

# Half Yearly Financial Report

26 November 2013

Interim Results for the six months to 30 September 2013

## Highlights

- Financial results in line to deliver full year expectations
- Below inflation bill increase for customers this year – Severn Trent remains lowest average combined bill in England and Wales
- Operating costs for adoption of PDaS, up to an estimated £41 million in total over the current regulatory period, being absorbed by Severn Trent Water
- Customer service, sewer flooding and supply interruptions all improving<sup>1</sup>. 8 Ofwat KPIs in upper quartile<sup>2</sup> (vs. 4 in prior year)
- Additional £150 million investment programme continuing to deliver service improvements for the benefit of customers – £91 million invested to date
- Estimated RCV<sup>3</sup> at September 2013 £7,511 million, on track to reach £8 billion by March 2015
- Bad debt stable and amongst lowest in industry, with a range of Severn Trent social tariffs to help customers
- Maintained underlying group PBIT despite rising power costs whilst delivering service improvements; interim dividend growth in line with policy
- Completed extensive stakeholder engagement programme as part of Business Plan for next regulatory period, AMP6 - on track to submit plan to Ofwat by 2 December
- New CEO announced – Liv Garfield to join Severn Trent in Spring 2014

1. September 2013 vs. March 2013

2. FY 2012/13

3. Regulatory Capital Value

## Group results

### Underlying performance

Six months ended 30 September

	2013 £m	2012 Restated <sup>4</sup> £m	Increase/ (Decrease) %
Group turnover	922.4	917.7	0.5%
Underlying group PBIT <sup>1</sup>	266.9	265.9	0.4%
Underlying group profit before tax <sup>2</sup>	141.3	150.0	(5.8%)
	pence/ share	pence/ share	
Adjusted basic EPS <sup>3</sup>	46.7	45.8	2.0%
Interim dividend declared	32.16	30.34	6.0%

### Reported results

Six months ended 30 September

	2013 £m	2012 Restated <sup>4</sup> £m	Increase/ (Decrease) %
Group PBIT <sup>1</sup>	255.7	267.0	(4.2%)
Group profit before tax	191.2	113.4	68.6%
Group profit for the period	344.8	118.1	192.0%
	pence/ share	pence/ share	
Basic earnings per share	145.0	49.2	194.7%

<sup>1</sup> before exceptional items (see note 3)

<sup>2</sup> before exceptional items and net gain/(loss) on financial instruments

<sup>3</sup> before exceptional items, net gain/(loss) on financial instruments, current tax on exceptional items and on financial instruments and deferred tax (see note 7)

<sup>4</sup> restated due to adoption of IAS19 Revised (see note 1)

## **Tony Wray, Chief Executive Severn Trent Plc, said:**

“We have delivered again on our commitments to our stakeholders, with below inflation rises in customer bills, further investment to deliver operational improvements, higher levels of service to customers and sustainable, progressive returns for shareholders with the interim dividend growing in line with our policy.

Many customers are facing serious cost of living pressures and we aim to keep bills to the minimum with below inflation rises across the current regulatory period and help for customers through our range of social tariffs. We remain committed to keeping customers’ bills down and to sharing the benefits of success with them.

In the first six months Severn Trent Water invested £269 million in capital projects, an increase of 12.5%, resulting in improved performance in serious pollution incidents, supply interruptions and sewer flooding, a key priority for this year while customer satisfaction, as measured by the SIM (Service Incentive Mechanism), continues to rise.

We are close to finalising our Business Plan for AMP6, after a comprehensive, 18 month stakeholder engagement programme, which involved around 15,000 customers in research and 25 meetings of the Severn Trent Water Forum, our customer challenge panel.

Our Business Plan, to be submitted by 2 December, will reflect our customers’ priorities and strike the right balance between affordability, investment to maintain and improve our service and environmental standards, and appropriate returns for shareholders.

Finally, I am delighted that Liv Garfield will be joining us next year as the new Chief Executive and I am looking forward to a seamless transfer of responsibilities and maintenance of Severn Trent’s continuous improvement.”

## **Enquiries:**

Tony Wray <i>Chief Executive</i>	Severn Trent Plc	0207 353 4200 (on the day) 02477 715000
Mike McKeon <i>Finance Director</i>	Severn Trent Plc	0207 353 4200 (on the day) 02477 715000
John Crosse <i>Head of Investor Relations</i>	Severn Trent Plc	0207 353 4200 (on the day) 02477 715000
Rob Salmon <i>Head of Communications</i>	Severn Trent Plc	0207 353 4200 (on the day) 02477 715000
David Shriver/Martha Walsh	Tulchan Communications	0207 353 4200

## **Interim Results Presentation and Webcast**

There will be a presentation of these results at 9:30am on Tuesday 26 November 2013 at BAFTA, 195 Piccadilly, London W1J 9LN. This presentation will be available as a simultaneous webcast on the Severn Trent website ([www.severntrent.com](http://www.severntrent.com)) and will remain on the website for subsequent viewing. There will also be a video of our Chief Executive Tony Wray commenting on the results.

# **Interim Management Report**

## **Operating Review**

### **Regulated - Severn Trent Water**

Severn Trent Water has made a good start to the 2013/14 financial year. Bills have increased by less than inflation, and Severn Trent Water's customers continue to benefit from the lowest average combined water and sewerage bills in England and Wales.

We announced in September that we would not be applying to Ofwat for an Interim Determination of K, (IDoK) to recover costs resulting from the adoption of private drains and sewers (PDaS) in October 2011. Costs for maintaining these assets were not included in the price controls for the current 5 year regulatory period. Severn Trent Water will, over the current regulatory period, invest approximately £41 million to £47million additional capital expenditure and absorb operating costs of between £35 million and £41 million.

We have continued to manage our bad debt effectively, maintaining our bad debt charge at 2.2% of turnover, one of the lowest levels in the industry. We support this performance by helping customers with a wide range of social tariff options. Examples include: the WaterSure tariff which caps bills for those customers who have particular difficulty in paying; the Severn Trent Trust Fund, a registered charity that helps those customers unable to meet the cost of water charges; bill reductions for single occupiers; and the Big Difference Fund, a partnership with Coventry Citizens Advice Bureau.

Our additional £150 million capital investment programme continues on track, and we have invested £91 million to date cleaning our sewers, improving our sewage treatment works and reducing leakage. In the first 6 months of the year we have delivered improvements in sewer flooding, serious pollution incidents and supply interruptions. Overall our capital programme grew to £269.1 million (UK GAAP, net of grants and contributions), compared to £239.2 million in the prior period. We remain on track to reach a Regulatory Capital Value (RCV) of £8 billion by March 2015.

As a result of our continued investment and operational improvements, our benchmark performance on Ofwat's KPIs for 2012/13 improved year on year, with 8 in the upper quartile (prior year 4), 4 where our performance was median (prior year 8) and 2 in the lower quartile (prior year 3). In 2012/13 the number of KPIs reduced to 14 from 15, with the elimination of the water pollutions KPI.

Since the end of March 2013 we have made good progress on a number of Ofwat's KPIs, including sewer flooding with a reduction of 31%, supply interruptions reducing by 41% and serious pollution incidents down 33%. We have also seen an improvement in customer satisfaction, as measured by the SIM (Service Incentive Mechanism) score and a reducing number of complaints. Our next area of focus is on 2 metrics which impact serviceability, namely sewer blockages and water quality at our water treatment works. Our sewer blockage performance is in line with the industry average but we have undertaken significant investigative work to cleanse and survey sewers in problem areas. This is beginning to drive blockages down and we expect this to continue. At our water treatment works we have conducted a thorough end to end review of our treatment processes to improve performance.

## **Non-regulated - Severn Trent Services**

Revenues and underlying PBIT were lower period on period due to lower volumes in the Products business, resulting from customer project and delivery delays. However, the order book has continued to grow to £62 million (\$100 million) at the end of September, an increase of 28% compared to March, supporting the anticipated rise in future deliveries. In Operating Services, UK & Ireland and the US delivered revenue growth, on the back of new contract wins and a good performance on the MoD contract.

## **Financial Review**

### **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. Prior period comparative figures have been restated, where indicated, for the changes in accounting policy set out in note 1. The impact is to decrease profit previously reported by £5.7 million, with an equal and opposite movement in reserves.

Group turnover was £922.4 million (£917.7 million), an increase of 0.5% over the same period last year. Underlying group PBIT was 0.4% higher than last period. The primary factors affecting turnover and underlying PBIT are described in the commentary below.

There was a net exceptional charge of £11.2 million (credit of £1.1 million). Group PBIT decreased 4.2% to £255.7 million (£267.0 million).

### **Regulated - Severn Trent Water**

Turnover rose by 1.8% to £774.6 million. Customer measured consumption was higher than the same period last year, due to a dry summer compared to an unusually wet period last year. Prices increased from 1 April 2013 by 2%, less than inflation.

Underlying PBIT increased by 0.6% to £269.5 million.

Operating costs increased by 3.0% to £296.6 million in line with expectations.

Directly managed costs increased below the level of inflation at 2.0% period on period, reflecting our effective cost management, while indirectly managed costs, over which we have less control, increased by 5.0%.

Six months ended 30 September	2013 £m	2012 £m	Increase/ (decrease) £m %	
<b>Directly managed costs</b>				
Employee costs	113.6	107.3	6.3	5.9
Labour costs capitalised	(43.3)	(38.9)	(4.4)	11.3
Hired and contracted	77.8	75.4	2.4	3.2
Raw materials and consumables	20.8	22.5	(1.7)	(7.6)
Other	22.9	21.8	1.1	5.0
	191.8	188.1	3.7	2.0
<b>Indirectly managed costs</b>				
Bad debts	16.1	15.7	0.4	2.5
Power	32.0	27.6	4.4	15.9
Rates and service charges	56.7	56.5	0.2	0.4
	104.8	99.8	5.0	5.0
<b>Operating costs</b>	<b>296.6</b>	<b>287.9</b>	<b>8.7</b>	<b>3.0</b>

Employee costs increased due to the delivery of service improvements and the increased capital programme, which also resulted in higher labour costs capitalised. Overall net labour costs, including hired and contracted and after costs capitalised, were 3.0% higher period on period. Raw materials and consumables were lower than the same period in the prior year primarily due to savings within waste water.

Bad debts remained stable at 2.2% of turnover due to our continuing proactive approach and range of social tariffs to help customers pay their bill. The increase in power costs arose due to higher strike prices on our energy swaps. We also generated slightly less renewable power in the period (22.8% of our gross consumption compared to 23.8% in the prior period).

Depreciation was £3.8 million higher period on period due to the impact of capital expenditure increasing the size of the asset base and there was a decrease in infrastructure renewals expenditure of £0.6 million.

During the period, Severn Trent Water invested £269.1 million (£239.2 million) (UK GAAP, net of contributions) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure maintenance expenditure of £62.8 million (£63.4 million), charged to the income statement under IFRS.

## Non-regulated - Severn Trent Services

Six months ended 30 September	2013 £m	2012 £m	Increase/ (decrease) £m
<b>Turnover</b>			
Services as reported	148.0	162.1	(14.1)
Structural changes	-	(13.7)	
Impact of exchange rate fluctuations	-	5.5	
Like for like	148.0	153.9	(5.9)
<b>Underlying PBIT</b>			
Services as reported	1.6	4.1	(2.5)
Structural changes	-	1.1	
Impact of exchange rate fluctuations	-	0.1	
Like for like	1.6	5.3	(3.7)

Reported turnover in Severn Trent Services at £148.0 million in the period was down £14.1 million on the same period last year and reported underlying PBIT decreased by £2.5 million to £1.6 million.

After adjusting for the impact of exchange rate fluctuations and structural changes, turnover on a constant currency basis was down £5.9 million and underlying PBIT measured on the same basis was down £3.7 million.

### Corporate and Other

Corporate and Other incurred a net charge before interest, tax and exceptional items of £5.5 million (£7.2 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 before tax

There was an exceptional charge (see note 3) in the six months to 30 September 2013 of £11.2 million (credit of £1.1 million) comprising;

- Advisory, legal and other services related to LongRiver Partners approach £18.7 million
- Profit on disposal of land £7.1 million
- Release of a legal provision and restructuring costs in Severn Trent Services £0.4 million

The exceptional credit in the prior period resulted from the profit on disposal of the group's meter installation, repair and replacement business.

### Net finance costs

The group's net finance costs were £125.6 million, compared to £116.0 million in the prior period. Higher inflation has led to higher finance costs on index linked debt coupled with an increase due to higher borrowings. Changes to the Accounting Standard IAS19 have resulted in an increase of £8.3 million in net pension finance cost (prior year figures have been restated by £6.2 million to reflect these changes).

The effective interest rate, including index linked debt, for the period to September 2013 was 5.8% (5.6%). The effective cash cost of interest excluding the RPI uplift on index linked debt was 5.0% (4.9%).

### **Net gain/(loss) on financial instruments**

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

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

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

Where 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.

### **Profit before tax**

Underlying group profit before tax decreased by 5.8% to £141.3 million (£150.0 million). Group profit before tax was £191.2 million (£113.4 million).

### **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 before exceptional tax was £31.2 million (£40.3 million).

Our underlying effective current tax rate was 21.5% (27.7%). This is calculated as current tax, excluding prior year charges and exceptional tax, current tax on exceptional items and on financial instruments, divided by profit before tax, exceptional items and net gain/(loss) on financial instruments.

There was an exceptional current tax credit in the period of £44.0 million, reflecting the anticipated refund of overpayment of tax in prior periods. This arose from the resolution of a long standing industry wide discussion with HMRC over the tax treatment of certain capital expenditure within our water and waste water treatment works. Previously, these assets qualified for industrial building allowances (IBAs). The IBA regime began to be phased out in 2008 and by 2011 these allowances were eliminated. However, HMRC has now agreed that this expenditure is eligible for capital allowances as plant and machinery. We have therefore re-examined expenditure back to 2002/03 and will resubmit our tax computations for the years 2002/03 to 2012/13 inclusive to claim these allowances.

The current tax charge of £31.2 million and exceptional credit of £44.0 million above led to a total current tax credit of £12.8 million (charge of £40.3 million).

The deferred tax charge for the period before exceptional tax was £15.1 million (£10.8 million).

Back in 2008/09, the removal of IBAs also resulted in a deferred tax charge of approximately £186 million. As allowances on expenditure since 2002/03 can now be claimed, as detailed above, there is a partial reversal of this loss, resulting in an exceptional deferred tax credit of £41.1 million.

There was a further exceptional deferred tax credit of £114.8 million arising from the reduction in corporation tax rate from 23% to 20% (£34.2 million arising from reduction from 24% to 23%).

Therefore there was a total deferred tax credit for the period of £140.8 million (credit of £45.0 million).

Including both current and deferred tax, there was a total tax credit for the period of £153.6 million (credit of £4.7 million).

#### **Profit for the period and earnings per share**

Profit for the period was £344.8 million (£118.1 million).

Basic earnings per share were 145.0 pence (49.2 pence). Adjusted basic earnings per share (before exceptional items, net gain/(loss) on financial instruments, current tax on exceptional items and on financial instruments and deferred tax) were 46.7 pence (45.8 pence), see note 7.

## Cash flow

Six months ended 30 September	2013 £m	2012 £m
Cash generated from operations	<b>432.0</b>	451.3
Net capital expenditure	<b>(203.6)</b>	(184.4)
Net interest paid	<b>(74.3)</b>	(73.2)
Closed out swap	-	(13.0)
Tax paid	<b>(1.1)</b>	(18.5)
Other cash flows	<b>(0.7)</b>	1.5
Free cash flow	<b>152.3</b>	163.7
Dividends	<b>(108.6)</b>	(249.9)
Issue of shares	<b>4.8</b>	6.3
Purchase of own shares	<b>(2.9)</b>	(1.4)
Change in net debt from cash flows	<b>45.6</b>	(81.3)
Non-cash movements	<b>(7.5)</b>	(5.6)
Change in net debt	<b>38.1</b>	(86.9)
Net debt as at 1 April	<b>(4,297.3)</b>	(3,967.8)
Net debt as at 30 September	<b>(4,259.2)</b>	(4,054.7)
Net debt comprises:		
	<b>30 September 2013 £m</b>	31 March 2013 £m
Cash and cash equivalents	<b>278.3</b>	403.6
Bank overdrafts	<b>(0.1)</b>	(0.4)
Bank loans	<b>(594.3)</b>	(758.7)
Other loans	<b>(3,830.3)</b>	(3,840.9)
Finance leases	<b>(203.7)</b>	(201.6)
Cross currency swaps hedging debt	<b>90.9</b>	100.7
Net debt	<b>(4,259.2)</b>	(4,297.3)
		(4,054.7)

Cash generated from operations was £432 million (£451.3 million). Capital expenditure net of contributions and proceeds of sales of fixed assets was £203.6 million (£184.4 million). Tax paid was £1.1 million (£18.5 million). Net interest paid increased to £74.3 million (£73.2 million).

Net debt at 30 September 2013 was £4,259.2 million (31 March 2013 £4,297.3 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 79.5% (31 March 2013 83.6%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2013 was 56.7% (58.4%).

The group's net interest charge, excluding net gain/(loss) on financial instruments and net finance costs from pensions, was covered 3.5 times (3.8 times) by profit before interest, tax, depreciation and exceptional items, and 2.3 times (2.5 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 2010 and the valuation as at 31 March 2013 is currently underway.

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 £370.2 million as at 30 September 2013. This compares to a deficit of £383.7 million as at 31 March 2013.

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 2013	(2,108.0)	1,724.3	(383.7)
Employer contributions	-	13.2	13.2
Employee contributions	(2.6)	2.6	-
Benefits paid	39.6	(39.6)	-
Current service cost	(11.3)	-	(11.3)
Scheme administration costs	-	(1.6)	(1.6)
Net finance cost	(45.6)	37.3	(8.3)
Actuarial gains and losses	38.6	(17.1)	21.5
<b>At 30 September 2013</b>	<b>(2,089.3)</b>	<b>1,719.1</b>	<b>(370.2)</b>

The group has adopted the provisions of IAS19 'Employee Benefits' (revised) (IAS19R) from 1 April 2013. Under the revised standard the discount rate used to discount the scheme's liabilities is also used to calculate the expected return on the scheme's assets. This has led to a net finance charge which is £8.3 million higher than would previously have been reported. As the difference between finance income and the actual return on scheme assets is reported as actuarial gain/loss in other comprehensive income, the changes do not impact the pension deficit on the balance sheet. The standard must be applied retrospectively and hence comparatives have been restated. The full impact of IAS19R is disclosed in note 1.

On an IAS 19 basis, the funding level has stayed stable at 82%.

### Treasury management

At 30 September 2013 the group had £278.3 million (31 March 2012 £403.6 million) in cash and cash equivalents. Average debt maturity is around 16 years. The group's cash flow requirements are funded until 2015.

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.

The group's current policy for the management of interest rate risk requires that not 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 2013, interest rates for 80% of the group's net debt of £4,259.2 million were fixed.

The group manages its power costs through a combination of forward price contracts and financial derivatives. All of our power requirements for the first four years of AMP5 and almost all 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 strong, flexible and sustainable balance sheet structure, which is reviewed on a regular basis, and believes that the planned investment programme and current dividend policy for AMP5 are commensurate with an investment grade credit rating.

Following the introduction of the new accounting standard, IFRS 13 'Fair Value Measurement', the group is required to amend its approach to estimating the fair value of its debt instruments to comply with the new standard which now places more emphasis on quoted prices in active markets rather than expected cash flows discounted using rates derived from market data. The estimated fair value of net debt at 30 September 2013 was £391 million higher than book value (31 March 2013 £584 million higher on a consistent basis).

### **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**

We remain committed to our dividend policy of RPI +3% growth per annum for the remainder of AMP5. Therefore the board has declared an interim ordinary dividend of 32.16p per share (30.34p per share, +6.0%), which will be paid on 10 January 2014 to shareholders on the register at 6 December 2013.

### **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 performance in relation to 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.
- Responding effectively to the opening up of the business retail market to competition.

#### **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.

#### **Financial risks:**

- Counterparties with whom we have invested money may fail putting our investment at risk.

For longer term risks please refer to the Severn Trent Plc Annual Report and Accounts 2013.

## **Regulatory Update**

We are broadly supportive of the new regulatory framework, as outlined in the final methodology for the upcoming price review, PR14, published in July. Many of the changes are in line with our own recommendations published in our “Changing Course” series of reports over the last 3 years.

The Water Bill has also begun its passage through Parliament, which will mean that all commercial and public sector entities can choose their supplier by 2017. At Severn Trent we have already anticipated this change and have won our first national customer. Wholesale competition will be introduced for raw water and sludge, which we support.

We have also recently published the latest in our Changing Course series, focusing on implementation of the Water Framework Directive (WFD). The central message of the report is while the cost of living is rising there are environmental improvements we need to make to achieve healthier rivers. A balance needs to be struck between these two competing needs, and by implementing the WFD in a sustainable way, we believe it is possible to keep bills affordable and make a significant environmental progress. The report is available at [www.severntrent.com/future/policy-regulation/](http://www.severntrent.com/future/policy-regulation/)

### **PR14 preparation**

We have continued our work with our Customer Challenge Panel, the Severn Trent Water Forum. We completed in June our final large scale customer consultation “Your Water Your Choices”. This identified that water quality and security of supply remain priorities for customers, as well as support for environmental improvements.

We are on target to submit our Business Plan for AMP6 to Ofwat by the 2 December deadline, which will reflect our customers’ priorities and strike the right balance between affordability, investment to maintain and improve our service and the environment, and appropriate returns for shareholders.

Severn Trent will be holding a webinar to discuss its PR14 business plan submission at 12:30pm GMT on 3 December 2013. Further details are available at [www.severntrent.com](http://www.severntrent.com).

## **Outlook**

The group is on track to deliver its expectations for the full year.

### **Regulated business**

Consumption across our measured income base is now expected to be slightly higher year on year, given the volumes seen in the first half.

We aim to maintain our bad debt level at around 2.2% of turnover for the full year, though we continue to monitor developments such as unemployment levels and changes to the UK benefits system closely.

Operating expenditure continues to be in line with the Board's expectations for the year and, on a like for like basis, in line with the level of the Final Determination. Operating costs are expected to rise year on year due to the impact of inflation and power costs partially offset by efficiency improvements.

Expectations for net capital expenditure (UK GAAP after deducting grants and contributions) remain in the range £600 million to £620 million, including an estimated £15 million related to private drains and sewers. The level of net infrastructure renewals expenditure included in this range is anticipated to be £135 million to £145 million.

Looking to 2014/15, customer bills will rise by less than inflation, continuing the below inflation trend for the whole of AMP5.

### **Non-regulated business**

In Severn Trent Services we expect growth in both revenues and PBIT.

### **Group**

The group interest charge is expected to be higher year on year due to higher net debt and with the adoption of revisions to IAS19 increasing the pension accounting interest charge. The year on year impact of this revision to IAS19 is estimated at £13 million.

The effective current tax rate for the group for 2013/14 is expected to be between 21% and 23%.

Under our dividend policy of RPI+3% growth the dividend for 2013/14 is set to be 80.40 pence, representing growth of 6% year on year.

Severn Trent Plc will announce its Preliminary results for the financial year ending 31 March 2014 on 29 May 2014.

### **Further information**

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

**Condensed consolidated income statement**  
**Six months ended 30 September 2013**

		<b>2013</b>	2012
	Notes	£m	Restated £m
<b>Turnover</b>	2	<b>922.4</b>	917.7
Operating costs before exceptional items		<b>(655.5)</b>	(651.8)
Exceptional operating costs	3	<b>(11.2)</b>	-
<b>Total operating costs</b>		<b>(666.7)</b>	(651.8)
Exceptional profit on disposal of business	3	-	1.1
Profit before interest, tax and exceptional items	2	<b>266.9</b>	265.9
Exceptional items	3	<b>(11.2)</b>	1.1
<b>Profit before interest and tax</b>		<b>255.7</b>	267.0
Finance income		<b>38.8</b>	38.9
Finance costs		<b>(164.4)</b>	(154.9)
Net finance costs		<b>(125.6)</b>	(116.0)
Net gain/(loss) on financial instruments	4	<b>61.1</b>	(37.7)
Share of results of associates and joint ventures		-	0.1
Profit before tax, net gain/(loss) on financial instruments and exceptional items		<b>141.3</b>	150.0
Exceptional Items		<b>(11.2)</b>	1.1
Net gain/(loss) on financial instruments	4	<b>61.1</b>	(37.7)
<b>Profit on ordinary activities before taxation</b>		<b>191.2</b>	113.4
Current tax	5	<b>(31.2)</b>	(40.3)
Deferred tax	5	<b>(15.1)</b>	10.8
Exceptional tax	5	<b>199.9</b>	34.2
Taxation on profit on ordinary activities		<b>153.6</b>	4.7
<b>Profit for the period</b>		<b>344.8</b>	118.1
<b>Attributable to:</b>			
Equity holders of the company		<b>344.9</b>	116.9
Equity non-controlling interests		<b>(0.1)</b>	1.2
		<b>344.8</b>	118.1
<b>Earnings per share (pence)</b>			
Basic	7	<b>145.0</b>	49.2
Diluted	7	<b>144.5</b>	49.0

**Condensed consolidated statement of comprehensive income**  
**Six months ended 30 September 2013**

	2013	2012
	£m	Restated £m
<b>Profit for the period</b>	<b>344.8</b>	<b>118.1</b>
<b>Other comprehensive income</b>		
Items that will not be reclassified to the income statement:		
Net actuarial gains on defined benefit pension schemes	21.5	33.4
Tax on net actuarial gains	(4.3)	(7.8)
Deferred tax arising on change of rate	(12.2)	(0.8)
	<b>5.0</b>	<b>24.8</b>
Items that may be reclassified to the income statement:		
Gain/(loss) on cash flow hedges	16.1	(38.3)
Deferred tax on gain/loss on cash flow hedges	(3.2)	8.8
Amounts on cash flow hedges transferred to the income statement in the period	1.8	1.9
Deferred tax on transfers to income statement	(0.4)	(0.4)
Exchange movement on translation of overseas results and net assets	(8.1)	(2.0)
	<b>6.2</b>	<b>(30.0)</b>
<b>Other comprehensive income for the period</b>	<b>11.2</b>	<b>(5.2)</b>
<b>Total comprehensive income for the period</b>	<b>356.0</b>	<b>112.9</b>
<b>Attributable to:</b>		
Owners of the company	356.8	111.8
Non-controlling interests	(0.8)	1.1
	<b>356.0</b>	<b>112.9</b>

**Condensed consolidated statement of changes in equity**  
**Six months ended 30 September 2013**

	Equity attributable to owners of the company					Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 April 2012	232.6	83.8	400.2	256.9	973.5	7.9	981.4
Profit for the period (restated)	-	-	-	116.9	116.9	1.2	118.1
Loss on cashflow hedges	-	-	(38.3)	-	(38.3)	-	(38.3)
Deferred tax on loss on cashflow hedges	-	-	8.8	-	8.8	-	8.8
Amounts on cash flow hedges transferred to the income statement	-	-	1.9	-	1.9	-	1.9
Deferred tax on transfers to the income statement	-	-	(0.4)	-	(0.4)	-	(0.4)
Exchange movement on translation of overseas results and net assets	-	-	(1.9)	-	(1.9)	(0.1)	(2.0)
Net actuarial gains (restated)	-	-	-	33.4	33.4	-	33.4
Tax on net actuarial gains (restated)	-	-	-	(7.8)	(7.8)	-	(7.8)
Deferred tax arising from rate change	-	-	-	(0.8)	(0.8)	-	(0.8)
Total comprehensive income for the period	-	-	(29.9)	141.7	111.8	1.1	112.9
Share options and LTIPs							
- proceeds from shares issued	0.7	5.6	-	-	6.3	-	6.3
- value of employees' services	-	-	-	2.9	2.9	-	2.9
- free shares issued	-	-	-	(1.4)	(1.4)	-	(1.4)
Current tax on share based payments	-	-	-	0.8	0.8	-	0.8
Deferred tax on share based payments	-	-	-	0.1	0.1	-	0.1
Dividends paid	-	-	-	(249.9)	(249.9)	(0.5)	(250.4)
At 30 September 2012	233.3	89.4	370.3	151.1	844.1	8.5	852.6
At 1 April 2013	233.3	89.7	72.3	437.9	833.2	10.8	844.0
Profit for the period	-	-	-	344.9	344.9	(0.1)	344.8
Gain on cashflow hedges	-	-	16.1	-	16.1	-	16.1
Deferred tax on gain on cashflow hedges	-	-	(3.2)	-	(3.2)	-	(3.2)
Amounts on cash flow hedges transferred to the income statement	-	-	1.8	-	1.8	-	1.8
Deferred tax on transfers to the income statement	-	-	(0.4)	-	(0.4)	-	(0.4)
Exchange movement on translation of overseas results and net assets	-	-	(7.4)	-	(7.4)	(0.7)	(8.1)
Net actuarial gains	-	-	-	21.5	21.5	-	21.5
Tax on net actuarial gains	-	-	-	(4.3)	(4.3)	-	(4.3)
Deferred tax arising from rate change	-	-	-	(12.2)	(12.2)	-	(12.2)
Total comprehensive income for the period	-	-	6.9	349.9	356.8	(0.8)	356.0
Share options and LTIPs							
- proceeds from shares issued	0.6	4.3	-	-	4.9	-	4.9
- value of employees' services	-	-	-	2.8	2.8	-	2.8
- free shares issued	-	-	-	(2.9)	(2.9)	-	(2.9)
Current tax on share based payments	-	-	-	0.9	0.9	-	0.9
Deferred tax on share based payments	-	-	-	(0.3)	(0.3)	-	(0.3)
Dividends paid	-	-	-	(108.6)	(108.6)	(0.7)	(109.3)
<b>At 30 September 2013</b>	<b>233.9</b>	<b>94.0</b>	<b>79.2</b>	<b>679.7</b>	<b>1,086.8</b>	<b>9.3</b>	<b>1,096.1</b>

**Condensed consolidated balance sheet**  
**At 30 September 2013**

	Notes	30 September 2013 £m	31 March 2013 £m
<b>Non-current assets</b>			
Goodwill		39.2	41.7
Other intangible assets		89.9	99.3
Property, plant and equipment		6,861.7	6,760.0
Interests in joint ventures		0.3	0.3
Interests in associates		4.7	4.7
Derivative financial instruments		118.5	130.1
Available for sale financial assets		0.1	0.1
		<b>7,114.4</b>	<b>7,036.2</b>
<b>Current assets</b>			
Inventory		31.1	32.1
Trade and other receivables		547.0	506.0
Current tax receivable		55.2	40.5
Derivative financial instruments		4.5	1.0
Cash and cash equivalents		278.3	403.6
		<b>916.1</b>	<b>983.2</b>
<b>Total assets</b>		<b>8,030.5</b>	<b>8,019.4</b>
<b>Current liabilities</b>			
Borrowings	8	(45.4)	(170.3)
Derivative financial instruments		(2.1)	(0.6)
Trade and other payables		(527.6)	(399.0)
Provisions for liabilities and charges		(11.2)	(11.1)
		<b>(586.3)</b>	<b>(581.0)</b>
<b>Non-current liabilities</b>			
Borrowings	8	(4,583.0)	(4,631.3)
Derivative financial instruments		(232.3)	(309.6)
Trade and other payables		(471.1)	(453.4)
Deferred tax		(665.5)	(785.8)
Retirement benefit obligations	9	(370.2)	(383.7)
Provisions for liabilities and charges		(26.0)	(30.6)
		<b>(6,348.1)</b>	<b>(6,594.4)</b>
<b>Total liabilities</b>		<b>(6,934.4)</b>	<b>(7,175.4)</b>
<b>Net assets</b>		<b>1,096.1</b>	<b>844.0</b>
<b>Capital and reserves attributable to the company's equity shareholders</b>			
Called up share capital	10	233.9	233.3
Share premium account		94.0	89.7
Other reserves		79.2	72.3
Retained earnings		679.7	437.9
<b>Equity attributable to the company's equity shareholders</b>		<b>1,086.8</b>	<b>833.2</b>
Non-controlling interests		9.3	10.8
<b>Total equity</b>		<b>1,096.1</b>	<b>844.0</b>

**Condensed consolidated cash flow statement**  
**Six months ended 30 September 2013**

	Note	2013 £m	2012 £m
Cash generated from operations	11	<b>432.0</b>	451.3
Tax paid		<b>(1.1)</b>	(18.5)
<b>Net cash generated from operating activities</b>		<b>430.9</b>	432.8
<b>Investing activities</b>			
Interest received		<b>3.2</b>	3.2
Net cash inflow from sale of business		-	2.0
Proceeds on disposal of property, plant and equipment		<b>8.6</b>	1.3
Purchases of intangible assets		<b>(6.8)</b>	(10.4)
Purchases of property, plant and equipment		<b>(216.7)</b>	(187.4)
Contributions and grants received		<b>11.3</b>	12.1
<b>Net cash used in investing activities</b>		<b>(200.4)</b>	(179.2)
<b>Financing activities</b>			
Interest paid		<b>(77.5)</b>	(76.4)
Closed out swap		-	(13.0)
Dividends paid to shareholders of the parent		<b>(108.6)</b>	(249.9)
Dividends paid to non-controlling interests		<b>(0.7)</b>	(0.5)
Repayments of borrowings		<b>(169.3)</b>	(141.0)
New loans raised		<b>1.0</b>	174.0
Issues of shares		<b>4.8</b>	6.3
Redemption of preference shares		<b>(1.0)</b>	-
Purchase of own shares		<b>(2.9)</b>	(1.4)
<b>Net cash used in financing activities</b>		<b>(354.2)</b>	(301.9)
Decrease in cash and cash equivalents		<b>(123.7)</b>	(48.3)
Net cash and cash equivalents at beginning of period		<b>403.2</b>	294.7
Effect of foreign exchange rates		<b>(1.3)</b>	(0.7)
<b>Net cash and cash equivalents at end of period</b>		<b>278.2</b>	245.7
<b>Net cash and cash equivalents</b>			
Cash and cash equivalents		<b>278.3</b>	246.6
Bank overdrafts		<b>(0.1)</b>	(0.9)
		<b>278.2</b>	245.7

## Notes to the condensed interim financial information

### 1 General information

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

The information for the year ended 31 March 2013 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 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 2013 except as outlined below.

The group has adopted the provisions of IAS 19 'Employee benefits' (revised). As well as requiring additional disclosures in the group's financial statements for the year ending 31 March 2014, the revised standard changes the method of calculating the net finance cost on defined benefit pension schemes. Previously the discount rate used to calculate the scheme's liabilities was applied to the liabilities and the expected return on the scheme's assets was applied to the assets. Under the revised standard the discount rate is applied to the net deficit. The net impact of this change is as follows:

Six months ended 30 September	2013 £m	2012 £m
<b>Profit for the period</b>		
Operating profit	(1.6)	(1.3)
Net finance cost	(8.3)	(6.2)
Decrease in profit before tax for the period	(9.9)	(7.5)
Deferred tax	2.3	1.8
Decrease in profit for the period	(7.6)	(5.7)
<b>Other comprehensive income</b>		
Net actuarial gains	9.9	7.5
Tax on actuarial gains	(2.3)	(1.8)
Decrease in other comprehensive loss	7.6	5.7
<b>Impact on net assets</b>	-	-

The group has adopted IFRS 13 'Fair value measurement'. This standard sets out the approach to determining fair values in financial statements. The standard requires the group to take account of its own credit risk in determining the fair value of financial liabilities in its financial statements. The standard is applied prospectively and hence has no impact on amounts previously recognised. In the current period the fair value of derivative financial liabilities and the gain on financial instruments was £9.8 million higher as a result of the adoption of the standard. Following adoption of the standard the group has reviewed and amended its methodology for calculating the fair value of debt. If this methodology had been adopted at the previous year end the fair value of debt disclosed would have been £190 million lower.

The impacts of these changes on basic and diluted earnings per share are shown in note 7.

#### Going concern

The group is funded for its investment and cash flow needs for the next two years. 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.

## Notes to the condensed interim financial information

### 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	2013		2012	
	Severn Trent Water	Severn Trent Services	Severn Trent Water	Severn Trent Services
	£m	£m	£m	Restated £m
External sales	<b>774.0</b>	<b>147.5</b>	760.6	156.4
Inter-segment sales	<b>0.6</b>	<b>0.5</b>	0.4	5.7
Total sales	<b>774.6</b>	<b>148.0</b>	761.0	162.1
Profit before interest, tax and exceptional items	<b>269.5</b>	<b>1.6</b>	267.8	4.1
Exceptional items (note 3)	<b>7.1</b>	<b>0.4</b>	-	1.1
Profit before interest and tax	<b>276.6</b>	<b>2.0</b>	267.8	5.2

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

Six months ended 30 September	2013 £m	2012 £m
Severn Trent Water	<b>774.0</b>	760.6
Severn Trent Services	<b>147.5</b>	156.4
Corporate and other	<b>0.9</b>	0.7
	<b>922.4</b>	917.7

## Notes to the condensed interim financial information

### 2 Segmental analysis (continued)

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

Six months ended 30 September	2013 £m	2012 Restated £m
Underlying PBIT:		
Severn Trent Water	269.5	267.8
Severn Trent Services	1.6	4.1
Corporate and other costs	(5.5)	(7.2)
Consolidation adjustments	1.3	1.2
Group underlying PBIT	266.9	265.9
Exceptional items:		
Severn Trent Water	7.1	-
Severn Trent Services	0.4	1.1
Corporate and other costs	(18.7)	-
Share of results of associates and joint ventures	-	0.1
Net finance costs	(125.6)	(116.0)
Net gain/(loss) on financial instruments	61.1	(37.7)
Profit before tax and discontinued operations	191.2	113.4

The segmental analysis of capital employed was as follows:

	30 September 2013		31 March 2013	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Operating assets	7,341.5	169.2	7,218.7	173.1
Goodwill	1.3	39.2	1.3	41.7
Interests in joint ventures and associates	0.1	4.8	0.1	4.9
Segment assets	7,342.9	213.2	7,220.1	219.7
Segment operating liabilities	(1,276.3)	(81.2)	(1,137.4)	(94.0)
Capital employed	6,066.6	132.0	6,082.7	125.7

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

Operating liabilities comprise trade and other payables, retirement benefit obligations, provisions and liabilities associated with assets held for sale.

## Notes to the condensed interim financial information

### 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	2013 £m	2012 £m
<b>Severn Trent Water</b>		
Profit on disposal of fixed assets	(7.1)	–
<b>Severn Trent Services</b>		
Restructuring costs	0.8	–
Release of provision for commercial dispute	(1.2)	–
	(0.4)	–
<b>Corporate and Other</b>		
Professional fees related to LongRiver proposal	18.7	–
<b>Total exceptional operating costs</b>	<b>11.2</b>	<b>–</b>
Exceptional profit on disposal of business	–	(1.1)
<b>Exceptional items before tax</b>	<b>11.2</b>	<b>(1.1)</b>

### 4 Net gain/(loss) on financial instruments

Six months ended 30 September	2013 £m	2012 £m
(Loss)/gain on cross currency swaps used as hedging instruments in fair value hedges	(15.1)	4.2
Gain/(loss) arising on adjustment for foreign currency debt in fair value hedges	13.5	(6.1)
Exchange gain on other loans	12.2	21.9
Loss on cash flow hedges transferred from equity	(1.8)	(1.9)
Gain/(loss) arising on swaps where hedge accounting is not applied	52.3	(55.8)
	<b>61.1</b>	<b>(37.7)</b>

## Notes to the condensed interim financial information

### 5 Tax

Six months ended 30 September

	2013		2012
	Before exceptional tax	Exceptional tax	Total
	£m	£m	£m
<b>Current tax</b>			
Current year	31.2	–	31.2
Prior years	–	(44.0)	(44.0)
<b>Total current tax</b>	31.2	(44.0)	(12.8)
<b>Deferred tax</b>			
Origination and reversal of temporary differences - current year	15.1	–	15.1
Origination and reversal of temporary differences - prior year	–	(41.1)	(41.1)
Exceptional credit arising from rate change	–	(114.8)	(114.8)
<b>Total deferred tax</b>	15.1	(155.9)	(140.8)
	46.3	(199.9)	(153.6)

Before the exceptional tax credit, income tax for the period is charged in the income statement at 24.2% (six months ended 30 September 2012: charged at 26.0%), 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 current tax on exceptional items and on financial instruments, calculated on profit before tax, exceptional items and net loss on financial instruments was 21.4% (2012: 29.1%).

There was an exceptional current tax credit in the period of £44.0 million, reflecting the anticipated refund of overpayment of tax in prior periods as HMRC has now agreed that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery.

This also resulted in an exceptional deferred tax credit of £41.1 million.

Current tax credits of £0.9 million and deferred tax charges of £8.2 million have been taken to reserves in the period.

The Finance Act 2013 was enacted in the period and implemented a reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015. The impact of these rate reductions on the deferred tax provision have been reflected in these financial statements and have resulted in a deferred tax credit of £114.8 million in the income statement and a deferred tax charge of £12.3 million in reserves.

### 6 Dividends

Amounts recognised as distributions to equity holders in the period:

Six months ended 30 September	2013		2012	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March	45.51	108.6	42.06	100.0
Special dividend	-	-	63.00	149.9
	45.51	108.6	105.06	249.9

The proposed interim dividend of 32.16p per share (2012: 30.34p per share) was approved by the board on 25 November 2013 and has not been included as a liability as at 30 September 2013.

## Notes to the condensed interim financial information

### 7 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 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	2013	2012
	£m	Restated £m
Earnings for the purpose of basic and diluted earnings per share being:		
Profit for the period attributable to the equity holders of the company	<b>344.9</b>	116.9

#### Number of shares

Six months ended 30 September	2013	2012
	m	m
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>237.8</b>	237.7
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	<b>0.9</b>	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>238.7</b>	238.8

## Notes to the condensed interim financial information

### 7 Earnings per share (continued)

#### b) Adjusted earnings per share

Six months ended 30 September	2013	2012 Restated
	Pence	Pence
Adjusted basic earnings per share	46.7	45.8
Adjusted diluted earnings per share	46.5	45.6

Adjusted earnings per share figures exclude the effects of exceptional items, net gain/(loss) on financial instruments, current tax on exceptional items and on financial instruments and deferred tax in both 2013 and 2012. 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	2013	2012 Restated
	£m	£m
Earnings for the purpose of basic and diluted earnings per share	344.9	116.9
Adjustments for:		
Exceptional items before tax	11.2	(1.1)
Current tax on exceptional items	0.8	0.3
Net gain/(loss) on financial instruments	(61.1)	37.7
Current tax on financial instruments	0.1	(3.6)
Exceptional current tax	(44.0)	-
Deferred tax	(140.9)	(41.4)
Earnings for the purpose of adjusted basic and diluted earnings per share	111.0	108.8

#### c) Impact of changes in accounting policy

##### Basic earnings per share

Six months ended 30 September	2013	2012
	Pence	Pence
Basic earnings per share under previous accounting policies	144.3	51.6
Impact of IAS 19 revised	(3.2)	(2.4)
Impact of change in valuation of derivative liabilities	3.9	-
Basic earnings per share under revised accounting policies	145.0	49.2

Six months ended 30 September	2013	2012
	Pence	Pence
Diluted earnings per share under previous accounting policies	143.8	51.3
Impact of IAS 19 revised	(3.2)	(2.3)
Impact of change in valuation of derivative liabilities	3.9	-
Diluted earnings per share under revised accounting policies	144.5	49.0

## Notes to the condensed interim financial information

### 8 Borrowings

	30 September 2013 £m	31 March 2013 £m
Bank overdrafts	0.1	0.4
Bank loans	594.3	758.7
Other loans	3,830.3	3,840.9
Obligations under finance leases	203.7	201.6
<b>Borrowings</b>	<b>4,628.4</b>	<b>4,801.6</b>

	30 September 2013 £m	31 March 2013 £m
The borrowings are repayable as follows:		
On demand or within one year - included in current liabilities	45.4	170.3
In the second year	266.9	229.6
In the third to fifth years	1,306.6	1,404.7
After five years	3,009.5	2,997.0
Included in non-current liabilities	4,583.0	4,631.3
	4,628.4	4,801.6

### 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 2013 has been calculated on a year to date basis, using the actuarial valuation update as at 31 March 2013. 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 2013. However, the market based assumptions have been updated for conditions prevailing at the balance sheet date as follows:

	30 September 2013	31 March 2013
Discount rate	4.5%	4.4%
RPI	3.2%	3.2%

The defined benefit assets have been updated to reflect their market value as at 30 September 2013. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income.

## Notes to the condensed interim financial information

### 9 Retirement benefit schemes (continued)

Service cost is 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	2013	2012 Restated
	£m	£m
Current service cost	(11.3)	(11.5)
Past service cost	-	(0.3)
Administration cost	(1.6)	(1.3)
Net interest cost	(8.3)	(8.5)
Total amount charged to the income statement	(21.2)	(21.6)

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

	30 September 2013	31 March 2013
	£m	£m
Total fair value of assets	1,719.1	1,724.3
Present value of the defined benefit obligations - funded schemes	(2,080.2)	(2,098.7)
Present value of the defined benefit obligations - unfunded schemes	(9.1)	(9.3)
Liability recognised in the balance sheet	(370.2)	(383.7)

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

	2013	2012 Restated
	£m	£m
At 1 April	(383.7)	(345.8)
Current service cost	(11.3)	(11.5)
Past service cost	-	(0.3)
Administration cost	(1.6)	(1.3)
Net interest cost	(8.3)	(8.5)
Contributions from the sponsoring companies	13.2	13.5
Net actuarial gain recognised in the statement of comprehensive income	21.5	33.4
At 30 September	(370.2)	(320.5)

### 10 Share capital

At 30 September 2013 the issued and fully paid share capital was 238.9million shares of 97<sup>17</sup>/<sub>19</sub>p amounting to £233.9 million (31 March 2013: 238.3 million shares of 97<sup>17</sup>/<sub>19</sub>p amounting to £233.3 million).

During the period the company issued 554,070 shares (2012: 717,207 shares) as a result of the exercise of employee share options.

## Notes to the condensed interim financial information

### 11 Cash flow

#### a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September	2013 £m	2012 £m
Profit before interest and tax	255.7	267.0
Depreciation of property, plant and equipment	136.1	133.9
Amortisation of intangible assets	15.6	15.4
Pension service cost	11.3	11.8
Defined benefit pension scheme administration costs	1.6	1.3
Pension contributions	(13.2)	(13.5)
Share based payments charge	2.8	2.9
(Profit)/loss on sale of property, plant and equipment	(6.8)	(0.3)
Profit on sale of business	-	(1.1)
Deferred income movement	(4.8)	(4.8)
Provisions for liabilities and charges	4.0	2.6
Utilisation of provisions for liabilities and charges	(5.1)	(8.4)
Decrease in working capital	34.8	44.5
Cash generated from operations	432.0	451.3
Tax paid	(1.1)	(18.5)
Net cash generated from operating activities	430.9	432.8

#### b) Non-cash transactions

No additions to property, plant and equipment during the six months to September 2013 were financed by new finance leases (2012: nil).

#### c) Exceptional cash flows

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

Six months ended 30 September	2013 £m	2012 £m
Restructuring costs	(1.7)	(4.0)
Professional fees relating to LongRiver proposal	(18.6)	-
Proceeds on disposal of fixed assets	8.1	-
Settlement of commercial disputes	(2.0)	-
Proceeds on sale of business	-	2.0
	(14.2)	(2.0)

#### d) Reconciliation of movements in net debt

	As at 1 April 2013 £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 2013 £m
Cash and cash equivalents	403.6	(124.0)	-	-	(1.3)	-	278.3
Bank overdrafts	(0.4)	0.3	-	-	-	-	(0.1)
Net cash and cash equivalents	403.2	(123.7)	-	-	(1.3)	-	278.2
Bank loans	(758.7)	169.3	-	(4.9)	-	-	(594.3)
Other loans	(3,840.9)	-	13.5	(13.9)	12.2	(1.2)	(3,830.3)
Finance leases	(201.6)	-	-	-	-	(2.1)	(203.7)
Cross currency swaps hedging debt	100.7	-	(25.4)	-	-	15.6	90.9
Net debt	(4,297.3)	45.6	(11.9)	(18.8)	10.9	12.3	(4,259.2)

## **Notes to the condensed interim financial information**

### **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 2013 which were approved on 29 May 2013. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

### **14 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 Services Authority.

Signed on behalf of the Board who approved the half yearly financial report on 25 November 2013.

Andrew Duff  
Chairman

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.

## **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 2013 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 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 2013 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 2013

## **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 2013 (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.

Without prejudice to the above

- (a) neither Severn Trent Plc nor any other member of the group, nor persons acting on their behalf shall otherwise have any liability whatsoever for loss howsoever arising, directly or indirectly, from use of the information contained within this document; and
- (b) neither Severn Trent Plc nor any other member of the group, nor persons acting on their behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this document.

This document is accurate as at the date of publication. You should be aware that this document has not been and will not be updated to reflect any changes since that date.

Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

## **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).