption (now an end of period commitment). ODI values for C-MeX and D-MeX (forecast) are calculated based on latest published industry data. A definitive value will be published by Ofwat later in the year.
2. Asset Management Plan (see glossary).
3. Shown after including diversions income of £17.5 million and deferred income of £15.5 million, which were deducted from operating costs and infrastructure renewals expenditure in previous years.
4. Adjusted profit before interest and tax (PBIT) excludes exceptional operating items and amortisation of acquired intangible assets.
5. Adjusted basic EPS is set out in note 10.
6. On a Market-Based Method basis, as defined in the GHG Protocol Scope 2 Guidance
7. Quoted in 2017/18 prices, equivalent to c.£624 million in nominal prices.

<u>Note:</u> FY2021/22 technical guidance is included in the Chief Financial Officer's section of this announcement.

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Preliminary Results Presentation and Webcast

A presentation of these results hosted by Liv Garfield, CEO, and James Bowling, CFO, will be available on our website (severntrent.com) from 7.00am BST today, 19 May 2021.

We will be hosting a live Q&A session with Liv, James and our wider Executive team at 8.00am BST today via video call.

Chief Executive's Review

For a lot of us this has been a year like no other, with challenges but also opportunities for the business, which have placed us firmly at the heart of the communities in which we live and work.

Like many other companies, the pandemic has impacted our financial performance, although our regulatory model will allow us to recover much of the lost revenue in later years. But the last year has also reinforced the performance culture we've built in Severn Trent, leading to net customer ODI rewards of £79 million – the highest seen in the water industry since ODIs were introduced.

Our sector-leading performance is a result of our teams' hard work in the most trying of circumstances. Whether working on the streets, in our treatment works or at home in support of our operational teams, we remained committed to doing the best job we could for all our customers.

What's been particularly heartening is that, through increasingly using data-led insight, we have improved resilience and service for our customers across all our areas – waste, water, environment and customers – with around 80% of our measures in positive territory.

This success puts us in a great place for our ambitious Green Economic Recovery proposals. Following Ofwat's announcement on 17 May, we've been awarded £565 million, which represents a significant incremental investment opportunity over the next four years and importantly will supplement the work we do now in our communities, providing employment, resilience and improved natural surroundings. It will create jobs on projects ranging from bathing standard river quality to protecting Mansfield from flooding while also providing long-term asset growth for Severn Trent.

We're proposing a final dividend of 60.95 pence bringing our full year dividend to 101.58 pence, in line with our AMP7 policy. As a company that hasn't required government support this year, and knowing the importance many of our shareholders place on receiving a dividend, we decided to continue with our stated policy.

Improvements in water tempered by challenges

Our overall water performance has improved markedly, with 85% of ODIs in positive territory resulting in a £9 million net reward, making this our best year to date. We continue to focus on those measures which matter to our customers, including a strong year on our Compliance Risk Index scores, a measure designed to show the risk from treated water compliance failures, and a notable reduction in water quality complaints performance, improving over 60% and 10% respectively.

We also saw how we can move from reward to penalty on some measures through unexpected events. The various lockdowns saw an increase in personal water consumption, and there were occasional issues for customers due to unexpected events such as pipe bursts.

In Hafren Dyfrdwy, we've seen a step change in service for our customers in north and mid Wales, with the majority of our ODI measures moving into reward, compared to less than half last year. We've been at the forefront of supporting the lead-free Wales ambition, exceeding our pipe replacement target by four times.

Working smarter in waste

Our performance on waste continues to be strong, as it has been since the introduction of ODIs, and this year our strategy of working smarter and then targeting problem areas and assets has paid off.

While there has undoubtedly been a lockdown effect, with fewer restaurants open for example, our own work in reducing blockages by 30% had a beneficial effect on public sewer flooding, which was down 31%, and both have helped our pollutions figure, for which we had our best ever year, beating our target by 20%.

To achieve that, we've not only targeted assets where there were clearly improvements to be made, we've also made our network smarter by fitting 1,500 sensors to our sewers. The insight we gained into our network provided more resilience and is helping us to spot and fix issues before they affect customers. We aim to roll out 40,000 of the sensors by 2025 to give us a far better, smarter view of what's happening in our sewer pipes.

Despite schools being closed or locked down to external visitors, our Education team managed to beat its target to educate the region's children through 750 online lessons on how to protect our sewers, helping create a generation with a greater appreciation about what to, and what not to flush down the toilet and pour down the drain.

Environment – ambitious plans

We've had a fast start to our AMP7 environmental programme, delivering twice over on our full AMP biodiversity target in the first year and launching our Great Big Nature Boost, through which we aim to plant 1.3 million trees, revive 12,000 acres, and restore more than 2,000 kilometres of rivers throughout the region, together with schemes helping the release of beavers into the wild in Nottinghamshire and Derbyshire later this year.

We are on track with our Triple Carbon Pledge, and now only use fully renewable-backed electricity from our energy suppliers. Our electric vehicle (EV) fleet continues to increase in size, and we're aiming to be all-electric by 2030. We've also offered our employees access to an EV scheme to encourage them to reduce their own impact. Our ongoing commitment to self-generate our own energy from renewable sources continues to deliver, as we produced the equivalent of 53% of the electricity we used during the year, helping cut our emissions further. Finally, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets Initiative, committing us to deliver significant reductions in our greenhouse gas emissions by 2030 in line with our journey to Net Zero, and we'll be putting our climate action plans to a non-binding vote at our AGM later this year.

Our customers

Our customers remain at the heart of our business, and we aim to make their lives a little easier in everything we do. Our efforts were reflected in a top five utility company position in the UKCSI, reducing customer complaints, and a net positive reward position for our combined C-MeX and D-MeX scores.

We've recognised just how difficult the pandemic has been for many of our customers, which is why we launched our Back on Track tariff to support those affected through the pandemic, as well as promoting our pre-existing support schemes – WaterSure, the Big Difference Scheme, and the Severn Trent Trust Fund. As a result, we've more than doubled the number of customers we've helped to more than 150,000 and increased the number of people signed up to our Priority Services Register, to 107,000, meaning, on the rare occasions we have an issue, we can target support to our most vulnerable customers.

Our bills are among the lowest in the land and, in the case of our Welsh business, Hafren Dyfrdwy, they were the lowest average combined bills for the second year in a row. This affordability meant that, despite the ongoing issues for many of our customers, household cash collection for the Group improved 5.2% compared to last year, which also had a positive effect on our bad debt costs.

Investment increased

We've continued our accelerated capital programme by spending over £590 million in the year, taking advantage of quieter conditions to bring forward £90 million of activity. This has given us a head start on our AMP7 investment, increasing our capacity for future years, helping us outperform our operational targets, and bringing forward carbon and cost benefits from our bioresources business.

Even more excitingly, we were delighted to gain regulatory approval for our innovative plans for six projects that will help the Midlands bounce back after the pandemic by investing £565 million from the

Green Recovery scheme, creating c.2,500 jobs, and improving the environment in which we operate. We believe our success in the scheme was down to our desire to put forward projects that not only created jobs through new investment but that were also truly innovative in the sector and that would leave a lasting legacy for generations to come. All six projects have something new and creative about them and it's truly inspiring to be part of these initiatives, whether that's improving river quality, turning Mansfield into a flood-resilient community by installing a range of nature-based solutions such as drainage ponds, or installing more than 150,000 smart water meters across Coventry and Warwickshire to help customers manage their own usage.

Our people

We believe investment in our own people is money well spent, helping build and develop a skills base that will serve us for many years to come. Our new £10 million Academy was opened earlier this month, offering colleagues classroom training and experiential learning. Even before its official opening, we've completed 7,000 days of training for 2,400 people over 1,600 in-house events.

At the half-year we spoke of our plans to offer 500 placements under the Government's Kickstart scheme and I'm delighted that not only have the first 170 or so started work with us, we've also been able to offer permanent roles to some of them. Despite the pandemic, we will provide a fantastic workplace and developmental experience for all 500 by the end of the year. Looking forward, we've made one of the largest commitments to the #10000BlackInterns programme by committing to host 100 work placements across our business next year.

As well as building skills internally, we continue to be an employer of choice for new talent. A big part of that is our commitment to diversity and social inclusion. It's the right thing to do and we believe makes us a more attractive employer. While we don't make our commitments to win awards, it's still heartening to be recognised for the hard work we've carried out, which has led to strong standing in the Hampton Alexander Review, Social Mobility Index, Equileap Gender Equality Global Rankings, Tortoise Responsibility100, and Stonewall Index.

Supporting our communities

Next year the Commonwealth Games is coming to our region and we're delighted to be the official Nature & Carbon Neutral Supporter of Birmingham 2022. We'll be supporting the organisers' ambitions to create the first carbon-neutral games, and as part of that, we'll be planting 2,022 acres of forest and creating 72 mini-forests, one for each of the competing nations, delivering a lasting social and environmental legacy. The Games will give us the chance to not only further our environmental goals but also to engage our own people in a major international sporting event taking place right in the heart of our region.

By awarding over £3 million to over 400 charities and not-for-profits in our region we've helped make a real difference to the communities in which we live and work, especially given the challenges many such organisations have had this year in raising funds. I've visited several groups supporting our customers through the pandemic to see what a fantastic job they've been doing for the past year.

We've also supported our SME suppliers by moving to immediate payment through the pandemic, providing valuable extra cashflow during a difficult time.

The placing

Our Directors believe the equity placing will position the business to best deliver our Green Recovery growth plans and improved financial performance in the future. That means we are confident it will benefit all our stakeholders, from investors to the communities we serve.

The placing has been structured as a non-pre-emptive offer to maximise the efficiency of the process. However, we recognise the importance of pre-emption rights to our smaller shareholders and to that end we have made available a separate retail offer to give retail investors the opportunity to participate in the equity fundraising alongside the institutional placing.

Conclusion

Despite a tough year, we’ve made the most of achieving fast-track status and have taken a number of great steps forward. Our sector-leading ODI performance is proof of our commitment to working smarter – whether by finding simple, cost-effective solutions or by introducing industry-leading innovations – across our key performance areas. We’ve supported our customers and our communities during the pandemic and will continue to do so. Combined with our environmental commitments, we believe we’re leaving a real lasting legacy for generations to come.

Chief Financial Officer's Review

At the end of a challenging year I'm pleased to report a resilient financial performance in line with our expectations. A summary for the year is set out below:

	2021	2020	Change	
	£m	£m	£m	%
Turnover	**1,827.2**	1,843.5	(16.3)	(0.9)
Adjusted PBIT	**472.8**	570.3	(97.5)	(17.1)
Adjusting items	**(2.1)**	(2.1)	–	–
PBIT	**470.7**	568.2	(97.5)	(17.2)
Net finance costs	**(187.1)**	(188.4)	1.3	0.7
Gains/losses on financial instruments, share of results of joint venture and impairment of loans receivable	**(16.4)**	(69.1)	52.7	76.3
Profit before tax	**267.2**	310.7	(43.5)	(14.0)
Tax	**(55.0)**	(151.9)	96.9	63.8
Profit for the year	**212.2**	158.8	53.4	33.6

As expected, our turnover this year reflected the rebasing of tariffs under the price review, and the significant impact of the COVID-19 lockdowns. This time last year we guided to a £50 million to £85 million reduction in revenue, and we have seen the impact at the low end of this range, as higher domestic usage helped mitigate the significant decline in non-household consumption. Under the regulatory model we will be able to recover the shortfall in this year's allowed wholesale revenue in 2022/23. This decline in revenue was offset on a reported basis by a £33 million reclassification of deferred income and diversions income now released to revenue (previously credited to operating costs).

Adjusted PBIT was down 17.1% to £472.8 million. In addition to the impact of lower revenue, we spent more through our net labour, hired and contracted and other cost lines to support our strong customer ODI performance, and saw anticipated increases in power and chemical costs and depreciation. Our bad debt costs were down year-on-year, as strong household customer cash collections helped reduce our underlying bad debt charge, only partly offset by the additional provision we have made to account for forecasted COVID-19 related rises in unemployment. Business Services PBIT was also lower, in part due to lower energy prices and also the timing of property transactions during an unsettled year.

Reported Group PBIT was down 17.2% to £470.7 million (2019/20: £568.2 million).

We continue to benefit from both low inflation on our index-linked debt and fixed debt issued at low interest rates in recent years. Our effective interest cost was 30 bps lower at 3.4% (2019/20: 3.7%) and our effective cash cost of interest was flat at 3.1% (2019/20: 3.1%).

We have recognised our £8.9 million share of Water Plus's loss for this year and the £4.9 million of exceptional losses that were disclosed but not recognised in the previous year. Last year we recorded losses of £46.8 million in relation to Water Plus, mainly arising from impairment losses due to the expected impacts of COVID-19. After obtaining £70 million of external finance during the year the business is now well placed to benefit from increased economic activity after lockdown.

Our full effective tax rate was 20.6% and our adjusted effective tax rate was 11.4%, up from 10.4% in 2019/20 largely due to lower pension contributions in the year.

Reported Group profit after tax increased to £212.2 million (2020: £158.8 million). Basic earnings per share increased to 89.1 pence, (2019/20: 66.7 pence) and adjusted basic earnings per share were down 27.8% to 105.4 pence per share, in line with expectations.

Operational cash flow was £860.3 million, a reduction of £28.2 million as a result of lower PBIT partially offset by higher depreciation and amortisation and improved cash collection from household customers. Cash capex was £206.3 million lower than the previous year, when we completed major end of AMP6 projects. Net cash outflow before changes in net debt was £170.2 million (2019/20: £348.2 million).

Our net debt was £6,443.8 million (2020: £6,231.5 million) and regulated gearing was 64.5% (2020: 64.4%) reflecting strong capital management despite the impact of low inflation on our RCV. In April 2021 we renewed our £1.0 billion revolving credit facility, extending its maturity to 2026. Our cash flow requirements are now funded to December 2022.

Our RoRE for the year was 5.8%, 190 bps above the base return of 3.9%. This outperformance came from our customer ODIs, following continued outperformance on our Waste measures and improvements in Water, and financing, as the continued reduction in our effective interest cost exceeded the drag of lower inflation in the year compared to Ofwat's Final Determination assumption. This outperformance was partly offset by higher totex reflecting early investment to enhance our resilience and support ODI performance and the COVID-19 related bad debt charge.

Changes to segmental presentation

Last year the Bioresources and Developer Services businesses were managed by, and included in, Business Services. Both of these businesses form part of the appointed businesses of Severn Trent Water and Hafren Dyfrdwy, are included in the regulatory settlement determined by Ofwat and are now managed by our Regulated Water and Waste Water team. We have therefore amended our segmental presentation to include Bioresources and Developer Services within our Regulated Water and Waste Water business.

We have restated the prior year segmental analysis to present both years on a consistent basis. Details of the adjustments made are set out in note 2 to the financial statements.

Regulated Water and Waste Water

	2021	2020 (restated)	Change	
	£m	£m	£m	%
Turnover	**1,693.9**	1,708.1	(14.2)	(0.8)
Net labour costs	**(156.0)**	(151.8)	(4.2)	(2.8)
Net hired and contracted costs	**(187.5)**	(174.6)	(12.9)	(7.4)
Power	**(100.0)**	(94.2)	(5.8)	(6.2)
Raw materials and consumables	**(61.3)**	(54.9)	(6.4)	(11.7)
Bad debts	**(40.5)**	(42.5)	2.0	4.7
Other costs	**(181.5)**	(147.3)	(34.2)	(23.2)
	(726.8)	(665.3)	(61.5)	(9.2)
Infrastructure renewals expenditure	**(151.0)**	(149.6)	(1.4)	(0.9)
Depreciation	**(364.0)**	(352.8)	(11.2)	(3.2)
Adjusted PBIT	**452.1**	540.4	(88.3)	(16.3)

Turnover for our Regulated Water and Waste Water business was £1,693.9 million (2019/20: £1,708.1 million) and adjusted PBIT was £452.1 million (2019/20: £540.4 million).

The key components of the £14.2 million decline in revenue were:

- A below-inflation annual increase in regulated revenue, largely as a result of the price review rebasing of tariffs at the start of AMP7 (£15 million)
- An increase of £33 million from the reclassification of deferred income releases and diversions income (previously credited to operating costs and infrastructure renewals expenditure - see note 1)
- A net decrease of £50 million due to lower consumption by commercial customers, partially offset by increases in domestic usage during the national lockdowns and the dry summer period

- Other net decreases as a result of legacy refunds to non-household retailers and other adjustments (£12 million)

We carried forward ODI rewards from AMP6 of approximately £191 million in nominal prices. Our turnover in the year ended 31 March 2021 includes £38.2 million from these rewards.

Net labour costs of £156.0 million were up 2.8% compared to the prior year. Gross employee costs increased due to the annual pay award of 2.3% and insourcing of design activity in our Capital Delivery team. This was partially offset by higher capitalisation of employee costs, largely related to this insourcing activity.

Net hired and contracted costs were £12.9 million (7.4%) higher. Investment in activities to reduce blockages and enhance biodiversity and in new technology licences increased costs. We also brought in additional temporary resources to respond to the hot weather in early summer.

Power costs were up £5.8 million due to the expected rise in pass-through costs and additional consumption to meet higher household demand for water, with some offset from an increase in self-generation and lower variable tariffs in the first half of the year.

Raw materials and consumables increased by £6.4 million due to chemical costs on new Water Framework Directive schemes, and COVID-19 related consumables.

Household cash collection was 5.2% higher year-on-year – 3.5% from higher tariffs and consumption and 1.5% from improved targeting of older debt. As a result, the element of our bad debt charge relating to historical collections reduced by £9.4 million to £30.9 million. Despite this strong performance, and the range of social tariffs we have made available for struggling customers, our expectation is that the rise in unemployment forecast by the Bank of England for next year will result in more customers falling into arrears. In anticipation of this, and based on the forecast available at the year end, we recorded an additional bad debt charge this year of £9.6 million (2019/20: £2.2 million) against amounts already billed but not yet collected at the year end. Taken together, our bad debt charge as a percentage of household revenue was 3.0% (2019/20: 3.2%).

Reported other costs rose by £34.2 million. Before the £15.5 million reclassification of deferred income releases to turnover, other costs were up £18.7 million. This increase was primarily due to:

- A £6.0 million subscription cost for the new Ofwat Innovation fund for AMP7, which is offset within our household tariffs in turnover
- Increased insurance charges of £3.9 million
- A £3.6 million increase in Community Support during the pandemic, and
- A number of smaller items including £2.2 million higher business rates (due to inflationary increases this year and significant rebates in the prior year).

Reported Infrastructure renewals expenditure was £1.4 million higher in the year. Before the reclassification of £17.5 million of diversions income to turnover, expenditure was £16.1 million lower due to the completion of significant AMP6 projects last year, including our Trunk Mains Renewal Programme.

Depreciation of £364.0 million was £11.2 million higher than the prior year. Major AMP6 projects that were brought into service and other additions increased the depreciable asset base by around 7%; the effect of this was partly offset by a £9.8 million reduction in the depreciation charge following a review of useful lives for significant mechanical and electrical assets.

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 2021 is set out in the following table:

	2020/21 %
Base return	3.9
Enhanced RoRE returns	0.3
ODI outperformance[1]	1.7
Totex performance	(0.7)
Financing outperformance	0.6
Regulatory return for the year[2]	**5.8**

1. ODI performance includes PCC and forecast D-MeX outturn.
2. Calculated in accordance with Ofwat guidance set out in RAG 4.07.

We have delivered RoRE of 5.8% in the year, outperforming the base return by 1.9% as a result of:

- ODI performance of 1.7%, driven by continued strong performance on waste measures, including blockages and sewer flooding, and improvements in water measures, including water quality, CRI and low pressure.
- Our totex position of (0.7)% reflects early investment to enhance our resilience and support ODI performance, as well as the higher COVID-19 related bad debt charge.
- Financing performance of 0.6%, from the continued reduction in our effective interest rate, offset by the drag of lower inflation in the year compared to Ofwat's FD assumption.

Business Services

	2021 £m	2020 (restated) £m	Increase/(decrease) £m	%
Turnover				
Operating Services and Other	**82.8**	84.4	(1.6)	(1.9)
Green Power	**51.9**	53.5	(1.6)	(3.1)
	134.7	137.9	(3.2)	(2.3)
Adjusted PBIT				
Operating Services and Other	**20.9**	21.7	(0.8)	(3.7)
Green Power	**2.6**	6.6	(4.0)	(60.6)
Property Development	**2.3**	7.7	(5.4)	(70.1)
	25.8	36.0	(10.2)	(28.3)

Business Services turnover was £134.7 million (2019/20: £137.9 million) and adjusted PBIT was £25.8 million (2019/20: £36.0 million).

In our Operating Services business, turnover and adjusted PBIT decreased by £1.6 million and £0.8 million respectively, largely driven by lower volumes in the Property Searches business during the national lockdown in the first half of the year.

In Green Power, turnover decreased by £1.6 million and adjusted PBIT decreased by £4.0 million. Adjusted PBIT was impacted by lower wholesale energy prices in the first half of the year and the higher cost of purchasing alternative feedstocks to compensate for less hospitality industry food waste during lockdowns.

Profits from Property Development were £5.4 million lower as there were no individually significant disposals in the current year, as guided. We remain on track to deliver £100 million of PBIT from property sales by 2027.

Corporate and other

Corporate costs were £5.9 million (2019/20: £8.6 million), with the reduction largely due to releases of provisions relating to prior year corporate transactions that are no longer required. Our other businesses generated PBIT of £0.7 million (2019/20: £3.0 million).

Exceptional items before tax

We recorded no exceptional operating costs (2019/20: nil).

In 2019/20 we recorded exceptional losses before tax of £51.7 million 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 on our loans due from Water Plus. In view of the materiality of these impacts and the unprecedented nature of the impact of COVID-19 on Water Plus we considered these items to be exceptional.

Net finance costs

Net finance costs for the year were £1.3 million lower than the prior year at £187.1 million. Average net debt increased to £6,263.6 million (2019/20: £5,972.2 million) and our effective cash cost of interest (excluding indexation adjustment on index-linked debt and pensions-related charges) was 3.1% (2019/20: 3.1%). Interest cost on index-linked debt decreased by £14.8 million due to lower inflation, and as a result our effective interest cost fell to 3.4% (2019/20: 3.7%).

Capitalised interest of £30.4 million was £13.8 million lower year-on-year due to the lower level of capital activity compared to last year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 4.7 times (2019/20: 5.3 times) and adjusted PBIT interest cover was 2.6 times (2019/20: 3.2 times). See note 17 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
- Changes in the regulatory model from RPI to CPIH.

We hold interest rate swaps with a net notional principal of £653 million 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 £8.2 million (2019/20: loss of £9.8 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 around 82% of our estimated wholesale energy usage for 2021/22.

Share of loss of joint venture

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak, the resulting lockdowns and the effects on commercial customers. Water Plus's revenue was around £150 million lower than the previous year and in these difficult trading conditions it incurred a loss after tax of £17.7 million. During the year Water Plus obtained £70 million of external debt facilities and, since the year end, along with our joint venture partner, we have each converted £32.5 million of the revolving credit facilities advanced to Water Plus to equity and consider this to form part of our long-term investment in Water Plus at the year end. The business is now well placed to benefit from the recovery as economic activity increases after lockdown.

We have recognised our share of Water Plus's loss after tax for the year (£8.9 million) and the £4.9 million of exceptional losses not recognised in the prior year.

We have updated our assessment of expected credit losses on our loans to Water Plus and reduced the provision recorded by £3.6 million.

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 was higher than the statutory rate, reflecting non-deductible items charged to our income statement such as depreciation charged on assets which are not eligible for capital allowances and on which no deferred tax is provided, partially offset by tax credits arising from overpayments in the previous year. Cash tax payments were reduced by the benefit of tax allowances on our capital programme and contributions to our pension schemes.

	2021 £m	2020 £m
Tax incurred:		
Corporation tax	**30.0**	26.7
Business rates and property taxes	**83.6**	81.6
Employer's National Insurance	**28.0**	28.9
Environmental taxes	**6.7**	6.6
Other taxes	**5.5**	4.9
	153.8	148.7

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2020/21", 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 £55.0 million (2019/20: £59.2 million) and we made net corporation tax payments of £23.2 million in the year (2019/20: £33.9 million). The difference between the tax charged and the tax paid is summarised below:

	2021 £m	2020 £m
Tax on profit on ordinary activities before exceptional taxes	**55.0**	59.2
Tax on exceptional items	**–**	0.9
Exceptional deferred tax charge arising from rate change	**–**	91.8
Tax effect of timing differences	**(28.2)**	(120.9)
Current tax credits recorded in Other Comprehensive Income or equity	**(0.4)**	(9.5)
Overprovisions in previous years	**3.6**	5.2
Corporation tax payable for the year	**30.0**	26.7
Repayments received	**–**	(0.4)
Payments relating to prior years	**–**	4.5
Overpayments in the year	**–**	3.1
Overpayments in prior years offset in the current year	**(6.8)**	–
Net tax paid in the year	**23.2**	33.9

Net tax paid in the year of £23.2 million (2019/20: £33.9 million) includes £4.9 million paid to Water Plus for consortium relief (2019/20: nil).

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 £26.8 million (2019/20: £31.0 million) and the deferred tax charge was £28.2 million (2019/20, before the exceptional deferred tax charge arising from the change of rate: £29.1 million).

Our full effective tax rate this year was 20.6% (2019/20: 48.9%), which is higher than the UK rate of corporation tax (19%), due to items of expenditure that are not deductible for tax (2019/20: higher mainly due to the exceptional deferred tax charge).

Our adjusted effective current tax rate was 11.4% (2019/20: 10.4%) (see note 17).

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 adjusted 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.

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the deferred tax liability would have been £286 million higher.

Profit for the year and earnings per share

Total profit for the year was £212.2 million (2019/20: £158.8 million).

Basic earnings per share from continuing operations increased by 33.6% to 89.1 pence (2019/20: 66.7 pence). Adjusted basic earnings per share was 105.4 pence (2019/20: 146.0 pence). For further details see note 10.

Cash flow

	2021 £m	2020 £m
Operational cash flow	**860.3**	888.5
Cash capex	**(593.2)**	(799.5)
Net interest paid	**(186.2)**	(184.2)
Proceeds on sale of subsidiary	**0.7**	–
Net payments for swap terminations	**(0.2)**	(0.3)
Net tax paid	**(23.2)**	(33.9)
Free cash flow	**58.2**	(129.4)
Dividends	**(240.2)**	(228.4)
Issue of shares	**11.8**	9.6
Change in net debt from cash flows	**(170.2)**	(348.2)
Non-cash movements	**(42.1)**	(49.2)
Change in net debt	**(212.3)**	(397.4)
Opening net debt	**(6,231.5)**	(5,834.1)
Closing net debt	**(6,443.8)**	(6,231.5)

	2021 £m	2020 £m
Bank loans	**(1,011.1)**	(1,251.9)
Other loans	**(5,471.3)**	(5,058.5)
Lease liabilities	**(121.3)**	(122.7)
Net cash and cash equivalents	**44.0**	48.6
Cross currency swaps	**31.9**	60.4
Loans due from joint venture	**84.0**	92.6
Net debt	**(6,443.8)**	(6,231.5)

Operational cash flow was £860.3 million (2019/20: £888.5 million). The impact of lower PBIT was partially offset by higher depreciation and amortisation and improved collection from household customers.

Net cash capex of £593.2 million (2019/20: £799.5 million) was above our expectation of £580 million as we made a fast start to our AMP7 programme.

Our net interest payments of £186.2 million (2019/20: £184.2 million) were broadly in line with the previous year as the impact of higher net debt was largely offset by lower finance costs. Our net tax payments were £23.2 million, a decrease of £10.7 million, mainly due to quarterly instalment payments higher than the corporation tax payable in the prior year.

We received £11.8 million (2019/20: £9.6 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 £212.3 million in net debt (2019/20: £397.4 million).

On 31 March 2021 we held £44.0 million (2020: £48.6 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2020: 13 years). Including committed facilities, our cash flow requirements are funded until December 2022.

Net debt at 31 March 2021 was £6,443.8 million (2020: £6,231.5 million) and balance sheet gearing (net debt/net debt plus equity) was 84.9% (2020: 83.2%). Severn Trent Water Group net debt, expressed as a percentage of estimated RCV at 31 March 2021 was 64.5% (2020: 64.4%).

The estimated fair value of debt at 31 March 2021 was £1,449.5 million higher than book value (2020: £951.8 million higher). The increase in the difference to book value is largely due to the impact of higher inflation expectations on the fair value of our index-linked debt.

In December 2020 we issued £100 million 35-year CPIH linked debt at a premium of around £22 million. The notes carry a coupon of 0.01%.

Our policy for the management of interest rates is that at least 40% of our borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2021 interest rates for 67% (2020: 64%) of our gross debt of £6,603.7 million were fixed; 8% were floating and 25% were index-linked. We continue to carefully monitor market conditions and our interest rate exposure.

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 ('the Schemes') are closed to future accrual.

The most recent formal actuarial valuations for 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
- Annual deficit reduction payments of £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 (£2.7 million in 2020/21).

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 2020 and no deficit reduction contributions to the Section are required.

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 £367.7 million (2020: £234.0 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 reduced to 88% (31 March 2020: 91%).

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	2,414.1	(2,648.1)	(234.0)
Amounts credited/(charged) to income statement	53.4	(63.2)	(9.8)
Actuarial gains/(losses) taken to reserves	212.7	(374.7)	(162.0)
Net contributions received and benefits paid	(79.8)	117.9	38.1
At end of the year	**2,600.4**	**(2,968.1)**	**(367.7)**

The income statement includes:

- Current service costs on the Dee Valley Water Scheme, which remains open to further accrual but is closed to new members, and past service costs relating to GMP equalisation. Together these amounts were £0.5 million;
- Scheme administration costs of around £3.9 million; and
- Net interest on scheme liabilities and expected return on the scheme assets – together a cost of £5.4 million.

At the previous year end there was a short-lived increase in corporate bond spreads that increased the discount rate applied in calculating the scheme liabilities. Corporate bond spreads were around 100 bps lower at 31 March 2021 but the impact of this on the discount rate applied was mitigated by a 50 bps increase in gilt yields. The net reduction in the discount rate increased the scheme liabilities by around £150 million.

Inflation expectations have increased by around 70 bps since the previous year end and this increased scheme liabilities by around £290 million.

Changes to demographic assumptions reduced scheme liabilities by around £34 million. This included an update to the most recent CMI data tables and also a weighting to allow for the high mortality experienced in 2020.

The actual outturn in the year for inflation and other assumptions was better than expected and this reduced scheme liabilities by £31 million.

The scheme assets increased in value by around £213 million more than the return included in the income statement in the year.

Contributions paid to the STPS in the year included:

- The amounts due under the asset-backed funding arrangements £24.8 million;
- A payment of £11.4 million that was deferred from the March 2020 deficit reduction payment to April 2020; and
- A one-off supplementary payment of £1.3 million.

There were also normal contributions of £0.2 million to the Dee Valley Water Scheme and payments of benefits under the unfunded scheme amounting to £0.4 million.

Dividends

In line with our policy for AMP7 to increase the dividend by at least CPIH each year, the Board has proposed a final ordinary dividend of 60.95 pence per share for 2020/21 (2019/20: 60.05 pence per share). This gives a total ordinary dividend for the year of 101.58 pence (2018/19: 100.08 pence).

The final ordinary dividend is payable on 16 July 2021 to shareholders on the register at 28 May 2021.

Principal risks and uncertainties

The Board has overall responsibility for determining the nature and extent of the risks in which Severn Trent participates and for ensuring that risks are managed effectively across the Group. The Board considers the principal risks and uncertainties affecting the Group's business activities to be those detailed below:

Cyber Security and Technology Resilience:
- Cyber threats cause damage to key infrastructure assets, interruptions to core systems or data loss resulting in a negative impact on our reputation, operations, regulatory (including GDPR) compliance or finances.

Service Failure and Asset Resilience:
- Failure to provide a safe and secure supply of drinking water to our customers and the potential for reduced public confidence in water supply.
- Failure to effectively transport and treat waste water and the potential for reduced public confidence in our waste water system.

Financial Liabilities:
- Failure to fund the Severn Trent defined benefit ('DB') pension scheme sustainably.
- We are unable to ensure sufficient liquidity to meet our funding requirements.

Capital Project Delivery and Scheme Resilience:
- Failure to design or deliver to time and cost capital projects that ensure the resilience of our operations and safety of our assets.

Political, Legal and Regulatory:
- Accelerating changes in the political, legal environment and environmental obligations increases the risk of non-compliance.

Climate Change, Environment and Biodiversity:
- Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services.
- We fail to positively influence natural capital in our region.

Health and Safety:
- Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public.

COVID-19:

- 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. We have a well-rehearsed approach to incident management and while COVID-19 presented many unique challenges, the governance structure we implemented in response to the COVID-19 pandemic provided a stable foundation from which we could respond to the changing situation.
- COVID-19 assumptions are built into our budget and business plan process. 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 regular updates on the Group's COVID-19 response in order to assess, monitor and respond to the evolving impact of COVID-19 on our operations and business, including impacts for all of our stakeholders.

Technical Guidance 2021/22

Year-end guidance		**FY 21**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover[1]	£1.78 billion to £1.81 billion. Includes c.£50 million of diversions income related to HS2.	£1.69bn	▲
Operating costs (incl. IRE)	Higher year-on-year primarily driven by a planned step up in our IRE programme and continued upward sector-wide pressure on energy and chemicals costs.	£878m	▲
ODIs[2]	Continued outperformance across Water, Waste, Environmental and Customer measures delivering a net reward of at least £40 million.	£79m	▼
Business Services			
Adjusted PBIT	Double digit percentage growth, driven by increased property sales.	£26m	▲
Group			
Interest charge	Increase year-on-year from higher forecast inflation and greater total net debt.	£187m	▲
Tax rate[3]	We expect the impact of the acceleration of capital allowances and the "super deduction" on our increased capital programme to be greater than our taxable profit before these items.	11.4%	▼
Group capex	£550 million to £650 million including Green Recovery.	£593m	↔
Dividend[4]	Annual dividend growth of CPIH. 2021/22 dividend 102.14p.	101.58p	▲

Footnotes to Technical Guidance

1. Includes new presentation of deferred income and diversions income released to turnover in the income statement.
2. Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices.
3. Total effective tax rate is expected to be c.19%.
4. 2021/22 dividend growth is based on November 2020 CPIH of 0.55%.

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)	27 May 2021
Dividend record date (Final)	28 May 2021
DRIP election date (Final)	25 June 2021
AGM	8 July 2021
Q1 Trading Update	15 July 2021
Final dividend payment date	16 July 2021
Capital Markets Day	24 September 2021
Half year results announcement 2021/22	23 November 2021
Ex-dividend date (Interim)	2 December 2021
Dividend record date (Interim)	3 December 2021
DRIP election date (Interim)	14 December 2021
Interim dividend payment date	7 January 2022

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

Consolidated income statement
For the year ended 31 March 2021

		2021			2020		
	Note	**Adjusted £m**	**Adjusting items £m**	**Total £m**	Adjusted £m	Adjusting items £m	Total £m
Turnover	2,3	**1,827.2**	**–**	**1,827.2**	1,843.5	–	1,843.5
Other income		**–**	**–**	**–**	6.9	–	6.9
Operating costs before charge for bad and doubtful debts		**(1,314.4)**	**(2.1)**	**(1,316.5)**	(1,237.2)	(2.1)	(1,239.3)
Charge for bad and doubtful debts		**(40.0)**	**–**	**(40.0)**	(42.9)	–	(42.9)
Total operating costs		**(1,354.4)**	**(2.1)**	**(1,356.5)**	(1,280.1)	(2.1)	(1,282.2)
Profit before interest and tax		**472.8**	**(2.1)**	**470.7**	570.3	(2.1)	568.2
Finance income	5	**59.8**	**–**	**59.8**	59.9	–	59.9
Finance costs	6	**(246.9)**	**–**	**(246.9)**	(248.3)	–	(248.3)
Net finance costs		**(187.1)**	**–**	**(187.1)**	(188.4)	–	(188.4)
Gain/(loss) on impairment of loans receivable		**3.6**	**–**	**3.6**	–	(4.9)	(4.9)
Net losses on financial instruments	7	**(6.2)**	**–**	**(6.2)**	(17.4)	–	(17.4)
Share of net loss of joint venture accounted for using the equity method	4	**(8.9)**	**(4.9)**	**(13.8)**	–	(46.8)	(46.8)
Profit on ordinary activities before taxation		**274.2**	**(7.0)**	**267.2**	364.5	(53.8)	310.7
Current tax	8	**(26.8)**	**–**	**(26.8)**	(30.1)	(0.9)	(31.0)
Deferred tax	8	**(28.2)**	**–**	**(28.2)**	(29.1)	(91.8)	(120.9)
Taxation on profit on ordinary activities	8	**(55.0)**	**–**	**(55.0)**	(59.2)	(92.7)	(151.9)
Profit for the year		**219.2**	**(7.0)**	**212.2**	305.3	(146.5)	158.8

Earnings per share (pence)

	2021	2020
Basic	**89.1**	66.7
Diluted	**88.6**	66.3

Consolidated statement of comprehensive income
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the year		**212.2**	158.8
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	12	**(162.0)**	187.4
Deferred tax on net actuarial losses/gains		**30.8**	(32.9)
Current tax on pension contributions in prior periods		**–**	9.5
Deferred tax on pension contributions in prior periods		**–**	(9.5)
Deferred tax arising on rate change		**–**	2.7
		(131.2)	157.2
Items that may be reclassified to the income statement:			
Gains/(losses) on cash flow hedges		**33.5**	(38.9)
Deferred tax on gains/losses on cash flow hedges		**(6.3)**	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)
		33.8	(24.9)
Other comprehensive (loss)/income for the year		**(97.4)**	132.3
Total comprehensive income for the year		**114.8**	291.1

Consolidated statement of changes in equity
For the year ended 31 March 2021

		Equity attributable to owners of the company				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	£m	£m	£m	£m	£m
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	12	–	–	–	187.4	187.4
Deferred tax on net actuarial gains		–	–	–	(32.9)	(32.9)
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 rate change		–	–	–	2.7	2.7
Total comprehensive income for the period		–	–	(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	9	–	–	–	(228.4)	(228.4)
At 31 March 2020		236.5	137.0	67.9	802.3	1,243.7
Profit for the year		–	–	–	212.2	212.2
Gains on cash flow hedges		–	–	33.5	–	33.5
Deferred tax on gains on cash flow hedges		–	–	(6.3)	–	(6.3)
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 losses	12	–	–	–	(162.0)	(162.0)
Deferred tax on net actuarial gains		–	–	–	30.8	30.8
Total comprehensive loss for the period		–	–	33.8	81.0	114.8
Share options and LTIPs						
- proceeds from shares issued		0.7	11.1	–	–	11.8
- value of employees' services		–	–	–	7.8	7.8
Current tax on share based payments		–	–	–	0.4	0.4
Deferred tax on share based payments		–	–	–	0.4	0.4
Dividends paid	9	–	–	–	(240.2)	(240.2)
At 31 March 2021		**237.2**	**148.1**	**101.7**	**651.7**	**1,138.7**

Consolidated balance sheet
At 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill		**91.4**	91.4
Other intangible assets		**164.0**	153.8
Property, plant and equipment		**9,875.2**	9,580.8
Right-of-use assets		**130.8**	128.8
Derivative financial instruments		**37.1**	65.5
Trade and other receivables		**101.5**	117.8
Retirement benefit surplus	12	**17.1**	21.3
		10,417.1	10,159.4
Current assets			
Inventory		**30.8**	29.2
Trade and other receivables		**515.2**	561.4
Current tax receivable		**–**	3.1
Derivative financial instruments		**3.8**	–
Cash and cash equivalents		**56.2**	48.6
		606.0	642.3
Current liabilities			
Borrowings		**(503.1)**	(475.4)
Derivative financial instruments		**–**	(4.4)
Trade and other payables		**(557.1)**	(573.6)
Current tax payable		**(0.2)**	–
Provisions for liabilities		**(18.0)**	(18.9)
		(1,078.4)	(1,072.3)
Net current liabilities		**(472.4)**	(430.0)
Non-current liabilities			
Borrowings		**(6,112.8)**	(5,957.7)
Derivative financial instruments		**(126.9)**	(159.2)
Trade and other payables		**(1,250.3)**	(1,187.3)
Deferred tax		**(906.0)**	(901.1)
Retirement benefit obligations	12	**(384.8)**	(255.3)
Provisions for liabilities		**(25.2)**	(25.1)
		(8,806.0)	(8,485.7)
Net assets		**1,138.7**	1,243.7
Equity			
Called up share capital		**237.2**	236.5
Share premium account		**148.1**	137.0
Other reserves		**101.7**	67.9
Retained earnings		**651.7**	802.3
Total equity		**1,138.7**	1,243.7

Consolidated cash flow statement
For the year ended 31 March 2021

	Note	**2021** £m	2020 £m
Cash generated from operations	13	**901.7**	928.1
Tax received	13	**–**	0.4
Tax paid	13	**(23.2)**	(34.3)
Net cash generated from operating activities		**878.5**	894.2
Cash flows from investing activities			
Purchases of property, plant and equipment		**(613.7)**	(777.2)
Purchases of intangible assets		**(22.2)**	(74.8)
Payments to acquire right-of-use assets		**(0.7)**	–
Proceeds on disposal of property, plant and equipment		**2.0**	12.9
Proceeds on disposal of subsidiaries net of cash disposed		**0.7**	–
Net loans (advanced to)/repaid by joint venture		**(1.0)**	35.6
Interest received		**3.7**	2.0
Net cash outflow from investing activities		**(631.2)**	(801.5)
Cash flow from financing activities			
Interest paid		**(185.6)**	(181.9)
Interest element of lease payments		**(4.3)**	(4.3)
Dividends paid to shareholders of the parent		**(240.2)**	(228.4)
Repayments of borrowings		**(242.9)**	(3.0)
Principal elements of lease payments		**(5.6)**	(5.5)
New loans raised		**415.1**	330.1
Issues of shares		**11.8**	9.6
Payments for swap terminations		**(1.1)**	(16.8)
Proceeds from swap terminations		**0.9**	16.5
Net cash outflow from financing activities		**(251.9)**	(83.7)
Net movement in cash and cash equivalents		**(4.6)**	9.0
Net cash and cash equivalents at the beginning of the period		**48.6**	39.6
Net cash and cash equivalents at end of period		**44.0**	48.6
Cash at bank and in hand		**56.2**	37.3
Short term deposits		**–**	11.3
Overdraft		**(12.2)**	**–**
		44.0	48.6

Notes to the financial statements

1. General information

a) Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 December 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 2021 or 2020, 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 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

b) Changes in accounting presentation

(i) Contract asset ageing

A prior period adjustment has been made to reflect a change in presentation for the ageing of contract assets. The new presentation allocates future cash receipts to contract assets on a first-in-first-out basis. When assessing whether contract assets were current or non-current assets, cash receipts were previously allocated first to performance obligations satisfied in the year and then to performance obligations satisfied in previous years. As there is no contractual basis for the allocation of cash receipts to performance obligations, the directors believe it is more appropriate to allocate cash to performance obligations on a first-in-first-out basis, i.e. matching the first cash receipts to the first performance obligations satisfied.

The table below shows the effect of the change in accounting policy for the balance sheet position at 31 March 2020:

Balance sheet extract

	As previously reported £m	Restatement £m	Restated £m
Current trade and other receivables	525.5	35.9	561.4
Non-current trade and other receivables	153.7	(35.9)	117.8

(ii) Segmental presentation

A change in segmental presentation is set out in note 2. This has resulted in a change to the analysis of revenue by segment, which is shown in note 3.

(iii) Deferred income and income from diversions

Previously deferred income released to the income statement, and income from diversions, were credited to operating costs. Under the new presentation, the deferred income and income from diversions are recognised as turnover. In the year ended 31 March 2021 the release of deferred income amounted to £15.5 million (2020: £15.4 million) and income from diversions amounted to £17.5 million (2020: £6.8 million). This presentational change has been applied beginning in the year, however as the impact in the prior year is not considered material to the amounts recorded in turnover or operating costs, prior years have not been restated. This reclassification has no impact on profits or cash flows recorded in the year or prior years.

c) Change in accounting estimate – Useful economic lives

In the current financial year the Group has applied a change in the estimate of useful lives applicable to certain mechanical and engineering assets, included within the fixed plant and equipment asset category. The average estimated useful lives across £825.0 million net book value of assets at 31 March 2021 has been increased from 20 years to 22 years. The average estimated remaining useful lives across these assets has been increased from 14 years to 16 years. The change is required following updated engineering data, and has resulted in a £9.8 million decrease in the depreciation expense in the current year. The impact over the next four years is expected to be a £7.8 million decrease in depreciation expense per year.

2. Segmental analysis

a) Background

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, its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses, the Green Power business, the Property Development business and our other non-regulated businesses including affinity products and searches.

In 2019/20 the Bioresources and Developer Services businesses were managed by, and included in, Business Services. These activities are now managed by Regulated Water and Waste Water and we have amended our segmental presentation to reflect the new structure. We have provided a reconciliation of the prior year segmental information from the old basis to the new basis below.

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the year ended 31 March 2020:

	Regulated Water and Waste Water (old basis)	Bioresources	Developer Services	Regulated Water and Waste Water (new basis)
	£m	£m	£m	£m
Turnover	1,620.7	87.3	0.1	1,708.1
Profit before interest and tax	511.5	29.3	(0.4)	540.4

	Business Services (old basis)	Bioresources	Developer Services	Business Services (new basis)
	£m	£m	£m	£m
External turnover	222.8	(87.3)	(0.1)	135.4
Inter-segment turnover	17.6	(15.1)	–	2.5
Total turnover	240.4	(102.4)	(0.1)	137.9
Adjusted PBIT	64.9	(29.3)	0.4	36.0
Amortisation of acquired intangible assets	(2.1)	–	–	(2.1)
Profit before interest and tax	62.8	(29.3)	0.4	33.9

The tables below show the changes from the old to the new segmentation for capital employed at 31 March 2020:

	Regulated Water and Waste Water (old basis)	Bioresources	Developer Services	Consolidation adjustments	Regulated Water and Waste Water (new basis)
	£m	£m	£m	£m	£m
Operating assets	9,883.0	293.6	12.7	(12.1)	10,177.2
Goodwill	63.5	–	–	–	63.5
Segment assets	9,946.5	293.6	12.7	(12.1)	10,240.7
Segment operating liabilities	(1,991.8)	(12.5)	(4.0)	17.6	(1,990.7)
Capital employed	7,954.7	281.1	8.7	5.5	8,250.0

	Business services (old basis)	Bioresources	Developer Services	Consolidation adjustments	Business Services (new basis)
	£m	£m	£m	£m	£m
Operating assets	626.3	(293.6)	(12.7)	12.1	332.1
Goodwill	29.2	–	–	–	29.2
Segment assets	655.5	(293.6)	(12.7)	12.1	361.3
Segment operating liabilities	(42.4)	12.5	4.0	(17.6)	(43.5)
Capital employed	613.1	(281.1)	(8.7)	(5.5)	317.8

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 venture 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 adjusted PBIT. A segmental analysis of turnover and adjusted 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.

b) Segmental results

The following table shows the segmental turnover and PBIT:

	2021		2020 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,693.9**	**132.9**	1,708.1	135.4
Inter-segment turnover	**–**	**1.8**	–	2.5
Total turnover	**1,693.9**	**134.7**	1,708.1	137.9
Adjusted PBIT	**452.1**	**25.8**	540.4	36.0
Amortisation of acquired intangible assets	**–**	**(2.1)**	–	(2.1)
Profit before interest and tax	**452.1**	**23.7**	540.4	33.9

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

	2021 £m	2020 (restated) £m
Regulated Water and Waste Water	**1,693.9**	1,708.1
Business Services	**134.7**	137.9
Corporate and other	**0.9**	0.7
Consolidation adjustments	**(2.3)**	(3.2)
	1,827.2	1,843.5

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

	2021 £m	2020 (restated) £m
Regulated Water and Waste Water	**452.1**	540.4
Business Services	**25.8**	36.0
Corporate and other	**(5.1)**	(5.6)
Consolidation adjustments	**–**	(0.5)
Adjusted PBIT	**472.8**	570.3
Amortisation of acquired intangible assets (in Business Services)	**(2.1)**	(2.1)
Net finance costs	**(187.1)**	(188.4)
Gain/(loss) on impairment of loans receivable	**3.6**	(4.9)
Net losses on financial instruments	**(6.2)**	(17.4)
Share of net loss of joint venture accounted for using the equity method	**(13.8)**	(46.8)
Profit on ordinary activities before taxation	**267.2**	310.7

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.

c) Segmental capital employed

The following table shows the segmental capital employed:

	2021		2020 (restated)	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
Operating assets	**10,433.4**	**331.0**	10,177.2	332.1
Goodwill	**63.5**	**29.2**	63.5	29.2
Segment assets	**10,496.9**	**360.2**	10,240.7	361.3
Segment operating liabilities	**(2,174.4)**	**(40.0)**	(1,990.7)	(43.5)
Capital employed	**8,322.5**	**320.2**	8,250.0	317.8

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 2021

	Regulated Water and Waste Water	Business Services	Corporate and other	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Water and waste water services	1,664.8	–	–	–	1,664.8
Operating services	–	70.3	–	–	70.3
Renewable energy	27.4	51.9	–	(1.8)	77.5
Other sales	1.7	12.5	0.9	(0.5)	14.6
	1,693.9	**134.7**	**0.9**	**(2.3)**	**1,827.2**

Year ended 31 March 2020

	Regulated Water and Waste Water	Business Services	Corporate and other	Consolidation adjustments	Group
	£m	£m	£m	£m	£m
Water and waste water services	1,673.5	–	–	–	1,673.5
Operating services	–	70.7	–	–	70.7
Renewable energy	30.2	53.5	–	(2.5)	81.2
Other sales	4.4	13.7	0.7	(0.7)	18.1
	1,708.1	137.9	0.7	(3.2)	1,843.5

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.

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. The performance obligations 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; and administrating billing services of the customer's commercial and Non Base Dependant 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 2021, the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £416.1 million (2020: £459.3 million). This amount is expected to be recognised as revenue as follows:

	2021 £m	2020 £m
In the next year	**46.2**	43.6
Between one and five years	**184.4**	177.6
After more than five years	**185.5**	238.1
	416.1	459.3

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 are therefore 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:

	2021 £m	2020 £m
Contract asset at 1 April	**36.6**	35.1
Amounts billed	**(49.0)**	(47.6)
Revenue recognised	**50.6**	49.1
Contract asset at 31 March	**38.2**	36.6

No revenue recognised in the year was included as a contract liability at the beginning of the year (2020: nil). No revenue recognised in the year is from performance obligations satisfied in previous periods (2020: nil).

No contract liabilities arose from the Group's Operating Services contract with the MoD.

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 for the financial statements to give a true and fair view. In this context, materiality is assessed at the segment level. Items classified as exceptional in the current year are as follows:

	2021 £m	2020 £m
Loss on impairment of loans due from joint venture (see note 11)	**–**	(4.9)
Share of net losses of joint venture (see note 11)	**(4.9)**	(46.8)
	(4.9)	(51.7)

5. Finance income

	2021 £m	2020 £m
Interest income earned on bank deposits	**0.1**	0.4
Other financial income	**2.4**	1.3
Total interest receivable	**2.5**	1.7
Interest income on defined benefit scheme assets	**57.3**	58.2
	59.8	59.9

6. Finance costs

	2021 £m	2020 £m
Interest expense charged on:		
Bank loans and overdrafts	**11.4**	21.6
Other loans	**166.1**	150.5
Lease liabilities	**4.3**	4.3
Total borrowing costs	**181.8**	176.4
Other financial expenses	**2.4**	2.6
Interest cost on defined benefit scheme liabilities	**62.7**	69.3
	246.9	248.3

7. Net losses on financial instruments

	2021 £m	2020 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(8.1)**	5.1
Gain/(loss) arising on debt in fair value hedges	**4.2**	(1.6)
Exchange gain/(loss) on other loans	**14.8**	(6.7)
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**(2.0)**	2.7
Loss arising on swaps where hedge accounting is not applied	**(8.2)**	(9.8)
Amortisation of fair value adjustment on debt	**1.2**	1.1
Gain on swap termination	**0.1**	–
	(6.2)	(17.4)

8. Tax

	2021 £m	2020 £m
Current tax		
Current year at 19% (2020: 19%)	**30.4**	36.2
Prior years	**(3.6)**	(5.2)
Total current tax	**26.8**	31.0
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**23.7**	29.8
Prior years	**4.5**	(0.7)
Exceptional charge on rate change	**–**	91.8
Total deferred tax	**28.2**	120.9
	55.0	151.9

9. Dividends

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

	2021		2020	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2020 (2019)	**60.05**	**143.1**	56.02	133.1
Interim dividend for the year ended 31 March 2021 (2020)	**40.63**	**97.1**	40.03	95.3
Total dividends paid	**100.68**	**240.2**	96.05	228.4
Proposed final dividend for the year ended 31 March 2021	**60.95**	**147.6**		

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.

10. 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 those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

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

	2021	2020
	£m	£m
Profit for the year	**212.2**	158.8

(ii) Number of shares

	2021	2020
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.1**	238.0
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**1.3**	1.4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	239.4

b) Adjusted earnings per share

	2021	2020
	pence	pence
Adjusted basic earnings per share	**105.4**	146.0
Adjusted diluted earnings per share	**104.8**	145.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/losses on financial instruments, current tax on exceptional items and on net losses/gains on financial instruments and deferred tax in both 2021 and 2020. The Directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

	2021	2020
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**212.2**	158.8
Adjustments for:		
- exceptional items before tax	**4.9**	51.7
- current tax on exceptional items	**–**	(0.9)
- amortisation of acquired intangible assets	**2.1**	2.1
- net losses on financial instruments	**6.2**	17.4
- current tax on net losses on financial instruments	**(2.6)**	(2.6)
- deferred tax	**28.2**	120.9
Earnings for the purpose of adjusted basic and diluted earnings per share	**251.0**	347.4

11. Interest in joint venture

Our principal joint venture undertaking at 31 March 2021 is Water Plus Group Limited, which is the largest business retailer in the non-household retail water market in England and Scotland.

Movements in our position on the investment were as follows:

	2021 £m	2020 £m
Carrying value of joint venture investment at 1 April	**–**	37.0
Zero coupon loan note classified as part of net investment	**–**	9.8
RCF reclassified as additional long-term investment	**32.5**	–
Group's unrecognised losses after tax from prior year	**(4.9)**	–
Group's share of loss after tax and comprehensive loss	**(8.9)**	(46.8)
At 31 March	**18.7**	–
Amount included in long-term loans and receivables	**(18.7)**	–
Carrying value of joint venture investment at 31 March	**–**	–

In common with other non-household retailers, Water Plus has been significantly impacted by the COVID-19 pandemic. The resulting lockdown significantly reduced business customers' water consumption, and Water Plus's revenues and profits after tax. Water Plus also expects to see increases in business customer failures as a result of lower economic activity in the past year.

At the previous year end (31 March 2020) we wrote down our investment in Water Plus to nil. Given that the Group's intention at 31 March 2021 was to extinguish the existing £32.5 million Revolving Credit Facility ('RCF') extended to Water Plus and replace it with a long-term capital investment, this amount has been classified as part of the Group's net investment in Water Plus.

A total loss of £13.8 million (2020: loss of £46.8 million) has been recorded in the current period in the income statement, consisting of £4.9 million unrecognised losses from the prior period recorded as an exceptional item, and the Group's share of Water Plus's losses after tax for the year ended 31 March 2021 of £8.9 million recorded in adjusted results.

The Group has no accumulated unrecognised losses in Water Plus at 31 March 2021 (2020: £4.9 million).

We have also recorded a £3.6 million gain on the impairment of our loans due from Water Plus (2020: exceptional loss of £4.9 million), after reassessing our lifetime expected credit losses on the loans.

12. 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 2020.

The assumptions used in calculating the defined benefit obligations as at 31 March 2021 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

	2021 %	2020 %
Price inflation - RPI	**3.2**	2.5
Price inflation - CPI	**2.4**	1.7
Discount rate	**2.0**	2.4
Pension increases in payment	**3.2**	2.5
Pension increases in deferment	**3.2**	2.5
Remaining life expectancy for members currently aged 65 (years)		
- men	**21.8**	22.2
- women	**23.6**	23.9
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**22.7**	23.1
- women	**24.8**	25.1

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to the 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 £48/£50 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £42/£41 million
Mortality	Increase/decrease in life expectancy by 1 year	Increase/decrease by £125 million

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

The defined benefit assets have been updated to reflect their market value as at 31 March 2021. 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; 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	**Defined benefit obligations**	**Net deficit**
	£m	**£m**	**£m**
At 31 March 2020	2,414.1	(2,648.1)	(234.0)
Current service cost	–	(0.2)	(0.2)
Past service cost	–	(0.3)	(0.3)
Scheme administration costs	(3.9)	–	(3.9)
Interest income/(cost)	57.3	(62.7)	(5.4)
Return on plan assets	212.7	–	212.7
Actuarial losses recognised in the statement of comprehensive income	–	(374.7)	(374.7)
Contributions from the sponsoring companies	38.1	–	38.1
Employees' contributions and benefits paid	(117.9)	117.9	–
At 31 March 2021	**2,600.4**	**(2,968.1)**	**(367.7)**

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

	2021	2020
	£m	£m
Retirement benefit surplus	**17.1**	21.3
Retirement benefit obligations	**(384.8)**	(255.3)
	(367.7)	(234.0)

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2021 £m	2020 £m
Profit before interest and tax	**470.7**	568.2
Depreciation of property, plant and equipment	**342.0**	327.4
Depreciation of right-of-use assets	**3.6**	6.6
Amortisation of intangible assets	**32.1**	30.8
Amortisation of acquired intangible assets	**2.1**	2.1
Impairment of property, plant and equipment	**–**	0.5
Pension service cost	**0.5**	0.2
Defined benefit pension scheme administration costs	**3.9**	3.4
Defined benefit pension scheme contributions	**(38.1)**	(46.2)
Share based payment charge	**7.8**	8.1
(Gain)/loss on sale of property, plant and equipment and intangible assets	**(2.2)**	1.2
Profit on disposal of subsidiary undertaking	**(0.2)**	–
Release from deferred credits	**(15.5)**	(15.4)
Contributions and grants received	**41.4**	39.6
Provisions charged to the income statement	**4.9**	3.3
Utilisation of provisions for liabilities	**(12.2)**	(13.1)
Operating cash flows before movements in working capital	**840.8**	916.7
Increase in inventory	**(1.6)**	(8.4)
Decrease/(increase) in amounts receivable	**51.6**	(12.8)
Increase in amounts payable	**10.9**	32.6
Cash generated from operations	**901.7**	928.1
Tax received	**–**	0.4
Tax paid	**(23.2)**	(34.3)
Net cash generated from operating activities	**878.5**	894.2

b) Non-cash transactions

Non-cash additions to right-of-use assets during the year were £4.9 million (2020: £0.3 million). Assets transferred from developers at no cost were recognised at their fair value of £44.9 million (2020: £71.1 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 venture £m	Net debt £m
At 1 April 2020	48.6	(1,251.9)	(5,058.5)	(122.7)	60.4	92.6	(6,231.5)
Cash flow	(4.6)	243.3	(415.5)	5.6	–	1.0	(170.2)
Fair value adjustments	–	–	5.4	–	–	–	5.4
Inflation uplift on index-linked debt	–	(1.0)	(18.2)	–	–	–	(19.2)
Foreign exchange	–	–	14.8	–	–	–	14.8
Other non-cash movements	–	(1.5)	0.7	(4.2)	(28.5)	(9.6)	(43.1)
At 31 March 2021	**44.0**	**(1,011.1)**	**(5,471.3)**	**(121.3)**	**31.9**	**84.0**	**(6,443.8)**

14. Post balance sheet events

Water Plus equity investment

On 23 April the Group extinguished the £32.5 million RCF previously extended to Water Plus, and subscribed for £32.5 million of equity shares. This confirms the Group's documented intention at 31 March 2021 to replace the RCF with a long-term capital investment.

Refinancing

On 22 April the Group completed the refinancing of Severn Trent Water's £900 million revolving credit facility ('RCF') and £75 million of bilateral loan arrangements, with a £1.0 billion RCF. The new syndicated RCF provides equal financing from twelve banks, and extends the maturity date to April 2026 (plus two one year extension options).

Dividends

On 18 May the Board of Directors approved a final dividend of 60.95 pence per share. Further details of this are shown in note 9.

15. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2020: nil) is expected to arise in respect of either bonds or guarantees.

Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW residential and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which could be held in late 2021 or early 2022.

16. 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.

	2021	2020
	£m	£m
Sale of services	**216.1**	306.6
Net interest income	**2.3**	3.2
	218.4	309.8

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

	2021	2020
	£m	£m
Amounts due (to)/from related parties	**(2.4)**	12.1
Loans due from joint venture	**84.0**	92.6
	81.6	104.7

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 12.

17. Alternative performance measures

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 to other companies' alternative performance measures ('APMs'). 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) Adjusted PBIT

Adjusted 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. The calculation of this APM is shown on the face of the income statement and in note 2 for reportable segments.

c) Adjusted earnings per share

Adjusted earnings per share figures are presented for continuing operations. These 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 u figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 10.

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 venture. See note 13c.

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.

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

	2021	2020
	£m	£m
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Capitalised finance costs	**30.4**	44.2
	212.1	221.5
Average net debt	**6,263.6**	5,972.2
Effective interest cost	**3.4%**	3.7%

This APM is used as it shows the average interest rate that is attributable to 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).

(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)
(monthly average net debt)

	2021	2020
	£m	£m
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Indexation adjustments	**(19.2)**	(34.0)
Capitalised finance costs	**30.4**	44.2
	192.9	187.5
Average net debt	**6,263.6**	5,972.2
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) Adjusted PBIT interest cover

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

Adjusted PBIT
(net finance costs – net finance costs from pensions)

	2021	2020
	£m	£m
Adjusted PBIT	**472.8**	570.3
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Net finance costs excluding net finance costs from pensions	**181.7**	177.3
	ratio	ratio
Adjusted PBIT interest cover ratio	**2.6**	3.2

This is used to show how the adjusted 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 from continuing operations before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

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

	2021	2020
	£m	£m
Adjusted PBIT	**472.8**	570.3
Depreciation (including right-of-use assets)	**345.6**	334.0
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**32.1**	30.8
EBITDA	**850.5**	935.1
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Net finance costs excluding finance costs from pensions	**181.7**	177.3
	ratio	ratio
EBITDA interest cover ratio	**4.7**	5.3

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) Adjusted effective current tax rate

The current tax charge for the year on continuing operations, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit from continuing operations 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 venture accounted for using the equity method.

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

	2021	**2021 Current tax thereon**	2020	2020 Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**267.2**	**(30.4)**	310.7	(36.2)
Adjustments				
Share of net loss of joint venture	**13.8**	**–**	46.8	–
Amortisation of acquired intangible assets	**2.1**	**–**	2.1	–
Exceptional items	**–**	**–**	4.9	(0.9)
Net losses on financial instruments	**6.2**	**(2.6)**	17.4	(2.6)
	289.3	**(33.0)**	381.9	(39.7)
Adjusted effective current tax rate		**11.4%**		10.4%

This APM is used to be remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in note 10. Share of net loss of joint venture 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 cash flow

Cash generated from operations less contributions and grants received.

	2021 £m	2020 £m
Cash generated from operations	**901.7**	928.1
Contributions and grants received	**(41.4)**	(39.6)
Operational cashflow	**860.3**	888.5

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.

	2021 £m	2020 £m
Purchase of property, plant and equipment	**613.7**	777.2
Purchase of intangible assets	**22.2**	74.8
Payments to acquire right-of-use assets	**0.7**	–
Contributions and grants received	**(41.4)**	(39.6)
Proceeds on disposal of property, plant and equipment	**(2.0)**	(12.9)
Cash capex	**593.2**	799.5

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

Glossary

ST Classification: OFFICIAL PERSONAL

Asset Management Plan (AMP)
Price limit periods are sometimes known as AMP (Asset Management Plan) periods. The period from 1 April 2020 to 31 March 2025 is known as AMP7 because it is the seventh cycle since the water industry was privatised in 1989.

C-MeX (Customer Measure of Experience)
The Customer Measure of Experience (C-MeX) replaced 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.

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.

Revenue Forecasting Incentive (RFI)
A mechanism to reduce the impact of deviations on customer bills arising from revenue forecasting deviations by adjusting companies' allowed revenues for each year to take account of differences between actual and projected revenues, and incentivising companies to avoid revenue forecasting errors through applying a penalty to variations that fall outside a set uncertainty band (or 'revenue flexibility threshold').

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.

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

Cautionary statement regarding forward-looking statements

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

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

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

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