

Preliminary Results

Year ended 31 March 2010

28 May 2010

The Lincoln Centre, London

Sir John Egan

Chairman

Mike McKeon

Finance Director

Highlights

	2008/09	2009/10	Change
	£m	£m	%
Group Turnover	1,642	1,704	3.8%
Profit Before Interest and Tax (PBIT ¹)	470	557	18.6%
Profit Before Tax (PBT ²)	274	338	23.7%
Adjusted Basic EPS ³ (pence)	92.7p	122.8p	32.5%
Basic EPS ⁴ (pence)	(24.6)p	105.6p	-
Total Ordinary Dividend (pence per share)	67.34p	72.32p	7.4%

1. *before exceptional items*

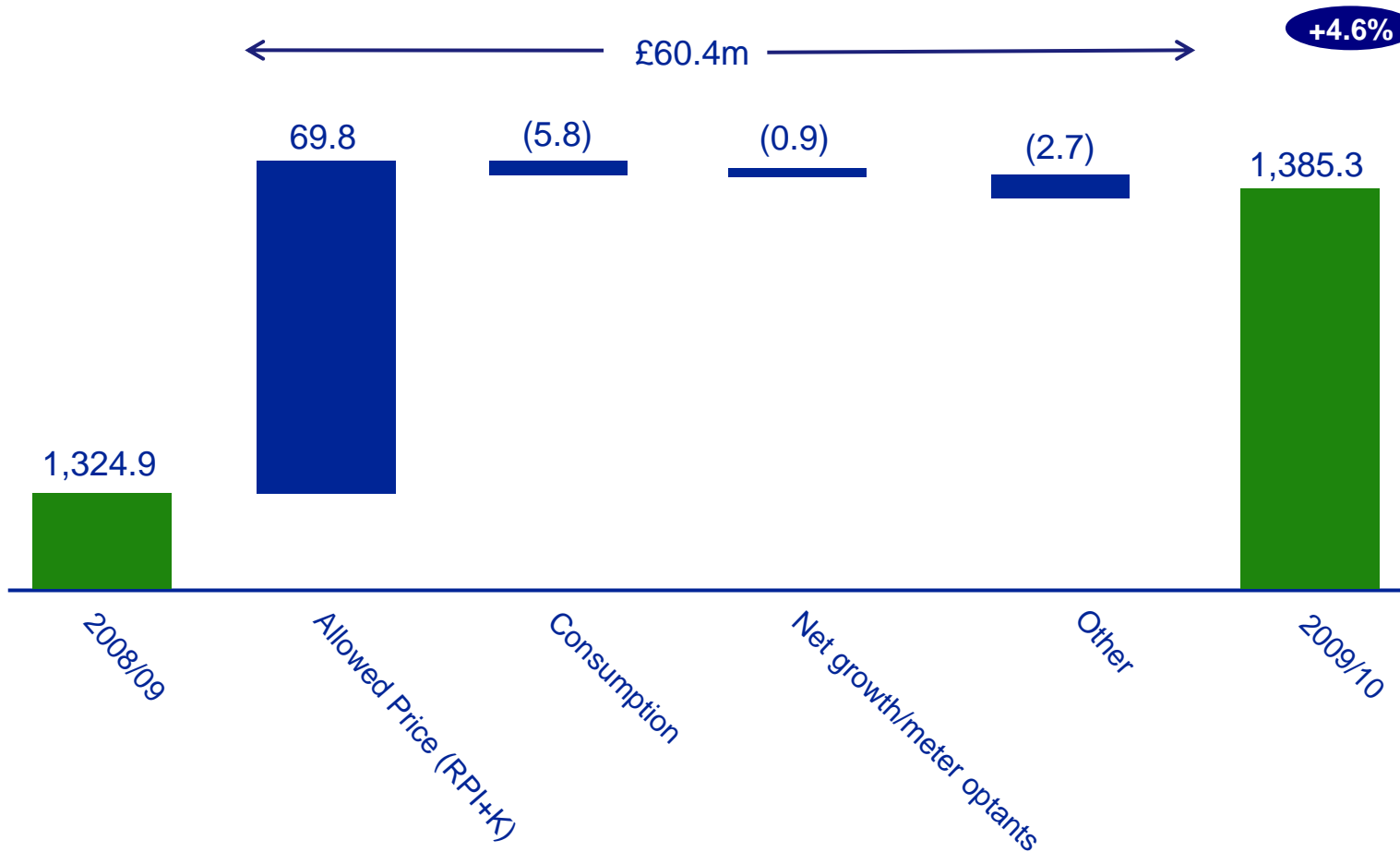
2. *before exceptional items and gains/losses on financial instruments*

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

4. *2009: after exceptional deferred tax charge of 79.0 pence/share*

Severn Trent Water turnover

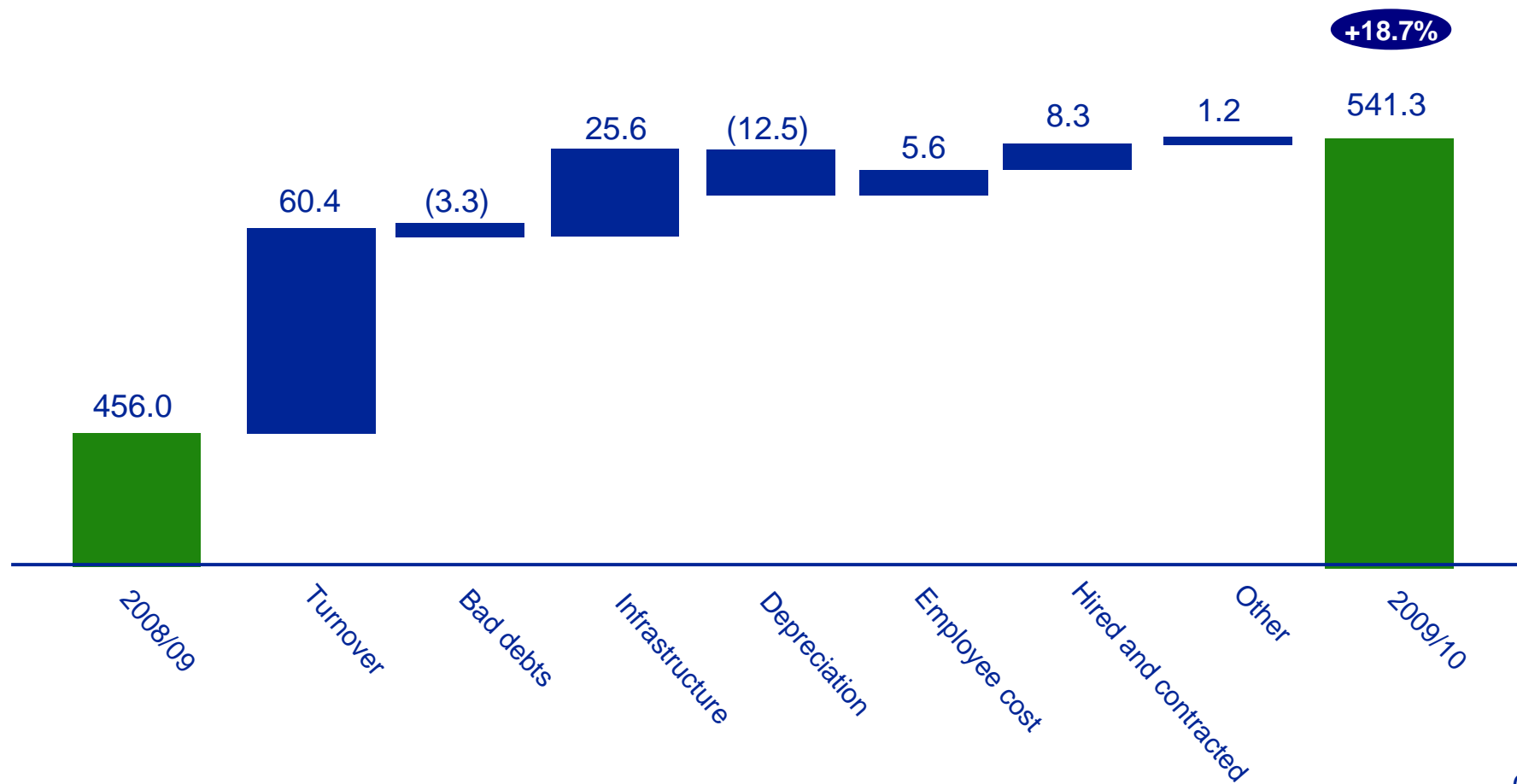
Severn Trent Water Turnover* 2009/10
£m



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

Severn Trent Water PBIT

Severn Trent Water PBIT* 2009/10
£m



* Numbers shown before exceptional items

Severn Trent Services performance

12 months ended 31 March

Turnover				Underlying PBIT*		
08/09	09/10	Var.		08/09	09/10	Var.
£m	£m			£m	£m	
339.3	336.5	(0.8)%	As reported	30.5	28.7	(5.9%)
350.3	328.8	(6.1%)	Like for like in constant currency**	32.7	27.5	(15.9%)
			ROIC***	12.9%		

* 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 costs

Severn Trent Water

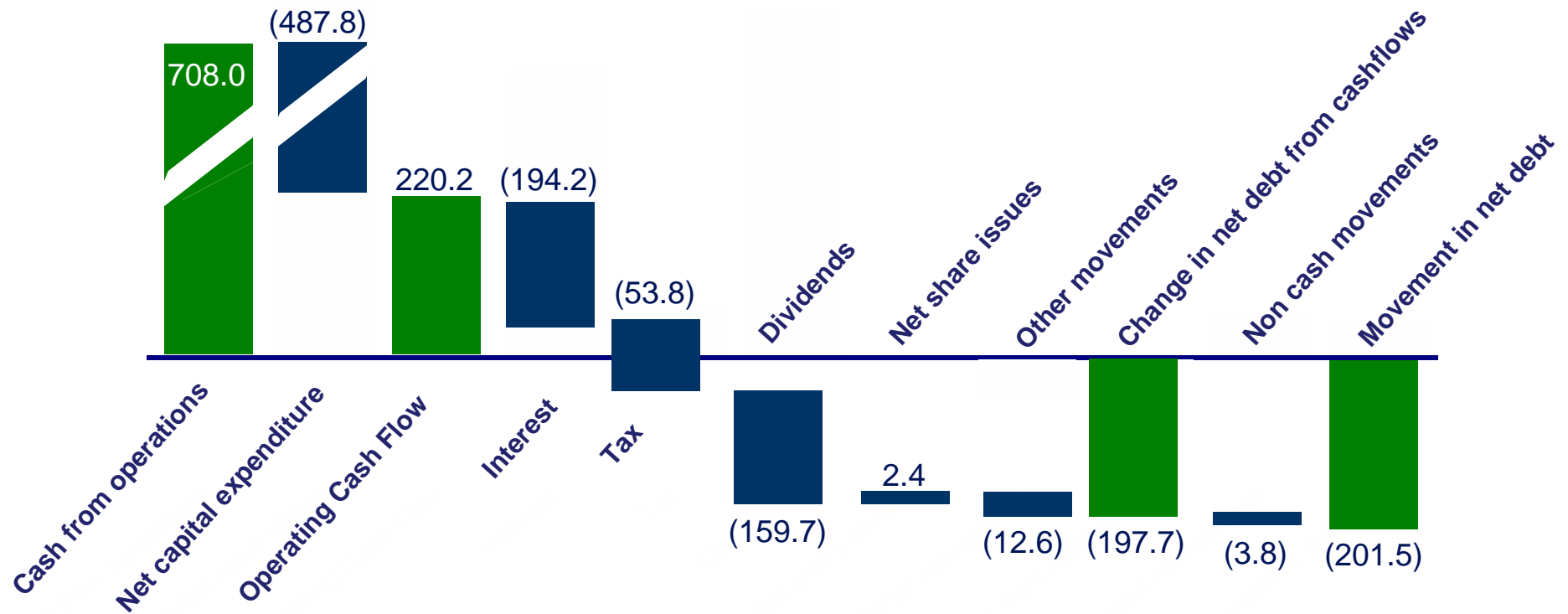
- Previous guidance:
 - £20 million charge to deliver additional £5 million of cost savings
 - Targeted flat opex at Severn Trent Water - exceeded
 - Opex £492.4m vs. £500.9m in 08/09 (as per KPI 13)
- Additional £22.1 million of exceptional costs taken in 09/10
 - £5.9 million in accelerated depreciation
 - £5.2 million on acceleration of real estate consolidation
 - £11 million on efficiency programs
- Full year benefits of programmes
 - Real estate: £3 million (50% realised in 2010/11)
 - Efficiency: £10 million (50% realised in 2010/11)

Contributes to efficiency targets for AMP5 and offsets cost increases in other areas

Cash flow

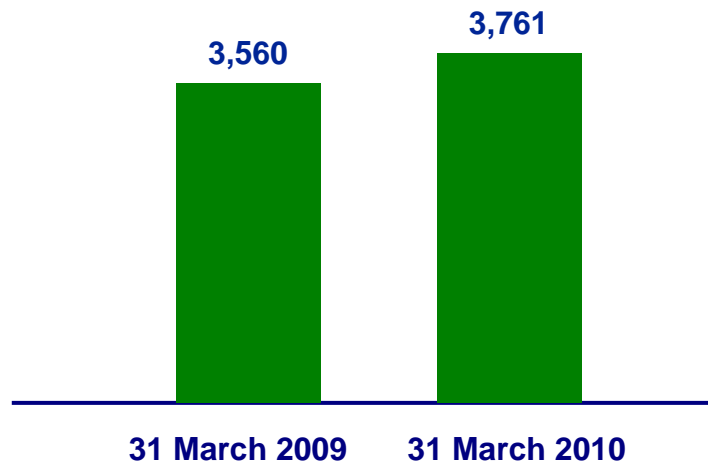
2009/10 operating cash flow

£m



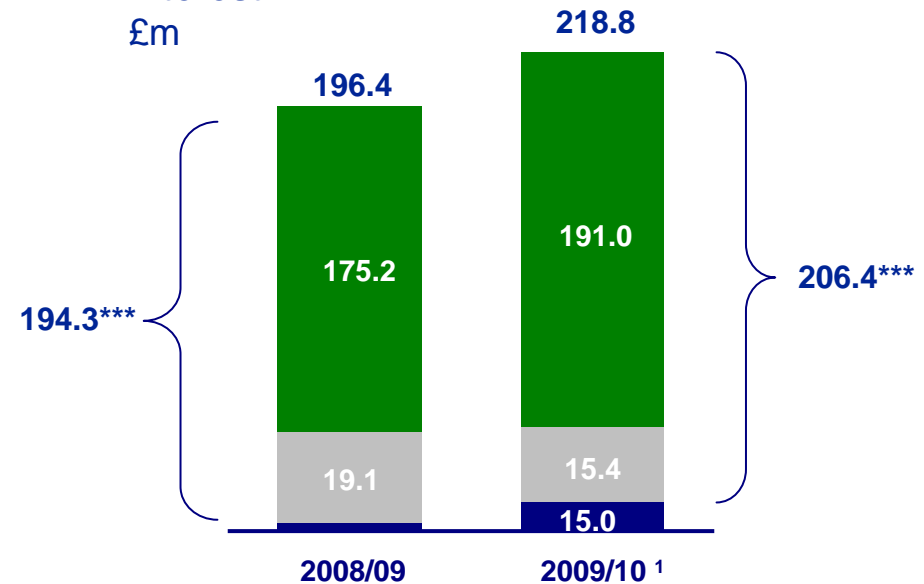
Group net debt and finance charges

Net debt*
£m



- 82% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,869m
- Group net debt/RCV** 59.3%
- Fully funded for first year of AMP5

Interest
£m



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

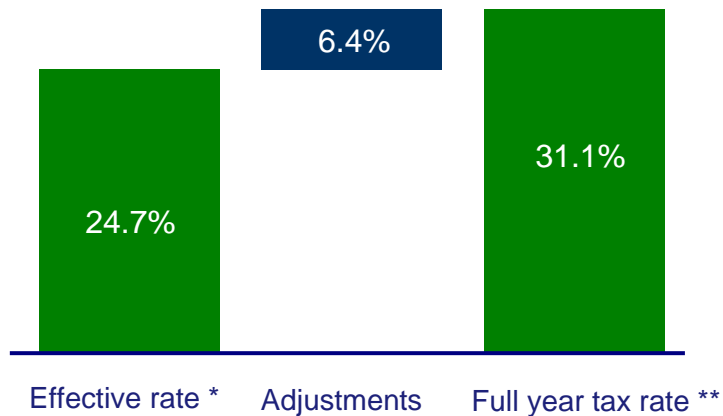
- Effective rate circa 5.6%
- Interest cover:
 - 4.0 times EBITDA****
 - 2.7 times underlying PBIT

* Excluding derivative financial instruments
 ** RCV at 31 March 2010 at year average RPI

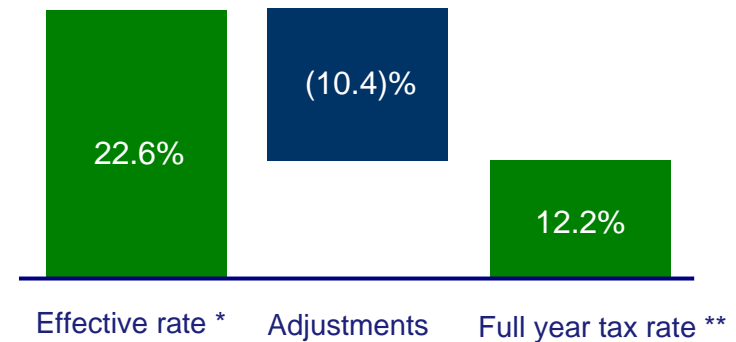
1. Excludes £2.6m of interest cost capitalised
 *** Excluding net pension debit of £15.0m (2008/09 debit of £2.1m)
 **** Profit before interest, tax, depreciation, exceptionals

Effective rate of current tax

2008/09 Effective current tax rate%



2009/10 Effective current tax rate%



20010/11 Full Year effective current tax rate 25%-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

Achieved planned operating performance, including cost savings

Funded for 1st year of AMP5

Delivered on dividend commitment

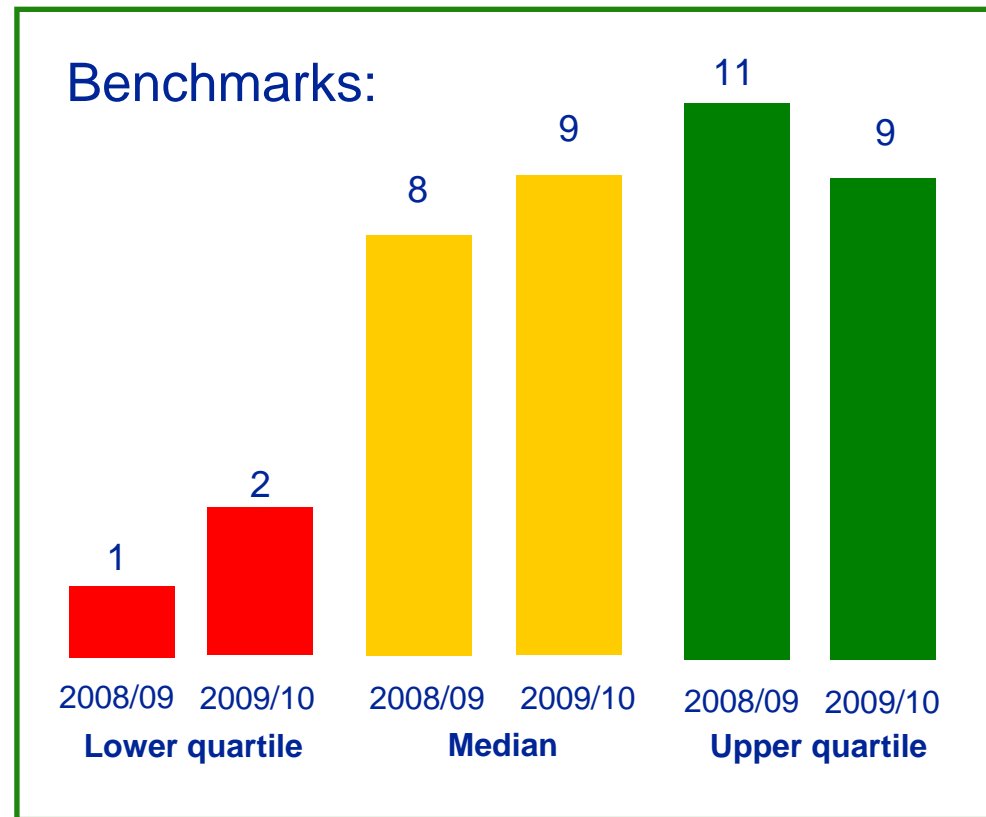
Executing on efficiency and hedging programmes – well placed for AMP5

Tony Wray

Chief Executive

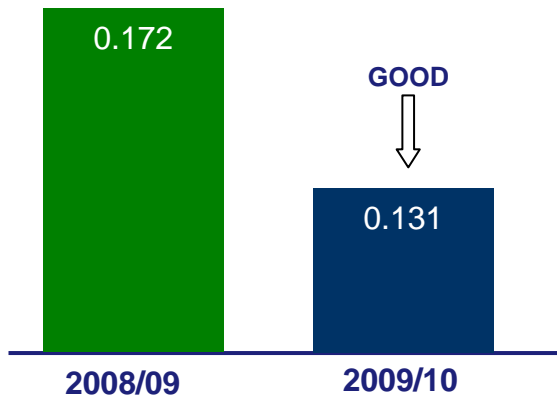
Key performance indicators

- OPA 2009/10 confirmed most improved company (17%)
- Benchmarks updated (raised standards)
- Improved KPI outputs for:
 - Customer service
 - Pollution incidents
 - Water quality
 - Health & Safety
 - Energy (20.3% renewables)
 - Beat Ofwat leakage target
- Target improvements in:
 - Interruptions to supply
 - Site consents (sewage)



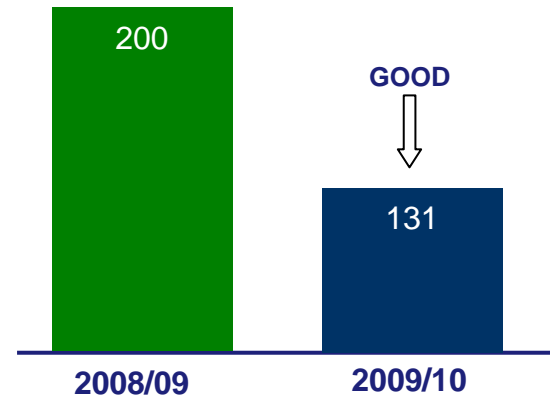
Ongoing improvements

Sewer flooding*



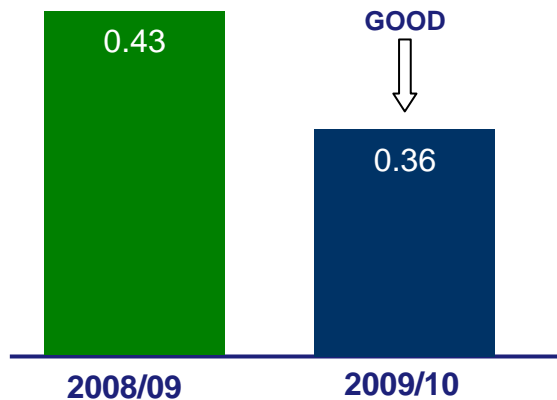
* Sewer flooding incidents – Other causes, Moving Annual Total (per 1,000 properties)

Water Quality**



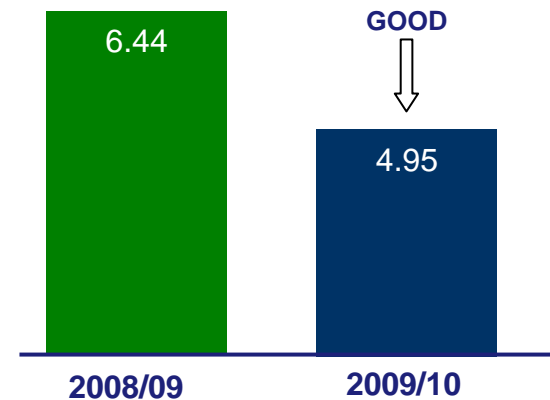
** Test failure rate (ppm)

Health and safety***



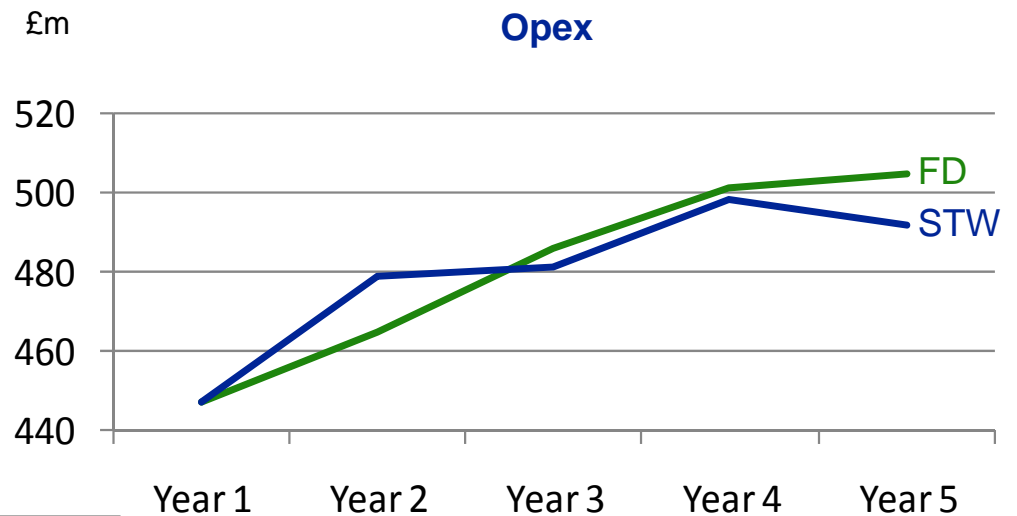
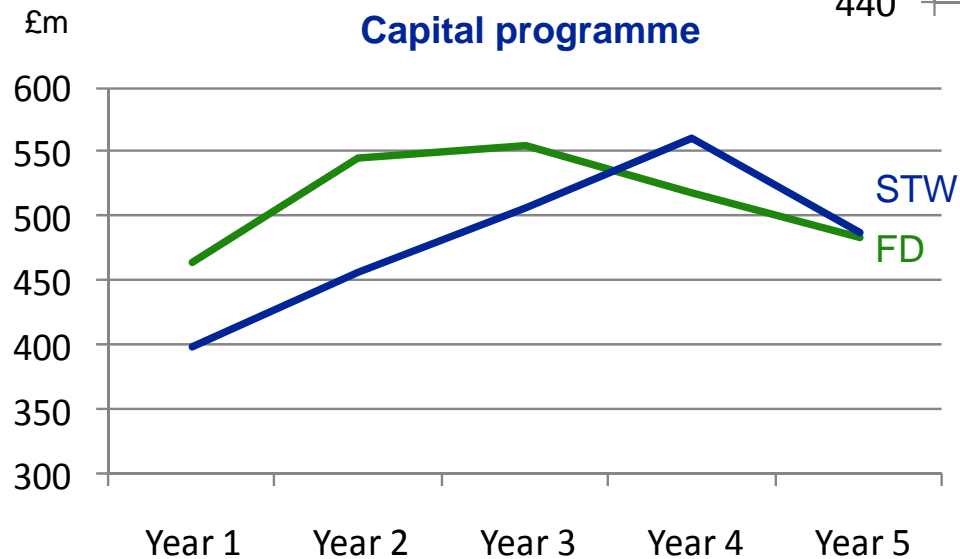
*** Lost time incidents, Moving Annual Total (per 100,000 hours worked)

Customer complaints****



**** Customer written complaints per 1,000 properties

AMP 4 summary



Capex / Opex efficiencies

- Implementation of SAP phase 1 in December '09
 - 275 positions leaving from June 2010
 - Phase 2 - asset management and field force – go live in June
- Mobilised supply chain in advance of AMP5
 - 22 ➡ 7 contractors, co-located, design and build competency
- Severn Trent Centre
 - consolidating real estate ahead of schedule
- Energy
 - wholesale requirements hedged for 3 years + renewables growing

Severn Trent Services

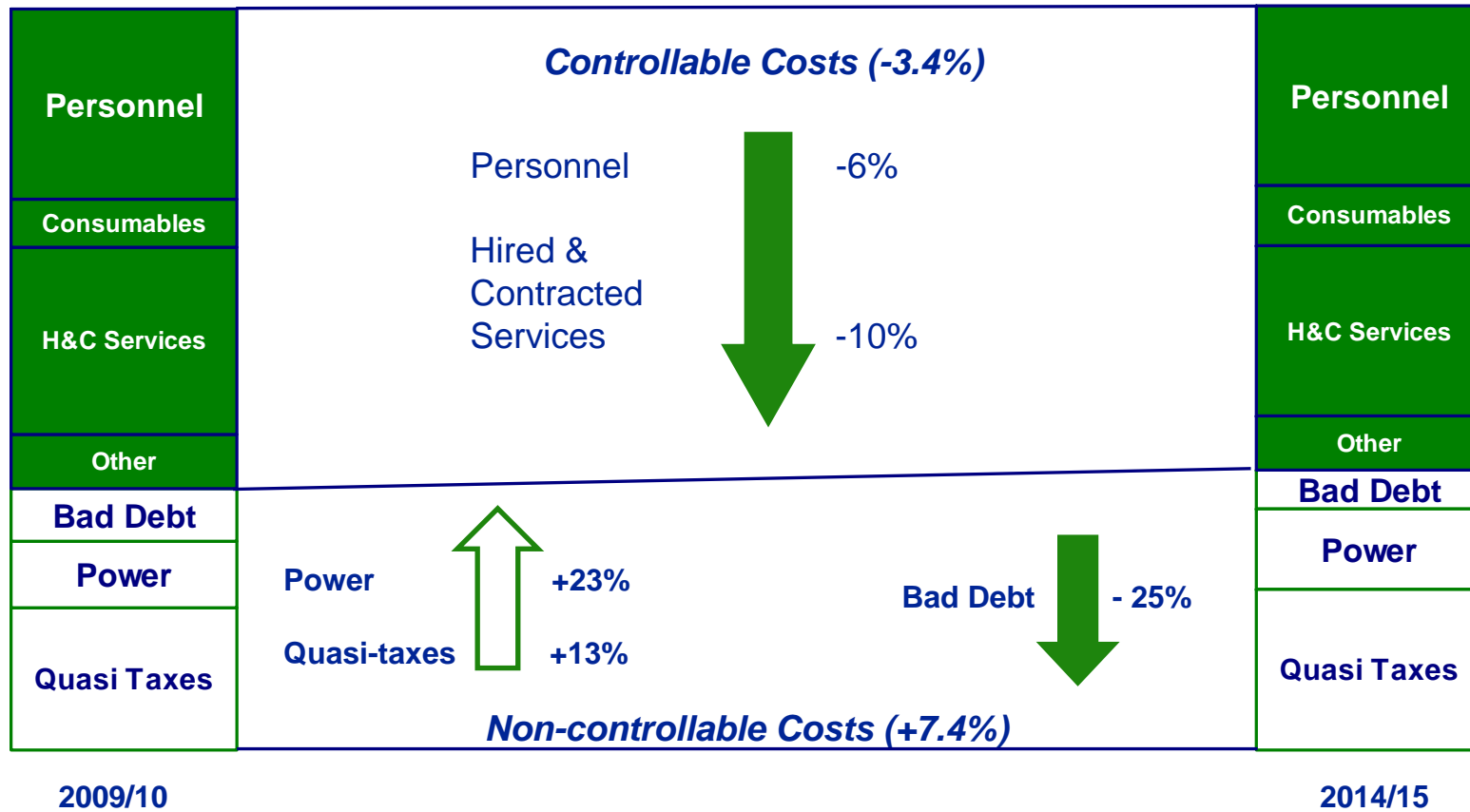
- Challenging economic conditions
 - Reduced cost base – restructuring, streamlining & low cost sourcing
 - Investment in higher growth areas
- Operating Services
 - maintained growth, new contracts (US/IRE/UK)
- Water Purification
 - impacted by delayed customer spending; better H2, strong order book & good start to 2010/11
- Analytical Services impacted by lower volumes
 - reorganised & new Yorkshire Water contract started 1st April

Outlook 2010/11

- **Severn Trent Water**
 - Continue to deliver higher standards and efficiencies
 - Realising benefits of lead-in investments
 - Capex range £425 - £445 million (net)
 - Infrastructure renewals broadly in line with 2009/10
- **Severn Trent Services**
 - Operating Services to continue momentum
 - Strong Water Purification order book – return to growth
 - Analytical Services to benefit from new contracts

AMP5 Outlook

STW Operating Cost Profile



At 2009/10 prices

Focus on efficiencies offsets external upward pressures

Severn Trent Water

AMP5 Outlook

- Confident we can meet objectives
- Capex / Infrastructure renewals
 - Profile broadly flat across 5 years
- Efficiencies
 - Benefits of investment in IT and real estate & early start on contracting program
 - Energy – hedging and renewables
- Funding and cost of debt

Severn Trent Services

5 year outlook

- Fundamental drivers of markets remain strong
 - water scarcity, regulatory demands, population growth
- Operating Services
 - continued growth – Ireland/Italy/US
- Water Purification
 - return to growth
- Analytical Services
 - new contracts

Changing Course

Six changes to reach a more sustainable future

Policy changes

1. Flexible implementation of Water Framework Directive
2. Developing competition through a water trading framework

Regulatory changes

3. Environment Agency – A more flexible approach to consents
4. Ofwat – An improved price setting process

Water company changes

5. Drive innovation in strategic & technological solutions

Government changes

6. Deliver prioritised outcomes through policy and regulatory framework to deliver the strategy

Summary

Made further progress on KPIs

Delivered efficiency savings and AMP4 programme

Well placed for AMP5 & to capture growth in global water and waste water markets

Engaged in debate to shape sustainable future for industry in England & Wales

Q & A

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Appendix

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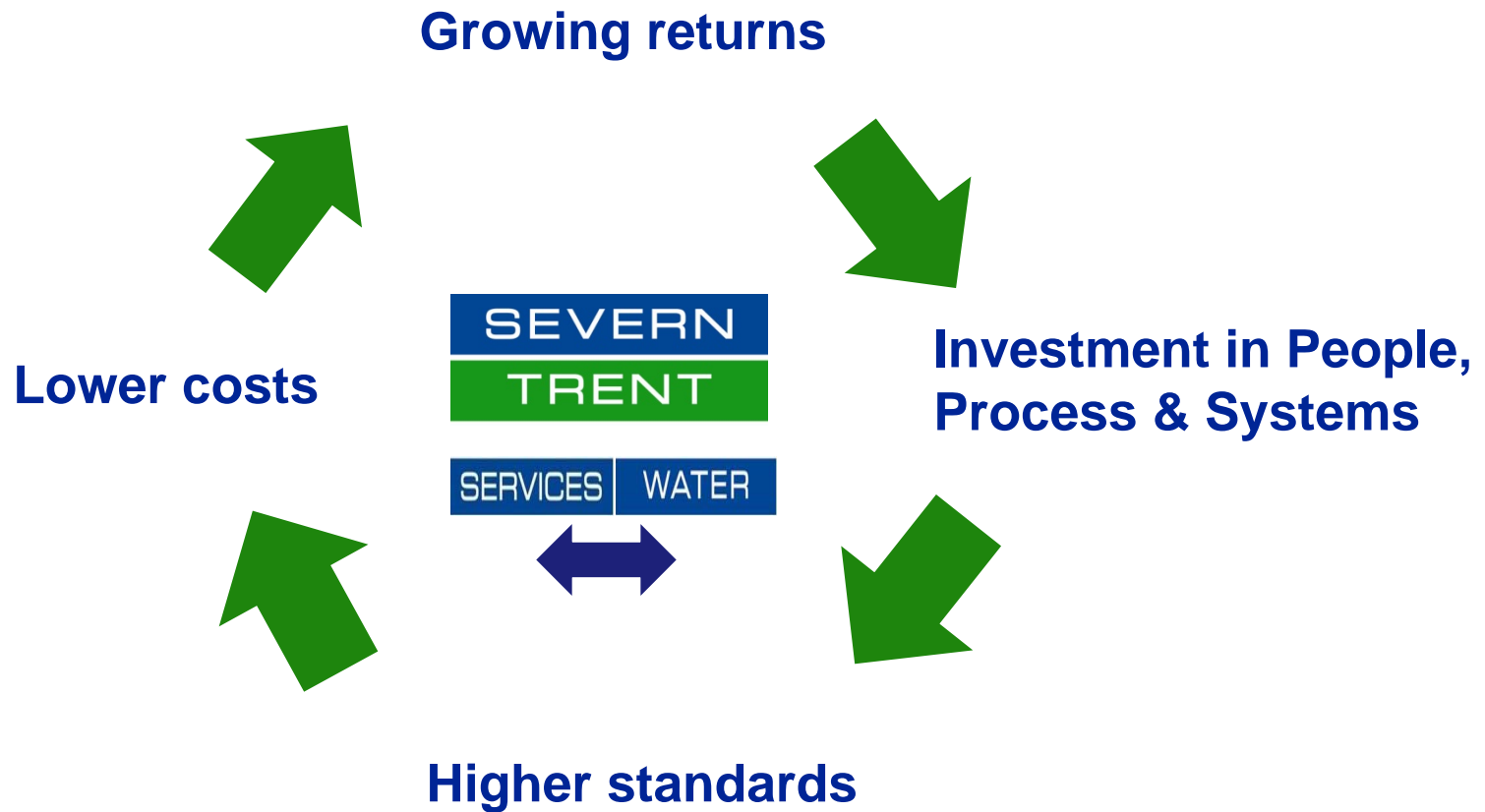
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www.stwater.co.uk/changingcourse

Continuous improvement

The virtuous circle



Key Performance Indicators

Description	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
	2008/09			2009/10		
Lost time incidents per 100,000 hrs worked			0.43			0.36
Employee motivation %			83%	74%		
Water quality (test failure rate) ppm			200			131
Customer written complaints per 1,000 properties			6.44			4.95
First time call resolution for billing %		88%		89%		
Unplanned interruptions > 6 hrs per 1,000 properties	7.29			10.09		
Properties at risk of low pressure per 1,000 properties			1.21	0.12		
First time job resolution %			96.0%			96.5%
Non performance against Regulatory Obligations %		10%				5.0%
Capex (Gross) vs Final Determination %		5.0%		6.1%		
Capital process quality (no. of defects per £100k)			0.00	0.07		
Debtor days		33.1		32.6		
Opex vs Final Determination (UK GAAP) - £m		500.9				492.4
Cost to serve per property - £			236.53			231.03
Pollution incidents (cat 1, 2 & 3) per 1,000 properties		0.08		0.08		
Sewer flooding incidents - other causes per 1,000 properties		0.172				0.131
Sewage Treatment Works - breach of consents %			0.0%	0.31%		
Security of supply		98		99		
Net Energy Use – Kwh/MI			440			435
Leakage MI/d			492	497		

Exceptional items

	2008/09	2009/10	
Flooding income/(costs)			
Gross costs	(13.1)	-	
Insurance recoveries	14.6	-	
	1.5		
Legacy issues			
Court imposed fine and costs	(2.2)	-	
Contribution to Charitable Trust	(5.0)	-	
	(7.2)		
Severn Trent Services, 3rd party legal costs	1.4	-	
Restructuring costs			
Severn Trent Water	(14.6)	(42.1)	} → Non-cash: £6.6m
Severn Trent Services	-	(5.9)	
	(5.4)	(48.0)	
Exceptional loss on disposal of business	-	(1.7)	
Net exceptional items	(18.9)	(49.7)	

Group Earnings

Year ended 31 March 2010

2008/09 £m		2009/10 £m		
(56.0)	Profit for the period	251.5		
(57.8)	Attributable to: - Equity holders of the company	249.2		
1.8	- Minority Interests	2.3		
Pence		Pence	Variance pence	Variance %
	Basic EPS			
92.7	Adjusted basic EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	122.8	30.1	32.5%
(24.6)	Basic EPS	105.6	130.2	
	Diluted EPS			
92.4	Adjusted diluted EPS (before exceptional items, gains/losses on financial instruments and deferred tax)	122.6	30.2	32.7%
(24.6)	Diluted EPS	105.5	130.1	

Group balance sheet

31 March 2010

31 Mar 2009 £m		31 Mar 2010 £m	Movement since 31 Mar 2009 £m
5,980.1	Property, plant and equipment	6,260.5	21.2
184.6	Intangible assets	209.1	(24.5)
5.2	Other non-current assets	5.0	0.2
(478.7)	Working Capital/provisions	(617.3)	138.6
5,691.2	Capital employed	5,857.3	(166.1)
4.2	Net assets directly associated with assets held for sale		4.2
(81.1)	Tax creditor	(67.2)	(13.9)
(948.4)	Deferred tax provision	(956.4)	8.0
(3,559.9)	Net debt	3,761.4	(202)
153.9	Derivative financial instruments	62.0	21.2
952.1	Net assets	947.0	5.1
78.2%	<i>Gearing</i>	79.9%	

* Net debt divided by net debt and equity

Movements on shareholders' equity

Year ended 31 March 2010

	2009/10 £m
At 1 April	952.1
Total recognised income for the financial period	148.5
Dividends	(159.7)
Dividends to minorities	(1.7)
Credit from share based payments charge	5.1
Tax on share based payments posted directly to reserves	0.3
Shares issued	2.4
At 31 March	947.0

Credit ratings

31 March 2010

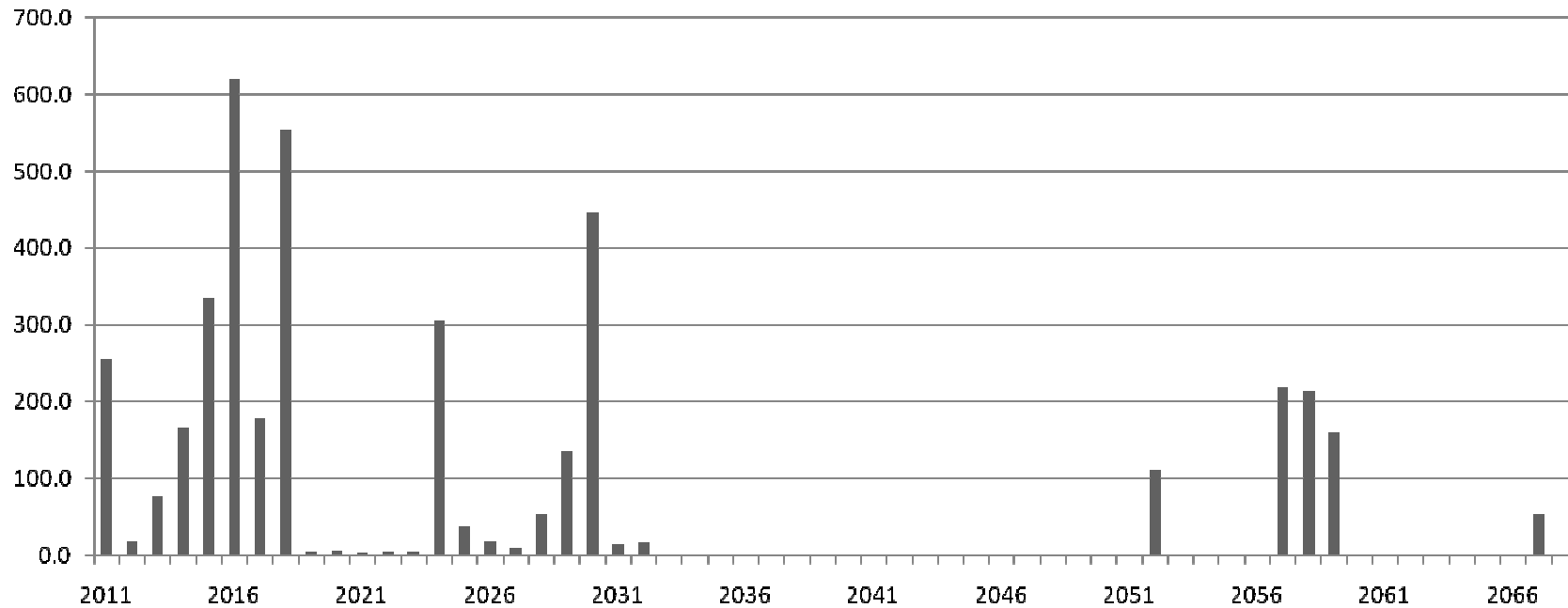
Long-Term	Severn Trent Water	Severn Trent Plc
Moody's	A3	Baa1
Standard & Poor's	BBB+	BBB-

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



Average maturity of around 17 years

Gearing

Net debt/RCV	Actual at 31 Mar 2009	Actual at 31 Mar 2010
Severn Trent Plc	57.3%	59.3%
Severn Trent Water	59.6%	61.0%

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

Segmental analysis of capital employed

31 March 2010

Total 31 Mar 2009 £m		Net operating assets 31 Mar 2010 £m	Goodwill 31 Mar 2010 £m	Total 31 Mar 2010 £m
5,578.1	Severn Trent Water	5,704.8	0.0	5,704.8
184.5	Severn Trent Services*	198.6	70.6	269.2
(71.4)	Other	(116.7)	0.0	(116.7)
5,691.2	Group	5,786.7	70.6	5,857.3

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

PBITD* analysis

Year ended 31 March 2010

Group 2008/09		Group 2009/10
£m		£m
698.9	Water & Sewerage	797.2
37.9	Severn Trent Services	36.4
(19.0)	Other	(15.2)
717.8	Group	818.4

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

Depreciation* analysis

Year to 31 March 2010

Group 2008/09 £m		Group 2009/10 £m
242.9	Water and Sewerage	255.9
7.4	Severn Trent Services	7.7
(2.4)	Other	(2.3)
247.9	Group	261.3

* 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 2010

Group 2008/09 £m		Group 2009/10 £m
(458.6)	Water and Sewerage	(461.7)
(7.9)	Severn Trent Services	(15.2)
1.5	Other	(10.9)
(465.0)	Group	487.8

* Net of grants received and proceeds of sale

Severn Trent Water – operating costs

Year ended 31 March 2010

2008/09		2009/10	Variance	Variance
£m		£m	£m	%
505.2	Direct Operating Costs*	495.8	(9.3)	-1.8%
233.6	Depreciation**	244.1	10.5	4.5%
130.1	Infrastructure Renewals	104.5	(25.6)	-19.7%
<hr/>				
868.9	STW operating costs**	844.4	(24.4)	-2.8%

* Net of other income £3.8m (£3.4m) 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 £4.3m (£4.0m)

Severn Trent Water – capex reconciliation

Year ended 31 March 2010

	2009/10 £m
UK GAAP gross capex	644.8
Less grants and contributions	15.8
<u>UK GAAP net capex*</u>	<u>629.0</u>
<u>Treated as IFRS infrastructure operating expenditure</u>	<u>(104.5)</u>
	524.4
Movement on capital creditors	(52.8)
Proceeds of sale of fixed assets	(6.7)
<u>IFRS capex (net cash)</u>	<u>465.0</u>

* Capex at outturn prices after deduction of grants and contributions

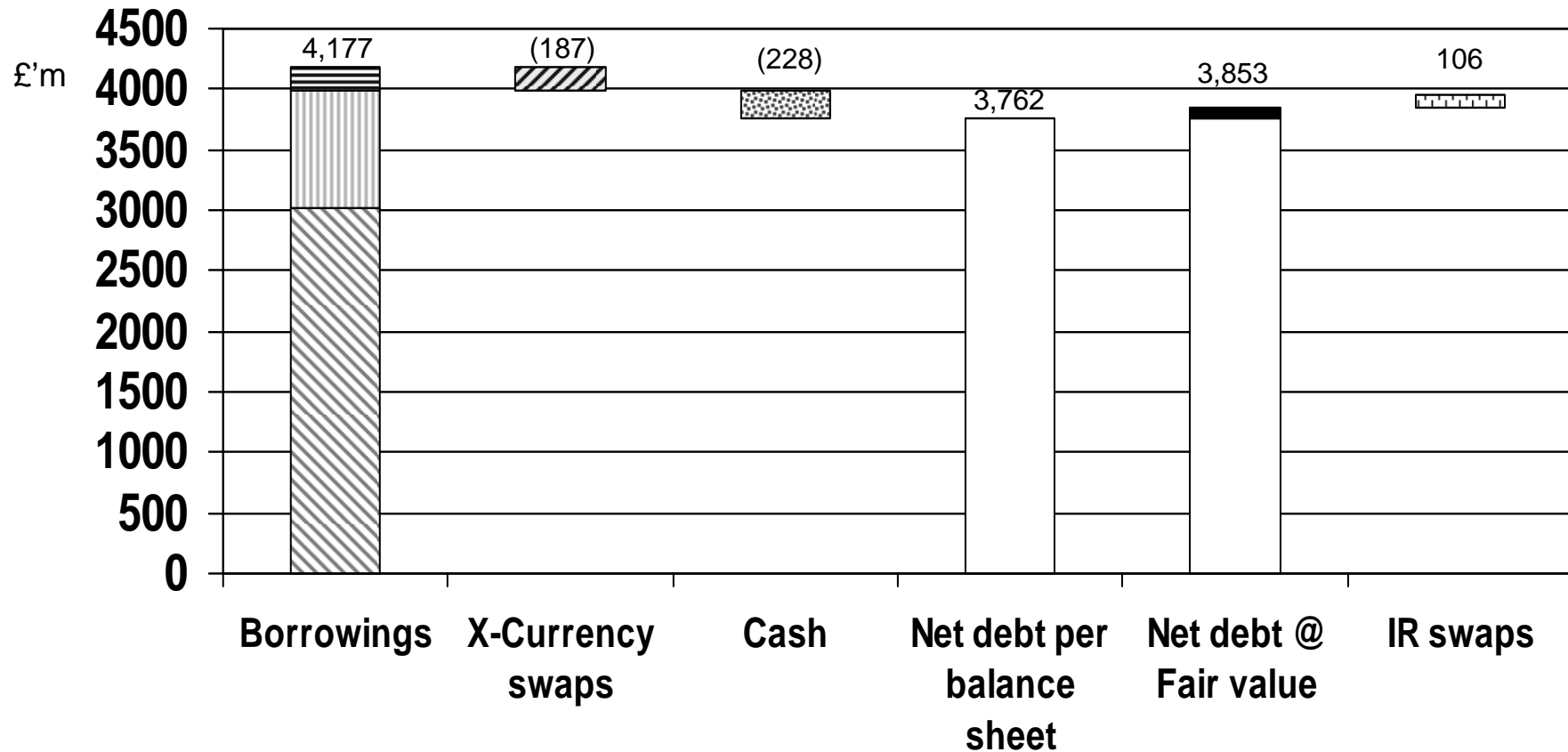
Net debt adjustment

	30 March 2010	30 September 2009	31 March 2009
Cash and cash equivalents	227.8	589.1	648.1
Borrowings - current liabilities	(260.9)	(490.6)	(256.2)
Borrowings - non-current liabilities	(3,915.6)	(3,875.9)	(4,188.9)
Net debt as previously stated	(3,948.7)	(3,777.4)	(3,797.0)
Cross currency swaps hedging debt	187.3	226.6	237.1
Net debt	(3,761.4)	(3,550.8)	(3,559.9)

Fair value of net debt

	31 March 2010	30 September 2009	31 March 2009
Bank loans	(679.1)	(767.7)	(754.8)
Other loans	(3,328.5)	(3,345.6)	(3,119.8)
Finance leases	(260.3)	(317.7)	(371.7)
Fair value of borrowings	(4,267.9)	(4,431.0)	(4,246.3)
Cash and cash equivalents	227.8	589.1	648.1
Cross currency swaps hedging debt	187.3	226.6	237.1
Fair value of net debt	(3,852.8)	(3,615.3)	(3,361.1)
Net debt (previous slide)	(3,761.4)	(3,550.8)	(3,559.9)
Difference	(91.4)	(64.5)	198.8

Analysis of borrowings, net debt and swaps at 31 March 2010



Severn Trent Water – RCV

£m	AMP4	← AMP5 →				
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Per Determination*	5,292	6,216	6,244	6,280	6,341	6,385
Actual/Estimated Out turn**	6,347	6,600	6,828	7,053	7,299	7,534
Owat Actual/Projected Out turn***	6,492	6,468	6,497	6,535	6,598	6,644

* 2007/08 year-end prices. 2009/10 at 2002/03 prices

** At year-average actual/estimated prices

*** Owat estimated outturn using year end 2009/10 RPI. Source Owat website

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