Severn Trent Plc
Half Yearly Financial Report
23 November 2010
Interim Results for the six months to 30 September 2010

CONTINUOUS IMPROVEMENT UNDERPINS NEW DIVIDEND POLICY

Highlights

- Efficiency improvement programmes – key milestones achieved and benefits being realised
- New dividend policy: annual growth of RPI+3% until 2014/15.*
- Good underlying profit, despite real price reductions at Severn Trent Water
- Opex in line with expectations – below level allowed in final determination
- Further progress in implementing our renewable energy strategy with commissioning of the UK's 1st commercial scale energy crop plant within budget and almost 2 months ahead of programme
- In good shape to deliver further efficiencies and meet the challenges of AMP5

* RPI = November RPI of prior year, in line with the regulatory pricing model

Group results

	30 Sept 2010 £m	30 Sept 2009 £m	Increase/ (Decrease) %
Group turnover	**867.9**	852.1	1.9%
Underlying group PBIT[1]	**277.0**	287.1	(3.5%)
Underlying profit before tax[2]	**158.0**	188.0	(16.0%)
Profit before tax	**101.1**	208.2	(51.4%)
	pence/ share	pence/ share	
Adjusted basic EPS[3]	**47.4**	60.8	(22.0%)
Basic earnings per share	**43.9**	63.4	(30.8%)
Interim dividend declared	**26.04**	26.71	(2.5%)

1 before exceptional items (see note 3)
2 before exceptional items and (losses)/gains on financial instruments
3 before exceptional items, (losses)/gains on financial instruments and deferred tax (see note 7)

Tony Wray, Chief Executive Severn Trent Plc, said:

"We have made a good start to the AMP5 period with further progress in developing our people, delivering the highest standards and the lowest charges.

We have continued to raise standards and drive greater efficiency across the business with good progress in many key areas including further improvements in customer service, sewer flooding and leakage. We are also pleased to report that despite challenging markets, Severn Trent Services has returned to growth, as expected.

Thanks to the support and hard work of all our people, Severn Trent is approaching the end of a significant period of change, which has increased our confidence in the future of our business and our ability to deliver on planned savings and operational improvements through AMP5.

We are well placed to achieve higher levels of operational excellence and progressive, sustainable returns to shareholders, which underpins our new dividend policy for the period 2011/12 to 2014/15 of annual growth of RPI+3%*."

* RPI = November RPI of prior year

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Interim Results Presentation and Webcast

There will be an interim results presentation at 9:30am on Tuesday 23 November 2010 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. This presentation will be available as a simultaneous webcast on the Severn Trent web site (www.severntrent.com) and will remain on the site for subsequent viewing.

Interim Management Report

Operating Review

Severn Trent Water

We continue to execute on our plans to raise standards and drive greater efficiency across the business. We have continued to make good progress in many key areas since the end of March, with further improvements in customer service related KPIs, a result of investing in our people, increasing capability and focusing on process and technology improvements. Our performance for first time call resolution for billing and first time job resolution has improved, and we also made further progress on sewer flooding incidents and leakage, both areas that we know customers value.

In the Consumer Council for Water (CCW) annual report on Complaint Handling, Severn Trent was highlighted for our continued reduction in complaints, and for our rapid rate of improvement over the last few years. We have now climbed from being ninth out of ten to second based on the number of complaints received for every 10,000 customers.

We have also completed the restructuring of support functions, with a reduction of 275 roles on a base of 1,100, producing savings of around £10 million per annum, with £5 million expected to be realised in the current financial year.

We recently completed our annual update of the benchmarks we use to assess our relative performance. Compared to the position we reported for the end of March 2010, there is only one KPI where sector benchmarks have moved forward (employee motivation), resulting in our previously reported median performance being restated as lower quartile. That means we now have 3 KPIs in the lower quartile, 8 in median and 9 in the upper quartile. The company is nearing the end of a period of significant change, made possible by the support of our employees. However, that change also presented a challenge, as evidenced by our KPI performance, and we are committed to improving this metric in the future. As companies in our sector or elsewhere redefine what upper quartile means, so we expect our objectives to move with them and we will continue to update our benchmarks annually in September.

We have, against our expectations, seen positive trends in consumption leading to an increase of 1% in turnover period on period. This was due to higher household consumption, resulting from a dry summer, and robust commercial consumption due to a lower level of company insolvencies, which is now closer to the historic long term run rate having peaked in June 2009.

We have worked hard on our collections performance and the level of bad debt charge has fallen to 2.3% of turnover for the period, vs. 2.5% reported for the year 2009/10. Whilst we continue to actively manage this area, debt over one year old is increasingly harder to collect and the impact of any rises in unemployment due to public sector redundancies in our region remain to be seen. We continue to monitor the situation closely.

Operating expenditure continues to be in line with the Board's expectations for the year and below the level assumed in the final determination. Operating costs are expected to rise year on year, due to the impact of higher inflation, partially offset by efficiency savings already achieved and anticipated, such as our Safer, Better, Faster programme and phase 1 SAP implementation.

Due to our “early start” approach with contractors, the capital programme has started well. However, to ensure delivery of planned efficiencies, spend in the first half has proceeded more slowly than anticipated. Therefore spend will be more weighted toward the second half of the year. For the full year we anticipate capex being in the range of £415 to £425 million. We also expect to deliver on our regulatory commitments for this year. Our expected capital programme for the AMP5 period remains at £2.2 billion in current outturn prices.

Our renewable energy programme continues apace and in August 2010 we commissioned the UK’s first commercial scale energy crop plant within budget and almost 2 months ahead of programme. Anaerobic digestion of a 1,750 hectare maize and wheat crop will generate 15 GWh of renewable electricity per year – enough to power 4,500 homes. The plant supplies the adjacent Stoke Bardolph sewage works with electricity and exports any surplus to the grid. As a result, the sewage works is now completely self sufficient in electricity. Total capital investment has been £15 million, with an expected return in excess of £10 million. The plant also qualifies for support under the recently introduced renewables "feed in tariff" and market opportunities are being developed for the use of the bi-product digestate as a high quality biofertiliser.

Severn Trent Services
Economic conditions remain challenging, but Severn Trent Services made good progress in the period. Water Purification converted a strong order book into growth in turnover and profit period on period. This was driven mainly by higher filtration sales, particularly in the US. Cost reduction efforts, through component sourcing to lower cost areas, continue to make gains and also helped drive PBIT growth. The order book remains strong and approximately 70% of orders in hand are scheduled to ship this fiscal year.

Operating services delivered continued organic growth in the period. In the US, both new projects and additional services added to existing contracts helped to drive growth. The level of contract renewals and new project opportunities continue to underpin our confidence in further growth.

In the UK and Europe, further Operating Services contract wins and a focus on cost control led to good PBIT growth. In Ireland our contract in Limerick has now commenced and Letterkenny contract negotiations are well advanced. We are continuing to pursue opportunities in Italy. We are also seeing increased demand in the MENA region.

Analytical services has been impacted by lower volumes and some operational disruption at its Bridgend facility but benefited from the new Yorkshire contract supported by our new Wakefield laboratory coming online.

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 £867.9 million (£852.1 million), an increase of 1.9% over the same period last year. Underlying group PBIT decreased by 3.5% to £277.0 million (£287.1 million). The primary factors affecting turnover and underlying PBIT are described in the commentary on Severn Trent Water and Severn Trent Services below.

There were net exceptional charges of £6.2 million (£11.5 million). Group PBIT decreased 1.7% to £270.8 million (£275.6 million).

Severn Trent Water
Turnover in Severn Trent Water increased by 1.0% in 2010/11, to £702.3 million. Sales prices decreased by 0.7% (including inflation) from 1 April 2010. The previously noted decline in consumption across our measured income base halted in the second half of 2009/10 and higher consumption in the first half of 2010/11 increased turnover by £9.1 million on the same period last year.

Underlying PBIT was down by 2.4% on the same period last year, to £272.7 million. Beyond the increase in turnover, a number of factors impacted underlying PBIT. Wages and salaries were £5.8 million lower as a result of our efficiency programmes. There was an increase in depreciation of £15.8 million arising from the increased asset base and accelerated depreciation on a sludge dryer now written off. There was a reduction in infrastructure renewals expenditure of £8.9 million although we expect the full year charge to be broadly in line with the previous year. Labour and related overheads capitalised were £9.6 million lower than in the first half of 2009/10 reflecting the smaller capital programme in the current year. Other operating costs increased by £2.9 million.

During the period, Severn Trent Water invested £164.5 million (UK GAAP, gross) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure maintenance expenditure of £38.3 million, charged to the income statement under IFRS.

Severn Trent Services

Six months ended 30 September	2010 £m	2009 £m	Increase/ (decrease) %
Turnover			
Services as reported	**172.0**	165.5	3.9%
Like for like* businesses in constant currency	**168.6**	163.9	2.9%
Underlying PBIT			
Services as reported	**13.0**	12.2	6.6%
Like for like* businesses in constant currency	**12.9**	12.1	6.6%

*Excluding acquisitions and disposals in the periods

Reported turnover in Severn Trent Services at £172.0 million in the period was up 3.9% on the same period last year and reported underlying PBIT increased by 6.6% to £13 million.

After adjusting for the impact of exchange rate fluctuations and the effects of small acquisitions and disposals, turnover on a like for like constant currency basis was up 2.9% and underlying PBIT measured on the same basis was up 6.6%.

Corporate and Other
Corporate and Other incurred a net charge before interest, tax and exceptional items of £6.6 million (net charge of £5.4 million). This segment includes the activities of the group’s captive insurance company which insures Severn Trent group risks only and does not write any external business.

Exceptional items
There was a net exceptional operating charge in the six months to 30 September 2010 of £6.2 million (£11.5 million) which arose from Severn Trent Water's ongoing programme to restructure and realign the business.

In the prior year there was an exceptional loss of £1.5 million arising on the disposal of the group's meters business.

Net finance costs
The group's net finance costs were £119.1 million, compared to £99.1 million in the prior period. Higher inflation has led to higher borrowing costs on index linked debt. Net finance costs on pension obligations decreased because the expected return on pension assets was higher as a result of a higher value of investments in the opening balance sheet in the current period than the prior year.

(Losses)/gains 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 generally 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 then an accounting mismatch arises from the hedging activities and there is a net charge or credit to the income statement.

Over the lives of the derivatives, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives do not represent cash flows.

Therefore the group presents adjusted earnings figures that exclude these non-cash items. An analysis of the amounts charged to the income statement in the period is presented in note 4 to the financial statements.

Profit before tax
Underlying group profit before tax decreased by 16.0% to £158.0 million (£188.0 million). Group profit before tax was £101.1 million (£208.2 million).

Taxation
The total tax credit for the period was £3.4 million (charge of £58.2 million), of which current tax represented a charge of £44.0 million (£43.0 million) and deferred tax (see note 5) was a credit of £13.6 million (charge of £15.2 million) excluding an exceptional credit of £33.8 million arising from the reduction in corporation tax rate from 28% to 27% with effect from 1 April 2011.

The effective rate of current tax, excluding prior year charges and exceptional items, calculated on profit before tax, exceptional items and (losses)/gains on financial instruments was 27.8% (24.3%).

Going forward, we expect the effective current tax rate for the full year 2010/11 to be in the range of 25% to 28%. The future changes to tax rates and capital allowances that have been announced by the UK government are expected to be broadly neutral in their impact on the group's effective current tax rate although our analysis is ongoing.

Profit for the period and earnings per share
Profit for the period was £104.5 million (£150.0 million)

Basic earnings per share were 43.9 pence (63.4 pence). Adjusted basic earnings per share (before exceptional items, (losses)/gains on financial instruments and deferred tax) were 47.4 pence (60.8 pence), see note 7.

Cash flow

Six months ended 30 September	2010 £m	2009 £m
Cash generated from operations	**478.2**	435.6
Net capital expenditure	**(198.5)**	(238.3)
Net interest paid	**(80.7)**	(81.5)
Tax paid	**(24.7)**	(14.5)
Other cash flows	**(1.3)**	(9.9)
Free cash flow	**173.0**	91.4
Dividends	**(107.8)**	(96.8)
Issue of shares	**4.0**	4.4
Purchase of own shares	**(2.0)**	(2.2)
Change in net debt from cash flows	**67.2**	(3.2)
Non cash movements	**(29.1)**	12.3
Change in net debt	**38.1**	9.1
Net debt as at 1 April	**(3,761.4)**	(3,559.9)
Net debt as at 30 September	**(3,723.3)**	(3,550.8)

Net debt comprises:

	30 September 2010	31 March 2010	30 September 2009
Cash and cash equivalents	**443.9**	227.8	589.1
Borrowings - current liabilities	**(58.8)**	(260.9)	(490.6)
Borrowings - non-current liabilities	**(4,268.8)**	(3,915.6)	(3,875.9)
Cross currency swaps hedging debt	**160.4**	187.3	226.6
Net debt	**(3,723.3)**	(3,761.4)	(3,550.8)

Cash generated from operations was £478.2 million (£435.6 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £198.5 million (£238.3 million). Net interest paid decreased to £80.7 million (£81.5 million).

In July the group drew down a loan of £150 million from the EIB, which is repayable in 2020.

Net debt at 30 September 2010 was £3,723.3 million (March 2010 £3,761.4 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 80.1% (31 March 2010 79.9%). Net debt, expressed as a percentage of forecast Regulatory Capital Value at 31 March 2011 was 56.3% (59.3%). The group's net interest charge, excluding (losses)/gains on financial instruments and net finance costs from pensions, was covered 3.6 times (4.5 times) by profit before interest, tax, depreciation and exceptional items, and 2.4 times (3.1 times) by underlying PBIT.

Pensions

The group operates two 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 as at 31 March 2007. The key actuarial assumptions from this valuation have been updated for the accounts as at 30 September 2010 though overall contribution levels remain unchanged. The current triennial review is ongoing and is anticipated to be concluded before year end.

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 £359.3 million as at 30 September 2010. This compares to a deficit of £354.9 million as at 31 March 2010. The movements in the net deficit were:

	Defined benefit obligations £m	Fair value of plan assets £m	Net deficit £m
At 1 April 2010	(1,747.9)	1,393.0	(354.9)
Employer contributions	-	15.5	15.5
Employee contributions	(3.2)	3.2	-
Benefits paid	40.0	(40.0)	-
Current service cost	(11.7)	-	(11.7)
Net finance cost	(48.8)	45.9	(2.9)
Actuarial gains and losses	2.2	(7.5)	(5.3)
At 30 September 2010	**(1,769.4)**	**1,410.1**	**(359.3)**

On an IAS 19 basis, the funding level has remained at around 80%.

Treasury management

At 30 September 2010 the group had £443.9 million in cash and cash equivalents. The group also has an undrawn £500 million committed bank facility that matures in 2013. Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs for the first two years of AMP 5.

The group has interest rate swaps in place to manage the interest rate risk arising from its anticipated borrowing requirements for the remainder of AMP5.

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

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 2010, interest rates for some 77%% of the group’s net debt of £3723.3 million were so fixed. The effective interest rate for the period to September 2010 was 6.2%.

The group manages its electricity costs through a combination of forward price contracts and financial derivatives. All of our power requirements for the first four years of AMP5 and some of the remaining year have been hedged in this way, at prices below those allowed in the final determination.

The group continues to target a flexible and sustainable balance sheet structure and believes that the planned investment programme for AMP5 and new dividend policy are commensurate with a strong investment grade credit rating.

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.

Dividend & Dividend Policy (2011/12 to 2014/15)

In January 2010 the Company announced that in response to Ofwat's proposals for the period 2010-2015 (the "Final Determination"), it had decided to rebase the dividend for the current financial year 2010/11 to 65.09 pence. Going forward the split between interim and final dividend will be 40%/60%. Therefore the Board has declared an interim ordinary dividend of 26.04p, which will be paid on 14th January 2011 to shareholders on the register at 3rd December 2010.

In order to give clarity, the Board has decided to set the new dividend policy to cover the remainder of the AMP5 period (2011/12 to 2014/15). The Board has also reviewed the progress of the efficiency projects currently ongoing across the group, such as the deployment of SAP, the move to Severn Trent Centre and associated real estate savings, and other process improvements. The Board is confident that, based on progress since January, the group is on target to deliver the planned savings and operational improvements.

In light of these factors, the Board has decided that the dividend policy for Severn Trent Plc for the remainder of the AMP5 period should be RPI +3%.

As the regulatory pricing model uses November RPI as the inflation metric by which to adjust pricing at Severn Trent Water for the following financial year (April – March), and in order to link the dividend more closely to business performance, November RPI will also be used as the metric used for setting the group dividend for the following financial year (April – March) i.e. November 2010 RPI will be used to set the dividend for the financial year 2011/12.

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:

- Momentum is building behind reviews of industry regulation and structure, which may present both opportunities and risks in the future.
- In the challenging economic environment, we continue to monitor risks to the achievement of the growth plan for our unregulated businesses closely.
- As a regulated business, we are subject to numerous and changing obligations with which we must comply.

- Whilst acceptance of the price determination from Ofwat leads to greater certainty over what we need to achieve for the coming AMP period, nevertheless we must still manage effectively the risks associated with our ability to meet the challenging targets set effectively.
- Risks relating to the ongoing implementation of our coordinated change programme and achieving the significant and sustainable forecasted benefits.
- Due to the nature of our business we continue to face risks arising during our normal course of business, including risk of failure of our assets, processes, or systems which could otherwise impact on the health, safety and security of our people or customers, or on our financial position and our reputation.
- Our ability to influence customer behaviour or to operate in an environmentally responsible way could affect our financial position and our reputation.

Outlook

2010/11
In Severn Trent Water, we are continuing to execute on our programmes to raise standards and drive efficiency improvements. Consumption in the second half of the year is expected to be consistent with the level in the second half of the previous year. Operating expenditure continues to be in line with the Board's expectations, and is expected to rise year on year, due to the impact of higher inflation, partially offset by efficiency savings already achieved.

It is expected that net capital expenditure (UK GAAP after deducting grants and contributions) will now be in the £415 to £425 million range. In the first half the capital programme has proceeded more slowly to ensure delivery of planned efficiencies. Therefore spend will be more weighted towards the second half. The level of net infrastructure renewals expenditure included in this figure is anticipated to be around £100 million.

We expect to incur exceptional charges of around £20m for the full year, mainly related to ongoing efficiency improvements and accelerated deprecation of assets.

We expect bad debt to be around 2.3% of turnover for the full year, assuming no significant deterioration in the UK economy.

In Severn Trent Services, we expect continued growth in the second half of the year. Water Purification has maintained a strong order book, and Operating Services will continue to focus on cost control and delivery. The market for Analytical Services remains challenging.

It is expected the group interest charge for 2010/11 will rise by around £20 million vs. the prior year, before adjustments related to pension accounting, mainly due to higher inflation.

The expected effective current tax rate for 2010/11 is expected to be 25% to 28%.

AMP5
Severn Trent Water remains confident it can meet or exceed the objectives set out in the final determination for the period 2010/11 to 2014/15.

The business is continuing to drive performance improvements. In its Final Business Plan in April 2009, Severn Trent Water included 1.7% planned efficiency on opex and 7% on capex. The business now believes it can deliver efficiencies of around 2% on opex and around 10% on capex.

Wholesale power prices have also been hedged for the first 4 years of AMP5, resulting in a saving in excess of £25 million against the prices allowed in the final determination. A portion of the remaining year has also now been hedged. Our renewables programme also continues to grow.

The group has fixed a significant portion of existing and anticipated debt for AMP5 below the rates allowed in the final determination. This equates to a saving of around £20 million per annum or over £100 million over AMP5. The group’s funding requirement over AMP5 is approximately £1billion, including £850 million re-financing of existing debt.

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 2010

	Notes	**2010 £m**	2009 £m
Turnover	2	**867.9**	852.1
Operating costs before exceptional items		**(590.9)**	(565.0)
Exceptional restructuring costs	3	**(6.2)**	(10.0)
Total operating costs		**(597.1)**	(575.0)
Exceptional loss on disposal of business		**-**	(1.5)
Profit before interest, tax and exceptional items	2	**277.0**	287.1
Exceptional items	3	**(6.2)**	(11.5)
Profit before interest and tax	2	**270.8**	275.6
Finance income		**47.9**	40.4
Finance costs		**(167.0)**	(139.5)
Net finance costs		**(119.1)**	(99.1)
(Losses)/gains on financial instruments		**(50.7)**	31.7
Share of results of associates and joint ventures		**0.1**	-
Profit before tax, (losses)/gains on financial instruments and exceptional items		**158.0**	188.0
Exceptional Items		**(6.2)**	(11.5)
(Losses)/gains on financial instruments	4	**(50.7)**	31.7
Profit on ordinary activities before taxation		**101.1**	208.2
Taxation on profit on ordinary activities			
Current tax	5	**(44.0)**	(43.0)
Deferred tax	5	**13.6**	(15.2)
Exceptional deferred tax	5	**33.8**	-
Total taxation		**3.4**	**(58.2)**
Profit for the period		**104.5**	150.0
Attributable to:			
Equity holders of the company		**103.8**	149.7
Equity non-controlling interests		**0.7**	0.3
		104.5	150.0
Earnings per share (pence)			
Basic	7	**43.9**	63.4
Diluted	7	**43.8**	63.4

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2010

	2010 **£m**	2009 £m
Profit for the period	**104.5**	150.0
(Losses)/gains on cash flow hedges taken to equity	**(23.2)**	1.0
Deferred tax on losses/gains on cash flow hedges taken to equity	**6.3**	(0.3)
Amounts on cash flow hedges transferred to the income statement in the period	**2.6**	3.6
Deferred tax on transfers to income statement	**(0.6)**	(1.0)
Exchange movement on translation of overseas results and net assets	**(5.3)**	(13.9)
Tax on exchange differences	**(1.2)**	-
Actuarial losses on defined benefit pension schemes	**(5.3)**	(82.5)
Tax on actuarial losses	**1.5**	23.1
Deferred tax arising on change of rate	**0.4**	-
Other comprehensive income for the period	**(24.8)**	(70.0)
Total comprehensive income for the period	**79.7**	80.0
Attributable to:		
Equity shareholders of the company	**79.2**	80.1
Equity non-controlling interests	**0.5**	(0.1)
	79.7	80.0

Condensed consolidated statement of changes in equity
Six months ended 30 September 2010

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity attributable to equity holders of Severn Trent plc £m	Non controlling interests £m	Total £m
At 1 April 2009	231.0	71.9	468.7	174.5	946.1	6.0	952.1
Profit for the period	-	-	-	149.7	149.7	0.3	150.0
Gains on cash flow hedges taken to equity	-	-	1.0	-	1.0	-	1.0
Deferred tax on gains on cash flow hedges taken to equity	-	-	(0.3)	-	(0.3)	-	(0.3)
Amounts on cash flow hedges transferred to the income statement	-	-	3.6	-	3.6	-	3.6
Deferred tax on transfers to the income statement	-	-	(1.0)	-	(1.0)	-	(1.0)
Exchange movement on translation of overseas results and net assets	-	-	(13.5)	-	(13.5)	(0.4)	(13.9)
Actuarial losses on defined benefit pensions schemes	-	-	-	(82.5)	(82.5)	-	(82.5)
Tax on actuarial losses	-	-	-	23.1	23.1	-	23.1
Total comprehensive income for the period	-	-	(10.2)	90.3	80.1	(0.1)	80.0
Shares issued	0.6	3.8	-	-	4.4	-	4.4
Share based payments	-	-	-	0.7	0.7	-	0.7
Tax on share based payments	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends paid	-	-	-	(96.8)	(96.8)	(1.3)	(98.1)
At 30 September 2009	231.6	75.7	458.5	168.6	934.4	4.6	939.0
At 1 April 2010	231.6	75.9	455.6	177.6	940.7	6.3	947.0
Profit for the period	-	-	-	103.8	103.8	0.7	104.5
Deferred tax arising on change of rate	-	-	-	0.4	0.4	-	0.4
Losses on cash flow hedges taken to equity	-	-	(23.2)	-	(23.2)	-	(23.2)
Deferred tax on losses on cash flow hedges taken to equity	-	-	6.3	-	6.3	-	6.3
Amounts on cash flow hedges transferred to the income statement	-	-	2.6	-	2.6	-	2.6
Deferred tax on transfers to the income statement	-	-	(0.6)	-	(0.6)	-	(0.6)
Exchange movement on translation of overseas results and net assets	-	-	(5.1)	-	(5.1)	(0.2)	(5.3)
Tax on exchange differences	-	-	(1.2)	-	(1.2)	-	(1.2)
Actuarial losses on defined benefit pensions schemes	-	-	-	(5.3)	(5.3)	-	(5.3)
Tax on actuarial losses	-	-	-	1.5	1.5	-	1.5
Total comprehensive income for the period	-	-	(21.2)	100.4	79.2	0.5	79.7
Shares issued	0.5	3.5	-	-	4.0	-	4.0
Share based payments	-	-	-	0.2	0.2	-	0.2
Tax on share based payments	-	-	-	0.8	0.8	-	0.8
Dividends paid	-	-	-	(107.8)	(107.8)	(1.3)	(109.1)
At 30 September 2010	**232.1**	**79.4**	**434.4**	**171.2**	**917.1**	**5.5**	**922.6**

Condensed consolidated balance sheet
At 30 September 2010

	Notes	**30 September 2010 £m**	31 March 2010 (Restated see note 1) £m
Non-current assets			
Goodwill		**68.7**	70.6
Other intangible assets		**139.7**	138.5
Property, plant and equipment		**6,281.0**	6,302.0
Interests in joint ventures		**0.3**	0.3
Interests in associates		**4.5**	4.6
Derivative financial instruments		**186.7**	203.8
Available for sale financial assets		**0.1**	0.1
		6,681.0	6,719.9
Current assets			
Inventory		**26.0**	26.5
Trade and other receivables		**470.3**	472.8
Derivative financial instruments		**6.2**	2.9
Cash and cash equivalents		**443.9**	227.8
		946.4	730.0
Total assets		**7,627.4**	7,449.9
Current liabilities			
Borrowings	8	**(58.8)**	(260.9)
Derivative financial instruments		**(0.6)**	(4.4)
Trade and other payables		**(465.8)**	(464.4)
Current income tax liabilities		**(87.0)**	(67.2)
Provisions for liabilities and charges		**(15.5)**	(25.5)
		(627.7)	(822.4)
Non-current liabilities			
Borrowings	8	**(4,268.8)**	(3,915.6)
Derivative financial instruments		**(227.1)**	(140.3)
Trade and other payables		**(291.7)**	(284.9)
Deferred tax		**(901.4)**	(956.4)
Retirement benefit obligations	9	**(359.3)**	(354.9)
Provisions for liabilities and charges		**(28.8)**	(28.4)
		(6,077.1)	(5,680.5)
Total liabilities		**(6,704.8)**	(6,502.9)
Net assets		**922.6**	947.0
Capital and reserves attributable to the company's equity shareholders			
Called up share capital	10	**232.1**	231.6
Share premium account		**79.4**	75.9
Other reserves		**434.4**	455.6
Retained earnings		**171.2**	177.6
Equity attributable to the company's equity shareholders		**917.1**	940.7
Non-controlling interest		**5.5**	6.3
Total equity		**922.6**	947.0

Condensed consolidated cash flow statement
Six months ended 30 September 2010

Six months ended 30 September	Note	2010 £m	2009 £m
Cash generated from operations	11	**478.2**	435.6
Tax paid		**(24.7)**	(14.5)
Net cash generated from operating activities		**453.5**	421.1
Investing activities			
Interest received		**2.0**	4.9
Dividends received from associates and joint ventures		**-**	0.1
Net cash inflow from sale of investments		**-**	3.8
Acquisition of subsidiaries		**-**	(12.5)
Proceeds on disposal of property, plant and equipment		**2.6**	2.0
Purchases of intangible assets		**(13.6)**	(24.1)
Purchases of property, plant and equipment		**(196.0)**	(226.1)
Contributions and grants received		**8.5**	9.9
Net cash used in investing activities		**(196.5)**	(242.0)
Financing activities			
Interest paid		**(78.8)**	(80.2)
Interest element of finance lease payments		**(3.9)**	(6.2)
Dividends paid to shareholders of the parent		**(107.8)**	(96.8)
Dividends paid to minority interests		**(1.3)**	(1.3)
Repayments of borrowings		**(28.8)**	(44.4)
Repayments of obligations under finance leases		**(13.2)**	(9.3)
Closed out swap		**20.5**	-
New loans raised		**171.0**	-
Issues of shares		**4.0**	4.4
Purchase of own shares		**(2.0)**	(2.2)
Net cash used in financing activities		**(40.3)**	(236.0)
Increase/(decrease) in cash and cash equivalents		**216.7**	(56.9)
Net cash and cash equivalents at beginning of period		**227.8**	648.1
Effect of foreign exchange rates		**(0.7)**	(2.1)
Net cash and cash equivalents at end of period		**443.8**	589.1
Net cash and cash equivalents comprise:			
Total cash and cash equivalents		**443.9**	589.1
Bank overdrafts		**(0.1)**	-
Net cash and cash equivalents at end of period		**443.8**	589.1

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 2010 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 auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statements under section 498 (2) or (3) of the Companies Act 2006.

Accounting policies
The interim financial information has been prepared on the going concern basis using accounting policies consistent with International Financial Reporting Standards and in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the group's annual financial statements for the year ended 31 March 2010 except that during the period the group has adopted:

- IAS 27 (revised) "Consolidated and Separate Financial Statements". However, there have been no transactions in the period that fall within the scope of the revised standard.
- IFRS 3 (revised) "Business Combinations". There have been no material transactions that fall under the scope of this standard in the period.
- IFRIC 18 "Transfers of Assets From Customers" was implemented for asset transfers that arose after 1 July 2009 and were within the scope of IFRIC 18. Where property, plant and equipment is transferred, the fair value of the asset is recognised in the balance sheet. Where the transfer is in exchange for connection to the network, the corresponding credit is recognised immediately in turnover. In most cases the transfer is linked to the provision of ongoing services and in these cases the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

Comparative figures have been restated as follows:

		Trade and other payables	
	Property plant and equipment	Current liabilities	Non-current liabilities
At 31 March 2010	£m	£m	£m
As previously stated	6,260.5	(464.2)	(243.6)
Fair value of assets transferred	41.5	(0.2)	(41.3)
As restated	**6,302.0**	**(464.4)**	**(284.9)**

Going concern
The group is funded for its investment and cash flow needs for the first two years of AMP5 (see Treasury management). 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
The group's businesses are not seasonal in nature.

2 Segmental analysis

The group is organised into two main business segments:

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

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

Six months ended 30 September	2010		2009	
	Severn Trent Water	**Severn Trent Services**	Severn Trent Water	Severn Trent Services
	£m	**£m**	£m	£m
External sales	**702.2**	**165.6**	694.9	157.2
Inter-segment sales	**0.1**	**6.4**	0.4	8.3
Total sales	**702.3**	**172.0**	695.3	165.5
Profit before interest, tax and exceptional items	**272.7**	**13.0**	279.3	12.2
Exceptional items (note 3)	**(6.2)**	**-**	(7.2)	(4.3)
Profit before interest and tax	**266.5**	**13.0**	272.1	7.9

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

Six months ended 30 September	2010	2009
	£m	£m
Severn Trent Water	**702.2**	694.9
Severn Trent Services	**165.6**	157.2
Corporate and other	**0.1**	-
	867.9	852.1

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

Six months ended 30 September	2010	2009
	£m	£m
Underlying PBIT:		
Severn Trent Water	**272.7**	279.3
Severn Trent Services	**13.0**	12.2
Corporate and other costs	**(6.6)**	(5.4)
Consolidation adjustments	**(2.1)**	1.0
Group underlying PBIT	**277.0**	287.1
Exceptional items:		
Severn Trent Water	**(6.2)**	(7.2)
Severn Trent Services	**-**	(4.3)
Share of results of associates and joint ventures	**0.1**	-
Net finance costs	**(119.1)**	(99.1)
(Losses)/gains on financial instruments	**(50.7)**	31.7
Profit before tax and discontinued operations	**101.1**	208.2

The segmental analysis of capital employed at 30 September 2010 was as follows:

	30 September 2010		31 March 2010	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Operating assets	**6,710.9**	**212.1**	6,698.9	215.3
Goodwill	**-**	**68.7**	-	70.6
Interests in joint ventures and associates	**0.2**	**4.6**	0.2	4.7
Segment assets	**6,711.1**	**285.4**	6,699.1	290.6
Segment operating liabilities	**(1,026.7)**	**(90.9)**	(994.3)	(92.0)
Capital employed	**5,684.4**	**194.5**	5,704.8	198.6

3 Exceptional items

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

Six months ended 30 September	2010 £m	2009 £m
Severn Trent restructuring programmes:		
Severn Trent Water	**6.2**	7.2
Severn Trent Services	**-**	2.8
Exceptional restructuring costs	**6.2**	10.0
Total exceptional operating costs	**6.2**	10.0
Exceptional loss on disposal of business	**-**	1.5
Total exceptional items	**6.2**	11.5

4 (Losses)/gains on financial instruments

Six months ended 30 September	2010 £m	2009 £m
(Loss)/gain on cross currency swaps used as hedging instruments in fair value hedges	**23.8**	1.8
Gain arising on adjustment for foreign currency debt	**2.1**	6.6
Fair value (loss) on cash flow hedges transferred from equity	**(2.6)**	(3.6)
(Loss)/gain arising on interest rate swaps where hedge accounting is not applied	**(74.0)**	26.9
	(50.7)	31.7

5 Tax

Before the exceptional tax credit, income tax for the period is charged in the income statement at 30% (six months ended 30 September 2009: charged at 27.9%), 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 27.8% (2009: 24.3%).

Current tax charges of £0.4 million and deferred tax credits of £7.2 million have been taken to reserves in the period.

The Finance Act 2010 was enacted in the period and implemented a reduction in the corporation tax rate from 28% to 27% with effect from 1 April 2011. The impact of this rate reduction on the deferred tax provision has been reflected in these financial statements and has resulted in deferred tax credits of £33.8 million in the profit and loss account and £0.4 million in reserves.

Future changes reducing the corporation tax rate by 1% per annum to 24% by 1 April 2014 have been announced but not substantively enacted at the balance sheet date and have therefore not been taken into account.

6 Dividends

Amounts recognised as distributions to equity holders in the period:

Six months ended 30 September	2010		2009	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March	**45.61**	**107.8**	41.05	96.8

The proposed interim dividend of 26.04p per share (2009: 26.71p per share) was approved by the board on 22 November 2010 and has not been included as a liability as at 30 September 2010.

7 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 to the extent that 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	2010 £m	2009 £m
Earnings for the purpose of basic and diluted earnings per share from continuing and discontinuing operations being:		
Profit for the period attributable to the equity holders of the company	**103.8**	149.7

Number of shares

Six months ended 30 September	2010 m	2009 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**236.5**	236.0
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	**0.6**	0.3
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**237.1**	236.3

Adjusted earnings per share

Six months ended 30 September	2010 Pence	2009 Pence
Adjusted basic earnings per share	**47.4**	60.8
Adjusted diluted earnings per share	**47.3**	60.7

Adjusted earnings per share figures exclude the effects of deferred tax, (losses)/gains on financial instruments and exceptional items in both 2010 and 2009. 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	2010 £m	2009 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**103.8**	149.7
Adjustments for:		
Exceptional items	**6.2**	11.5
Current tax related to exceptional items	**(1.1)**	(1.3)
Losses/(gains) on financial instruments	**50.7**	(31.7)
Deferred tax	**(47.4)**	15.2
Earnings for the purpose of adjusted basic and diluted earnings per share	**112.2**	143.4

8 Borrowings

	30 September 2010 £m	31 March 2010 £m
Bank overdrafts	**0.1**	-
Bank loans	**842.7**	689.8
Other loans	**3,197.2**	3,185.9
Obligations under finance leases	**287.6**	300.8
Borrowings	**4,327.6**	4,176.5

	30 September 2010 £m	31 March 2010 £m
The borrowings are repayable as follows:		
On demand or within one year (included in current liabilities)	**58.8**	260.9
In the second year	**83.4**	21.7
In the third to fifth years	**858.6**	643.2
After five years	**3,326.8**	3,250.7
Included in non-current liabilities	**4,268.8**	3,915.6
	4,327.6	4,176.5

9 Retirement benefit schemes

The group operates two defined benefit schemes being the Severn Trent Pension Scheme and the Severn Trent Mirror Image 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 2010 has been calculated on a year to date basis, using the actuarial valuation update as at 31 March 2010. 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 2010. However, the market based assumptions have been updated for conditions prevailing at the balance sheet date as follows:

	30 September 2010	31 March 2010
Discount rate	**5.2%**	5.7%
Inflation rate	**3.1%**	3.6%

The defined benefit assets have been updated to reflect their market value as at 30 September 2010. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial loss in the statement of comprehensive income in accordance with the group's accounting policy.

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

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

Six months ended September	**2010 £m**	2009 £m
Amounts charged to operating costs:		
Current service cost	**(11.7)**	(7.7)
Past service cost	**-**	(0.8)
Amounts charged to net finance costs:		
Interest cost	**(48.8)**	(43.4)
Expected return on scheme assets	**45.9**	35.7
	(2.9)	(7.7)
Total amount charged to the income statement	**(14.6)**	(16.2)

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

	30 September 2010 £m	31 March 2010 £m
Present value of the defined benefit obligations - funded schemes	**(1,761.8)**	(1,740.3)
Total fair value of assets	**1,410.1**	1,393.0
Present value of the defined benefit obligations - unfunded schemes	**(7.6)**	(7.6)
Liability recognised in the balance sheet	**(359.3)**	(354.9)

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

	2010 £m	2009 £m
At 1st April	**(354.9)**	(233.0)
Current service cost	**(11.7)**	(7.7)
Past service cost	**-**	(0.8)
Interest cost	**(48.8)**	(43.4)
Expected return on scheme assets	**45.9**	35.7
Contributions from the sponsoring companies	**15.5**	14.7
Actuarial losses recognised in the statement of comprehensive income	**(5.3)**	(82.5)
At 30 September	**(359.3)**	(317.0)

10 Share capital

At 30 September 2010 the issued and fully paid share capital was 237.1 million shares of $97^{17}/_{19}$p amounting to £232.1 million (31 March 2010: 236.6 million shares of $97^{17}/_{19}$p amounting to £231.6 million).

During the period the company issued 500,943 shares as a result of the exercise of employee share options.

11 Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September	**2010 £m**	2009 £m
Profit before interest and tax	**270.8**	275.6
Depreciation of property, plant and equipment	**128.7**	112.7
Amortisation of intangible assets	**12.6**	12.4
Exceptional impairment and depreciation	**-**	3.6
Pension service cost	**11.7**	8.5
Pension contributions	**(15.5)**	(14.7)
Share based payments charge	**2.2**	3.0
Profit on sale of property, plant and equipment	**(2.0)**	(0.7)
Deferred income movement	**(3.9)**	(2.6)
Provisions for liabilities and charges	**3.1**	4.6
Utilisation of provisions for liabilities and charges	**(12.6)**	(5.9)
Decrease in working capital	**83.1**	39.1
Cash generated from operations	**478.2**	435.6
Tax paid	**(24.7)**	(14.5)
Net cash generated from operating activities	**453.5**	421.1

b) Non cash transactions
No additions to property, plant and equipment during the six months to September 2010 were financed by new finance leases (2009: nil).

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

Six months ended 30 September	**2010 £m**	2009 £m
Restructuring costs	**(17.8)**	(4.4)
Charitable contribution	**(1.0)**	-
Third party legal costs	**-**	(1.8)
	(18.8)	(6.2)

d) Reconciliation of movements in net debt

	As at 1 April 2010 £m	Cash Flow £m	Fair value adjustments £m	RPI uplift on index linked debt £m	Foreign exchange £m	Other non cash movements £m	**As at 30 September 2010 £m**
Cash and cash equivalents	227.8	216.8	-	-	(0.7)	-	**443.9**
Bank overdrafts	-	(0.1)	-	-	-	-	**(0.1)**
Net cash and cash equivalents	227.8	216.7	-	-	(0.7)	-	**443.8**
Bank loans	(689.8)	(149.8)	-	(3.1)	-	-	**(842.7)**
Other loans	(3,185.9)	7.6	2.1	(24.9)	-	3.9	**(3,197.2)**
Finance leases	(300.8)	13.2	-	-	-	-	**(287.6)**
Cross currency swaps hedging debt	187.3	(20.5)	(3.5)	-	-	(2.9)	**160.4**
Net debt	(3,761.4)	67.2	(1.4)	(28.0)	(0.7)	1.0	**(3,723.3)**

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 2010 which were approved on 27 May 2010. Except as noted below, there have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

The group has received notice that Veolia Proprete SA had filed an appeal against the decision of the Commercial Court in Belgium which gave judgment in favour of the group.

Following an audit by the Drinking Water Inspectorate of aspects of the services provided by Severn Trent Services Analytical Services from its Bridgend laboratory, the group has temporarily suspended the inorganic testing service provided by that laboratory pending completion of an investigation commissioned by the group. At this stage it is not practicable to estimate the financial impact of this incident.

14 Related party transactions

There have been no related party transactions that materially affected the financial position of performance of the group during the period.

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 Services Authority.

Signed on behalf of the Board who approved the half yearly financial report on 22 November 2010.

Tony Wray Chief Executive	Michael McKeon Finance Director

Further copies of this half yearly financial report may be obtained from the Company Secretary, Severn Trent Plc, Severn Trent Centre, PO BOX 5309, Coventry, CV3 9FH or by emailing severntrent@equiniti.com.

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 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 14. 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 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 2010 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 LLP
Chartered Accountants and Statutory Auditors
London, UK
22 November 2010

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.

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).