Preliminary Announcement of Annual Results
24 May 2023
Results for the year to 31 March 2023

SEVERN TRENT

Environmental leadership, strong performance, investing for future growth

Setting the benchmark through environmental and social leadership

- Highly confident in achieving 4* EPA[1] status for a fourth consecutive year, performance on all six environmental metrics expected to be on or better than target
- Improved our performance on river quality by a third over the last year; our share of RNAGS[2] reduced from 24% to 16%; average annual storm overflow performance reduced from 25 to 18 activations, ahead of regulatory target
- Work underway on the world's first Net Zero waste water treatment hub, to be delivered in 2024, providing the blueprint for reducing process emissions; supported by Ofwat's Innovation Fund
- Financially supporting 237,000 customers in need with up to 90% off their bill, on track to help 315,000 customers by 2025
- Progressing well with our ten-year Societal Strategy to help support 100,000 people out of poverty by 2032
- Doubling our biodiversity commitment to 10,000 hectares by 2025, two years earlier than planned

12.2% RoRE[3] for FY23 driven by strong environmental, operational and financial performance

- Continuing to deliver strong operational and financial outperformance, despite extreme weather and tough macroeconomic conditions; cumulative AMP7 RoRE of 8.9% to date
- Around 80% of ODI[4] measures met or exceeded including leakage, pollutions and water quality complaints, resulting in a net reward of £53 million; over £200 million delivered AMP7[5] to date, already surpassing our total in AMP6[5]
- Record energy generation of 5956 GWh, equivalent to 53% of Group consumption, with 45 GWh of additional generation expected from planned acquisition of Andigestion Ltd7
- Group PBIT8 of £509 million (2021/22: £506 million), up 1%, in line with expectations
- Adjusted basic EPS9 of 58.2 pence (2021/22: 96.1 pence) reflecting the effect of inflation on index-linked debt. Basic EPS of 52.7 pence (2021/22: loss of 35.2 pence)
- Proposed final dividend of 64.09 pence (2021/22: 61.28 pence), in line with our policy and payable on 14 July 2023

Investment on-track, well-positioned for AMP8 growth

- Year end RCV[10] of £11.6 billion, AMP to date growth of £2.2 billion, with investment plans on track
- RCV expected to be £12.8 billion by March 2025, reflecting AMP7 nominal growth of 36%
- Strong balance sheet with regulatory gearing of 60.0%[11], well below the sector average, providing capacity for future investment in water resources, improving environmental standards and Net Zero
- Capital investment of £737 million[12] with 84% of prices agreed for our core capital programme, £200 million of new annual supply chain capacity secured for future investment
- Guiding to increased capital investment of between £850 million and £1 billion for 2023/24, as we ramp up delivery capability ahead of AMP8

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

"*Creating job opportunities, continuing significant regional investment, and financially supporting more customers than ever before is made possible by the strong results we have delivered this year.*

"At a time when unemployment rates in our region are increasing and the cost of living crisis is still front and centre of many customers' minds, we are proud to be able to create 1,000 jobs in our region over the next couple of years and to further help up to 50,000 customers with financial support. This, coupled with our long-term programme to help people into work, go towards truly supporting the communities we serve.

"This support is being delivered whilst continuing with the multibillion-pound investment in the region to improve water and waste services, providing an exceptional service and investing in our people who go above and beyond every day to make a positive impact in our region. We are expecting the biggest investment period the sector has ever seen, with a focus on water resources, improving environmental standards and on Net Zero, and we feel more than ready for this exciting opportunity ahead of us."

Group results

	2023	2022	Increase/ (decrease)
	£m	£m	%
Group turnover	**2,165.1**	1,943.3	11.4
Group PBIT	**508.8**	506.2	0.5

	pence/ share	pence/ share	
Adjusted basic EPS	**58.2**	96.1	(39.4)
Basic EPS	**52.7**	(35.2)	249.7
Total ordinary dividends	**106.82**	102.14	4.6

Footnotes to page 1 of this RNS

1. EPA: Environmental Performance Assessment ('EPA') status is expected to be confirmed by the Environment Agency ('EA') in July 2023
2. RNAGS: The EA's analysis of Reasons for Not Achieving Good Status (RNAGS) records the source, activity and sector involved in causing waters to be at less than good status
3. RoRE: Return on Regulatory Equity (see glossary)
4. ODIs: Outcome Delivery Incentives, quoted pre-tax and in 2017/18 prices unless otherwise stated. FY23 ODIs include in year reward earnings of £35.5 million and £17.5 million for work and milestones already delivered in relation to end of AMP ODIs
5. AMP: Asset Management Plan (see glossary); AMP7 refers to the period 1 April 2020 to 31 March 2025, and AMP6 refers to the period 1 April 2015 to 31 March 2020
6. Includes 548 GWh from renewable sources and 47 GWh from natural gas
7. Acquisition is subject to clearance by the Competition and Markets Authority
8. PBIT: Profit before interest and tax
9. Adjusted basic earnings per share: Set out in note 9
10. RCV: Regulatory Capital Value (see glossary). RCV is measured including additions from Green Recovery and real options. Nominal RCV assumes forecast CPIH of 2.5% for 2023/24, and 1.5% for 2024/25 and forecast RPI of 4.2% for 2023/24 and 2.1% for 2024/25 as per Oxford Economics April 2023 forecast
11. Refers to shadow regulatory gearing based on shadow RCV which includes our Green Recovery programme. Regulatory gearing on our reported RCV is 60.7%
12. See alternative performance measures in note 16 for definition of capital investment

Note: FY2023/24 technical guidance is included in the Chief Financial Officer's Review in this announcement.

Enquiries

Investors & Analysts

Rachel Martin *Head of Investor Relations*	Severn Trent Plc	+44 (0) 782 462 4011
Dominique Mowle *Investor Relations Manager*	Severn Trent Plc	+44 (0) 796 776 7079

Media

Jonathan Sibun	Teneo	+44 (0) 207 353 4200
Press Office	Severn Trent Plc	+44 (0) 247 771 5640

Preliminary Results Presentation and Webcast

A presentation of these results hosted by Liv Garfield, CEO, James Bowling, CFO and Helen Miles, CFO Designate, will be available on our website (severntrent.com) from 7.00am BST today, 24 May 2023.

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

With our PR24 plans due to be submitted in a matter of months, we are at a pivotal point in the regulatory cycle. We can reflect on the progress we have already made in AMP7 and look forward to the opportunities that AMP8 brings.

This year has brought many challenges including extreme weather, high inflation driven by exceptional energy prices, and heightened macroeconomic uncertainty; through it all we have continued to deliver strong environmental, operational and financial performance, benefitting all our stakeholders.

- We are highly confident we will achieve the EA's highest possible annual 4* rating for the fourth consecutive year and have made fast progress against our Get River Positive pledges;
- Around 80% of our ODI measures are in reward. We have delivered consistent improvements on a number of key measures including leakage, water quality complaints, persistent low pressure and pollutions, but we know there are some key focus areas for us including external sewer flooding; and
- As we strive to deliver sustainable benefits for all our stakeholders, I am delighted to see this reflected in another set of strong results, with RoRE performance of 12.2%, significantly outperforming the base return, and a forecast end of AMP RCV of £12.8 billion, reflecting estimated AMP7 nominal growth of 36%.

This was our largest year of capital spend so far this AMP, and we have made great progress on a range of schemes including our sector-leading Green Recovery programme. We know that our investment plans will be stepping up again next year, as some of our projects enter a critical delivery phase, and we have already been working closely with our supply chain to secure the capacity we need.

This strong foundation will enable us to ramp up for what is expected to be the most significant period of growth the sector has ever seen, including the investment needed to meet water resourcing needs and a significant Water Industry National Environment Programme.

We know that extensive growth plans need to be affordable for our customers, which is why we will be financially supporting 315,000 of our most vulnerable customers by the end of AMP7 and have plans to increase this support even further through AMP8. We also want to go further and make a genuine positive change to the lives of the people we serve through our employability and skills strategy, which will help support 100,000 people out of poverty by 2032.

Leading on environmental change

Our customers expect us to be an environmental leader, and once again we are proud to have hit 100% of our environmental performance commitments, and we are highly confident that we will achieve the EA's highest 4* rating in its annual assessment ('EPA') for the fourth consecutive year, which no company has achieved before.

However, as a sector, we recognise that we should have given sewage activations much more attention and acted faster, and we want to be a driving force for positive change. Since the launch of our five Get River Positive pledges last year, we have made great progress on each of them. We have accelerated the installation of event duration monitors across our storm overflows, providing us with 300 million data records through which we can monitor and improve our performance.

Our 2022 annual performance of combined sewer overflow ('CSO') activations improved by 28% to an average of 18 activations per CSO per annum. This means we are ahead of plan to reach our target of an average of 20 activations per annum by 2025 and a maximum of 10 activations per annum in line with the Government's 2050 target. While some of last year's improvement can be attributed to 2022's dry summer, the majority reflects the significant capital and operational investments we have made. For example, by increasing our investment in waste water treatment screens, which remove debris from flows into our works, we have been able to expand storm tank capacity, increasing the flow through our network.

The combined effort across our pledges means that our share of our region's RNAGS is now down to under 16% and we remain on track to meet our commitment to reach zero RNAGS by 2030.

Our Get River Positive activities are overseen by a panel of six independent experts, all of whom are passionate about the health of our region's rivers. The objective of this panel is to help oversee our progress against each commitment and ensure we maximise the potential benefits across Get River Positive campaigns.

Another key reason for our environmental performance is our approach to catchment management. Programmes such as Farming for Water and Great Big Nature Boost help to improve raw water quality, and today we are pleased to announce that we are extending and accelerating our commitment to improve biodiversity on 5,000 hectares of land by 2027 to 10,000 hectares by 2025. This now means our work will account for 2% of the nation's 2042 Nature Recovery Network target, which is about the size of 14,000 football pitches. We are also progressing at pace with our Farming for Water scheme, having already improved 23 catchments across our region, exceeding our full AMP target of 16 catchments.

Eight years ago we made the decision to significantly increase our investment in energy self-generation and committed to reaching more than 50% of the energy we consume. Since then, we have invested around £400 million and benefitted from growing returns, protection against energy price volatility and progress towards our Net Zero goals. This year, Bioresources and Green Power combined generated 595 GWh of energy, equivalent to 53% of our Group consumption. We continue to increase our output thanks to continued investment in our existing assets and a focus on operational excellence, increasing asset efficiency to 96%. The planned acquisition of Andigestion Ltd (subject to regulatory approval) by Severn Trent Green Power will deliver an additional 45 GWh of annual energy generation for the Group.

In addition to expanding our renewables capability and electric vehicle fleet, we are also reducing our direct process emissions, of which around 80% comes from our sewage and sludge treatment processes. We are on track to deliver the world's first Net Zero waste water treatment hub in 2024, transforming our Strongford works, which serves 380,000 customers each year. Together with our own investment, we were pleased to be awarded £10 million from the Ofwat Innovation Fund to deploy innovative new technologies developed in collaboration with our global partners. Being a Net Zero sector leader means we will be able to share our learnings to benefit our sector and the planet, as well as helping us deliver further Net Zero sites in AMP8.

We know that the environment, and our role in protecting it, will form a meaningful part of our PR24 plans. The work we are doing now sets us on the right path to achieve our long-term goals and provides the blueprint for success in AMP8.

Operational excellence at our core

Despite the challenging weather experienced this year, our teams have worked hard to meet or exceed around 80% of ODI measures, and deliver a net reward of £53 million, taking the total amount earned so far to over £200 million, which is already more than we earned in all of AMP6.

Enhancing water resilience
This year has been a true test of water resilience for the sector, with some of the hottest and driest months ever experienced over the summer, followed by a sharp cold snap and rapid thaw over the winter. Despite these challenging conditions we have kept water flowing and navigated the summer conditions with no enforced Temporary Usage Bans ('hosepipe bans') in our region for nearly 30 years.

Over recent years we have invested extensively in our water network through both large-scale and smaller targeted projects, to bolster our resilience and protect our capacity. We have also made significant progress with our metering programme, installing over 166,000 meters this year, including 65,800 smart meters through our Green Recovery programme. We are now accelerating our AMP8 plan to deliver a further 250,000 meters early. By the end of the AMP we will have installed over 750,000 meters over five years, taking us to 61% of network coverage. This will provide us with much greater insight into our network, including flow data trends, helping to identify leaks sooner, and helping our customers save on water usage.

We have also insourced key functions such as our 'blue light' Network Response team, giving us more resilience and flexibility in-house, while our work to optimise our planning and scheduling function has helped improve our response times, for example reducing the time taken to fix leaks by a third. These teams are supported by real-time data from our investment in smart assets, such as the 30,000 acoustic loggers that now span our network.

In total our work across water has helped us to deliver on key measures, including:

- Hitting our leakage target for eleven out of the last twelve years, putting us firmly on track to reduce leakage by 15% by 2025 and 50% by 2045;
- Our best ever performance on water quality complaints, hitting our reward cap for the second consecutive year;
- Our Welsh business, Hafren Dyfrdwy ('HD') has also improved water quality complaints by 50% so far this AMP;
- Our best ever performance on persistent low pressure, with a year-on-year improvement of 63%; and
- Improving our year-on-year speed of response performance by 12%.

Our supply interruptions performance of nine minutes and ten seconds was our best so far this AMP, but we know any interruption can have a significant impact on our customers and so we must do better. Although we are disappointed to have missed an increasingly stretching target this year, we are proud that during this winter's "Freeze

Thaw" event we were able to reduce the impact on our customers by 93% compared to the "Beast from the East" back in 2018. We will be taking our learnings forward to continue to make further progress on this measure.

Working smarter in waste
We operate a multi-pronged approach to our waste operations through:

- Using smart data: We have commenced trials with innovative artificial intelligence technology to look for ways to model and control the flow of waste water through our network better, maximising the capacity and efficiency of our assets;
- Enhancing asset maintenance: Since the beginning of the AMP we have increased sewer cleansing work substantially, investing over £30 million in this activity; and
- Educating our customers: We have quadrupled the size of our Network Protection team who educate household customers on the use of sewers, and continue to work in partnership with food service providers in our region to reduce the amount of fats, oils and greases entering the network, all of which help to prevent blockages and reduce pollutions.

These improvements mean we have hit a number of our key waste measures, including;

- 22% reduction in total pollutions so far this AMP, along with an 8% increase in the proportion of pollutions self-reported this year;
- Our best ever year for serious pollutions, with only one event compared to a sector average of 6.5 in 2021;
- Our best year so far this AMP on sewer collapses with a year-on-year improvement of 3%;
- Sustained improvement on blockages performance, which is down 20% so far this AMP; and
- HD has also improved sewer blockages by 17% so far this AMP.

We recognise that not all our waste measures have performed to the level that both we and our customers expect. Following our sector leading performance in AMP6, we have an incredibly stretching target on external sewer flooding, which we have missed this year due to a year-on-year deterioration in performance of 18%. This resulted from concentrated heavy rainfall in the winter months, and a disappointing performance on some key drivers of delivery. We remain committed to getting our performance on this measure back on track, and we are confident that the steps we have already taken, such as the insourcing of reactive works planning and scheduling for our Waste Networks teams, will deliver results.

As we look to AMP8 we are also focusing on the ODIs of the future, many of which we are already succeeding in. We have started early shadow reporting on some of these measures, to give us valuable insight into where the opportunities lie for outperformance in AMP8.

Capital programmes advancing at pace as we ramp up for AMP8

The achievement of fast-track status at PR19 coupled with our early planning gave us a fast start to this AMP and we remain on track with both our £2.9 billion core capital programme and our £0.6 billion Green Recovery programme. We have delivered all of our capital regulatory commitments to date and are on course to deliver the remainder of our programme on time.

Despite tough market conditions we have nominal prices agreed for 84% of our core capital programme ahead of our two biggest years of delivery. Our embedded and effective target operating model, which includes an experienced team of in-house designers, has enabled us to value-engineer projects to ensure the best possible outcomes for our customers. For example, on our Green Recovery project to increase water supplies by up to 89Ml/d, we have been able to re-design our original plans while delivering the same outcomes, halving the number of sites where work is required, increasing the use of nature-based treatment processes and mitigating a significant amount of spend.

In total this year we have invested £737 million across the Group, which is over £100 million higher than 2021/22, and we expect to step up our investment again next year as some of our Green Recovery schemes enter a key delivery phase.

Our delivery track record and the steps we've taken to strengthen our Capital team will set us up for success in AMP8, which we expect will be the largest investment period in the sector's history. We are already laying the foundations:

- Secured £200 million of additional annual supply chain capacity, and commenced early engagement with our partners, readying them for the exciting challenges that are on the horizon;
- Established direct relationships with manufacturers of critical components, giving us security on our pipeline for key programmes of work; and
- Optimised our advanced procurement strategy, adopting a manufacturing mindset in line with leading practices.

Supporting our customers, communities, and colleagues

This year we have achieved eight out of nine customer performance measures, delivered a 16% reduction in customer complaints and made over six million contacts with key messages across a range of media, including ways customers can spot leaks in their own homes.

We recognise that our region is home to some of the UK’s most deprived postcodes, who are feeling more financial pressure in the current high inflation environment. We have supported 237,000 of our most vulnerable customers financially, including reducing their water bill by up to 90%, and we remain on track to support 315,000 customers by the end of the AMP, with an expansion of our Big Difference Scheme to offer more help to up to 50,000 customers in arrears. This programme has been supported by a 19% year-on-year reduction in the number of void properties across our region, earning a £7 million ODI reward.

We want to play a role in supporting the communities we serve beyond financial aid. In November we announced our new landmark Societal Strategy scheme, which aims to help support 100,000 people out of poverty by 2032 by supporting them into employment. We announced earlier this month that we will be working in partnership with Trailblazers to provide 20 mentors each year to support young men currently in prison, to encourage and support them into work after release and reduce the risk of re-offending.

Our Community Fund has been running for three years and we have donated £7.6 million of our £10 million AMP7 commitment, supporting 682 organisations across a range of projects including the creation and enhancement of community spaces and nature projects. We know that, like our customers, lots of organisations, such as charities, are finding day-to-day running costs hard, so this year we have offered core funding support to temporarily help with rising bills. To read more about the individual community projects and businesses we have helped you can find our 2022/23 Community Fund Annual Review on our website.

We know that our success as a business is only made possible thanks to our dedicated workforce. We are proud to see that even with the current sector pressures and macroeconomic climate, our teams are the most engaged they have ever been, putting Severn Trent in the top 5% for employee engagement across global utilities. We strive to create a great place to work, where everyone can feel included and listened to and we are proud to be recognised in the 2023 Bloomberg Gender-Equality Index for the fourth consecutive year, achieving our highest score ever. We earned a top 25 spot in the Stonewall Workplace Equality Index assessment of LGBT inclusive workplaces, and we are proud to have achieved our best ever health and safety performance, with a lost time incidents rate of 0.11.

A final thank you

As we close the chapter on year three of the AMP, I would like to say a huge thank you to James Bowling, who after eight years of brilliant service, will be retiring from his position as Chief Financial Officer. James has been instrumental to the financial resilience and success of Severn Trent and he leaves us in a very strong position ahead of AMP8. On a personal level I will miss working with James and I wish him the very best in his future. I am delighted that we have been able to promote Helen Miles to replace him, and I am really looking forward to working with Helen through the final part of AMP7 and into AMP8. I am confident that together we can lead the Company through the next phase of its exciting journey.

Chief Financial Officer's Review

We have delivered strong financial performance this year in the face of challenging external factors including:

- Unprecedented wholesale energy prices;
- Cost pressures on chemicals, other materials and licence fees; and
- Additional operating costs during the exceptionally hot and dry summer and the freeze thaw event in December.

The regulatory model set the inflationary uplift in this year's tariffs from CPIH in November 2021. This lag meant our regulated revenue for the year included an increase of only 4.6% while inflation on key operating costs was significantly higher than this.

Despite these challenges we have delivered Group PBIT of £508.8 million (2021/22 £506.2 million).

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

	2023	2022	Change	
	£m	£m	£m	%
Turnover	2,165.1	1,943.3	221.8	11.4
PBIT	508.8	506.2	2.6	0.5
Net finance costs	(362.6)	(269.4)	(93.2)	(34.6)
Gains/(losses) on financial instruments, share of results of joint venture and impairment of loans receivable	21.7	37.3	(15.6)	(41.8)
Profit before tax	167.9	274.1	(106.2)	(38.7)
Tax	(35.7)	(361.3)	325.6	90.1
Profit for the year	132.2	(87.2)	219.4	251.6

Turnover in Regulated Water and Waste Water increased year on year by £191 million, which was in the middle of our expected range. Business Services turnover increased by £34 million as a result of growth in our Operating Services business and the benefit of higher generation and energy prices in our Green Power business.

Net labour and hired and contracted costs increased by £21.4 million (4.9%). Gross costs increased due to hired staff providing leakage reduction support and other short-term labour requirements. Increased activity on our capital programme was offset by higher capitalised labour.

Higher energy prices reduced Group PBIT by around £43 million year on year as the higher costs of energy consumed exceeded the benefit from our energy revenues. The impact on totex in our regulated business was around £23 million higher as this does not include the benefit of revenue from energy generated in our Green Power business. We expect totex and RoRE to be impacted by higher energy costs for the remainder of the AMP but this impact will be offset to deliver a broadly neutral Group return on equity across the five-year period. Across the Group, we generate the equivalent of around 53% of our energy requirements. This provides an effective energy price hedge for our group return on equity because our power costs mainly arise in parts of our regulated business in which over or under spend is shared with customers, whereas revenues are earned in the non-regulated business or areas where performance variances are not shared.

We also saw a sharp increase in the cost of energy intensive products. Chemical costs increased by £21.3 million, of which £20.5 million arose in our Regulated Water and Waste Water business.

Net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. Our effective interest cost was 150 bps higher at 6.2% (2021/22: 4.7%); our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was unchanged at 3.0% (2021/22: 3.0%).

We continued to benefit from the super deduction, which gives a 130% tax allowance in the year for qualifying capital expenditure. This, together with the higher finance costs, resulted in an adjusted effective tax rate of nil% (unchanged from nil% in 2021/22) and, as expected, no current tax payable relating to the year.

In his 2023 Budget, the Chancellor introduced 100% first year capital allowances for qualifying plant and machinery for a three-year period from 1 April 2023. As a result, we expect our adjusted effective tax rate to remain around nil while the allowance is in place.

The tax charge of £35.7 million reflects our full effective tax rate this year of 21.3% (2021/22: 24.4% before exceptional deferred tax). In the previous year, the increase in the corporation tax rate to 25% from FY24 was reflected in our deferred tax provision and in an exceptional deferred tax charge to the income statement of £294.4 million.

Group profit after tax was £132.2 million (2021/22: a loss of £87.2 million as a result of the exceptional deferred tax charge) and our adjusted basic EPS was 58.2 pence (2021/22: 96.1 pence) reflecting higher net finance costs from the impact of inflation on the cost of our index-linked debt. Basic EPS was 52.7 pence (2021/22: loss of 35.2 pence due to the exceptional deferred tax from the change of corporation tax rate).

Our balance sheet remains strong. At 31 March 2023 our net debt was £7,160.5 million (2022: £6,507.8 million) and our shadow RCV gearing, taking into account amounts that will be included in the RCV at the end of the AMP but which we have already incurred, is 60.0% (2022: 59.2%). Our regulatory gearing is 60.7% (2022: 59.5%), well below the sector average and close to Ofwat's notional capital structure for AMP7.

Our net pension deficit on an IAS 19 basis is £279.4 million (2022: £128.0 million). Gross liabilities decreased as the discount rate, which is based on the yield observed on high quality corporate bonds, increased and inflation expectations over the life of the liabilities decreased. Hedging assets moved broadly in line with the fall in liabilities, with other asset values affected by the higher yield environment in the second half of the year. The 2022 triennial actuarial valuation was agreed in November 2022, with an unchanged future funding plan.

Operational cash flow was £713.1 million (2021/22: £848.9 million). EBITDA increased by £18.3 million but pension contributions increased by £38.6 million as we paid two years' deficit reduction contributions in the year and changes in working capital increased cash outflows by £100 million more than the previous year. Cash capex was £686.6 million, up £92.3 million due to the increasing capital programme. Net cash outflow before changes in net debt was £440.4 million (2021/22: inflow of £76.7 million).

This year we have published in our Annual Report our first disclosure consistent with the EU Taxonomy. We are committed to protecting and enhancing the environment and transparent disclosures are an important part of demonstrating that commitment. We have accelerated the enhancement of our sustainability disclosures by making a voluntary disclosure under the EU Taxonomy framework. We have completed an initial eligibility-only review and are working towards a full alignment review. Our initial assessment is that eligible activities make up 95% of our revenues, 95% of our operating costs and 99% of our capital expenditure.

Severn Trent Water's RoRE for the year was 12.2%, 830 bps above the base return of 3.9%. Outperformance came mainly from our customer ODI rewards of £53 million, with around 80% 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 Final Determination assumption.

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

Our proposed final dividend of 64.09 pence (2021/22: 61.28 pence), is in line with our inflation-linked dividend policy and payable on 14 July 2023.

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water ('RWWW') business was £1,995.4 million (2021/22: £1,804.4 million) and PBIT was £468.1 million (2021/22: £476.3 million).

	2023	2022	Increase/(decrease)	
	£m	£m	£m	%
Turnover	**1,995.4**	1,804.4	191.0	10.6
Net labour costs	**(158.2)**	(165.3)	7.1	4.3
Net hired and contracted costs	**(217.2)**	(190.0)	(27.2)	(14.3)
Power	**(204.6)**	(114.1)	(90.5)	(79.3)
Bad debts	**(24.5)**	(24.8)	0.3	1.2
Other costs	**(284.6)**	(250.7)	(33.9)	(13.5)
	(889.1)	(744.9)	(144.2)	(19.4)
Infrastructure renewals expenditure	**(238.4)**	(198.2)	(40.2)	(20.3)
Depreciation	**(400.4)**	(385.0)	(15.4)	(4.0)
PBIT	**467.5**	476.3	(8.8)	(1.8)

Turnover increased by £191.0 million with the main movements being:

- An increase of £78.0 million for the annual CPIH uplift in tariffs, partially offset by reductions of £15.1 million from the 'K' factor for the year;
- A £66.9 million increase representing the recovery, under the RFI mechanism, of lower than allowed revenue in 2020/21;
- £35.0 million of in-year fast money allowance for the Green Recovery programme;
- £24.4 million additional energy generation revenue in our Bioresources business driven by higher wholesale energy prices;
- An increase of £18.7 million in diversions income largely due to the increase in activity related to HS2 as guided. This represents a recovery of costs incurred and is offset by an increase in infrastructure renewals expenditure;
- Lower revenue from the Voids and Gaps Incentives Scheme (£4.7 million lower); and
- Lower revenues billed by other water companies on our behalf and other small differences (£12.2 million).

Net labour costs of £158.2 million were 4.3% lower year on year. Gross employee costs increased due to the annual pay award of 2.3% and an increase in FTE from the step up in the capital programme. This was offset by higher capitalisation of employee costs and an £8.3 million credit related to a change in defined benefit scheme options developed with the Trustee. The new bridging pension option allows members who retire early to bridge the gap between their retirement date and the date when the state pension becomes payable, by taking more of their occupational pension up front, which has a positive effect on expected pension liabilities.

Net hired and contracted costs increased by £27.2 million (14.3%). The increase is driven by higher tankering and jetting activity, more hired staff to support leakage reduction and improve operational performance, third party technology consultants and other contract management cost increases.

Our economic energy hedge effectively limits the impact of higher energy prices on the Group's return on equity. Power costs were £90.5 million (79.3%) higher than the previous period although our weighted wholesale average price was about 30% less than the average market wholesale energy price. We benefited from self-generation and favourable energy export in Bioresources, as well as internal hedges between our regulated business (a net consumer of energy) and our non-regulated Green Power business (a net generator).

Bad debt charges decreased by £0.3 million and represented 1.7% of household revenue. Our cash collection in the year was lower as households felt the impact of cost of living increases. However, this impact was not as high as we provided for at the previous year end, leaving the overall charge broadly flat.

Other costs increased by £33.9 million, including £20.5 million higher chemical costs and higher Environment Agency abstraction and discharge consent fees of £3.7 million. The remaining increase was due to higher costs of materials and consumables, fuel and insurance costs.

Infrastructure renewals expenditure was £40.2 million higher in the period, reflecting the planned step up in the programme and activity related to HS2 referred to above.

Depreciation of £400.4 million was £15.4 million higher year on year due to new assets coming into service as part of our Water Framework Directive programme as well as a full year of depreciation on the advanced digestion and biogas-to-grid plants at Finham and Stoke Bardolph.

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 compared to the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2023 and for the three years ended on that date is set out in the following table:

	2022/23 **%**	**AMP7 to date** **%**
Base return	3.9	3.9
Enhanced RoRE reward[1]	–	0.2
ODI outperformance[2]	0.7	1.3
Wholesale totex performance	–	–
Retail cost performance	(0.1)	(0.2)
Financing outperformance[3]	7.7	3.7
Return on Regulatory Equity[4]	**12.2**	**8.9**

.

1 Fast track reward taken over the first two years of AMP7.
2 ODI performance includes in-year ODI reward, PCC and forecast C-MeX and D-MeX outturn.
3 Includes 0.7% for the variance on tax from the benefit of super deduction capital allowances.
4 Calculated in accordance with Ofwat guidance set out in RAG 4.11, which excludes Ofwat's AMP7 tax true-up mechanism.

We have delivered RoRE of 12.2% in the year, outperforming the base return by 8.3% as a result of:

- ODI performance of 0.7%, driven by strong performance across the majority of measures, with c.80% meeting or exceeding regulatory targets;
- Our neutral totex position reflecting good cost control and efficient spend over a challenging year; and
- Financing performance of 7.7%, driven by our AMP7 financing strategy that includes a relatively low level of index-linked debt, and the tax benefit of super deduction capital allowances.

Business Services

	2023 **£m**	2022 £m	Increase/(decrease) £m	%
Turnover				
Operating Services and Other	**98.5**	88.1	**10.4**	**11.8**
Green Power	**78.6**	55.5	**23.1**	**41.6**
	177.1	143.6	**33.5**	**23.3**
EBITDA				
Operating Services and Other	**28.1**	22.5	**5.6**	**24.9**
Green Power	**35.7**	17.5	**18.2**	**104.0**
Property Development	**2.0**	13.2	**(11.2)**	**(84.8)**
	65.8	53.2	**12.6**	**23.7**

Business Services turnover was £177.1 million (up 23.3%) and EBITDA was £65.8 million (up 23.7%).

In our Operating Services and Other businesses, turnover increased by £10.4 million due to increased activity on the MoD and Coal Authority contracts as well as sales growth in our water hygiene business, Aqualytix. EBITDA was £5.6 million higher mainly due to improved margins on these contracts.

In Green Power, turnover increased by £23.1 million, largely due to significantly higher energy prices over the last year which helped offset increased power consumption costs in RWWW, through the Group's natural energy hedge. EBITDA was up £18.2 million due to the higher revenue, partially offset by increased costs of food waste, sileage and haulage as well as a £2.2 million charge for the government energy generator levy in the final quarter of the financial year. We do not expect to incur the levy in FY24 based on latest forecast prices.

Profits from Property Development were £11.2 million lower than the prior year mainly due to timing of significant disposals and delays in the planning process. However, we remain on track for our 15-year plan of £150 million profit by 2032, having generated c.£52 million since setting the target in 2017.

Corporate and other

Corporate costs were £8.7 million (2021/22: £8.2 million) including Directors' bonuses charged to Severn Trent Plc this year rather than Severn Trent Water Limited. Our other businesses generated PBIT of £0.7 million (2021/22: £1.3 million).

Net finance costs

Net finance costs for the year were £93.2 million (34.6%) higher than the prior year at £362.6 million. During the year we issued £1,351 million of new debt at rates consistently below the iBoxx index and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was unchanged at 3.0% (2021/22: 3.0%).

Average net debt was up 6.8% at £6,720.6 million (2021/22: £6,292.2 million), with higher inflation in the year increasing the cost of our index-linked debt by £100.9 million. Our effective interest cost was 6.2% (2021/22: 4.7%).

Capitalised interest of £56.6 million was £22.1 million higher year on year, due to the higher effective interest cost and increased capital work in progress compared to the previous year.

Our earnings before interest, tax, depreciation and amortisation ('EBITDA') interest cover was 2.6 times (2021/22: 3.5 times) and PBIT interest cover was 1.4 times (2021/22: 1.9 times). See note 16 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 £448.4 million floating to fixed, which economically act to hedge exchange rate risk on certain foreign currency borrowings. We also hold cross currency swaps with a sterling principal of £98.3 million, that swap foreign currency fixed interest debt to sterling floating interest rate.

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 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 £35.7 million (2021/22: £51.5 million) in relation to these instruments.

Note 6 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 more than 95% of our estimated wholesale energy usage for 2023/24 through physical hedges with suppliers and natural hedges from the export of self-generated energy.

Share of loss of joint venture

Water Plus's performance continues to improve and it achieved break even in the year. Our share of Water Plus's result for the year was therefore £ - million (2021/22: loss of £2.2 million).

Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, 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.

	2023 £m	2022 £m
Tax incurred:		
Corporation tax	**–**	1.2
Business rates and property taxes	**84.4**	83.4
Employer's National Insurance	**35.3**	30.5
Environmental taxes	**6.6**	6.1
Other taxes	**6.0**	5.9
	132.3	127.1

Further details on the taxes and levies that we pay can be found in our report "Explaining our Tax Contribution 2022/23", 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 was £35.7 million (2021/22: £66.9 million before exceptional taxes) and we made net corporation tax payments of £4.0 million in the year (2021/22: £1.2 million). The difference between the tax charged and the tax paid is summarised below:

	2023 £m	2022 £m
Tax on profit on ordinary activities	**35.7**	66.9
Tax effect of timing differences	**(28.3)**	(50.8)
Impact of deferred tax provided at 25%	**(7.7)**	(15.9)
Overprovisions in previous years	**0.3**	(0.2)
Corporation tax payable for the year	–	–
(Receipts from)/payments to Water Plus re consortium relief	**(6.1)**	1.2
Payments to HMRC for consortium relief disclaimed	**6.1**	–
Payments in respect of prior years	**4.0**	–
Net tax paid in the year	**4.0**	1.2

No tax was paid relating to the year as the allowances available from the super deduction resulted in a loss for tax purposes (2021/22: £1.2 million paid to Water Plus).

Note 7 in the financial statements sets out the tax charges and credits in the year, which are described below.

The current tax charge for the year was £0.2 million, which arose from adjustments to tax provisions from previous years (2021/22: credit of £4.8 million). The deferred tax charge was £35.5 million (2021/22: £71.7 million before the exceptional charge arising from the change of rate).

Our effective tax rate excluding the exceptional deferred tax charge this year was 21.3% (2021/22: 24.4%), which is higher than the UK rate of corporation tax in both years (19%), mainly due to deferred tax on temporary differences arising during the year charged at 25%, partly offset by the permanent difference that arises mainly from the additional 30% deduction included in the super deduction.

Our adjusted effective current tax rate was nil (2021/22: nil%) (see note 16).

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. In the current and previous years, this was enhanced by the super deduction for certain capital expenditure, which gave 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. Accounting standards require that we make a provision for the tax that we would pay in future periods, if the depreciation charge arising on expenditure for which tax relief has already been received is not offset by further tax allowances in those periods. However, the nature of our business, including a significant rolling capital programme and the long lives of our assets, means we do not expect these timing differences to reverse for the foreseeable future, and they may never do so. This is the most significant component of our deferred tax position.

Profit for the year and earnings per share

Total profit for the year was £132.2 million (2021/22 loss: £87.2 million).

Basic earnings per share was 52.7 pence (2021/22: loss of 35.2 pence). Adjusted basic earnings per share was 58.2 pence (2021/22: 96.1 pence). For further details see note 9.

Cash flow

	2023 £m	2022 £m
Operational cashflow	**713.1**	848.9
Cash capex	**(686.6)**	(594.3)
Net interest paid	**(203.5)**	(185.0)
Purchase of subsidiary net of cash acquired	**(0.4)**	–
Net (payments)/receipts for swap terminations	**(11.2)**	5.6
Net tax paid	**(4.0)**	(1.2)
Free cash flow	**(192.6)**	74.0
Dividends	**(261.3)**	(254.5)
Issue of shares	**15.3**	257.2
Purchase of own shares	**(1.8)**	–
Change in net debt from cash flows	**(440.4)**	76.7
Non-cash movements	**(212.3)**	(140.7)
Change in net debt	**(652.7)**	(64.0)
Opening net debt	**(6,507.8)**	(6,443.8)
Closing net debt	**(7,160.5)**	(6,507.8)

	2023 £m	2022 £m
Bank loans	**(713.0)**	(782.5)
Other loans	**(6,474.2)**	(5,823.5)
Lease liabilities	**(110.9)**	(117.4)
Net cash and cash equivalents	**28.7**	107.7
Cross currency swaps	**33.6**	28.3
Loans due from joint ventures	**75.3**	79.6
Net debt	**(7,160.5)**	(6,507.8)

Operational cash flow was £713.1 million (2021/22: £848.9 million). PBIT was broadly flat year on year but higher depreciation and amortisation were more than offset by increased pension contributions and working capital movements.

Net cash capex increased to £686.6 million (2021/22: £594.3 million), reflecting our progress against our £2.9 billion core capital programme.

Our net interest payments of £203.5 million (2021/22: £185.0 million) were higher than the previous year due to the impact of higher net debt, with the effective cash cost of interest (which excludes the non-cash indexation charge on index-linked debt) in line with the previous year.

The benefits of the super deduction capital allowance and the impact of higher interest costs meant that we had no taxable profit in the year and therefore paid no corporation tax in relation to the year. Our net tax payments of £4.4 million related to previous years. In the previous year we paid Water Plus £1.2 million for consortium relief.

We received £13.5 million net from the exercise of options under the employee Save As You Earn share scheme and purchase of shares for other share schemes. In the prior year we received £11.9 million from option exercises and raised net proceeds of £245.3 million from the May 2021 equity placing. Our dividends paid increased in line with our policy to increase by CPIH each year during AMP7.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase in debt of £652.7 million (2021/22: £64.0 million).

At 31 March 2023 we held £28.7 million (2022: £107.7 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2022: 13 years). Including committed facilities, our cash flow requirements are funded until November 2024.

Net debt at 31 March 2023 was £7,160.5 million (2022: £6,507.8 million) and balance sheet gearing (net debt/net debt plus equity) was 88.1% (2022: 83.7%). Regulatory gearing (net debt of our regulated businesses, expressed as a percentage of estimated RCV) was 60.7% at 31 March 2023 (2022: 59.5%). Shadow regulatory gearing was 60.0% (2022: 59.2%).

The estimated fair value of debt at 31 March 2023 was £366.2 million lower than book value (2022: £1,075.8 million higher). The change in the difference between book and fair 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 2023 interest rates for 67% (2022: 66%) of our gross debt of £7,261.2 million were fixed; 5% were floating and 28% 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**	**Severn Trent Water**	**Outlook**
Moody’s	Baa2	Baa1	Stable
Standard and Poor’s	BBB	BBB+	Stable
Fitch	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 valuation for the Severn Trent Pension Scheme (‘STPS’), which is by far the largest of the schemes, was completed as at 31 March 2022. The future funding plan agreed with the Trustee was unchanged from the 2019 valuation (save for inflationary uplifts where applicable) and includes:

- Annual deficit reduction payments to be made until the year ending 31 March 2027, with a forecast[1] payment of c. £40 million in the year ending 31 March 2024, increasing thereafter in line with November CPI;
- Payments under an asset-backed funding arrangement of £8.2 million per annum to 31 March 2032, which will only continue beyond 31 March 2025 if the Scheme’s assets are less than the Scheme’s Technical Provisions; and
- Inflation-linked payments under an asset-backed funding arrangement, with a forecast[1] payment of c.£28 million in the year ending 31 March 2024, 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.

1 *Index-linked payment forecasts based on the Oxford Economics forecast CPI for the twelve month period to November 2023*

In June 2021 we executed a bulk annuity buy-in for the Severn Trent Mirror Image Pension Scheme, which represents around 4% of the Group’s defined benefit liabilities. Under the buy-in, the liabilities of this scheme will be 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 ('DVWS') of the Water Companies Pension Scheme. DVWS funds are administered by trustees and 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. In March 2023, the DVWS also entered into a bulk annuity buy-in insurance policy that covers the majority of the scheme obligations.

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 £279.4 million (2022: £128.0 million). Calculation of the pension deficit for accounting purposes uses 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 decreased to 86% (31 March 2022: 95%).

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	2,659.4	(2,787.4)	(128.0)
Amounts credited/(charged) to income statement	74.3	(74.0)	0.3
Actuarial gains/(losses) taken to reserves	(922.0)	669.8	(252.2)
Net contributions received and benefits paid	(26.4)	126.9	100.5
At end of the period	**1,785.3**	**(2,064.7)**	**(279.4)**

The income statement includes:

- Current service costs of £0.1 million on the DVWS, which remains open to further accrual but is closed to new members;
- A past service credit of £8.3 million following a change in the STPS's rules to allow members to take a higher initial pension on retirement in exchange for a lower pension from state pension age;
- Scheme administration costs of £4.3 million; and
- Interest on scheme liabilities and expected return on the scheme assets – together a net cost of £3.6 million.

Higher interest rate expectations increased the discount rate, which is derived from yields on high quality corporate bonds, by 200bps. Inflation expectations decreased by around 30bps since the previous year end. The impacts of these changes resulted in a net decrease in the scheme liabilities of around £745 million.

Changes to demographic assumptions to align with the 2022 funding valuation increased scheme liabilities by around £30 million. This was partly offset by an update to the most recent CMI data tables and also a weighting to allow for higher mortality experienced in 2021.

The actual outturn in the year for inflation and other assumptions increased scheme liabilities by £58.7 million.

Higher bond yields impacted the value of scheme assets, which decreased in value by £922.0 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 (£26.9 million); and
- A deficit reduction payment of £34.7 million that was deferred from March 2022 to April 2022 and the payment due for the year ended 31 March 2023 of £37.8 million.

There were also contributions of £0.2 million to the DVWS, a payment of £0.4 million for MIPS running costs and payments of benefits under the unfunded scheme amounting to £0.5 million.

Dividends

In line with our policy for AMP7 to increase the dividend by at least CPIH each year, the Board has proposed a final ordinary dividend of 64.09 pence per share for 2022/23 (2021/22: 61.28 pence per share). This gives a total ordinary dividend for the year of 106.82 pence (2021/22: 102.14 pence).

The final ordinary dividend is payable on 14 July 2023 to shareholders on the register at 2 June 2023.

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.

Customer Service and Experience:

- We do not meet the needs of our customers or anticipate changing societal expectations through the level of customer service we provide.

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.

Outlook

Earnings: We anticipate strong earnings per share growth in 2023/24 as a result of a 15-20% reduction in interest charge. We expect a further step up in 2024/25 as lower energy costs and inflation-linked tariff increases flow through to operational earnings.

Returns: We expect to deliver a strong average Return on Regulatory Equity ('RoRE') for AMP7, driven by both operational and financial outperformance.

We are confident we can continue to deliver sector-leading operational performance, including end-of-AMP ODIs expected to contribute £40-50 million on top of in-year net rewards for the last year of the AMP.

Over the course of AMP7 we expect higher energy costs to impact average RoRE by around 0.7 percentage points[1], but this will be offset by higher Green Power income to give a broadly neutral impact on the Group's Return on Equity.

RCV[2]: Group RCV has grown by 23% since the beginning of AMP7 and is expected to grow by 36% over the five-year period, benefitting from our large investment programme, and including recent inflation forecasts.

[1] Based on performance to date, hedged position for 2023/24 and latest energy forecasts for 2024/25
[2] RCV: Regulatory Capital Value. RCV is measured including additions from Green Recovery and real options. Nominal RCV assumes forecast CPIH of 2.5% for 2023/24, and 1.5% for 2024/25 and forecast RPI of 4.2% for 2023/24 and 2.1% for 2024/25 as per Oxford Economics April 2023 forecast

Technical Guidance 2023/24

Year-end guidance		**FY23**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover	£2.15 billion to £2.20 billion.	£2.00bn	▲
Operating costs	Higher year on year, reflecting an increase in power costs, pay inflation and a step up in Green Recovery expenditure.	£889m	▲
Infrastructure renewals expenditure ('IRE')	Marginally higher year on year due to HS2 activity, which is broadly offset in turnover.	£238m	▲
ODIs[1]	Continued outperformance on increasingly stretching targets, delivering a net reward of at least £50 million.	£53m	↔
Business Services			
EBITDA (excl. Property)	Lower year on year due to the impact of the lower energy prices on revenue in Green Power.	£64m	▼
Property profit	£5 million to £10 million.	£2m	▲
Group			
Interest charge	15-20% lower year on year based on latest inflation[2] and interest rate forecasts.	£363m	▼
Adjusted effective current tax rate[3]	Nil due to accelerated capital allowances on our capital investment programme.	0.0%	↔
Capital investment	Continued step up in our investment programme delivering capital investment between £850 million and £1 billion.	£737m	▲
Dividend[4]	2023/24 dividend of 116.84 pence, in line with our policy of annual growth by CPIH.	106.82p	▲

Footnotes to Technical Guidance

1. Customer 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
2. Based on Oxford Economics April inflation forecast. Index-linked debt comprising around a quarter of our total debt
3. Total effective tax rate is expected to be c.25%. This includes both current and deferred tax charges
4. 2023/24 dividend growth rate based on November 2022 CPIH of 9.38%

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)	1 June 2023
Dividend record date (Final)	2 June 2023
DRIP election date (Final)	23 June 2023
AGM	6 July 2023
Final dividend payment date	14 July 2023
Q1 trading statement	19 July 2023
Capital Markets Day	12 October 2023
Interim results announcement	22 November 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 2023

	Note	2023 £m	2022 £m
Turnover	3	**2,165.1**	1,943.3
Other income		**–**	5.3
Operating costs before charge for bad and doubtful debts		**(1,631.8)**	(1,417.8)
Charge for bad and doubtful debts		**(24.5)**	(24.6)
Total operating costs		**(1,656.3)**	(1,442.4)
Profit before interest and tax		**508.8**	506.2
Finance income	4	**84.1**	54.7
Finance costs	5	**(446.7)**	(324.1)
Net finance costs		**(362.6)**	(269.4)
Reduction in expected credit loss on loan receivable		**–**	0.2
Net gains on financial instruments	6	**21.7**	39.3
Share of net gain/(loss) of joint ventures accounted for using the equity method	10	**–**	(2.2)
Profit on ordinary activities before taxation		**167.9**	274.1
Current tax	7	**(0.2)**	4.8
Deferred tax	7	**(35.5)**	(366.1)
Taxation on profit on ordinary activities	7	**(35.7)**	(361.3)
Profit/(loss) for the year		**132.2**	(87.2)

Earnings/(loss) per share (pence)

	Note	2023	2022
Basic	9	**52.7**	(35.2)
Diluted	9	**52.5**	(35.2)

Consolidated statement of comprehensive income
For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Profit/(loss) for the year		**132.2**	(87.2)
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	11	**(252.2)**	188.5
Deferred tax on net actuarial losses/gains	7	**63.0**	(47.1)
Deferred tax arising on rate change	7	**–**	8.4
		(189.2)	149.8
Items that may be reclassified to the income statement:			
(Loss)/gain on cash flow hedges		**(2.5)**	54.6
Deferred tax on losses/gains on cash flow hedges	7	**0.6**	(13.0)
Amounts on cash flow hedges transferred to the income statement	6	**4.9**	6.8
Deferred tax on transfer to the income statement	7	**(1.1)**	(1.7)
		1.9	46.7
Other comprehensive (loss)/income for the year		**(187.3)**	196.5
Total comprehensive (loss)/income for the year		**(55.1)**	109.3

Consolidated statement of changes in equity

For the year ended 31 March 2023

		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 2021		237.2	148.1	101.7	651.7	1,138.7
Loss for the year		–	–	–	(87.2)	(87.2)
Net actuarial gains	11	–	–	–	188.5	188.5
Deferred tax on net actuarial gains		–	–	–	(47.1)	(47.1)
Deferred tax arising from rate change		–	–	–	8.4	8.4
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	6	–	–	6.8	–	6.8
Deferred tax on transfer to the income statement		–	–	(1.7)	–	(1.7)
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						
- value of employees' services		0.7	11.2	–	–	11.9
- own shares purchased		–	–	–	8.3	8.3
Share buy back		–	–	–	4.9	4.9
Dividends paid	8	–	–	–	(254.5)	(254.5)
At 1 April 2022		248.1	394.4	148.4	473.0	1,263.9
Profit for the year		–	–	–	132.2	132.2
Net actuarial losses	11	–	–	–	(252.2)	(252.2)
Deferred tax on net actuarial losses		–	–	–	63.0	63.0
Loss on cash flow hedges		–	–	(2.5)	–	(2.5)
Deferred tax on losses on cash flow hedges		–	–	0.6	–	0.6
Amounts on cash flow hedges transferred to the income statement	6	–	–	4.9	–	4.9
Deferred tax on transfer to the income statement		–	–	(1.1)	–	(1.1)
Total comprehensive loss for the year		–	–	1.9	(57.0)	(55.1)
Share options and LTIPs						
- proceeds from shares issued		1.0	14.3	–	–	15.3
- value of employees' services		–	–	–	9.5	9.5
- own shares purchased		–	–	–	(1.8)	(1.8)
Deferred tax on share based payments		–	–	–	0.1	0.1
Dividends paid	8	–	–	–	(261.3)	(261.3)
At 31 March 2023		**249.1**	**408.7**	**150.3**	**162.5**	**970.6**

Consolidated balance sheet
At 31 March 2023

	Note	31 March 2023 £m	31 March 2022 £m
Non-current assets			
Goodwill		**92.7**	91.4
Other intangible assets		**185.9**	179.6
Property, plant and equipment		**10,716.9**	10,208.4
Right-of-use assets		**129.3**	129.9
Investment in joint venture	10	**16.5**	16.5
Derivative financial instruments		**82.3**	31.2
Trade and other receivables		**88.4**	92.1
Retirement benefit surplus	11	**5.7**	17.5
		11,317.7	10,766.6
Current assets			
Inventory		**35.4**	32.0
Trade and other receivables		**750.9**	606.4
Current tax receivable		**9.9**	6.2
Derivative financial instruments		**0.5**	27.6
Cash and cash equivalents		**34.2**	115.4
		830.9	787.6
Current liabilities			
Borrowings		**(317.4)**	(365.2)
Trade and other payables		**(720.4)**	(655.5)
Provisions for liabilities		**(52.4)**	(38.4)
		(1,090.2)	(1,059.1)
Net current liabilities		**(259.3)**	(271.5)
Total assets less current liabilities		**11,058.4**	10,495.1
Non-current liabilities			
Borrowings		**(6,986.2)**	(6,365.9)
Derivative financial instruments		**(11.3)**	(43.3)
Trade and other payables		**(1,479.6)**	(1,334.0)
Deferred tax		**(1,293.5)**	(1,320.6)
Retirement benefit obligations	11	**(285.1)**	(145.5)
Provisions for liabilities		**(32.1)**	(21.9)
		(10,087.8)	(9,231.2)
Net assets		**970.6**	1,263.9
Equity			
Called up share capital		**249.1**	248.1
Share premium account		**408.7**	394.4
Other reserves		**150.3**	148.4
Retained earnings		**162.5**	473.0
Total equity		**970.6**	1,263.9

Consolidated cash flow statement
For the year ended 31 March 2023

	Note	**2023** **£m**	2022 £m
Cash generated from operations	12	**753.3**	891.7
Tax received	12	**6.1**	–
Tax paid	12	**(10.1)**	(1.2)
Net cash generated from operating activities		**749.3**	890.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**(0.4)**	–
Purchases of property, plant and equipment		**(699.7)**	(610.3)
Purchases of intangible assets		**(40.0)**	(36.3)
Proceeds on disposal of property, plant and equipment		**12.9**	9.5
Loans repaid by joint venture		**5.5**	–
Loans advanced to joint ventures		–	(13.0)
Interest received		**5.5**	1.9
Net cash outflow from investing activities		**(716.2)**	(648.2)
Interest paid		**(205.3)**	(182.9)
Interest element of lease payments		**(3.7)**	(4.0)
Dividends paid to shareholders of the parent		**(261.3)**	(254.5)
Repayments of borrowings		**(982.4)**	(488.9)
Principal elements of lease payments		**(13.1)**	(12.1)
New loans raised		**1,351.4**	501.0
Issues of shares net of costs		**15.3**	257.2
Proceeds from swap terminations		–	5.6
Payments from swap terminations		**(11.2)**	–
Purchase of own shares		**(1.8)**	–
Net cash outflow from financing activities		**(112.1)**	(178.6)
Net movement in cash and cash equivalents		**(79.0)**	63.7
Net cash and cash equivalents at the beginning of the year		**107.7**	44.0
Net cash and cash equivalents at the end of the year		**28.7**	107.7
Cash at bank and in hand		**34.2**	40.4
Bank overdrafts		**(5.5)**	(7.7)
Short term deposits		**–**	75.0
		28.7	107.7

Notes to the financial statements

1. General information

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 November 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 2023 or 2022, 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 2022 have been delivered to the Registrar of Companies and those for 2023 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 activities of Severn Trent Water Limited, except hydro-electric generation and property sales, and Hafren Dyfrdwy Cyfyngedig.

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

The Severn Trent Executive Committee ('STEC') is 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 our joint venture are not included in the segmental reports reviewed by STEC.

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:

	2023		2022	
	Regulated Water and Waste Water	Business Services	Regulated Water and Waste Water	Business Services
	£m	£m	£m	£m
External turnover	**1,995.0**	**170.1**	1,803.9	139.4
Inter-segment turnover	**0.4**	**7.0**	0.5	4.2
Total turnover	**1,995.4**	**177.1**	1,804.4	143.6
Profit before interest and tax	**467.5**	**49.2**	476.3	36.4

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

	2023	2022
	£m	£m
Regulated Water and Waste Water	**1,995.4**	1,804.4
Business Services	**177.1**	143.6
Corporate and other	**1.1**	1.1
Consolidation adjustments	**(8.5)**	(5.8)
	2,165.1	1,943.3

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

	2023	2022
	£m	£m
Regulated Water and Waste Water	**467.5**	476.3
Business Services	**49.2**	36.4
Corporate and other	**(8.0)**	(6.9)
Consolidation adjustments	**0.1**	0.4
PBIT	**508.8**	506.2
Net finance costs	**(362.6)**	(269.4)
Reduction in expected credit loss on loan receivable	**–**	0.2
Net gains on financial instruments	**21.7**	39.3
Share of net gain/(loss) of joint ventures accounted for using the equity method	**–**	(2.2)
Profit on ordinary activities before taxation	**167.9**	274.1

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:

	2023 Regulated Water and Waste Water £m	2023 Business Services £m	2022 Regulated Water and Waste Water £m	2022 Business Services £m
Operating assets	**11,498.4**	**349.5**	10,869.7	337.4
Goodwill	**63.5**	**30.5**	63.5	29.2
Segment assets	**11,561.9**	**380.0**	10,933.2	366.6
Segment operating liabilities	**(2,507.4)**	**(33.3)**	(2,158.8)	(29.6)
Capital employed	**9,054.5**	**346.7**	8,774.4	337.0

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 2023

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,932.9	–	–	(0.4)	1,932.5
Operating services	–	84.7	–	–	84.7
Renewable energy	57.2	78.6	–	(7.0)	128.8
Other sales	5.3	13.8	1.1	(1.1)	19.1
	1,995.4	**177.1**	**1.1**	**(8.5)**	**2,165.1**

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	1,767.5	–	–	(0.5)	1,767.0
Operating services	–	74.4	–	–	74.4
Renewable energy	32.8	55.5	–	(4.2)	84.1
Other sales	4.1	13.7	1.1	(1.1)	17.8
	1,804.4	143.6	1.1	(5.8)	1,943.3

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.

Payments received from water and waste water customers in advance of the service period represents a contract liability. Changes in the Group's contract liabilities from payments received in advance were as follows:

	2023 £m	2022 £m
Contract liability at 1 April	**144.8**	132.5
Revenue recognised	**(1,394.9)**	(1,291.1)
Cash received in advance	**1,396.6**	1,303.4
Contract liability at 31 March	**146.5**	144.8

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. The estimated transaction price has increased from 31 March 2022 as a result of increased inflation and consumption. At 31 March 2023 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £372.5 million (2022: £396.3 million). This amount is expected to be recognised as revenue as follows:

	2023	2022
	£m	£m
In the next year	**52.1**	49.0
Between one and five years	**212.3**	197.4
After more than five years	**108.1**	149.9
	372.5	396.3

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

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

	2023	2022
	£m	£m
Contract asset at 1 April	**39.9**	38.2
Amounts billed	**(52.6)**	(49.9)
Revenue recognised	**57.0**	51.6
Contract asset at 31 March	**44.3**	39.9

4. Finance income

	2023	2022
	£m	£m
Interest income earned on bank deposits	**3.3**	0.1
Other financial income	**2.2**	1.8
Total interest receivable	**5.5**	1.9
Interest income on defined benefit scheme assets	**78.6**	52.8
	84.1	54.7

5. Finance costs

	2023	2022
	£m	£m
Interest expense charged on:		
Bank loans and overdrafts	**30.9**	14.7
Other loans	**328.6**	243.5
Lease liabilities	**3.7**	4.0
Total borrowing costs	**363.2**	262.2
Other financial expenses	**1.3**	2.4
Interest cost on defined benefit scheme liabilities	**82.2**	59.5
	446.7	324.1

6. Net gains on financial instruments

	2023	2022
	£m	£m
Loss on swaps used as hedging instruments in fair value hedges	**(1.3)**	(1.0)
(Loss)/gain arising on debt in fair value hedges	**(0.3)**	1.6
Exchange loss on other loans	**(7.4)**	(6.6)
Net loss on cash flow hedges transferred from equity	**(4.9)**	(6.8)
Hedge ineffectiveness on cash flow hedges	**(1.3)**	(0.6)
Gain arising on swaps where hedge accounting is not applied	**35.7**	51.5
Amortisation of fair value adjustment on debt	**1.2**	1.2
	21.7	39.3

7. Tax

	2023	2022
	£m	£m
Current tax		
Current year at 19% (2022: 19%)	**–**	–
Prior years	**0.2**	(4.8)
Total current tax charge/(credit)	**0.2**	(4.8)
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**36.0**	66.7
Prior years	**(0.5)**	5.0
Exceptional charge on rate change	**–**	294.4
Total deferred tax charge	**35.5**	366.1
	35.7	361.3

8. Dividends

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

	2023		2022	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2022 (2021)	**61.28**	**153.9**	60.95	152.2
Interim dividend for the year ended 31 March 2023 (2022)	**42.73**	**107.4**	40.86	102.3
Total dividends paid	**104.01**	**261.3**	101.81	254.5
Proposed final dividend for the year ended 31 March 2023	**64.09**	**163.1**		

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.

9. Earnings/(loss) 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

	2023	2022
	£m	£m
Profit/(loss) for the period	**132.2**	(87.2)

ii) Number of shares

	2023	2022
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**250.8**	247.9
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**1.1**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**251.9**	247.9

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

	2023	2022
	pence	pence
Adjusted basic earnings per share	**58.2**	96.1
Adjusted diluted earnings per share	**58.0**	95.6

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of net gains/losses on financial instruments, current tax on net gains/losses on financial instruments, and deferred tax in both 2023 and 2022. The Directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and adjusted diluted earnings per share are the same as those used in the unadjusted figures set out above except that the number of ordinary shares for the purpose of the adjusted diluted earnings per share for the period ended 31 March 2022 is 249.3 million as this includes 1.4 million dilutive potential ordinary shares from share options and LTIPs.

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

	2023	2022
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**132.2**	(87.2)
Adjustments for:		
- net gains on financial instruments	**(21.7)**	(39.3)
- current tax on net gains on financial instruments	**–**	(1.4)
- deferred tax	**35.5**	366.1
Earnings for the purpose of adjusted basic and diluted earnings per share	**146.0**	238.2

The comparative earnings for the purpose of adjusted basic and diluted earnings per share excluded an amount relating to amortisation of acquired intangibles. We have restated this comparative measure to include the effect of amortisation of acquired intangibles so that it is calculated on a consistent basis with the current year.

10. Interest in joint venture

Our principal joint venture undertaking at 31 March 2023 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:

	2023	2022
	£m	£m
Carrying value of joint venture investment at 1 April	**16.5**	–
Reclassification on subscription for equity	**–**	18.7
Group's share of result after tax and comprehensive loss	**–**	(2.2)
Carrying value of joint venture investment at 31 March	**16.5**	16.5

During the current year, Water Plus broke even (2022: loss of £4.4m).

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.

11. 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 2022. 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.

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. In March 2023, the Group also completed a bulk annuity buy-in for the Dee Valley Water Scheme ('DVWS').

The assumptions used in calculating the defined benefit obligations as at 31 March 2023 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

		2023 **%**	2022 %
Price inflation - RPI		**3.3**	3.6
Price inflation - CPI	Pre 2030:	**2.3**	2.6
	Post 2030:	**3.2**	3.5
Discount rate		**4.8**	2.8
Pension increases in payment		**3.3**	3.6
Pension increases in deferment		**3.3**	3.6
Remaining life expectancy for members currently aged 60 (years)			
- men		**25.8**	26.5
- women		**28.6**	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)			
- men		**26.9**	27.6
- women		**29.8**	29.7

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 £26 million
Price inflation	Increase/decrease by 0.1% pa	Increase/decrease by £21 million
Mortality	Increase in life expectancy by 1 year	Increase by £72 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 2023. 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 **£m**	**Defined benefit obligations** **£m**	**Net deficit** **£m**
At 31 March 2022	2,659.4	(2,787.4)	(128.0)
Current service cost	–	(0.1)	(0.1)
Past service credit	–	8.3	8.3
Scheme administration costs	(4.3)	–	(4.3)
Interest income/(cost)	78.6	(82.2)	(3.6)
Actuarial (losses)/gains recognised in the statement of comprehensive income	(922.0)	669.8	252.2
Contributions from the sponsoring companies	100.5	–	100.5
Employees' contributions and benefits paid	(126.9)	126.9	–
At 31 March 2023	**1,785.3**	**(2,064.7)**	**(279.4)**

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

	2023 £m	2022 £m
Retirement benefit surplus	**5.7**	17.5
Retirement benefit obligations	**(285.1)**	(145.5)
	(279.4)	(128.0)

12. Cash flow

a) Reconciliation of operating profit to operating cash flows

	2023 £m	2022 £m
Profit before interest and tax	**508.8**	506.2
Depreciation of property, plant and equipment	**379.7**	361.5
Depreciation of right-of-use assets	**3.9**	3.8
Amortisation of intangible assets	**33.7**	36.3
Pension service (credit)/cost	**(8.2)**	0.2
Defined benefit pension scheme administration costs	**4.3**	3.8
Defined benefit pension scheme contributions	**(100.5)**	(61.9)
Share based payment charge	**9.5**	8.3
Profit on sale of property, plant and equipment and intangible assets	**(2.2)**	(5.4)
Release from deferred credits	**(16.4)**	(17.5)
Contributions and grants received	**40.2**	42.8
Provisions charged to the income statement	**7.1**	14.8
Utilisation of provisions for liabilities	**(17.3)**	(12.3)
Operating cash flows before movements in working capital	**842.6**	880.6
Increase in inventory	**(3.4)**	(1.2)
Increase in amounts receivable	**(146.2)**	(87.6)
Increase in amounts payable	**60.3**	99.9
Cash generated from operations	**753.3**	891.7
Tax received	**6.1**	–
Tax paid	**(10.1)**	(1.2)
Net cash generated from operating activities	**749.3**	890.5

b) Non-cash transactions

Non-cash additions to right-of-use assets during the year were £3.0 million (2022: £4.2 million). Assets transferred from developers at no cost were recognised at their fair value of £105.0 million (2022: £69.0 million) and provisions of £34.2 million (2022: £15.3 million) for works in response to legally enforceable undertakings to regulators were recognised as additions to property, plant and equipment. Under the LTIP 226,429 (2022: 230,003) shares were issued to employees for no cash consideration.

c) Reconciliation of movement in cash and cash equivalents to movement 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 2022	107.7	(782.5)	(5,823.5)	(117.4)	28.3	79.6	(6,507.8)
Cash flow	(79.0)	83.7	(452.7)	13.1	–	(5.5)	(440.4)
Fair value adjustments	–	–	0.9	–	–	–	0.9
Inflation uplift on index-linked debt	–	(13.5)	(193.9)	–	–	–	(207.4)
Foreign exchange	–	–	(7.4)	–	–	–	(7.4)
Other non-cash movements	–	(0.7)	2.4	(6.6)	5.3	1.2	1.6
At 31 March 2023	**28.7**	**(713.0)**	**(6,474.2)**	**(110.9)**	**33.6**	**75.3**	**(7,160.5)**

13. Post balance sheet events

Dividends

Following the year end the Board of Directors has proposed a final dividend of 64.09 pence per share.

14. Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2022: 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 is scheduled to be held in November 2023.

c) Ongoing combined sewer overflow investigations

Ofwat and the Environment Agency are each conducting their own investigations into the waste water industry, to investigate compliance with the conditions of environmental permits. Ofwat has launched specific enforcement investigations against six sewerage companies, but Severn Trent is not included in those cases. The Environment Agency's investigation of all English sewerage companies is continuing and it is not yet clear what the outcome of those investigations will be. We have responded quickly and comprehensively to all questions from the regulators and have had open conversations with them on the issues under investigation.

15. 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.

	2023 £m	2022 £m
Sale of services	**259.5**	259.8
Net interest income	**3.9**	2.5
	263.4	262.3

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

	2023 £m	2022 £m
Amounts due to related parties	**–**	(0.2)
Trade and other receivables due from related parties	**0.2**	–
Loans receivable from joint ventures	**75.3**	79.6
	75.5	79.4

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 11.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year, and non-executive directors of the Company.

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

	2023 £m	2022 £m
Short term employee benefits	**4.6**	5.7
Short term non-executive director benefits	**0.9**	0.7
Share based payments	**5.4**	6.6
	10.9	13.0

16. 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. There were no exceptional items in the years ended 31 March 2023 or 2022.

b) Adjusted earnings per share

Adjusted earnings per share figures exclude net gains/losses on financial instruments, current tax on net gains/losses on financial instruments 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 9.

c) 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 12.

d) 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.

	2023	2022
	£m	£m
Net finance costs	**362.6**	269.4
Net finance costs from pensions	**(3.6)**	(6.7)
Capitalised finance costs	**56.6**	34.5
	415.6	297.2
Average net debt	**6,720.6**	6,292.2
Effective interest cost	**6.2%**	4.7%

This APM is used as it shows the average interest rate that is attributable to the net debt of the business.

e) Effective cash cost of interest

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

	2023	2022
	£m	£m
Net finance costs	**362.6**	269.4
Net finance costs from pensions	**(3.6)**	(6.7)
Indexation adjustments	**(215.7)**	(106.5)
Capitalised finance costs	**56.6**	34.5
	199.9	190.7
Average net debt	**6,720.6**	6,292.2
Effective cash cost of interest	**3.0%**	3.0%

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

f) PBIT interest cover

The ratio of PBIT to net finance costs excluding net finance costs from pensions.

	2023	2022
	£m	£m
PBIT	**508.8**	506.2
Net finance costs	**362.6**	269.4
Net finance costs from pensions	**(3.6)**	(6.7)
Net finance costs excluding net finance costs from pensions	**359.0**	262.7
	Ratio	Ratio
PBIT interest cover ratio	**1.4**	1.9

This is used to show how the PBIT of the business covers the financing costs associated only with net debt on a consistent basis. In previous years we have reported adjusted PBIT interest cover.

g) EBITDA and EBITDA interest cover

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

	2023 £m	2022 £m
PBIT	**508.8**	506.2
Depreciation (including right-of-use assets)	**383.6**	365.3
Amortisation	**33.7**	36.3
EBITDA	**926.1**	907.8
Net finance costs	**362.6**	269.4
Net finance costs from pensions	**(3.6)**	(6.7)
Net finance costs excluding finance costs from pensions	**359.0**	262.7
EBITDA interest cover ratio	**2.6**	3.5

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

h) Adjusted effective current tax rate

The current tax charge for the year on continuing operations, excluding prior year charges, and current tax on financial instruments, divided by profit from continuing operations before tax, net losses/gains on financial instruments, and share of net (profit)/loss of joint ventures accounted for using the equity method.

	2023 £m	2023 Current tax thereon £m	2022 £m	2022 Current tax thereon £m
Profit before tax	**167.9**	**–**	274.1	–
Adjustments				
Share of net (profit)/loss of joint venture	**–**	**–**	2.2	–
Net gains on financial instruments	**(21.7)**	**–**	(39.3)	–
	146.2	**–**	237.0	–
Adjusted effective current tax rate		**0.0%**		0.0%

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 9. Share of net (profit)/loss of joint ventures is excluded from the calculation because the (profit)/loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

i) Operational cash flow

Cash generated from operations less contributions and grants received.

	2023 £m	2022 £m
Cash generated from operations	**753.3**	891.7
Contributions and grants received	**(40.2)**	(42.8)
Operational cashflow	**713.1**	848.9

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

j) 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.

	2023	2022
	£m	£m
Purchase of property, plant and equipment	**699.7**	610.3
Purchase of intangible assets	**40.0**	36.3
Contributions and grants received	**(40.2)**	(42.8)
Proceeds on disposal of property, plant and equipment	**(12.9)**	(9.5)
Cash capex	**686.6**	594.3

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

k) 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.

	2023	2022
	£m	£m
Additions to property, plant and equipment	**898.9**	714.3
Additions to intangible assets	**40.0**	36.3
Contributions and grants received	**(40.2)**	(42.8)
Assets contributed at no cost	**(105.0)**	(69.0)
Capitalised finance costs	**(56.6)**	(34.5)
Capital investment	**737.1**	604.3

Includes £34.2 million (2022: £15.3 million) of provisions for future capital expenditure arising from regulatory obligations (See note 12).

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

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

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

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

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

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

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

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.

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

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. This document speaks as at the date of publication. Save as required by applicable laws and regulations, Severn Trent does not intend to update any forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

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

This document is not an offer to sell, exchange or transfer any securities of Severn Trent Plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the United States absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).