

Interim Results

6 months ended 30 September 2012

27 November 2012
The Lincoln Centre, London

Highlights

- 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	917.7	3.6
Underlying profit before interest and tax ¹ (£m)	274.3	267.2	(2.6)
Underlying profit before tax ² (£m)	155.0	157.5	1.6
Adjusted basic EPS ³ (pence)	46.4	47.4	2.2
Basic EPS (pence)	30.5	51.6	69.2
Total ordinary dividend per share (pence)	28.0	30.3	8.2

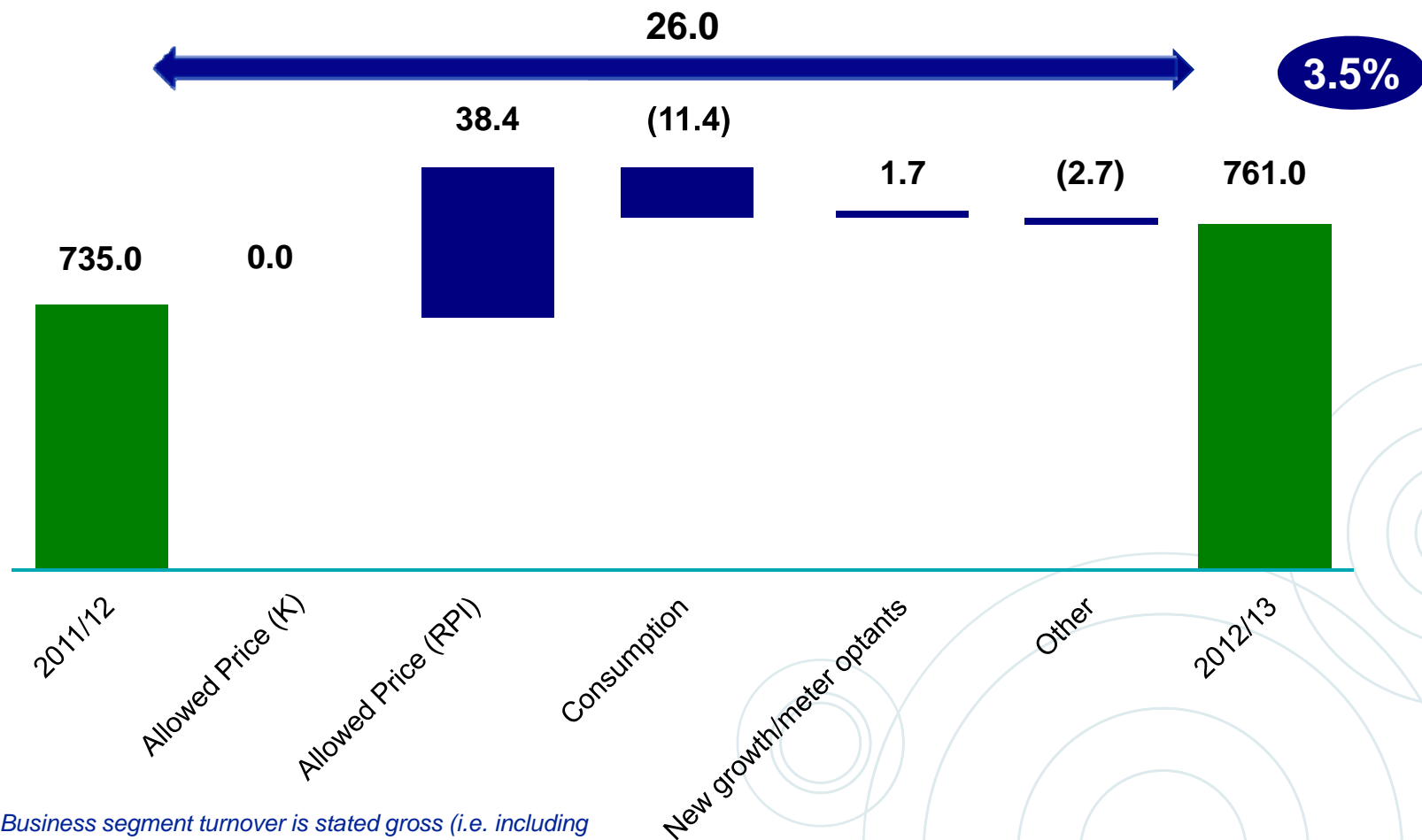
1. before exceptional items

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

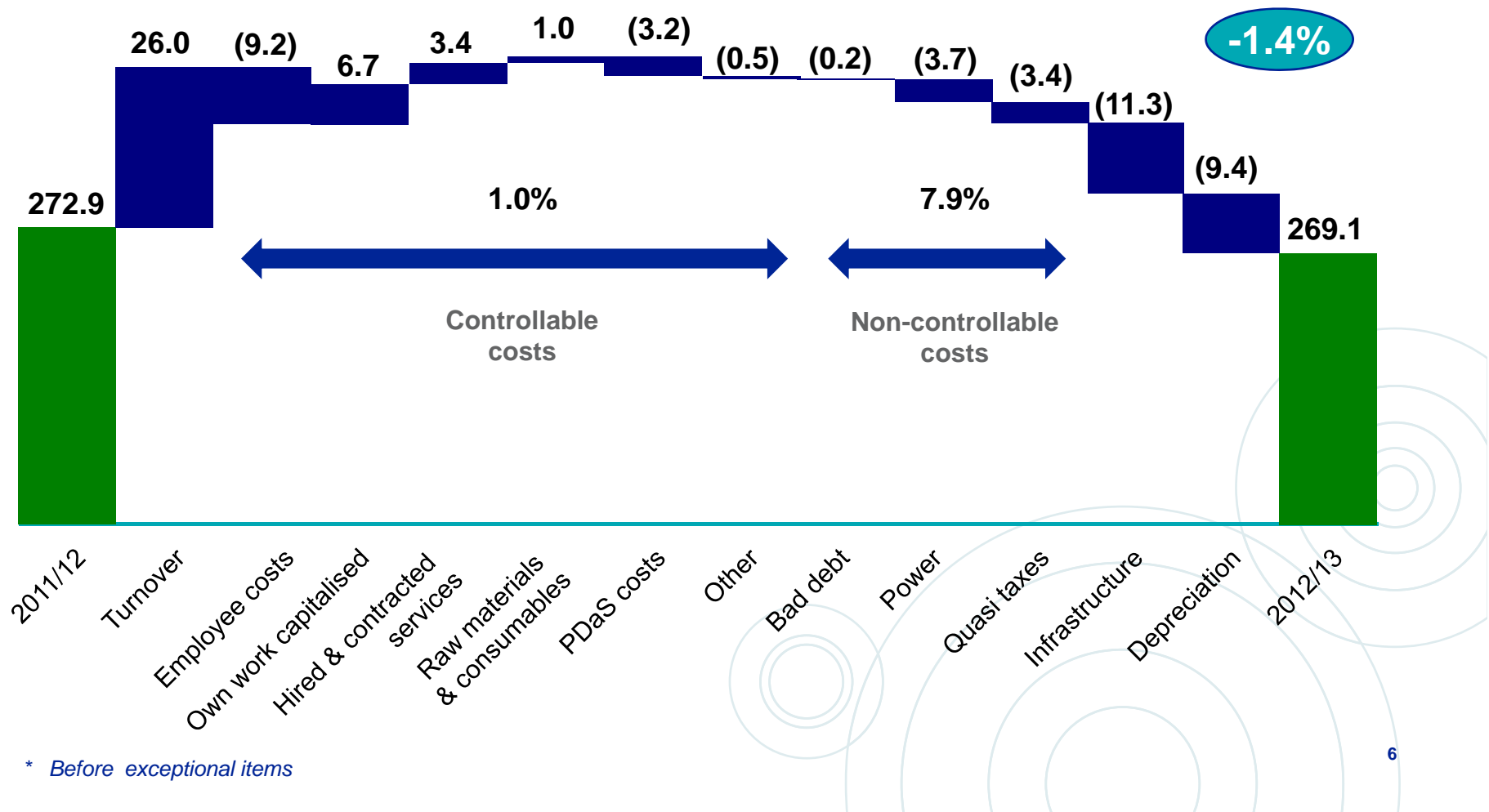
Severn Trent Water Turnover* 2012/13
£m



* 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

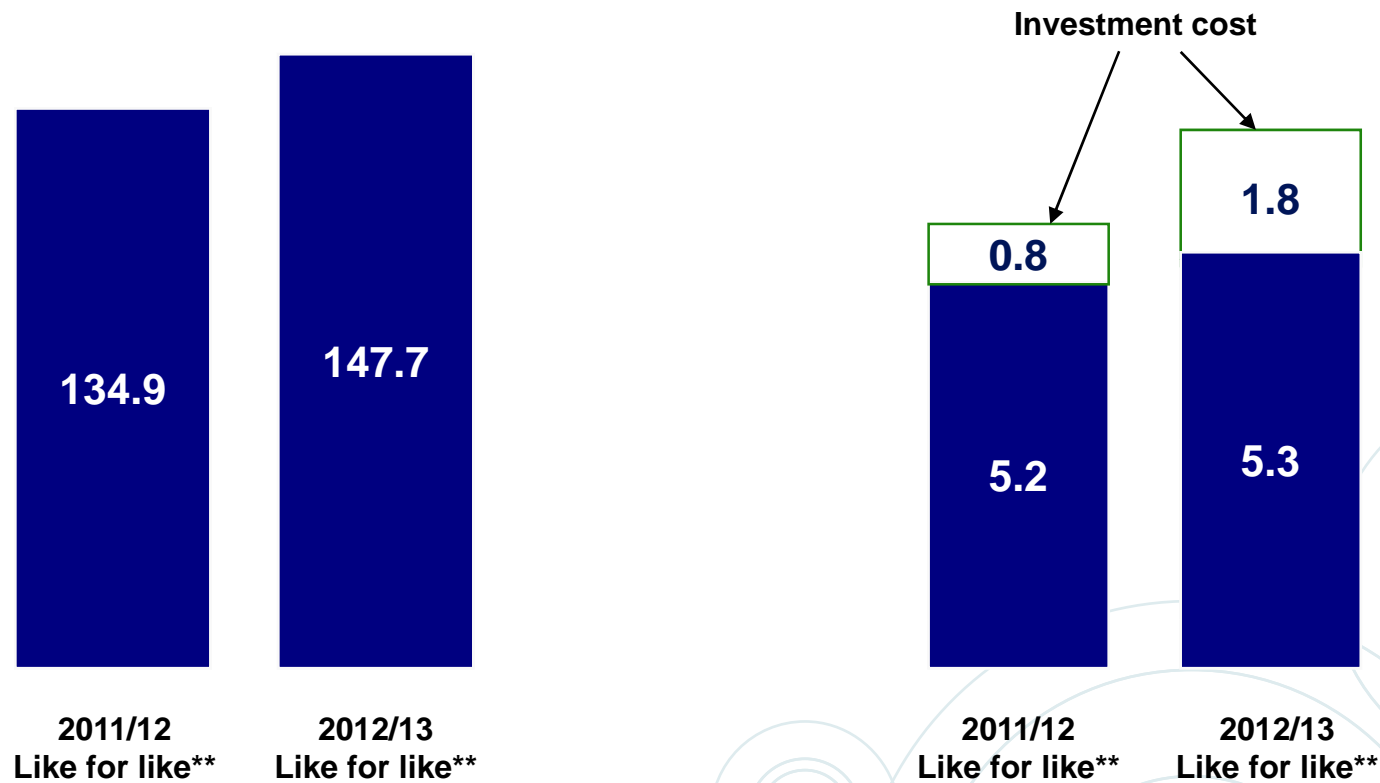
£m

Revenue

9.5%

PBIT*

1.9%

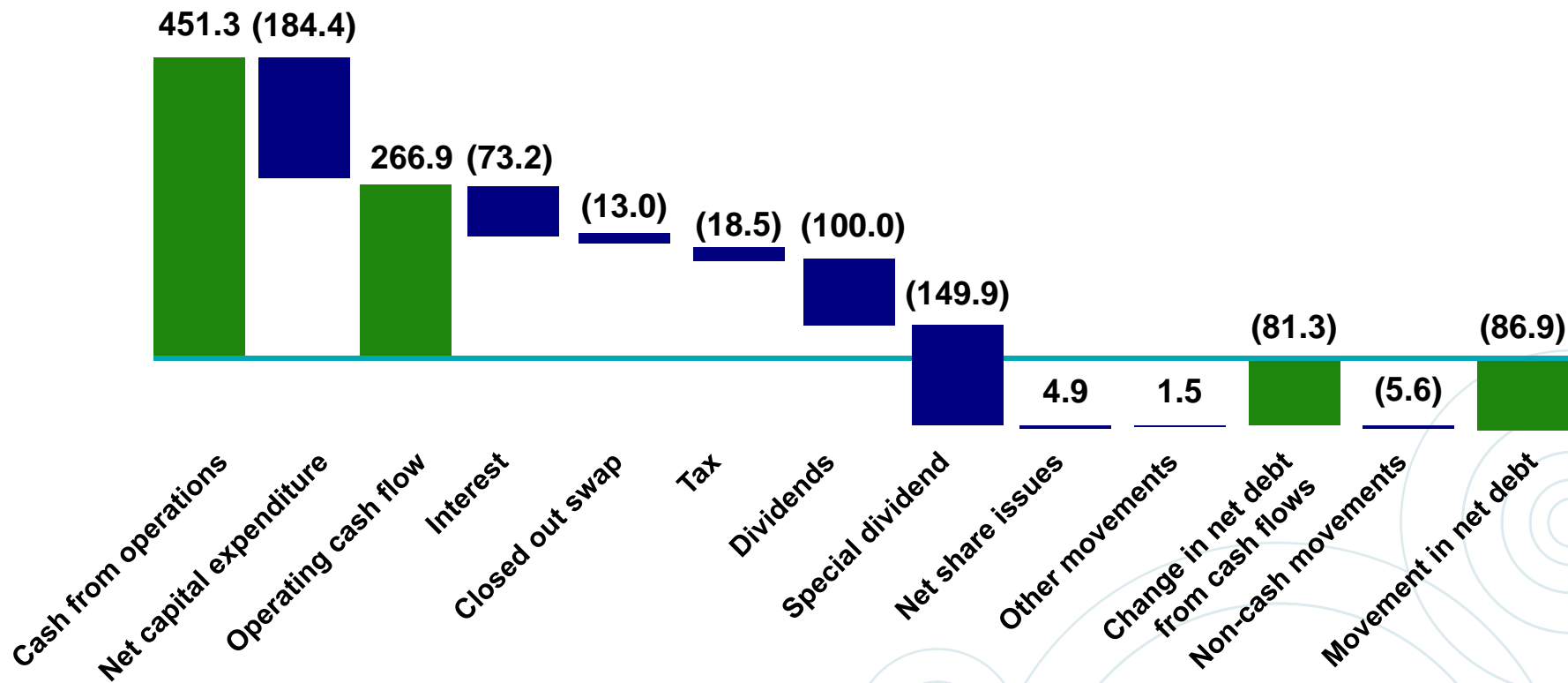


* PBIT before exceptional items

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

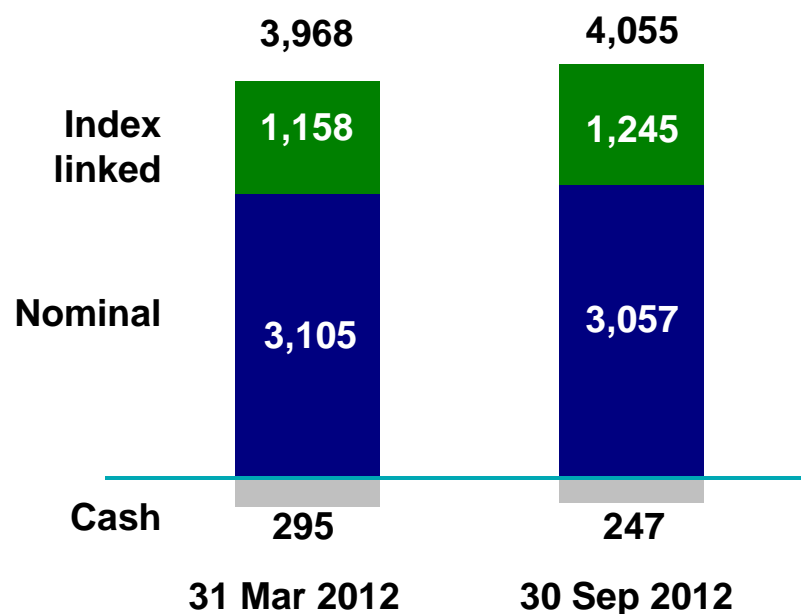
Group cash flow

£m



Group net debt and finance charges

Net debt*
£m



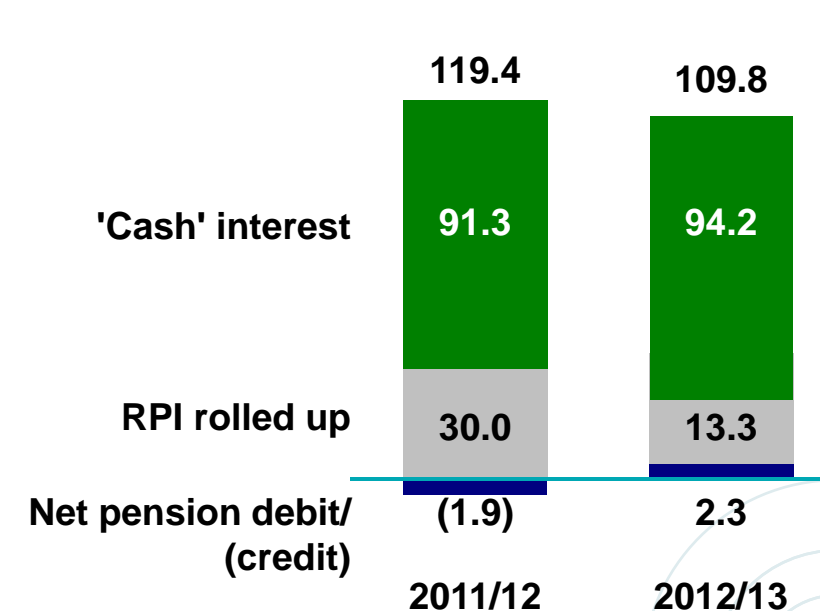
- 69% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,004m
- Group net debt/RCV** 56%

* Including cross currency swaps

** Estimated RCV at 30 September 2012

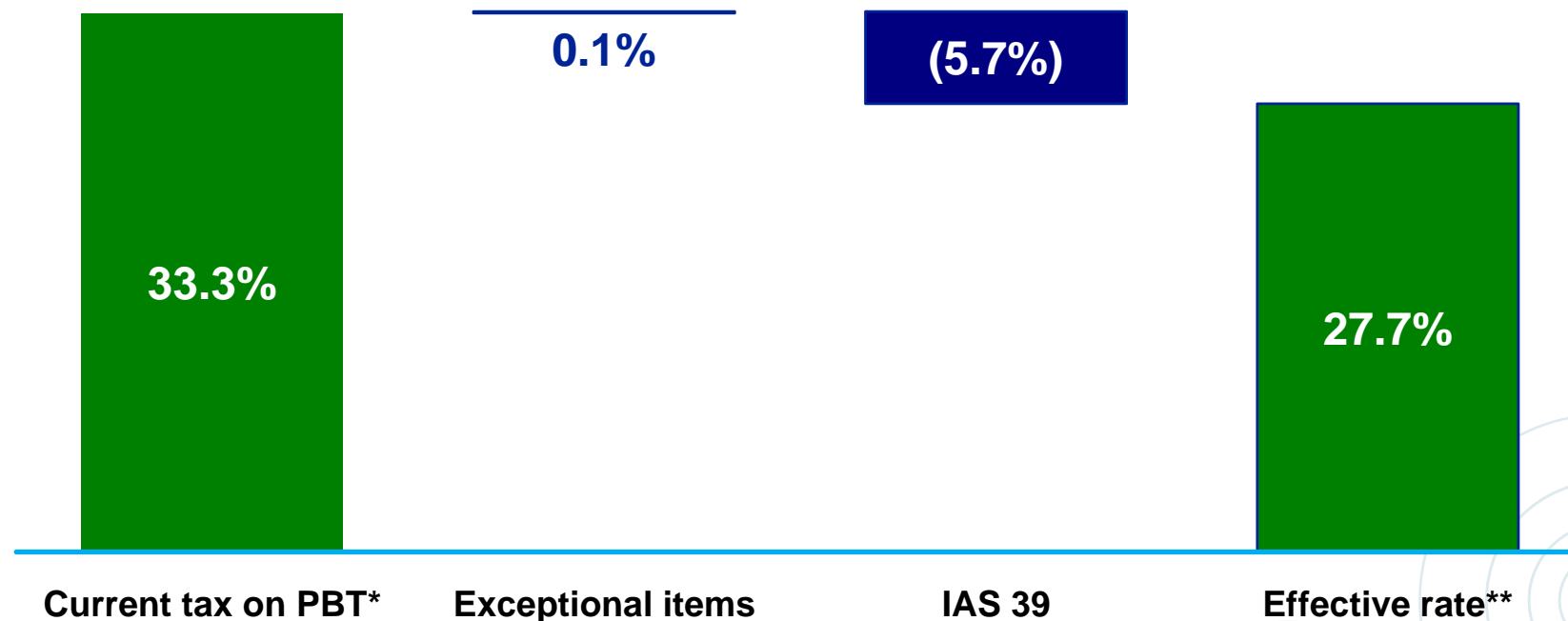
*** Before exceptional items

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

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

Financial performance in line with expectations

Investing in our networks and service delivery

Delivering on AMP5 dividend policy

Tony Wray

Chief Executive



Agenda

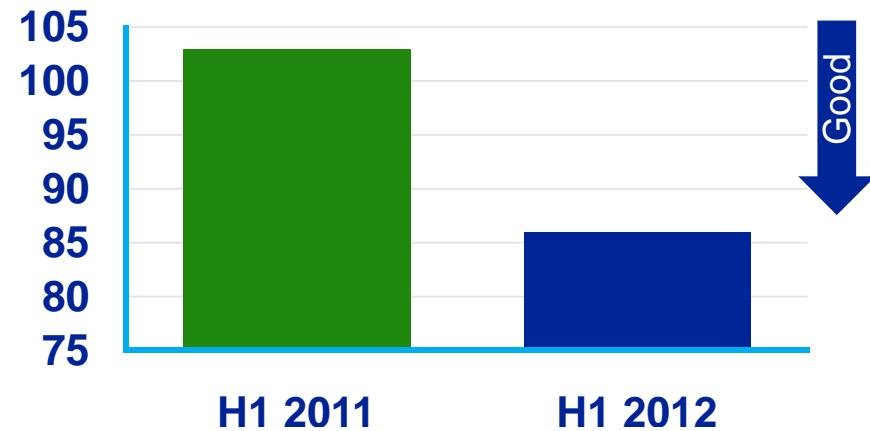
- Operational performance
- Progress on additional capital investment programme
- Developments in non-regulated
- Licence modifications
- Progress on PR14



The Service Incentive Mechanism (SIM)

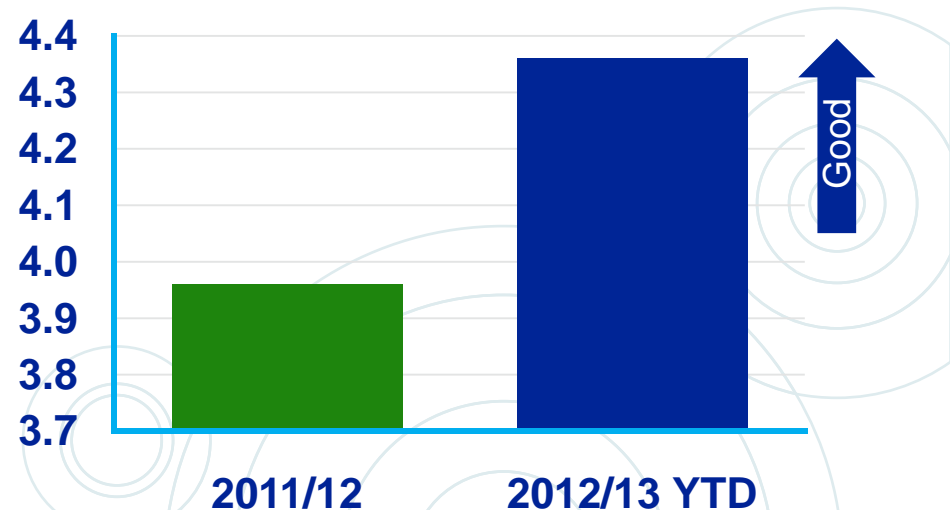
SIM Quantitative:

- 16% period on period improvement



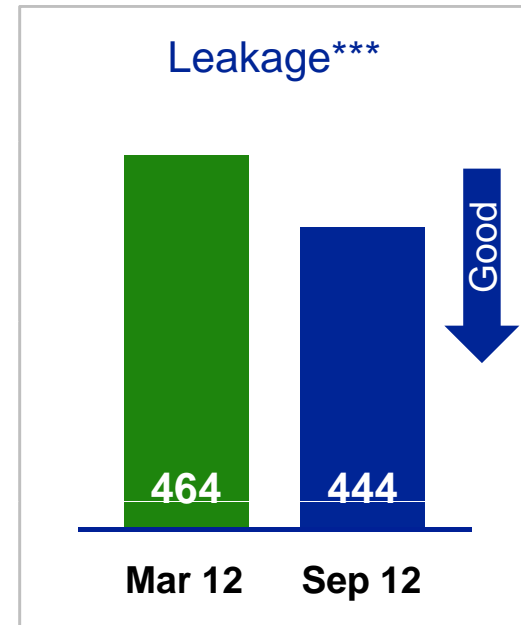
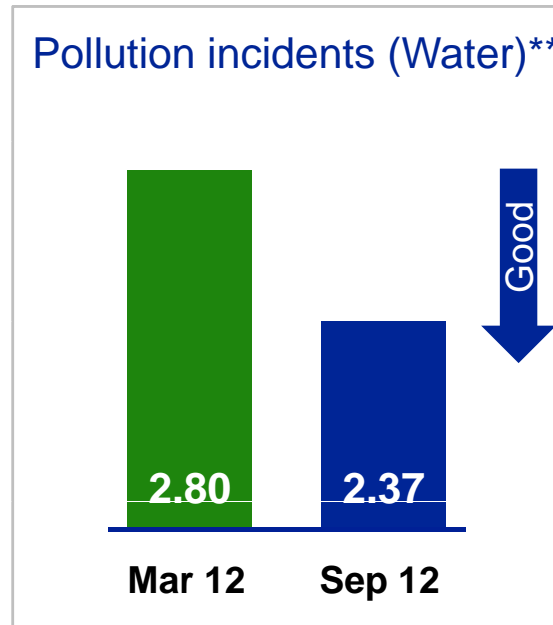
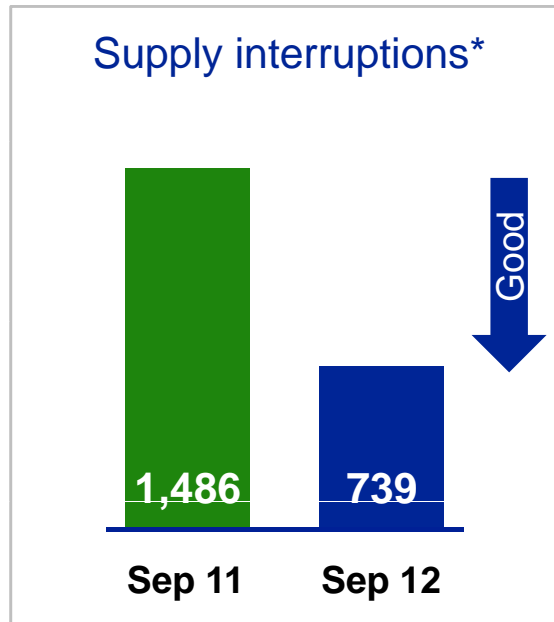
SIM Qualitative:

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



Performance Improvements

Areas we targeted for this year



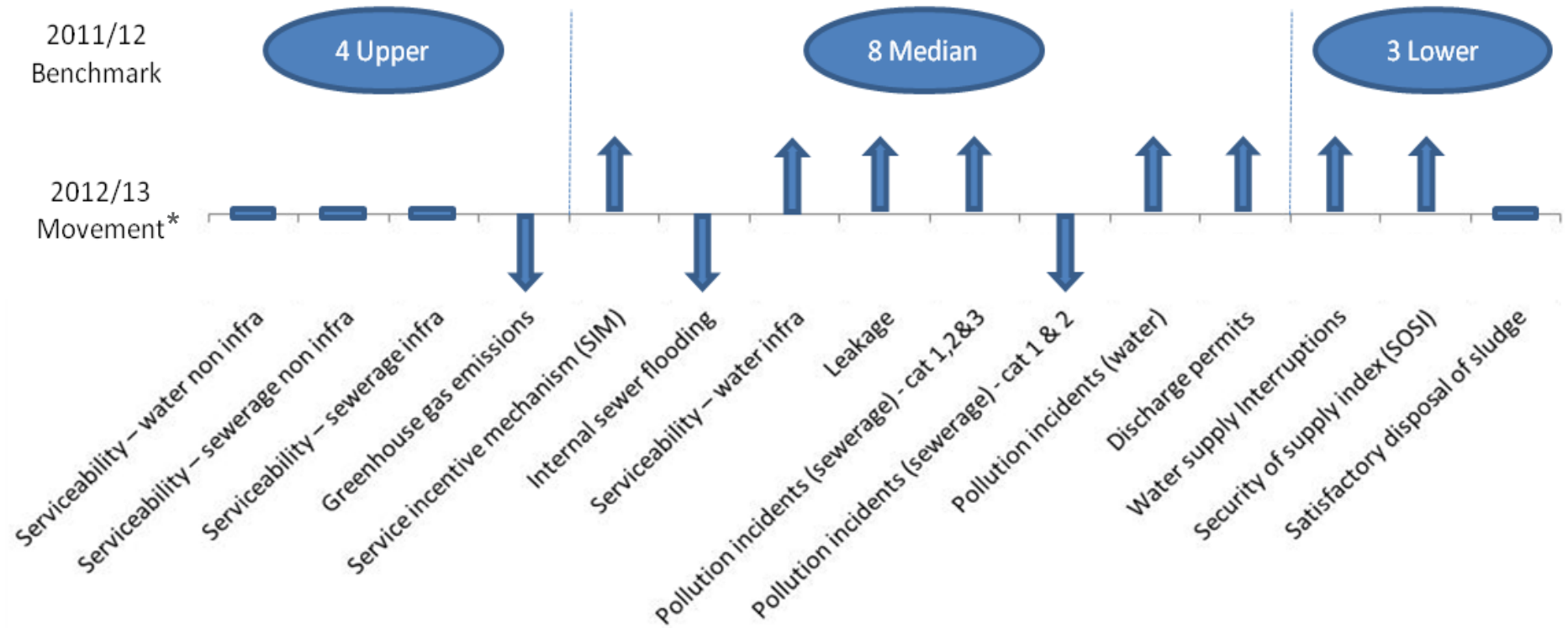
* Number of properties > 12 hours. 6 months to September

** Incidents per 10,000 Km (MAT)

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

Ofwat KPI update

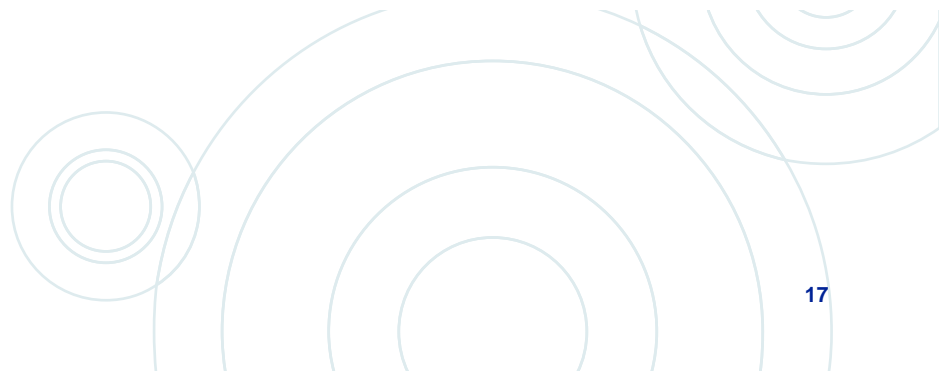
2012/13 performance



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

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

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

Operating Services

Won new contracts in US
UK MoD contract performing well



Business operational from 1st October
First customer win - First Milk

Water Purification

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

Structural changes

Meters business sold, Analytical Services progressing

Licence modifications

- 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

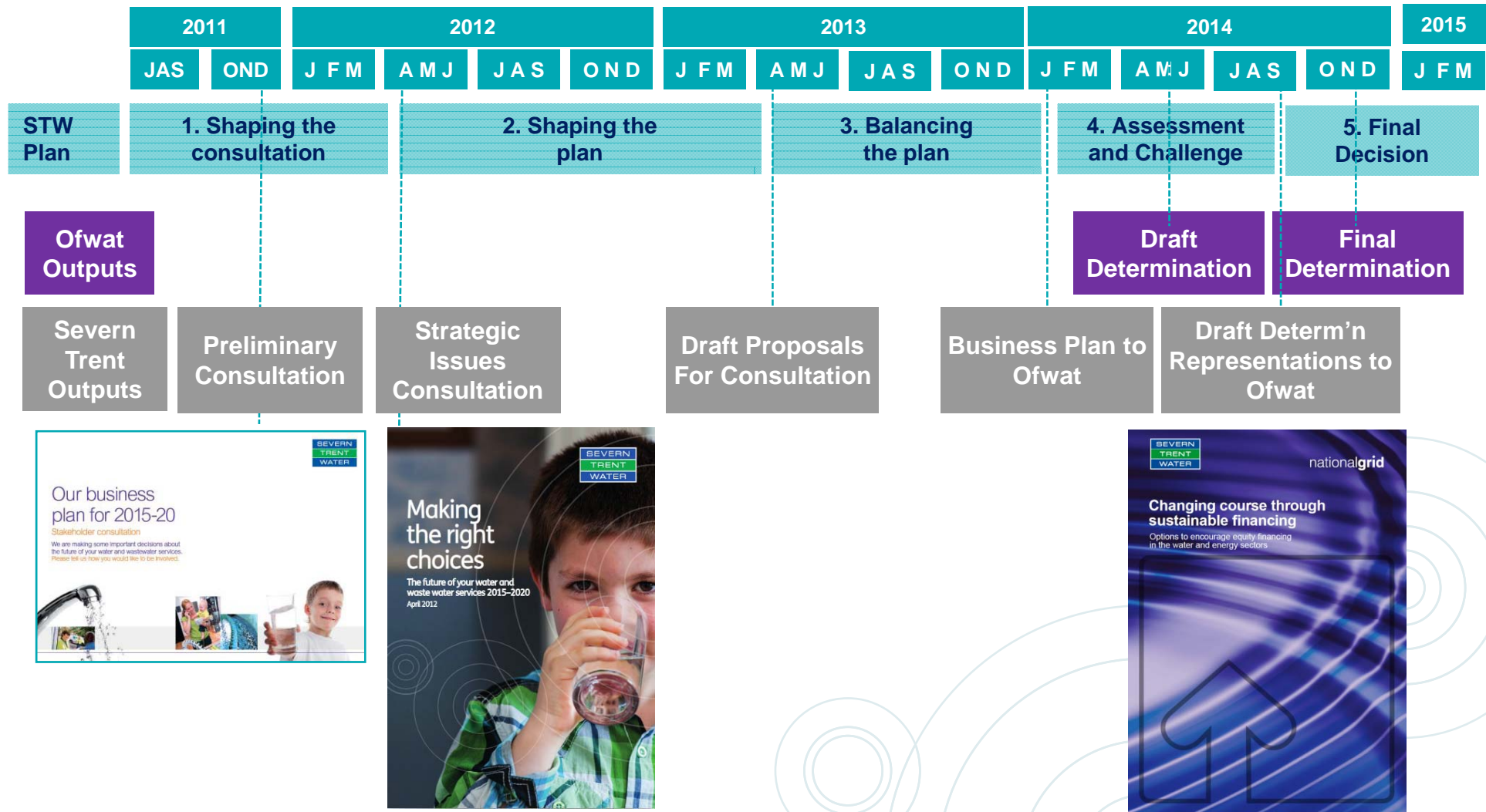
Licence modifications

Our response

- 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

Delivering on our commitments

Operational improvements

Progressing with PR14

Well positioned for regulatory change

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Q & A



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	1.2	1.2	100.0%
	- Non controlling interests			

Pence		Pence	Variance Pence	Variance %
	Basic EPS from continuing operations			
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%
	Diluted EPS from continuing operations			
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
6,059.0	Capital employed	6,048.0	(11.0)
(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)
981.4	Net assets	852.6	(128.8)
80.2%	Gearing*	82.6%	2.4%

* Net debt divided by net debt and equity

Movements on shareholders' equity

Six months ended 30 September 2012

	£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
At 30 September 2012	852.6

Gearing

At 30 September 2012

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

* 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)
6,059.0	Group	6,003.8	44.2	6,048.0

* 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

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)
409.5	Group	411.4

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

Depreciation* analysis

Six months ended 30 September 2012


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)
135.2	Group	144.2

* 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

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
150.1	Group	184.4



* 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
462.1	STW operating costs	491.9	29.8	6.4

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)
146.5	IFRS capex (net cash)	177.1

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	162.1	1.3	As reported	6.5	4.1	(36.9)
(19.4)	(14.4)		Changes in group	(1.3)	1.2	
(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
	109.8	4.3	114.1

Net debt

At 30 September 2012

	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)
Net debt	4,054.7	3,967.8	3,758.8

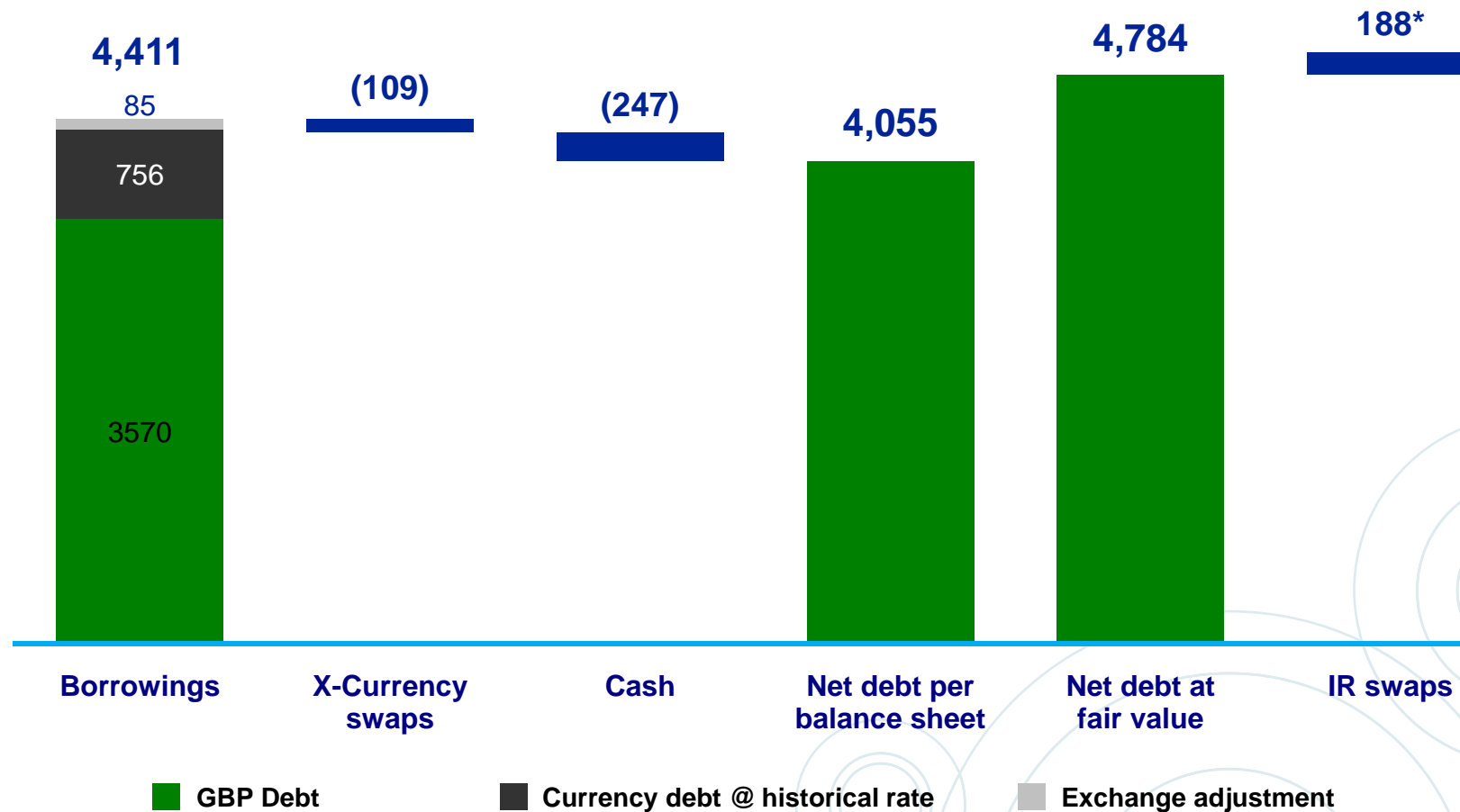
Fair value of net debt

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)
Fair value of net debt	4,784	4,579	4,303
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

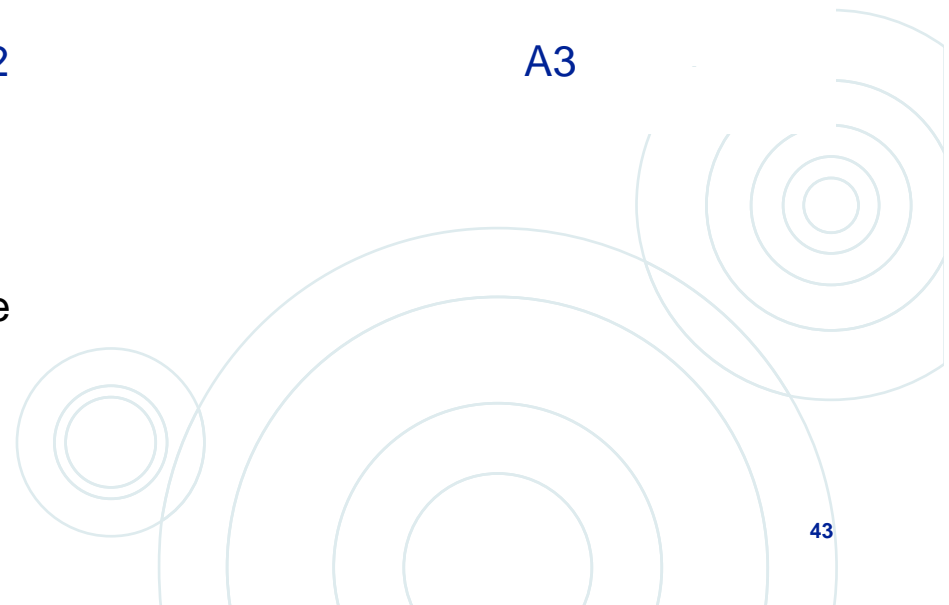
30 September 2012

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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