Half Yearly Financial Report

25 November 2008
Interim Results for the six months to 30 September 2008

RAISING STANDARDS AND CONTINUOUS IMPROVEMENT

Highlights

- Underlying PBIT[1] up 4.6% to £262 million
- DPS up 8.0% to 26.29p
- Strong liquidity position; funded at least until the end of AMP4
- Continued progress in driving higher standards and greater efficiency
- Delivering 3% operating cost outperformance against Ofwat final determination
- On target to deliver 6% efficiency on the AMP4 capital programme

Group results

	30 Sept 2008	30 Sept 2007	Increase/ (Decrease)
	£m	£m	%
Group turnover	**814.3**	774.0	5.2%
Underlying Group PBIT [1]	**261.5**	250.0	4.6%
Underlying Profit before tax [2]	**154.5**	161.5	(4.3%)
Profit before tax	**137.9**	149.5	(7.8%)
	pence/ share	pence/ share	
Adjusted basic EPS [3]	**50.0**	47.6	5.0%
Basic (loss)/earnings per share[4]	**(35.8)**	64.7	(155.3%)
Interim dividend declared	**26.29**	24.34	8.0%

1 before exceptional items (see note 3)
2 before exceptional items and gains/losses on financial instruments
3 before exceptional items, gains/losses on financial instruments and deferred tax (see note 6)
4 after exceptional deferred tax charge of 79.2 pence/share (30 Sept 2007 credit of 23.4 pence/share)

Sir John Egan, Chairman Severn Trent Plc, said:
"I am pleased to report today on a period of good progress. We are delivering our plans to raise standards and drive efficiency through our focus on continuous improvement in all processes. Given this momentum, I am delighted to announce, in line with our policy, an 8.0% increase in the interim dividend to 26.29p."

Tony Wray, Chief Executive Severn Trent Plc, said:
"These results demonstrate continuing improvement across the business. We continue to improve customer service standards, maintain an improved level of leakage performance and drive sustained reductions in customer supply interruptions and sewer flooding. We are on track to outperform against Ofwat's determination for operating costs by around 3% for the full year and to deliver our capital programme for the remainder of the period, while achieving around 6% capital efficiencies compared to Ofwat's determination for 2005-10.

"While continuing to improve, we still have further to go as we strive for upper quartile performance across our 20 Key Performance Indicators. We remain committed to raising standards still higher and investing further in improving operational efficiency, because we believe that this approach will deliver improved customer service and enhanced shareholder value. I believe we are now better placed to satisfy the expectations of our customers, regulators and shareholders."

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Interim Results Presentation and Webcast
There will be an interim results presentation at 9:30am on Tuesday 25 November 2008. This presentation, together with the presentation slides, will be available as a simultaneous webcast on the Severn Trent web site (www.severntrent.com) and will remain on the web site for subsequent viewing.

Interim Management Report

Operating Review

Water and Sewerage
We continue to execute on our plans to raise standards and drive greater efficiency across the business. The 20 Key Performance Indicators (KPIs) remain the primary basis on which we measure and demonstrate raised standards.

We have now completed our update of the benchmarks we use to assess our relative performance and can confirm that our opening position remains unchanged compared to the position we reported in June 2008.

Our aim is to achieve upper quartile performance across our 20 KPIs and we will continue to update our benchmarks on an annual basis. As companies in our sector or elsewhere redefine what upper quartile means, so we expect our objectives to move with them.

In the period under review, progress has been good. We have continued to deliver improvements in customer service and further reductions in the number of written complaints and have maintained our leakage performance at levels commensurate with meeting the Ofwat annual target for the year ending 31 March 2009. Our continued focus on driving improvements in health and safety performance has delivered a 26% reduction in lost time incidents over the year end position. We are also able to report sustained improvements in our performance with regard to customer supply interruptions and sewer flooding incidents. Both of these KPIs were lower quartile and we understand that whilst we are making strong progress we need to continue to drive further improvements to achieve our ambition of upper quartile performance.

We are on track to deliver 3% annual outperformance against the Ofwat determination for operating costs across the final two years of AMP4, notwithstanding significant increases in commodity prices in the first six months of this financial year.

Aside from the progress made to date, we continue to develop our plans to optimise the performance of the company and sustain the improvements in the longer term. These plans remain focused on three broad areas:

- Process improvements,
- The technology and systems that support these processes, and
- The location, training and development of our people to operate in this new environment.

These improvement plans are integrated into our business plan, are the basis of our future improvements in effective and efficient operation and formed a major part of the Severn Trent Water Draft Business Plan submitted to Ofwat in August 2008. Over the last two years of the AMP4 period, we expect to incur exceptional restructuring costs of around £24 million, with £5.4 million incurred in the period under review. These costs represent the continuing implementation of our improvement plans that extend beyond the end of the current AMP period, as we continue to deliver against our objective of raising standards and improving efficiency.

The capital programme is also continuing to proceed according to plan. The previously announced efficiencies of around 6% over the Ofwat determination continue to be deliverable over the remaining AMP4 period and are consistent with meeting our full regulatory commitments.

Severn Trent Water Draft Business Plan
In August 2008, we submitted our Draft Business Plan to Ofwat. This plan aligns to Severn Trent Water's 25 year Strategic Direction Statement (published in December 2007, which is available on its website at www.stwater.co.uk/sds) and reflects customer priorities including a more resilient water supply network, stable bills and a smaller carbon footprint.

The key elements of the draft business plan include:
- Broadly flat bills in real terms (rising only slightly above inflation over the five year period),
- Challenging efficiency targets,
- A capital investment programme of around £3.2 billion (at today's prices) in the period 2010 to 2015. This level of investment is needed to deliver improved services, such as stronger network resilience (including reinforcing the network following last summer's flooding) and reduction in sewer flooding, environmental improvements through improving sewage treatment, and increased spending on assets to ensure that environmental and drinking water quality improvements achieved in the past two decades are continued,
- An assumed cost of capital of 4.94% real, post tax, consistent with maintaining an appropriate credit rating to allow Severn Trent Water to raise the funds it requires to finance future investment at a reasonable rate. Our plans cannot be financed by customers' bills alone and shareholders expect an adequate return on their investment. The Company published a paper "The World has turned: but which way?" on 5 August 2008 setting out its views on issues to be considered in how the weighted average cost of capital (WACC) should be determined. This paper and a summarised update setting out the Company's current views as at 25 November 2008 is available on its website at www.severntrent.com.

We have engaged with Ofwat and are responding to the feedback we have received from them to date and will submit our Final Business Plan to Ofwat in April 2009. As the general economic conditions and state of the financial markets continue to evolve, we are also maintaining a close watch on these factors and their potential impact on our assumptions around the weighted average cost of capital.

Severn Trent Services (previously Water Technologies and Services)
Severn Trent Services' growth strategy remains focused on organic growth and building global presence; expanding existing technologies and services into new geographical markets and taking new technologies into existing markets. We have made good progress in the area of geographic expansion, in particular with our electrochlorination product in the Middle East. In new technologies, the development of the new MicroDynamics microwave powered UV product is progressing well, increasing the order book and growing the pipeline of new project activity.

The core areas of the business continue to deliver against three key financial criteria: continued revenue growth, profit growth and an appropriate return on invested capital. The results in the period demonstrate all three.

Group Financial Performance
In this Interim Results Announcement PBIT is profit before interest and tax; underlying PBIT is PBIT excluding exceptional items as set out in note 3.

Group turnover was £814.3 million (£774.0 million), an increase of 5.2% over the same period last year. The growth in reported turnover was mainly due to the price increases in Severn Trent Water.

Underlying Group PBIT increased by 4.6% to £261.5 million (£250.0 million). Beyond the net increase in turnover, the primary factors affecting underlying PBIT were rising energy and commodity costs and an increase in the level of infrastructure renewals expenditure in Water and Sewerage. There were net exceptional charges of £4.4 million (£21.4 million). Group PBIT has increased 12.5% to £257.1 million (£228.6 million).

As highlighted in our preliminary results published in June 2008, Severn Trent Retail and Utility Services (previously reported in Water and Sewerage) is now reported within Severn Trent Services. Comparatives have been restated to reflect this change as set out below:

Six months ended 30 September 2007	**Water and Sewerage £m**	**Severn Trent Services £m**	**Corporate and Other £m**	**Eliminations £m**	**Consolidated £m**
Total Sales (As previously reported)	640.6	146.4	2.6	(15.6)	774.0
Retail and Utility Services	(6.4)	6.8	-	(0.4)	-
Total Sales (As restated)	**634.2**	**153.2**	**2.6**	**(16.0)**	**774.0**
Underlying PBIT (As previously reported)	247.1	10.1	(5.3)	(1.9)	250.0
Retail and Utility Services	(2.6)	2.6	-	-	-
Underlying PBIT (As restated)	**244.5**	**12.7**	**(5.3)**	**(1.9)**	**250.0**

Water and Sewerage
Turnover in Water and Sewerage increased by 5.4% in 2008/09, to £668.4 million. Sales prices increased by 5.07% (including inflation) from 1 April 2008. We have previously noted a decline in consumption across our measured income base and turnover in the first half of 2008/09 was £5.4 million lower than the same period last year as a consequence of this trend. We expect this to continue and estimate it will impact revenues by around £12 to £15 million in the current financial year.

Underlying PBIT was up by 4.4% on the same period last year, to £255.3 million. Beyond the increase in turnover, a number of factors impacted underlying PBIT, principally; an increase in infrastructure renewals expenditure of £10.8 million, an increase in energy and commodity costs of £7.8 million, bad debt charge of £2.7 million and other cost increases (net of efficiencies) of £3.5 million. Through our continued focus on raising standards, upskilling our workforce and improving our processes we are now delivering efficiencies across many areas of the business, including areas such as leakage management which has led to reduced contractor costs. These efficiencies have partly mitigated the impact of inflation on our cost base in the first half of this year.

During the period, Severn Trent Water invested £295.3 million (UK GAAP, gross) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure maintenance expenditure of £57.5 million, charged to the income statement under IFRS.

Severn Trent Services
Turnover in Severn Trent Services at £157.1 million in the period was up 2.5% on the same period last year.

Severn Trent Services' underlying PBIT increased by 4.7% to £13.3 million. As detailed below, excluding the impact of Retail and Utility Services (STRS), where margins have fallen due to the declining property market, underlying PBIT has increased by 9.9% to £11.1 million.

Six months ended	**30 Sept 2008**	**30 Sept 2007**	**Increase/ (Decrease)**
	£m	**£m**	**%**
Sales (Excluding STRS)	150.1	146.4	2.5%
STRS	7.0	6.8	2.9%
Total Sales	**157.1**	**153.2**	**2.5%**
Underlying PBIT (Excluding STRS)	11.1	10.1	9.9%
STRS	2.2	2.6	(15.4%)
Underlying PBIT	**13.3**	**12.7**	**4.7%**

Corporate and Other
Corporate and Other incurred a net charge before interest, tax and exceptional items of £6.5 million (net charge of £5.3 million).

Exceptional items

There was a net exceptional operating charge, on continuing operations, in the six months to 30 September 2008 of £4.4 million (£21.4 million) comprising:

- A net credit of £7.2 million arising from the flooding incidents that affected the Water and Sewerage networks during the summer of 2007. This includes insurance recoveries of £9.3 million less costs of £2.1 million;
- A charge of £5.4 million in Water and Sewerage arising from the programme to restructure and realign the business;
- A charge of £7.2 million arising from Severn Trent Water's settlement of the regulatory issues that arose in previous years. This includes a court imposed fine of £2 million and costs of £0.2 million from two offences relating to leakage data supplied to Ofwat in 2001 and 2002 and a provision of £5 million for additional contributions to the Severn Trent Charitable Trust as agreed with Ofwat (see note 13); and
- In Severn Trent Services, a credit of £1 million arising from the release of an exceptional provision made in the prior year relating to third party legal costs.

Net finance costs

The Group's net finance costs were £107.1 million, compared to £88.6 million in the prior period. The increase was largely due to higher interest charges on index linked debt of £33.2 million (£25.3 million) caused by higher RPI and the interest on the increased average Group net debt. Finance costs on pension obligations also increased as a result of a higher discount rate, whilst the expected return on assets was lower because the value of investments declined.

Profit before tax

After net finance costs of £107.1 million (£88.6 million) and share of results of associates and joint ventures of £0.1 million (£0.1 million), Group profit before tax, exceptional items and gains/losses on financial instruments, decreased by 4.3% to £154.5 million (£161.5 million). Group profit before tax was £137.9 million (£149.5 million).

Taxation
The total tax charge for the period was £221.1 million (£2.6 million credit), of which current tax represented a charge of £37.7 million (£46.1 million) and deferred tax (see note 4) was a charge of £183.4 million (credit of £48.7 million), including an exceptional charge of £185.6 million in relation to the phased withdrawal of Industrial Buildings Allowances. The loss for the period was £83.2 million (profit of £152.1 million).

The effective rate of current tax, excluding prior year charges and exceptional items, calculated on profit before tax, exceptional items and gains/losses on financial instruments was 24.1% (30.7%). Reasons for the reduction include the decrease in the UK corporation tax rate from 30% to 28% and the tax impact of increased spend on the capital programme.

Going forward, we expect the effective current tax rate for the full year 2008/09 to be in the range of 24% to 26%.

Earnings per share
Basic loss/earnings per share was a loss of 35.8 pence (earnings of 64.7 pence). Adjusted basic earnings per share (before exceptional items, gains/losses on financial instruments and deferred tax) were 50.0 pence (47.6 pence), see note 6.

Cash flow

	30 Sept 2008	30 Sept 2007
	£m	£m
Cash generated from operations	**369.6**	390.3
Net capital expenditure	**(226.4)**	(217.5)
Net interest paid	**(82.5)**	(55.2)
Tax received/(paid)	**26.6**	(37.0)
Free cash flow	**87.3**	80.6
Dividends	**(97.8)**	(90.8)
Issue of shares	**6.3**	7.1
Purchase of own shares	**(2.4)**	-
Change in net debt from cash flows	**(6.6)**	(3.1)
Non cash movements	**(36.3)**	(35.5)
Change in net debt	**(42.9)**	(38.6)
Net debt at 1 April	**(3,432.8)**	(3,127.6)
Net debt at 30 September	**(3,475.7)**	(3,166.2)
Net debt comprises:		
Cash and cash equivalents	**576.3**	423.2
Borrowings – current liabilities	**(280.0)**	(430.4)
Borrowings – non-current liabilities	**(3,772.0)**	(3,159.0)
	(3,475.7)	(3,166.2)

Cash generated from operations was £369.6 million (£390.3 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £226.4 million (£217.5 million). Net interest paid increased to £82.5 million (£55.2 million), principally due to the increase in net debt and timings on cash interest payments.

Net debt at 30 September 2008 was £3,475.7 million (March 2008 £3,432.8 million). Balance sheet gearing (net debt/net debt plus equity) at the half year is 78.2% (31 March 2008 74.0%). The Group's net interest charge, excluding gains/losses on financial instruments and net finance costs from pensions, was covered 3.6 times (3.9 times) by profit before interest, tax, depreciation and exceptional items, and 2.5 times (2.6 times) by underlying PBIT.

Pensions
The Group operates three defined benefit pension schemes, of which the Severn Trent Pension Scheme (STPS) is by far the largest. Formal triennial actuarial valuations and funding agreements were last undertaken for the STPS and another scheme, the Severn Trent Senior Staff Pension Scheme (SSPS), as at 31 March 2007. The key actuarial assumptions from these valuations have been updated for the accounts as at 30 September 2008 though overall contribution levels remain unchanged.

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 £226.3 million as at 30 September 2008. This compares to a deficit of £126.0 million as at 31 March 2008. The movements in the net deficit were:

	Defined benefit obligations	Fair value of plan assets	Net deficit
At 1 April 2008	(1,458.3)	1,332.3	(126.0)
Employer contributions	-	18.3	18.3
Employee contributions	(4.0)	4.0	-
Benefits paid	35.3	(35.3)	-
Service cost	(13.9)	-	(13.9)
Net finance cost	(46.3)	44.2	(2.1)
Experience losses	(0.2)	(151.7)	(151.9)
Change in assumptions	49.3	-	49.3
At 30 September 2008	(1,438.1)	1,211.8	(226.3)

On an IAS 19 basis, the funding level has reduced from around 91% at 31 March 2008 to around 84% at 30 September 2008.

Treasury management
In the context of the "credit crunch", the Group is in a strong liquidity position today. The Group renewed for 5 years a £200 million bank facility in July 2008. The Group has in excess of £570 million in cash and liquid reserves, following the issue of a €700m Eurobond in March 2008. The Group also has an undrawn £500 million committed bank facility that matures in 2013. The average debt maturity is unchanged at around 20 years (September 2007 20 years).

The Board continues to watch the debt markets carefully and will consider appropriate opportunities to raise funds consistent with the Group's needs.

However, the Group is funded for its investment and cash flow needs at least until the end of the AMP4 period in March 2010.

The Group's policy for the management of interest rate risk requires that no less than 45% of the Group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 30 September 2008, interest rates for some 70% of the Group's net debt of £3,475.7 million were so fixed, with the remaining 30% index-linked to RPI. The effective interest rate for the period to September 2008 was 6.1%.

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 was immaterial.

Dividend
In line with its policy for growing dividends by 3% above the rate of inflation until March 2010, the Board has declared an interim ordinary dividend of 26.29p (2007/08 24.34p), an increase of 8.0% over the 2007/08 interim ordinary dividend. The interim ordinary dividend is payable on 16 January 2009 to shareholders on the register at 5 December 2008.

Principal risks and uncertainties
With regard to the remaining six months of the year, the Board consider the principal risks and uncertainties affecting the business activities of the Group to be those detailed below:

- Changes in law or regulation in the countries and types of business in which we operate could have an adverse effect on our business and operations.
- The results of our operations depend on a number of factors relating to business performance, including the ability to outperform regulatory targets and deliver anticipated cost and efficiency savings.
- Changes in government environmental protection and health and safety laws and regulations governing our businesses.
- The failure of our assets, systems or our ability to carry out critical operations could have a significant impact on our financial position and our reputation.
- External factors could affect the Group's pension schemes and adversely impact on our financial position.
- External financial market factors could adversely impact on our financial position.

Outlook
Performance at our principal business, Severn Trent Water, has been as expected in the first half of 2008/09, with a continued focus on improving our performance. We remain on track to deliver around 3% annual outperformance against the Ofwat determination for operating costs in 2008/09 and 2009/10, notwithstanding significant increases in commodity prices in the first six months of this financial year.

The capital programme is proceeding according to plan and we expect that the previously announced efficiencies of around 6% over the Ofwat determination continue to be deliverable over the remaining AMP4 period.

We anticipate performance at Severn Trent Services to continue as in the first half, delivering sustained year on year growth, with the exception of the smaller Retail and Utility Services business, where current market conditions are anticipated to remain difficult and performance is likely to be down year on year.

The Group has a strong liquidity position and is funded for its investment and cash flow needs at least until the end of the AMP4 period in March 2010.

Severn Trent continues to believe that the appropriate long term gearing level of the company is 60% net debt/RCV. However, given the current and ongoing uncertainties in the credit markets the Board believes it is prudent in the near term for the company to retain as much liquidity and flexibility as possible. As such the Board does not expect to pursue the target gearing level of 60% net debt/RCV until the credit markets improve.

Severn Trent is a high quality business whose investment programme drives strong growth prospects. The management team has a clear and focused strategy and is engaged in the single minded pursuit of higher standards as the means to achieve both higher levels of customer satisfaction, and also sustained strong financial returns to shareholders.

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

Condensed consolidated income statement
Six months ended 30 September 2008

Six months ended 30 September	Notes	2008 £m	2007 £m
Turnover	2	**814.3**	774.0
Operating costs before exceptional items		**(552.8)**	(524.0)
Exceptional flood income / (costs)	3	**7.2**	(18.2)
Exceptional restructuring costs	3	**(5.4)**	(3.2)
Exceptional charge relating to regulatory matters	3	**(7.2)**	-
Exceptional release of provision for third party legal costs	3	**1.0**	-
Total operating costs		**(557.2)**	(545.4)
Profit before interest, tax and exceptional items	2	**261.5**	250.0
Exceptional items	3	**(4.4)**	(21.4)
Profit before interest and tax	2	**257.1**	228.6
Finance income		**64.2**	58.4
Finance costs		**(171.3)**	(147.0)
Net finance costs		**(107.1)**	(88.6)
(Losses)/gains on financial instruments		**(12.2)**	9.4
Share of results of associates and joint ventures		**0.1**	0.1
Profit before tax, (losses)/gains on financial instruments and exceptional items		**154.5**	161.5
Exceptional items		**(4.4)**	(21.4)
(Losses)/gains on financial instruments		**(12.2)**	9.4
Profit on ordinary activities before taxation		**137.9**	149.5
Taxation on profit on ordinary activities			
– current tax	4	**(37.7)**	(46.1)
– deferred tax	4	**2.2**	(6.0)
– tax charge before exceptional tax	4	**(35.5)**	(52.1)
– exceptional deferred tax (charge)/credit	4	**(185.6)**	54.7
Total taxation	4	**(221.1)**	2.6
(Loss)/profit for the period		**(83.2)**	**152.1**
Attributable to:			
Equity holders of the Company		**(83.8)**	150.9
Equity minority interests		**0.6**	1.2
		(83.2)	**152.1**
(Loss)/earnings per share (pence)			
Basic	6	**(35.8)**	64.7
Diluted	6	**(35.8)**	64.2

Condensed consolidated balance sheet
At 30 September 2008

	Notes	30 September 2008 £m	31 March 2008 £m
Non current assets			
Goodwill		**53.7**	50.2
Other intangible assets		**105.9**	107.2
Property, plant and equipment		**5,854.8**	5,731.2
Interests in joint ventures		**0.2**	0.1
Interests in associates		**4.1**	4.1
Derivative financial instruments		**48.2**	51.3
Available for sale financial assets		**0.1**	0.1
		6,067.0	5,944.2
Current assets			
Inventory		**28.9**	24.8
Trade and other receivables		**457.8**	434.1
Derivative financial instruments		**9.2**	5.3
Cash and cash equivalents		**576.3**	654.4
		1,072.2	1,118.6
Total assets		**7,139.2**	7,062.8
Current liabilities			
Borrowings	7	**(280.0)**	(459.5)
Derivative financial instruments		**(0.8)**	(8.9)
Trade and other payables		**(468.0)**	(423.4)
Current income tax liabilities		**(94.3)**	(32.4)
Provisions for other liabilities and charges		**(10.6)**	(50.4)
		(853.7)	(974.6)
Non current liabilities			
Borrowings	7	**(3,772.0)**	(3,627.7)
Derivative financial instruments		**(77.2)**	(73.8)
Trade and other payables		**(247.7)**	(220.4)
Deferred tax liabilities		**(965.8)**	(808.3)
Retirement benefit obligations	8	**(226.3)**	(126.0)
Provisions for other liabilities and charges		**(27.1)**	(26.8)
		(5,316.1)	(4,883.0)
Total liabilities		**(6,169.8)**	(5,857.6)
Net assets		**969.4**	1,205.2
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	9	**230.6**	229.7
Share premium account	10	**69.6**	64.3
Other reserves	10	**440.2**	427.4
Retained earnings	10	**224.6**	479.6
Equity attributable to the Company's equity shareholders		**965.0**	1,201.0
Minority interests	10	**4.4**	4.2
Total equity	10	**969.4**	1,205.2

Condensed consolidated cash flow statement
Six months ended 30 September 2008

Six months ended 30 September	Notes	**2008 £m**	2007 £m
Cash generated from operations	11	**369.6**	390.3
Interest paid		**(94.2)**	(68.1)
Interest element of finance lease rental payments		**(8.9)**	-
Tax received/(paid)		**26.6**	(37.0)
Net cash generated from operating activities		**293.1**	285.2
Investing activities			
Interest received		**20.6**	12.9
Proceeds on disposal of property, plant and equipment		**2.9**	4.2
Purchases of intangible assets		**(10.0)**	(13.2)
Purchases of property, plant and equipment		**(235.2)**	(227.5)
Contributions and grants received		**15.9**	19.0
Net cash used in investing activities		**(205.8)**	(204.6)
Financing activities			
Dividends paid to shareholders of the parent		**(97.0)**	(90.4)
Dividends paid to minority interests		**(0.8)**	(0.4)
Repayments of borrowings		**(78.8)**	(510.9)
Repayment of obligations under finance leases		**(5.1)**	-
New finance lease obligations		**-**	5.7
New loans raised		**4.5**	789.7
Issue of shares		**6.3**	7.1
Purchase of own shares		**(2.4)**	-
Net cash (used in) /generated from financing activities		**(173.3)**	200.8
(Decrease) / increase in cash and cash equivalents		**(86.0)**	281.4
Net cash and cash equivalents at beginning of the period		**653.4**	143.1
Effect of foreign exchange rates		**2.4**	(1.9)
Net cash and cash equivalents at the end of the period		**569.8**	422.6
Net cash and cash equivalents comprise			
Cash and cash equivalents		**576.3**	423.2
Bank overdrafts		**(6.5)**	(0.6)
Net cash and cash equivalents at the end of the period		**569.8**	422.6

Condensed consolidated statement of recognised income and expense
Six months ended 30 September 2008

Six months ended 30 September	**2008** **£m**	2007 £m
Exchange movement on translation of overseas results and net assets	**11.1**	(2.4)
Gains on cash flow hedges taken to equity	**0.4**	0.7
Deferred tax on gains on cash flow hedges taken to equity	**(0.1)**	0.2
Actuarial losses on defined benefit pension schemes	**(102.6)**	(7.5)
Tax on actuarial losses	**28.7**	2.2
Change of tax rate on deferred tax previously recognised directly in equity	**-**	5.4
Net expense recognised directly in equity	**(62.5)**	(1.4)
Transfers		
Amounts on cash flow hedges transferred to the income statement in the period	**2.4**	2.8
Deferred tax on transfers to income statement	**(0.7)**	(0.8)
	1.7	2.0
(Loss)/profit for the period	**(83.2)**	152.1
Total recognised (loss)/income for the period	**(144.0)**	152.7
Attributable to:		
Equity shareholders of the Company	**(145.0)**	151.5
Minority interests	**1.0**	1.2
	(144.0)	152.7

Notes to the condensed interim financial information

1 General information

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

The information for the year ended 31 March 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year prepared under IFRS has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

Accounting policies

The interim financial information has been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with IAS 34 "Interim Financial Reporting". The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's annual financial statements for the year ended 31 March 2008.

Seasonality

The Group's businesses are not seasonal in nature.

2 Segmental analysis

The Group is organised into two main business segments:

Water and Sewerage: Provides water and waste water services to domestic and commercial customers in England and Wales.

Severn Trent Services (formerly Water Technologies and Services): Provides services and products associated with water, waste water and contaminated land principally in the US, UK and Europe.

2 Segmental analysis (continued)

Six months ended 30 September 2008

	Water and Sewerage £m	Severn Trent Services £m	Corporate and Other £m	Eliminations £m	Consolidated £m
External sales	668.4	145.9	-	-	814.3
Inter-segment sales	-	11.2	2.1	(13.3)	-
Total sales	668.4	157.1	2.1	(13.3)	814.3
Profit before interest, tax and exceptional items	255.3	13.3	(6.5)	(0.6)	261.5
Exceptional items (note 3)	(5.4)	1.0	-	-	(4.4)
Profit before interest and tax	249.9	14.3	(6.5)	(0.6)	257.1
Share of results of associates and joint ventures	-	0.1	-	-	0.1
Segment result	249.9	14.4	(6.5)	(0.6)	257.2
Total net finance costs and (losses)/gains on financial instruments					(119.3)
Profit before tax					137.9
Tax					(221.1)
Loss for the period					(83.2)

Six months ended 30 September 2007

	Water and Sewerage (restated) £m	Severn Trent Services (restated) £m	Corporate and Other £m	Eliminations £m	Consolidated £m
External sales	633.8	140.2	-	-	774.0
Inter-segment sales	0.4	13.0	2.6	(16.0)	-
Total sales	634.2	153.2	2.6	(16.0)	774.0
Profit before interest, tax and exceptional items	244.5	12.7	(5.3)	(1.9)	250.0
Exceptional items (note 3)	(21.4)	-	-	-	(21.4)
Profit before interest and tax	223.1	12.7	(5.3)	(1.9)	228.6
Share of results of associates and joint ventures	-	0.1	-	-	0.1
Segment result	223.1	12.8	(5.3)	(1.9)	228.7
Total net finance costs and (losses) /gains on financial instruments					(79.2)
Profit before tax					149.5
Tax					2.6
Profit for the period					152.1

2 Segmental analysis (continued)

Six months ended 30 September 2007 (Restated)

With effect from 1st April 2008 Severn Trent Retail Services Ltd and its subsidiary company Complete Credit Management Ltd (together "STRS") were transferred from Water and Sewerage to the Severn Trent Services segment. The comparative information has been restated to reflect this revised classification as follows:

	Water and Sewerage £m	Water Technologies and Services £m
External sales as originally stated	640.5	133.5
Transfer STRS Group sales	(6.7)	6.7
Restated external sales	633.8	140.2
Inter-segment sales as originally stated	0.1	12.9
Reanalysis of inter segment sales following transfer	0.3	0.1
Restated inter-segment sales	0.4	13.0
Total sales as originally stated	640.6	146.4
Transfer STRS external group sales	(6.7)	6.7
Reanalysis of inter segment sales following transfer	0.3	0.1
Restated total sales	634.2	153.2
Profit before interest, tax and exceptional items as originally stated	247.1	10.1
Transfer STRS group	(2.6)	2.6
Restated profit before interest, tax and exceptional items	244.5	12.7

3 Exceptional items

The Group classifies as exceptional items of 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 the six months ended 30 September 2008 an exceptional charge of £4.4 million arose. This comprised:

- A net credit of £7.2 million arising from the flooding incidents that affected the Water and Sewerage networks during the summer of 2007. This includes insurance recoveries of £9.3 million less costs of £2.1 million;
- A charge of £5.4 million in Water and Sewerage arising from the programme to restructure and realign the business;
- A charge of £7.2 million arising from Severn Trent Water's settlement of the regulatory issues that arose in previous years. This includes a court imposed fine of £2 million and costs of £0.2 million from two offences relating to leakage data supplied to Ofwat in 2001 and 2002 and a provision of £5 million for additional contributions to the Severn Trent Charitable Trust as agreed with Ofwat (see note 13); and
- In Severn Trent Services, a credit of £1 million arising from the release of an exceptional provision made in the prior year relating to third party legal costs.

In the six months ended 30 September 2007 an exceptional charge of £21.4 million arose. This comprised:

- A net cost of £18.2 million arising from the flooding incidents that affected the Water and Sewerage networks during the summer of 2007. This included costs of £23.2 million which had been identified at that date less insurance recoveries of £5 million which had been received; and
- A charge of £3.2 million relating to the programme to improve, restructure and realign the Water and Sewerage business that commenced in the year ended 31 March 2007.

4 Tax

Income tax for the period before exceptional deferred tax is charged in the income statement at 25.7% (six months ended 30 September 2007: credited at 34.8%), representing the best estimate of the average annual effective income tax rate expected for the full year applied to the pre tax income of the six month period.

The effective rate of current tax, excluding prior year charges and exceptional items, calculated on profit before tax, exceptional items and gains/losses on financial instruments was 24.1% (2007: 30.7%).

Current tax of £1.8 million and deferred tax of £25.3 million has been credited directly to reserves in the period.

Exceptional deferred tax

The Finance Act 2008 includes legislation which will prevent the group claiming industrial building allowances on affected assets after 2011. This change is being introduced by reducing the rate of allowances that may be claimed from 1 April 2008 to 31 March 2011 at which point the allowances will be removed. The removal of these allowances has resulted in an exceptional deferred tax charge of £185.6 million in the period. The directors estimate that the proposed changes will increase the future corporation tax charge by up to £12 million in aggregate in the three years up to the abolition of the allowance.

4 Tax (continued)

The Finance Act 2007 implemented a reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008. The impact of this rate reduction on the deferred tax provision was reflected in the prior year and resulted in deferred tax credits of £54.7 million in the profit and loss account and £5.4 million in reserves.

5 Dividends

Amounts recognised as distributions to equity holders in the period:

Six months ended 30 September	**2008**		2007	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March	**41.34**	**97.0**	38.68	90.4
Proposed interim dividend for the year ending 31 March	**26.29**	**61.9**	24.34	57.0

The proposed interim dividend was approved by the board on 24 November 2008 and has not been included as a liability as at 30 September 2008.

6 Earnings per share

Basic earnings per share are 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 and LTIP awards where the vesting conditions have been satisfied at the balance sheet date. Potential ordinary shares which would reduce a loss per share are not considered to be dilutive and hence in these circumstances diluted loss per share is equal to basic loss per share.

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

Earnings

Six months ended 30 September	**2008**	2007
	£m	£m
Earnings for the purpose of basic and diluted earnings per share from continuing and discontinued operations being:		
(Loss)/profit for the period attributable to the equity holders of the Company	**(83.8)**	150.9

6 Earnings per share (continued)

Number of shares

Six months ended 30 September	2008 m	2007 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**234.4**	233.4
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	**1.1**	1.7
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**235.5**	235.1

Adjusted earnings per share

Six months ended 30 September	2008	2007
	Pence	Pence
Adjusted basic earnings per share	**50.0**	47.6
Adjusted diluted earnings per share	**49.8**	47.2

Adjusted earnings per share figures. These exclude the effects of deferred tax, (losses)/gains on financial instruments and exceptional items in both 2008 and 2007. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

Adjustments to earnings

Six months ended 30 September	2008	2007
	£m	£m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**(83.8)**	150.9
Adjustments for:		
Exceptional flood (income)/costs	**(7.2)**	18.2
Exceptional restructuring costs	**5.4**	3.2
Exceptional charge relating to regulatory matters	**7.2**	-
Exceptional release of provision for third party legal costs	**(1.0)**	-
Current tax related to exceptional items	**1.0**	(3.2)
Gains/(losses) on financial instruments	**12.2**	(9.4)
Deferred tax	**183.4**	(48.7)
Earnings for the purpose of adjusted basic and diluted earnings per share	**117.2**	111.0

7 Borrowings

	30 September 2008 £m	31 March 2008 £m
Bank overdrafts	**6.5**	1.0
Bank loans	**744.6**	742.7
Other loans	**2,920.5**	2,958.1
Obligations under finance leases	**380.4**	385.4
Borrowings	**4,052.0**	4,087.2

	30 September 2008 £m	31 March 2008 £m
The borrowings are repayable as follows:		
On demand or within one year (included in current liabilities)	**280.0**	459.5
In the second year	**197.0**	233.5
In the third to fifth years inclusive	**807.5**	155.3
After five years	**2,767.5**	3,238.9
Included in non-current liabilities	**3,772.0**	3,627.7
	4,052.0	4,087.2

Movements in the Group's net debt in the six months ended 30 September are shown below:

	Borrowings £m	Cash £m	Net debt £m
New debt	4.5	(4.5)	-
Interest rolled up	22.9	-	22.9
Capital repayments	(83.9)	83.9	-
Fair value adjustments	14.2	-	14.2
Exchange and other adjustments	1.6	(2.4)	(0.8)
Non cash movements in net debt	(40.7)	77.0	36.3
Cash movements in net debt	5.5	1.1	6.6
Movement in net debt in the period	**(35.2)**	**78.1**	**42.9**
Net debt at 1 April 2008	4,087.2	(654.4)	3,432.8
Net debt at 30 September 2008	**4,052.0**	**(576.3)**	**3,475.7**

8 Retirement benefit schemes

The Group operates three defined benefit schemes being the Severn Trent Pension Scheme, the Severn Trent Mirror Image Scheme and the Severn Trent Senior Staff Pension Scheme. 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 retirement benefit obligation as at 30 September 2008 has been calculated on a year to date basis, using the actuarial valuation update as at 31 March 2008. There have not been any significant fluctuations or one time events since that date that would require adjustment to the actuarial assumptions made at 31 March 2008. However, the market based assumptions have been updated for conditions prevailing at the balance sheet date as follows:

	30 September 2008	31 March 2008
Discount rate	**6.6%**	6.4%
Inflation rate	**3.4%**	3.4%

The defined benefit assets have been updated to reflect their market value as at 30 September 2008. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial loss in the statement of recognised income and expense in accordance with the Group's accounting policy.

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

Six months ended 30 September	**2008 £m**	**2007** £m
Amounts charged to operating costs:		
Current service cost	**(13.9)**	(15.3)
Amounts charged to net finance costs:		
Interest cost	**(46.3)**	(40.4)
Expected return on scheme assets	**44.2**	46.7
	(2.1)	6.3
Total amount charged to the income statement	**(16.0)**	(9.0)

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

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

	30 September 2008 £m	31 March 2008 £m
Present value of defined benefit obligations – funded schemes	**(1,431.7)**	(1,451.9)
Total fair value of assets	**1,211.8**	1,332.3
Present value of defined benefit obligations – unfunded schemes	**(6.4)**	(6.4)
Liability recognised in the balance sheet	**(226.3)**	(126.0)

8 Retirement benefit schemes (continued)

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

Six months ended 30 September	**2008**	2007
	£m	£m
At 1 April	**(126.0)**	(135.1)
Service cost	**(13.9)**	(15.3)
Interest cost	**(46.3)**	(40.4)
Expected return on scheme assets	**44.2**	46.7
Contributions from the sponsoring companies	**18.3**	33.1
Actuarial losses recognised in the statement of recognised income and expense	**(102.6)**	(7.5)
At 30 September	**(226.3)**	(118.5)

9 Share capital

At 30 September 2008 the issued and fully paid share capital was 235.6 million shares of $97^{17}/_{19}$ p amounting to £230.6 million (31 March 2008: 234.6 million shares of $97^{17}/_{19}$ p amounting to £229.7 million).

During the period the Group issued 978,591 shares as a result of the exercise of employee share options.

10 Movements in total equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Minority interests £m	Total equity £m
At 1 April 2008	229.7	64.3	427.4	479.6	4.2	1,205.2
Shares issued	0.9	5.3	-	-	-	6.2
Share based payments	-	-	-	0.5	-	0.5
Tax on share based payments	-	-	-	(0.7)	-	(0.7)
Dividends paid	-	-	-	(97.0)	(0.8)	(97.8)
Recognised income for the period	-	-	12.8	(157.8)	1.0	(144.0)
At 30 September 2008	**230.6**	**69.6**	**440.2**	**224.6**	**4.4**	**969.4**

11 Net cash inflow from operating activities

Six months ended 30 September	**2008 £m**	2007 £m
Profit before interest and tax	**257.1**	228.6
Depreciation of property, plant and equipment	**104.5**	102.0
Amortisation of intangible assets	**12.0**	15.3
Pension service cost	**13.9**	15.3
Pension contributions	**(18.3)**	(33.1)
Share based payments charge	**2.7**	1.6
(Profit) on sale of property, plant and equipment	**(2.0)**	(0.4)
Deferred income movement	**(2.4)**	(2.9)
Provisions for liabilities and charges	**4.0**	1.7
Utilisation of provisions for liabilities and charges	**(43.6)**	(4.4)
Decrease in working capital	**41.7**	66.6
Cash generated from operations	**369.6**	390.3
Interest paid	**(94.2)**	(68.1)
Interest element of finance lease rental payments	**(8.9)**	-
Tax received/(paid)	**26.6**	(37.0)
Net cash inflow from operating activities	**293.1**	**285.2**

12 Post balance sheet events

There were no significant post balance sheet events.

13 Contingent Liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2008 which were approved on 4 June 2008. No further contingent liabilities have been identified since that date. Developments relating to the matters disclosed are set out below.

- On 1 July 2008 Severn Trent Plc announced that at the Central Criminal Court Severn Trent Water Limited was fined £2 million and ordered to pay £220,000 costs after pleading guilty to two offences relating to leakage data supplied to Ofwat in 2001 and 2002. These costs have been included as an exceptional item in these financial statements (see note 3).

- Severn Trent Plc announced on 1st August 2008 that it accepted the fines of £35.8 million imposed by Ofwat for deliberately providing false information to Ofwat in the period 2005-06, and for delivering poor service to its customers in the same period. A provision for this amount was included in the financial statements for the year ended 31 March 2008.

- Severn Trent Plc has also concluded discussions with Ofwat concerning the resolution of the Ofwat interim report of March 2006. As a result, Severn Trent Water Limited has agreed to provide targeted financial support to its low-income customers who are in most need of financial support in the current difficult economic climate by making payments totaling £5m to the Severn Trent Charitable Trust Fund. This is likely to be paid £2m in each of the two years 2008-09 and 2009-10 and £1m in 2010-11 but has been provided in full in these financial statements (see note 3).

14 Forward-looking statements

This document contains certain “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”, “should”, “expects”, “believes”, “intends”, “plans”, “targets”, “goal” or “estimates”. 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 will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; 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. Severn Trent does not intend to update these forward-looking statements.

15 Cautionary statement

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).

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; 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 Services Authority.

Signed on behalf of the Board who approved the half yearly financial report on 24 November 2008.

Sir John Egan	Michael McKeon
Chairman	Finance Director

Further copies of this half yearly financial report may be obtained from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU.

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 2008 which comprises the condensed income statement, the condensed balance sheet, the condensed statement of recognised income and expense, the condensed cash flow statement and related notes 1 to 15. 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 2410 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 Kingdoms' Financial Services 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 30 September 2008 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 Services Authority.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditor
24 November 2008
London, UK