

Interim Results

6 months to 30 September 2010

23 November 2010

The Lincoln Centre, London

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Mike McKeon

Finance Director

Highlights

	H1 2009/10	H1 2010/11	Change
	£m	£m	%
Group Turnover	852.1	867.9	1.9%
Profit Before Interest and Tax (PBIT ¹)	287.1	277.0	(3.5)%
Profit Before Tax (PBT ²)	188.0	158.0	(16.0)%
Adjusted Basic EPS ³ (pence)	60.8p	47.4p	(22.0)%
Basic EPS (pence)	63.4p	43.9p	(30.8)%
Interim declared Dividend (pence per share)	26.71p	26.04p	(2.5)%

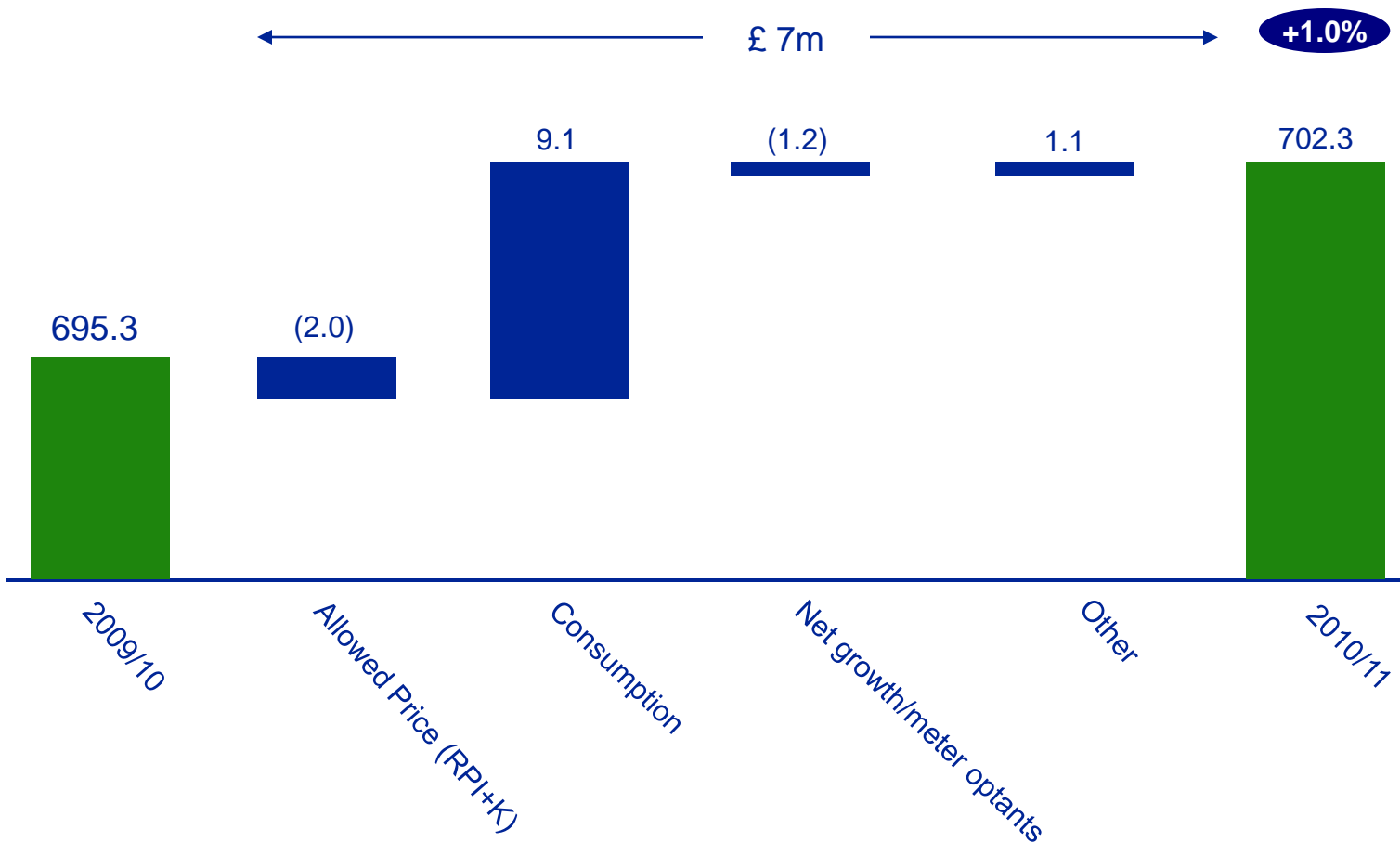
1. *before exceptional items*

2. *before exceptional items and gains/losses on financial instruments*

3. *before excluding exceptional items, gains/losses on financial instruments and deferred tax*

Severn Trent Water turnover

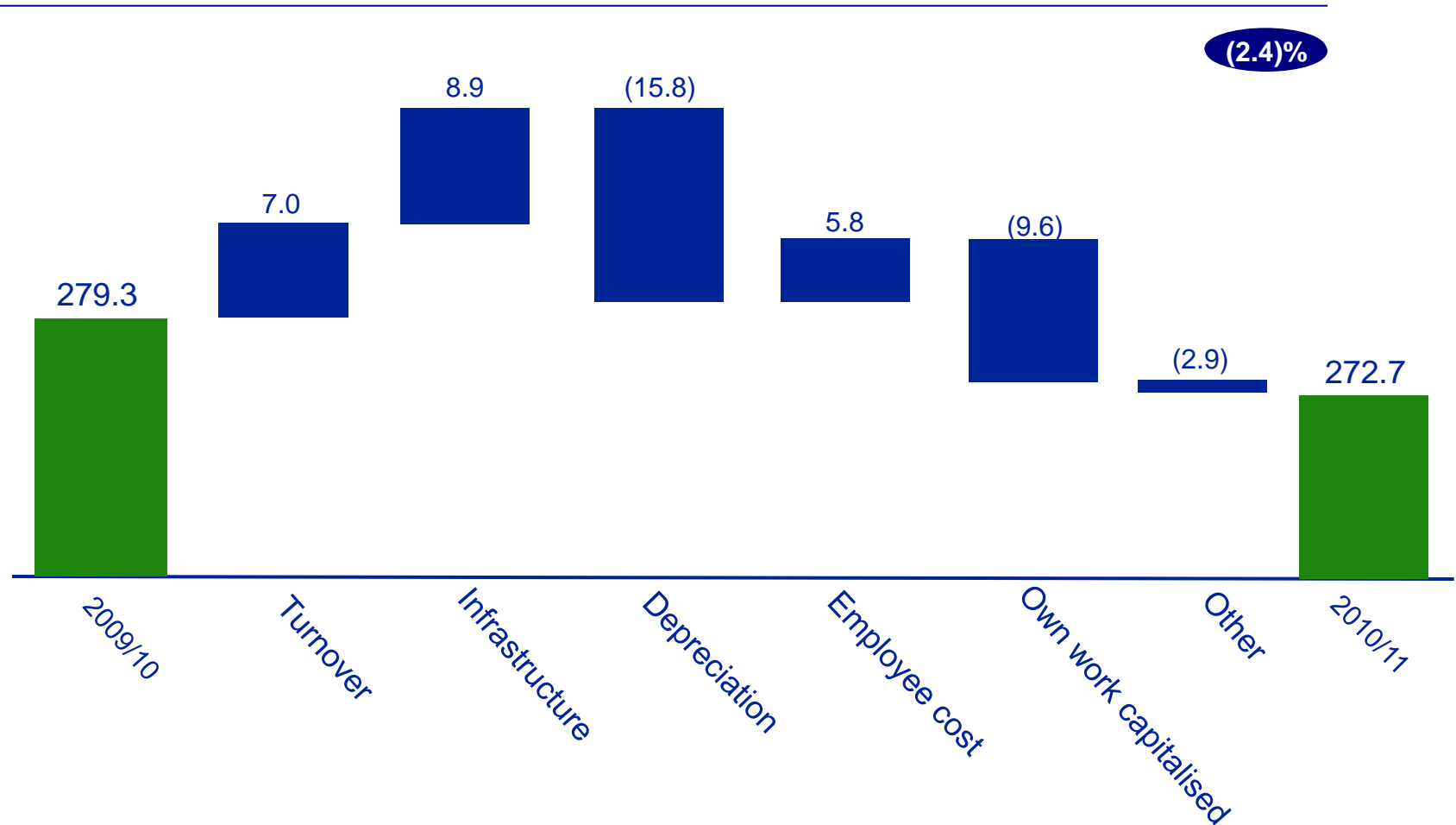
Severn Trent Water Turnover* H1 2010/11
£m



* Business segment turnover is stated gross (i.e. including inter segment trading),

Severn Trent Water PBIT

Severn Trent Water PBIT* H1 2010/11
£m



* Numbers shown before exceptional items

Severn Trent Services performance

Six months ended 30 September

Turnover				Underlying PBIT**		
09/10	10/11	Var.		09/10	10/11	Var.
£m	£m			£m	£m	
165.5	172.0	3.9%	As reported	12.2	13.0	6.6%
163.9	168.6	2.9%	Like for like in constant currency*	12.1	12.9	6.6%
ROIC*** 11.5%						

* Excluding foreign exchange, disposals and acquisitions

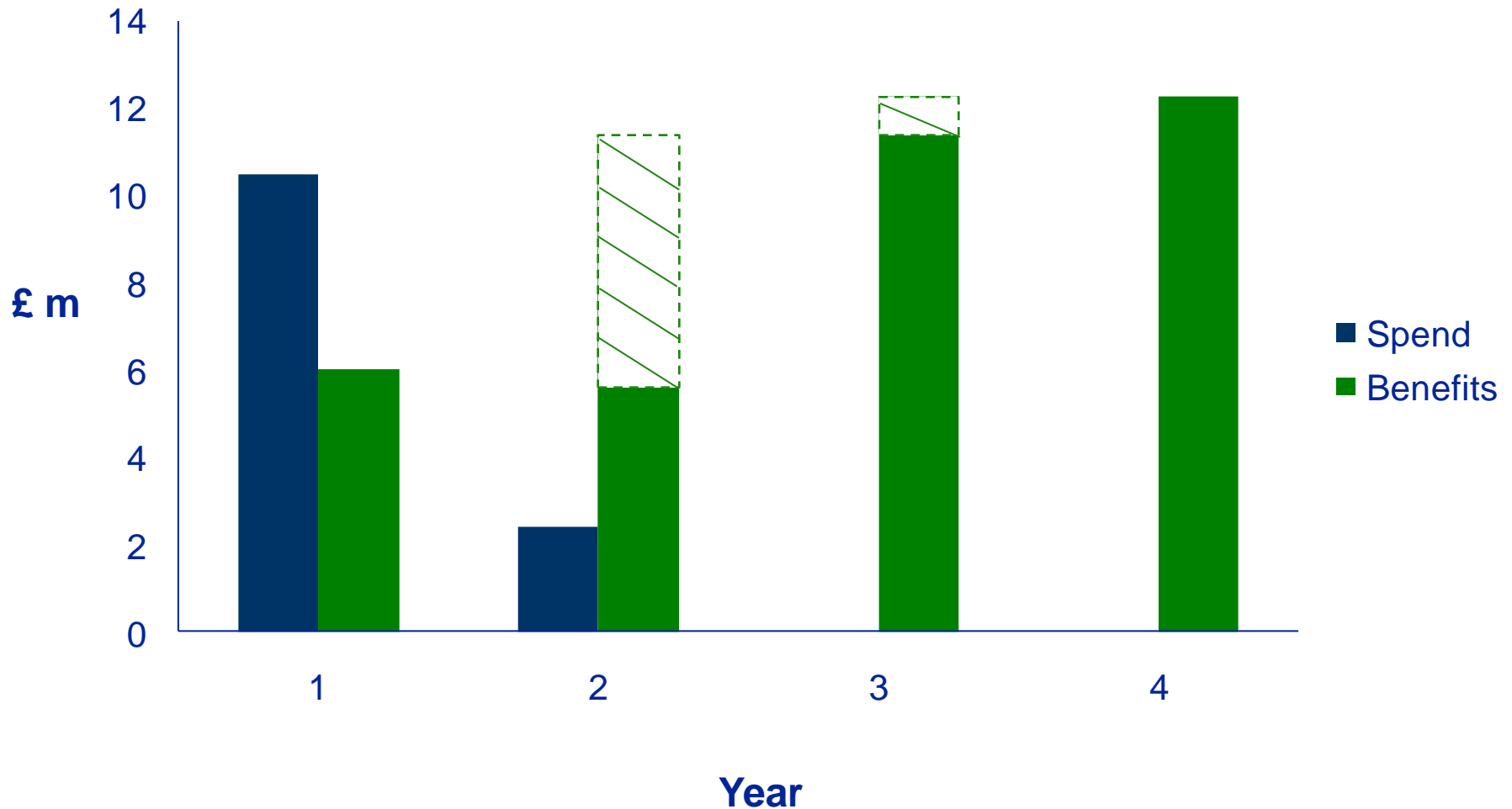
** PBIT before exceptional items

*** Return on invested capital (annualised PBIT before exceptional items/Average net operating assets plus gross goodwill from acquisitions)

Exceptional items

£m	2009/10 H1	2010/11 H1
Restructuring costs		
Severn Trent Water	(7.2)	(6.2)
Severn Trent Services	(2.8)	-
Total exceptional operating costs	(10.0)	(6.2)
Exceptional loss on disposal of business	(1.5)	-
Total exceptional items	(11.5)	(6.2)

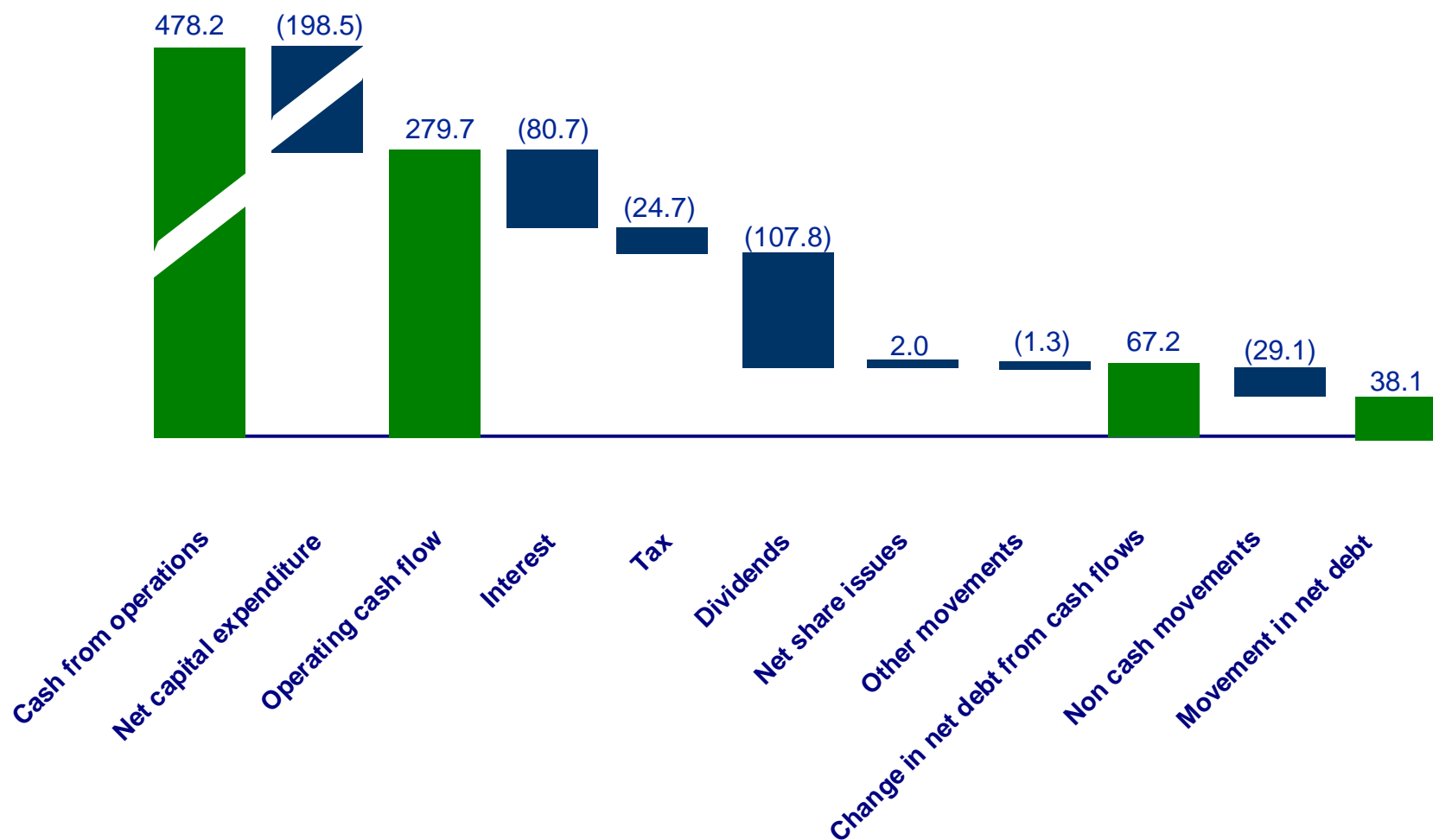
Improvement programmes – back office



Cash flow

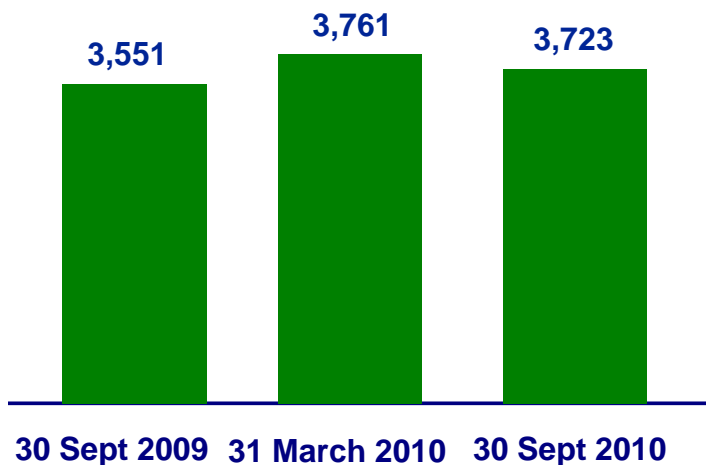
H1 2010/11 operating cash flow

£m



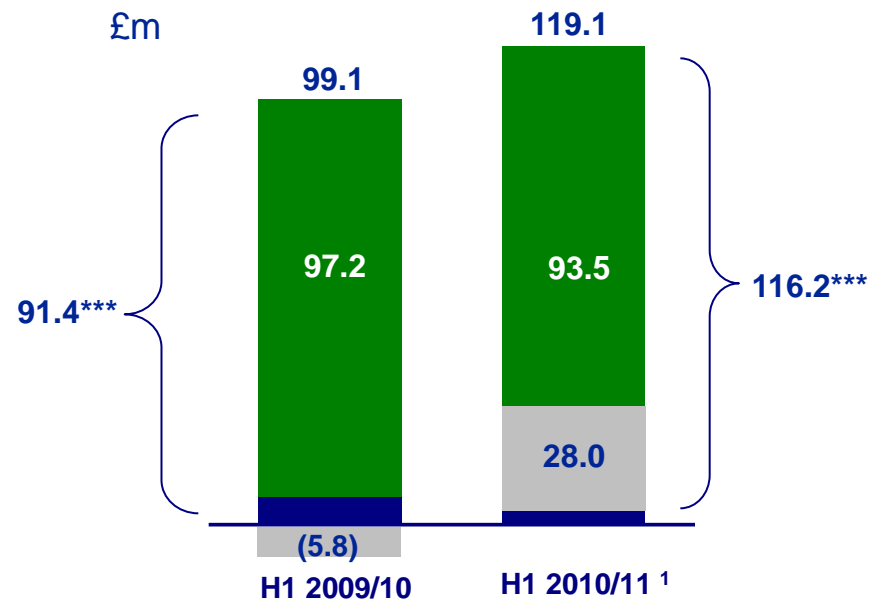
Group net debt and finance charges

Net debt*
£m



- 77% at fixed interest rates
- Regulated entity (Severn Trent Water) net debt £3,804m
- Group net debt/RCV** 56.3%

Interest
£m



- 'Cash' interest
- RPI rolled up
- Net pension (debit)/credit*

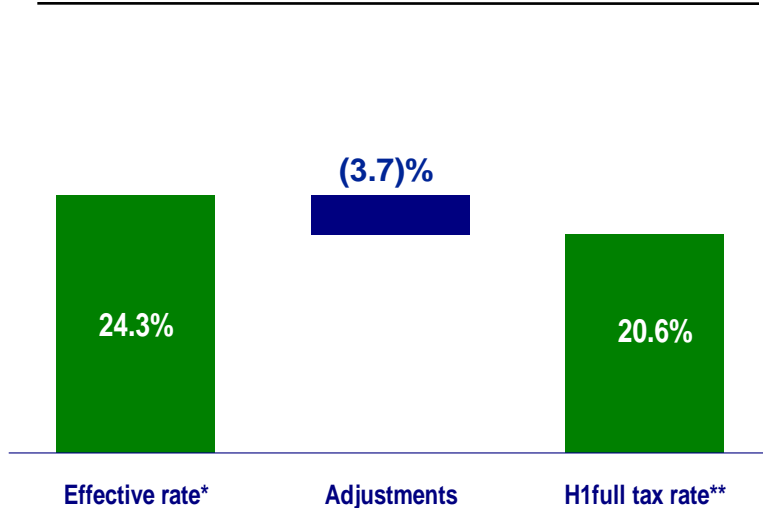
- Effective rate circa 6.2%
- Interest cover:
 - 3.6 times EBITDA****
 - 2.4 times underlying PBIT

1. Excludes £5.3 m of interest cost capitalised (2009/10 £0.3 m)
 *** Excluding net pension debit of £2.9m (2009/10 debit of £7.7m)
 **** Profit before interest, tax, depreciation, exceptionals

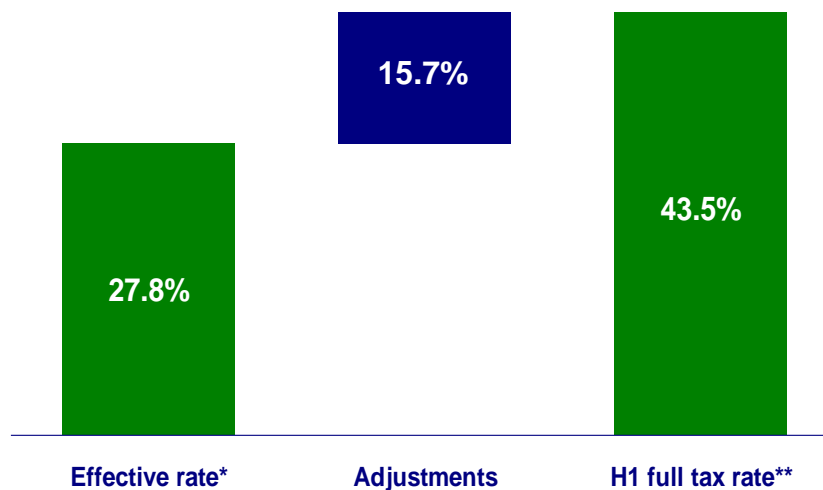
* Excluding interest rate swaps
 ** RCV at 31 March 2010 at year average RPI

Effective rate of current tax

H1 2009/10 Effective current tax rate%



H1 2010/11 Effective current tax rate%



2010/11 Full Year effective current tax rate 25%-28%

* Current tax (excluding prior year adjustments) attributable to PBT before gains/losses on financial instruments and exceptional items

** Current tax attributable to PBT

Summary

Better than anticipated turnover in the regulated business

Return to growth at Severn Trent Services

Improvement plans on track and delivering benefits

Tony Wray

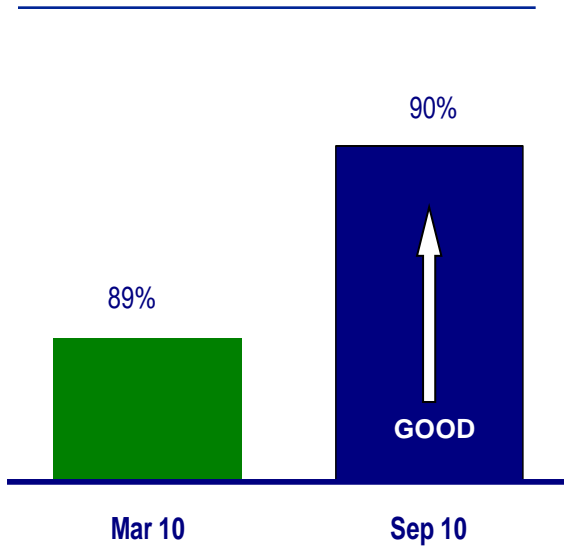
Chief Executive

Continuous improvement

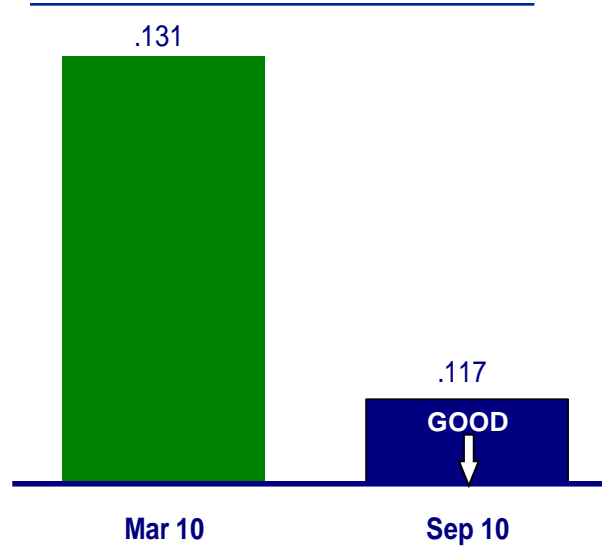
- Progress on a range of KPI scores
 - Customer service
 - Sewer flooding incidents
 - Leakage
- Bad debt
- OPA
 - Moved up again, from 7th to 6th
- Renewables
 - Stoke Bardolph energy crop

Ongoing improvements

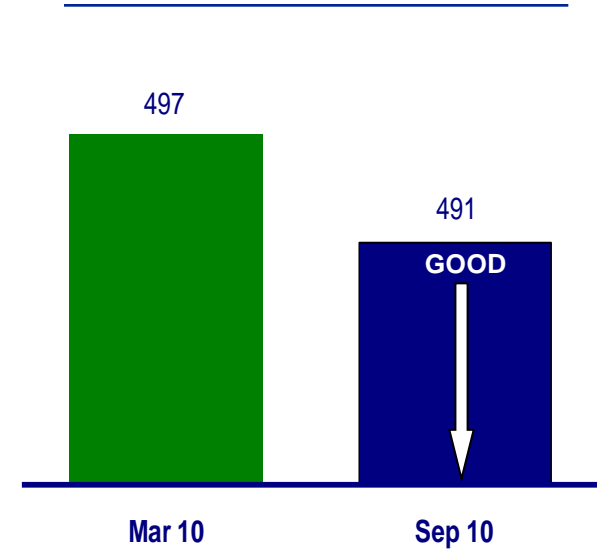
Customer service - Billing*



Sewer flooding**



Leakage***



* First time call resolution for billing %

** Sewer flooding incidents – other causes, per 1,000 properties

*** Leakage, MI/d

Capex / Opex efficiencies

- **SAP**
 - Realising benefits of phase 1 deployment
 - Phase 2 – asset management and fieldforce – going well
- **New approach to capital programme**
 - Progressing well, delivering planned efficiencies & required outputs
 - Spend more H2 weighted
- **Opex**
 - In line with expectations (below FD)
- **Severn Trent Centre**
 - Already experiencing benefits of new operations centre

Severn Trent Services

Return to growth

- **Operating Services performed well**
 - Mix of contract wins and renewals
 - High levels of interest – Italy, Ireland, MENA, US

- **Water Purification bounced back strongly**
 - Converted a record order book into good revenue and PBIT growth
 - Benefitting from cost reductions
 - Order book remains strong

Outlook 2010/11

- **Severn Trent Water**
 - Continue to deliver higher standards and efficiencies
 - Consumption expected to be flat in H2 period on period
 - Net capex £415-£425 million range
 - Exceptional charges of approx. £20 million

- **Severn Trent Services**
 - Strong Water Purification order book – continued growth
 - Operating Services to continue momentum
 - Analytical Services – utility volumes challenging

AMP5 Outlook

- Remain confident we can meet or exceed objectives
 - Continuing to drive performance improvements
- Final Business Plan included 1.7% efficiency on opex and 7% on capex
 - Now think we can deliver around 2% opex and around 10% on capex
- Cost of significant proportion of existing and anticipated debt for AMP5 fixed below rates allowed in FD
 - c. £20 million per annum saving over AMP5 vs. Final Determination
 - Approx. £1bn funding required for AMP5 (£850m re-financing)
- Power
 - Wholesale prices hedged for first 4 years of AMP5
 - Saving c. £25m vs. final determination
 - Renewables growing

Dividend

- FY 2010/11 dividend 65.09p

New Policy

- Annual growth of RPI+3% for remainder of AMP5
 - Using November RPI of prior year
 - Aligned with business performance and price setting mechanism
 - Clear, sustainable, progressive
 - Interim/final split of 40% / 60%

Made further progress on KPI and OPA

**Good start to investment program;
realising benefits of efficiency programmes**

Well placed to succeed in AMP5

New dividend policy reflects confidence in future

Investor Day 16 December 2010

SEVERN
TRENT



Severn Trent Centre
2, St. John's Street
Coventry
CV1 2LZ

10:00am to 4:30pm

Email: john.crosse@severntrent.co.uk

***“Winning in a
changing world”***

Q & A

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Appendix

Group Earnings

Six months to 30 September 2010

2009/10 £m		2010/11 £m		
150.0	Profit for the period	104.5		
149.7	Attributable to: - Equity holders of the company	103.8		
0.3	- Minority Interests	0.7		
Pence		Pence	Variance pence	Variance %
	Basic EPS from continuing operations			
60.8	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	47.4	(13.4)	(22.0)%
63.4	Basic EPS	43.9	(19.5)	(30.8)%
	Diluted EPS from continuing operations			
60.7	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	47.3	(13.4)	(22.1)%
63.4	Diluted EPS	43.8	(19.6)	(30.9)%

Group balance sheet

30 September 2010

31 Mar 2010 £m		30 Sep 2010 £m	Movement since 31 Mar 2010 £m
6,302.0	Property, plant and equipment	6,281.0	21
209.1	Intangible assets	208.4	0.7
191.6	Other non-current assets	191.6	0.0
(664.8)	Working Capital/provisions	(664.8)	0.0
6,037.9	Capital employed	6,016.2	21.7
-	Net assets directly associated with assets held for sale	0.0	0.0
(67.2)	Tax creditor	(87.0)	19.8
(956.4)	Deferred tax provision	(901.4)	(55.0)
(3671.4)	Net debt	(3723.3)	(38.1)
62.0	Derivative financial instruments	(34.8)	96.8
947.0	Net assets	922.6	24.4
79.9%	<i>Gearing</i>	80.1%	

* Net debt divided by net debt and equity

Movements on shareholders' equity

Six months to 30 September 2010

	2010/11 £m
At 1 April	947.0
Total recognised income for the financial period	79.7
Dividends	(1.3)
Dividends to non controlling interests	(107.8)
Credit from share based payments charge	0.2
Tax on share based payments posted directly to reserves	0.8
Shares issued	4.0
At 31 March	922.6

Credit ratings

30 September 2010

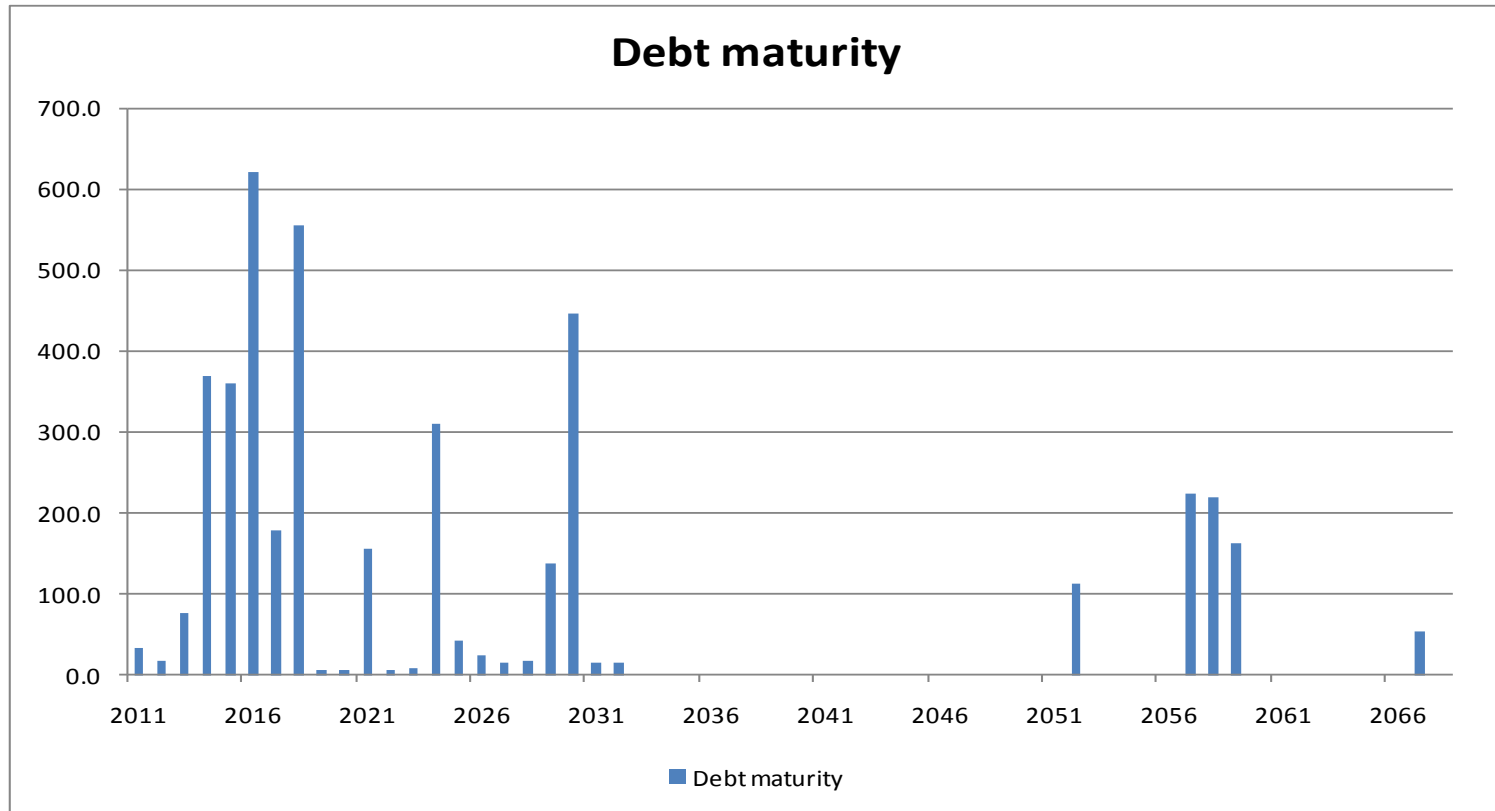
Long-Term	Severn Trent Water	Severn Trent Plc
Moody's	A3	Baa1
Standard & Poor's	BBB+	BBB-

Short-Term	Severn Trent Water	Severn Trent Plc
Moody's	P2	P2
Standard & Poor's	A3	A3

Moody's – long term rating is stable

Standard & Poor's – long term rating is stable

Debt maturity profile



Average maturity of around 16 years

Gearing

Net debt/RCV	Actual at 30 Mar 2010	Proforma at 30 Sep 2010
Severn Trent Plc	59.3%	56.3%
Severn Trent Water	61.0%	57.5%

Segmental analysis of capital employed

30 September 2010

Total 31 Mar 2010 £m		Net operating assets 30 Sep 2010 £m	Goodwill 30 Sep 2010 £m	Total 30 Sep 2010 £m
5,704.8	Severn Trent Water	5,684.4	0.0	5,684.4
198.6	Severn Trent Services*	125.8	68.7	194.5
(46.1)	Other	(49.4)	0.0	(49.4)
5857.3	Group	5760.8	68.7	5,829.5

* Excludes goodwill of £40.8m previously written off against reserves

PBITD* analysis

Six months to 30 September 2010

Group 2009/10		Group 2010/11
£m		£m
401.9	Water & Sewerage	411.2
15.9	Severn Trent Services	17.0
(5.6)	Other	(9.9)
412.2	Group	418.3

* Profit before interest, tax, depreciation and amortisation of intangible assets, excluding exceptional items

Depreciation* analysis

Six months to 30 September 2010

Group 2009/10 £m		Group 2010/110 £m
122.5	Water and Sewerage	138.5
3.7	Severn Trent Services	4.0
(1.2)	Other	(1.2)
125.1	Group	141.3

* Including amortisation of intangibles, excluding profit/loss on disposal of fixed assets and deferred income write back

Capital expenditure (net cash)*

Six months to 30 September 2010

Group 2009/10 £m		Group 2010/11 £m
(234.1)	Water and Sewerage	(190.2)
4.9	Severn Trent Services	(3.8)
0.7	Other	(4.5)
(238.3)	Group	(198.5)

* Net of grants received and proceeds of sale

Severn Trent Water – operating costs

Six months to September 2010

2009/10 £m		2010/11 £m	Variance £m	Variance %
249.5	Direct Operating Costs*	260.1	10.6	4.2%
119.3	Depreciation**	131.2	11.9	10.0%
47.2	Infrastructure Renewals	38.3	(8.9)	(18.9)%
416.0	STW operating costs**	429.6	13.6	3.3%

* Net of other income £1.4m (£1.6m) but excluding management charges

** Net of amortisation of grants and contributions and profit on disposal of property, plant and equipment, and after profit on disposal of non current assets of £4.9m (£0.6m)

Severn Trent Water – capex reconciliation

Six months to 30 September 2010

	2010/11 £m
UK GAAP gross capex	164.5
Less grants and contributions	(8.9)
<hr/> UK GAAP net capex*	<hr/> 155.6
Treated as IFRS infrastructure operating expenditure	(38.3)
Other IFRS adjustment	(2.1)
<hr/>	<hr/>
	115.2
Movement on capital creditors	78.9
Proceeds of sale of fixed assets	(3.9)
<hr/>	<hr/>
IFRS capex (net cash)	<hr/> 190.2

* Capex at outturn prices after deduction of grants and contributions

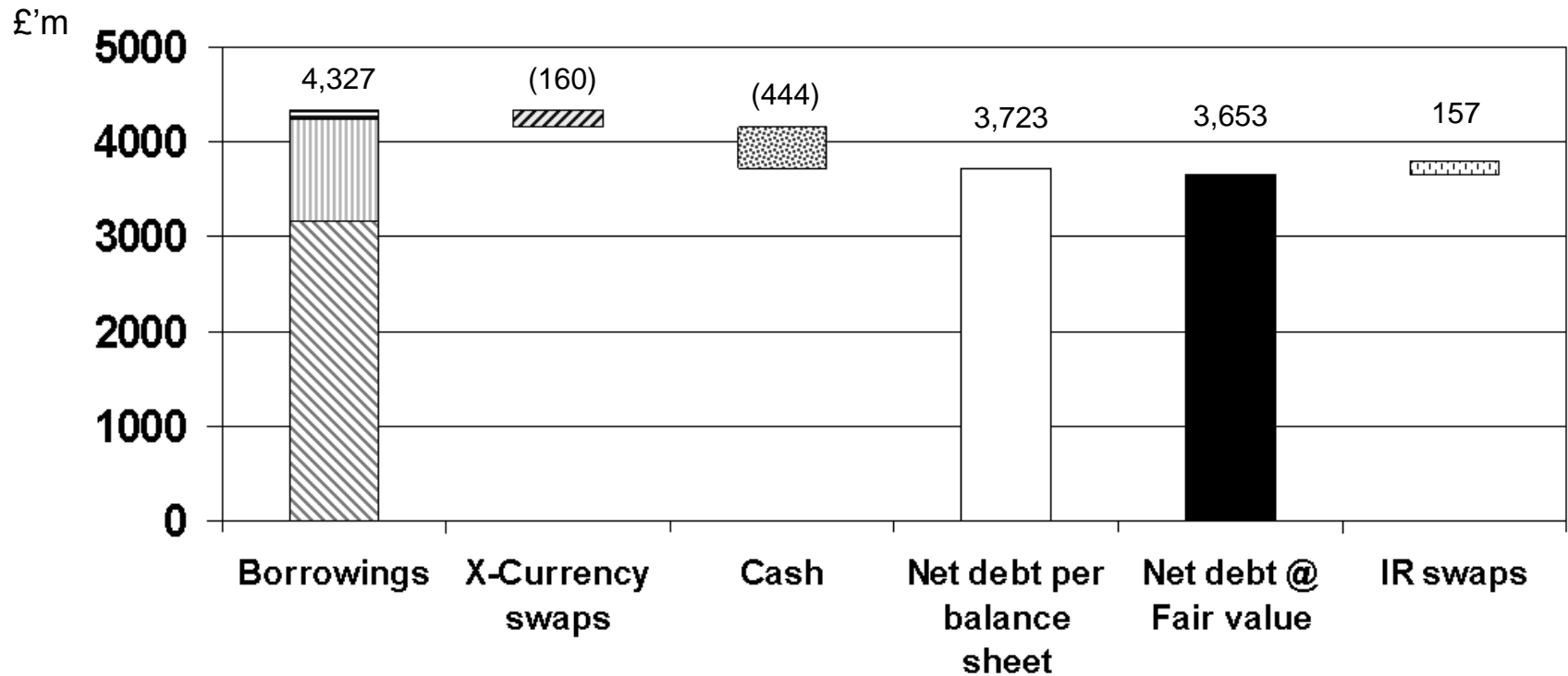
Net debt

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

Fair value of net debt

	30 September 2010	31 March 2010	30 September 2009
Bank loans	(847.0)	(679.1)	(767.7)
Other loans	(3,156.4)	(3,328.5)	(3,345.6)
Finance leases	(254.4)	(260.3)	(317.7)
Fair value of borrowings	(4,257.8)	(4,267.9)	(4,431.0)
Cash and cash equivalents	443.9	227.8	589.1
Cross currency swaps hedging debt	160.4	187.3	226.6
Fair value of net debt	(3,653.5)	(3,761.4)	(3,615.3)

Analysis of borrowings, net debt and swaps at 30 September 2010



▨ GBP debt

▨ Exchange adj

▨ Currency debt @ historical rate

■ Net debt @ fair value

Severn Trent Water – RCV

£m	2010/11	2011/12	2012/13	2013/14	2014/15
Per Determination*	6,216	6,244	6,280	6,341	6,385
Outturn**	6,617	6,844	7,063	7,360	7,658

* 2007/08 prices

** Year end at year average out turn prices

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