
Interim Results

6 months ended 30 September 2014

25 November 2014



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Liv Garfield

Chief Executive



Highlights

Financial results in line with expectations

- Capital investment on track
- Good performance for customers
- Improving performance on many operational metrics
- Progressing well with AMP6 efficiency plans
- Constructive dialogue with Ofwat continues

Focus areas revisited

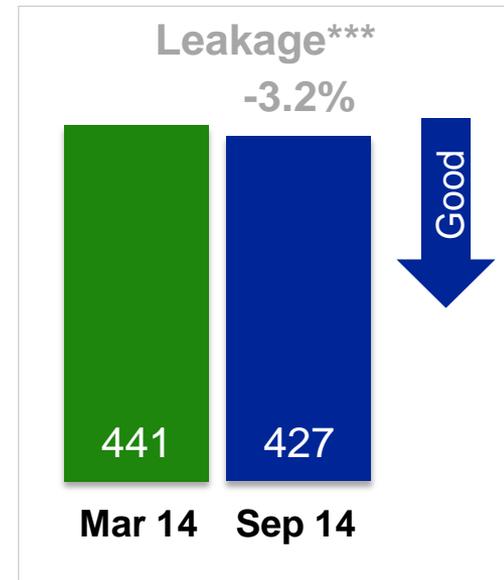
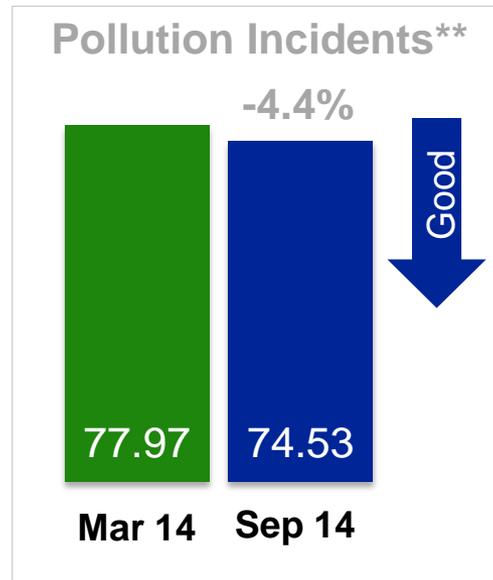
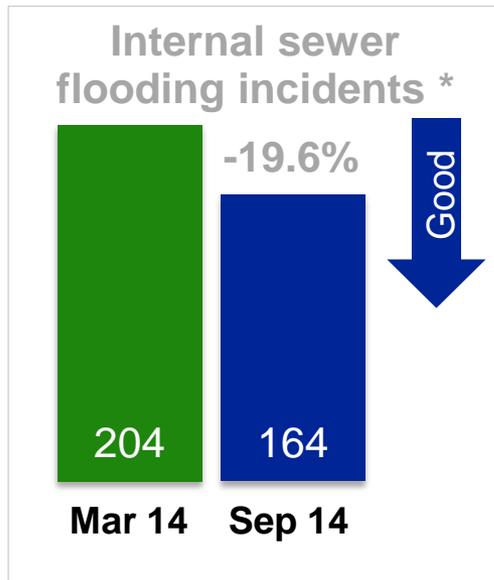
- Customers at the heart of what we do
- Drive operational improvement
- People / Talent development
- Regulatory relationship
- Ready to deliver in AMP6

Create long term value for shareholders

Customers at the heart of what we do

- Lowest combined average bills for 2014/15
 - Confident of maintaining lowest combined bills for next 5 years
 - New social tariff launching April 2015
- “Value for money” score improving
- 100 new front line roles
- 88% customer approval rating for our AMP6 plan
- More to do but clear action plan

Drive operational improvement



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

** Category 1, 2 & 3 incidents per 10,000 km of sewer

*** MI/d MLE

All data 12 month moving annual total

- Stable or improving in 13 of Ofwat's 14 KPIs
- Embracing digital - investing in new mobile technology to help field workers
- Simplifying processes
- More to do in some areas

People / Talent development

- New performance appraisal framework launched - “Inspiring Great Performance”
- Refreshed apprentice and graduate programmes
- Focus on empowering our people
- The right talent for AMP6
- Making sure we recognise and reward exceptional contributions



Regulatory relationship

- Constructive dialogue with Ofwat continues
- Approach to representations outlined in letter of 19 September
 - Focus on material issues to help ensure an effective process
- Submitted representations on 3 October
 - Believe we have addressed evidence requests
- Awaiting final determination on 12 December



Ready to deliver in AMP6

- New executive team
- New organisational structure
- Reducing management layers to be more responsive
 - 500 roles
 - Minimum 45 day consultation started 23 October
- AMP6 Employee Roadshows
 - Key messages on totex, ODI's, efficiency and customers



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Mike McKeon

Finance Director



Highlights

H1 2014/15

Turnover

£947.6m
+2.7%

Underlying
PBIT¹

£274.9m
+3.0%

Adjusted
basic EPS²

52.6 pence
+12.6%

Interim
dividend

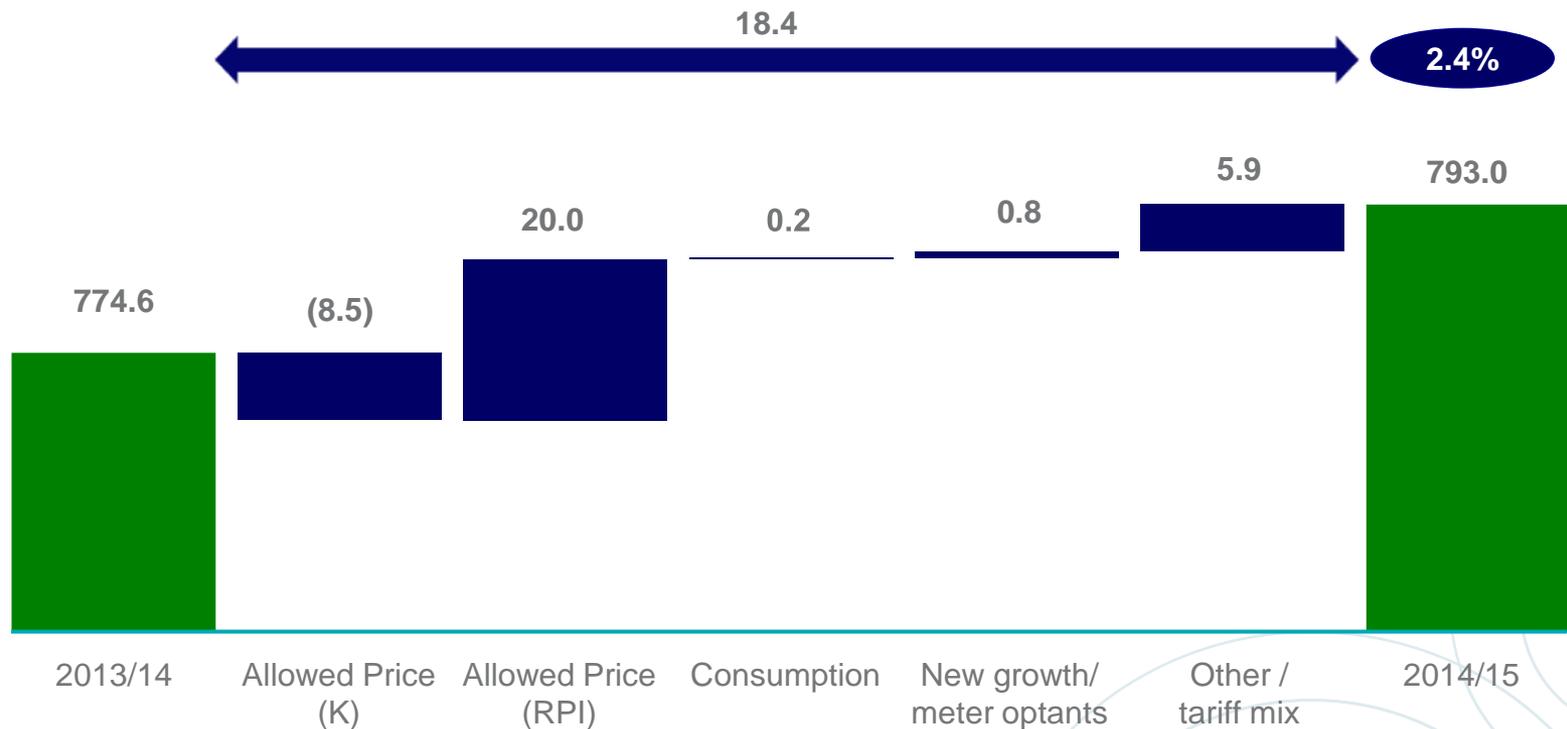
33.96 pence
+5.6%

1. *before exceptional items*

2. *before exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on financial instruments and deferred tax*

Regulated - Severn Trent Water turnover*

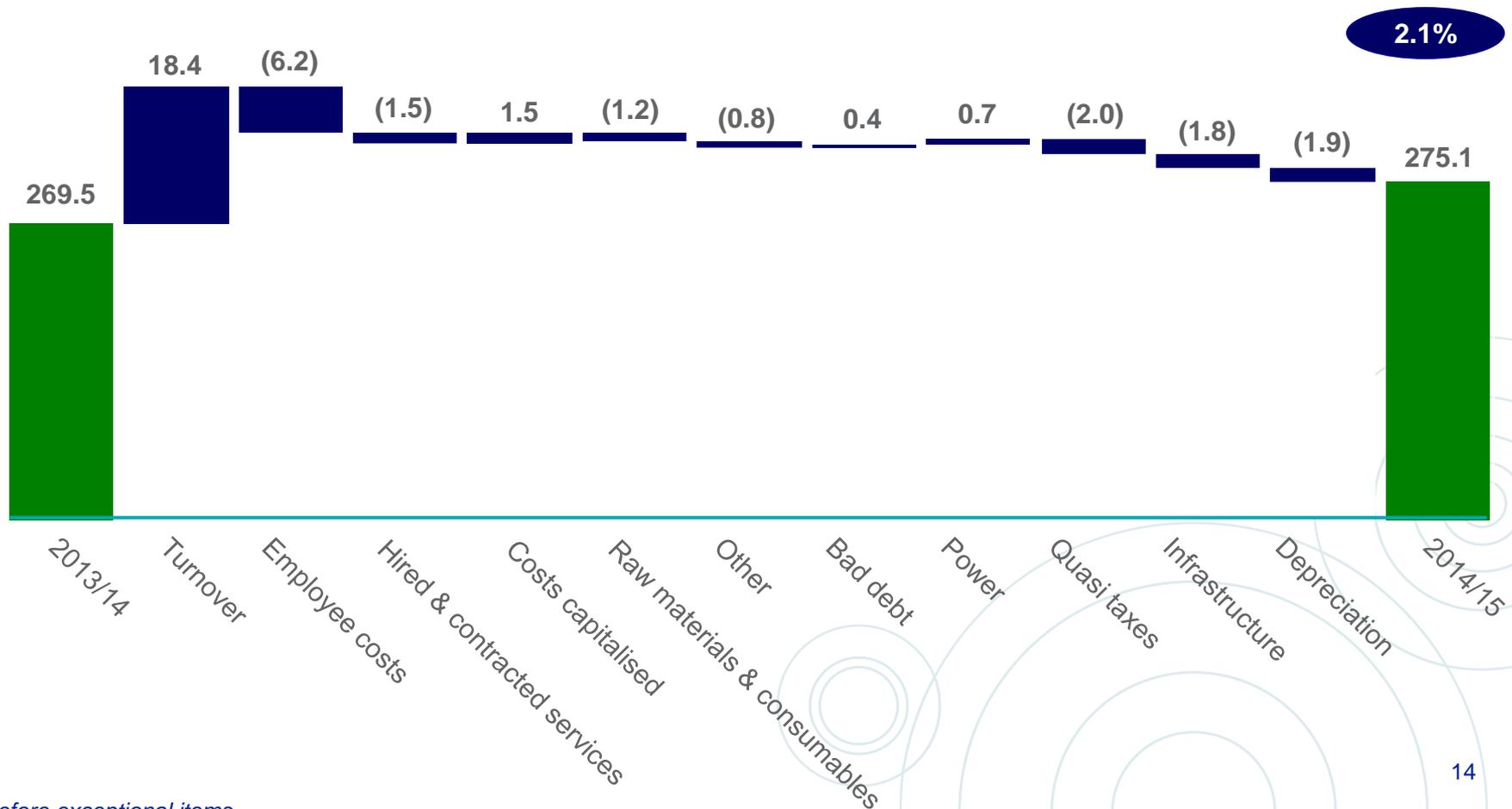
H1 2014/15
£m



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

Regulated - Severn Trent Water PBIT*

H1 2014/15
£m



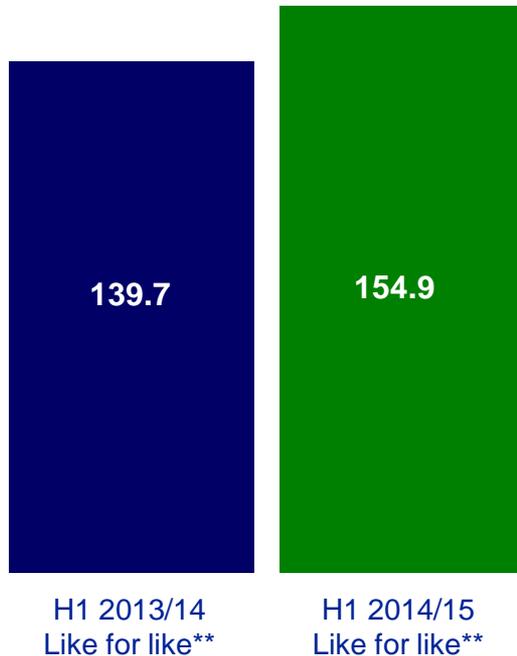
* Before exceptional items

Non – regulated Severn Trent Services performance

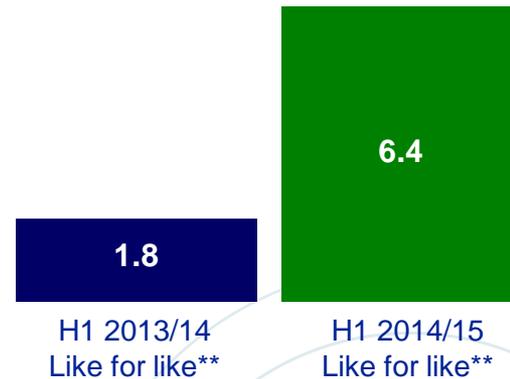
£m

Revenue

+10.9%



PBIT*

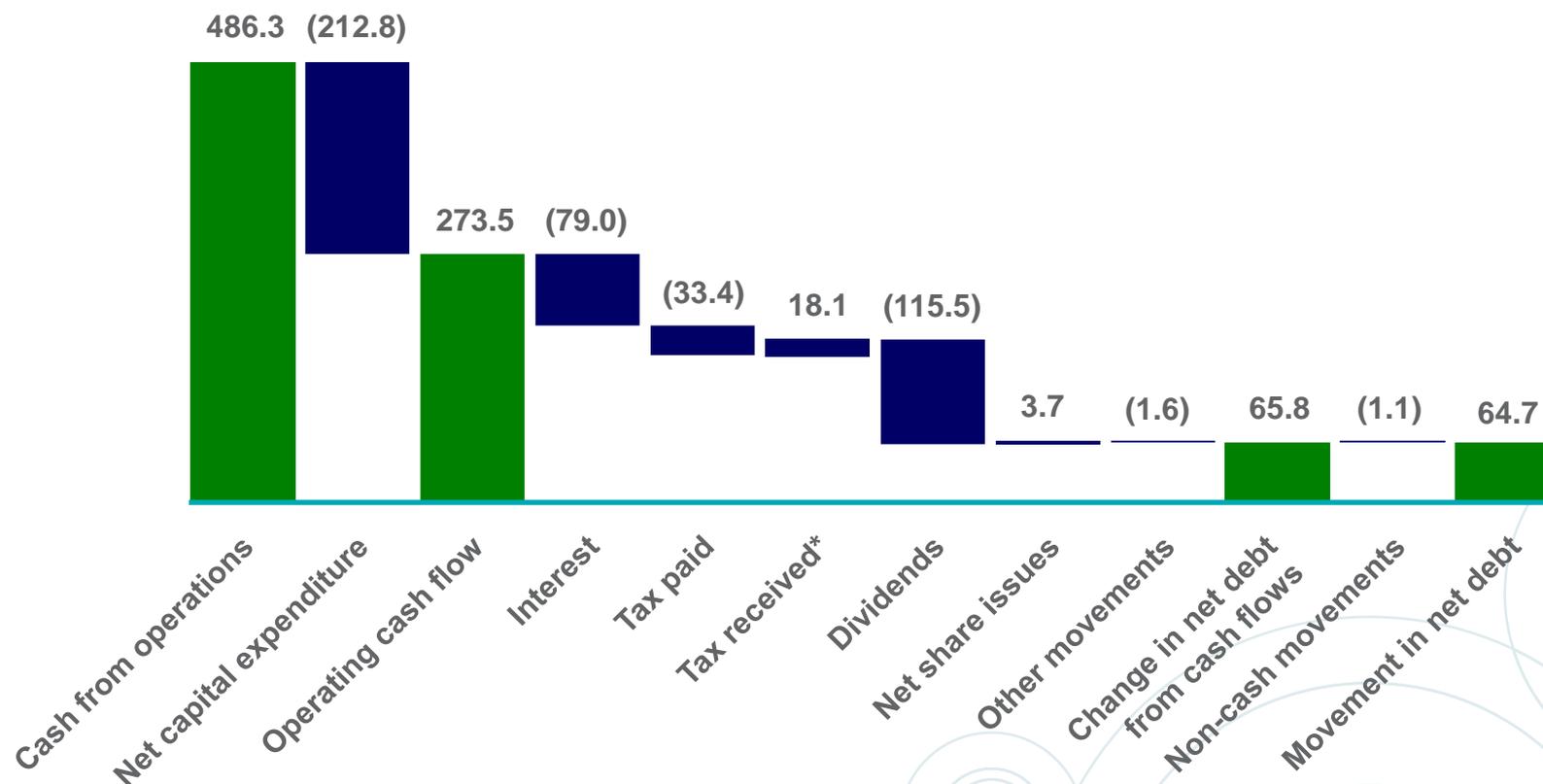


* Before exceptional items

** On constant currency excluding acquisitions and disposals

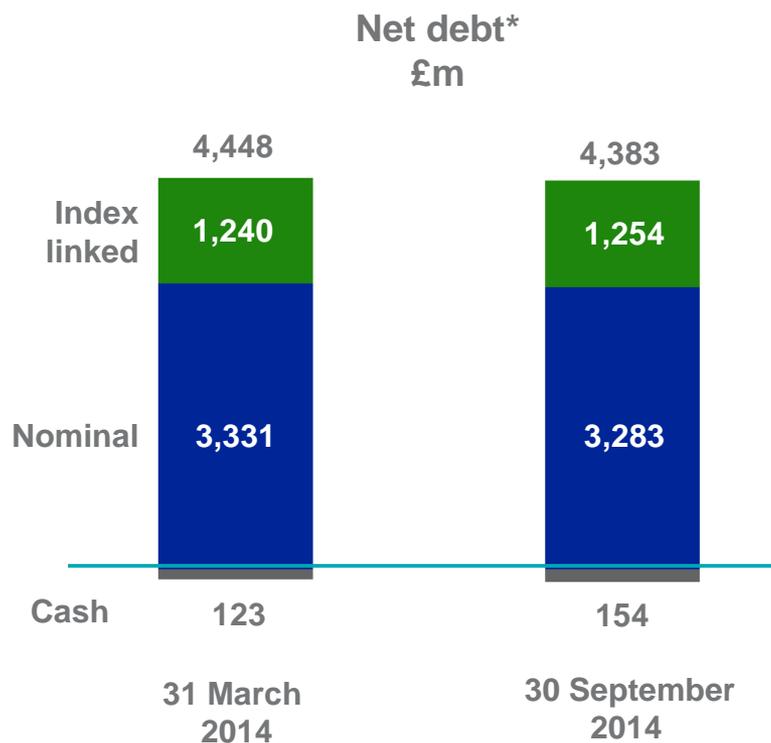
Group cash flow

H1 2014/15
£m



* Impact of refunds of overpayments in prior years

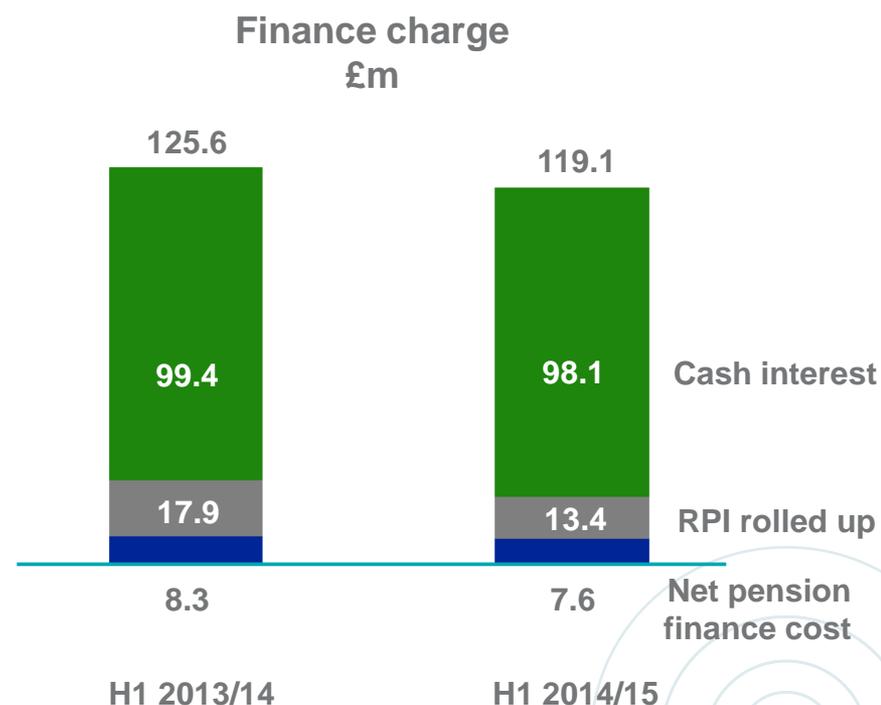
Group net debt and finance charges



- 77% at fixed interest rates
- Regulated (Severn Trent Water Group) net debt £4,331 m
- Group net debt/RCV** 57%

* Including cross currency swaps

** Estimated RCV at 30 September 2014



- Effective rate circa 5.5%
- Effective cash interest cost 4.8%
- EBITDA cover *** 3.8x
- PBIT cover*** 2.5x

*** Before exceptional items and net pension finance costs

Outlook – in line with expectations

FY 2014/15

Regulated - Severn Trent Water

- Slightly higher measured consumption
- Opex – in line with final determination (like for like)
- Capex (UK GAAP, net) £530m to £545m; IRE £130m to £140m (acceleration of AMP6 spend)

Non-regulated - Severn Trent Services

- Expect topline growth to moderate in the second half
- Full year PBIT remains in line with our expectations

Group

- Interest charge lower year on year
- Effective current tax rate now expected to be between 18% and 20%
- Dividend expected to be 84.90p, further growth of 5.6% year on year

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Liv Garfield

Chief Executive



Next steps – 3 key events



Receive final determination from Ofwat



Announce our future dividend policy



Capital Markets Day

Summary

Good financial & operational performance

Continuing investment in networks driving growth and improvements for customers

Preparing for AMP6

Continuing to deliver on commitments for stakeholders

Create and deliver long term value for shareholders

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Appendix



Private drains and sewers

- **To end of September 2014, activity levels in line with previous forecast**
 - We continue the phased adoption of eligible private pumping stations prior to the mandatory transfer on 1st October 2016 to enable controlled and safe transfer of ownership from customers.
 - The AMP5 investment range has been updated reflecting greater certainty over forecast costs for the remainder of the year.

	Total to date	Updated AMP5 Total	Previous AMP5 total
Exceptionals	£4.6m	£4.6m	£4.6m
Opex	£31.9m	£36m-£38m	£35m-£41m
Capex	£37.2m	£43m-£47m	£41m-£47m
Total	£73.7m	£84m-£90m	£81m-£93m

Group Earnings

Six months ended 30 September 2014

2013/14		2014/15	Variance	Variance
£m		£m	£m	%
344.8	Profit for the period	108.3	(236.5)	(68.6)%
344.9	Attributable to:	107.5	(237.4)	(68.8)%
(0.1)	- Owners of the company	0.8	0.9	(900.0)%
	- Non controlling interests			

Pence		Pence	Variance Pence	Variance %
Basic EPS from continuing operations				
46.7	Adjusted basic EPS (before exceptional items, net losses/gains on financial instruments and deferred tax)	52.6	5.9	12.6%
145.0	Basic EPS	45.0	(100.0)	(69.0)%
Diluted EPS from continuing operations				
46.5	Adjusted diluted EPS (before exceptional items, net loss/gain on financial instruments and deferred tax)	52.4	5.9	12.7%
144.5	Diluted EPS	44.8	(99.7)	(69.0)%

* After exceptional tax credits of £199.9 million arising due to the planned reduction in the corporation tax rate from 23% to 20% and the resolution of a long standing industry wide discussion with HMRC.

Group balance sheet

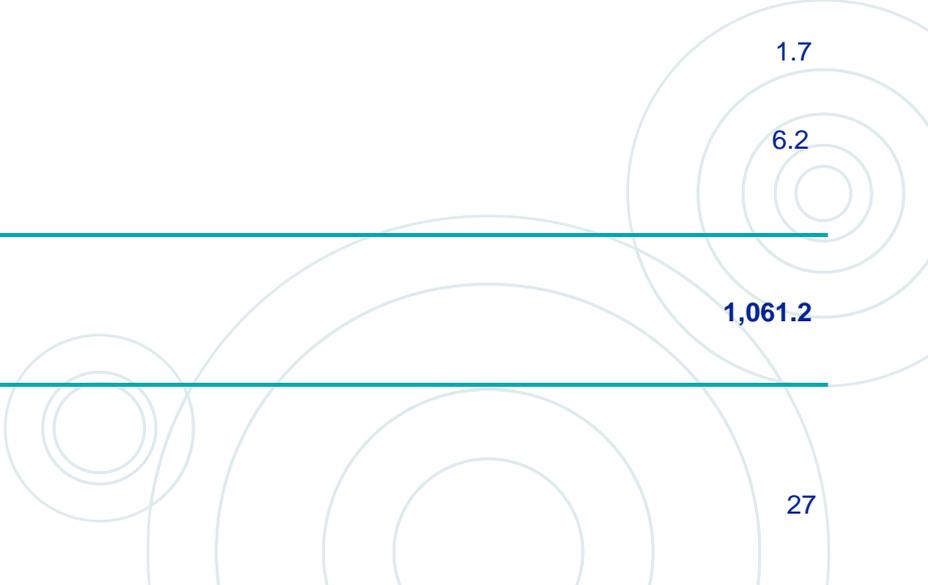
30 September 2014

31 March 2014		30 September 2014	Movement in the period
£m		£m	£m
7,023.5	Property, plant and equipment	7,111.6	88.1
95.0	Intangible assets	86.7	(8.3)
5.3	Other non-current assets	5.0	(0.3)
(751.6)	Working capital, provisions and pensions	(887.2)	(135.6)
6,372.2	Capital employed	6,316.1	(56.1)
16.5	Tax debtor	1.7	(14.8)
(654.0)	Deferred tax provision	(647.4)	6.6
123.2	Cash	154.1	30.9
(4,622.1)	Borrowings	(4,563.2)	58.9
51.4	Cross currency swaps	26.3	(25.1)
(4,447.5)	Net debt	(4,382.8)	64.7
(197.1)	Other derivative financial instruments	(226.4)	(29.3)
1,090.1	Net assets	1,061.2	(28.9)
80.3%	Gearing*	80.5%	0.2%

Movements on shareholders' equity

Six months ended 30 September 2014

	£m
At 1 April 2014	1,090.1
Total comprehensive income for the period	80.3
Dividends paid to shareholders of Severn Trent Plc	(115.5)
Dividends paid to non-controlling interests	(1.6)
Share based payments	1.7
Shares issued	6.2
At 30 September 2014	1,061.2
	27



Gearing

At 30 September 2014

31 March 2014	Net debt/RCV*	30 September 2014
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58%	Severn Trent Group	57%
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59%	Severn Trent Water	56%
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**March 2014 RCV is at year end actual prices. September RCV has been estimated based on March 2014 actual RCV and March 2015 forecast RCV at estimated prices*

Segmental analysis of capital employed

30 September 2014

31 March 2014		30 September 2014		
Total £m		Net operating assets £m	Goodwill £m	Total £m
6,287.9	Severn Trent Water	6,214.4	1.3	6,215.7
100.4	Severn Trent Services*	98.6	15.1	113.7
(16.1)	Other	(12.0)	(1.3)	(13.3)
6,372.2	Group	6,301.0	15.1	6,316.1

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

PBITD* analysis

Six months ended 30 September 2014

2013/14		2014/15
£m		£m
415.2	Severn Trent Water	422.7
4.0	Severn Trent Services	9.5
(5.1)	Other	(6.2)
414.1	Group	426.0

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

Depreciation* analysis

Six months ended 30 September 2014

2013/14		2014/15
£m		£m
145.7	Severn Trent Water	147.6
2.4	Severn Trent Services	3.1
(0.9)	Other	0.4
147.2	Group	151.1

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

Capital expenditure (net cash)*

Six months ended 30 September 2014

2013/14		2014/15
£m		£m
195.1	Severn Trent Water	194.2
5.7	Severn Trent Services	2.7
2.8	Other	15.9
203.6	Group	212.8

**Including purchases of property, plant and equipment, intangible assets, proceeds on disposal of property, plant and equipment and contributions and grants received*

Severn Trent Water – total operating costs*

Six months ended 30 September 2014

2013/14 £m		2014/15 £m	Variance £m	Variance %
296.6	Direct operating costs	305.7	9.1	3.1
145.7	Depreciation**	147.6	1.9	1.3
62.8	Infrastructure renewals	64.6	1.8	2.9
505.1	STW total operating costs*	517.9	12.8	2.5

**Before exceptional operating items*

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

Severn Trent Water – Capex reconciliation

Six months ended 30 September 2014

2013/14		2014/15
£m		£m
235.0	Additions to property plant and equipment	213.2
4.0	Additions to intangible fixed assets	4.2
239.0	IFRS capex	217.4
(5.9)	Interest capitalised under IFRS	(9.2)
(15.7)	Adopted assets capitalised under IFRS	(8.1)
62.8	Infrastructure renewals capitalised under UK GAAP	64.6
280.2	UK GAAP capex gross	264.7
(11.1)	Less: grants and contributions	(16.8)
269.1	UK GAAP capex (net of grants and contributions received)	247.9

Severn Trent Services performance

Six months ended 30 September 2014

Turnover				Underlying PBIT*		
2013/14 £m	2014/15 £m	Change %		2013/14 £m	2014/15 £m	Change %
148.0	154.9	4.7	As reported	1.6	6.4	300.0
(8.3)	-		Exchange rate impacts	0.2	-	
139.7	154.9	10.9	Like for like**	1.8	6.4	255.6

Like for like** ROIC***

6.9%

* 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

Six months ended 30 September 2014

	Income statement charge 2014/15 £m	Capitalised interest 2014/15 £m	Gross interest incurred 2014/15 £m
"Cash" interest (including accruals)	98.1	8.1	106.2
Net pension finance cost	7.6	-	7.6
RPI interest	13.4	1.1	14.5
	119.1	9.2	128.3

Net debt

At 30 September 2014

	30 September 2013 £m	31 March 2014 £m	30 September 2014 £m
Cash and cash equivalents	(278.3)	(123.2)	(154.1)
Bank overdrafts	0.1	-	0.6
Bank loans	594.3	594.9	595.8
Other loans	3,830.3	3,826.0	3,786.1
Finance leases	203.7	201.2	180.7
Cross currency swaps	(90.9)	(51.4)	(26.3)
Net debt	4,259.2	4,447.5	4,382.8

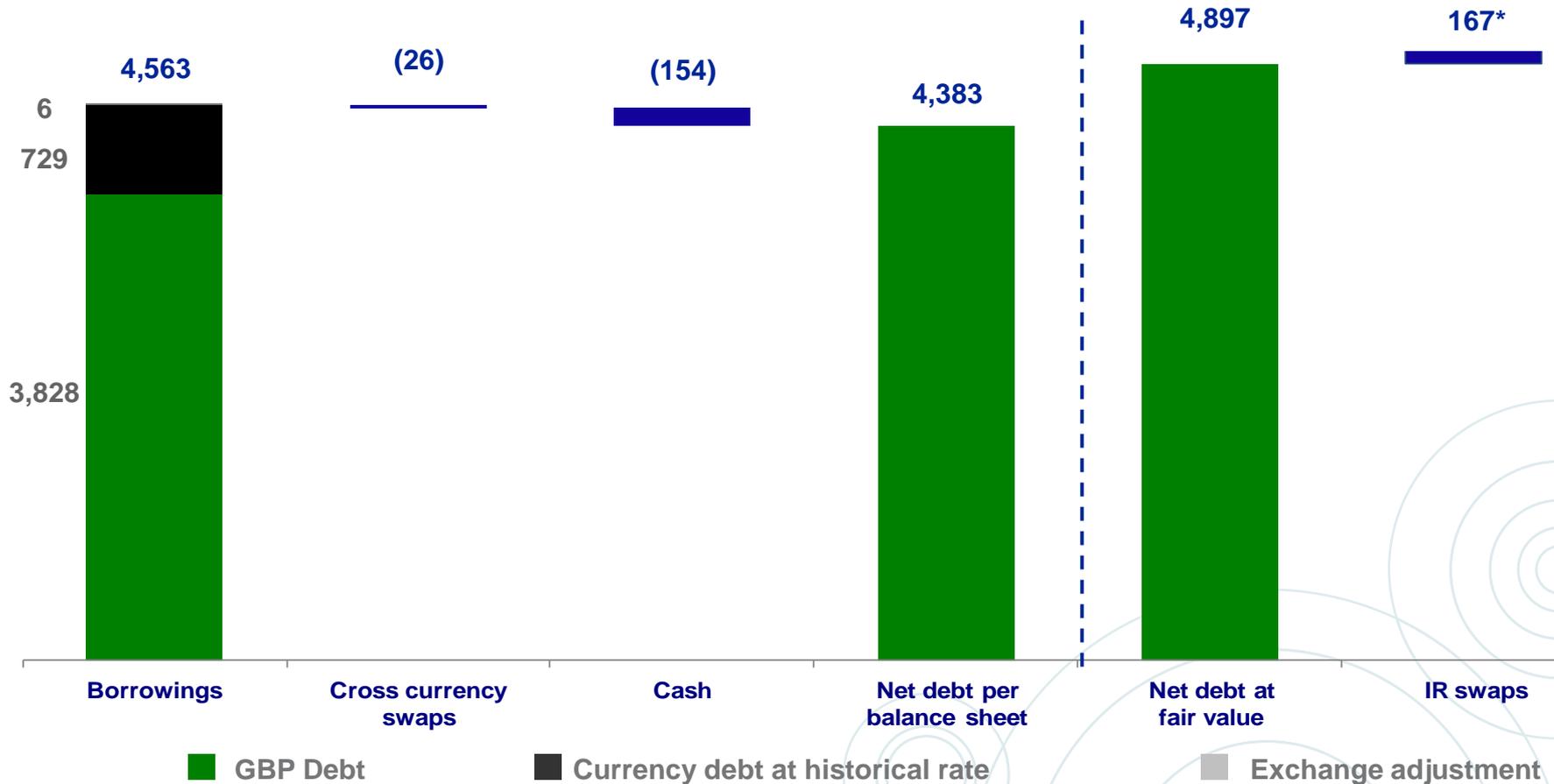
Fair value of net debt

At 30 September 2014

	30 September 2013 £m	31 March 2014 £m	30 September 2014 £m
Bank loans	597	609	613
Other loans	4,220	4,168	4,289
Finance leases	202	197	175
	5,019	4,974	5,077
Net cash and cash equivalents	(278)	(123)	(154)
Cross currency swaps	(91)	(51)	(26)
Fair value of net debt	4,650	4,800	4,897
Net debt (previous slide)	4,259	4,448	4,383
Difference	391	352	514

Analysis of borrowings, net debt and swaps

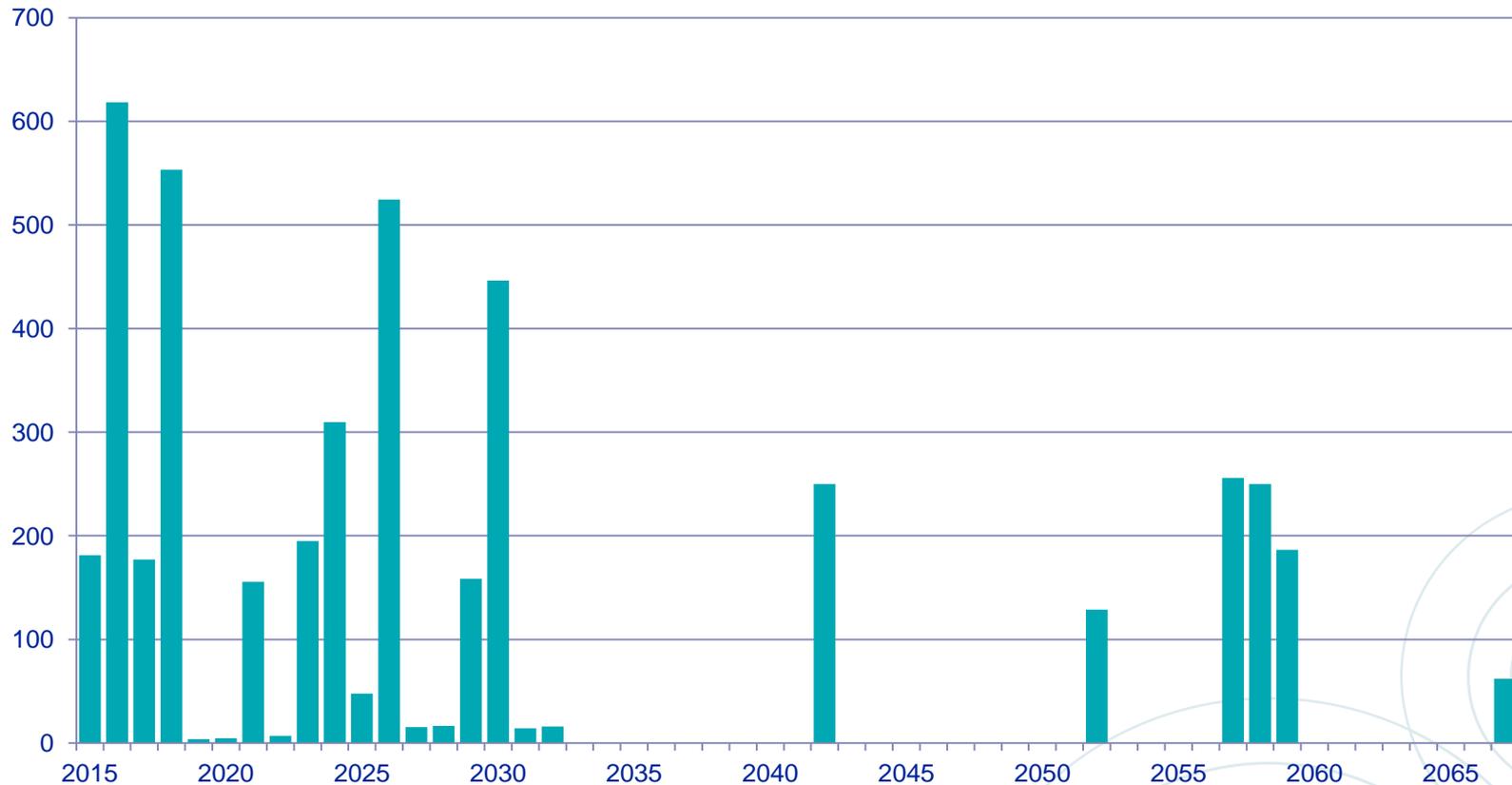
At 30 September 2014



* Excludes forward starting cash flow hedges against future debt

Debt maturity profile

At 30 September 2014



Average maturity of around 15 years

Credit ratings

At 30 September 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	April 15 ⁴
Per Determination ¹	6,216	6,244	6,280	6,341	6,385	
Actual	6,814	7,089	7,364	7,618		
Estimated Outturn ²					7,863	7,783
Ofwat Projected Outturn ³					7,670	

September 2014 RCV⁵

£7,741m

¹ 2007/08 prices

² At year end estimated prices

³ Year end at 2013/14 prices. Source: Ofwat

⁴ Includes end of AMP 5 legacy adjustments Source: Draft Determination

⁵ September 2014 RCV has been estimated as the average of March 2014 Actual RCV and March 2015 estimated outturn RCV

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