

# Interim Results

6 months to 30 September 2009

24 November 2009

The Lincoln Centre, London

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# Sir John Egan

Chairman

# Mike McKeon

Finance Director

# Highlights

	H1 2008/09 £m	H1 2009/10 £m	Change %
Group Turnover	814.3	852.1	4.6%
Profit Before Interest and Tax (PBIT <sup>1</sup> )	261.5	287.1	9.8%
Profit Before Tax (PBT <sup>2</sup> )	154.5	188.0	21.7%
Adjusted Basic EPS <sup>3</sup> (pence)	50.0p	60.8p	21.6%
Basic EPS <sup>4</sup> (pence)	(35.8)p	63.4p	-
Interim declared Dividend (pence per share)	26.29p	26.71p	1.6%

1. *before exceptional items*

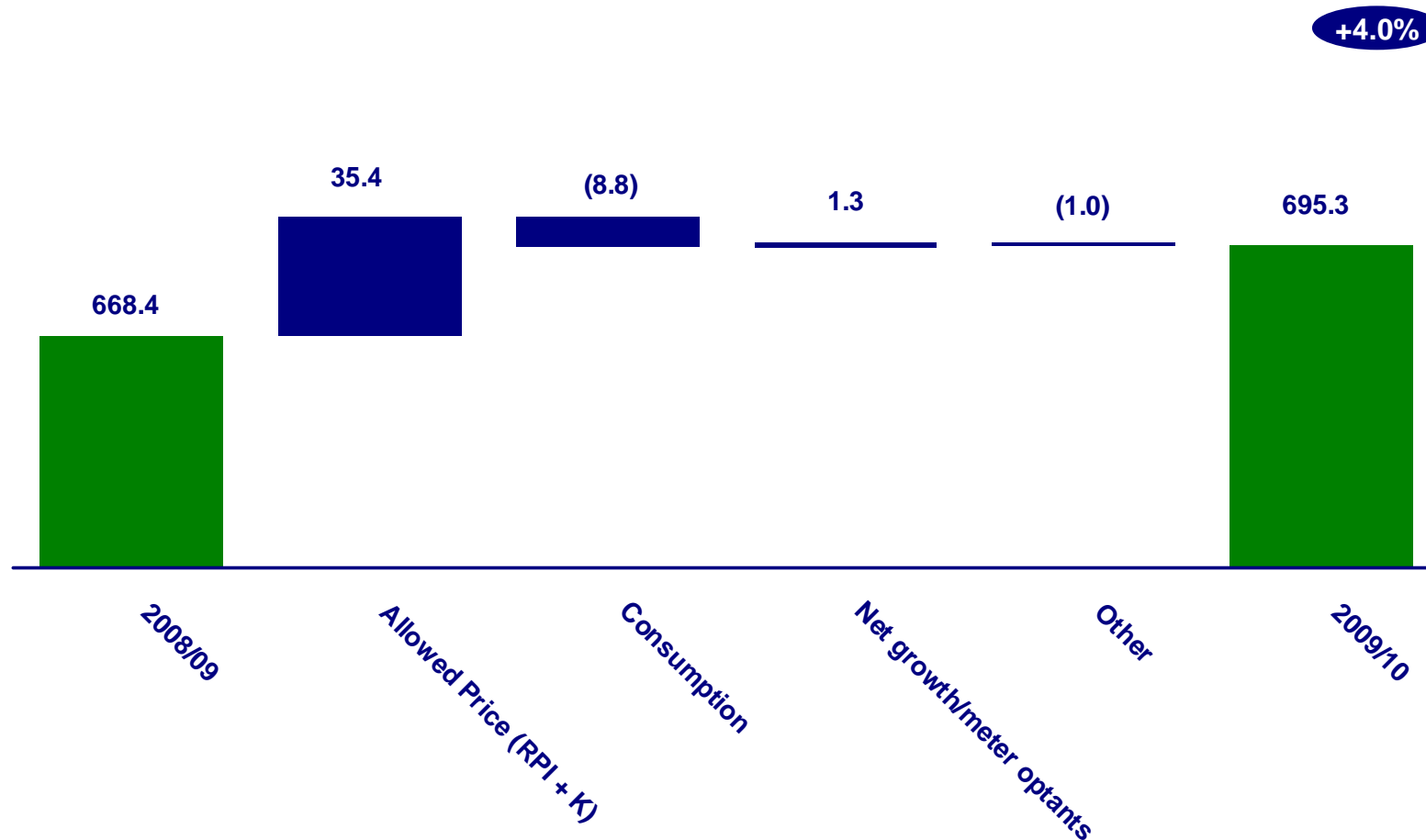
2. *before exceptional items and gains/losses on financial instruments*

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

4. *2008: after exceptional deferred tax charge of 79.2 pence/share*

# Severn Trent Water turnover

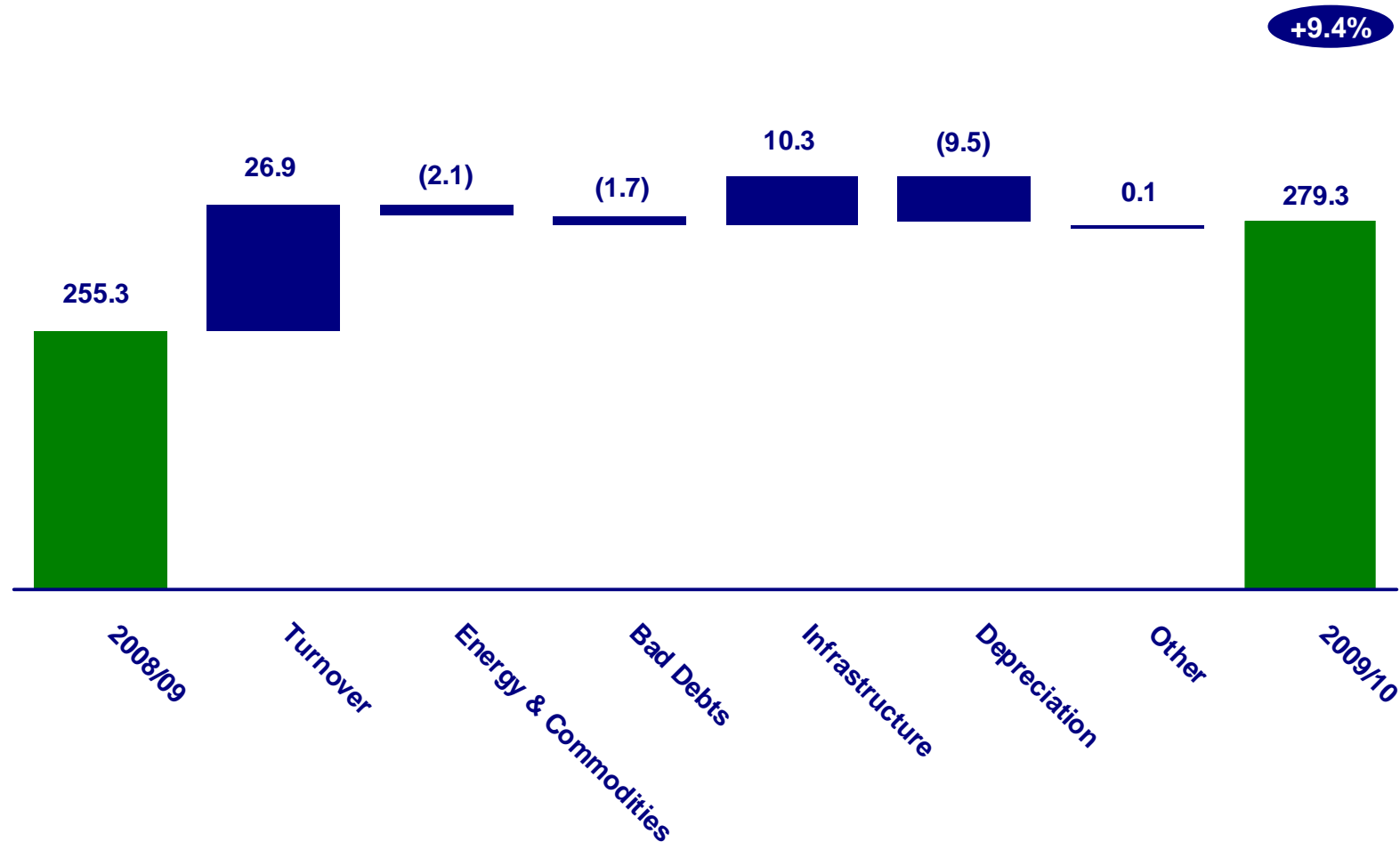
Severn Trent Water Turnover\* H1 2009/10  
£m



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

# Severn Trent Water PBIT

Severn Trent Water PBIT\* H1 2009/10  
£m



\* Numbers shown before exceptional items

# Severn Trent Services performance

Six months ended 30 September

Turnover				Underlying PBIT**		
08/09	09/10	Var.		08/09	09/10	Var.
£m	£m			£m	£m	
157.1	<b>165.5</b>	5.3%	As reported	13.3	<b>12.2</b>	(8.3%)
170.3	<b>160.4</b>	(5.8%)	Like for like in constant currency*	13.2	<b>11.8</b>	(10.6%)
			ROIC***	11%		

\* Excluding foreign exchange, disposals and acquisitions

\*\* PBIT before exceptional items

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

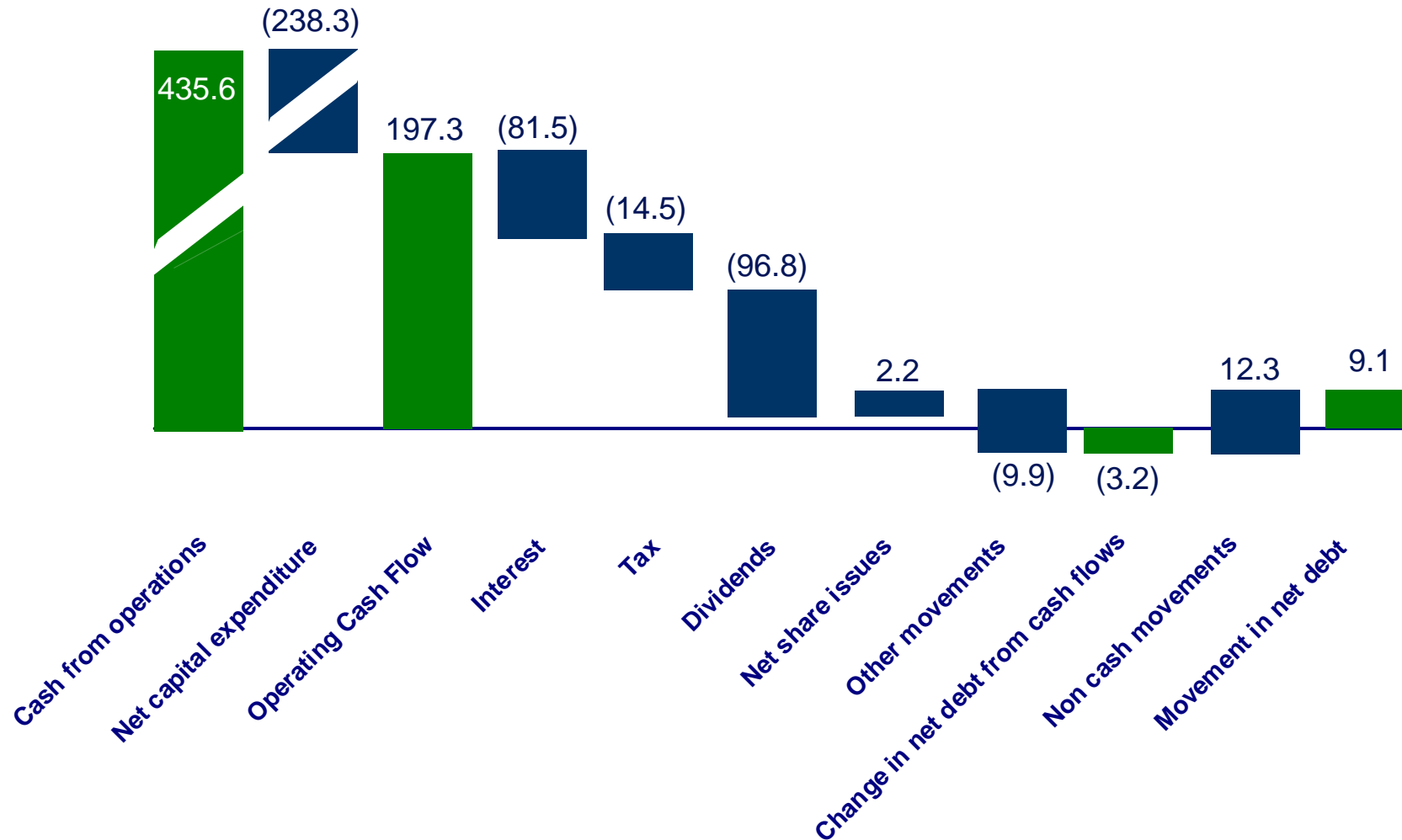


# Exceptional items

	H1 2008/09	H1 2009/10	
<b>Flooding income/(costs)</b>			
Gross costs	(2.1)	-	
Insurance recoveries	9.3	-	
	7.2		
<b>Legacy issues</b>			
Court imposed fine and costs	(2.2)	-	
Contribution to Charitable Trust	(5.0)	-	
	(7.2)		
Severn Trent Services, 3rd party legal costs	1.0	-	
<b>Restructuring costs</b>			
Severn Trent Water	(5.4)	(7.2)	Non-cash: £2.9m accelerated depreciation
Severn Trent Services	-	(4.3)	Non-cash: £1.1m disposal of assets & business
	(5.4)	(11.5)	
<b>Net exceptional items</b>	(4.4)	(11.5)	

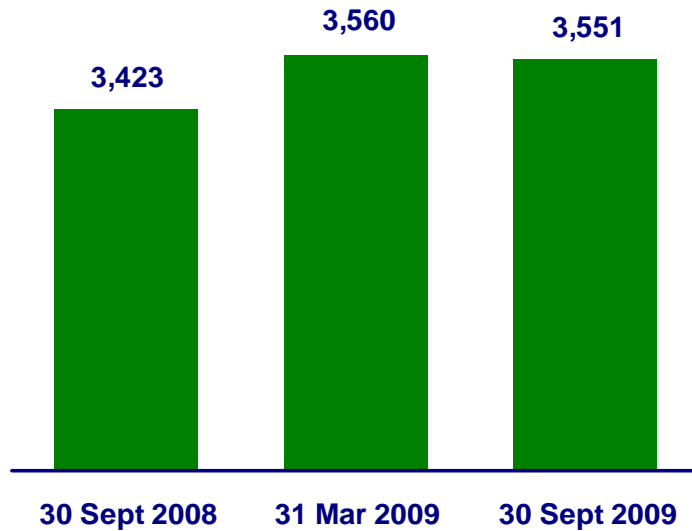
# Cash flow

H1 2009/10 operating cash flow  
£m



# Group net debt and finance charges

**Net debt\***  
£m

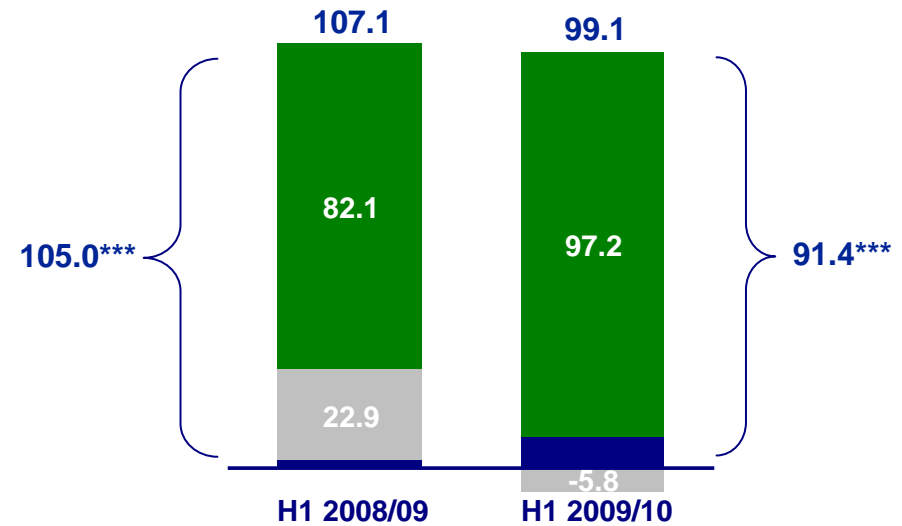


- 84% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,599m
- Group net debt/RCV\*\* 56.2%

\* Excluding derivative financial instruments

\*\* Forecast RCV at 31 March 2010 at year average RPI

**Interest**  
£m



- 'Cash' interest
- RPI rolled up
- Net pension (debit)/credit\*

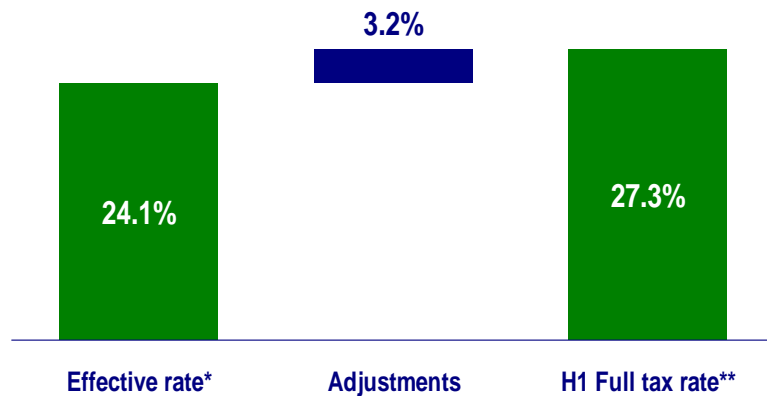
- Effective rate circa 5.2%
- Interest cover:
  - 4.5 times EBITDA\*\*\*\*
  - 3.1 times underlying PBIT

\*\*\* Excluding net pension debit of £7.7m (2008/09 debit of £2.1m)

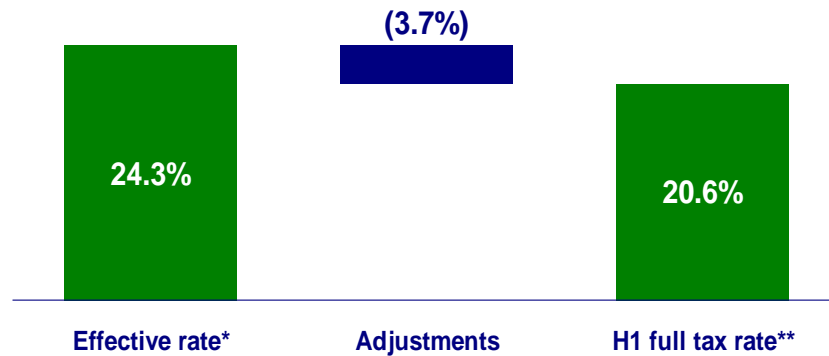
\*\*\*\* Profit before interest, tax, depreciation, exceptionals

# Effective rate of current tax

H1 2008/09 Effective current tax rate%



H1 2009/10 Effective current tax rate%



2009/10 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

# Financial summary

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**Sustained operating performance**

**Strong liquidity position**

**Delivering on dividend commitment**

# Tony Wray

Chief Executive

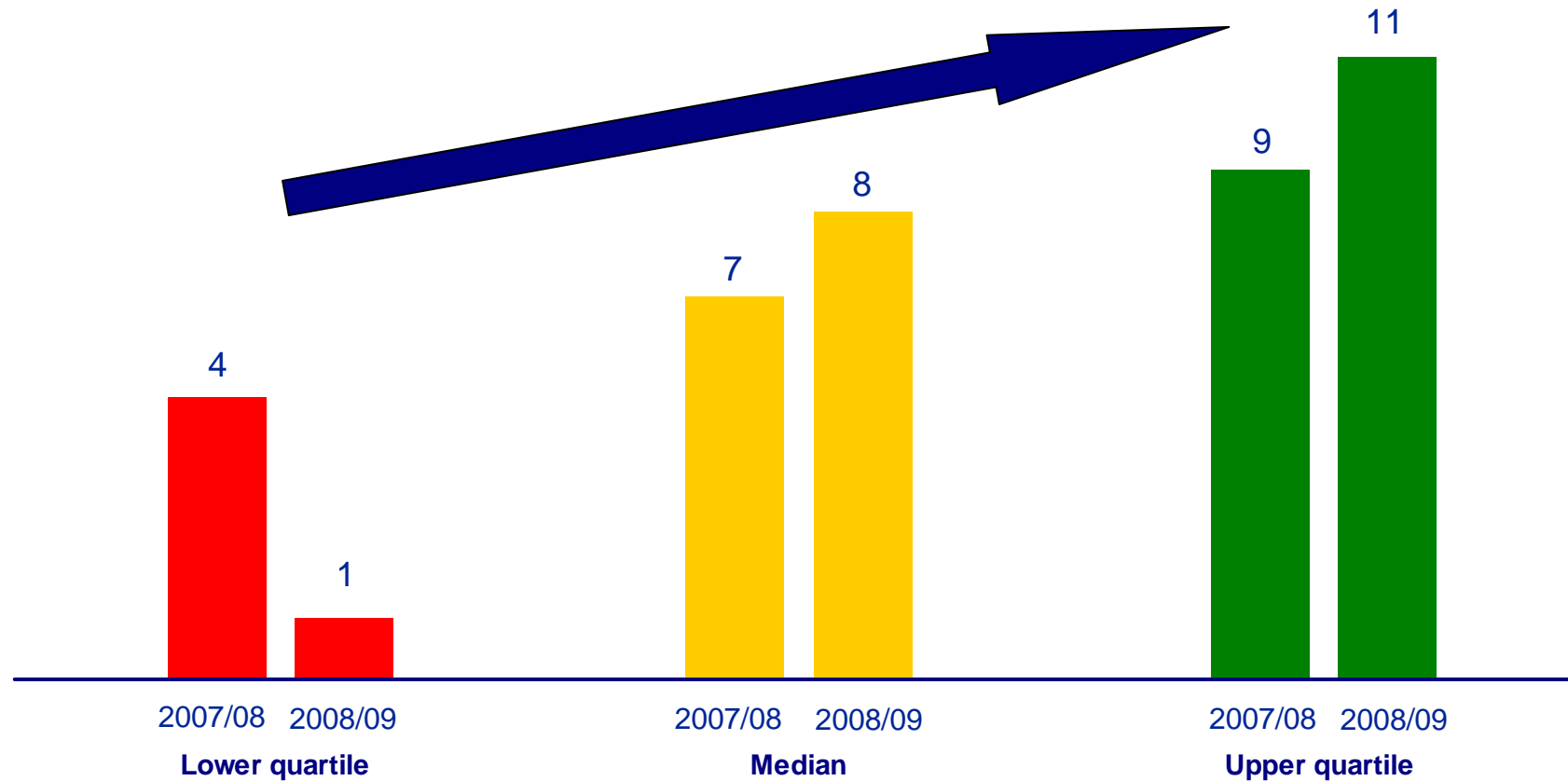
# Continued progress

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- Further improvements in KPI scores since March 09
  - Sewer flooding
  - Water quality
  - Health & Safety
  - Customer written complaints
- Debtor Days stable
- Energy – Carbon Trust Standard

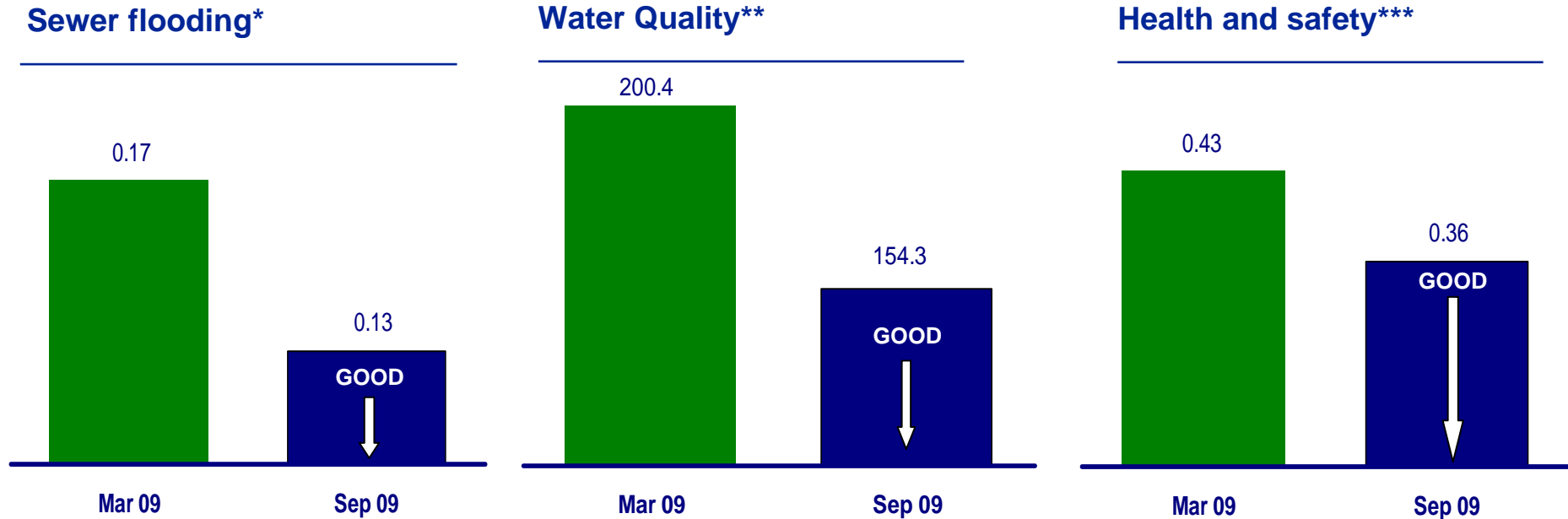
# KPI Updated benchmarks

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# Ongoing improvements



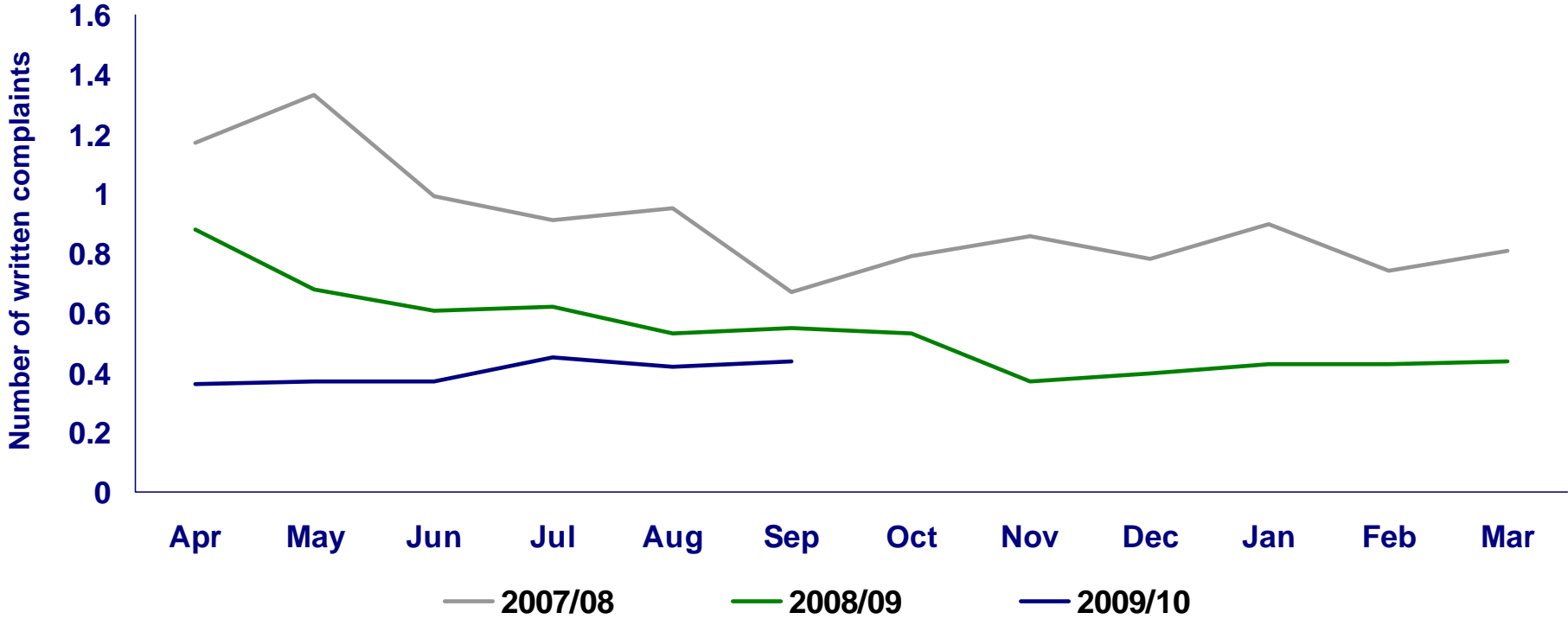
\* Sewer flooding incidents – Other causes, Moving Annual Total (per 1,000 properties)

\*\* Test failure rate (ppm)

\*\*\* Lost time incidents, Moving Annual Total (per 100,000 hours worked)

# Reducing customer complaints

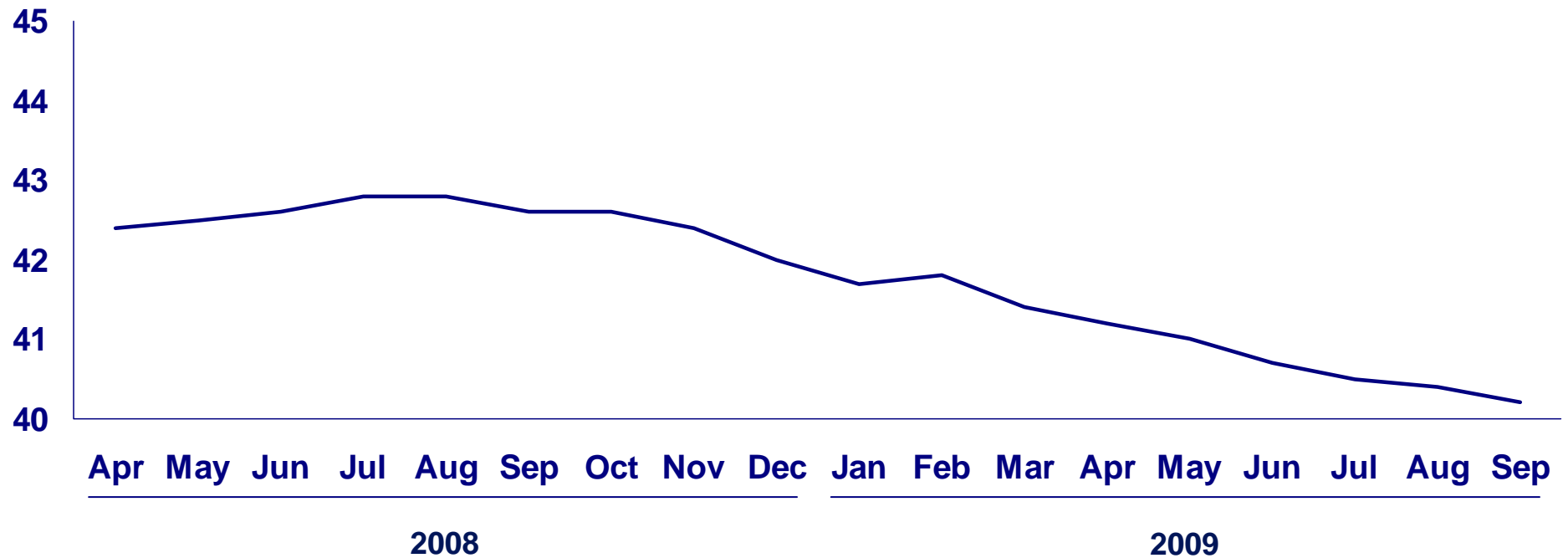
Customer written complaints per 1,000 properties



Sustained and continuous improvement

# Managing debtor days

Number of days (12 month rolling)



Improved cash collection processes

# Some other examples

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- OPA scores
  - Most improved WaSC (+16.7%)
  - 9<sup>th</sup> → 7<sup>th</sup> place
  - Significantly closing the gap
  - Maximum scores on customer service

# Capex / Opex efficiencies

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- Go live of SAP platform phase 1 in December
- Mobilising supply chain in advance of AMP5
- Severn Trent Centre
- Safer, Better, Faster
- On track to deliver investment programme and planned efficiencies for AMP4

# Severn Trent Services

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- Fundamental drivers of business remain strong
  - Global market growing long term at 4% p.a.
  - Water scarcity, increased demand (e.g. population growth), climate change, regulatory
- Challenging economic conditions in 1<sup>st</sup> half
  - Operating Services performed well
  - Water Purification saw client spend deferred into H2 – strong order book
  - Analytical Services impacted by lower volumes – reorganised
- Stronger second half for Products

# PR09 process

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- Fully engaged with Ofwat
  - Made a number of formal representations since draft determination in July
- Final determination expected on 26th November
- Will take time necessary to fully analyse document

# Outlook

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- Severn Trent Water
  - Continue to deliver higher standards and efficiencies
  - On target for FY flat opex vs. 2008/09
  - On track to deliver AMP4 capital programme
- Severn Trent Services
  - Growth to be H2 weighted
  - Strong Products order book
- PR09
  - Fully engaged
  - Await final determination & will take time necessary to digest it



# Continued improvement

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Made further progress on raising our KPI & OPA scores

Delivering our investment programme and further efficiencies

Delivering on our dividend commitment

Preparing for first year of AMP5

# Q & A

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# Appendix

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# Contact details – Investor Relations

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## **John Crosse**

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# Group income statement summary

Six Months to 30 September 2009

H1 2008/09 £m		H1 2009/10 £m	Variance £m	Variance %
814.3	Turnover	852.1	37.8	4.6%
(552.8)	Operating Costs	(565.0)	(12.2)	2.2%
261.5	Profit before exceptional items, interest and tax	287.1	25.6	9.8%
(4.4)	Exceptional items	(11.5)	(7.1)	161.4%
257.1	Profit before interest and tax (Operating profit)	275.6	18.5	7.2%
(107.1)	Net interest	(99.1)	8.0	(7.5%)
(12.2)	Fair value movements in treasury instruments	31.7	43.9	(359.8%)
0.1	Share of results of associates and joint ventures	-	(0.1)	(100.0%)
137.9	Profit before tax	208.2	70.3	51.0%
(37.7)	Current tax	(43.0)	(5.3)	14.1%
(183.4)	Deferred tax	(15.2)	168.2	(91.7%)
(83.2)	Profit for the period	150.0	233.2	(280.3%)

# Group Earnings

Six months to 30 September 2009

H1 2008/09 £m		H1 2009/10 £m		
(83.2)	Profit for the period	150.0		
(83.8)	Attributable to: - Equity holders of the company	149.7		
0.6	- Minority Interests	0.3		
<b>Pence</b>		<b>Pence</b>	Variance pence	Variance %
	<b>Basic EPS from continuing operations</b>			
50.0	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	60.8	10.8	21.6%
(35.8)	Basic EPS	63.4	99.2	277.1%
	<b>Diluted EPS from continuing operations</b>			
49.8	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	60.7	10.9	21.9%
(35.8)	Diluted EPS	63.4	99.2	277.1%

# Group balance sheet

30 September 2009

31 Mar 2009 £m		30 Sep 2009 £m	Movement since 31 Mar 2009 £m
5,980.1	Property, plant and equipment	6,069.3	89.2
184.6	Intangible assets	200.1	15.5
5.2	Other non-current assets	4.9	(0.3)
(478.7)	Working Capital/provisions	(605.5)	(126.8)
<b>5,691.2</b>	<b>Capital employed</b>	<b>5,668.7</b>	<b>(22.5)</b>
4.2	Net assets directly associated with assets held for sale	-	(4.2)
(81.1)	Tax creditor	(109.0)	(27.9)
(948.4)	Deferred tax provision	(943.9)	(4.5)
(3,559.9)	Net debt	(3,550.8)	9.1
153.9	Derivative financial instruments	126.1	27.8
<b>952.1</b>	<b>Net assets</b>	<b>939.0</b>	<b>13.1</b>
78.2%	<i>Gearing</i>	79.1%	

\* Net debt divided by net debt and equity



# Movements on shareholders' equity

Six months to 30 September 2009

	H1 2008/09 £m
At 1 April	952.1
Total recognised income for the financial period	80.0
Dividends	(96.8)
Dividends to minorities	(1.3)
Credit from share based payments charge	0.7
Tax on share based payments posted directly to reserves	(0.1)
Shares issued	4.4
At 30 September	939.0

# Credit ratings

30 September 2009

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Long-Term	Severn Trent Water	Severn Trent Plc
Moody's	A3	Baa1
Standard & Poor's	A-	A-

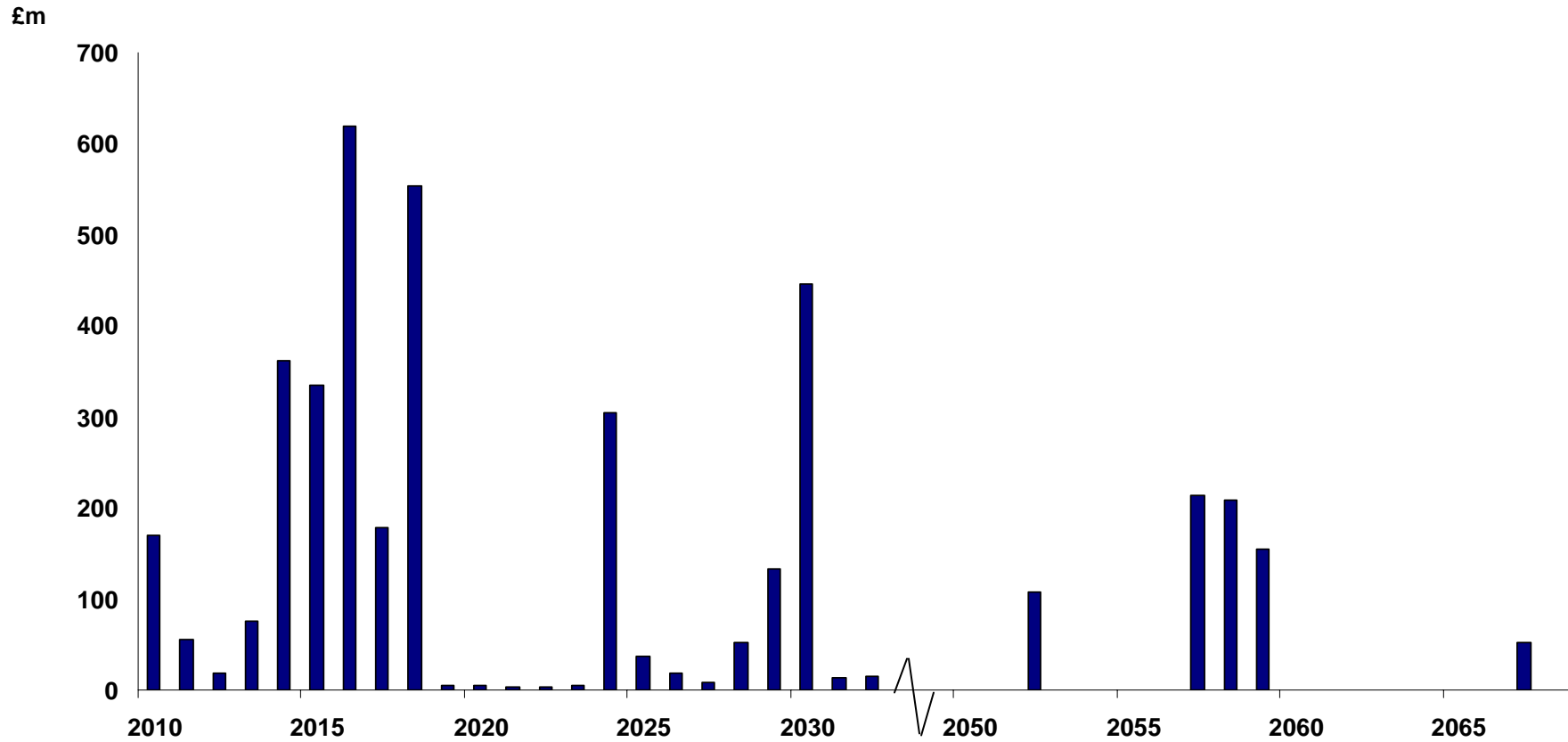
  

Short-Term	Severn Trent Water	Severn Trent Plc
Moody's	P2	P2
Standard & Poor's	A2	A2

Moody's – long term rating is stable

Standard & Poor's – long term rating is negative watch

# Debt maturity profile



Average maturity of around 19 years

# Gearing

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<b>Net debt/RCV</b>	<b>Actual at 31 Mar 2009</b>	<b>Proforma at 30 Sept 2009*</b>
Severn Trent Plc	57.3%	56.2%
Severn Trent Water	59.6%	57.0%

*\* Net debt divided by forecast March 2010 RCV at year average RPI*

# Segmental analysis of capital employed

30 September 2009

<b>Total 31 Mar 2009 £m</b>		<b>Net operating assets 30 Sep 2009 £m</b>	<b>Goodwill 30 Sep 2009 £m</b>	<b>Total 30 Sep 2009 £m</b>
5,578.1	Severn Trent Water	5,552.6	-	5,552.6
184.5	Severn Trent Services*	114.4	69.8	184.2
(71.4)	Other	(68.2)		(68.2)
<b>5,691.2</b>	<b>Group</b>	<b>5,598.8</b>	<b>69.8</b>	<b>5,668.7</b>

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

# PBITD\* analysis

Six months to 30 September 2009

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<b>Group H1 2008/09</b>		<b>Group H1 2009/10</b>
<b>£m</b>		<b>£m</b>
369.5	Water & Sewerage	401.9
16.8	Severn Trent Services	15.9
(8.3)	Other	(5.6)
<b>378.0</b>	<b>Group</b>	<b>412.2</b>

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

# Depreciation\* analysis

Six months to 30 September 2009

<b>Group H1 2008/09 £m</b>		<b>Group H1 2009/10 £m</b>
114.2	Water and Sewerage	122.5
3.5	Severn Trent Services	3.7
(1.2)	Other	(1.2)
<b>116.5</b>	<b>Group</b>	<b>125.1</b>

\* 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 2009

<b>Group H1 2008/09 £m</b>		<b>Group H1 2009/10 £m</b>
(224.9)	Water and Sewerage	(234.1)
(3.3)	Severn Trent Services	(4.9)
1.8	Other	0.7
<b>(226.4)</b>	<b>Group</b>	<b>(238.3)</b>

\* Net of grants received and proceeds of sale



# Severn Trent Water – turnover

Six months to 30 September 2009

	£m	%
Six months to 30 September 2008	668.4	
RPI+K	35.4	5.3%
	703.8	5.3%
Consumption		
<i>Reduced Consumption</i>	(8.8)	(1.3%)
Net Growth/Meter Optants		
<i>New customers / Income Protection</i>	4.5	0.6%
<i>Meter Optants</i>	(3.2)	(0.5%)
	696.4	4.1%
Other	(1.0)	(0.1%)
Six months to 30 September 2009	695.3	4.0%

# Severn Trent Water – operating costs

Six months to 30 September 2009

H1 2008/09 £m		H1 2009/10 £m	Var £m	Var %
245.8	Direct Operating Costs*	249.5	3.7	1.5%
109.8	Depreciation**	119.3	9.5	8.7%
57.5	Infrastructure Renewals	47.2	(10.3)	(17.9%)
413.1	STW operating costs	416.0	2.9	0.7%

\* Net of other income £1.6m (£1.6m) 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 £0.6m (£2.0m)

# Severn Trent Water – capex reconciliation

Six months to 30 September 2009

	H1 2009/10 £m
UK GAAP gross capex	271.4
Less grants and contributions	(10.1)
<u>UK GAAP net capex*</u>	<u>261.3</u>
<u>Treated as IFRS infrastructure operating expenditure</u>	<u>(47.2)</u>
	214.1
Movement on capital creditors	22.2
Proceeds of sale of fixed assets	(1.9)
Other	(0.3)
<u>IFRS capex (net cash)</u>	<u>234.1</u>

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

# Net debt adjustment

	<b>30 September 2009</b>	31 March 2009	30 September 2008
Cash and cash equivalents	<b>589.1</b>	648.1	576.3
Borrowings - current liabilities	<b>(490.6)</b>	(256.2)	(280.0)
Borrowings - non-current liabilities	<b>(3,875.9)</b>	(4,188.9)	(3,772.0)
Net debt as previously stated	<b>(3,777.4)</b>	(3,797.0)	(3,475.7)
Cross currency swaps hedging debt	<b>226.6</b>	237.1	52.7
Net debt	<b>(3,550.8)</b>	(3,559.9)	(3,423.0)

# Fair value of net debt

	<b>30 September 2009</b>	<b>31 March 2009</b>
Bank loans	<b>(767.7)</b>	(754.8)
Other loans	<b>(3,345.6)</b>	(3,119.8)
Finance leases	<b>(317.7)</b>	(371.7)
Fair value of borrowings	<b>(4,431.0)</b>	(4,246.3)
Cash and cash equivalents	<b>589.1</b>	648.1
Cross currency swaps hedging debt	<b>226.6</b>	237.1
Fair value of net debt	<b>(3,615.3)</b>	(3,361.1)

# Severn Trent Water – RCV

£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	6,198	6,317
Ofwat Actual/Projected Outturn***	5,209	5,546	5,922	6,198	6,216

\* 2002/03 prices

\*\* At year-average outturn prices, Including inflation assumption of 0% in 2009/10

\*\*\* Ofwat estimated outturn using year end RPI. Source Ofwat website

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