Half Yearly Financial Report

23 November 2021

Interim results for the six months to 30 September 2021

SEVERN TRENT

Operational excellence supported by strong financials

Operational performance ahead of plan, increase in Customer ODI guidance to at least £75 million[1] for the full year:

- We continue to deliver strong operational performance, with over 90% of Severn Trent Water's Customer ODIs on track across Water, Waste, Customer, and the Environment
- Continued positive momentum in Water, including another successful period on water quality complaints (improving by 9%) and speed of response (improving by 11%)
- Sector-leading performance in Waste, resulting in less disruption for customers as flooding and blockages falling by over 30% since the start of the AMP

Leading the sector with our environmental ambitions

- Leading environmental performance, 4* EPA status confirmed by the Environment Agency in July this year
- Significant investment in river quality through our WINEP scheme, with over £500 million being invested this AMP
- Biodiversity commitments continue at pace with over 2,900 hectares of our 2027 target of 5,000 hectares delivered to date, with plans to restore an additional 2,000 acres of peatland in England and Wales by 2025
- Green Recovery progressing well with all projects mobilised: projects will help create c.2,500 jobs and include bathing quality rivers, new net zero water resources, and nature-based flood solutions

Strong financial performance supporting large-scale investment programme

- Group turnover of £958 million[2] in line with expectations, up £71 million (8.0%), as a result of a strong recovery in non-household consumption following the lifting of lockdown restrictions
- Group PBIT of £256 million, up £31 million (13.8%)
- Effective interest cost[3] of 4.2% (2020/21: 3.3%) reflecting higher inflation, effective cash cost of interest unchanged at 3.1%, with two thirds of debt fixed at low-cost rates
- Strong balance sheet, including reduction in pension deficit to £292 million, supporting over 10% RCV growth for AMP7
- Adjusted basic EPS[4] of 54.4 pence, up 6% (basic loss per share of 73.0 pence, reflecting an exceptional deferred tax charge from the change in corporation tax rate)
- Interim dividend of 40.86 pence, in line with policy confirmed in May 2021

Supporting our communities, colleagues and customers

- Investing in the development of young people through our graduate and apprentice programmes and 500 placements offered under the Kickstarter initiative
- Recognised as a leading socially responsible business: first place on the Tortoise Responsibility100 Index and supporting diversity with the #10000BlackInterns initiative
- Supporting more customers than ever, with over 160,000 people receiving financial assistance
- Over £8 million awarded since the start of the AMP through schemes including the Severn Trent Community Fund, supporting those most in need within our region

Footnotes: see definitions on page 2 of this RNS

Liv Garfield, Chief Executive Severn Trent Plc, said:

"We've made another strong start to the year as we focus on delivering for stakeholders across our region and delivering for customers in the areas that matter most to them, all while driving the financial performance of our business.

We've continued to invest significantly in our network, in our people and to support our strong commitment to the environment. Our environmental ambitions remain at the heart of our company, whether planting over a million trees, reducing our carbon emissions, or producing an extra 95 million litres of water to tackle the threat of water scarcity.

Severn Trent should be a force for good in our region and I'm delighted our Green Recovery programme is creating valuable jobs, helping support the Government's levelling up agenda and the broader economic recovery."

Group results

	2021	2020	Increase/ (decrease)
	£m	£m	%
Group turnover	**958.2**	887.6	8.0
Group PBIT	**255.6**	224.6	13.8
	pence/ share	pence/ share	
Adjusted basic EPS[4]	**54.40**	51.30	6.0
Basic EPS	**(73.00)**	42.70	(271.0)
Interim dividend declared	**40.86**	40.63	0.6

Footnotes to pages 1 & 2 of this RNS

1. Customer Outcome Delivery Incentives (ODIs) quoted in 2017/18 prices and pre-tax (applying corporation tax at 25%, the rate expected to be applicable when the ODIs are taken to revenue) unless otherwise stated
2. Includes £12.9 million revenue previously credited against operating costs – see note 1
3. Effective interest cost – see note 18 to the financial statements
4. Adjusted basic earnings per share (EPS) – see note 8 to the financial statements

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

Enquiries

Investors & Analysts

Stuart Howell *Head of Investor Relations*	Severn Trent Plc	+44 (0) 770 371 8361
Selina Soma *Investor Relations Manager*	Severn Trent Plc	+44 (0) 797 693 8604

Media

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

Interim Results Presentation and video call

A presentation of these results hosted by Liv Garfield, CEO, and James Bowling, CFO, will be available on our website (severntrent.com) from 08:00am GMT today, 23 November 2021. We will be hosting a live Q&A session with Liv, James and our wider Executive team at 09:00am GMT today via video call, which you can register for through our website.

Chief Executive's Review

In what has been a difficult 18 months for all of us, we have been determined to support all our customers and colleagues, as well as the communities in which we operate. We remain committed to delivering the best possible service for our customers, and this is reflected in our operational, environmental, and financial performance.

We have had a strong operational start to the year, with more than 90% of Severn Trent Water Customer ODI measures either ahead of, or on target. This performance has been driven by improvements in data and innovation. Our reinvestment plans continue to drive efficient and more effective methods of operation, and, following on from our sector-leading performance last year, we are increasing our ODI guidance for the full year to at least £75 million.

In May, we announced the award of an extra £624 million[1] of investment through our Green Recovery projects, resulting in around 10% real RCV growth for the AMP. We have now started all the schemes, helping our region in the form of environmental benefits and creating much needed jobs. All schemes are progressing well and integrated within our AMP7 delivery plan.

At our recent Capital Markets Day, we outlined plans to reduce our baseline carbon emissions by 470 ktonnes and to fulfil our Net Zero pledge by 2030. Our plans call for a combination of innovation, nature-based solutions, and targeted investment and, while they remain a significant challenge, it's a challenge we are confident we will deliver on. Following on from COP26, we also signed up to the Get Nature Positive initiative which builds on our long-term commitment to sustainability.

I am also delighted we continue to be recognised as a truly socially responsible business. Last month we were named as the top company in the Tortoise Responsibility100 Index, in which we were ranked in first place on the Good Business metric, climbed to third in Skills and Education, and were recognised as leaders in Equality.

Strong operational performance

Following on from last year's success, we continue to deliver a strong operational performance for our customers. ODIs are designed with targets that get tougher every year, ensuring we must improve and continue to invest in our network to deliver the best possible service, and you can see from our results the excellent progress we have made.

Momentum continues in Water, with over 85% of our ODIs – the measures which matter most to our customers – performing on or above target. Water quality complaints are expected to reduce by 18% since the start of the AMP as a result of targeted investment and new technology such as a smartphone app that provides frontline teams with critical information on valve operations, allowing our engineers to carry out their work more quickly. Leakage performance remains on track for a 15% reduction across the AMP. Our dedicated teams have a deeper understanding of their region and are aided by real-time data provided by acoustic loggers and AI predictive data on where leaks may occur. We also targeted a reduction in disruption for our customers and expect to have reduced the time it takes us to respond to these issues by 11% by the end of the year. We continue to promote water efficiency, aiming to install more than 100,000 meters this financial year to give customers more insight into their usage.

On the Waste side, our operational performance has remained very strong. Data and analytics continue to be the focus of our investments, and innovation. On blockages, we created a new multimedia campaign in eight languages to help educate customers on sewer misuse, and our flooding performance has improved with the use of data analytics focussed on hotspot areas of repeat issues. We expect our flooding and blockages performance to improve by over 30% since the start of the AMP. As part of our strategy to become even more data driven, we are on track to install 40,000 sewer sensors by the end of 2025, complementing our holistic approach to customer service improvement.

[1] In nominal prices

Leading with our environment plans

Our environmental ambitions remain at the heart of our business, from plans to plant over a million trees, to enhance over 5,000 hectares of land, including 2,000 acres of peatlands, and to produce an extra 95 million litres of water in a low-carbon way to tackle the threat of water scarcity. We are proud of gaining the 4* EPA status accreditation in July this year. We continue to perform above target on our environment ODIs and are well on our way to hitting our biodiversity measure where, to date, we have already enhanced over 2,900 hectares across our region.

As part of the recent COP26 we signed up to the Get Nature Positive initiative, set up by the Council for Sustainable Business to help protect and restore nature. The environment is a key part of our supply chain and so, by supporting the Nature Handbook for Business, which showcases some of the ways businesses can, and are, becoming more nature positive, it in turn supports our company's long-term operational and financial sustainability. We have pledged to restore more than 2,000 acres of peatland across England and Wales by 2025, building on our existing plans to create a more sustainable future and in line with our Net Zero plans, we had our carbon reduction plan approved by the Science Based Targets initiative. In September we also published our full TCFD disclosure, which is aligned to our Climate Change Adaption Report, Strategic Direction Statement and Environment Strategy.

As a purposeful company, taking a key role in the environment is something we embrace, and I am proud our work in this space has been recognised through our leading position in the Sustainalytics ESG risk index.

Caring for our rivers

There has been much discussion recently about the quality of our rivers and coastline. Rivers are key to our supply chain and, although we don't own our region's rivers, we take our role in protecting and caring for them seriously. Our rivers are currently the healthiest they have been since the Industrial Revolution, but more needs to be done. That is why we plan to fulfil all our actions set out in the Environment Act to improve river quality in a nine-year timeframe, rather than the 25-year target. We are also collaborating with those sectors that have the greatest impact on river health, such as agriculture. To that end, we are working with 9,000 farmers in our region to focus on the negative effects on river quality caused by fertiliser and other chemical runoff. Defra, Ofwat and the Environment Agency have recently announced an industry-wide investigation into sewage treatment works; we welcome the opportunity to work constructively and collaboratively with our regulators on this.

Our Great Big Nature Boost will see us continuing to restoring 2,000km of rivers in our region, and we are working to become the first water company to create bathing standard rivers in the UK as part of our Green Recovery schemes. Over the last six months we have been embedding a team of River Rangers to help educate communities and to monitor rivers. We've also worked with local partnerships on the reintroduction of beavers into our region, with the aim of enhancing two wetland areas and reducing the risk of flooding.

Investing in our network

Our capital programme continues to deliver for customers and, so far this AMP, we have invested more than £800 million, in line with our plans. We have benefitted from signing early agreements with our framework partners and from insourcing our capital design team, helping to set ourselves up for the rest of the AMP.

We have invested over £50 million to date on our Water Framework Directive schemes, including work to reduce phosphate levels and to improve river quality. Alongside this we are also investing over £500 million on Water Industry National Environment Programme (WINEP) schemes throughout the AMP. We are now commissioning two new thermal hydrolysis plants improving the yield on our biogas digestion. Our six Green Recovery projects will help improve the environment of our region, and just as importantly, help create around 2,500 jobs, both directly and indirectly. All of the schemes address long-term issues we know are important to our customers, which means, over the course of the AMP, we will be delivering around £3 billion of investment to help create a more sustainable network.

Delivering for our customers, colleagues and communities

We know the current economic climate continues to be difficult for many of our customers. While we offer one of the lowest average combined bills in the country at just over a pound a day, we have a responsibility to help those who are struggling to pay their bills, which is why we are providing financial support to more than 160,000 people.

Last year, we announced we would be a top employer for the Government's Kickstart programme and pledged to offer 500 placements. We've been impressed by the contribution they have made to our teams and delighted many have found full-time employment, either with us or elsewhere following their time with us, or have gone on to further education.

Diversity and inclusion remain a priority for our organisation, and last year we signed the Race to Work Charter. We will also be supporting the #10000BlackInterns programme next year, by hosting 100 placements across the business.

We continue to support charities and other organisations in our region and, alongside the Severn Trent Community Fund, which launched only last year, we have awarded over £8 million to different causes since the start of the AMP.

Summary

While much of the last six months has been about a return to more normal life following the pandemic, we continue to put ourselves at the heart of our communities, offering support to customers and to good causes throughout the Midlands and into Wales. Operationally, we have seen further outperformance in those areas that matter most to our customers and environmentally we are doing more than ever for our region's natural resources.

All of that has helped us perform at a consistently high level for all our stakeholders, whether customers, communities or investors, something we are confident of continuing to achieve

Chief Financial Officer's Review

In the last six months we have seen the top-line benefit from our business customers returning to more normal operations following the lifting of COVID-19 restrictions. We have maintained positive momentum on our capital and infrastructure renewals programme; successfully managed our operational costs; and seen Business Services more than double profits for the period.

Our balance sheet continues to strengthen, with an improved pensions outlook; robust cash collection and credit management performance; and a strong funding position ready to support future growth.

Reported inflation has increased the cost of our index-linked debt, but this will be more than offset by increased revenue and RCV growth in future periods and our effective cash cost of interest remains among the lowest in the sector.

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

	2021	2020	Change	
	£m	£m	£m	%
Turnover	**958.2**	887.6	70.6	8.0
PBIT	**255.6**	224.6	31.0	13.8
Net finance costs	**(120.8)**	(91.1)	(29.7)	(32.6)
Gains/(losses) on financial instruments	**13.9**	(7.0)	20.9	298.6
Share of results of joint venture	**(1.8)**	–	(1.8)	N/A
Profit before tax	**146.9**	126.5	20.4	16.1
Tax	**(326.9)**	(24.8)	(302.1)	(1,218.1)
(Loss)/profit for the period	**(180.0)**	101.7	(281.7)	(277.0)

Group turnover was £958.2 million[1] (2020/21: £887.6 million), up 8.0%, reflecting higher consumption from non-household customers in our Regulated Water and Waste Water business and strong performance in our Operating Services business.

Group PBIT was up 13.8% to £255.6 million (2020/21: £224.6 million). In Regulated Water and Waste Water the increased revenue was partially offset by higher energy costs and higher infrastructure renewals expenditure as planned.

Higher inflation in the period increased our net finance costs to £120.8 million (2020/21: £91.1 million) and our effective interest cost to 4.2% (2020/21: 3.3%). Our effective cash cost of interest, which excludes the impact of inflation on our index-linked debt, was unchanged at 3.1%. Average net debt was broadly similar to the same period in the previous year.

In April we converted a £32.5 million loan advanced to Water Plus to equity, reinstating the investment in Water Plus on our balance sheet. As a result we have resumed recognising our share of Water Plus's post tax results. With the relaxation of COVID-19 restrictions, Water Plus's revenues and operating results have improved and our share of its loss in the period narrowed to £1.8 million (2020/21: unrecognised loss of £6.2 million).

The changes to corporation tax announced in the Chancellor's budget in March, and enacted in May, significantly impacted our tax charges. First, changes in the timing that capital expenditure is deducted from taxable profits (including the 'Super Deduction') reduced our adjusted effective tax rate for this year to nil% (2020/21: 9.1%). Second, the increase in the corporation tax rate to 25% with effect from 1 April 2023, resulted in an exceptional deferred tax charge to the income statement of £294.2 million from recalculating our opening deferred tax balances at the new rate, which is included in our reported tax charge of £326.9 million. Deferred tax is an accounting adjustment that reflects differences in timing between when profits are recorded in financial statements and when they are subject to tax. Because

[1] Includes £12.9 million revenue previously credited against infrastructure renewals expenditure – see note 1.

of the nature of our business, including our significant rolling capital programme and the long lives of our assets, these timing differences will not reverse for the foreseeable future, and may never do so.

As a result of the exceptional deferred tax charge basic loss per share was 73.0 pence (2020/21: earnings of 42.7 pence).

Our adjusted basic earnings per share were 54.4 pence (2020/21: 51.3 pence). Growth in adjusted earnings accounted for an increase of 4.9 pence per share but the higher number of shares in issue following our successful equity placement (see below) reduced our adjusted basic earnings per share by 1.8 pence.

Our cash flow and liquidity remain strong. Our undrawn committed facilities were £950 million, and our cash flow requirements are funded to July 2023.

Net cash capital expenditure was £238.0 million (2020/21: £283.5 million).

Our net pension deficit at 30 September decreased to £291.5 million, benefiting from strong asset growth of £167.1 million and planned contributions of £35.6 million, which more than offset the impact of higher expected inflation. During the period we also executed a bulk annuity buy-in for our MIPS scheme, virtually eliminating future risk in relation to this scheme. The overall funding level across all of our defined benefit schemes has improved to 90% (31 March 2021: 88%).

To fund our planned Green Recovery programme in line with our capital structure, we completed a successful equity placement in the period raising net proceeds of £245 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; its financial position; and the interests of other stakeholders including customers, our pension scheme members, colleagues and communities, the Board determined that it remains appropriate to recommend to shareholders that the interim dividend for the year ending 31 March 2022 be increased by 0.6% to 40.86 pence in line with our policy for AMP7 to increase the dividend by CPIH.

Regulated Water and Waste Water

Six months ended 30 September

	2021	2020	Change	
	£m	£m	£m	%
Turnover	**893.9**	829.9	64.0	7.7
Net labour costs	**(83.3)**	(76.7)	(6.6)	(8.6)
Net hired and contracted costs	**(91.9)**	(90.5)	(1.4)	(1.5)
Power	**(54.6)**	(46.4)	(8.2)	(17.7)
Bad debts	**(15.3)**	(24.5)	9.2	37.6
Other costs	**(126.9)**	(118.0)	(8.9)	(7.5)
	(372.0)	(356.1)	(15.9)	(4.5)
Infrastructure renewals expenditure	**(86.6)**	(65.6)	(21.0)	(32.0)
Depreciation	**(192.9)**	(188.6)	(4.3)	(2.3)
PBIT	**242.4**	219.6	22.8	10.4

Turnover for the Regulated Water and Waste Water segment was £893.9 million (2020/21: £829.9 million) and PBIT was £242.4 million (2020/21: £219.6 million).

Turnover increased by £64.0 million with the main movements being:

- A £38.9 million net increase from higher non-household consumption and lower household consumption, returning to more normal patterns following the easing of COVID-19 restrictions earlier in the year;
- An increase of £12.9 million from the reclassification of diversions income (previously credited to infrastructure renewals expenditure as described at the previous year end);
- An increase of £2.0 million in non-household revenue due to additional properties successfully being brought into charge under the Voids and Gaps Incentive Scheme; an offset is seen in higher operating costs (see below);
- An increase of £3.5 million in renewable energy income in our Bioresources business; and
- Other net increases of £6.7 million, including higher miscellaneous sales and the adjustment for inflation in the year.

Net labour costs were £6.6 million (8.6%) higher period-on-period. Gross employee costs increased by 3.6% due to the annual pay award of 2.3% and an increase in FTE due to insourcing activity. Our capitalisation of employee costs decreased by 1.2% as the focus of our technology teams switched to operational activities following the completion of major IT capital projects.

Net hired and contracted costs increased by £1.4 million (1.5%). Increases in biodiversity and catchment spend, along with additional vendor management, software maintenance, cloud storage and increased debt management costs offset the reduction achieved from insourcing activity.

Power costs were £8.2 million or 17.7% higher than the previous period, much less than the average wholesale energy prices increase of more than 200% year-on-year. We benefited from self-generation in Bioresources and internal hedges between our regulated business (a net consumer of energy) and our non-regulated business (a net generator).

Bad debt charges were £9.2 million lower than the previous period and represent 2.2% of household revenue, (2020/21 full year: 3.0%). The outlook for unemployment has improved, and we have not seen a deterioration in our collection performance. However pressure on household budgets from increasing energy costs, other inflationary impacts, the withdrawal of the £20 uplift in universal credit and the prospect of higher national insurance has led us to retain the forward-looking provision of £11.9 million taken since the start of the pandemic (of which £8.2 million was charged in the first half of 2020/21) at the balance sheet date.

Reported other costs increased by £8.9 million. Raw materials and consumables were largely unchanged as higher chemical costs were offset by a reduction in COVID-19 related consumables. We accrued £2.9 million this year for the Ofwat Innovation Fund (2020/21: nil as the mechanism for the Fund was under discussion at the reporting date last year) and the higher voids/gaps incentive payments referred to above increased costs by £1.3 million. There was an increase of £1.5 million in aborted capital expenditure and the remaining increase arose from a combination of higher pension administration costs, a resumption of employee training, and increased insurance and telecoms costs.

Reported infrastructure maintenance expenditure was £21.0 million higher in the period, reflecting £8.1 million from a planned step up in the programme and the £12.9 million reclassification to turnover referred to above.

Depreciation was £4.3 million higher period-on-period due to the growing asset base.

Business Services

Six months ended 30 September

	2021	2020	Change	
	£m	£m	£m	%
Turnover				
Operating Services and Other	**40.0**	34.6	5.4	15.6
Green Power	**26.1**	24.5	1.6	6.5
	66.1	59.1	7.0	11.8
Adjusted PBIT (see note 18)				
Operating Services and Other	**8.1**	6.7	1.4	20.9
Green Power	**0.4**	0.1	0.3	300.0
Property Development	**8.9**	1.4	7.5	535.7
	17.4	8.2	9.2	112.2

Business Services turnover was £66.1 million (up 11.8%) and adjusted PBIT was £17.4 million (up 112.2%).

In our Operating Services and Other businesses, turnover and adjusted PBIT increased by £5.4 million and £1.4 million respectively. Increased activity on the 25-year MoD contract, including additional ad-hoc contract wins drove increases in the Operating Services business. Growth in the other businesses was driven by higher volumes in our property searches business.

In Green Power, turnover increased by £1.6 million and adjusted PBIT increased by £0.3 million. Higher energy prices and incentive income from increased gas generation was partially offset by lower gate fee income, primarily from local authority food waste contracts, as domestic waste volumes were higher in the previous year due to lockdown whereas volumes of commercial waste improved this year. Intra-group energy price hedges, which significantly benefited the regulated business, limited the increase in Green Power's revenue that would have been achieved if all energy had been sold at prevailing wholesale market rates.

Profits from Property Development were £7.5 million higher than the prior year, when there were no large disposals. We remain on track for our target of £100 million PBIT from Property Development over the ten years to 2027, having generated £45.3 million since setting the target in 2017.

Corporate and other

Corporate overheads were higher at £3.7 million (2020/21: £2.4 million). The main drivers of the increase were an increase in legal costs; higher insurance premiums; Board recruitment and triennial effectiveness review costs in the period.

Net finance costs

The Group's net finance costs for the six-month period were £120.8 million (2020/21: £91.1 million). Average net debt of £6,251.5 million was broadly in line with the prior year (2020/21: £6,236.1 million), however higher inflation in the period increased the interest cost on our index-linked debt by £31.1 million, and our effective interest cost to 4.2% (2020/21: 3.3%). Our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) remained at 3.1% (2020/21: 3.1%). Interest capitalised of £15.2 million was broadly in line with the prior period (2020/21: £14.9 million).

The Group's EBITDA interest cover was 3.9 times (2020/21: 4.8 times) and PBIT interest cover was 2.2 times (2020/21: 2.5 times). See note 18 for further details.

Net gains/(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 £652 million to balance our interest rate mix in line with our strategy;
- Cross currency swaps with a sterling principal of £142 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and
- Inflation swaps with a notional principal of £350 million, which swap RPI linked cash flows for CPI linked cash flows.

Where hedge accounting is not applied, if the risk being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the period there was a gain of £19.5 million (2020/21: loss of £10.0 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 97% of estimated wholesale energy usage for the remainder of 2021/22 through a combination of forward price contracts and financial derivatives.

Taxation

We are committed to paying the right amount of tax at the right time, and were pleased to have our Fair Tax Mark accreditation renewed for the third 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 2020/21

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 2022.

The tax charge reported in the income statement (excluding the exceptional deferred tax charge arising from the change in the corporation tax rate) is calculated at a rate of 22.3% (2020/21: 19.6%), 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 increase in the rate arises from the deferred tax charge on current year timing differences calculated at 25%, the rate expected to be applied when the timing differences reverse (2020/21: 19%) partially offset by the impact of the 'Super Deduction', which reduced the effective rate by around 2.2 percentage points.

There was no current tax charge for the period (2020/21: £11.0 million), due to the benefit of the 'Super Deduction' and the acceleration of other capital allowances on our capital programme. Our adjusted effective current tax rate fell (in line with guidance) to nil% (2020/21: 9.1%).

The deferred tax charge was £326.9 million (2020/21: £13.8 million), including an exceptional deferred tax charge of £294.2 million.

In May 2021 the increase in corporation tax rate to 25% was substantively enacted and will take effect on 1 April 2023. We have therefore calculated the tax effect of our deferred tax timing differences at 25%, which has resulted in an exceptional charge to the income statement of £294.2 million and a credit to other comprehensive income of £8.3 million from recalculating our opening deferred tax balances at the new rate.

Because of the nature of our business, including our significant ongoing capital programme, and the long lives of our assets, these timing differences will not reverse for the foreseeable future, and may never do so.

Profit for the period and earnings per share

Reported loss for the period, after the exceptional deferred tax charge described above, was £180.0 million (2020/21: profit of £101.7 million).

Basic loss per share was 73.0 pence (2020/21: earnings of 42.7 pence). Adjusted basic earnings per share were 54.4 pence (2020/21: 51.3 pence). The increase in shares arising from the equity placing reduced adjusted basic earnings per share by 1.8 pence. For further details see note 8.

Cash flow

Six months ended 30 September	**2021** **£m**	2020 £m
Operational cashflow	**474.6**	492.7
Cash capex	**(238.0)**	(283.5)
Net interest paid	**(80.9)**	(75.7)
Proceeds on disposal of subsidiary undertakings	**–**	0.7
Proceeds from swap terminations	**5.6**	–
Net tax paid	**–**	(4.9)
Free cash flow	**161.3**	129.3
Dividends	**(152.2)**	(143.1)
Issue of shares	**256.8**	10.7
Change in net debt from cash flows	**265.9**	(3.1)
Non-cash movements	**(54.3)**	(8.6)
Change in net debt	**211.6**	(11.7)
Opening net debt	**(6,443.8)**	(6,231.5)
Closing net debt	**(6,232.2)**	(6,243.2)

Net debt comprises:

	30 September 2021 £m	31 March 2021 £m	30 September 2020 £m
Net cash and cash equivalents	**32.2**	44.0	22.7
Bank loans	**(928.0)**	(1,011.1)	(966.3)
Other loans	**(5,316.0)**	(5,471.3)	(5,351.4)
Lease liabilities	**(122.4)**	(121.3)	(123.6)
Cross currency swaps	**36.5**	31.9	53.1
Loans due from joint venture	**65.5**	84.0	122.3
Net debt	**(6,232.2)**	(6,443.8)	(6,243.2)

At 30 September 2021 we held £32.2 million (31 March 2021: £44.0 million) in net cash and cash equivalents. Our average debt maturity is 13 years. Including committed facilities, of which £950 million was undrawn at the balance sheet date, the Group's cash flow requirements are funded until July 2023.

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

Net debt at 30 September 2021 was £6,232.2 million (31 March 2021: £6,443.8 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 84.4% (31 March 2021: 84.9%). Severn Trent Water Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2021 was 60.8% (31 March 2021: 64.5%).

The estimated fair value of debt at 30 September 2021 was £1,597.5 million higher than book value (31 March 2021: £1,454.9 million higher). The increase in the difference to book value is largely due to higher market expectations for inflation in the long-term.

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 2020 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 2021 was a deficit of £291.5 million (31 March 2021: £367.7 million). Defined benefit obligations increased due to the impact of the higher long-term inflation assumption on the schemes’ liabilities and inflation in the period higher than the previous assumption. However, strong asset performance more than compensated for these and, together with the employer’s contribution of £35.6 million in the period, led to the reduction in the deficit.

During the period we executed a bulk annuity buy-in for the MIPS scheme, which represents around 4% of the Group's defined benefit liabilities. Under the buy-in, the liabilities of this scheme are met by an insurance policy and as a result the Group's risk is substantially reduced. See notes 2 and 12 for further details.

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	2,600.4	(2,968.1)	(367.7)
Amounts credited/(charged) to income statement	24.5	(30.1)	(5.6)
Actuarial gains/(losses) taken to reserves	140.5	(94.3)	46.2
Net contributions received and benefits paid	(24.4)	60.0	35.6
At end of the period	**2,741.0**	**(3,032.5)**	**(291.5)**

On an IAS 19 basis, the funding level is 90% (31 March 2021: 88%).

Dividends

The Board has declared an interim ordinary dividend of 40.86p per share (2020/21: 40.63p per share), which will be paid on 7 January 2022 to shareholders on the register at 3 December 2021.

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.

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

Service Failure and Asset Resilience:
- We fail to provide a safe and secure supply of drinking water to our customers and there is reduced public confidence in water supply.
- We fail to effectively transport and treat wastewater and there is reduced public confidence in our wastewater system.

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

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

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

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

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

COVID-19:
- Whilst global pandemics have not previously been noted as a principal risk, they do feature on our horizon scanning and many of the associated risks are captured within our Enterprise Risk Management framework. We have a well-rehearsed approach to incident management and while COVID-19 presented many unique challenges, the governance structure we implemented in response to the COVID-19 pandemic provided a stable foundation from which we could respond to the changing situation.
- COVID-19 assumptions are built into our budget and business plan process. Our priority remains the health and safety of our people and customers, and we are taking all possible actions to support them whilst continuing to deliver our essential services. The Board continues to receive regular updates on the Group's COVID-19 response in order to assess, monitor and respond to the evolving impact of COVID-19 on our operations and business, including impacts for all of our stakeholders.

Technical Guidance 2021/22

Year-end guidance		**FY 21**	**Year-on-Year**	**Movement in guidance from May 2021**
Regulated Water and Waste Water				
Turnover[1]	£1.78 billion to £1.81 billion. Includes c.£50 million of diversions income related to HS2.	£1.69bn	▲	↔
Operating costs (incl. IRE)	Higher year-on-year, driven by a planned step-up in our IRE programme and continued upward sector-wide pressure on energy and chemicals costs.	£878m	▲	↔
ODIs[2]	**Continued outperformance across Water, Waste, Environment and Customer measures delivering a net reward of at least £75 million pre-tax (£56 million post tax).**	**£77m[3]**	↔	▲
Business Services				
Adjusted PBIT	**At least 20% growth for the full year, driven by strong H1 property sales.**	**£26m**	▲	▲
Group				
Interest charge[4]	**Increase year-on-year due to higher forecast inflation and average net debt. The second half of this year is expected to be c.20% higher than the first half, based on latest inflation forecast.**	**£187m**	▲	▲
Adjusted effective current tax rate[5]	Adjusted effective current tax rate of nil due to "super deduction" and other accelerated capital allowances on our large capital investment programme.	11.4%	▼	↔
Group capex	£550 million to £650 million including Green Recovery.	£593m	↔	↔
Dividend[6]	Annual dividend growth of CPIH. 2021/22 dividend 102.14 pence.	101.58p	▲	↔

Footnotes to Technical Guidance

1. Includes presentation of deferred income and diversions income released to turnover in the income statement.
2. Customer Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices at the 25% rate expected to be in place when ODIs are taken to revenue (FY21 quoted pre-tax in 2017/18 prices at 19% rate).
3. FY21 outturn restated to align with Ofwat's Final Determination of in-period ODIs for 2020/21.
4. Based on October Oxford Economics forecast of inflation.
5. Total effective tax rate is expected to be c.22%.
6. 2021/22 dividend growth is based on November 2020 CPIH of 0.55%.

Further Information

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

Investor Timetable

Ex-dividend date (Interim)	2 December 2021
Dividend record date (Interim)	3 December 2021
DRIP election date (Interim)	14 December 2021
Interim dividend payment date	7 January 2022
Q3 Trading Update	2 February 2022
Financial Year End	31 March 2022
Full Year Results Announcement 2021/22	25 May 2022
AGM	7 July 2022
For more information please visit: https://www.severntrent.com/investors/financial-calendar-and-regulatory-news/financial-calendar/	

Condensed consolidated income statement
Six months ended 30 September 2021

	Note	2021 Adjusted £m	2021 Adjusting items[1] £m	2021 Total £m	2020 Adjusted £m	2020 Adjusting items[1] £m	2020 Total £m
Turnover	3,4	**958.2**	**–**	**958.2**	887.6	–	887.6
Other income		**6.0**	**–**	**6.0**	–	–	–
Operating costs before charge for bad and doubtful debts		**(692.3)**	**(1.0)**	**(693.3)**	(637.8)	(1.0)	(638.8)
Charge for bad and doubtful debts		**(15.3)**	**–**	**(15.3)**	(24.2)	–	(24.2)
Total operating costs		**(707.6)**	**(1.0)**	**(708.6)**	(662.0)	(1.0)	(663.0)
Profit before interest and tax		**256.6**	**(1.0)**	**255.6**	225.6	(1.0)	224.6
Finance income		**27.3**	**–**	**27.3**	29.9	–	29.9
Finance costs		**(148.1)**	**–**	**(148.1)**	(121.0)	–	(121.0)
Net finance costs		**(120.8)**	**–**	**(120.8)**	(91.1)	–	(91.1)
Net gains/(losses) on financial instruments	5	**13.9**	**–**	**13.9**	(7.0)	–	(7.0)
Share of net loss of joint venture accounted for using the equity method	11	**(1.8)**	**–**	**(1.8)**	–	–	–
Profit on ordinary activities before taxation		**147.9**	**(1.0)**	**146.9**	127.5	(1.0)	126.5
Current tax	6	**–**	**–**	**–**	(11.0)	–	(11.0)
Deferred tax	6	**(32.7)**	**(294.2)**	**(326.9)**	(13.8)	–	(13.8)
Taxation on profit on ordinary activities	6	**(32.7)**	**(294.2)**	**(326.9)**	(24.8)	–	(24.8)
(Loss)/profit for the period		**115.2**	**(295.2)**	**(180.0)**	102.7	(1.0)	101.7

Earnings per share (pence)

	Note	2021	2020
Basic	8	**(73.0)**	42.7
Diluted	8	**(73.0)**	42.5

[1] For definition of adjusting items see note 18.

Condensed consolidated income statement
Six months ended 30 September 2021

	Note	2021 £m	2020 £m
(Loss)/profit for the period		**(180.0)**	101.7
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	12	**46.2**	(252.5)
Deferred tax on net actuarial gains/losses		**(11.7)**	48.0
Deferred tax arising on rate change		**8.3**	–
		42.8	(204.5)
Items that may be reclassified to the income statement:			
Gains on cash flow hedges		**47.5**	1.2
Deferred tax on gains on cash flow hedges		**(12.0)**	(0.2)
Amounts on cash flow hedges transferred to the income statement	5	**3.3**	4.1
Deferred tax on transfer to the income statement		**(0.9)**	(0.8)
		37.9	4.3
Other comprehensive income/(loss) for the period		**80.7**	(200.2)
Total comprehensive loss for the period		**(99.3)**	(98.5)

Condensed consolidated statement of changes in equity
Six months ended 30 September 2021

		Equity attributable to owners of the company				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	£m	£m	£m	£m	£m
At 1 April 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
At 1 April 2021		237.2	148.1	101.7	651.7	1,138.7
Loss for the period		–	–	–	(180.0)	(180.0)
Gains on cash flow hedges		–	–	47.5	–	47.5
Deferred tax on gains on cash flow hedges		–	–	(12.0)	–	(12.0)
Amounts on cash flow hedges transferred to the income statement	5	–	–	3.3	–	3.3
Deferred tax on transfer to the income statement		–	–	(0.9)	–	(0.9)
Net actuarial gains	12	–	–	–	46.2	46.2
Deferred tax on net actuarial gains		–	–	–	(11.7)	(11.7)
Deferred tax arising from rate change		–	–	–	8.3	8.3
Total comprehensive loss for the period		–	–	37.9	(137.2)	(99.3)
Proceeds from equity placing		10.2	235.1	–	–	245.3
Share options and LTIPs						
- proceeds from shares issued		0.7	10.8	–	–	11.5
- value of employees' services		–	–	–	4.8	4.8
Deferred tax on share based payments		–	–	–	1.4	1.4
Dividends paid	7	–	–	–	(152.2)	(152.2)
At 30 September 2021		**248.1**	**394.0**	**139.6**	**368.5**	**1,150.2**

Condensed consolidated balance sheet
At 30 September 2021

	Note	30 September 2021 £m	31 March 2021 £m
Non-current assets			
Goodwill		**91.4**	91.4
Other intangible assets		**175.6**	164.0
Property, plant and equipment		**9,959.4**	9,875.2
Right-of-use assets		**129.2**	130.8
Investment in joint venture	11	**16.9**	–
Derivative financial instruments		**39.8**	37.1
Trade and other receivables		**75.8**	101.5
Retirement benefit surplus	12	**18.2**	17.1
		10,506.3	10,417.1
Current assets			
Inventory		**29.7**	30.8
Trade and other receivables		**551.0**	515.2
Derivative financial instruments		**42.0**	3.8
Cash and cash equivalents		**53.9**	56.2
		676.6	606.0
Current liabilities			
Borrowings	9	**(276.6)**	(503.1)
Trade and other payables		**(661.7)**	(557.1)
Current tax payable		**(0.2)**	(0.2)
Provisions for liabilities		**(19.8)**	(18.0)
		(958.3)	(1,078.4)
Net current liabilities		**(281.7)**	(472.4)
Non-current liabilities			
Borrowings	9	**(6,111.5)**	(6,112.8)
Derivative financial instruments		**(102.6)**	(126.9)
Trade and other payables		**(1,275.0)**	(1,250.3)
Deferred tax		**(1,247.5)**	(906.0)
Retirement benefit obligations	12	**(309.7)**	(384.8)
Provisions for liabilities		**(28.1)**	(25.2)
		(9,074.4)	(8,806.0)
Net assets		**1,150.2**	1,138.7
Equity			
Called up share capital	13	**248.1**	237.2
Share premium account		**394.0**	148.1
Other reserves		**139.6**	101.7
Retained earnings		**368.5**	651.7
Total equity		**1,150.2**	1,138.7

Condensed consolidated cash flow statement
Six months ended 30 September 2021

	Note	2021 £m	2020 £m
Cash generated from operations	14	**489.9**	507.3
Tax paid	14	**–**	(4.9)
Net cash generated from operating activities		**489.9**	502.4
Cash flows from investing activities			
Purchases of property, plant and equipment		**(250.2)**	(284.3)
Purchases of intangible assets		**(6.6)**	(15.6)
Proceeds on disposal of subsidiary undertaking		**–**	0.7
Proceeds on disposal of property, plant and equipment		**3.5**	1.8
Net loans advanced to joint ventures		**–**	(29.5)
Interest received		**0.6**	0.7
Net cash outflow from investing activities		**(252.7)**	(326.2)
Cash flow from financing activities			
Interest paid		**(79.5)**	(76.2)
Interest element of lease payments		**(2.0)**	(0.2)
Dividends paid to shareholders of the parent		**(152.2)**	(143.1)
Repayments of borrowings		**(332.9)**	(286.2)
Principal elements of lease payments		**(2.6)**	(0.9)
New loans raised		**57.8**	293.8
Issues of shares net of costs		**256.8**	10.7
Proceeds from swap terminations		**5.6**	–
Net cash outflow from financing activities		**(249.0)**	(202.1)
Net movement in cash and cash equivalents		**(11.8)**	(25.9)
Net cash and cash equivalents at the beginning of the period		**44.0**	48.6
Net cash and cash equivalents at end of the period		**32.2**	22.7
Cash at bank and in hand		**53.9**	18.3
Bank overdrafts		**(21.7)**	–
Short term deposits		**–**	4.4
		32.2	22.7

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 2021 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year prepared under IFRS has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

a) Accounting policies

The interim financial information has been prepared on the going concern basis using accounting policies consistent with United Kingdom adopted International Accounting Standard 34 'Interim Financial Reporting'. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's annual financial statements for the year ended 31 March 2021, and those which are expected to be adopted for the Group's annual financial statements for the year ending 31 March 2022, which will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards.

b) Going concern

Including undrawn committed credit facilities of £950 million, and based on its latest forecasts, the Group is fully funded for its investment and cash flow needs for more than the next year. After making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and hence the interim financial information has been prepared on a going concern basis.

c) Seasonality

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

d) Changes in accounting presentation

Income from diversions

Previously income from diversions was credited to infrastructure maintenance expenditure within operating costs. Under the new presentation, the amounts are recognised as turnover and in the six months to 30 September 2021 amounted to £12.9 million (2020: £5.0 million). 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 2021. 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 2021. However a new critical accounting judgment relating to the bulk annuity buy-in of one Group pension scheme has arisen in the current period as set out below.

Accounting for the bulk annuity buy-in of the Severn Trent Mirror Image Pension Scheme ('STMIPS')

On 29 June 2021, the Group completed the bulk annuity buy-in of the STMIPS. Severn Trent Water Limited is the only employer in this scheme. As a result of the buy-in, the Group has obtained the right to reimbursement under an insurance policy of the benefits payable to scheme members. Although substantially all of the risks relating to this obligation are mitigated by the insurance policy, the legal obligation to pay the member benefits as they fall due remains with the Group. Therefore the Group concluded that this transaction did not represent a settlement under IAS 19.

As such the £29.6 million difference between the premium paid to secure the insurance policy and the accounting value of the liabilities covered by the buy-in has been recognised within other comprehensive income as part of the return on plan assets which forms part of the overall actuarial gain.

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

b) Sources of estimation uncertainty

There have been no significant changes to the estimates relating to depreciation and carrying amounts of property, plant and equipment, or to expected credit losses on trade receivables since 31 March 2021. An update regarding expected credit losses on trade receivables is set out below.

Changes in estimates relating to retirement benefit obligations are set out in note 12 to the condensed financial statements.

Expected credit losses on trade receivables

Expected credit losses on trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables.

Although the Bank of England's most recent Monetary Policy Report at the balance sheet date, for August 2021, forecasts a lower peak level of unemployment than previous forecasts, we have not changed our estimate from 31 March 2021 of the impact of future economic factors on expected credit losses. This is in light of emerging economic factors such as the reduction in Universal Credit, rising National Insurance contributions and higher energy bills which are expected to impact household disposable income and therefore the expected credit losses on trade receivables.

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.

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 adjusted PBIT. A segmental analysis of turnover and adjusted PBIT is presented below.

Six months ended 30 September

	2021		2020	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**893.6**	**64.7**	829.7	57.9
Inter-segment turnover	**0.3**	**1.4**	0.2	1.2
Total turnover	**893.9**	**66.1**	829.9	59.1
Adjusted PBIT	**242.4**	**17.4**	219.6	8.2
Amortisation of acquired intangible assets	**–**	**(1.0)**	–	(1.0)
Profit before interest and tax	**242.4**	**16.4**	219.6	7.2

3. Segmental analysis (continued)

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

Six months ended 30 September

	2021 **£m**	2020 £m
Regulated Water and Waste Water	**893.9**	829.9
Business Services	**66.1**	59.1
Corporate and other	**0.4**	0.4
Consolidation adjustments	**(2.2)**	(1.8)
	958.2	887.6

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

Six months ended 30 September

	2021 **£m**	2020 £m
Regulated Water and Waste Water	**242.4**	219.6
Business Services	**17.4**	8.2
Corporate and other	**(3.2)**	(2.2)
Adjusted PBIT	**256.6**	225.6
Amortisation of acquired intangible assets (in Business Services)	**(1.0)**	(1.0)
Net finance costs	**(120.8)**	(91.1)
Net gains/(losses) on financial instruments	**13.9**	(7.0)
Share of net loss of joint venture accounted for using the equity method	**(1.8)**	–
Profit on ordinary activities before taxation	**146.9**	126.5

The following table shows segmental capital employed:

	30 September 2021		31 March 2021	
	Regulated Water and Waste Water **£m**	**Business Services** **£m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**10,559.9**	**326.9**	10,433.4	331.0
Goodwill	**63.5**	**29.2**	63.5	29.2
Investment in joint venture	**–**	**16.9**	–	–
Segment assets	**10,623.4**	**373.0**	10,496.9	360.2
Segment operating liabilities	**(2,240.0)**	**(35.4)**	(2,174.4)	(40.0)
Capital employed	**8,383.4**	**337.6**	8,322.5	320.2

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

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

4. Revenue from contracts with customers

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

Six months ended 30 September 2021

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	872.5	–	–	–	872.5
Operating services	–	33.0	–	–	33.0
Renewable energy	18.4	26.2	–	(1.5)	43.1
Other sales	3.0	6.9	0.4	(0.7)	9.6
	893.9	**66.1**	**0.4**	**(2.2)**	**958.2**

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

Previously, income from diversions, which was reimbursement of costs incurred for diversions, was credited to operating costs. Under the new presentation, the income from diversions is recognised as turnover. In the six months ended 30 September 2021, income from diversions amounted to £12.9 million (2020: £5.0 million). As the impact in the prior year is not considered material to the amounts recorded in turnover or operating costs, the prior year has not been restated. This reclassification has no impact on profits or cash flows recorded in the year or prior years.

5. Net gains/(losses) on financial instruments

Six months ended 30 September

	2021 £m	2020 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**1.6**	(1.2)
Loss arising on debt in fair value hedges	**(0.9)**	(0.3)
Exchange (loss)/gain on other loans	**(3.3)**	5.9
Loss on cash flow hedges transferred from equity	**(3.3)**	(4.1)
Hedge ineffectiveness on cash flow hedges	**(0.2)**	2.2
Gain/(loss) arising on swaps where hedge accounting is not applied	**19.5**	(10.0)
Amortisation of fair value adjustment on debt	**0.5**	0.5
	13.9	(7.0)

6. Tax

Six months ended 30 September

	2021 £m	2020 £m
Current tax		
Current year at 0.0% (2020: 8.7%)	–	11.0
Total current tax	–	11.0
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**32.7**	13.8
Exceptional charge on rate change	**294.2**	–
Total deferred tax	**326.9**	13.8
	326.9	24.8

The tax charge in the income statement is calculated at a rate of 22.3% excluding the exceptional charge on rate change (2020: 19.6%) representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The adjusted effective current tax rate was 0.0% (2020: 9.1%). See note 18.

Current tax of nil (2020: credit of £0.4 million) and a deferred tax charge of £14.9 million (2020: credit of £47.6 million) have been taken to reserves in the period.

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 3 March 2021, the UK Government announced an increase in the rate of corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax assets and liabilities have therefore been remeasured at 31 March 2021 at the new rate of 25%. This resulted in an exceptional deferred tax charge in the income statement of £294.2 million and a credit to reserves amounting to £8.3 million.

Also announced in the UK Budget was the introduction of a capital allowance 'super deduction' which gives an in-year capital allowance of 130% on the cost of plant and machinery qualifying for the relief and an acceleration of capital allowances on the cost of assets qualifying for special rate allowances. The introduction of these changes mean Severn Trent is expected to claim more capital allowances in the current period and is not expecting to pay corporation tax for the period.

7. Dividends

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

Six months ended 30 September

	2021		2020	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2021 (2020)	**60.95**	**152.2**	60.05	143.1

The proposed interim dividend of 40.86p per share (2020/21: 40.63p per share) was approved by the Board on 22 November 2021 and has not been included as a liability at 30 September 2021.

8. Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

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

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

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

	2021	2020
	£m	£m
(Loss)/profit for the period	**(180.0)**	101.7

ii) Number of shares

Six months ended 30 September

	2021	2020
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**246.5**	238.1
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**–**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**246.5**	239.2

The share options and LTIPs are not treated as dilutive in the period ended 30 September 2021 since their conversion to ordinary shares would decrease the loss per share.

b) Adjusted earnings per share

Six months ended 30 September

	2021	2020
	pence	pence
Adjusted basic earnings per share	**54.4**	51.3
Adjusted diluted earnings per share	**54.1**	51.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/losses on financial instruments, current tax on exceptional items and on net gains/losses on financial instruments and deferred tax in both 2021 and 2020. The Directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above except that the number of ordinary shares for the purpose of adjusted diluted earnings per share for the period ended 30 September 2021 is 247.7 million as this includes 1.2 million dilutive potential ordinary shares from share options and LTIPs.

The adjustments to earnings are as follows:

Six months ended 30 September

	2021	2020
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**(180.0)**	101.7
Adjustments for:		
- amortisation of acquired intangible assets	**1.0**	1.0
- net (gains)/losses on financial instruments	**(13.9)**	7.0
- current tax on net gains/losses on financial instruments	**–**	(1.3)
- deferred tax	**326.9**	13.8
Earnings for the purpose of adjusted basic and diluted earnings per share	**134.0**	122.2

9. Borrowings

	30 September 2021 £m	31 March 2021 £m
Bank loans	**928.0**	1,011.1
Other loans	**5,316.0**	5,471.3
Lease liabilities	**122.4**	121.3
Overdraft	**21.7**	12.2
Borrowings	**6,388.1**	6,615.9

The borrowings are repayable as follows:

	30 September 2021 £m	31 March 2021 £m
On demand or within one year - included in current liabilities	**276.6**	503.1
Over one year - included in non-current liabilities	**6,111.5**	6,112.8
	6,388.1	6,615.9

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 2021 £m	31 March 2021 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow.
Assets	**36.5**	32.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**–**	(0.6)	
Interest rate swaps			Discounted cash flow.
Liabilities	**(79.3)**	(94.2)	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.
Energy swaps			Discounted cash flow.
Assets	**45.3**	8.4	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.
Inflation swaps			Discounted cash flow.
Liabilities	**(23.3)**	(32.1)	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.

10. Fair value of financial instruments (continued)

a) Fair value measurements (continued)

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

	Inflation swaps
	£m
At 1 April 2020	(27.7)
Losses recognised in the income statement	(4.4)
At 31 March 2021	(32.1)
Gains recognised in the income statement	8.8
At 30 September 2021	**(23.3)**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £6.7 million.

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 2021		31 March 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Floating rate debt				
Bank loans	**802.7**	**808.9**	888.8	890.4
Other loans	**147.8**	**156.1**	147.9	155.5
Bank overdraft	**21.7**	**21.7**	12.2	12.2
	972.2	**986.7**	1,048.9	1,058.1
Fixed rate debt				
Other loans	**3,540.5**	**3,994.8**	3,786.4	4,242.3
Lease liabilities	**122.4**	**131.6**	121.3	134.1
	3,662.9	**4,126.4**	3,907.7	4,376.4
Index-linked debt				
Bank loans	**125.3**	**152.4**	122.3	146.2
Other loans	**1,627.7**	**2,720.1**	1,537.0	2,490.1
	1,753.0	**2,872.5**	1,659.3	2,636.3
	6,388.1	**7,985.6**	6,615.9	8,070.8

To reflect the underlying terms of the debt, within the comparatives, £30.4 million carrying value of bank loans has been reclassified from fixed rate to floating rate debt, and £35.2 million carrying value of other loans has been reclassified from floating rate to fixed rate debt. The associated fair values have also been restated in the comparatives, with a net £10.3 million increase in the fair value of fixed rate debt, and a net £4.9 million decrease in the fair value of floating rate debt.

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. Investment in joint venture

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

At the previous year end (31 March 2021) the £32.5 million facility advanced to Water Plus was presented within non-current loans receivable, and formed part of the Group's net investment in Water Plus. A total of £13.8 million had been written off against the carrying value of the non-current loan receivable at that date.

On 23 April 2021, the Group extinguished the £32.5 million facility, and subscribed for £32.5 million of equity shares in Water Plus Group Limited at par. The carrying value of the loan receivable was reclassified to investment in joint venture. During the current period, the Group has recognised its share of Water Plus's losses of £1.8 million against the value of the investment.

Movements in the loan receivable and investment in joint venture balances during the period were:

	Loan receivable	Investment in joint venture
	£m	£m
At 1 April 2021	18.7	–
Reclassification on subscription for equity	(18.7)	18.7
Share of losses for the period	–	(1.8)
At 30 September 2021	**–**	**16.9**

12. Retirement benefit schemes

The Group operates three defined benefit schemes in the UK, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual. The Group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The Group participates in the Dee Valley Water plc Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme (the 'DVWS'). The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2019 for the Severn Trent schemes and 31 March 2020 for DVWS.

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

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

	30 September 2021	31 March 2021
	%	%
Price inflation - RPI	**3.4**	3.2
Price inflation - CPI	**2.6**	2.4
Discount rate	**2.0**	2.0
Pension increases in payment	**3.4**	3.2
Pension increases in deferment	**3.4**	3.2

The defined benefit scheme assets have been updated to reflect their market value at 30 September 2021. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

12. Retirement benefit schemes (continued)

The scheme assets at the balance sheet date were:

STPS, STMIPS, and DVWS	**30 September 2021 £m**	31 March 2021 £m
Fair value of scheme assets		
Equities	**555.1**	493.3
Annuity policies	**111.3**	–
Corporate bonds	**1,020.9**	1,047.5
Liability-driven investment funds ('LDI's)	**688.9**	629.9
Property	**273.0**	255.1
High-yield bonds	**27.9**	28.4
Cash	**63.9**	146.2
	2,741.0	2,600.4

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £607.2 million (31 March 2021: £544.6 million).

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 2021	2,600.4	(2,968.1)	(367.7)
Current service cost	–	(0.1)	(0.1)
Scheme administration costs	(2.1)	–	(2.1)
Interest income/(cost)	26.6	(30.0)	(3.4)
Actuarial gains/(losses)	140.5	(94.3)	46.2
Employer contributions	35.6	–	35.6
Employees' contributions and benefits paid	(60.0)	60.0	–
At 30 September 2021	**2,741.0**	**(3,032.5)**	**(291.5)**

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

	30 September 2021 £m	31 March 2021 £m
Retirement benefit surplus	**18.2**	17.1
Retirement benefit obligations	**(309.7)**	(384.8)
	(291.5)	(367.7)

13. Share capital

At 30 September 2021 the issued and fully paid share capital was 253.4 million shares of $97^{17}/_{19}$p amounting to £248.1 million (31 March 2021: 242.3 million shares of $97^{17}/_{19}$p amounting to £237.2 million).

On 25 May 2021 the Company issued 10,420,000 ordinary shares of $97^{17}/_{19}$p 97 at 2,400p per share, raising £245.3 million net of issue costs. Share capital increased by £10.2 million and share premium by £235.1 million.

During the period the Company issued 0.7 million (2020/21: 0.7 million) shares as a result of the exercise of employee share options. At 30 September 2021 the Company held 3.1 million (31 March 2021: 3.4 million) treasury shares.

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2021 £m	2020 £m
Profit before interest and tax	**255.6**	224.6
Depreciation of property, plant and equipment	**180.7**	178.3
Depreciation of right-of-use assets	**1.3**	1.2
Amortisation of intangible assets	**17.6**	16.1
Amortisation of acquired intangible assets	**1.0**	1.0
Impairment of property, plant and equipment	**1.7**	–
Pension service cost	**0.1**	0.1
Defined benefit pension scheme administration costs	**2.1**	1.2
Defined benefit pension scheme contributions	**(35.6)**	(11.7)
Share based payment charge	**4.8**	4.5
Profit on sale of property, plant and equipment and intangible assets	**(1.3)**	(1.4)
Profit on disposal of subsidiary undertaking	**–**	(0.2)
Deferred income movement	**(8.0)**	(7.8)
Contributions and grants received	**15.3**	14.6
Provisions charged to the income statement	**3.2**	1.6
Utilisation of provisions for liabilities	**(2.6)**	(4.0)
Operating cash flows before movements in working capital	**435.9**	418.1
Decrease in inventory	**1.1**	0.8
(Increase)/decrease in amounts receivable	**(28.6)**	44.2
Increase in amounts payable	**81.5**	44.2
Cash generated from operations	**489.9**	507.3
Tax paid	**–**	(4.9)
Net cash generated from operating activities	**489.9**	502.4

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 2021	44.0	(1,011.1)	(5,471.3)	(121.3)	31.9	84.0	(6,443.8)
Cash flow	(11.8)	82.9	192.2	2.6	–	–	265.9
Inflation uplift on index-linked debt	–	(2.7)	(33.7)	–	–	–	(36.4)
Foreign exchange	–	–	(3.3)	–	–	–	(3.3)
Other non-cash movements	–	2.9	0.1	(3.7)	4.6	(18.5)	(14.6)
At 30 September 2021	**32.2**	**(928.0)**	**(5,316.0)**	**(122.4)**	**36.5**	**65.5**	**(6,232.2)**

15. Post balance sheet events

On 29 October the Group completed the issue of a new £50 million note facility, maturing in October 2030.

On 18 November, Defra, Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works. It is not yet clear what the scope or likely outcome of this investigation will be as it is in its very early stages.

16. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2021 which were approved on 19 May 2021. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements. An update regarding the matter disclosed in the financial statements for the year ended 31 March 2021 is provided below.

Claims under the Environmental Information Regulations 2004 regarding property searches

The stage 1 trial on the legal issues relating to claims under the Environmental Information Regulation 2004 is not now expected to be held before late 2022.

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

	2021	2020
	£m	£m
Sale of services	**130.3**	104.2
Net interest income	**1.2**	1.2

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

	30 September 2021	31 March 2021
	£m	£m
Amounts due to related parties	**(4.6)**	(2.4)
Loans receivable from joint venture	**65.5**	84.0
	60.9	81.6

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

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) Adjusted PBIT

Adjusted profit before interest and tax ('PBIT') is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by these items and reflecting the operational performance of the acquired subsidiaries. The calculation of this APM is shown on the face of the income statement and in note 3 for reportable segments.

b) Adjusted earnings per share

Adjusted earnings per share figures exclude the effects of exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, net gains/losses on financial instruments, current tax on exceptional items and on net gains/losses on financial instruments, deferred tax and exceptional current tax. The Directors consider that the adjusted figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 8.

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.

18. Alternative performance measures (continued)

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.

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

	2021	2020
	£m	£m
Net finance costs	**120.8**	91.1
Net finance costs from pensions	**(3.4)**	(2.6)
Capitalised finance costs	**15.2**	14.9
	132.6	103.4
Annualised	**265.2**	206.8
Average net debt	**6,251.5**	6,236.1
Effective interest cost*	**4.2%**	3.3%

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

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

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).

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

	2021	2020
	£m	£m
Net finance costs	**120.8**	91.1
Net finance costs from pensions	**(3.4)**	(2.6)
Indexation adjustments	**(36.4)**	(5.3)
Capitalised finance costs	**15.2**	14.9
	96.2	98.1
Annualised	**192.4**	196.2
Average net debt	**6,251.5**	6,236.1
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 finance cost that is paid in cash.

18. Alternative performance measures (continued)

f) Adjusted PBIT interest cover

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

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

	2021 £m	2020 £m
Adjusted PBIT	**256.6**	225.6
Net finance costs	**120.8**	91.1
Net finance costs from pensions	**(3.4)**	(2.6)
Net finance costs excluding net finance costs from pensions	**117.4**	88.5

	Ratio	Ratio
Adjusted PBIT interest cover ratio	**2.2**	2.5

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

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.

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

	2021 £m	2020 £m
Adjusted PBIT	**256.6**	225.6
Depreciation (including right-of-use assets)	**182.0**	179.5
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**17.6**	16.1
EBITDA	**456.2**	421.2
Net finance costs	**120.8**	91.1
Net finance costs from pensions	**(3.4)**	(2.6)
Net finance costs excluding finance costs from pensions	**117.4**	88.5

	Ratio	Ratio
EBITDA interest cover ratio	**3.9**	4.8

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.

18. Alternative performance measures (continued)

h) Adjusted effective current tax rate

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

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

	2021	**2021 Current tax thereon**	2020	2020 Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**146.9**	**–**	126.5	(11.0)
Adjustments				
Share of net loss of joint venture	**1.8**	**–**	–	–
Amortisation of acquired intangible assets	**1.0**	**–**	1.0	–
Net (gains)/losses on financial instruments	**(13.9)**	**–**	7.0	(1.3)
	135.8	**–**	134.5	(12.3)
Adjusted effective current tax rate		**0.0%**		9.1%

This APM is used to remove distortions in the tax charge and to create a metric consistent with the calculation of adjusted 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.

i) Operational cashflow

Cash generated from operations less contributions and grants received.

	2021	2020
	£m	£m
Cash generated from operations	**489.9**	507.3
Contributions and grants received	**(15.3)**	(14.6)
Operational cashflow	**474.6**	492.7

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

j) Cash capex

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

	2021	2020
	£m	£m
Purchase of property, plant and equipment	**250.2**	284.3
Purchase of intangible assets	**6.6**	15.6
Contributions and grants received	**(15.3)**	(14.6)
Proceeds on disposal of property, plant and equipment	**(3.5)**	(1.8)
Cash capex	**238.0**	283.5

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 22 November 2021.

Christine Hodgson
Chair

James Bowling
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 2021 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 will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

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 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Deloitte LLP
Statutory Auditor
London, United Kingdom
22 November 2021

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.

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.

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.

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

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.

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

PR19
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewerage 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.

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

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).

WINEP (Water Industry National Environment Programme)
Developed through extensive engagement with water companies and led by the Environment Agency and Natural England, WINEP sets out the actions that water companies will need to complete to meet our environmental obligations.

Cautionary statement

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.

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