

Interim Results

6 months to 30 September 2011

25 November 2011

Exchange House, London

Mike McKeon

Finance Director

Highlights

	H1 2010/11	H1 2011/12	Change %
Group Turnover (£m)	867.9	886.0	2.1
Profit before interest and tax (PBIT ¹) (£m)	277.0	274.3	(1.0)
Profit before tax (PBT ²) (£m)	158.0	155.0	(1.9)
Adjusted basic EPS ³ (pence)	47.4	46.4	(2.1)
Basic EPS (pence)	43.9	30.5	(30.5)
Interim dividend per share (pence)	26.04	28.04	7.7

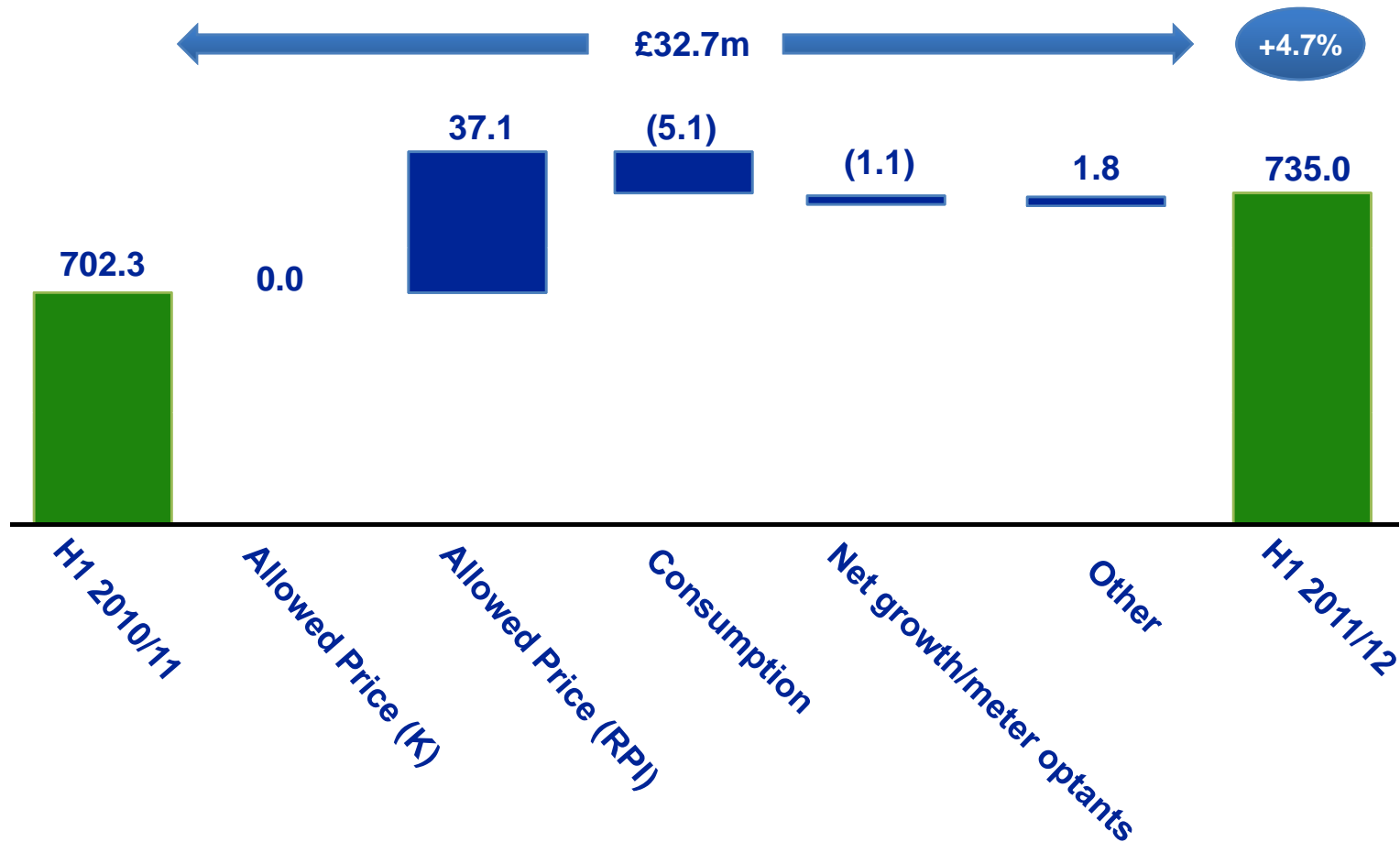
1. *before exceptional items*

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

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

Severn Trent Water turnover

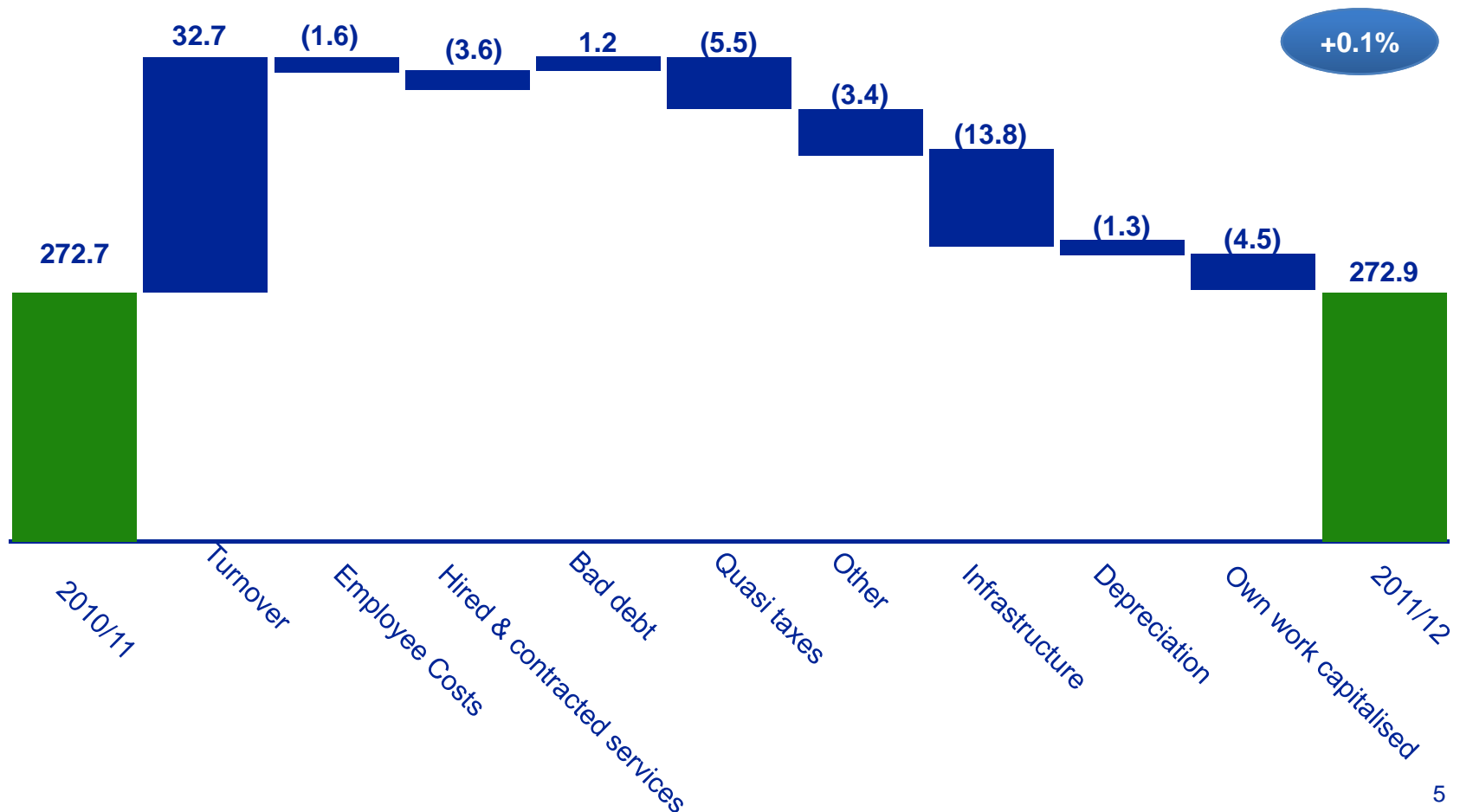
Severn Trent Water Turnover* H1 2011/12
£m



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

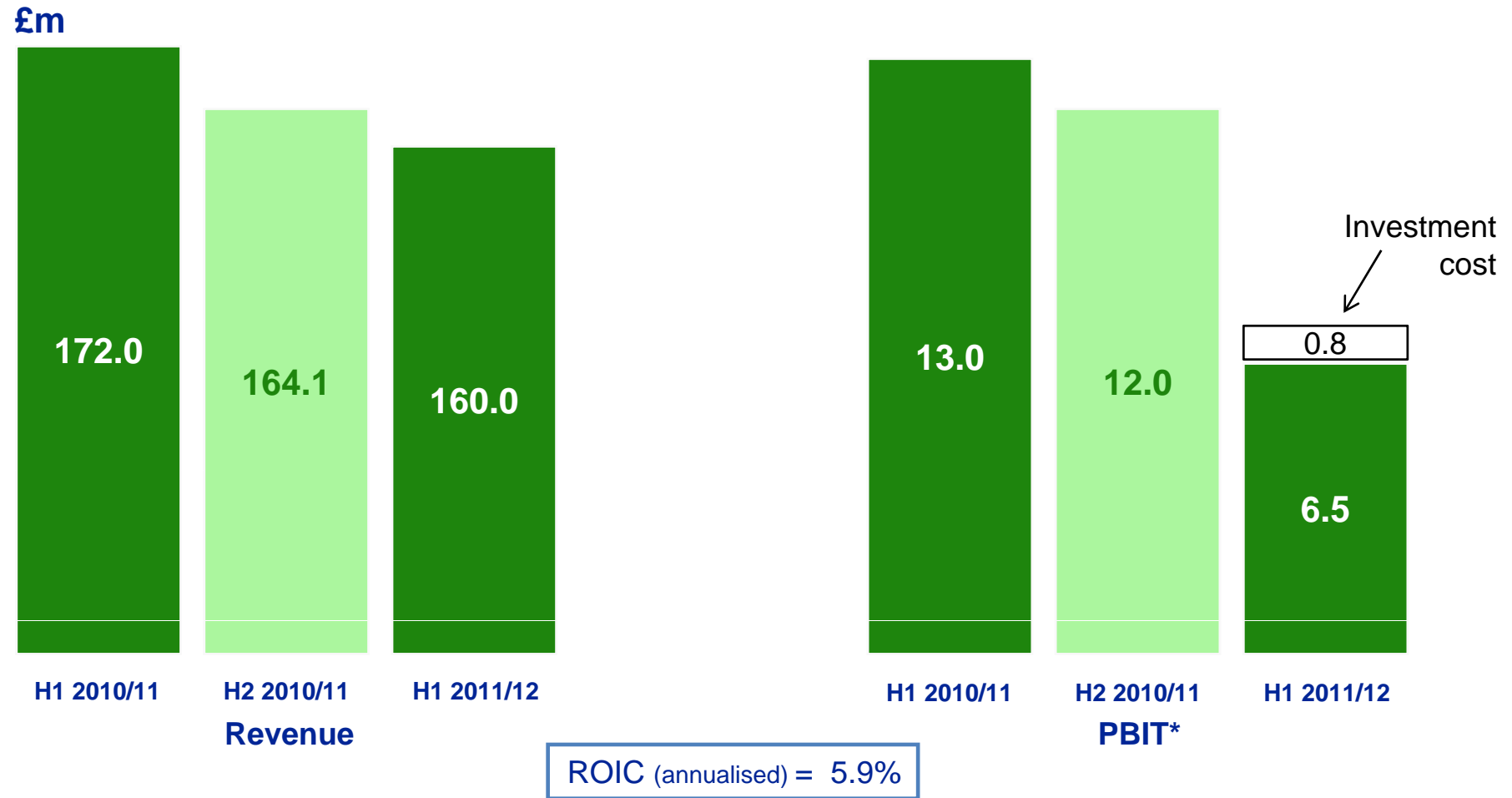
Severn Trent Water PBIT

Severn Trent Water PBIT* 2011/12
£m



* Numbers shown before exceptional items

Severn Trent Services performance



* PBIT before exceptional items

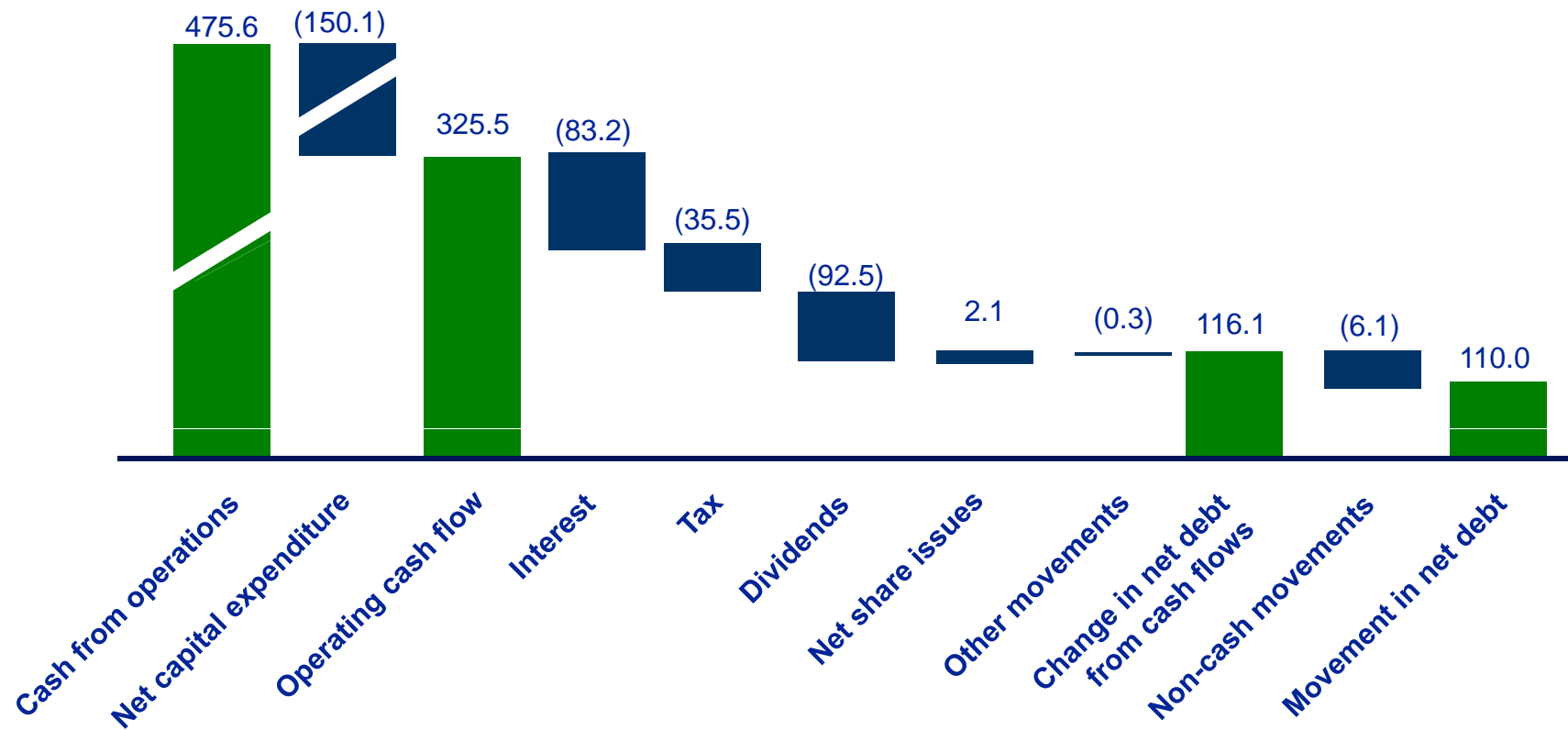
Exceptional items

£m	H1 2010/11	H1 2011/12
Restructuring costs		
Severn Trent Water	6.2	3.6
Other exceptional costs		
Severn Trent Services	-	21.9
Corporate and other	-	(6.0)
Total exceptional operating costs	6.2	19.5

Cash flow

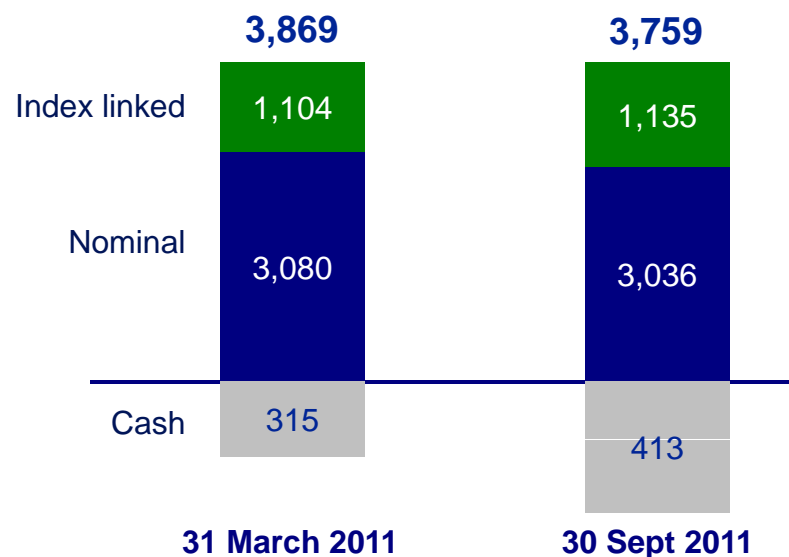
Six months ended 30 September 2011

£m

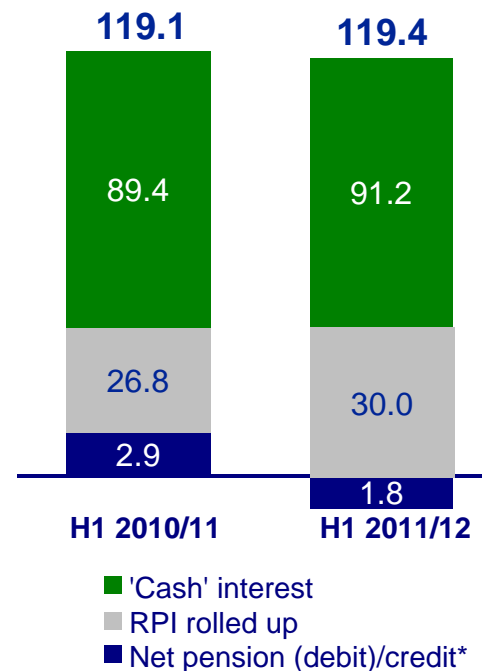


Group net debt and finance charges

Net debt*
£m



Finance charge
£m



- 73% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,850.3m
- Group net debt/RCV** 54%

- Effective rate circa 6.3%
- Effective cash interest cost 5.0%
- EBITDA cover 3.4x
- PBIT*** cover 2.3x

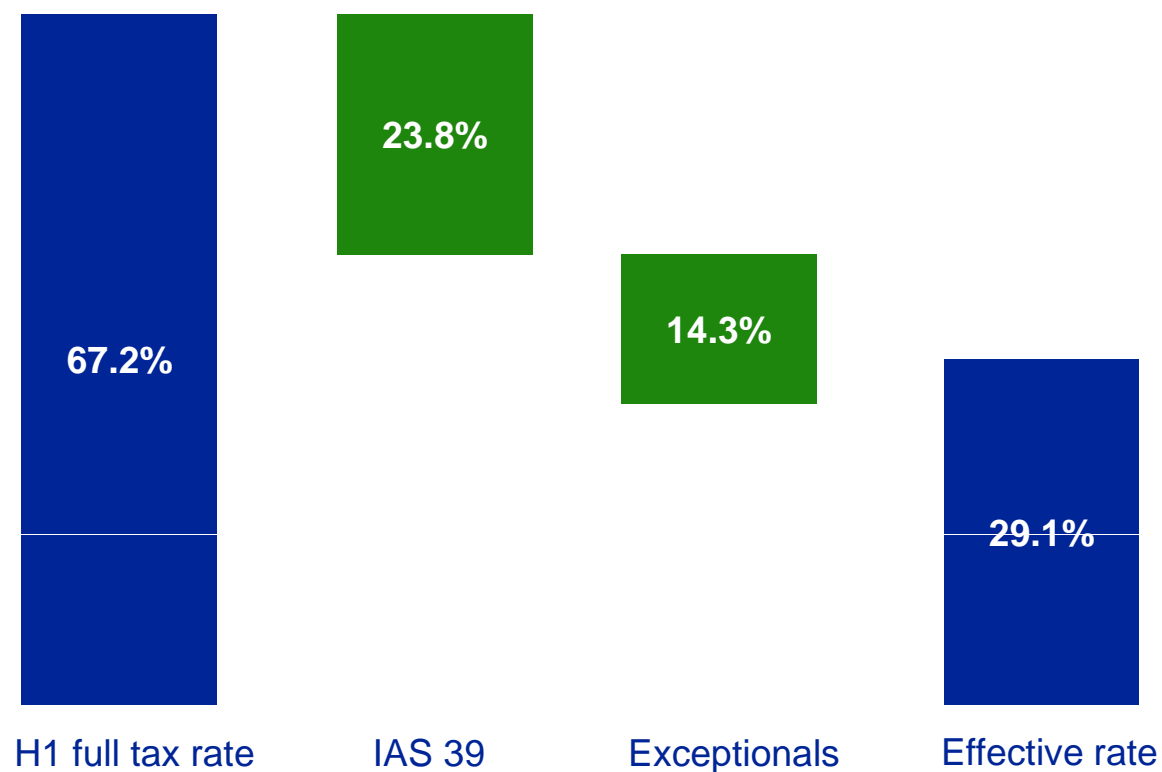
* Including cross currency swaps

** Forecast RCV at 31 March 2012 at year average RPI

***Before exceptional items

Effective rate of current tax

H1 2011/12



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

Outlook

FY 2011/12

Severn Trent Water

- Opex below the level of final determination
- Bad debt to remain at 2.2%
- Capex £450m-£470m range; IRE £120m-£130m (ex. PDaS)

Severn Trent Services

- H2 weighted

Group

- Interest charge broadly in line with prior year
- Tax rate 26%-27%

Summary

Delivering planned opex - good cost control

Investment in efficiencies supports strength of balance sheet

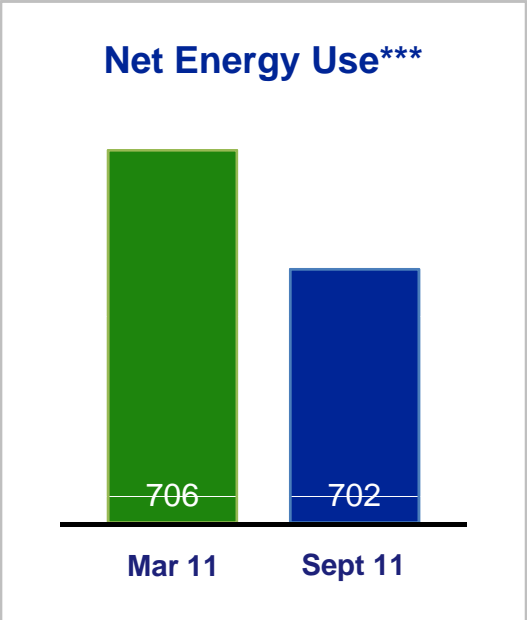
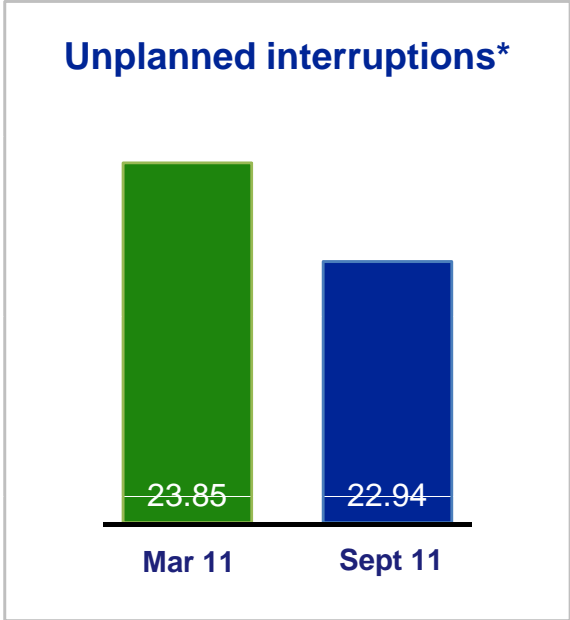
Prudent investment in our networks

Delivering on dividend promise

Tony Wray

Chief Executive

Key Performance Indicators



* per 1,000 properties. Moving annual total
** % of designed capacity available. Moving annual total
*** GWh (Moving Annual Total)

Updated KPI benchmarks

	Upper	Median	Lower
1 Lost time incidents per 100,000 hours worked	●		
2 Employee motivation		● ←	
3 Water quality (test failure rate) - ppm	●		
4 Customer written complaints per 1,000 properties	→ ●		
5 1 st time call resolution for billing (%)	● ←		
6 Unplanned interruptions per 1,000 properties			●
7 Properties at risk of low pressure per 1,000 properties	●		
8 First time job resolution	●		
9 Non performance against regulatory obligations (%)	●		
10 Capex (net)	●		
12 Debtor days		●	
13 Opex (£m)		●	
15 Pollution incidents (categories 1 to 3)		●	
16 Sewage flooding incidents	→ ●		
17 Sewage treatment works – failing consent limits		● ←	
18 Supply availability			●
19 Net energy use - GWh	●		
20 Leakage Mld		●	

The Service Incentive Mechanism (SIM)

SIM consists of 2 equally weighted measures:

Quantitative

This measure looks at the number of complaints, unwanted contacts and engaged / abandoned calls.

Qualitative

This measure looks at the end to end customer service by completing 200 customers surveys 4 times a year. Customers rate us based on a score of 1 (very dissatisfied) to 5 (very satisfied).

Customer Experience Programme

- Easier for customers to contact us
- Make commitments – then deliver on them
- Pro actively communicate
- Resolve issues with fewer visits...then check that we have resolved them



Innovation

Minworth

- Anammox (ANaerobic AMMonium OXidation) process
 - £14m opex savings vs. traditional solution over AMP5

Ashbourne

- 1st in UK to adopt HYBACS, (Hybrid Activated Sludge) process
 - reduces footprint area and power consumption
 - £84k p.a. opex saving compared to traditional method of treatment

Severn Trent Services

Still presents a good opportunity in the long term

- Drivers – scarcity, climate change, population, standards
- Current challenging economic environment

Operating Services

- US market – lower bid activity
- UK performed well
- Italy – uncertainty post referendum

Products

- Filtration & disinfection impacted by customer delays
- Strong order book

Investment spend

- £1m in H1
 - BalPure – first orders shipped

Private Drains and Sewers

- Successful handover on 1st October
- To date in-bound call volumes lower than expectations
 - 4,000 jobs on transferred assets

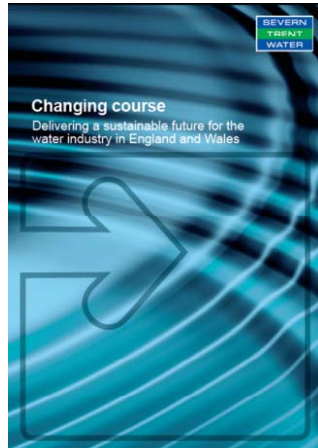
	Cost YTD	Guidance
Exceptionals	£2.5m	£6m
Opex	£1m	£12-15m
Capex	£1.5m	£8-12m

- Positive customer feedback*



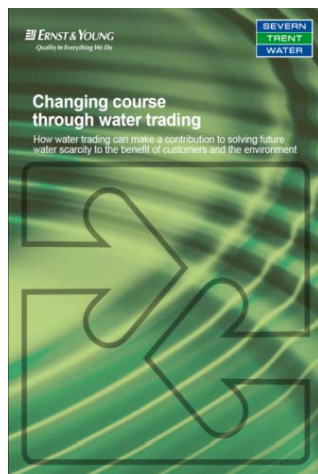
* Comments: 1-14 October 2011

Sector developments



Ofwat

- Involving customers in price setting – Ofwat’s customer engagement policy statement (August 2011)
- Regulatory Compliance – a proportionate and targeted approach (October 2011).
- Future price limits



Defra

- White Paper



www.ofwat.gov.uk



Summary

Plans in place to improve areas of operational performance

Network investment

**Long term opportunity with Services –
short term will remain challenging**

Encouraged by direction of regulatory reforms

Delivering sustainable shareholder value

SEVERN

TRENT

Q & A

Appendix

Group Earnings

Six months to 30 September 2011

2010/11 £m		2011/12 £m		
104.5	Profit for the period	72.3		
103.8	Attributable to: - Equity holders of the company	72.3		
0.7	- Non controlling interests	0.0		
Pence		Pence	Variance pence	Variance %
	Basic EPS from continuing operations			
47.4	Adjusted basic EPS <small>(before exceptional items, gains/losses on financial instruments and deferred tax)</small>	46.4	(1.0)	(2.2)
43.9	Basic EPS	30.5	(13.4)	(43.9)
	Diluted EPS from continuing operations			
47.3	Adjusted diluted EPS <small>(before exceptional items, gains/losses on financial instruments and deferred tax)</small>	46.2	(1.1)	(2.4)
43.8	Diluted EPS	30.4	(13.4)	(44.1)

Group balance sheet

30 September 2011

31 March 2011 £m		30 September 2011 £m	Movement in the period £m
6,427.0	Property plant and equipment	6,481.6	(54.6)
203.2	Intangible assets	193.2	10.0
5.1	Other non current assets	5.0	0.1
(583.5)	Working capital/provisions	(818.9)	235.4
6051.8	Capital employed	5,860.9	190.9
(67.0)	Tax creditor	(72.9)	5.9
(919.4)	Deferred tax provision	(827.5)	(91.9)
(3,868.8)	Net debt	(3,758.8)	(110.0)
(90.5)	Derivative financial instruments	(235.1)	144.6
1,106.1	Net assets	966.6	139.5
77.8%	Gearing	79.5%	

Movements on shareholders' equity

Six months to 30 September 2011

	2011/12
At 1 April	1,106.1
Total recognised income for the period	(51.8)
Dividends	(92.5)
Dividends to minorities	(0.3)
Credit from share based payments charge	0.9
Tax on share based payments charge	0.3
Shares issued	3.9
At 30 September	966.6

Gearing

At 30 September 2011

31 March 2011	Net debt/RCV	30 September 2011
57%	Severn Trent Plc	54%
58%	Severn Trent Water	55%

Segmental analysis of capital employed

30 September 2011

Total		Net Operating Assets	Goodwill	Total
31 March 2011		30 September 2011	30 September 2011	30 September 2011
£m		£m	£m	£m
5,905.2	Severn Trent Water	5,744.3	0.0	5,744.3
189.0	Severn Trent Services*	96.2	68.8	165.0
(42.4)	Other	(48.4)	0.0	(48.4)
6,051.8	Group	5,792.1	68.8	5,860.9

* Excludes goodwill of £[40.8] million previously written off against reserves

PBITD* analysis

Six months to 30 September 2011

2010/11		2011/12
£m		£m
403.9	Severn Trent Water	405.4
16.6	Severn Trent Services	10.2
(8.1)	Other	(6.1)
412.4	Group	409.5

* Profit before interest, tax, depreciation (see slide [35]) and exceptional items

Depreciation* analysis

Six months to 30 September 2011

2010/11 £m		2011/12 £m
131.2	Severn Trent Water	132.5
3.6	Severn Trent Services	3.7
0.6	Other	(1.0)
135.4	Group	135.2

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

Capital expenditure (net cash)*

Six months to 30 September 2011

2010/11		2011/12
£m		£m
(190.2)	Water and sewerage	(146.5)
(3.8)	Severn Trent Services	(3.5)
(4.5)	Other	(0.1)
(198.5)	Group	(150.1)

* Net of grants received and proceeds of sale

Severn Trent Water – operating costs

Six months to September 2011

2010/11 £m		2011/12 £m	Variance £m	Variance %
260.1	Direct operating costs	277.6	17.5	6.7
131.2	Depreciation	132.5	1.3	1.0
38.3	Infrastructure renewal	52.1	13.8	36.0
429.6	STW operating costs	462.2	32.6	7.6

* Net of other income £2.1m (£1.4m) but excluding management charges

Severn Trent Water – capex reconciliation

Six months to 30 September 2011

2010/11 £m		2011/12 £m
164.5	UK GAAP gross capex	197.4
(8.9)	Less grants and contributions	(10.4)
155.6	UK GAAP net capex	187.0
(38.3)	Treated as IFRS infrastructure operating expenditure	(52.1)
(2.1)	Other IFRS adjustments	0.1
115.2		135.0
78.9	Movement on capital creditors	11.5
(3.9)	Proceeds of sale of fixed assets	0.0
190.2	IFRS capex (net cash)	146.5

Severn Trent Services performance

Six months ended 30 September 2011

Turnover				Underlying PBIT*		
2010/11	2011/12	Change		2010/11	2011/12	Change
£m	£m	%		£m	£m	%
172.0	160.0	(7.0)	As reported	13.0	6.5	(50.0)
165.5	160.0	(3.3)	At constant exchange rates**	12.5	6.5	(48.0)
ROIC***				11.5%	5.9%	

* 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)

Net finance costs

Six months ended 30 September 2011

	Income statement charge	Capitalised interest	Gross interest incurred
	£m	£m	£m
"Cash" interest	91.2	3.2	94.4
Pension debit/(credit)	(1.8)	-	(1.8)
RPI interest	30.0	1.1	31.1
	119.4	4.3	123.7

Net debt

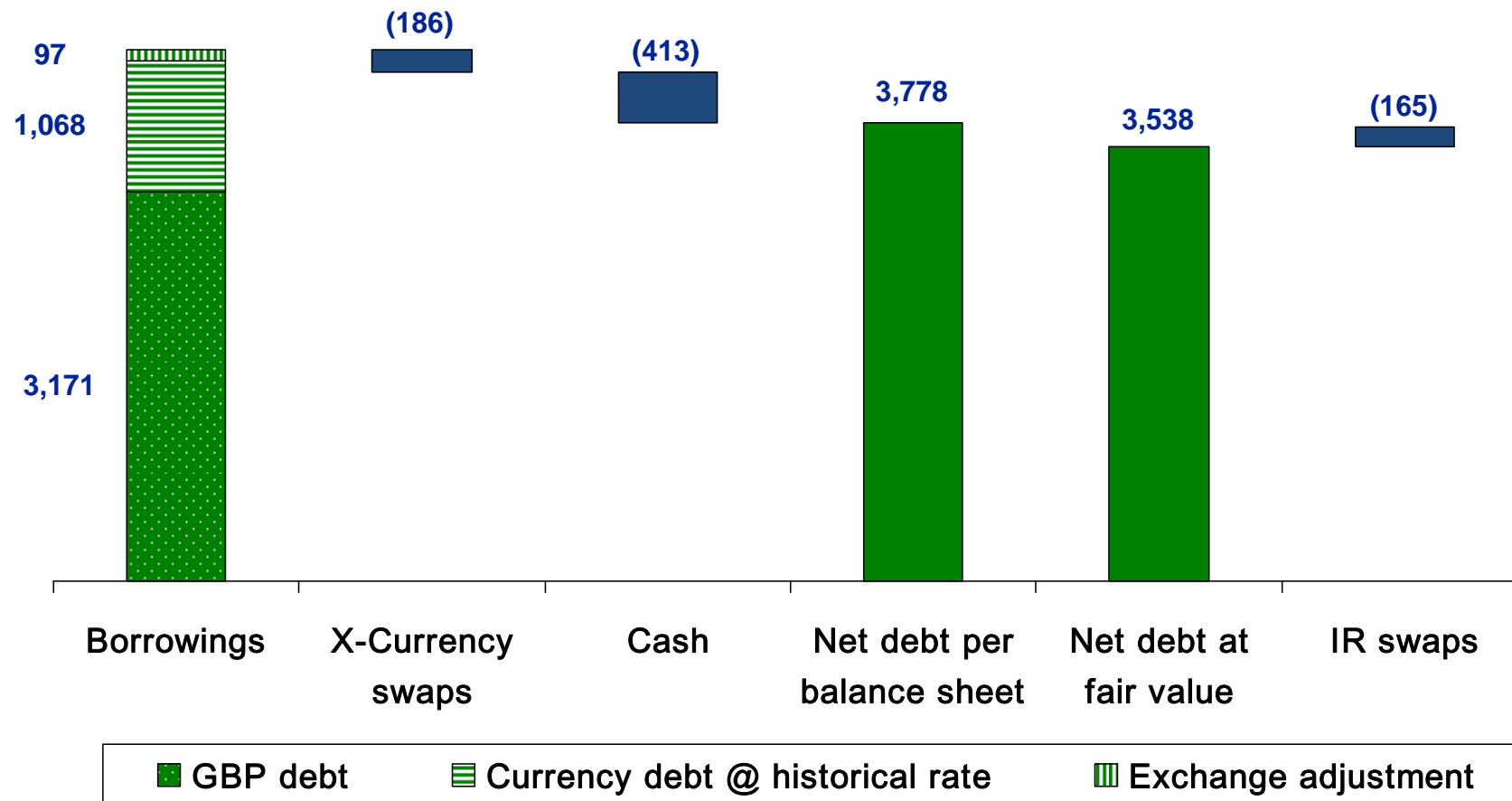
	30 September 2011	31 March 2011	30 September 2010
	£m	£m	£m
Cash and cash equivalents	412.6	315.2	443.9
Borrowings – current liabilities	(85.5)	(23.9)	(58.8)
Borrowings – non-current liabilities	(4,271.6)	(4,320.5)	(4,268.8)
Cross currency swaps hedging debt	185.7	160.4	160.4
Net debt	(3,758.8)	(3,868.8)	(3,723.3)

Fair value of net debt

At 30 September 2011

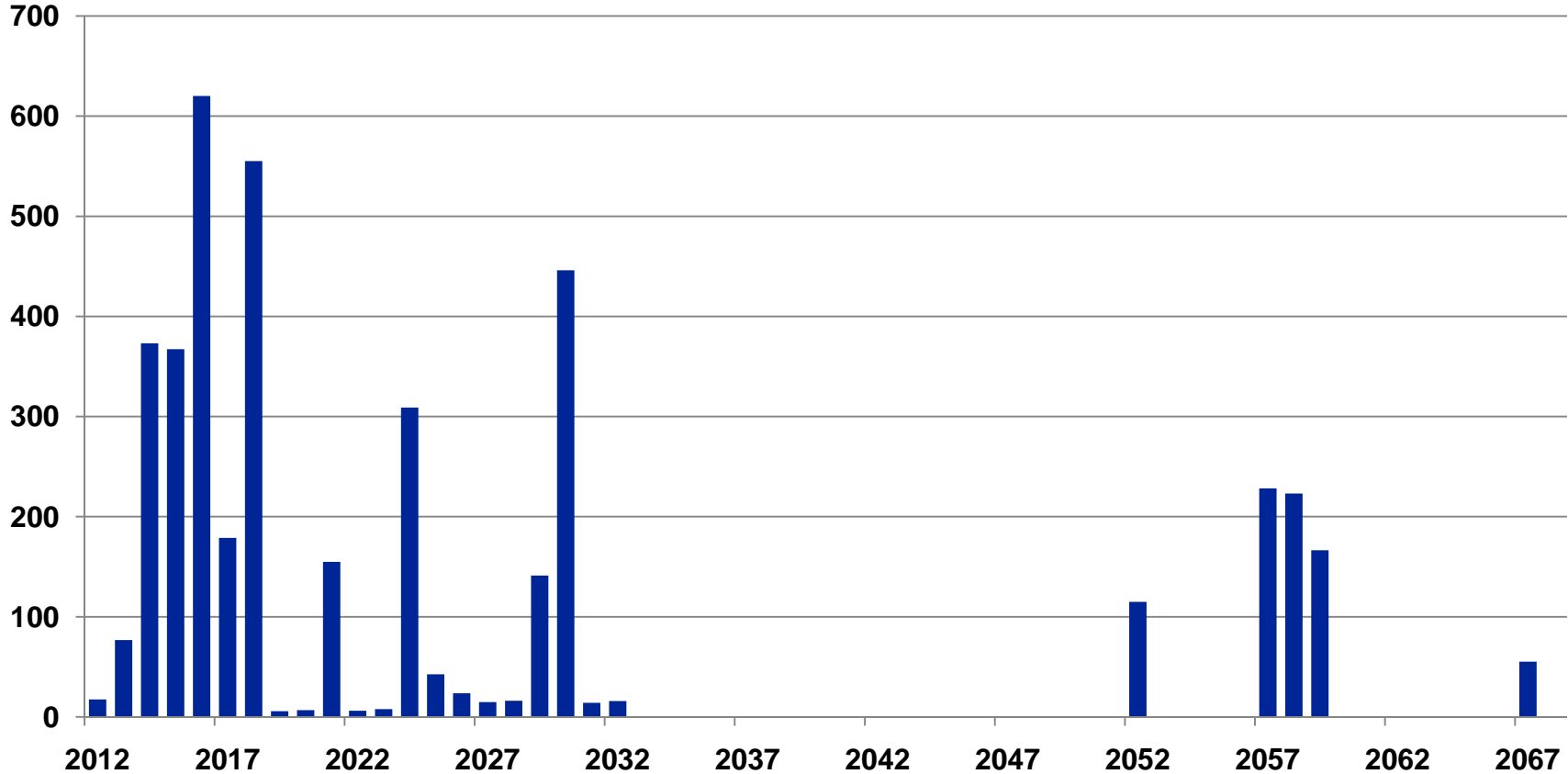
	30 September 2011	31 March 2011	30 September 2010
	£m	£m	£m
Bank loans	(852.3)	(836.8)	(847.0)
Other loans	(3,795.5)	(3,597.6)	(3,156.4)
Obligations under finance leases	(253.7)	(237.4)	(254.4)
	(4,901.5)	(4,671.8)	(4,257.8)
Cash	412.6	315.2	443.9
Cross currency swaps	185.7	160.4	160.4
	(4,303.2)	(4,196.2)	(3,653.5)
Net debt (previous slide)	(3,758.8)	(3,868.8)	(3,723.3)
Difference	544.4	327.4	(69.8)

Analysis of borrowings, net debt and swaps at 30 September 2011



Debt maturity profile

Maturity profile of gross debt (£ millions)



Credit ratings

30 September 2011

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**	6,638	6,979	7,259	7,557	7,857
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

Contact details – Investor Relations



John Crosse

Head of Investor Relations

Severn Trent Plc
PO Box 5309
Coventry. CV3 9FH
United Kingdom

T: +44 (0) 2477 715000
M: +44 (0) 7775 226260

e:mail: john.crosse@severntrent.co.uk

www.severntrent.com

www.severntrentservices.com