
Preliminary Results

Year ended 31 March 2012

30 May 2012

The Lincoln Centre, London

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Mike McKeon

Finance Director



Highlights

	2010/11	2011/12	Change %
Group turnover (£m)	1,711.3	1,770.6	3.5
Profit before interest and tax (PBIT ¹) (£m)	519.1	504.2	(2.9)
Profit before tax (PBT ²) (£m)	288.6	275.4	(4.6)
Adjusted basic EPS ³ (pence)	105.6	88.9	(15.8)
Basic EPS (pence)	115.2	72.5	(37.1)
Total ordinary dividend per share (pence)	65.1	70.1	7.7
Special dividend proposed (pence)	-	63.0	-

1. *before exceptional items*

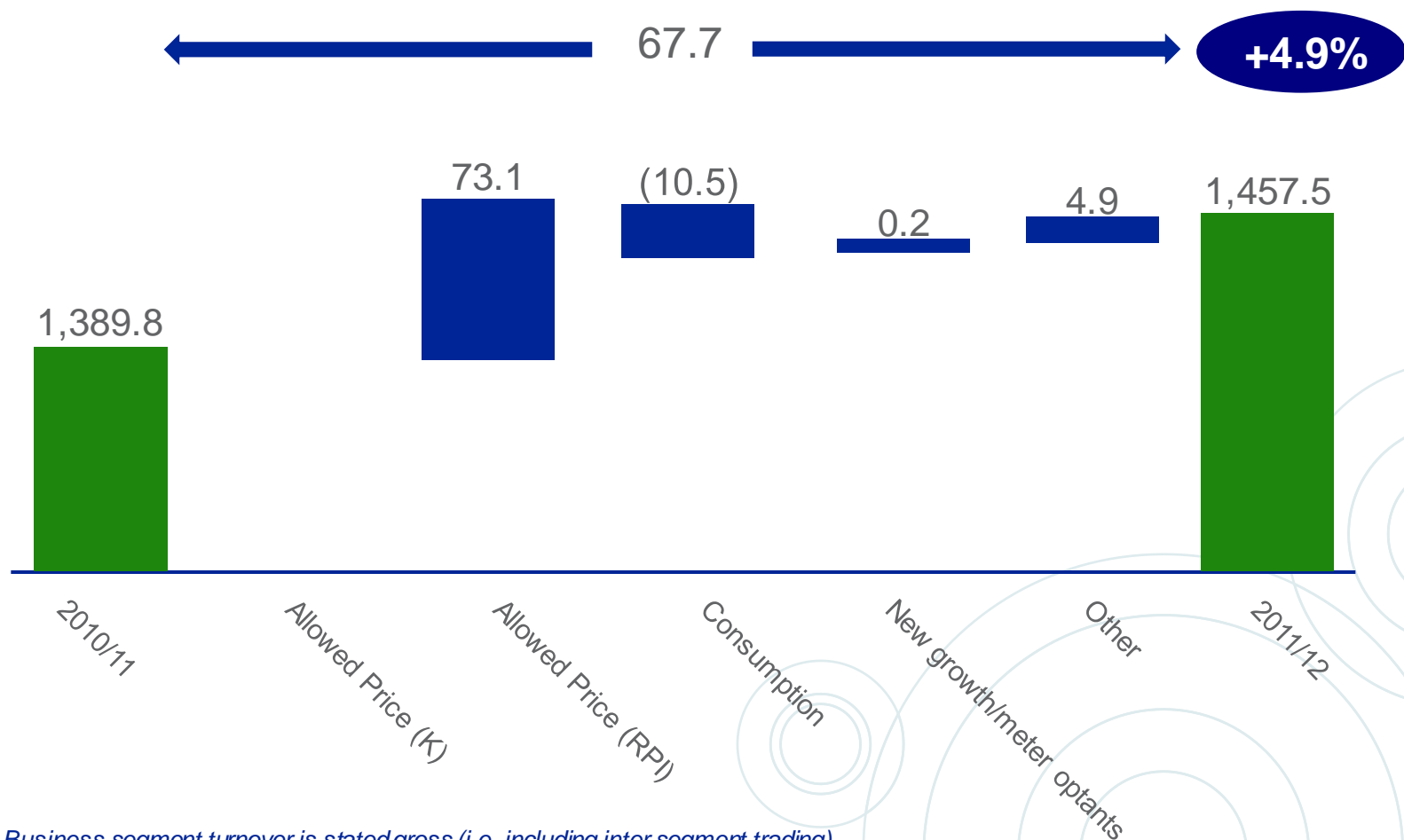
2. *before exceptional items and gains/losses on financial instruments*

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

Severn Trent Water turnover

Severn Trent Water Turnover* 2011/12

£m

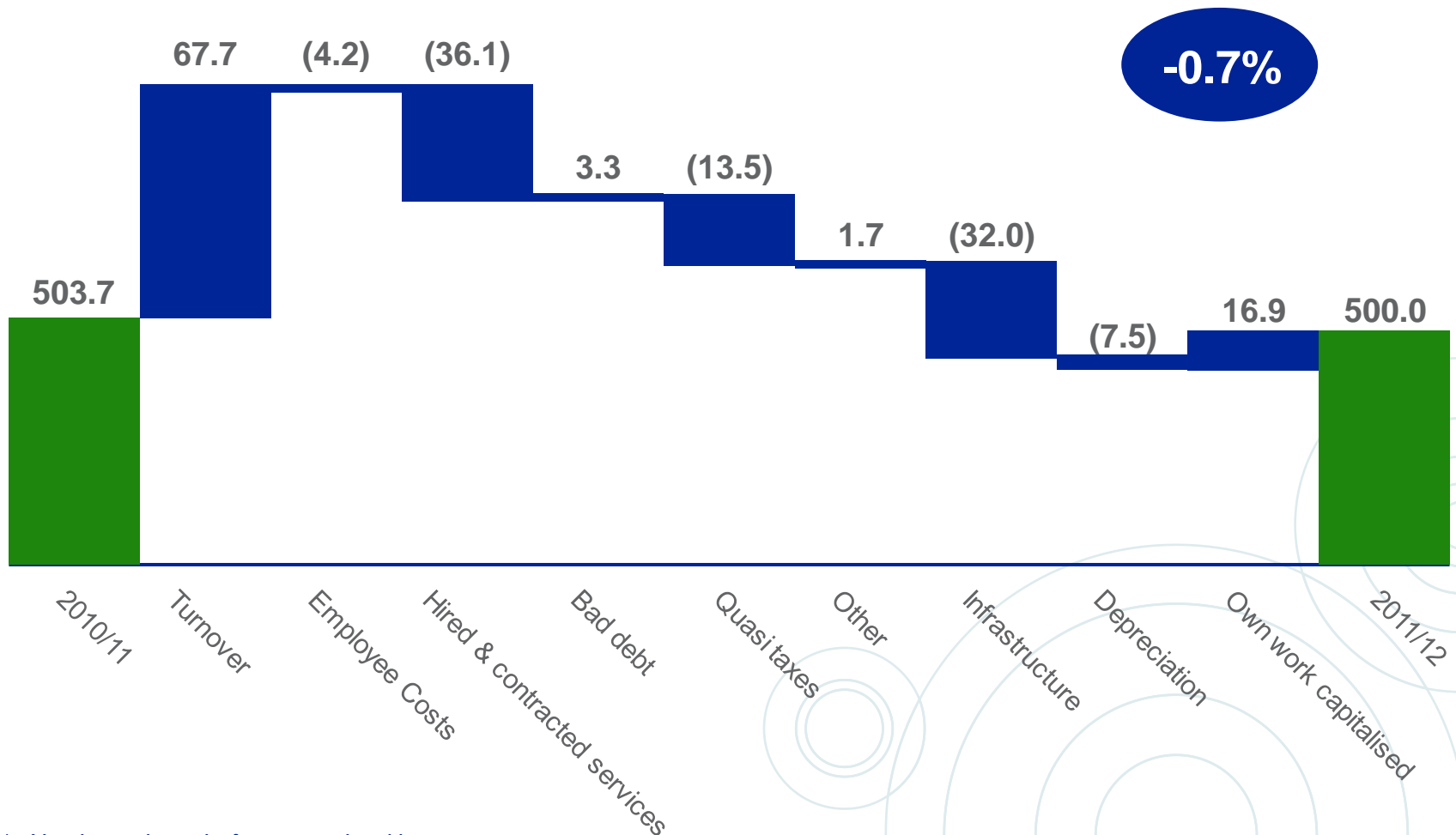


* Business segment turnover is stated gross (i.e. including inter segment trading)

Severn Trent Water PBIT

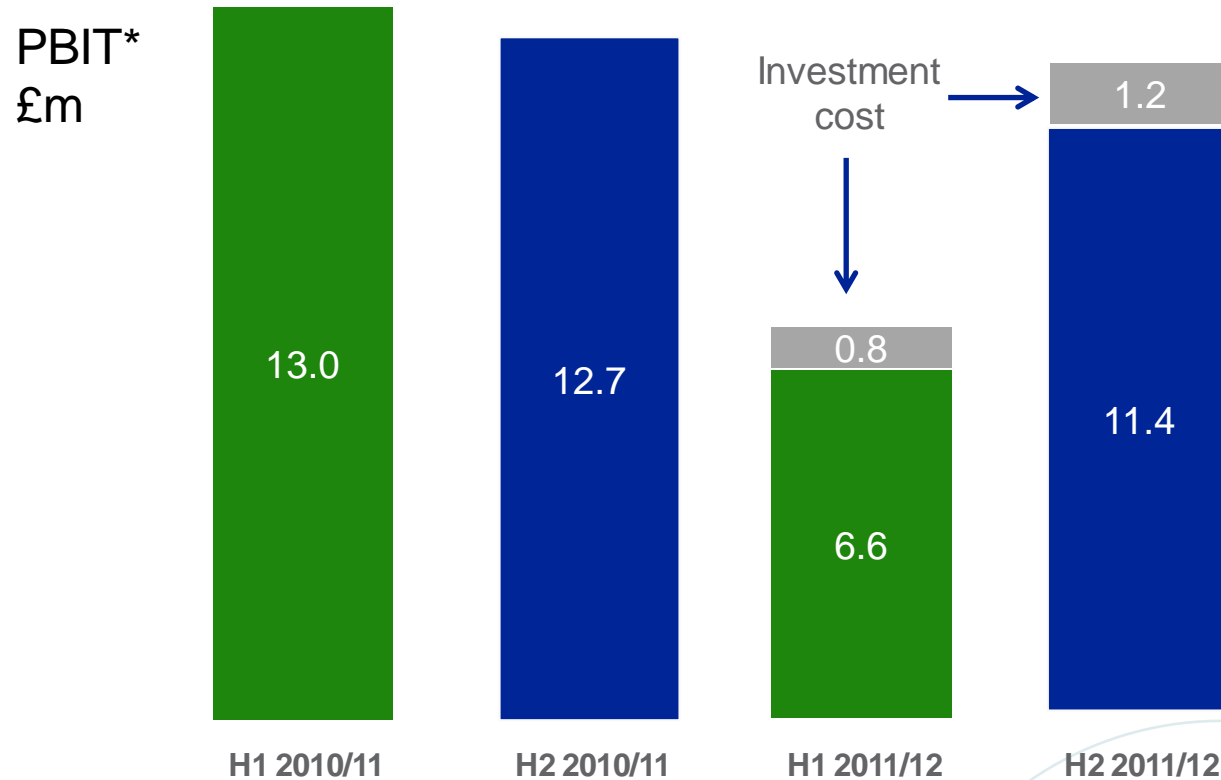
Severn Trent Water PBIT* 2011/12

£m



* Numbers shown before exceptional items

Severn Trent Services performance



ROIC = 8.2%

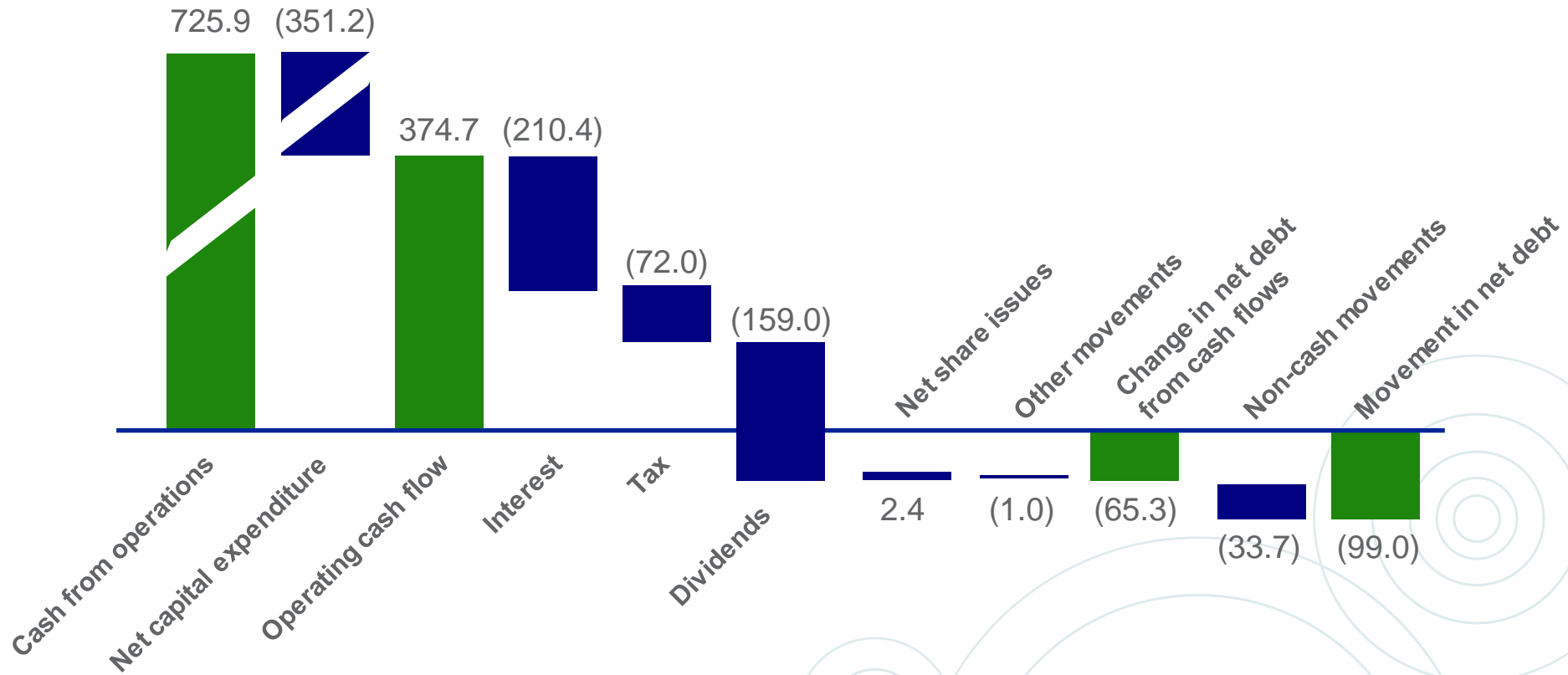
* PBIT before exceptional items

Exceptional items

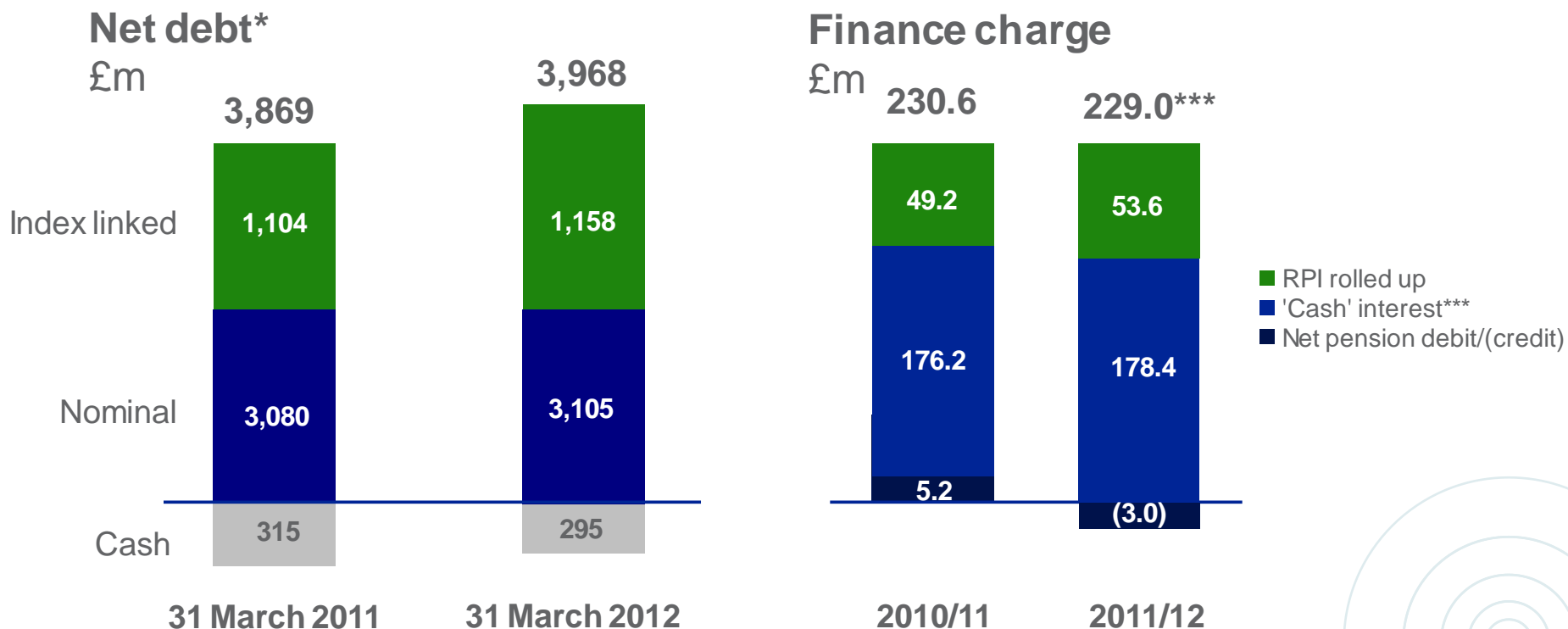
£m	2010/11	2011/12
Severn Trent Water	13.0	(10.3)
Severn Trent Services	4.5	44.7
Corporate and other	3.9	-
Total exceptional operating costs	21.4	34.4
Exceptional finance costs	-	16.5
Total exceptional items	21.4	50.9

Cash flow

£m



Group net debt and finance charges



- 74% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,163.9m
- Group net debt/RCV** 56.0%

- Effective rate circa 6.4%
- Effective cash interest cost *** 4.9%
- EBITDA cover *** 3.7x
- PBIT cover**** 2.4x

* Including cross currency swaps

** RCV at 31 March 2012 at year end RPI

*** Before exceptional finance costs

**** Before exceptional items

Effective rate of current tax



2012/13 Anticipated full year effective current tax rate 24%-26%

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

** Current tax attributable to PBT

Private Drains and Sewers

Progress

- Successful operation of PDaS assets following transfer on October 1st
- To end of March, volume growth lower than expectations
 - Customer awareness lower than anticipated but showing steady growth
 - Capital investment will ramp up – initial focus on understanding the volume and condition of transferred asset

	2011/12 Actual	Updated AMP5 total	Previous AMP5 total
Exceptionals	£4.6m	£4.6m	£6m
Opex	£4.7m	£30m-£36m	£52m-£85m
Capex	£3.2m	£55m-£97m	£43m-£87m
Total	£12.5m	£90m-£138m	£101m-£178m

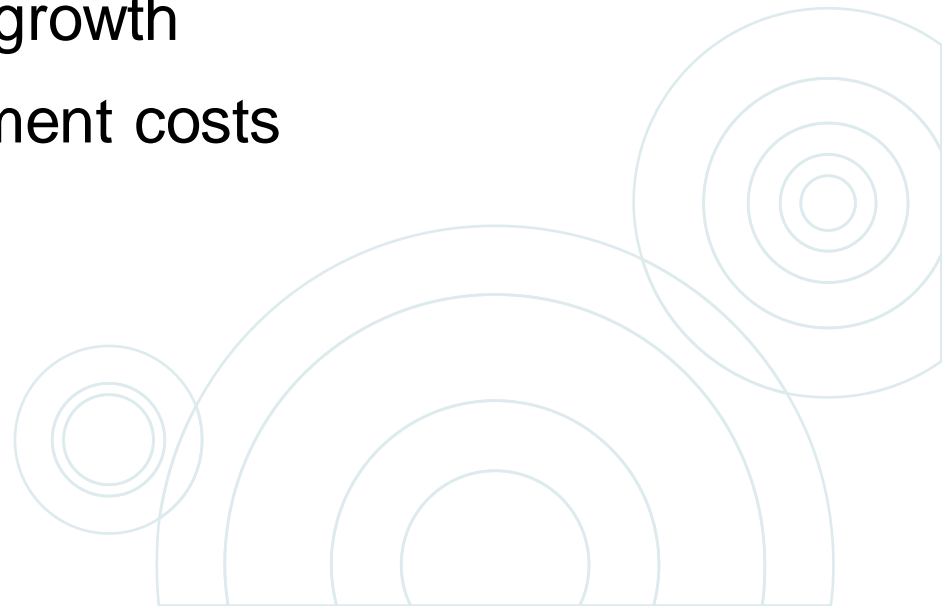
Balance Sheet

- Strong and flexible balance sheet
 - Net debt/RCV 56.0%
- Severn Trent Water – additional £150m capital investment
 - Improved customer service and network performance
- Return to shareholders proposed of £150m
 - Equates to 63.0p per share, payable with the final dividend on 27 July
- Efficient, sustainable balance sheet structure for the remainder of AMP5
 - Consistent with strong investment grade credit rating

Outlook

FY 2012/13

- **Severn Trent Water**
 - Opex in line with level of final determination
 - Bad debt to remain c. 2.2%
 - Capex £570m-£590m range; IRE £140m-£150m
- **Severn Trent Services**
 - Low single digit revenue growth
 - PBIT impacted by investment costs
- **Group**
 - Tax rate 24%-26%



Summary

Delivering planned opex - good cost control

Prudent investment in our networks

Strong balance sheet – sharing benefits with stakeholders

Delivering on dividend promise

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Tony Wray

Chief Executive

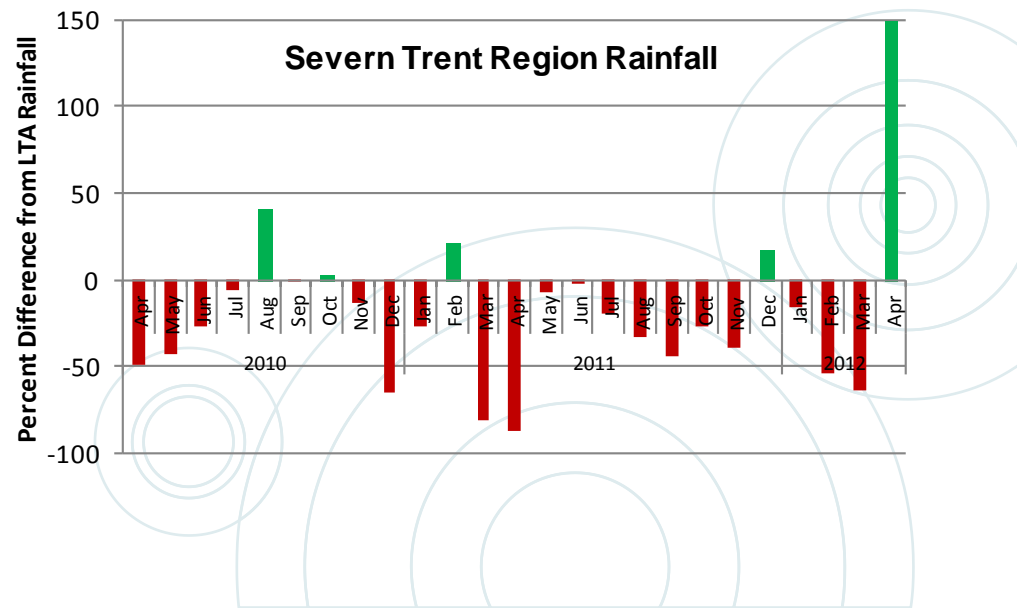


Drought and water trading

- Two exceptionally dry winters
 - But no hosepipe ban currently anticipated. Lowest level of leakage (464 MI/d)
- We have invested to improve connectivity of our network & ability to move water:
 - Staffordshire (Tittesworth reservoir) - additional 5 MI/d is transferrable
 - Warwickshire (Draycote reservoir) - additional 30 MI/d is transferrable
 - Increased the volume of transfer from West to East - additional 20 MI/d is transferrable
- We have not had any hosepipe bans in the last 15 years – last one 1997

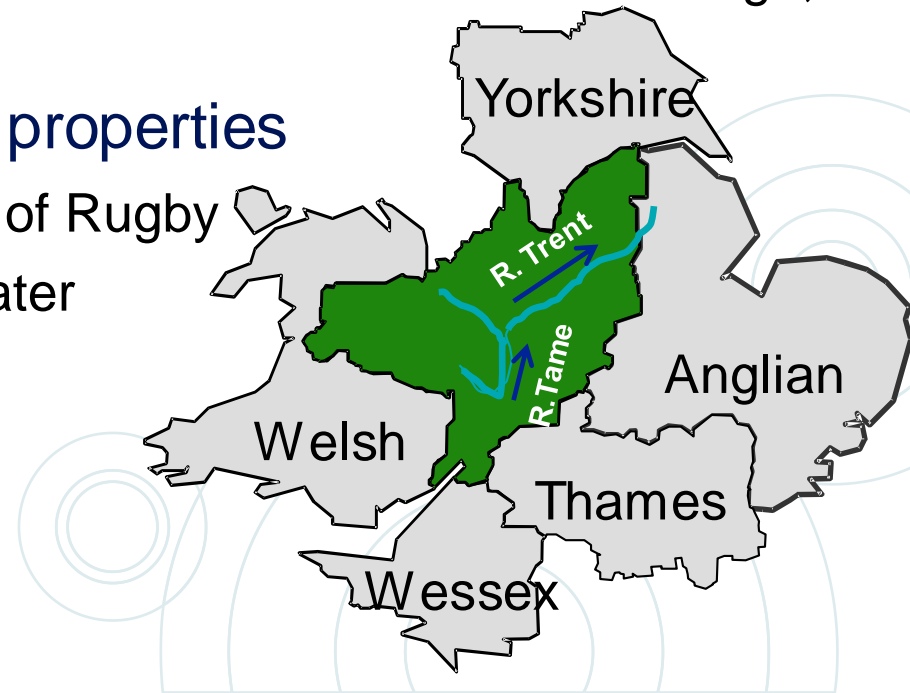


Temporary pipe to ensure Draycote Reservoir storage is maximised



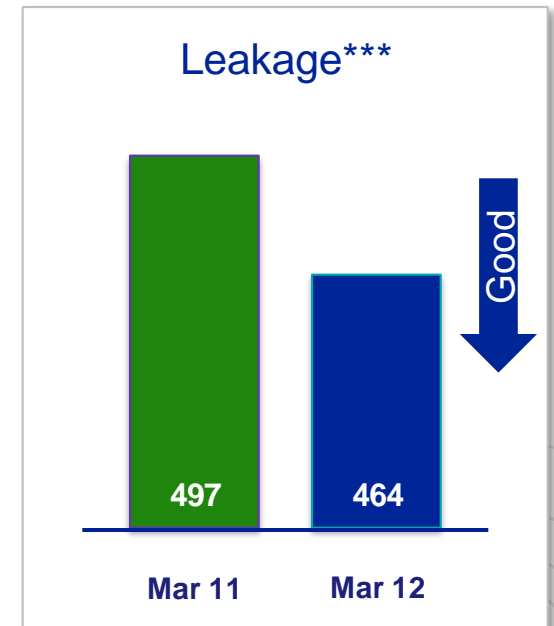
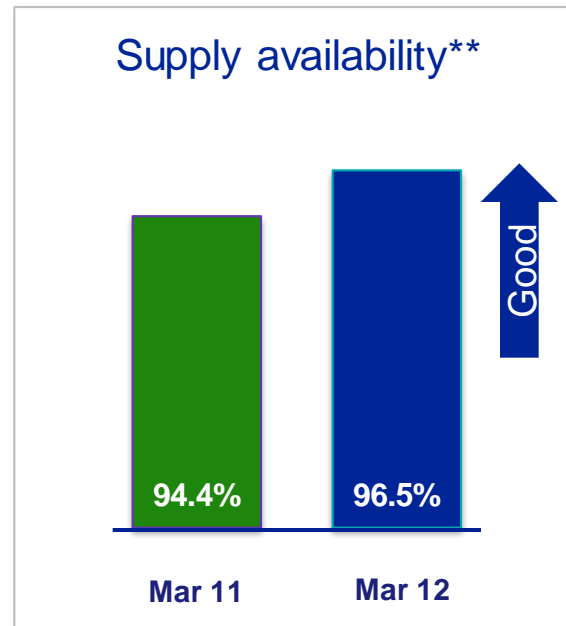
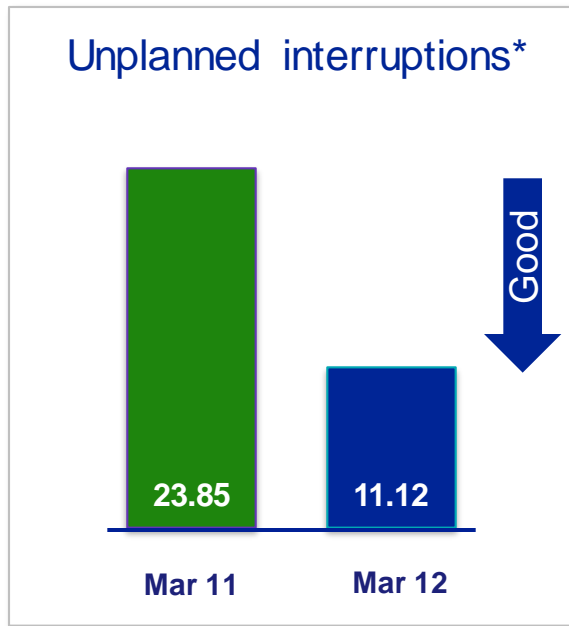
Drought and water trading

- Resilience and connectivity also help facilitate water trading
- Anglian proposal:
 - Pumping 30 MI/d from 5 “drought boreholes” in Birmingham into the River Tame
 - Flows to river Trent and then onwards 80 miles to Gainsborough, Lincs, where it is abstracted
- **30 MI/d equates to 100,000 properties**
 - Equivalent to supplying whole of Rugby
 - Approx 3% of total Anglian Water
 - Daily demand



Key Performance Indicators

Areas we targeted for this year



* per 1,000 properties. Moving annual total

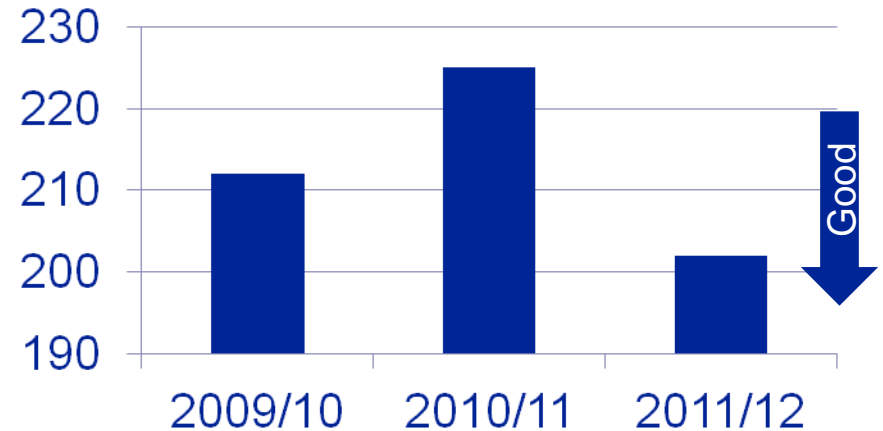
** % of designed capacity available. Year end actual

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

The Service Incentive Mechanism (SIM)

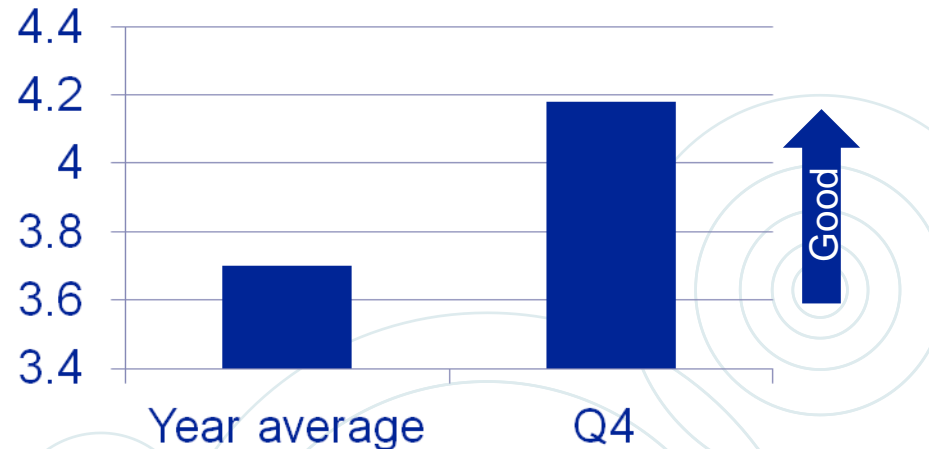
SIM Quantitative:

- Improved score during the year



SIM Qualitative:

- Remained flat, but Q4 results showed improvement

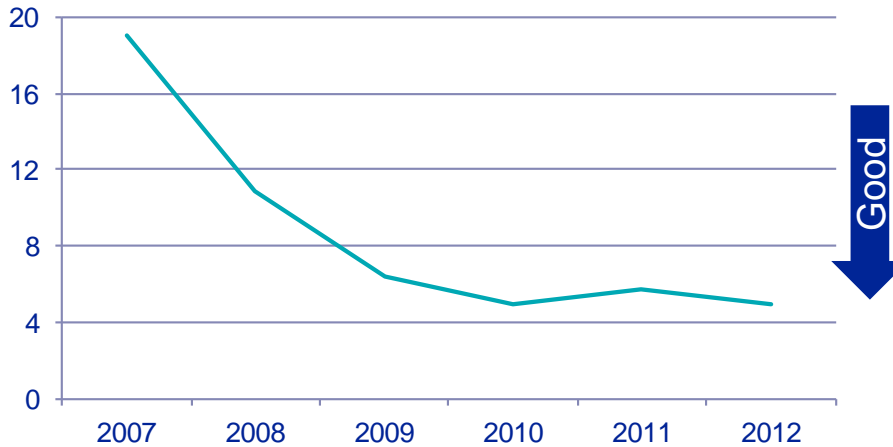


Benchmarks have moved forward, so there is more to do

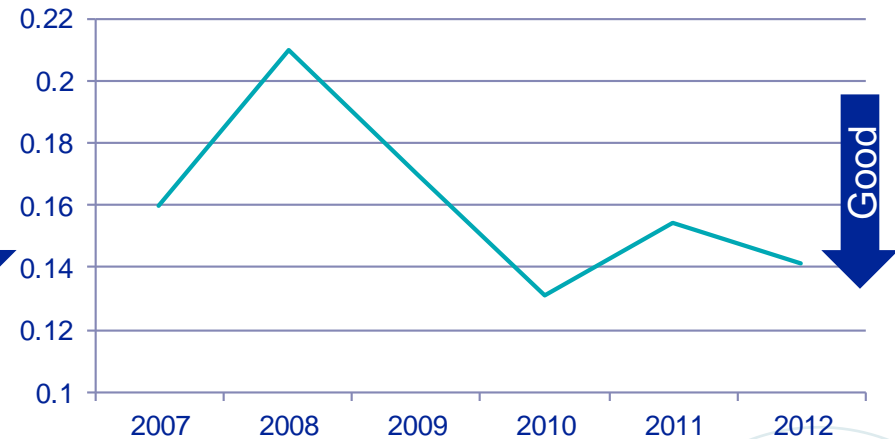
Key Performance Indicators

Track record over 5 years - highlights

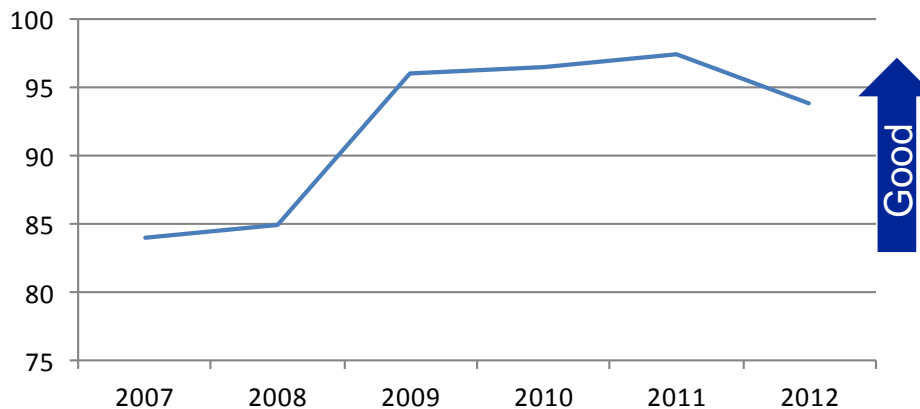
Customer Written Complaints per 1,000 properties



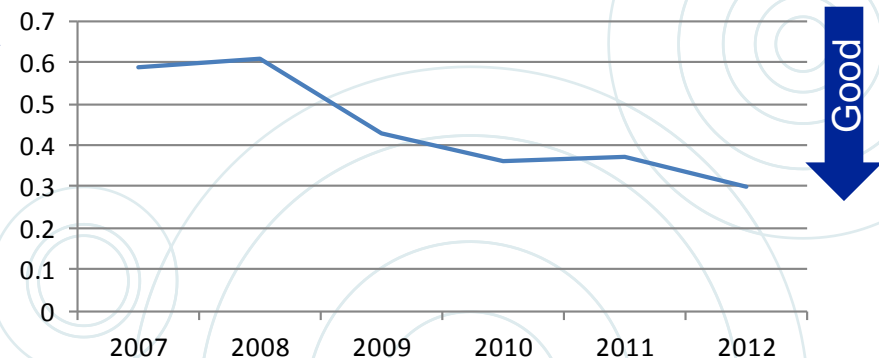
Sewer flooding - other causes per 1,000 properties



First Time job resolution %

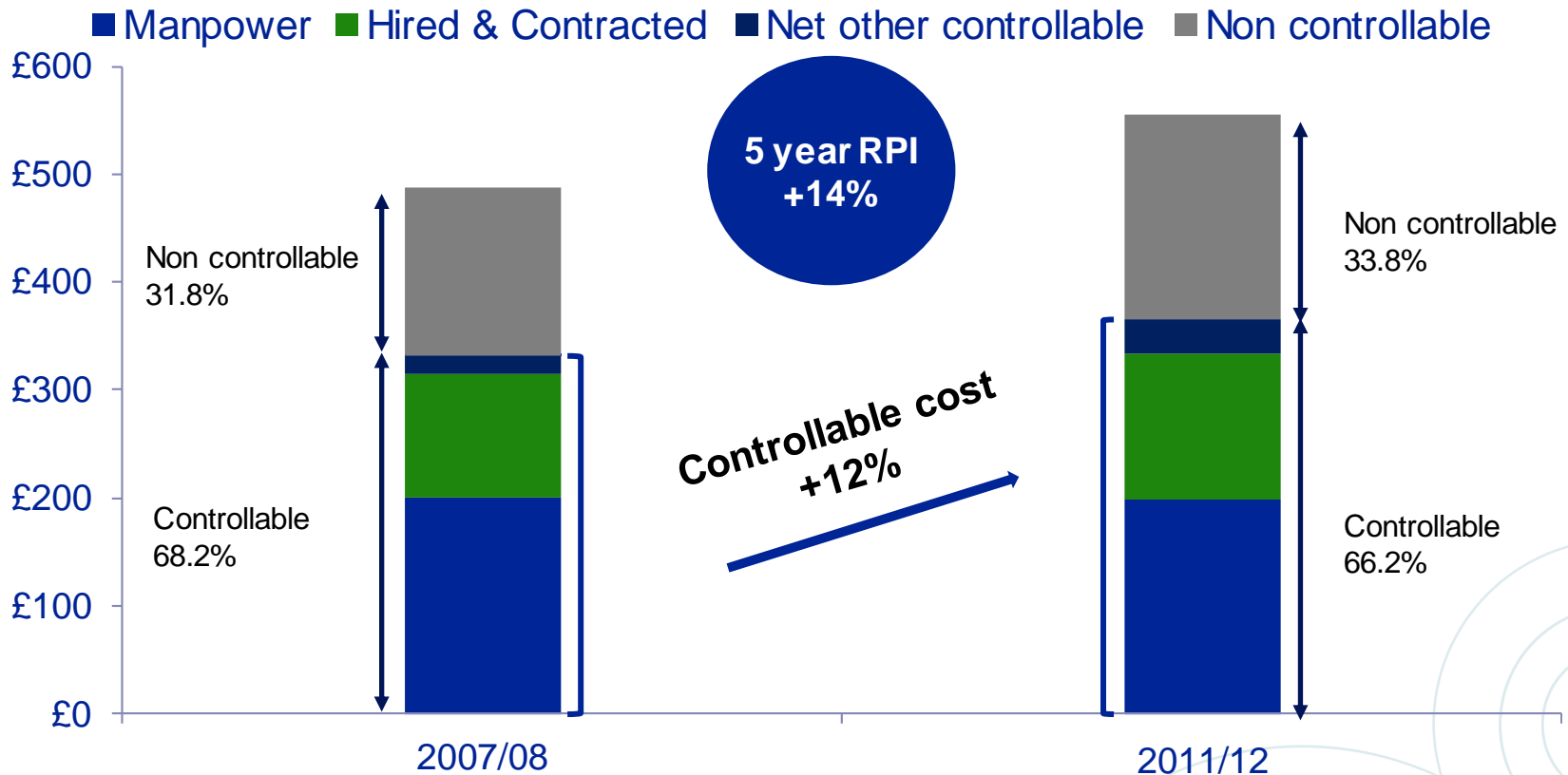


Lost Time Incidents per 100,000 hrs worked



Operational expenditure

5 year view

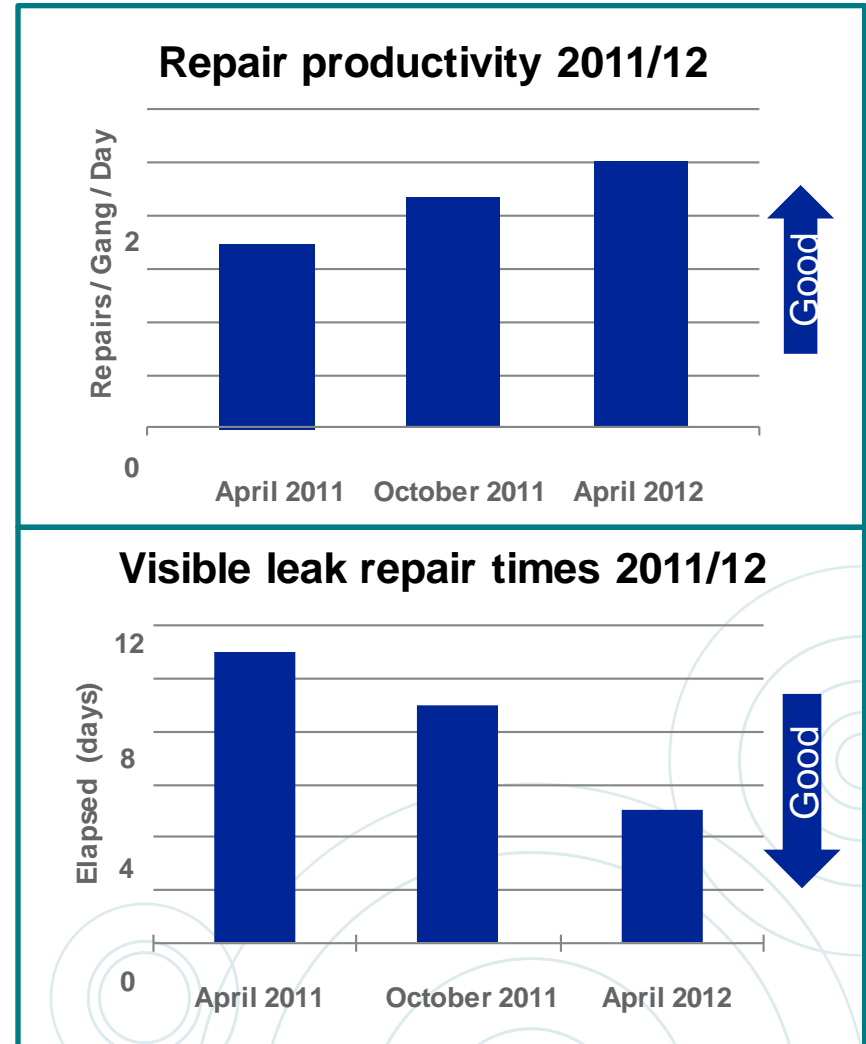


- Controllable costs risen by only 12% from 2007/08 to 2011/12
 - Manpower costs fell by 1%
- Non controllable costs risen significantly above inflation
 - Driven primarily by power, bad debts and service charges

Areas of focus – Productivity

Example Leakage

- Delivered productivity improvements in finding and fixing leaks
- Repair productivity approaching target levels
- Also innovating with leakage detection on plastic pipes and new repair techniques
- Significantly reduced time to get a leak inspected, assessed and repaired
- Proportion of work carried out right first time has also improved



Areas of focus going forward

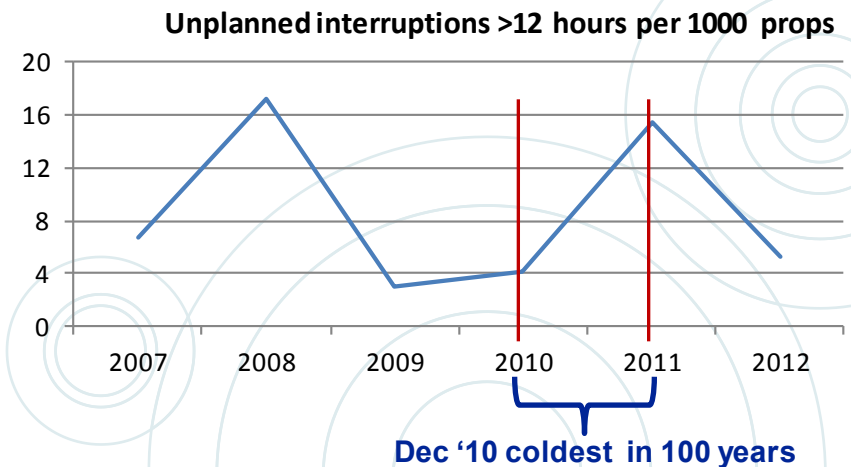
Serviceability

Serviceability	2008/09	2009/10	2010/11	2011/12e	
Water below ground	Stable	Marginal	Marginal	Marginal	focus area
Water above ground	Stable	Stable	Stable	Stable	✓
Waste below ground	Stable	Stable	Stable	Stable	✓
Waste above ground	Stable	Stable	Stable	Stable	✓

Water below ground serviceability is assessed by:

- ✓ Mains bursts
- ✓ Poor pressure
- Interruptions > 12 hours is driving marginal assessment

This year saw significant improvements in interruptions > 12 hours we expect to return to stable serviceability in 2012/ 13



Capital Investment Programme

Additional £150m over the remainder of AMP5 to deliver stable serviceability

- Reducing unplanned interruptions
- Improving performance of water treatment works
- Reducing pollution incidents
- Reducing number of sewage treatment works failing consents
- Continue to increase the flexibility of our network for future water trading
- Provide additional RCV growth

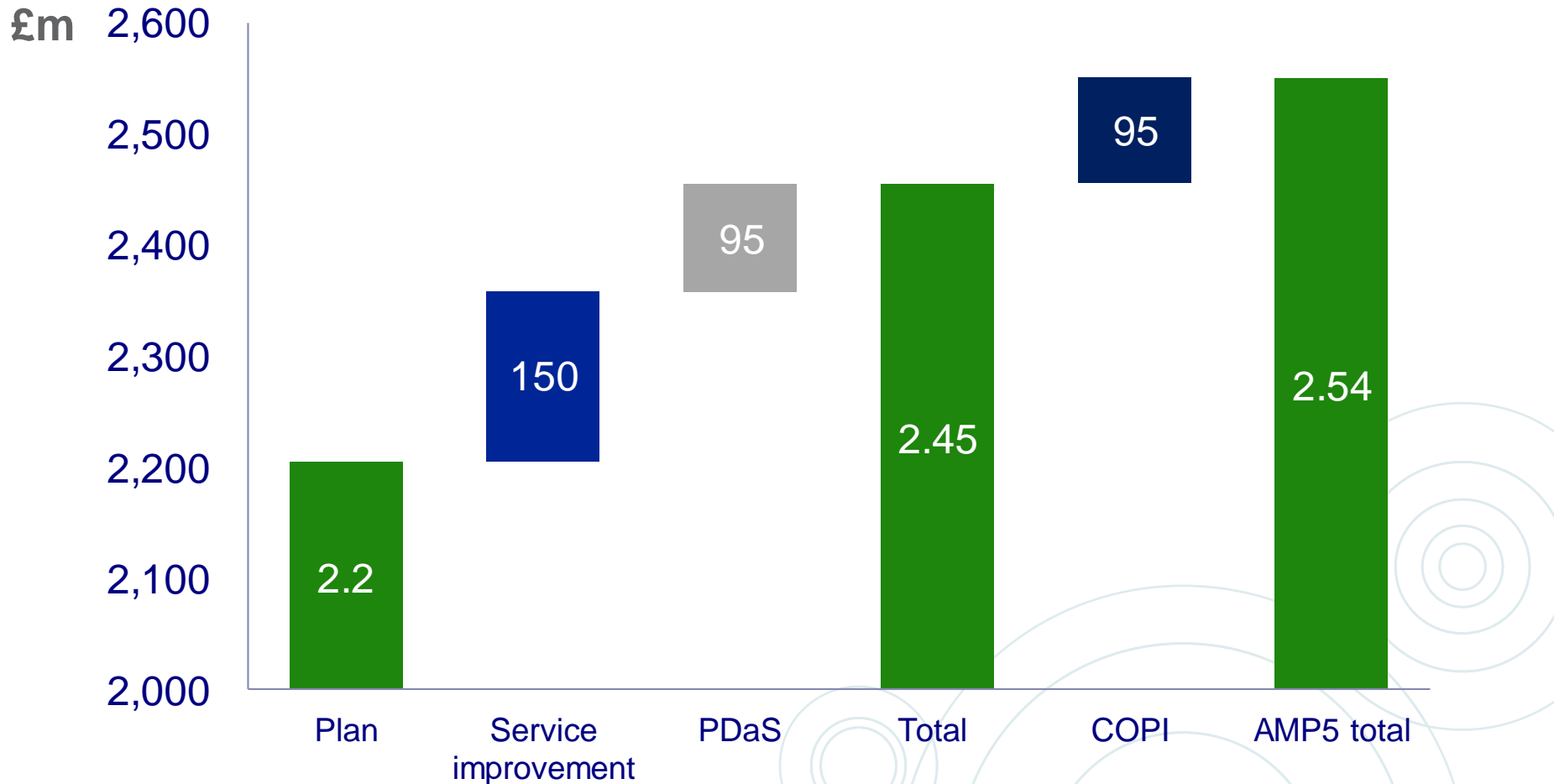


Targeted section of trunk main renewal



New Thru-bore hydrants fitted without interrupting supply

Revised capex programme for AMP5



Severn Trent Services

Improved second half

Operating Services

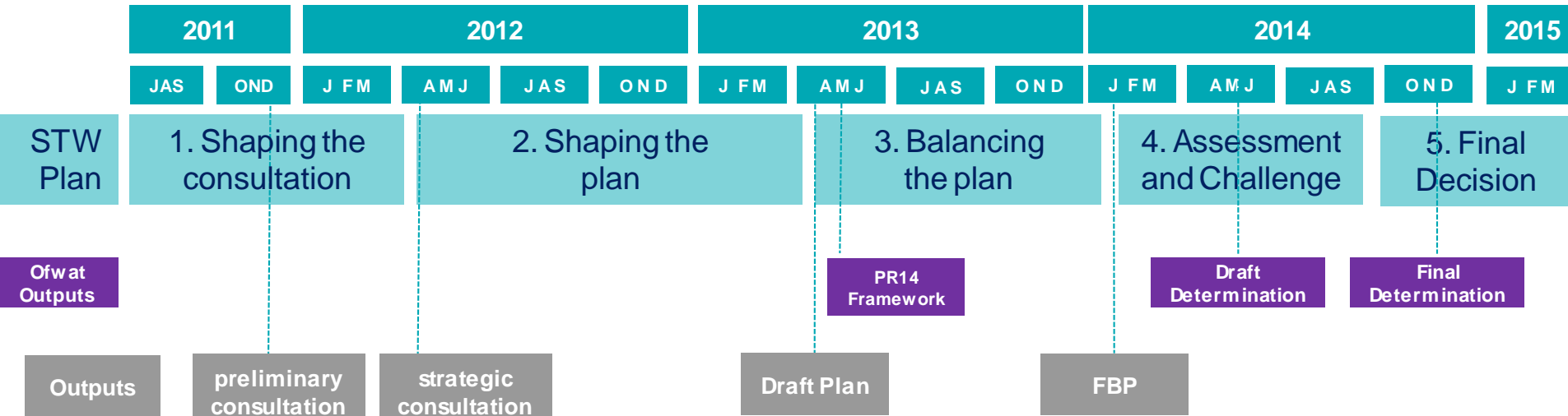
- US - some contracts taken back “in house” by municipalities
 - Total number of contracts stable; contract wins in new states
- Italy - no further investment planned
- UK & Ireland - project growth exceeded expectations

Products

- US – mixed picture, municipal/commercial markets
 - Emerging markets – good growth
 - UK - momentum picking up
 - BalPure – orders of £5m
 - £2m investment to develop contract pipeline
- 

Planning for PR14

Now in Phase 2, building Draft Plan for consultation



Future price limits:

- Separate retail and wholesale price controls – not a “zero-sum” game
- 5 year period
- RCV indexed to RPI
- Encouragement for water trading
- More detail needed on outcomes / incentives and totex approach

Summary

Delivered on our commitments

Enhanced investment programme to deliver further service improvements for customers

Additional shareholder returns

Planning for PR14 and beyond

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Questions and Answers



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Appendix



Group Earnings

Year ended 31 March 2012

2010/11 £m		2011/12 £m	Movement in the period £m
274.5	Profit for the period	174.4	(100.1)
272.6	Attributable to:	171.8	(100.8)
1.9	- Equity holders of the company	2.6	0.7
	- Non controlling interests		
Pence		Pence	Pence
Basic EPS from continuing operations			
105.6	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	88.9	(16.7)
115.2	Basic EPS	72.5	(42.7)
Diluted EPS from continuing operations			
105.1	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	88.5	(16.6)
114.6	Diluted EPS	72.1	(42.5)

Group balance sheet

31 March 2012

2010/11 £m	2011/12 £m	Movement in the period £m
6,427.0 Property plant and equipment	6,577.8	150.8
203.2 Intangible assets	160.9	(42.3)
5.1 Other non current assets	4.9	(0.2)
(583.5) Working capital/provisions	(684.6)	(101.1)
6,051.8 Capital employed	6,059.0	7.2
(67.0) Tax creditor	(46.5)	20.5
(919.4) Deferred tax provision	(801.5)	117.9
(3,868.8) Net debt	(3,967.8)	(99.0)
(90.5) Derivative financial instruments	(261.8)	(171.3)
1,106.1 Net assets	981.4	(124.7)
77.8% Gearing	80.2%	

* Net debt divided by net debt and equity

Movements on shareholders' equity


Year ended 31 March 2012

	2011/12
At 1 April	1,106.1
Total recognised income for the period	27.7
Dividends	(159.0)
Dividends to minorities	(1.0)
Credit from share based payments charge	4.5
Tax on share based payments charge	0.7
Shares issued	2.4
At 31 March	981.4

Gearing

At 31 March 2012

2010/11	Net debt/RCV	2011/12
57%	Severn Trent Plc	56%
58%	Severn Trent Water	59%



Segmental analysis of capital employed

31 March 2012

Total		Net operating assets	Goodwill	Total
2010/11		2011/12	2011/12	2011/12
£m		£m	£m	£m
5,905.2	Severn Trent Water	5,958.7	0.0	5,958.7
189.0	Severn Trent Services*	94.8	44.9	139.7
(42.4)	Other	(39.4)	0.0	(39.4)
6,051.8	Group	6,014.1	44.9	6,059.0

*Excludes goodwill of £40.8 million previously written off against reserves and £22.9m written off against the income statement in 2011/12

PBITD* analysis

Year ended 31 March 2012

2010/11 £m		2011/12 £m
764.2	Severn Trent Water	768.0
33.2	Severn Trent Services	25.6
(12.4)	Other	(15.7)
785.0	Group	777.9

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

Depreciation* analysis

Year ended 31 March 2012

2010/11 £m		2011/12 £m
260.5	Severn Trent Water	268.0
7.5	Severn Trent Services	7.6
(2.1)	Other	(1.9)
265.9	Group	273.7

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

Capital expenditure (net cash)*

Year ended 31 March 2012

2010/11 £m		2011/12 £m
(370.8)	Severn Trent Water	(342.9)
(7.1)	Severn Trent Services	(7.4)
(21.7)	Other	(0.9)
(399.6)	Group	(351.2)

* Net of grants and contributions received and proceeds of sale

Severn Trent Water – capex reconciliation

Year ended 31 March 2012

2010/11 £m		2011/12 £m
424.7	UK GAAP gross capex	498.5
(19.4)	Less grants and contributions	(24.3)
405.3	UK GAAP net capex	474.2
(96.9)	Treated as IFRS infrastructure operating expenditure	(128.9)
0.0	Other IFRS adjustments	0.3
81.8	Movement on capital creditors	6.1
(19.6)	Proceeds of sale of fixed assets	(8.8)
370.6	IFRS capex (net cash)	342.9

* Capex at outturn prices after deduction of grants and contributions

Severn Trent Water – operating costs

Year ended March 2012

2010/11 £m		2011/12 £m	Variance £m	Variance %
529.1	Direct operating costs	561.6	32.5	6.1
260.5	Depreciation	268.0	7.5	2.9
96.9	Infrastructure renewals	128.9	32.0	33.0
886.5	STW operating costs	958.5	72.0	8.1

* Net of other income £4.1m (£3.6m) but excluding management charges

Exceptional items

Year ended 31 March 2012

£m	2010/11	2011/12
Severn Trent Water		
Restructuring costs	13.0	11.5
Curtailment gain	–	(21.8)
Severn Trent Services		
Provisions for commercial disputes and bad debts	–	23.1
Curtailment gain	–	(1.3)
Goodwill impairment	–	22.9
Restructuring costs	0.7	–
Costs relating to regulatory matters	3.8	–
Corporate and other		
Provisions for terminated operations	–	–
Costs relating to regulatory matters	3.9	–
Total exceptional operating costs	21.4	34.4
Exceptional finance costs	–	16.5
Total exceptional items	21.4	50.9

Severn Trent Services performance

Year ended 31 March 2012

Turnover				Underlying PBIT*		
2010/11 £m	2011/12 £m	Change %		2010/11 £m	2011/12 £m	Change %
336.1	332.3	(1.1%)	As reported	25.7	18.0	(30.0)%
330.2	332.3	0.6%	At constant exchange rates	24.5	18.0	(26.5)%

			ROIC**		8.2%	
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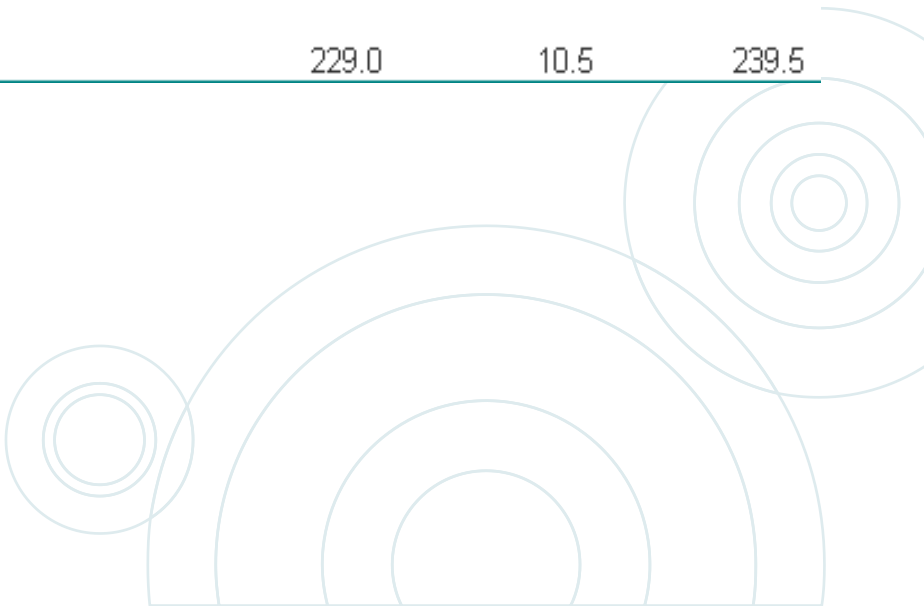
* PBIT before exceptional items

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

Net finance costs

Year ended 31 March 2012

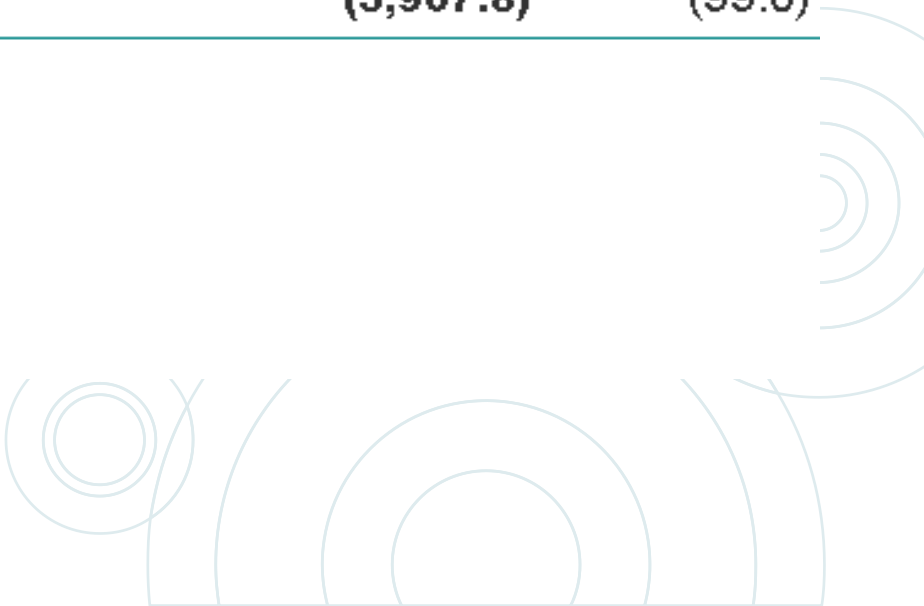
	Income statement charge £m	Capitalised interest £m	Gross interest incurred £m
"Cash" interest	178.4	8.1	186.5
Pension debit/(credit)	(3.0)	-	(3.0)
RPI interest and amortised fees	53.6	2.4	56.0
	229.0	10.5	239.5



Net debt

At 31 March 2012

2010/11 £m	2011/12 £m	Movement in the period £m
315.2 Cash and cash equivalents	295.1	(20.1)
(23.9) Borrowings - current liabilities	(89.3)	(65.4)
(4,320.5) Borrowings - non-current liabilities	(4,309.5)	11.0
160.4 Cross currency swaps hedging debt	135.9	(24.5)
(3,868.8) Net debt	(3,967.8)	(99.0)



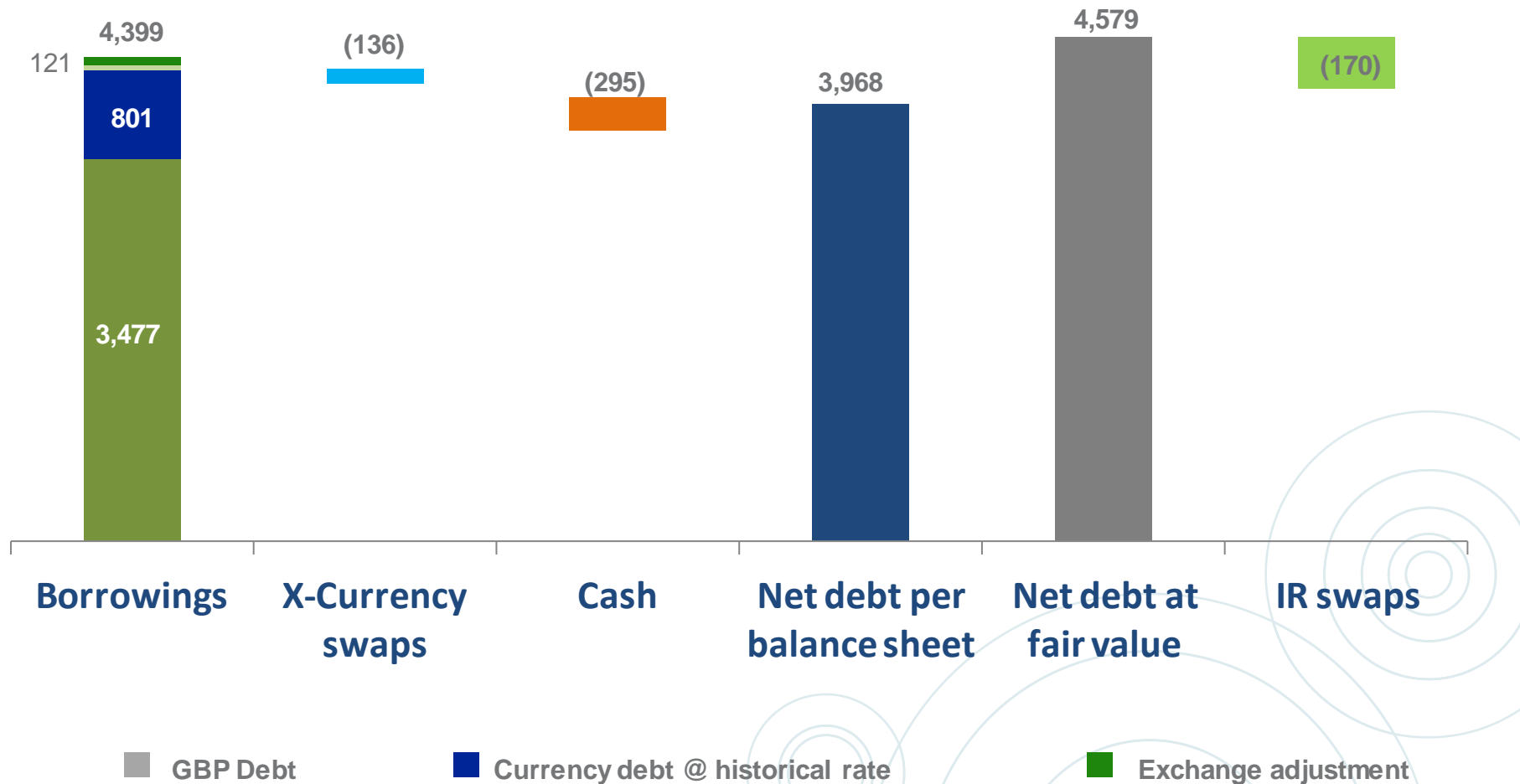
Fair value of net debt

At 31 March 2012

2010/11 £m	2011/12 £m	Movement in the period £m
(836.8) Bank loans	(858.3)	(21.5)
(3,597.6) Other loans	(3,936.2)	(338.6)
(237.4) Obligations under finance leases	(215.4)	22.0
(4,671.8)	(5,009.9)	(338.1)
315.2 Net cash and cash equivalents	294.7	(20.5)
160.4 Cross currency swaps	135.9	(24.5)
(4,196.2)	(4,579.3)	(383.1)
(3,868.8) Net debt (previous slide)	(3,967.8)	(99.0)
327.4 Difference	611.5	284.1

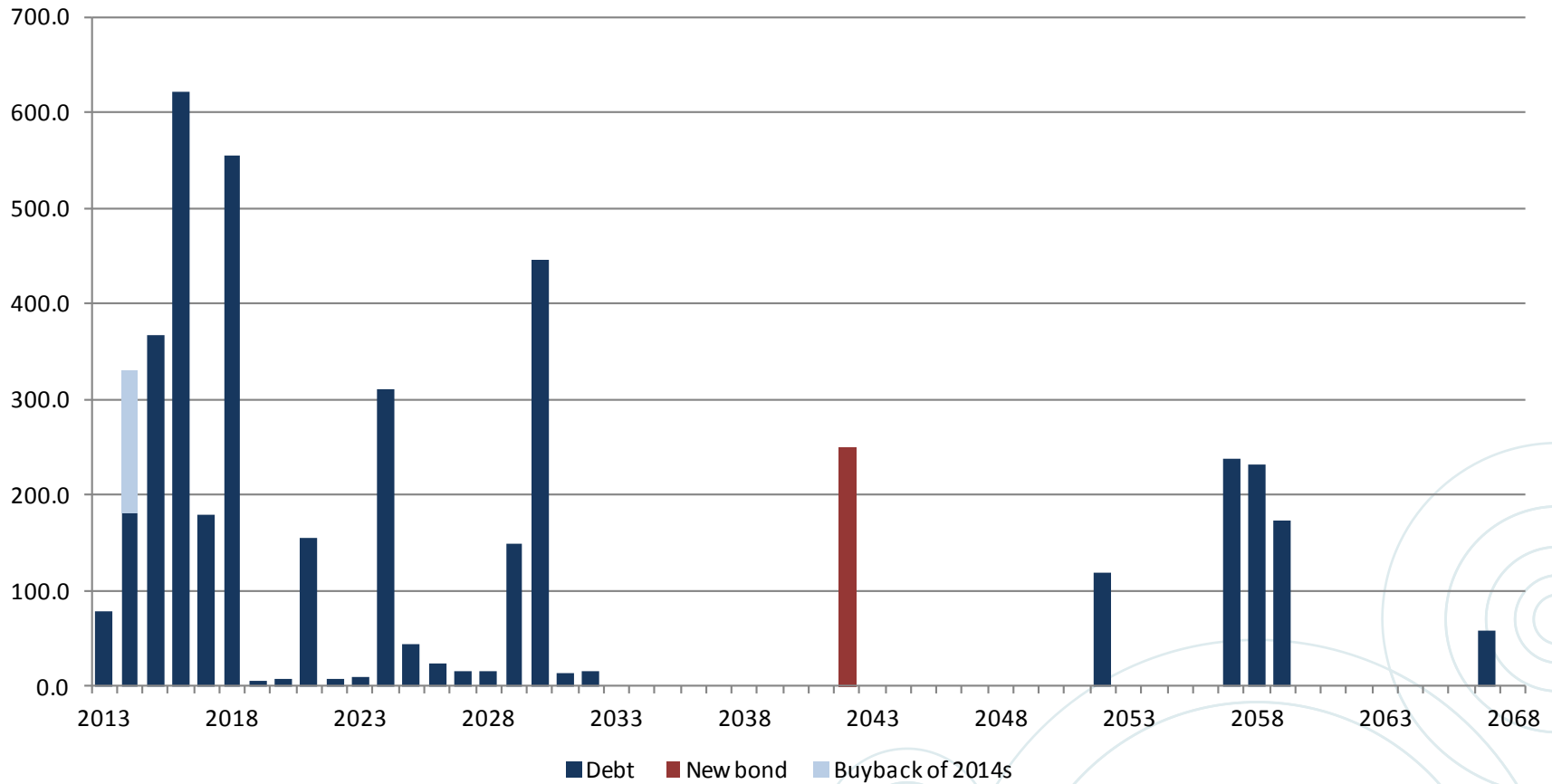
Analysis of borrowings, net debt and swaps

At 31 March 2012



Debt maturity profile

Maturity profile of gross debt (£ millions)



Credit ratings

31 March 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	7,267	7,523	7,786
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



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