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# Preliminary Results

## Year ended 31 March 2013

30 May 2013

The Lincoln Centre, London

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# Andrew Duff

## Chairman

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# Mike McKeon

## Finance Director

# Highlights

Group	2011/12	2012/13	Change %
Turnover (£m)	1,770.6	1,831.6	3.4
Underlying profit before interest and tax <sup>1</sup> (£m)	504.2	498.0	(1.2)
Underlying profit before tax <sup>2</sup> (£m)	275.3	266.3	(3.3)
Adjusted basic EPS <sup>3</sup> (pence)	88.9	98.9	11.2
Basic EPS (pence)	72.5	95.7	32.0
Total ordinary dividend per share (pence)	70.1	75.8	8.2
Regulatory Capital Value <sup>4</sup> (£m)	7,089	7,364	3.9

1. before exceptional items

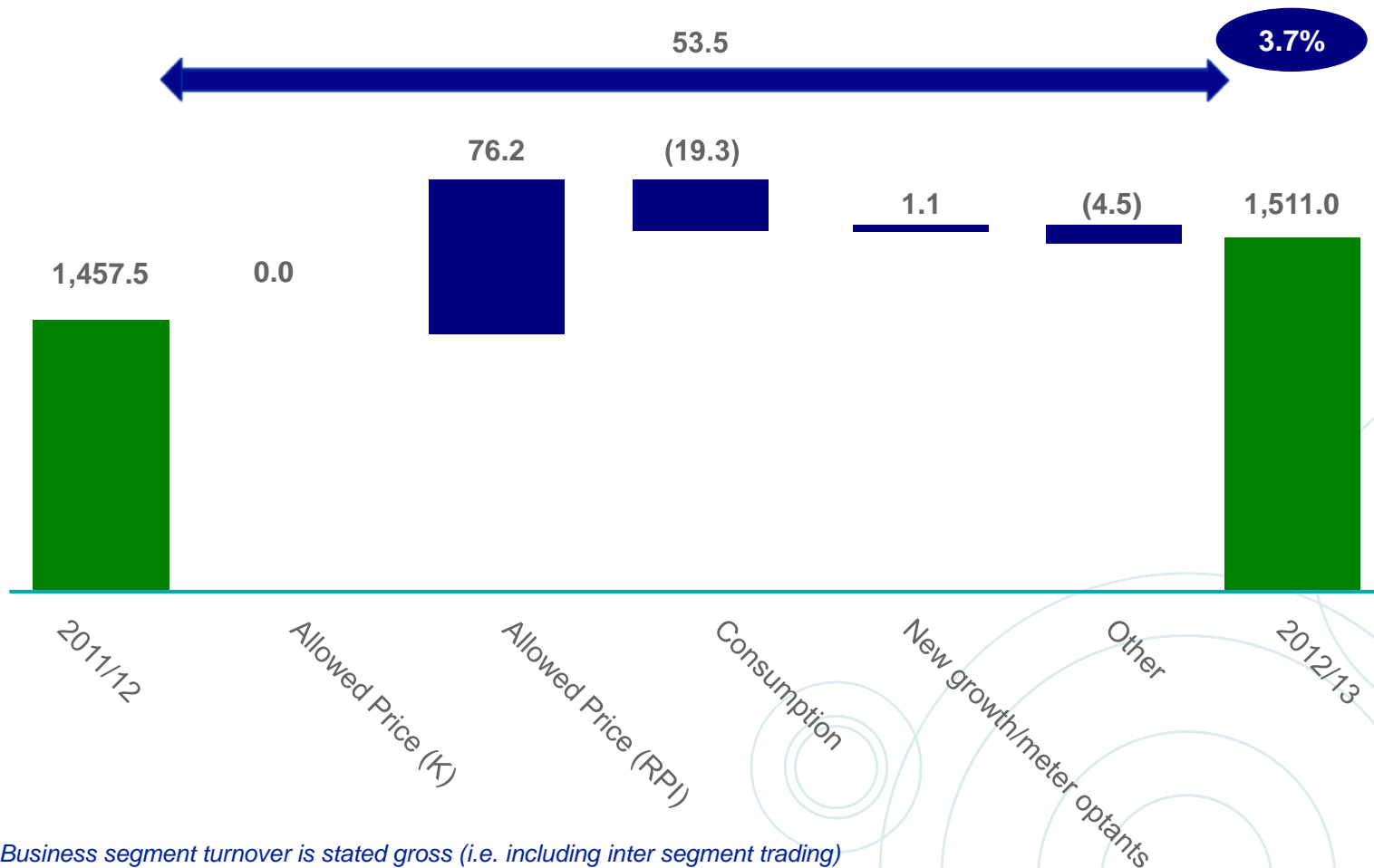
2. before exceptional items and net loss on financial instruments

3. before exceptional items, net loss on financial instruments, current tax on exceptional items and on financial instruments and deferred tax

4. at year end actual RPI

# Regulated - Severn Trent Water turnover

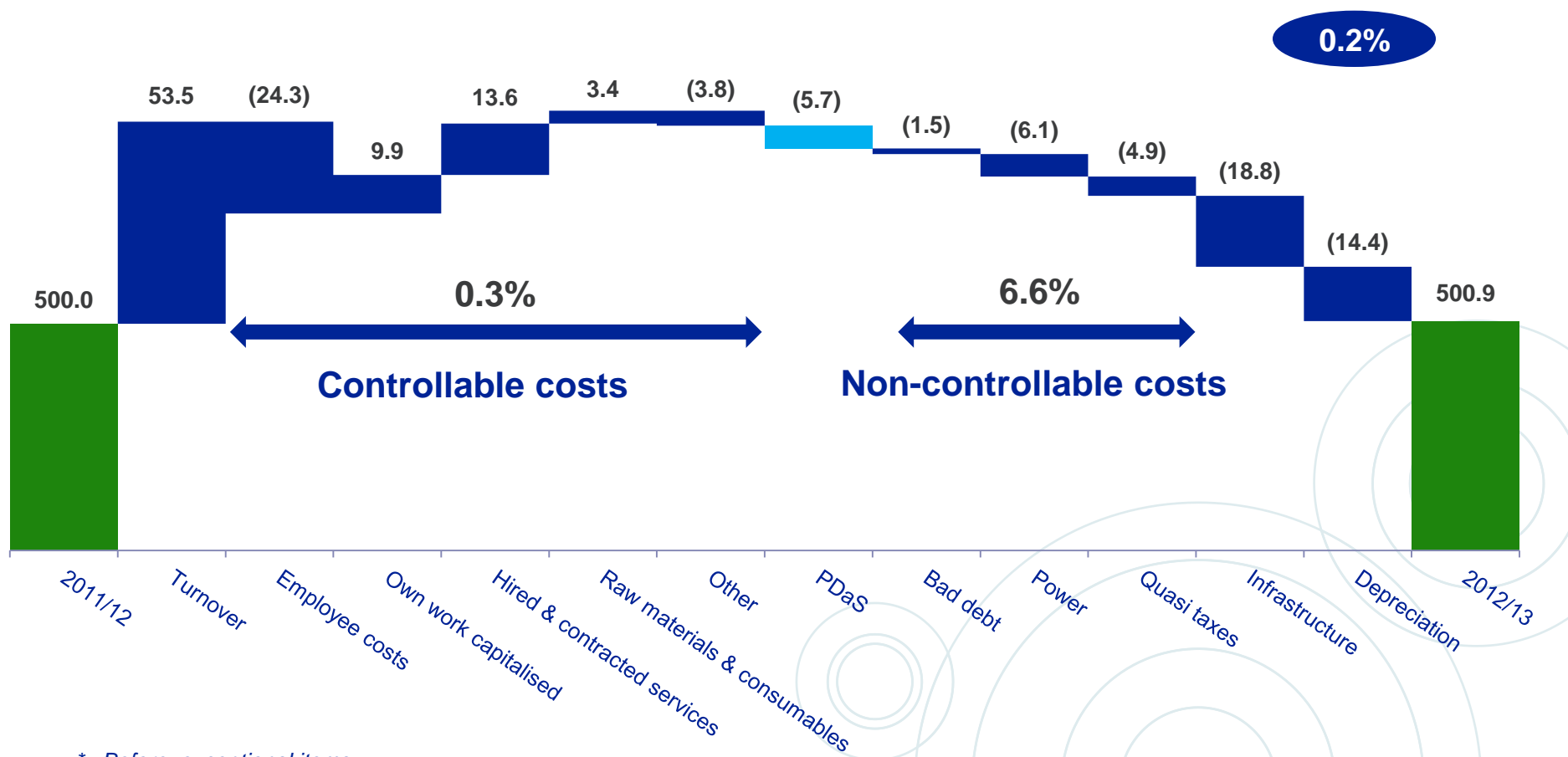
Regulated - Severn Trent Water Turnover\* 2012/13  
£m



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

# Regulated - Severn Trent Water PBIT

Regulated - Severn Trent Water PBIT\* 2012/13  
£m



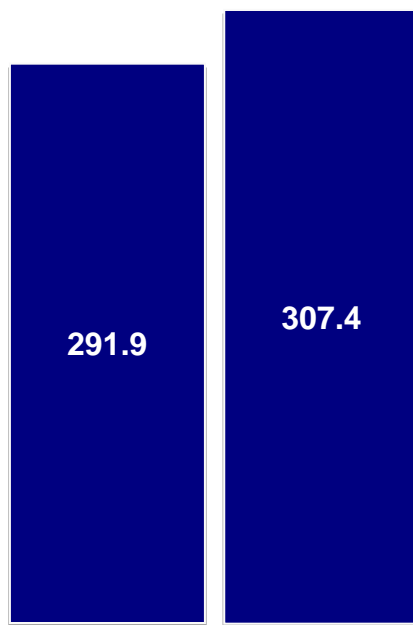
\* Before exceptional items

# Non – regulated Severn Trent Services performance

£m

Revenue

5.3%



2011/12

2012/13

Like for like\*\*

Like for like\*\*

Order book at March 2013 £50m

Reported  
PBIT\*

(3.5)%

PBIT excluding  
Investment  
cost\*

6.7%

Investment  
cost

2.0

3.6

Reported  
PBIT\*

14.4

13.9

2011/12

2012/13

Like for like\*\*

Like for like\*\*

Investments in:

- Operating services
- BALPURE®

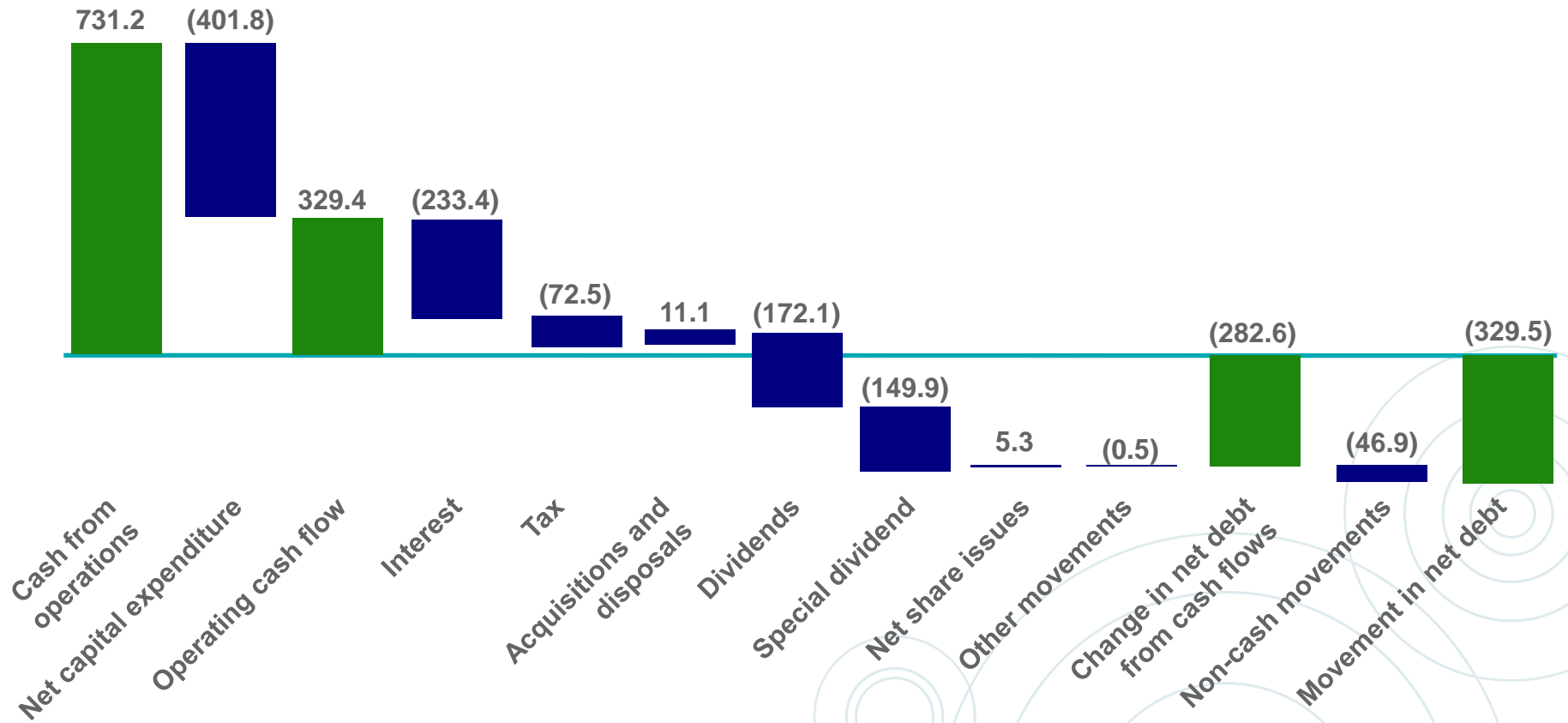
\* PBIT before exceptional items

\*\* On constant currency excluding acquisitions and disposals

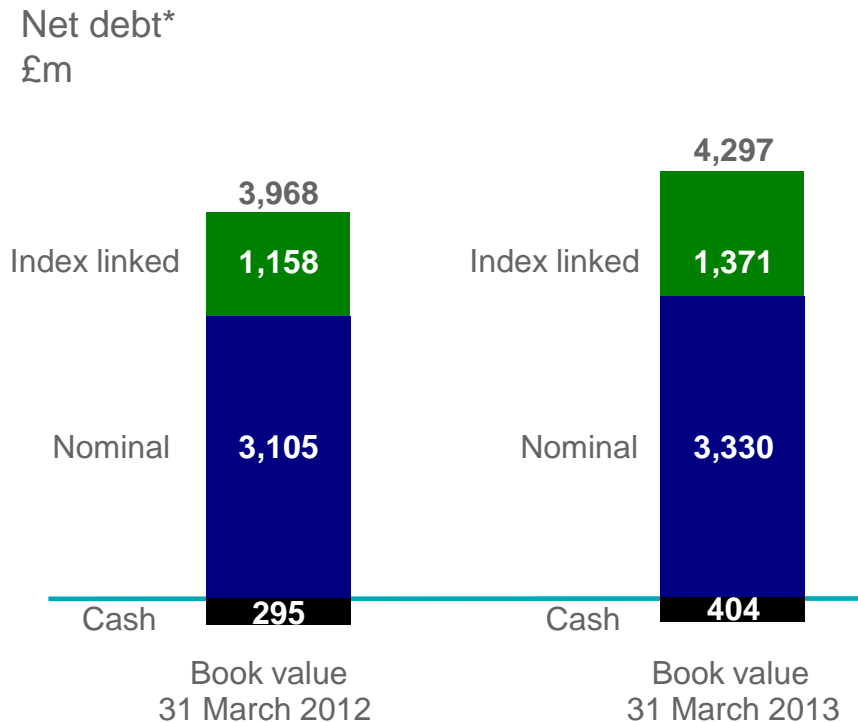


# Group cash flow

£m



# Group net debt



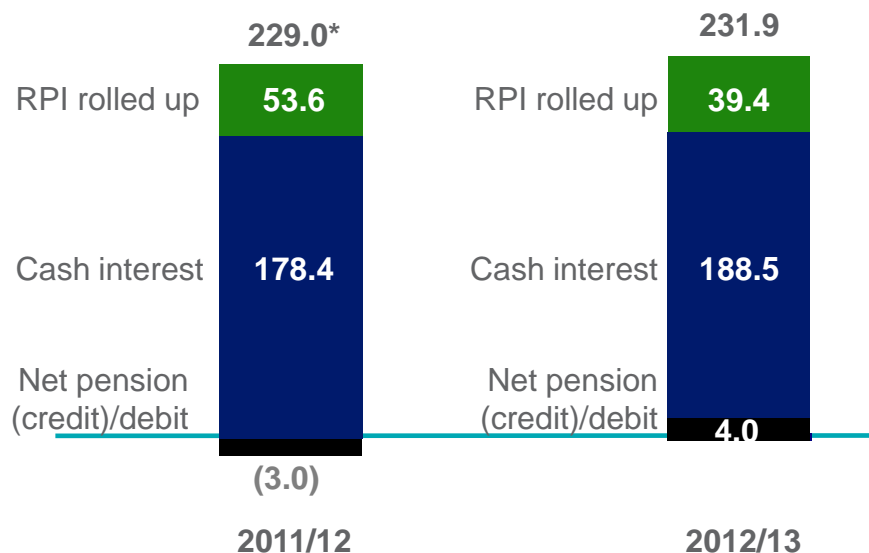
- Net debt at 31 March 2013 £4,297m after £150m special dividend
- 77% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,264.0m
- RCV\*\* £7,364m
- Group net debt/RCV\*\* 58%
- Fair value of debt £5,071m (£4,579m)
- FV of debt reflects a theoretical DCF estimate of cost difference between market conditions at time of issue and current rates
- As debt will be held to maturity book value not fair value reflects actual repayment obligations
- Credit rating agencies use book value
- Credit stable at:
  - Moody's STW (A3), ST Plc (Baa1)
  - S&P STW (BBB+), ST Plc (BBB-)

\* Including cross currency swaps

\*\* At year end prices

# Group finance charges

Finance charge  
£m

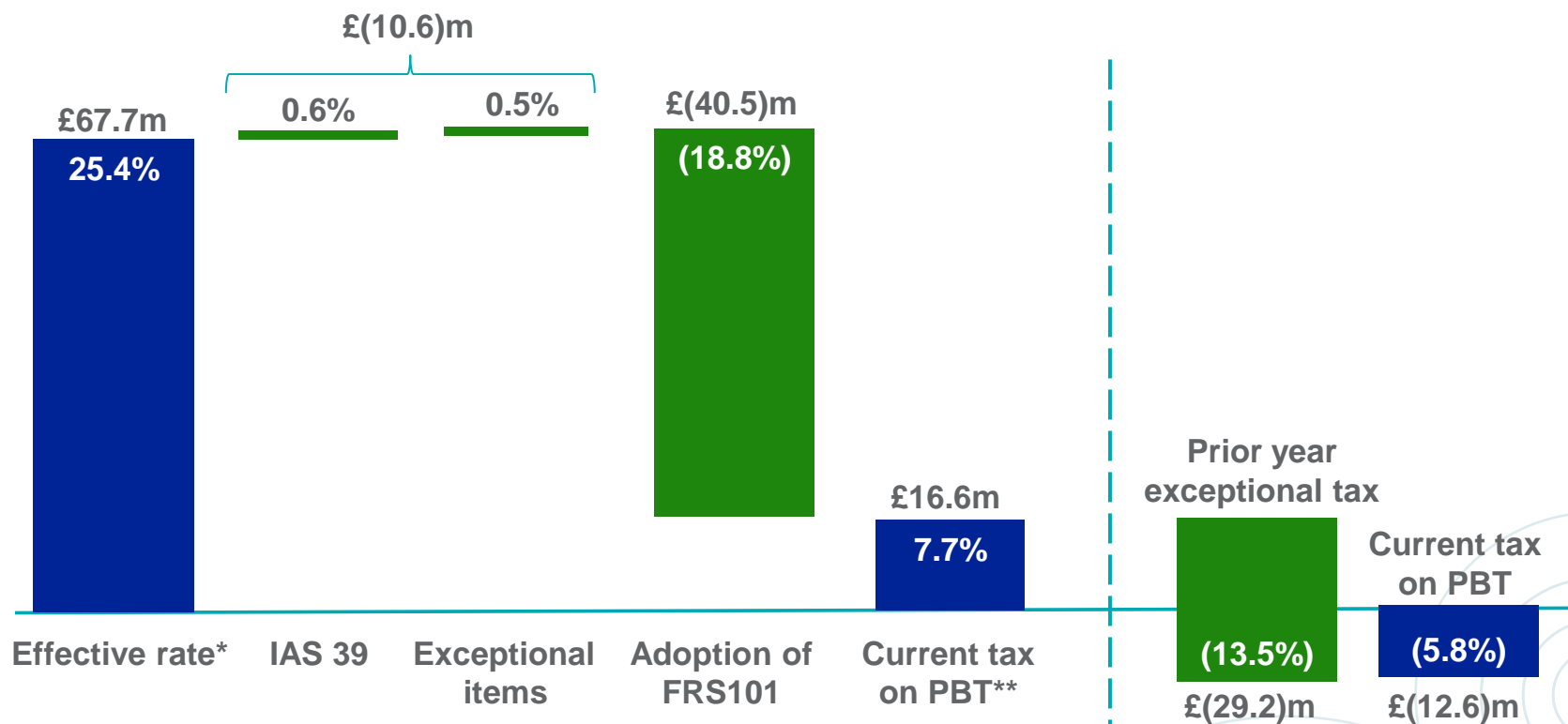


- Effective rate circa 5.9%
- Effective cash interest cost 4.9%
- EBITDA cover 3.4x
- PBIT cover\*\* 2.1x

\* Before exceptional finance costs

\*\* Before exceptional items

# Group current tax



\* Current tax (excluding prior year adjustments and tax on exceptional items and on financial instruments) attributable to PBT before exceptional items and net loss on financial instruments

\*\* Current tax (including exceptional tax credit) excluding prior year adjustment attributable to PBT. See note 6 of RNS

# Outlook

## FY 2013/14

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### Regulated - Severn Trent Water

- Prices at Severn Trent Water rose by 2.0% in April 2013
- Opex – inflation and investment costs partially offset by efficiencies
- Capex £600m-£620m range; IRE £135m-£145m

### Non regulated - Severn Trent Services

- Expect to see benefits of prior years' investments in growth

### Group

- Interest charge higher due to higher net debt & adoption of new discount rate rules from IAS19
- Dividend set to be 80.40p, further growth of 6% year on year

# Summary

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**Good financial performance, effective cost management**

**Continuing growth from investments in our networks and service delivery**

**Strong dividend growth: up 8.2% in 2012/13 and up 6% in 2013/14 to 80.40p**

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# Tony Wray

## Chief Executive

# Creating value through continuous improvement

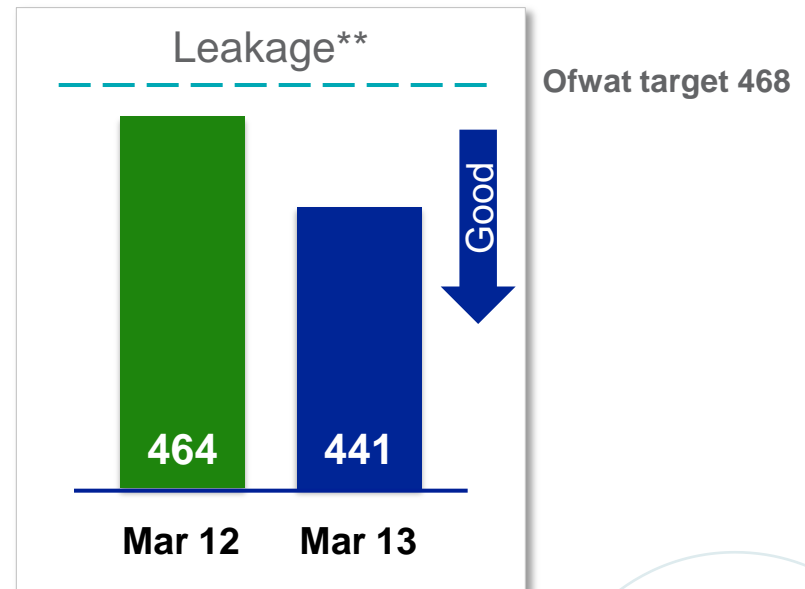
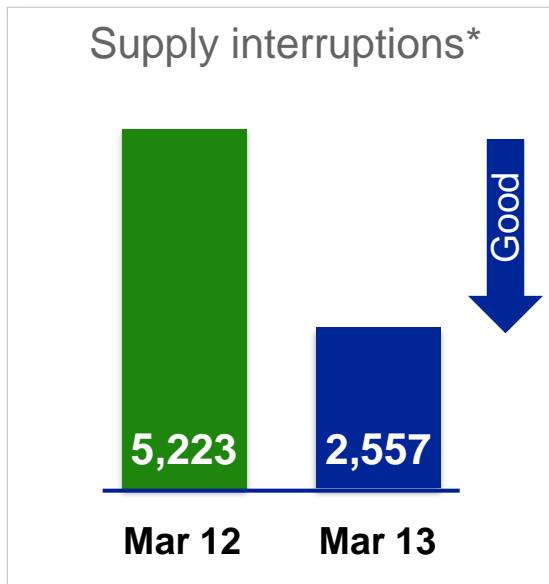
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- Delivering dividend policy with 8.2% growth
- TSR AMP5 to date of 72%<sup>1</sup>
- Growth in RCV from £7,089 million to £7,364 million
- Delivered significant operational improvements and higher levels of customer service
- Severn Trent Water PBIT (excluding PDaS) grew by 1.3%
- Non regulated business performance improving
- Well prepared for next price review and continued RCV investment



# Operational improvements

## Efficiency and higher customer service levels



Serviceability	2011/12	2012/13
Water below ground	Marginal	Stable
Water above ground	Stable	Stable
Waste below ground	Stable	Stable
Waste above ground	Stable	Stable

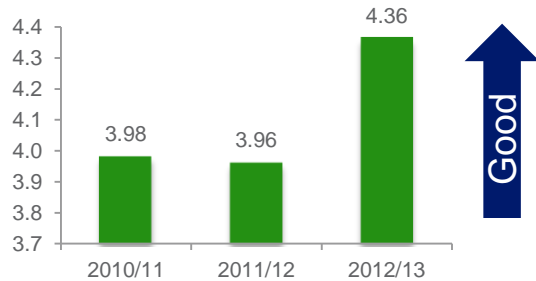
\*Number of properties > 12 hours.

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

# Improved customer service

## 12% improvement in overall SIM score

### Qualitative



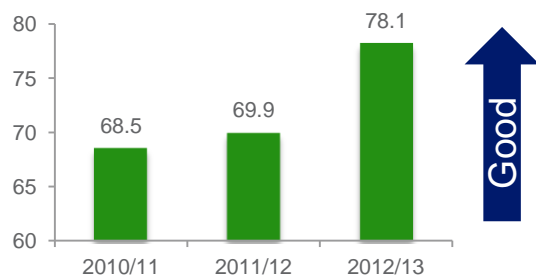
- 10% improvement year on year
- Severn Trent Water most improved
- Industry range -5% to 10%

### Quantitative

- 19% improvement year on year
- Ranking will be known in summer 2013



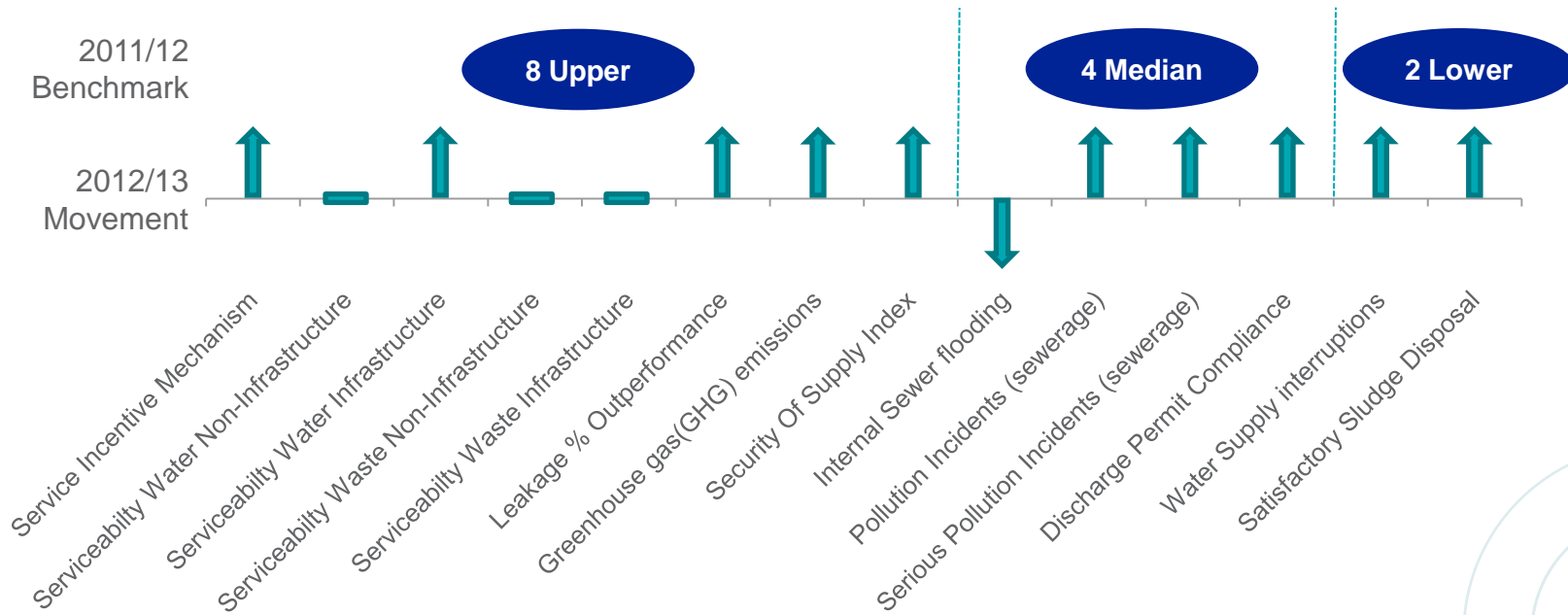
### Combined



- 12% improvement year on year
- Ranking will be known in summer 2013

# Delivering regulatory performance

## Ofwat KPI 2012/13 performance



### Progress since last year:

- 10 have improved
- Stable in 3
- 1 has deteriorated

# RCV investment for our customers

## We have invested £54m of the additional £150m

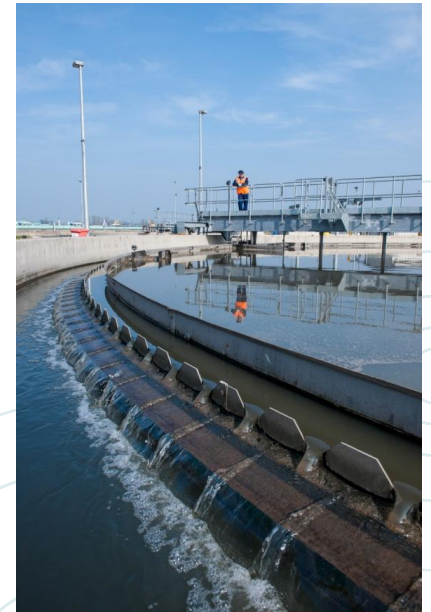
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### Water Network Investment

- We have invested an additional **£17m** in reducing the amount of leaks
- We found over 17,000 leaks and carried out **over 60,000 repairs** on our network
- This delivered our **lowest level of leakage in 20 years**

### Sewage Treatment

- We have over 1,000 sewage treatment works
- We have spent **£12m** on additional maintenance and installing more monitoring equipment
- As a result sewage treatment works compliance is at **99.15%** our best ever performance in 15 years
- We have invested **£4m** in reducing the number of blockages in the 49 worst performing drainage areas



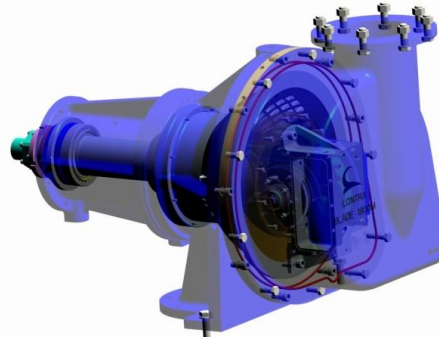
# Innovation

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## Lontra Blowers - £1.8m / year energy saving



- Trial at Worcester waste water treatment works
- 20% energy saving compared to current blowers
- Replacement of all our blowers (280) would yield £1.8m / year energy saving at current energy prices



# Non regulated

## Positioned for growth

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### Operating services

Momentum in US  
MoD contract performing well  
Exploiting new markets –  
First Milk

### Products

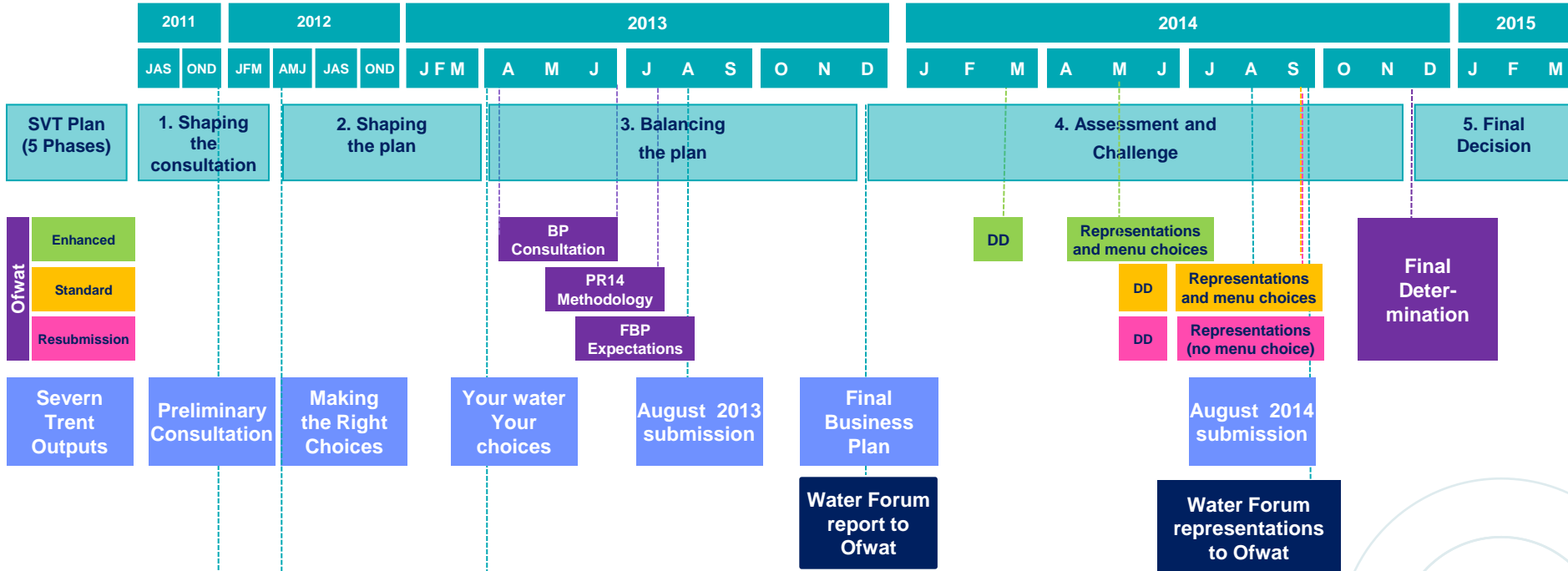
Growth in Asia and LatAm  
First BALPURE sales Revenue  
and PBIT growth

### Opportunities

Non-household retail and industrial sector in UK  
Renewables growth 30% -> 40%  
Property – development of surplus land

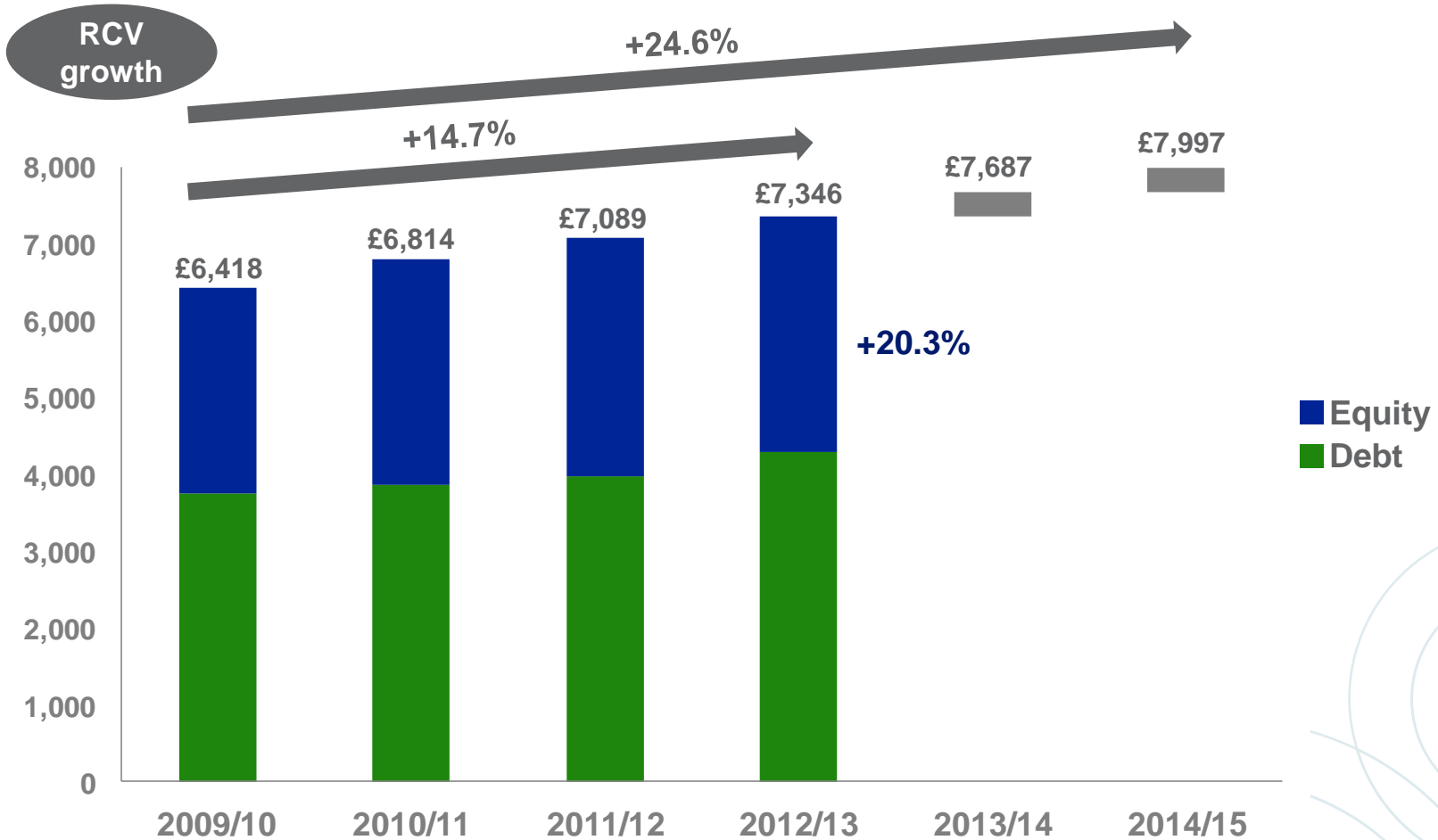
# Well prepared for PR14

## Good stakeholder engagement



# Outlook

## RCV growth



### Equity RCV growth vs. RCV growth

- AMP to date RCV grew 14.7%, equity RCV grew 20.3% (adjusted for special dividend)

*Based on year end RPI forecast from Experian of 3.4% or 13/14 and 3.3% for 14/15. For RCV values see: [www.ofwat.gov.uk/regulating/prs\\_web\\_rcvupdates](http://www.ofwat.gov.uk/regulating/prs_web_rcvupdates)*

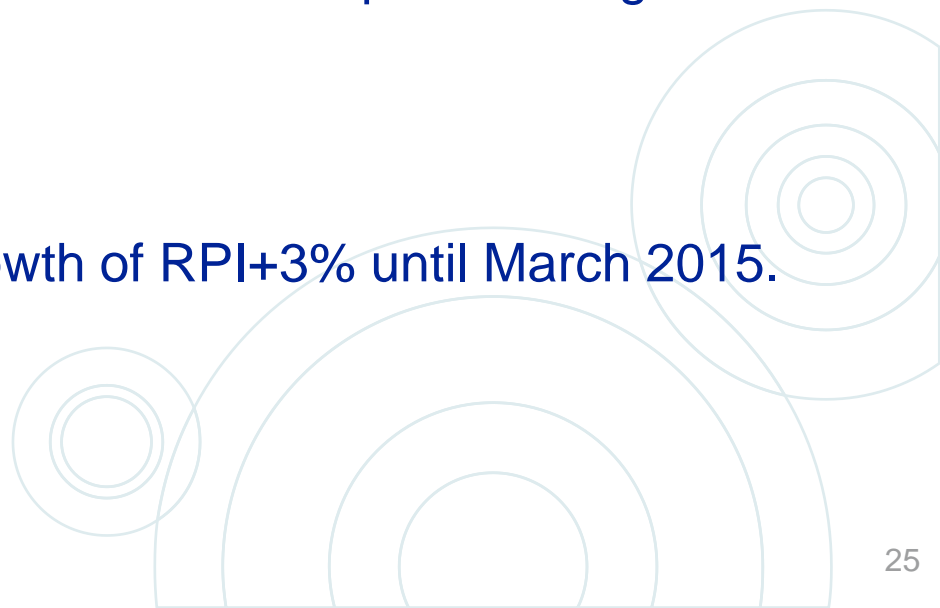


# Outlook

## Remainder of AMP5

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- Continue to improve customer service levels
- Re-invest efficiencies in the capital programme
- AMP6 capital programme to reflect ongoing investment demands
- Strong, flexible and sustainable balance sheet - kept under regular review
- Clear and focused strategy
- Committed to dividend policy of growth of RPI+3% until March 2015.



# Highlights

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**Creating long term value through efficient investment and RCV growth**

**Delivered significant operational improvements and higher levels of customer service**

**Non-regulated underlying performance improved**

**Well prepared for PR14**

**Delivering on dividend policy**

**72% TSR since start of AMP5**

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**SEVERN**

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# Appendix



# Private drains and sewers

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- To end of March 2013, customer contacts, in line with previous forecast
  - Customer awareness showing steady growth
  - Our proactive CCTV investigations into the condition of our assets have led us to reforecast our AMP5 forecast spend

	<b>Total to date</b>	<b>Updated AMP5 Total</b>	<b>Previous AMP5 total</b>
Exceptionals	£4.6m	£4.6m	£4.6m
Opex	£15.1m	£36m-£43m	£30m-£36m
Capex	£14.0m	£45m-£52m	£55m-£97m
<b>Total</b>	<b>£34.1m</b>	<b>£86m-£100m</b>	<b>£90m-£138m</b>

# Group Earnings

## Year ended 31 March 2013

2011/12		2012/13	Variance	Variance
£m		£m	£m	%
174.4	Profit for the period	230.4	56.0	32.1%
171.8	Attributable to:	227.5	55.7	32.4%
2.6	- Equity holders of the company	2.9	0.3	11.5%
	- Non controlling interests			

Pence		Pence	Variance Pence	Variance %
<b>Basic EPS from continuing operations</b>				
88.9	Adjusted basic EPS (before exceptional items, net loss on financial instruments and deferred tax)	98.9	10.0	11.2%
72.5	Basic EPS	95.7	23.2	32.0%
<b>Diluted EPS from continuing operations</b>				
88.5	Adjusted diluted EPS (before exceptional items, net loss on financial instruments and deferred tax)	98.5	10.0	11.3%
72.1	Diluted EPS	95.2	23.1	32.0%

# Group balance sheet

31 March 2013

2012 £m		2013 £m	Movement in the period £m
6,577.8	Property, plant and equipment	6,760.0	182.2
160.9	Intangible assets	141.0	(19.9)
4.9	Other non-current assets	5.1	0.2
(684.6)	Working capital/provisions	(739.7)	(55.1)
<b>6,059.0</b>	<b>Capital employed</b>	<b>6,166.4</b>	<b>107.4</b>
(46.5)	Tax debtor/(creditor)	40.5	87.0
(801.5)	Deferred tax provision	(785.8)	15.7
(3,967.8)	Net debt	(4,297.3)	(329.5)
(261.8)	Derivative financial instruments	(279.8)	(18.0)
<b>981.4</b>	<b>Net assets</b>	<b>844.0</b>	<b>(137.4)</b>
<b>80.2%</b>	<b>Gearing*</b>	<b>83.6%</b>	<b>3.4%</b>

\* Net debt divided by net debt and equity

# Movements on shareholders' equity

Year ended 31 March 2013

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	£m
At 1 April 2012	981.4
Total comprehensive income for the period	172.2
Dividends paid to shareholders of Severn Trent Plc	(322.0)
Dividends paid to non-controlling interests	(0.5)
Credit from share-based payments charge	6.9
Tax on share-based payments	0.8
Shares issued	5.2
<b>At 31 March 2013</b>	<b>844.0</b>

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# Gearing

## At 31 March 2013

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2011/12	Net debt/RCV*	2012/13
56%	Severn Trent Group	58%
59%	Severn Trent Water	58%

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*\*At year end actual prices.*



# Segmental analysis of capital employed

31 March 2013

2012 Total £m		Net operating assets £m	2013 Goodwill £m	Total £m
5,958.7	Severn Trent Water	6,081.4	1.3	6,082.7
139.7	Severn Trent Services*	84.0	41.7	125.7
(39.4)	Other	(40.7)	(1.3)	(42.0)
<b>6,059.0</b>	<b>Group</b>	<b>6,124.7</b>	<b>41.7</b>	<b>6,166.4</b>

\* Excludes goodwill of £40.8 million written off against reserves and £27.5 million impairment through the income statement

# PBITD\* analysis

Year ended 31 March 2013

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2011/12		2012/13
£m		£m
768.0	Severn Trent Water	783.3
25.6	Severn Trent Services	18.1
(15.7)	Other	(14.7)
<b>777.9</b>	<b>Group</b>	<b>786.7</b>

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

# Depreciation\* analysis

Year ended 31 March 2013

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2011/12		2012/13
£m		£m
268.0	Severn Trent Water	282.4
7.6	Severn Trent Services	5.4
(1.8)	Other	0.9
<b>273.7</b>	<b>Group</b>	<b>288.7</b>

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


# Capital expenditure (net cash)\*

Year ended 31 March 2013

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2011/12		2012/13
£m		£m
342.9	Severn Trent Water	392.5
7.4	Severn Trent Services	7.5
0.9	Other	1.8
<b>351.2</b>	<b>Group</b>	<b>401.8</b>

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*\*Net of grants and contributions received and proceeds of sale*

# Severn Trent Water – operating costs

Year ended 31 March 2013

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2011/12 £m		2012/13 £m	Variance £m	Variance %
561.6	Direct operating costs	580.0	18.4	3.3
268.0	Depreciation*	282.4	14.4	5.4
128.9	Infrastructure renewals	147.7	18.8	14.6
<b>958.5</b>	<b>STW operating costs</b>	<b>1,010.1</b>	<b>51.6</b>	<b>5.4</b>

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

# Severn Trent Water – Capex reconciliation

Year ended 31 March 2013

2011/12		2012/13
£m		£m
405.3	Additions to Property, plant and equipment	451.6
9.8	Additions to Intangible fixed assets	13.6
415.1	IFRS capex	465.2
(10.5)	Interest capitalised under IFRS	(10.4)
(37.0)	Adopted assets capitalised under IFRS	(23.0)
128.9	Infrastructure renewals capitalised under UK GAAP	147.7
498.5	UK GAAP capex (gross)	579.5
(24.3)	Less grants and contributions	(24.1)
<b>474.2</b>	<b>UK GAAP capex (net of grants and contributions received)</b>	<b>555.4</b>

# Severn Trent Services performance

Year ended 31 March 2013

Turnover				Underlying PBIT*		
2011/12 £m	2012/13 £m	Change %		2011/12 £m	2012/13 £m	Change %
332.3	<b>328.5</b>	(1.1)	As reported	18.0	<b>12.7</b>	(29.4)
(40.7)	<b>(21.1)</b>		Changes in group	(3.5)	<b>1.2</b>	
0.3	-		Exchange rate impacts	(0.1)	-	
291.9	<b>307.4</b>	5.3	Like for like**	14.4	<b>13.9</b>	(3.5%)

Like for like\*\* ROIC\*\*\*

7.1%

\* PBIT before exceptional items

\*\* On constant currency excluding acquisitions and disposals

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



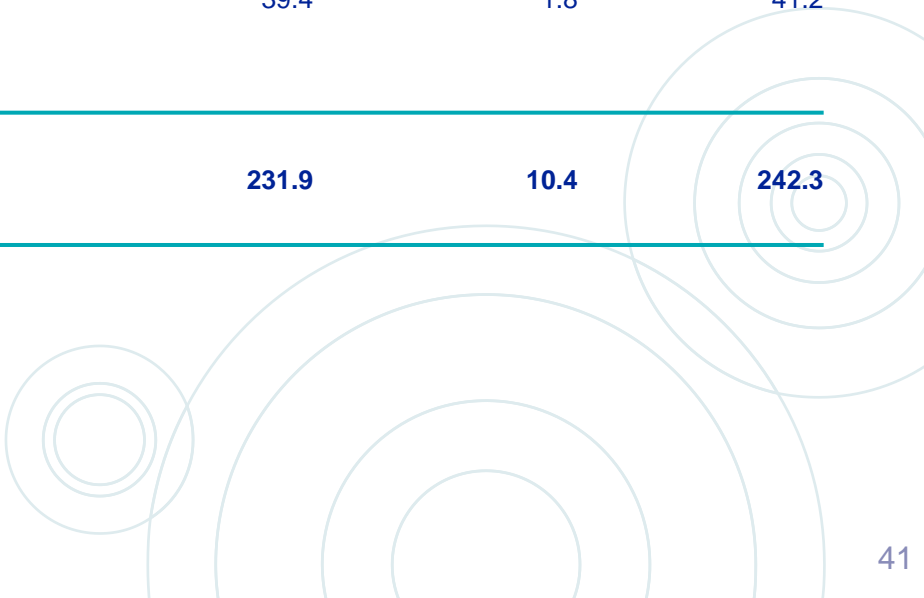
# Net finance costs

Period ended 31 March 2013

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	<b>Income statement charge 2012/13 £m</b>	<b>Capitalised interest 2012/13 £m</b>	<b>Gross interest incurred 2012/13 £m</b>
"Cash" interest (including accruals)	188.5	8.6	197.1
Pension debit	4.0	-	4.0
RPI interest	39.4	1.8	41.2
	<b>231.9</b>	<b>10.4</b>	<b>242.3</b>

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# Net debt

## At 31 March 2013

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	2012 £m	2013 £m	Movement in the year £m
Cash and cash equivalents	(295.1)	(403.6)	(108.5)
Bank overdrafts	0.4	0.4	-
Bank loans	852.5	758.7	(93.8)
Other loans	3,326.9	3,840.9	514.0
Finance leases	219.0	201.6	(17.4)
Cross currency swaps	(135.9)	(100.7)	35.2
<b>Net debt</b>	<b>3,967.8</b>	<b>4,297.3</b>	<b>329.5</b>

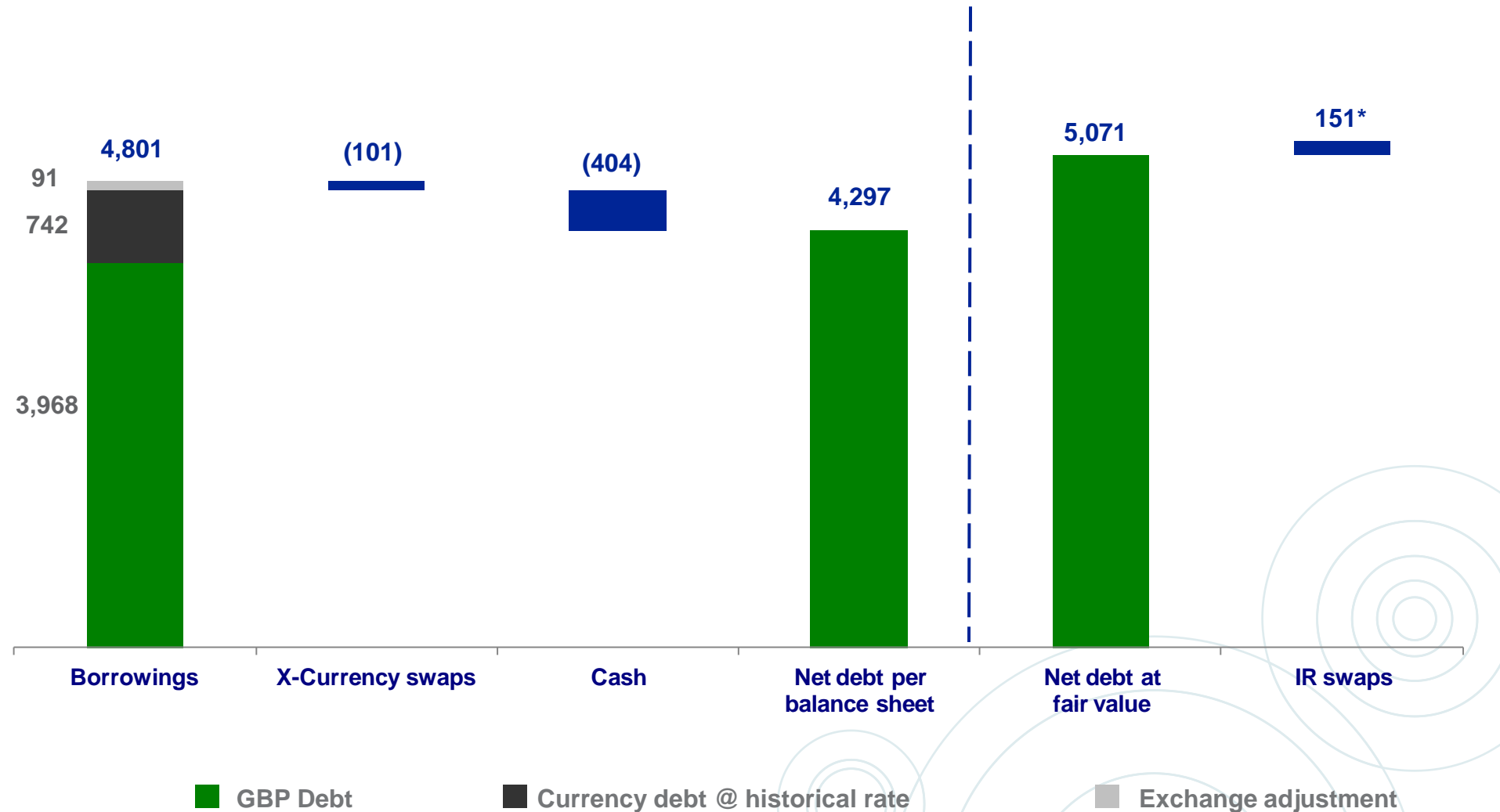
# Fair value of net debt

At 31 March 2013

	2012 £m	2013 £m	Movement in the period £m
Bank loans	858	782	(77)
Other loans	3,936	4,585	649
Finance leases	215	208	(7)
	5,010	5,575	565
Net cash and cash equivalents	(295)	(403)	(109)
Cross currency swaps	(136)	(101)	35
<b>Fair value of net debt</b>	<b>4,579</b>	<b>5,071</b>	<b>492</b>
Net debt (previous slide)	3,968	4,297	330
Difference	(612)	(774)	(162)

# Analysis of borrowings, net debt and swaps

At 31 March 2013



\* Excludes forward starting cash flow hedges against future debt

# Credit ratings

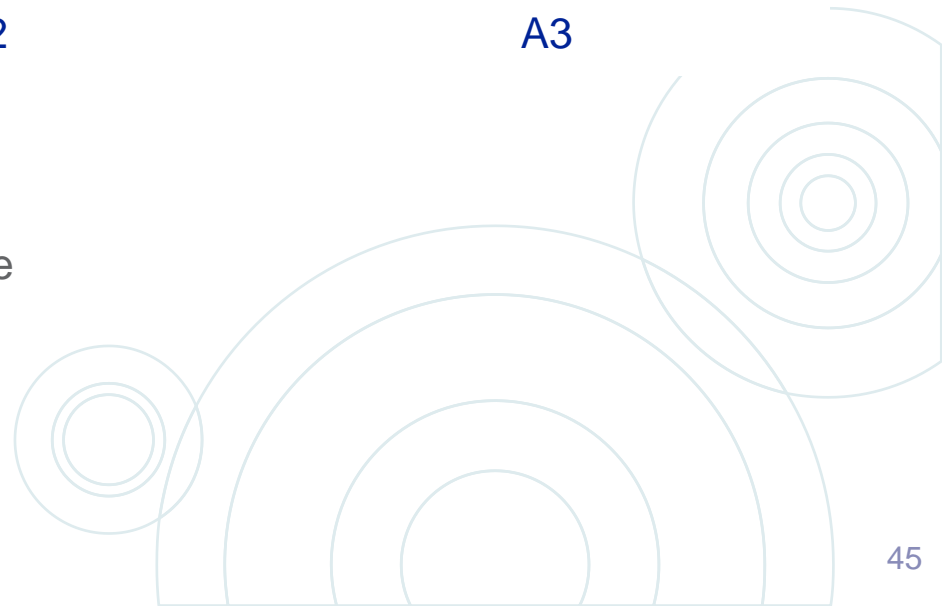
31 March 2013

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

<b>Short-Term</b>	<b>Severn Trent Water</b>	<b>Severn Trent Plc</b>
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

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£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	7,364	7,687	7,997
Ofwat Actual/Projected Outturn***	6,814	7,089	7,364	7,435	7,487

\* 2007/08 prices

\*\* At year end actual/estimated prices. Experian forecast 3.4% for 13/14 and 3.3% for 14/15

\*\*\* Year end at 2012/13 prices. Source Ofwat

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**SEVERN**

**TRENT**

