Preliminary Announcement of Annual Results
25 May 2022
Results for the year to 31 March 2022

Continuing to deliver a strong performance for all stakeholders

Supporting our region and enhancing the environment

- New affordability scheme worth £30 million to support an additional 100,000 customers through a rising inflation environment, taking the total number supported by 2025 to 315,000
- Launched our Get River Positive pledges, setting the benchmark for the industry, targeting a reduction in the average number of storm overflow spills to 20 by 2025 and committing to zero RNAGs[1] by 2030
- Confident of achieving 4* Environmental Performance Assessment (EPA)[2] status from the Environment Agency for a third year running
- Delivered over 90% of our 5,000 hectare biodiversity commitment, five years ahead of plan, contributing 1% of UK's Nature Recovery Network target
- On track for Net Zero by 2030, with best-ever renewable generation of 507 GWh[3], increasing total self-generation by 6% and recognised in the top 2% of global companies in the Carbon Disclosure Project's climate change 'A list'
- Levelling up across our region with 47% of this year's new talent intake coming from social mobility cold spots and 40% of our Kickstarters securing jobs or going back into further education

Best-ever operational performance with 88% of measures in positive territory resulting in £79m ODI[4] rewards

- Improved service for customers and developers, with both measures of experience (C-MeX and D-MeX) in reward
- Delivered AMP[5] to date reductions in water quality complaints (20%), pollutions (30%) and blockages (33%)
- Good progress on capital schemes with £604m invested this year; AMP7 to date core capital spend 10% ahead of AMP6 and 100% of AMP7 to date Water Industry National Environment Programme schemes delivered
- Fast start on Green Recovery: 27,000 smart meters installed, construction underway in UK's first catchment-scale flood resilience programme in Mansfield and grant scheme launched for lead pipe replacement in Coventry

Strong financial performance, supporting growth in AMP7 and beyond

- RoRE[6] of 8.7% with our best-ever ODIs, totex control and financing outperformance
- On track to deliver 10.8% real RCV[7] growth in AMP7 (28.6% nominal RCV growth)
- Group turnover of £1,943 million, up 6.4% as non-household consumption returns to pre-pandemic levels
- Group adjusted PBIT[8] of £508 million and reported PBIT £506 million, both up £36 million (7.5%), in line with expectations
- Robust balance sheet with pension deficit reduced to £128 million and Regulated gearing of 59.5%[9]
- Consistently outperforming the cost of debt allowance, reflecting active treasury management and just 27% of debt index-linked
- Property profits £13.2 million; £50 million since 2017, half way to our ten-year target of £100 million by 2027
- Adjusted basic EPS[10] of 96.9 pence. Basic loss per share of 35.2 pence after exceptional deferred tax charge equivalent to 119.6 pence per share
- Proposed final dividend of 61.3 pence, in line with our inflation-linked dividend policy and payable on 13 July 2022

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

"From the frontline to the boardroom, we are committed to making a positive impact on our regions, its people and the environment. I am proud of what we've achieved during the past year, creating new jobs to boost the local economy, providing financial support to community projects and planting 74 Tiny Forests to leave a carbon neutral legacy for the Birmingham 2022 Commonwealth Games.

We've done this while delivering on our operational commitments; over 88% of our regulatory measures have met or exceeded target. We're playing our part in helping the UK become a sustainable, low carbon economy, recording our best-ever year of renewable energy generation.

In March we launched 'Get River Positive', a series of pledges to improve our region's rivers. This is not just an ambition, it is a firm commitment. We're investing £100m a year and an additional £566 million on Green Recovery projects to deliver these pledges.

As cost of living pressures continue, we're acting now to support people struggling to pay their bills. Our customers have the second lowest combined bill in the UK at around £1 per day but we know that for some, paying their bill is a challenge. I'm pleased to announce today that we will be helping a further 100,000 people to reduce their water bill by up to 90%, part of our plan to help end water poverty[11] in our region."

Group results

	2022 £m	2021 £m	Increase/ (decrease) %
Group turnover	**1,943.3**	1,827.2	6.4
Adjusted group PBIT	**508.3**	472.8	7.5
Group PBIT	**506.2**	470.7	7.5
	pence/ share	pence/ share	
Adjusted basic EPS	**96.9**	105.4	(8.1)
Basic earnings per share	**(35.2)**	89.1	(139.5)
Total ordinary dividends	**102.14**	101.58	0.6

Footnotes to page 1 of this RNS

1. The Environment Agency's analysis of Reasons for Not Achieving Good Status (RNAGs) record the source, activity and sector involved in causing waters to be at less than good status.
2. Environmental Performance Assessment (EPA) status will be confirmed by the Environment Agency (EA) in July.
3. Total self-generation of 550 GWh in 2021/22, of which 507 GWh is from renewable sources.
4. ODIs = Outcome Delivery Incentives, quoted pre-tax and in 2017/18 prices unless otherwise stated. Percent and number of measures green are Severn Trent Water only.
5. AMP: Asset Management Plan (see glossary)
6. RoRE: Return on Regulatory Equity (see glossary)
7. RCV: Regulatory Capital Value (see glossary). RCV is measured including the impact of Green Recovery and real options. Nominal RCV is measured using the Office for Budget Responsibility's March forecast.
8. Adjusted profit before interest and tax (PBIT) excludes exceptional operating items and amortisation of acquired intangible assets.
9. Regulated gearing is calculated as Severn Trent Water Group's net debt divided by the RCV of the regulated businesses excluding the impact of Green Recovery and real options.
10. Adjusted basic EPS is set out in note 10.
11. The Consumer Council for Water ('CCWater') considers customers to be in 'Water Poverty' when they are spending more than five percent of their income (after housing costs) on their water bill.

Note: **FY2022/23 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, 25 May 2022.

We will be hosting a live Q&A session with Liv, James and our wider Executive team at 8.30am BST today via video call which you can register for through our website.

Chief Executive's Review

As a socially purposeful company Severn Trent is committed to delivering for all of our stakeholders, providing great water and waste water services to our customers, contributing positively to our region and delivering for our colleagues and shareholders. As we emerge from the pandemic into an increasingly challenging economic environment, we are working hard to deliver great operational performance, while also continuing to invest for our future and support those customers who are struggling financially.

Our bills are the second lowest in England, but we know that even £1 a day becomes a struggle for some of our customers, especially with the current cost of living pressures. We are proud to announce today that we will support an additional 100,000 customers by 2025, taking the total proportion of customers supported to around six percent, in line with the number of customers assessed as living in water poverty in our region.

Delivering strong operational performance and a substantial investment programme is our clear priority and we were the only company to be in the top three of both Ofwat's Monitoring Financial Resilience Report and Service Delivery Report. This year 88% of Severn Trent Water's performance targets are in positive territory, up six percentage points year-on-year, resulting in £79 million of ODI outperformance. I am very proud of our standout success in delivering an AMP to date reduction in water quality complaints of 20%, a 30% reduction in pollutions, a 33% improvement in blockages and transforming the biodiversity of over 4,600 hectares.

Whilst we continue to be recognised for our environmental performance, confident of achieving 4* EPA status for a third year in a row, we want to go further in improving the environment on which we depend. We announced our bold Get River Positive pledges in March, committing to reduce our average storm overflow spills to 20 per year by 2025 and causing no harm to rivers, assessed using the Environment Agency's 'RNAG' measure, by 2030.

Keeping our people and communities safe is integral to everything we do; we had no major safety incidents and no fatalities in the last twelve months, with Lost Time Incident rate ('LTI') reducing by 13%. Our insourcing activity, including our in-house design expertise, combined with the flexibility of our expanded supply chain, provides resilience in our capital programme with over 75% of the AMP7 waste treatment programme now designed. Meanwhile, our best-ever energy self-generation provides protection against the impact of soaring power costs, and our continuous drive for efficiency has helped to offset inflationary pressures and give us confidence in our five-year totex plan.

Our drive to deliver sustainable benefits for all stakeholders is embedded in our culture and I am delighted to see this reflected in another set of strong results, with in-year RoRE of 8.7%, more than double the base return, and a forecast for AMP7 nominal RCV growth of 28.6%.

Supporting our customers, colleagues and communities

Our purpose is taking care of one of life's essentials and we are committed to making our service affordable for all our customers. We already have the second lowest water bills in England at £389 a year as well as providing an extensive range of schemes for those that are struggling to pay their bills. We currently support around 215,000 customers, well ahead of our 2025 target of 195,000.

Today we are launching a new affordability scheme, supported through a package of financial support worth £30 million, which will see the number of customers helped through our social tariff increase by 100,000.

This will mean that around six percent of our customers will be supported by a social tariff by the end of the AMP; taken together with the other types of financial support we will be helping around 315,000 of our most financially vulnerable customers by 2025.

Our Severn Trent Community Fund offers incredible support to charities and other organisations in our region, with a further c.£2 million awarded to 73 unique projects this year by our customer-led panel.

That said, we know we can do even more to help the communities we serve through our role as a large employer in the Midlands and Wales, and this year we have:

- Recruited 47% of this year's new talent intake from social mobility cold spots;
- Welcomed 340 young people under the Government's Kickstart scheme, of which 40% have secured jobs or gone back into education; and
- Made the largest pledge of any UK company and most offers to date under the #10000BlackInterns programme.

We recently launched our 'Wonderfully You' Diversity and Inclusion Plan and have introduced four Executive-led advisory groups on Ethnicity, Disability, LGBTQ+ and Women in STEM and Operations to help us reach our commitments. We were pleased to be recognised in Stonewall's Top 50 Employers, and in the top five companies on the Social Mobility Index.

We were also delighted to be awarded 'best employee experience' by the Chartered Institute of Personnel and Development this year. Our engagement scores remain well above the global benchmark and, despite the volatile labour market, our overall time to hire and attrition remain at pre-pandemic levels.

Delivering operational excellence every day

Despite the disruption of the pandemic, our teams have worked hard to deliver impressive results once again. We're proud to have 88% of Severn Trent Water ODI measures in reward, once again demonstrating the breadth of our operational leadership, and we are determined to drive the change needed to hit the four targets that we did not meet. Our performance resulted in a net reward of £79 million, taking the total amount earned so far this AMP to £156 million.

- **Water** – the investments we made in AMP6, combined with a relentless focus on performance is proving effective, with ten in twelve of our water measures green this year.
  - So far in AMP7, water quality complaints are down 20%, resulting from increased flushing and calm network principles; a 44% reduction since a peak in 2016.
  - We remain on track to reduce leakage by 15% by 2025 and 50% by 2045, helped by the installation of over 110,000 meters this year.
  - The number of days in which our customers experience persistent low pressure is down 10% this year, through the installation of localised pumping solutions.
  - CRI (a measure of water quality) has improved from an average in AMP6 of 7.7 to 2.0 in AMP7 to date, due to our source-to-tap approach and early identification of risks through innovation such as online flow cytometry.

- **Waste water** – our waste operational performance remains strong, with six in eight measures green as we use data analytics to help us work smarter and target investment in the right places.
  - Blockages are down 33% in AMP7 following increased investment in repairs and cleansing, more sewer sensors and customer education.
  - We have reduced the number of pollutions by 30% this AMP, supported by increased condition-based monitoring of assets and our new Waste Network Response Team.
  - Internal and public sewer flooding are in reward, but we have had a tough final quarter on external sewer floodings due to a series of severe storms and slippage on key SLAs, which meant we missed our target this year; we're confident our responsive measures will turn our performance around.

- **Customer** – we're making good progress with all nine of our customer service measures green, as we use more data insights to drive the right behaviours and processes.
  - We are in positive territory on C-MeX having delivered incremental improvements since AMP6; supported by new initiatives to minimise disruption such as our virtual meter reading team, which is resolving 80% of work without a field visit.
  - Severn Trent Water and Hafren Dyfrdwy placed first and second respectively on D-MeX, as our segmented customer offering drives further increases in customer satisfaction scores.

Investing in our future

We remain on track to deliver both our AMP7 and Green Recovery capital programmes, which will result in real RCV growth of 10.8%, despite tough market conditions.

During the year we have commissioned some key projects such as our first wetland at Cinderford in Gloucestershire, our thermal hydrolysis plant at Finham in Coventry which is now exporting gas to the grid, and we have had a fast start with over 10% more projects on site compared to the same point in the last AMP.

We have benefitted from the flexibility of our insourced design function and we have broadened our range of suppliers, providing resilience to our supply chain and helping to mitigate cost pressures.

We have already designed over 75% of our £900 million waste treatment programme, and to protect programme delivery and limit the impact of higher inflation we have procured key components in advance for over 70% of our AMP7 Water Framework Directive schemes.

Our Green Recovery projects are progressing at pace, with all of our projects mobilised and key suppliers engaged. We have already installed over 27,000 smart meters and started replacing lead supply pipes in Coventry. We have a contractor working with us to increase water supplies out of Church Wilne, which will include developing new wetlands. We have also developed designs for our sustainable flooding resilience plans in Mansfield using sustainable urban drainage solutions ('SUDS') to manage surface water run-off whilst enhancing the environment for residents.

Taking care of the environment

Our region's rivers have improved significantly in the past 32 years, during which time we have invested £12 billion in our waste treatment and networks. Since the 1990s, we have reduced the levels of phosphate and ammonia from our operations by 80% and 72% respectively. We are consistently recognised as a top performer by the Environment Agency's Environmental Performance Assessment, having been awarded their highest 4* status for the last two years and confident in achieving for a third year.

We continue to play an active role in improving the health of our rivers and recognise that we can do more by taking a leading role in the sector. We welcome DEFRA's consultation on significantly tightening environmental targets and in March we launched our five-step commitment to restore and revitalise our region's rivers. Our pledges include:

- Reducing the Reasons for Not Achieving Good Status ('RNAGs') attributed to Severn Trent's operations from a baseline of 960 to zero by 2030.
- Reducing spills from storm overflows and sewage treatment works to an average of 20 per year by 2025, which is more ambitious than the Government's proposed target. We have already seen a year-on-year reduction from an average of 27 spills to an average of 25 spills, placing us on track to deliver our 2025 commitment.
- 90% of our customers are within an hour's drive of a designated bathing site. We have already started transforming the quality of 50 kilometres of river through our Green Recovery bathing river project.

Details of all our pledges and work completed to date can be found at stwater.co.uk/get-river-positive/.

As an organisation we are committed to our river pledges; I have personally met with all first line managers to ensure the whole organisation is aligned on what we need to do, and a further 8% of every employee's future bonus will be dedicated to their achievement, on top of the 12% already linked to environmental measures.

More broadly in our region, our Great Big Nature Boost has improved the biodiversity of over 4,600 hectares of land in the last two years, delivering over 90% of our 5,000 hectares by 2027 target which will represent 1% of the UK's 2042 Nature Recovery Network target. We're bringing our supply chain with us too, with all contracts now requiring a net 15% biodiversity gain for site construction works that require ecological appraisal.

In partnership with the RSPB, Hafren Dyfrdwy has improved 340 hectares of land adjacent to Lake Vyrnwy through peatland restoration - one of the most effective ways to sequester carbon from the atmosphere, capturing up to 47 kilotonnes after 100 years.

We are making good progress towards our Net Zero by 2030 target, helped by our highest ever self-generation with a further 6% increase this year. We are improving the accuracy of our own emissions data through drone and fixed monitoring, and trialling a range of innovative solutions to identify the most effective ways of reducing process emissions, with a dedicated process scientist in each of our four regions focusing on asset optimisation trials. We're also on track with our scope three emissions target of 70% of suppliers having science based targets by 2026, with 38% already committing to set targets by 2023.

Summary

It has been a year in which we have made significant steps in improving our environment, expanded the support available to our customers at a time they need it most, and delivered another year of strong operational and financial performance and substantial investment in our region.

Chief Financial Officer's Review

Our financial performance in the year reflects our robust recovery from the impacts of COVID-19 in the previous year. Non-household revenue returned to pre-pandemic levels and while there was upward pressure particularly on power and chemical costs, our PBIT and adjusted earnings per share grew in line with expectations.

With rising inflation, partly driven by higher energy costs, impacting our business and our customers, we face new challenges as we move into the third year of the AMP. We are ready to face these, having already invested in the capacity to generate over 50% of our energy needs, and keeping in line with our totex allowance for the first two years of the AMP. For our customers, we're expanding our financial support to an additional 100,000 customers who struggle to pay their bills through a £30 million package of help, enabled by improved efficiencies in our retail operations, including better management of void properties and more efficient use of our existing assistance programmes, with the balance being contributed by the Group.

We have a strong balance sheet, well positioned to deliver real RCV growth over AMP7 of 10.8%, equivalent to 28.6%[1] nominal growth. We successfully raised £245 million (net of issue costs) in the first half of the year from an equity placing to fund our Green Recovery programme and end the second half with regulated gearing of 59.5% (down from 64.5%). Our net pension deficit is £128 million (2021: £368 million), down more than £400 million since 2017, reflecting strong asset performance and an effective investment hedging strategy.

Higher inflation has increased the cost of our index-linked debt, but our cash interest cost (which excludes the non-cash indexation adjustment) was 10 bps lower year-on-year, due to active treasury management and our strategy to switch to a greater weighting of fixed rate debt as we moved from AMP6 into AMP7. We issued £500 million of new debt in the year, all at rates below the iBoxx index.

Our ODI rewards of £79 million, tight control of totex and financing outperformance of 300 bps, helped by higher inflation and a relatively low level of index-linked debt, led to a strong annual RoRE of 8.7%.

Our proposed dividend is in line with our policy for AMP7 to grow the dividend in line with CPIH.

A summary of our financial performance for the year is set out below:

	2022	2021	Change	
	£m	£m	£m	%
Turnover	**1,943.3**	1,827.2	116.1	6.4
Adjusted PBIT	**508.3**	472.8	35.5	7.5
Adjusting items	**(2.1)**	(2.1)	–	–
PBIT	**506.2**	470.7	35.5	7.5
Net finance costs	**(269.4)**	(187.1)	(82.3)	(44.0)
Gains/(losses) on financial instruments, share of net loss of joint venture and reduction in expected credit loss on loan receivable	**37.3**	(16.4)	53.7	327.4
Profit before tax	**274.1**	267.2	6.9	2.6
Tax	**(361.3)**	(55.0)	(306.3)	(556.9)
(Loss)/profit for the year	**(87.2)**	212.2	(299.4)	(141.1)

Our turnover was at the top of our expected range as non-household consumption returned to pre COVID-19 levels. We also saw an increase in diversions income, due mainly to HS2, of £26 million. This revenue represents the recovery of costs incurred and is entirely offset by a corresponding increase in infrastructure renewals expenditure.

Adjusted PBIT was up 7.5% to £508.3 million. The increase in regulated revenue was partially offset by increases in operating costs, particularly energy and chemicals, but helped by a very strong performance in our Business Services division.

Reported Group PBIT was up 7.5% to £506.2 million (2020/21: £470.7 million).

Our net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. Our effective interest cost was 130 bps higher at 4.7% (2020/21: 3.4%) but our effective cash cost of interest, (which excludes the inflation uplift on index-linked debt) was 10 bps lower at 3.0% (2020/21: 3.1%).

Our full effective tax rate excluding the exceptional deferred tax charge this year was 24.4% (2020/21: 20.6%) and our adjusted effective current tax rate was 0.6%, down from 11.4% in 2020/21. In his 2021 Budget, the Chancellor introduced the 'super deduction' of 130% capital allowances. As expected, the benefit of this reduced our current tax payable in the year to nil.

An increase in the corporation tax rate to 25% from FY24 was also announced and this resulted in an exceptional deferred tax charge to the income statement of £294.4 million from recalculating our opening deferred tax balances at the new rate, which is included in our reported tax charge of £361.3 million. Deferred tax is an accounting adjustment that reflects differences in timing between when profits are recorded in financial statements and when they are subject to tax. Because of the nature of our business, including our significant rolling capital programme and the long lives of our assets, these timing differences will not reverse for the foreseeable future, and may never do so.

As a result of the exceptional deferred tax charge there was a reported Group loss after tax of £87.2 million (2020/21: profit of £212.2 million), and a basic loss per share of 35.2 pence, (2020/21: earnings of 89.1 pence). Adjusted basic earnings per share (which excludes the exceptional deferred tax charge) was 96.9 pence per share (2020/21: 105.4 pence).

Operational cash flow was £848.9 million, (2020/21: £860.3 million). EBITDA increased by £57.3 million but our pension contributions were £23.8 million higher and there was a reduction in working capital of £60.9 million in the previous year that increased operating cash flow. Cash capex was £594.3 million, in line with the prior year. Net cash outflow before changes in net debt was £76.7 million (2020/21: £170.2 million).

Our net debt was £6,507.8 million (2021: £6,443.8 million) and regulated gearing was 59.5% (2021: 64.5%) reflecting strong capital management, the benefit of our recent equity placement and higher inflation on our RCV. Our cash flow requirements are now funded to February 2024.

Severn Trent Water's RoRE for the year was 8.7%, 480 bps above the base return of 3.9%. Outperformance came mainly from our customer ODIs, with 88% of our measures in reward, and financing, reflecting our continued low cash interest cost and the impact of higher inflation in the year compared to Ofwat's assumption in the Final Determination.

Although in the current year we have seen the adverse impact of higher inflation on our operating and finance costs, in the longer term we expect to see the benefits of higher inflation through indexation of our RCV, revenue growth and lower gearing, all of which underpin our inflation-linked dividend policy for AMP7.

[1] Nominal RCV is measured using the Office for Budget Responsibility's March forecast.

Regulated Water and Waste Water

	2022	2021	Change	
	£m	£m	£m	%
Turnover	**1,804.4**	1,693.9	110.5	6.5
Net labour costs	**(165.3)**	(156.0)	(9.3)	(6.0)
Net hired and contracted costs	**(190.0)**	(187.5)	(2.5)	(1.3)
Power	**(114.1)**	(100.0)	(14.1)	(14.1)
Bad debts	**(24.8)**	(40.5)	15.7	38.8
Other costs	**(250.7)**	(242.8)	(7.9)	(3.3)
	(744.9)	(726.8)	(18.1)	(2.5)
Infrastructure renewals expenditure	**(198.2)**	(151.0)	(47.2)	(31.3)
Depreciation and amortisation	**(385.0)**	(364.0)	(21.0)	(5.8)
Adjusted PBIT	**476.3**	452.1	24.2	5.4

Turnover for our Regulated Water and Waste Water business was £1,804.4 million (2021/22: £1,693.9 million) and adjusted PBIT was £476.3 million (2021/22: £452.1 million).

Turnover increased by £110.5 million with the main movements being:

- A £62.0 million net increase from higher non-household consumption and lower household consumption, returning to more normal patterns following the easing of COVID-19 restrictions earlier in the year;
- An increase of £25.9 million in diversions income largely due to the increased activity related to HS2; an offset is seen in higher infrastructure renewals (see below);
- An increase of £4.7 million in non-household revenue due to additional properties successfully being brought into charge under the Voids and Gaps Incentive Scheme; an offset is seen in higher operating costs (see below);
- An increase of £12.1 million in renewable energy income in our Bioresources business; and
- Other net increases of £5.8 million, including higher miscellaneous sales and the adjustment for inflation in the year.

Net labour costs of £165.3 million were 6.0% higher year-on-year. Gross employee costs increased due to the annual pay award of 2.3% and an increase in FTE due to insourcing activity and mobilisation of the Green Recovery programme. This was partially offset by higher capitalisation of employee costs, largely related to insourcing activity.

Net hired and contracted costs increased by £2.5 million (1.3%). An increase in biodiversity and catchment spend, along with additional cloud storage costs and increased debt management activity were partly offset by the reduction from insourcing activity.

Power costs were £14.1 million (14.1%) higher than the previous period, much less than the average market wholesale energy price increase of more than 250% year-on-year. We benefited from self-generation in Bioresources and internal hedges between our regulated business (a net consumer of energy) and our non-regulated business (a net generator).

Bad debt charges reduced by £15.7 million and represented 2.1% of household revenue. The outlook for unemployment has improved, and we have not seen a deterioration in our collection performance. However, pressure on household budgets from increasing energy bills, other cost of living inflation and higher national insurance has led us to retain most (£8.5 million) of the forward-looking provision taken since the start of the pandemic at the balance sheet date.

Other costs increased by £7.9 million. Higher chemical and fuel costs during the period resulted in an increase of £2.9 million and the higher voids / gaps incentive payments referred to above increased costs by £2.2 million. The remaining increase came from a resumption of employee training and a prior year rates refund.

Infrastructure renewals expenditure was £47.2 million higher in the period, reflecting the planned step up in the programme and diversions activity related to HS2 referred to above.

Depreciation and amortisation of £385.0 million was £21.0 million higher year-on-year in line with the growing asset base.

Return on Regulatory 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 2022 and for the two years ended on that date is set out in the following table:

	2021/22 **%**	**AMP7 to date** **%**
Base return	3.9	3.9
Enhanced RoRE reward[1]	0.3	0.3
ODI outperformance[2]	1.6	1.6
Wholesale totex performance	0.0	0.0
Retail cost performance	(0.1)	(0.3)
Financing outperformance[3]	3.0	1.7
Regulatory return for the year[4]	**8.7**	**7.2**

1 Fast track reward taken over the first two years of AMP7.
2 ODI performance includes Per Capita Consumption ('PCC') and forecast C-MeX and D-MeX outturn.
3 Includes 1.0% for the variance on tax from the benefit of super deduction capital allowances and a prior year tax credit.
4 Calculated in accordance with Ofwat guidance set out in RAG 4.10, which excludes Ofwat's AMP7 tax true-up mechanism.

We have delivered RoRE of 8.7% in the year, outperforming the base return by 480 bps as a result of:

- ODI performance of 1.6%, driven by strong performance across the majority of measures, with 88% meeting or exceeding regulatory targets;
- Our neutral totex position, reflecting good cost control and efficient spend over the year; and
- Financing performance of 3.0%, driven by our AMP7 financing strategy of maintaining a low level of index-linked debt and the tax benefit of super deduction capital allowances.

Business Services

	2022 £m	2021 £m	Increase/(decrease) £m	%
Turnover				
Operating Services and Other	**88.1**	82.8	5.3	6.4
Green Power	**55.5**	51.9	3.6	6.9
	143.6	134.7	8.9	6.6
Adjusted PBIT				
Operating Services and Other	**19.7**	20.9	(1.2)	(5.7)
Green Power	**5.6**	2.6	3.0	115.4
Property Development	**13.2**	2.3	10.9	473.9
	38.5	25.8	12.7	49.2

Business Services turnover was £143.6 million (up 6.6%) and adjusted PBIT was £38.5 million (up 49.2%).

In our Operating Services business, turnover was up £5.3 million due to increased activity on the MoD contract. Adjusted PBIT was £1.2 million lower mainly due to legal costs related to the industry-wide property searches claims (see note 15 for further details).

In Green Power, turnover increased by £3.6 million and adjusted PBIT increased by £3.0 million. Higher energy prices and incentive income from increased gas generation were partially offset by lower gate fee income, as domestic waste volumes received under local authority contracts were higher in the previous year due to lockdown whereas volumes of commercial food waste improved this year. Intra-group energy price hedges, which benefited the regulated business, limited the increase in Green Power's revenue that would have been achieved if all energy had been sold at prevailing wholesale market rates.

Profits from Property Development were £10.9 million higher than the prior year, when there were no large disposals. We remain on track for our target of £100 million PBIT from Property Development over the ten years to 2027, having now generated c.£50 million since setting the target in 2017.

Corporate and other

Corporate costs were £8.2 million (2020/21: £5.9 million). The increase is largely due to releases in the prior year of provisions that were no longer required. Our other businesses generated PBIT of £1.3 million (2020/21: £0.7 million).

Net finance costs

Net finance costs for the year were £82.3 million higher than the prior year at £269.4 million. Average net debt was broadly flat at £6,292.2 million (2020/21: £6,263.6 million) but higher inflation in the year increased the cost on our index-linked debt by £87.3 million. Our effective interest cost was 4.7% (2020/21: 3.4%).

We issued £500 million of new debt at rates consistently below the iBoxx index and as a result our effective cash cost of interest (excluding the inflation uplift on index-linked debt and pensions-related charges) was lower at 3.0% (2020/21: 3.1%).

Capitalised interest of £34.5 million was £4.1 million higher year-on-year, due to the higher effective interest cost compared to last year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 3.5 times (2020/21: 4.7 times) and adjusted PBIT interest cover was 1.9 times (2020/21: 2.6 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 £650 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 gain of £51.5 million (2020/21: loss of £8.2 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 the wholesale price for around 90% of our estimated wholesale energy import for 2022/23 through physical hedges with suppliers, financial hedges with bank counterparties and natural hedges from export of self-generated energy.

Share of loss of joint venture

We have seen the expected improvement in Water Plus's performance during the year following the recovery in economic activity in the UK and the re-financing carried out last year.

Our share of Water Plus's loss after tax for the year was £2.2 million (2020/21: £8.9 million excluding £4.9 million of exceptional losses).

Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employer's 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. In his 2021 Budget, the Chancellor introduced the 'super deduction' of 130% capital allowances. As expected, the benefit of this reduced our current tax payable in the year to nil.

	2022 **£m**	2021 £m
Tax incurred:		
Corporation tax	**1.2**	30.0
Business rates and property taxes	**83.4**	83.6
Employer's National Insurance	**30.5**	28.0
Environmental taxes	**6.1**	6.7
Other taxes	**5.9**	5.5
	127.1	153.8

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2021/22", 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 £66.9 million (2020/21: £55.0 million) and we made net corporation tax payments of £1.2 million in the year (2020/21: £23.2 million). The difference between the tax charged and the tax paid is summarised below:

	2022 **£m**	2021 £m
Tax on profit on ordinary activities before exceptional taxes	**66.9**	55.0
Tax effect of timing differences	**(71.7)**	(28.2)
Current tax credits recorded in Other Comprehensive Income or equity	**–**	(0.4)
Overprovisions in previous years	**4.8**	3.6
Corporation tax payable for the year	**–**	30.0
Overpayments in prior years offset in the current year	**1.2**	(6.8)
Net tax paid in the year	**1.2**	23.2

Net tax paid in the year of £1.2 million relates to amounts paid to Water Plus for consortium relief (2020/21: £4.9 million paid to Water Plus).

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

The current tax credit for the year was £4.8 million (2020/21: charge of £26.8 million) and the deferred tax charge (before the exceptional charge arising from the change of rate) was £71.7 million (2020/21: £28.2 million).

Our effective tax rate excluding the exceptional deferred tax charge this year was 24.4% (2020/21: 20.6%), which is higher than the UK rate of corporation tax (19%), mainly due to deferred tax on temporary differences arising during the year charged at 25%, partly offset by the permanent difference that arises from the additional 30% deduction included in the super deduction (2020/21: higher due to items of expenditure that are not deductible for tax).

Our adjusted effective current tax rate was 0.6% (2020/21: 11.4%) (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. And in the current year, this has been enhanced by the super deduction for certain for certain capital expenditure, which gives a 100% tax deduction in the year of spend plus an additional allowance of 30%.

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 already 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.

Result for the year and earnings per share

Total loss for the year was £87.2 million (2020/21 profit: £212.2 million).

The basic loss per share was 35.2 pence (2020/21: earnings of 89.1 pence). Adjusted basic earnings per share was 96.9 pence (2020/21: 105.4 pence). For further details see note 10.

Cash flow

	2022 **£m**	2021 £m
Operational cashflow	**848.9**	860.3
Cash capex	**(594.3)**	(593.2)
Net interest paid	**(185.0)**	(186.2)
Proceeds on sale of subsidiary	**–**	0.7
Net cash flows from swap terminations	**5.6**	(0.2)
Net tax paid	**(1.2)**	(23.2)
Free cash flow	**74.0**	58.2
Dividends	**(254.5)**	(240.2)
Issue of shares	**257.2**	11.8
Change in net debt from cash flows	**76.7**	(170.2)
Non-cash movements	**(140.7)**	(42.1)
Change in net debt	**(64.0)**	(212.3)
Opening net debt	**(6,443.8)**	(6,231.5)
Closing net debt	**(6,507.8)**	(6,443.8)

	2022 **£m**	2021 £m
Bank loans	**(782.5)**	(1,011.1)
Other loans	**(5,823.5)**	(5,471.3)
Lease liabilities	**(117.4)**	(121.3)
Net cash and cash equivalents	**107.7**	44.0
Cross currency swaps	**28.3**	31.9
Loans due from joint venture	**79.6**	84.0
Net debt	**(6,507.8)**	(6,443.8)

Operational cash flow was £848.9 million (2020/21: £860.3 million). Increased PBIT and higher depreciation and amortisation were more than offset by increased pension contributions and a large decrease in working capital in the prior year.

Net cash capex of £594.3 million (2020/21: £593.2 million) was within our expected range.

Our net interest payments of £185.0 million (2020/21: £186.2 million) were broadly in line with the previous year as the impact of higher net debt was largely offset by the lower effective cash cost of interest, and the majority of the increase in interest costs was due to non-cash indexation. Our net tax payments were £1.2 million, a decrease of £22.0 million, mainly due to the impact of the super deduction which resulted in an overall loss position for tax.

Our equity placing in May 2021 raised net proceeds of £245.3 million and we received £11.9 million (2020/21: £11.8 million) from the exercise of options under the employee Save As You Earn share scheme. 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 £64.0 million in net debt (2020/21: £212.3 million).

At 31 March 2022 we held £107.7 million (2021: £44.0 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2021: 13 years). Including committed facilities, our cash flow requirements are funded until February 2024.

Net debt at 31 March 2022 was £6,507.8 million (2021: £6,443.8 million) and balance sheet gearing (net debt/net debt plus equity) was 83.7% (2021: 85.0%). Regulated gearing (net debt of our regulated businesses, expressed as a percentage of estimated RCV) was 59.5% at 31 March 2022 (2021: 64.5%).

The estimated fair value of debt at 31 March 2022 was £1,075.8 million higher than book value (2021: £1,454.9 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.

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 2022 interest rates for 69% (2021: 67%) of our gross debt of £6,731.1 million were fixed; 4% were floating and 27% 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 this 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 (£1.0 million in 2021/22).

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.

In June 2021 we executed a bulk annuity buy-in for the MIPS, which represents around 4% of the Group’s defined benefit liabilities. Under the buy-in, the liabilities of this scheme are met by an insurance policy and as a result the Group’s risk is substantially reduced.

Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme (DVWS). DVWS funds are administered by trustees and are held separately from the assets of the Group. DVWS is closed to new entrants. The most recent formal actuarial valuation of DVWS was completed as at 31 March 2020 and no deficit reduction contributions 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 £128.0 million (2021: £367.7 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 increased to 95% (31 March 2021: 88%).

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 period	2,600.4	(2,968.1)	(367.7)
Amounts credited/(charged) to income statement	49.0	(59.7)	(10.7)
Actuarial gains taken to reserves	68.9	119.6	188.5
Net contributions received and benefits paid	(58.9)	120.8	61.9
At end of the period	**2,659.4**	**(2,787.4)**	**(128.0)**

The income statement includes:

- Current service costs of £0.2 million on the DVWS, which remains open to further accrual but is closed to new members.
- Scheme administration costs of £3.8 million; and
- Net interest on scheme liabilities and expected return on the scheme assets – together a cost of £6.7 million.

Higher interest rate expectations increased the discount rate, which is derived from yields on high quality corporate bonds, by 80 bps. Inflation expectations have also increased by around 40 bps since the previous year end. The impacts of these changes are offsetting and resulted in a net decrease in the scheme liabilities of around £193 million.

Changes to demographic assumptions reduced scheme liabilities by around £6 million. This included an update to the most recent CMI data tables and also a weighting to allow for the high mortality experienced in 2021.

The actual outturn in the year for inflation and other assumptions was worse than expected and this increased scheme liabilities by £79 million.

The scheme assets increased in value by around £69 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 (£25.6 million); and
- A deficit reduction payment of £35.6 million that was deferred from March 2021 to April 2021.

There were also normal contributions of £0.2 million to the DVWS and payments of benefits under the unfunded scheme amounting to £0.5 million.

In April 2022 the deferred deficit reduction payment originally scheduled for March 2022 of £32.4 million was paid.

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 61.28 pence per share for 2021/22 (2020/21: 60.95 pence per share). This gives a total ordinary dividend for the year of 102.14 pence (2020/21: 101.58 pence).

The final ordinary dividend is payable on 13 July 2022 to shareholders on the register at 6 June 2022.

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:

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.

Infrastructure Failure and Asset Resilience:

- We do not provide a safe and secure supply of drinking water to our customers.
- We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.

Supply Chain and Capital Project Delivery

- Key suppliers cannot meet contractual obligations causing disruption to capital delivery (cost and quality) and/or critical operational services.

Cyber Security and Technology Resilience

- Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.

Political, Legal and Regulatory:

- Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.

Financial Liabilities:

- We fail to fund our Severn Trent defined benefit pension scheme sustainably.
- We are unable to ensure sufficient liquidity to meet our funding requirements.

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 influence positively natural capital in our region.

Technical Guidance 2022/23

Year-end guidance		**2021/22**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover[1]	£1.97 billion to £2.02 billion. Includes c.£60 million[2] for diversions income related to HS2, which is broadly offset in IRE.	£1.80bn	▲
Power costs	The Group has a natural economic hedge against higher energy prices, with Bioresources and Severn Trent Green Power generating the equivalent of around half of Group consumption. Reported RWWW power costs are expected to be c.£50 million higher year-on-year, with further wholesale price pressure broadly offset by higher revenue in Bioresources and Green Power.	£114m	▲
Other operating costs	Higher year-on-year, including £20 million increase in Green Recovery related opex, higher chemicals costs and other increases in line with inflation.	£631m	▲
Infrastructure renewals expenditure ('IRE')	c.20% higher year-on-year, including an increase in HS2[2] activity (which is broadly offset in turnover), together with an increase in base spend in line with AMP7 plan.	£198m	▲
ODIs[3]	Continued outperformance on increasingly stretching targets, delivering a net reward of at least £50 million.	£79m	▼
Business Services			
EBITDA (excl. property)	Higher year-on-year driven by increased revenue in Severn Trent Green Power.	£40m	▲
Property profit	On track to deliver £100 million profit over ten years to 2027. 2022/23 profits around 50% lower year-on-year due to timing of sales.	£13m	▼
Group			
Interest charge	c.20% higher year-on-year based on latest inflation[4] and interest rate forecasts.	£269m	▲
Adjusted effective current tax rate[5]	Adjusted effective current tax of around zero due to "super deduction" and other accelerated capital allowances on our substantial capital investment programme.	0.6%	⟷
Capital investment[6]	£575 million to £675 million including Green Recovery, with the majority of spend in the second half of the year.	£604m	▲
Dividend[7]	2022/23 dividend of 106.82 pence, in line with our policy of annual growth by CPIH.	102.14p	▲

Footnotes to Technical Guidance

1 Includes presentation of deferred income and diversions income released to turnover in the income statement.
2 For 2021/22, diversions income and costs related to HS2 were £27 million respectively.
3 Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices. We assume a 25% rate of corporation tax to be in place when ODIs are taken into revenue.
4 Based on Oxford Economics inflation forecast, with index-linked debt comprising c.27% of our total debt.
5 Total effective tax rate is expected to be c.23%. This includes both current and deferred tax charges.
6 Guidance now set on an accruals basis; previously we have used a cash figure. 2021/22 cash capex was £594m. A full reconciliation on both the old and new basis can be found in our alternative performance measures in note 17 of our results announcement.
7 2022/23 dividend growth rate based on November 2021 CPIH of 4.6%.

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)	01 June 2022
Dividend record date (Final)	06 June 2022
DRIP election date (Final)	22 June 2022
AGM	7 July 2022
Final dividend payment date	13 July 2022
Q1 Trading Update	14 July 2022
Interim results announcement 2022/23	24 November 2022
Ex-dividend date (Interim)	1 December 2022
Dividend record date (Interim)	2 December 2022
DRIP election date (Interim)	16 December 2022
Interim dividend payment date	11 January 2023

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

Consolidated income statement
For the year ended 31 March 2022

		2022			2021		
		Adjusted	**Adjusting items**	**Total**	Adjusted	Adjusting items	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Turnover	2,3	**1,943.3**	**–**	**1,943.3**	1,827.2	–	1,827.2
Other income		**5.3**	**–**	**5.3**	–	–	–
Operating costs before charge for bad and doubtful debts		**(1,415.7)**	**(2.1)**	**(1,417.8)**	(1,314.4)	(2.1)	(1,316.5)
Charge for bad and doubtful debts		**(24.6)**	**–**	**(24.6)**	(40.0)	–	(40.0)
Total operating costs		**(1,440.3)**	**(2.1)**	**(1,442.4)**	(1,354.4)	(2.1)	(1,356.5)
Profit before interest and tax		**508.3**	**(2.1)**	**506.2**	472.8	(2.1)	470.7
Finance income		**54.7**	**–**	**54.7**	59.8	–	59.8
Finance costs		**(324.1)**	**–**	**(324.1)**	(246.9)	–	(246.9)
Net finance costs		**(269.4)**	**–**	**(269.4)**	(187.1)	–	(187.1)
Reduction in expected credit loss on loan receivable		**0.2**	**–**	**0.2**	3.6	–	3.6
Net gains/(losses) on financial instruments	7	**39.3**	**–**	**39.3**	(6.2)	–	(6.2)
Share of net loss of joint venture accounted for using the equity method	11	**(2.2)**	**–**	**(2.2)**	(8.9)	(4.9)	(13.8)
Profit on ordinary activities before taxation		**276.2**	**(2.1)**	**274.1**	274.2	(7.0)	267.2
Current tax	8	**4.8**	**–**	**4.8**	(26.8)	–	(26.8)
Deferred tax	8	**(71.7)**	**(294.4)**	**(366.1)**	(28.2)	–	(28.2)
Taxation on profit on ordinary activities	8	**(66.9)**	**(294.4)**	**(361.3)**	(55.0)	–	(55.0)
(Loss)/profit for the year		**209.3**	**(296.5)**	**(87.2)**	219.2	(7.0)	212.2

Earnings per share (pence)

	Note	**2022**	2021
Basic	10	**(35.2)**	89.1
Diluted	10	**(35.2)**	88.6

Consolidated statement of comprehensive income
For the year ended 31 March 2022

	Note	2022 £m	2021 £m
(Loss)/profit for the year		**(87.2)**	212.2
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	12	**188.5**	(162.0)
Deferred tax on net actuarial gains/losses		**(47.1)**	30.8
Deferred tax arising on rate change		**8.4**	–
		149.8	(131.2)
Items that may be reclassified to the income statement:			
Gains on cash flow hedges		**54.6**	33.5
Deferred tax on gains on cash flow hedges		**(13.0)**	(6.3)
Amounts on cash flow hedges transferred to the income statement	7	**6.8**	8.2
Deferred tax on transfer to the income statement		**(1.7)**	(1.6)
		46.7	33.8
Other comprehensive income/(loss) for the year		**196.5**	(97.4)
Total comprehensive income for the year		**109.3**	114.8

Consolidated statement of changes in equity

For the year ended 31 March 2022

		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 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 losses		–	–	–	30.8	30.8
Total comprehensive income for the year		–	–	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
Loss for the year		–	–	–	(87.2)	(87.2)
Gains on cash flow hedges		–	–	54.6	–	54.6
Deferred tax on gains on cash flow hedges		–	–	(13.0)	–	(13.0)
Amounts on cash flow hedges transferred to the income statement	7	–	–	6.8	–	6.8
Deferred tax on transfer to the income statement		–	–	(1.7)	–	(1.7)
Net actuarial gains	12	–	–	–	188.5	188.5
Deferred tax on net actuarial gains		–	–	–	(47.1)	(47.1)
Deferred tax arising from rate change		–	–	–	8.4	8.4
Total comprehensive income for the year		–	–	46.7	62.6	109.3
Proceeds from equity placing		10.2	235.1	–	–	245.3
Share options and LTIPs						
- proceeds from shares issued		0.7	11.2	–	–	11.9
- value of employees' services		–	–	–	8.3	8.3
Deferred tax on share based payments		–	–	–	4.9	4.9
Dividends paid	9	–	–	–	(254.5)	(254.5)
At 31 March 2022		**248.1**	**394.4**	**148.4**	**473.0**	**1,263.9**

Consolidated balance sheet
At 31 March 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill		**91.4**	91.4
Other intangible assets		**179.6**	164.0
Property, plant and equipment		**10,208.4**	9,875.2
Right-of-use assets		**129.9**	130.8
Investment in joint venture	11	**16.5**	–
Derivative financial instruments		**31.2**	37.1
Trade and other receivables		**92.1**	101.5
Retirement benefit surplus	12	**17.5**	17.1
		10,766.6	10,417.1
Current assets			
Inventory		**32.0**	30.8
Trade and other receivables		**606.4**	515.2
Current tax receivable		**6.2**	–
Derivative financial instruments		**27.6**	3.8
Cash and cash equivalents		**115.4**	56.2
		787.6	606.0
Current liabilities			
Borrowings		**(365.2)**	(503.1)
Trade and other payables		**(655.5)**	(557.1)
Current tax payable		**–**	(0.2)
Provisions for liabilities		**(38.4)**	(18.0)
		(1,059.1)	(1,078.4)
Net current liabilities		**(271.5)**	(472.4)
Total assets less current liabilities		**10,495.1**	9,944.7
Non-current liabilities			
Borrowings		**(6,365.9)**	(6,112.8)
Derivative financial instruments		**(43.3)**	(126.9)
Trade and other payables		**(1,334.0)**	(1,250.3)
Deferred tax		**(1,320.6)**	(906.0)
Retirement benefit obligations	12	**(145.5)**	(384.8)
Provisions for liabilities		**(21.9)**	(25.2)
		(9,231.2)	(8,806.0)
Net assets		**1,263.9**	1,138.7
Equity			
Called up share capital		**248.1**	237.2
Share premium account		**394.4**	148.1
Other reserves		**148.4**	101.7
Retained earnings		**473.0**	651.7
Total equity		**1,263.9**	1,138.7

Consolidated cash flow statement
For the year ended 31 March 2022

	Note	**2022**	2021
		£m	£m
Cash generated from operations	13	**891.7**	901.7
Tax paid	13	**(1.2)**	(23.2)
Net cash generated from operating activities		**890.5**	878.5
Cash flows from investing activities			
Purchases of property, plant and equipment		**(610.3)**	(613.7)
Purchases of intangible assets		**(36.3)**	(22.2)
Payments to acquire right-of-use assets		**–**	(0.7)
Proceeds on disposal of property, plant and equipment		**9.5**	2.0
Proceeds on disposal of subsidiary net of cash disposed		**–**	0.7
Net loans advanced to joint venture		**(13.0)**	(1.0)
Interest received		**1.9**	3.7
Net cash outflow from investing activities		**(648.2)**	(631.2)
Cash flow from financing activities			
Interest paid		**(182.9)**	(185.6)
Interest element of lease payments		**(4.0)**	(4.3)
Dividends paid to shareholders of the parent		**(254.5)**	(240.2)
Repayments of borrowings		**(488.9)**	(242.9)
Principal elements of lease payments		**(12.1)**	(5.6)
New loans raised		**501.0**	415.1
Issues of shares		**257.2**	11.8
Payments for swap terminations		**–**	(1.1)
Proceeds from swap terminations		**5.6**	0.9
Net cash outflow from financing activities		**(178.6)**	(251.9)
Net movement in cash and cash equivalents		**63.7**	(4.6)
Net cash and cash equivalents at the beginning of the year		**44.0**	48.6
Net cash and cash equivalents at end of the year		**107.7**	44.0
Cash at bank and in hand		**40.4**	56.2
Bank overdrafts		**(7.7)**	(12.2)
Short term deposits		**75.0**	–
		107.7	44.0

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 United Kingdom adopted International Financial Reporting Standards ('IFRS'). 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 February 2024. After making enquiries, 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 2022 or 2021, 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 2021 have been delivered to the Registrar of Companies and those for 2022 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.

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, except property sales, 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.

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

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

The measure of profit or loss that is reported to STEC for the segments is 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:

	2022		2021	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
External turnover	**1,804.4**	**139.4**	1,693.9	132.9
Inter-segment turnover	**–**	**4.2**	–	1.8
Total turnover	**1,804.4**	**143.6**	1,693.9	134.7
Adjusted PBIT	**476.3**	**38.5**	452.1	25.8
Amortisation of acquired intangible assets	**–**	**(2.1)**	–	(2.1)
Profit before interest and tax	**476.3**	**36.4**	452.1	23.7

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

	2022	2021
	£m	£m
Regulated Water and Waste Water	**1,804.4**	1,693.9
Business Services	**143.6**	134.7
Corporate and other	**1.1**	0.9
Consolidation adjustments	**(5.8)**	(2.3)
	1,943.3	1,827.2

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

	2022	2021
	£m	£m
Regulated Water and Waste Water	**476.3**	452.1
Business Services	**38.5**	25.8
Corporate and other	**(6.9)**	(5.1)
Consolidation adjustments	**0.4**	–
Adjusted PBIT	**508.3**	472.8
Amortisation of acquired intangible assets (Business Services)	**(2.1)**	(2.1)
Net finance costs	**(269.4)**	(187.1)
Reduction in expected credit loss on loan receivable	**0.2**	3.6
Net gains/(losses) on financial instruments	**39.3**	(6.2)
Share of net loss of joint venture accounted for using the equity method	**(2.2)**	(13.8)
Profit on ordinary activities before taxation	**274.1**	267.2

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

c) Segmental capital employed

The following table shows the segmental capital employed:

	2022		2021	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
Operating assets	**10,869.7**	**337.4**	10,433.4	331.0
Goodwill	**63.5**	**29.2**	63.5	29.2
Segment assets	**10,933.2**	**366.6**	10,496.9	360.2
Segment operating liabilities	**(2,158.8)**	**(29.6)**	(2,174.4)	(40.0)
Capital employed	**8,774.4**	**337.0**	8,322.5	320.2

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 2022

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,755.9	–	–	–	1,755.9
Operating services	–	74.4	–	–	74.4
Renewable energy	44.4	55.5	–	(4.2)	95.7
Other sales	4.1	13.7	1.1	(1.6)	17.3
	1,804.4	**143.6**	**1.1**	**(5.8)**	**1,943.3**

Year ended 31 March 2021

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £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

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 2022 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £396.3 million (2021: £416.1 million). This amount is expected to be recognised as revenue as follows:

	2022 **£m**	2021 £m
In the next year	**49.0**	46.2
Between one and five years	**197.4**	184.4
After more than five years	**149.9**	185.5
	396.3	416.1

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:

	2022 **£m**	2021 £m
Contract asset at 1 April	**38.2**	36.6
Amounts billed	**(49.9)**	(49.0)
Revenue recognised	**51.6**	50.6
Contract asset at 31 March	**39.9**	38.2

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 or prior year are as follows:

	2022	2021
	£m	£m
Share of net losses of joint venture	**–**	(4.9)

In the previous year the Group recognised £4.9 million of previously unrecognised losses as an exceptional item.

5. Finance income

	2022	2021
	£m	£m
Interest income earned on bank deposits	**0.1**	0.1
Other financial income	**1.8**	2.4
Total interest receivable	**1.9**	2.5
Interest income on defined benefit scheme assets	**52.8**	57.3
	54.7	59.8

6. Finance costs

	2022	2021
	£m	£m
Interest expense charged on:		
Bank loans and overdrafts	**14.7**	11.4
Other loans	**243.5**	166.1
Lease liabilities	**4.0**	4.3
Total borrowing costs	**262.2**	181.8
Other financial expenses	**2.4**	2.4
Interest cost on defined benefit scheme liabilities	**59.5**	62.7
	324.1	246.9

7. Net gains/(losses) on financial instruments

	2022	2021
	£m	£m
Loss on swaps used as hedging instruments in fair value hedges	**(1.0)**	(8.1)
Gain arising on debt in fair value hedges	**1.6**	4.2
Exchange (loss)/gain on other loans	**(6.6)**	14.8
Net loss on cash flow hedges transferred from equity	**(6.8)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**(0.6)**	(2.0)
Gain/(loss) arising on swaps where hedge accounting is not applied	**51.5**	(8.2)
Amortisation of fair value adjustment on debt	**1.2**	1.2
Gain on swap termination	**–**	0.1
	39.3	(6.2)

8. Tax

	2022 £m	2021 £m
Current tax		
Current year at 19% (2021: 19%)	**–**	30.4
Prior years	**(4.8)**	(3.6)
Total current tax (credit)/charge	**(4.8)**	26.8
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**66.7**	23.7
Prior years	**5.0**	4.5
Exceptional charge on rate change	**294.4**	–
Total deferred tax charge	**366.1**	28.2
	361.3	55.0

9. Dividends

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

	2022		2021	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2021 (2020)	**60.95**	**152.2**	60.05	143.1
Interim dividend for the year ended 31 March 2022 (2021)	**40.86**	**102.3**	40.63	97.1
Total dividends paid	**101.81**	**254.5**	100.68	240.2
Proposed final dividend for the year ended 31 March 2022	**61.28**	**155.3**		

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. Potential ordinary shares are not treated as dilutive if their conversion does not decrease earnings per share or increase loss per share.

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

	2022 £m	2021 £m
(Loss)/profit for the period	**(87.2)**	212.2

ii) Number of shares

	2022 m	2021 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**247.9**	238.1
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**–**	1.3
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**247.9**	239.4

Unvested share options and LTIPs have not been treated as dilutive potential ordinary shares in 2022 because their conversion would decrease the loss per share.

b) Adjusted earnings per share

	2022 pence	2021 pence
Adjusted basic earnings per share	**96.9**	105.4
Adjusted diluted earnings per share	**96.4**	104.8

Adjusted earnings per share figures exclude the effects of exceptional items, current tax related to exceptional items, amortisation of acquired intangible assets, gains/losses on financial instruments, current tax related to gains/losses on financial instruments and deferred tax. 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, except that the share options and LTIPs are treated as dilutive potential ordinary shares because their conversion would decrease adjusted earnings per share. This increases the weighted average number of shares for the purpose of calculating adjusted diluted earnings per share by 1.4 million to 249.3 million shares.

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

	2022 £m	2021 £m
Earnings for the purpose of basic and diluted earnings per share	**(87.2)**	212.2
Adjustments for:		
- exceptional items before tax	**–**	4.9
- amortisation of acquired intangible assets	**2.1**	2.1
- net (gains)/losses on financial instruments	**(39.3)**	6.2
- current tax on net gains/losses on financial instruments	**(1.4)**	(2.6)
- deferred tax	**366.1**	28.2
Earnings for the purpose of adjusted basic and diluted earnings per share	**240.3**	251.0

11. Interest in joint venture

Our principal joint venture undertaking at 31 March 2022 is Water Plus Group Limited, which is the largest business retailer in the non-household retail water market in England and Scotland.

Movements in the investment were as follows:

	2022 £m	2021 £m
Carrying value of joint venture investment at 1 April	**–**	–
Reclassification on subscription for equity	**18.7**	–
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	**(2.2)**	(8.9)
As at 31 March	**16.5**	18.7
Amount included in long-term loans and receivables	**–**	(18.7)
Carrying value of joint venture investment at 31 March	**16.5**	–

On 23 April 2021, the Group extinguished the £32.5 million Revolving Credit Facility (‘RCF’) previously extended to Water Plus, and replaced this with a subscription for £32.5 million of equity shares in Water Plus Group Limited at par. The carrying value of the loan receivable was reclassified to investment in joint venture. In the prior year, the classification of the loan to Water Plus as a non-current loan receivable which formed part of the Group’s net investment in Water Plus was disclosed as a critical accounting judgement. Following the subscription for equity shares, this is no longer considered a key judgment for the Group.

During the current year, the Group has recognised its share of Water Plus’s losses of £2.2 million against the value of the investment.

The Group has no accumulated unrecognised losses in Water Plus at 31 March 2022 (2021: £nil).

We have also recorded a £0.2 million gain on the impairment of our loans receivable from Water Plus (2021: gain of £3.6 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 next scheduled formal actuarial valuation of the STPS and STMIPS defined benefit pension schemes are being carried out as at 31 March 2022. These will be completed during the financial year ending 31 March 2023.

On 29 June 2021, the Group completed the bulk annuity buy-in of the Severn Trent Mirror Image Pension Scheme ('STMIPS'). As a result of the buy-in, whilst the legal obligation to pay the employee benefits directly as they fall due remains with the Group, the right to reimbursement of such amounts to the Group has been obtained under the insurance policy.

The assumptions used in calculating the defined benefit obligations as at 31 March 2022 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

	2022	2021
	%	%
Price inflation - RPI	**3.6**	3.2
Price inflation - CPI	**Pre 2030: 2.6** **Post 2030: 3.5**	2.4
Discount rate	**2.8**	2.0
Pension increases in payment	**3.6**	3.2
Pension increases in deferment	**3.6**	3.2
Remaining life expectancy for members currently aged 65 (years)		
- men	**21.8**	21.8
- women	**23.7**	23.6
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**22.7**	22.7
- women	**24.8**	24.8

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 £42/£43 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £36/£35 million
Mortality	Increase in life expectancy by 1 year	Increase by £112 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 movements 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 2022. 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 2021	2,600.4	(2,968.1)	(367.7)
Current service cost	–	(0.2)	(0.2)
Scheme administration costs	(3.8)	–	(3.8)
Interest income/(cost)	52.8	(59.5)	(6.7)
Return on plan assets	68.9	–	68.9
Actuarial losses recognised in the statement of comprehensive income	–	119.6	119.6
Contributions from the sponsoring companies	61.9	–	61.9
Employees' contributions and benefits paid	(120.8)	120.8	–
At 31 March 2022	**2,659.4**	**(2,787.4)**	**(128.0)**

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

	2022 £m	2021 £m
Retirement benefit surplus	**17.5**	17.1
Retirement benefit obligations	**(145.5)**	(384.8)
	(128.0)	(367.7)

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2022 £m	2021 £m
Profit before interest and tax	**506.2**	470.7
Depreciation of property, plant and equipment	**361.5**	342.0
Depreciation of right-of-use assets	**3.8**	3.6
Amortisation of intangible assets	**34.2**	32.1
Amortisation of acquired intangible assets	**2.1**	2.1
Pension service cost	**0.2**	0.5
Defined benefit pension scheme administration costs	**3.8**	3.9
Defined benefit pension scheme contributions	**(61.9)**	(38.1)
Share based payment charge	**8.3**	7.8
Profit on sale of property, plant and equipment and intangible assets	**(5.4)**	(2.2)
Profit on disposal of subsidiary undertaking	–	(0.2)
Release from deferred credits	**(17.5)**	(15.5)
Contributions and grants received	**42.8**	41.4
Provisions charged to the income statement	**14.8**	4.9
Utilisation of provisions for liabilities	**(12.3)**	(12.2)
Operating cash flows before movements in working capital	**880.6**	840.8
Increase in inventory	**(1.2)**	(1.6)
(Increase)/decrease in amounts receivable	**(87.6)**	51.6
Decrease in amounts payable	**99.9**	10.9
Cash generated from operations	**891.7**	901.7
Tax paid	**(1.2)**	(23.2)
Net cash generated from operating activities	**890.5**	878.5

b) Non-cash transactions

Non-cash additions to right-of-use assets during the year were £4.2 million (2021: £4.9 million). Assets transferred from developers at no cost were recognised at their fair value of £69.0 million (2021: £44.9 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 2021	44.0	(1,011.1)	(5,471.3)	(121.3)	31.9	84.0	(6,443.8)
Cash flow	63.7	238.5	(250.6)	12.1	–	13.0	76.7
Fair value adjustments	–	–	2.9	–	–	–	2.9
Inflation uplift on index-linked debt	–	(6.9)	(99.6)	–	–	–	(106.5)
Foreign exchange	–	–	(6.6)	–	–	–	(6.6)
Other non-cash movements	–	(3.0)	1.7	(8.2)	(3.6)	(17.4)	(30.5)
At 31 March 2022	**107.7**	**(782.5)**	**(5,823.5)**	**(117.4)**	**28.3**	**79.6**	**(6,507.8)**

14. Post balance sheet events

Refinancing

On 4 April 2022 the Group elected to extend £916.7 million of the available commitments under the revolving credit facility ('RCF') for a further year until April 2027.

On 9 May 2022 the Group completed the refinancing of an existing £100.0 million bank loan maturing in August 2023 with a new £150.0 million bank loan maturing in May 2030.

Defined benefit pension scheme

At 31 March 2022, the Group's net defined benefit pension scheme deficit was £128.0 million. On 6 April 2022, the Group made a further scheduled contribution of £32.4 million to the scheme.

Dividends

On 24 May the Board of Directors approved a final dividend of 61.28 pence per share. Further details of this are shown in note 9.

15. Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2021: nil) is expected to arise in respect of either bonds or guarantees.

b) 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 2022.

c) Ongoing combined sewer overflow investigations

Ofwat and the Environment Agency have each issued their own investigations into the waste water industry to investigate compliance with the conditions of environmental permits. We were able to respond quickly and comprehensively and have had open conversations since. It is not yet clear what the scope or likely outcome of this investigation will be as it is in its early stages.

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.

	2022 **£m**	2021 £m
Sale of services	**259.8**	216.1
Net interest income	**2.5**	2.3
	262.3	218.4

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

	2022 **£m**	2021 £m
Amounts due to related parties	**(0.2)**	(2.4)
Loans receivable from joint venture	**79.6**	84.0
	79.4	81.6

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.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year, and non-executive directors of the Company. The prior year comparative has been restated to include the remuneration of the non-executive directors of the Company.

The remuneration of the directors is included within the amounts disclosed below.

	2022	2021 (restated)
	£m	£m
Short term employee benefits	**5.7**	7.3
Short term non-executive director benefits	**0.7**	0.7
Share based payments	**6.6**	4.9
	13.0	12.9

17. Alternative performance measures (APMs)

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

a) Exceptional items

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

b) 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 adjusted 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 ventures. See note 13.

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.

	2022	2021
	£m	£m
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Capitalised finance costs	**34.5**	30.4
	297.2	212.1
Average net debt	**6,292.2**	6,263.6
Effective interest cost	**4.7%**	3.4%

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

f) Effective cash cost of interest

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

	2022	2021
	£m	£m
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Indexation adjustments	**(106.5)**	(19.2)
Capitalised finance costs	**34.5**	30.4
	190.7	192.9
Average net debt	**6,292.2**	6,263.6
Effective cash cost of interest	**3.0%**	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.

	2022	2021
	£m	£m
Adjusted PBIT	**508.3**	472.8
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Net finance costs excluding net finance costs from pensions	**262.7**	181.7
Adjusted PBIT interest cover ratio	**1.9**	2.6

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

	2022	2021
	£m	£m
Adjusted PBIT	**508.3**	472.8
Adjusted depreciation (including right-of-use assets)	**365.3**	345.6
Adjusted amortisation	**34.2**	32.1
EBITDA	**907.8**	850.5
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Net finance costs excluding finance costs from pensions	**262.7**	181.7
EBITDA interest cover ratio	**3.5**	4.7

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

	2022		2021	
		Current tax thereon		Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**274.1**	**–**	267.2	(30.4)
Adjustments				
Share of net loss of joint venture	**2.2**	**–**	13.8	–
Amortisation of acquired intangible assets	**2.1**	**–**	2.1	–
Net (gains)/losses on financial instruments	**(39.3)**	**(1.4)**	6.2	(2.6)
	239.1	**(1.4)**	289.3	(33.0)
Adjusted effective current tax rate		**0.6%**		11.4%

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 ventures is excluded from the calculation because the loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

j) Operational cash flow

Cash generated from operations less contributions and grants received.

	2022	2021
	£m	£m
Cash generated from operations	**891.7**	901.7
Contributions and grants received	**(42.8)**	(41.4)
Operational cashflow	**848.9**	860.3

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

k) Cash capex

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

	2022	2021
	£m	£m
Purchase of property, plant and equipment	**610.3**	613.7
Purchase of intangible assets	**36.3**	22.2
Payments to acquire right-of-use assets	**–**	0.7
Contributions and grants received	**(42.8)**	(41.4)
Proceeds on disposal of property, plant and equipment	**(9.5)**	(2.0)
Cash capex	**594.3**	593.2

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

l) Capital investment

Additions to property, plant and equipment and intangible fixed assets less contributions and grants received, assets contributed at no cost, and capitalised finance costs.

	2022	2021
	£m	£m
Additions to property, plant and equipment	**714.3**	659.4
Additions to intangible assets	**36.3**	22.2
Contributions and grants received	**(42.8)**	(41.4)
Assets contributed at no cost	**(69.0)**	(44.9)
Capitalised finance costs	**(34.5)**	(30.4)
Capital investment	**604.3**	564.9

Glossary

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 and D-MeX (Customer Measure of Experience and Developer Measure of Experience)

C-MeX and D-MeX are financial and reputational incentive mechanisms designed to provide customers in the water sector with excellent levels of service. In effect from 1 April 2020, they replaced the service incentive mechanism (SIM) which had been in place since 2010.

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.

RoRE

Return on Regulatory 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).

RFI (Revenue Forecasting Incentive)

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').

Cautionary statement regarding forward-looking statements

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

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

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