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TRENT

Interim Results

6 Months to 30 September 2008

Presentation – 25 November 2008

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Sir John Egan

Chairman



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Mike McKeon

Finance Director

Highlights

	H1 2007/08	H1 2008/09	Change
	£m	£m	%
Group Turnover	774	814	5.2%
Profit Before Interest and Tax (PBIT*)	250	262	4.6%
Profit Before Tax (PBT**)	162	155	(4.3%)
Adjusted Basic EPS*** (pence)	47.6p	50.0p	5.0%
Basic EPS (pence)	64.7p	(35.8p)	(155.3%)
Dividend (pence per share)			
Interim	24.34p	26.29p	8.0%

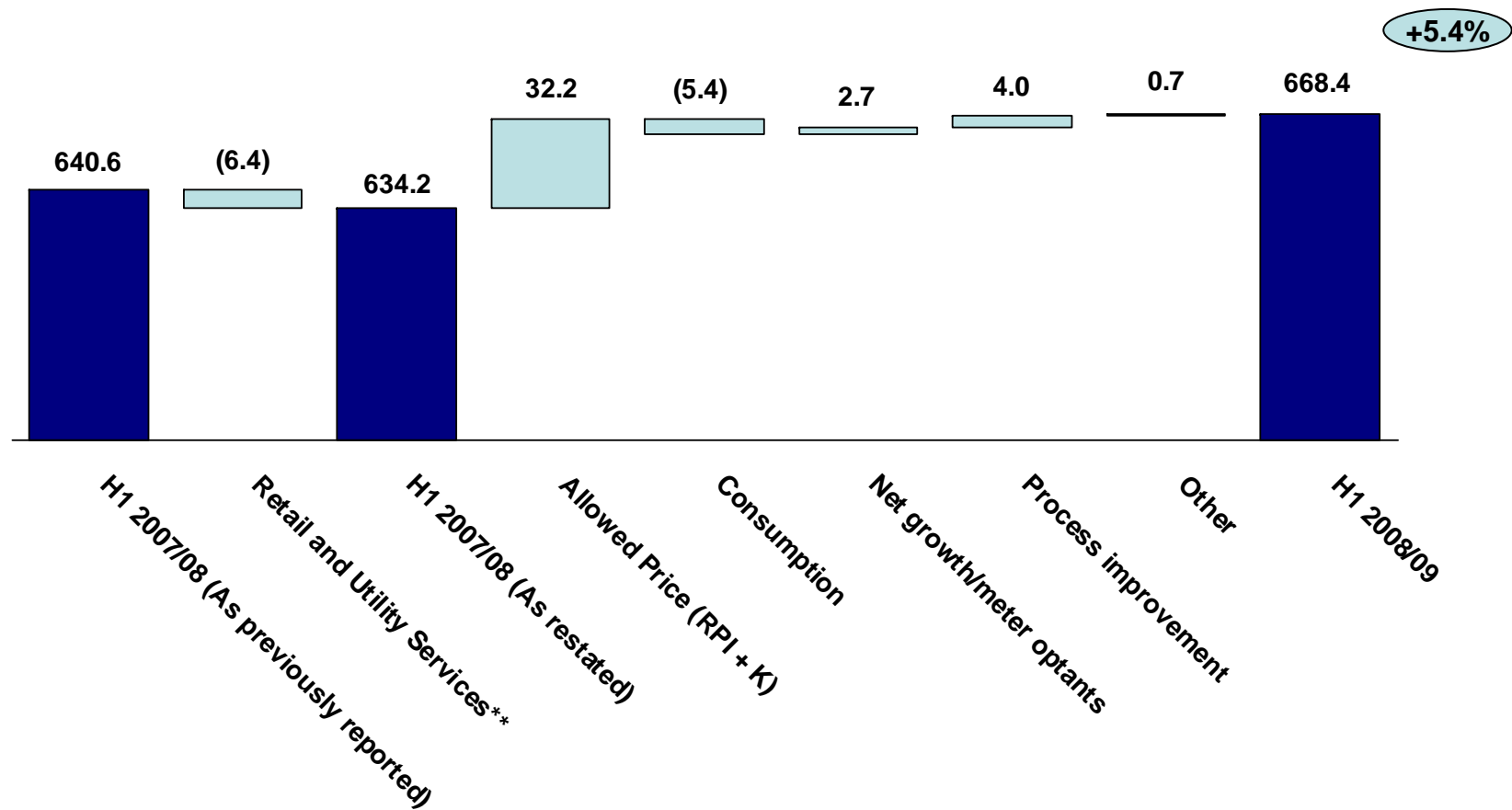
* Excluding exceptional items

** Excluding exceptional items and gains/losses on financial instruments

*** Excluding exceptional items, gains/losses on financial instruments and deferred tax

Water and Sewerage Turnover

Water and Sewerage Turnover*
£m

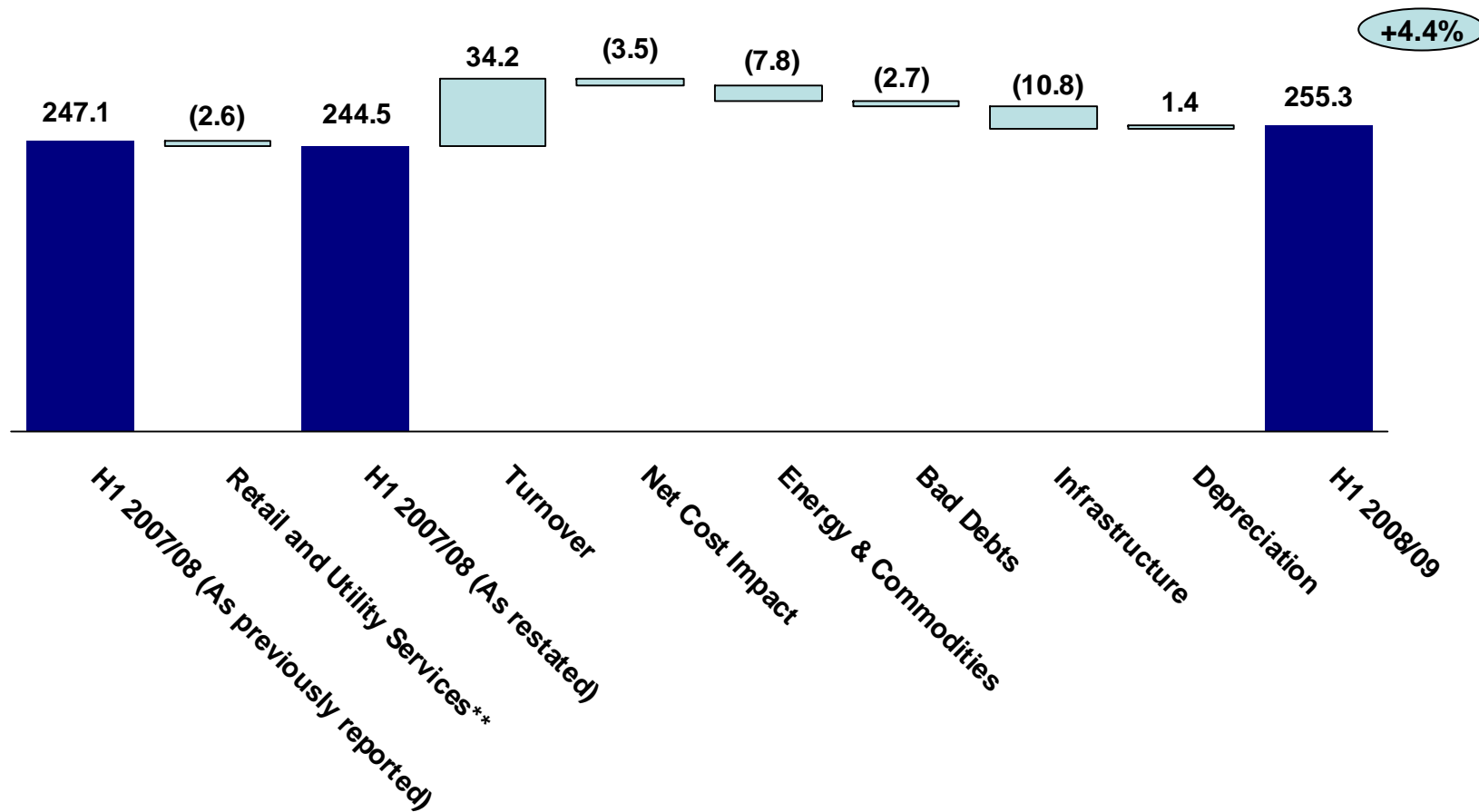


* Business segment turnover is stated gross (i.e. including inter segment trading)

** Transferred to Severn Trent Services

Water and Sewerage PBIT

Water and Sewerage PBIT* £m



* Numbers shown before exceptional items

** Transferred to Severn Trent Services

Severn Trent Services* performance

	H1 2007/08 £m	H1 2008/09 £m	Change %
Turnover (Excluding STRS**)	146.4	150.1	2.5%
STRS	6.8	7.0	2.9%
Turnover	153.2	157.1	2.5%
PBIT*** (Excluding STRS)	10.1	11.1	9.9%
STRS	2.6	2.2	(15.4%)
PBIT***	12.7	13.3	4.7%
ROIC****	14.4%	14.7%	

* Formerly Water Technologies & Services

** Retail and Utility Services

*** PBIT before exceptional items

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

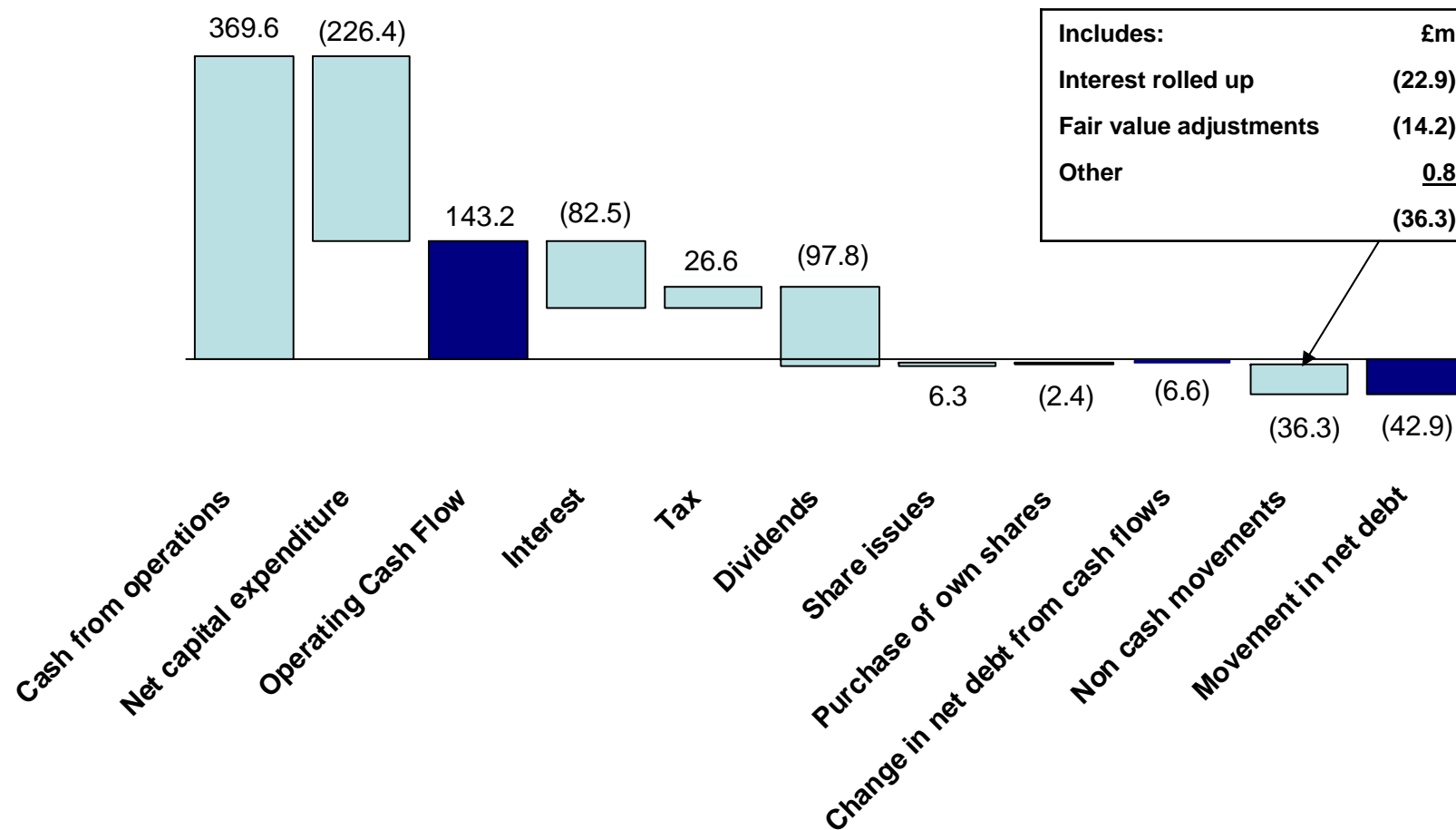
Exceptional items

	FY 2007/08 £m	H1 2008/09 £m
Flooding income/(costs)		
Gross costs	(29.6)	(2.1)
Insurance recoveries	16.0	9.3
	(13.6)	7.2
Legacy issues		
Ofwat fine	(35.8)	-
Court imposed fine and costs	-	(2.2)
Contribution to Charitable Trust	-	(5.0)
	(35.8)	(7.2)
Severn Trent Services		
Third party legal costs	(4.5)	1.0
Restructuring costs	(14.9)	(5.4)
Net exceptional items	(68.8)	(4.4)

Cash Flow

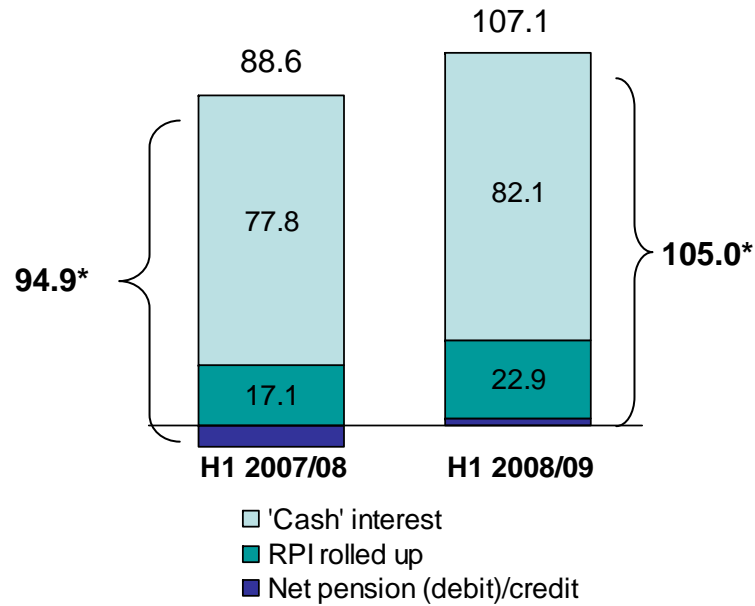
H1 2008/09 operating cash flow

£m



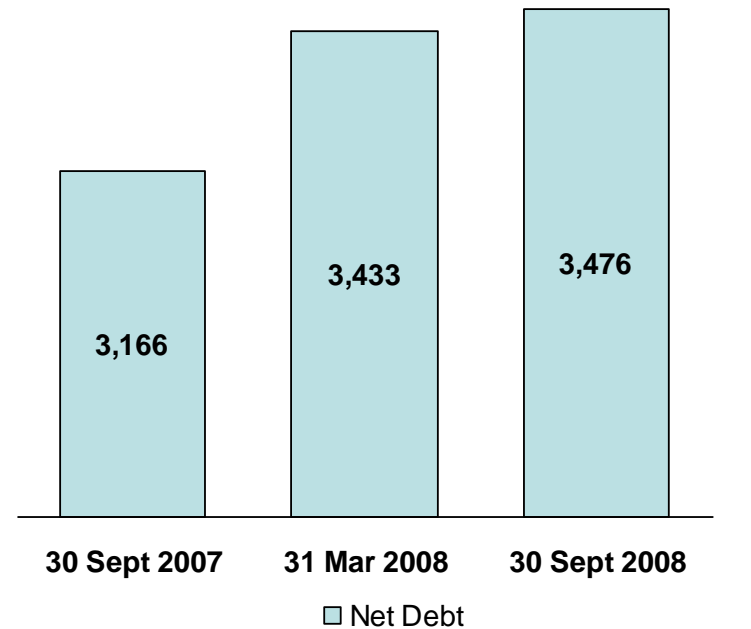
Group finance charges and net debt

Interest £m



- Effective rate circa 6.1%
- Interest cover:
 - 3.6 times EBITDA***
 - 2.5 times PBIT

Net debt** £m



- 70% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,525m
- Proforma Group net debt/RCV**** 55.3%

* Excluding net pension debit of £2.1m (H1 2007/08 credit of £6.3m)

** Excluding derivative financial instruments

*** Profit before interest, tax, depreciation, exceptionals and amortisation of intangible assets

**** Forecast RCV at 31 March 2009 at year average RPI

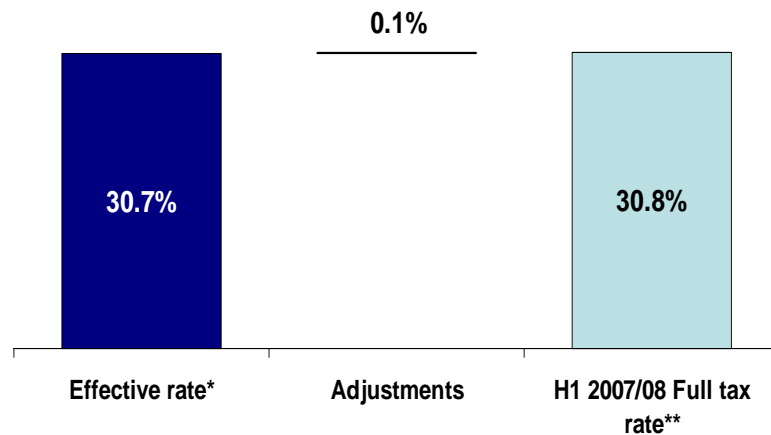
Liquidity position

- **Cash on deposit £570m**
- **Bank deposits A+ or better, liquidity funds AAA**
- **£500m 5 year bank facility maturing 2013 (undrawn)**
- **Average debt maturity 20 years**

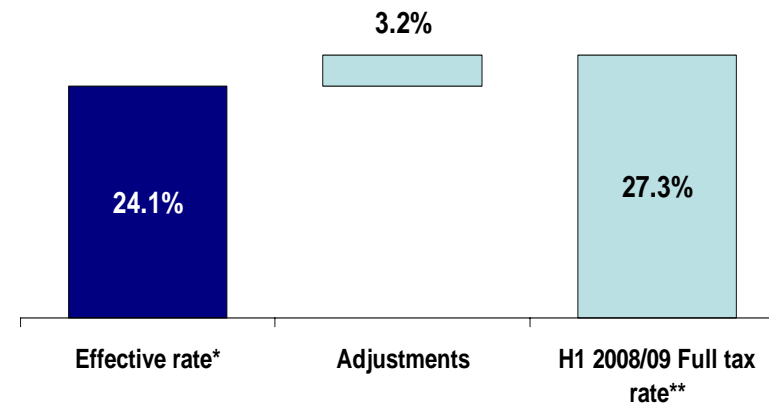
**Funded for investment and cashflow needs at
least until the end of AMP4**

Effective rate of tax

H1 2007/08 Effective current tax rate%



H1 2008/09 Effective current tax rate%



2008/09 Full Year Severn Trent Group in range of 24%-26%

- **Impact of £186m on 2008/09 deferred tax charge due to the abolition of IBAs**

* 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

- **On track to deliver 2008/09 financial performance as expected**
- **Strong liquidity position – funded to end of AMP4**
- **Delivering on dividend growth commitment**



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Tony Wray

Chief Executive

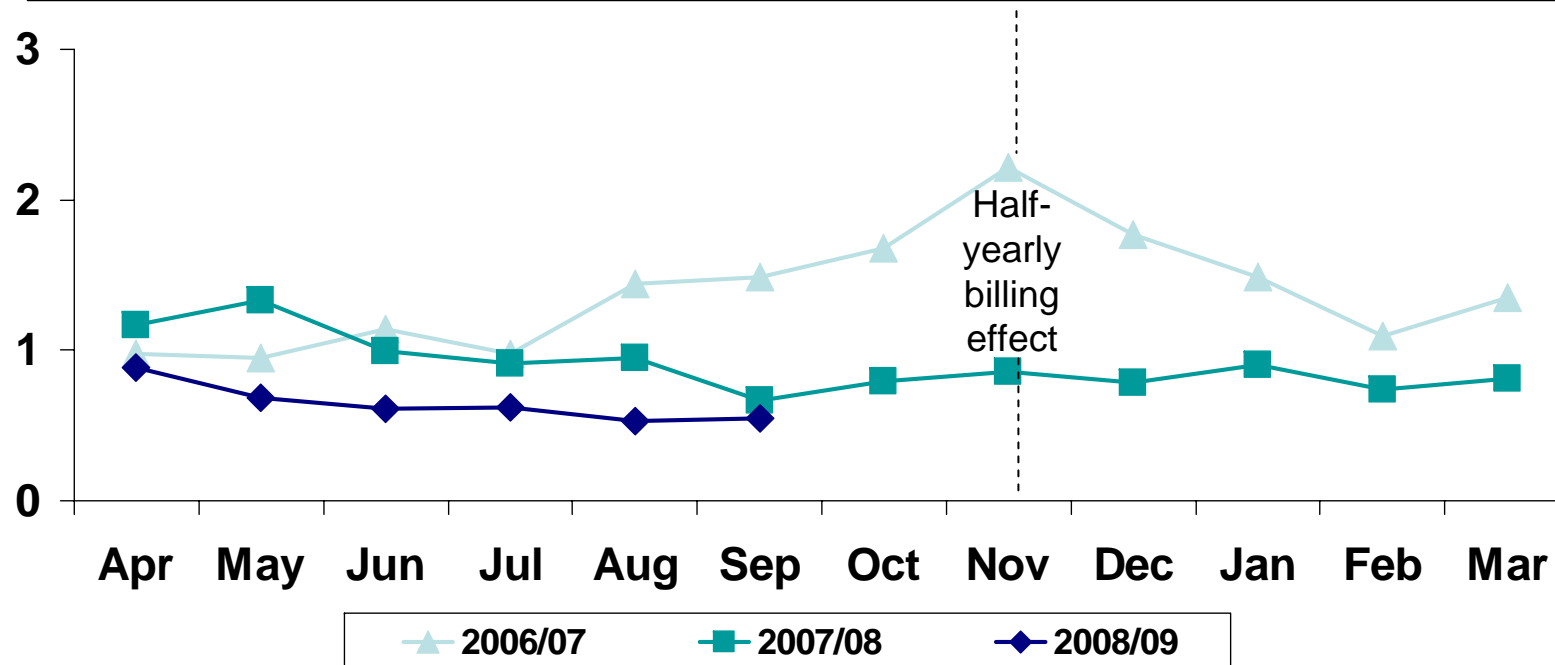
Raising standards

- **Annual update of benchmarks to reflect market leading standards is now complete**

- **Good performance and improvement in some key areas:**
 - Customer complaints
 - Leakage
 - Sewer flooding
 - Supply interruptions
 - Health & Safety
 - Opex. vs. Final Determination
 - Capex. vs. Final Determination

Continued progress in reducing customer complaints

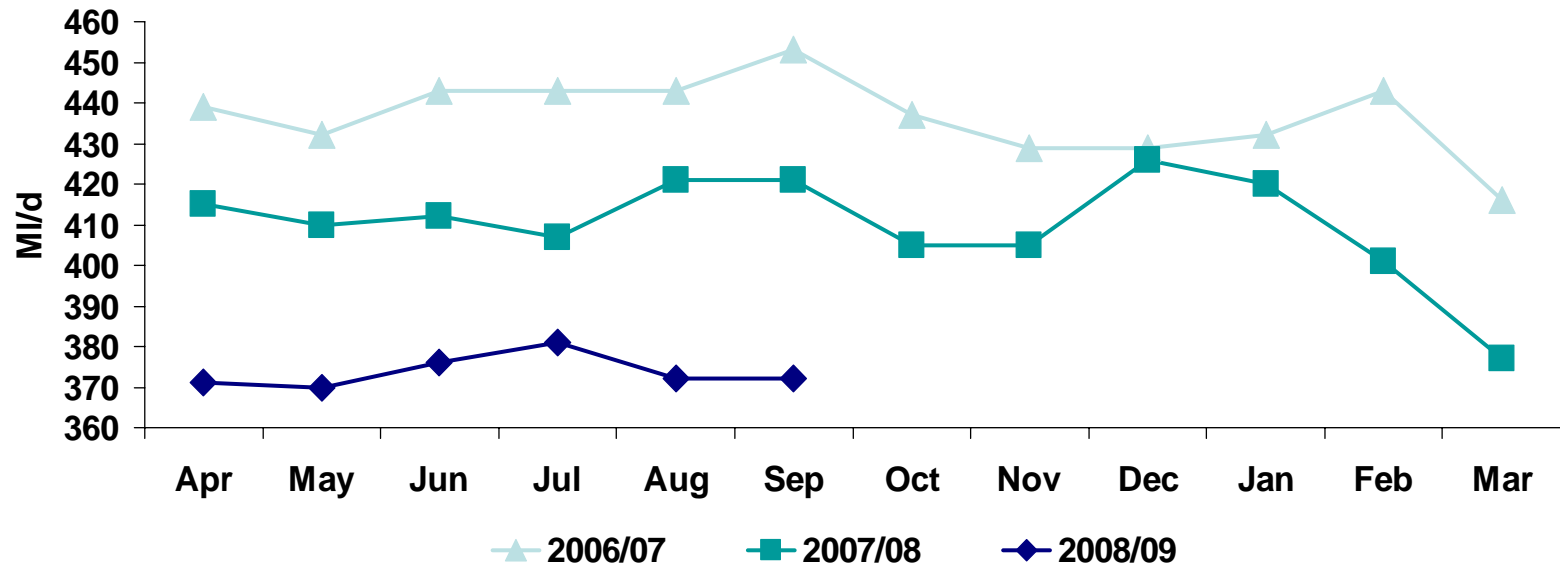
Customer written complaints
per 1,000 properties



Customer written complaints per 1,000 properties continues to reduce

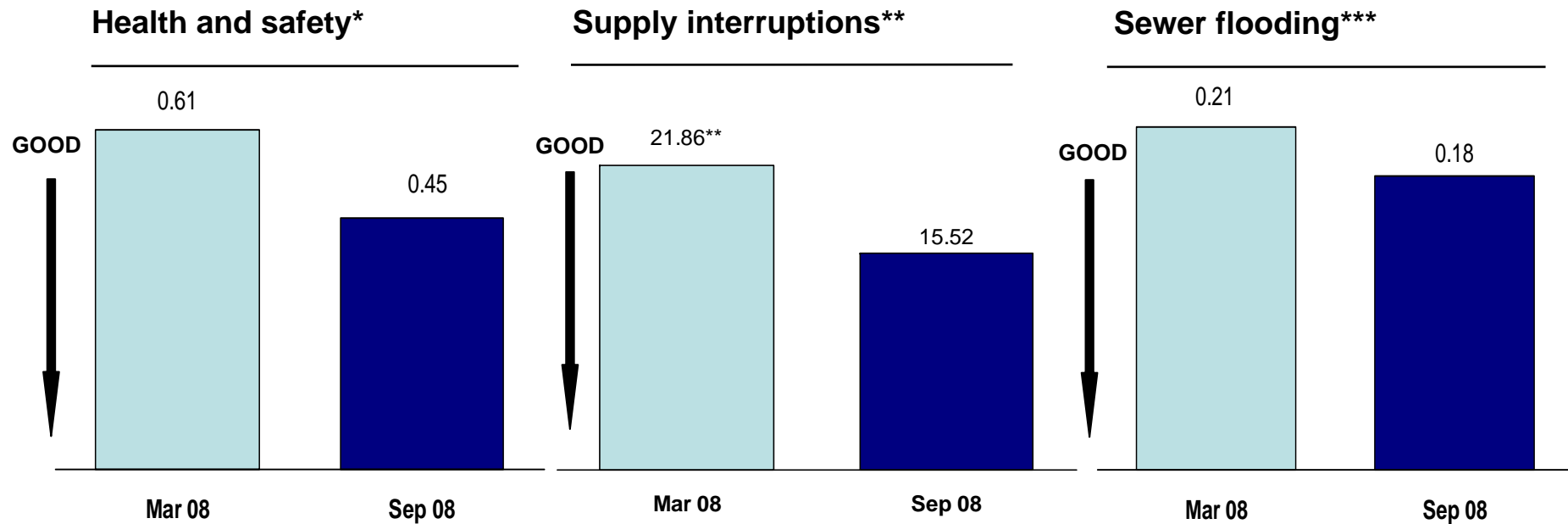
Leakage reduction on target

DMA Leakage profile



DMA leakage performance is well ahead of last year and on target

Continued focus delivering improvements



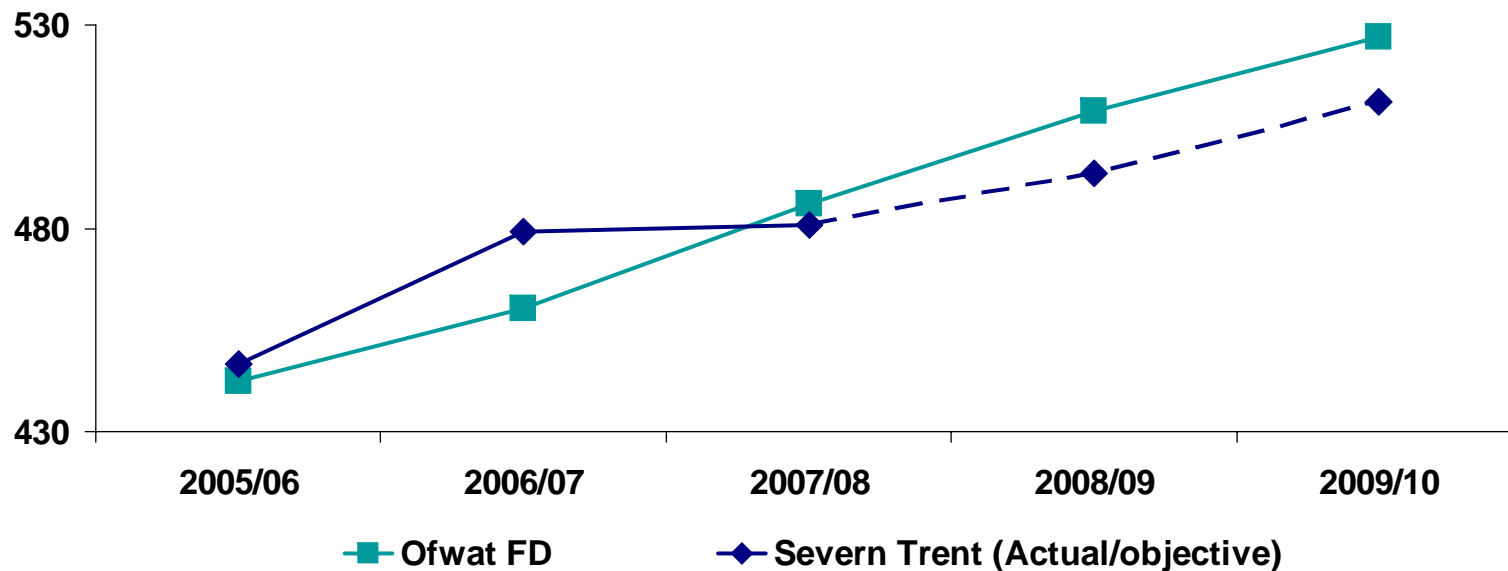
* Lost time incidents, Moving Annual Total (per 1,000 hours worked)

** Unplanned interruptions >6 hours, Moving Annual Total (per 1,000 properties), March 08 excludes impact of Summer 2007 Flooding, including flooding = 184.5

*** Sewer flooding incidents – Other causes, Moving Annual Total (per 1,000 properties)

Increased efficiency driving outperformance

Operating costs vs Final Determination
£m



■ Objective FY 2008/09 & 2009/10:

- On track to outperform by 3% against Ofwat's Final determination over the remainder of the AMP
- Energy fully hedged in 2008/09 and 91% hedged 2009/10 (by volume)

Capital programme on track

- **H1 2008/09 gross capex.* is £295.3m**

- **Delivery of Water and Waste AMP4 obligations on track**
 - eg Minworth sewage treatment works: £150m, of which £50m on ammonia consent

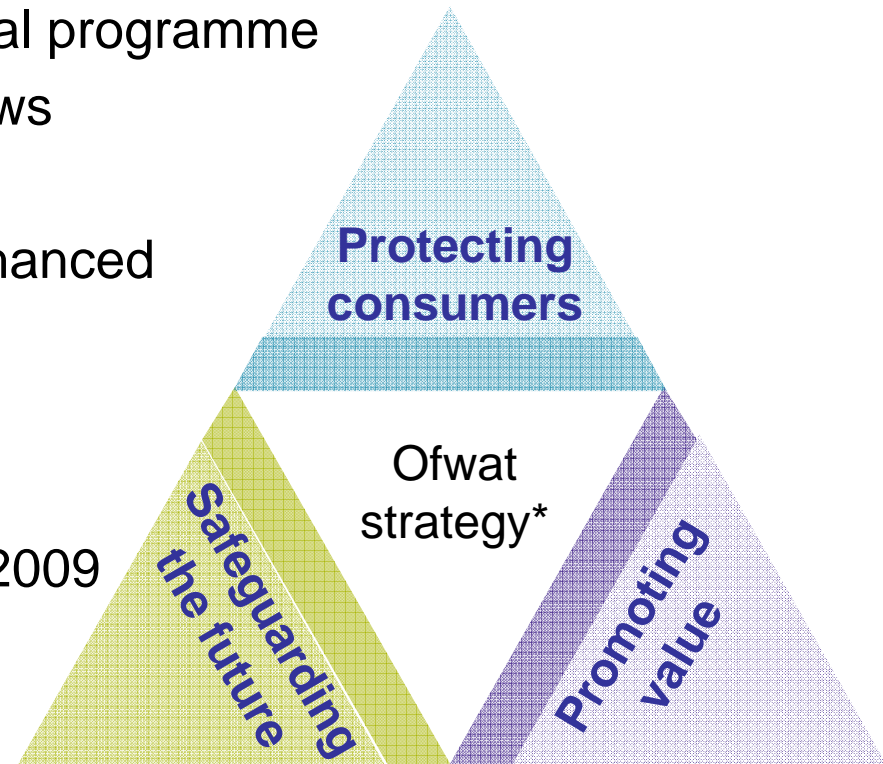
- **Forecast 6% efficiency over AMP4 invested in:**
 - Renewable energy
 - AMP5 investment programme – smoothing and improving supply chain
 - Technology and locations (Severn Trent Centre)

■ **Severn Trent Draft Business Plan – “stakeholder led”**

- Broadly flat bills
- Affordable, stakeholder led capital programme
- Aligned with Defra and Pitt reviews
- Challenging efficiency targets
- Leading renewables position enhanced

■ **Next steps**

- Final Business Plan: April 2009
- Draft Determination: July 2009
- Final Determination: November 2009



* Source: Ofwat City Briefing - July 2008

Outlook – raising standards, continuous improvement

■ **Severn Trent Water**

- Targeting annual opex. out-performance of 3% in 2008/09 and 2009/10
- Remain on track to deliver 6% capex. efficiency

■ **Severn Trent Services**

- Continued revenue and profit growth

■ **Severn Trent Plc**

- Strong liquidity position – funded at least until the end of AMP4
- Dividend growth 3% real until March 2010



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Q & A



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Appendix

Contact Details – Investor Relations

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Group income statement summary

Six Months to 30 September 2008

H1 2007/08 £m		H1 2008/09 £m	Variance £m	Variance %
774.0	Turnover	814.3	40.3	5.2
(524.0)	Operating costs	(552.8)	(28.8)	(5.5)
250.0	Profit before exceptional items, interest and tax	261.5	11.5	4.6
(21.4)	Exceptional items	(4.4)	17.0	79.4
228.6	Profit before interest and tax (Operating profit)	257.1	28.5	12.5
(88.6)	Net interest	(107.1)	(18.5)	(20.9)
9.4	Fair value movements in treasury instruments	(12.2)	(21.6)	(229.8)
0.1	Share of results of associates and joint ventures	0.1	-	-
149.5	Profit before tax	137.9	(11.6)	(7.8)
(46.1)	Current tax	(37.7)	8.4	18.2
48.7	Deferred tax	(183.4)	(232.1)	(476.6)
152.1	Profit for the period	(83.2)	(235.3)	(154.7)

Group Earnings

Six months to 30 September 2008

H1 2007/08 £m		H1 2008/09 £m			
152.1	Profit for the period	(83.2)			
150.9	Attributable to:	(83.8)			
	- Equity holders of the company				
1.2	- Minority Interests	0.6			
Pence		Pence		Variance pence	Variance %
Basic EPS from continuing operations					
47.6	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	50.0		2.4	5.0%
64.7	Basic EPS	(35.8)		(100.5)	(155.3%)
Diluted EPS from continuing operations					
47.2	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	49.8		2.6	5.5%
64.2	Diluted EPS	(35.8)		(100.0)	(155.8%)

Group balance sheet

30 September 2008

31 Mar 2008 £m		30 Sep 2008 £m	Movement since 31 Mar 2008 £m
5,731.2	Property, plant and equipment	5,854.8	123.6
157.4	Intangible assets	159.6	2.2
4.3	Other non-current assets	4.4	0.1
(388.1)	Working Capital/provisions	(493.0)	(104.9)
5,504.8	Capital employed	5,525.8	21.0
(32.4)	Tax creditor	(94.3)	(61.9)
(808.3)	Deferred tax provision	(965.8)	(157.5)
(3,432.8)	Net debt	(3,475.7)	(42.9)
(26.1)	Derivative financial liabilities	(20.6)	5.5
1,205.2	Net assets	969.4	(235.8)
74.0%	<i>Gearing</i>	78.2%	

* Net debt divided by net debt and equity

Movements on shareholders' equity

Six months to 30 September 2008

	H1 2008/09 £m
<hr/> At 1 April	1,205.2
Total recognised income for the financial period	(144.0)
Dividends	(97.8)
Credit from share based payments charge	0.5
Tax on share based payments posted directly to reserves	(0.7)
Shares issued	6.2
<hr/> At 30 September	969.4

Credit ratings

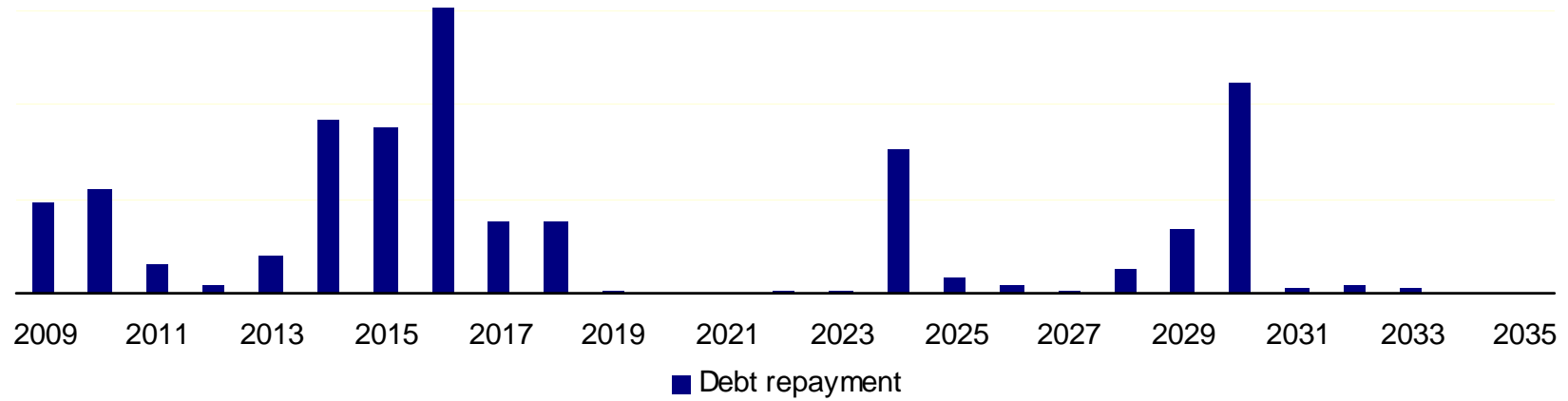
30 September 2008

Long-Term	Severn Trent Water	Severn Trent Plc
Moody's	A2	A3
Standard & Poor's	A	A-

Short-Term	Severn Trent Water	Severn Trent Plc
Moody's	P1	P2
Standard & Poor's	A1	A1

Confirmed by Rating Agencies.

Maturity profile



Average maturity of around 20 years

Gearing

Net debt/RCV	Actual at 31 Mar 2008	Proforma at 30 Sept 2008*
Severn Trent Plc	58.0%	55.3%
Severn Trent Water	58.8%	56.1%

** Net debt divided by March 2009 RCV at year average RPI*

Segmental analysis of capital employed

30 September 2008

Total (As restated) 31 Mar 2008 £m		Net operating assets 30 Sep 2008 £m	Goodwill 30 Sep 2008 £m	Total 30 Sep 2008 £m
5,431.0	Water and Sewerage	5,429.9	-	5,429.9
135.1	Severn Trent Services*	106.6	53.7	160.3
(61.3)	Other	(64.4)	-	(64.4)
5,504.8	Group	5,472.1	53.7	5,525.8

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

PBITD* analysis

Six months to 30 September 2008

Group (As restated) H1 2007/08 £m		Group H1 2008/09 £m
359.6	Water & Sewerage	369.5
15.9	Severn Trent Services	16.8
(8.2)	Other	(8.3)
367.3	Group	378.0

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

Depreciation* analysis

Six months to 30 September 2008

Group (As restated) H1 2007/08 £m		Group H1 2008/09 £m
115.1	Water and Sewerage	114.2
3.2	Severn Trent Services	3.5
(1.0)	Other	(1.2)
117.3	Group	116.5

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

Capital expenditure (net cash)*

Six months to 30 September 2008

Group (As restated) H1 2007/08 £m		Group H1 2008/09 £m
(216.2)	Water and Sewerage	(224.9)
(4.2)	Severn Trent Services	(3.3)
2.9	Other	1.8
(217.5)	Group	(226.4)

* Net of grants received and proceeds of sale

Severn Trent Water – turnover

Six months to 30 September 2008

	£'m	%
Six months to 30 September 2007 (As previously reported)	634.2	
RPI + K	32.2	5.1
	666.4	5.1
Consumption		
<i>Reduced consumption</i>	(5.4)	(0.9)
Net Growth/Meter Optants		
<i>Newcustomers/Income protection</i>	5.2	0.8
<i>Meter optants</i>	(2.5)	(0.4)
	663.7	4.6
Process improvement (unbilled/void properties)	4.0	0.6
Other	0.7	0.2
Six months to 30 September 2008	668.4	5.4

Severn Trent Water – operating costs

Six months to 30 September 2008

H1 2007/08 £m		H1 2008/09 £m	Variance £m	Variance %
231.8	Direct Operating Costs*	245.8	14.0	6.0
111.2	Depreciation**	109.8	(1.4)	(1.3)
46.7	Infrastructure Renewals	57.5	10.8	23.1
389.7	STW operating costs	413.1	23.4	6.0

* Net of other income £1.6m (£2.0m) but excluding management charges

** Net of amortisation of grants and contributions and profit on disposal of property, plant and equipment, and after profit on disposal of non current assets of £2.0m (£0.7m)

Severn Trent Water – capex reconciliation

Six months to 30 September 2008

	H1 2008/09
	£m
UK GAAP gross capex	295.3
Less grants and contributions	(16.4)
<u>UK GAAP net capex*</u>	<u>278.9</u>
<u>Treated as IFRS infrastructure operating expenditure</u>	<u>(57.5)</u>
	221.4
Movement on capital creditors	7.5
Proceeds of sale of fixed assets	(2.9)
Other	(1.1)
<u>IFRS capex (net cash)</u>	<u>224.9</u>

* Capex at outturn prices after deduction of grants and contributions

Severn Trent Water – RCV

30 September 2008

£'m	2005/06	2006/07	2007/08	2008/09	2009/10
Per Determination*	4,853	4,981	5,107	5,191	5,292
Actual/Estimated Outturn**	5,209	5,546	5,922	6,285	6,567
Ofwat Actual/Projected Outturn***	5,209	5,546	5,922	6,120	6,239

* 2002/03 prices

** At year-average outturn prices, Including inflation assumption of 4.4% and 2.5% in years 2008/09 and 2009/10 respectively

*** Ofwat estimated outturn using year end 2007/08 RPI Source Ofwat website



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