

SEVERN

TRENT

Preliminary Results

Year ended 31 March 2014

29 May 2014

BAFTA, London

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Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

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Liv Garfield

Chief Executive



Focus areas

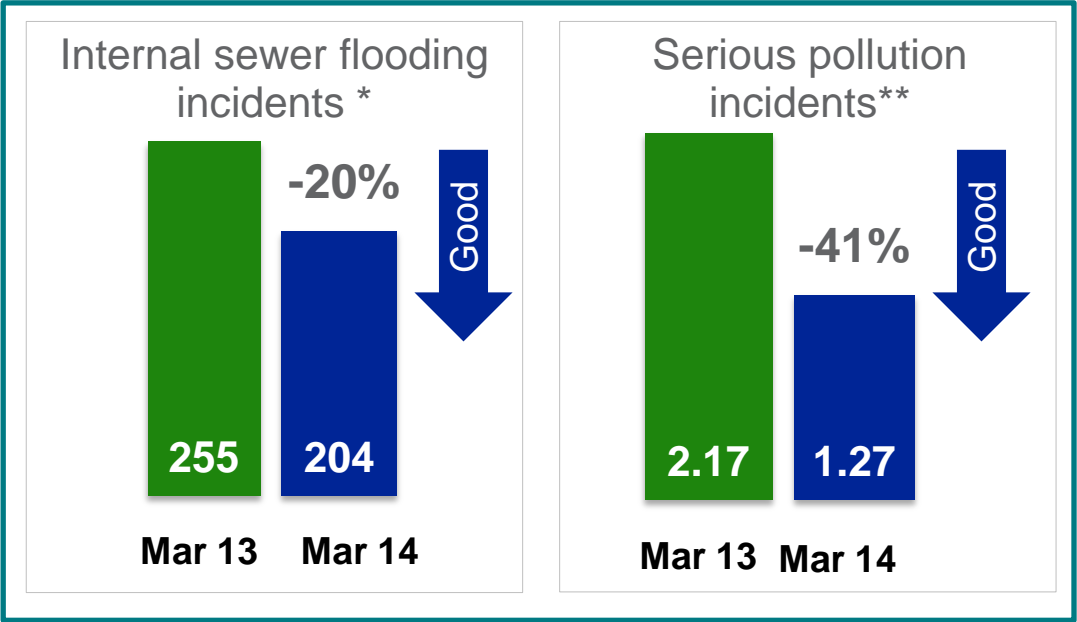
- Customers at the heart of what we do
- Drive operational improvement
- People / Talent development
- Regulatory relationship
- Ready to deliver in AMP6

Create long term value for shareholders

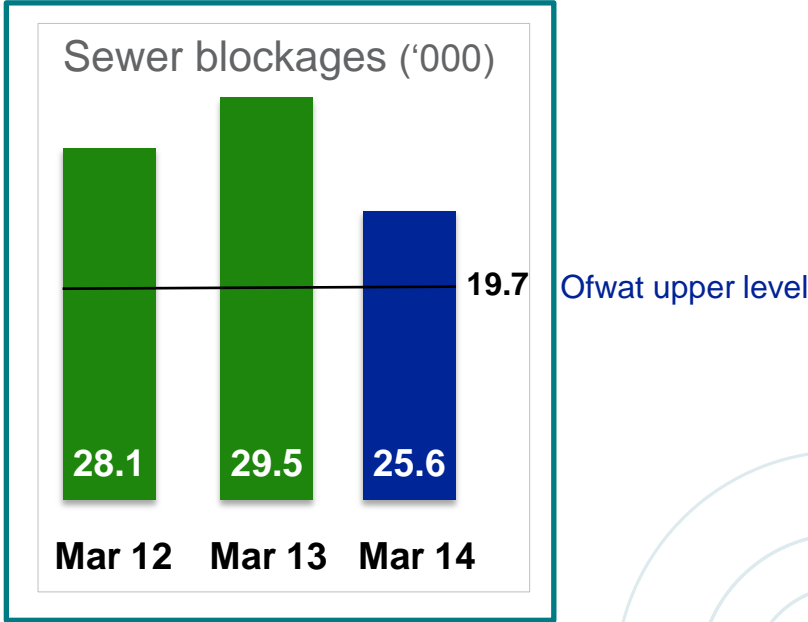
Operational performance

Waste

Ofwat KPIS



Serviceability indicator



Serviceability	2011/12	2012/13	2013/14
Waste infra	Stable	Stable	Marginal
Waste non-infra	Stable	Stable	Stable

- 5 indicators performing as expected, 1 indicator (blockages) not in line

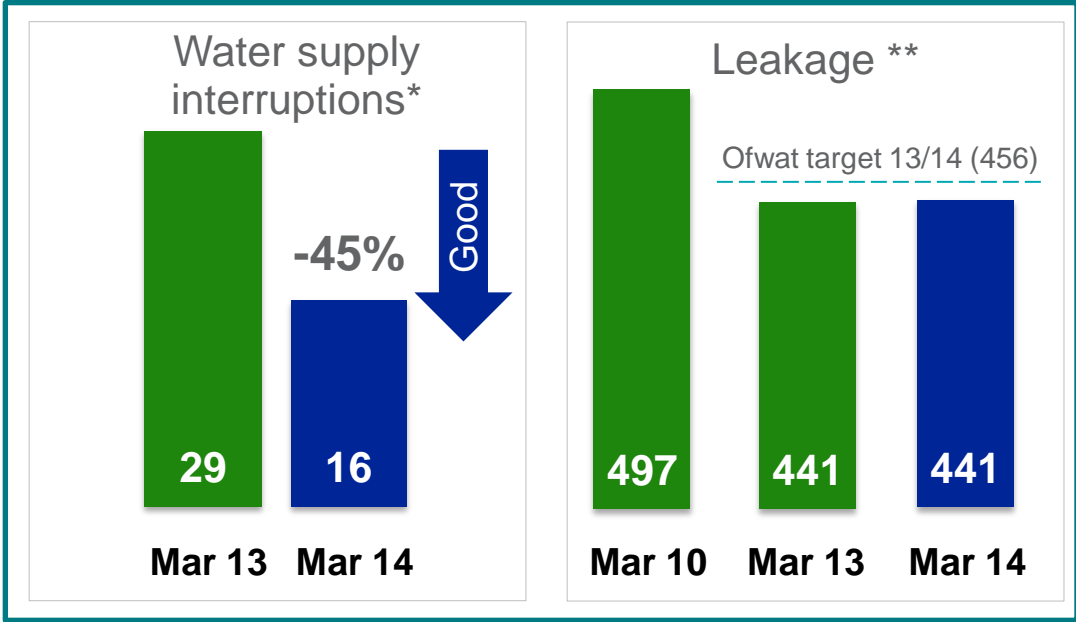
* Number of incidents of internal sewer flooding where flooding has previously occurred in the last 10 years

** Incidents per 10,000 km of sewer

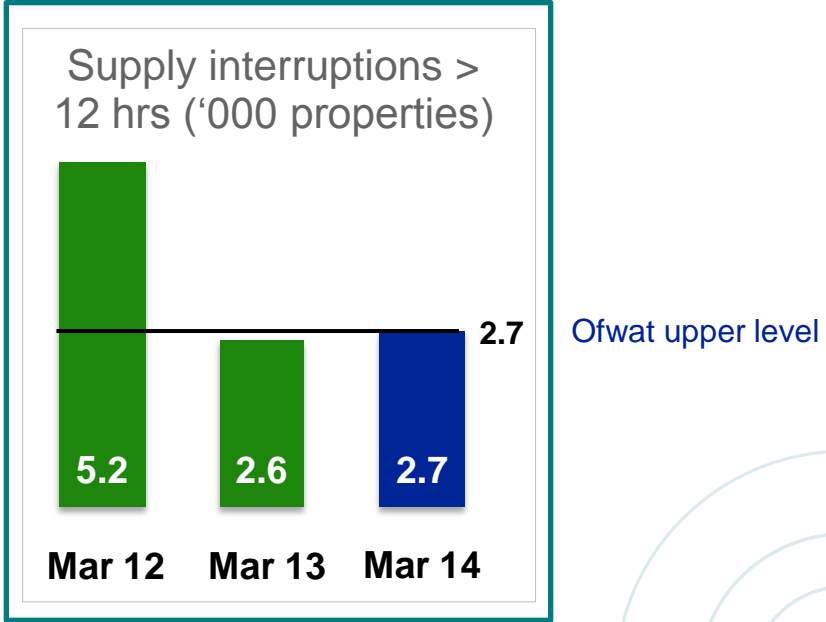
Operational performance

Water

Ofwat KPIS



Serviceability indicator



Serviceability	2011/12	2012/13	2013/14
Water infra	Marginal	Stable	Marginal
Water non-infra	Stable	Stable	Marginal

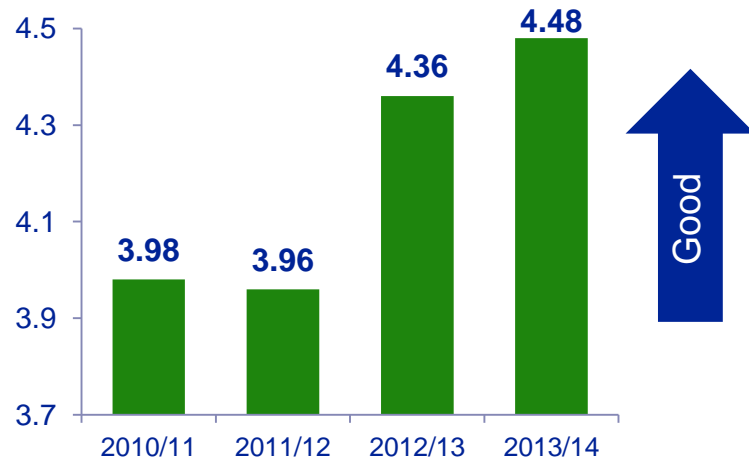
- Below ground – 5 indicators performing as expected, 1 indicator (interruptions >12 hrs) not in line
- Above ground – 4 indicators performing as expected, 1 indicator (coliforms) not in line

* Minutes per total properties served ** MI/d MLE

Operational performance

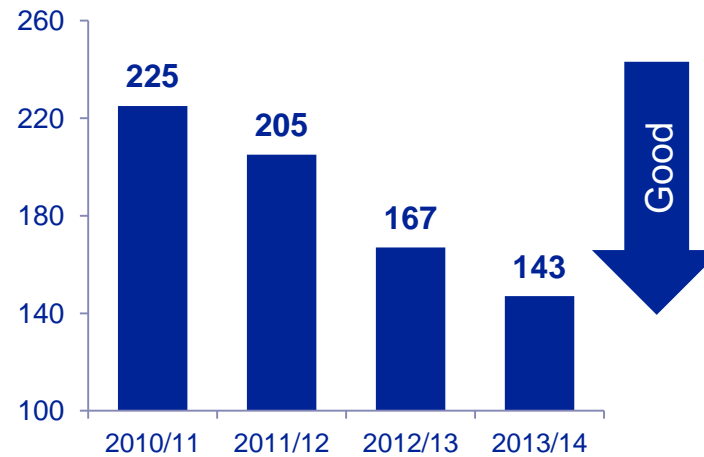
SIM

Qualitative



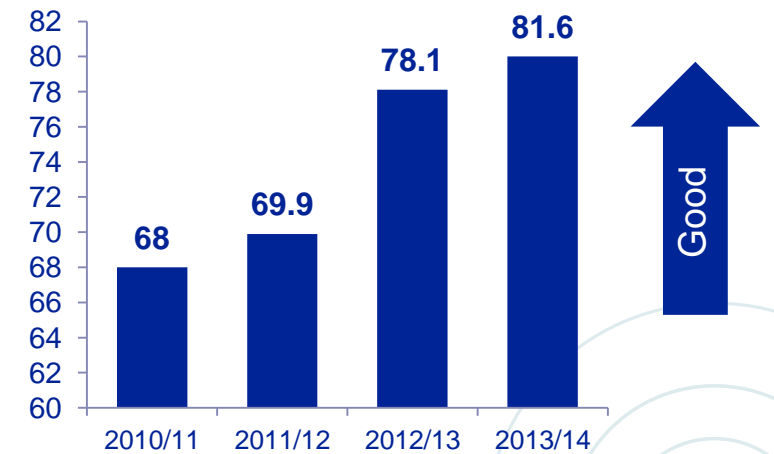
- 3% improvement year on year
- 13% improvement since 2010/11

Quantitative



- 14% improvement year on year
- 36% improvement since 2010/11

Combined



- 20% improvement since 2010/11
- 3rd consecutive year of improvement

RCV investment for our customers

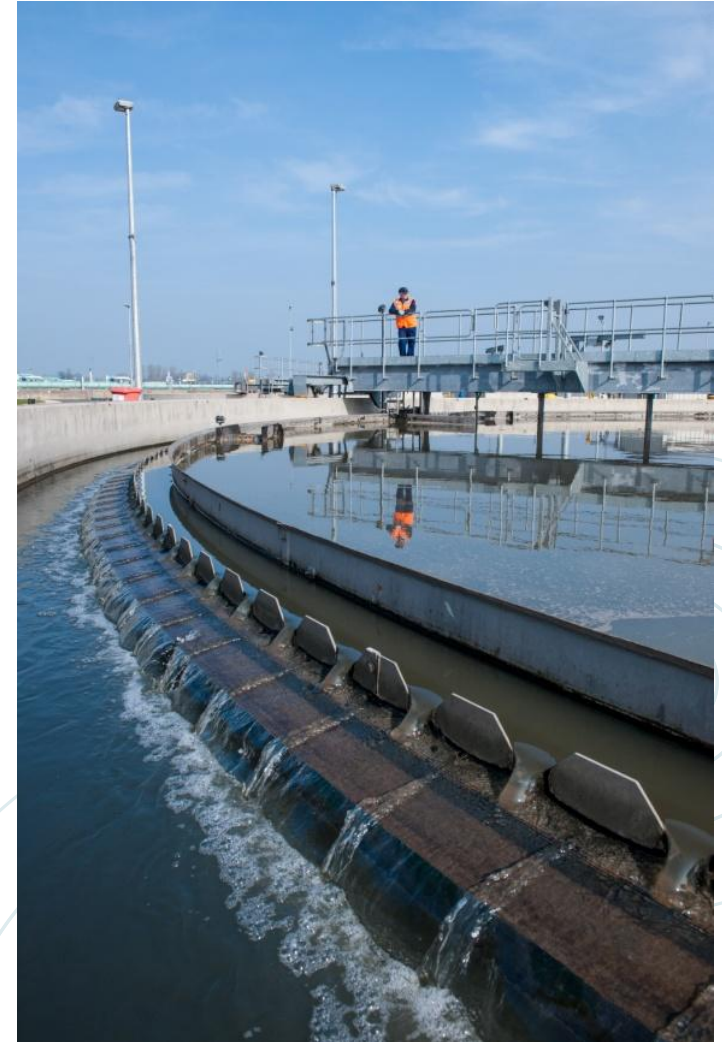
We have invested £120m of the additional £150m

Water Network

- Invested £44m in reducing the amount of leaks
 - Since March 2012, leakage fallen from 464MI/d to 441MI/d (-5%)
- Found over 36,000 leaks and carried out over 124,000 repairs on our network
- Trunk mains renewal on track (£13m)
 - Interruptions to supply improved by 50% vs. 2011/12

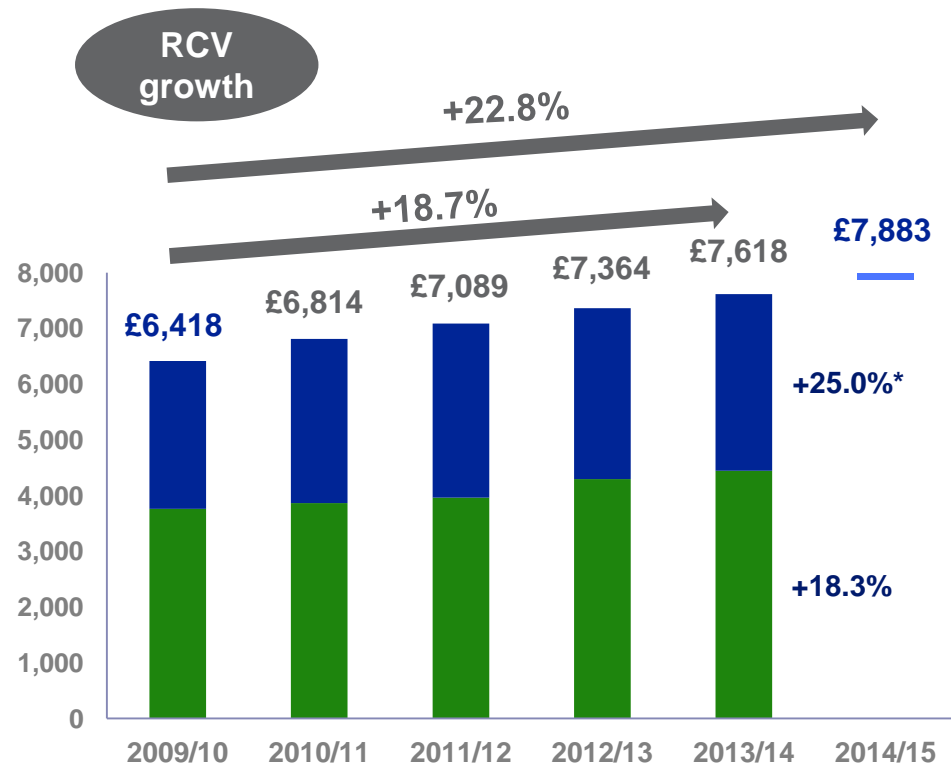
Sewage Network

- Invested £14m to reduce number of blockages
 - 13% reduction in sewer blockages year on year
 - More to do
- £16m spent on improving performance at treatment works
 - 99.29% compliance – best ever performance



Value creation and distribution

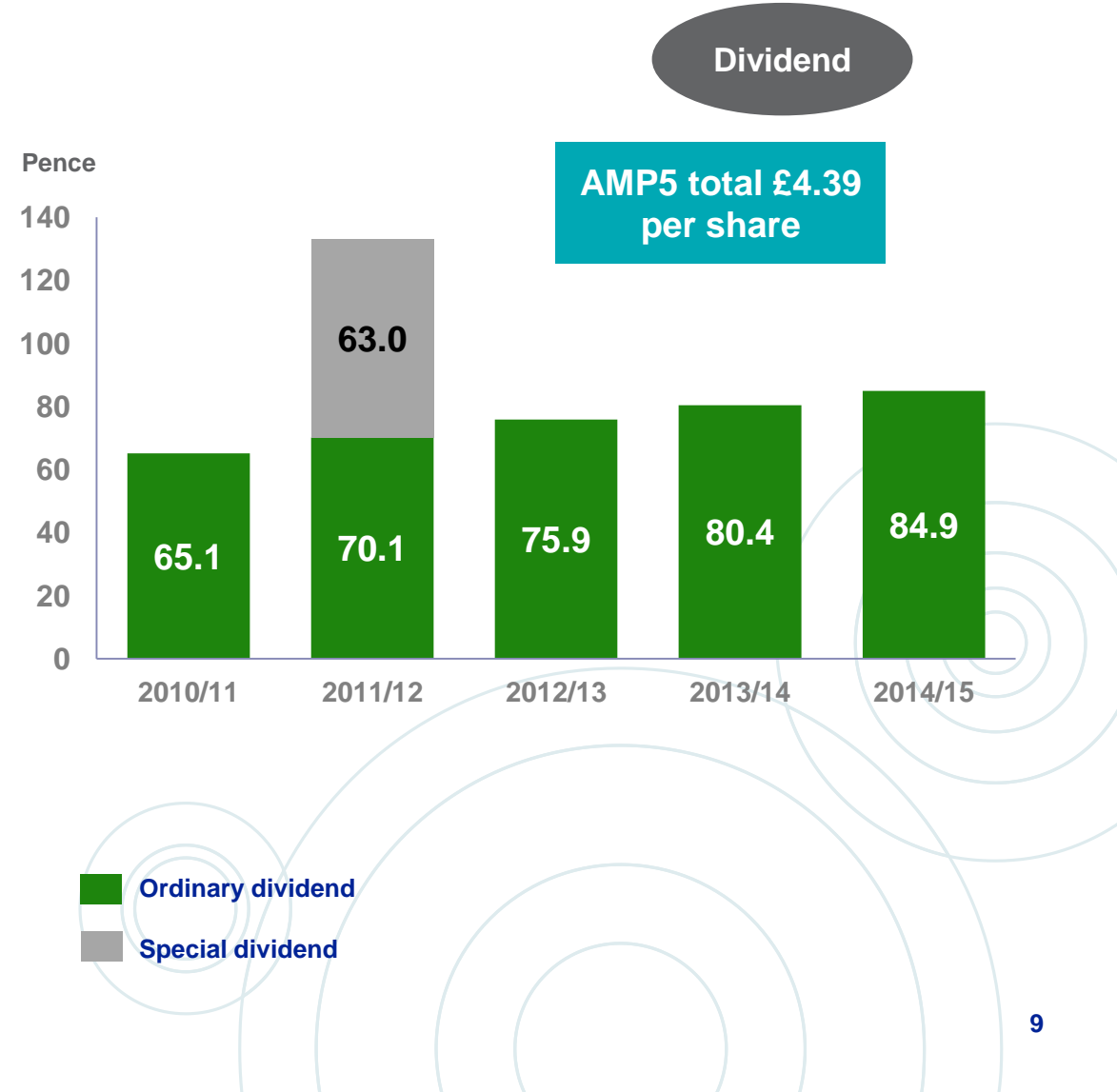
RCV growth & dividends



Based on year end RPI forecast of 2.8% for 14/15. For RCV values see: www.ofwat.gov.uk/regulating/prs_web_rcvupdates

■ Equity
■ Debt

* Adjusted for special dividend



■ Ordinary dividend
■ Special dividend

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Mike McKeon

Finance Director



Highlights

FY 2013/14

Turnover

£1,856.7m
+1.4%

Underlying PBIT¹

£516.8m
+4.3%

Adjusted basic EPS²

88.4 pence
(4.5%)

Total ordinary dividend

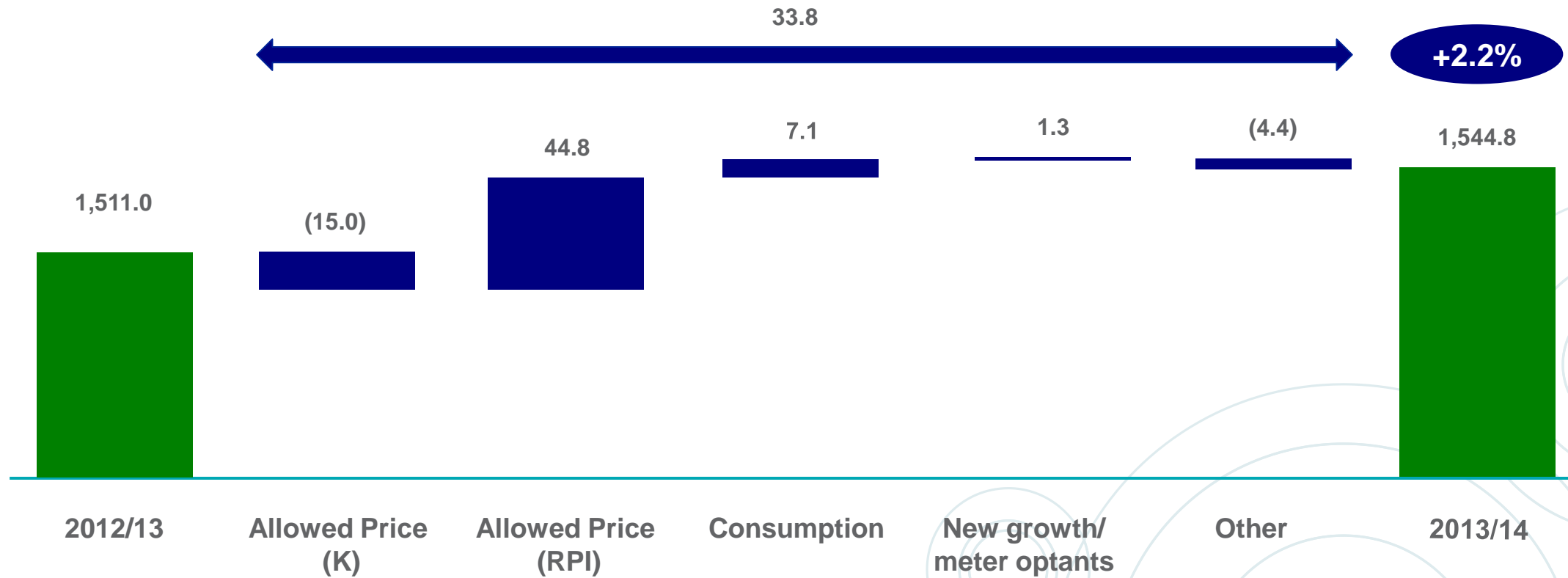
80.4 pence
+6.0%

1. before exceptional items

2. before exceptional items, gains/losses on financial instruments and deferred tax
2012/13 restated due to adoption of IAS19 revised

Regulated – Severn Trent Water turnover*

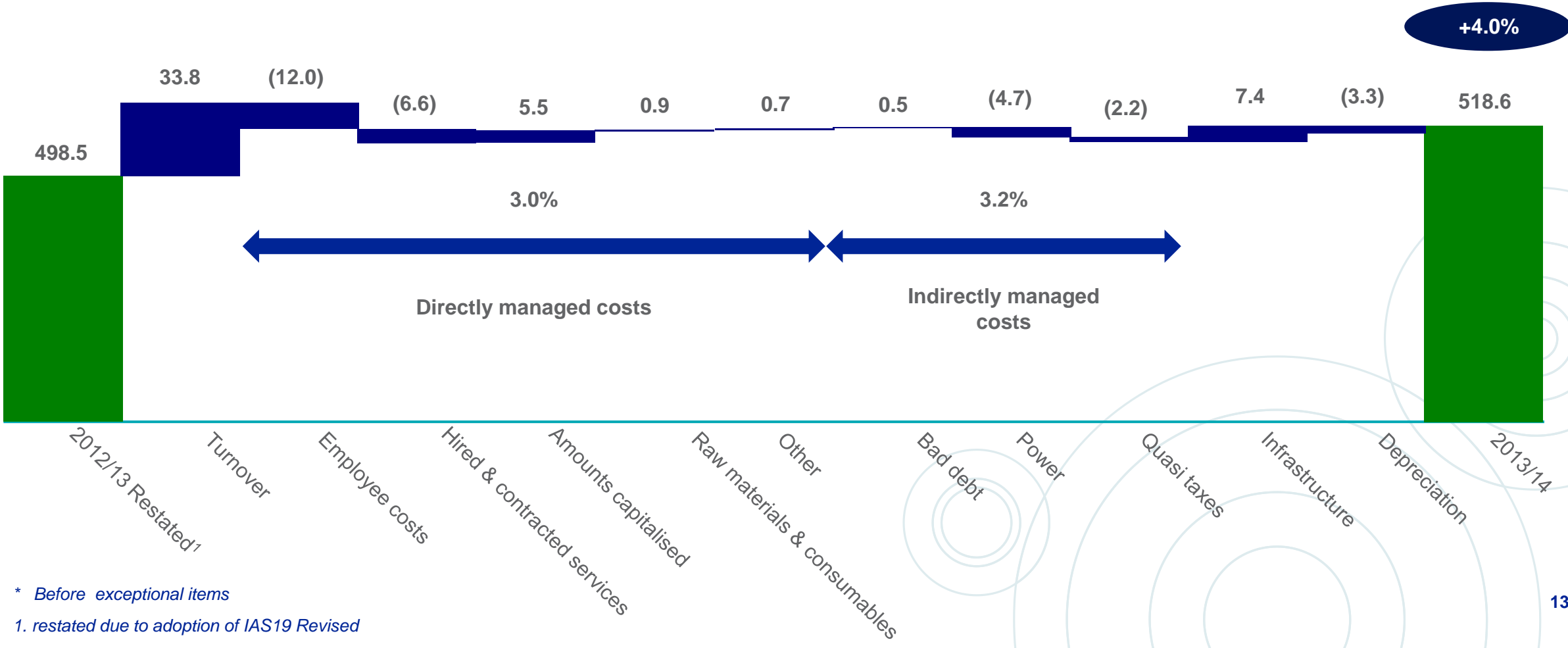
2013/14
£m



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

Regulated – Severn Trent Water PBIT*

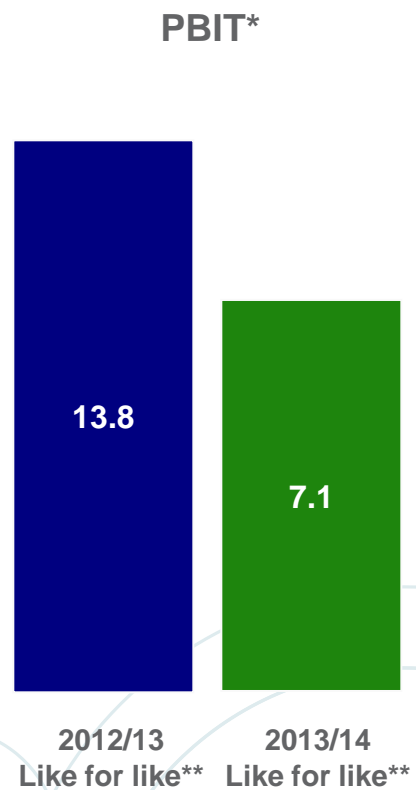
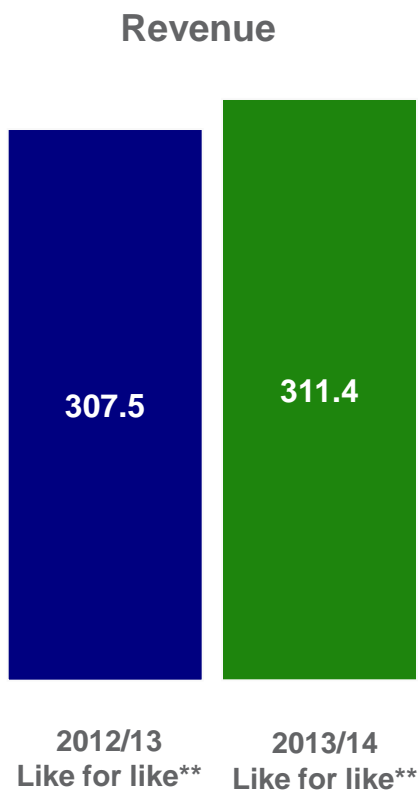
2013/14
£m



* Before exceptional items
1. restated due to adoption of IAS19 Revised

Non-regulated Severn Trent Services performance

£m

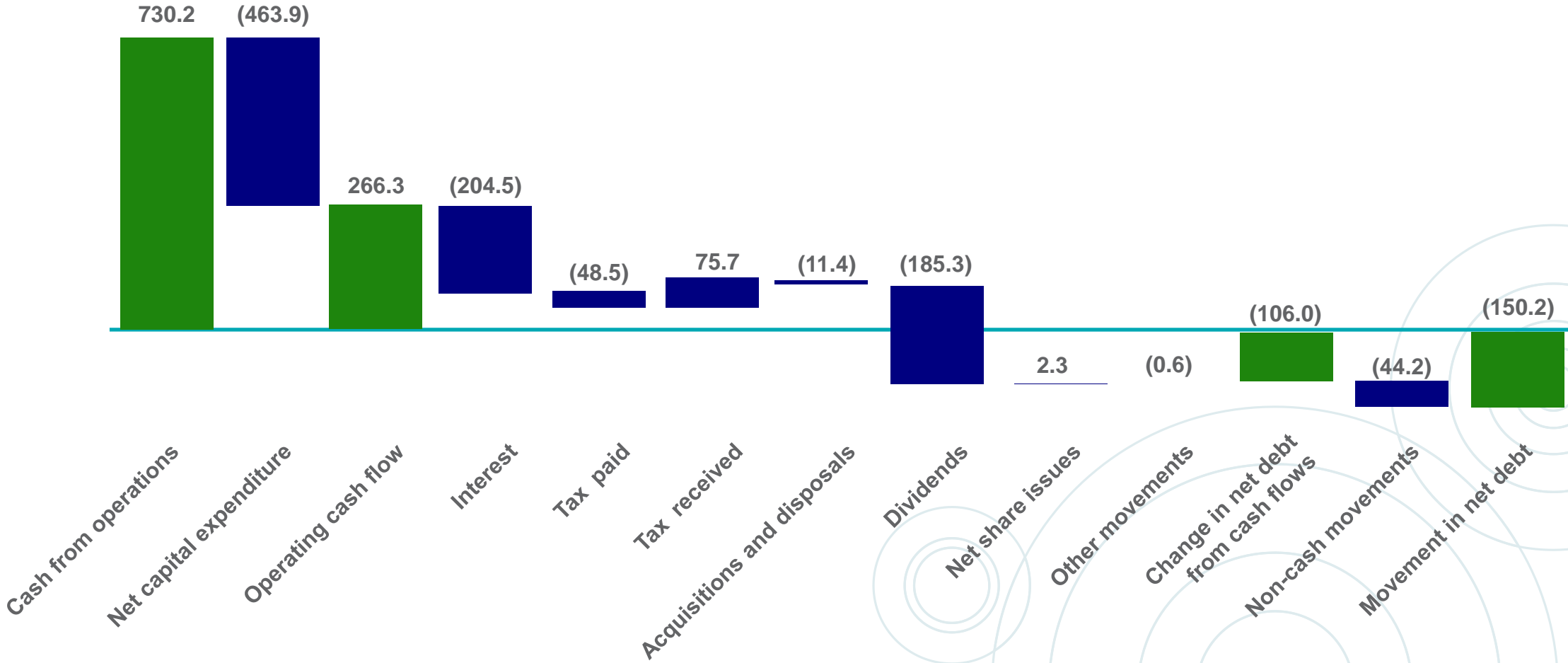


* PBIT before exceptional items

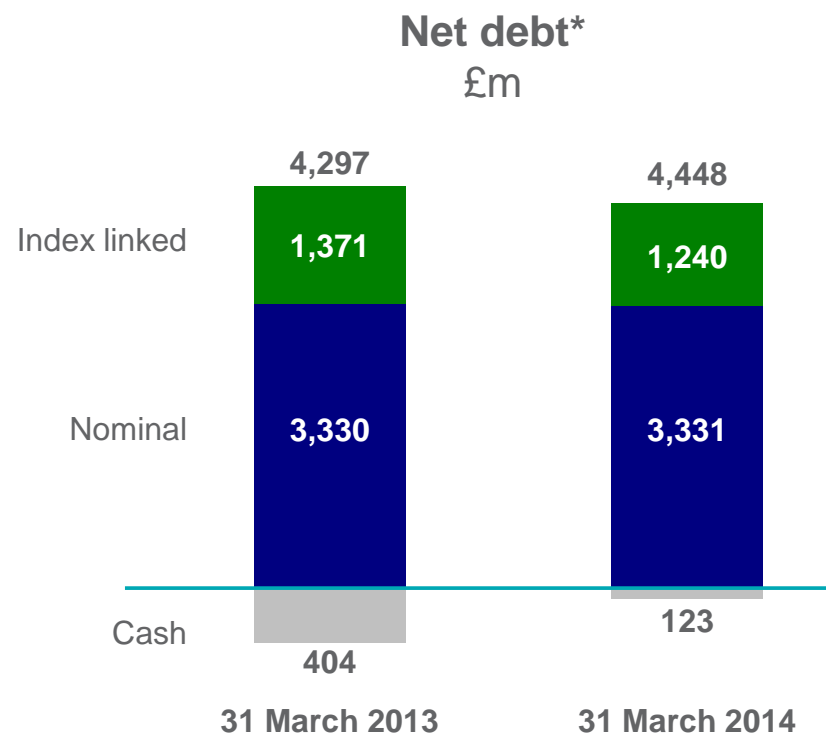
** On constant currency excluding acquisitions and disposals

Group cash flow

£m



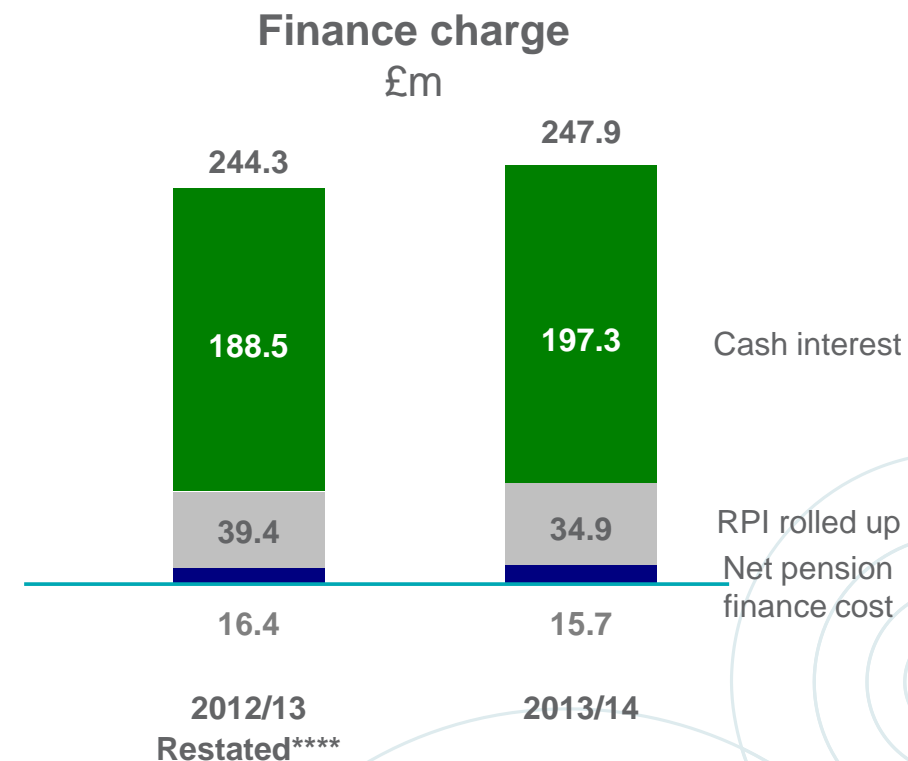
Group net debt and finance charges



- 77% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £4,484m
- Group net debt/RCV** 58%

* Including cross currency swaps

** RCV at 31 March 2014

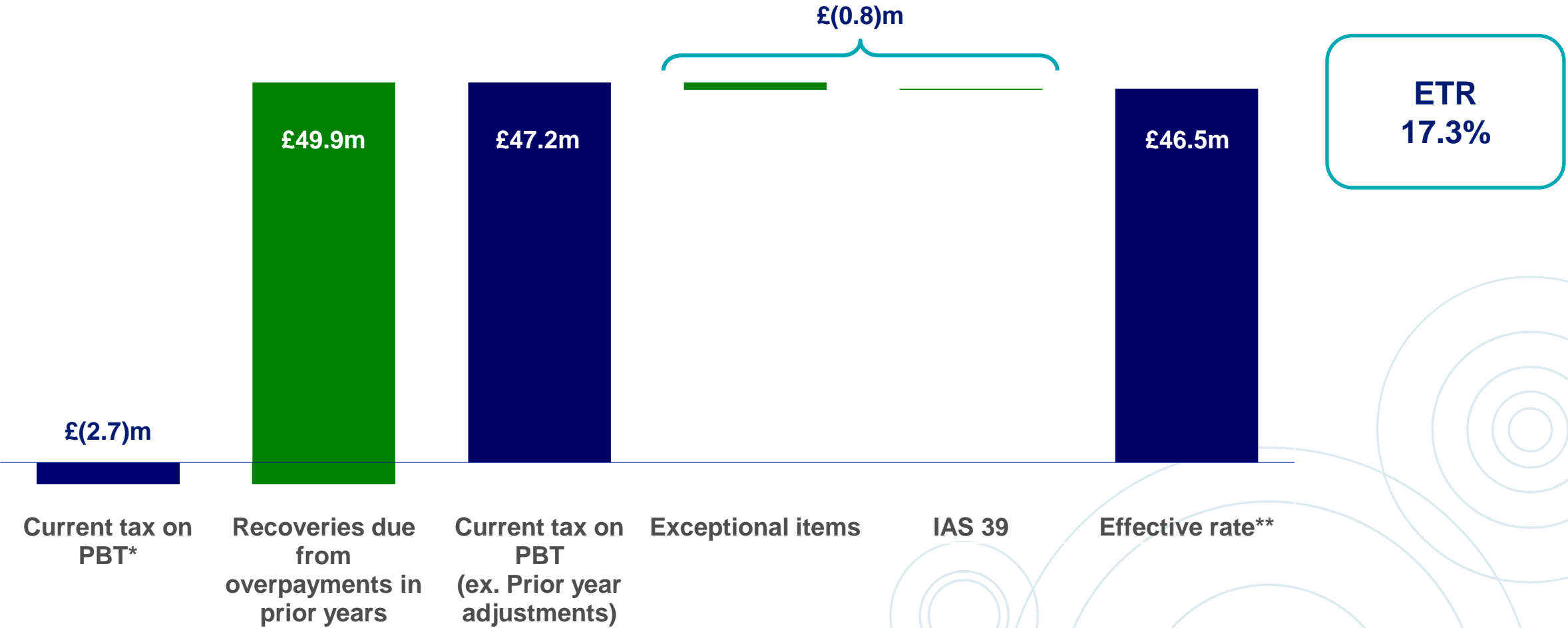


- Effective rate circa 5.8%
- Effective cash interest cost 4.9%
- EBITDA cover *** 3.3x
- PBIT cover*** 2.1x

*** Before exceptional items and net pension finance costs

**** Restated due to adoption of IAS19 Revised

Effective rate of current tax



* Total current tax attributable to PBT. See note 6 of RNS

** 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 2014/15

Regulated - Severn Trent Water

- Prices at Severn Trent Water rose by 1.5% in April 2014
- Lower measured consumption
- Opex – higher due to inflation, quasi taxes and power but in line with final determination (like for like)
- Capex £510m-£530m range; IRE £125m-£135m

Non regulated - Severn Trent Services

- Growth in Operating Services
- Expect to see benefits of restructuring in Products, but not until the second half of the year

Group

- Interest charge higher due to higher net debt
- Dividend set to be 84.90p, further growth of 5.6% year on year

Summary

Good financial performance

**Continuing investment in networks driving
growth and service improvements**

**Continuing to deliver on AMP5 dividend policy:
up 6% to 80.40p**

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Liv Garfield

Chief Executive



PR14 Next steps

- Constructive dialogue with Ofwat
- Ofwat requires more evidence on our submission
 - Legacy adjustments, ODIs and Birmingham strategic resilience project
 - Birmingham resilience accounts for £255 million of totex (total expenditure) over the 5 years
- 27 June - Plan re-submission
 - Followed by RNS
- 29 August - Draft determination
- October / November – Totex Menu Choices
- 12 December – Final Determination
- Post 12 December – new dividend policy



Summary

Delivering on commitments for stakeholders

Improve customer service

Preparing for AMP6

Create and deliver long term value for shareholders

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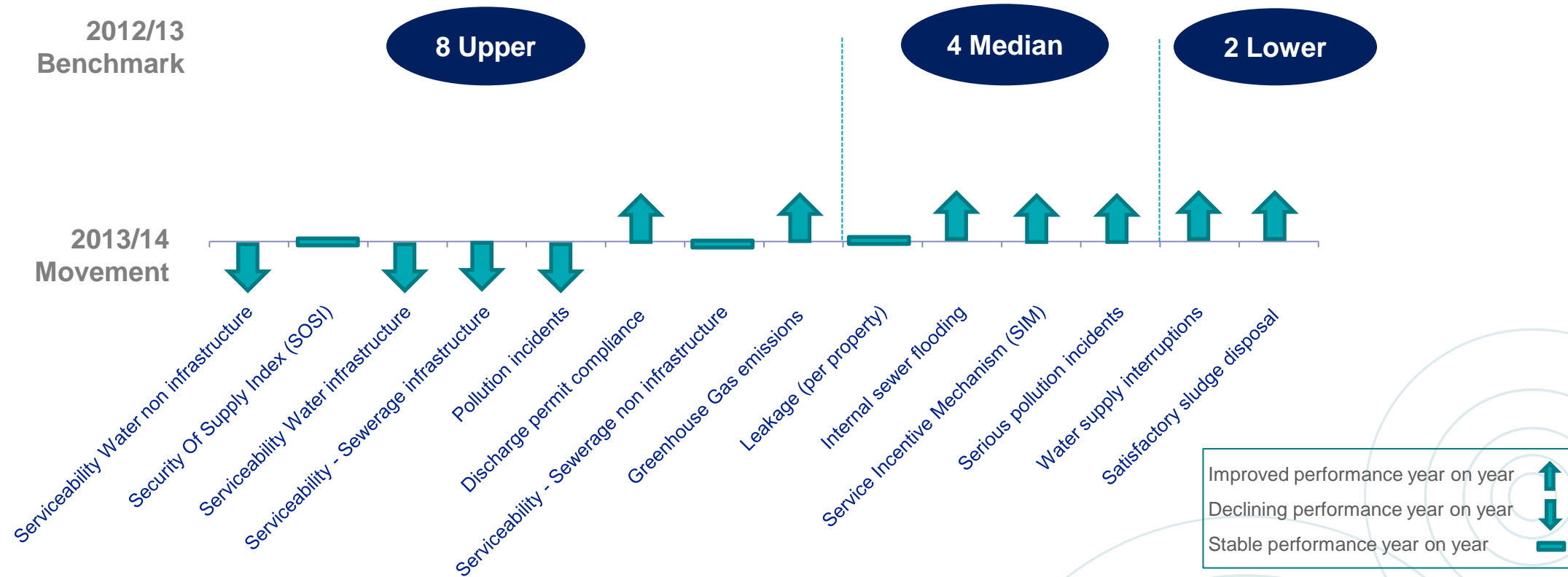


Appendix



Operational performance

Ofwat KPIs 2013/14 performance



Progress since last year:

- 7 have improved (5 out of the 6 KPIs in median or lower quartile last year)
- Stable in 3
- 4 have deteriorated

Private drains and sewers

- To end of March 2014, customer contacts in line with previous forecast
 - The AMP5 investment range remains in line with previous guidance.
 - We have commenced a phased adoption programme for eligible private pumping stations prior to the mandatory transfer on 1st October 2016 to enable controlled and safe transfer of ownership from customers.

	Total to date	Updated AMP5 Total	Previous AMP5 total
Exceptionals	£4.6m	£4.6m	£4.6m
Opex	£25.7m	£35m-£41m	£35m-£41m
Capex	£30.1m	£41m-£47m	£41m-£47m
Total	£60.4m	£81m-£93m	£81m-£93m

Group earnings

Year ended 31 March 2014

2012/13 restated £m		2013/14 £m	Variance £m	Variance %
218.9	Profit for the year	434.9	216.0	98.7%
216	Attributable to:	433.8	217.8	100.8%
	- Equity holders of the company			
2.9	- Non controlling interests	1.1	(1.8)	(62.1)%

Pence		Pence	Variance Pence	Variance %
	Basic EPS from continuing operations			
92.6	Adjusted basic EPS (before exceptional items, net loss on financial instruments and deferred tax)	88.4	(4.2)	(4.5)%
90.9	Basic EPS	182.1	91.2	100.3%
	Diluted EPS from continuing operations			
92.1	Adjusted diluted EPS (before exceptional items, net loss on financial instruments and deferred tax)	88.0	(4.1)	(4.5)%
90.5	Diluted EPS	181.3	90.8	100.3%

Group balance sheet

31 March 2014

2013 £m		2014 £m	Movement in the period £m
6,760.0	Property, plant and equipment	7,023.5	263.5
141.0	Intangible assets	95.0	(46.0)
5.1	Other non-current assets	5.3	0.2
(739.7)	Working capital / provisions	(751.4)	(11.7)
6,166.4	Capital employed	6,372.4	206.0
40.5	Tax debtor	16.5	(24.0)
(785.8)	Deferred tax provision	(654.2)	131.6
(4,297.3)	Net debt	(4,447.5)	(150.2)
(279.8)	Derivative financial instruments	(197.1)	82.7
844.0	Net assets	1,090.1	246.1
83.6%	Gearing*	80.3%	(3.3)%

* Net debt divided by net debt and equity

Movements on shareholders' equity

Year ended 31 March 2014

	£m
At 1 April 2013	844.0
Total comprehensive income for the period	434.4
Dividends paid to shareholders of Severn Trent Plc	(185.3)
Dividends paid to non-controlling interests	(0.6)
Share based payments charge (after tax)	4.0
Shares issued	5.1
Other movements	(11.5)
At 31 March 2014	1,090.1

Gearing

At 31 March 2014

2012/13	Net debt/RCV*	2013/14
58%	Severn Trent Group	58%
58%	Severn Trent Water	59%



Segmental analysis of capital employed

31 March 2014

2013 Total £m		Net operating assets £m	2014 Goodwill £m	Total £m
6,082.7	Severn Trent Water	6,286.6	1.3	6,287.9
125.7	Severn Trent Services*	85.6	14.6	100.2
(42.0)	Other	(14.6)	(1.1)	(15.7)
6,166.4	Group	6,357.7	14.8	6,372.4

* 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 2014

2012/13 Restated** £m		2013/14 £m
780.9	Severn Trent Water	804.3
18.0	Severn Trent Services	12.8
(14.8)	Other	(10.9)
784.1	Group	806.2

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

**Restated due to adoption of IAS19 Revised

Depreciation* analysis

Year ended 31 March 2014

2012/13 £m		2013/14 £m
282.4	Severn Trent Water	285.7
5.4	Severn Trent Services	5.7
0.9	Other	(2.0)
288.7	Group	289.4

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

Capital expenditure (net cash)*

Year ended 31 March 2014

2012/13 £m		2013/14 £m
392.5	Severn Trent Water	441.3
7.5	Severn Trent Services	12.3
1.8	Other	10.4
401.8	Group	464.0

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

Severn Trent Water – operating costs

Year ended 31 March 2014

2012/13 £m		2013/14 £m	Variance £m	Variance %
582.4	Direct operating costs*	600.3	17.9	3.1
282.4	Depreciation**	285.7	3.3	1.2
147.7	Infrastructure renewals	140.3	(7.4)	(5.0)
1,012.4	STW operating costs	1,026.3	13.9	1.4

* Restated due to the adoption of IAS19 Revised

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

Severn Trent Water – Capex reconciliation

Year ended 31 March 2014

2012/13 £m		2013/14 £m
451.6	Additions to Property, plant and equipment	519.4
13.6	Additions to intangible fixed assets	8.2
465.2	IFRS capex	527.6
(10.4)	Interest capitalised under IFRS	(13.8)
(23.0)	Adopted assets capitalised under IFRS	(24.7)
147.7	Infrastructure renewals capitalised under UK GAAP	140.3
579.5	UK GAAP capex (gross)	629.4
(24.1)	Less grants and contributions	(27.3)
555.4	UK GAAP capex (net of grants and contributions received)	602.1

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

***Restated due to adoption of IAS19 Revised*

Severn Trent Services performance

Year ended 31 March 2014

Turnover			Underlying PBIT*			
2012/13 £m	2013/14 £m	Change %		2012/13 £m	2013/14 £m	Change %
328.5	311.4	(5.2)	As reported	12.6	7.1	(43.7)
(21.1)	-		Changes in group	1.2	0.0	
0.1	-		Exchange rate impacts	-	-	
307.5	311.4	1.3	Like for like**	13.8	7.1	(48.6)

Like for like** ROIC***

3.9%

* 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 2014

	Income statement charge 2013/14 £m	Capitalised interest (2013/14) £m	Gross interest incurred 2013/14 £m
“Cash” interest (including accruals)	197.3	11.8	209.1
Pension debit	15.8	-	15.8
RPI interest	34.8	2.1	36.9
	247.9	13.9	261.8

Net debt

At 31 March 2014

	2013 £m	2014 £m	Movement in the year £m
Cash and cash equivalents	(403.6)	(123.2)	280.4
Bank overdrafts	0.4	0	(0.4)
Bank loans	758.7	594.9	(163.8)
Other loans	3,840.9	3,826.0	(14.9)
Finance leases	201.6	201.2	(0.4)
Cross currency swaps	(100.7)	(51.4)	49.3
Net debt	4,297.3	4,447.5	150.2

Fair value of net debt

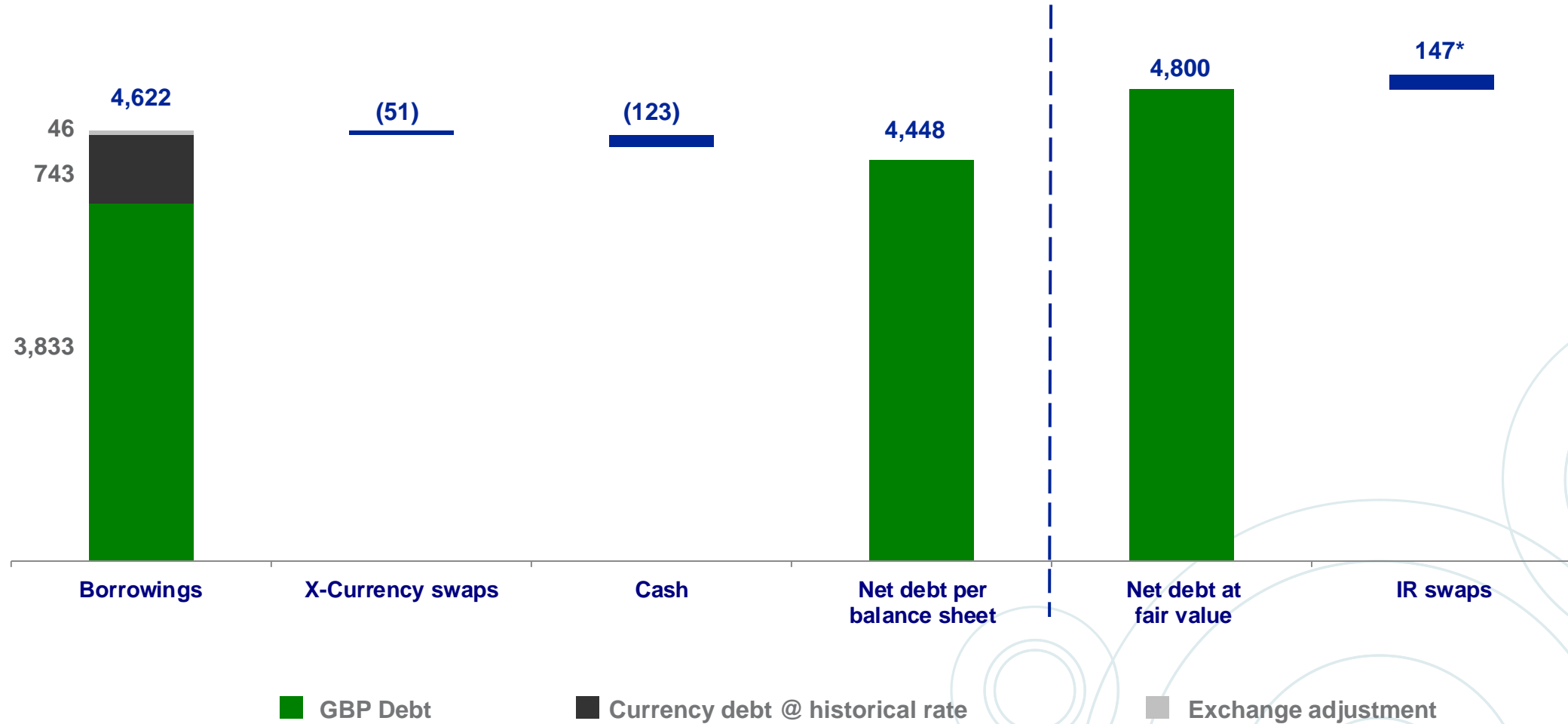
At 31 March 2014

	As reported 31 March 2013 £m	Restated 31 March 2013 £m	As reported 31 March 2014 £m	Movement in the period £m
Bank loans	782	782	609	(173)
Other loans	4,585	4,395	4,168	(227)
Finance leases	208	208	198	(11)
	5,575	5,385	4,974	(411)
Net cash and cash equivalents	(403)	(403)	(123)	280
Cross currency swaps	(101)	(101)	(51)	49
Fair value of net debt	5,071	4,881	4,800	(81)
Net debt (previous slide)	4,297	4,297	4,448	150
Difference	(774)	(584)	(352)	(232)

Following the introduction of the new accounting standard, IFRS 13 'Fair Value Measurement', the group is required to amend its approach to estimating the fair value of its debt instruments to comply with the new standard which now places more emphasis on quoted prices in active markets rather than expected cash flows discounted using rates derived from market data.

Analysis of borrowings, net debt and swaps

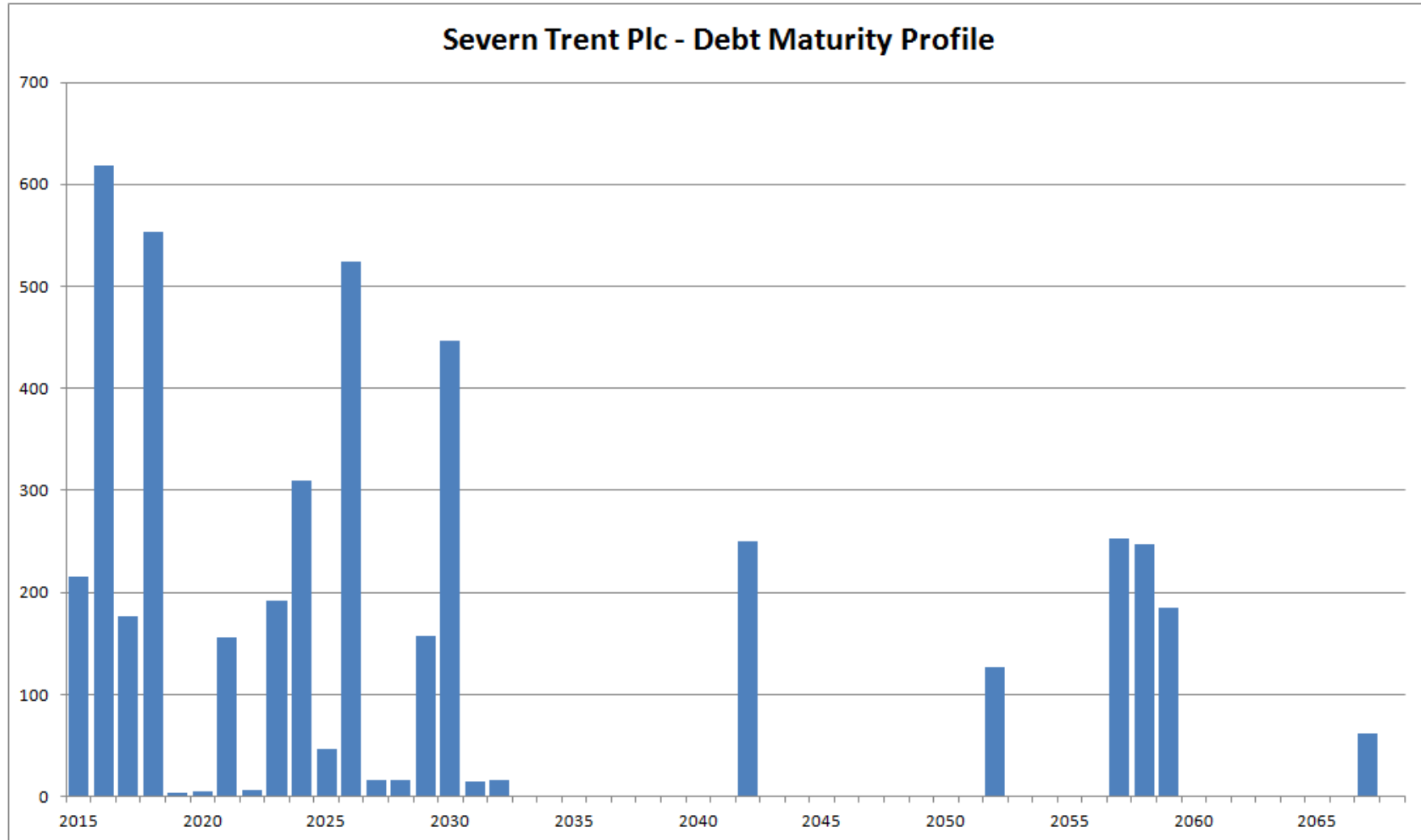
At 31 March 2014



* Excludes forward starting cash flow hedges against future debt

Debt Maturity Profile

At 31 March 2014



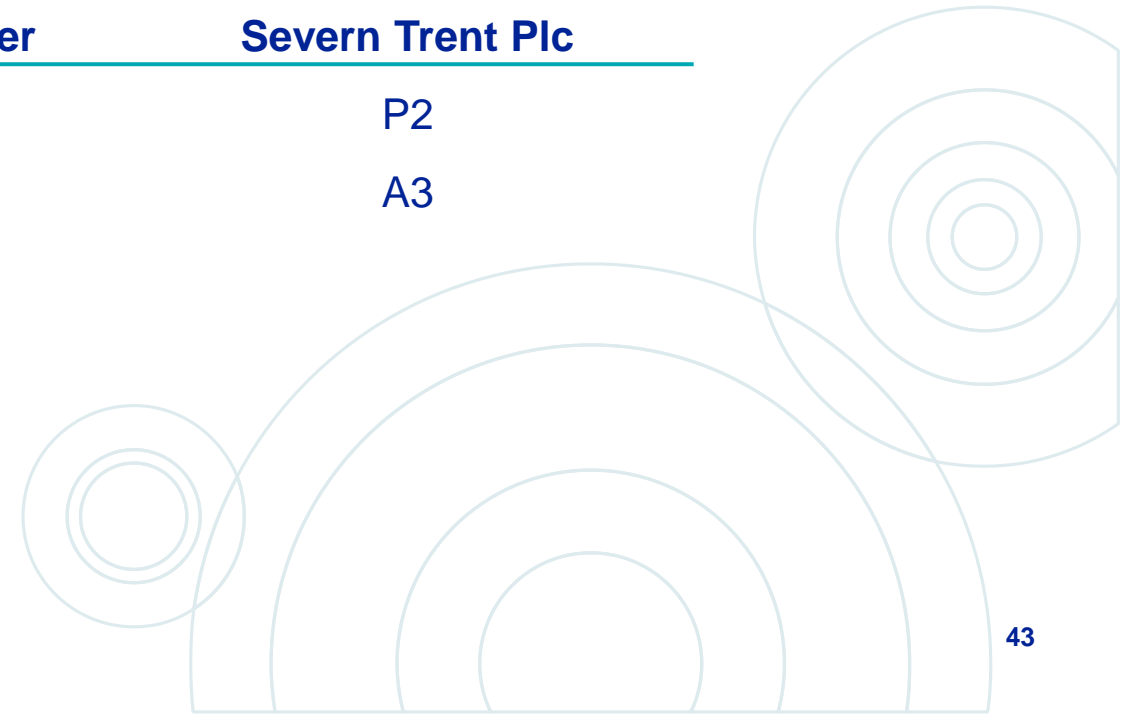
Credit ratings

31 March 2014

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	7,618	7,883
Ofwat Actual/Projected Outturn***	6,814	7,089	7,364	7,618	7,670

* 2007/08 prices

** At year end actual/estimated prices

*** Year end at 2013/14 prices. Source Ofwat