

SEVERN

TRENT

Interim Results

6 months ended 30 September 2013

26 November 2013

London



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Mike McKeon

Finance Director



Highlights

Group	2012/13 Restated ⁴	2013/14	Change %
Turnover (£m)	917.7	922.4	0.5
Underlying profit before interest and tax ¹ (£m)	265.9	266.9	0.4
Underlying profit before tax ² (£m)	150.0	141.3	(5.8)
Adjusted basic EPS ³ (pence)	45.8	46.7	2.0
Basic EPS (pence)	49.2	145.0	194.7
Total ordinary dividend per share (pence)	30.3	32.2	6.0

1. *before exceptional items*

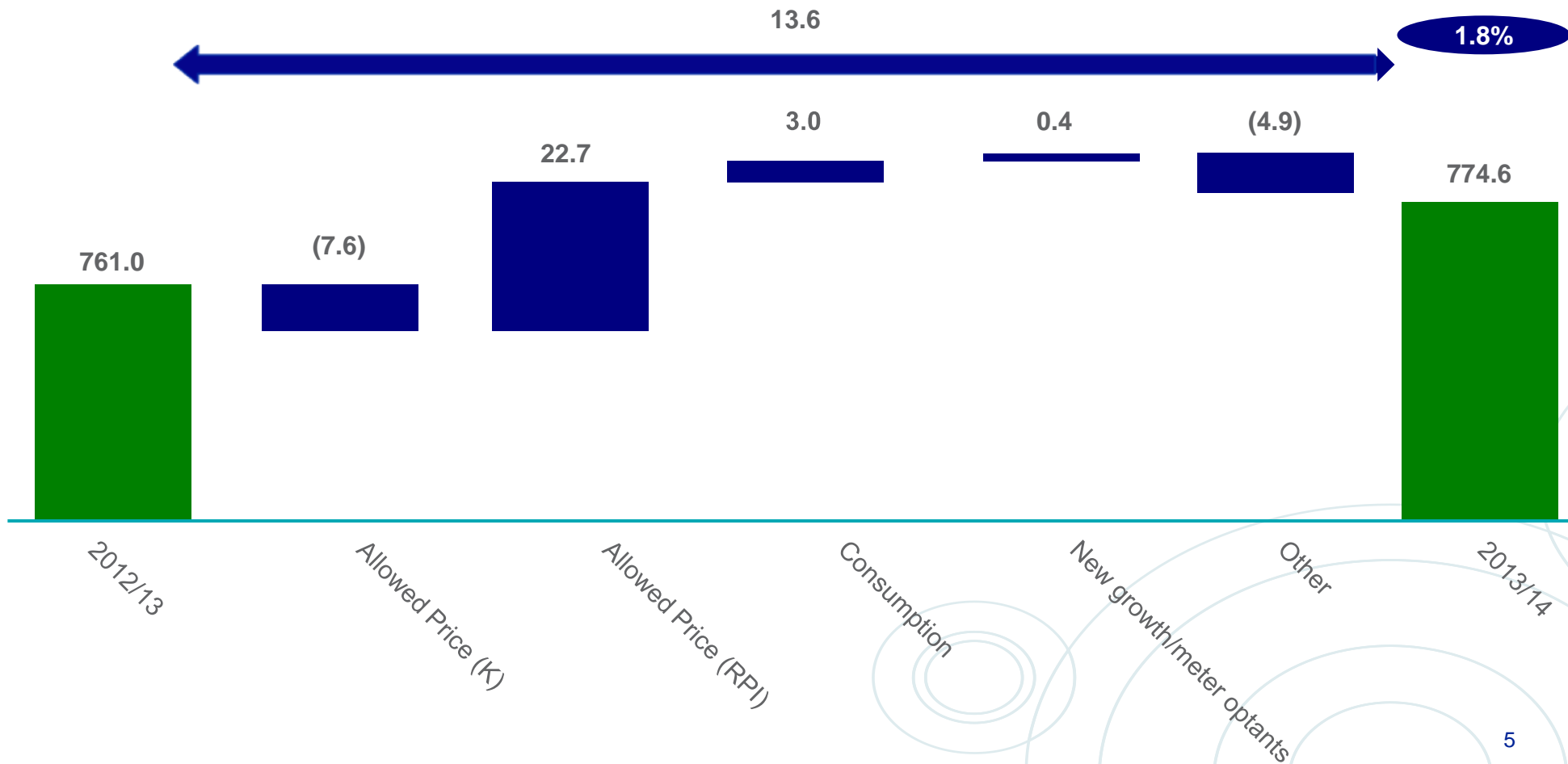
2. *before exceptional items and net gain/loss on financial instruments*

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

4. *restated due to adoption of IAS19 Revised*

Regulated - Severn Trent Water turnover*

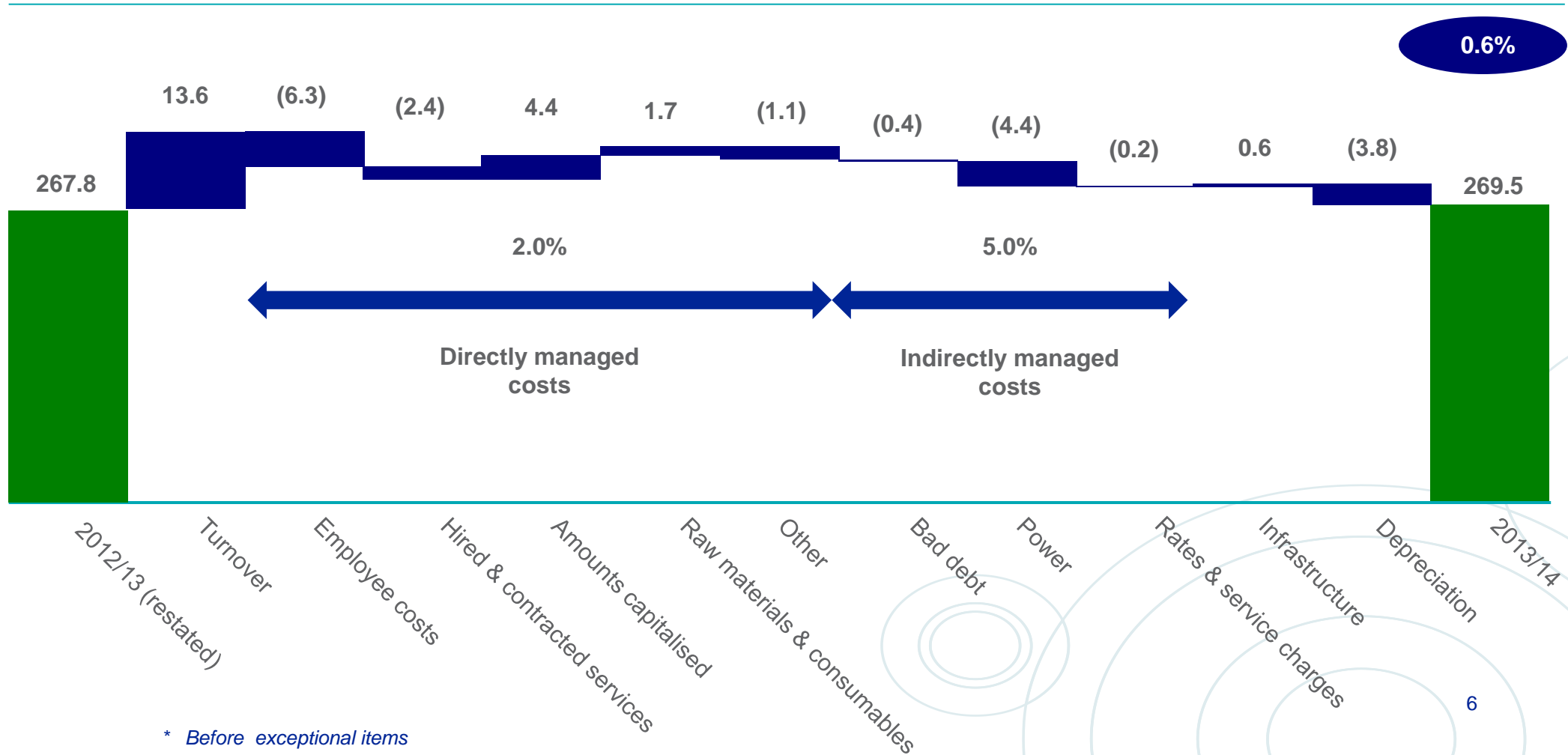
H1 2013/14
£m



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

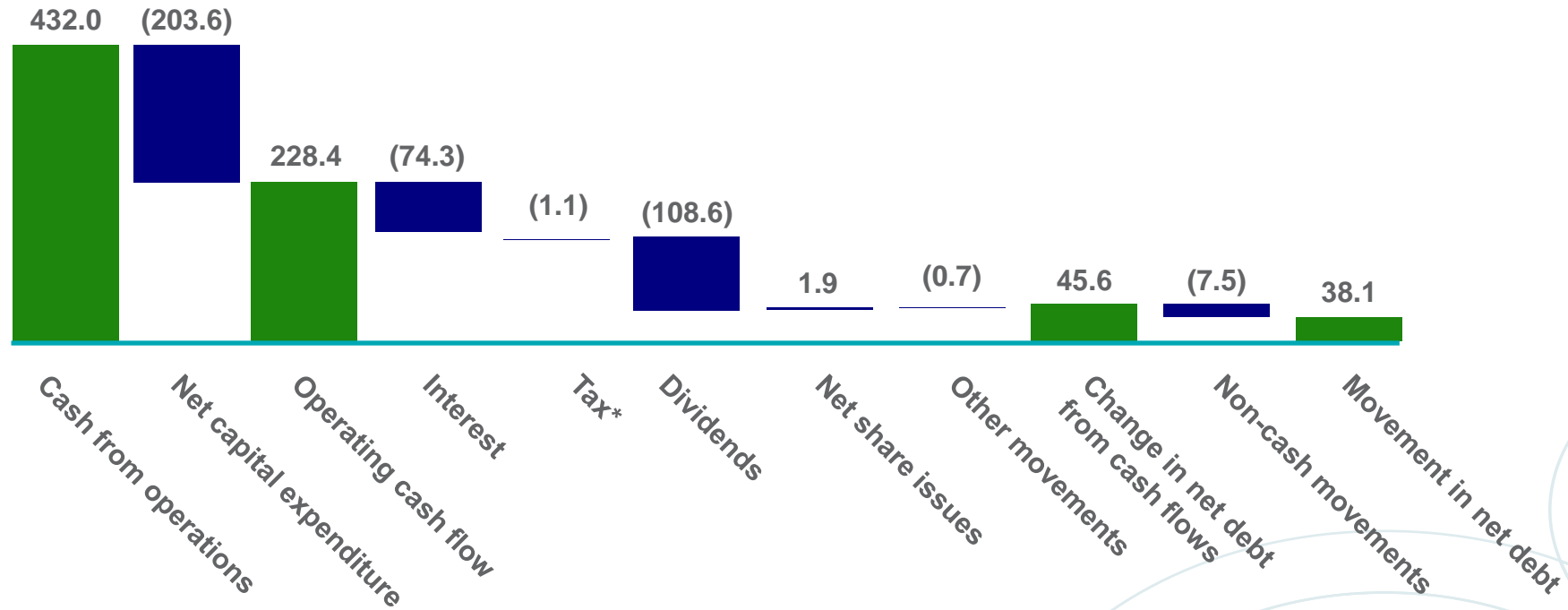
Regulated - Severn Trent Water PBIT*

H1 2013/14
£m



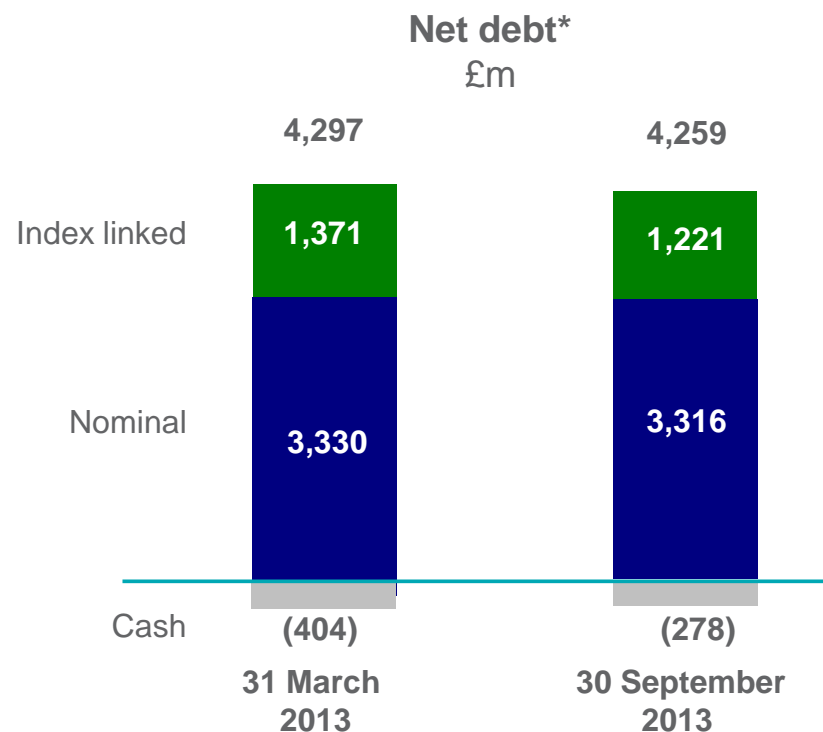
Group cash flow

£m



*Impact of refunds of overpayments in prior years

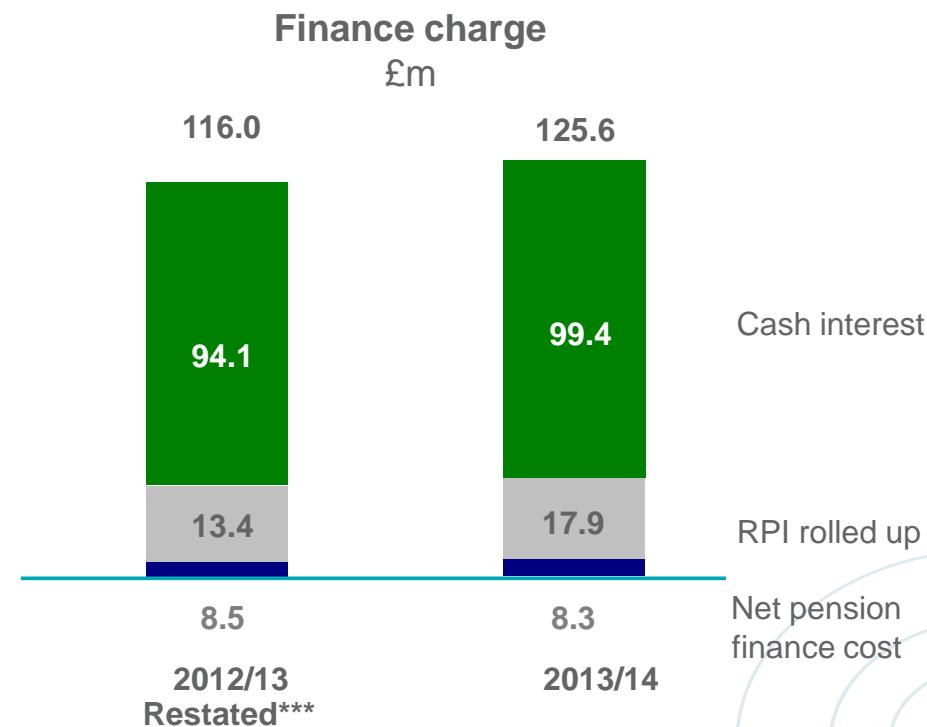
Group net debt and finance charges



- 80% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,293 m
- Group net debt/RCV** 57%

* Including cross currency swaps

** Estimated RCV at 30 September 2013

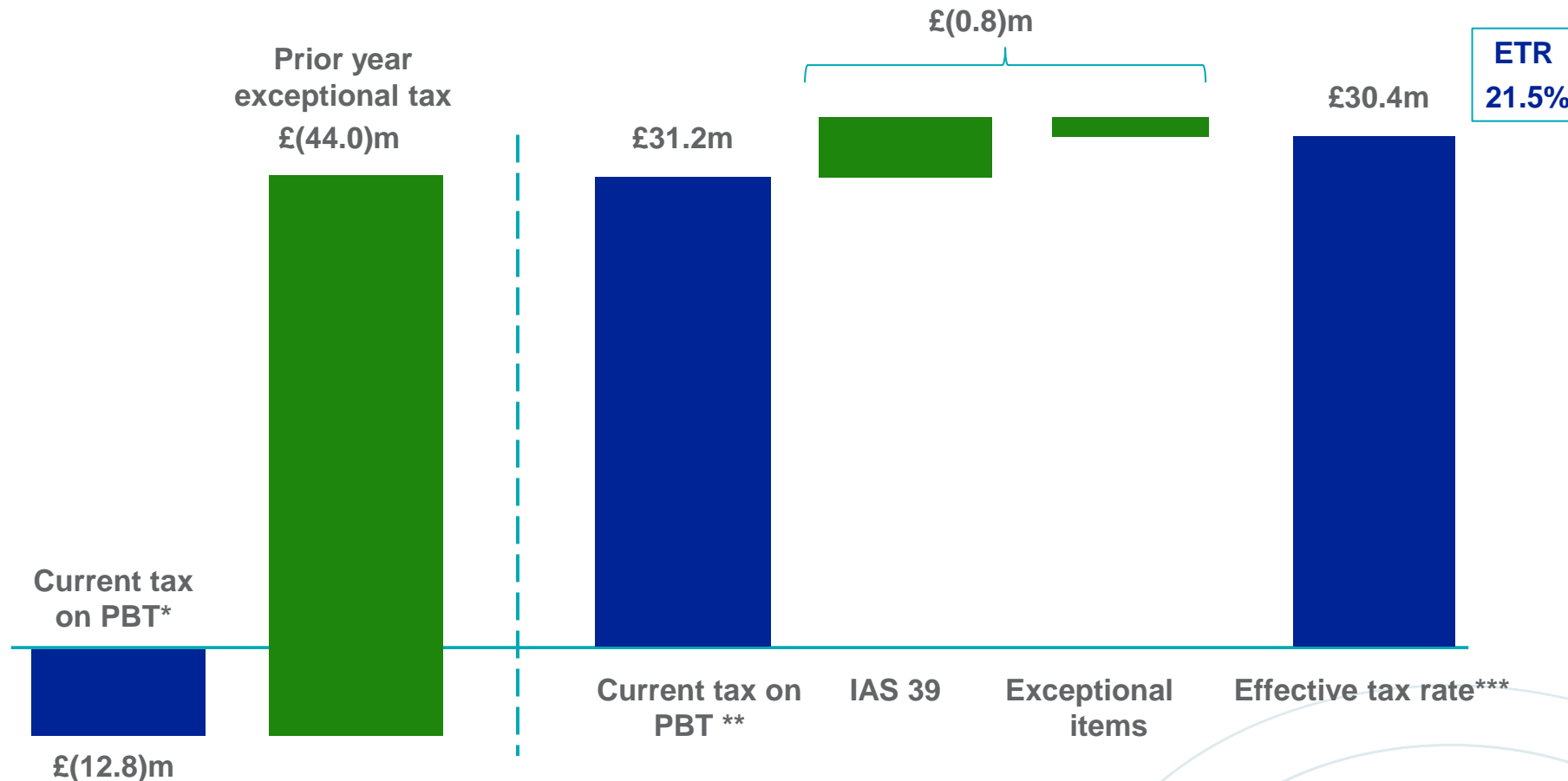


- Effective rate circa 5.8%
- Effective cash interest cost 5.0%
- EBITDA cover 3.5x
- PBIT cover**** 2.3x

*** Restated due to adoption of IAS19 Revised

**** Before exceptional items

Group current tax



* Total current tax attributable to PBT. See note 5 of RNS

** Current tax excluding prior year adjustments

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

Outlook

FY 2013/14

Regulated - Severn Trent Water

- Consumption across our measured income base now expected to be slightly higher year on year
- Bad debt around 2.2% of turnover
- Operating expenditure in line with Final Determination on a like for like basis. Operating costs are expected to rise year on year due to the impact of inflation and power costs partially offset by efficiency improvements
- Capex (UK GAAP net of contributions) £600 million to £620 million, including net infrastructure renewals expenditure £135 million to £145 million

Non regulated - Severn Trent Services

- Expect growth in both revenues and PBIT

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

**Good financial performance, effective
cost management**

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

Delivering on AMP5 dividend policy

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Tony Wray

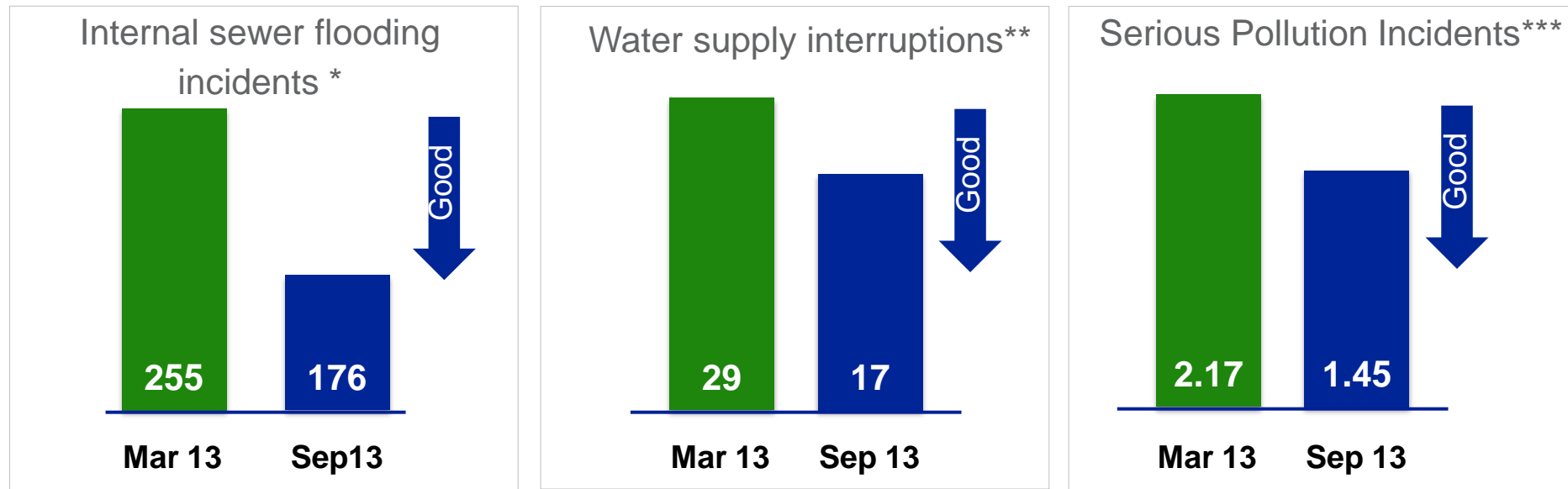
Chief Executive



Current environment

- Customer affordability key focus
- Severn Trent has:
 - kept price rises below inflation
 - lowest average combined bills
 - absorbed increased costs like Private Drains and Sewers
 - managed bad debt to amongst the lowest in the industry utilising a wide range of social tariff options
 - shared the benefits of outperformance with customers by investing an extra £150 million to improve our services
 - continued to be one of the leading advocates for evolutionary reform of the water sector

Operational improvements



All data is displayed as a rolling 12 month average

*Number of incidents of internal sewer flooding where flooding has previously occurred in the last 10 years

**Minutes per total properties served

***Incidents per 10,000 km of sewer

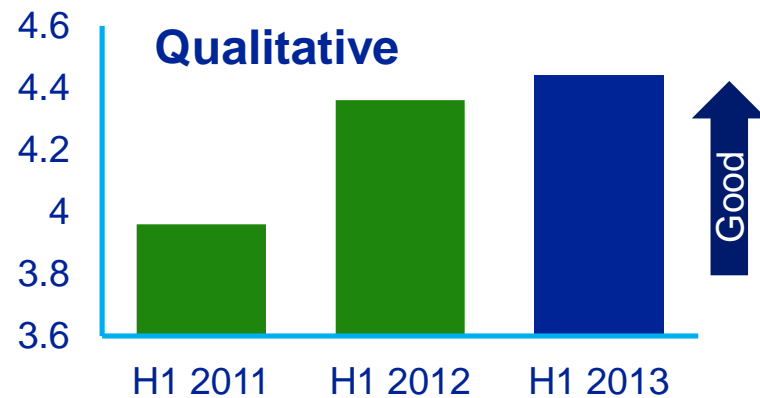
Improved customer service SIM performance

2012/13 rankings

Overall SIM Score: 5th
Qualitative SIM Score: 7th
Quantitative SIM Score: 6th

2011/12 ranking

Overall SIM Score: 6th
Qualitative SIM Score: 10th
Quantitative SIM Score: 6th

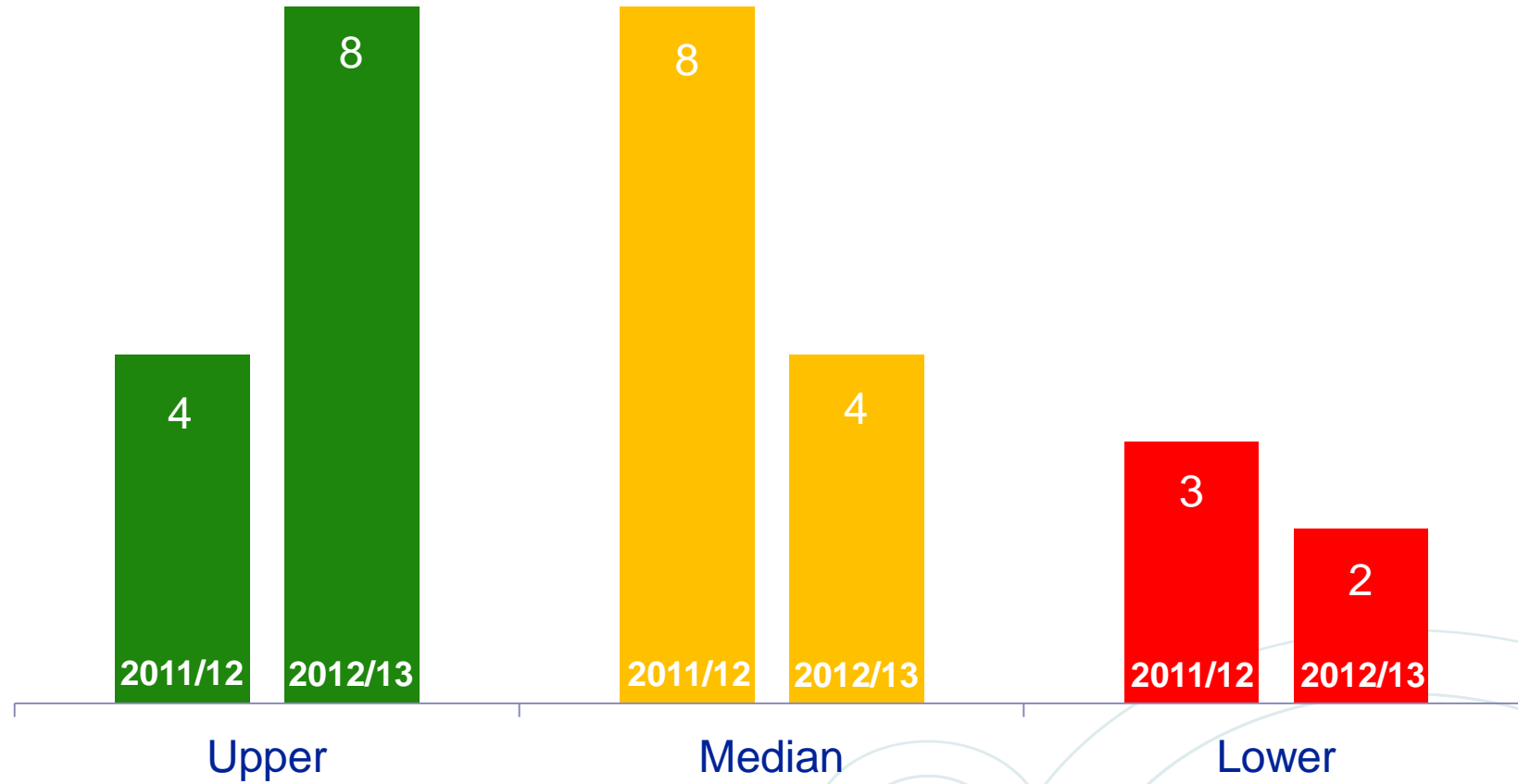


- Further 1.8% improvement period on period
- 12% improvement since September 2011

- Further 10.3% improvement period on period
- 24.7% improvement since September 2011



Ofwat KPIs – Benchmarking



*Ofwat dropped Water Pollution as a KPI between 2011/12 and 2012/13

Innovating to deliver environmental, customer and shareholder value



- Stoke Bardolph - Nottingham's main sewage works
- The UK's largest source of recovered phosphorus
- Reduced phosphorus discharge to river Trent - improves ecology
- £5 million capex efficiency vs. a conventional solution (£12 million)
- £165,000 p.a. opex efficiency vs. a conventional solution
- Phosphorus can be sold as fertiliser
- Potential rollout to 5 further sites

RCV investment for our customers

We have invested £91m of the £150m to date and are on track with our plan

- Investment in our water assets:
 - UV disinfection & Rapid Gravity Filter renewal
 - Trunk main replacement & leakage improvement
 - 38,000 repairs
 - Increased network flexibility so that our customers are 'Always On'.
- Investment in our sewerage assets;
 - 1,023 sewage treatment works best ever performance
 - Sewer CCTV, cleansing and repairs in targeted areas



Non regulated

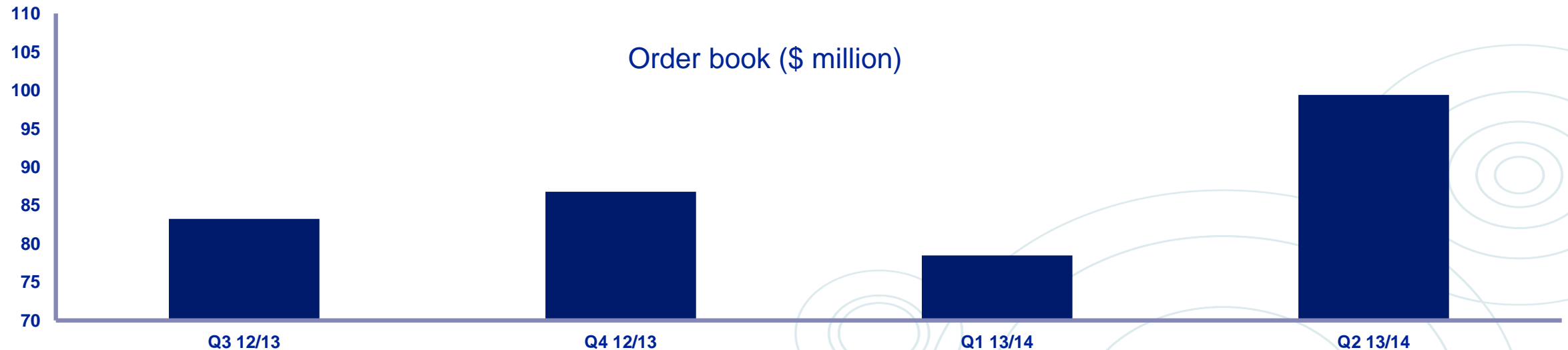
Growing the order book

Operating services

Momentum in US
MoD contract performing well

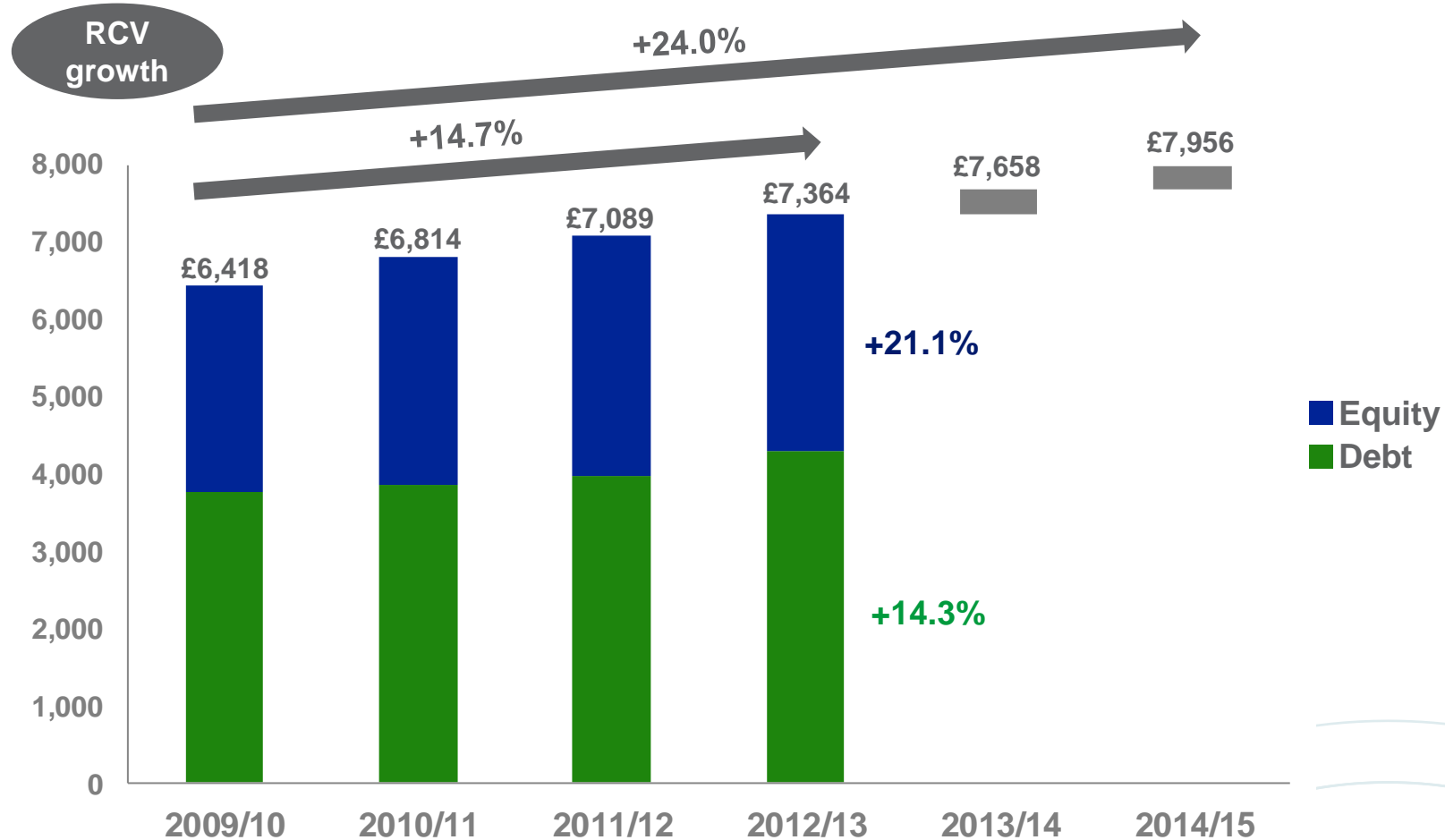
Products

Lower volumes in filtration and
electro-chlorination
Order book £62 million +28% vs. Mar 13



Outlook

RCV growth

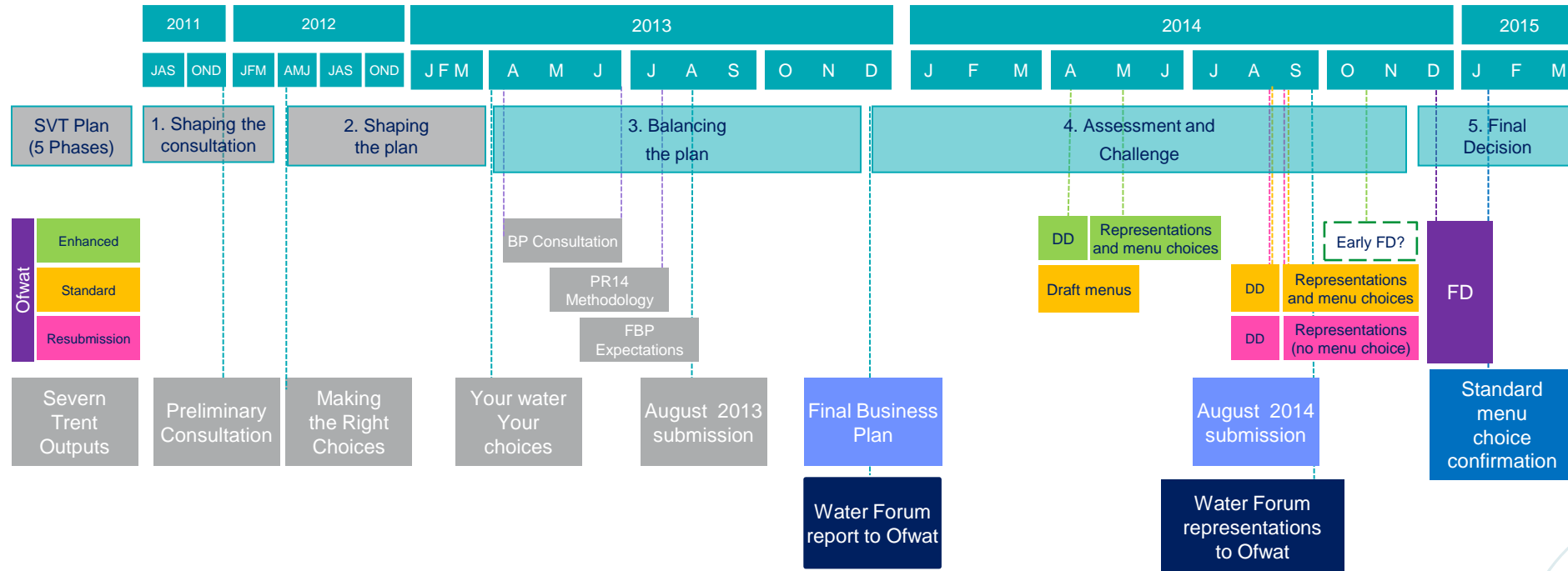


Equity RCV growth vs. RCV growth

- AMP to 2012/13 RCV grew 14.7%, equity RCV grew 21.1% (adjusted for special dividend)

Based on year end RPI forecast of 3.0% for 13/14 and 3.2% for 14/15. For RCV values see:
www.ofwat.gov.uk/regulating/prs_web_rcvupdates

Timeline to Final Determination



2nd December 2013 – Final Business Plan Submission

3rd December – Final Business Plan published and webinar to discuss our plan

April – August 2014 – Draft Determination (business plan rating dependant)

May – November 2014 – Totex Menu Choices (business plan rating dependant)

12 December 2014 – Final Determination (potentially early for enhanced)

Highlights

Delivering on commitments for all stakeholders

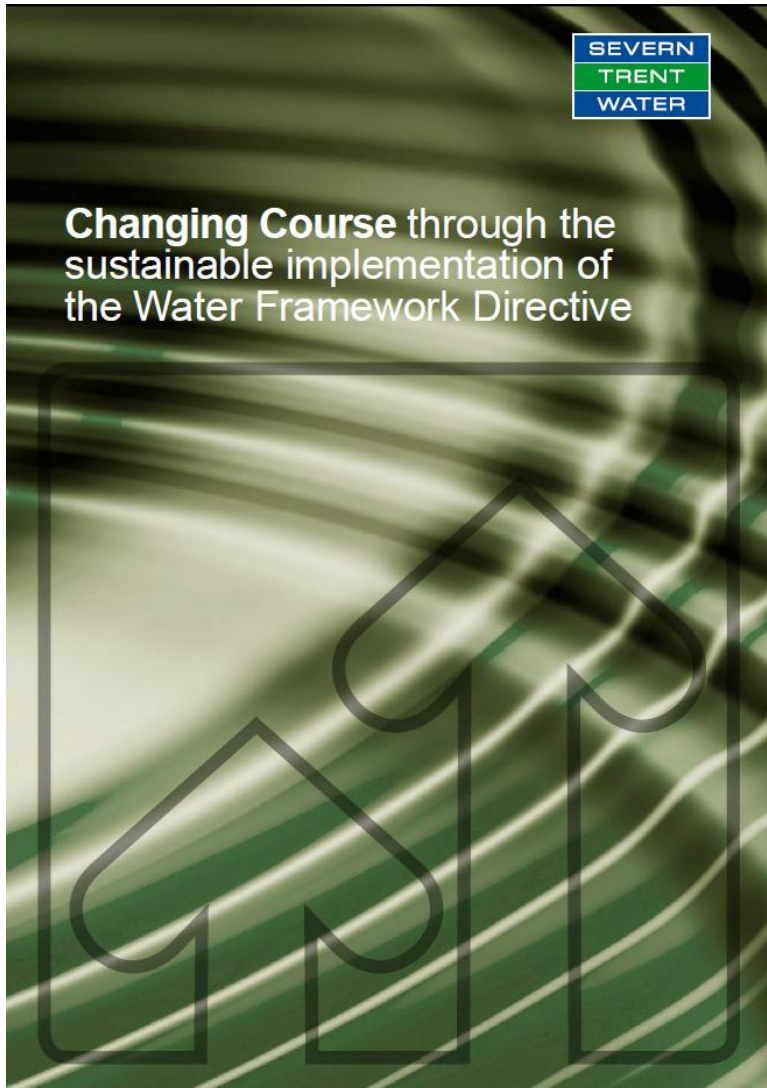
**Significant operational improvements
and higher levels of customer service**

Continued investment in networks

Well prepared for PR14

New Changing Course Publication

Water Framework Directive



Published this month

Available at: www.severntrent.com/future/policy-regulation/

Key messages:

- While the cost of living is rising there are environmental improvements we need to make to achieve healthier rivers
- A balance needs to be struck between these two competing needs
- By implementing the Water Framework Directive in a sustainable way, we believe it is possible to keep bills affordable and make significant environmental progress

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Private drains and sewers

- **To end of September 2013, customer contacts in line with previous forecast**
 - As part of our preparation for PR14, we have undertaken extensive additional CCTV work on our transferred sewers. This has revealed that they are in a better condition than our previous assumptions. We have therefore been able to reduce our anticipated capital investment
 - We have chosen not to recover the cost of operating these assets from 2011-2015 through the IDoK mechanism

	Total to date	Updated AMP5 Total	Previous AMP5 total
Exceptionals	£4.6m	£4.6m	£4.6m
Opex	£20.1m	£35m-£41m	£36m-£43m
Capex	£21.1m	£41m-£47m	£45m-£52m
Total	£45.8m	£81m-£93m	£86m-£100m

Group Earnings

Six months ended 30 September 2013

2012/13		2013/14	Variance	Variance
£m		£m	£m	%
118.1	Profit for the period	344.8	226.7	192.0%
116.9	Attributable to:	344.9	228.0	195.0%
1.2	- Equity holders of the company	(0.1)	(1.3)	100.0%
	- Non controlling interests			

Pence		Pence	Variance Pence	Variance %
Basic EPS from continuing operations				
45.8	Adjusted basic EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	46.7	0.9	2.0%
49.2	Basic EPS	145.0	95.8	194.7%
Diluted EPS from continuing operations				
45.6	Adjusted diluted EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	46.5	0.9	2.0%
49.0	Diluted EPS	144.5	95.5	194.9%

Group balance sheet

30 September 2013

31 March 2013		30 September 2013	Movement in the period
£m		£m	£m
6,760.0	Property, plant and equipment	6,861.7	101.7
141.0	Intangible assets	129.1	(11.9)
5.1	Other non-current assets	5.1	-
(739.7)	Working capital/provisions	(828.0)	(88.3)
-	Net assets held for sale	-	-
6,166.4	Capital employed	6,167.9	1.5
40.5	Tax debtor	55.2	14.7
(785.8)	Deferred tax provision	(665.5)	120.3
(4,297.3)	Net debt	(4,259.2)	38.1
(279.8)	Derivative financial instruments	(202.3)	77.5
844.0	Net assets	1,096.1	252.1
83.6%	Gearing*	79.5%	(4.1%)

Movements on shareholders' equity

Six months ended 30 September 2013

	£m
At 1 April 2013	844.0
Total comprehensive income for the period	356.0
Dividends paid to shareholders of Severn Trent Plc	(108.6)
Dividends paid to non-controlling interests	(0.7)
Net charge from share-based payments	(0.1)
Tax on share-based payments	0.6
Shares issued	4.9
At 30 September 2013	1,096.1

Gearing

At 30 September 2013

<u>31 March 2013</u>	<u>Net debt/RCV*</u>	<u>30 September 2013</u>
58%	Severn Trent Group	57%
58%	Severn Trent Water	57%

**March 2013 RCV is at year end actual prices. September RCV has been estimated based on March 2013 actual RCV and March 2014 forecast RCV at outturn prices*

Segmental analysis of capital employed

30 September 2013

31 March 2013 Total £m		Net operating assets £m	30 September 2013 Goodwill £m	Total £m
6,082.7	Severn Trent Water	6,065.3	1.3	6,066.6
125.7	Severn Trent Services*	92.8	39.2	132.0
(42.0)	Other	(29.4)	(1.3)	(30.7)
6,166.4	Group	6,128.7	39.2	6,167.9

* Excludes goodwill of £37.9 million written off against reserves and £16.3 million impairment through the income statement in previous years

PBITD* analysis

Six months ended 30 September 2013

Restated 2012/13 £m		2013/14 £m
409.7	Severn Trent Water	415.2
7.6	Severn Trent Services	4.0
(7.2)	Other	(5.1)
410.1	Group	414.1

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

Depreciation* analysis

Six months ended 30 September 2013

2012/13		2013/14
£m		£m
141.9	Severn Trent Water	145.7
3.5	Severn Trent Services	2.4
(1.2)	Other	(0.9)
144.2	Group	147.2

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

Net capital expenditure*

Six months ended 30 September 2013

2012/13		2013/14
£m		£m
177.1	Severn Trent Water	195.1
5.8	Severn Trent Services	5.7
1.5	Other	2.8
184.4	Group	203.6

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

Severn Trent Water – total operating costs*

Six months ended 30 September 2013

Restated 2012/13 £m		2013/14 £m	Variance £m	Variance %
287.9	Operating costs	296.6	8.7	3.0
141.9	Depreciation	145.7	3.8	2.7
63.4	Infrastructure renewals	62.8	(0.6)	(0.9)
491.9	STW total operating costs*	505.1	11.9	2.4

*Before exceptional operating costs

Severn Trent Water – Capex reconciliation

Six months ended 30 September 2013

2012/13		2013/14
£m		£m
192.5	Additions to property plant and equipment	235.0
8.0	Additions to intangible fixed assets	4.0
200.5	IFRS capex	239.0
(4.3)	Interest capitalised under IFRS	(5.9)
(8.9)	Adopted assets capitalised under IFRS	(15.7)
63.4	Infrastructure renewals capitalised under UK GAAP	62.8
250.7	UK GAAP capex gross	280.2
(11.5)	Less: grants and contributions	(11.1)
239.2	UK GAAP capex (net of grants and contributions received)	269.1

Severn Trent Services performance

Six months ended 30 September 2013

Turnover				Underlying PBIT*		
2012/13 £m	2013/14 £m	Change %		2012/13 £m	2013/14 £m	Change %
162.1	148.0	(8.7)	As reported	4.1	1.6	(61.0)
(13.7)	-		Changes in group	1.1	-	
5.5	-		Exchange rate impacts	0.1	-	
153.9	148.0	(3.8)	Like for like**	5.3	1.6	(69.8)

Like for like** ROIC***

1.7%

* PBIT before exceptional items

** On constant currency excluding acquisitions, disposals, and businesses held for sale

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

Net finance costs

Period ended 30 September 2013

	Income statement charge 2013/14 £m	Capitalised interest 2013/14 £m	Gross interest incurred 2013/14 £m
"Cash" interest (including accruals)	99.4	5.0	104.4
Pension debit/(credit)	8.3	-	8.3
RPI interest	17.9	0.9	18.8
	125.6	5.9	131.5

Net debt

At 30 September 2013

	30 September 2012 £m	31 March 2013 £m	30 September 2013 £m
Cash and cash equivalents	(246.6)	(403.6)	(278.3)
Bank overdrafts	0.9	0.4	0.1
Bank loans	860.0	758.7	594.3
Other loans	3,330.7	3,840.9	3,830.3
Finance leases	218.9	201.6	203.7
Cross currency swaps	(109.2)	(100.7)	(90.9)
Net debt	4,054.7	4,297.3	4,259.2

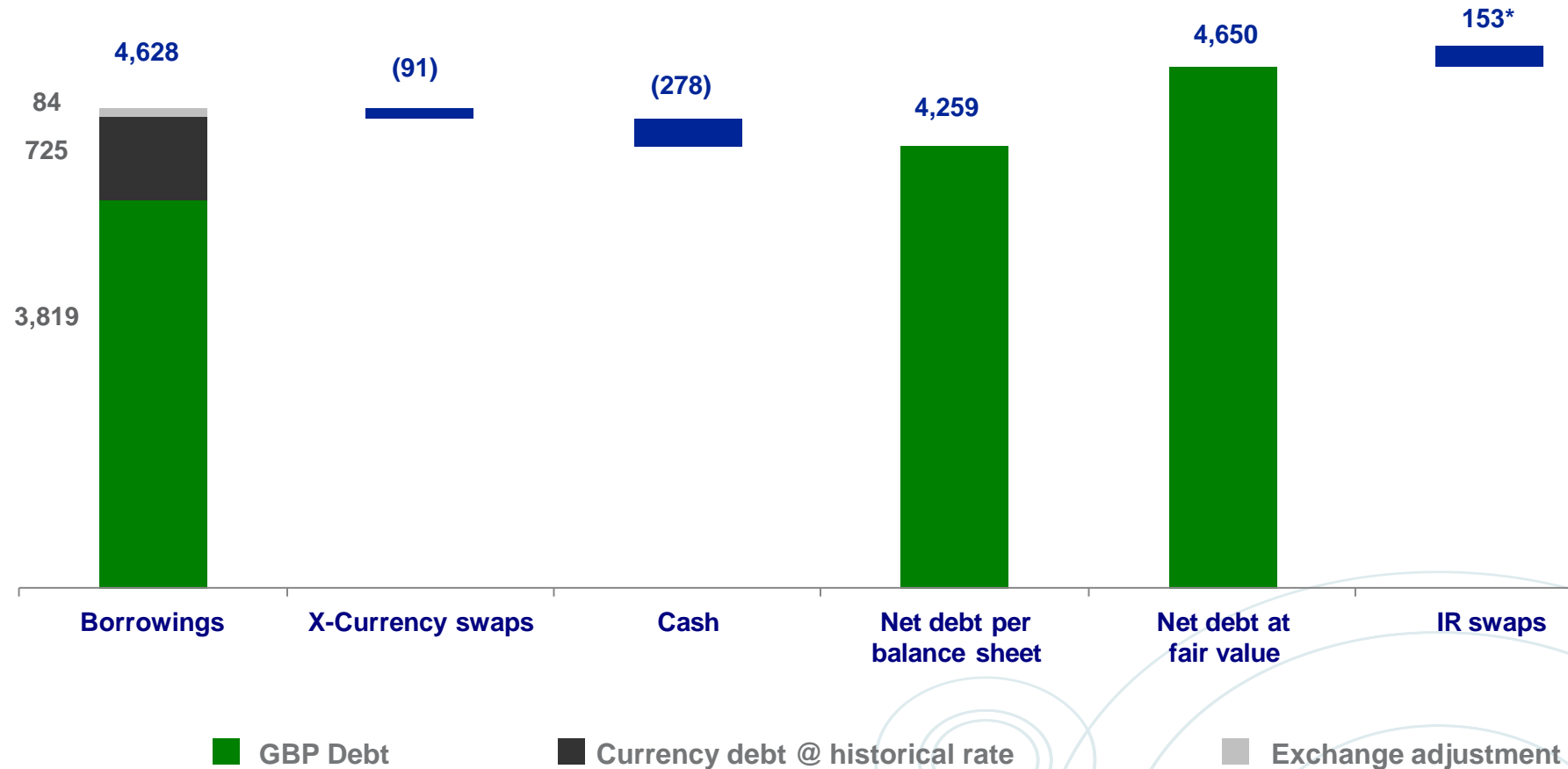
Fair value of net debt

At 30 September 2013

	As reported 30 September 2012 £m	As reported 31 March 2013 £m	Restated 30 September 2012 £m	Restated 31 March 2013 £m	30 September 2013 £m
Bank loans	880	858	880	782	597
Other loans	4,032	4,585	3,713	4,395	4,220
Finance leases	227	208	227	208	202
	5,139	5,575	4,820	5,385	5,019
Net cash and cash equivalents	(247)	(403)	(246)	(403)	(278)
Cross currency swaps	(109)	(101)	(109)	(101)	(91)
Fair value of net debt	4,784	5,071	4,465	4,881	4,650
Net debt (previous slide)	4,055	4,297	4,055	4,297	4,259
Difference	729	774	410	584	391

Analysis of borrowings, net debt and swaps

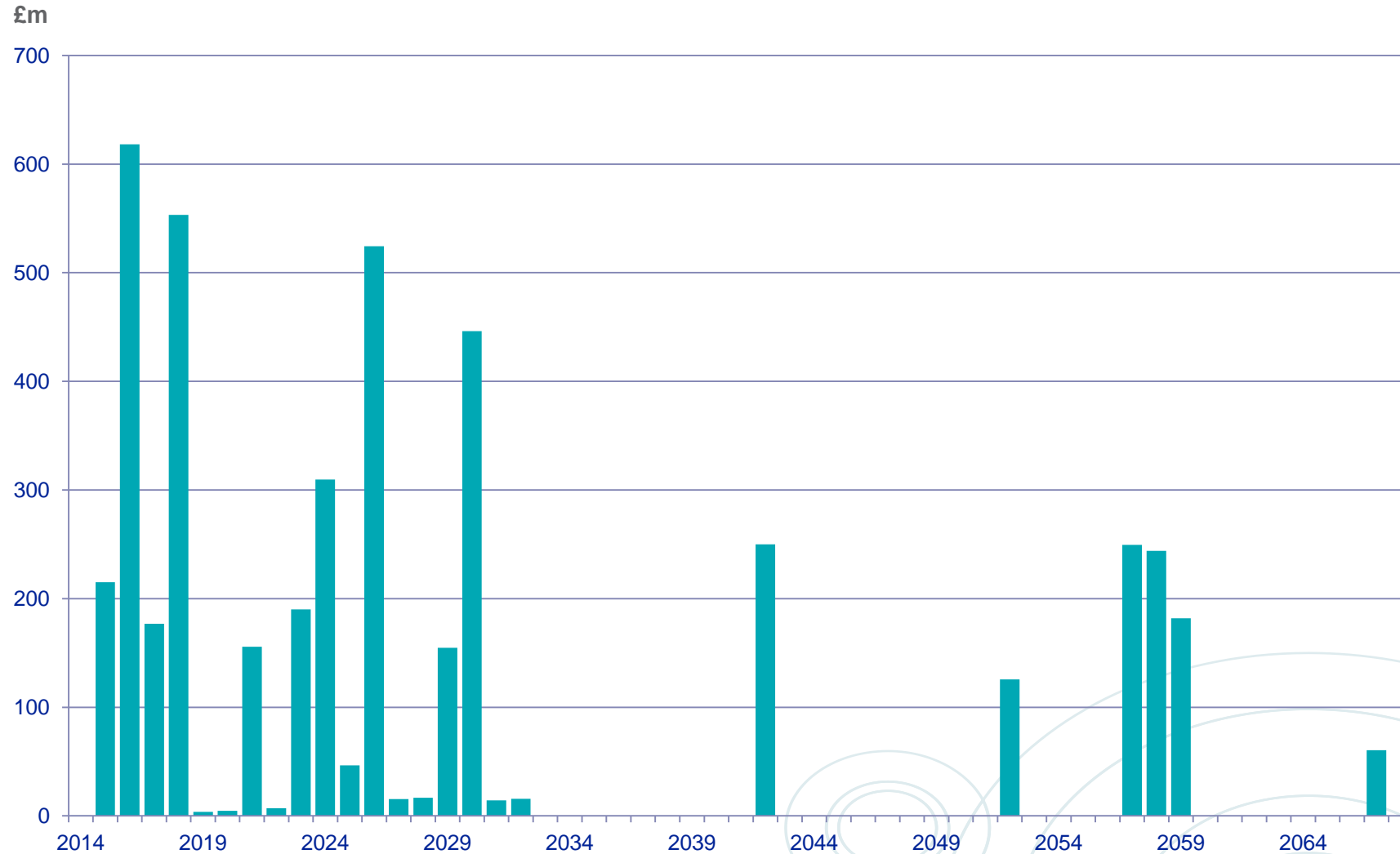
At 30 September 2013



* Excludes forward starting cash flow hedges against future debt

Debt maturity profile

At 30 September 2013



Average maturity of around 16 years

Credit ratings

30 September 2013

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**	6,814	7,089	7,364	7,658	7,956
Ofwat Actual/Projected Outturn***	6,814	7,089	7,364	7,435	7,487

* 2007/08 prices

** At year end actual/estimated prices

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

September 2013 RCV has been estimated as the average of March 2013 RCV at year-end actual prices and March 2014 RCV at year-end estimated prices

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