Half Yearly Financial Report
24th November 2016
Interim results for the six months to 30th September 2016

Investments and operational improvements drive continued progress

- Group financial results for the half year in line with expectations:
  - Group turnover of £906.8 million, up £28.2 million (3.2%) year-on-year due to regulated price increases, and underlying growth and favourable exchange impacts in Business Services
  - Group underlying PBIT[1] of £278.4 million, up £8.3 million (3.1%)
  - Group reported PBIT £299.4 million, up 10.8%
  - Cash generated from operations up £36.5 million (7.4%)
  - Underlying basic EPS[2] of 62.3 pence (up 13.5%), reported basic EPS from continuing operations 79.5 pence (up 39.7%)
  - Interim dividend of 32.6 pence, in line with dividend policy

- Customers remain at the heart of our business:
  - Lowest combined average bills in Britain - £329 in 2016/17
  - Support provided to over 36,000 vulnerable customers – almost three times as many as last year
  - Invested over £250 million[3] for the future in our network: strong progress on the Birmingham Resilience Programme

- Triennial pension valuation – terms of new funding plan agreed in principle with Trustees ahead of schedule, providing certainty over the AMP[4]

- Delivering on our levers of outperformance:
  - **Customer ODIs**: on track for forecast net reward of £15 million[5]
  - **Efficiencies**: a further £50 million of efficiencies now locked in. On track to achieve £670 million of totex efficiencies[6] across AMP6, with £120 million being reinvested for the benefit of customers
  - **Energy**: now generating equivalent of 35% of energy needs through our renewables programme; on track for 50% by 2020
  - **Financing**: effective interest rate reduced by 40 basis points to 4.2% versus H1 2015/16

1. Underlying Profit before interest and tax (PBIT) excludes exceptional operating items
2. Underlying Earnings per Share (EPS) is set out in note 8 to the financial statements
3. Capital expenditure plus infrastructure renewals expenditure
4. AMP – Asset Management Plan regulatory period 2015 to 2020
5. Customer ODIs quoted pre-tax at 2012/13 prices
6. Efficiencies and totex costs quoted at actual and forecast nominal prices

Liv Garfield, Chief Executive Severn Trent Plc, said:

"Our strategy of keeping our customers at the heart of the business and investing for the long-term is driving clear results. We remain committed to being the most trusted water company by 2020, by striving to provide outstanding customer experience, best-value service and environmental leadership.

"We are focused on the things that matter most to our customers while also maintaining the lowest bills in Britain. External sewer floodings are down 9% year-on-year, and we have almost trebled the number of vulnerable customers supported. We are also proud of our performance on customer complaints, achieving the largest reduction in complaints in 2015/16 of all water and sewerage companies, as measured by the Consumer Council for Water, giving us the second best performance overall.

"Investing for the long-term in our network and skills is vital. As custodians of a totex investment programme of over £6 billion this regulatory period, we have made strong progress on our biggest ever capital project, the Birmingham Resilience Programme. We are doing more for our communities and have also more than doubled the number of apprentices and graduates hired into the business. We have committed to reinvest £120 million of our totex efficiencies into three important areas for our customers; water quality, security and vulnerable customers.

"While we are encouraged by the results of everyone's hard work, we are aware that much remains to be done to achieve the high standards we set ourselves and continue to deliver for all stakeholders."

Group results from continuing operations

Underlying results

Six months ended 30th September	**2016**	2015 (restated)[2]	Increase
	£m	£m	%
Group turnover	**906.8**	878.6	3.2
Underlying group PBIT[1]	**278.4**	270.1	3.1
	pence/ share	pence/ share	
Underlying basic EPS[1]	**62.3**	54.9	13.5
Interim dividend declared	**32.60**	32.26	1.1

Reported results

Six months ended 30th September	**2016**	2015 (restated)[2]	Increase
	£m	£m	%
Group turnover	**906.8**	878.6	3.2
Group profit before interest and tax	**299.4**	270.1	10.8
	pence/ share	pence/ share	
Basic earnings per share from continuing operations	**79.5**	56.9	39.7

1. See note 1
2. Restated for discontinued operations

Note: FY2016/17 technical guidance is included in the Chief Financial Officer's Review section of this announcement

Enquiries

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Interim Results Presentation and Webcast

There will be a presentation of these results at 9:30am GMT on Thursday 24th November at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. 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

We have continued to make good progress against our ambitious plans during the second year of the regulatory period, AMP6. The plans we set out benefit all of our stakeholders and we have been working hard to achieve them.

Our continued outperformance on customer Outcome Delivery Incentives (ODIs) is evidence that the business is focused on the issues that matter most for our customers. The progress we have made against our totex efficiency target is encouraging, helping towards our ambition of maintaining our waste water business at the upper quartile of the comparator group and moving our water business towards the upper quartile by the end of this regulatory period.

Our 'winning formula', shown below, continues to drive our plans and actions:

- Customers at the heart of our business
- Operational excellence
- Winners in a world of incentivisation
- At the frontier of sector efficiency
- Standard setters in renewable energy
- Successful in competitive markets

Customers at the heart of our business

We continue to emphasise the importance of placing customers at the heart of our decision-making process.

We are proud of a number of achievements so far this year. The Consumer Council for Water recently published a report on complaints performance, in which Severn Trent was commended, having the biggest reduction in complaints of the water and sewerage companies and finishing second overall. Furthermore, in a recent study by Morgan Stanley on customer satisfaction, we came out top of the listed water companies and third overall versus the nine other water and sewerage companies, which is an encouraging result.

We have made excellent progress helping vulnerable customers, with a 2.6 times increase in the number that we have helped so far this year. In addition, we won the Utilities & Telecoms Best Vulnerable Customer Support Team award, demonstrating our commitment to those customers in need of our help.

Good progress has also been made in our digital agenda, with the implementation of new digital services to help keep our customers informed and improve efficiency. This includes interactive voice response to recognise customers and automatically provide our contact agents with their details, implementing contact centre multi-skilling and load balancing to improve the customer experience.

We managed to achieve all of this while maintaining the lowest average combined household bill in Britain, at £329.

However, while we have momentum throughout the organisation, we still have a lot of work to do before we can consider ourselves the benchmark for customer service. Our performance against Ofwat's Service Incentive Mechanism (SIM), which measures customer satisfaction, is perhaps the most obvious illustration of this. In 2015/16, we finished seventh of the eighteen water companies. Improving our performance continues to be a focus for the management team.

Operational excellence

We know that for our customers, regulators and investors operational excellence starts with us providing a reliable and stable network.

Our waste water business continues to perform well, with good performance in external sewer floodings which are down 9% year-on-year. Our sector leading environmental credentials are also reflected by the Environment Agency's award of their highest four star status to us in July of this year.

At the beginning of the AMP, we set out a three-year improvement plan for our water business. We are currently half way through that journey and are pleased to see some encouraging improvements. The work we are doing on our water Distribution Operating Model is a good example of this: we have implemented a new operating model, commercial contracts, working practices and simpler processes to improve our response times, increase process consistency and reduce costs across water distribution.

We have also demonstrated our commitment to the future by welcoming 117 new apprentices and graduates to the business, up from 53 last year. This enables us to develop additional talent that we hope will go on to become future leaders and technical experts in our business.

A key part of operational excellence is the health, safety and wellbeing of our people. Our vision is that no-one should get hurt or made unwell by what we do and it is something we take very seriously. Whilst our performance so far this year places us in the upper quartile of water sector performance, we know there is more to be done.

Winners in a world of incentivisation

The regulatory environment incentivises companies to outperform the allowed regulatory return through mechanisms including customer ODIs. Our performance in the first year of this AMP was a clear indication that we are committed to doing the right thing for our customers and we achieved the highest customer ODI reward out of any of the water companies.

We have made a promising start this year despite tougher customer ODI targets as we move through the AMP. We are in reward territory for many of the ODIs which matter most to customers, including external sewer floodings, category three pollutions, leakage, and coliform detections.

Water-quality complaints continues to be a challenging area for us and we expect to receive a penalty again this year. We have identified and started to implement a number of initiatives in this area, such as reducing illegal hydrant use and using innovative ways to reduce manganese levels (both sources of discolouring). However, as expected there will be a lag before we see these changes delivering performance improvement.

All of our operational teams will continue to be focused on delivering the best customer ODI performance we can: these are the key metrics requested by our customers and we expect to finish ahead of our targets this year on the majority of these measures.

We continue to forecast a net customer ODI reward in 2016/17 of £15 million.

At the frontier of sector efficiency

We unveiled our AMP6 efficiency targets in our full year results in May, announcing total efficiencies of £670 million, of which £490 million was locked in. We are pleased to announce today that a further £50 million has now been locked in.

Much of this has been achieved by working in partnership with our supply chain on capital programmes to enhance our waste water treatment and infrastructure assets. Improvements have come through strategic programming, batching, collaborative planning, standardising products and innovative solutions. We also continue to deliver savings through consolidating suppliers and finding more efficient ways of working.

Our targeted efficiencies will deliver £260 million of totex outperformance compared to our AMP6 Final Determination, and we have committed to reinvest £120 million of this for the benefit of our customers into three important areas; water quality, security and vulnerable customers.

We are also proud of our performance on retail cost efficiencies. Based on our analysis of the 2015/16 Ofwat Annual Performance Reports, we estimate that our relative position improved and we were in the upper quartile of all water companies for household cost to serve. This was significantly helped by our strong performance on bad debts.

Our capital programme remains on track, with good progress this half year on the Birmingham Resilience Programme. We have secured all of the planning permissions that we need and have appointed the main contractors. Work has also commenced on the three tunnels required, the first of which is expected to be completed by the end of this year. Good progress is also being made on the other named schemes in our Final Determination including the strategic sewer flooding scheme in Newark and obligations to the Drinking Water Inspectorate.

Standard setters in renewable energy

We remain committed to delivering the renewable energy plan set out at the beginning of the AMP: to generate the equivalent of 50% of our energy needs by 2020, by investing around £190 million across a range of renewable technologies, with all projects achieving double-digit returns.

We are now generating the equivalent of 35% of our energy needs, up from 33% at the end of the last financial year.

To date, we have spent around £70 million of the £190 million, with new regulated sludge anaerobic digestion assets accounting for roughly half of that. The remaining spend, on non-regulated assets, includes solar investment last year and food waste anaerobic digestion this year, with the construction of our second food resource plant at Roundhill progressing well. Once completed it will inject enough gas into the national grid to heat over 3,000 homes.

Successful in competitive markets

We continue to see positive momentum in our Business Services division, with increases in both revenue and profit this year. In the US, we have rationalised our contracts to improve operating margins, and in the UK, our contracts with the Ministry of Defence and the Coal Authority have performed well, with improvements to customer satisfaction on both contracts.

The opening of the non-household retail market in April 2017 is fast approaching and we look forward to the opportunities this will create for our Water Plus joint venture with United Utilities. We have made solid progress in our joint venture, with a new office in Stoke-on-Trent now fully operational, a new team recruited and all customers transferred across to the new company. At the beginning of October, the industry entered shadow market operations, meaning that it will now be operating as if the non-household retail market is open for business, to ensure companies are fully ready for the change.

Chief Financial Officer's Review

The group has delivered a good financial performance in the first six months of 2016/17. Our Regulated Water and Waste Water business has shown encouraging control of operating costs. In Business Services we have seen good growth both in revenues and underlying PBIT[1].

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

- Group turnover from continuing operations was £906.8 million (2015/16: £878.6 million), an increase of 3.2% - arising from the allowed price increases in our Regulated Water and Waste Water business and a combination of favourable foreign exchange rate movements and growth in sales measured in local currency from Business Services.

- Underlying PBIT[1] increased by 3.1% to £278.4 million (2015/16: £270.1 million) as we saw the benefit of our continued focus on operating costs in our regulated business and improved margins in Business Services.

- We recorded an exceptional gain of £21.0 million from the implementation of a pension increase exchange arrangement.

- Reported group PBIT was £299.4 million (2015/16: £270.1 million).

- Net finance costs were £98.1 million (2015/16: £106.3 million), benefitting from our strategy of replacing retiring fixed rate debt with floating rate debt. This has driven a 40 bps reduction in our effective interest cost to 4.2%, down from 4.6% in 2015/16.

- We recorded a net tax credit of £2.9 million for the period (2015/16: charge of £37.1 million) after including an exceptional deferred tax credit of £39.8 million (2015/16: nil) arising from the reduction in corporation tax rate to 17% from 2020. The current tax charge was £30.2 million (2015/16: £29.3 million) and the deferred tax charge before exceptional tax was £6.7 million (2015/16: £7.8 million).

- Cash from operations was strong; up £36.5 million (7.4%).

We have now reached agreement in principle with the Trustee, ahead of schedule, on the 2016 triennial pension valuation and the future funding plan for the schemes, providing certainty on cash contributions over the AMP. We have agreed to increase ongoing cash contributions by £3m, from £12 million to £15 million per annum, with these revised contributions being index-linked and made through a new Asset Backed Funding (ABF) structure running through to 2031. These are in addition to the £8.2 million per annum being made under an existing ABF structure, which runs to 2032. Both ABF structures “switch off” contributions in the event the main Severn Trent Pension Scheme moves into a technical surplus position. The group will also contribute a further £10 million per annum for the next three financial years, enabled by the cash efficiency of the ABF structure.

The sharp decrease in corporate bond yields since the year end, in particular following the EU referendum, is reflected in the increased accounting valuation of our pension schemes’ obligations at the balance sheet date. This was only partially offset by the good performance of the schemes’ assets over the same period and as a result our accounting pension deficit increased from £309.5 million to £711.7 million at 30th September 2016.

[1] See note 1

On 1st June we completed the disposal of our Non-Household Retail activities to Water Plus, the newly formed joint venture with United Utilities. Activities up to the disposal date have 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 stock market announcement on 8th September. The profit from discontinued operations, including the profit on disposal, was £22.5 million (2015/16: £8.0 million) - see note 6. Due to a number of one-off costs associated with the creation of the joint venture, it recorded a small loss in its first months of trading. Preparations for the new market are, however, on track.

Regulated Water and Waste Water

Turnover for the Regulated Water and Waste Water segment was £765.2 million (2015/16: £754.4 million) and underlying PBIT[1] was £268.9 million (2015/16: £265.4 million). As noted in our stock exchange announcement on 8th September, the prior year underlying PBIT[1] has been restated by £4.8 million to reflect the share of costs incurred in Regulated Water and Waste Water that was previously allocated to non-household retail operations. As these activities are not transferring to the JV, they are deemed to remain with Regulated Water and Waste Water.

Six months ended 30th September	2016	2015 (restated)	Better/(worse)	
	£m	£m	£m	%
Turnover	**765.2**	754.4	10.8	1.4
Net labour costs	**(66.8)**	(72.8)	6.0	8.2
Hired and contracted costs	**(72.4)**	(70.3)	(2.1)	(3.0)
Bad debts	**(10.3)**	(12.8)	2.5	19.5
Power	**(39.7)**	(41.4)	1.7	4.1
Other costs	**(87.9)**	(87.6)	(0.3)	(0.3)
	(277.1)	(284.9)	7.8	2.7
Infrastructure maintenance	**(66.0)**	(52.0)	(14.0)	(26.9)
Depreciation	**(153.2)**	(152.1)	(1.1)	(0.7)
Underlying PBIT[1]	**268.9**	265.4	3.5	1.3

Turnover increased by 1.4%. Higher tariffs increased revenue by £11.6 million including the impact of the annual RPI increase on prices. Higher consumption of £0.8 million and net new growth, after taking account of meter optants, of £1.5 million, were offset by changes in the charging base and other impacts that reduced turnover by £3.1 million.

Net labour costs were £6.0 million (8.2%) lower period-on-period. Gross labour costs were marginally (£1.7 million, 1.5%) higher as we absorbed annual wage increases and drove operational efficiencies. Our larger investment programme meant our teams spent more time on capital projects and as a result the amount of labour capitalised was £7.7 million higher year-on-year.

Hired and contracted costs increased by £2.1 million as we continued to invest in improving our customer ODI performance.

Across net labour and hired and contracted costs we have absorbed £2.1 million of costs on activities to prepare the wholesale business for non-household retail competition next year.

Bad debt charges were £2.5 million lower at 1.3% of turnover in the period. The household charge represents 1.8% of household revenue, a year-on-year improvement of 0.4 percentage points (2015/16: 2.2%). Following the transfer of non-household retail activities, the retailer bears the credit risk for non-household customers. After market opening, Regulated Water and Waste Water will bear the credit risk on sales to retailers.

[1] See note 1

Power costs decreased year-on-year as the benefit of lower wholesale electricity prices was partially offset by an increase in power consumption from higher water production volumes. The group manages its power costs through a combination of self-generation, forward price contracts and financial derivatives.

Infrastructure maintenance expenditure was £14.0 million greater in the period. This reflects both the lower than normal level of expenditure in the first six months of the AMP and the planned ramp up of investment this year.

Depreciation was £1.1 million greater period-on-period as the depreciation from newly commissioned assets was largely offset by assets reaching full depreciation and asset retirements.

Business Services

Six months ended 30th September	2016	2015 (restated)	Increase	
	£m	£m	£m	%
Turnover				
Operating Services	**124.4**	110.3	14.1	12.8
Renewable Energy	**26.6**	23.8	2.8	11.8
	151.0	134.1	16.9	12.6
Underlying PBIT[1]				
Operating Services	**8.7**	5.1	3.6	70.6
Renewable Energy	**7.4**	6.1	1.3	21.3
	16.1	11.2	4.9	43.8

The results above exclude the Non-Household Retail business, which was transferred to the Water Plus joint venture during the period, and the Water Purification business, which was sold during the prior year. Both of these businesses have been classified as discontinued operations in the current and previous periods.

Operating Services turnover was up £14.1 million of which £9.2 million was due to favourable exchange rate movements. At constant exchange rates turnover was up £4.9 million. Operating Services underlying PBIT[1] improved by £3.8 million at constant exchange rates, partially offset by a £0.2 million adverse impact from exchange rate movements.

Renewable Energy turnover increased by £2.8 million, as a £2.2 million increase from higher generation was partially offset by a £0.9 million reduction from lower prices. Other income, including tankered trade waste, increased by £1.5 million.

Corporate and Other

Corporate and Other incurred a net charge before interest, tax and exceptional items of £4.7 million for the six months ended 30th September 2016 (2015/16: £5.8 million).

Exceptional items[1] before tax

An exceptional gain of £21.0 million arose (2015/16: nil) from the expected benefit of a pension increase exchange arrangement under which pensioners of the defined benefit schemes have been offered the opportunity – with many making the choice – to exchange future non-statutory inflationary increases on a portion of their pensions earned prior to 1997, for a higher pension payment now.

Net finance costs

The group's net finance costs for the six month period were £98.1 million, £8.2 million lower than the prior period (2015/16: £106.3 million). The reduction was due to lower costs on floating rate debt arising from

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[1] See note 1

lower interest rates, partially offset by higher inflation in the period which has led to higher finance costs on index-linked debt. Finance costs capitalised were higher than the prior year due to an increased level of capital work in progress.

The effective interest rate[1] for the period to September 2016 was 4.2% (2015/16: 4.6%). The effective cash cost of interest[1] was 3.8% (2015/16: 4.3%). PBITDA interest cover[1] was 4.7 times (2015/16: 4.3 times) and PBIT interest cover[1] was 3.0 times (2015/16: 2.7 times).

Gains/losses on financial instruments

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

- Exchange rate exposure on borrowings denominated in foreign currencies;
- Interest rate exposures on floating rate borrowings; and
- Exposures to increases in electricity prices.

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the strict criteria for cash flow hedge accounting are met, the changes in value are taken to the income statement. If the risk that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement.

Where derivatives are held to their full term mismatches will net out over the life of the instrument. The changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the group presents underlying earnings figures that exclude these items. In exceptional circumstances the group may terminate swap contracts before their maturity date. The payments or receipts arising from the cancellations are charged or credited against the liability or asset on the balance sheet, and amounts previously recognised in reserves are recycled through the income statement.

The group holds interest rate swaps with a notional principal of £519.9 million and cross currency swaps with a sterling principal of £98.3 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to (losses)/gains on financial instruments in the income statement. During the period there was a charge of £6.8 million (2015/16: credit of £27.7 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 manages its electricity costs through a combination of self generation, forward price contracts and financial derivatives. The group has fixed substantially all of the estimated wholesale energy usage for 2016/17.

Taxation

Note 5 in the financial statements sets out the tax charges and credits in the period, which are described in more detail below.

The current tax charge for the period was £30.2 million (2015/16: £29.3 million) and the deferred tax charge before exceptional tax was £6.7 million (2015/16: £7.8 million).

There was an exceptional deferred tax credit of £39.8 million (2015/16: nil) arising from the reduction in corporation tax rate to 17% from 2020.

[1] See note 1

Our underlying effective current tax rate[1] was in line with guidance at 18.5% (2015/16: 18.4%).

Profit for the period and earnings per share

Profit for the period from continuing operations increased by 36% to £187.9 million (2015/16: £138.2 million), a larger increase than group PBIT due to the positive impact of lower financing costs and the exceptional deferred tax credit, partially offset by net losses in the period on financial instruments.

The profit for the period from discontinued operations was £22.5 million (2015/16: profit of £8.0 million).

Total profit for the period including discontinued operations was £210.4 million (2015/16: £146.2 million).

Basic earnings per share from continuing operations increased by 39.7% to 79.5 pence (2015/16: 56.9 pence). Underlying basic earnings per share[1] were 62.3 pence (2015/16: 54.9 pence). For further details see note 8.

Cash flow

Six months ended 30th September	**2016**	2015
	£m	£m
Cash generated from operations	**532.0**	495.5
Net capital expenditure	**(234.8)**	(190.2)
Net interest paid	**(63.9)**	(70.4)
Proceeds on disposal of subsidiaries net of cash disposed and disposal costs	**(4.9)**	47.1
Investments in joint ventures and associates	**(55.7)**	–
Tax paid	**(15.4)**	(7.9)
Proceeds on maturity of forward contract	**4.3**	–
Free cash flow	**161.6**	274.1
Dividends	**(114.0)**	(121.2)
Issue of shares	**4.9**	7.0
Purchase of own shares	**–**	(66.8)
Change in net debt from cash flows	**52.5**	93.1
Non-cash movements	**29.6**	22.3
Change in net debt	**82.1**	115.4
Net debt as at 1st April	**(4,823.4)**	(4,752.6)
Net debt as at 30th September	**(4,741.3)**	(4,637.2)

Net debt[2] comprises:

	30th September	31st March	30th September
	2016	2016	2015
	£m	£m	£m
Cash at bank and in hand	**17.6**	23.4	21.6
Short term deposits	**26.2**	31.8	35.6
Bank overdrafts	**(4.9)**	–	(2.6)
Net cash and cash equivalents	**38.9**	55.2	54.6
Bank loans	**(1,178.8)**	(1,249.8)	(1,125.1)
Other loans	**(3,582.2)**	(3,539.7)	(3,432.2)
Finance leases	**(117.2)**	(117.2)	(142.6)
Cross currency swaps hedging debt	**52.3**	28.1	8.1
Loans due from joint venture	**45.7**	–	–
Net debt	**(4,741.3)**	(4,823.4)	(4,637.2)

[1] See note 1
[2] See note 1

At 30th September 2016 the group had £38.9 million (31st March 2016: £55.2 million) in net cash and cash equivalents. Average debt maturity is around 15 years. Including committed facilities, the group's cash flow requirements are funded until January 2018.

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

Net debt[1] at 30th September 2016 was £4,741.3 million (31st March 2016: £4,823.4 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 86.1% (31st March 2016: 82.6%). Net debt[1], expressed as a percentage of estimated Regulatory Capital Value at 30th September 2016 was 59.4% (31st March 2016: 61.6%).

The estimated fair value of debt at 30th September 2016 was £1,484 million higher than book value (31st March 2016: £863 million higher). The increase in the difference to book value is largely due to the decrease in the discount rates applied, driven by lower interest rates prevailing since the EU referendum.

Pensions

The group operates two defined benefit pension schemes, of which the Severn Trent Pension Scheme (STPS) is by far the largest. Both of these schemes closed to future accrual on 31st March 2015 and from 1st April 2015 new benefits have been provided within the defined contribution Severn Trent Group Personal Pension Scheme.

Formal triennial actuarial valuations and funding agreements were last completed as at 31st March 2013. The triennial valuation exercise for 31st March 2016 is well advanced, and the company and the Pension Trustees have agreed in principle the future funding plan for the STPS and the other smaller defined benefit pension scheme. The agreement reached with the Pension Trustees is summarised below, and will be formally documented over the coming months.

A revised schedule of deficit reduction contributions (replacing the previous schedule agreed for the 2013 triennial valuation) will be put in place to meet the deficit and ongoing administration expenses. These will include payments of £10 million for the next three financial years ending 31st March 2019. Further inflation linked payments of £15 million per annum will be made through a new asset backed funding arrangement, starting in the financial year ending 31st March 2017 and potentially continuing to 31st March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed. The existing asset backed funding arrangement (which provides payment to STPS of £8.2 million per annum) will continue to 31st March 2032. In addition to these payments, the company will fund the annual PPF levy incurred by the STPS (£1.2 million for 2016/17).

On an IAS 19 basis, the estimated net position (before deferred tax) of all the group’s defined benefit pension schemes was a deficit of £711.7 million as at 30th September 2016. This compares to a deficit of £309.5 million at 31st March 2016. To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme’s assets or their expected returns. The sharp decrease in corporate bond yields since the year end – one of the biggest six-monthly falls recorded since the iBoxx corporate bond index was first introduced in 2000 – has driven an increase of almost 26% in the accounting valuation of the schemes’ liabilities. This was only partially offset by the good performance of the schemes’ assets, particularly equities, and the progress made on de-risking the scheme from changes in interest rates.

The movements in the net deficit during the period were:

	Defined benefit obligations	Fair value of plan assets	Net deficit
	£m	£m	£m
At 1st April 2016	(2,349.3)	2,039.8	(309.5)
Exceptional past service credit	21.0	-	21.0
Employer contributions	-	0.2	0.2
Benefits paid	42.4	(42.4)	-
Scheme administration costs	-	(2.2)	(2.2)
Net finance cost	(41.5)	36.0	(5.5)
Actuarial gains and losses	(626.1)	210.4	(415.7)
At 30th September 2016	**(2,953.5)**	**2,241.8**	**(711.7)**

On an IAS 19 basis, the funding level has decreased to 76% (31st March 2016: 87%).

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 32.6 pence per share (2015/16: 32.26 pence per share), which will be paid on 6th January 2017 to shareholders on the register at 2nd December 2016.

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 and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Legal and regulatory environment:

- The regulatory landscape is complex and subject to on-going change. 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 result in inability 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.

Technical Guidance 2016/17

Regulated Water and Waste Water

Revenues are expected to be in the range of £1.50 billion to £1.52 billion (2015/16: £1.51 billion).

We expect operating costs under IFRS to be lower year-on-year (2015/16: £591 million[1]) as we recognise the benefits of the efficiency drive. In addition, we expect £130 million to £155 million of net infrastructure renewals expenditure (2015/16: £126 million), which will be charged to the income statement.

We expect to earn net rewards for 2016/17 customer ODI[2] outperformance of £15 million (2015/16: £23.2 million).

Wholesale Totex[3] is expected to be £1.04 billion to £1.06 billion (2015/16: £1.02 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 (2015/16: £277 million[1] and £28 million[1] respectively).

Group

The group interest charge is expected to be marginally lower year-on-year (2015/16: £209 million), as the benefit of lower interest rates on new floating rate debt is only partially offset by the impact of higher expected inflation increasing the cost of index-linked debt.

The effective current tax rate for the group for 2016/17 is expected to be between 17% and 19% (2015/16:18.5%).

We estimate net capital expenditure (cash) under IFRS will be £450 million to £490 million (2015/16: £410 million).

In line with our announced policy, the dividend for 2016/17 will be 81.5p (2015/16: 80.66p) and will grow by at least RPI annually over AMP6.

1. Restated for reclassification of non-household retail as discontinued
2. Customer ODIs quoted real at 2012/13 prices
3. Excludes retail costs, includes regulated renew ables

Severn Trent Plc will announce its Q3 trading update on 8th February 2017.

Further Information

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

Investor Timetable

1st December 2016	Ex-dividend date (Interim)
2nd December 2016	Dividend record date (Interim)
13th Dec 2016	DRIP election date (Interim)
6th January 2017	Interim dividend payment date
8th February 2017	Q3 Trading Update
31st March 2017	Financial Year End
23rd May 2017	Full Year Results Announcement 2016/17
15th June 2017	Ex-dividend date (Final)
16th June 2017	Record Date (Final)
30th June 2017	DRIP election date (Final)
19th July 2017	AGM
21st July 2017	Final dividend payment date
For more information please visit: www.severntrent.com/investors/financial-calendar	

Condensed consolidated income statement
Six months ended 30th September 2016

	Note	2016 £m	2015 (restated) £m
Turnover	2	**906.8**	878.6
Operating costs before exceptional items		**(628.4)**	(608.5)
Exceptional items	3	**21.0**	–
Total operating costs		**(607.4)**	(608.5)
Profit before interest, tax and exceptional items	2	**278.4**	270.1
Exceptional items	3	**21.0**	–
Profit before interest and tax		**299.4**	270.1
Finance income		**36.8**	34.4
Finance costs		**(134.9)**	(140.7)
Net finance costs		**(98.1)**	(106.3)
Net (losses)/gains on financial instruments	4	**(15.4)**	11.5
Share of net results of joint ventures and associates		**(0.9)**	–
Profit before tax, (losses)/gains on financial instruments and exceptional items		**179.4**	163.8
Exceptional items		**21.0**	–
Net (losses)/gains on financial instruments		**(15.4)**	11.5
Profit on ordinary activities before taxation		**185.0**	175.3
Current tax	5	**(30.2)**	(29.3)
Deferred tax	5	**(6.7)**	(7.8)
Exceptional tax	5	**39.8**	–
Taxation on profit on ordinary activities	5	**2.9**	(37.1)
Profit for the period from continuing operations		**187.9**	138.2
Profit for the period from discontinued operations	6	**22.5**	8.0
Profit for the period		**210.4**	146.2
Attributable to:			
Owners of the company		**210.2**	143.7
Non-controlling interests		**0.2**	2.5
		210.4	146.2

Earnings per share (pence)

	2016	2015
From continuing operations		
Basic	**79.5**	56.9
Diluted	**79.2**	56.6
From continuing and discontinued operations		
Basic	**89.0**	60.3
Diluted	**88.7**	60.0

Condensed consolidated statement of comprehensive income
Six months ended 30th September 2016

	2016 £m	2015 £m
Profit for the period	**210.4**	146.2
Other comprehensive (loss)/income		
Items that will not be reclassified to the income statement:		
Net actuarial (losses)/gains on defined benefit pension schemes	**(415.7)**	90.3
Tax on net actuarial losses/gains	**70.7**	(18.1)
Deferred tax arising on change of rate	**(2.9)**	–
	(347.9)	72.2
Items that may be reclassified to the income statement:		
Loss on cash flow hedges	**(25.2)**	(0.6)
Deferred tax on loss on cash flow hedges	**4.3**	0.1
Amounts on cash flow hedges transferred to the income statement in the period	**3.2**	6.8
Deferred tax on transfers to the income statement	**(0.5)**	(1.4)
Disposal of minority interest	**–**	(13.7)
Exchange movement on translation of overseas results and net assets	**5.4**	(3.4)
Cumulative exchange losses transferred to income statement	**–**	11.7
	(12.8)	(0.5)
Other comprehensive (loss)/income for the period	**(360.7)**	71.7
Total comprehensive (loss)/income for the period	**(150.3)**	217.9
Attributable to:		
Owners of the company	**(150.5)**	229.0
Non-controlling interests	**0.2**	(11.1)
	(150.3)	217.9

Condensed consolidated statement of changes in equity
Six months ended 30th September 2016

	Equity attributable to owners of the company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1st April 2015	233.7	100.2	98.2	323.5	755.6	13.4	769.0
Profit for the period	–	–	–	143.7	143.7	2.5	146.2
Losses on cash flow hedges	–	–	(0.6)	–	(0.6)	–	(0.6)
Deferred tax on losses on cash flow hedges	–	–	0.1	–	0.1	–	0.1
Amounts on cash flow hedges transferred to income statement	–	–	6.8	–	6.8	–	6.8
Deferred tax on transfers to the income statement	–	–	(1.4)	–	(1.4)	–	(1.4)
Exchange movements on translation of overseas results and net assets	–	–	(3.5)	–	(3.5)	0.1	(3.4)
Net actuarial gains	–	–	–	90.3	90.3	–	90.3
Tax on net actuarial gains	–	–	–	(18.1)	(18.1)	–	(18.1)
Cumulative exchange losses transferred to the income statement	–	–	11.7	–	11.7	–	11.7
Disposal of minority interest	–	–	–	–	–	(13.7)	(13.7)
Total comprehensive income for the period	–	–	13.1	215.9	229.0	(11.1)	217.9
Share options and LTIPs							
- proceeds from shares issued	0.7	6.3	–	–	7.0	–	7.0
- value of employees' services	–	–	–	2.7	2.7	–	2.7
- own shares purchased	–	–	–	(1.7)	(1.7)	–	(1.7)
Current tax on share based payments	–	–	–	1.1	1.1	–	1.1
Deferred tax on share based payments	–	–	–	(0.1)	(0.1)	–	(0.1)
Share cancellation	(0.1)	–	0.1	–	–	–	–
Dividends paid	–	–	–	(121.2)	(121.2)	–	(121.2)
At 30th September 2015	234.3	106.5	111.4	420.2	872.4	2.3	874.7
At 1st April 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5
Profit for the period	–	–	–	210.2	210.2	0.2	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 income statement	–	–	3.2	–	3.2	–	3.2
Deferred tax on transfers to the income statement	–	–	(0.5)	–	(0.5)	–	(0.5)
Exchange movements 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)	(144.7)	(150.5)	0.2	(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)
At 30th September 2016	**234.7**	**111.3**	**110.7**	**305.0**	**761.7**	**1.3**	**763.0**

Condensed consolidated balance sheet
At 30th September 2016

	Note	30th September 2016 £m	31st March 2016 £m
Non-current assets			
Goodwill		**16.4**	14.8
Other intangible assets		**71.8**	72.2
Property, plant and equipment		**7,824.1**	7,718.6
Investments in joint ventures and associates		**39.4**	5.1
Derivative financial instruments	10	**80.0**	40.2
Available for sale financial assets		**–**	0.1
		8,031.7	7,851.0
Current assets			
Inventory		**21.6**	21.0
Trade and other receivables		**534.7**	516.6
Derivative financial instruments	10	**–**	0.7
Cash and short term deposits		**43.8**	55.2
		600.1	593.5
Total assets		**8,631.8**	8,444.5
Current liabilities			
Borrowings	9	**(362.9)**	(280.6)
Derivative financial instruments	10	**(0.2)**	(1.1)
Trade and other payables		**(529.7)**	(454.1)
Current tax payable		**(25.2)**	(11.1)
Provisions for liabilities and charges		**(17.6)**	(12.3)
		(935.6)	(759.2)
Non-current liabilities			
Borrowings	9	**(4,520.2)**	(4,626.1)
Derivative financial instruments	10	**(228.1)**	(178.0)
Trade and other payables		**(900.2)**	(870.8)
Deferred tax		**(559.3)**	(664.7)
Retirement benefit obligations	11	**(711.7)**	(309.5)
Provisions for liabilities and charges		**(13.7)**	(17.7)
		(6,933.2)	(6,666.8)
Total liabilities		**(7,868.8)**	(7,426.0)
Net assets		**763.0**	1,018.5
Equity			
Called up share capital	12	**234.7**	234.3
Share premium account		**111.3**	106.8
Other reserves		**110.7**	116.5
Retained earnings		**305.0**	559.8
Equity attributable to owners of the company		**761.7**	1,017.4
Non-controlling interests		**1.3**	1.1
Total equity		**763.0**	1,018.5

Condensed consolidated cash flow statement
Six months ended 30th September 2016

	Note	**2016 £m**	2015 £m
Cash flows from operating activities			
Cash generated from operations	13	**532.0**	495.5
Tax paid		**(15.4)**	(7.9)
Net cash generated from operating activities		**516.6**	487.6
Cash flows from investing activities			
Investments in joint ventures and associates		**(10.0)**	–
Purchases of property, plant and equipment		**(257.7)**	(206.7)
Purchases of intangible assets and goodwill		**(8.5)**	(11.5)
Contributions and grants received		**30.9**	22.6
Proceeds on disposal of subsidiaries net of cash disposed and disposal costs	6	**(4.9)**	47.1
Proceeds on maturity of forward contract		**4.3**	**–**
Proceeds on disposal of property, plant and equipment		**0.5**	5.4
Net loans advanced to joint ventures and associates		**(45.7)**	–
Interest received		**0.8**	0.6
Net cash used in investing activities		**(290.3)**	(142.5)
Cash flow from financing activities			
Interest paid		**(64.7)**	(69.3)
Interest element of finance lease payments		**–**	(1.7)
Dividends paid to shareholders of the parent		**(114.0)**	(121.2)
Repayments of borrowings		**(150.8)**	(527.7)
Repayments of obligations under finance leases		**–**	(37.4)
New loans raised		**81.2**	330.7
Issues of shares		**4.9**	7.0
Share buy back		**–**	(65.1)
Purchase of own shares		**–**	(1.7)
Net cash used in financing activities		**(243.4)**	(486.4)
Net movement in cash and cash equivalents		**(17.1)**	(141.3)
Net cash at the beginning of the period		**55.2**	176.7
Cash in assets held for sale at beginning of the period		**–**	19.3
Effect of foreign exchange rates		**0.8**	(0.1)
Net cash and cash equivalents at end of period		**38.9**	54.6
Net cash and cash equivalents			
Cash and cash equivalents		**17.6**	21.6
Short term deposits		**26.2**	35.6
Cash and short term deposits		**43.8**	57.2
Bank overdrafts		**(4.9)**	(2.6)
Net cash and cash equivalents		**38.9**	54.6

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 31st March 2016 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 31st March 2016.

Prior year restatement
Prior year 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 January 2018. 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.

Alternative performance measures
Financial measures or metrics used in this interim 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.

Exceptional items
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.

Underlying PBIT
Underlying profit before interest and tax is profit before interest and tax excluding exceptional items.

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 and deferred tax.

Net debt
Net debt comprises borrowings, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), loans to or from joint ventures and cash and cash equivalents.

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

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).

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

1. General information (continued)

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

Underlying effective tax rate
Current tax charge for the period, excluding prior year charges, exceptional current tax, and current tax on exceptional item s and on financial instruments, divided by profit before tax, net gains/(losses) on financial instruments and exceptional items.

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 the group's regulated subsidiary Severn Trent Water Limited and its retail services to domestic customers.

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

The disposal of the group's non-household retail business to the newly created Water Plus joint venture with United Utilities received approval from the Competition and Markets Authority on 3rd May 2016 and the business was classified as a discontinued operation. The transaction was completed on 1st June. The prior year segmental results have been restated to present the non-household retail business as a discontinued operation as set out in the stock market announcement dated 8th September 2016.

The Water Purification business was also classified as a discontinued operation in the prior year. The sale of this business was completed on 2nd July 2015.

Six months ended 30th September	**2016**		2015 (restated)	
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water	Business Services
	£m	**£m**	£m	£m
External turnover	**764.6**	**142.2**	753.9	124.6
Inter-segment turnover	**0.6**	**8.8**	0.5	9.5
Total turnover	**765.2**	**151.0**	754.4	134.1
Profit before interest, tax and exceptional items	**268.9**	**16.1**	265.4	11.2
Exceptional items (see note 3)	**19.8**	**0.6**	–	–
Profit before interest and tax	**288.7**	**16.7**	265.4	11.2

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

Six months ended 30th September	**2016**	2015 (restated)
	£m	£m
Regulated Water and Waste Water	**765.2**	754.4
Business Services	**151.0**	134.1
Corporate and Other	**0.6**	3.0
Consolidation adjustments	**(10.0)**	(12.9)
	906.8	878.6

2. Segmental analysis (continued)

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

Six months ended 30th September	2016	2015 (restated)
	£m	£m
Regulated Water and Waste Water	**268.9**	265.4
Business Services	**16.1**	11.2
Corporate and Other	**(4.7)**	(5.8)
Consolidation adjustments	**(1.9)**	(0.7)
Profit before interest, tax and exceptional items	**278.4**	270.1
Exceptional items:		
Regulated Water and Waste Water	**19.8**	–
Business Services	**0.6**	–
Corporate and Other	**0.6**	–
Net finance costs	**(98.1)**	(106.3)
Net (losses)/gains on financial instruments	**(15.4)**	11.5
Share of results of joint ventures and associates	**(0.9)**	–
Profit before tax	**185.0**	175.3

The following table shows the segmental capital employed:

	30th September 2016		31st March 2016	
	Regulated Water and Waste Water	Business Services	Regulated Water and Waste Water	Business Services
	£m	£m	£m	£m
Operating assets	**8,399.5**	**244.2**	8,110.8	256.1
Goodwill	**1.3**	**16.4**	1.3	14.8
Interests in joint ventures and associates	**–**	**39.4**	0.1	5.1
Segment assets	**8,400.8**	**300.0**	8,112.2	276.0
Segment operating liabilities	**(2,149.1)**	**(69.8)**	(1,546.3)	(125.8)
Capital employed	**6,251.7**	**230.2**	6,565.9	150.2

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

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

3. Exceptional items before tax

Six months ended 30th September	2016	2015
	£m	£m
Gain arising on pension increase exchange arrangement		
Regulated Water and Waste Water	**19.8**	–
Business Services	**0.6**	–
Corporate and Other	**0.6**	–
	21.0	–

4. Net (losses)/gains on financial instruments

Six months ended 30th September	2016 £m	2015 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**20.5**	(4.0)
(Loss)/gain arising on adjustment for debt in fair value hedges	**(19.7)**	2.4
(Loss)/gain arising on swaps where hedge accounting is not applied	**(6.8)**	27.7
Loss on cash flow hedges transferred from equity	**(3.2)**	(6.8)
Ineffectiveness of cash flow hedges	**0.9**	0.5
Exchange loss on other loans	**(7.1)**	(8.3)
	(15.4)	11.5

5. Tax

Six months ended 30th September	2016 £m	2015 (restated) £m
Current tax		
Current year	**30.2**	29.3
Total current tax	**30.2**	29.3
Deferred tax		
Origination and reversal of temporary differences – current year	**6.7**	7.8
Exceptional credit arising from rate change	**(39.8)**	-
Total deferred tax	**(33.1)**	7.8
	(2.9)	37.1

Income tax for the period is charged in the income statement (excluding the exceptional credit arising from the corporation tax rate change) at 19.9% (2015: charged at 21.1% based on restated profit before tax), representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The effective rate of current tax, excluding prior year charges and current tax on exceptional items and on financial instruments, calculated on profit before tax, exceptional items and net gains/losses on financial instruments was 18.5% (2015: 18.4% based on restated profit before tax).

A current tax credit of £0.7 million (2015: £1.1 million) and a deferred tax credit of £72.0 million (2015: charge of £19.5 million) have been taken to reserves in the period.

The Government has announced that the main rate of corporation tax will reduce to 19% with effect from 1st April 2017 and 17% with effect from 1st April 2020. These rate reductions had been substantively enacted at 30th September 2016 and therefore deferred tax assets and liabilities have been remeasured to the rates that are expected to apply when the assets are realised or the liabilities settled. This has resulted in an exceptional tax credit in the period.

6. Discontinued operations

Water Plus joint venture

On 1st 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 3rd 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 31st May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1st June it exchanged the entire share capital of Severn Trent Select Limited for 50% of the share capital of Water Plus.

Water Purification disposal

On 23rd January 2015 the Board approved a process to dispose of the group's Water Purification business which formed part of the Business Services segment. These operations were classified as discontinued and as a disposal group held for sale as at 31st March 2015. The results of discontinued operations are disclosed separately in the income statement.

On 12th May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The sale was completed on 2nd July 2015.

The profit for the period from discontinued operations was as follows:

Six months ended 30th September	2016	2015 (restated)
	£m	£m
Turnover	**68.8**	232.9
Total operating costs	**(66.4)**	(219.9)
Operating profit	**2.4**	13.0
Profit before tax	**2.4**	13.0
Taxation	**(0.5)**	(2.3)
Profit after tax	**1.9**	10.7
Gain/(loss) recognised on sale of disposal group	**20.6**	(2.7)
Profit for the period from discontinued operations	**22.5**	8.0
Attributable to:		
Owners of the company	**22.5**	8.1
Non-controlling interests	**–**	(0.1)
	22.5	8.0

Cash flows arising from the disposal group were:

Six months ended 30th September	2016	2015 (restated)
	£m	£m
Net cash flows attributable to:		
- operating activities	**1.9**	–
- investing activities	**–**	(11.6)
- financing activities	**3.5**	(0.2)
	5.4	(11.8)

6. Discontinued operations (continued)

Basic and diluted earnings per share from discontinued operations are:

Six months ended 30th September	2016			2015 (restated)		
	Earnings attributable to owners of the company	**Weighted average number of shares**	**Per share amount**	Earnings attributable to owners of the company	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	pence
Basic earnings per share	**22.5**	**236.1**	**9.5**	8.1	238.5	3.4
Diluted earnings per share	**22.5**	**236.9**	**9.5**	8.1	239.4	3.4

The following details relate to the Water Plus transaction.

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

	£m
Trade and other receivables	0.6
Cash and cash equivalents	3.5
Trade and other payables	(0.6)
Net assets	**3.5**

The net gain on disposal is calculated as follows:

	£m
Consideration	25.5
Net assets on disposal	(3.5)
Disposal costs	(1.4)
Net gain on disposal	**20.6**

The net cash flows arising from disposal in the period were:

	£m
Disposal costs paid in cash and cash equivalents	(1.4)
Cash and cash equivalents disposed of	(3.5)
	(4.9)

7. Dividends

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

	2016		2015	
	pence per share	**£m**	pence per share	£m
Final dividend for the year ended 31st March	**48.40**	**114.0**	50.94	121.2

The proposed interim dividend of 32.60 pence per share (2015: 32.26 pence per share) was approved by the Board on 23rd November 2016 and has not been included as a liability as at 30th September 2016.

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 30th September	**2016** **£m**	2015 (restated) £m
Profit for the period attributable to owners of the company	**210.2**	143.7
Adjusted for profit from discontinued operations (see note 6)	**(22.5)**	(8.1)
Profit for the period from continuing operations attributable to owners of the company	**187.7**	135.6

Number of shares

Six months ended 30th September	**2016** **m**	2015 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**236.1**	238.5
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.8**	0.9
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.9**	239.4

b) Underlying earnings per share

Six months ended 30th September	**2016** **pence**	2015 (restated) pence
Underlying basic earnings per share	**62.3**	54.9
Underlying diluted earnings per share	**62.1**	54.7

The directors consider that the underlying earnings per share figures provide a useful additional indicator of performance (see note 1).

8. Earnings per share (continued)

The adjustments to earnings are as follows:

Six months ended 30th September	2016 £m	2015 (restated) £m
Earnings for the purpose of basic and diluted earnings per share	**187.7**	135.6
Adjustments for:		
- exceptional items before tax	**(21.0)**	-
- current tax related to exceptional items	**-**	-
- net losses/(gains) on financial instruments	**15.4**	(11.5)
- current tax on net losses/gains on financial instruments	**(2.0)**	(0.9)
- exceptional tax credit arising from rate change	**(39.8)**	-
- deferred tax	**6.7**	7.8
Earnings for the purpose of underlying basic and diluted earnings per share	**147.0**	131.0

9. Borrowings

	30th September 2016 £m	31st March 2016 £m
Bank overdrafts	**4.9**	-
Bank loans	**1,178.8**	1,249.8
Other loans	**3,582.2**	3,539.7
Obligations under finance leases	**117.2**	117.2
	4,883.1	4,906.7

The borrowings are repayable as follows:

	30th September 2016 £m	31st March 2016 £m
On demand or within one year – included in current liabilities	**362.9**	280.6
Over one year – included in non-current liabilities	**4,520.2**	4,626.1
	4,883.1	4,906.7

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. There have been no changes in the levels of classification during the period.

	Fair value as at 30th September 2016 £m	Fair value as at 31st March 2016 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**52.3**	28.1	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 the spot rate.
Interest rate swaps			Discounted cash flow
Assets	**27.7**	12.1	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	**(227.3)**	(175.2)	
Energy swaps			Discounted cash flow
Liabilities	**(1.0)**	(3.2)	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.
Foreign currency forward contracts			Discounted cash flow
Assets	**–**	0.7	Future cash flows are estimated based on observable forward exchange rates at the period end and contract forward rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**–**	(0.7)	

10. Fair value of financial instruments (continued)

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

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables are not materially different from their fair values. Derivative financial instruments are carried at fair value. The carrying values and estimated fair values of other non-derivative financial instruments are set out below. Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap. At 30th September 2016 the group held interest rate and cross currency swaps not matched against specific debt instruments that converted floating rate interest to fixed on a net principal amount of £421.6 million (31st March 2016: £421.6 million).

	30th September 2016		31st March 2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Floating rate debt				
Bank loans	**882.0**	**884.9**	954.3	954.3
Currency bonds	**43.0**	**43.0**	36.6	36.6
Floating rate notes	**384.0**	**441.6**	370.6	420.0
	1,309.0	**1,369.5**	1,361.5	1,410.9
Fixed rate debt				
Bank loans	**187.0**	**187.4**	187.6	186.8
Sterling bonds	**1,858.3**	**2,423.8**	1,857.3	2,221.8
Fixed rate notes	**115.4**	**130.8**	104.0	129.3
Other loans	**4.1**	**4.1**	2.8	2.6
Finance leases	**117.2**	**139.6**	117.2	125.4
	2,282.0	**2,885.7**	2,268.9	2,665.9
Index-linked debt				
Bank loans	**109.8**	**124.7**	107.8	116.1
Sterling bonds	**1,177.4**	**1,982.6**	1,168.5	1,576.8
	1,287.2	**2,107.3**	1,276.3	1,692.9
	4,878.2	**6,362.5**	4,906.7	5,769.7

Fixed rate bonds are valued using market prices.

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.

Fair values of other debt instruments are also calculated using discounted cash flow models.

11. Retirement benefit schemes

The group operates two defined benefit schemes being the Severn Trent Pension Scheme and the Severn Trent Mirror Image Scheme. These schemes are closed to future accrual, therefore there is no current service cost in the period. 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 assumptions used in calculating the defined benefit obligations as at 30th September 2016 have been updated to reflect market conditions prevailing at the balance sheet date. The most recent triennial funding valuation of the schemes was carried out as at 31st March 2013. The valuation as at 31st March 2016 is almost complete and this will be reflected in the actuarial assumptions that will be used in the accounting valuation at 31st March 2017.

	30th September 2016	31st March 2016
Discount rate	**2.3%**	3.6%
RPI	**3.0%**	3.0%

11. Retirement benefit schemes (continued)

The defined benefit assets have been updated to reflect their market value as at 30th September 2016. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost and the costs of administrating the scheme are recognised in operating costs and interest cost is recognised in net finance costs. Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

Six months ended 30th September	2016 £m	2015 £m
Exceptional past service credit	**21.0**	-
Administration cost	**(2.2)**	(0.6)
Net interest cost	**(5.5)**	(7.6)
Total amount credited/(charged) to the income statement	**13.3**	(8.2)

The amount included in the balance sheet arising from the group's obligations under defined benefit schemes was as follows:

	30th September 2016 £m	31st March 2016 £m
Total fair value of assets	**2,241.8**	2,039.8
Present value of the defined benefit obligations - funded schemes	**(2,942.5)**	(2,339.9)
Present value of the defined benefit obligations - unfunded schemes	**(11.0)**	(9.4)
Liability recognised in the balance sheet	**(711.7)**	(309.5)

Movements in the liability recognised in the balance sheet were as follows:

Six months ended 30th September	2016 £m	2015 £m
At 1st April	**(309.5)**	(468.9)
Exceptional past service credit	**21.0**	-
Administration cost	**(2.2)**	(0.6)
Net interest cost	**(5.5)**	(7.6)
Contributions from sponsoring companies	**0.2**	4.4
Net actuarial (losses)/gains	**(415.7)**	90.3
At 30th September	**(711.7)**	(382.4)

12. Share capital

At 30th September 2016 the issued and fully paid share capital was 239.8 million shares of $97^{17}/_{19}$ pence amounting to £234.7 million (31st March 2016: 239.3 million shares of $97^{17}/_{19}$ pence amounting to £234.3 million).

During the period the company issued 417,453 (2015: 680,902) shares as a result of the exercise of employee share options. In the six months ended 30th September 2015 the company repurchased 2,987,871 shares under its share buyback programme. Of these repurchased shares, 51,514 were cancelled.

At 30th September 2016 the company held 4,080,964 (31st March 2016: 4,136,921) shares in treasury.

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30th September	2016	2015 (restated)
	£m	£m
Profit before interest and tax from continuing operations	**299.4**	270.1
Profit before interest and tax from discontinued operations	**23.0**	10.3
Profit before interest and tax	**322.4**	280.4
Depreciation of property, plant and equipment	**149.4**	144.6
Amortisation of intangible assets	**9.3**	11.4
Exceptional pension service credit	**(21.0)**	–
(Gain)/loss on sale of disposal group	**(20.6)**	2.7
Defined benefit pension scheme administration costs	**2.2**	0.6
Pension contributions	**(0.2)**	(4.4)
Share based payments charge	**2.8**	2.7
Profit on sale of property, plant and equipment	**(0.3)**	(1.4)
Deferred income movement	**(5.8)**	(5.3)
Provisions for liabilities and charges	**1.7**	2.8
Utilisation of provisions for liabilities and charges	**(0.7)**	(5.6)
(Increase)/decrease in inventory	**(0.6)**	2.5
Decrease/(increase) in receivables	**23.5**	(19.2)
Increase in payables	**69.9**	83.7
Cash generated from operations	**532.0**	495.5
Tax paid	**(15.4)**	(7.9)
Net cash generated from operating activities	**516.6**	487.6

b) Non-cash transactions

No additions to property, plant and equipment during the six months to 30th September 2016 were financed by new finance leases (2015: nil).

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

Six months ended 30th September	2016	2015
	£m	£m
Restructuring costs	**-**	(4.0)

d) Reconciliation of movements in net debt

	As at 1st April 2016	Cash flow	Fair value adjustments	RPI uplift on index linked debt	Foreign exchange	Other non-cash movements	As at 30th September 2016
	£m	£m	£m	£m	£m	£m	£m
Cash and short term deposits	55.2	(12.2)	-	-	0.8	-	**43.8**
Bank overdrafts	-	(4.9)	-	-	-	-	**(4.9)**
Net cash and cash equivalents	55.2	(17.1)	-	-	0.8	-	**38.9**
Bank loans	(1,249.8)	70.7	-	(2.0)	-	2.3	**(1,178.8)**
Other loans	(3,539.7)	(1.1)	(19.7)	(8.8)	(11.7)	(1.2)	**(3,582.2)**
Finance leases	(117.2)	-	-	-	-	-	**(117.2)**
Cross currency swaps hedging debt	28.1	-	23.8	-	-	0.4	**52.3**
Loans due from joint ventures	-	-	-	-	-	45.7	**45.7**
Net debt	(4,823.4)	52.5	4.1	(10.8)	(10.9)	47.2	**(4,741.3)**

14. Post balance sheet events

On 16th November 2016 the group announced that it had reached agreement with the Board of Dee Valley Group Plc on the terms of a recommended acquisition of the entire issued and to be issued voting and non-voting ordinary share capital of Dee Valley by Severn Trent Water. Under the terms of the acquisition Dee Valley ordinary voting shareholders would receive 1,705 pence in cash per share and a comparable cash offer for ordinary non-voting shareholders was made, priced at 1,601 pence per share.

On 23rd November 2016 the group announced that it had increased its offer to 1,825 pence in cash for each ordinary voting share in Dee Valley and a revised comparable cash offer for ordinary non-voting shares priced at 1,713 pence per share.

15. Contingent liabilities

Details of the group's contingent liabilities were disclosed in the financial statements for the year ended 31st March 2016 which were approved on 23rd May 2016. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

16. Related party transactions

During the period the group made sales amounting to £127.0 million to Water Plus and at 30th September 2016 there were trade receivables due from Water Plus amounting to £31.2 million and an amount receivable under a revolving credit facility of £45.7 million.

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.

Responsibility statement

We confirm to the best of our knowledge:

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

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

Signed on behalf of the Board who approved the half yearly financial report on 23rd November 2016.

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 30th September 2016 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. 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 them 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 Ireland) 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 30th September 2016 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
Chartered Accountants and Statutory Auditor
London, UK
23rd November 2016

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 profit 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).