

# Preliminary Results

Year ended 31 March 2011

27 May 2011

Exchange House, London

**Tony Wray**

Chief Executive

# Mike McKeon

Finance Director

# Highlights

	2009/10 £m	2010/11 £m	Change %
Group Turnover	1,704	1,711	0.4%
Profit Before Interest and Tax (PBIT <sup>1</sup> )	557	519	(6.8)%
Profit Before Tax (PBT <sup>2</sup> )	338	289	(14.7)%
Adjusted Basic EPS <sup>3</sup> (pence)	122.8p	105.6p	(14.0)%
Basic EPS <sup>4</sup> (pence)	105.6p	115.2p	9.1%
Total Ordinary Dividend (pence per share)	72.32p	65.09p	(10.0)%

1. before exceptional items

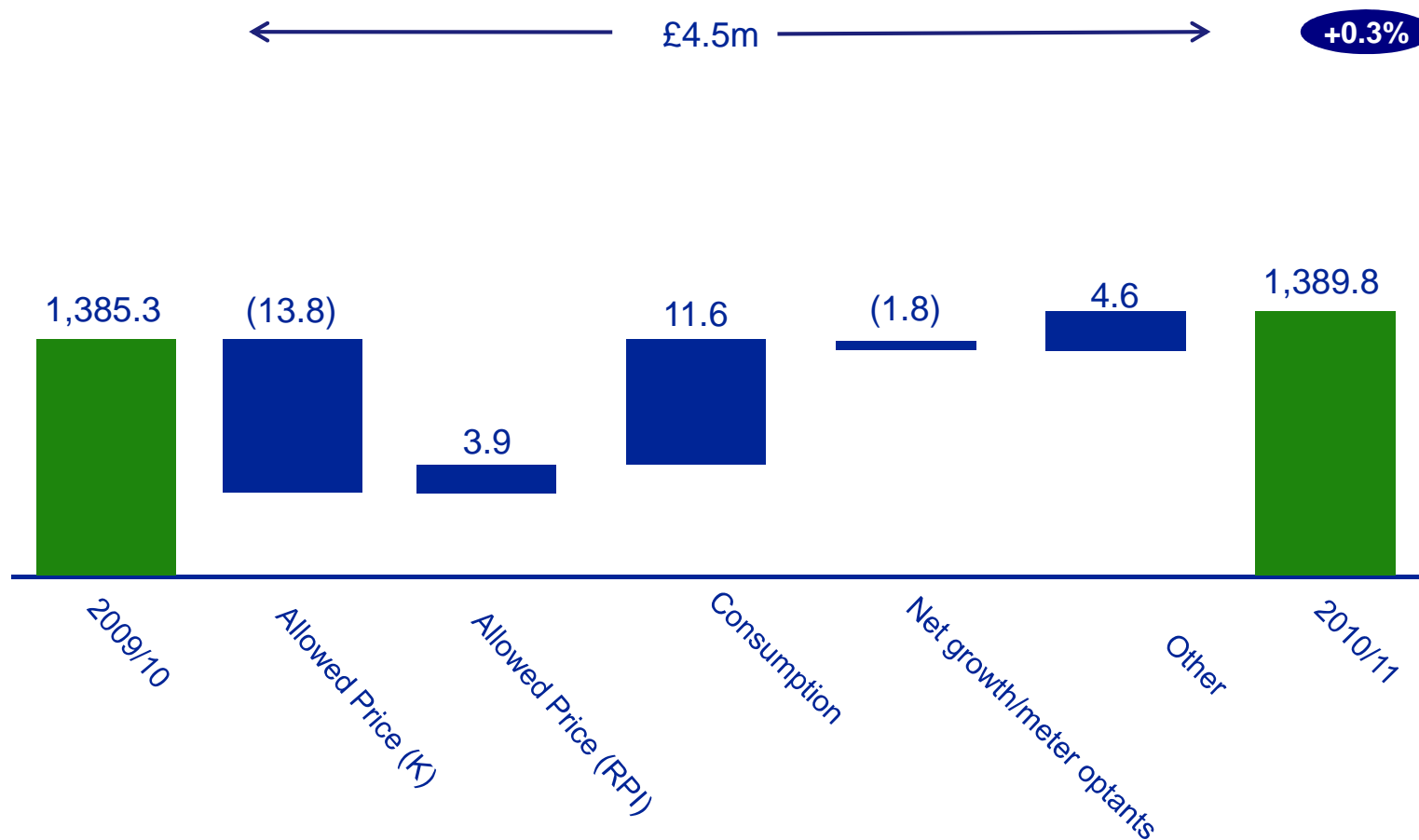
2. before exceptional items and gains/losses on financial instruments

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

4. 2011: after exceptional deferred tax credit of 28.6 pence per share

# Severn Trent Water turnover

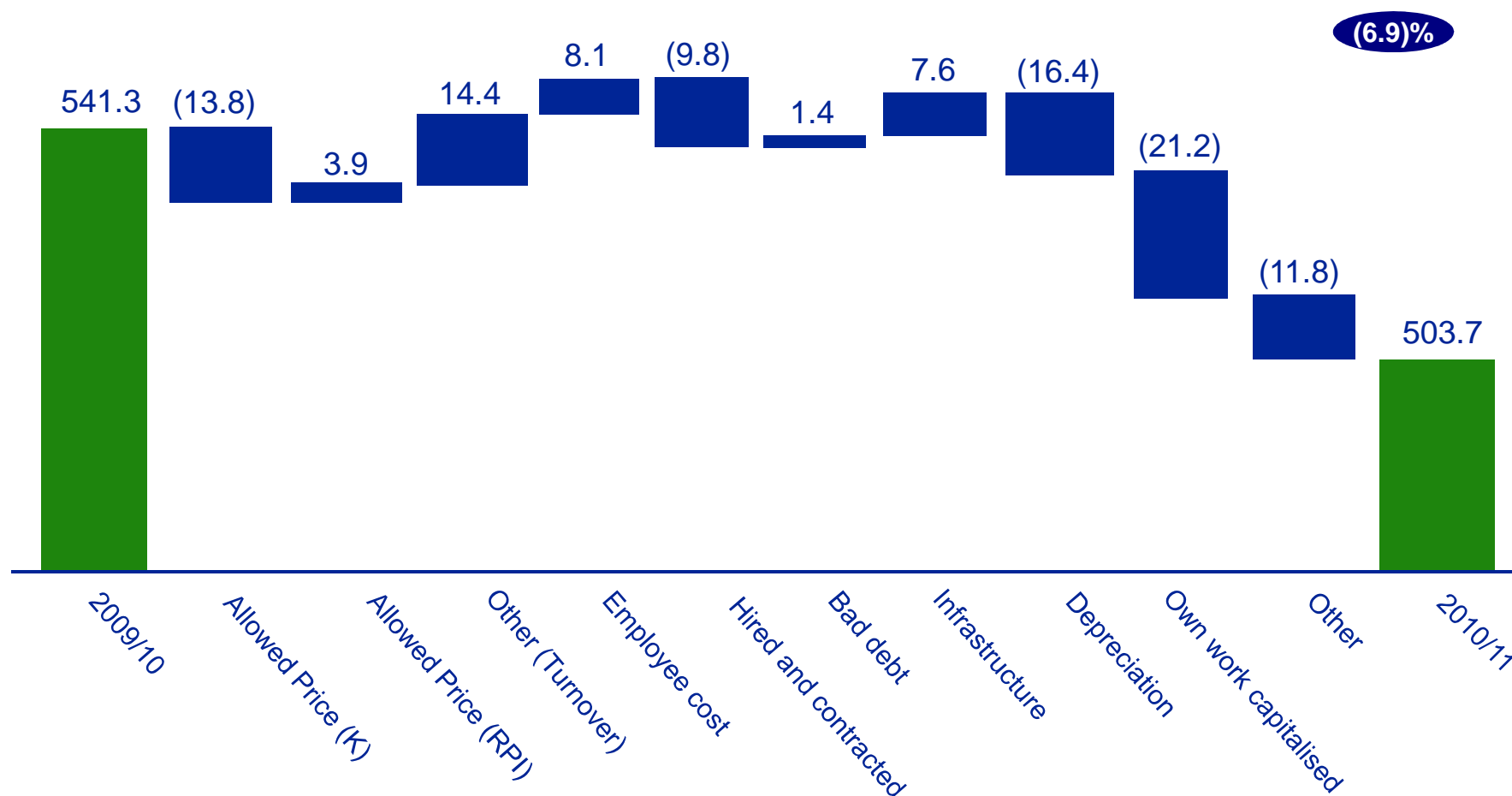
Severn Trent Water Turnover\* 2010/11  
£m



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

# Severn Trent Water PBIT

Severn Trent Water PBIT\* 2010/11  
£m



\* Numbers shown before exceptional items

# Severn Trent Services performance

12 months ended 31 March

Turnover				Underlying PBIT*		
09/10	10/11	Var.		09/10	10/11	Var.
£m	£m			£m	£m	
336.5	<b>336.1</b>	(0.1)%	As reported	28.7	<b>25.7</b>	(10.5%)
332.1	<b>336.1</b>	1.2%	Like for like in constant currency**	28.4	<b>25.7</b>	(9.5%)
ROIC***				11.5%		

\* PBIT before exceptional items

\*\* Excluding foreign exchange, disposals and acquisitions

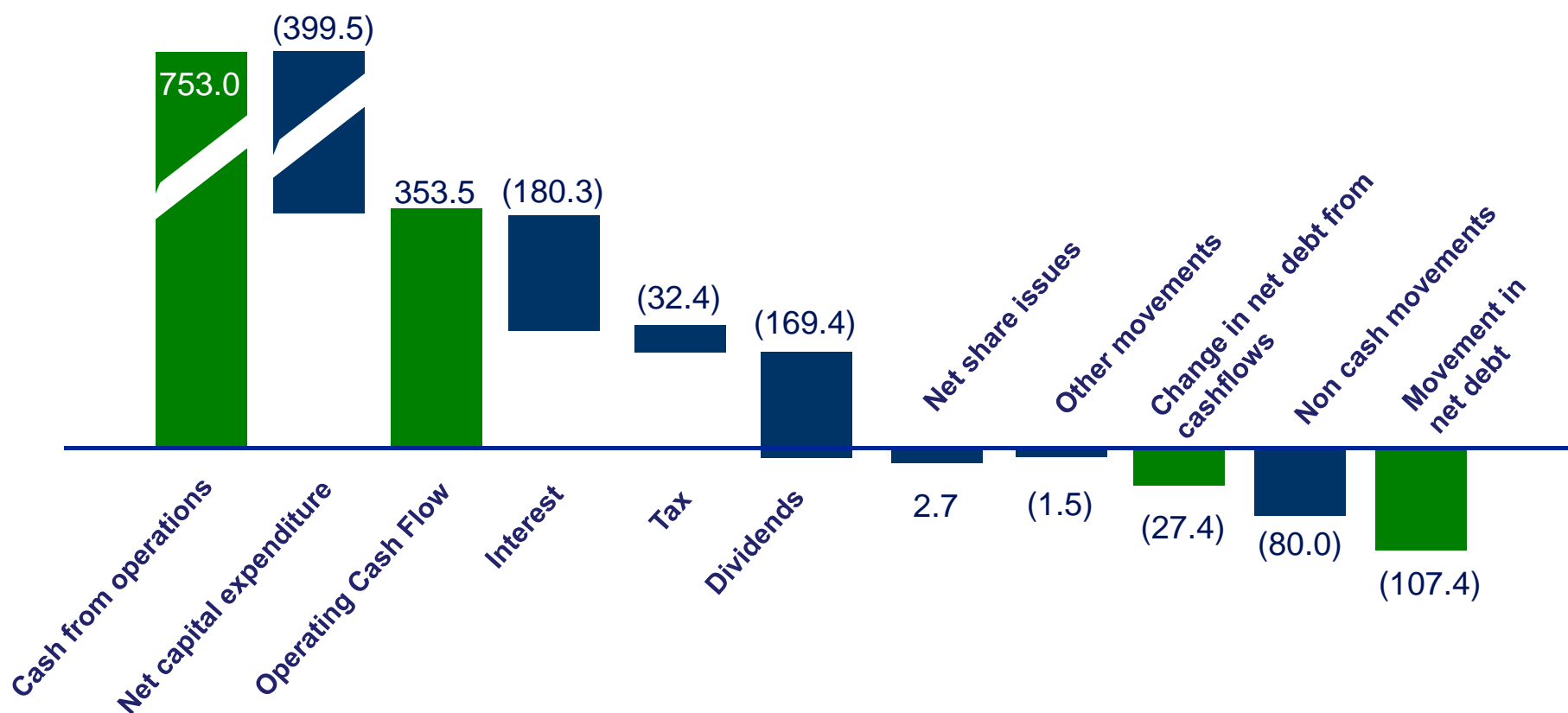
\*\*\* Return On Invested Capital (annualised PBIT before exceptional items/Average net operating assets plus gross goodwill from acquisitions)

# Exceptional items

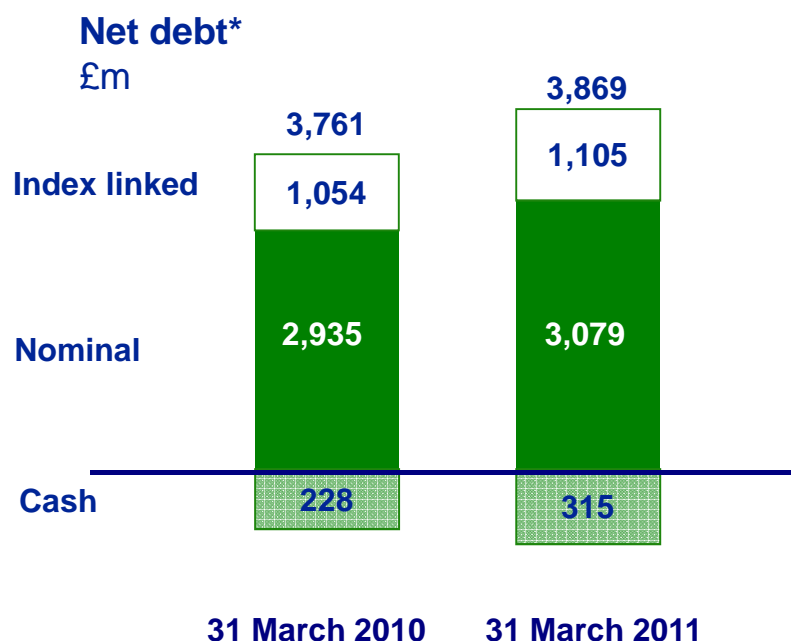
£m	2009/10	2010/11
<b>Restructuring costs</b>		
Severn Trent Water	(42.1)	<b>(13.0)</b>
Severn Trent Services	(5.9)	<b>(0.7)</b>
<b>Costs relating to regulatory matters</b>		
Severn Trent Services	-	<b>(3.8)</b>
Corporate and other	-	<b>(3.9)</b>
Total exceptional operating costs	(48.0)	<b>(21.4)</b>
Exceptional loss on disposal of business	(1.7)	-
<b>Total exceptional items</b>	<b>(49.7)</b>	<b>(21.4)</b>

# Cash flow

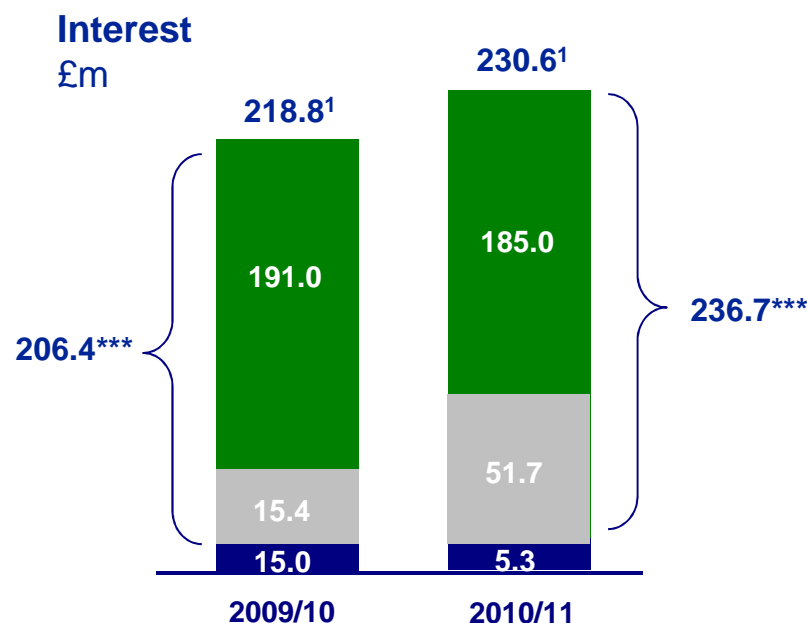
2010/11 operating cash flow  
£m



# Group net debt and finance charges



- 76% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,966m
- Group net debt/RCV\*\* 56.8%
- Fully funded for 2 years



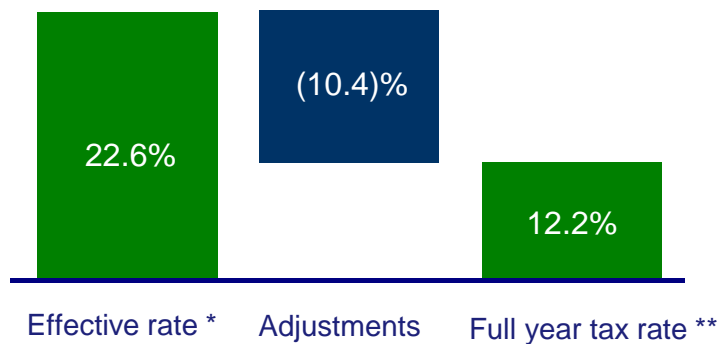
- 'Cash' interest
- RPI rolled up
- Net pension (debit)/credit\*
- Effective rate circa 6.4%
- Interest cover:
  - 3.5 times EBITDA\*\*\*\*
  - 2.3 times underlying PBIT

\* Including cross currency swaps  
 \*\* RCV at 31 March 2011 at year end RPI

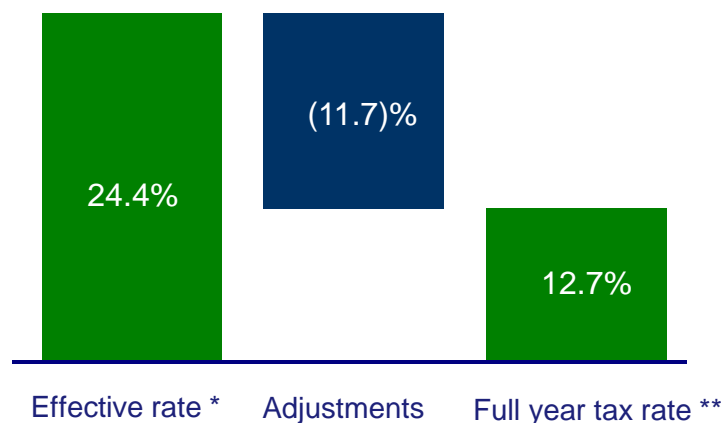
1. Total excludes £11.3m of interest cost capitalised (2010: £2.6m)  
 \*\*\* Excluding net pension debit of £5.3m (2009/10 debit of £15.0m)  
 \*\*\*\* Profit before interest, tax, depreciation, exceptionals

# Effective rate of current tax

2009/10 Effective current tax rate%



2010/11 Effective current tax rate%



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

# Financial summary

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**Better than anticipated turnover in Severn Trent Water**

**Delivering on efficiency programmes**

**Good opex control, despite high RPI environment**

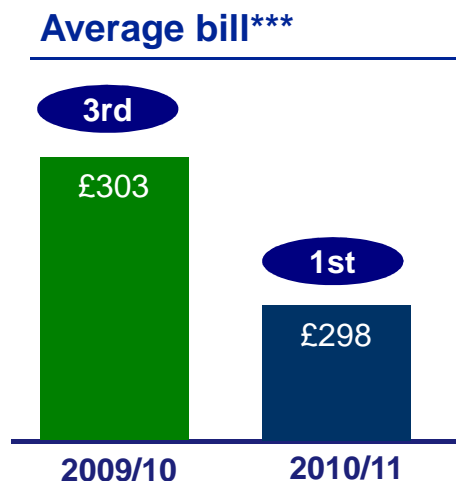
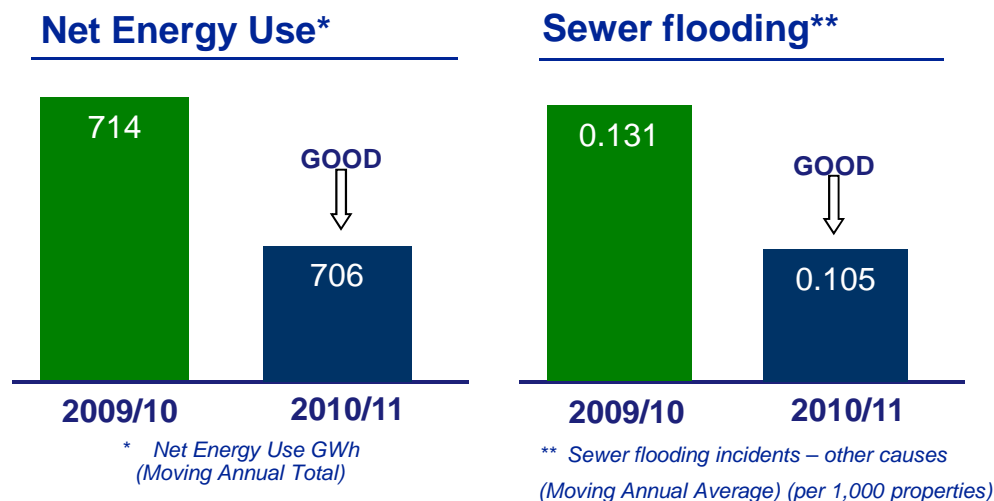
**Severn Trent Services experienced a tough second half, but growth opportunities remain attractive**

# Tony Wray

Chief Executive

# Key Performance Indicators

- Ongoing improvements for:
  - Energy (22% renewables)
  - Sewer flooding
  - Customer service
  - Risk of low pressure
- Impacted by winter weather
  - Leakage
- Targeted for improvement
  - Interruption to supply
- Lowest combined average water and sewerage charges



\*\*\*Combined average water and sewerage charges. Ranking lowest to highest among WaSCs. Source: Ofwat

# Opex efficiencies

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- Opex below level allowed in final determination
- SAP phase 2 –workforce management
  - platform now fully deployed
  - improving trend in productivity over past 12 months from 3.9 jobs per day to 4.7\*
- Renewables
  - 22% of power requirements, permission for 1st wind turbine
- Severn Trent Centre
  - enabling new ways of collaborative working

# Capex efficiencies

- Working in partnership with contractors to deliver efficiencies
- Spend in 2010/11 at low end of our revised range
- Derwent Valley Aqueduct
  - Conversion of redundant raw water pipeline to treated water main
  - Avoided laying 10km of new main, saving of £2m
  - Hydraulic system review - avoided laying 16km of main, additional £2m saving
- Tack Lane treatment works
  - Air stripping technology used rather than GAC\*
  - £1.2m capex efficiency and £10k p.a. opex efficiency



\* GAC – granular activated carbon

# Severn Trent Water Outlook

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- 2011/12
  - Continue to deliver performance improvements and efficiencies
  - Capex range £450m - £470m (UK GAAP, net)
  - Infrastructure renewals £120m – £130m (net)
- AMP5
  - Confident we can meet or exceed objectives
  - Capex - programme remains at £2.2bn (net, UK GAAP, inc. COPI estimates)
  - Opex - continue to drive operational improvements
- Impact of Private Drains and Sewers (PDaS)
  - Transfer expected from October 2011

# Severn Trent Services

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- Challenging political and economic environment
  - US operating services maintained growth
  - Italy – project delays, but good level of new opportunities
  - Products good first half; second half impacted by Middle East unrest, Gulf coast deep well drilling moratorium
- Outlook
  - Fundamental drivers of markets remain strong
  - Top line growth in 2011/12
  - Lower PBIT year on year – investment in growth opportunities (BalPure, MicroDynamics, operating services)

# Severn Trent Plc

## Outlook

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- Cost of debt fixed for remainder of AMP5 period
  - c. £100m benefit vs. final determination
- Financing requirement of £1bn over AMP5
  - £850m re-financing
- Expected RCV growth of 2.7%<sup>1</sup> p.a. to end of 2014/15
- Dividend policy of RPI+3% annual growth<sup>2</sup>
- Sustainable, progressive returns to shareholders

1. Using current year end RPI forecast, adjusted for current estimates of COPI  
2. RPI = November RPI of prior year.

# Winning in a changing world

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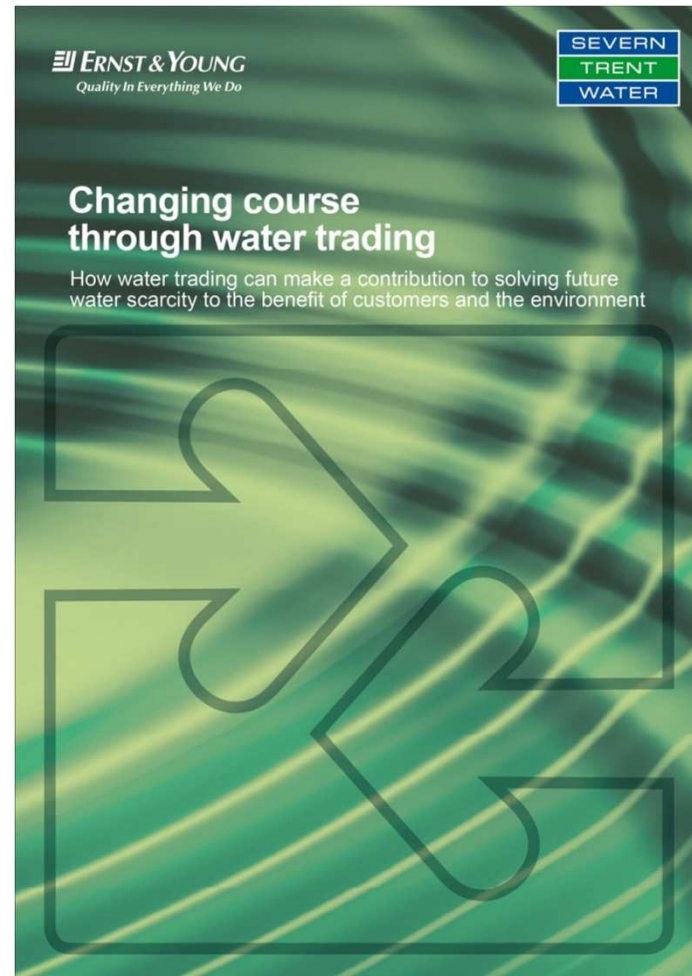
- Pleased with response from stakeholders
  - broad agreement that status quo not an option
  - acceptance that investor confidence must be maintained
- Look forward to White Paper
  - encouraged by Gray review
- Welcome Ofwat's initial thoughts on “preliminary model”
  - sustainability & financeability key
  - RCV protection
  - right incentives for each area of value chain
  - opportunity for efficient companies

# Water Trading

Following on from  
“Changing Course”

How water trading can make a contribution to solving future water scarcity to the benefit of customers and the environment

**To be published next month**



# Summary

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**Made further progress on some KPIs & targeted others as areas for improvement**

**Delivering planned efficiencies**

**Investing in our networks - well placed for AMP5**

**Investment in future growth areas of Services – short term will remain challenging**

**Delivering sustainable, progressive returns to shareholders**

# Q & A

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# Appendix



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[www.severntrentservices.com](http://www.severntrentservices.com)

## **Key Publications**

Changing Course

[www.stwater.co.uk/changingcourse](http://www.stwater.co.uk/changingcourse)

Response to David Gray's Review of Ofwat  
Response to Defra's Natural Environment  
consultation

[www.severntrent.co.uk/server.php?show=nav.32](http://www.severntrent.co.uk/server.php?show=nav.32)

Investor Day 16th December 2010

[www.severntrent.co.uk/server.php?show=ConWebDoc.623](http://www.severntrent.co.uk/server.php?show=ConWebDoc.623)

Cost of capital paper – “The world has turned”

[www.severntrent.co.uk/upload/pdf/Cost\\_of\\_capital\\_for\\_web.pdf](http://www.severntrent.co.uk/upload/pdf/Cost_of_capital_for_web.pdf)

25 Year Strategy

[www.stwater.co.uk/server.php?show=nav.6367](http://www.stwater.co.uk/server.php?show=nav.6367)

# Group Earnings

## Year ended 31 March 2011

2009/10 £m		2010/11 £m			
251.5	Profit for the period	274.5			
249.2	Attributable to: - Equity holders of the company	272.5			
2.3	- Minority Interests	1.9			
<b>Pence</b>		<b>Pence</b>	Variance pence	Variance %	
	<b>Basic EPS</b>				
122.8	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	105.6	17.2	(14.0)%	
105.6	Basic EPS	115.2	9.6		
	<b>Diluted EPS</b>				
122.6	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	103.5	(19.1)	(15.6)%	
105.5	Diluted EPS	114.6	9.1		

# Group balance sheet

31 March 2011

31 Mar 2010 £m		31 Mar 2011 £m	Movement since 31 Mar 2010 £m
6,302.0	Property, plant and equipment	6,427.0	125.0
209.1	Intangible assets	203.2	(5.9)
5.0	Other non-current assets	5.1	0.1
(617.3)	Working Capital/provisions	(583.5)	(33.8)
<b>5,898.8</b>	<b>Capital employed</b>	<b>6,051.8</b>	<b>153.0</b>
	Net assets directly associated with assets held for sale		
(67.2)	Tax creditor	(67.0)	0.2
(956.4)	Deferred tax provision	(919.4)	37.0
<b>3,761.4</b>	<b>Net debt</b>	<b>3,868.8</b>	<b>(107.4)</b>
62.0	Derivative financial instruments	69.9	7.9
<b>947.0</b>	<b>Net assets</b>	<b>1,106.1</b>	<b>159.1</b>
<b>79.9%</b>	<i>Gearing</i>	<b>77.8%</b>	

\* Net debt divided by net debt and equity

# Movements on shareholders' equity

Year ended 31 March 2011

	2010/11 £m
At 1 April	947.0
Total recognised income for the financial period	321.2
Dividends	(169.4)
Dividends to minorities	(1.5)
Credit from share based payments charge	4.6
Tax on share based payments posted directly to reserves	1.5
Shares issued	2.7
At 31 March	1,106.1

# Credit ratings

31 March 2011

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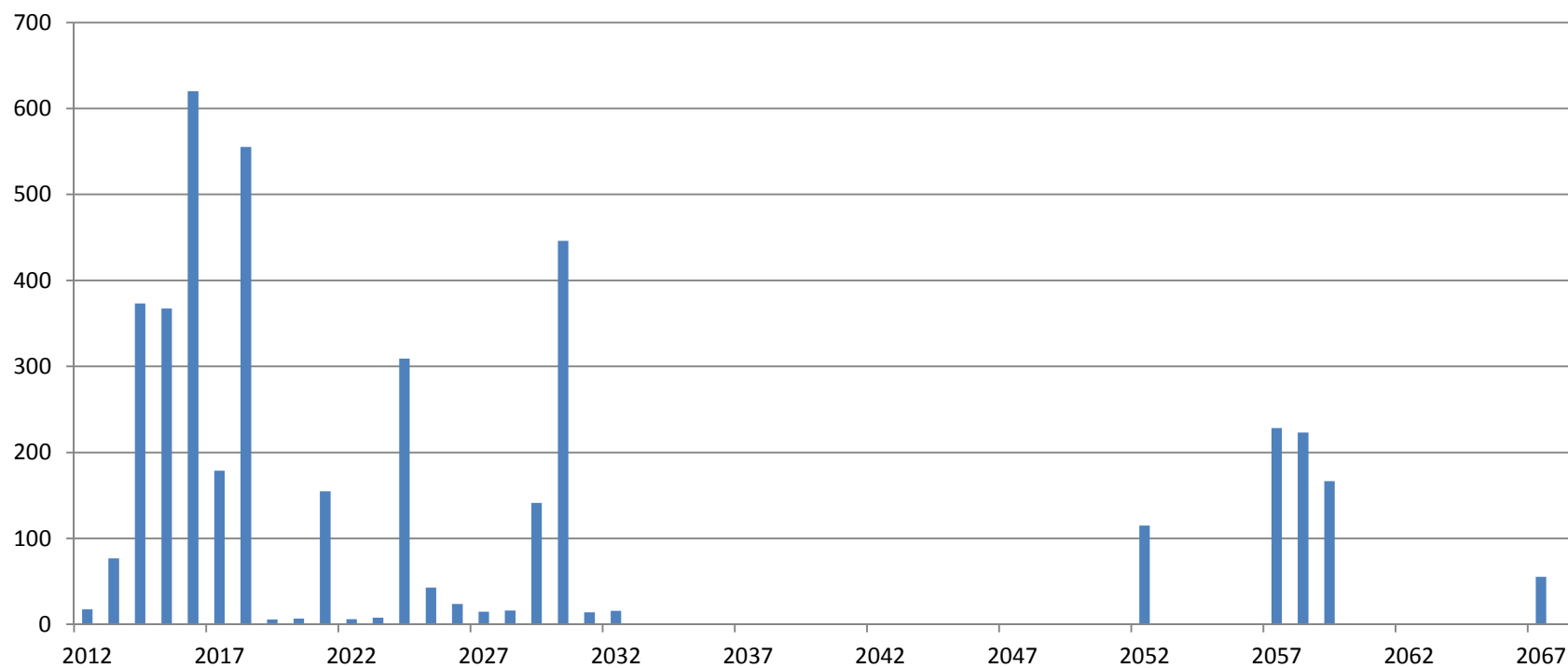
Long-Term	Severn Trent Water	Severn Trent Plc
Moody's	A3	Baa1
Standard & Poor's	BBB+	BBB-
Short-Term	Severn Trent Water	Severn Trent Plc
Moody's	P2	P2
Standard & Poor's	A2	A3

Moody's – long term rating is stable

Standard & Poor's – long term rating is stable

# Debt maturity profile

**Maturity profile of gross debt (£ millions)**



Average maturity of around 16 years

# Gearing

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<b>Net debt/RCV</b>	<b>Actual at 31 Mar 2010</b>	<b>Actual at 31 Mar 2011</b>
Severn Trent Plc	57.9%	56.8%
Severn Trent Water	59.6%	58.2%

*\* Net debt divided by RCV at year end RPI*

# Segmental analysis of capital employed

31 March 2011

Total 31 Mar 2010 £m		Net operating assets 31 Mar 2011 £m	Goodwill 31 Mar 2011 £m	Total 31 Mar 2011 £m
5,746.3	Severn Trent Water	5,905.2	-	5,905.2
269.2	Severn Trent Services*	189.0	68.3	257.3
(116.7)	Other	(113.0)	2.3	(110.7)
5,898.8	<b>Group</b>	5,981.2	70.6	6,051.8

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

# PBITD\* analysis

Year ended 31 March 2011

<b>Group 2009/10</b>		<b>Group 2010/11</b>
<b>£m</b>		<b>£m</b>
<b>785.4</b>	Water & Sewerage	<b>764.2</b>
<b>36.2</b>	Severn Trent Services	<b>33.2</b>
<b>(15.3)</b>	Other	<b>(12.4)</b>
<b>806.3</b>	<b>Group</b>	<b>785.0</b>

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

# Depreciation\* analysis

Year to 31 March 2011

<b>Group 2009/10 £m</b>		<b>Group 2010/11 £m</b>
244.1	Water and Sewerage	260.5
7.5	Severn Trent Services	7.5
(2.4)	Other	(2.1)
<b>249.2</b>	<b>Group</b>	<b>265.9</b>

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

# Capital expenditure (net cash)\*

Year ended 31 March 2011

<b>Group 2009/10 £m</b>		<b>Group 2010/11 £m</b>
(461.7)	Water and Sewerage	(370.8)
(15.2)	Severn Trent Services	(7.1)
(10.9)	Other	(21.7)
<b>487.8</b>	<b>Group</b>	<b>399.6</b>

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

# Severn Trent Water – operating costs

Year ended 31 March 2011

2009/10 £m		20010/11 £m	Variance £m	Variance %
495.8	Direct Operating Costs*	529.1	33.3	6.7
244.1	Depreciation	260.5	16.4	6.7
104.5	Infrastructure Renewals	96.9	(7.6)	(7.3)
844.4	STW operating costs	886.5	42.1	5.0

\* Net of other income £3.6m (£3.8m) but excluding management charges

# Severn Trent Water – capex reconciliation

Year ended 31 March 2011

	2010/11 £m
UK GAAP gross capex	424.7
Less grants and contributions	19.4
UK GAAP net capex*	405.3
Treated as IFRS infrastructure operating expenditure	(96.9)
	308.3
Movement on capital creditors	81.8
Proceeds of sale of fixed assets	(19.6)
IFRS capex (net cash)	370.6

\* Capex at outturn prices after deduction of grants and contributions

# Net debt adjustment

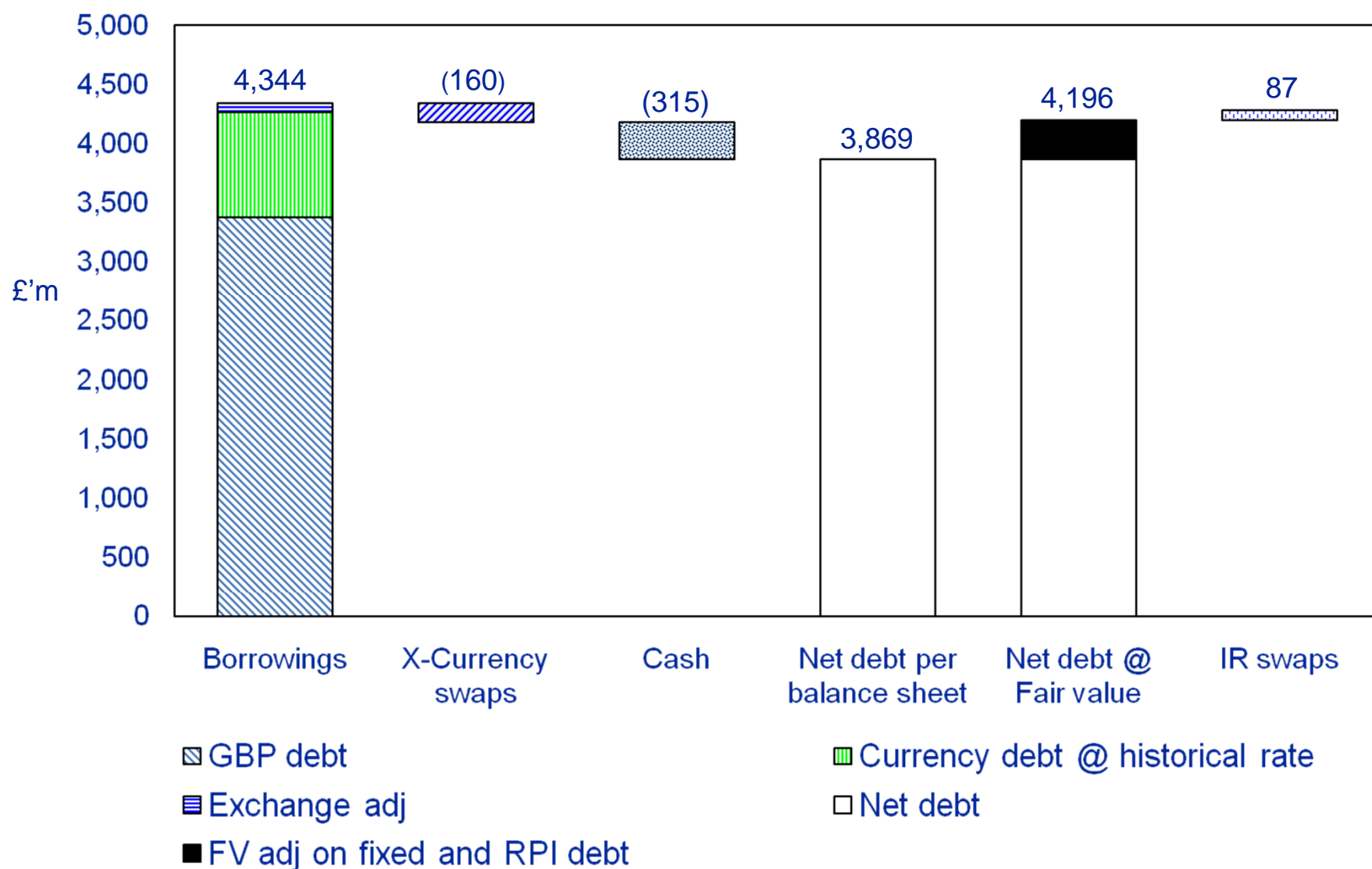
	<b>31 March 2011</b>	30 September 2010	31 March 2010
Cash and cash equivalents	<b>315.2</b>	443.9	227.8
Borrowings - current liabilities	<b>(23.9)</b>	(58.8)	(260.9)
Borrowings - non-current liabilities	<b>(4,320.5)</b>	(4,268.8)	(3,915.6)
Cross currency swaps hedging debt	<b>160.4</b>	160.4	187.3
Net debt	<b>(3,868.8)</b>	(3,723.3)	(3,761.4)

# Fair value of net debt

	<b>31 March 2011</b>	30 September 2010	31 March 2010
Bank loans	<b>(836.8)</b>	(847.0)	(679.1)
Other loans	<b>(3,597.6)</b>	(3,156.4)	(3,328.5)
Finance leases	<b>(237.4)</b>	(254.4)	(260.3)
Fair value of borrowings	<b>(4,671.8)</b>	(4,257.8)	(4,267.9)
Cash and cash equivalents	<b>315.2</b>	443.9	227.8
Cross currency swaps hedging debt	<b>160.4</b>	160.4	187.3
Fair value of net debt	<b>(4,196.2)</b>	(3,653.5)	(3,852.8)
Net debt (previous slide)	<b>(3,868.8)</b>	(3,723.3)	(3,761.4)
Difference	<b>327.4</b>	(69.8)	91.4

# Analysis of borrowings, net debt & swaps

## 31 March 2011



# 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	6,977	7,233	7,545	7,841
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

# Adoption of Private Drains and Sewers (PDaS)

## Overview & timeline

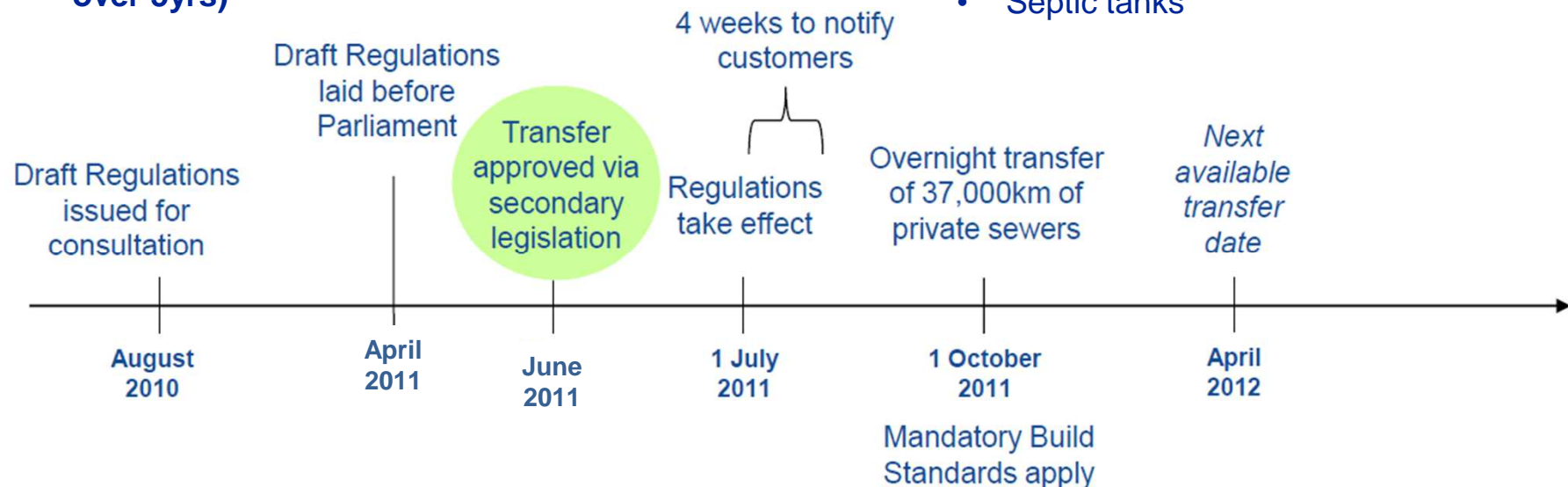
On 15 December 2008, the Government announced that the ownership of private sewers and lateral drains (which connect to the public sewer system) would transfer to the 10 statutory water and sewerage companies in 2011.

### Will transfer

- All private sewers (shared pipes) which drain to public network
- All drains/laterals (serving one property) outside property boundaries
- Private pumping stations **(on a phased basis over 5yrs)**

### Won't transfer

- Drains/laterals (serving one property) within property boundaries
- Surface water sewers draining to watercourses
- Private treatment works
- Septic tanks



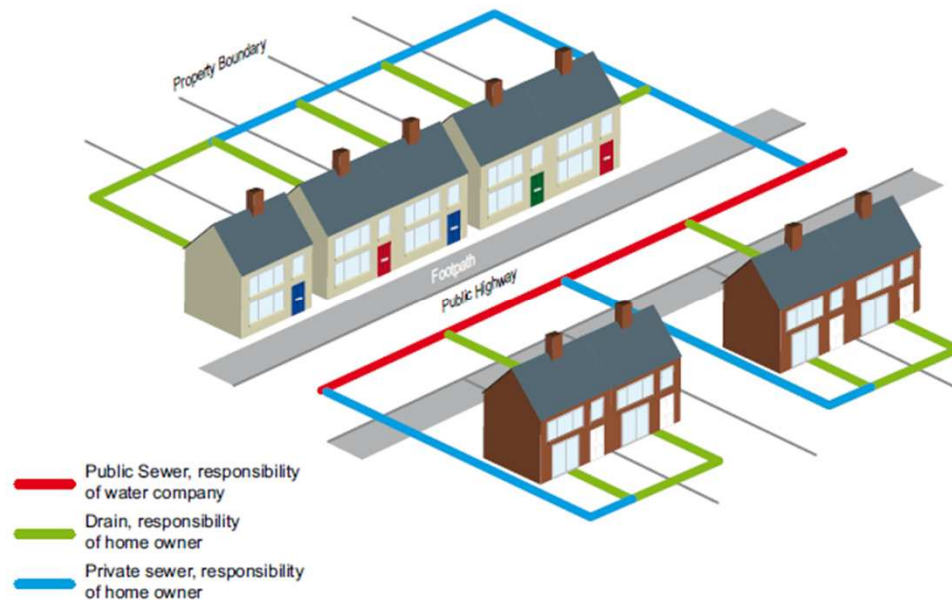
*All dates are latest best estimate.*

# Adoption of Private Drains and Sewers (PDaS)

Following transfer, customers will still be responsible for some drainage pipes

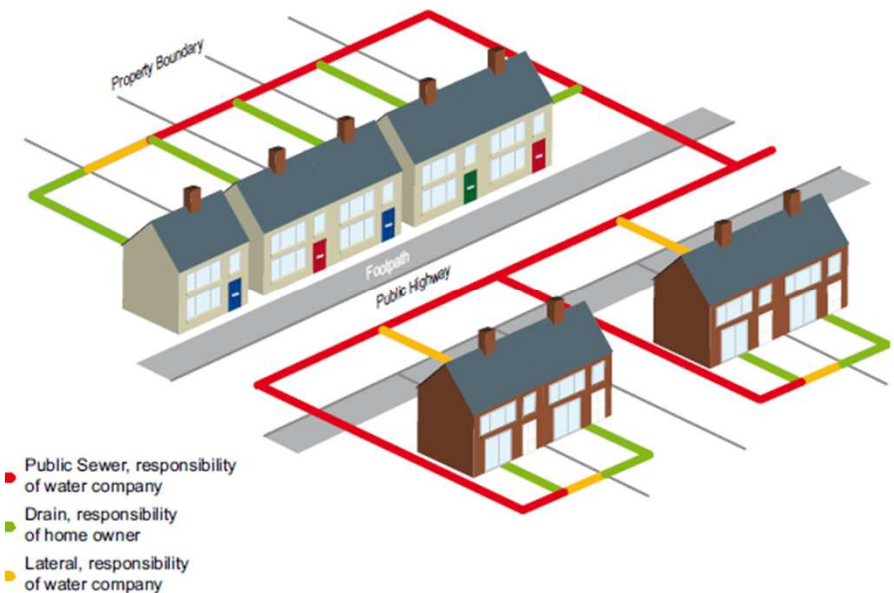
## Today

- Home owners are responsible for everything up to the main sewer, including the connection



## Post-transfer

- All sewers transfer
- All laterals and drains outside property boundaries transfer - BUT
- Home owners are still responsible for the private drains within their boundary.



# Adoption of Private Drains and Sewers (PDaS)

We are expecting a significant increase in customer calls and job volumes

	<i>Today</i>	<i>Addition post-transfer</i>
<b>Sewer length</b> (km)	54,000 km	37,000 km
<b>Pumping Stations</b> (No.)	3,100	Around 4,000

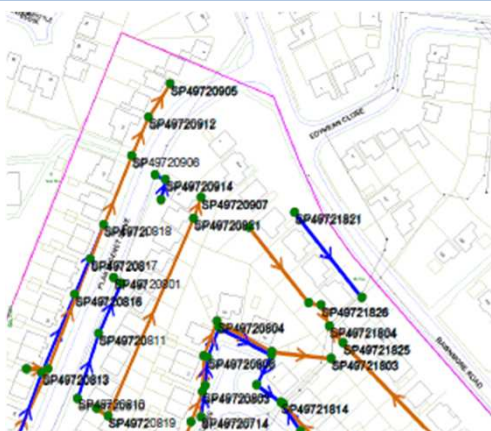


Examples of pumping stations to be adopted

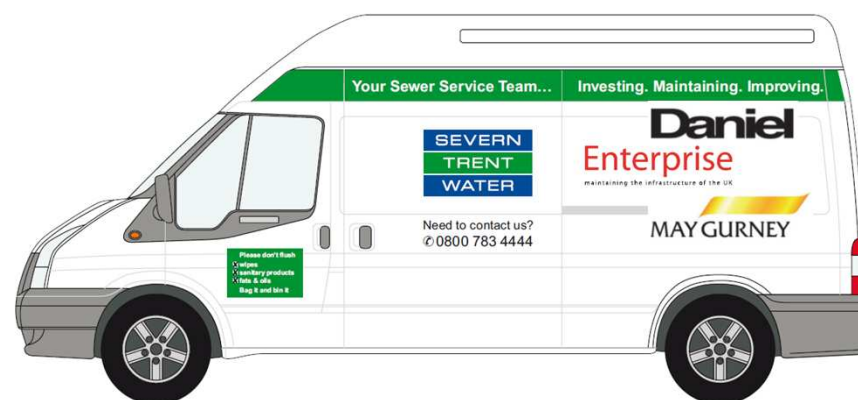
# Adoption of Private Drains and Sewers (PDaS)

## What are we doing to get ready?

Modelling and forecasting future workload



Putting in a new commercial model for service delivery  
(Significant process and IT/interface changes)



Improving our offering to customers and increasing call handling capacity to cater for increased calls

Planning how we secure recovery of additional cost through an interim determination (IDoK)



Pace of investment  
v  
Serviceability  
v  
Bill impact

# Adoption of Private Drains and Sewers (PDaS)

## Estimated Financial Impact

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Based on October 2011 transfer, the impact in 2011/12 is estimated to be in the region of:

- One –off set up costs of around £6m
- Opex cost in the range of £12m to £15m
- Capex cost in the range of £8m to £12m

For the remainder of AMP 5 we estimate that the total cost of PDaS could be in the region of:

- Opex cost in the range of £40m to £70m
- Capex cost in the range of £35m to £75m

Privately owned pumping stations are anticipated to be adopted on a phased basis between 1 October 2011 and 1 October 2016. Therefore there is a large degree of discretion around investment levels in pumping stations prior to 2016 which will impact on actual reported capex cost. The above stated costs for the introduction of PDaS represent a “best estimate” range established on current information and current assumptions. The experience of these new processes, when implemented, may differ from our planning assumptions, leading to different costs. There are no costs associated with the transfer included in our existing business plan.

There is a regulatory mechanism, known as an IDOK (Interim Determination of K), which can be used to adjust prices to account for these additional costs. Severn Trent Water will be required to evidence these costs to support any IDoK submission and Ofwat will determine any change to prices. Severn Trent Water will also be required to bear these costs in advance of any future recoveries.

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