Half Yearly Financial Report
26 November 2020
Interim results for the six months to 30 September 2020

Resilient financials, strong operational performance, continued investment

Investment and performance culture delivers strong operational performance:

- Industry leaders in environmental performance with 4* EPA accreditation from the Environment Agency.
- On track for full year ODI reward of at least £25 million[1] driven by record performance in reducing environmental pollutions and customer blockages while delivering a strong start to ambitious biodiversity plans.
- Continued customer focus with improving UK Customer Satisfaction Index scores with both customer complaints and customer experience measures on track for ODI reward in year one.
- Improving water performance across key customer measures such as leakage, water quality and speed of response, delivering forecasted positive net outcome on water for the year.
- Balanced performance across Water, Waste and Environment with c.80% of measures in positive territory.
- Capital investment set to exceed £500 million for the year including accelerated activity on strategic renewable projects.

Financially resilient results and strong liquidity:

- Group turnover of £888 million[2] in line with expectations, down £22 million (2.5%), including £33 million as a result of consumption, largely driven by COVID-19 related decrease in metered revenue. Ofwat regulatory model allows us to recover this revenue in two years.
- Group underlying PBIT[3] of £226 million, down £61 million (21.2%) and Group reported PBIT of £225 million, down £61 million (21.3%), both impacted by reduced revenue, increased bad debt provisioning for COVID-19, higher depreciation and timing of property profits.
- Effective interest cost[4] reduced by a further 40 bps to 3.3%, from 3.7% at the full year.
- Strong financial resilience following sustainable bond issue £300 million and one year extension of our RCF – £890 million of undrawn facilities.
- Underlying basic EPS[5] of 51.3 pence (down 25.4%) and basic EPS of 42.7 pence (down 30.8%), reflecting lower PBIT.
- Interim dividend of 40.63 pence, in line with policy confirmed at the full year.

Supporting our people and our communities:

- Continued support for colleagues, ensuring our essential services are maintained while looking after physical, mental and financial well-being.
- £13 million provided to support customers in financial need, £2 million donated to local organisations to help communities through the pandemic and over £1 million of funding allocated through the Severn Trent Community Fund to 67 key projects in our region.
- Accelerated payments to our supply chain helping 705 small and medium-sized enterprises in our region with crucial cash flow.
- Playing our part for employment in region with no furloughing or redundancies, while welcoming apprentices and graduates to begin their careers.
- Embracing the Government Kickstart Scheme with ambitious plans to support 500 16 to 24 year olds into employment with paid work experience and skills development from January 2021.

Footnotes: see definitions on page 2 of this RNS

Liv Garfield, Chief Executive Severn Trent Plc, said:

“The last six months have been challenging for everyone and I am grateful to our Severn Trent people, whether they’ve been in a treatment works, in an office, working from home, or out on the streets carrying out essential work, for the dedication, resilience and wonderful can-do spirit they have shown. It’s these qualities which have enabled us to provide our customers with a great service in such difficult circumstances. I’m incredibly proud of what we’ve achieved, whether it’s getting the top environmental performance grade once again from the Environment Agency, improving services for our customers, increasing our investment to help the country build back better, or taking a leading role in the Kickstart Scheme. We’ve done all of that while striving to do the right thing for all of our stakeholders, including mental health programmes, our support schemes for vulnerable customers, and through our £1 million emergency COVID-19 fund.”

Group results

	2020	2019	Increase/ (decrease)
	£m	£m	%
Group turnover	**887.6**	910.0	(2.5)
Underlying group PBIT[3]	**225.6**	286.3	(21.2)
Group PBIT	**224.6**	285.3	(21.3)
	pence/ share	pence/ share	
Underlying basic EPS[5]	**51.30**	68.80	(25.4)
Basic EPS	**42.70**	61.70	(30.8)
Interim dividend declared	**40.63**	40.03	1.5

<u>Note:</u> Technical guidance is included in the Chief Financial Officer’s section of this announcement

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Interim Results Presentation and Webcast

A presentation of these results hosted by Liv Garfield, CEO, and James Bowling, CFO, will be available on our website (severntrent.com) from 08.30am GMT today, 26 November 2020. We will be hosting a live Q&A session with Liv, James and our wider Executive team at 10.00am GMT today via video call.

Footnotes to pages 1 & 2 of this RNS

1. Quoted pre-tax at 2017/18 prices.
2. Includes £7.8 million revenue previously credited against operating costs – see note 1.
3. Underlying profit before interest and tax (PBIT) – see note 18 to the financial statements.
4. Effective interest cost – see note 18 to the financial statements.
5. Underlying earnings per share (EPS) – see note 8 to the financial statements.

Chief Executive's Review

The business has adapted well to the impact of the pandemic and delivered resilient performance. We continue to carefully manage the short-term financial impacts of lower revenue and lower earnings for the year, in the knowledge that a large portion of this will be corrected for in later years of the AMP. Our liquidity position remains strong, giving us the confidence to increase our investment for the future. Our people have shown adaptability and commitment in continuing to deliver the best possible service for the communities that we serve and this is reflected in a strong set of operational, environmental and customer outcomes, putting us in a great position for the full year and the AMP as a whole.

Despite the uncertainty, we have maintained focus on the fundamentals that deliver sustainable outperformance. The investment we made at the end of AMP6 in assets, technology and our people is paying off, with around 80% of our ODIs across waste, water and the environment in positive territory, giving us confidence in a full-year outturn of at least £25 million of ODI reward. The performance culture we have built over the past five years is now firmly embedded at every level of our business, making sector-leading outperformance on customer ODIs a multi-year and multi-AMP possibility.

Investment has continued strongly into this year, made possible by the additional time granted by fast-track status. We plan to invest over £500 million by the end of the financial year, including accelerating £80 million from additional capacity in the infrastructure market created by the pandemic. This strong start will enable earlier operational outperformance, and in the case of our renewable asset investments, bring forward carbon and cost benefits.

I'm particularly proud that many of our investments are designed to enhance our environment, with over 14% reduction in pollutions, which puts us on the path to meet our target for a 50% reduction in the AMP. We've also launched our Great Big Nature Boost in the period, which has been warmly received by customers and stakeholders alike, and which we believe will help us make a real difference in restoring nature in our region. Alongside that, we're also already committed to deliver 60% of our ambitious plans to improve the biodiversity of 5,000 hectares of land across the Midlands. Our catchment management approach continues to help us forge strong relationships with farmers and other landowners, and will help us environmentally, operationally and financially for years to come.

Across a broad context we are hitting our stride to deliver for all of our stakeholders. We continue to improve in our customer service metrics, from the UK Customer Satisfaction Index to our regulatory measures of C-MeX and D-MeX. We have delivered industry-leading environmental performance through our 4* EPA status from the Environment Agency and our people continue to be among the top 5% across global utilities for employee engagement.

These improvements put us in a credible position to begin discussions with Ofwat to access material amounts of funding being made available to invest in the Green Recovery in the next five years. This has the potential to deliver sustainable improvements including reduced carbon water treatment, water abstraction, flooding resilience and river quality for our region. If approved, it would boost employment in the region both directly and indirectly as well as support our environmental ambitions for the long term.

Helping people to thrive

People – both our own teams and our customers – are at the very heart of our business and it's people, and the communities where they live and work, who've been hit hardest by the pandemic. That's why it was so important to us to help everyone through these difficult times as best we could. That means we've heavily promoted our support schemes, designed to help our most vulnerable customers and, so far, we've supported more than 100,000 people with £13 million worth of support. And, in October, in recognition of the issues so many were having, we launched our Back on Track scheme which will help those who may be struggling to pay their bill.

We have seen first-hand just how hard the communities we serve have been affected by the pandemic, which is why we decided to provide £2 million of additional charitable funding in the first half of the year to local organisations most in need. We are inspired by the work they do and through our existing £10 million Severn Trent Community Fund we have already invested over £1 million in 67 local projects and we will continue to support them in the best way we can. Our community includes the ecosystem of suppliers, both large and small, who we work with every day. We build partnerships for the long term, which is why we have accelerated capital investment into this year and in many cases shortened our payment terms to provide £159 million of cash flow needed to help 705 of our SME partners through this difficult time.

Our people have been remarkable over the last eight months and we have supported them through a comprehensive approach to health, safety, mental well-being and financial security - committing to no furloughing, no redundancies, honouring our all people bonus and agreeing a 2.3% annual pay increase for the next three years for our front-line teams. Given we continued to work throughout the first lockdown, and will do so again this time, we decided to continue with our plans to bring in new apprentices and graduates, and have since also announced our ambition to take on 500 16 to 24 year-olds who are at risk of becoming long-term unemployed on six-month contracts over the next 12 months as part of the Government's Kickstart Scheme. Our aim is to equip the young people we take on with the experience and skills that will stand them in good stead as they look to find full-time opportunities, possibly even within Severn Trent.

More widely, we're proud to have topped the EY Female FTSE Board Report table which shows our continuing commitment to diversity and inclusion, from our most senior leaders down. Alongside that, we were top 10 for the second year running in the Social Mobility Index, which ranks companies by their commitments to taking on, and progressing, people from all backgrounds. We're also signatories of the Race at Work Charter which is further proof of our desire to reflect the wonderful diversity of all of the communities we serve.

Investing in operational outperformance

We have started this year in the same fashion as we finished the last – delivering strong operational performance for the benefit of our customers. Despite more stretching targets, new performance metrics and the challenges of lockdown, we are pleased to be on track for at least £25 million of ODI reward by the end of the year, with all three of our performance areas (water, waste and the environment) in positive ODI territory.

Promising start on Water

Our performance in water continues to be encouraging, with leakage being cut by 15%, the speed with which we repair those leaks improving by 9%, and water quality complaints are on track to fall by 9%, which is great to see as it will mark the first year of ODI reward for this measure. We're also delighted to be able to share that we're making good progress on some of the newer, bespoke measures for AMP7 such as ensuring no customer has to face persistent low pressure, where we're on track to beat our year one target. Elsewhere, we've made an excellent start to our long-term metering commitment and are now likely to deliver almost double the number we'd targeted in our first year. For our Welsh customers, served under the Hafren Dyfrdwy banner, we've embraced the Welsh Government's ambitions for a lead-free principality by delivering our year-one target for lead pipe replacement four times over.

Inevitably, some of our measures have been affected by COVID-19. Our customers are using more water due to the requirement for continuing great hygiene and by the need to work from home. We continue to push our consumption messages and expect the situation to improve once we get through the pandemic. The combination of consumption habits at home and extremely warm weather for parts of the summer also created challenges for our supply interruptions performance which continues to be an ongoing focus as we're aware of the extent to which being without water, especially at the moment, affects our customers in their daily lives. Our Education programme has also suffered because of our inability to physically go into schools during lockdown but our team has developed a new, virtual presentation that can be streamed live, and we await the second lockdown to end so we can go back into schools in a safe manner.

Industry-leading Waste performance

Our waste business has had a really excellent half year, producing one of our strongest-ever sets of results on pollutions, with a 14% reduction, which is not only great news in the short term, it also puts us right on track to hit our target to halve pollutions by the end of the AMP. This reduction also helped us gain the top 4* rating from the Environment Agency for our performance in 2019. The fact that we were one of only two companies to get the top ranking showed our commitment to remain at the forefront of the industry for waste performance.

The accelerated "Blockbuster" work we initiated last year to reduce sewer blockages has been key to driving down both pollutions and flooding, which we recognise have a significant impact on our customers. By investing in our waste infrastructure and sewer cleansing activities while traffic was subdued during the first lockdown, we've been able to make faster progress to reduce the causes of blockages, which we expect to see in our ODI performance for the full year.

Positive impact on our environment

Our ambition to drive genuine environmental improvement through our Biodiversity programme remains undiminished and we have made a very strong start to the AMP, we are already signed up to deliver in the region of 3,000 hectares, exceeding our 5-year regulatory commitment. We're well on the way to delivering our 2027, 5,000 hectare ambition to deliver a significant environmental legacy for the region and to play a key role in the Government's National Recovery Network. One of the additional benefits of our programme is that it allows our own people and our communities to play their part in our plans, especially as so many of us have spent so much time exercising in, and simply appreciating, the nature around us during lockdown. We launched our Great Big Nature Boost campaign during the summer with local events, supported by a recent TV campaign. We're particularly excited by this area of our plans and look forward to seeing how we can embed it for generations to come.

Supporting the Green Economic Recovery

We support the Government's approach to investing in a Greener Recovery and have proposed a number of projects to help to boost the economy of the Midlands and drive long-term sustainable benefits for the region. These opportunities support the wider national agenda on climate change and would deliver long-term flooding resilience, address national river quality, reduce water consumption, provide additional water supply resilience and take care of private supply pipes. In aggregate they would represent a significant incremental investment opportunity over the next five years and importantly these projects will supplement the work we do now in our communities, providing employment, resilience and improved natural surroundings.

Capital investment delivering short and long-term benefits

Fast-track status provided an early view of the challenges this AMP would bring and has allowed us to invest thoughtfully but at a greater pace, clearly linking our investment plans with the operational outcomes we want to achieve in AMP7, and in doing so, laying the foundations for continually improving outcomes for our customers. With our core plan in motion we have taken the opportunity created by additional capacity in the infrastructure market to bring forward strategic investment in projects such as our thermal hydrolysis programme, creating a more efficient renewable energy process which will ultimately drive cost and carbon benefits in the business. The benefits from securing early agreements with our framework partners and insourcing our capital design team are already being felt in the business and we believe it will continue to play an important role in delivering immediate operational benefit while balancing the demands of cost efficiency, carbon neutrality and waste reduction.

Conclusion

Despite all the challenges we have faced, we have made an excellent operational start to the year. It is an exciting time where the stability of a concluded price review has allowed us to focus on making a positive impact. We can look forward to rest of the AMP in the knowledge we have the culture and skills to deliver operational outperformance, the capital delivery model to deliver innovative solutions in a cost effective way and an approach to environmental and societal sustainability that is embedded in the decisions we make every day.

Chief Financial Officer's Review

Our financial performance is in line with our expectations, taking into account the impacts of the COVID-19 pandemic, for the first six months of 2020/21. At our results announcement in May and our trading update we guided to a £50 - £85 million negative impact to full year 2020/21 revenue and we have seen a £30 million reduction in revenue[1] in the first half of the year. But it's important to remember that the Ofwat regulatory model allows us to recover shortfalls in this year's allowed wholesale revenue in 2022/23.

We have been encouraged by household customer cash collections that are slightly ahead of the same period a year ago with no significant increase in direct debit cancellations. However, we continue to anticipate bad debt increases in line with the guidance previously given, as recent redundancies and the future increases in unemployment included in consensus economic forecasts impact our region. In the first half of the year we therefore recorded an additional £8.2 million in the bad debt charge in our Regulated Water and Waste Water business for the expected impact on our customers' ability to pay in full amounts already billed.

These lower revenue and higher bad debt costs impacted underlying and reported PBIT in our Regulated Water and Waste Water business as expected.

In Business Services, revenue was broadly in line with the same period in the prior year but PBIT was down £9.4 million. Operating Services and Other PBIT was lower as our searches business saw lower volumes of property transactions and our Green Power and Property Development businesses were impacted by lower energy prices and fewer transactions respectively.

Our effective interest cost was down to 3.3% from 3.7% for the previous full year, primarily reflecting the beneficial impact of lower inflation on our index-linked debt. Somewhat counter-intuitively, this may result in an adverse impact on the financing component of our RoRE for this year. This is because Ofwat's draft methodology calculates financing outperformance against the allowed real cost of debt inflated by actual CPIH, which results in a lower financing cost allowance in nominal terms when inflation is lower than the level assumed in the PR19 determination.

Our cash flow and liquidity remain strong. We have £1.075 billion of committed facilities, of which £250 million matures during 2022 and £825 million in March 2023. On 2 June Severn Trent Water issued its first Sustainable Bond, raising £300 million at a fixed rate of 2% over 20 years.

We have made a fast start to our capital programme for AMP7, recording cash capex of £283.5 million in the first six months. To date we have seen no delays to the capital programme from COVID-19.

At the year end we saw a spike in corporate credit spreads, resulting in a higher discount rate than would have applied earlier in the year and, a consequent reduction in our net pension deficit. As expected, this reversed shortly after the year end but the impact was mitigated as we saw the benefit of our hedging investment strategy in the increase in the value of our pension scheme assets by around £320 million in the period and our net deficit at 30 September increased to £478.7 million.

The Board continues to recognise the important role that 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 own pension scheme, colleagues and our communities; the Board determined that it remains appropriate to recommend to shareholders that the interim dividend for the year ending 31 March 2021 be increased by 1.5% to 40.63 pence in line with our policy for AMP7 to increase the dividend by CPIH.

Our underlying basic earnings per share were 51.3 pence (2019/20: 68.8 pence). Basic earnings per share were 42.7 pence (2019/20: 61.7 pence).

[1] Excludes £7.8 million revenue previously credited against operating costs – see note 1.

A brief overview of our financial performance for the six-month period is as follows:

- Group turnover was £887.6 million[1] (2019/20: £910.0 million), down 2.5%, reflecting lower consumption from non-household customers as a result of COVID-19 partially offset by higher household consumption during the first national lockdown.

- Underlying Group PBIT was down by 21.2% to £225.6 million (2019/20: £286.3 million) and reported Group PBIT was £224.6 million (2019/20: £285.3 million), both reflecting the lower revenue, an increase in our bad debt provision due to the expected impact of unemployment increases included in consensus economic forecasts and higher depreciation from end of AMP6 schemes coming into operation.

- Net finance costs decreased marginally to £91.1 million (2019/20: £93.8 million) as the impact of higher net debt in the period was offset by a lower effective interest cost of 3.3% (2019/20: 3.7%) due primarily to lower inflation on our index-linked debt. Our effective cash cost of interest was 3.1% (2019/20: 3.1%).

- At the previous year end we wrote down our investment in our joint venture, Water Plus, to nil. As a result, there is no loss to record in the current period (2019/20: loss of £9.3 million). At 30 September our share of Water Plus's accumulated losses not recognised was £11.1 million (see note 11).

- The current tax charge for the period was £11.0 million (2019/20: £18.2 million). The deferred tax charge was £13.8 million (2019/20: £15.8 million) giving a total tax charge of £24.8 million (2019/20: £34.0 million) and a full effective tax rate of 19.6% (2019/20: 18.8%).

- Net cash capital expenditure was £283.5 million (2019/20: £374.1 million).

[1] Includes £7.8 million revenue previously credited against operating costs – see note 1.

Changes to segmental presentation

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

We have restated the prior year segmental analysis to present both years on a consistent basis. Details of the adjustments made are set out in note 3 to the financial statements.

Regulated Water and Waste Water

Six months ended 30 September	**2020**	2019 (restated)	Better/(worse)	
	£m	£m	£m	%
Turnover	**829.9**	849.9	(20.0)	(2.4)
Net labour costs	**(76.7)**	(72.4)	(4.3)	(5.9)
Net hired and contracted costs	**(90.5)**	(87.2)	(3.3)	(3.8)
Power	**(46.4)**	(45.4)	(1.0)	(2.2)
Bad debts	**(24.5)**	(18.5)	(6.0)	(32.4)
Other costs	**(118.0)**	(101.5)	(16.5)	(16.3)
	(356.1)	(325.0)	(31.1)	(9.6)
Infrastructure renewals expenditure	**(65.6)**	(75.6)	10.0	13.2
Depreciation	**(188.6)**	(176.9)	(11.7)	(6.6)
Underlying PBIT	**219.6**	272.4	(52.8)	(19.4)

Turnover for the Regulated Water and Waste Water segment was £829.9 million (2019/20: £849.9 million) and underlying PBIT was £219.6 million (2019/20: £272.4 million).

Turnover decreased by £20.0 million. The main movements in turnover were:

- The impact of the annual CPIH + K increase on prices, which increased revenue by £16.2 million;
- A net increase of £1.3 million to revenue as a result of a lower year-on-year adjustment for wholesale revenue billed in excess of the wholesale revenue allowance in prior periods;
- An increase year-on-year of £2.8 million on the outperformance payments earned from customer ODIs taken into revenue;
- An increase of £7.8 million from the reclassification of deferred income released to the income statement, previously credited to operating costs (see note 1); offset by
- A decrease of £12.7 million due to tariff changes, largely the PR19 rebasing of revenue;
- A net decrease of £33.2 million due to lower consumption from commercial customers, mainly from the effects of COVID-19, partially offset by increases in domestic consumption from the impact of more people at home during the first national lockdown and the dry summer period ; and
- A number of other smaller variances resulting in an additional net decrease of £2.2 million.

We carried forward ODI rewards from AMP 6 amounting to £191 million in nominal prices. Our turnover in the six months ended 30 September 2020 includes £38.2 million from these rewards.

Net labour costs were £4.3 million (5.9%) higher period-on-period. Gross employee costs increased by 4.9% due to the annual pay award of 2.3% and insourcing of design activity in our Capital Delivery team. Our capitalisation of employee costs has increased by 3.9% largely related to this insourcing activity.

Net hired and contracted costs increased by £3.3 million (3.8%) due to an increase in licence costs associated with new technology solutions, costs incurred during the hot weather period in May, and activity brought forward into the first half of the year.

Power costs were £1.0 million higher than the previous period due to the expected rise in pass-through costs and additional consumption to meet higher demand for water from household customers, with some offset from an increase in self-generation and a reduction in variable tariffs.

Bad debt charges were £6.0 million higher than the previous period and represent 3.7% of household revenue, (2019/20 full year: 3.2%). Cash collection in the period from household customers has held up well, and was c. 4% higher than the previous year. However, we are anticipating an impact on collection of our outstanding trade receivables at 30 September 2020 from the expected increase in unemployment included in consensus economic forecasts, attributable mainly to COVID-19. The charge in the period includes £8.2 million specifically for this, equivalent to 1.2% of household revenue.

Other costs rose by £16.5 million after reclassifying £7.8 million of deferred income to turnover. The remaining increase is attributable to a number of smaller items including higher chemical costs, as a result of new Water Framework Directive schemes coming on line, higher business rates (due to inflationary increases this year and significant rebates in the prior year) and the costs of our Community Fund and similar assistance for our local communities.

Infrastructure renewals expenditure was £10.0 million lower in the period, reflecting the completion of significant AMP6 projects last year, including our Trunk Mains Renewal Programme.

Depreciation was £11.7 million higher period-on-period, as major AMP6 projects were brought into service.

Business Services

In line with the reorganisation of our segments described above, we present the performance of the Business Services segment across three business units:

- Operating Services and Other includes our contracts business, our affinity and searches businesses and segment overheads.
- Green Power includes our generating assets outside the Bioresources business. This includes anaerobic digestion from crops and food waste, wind power, hydro-electric and solar power.
- Property Development includes all such activities in both our regulated and non-regulated companies.

Six months ended 30 September

	2020	2019 (restated)	Better/(worse)	
	£m	£m	£m	%
Turnover				
Operating Services and Other	**34.6**	36.3	(1.7)	(4.7)
Green Power	**24.5**	25.3	(0.8)	(3.2)
	59.1	61.6	(2.5)	(4.1)
Underlying PBIT				
Operating Services and Other	**6.7**	7.8	(1.1)	(14.1)
Green Power	**0.1**	3.6	(3.5)	(97.2)
Property Development	**1.4**	6.2	(4.8)	(77.4)
	8.2	17.6	(9.4)	(53.4)

Business Services turnover was £59.1 million (down 4.1%) and underlying PBIT was £8.2 million (down 53.4%). In our Operating Services and Other businesses, turnover and underlying PBIT decreased by £1.7 million and £1.1 million respectively, largely driven by lower volumes in the Property Searches business due to the impact of the national lockdown from April to July.

In Green Power, turnover decreased by £0.8 million and underlying PBIT decreased by £3.5 million. The decrease in revenue was due to the reduction in energy prices driven by lower demand due to COVID-19, and the increase in costs was largely driven by purchase of alternative feedstocks to offset the reduced availability of commercial food waste due to the lockdown closure of the hospitality industry.

Profits from Property Development were £4.8 million lower with no large sales planned for this period, as guided. We remain on track for our target of £100 million PBIT from Property Development over the ten years to 2027.

Corporate and other

Corporate overheads were lower at £2.4 million (2019/20: £4.1 million).

Net finance costs

The Group's net finance costs for the six month period were £91.1 million, marginally down on the prior period (£93.8 million). Average net debt increased to £6,236.1 million (2019/20: £5,902.9 million), and our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was 3.1% (2019/20: 3.1%). Interest cost on index-linked debt decreased by £11.7 million, due to lower inflation. Interest capitalised of £14.9 million was £6.2 million lower than the prior period due to the higher level of capital work in progress in the prior period.

As a result of these movements, our effective interest cost for the period fell to 3.3% (2019/20: 3.7%).

The Group's EBITDA interest cover was 4.8 times (2019/20: 5.3 times) and PBIT interest cover was 2.5 times (2019/20: 3.2 times). See note 18 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 £655 million to balance our interest rate mix in line with our strategy;
- Cross currency swaps with a sterling principal of £141 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 that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the period there was a loss of £10.0 million (2019/20: gain of £3.3 million) in relation to these 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 91% of the estimated wholesale energy usage for the remainder of 2020/21 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 another 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 2019/20 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 2021.

The tax charge reported in the income statement is calculated at a rate of 19.6% (2019/20: 18.8%), representing the best estimate of the annual average tax rate expected for the full year, applied to the profit for the six month period.

The current tax charge for the period was £11.0 million (2019/20: £18.2 million) and the deferred tax charge was £13.8 million (2019/20: £15.8 million).

The benefit of capital allowances on our increased capital programme reduced our underlying effective current tax rate (in line with guidance) to 9.1% (2019/20: 10.3%).

Profit for the period and earnings per share

Reported profit for the period was £101.7 million (2019/20: £146.7 million).

Basic earnings per share decreased by 30.8% to 42.7 pence (2019/20: 61.7 pence). Underlying basic earnings per share were 51.3 pence (2019/20: 68.8 pence). For further details see note 8.

Cash flow

Six months ended 30 September

	2020 **£m**	2019 £m
Operational cashflow	**492.7**	496.5
Cash capex	**(283.5)**	(374.1)
Net interest paid	**(75.7)**	(72.8)
Proceeds on disposal of subsidiary undertakings	**0.7**	–
Payments for swap terminations	**–**	(16.8)
Proceeds from swap terminations	**–**	16.5
Net tax paid	**(4.9)**	(22.4)
Free cash flow	**129.3**	26.9
Dividends	**(143.1)**	(133.1)
Issue of shares	**10.7**	8.7
Purchase of own shares	**–**	(1.6)
Change in net debt from cash flows	**(3.1)**	(99.1)
Non-cash movements	**(8.6)**	(23.6)
Change in net debt	**(11.7)**	(122.7)
Opening net debt	**(6,231.5)**	(5,834.1)
Closing net debt	**(6,243.2)**	(5,956.8)

Net debt comprises:

	30 September 2020 £m	31 March 2020 £m	30 September 2019 £m
Net cash and cash equivalents	**22.7**	48.6	23.3
Bank loans	**(966.3)**	(1,251.9)	(1,196.6)
Other loans	**(5,351.4)**	(5,058.5)	(4,842.7)
Lease liabilities	**(123.6)**	(122.7)	(128.7)
Cross currency swaps	**53.1**	60.4	55.9
Loans due from joint venture	**122.3**	92.6	132.0
Net debt	**(6,243.2)**	(6,231.5)	(5,956.8)

At 30 September 2020 we held £22.7 million (31 March 2020: £48.6 million) in cash and cash equivalents. Average debt maturity is 13 years. Including committed facilities, of which £890 million was undrawn at the balance sheet date, the Group's cash flow requirements are funded until July 2022.

We invest cash in deposits with highly rated banks and the Board regularly reviews the list of counterparties.

Net debt at 30 September 2020 was £6,243.2 million (31 March 2020: £6,231.5 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 86.0% (31 March 2020: 83.4%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2020 was 66.1% (31 March 2020: 64.9%).

The estimated fair value of debt at 30 September 2020 was £1,898.8 million higher than book value (31 March 2020: £951.8 million higher). The increase in the difference to book value is largely due to lower prevailing long-term market interest rates.

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.

Formal three-yearly actuarial valuations were completed at 31 March 2019 for the Severn Trent schemes and at 31 March 2017 for the Dee Valley Water scheme.

Under the 2019 valuation, the future funding plan for the Severn Trent Pension Scheme (‘STPS’), which is by far the largest, includes:

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

On an IAS 19 basis, the estimated net position (before deferred tax) of all of the Group's defined benefit pension schemes at 30 September 2020 was a deficit of £478.7 million. At the previous year end we saw a spike in corporate credit spreads, resulting in a higher discount rate than would have applied earlier in the year, and a consequent reduction in our net pension deficit to £234.0 million. As expected, this reversed shortly after the year end, however, we saw the benefit of our hedging investment strategy in the returns on our pension scheme assets of £321.1 million in the period, reducing the impact of the lower discount rate and higher inflation expectations.

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	2,414.1	(2,648.1)	(234.0)
Amounts credited/(charged) to income statement	27.7	(31.6)	(3.9)
Actuarial gains/(losses) taken to reserves	292.2	(544.7)	(252.5)
Net contributions received and benefits paid	(42.4)	54.1	11.7
At end of the period	**2,691.6**	**(3,170.3)**	**(478.7)**

Defined benefit obligations increased due to the impact of the lower discount rate applied at the end of the period and the higher long-term inflation assumption. Strong asset performance partly compensated for these and, on an IAS 19 basis, the funding level is 85% (31 March 2020: 91%).

Dividends

The Board has declared an interim ordinary dividend of 40.63p per share (2019/20: 40.03p per share), which will be paid on 6 January 2021 to shareholders on the register at 4 December 2020.

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. Details of how the Group mitigates and manages these risks are set out in the Annual Report.

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

Legal
- There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.

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

Financial risks:

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

COVID-19:

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

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

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

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

Technical Guidance 2020/21

Year-end guidance		**FY 20 (restated)[1]**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover[1,2]	£1.63 billion to £1.67 billion. Lower year-on-year by £50 million to £85 million from the expected impact of COVID-19 (non-household consumption down, partly offset by increased household usage). Assumes latest national lockdown is in place from 5 November to 2 December. We will provide an update on expected outturn at our quarterly trading update in February. The Ofwat regulatory model allows us to recover this revenue in two years.	£1.71bn	▼
Operating costs (incl. IRE)[1]	Higher year-on-year due to increasing chemical usage to meet tighter effluent consents and expected COVID-19 related increases in household bad debt, partially offset by our insourcing strategy and a reduction in our IRE programme following completion of AMP6 programmes.	£815m	▲
Customer ODIs[3]	At least £25 million net reward across Water, Waste and Environmental measures.	£36m	▼
Business Services			
Underlying PBIT[1] (excl. Property)	Lower year-on-year driven by the impact of lower energy prices on renewable energy revenue and COVID-19.	£28m	▼
Underlying Property PBIT	Between £2 million and £5 million. We remain on track with commitment to deliver £100 million PBIT over ten years to 2027.	£8m	▼
Group			
Interest charge	Broadly in line with prior year as increased total debt and lower capitalised borrowing costs are offset by the impact of lower inflation on index-linked debt.	£188m	↔
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 9% and 11%.	10.4%	↔
Group capex	£500 million to £580 million. Accelerated activity on AMP7 capital schemes, but lower expenditure year-on-year following completion of significant AMP6 programmes.	£800m	▼
Dividend[4]	Annual dividend growth of CPIH. 2020/21 dividend of 101.58p.	100.08p	▲

Footnotes to technical guidance

1. Guidance restated to reflect segmental changes.
2. Includes new presentation of deferred income released to turnover in the income statement.
3. Customer Outcome Delivery Incentives for FY21 are quoted pre-tax in 2017/18 prices (FY20 quoted pre-tax in 2012/13 prices).
4. 2020/21 dividend growth is based on November 2019 CPIH of 1.50%.

Further Information

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

Investor Timetable

3 December 2020	Ex-dividend date (Interim)
4 December 2020	Dividend record date (Interim)
11 December 2020	DRIP election date (Interim)
6 January 2021	Interim dividend payment date
4 February 2021	Q3 Trading Update
31 March 2021	Financial Year End
26 May 2021	Full Year Results Announcement 2020/21
3 June 2021	Ex-dividend date (Final)
4 June 2021	Dividend record date (Final)
25 June 2021	DRIP election date (Final)
8 July 2021	AGM
16 July 2021	Final dividend payment date
For more information please visit: https://www.severntrent.com/investors/financial-calendar	

Condensed consolidated income statement
Six months ended 30 September 2020

	Note	2020 Underlying £m	2020 Non-underlying items[1] £m	2020 Total £m	2019 Underlying £m	2019 Non-underlying items[1] £m	2019 Total £m
Turnover	3,4	**887.6**	**–**	**887.6**	910.0	–	910.0
Other income		**–**	**–**	**–**	5.9	–	5.9
Operating costs before charge for bad and doubtful debts		**(637.8)**	**(1.0)**	**(638.8)**	(610.8)	(1.0)	(611.8)
Charge for bad and doubtful debts		**(24.2)**	**–**	**(24.2)**	(18.8)	–	(18.8)
Total operating costs		**(662.0)**	**(1.0)**	**(663.0)**	(629.6)	(1.0)	(630.6)
Profit before interest and tax		**225.6**	**(1.0)**	**224.6**	286.3	(1.0)	285.3
Finance income		**29.9**	**–**	**29.9**	31.0	–	31.0
Finance costs		**(121.0)**	**–**	**(121.0)**	(124.8)	–-	(124.8)
Net finance costs		**(91.1)**	**–**	**(91.1)**	(93.8)	–	(93.8)
Net losses on financial instruments	5	**(7.0)**	**–**	**(7.0)**	(1.5)	–	(1.5)
Share of net loss of joint venture accounted for using the equity method	11	**–**	**–**	**–**	(9.3)	–	(9.3)
Profit on ordinary activities before taxation		**127.5**	**(1.0)**	**126.5**	181.7	(1.0)	180.7
Current tax	6	**(11.0)**	**–**	**(11.0)**	(18.2)	–	(18.2)
Deferred tax	6	**(13.8)**	**–**	**(13.8)**	(15.8)	–	(15.8)
Taxation on profit on ordinary activities	6	**(24.8)**	**–**	**(24.8)**	(34.0)	–	(34.0)
Profit for the period		**102.7**	**(1.0)**	**101.7**	147.7	(1.0)	146.7

Earnings per share (pence)

	2020	2019
Basic	**42.7**	61.7
Diluted	**42.5**	61.5

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

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2020

	Note	2020 £m	2019 £m
Profit for the period		**101.7**	146.7
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	12	**(252.5)**	68.8
Current tax on pension contributions in prior periods		**–**	4.8
Deferred tax on pension contributions in prior periods		**–**	(4.8)
Deferred tax on net actuarial losses/gains		**48.0**	(11.7)
		(204.5)	57.1
Items that may be reclassified to the income statement:			
Gains/(losses) on cash flow hedges		**1.2**	(22.4)
Deferred tax on gains/losses on cash flow hedges		**(0.2)**	3.9
Amounts on cash flow hedges transferred to the income statement	5	**4.1**	4.1
Deferred tax on transfer to the income statement		**(0.8)**	(0.7)
		4.3	(15.1)
Other comprehensive (loss)/income for the period		**(200.2)**	42.0
Total comprehensive (loss)/income for the period		**(98.5)**	188.7

Condensed consolidated statement of changes in equity
Six months ended 30 September 2020

		Equity attributable to owners of the company				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	£m	£m	£m	£m	£m
At 1 April 2019		235.9	128.0	92.8	706.2	1,162.9
Profit for the period		–	–	–	146.7	146.7
Losses on cash flow hedges		–	–	(22.4)	–	(22.4)
Deferred tax on losses on cash flow hedges		–	–	3.9	–	3.9
Amounts on cash flow hedges transferred to the income statement	5	–	–	4.1	–	4.1
Deferred tax on transfer to the income statement		–	–	(0.7)	–	(0.7)
Net actuarial gains	12	–	–	–	68.8	68.8
Current tax on pension contributions in prior periods		–	–	–	4.8	4.8
Deferred tax on pension contributions in prior periods		–	–	–	(4.8)	(4.8)
Deferred tax on net actuarial gains		–	–	–	(11.7)	(11.7)
Total comprehensive income for the period		–	–	(15.1)	203.8	188.7
Share options and LTIPs						
- proceeds from shares issued		0.5	8.2	–	–	8.7
- value of employees' services		–	–	–	4.0	4.0
- own shares purchased		–	–	–	(1.6)	(1.6)
Current tax on share based payments		–	–	–	0.1	0.1
Deferred tax on share based payments		–	–	–	0.1	0.1
Dividends paid	7	–	–	–	(133.1)	(133.1)
At 30 September 2019		236.4	136.2	77.7	779.5	1,229.8
At 1 April 2020		236.5	137.0	67.9	802.3	1,243.7
Profit for the period		–	–	–	101.7	101.7
Gains on cash flow hedges		–	–	1.2	–	1.2
Deferred tax on gains on cash flow hedges		–	–	(0.2)	–	(0.2)
Amounts on cash flow hedges transferred to the income statement	5	–	–	4.1	–	4.1
Deferred tax on transfer to the income statement		–	–	(0.8)	–	(0.8)
Net actuarial losses	12	–	–	–	(252.5)	(252.5)
Deferred tax on net actuarial losses		–	–	–	48.0	48.0
Total comprehensive loss for the period		–	–	4.3	(102.8)	(98.5)
Share options and LTIPs						
- proceeds from shares issued		0.6	10.1	–	–	10.7
- value of employees' services		–	–	–	4.5	4.5
Current tax on share based payments		–	–	–	0.4	0.4
Deferred tax on share based payments		–	–	–	0.6	0.6
Dividends paid	7	–	–	–	(143.1)	(143.1)
At 30 September 2020		**237.1**	**147.1**	**72.2**	**561.9**	**1,018.3**

Condensed consolidated balance sheet
At 30 September 2020

	Note	30 September 2020 £m	31 March 2020 (restated see note 1) £m
Non-current assets			
Goodwill		**91.4**	91.4
Other intangible assets		**163.8**	153.8
Property, plant and equipment		**9,666.7**	9,580.8
Right-of-use assets		**127.4**	128.8
Derivative financial instruments		**62.0**	65.5
Trade and other receivables		**136.4**	117.8
Retirement benefit surplus	12	**16.7**	21.3
		10,264.4	10,159.4
Current assets			
Inventory		**28.4**	29.2
Trade and other receivables		**528.0**	561.4
Current tax receivable		**–**	3.1
Derivative financial instruments		**1.7**	**–**
Cash and cash equivalents		**22.7**	48.6
		580.8	642.3
Current liabilities			
Borrowings	9	**(440.8)**	(475.4)
Derivative financial instruments		**(0.1)**	(4.4)
Trade and other payables		**(609.4)**	(573.6)
Current tax payable		**(2.6)**	-
Provisions for liabilities		**(16.5)**	(18.9)
		(1,069.4)	(1,072.3)
Net current liabilities		**(488.6)**	(430.0)
Non-current liabilities			
Borrowings	9	**(6,000.5)**	(5,957.7)
Derivative financial instruments		**(169.5)**	(159.2)
Trade and other payables		**(1,199.7)**	(1,187.3)
Deferred tax		**(867.3)**	(901.1)
Retirement benefit obligations	12	**(495.4)**	(255.3)
Provisions for liabilities		**(25.1)**	(25.1)
		(8,757.5)	(8,485.7)
Net assets		**1,018.3**	1,243.7
Equity			
Called up share capital	13	**237.1**	236.5
Share premium account		**147.1**	137.0
Other reserves		**72.2**	67.9
Retained earnings		**561.9**	802.3
Total equity		**1,018.3**	1,243.7

Condensed consolidated cash flow statement
Six months ended 30 September 2020

	Note	**2020** **£m**	2019 £m
Cash generated from operations[1]	14	**507.3**	514.6
Tax paid	14	**(4.9)**	(22.4)
Net cash generated from operating activities		**502.4**	492.2
Cash flows from investing activities			
Purchases of property, plant and equipment		**(284.3)**	(377.3)
Purchases of intangible assets		**(15.6)**	(21.4)
Proceeds on disposal of subsidiary		**0.7**	–
Proceeds on disposal of property, plant and equipment		**1.8**	6.5
Net loans (advanced to)/ repaid by joint venture		**(29.5)**	10.0
Interest received		**0.7**	0.6
Net cash outflow from investing activities		**(326.2)**	(381.6)
Cash flow from financing activities			
Interest paid		**(76.2)**	(73.4)
Interest element of lease payments		**(0.2)**	–
Dividends paid to shareholders of the parent		**(143.1)**	(133.1)
Repayments of borrowings		**(286.2)**	(0.9)
Principal elements of lease payments		**(0.9)**	(1.2)
New loans raised		**293.8**	74.9
Issues of shares		**10.7**	8.7
Purchase of own shares		**–**	(1.6)
Payments for swap terminations		**–**	(16.8)
Proceeds from swap terminations		**–**	16.5
Net cash outflow from financing activities		**(202.1)**	(126.9)
Net movement in cash and cash equivalents		**(25.9)**	(16.3)
Net cash and cash equivalents at the beginning of the period		**48.6**	39.6
Net cash and cash equivalents at end of period		**22.7**	23.3
Cash at bank and in hand		**18.3**	7.5
Bank overdrafts		**–**	(0.5)
Short term deposits		**4.4**	16.3
		22.7	23.3

[1] Contributions received have been presented as operating cash flows in 2020/21 as these credits are released to turnover over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £18.1 million and increasing investing cash outflows by the same amount.

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 2020 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 International Financial Reporting Standards and in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. 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 2020.

b) Going concern

Including undrawn committed credit facilities of £890 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.

As set out in the principal risks and uncertainties section of this document, we have modelled plausible and extreme scenarios to determine expected impacts of COVID-19 and test our financial resilience, and there is headroom under both scenarios. There is a risk that the impact of COVID-19 will be greater than that modelled by the Group. However, we do not consider this risk to be a threat to the Group's financial resilience.

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.

d) Change in accounting presentation

i) Contract asset ageing

A prior period adjustment has been made to reflect a change in presentation for the ageing of contract assets. The previous presentation was to allocate future cash receipts relating to contract assets on a last-in-first-out basis for ageing purposes. Under the current presentation future cash receipts are allocated to contract assets on a first-in-first-out basis.

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

Balance sheet extract

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

ii) Segmental presentation

A change in segmental presentation is set out in note 3. This has resulted in a change to the analysis of revenue by segment, which is shown in note 4.

iii) Deferred income

Previously deferred income released to the income statement was credited to operating costs. Under the new presentation, the release is recognised as turnover and in the 6 months to 30 September 2020 amounted to £7.8m. This presentational change has been applied beginning in the current accounting period, however as the impact is not material to comparative prior periods they have not been restated. This reclassification has no impact on profits or cash flows recorded in the period or prior periods.

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 2020. 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 2020, however, we now consider the application of our accounting policy for contributions received to be a critical accounting judgment. This is set out below.

i) Income from connections to the water and waste water networks

The Group receives income from developers and domestic customers from new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Group infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Group adopts assets in this manner.
- When new properties are connected to the network, the Group is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as infrastructure charges and are a standard amount per property that are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Group's network, the Group installs a meter and connection to each property at the developer's expense but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Group's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Group and the customer. During the period the Group received infrastructure assets with a fair value of £11.6 million (2019/20: £38.4 million), infrastructure charges amounting to £2.6 million (2019/20: £7.1 million) and other charges relating to the provision of infrastructure amounting to £12.0 million (2019/20: £11.0 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

2. Critical accounting judgments and key sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty

There are no significant changes to the key sources of estimation uncertainty described in the financial statements for the year ended 31 March 2020. A new key source of estimation uncertainty has arisen in the period and is described below.

i) Expected credit losses on trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of the COVID-19 outbreak on unemployment levels and hence on the Group's collection of trade receivables. In the current period, the peak level of unemployment has increased and the period to return to current levels has lengthened in consensus economic forecasts.

We based our assessment of future unemployment trends on the Bank of England's most recent Monetary Policy Report at the balance sheet date, for August 2020, which forecast a peak rate of unemployment for the UK of 7.5% in the fourth quarter of calendar year 2020, with a return to the pre- COVID-19 level of unemployment (4%) by the third quarter of calendar year 2023.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	30 September 2020 £m	31 March 2020 £m
Gross carrying amount	**552.3**	603.6
Provision for bad and doubtful debts	**(133.5)**	(141.7)
Net carrying amount	**418.8**	461.9

Movements in the expected credit loss allowance are as follows:

	2020 £m	2019 £m
At 1 April	**141.7**	120.2
Charge for bad and doubtful debtswhich	**24.2**	18.8
Amounts written off during the period	**(32.4)**	(12.8)
At 30 September	**133.5**	126.2

On 5 November, the Bank of England published its latest Monetary Policy Report. This revised the forecast for unemployment to show a peak level of 6.7% in the fourth quarter of calendar year 2021 and a more gradual recovery to the pre-COVID level in the first quarter of calendar year 2024.

If our assessment of future unemployment trends had been based on this forecast, the expected credit loss in the period would have been £1.8 million higher.

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, the Property Development business and our other non-regulated businesses including affinity products and searches.

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

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the period ended 30 September 2019:

	Regulated Water and Waste Water (old basis)	Bioresources	Developer Services	Regulated Water and Waste Water (new basis)
	£m	£m	£m	£m
Turnover	807.5	42.3	0.1	849.9
Profit before interest and tax	260.1	12.6	(0.3)	272.4

	Business Services (old basis)	Bioresources	Developer Services	Business Services (new basis)
	£m	£m	£m	£m
External turnover	102.5	(42.3)	(0.1)	60.1
Inter-segment turnover	9.8	(8.3)	–	1.5
Total turnover	112.3	(50.6)	(0.1)	61.6
Underlying PBIT	29.9	(12.6)	0.3	17.6
Amortisation of acquired intangible assets	(1.0)	–	–	(1.0)
Profit before interest and tax	28.9	(12.6)	0.3	16.6

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

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

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

3. Segmental analysis (continued)

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.

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

The following table shows the segmental turnover and PBIT:

Six months ended 30 September

	2020		2019 (restated)	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
External turnover	**829.7**	**57.9**	849.9	60.1
Inter-segment turnover	**0.2**	**1.2**	–	1.5
Total turnover	**829.9**	**59.1**	849.9	61.6
Underlying PBIT	**219.6**	**8.2**	272.4	17.6
Amortisation of acquired intangible assets	**–**	**(1.0)**	–	(1.0)
Profit before interest and tax	**219.6**	**7.2**	272.4	16.6

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

Six months ended 30 September

	2020	2019 (restated)
	£m	£m
Regulated Water and Waste Water	**829.9**	849.9
Business Services	**59.1**	61.6
Corporate and other	**0.4**	0.5
Consolidation adjustments	**(1.8)**	(2.0)
	887.6	910.0

3. Segmental analysis (continued)

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

Six months ended 30 September	2020 £m	2019 (restated) £m
Regulated Water and Waste Water	**219.6**	272.4
Business Services	**8.2**	17.6
Corporate and other	**(2.2)**	(3.6)
Consolidation adjustments	**–**	(0.1)
Underlying PBIT	**225.6**	286.3
Amortisation of acquired intangible assets:		
Business Services	**(1.0)**	(1.0)
Net finance costs	**(91.1)**	(93.8)
Net losses on financial instruments	**(7.0)**	(1.5)
Share of net loss of joint venture accounted for using the equity method	**–**	(9.3)
Profit on ordinary activities before taxation	**126.5**	180.7

The following table shows segmental capital employed:

	30 September 2020		31 March 2020 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**10,238.3**	**312.7**	10,177.2	332.1
Goodwill	**63.5**	**29.2**	63.5	29.2
Segment assets	**10,301.8**	**341.9**	10,240.7	361.3
Segment operating liabilities	**(2,269.1)**	**(44.7)**	(1,990.7)	(43.5)
Capital employed	**8,032.7**	**297.2**	8,250.0	317.8

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

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

4. Revenue from contracts with customers

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

Six months ended 30 September 2020

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	813.1	–	–	–	813.1
Operating services	–	29.1	–	–	29.1
Renewable energy	14.9	24.6	–	(1.2)	38.3
Other sales	1.9	5.4	0.4	(0.6)	7.1
	829.9	**59.1**	**0.4**	**(1.8)**	**887.6**

Six months ended 30 September 2019 (restated)

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	834.0	–	–	–	834.0
Operating services	–	29.5	–	–	29.5
Renewable energy	13.8	25.2	–	(1.5)	37.5
Other sales	2.1	6.9	0.5	(0.5)	9.0
	849.9	61.6	0.5	(2.0)	910.0

Following the changes in the segmental presentation as described in note 3, the Bioresources and Developer Services businesses previously included in Business Services and are now included within Regulated Water and Waste Water. Revenue classification by business segment for the six months ended 30 September 2019 has been restated in line with the change in the basis of segmentation as shown below:

	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Developer Services £m	Consolidation adjustments £m	Regulated Water and Waste Water (new basis) £m
Water and waste water services	805.5	28.5	–	–	834.0
Renewable energy	–	22.1	–	(8.3)	13.8
Other sales	2.0	–	0.1	–	2.1
	807.5	50.6	0.1	(8.3)	849.9

	Business Services (old basis) £m	Bioresources £m	Developer Services £m	Business Services (new basis) £m
Water and waste water services	28.5	(28.5)	–	–
Operating services	29.5	–	–	29.5
Renewable energy	47.3	(22.1)	–	25.2
Other sales	7.0	–	(0.1)	6.9
	112.3	(50.6)	(0.1)	61.6

Income from diversions of £5.0 million (2019: £2.3 million), which is reimbursement of costs incurred for diversions, is included within infrastructure maintenance expenditure within operating costs.

5. Net losses on financial instruments

Six months ended 30 September

	2020 £m	2019 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(1.2)**	5.4
Loss arising on debt in fair value hedges	**(0.3)**	(1.4)
Exchange gain/(loss) on other loans	**5.9**	(7.9)
Loss on cash flow hedges transferred from equity	**(4.1)**	(4.1)
Hedge ineffectiveness on cash flow hedges	**2.2**	2.7
(Loss)/gain arising on swaps where hedge accounting is not applied	**(10.0)**	3.3
Amortisation of fair value adjustment on debt	**0.5**	0.5
	(7.0)	(1.5)

6. Tax

Six months ended 30 September

	2020 £m	2019 £m
Current tax		
Current year at 19.6% (2019: 18.8%)	**11.0**	18.6
Prior years	**–**	(0.4)
Total current tax	**11.0**	18.2
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**13.8**	16.2
Prior years	**–**	(0.4)
Total deferred tax	**13.8**	15.8
	24.8	34.0

The tax charge in the income statement is calculated at a rate of 19.6% (2019: 18.8%) 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 underlying effective current tax rate was 9.1% (2019: 10.3%). See note 18.

Current tax credits of £0.4 million (2019: £4.9 million) and deferred tax credits of £47.6 million (2019: £13.2 million) have been taken to reserves in the period.

7. Dividends

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

Six months ended 30 September

	2020		2019	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2020 (2019)	**60.05**	**143.1**	56.02	133.1

The proposed interim dividend of 40.63p per share (2019: 40.03p per share) was approved by the Board on 25 November 2020 and has not been included as a liability at 30 September 2020.

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:

Number of shares

Six months ended 30 September

	2020	2019
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.1**	237.8
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**1.1**	0.7
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.2**	238.5

b) Underlying earnings per share

Six months ended 30 September

	2020	2019
	pence	pence
Underlying basic earnings per share	**51.3**	68.8
Underlying diluted earnings per share	**51.1**	68.6

The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

Six months ended 30 September

	2020	2019
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**101.7**	146.7
Adjustments for:		
- amortisation of acquired intangible assets	**1.0**	1.0
- net losses on financial instruments	**7.0**	1.5
- current tax on net losses on financial instruments	**(1.3)**	(1.3)
- deferred tax	**13.8**	15.8
Earnings for the purpose of underlying basic and diluted earnings per share	**122.2**	163.7

9. Borrowings

	30 September 2020 £m	31 March 2020 £m
Bank loans	**966.3**	1,251.9
Other loans	**5,351.4**	5,058.5
Lease liabilities	**123.6**	122.7
Borrowings	**6,441.3**	6,433.1

The borrowings are repayable as follows:

	30 September 2020 £m	31 March 2020 £m
On demand or within one year - included in current liabilities	**440.8**	475.4
Over one year - included in non-current liabilities	**6,000.5**	5,957.7
	6,441.3	6,433.1

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 2020 £m	31 March 2020 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow.
Assets	**53.1**	60.4	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.
Interest rate swaps			Discounted cash flow.
Assets	**6.5**	4.9	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	**(135.6)**	(128.7)	
Energy swaps			Discounted cash flow.
Assets	**4.1**	0.2	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	**(0.3)**	(7.2)	
Inflation swaps			Discounted cash flow.
Liabilities	**(33.7)**	(27.7)	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.
Contingent consideration	**(1.7)**	(1.7)	Management estimate of the amount that is likely to be payable. This is considered to be a Level 3 valuation technique. The contingent consideration arose on acquisition of Agrivert.

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

	Inflation swaps £m	**Contingent consideration £m**
At 1 April 2019	(6.2)	(3.0)
Losses recognised in the income statement	(21.5)	–
Payments made	–	1.3
At 31 March 2020	(27.7)	(1.7)
Losses recognised in the income statement	(6.0)	–
At 30 September 2020	**(33.7)**	**(1.7)**

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 reduction of 10bps in the CPI wedge would result in an increase in the carrying value of £8.0 million and an increase of 10bps in the CPI wedge would result in a decrease in the carrying value of £8.0 million. This sensitivity is assuming no change to any other inputs.

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 2020 Carrying value £m	**30 September 2020 Fair value £m**	31 March 2020 Carrying value £m	31 March 2020 Fair value £m
Floating rate debt				
Bank loans	**813.0**	**814.7**	948.9	947.1
Other loans	**167.7**	**175.1**	187.2	180.9
	980.7	**989.8**	1,136.1	1,128.0
Fixed rate debt				
Bank loans	**31.3**	**31.5**	182.2	182.1
Other loans	**3,781.4**	**4,424.1**	3,472.8	3,903.1
Lease liabilities	**123.6**	**134.2**	122.7	129.5
	3,936.3	**4,589.8**	3,777.7	4,214.7
Index-linked debt				
Bank loans	**122.0**	**154.9**	120.8	138.0
Other loans	**1,402.3**	**2,605.6**	1,398.5	1,904.2
	1,524.3	**2,760.5**	1,519.3	2,042.2
	6,441.3	**8,340.1**	6,433.1	7,384.9

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 venture

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

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak; the resulting lockdown; and its effects on business customers are expected to result in lower economic activity and an increase in business failures.

At the previous year end (31 March 2020) we wrote down our investment in Water Plus to nil and we have no obligation to contribute to further losses. As a result, there is no loss recorded in the current period in the income statement (2019/20: loss of £9.3 million).

Our share of accumulated unrecognised losses in Water Plus at September 2020 were as below:

	£m
Accumulated unrecognised losses at 1 April 2020	4.9
Share of losses for the period	6.2
Accumulated unrecognised losses at 30 September 2020	11.1

12. Retirement benefit schemes

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

The assumptions used in calculating the defined benefit obligations at 30 September 2020 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

	30 September 2020 %	31 March 2020 %
Price inflation - RPI	**2.8**	2.5
Price inflation - CPI	**2.0**	1.7
Discount rate	**1.5**	2.4
Pension increases in payment	**2.8**	2.5
Pension increases in deferment	**2.8**	2.5

The defined benefit scheme assets have been updated to reflect their market value at 30 September 2020. 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 2020 £m**	31 March 2020 £m
Fair value of scheme assets		
Equities	**379.3**	275.6
Corporate bonds	**1,057.3**	925.7
Liability-driven investment funds ('LDI's)	**816.4**	720.4
Property	**263.5**	261.9
High-yield bonds	**28.5**	28.2
Cash	**146.6**	202.3
	2,691.6	2,414.1

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £543.6 million (31 March 2020: £414.1 million). Unquoted assets include property investments valued at £38.9 million subject to greater uncertainty at the balance sheet date than in years prior to the COVID-19 pandemic. Consequently, a higher degree of caution should be attached to the valuation of those assets than would normally be the case.

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 2020	2,414.1	(2,648.1)	(234.0)
Current service cost	–	(0.1)	(0.1)
Scheme administration costs	(1.2)	–	(1.2)
Interest income/(cost)	28.9	(31.5)	(2.6)
Actuarial gains/(losses)	292.2	(544.7)	(252.5)
Contributions from the sponsoring companies	11.7	–	11.7
Employees' contributions and benefits paid	(54.1)	54.1	–
At 30 September 2020	**2,691.6**	**(3,170.3)**	**(478.7)**

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

	30 September 2020 £m	31 March 2020 £m
Retirement benefit surplus	**16.7**	21.3
Retirement benefit obligations	**(495.4)**	(255.3)
	(478.7)	(234.0)

13. Share capital

At 30 September 2020 the issued and fully paid share capital was 242.2 million shares of $97^{17}/_{19}$p amounting to £237.1 million (31 March 2020: 241.5 million shares of $97^{17}/_{19}$p amounting to £236.5 million).

During the period the Company issued 0.7 million (2019: 0.5 million) shares as a result of the exercise of employee share options. At 30 September 2020 the Company held 3.4 million (31 March 2020: 3.6 million) treasury shares.

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2020 £m	2019 £m
Profit before interest and tax	**224.6**	285.3
Depreciation of property, plant and equipment	**178.3**	166.4
Depreciation of right-of-use assets	**1.2**	0.9
Amortisation of intangible assets	**16.1**	15.5
Amortisation of acquired intangible assets	**1.0**	1.0
Pension service cost	**0.1**	0.1
Defined benefit pension scheme administration costs	**1.2**	1.3
Defined benefit pension scheme contributions	**(11.7)**	(0.3)
Share based payment charge	**4.5**	4.0
Profit on sale of property, plant and equipment and intangible assets	**(1.4)**	(5.9)
Profit on disposal of subsidiary	**(0.2)**	–
Deferred income movement	**(7.8)**	(7.7)
Contributions received[1]	**14.6**	18.1
Provisions charged to the income statement	**1.6**	5.2
Utilisation of provisions for liabilities	**(4.0)**	(11.2)
Operating cash flows before movements in working capital	**418.1**	472.7
Decrease/(increase) in inventory	**0.8**	(0.8)
Decrease/(increase) in amounts receivable	**44.2**	(4.3)
Increase in amounts payable	**44.2**	47.0
Cash generated from operations	**507.3**	514.6
Tax paid	**(4.9)**	(22.4)
Net cash generated from operating activities	**502.4**	492.2

[1] Contributions received have been presented as operating cash flows as these credits are released to turnover over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in the prior period. Comparatives have been restated increasing operating cash inflows by £18.1 million and increasing investing cash outflows by the same amount.

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 2020	48.6	(1,251.9)	(5,058.5)	(122.7)	60.4	92.6	(6,231.5)
Cash flow	(25.9)	287.2	(294.8)	0.9	–	29.5	(3.1)
Fair value adjustments	–	–	0.3	–	(7.3)	–	(7.0)
Inflation uplift on index-linked debt	–	(0.9)	(4.4)	–	–	–	(5.3)
Foreign exchange	–	–	5.8	–	–	–	5.8
Other non-cash movements	–	(0.7)	0.2	(1.8)	–	0.2	(2.1)
At 30 September 2020	**22.7**	**(966.3)**	**(5,351.4)**	**(123.6)**	**53.1**	**122.3**	**(6,243.2)**

15. Post balance sheet events

On 20 November the High Court issued a judgment in relation to the application of gender equality in Guaranteed Minimum Pension rights as far as it relates to historical transfer values paid that may have an impact on the Group's defined benefit pension liabilities. We are currently assessing the impact but at this stage we consider that it is unlikely that any impact will be material.

16. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2020 which were approved on 19 May 2020. Except as disclosed below there have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

Claims under the Environmental Information Regulations 2004 regarding property searches
Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in its early stages.

17. Related party transactions

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

Six months ended 30 September

	2020 **£m**	2019 £m
Sale of services	**104.2**	156.5
Net interest income	**1.2**	1.6

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

	30 September **2020** **£m**	31 March 2020 £m
Trade and other receivables due from related parties	**–**	12.1
Trade and other payables due to related parties	**(0.7)**	–
Loans due from joint venture	**122.3**	92.6
	121.6	104.7

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

18. 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) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by these items and reflecting the operational performance of the acquired subsidiaries. Following the acquisition of Agrivert, this APM was updated to include adjustment of amortisation on acquired intangible assets. The calculation of this APM is shown on the face of the income statement and in note 3 for reportable segments.

b) Underlying earnings per share

Underlying earnings per share figures exclude the effects of exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, net losses on financial instruments, current tax on exceptional items and on net losses on financial instruments, exceptional current tax and deferred tax. The Directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 9.

c) Net debt

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

d) Effective interest cost

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

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

	2020	2019
	£m	£m
Net finance costs	**91.1**	93.8
Net finance costs from pensions	**(2.6)**	(5.4)
Capitalised finance costs	**14.9**	21.1
	103.4	109.5
Annualised	**206.8**	219.0
Average net debt	**6,236.1**	5,902.9
Effective interest cost*	**3.3%**	3.7%

** 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 for the net debt of the business.

18. Alternative performance measures (continued)

e) Effective cash cost of interest

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

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

	2020	2019
	£m	£m
Net finance costs	**91.1**	93.8
Net finance costs from pensions	**(2.6)**	(5.4)
Inflation adjustments	**(5.3)**	(17.0)
Capitalised finance costs	**14.9**	21.1
	98.1	92.5
Annualised	**196.2**	185.0
Average net debt	**6,236.1**	5,902.9
Effective cash cost of interest*	**3.1%**	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 cash interest rate based on the net debt of the business.

f) Underlying PBIT interest cover

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

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

	2020	2019
	£m	£m
Underlying PBIT	**225.6**	286.3
Net finance costs	**91.1**	93.8
Net finance costs from pensions	**(2.6)**	(5.4)
Net finance costs excluding net finance costs from pensions	**88.5**	88.4

	ratio	ratio
Underlying PBIT interest cover ratio	**2.5**	3.2

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

18. Alternative performance measures (continued)

g) EBITDA and EBITDA interest cover

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

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

	2020 £m	2019 £m
Underlying PBIT	**225.6**	286.3
Depreciation (including right-of-use assets)	**179.5**	167.3
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**16.1**	15.5
EBITDA	**421.2**	469.1
Net finance costs	**91.1**	93.8
Net finance costs from pensions	**(2.6)**	(5.4)
Net finance costs excluding finance costs from pensions	**88.5**	88.4

	ratio	ratio
EBITDA interest cover ratio	**4.8**	5.3

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.

h) Underlying effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax and current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, exceptional items, net losses on financial instruments, amortisation of acquired intangible assets and share of net loss of our joint venture accounted for using the equity method.

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

	2020 £m	2020 Current tax thereon £m	2019 £m	2019 Current tax thereon £m
Profit before tax	**126.5**	**(11.0)**	180.7	(18.6)
Adjustments				
Share of net loss of joint venture	**–**	**–**	9.3	–
Amortisation of acquired intangible assets	**1.0**	**–**	1.0	–
Net losses on financial instruments	**7.0**	**(1.3)**	1.5	(1.3)
	134.5	**(12.3)**	192.5	(19.9)
Underlying effective current tax rate		**9.1%**		10.3%

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

18. Alternative performance measures (continued)

i) Operational cashflow

Cash generated from operations less contributions received.

	2020	2019
	£m	£m
Cash generated from operations	**507.3**	514.6
Contributions received	**(14.6)**	(18.1)
Operational cashflow	**492.7**	496.5

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

j) Cash capex

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

	2020	2019
	£m	£m
Purchase of property, plant and equipment	**284.3**	377.3
Purchase of intangible assets	**15.6**	21.4
Contributions received	**(14.6)**	(18.1)
Proceeds on disposal of property, plant and equipment	**(1.8)**	(6.5)
Cash capex	**283.5**	374.1

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

Responsibility statement

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 25 November 2020.

Christine Hodgson	James Bowling
Chair	Chief Financial Officer

Independent review report to Severn Trent Plc

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 2020 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 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, 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.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 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. 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.

Conclusion

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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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
25 November 2020

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.

C-MeX (Customer Measure of Experience)
C-MeX is the incentive mechanism for companies to improve the experience of residential customers. C-MeX comprises two surveys – the customer service survey of residential customers who have recently contacted their water company and the customer experience survey of random members of the public in relation to their experience of their water company.

D-MeX (Developer Services Measure of Experience)
D-MeX is the incentive mechanism for companies to improve the experience of developer services customers. D-MeX comprises a qualitative element which is a survey of developer services customers who have recently completed a transaction with their water company and a quantitative element which measures performance against a set of Water UK developer services level of service metrics.

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

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

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

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.

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

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

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

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

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).

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

Cautionary statement regarding forward-looking statements

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

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

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our 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. No assurances can be given that the forward-looking statements in this document will be realised. This document speaks as at the date of publication. Save as required by applicable laws and regulations, Severn Trent does not intend to update any forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

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

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