Half Yearly Financial Report
22 November 2022
Interim results for the six months to 30 September 2022

Investing in people, performance and environment for the long-term

Robust financial performance, supported by strong cost control
- Guiding to double-digit real Return on Regulated Equity ('RoRE') for FY23, with ODIs[1] of at least £50 million, totex in line with allowance, and strong financing outperformance.
- First half Group PBIT[2] of £261.7 million up 2.4% year-on-year, reflecting increase in Group turnover (£1,061.8 million, up £103.6 million) and strong cost control.
- Increasing property PBIT guidance by a further £50 million, with planned PBIT from sales of surplus land now £150 million between 2017 and 2032.
- Adjusted basic EPS[3] of 29.9 pence (2021/22: 54.0 pence) reflecting PBIT growth offset by impact of inflation on index-linked debt. Basic EPS of 31.4 pence (2021/22: loss of 73.0 pence).
- 2022 pension valuation agreed, with contributions unchanged. IAS19 deficit of £142.6 million.
- Interim dividend of 42.73 pence, in line with AMP7[4] policy, to be paid on 11 January 2023.

Delivering on our environmental commitments through investment and operational excellence
- On track to deliver one of our largest ever investment programmes, including our innovative Green Recovery schemes, driving real RCV[5] growth of 10.8%.
- Over 70% of our £2.9 billion core capital programme either delivered or with prices locked in.
- Nominal RCV growth now expected to be 36%, making this our highest growth AMP to date.
- Strong operational performance with c.85% of Severn Trent Water performance commitments on or ahead of target, despite one of the driest summers since 1836.
- On track to achieve 4* Environmental Performance Assessment ('EPA') status from the Environment Agency for a fourth consecutive year, including our best-ever pollutions performance.
- Fast start to our Get River Positive pledges: advisory panel established including NGO representatives to help oversee progress; our share of regional RNAGS[6] reduced from 24% to 17%; ahead on our plan to reduce CSO activations to an average of 20 by 2025.
- End of AMP ODIs on course to contribute a further £40-50 million in the final year of AMP7.

Supporting our customers, communities, and colleagues now and into the future
- New ten-year plan to help support 100,000 people out of poverty by 2032, through delivering skills and employability training in communities, a work experience programme and partnership working.
- Offering financial support to up to 315,000 customers, including 90% discounts off their water bill.
- Welcomed 742 young people so far this AMP through graduate, apprentice and intern schemes.
- Colleague engagement at an all-time high, scoring in the top 5% of global utilities.

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

"The first half of this year has shown the benefits of the sustained investment we've made over many years in our people, region and environment. We have delivered a robust financial performance leaving us well positioned to support our customers, invest for the long term, and support future growth.

As well as delivering on our operational and environmental commitments, with around 85% of regulatory measures meeting or exceeding targets, we're also committed to making a long-lasting positive impact in the communities we serve. Today, we are proud to launch a new ten-year strategy to address some of the underlying causes of poverty in our region, helping people to secure employment and supporting customers through current cost of living pressures. This builds on the investment we're already making through our £10 million Community Fund and the support we offer to 315,000 customers through our affordability schemes, including discounts of up to 90% off their water bills."

Group results

	2022	2021	Increase/ (decrease)
	£m	£m	%
Group turnover	**1,061.8**	958.2	10.8
Group PBIT	**261.7**	255.6	2.4
	pence/ share	pence/ share	
Adjusted basic EPS	**29.90**	54.00	(44.6)
Basic EPS	**31.40**	(73.00)	143.0
Interim dividend declared	**42.73**	40.86	4.6

Footnotes to page 1 of this RNS

1. ODIs: Outcome Delivery Incentives, quoted pre-tax and in 2017/18 prices unless otherwise stated.
2. PBIT: Profit Before Interest and Tax.
3. EPS: Earnings Per Share; Adjusted basic EPS is set out in note 8.
4. AMP: Asset Management Plan (see glossary); AMP7 refers to the period 1 April 2020 to 31 March 2025.
5. RCV: Regulatory Capital Value (see glossary). RCV is measured including the impact of Green Recovery and real options. Nominal RCV assumes forecast CPIH of 8.2% for 2022/23, 2.4% for 2023/24, and 1.9% for 2024/25 and forecast RPI of 12.5% for 2022/23, 3.4% for 2023/24 and 3.0% for 2024/25 as per Oxford Economics October 2022 forecast.
6. The Environment Agency's analysis of Reasons for Not Achieving Good Status (RNAGS) records the source, activity and sector involved in causing waters to be at less than good status.

Enquiries

Investors & Analysts

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

Media

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

Interim Results Presentation and Webcast

A presentation of these results hosted by Liv Garfield, CEO, and James Bowling, CFO, will be available on our website (severntrent.com) from 7.00am GMT today, 22 November 2022.

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

Chief Executive's Review

Our resilience as a business has really shone through over the last six months, as we continue to deliver strong operational and financial performance, against a challenging backdrop of record-breaking weather, rising prices, and macroeconomic uncertainty. This resilience provides a stable platform to do more for the communities we serve and the environment we depend on, and I'm incredibly proud of the work we're doing in both of these spaces.

The summer of 2022 included some of the hottest and driest months ever experienced in our region but we were able to minimise disruption for our customers as we benefited from the time, resource and totex we have invested in our water performance over the past few years. We've continued to demonstrate operational excellence, and we are on track to meet or exceed around 85% of our performance commitments this year, supporting ODI guidance of at least £50 million.

While we continue to meet the challenges of a fast-changing environment, we are not complacent and the need for greater investment across the sector is clear. We are on track to deliver our £8 billion investment programme, with our fast start to the AMP, insourcing of critical skills, and smart procurement helping to mitigate global supply chain constraints.

Since launching our Get River Positive programme we have made a fast start on all five of our pledges. Most significantly, we have reduced our share of Reasons for Not Achieving Good Status ('RNAGS') from 24% to 17% over the last 18 months, progressing towards our goal of zero by 2030. We are also on track to achieve the highest possible 4* EPA status for the fourth year in a row, despite tougher targets.

Recognising the pressure on our customers' cost of living, in May we extended our affordability schemes to offer up to 315,000 customers help with their water bill. But we want to go further and make a genuine positive change to the lives of the people we serve. I am proud to launch today our new ten-year employability and skills strategy, which aims to help 100,000 people out of poverty by 2032.

At the halfway point of AMP7, I'm really pleased with the progress we have made, whether improving service for our customers, driving our investment programme forward, or delivering strong returns for shareholders. As we look ahead to the rest of this AMP and into the long-term, I am confident that we will continue to perform for the benefit of all our stakeholders.

Investing and innovating for the long term

This AMP we will deliver one of our largest ever investment programmes, including our £566 million Green Recovery programme awarded just last year. We started the AMP strongly, benefiting from our fast-track status, the insourcing of critical technical skills to work alongside our business experts, and our decisions to bolster supply chain capacity and drive forward with delivery plans during the pandemic.

We are not immune to global pricing and supply chain pressures, but are working hard to build on this fast start and adapt our programme to deliver our commitments on time, and remain within our totex allowance, protecting customers from future bill increases.

We have now delivered or locked in prices on over 70% of our core £2.9 billion AMP7 capital programme, achieved through:

- Relentless focus on spending every pound of customers' money wisely at every level of the organisation, from Exec-led steering groups to company-wide innovation challenges.
- Leveraging the benefit of our 200-person in-house design team to scrutinise options and reconfigure schemes, coordinated by our Chief Engineer function to deliver great value engineering outcomes.
- Locking in over £60 million of spend early through our advanced procurement programme, securing prices, materials and supplier capacity ahead of market challenges.
- Welcoming an additional 50 suppliers into our programme, working directly with smaller businesses and building long term relationships.
- Establishing a new delivery route through subcontractors to deliver smaller projects, worth around £45 million, more efficiently.

From a standing start just 18 months ago, our Green Recovery team is making good progress against all projects. For example, a pilot scheme of our catchment-scale flooding resilience project at Mansfield is due to complete this month and we have now begun work on the town centre. This scheme aims to store surface water in natural infrastructure, protecting around 90,000 customers' homes from flooding, and reducing the burden on our waste network.

We continue to drive innovation and in September we announced a new global partnership with Aarhus Vand in Denmark and Melbourne Water in Australia to support our journey to Net Zero by 2030. We will be transforming one of our sewage treatment facilities into a Net Zero hub, dedicated to researching and testing the latest co-developed technologies and innovations.

Innovation has also enabled us to reduce our operational footprint, freeing up land that we no longer need for new homes and businesses in our region. In 2017 we announced a ten-year £100 million property PBIT target, and following our strong performance to date, we are increasing our target to deliver a further £50 million between 2027 and 2032.

Water performance benefiting from multi-year investment

Despite challenging summer conditions, we continued our strong performance in Water, minimising disruption to our customers with no Temporary Use Bans and minimal supply interruptions. We expect our performance on supply interruptions to be better year-on-year, though still short of our stretching target.

Our strong performance over the summer benefited from a multi-pronged approach:

1. Increasing resilience of water supplies

We have invested extensively in the resilience of our water network in recent years, both in large-scale infrastructure projects, such as the Birmingham Resilience Programme, and in smaller, targeted interventions such as bringing more boreholes into operation and recommissioning existing sites. Our work to improve remote valve operations and gather more data has also given us more flexibility in managing our network.

2. Minimising loss of water across our network

During extreme weather, ground movement increases the propensity for pipes to burst and this will be reflected in our burst mains performance commitment this year. However, we have improved our average speed of response by 44% this AMP and expect this year to be our best ever for this measure, minimising loss of water from such events. This follows the installation of around 30,000 acoustic and transient pressure loggers in AMP6 and the insourcing of our Network Response and Trunk Mains Teams who can reach and repair bursts quickly. These actions form part of our plan to reduce leakage by 15% by 2025.

3. Working with customers to reduce demand

Our long-term demand management plans include the installation of 282,000 meters this AMP so far, and an increase in our customer education campaigns. Over the course of the summer we launched a region-wide TV and radio campaign, contacted millions of customers highlighting water usage, and recruited 45 people to visit customers and carry out water efficiency checks in priority areas.

As well as delivering a strong in-year performance, our teams have continued to work hard towards our end-of-AMP performance commitments, for which we are expecting to earn an additional £40-50 million in the final year of AMP7. One of our biggest schemes, Farming for Water, aims to transform water quality in a number of catchments by working with, and providing funding to, the agriculture sector.

Creating a better environment through waste operational excellence

We continue to be leaders in Waste and were proud to have our 4* EPA status for 2021 confirmed earlier this year. We remain on track to maintain our 4* status for 2022, which would make us the first company to achieve the highest possible rating for four consecutive years. This performance is delivered against targets which require us to improve our performance every year.

We are also on course to deliver our best-ever pollutions performance, with year-on-year improvements in the number of serious pollutions. We have reduced asset failures through a rigorous maintenance programme and improved event response times, helped by the ongoing installation of 40,000 sewer sensors and the establishment of our new in-house Waste Network Response Team, inspired by learnings in our Water business.

Our blockages performance remains strong thanks to our continued focus on data, sewer cleansing and customer education. We are on track to reduce the number of internal sewer floodings year-on-year and we are working hard to turn around our performance on external sewer floodings, though will miss a stretching target that reflects our historical sector-leading performance.

We recognise that there is more we can do as a sector to protect rivers in England and Wales. In March we announced our five Get River Positive pledges and have made a fast start on them. We have submitted evidence to the Environment Agency for the next wave of RNAGS attributed to our activities to be formally resolved, putting us well on track to reduce harm from our operations to zero by 2030.

We are progressing well with our plans to reduce the average number of Combined Sewer Overflow (‘CSO’) activations. We are on track to deliver both a year-on-year reduction, and our target of an average of 20 per year by 2025. Activities include development of predictive tools, trialling cameras and completing installation of Event Duration Monitors ahead of schedule. Our work positions us well for AMP8 when this measure is set to become a new ODI, with the expected benchmark set at an average of 20 activations for all companies. Following one of the lowest levels of rainfall for 180 years our activation levels were particularly low for the first half of the year.

We recognise that transparency on river quality is critical and have therefore established a new Get River Positive Advisory Panel, including representatives from wildlife and river trusts, the NFU, and Swim England to help oversee our progress against each commitment. We have also established a new Get River Positive newsletter, available to all through our website.

Supporting our customers, communities, and colleagues

With households facing the most acute cost of living pressures in decades and the Midlands home to a large number of high deprivation postcodes in the UK, we are not just helping customers that need financial support now, but want to help tackle the underlying causes of poverty for the long term.

We’ve set up financial support for 315,000 of our most vulnerable customers, with some of those reducing their water bill by up to 90%. We’ve also changed the threshold for accessing the support to make it available to even more customers.

We want to go further and intervene earlier to genuinely change the life chances of people in our region. Today we are proud to announce our new landmark scheme which aims to help 100,000 people out of poverty by 2032 by supporting them into employment.

We'll do this by offering work experience placements for 300 young people by the end of summer 2023, increasing to 500 by 2030, and delivering 10,000 hours of free employability training directly in our communities, as well as creating 'pop-up' centres in the community offering a range of support.

Right now, our annual engagement survey tells us that our colleagues are the most engaged they have ever been, and we also know they are motivated by this programme of work which will make a positive impact in the communities that we serve and live in.

This ten-year plan is a huge undertaking and we are working with like-minded organisations that share our values and social objectives, starting with councils in trial areas to ensure we are reaching the right people.

Chief Financial Officer's Review

We are pleased to have delivered financial performance in line with expectations for the first half of the year, despite rising input cost inflation and unprecedented energy prices. Our Regulated Water and Waste Water business performed ahead of last year and Business Services' PBIT was up 38.4% reflecting higher renewable energy generation profits.

Pumping water and waste water treatment are energy intensive activities and, in common with other large users of energy, we have seen significant increases in energy prices. However, our industry-leading position in energy generation from our Bioresources and Green Power businesses has mitigated the impact on our earnings and, after regulatory cost sharing, offset the economic impact for shareholders.

We will see the benefits of higher inflation in future periods in the form of higher regulatory revenues and RCV growth. However, the in-year impact of inflation on (non-cash) index-linked debt accretion has been the main driver of net finance costs rising by £66.1 million over last year.

We have continued to raise new debt, £400 million in the period, at rates below the iBoxx index and allowance for new debt. Interest rates for 68% of our existing debt are fixed, and just 25% are index-linked, mitigating the impact of rising interest rates and higher inflation on our finance costs.

Our balance sheet remains strong with regulatory gearing of 58.1% at the half year, providing a robust platform to fund the forecast 36% nominal RCV growth over this AMP, and significant investment across future AMPs.

We have agreed the triennial valuation of our main defined benefit pension scheme with the trustee, with deficit contributions unchanged from the previous valuation. We have also agreed new arrangements to refund contributions, should the scheme enter surplus. Our net pension deficit at the half year was £142.6 million.

We are confident of delivering double digit RoRE this year, driven by continued strong ODI performance, actively managed financing and controlled totex.

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

	2022	2021	Change	
	£m	£m	£m	%
Turnover	1,061.8	958.2	103.6	10.8
PBIT	261.7	255.6	6.1	2.4
Net finance costs	(186.9)	(120.8)	(66.1)	(54.7)
Gains/losses on financial instruments and share of results of joint venture	29.9	12.1	17.8	147.1
Profit before tax	104.7	146.9	(42.2)	(28.7)
Tax	(25.9)	(326.9)	301.0	92.1
Profit for the year	78.8	(180.0)	258.8	143.8

Group turnover was £1,061.8 million (2021/22: £958.2 million), up 10.8%.

Group PBIT was £261.7 million (2021/22: £255.6 million). In Regulated Water and Waste Water increased revenue was partially offset by higher power costs, as expected, and higher infrastructure renewals expenditure as planned, including HS2 diversions activity.

Net finance costs increased to £186.9 million (2021/22: £120.8 million) as the impact of higher inflation in the period increased our effective interest cost to 6.4% (2021/22: 4.2%) and average net debt by 5% over the same period in the previous year. Excluding the impact of inflation on our index-linked debt, our effective cash cost of interest was 3.1% (2021/22: 3.1%).

Water Plus improved its operating performance and our share of its profit in the period was £0.2 million (2021/22: loss of £1.8 million).

Our effective tax rate was 24.7% (2021/22: 22.3% before the exceptional deferred tax charge following the impact of the change in the corporation tax rate). Our adjusted effective tax rate was nil% (2021/22: nil%) as the benefit of 'Super Deductions' on our significant capital programme expenditure and higher interest costs reduced our profit chargeable to tax.

Basic earnings per share were 31.4 pence (2021/22: loss of 73.0 pence).

Our adjusted basic earnings per share fell to 29.9 pence (2021/22: 54.0 pence) as a result of higher finance costs due to the impact of inflation on our index-linked debt.

Our cash flows and liquidity remain strong. We have £1,200 million of committed facilities, and cash flow requirements are funded to early 2024.

Capital investment, the new performance measure for our capital programme, was £269.7 million (2021/22: £254.8 million).

Our net pension deficit at 30 September increased slightly to £142.6 million. The rapid increase in gilt yields at the end of September reduced the values of both the Schemes' assets and obligations by almost £870 million, reflecting the effectiveness of our hedging strategy in the period. The overall deficit increased as inflation in the period was higher than the long-term assumption and the effect of this exceeded the contributions paid in the period. The overall funding level across all of our defined benefit schemes was 93% (31 March 2022: 95%).

The Board continues to recognise the important role dividends play in providing income for pensioners and other investors. Taking into account the Group's prospects, financial position and the interests of other stakeholders including customers, our pension scheme members, colleagues and communities; the Board has declared an interim dividend for the year ending 31 March 2023 of 42.73 pence, up 4.6% in line with our policy for AMP7 to increase the dividend by CPIH.

Regulated Water and Waste Water

Six months ended 30 September

	2022 £m	2021 £m	Increase/(decrease) £m	%
Turnover	**984.9**	893.9	91.0	10.2
Net labour costs	**(78.7)**	(83.3)	4.6	5.5
Net hired and contracted costs	**(108.4)**	(91.9)	(16.5)	(18.0)
Power	**(95.7)**	(54.6)	(41.1)	(75.3)
Bad debts	**(13.7)**	(15.3)	1.6	10.5
Other costs	**(136.8)**	(126.9)	(9.9)	(7.8)
	(433.3)	(372.0)	(61.3)	(16.5)
Infrastructure renewals expenditure	**(109.3)**	(86.6)	(22.7)	(26.2)
Depreciation	**(199.4)**	(192.9)	(6.5)	(3.4)
PBIT	**242.9**	242.4	0.5	0.2

Turnover for the Regulated Water and Waste Water segment was £984.9 million (2021/22: £893.9 million) and PBIT was £242.9 million (2021/22 £242.4 million).

Turnover increased by £91.0 million with the main movements being:

- An increase of £38.8 million for the annual CPIH uplift in tariffs, partially offset by reductions of £7.6 million from the ‘K’ factor for the year and £6.3 million phasing of anticipated revenues from bringing formerly void properties into charge;
- A £33.5 million increase representing the recovery, under the RFI mechanism, of lower than allowed revenue in 2020/21;
- £17.0 million for the in-AMP fast money allowance for the Green Recovery programme;
- Lower consumption from commercial customers, which reduced revenue by £4.1 million, and less revenue from the Voids and Gaps Incentives Scheme (£2.0 million lower);
- Lower revenues billed by other water companies on our behalf and other small differences (£7.0 million);
- £11.5 million additional generation revenue in our Bioresources business due to higher energy prices; and
- An increase of £17.1 million in diversions income largely due to the guided increase in activity related to HS2. This represents a recovery of costs incurred and is offset by an increase in infrastructure renewals expenditure.

Net labour costs were £4.6 million (5.5%) lower period-on-period. Gross employee costs increased following the annual pay award of 2.3% and an increase in employee numbers due to mobilisation of the Green Recovery programme. This was offset by higher capitalisation of employee costs and a £6.6 million credit related to a change in defined benefit scheme options developed with the Trustee. The new bridging pension option allows members who retire early to bridge the gap between their retirement date and the date when a state pension becomes payable, by taking more of their occupational pension up front, which has a positive effect on expected pension liabilities.

Net hired and contracted costs increased by £16.5 million (18.0%) due to an increase in logistics and tankering costs, and technology contractor and vendor management costs.

Our economic energy hedge effectively limits the impact of higher energy prices on shareholder returns. Power costs were £41.1 million, or 75.3%, higher than the previous period, much less than the average wholesale energy price increases of more than 121% year-on-year. These higher costs are partially offset by self-generation in Bioresources and our Green Power business within the wider Group.

Bad debt charges were £1.6 million lower than the previous period and represent 1.9% of household revenue (2021/22 full year: 2.1%). Cash collection in the period from household customers has held up well and we've set up financial support for 315,000 of our most vulnerable customers. However, expected pressure on household budgets from cost of living increases has led us to retain the forward-looking provision of £8.5 million.

Other costs rose by £9.9 million, predominantly due to an increase in energy intensive chemical costs during the period (up £9.5 million), and higher Environment Agency abstraction charges (up £1.9 million). These were partly offset by lower voids and gaps incentive payments year-on-year.

Infrastructure maintenance expenditure was £22.7 million higher in the period, mostly reflecting the diversions activity related to HS2 referred to above, as well as a planned step up in the core renewals programme.

Depreciation was £6.5 million higher period-on-period due to Water Framework Directive (WFD) schemes and other key projects, including advanced digestion and biogas-to-grid assets at Finham, coming into service.

Business Services

Six months ended 30 September

	2022	2021	Increase/(decrease)	
	£m	£m	£m	%
Turnover				
Operating Services and Other	**44.7**	39.9	4.8	12.0
Green Power	**36.7**	26.2	10.5	40.1
	81.4	66.1	15.3	23.1
EBITDA				
Operating Services and Other	**12.2**	8.8	3.4	38.6
Green Power	**17.2**	6.2	11.0	177.4
Property Development	**1.3**	8.9	(7.6)	(85.4)
	30.7	23.9	6.8	28.5

Business Services turnover was £81.4 million (up 23.1%) and EBITDA was £30.7 million (up 28.5%). PBIT was £22.7 million (up 38.4%).

In our Operating Services and Other businesses, turnover and EBITDA increased by £4.8 million and £3.4 million respectively due to increased activity on the Coal Authority and MoD contracts, and strong Water Hygiene sales growth. PBIT increased by £3.1 million.

In Green Power, turnover increased by £10.5 million and EBITDA increased by £11.0 million. Significantly higher energy prices over the last six months are the key driver of the year-on-year increase and partially offset the increased power consumption costs in RWWW, as part of our natural energy hedge within the Group. PBIT increased by £10.8 million.

Profits from Property Development were £7.6 million lower as there were no large sales in the period, as guided. We are pleased to extend our property development PBIT target to £150 million for the fifteen year period to 2032, having already generated £50.9 million since 2017.

Corporate and other

Corporate overheads were marginally higher at £4.5 million (2021/22: £3.7 million). Our other businesses generated PBIT of £0.6 million (2021/22: £0.5 million).

Net finance costs

The Group's net finance costs for the six months were £186.9 million (2021/22: £120.8 million). Average net debt of £6,556.0 million was higher than the previous year (2021/22: £6,251.5 million) and inflation in the period increased the non-cash interest accretion on index-linked debt by £71.0 million. As a result, our effective interest cost for the period increased to 6.4% (2021/22: 4.2%). Our effective cash cost of interest (which excludes inflation accretion on index-linked debt) was 3.1% (2021/22: 3.1%). Interest capitalised of £23.5 million (2021/22: £15.2 million) increased due to the higher effective rate and higher capital work in progress during the period.

The Group's EBITDA interest cover was 2.5 times (2021/22 3.9 times) and PBIT interest cover was 1.4 times (2021/22 2.2 times). See note 18 for further details which includes reconciliations to IFRS metrics.

Net gains 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 wholesale electricity price volatility; and
- Changes in the regulatory model from RPI to CPIH.

The Group’s derivative instruments include:

- Interest rate swaps with a net notional principal of £648 million to balance our interest rate mix in line with our strategy;
- Cross currency swaps with a sterling principal of £141 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and
- Inflation swaps with a notional principal of £350 million, which swap RPI linked cash flows for CPI linked cash flows.

Where hedge accounting is not applied, if the risk 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 £53.6 million (2021/22: gain of £19.5 million) in relation to such instruments.

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

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 fourth 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 2021/22 Annual Report 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 2023.

The tax charge reported in the income statement is calculated at a rate of 24.7% (2021/22: 22.3%, excluding the exceptional deferred tax charge arising from the change in the corporation tax rate), representing the best estimate of the annual average tax rate expected for the full year, applied to the profit for the six month period.

There was no current tax charge in this period or the prior year. The deferred tax charge was £25.9 million (2021/22: £326.9 million, including an exceptional deferred tax charge of £294.2 million).

The tax allowances generated by our significant capital programme, including the 'Super Deduction' and higher finance costs reduced our adjusted effective current tax rate (in line with guidance and with the prior year) to nil%.

Profit for the period and earnings per share

Reported profit for the period was £78.8 million (2021/22: loss after the exceptional deferred tax charge described above of £180.0 million).

Basic earnings per share were 31.4 pence (2021/22: loss of 73.0 pence). Adjusted basic earnings per share were 29.9 pence (2021/2: 54.0 pence).

Cash flow

Six months ended 30 September

	2022 £m	2021 £m
Operational cashflow*	**494.1**	474.6
Cash capex	**(280.3)**	(238.0)
Net interest paid	**(76.5)**	(80.9)
Net payments for swap terminations	**–**	5.6
Net tax paid	**(3.4)**	–
Free cash flow	**133.9**	161.3
Dividends	**(153.9)**	(152.2)
Issue of shares	**14.4**	256.8
Change in net debt from cash flows	**(5.6)**	265.9
Non-cash movements	**(114.2)**	(54.3)
Change in net debt	**(119.8)**	211.6
Opening net debt	**(6,507.8)**	(6,443.8)
Closing net debt	**(6,627.6)**	(6,232.2)

* please see note 18 for alternative performance measures

Net debt comprises:

	30 September 2022 £m	31 March 2022 £m	30 September 2021 £m
Cash and cash equivalents	366.0	107.7	32.2
Bank loans	(989.6)	(782.5)	(928.0)
Other loans	(6,006.4)	(5,823.5)	(5,316.0)
Lease liabilities	(119.2)	(117.4)	(122.4)
Cross currency swaps	49.1	28.3	36.5
Loans due from joint ventures	72.5	79.6	65.5
Net debt	(6,627.6)	(6,507.8)	(6,232.2)

At 30 September 2022 we held £366.0 million (31 March 2022: £107.7 million) in net cash and cash equivalents. Our average debt maturity is thirteen years. Including committed facilities, of which £1,050 million was undrawn at the balance sheet date, the Group's cash flow requirements are funded until early 2024.

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

Net debt at 30 September 2022 was £6,627.6 million (31 March 2022: £6,507.8 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 84.6% (31 March 2022: 84.9%). Regulated gearing (net debt of our regulated businesses expressed as a percentage of estimated Regulatory Capital Value) is 58.1% as at 30 September 2022 (31 March 2022: 59.5%).

The estimated fair value of debt at 30 September 2022 was £610.1 million lower than book value (31 March 2022: £1,075.8 million higher).

Pensions

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

The 2022 actuarial valuation for the main Severn Trent Pension Scheme (STPS) has been completed and agreed with the Trustee. The future funding plan is unchanged from the 2019 valuation, and includes:

- Annual contributions will be paid each year until 31 March 2027. These will commence at £34.2 million, increased in line with the annual increase in CPI to November 2022, for the year ending 31 March 2023. Thereafter, future contributions will also increase each year in line with CPI (based on increases in the inflation measure covering the twelve-month period to the previous November).
- Payments under an asset-backed funding arrangement of £8.2 million per annum to 31 March 2032 which will only continue beyond 31 March 2025 if the Scheme’s assets are less than the Scheme’s Technical Provisions; and
- Inflation-linked payments of £15.0 million per annum (which started on 1 March 2018) 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.

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

On an IAS 19 basis, the estimated combined net position (before deferred tax) of all of the Group's defined benefit pension schemes at 30 September 2022 was a deficit of £142.6 million. The increase in gilt yields at the balance sheet date reduced the value of defined benefit obligations but this was offset by a similar decline in asset values. Inflation in the period higher than the assumption for long-term inflation increased obligations, partially offset by the employer’s contribution of £34.7 million in the period.

The net pension finance cost was £1.6 million and administration costs were £2.8 million. These were offset by a past service credit of £6.6 million following a change in the STPS’s rules to allow members to take a higher initial pension on retirement in exchange for a lower pension from state pension age.

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	2,659.4	(2,787.4)	(128.0)
Amounts credited/(charged) to income statement	35.9	(33.8)	2.1
Actuarial gains/(losses) taken to reserves	(866.8)	815.4	(51.4)
Net contributions received and benefits paid	(32.0)	66.7	34.7
At end of the period	**1,796.5**	**(1,939.1)**	**(142.6)**

On an IAS 19 basis, the funding level is 93% (31 March 2022: 95%).

Dividends

The Board has declared an interim ordinary dividend of 42.73p per share (2021/22: 40.86p per share), which will be paid on 11 January 2023 to shareholders on the register at 2 December 2022.

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.

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

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

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

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

Political, Legal and Regulatory:
- Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.
- Rapidly changing political, fiscal and monetary policy directions increasing uncertainty in planning and forecasting investment outcomes.

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

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

Technical Guidance 2022/23

Year-end guidance		**FY 22**	**Year-on-Year**	**Movement in guidance from year end**
Regulated Water and Waste Water				
Turnover[1]	£1.97 billion to £2.02 billion. Includes c.£45 million[2] for diversions income related to HS2, which is broadly offset in IRE.	£1.80bn	▲	↔
Other operating costs	Higher year-on-year, including £20 million increase in Green Recovery related opex, higher chemicals costs and other increases in line with inflation.	£631m	▲	↔
Infrastructure renewals expenditure ('IRE')	c.15% higher year-on-year, mostly due to HS2[2] activity (which is broadly offset in turnover), together with an increase in base spend in line with AMP7 plan.	£198m	▲	▼
ODIs[3]	Continued outperformance on increasingly stretching targets, delivering a net reward of at least £50 million. End of AMP ODIs expected to contribute £40-50 million in 2024/25.	£77m	▼	↔
STW RoRE[4]	Higher year-on-year, expecting a double-digit outturn.	8.8%[5]	▲	–
Business Services				
EBITDA (excl. property)	Higher year-on-year driven by increased revenue in Severn Trent Green Power.	£40m	▲	▲
Property profit	On track to deliver £100 million profit over ten years to 2027, then a further £50 million to be delivered by 2032. 2022/23 profits around 50% lower year-on-year due to timing of sales.	£13m	▼	↔
Group				
Group net power costs	Group net power costs expected to be c.£50 million higher year-on-year, with RWWW power costs up c.£100m; offset by higher revenue of c.£25m in each of Bioresources and Green Power.	–	▲	↔
Interest charge	c.40%-45% higher year-on-year based on latest inflation[4] and interest rate forecasts.	£269m	▲	▲
Adjusted effective current tax rate[6]	Adjusted effective current tax rate of nil due to "super deduction" and other accelerated capital allowances on our substantial capital investment programme.	0.6%	↔	↔
Capital investment[7]	£575 million to £675 million including Green Recovery, with the majority of spend in the second half of the year.	£604m	▲	↔
Dividend[8]	2022/23 dividend of 106.82 pence, in line with our policy of annual growth by CPIH.	102.14p	▲	↔

Footnotes to Technical Guidance

1. *Includes presentation of deferred income and diversions income released to turnover in the income statement.*
2. *For 2021/22, diversions income and costs related to HS2 were £27 million.*
3. *Customer Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices. We assume a 25% rate of corporation tax to be in place when ODIs are taken into revenue.*
4. *Based on Oxford Economics October inflation forecast. Index-linked debt comprising c.25% of our total debt.*
5. *2021/22 reported performance in line with Severn Trent Water Annual Performance Report 2022.*
6. *Total effective tax rate is expected to be c.25%. This includes both current and deferred tax charges.*
7. *Guidance now set on an accruals basis; previously we have used a cash figure. 2021/22 cash capex was £594m. A full reconciliation on both the old and new basis can be found in our alternative performance measures in note 18 of our results announcement.*
8. *2022/23 dividend growth rate based on November 2021 CPIH of 4.6%.*

Further Information

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

Investor Timetable

Ex-dividend date (Interim)	**01 December 2022**
Dividend record date (Interim)	**02 December 2022**
DRIP election date (Interim)	**16 December 2022**
Interim dividend payment date	**11 January 2023**
Q3 Trading Update	**08 February 2023**
Financial Year End	**31 March 2023**
Full Year Results Announcement 2022/23	**24 May 2023**
AGM	**06 July 2023**
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 2022

	Note	2022 £m	2021 £m
Turnover	3,4	**1,061.8**	958.2
Other income		**0.5**	6.0
Operating costs before charge for bad and doubtful debts		**(786.9)**	(693.3)
Charge for bad and doubtful debts		**(13.7)**	(15.3)
Total operating costs		**(800.6)**	(708.6)
Profit before interest and tax		**261.7**	255.6
Finance income		**40.4**	27.3
Finance costs		**(227.3)**	(148.1)
Net finance costs		**(186.9)**	(120.8)
Net gains on financial instruments	5	**29.7**	13.9
Share of net profit/(loss) of joint ventures accounted for using the equity method	11	**0.2**	(1.8)
Profit on ordinary activities before taxation		**104.7**	146.9
Current tax	6	**–**	–
Deferred tax	6	**(25.9)**	(326.9)
Taxation on profit on ordinary activities	6	**(25.9)**	(326.9)
Profit/(loss) for the period		**78.8**	(180.0)

Earnings/(loss) per share (pence)

	Note	2022	2021
Basic	8	**31.4**	(73.0)
Diluted	8	**31.3**	(73.0)

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2022

	Note	**2022** **£m**	2021 £m
Profit/(loss) for the year		**78.8**	(180.0)
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	12	**(51.4)**	46.2
Deferred tax on net actuarial gains/losses		**12.8**	(11.7)
Deferred tax arising on rate change		**–**	8.3
		(38.6)	42.8
Items that may be reclassified to the income statement:			
Gains on cash flow hedges		**59.0**	47.5
Deferred tax on gains on cash flow hedges		**(14.7)**	(12.0)
Amounts on cash flow hedges transferred to the income statement	5	**2.9**	3.3
Deferred tax on transfer to the income statement		**(0.8)**	(0.9)
		46.4	37.9
Other comprehensive income for the year		**7.8**	80.7
Total comprehensive income/(loss) for the year		**86.6**	(99.3)

Condensed consolidated statement of changes in equity
Six months ended 30 September 2022

		Equity attributable to owners of the company				
	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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
At 1 April 2022		248.1	394.4	148.4	473.0	1,263.9
Profit for the period		–	–	–	78.8	78.8
Gains on cash flow hedges		–	–	59.0	–	59.0
Deferred tax on gains on cash flow hedges		–	–	(14.7)	–	(14.7)
Amounts on cash flow hedges transferred to the income statement	5	–	–	2.9	–	2.9
Deferred tax on transfer to the income statement		–	–	(0.8)	–	(0.8)
Net actuarial losses	12	–	–	–	(51.4)	(51.4)
Deferred tax on net actuarial losses		–	–	–	12.8	12.8
Total comprehensive income for the period		–	–	46.4	40.2	86.6
Share options and LTIPs						
- proceeds from shares issued		0.9	13.5	–	–	14.4
- value of employees' services		–	–	–	4.6	4.6
Deferred tax on share based payments		–	–	–	(6.5)	(6.5)
Dividends paid	7	–	–	–	(153.9)	(153.9)
At 30 September 2022		**249.0**	**407.9**	**194.8**	**357.4**	**1,209.1**

Condensed consolidated balance sheet
At 30 September 2022

	Note	**30 September 2022 £m**	31 March 2022 £m
Non-current assets			
Goodwill		**91.4**	91.4
Other intangible assets		**176.2**	179.6
Property, plant and equipment		**10,369.8**	10,208.4
Right-of-use assets		**129.1**	129.9
Investment in joint venture	11	**16.7**	16.5
Derivative financial instruments		**110.4**	31.2
Trade and other receivables		**78.1**	92.1
Retirement benefit surplus	12	**13.0**	17.5
		10,984.7	10,766.6
Current assets			
Inventory		**33.7**	32.0
Trade and other receivables		**649.8**	606.4
Current tax receivable		**9.6**	6.2
Derivative financial instruments		**26.5**	27.6
Cash and cash equivalents		**378.0**	115.4
		1,097.6	787.6
Current liabilities			
Borrowings	9	**(624.8)**	(365.2)
Derivative financial instruments		**(0.1)**	–
Trade and other payables		**(761.8)**	(655.5)
Provisions for liabilities		**(34.1)**	(38.4)
		(1,420.8)	(1,059.1)
Net current liabilities		**(323.2)**	(271.5)
Total assets less current liabilities		**10,661.5**	10,495.1
Non-current liabilities			
Borrowings	9	**(6,502.4)**	(6,365.9)
Derivative financial instruments		**(4.7)**	(43.3)
Trade and other payables		**(1,406.0)**	(1,334.0)
Deferred tax		**(1,355.4)**	(1,320.6)
Retirement benefit obligations	12	**(155.6)**	(145.5)
Provisions for liabilities		**(28.3)**	(21.9)
		(9,452.4)	(9,231.2)
Net assets		**1,209.1**	1,263.9
Equity			
Called up share capital	13	**249.0**	248.1
Share premium account		**407.9**	394.4
Other reserves		**194.8**	148.4
Retained earnings		**357.4**	473.0
Total equity		**1,209.1**	1,263.9

Condensed consolidated cash flow statement
Six months ended 30 September 2022

	Note	**2022 £m**	2021 £m
Cash generated from operations	14	**508.3**	489.9
Tax received	14	**6.1**	–
Tax paid	14	**(9.5)**	–
Net cash generated from operating activities		**504.9**	489.9
Cash flows from investing activities			
Purchases of property, plant and equipment		**(291.6)**	(250.2)
Purchases of intangible assets		**(4.6)**	(6.6)
Proceeds on disposal of property, plant and equipment		**1.7**	3.5
Net loans repaid by joint venture		**8.0**	–
Interest received		**1.4**	0.6
Net cash outflow from investing activities		**(285.1)**	(252.7)
Cash flow from financing activities			
Interest paid		**(76.5)**	(79.5)
Interest element of lease payments		**(1.4)**	(2.0)
Dividends paid to shareholders of the parent		**(153.9)**	(152.2)
Repayments of borrowings		**(101.1)**	(332.9)
Principal elements of lease payments		**(2.8)**	(2.6)
New loans raised		**359.8**	57.8
Issues of shares net of costs		**14.4**	256.8
Proceeds from swap terminations		**–**	5.6
Net cash inflow/(outflow) from financing activities		**38.5**	(249.0)
Net movement in cash and cash equivalents		**258.3**	(11.8)
Net cash and cash equivalents at the beginning of the period		**107.7**	44.0
Net cash and cash equivalents at end of the period		**366.0**	32.2
Cash at bank and in hand		**78.0**	53.9
Bank overdrafts		**(12.0)**	(21.7)
Short term deposits		**300.0**	–
		366.0	32.2

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 2022 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 2022.

b) Going concern

Including undrawn committed credit facilities of £1,050 million, and based on its latest forecasts, the Group is fully funded for its investment and cash flow needs for more than the next year.

After making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and hence the interim financial information has been prepared on a going concern basis.

c) Seasonality

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

2. Critical accounting judgments and key sources of estimation uncertainty

In the course of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. Details of the critical accounting judgments and key sources of estimation uncertainty were set out in the Group's financial statements for the year ended 31 March 2022. 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 2022.

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 2022.

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

Notes to the condensed interim financial information (continued)

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.

A segmental analysis of turnover and PBIT is presented below.

Six months ended 30 September

	2022		2021	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
External turnover	**984.9**	**77.1**	893.6	64.7
Inter-segment turnover	**–**	**4.3**	0.3	1.4
Total turnover	**984.9**	**81.4**	893.9	66.1
Profit before interest and tax	**242.9**	**22.7**	242.4	16.4

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

Six months ended 30 September

	2022	2021
	£m	£m
Regulated Water and Waste Water	**984.9**	893.9
Business Services	**81.4**	66.1
Corporate and other	**0.5**	0.4
Consolidation adjustments	**(5.0)**	(2.2)
	1,061.8	958.2

Notes to the condensed interim financial information (continued)

3. Segmental analysis (continued)

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

Six months ended 30 September

	2022	2021
	£m	£m
Regulated Water and Waste Water	**242.9**	242.4
Business Services	**22.7**	16.4
Corporate and other	**(3.9)**	(3.2)
Profit before interest and tax	**261.7**	255.6
Net finance costs	**(186.9)**	(120.8)
Net gains on financial instruments	**29.7**	13.9
Share of net profit/(loss) of joint ventures accounted for using the equity method	**0.2**	(1.8)
Profit on ordinary activities before taxation	**104.7**	146.9

The following table shows segmental capital employed:

	30 September 2022		31 March 2022	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
Operating assets	**11,026.4**	**337.0**	10,869.7	337.4
Goodwill	**63.5**	**29.2**	63.5	29.2
Segment assets	**11,089.9**	**366.2**	10,933.2	366.6
Segment operating liabilities	**(2,351.6)**	**(33.3)**	(2,158.8)	(29.6)
Capital employed	**8,738.3**	**332.9**	8,774.4	337.0

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

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

Notes to the condensed interim financial information (continued)

4. Revenue from contracts with customers

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

Six months ended 30 September 2022

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

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	878.6	–	–	–	878.6
Operating services	–	33.0	–	–	33.0
Renewable energy	12.3	26.2	–	(1.5)	37.0
Other sales	3.0	6.9	0.4	(0.7)	9.6
	893.9	66.1	0.4	(2.2)	958.2

5. Net gains on financial instruments

Six months ended 30 September

	2022 **£m**	2021 £m
Gain on swaps used as hedging instruments in fair value hedges	**5.8**	1.6
Loss arising on debt in fair value hedges	**(4.3)**	(0.9)
Exchange loss on other loans	**(20.2)**	(3.3)
Net loss on cash flow hedges transferred from equity	**(2.9)**	(3.3)
Hedge ineffectiveness on cash flow hedges	**(2.9)**	(0.2)
Gain arising on swaps where hedge accounting is not applied	**53.6**	19.5
Amortisation of fair value adjustment on debt	**0.6**	0.5
	29.7	13.9

Notes to the condensed interim financial information (continued)

6. Tax

Six months ended 30 September

	2022 £m	2021 £m
Current tax		
Current year at 19% (2021: 19%)	**–**	–
Total current tax	**–**	–
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**25.9**	32.7
Exceptional charge on rate change	**–**	294.2
Total deferred tax	**25.9**	326.9
	25.9	326.9

The tax charge in the income statement is calculated at a rate of 24.7% (2021: 22.3%, excluding the exceptional charge on rate change) representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The adjusted effective current tax rate was nil% (2021: nil%). See note 18.

Current tax of nil (2021: nil) and a deferred tax charge of £9.2 million (2021: £14.9 million) have been taken to reserves in the period.

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

7. Dividends

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

Six months ended 30 September

	2022		2021	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2022 (2021)	**61.28**	**153.9**	60.95	152.2

The proposed interim dividend of 42.73p per share (2021/22: 40.86p per share) was approved by the Board on 21 November 2022 and has not been included as a liability at 30 September 2022.

Notes to the condensed interim financial information (continued)

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

	2022	2021
	£m	£m
Profit/(loss) for the period	**78.8**	(180.0)

ii) Number of shares

Six months ended 30 September

	2022	2021
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**250.6**	246.5
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**1.1**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**251.7**	246.5

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

	2022	2021
	pence	pence
Adjusted basic earnings per share	**29.9**	54.0
Adjusted diluted earnings per share	**29.8**	53.7

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/losses on financial instruments and deferred tax in both 2022 and 2021. 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

	2022	2021
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**78.8**	(180.0)
Adjustments for:		
- net gains on financial instruments	**(29.7)**	(13.9)
- deferred tax	**25.9**	326.9
Earnings for the purpose of adjusted basic and diluted earnings per share	**75.0**	133.0

Notes to the condensed interim financial information (continued)

9. Borrowings

	30 September 2022 £m	31 March 2022 £m
Bank overdraft	**12.0**	7.7
Bank loans	**989.6**	782.5
Other loans	**6,006.4**	5,823.5
Lease liabilities	**119.2**	117.4
Borrowings	**7,127.2**	6,731.1

The borrowings are repayable as follows:

	30 September 2022 £m	31 March 2022 £m
On demand or within one year - included in current liabilities	**624.8**	365.2
Over one year - included in non-current liabilities	**6,502.4**	6,365.9
	7,127.2	6,731.1

10. Fair value of financial instruments

a) Fair value measurements

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

	30 September 2022 £m	31 March 2022 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow.
Assets	**49.1**	28.3	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow.
Assets	**57.5**	2.9	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(4.8)**	(39.6)	
Energy swaps			Discounted cash flow.
Assets	**26.5**	27.6	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.
Asset	**3.8**	–	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.
Liabilities	**–**	(3.7)	

Notes to the condensed interim financial information (continued)

10. Fair value of financial instruments (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 2021	(32.1)
Gains recognised in the income statement	28.4
At 31 March 2022	(3.7)
Gains recognised in the income statement	7.5
At 30 September 2022	**3.8**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £5.5 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 2022		31 March 2022	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**850.5**	**832.9**	652.6	652.6
Other loans	**147.8**	**159.6**	147.8	161.4
Bank overdraft	**12.0**	**12.0**	7.7	7.7
	1,010.3	**1,004.5**	808.1	821.7
Fixed rate debt				
Other loans	**4,169.1**	**3,704.1**	3,984.3	4,253.0
Lease liabilities	**119.2**	**98.1**	117.4	126.6
	4,288.3	**3,802.2**	4,101.7	4,379.6
Index-linked debt				
Bank loans	**139.1**	**127.9**	129.9	149.5
Other loans	**1,689.5**	**1,582.5**	1,691.4	2,456.1
	1,828.6	**1,710.4**	1,821.3	2,605.6
	7,127.2	**6,517.1**	6,731.1	7,806.9

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

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

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

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

Notes to the condensed interim financial information (continued)

11. Interests in joint ventures

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

During the current period, the Group has recognised its share of Water Plus's profits of £0.2 million against the value of the investment.

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

	Investment in joint venture £m
At 1 April 2022	16.5
Share of profits for the period	0.2
At 30 September 2022	**16.7**

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 2022 %	31 March 2022 %
Price inflation - RPI	**3.7**	3.6
Price inflation – CPI		
Pre 2030	**2.7**	2.6
Post 2030	**3.6**	3.5
Discount rate	**5.5**	2.8
Pension increases in payment	**3.7**	3.6
Pension increases in deferment	**3.7**	3.6

The defined benefit scheme assets have been updated to reflect their market value at 30 September 2022. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

Notes to the condensed interim financial information (continued)

12. Retirement benefit schemes (continued)

The scheme assets at the balance sheet date were:

STPS, STMIPS, and DVWS	**30 September 2022 £m**	31 March 2022 £m
Fair value of scheme assets		
Equities	**277.8**	478.1
Annuity policies	**80.0**	104.6
Corporate bonds	**691.4**	953.0
Liability-driven investment funds ('LDI's)	**107.2**	642.4
Property	**296.6**	296.8
Buy and maintain credit	**18.2**	22.5
High-yield bonds	**–**	25.8
Cash	**325.3**	136.2
	1,796.5	2,659.4

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £254.3 million (31 March 2022: £496.0 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 2022	2,659.4	(2,787.4)	(128.0)
Current service cost	–	(0.1)	(0.1)
Past service credit	–	6.6	6.6
Scheme administration costs	(2.8)	–	(2.8)
Interest income/(cost)	38.7	(40.3)	(1.6)
Actuarial gains/(losses)	(866.8)	815.4	(51.4)
Employer contributions	34.7	–	34.7
Employees' contributions and benefits paid	(66.7)	66.7	–
At 30 September 2022	**1,796.5**	**(1,939.1)**	**(142.6)**

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

	30 September 2022 £m	31 March 2022 £m
Retirement benefit surplus	**13.0**	17.5
Retirement benefit obligations	**(155.6)**	(145.5)
	(142.6)	(128.0)

Notes to the condensed interim financial information (continued)

13. Share capital

At 30 September 2022 the issued and fully paid share capital was 254.4 million shares of $97^{17}/_{19}$p amounting to £249.0 million (31 March 2022: 253.4 million shares of $97^{17}/_{19}$p amounting to £248.1 million).

During the period the Company issued 1.0 million (2021/22: 0.7 million) shares as a result of the exercise of employee share options. At 30 September 2022 the Company held 2.9 million (31 March 2022: 3.1 million) treasury shares.

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2022 £m	2021 £m
Profit before interest and tax	**261.7**	255.6
Depreciation of property, plant and equipment	**189.5**	180.7
Depreciation of right-of-use assets	**1.3**	1.3
Amortisation of intangible assets	**16.2**	17.6
Amortisation of acquired intangible assets	**1.0**	1.0
Impairment of property, plant and equipment	**–**	1.7
Pension service (credit)/cost	**(6.5)**	0.1
Defined benefit pension scheme administration costs	**2.8**	2.1
Defined benefit pension scheme contributions	**(34.7)**	(35.6)
Share based payment charge	**4.6**	4.8
Profit on sale of property, plant and equipment and intangible assets	**(1.4)**	(1.3)
Deferred income movement	**(8.0)**	(8.0)
Contributions received	**14.2**	15.3
Provisions charged to the income statement	**7.1**	3.2
Utilisation of provisions for liabilities	**(4.2)**	(2.6)
Operating cash flows before movements in working capital	**443.6**	435.9
(Increase)/decrease in inventory	**(1.7)**	1.1
Increase in amounts receivable	**(37.1)**	(28.6)
Increase in amounts payable	**103.5**	81.5
Cash generated from operations	**508.3**	489.9
Tax received	**6.1**	–
Tax paid	**(9.5)**	–
Net cash generated from operating activities	**504.9**	489.9

b) Reconciliation of movements in net debt

	Net cash and cash equivalents £m	**Bank loans £m**	**Other loans £m**	**Lease liabilities £m**	**Cross currency swaps £m**	**Loans due from joint venture £m**	**Net debt £m**
At 1 April 2022	107.7	(782.5)	(5,823.5)	(117.4)	28.3	79.6	(6,507.8)
Cash flow	258.3	(197.8)	(60.9)	2.8	–	(8.0)	(5.6)
Fair value adjustments	–	–	(3.6)	–	–	–	(3.6)
Inflation uplift on index-linked debt	–	(8.9)	(98.5)	–	–	–	(107.4)
Foreign exchange	–	–	(20.2)	–	–	–	(20.2)
Other non-cash movements	–	(0.4)	0.3	(4.6)	20.8	0.9	17.0
At 30 September 2022	**366.0**	**(989.6)**	**(6,006.4)**	**(119.2)**	**49.1**	**72.5**	**(6,627.6)**

Notes to the condensed interim financial information (continued)

15. Post balance sheet events

There have been no significant post balance sheet events.

16. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2022 which were approved on 24 May 2022. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements other than what is set out 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 until autumn 2023.

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

	2022 **£m**	2021 £m
Sale of services	**126.9**	130.3
Net interest income	**1.7**	1.2

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

	30 September **2022** **£m**	31 March 2022 £m
Amounts due to related parties	**–**	(0.2)
Trade and other receivables due from related parties	**0.2**	–
Loans receivable from joint venture	**72.5**	79.6
	72.7	79.4

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

Adjusted earnings per share figures 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, exceptional current tax and deferred tax. The Directors consider that the adjusted figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 8.

b) Net debt

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

Notes to the condensed interim financial information (continued)

18. Alternative performance measures (continued)

c) Effective interest cost

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

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

	2022	2021
	£m	£m
Net finance costs	**186.9**	120.8
Net finance costs from pensions	**(1.6)**	(3.4)
Capitalised finance costs	**23.5**	15.2
	208.8	132.6
Annualised	**417.6**	265.2
Average net debt	**6,556.0**	6,251.5
Effective interest cost*	**6.4%**	4.2%

** 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.

d) Effective cash cost of interest

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

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

	2022	2021
	£m	£m
Net finance costs	**186.9**	120.8
Net finance costs from pensions	**(1.6)**	(3.4)
Indexation adjustments	**(107.4)**	(36.4)
Capitalised finance costs	**23.5**	15.2
	101.4	96.2
Annualised	**202.8**	192.4
Average net debt	**6,556.0**	6,251.5
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.

Notes to the condensed interim financial information (continued)

18. Alternative performance measures (continued)

e) PBIT interest cover

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

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

	2022	2021
	£m	£m
PBIT	**261.7**	255.6
Net finance costs	**186.9**	120.8
Net finance costs from pensions	**(1.6)**	(3.4)
Net finance costs excluding net finance costs from pensions	**185.3**	117.4

	Ratio	Ratio
PBIT interest cover ratio	**1.4**	2.2

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

f) 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.

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

	2022	2021
	£m	£m
PBIT	**261.7**	255.6
Depreciation (including right-of-use assets)	**190.8**	182.0
Amortisation	**17.2**	18.6
EBITDA	**469.7**	456.2
Net finance costs	**186.9**	120.8
Net finance costs from pensions	**(1.6)**	(3.4)
Net finance costs excluding finance costs from pensions	**185.3**	117.4

	Ratio	Ratio
EBITDA interest cover ratio	**2.5**	3.9

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.

Notes to the condensed interim financial information (continued)

18. Alternative performance measures (continued)

g) Adjusted effective current tax rate

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

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

	2022	**2022 Current tax thereon**	2021	2021 Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**104.7**	**–**	146.9	–
Adjustments				
Share of net (profit)/loss of joint venture	**(0.2)**	**–**	1.8	–
Net (gains)/losses on financial instruments	**(29.7)**	**–**	(13.9)	–
	74.8	**–**	134.8	–
Adjusted effective current tax rate		**0.0%**		0.0%

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

h) Operational cashflow

Cash generated from operations less contributions and grants received.

	2022	2021
	£m	£m
Cash generated from operations	**508.3**	489.9
Contributions and grants received	**(14.2)**	(15.3)
Operational cashflow	**494.1**	474.6

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

i) Cash capex

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

	2022	2021
	£m	£m
Purchase of property, plant and equipment	**291.6**	250.2
Purchase of intangible assets	**4.6**	6.6
Contributions received	**(14.2)**	(15.3)
Proceeds on disposal of property, plant and equipment	**(1.7)**	(3.5)
Cash capex	**280.3**	238.0

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

Notes to the condensed interim financial information (continued)

18. Alternative performance measures (continued)

j) Capital Investment

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

	2022	2021
	£m	£m
Additions to property, plant and equipment	**360.4**	290.8
Additions to intangible assets	**4.6**	30.2
Contributions and grants received	**(14.2)**	(15.3)
Assets contributed at no cost	**(57.6)**	(35.7)
Capitalised finance costs	**(23.5)**	(15.2)
Capital Investment	**269.7**	254.8

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 21 November 2022.

Christine Hodgson Chair	James Bowling Chief Financial Officer

Independent review report to Severn Trent Plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 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.

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 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

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

Conclusion Relating to Going Concern

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

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

Directors' responsibilities

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

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

Auditor's Responsibilities for the review of the financial information

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

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
21 November 2022

Glossary

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

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

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

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

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

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

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

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

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

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.

RNAGS (Reasons for Not Achieving Good Status)
The Environment Agency's analysis of Reasons for Not Achieving Good Status (RNAGS) records the source, activity and sector involved in causing waters to be at less than good status.

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

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

Glossary

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').

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

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

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

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

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

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