RNS Number : 1288U
Severn Trent PLC
21 November 2019

Half Yearly Financial Report
21 November 2019
Interim results for the six months to 30 September 2019

A strong first half, laying solid foundations for AMP7

Operationally strong

- Customer and community focus reflected in encouraging results from shadow reporting of C-MeX, the new customer service measure for AMP7
- Strong performance in Water driven by improvement in measures our customers care about the most
- On track to hit our leakage target for the eighth time in nine years, improve supply interruptions by at least 40% this year, and deliver a 25% reduction in water quality complaints over the AMP[1]
- Continuing leadership in Waste, with £190 million in waste customer ODIs earned over four years and on track to deliver substantial environmental schemes to improve 1,600km of rivers in our region
- Performance supports full year customer ODI guidance of at least £25 million net reward
- Continued high levels of investment, with capital expenditure of £374 million for the first half
- Reinvestment of £100 million totex outperformance progressing well, with projects such as the insourcing of our Network Response team setting us on the right glide path for a fast start in AMP7

Contributing to society
- Our fast-tracked PR19 plan ensures our customers' bills will remain one of the lowest in the land for at least the next five years, while supporting 200,000 vulnerable customers per year by 2025
- Self-generating 51% of our energy needs following the integration of Agrivert, supporting our Triple Carbon Pledge of 100% renewables, 100% electric vehicles[2], and net zero carbon by 2030
- Recognised as a top three employer by the Social Mobility Index and the Hampton-Alexander gender diversity report, reflecting our continued efforts to ensure Severn Trent is an inclusive place to work
- Financing our business responsibly with the launch of our Sustainable Finance Framework, and receiving the Fair Tax Mark for FY19/20

Good financial results
- Group turnover of £910.0 million, up £28.5 million (3.2%)
- Group underlying PBIT[3] of £286.3 million, down £12.8 million (4.3%), following Teal Close property sale in the prior year, deferral of customer ODIs and increased investment in infrastructure renewals
- Group reported PBIT of £285.3 million, down £13.8 million (4.6%)

- Further fall in effective interest rate from last year end of 20 basis points to 3.7%, part of a reduction of 170 basis points in AMP6, positioning us well for AMP7
- Underlying basic EPS[4] of 68.8 pence (down 9.7%) and basic EPS from continuing operations of 61.7 pence (down 11.6%), reflecting lower PBIT and our share of the loss from our joint venture, Water Plus
- IAS 19 pension deficit reduced by £62 million to £391 million; future funding plans now agreed
- Interim dividend of 40.03p

Footnotes: see definitions on page 2 of this RNS

Liv Garfield, Chief Executive Severn Trent Plc, said:

"This has been another six month period where we have delivered for all of our stakeholders through strong performance, continued investment and environmental improvement, helping us to fulfil our goal of being the most trusted water company in England. Operationally we have made further progress over the last six months, with leakage, supply interruptions and water quality complaints all improving while delivering important environmental improvement schemes. We have continued to offer the lowest bills in the country while also investing for the long term, including in our biggest ever capital project, the £300 million Birmingham Resilience Programme, which is on track for completion by the end of the AMP.

At the same time, we have worked hard to be in the best possible shape for the next five years. Our job is to deliver for all of our stakeholders as we build a sustainable business that positively contributes to the society and environment we operate in and we are truly excited about delivering on the plans we've set out."

Group results from continuing operations

Underlying results

	2019	201
	£m	£r
Group turnover	**910.0**	881.
Underlying group PBIT[3]	**286.3**	299.
	pence/ share	pence shar
Underlying basic EPS[4]	**68.8**	76.
Interim dividend declared	**40.03**	37.3

Reported results

	2019	201
	£m	£r
Group turnover	**910.0**	881.
Group PBIT	**285.3**	299.
	pence/ share	pence/ share
Basic EPS from continuing operations	**61.7**	69.8

Footnotes to pages 1 & 2 of this RNS

1. AMP: Asset Management Period; AMP6: the regulatory period from 2015-2020; AMP7: the regulatory period from 2020-2025.
2. Assumes suitable specialist vehicles such as tankers become available within that time window.
3. Underlying profit before interest and tax (PBIT) - see note 17 to the financial statements.
4. Underlying earnings per share (EPS) - see note 7 to the financial statements.

Note: Technical guidance is included in the Chief Financial Officer's section of this announcement

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Interim Results Presentation and Webcast

There will be a presentation of these results at 9:30am GMT on Thursday 21 November 2019 at the Rothschild Sky Pavilion, New Court, St Swithin's Lane, London, EC4N 8AL. 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.

Capital Markets Day

We will be hosting a Capital Markets Day on 4 March 2020 at Severn Trent Centre, Coventry.

Chief Executive's Review

With less than six months left of the AMP6 regulatory period we are proud of the progress we have made in shaping our business for the future, while delivering significant benefits for our customers, communities, investors and the environment. Our hard work over the last five years has allowed us to:

- Help more than 50,000 of our most vulnerable customers a year with their bills;
- Invest over £6bn wisely, including our biggest ever scheme to enhance resilience for Birmingham;
- Deliver sector-leading performance on ODIs - the measures that matter most to customers; and
- Exceed our target of self-generating 50% of our energy needs from renewable sources.

We have achieved this while maintaining the lowest bills in the land for our customers and fulfilling our vision to be the most trusted water company in England[1]. In the next five years we will build on this progress and deliver our most ambitious plans to date for the benefit of all of our stakeholders.

Operationally, we are in a good position. In Water, targeted investment based on our understanding of each component of our network, combined with the momentum we generated last year, has set us up well for AMP7. This year we are confident we will:

- Deliver a second consecutive annual reduction of 40% in supply interruptions;

- Hit our leakage target for the eighth time in nine years; and
- Reduce water quality complaints by 25% since the beginning of the AMP.

In Waste, we continue to demonstrate leadership in the areas that matter most to our customers. Last year we committed to tougher targets, in line with our best ever performance on certain measures. In return, Ofwat agreed to increase the waste customer ODI cap to allow us to be rewarded for the considerable investment and effort we put in to delivering environmental improvements in our region. Our activity on programmes such as the Water Framework Directive ensures that we continue to recycle water back into the environment that is cleaner than the water we abstract.

Across the business as a whole, we are investing wisely, and the £100 million reinvestment of totex outperformance we announced last year is progressing well. It has funded a range of projects which will allow us to enter AMP7 in a strong position. For example our new Network Response team enables us to respond more quickly and effectively when we have issues affecting customers. Our shadow reporting of AMP7 customer ODIs means we understand exactly what activities we need to focus on to drive further improvement.

We are committed to building a sustainable business for the long term that positively contributes to the society and environment in which we operate. We recently applied to Ofwat to add a condition that embeds social purpose within our licence to operate and today we have launched our Sustainable Finance Framework to strengthen the ties between how we finance our business and the delivery of our environmental and social programmes. We also remain one of only a handful of companies in the UK to make the triple carbon pledge, committing to 100% of renewable energy, 100% electric vehicles[2] and net zero carbon emissions by 2030.

[1] Future Thinking survey names Severn Trent as the most trusted water and waste water company in England, on average over two years.

[2] Assumes suitable specialist vehicles such as tankers become available within that time window.

AMP6 and in-year performance

Consistent improvements in Water - We are encouraged by our Water performance in the first half of this year, following a strong finish last year. Taking learnings from our waste business, we understand how each part of our network drives the right outcomes. By optimising these individual components we can maintain a consistency within the network and reduce the risk of failure. When things do go wrong, our understanding of our network and its interdependencies helps us to target solutions that prioritise restoring service to customers first before implementing a longer term fix. We are now delivering consistent improvements in our key water measures, in particular:

- Leakage - our new operating model and the accelerated roll out of new technology last year gives us confidence we can exceed this year's target to deliver a 6% reduction in leakage since the beginning of the AMP, the second largest reduction in the sector.

- Supply interruptions - our newly-created Trunk Main Repair team has helped reduce the time taken to fix complex and high impact bursts in a more cost efficient way, while insourcing our Network Response team has enabled us to get customers back on supply more quickly. As a result, we expect to deliver a second consecutive 40% reduction in supply interruptions.

- Water Quality complaints - our continued programme of mains flushing, abrasive cleaning and catchment management continues to drive a steady decline, making this the fourth consecutive year of improvement and driving a reduction of at least 25% since the start of the AMP.

Continuing to perform in Waste - We have delivered substantial improvements in our waste performance over the course of AMP6, including a 62% reduction in external sewer flooding, 38% reduction in internal sewer flooding, and an 11% reduction in Category 3 pollutions in the first four years of the AMP, generating sector leading Waste customer ODIs of £190 million. With the outperformance cap now increased in return for targets set at record levels of performance across three of our traditionally strong measures, we are likely to see a small penalty on these this year. However we now have the opportunity to be rewarded for our end of AMP schemes, which are a key driver of our guidance of at least £25 million of customer ODI reward this year, and an area of the business we have been working hard on for the last five years.

Our Environmental Programme - We have invested hundreds of millions of pounds in delivering a number of large environmental schemes over AMP6. These will make a significant improvement to the environment we interact with every day, something we know is important to both our colleagues and local communities. Our key programmes include:

- Water Framework Directive - This aims to improve all waterbodies in England to "good ecological status" by 2027, enabling the natural environment and local biodiversity to thrive. For us, this means finding new ways to reduce the chemical content in waste water and use different abstraction methods to influence our impact on natural river flows. As a result, we will improve over 1,600km of river quality this AMP - equivalent to the distance from Birmingham to Rome. This programme will continue into AMP7, with £350 million of totex in our plan to improve 2,100km of river quality, and a 'real option', which provides a further £121 million of funding should additional programmes receive government approval.

- Sustainable Sewage Treatment - This delivers sustainable solutions to the pressures on our waste water system caused by population and industrial growth. We have explored a number of pioneering solutions as part of this project, including the "BioMag" system which uses the addition of iron ore to allow existing assets to process more waste water and return a higher quality effluent to the watercourse. Solutions such as BioMag not only reduce our impact on the environment, but also save on totex over the long term, helping keep customer bills low.

Increasing resilience for Birmingham - Last year was our largest year of capital investment in a decade, and this year is set to match it, with £374 million invested in the first six months. This includes work on our Birmingham Resilience Programme, a £300 million programme to improve the resilience of our network. The scheme will allow us to better maintain the 119km gravity-fed Elan Valley Aqueduct into Frankley Water Treatment Works, protecting a low carbon supply for Birmingham's 1.2 million customers for years to come. This is the biggest engineering project Severn Trent has ever embarked upon, involving almost 26km of new pipeline, an increase in supply of 130Ml/d, a new water treatment plant, and a significant programme of customer education and communication. We are pleased with the progress made so far and remain on track to complete construction by the end of the AMP.

AMP7 readiness

Reinvesting for a fast start - In May 2018 we announced that we were reinvesting an additional
£100 million of totex efficiencies to give us a fast start to AMP7. Of this, £40 million was allocated to asset health projects, targeted at reducing failure across our works. The remaining £60 million will get us on the right glide paths for both costs and customer ODIs ahead of AMP7, by investing in our people, smart data and the

right technology. We believe that this reinvestment will be a key element of a successful AMP7.

Preparing for performance commitments - AMP7 will push the performance of the sector forward, to deliver more for customers and the environment than ever before. While challenging, we feel confident that our preparations have set us up to succeed. We have been shadow reporting measures for a number of months, and with our calendar measures due to commence in just six weeks, we feel ready for the challenges and opportunities ahead.

Enhancing the customer experience - Customer perception makes up 50% of the AMP7 customer experience measure, C-MeX, and we believe this means the broader work we do in our area, in building trust within the communities we serve, will be better reflected in our performance. The positive impact we can have with our community initiatives, volunteering schemes, 'Wonderful on Tap' advertising campaign, and the recent 'Sewer Men' documentary, all help our customers to see the work we do every day in the areas they live. Service continues to be a crucial element of C-MeX, and improving our service remains a priority for us. While the measure is in its infancy, shadow reporting from the past two quarters has yielded encouraging results.

Culture

Building a sustainable company for the future requires a company culture that is in step with this objective. The vast majority of our colleagues live in the regions we serve, and are highly engaged with the role we play in our communities. This is only possible when we have an environment our colleagues can thrive in. Our most recent employee engagement survey places us in the top 5% of Global Utilities, and 13% above the UK Utilities average, reflecting our efforts to create an awesome place to work, with initiatives in:

- **Social Mobility** - We are proud to be one of the UK's top three companies in the Social Mobility Index. This achievement reflects the way we work, from targeting students in schools in areas of low social mobility, to using a fairer, anonymised recruitment process that gives equal opportunities to all applicants. In the past year, 44% of our new hires were from areas identified as being social mobility cold spots, and 41% of all internal promotions were awarded to staff living in these areas.

- **Employability** - For the past four years, Severn Trent has partnered with Hereward College to offer internships which provide real work experience to young people with disabilities and additional educational needs. Interns on our program are 56% more likely to gain paid employment than the national average, and four of our recent interns have taken permanent positions with us.

- **Mental Health** - We strive to create a supportive environment in which mental health is no longer a taboo subject. We have trained 1,944 employees, representing 28% of our workforce, in mental health awareness - the second highest in the FTSE100. We also provide mental health training to new apprentices and graduates when they join, to instil healthy working practices early in their careers.

All of this translates into a workforce that feels connected to Severn Trent. Around 70% of our employees participate in our Sharesave scheme, setting aside an average of £276 each month, linking their personal savings to the long-term future of our business. We are especially pleased that 44% of our colleagues aged 16-24 chose to save with us this year, compared to a FTSE100 average of 7%, and that our Sharesave scheme has recently been recognised as one of the top five performing schemes in the UK.

Sustainability

As stewards of an essential resource, deeply rooted in the communities we serve, acting sustainably is integral to the long term success of our company. We have recently asked Ofwat to reflect this commitment in our licence to operate with a new condition "to make decisions for the long term, adding value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly". Within the next few weeks we will also launch a consultation proposing a package of supporting measures to help us fulfil our social purpose.

To complement our triple carbon pledge, we are pleased today to announce our Sustainable Finance Framework, strengthening the bond between financing our business and delivering our environmental and societal commitments.

We look forward to sharing more about our plans to create a sustainable future at our upcoming Capital Markets Day, to be held on 4 March 2020 at Severn Trent Centre in Coventry.

Chief Financial Officer's Review

We have delivered a good financial performance in the first six months of 2019/20. Our results reflect continued cost control in our regulated business, substantial investment in our infrastructure and our conscious deferral of rewards to benefit AMP7. We achieved good growth in our Business Services operations but property profits were lower compared to last year's notable gains.

Underlying PBIT in our Regulated Water and Waste Water business was, as expected, lower than the first half of the previous year, after the increased expenditure on infrastructure renewals to complete our AMP6 programme.

In Business Services, our Operating Services business showed strong PBIT growth on stable revenue and our Green Power business benefited from the rapid integration of the food waste business acquired from Agrivert last year. Overall Business Services PBIT was down, as the £6.2 million earned from property disposals was lower than 2018/19 (£18.4 million, which included the sale of Teal Close). We remain on track to generate £100 million of PBIT from property over the ten years to 2027, with £33 million delivered to date.

Our underlying basic earnings per share were 68.8 pence (2018/19: 76.2 pence) as the lower underlying PBIT in our two segments and the loss from our joint venture were only partially offset by a lower effective tax rate. Basic earnings per share from continuing operations were 61.7 pence (2018/19: 69.8 pence).

The interim dividend has increased to 40.03 pence in line with our policy for the remainder of AMP6 to increase the dividend by RPI plus 4%.

Our funding position is strong. Capital investment and other cash flow needs through to September 2021 are covered by cash and committed facilities. During the period we took action that:

- increased the proportion of our debt at low fixed rates;
- reduced our effective interest rate; and
- moved more of our index-linked debt to CPI.

We are in a strong position to raise the £3 billion needed in AMP7 with a diverse range of sources to lock in favourable rates, now supported by a Sustainable Finance Framework.

On pensions the IAS 19 position at 30 September reflects strong investment performance and the protection provided by a sound hedging policy, with the deficit down £62 million to £391 million (net), despite a significant reduction in the discount rate. And we have now reached agreement in principle with the Trustee, ahead of schedule, on the 2019 triennial pension valuation, providing certainty on cash contributions over AMP7, broadly in line with the amounts included in our

Business Plan. Full details of the revised contribution schedule are included on page 13.

We are pleased to have been awarded the Fair Tax Mark, an independent accreditation awarded to companies for paying the right tax at the right time and applying the 'gold standard' of tax transparency. We were also pleased to have our low risk category rating renewed for a further three years by HMRC.

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

- Group turnover from continuing operations was £910.0 million (2018/19: £881.5 million), an increase of 3.2%, due to tariff increases in Regulated Water and Waste Water revenue and growth in Business Services' external turnover.
- Underlying Group PBIT decreased by 4.3% to £286.3 million (2018/19: £299.1 million). Profits in our Regulated Water and Waste Water segment were down by 3.1% due to below inflationary revenue growth and higher infrastructure renewals expenditure. Underlying Business Services PBIT was down £7.4 million as increased operating profits in our Renewable Energy business in the current year following the acquisition of Agrivert's food waste business in November 2018 were offset by lower property profits of £6.2 million following the prior year £18 million sale of Teal Close near Nottingham.
- Reported Group PBIT was £285.3 million (2018/19: £299.1 million). There were no exceptional items in either period.
- Net finance costs increased marginally to £93.8 million (2018/19: £93.1 million) as higher net debt in the period was mitigated by our lower effective interest rate. We continue to maintain a low average interest cost well below the draft AMP7 embedded debt allowance.
- Our share of the loss from our joint venture Water Plus was £9.3 million (2018/19: loss of £0.9 million). Market data issues in this and prior periods have impacted Water Plus's ability to bill to and collect from its customers in a timely and accurate way. Work is well underway to resolve these issues, but the business has taken a prudent view of potentially irrecoverable revenue, leading to the loss recorded in the first half of this financial year.
- The current tax charge of £18.2 million (2018/19: £23.7 million) benefited from capital allowances on our increased investment programme. The deferred tax charge was £15.8 million (2018/19: £14.8 million) giving a total tax charge of £34.0 million (2018/19: £38.5 million) and a full effective tax rate of 18.8% (2018/19: 19.1%).
- Net cash capital expenditure was £374.1 million (2018/19: £340.1 million).

Regulated Water and Waste Water

Six months ended 30 September

	2019	2018	Be
	£m	£m	
Turnover	**807.5**	795.0	
Net labour costs	**(64.4)**	(66.8)	
Net hired and contracted costs	**(76.9)**	(76.7)	
Power	**(51.4)**	(49.2)	
Bad debts	**(18.5)**	(13.3)	
Other costs	**(96.2)**	(96.1)	

	(307.4)	(302.1)
Infrastructure renewals expenditure	**(75.6)**	(64.9)
Depreciation	**(164.4)**	(159.6)
Underlying PBIT	**260.1**	268.4

Turnover for the Regulated Water and Waste Water segment was £807.5 million (2018/19: £795.0 million) and underlying PBIT was £260.1 million (2018/19: £268.4 million).

Turnover increased by 1.6%. Higher tariffs, including the impact of the annual RPI increase on prices, increased revenue by £24.1 million, and the adjustment for prior period revenue billed in excess of the wholesale allowance was £4.0 million favourable. These were offset by a reduction year-on-year of £10.8 million on the level of customer ODI outperformance payments taken into revenue. A number of other smaller variances resulted in a further net reduction of £4.8 million.

Net labour costs were £2.4 million (3.6%) lower period-on-period. Gross employee costs increased by 6.2%, due to the continuation of our strategy to bring more work in-house and the annual pay award. The value of own labour capitalised, was up £10.5 million on the previous year due to the significant growth in capital project activity.

Net hired and contracted costs were flat year on year. Increases in leakage activity and some outsourced debt collection activity offset the benefit from the in-sourced capital design team and from the comparable £7.2 million of cost incurred in the hot, dry summer in the previous year.

Power costs were £2.2 million higher than the previous period. Consumption was down by 2% year-on-year, but was more than offset by increased pass through costs and other price variances.

Bad debt charges were £5.2 million higher period-on-period and represent 2.4% of household revenue, (2018/19 full year: 2.0%). We continue to see good progress in our collection performance on current debt, but recovery of aged debt, particularly balances at the end of the dunning process, remains slow. We have launched an extensive programme of activities focused on collection of this older debt and we expect to see the benefits of this start to be realised in the second half of the year.

Infrastructure maintenance expenditure was £10.7 million higher in the period, as we complete a number of AMP6 projects and step up our trunk mains renewal programme.

Depreciation was £4.8 million higher period-on-period following increased capital spend in the second half of 2018/19, and a shift in capital expenditure towards shorter life, data technology assets.

Business Services

In line with the reorganisation of our segments that we described in the previous year, we present the performance of the Business Services segment across five business units:

- Operating Services includes our contracts business in the UK and Ireland.
- Green Power includes our generating assets that are outside the new Bioresources business. This includes anaerobic digestion from crops and food waste, wind power, hydro-electric and solar power.
- Bioresources includes all activities relating to the treatment of sewage sludge including transport, treatment, energy generation and disposal.
- Property Development includes all such activities in both our regulated and non-regulated companies.
- Other includes our affinity and searches businesses and segment overheads.

Six months ended 30 September

	2019 £m	2018 £m
Turnover		
Operating Services	**29.5**	29.8
Green Power	**25.3**	9.1
Bioresources	**50.6**	51.4
Other	**6.9**	6.7
	112.3	97.0

	2019 £m	2018 £m
Underlying PBIT		
Operating Services	**3.9**	2.1
Green Power	**3.6**	(0.8)
Bioresources	**12.6**	14.0
Property Development	**6.2**	18.4
Other	**3.6**	3.6
	29.9	37.3

In Operating Services, turnover remained broadly consistent, but good margin management increased underlying PBIT by £1.8 million.

In Green Power, turnover increased by £16.2 million and underlying PBIT increased by £4.4 million. The business acquired from Agrivert in November 2018 increased turnover by £14.9 million and we are pleased with the rapid integration of the business into the Group.

In our Property Development business, there was a significant sale of at Teal Close near Nottingham in the previous year that generated a profit of around £18 million.

Corporate and other
Corporate overheads were lower at £4.1 million (2018/19: £7.2 million), as the prior year included Agrivert acquisition costs of £3.6 million.

Net finance costs
The Group's net finance costs for the six month period were £93.8 million, marginally up on the prior period (£93.1 million). Average net debt in the period increased to £5,902.9 million (2018/19: £5,405.7 million), and our effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 3.1% (2018/19: 3.1%) as we continue to benefit from lower interest rates on new and refinanced debt. Interest cost on RPI debt decreased by £1.0 million due to lower inflation. Interest capitalised of £21.1 million was £5.4 million higher than the prior period due to the higher level of capital work in progress.

As a result, our effective interest rate for the period was 3.7% (2018/19: 3.8%).

The Group's EBITDA interest cover was 5.3 times (2018/19: 5.5 times) and PBIT interest cover was 3.2 times (2018/19: 3.5 times). See note 17 for further details.

Gains/losses on financial instruments
The Group uses financial derivatives solely to hedge risks associated with its normal business activities including:

- Exchange rate exposure on borrowings denominated in foreign currencies;
- Interest rate exposures on floating rate borrowings;
- Exposures to increases in electricity prices; and
- Forthcoming changes in the regulatory model from RPI to CPIH.

The Group holds:

- Interest rate swaps with a net notional principal of £225 million to balance our interest rate mix in line with our strategy;
- Cross currency swaps with a sterling principal of £98 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings; and

- Inflation swaps with a notional principal of £350 million, which swap RPI linked cash flows for CPI linked cash flows.

The Group has chosen not to apply the hedge accounting provisions of IFRS 9 to these instruments. Therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement.

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

The Group has fixed around 58% of the estimated wholesale energy usage for the remainder of 2019/20 through a combination of forward price contracts and financial derivatives.

Taxation
We are committed to paying the right amount of tax at the right time, and were pleased to have been awarded the Fair Tax Mark this month.

As well as corporation tax on profits, which is included in the tax charge in our accounts, we incur a range of other taxes, charges and levies imposed by government agencies including business rates; employer's National Insurance; the Climate Change Levy; Carbon Reduction Commitment; Landfill Tax; and Insurance Premium Tax. Our 2018/19 Annual Report and Accounts sets out an analysis of the taxes incurred in that year and we will set out this year's amounts in our Annual Report to be published in June 2020.

The corporation tax charge reported in the income statement is calculated at a rate of 18.8% (2018/19: 19.1%), representing the best estimate of the annual average tax rate expected for the full year, applied to the profit for the six month period. The current tax charge for the period was £18.2 million (2018/19: £23.7 million) and the deferred tax charge was £15.8 million (2018/19: £14.8 million).

The benefit of the capital allowances on our increased capital programme reduced our underlying effective current tax rate (in line with guidance) to 10.3% (2018/19: 12.1%). Our tax payments increased to £22.4 million (2018/19 £5.8 million) as the timing of quarterly instalment payments is changing in the current year so that all instalments are paid in the year to which they relate. In the first half of the current year we have paid the final two instalments for 2018/19 and the first two instalments for 2019/20.

Profit for the period and earnings per share
Reported profit for the period from continuing operations was £146.7 million (2018/19: £165.1 million).

Basic earnings per share from continuing operations decreased by 11.6% to 61.7 pence (2018/19: 69.8 pence). Underlying basic earnings per share were 68.8 pence (2018/19: 76.2 pence). For further details see note 7.

Cash flow
Six months ended 30 September

	2019 £m
Cash generated from operations	**496.5**
Net capital expenditure	**(374.1)**
Net interest paid	**(72.8)**
Swap termination payment	**(0.3)**
Tax paid	**(22.4)**
Free cash flow	**26.9**
Dividends	**(133.1)**
Issue of shares	**8.7**
Purchase of own shares	**(1.6)**
Change in net debt from cash flows	**(99.1)**
Non-cash movements	**(23.6)**

Change in net debt	**(122.7)**
Opening net debt	**(5,834.1)**
Closing net debt	**(5,956.8)**

Net debt comprises:

	30 September 2019 £m	31 March 2019 £m
Cash and cash equivalents	**23.3**	39.6
Bank loans	**(1,196.6)**	(1,120.1)
Other loans	**(4,842.7)**	(4,820.5)
Lease liabilities	**(128.7)**	(112.2)
Cross currency swaps	**55.9**	37.1
Loans due from joint ventures and associated undertakings	**132.0**	142.0
Net debt	**(5,956.8)**	(5,834.1)

At 30 September 2019 we held £23.3 million (31 March 2019: £39.6 million) in cash and cash equivalents. Average debt maturity is 14 years. Including committed facilities, the Group's cash flow requirements are funded until September 2021.

We invest cash in deposits with highly rated banks and liquidity funds and the Board regularly reviews the list of counterparties.

Net debt at 30 September 2019 was £5,956.8 million (31 March 2019: £5,834.1 million). Balance sheet gearing (net debt/net debt plus equity) at the half year was 82.9% (31 March 2019: 83.3%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 30 September 2019 was 63.1% (31 March 2019: 63.0%).

In April we took action to reduce our exposure to interest rate risk by closing out pay floating swaps with a notional principal of £575 million that were "in the money" and using the proceeds to close out pay fixed swaps with a notional principal value of £100 million and a fixed rate of around 5%. This reduced our floating rate exposure by £475 million at a net cost of £0.3 million while also reducing our effective interest rate. We now hold 60% of our debt at fixed rates. In preparation for the introduction of CPIH indexation in AMP7 we amended and extended an existing RPI index-linked loan to a £125 million ten year CPI index-linked loan in May and in August we entered into a further £100 million forward starting ten year CPI/RPI basis swap, taking the total amount of such swaps to £350 million.

The estimated fair value of debt at 30 September 2019 was £1,640.1 million higher than book value (31 March 2019: £1,219.6 million higher). The increase in the difference to book value is largely due to lower prevailing market long-term interest rates.

Pensions

Formal three-yearly actuarial valuations were completed as at 31 March 2016 for the Severn Trent schemes and as at 31 March 2017 for the Dee Valley Water scheme.

The Group operates three defined benefit pension schemes, of which the Severn Trent Pension Scheme (STPS) is by far the largest. The STPS closed to future accrual on 31 March 2015 and from 1 April 2015 new benefits have been provided within the defined contribution Severn Trent Group Personal Pension Scheme. A formal triennial actuarial valuation and funding agreements for STPS were last completed as at 31 March 2016. The triennial valuation exercise for 31 March 2019 is well advanced, and the Company and the Pension Trustees have agreed the future funding plan, which is summarised below.

A revised schedule of deficit reduction contributions (replacing the previous schedule agreed for the 2016 triennial valuation) will be put in place to meet the deficit and ongoing administration expenses that will include:

- Inflation linked deficit recovery payments starting at £32.4 million in 2020, for eight financial years ending 31 March 2027.
- Continued payments under the existing asset-backed funding (ABF) arrangements which provide the following:
  - £8.2 million per annum, potentially continuing to 31 March 2032. These payments will only continue beyond the 2025 valuation if the Scheme assets (excluding this ABF) are less than the value of the Technical Provisions at this time.
  - Inflation-linked payments, which started at £15 million per annum in 2017/18, potentially continuing to 31 March 2031. These payments will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed
- In addition to these payments, the Company will continue to pay the annual Pension Protection Fund levy incurred by the STPS (£1.4 million for 2018/2019).

Payments are typically made in the second half of the year and there were no material payments in the six month period to 30 September 2019.

On an IAS 19 basis, the estimated net position (before deferred tax) of all of the Group's defined benefit pension schemes at 30 September 2019 was a deficit of £390.6 million. This compares to a deficit of £452.9 million as at 31 March 2019.

The movements in the net deficit during the period were as follows:

	Fair value of scheme assets	Defined benef obligation
	£m	£r
At start of the period	2,418.9	(2,871.8
Amounts credited/(charged) to income statement	28.0	(34.8
Actuarial gains/(losses) taken to reserves	312.6	(243.8
Net contributions received and benefits paid	(54.5)	54.8
At end of the period	**2,705.0**	**(3,095.6**

The obligations increased as the impact of the lower discount rate applied at the end of the period was only partially mitigated by the lower long-term inflation assumption. However, strong asset performance more than compensated for this and, on an IAS 19 basis, the funding level has improved to 87% (31 March 2019: 84%).

Dividends
The Board has declared an interim ordinary dividend of 40.03p per share (2018/19: 37.35p per share), which will be paid on 3 January 2020 to shareholders on the register at 29 November 2019.

Principal risks and uncertainties

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

Customer perception

- We may be unable to improve or maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Legal

- There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.

Operations, assets and people

- We may experience loss of data or interruptions to our key business systems as a result of cyber threats.
- We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.
- Failure of certain key assets or processes may mean we are unable to provide a continuous supply of clean water and safely take waste water away within our area.
- Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public, as well as negatively impact our local and wider environment.
- We are unable to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or are unable to successfully plan for future water resource supply and demand due to climate change.

Political and regulatory environment

- **PR19:** The regulatory landscape is complex and subject to ongoing evolution. We have now received our Draft Determination for the period 2020 to 2025, however we will not have full clarity on our plan until we receive our Final Determination on 16 December 2019.

- **The UK's decision to leave the European Union (EU):** At the time of writing, the terms of the UK's departure from the EU ('Brexit') remain uncertain. Brexit does not give rise to a new principal risk for the Group, but it does have the potential to impact risks in other areas of our operations, such as supply chain, interest rates, availability of funding, regulatory changes and uncertainty for the domestic economy.

- **Renationalisation:** The renationalisation of the water industry remains a possibility in the event of a change of Government, and any associated changes in Government policy may fundamentally impact our ability to deliver the Group's strategic objectives, impacting shareholder value. Our aim is to ensure the water sector in England and Wales continues to deliver a world class service for customers, is able to invest for the future and maximises the benefits to wider society and all stakeholders through the social and environmental benefits the current model allows us to deliver. We seek to minimise potential risk and maximise opportunities through regular communication and robust scenario planning as Government policy evolves.

Technical Guidance 2019/20

Year-end guidance		**FY 18/1**
Regulated Water and Waste Water		
Turnover[1]	£1.61 billion to £1.64 billion.	£1.5
Opex	Higher year-on-year as continued upward sector-wide cost pressures from energy pass-through costs, licences and materials offset ongoing efficiency programmes.	£60
IRE	£145 million to £170 million.	£14
Customer ODIs[2,3]	At least £25 million net reward across Water and Waste measures.	£(
Business Services		
Underlying PBIT (excl. Property)	Higher year-on-year.	£4
Underlying Property PBIT	£5 million to £10 million.	£2

Group		
Interest charge	Higher year-on-year due to increased total debt reflecting end of AMP investment in our capital programme and the acquisition of Agrivert in the second half of the prior year.	£19
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 10% and 12%.	11.
Group capex	£700 million to £800 million.	£76
Dividend[4]	Annual dividend growth of at least RPI + 4% until March 2020. 2019/20 dividend set at 100.08p.	93.

Footnotes to technical guidance

1. Includes £7 million net penalty for customer ODIs (Customer Outcome Delivery Incentives, quoted pre-tax in 19/20 prices) relating to 2017/18 with the balance of that year's net reward deferred to AMP7.
2. Quoted pre-tax at 2012/13 prices.
3. Excludes AMP6 SIM customer ODI outcome.
4. 2019/20 dividend growth is based on November 2018 RPI of 3.19% plus 4%.

Further Information

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

Investor Timetable

28 November 2019	Ex-dividend date (Interim)
29 November 2019	Dividend record date (Interim)
10 December 2019	DRIP election date (Interim)
3 January 2020	Interim dividend payment date
5 February 2020	Q3 Trading Update
4 March 2020	Capital Markets Day
31 March 2020	Financial Year End
20 May 2020	Full Year Results Announcement 2019/20
11 June 2020	Ex-dividend date (Final)
12 June 2020	Dividend record date (Final)
26 June 2020	DRIP election date (Final)
15 July 2020	AGM
17 July 2020	Final dividend payment date
For more information please visit: https://www.severntrent.com/investors/financial-calendar	

Condensed consolidated income statement
Six months ended 30 September 2019

	Note	2019 £m
Turnover	3	**910.0**
Other income		**5.9**
Operating costs before charge for bad and doubtful debts and amortisation of acquired intangible assets		**(610.8)**
Charge for bad and doubtful debts		**(18.8)**
Operating costs before amortisation of acquired intangible assets		**(629.6)**
Amortisation of acquired intangible assets		**(1.0)**
Total operating costs		**(630.6)**
Profit before interest, tax and amortisation of acquired intangible assets		**286.3**
Amortisation of acquired intangible assets		**(1.0)**
Profit before interest and tax		**285.3**
Finance income		**31.0**
Finance costs		**(124.8)**
Net finance costs		**(93.8)**
Net losses on financial instruments	4	**(1.5)**
Share of net loss of joint ventures accounted for using the equity method		**(9.3)**
Profit on ordinary activities before taxation		**180.7**
Current tax	5	**(18.2)**
Deferred tax	5	**(15.8)**
Taxation on profit on ordinary activities	5	**(34.0)**
Profit for the period		**146.7**
Earnings per share (pence)		
Basic		**61.7**
Diluted		**61.5**

Condensed consolidated statement of comprehensive income
Six months ended 30 September 2019

	2(
Profit for the period	**14(**
Other comprehensive income/(loss)	
Items that will not be reclassified to the income statement:	
Net actuarial gains	**6(**
Current tax on pension contributions in prior periods	**4**
Deferred tax on pension contributions in prior periods	**(4**
Deferred tax on net actuarial gains	**(11**

	57
Items that may be reclassified to the income statement:	
(Losses)/gains on cash flow hedges	(22
Deferred tax on losses/gains on cash flow hedges	3
Amounts on cash flow hedges transferred to the income statement	4
Deferred tax on transfer to the income statement	(0
	(15
Other comprehensive income for the period	**42**
Total comprehensive income for the period	**18**

Condensed consolidated statement of changes in equity
Six months ended 30 September 2019

	Equity attributable to owners of tl			
	Share capital	Share premium	Other reserves	R e
	£m	£m	£m	
As at 1 April 2018	235.1	117.7	93.0	
Profit for the period	–	–	–	
Gains on cash flow hedges	–	–	10.0	
Deferred tax on gains on cash flow hedges	–	–	(1.7)	
Amounts on cash flow hedges transferred to the income statement	–	–	4.1	
Deferred tax on transfer to the income statement	–	–	(0.7)	
Net actuarial gains	–	–	–	
Current tax on pension contributions in prior periods	–	–	–	
Deferred tax on pension contributions in prior periods	–	–	–	
Deferred tax on net actuarial gains	–	–	–	
Total comprehensive income for the period	–	–	11.7	
Share options and LTIPs				
- proceeds from shares issued	0.7	9.5	–	
- value of employees' services	–	–	–	
- own shares purchased	–	–	–	
Current tax on share based payments	–	–	–	
Deferred tax on share based payments	–	–	–	
Dividends paid	–	–	–	(
As at 30 September 2018	235.8	127.2	104.7	
As at 1 April 2019	235.9	128.0	92.8	
Adjustment (see note 1)	–	–	–	
Adjusted as at 1 April 2019	235.9	128.0	92.8	
Profit for the period	–	–	–	
Losses on cash flow hedges	–	–	(22.4)	
Deferred tax on losses on cash flow hedges	–	–	3.9	
Amounts on cash flow hedges transferred to the income statement	–	–	4.1	
Deferred tax on transfer to the income statement	–	–	(0.7)	
Net actuarial gains	–	–	–	
Current tax on pension contributions in prior periods	–	–	–	

Deferred tax on pension contributions in prior periods	–	–	–	
Deferred tax on net actuarial gains	–	–	–	
Total comprehensive income for the period	–	–	(15.1)	
Share options and LTIPs				
- proceeds from shares issued	0.5	8.2	–	
- value of employees' services	–	–	–	
- own shares purchased	–	–	–	
Current tax on share based payments	–	–	–	
Deferred tax on share based payments	–	–	–	
Dividends paid	–	–	–	(
As at 30 September 2019	**236.4**	**136.2**	**77.7**	

Condensed consolidated balance sheet
At 30 September 2019

	Note	30 September 2019 £m
Non-current assets		
Goodwill		**91.4**
Right-of-use assets		**129.8**
Other intangible assets		**119.0**
Property, plant and equipment		**9,250.5**
Investments in joint ventures		**27.7**
Derivative financial instruments		**68.1**
Trade and other receivables		**60.9**
Retirement benefit surplus	10	**20.4**
		9,767.8
Current assets		
Inventory		**21.6**
Trade and other receivables		**650.3**
Derivative financial instruments		**1.1**
Cash and cash equivalents		**23.8**
		696.8
Current liabilities		
Borrowings	8	**(475.1)**
Trade and other payables		**(546.5)**
Current tax payable		**(0.2)**
Provisions for liabilities		**(23.5)**
		(1,045.3)
Net current liabilities		**(348.5)**
Non-current liabilities		
Borrowings	8	**(5,693.4)**
Derivative financial instruments		**(137.1)**
Trade and other payables		**(1,150.0)**
Deferred tax		**(776.1)**

Retirement benefit obligations	10	**(411.0)**
Provisions for liabilities		**(21.9)**
		(8,189.5)
Net assets		**1,229.8**
Equity		
Called up share capital	12	**236.4**
Share premium account		**136.2**
Other reserves		**77.7**
Retained earnings		**779.5**
Total equity		**1,229.8**

Condensed consolidated cash flow statement
Six months ended 30 September 2019

	Note	2
Cash generated from operations	13	**49**
Tax paid	13	**(2**
Net cash generated from operating activities		**47**
Cash flows from investing activities		
Purchases of property, plant and equipment		**(37**
Purchases of intangible assets and goodwill		**(2**
Contributions and grants received		**1**
Proceeds on disposal of property, plant and equipment		
Amounts repaid by/(advanced to) joint ventures		**1**
Interest received		
Net cash outflow from investing activities		**(36**
Cash flow from financing activities		
Interest paid		**(7**
Dividends paid to shareholders of the parent		**(13**
Repayments of borrowings		**(**
Principal elements of lease payments		**(**
New loans raised		**7**
Issues of shares		
Swap termination payments		**(**
Purchase of own shares		**(**
Net cash outflow from financing activities		**(12**
Net movement in cash and cash equivalents		**(1**
Net cash and cash equivalents at beginning of period		**3**
Net cash and cash equivalents at end of period		**2**
Cash and cash equivalents		
Bank overdrafts		**(**
Short term deposits		**1**
		2

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 2019 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 2019, except as set out below.

Changes in accounting policies - IFRS 16 'Leases'
The Group has adopted IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for prior reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

a) Adjustments recognised on adoption of IFRS 16
On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 April 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.20%.

For leases previously classified as finance leases the Group recognised the carrying amount of the right-of-use asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. There have been no remeasurement amounts of leases previously classified as finance leases under IFRS 16 principles.

Operating lease commitments disclosed as at 31 March 2019
Add: adjustments as a result of a different treatment of extension and termination options
Add: finance lease liabilities recognised as at 31 March 2019
Less: short-term leases recognised on a straight-line basis as an expense
Less: low-value leases recognised on a straight-line basis as an expense
Discounted using the lessee's incremental borrowing rate at the date of initial application
Lease liability recognised as at 1 April 2019
Recognised at 30 September 2019 as:
Current lease liabilities
Non-current lease liabilities

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

1. General information (continued)

The recognised right-of-use assets relate to the following types of assets:

	30 Septeml 20 £

Land and buildings	8
Plant and equipment	5
Motor vehicles	1
Infrastructure assets	**114**
Total right-of-use assets	**129**

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

Property, plant and equipment
Right-of-use assets
Deferred tax
Borrowings
Retained earnings

b) Impact on segment disclosure and earnings per share

Six months ended 30 September 2019

	Regulated Wat and Waste Wat £
Segment assets	7
Segment liabilities	
	7.

Earnings per share decreased by 0.07 pence per share for the six months to 30 September 2019 as a result of the adoption of IFRS 16.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with a remaining lease term of less than 12 months at 1 April 2019 as short-term leases per asset class;
- accounting for operating leases of low value assets as at 1 April 2019 on an individual basis;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

c) Leasing activities

The Group leases various buildings and land, plant and equipment and vehicles. Rental agreements are typically made for fixed periods of 1 to 999 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the current financial period, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

1. General information (continued)

From 1 April 2019, leases are recognised as right-of-use assets with a corresponding liability at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following; the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs, and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

d) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the current financial period, there has been no financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

Going concern

Including undrawn committed credit facilities, the Group is fully funded for its investment and cash flow needs until September 2021. After making enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and hence the interim financial information has been prepared on a going concern basis.

Seasonality

Historically just over half of the Group's PBIT has arisen in the first half of the year.

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 Severn Trent Water Limited (excluding Bioresources and Developer Services), its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses in the UK & Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including Developer Services, affinity products and searches.

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in joint ventures are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT. A segmental analysis of turnover and underlying PBIT is presented below.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

The following table shows the segmental turnover and PBIT:

Six months ended 30 September

	2019		
	Regulated Water and Waste Water	**Business Services**	Regulated Water and Waste Water
	£m	**£m**	£m
External turnover	**807.5**	**102.5**	795.0
Inter-segment turnover	**–**	**9.8**	–
Total turnover	**807.5**	**112.3**	795.0
Profit before interest, tax and amortisation of acquired intangible assets	**260.1**	**29.9**	268.4
Amortisation of acquired intangible assets	**–**	**(1.0)**	–
Profit before interest and tax	**260.1**	**28.9**	268.4

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

Six months ended 30 September

	2(
Regulated Water and Waste Water	**80**
Business Services	**11**
Corporate and other	
Consolidation adjustments	**(1(**
	91

2. Segmental analysis (continued)

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

Six months ended 30 September

	2
Regulated Water and Waste Water	**26**
Business Services	**2**
Corporate and other	**(**
Consolidation adjustments	**(**
Profit before interest, tax and amortisation of acquired intangible assets	**28**
Amortisation of acquired intangible assets:	
Business Services	**(**
Net finance costs	**(9**
Net losses on financial instruments	**(**
Share of net loss of joint ventures accounted for using the equity method	**(**
Profit on ordinary activities before taxation	**18**

The following table shows segmental capital employed:

	30 September 2019		
	Regulated Water and Waste Water	**Business Services**	Regulated Wate and Waste Wate
	£m	**£m**	£ı
Operating assets	**9,512.8**	**615.2**	9,214.
Goodwill	**63.5**	**29.2**	63.

Investments in joint ventures	**–**	**27.7**	
Segment assets	**9,576.3**	**672.1**	9,277.
Segment operating liabilities	**(2,067.1)**	**(48.0)**	(1,986.:
Capital employed	**7,509.2**	**624.1**	7,291.

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

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

3. Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by business segment below:

Six months ended 30 September 2019

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m
Water and waste water services	805.5	28.5	–	–
Operating services	–	29.5	–	–
Renewable energy	–	37.5	–	–
Other sales	2.0	7.0	–	–
Intra-group sales	–	9.8	0.5	(10.3)
	807.5	**112.3**	**0.5**	**(10.3)**

3. Revenue from contracts with customers (continued)

Six months ended 30 September 2018

	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m
Water and waste water services	793.7	27.5	–	–
Operating services	–	29.8	–	–
Renewable energy	–	22.5	–	–
Other sales	1.3	6.7	–	–
Intra-group sales	–	10.5	0.4	(10.9)
	795.0	**97.0**	**0.4**	**(10.9)**

Income from diversions of £2.3 million (2018: £5.4 million), which is reimbursement of costs incurred for diversions, is included within infrastructure maintenance expenditure within operating costs.

4. Net losses on financial instruments

Six months ended 30 September

	2
Gain/(loss) on swaps used as hedging instruments in fair value hedges	
(Loss)/gain arising on debt in fair value hedges	**(**
Exchange loss on other loans	**(**
Loss on cash flow hedges transferred from equity	**(**
Hedge ineffectiveness on cash flow hedges	
Gain arising on swaps where hedge accounting is not applied	
Amortisation of fair value adjustment on debt	
	(

5. Tax

Six months ended 30 September

2

Current tax	
Current year at 18.8% (2018: 19.1%)	1
Prior years	(
Total current tax	1
Deferred tax	
Origination and reversal of temporary differences:	
Current year	1
Prior years	(
Total deferred tax	1
	3

The tax charge in the income statement is calculated at a rate of 18.8% (2018: 19.1%) 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 underlying effective current tax rate was 10.3% (2018: 12.1%). See note 17.

Current tax credits of £4.9 million (2018: £4.9 million) and deferred tax charges of £13.2 million (2018: £17.7 million) have been taken to reserves in the period.

6. Dividends

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

Six months ended 30 September

	2019		
	Pence per share	**£m**	Pence per
Final dividend for the year ended 31 March 2019 (2018)	**56.02**	**133.1**	5

The proposed interim dividend of 40.03p per share (2018: 37.35p per share) was approved by the Board on 20 November 2019 and has not been included as a liability as at 30 September 2019.

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.

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

Number of shares

Six months ended 30 September

Weighted average number of ordinary shares for the purpose of basic earnings per share	2
Effect of dilutive potential ordinary shares:	
- share options and LTIPs	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2

b) Underlying earnings per share

Six months ended 30 September

Underlying basic earnings per share	
Underlying diluted earnings per share	

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	
	2
Earnings for the purpose of basic and diluted earnings per share	**14**
Adjustments for:	
- amortisation of acquired intangible assets	
- net losses on financial instruments	
- current tax on net losses on financial instruments	**(**
- deferred tax	**1**
Earnings for the purpose of underlying basic and diluted earnings per share	**16**

8. Borrowings

	30 September 2019 £m
Bank overdraft	**0.5**
Bank loans	**1,196.6**
Other loans	**4,842.7**
Lease liabilities	**128.7**
Obligations under finance leases	**–**
Borrowings	**6,168.5**

The borrowings are repayable as follows:

	30 September 2019 £m
On demand or within one year - included in current liabilities	**475.1**
Over one year - included in non-current liabilities	**5,693.4**
	6,168.5

9. 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 except for the inflation swaps and contingent consideration, which are classified as Level 3. During the current period a gain of £0.5 million has been recognised in the income statement with respect to these instruments. There have been no changes in the levels of classification during the period.

	30 September 2019 £m	31 March 2019 £m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**55.9**	37.1	Future cash flows are estimated based interest rates from observable yield cur end and contract interest rates discount

			reflects the credit risk of counterparties. cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow
Assets	**5.5**	26.1	Future cash flows are estimated based interest rates from observable yield cur end and contract interest rates discount reflects the credit risk of counterparties.
Liabilities	**(131.4)**	(119.9)	
Energy swaps			Discounted cash flow
Assets	**7.8**	5.3	Future cash flows are estimated based electricity prices from observable indice end and contract prices discounted at a the credit risk of counterparties.
Liabilities	**-**	(0.4)	
Inflation swaps			Discounted cash flow
Liabilities	**(5.7)**	(6.2)	Future cash flows on the RPI leg of the estimated based on observable forward Future cash flows on the CPI leg of the estimated based on the future expected between RPI and CPI. Both legs are discounted using observa at the period end, at a rate that reflects counterparties.
Contingent consideration	**(3.0)**	(3.0)	Management estimate of the amount th payable. This is considered to be a Lev technique. The contingent consideration arose on Agrivert.

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m
At 1 April 2018	(2.8)
Losses recognised in profit or loss	(3.4)
Recognised on acquisition of subsidiary	-
At 31 March 2019	(6.2)
Gains recognised in profit or loss	0.5
At 30 September 2019	**(5.7)**

9. 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. The estimated fair values do not take into account the impact of interest rate swaps.

	30 September 2019		
	Carrying value £m	Fair value £m	Carrying valu £r
Floating rate debt			
Bank loans	**893.3**	**894.7**	818.
Other loans	**187.0**	**192.7**	185.
	1,080.3	**1,087.4**	1,003.
Fixed rate debt			
Bank loans	**183.2**	**184.3**	184.
Other loans	**3,273.9**	**3,845.2**	3,267.
Finance leases	**-**	**-**	112.
Lease liabilities	**128.7**	**125.2**	
	3,585.8	**4,154.7**	3,563.

Index-linked debt			
Bank loans	**120.1**	**140.4**	117.
Other loans	**1,381.8**	**2,425.6**	1,367.
	1,501.9	**2,566.0**	1,485.
	6,168.0	**7,808.1**	6,052.

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate sterling and currency bonds are valued using market prices for similar instruments, which is a Level 2 valuation technique.

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, which is a Level 3 valuation technique.

Fair values of other debt instruments are also calculated using discounted cash flow models, which is a Level 3 valuation technique.

10. Retirement benefit schemes

The Group operates three defined benefit pension schemes in the UK, two for Severn Trent and one for Dee Valley Water. The Severn Trent schemes are closed to future accrual. 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 most recent actuarial valuation of the Severn Trent schemes was at 31 March 2016. The valuation as at 31 March 2019 is underway. Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. The most recent actuarial valuation of this scheme was at 31 March 2017.

The assumptions used in calculating the defined benefit obligations as at 30 September 2019 have been updated to reflect market conditions prevailing at the balance sheet date as follows:

	30 Septer
Price inflation - RPI	
Price inflation - CPI	
Discount rate	
Pension increases in payment	
Pension increases in deferment	

The defined benefit assets have been updated to reflect their market value as at 30 September 2019. 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.

Movements in the net deficit recognised in the balance sheet were as follows:

	Fair value of plan assets	**De b oblig**
	£m	
At 1 April 2019	2,418.9	(2,8
Current service cost	-	
Scheme administration costs	(1.3)	
Interest income/(cost)	29.3	(
Actuarial gains/(losses)	312.6	(2
Contributions from the sponsoring companies	0.3	
Employees' contributions and benefits paid	(54.8)	
At 30 September 2019	**2,705.0**	**(3,0**

The net deficit is presented on the balance sheet as follows:

	30 Septer
Retirement benefit surplus	2
Retirement benefit obligations	(41
	(39

11. Acquisitions

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited.

The acquisition was accounted for using the acquisition method. Goodwill of £28.7 million was capitalised attributable to the anticipated future synergies and outperformance arising as a result of the acquisition.

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria.

The adjustments to fair values recognised as at 31 March 2019 are set out below:

Goodwill recognised at 1 April based on provisional fair values	
Adjustment to provisional fair values for:	
Revisions to estimated fair value of trade receivables	
Goodwill recognised at 30 September	

12. Share capital

At 30 September 2019 the issued and fully paid share capital was 241.4 million shares of $97^{17}/_{19}$p amounting to £236.4 million (31 March 2019: 240.9 million shares of $97^{17}/_{19}$p amounting to £235.9 million).

During the period the Company issued 0.5 million (2018: 0.7 million) shares as a result of the exercise of employee share options. At 30 September 2019 the Company held 3.6 million (31 March 2019: 3.8 million) shares in treasury.

13. Cash flow

a) Reconciliation of operating profit to operating cash flows

Six months ended 30 September

	2
Profit before interest and tax	28
Depreciation of property, plant and equipment	16
Depreciation of right-of-use-assets	
Amortisation of intangible assets	1
Amortisation of acquired intangible assets	
Pension service cost	
Defined benefit pension scheme administration costs	
Defined benefit pension scheme contributions	(
Share based payment charge	
Profit on sale of property, plant and equipment and intangible assets	(
Deferred income movement	(
Provisions charged to the income statement	
Utilisation of provisions for liabilities and charges	(1
Operating cash flows before movements in working capital	45
(Increase)/decrease in inventory	(
Increase in amounts receivable	(

Increase in amounts payable	4
Cash generated from operations	**49**
Tax paid	**(2**
Net cash generated from operating activities	**47**

b) Reconciliation of movements in net debt

	Net cash and cash equivalents	Bank loans	Other loans	Finance leases/lease liabilities	Cross currency swaps	Loans from j ventu
	£m	£m	£m	£m	£m	
As at 1 April 2019	39.6	(1,120.1)	(4,820.5)	(112.2)	37.1	14
IFRS 16 transition adjustment	–	–	–	(15.3)	–	
Adjusted as at 1 April 2019	39.6	(1,120.1)	(4,820.5)	(127.5)	37.1	14
Cash flow	(16.3)	(74.0)	–	1.2	–	(1
Fair value adjustments	–	–	(0.9)	–	18.8	
Inflation uplift on index-linked debt	–	(2.3)	(14.7)	–	–	
Foreign exchange	–	–	(7.9)	–	–	
Other non-cash movements	–	(0.2)	1.3	(2.4)	–	
As at 30 September 2019	**23.3**	**(1,196.6)**	**(4,842.7)**	**(128.7)**	**55.9**	**13**

14. Post balance sheet events

There have been no significant post balance sheet events.

15. Contingent liabilities

Details of the Group's contingent liabilities were disclosed in the financial statements for the year ended 31 March 2019 which were approved on 20 May 2019. There have been no significant developments relating to the contingent liabilities disclosed in those financial statements.

16. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture, Water Plus, are disclosed below.

Six months ended 30 September

	201
	£n
Sale of services	**156.**
Net interest income	**1.**

Outstanding balances between the Group and the joint venture were as follows:

	30 Septembe 2019
	£n
Trade and other receivables due from related parties	-
Trade and other payables due to related parties	**(0.6**
Loans due from joint ventures	**132.0**
	131.4

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 10.

17. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures (APMs). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a consistent measure of operating performance excluding distortions caused by exceptional items. The calculation of this APM is shown on the face of the Income Statement and in note 2 for reportable segments.

b) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments, exceptional current tax and deferred tax. The directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 7.

c) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 13.

17. Alternative performance measures (continued)

d) Effective interest rate

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

(net finance costs - net finance costs from pensions + capitalised finance costs)
(monthly average net debt)

	2019 £m
Net finance costs	**93.8**
Net finance costs from pensions	**(5.4)**
Capitalised finance costs	**21.1**
	109.5
Annualised	**219.0**
Monthly average net debt	**5,902.9**
Effective interest rate*	**3.7%**

** the rate is the annualised equivalent interest rate based on that calculated for the six month period*

This APM is used as it shows the average interest rate that is attributable to the net debt of the business.

e) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest rate except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally inflation adjustments on index-linked debt).

(net finance costs - net finance costs from pensions - inflation adjustments + capitalised finance costs)
(monthly average net debt)

	2019 £m
Net finance costs	**93.8**
Net finance costs from pensions	**(5.4)**
Inflation adjustments	**(17.0)**
Capitalised finance costs	**21.1**
	92.5
Annualised	**185.0**
Monthly average net debt	**5,902.9**
Effective cash cost of interest*	**3.1%**

** the rate is the annualised equivalent interest rate based on that calculated for the six month period*

This is used as it shows the average cash interest rate based on the net debt of the business.

17. Alternative performance measures (continued)

f) PBIT interest cover

The ratio of underlying PBIT (see (a) above) to net finance costs excluding finance costs from pensions.

Underlying PBIT
(net finance costs - net finance costs from pensions)

	2019 £m
Underlying PBIT	**286.3**
Net finance costs	**93.8**
Net finance costs from pensions	**(5.4)**
Net finance costs excluding net finance costs from pensions	**88.4**

	ratio
PBIT interest cover ratio	**3.2**

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

g) EBITDA and EBITDA interest cover

The ratio of underlying PBIT before, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

(underlying PBIT + depreciation + amortisation)
(net finance costs - net finance costs from pensions)

	2019 £m
Underlying PBIT	**286.3**
Depreciation	**167.3**
Amortisation (excluding amortisation of acquired intangible assets)	**15.5**
EBITDA	**469.1**
Net finance costs	**93.8**
Net finance costs from pensions	**(5.4)**
Net finance costs excluding finance costs from pensions	**88.4**

	ratio
EBITDA interest cover ratio	**5.3**

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

17. Alternative performance measures (continued)

h) Underlying effective current tax rate

The current tax charge for the year on continuing operations, excluding prior year charges, exceptional current tax, current tax on exceptional items, financial instruments and acquired intangible assets, divided by profit from continuing operations before tax, exceptional items, net gains/losses on financial instruments, amortisation of acquired intangible assets and share of net profit/loss of joint ventures accounted for using the equity method.

$$\frac{\textit{(current period current tax charge in the income statement - tax on exceptional items - tax on financial instruments - tax on amortisation of acquired intangible assets)}}{\textit{(PBT - share of net profit/loss of JVs - exceptional items - net gains/losses on financial instruments - amortisation of acquired intangible assets)}}$$

		2019 Current tax thereon	
	£m	£m	
Profit before tax	**180.7**	**(18.6)**	20
Adjustments			
Share of net loss of joint ventures	**9.3**	**–**	
Net losses on financial instruments	**1.5**	**(1.3)**	
Amortisation of acquired intangible assets	**1.0**	**–**	
	192.5	**(19.9)**	20
Underlying effective current tax rate		**10.3%**	

This APM is used to be remove distortions in the underlying tax charge and create a metric broadly consistent with the calculation of underlying earnings per share in note 7. Share of net loss of joint ventures is excluded from the calculation because this is calculated after tax and the tax on joint venture losses is therefore not included in the current tax charge.

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 20 November 2019.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Independent review report to Severn Trent Plc

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 17. 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 Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it 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 Guidance 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 Financial Reporting Council 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 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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
20 November 2019

Glossary

Asset Management Plan (AMP)
Price limit periods are sometimes known as AMP (Asset Management Plan) periods. The current period is known as AMP6 (2015-2020) because it is the sixth cycle since the water industry was privatised in 1989.

C-MeX (Customer Measure of Experience)

The proposed Customer Measure of Experience (C-MeX) will replace the SIM (see below) as the incentive for companies to improve the experience of residential customers from 1 April 2020 onwards.

Customer ODI (Outcome Delivery Incentive)
A framework made up of outcomes, measures, targets and incentives which provides companies with rewards for achieving stretching performance targets and compensates customers if performance is below performance targets. This was first introduced at the 2014 price review (PR14) by the regulator, Ofwat.

Final Determination (FD)
The outcome of the price review process that sets price, investment and services packages that customers receive.

Ofwat
The water industry's economic regulator in England & Wales.

Notional Net Debt
For each price review Ofwat sets a nominal capital structure for companies in determining prices limits. This includes a notional (assumed) regulatory gearing level. Notional net debt is the RCV multiplied by the notional regulatory gearing level.

PR14 / PR19
The price review (PR) is a financial review process led by Ofwat where wholesale price controls for water and sewage companies are set every five years. PR19 (Price Review 2019) will set wholesale price controls for water and sewerage companies for 2020 to 2025.

Price limits
The price limits are set to enable water companies to deliver the services required of them over the AMP period. These include allowing for capital maintenance of assets, ensuring security of supply and meeting drinking water and environmental quality requirements.

Regulatory Capital Value (RCV)
The regulatory capital value is used to measure the capital base of a company when setting price limits. The regulatory capital value represents the initial market value of a company, including debt, plus new capital expenditure.

Regulatory Gearing
Regulating gearing is calculated as net debt divided by the RCV.

RoRE
Return on Regulated Equity (RoRE) measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt.

Service Incentive Mechanism (SIM)
The SIM allows comparison of companies' performance. It measures the following aspects of service delivery:

i) Where customers have made contact regarding a service issue, for example, phoning about a billing error or writing to complain about a water supply problem.

ii) A customer survey measuring how well companies have handled all types of customer contacts, not just when things have gone wrong.

Companies receive rewards or penalties in the price review depending on their SIM performance.

Totex
Totex (shortened form of total expenditure) includes operating expenditure (opex), infrastructure renewals expenditure (IRE) and capital expenditure (capex).

Waste cap
The limit on the amount of outperformance payments for waste water related ODIs. In December 2018 this was increased from 2.0% of RoRE to 2.6% of RoRE for Severn Trent.

WRFIM (Wholesale Revenue Forecasting Incentive Mechanism)
A mechanism to reduce the impact of deviations on customer bills arising from revenue forecasting deviations by
adjusting companies' allowed revenues for each year to take account of differences between actual and projected revenues, and incentivising companies to avoid revenue forecasting errors through

applying a penalty to variations that fall outside a set uncertainty band (or 'revenue flexibility threshold').

Cautionary statement regarding forward-looking statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal', 'estimates' or words with a similar meaning, and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest Annual Report and Accounts (which have not been updated since the date of its publication); changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. This document speaks as at the date of publication. Save as required by applicable laws and regulations, Severn Trent does not intend to update any forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

Nothing in this document should be regarded as a profits forecast.

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