

# Interim Results

## 6 months ended 30 September 2012

27 November 2012  
The Lincoln Centre, London

# Highlights

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- Financial performance in line with expectations
- Enhanced investment programme delivering improvements
- Improved KPI performance
- On track for improved serviceability for water distribution network
- Progress in non-regulated
- Supportive of regulatory reforms



# Mike McKeon

## Finance Director



# Highlights

Group	2011/12	2012/13	Change %
Turnover (£m)	886.0	<b>917.7</b>	3.6
Underlying profit before interest and tax <sup>1</sup> (£m)	274.3	<b>267.2</b>	(2.6)
Underlying profit before tax <sup>2</sup> (£m)	155.0	<b>157.5</b>	1.6
Adjusted basic EPS <sup>3</sup> (pence)	46.4	<b>47.4</b>	2.2
Basic EPS (pence)	30.5	<b>51.6</b>	69.2
Total ordinary dividend per share (pence)	28.0	<b>30.3</b>	8.2

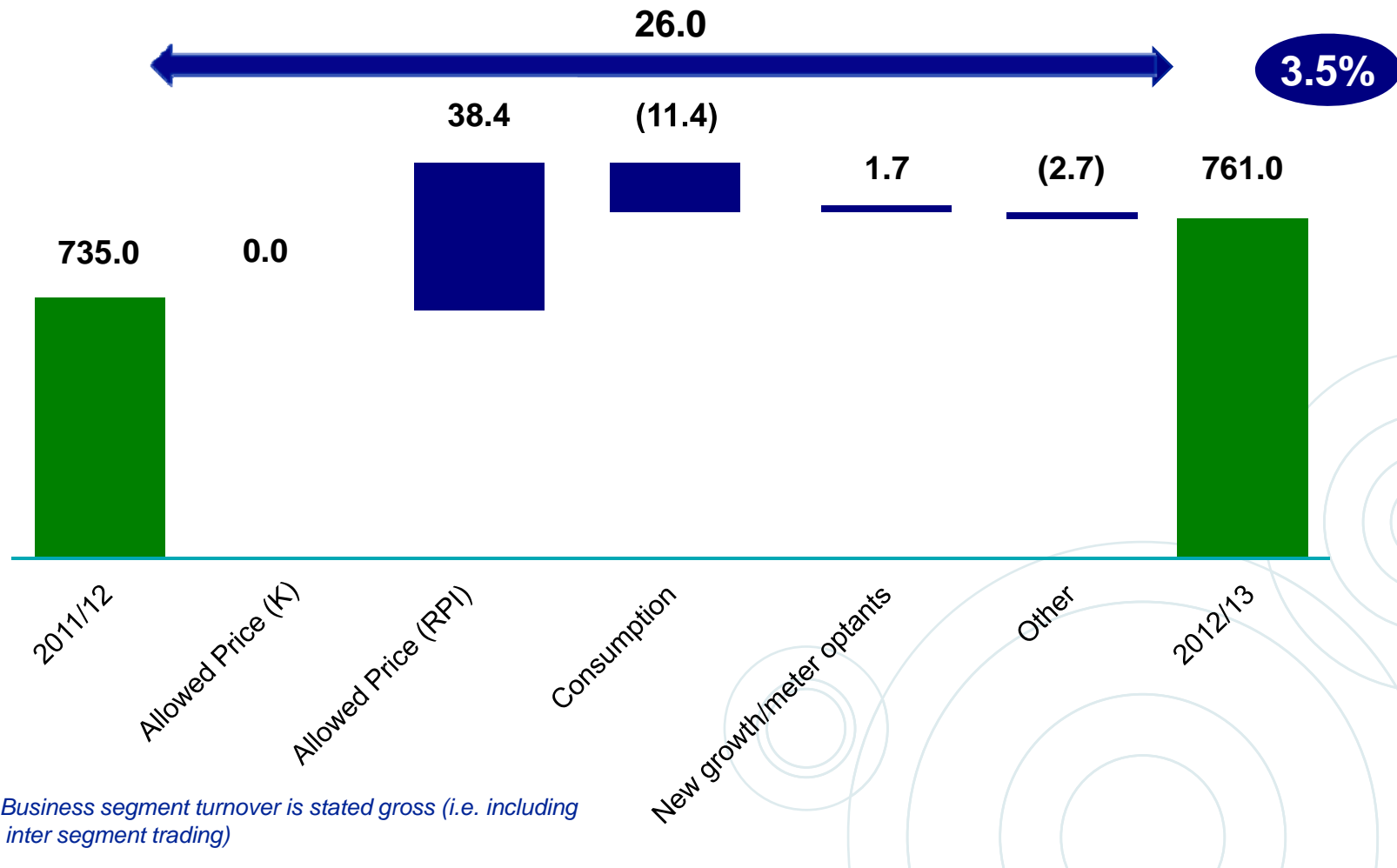
1. before exceptional items

2. before exceptional items and net loss on financial instruments

3. before exceptional items, net loss on financial instruments, current tax on exceptional items and on financial instruments and deferred tax

# Regulated - Severn Trent Water turnover

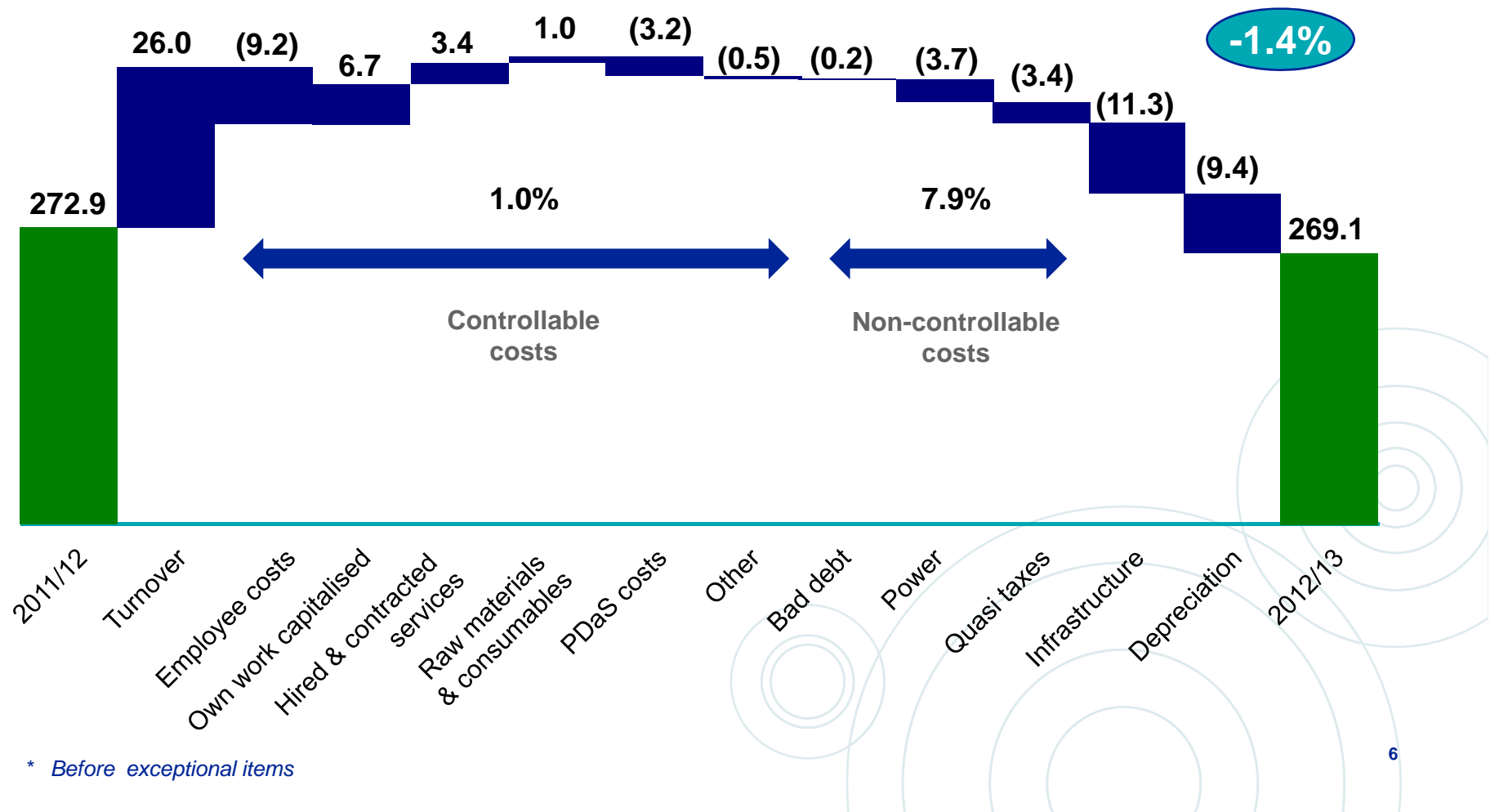
Severn Trent Water Turnover\* 2012/13  
£m



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

# Regulated - Severn Trent Water PBIT

Severn Trent Water PBIT\* 2012/13  
£m



# Non-regulated Severn Trent Services performance

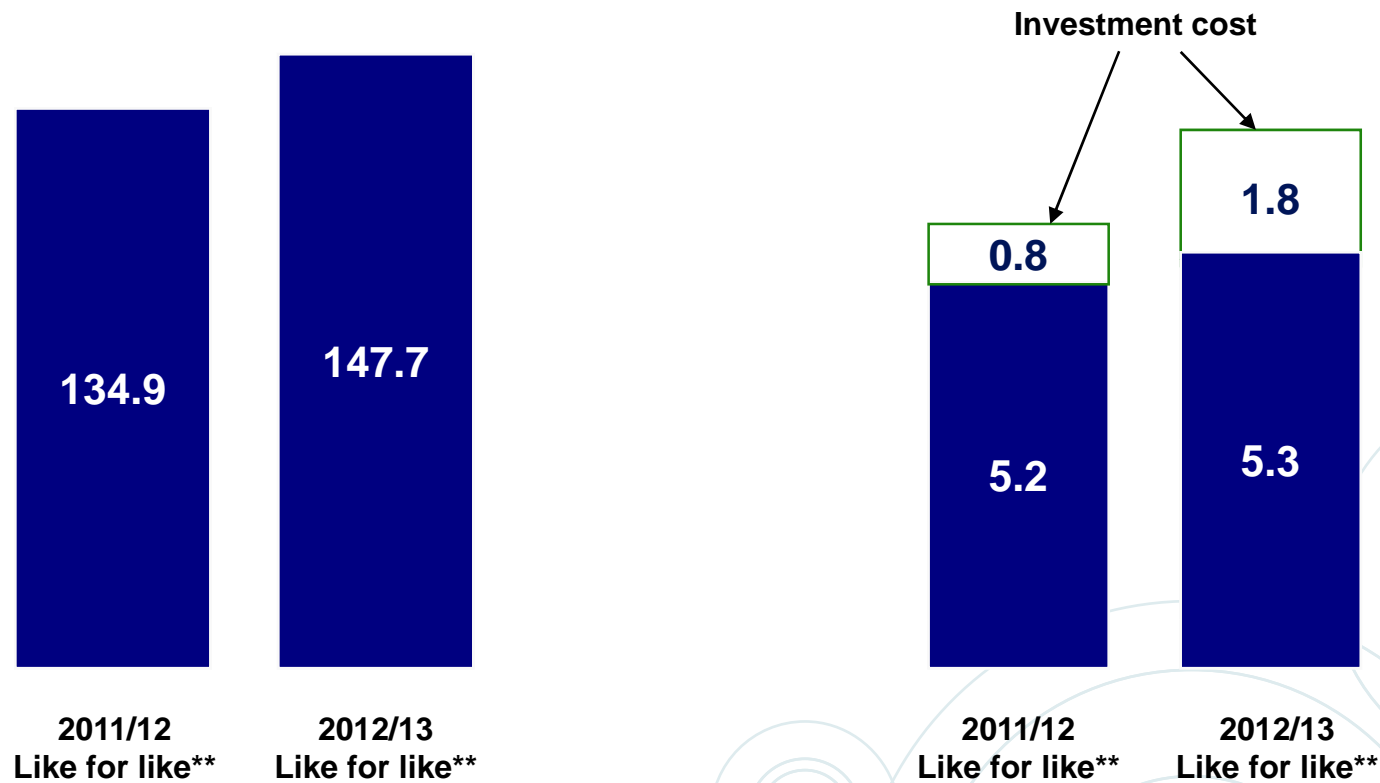
£m

Revenue

9.5%

PBIT\*

1.9%

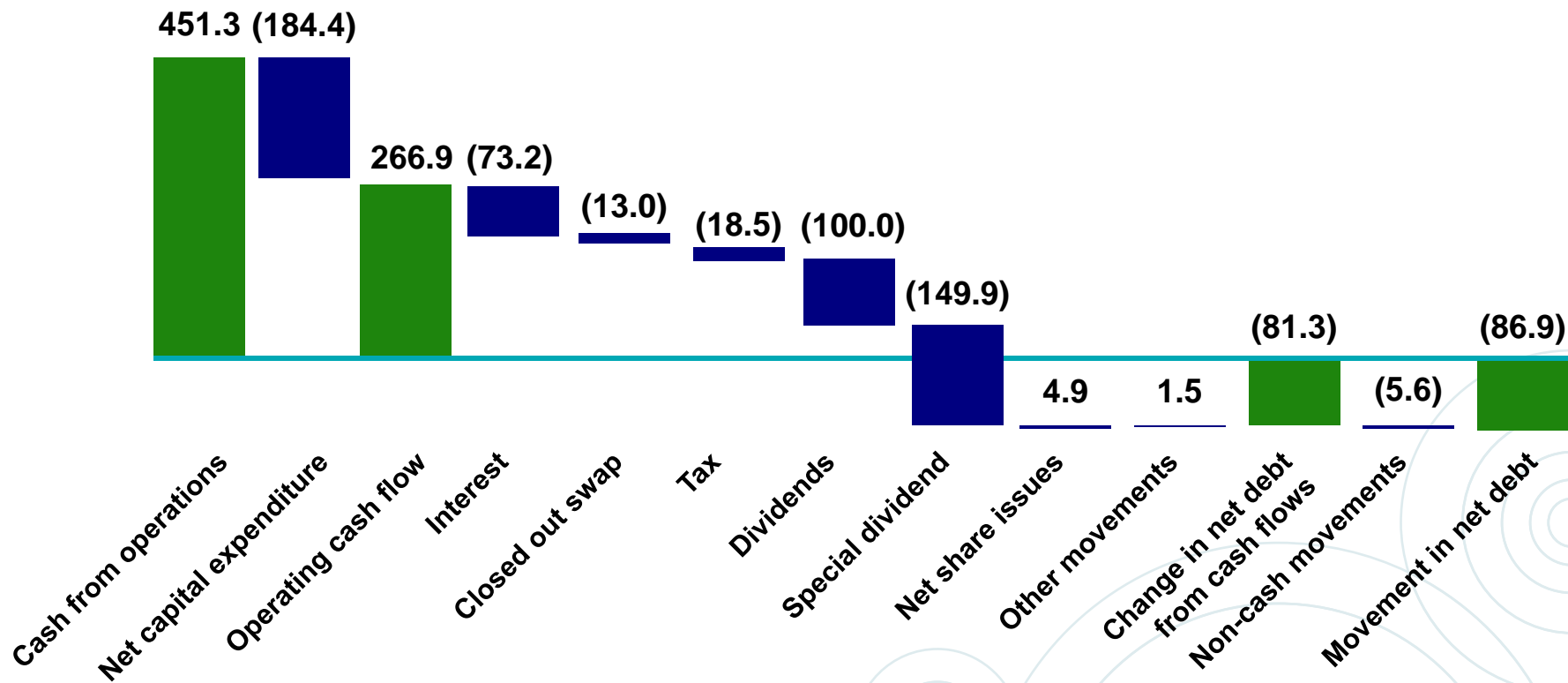


\* PBIT before exceptional items

\*\* On constant currency excluding acquisitions, disposals and businesses held for sale

# Group cash flow

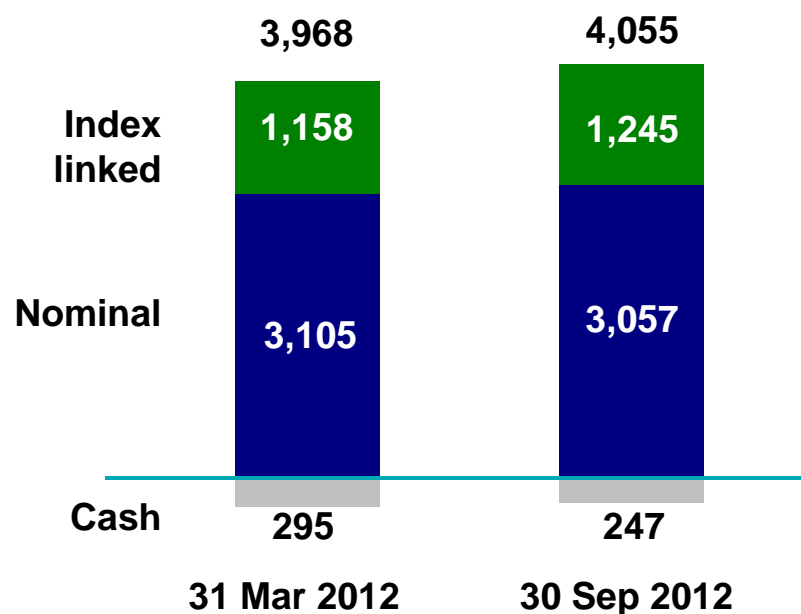
£m





# Group net debt and finance charges

**Net debt\***  
£m



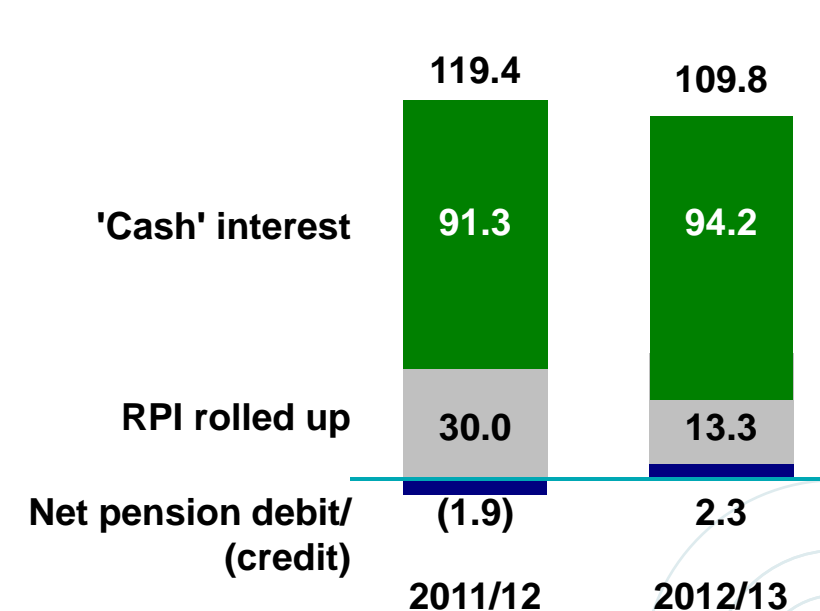
- 69% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,004m
- Group net debt/RCV\*\* 56%

\* Including cross currency swaps

\*\* Estimated RCV at 30 September 2012

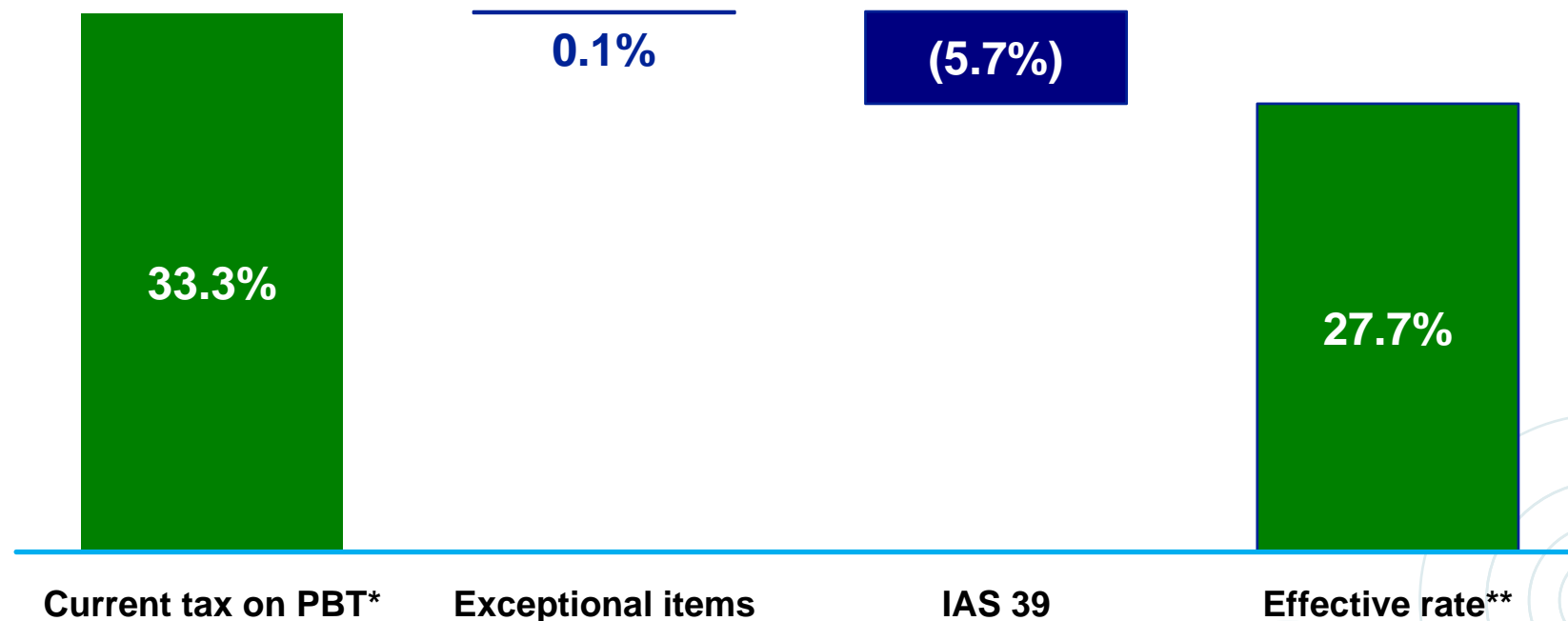
\*\*\* Before exceptional items

**Finance charge**  
£m



- Effective rate circa 5.6%
- Effective cash interest cost 4.9%
- EBITDA cover 3.7x
- PBIT cover\*\*\* 2.4x

# Group effective rate of current tax



**2012/13 Full year effective current tax rate 24-26%**

\* Current tax attributable to PBT

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

# Group outlook

## FY 2012/13

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On track to deliver full year expectations

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

- Opex in line with expectations & level of final determination
- Bad debt forecast to remain broadly stable at 2.2%
- Capex £555m-£565m range; IRE £140m-£150m

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

- Underlying business mid single digit revenue growth; PBIT impacted by continued investments in business development

### **Group**

- Interest charge slightly lower y-o-y (lower RPI)
- Tax rate 24% to 26%

# Summary

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**Financial performance in line with expectations**

**Investing in our networks and service delivery**

**Delivering on AMP5 dividend policy**

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# Tony Wray

## Chief Executive



# Agenda

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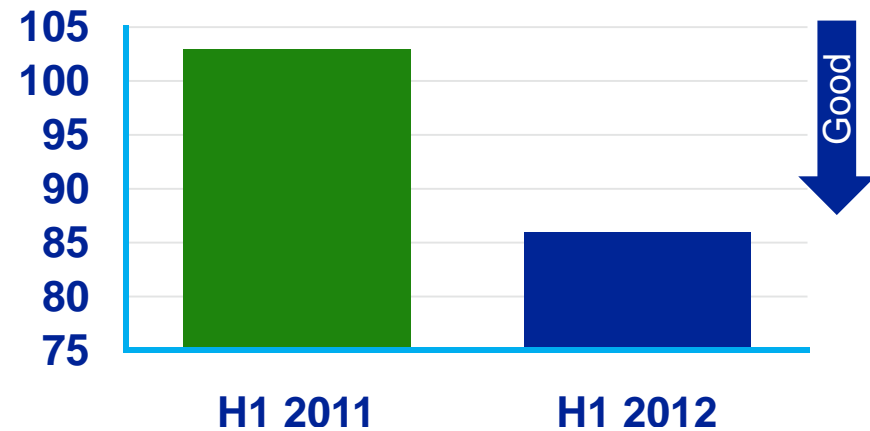
- Operational performance
- Progress on additional capital investment programme
- Developments in non-regulated
- Licence modifications
- Progress on PR14



# The Service Incentive Mechanism (SIM)

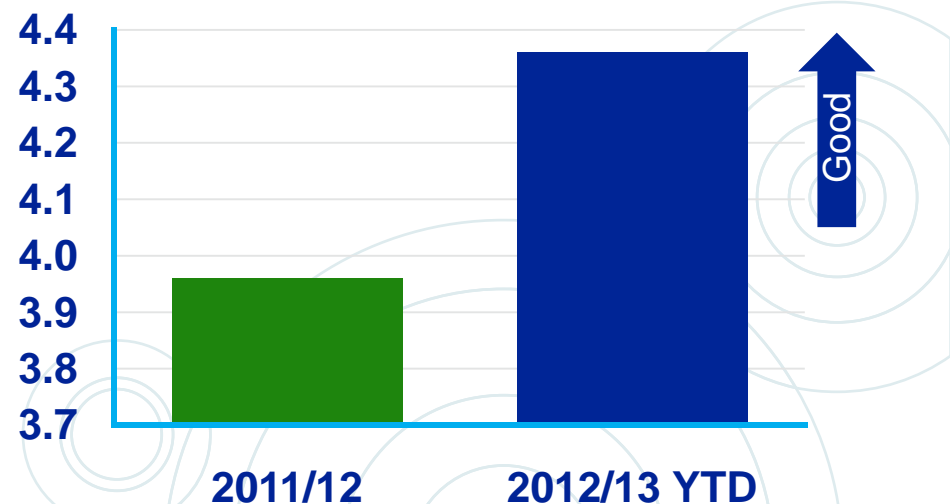
## SIM Quantitative:

- 16% period on period improvement



## SIM Qualitative:

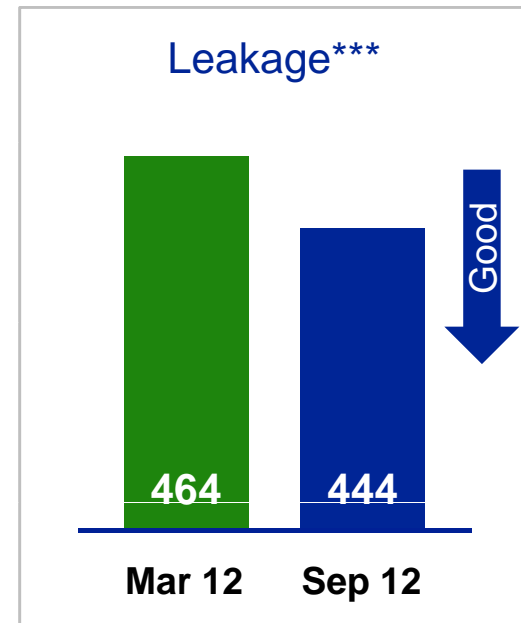
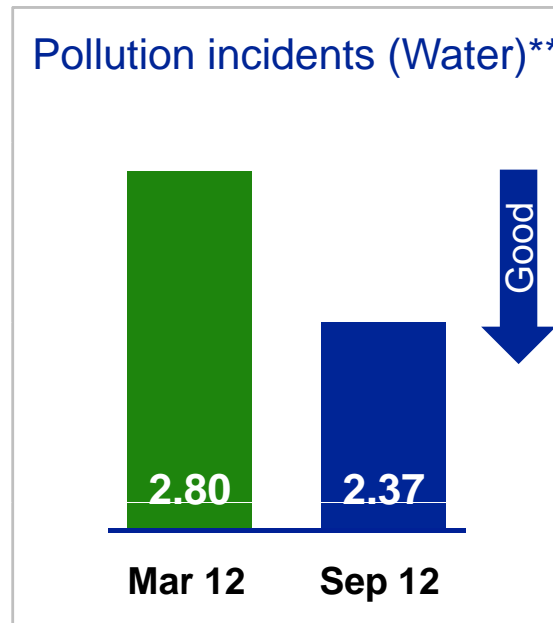
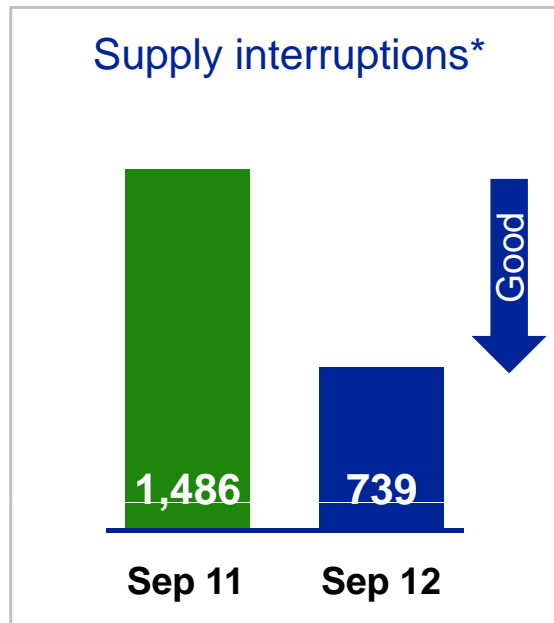
- 2011/12 - 3.96
- 2012/13 year to date – 4.36
- 10% improvement



# Performance Improvements

## Areas we targeted for this year

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\* Number of properties > 12 hours. 6 months to September

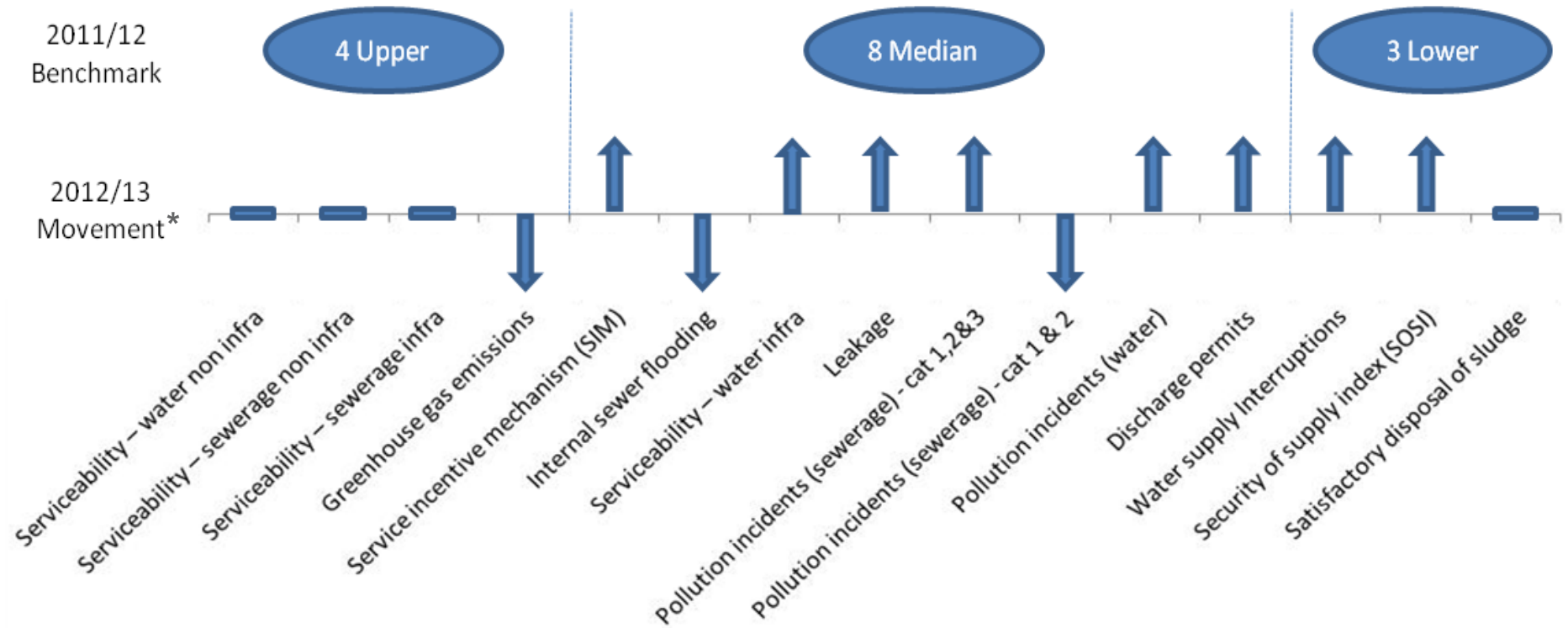
\*\* Incidents per 10,000 Km (MAT)

\*\*\* MLE (Maximum Likelihood Estimate), MI/d, (MAT)



# Ofwat KPI update

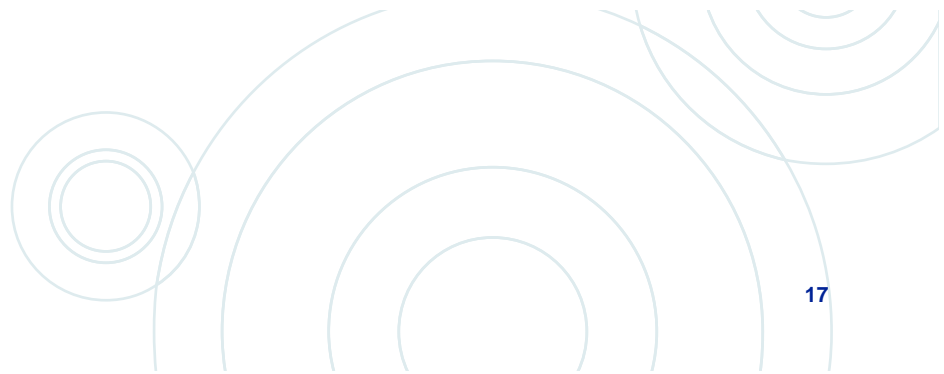
## 2012/13 performance



### Progress on Ofwat KPIs since March:

- 8 have improved
- Stable in 4
- 3 have deteriorated

\* September 2012 vs March 2012



# Enhanced Investment Programme

## Where we are spending the £150m

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### Trunk Mains Investment

- We have invested an additional £6m in the first half
- We are surveying 5,500km of trunk mains and undertaking remedial actions
- We covered 2,200km in H1 alone

### Incident Management

- Trained 150 people in incident management
- More tankers and pumps
- New repair techniques



# Enhanced Investment Programme

## Where we are spending the £150m

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### Water Treatment

- Investing additional £15m in enhancing 15 water treatment works
- Enhanced UV disinfection
- Rapid gravity filters at 5 sites
- End to end disinfection process at Frankley (spans AMP5 & AMP6)



**Bromsberrow UV plant**

# Non regulated

## Improving performance

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### Operating Services

Won new contracts in US  
UK MoD contract performing well



Business operational from 1<sup>st</sup> October  
First customer win - First Milk

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### Water Purification

Revenue and PBIT up  
Growth in disinfection & launch of BALPURE®

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### Structural changes

Meters business sold, Analytical Services progressing

# Licence modifications

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- Safeguards
  - statutory duty to finance functions for the entire business
  - retaining RPI+/-K for wholesale activities
- Thresholds
  - less than 20% of revenue removed from wholesale in any control period; cumulatively less than 40%
  - 10% of assets may be affected (current cost basis)
- Appeals
- Protecting efficiently incurred expenditure in the 2015 RCV
- Principles and criteria for new forms of control

# Licence modifications

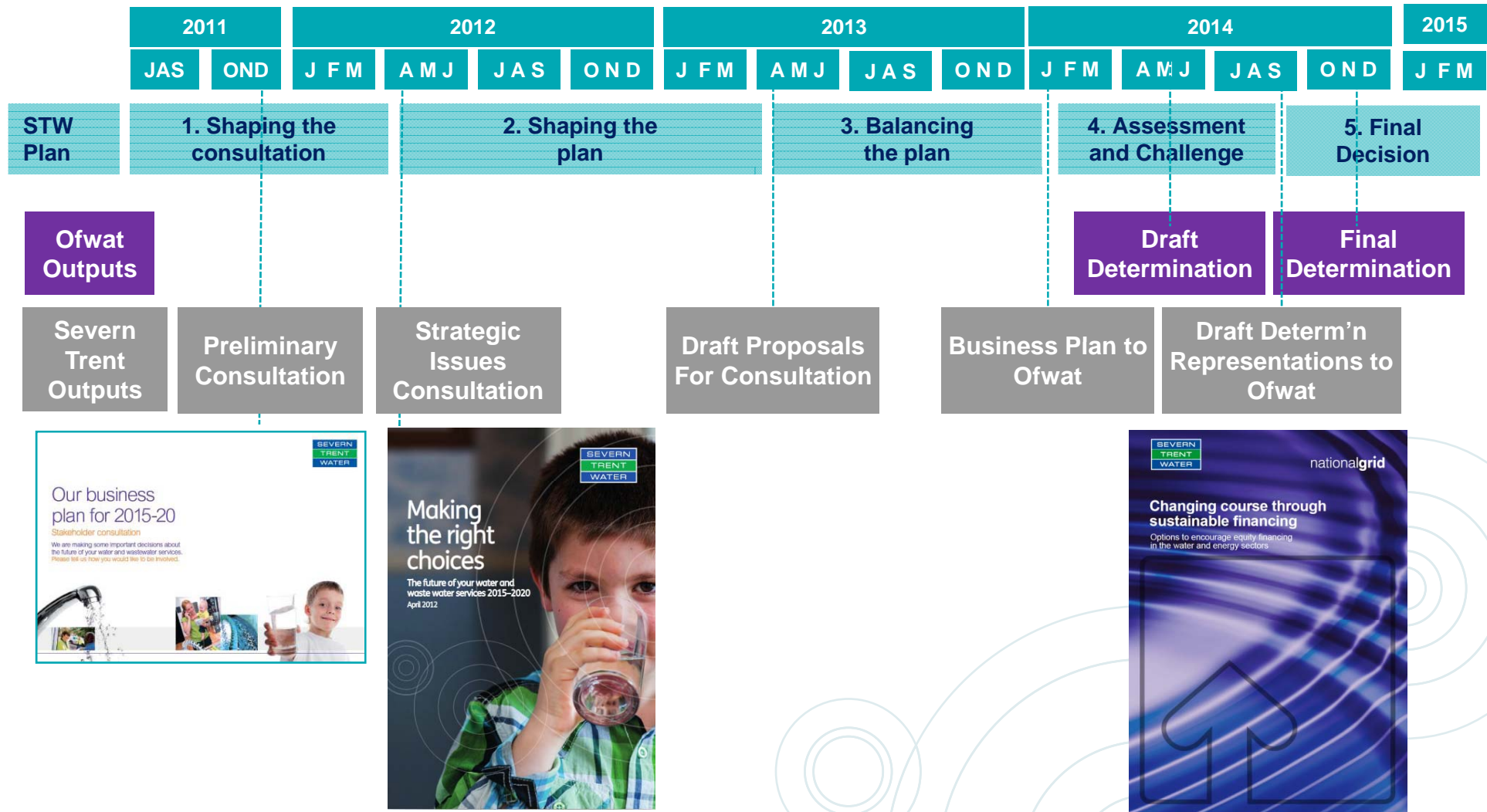
## Our response

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- Continue to be supportive of the principles of reform of the water industry
- Two key issues
  - Degree of flexibility
  - Level of clarity on future controls
- Our proposal
  - Only retail, sludge processing and water resources able to be removed from wholesale controls
  - or
  - Limit of 20% of revenues
  - Retain a formula for average annual price increases

# High level timeline for PR14

We are currently in Phase 2 (shaping the plan)



# Water Forum membership



**Dame Yve Buckland**  
Independent Chair

**Milo Purcell**  
Drinking Water Inspectorate

**Adam Lines**  
Environment Agency

**Ian Butterfield**  
Natural England

**David Wurr**  
CC Water

**Richard Butler**  
Regional Director, CBI.  
Deputy Chair

**Bruce Laughton**  
East Midlands Councils

**Tom McDonald**  
West Midland Councils

**Charley Gibbons**  
Coventry Citizens  
Advice Bureau

**Sarah Faulkner**  
NFU



# Summary

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**Delivering on our commitments**

**Operational improvements**

**Progressing with PR14**

**Well positioned for regulatory change**

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**SEVERN**

**TRENT**

**Q & A**



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# Appendix



# Group Earnings

## Six months ended 30 September 2012

2011/12 £m		2012/13 £m	Variance £m	Variance %
72.3	Profit for the period	123.8	51.5	71.2%
72.3	Attributable to:	122.6	50.3	69.6%
-	- Equity holders of the company			
	- Non controlling interests	1.2	1.2	100.0%

Pence		Pence	Variance Pence	Variance %
	<b>Basic EPS from continuing operations</b>			
46.4	Adjusted basic EPS (before exceptional items, net loss on financial instruments and deferred tax)	47.4	1.0	2.2%
30.5	Basic EPS	51.6	21.1	69.2%
	<b>Diluted EPS from continuing operations</b>			
46.2	Adjusted diluted EPS (before exceptional items, net loss on financial instruments and deferred tax)	47.2	1.0	2.2%
30.4	Diluted EPS	51.3	20.9	68.8%

# Group balance sheet

## 30 September 2012

31 March 2012		30 September 2012	Movement in the period
£m		£m	£m
6,577.8	Property, plant and equipment	6,630.7	52.9
160.9	Intangible assets	154.2	(6.7)
4.9	Other non-current assets	4.7	(0.2)
(684.6)	Working capital/provisions	(751.9)	(67.3)
-	Net assets held for sale	10.3	10.3
<b>6,059.0</b>	<b>Capital employed</b>	<b>6,048.0</b>	<b>(11.0)</b>
(46.5)	Tax creditor	(67.5)	(21.0)
(801.5)	Deferred tax provision	(756.8)	44.7
(3,967.8)	Net debt	(4,054.7)	(86.9)
(261.8)	Derivative financial instruments	(316.4)	(54.6)
<b>981.4</b>	<b>Net assets</b>	<b>852.6</b>	<b>(128.8)</b>
<b>80.2%</b>	<b>Gearing*</b>	<b>82.6%</b>	<b>2.4%</b>

\* Net debt divided by net debt and equity

# Movements on shareholders' equity

## Six months ended 30 September 2012

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	£m
At 1 April 2012	981.4
Total comprehensive income for the period	112.9
Dividends paid to shareholders of Severn Trent Plc	(249.9)
Dividends paid to non-controlling interests	(0.5)
Credit from share-based payments charge	1.5
Tax on share-based payments	0.9
Shares issued	6.3
<b>At 30 September 2012</b>	<b>852.6</b>

# Gearing

## At 30 September 2012

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31 March 2012	Net debt/RCV*	30 September 2012
56%	Severn Trent Group	56%
59%	Severn Trent Water	56%

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\* March 2012 RCV is at year end actual prices. September RCV has been estimated based on March 2012 actual RCV and March 2013 forecast RCV at outturn prices

# Segmental analysis of capital employed

## 30 September 2012

31 March 2012		30 September 2012		Total £m
Total £m		Net operating assets £m	Goodwill £m	
5,958.7	Severn Trent Water	5,945.5	-	5,945.5
139.7	Severn Trent Services*	100.7	44.2	144.9
(39.4)	Other	(42.4)	-	(42.4)
<b>6,059.0</b>	<b>Group</b>	<b>6,003.8</b>	<b>44.2</b>	<b>6,048.0</b>

\* Excludes goodwill of £40.8 million written off against reserves and £22.9 million impairment through the income statement in previous years



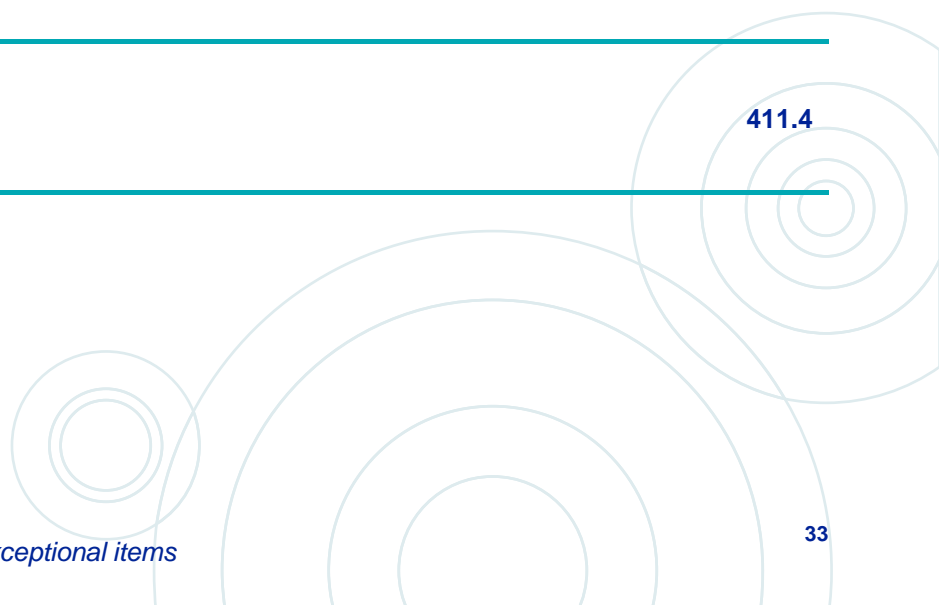
# PBITD\* analysis

## Six months ended 30 September 2012

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2011/12		2012/13
£m		£m
405.4	Severn Trent Water	411.0
10.2	Severn Trent Services	7.6
(6.1)	Other	(7.2)
<b>409.5</b>	<b>Group</b>	<b>411.4</b>

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

# Depreciation\* analysis

## Six months ended 30 September 2012

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2011/12		2012/13
£m		£m
132.5	Severn Trent Water	141.9
3.7	Severn Trent Services	3.5
(1.0)	Other	(1.2)
<b>135.2</b>	<b>Group</b>	<b>144.2</b>

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

# Capital expenditure (net cash)\*

## Six months ended 30 September 2012

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2011/12		2012/13
£m		£m
146.5	Severn Trent Water	177.1
3.5	Severn Trent Services	5.8
0.1	Other	1.5
<b>150.1</b>	<b>Group</b>	<b>184.4</b>

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\* Net of grants and contributions received and proceeds of sale

# Severn Trent Water – operating costs

## Six months ended 30 September 2012

2011/12 £m		2012/13 £m	Variance £m	Variance %
277.5	Direct operating costs	286.6	9.1	3.3
132.5	Depreciation	141.9	9.4	7.1
52.1	Infrastructure renewals	63.4	11.3	21.7
<b>462.1</b>	<b>STW operating costs</b>	<b>491.9</b>	<b>29.8</b>	<b>6.4</b>

# Severn Trent Water – Capex reconciliation

## Six months ended 30 September 2012

2011/12		2012/13
£m		£m
197.4	UK GAAP gross capex	250.7
(10.4)	Less grants and contributions	(11.5)
187.0	UK GAAP net capex	239.2
(52.1)	Treated as IFRS infrastructure operating expenditure	(63.4)
0.1	Grants and contributions in deferred income under UK GAAP	(2.8)
135.0		173.0
11.5	Movement on capital creditors	5.3
0.0	Proceeds on sale of fixed assets	(1.2)
<b>146.5</b>	<b>IFRS capex (net cash)</b>	<b>177.1</b>

# Severn Trent Services performance

## Six months ended 30 September 2012

Turnover				Underlying PBIT*		
2011/12 £m	2012/13 £m	Change %		2011/12 £m	2012/13 £m	Change %
160.0	<b>162.1</b>	1.3	As reported	6.5	<b>4.1</b>	(36.9)
(19.4)	<b>(14.4)</b>		Changes in group	(1.3)	<b>1.2</b>	
(5.7)	-		Exchange rate impacts	-	-	
134.9	147.7	9.5	Like for like**	5.2	5.3	1.9

\* PBIT before exceptional items

\*\* On constant currency excluding acquisitions, disposals, and businesses held for sale

\*\*\* Return On Invested Capital (underlying PBIT /Average net operating assets plus gross goodwill from acquisitions)

# Net finance costs

## Period ended 30 September 2012

	Income statement charge 2012/13 £m	Capitalised interest 2012/13 £m	Gross interest incurred 2012/13 £m
"Cash" interest (including accruals)	94.2	3.8	98.0
Pension debit/(credit)	2.3	-	2.3
RPI interest	13.3	0.5	13.8
	<b>109.8</b>	<b>4.3</b>	<b>114.1</b>

# Net debt

## At 30 September 2012

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	30 September 2012 £m	31 March 2012 £m	30 September 2011 £m
Cash and cash equivalents	(246.6)	(295.1)	(412.6)
Bank overdrafts	0.9	0.4	-
Bank loans	860.0	852.5	850.5
Other loans	3,330.7	3,326.9	3,254.1
Finance leases	218.9	219.0	252.5
Cross currency swaps	(109.2)	(135.9)	(185.7)
<b>Net debt</b>	<b>4,054.7</b>	<b>3,967.8</b>	<b>3,758.8</b>

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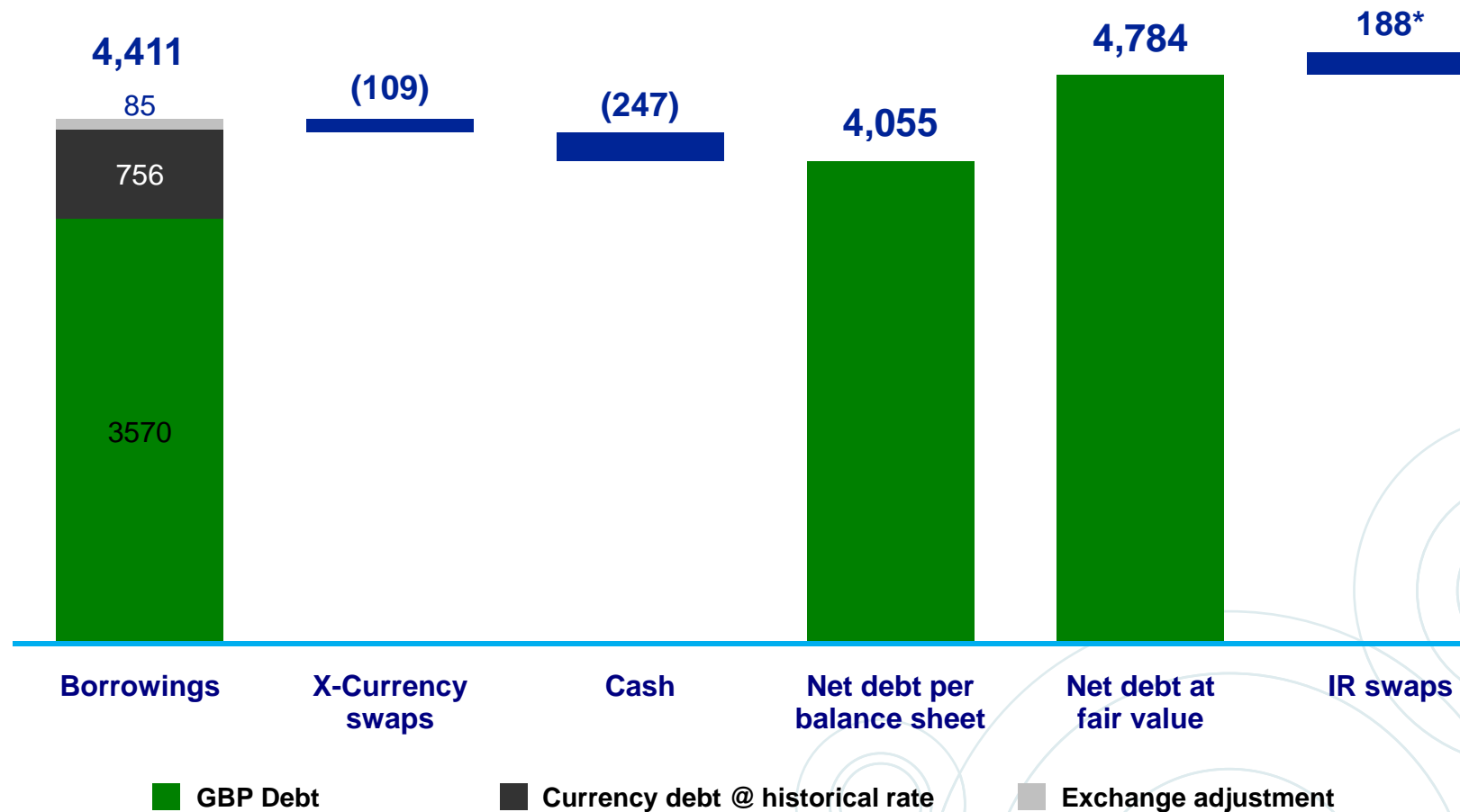
# Fair value of net debt

## At 30 September 2012

	30 September 2012 £m	31 March 2012 £m	30 September 2011 £m
Bank loans	880	858	852
Other loans	4,032	3,936	3,796
Finance leases	227	215	254
	5,139	5,010	4,902
Net cash and cash equivalents	(246.6)	(294.7)	(412.6)
Cross currency swaps	(109.2)	(135.9)	(185.7)
<b>Fair value of net debt</b>	<b>4,784</b>	<b>4,579</b>	<b>4,303</b>
Net debt (previous slide)	4,055	3,968	3,759
Difference	(728.8)	(611.5)	(544.4)

# Analysis of borrowings, net debt and swaps

## At 30 September 2012



\* Excludes forward starting cash flow hedges against future debt

# Credit ratings

## 30 September 2012

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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**	6,814	7,089	7,290	7,558	7,836
Ofwat Actual/Projected Outturn***	6,814	7,089	7,130	7,199	7,249

\* 2007/08 prices

\*\* At year end actual/estimated prices

\*\*\* Year end at 2011/12 prices. Source Ofwat

September 2012 RCV has been estimated as the average of March 2012 RCV as year-end actual prices and March 2013 RCV at year-end estimated prices

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SEVERN

TRENT

