Half Yearly Financial Report
22 November 2023
Interim results for the six months to 30 September 2023

SEVERN TRENT

Delivering now, very well placed for the future

Continuing to deliver a strong performance for all stakeholders

- Achieved highest 4* EPA[1] status from the Environment Agency for a record fourth consecutive year, and on track for a fifth year for 2023.
- 80% of Severn Trent Water's performance commitments on or ahead of target, including best ever performance on leakage and blockages, and confident of delivering at least £50m in ODI[2] rewards this year, which would bring us to a total of over £250m earned cumulatively in AMP7[3].
- On track to outperform against end-of-AMP ODIs, with £40m-£50m additional reward expected to be recognised on top of year 5 ODI performance.
- Largest ever year of capital investment, spending c. £1bn on our network, which includes around £200m on our Green Recovery programme; £477m capital investment in first six months, up 77% on H1 of 2022-23.
- Expanded our societal strategy to a third location, Coventry, as part of our commitment to help support 100,000 people out of poverty by 2032.
- Highest ever engagement score with November 2023 results in the top 3% of utilities globally.

Interim financial results in line with expectations

- No changes to full year guidance; continue to expect adjusted EPS[4] growth for the full year, after including the additional 46.5m shares issued in October, with financing costs expected to be lower in the next six months.
- PBIT[5] marginally lower year on year primarily due to the expected impact of higher energy and chemical prices, which were weighted to the second half in the previous year.
- Shadow RCV Gearing[6] is 60.6%, compared to 60.0% at 31 March 2023.

Group Results	30 September 2023	30 September 2022
Revenue	£1,165.3m	£1,061.8m
PBIT	£255.1m	£261.7m
EPS	20.5p	31.4p
Adjusted EPS	29.7p	29.9p
Interim dividend per ordinary share	46.74p	42.73p
Capital Investment	£476.9m	£269.7m

Ambitious plans for upcoming scale investment in our region

- Raised £1bn new equity after the half year for the unprecedented investment programme in AMP8, with PR24 plan including 31% real RCV[7] growth.
- Plans submitted to regulator include:
    - £12.9bn totex, including £5bn of enhancement projects to benefit customers and the environment;
    - Investing in rivers, long term water security and achieving Net Zero by 2030; and
    - Forecasting to be around Upper Quartile on 72% of ODIs, including sector-leading ambitions on storm overflow spills and external sewer flooding.
- Deliverability underpinned by current capital run rate, early engagement with the supply chain, with over £1bn already notionally allocated, and new innovative approaches to deliver assets up to 30% faster.
- Accelerating £400m of capital spend from AMP8 to deliver benefits to customers and our environment sooner.
- Expect to maintain second lowest bill in the sector by 2030 and launching £550m affordability package to support 693,000 customers with their bill; representing support for around one in six families in our region.

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

"Our team has delivered for customers with a sector leading performance over the last six months, driven by a £500 million investment in the Midlands. We're doing more than ever, whether it's protecting the environment where we're on track to achieve the highest 4 status from the Environment Agency for a record fifth consecutive year, operationally – delivering our best ever performance reducing leakage and blockages, and in our community where 100,000 people are being supported out of poverty.*

"We're delivering for customers today, and also preparing for the future. We have set out plans to invest £12.9bn from 2025, the equivalent of £2,400 per household. These plans will bring huge benefits to nature including healthier rivers, 7,000 jobs to our region through new roles, insourcing and in the supply chain, as well as a financial support package to help around one in six families navigate cost-of-living pressures. We're hugely excited about the economic, environmental and societal benefits this will bring to the Midlands for decades to come."

Footnotes to page 1 of this RNS

1. EPA: Environmental Performance Assessment ('EPA') status is assessed each calendar year.
2. ODIs: Outcome Delivery Incentives, quoted pre-tax and in 2017/18 prices unless otherwise stated.
3. AMP: Asset Management Plan (see glossary); AMP7 refers to the period 1 April 2020 to 31 March 2025, and AMP8 refers to the period 1 April 2025 to 31 March 2030.
4. EPS: Earnings Per Share; Adjusted basic EPS is set out in note 8.
5. PBIT: Profit before interest and tax.
6. Refers to shadow regulatory gearing based on shadow RCV which includes our Green Recovery programme. The comparative figure for the period ended 30 September 2022 is 58.1%. Regulatory gearing on our reported RCV is 61.8%.
7. RCV: Regulatory Capital Value (see glossary). 31% real RCV growth includes £400m of transition expenditure relating to AMP8 but expected to be delivered in years 4 and 5 of AMP7.

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Interim Results Presentation and Q&A

A presentation of these results hosted by Liv Garfield, CEO, and Helen Miles, CFO, will be available on our website (severntrent.com) from 7.00am GMT today, 22 November 2023.

We will be hosting a live Q&A session with Liv, Helen and our wider Executive team at 9:00am GMT today via video call which you can register for through our website.

Chief Executive's Review

As we head into the final 18 months of this regulatory cycle, we're fully focused on finishing AMP7 strongly and maintaining our position as sector leaders. We have managed some extraordinary pressures already in AMP7, including extreme weather, unprecedented energy prices and broader macroeconomic uncertainty, while maintaining a cumulative RoRE performance of 8.9% in the first three years. We are well-placed to exit the AMP strongly, delivering our remaining commitments while preparing ourselves for the biggest investment programme in our history.

We remain on track with 80% of our performance commitments so far this year, and are showing year-on-year improvement on the measures that matter most to our customers, including leakage, serious pollution incidents, and water quality contacts. And on top of that we're continuing to lead the sector on the environment, whether that's our record on EPA 4* status, our focus on reducing RNAGS, or our commitment to Biodiversity improvements, ensuring we protect our region for the long term.

The business plan we submitted at the beginning of October for the next regulatory period marks an evolution of the industry, delivering a further step change in service for our customers and our impact on the environment, and we're confident in the robustness of our plan across the three areas most important to Ofwat:

- Financeability – we've moved early to ensure that our plan is financeable, raising £1 billion of equity to help fund proposed real RCV growth of 31% in Severn Trent and 35% in Hafren Dyfrdwy;
- Deliverability – we've already ramped up our capital spend to deliver this growth, for a smooth glide path into AMP8;
- Affordability – while customers will be getting the best service they've ever had, we're also going to give them more help than ever before with an affordability package that is sufficient to support every customer in water poverty in our region, so that no one is left unable to pay their bills.

But we're not waiting for AMP8 to make a difference. We're making the right investments now, with at least £400 million of expenditure accelerated into AMP7 to get a head start on our targets and enhance our current performance. That includes stepping up investment into CSOs to get spill numbers down as soon as possible, as well as transitioning over to Kraken – a global leading Customer Relationship Management system which will support our water resources plans and transform our customer service.

Six months into year four, I'm pleased with our performance levels as we continue to improve service on the measures that matter most to customers. We're committed to finishing this AMP strongly, continuing to build our track record as a sector leader on operational outperformance, and preparing for an exciting period of growth for our company over the next AMP.

Demonstrating operational and environmental leadership

We currently have 80% of performance commitments on track, and through delivering for our customers on these metrics we continue to expect to unlock at least £50 million of ODI rewards this year. At the same time, we're also focused on improving the measures that are behind target, as well as exploring ways of delivering even greater outperformance on the commitments that we're performing well on. Forecasts included in our business plan for the end of AMP8 put us around upper quartile on 72% of measures.

In water, our investments are continuing to pay off, as we're on track to deliver a seventh consecutive year of improvements in Water Quality Contacts, as well as our best ever performance on leakage and low pressure. We've also had our best six month period on supply interruptions, as we continue to work hard to reduce the gap to our target.

In waste, we're maintaining our sector leading position, we're forecasting our best ever performance on blockages and are ahead of target when it comes to reducing storm overflow spills. We've insourced 368 colleagues into our waste networks team to give us more agility to recover our external sewer flooding performance over the next 18 months and protect our frontier position on the measure as we enter AMP8, when the metric will be rebased around industry performance.

We're continuing to build our track record of leadership on environmental measures, having been awarded 4* EPA status for a record fourth consecutive year. As we enter the last few weeks of the assessment period, we remain on track to maintain our 4* status for a fifth consecutive year, including zero serious pollution incidents, despite 60% more rain since April than the same period last year.

Our Green Power business has continued to expand, with our recent acquisition of Andigestion further increasing our energy generation. Including our Bioresources business, so far this year we've generated 299 GWh, which is the equivalent of 57% of our ongoing energy needs. In October lightning struck one of our sites; nobody was hurt as a result of the incident, operations have been diverted without any disruption to performance, and the site is expected to be back online by April.

Highest ever capital investment to enhance our network

We're on course for our largest year of capital investment, spending around £1 billion to improve service for our customers, enhance our network, and prepare for the scale of delivery needed in AMP8.

We've completed 13 of this year's regulatory commitments early, including a new drawdown facility at Draycote reservoir and four storm capacity commitments, and are confident of delivering all 44 commitments for this year. We're also progressing with major works at Hinckley and Hartshill to increase sewage treatment capacity in an area of high population growth.

Work on our Green Recovery programme is progressing at pace. We're already ahead of our plan on smart metering, and in the next six months will accelerate the rollout to get ahead of our AMP8 targets. At Mansfield, 49 sites for our Sustainable Urban Drainage Scheme are complete with a further 11 currently under construction, as we work to reduce flood risk for 90,000 customers in the area. And at Witches Oak, construction work to unlock 89Ml/d of additional water supply is well progressed.

To further prepare ourselves for the next regulatory period of substantially higher investment, we expect to be accelerating at least £400 million of additional capital expenditure into the end of AMP7, in order to get ahead of our AMP8 targets early, while also stepping up delivery to create a smooth glide path into AMP8.

Set up strongly for unprecedented AMP8 investment programme

Between our AMP7 capex programme, additional Green Recovery spend, and accelerated transitional expenditure, we are uniquely positioned to end AMP7 at the required capital run rate for AMP8.

To help us deliver the programme even more efficiently, our innovative new 'Plug and Play' platform will introduce greater standardisation to traditionally bespoke design projects, allowing us to deliver far more than we ever have before, and to do so earlier to allow us to meet our targets quicker. And our in-house design function uniquely enables us to fully utilise the technology, giving us a competitive edge as we move into a period of expansion.

Following on from the recent insource of 368 colleagues into our Waste Networks team, we are exploring wider insourcing options to give more direct influence over our operations, meaning faster interventions on performance and greater agility to improve service levels.

We're investing early to drive environmental benefits sooner. That means bringing forward investments in WINEP, and moving quickly to reduce our usage of storm overflows, accelerating investment to bring down average spill volumes to a sector-leading level of 14 spills by 2030. Long term we're adopting a 'zero spills' mentality, and we already have a team of people established at our Zero Spills Hub at Stoke Bardolph to foster innovation to improve our performance.

We've developed a track record as the best-performing company on ODIs, delivering high-quality service for customers, and we are taking steps to maintain that position as ODIs become even more valuable in AMP8. But we also recognise there's more we can do, and our new ODI Centre of Excellence will help us to take an even more data-led approach to driving performance improvements for our customers and the environment.

And not only are we committing to these improvements to service, but we're also keeping bills at an affordable level for our customers. Our business plan proposes that bills will rise from 1.2% of disposable income to 1.3% over the course of AMP8, although we are still projected to end AMP8 with the second lowest bill in the sector. On top of that, we're expanding our affordability offering, with a total package worth £550 million – enough to support every customer in water poverty in our region – with interventions ranging from bill support of up to 90%, payment matching, payment breaks, debt advice, white goods, and more.

Overall we've submitted an ambitious plan which seeks to deliver unprecedented levels of growth in a deliverable and financially sustainable way, investing £2,400 per household to give customers better service than ever before while supporting everyone who needs help to pay their bills.

Supporting our people and our region

Our societal strategy continues to develop, as we seek to help to support 100,000 people out of poverty by 2032. We're working with 14 partner schools in our focus areas of East Birmingham, Derby, and now Coventry, to offer free training sessions in these social mobility cold spots, and we're pleased to be recognised once again in the Social Mobility Index, where we've ranked in the top ten employers for a fifth year in a row. We've met our annual target of 300 work experience placements over the past 12 months, in which time we've also exceeded our target of delivering 10,000 hours of skills and employability training to people looking for work.

Working with the wider community, we've held 25 free employability training and support sessions, and partnered with other organisations to hold job fairs for people looking to get into work, offering CV support, interview practice and employability workshops.

As we head into the next regulatory period, our people and culture will play a bigger role than ever before. We've invested in skills to foster a strong talent pipeline, with over 70 internal promotions to senior management level in the past two years, and over 1,000 colleagues in total promoted or progressed to a broader role in the business in the past year. And we've ensured engagement scores remain high - our most recent Quest survey score of 8.6/10 is our best ever result, with every directorate scoring at least 8.5, and puts us in the top 3% of utilities globally.

Chief Financial Officer's Review

Our robust financial performance for the first half of the year was in line with expectations. Our adjusted earnings in the first half of the year were in line with the previous year and we expect our PBIT to be more evenly spread than the prior year, as energy costs increased significantly in the second half of last year. Reductions in inflation rates during the year have reduced our finance costs and we expect this impact to be greater in the second half based on independent forecasts of inflation.

We have increased our capital programme and are on track to deliver around £1 billion in this financial year, and this, combined with our successful £1 billion equity raise completed in October, establishes a solid platform for AMP8.

We expect to end AMP7 with nominal RCV growth of 43% (based on independent inflation forecasts).

A summary of our financial performance in the period is set out below:

	2023	2022	Change	
	£m	£m	£m	%
Turnover	1,165.3	1,061.8	103.5	9.7
PBIT	255.1	261.7	(6.6)	(2.5)
Net finance costs	(179.2)	(186.9)	7.7	4.1
Losses/gains on financial instruments, share of results of joint venture and impairment of loans receivable	(5.2)	29.9	(35.1)	(117.4)
Profit before tax	70.7	104.7	(34.0)	(32.5)
Tax	(19.1)	(25.9)	6.8	26.3
Profit for the period	51.6	78.8	(27.2)	(34.5)

Group turnover was £1,165.3 million (2022/23: £1,061.8million), up £103.5 million (9.7%), driven by higher revenues in our Regulated Water and Waste Water business (up £95.4 million).

Group PBIT was £255.1 million (2022/23: £261.7 million). In our Regulated Water and Waste Water business PBIT was in line with the previous year as increased operating costs from higher energy, chemical and labour costs, and a greater level of investment impacting infrastructure renewals expenditure and depreciation, offset the increase in revenue. In Business Services EBITDA was £6 million lower, impacted by one-off costs (£3.7 million) in Green Power relating to the Andigestion acquisition, which will increase our generating capacity by 45GWh per annum to around 60% of our energy needs by the end of the financial year and higher operating costs.

Our effective interest cost reduced to 5.6% (2022/23: 6.4%) due to lower inflation uplift on index-linked debt, as expected, and although average net debt increased by 10% compared to the same period in the previous year, net finance costs decreased to £179.2 million (2022/23: £186.9 million), down 4.1%. Our effective cash cost of interest was 3.4% (2022/23: 3.1%) as we saw the impact of higher interest rates on recent debt issues, although still outperforming the iBoxx index over the AMP to date.

Our adjusted effective tax rate was nil% (2022/23: nil%) as the benefit of full expensing for tax purposes of our significant expenditure on qualifying plant and machinery reduced our profit chargeable to tax. Our effective tax rate was 27.0% (2022/23: 24.7%). In the previous year the benefit of the ‘super deduction’ more than offset the impact of expenditure not qualifying for a tax deduction on the effective rate.

Group profit after tax was £51.6 million (2022/23: £78.8 million). Our adjusted basic earnings per share were 29.7 pence (2022/23: 29.9 pence). Basic earnings per share were 20.5 pence (2022/23: 31.4 pence).

Our balance sheet remains strong. At 30 September 2023 our net debt was £7,520.4 million (31 March 2023: £7,160.5 million) and our shadow RCV gearing was 60.6% (31 March 2023: 60.0%).

Our net pension deficit at 30 September increased to £329.9 million (31 March 2023: £279.4 million). The overall funding level across all our defined benefit schemes was 82.7% (31 March 2023: 86.5%). Higher bond yields reduced the value of the liabilities by around £189 million but this was broadly offset by a reduction of £193 million in the Scheme's assets in line with our hedging strategy. Inflation in the period, which was higher than our long-term assumption, increased liabilities by around £38 million. The net Scheme costs were approximately £9 million in the period. We remain ahead of our journey plan agreed with the Trustees at the 2019 funding valuation.

At 30 September, we had £1,200 million of undrawn committed facilities, and at 30 September 2023 our cash flow requirements were funded to early 2025. Following our successful equity placing, which raised £1 billion (gross) on 3 October, our cash flow requirements are now funded to early 2026.

We ramped up our capital investment in the first half of the year to £476.9 million (2022/23: £269.7 million) and we are on track to exit AMP7 at the run rate required to deliver the commitments in our AMP8 plan.

Following our assessment of eligible activities under the EU taxonomy at the year end, we are today publishing our first EU Taxonomy Disclosure in which we disclose that 62% of our capital expenditure and 53% of our revenues and operating costs are from activities aligned to the Taxonomy. We've identified areas where we can strengthen our position against the framework, ensuring the work we do brings maximum benefit to the environment.

The Group's AMP7 dividend policy is to increase the dividend in line with November CPIH each year. In line with its usual practice, the Board carefully considered the impact of the policy for all our stakeholders in the light of the relatively high inflation in the last year. The Board continues to recognise the important role dividends play in providing income for pensioners and other investors. Taking into account the Group's prospects and financial position and the interests of other stakeholders including customers, our pension scheme members, colleagues and communities; the Board has declared an interim dividend for the year ending 31 March 2024 of 46.74 pence (2022: 42.73p), in line with our policy for AMP7.

Regulated Water and Waste Water

Six months ended 30 September

	2023	2022	Change	
	£m	£m	£m	%
Turnover	**1,080.3**	984.9	95.4	9.7
Net labour costs	**(87.8)**	(78.7)	(9.1)	(11.6)
Net hired and contracted costs	**(123.9)**	(108.4)	(15.5)	(14.3)
Power	**(131.5)**	(95.7)	(35.8)	(37.4)
Bad debts	**(15.5)**	(13.7)	(1.8)	(13.1)
Other costs	**(152.4)**	(136.8)	(15.6)	(11.4)
	(511.1)	(433.3)	(77.8)	(18.0)
Infrastructure renewals expenditure	**(119.0)**	(109.3)	(9.7)	(8.9)
Depreciation	**(207.6)**	(199.4)	(8.2)	(4.1)
PBIT	**242.6**	242.9	(0.3)	(0.1)

Turnover for our Regulated Water and Waste Water business was £1,080.3 million (2022/23: £984.9 million) and PBIT was £242.6 million (2022/23: £242.9 million).

Turnover increased by £95.4 million with the main movements being:

- An increase of £72.1 million from the annual CPIH + K increase in prices;
- A £45.8 million decrease representing the movement from the prior year in the adjustment for the RFI mechanism;
- £65.5 million increase for the in-AMP fast money allowance for the Green Recovery programme and ODI reward recognised in revenue in year; and
- A net increase of £3.6 million due to higher green energy incentive income, tankered trade waste, IRE diversions income, partly offset by lower energy export income in Bioresources.

Increased activity on our Green Recovery programme impacted operating costs by around £9 million year on year which is included in the analysis below.

Net labour costs of £87.8 million were 11.6% higher period on period. Gross employee costs increased, driven by the annual pay award and a planned increase in employee numbers to support delivery of our capital programme and to drive operational improvements, including the insourcing of 368 colleagues into Waste Networks in September. This was partly offset by higher capitalisation of employee costs as we progress to deliver our biggest ever investment programme.

Net hired and contracted costs increased by £15.5 million (14.3%) due to a planned step up in the supply pipe programme in Green Recovery as well as increased ground maintenance and technology contracts spend.

Power costs were £35.8 million or 37.4% higher period on period, mainly driven by the higher wholesale weighted average price of electricity on imports which was hedged over the course of 2022 and so was affected by the significant increase in wholesale market energy prices at this time. Power consumption on our pumping stations was higher due to the abnormally wet weather in the first half of the year. Over the course of AMP7 we expect the higher energy costs to impact average RoRE by around 0.7 percentage points. Higher power prices are partially offset by self-generation and incentive income in both our Bioresources and Green Power businesses.

Bad debt charges increased by £1.8 million but remained broadly flat as a proportion of household revenue at 2.0% (2022/23: 1.9%).

Other costs were up by £15.6 million, predominantly due to higher chemical costs, Ofwat fees, insurance costs and business rates following rate revaluation that took effect this year.

Infrastructure renewals expenditure was £9.7 million higher in the period, reflecting the planned programme step up mainly driven by mains renewal.

Depreciation of £207.6 million was £8.2 million higher period-on-period due to completion of Strongford THP, as well as various Water Framework Directive ('WFD') schemes such as Newport and Ray Hall.

Business Services

Six months ended 30 September

	2023	2022	Change	
	£m	£m	£m	%
Turnover				
Operating Services and other	**51.4**	44.7	6.7	15.0
Green Power	**36.7**	36.7	–	–
	88.1	81.4	6.7	8.2
EBITDA				
Operating Services and other	**12.6**	12.2	0.4	3.3
Green Power	**10.7**	17.2	(6.5)	(37.8)
Property Development	**1.4**	1.3	0.1	7.7
	24.7	30.7	(6.0)	(19.5)

Business Services turnover was £88.1 million (up 8.2%) and adjusted EBITDA was £24.7 million (down 19.5%).

In our Operating Services and Other businesses, turnover increased by £6.7 million due to increased activity on the MoD and other contracts, as well as increased revenue from our water hygiene business, Aqualitix. EBITDA was £0.4 million higher impacted by a higher proportion of lower margin MoD contract revenue, inflation, and investment in insourcing activities.

In Green Power, turnover was in line with the prior year due to higher green energy incentive income offset by the expected lower energy prices on exports. Over the last two years Green Power EBITDA has grown by 73% but reduced by £6.5 million in the period due to the impact of £3.7 million of one-off acquisition costs for the purchase of Andigestion which completed in September, the annual pay increase and feedstock cost increases above inflation. We expect Andigestion to increase our energy generation by around 45GWh annually and we do not expect a significant impact from the incident at Cassington (see note 16).

Profits from Property Development were £1.4 million and slightly higher compared to last year. We remain on track to achieve our in-year guidance and long-term plans to deliver £150 million profit by 2032 having achieved c. £53 million since 2017.

Corporate and other

Corporate overheads were £4.4 million (2022/23: £4.5 million). The reduction is driven by lower professional fees. Our other businesses generated PBIT of £0.4 million (2022/23: £0.6 million).

Net finance costs

The Group's net finance costs for the six month period were £179.2 million, (2022/23: £186.9 million). Average net debt of £7,235.5 million was higher than the previous year (2022/23: £6,556.0 million) but lower inflation in the period reduced the interest cost on index-linked debt by £25.1 million. As a result, our effective interest cost for the period reduced to 5.6% (2022/23: 6.4%). Our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was 3.4% (2022/23: 3.1%) due to higher interest rates on recent debt issues. Interest capitalised of £31.1 million (2022/23: £23.5 million) increased due to the higher capital work in progress during the period.

The Group's EBITDA interest cover was 2.7 times (2022/23: 2.5 times) and PBIT interest cover was 1.5 times (2022/23: 1.4 times). See note 19 for further details.

Net losses on financial instruments

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

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

The Group holds:

- Interest rate swaps with a net notional principal of £445 million to balance our interest rate mix in line with our strategy;
- Cross currency swaps with a sterling principal of £246 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and
- Inflation swaps with a notional principal of £350 million, which swap RPI linked cash flows for CPI linked cash flows.

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 period there was a gain of £5.4 million (2022/23: gain of £53.6 million) in relation to such instruments.

An analysis of the amounts charged to the income statement in the period is presented in note 5 to the financial statements.

The Group has fixed around 98% of the estimated wholesale energy usage for 2023/24 through a combination of forward price contracts and financial derivatives.

Taxation

We are committed to paying the right amount of tax at the right time, and were pleased to have our Fair Tax Mark accreditation renewed for the fifth year.

As well as corporation tax on profits, which is included in the tax charge in our accounts, we pay a range of other taxes, charges and levies imposed by government agencies including business rates; employer's National Insurance; the Climate Change Levy; and Insurance Premium Tax. Our 2022/23 Annual Report and Accounts sets out an analysis of the taxes incurred in that year and we will set out this year's amounts in our Annual Report to be published in June 2024.

The tax charge reported in the income statement is calculated at a rate of 27.0% (2022/23: 24.7%), representing the best estimate of the annual average tax rate expected for the full year, applied to the profit for the six month period.

There was no current tax charge for the period (2022/23: nil). The deferred tax charge was £19.1 million (2022/23: £25.9 million).

The tax allowances generated by our significant capital programme, reduced our adjusted effective current tax rate (in line with guidance) to nil% (2022/23: nil%).

Profit for the period and earnings per share

Profit for the period was £51.6 million (2022/23: £78.8 million).

Basic earnings per share were 20.5 pence (2022/23: 31.4 pence). Adjusted basic earnings per share were 29.7 pence (2022/23: 29.9 pence).

Cash flow

Six months ended 30 September

	2023 £m	2022 £m
Operational cashflow	**482.3**	494.1
Cash capex	**(477.0)**	(280.3)
Net interest paid	**(81.2)**	(76.5)
Purchase of subsidiaries net of cash acquired	**(38.5)**	–
Net tax paid	**–**	(3.4)
Free cash flow	**(114.4)**	133.9
Dividends	**(161.6)**	(153.9)
Issue of shares	**13.1**	14.4
Purchase of own shares	**(1.6)**	–
Change in net debt from cash flows	**(264.5)**	(5.6)
Non-cash movements	**(95.4)**	(114.2)
Change in net debt	**(359.9)**	(119.8)
Opening net debt	**(7,160.5)**	(6,507.8)
Closing net debt	**(7,520.4)**	(6,627.6)

Net debt comprises:

	30 September 2023 £m	31 March 2023 £m	30 September 2022 £m
Cash and cash equivalents	216.7	28.7	366.0
Bank loans	(649.0)	(713.0)	(989.6)
Other loans	(7,067.1)	(6,474.2)	(6,006.4)
Lease liabilities	(114.4)	(110.9)	(119.2)
Cross currency swaps	19.3	33.6	49.1
Loans due from joint ventures	74.1	75.3	72.5
Net debt	(7,520.4)	(7,160.5)	(6,627.6)

At 30 September 2023 we held £216.7 million (31 March 2023: £28.7 million) in net cash and cash equivalents. Our weighted average debt maturity is 14 years. Including committed facilities, of which £1,200 million was undrawn at the balance sheet date, the Group's cash flow requirements at 30 September 2023 were funded until early 2025 and after our successful equity placing, which raised proceeds of £1 billion on 3 October, our cash flow requirements are now funded to early 2026.

We invest cash in deposits with highly rated banks and AAA rated money market funds. The Board regularly reviews the list of counterparties.

Regulatory gearing (net debt of our regulated businesses, expressed as a percentage of estimated RCV) at 30 September 2023 was 61.8% (31 March 2023: 60.7%). Shadow regulatory gearing was 60.6% (31 March 2023: 60.0%).

The estimated fair value of debt at 30 September 2023 was £771.2 million lower than book value (31 March 2023: £366.2 million lower).

Pensions

We have three defined benefit pensions arrangements, two for Severn Trent and one for Dee Valley Water. The two Severn Trent schemes closed to future accrual on 31 March 2015.

The future funding plan for the main Severn Trent Pension Scheme (STPS) 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*

The Group's other two defined benefit schemes are in surplus.

On an IAS 19 basis, the estimated combined net position (before deferred tax) of all of the Group's defined benefit pension schemes at 30 September 2023 was a deficit of £329.9 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.

The net finance cost was £6.6 million and administration costs were £2.0 million.

The movements in the net deficit during the period were as follows:

	Fair value of scheme assets	Defined benefit obligations	Net deficit
	£m	£m	£m
At start of the period	1,785.3	(2,064.7)	(279.4)
Amounts credited/(charged) to income statement	39.4	(48.0)	(8.6)
Actuarial (losses)/gains taken to reserves	(192.8)	150.7	(42.1)
Net contributions received and benefits paid	(55.5)	55.7	0.2
At end of the period	1,576.4	(1,906.3)	(329.9)

On an IAS 19 basis, the funding level is 82.7% (31 March 2023: 86.5%).

Dividends

The Board has declared an interim ordinary dividend of 46.74 pence per share (2022/23: 42.73 pence per share), which will be paid on 10 January 2024 to shareholders on the register at 1 December 2023.

Principal risks and uncertainties

The Board considers the principal risks and uncertainties affecting the business activities of the Group for the remainder of the financial year to be those detailed below. These principal risks are unchanged since our year end disclosures. Details of how the Group mitigates and manages these risks are set out in the Annual Report.

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.

Technical Guidance 2023/24

Outlook

Earnings: We anticipate adjusted earnings per share growth in 2023/24, after adjusting for the new share issue, as a result of a 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 is expected to be offset by higher Green Power income to give a broadly neutral impact on earnings over time.

RCV[2]: Group RCV expected to grow by 43% over AMP7, benefitting from our large investment programme, and including recent inflation forecasts. That equates to a nominal CAGR[3] of over 7% in AMP7.

[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 excluding transitional spend. Nominal RCV assumes forecast CPIH of 3.8% for 2023/24, and 1.8% for 2024/25 and forecast RPI of 5.5% for 2023/24 and 2.6% for 2024/25 as per Oxford Economics October 2023 forecast*
[3] *CAGR: Compound Annual Growth Rate*

Year-end guidance		**FY23**	**Year-on-Year**	**Movement in guidance since last update[5]**
Regulated Water and Waste Water				
Turnover	£2.15 billion to £2.20 billion	£2.00bn	▲	↔
Other 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 Severn Trent Green Power.	£64m	▼	↔
Property profit	£5 million to £10 million.	£2m	▲	↔
Group				
Interest charge	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 expenditure of around £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 October inflation forecast.*
3. *Total effective tax rate is expected to be c.27%. This includes both current and deferred tax charges.*
4. *2023/24 dividend growth rate based on November 2022 CPIH of 9.38%.*
5. *Last trading update issued on 29 September 2023.*

Further Information

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

Investor Timetable

Ex-dividend date (Interim)	**30 November 2023**
Dividend record date (Interim)	**01 December 2023**
DRIP election date (Interim)	**15 December 2023**
Interim dividend payment date	**10 January 2024**
Q3 Trading Update	**14 February 2024**
Financial Year End	**31 March 2024**
Full Year Results Announcement 2023/24	**22 May 2024**
AGM	**11 July 2024**
For more information please visit: https://www.severntrent.com/investors/financial-calendar-and-regulatory-news/financial-calendar/	

Condensed consolidated income statement
Six months ended 30 September 2023

	Note	**2023** **£m**	2022 £m
Turnover	3,4	**1,165.3**	1,061.8
Other income		**–**	0.5
Operating costs before charge for bad and doubtful debts		**(894.6)**	(786.9)
Charge for bad and doubtful debts		**(15.6)**	(13.7)
Total operating costs		**(910.2)**	(800.6)
Profit before interest and tax		**255.1**	261.7
Finance income		**50.1**	40.4
Finance costs		**(229.3)**	(227.3)
Net finance costs		**(179.2)**	(186.9)
Net (losses)/gains on financial instruments	5	**(4.1)**	29.7
Share of net (loss)/gain of joint ventures accounted for using the equity method	11	**(1.1)**	0.2
Profit on ordinary activities before taxation		**70.7**	104.7
Current tax	6	**–**	–
Deferred tax	6	**(19.1)**	(25.9)
Taxation on profit on ordinary activities	6	**(19.1)**	(25.9)
Profit for the period		**51.6**	78.8

Earnings per share (pence)

	Note	**2023**	2022
Basic	8	**20.5**	31.4
Diluted	8	**20.4**	31.3

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2023

	Note	**2023 £m**	2022 £m
Profit for the period		**51.6**	78.8
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial losses	12	**(42.1)**	(51.4)
Deferred tax on net actuarial losses		**10.5**	12.8
		(31.6)	(38.6)
Items that may be reclassified to the income statement:			
Gains on cash flow hedges		**14.4**	59.0
Deferred tax on gains on cash flow hedges		**(3.6)**	(14.7)
Amounts on cash flow hedges transferred to the income statement	5	**10.7**	2.9
Deferred tax on transfer to the income statement		**(2.6)**	(0.8)
		18.9	46.4
Other comprehensive (loss)/income for the period		**(12.7)**	7.8
Total comprehensive income for the period		**38.9**	86.6

Condensed consolidated statement of changes in equity
Six months ended 30 September 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 2022		248.1	394.4	148.4	473.0	1,263.9
Profit for the period		–	–	–	78.8	78.8
Net actuarial losses	12	–	–	–	(51.4)	(51.4)
Deferred tax on net actuarial losses		–	–	–	12.8	12.8
Gains on cash flow hedges		–	–	59.0	–	59.0
Deferred tax on gains on cash flow hedges		–	–	(14.7)	–	(14.7)
Amounts on cash flow hedges transferred to the income statement	5	–	–	2.9	–	2.9
Deferred tax on transfer to the income statement		–	–	(0.8)	–	(0.8)
Total comprehensive income for the year		–	–	46.4	40.2	86.6
Share options and LTIPs						
- proceeds from shares issued		0.9	13.5	–	–	14.4
- value of employees’ services		–	–	–	4.6	4.6
Deferred tax on share based payments		–	–	–	(6.5)	(6.5)
Dividends paid	7	–	–	–	(153.9)	(153.9)
At 30 September 2022		249.0	407.9	194.8	357.4	1,209.1
At 1 April 2023		249.1	408.7	150.3	162.5	970.6
Profit for the period		–	–	–	51.6	51.6
Net actuarial losses	12	–	–	–	(42.1)	(42.1)
Deferred tax on net actuarial losses		–	–	–	10.5	10.5
Gains on cash flow hedges		–	–	14.4	–	14.4
Deferred tax on gains on cash flow hedges		–	–	(3.6)	–	(3.6)
Amounts on cash flow hedges transferred to the income statement	5	–	–	10.7	–	10.7
Deferred tax on transfer to the income statement		–	–	(2.6)	–	(2.6)
Total comprehensive income for the year		–	–	18.9	20.0	38.9
Share options and LTIPs						
- proceeds from shares issued		0.7	12.4	–	–	13.1
- value of employees' services		–	–	–	5.0	5.0
- own shares purchased		–	–	–	(1.6)	(1.6)
Deferred tax on share based payments		–	–	–	(3.1)	(3.1)
Reserves transfer		–	–	8.3	(8.3)	–
Dividends paid	7	–	–	–	(161.6)	(161.6)
At 30 September 2023		**249.8**	**421.1**	**177.5**	**12.9**	**861.3**

Condensed consolidated balance sheet
At 30 September 2023

	Note	**30 September 2023 £m**	31 March 2023 £m
Non-current assets			
Goodwill		**109.7**	92.7
Other intangible assets		**197.5**	185.9
Property, plant and equipment		**11,104.1**	10,716.9
Right-of-use assets		**131.2**	129.3
Derivative financial instruments	10	**98.4**	82.3
Investment in joint venture	11	**15.4**	16.5
Trade and other receivables		**82.3**	88.4
Retirement benefit surplus	12	**5.5**	5.7
		11,744.1	11,317.7
Current assets			
Inventory		**38.7**	35.4
Trade and other receivables		**850.4**	750.9
Current tax receivable		**9.9**	9.9
Derivative financial instruments	10	**–**	0.5
Cash and cash equivalents		**216.7**	34.2
		1,115.7	830.9
Current liabilities			
Borrowings	9	**(362.3)**	(317.4)
Derivative financial instruments	10	**(1.0)**	–
Trade and other payables		**(867.7)**	(720.4)
Provisions for liabilities		**(42.3)**	(52.4)
		(1,273.3)	(1,090.2)
Net current liabilities		**(157.6)**	(259.3)
Total assets less current liabilities		**11,586.5**	11,058.4
Non-current liabilities			
Borrowings	9	**(7,468.2)**	(6,986.2)
Derivative financial instruments	10	**(11.5)**	(11.3)
Trade and other payables		**(1,557.0)**	(1,479.6)
Deferred tax		**(1,313.5)**	(1,293.5)
Retirement benefit obligations	12	**(335.4)**	(285.1)
Provisions for liabilities		**(39.6)**	(32.1)
		(10,725.2)	(10,087.8)
Net assets		**861.3**	970.6
Equity			
Share capital	14	**249.8**	249.1
Share premium		**421.1**	408.7
Other reserves		**177.5**	150.3
Retained earnings		**12.9**	162.5
Total equity		**861.3**	970.6

Condensed consolidated cash flow statement
Six months ended 30 September 2023

	Note	**2023 £m**	2022 £m
Cash generated from operations	15	**506.9**	508.3
Tax received	15	**–**	6.1
Tax paid	15	**–**	(9.5)
Net cash generated from operating activities		**506.9**	504.9
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**(38.5)**	–
Purchases of property, plant and equipment		**(488.2)**	(291.6)
Purchases of intangible assets		**(23.6)**	(4.6)
Proceeds on disposal of property, plant and equipment		**10.2**	1.7
Net loans repaid by joint ventures		**1.5**	8.0
Interest received		**4.3**	1.4
Net cash outflow from investing activities		**(534.3)**	(285.1)
Cash flow from financing activities			
Interest paid		**(83.8)**	(76.5)
Interest element of lease payments		**(1.7)**	(1.4)
Dividends paid to shareholders of the parent		**(161.6)**	(153.9)
Repayments of borrowings		**(302.9)**	(101.1)
Principal elements of lease payments		**(0.7)**	(2.8)
New loans raised		**754.6**	359.8
Issues of shares net of costs		**13.1**	14.4
Purchase of own shares		**(1.6)**	–
Net cash inflow from financing activities		**215.4**	38.5
Net movement in cash and cash equivalents		**188.0**	258.3
Net cash and cash equivalents at the beginning of the period		**28.7**	107.7
Net cash and cash equivalents at the end of period		**216.7**	366.0
Cash at bank and in hand		**20.6**	78.0
Bank overdrafts		**–**	(12.0)
Short term deposits		**196.1**	300.0
		216.7	366.0

Notes to the condensed interim financial information

1. General information

The interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

The information for the year ended 31 March 2023 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year prepared under IFRS has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

a) Accounting policies

The interim financial information has been prepared on the going concern basis using accounting policies consistent with United Kingdom adopted International Accounting Standard 34 'Interim Financial Reporting'. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's annual financial statements for the year ended 31 March 2023.

b) Going concern

Including undrawn committed credit facilities of £1,200 million, and based on its latest forecasts, the Group is fully funded for its investment and cash flow needs for more than the next year.

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 interim financial information has been prepared on a going concern basis.

c) Seasonality

Historically around half of the Group's PBIT has arisen in the first half of the year.

2. Critical accounting judgments and key sources of estimation uncertainty

In the course of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. Details of the critical accounting judgments and key sources of estimation uncertainty were set out in the Group's financial statements for the year ended 31 March 2023. Changes to these judgments and uncertainties are set out below.

a) Critical accounting judgments

There have been no changes to the critical accounting judgments made at 31 March 2023.

b) Sources of estimation uncertainty

There have been no significant changes to the estimates relating to depreciation and carrying amounts of property, plant and equipment, retirement benefit obligations or to expected credit losses on trade receivables since 31 March 2023.

3. Segmental analysis

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, 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 considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in 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.

A segmental analysis of turnover and profit before interest and tax is presented below.

Six months ended 30 September

	2023		2022	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,080.3**	**85.2**	984.9	77.1
Inter-segment turnover	**–**	**2.9**	–	4.3
Total turnover	**1,080.3**	**88.1**	984.9	81.4
Profit before interest and tax	**242.6**	**16.6**	242.9	22.7

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

Six months ended 30 September

	2023 £m	2022 £m
Regulated Water and Waste Water	**1,080.3**	984.9
Business Services	**88.1**	81.4
Corporate and other	**0.5**	0.5
Consolidation adjustments	**(3.6)**	(5.0)
	1,165.3	1,061.8

3. Segmental analysis (continued)

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

Six months ended 30 September

	2023 £m	2022 £m
Regulated Water and Waste Water	**242.6**	242.9
Business Services	**16.6**	22.7
Corporate and other	**(4.0)**	(3.9)
Consolidation adjustments	**(0.1)**	–
Profit before interest and tax	**255.1**	261.7
Net finance costs	**(179.2)**	(186.9)
Net (losses)/gains on financial instruments	**(4.1)**	29.7
Share of net (loss)/gain of joint ventures accounted for using the equity method	**(1.1)**	0.2
Profit on ordinary activities before taxation	**70.7**	104.7

The following table shows segmental capital employed:

	30 September 2023		31 March 2023	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**11,972.2**	**352.7**	11,498.4	349.5
Goodwill	**63.5**	**47.5**	63.5	30.5
Segment assets	**12,035.7**	**400.2**	11,561.9	380.0
Segment operating liabilities	**(2,769.4)**	**(37.0)**	(2,507.4)	(33.3)
Segmental capital employed	**9,266.3**	**363.2**	9,054.5	346.7

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.

4. Revenue from contracts with customers

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

Six months ended 30 September 2023

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,053.4	–	–	(0.2)	1,053.2
Operating services	–	44.1	–	–	44.1
Renewable energy	24.1	36.7	–	(2.9)	57.9
Other sales	2.8	7.3	0.5	(0.5)	10.1
	1,080.3	**88.1**	**0.5**	**(3.6)**	**1,165.3**

Six months ended 30 September 2022

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	958.7	–	–	–	958.7
Operating services	–	37.4	–	–	37.4
Renewable energy	23.8	36.7	–	(4.5)	56.0
Other sales	2.4	7.3	0.5	(0.5)	9.7
	984.9	81.4	0.5	(5.0)	1,061.8

5. Net (losses)/gains on financial instruments

Six months ended 30 September

	2023 **£m**	2022 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(8.5)**	5.8
Gain/(loss) arising on debt in fair value hedges	**10.5**	(4.3)
Exchange loss on other loans	**(1.4)**	(20.2)
Net loss on cash flow hedges transferred from equity	**(10.7)**	(2.9)
Hedge ineffectiveness on cash flow hedges	**–**	(2.9)
Gain arising on swaps where hedge accounting is not applied	**5.4**	53.6
Amortisation of fair value adjustment on debt	**0.6**	0.6
	(4.1)	29.7

6. Tax

Six months ended 30 September

	2023 **£m**	2022 £m
Current tax		
Current year at 25% (2022: 19%)	**–**	–
Total current tax	**–**	–
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**19.1**	25.9
Total deferred tax	**19.1**	25.9
	19.1	25.9

The tax charge in the income statement is calculated at a rate of 27.0% (2022: 24.7%) representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The adjusted effective current tax rate was nil% (2022: nil%). See note 19.

Current tax of nil (2022: nil) and a net deferred tax credit of £1.2 million (2022: charge of £9.2 million) has been taken to reserves in the period.

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

7. Dividends

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

Six months ended 30 September

	2023		2022	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2023 (2022)	**64.09**	**161.6**	61.28	153.9

The proposed interim dividend of 46.74p per share (2022: 42.73p per share) was approved by the Board on 21 November 2023 and has not been included as a liability at 30 September 2023.

8. Earnings per share

a) Basic and diluted earnings per share

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

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

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

	2023 **£m**	2022 £m
Profit for the period	**51.6**	78.8

ii) Number of shares

Six months ended 30 September

	2023 **m**	2022 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**251.8**	250.6
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.7**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**252.5**	251.7

b) Adjusted earnings per share

Six months ended 30 September

	2023 **pence**	2022 pence
Adjusted basic earnings per share	**29.7**	29.9
Adjusted diluted earnings per share	**29.6**	29.8

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of 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 diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

Six months ended 30 September

	2023 **£m**	2022 £m
Earnings for the purpose of basic and diluted earnings per share	**51.6**	78.8
Adjustments for:		
- net losses/(gains) on financial instruments	**4.1**	(29.7)
- deferred tax	**19.1**	25.9
Earnings for the purpose of adjusted basic and diluted earnings per share	**74.8**	75.0

9. Borrowings

	30 September 2023 £m	31 March 2023 £m
Bank overdraft	**–**	5.5
Bank loans	**649.0**	713.0
Other loans	**7,067.1**	6,474.2
Lease liabilities	**114.4**	110.9
Borrowings	**7,830.5**	7,303.6

The borrowings are repayable as follows:

	30 September 2023 £m	31 March 2023 £m
On demand or within one year - included in current liabilities	**362.3**	317.4
Over one year - included in non-current liabilities	**7,468.2**	6,986.2
	7,830.5	7,303.6

10. Fair value of financial instruments

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	30 September 2023 £m	31 March 2023 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow.
Assets	**27.1**	34.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**(7.8)**	(0.9)	
Interest rate swaps			Discounted cash flow.
Assets	**57.5**	40.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(3.6)**	(10.4)	
Energy swaps			Discounted cash flow.
Assets	**–**	0.5	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(1.1)**	–	
Inflation swaps			Discounted cash flow.
Asset	**13.8**	7.3	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI ('the wedge'). Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m
At 1 April 2022	(3.7)
Gains recognised in the income statement	11.0
At 31 March 2023	7.3
Gains recognised in the income statement	6.5
At 30 September 2023	**13.8**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £3.8 million.

10. Fair value of financial instruments (continued)

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of all financial instruments, except those disclosed in the table below, approximate to their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	30 September 2023		31 March 2023	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Floating rate debt				
Bank loans	**499.5**	**499.5**	569.0	551.0
Other loans	**201.5**	**211.5**	146.8	157.9
Overdraft	**–**	**–**	5.5	5.5
	701.0	**711.0**	721.3	714.4
Fixed rate debt				
Other loans	**4,907.0**	**4,439.9**	4,441.3	4,177.0
Lease liabilities	**114.4**	**114.4**	110.9	110.9
	5,021.4	**4,554.3**	4,552.2	4,287.9
Index-linked debt				
Bank loans	**149.5**	**136.3**	144.0	137.1
Other loans	**1,958.6**	**1,657.7**	1,886.1	1,798.0
	2,108.1	**1,794.0**	2,030.1	1,935.1
	7,830.5	**7,059.3**	7,303.6	6,937.4

The above classification does not take into account the impact of interest rate swaps or cross currency swaps.

Fixed rate loans are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked loans are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these loans are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models with discount rates derived from observed market prices, which is a Level 2 valuation technique.

11. Interests in joint ventures

Our joint venture undertaking, Water Plus, is the largest business retailer in the non-household retail water market in England.

During the current period, the Group has recognised its share of Water Plus's losses of £1.1 million against the value of the investment.

Movements in the investment in joint venture balances during the period were:

	Investment in joint venture
	£m
At 1 April 2023	16.5
Share of loss for the period	(1.1)
At 30 September 2023	**15.4**

12. Retirement benefit schemes

The Group operates three defined benefit schemes in the UK, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual. The Group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The Group participates in the Dee Valley Water plc Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme (the 'DVWS'). The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2022 for the Severn Trent schemes and 31 March 2020 for DVWS.

In June 2021, the Severn Trent Mirror Image Pension Scheme ('STMIPS') Trustees completed the purchase of a bulk annuity contract with JUST, an insurance company, to secure the benefits of all members of the STMIPS. The Trustees continue to pay benefits to members as before the transaction, but these cashflows are now matched exactly by income from JUST. In March 2023, the DVWS also entered into a bulk annuity buy-in investment policy with JUST that covers the majority of the scheme obligations.

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

	30 September 2023 %	31 March 2023 %
Price inflation – RPI	**3.3**	3.3
Price inflation – CPI		
Pre 2030	**2.3**	2.3
Post 2030	**3.2**	3.2
Discount rate	**5.6**	4.8
Pension increases in payment	**3.3**	3.3
Pension increases in deferment	**3.3**	3.3

The defined benefit scheme assets have been updated to reflect their market value at 30 September 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 and interest cost is recognised in net finance costs.

The scheme assets at the balance sheet date were:

STPS, STMIPS, and DVWS	**30 September 2023 £m**	31 March 2023 £m
Fair value of scheme assets		
Equities	**14.4**	188.4
Annuity policies	**114.4**	122.2
Corporate bonds	**256.9**	237.0
Liability-driven investment funds ('LDI's)	**776.0**	259.2
Property	**227.1**	239.6
Buy and maintain credit	**148.6**	–
Cash	**38.5**	741.2
Other	**0.5**	(2.3)
	1,576.4	1,785.3

There are equities, LDI investments and other assets which are unquoted amounting to £1,039.0 million (31 March 2023: £419.0 million). The remaining assets have quoted prices in active markets.

12. Retirement benefit schemes (continued)

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 1 April 2023	1,785.3	(2,064.7)	(279.4)
Scheme administration costs	(2.0)	–	(2.0)
Interest income/(cost)	41.4	(48.0)	(6.6)
Actuarial (losses)/gains	(192.8)	150.7	(42.1)
Employer contributions	0.2	–	0.2
Employees' contributions and benefits paid	(55.7)	55.7	–
At 30 September 2023	**1,576.4**	**(1,906.3)**	**(329.9)**

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

	30 September 2023 £m	31 March 2023 £m
Retirement benefit surplus	**5.5**	5.7
Retirement benefit obligations	**(335.4)**	(285.1)
	(329.9)	(279.4)

13. Acquisitions

On 1 September 2023, Severn Trent Green Power Limited acquired 100% of the issued shares in Andigestion Limited for a consideration of £40.5 million. The acquisition is expected to increase the Group’s market share and reduce cost through economies of scale.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£m
Purchase consideration	
Cash paid	40.5

The assets and liabilities recognised as a result of the acquisition are as follows:

	£m
Cash and cash equivalents	2.0
Property, plant and equipment	16.0
Trade and other receivables	3.7
Trade and other payables	(1.1)
Deferred tax	(2.1)
Other intangible assets	5.0
Net identifiable assets acquired	23.5
Add: goodwill	17.0
	40.5

Goodwill of £17.0 million has been capitalised attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. It has been allocated to the Business Services segment. None of the goodwill is expected to be deductible for tax purposes.

The fair value of the acquired intangible assets of £5.0 million and fair value uplift on property, plant and equipment of £3.2 million are provisional, pending receipt of the final valuations for those assets. Deferred tax of £2.1 million has been provided in relation to these fair value adjustments.

Acquisition-related costs of £3.7 million are recognised as an expense in the income statement.

14. Share capital

At 30 September 2023 the issued and fully paid share capital was 255.2 million shares of 97 $^{17}/_{19}$p amounting to £249.8 million (31 March 2023: 254.4 million shares of 97 $^{17}/_{19}$p amounting to £249.1 million).

During the period the Company issued 0.8 million (2022/23: 1.0 million) shares as a result of the exercise of employee share options. At 30 September 2023 the Company held 2.6 million (31 March 2023: 2.9 million) treasury shares.

15. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2023 £m	2022 £m
Profit before interest and tax	**255.1**	261.7
Depreciation of property, plant and equipment	**197.5**	189.5
Depreciation of right-of-use assets	**1.4**	1.3
Amortisation of intangible assets	**17.0**	17.2
Pension service cost	**–**	(6.5)
Defined benefit pension scheme administration costs	**2.0**	2.8
Defined benefit pension scheme contributions	**(0.2)**	(34.7)
Share based payment charge	**5.0**	4.6
Profit on sale of property, plant and equipment and intangible assets	**(1.3)**	(1.4)
Deferred income movement	**(8.4)**	(8.0)
Contributions received	**24.6**	14.2
Provisions charged to the income statement	**16.5**	7.1
Utilisation of provisions for liabilities	**(17.0)**	(4.2)
Operating cash flows before movements in working capital	**492.2**	443.6
Increase in inventory	**(3.3)**	(1.7)
Increase in amounts receivable	**(86.7)**	(37.1)
Increase in amounts payable	**104.7**	103.5
Cash generated from operations	**506.9**	508.3
Tax received	**–**	6.1
Tax paid	**–**	(9.5)
Net cash generated from operating activities	**506.9**	504.9

b) Reconciliation of movements in net debt

	Net cash and cash equivalents £m	**Bank loans £m**	**Other loans £m**	**Lease liabilities £m**	**Cross currency swaps £m**	**Loans due from joint venture £m**	**Net debt £m**
At 1 April 2023	28.7	(713.0)	(6,474.2)	(110.9)	33.6	75.3	(7,160.5)
Cash flow	188.0	70.8	(522.5)	0.7	–	(1.5)	(264.5)
Fair value adjustments	–	–	11.2	–	–	–	11.2
Inflation uplift on index-linked debt	–	(5.1)	(79.2)	–	–	–	(84.3)
Foreign exchange	–	–	(1.4)	–	–	–	(1.4)
Other non-cash movements	–	(1.7)	(1.0)	(4.2)	(14.3)	0.3	(20.9)
At 30 September 2023	**216.7**	**(649.0)**	**(7,067.1)**	**(114.4)**	**19.3**	**74.1**	**(7,520.4)**

16. Post balance sheet events

Cassington Lightning Strike

On 2 October 2023, lightning struck a biogas tank at the Group's Green Power site at Cassington Oxfordshire, resulting in a fire. No individuals were harmed, and the Group is fully insured for damage and lost income, with a policy excess of £0.1 million.

Equity Placement

On 3 October 2023, the Group raised gross proceeds of £1,000 million through an issue of an additional 46,511,628 shares at a price of £21.50 per share.

17. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2023 which were approved on 24 May 2023. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements other than what is set out below.

Leigh Day Claim

Letters Before Action were received by Severn Trent Water Limited (STW) and Severn Trent on 9 August 2023 in respect of potential collective proceedings to be brought against STW (and Severn Trent Plc as the ultimate parent company of STW) before the Competition Appeal Tribunal. We are informed that the Proposed Class Representative is intending to bring a claim for at least £160 million on behalf of a class comprising certain consumers of STW (on an opt-out basis) who have allegedly been overcharged for water and sewerage services as a result of an alleged abuse of a dominant position. Proceedings have not yet been served. We do not consider there to be any substance to the threatened claim and no basis has been provided for the amount of the claim. Accordingly, we intend to resist robustly the claim if and when it is served.

18. 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.

Six months ended 30 September

	2023 **£m**	2022 £m
Sale of services	**138.9**	126.9
Net interest income	**2.8**	1.7

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

	30 September **2023** **£m**	31 March 2023 £m
Trade and other receivables due from related parties	**0.4**	0.2
Loans receivable from joint venture	**74.1**	75.3
	74.5	75.5

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 12.

19. Alternative performance measures

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

a) Adjusted earnings per share

Adjusted earnings per share figures exclude the effects of 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 8.

b) 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 our joint venture. See note 15.

c) 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 period.

	2023 **£m**	2022 £m
Net finance costs	**179.2**	186.9
Net finance costs from pensions	**(6.6)**	(1.6)
Capitalised finance costs	**31.1**	23.5
	203.7	208.8
Annualised*	**407.4**	417.6
Average net debt	**7,235.5**	6,556.0
Effective interest cost	**5.6%**	6.4%

** the rate is the annualised equivalent interest rate based on that calculated for the six-month period*

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

19. Alternative performance measures (continued)

d) Effective cash cost of interest

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

	£m	£m
Net finance costs	**179.2**	186.9
Net finance costs from pensions	**(6.6)**	(1.6)
Indexation adjustments	**(82.3)**	(107.4)
Capitalised finance costs	**31.1**	23.5
	121.4	101.4
Annualised*	**242.8**	202.8
Average net debt	**7,235.5**	6,556.0
Effective cash cost of interest	**3.4%**	3.1%

** the rate is the annualised equivalent interest rate based on that calculated for the six-month period*

This APM is used to show the average finance cost that is paid in cash.

e) PBIT interest cover

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

	2023	2022
	£m	£m
PBIT	**255.1**	261.7
Net finance costs	**179.2**	186.9
Net finance costs from pensions	**(6.6)**	(1.6)
Net finance costs excluding net finance costs from pensions	**172.6**	185.3

	Ratio	Ratio
PBIT interest cover ratio	**1.5**	1.4

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

19. Alternative performance measures (continued)

f) EBITDA and EBITDA interest cover

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

	2023	2022
	£m	£m
PBIT	**255.1**	261.7
Depreciation (including right-of-use assets)	**198.9**	190.8
Amortisation	**17.0**	17.2
EBITDA	**471.0**	469.7
Net finance costs	**179.2**	186.9
Net finance costs from pensions	**(6.6)**	(1.6)
Net finance costs excluding finance costs from pensions	**172.6**	185.3

	Ratio	Ratio
EBITDA interest cover ratio	**2.7**	2.5

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

g) Adjusted effective current tax rate

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

		2023 Current tax thereon		2022 Current tax thereon
	£m	**£m**	£m	£m
Profit on ordinary activities before taxation	**70.7**	**–**	104.7	–
Adjustments				
Share of net loss/(gain) of joint venture	**1.1**	**–**	(0.2)	–
Net losses/(gains) on financial instruments	**4.1**	**–**	(29.7)	–
	75.9	**–**	74.8	–
Adjusted effective current tax rate		**0.0%**		0.0%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in note 8. Share of net profit/loss of joint venture is excluded from the calculation because the profit/loss is included after tax and so the tax on joint venture profit/loss is not included in the current tax charge.

19. Alternative performance measures (continued)

h) Operational cashflow

Cash generated from operations less contributions and grants received.

	2023	2022
	£m	£m
Cash generated from operations	**506.9**	508.3
Contributions and grants received	**(24.6)**	(14.2)
Operational cashflow	**482.3**	494.1

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

i) 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	**488.2**	291.6
Purchase of intangible assets	**23.6**	4.6
Contributions and grants received	**(24.6)**	(14.2)
Proceeds on disposal of property, plant and equipment	**(10.2)**	(1.7)
Cash capex	**477.0**	280.3

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

j) 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	**577.6**	360.4
Additions to intangible assets	**23.6**	4.6
Contributions and grants received	**(24.6)**	(14.2)
Assets contributed at no cost	**(68.6)**	(57.6)
Capitalised finance costs	**(31.1)**	(23.5)
Capital Investment	**476.9**	269.7

k) Shadow Regulatory Gearing

The ratio of regulatory net debt and shadow regulatory capital value (RCV).

	September 2023 £m	March 2023 £m
Regulatory net debt	**7,242.9**	6,915.6
Shadow RCV	**11,955**	11,532
Shadow regulatory gearing	**60.6%**	60.0%

We confirm to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting"; and

(b) the interim management report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R and 4.2.8R of the United Kingdom Financial Conduct Authority.

Signed on behalf of the Board who approved the half yearly financial report on 21 November 2023.

Christine Hodgson Chair	Helen Miles Chief Financial Officer

Independent review report to Severn Trent Plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of changes in equity, the Condensed consolidated balance sheet, the Condensed consolidated cash flow statement and related notes 1 to 19.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
21 November 2023

Glossary

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

CSO (Combined Sewer Overflows)
CSOs are overflow valves developed to reduce the risk of sewage backing up in combined rainwater and waste water sewers during heavy rainfall.

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.

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

Notional Net Debt
For each price review Ofwat sets a nominal capital structure for companies in determining prices limits. This includes a notional (assumed) regulatory gearing level. Notional net debt is the RCV multiplied by the notional regulatory gearing level.

PR24
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewerage companies are set every five years. PR24 (Price Review 2024) sets wholesale price controls for water and sewerage companies for 2025 to 2030.

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.

Regulatory Gearing
Regulatory gearing is calculated as net debt divided by the RCV.

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').

RNAGS (Reasons for Not Achieving Good Status)
The Environment Agency'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.

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

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

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

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

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

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. The final PR24 Business Plan is subject to approval by Ofwat and there can be no assurance that the PR24 Business Plan will be approved, in whole or in part, and, as a result, 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 profit forecast.

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