Half Yearly Financial Report

23 November 2017

Interim results for the six months to 30 September 2017

Strong customer delivery and investment across the network drive continued progress

- **Group financial results for the half year reflect ongoing momentum:**
  - Group turnover of £850.4 million, up £30.4 million (3.7%)
  - Group underlying PBIT[1] of £287.8 million, up £12.1 million (4.4%)
  - Group reported PBIT £296.1 million, down 0.2%
  - Underlying basic EPS[2] of 65.9 pence (up 7.7%). Reported basic EPS from continuing operations 62.6 pence (down 20.2%)
  - Interim dividend of 34.63p (up 6.2%)

- **Customers are at the heart of our business:**
  - **Improved services**: significant improvements in customer ODIs[3] - including a 38% reduction in internal sewer floodings and a 50% reduction in external floodings
  - **Lowest bills**: on average less than £1/day; £32 p.a. less than next cheapest in England and Wales
  - **Network improvements**: investing over £3 billion of capex during AMP6[4] for the future of our network. £324 million[5] invested in H1 2017/18
  - **Vulnerable customers:** beating our target to help over 50,000 customers this year

- **Delivering benefits for our stakeholders:**
  - **Social responsibility:** generating equivalent of 38% of energy needs from renewables; on track for 50% by 2020. Commitment to move our fleet to alternative fuel vehicles and embrace green energy
  - **Customer ODIs:** we now forecast net outperformance payments of at least £50 million, and expect to hit the Waste cap[6] for AMP6
  - **Efficiencies:** forecasting £770 million[7] AMP6 efficiencies, with a further £50 million locked in during H1 2017/18. £660 million or 86% of total efficiencies now locked in
  - **Property profits:** unlocking value in surplus land, helping the housing shortage and benefitting customers through lower future bills. £5 million - £15 million p.a. PBIT; c.£100million PBIT over the next 10 years
  - **AMP7[8]:** strong performance in AMP6 underpinning progress towards PR19[9]

Footnotes: see definitions on page 2 of this RNS

Liv Garfield, Chief Executive Severn Trent Plc, said:

"Our customer-first approach is delivering positive results. It is also clear in today's society that businesses, including the water sector, are under increasing scrutiny and greater pressure to explain their contribution to society beyond financial profit. We need to make sure our decisions strike the right balance between all of our stakeholders and show we run our business in a sustainable and responsible way.

As a result of the hard work of everyone at Severn Trent and their focus on the areas that are most important to our customers, we've reduced total sewer floodings by 48%. Strong operational improvements have given us confidence to increase the FY2017/18 customer ODI forecast to at least £50 million, reflecting a great start to this year. We've managed to do all this while keeping bills down to less than a pound a day – the lowest average combined bills in the country.

In maximising value from our assets for the longer term, we today announce plans to sell land made available through operational efficiency. This strategy will create benefits for our customers, communities and investors.

The water sector has been transformed for the better over the last 25 years, with more reliable, more efficient and more environmentally friendly services, but there is still much to do. At Severn Trent we're determined to rise to the challenge of delivering even better value for money to customers."

Group results from continuing operations

Underlying results

Six months ended 30 September	**2017**	2016 (restated)[10]	Increase
	£m	£m	%
Group turnover	**850.4**	820.0	3.7
Underlying group PBIT[1]	**287.8**	275.7	4.4
	pence/ share	pence/ share	
Underlying basic EPS[2]	**65.9**	61.2	7.7
Interim dividend declared	**34.63**	32.60	6.2

Reported results

Six months ended 30 September	**2017**	2016 (restated)[10]	Increase/ (decrease)
	£m	£m	%
Group turnover	**850.4**	820.0	3.7
Group PBIT	**296.1**	296.7	(0.2)
	pence/ share	pence/ share	
Basic EPS from continuing operations	**62.6**	78.4	(20.2)

Footnotes to pages 1 & 2 of this RNS

1. Underlying profit before interest and tax (PBIT) excludes exceptional operating items – see note 17 to the financial statements
2. Underlying earnings per share (EPS) – see note 8 to the financial statements
3. Customer Outcome Delivery Incentives (ODIs), quoted pre-tax and at in 2012/13 prices
4. AMP6: Asset Management Plan regulatory period 2015-2020
5. Comprises infrastructure renewals expenditure and capital expenditure in our Regulated Water and Waste Water business
6. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, leaving £115m remaining
7. Efficiencies quoted at actual and forecast nominal prices
8. AMP7: the 2020-2025 regulatory period.
9. Price Review (PR) 19: the consultation for 2020-2025
10. Restated for discontinued operations

Note: **Technical guidance is included on page 15 of this announcement**

Enquiries

Investors & Analysts

Ruban Chandran *Head of Investor Relations*	Severn Trent Plc	+44 (0) 795 716 6615
Richard Tunnicliffe *Investor Relations Manager*	Severn Trent Plc	+44 (0) 783 441 9722
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 23 November 2017 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

As we complete the first half of this regulatory period, it's appropriate to reflect on the hard work of my colleagues, our performance, and the journey ahead. We have further evolved the culture of our organisation and the changes we've made are now embedded throughout Severn Trent. We have focused on enhancing the service offered to customers, who have helped determine our operational priorities through customer Outcome Delivery Incentives (ODIs). Customer service improvements have been delivered whilst we've maintained the lowest average combined bills in Britain.

Our aim is to be an upper quartile company when compared to our peers and we are pushing ourselves to continue delivering the very best service for our customers and set ourselves up to be a winner in the world of increasing incentivisation expected for AMP7. We have already made great strides in this ambition but there is still more to do to ensure all our customers receive a consistent, high-quality experience.

Through the hard work of everyone at Severn Trent we've made real progress on the areas our customers have told us are most important to them, such as reducing sewer floodings by 48%, and we're seeing that reflected in our strong performance on customer ODIs, the most important measures as set by our customers.

What is also increasingly clear in today's society is that businesses, including the water sector, are under increasing scrutiny and greater pressure to explain their contribution to society beyond financial profit. We all have to show that we are sincere about putting our customers at the heart of our business. We need to make sure the decisions we take strike the right balance between all of our stakeholders and show we run our business in a sustainable and responsible way.

At Severn Trent we are committed to supporting the communities that we serve. We are proud of all the great work that has been done over many years. For us, doing the right thing means low bills, investing in better services, protecting the environment, creating employment, and helping with housing constraints through our new property strategy. The water sector has been transformed and will continue to be in the coming years, driven by consultation with customers and the regulatory framework set by our regulator.

By regularly engaging with our stakeholders we stay connected to their needs and adapt accordingly. We know that developing the right plan for PR19 will help to meet, and hopefully exceed, their expectations. Our economic regulator, Ofwat, has already previewed the methodology for AMP7, and while it should be seen as a package of overall measures, we're very aware that it will be a tough regulatory review. That said, our customer focus and the progress we have made so far this AMP means we believe we are relatively well positioned to benefit from the proposed changes.

Severn Trent continues to execute its strategy with success. Our ambition is to be the most trusted water and sewerage company by 2020. Our five priority areas are:

- Embedding customers at the heart of all we do
- Driving operational excellence and continued 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
Ofwat has recently reinforced the message that customers must be at the heart of AMP7 business plans.

Our momentum in this area has been recognised in the UK Customer Service Index (CSI), the key measure of customer satisfaction in the UK, where we were recently ranked 5th of 25 utility companies, and came top of the listed water companies. UK CSI is specifically included in Ofwat's PR19 draft methodology consultation, with higher rewards available if a company performs at or above a certain threshold.

We are proud once again that Severn Trent has the lowest average combined water and sewerage bills in Britain, at £341 per annum. Affordability is a high priority for us and we are now helping more than 50,000 vulnerable customers struggling to pay their bills. We have launched a new customer assistance scheme called 'Matching Plus' which helps customers manage their debts by rewarding them for regular payments. These actions have helped our bad debt performance this half-year, and we were the top performing water and sewerage company on this measure in both 2015/16 and 2016/17.

We have announced plans to sell surplus land over the next 10 years. This will help keep bills low, as a proportion of profits will be shared with customers through an end of AMP Regulatory Capital Value (RCV) adjustment. These plans will benefit our communities, help to address the housing shortage and create new jobs.

We are constantly looking for ways to improve our customer experience. Our next aim is to combine our contact centre staff with our network distribution and planning teams, creating a more seamless and integrated approach to our customer offer.

We recognise we are only part way through our journey to sector leadership. We came 10th out of 17 water companies overall in 2016/17 on the Service Inventive Mechanism (SIM), a measure of customer experience, and we know we can improve. However, we are pleased that Dee Valley, which is now part of Severn Trent, came 4th overall in SIM and we are looking to apply their strengths to the wider business.

Driving operational excellence and continuous innovation
We have created a solid track record in the areas that matter most for our customers. This has resulted in us earning £71 million (pre-tax at 2012/13 prices) outperformance payments on our customer ODIs in the first two years of AMP6.

Early investments are now paying off; we have made a strong start to 2017/18 with a positive trajectory and this high performance is now ingrained within our organisation. Our rate of improvement means we are now increasing FY 2017/18 guidance to at least £50 million, and we now expect to hit the Waste cap for AMP6.

Highlights in the first half of 2017/18 include reducing the number of internal and external sewer flooding incidents by 38% and 50% respectively. In Water, we're encouraged by a 12% improvement in water quality complaints.

We recognise that our performance has a financial impact on our customers, so in light of expected higher inflation next year, we've asked Ofwat to allow us to defer £27 million of the £38 million customer ODIs we earned in 2016/17 (post tax, at 2012/13 prices, or £47.6 million pre-tax) into later years. That means we can limit the customer ODI component in next year's bills to less than a penny a day, helping keep our bills as low as possible.

We know that there are areas where our performance needs to further improve, for example on water quality, and we are working hard to meet our challenging targets in these as well.

Investing responsibly for sustainable growth
Ofwat expects companies to deliver efficiency improvements as we enter the next price review. In AMP6 we have shown we can meet these challenges, with £770 million of efficiencies forecast for the period to 2020. We have now locked in 86% of the total, including an additional £50 million identified in the first half of 2017/18. We are well underway with the reinvestment of £120 million for the benefit of our customers in water quality, security and vulnerable customers.

When we entered this AMP our performance across the price controls was mixed. Waste was our strongest area and we started the AMP in the upper quartile. Based on our cumulative performance to the end of 2016/17 we are confident our progress keeps us there.

Water was the area where we knew we needed to focus. We were mid-table and we knew we could do better. The signs so far are encouraging and we believe our progress is moving us towards upper quartile, however there is more to do.

In Retail we started mid-table and our analysis suggests we are now upper quartile on costs. This has been helped significantly by our bad debt performance. We are now one of the top performers in the sector thanks to the strong, innovative approach of our credit management teams.

We are encouraged by our progress in the first two years of AMP6, and while we still have improvements to make, we intend to achieve upper quartile across all price controls by 2020. This will stand us in good stead for the journey to AMP7.

Our Birmingham Resilience scheme is progressing well. We have finished tunnelling at two of the sites required along the Elan Valley Aqueduct and will start work on the final tunnel at Knighton next year. The design work for the new abstraction point on the River Severn and formal consultation with our customers is complete. Our second largest capital scheme in Newark is also progressing well, with work to renew the water mains now finished.

We have now spent £116 million of the £190 million planned investment in renewable energy. We are generating the equivalent of 38% of our energy needs and remain on-track to deliver 50% by 2020. Our new food waste plant at Roundhill has opened for business, and our wind turbines in Derby and hydro additions at Howden and Clywedog are now in full-time operation.

Our plan is to make our entire fleet environmentally friendly and we have pledged to replace 2,200 vans, cars and tankers with alternative fuel vehicles, as and when appropriate vehicles come on the market.

In our Business Services division, we have streamlined our portfolio by selling our US Operating Services business in June, allowing us to focus on core strategic growth areas.

Changing the market for the better
Water services in England and Wales have been transformed over the last 25 years since privatisation. Investment has increased significantly in the sector to make services more reliable, efficient, and improve the environment. Ofwat's PR19 draft methodology consultation will encourage us to take the water sector to the next level of performance.

The PR19 methodology has set expectations of the returns we can expect from the next regulatory period and it is clear that this is going to be a challenging price review. However, we believe the focus should be on the package of measures as a whole, rather than just one element, such as the base return. There will be opportunities for well-run companies to improve returns through enhancements to incentives such as totex and customer ODIs. We agree with this approach, companies should not be rewarded for providing sub-standard service to customers, and we intend to be winners in this environment.

We have published our response to the draft methodology consultation and are generally supportive of Ofwat's proposals. The strengthening of incentives is a clear positive and the creation of competitive markets in water resources and bioresources will create opportunities for us. Overall we believe the methodology is tough and challenging, but the right direction for customers.

Our preparations for PR19 are well progressed. We are working with customers in collaboration with The Water Forum (our customer consultation panel) on plans to gain vital customer insight and provide assistance to vulnerable customers. We will stretch ourselves further on customer ODIs. For example we have bold ambitions to reduce leakage by 15% over the course of AMP7. We have been supporters of Ofwat's recent moves and we intend to embrace competition in the bioresources market with a dedicated team.

Our catchment management programme is reducing the level of pollution getting into raw water sources, and we are engaging with more than 1,500 farms in our region. In the first half of the year we also launched a scheme to help developers build more water efficient homes, offering discounts on connection charges if certain criteria are met.

Integration of Dee Valley is progressing well and in parallel with our preparation for the proposed licence changes due to take place in April 2018. We are sharing best practice between Dee Valley and Severn Trent which is to the benefit of customers. For example Dee Valley's approach to mains cleaning has been yielding strong results and we're are now taking these learnings and applying them across the broader Seven Trent business.

Creating an awesome place to work
Our people drive the change needed to meet the challenges faced by our sector and help create a lasting water legacy. We place great importance on their motivation and wellbeing.

The majority of Severn Trent employees are also our customers and we believe in empowering and learning from them so we can deliver better service for all of our customers. Our all-employee roadshows captured their thoughts on key topics such as water efficiency and reducing leakage.

We are proud to have been named in the first-ever Social Mobility Employer Index, the only water company to be included. This is a joint initiative between the Social Mobility Foundation and the Social Mobility Commission, recognising the efforts companies are making to ensure everyone has the opportunity to find a job and be promoted, regardless of their background. We also participate in the employability scheme which gives internships and work opportunities to people with special educational needs.

We have created a new volunteering programme called Community Champions, helping us all get more involved in our local communities. Around 40% of our employees have signed up so far and we have committed to help clean up 50km of our region's riverbanks.

Along with other leading companies, we have recently published our gender pay gap performance and it is encouraging to see that Severn Trent's mean gap is just 2.4%, well below the national and industry average.

We have been working in partnership with Hope for Justice in helping to eradicate modern slavery. We have also delivered a range of sessions on specific areas of concern to our people, such as the menopause, and trained over 330 employees as mental health first aiders.

As part of our ongoing push to make customer service even better, we recently announced a recruitment drive for 250 people for our asset creation and repair and maintenance teams.

We have seen encouraging trends in the diversity of our teams with more colleagues from Black, Asian, and Minority Ethnic (BAME) backgrounds and greater gender diversity. We've seen an increase from 4% of BAME graduates in the total graduate population three years ago to 34% today. In our apprentice group we've seen an increase in females from nil three years ago to 15% today.

Chief Financial Officer's Review

We have delivered good financial performance in the first six months of 2017/18. Our Regulated Water and Waste Water business has shown good control over operating costs, restricting increases to less than inflation. In Business Services we have seen strong growth in revenues and underlying PBIT in both Operating Services and Renewable Energy.

Our strategy of increasing exposure to low floating interest rates helped reduce our effective cash cost of interest, however our overall reported net interest costs increased due to the impact of higher inflation on the 26% of our debt that is index-linked.

Our tax charge was in line with the statutory rate of 19% although the benefit of capital allowances and amounts recoverable in relation to previous overpayments reduced the cash tax payable.

Underlying earnings per share was up 7.7% to 65.9 pence (2016/17: 61.2 pence). Basic earnings per share from continuing operations was 62.6 pence (2016/17: 78.4 pence).

In May, we upgraded our dividend policy to increase by RPI plus at least 4% per annum. As a result the proposed interim dividend has increased by 6.2%.

On 30 June we completed the disposal of our US Operating Services business, realising a gain of £16.1 million and we sold our Italian Operating Services business in the previous year. These have both been reported as discontinued operations and the previous year's figures have been restated to reflect this. Details of the restatement were set out in a separate announcement on 19 July 2017.

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

- Group turnover from continuing operations was £850.4 million (2016/17: £820.0 million), an increase of 3.7%, mainly due to allowed price increases in our Severn Trent Regulated Water and Waste Water business, the acquisition of Dee Valley and growth in both of our Business Services businesses.
- Underlying PBIT increased by 4.4% to £287.8 million (2016/17: £275.7 million) benefiting from six months of Dee Valley, good operating cost control and lower infrastructure spend, offset by higher depreciation on the growing asset base.
- There were exceptional gains of £8.3 million arising from a further pension increase exchange arrangement that has been agreed with the Trustees of the Severn Trent Pension Scheme (2016/17 gain of £21.0 million).
- Reported group PBIT was £296.1 million (2016/17: £296.7 million).
- Whilst net finance costs were £110.5 million (2016/17: £98.5 million) reflecting the impact of higher RPI, the effective cash cost of interest was around 20 basis points lower compared to the same period last year.
- The current tax charge of £21.7 million (2016/17: £29.8 million) benefitted from the reduction in the corporation tax rate from 20% to 19% and from capital allowances on our increased investment programme. The deferred tax charge before exceptional tax was £12.8 million (2016/17: £6.7 million). The total tax charge was therefore £34.5 million (2016/17: credit of £3.3 million after an exceptional deferred tax credit of £39.8 million due to the reduction in corporation tax rate to 17% in 2020).
- Net capital expenditure (cash) was £270.4 million (2016/17 £234.8 million). We expect further increases in the second half of the year and through the rest of the AMP.

Regulated Water and Waste Water

Turnover for the Regulated Water and Waste Water segment was £789.9 million (2016/17: £765.2 million) and underlying PBIT was £278.3 million (2016/17: £268.9 million).

Six months ended 30 September

	2017			2016	Better/(worse)	
	Total	Dee Valley	**Excluding Dee Valley**			
	£m	£m	**£m**	£m	£m	%
Turnover	**789.9**	(12.5)	**777.4**	765.2	12.2	1.6
Net labour costs	**(71.4)**	2.0	**(69.4)**	(66.8)	(2.6)	(3.9)
Net hired and contracted costs	**(69.8)**	1.1	**(68.7)**	(72.4)	3.7	5.1
Power	**(45.2)**	1.1	**(44.1)**	(39.7)	(4.4)	(11.1)
Bad debts	**(10.8)**	0.2	**(10.6)**	(10.3)	(0.3)	(2.9)
Other costs	**(88.5)**	1.0	**(87.5)**	(87.9)	0.4	0.5
	(285.7)	5.4	**(280.3)**	(277.1)	(3.2)	(1.2)
Infrastructure renewals expenditure	**(64.4)**	0.6	**(63.8)**	(66.0)	2.2	3.3
Depreciation	**(161.5)**	2.9	**(158.6)**	(153.2)	(5.4)	(3.5)
Underlying PBIT	**278.3**	(3.6)	**274.7**	268.9	5.8	2.2

Dee Valley Water contributed £12.5 million to turnover and £3.6 million to underlying PBIT in the period. The following commentary on the Regulated Water and Waste Water business excludes Dee Valley Water and is therefore on a like-for-like basis.

Turnover increased by 1.6%. Higher tariffs increased revenue by £17.7 million including the impact of the annual RPI increase on prices (£16.9 million), the benefit of customer ODI outperformance payments earned in 2015/16 (£12.9 million), partially offset by an adjustment of £12.1 million for wholesale revenue in 2015/16 billed in excess of the Wholesale revenue allowance. New connections, meter optants, voids management and other impacts together resulted in a net reduction of £5.5 million, leading to the £12.2 million reported total increase.

Net labour costs were £2.6 million (3.9%) higher period on period. A 2% pay award and 4% increase in headcount from insourcing was partially offset by an increase in the amount capitalised, as we spent more of our time on our growing capital programme this year.

Net hired and contracted costs decreased by £3.7 million. Gross costs were £2.0 million lower, in part due to one-time costs related to Open Water in 2016/17 and more insourcing, and costs capitalised increased as a result of the larger capital programme.

Power costs were £4.4 million higher than the previous year. We implemented a number of successful initiatives to reduce energy usage and consumption was down by 2.9 Gwh (around 1%) despite a 2% increase of water into supply. However, as expected, this was more than offset by increases in energy pass-through costs. The group manages its power costs through a combination of self-generation, forward price contracts and financial derivatives.

Bad debt charges were £0.3 million higher and represent 1.8% of household revenue, consistent with the prior year (2016/17: 1.8%).

Other costs decreased by £0.4 million net after including an increase in release of deferred credits of £3.6 million, mainly arising on assets adopted under the second stage of the Private Drains and Sewers (“PDAS”) programme, which is matched by an increase in the depreciation charge on these assets.

Infrastructure maintenance expenditure was £2.2 million lower in the period, mainly due to timing differences compared to the prior year.

Depreciation was £5.4 million higher year on year, partly due to the assets adopted under PDAS, noted above, and increased capital expenditure on new assets.

Business Services

Six months ended 30 September

	2017	2016 (restated)	Increase	
	£m	£m	£m	%
Turnover				
Operating Services	**40.5**	37.6	2.9	7.7
Renewable Energy	**29.7**	26.6	3.1	11.7
	70.2	64.2	6.0	9.3
Underlying PBIT				
Operating Services	**7.4**	6.0	1.4	23.3
Renewable Energy	**9.0**	7.4	1.6	21.6
	16.4	13.4	3.0	22.4

In our Operating Services business turnover increased by £2.9 million mainly due to additional work on existing contracts. Underlying PBIT increased by £1.4 million from the margin on the additional work and higher income from contracts with plumbing and drainage insurers.

Renewable Energy turnover increased by £3.1 million and underlying PBIT increased by £1.6 million, driven by strong performance in our bioresources business.

The results above exclude the US Operating Services business, which was sold on 30 June 2017. The Italian Operating Services business was sold on 23 February 2017 and the non-household Retail business was transferred to the Water Plus joint venture during the prior year. All of these businesses have been classified as discontinued operations in the current and previous periods and the results for the previous period have been restated to reflect this.

There were no significant property disposals in the period, however, we have identified opportunities to generate profits of around £100 million over the next 10 years from the development of surplus property assets. A proportion of these profits will be shared with customers through lower bills. We have strengthened our Property team to take advantage of these opportunities and will report these operations as part of underlying Business Services PBIT in future periods.

Corporate and Other

Corporate overheads were £6.1 million (2016/17: £6.9 million). There was also an exchange loss of £0.3 million (2016/17 gain of £2.1 million).

Exceptional items before tax

An exceptional gain of £8.3 million (2016/17: £21.0 million) arose from the expected benefit of a pension increase exchange arrangement under which members of our defined benefit schemes will be offered the opportunity at retirement to exchange future non-statutory inflationary increases in 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 £110.5 million, £12.0 million higher than the prior period (£98.5 million). The effective cash cost of interest (excluding the RPI uplift on index linked debt) was 3.6% (2016/17: 3.8%) reflecting the benefit of our strategy to increase the proportion of debt at currently low floating rates. However, the interest cost on RPI debt increased by £11.4 million, largely as a result of higher inflation, so the effective interest rate, including index linked debt, for the period was 4.5% (2016/17: 4.2%). Net pension finance costs were £2.0 million higher than the previous year as the increase in the opening net deficit exceeded the benefit from the lower opening discount rate.

Interest capitalised was £2.9 million higher than the prior year due to the increased level of capital work in progress.

The group's EBITDA interest cover was 4.4 times (2016/17: 4.6 times) and PBIT interest cover was 2.8 times (2016/17: 3.0 times). See note 17 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; and
- Exposures to increases in electricity prices.

During the period a counterparty asked to terminate four of our interest rate swaps with a notional principal of £150 million. The fair value of the swaps at termination was a £42.6 million liability and the termination payment was £40.0 million. The gain on termination has been included in finance income.

The group holds interest rate swaps with a net notional principal of £503.2 million, which execute the group’s strategy to increase exposure to currently low interest rates; cross currency swaps with a sterling principal of £98.4 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and an inflation swap with a notional principal of £50 million, which swaps RPI linked cash flows for CPI linked cash flows. These swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the period there was a charge of £9.2 million (2016/17: charge of £6.8 million) in relation to these instruments.

An analysis of the amounts charged to the income statement in the period is presented in note 4 to the financial statements.

The group has fixed around 90% of the estimated wholesale energy usage for 2017/18 through a combination of forward price contracts and financial derivatives.

Taxation
The tax charge reported in the income statement is calculated at a rate of 18.9% (2016/17: 20.0% 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 £21.7 million (2016/17: £29.8 million) and the deferred tax charge before exceptional tax was £12.8 million (2016/17: £6.7 million).

There was an exceptional deferred tax credit in 2016/17 of £39.8 million arising from the enactment of the reduction in corporation tax rate to 17% from 2020.

The reduction in the headline corporation tax rate to 19% and the benefit of the capital allowances from our increased capital programme reduced our underlying effective current tax rate (in line with guidance) to 13.1% (2016/17: 17.9%).

Profit for the period and earnings per share

Reported profit for the period from continuing operations was £147.5 million (2016/17: £185.2 million). The reduction was largely due to the exceptional deferred tax credit in the previous year.

The profit for the period from discontinued operations was £17.5 million (2016/17: £25.2 million).

Total reported profit for the period including discontinued operations was £165.0 million (2016/17: £210.4 million).

Basic earnings per share from continuing operations decreased by 20.2% to 62.6 pence (2016/17: 78.4 pence). Underlying basic earnings per share were 65.9 pence (2016/17: 61.2 pence). For further details see note 8.

Cash flow

Six months ended 30 September

	2017 £m	2016 £m
Net cash generated from operations	**480.2**	516.6
Net capital expenditure	**(270.4)**	(234.8)
Net interest paid	**(64.9)**	(63.9)
Investment in joint ventures and associates	**–**	(55.7)
Proceeds on disposal of subsidiaries net of cash disposed and disposal costs	**26.9**	(4.9)
Proceeds on maturity of forward contracts	**–**	4.3
Swap termination payment	**(40.0)**	–
Free cash flow	**131.8**	161.6
Dividends	**(115.2)**	(114.0)
Issue of shares	**5.1**	4.9
Purchase of own shares	**(0.5)**	–
Change in net debt from cash flows	**21.2**	52.5
Non-cash movements	**(27.0)**	29.6
Change in net debt	**(5.8)**	82.1
Opening net debt	**(5,082.4)**	(4,823.4)
Closing net debt	**(5,088.2)**	(4,741.3)

Cash generated from operations was down 9.7% compared to the same period in the previous year, which benefitted from the change in payment terms for non-household debtors following the transfer of this business to Water Plus. The performance in the current year is more in line with historical trends.

Net debt comprises:

	30 September 2017 £m	31 March 2017 £m	30 September 2016 £m
Cash and cash equivalents	**151.3**	44.6	38.9
Bank loans	**(926.2)**	(1,073.3)	(1,178.8)
Other loans	**(4,353.5)**	(4,090.0)	(3,582.2)
Finances leases	**(115.4)**	(115.7)	(117.2)
Cross currency swaps	**34.4**	43.4	52.3
Loans due from joint ventures and associated undertakings	**121.2**	108.6	45.7
Net debt	**(5,088.2)**	(5,082.4)	(4,741.3)

At 30 September 2017 we held £151.3 million (31 March 2017: £44.6 million) in cash and cash equivalents. Average debt maturity is 14.5 years. Including committed facilities, the group's cash flow requirements are funded until July 2019.

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 2017 was £5,088.2 million (31 March 2017: £5,082.4 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 84.0% (31 March 2017: 84.6%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2017 was 59.2% (31 March 2017: 61.6%). Gearing tends to be lower at the half year than the year end because the billing pattern in our regulated business results in cash flow being weighted to the first half of the financial year.

The estimated fair value of debt at 30 September 2017 was £1,227 million higher than book value (31 March 2017: £1,444 million higher). The decrease in the difference to book value is largely due to the increase in the discount rates applied, driven by market expectations of higher interest rates.

Pensions
We have three defined benefit pensions arrangements, two from Severn Trent and one from 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 we have agreed the future funding plan for these schemes with the Trustee. The agreement reached with the Trustee for the Severn Trent Pension Scheme ('STPS'), which is by far the largest of the schemes includes:

- Inflation-linked payments of £15 million per annum through a new asset backed funding arrangement potentially continuing to 31 March 2031, although these contributions will cease earlier, should a subsequent valuation of the STPS show that these contributions are no longer needed.
- Further payments of £10 million for the two financial years ending 31 March 2019.
- Continued payments under the existing asset backed funding arrangement, which provides £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.

During the period, as agreed with the company, the Trustees of the STPS have entered into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Scheme's liabilities, without adversely impacting the expected return on the Scheme's assets.

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 £567.3 million as at 30 September 2017. This compares to a deficit of £574.6 million as at 31 March 2017.

The movements in the net deficit during the period were:

	Fair value of plan assets	Defined benefit obligations	Net deficit
	£m	£m	£m
At start of the period	2,352.8	(2,927.4)	(574.6)
Amounts credited/(charged) to income statement	29.2	(29.8)	(0.6)
Actuarial (losses)/gains taken to reserves	(52.0)	59.2	7.2
Net contributions received and benefits paid	(48.5)	49.2	0.7
At end of the period	**2,281.5**	**(2,848.8)**	**(567.3)**

On an IAS 19 basis, the funding level has decreased marginally to 80.1% (31 March 2017: 80.4%).

Exchange rates
The trading results of overseas subsidiaries are translated to sterling at the average rate of exchange ruling during the period and their net assets are translated at the closing rate on the balance sheet date. The impact of changing exchange rates on the subsidiaries' trading results was immaterial.

Dividends
The Board has declared an interim ordinary dividend of 34.63p per share (2016/17: 32.60p per share), which will be paid on 5 January 2018 to shareholders on the register at 1 December 2017.

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.

Risks of a longer-term nature that are unlikely to have a significant impact on the remainder of the financial year include:

Political and regulatory environment

- **PR19:** The regulatory landscape is complex and subject to ongoing evolution. Ofwat has published its draft methodology statement, providing some insight into the changes that PR19 will bring, however we will not know the full extent of these changes until we receive our Final Determination in December 2019.
- **The UK's decision to leave the European Union (EU):** Severn Trent is less affected than many companies from the decision to leave the European Union – we operate almost entirely in the UK and our supplier base and customers are predominantly domestic. Further detail is set out in the group's Annual Report for the year ended 31 March 2017.
- **Renationalisation:** The most recent Labour Party manifesto included an intention to analyse a range of options to improve utilities, including renationalisation. We are engaging with a wide range of policy makers about the benefits that the privatised water sector is delivering and the financial and practical costs of renationalisation.

Technical Guidance for the full year 2017/18

Regulated Water and Waste Water[1]

Revenues are expected to be in the range of £1.57 billion to £1.60 billion (2016/17: £1.53 billion).

We expect operating costs to be higher year on year (2016/17: £581 million) due to the inclusion of Dee Valley's costs and upward pressure from two sector-wide changes in business rates and energy pass-through costs. In addition, we expect to incur £135 million to £155 million of net infrastructure renewals expenditure (2016/17: £136 million), which will be charged to the income statement.

On customer ODIs, we expect to earn net outperformance payment of at least £50 million[2] (2016/17: £48 million).

Wholesale Totex is expected to be £1.20 billion to £1.30 billion (2016/17: £1.06 billion), of which 42.1% will be capitalised onto the RCV.

Business Services

We expect to deliver growth in revenues and PBIT year on year (2016/17 (restated[3]): £128 million and £32 million respectively).

Group

The group interest charge is expected to be higher year on year (2016/17 (restated[3]): £205 million), based on higher forecast RPI (c. 2%) increasing the interest charge on our index-linked debt and a full year of Dee Valley.

The underlying effective current tax rate for the group for 2017/18 is expected to be between 12% and 14% (2016/17: 16.6%). The reduction is due to the fall in the corporation tax rate from 20% to 19% and an increase in capital allowances resulting from the increasing capital programme.

We estimate the group's net capital expenditure (cash) under IFRS will be £620 million to £700 million (2016/17: £501 million).

In line with our announced policy, the dividend for 2017/18 will be 86.55p[4] (2016/17: 81.50p) and will grow by at least 4% above RPI annually over the remainder of AMP6.

Longer term

Following the announcement of our property strategy, we expect to deliver c. £100 million of group PBIT from property sales over the next 10 years, at between £5 million to £15 million each year.

Due to our strong performance in the first two and a half years, we now expect to hit the Waste cap of 2% of regulated equity in AMP6[5].

1. Regulated Water and Waste Water includes a full year of Dee Valley Water in 2017/18
2. Customer Outcome Delivery Incentives (ODIs), quoted pre-tax at 2012/13 prices
3. Restated to reflect sale of Operating Services activities in the USA and Italy, which have been reclassified as discontinued operations, as detailed in the RNS announcement dated 19 July 2017 – "Trading update for the period 1 April to 19 July 2017"
4. 2017/18 dividend growth is based on November 2016 RPI of 2.2% plus 4%
5. For AMP6, our customer ODI outperformance payments for Waste are capped at £190 million (pre-tax at 2012/13 prices). To the end of 2016/17 we had earned £75 million from our Waste customer ODIs, leaving £115 million remaining

Severn Trent Plc will announce its Q3 trading update on 7 February 2018.

Further Information

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

Investor Timetable

30 November 2017	Ex-dividend date (Interim)
1 December 2017	Dividend record date (Interim)
12 December 2017	DRIP election date (Interim)
5 January 2018	Interim dividend payment date
7 February 2018	Q3 Trading Update
31 March 2018	Financial Year End
23 May 2018	Full Year Results Announcement 2017/18
14 June 2018	Ex-dividend date (Final)
15 June 2018	Dividend record date (Final)
29 June 2018	DRIP election date (Final)
18 July 2018	AGM
20 July 2018	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 2017

	Note	**2017** **£m**	2016 (restated) £m
Turnover	2	**850.4**	820.0
Operating costs before exceptional items		**(562.6)**	(544.3)
Exceptional items	3	**8.3**	21.0
Total operating costs		**(554.3)**	(523.3)
Profit before interest, tax and exceptional items	2	**287.8**	275.7
Exceptional items	3	**8.3**	21.0
Profit before interest and tax		**296.1**	296.7
Finance income		**34.0**	36.4
Finance costs		**(144.5)**	(134.9)
Net finance costs		**(110.5)**	(98.5)
Net losses on financial instruments	4	**(5.0)**	(15.4)
Share of net profit/(loss) of joint ventures accounted for using the equity method		**1.4**	(0.9)
Profit on ordinary activities before taxation		**182.0**	181.9
Current tax	5	**(21.7)**	(29.8)
Deferred tax	5	**(12.8)**	(6.7)
Exceptional tax	5	**–**	39.8
Taxation on profit on ordinary activities	5	**(34.5)**	3.3
Profit for the period from continuing operations		**147.5**	185.2
Profit for the period from discontinued operations	6	**17.5**	25.2
Profit for the period attributable to owners of the company		**165.0**	210.4

Earnings per share

	2017 **pence**	2016 (restated) pence
From continuing operations		
Basic	**62.6**	78.4
Diluted	**62.3**	78.2
From continuing and discontinued operations		
Basic	**70.0**	89.1
Diluted	**69.7**	88.8

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2017

	2017 £m	2016 £m
Profit for the period	**165.0**	210.4
Other comprehensive loss		
Items that will not be reclassified to the income statement:		
Net actuarial gain/(loss)	**7.2**	(415.7)
Tax on net actuarial gain/loss	**(1.2)**	70.7
Deferred tax arising on change of rate	**–**	(2.9)
	6.0	(347.9)
Items that may be reclassified to the income statement:		
Gains/(losses) on cash flow hedges	**8.3**	(25.2)
Deferred tax on gains/losses on cash flow hedges	**(1.4)**	4.3
Amounts on cash flow hedges transferred to the income statement	**4.1**	3.2
Deferred tax on transfer to the income statement	**(0.7)**	(0.5)
Exchange movement on translation of overseas results and net assets	**(1.8)**	5.4
Cumulative exchange gains taken to the income statement	**(29.8)**	–
	(21.3)	(12.8)
Other comprehensive loss for the period	**(15.3)**	(360.7)
Total comprehensive income/(loss) for the period attributable to owners of the company	**149.7**	(150.3)

Condensed consolidated statement of changes in equity
Six months ended 30 September 2017

	Equity attributable to owners of the company						
	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**	**Non-controlling interests £m**	**Total equity £m**
As at 1 April 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5
Profit for the period	–	–	–	210.4	210.4	–	210.4
Losses on cash flow hedges	–	–	(25.2)	–	(25.2)	–	(25.2)
Deferred tax on losses on cash flow hedges	–	–	4.3	–	4.3	–	4.3
Amounts on cash flow hedges transferred to the income statement	–	–	3.2	–	3.2	–	3.2
Deferred tax on transfer to the income statement	–	–	(0.5)	–	(0.5)	–	(0.5)
Exchange movement on translation of overseas results and net assets	–	–	5.4	–	5.4	–	5.4
Net actuarial losses	–	–	–	(415.7)	(415.7)	–	(415.7)
Tax on net actuarial losses	–	–	–	70.7	70.7	–	70.7
Deferred tax arising from rate change	–	–	–	(2.9)	(2.9)	–	(2.9)
Transfer net of deferred tax	–	–	7.0	(7.0)	–	–	–
Total comprehensive loss for the period	–	–	(5.8)	(144.5)	(150.3)	–	(150.3)
Share options and LTIPs							
- proceeds from shares issued	0.4	4.5	–	–	4.9	–	4.9
- value of employees' services	–	–	–	2.8	2.8	–	2.8
Current tax on share based payments	–	–	–	0.7	0.7	–	0.7
Deferred tax on share based payments	–	–	–	0.4	0.4	–	0.4
Dividends paid	–	–	–	(114.0)	(114.0)	–	(114.0)
As at 30 September 2016	234.7	111.3	110.7	305.2	761.9	1.1	763.0
As at 1 April 2017	234.7	112.5	121.8	454.3	923.3	–	923.3
Profit for the period	–	–	–	165.0	165.0	–	165.0
Gains on cash flow hedges	–	–	8.3	–	8.3	–	8.3
Deferred tax on gains on cash flow hedges	–	–	(1.4)	–	(1.4)	–	(1.4)
Amounts on cash flow hedges transferred to the income statement	–	–	4.1	–	4.1	–	4.1
Deferred tax on transfer to the income statement	–	–	(0.7)	–	(0.7)	–	(0.7)
Exchange movement on translation of overseas results and net assets	–	–	(1.8)	–	(1.8)	–	(1.8)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	7.2	7.2	–	7.2
Tax on net actuarial gains	–	–	–	(1.2)	(1.2)	–	(1.2)
Transfer between reserves	–	–	(8.8)	8.8	–	–	–
Total comprehensive income for the period	–	–	(30.1)	179.8	149.7	–	149.7
Share options and LTIPs							
- proceeds from shares issued	0.4	4.7	–	–	5.1	–	5.1
- value of employees' services	–	–	–	3.5	3.5	–	3.5
- own shares purchased	–	–	–	(0.5)	(0.5)	–	(0.5)
Current tax on share based payments	–	–	–	0.9	0.9	–	0.9
Deferred tax on share based payments	–	–	–	(0.9)	(0.9)	–	(0.9)
Dividends paid	–	–	–	(115.2)	(115.2)	–	(115.2)
As at 30 September 2017	**235.1**	**117.2**	**91.7**	**521.9**	**965.9**	**–**	**965.9**

Condensed consolidated balance sheet
At 30 September 2017

	Note	**30 September 2017 £m**	31 March 2017 £m
Non-current assets			
Goodwill		**66.2**	81.0
Other intangible assets		**73.6**	80.9
Property, plant and equipment		**8,272.7**	8,116.4
Investments in joint ventures and associates		**38.6**	37.4
Derivative financial instruments		**52.2**	67.0
Trade and other receivables		**47.3**	58.1
Retirement benefit surplus	11	**11.8**	9.8
		8,562.4	8,450.6
Current assets			
Inventory		**15.7**	16.2
Trade and other receivables		**570.8**	517.8
Current tax receivable		**8.2**	7.3
Derivative financial instruments		**0.1**	–
Cash and cash equivalents		**151.3**	44.6
		746.1	585.9
Total assets		**9,308.5**	9,036.5
Current liabilities			
Borrowings	9	**(503.8)**	(559.4)
Derivative financial instruments		**–**	(0.6)
Trade and other payables		**(572.9)**	(451.9)
Current tax payable		**(16.8)**	–
Provisions for liabilities and charges		**(21.2)**	(17.5)
		(1,114.7)	(1,029.4)
Non-current liabilities			
Borrowings	9	**(4,891.3)**	(4,719.6)
Derivative financial instruments		**(122.3)**	(184.1)
Trade and other payables		**(965.6)**	(955.7)
Deferred tax		**(645.5)**	(623.7)
Retirement benefit obligations	11	**(579.1)**	(584.4)
Provisions for liabilities and charges		**(24.1)**	(16.3)
		(7,227.9)	(7,083.8)
Total liabilities		**(8,342.6)**	(8,113.2)
Net assets		**965.9**	923.3
Equity			
Called up share capital	12	**235.1**	234.7
Share premium account		**117.2**	112.5
Other reserves		**91.7**	121.8
Retained earnings		**521.9**	454.3
Total equity		**965.9**	923.3

Condensed consolidated cash flow statement
Six months ended 30 September 2017

	Note	**2017** **£m**	2016 £m
Cash generated from operations	13	**480.3**	532.0
Tax paid		**(0.1)**	(15.4)
Net cash generated from operating activities		**480.2**	516.6
Cash flows from investing activities			
Investments in associates and joint ventures		**–**	(10.0)
Purchases of property, plant and equipment		**(312.7)**	(257.7)
Purchases of intangible assets and goodwill		**(6.1)**	(8.5)
Contributions and grants received		**46.8**	30.9
Proceeds on disposal of subsidiaries net of cash disposed	6	**26.9**	(4.9)
Proceeds on disposal of property, plant and equipment		**1.6**	0.5
Net loans advanced to joint ventures and associates		**(12.5)**	(45.7)
Proceeds on maturity of forward contract		**–**	4.3
Interest received		**2.8**	0.8
Net cash from investing activities		**(253.2)**	(290.3)
Cash flow from financing activities			
Interest paid		**(66.6)**	(64.7)
Interest element of finance lease payments		**(1.1)**	–
Dividends paid to shareholders of the parent		**(115.2)**	(114.0)
Repayments of borrowings		**(150.6)**	(150.8)
New loans raised		**249.1**	81.2
Issues of shares		**5.1**	4.9
Swap termination payment		**(40.0)**	–
Purchase of own shares		**(0.5)**	–
Net cash flow from financing activities		**(119.8)**	(243.4)
Net movement in cash and cash equivalents		**107.2**	(17.1)
Net cash at the beginning of the period		**44.6**	55.2
Effect of foreign exchange rates		**(0.5)**	0.8
Net cash and cash equivalents at end of period		**151.3**	38.9
Cash and cash equivalents		**34.4**	17.6
Bank overdrafts		**–**	(4.9)
Short term deposits		**116.9**	26.2
		151.3	38.9

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 2017 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 2017.

Prior period restatement
Prior period figures in the consolidated income statement and related notes have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details see Note 6.

Going concern
Including undrawn committed credit facilities, the group is fully funded for its investment and cash flow needs until July 2019. 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.

Acquisition of Dee Valley Group plc

On 15 February 2017, Severn Trent Water Limited acquired 100% of the issued ordinary share capital of Dee Valley Group plc and all of its subsidiaries including the regulated water company Dee Valley Water plc. The fair values included on acquisition for all assets and liabilities were management’s best estimates of the values as at 15 February 2017 based on all available data at that time.

As outlined by IFRS 3, management have until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria. As at 30 September 2017, the fair value adjustment to goodwill, other intangible assets, property, plant and equipment and deferred taxation remain provisional.

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 Dee Valley Water.

Business Services includes the group's Operating Services businesses in the UK & Ireland and the group's Renewable Energy business.

The disposal of the group’s Operating Services businesses in Italy and the USA was completed on 23 February and 30 June 2017 respectively. These businesses have been classified as discontinued operations. The prior year segmental results have been restated to present the Italian and US Operating Services businesses as discontinued operations as set out in the stock market announcement dated 19 July 2017.

The disposal of the group’s non-household retail business to the newly created Water Plus joint venture with United Utilities was also classified as a discontinued operation in the prior year. This transaction was completed on 1 June 2016.

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. Details of Regulated Water and Waste Water's and Business Services’ operations are described in the Annual Report and Accounts.

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.

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

Six months ended 30 September

	2017		2016 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**789.5**	**60.5**	764.6	55.4
Inter-segment turnover	**0.4**	**9.7**	0.6	8.8
Total turnover	**789.9**	**70.2**	765.2	64.2
Profit before interest, tax and exceptional items	**278.3**	**16.4**	268.9	13.4
Exceptional items (see note 3)	**7.9**	**0.2**	19.8	0.6
Profit before interest and tax	**286.2**	**16.6**	288.7	14.0

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

Six months ended 30 September

	2017 £m	2016 (restated) £m
Regulated Water and Waste Water	**789.9**	765.2
Business Services	**70.2**	64.2
Corporate and other	**1.3**	0.6
Consolidation adjustments	**(11.0)**	(10.0)
	850.4	820.0

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

	2017 **£m**	2016 (restated) £m
Regulated Water and Waste Water	**278.3**	268.9
Business Services	**16.4**	13.4
Corporate and other	**(6.6)**	(4.7)
Consolidation adjustments	**(0.3)**	(1.9)
Profit before interest, tax and exceptional items	**287.8**	275.7
Exceptional items:		
Regulated Water and Waste Water	**7.9**	19.8
Business Services	**0.2**	0.6
Corporate and other	**0.2**	0.6
Net finance costs	**(110.5)**	(98.5)
Net losses on financial instruments	**(5.0)**	(15.4)
Share of profit/(loss) of joint ventures and associates	**1.4**	(0.9)
Profit before tax	**182.0**	181.9

The following table shows the segmental capital employed:

	30 September 2017		31 March 2017	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**8,680.7**	**184.6**	8,477.1	213.1
Goodwill	**67.5**	**–**	67.3	14.9
Interests in joint ventures and associates	**–**	**38.6**	–	37.4
Segment assets	**8,748.2**	**223.2**	8,544.4	265.4
Segment operating liabilities	**(2,059.9)**	**(32.3)**	(1,970.9)	(55.9)
Capital employed	**6,688.3**	**190.9**	6,573.5	209.5

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.

The Business Services capital employed at 31 March 2017 included Operating Services US, which was sold on 30 June 2017.

3. 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

	2017 £m	2016 £m
Gain arising on pension exchange arrangement		
Regulated Water and Waste Water	**7.9**	19.8
Business Services	**0.2**	0.6
Corporate and other	**0.2**	0.6
	8.3	21.0

4. Net losses on financial instruments

Six months ended 30 September

	2017 £m	2016 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(0.5)**	20.5
Gain/(loss) arising on debt in fair value hedges	**0.9**	(19.7)
Exchange gain/(loss) on other loans	**7.6**	(7.1)
Loss on cash flow hedges transferred from equity	**(4.1)**	(3.2)
Hedge ineffectiveness on cash flow hedges	**1.6**	0.9
Loss arising on swaps where hedge accounting is not applied	**(9.2)**	(6.8)
Amortisation of fair value adjustment on debt	**(1.3)**	–
	(5.0)	(15.4)

5. Tax

Six months ended 30 September

	2017 £m	2016 (restated) £m
Current tax		
Current year at 19% (2016: 20%)	**21.7**	29.8
Total current tax	**21.7**	29.8
Deferred tax		
Origination and reversal of temporary differences - current year	**12.8**	6.7
Exceptional credit from rate change	**–**	(39.8)
Total deferred tax	**12.8**	(33.1)
Total tax charge/(credit)	**34.5**	(3.3)

The tax charge in the income statement is calculated at a rate of 18.9% (2016 (restated): 20.0% excluding the exceptional credit arising from the corporation tax rate change), representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

There was an exceptional deferred tax credit in 2016 of £39.8 million arising from the enactment of a reduction in the corporation tax rate to 17% from 2020.

The underlying effective current tax rate was 13.1% (2016 (restated): 17.9%) see note 17.

Current tax credits of £5.7 million (2016: £0.7 million) and deferred tax charges of £9.0 million (2016: credits of £72.0 million) have been taken to reserves in the period.

6. Discontinued operations

Operating Services US and Italy

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. The group disposed of the Operating Services business in Italy, which formed part of the Business Services segment, on 23 February 2017 to Acea S.p.A.

Prior period figures in the consolidated income statement and related notes have been restated to present separately amounts relating to discontinued operations, as detailed in the stock market announcement dated 19 July 2017 – "Trading update for the period 1 April to 19 July 2017".

Water Plus joint venture

On 1 March 2016 the group announced its intention, subject to approval from the Competition and Markets Authority ('CMA'), to enter into a joint venture with United Utilities PLC to compete in the non-household water and waste water retail markets in England and Scotland. On 3 May 2016 the CMA announced approval of the joint venture. On this date the group determined that completion of the proposed transaction became highly probable and the non-household retail business was classified as a disposal group and discontinued operation with effect from this date. On 31 May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1 June it exchanged the entire share capital of Severn Trent Select Limited for 50% of the share capital of Water Plus.

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

Six months ended 30 September

	2017				2016
	Operating Services US (3 months)	Operating Services US (6 months)	Operating Services Italy (6 months)	Non household retail (2 months)	Total
	£m	£m	£m	£m	£m
Turnover	**42.1**	74.8	12.0	66.0	152.8
Total operating costs	**(40.7)**	(72.3)	(11.8)	(63.6)	(147.7)
Profit before interest and tax	**1.4**	2.5	0.2	2.4	5.1
Net finance income	**–**	0.3	0.1	–	0.4
Profit before tax	**1.4**	2.8	0.3	2.4	5.5
Attributable tax expense	**–**	(0.3)	(0.1)	(0.5)	(0.9)
Gain on disposal of discontinued operations	**16.1**	–	–	20.6	20.6
Profit for the period attributable to owners of the company	**17.5**	2.5	0.2	22.5	25.2

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

Six months ended 30 September

			2017			2016
	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**	25.2	236.1	10.7
Diluted earnings per share	**17.5**	**236.6**	**7.4**	25.2	236.9	10.6

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

Six months ended 30 September

	2017				2016
	Operating Services US (3 months)	Operating Services US (6 months)	Operating Services Italy (6 months)	Non household retail (2 months)	Total
	£m	£m	£m	£m	£m
Operating activities	**1.9**	0.9	(2.2)	1.9	0.6
Investing activities	**(0.6)**	(1.4)	0.1	–	(1.3)
Financing activities	**–**	–	1.1	3.5	4.6
	1.3	(0.5)	(1.0)	5.4	3.9

The net gain on disposals in the period is calculated as follows:

	Operating Services US £m	Non-household retail £m
Consideration	**47.8**	25.5
Net assets attributable to owners of the company	**(45.5)**	(3.5)
	2.3	22.0
Tax on gain on disposal	**(0.7)**	–
Disposal costs and provisions on disposal	**(15.3)**	(1.4)
Foreign exchange gain recycled from reserves	**29.8**	–
Net gain on disposal	**16.1**	20.6

The net assets of the businesses at the date of disposal were:

	Operating Services US £m	Non-household retail £m
Goodwill	**14.4**	–
Other intangible assets	**2.9**	–
Property, plant and equipment	**9.4**	–
Inventories	**0.6**	–
Trade and other receivables	**28.2**	0.6
Cash and bank balances	**9.9**	3.5
Trade and other payables	**(19.9)**	(0.6)
Net assets attributable to owners of the company	**45.5**	3.5

The net cash flows arising from disposals were:

Six months ended 30 September

	Operating Services US £m	Non-household retail £m
Consideration received in cash and cash equivalents	**39.3**	–
Disposal costs paid in cash and cash equivalents	**(2.5)**	(1.4)
Cash and bank balances disposed of	**(9.9)**	(3.5)
	26.9	(4.9)

7. Dividends

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

Six months ended 30 September

	2017		2016	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March	**48.90**	**115.2**	48.40	114.0

The proposed interim dividend of 34.63p per share (2016: 32.60p per share) was approved by the Board on 22 November 2017 and has not been included as a liability as at 30 September 2017.

8. Earnings per share

a) Basic and diluted earnings per share

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

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

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

	2017 **£m**	2016 (restated) £m
Profit for the period attributable to owners of the company	**165.0**	210.4
Adjusted for profit from discontinued operations (see note 6)	**(17.5)**	(25.2)
Profit for the period from continuing operations attributable to owners of the company	**147.5**	185.2

Number of shares

Six months ended 30 September

	2017 **m**	2016 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**235.7**	236.1
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.9**	0.8
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.6**	236.9

b) Underlying earnings per share

Six months ended 30 September

	2017 **pence**	2016 (restated) pence
Underlying basic earnings per share	**65.9**	61.2
Underlying diluted earnings per share	**65.7**	61.0

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.

The adjustments to earnings are as follows:

Six months ended 30 September

	2017 **£m**	2016 (restated) £m
Earnings for the purpose of basic and diluted earnings per share from continuing	**147.5**	185.2
Adjustments for:		
- exceptional items before tax	**(8.3)**	(21.0)
- net losses on financial instruments	**5.0**	15.4
- current tax on net losses on financial instruments	**(1.6)**	(2.0)
- deferred tax	**12.8**	6.7
- exceptional credit arising from rate change	**–**	(39.8)
Earnings for the purpose of underlying basic and diluted earnings per share	**155.4**	144.5

9. Borrowings

	30 September 2017 £m	31 March 2017 £m
Bank loans	**926.2**	1,073.3
Other loans	**4,353.5**	4,090.0
Obligations under finance leases	**115.4**	115.7
Borrowings	**5,395.1**	5,279.0

The borrowings are repayable as follows:

	30 September 2017 £m	31 March 2017 £m
On demand or within one year - included in current liabilities	**503.8**	559.4
Over one year - included in non-current liabilities	**4,891.3**	4,719.6
	5,395.1	5,279.0

10. 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 loss of £0.9m 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 2017 £m	31 March 2017 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**34.4**	43.4	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow
Assets	**17.8**	23.6	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	**(121.3)**	(183.9)	
Energy swaps			Discounted cash flow
Assets	**0.1**	–	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(0.1)**	(0.8)	
Inflation swap			Discounted cash flow
Liabilities	**(0.9)**	–	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.

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, loans receivable from joint ventures, 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 2017, the group held unhedged interest rate swaps and cross currency swaps that converted fixed rate interest to floating on a net principal amount of £601.6 million (31 March 2017: £205.3 million).

	30 September 2017		31 March 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**626.7**	**632.0**	776.3	782.0
Currency bonds	**39.2**	**39.2**	40.1	40.1
Floating rate notes	**147.7**	**156.4**	147.7	156.4
	813.6	**827.6**	964.1	978.5
Fixed rate debt				
Bank loans	**185.8**	**186.1**	186.4	186.6
Sterling bonds	**2,507.3**	**2,926.9**	2,257.2	2,746.2
Fixed rate notes	**349.0**	**366.3**	355.2	397.4
Other loans	**6.7**	**6.7**	6.7	6.7
Finance leases	**115.4**	**123.8**	115.7	130.5
	3,164.2	**3,609.8**	2,921.2	3,467.4
Index-linked debt				
Bank loans	**113.7**	**126.1**	110.6	126.7
Sterling bonds	**1,216.2**	**1,970.6**	1,195.8	2,063.1
Other loans	**87.4**	**87.8**	87.3	87.3
	1,417.3	**2,184.5**	1,393.7	2,277.1
	5,395.1	**6,621.9**	5,279.0	6,723.0

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.

11. Retirement benefit schemes

The group operates three defined benefit schemes in the UK, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual. The group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued. The most recent actuarial valuation of the Severn Trent schemes was at 31 March 2016. Dee Valley Water participates in the Dee Valley Water plc 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 2014.

The assumptions used in calculating the defined benefit obligations as at 30 September 2017 have been updated to reflect market conditions prevailing at the balance sheet date as follows.

	30 September 2017 %	31 March 2017 %
Price inflation	**3.1**	3.1
Discount rate	**2.8**	2.7
Salary increases	**n/a**	n/a
Pension increases in payment	**3.1**	3.1
Pension increases in deferment	**3.1**	3.1

The defined benefit assets have been updated to reflect their market value as at 30 September 2017. 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 2017	2,352.8	(2,927.4)	(574.6)
Exceptional past service credit	–	8.3	8.3
Scheme administration costs	(1.4)	–	(1.4)
Net interest cost	30.6	(38.1)	(7.5)
Actuarial (losses)/gains recognised in the statement of comprehensive income	(52.0)	59.2	7.2
Contributions from the sponsoring companies	0.7	–	0.7
Employees' contributions and benefits paid	(49.2)	49.2	–
At 30 September 2017	**2,281.5**	**(2,848.8)**	**(567.3)**

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

	30 September 2017 £m	31 March 2017 £m
Retirement benefit surplus	**11.8**	9.8
Retirement benefit obligations	**(579.1)**	(584.4)
	(567.3)	(574.6)

12. Share capital

At 30 September 2017 the issued and fully paid share capital was 240.2 million shares of $97^{17}/_{19}$p amounting to £235.1 million (31 March 2017: 239.8 million shares of $97^{17}/_{19}$p amounting to £234.7 million).

During the period the company issued 393,520 (2016: 417,453) shares as a result of the exercise of employee share options. At 30 September 2017 the company held 3,948,599 (31 March 2017: 4,223,062) shares in treasury.

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2017 £m	2016 (restated) £m
Profit before interest and tax from continuing operations	**296.1**	296.7
Profit before interest and tax from discontinued operations	**17.5**	25.7
Profit before interest and tax	**313.6**	322.4
Depreciation of property, plant and equipment	**156.4**	149.4
Amortisation of intangible assets	**10.0**	9.3
Pension service cost	**(8.3)**	(21.0)
Defined benefit pension scheme administration costs	**1.4**	2.2
Defined benefit pension scheme contributions	**(0.7)**	(0.2)
Share based payments charge	**3.5**	2.8
Profit on sale of property, plant and equipment and intangible assets	**(1.2)**	(0.3)
Profit on disposal of businesses	**(16.1)**	(20.6)
Deferred income movement	**(9.4)**	(5.8)
Provisions charged to the income statement	**3.5**	1.7
Utilisation of provisions for liabilities and charges	**(4.1)**	(0.7)
Operating cash flows before movements in working capital	**448.6**	439.2
Increase in inventory	**–**	(0.6)
(Increase)/decrease in amounts receivable	**(34.9)**	23.5
Increase in amounts payable	**66.6**	69.9
Cash generated from operations	**480.3**	532.0
Tax paid	**(0.1)**	(15.4)
Net cash generated from operating activities	**480.2**	516.6

b) Non-cash transactions
No additions to property, plant and equipment during the six months to 30 September 2017 or 2016 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 2017	44.6	(1,073.3)	(4,090.0)	(115.7)	43.4	108.6	(5,082.4)
Cash flow	107.2	150.6	(249.1)	–	–	12.5	21.2
Fair value adjustments	–	–	0.9	–	(9.0)	–	(8.1)
RPI uplift on index-linked debt	–	(3.1)	(20.5)	–	–	–	(23.6)
Foreign exchange	(0.5)	–	7.6	–	–	–	7.1
Other non-cash movements	–	(0.4)	(2.4)	0.3	–	0.1	(2.4)
As at 30 September 2017	**151.3**	**(926.2)**	**(4,353.5)**	**(115.4)**	**34.4**	**121.2**	**(5,088.2)**

14. Post balance sheet events

There are no post balance sheet events.

15. Contingent liabilities

Details of the group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2017 which were approved on 22 May 2017. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

16. 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.

Six months ended 30 September	Water Plus	
	2017 £m	2016 £m
Sale of services	**187.9**	127.0
Net interest income	**0.9**	–

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

	Water Plus	
	30 September 2017 £m	31 March 2017 £m
Trade and other receivables due from related parties	**0.7**	37.6
Amounts due to related parties	**–**	(8.8)
Loans due from joint ventures	**121.2**	108.6

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 11.

17. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. 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.

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 8.

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 13.

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 year.

$$\frac{(net\ finance\ costs - net\ finance\ costs\ from\ pensions + capitalised\ finance\ costs)}{(monthly\ average\ net\ debt^{1})}$$

	2017 **£m**	2016 (restated) £m
Net finance costs	**110.5**	98.5
Net finance costs from pensions	**(7.5)**	(5.5)
Capitalised interest	**11.3**	8.4
	114.3	101.4
Annualised	**228.6**	202.8
Average net debt	**5,096.2**	4,780.1
Effective interest rate*	**4.5%**	4.2%

** 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.

[1] Calculated as the average of the closing net debt each month for the period ending 30 September 2017

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).

$$\frac{(net\ finance\ costs - net\ finance\ costs\ from\ pensions - RPI\ interest + capitalised\ finance\ costs)}{(monthly\ average\ net\ debt)}$$

	2017 **£m**	2016 (restated) £m
Net finance costs	**110.5**	98.5
Net finance costs from pensions	**(7.5)**	(5.5)
RPI interest	**(23.6)**	(10.7)
Capitalised interest	**11.3**	8.4
	90.7	90.7
Annualised	**181.4**	181.4
Average net debt	**5,096.2**	4,780.1
Effective cash cost of interest*	**3.6%**	3.8%

** 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.

$$\frac{underlying\ PBIT}{(net\ finance\ costs - net\ finance\ costs\ from\ pensions)}$$

	2017 **£m**	2016 (restated) £m
Underlying PBIT	**287.8**	275.7
Net finance costs	**110.5**	98.5
Net finance costs from pensions	**(7.5)**	(5.5)
Net finance costs excluding finance costs from pensions	**103.0**	93.0
	ratio	ratio
PBIT interest cover ratio	**2.8**	3.0

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.

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

	2017 **£m**	2016 (restated) £m
Underlying PBIT	**287.8**	275.7
Depreciation	**155.8**	148.0
Amortisation	**9.6**	8.7
EBITDA	**453.2**	432.4
Net finance costs	**110.5**	98.5
Net finance costs from pensions	**(7.5)**	(5.5)
Net finance costs excluding finance costs from pensions	**103.0**	93.0
	ratio	ratio
EBITDA interest cover ratio	**4.4**	4.6

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

The current tax charge 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.

$$\frac{(Current\ tax\ on\ PBT - tax\ on\ exceptional\ items - tax\ on\ net\ losses\ on\ financial\ instruments)}{(PBT - share\ of\ net\ profit\ of\ joint\ ventures - exceptional\ items - net\ losses\ on\ financial\ instruments)}$$

	2017		2016 (restated)	
	£m	**Tax thereon £m**	£m	Tax thereon £m
Profit before tax	**182.0**	**(21.7)**	181.9	(29.8)
Adjustments:				
Share of net profit of joint ventures accounted for using the equity method[1]	**(1.4)**	**–**	0.9	–
Exceptional items	**(8.3)**	**–**	(21.0)	–
Net losses on financial instruments	**5.0**	**(1.6)**	15.4	(2.0)
	177.3	**(23.3)**	177.2	(31.8)
Underlying effective current tax rate		**13.1%**		17.9%

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 8.

[1] Share of net profit of joint ventures accounted for using the equity method is recognised post 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 Guidance and Transparency Rules 4.2.7R and 4.2.8R of the United Kingdom Financial Conduct Authority.

Signed on behalf of the Board who approved the half yearly financial report on 22 November 2017.

Andrew Duff Chairman	James Bowling Chief Financial Officer

INDEPENDENT REVIEW REPORT TO SEVERN TRENT PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 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 17. 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 Auditing Practices Board. 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 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 Auditing Practices Board 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
London, UK
22 November 2017

Cautionary statement regarding forward-looking statements

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

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

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

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

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

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