Half Yearly Financial Report
26 November 2015
Interim Results for the six months to 30 September 2015

SEVERN TRENT

Severn Trent Plc

Good start to new regulatory period

- Good start to the year, underpinning our intention to outperform our Final Determination:
  - Group turnover of £896.1 million, flat year on year
  - Group PBIT of £281 million, up 2.6% on an underlying[1] basis
  - Underlying[1] basic earnings per share of 58.6p, up 11.4%
- We continue to reinforce the customer's place at the heart of our business
  - Lowest combined customer bills in Britain with an average bill of £329
  - A number of initiatives launched to keep customers informed, including new digital services, Track My Job and In My Street, a 24/7 Twitter channel and web chat for customer contact
  - Increased commitment to support customers, with overall complaints reduced by 35% and a significant increase in the number of customers helped through social tariffs
- Confident of continued outperformance through our five levers:
  1. Good progress in all operational metrics, with 83% showing improvements
     - £10 million net reward now expected from ODI outperformance for 2015/16
  2. Full £372 million[2] of efficiencies now secured for AMP6[3]
     - Up to £50 million more to be locked in by May 2016
     - Opportunity for further efficiencies
  3. Wholesale totex of £467.1 million
     - Opex down through the efficiency programme
     - Good start to AMP6 capital programme, with £236 million[4] invested in the first half;
  4. 32% of Regulated Water and Waste Water's energy needs now generated through our renewable energy programme, and on target for 50% by 2020
  5. Good progress on our financing strategy
     - Average cost of debt now 4.6%, down from 5.5% in 2014/15
     - Completed £471 million[5] debut US private placement in November
- Interim dividend of 32.26p per share in line with policy

1. Underlying PBIT excludes exceptional operating items. Underlying EPS is set out in note 8 to the financial statements
2. Efficiencies, at 12/13 prices, set out in the Final Determination for AMP6
3. AMP6 – regulatory period 2015 to 2020
4. Includes infrastructure maintenance expenditure of £52 million
5. Equivalent sterling value of total sterling and US dollar denominated debt

Liv Garfield, Chief Executive Severn Trent Plc, said:

"I am pleased to report strong progress in the first half of the year, marking a good start to the new regulatory period. As we continue to become an even more customer focused business we have delivered some great improvements, evidenced by the decline in customer complaints, and we continue to have the lowest combined bills in Britain.

We are committed to delivering continued outperformance for the benefit of our customers, colleagues and shareholders, having already delivered tangible results in the first half. Thanks to the great work of our teams we have now secured all £372 million of our targeted AMP6 efficiencies while also delivering better service to our customers. Through more intensive management of our network we are seeing reduced supply interruptions, lower sewer flooding incidents and faster incident response times. Our renewable energy programme continues its rapid roll out and we are on track to generate the equivalent of 50% of our energy needs by 2020.

With our operational metrics showing strong improvement, I would like to thank all of my colleagues across the group for their continued hard work in delivering great service for our customers each and every day."

Group results from continuing operations

Underlying performance

Six months ended 30 September	**2015** **£m**	2014 (restated)[4] £m	Increase/ (Decrease) %
Group turnover	**896.1**	898.3	(0.2)
Underlying group PBIT[1]	**281.0**	273.8	2.6
Underlying group profit before tax[2]	**174.7**	154.7	12.9
	pence/ share	pence/ share	
Underlying basic EPS[3]	**58.6**	52.6	11.4
Interim dividend declared	**32.26**	33.96	(5.0)

Reported results

Six months ended 30 September	**2015** **£m**	2014 (restated)[4] £m	Increase/ (Decrease) %
Group PBIT	**281.0**	280.3	0.2
Group profit before tax	**186.2**	137.1	35.8
Group profit for the period from continuing operations	**146.9**	107.2	37.0
	pence/ share	pence/ share	
Basic earnings per share from continuing operations	**60.5**	44.8	35.0

1 before exceptional items (see note 3)
2 before exceptional items and net gains/(losses) on financial instruments
3 before exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on financial instruments and deferred tax (see note 8)
4 restated due to discontinued operations (see note 6)

Enquiries

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Interim Results Presentation and Webcast

There will be a presentation of these results at 9:30am on Thursday 26 November 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 website (www.severntrent.com) and will remain on the website for subsequent viewing.

Chief Executive's Review

The foundations we laid in preparing for AMP6 - transforming our culture, driving operational excellence, improving the business through the use of digital technology, and putting customers at the heart of what we do - have ensured a good start. This has been reflected in a good financial performance in the first half with underlying profit before interest and tax up 2.6% at £281 million.

Our more streamlined organisational structure is enabling us to speed up our decision making and approval processes while empowering our colleagues to make the right decisions for customers, for example when deploying our capital spend. In addition, all our teams now have new digital devices which, combined with our own apps, enables greater operational efficiency and even higher right-first-time service delivery.

Our strong foundations are enabling us to deliver on our five areas of potential outperformance: outcome delivery incentives (ODIs); efficiency; total expenditure (totex); energy; and financing, while continuing to improve services for customers.

Customers

We have made good progress in reinforcing the customer's place at the heart of our business as we improve our services for them, with operational metrics showing significant improvements.

Our customers benefit from the lowest combined bills in Britain and will continue to do so throughout this AMP. In addition, we have increased our commitment to support customers in need through social tariffs, significantly increasing the number of customers we have helped.

We have also launched a number of new digital services to improve the service we deliver and to keep customers informed of our ongoing activity. These include 'Track My Job', which enables customers to track the progress of ongoing work, and 'In My Street', which provides customers with information on scheduled works near their homes to help them plan around any disruption.

We are the only company in the sector to offer 24/7 contact via Twitter and have been benchmarked as offering highly effective responses through this channel.

Increasing numbers of customers are choosing to engage with us through our Webchat service, preferring the convenience, simplicity and ease of use of this form of communication, from our youngest customers in their first rental property to our oldest customers in their nineties. We are able to see where customers need help online and offer a quick, friendly and efficient service.

As we continue to drive improvements across all aspects of our customer service, it is pleasing to see that we have seen the number of complaints reduce again by a further 35%.

ODIs

We have made good progress in driving outperformance on our ODI measures and expect to deliver £10 million of net rewards for 2015/16. ODIs are an important focus for us as they are based on customer feedback on service improvements. With tougher targets in the early years we have started strongly and are committed to delivering further outperformance throughout AMP6. While customers are benefitting from improved service levels today, we will, in the main, receive the rewards through the pricing mechanism on a two year lag basis.

Ofwat recently increased the value of ODIs by grossing them up for tax. As a result, the incentive to outperform and deliver even better service for customers is up to £70 million before tax each year. We are working hard on all our ODI measures, with a particular focus on the top ten that our customers told us were most important to them.

As a result of the great work being done across the business we have, for example, reduced internal sewer flooding instances by 35%, external sewer flooding instances by 24% and supply interruptions by 33%. These improvements have come as we work smarter, fix things quicker and take pre-emptive actions to prevent issues arising in the first place.

Efficiency

Since our preliminary results announcement in May we have secured a further £72 million of efficiency savings, meaning we have now locked in all £372 million (2012/13 prices) of our target efficiencies for AMP6. These additional savings primarily come from working with our capital programme suppliers to drive greater efficiencies in our contracts.

Through strategic programming and batching of our capital programme, we have improved economies of scale and shortened timescales for delivery. We have also introduced greater competition between our framework suppliers and external benchmarking for key batches of work to drive further savings.

We expect to lock in up to a further £50 million of efficiencies by May and continue to work on further opportunities.

Totex

Wholesale Totex in the first half was £467.1 million, benefitting from our efficiency programme. In our Regulated Water and Waste Water business, our capital programme for this AMP has got off to a good start with capital expenditure of £184 million and infrastructure maintenance expenditure of £52 million in the first half.

Our engineering, commercial and wholesale teams are working together to ensure that we deliver the best and most cost effective solution for our customers and the business. They continue to explore new ways of working – for example partnering with farmers to reduce the impact on the local water catchment, cutting the need for capital expenditure on water treatment as well as, in many cases, reducing ongoing operational expenditure. We are exploring how to maximise the utilisation of our existing assets to reduce the need for new or replacement assets. We are working hard to eliminate the causes of blockages in our sewer network to reduce flooding instances and damage. The ‘Love our Network’ programme engages with customers to help them understand what they can do to help prevent blocked drains. We have piloted a scheme with a major fast food restaurant chain, installing fat traps to reduce the build-up of fat in drain networks.

Work on our most significant capital programme, the Birmingham Resilience project, to ensure continuity of water supply to the city, is making good progress. The enabling work is progressing well and we remain on target to complete the project by the end of 2019.

Energy

In the first half of the year we have made further investments in renewable energy sources and are now self-generating the equivalent of 32% of our energy needs. Through our £190 million AMP6 programme we are on target to generate the equivalent of 50% of our energy needs by 2020. This enables us to both self supply electricity to our own facilities without pass-through costs, as well as to feed energy directly into the grid. We will have nine solar arrays up and generating by Christmas, with a further 35 sites to be completed before the end of the financial year, generating together around 25 GWh per annum. The recent changes in incentives for solar generation mean this will complete our solar programme for the time being. We have also just completed our final two wind turbine sites in Nottingham and Lichfield, generating a further annual output of 5GWh. The remainder of our renewables investment programme will be centered on anaerobic digestion using food waste, crops and thermal hydrolysis of sewage sludge.

Financing

We continue to make good progress on our financing strategy to reduce costs, diversify our sources of debt funding and spread our debt maturity profile. This month we completed our first US Private Placement, raising the equivalent of £471 million at competitive pricing with maturities ranging from 11 to 15 years. At the half year our average cost of debt was 4.6%, down from 5.5% in 2014/15. This will continue to decline as we replace maturing fixed rate debt with lower floating rate financing.

Business Services

As previously outlined, we have brought together our non-regulated businesses - Operating Services US, Operating Services UK (including Severn Trent Water non-household retail), and renewable energy - into our new "Business Services" division. We completed the sale of the Water Purification business in the first half.

The business continues to perform in line with expectations.

In the USA, with the total value of contracts secured in the first half worth over £4 million, our contract renewal rates are on target and we are pleased to be winning new business. In the UK the MOD contract continues to perform well and we are pleased to have made a very solid start in the first six months of our contract with the Coal Authority.

In retail, we continue to prepare for the opening of further competition in the non-household market in 2017. Our existing customer base provides a great platform for growth. We are participating succesfully in the Scottish retail market and have had several good contract wins recently including Apex Hotels, Greggs and Mitchells & Butlers. We were particularly pleased that Sainsbury's chose to renew their relationship with us for a further three years. With recent contract wins we will be serving over 1,000 sites in Scotland and this provides invaluable experience for us.

Technical Guidance 2015/16

There has been no material change to outlook for 2015/16 since the trading update on 15 July.

- Regulated Water and Waste Water:
    - Revenues are expected to be in the range of £1.49 billion to £1.51 billion.
    - Wholesale Totex[1] is expected to be £1.03 billion to £1.06 billion, of which 34.7% will be capitalised onto the RCV.
    - Operating costs under IFRS are expected to be lower year on year due to the impact of the organisational changes and supply chain efficiencies already announced.
    - We estimate net capital expenditure (cash) under IFRS will be £410 million to £430 million. In addition, we expect a further £125 million to £135 million of net infrastructure renewals expenditure, which will be charged to the income statement.
    - We expect to earn net rewards for 2015/16 ODI outperformance of £10 million, however these are received on a two year lag basis.
- In Business Services we continue to expect growth in revenues and PBIT year on year.
- The group interest charge is now expected to be lower year on year, with lower interest rates on new floating rate debt and lower inflation reducing the cost of index-linked debt.
- The effective current tax rate for the group for 2015/16 is expected to be between 17% and 19%.
- In line with our announced policy, the dividend for 2015/16 will be 80.66p and will grow by at least RPI annually over AMP6.

1. Excludes retail costs, includes regulated renewables

Severn Trent Plc will announce its Q3 trading update on 3 February 2016.

Chief Financial Officer's Review

The group has delivered a strong financial performance in the first six months of 2015/16, showing good margin improvement in our Regulated Water and Waste Water business – and revenue growth on a continuing operations basis in Business Services.

We continue to make good progress on our financing strategy, to take advantage of currently low floating interest rates for new debt, diversify our funding base and reduce future refinancing risk. This month we have secured £471 million of floating rate funding from the US Private Placement market, with a range of maturities and deferred drawdown to coincide with Eurobond and EIB maturities in spring 2016. Following the successful liability management and refinancing exercises at the start of the year, our effective interest rate has continued to fall to 4.6% for the half year (2014/15: 5.5%).

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

- Group turnover from continuing operations was £896.1 million (2014/15: £898.3 million), a decrease of 0.2% -- after absorbing the price reduction in our regulated water and waste water business.
- Underlying PBIT[1] increased by 2.6% to £281.0 million (2014/15: £273.8 million) as we saw improving margins from our focus on operational cost efficiencies.
- Reported group PBIT[1] was £281.0 million (2014/15: £280.3 million).
- There were no exceptional items in the period (2014/15: credit of £6.5 million).
- Net finance costs were £106.3 million (2014/15: £119.1 million).

[1] PBIT is profit before interest and tax; underlying PBIT excludes exceptional items as set out in note 3.

Changes to segmental presentation

The group is now organised into two main business segments, Regulated Water and Waste Water and Business Services. Regulated Water and Waste Water comprises Severn Trent Water's wholesale operations and household retail activities and related support functions. Business Services comprises the Operating Services businesses in the USA, UK, Ireland and Italy, the group's renewable energy business and Severn Trent Water's non-household retail business. The Water Purification business, which was sold on 2 July 2015, has been treated as a discontinued operation.

The tables below reconcile our results for the period ended 30 September 2015 under the old segmental basis (Severn Trent Water, Severn Trent Services, and Corporate and Other) to the new basis.

Regulated Water and Waste Water

	Severn Trent Water	Renewable energy (regulated)	Non household retail	Additional inter-segment sales	Regulated Water and Waste Water
	£m	£m	£m	£m	£m
Total sales	781.0	(12.0)	(200.3)	185.7	**754.4**
Underlying PBIT	283.0	(6.5)	(6.3)	-	**270.2**

Business Services

	Severn Trent Services	Renewable energy (regulated and non-regulated)	Non household retail	Additional inter-segment sales	Business Services
	£m	£m	£m	£m	£m
Total sales	113.2	15.9	200.3	7.9	**337.3**
Underlying PBIT	4.9	6.1	6.3	-	**17.3**

Corporate and Other

	Corporate and Other (old basis)	Renewable energy (non-regulated)	Additional inter-segment sales	Corporate and Other (new basis)
	£m	£m	£m	£m
Total sales	6.9	(3.9)	-	**3.0**
Underlying PBIT	(6.2)	0.4	-	**(5.8)**

The new segments reflect the way we have organised and are managing the group. Our renewable energy business, including the electricity and gas generating assets owned by Severn Trent Water's regulated business, is now all managed in Business Services. In preparation for further competition for non-household retail from April 2017, we have transferred management responsibility for these activities to Business Services. This creates a clear separation between our regulated wholesale and non-regulated retail activities.

Comparative financial information for the prior year on the new basis is not available across all segments and so the commentary that follows describes year on year performance on the old basis.

Regulated Water and Waste Water

Turnover for the new Regulated Water and Waste Water segment was £754.4 million and underlying PBIT was £270.2 million.

On a like for like basis, turnover decreased by 1.5%, primarily as a result of the price reduction in our Final Determination, offset by modest consumption increases and tariff mix effects. Underlying PBIT increased by 2.9% as our management of operational costs more than offset the decline in turnover.

	New basis	Old basis			
Six months ended 30 September	**2015**	**2015**	2014	Better/(worse)	
	£m	**£m**	£m	£m	%
Turnover	**754.4**	**781.0**	793.0	(12.0)	(1.5)
Net labour costs	**(141.7)**	**(154.5)**	(155.7)	1.2	0.8
Bad debts	**(12.8)**	**(14.8)**	(15.7)	0.9	5.7
Power	**(35.6)**	**(35.7)**	(34.9)	(0.8)	(2.3)
Infrastructure maintenance	**(52.0)**	**(52.0)**	(64.6)	12.6	19.5
Depreciation	**(152.1)**	**(153.5)**	(152.6)	(0.9)	(0.6)
Other costs	**(90.0)**	**(87.5)**	(94.4)	6.9	7.3
Underlying PBIT	**270.2**	**283.0**	275.1	7.9	2.9
Adjustment for new segmental basis		**(12.8)**			
Underlying PBIT (new basis)		**270.2**			

Net labour costs were £1.2 million (0.8%) lower period on period. Employee costs decreased by £8.2 million reflecting the benefits of the reorganisation implemented in the previous year and the closure of the defined benefit pension schemes to future accrual. These offset additional costs provided for the new company-wide incentive scheme launched at the beginning of the year. Hired and contracted costs increased by £3.2 million due to earlier costs incurred on project design and feasibility work. The amount of own labour capitalised was £3.8 million lower reflecting marginally lower activities on our capital works programme in the first half of this year compared to the same period in 2014/15.

Bad debt charges were 1.9% of turnover in the period (2014/15: 2.0%) and fell by £0.9 million (on the old basis which includes both household and non-household retail), driven by improved credit management practices.

Power costs were up slightly year on year reflecting higher unit price costs offset by lower volumes used. The group manages its power costs through a combination of self generation, forward price contracts and financial derivatives.

Infrastructure maintenance expenditure was £12.6 million lower in the period as the company mobilised its leaner, more efficient programme for AMP6 while continuing to meet all service obligations. The changes implemented are expected to deliver economies of scale and shorter lead times throughout AMP6.

Depreciation was £0.9 million higher period on period, and other costs decreased by £6.9 million, largely due to a rebate of £4.4 million from the Environment Agency and a profit of £3.4 million on property disposals.

Business Services

Turnover for the new Business Services segment was £337.3 million and underlying PBIT was £17.3 million.

On a like for like basis, and at constant currencies, turnover in the non-regulated Operating Services (formerly "Severn Trent Services") continuing business increased by £4.1 million to £113.2 million and underlying PBIT increased by £0.5 million to £4.9 million.

Six months ended 30 September	**2015** **£m**	2014 (restated) £m	Increase/ (decrease) £m
Turnover			
As reported	**113.2**	104.5	8.7
Impact of exchange rate fluctuations	**-**	4.6	(4.6)
On constant exchange rates	**113.2**	109.1	4.1
Underlying PBIT			
As reported	**4.9**	4.5	0.4
Impact of exchange rate fluctuations	**-**	(0.1)	0.1
On constant exchange rates	**4.9**	4.4	0.5

These results above exclude the Water Purification business, which was sold during the period and has been classified as a discontinued operation in the current and previous periods.

Corporate and Other

Corporate and Other incurred a net charge before interest, tax and exceptional items of £5.8 million for the six months ended 30 September 2015.

On a like for like basis net charges for the six month period were £6.2 million (2014/15: £7.6 million) reflecting corporate overheads £1.0 million lower than the prior period.

Exceptional items before tax

There were no exceptional items relating to continuing operations in the six months to 30 September 2015 (2014/15: credit of £6.5 million -- see note 3).

Net finance costs

The group's net finance costs for the six month period were £106.3 million, £12.8 million lower than the prior period (£119.1 million). The reduction was due to lower inflation in the period which has led to lower finance costs on index linked debt, and also lower costs on new floating rate debt. Finance costs capitalised were lower than the prior year due to a lower level of capital work in progress.

The effective interest rate, including index linked debt, for the period to September 2015 was 4.6% (2014/15: 5.5%). The effective cash cost of interest (excluding the RPI uplift on index linked debt) was 4.3% (2014/15: 4.8%).

The group's net interest charge, excluding net gains/(losses) on financial instruments and net finance costs from pensions, was covered 4.4 times (2014/15: 3.9 times) by profit before interest, tax, depreciation, profit on sale of fixed assets, deferred income release and exceptional items, and 2.8 times (2014/15: 2.5 times) by underlying PBIT.

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

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

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

Where the derivatives are held for their full term, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows.

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

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

The current tax charge for the period was £31.5 million (2014/15: £29.6 million).

Our underlying effective current tax rate was in line with guidance at 18.4% (2014/15: 19.1%). The effective rate is calculated as current tax, excluding prior year charges, exceptional tax, and current tax on exceptional items and on financial instruments, divided by profit before tax, exceptional items and net gains/(losses) on financial instruments.

Profit for the period and earnings per share
Profit for the period from continuing operations increased by 37% to £146.9 million (2014/15: £107.2 million), a greater increase than group PBIT due to the positive impact of lower financing costs, net gains in the period on financial instruments and the lower tax rate.

The loss for the period from discontinued operations was £0.7 million (2014/15: profit of £1.1 million).

Total profit for the period including discontinued operations was £146.2 million (2014/15: £108.3 million).

Basic earnings per share from continuing operations increased by 35% to 60.5 pence (2014/15: 44.8 pence). Underlying basic earnings per share (before exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on financial instruments and deferred tax) were 58.6 pence (2014/15: 52.6 pence). For further details see note 8.

Cash flow

Six months ended 30 September	**2015 £m**	2014 £m
Cash generated from operations	**495.5**	486.3
Net capital expenditure	**(190.2)**	(212.8)
Net interest paid	**(70.4)**	(79.0)
Proceeds on disposal of discontinued operations	**47.1**	-
Tax paid	**(7.9)**	(15.3)
Other cash flows	**-**	(1.6)
Free cash flow	**274.1**	177.6
Dividends	**(121.2)**	(115.5)
Issue of shares	**7.0**	6.2
Purchase of own shares	**(66.8)**	(2.5)
Change in net debt from cash flows	**93.1**	65.8
Non-cash movements	**22.3**	(1.1)
Change in net debt	**115.4**	64.7
Net debt as at 1 April	**(4,752.6)**	(4,447.5)
Net debt as at 30 September	**(4,637.2)**	(4,382.8)

Net debt comprises:

	30 September 2015 £m	31 March 2015 £m	30 September 2014 £m
Cash and cash equivalents	**57.2**	176.7	154.1
Bank overdrafts	**(2.6)**	-	(0.6)
Bank loans	**(1,125.1)**	(1,279.2)	(595.8)
Other loans	**(3,432.2)**	(3,467.5)	(3,786.1)
Finance leases	**(142.6)**	(180.0)	(180.7)
Cross currency swaps hedging debt	**8.1**	(2.6)	26.3
Net debt	**(4,637.2)**	(4,752.6)	(4,382.8)

At 30 September 2015 the group had £57.2 million (31 March 2015: £176.7 million) in cash and cash equivalents. Average debt maturity is around 15 years. Including committed facilities, the group's cash flow requirements are funded until January 2018.

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

Net debt at 30 September 2015 was £4,637.2 million (31 March 2015: £4,752.6 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 83.3% (31 March 2015: 85.2%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2015 was 59.7% (31 March 2015: 61.9%).

The estimated fair value of debt at 30 September 2015 was £498 million higher than book value (31 March 2015: £892.8 million higher). The decrease in the difference to book value is largely due to the increase in the discount rates applied, driven by market expectations of higher interest rates.

Pensions
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 2013. The defined benefit schemes closed to future accrual on 31 March 2015.

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 £382.4 million as at 30 September 2015. This compares to a deficit of £468.9 million as at 31 March 2015. The decrease in the deficit was the result of an increase in the discount rate by 0.5 percentage points, partly offset by the falling value of equities since the previous year end.

The movements in the net deficit during the period were:

	Defined benefit obligations £m	Fair value of plan assets £m	Net deficit £m
At 1 April 2015	(2,555.7)	2,086.8	(468.9)
Employer contributions	0.2	4.2	4.4
Employee contributions	(0.3)	0.3	-
Benefits paid	50.3	(50.3)	-
Scheme administration costs	-	(0.6)	(0.6)
Net finance cost	(41.4)	33.8	(7.6)
Actuarial gains and losses	218.3	(128.0)	90.3
At 30 September 2015	**(2,328.6)**	**1,946.2**	**(382.4)**

On an IAS 19 basis, the funding level has marginally improved to 84% (31 March 2015: 82%).

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

Dividends
The Board has declared an interim ordinary dividend of 32.26p per share (2014/15: 33.96p per share), which will be paid on 8 January 2016 to shareholders on the register at 4 December 2015.

Principal risks and uncertainties

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

Customer Perception:

- Effectively improving and maintaining our levels of customer service in order to deliver what our customers tell us they want.

Legal and Regulatory Environment:

- The regulatory landscape is complex and subject to on-going change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.

Operations, assets and people:

- Failure of our assets or processes, resulting in injury to an employee, contractor, customer or member of the public.
- Achieving all our regulatory targets from Ofwat in relation to ongoing operational performance of our assets failure of which may result in regulatory penalties.
- Inability to provide a continuous supply of quality water to large populations within our area, or asset failure resulting in damage to third party property.

Condensed consolidated income statement
Six months ended 30 September 2015

	Notes	**2015** £m	2014 (restated) £m
Turnover	2	**896.1**	898.3
Operating costs before exceptional items		**(615.1)**	(624.5)
Exceptional operating items	3	**-**	6.5
Total operating costs		**(615.1)**	(618.0)
Profit before interest, tax and exceptional items	2	**281.0**	273.8
Exceptional items	3	**-**	6.5
Profit before interest and tax		**281.0**	280.3
Finance income		**34.4**	40.5
Finance costs		**(140.7)**	(159.6)
Net finance costs		**(106.3)**	(119.1)
Net gains/(losses) on financial instruments	4	**11.5**	(24.1)
Profit before tax, net gains/(losses) on financial instruments and exceptional items		**174.7**	154.7
Exceptional items		**-**	6.5
Net gains/(losses) on financial instruments	4	**11.5**	(24.1)
Profit on ordinary activities before taxation		**186.2**	137.1
Current tax	5	**(31.5)**	(29.6)
Deferred tax	5	**(7.8)**	(0.3)
Taxation on profit on ordinary activities	5	**(39.3)**	(29.9)
Profit for the period from continuing operations		**146.9**	107.2
(Loss)/profit for the period from discontinued operations	6	**(0.7)**	1.1
Profit for the period		**146.2**	108.3
Attributable to:			
Owners of the company		**143.7**	107.5
Non-controlling interests		**2.5**	0.8
		146.2	108.3
Earnings per share (pence)			
From continuing operations			
Basic	8	**60.5**	44.8
Diluted	8	**60.3**	44.7
From continuing and discontinued operations			
Basic	8	**60.3**	45.1
Diluted	8	**60.0**	44.9

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2015

	2015 £m	2014 £m
Profit for the period	**146.2**	108.3
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gains/(losses) on defined benefit pension schemes	90.3	(31.4)
Tax on net actuarial gains/losses	(18.1)	6.2
	72.2	(25.2)
Items that may be reclassified to the income statement:		
Loss on cash flow hedges	(0.6)	(12.2)
Deferred tax on loss on cash flow hedges	0.1	2.4
Amounts on cash flow hedges transferred to the income statement in the period	6.8	6.0
Deferred tax on transfers to income statement	(1.4)	(1.2)
Disposal of minority interest	(13.7)	-
Exchange movement on translation of overseas results and net assets	(3.4)	2.2
Cumulative exchange losses transferred to income statement	11.7	-
	(0.5)	(2.8)
Other comprehensive income/(loss) for the period	71.7	(28.0)
Total comprehensive income for the period	217.9	80.3
Attributable to:		
Owners of the company	229.0	79.4
Non-controlling interests	(11.1)	0.9
	217.9	80.3

Condensed consolidated statement of changes in equity
Six months ended 30 September 2015

	Equity attributable to owners of the company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	233.9	94.2	82.2	667.3	1,077.6	12.5	1,090.1
Profit for the period	-	-	-	107.5	107.5	0.8	108.3
Loss on cashflow hedges	-	-	(12.2)	-	(12.2)	-	(12.2)
Deferred tax on loss on cashflow hedges	-	-	2.4	-	2.4	-	2.4
Amounts on cash flow hedges transferred to the income statement	-	-	6.0	-	6.0	-	6.0
Deferred tax on transfers to the income statement	-	-	(1.2)	-	(1.2)	-	(1.2)
Exchange movement on translation of overseas results and net assets	-	-	2.1	-	2.1	0.1	2.2
Net actuarial losses	-	-	-	(31.4)	(31.4)	-	(31.4)
Tax on net actuarial losses	-	-	-	6.2	6.2	-	6.2
Total comprehensive income for the period	-	-	(2.9)	82.3	79.4	0.9	80.3
Share options and LTIPs							
- proceeds from shares issued	0.7	5.5	-	-	6.2	-	6.2
- value of employees' services	-	-	-	4.0	4.0	-	4.0
- own shares purchased	-	-	-	(2.5)	(2.5)	-	(2.5)
Current tax on share based payments	-	-	-	0.6	0.6	-	0.6
Deferred tax on share based payments	-	-	-	(0.4)	(0.4)	-	(0.4)
Dividends paid	-	-	-	(115.5)	(115.5)	(1.6)	(117.1)
At 30 September 2014	234.6	99.7	79.3	635.8	1,049.4	11.8	1,061.2

At 1 April 2015	233.7	100.2	98.2	377.8	809.9	13.4	823.3
Profit for the period	-	-	-	143.7	143.7	2.5	146.2
Loss on cashflow hedges	-	-	(0.6)	-	(0.6)	-	(0.6)
Deferred tax on loss on cashflow hedges	-	-	0.1	-	0.1	-	0.1
Amounts on cash flow hedges transferred to the income statement	-	-	6.8	-	6.8	-	6.8
Deferred tax on transfers to the income statement	-	-	(1.4)	-	(1.4)	-	(1.4)
Exchange movement on translation of overseas results and net assets	-	-	(3.5)	-	(3.5)	0.1	(3.4)
Cumulative exchange losses transferred to income statement	-	-	11.7	-	11.7	-	11.7
Disposal of minority interest	-	-	-	-	-	(13.7)	(13.7)
Net actuarial gains	-	-	-	90.3	90.3	-	90.3
Tax on net actuarial gains	-	-	-	(18.1)	(18.1)	-	(18.1)
Deferred tax arising from rate change	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	13.1	215.9	229.0	(11.1)	217.9
Share options and LTIPs							
- proceeds from shares issued	0.7	6.3	-	-	7.0	-	7.0
- value of employees' services	-	-	-	2.7	2.7	-	2.7
- own shares purchased	-	-	-	(1.7)	(1.7)	-	(1.7)
Current tax on share based payments	-	-	-	1.1	1.1	-	1.1
Deferred tax on share based payments	-	-	-	(0.1)	(0.1)	-	(0.1)
Share cancellation	(0.1)	-	0.1	-	-	-	-
Dividends paid	-	-	-	(121.2)	(121.2)	-	(121.2)
At 30 September 2015	**234.3**	**106.5**	**111.4**	**474.5**	**926.7**	**2.3**	**929.0**

Condensed consolidated balance sheet
At 30 September 2015

	Notes	**30 September 2015**	31 March 2015 (restated)
		£m	£m
Non-current assets			
Goodwill		**14.1**	14.3
Other intangible assets		**66.7**	66.7
Property, plant and equipment		**7,581.6**	7,520.0
Interests in joint ventures and associates		**4.7**	4.6
Derivative financial instruments		**13.2**	13.5
Available for sale financial assets		**0.1**	0.1
		7,680.4	7,619.2
Current assets			
Inventory		**16.2**	16.7
Trade and other receivables		**506.0**	492.0
Current tax receivable		**-**	11.2
Derivative financial instruments		**2.3**	13.5
Cash and cash equivalents		**57.2**	176.7
Assets held for sale	6	**-**	107.9
		581.7	818.0
Total assets		**8,262.1**	**8,437.2**
Current liabilities			
Borrowings	9	**(562.5)**	(463.0)
Derivative financial instruments		**(6.6)**	(32.2)
Trade and other payables		**(546.6)**	(494.0)
Current income tax liabilities		**(11.3)**	-
Provisions for liabilities and charges		**(11.6)**	(15.9)
Liabilities associated with assets held for sale	6	**-**	(35.3)
		(1,138.6)	(1,040.4)
Non-current liabilities			
Borrowings	9	**(4,140.0)**	(4,463.7)
Derivative financial instruments		**(160.3)**	(175.1)
Trade and other payables		**(838.9)**	(822.2)
Deferred tax		**(652.4)**	(625.1)
Retirement benefit obligations	11	**(382.4)**	(468.9)
Provisions for liabilities and charges		**(20.5)**	(18.5)
		(6,194.5)	(6,573.5)
Total liabilities		**(7,333.1)**	(7,613.9)
Net assets		**929.0**	823.3
Equity			
Called up share capital	12	**234.3**	233.7
Share premium account		**106.5**	100.2
Other reserves		**111.4**	98.2
Retained earnings		**474.5**	377.8
Equity attributable to owners of the company		**926.7**	809.9
Non-controlling interests		**2.3**	13.4
Total equity		**929.0**	823.3

Condensed consolidated cash flow statement
Six months ended 30 September 2015

	Note	**2015 £m**	2014 £m
Cash generated from operations	13	**495.5**	486.3
Tax paid		**(7.9)**	(15.3)
Net cash generated from operating activities		**487.6**	471.0
Investing activities			
Interest received		**0.6**	1.1
Proceeds on disposal of discontinued operations	6	**47.1**	-
Proceeds on disposal of property, plant and equipment		**5.4**	0.5
Purchases of intangible assets		**(11.5)**	(4.4)
Purchases of property, plant and equipment		**(206.7)**	(226.2)
Contributions and grants received		**22.6**	17.3
Net cash used in investing activities		**(142.5)**	(211.7)
Financing activities			
Interest paid		**(69.3)**	(77.4)
Interest element of finance lease payments		**(1.7)**	(2.7)
Dividends paid to shareholders of the parent		**(121.2)**	(115.5)
Dividends paid to non-controlling interests		**-**	(1.6)
Repayments of borrowings		**(527.7)**	(15.5)
Repayments of obligations under finance leases		**(37.4)**	(20.5)
New loans raised		**330.7**	-
Issues of shares		**7.0**	6.2
Share buy back		**(65.1)**	-
Purchase of own shares		**(1.7)**	(2.5)
Net cash used in financing activities		**(486.4)**	(229.5)
Net (decrease)/increase in cash and cash equivalents		**(141.3)**	29.8
Net cash and cash equivalents at beginning of period		**176.7**	123.2
Amounts in assets held for sale at beginning of period	6	**19.3**	-
Effect of foreign exchange rates		**(0.1)**	0.5
Net cash and cash equivalents at end of period		**54.6**	153.5
Net cash and cash equivalents			
Cash and cash equivalents		**57.2**	154.1
Bank overdrafts		**(2.6)**	(0.6)
		54.6	153.5

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 2015 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the statutory accounts for that year prepared under IFRS has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Accounting policies
The interim financial information has been prepared on the going concern basis using accounting policies consistent with International Financial Reporting Standards and in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the group's annual financial statements for the year ended 31 March 2015.

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

The comparative balance sheet has been restated to reflect a reclassification between property plant and equipment and non-current trade and other payables. Contributions, which had been received in previous years in relation to infrastructure assets, and which had a carrying value of £280.2 million as at 31 March 2015, were identified as being deducted from the carrying value of property plant and equipment. In order to comply with the requirements of IAS 16 and IAS 18, these contributions have been reclassified from property plant and equipment to non-current trade and other payables.

As a consequence of this reclassification, the cumulative depreciation charge recognised in retained earnings as at 31 March 2015 has increased by £25.3 million with a corresponding increase of the same amount in the cumulative release of deferred income to the income statement.

Going concern
Including undrawn committed credit facilities, the group is fully funded for its investment and cash flow needs until January 2018. After making enquiries the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and hence the interim financial information has been prepared on a going concern basis.

Seasonality
The group's businesses are not seasonal in nature.

2 Segmental analysis

The group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of the group's regulated subsidiary Severn Trent Water Limited and its retail services to domestic customers.

Business Services includes the group's Operating Services businesses in the US and the UK, Severn Trent Water Limited's non-household retail activities and the group's renewable energy business.

In the prior year interim results all of Severn Trent Water Limited's activities comprised a single segment and Severn Trent Services comprised the group's Operating Services and Water Purification businesses. Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore the current year results have been presented on both the old basis and new basis of segmentation in accordance with IFRS 8.

The Water Purification business was classified as a discontinued operation in the year ended 31 March 2015 and the sale of this business was completed on 2 July 2015. The prior year segmental results have been restated to present the Water Purification business as a discontinued operation.

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the six month period ended 30 September 2015:

Regulated Water and Waste Water

	Severn Trent Water £m	Renewable energy (regulated)[1] £m	Non household retail[2] £m	Additional inter-segment sales[3] £m	Regulated Water and Waste Water £m
External sales	780.5	(12.0)	(200.3)	-	**568.2**
Inter-segment sales	0.5	-	-	185.7	**186.2**
Total sales	781.0	(12.0)	(200.3)	185.7	**754.4**
Profit before interest and tax	283.0	(6.5)	(6.3)	-	**270.2**

Business Services

	Severn Trent Services £m	Renewable energy (regulated and non-regulated)[1] £m	Non household retail[2] £m	Additional inter-segment sales[4] £m	Business Services £m
External sales	113.2	14.3	200.3	-	**327.8**
Inter-segment sales	-	1.6	-	7.9	**9.5**
Total sales	113.2	15.9	200.3	7.9	**337.3**
Profit before interest and tax	4.9	6.1	6.3	-	**17.3**

Corporate and Other

	Corporate and Other (old basis) £m	Renewable energy (non-regulated)[1] £m	Non household retail[2] £m	Additional inter-segment sales £m	Corporate and Other (new basis) £m
External sales	2.4	(2.3)	-	-	**0.1**
Inter-segment sales	4.5	(1.6)	-	-	**2.9**
Total sales	6.9	(3.9)	-	-	**3.0**
Profit before interest and tax	(6.2)	0.4	-	-	**(5.8)**

[1] The electricity generating assets owned by Severn Trent's regulated and non-regulated businesses are now managed by the Business Services segment

[2] Management of the non-household retail activities in England has been transferred to the Business Services segment

[3] The additional inter-segment sales in Regulated Water and Waste Water represent the wholesale water and waste water charges to non-household retail within Business Services

[4] The additional inter-segment sales in Business Services represent sales from the Regulated Renewable Energy business to Regulated Water and Waste Water

2 Segmental analysis (continued)

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

Six months ended 30 September	2015		2014 (restated)	
	Severn Trent Water	**Severn Trent Services**	Severn Trent Water	Severn Trent Services
	£m	**£m**	£m	£m
External sales	**780.5**	**113.2**	792.2	104.5
Inter-segment sales	**0.5**	**-**	0.8	-
Total sales	**781.0**	**113.2**	793.0	104.5
Profit before interest, tax and exceptional items	**283.0**	**4.9**	275.1	4.5
Exceptional items (see note 3)	**-**	**-**	-	6.5
Profit before interest and tax	**283.0**	**4.9**	275.1	11.0

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

Six months ended 30 September	**2015 (new basis)**	**2015 (old basis)**	2014 (restated)
	£m	**£m**	£m
Severn Trent Water	**-**	**780.5**	792.2
Severn Trent Services	**-**	**113.2**	104.5
Regulated Water and Waste Water	**568.2**	**-**	-
Business Services	**327.8**	**-**	-
Corporate and other	**0.1**	**2.4**	1.6
	896.1	**896.1**	898.3

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

Six months ended 30 September	**2015 (new basis)**	**2015 (old basis)**	2014 (restated)
	£m	**£m**	£m
Underlying PBIT:			
Severn Trent Water	**-**	**283.0**	275.1
Severn Trent Services	**-**	**4.9**	4.5
Regulated Water and Waste Water	**270.2**	**-**	-
Business Services	**17.3**	**-**	-
Corporate and other	**(5.8)**	**(6.2)**	(7.6)
Consolidation adjustments	**(0.7)**	**(0.7)**	1.8
Group underlying PBIT	**281.0**	**281.0**	273.8
Exceptional items:			
Severn Trent Services	**-**	**-**	6.5
Net finance costs	**(106.3)**	**(106.3)**	(119.1)
Net gains/(losses) on financial instruments	**11.5**	**11.5**	(24.1)
Profit before tax	**186.2**	**186.2**	137.1

2 Segmental analysis (continued)

The tables below show the changes from the old to the new segmentation for capital employed as at 30 September 2015:

Regulated Water and Waste Water

	Severn Trent Water £m	Renewable energy (regulated) £m	Non household retail £m	Inter-segment payables & receivables £m	Regulated Water and Waste Water £m
Operating assets	8,016.5	(61.6)	(101.3)	29.7	**7,883.3**
Goodwill	1.3	-	-	-	**1.3**
Interests in joint ventures and associates	0.1	-	-	-	**0.1**
Segment assets	8,017.9	(61.6)	(101.3)	29.7	**7,884.7**
Segment operating liabilities	(1,678.5)	3.0	10.3	(3.8)	**(1,669.0)**
Capital employed	6,339.4	(58.6)	(91.0)	25.9	**6,215.7**

Business Services

	Severn Trent Services £m	Renewable energy (regulated and non-regulated) £m	Non household retail £m	Inter-segment payables & receivables £m	Business Services £m
Operating assets	103.5	118.5	101.3	3.8	**327.1**
Goodwill	14.1	-	-	-	**14.1**
Interests in joint ventures and associates	4.6	-	-	-	**4.6**
Segment assets	122.2	118.5	101.3	3.8	**345.8**
Segment operating liabilities	(61.9)	(4.6)	(10.3)	(29.7)	**(106.5)**
Capital employed	60.3	113.9	91.0	(25.9)	**239.3**

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

	30 September 2015		31 March 2015	
	Severn Trent Water £m	**Severn Trent Services £m**	Severn Trent Water £m	Severn Trent Services £m
Operating assets	**8,016.5**	**103.5**	7,960.1	100.9
Goodwill	**1.3**	**14.1**	1.3	14.3
Interests in joint ventures and associates	**0.1**	**4.6**	0.1	4.5
Segment assets	**8,017.9**	**122.2**	7,961.5	119.7
Segment operating liabilities	**(1,678.5)**	**(61.9)**	(1,630.3)	(58.8)
Capital employed	**6,339.4**	**60.3**	6,331.2	60.9

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

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

3 Exceptional items before tax

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

Six months ended 30 September	**2015** £m	2014 £m
Severn Trent Services		
Release of provision for bad debts	**–**	(6.5)
Total exceptional operating items before tax	**–**	(6.5)

4 Net gains/(losses) on financial instruments

Six months ended 30 September	**2015** £m	2014 £m
Loss on cross currency swaps used as hedging instruments in fair value hedges	**(4.0)**	(3.4)
Gain arising on adjustment for foreign currency debt in fair value hedges	**2.4**	1.5
Exchange (loss)/gain on other loans	**(8.3)**	35.0
Loss on cash flow hedges transferred from equity	**(6.8)**	(6.0)
Ineffectiveness of cashflow hedges	**0.5**	2.6
Gain/(loss) arising on swaps where hedge accounting is not applied	**27.7**	(53.8)
	11.5	(24.1)

5 Tax

Six months ended 30 September	**2015** £m	2014 £m
Current tax		
Current year	**31.5**	29.6
Total current tax	**31.5**	29.6
Deferred tax		
Origination and reversal of temporary differences - current year	**7.8**	0.3
Total deferred tax	**7.8**	0.3
	39.3	29.9

Income tax for the period is charged in the income statement at 21.1% (2014: charged at 21.8% based on restated profit before tax), representing the best estimate of the annual average effective income tax rate expected for the full year applied to the pre-tax income for the six month period.

The effective rate of current tax, excluding prior year charges and current tax on exceptional items and on financial instruments, calculated on profit before tax, exceptional items and net gains (2014: losses) on financial instruments was 18.4% (2014: 19.1% based on restated profit before tax).

Current tax credits of £1.1 million (2014: £0.6 million) and deferred tax charges of £19.5 million (2014: £7.0 million credit) have been taken to reserves in the period.

On 8th July 2015, the Government announced the main rate of corporation tax would reduce to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. These rate reductions were substantively enacted on 26th October 2015. As this was after the balance sheet date, deferred tax assets and liabilities have not been remeasured in this reporting period.

6 Discontinued operations

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

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

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

Six months ended 30 September	2015 £m	2014 £m
Turnover	**29.7**	49.3
Operating costs	**(27.6)**	(48.2)
Profit before tax	**2.1**	1.1
Attributable tax expense	**(0.1)**	–
Profit after tax	**2.0**	1.1
Loss recognised on sale of disposal group	**(2.7)**	–
(Loss)/profit for the period from discontinued operations	**(0.7)**	1.1
Attributable to:		
Owners of the company	**(0.6)**	0.5
Non-controlling interests	**(0.1)**	0.6
	(0.7)	1.1

The major classes of assets and liabilities comprising the operations classified as held for sale were:

	31 March 2015 £m
Goodwill	**1.8**
Other intangible assets	**7.2**
Property, plant and equipment	**5.0**
Inventories	**17.3**
Trade and other receivables	**57.3**
Cash and bank balances	**19.3**
Total assets classified as held for sale	**107.9**
Trade and other payables	**(33.6)**
Tax liabilities	**(0.2)**
Provisions for liabilities and charges	**(1.5)**
Total liabilities associated with assets held for sale	**(35.3)**
Net assets of disposal group	**72.6**

Cash flows arising from the disposal group were:

Six months ended 30 September	2015 £m	2014 £m
Net cash flows attributable to:		
- operating activities	**(0.5)**	4.2
- investing activities	**(11.6)**	(1.0)
- financing activities	**(6.4)**	4.5
	(18.5)	**7.7**

6 Discontinued operations (continued)

Basic and diluted earnings per share from discontinued operations are:

Six months ended 30 September	2015			2014		
	Earnings	**Weighted average number of shares**	**Per share amount**	Earnings	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	pence
Basic earnings per share	**(0.6)**	**238.5**	**(0.3)**	0.5	238.6	0.2
Diluted earnings per share	**(0.6)**	**239.4**	**(0.3)**	0.5	239.5	0.2

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

	Total £m
Goodwill	1.8
Other intangible assets	6.5
Property, plant and equipment	3.6
Investments	0.1
Inventories	14.6
Trade and other receivables	59.9
Cash and bank balances	11.0
Trade and other payables	(36.1)
Tax liabilities	(0.2)
Intercompany borrowings	(18.1)
Provisions for liabilities and charges	(1.5)
	41.6
Attributable to:	
Owners of the company	27.9
Non-controlling interest	13.7
	41.6

The net loss on disposal is calculated as follows:

	Total £m
Consideration	42.8
Net assets attributable to owners of the company	(27.9)
Disposal costs	(4.8)
Provisions arising on disposal	(1.1)
Net gain on disposal before foreign exchange losses	9.0
Foreign exchange losses recycled from reserves	(11.7)
Net loss on disposal	**(2.7)**

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

	Total £m
Consideration received in cash and cash equivalents	42.8
Settlement of intercompany loans	18.1
Disposal costs paid in cash and cash equivalents	(2.8)
Cash and bank balances disposed of	(11.0)
	47.1

7 Dividends

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

Six months ended 30 September	2015		2014	
	Pence per share	**£m**	Pence per share	£m
Final dividend for the year ended 31 March	**50.94**	**121.2**	48.24	115.5

The proposed interim dividend of 32.26p per share (2014: 33.96p per share) was approved by the Board on 25 November 2015 and has not been included as a liability as at 30 September 2015.

8 Earnings per share

a) Basic and diluted earnings per share

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

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

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

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

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

Six months ended 30 September	2015 £m	2014 £m
Profit for the period attributable to owners of the company	**143.7**	107.5
Adjusted for loss/(profit) from discontinued operations (see note 6)	**0.6**	(0.5)
Profit for the period from continuing operations attributable to owners of the company	**144.3**	107.0

Number of shares

Six months ended 30 September	2015 m	2014 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.5**	238.6
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	**0.9**	0.9
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	239.5

8 Earnings per share (continued)

b) Underlying earnings per share

Six months ended 30 September	2015	2014 (restated)
	Pence	Pence
Underlying basic earnings per share	**58.6**	52.6
Underlying diluted earnings per share	**58.4**	52.4

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) financial instruments and deferred tax in both 2015 and 2014. The directors consider that the underlying figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings are as follows:

Six months ended 30 September	2015	2014 (restated)
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	**144.3**	107.0
Adjustments for:		
- exceptional items before tax	**-**	(6.5)
- current tax on exceptional items	**-**	0.2
- net (gains)/losses on financial instruments	**(11.5)**	24.1
- current tax on net gains/losses on financial instruments	**(0.9)**	0.4
- deferred tax	**7.8**	0.3
Earnings for the purpose of underlying basic and diluted earnings per share	**139.7**	125.5

9 Borrowings

	30 September 2015	31 March 2015
	£m	£m
Bank overdrafts	**2.6**	-
Bank loans	**1,125.1**	1,279.2
Other loans	**3,432.2**	3,467.5
Obligations under finance leases	**142.6**	180.0
Borrowings	**4,702.5**	4,926.7

The borrowings are repayable as follows:

	30 September 2015	31 March 2015
	£m	£m
On demand or within one year - included in current liabilities	**562.5**	463.0
Over one year - included in non-current liabilities	**4,140.0**	4,463.7
	4,702.5	4,926.7

10 Fair value of financial instruments

a) Fair value measurements

The table below describes the valuation technique that the group applies for each class of financial instrument which is measured at fair value on a recurring basis. All techniques are classified as Level 2 under the hierarchy defined by IFRS 13. There have been no changes in the levels of classification during the period.

	Fair value as at		
	30 September 2015 £m	31 March 2015 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**13.2**	22.6	Future cash flows are estimated based on forward
Liabilities	**(5.1)**	(25.2)	interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at the spot rate.
Interest rate swaps			Discounted cash flow
Assets	**-**	4.2	Future cash flows are estimated based on forward
Liabilities	**(159.0)**	(181.1)	interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Energy swaps			Discounted cash flow
Liabilities	**(2.0)**	(0.8)	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Foreign currency forward contracts			Discounted cash flow
Assets	**2.3**	0.2	Future cash flows are estimated based on observable
Liabilities	**(0.8)**	(0.2)	forward exchange rates at the period end and contract forward rates discounted at a rate that reflects the credit risk of counterparties.

10 Fair value of financial instruments (continued)

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

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables are not materially different from their fair values. Derivative financial instruments are carried at fair value. The carrying values and estimated fair values of other non-derivative financial instruments are set out below. This analysis does not take into account the impact of interest rate swaps. At 30 September 2015 the group held interest rate swaps that converted floating rate interest to fixed on a net principal amount of £556.2 million (31 March 2015: £581.6 million).

	30 September 2015		31 March 2015	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**829.3**	**830.0**	984.3	970.3
Currency bonds	**33.0**	**33.0**	84.3	84.3
	862.3	**863.0**	1,068.6	1,054.6
Fixed rate debt				
Bank loans	**188.1**	**186.9**	188.5	204.4
Sterling bonds	**1,856.3**	**2,164.2**	1,855.3	2,268.4
Currency bonds	**380.8**	**390.7**	370.8	391.3
Other loans	**2.8**	**2.8**	2.0	2.0
Finance leases	**142.6**	**147.5**	180.0	190.7
	2,570.6	**2,892.1**	2,596.6	3,056.8
Index-linked debt				
Bank loans	**107.7**	**119.7**	106.4	123.0
Sterling bonds	**1,159.3**	**1,323.1**	1,155.1	1,585.1
	1,267.0	**1,442.8**	1,261.5	1,708.1
	4,699.9	**5,197.9**	4,926.7	5,819.5

Fixed rate sterling and currency bonds are valued using market prices.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds.

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

11 Retirement benefit schemes

The group operates two defined benefit schemes being the Severn Trent Pension Scheme and the Severn Trent Mirror Image Scheme. These schemes closed to future accrual on 31 March 2015, therefore there is no service cost in the current period. The group also has an unfunded obligation to provide benefits to certain former employees whose earnings were in excess of the pensions cap that operated when the benefits were accrued.

The retirement benefit obligation as at 30 September 2015 has been calculated on a year to date basis, using the actuarial valuation update as at 31 March 2015. 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 2015. However, the market based assumptions have been updated for conditions prevailing at the balance sheet date as follows:

	30 September 2015	31 March 2015
Discount rate	**3.8%**	3.3%
RPI	**3.0%**	3.0%

The defined benefit assets have been updated to reflect their market value as at 30 September 2015. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the cost of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs. Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

Six months ended 30 September	**2015 £m**	2014 £m
Current service cost	**-**	(11.7)
Administration cost	**(0.6)**	(2.0)
Net interest cost	**(7.6)**	(7.6)
Total amount charged to the income statement	**(8.2)**	(21.3)

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

	30 September 2015 £m	31 March 2015 £m
Total fair value of assets	**1,946.2**	2,086.8
Present value of the defined benefit obligations - funded schemes	**(2,319.3)**	(2,545.7)
Present value of the defined benefit obligations - unfunded schemes	**(9.3)**	(10.0)
Liability recognised in the balance sheet	**(382.4)**	(468.9)

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

	2015 £m	2014 £m
At 1 April	**(468.9)**	(348.3)
Current service cost	**-**	(11.7)
Administration cost	**(0.6)**	(2.0)
Net interest cost	**(7.6)**	(7.6)
Contributions from the sponsoring companies	**4.4**	12.3
Net actuarial gain/(loss) recognised in the statement of comprehensive income	**90.3**	(31.4)
At 30 September	**(382.4)**	(388.7)

12 Share capital

At 30 September 2015 the issued and fully paid share capital was 239.3 million shares of $97^{17}/_{19}$p amounting to £234.3 million (31 March 2015: 238.7 million shares of $97^{17}/_{19}$p amounting to £233.7 million).

During the period the company issued 680,902 (2014: 657,416) shares as a result of the exercise of employee share options and repurchased 2,987,871 shares (2014: nil) under its share buy back programme. Of these repurchased shares, 51,514 (2014: nil) were cancelled and the remaining 2,936,357 (2014: nil) are held as treasury shares.

13 Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September	2015 £m	2014 £m
Profit before interest and tax from continuing operations	**281.0**	280.3
Profit before interest and tax from discontinued operations	**2.1**	1.1
Profit before interest and tax	**283.1**	281.4
Depreciation of property, plant and equipment	**144.6**	143.2
Amortisation of intangible assets	**11.4**	12.9
Pension service cost	**-**	11.7
Defined benefit pension scheme administration costs	**0.6**	2.0
Pension contributions	**(4.4)**	(12.3)
Share based payments charge	**2.7**	4.0
(Profit)/loss on sale of property, plant and equipment	**(1.4)**	-
Deferred income movement	**(5.3)**	(5.0)
Provisions for liabilities and charges	**2.8**	3.6
Utilisation of provisions for liabilities and charges	**(5.6)**	(6.6)
Decrease/(Increase) in inventory	**2.5**	(2.2)
Increase in receivables	**(19.2)**	(37.9)
Increase in payables	**83.7**	91.5
Cash generated from operations	**495.5**	486.3
Tax paid	**(7.9)**	(15.3)
Net cash generated from operating activities	**487.6**	471.0

b) Non-cash transactions

No additions to property, plant and equipment during the six months to 30 September 2015 were financed by new finance leases (2014: nil).

c) Exceptional cash flows

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

Six months ended 30 September	2015 £m	2014 £m
Restructuring costs	**(4.0)**	-

d) Reconciliation of movements in net debt

	As at 1 April 2015 £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 2015 £m
Cash and cash equivalents	176.7	(138.7)	-	-	(0.1)	19.3 [1]	**57.2**
Bank overdrafts	-	(2.6)	-	-	-	-	**(2.6)**
Net cash and cash equivalents	176.7	(141.3)	-	-	(0.1)	19.3	**54.6**
Bank loans	(1,279.2)	155.4	-	(1.3)	-	-	**(1,125.1)**
Other loans	(3,467.5)	41.6	2.4	(4.2)	(8.4)	3.9	**(3,432.2)**
Finance leases	(180.0)	37.4	-	-	-	-	**(142.6)**
Cross currency swaps hedging debt	(2.6)	-	5.5	-	-	5.2	**8.1**
Net debt	(4,752.6)	93.1	7.9	(5.5)	(8.5)	28.4	**(4,637.2)**

[1] Other non-cash movements on cash and cash equivalents represent amounts within assets held for sale at the beginning of the period (see note 6)

14 Post balance sheet events

In November 2015 the group secured £471 million of floating rate funding from the US Private Placement market.

15 Contingent liabilities

Details of the group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2015 which were approved on 28 May 2015. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

16 Related party transactions

There have been no related party transactions that materially affected the financial position or 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 Conduct Authority.

Signed on behalf of the Board who approved the half yearly financial report on 25 November 2015.

Andrew Duff Chairman	James Bowling Chief Financial Officer

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.

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 2015 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 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
25 November 2015

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', 'will', 'should', 'expects', 'believes', 'seeks', 'anticipates', 'intends', 'plans', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates', and words of similar meaning. 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, the Principal Risks disclosed in our Annual Report as at May 2014 (which have not been updated since), 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 capital 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. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so. Nothing in this document should be regarded as a profits forecast.

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