

# Interim Results

## 6 months to 30 September 2011

25 November 2011

Exchange House, London

**Mike McKeon**

**Finance Director**

# Highlights

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	H1 2010/11	H1 <b>2011/12</b>	Change %
Group Turnover (£m)	867.9	<b>886.0</b>	2.1
Profit before interest and tax (PBIT <sup>1</sup> ) (£m)	277.0	<b>274.3</b>	(1.0)
Profit before tax (PBT <sup>2</sup> ) (£m)	158.0	<b>155.0</b>	(1.9)
Adjusted basic EPS <sup>3</sup> (pence)	47.4	<b>46.4</b>	(2.1)
Basic EPS (pence)	43.9	<b>30.5</b>	(30.5)
Interim dividend per share (pence)	26.04	<b>28.04</b>	7.7

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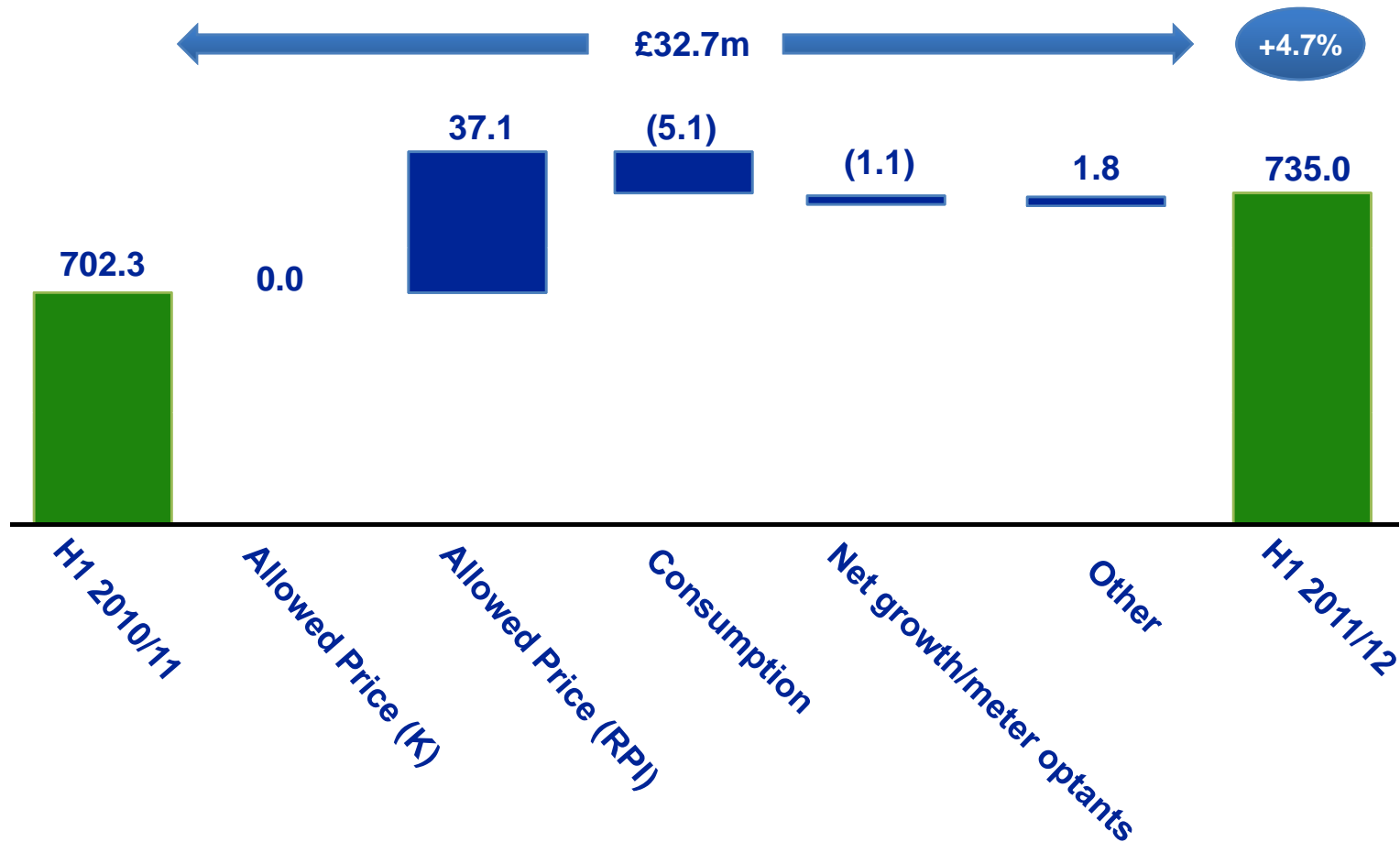
1. *before exceptional items*

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

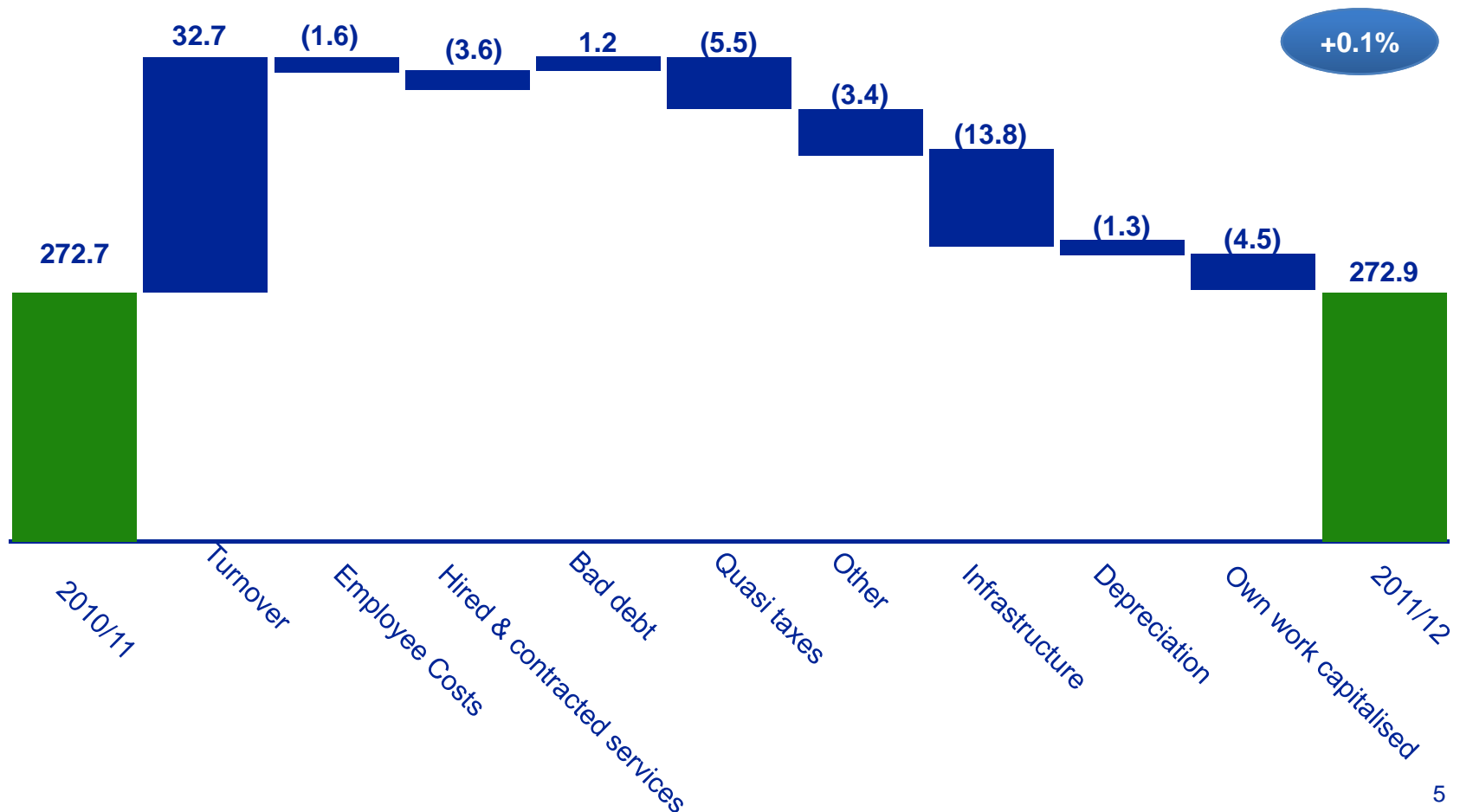
Severn Trent Water Turnover\* H1 2011/12  
£m



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

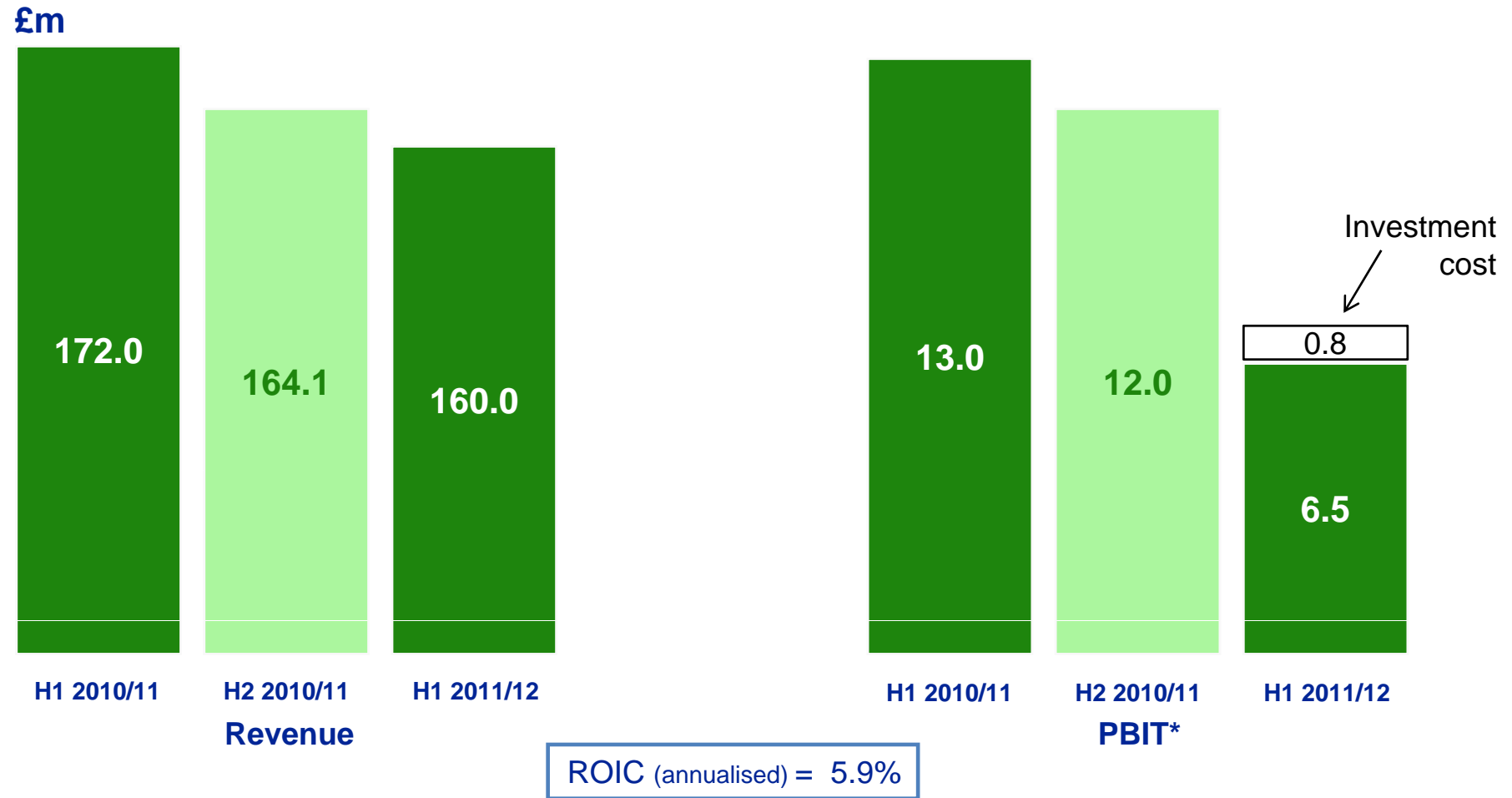
# Severn Trent Water PBIT

Severn Trent Water PBIT\* 2011/12  
£m



\* Numbers shown before exceptional items

# Severn Trent Services performance



\* PBIT before exceptional items

# Exceptional items

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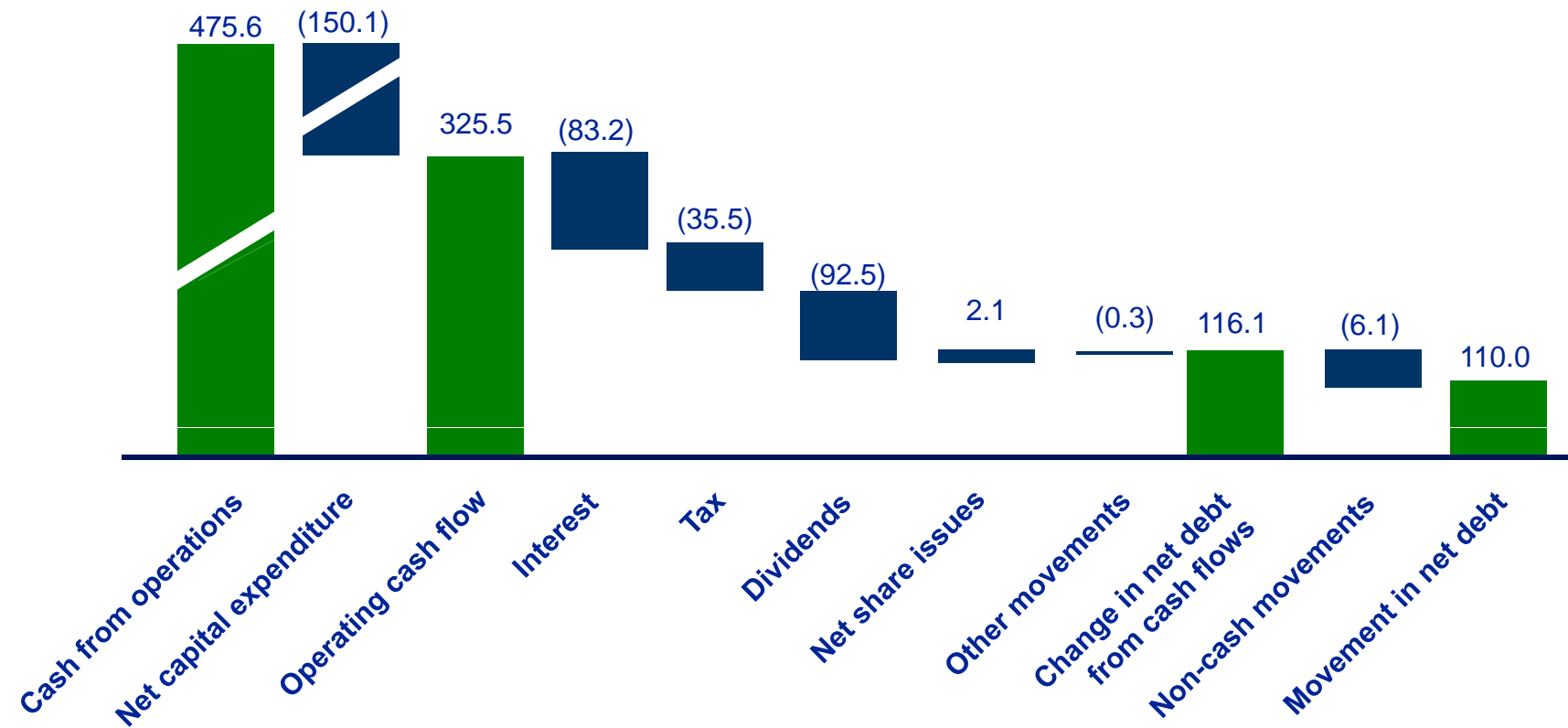
£m	H1 2010/11	H1 2011/12
<b>Restructuring costs</b>		
Severn Trent Water	6.2	3.6
<b>Other exceptional costs</b>		
Severn Trent Services	-	21.9
Corporate and other	-	(6.0)
<b>Total exceptional operating costs</b>	6.2	19.5

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# Cash flow

## Six months ended 30 September 2011

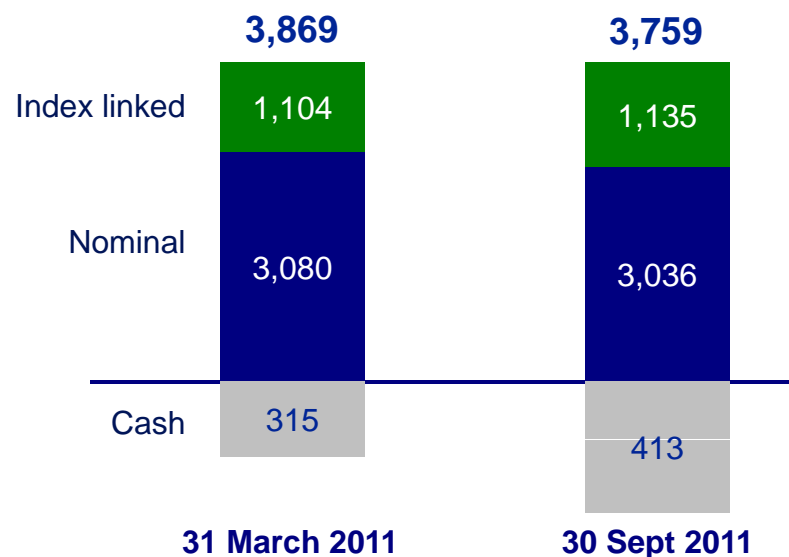
£m



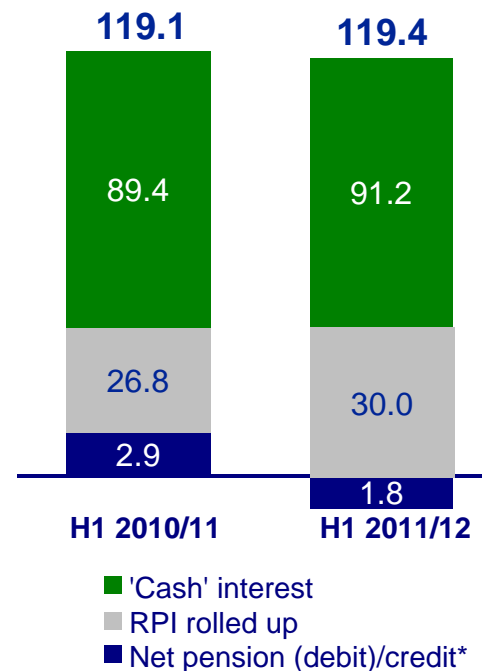


# Group net debt and finance charges

**Net debt\***  
£m



**Finance charge**  
£m



- 73% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,850.3m
- Group net debt/RCV\*\* 54%

- Effective rate circa 6.3%
- Effective cash interest cost 5.0%
- EBITDA cover 3.4x
- PBIT\*\*\* cover 2.3x

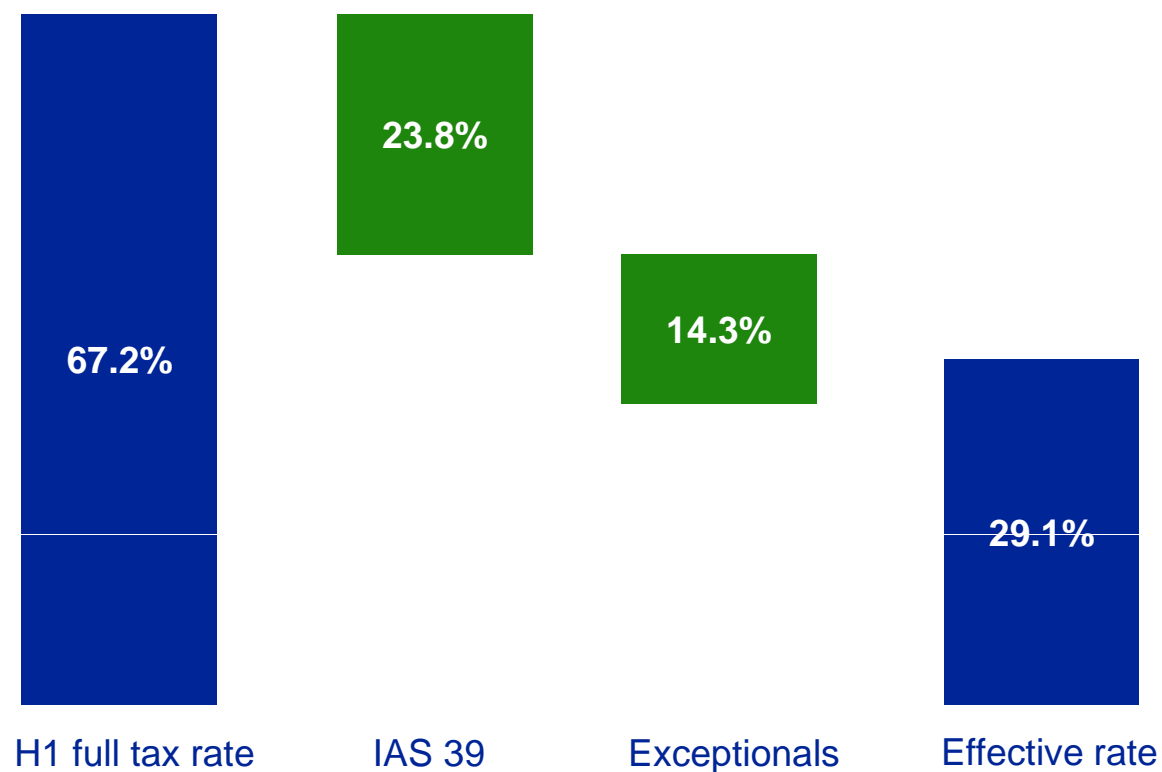
\* Including cross currency swaps

\*\* Forecast RCV at 31 March 2012 at year average RPI

\*\*\*Before exceptional items

# Effective rate of current tax

## H1 2011/12



2011/12 Full Year effective current tax rate 26%-27%

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

\*\* Current tax attributable to PBT

# Outlook

## FY 2011/12

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### Severn Trent Water

- Opex below the level of final determination
- Bad debt to remain at 2.2%
- Capex £450m-£470m range; IRE £120m-£130m (ex. PDaS)

### Severn Trent Services

- H2 weighted

### Group

- Interest charge broadly in line with prior year
- Tax rate 26%-27%

# Summary

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**Delivering planned opex - good cost control**

**Investment in efficiencies supports strength of balance sheet**

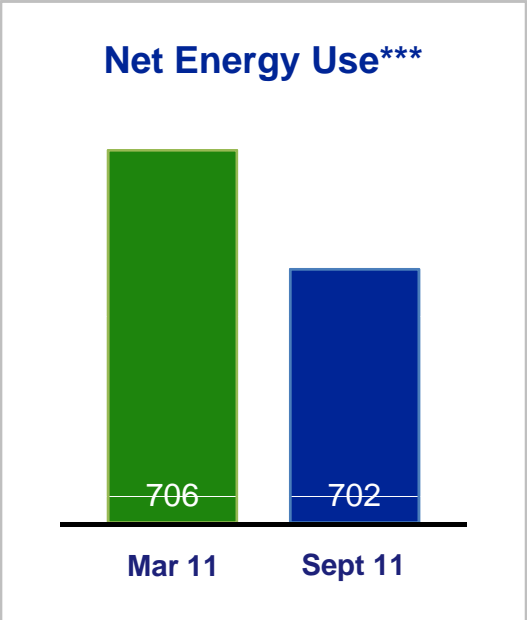
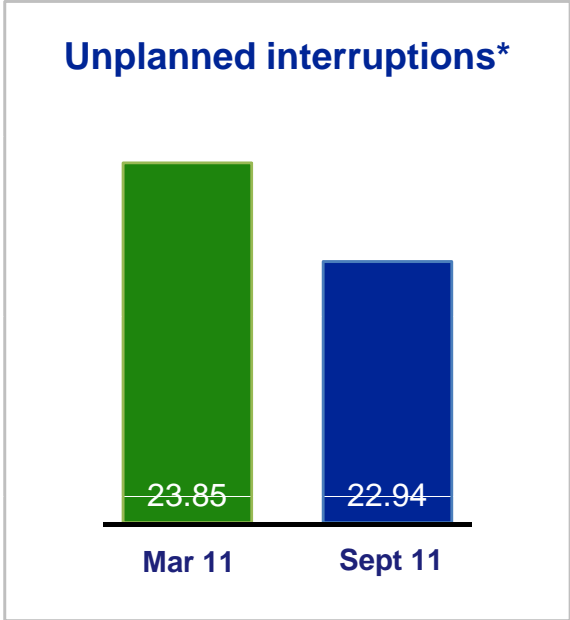
**Prudent investment in our networks**

**Delivering on dividend promise**

# Tony Wray

## Chief Executive

# Key Performance Indicators



\* per 1,000 properties. Moving annual total  
\*\* % of designed capacity available. Moving annual total  
\*\*\* GWh (Moving Annual Total)

# Updated KPI benchmarks

	Upper	Median	Lower
1 Lost time incidents per 100,000 hours worked	●		
2 Employee motivation		● ←	
3 Water quality (test failure rate) - ppm	●		
4 Customer written complaints per 1,000 properties	→ ●		
5 1 <sup>st</sup> time call resolution for billing (%)	● ←		
6 Unplanned interruptions per 1,000 properties			●
7 Properties at risk of low pressure per 1,000 properties	●		
8 First time job resolution	●		
9 Non performance against regulatory obligations (%)	●		
10 Capex (net)	●		
12 Debtor days		●	
13 Opex (£m)		●	
15 Pollution incidents (categories 1 to 3)		●	
16 Sewage flooding incidents	→ ●		
17 Sewage treatment works – failing consent limits		● ←	
18 Supply availability			●
19 Net energy use - GWh	●		
20 Leakage Mld		●	

# The Service Incentive Mechanism (SIM)

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SIM consists of 2 equally weighted measures:

## Quantitative

This measure looks at the number of complaints, unwanted contacts and engaged / abandoned calls.

## Qualitative

This measure looks at the end to end customer service by completing 200 customers surveys 4 times a year. Customers rate us based on a score of 1 (very dissatisfied) to 5 (very satisfied).

## Customer Experience Programme

- Easier for customers to contact us
- Make commitments – then deliver on them
- Pro actively communicate
- Resolve issues with fewer visits...then check that we have resolved them





# Innovation

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## Minworth

- Anammox (ANaerobic AMMonium OXidation) process
  - £14m opex savings vs. traditional solution over AMP5

## Ashbourne

- 1st in UK to adopt HYBACS, (Hybrid Activated Sludge) process
  - reduces footprint area and power consumption
  - £84k p.a. opex saving compared to traditional method of treatment

# Severn Trent Services

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Still presents a good opportunity in the long term

- Drivers – scarcity, climate change, population, standards
- Current challenging economic environment

## **Operating Services**

- US market – lower bid activity
- UK performed well
- Italy – uncertainty post referendum

## **Products**

- Filtration & disinfection impacted by customer delays
- Strong order book

## **Investment spend**

- £1m in H1
  - BalPure – first orders shipped

# Private Drains and Sewers

- Successful handover on 1st October
- To date in-bound call volumes lower than expectations
  - 4,000 jobs on transferred assets

	Cost YTD	Guidance
Exceptionals	£2.5m	£6m
Opex	£1m	£12-15m
Capex	£1.5m	£8-12m

- Positive customer feedback\*

“I would use STW again”

“Payment Facility quick and easy”

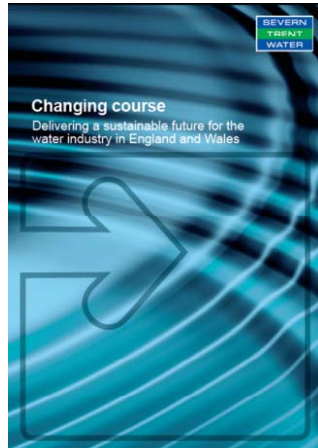
“Friendly people over the phone even though it was late at night”

“Engineers explained everything clearly”

“The engineer arrived promptly”

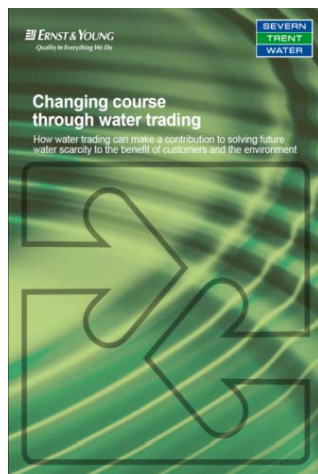
\* Comments: 1-14 October 2011

# Sector developments



## Ofwat

- Involving customers in price setting – Ofwat’s customer engagement policy statement (August 2011)
- Regulatory Compliance – a proportionate and targeted approach (October 2011).
- Future price limits



## Defra

- White Paper



[www.ofwat.gov.uk](http://www.ofwat.gov.uk)



# Summary

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**Plans in place to improve areas of operational performance**

**Network investment**

**Long term opportunity with Services –  
short term will remain challenging**

**Encouraged by direction of regulatory reforms**

**Delivering sustainable shareholder value**

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**SEVERN**

**TRENT**

**Q & A**

# Appendix

# Group Earnings

## Six months to 30 September 2011

2010/11 £m		2011/12 £m		
104.5	Profit for the period	72.3		
103.8	Attributable to: - Equity holders of the company	72.3		
0.7	- Non controlling interests	0.0		
<b>Pence</b>		<b>Pence</b>	<b>Variance pence</b>	<b>Variance %</b>
	<b>Basic EPS from continuing operations</b>			
47.4	Adjusted basic EPS <small>(before exceptional items, gains/losses on financial instruments and deferred tax)</small>	46.4	(1.0)	(2.2)
43.9	Basic EPS	30.5	(13.4)	(43.9)
	<b>Diluted EPS from continuing operations</b>			
47.3	Adjusted diluted EPS <small>(before exceptional items, gains/losses on financial instruments and deferred tax)</small>	46.2	(1.1)	(2.4)
43.8	Diluted EPS	30.4	(13.4)	(44.1)



# Group balance sheet

## 30 September 2011

31 March 2011 £m		30 September 2011 £m	Movement in the period £m
6,427.0	Property plant and equipment	6,481.6	(54.6)
203.2	Intangible assets	193.2	10.0
5.1	Other non current assets	5.0	0.1
(583.5)	Working capital/provisions	(818.9)	235.4
<b>6051.8</b>	<b>Capital employed</b>	<b>5,860.9</b>	<b>190.9</b>
(67.0)	Tax creditor	(72.9)	5.9
(919.4)	Deferred tax provision	(827.5)	(91.9)
(3,868.8)	Net debt	(3,758.8)	(110.0)
(90.5)	Derivative financial instruments	(235.1)	144.6
<b>1,106.1</b>	<b>Net assets</b>	<b>966.6</b>	<b>139.5</b>
77.8%	Gearing	79.5%	

# Movements on shareholders' equity

## Six months to 30 September 2011

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	2011/12
At 1 April	1,106.1
Total recognised income for the period	(51.8)
Dividends	(92.5)
Dividends to minorities	(0.3)
Credit from share based payments charge	0.9
Tax on share based payments charge	0.3
Shares issued	3.9
<b>At 30 September</b>	<b>966.6</b>

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# Gearing

At 30 September 2011

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<b>31 March 2011</b>	<b>Net debt/RCV</b>	<b>30 September 2011</b>
57%	Severn Trent Plc	54%
58%	Severn Trent Water	55%

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# Segmental analysis of capital employed

## 30 September 2011

Total		Net Operating Assets	Goodwill	Total
31 March 2011		30 September 2011	30 September 2011	30 September 2011
£m		£m	£m	£m
5,905.2	Severn Trent Water	5,744.3	0.0	5,744.3
189.0	Severn Trent Services*	96.2	68.8	165.0
(42.4)	Other	(48.4)	0.0	(48.4)
<b>6,051.8</b>	<b>Group</b>	<b>5,792.1</b>	<b>68.8</b>	<b>5,860.9</b>

\* Excludes goodwill of £[40.8] million previously written off against reserves

# PBITD\* analysis

## Six months to 30 September 2011

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2010/11		2011/12
£m		£m
403.9	Severn Trent Water	405.4
16.6	Severn Trent Services	10.2
(8.1)	Other	(6.1)
<b>412.4</b>	<b>Group</b>	<b>409.5</b>

\* Profit before interest, tax, depreciation (see slide [35]) and exceptional items

# Depreciation\* analysis

## Six months to 30 September 2011

2010/11 £m		2011/12 £m
131.2	Severn Trent Water	132.5
3.6	Severn Trent Services	3.7
0.6	Other	(1.0)
<b>135.4</b>	<b>Group</b>	<b>135.2</b>

\* Including amortisation of intangibles, profit/loss on disposal of fixed assets and deferred income released.

# Capital expenditure (net cash)\*

## Six months to 30 September 2011

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2010/11		2011/12
£m		£m
(190.2)	Water and sewerage	(146.5)
(3.8)	Severn Trent Services	(3.5)
(4.5)	Other	(0.1)
<b>(198.5)</b>	<b>Group</b>	<b>(150.1)</b>

\* Net of grants received and proceeds of sale

# Severn Trent Water – operating costs

## Six months to September 2011

2010/11 £m		2011/12 £m	Variance £m	Variance %
260.1	Direct operating costs	277.6	17.5	6.7
131.2	Depreciation	132.5	1.3	1.0
38.3	Infrastructure renewal	52.1	13.8	36.0
<b>429.6</b>	<b>STW operating costs</b>	<b>462.2</b>	<b>32.6</b>	<b>7.6</b>

\* Net of other income £2.1m (£1.4m) but excluding management charges



# Severn Trent Water – capex reconciliation

## Six months to 30 September 2011

2010/11 £m		2011/12 £m
164.5	UK GAAP gross capex	197.4
(8.9)	Less grants and contributions	(10.4)
155.6	UK GAAP net capex	187.0
(38.3)	Treated as IFRS infrastructure operating expenditure	(52.1)
(2.1)	Other IFRS adjustments	0.1
115.2		135.0
78.9	Movement on capital creditors	11.5
(3.9)	Proceeds of sale of fixed assets	0.0
<b>190.2</b>	<b>IFRS capex (net cash)</b>	<b>146.5</b>

# Severn Trent Services performance

## Six months ended 30 September 2011

Turnover				Underlying PBIT*		
2010/11	2011/12	Change		2010/11	2011/12	Change
£m	£m	%		£m	£m	%
172.0	<b>160.0</b>	(7.0)	As reported	13.0	<b>6.5</b>	(50.0)
165.5	<b>160.0</b>	(3.3)	At constant exchange rates**	12.5	<b>6.5</b>	(48.0)
ROIC***				11.5%	<b>5.9%</b>	

\* 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)

# Net finance costs

Six months ended 30 September 2011

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	Income statement charge	Capitalised interest	Gross interest incurred
	£m	£m	£m
"Cash" interest	91.2	3.2	94.4
Pension debit/(credit)	(1.8)	-	(1.8)
RPI interest	30.0	1.1	31.1
	<b>119.4</b>	<b>4.3</b>	<b>123.7</b>

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# Net debt

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	<b>30 September 2011</b>	<b>31 March 2011</b>	<b>30 September 2010</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	<b>412.6</b>	315.2	443.9
Borrowings – current liabilities	<b>(85.5)</b>	(23.9)	(58.8)
Borrowings – non-current liabilities	<b>(4,271.6)</b>	(4,320.5)	(4,268.8)
Cross currency swaps hedging debt	<b>185.7</b>	160.4	160.4
<b>Net debt</b>	<b>(3,758.8)</b>	<b>(3,868.8)</b>	<b>(3,723.3)</b>

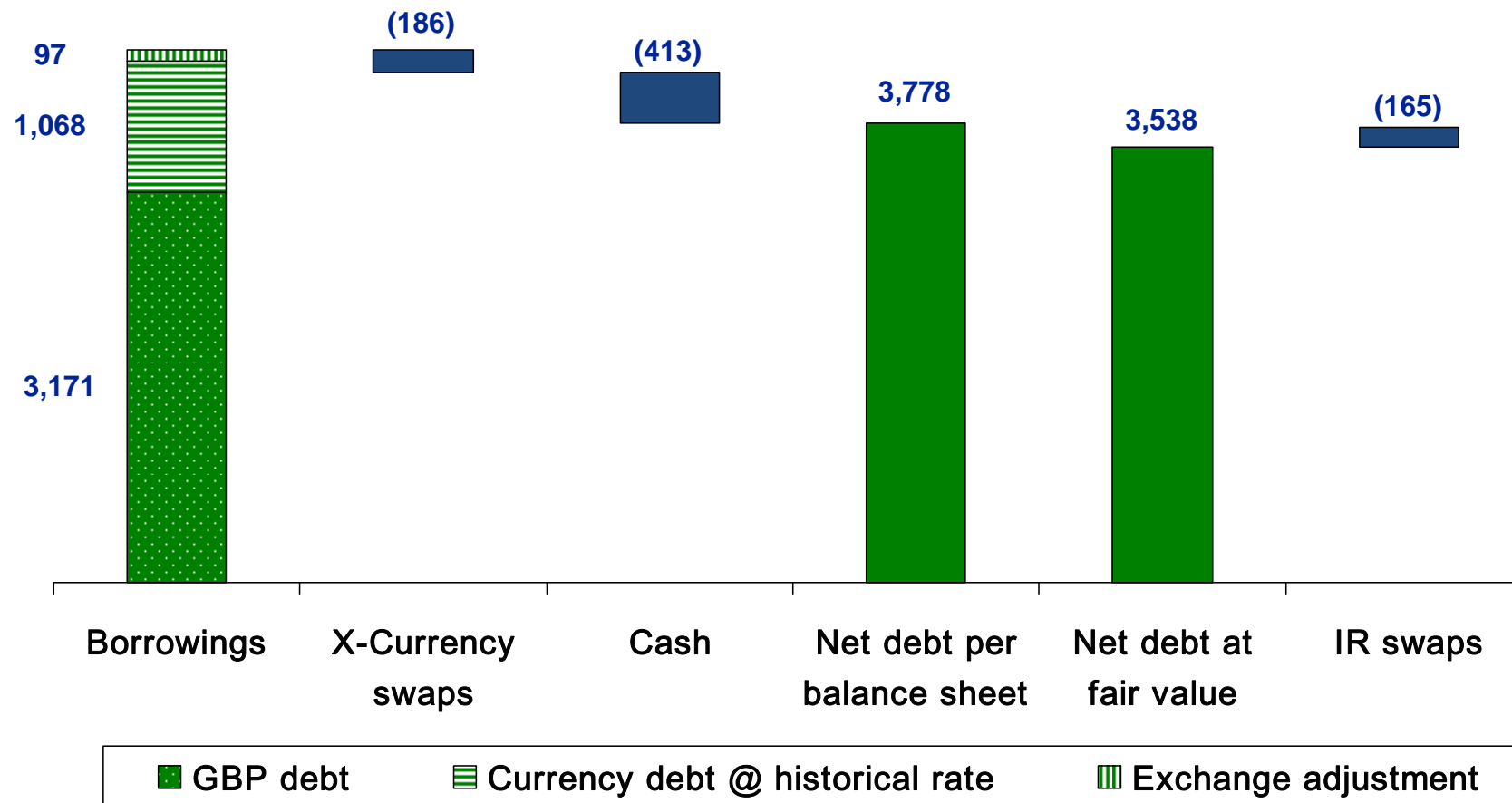
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# Fair value of net debt

## At 30 September 2011

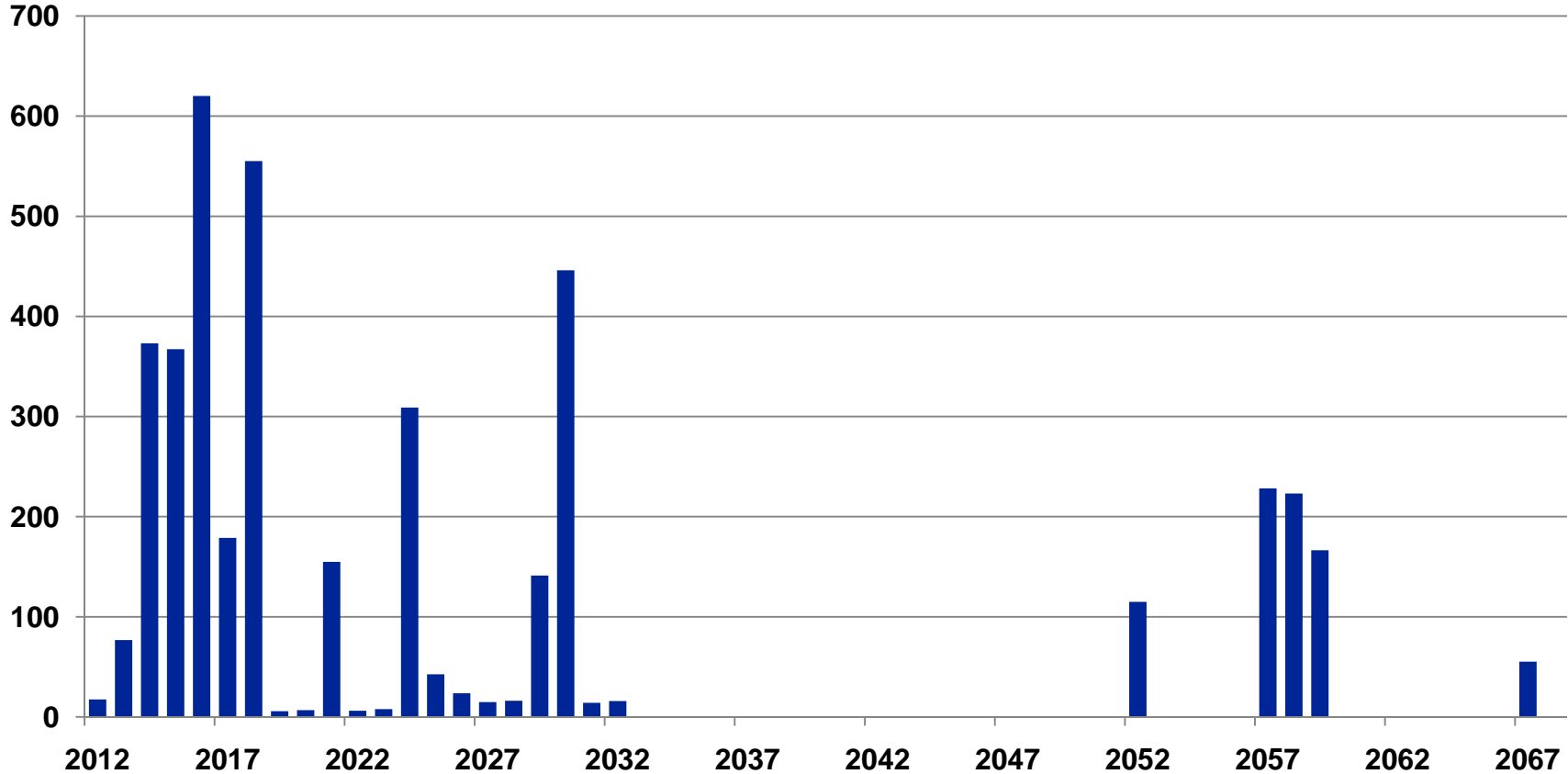
	30 September 2011 £m	31 March 2011 £m	30 September 2010 £m
Bank loans	(852.3)	(836.8)	(847.0)
Other loans	(3,795.5)	(3,597.6)	(3,156.4)
Obligations under finance leases	(253.7)	(237.4)	(254.4)
	<b>(4,901.5)</b>	(4,671.8)	(4,257.8)
Cash	412.6	315.2	443.9
Cross currency swaps	185.7	160.4	160.4
	<b>(4,303.2)</b>	(4,196.2)	(3,653.5)
Net debt (previous slide)	(3,758.8)	(3,868.8)	(3,723.3)
<b>Difference</b>	<b>544.4</b>	<b>327.4</b>	<b>(69.8)</b>

# Analysis of borrowings, net debt and swaps at 30 September 2011



# Debt maturity profile

Maturity profile of gross debt (£ millions)



# Credit ratings

## 30 September 2011

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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	A2	A3

Moody's – long term rating is stable

Standard & Poor's – long term rating is stable



# 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
Actual / Estimated Outturn**	6,638	6,979	7,259	7,557	7,857
Ofwat Actual / Projected Outturn***	6,814	6,844	6,885	6,951	6,999

\* Year end 2007/08 prices

\*\* At year average actual/estimated prices

\*\*\* Year end at 2010/11 prices. Source: Ofwat

# Contact details – Investor Relations



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