Half Yearly Financial Report
22 November 2018
Interim results for the six months to 30 September 2018

SEVERN TRENT

Continued strong performance while investing for the future

- **Ongoing delivery for customers**

  − Upper quartile position in the UK Customer Service Index for utility companies
  − ODIs in line with expectations maintaining sector leading AMP6 ODI performance of £150 million to date[1]
  − Maintained leading waste performance by employing greater use of data and technology to optimise our network
  − Continued progress on water performance. Delivering on catchment management customer ODI and forecasting a further 6% reduction in the number of water quality complaints
  − Increased water production during hot, dry summer to meet a 22% increase in customer demand

- **Planning and investing for the long term:**

  − Submitted high quality AMP7[2] business plan delivering 13% Totex efficiency, upper quartile financing and ambitious performance targets while maintaining lowest bills in England and Wales for another five years
  − Excellent progress on our capital programme, with capex of £340 million in the first six months of the year and on track for over £650 million by the end of the year
  − Locked in c.95% of £870 million totex efficiencies, £100 million reinvestment on track setting ourselves up for a fast start in AMP7
  − Investing in renewable energy with our acquisition of Agrivert food waste plants adding an additional 106GWh per annum to our existing portfolio

- **Good Group financial results for the half year:**

  − Group turnover of £881.5 million, up £30.5 million (3.6%)
  − Group underlying PBIT[3] of £299.1 million, up £12.4 million (4.3%)
  − Group reported PBIT £299.1 million, up £4.1 million (1.4%)
  − Reduction in effective interest rate by 70 basis points, driving underlying basic EPS[4] of 76.2 pence (up 16.3%), basic EPS from continuing operations of 69.8 pence (up 12.2%)
  − Interim dividend of 37.35p (up 7.9%)

Footnotes: see definitions on page 2 of this RNS

Liv Garfield, Chief Executive Severn Trent Plc, said:

"Our job is to deliver for all of our stakeholders – our customers, colleagues and investors – and by that we don't just mean delivering high quality waste and water services. We want to make a fundamental difference in society and in the communities we serve. As such, we're delighted to be one of a handful of companies, and the only utility, to be acknowledged as a Pathfinder Company by the Purposeful Company organisation and we look forward to developing our approach to this further in the future.

I'm pleased to be sharing a good set of financial and operational results in what has been a very busy first half of the year. The performance culture we have embedded into the organisation continues to deliver strong performance for our customers, also providing a great platform as we head into AMP7. As we plan and invest for the future, we are on track for our biggest year of capital spend in a decade, with more than £300 million invested in the first six months to improve performance for our customers today and for generations to come.

Building a lasting legacy is a key priority for us and we believe our PR19 plans will deliver what our customers have asked for, while maintaining the right balance of affordability and future investment"

Group results from continuing operations

Underlying results

Six months ended 30 September	2018 £m	2017 (restated)[5] £m	Increase %
Group turnover	**881.5**	851.0	3.6
Underlying Group PBIT[3]	**299.1**	286.7	4.3
	pence/ share	pence/ share	
Underlying basic EPS[4]	**76.2**	65.5	16.3
Interim dividend declared	**37.35**	34.63	7.9

Reported results

Six months ended 30 September	2018 £m	2017 (restated)[5] £m	Increase %
Group turnover	**881.5**	851.0	3.6
Group PBIT	**299.1**	295.0	1.4
	pence/ share	pence/ share	
Basic EPS from continuing operations	**69.8**	62.2	12.2

Footnotes to pages 1 & 2 of this RNS

1. Pre-tax in 2012/13 prices. Subject to outcome of Ofwat consultation
2. AMP7: the 2020-2025 regulatory period
3. Underlying Profit before interest and tax (PBIT) excludes exceptional operating items – see note 4 to the financial statements
4. Underlying Earnings per Share (EPS) – see note 9 to the financial statements
5. Restated for adoption of IFRS 15 – see note 1 to the financial statements

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

Enquiries

Investors & Analysts

Richard Eadie *Head of Investor Relations*	Severn Trent Plc	+44 (0) 788 980 6578
Rachel Martin *Investor Relations Manager*	Severn Trent Plc	+44 (0) 782 462 4011

Media

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

Interim Results Presentation and Webcast

There will be a presentation of these results at 9:30am GMT on Thursday 22 November 2018 at the Rothschild Sky Pavilion, New Court, St Swithin's Lane, London EC4N 8AL. This presentation will be available as a simultaneous webcast on the Severn Trent website (www.severntrent.com) and will remain on the website for subsequent viewing.

Chief Executive's Review

Having engaged with thousands of customers while developing our business plans for 2020 to 2025, we have a very strong sense of what they want to see from our company in the future and where we are on that journey. It is our ambition to be a company that truly listens to customers and delivers what they want. In doing so, we believe we will earn the trust of not just customers but also a broad set of stakeholders who can share in the success we deliver. We are proud of what we have achieved through operational performance, customer ODI delivery and totex efficiency to date and will continue to explore further opportunities to improve.

June and July of this year were operationally challenging. The prolonged hot, dry weather over this period placed a significant strain on our assets and our people. While not perfect, I am hugely proud of our response to this event, demonstrating resilience and flexibility in our network to respond to a 22% increase in demand for water from our customers. The activity to support our performance has cost in the region of £10 million in the first half of the year. We expect to absorb a similar amount of cost in the second half of the year to support the operational recovery required from such an event.

In Business Services, we completed a key milestone in our ambition to deliver £100 million of property profits by 2027 with the sale of land near Nottingham, generating a profit of £18 million and enabling 830 new homes to be built in our area. We also announced the acquisition of Agrivert Holdings Limited, a leading energy from food waste business, for a total consideration of £120 million, and are on track to complete the transaction in the next month. Both transactions reflect our strategic focus on Operating Services in the UK, Renewable Energy and Property Development, delivering sustainable returns for investors outside of the regulated business.

A great deal of thought and effort has gone into creating ambitious, but deliverable business plans for Severn Trent Water and Hafren Dyfrdwy for 2020 to 2025. The two plans respond to the unique customer expectations in each region, but have the same sense of societal purpose at their core. In each plan we have carefully considered how to balance affordability with the right levels of investment needed to meet stretching performance commitments, while ensuring we go far beyond the base requirements of what a business is expected to deliver for the communities it serves. Both plans have the lowest bills in England and Wales and we plan to keep it that way for the years to come.

Reflecting on the engagement we have with our stakeholders, it is clear that the relationship between business and communities is evolving. The work we have done to date and our plans for the future show the first steps of how businesses with strong social purpose can deliver better outcomes for all stakeholders. As such, we are delighted to be one of only seven UK companies, and the only utility, to be acknowledged as a Pathfinder company by the Purposeful Company Task Force. We look forward to working with other like-minded companies to continue to develop our approach in the future.

Our strategic priorities remain consistent with this approach:

- Embedding customers at the heart of all we do
- Driving operational excellence and continuous innovation
- Investing responsibly for sustainable growth
- Changing the market for the better
- Creating an awesome place to work

Embedding customers at the heart of all we do
In the period where we have submitted our business plans for 2020 to 2025, the expectations of our customers have never been fresher in our minds. Our plans are based on the most extensive, in-depth and diverse customer engagement we have ever had. We continue to build our business around how we can better serve our customers and communities every day, in the innovations we bring, and in the long-term investment decisions we take.

We are proud to have the lowest average combined bills in England and Wales, which is set to continue until at least 2025, and we remain committed to ensuring our bills are affordable for all, which means helping those customers who struggle to pay their bill, temporarily or otherwise. Bad debt as a percentage of regulated revenue is currently 2.1% which, while down on the previous year-end, is higher than levels seen earlier in the AMP, reflecting the tougher financial climate some of our customers find themselves in. This year we are again on track to exceed our target for the number of customers we support, with bigger and bolder ambitions heading into AMP7.

We continue to be in the top quartile of utility companies in the UK Consumer Service Index, which we believe is a good barometer for what our performance might look like when the new customer service measure (C-MeX) is introduced in AMP7. We have a number of new initiatives underway to continue our improvement journey on SIM, the current customer service measure, including offering a video calling service that allows our customers to speak face-to-face with an engineer when they report an issue, enabling faster and more accurate diagnosis of the problem.

We have also launched our new customer campaign – Wonderful on Tap – with the aim of embedding behavioural change around water consumption, and celebrating the role that water plays in everyday life and the work Severn Trent does behind the scenes to provide it. We embarked on our first TV campaign in over a decade this summer, and launched our new schools education roadshow to inspire the next generation of water users to use water wisely, reduce blockages, and protect the environment. We hope to roll it out across every primary school in our region over the next few years.

Our performance on services for developers places us in an upper quartile position for the fifth consecutive quarter, putting us in a strong position for the new developer service measure (D-MeX) which comes into effect in AMP7.

Driving operational excellence and continuous innovation
We are now in the fourth year of delivering against the set of ambitious targets we set ourselves at the beginning of AMP6, and are on track for another year of encouraging operational results, with our performance culture now truly embedded.

Our research consistently tells us that our customers value waste water measures the most, and that is why we are thrilled to have improved our customer service and environmental performance in this area so substantially in AMP6, earning £180 million in waste customer ODIs. Despite forecasting to reach the cap, we continue to outperform our targets across a broad range of metrics that will continue to be important in AMP7.

A substantial part of our success comes from combining advanced data analytics, industry-leading models and targeted investment to create an holistic catchment approach to optimising our network and to improving the wider environment. We are increasingly able to identify the key interventions that can improve a number of service measures and reduce cost at the same time. For example, by enriching traditional analytics on ‘hot spot’ areas of blockages, with historic flooding performance, forecasted weather behaviour and telemetry on pump performance in an area, we can pin point our efforts to a potential area of weakness in our network to prevent failure before it occurs.

Looking ahead to AMP7, our drive to deliver an excellent waste water service for our customers is reflected in our proposed suite of customer ODIs. We have also opted to enhance two of the three common customer ODIs – internal sewer flooding and pollutions – giving us the best platform for outperformance in AMP7. Not only does this focus our business on what matters most to our customers, it also pushes the waste frontier forward, to the benefit of the sector and all customers.

In our water business, we are really pleased to have reduced water quality complaints again and are on track for a 6% reduction by the end of the year, giving us increased confidence that our interventions are the right ones for a positive outcome by the end of the AMP. As we look forward to AMP7, the water quality focus will shift to the DWI's Compliance Risk Index, on which we expect to make significant progress in the rest of the AMP, with the ambition of halving our score by 2020.

Leakage is one of our most important measures, and one that we, and our customers, care passionately about. As we enter the second half of the year we are significantly increasing our 'find and fix' activity. We've recruited more people and accelerated the installation of more fixed acoustic loggers in areas of highest risk within our distribution network. To date, we have rolled out 10,000 of our planned 35,000 data loggers, giving us valuable information about our network. In addition, we have extended satellite imaging coverage following successful trials across Birmingham, Worcestershire and Warwickshire, and are focusing much of our innovation energy to find and deploy new technologies in this space.

We have been making excellent progress on our catchment management performance measure 'Farming for Water'. In particular, we have had great success with our Farm to Tap scheme, the only one of its kind in the sector, which, to date has signed up more than 800 farmers to improve drinking water quality on their land, resulting in a 57% reduction in peak metaldehyde concentrations. This benefits customers by reducing treatment costs and by increasing the quality of their drinking water, it helps the environment and wildlife by reducing chemical loading, and it rewards investors with up to £11 million in customer ODI outperformance payments – a great example of how success can be shared across all of our stakeholders.

Investing responsibly for sustainable growth

At the end of last year we committed to investing a further £100 million of additional totex efficiencies back into our business, strengthening our resilience and setting ourselves up for a fast start in AMP7. We have now fully allocated the investment and approved individual projects in key areas such as water treatment and networks, energy efficiency and process automation. These projects will deliver a better service as well as greater totex efficiency for our customers in the next AMP.

Our AMP6 capital programme is also progressing well, with expenditure of £340 million in the first half of this year. Our second service reservoir at Ambergate was completed ahead of schedule, providing valuable additional capacity over the prolonged hot weather. We commissioned our first Thermal Hydrolysis plant at Minworth, one of our largest waste water treatment works, two months ahead of plan, enabling us to increase capacity and to import more sludge from neighbouring companies. The Birmingham Resilience Programme is also advancing well, with 23km, over three quarters of the total pipeline, already installed, and great progress being made on the new pumping station by the River Severn.

In August 2018, we announced that we were acquiring Agrivert Holdings Limited and its UK operating subsidiaries for a total consideration of £120 million to complement our current estate of energy from food waste plants. The acquisition is on track for completion next month and will add 106GWh per annum of energy generation to reflect our commitment to become a sector leader in sustainable resource efficiency, while also driving down carbon emissions.

Changing the market for the better
In July, having realised both operational and financial synergies from the integration of Dee Valley Water, we officially launched our Welsh business Hafren Dyfrdwy. Now aligned along national boundaries, all of our customers in Wales will be served by this business, allowing for clearer lines of accountability for both Severn Trent and Hafren Dyfrdwy.

We have always believed that business done in the right way, with a clear sense of purpose, is the best way to create value for all stakeholders. Businesses can, and do, successfully run essential services for the good of their customers. This is right at the heart of our company purpose, and we believe our latest business plan makes our intentions even clearer. We are here to provide high quality water and waste water services for our customers, but also to provide a broader societal contribution for the communities we serve. We earn customer trust when these two things work together.

Our AMP7 business plan commits 1% of future profits to community schemes, outlines plans to educate and inspire a generation of schoolchildren to value water as a precious resource, and contains our most ambitious programme of work to improve the environment and ecology in which we operate.

As a result of the efforts we have made to date, and our intentions for the future, we are delighted to have been recently acknowledged as one of seven pathfinder companies in the UK by the Purposeful Company Task Force led by Will Hutton and Clare Chapman. We believe that working to strengthen the connections between our purpose and the outcomes we deliver for our stakeholders will set us apart as an attractive long-term investment proposition for the future.

Creating an awesome place to work
While the needs of our customers are always front of mind, we recognise it is our brilliant people who actually deliver for our customers. Our people want to work for a company that provides them with enriching careers and allows them to contribute to society more broadly.

It means a lot to our employees that we have been named a top employer in the social mobility index for a second consecutive year, being commended in particular for the work we have done in social mobility 'coldspots', of which over 30% are in our region. We will go further in AMP7, using open employee recruitment practices, structured work experience for people from disadvantaged backgrounds, and partnerships with schools and colleges to provide coaching and careers advice that we believe will make a real difference.

We've campaigned to remove the stigma associated with mental health issues, with over 67% of our employees feeling their mental health is supported, compared to just 37% five years ago. We've done this by educating more than 70% of our line managers in mental health awareness and by training 400 mental health first aiders who are there for our people should they need them. We are proud to have been recognised in Mind's Workplace Wellbeing Index 2017/18 with a Silver award for Achieving Impact.

We are equally proud to have been ranked in the top four across all companies and first among utilities in the recently published Hampton Alexander report, recognising the number of women we have in senior leadership roles. This followed an invitation in the summer to attend the Women and Equalities select committee to discuss some of our best practice in promoting opportunities for women to reach senior levels.

Finally, our people are excited to rise to the challenges that AMP7 will bring. In September, we shared our business plans with our 900 people managers across a series of interactive sessions focussing on water, waste water, our customers and society, ensuring that our whole business is geared up and ready to hit the ground running come April 2020.

Chief Financial Officer's Review

We have delivered good financial performance in the first six months of 2018/19. Our Regulated Water and Waste Water business increased PBIT even after an additional £10 million of operating costs over the hot dry summer. In Business Services we held revenue broadly flat, with lower activity on the MOD contract, and commissioning costs and lower gate fees in our energy business slightly reducing profitability. In May we announced the sale of surplus land near Nottingham, realising a profit for the Group of £18 million to get our new Property Development business off to a good start, although we do not expect any similar sized transactions in the remainder of this AMP. Historically just over half of the Group's PBIT has arisen in the first half of the year and we expect that trend to continue in the current year.

With growth in underlying PBIT and lower finance costs, our underlying basic earnings per share were up 16.3% to 76.2 pence (2017/18: 65.5 pence). Basic earnings per share from continuing operations were 69.8 pence (2017/18: 62.2 pence).

The proposed interim dividend has increased by 7.9% in line with our policy for the remainder of AMP6 to increase the dividend by RPI plus 4%.

Our funding position is strong. Capital investment and other cash flow needs through to January 2021 are covered by committed facilities. We continue to monitor and manage our interest rate exposure, holding 25% of our debt at floating rates. In preparation for the introduction of CPIH indexation in AMP7 we entered into a further £100 million forward starting CPI/RPI swap in April taking the total amount of such swaps to £250 million. In August, we raised £323 million in our second issue to the US private placement market receiving these funds this month.

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

- Group turnover from continuing operations was £881.5 million (2017/18: £851.0 million), an increase of 3.6%, mainly due to allowed price increases in our Severn Trent Regulated Water and Waste Water business.

- Underlying PBIT increased by 4.3% to £299.1 million (2017/18: £286.7 million) benefiting from an excellent start in our Property Development business and good operating cost control despite difficult operating conditions over the summer in our Regulated Water and Waste Water business.

- Reported Group PBIT was £299.1 million (2017/18: £295.0 million). There were no exceptional items in the period. In 2017/18 we recorded an exceptional gain of £8.3 million arising from a pension increase exchange arrangement for the Severn Trent Pension Scheme.

- Net finance costs fell to £93.1 million (2017/18: £110.5 million) reflecting the impact of lower RPI on our index-linked debt and an effective cash cost of interest around 50 basis points lower than the same period last year as we benefited from lower interest rates on new and refinanced debt.

- The current tax charge of £23.7 million (2017/18: £21.7 million) benefited from capital allowances on our increased investment programme. The deferred tax charge was £14.8 million (2017/18: £12.6 million) giving a total tax charge of £38.5 million (2017/18: £34.3 million) and a full effective tax rate of 19.1% (2017/18: 19.0%).

- Net cash capital expenditure was £340.1 million (2017/18: £270.4 million).

Changes to segmental presentation
In 2017/18 and prior years the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

Implementing innovative treatment techniques and finding ways to use our resources more effectively enables us to free up land for development. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the development potential. In 2017/18 and prior years the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and Other. All of these activities are now managed and reported as a single business within Business Services.

The segmental analysis that follows and in the financial statements shows:

- current period performance on the new and old basis; and
- comparative information on the old basis.

Comparative information for the new segments is not available and the cost to develop it would be excessive.

Regulated Water and Waste Water

Six months ended 30 September

	New basis	Old basis			
	2018	**2018**	2017	Increase/(decrease)	
	£m	**£m**	£m	£m	%
Turnover	**795.0**	**822.5**	789.9	32.6	4.1
Net labour costs	**(66.8)**	**(73.0)**	(71.4)	(1.6)	(2.2)
Net hired and contracted costs	**(76.7)**	**(78.7)**	(69.8)	(8.9)	(12.8)
Power	**(49.2)**	**(50.5)**	(45.2)	(5.3)	(11.7)
Bad debts	**(13.3)**	**(13.3)**	(10.8)	(2.5)	(23.1)
Other costs	**(96.1)**	**(93.0)**	(88.5)	(4.5)	(5.1)
	(302.1)	**(308.5)**	(285.7)	(22.8)	(8.0)
Infrastructure renewals expenditure	**(64.9)**	**(64.9)**	(64.4)	(0.5)	(0.8)
Depreciation	**(159.6)**	**(169.9)**	(161.5)	(8.4)	(5.2)
Underlying PBIT	**268.4**	**279.2**	278.3	0.9	0.3
Adjustments for new segmental basis:					
Bioresources PBIT transferred to Business Services		**(4.6)**			
Property PBIT transferred to Business Services		**(6.2)**			
Underlying PBIT (new basis)		**268.4**			

The commentary that follows compares current period and prior period performance on the old basis.

Turnover for the Regulated Water and Waste Water segment was £822.5 million (2017/18: £789.9 million) and underlying PBIT was £279.2 million (2017/18: £278.3 million).

Turnover increased by 4.1%. Higher tariffs, including the impact of the annual RPI increase on prices, increased revenue by £27.9 million. The benefit of customer ODI outperformance payments earned in 2016/17 (£8.2 million) was partially offset by an adjustment of £5.4 million for wholesale revenue in 2016/17 billed in excess of the wholesale revenue allowance. New connections, higher consumption and other impacts together resulted in a net increase of £1.9 million, leading to the £32.6 million reported total increase.

In the current period we incurred £10.1 million additional costs from the hot, dry summer including £7.2 million of hired and contracted costs. These increases are included in the analysis presented below. We anticipate a similar amount of additional costs in the second half of the year to support the operational recovery from this event.

Net labour costs were £1.6 million (2.2%) higher period-on-period. Annual pay awards and increased headcount increased gross pay by 2.5% and 3.5% respectively, which were offset by an increase of 9.8% in capitalised labour, as we spent more time on our growing capital programme this period.

Net hired and contracted costs were up £8.9 million including £7.2 million from the hot, dry summer.

Power costs were £5.3 million higher than the previous period. Unit prices were higher mainly due to increased pass through costs.

Bad debt charges were £2.5 million higher period-on-period and represent 2.1% of household revenue, (2017/18 full year: 2.2%). Collection performance on current debt continues to improve but recovery of older debt remains slow.

Other costs increased by £4.5 million. A change in legislation reduced income from radio masts by £1.2 million period-on-period. Environment Agency charges increased by £1.1 million.

Infrastructure maintenance expenditure was £0.5 million higher in the period. We expect to see a higher level of activity in the second half of the year.

Depreciation was £8.4 million higher period-on-period. Our focus on innovation and introduction of new technology led to redundant assets written off in the period increasing by £4.4 million and an increase in shorter life technology assets, which contributed a further £3.5 million.

Business Services
In our 2017/18 full year results we announced that we had made an early start in preparing our Bioresources business for AMP7 and strengthened our Property Development team to drive additional value from property assets. These businesses are now managed and controlled in our Business Services segment.

We have previously shown the performance of the Business Services segment under two business units, Operating Services and Renewable Energy. With the establishment of the Bioresources and Property Development business units we now show Business Services' performance in five business units:

- Operating Services includes the contracts business in the UK and Ireland. Previously this business also included our affinity and searches businesses, which are now included in 'Other'.
- The Energy business includes our generating assets that are outside the new Bioresources business. This includes anaerobic digestion from crops and food waste, wind power, hydro-electric and solar power.
- Bioresources includes all of the activities relating to the treatment of sewage sludge including transport, treatment, energy generation and disposal.
- Property Development includes all such activities in our regulated and non-regulated companies.
- Other includes our affinity and searches businesses and segment overheads.

Note 2 to the financial statements shows the financial impact of these changes in the current year. The table below shows Business Services performance for the current period on the new basis and the old basis with comparative information on the old basis. The commentary compares current period and prior period performance on the old basis.

Six months ended 30 September

	New basis	Old basis			
	2018	**2018**	2017 (restated)	Increase/(decrease)	
	£m	**£m**	£m	£m	%
Turnover					
Operating Services	**29.8**	**36.5**	41.1	(4.6)	(11.2)
Energy/Renewable Energy	**9.1**	**33.0**	29.7	3.3	11.1
Bioresources	**51.4**	**–**	–	–	–
Other	**6.7**	**–**	–	–	–
	97.0	**69.5**	70.8	(1.3)	(1.8)
Underlying PBIT					
Operating Services	**2.1**	**5.7**	6.3	(0.6)	(9.5)
Energy	**(0.8)**	**8.6**	9.0	(0.4)	(4.4)
Bioresources	**14.0**	**–**	–	–	–
Property Development	**18.4**	**–**	–	–	–
Other	**3.6**	**–**	–	–	–
	37.3	**14.3**	15.3	(1.0)	(6.5)

In our Operating Services business turnover decreased by £4.6 million and Underlying PBIT decreased by £0.6 million. There was lower activity on our MOD contract and additional costs as a result of the hot, dry weather. The prior period figures have been restated to reflect the impact of the implementation of IFRS 15 on the recognition of revenue and costs for the MOD contract (see note 1 to the financial statements). Both periods are reported on an IFRS 15 basis.

In our Energy business turnover increased by £3.3 million and underlying PBIT decreased by £0.4 million. Higher energy prices contributed to the increase in turnover together with expansion of our crop energy plant near Nottingham and the impact of the first full period operating our West Birmingham food waste plant, which we opened last year. However, we have seen additional operating expenditure due to costs of a delayed start-up at our new Derby food waste plant and higher costs in food waste at existing plants.

The results above exclude the US Operating Services business, which was sold on 30 June 2017 and is treated as a discontinued operation in the prior period (see note 7).

Corporate and Other

Corporate overheads were £7.3 million (2017/18: £6.3 million). Other businesses generated a profit of £11.2 million (2017/18: loss of £0.3 million) including a profit of £10.7 million from Property Development, which is reported in Business Services on the new basis.

Exceptional items before tax

There were no exceptional items in the period. In 2017/18 an exceptional gain of £8.3 million arose from the expected benefit of a pension increase exchange arrangement under which members of the defined benefit schemes will be offered the opportunity at retirement to exchange future non-statutory inflationary increases on a portion of their pensions earned prior to 1997 for a higher pension payment.

Net finance costs

The Group's net finance costs for the six month period were £93.1 million, £17.4 million lower than the prior period (£110.5 million). The effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 3.1% (2017/18: 3.6%) as we benefit from lower interest rates on new and refinanced debt. Interest cost on RPI debt decreased by £5.6 million, largely as a result of lower inflation, so the effective interest rate, including index-linked debt, for the period was 3.8% (2017/18: 4.5%). Net pension finance costs were £0.6 million lower than the previous period because the opening net deficit was lower and the discount rate at the opening balance sheet date did not change.

During the prior period a counterparty requested to terminate four interest rate swaps with a notional principal of £150 million. The gain on termination of £2.6 million was included in finance income.

Interest capitalised of £15.7 million was £4.4 million higher than the prior period due to the increased level of capital work in progress.

The Group's EBITDA interest cover was 5.5 times (2017/18: 4.4 times) and PBIT interest cover was 3.5 times (2017/18: 2.8 times). See note 18 for further details.

Gains/losses on financial instruments

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

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

The Group holds interest rate swaps with a net notional principal of £181 million to balance our interest rate mix in line with our strategy; cross currency swaps with a sterling principal of £141 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and inflation swaps with a notional principal of £250 million, which swap RPI linked cash flows for CPI linked cash flows. These swaps did not meet the hedge accounting requirements of IAS 39 and the Group has chosen not to apply the hedge accounting provisions of IFRS 9 to these instruments. Therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement.

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

The Group has fixed around 88% of the estimated wholesale energy usage for 2018/19 through a combination of forward price contracts and financial derivatives.

Taxation

We are committed to paying the right amount of tax at the right time. As well as corporation tax on profits, which is included in the tax charge in our accounts, we incur a range of other taxes, charges and levies imposed by government agencies including business rates, employer's National Insurance, Climate Change Levy, Carbon Reduction Commitment, Landfill Tax and Insurance Premium Tax. Our 2017/18 Annual Report and Accounts sets out an analysis of the taxes incurred in that year and we will set out this year's amounts in our Annual Report to be published in June 2019.

The tax charge reported in the income statement is calculated at a rate of 19.1% (2017/18: 19.0% based on restated profit before tax), representing the best estimate of the annual average tax rate expected for the full year, applied to the profit for the six month period.

The current tax charge for the period was £23.7 million (2017/18: £21.7 million) and the deferred tax charge before exceptional tax was £14.8 million (2017/18: £12.6 million).

The benefit of the capital allowances from our increased capital programme reduced our underlying effective current tax rate (in line with guidance) to 12.1% (2017/18: 13.2%).

Profit for the period and earnings per share

Reported profit for the period from continuing operations was £165.1 million (2017/18: £146.6 million). The increase was largely driven by the growth in PBIT and lower finance costs discussed above.

In 2017/18 the profit for the period from discontinued operations was £17.5 million.

Total reported profit for the period including discontinued operations was £165.1 million (2017/18: £164.1 million).

Basic earnings per share from continuing operations increased by 12.2% to 69.8 pence (2017/18: 62.2 pence). Underlying basic earnings per share were 76.2 pence (2017/18: 65.5 pence). For further details see note 9.

Cash flow

Six months ended 30 September

	2018 £m	2017 £m
Cash generated from operations	**489.2**	480.3
Net capital expenditure	**(340.1)**	(270.4)
Net interest paid	**(70.1)**	(64.9)
Proceeds on disposal of subsidiaries net of cash disposed and disposal costs	**–**	26.9
Swap termination payment	**–**	(40.0)
Tax paid	**(5.8)**	(0.1)
Free cash flow	**73.2**	131.8
Dividends	**(122.9)**	(115.2)
Issue of shares	**10.2**	5.1
Purchase of own shares	**(1.1)**	(0.5)
Change in net debt from cash flows	**(40.6)**	21.2
Non-cash movements	**(21.3)**	(27.0)
Change in net debt	**(61.9)**	(5.8)
Opening net debt	**(5,356.6)**	(5,082.4)
Closing net debt	**(5,418.5)**	(5,088.2)

Net debt comprises:

	30 September 2018 £m	31 March 2018 £m	30 September 2017 £m
Cash and cash equivalents	**79.9**	38.5	151.3
Bank loans	**(1,309.6)**	(1,217.4)	(926.2)
Other loans	**(4,245.5)**	(4,223.9)	(4,353.5)
Finances leases	**(115.4)**	(113.9)	(115.4)
Cross currency swaps	**30.3**	24.5	34.4
Loans due from joint ventures and associated undertakings	**141.8**	135.6	121.2
Net debt	**(5,418.5)**	(5,356.6)	(5,088.2)

At 30 September 2018 we held £79.9 million (31 March 2017: £38.5 million) in cash and cash equivalents. Average debt maturity is 14 years. Including committed facilities, the Group's cash flow requirements are funded until January 2021.

We invest cash in deposits with highly rated banks and liquidity funds and the list of counterparties is regularly reviewed and reported to the Board.

Net debt at 30 September 2018 was £5,418.5 million (31 March 2018: £5,356.6 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 82.9% (31 March 2018: 84.3%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2018 was 59.6% (31 March 2018: 60.6%).

The estimated fair value of debt at 30 September 2018 was £1,046 million higher than book value (31 March 2018: £1,184 million higher). The decrease in the difference to book value is largely due to higher prevailing market interest rates.

Pensions

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

Formal three-yearly actuarial valuations have been completed as at 31 March 2016 for the Severn Trent schemes and as at 31 March 2017 for the Dee Valley Water scheme. The current future funding plan for the Severn Trent Pension Scheme (‘STPS’), which is by far the largest, includes:

- Inflation-linked payments of £15 million per annum through an asset backed funding arrangement potentially continuing to 31 March 2031, although these contributions will cease earlier, should a subsequent valuation of the STPS show contributions are no longer needed.
- A further payment of £10 million for the year ending 31 March 2019.
- Continued payments under an earlier existing asset backed funding arrangement of £8.2 million per annum to 31 March 2032.
- In addition to these payments the company will directly pay the annual Pension Protection Fund levy incurred by the STPS.

Payments are typically made in the second half of the year and there were no material payments in the six month period to 30 September 2018.

On an IAS 19 basis, the estimated net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £465.5 million as at 30 September 2018. This compares to a deficit of £519.8 million as at 31 March 2018.

The movements in the net deficit during the period were:

	Fair value of plan assets £m	Defined benefit obligations £m	Net deficit £m
At start of the period	2,339.8	(2,859.6)	(519.8)
Amounts credited/(charged) to income statement	29.3	(37.7)	(8.4)
Actuarial (losses)/gains taken to reserves	(19.8)	82.2	62.4
Net contributions received and benefits paid	(53.2)	53.5	0.3
At end of the period	**2,296.1**	**(2,761.6)**	**(465.5)**

On an IAS 19 basis, the funding level has increased marginally to 83.1% (31 March 2018: 81.8%).

On 26 October the High Court issued a judgment in relation to gender equality in Guaranteed Minimum Pension rights that will have an impact on the Group’s defined benefit pension liabilities. The situation is complex and the amount of the liability will depend on the scheme rules and the administrative practices that have been applied in the past in implementing the rules. We are currently assessing the impact and at this stage we are unable to make a reasonable estimate of the amount.

Dividends

The Board has declared an interim ordinary dividend of 37.35p per share (2017/18: 34.63p per share), which will be paid on 4 January 2019 to shareholders on the register at 30 November 2018.

Principal risks and uncertainties

The Board considers the principal risks and uncertainties affecting the business activities of the Group for the remainder of the financial year to be those detailed below:

Customer perception

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

Legal

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

Operations, assets and people

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

Political and regulatory environment

- **PR19:** The regulatory landscape is complex and subject to ongoing evolution. We recently submitted our business plans for the period 2020 to 2025 to Ofwat, however we will not have full clarity on our outlook until we receive our Final Determination in December 2019.
- **The UK's decision to leave the European Union (EU):** Severn Trent operates almost entirely in the UK and our supplier base and customers are predominantly domestic. Where our supply chain extends into Europe, we are working closely with partners to mitigate the risk that leaving the EU without a deal could create. Further detail is set out in the Group's Annual Report for the year ended 31 March 2018.
- **Renationalisation:** The most recent Labour Party manifesto stated that it wished to analyse a range of options to improve utilities, including renationalisation. We are seeking to manage this risk by engaging with a wide range of policy makers about the benefits that the privatised water sector is delivering, the financial and practical costs of renationalisation and the alternatives to improve services further.

Technical Guidance 2018/19

Please note that all Technical Guidance is presented on the old segmental basis for comparative purposes.

Year-end guidance		**FY 17/18 (restated)**	**Year-on-Year**
Regulated Water and Waste Water			
Turnover	£1.62 billion to £1.65 billion.	£1.57bn	▲
Opex	Higher year-on-year as upward cost pressures of EA license fees and continued higher energy pass-through costs offset ongoing efficiency programmes.	£604m	▲
IRE	£135 million to £155 million.	£135m	▲
Customer ODIs	Guiding to a broadly neutral position. A proposal from Ofwat to increase this cap is currently out for consultation; if necessary, an update to technical guidance will be provided following the conclusion of this process.	£80m	▼
Business Services[1]			
Turnover	Higher year-on-year.	£141m	▲
PBIT	Marginally higher year-on-year, impacted by new plant start up costs.	£35m	▲
Group			
Property PBIT	Around £20 million, including the sale of land near Nottingham.	£7m	▲
Interest charge	Down year-on-year due to lower interest rates on new and replacement debt and lower forecast RPI.	£220m	▼
Tax rate	Total tax rate expected to be around 19% and the underlying effective current tax rate between 11% and 13% due to higher capital allowances from increased capex.	12.7%	▼
Group capex	£650 million to £750 million.	£591m	▲
Dividend	Annual dividend growth of at least RPI+4% until March 2020. 2018/19 dividend set at 93.37p.	86.55p	▲

[1] Prior year restated following change in accounting policy under IFRS15. Guidance includes acquisition of Agrivert Holdings Limited.

Further Information

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

Investor Timetable

29 November 2018	Ex-dividend date (Interim)
30 November 2018	Dividend record date (Interim)
11 December 2018	DRIP election date (Interim)
4 January 2019	Interim dividend payment date
31 January 2019	Initial assessment of plans published
6 February 2019	Q3 Trading Update
31 March 2019	Financial Year End
22 May 2019	Full Year Results Announcement 2018/19
13 June 2019	Ex-dividend date (Final)
14 June 2019	Dividend record date (Final)
28 June 2019	DRIP election date (Final)
17 July 2019	AGM
19 July 2019	Final dividend payment date
For more information please visit: https://www.severntrent.com/investors/financial-calendar	

Condensed consolidated income statement
Six months ended 30 September 2018

	Note	**2018** £m	2017 (restated) £m
Turnover	2	**881.5**	851.0
Other income		**18.3**	–
Operating costs before charge for bad and doubtful debts and exceptional items		**(587.2)**	(553.4)
Charge for bad and doubtful debts		**(13.5)**	(10.9)
Exceptional items	4	**–**	8.3
Total operating costs		**(600.7)**	(556.0)
Profit before interest, tax and exceptional items	2	**299.1**	286.7
Exceptional items	4	**–**	8.3
Profit before interest and tax		**299.1**	295.0
Finance income		**31.8**	34.0
Finance costs		**(124.9)**	(144.5)
Net finance costs		**(93.1)**	(110.5)
Net losses on financial instruments	5	**(1.5)**	(5.0)
Share of net (loss)/profit of joint ventures accounted for using the equity method		**(0.9)**	1.4
Profit on ordinary activities before taxation		**203.6**	180.9
Current tax	6	**(23.7)**	(21.7)
Deferred tax	6	**(14.8)**	(12.6)
Taxation on profit on ordinary activities	6	**(38.5)**	(34.3)
Profit for the period from continuing operations		**165.1**	146.6
Profit for the period from discontinued operations	7	**–**	17.5
Profit for the period attributable to owners of the company		**165.1**	164.1

Earnings per share (pence)		
From continuing operations		
Basic	**69.8**	62.2
Diluted	**69.7**	62.0
From continuing and discontinued operations		
Basic	**69.8**	69.6
Diluted	**69.7**	69.4

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2018

	2018 **£m**	2017 (restated) £m
Profit for the period	**165.1**	164.1
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gains	**62.4**	7.2
Tax on net actuarial gains	**(10.6)**	(1.2)
	51.8	6.0
Items that may be reclassified to the income statement:		
Gains on cash flow hedges	**10.0**	8.3
Deferred tax on gains on cash flow hedges	**(1.7)**	(1.4)
Amounts on cash flow hedges transferred to the income statement	**4.1**	4.1
Deferred tax on transfer to the income statement	**(0.7)**	(0.7)
Exchange movement on translation of overseas results and net assets	**–**	(1.8)
Cumulative exchange gains taken to the income statement	**–**	(29.8)
	11.7	(21.3)
Other comprehensive income/(loss) for the period	**63.5**	(15.3)
Total comprehensive income for the period attributable to owners of the company	**228.6**	148.8

Condensed consolidated statement of changes in equity
Six months ended 30 September 2018

	Equity attributable to owners of the company				
	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**
As at 1 April 2017 as previously reported	234.7	112.5	121.8	454.3	923.3
Restatement	–	–	–	4.1	4.1
As at 1 April 2017 restated	234.7	112.5	121.8	458.4	927.4
Profit for the period	–	–	–	164.1	164.1
Gains on cash flow hedges	–	–	8.3	–	8.3
Deferred tax on gains on cash flow hedges	–	–	(1.4)	–	(1.4)
Amounts on cash flow hedges transferred to the income statement	–	–	4.1	–	4.1
Deferred tax on transfer to the income statement	–	–	(0.7)	–	(0.7)
Exchange movement on translation of overseas results and net assets	–	–	(1.8)	–	(1.8)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	7.2	7.2
Tax on net actuarial gains	–	–	–	(1.2)	(1.2)
Transfer between reserves	–	–	(8.8)	8.8	–
Total comprehensive income/(loss) for the period	–	–	(30.1)	178.9	148.8
Share options and LTIPs					
- proceeds from shares issued	0.4	4.7	–	–	5.1
- value of employees' services	–	–	–	3.5	3.5
- own shares purchased	–	–	–	(0.5)	(0.5)
Current tax on share based payments	–	–	–	0.9	0.9
Deferred tax on share based payments	–	–	–	(0.9)	(0.9)
Dividends paid	–	–	–	(115.2)	(115.2)
As at 30 September 2017 restated	235.1	117.2	91.7	525.1	969.1
As at 1 April 2018 as previously reported	235.1	117.7	93.0	547.9	993.7
Restatement	–	–	–	3.2	3.2
As at 1 April 2018 restated	235.1	117.7	93.0	551.1	996.9
Profit for the period	–	–	–	165.1	165.1
Gains on cash flow hedges	–	–	10.0	–	10.0
Deferred tax on gains on cash flow hedges	–	–	(1.7)	–	(1.7)
Amounts on cash flow hedges transferred to the income statement	–	–	4.1	–	4.1
Deferred tax on transfer to the income statement	–	–	(0.7)	–	(0.7)
Net actuarial gains	–	–	–	62.4	62.4
Tax on net actuarial gains	–	–	–	(10.6)	(10.6)
Total comprehensive income for the period	–	–	11.7	216.9	228.6
Share options and LTIPs					
- proceeds from shares issued	0.7	9.5	–	–	10.2
- value of employees' services	–	–	–	4.0	4.0
- own shares purchased	–	–	–	(1.1)	(1.1)
Current tax on share based payments	–	–	–	0.1	0.1
Deferred tax on share based payments	–	–	–	0.1	0.1
Dividends paid	–	–	–	(122.9)	(122.9)
As at 30 September 2018	**235.8**	**127.2**	**104.7**	**648.2**	**1,115.9**

Condensed consolidated balance sheet
At 30 September 2018

	Note	**30 September 2018 £m**	31 March 2018 (restated) £m
Non-current assets			
Goodwill		**62.2**	62.2
Other intangible assets		**86.4**	88.4
Property, plant and equipment		**8,687.1**	8,471.9
Investments in joint ventures and associates		**36.5**	37.6
Derivative financial instruments		**47.0**	36.0
Trade and other receivables		**210.7**	185.3
Retirement benefit surplus	12	**17.9**	18.2
		9,147.8	8,899.6
Current assets			
Inventory		**17.3**	18.5
Trade and other receivables		**512.7**	456.4
Derivative financial instruments		**–**	0.2
Cash and cash equivalents		**82.8**	51.1
		612.8	526.2
Current liabilities			
Borrowings	10	**(386.3)**	(308.7)
Derivative financial instruments		**(2.1)**	–
Trade and other payables		**(541.6)**	(462.6)
Current tax payable		**(21.8)**	(8.6)
Provisions for liabilities and charges		**(33.1)**	(40.6)
		(984.9)	(820.5)
Non-current liabilities			
Borrowings	10	**(5,287.1)**	(5,259.1)
Derivative financial instruments		**(101.6)**	(116.0)
Trade and other payables		**(1,062.0)**	(1,009.4)
Deferred tax		**(707.5)**	(675.2)
Retirement benefit obligations	12	**(483.4)**	(538.0)
Provisions for liabilities		**(18.2)**	(10.7)
		(7,659.8)	(7,608.4)
Net assets		**1,115.9**	996.9
Equity			
Called up share capital	13	**235.8**	235.1
Share premium account		**127.2**	117.7
Other reserves		**104.7**	93.0
Retained earnings		**648.2**	551.1
Total equity		**1,115.9**	996.9

Condensed consolidated cash flow statement
Six months ended 30 September 2018

	Note	**2018 £m**	2017 £m
Cash generated from operations	14	**489.2**	480.3
Tax paid	14	**(5.8)**	(0.1)
Net cash generated from operating activities		**483.4**	480.2
Cash flows from investing activities			
Purchases of property, plant and equipment		**(357.8)**	(312.7)
Purchases of intangible assets and goodwill		**(6.6)**	(6.1)
Contributions and grants received		**21.4**	46.8
Proceeds on disposal of subsidiaries net of cash disposed	7	**–**	26.9
Proceeds on disposal of property, plant and equipment		**2.9**	1.6
Net loans advanced to joint ventures and associates		**(6.1)**	(12.5)
Interest received		**1.1**	2.8
Net cash from investing activities		**(345.1)**	(253.2)
Cash flow from financing activities			
Interest paid		**(71.2)**	(66.6)
Interest element of finance lease payments		**–**	(1.1)
Dividends paid to shareholders of the parent		**(122.9)**	(115.2)
Repayments of borrowings		**(1.9)**	(150.6)
New loans raised		**90.0**	249.1
Issues of shares		**10.2**	5.1
Swap termination payment		**–**	(40.0)
Purchase of own shares		**(1.1)**	(0.5)
Net cash flow from financing activities		**(96.9)**	(119.8)
Net movement in cash and cash equivalents		**41.4**	107.2
Net cash and cash equivalents at the beginning of the period		**38.5**	44.6
Effect of foreign exchange rates		**–**	(0.5)
Net cash and cash equivalents at end of period		**79.9**	151.3
Cash and cash equivalents		**33.8**	34.4
Bank overdrafts		**(2.9)**	–
Short term deposits		**49.0**	116.9
		79.9	151.3

1. General information

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

The information for the year ended 31 March 2018 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year prepared under IFRS has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Accounting policies
The interim financial information has been prepared on the going concern basis using accounting policies consistent with International Financial Reporting Standards and in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's annual financial statements for the year ended 31 March 2018, except as set out below.

Changes in accounting policies – IFRS 9 and IFRS 15

In the current financial year the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of IFRS 9 has not resulted in any significant changes to the Group's existing accounting practices for financial instruments.

The Group has elected to restate comparative information from prior periods upon adoption of IFRS 15.

The core principle of IFRS15 is that an entity should recognise revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The impact of the adoption of IFRS 15 on the Group's business segments is set out below.

Regulated Water and Waste Water
There will be no change to the timing of recognition of revenue from charges for water or waste water services.

Business Services
The Operating Services business operates under a series of bespoke contracts with specific performance obligations. The Group has applied the methodology set out in IFRS 15 to each of these contracts in order to identify differences from the current accounting policy. The most significant differences arise in relation to the Group's contract to provide water and waste water services to the Ministry of Defence (MOD). The Group acts as the service provider under the MOD Project Aquatrine Package C – a 25 year contract spanning 1,295 sites across England covering the eastern sea border and from Lancashire in the North West to West Sussex on the South coast.

Under this contract the Group maintains and upgrades the MOD infrastructure assets and provides operating services for water and waste water. Both the operating services and maintenance and upgrade services are charged under a volumetric tariff, along with standing charges, which are adjusted with inflation as agreed in the contract.

Under IFRS 15, the expected revenue over the life of the contract is allocated to the performance obligations based on an expected margin for each performance obligation over the life of the contract under the following headings:

- Operating and maintaining the MOD infrastructure assets;
- Upgrading the MOD infrastructure assets;
- Administrating the services received from statutory water and sewerage undertakers;
- Administrating billing services of the MOD's commercial and Non Base Dependent customers.

Revenue is recognised in line with the delivery of each performance obligation. The expected whole life revenues and costs on the contract are updated regularly. Any changes to revenue relating to performance obligations already delivered are recognised in the period in which they are identified.

The previous accounting policy for this contract was to recognise revenue billed under the volumetric tariff at the point of billing. The expected costs for the upgrade services were recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract. The resulting asset was recognised as a financial asset in accordance with IFRIC 12.

The tables below show the effect of the IFRS 15 adoption on the income statement and earnings per share for the six month period ended 30 September 2017, and the effect on the balance sheet as at 31 March 2018.

Consolidated income statement (extract)
Six months ended 30 September 2017

	As previously reported £m	IFRS 15 impact £m	Restated £m
Turnover	850.4	0.6	851.0
Operating costs	(554.3)	(1.7)	(556.0)
Profit before interest and tax	296.1	(1.1)	295.0
Net finance costs, losses on financial instruments and results of joint ventures	(114.1)	–	(114.1)
Profit on ordinary activities before taxation	182.0	(1.1)	180.9
Taxation on profit on ordinary activities	(34.5)	0.2	(34.3)
Profit for the period from continuing operations	147.5	(0.9)	146.6

Earnings per share
Six months ended 30 September 2017

	As previously reported pence	IFRS 15 impact pence	Restated pence
Underlying earnings per share			
Underlying basic earnings per share	65.9	(0.4)	65.5
Underlying diluted earnings per share	65.7	(0.5)	65.2
Earnings per share from continuing operations			
Basic earnings per share	62.6	(0.4)	62.2
Diluted earnings per share	62.3	(0.3)	62.0
Earnings per share from continuing and discontinued operations			
Basic earnings per share	70.0	(0.4)	69.6
Diluted earnings per share	69.7	(0.3)	69.4

Consolidated balance sheet (extract)
As at 31 March 2018

	As reported £m	IFRS 15 impact £m	Restated £m
Non-current trade and other receivables	181.3	4.0	185.3
Deferred tax	(674.4)	(0.8)	(675.2)
Retained earnings	547.9	3.2	551.1

Going concern
Including undrawn committed credit facilities, the Group is fully funded for its investment and cash flow needs until January 2021. After making enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and hence the interim financial information has been prepared on a going concern basis.

Seasonality
Historically just over half of the Group's PBIT has arisen in the first half of the year.

2. Segmental analysis

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, and Hafren Dyfrdwy.

Business Services includes the Operating Services businesses in the UK & Ireland, the Energy business, the Bioresources business, the Property Development business and our other businesses including affinity and searches.

In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

Surplus land in the regulated business is, in certain cases, sold to Group companies outside the regulatory ring-fence where its full development potential can be realised. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the development potential. In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and Other. All of these activities are now managed and reported as a single business within Business Services.

Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore, the current period results have been presented on both the old and new basis of segmentation, in accordance with IFRS 8.

The disposal of the Group's Operating Services businesses in Italy and the USA were classified as discontinued operations in the prior year. These transactions were completed on 23 February and 30 June 2017 respectively.

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

Results from interests in joint ventures and associates are not included in the segmental reports reviewed by STEC.

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

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 tables below show the changes from the old to the new segmentation for turnover and PBIT for the six month period ended 30 September 2018:

	Regulated Water and Waste Water (old basis)	Bioresources[1]	Property Development[2]	Regulated Water and Waste Water (new basis)
Regulated Water and Waste Water	**£m**	**£m**	**£m**	**£m**
External turnover	822.5	(27.5)	–	795.0
Inter-segment turnover	–	–	–	–
Total turnover	822.5	(27.5)	–	795.0
Profit before interest, tax and exceptional items	279.2	(4.6)	(6.2)	268.4
Exceptional items	–	–	–	–
Profit before interest and tax	279.2	(4.6)	(6.2)	268.4

	Business Services (old basis)	Bioresources[1]	Property Development[2]	Business Services (new basis)
Business Services	**£m**	**£m**	**£m**	**£m**
External turnover	59.0	27.5	–	86.5
Inter-segment turnover	10.5	–	–	10.5
Total turnover	69.5	27.5	–	97.0
Profit before interest, tax and exceptional items	14.3	4.6	18.4	37.3
Exceptional items	–	–	–	–
Profit before interest and tax	14.3	4.6	18.4	37.3

Notes to the condensed interim financial information (continued)

Corporate and Other	Corporate and Other (old basis) £m	Property Development[2] £m	Corporate and Other (new basis) £m
External turnover	–	–	–
Inter-segment turnover	0.4	–	0.4
Total turnover	0.4	–	0.4
Profit before interest, tax and exceptional items	3.9	(10.7)	(6.8)
Exceptional items	–	–	–
Profit before interest and tax	3.9	(10.7)	(6.8)

[1] In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

[2] In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and Other. All of these activities are now managed and reported as a single business within Business Services.

The following table shows the segmental turnover and PBIT on the old segmentation:

Six months ended 30 September

	2018		2017 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**822.5**	**59.0**	789.5	61.5
Inter-segment turnover	**–**	**10.5**	0.4	9.3
Total turnover	**822.5**	**69.5**	789.9	70.8
Profit before interest, tax and exceptional items	**279.2**	**14.3**	278.3	15.3
Exceptional items (see note 4)	**–**	**–**	7.9	0.2
Profit before interest and tax	**279.2**	**14.3**	286.2	15.5

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

Six months ended 30 September

	2018 (new basis) £m	**2018 (old basis) £m**	2017 (restated) £m
Regulated Water and Waste Water	**795.0**	**822.5**	789.9
Business Services	**97.0**	**69.5**	70.8
Corporate and Other	**0.4**	**0.4**	1.3
Consolidation adjustments	**(10.9)**	**(10.9)**	(11.0)
	881.5	**881.5**	851.0

Notes to the condensed interim financial information (continued)

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

Six months ended 30 September

	2018 (new basis) £m	2018 (old basis) £m	2017 (restated) £m
Regulated Water and Waste Water	**268.4**	**279.2**	278.3
Business Services	**37.3**	**14.3**	15.3
Corporate and Other	**(6.8)**	**3.9**	(6.6)
Consolidation adjustments	**0.2**	**1.7**	(0.3)
Profit before interest, tax and exceptional items	**299.1**	**299.1**	286.7
Exceptional items:			
Regulated Water and Waste Water	**–**	**–**	7.9
Business Services	**–**	**–**	0.2
Corporate and Other	**–**	**–**	0.2
Net finance costs	**(93.1)**	**(93.1)**	(110.5)
Net losses on financial instruments	**(1.5)**	**(1.5)**	(5.0)
Share of (loss)/profit of joint ventures	**(0.9)**	**(0.9)**	1.4
Profit before tax	**203.6**	**203.6**	180.9

The tables below show the changes from the old to the new segmentation for capital employed as at 30 September:

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Property Development £m	Regulated Water and Waste Water (new basis) £m
Operating assets	9,164.4	(241.4)	–	8,923.0
Goodwill	63.5	–	–	63.5
Interests in joint ventures and associates	–	–	–	–
Segment assets	9,227.9	(241.4)	–	8,986.5
Segment operating liabilities	(2,069.2)	4.3	–	(2,064.9)
Capital employed	7,158.7	(237.1)	–	6,921.6

Business Services	Business Services (old basis) £m	Bioresources £m	Property Development £m	Business Services (new basis) £m
Operating assets	204.7	241.4	46.7	492.8
Goodwill	–	–	–	–
Interests in joint ventures and associates	36.5	–	–	36.5
Segment assets	241.2	241.4	46.7	529.3
Segment operating liabilities	(39.8)	(4.3)	(8.2)	(52.3)
Capital employed	201.4	237.1	38.5	477.0

Corporate and Other	Corporate and Other (old basis) £m	Property Development £m	Corporate and Other (new basis) £m
Operating assets	62.7	(45.2)	17.5
Goodwill	–	–	–
Interests in joint ventures and associates	–	–	–
Segment assets	62.7	(45.2)	17.5
Segment operating liabilities	(77.7)	8.2	(69.5)
Capital employed	(15.0)	(37.0)	(52.0)

The following table shows segmental capital employed on the old basis:

	30 September 2018		31 March 2018 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**9,164.4**	**204.7**	8,900.8	200.6
Goodwill	**63.5**	**–**	63.5	–
Interests in joint ventures and associates	**–**	**36.5**	–	37.6
Segment assets	**9,227.9**	**241.2**	8,964.3	238.2
Segment operating liabilities	**(2,069.2)**	**(39.8)**	(1,957.6)	(42.7)
Capital employed	**7,158.7**	**201.4**	7,006.7	195.5

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

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

3. Revenue from contracts with customers

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

Six months ended 30 September 2018

	Regulated Water and Waste Water £m	**Operating Services £m**	**Energy £m**	**Bioresources £m**	**Other £m**	**Group £m**
Water and waste water services	793.7	–	–	27.5	–	821.2
Operating services	–	29.7	–	–	–	29.7
Renewable energy	–	–	7.1	15.5	–	22.6
Other sales	1.3	–	–	–	6.7	8.0
	795.0	**29.7**	**7.1**	**43.0**	**6.7**	**881.5**

The tables below show segmental turnover on the old basis of segmentation:

Six months ended 30 September 2018

	Regulated Water and Waste Water £m	**Business Services £m**	**Group £m**
Water and waste water services	821.2	–	821.2
Operating services	–	29.7	29.7
Renewable energy	–	22.6	22.6
Other sales	1.3	6.7	8.0
	822.5	**59.0**	**881.5**

Six months ended 30 September 2017

	Regulated Water and Waste Water £m	**Business Services £m**	**Group £m**
Water and waste water services	788.7	–	788.7
Operating services	–	39.6	39.6
Renewable energy	–	20.4	20.4
Other sales	0.8	1.5	2.3
	789.5	61.5	851.0

Income from diversions of £5.4 million (2017: £2.1 million), which is reimbursement of costs incurred for diversions, is included within infrastructure maintenance expenditure within operating costs.

4. Exceptional items before tax

The Group classifies items of income or expenditure as exceptional if individually or, if of a similar type, in aggregate they 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.

Six months ended 30 September

	2018 £m	2017 £m
Gain arising on pension exchange arrangement		
Regulated Water & Waste Water	**–**	7.9
Business Services	**–**	0.2
Corporate & other	**–**	0.2
Gain arising on pension exchange arrangement	**–**	8.3
	–	8.3

5. Net losses on financial instruments

Six months ended 30 September

	2018 £m	2017 £m
Loss on swaps used as hedging instruments in fair value hedges	**(0.5)**	(0.5)
Gain arising on debt in fair value hedges	**0.3**	0.9
Exchange (loss)/gain on other loans	**(8.2)**	7.6
Loss on cash flow hedges transferred from equity	**(4.1)**	(4.1)
Hedge ineffectiveness on cash flow hedges	**0.5**	1.6
Gain/(loss) arising on swaps where hedge accounting is not applied	**9.9**	(9.2)
Amortisation of fair value adjustment on debt	**0.6**	(1.3)
	(1.5)	(5.0)

6. Tax

Six months ended 30 September

	2018 £m	2017 (restated) £m
Current tax		
Current year at 19.1% (2017: 19.0%)	**23.7**	21.7
Total current tax	**23.7**	21.7
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**15.1**	12.6
Prior years	**(0.3)**	–
Total deferred tax	**14.8**	12.6
Total tax charge	**38.5**	34.3

The tax charge in the income statement is calculated at a rate of 19.1% (2017: 19.0%) representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The underlying effective current tax rate was 12.1% (2017: 13.2%). See note 18.

Current tax credits of £4.8 million (2017: £5.7 million) and deferred tax charges of £17.6 million (2017: £9.0 million) have been taken to reserves in the period.

7. Discontinued operations

The disposal of the Group's US business (Operating Services, US), which formed part of the Business Services segment, to US investors PPC Enterprises LLC and Alston Capital Partners LLC was completed on 30 June 2017 and was treated as a discontinued operation in the prior year.

The results of discontinued operations are disclosed separately in the income statement and comprise:

Six months ended 30 September

	2018	2017
	£m	£m
Turnover	**–**	42.1
Total operating costs	**–**	(40.7)
Profit before interest and tax	**–**	1.4
Net finance income	**–**	–
Profit before tax	**–**	1.4
Attributable tax expense	**–**	–
Gain on disposal of discontinued operations	**–**	16.1
Profit for the period attributable to owners of the company	**–**	17.5

Basic and diluted earnings per share from discontinued operations are as follows:

Six months ended 30 September

			2018			2017
	Profit attributable to owners of the company	**Weighted average number of shares**	**Per share amount**	Profit attributable to owners of the company	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	pence
Basic earnings per share	**–**	**–**	**–**	17.5	235.7	7.4
Diluted earnings per share	**–**	**–**	**–**	17.5	236.6	7.4

The net cash flows arising from the discontinued operations in the period were:

Six months ended 30 September

	2018	2017
	£m	£m
Net cash flows attributable to:		
-Operating activities	**–**	1.9
-Investing activities	**–**	(0.6)
-Financing activities	**–**	–
	–	1.3

The net cash flows arising from disposals were:

Six months ended 30 September

	2018	2017
	£m	£m
Consideration received in cash and cash equivalents	**–**	39.3
Disposal costs paid in cash and cash equivalents	**–**	(2.5)
Cash and bank balances disposed of	**–**	(9.9)
	–	26.9

8. Dividends

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

Six months ended 30 September

	2018		2017	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March 2018 (2017)	**51.92**	**122.9**	48.90	115.2

The proposed interim dividend of 37.35p per share (2017: 34.63p per share) was approved by the Board on 21 November 2018 and has not been included as a liability as at 30 September 2018.

9. Earnings per share

a) Basic and diluted earnings per share

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

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

Basic and diluted earnings per share from continuing and discontinued operations are calculated on the basis of profit from continuing and discontinued operations attributable to the owners of the company.

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

Earnings for the purpose of basic and diluted earnings per share from continuing operations

Six months ended 30 September

	2018 £m	2017 (restated) £m
Profit for the period attributable to owners of the company	**165.1**	164.1
Adjusted for profit from discontinued operations (see note 7)	**–**	(17.5)
Profit for the period from continuing operations attributable to owners of the company	**165.1**	146.6

Number of shares

Six months ended 30 September

	2018 m	2017 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**236.4**	235.7
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.4**	0.9
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.8**	236.6

b) Underlying earnings per share

Six months ended 30 September

	2018 pence	2017 (restated) pence
Underlying basic earnings per share	**76.2**	65.5
Underlying diluted earnings per share	**76.1**	65.2

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

Notes to the condensed interim financial information (continued)

The adjustments to earnings are as follows:

Six months ended 30 September

	2018 £m	2017 (restated) £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**165.1**	146.6
Adjustments for:		
- exceptional items before tax	**–**	(8.3)
- net losses on financial instruments	**1.5**	5.0
- current tax on net losses on financial instruments	**(1.3)**	(1.6)
- deferred tax	**14.8**	12.6
Earnings for the purpose of underlying basic and diluted earnings per share	**180.1**	154.3

10. Borrowings

	30 September 2018 £m	31 March 2018 £m
Bank overdraft	**2.9**	12.6
Bank loans	**1,309.6**	1,217.4
Other loans	**4,245.5**	4,223.9
Obligations under finance leases	**115.4**	113.9
Borrowings	**5,673.4**	5,567.8

The borrowings are repayable as follows:

	30 September 2018 £m	31 March 2018 £m
On demand or within one year - included in current liabilities	**386.3**	308.7
Over one year - included in non-current liabilities	**5,287.1**	5,259.1
	5,673.4	5,567.8

11. Fair value of financial instruments

a) Fair value measurements

The table below describes the valuation technique that the Group applies for each class of financial instrument which is measured at fair value on a recurring basis. All techniques are classified as Level 2 under the hierarchy defined by IFRS 13 except for the inflation swap, which is classified as Level 3. During the current period a gain of £4.5 million has been recognised in the income statement with respect to this instrument. There have been no changes in the levels of classification during the period.

	30 September 2018 £m	31 March 2018 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**30.3**	24.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow
Assets	**8.0**	11.4	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(100.6)**	(112.4)	
Energy swaps			Discounted cash flow
Assets	**7.0**	0.3	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(3.1)**	(0.8)	
Inflation swaps			Discounted cash flow
Assets	**1.7**	–	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI. Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties.
Liabilities	**–**	(2.8)	

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

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables are not materially different from their fair values. Derivative financial instruments are carried at fair value. The carrying values and estimated fair values of other non-derivative financial instruments are set out below. The estimated fair values do not take into account the impact of interest rate swaps. At 30 September 2018, the Group held interest rate swaps and cross currency swaps that converted fixed rate interest to floating on a net principal amount of £350.0 million (31 March 2018: £349.6 million).

	30 September 2018		31 March 2018	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**1,007.6**	**1,008.8**	917.1	918.6
Currency bonds	**38.0**	**38.0**	38.2	38.2
Floating rate notes	**147.7**	**152.1**	147.7	153.0
	1,193.3	**1,198.9**	1,103.0	1,109.8
Fixed rate debt				
Bank loans	**184.6**	**184.4**	185.3	185.0
Sterling bonds	**2,357.8**	**2,646.0**	2,357.0	2,700.2
Fixed rate notes	**349.9**	**346.8**	343.4	347.6
Other loans	**5.1**	**5.1**	5.3	5.3
Finance leases	**115.4**	**122.2**	113.9	122.5
	3,012.8	**3,304.5**	3,004.9	3,360.6
Index-linked debt				
Bank loans	**117.4**	**128.2**	115.0	124.9
Sterling bonds	**1,258.9**	**1,994.8**	1,244.1	2,057.1
Other loans	**88.1**	**90.3**	88.2	87.1
	1,464.4	**2,213.3**	1,447.3	2,269.1
	5,670.5	**6,716.7**	5,555.2	6,739.5

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

Fixed rate sterling and currency bonds are valued using market prices, which is a Level 1 valuation technique.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds 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 other debt instruments are also calculated using discounted cash flow models, which is a Level 2 valuation technique.

12. Retirement benefit schemes

The Group operates three defined benefit schemes in the UK, two for Severn Trent and one for Dee Valley Water. The Severn Trent schemes are closed to future accrual. The Group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The most recent actuarial valuation of the Severn Trent schemes was at 31 March 2016. Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. The most recent actuarial valuation of this scheme was at 31 March 2017.

The assumptions used in calculating the defined benefit obligations as at 30 September 2018 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

	30 September 2018 %	31 March 2018 %
Price inflation - RPI	**3.2**	3.1
Price inflation - CPI	**2.2**	2.1
Discount rate	**2.9**	2.7
Pension increases in payment	**3.2**	3.1
Pension increases in deferment	**3.2**	3.1

The defined benefit assets have been updated to reflect their market value as at 30 September 2018. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

Movements in the net deficit recognised in the balance sheet were as follows:

	Fair value of plan assets £m	**Defined benefit obligations £m**	**Net deficit £m**
At 1 April 2018	2,339.8	(2,859.6)	(519.8)
Current service credit	–	(0.1)	(0.1)
Scheme administration costs	(1.4)	–	(1.4)
Net interest cost	30.7	(37.6)	(6.9)
Actuarial (losses)/gains recognised in the statement of comprehensive income	(19.8)	82.2	62.4
Contributions from the sponsoring companies	0.3	–	0.3
Employees' contributions and benefits paid	(53.5)	53.5	–
At 30 September 2018	**2,296.1**	**(2,761.6)**	**(465.5)**

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

	30 September 2018 £m	31 March 2018 £m
Retirement benefit surplus	**17.9**	18.2
Retirement benefit obligations	**(483.4)**	(538.0)
	(465.5)	(519.8)

On 26 October the High Court issued a judgment in relation to gender equality in Guaranteed Minimum Pension rights that will have an impact on the Group’s defined benefit pension liabilities. The situation is complex and the amount of the liability will depend on the scheme rules and the administrative practices that have been applied in the past in implementing the rules. We are currently assessing the impact and at this stage we are unable to make a reasonable estimate of the amount.

13. Share capital

At 30 September 2018 the issued and fully paid share capital was 240.9 million shares of $97^{17}/_{19}$p amounting to £235.8 million (31 March 2018: 240.2 million shares of $97^{17}/_{19}$p amounting to £235.1 million).

During the period the company issued 0.7 million (2017: 0.4 million) shares as a result of the exercise of employee share options. At 30 September 2018 the company held 3.8 million (31 March 2018: 3.9 million) shares in treasury.

14. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2018 £m	2017 (restated) £m
Profit before interest and tax from continuing operations	**299.1**	295.0
Profit before interest and tax from discontinued operations	**–**	17.5
Profit before interest and tax	**299.1**	312.5
Depreciation of property, plant and equipment	**161.2**	156.4
Amortisation of intangible assets	**12.7**	10.0
Pension service cost	**0.1**	(8.3)
Defined benefit pension scheme administration costs	**1.4**	1.4
Defined benefit pension scheme contributions	**(0.3)**	(0.7)
Share based payment charge	**4.0**	3.5
Profit on sale of property, plant and equipment and intangible assets	**(18.3)**	(1.2)
Profit on disposal of businesses	**–**	(16.1)
Deferred income movement	**(7.2)**	(9.4)
Provisions charged to the income statement	**–**	3.5
Utilisation of provisions for liabilities and charges	**–**	(4.1)
Operating cash flows before movements in working capital	**452.7**	447.5
Decrease/(increase) in inventory	**1.2**	–
Increase in amounts receivable	**(56.1)**	(34.9)
Increase in amounts payable	**91.4**	67.7
Cash generated from operations	**489.2**	480.3
Tax paid	**(5.8)**	(0.1)
Net cash generated from operating activities	**483.4**	480.2

b) Non-cash transactions
No additions to property, plant and equipment during the six months to 30 September 2018 or 2017 were financed by new finance leases.

c) Exceptional cash flows
There were no exceptional cash flows from the exceptional items included in the income statement in either period.

d) Reconciliation of movements in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2018	38.5	(1,217.4)	(4,223.9)	(113.9)	24.5	135.6	(5,356.6)
Cash flow	41.4	(88.9)	0.8	–	–	6.1	(40.6)
Fair value adjustments	–	–	0.9	–	5.8	–	6.7
RPI uplift on index-linked debt	–	(2.5)	(15.5)	–	–	–	(18.0)
Foreign exchange	–	–	(8.1)	–	–	–	(8.1)
Other non-cash movements	–	(0.2)	(0.3)	(1.5)	–	0.1	(1.9)
As at 30 September 2018	**79.9**	**(1,309.6)**	**(4,245.5)**	**(115.4)**	**30.3**	**141.8**	**(5,418.5)**

15. Post balance sheet events

On 26 October the High Court issued a judgment in relation to gender equality in Guaranteed Minimum Pension rights that will have an impact on the Group's defined benefit pension liabilities. The situation is complex and the amount of the liability will depend on the scheme rules and the administrative practices that have been applied in the past in implementing the rules. We are currently assessing the impact and at this stage we are unable to make a reasonable estimate of the amount.

16. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2018 which were approved on 22 May 2018. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

17. Related party transactions

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

	Water Plus	**Water Plus**
	2018	2017
	£m	£m
Sale of services	**170.9**	187.9
Net interest income	**1.8**	0.9

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

	Water Plus	**Water Plus**
	30 September 2018	31 March 2018
	£m	£m
Trade and other receivables due from related parties	**45.4**	44.9
Loans due from joint ventures	**141.8**	135.6

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

18. Alternative performance measures

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

a) Exceptional items

Exceptional items are income or expenditure which individually or, if of a similar type, in aggregate 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.

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement. This provides a consistent measure of operating performance excluding distortions caused by exceptional items. The calculation of this APM is shown on the face of the Income Statement and in note 2 for reportable segments.

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments, exceptional current tax and deferred tax. The directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 9.

d) 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 14.

e) Effective interest rate

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

(net finance costs – net finance costs from pensions + capitalised finance costs)
(monthly average net debt)

	2018 £m	2017 (restated) £m
Net finance costs	**93.1**	110.5
Net finance costs from pensions	**(6.9)**	(7.5)
Capitalised interest	**15.7**	11.3
	101.9	114.3
Annualised	**203.8**	228.6
Average net debt	**5,405.7**	5,098.3
Effective interest rate*	**3.8%**	4.5%

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

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

f) Effective cash cost of interest

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

(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)
(monthly average net debt)

	2018 £m	2017 (restated) £m
Net finance costs	**93.1**	110.5
Net finance costs from pensions	**(6.9)**	(7.5)
RPI interest	**(18.0)**	(23.6)
Capitalised interest	**15.7**	11.3
	83.9	90.7
Annualised	**167.8**	181.4
Average net debt	**5,405.7**	5,098.3
Effective cash cost of interest*	**3.1%**	3.6%

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

This is used as it shows the average cash interest rate based on the net debt of the business.

g) PBIT interest cover

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

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

	2018	2017
		(restated)
	£m	£m
Underlying PBIT	**299.1**	286.7
Net finance costs	**93.1**	110.5
Net finance costs from pensions	**(6.9)**	(7.5)
Net finance costs excluding finance costs from pensions	**86.2**	103.0
	ratio	ratio
PBIT interest cover ratio	**3.5**	2.8

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

h) EBITDA and EBITDA interest cover

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

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

	2018	2017
		(restated)
	£m	£m
Underlying PBIT	**299.1**	286.7
Depreciation	**161.2**	156.4
Amortisation	**12.7**	10.0
EBITDA	**473.0**	453.1
Net finance costs	**93.1**	110.5
Net finance costs from pensions	**(6.9)**	(7.5)
Net finance costs excluding finance costs from pensions	**86.2**	103.0
	ratio	ratio
EBITDA interest cover ratio	**5.5**	4.4

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

i) Underlying effective current tax rate

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

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

	2018		2017 (restated)	
	£m	**Current tax thereon £m**	£m	Current tax thereon £m
Profit before tax	**203.6**	**(23.7)**	180.9	(21.7)
Adjustments:				
Share of net loss/(profit) of joint ventures accounted for using the equity method	**0.9**	**–**	(1.4)	–
Exceptional items	**–**	**–**	(8.3)	–
Net losses on financial instruments	**1.5**	**(1.3)**	5.0	(1.6)
	206.0	**(25.0)**	176.2	(23.3)
		12.1%		13.2%

This APM is used to be remove distortions in the underlying tax charge and create a metric consistent with the calculation of underlying earnings per share in note 9.

Share of net profit of joint ventures accounted for using the equity method is recognised in the income statement after tax incurred in the joint ventures.

Responsibility statement

We confirm to the best of our knowledge:

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

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

Signed on behalf of the Board who approved the half yearly financial report on 21st November 2018.

Andrew Duff	James Bowling
Chairman	Chief Financial Officer

Independent review report to Severn Trent Plc

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, , the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
21 November 2018

Glossary

Asset Management Plan (AMP)
Price limit periods are sometimes known as AMP (Asset Management Plan) periods. The current period is known as AMP6 (2015-2020) because it is the sixth cycle since the water industry was privatised in 1989.

C-MeX (Customer Measure of Experience)
The proposed Customer Measure of Experience (C-MeX) will replace the SIM as the incentive for companies to improve the experience of residential customers from 1 April 2020 onwards.

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

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

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

PR14 / PR19
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewage companies are set every five years. PR19 (Price Review 2019) will set wholesale price controls for water and sewerage companies for 2020 to 2025.

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

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

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

Service Incentive Mechanism (SIM)
The SIM allows comparison of companies' performance. It measures the following aspects of service delivery:

i) Where customers have made contact regarding a service issue, for example, phoning about a billing error or writing to complain about a water supply problem.
ii) A customer survey measuring how well companies have handled all types of customer contacts, not just when things have gone wrong.

Companies receive rewards or penalties in the Price Review depending on their SIM performance.

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

Waste cap
The limit on the amount of outperformance payments for waste water related customer ODIs. For Severn Trent in AMP6 this is £190 million.

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

Cautionary Statement

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

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

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

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

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

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