INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN TRENT PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Severn Trent Plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement; and
- the related notes 1 to 43 of the consolidated financial statements and notes 1 to 16 of the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – valuation of the provision for household trade receivables in Severn Trent Water Limited; and – classification of capital programme expenditure in Severn Trent Water Limited. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the audit of the group financial statements is £18.5m (2022: £13.9m). This materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.7%) of profit before interest and tax.
Scoping	Our scoping has resulted in over 95% (2022: over 95%) of the group's net operating assets, 96% (2022: 97%) of revenue and 96% (2022: 100%) of profit before interest and tax, being subject to audit testing.
Significant changes in our approach	The materiality benchmark has been updated in the current year from profit before tax adjusted for gains/(losses) from financial instruments and exceptional items, used in the prior year. The change in the benchmark is reflective of the size and scale of the business.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the group's borrowing arrangements, in particular the assessment of level of committed undrawn facilities including the £1.3 billion revolving credit and bilateral facilities and the sufficiency of headroom available in the forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for AMP (Asset Management Plan) 7 and performing a sensitivity analysis relating to these assumptions;
- testing the arithmetic accuracy of the model used to prepare the cash flow forecasts and assessing the sophistication of the model used to prepare the forecasts;
- assessing the impact of risks and uncertainties on the business model and medium-term risks; and
- assessing the appropriateness of management's going concern disclosures in light of the above assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the provision of household trade receivables in Severn Trent Water Limited

Key audit matter description	Severn Trent Water supplies water to residential customers in the UK and the provision represents the portion of household customers who do not, or cannot, pay their bills. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. As at 31 March 2023, the provision recorded was £127.5m (2022: £128.2m) which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Severn Trent Water Limited. Provisions are made against Severn Trent Water Limited's trade receivables balance based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on whole population of household debtors. This historical collection performance is then adjusted for actual current cash collection. The final step is to adjust the provision for future economic conditions, for which management has considered the correlation between forecast cash collection and gross disposable household income (GDHI). The key audit matter is focussed on the appropriateness of the assumption that the experience of debt invoiced seven to nine years ago is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the impact of forecast decreases in GDHI on the expected credit loss are appropriate. Due to the high degree of estimation uncertainty associated with the recoverability of household trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit and Risk committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 134. The bad debt provision is discussed in note 2 p) and note 21 to the financial statements. Management has included this as a source of estimation uncertainty in note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: – obtaining an understanding of relevant controls over the determination of the bad debt provision, including over the supporting data and assumptions; – testing the completeness and accuracy of the data included within the bad debt provision calculation; – testing the allocation of cash received in the current year to debt aged between seven and nine years; – use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; – evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performed a sensitivity analysis; – evaluating management's assumptions used in the calculation of the bad debt provision and challenged whether this represents lifetime expected credit loss, including review of cash collection data and historical trends; and – assessing the appropriateness of the disclosures provided relating to the key assumptions, and the range of sensitivities disclosed.
Key observations	We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Severn Trent Water Limited's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9.

5.2. Classification of capital programme expenditure in Severn Trent Water Limited

Key audit matter description	Severn Trent Water has a substantial capital programme which was agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. As the determination of whether expenditure is capitalised or expensed in the period directly affects the group's reported financial performance, we identified a key audit matter relating to the overstatement of capital expenditure, whether caused by changes to the group's capitalisation policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. During the year, Severn Trent Water Limited has invested £868.2 million (2022:£689.3 million) in capital expenditure projects out of the total group additions of £898.9 million (2022: £714.3 million) disclosed in note 17. Severn Trent Water Limited spent a further £223.2 million (2022: £194.1 million) on infrastructure maintenance expenditure out of the total group expenditure of £238.4 million (2022: £198.2 million) disclosed in note 7. The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee report on page 134. Further details are included within the critical accounting judgements note in note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: – assessing management's capitalisation and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; – testing the relevant controls related to classification of capital programme expenditure; – obtaining an understanding of, and testing, relevant controls over the application of the policy regarding expenditure incurred on projects within the capital programme during the year; and – for a sample of projects, assessing whether the capitalisation policy has been applied to the costs incurred by reviewing the business cases, making direct enquiries of project managers, and inspecting invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior financial year. We are satisfied that management has applied its capitalisation policy and implementation guidance appropriately in determining the expenditure to be capitalised.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the materiality of the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£18.5 million (2022: £13.9 million)	£17.6 million (2022: £13.2 million)
Basis for determining materiality	The current year materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.7%) of Profit before interest and tax.	We determined parent company materiality based on 3.0% (2022: 3.0%) of net assets and capped materiality at 95% (2022: 95%) of group materiality.
Rationale for the benchmark applied	We consider Profit before interest and tax to be the most relevant benchmark to measure the performance of the group. The increase in materiality in 2023 represents a change from the 2022 benchmark to a measure which is reflective of the size and scale of the business.	The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality at 70% of group and parent company materiality included: – The overall quality of the control environment and that we were able to rely on controls in certain of the group's businesses. – The small number and low value of uncorrected misstatements identified in previous audits.	

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee, all audit differences in excess of £0.9 million (2022: £0.7 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Regulated Water and Waste Water segment is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £17.6 million (2022: £12.9 million). We have audited a further seven components using component materiality which range from £9.3 million to £17.6 million (2022: nine components using statutory materiality which range from £0.1 million to £13.2 million). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represented over 95% (2022: over 95%) of the group's net operating assets, 96% (2022: 97%) of revenue and 96% (2022: 100%) of profit before interest and tax, being subject to audit testing.

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2. Our consideration of the control environment

The group uses SAP, a financial accounting software platform, in all the eight components where we have performed a full scope audit.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the group's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We also tested and relied on the relevant controls in respect of household and non-household revenue and classification of capital programme expenditure which are supported by the group's financial accounting software platform. We tested the relevant controls on a sample basis by either observing or reperforming each step of the control and obtaining the relevant supporting evidence.

7.3. Our consideration of climate-related risks

The group has assessed the risk and opportunities relevant to climate change and has included the risk as a principal risk as set out on page 78, consistent with previous years. This included assessing the potential impact of the material risks and opportunities and its Net Zero Transition Plan on both the current balance sheet position and its accounting policies.

We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

With the involvement of our Environmental, Social and Governance ('ESG') specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company'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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 20 February 2023;
- results of our enquiries of management, internal audit, the directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, treasury and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of the provision of trade receivables in Severn Trent Water Limited; and
- classification of capital programme expenditure in Severn Trent Water Limited.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

We identified the valuation of the provision of trade receivables in Severn Trent Water Limited and the classification of capital programme expenditure in Severn Trent Water Limited as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee, in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, and other regulatory authorities;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 83;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 80;
- the directors' statement on fair, balanced and understandable set out on page 167;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 75;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 130 to 131; and
- the section describing the work of the Audit and Risk Committee set out on pages 127 to 134.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the shareholders at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 March 2006 to 31 March 2023.

15.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 May 2023

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Turnover	5,6	**2,165.1**	1,943.3
Other income		**–**	5.3
Operating costs before charge for bad and doubtful debts	7	**(1,631.8)**	(1,417.8)
Charge for bad and doubtful debts	7	**(24.5)**	(24.6)
Total operating costs		**(1,656.3)**	(1,442.4)
Profit before interest and tax		**508.8**	506.2
Finance income	9	**84.1**	54.7
Finance costs	10	**(446.7)**	(324.1)
Net finance costs		**(362.6)**	(269.4)
Reduction in expected credit loss on loan receivable		**–**	0.2
Net gains on financial instruments	11	**21.7**	39.3
Share of net gain/(loss) of joint ventures accounted for using the equity method	19	**–**	(2.2)
Profit on ordinary activities before taxation		**167.9**	274.1
Current tax	12	**(0.2)**	4.8
Deferred tax	12	**(35.5)**	(366.1)
Taxation on profit on ordinary activities	12	**(35.7)**	(361.3)
Profit/(loss) for the year		**132.2**	(87.2)

Earnings/(loss) per share (pence)

	Note	2023	2022
Basic	14	**52.7**	(35.2)
Diluted	14	**52.5**	(35.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Profit/(loss) for the year		**132.2**	(87.2)
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	27	**(252.2)**	188.5
Deferred tax on net actuarial losses/gains	12	**63.0**	(47.1)
Deferred tax arising on rate change	12	**–**	8.4
		(189.2)	149.8
Items that may be reclassified to the income statement:			
(Loss)/gain on cash flow hedges		**(2.5)**	54.6
Deferred tax on losses/gains on cash flow hedges	12	**0.6**	(13.0)
Amounts on cash flow hedges transferred to the income statement	11	**4.9**	6.8
Deferred tax on transfer to the income statement	12	**(1.1)**	(1.7)
		1.9	46.7
Other comprehensive (loss)/income for the year		**(187.3)**	196.5
Total comprehensive (loss)/income for the year		**(55.1)**	109.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

		Equity attributable to owners of the company				
	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 year		–	–	–	(87.2)	(87.2)
Net actuarial gains	27	–	–	–	188.5	188.5
Deferred tax on net actuarial gains	12	–	–	–	(47.1)	(47.1)
Deferred tax arising from rate change	12	–	–	–	8.4	8.4
Gains on cash flow hedges		–	–	54.6	–	54.6
Deferred tax on gains on cash flow hedges	12	–	–	(13.0)	–	(13.0)
Amounts on cash flow hedges transferred to the income statement	11	–	–	6.8	–	6.8
Deferred tax on transfer to the income statement	12	–	–	(1.7)	–	(1.7)
Total comprehensive income for the year		–	–	46.7	62.6	109.3
Proceeds from equity placing	29,30	10.2	235.1	–	–	245.3
Share options and LTIPs						
– proceeds from shares issued	29,30	0.7	11.2	–	–	11.9
– value of employees' services	36	–	–	–	8.3	8.3
Deferred tax on share based payments	12	–	–	–	4.9	4.9
Dividends paid	13	–	–	–	(254.5)	(254.5)
At 1 April 2022		248.1	394.4	148.4	473.0	1,263.9
Profit for the year		–	–	–	132.2	132.2
Net actuarial losses	27	–	–	–	(252.2)	(252.2)
Deferred tax on net actuarial losses	12	–	–	–	63.0	63.0
Loss on cash flow hedges		–	–	(2.5)	–	(2.5)
Deferred tax on losses on cash flow hedges	12	–	–	0.6	–	0.6
Amounts on cash flow hedges transferred to the income statement	11	–	–	4.9	–	4.9
Deferred tax on transfer to the income statement	12	–	–	(1.1)	–	(1.1)
Total comprehensive loss for the year		–	–	1.9	(57.0)	(55.1)
Share options and LTIPs						
- proceeds from shares issued	29,30	1.0	14.3	–	–	15.3
- value of employees' services	36	–	–	–	9.5	9.5
- own shares purchased		–	–	–	(1.8)	(1.8)
Deferred tax on share based payments	12	–	–	–	0.1	0.1
Dividends paid	13	–	–	–	(261.3)	(261.3)
At 31 March 2023		**249.1**	**408.7**	**150.3**	**162.5**	**970.6**

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2023

	Note	2023 £m	2022 £m
Non-current assets			
Goodwill	15	**92.7**	91.4
Other intangible assets	16	**185.9**	179.6
Property, plant and equipment	17	**10,716.9**	10,208.4
Right-of-use assets	18	**129.3**	129.9
Investment in joint venture	19	**16.5**	16.5
Derivative financial instruments	20	**82.3**	31.2
Trade and other receivables	21	**88.4**	92.1
Retirement benefit surplus	27	**5.7**	17.5
		11,317.7	10,766.6
Current assets			
Inventory		**35.4**	32.0
Trade and other receivables	21	**750.9**	606.4
Current tax receivable		**9.9**	6.2
Derivative financial instruments	20	**0.5**	27.6
Cash and cash equivalents	22	**34.2**	115.4
		830.9	787.6
Current liabilities			
Borrowings	23	**(317.4)**	(365.2)
Trade and other payables	25	**(720.4)**	(655.5)
Provisions for liabilities	28	**(52.4)**	(38.4)
		(1,090.2)	(1,059.1)
Net current liabilities		**(259.3)**	(271.5)
Total assets less current liabilities		**11,058.4**	10,495.1
Non-current liabilities			
Borrowings	23	**(6,986.2)**	(6,365.9)
Derivative financial instruments	24	**(11.3)**	(43.3)
Trade and other payables	25	**(1,479.6)**	(1,334.0)
Deferred tax	26	**(1,293.5)**	(1,320.6)
Retirement benefit obligations	27	**(285.1)**	(145.5)
Provisions for liabilities	28	**(32.1)**	(21.9)
		(10,087.8)	(9,231.2)
Net assets		**970.6**	1,263.9
Equity			
Called up share capital	29	**249.1**	248.1
Share premium account	30	**408.7**	394.4
Other reserves	31	**150.3**	148.4
Retained earnings		**162.5**	473.0
Total equity		**970.6**	1,263.9

Signed on behalf of the Board who approved the accounts on 23 May 2023.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Cash generated from operations	37	**753.3**	891.7
Tax received	37	**6.1**	–
Tax paid	37	**(10.1)**	(1.2)
Net cash generated from operating activities		**749.3**	890.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**(0.4)**	–
Purchases of property, plant and equipment		**(699.7)**	(610.3)
Purchases of intangible assets		**(40.0)**	(36.3)
Proceeds on disposal of property, plant and equipment		**12.9**	9.5
Loans repaid by joint venture		**5.5**	–
Loans advanced to joint venture		**–**	(13.0)
Interest received		**5.5**	1.9
Net cash outflow from investing activities		**(716.2)**	(648.2)
Interest paid		**(205.3)**	(182.9)
Interest element of lease payments		**(3.7)**	(4.0)
Dividends paid to shareholders of the parent		**(261.3)**	(254.5)
Repayments of borrowings		**(982.4)**	(488.9)
Principal elements of lease payments		**(13.1)**	(12.1)
New loans raised		**1,351.4**	501.0
Issues of shares net of costs		**15.3**	257.2
Payments for swap terminations		**(11.2)**	–
Proceeds from swap terminations		**–**	5.6
Purchase of own shares		**(1.8)**	–
Net cash outflow from financing activities		**(112.1)**	(178.6)
Net movement in cash and cash equivalents		**(79.0)**	63.7
Net cash and cash equivalents at the beginning of the year		**107.7**	44.0
Net cash and cash equivalents at the end of the year		**28.7**	107.7
Cash at bank and in hand		**34.2**	40.4
Bank overdrafts		**(5.5)**	(7.7)
Short term deposits		**–**	75.0
		28.7	107.7

NOTES TO THE GROUP FINANCIAL STATEMENTS

1 General information

The Severn Trent Group's operations are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see strategic report on page 83 which sets out the Group's considerations relating to viability and going concern) under the historical cost convention, except for the revaluation of financial instruments including derivatives (refer to accounting policy notes t and u), and accounting for the transfer of assets from customers (refer to accounting policy note i).

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards.

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006. The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to statement of cash flows, share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account is presented for the parent company. The profit for the year is disclosed in the Company statement of comprehensive income, the Company statement of changes in equity and the Company balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries and joint ventures. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

Joint venture undertakings are accounted for on an equity basis where the Group exercised joint control under a contractual arrangement.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included within the Group financial statements.

Foreign currency denominated assets and liabilities of the Company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All gains and losses on exchange arising during the year are dealt with through the income statement.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and intercompany sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Amounts received from developers for diversions activity is recognised as turnover when the service to divert the infrastructure has been completed.

Operating services revenue is recognised in line with the delivery of each performance obligation. Further details of the performance obligations are detailed in note 6. The expected turnover over the life of a contract is allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Any changes to the revenue relating to performance obligations already delivered are recognised in the period in which they are identified. Differences between amounts recognised as revenue and amounts billed are recognised as contract assets or liabilities.

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

2 Accounting policies (continued)

d) Exceptional items

Exceptional items are income or expenditure, which individually or in aggregate, if of a similar type, should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Where there is a change in the tax rate enacted or substantively enacted, deferred tax assets and liabilities in the opening balance sheet are remeasured at the new rate. The resulting charge/credit to income statement and reserves is recognised in the year that the rate change occurs.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in interests in associates or joint ventures respectively. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill and indefinite life intangibles are tested for impairment in accordance with the policy set out in note 2 l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

g) Other intangible non-current assets

Intangible assets acquired separately, or internally generated where a separate resource that is controlled by the Group is created, are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3-10
Other intangible assets	15-25

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 l).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered.

All other costs of obtaining contracts are written off to the income statement as incurred.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation and impairment. Expenditure on development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. The transfer is considered to be linked to the provision of ongoing services therefore the corresponding credit is recorded in deferred income and released to turnover over the expected useful lives of the related assets. Further details regarding the judgment applied is detailed in note 4.

Where assets take a substantial period to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

2 Accounting policies (continued)

i) Property, plant and equipment (continued)

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80-150
Sewers	150-200
Other assets	
Buildings	30-80
Fixed plant and equipment	20-40
Vehicles and mobile plant	2-15

j) Leased assets

Where the Group enters a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Group; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date, the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Lease liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Group at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts.

Most extension and termination options held are exercisable only by the Group and not by the respective lessor. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group.

Where the lease term is less than one year or the underlying asset is low value, the Group does not recognise a right-of-use asset or lease liability. Payments under such leases are charged to operating costs.

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made for new connections to the water and sewerage networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in turnover in the period that they become receivable.

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital adjusted for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairment losses are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost. Impairment losses are recognised in line with the policy set out in l) above.

n) Inventory

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, the cost includes the cost of acquiring and developing the sites.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received where the fee is integral to the yield on the loan. All loan receivables are held for collection of contractual cash flows, which represent solely payments of principal and interest. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

The Group recognises a loss allowance for expected credit losses (ECL) on its loans receivable from joint ventures. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the 12 month ECL.

2 Accounting policies (continued)

o) Loans receivable (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the loans. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Significant increase in credit risk
In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers both quantitative and qualitative information about the risk of default that is reasonable and supportable, including forward-looking information that is available. This includes assessment of a deterioration in: actual or expected business; financial or economic conditions of the borrower; actual or expected operating results, cash flows and financial position of the borrower; and the regulatory, economic, or technological environment faced by the borrower.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Definition of default
The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a loan receivable is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition, and subsequently measured at amortised cost using the effective interest rate method, less loss allowance. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

q) Retirement benefits

(i) Defined benefit schemes
The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high-quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as remeasurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies. Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

(ii) Defined contribution schemes
Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the Group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

Shares held by the Severn Trent Employee Share Ownership Trust that have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 u) and the accounting policy for lease liabilities is set out in note 2 j).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs in the income statement.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments in the income statement.

2 Accounting policies (continued)

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs in the income statement.

Derivatives not designated as hedging instruments
Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments
The Group uses derivative financial instruments such as cross currency swaps, forward currency contracts, energy swaps and interest rate swaps to hedge its risks associated with foreign currency, interest rate and energy price fluctuations.

At the inception of each hedge relationship, the Group documents:

- the economic relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges
Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

Embedded derivatives
Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if the host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

v) Share based payment

The Group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating Group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

2 Accounting policies (continued)

x) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above; and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out below.

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and the fair value less costs to sell. Depreciation is not charged on such assets.

Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3 New accounting policies and future requirements

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group's financial position.

4 Critical accounting judgments and key sources of estimation uncertainty

In the process 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.

a) Critical accounting judgments

(i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £238.4 million (2022: £198.2 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £898.9 million (2022: £714.3 million).

(ii) Income from connections to the water and waste water networks

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

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

Assessing whether this income is received in relation to the provision of the connection to the Group's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Group and the customer. During the period the Group received infrastructure assets with a fair value of £105.0 million (2022: £69.0 million), infrastructure charges amounting to £21.8 million (2022: £25.0 million) and other charges relating to the provision of infrastructure amounting to £20.2 million (2022: £17.0 million).

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

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

a) Critical accounting judgments (continued)

(iii) Climate change

The Group continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Group operates is continually changing, and the expected impact on the Group from climate change is set out within the 'Our approach to climate change' section of the Strategic Report on page 39.

We have considered the impact of the climate change related risks to which the Group is exposed in the preparation of these financial statements. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

b) Sources of estimation uncertainty

(i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	42.1
Infrastructure assets	135.2
Fixed plant and equipment	24.3
Moveable plant	11.4

The impact on the annual depreciation expense of a 10 per cent increase and decrease in useful economic life ('UEL') of property, plant and equipment by asset category is detailed as follows:

Impact on annual depreciation (£m)	10 per cent increase in UEL £m	10 per cent decrease in UEL £m
Land and buildings	(9.3)	11.3
Infrastructure assets	(9.1)	5.1
Fixed plant and equipment	(20.5)	25.0
Moveable plant	(0.6)	0.8

(ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 28 to the financial statements.

(iii) Expected credit losses on trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables. A number of economic factors such as high inflation, rising interest rates and reduction of Government support for domestic energy bills might impact household disposable income and therefore the expected credit losses on trade receivables.

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

	2023 £m	2022 £m
Gross carrying amount	**746.7**	630.9
Provision for bad and doubtful debts	**(135.1)**	(135.0)
Net carrying amount	**611.6**	495.9

Movements in the expected credit loss allowance are as follows:

	2023 £m	2022 £m
At 1 April	**135.0**	137.1
Charge for bad and doubtful debts	**24.5**	24.6
Amounts written off during the period	**(24.4)**	(26.7)
At 31 March	**135.1**	135.0

The average expected credit loss for the outstanding trade receivables and accrued income was 2.25% at 31 March 2023. A change of 10bps in the expected credit loss would increase the charge and provision for bad and doubtful debts by £10.3 million.

5 Segmental analysis

a) Background

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the activities of Severn Trent Water Limited, except hydro-electric generation and property sales, and Hafren Dyfrdwy Cyfyngedig.

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

The Severn Trent Executive Committee ('STEC') is the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in our joint venture are not included in the segmental reports reviewed by STEC.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

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

5 Segmental analysis (continued)

b) Segmental results

The following table shows the segmental turnover and PBIT:

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

Profit before interest and tax is stated after:

	2023		2022	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Depreciation of property, plant and equipment	**367.6**	**12.1**	350.6	11.1
Depreciation of right-of-use assets	**2.2**	**1.7**	1.0	2.8
Amortisation of intangible assets	**30.8**	**2.8**	33.4	2.9
(Profit)/Loss on disposal of fixed assets	**(0.2)**	**(2.0)**	2.5	(7.9)

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

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

Included in the revenues of Regulated Water and Waste Water of £1,995.4 million (2022: £1,804.4 million) is £259.5 million (2022: £259.8 million) which arose from sales to Water Plus Group. No other single customer contributed 10% or more to the Group's revenue for either 2023 or 2022.

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

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

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a Group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

5 Segmental analysis (continued)

c) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed.

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

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

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

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2023 £m	2022 £m
Segment assets		
Regulated Water and Waste Water	**11,561.9**	10,933.2
Business Services	**380.0**	366.6
Corporate and other	**5.3**	4.5
Other financial assets	**117.0**	174.2
Investment in joint venture	**16.5**	16.5
Loan receivable from joint venture	**75.3**	79.6
Current tax receivable	**9.9**	6.2
Consolidation adjustments	**(17.3)**	(26.6)
Total assets	**12,148.6**	11,554.2

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

	2023 £m	2022 £m
Segment liabilities		
Regulated Water and Waste Water	**(2,507.4)**	(2,158.8)
Business Services	**(33.3)**	(29.6)
Corporate and other	**(47.4)**	(38.2)
Other financial liabilities	**(7,314.9)**	(6,774.2)
Deferred tax	**(1,293.5)**	(1,320.6)
Consolidation adjustments	**18.5**	31.1
Total liabilities	**(11,178.0)**	(10,290.3)

The consolidation adjustments comprise elimination of intra-group creditors.

5 Segmental analysis (continued)

c) Segmental capital employed (continued)

The following table shows the additions to other intangible assets, property, plant and equipment and right-of-use assets:

	2023		2022	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**39.5**	**0.5**	35.9	0.4
Property, plant and equipment	**885.5**	**14.3**	694.3	20.0
Right-of-use assets	**3.0**	**–**	2.7	1.5

d) Geographical areas

All of the Group's sales were derived from the UK in 2023 and 2022.

6 Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by type of revenue and by business segment below:

Year ended 31 March 2023	**Regulated Water and Waste Water £m**	**Business Services £m**	**Corporate and other £m**	**Consolidation adjustments £m**	**Group £m**
Water and waste water services	1,932.9	–	–	(0.4)	1,932.5
Operating services	–	84.7	–	–	84.7
Renewable energy	57.2	78.6	–	(7.0)	128.8
Other sales	5.3	13.8	1.1	(1.1)	19.1
	1,995.4	**177.1**	**1.1**	**(8.5)**	**2,165.1**

Year ended 31 March 2022	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,767.5	–	–	(0.5)	1,767.0
Operating services	–	74.4	–	–	74.4
Renewable energy	32.8	55.5	–	(4.2)	84.1
Other sales	4.1	13.7	1.1	(1.1)	17.8
	1,804.4	143.6	1.1	(5.8)	1,943.3

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year and revenue is recognised on a straight-line basis over the financial year.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income in relation to connections were as follows:

	2023 £m	2022 £m
At 1 April	**1,353.4**	1,259.1
Contributions and grants received	**40.2**	42.8
Assets transferred at no cost	**105.0**	69.0
Amounts released to income statement	**(16.4)**	(17.5)
At 31 March	**1,482.2**	1,353.4

Revenue amounting to £16.4 million (2022: £17.5 million) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2022: nil).

Payments for infrastructure charges and other charges relating to connection to the networks occur when the connections are made. The performance obligations, including provision of an ongoing water and waste water service, are provided over the life of the relevant property.

6 Revenue from contracts with customers (continued)

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2023 £m	2022 £m
In the next year	**16.2**	29.5
Between one and five years	**64.8**	118.0
After more than five years	**1,401.2**	1,205.9
	1,482.2	1,353.4

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

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

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract with the Ministry of Defence ('MoD'), the Group bills the customer based on an inflation-linked volumetric tariff and invoices are payable on normal commercial terms. The performance obligations, which are satisfied as the services are performed, are:

- operating and maintaining the customer's infrastructure assets;
- upgrading the customer's infrastructure assets;
- administrating the services received from statutory water and sewerage undertakers; and
- administrating billing services of the customer's commercial and Non Base Dependent customers.

Revenue has been allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Changes to projected margins are adjusted on a cumulative basis in the period that they are identified.

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. The estimated transaction price has increased from 31 March 2022 as a result of increased inflation and consumption. At 31 March 2023 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £372.5 million (2022: £396.3 million). This amount is expected to be recognised as revenue as follows:

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

The assumptions and other sources of estimation uncertainty in relation to this contract do not present a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year and therefore are not included as a source of estimation uncertainty in note 4 b).

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

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

No contract liabilities arose from the Group's Operating Services contract with the MoD.

7 Net operating costs

	2023 £m	2022 £m
Wages and salaries	**315.1**	299.1
Social security costs	**35.3**	30.9
Pension costs	**22.4**	28.2
Share based payments	**9.5**	8.3
Total employee costs	**382.3**	366.5
Power	**198.3**	110.9
Raw materials and consumables	**115.2**	81.3
Rates	**84.4**	84.3
Charge for bad and doubtful debts	**24.5**	24.6
Services charges	**41.6**	36.5
Depreciation of tangible fixed assets	**379.7**	361.5
Depreciation of right-of-use assets	**3.9**	3.8
Amortisation of intangible fixed assets	**33.7**	36.3
Hired and contracted services	**291.6**	256.9
Rental charges		
– land and buildings	**0.3**	0.1
– other	**–**	0.5
Hire of plant and machinery	**9.1**	9.3
Profit on disposal of tangible fixed assets	**(2.2)**	(5.4)
Exchange (gains)/losses	**(0.8)**	0.5
Infrastructure maintenance expenditure	**238.4**	198.2
Ofwat licence fees	**5.5**	4.9
Other operating costs	**71.3**	63.3
Other operating income	**(3.1)**	(3.3)
	1,873.7	1,630.7
Own work capitalised	**(217.4)**	(188.3)
	1,656.3	1,442.4

During the year the following fees were charged by the auditor:

	2023 £m	2022 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	**0.3**	0.3
– the audit of the Company's subsidiary accounts	**0.7**	0.6
Total audit fees	**1.0**	0.9
Fees payable to the Company's auditor and its associates for other services to the Group:		
– audit related assurance services	**0.2**	0.2
– other assurance services	**0.1**	0.1
Total non-audit fees	**0.3**	0.3

Other assurance services include certain agreed upon procedures performed by Deloitte in connection with financing documents.

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit and Risk Committee report on pages 127 and 134. No services were provided pursuant to contingent fee arrangements.

Details of directors' remuneration are set out in the Directors' Remuneration Report on pages 141 to 144.

8 Employee numbers

Average number of employees (including Executive Directors) during the year:

	2023	2022
By business segment		
Regulated Water and Waste Water	**7,176**	6,612
Business Services	**461**	492
Corporate and other	**14**	14
	7,651	7,118

9 Finance income

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

10 Finance costs

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

Borrowing costs of £56.6 million (2022: £34.5 million) incurred on funding eligible capital projects have been capitalised at an interest rate of 5.4% (2022: 4.11%). Tax relief of £10.7 million (2022: £6.5 million) was claimed on these costs which has created tax losses carried forward, offset by a related deferred tax asset of £14.1 million (2022: £8.6 million).

11 Net gains/(losses) on financial instruments

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

The gains from financial assets and liabilities mandatorily measured at fair value through profit or loss was £34.4 million (2022: £50.5 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2022: nil).

The Group's hedge accounting arrangements are described in note 35.

12 Taxation

a) Analysis of tax charge in the year

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

An exceptional deferred tax charge of £294.4 million arose from recalculating opening deferred tax liabilities at 25% in 2022 (see note 26).

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2022: higher) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

Total tax

	2023 £m	2022 £m
Profit before taxation	**167.9**	274.1
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	**31.9**	52.1
Tax effect of depreciation on non-qualifying assets	**2.2**	1.9
Permanent difference from super deductions	**(4.6)**	(5.3)
Other permanent differences	**(2.0)**	2.1
Current year impact of rate change	**8.5**	15.9
Adjustments in respect of prior years	**(0.3)**	0.2
Exceptional deferred tax arising from rate change	**–**	294.4
Total tax charge	**35.7**	361.3

Current tax

	2023 £m	2022 £m
Profit before taxation	**167.9**	274.1
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	**31.9**	52.1
Tax effect of depreciation on non-qualifying assets	**2.2**	1.9
Permanent difference from super deductions	**(4.6)**	(5.3)
Other permanent differences	**(2.0)**	2.1
Tax effect of accelerated capital allowances	**(33.1)**	(40.8)
Other temporary differences	**5.6**	(10.0)
Adjustments in respect of prior years	**0.2**	(4.8)
Total current tax charge/(credit)	**0.2**	(4.8)

The most significant factor impacting the Group's current tax charge is the difference between the depreciation charged on property, plant and equipment in the financial statements and the amount deductible from taxable profits in the form of capital allowances. Where the assets qualify for capital allowances this creates a temporary difference and deferred tax is recognised on the difference between the carrying amount of the asset and the amount that will be deductible for tax purposes in future years. Changes in the amount of deferred tax recognised on these assets are charged or credited to deferred tax in the income statement. Where the amount of the capital allowances received is greater than the depreciation charged this is referred to as accelerated capital allowances.

12 Taxation (continued)

b) Factors affecting the tax charge in the year (continued)

On 3 March 2021, the UK Government announced the introduction of a capital allowance 'super deduction' which gave an in-year capital allowance of 130% on the cost of plant and machinery qualifying for the relief between 1 April 2021 and 31 March 2023 and an acceleration of capital allowances on the cost of assets qualifying for special rate allowances. The introduction of these changes meant the Group was eligible to claim more capital allowances in the last two years to the extent that the Group was not liable to pay corporation tax for those years.

Certain of the Group's property, plant and equipment assets are not eligible for capital allowances under current legislation. Therefore there is no tax deduction that corresponds to the depreciation charged on these assets and deferred tax is not recognised in respect of this permanent difference.

The 30% allowance in excess of the cost of assets qualifying for the super deduction will never be charged as depreciation in the financial statements and therefore this represents a permanent difference between profits recognised in the income statement and taxable profits.

Other permanent differences comprise expenditure that is not deductible for tax purposes or income that is not taxable.

Other temporary differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax assets in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 26.

c) Tax (credited)/charged directly to other comprehensive income or equity

No current tax has been charged or credited to other comprehensive income or equity. The following amounts of deferred tax have been (credited)/charged to other comprehensive income or equity:

	2023 £m	2022 £m
Deferred tax on:		
Actuarial losses/gains	**(63.0)**	47.1
Cash flow hedges	**(0.6)**	13.0
Share based payments	**(0.1)**	(4.9)
Transfers to the income statement	**0.1**	1.7
Effect of change in tax rate	**–**	(8.4)
Total deferred tax (credited)/charged to other comprehensive income or equity	**(62.6)**	48.5

13 Dividends

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

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

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

14 Earnings/(loss) per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and 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 dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the period. Potential ordinary shares are not treated as dilutive if their conversion does not decrease earnings per share or increase loss per share.

Basic and diluted earnings per share are calculated on the basis of profit attributable to the owners of the Company.

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

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

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

ii) Number of shares

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

Unvested share options and LTIPs have not been treated as dilutive potential ordinary shares in 2022 because their conversion would decrease the loss per share.

b) Adjusted earnings per share

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

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

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

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

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

15 Goodwill

	2023 £m	2022 £m
Cost		
At 1 April	**91.4**	91.4
Acquisition of subsidiary	**1.3**	–
At 31 March	**92.7**	91.4

On 8 February 2023, Severn Trent Services Operations UK Limited acquired 100% of the issued share capital of M A solutions (Lindum) Ltd for a total consideration of £1.6 million, of which £0.8 million is cash consideration and the remainder deferred consideration.

The acquisition has been accounted for using the acquisition method. Goodwill of £1.3 million was recognised, attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired, which was estimated at £0.3m.

Goodwill relates to specific cash-generating units (CGUs) hence no allocation of goodwill is required. A summary of the carrying amount of goodwill by CGU is presented below.

	2023 £m	2022 £m
Regulated Water and Waste Water	**62.2**	62.2
Green Power	**29.2**	29.2
Operating Services	**1.3**	–
	92.7	91.4

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2022: £4.3 million). This is reviewed for impairment as part of the Regulated Water and Waste Water impairment review, set out in note 15 a) below.

a) Regulated Water and Waste Water

On 1 July 2018 Instruments of appointments of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is allocated to the Regulated Water and Waste Water cash-generating unit.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a level 3 valuation, less costs to sell.

The fair value, determined using a discounted cash flow calculation for the Regulated Water and Waste Water segment is based on the most recent financial projections available for the business, which cover the five-year period to 31 March 2028.

The key assumptions underlying these projections are the cash flows in the projections and the following:

	%
Discount rate	6.5
RPI long-term inflation	3.0
CPI long-term inflation	2.0
Growth rate in the period beyond the detailed projections	1.5

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the post-tax WACC detailed in the Ofwat PR19 final determination adjusted for market changes. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 3.0% and 2.0% for RPI and CPI respectively, based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the five-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base, based on past experience and external factors likely to drive long-term growth in the regulatory capital base.

The fair value less costs to sell for the CGU exceeded its carrying value by £2,534.4 million. An increase in the discount rate to 7.1% or a reduction in the growth rate in the period beyond the detailed projections to 0.7% would reduce the recoverable amount to the carrying amount of the CGU.

15 Goodwill (continued)

b) Green Power

On 30 November 2018, the Group acquired Agrivert Holdings and its subsidiary undertakings resulting in goodwill of £29.2 million. This goodwill has been allocated to the Green Power South cash-generating unit which is determined to be the lowest level of independent cash flows relating to the goodwill. Green Power South is included within the Green Power part of the Business Services segment.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Green Power South CGU was determined on the basis of a value in use calculation.

The value in use determined using a discounted cash flow calculation for the Green Power South CGU is based on the most recent financial projections available for the business to 2028.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	7.8
Growth rate in the period beyond the detailed projections	2.0

The discount rate was based on a review of a range of external sources of information about the cost of capital for the Severn Trent energy business. This rate was then converted to the equivalent pre-tax discount rate disclosed above.

Cash flows beyond the end of the five-year period are extrapolated using assumed growth of 2.0% in the Group's free cash flows, informed through external market trends.

The value in use for the CGU exceeded its carrying value by £19.2 million. An increase in the discount rate to 9.0% or reduction in the growth rate in the period beyond the detailed projections to 1.2% would reduce the recoverable amount to the carrying amount of the CGU.

16 Other intangible assets

	Computer software				
	Internally generated £m	Purchased £m	Capitalised development costs and patents £m	Other intangible assets £m	Total £m
Cost					
At 1 April 2021	303.9	162.5	12.8	35.8	515.0
Additions	21.8	14.5	–	–	36.3
Disposals	–	–	(12.8)	–	(12.8)
Transfers from property, plant and equipment	11.3	3.0	1.3	–	15.6
At 1 April 2022	337.0	180.0	1.3	35.8	554.1
Additions	22.1	12.2	–	5.7	40.0
At 31 March 2023	**359.1**	**192.2**	**1.3**	**41.5**	**594.1**
Amortisation					
At 1 April 2021	(216.4)	(116.9)	(12.8)	(4.9)	(351.0)
Amortisation for the year	(25.5)	(8.7)	–	(2.1)	(36.3)
Disposals	–	–	12.8	–	12.8
At 1 April 2022	(241.9)	(125.6)	–	(7.0)	(374.5)
Amortisation for the year	(20.6)	(10.9)	(0.1)	(2.1)	(33.7)
At 31 March 2023	**(262.5)**	**(136.5)**	**(0.1)**	**(9.1)**	**(408.2)**
Net book value					
At 31 March 2023	**96.6**	**55.7**	**1.2**	**32.4**	**185.9**
At 31 March 2022	95.1	54.4	1.3	28.8	179.6

Other intangible assets include the instrument of appointment acquired with Dee Valley Water, customer contracts and energy subsidy contracts both acquired with Agrivert and rights obtained under contracts for biological assets. The instrument of appointment has an indefinite useful life and as such the carrying value has been included in the impairment assessment performed for the Regulated Water and Waste Water CGU described in note 15. As at 31 March 2023 no impairment was recorded (2022: nil).

17 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2021	4,015.0	5,773.2	4,792.8	72.3	1,095.3	15,748.6
Additions	59.1	136.4	132.9	0.7	385.2	714.3
Transfers on commissioning	131.5	97.0	313.3	12.3	(554.1)	–
Transfers to intangible assets	–	–	–	–	(15.6)	(15.6)
Disposals	(3.9)	–	(8.6)	(4.9)	(3.0)	(20.4)
At 1 April 2022	4,201.7	6,006.6	5,230.4	80.4	907.8	16,426.9
Additions	35.9	161.4	77.6	0.8	623.2	898.9
Transfers on commissioning	74.5	1.2	180.7	1.3	(257.7)	–
Disposals	(10.8)	(2.3)	(30.8)	(2.5)	(9.3)	(55.7)
At 31 March 2023	**4,301.3**	**6,166.9**	**5,457.9**	**80.0**	**1,264.0**	**17,270.1**
Depreciation						
At 1 April 2021	(1,542.2)	(1,434.7)	(2,858.1)	(38.4)	–	(5,873.4)
Charge for the year	(100.9)	(40.7)	(212.7)	(7.2)	–	(361.5)
Disposals	3.5	–	8.3	4.6	–	16.4
At 1 April 2022	(1,639.6)	(1,475.4)	(3,062.5)	(41.0)	–	(6,218.5)
Charge for the year	(102.1)	(45.6)	(225.0)	(7.0)	–	(379.7)
Disposals	10.8	0.2	32.1	1.9	–	45.0
At 31 March 2023	**(1,730.9)**	**(1,520.8)**	**(3,255.4)**	**(46.1)**	**–**	**(6,553.2)**
Net book value						
At 31 March 2023	**2,570.4**	**4,646.1**	**2,202.5**	**33.9**	**1,264.0**	**10,716.9**
At 31 March 2022	2,562.1	4,531.2	2,167.9	39.4	907.8	10,208.4

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £105.0 million (2022: £69.0 million) and provisions for works in response to legally enforceable undertakings to regulators amounting to £34.2 million (2022: £15.3 million).

The net book value of land and buildings is analysed as follows:

	2023 £m	2022 £m
Freehold	**2,570.1**	2,561.8
Short leasehold	**0.3**	0.3
	2,570.4	2,562.1

18 Leases

a) The Group's leasing activities

The Group leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2 j).

Lease contracts are negotiated on an individual basis and include a wide range of terms and conditions. The contracts do not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contracts do not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases:

	2023 £m	2022 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**0.9**	1.4
Infrastructure assets	**1.1**	1.1
Fixed plant and equipment	**0.2**	0.2
Moveable plant	**1.7**	1.1
Total depreciation of right-of-use assets	**3.9**	3.8
Interest expense included in finance cost	**3.7**	4.0
Expense relating to short-term leases included in operating costs	**–**	0.5
Expense relating to leases of low value assets included in operating costs	**0.3**	0.1

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	2023 £m	2022 £m
Right-of-use assets:		
Land and buildings	**12.5**	12.3
Infrastructure assets	**110.4**	111.5
Fixed plant and equipment	**4.1**	4.1
Moveable plant	**2.3**	2.0
	129.3	129.9

Additions to right-of-use assets were £3.0 million (2022: £4.2 million). Disposals were £nil (2022: £0.2 million). Extension of lease terms during the year has resulted in a reduction in dilapidation provisions included in right-of-use assets of £0.8 million (2022: £1.1 million).

	2023 £m	2022 £m
Lease liabilities:		
Current	**8.3**	7.1
Non-current	**102.6**	110.3
	110.9	117.4

18 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities were as follows:

	2023 £m	2022 £m
Within 1 year	**12.3**	11.0
1 – 2 years	**12.2**	11.2
2 – 5 years	**39.6**	35.5
After more than 5 years	**80.4**	95.0
Gross obligations under leases	**144.5**	152.7
Less future finance charges	**(33.6)**	(35.3)
Present value of lease obligations	**110.9**	117.4

Net obligations under leases were as follows:

	2023 £m	2022 £m
Within 1 year	**8.3**	7.1
1 – 2 years	**8.4**	7.4
2 – 5 years	**29.6**	25.9
After more than 5 years	**64.6**	77.0
Included in non-current liabilities	**102.6**	110.3
	110.9	117.4

d) Cash flow

The total cash outflow for leases in the year was £16.8 million (2022: £16.1 million) which consists of £3.7 million (2022: £4.0 million) payments of interest and £13.1 million (2022: £12.1 million) repayment of principal elements. This is included in financing cash flows.

19 Interests in joint ventures

Particulars of the Group's principal joint venture undertaking at 31 March 2023 were:

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Group Limited	Joint venture	Great Britain	Ordinary B	50%

Water Plus is the largest business retailer in the non-household retail water market in England and Scotland. Its principal activities are core retail services including billing, meter reading, call centre support and water efficiency advice as well as key account management services and value added solutions.

Water Plus competes in England and Scotland for customers ranging from small and medium-sized enterprises through to large corporate entities in both the private and public sectors.

Movements in the investment were as follows:

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

On 23 April 2021, the Group extinguished the £32.5 million Revolving Credit Facility ('RCF') previously extended to Water Plus, and replaced this with a subscription for £32.5 million of equity shares in Water Plus Group Limited at par. The carrying value of the loan receivable was reclassified to investment in joint venture.

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

As at 31 March 2023 and 2022 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than those set out below, the Group did not have any significant contingent liabilities in relation to its interests in the joint venture. The Group had no capital commitments in relation to its interests in the joint venture at 31 March 2023 or 2022.

19 Interests in joint ventures (continued)

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee is capped at £43.5 million (2022: £54.1 million).

The registered office of Water Plus Group Limited is South Court Riverside Park, Campbell Road, Stoke-On-Trent, United Kingdom, ST4 4DA.

Balance sheet and income statement extracts can be found below for Water Plus:

At 31 March	2023 £m	2022 £m
Non-current assets	40.0	41.6
Current assets[1]	300.9	367.3
Current liabilities[2]	(112.4)	(154.5)
Non-current liabilities[3]	(214.6)	(241.4)
Net assets/liabilities	13.9	13.0

1 Includes cash of £12.2 million (2022: £24.4 million)
2 Includes current financial liabilities (excluding trade and other payables and provisions) of £1.2 million (2022: £0.1 million)
3 Includes non-current financial liabilities of £213.1 million (2022: £240.3 million)

For the year ended 31 March	2023 £m	2022 £m
Revenue	731.7	750.9
Depreciation and amortisation	(6.2)	(6.6)
Finance income	3.7	4.0
Finance costs	(11.3)	(7.7)
Tax credit/(charge)	(1.6)	4.2
Comprehensive gain/(loss) for the year	–	(3.5)

The below shows a reconciliation from the net assets of Water Plus to the carrying value as above:

	2023 £m	2022 £m
Net assets of Water Plus at 31 March	13.9	13.0
Severn Trent's share of net assets	7.0	6.5
Water Plus financial liabilities classified as part of net investment in joint venture	9.8	9.8
Other	(0.3)	0.2
Carrying value of joint venture investment at 31 March	16.5	16.5

The net assets position of Water Plus is derived from the best information available at the time the financial statements of the Group are approved. The impact on the Group of any subsequent changes in the net assets of Water Plus will be reflected in the financial statements prepared to 31 March 2024.

20 Categories of financial assets

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**20.5**	13.7
Interest rate swaps – not hedge accounted		**–**	2.9
Inflation swaps – not hedge accounted		**7.3**	–
		27.8	16.6
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**14.0**	14.6
Interest rate swaps – cash flow hedges		**40.5**	–
Energy hedges – cash flow hedges		**0.5**	27.6
		55.0	42.2
Total derivative financial assets		**82.8**	58.8
Financial assets at amortised cost			
Trade receivables	21	**294.4**	217.7
Accrued income	21	**317.2**	278.2
Other amounts receivable	21	**73.4**	58.8
Loan receivable from joint venture	21	**75.3**	79.6
Short-term deposits	22	**–**	75.0
Cash at bank and in hand	22	**34.2**	40.4
Total financial assets at amortised cost		**794.5**	749.7
Total financial assets		**877.3**	808.5
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**82.3**	31.2
Trade and other receivables		**3.3**	6.7
Loan receivable from joint venture		**75.3**	79.6
		160.9	117.5
Current assets			
Derivative financial assets		**0.5**	27.6
Trade and other receivables		**681.7**	548.0
Cash and cash equivalents		**34.2**	115.4
		716.4	691.0
		877.3	808.5

21 Trade and other receivables

	2023 £m	2022 £m
Current assets		
Net trade receivables	**294.4**	217.7
Other amounts receivable	**70.1**	52.1
Contract assets	**44.3**	39.9
Prepayments	**24.9**	18.5
Net accrued income	**317.2**	278.2
	750.9	606.4
Non-current assets		
Other amounts receivable	**3.3**	6.7
Prepayments	**9.8**	5.8
Loan receivable from joint venture	**75.3**	79.6
	88.4	92.1
	839.3	698.5

Prepayments include unamortised success fees paid as a result of winning the MoD contract (see note 6) amounting to £4.3 million (2022: £4.8 million). The costs are being amortised on a straight line basis over the life of the contract.

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

(i) Trade receivables and accrued income

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the Group is Severn Trent Water Limited, which represents 91% of Group turnover and 89% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 41, Related party transactions. Credit risk is considered separately for trade receivables due from Water Plus and is considered immaterial as amounts outstanding are paid within 30 days.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables, contract assets and accrued income.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2022: nil).

(ii) Contract assets

The contract assets represent the Group's right to receive consideration from the MoD for services provided. On that basis the Group considers that the credit risk in relation to these assets is immaterial and therefore no provision for expected credit losses has been recognised (2022: nil).

(iii) Loan receivable from joint venture

As well as trade receivables from Water Plus the Group has advanced loans to its joint venture. These loans are assessed for impairment under the two stage impairment model in IFRS 9.

21 Trade and other receivables (continued)

b) Expected credit loss allowance

(i) Trade receivables and accrued income

The expected credit loss at 31 March 2023 and 2022 was as set out below. The loss allowance is based on historical credit losses adjusted for expected changes in cash collection. The loss rate disclosed is calculated by applying the loss allowance to the gross carrying amount for each age category.

2023	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	**3**	**415.3**	**(13.4)**	**401.9**
Up to 1 year past due	**21**	**109.2**	**(22.8)**	**86.4**
1 – 2 years past due	**32**	**66.2**	**(21.4)**	**44.8**
2 – 3 years past due	**38**	**46.6**	**(17.5)**	**29.1**
3 – 4 years past due	**41**	**29.6**	**(12.0)**	**17.6**
4 – 5 years past due	**52**	**26.5**	**(13.9)**	**12.6**
5 – 6 years past due	**56**	**18.8**	**(10.5)**	**8.3**
6 – 7 years past due	**55**	**12.8**	**(7.0)**	**5.8**
7 – 8 years past due	**64**	**8.3**	**(5.3)**	**3.0**
8 – 9 years past due	**69**	**5.9**	**(4.1)**	**1.8**
More than 9 years past due	**96**	**7.5**	**(7.2)**	**0.3**
		746.7	**(135.1)**	**611.6**

2022	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	4	333.1	(11.7)	321.4
Up to 1 year past due	25	93.8	(23.1)	70.7
1 – 2 years past due	39	63.3	(24.6)	38.7
2 – 3 years past due	43	39.0	(16.7)	22.3
3 – 4 years past due	55	32.2	(17.6)	14.6
4 – 5 years past due	49	26.2	(12.8)	13.4
5 – 6 years past due	54	16.2	(8.7)	7.5
6 – 7 years past due	63	11.2	(7.1)	4.1
7 – 8 years past due	69	7.4	(5.1)	2.3
8 – 9 years past due	73	3.3	(2.4)	0.9
More than 9 years past due	100	5.2	(5.2)	–
		630.9	(135.0)	495.9

Movements on the expected credit loss allowance were as follows:

	2023 £m	2022 £m
At 1 April	**135.0**	137.1
Charge for bad and doubtful debts	**24.5**	24.6
Amounts written off during the year	**(24.4)**	(26.7)
At 31 March	**135.1**	135.0

(ii) Loan receivable from joint venture

In previous years, the Group has determined that there has been a significant increase in the credit risk since inception relating to its loans receivable of £76.4 million (2022: £80.7 million) from Water Plus, in the light of significant losses incurred by Water Plus. Following a breakeven position from Water Plus in the current year, the Group determines that there continues to be credit risk since inception on the loan receivable balance from Water Plus. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2023 based on Water Plus's financial projections. The Group has maintained the expected credit loss provision at £1.1 million (2022: £1.1 million) resulting in a net loan receivable of £75.3 million (2022: £79.6 million).

22 Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank and in hand	**34.2**	40.4
Short-term deposits	**–**	75.0
	34.2	115.4

£18.4 million (2022: £24.6 million) of cash at bank and in hand is restricted for use on the MoD contract and £0.6 million (2022: £0.5 million) is held as security for insurance obligations. Neither are available for use by the Group.

23 Borrowings

	2023 £m	2022 £m
Current liabilities		
Bank overdraft	**5.5**	7.7
Bank loans	**3.6**	3.7
Other loans	**300.0**	346.7
Lease liabilities	**8.3**	7.1
	317.4	365.2
Non-current liabilities		
Bank loans	**709.4**	778.8
Other loans	**6,174.2**	5,476.8
Lease liabilities	**102.6**	110.3
	6,986.2	6,365.9
	7,303.6	6,731.1

See note 34 for details of interest rates payable and maturity of borrowings.

24 Categories of financial liabilities

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**10.0**	37.0
Inflation swaps – not hedge accounted		**–**	3.7
		10.0	40.7
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**0.9**	–
Interest rate swaps – cash flow hedges		**0.4**	2.6
		1.3	2.6
Total derivative financial liabilities		**11.3**	43.3
Other financial liabilities			
Borrowings	23	**7,303.6**	6,731.1
Trade payables	25	**122.7**	89.1
Other payables	25	**15.6**	13.4
Total other financial liabilities		**7,441.9**	6,833.6
Total financial liabilities		**7,453.2**	6,876.9
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**11.3**	43.3
Borrowings		**6,986.2**	6,365.9
		6,997.5	6,409.2
Current liabilities			
Borrowings		**317.4**	365.2
Trade payables		**122.7**	89.1
Other payables		**15.6**	13.4
		455.7	467.7
		7,453.2	6,876.9

25 Trade and other payables

	2023 £m	2022 £m
Current liabilities		
Trade payables	**122.7**	89.1
Social security and other taxes	**10.9**	11.1
Other payables	**15.6**	13.4
Accruals and receipts in advance	**555.0**	512.4
Deferred income	**16.2**	29.5
	720.4	655.5
Non-current liabilities		
Accruals and receipts in advance	**13.6**	10.1
Deferred income	**1,466.0**	1,323.9
	1,479.6	1,334.0
	2,200.0	1,989.5

The accruals balance above includes £146.5m of contract liabilities (2022: £144.8m). Movements in this balance are set out in note 6 of the financial statements.

Movements in the deferred income balance are set out in note 6 to the financial statements.

26 Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2021	972.1	(27.8)	(39.0)	0.7	906.0
Charge/(credit) to income	57.8	9.0	11.5	(6.6)	71.7
Charge/(credit) to income arising from rate change	307.0	(2.6)	(10.5)	0.5	294.4
Charge/(credit) to equity	–	47.1	14.7	(4.9)	56.9
Charge/(credit) to equity arising from rate change	–	(6.2)	(1.8)	(0.4)	(8.4)
At 1 April 2022	1,336.9	19.5	(25.1)	(10.7)	1,320.6
Charge/(credit) to income	49.2	15.5	14.4	(43.6)	35.5
Charge/(credit) to equity	–	(63.0)	0.5	(0.1)	(62.6)
At 31 March 2023	**1,386.1**	**(28.0)**	**(10.2)**	**(54.4)**	**1,293.5**

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

	2023 £m	2022 £m
Deferred tax asset	**(92.6)**	(35.8)
Deferred tax liability	**1,386.1**	1,356.4
	1,293.5	1,320.6

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 3 March 2021, the UK Government announced an increase in the rate of corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax assets and liabilities were therefore remeasured at 1 April 2021 at the new rate of 25%. This resulted in an exceptional deferred tax charge in the income statement for 2022 of £294.4 million and a credit to reserves amounting to £8.4 million.

27 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual.

The defined benefit pension schemes cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by Trustees. The Trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the Trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the scheme rules. The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2022
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2022
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2020

* The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

The defined benefit scheme assets have been updated to reflect their market value at 31 March 2023. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the costs of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2023 £m	2022 £m
Fair value of assets	**1,785.3**	2,659.4
Present value of the defined benefit obligations	**(2,064.7)**	(2,787.4)
	(279.4)	(128.0)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**5.7**	17.5
Retirement benefit obligation – funded schemes in deficit	**(278.6)**	(137.6)
Retirement benefit obligation – unfunded schemes	**(6.5)**	(7.9)
Retirement benefit obligation – total	**(285.1)**	(145.5)
Net retirement benefit obligation	**(279.4)**	(128.0)

STPS, STMIPS, and DVWS	2023 £m	2022 £m
Fair value of scheme assets		
Equities	**188.4**	478.1
Annuity policies	**122.2**	104.6
Corporate bonds	**237.0**	953.0
Liability-driven investment funds ('LDIs')	**259.2**	642.4
Property	**239.6**	296.8
Buy and maintain credit	**–**	22.5
High-yield bonds	**–**	25.8
Cash	**738.9**	136.2
	1,785.3	2,659.4

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

Most of the assets have quoted prices in active markets, but there are equities, annuity policies, corporate bonds and LDI investments which are unquoted amounting to £419.0 million (2022: £496.0 million).

Movements in the fair value of the scheme assets were as follows:

	2023 £m	2022 £m
Fair value at 1 April	**2,659.4**	2,600.4
Interest income on scheme assets	**78.6**	52.8
Contributions from the sponsoring companies	**100.5**	61.9
Return on plan assets (excluding amounts included in finance income)	**(922.0)**	68.9
Scheme administration costs	**(4.3)**	(3.8)
Benefits paid	**(126.9)**	(120.8)
Fair value at 31 March	**1,785.3**	2,659.4

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes (continued)

Movements in the present value of the defined benefit obligations were as follows:

	2023 £m	2022 £m
Present value at 1 April	**(2,787.4)**	(2,968.1)
Current service cost	**(0.1)**	(0.2)
Past service credit	**8.3**	–
Interest cost	**(82.2)**	(59.5)
Actuarial (losses)/gains arising from changes in demographic assumptions	**(16.2)**	5.6
Actuarial gains arising from changes in financial assumptions	**744.7**	192.9
Actuarial losses arising from experience adjustments	**(58.7)**	(78.9)
Benefits paid	**126.9**	120.8
Present value at 31 March	**(2,064.7)**	(2,787.4)

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £6.5 million (2022: £7.9 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that it has an unconditional right to a refund of any surplus assets in each of the Schemes following settlement of all obligations to Scheme members and therefore the surplus in the DVWS has been recognised in full.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2023 £m	2022 £m
Amounts credited/(charged) to operating costs:		
Current service cost	**(0.1)**	(0.2)
Past service credit	**8.3**	–
Scheme administration costs	**(4.3)**	(3.8)
	3.9	(4.0)
Amounts charged to finance costs:		
Interest cost	**(82.2)**	(59.5)
Amounts credited to finance income:		
Interest income on scheme assets	**78.6**	52.8
Total amount credited/(charged) to the income statement	**0.3**	(10.7)

The actual return on scheme assets was a loss of £843.4 million (2022: gain of £121.7 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(iv) Actuarial risk factors

The schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk for so long as the benefits are not insured.

Investment risk

The Group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach, reference is made to both the maturity of the liabilities and the funding level of that scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the STPS has a balanced approach to investment in equity securities, debt instruments and real estates. Due to the long-term nature of the scheme liabilities, the Group and the STPS Trustees consider it appropriate to invest a portion of the scheme assets in equity securities and in real estate to leverage the return generated by the fund. The STMIPS and DVWS are now primarily invested in bulk annuity insurance contracts with JUST, with a small residual amount of invested assets remaining.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Longevity risk

The Group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows:

	2023 % pa	2022 % pa
Price inflation – RPI	**3.3**	3.6
Price inflation – CPI	**Pre 2030: 2.3**	2.6
	Post 2030: 3.2	3.5
Discount rate	**4.8**	2.8
Pension increases in payment	**3.3**	3.6
Pension increases in deferment	**3.3**	3.6

The assumption for RPI inflation is derived with reference to the difference between the yields on longer-term fixed rate gilts and on index-linked gilts. RPI is expected to be more closely aligned with CPI from 2030 onwards, which is reflected in the corresponding assumption for CPI inflation.

In setting the discount rate, we construct a yield curve. Short dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of this constructed yield curve.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(v) Actuarial assumptions (continued)

The mortality base table assumptions are based on those used in the latest triennial funding valuation of the STPS. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 60 implied by the assumptions are as follows:

	2023		2022	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA**	**S3PFA_M**	S3PMA_L	S3PFA_M
Mortality table compared with standard table	**98%**	**91%**	112%	95%
Mortality projections	**CMI 2021**	**CMI 2021**	CMI 2021	CMI 2021
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Weighting factor given to data for 2021	**40%**	**40%**	20%	20%
Remaining life expectancy for members currently aged 60 (years)	**25.8**	**28.6**	26.5	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)	**26.9**	**29.8**	27.6	29.7

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate[1]	Increase/decrease by 0.1% pa	Decrease/increase by £26 million
Price inflation[2]	Increase/decrease by 0.1% pa	Increase/decrease by £21 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £72 million

1 A change in discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the schemes.
2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases. This would be expected to be offset by returns on LDI assets within the asset portfolios used to hedge against the value of liabilities, as set out in the inflation risk section of note 34(d).
3 The change in this assumption reflects the risk that life expectancy rates might increase.

In reality inter-relationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these inter-relationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 13 years for STPS, 10 years for STMIPS and 12 years for DVWS.

The most recently completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2022 for the STPS and STMIPS and 31 March 2020 for DVWS. As a result of the STPS actuarial valuation, annual deficit reduction contributions of £34.2 million were agreed, with the March 2023 payment having been increased in line with the annual increase in CPI to November 2022. Thereafter, future contributions for the STPS will also increase in line with CPI inflation until March 2027. The first two contributions in March 2023 and March 2024 are payable directly into the STPS and it is expected that payments in future years will be payable to a limited liability partnership that the Group and Trustee are in the process of setting up.

Payments of £8.2 million per annum through an asset backed funding arrangement will also continue to 31 March 2032 for the STPS. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that they are no longer needed. There are no deficit reduction contributions payable by the Group for STMIPS and DVWS.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £22.4 million (2022: £28.1 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2023, no contributions (2022: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

28 Provisions

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2022	19.8	23.1	17.4	60.3
Charged to income statement	5.3	1.1	0.7	7.1
Other net additions	–	34.2	–	34.2
Utilisation of provision	(9.9)	(7.4)	–	(17.3)
Unwinding of discount	–	–	0.2	0.2
At 31 March 2023	**15.2**	**51.0**	**18.3**	**84.5**

	2023 £m	2022 £m
Included in:		
Current liabilities	**52.4**	38.4
Non-current liabilities	**32.1**	21.9
	84.5	60.3

Insurance includes provisions in respect of Lyra Insurance Guernsey Limited, a captive insurance company and a wholly owned subsidiary of the Group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Regulatory comprises provisions for works in response to legally enforceable undertakings to regulators, some of which are capital projects. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

29 Share capital

	2023 Number	2022 Number
Total issued and fully paid share capital		
254,425,641 ordinary shares of 97 17/19p (2022: 253,410,074)	**249.1**	248.1

At 31 March 2023, 2,863,716 treasury shares (2022: 3,116,579) were held at a nominal value of £2,803,427 (2022: £3,051,131).

On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97 17/19p at 2,400p per share, through a placing, raising £245.3 million net of issue costs.

Changes in share capital were as follows:

	Number	**£m**
Ordinary shares of 97 17/19p		
At 1 April 2021	242,259,862	237.2
Shares issued under the Employee Sharesave Scheme	730,212	0.7
Shares issued from equity placing	10,420,000	10.2
At 1 April 2022	253,410,074	248.1
Shares issued under the Employee Sharesave Scheme	1,015,567	1.0
At 31 March 2023	**254,425,641**	**249.1**

30 Share premium

	2023 £m	2022 £m
At 1 April	**394.4**	148.1
Share premium arising on issue of shares for Employee Sharesave Scheme	**14.3**	11.2
Share premium arising from equity placing	**–**	235.1
At 31 March	**408.7**	394.4

31 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2021	157.1	(55.4)	101.7
Total comprehensive income for the year	–	46.7	46.7
At 1 April 2022	157.1	(8.7)	148.4
Total comprehensive income for the year	–	1.9	1.9
At 31 March 2023	**157.1**	**(6.8)**	**150.3**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps and energy swaps taken directly to equity under the hedge accounting provisions of IFRS 9.

32 Capital management

The Group's principal objectives in managing capital are:

- to maintain a flexible and sustainable balance sheet structure;
- to maintain an investment grade credit rating;
- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise exposure to counterparty credit risk; and
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure.

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

The Group has continued to monitor market conditions and limit its exposure to floating interest rate debt, which comprises 5% (2022: 4%) of our gross debt portfolio at the balance sheet date, with a further 28% (2022: 27%) of index-linked debt and 67% (2022: 69%) of fixed rate debt.

Exposure to credit risk (excluding credit risk relating to amounts receivable from contracts with customers) is set out in note 34 b).

Foreign exchange risk is set out in note 34 a) (ii).

The Group has the following credit ratings:

	Moody's	Standard and Poor's	Fitch
Severn Trent Plc	Baa2	BBB	BBB
Severn Trent Water	Baa1	BBB+	BBB+

The ratings were stable.

A key metric in measuring financial sustainability and capital efficiency for companies in the water sector is RCV gearing. This is measured as Severn Trent Water Group's net debt plus Hafren Dyfrdwy Cyfyngedig's net debt divided by their combined RCV. Amongst other considerations, the Group takes into account Ofwat assumption at the Price Review (60% for AMP 7). At 31 March 2023 the Group's RCV gearing ratio based on the RCV in the Final Determination for AMP7 (FD RCV) was 60.7% (2022: 59.5%). The FD RCV excludes expenditure that was not in the PR19 Business Plan such as our Green Recovery Programme. This expenditure will be included in the opening RCV for AMP8. Where the expenditure has been incurred but is not yet included in the RCV, there is a mismatch in the RCV gearing ratio. We therefore also monitor our shadow RCV gearing ratio which adjusts the RCV for expenditure already incurred but not yet included in the RCV. The shadow RCV gearing ratio at 31 March 2023 was 60.0% (2022: 59.2%).

The Group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The Board has decided to set the 2022/23 dividend at 106.82 pence, an increase of 4.6% compared to the total dividend for 2021/22 of 102.14 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

32 Capital management (continued)

The Group's capital at 31 March was:

	2023 £m	2022 £m
Net cash and cash equivalents	**28.7**	107.7
Bank loans	**(713.0)**	(782.5)
Other loans	**(6,474.2)**	(5,823.5)
Lease liabilities	**(110.9)**	(117.4)
Cross currency swaps	**33.6**	28.3
Loans receivable from joint venture	**75.3**	79.6
Net debt	**(7,160.5)**	(6,507.8)
Equity attributable to owners of the company	**(970.6)**	(1,263.9)
Total capital	**(8,131.1)**	(7,771.7)

33 Fair values 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:

	2023 £m	2022 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**34.5**	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.
Liabilities	**(0.9)**	–	
Interest rate swaps			Discounted cash flow
Assets	**40.5**	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	**(10.4)**	(39.6)	
Energy swaps			Discounted cash flow
Assets	**0.5**	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
Assets	**7.3**	–	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices.
Liabilities	**–**	(3.7)	Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI ("the CPI wedge"). Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.

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

	Inflation swaps £m
At 1 April 2021	(32.1)
Net gains recognised in profit or loss	28.4
At 31 March 2022	(3.7)
Net gains recognised in profit or loss	11.0
At 31 March 2023	**7.3**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £4.5 million.

33 Fair values of financial instruments (continued)

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

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

	2023		2022	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**569.0**	**551.0**	652.6	652.6
Other loans	**146.8**	**157.9**	147.8	161.4
Overdraft	**5.5**	**5.5**	7.7	7.7
	721.3	**714.4**	808.1	821.7
Fixed rate debt				
Other loans	**4,441.3**	**4,177.0**	3,984.3	4,253.0
Lease liabilities	**110.9**	**110.9**	117.4	126.6
	4,552.2	**4,287.9**	4,101.7	4,379.6
Index-linked debt				
Bank loans	**144.0**	**137.1**	129.9	149.5
Other loans	**1,886.1**	**1,798.0**	1,691.4	2,456.1
	2,030.1	**1,935.1**	1,821.3	2,605.6
	7,303.6	**6,937.4**	6,731.1	7,806.9

The above floating, fixed or index-linked 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 quoted prices are not considered 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.

34 Risks arising from financial instruments

The Group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ('Group Treasury') under policies approved by the Board of Directors. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury operates under the Group's Treasury Procedures Manual and Policy Statement and identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group's exposure to changes in market interest rates. Further details are set out in section a) (i) and note 35 b) (i).

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and note 35 a) (i).

34 Risks arising from financial instruments (continued)

Energy swaps are held to mitigate the Group's exposure to changes in wholesale energy prices. Further details are provided in note 35 b) (ii).

Severn Trent Water, the Group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by CPIH. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPIH, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI/CPI/CPIH and the Group holds RPI/CPI swaps to mitigate the risk of divergence between RPI and CPIH.

a) Market risk

The Group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the Group has taken to manage them are described below.

(i) Interest rate risk

The Group's annual income and its operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings.

Borrowings issued at variable rates expose the Group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the Group to the risk of interest costs above the market rate when interest rates decrease.

The Group's policy is to maintain 40% to 70% of its interest-bearing liabilities in fixed rate instruments during AMP7. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2023 £m	2022 £m
Net debt (note 37)	**7,160.5**	6,507.8
Cash and cash equivalents	**34.2**	115.4
Loans receivable from joint venture	**75.3**	79.6
Cross currency swaps included in net debt at fair value	**33.6**	28.3
Fair value hedge accounting adjustments	**(20.1)**	(21.1)
Exchange on currency debt not hedge accounted	**(22.3)**	(14.9)
Interest bearing financial liabilities	**7,261.2**	6,695.1

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the Group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from variable rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

34 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of unhedged swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest.

2023	**Floating rate £m**	**Fixed rate £m**	**Index- linked £m**	**Total £m**
Overdraft	(5.5)	–	–	(5.5)
Bank loans	(543.6)	(25.4)	(144.0)	(713.0)
Other loans	(83.0)	(4,462.7)	(1,886.1)	(6,431.8)
Lease liabilities	–	(110.9)	–	(110.9)
	(632.1)	**(4,599.0)**	**(2,030.1)**	**(7,261.2)**
Impact of swaps not matched against specific debt instruments	275.0	(275.0)	–	–
Interest bearing financial liabilities	**(357.1)**	**(4,874.0)**	**(2,030.1)**	**(7,261.2)**
Proportion of interest bearing financial liabilities that are fixed		**67%**		
Weighted average interest rate of fixed debt		**4.11%**		
Weighted average period for which interest is fixed (years)		**9.7**		

2022	Floating rate £m	Fixed rate £m	Index- linked £m	Total £m
Overdraft	(7.7)	–	–	(7.7)
Bank loans	(625.4)	(27.2)	(129.9)	(782.5)
Other loans	(104.3)	(3,991.8)	(1,691.4)	(5,787.5)
Lease liabilities	–	(117.4)	–	(117.4)
	(737.4)	(4,136.4)	(1,821.3)	(6,695.1)
Impact of swaps not matched against specific debt instruments	475.0	(475.0)	–	–
Interest bearing financial liabilities	(262.4)	(4,611.4)	(1,821.3)	(6,695.1)
Proportion of interest bearing financial liabilities that are fixed		66%		
Weighted average interest rate of fixed debt		3.84%		
Weighted average period for which interest is fixed (years)		9.2		

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £25.9 million (2022: £25.2 million) in the income statement.

	Average contract fixed interest rate		**Notional principal amount**		**Fair value**	
	2023 %	2022 %	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Pay fixed rate interest						
1-2 years	**–**	4.98	**–**	(50.0)	**–**	(2.2)
2-5 years	**–**	5.14	**–**	(150.0)	**–**	(13.6)
5-10 years	**5.46**	5.46	**(75.0)**	(75.0)	**(10.0)**	(21.2)
	5.46	5.20	**(75.0)**	(275.0)	**(10.0)**	(37.0)

In addition to the above the Group has cross currency swaps that also swap fixed rate interest to floating (see below).

34 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity analysis

The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2023		2023	
	+1.0% £m	**-1.0% £m**	+1.0% £m	+1.0% £m
Profit or loss	**2.3**	**(2.8)**	9.7	(10.6)
Cash flow	**(2.8)**	**2.8**	(1.5)	1.5
Equity	**2.3**	**(2.8)**	9.7	(10.6)

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions. Substantially all of the Group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the Group's results to changes in exchange rates is not material.

Certain of the Group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to nil charge (2022: nil) in the income statement.

The Group has raised debt denominated in currencies other than sterling to meet its objective of accessing a broad range of sources of finance. The Group mitigated its exposure to exchange rate fluctuations by entering into cross currency swaps at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on SONIA.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 35 a) (i).

The Group also has cross currency swaps with a sterling notional value of £98.3 million (2022: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to income of £7.1 million (2022: charge of £2.3 million) in the income statement, as well as an exchange loss of £7.4 million (2022: loss of £6.6 million) on the underlying debt.

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

2023	**Euro €m**	**US Dollar $m**	**Yen ¥bn**
Borrowings by currency	**(19.9)**	**(180.0)**	**(10.3)**
Cross currency swaps – hedge accounted	**19.9**	**30.0**	**10.3**
Cross currency swaps – not hedge accounted	**–**	**150.0**	**–**
Net currency exposure	**–**	**–**	**–**

2022	Euro €m	US Dollar $m	Yen ¥bn
Borrowings by currency	(19.9)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	–	–	–

34 Risks arising from financial instruments (continued)

b) Credit risk

Operationally the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, whose operating licences oblige them to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 21.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis
At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Double A range	**150.0**	150.0	**–**	–
Single A range	**770.5**	710.5	**–**	75.0
Triple B range	**–**	10.0	**–**	–
	920.5	870.5	**–**	75.0

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2023 £m	2022 £m
Single A range	**82.8**	52.6
Triple B range	**–**	6.2
	82.8	58.8

c) Liquidity risk

(i) Committed facilities
Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and market position to be closed out when required. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows:

	2023 £m	2022 £m
2 – 5 years	**800.0**	1,100.0
5 years	**100.0**	–
	900.0	1,100.0

(ii) Cash flows from non-derivative financial instruments
The following tables show the estimated cash flows that will arise from the Group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flows including principal and interest.

34 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2023 Undiscounted amounts payable:	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Trade and other payables £m**	**Payments on financial liabilities £m**
Within 1 year	(16.7)	(473.5)	(36.1)	(149.2)	**(675.5)**
1 – 2 years	(10.6)	(153.7)	(89.3)	–	**(253.6)**
2 – 5 years	(141.8)	(906.6)	(113.8)	–	**(1,162.2)**
5 – 10 years	(211.9)	(2,002.1)	(714.3)	–	**(2,928.3)**
10 – 15 years	–	(905.4)	(168.0)	–	**(1,073.4)**
15 – 20 years	–	(1,064.8)	(304.4)	–	**(1,369.2)**
20 – 25 years	–	(152.9)	(326.2)	–	**(479.1)**
25 – 30 years	–	–	(738.5)	–	**(738.5)**
30 – 35 years	–	–	(2,909.0)	–	**(2,909.0)**
35 – 40 years	–	–	(917.5)	–	**(917.5)**
40 – 45 years	–	–	(413.3)	–	**(413.3)**
Total	**(381.0)**	**(5,659.0)**	**(6,730.4)**	**(149.2)**	**(12,919.6)**

Undiscounted amounts receivable:	**Loans due from joint ventures £m**	**Trade and other receivables £m**	**Cash and short-term deposits £m**	**Receipts from financial assets £m**
Within 1 year	2.4	681.7	34.2	718.3
1 – 2 years	7.3	3.3	–	10.6
2 - 5 years	87.0	–	–	87.0
Total	**96.7**	**685.0**	**34.2**	**815.9**

2022 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(4.1)	(404.4)	(133.1)	(113.5)	(655.1)
1 - 2 years	(317.3)	(449.7)	(32.7)	–	(799.7)
2 - 5 years	(407.7)	(1,175.7)	(154.4)	–	(1,737.8)
5 - 10 years	(111.4)	(1,591.1)	(593.1)	–	(2,295.6)
10 - 15 years	–	(731.7)	(255.1)	–	(986.8)
15 - 20 years	–	(1,070.7)	(280.5)	–	(1,351.2)
20 - 25 years	–	–	(211.6)	–	(211.6)
25 - 30 years	–	–	(727.2)	–	(727.2)
30 - 35 years	–	–	(1,713.3)	–	(1,713.3)
35 - 40 years	–	–	(2,082.6)	–	(2,082.6)
40 - 45 years	–	–	(411.9)	–	(411.9)
Total	(840.5)	(5,423.3)	(6,595.5)	(113.5)	(12,972.8)

Undiscounted amounts payable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short-term deposits £m	Receipts from financial assets £m
Within 1 year	3.3	547.9	115.4	666.6
1 – 2 years	102.3	6.6	–	108.9
2 - 5 years	12.5	–	–	12.5
Total	118.1	554.5	115.4	788.0

34 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in the RPI, CPI or CPIH. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

				Cross currency swaps		
2023	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	**13.9**	**0.5**	**0.5**	**7.4**	**(6.1)**	**16.2**
1 - 2 years	**9.3**	**0.5**	**–**	**7.5**	**(6.0)**	**11.3**
2 - 5 years	**12.1**	**2.0**	**–**	**157.2**	**(125.1)**	**6.2**
5 - 10 years	**0.4**	**7.2**	**–**	**47.7**	**(45.1)**	**10.2**
10 - 15 years	**–**	**(1.9)**	**–**	**82.8**	**(59.0)**	**21.9**
	35.7	**8.3**	**0.5**	**302.6**	**(241.3)**	**105.8**

				Cross currency swaps		
2022	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(16.5)	0.2	28.0	6.2	(3.5)	14.4
1 - 2 years	(16.6)	0.3	–	6.2	(3.5)	(13.6)
2 - 5 years	(29.4)	1.3	–	146.3	(120.3)	(2.1)
5 - 10 years	(25.0)	3.0	–	39.3	(33.2)	(15.9)
10 - 15 years	–	(5.7)	–	–	–	(5.7)
15 – 20 years	–	(8.2)	–	–	–	(8.2)
	(87.5)	(9.1)	28.0	198.0	(160.5)	(31.1)

d) Inflation risk

The Group's principal operating subsidiary, Severn Trent Water, operates under a regulatory environment where its prices are linked to inflation as measured by CPIH. Its operating profits and cash flows are therefore exposed to changes in inflation. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt that pays interest at a fixed coupon based on a principal amount that is adjusted for the change in inflation during the life of the debt instrument ('index-linked debt'). The amount of index-linked debt at the balance sheet date is shown in section a) (i) Interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) Cash flows from non-derivative financial instruments.

Ofwat is moving the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2022: £350 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

Inflation rate sensitivity analysis

The finance cost of the Group's index-linked debt instruments varies with changes in CPI/CPIH/RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in CPI/CPIH/RPI is set out in the following table. This analysis relates to financial instruments only and excludes any CPI/CPIH/RPI impact on Severn Trent Water's revenues and Regulatory Capital Value, or accounting for defined benefit pension schemes.

	2023		2022	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(16.4)**	**16.4**	(14.8)	14.8
Equity	**(16.4)**	**16.4**	(14.8)	14.8

35 Hedge accounting

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met. Hedge ineffectiveness arises from credit risk, which is not hedged.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing in order to mitigate the Group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount		Fair value	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Euro	**11.4**	11.4	**6.4**	7.4
US dollar	**23.2**	23.2	**3.1**	0.9
Yen	**59.9**	8.5	**3.6**	6.3
	94.5	43.1	**13.1**	14.6

b) Cash flow hedges

(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2023 %**	2022 %	**2023 £m**	2022 £m	**2023 £m**	2022 £m
2-5 years	**2.43**	1.70	**125.4**	50.0	**9.5**	1.0
5-10 years	**1.83**	2.10	**248.0**	325.2	**30.6**	(0.7)
	2.03	2.05	**373.4**	375.2	**40.1**	0.3

The Group recognised a loss on hedge ineffectiveness of £1.3 million (2022: loss of £0.6 million) in gains/losses on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group enters into a series of energy swaps under which it agrees to exchange the difference between fixed and market prices of electricity at six-monthly intervals. No such energy swaps are currently active and the risk of changes in wholesale energy prices in the next year is managed through physical contracts.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2023 £/MWh**	2022 £/MWh	**2023 MWh**	2022 MWh	**2023 £m**	2022 £m
Less than 1 year	**44.7**	38.5	**43,680**	131,520	**0.5**	27.6
	44.7	38.5	**43,680**	131,520	**0.5**	27.6

35 Hedge accounting (continued)

c) Cumulative fair value adjustments

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2023	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Cross currency swaps	**–**	**(109.9)**	**–**	**(14.0)**
Interest rate swaps	**–**	**(171.4)**	**–**	**–**
	–	**(281.3)**	**–**	**(14.0)**

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2022	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Cross currency swaps	–	(58.2)	–	(13.7)
Interest rate swaps	–	(374.9)	–	–
	–	(433.1)	–	(13.7)

£109.9 million (2022: £58.2 million) of the carrying amount of hedged items and £14.0 million (2022: £13.7 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

36 Share based payment

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £9.5 million (2022: £8.3 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £27.65 (2022: £27.30).

At 31 March 2023, there were no options exercisable (2022: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan (LTIP)

Under the LTIP, conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2019, 2020, 2021 and 2022 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulatory Equity in excess of the base return included within the Final Determinations over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2022: 100%).

(ii) Awards outstanding

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Outstanding at 1 April 2021	692,189
Granted during the year	203,756
Vested during the year	(230,003)
Lapsed during the year	(26,744)
Outstanding at 1 April 2022	639,198
Granted during the year	215,103
Vested during the year	(226,429)
Lapsed during the year	(14,713)
Outstanding at 31 March 2023	**613,159**

36 Share based payment (continued)

a) Long Term Incentive Plan (LTIP) (continued)

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal Date of Vesting	2023	2022
July 2019	2022	**–**	231,442
July 2020	2023	**202,547**	205,651
July 2021	2024	**196,129**	202,105
July 2022	2025	**214,483**	–
		613,159	639,198

The awards outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.5 years (2022: 1.1 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 141 to 163.

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in the Company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2021	4,102,760	1,688p
Granted during the year	884,726	2,307p
Forfeited during the year	(74,463)	1,734p
Cancelled during the year	(135,804)	1,811p
Exercised during the year	(730,212)	1,611p
Lapsed during the year	(4,608)	1,682p
Outstanding at 1 April 2022	4,042,399	1,824p
Granted during the year	1,112,373	2,183p
Forfeited during the year	(72,506)	1,968p
Cancelled during the year	(216,312)	2,113p
Exercised during the year	(1,015,567)	1,502p
Lapsed during the year	(7,749)	1,772p
Outstanding at 31 March 2023	**3,842,638**	**1,994p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	Normal Date of Vesting	Normal Date of Vesting	2023	2022
January 2017	2022	1,633p	**–**	123,540
January 2018	2023	1,652p	**111,115**	112,993
January 2019	2022 or 2024	1,474p	**216,309**	1,101,868
January 2020	2023 or 2025	1,787p	**829,908**	885,178
January 2021	2024 or 2026	1,860p	**855,384**	943,311
January 2022	2025 or 2027	2,307p	**732,604**	875,509
January 2023	2026 or 2028	2,183p	**1,097,318**	–
			3,842,638	4,042,399

The options outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.8 years (2022: 1.7 years).

36 Share based payment (continued)

c) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are set out below:

	2023			2022		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,858**	**2,674**	**2,674**	2,676	2,939	2,939
Option life (years)	**3**	**3.3**	**5.3**	3	3.3	5.3
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**3.7**	**4.0**	**4.0**	3.9	3.5	3.5
Risk free rate (%)	**n/a**	**3.5**	**3.6**	n/a	0.1	0.1
Fair value per share (pence)	**2,842**	**526**	**542**	2,659	543	521

Expected volatility is measured over the three years prior to the date of grant of the awards or share options.

Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

37 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

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

37 Cash flow statement (continued)

b) Non-cash transactions

Non-cash investing and financing transactions disclosed in other notes were:

- Acquisition of infrastructure assets from developers at no cost and provisions in response to legally enforceable undertakings to regulators (note 17).
- Acquisition of right-of-use assets (note 18).
- Shares issued to employees for no cash consideration under the LTIP (note 36).

c) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Lease liabilities £m	Cross currency swaps £m	Loans due from joint venture £m	Net debt £m
At 1 April 2022	107.7	(782.5)	(5,823.5)	(117.4)	28.3	79.6	(6,507.8)
Cash flow	(79.0)	83.7	(452.7)	13.1	–	(5.5)	(440.4)
Fair value adjustments	–	–	0.9	–	–	–	0.9
Inflation uplift on index-linked debt	–	(13.5)	(193.9)	–	–	–	(207.4)
Foreign exchange	–	–	(7.4)	–	–	–	(7.4)
Other non-cash movements	–	(0.7)	2.4	(6.6)	5.3	1.2	1.6
At 31 March 2023	**28.7**	**(713.0)**	**(6,474.2)**	**(110.9)**	**33.6**	**75.3**	**(7,160.5)**

d) Liabilities from financing activities

	Bank loans £m	Other loans £m	Lease liabilities £m	Total £m
At 1 April 2021	(1,011.1)	(5,471.3)	(121.3)	(6,603.7)
Cash flow	238.5	(250.6)	12.1	–
Fair value adjustments	–	2.9	–	2.9
Inflation uplift on index-linked debt	(6.9)	(99.6)	–	(106.5)
Foreign exchange	–	(6.6)	–	(6.6)
Other non-cash movements	(3.0)	1.7	(8.2)	(9.5)
At 1 April 2022	(782.5)	(5,823.5)	(117.4)	(6,723.4)
Cash flow	83.7	(452.7)	13.1	(355.9)
Fair value adjustments	–	0.9	–	0.9
Inflation uplift on index-linked debt	(13.5)	(193.9)	–	(207.4)
Foreign exchange	–	(7.4)	–	(7.4)
Other non-cash movements	(0.7)	2.4	(6.6)	(4.9)
At 31 March 2023	**(713.0)**	**(6,474.2)**	**(110.9)**	**(7,298.1)**

38 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2022: nil) is expected to arise in respect of either bonds or guarantees.

b) Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW residential and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which is scheduled to be held in November 2023.

c) Ongoing combined sewer overflow investigations

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

39 Financial and other commitments

a) Investment expenditure commitments

	2023 £m	2022 £m
Property, plant and equipment contracted for but not provided for in the financial statements	**634.9**	354.7

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

40 Post balance sheet events

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

41 Related party transactions

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

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

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

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

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 27.

Remuneration of key management personnel

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

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 151 and 160 to 163.

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

42 Alternative performance measures (APMs)

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APM's). 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 APMs, these might not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually or, in aggregate if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level. There were no exceptional items in the years ended 31 March 2023 and 2022.

b) Adjusted earnings per share

Adjusted earnings per share figures exclude the effects of net gains/losses on financial instruments, current tax on net gains/losses on financial instruments and deferred tax. The Directors consider that the adjusted figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 14.

c) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 37.

42 Alternative performance measures (APMs) (continued)

d) Effective interest cost

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

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

This APM is used as it shows the average finance cost for the net debt of the business.

e) Effective cash cost of interest

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

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

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

f) PBIT interest cover

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

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

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

42 Alternative performance measures (APMs) (continued)

g) EBITDA and EBITDA interest cover

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

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

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

h) Adjusted effective current tax rate

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

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

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in note 14. Share of net (profit)/loss of joint ventures is excluded from the calculation because the (profit)/loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

i) Operational cashflow

Cash generated from operations less contributions and grants received.

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

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

42 Alternative performance measures (APMs) (continued)

j) Cash capex

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

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

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

k) Capital investment

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

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

Includes £34.2 million (2022: £15.3 million) of provisions for future capital expenditure arising from regulatory obligations (See notes 17 and 28).

43 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2023 are given below. Details of the joint venture are set out in note 19. All subsidiary undertakings have been included in the consolidation.

Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Athena Holdings Limited	Hong Kong	100%	Ordinary

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent Investment Holdings Limited
Dee Valley Services Limited	Severn Trent LCP Limited
Dee Valley Water (Holdings) Limited	Severn Trent Leasing Limited
East Worcester Water Limited	Severn Trent Metering Services Limited
Etwall Land Limited	Severn Trent MIS Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent Overseas Holdings Limited
M A Solutions (LINDUM) Ltd	Severn Trent Pension Scheme Trustees Limited
Midlands Land Portfolio Limited	Severn Trent PIF Trustees Limited
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services Limited
Severn Trent Data Portal Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Draycote Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Defence Limited
Severn Trent Finance Limited	Severn Trent Services Holdings Limited
Severn Trent General Partnership Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Solar Power Limited
Severn Trent Green Power (CW) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (North London) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (RBWM) Limited	Severn Trent Water Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power (West London) Limited	Severn Trent WWIF Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent Green Power Composting Limited	

The Group owns 100% of the share capital of the following subsidiary undertakings.

All subsidiary undertakings	Country of operation and incorporation	Class of share capital held
Energy Supplies UK Limited	United Kingdom	A and B Ordinary
Lyra Insurance Guernsey Limited	Guernsey	Ordinary
Severn Trent Carsington Limited	United Kingdom	A and B Ordinary

43 Subsidiary undertakings (continued)

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Athena Holdings Limited	One 33, Hysan Avenue, Causeway Bay, Hong Kong
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Green Power (Ardley) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Bridgend) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Cassington) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (CW) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Hertfordshire) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (North London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (RBWM) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Wallingford) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (West London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Biogas Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Composting Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Group Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Holdings Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB

43 Subsidiary undertakings (continued)

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2023 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company Number
Chester Water Limited	2888872
Dee Valley Group Limited	4316684
Dee Valley Limited	2902525
Dee Valley Water (Holdings) Limited	4421854
East Worcester Water Limited	2757948
Etwall Land Limited	7559793
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent General Partnership Limited	SC416614
Severn Trent Green Power (Ardley) Limited	5807721
Severn Trent Green Power (Hertfordshire) Limited	6771560
Severn Trent Green Power (North London) Limited	9689098
Severn Trent Green Power (West London) Limited	8308321
Severn Trent Green Power Composting Limited	4927756
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Trimpley Limited	10690056
Severn Trent WWIF Limited	11966722

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Profit for the year		**426.7**	141.8
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Net actuarial gains	12	**1.2**	0.1
Deferred tax arising on actuarial gains	3	**(0.3)**	–
Deferred tax arising on change of rate	3	**–**	0.5
Other comprehensive income for the year		**0.9**	0.6
Total comprehensive income for the year		**427.6**	142.4

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021		237.2	148.1	157.1	2,814.7	3,357.1
Profit for the year		–	–	–	141.8	141.8
Net actuarial gains	12	–	–	–	0.1	0.1
Deferred tax arising from rate change	3	–	–	–	0.5	0.5
Total comprehensive income for the year		–	–	–	142.4	142.4
Share options and LTIPs						
– proceeds from shares issued	8,9	0.7	11.2	–	–	11.9
– value of employees' services		–	–	–	8.4	8.4
Proceeds from equity placing		10.2	235.1	–	–	245.3
Dividends paid	16	–	–	–	(254.5)	(254.5)
At 31 March 2022		248.1	394.4	157.1	2,711.0	3,510.6
Profit for the year		–	–	–	426.7	426.7
Net actuarial gains	12	–	–	–	1.2	1.2
Deferred tax on net actuarial gains	3	–	–	–	(0.3)	(0.3)
Total comprehensive income for the year		–	–	–	427.6	427.6
Share options and LTIPs						
– proceeds from shares issued	8,9	1.0	14.3	–	–	15.3
– value of employees' services		–	–	–	9.7	9.7
Dividends paid	16	–	–	–	(261.3)	(261.3)
At 31 March 2023		**249.1**	**408.7**	**157.1**	**2,887.0**	**3,701.9**

Included in retained earnings are profits of £1,221.2 million that arose from group restructuring arrangements in previous years and are therefore not distributable. Distributable reserves are therefore £1,665.8 million.

COMPANY BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Non-current assets			
Property, plant and equipment		**0.3**	0.3
Right-of-use assets		**0.6**	0.8
Investments in subsidiaries	2	**3,371.6**	3,362.1
Deferred tax asset	3	**1.6**	2.0
Trade and other receivables	4	**1,139.0**	1,126.0
		4,513.1	4,491.2
Current assets			
Trade and other receivables	4	**33.9**	25.6
Current tax receivable		**15.0**	13.6
Cash and cash equivalents		**1.2**	–
		50.1	39.2
Current liabilities			
Borrowings	5	**(0.2)**	(96.2)
Trade and other payables	6	**(12.6)**	(94.0)
Provisions for liabilities	7	**(0.8)**	(0.8)
		(13.6)	(191.0)
Net current assets/(liabilities)		**36.5**	(151.8)
Total assets less current liabilities		**4,549.6**	4,339.4
Non-current liabilities			
Borrowings	5	**(837.4)**	(819.2)
Trade and other payables	6	**(2.9)**	(0.1)
Retirement benefit obligations	12	**(6.5)**	(7.9)
Provisions for liabilities	7	**(0.9)**	(1.6)
		(847.7)	(828.8)
Net assets		**3,701.9**	3,510.6
Capital and reserves			
Called up share capital	8	**249.1**	248.1
Share premium account	9	**408.7**	394.4
Other reserves	10	**157.1**	157.1
Retained earnings		**2,887.0**	2,711.0
Total capital and reserves		**3,701.9**	3,510.6

The profit for the year is £426.7 million (2022: £141.8 million).

Signed on behalf of the Board who approved the accounts on 23 May 2023.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Employee numbers

The average number of employees during the year was 14 (2022: 14).

2 Investments in subsidiaries

	£m
At 1 April 2022	3,362.1
Additions	9.5
At 31 March 2023	**3,371.6**

Details of principal subsidiaries of the Company are given in note 43 to the Group financial statements.

3 Deferred tax

	Retirement benefit obligations £m
At 1 April 2021	1.5
Credit to income arising from rate change	0.5
At 1 April 2022	2.0
Charge to income	(0.1)
Charge to equity	(0.3)
At 31 March 2023	**1.6**

4 Trade and other receivables

	2023 £m	2022 £m
Current assets		
Other amounts receivable	**0.2**	0.2
Prepayments	**0.2**	0.2
Amounts owed by group undertakings	**33.5**	25.2
	33.9	25.6
Non-current assets		
Other amounts receivable	**3.2**	2.7
Loan receivable	**74.3**	78.8
Amounts owed by group undertakings under loan agreements	**1,061.5**	1,044.5
	1,139.0	1,126.0
	1,172.9	1,151.6

5 Borrowings

	2023 £m	2022 £m
Current liabilities		
Other loans	**0.1**	96.1
Lease liabilities	**0.1**	0.1
	0.2	96.2
Non-current liabilities		
Bank loans	**0.4**	–
Amounts due to group undertakings under loan agreements	**637.2**	619.4
Other loans	**199.1**	199.0
Lease liabilities	**0.7**	0.8
	837.4	819.2
	837.6	915.4

At the balance sheet date the Company had £100.0 million (2022: £100.0 million) undrawn borrowing facilities.

6 Trade and other payables

	2023 £m	2022 £m
Current liabilities		
Trade payables	**0.6**	0.1
Social security and other taxes	**0.1**	0.1
Other payables	**0.7**	3.2
Accruals	**1.2**	1.2
Amounts due to group undertakings	**10.0**	89.4
	12.6	94.0
Non-current liabilities		
Other payables	**2.9**	–
Accruals	**–**	0.1
	2.9	0.1
	15.5	94.1

7 Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2022	0.4	2.0	2.4
Utilisation of provision	(0.1)	(0.6)	(0.7)
At 31 March 2023	**0.3**	**1.4**	**1.7**

	2023 £m	2022 £m
Included in:		
Current liabilities	**0.8**	0.8
Non-current liabilities	**0.9**	1.6
	1.7	2.4

The cash outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

8 Share capital

	2023 £m	2022 £m
Total issued and fully paid share capital		
254,425,641 ordinary shares of 97$^{17}/_{19}$p (2022: 253,410,074)	**249.1**	248.1

At 31 March 2023, 2,863,716 treasury shares (2022: 3,116,579) were held at a nominal value of £2,803,427 (2022: £3,051,131).

On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97$^{17}/_{19}$p at 2,400p per share, through a placing, raising £245.3 million net of issue costs.

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97$^{17}/_{19}$p		
At 1 April 2021	242,259,862	237.2
Shares issued under the Employee Sharesave Scheme	730,212	0.7
Shares issued from equity placing	10,420,000	10.2
At 1 April 2022	253,410,074	248.1
Shares issued under the Employee Sharesave Scheme	1,015,567	1.0
At 31 March 2023	**254,425,641**	**249.1**

9 Share premium

	2023 £m	2022 £m
At 1 April	**394.4**	148.1
Share premium arising on issue of shares for Employee Sharesave Scheme	**14.3**	11.2
Share premium arising from equity placing	**–**	235.1
At 31 March	**408.7**	394.4

10 Other reserves

	Capital redemption reserve £m
At 31 March 2021, 31 March 2022 and 31 March 2023	**157.1**

The capital redemption reserve arose on the redemption of B shares.

11 Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 36 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

12 Pensions

Defined benefit schemes

The Group operates defined benefit pension schemes, of which some employees of the Company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The scheme closed to future accrual on 31 March 2015. The cost of contributions to the Group schemes amount to £0.5 million (2022: £0.5 million). There were no amounts outstanding for contributions to the defined benefit schemes (2022: nil).

The Company has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. This unfunded scheme is part of the Severn Trent Pension Scheme.

Information about the schemes as a whole is disclosed in note 27 to the Group financial statements.

13 Related party transactions

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 27 to the Group financial statements.

Information about Directors' remuneration is provided in the audited part of the Directors' Remuneration Report.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee in respect of liabilities to wholesalers is capped at £43.5 million (2022: £54.1 million).

The Company has a revolving credit facility available to Water Plus totalling £95 million. At 31 March 2023 the amount drawn was £76.4 million (2022: £80.5 million).

14 Contingent liabilities

a) Bonds and guarantees

The Company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2023, the Company had no contingent liabilities (2022: nil).

15 Post balance sheet events

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

16 Dividends

For details of the dividends paid in the years ended 31 March 2023 and 31 March 2022 see note 13 in the Group financial statements.

FIVE YEAR SUMMARY

Continuing operations	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Turnover	**2,165.1**	1,943.3	1,827.2	1,843.5	1,767.4
Profit before interest, tax, and exceptional items	**508.8**	506.2	470.7	568.2	572.9
Gain on impairment of loans receivable	**–**	0.2	3.6	–	–
Net exceptional items before tax	**–**	–	(4.9)	(51.7)	(9.6)
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	**(362.6)**	(269.4)	(187.1)	(188.4)	(194.2)
Gains/(losses) on financial instruments	**21.7**	39.3	(6.2)	(17.4)	16.0
Results of associates and joint ventures[1]	**–**	(2.2)	(8.9)	–	(0.4)
Profit on ordinary activities before taxation	**167.9**	274.1	267.2	310.7	384.7
Current taxation on profit on ordinary activities	**(0.2)**	4.8	(26.8)	(30.1)	(31.8)
Deferred taxation	**(35.5)**	(71.7)	(28.2)	(29.1)	(39.4)
Exceptional tax	**–**	(294.4)	–	(92.7)	1.8
Profit/(loss) for the year	**132.2**	(87.2)	212.2	158.8	315.3
Net assets employed					
Fixed assets	**10,716.9**	10,609.3	10,261.4	9,954.8	9,337.7
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(966.3)**	(1,315.9)	(1,276.0)	(1,142.0)	(992.6)
Derivative financial instruments[2]	**37.9**	(12.8)	(86.0)	(158.5)	(95.1)
Net retirement benefit obligation	**(279.4)**	(128.0)	(367.7)	(234.0)	(452.9)
Provisions for liabilities and deferred tax	**(1,378.0)**	(1,380.9)	(949.2)	(945.1)	(798.9)
	8,131.1	7,771.7	7,582.5	7,475.2	6,998.2
Financed by					
Called up share capital	**249.1**	248.1	237.2	236.5	235.9
Reserves	**721.5**	1,015.8	901.5	1,007.2	928.2
Total shareholders' funds	**970.6**	1,263.9	1,138.7	1,243.7	1,164.1
Net debt[3]	**7,160.5**	6,507.8	6,443.8	6,231.5	5,834.1
	8,131.1	7,771.7	7,582.5	7,475.2	6,998.2
Statistics					
Earnings per share (continuing) – pence	**52.7**	(35.2)	89.1	66.7	133.4
Adjusted earnings per share – pence	**58.2**	96.9	105.4	146.0	145.8
Dividends per share (excluding special dividend) – pence	**106.8**	102.1	101.6	100.1	93.4
Dividend cover (before exceptional items and deferred tax)	**0.5**	0.9	1.0	1.5	1.6
Gearing[4] – %	**88.1**	83.7	85.0	83.4	83.3
Ordinary share price at 31 March – pence	**2,879.0**	3,078.0	2,306.0	2,280.0	1,976.0
Average number of employees					
– Regulated Water and Waste Water	**7,176**	6,612	6,536	6,345	5,680
– Other	**475**	506	497	451	900

1 Excludes exceptional share of net gains/losses of joint venture.
2 Excludes instruments hedging foreign currency debt.
3 Includes instruments hedging foreign currency debt.
4 Gearing has been calculated as net debt divided by the sum of equity and net debt.