

PRELIMINARY RESULTS

Year ended 31 March 2015



SEVERN
TRENT

DISCLAIMERS

Cautionary statement regarding Forward Looking Statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest Annual Report (which have not been updated since); changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

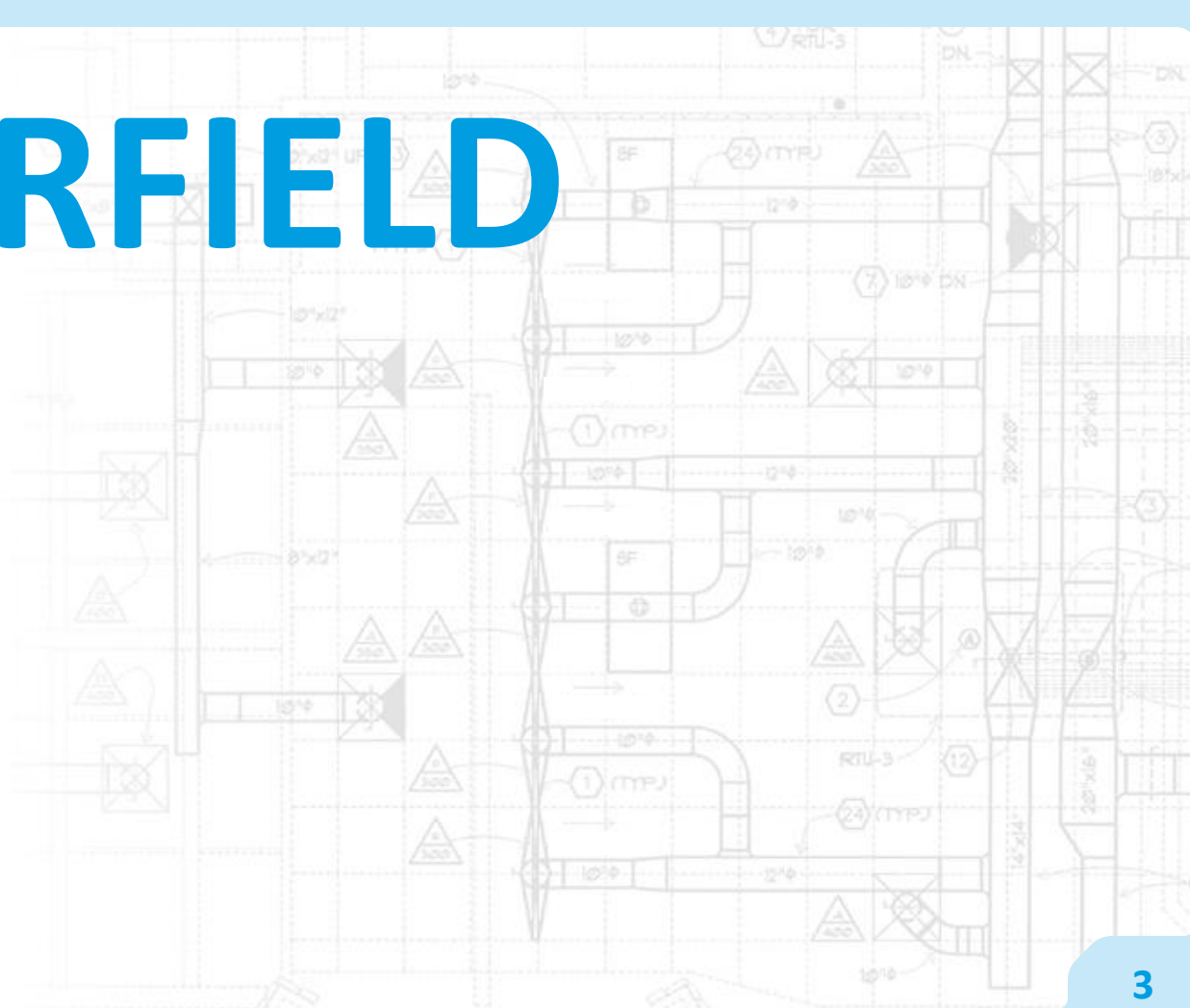
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LIV GARFIELD

Chief Executive



FY 14/15 HIGHLIGHTS

Good financial performance

AMP5 £2.6bn investment programme complete

AMP6 opening RCV of £7.7bn¹

Driving operational improvement

(12 out of 14 Ofwat KPIs stable or improving)

New organisational structure and team in place

Successful transition to AMP6

Severn Trent Services refocused

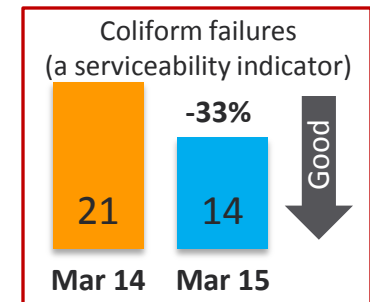
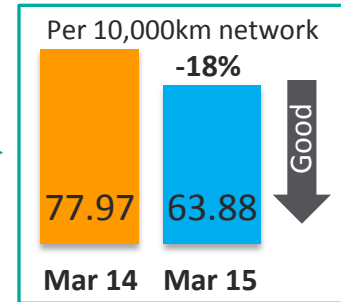
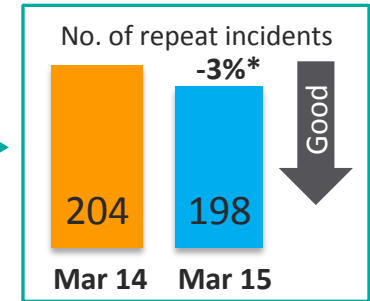
1. ¹ Nominal prices

CLOSING OUT AMP5 - OPERATIONAL IMPROVEMENT

Ofwat KPIs

Improved or stable on 12 out of 14

Improved	Discharge permit compliance
	Internal sewer flooding
	SIM
	Water supply interruptions > 3 hours
	Greenhouse gas emissions
	Serviceability Water infra
	All pollution incidents
Stable	Security of supply
	Satisfactory sludge disposal
	Serviceability – Sewerage non infra
	Serviceability – Sewerage infra
	Leakage
Deteriorating	Serious pollution incidents
	Serviceability Water non-infra



* 164 previously reported for Mar 15 based on no. of properties

JAMES BOWLING

Chief Financial Officer

HIGHLIGHTS

FY 2014/15

14/15 delivered as promised:

Turnover

£1,801m

+2.5%

Underlying PBIT¹

£540m

+3.2%

Capital investment

£547m

Completes £2.6bn
AMP5 programme

RCV³

£7.7bn

+1.6%

Adjusted basic EPS²

107.2 pence

+15.9%

Full year dividend

84.9 pence

+5.6%

1. Before exceptional items

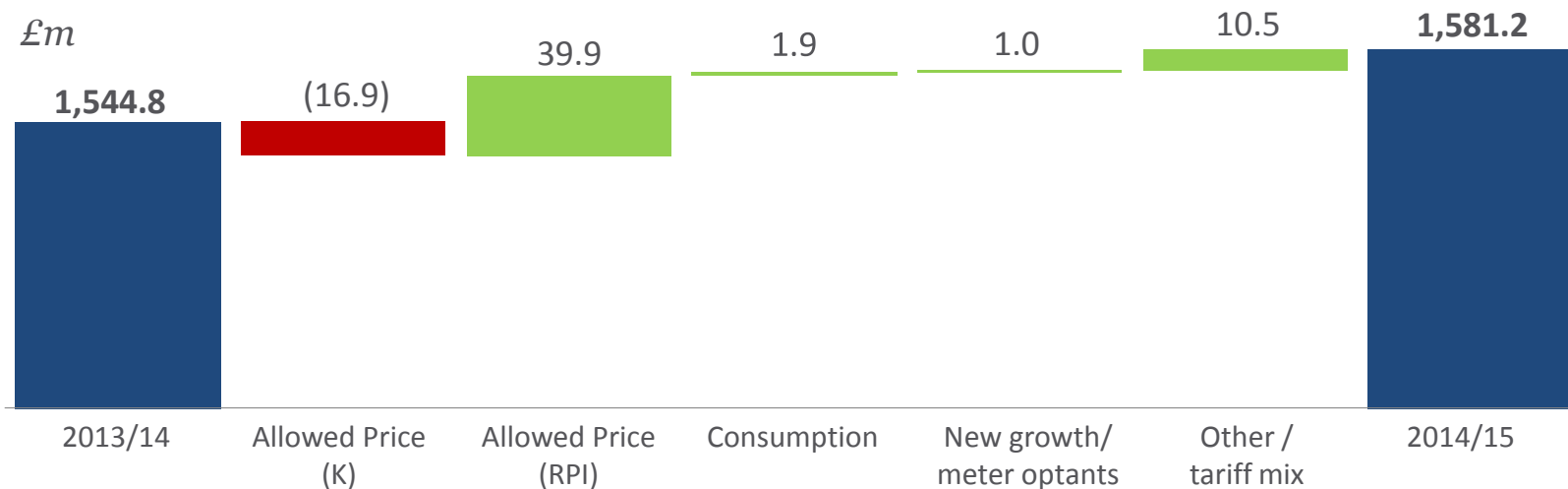
2. Before exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on financial instruments and deferred tax

3. 14/15 prices

REGULATED - SEVERN TRENT WATER

REGULATED TURNOVER¹
£1.58bn

- Overall growth of £36.4m, 2.4%
- Prices up 1.5% (RPI net of K)
- Tariff mix effects

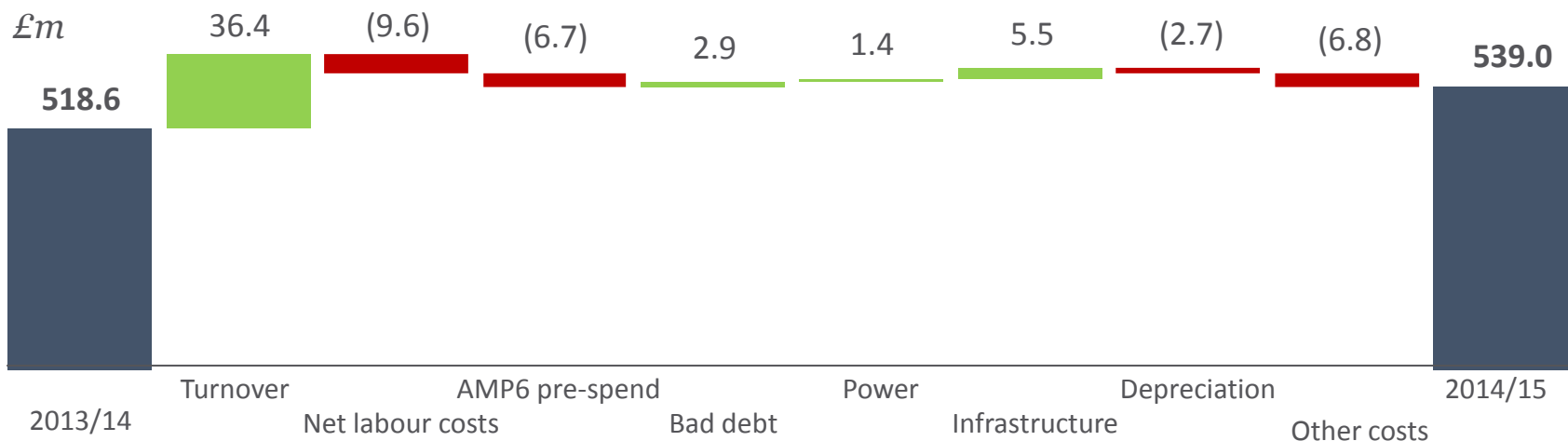


1. Business segment turnover is stated gross (i.e. including inter-segment trading)

REGULATED - SEVERN TRENT WATER

REGULATED PBIT¹
£539m

- Overall growth of £20.4m, 3.9%
- Credit collections improved – bad debt charge 2.0% of turnover (13/14 2.2%)
- Labour costs – £7m pre spend for AMP6



1. Before exceptional items

WATER PURIFICATION TRANSACTION

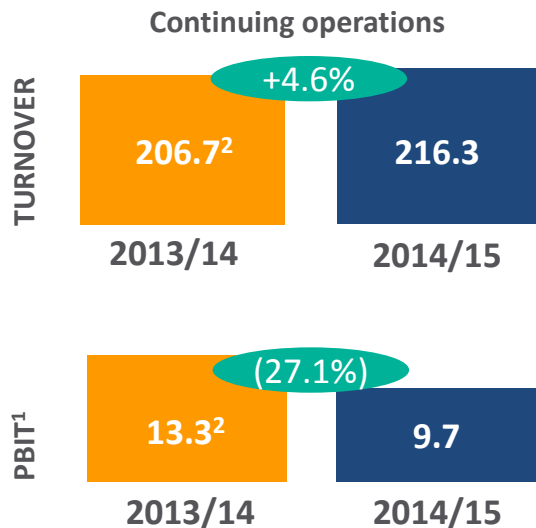
- Enterprise value of US\$99 million
- Represents EBITDA multiple of around 8x
- Water Purification turned around from £7m PBIT loss in 2013/14 to £4.9m profit in 2014/15, as promised
- Best placed to fulfil its future potential under a new owner
 - DeNora specialist in electrochemical technologies

£m

NON REGULATED - SEVERN TRENT SERVICES

NON REGULATED PERFORMANCE

- Continuing ops - good top line growth; investment in growth, re-organisation and one-offs impacted PBIT
- New management team focused on core skills – water, waste, retail and renewables

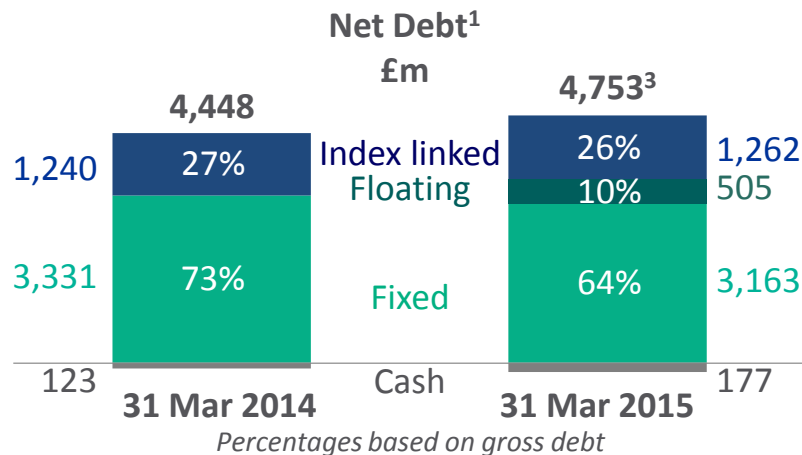


From 15/16:
Business Services

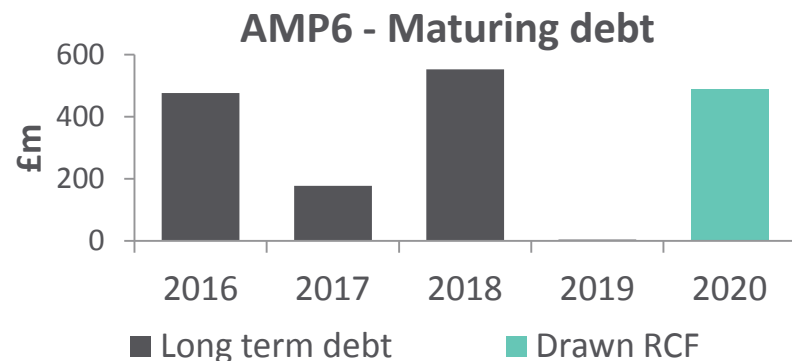
- Operating Services US
- Operating Services UK (including NHH retail)
- Renewables

1. Before exceptional items
2. On a constant currency basis

GROUP NET DEBT



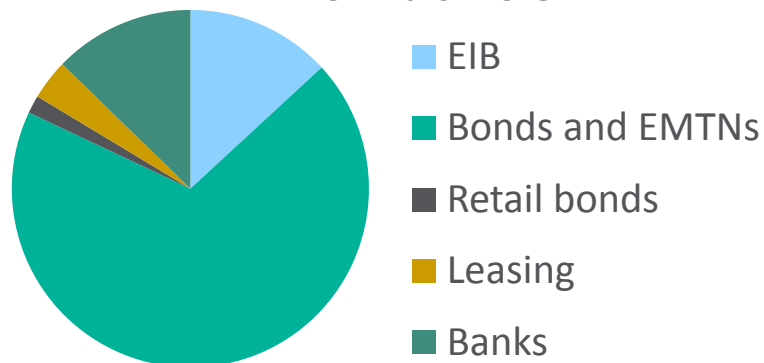
Net debt/RCV² has increased by 3% since March 2014 to 61.4% and will continue to move towards 62.5%.



Rebalancing Actions:

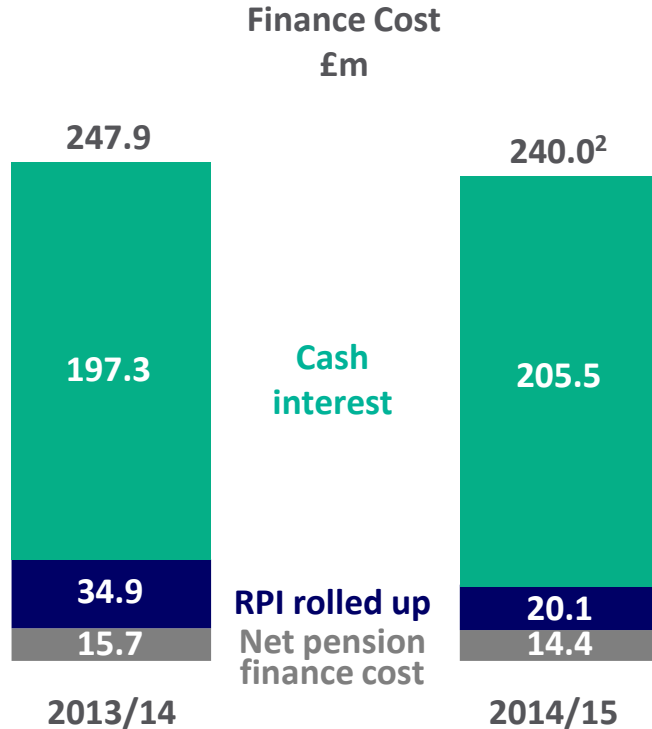
- £900m - new RCF
- £530m - new EIB loan
- £140m - buy back 2016 Eurobond
- £275m – notional value of swaps cancelled

Funding sources 31 March 2015



1. Including cross currency swaps
2. RCV at 31 Mar 2015
3. Regulated net debt £4,701m (2014: £4,459m)

FINANCE CHARGES



- Effective rate⁴ 5.4% (13/14: 5.8%)
- Effective cash interest cost⁴ 4.9% (13/14: 4.9%)
- EBITDA cover ¹ 3.5x

2014/15 activity:

Buyback/cancellations:

- Eurobond @ 6.325%
- Interest rate swaps paying @ 5.2%

Replaced with:

- New floating rate debt @ c1%³

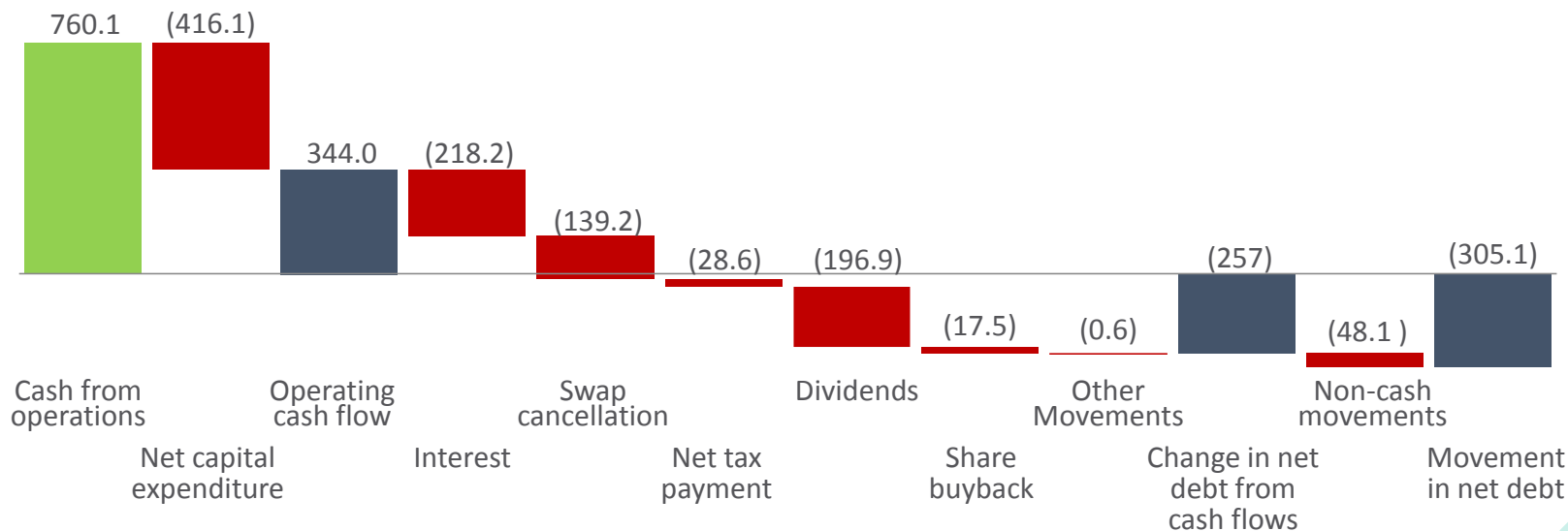
1. Before exceptional items and net pension finance costs
2. Includes £6.6m cost of tender offer
3. Based on interest rates at 31 Mar 2015
4. Before Eurobond buyback costs

GROUP CASH FLOW

MOVEMENT IN NET DEBT (£305m)

- Strong cash from operations up 4.1%
- £139m swap cancellation
- £17.5m share buyback to 31 Mar 2015 (£39m to date)

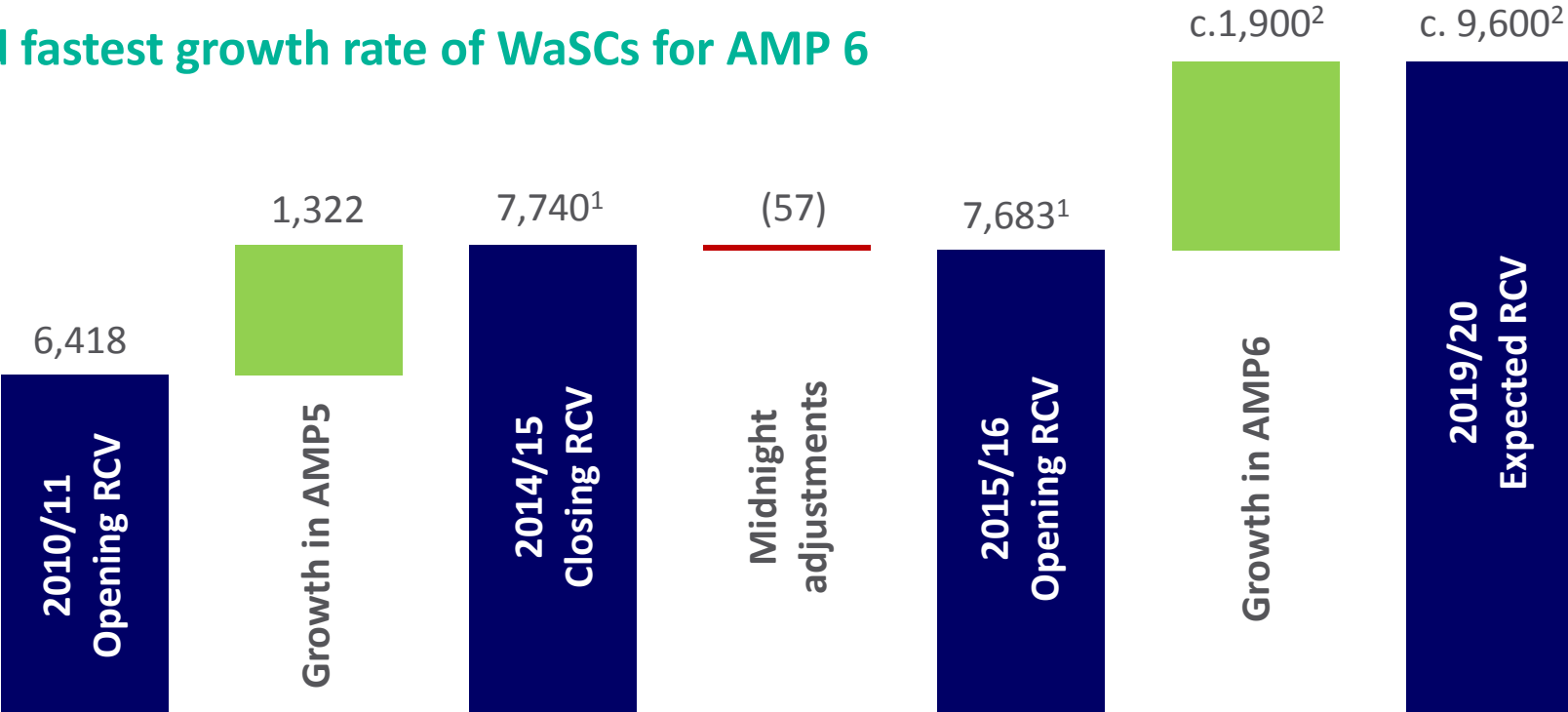
2014/15
£m



REGULATORY CAPITAL VALUE

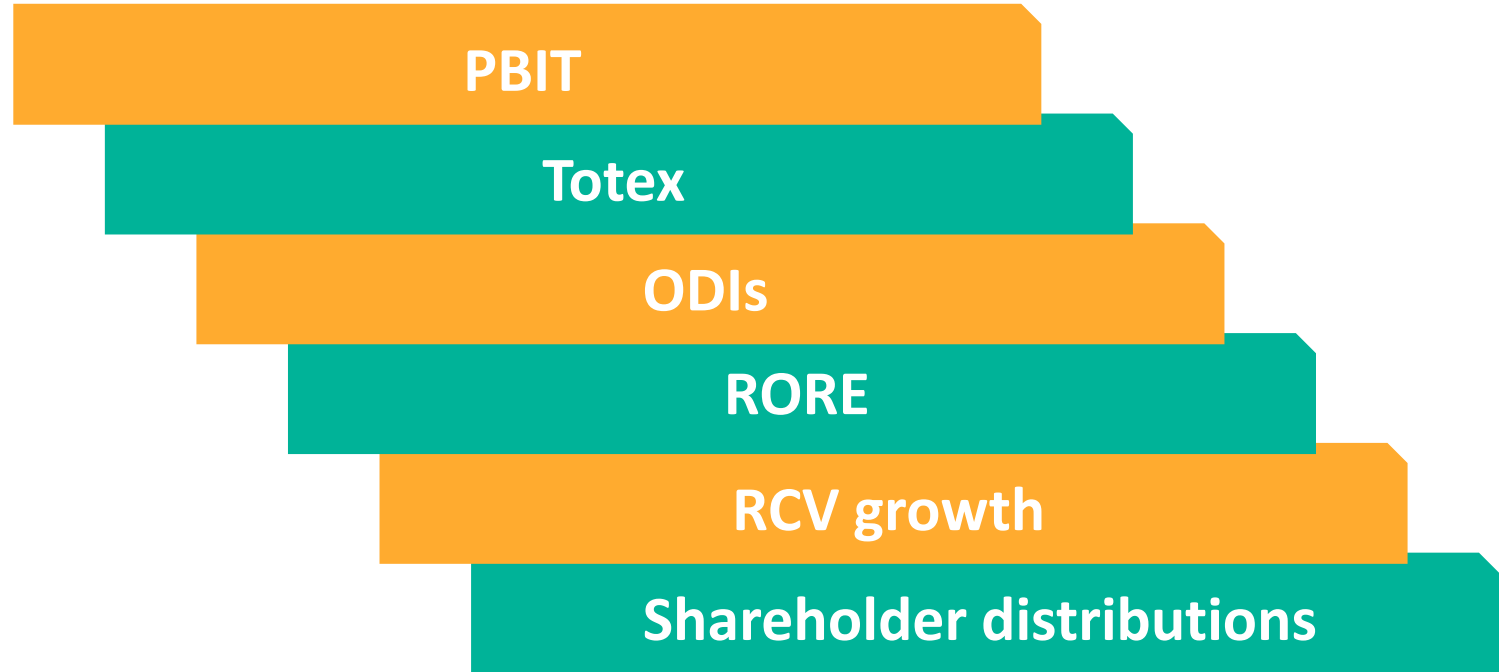
Nominal prices
£m

3rd fastest growth rate of WaSCs for AMP 6



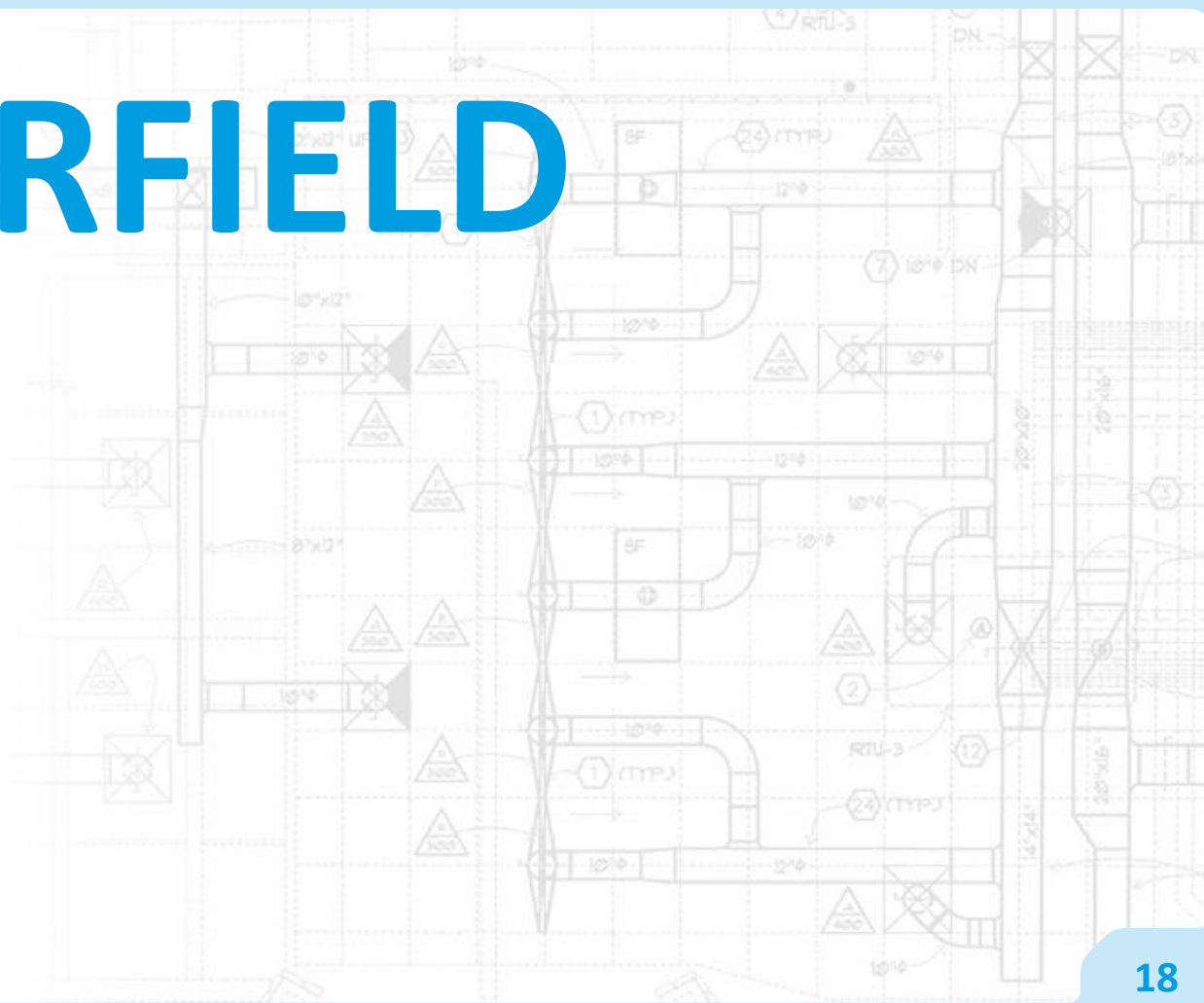
1. Based on year end RPI 0.9% for 14/15. For RCV values see: www.ofwat.gov.uk/regulating/prs_web_rcvupdates
2. Assumes average of 2.7% year end RPI for 2015-2020, based on Office of Budget Responsibility forecasts

ASSESSING OUR FUTURE PERFORMANCE



Y-on-Y		Regulated
Prices	▼	Decrease of 1.8% in April 2015
Wholesale totex	↔	£1,030 million to £1,060 million
RCV	▲	34.7% of 15/16 totex will be capitalised onto the RCV
Opex (IFRS)	▼	Benefits of reorganisation
Capex (IFRS, net cash)	▲	£410 million to £430 million
IRE	▼	£125 million to £135 million
Business Services		
	▲	Growth in revenues and PBIT
Group		
Interest charge	▲	Higher year on year, with lower interest rates offset by a higher level of net debt
Tax rate	▲	Effective tax rate between 17% and 19%
Dividend	▼	Set to be 80.66p for 2015/16. The Board's policy is then to grow the dividend annually by at least RPI until March 2020

Chief Executive



KEY MESSAGES

**Ready for AMP6 –
confident of
outperforming**

**Focused on operational
performance**

**Locking in cost
efficiencies**

**Customers at the heart
of what we do**

**Engaged in the
regulatory debate**

**Opportunity through
renewables**

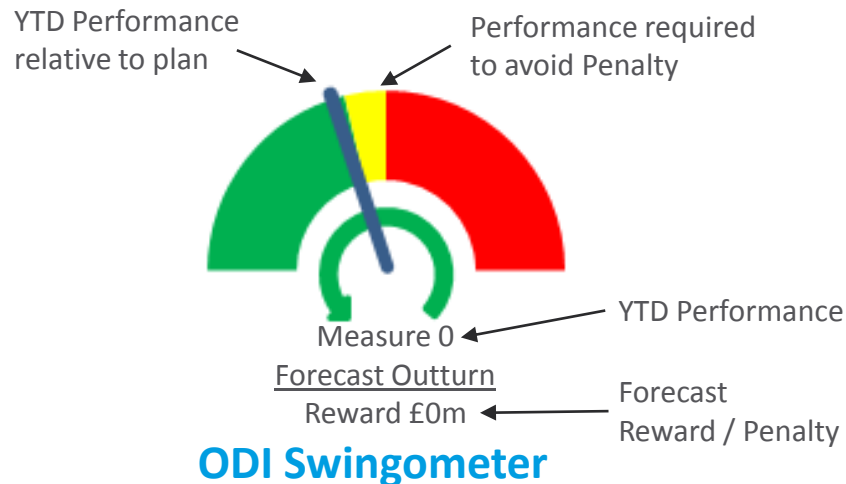
READY FOR AMP6

- New MD of wholesale operations – Emma FitzGerald
 - Starting 1 July
- Progress on Birmingham Resilience project
 - Land purchases on track
 - Contractors appointed
 - Planning permissions ongoing
- Culture
 - New team
 - New organisational structure
- New company-wide incentive scheme launched
 - Health and Safety
 - PBIT
 - ODI performance

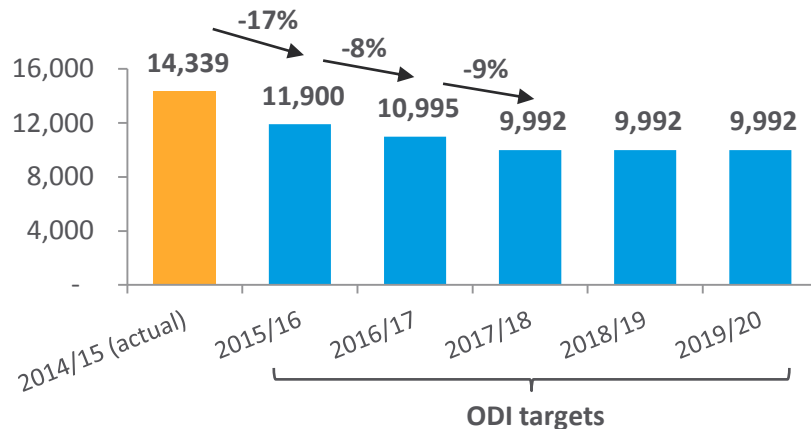


ODIs – TRANSITION TO YEAR 1

- Embedding ODI in to the culture of Severn Trent
- ODI reporting
 - Swingometer
 - Weekly performance report



- Out of 27 ODI, 10 “game changers”
- For some of our top 10 ODI – year 1 step change required
- Smaller improvements required in years 2 – 5



Complaints about drinking water quality

TOTEX IN A REGULATORY WORLD

- New opportunities to optimise spend over AMP6
- Totex assesses whole life cost of investment



Coalport sludge treatment facility

Totex thinking:

Coalport sludge treatment facility

- Planned expenditure £14.4m
- Revised plan £9.5m, totex saving £4.9m

LOCKING IN FURTHER COST EFFICIENCIES

80% now
locked-in

£372m¹ of efficiencies in our final determination, of which:



CUSTOMERS AT THE HEART OF WHAT WE DO

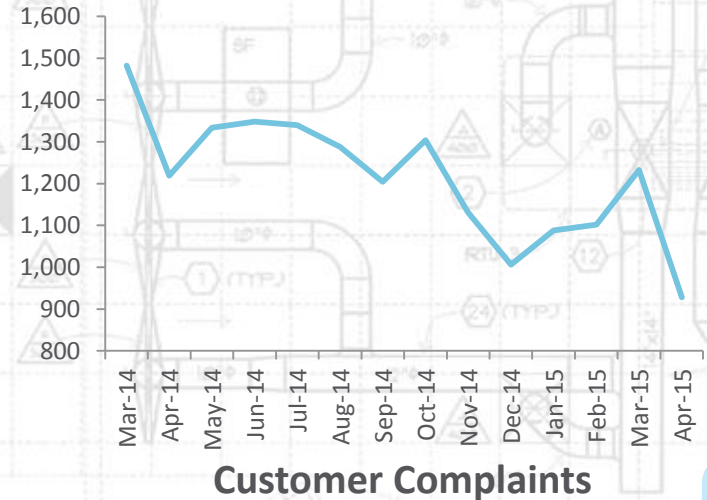
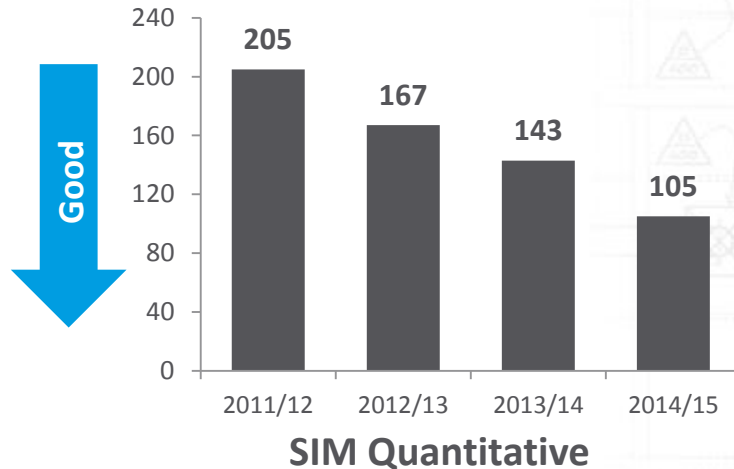
The lowest bills in Britain

100 more front line roles

Big Difference Scheme launched

SIM score improved

Complaints down



ENGAGED IN THE DEBATE

- Water 2020
- Seconded our people to support the Open Water and DWI programmes
- Actively involved in helping to define detail of how the non-household retail market will work from 2017
- Engaging constructively with the Welsh government on Silk Commission proposals for devolving water policy
- Ofwat consultation – PR14 reconciliation rulebook



OPPORTUNITY THROUGH RENEWABLES

£190M RENEWABLES INVESTMENT IN AMP6

Solar

£70m
65 GWh

Income from ROCs, self supply
and export

Sewage AD

£70m
30 GWh

Income from ROCs, self supply,
export and reduced sludge costs

Wind

£5m
5 GWh

Income from feed-in tariff, self
supply and export

Food Waste and Crop AD

75 GWh, £50m

Income from feed-in tariff, gate
fees, self supply and export

All have double digit IRRs

Recent Highlights

- **FY 14/15 self generation** – Trending towards 30% as an exit rate position
- **Food Waste AD** – Coleshill ahead of plan, 14 GWh in 15/16. Next site on track
- **Solar** – Framework awarded in May, first plants start their roll out in July ahead of plan

IN SUMMARY

14/15 delivered as promised

Driving operational improvement – transition to ODIs

Further £100m of efficiencies

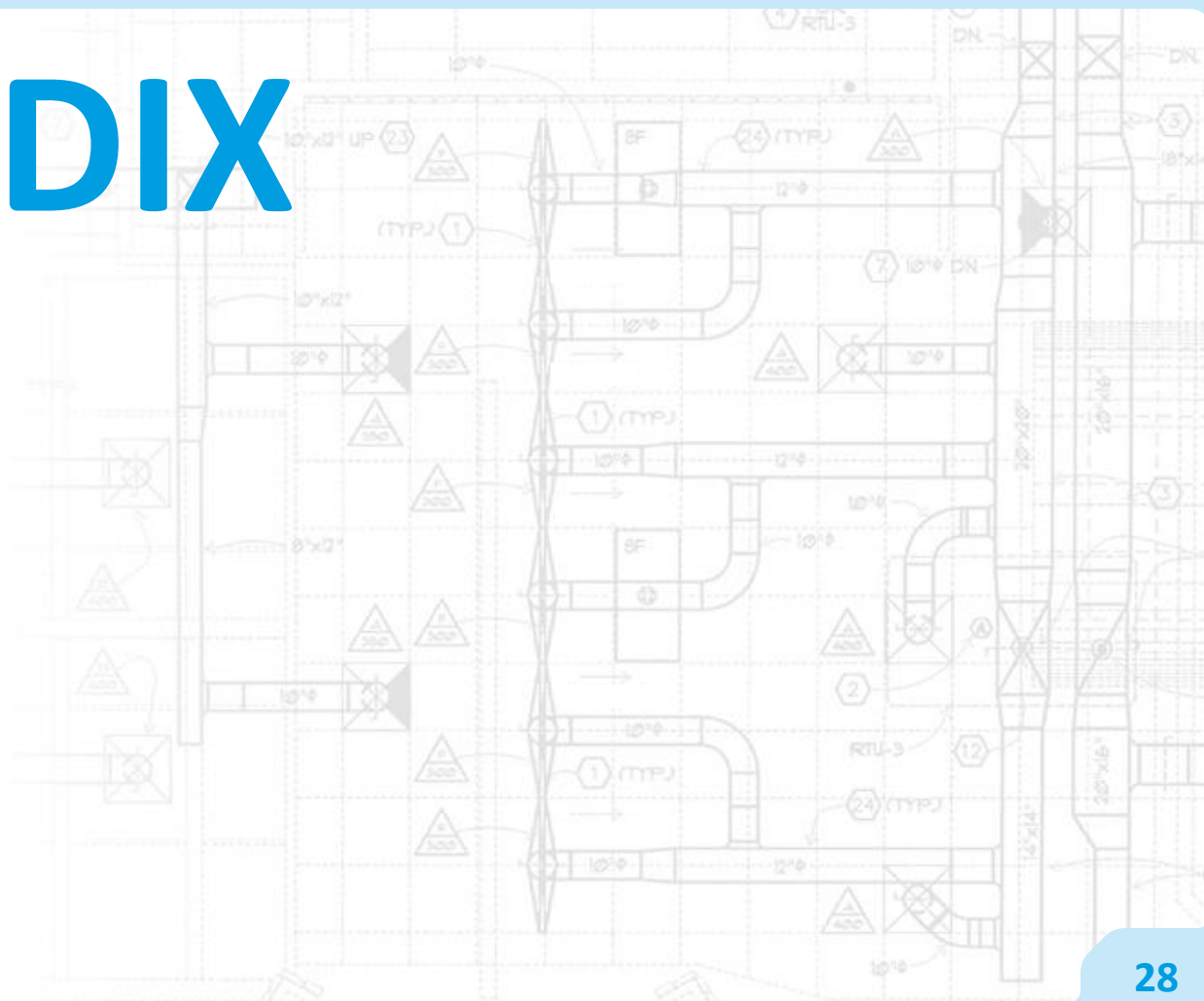
Well positioned for AMP6

Business Services refocused

Customer focus

Creating and delivering long term value for shareholders

APPENDIX



GROUP EARNINGS

YEAR ENDED 31 MARCH 2015

2013/14 £m		2014/15 £m	Variance £m	Variance %
433.8	Profit for the period attributable to owners of the company	119.1	(314.7)	(72.5%)
39.1	Adjusted for discontinued operations	(3.7)	(42.8)	109.5%
472.9	Profit for the period from continuing operations attributable to owners of the company	115.4	(357.5)	(75.6%)
Pence		Pence	Variance Pence	Variance %
	Basic EPS from continuing operations			
92.5	Adjusted basic EPS (before exceptional items, net loss on financial instruments and deferred tax)	107.2	14.7	15.9%
198.5	Basic EPS	48.3	(150.2)	(75.7%)
	Diluted EPS from continuing operations			
92.1	Adjusted diluted EPS (before exceptional items, net loss on financial instruments and deferred tax)	106.7	14.6	15.9%
197.6	Diluted EPS	48.1	(149.5)	(75.7%)

GROUP BALANCE SHEET

AT 31 MARCH 2015

2014 £m		2015 £m	Movement in the period £m
7,023.5	Property, plant and equipment	7,239.8	216.3
95.0	Intangible assets	81.0	(14.0)
5.3	Other non-current assets	4.7	(0.6)
(751.6)	Working capital, provisions and pensions	(1,030.6)	(279.0)
6,372.2	Capital employed	6,294.9	(77.3)
-	Net assets held for sale	72.6	72.6
16.5	Tax debtor	11.2	(5.3)
(654.0)	Deferred tax provision	(625.1)	28.9
123.2	Cash	176.7	53.5
(4,622.1)	Borrowings	(4,926.7)	(304.6)
51.4	Cross currency swaps	(2.6)	(54.0)
(4,447.5)	Net debt	(4,752.6)	(305.1)
(197.1)	Other derivative financial instruments	(177.7)	19.4
1,090.1	Net assets	823.3	(266.8)
80%	Gearing ¹	85%	

1. Net debt divided by net debt and equity

MOVEMENTS ON SHAREHOLDERS' EQUITY YEAR ENDED 31 MARCH 2015

	£m
At 1 April 2014	1,090.1
Total comprehensive income for the period	22.4
Dividends paid to shareholders of Severn Trent Plc	(196.9)
Dividends paid to non-controlling interests	(1.4)
Share based payments charge (after tax)	2.4
Shares issued	6.7
Share buyback	(100.0)
At 31 March 2015	823.3

GEARING AT 31 MARCH 2015

2014	Net debt/RCV ¹	2015
58%	Severn Trent Group	61%
59%	Severn Trent Water	61%

1. March 2015 RCV is at year end actual prices.

SEGMENTAL ANALYSIS OF CAPITAL EMPLOYED AT 31 MARCH 2015

2014		2015		
£m		Net operating assets £m	Goodwill £m	Total £m
6,287.9	Severn Trent Water	6,329.9	1.3	6,331.2
100.4	Severn Trent Services	46.6	14.3	60.9
(16.1)	Corporate and other	(95.9)	(1.3)	(97.2)
6,372.2	Group	6,280.6	14.3	6,294.9

PBITD¹ ANALYSIS

YEAR ENDED 31 MARCH 2015

2013/14 £m		2014/15 £m
804.3	Severn Trent Water	827.4
17.5	Severn Trent Services	14.1
(10.1)	Corporate and other	(8.6)
811.7	Group	832.9

1. Profit from continuing operations before interest, tax, depreciation (see depreciation slide) and exceptional items

DEPRECIATION¹ ANALYSIS

YEAR ENDED 31 MARCH 2015

2013/14	£m	2014/15	£m
285.7	Severn Trent Water	288.4	
4.2	Severn Trent Services	4.4	
(2.0)	Other	(0.2)	
287.9	Group	292.6	

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

CAPITAL EXPENDITURE (NET CASH)¹

YEAR ENDED 31 MARCH 2015

2013/14 £m		2014/15 £m
441.3	Severn Trent Water	392.5
12.3	Severn Trent Services	5.0
10.3	Other	18.6
463.9	Group	416.1

1. 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

OPERATING COSTS¹

YEAR ENDED 31 MARCH 2015

2013/14 £m		2014/15 £m	Variance £m	Variance %
600.3	Direct operating costs	619.1	18.8	3.1
285.7	Depreciation ²	288.4	2.7	0.9
140.3	Infrastructure renewals	134.8	(5.5)	(3.9)
1,026.3	STW operating costs	1,042.3	16.0	1.6

1. Before exceptional operating items

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

SEVERN TRENT WATER

CAPEX RECONCILIATION

YEAR ENDED 31 MARCH 2015

2013/14		2014/15
£m		£m
519.6	Additions to property, plant and equipment	481.3
8.2	Additions to intangible fixed assets	15.4
527.8	IFRS capex	496.7
(13.8)	Interest capitalised under IFRS	(19.1)
(24.7)	Adopted assets capitalised under IFRS	(29.8)
140.3	Infrastructure renewals capitalised under UK GAAP	134.8
629.6	UK GAAP capex (gross)	582.6
(27.3)	Less grants and contributions	(35.2)
602.3	UK GAAP capex (net of grants and contributions received)	547.4

SEVERN TRENT SERVICES PERFORMANCE

YEAR ENDED 31 MARCH 2015

Turnover				Underlying PBIT ¹		
2013/14 £m	2014/15 £m	Change %		2013/14 £m	2014/15 £m	Change %
210.2	216.3	2.9	As reported	13.3	9.7	(27.1)
(3.5)	-		Exchange rate impacts	-	-	
206.7	216.3	4.6	Like for like ²	13.3	9.7	(27.1%)

1. Before exceptional items

2. On constant currency excluding acquisitions and disposal

NET FINANCE COSTS

YEAR ENDED 31 MARCH 2015

	Income statement charge 2014/15 £m	Capitalised interest 2014/15 £m	Gross interest incurred 2014/15 £m
“Cash” interest (including accruals)	205.5	18.0	223.5
Net pension finance cost	14.4	-	14.4
RPI interest	20.1	1.8	21.9
	240.0	19.8	259.8

NET DEBT

AT 31 MARCH 2015

	2014 £m	2015 £m	Movement in the year £m
Cash and cash equivalents	(123.2)	(176.7)	(53.5)
Bank overdrafts	-	-	-
Bank loans	594.9	1,279.2	684.3
Other loans	3,826.0	3,467.5	(358.5)
Finance leases	201.2	180.0	(21.2)
Cross currency swaps	(51.4)	2.6	54.0
Net debt	4,447.5	4,752.6	305.1

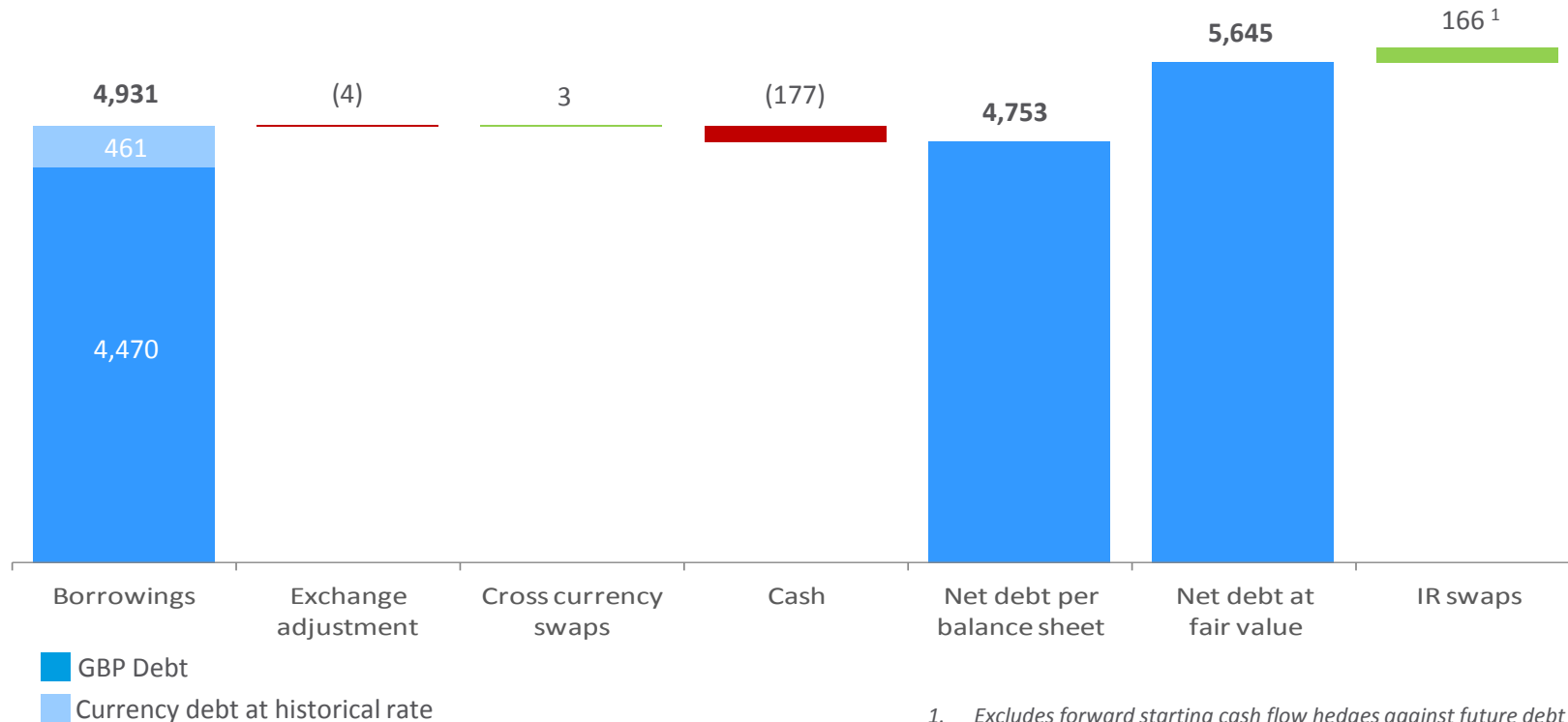
FAIR VALUE OF NET DEBT

AT 31 MARCH 2015

	2014 £m	2015 £m	Movement in the period £m
Bank loans	608.8	1,297.7	688.9
Other loans	4,167.8	4,331.1	163.3
Finance leases	197.7	190.7	(7.0)
	4,974.3	5,819.5	845.2
Net cash and cash equivalents	(123.2)	(176.7)	(53.5)
Cross currency swaps	(51.4)	2.6	54.0
Fair value of net debt	4,799.7	5,645.4	845.7
Net debt (previous slide)	4,447.5	4,752.6	305.1
Difference	(352.2)	(892.8)	(540.6)

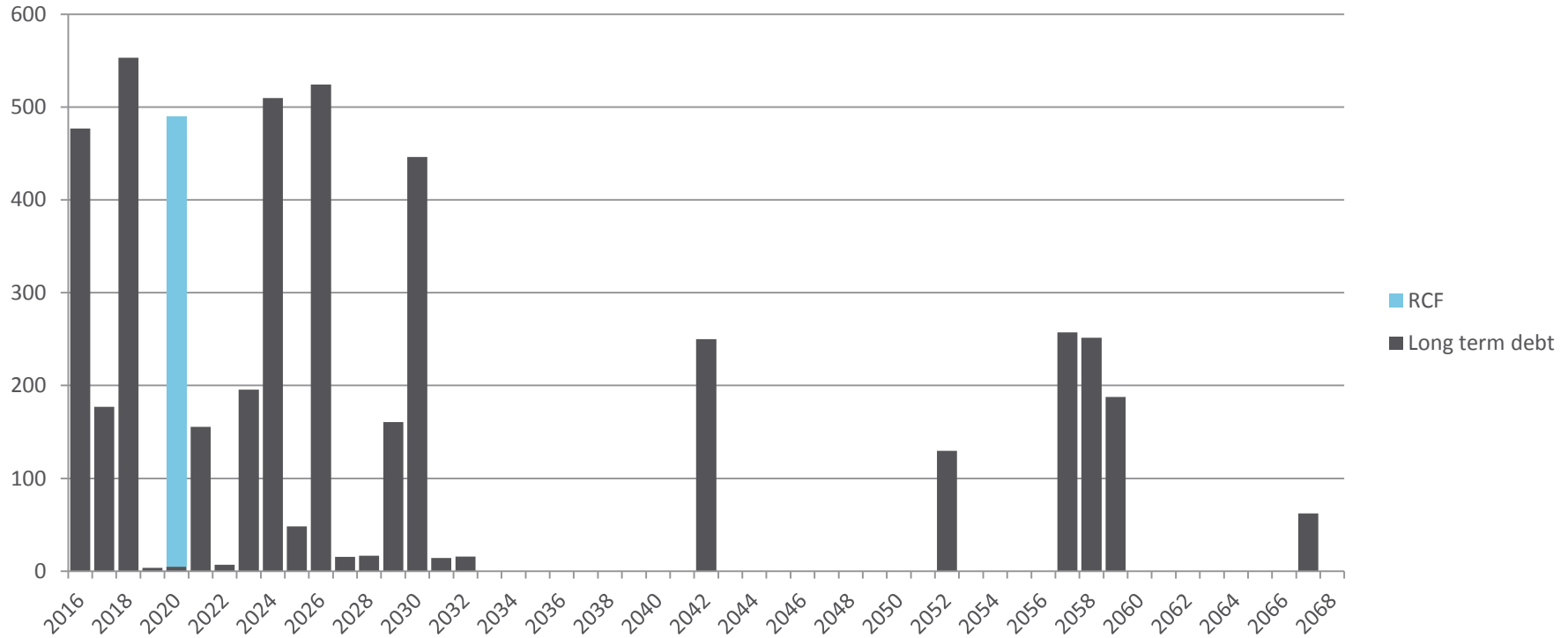
ANALYSIS OF BORROWINGS, NET DEBT AND SWAPS

At 31 March 2015



1. Excludes forward starting cash flow hedges against future debt

DEBT MATURITY PROFILE



Average maturity of around 15 years

CREDIT RATINGS

Severn Trent Water

Severn Trent Plc

Moody's

A3

Baa1

Standard & Poor's

BBB+

BBB-

Moody's – outlook is negative

Standard & Poor's – outlook is stable

SEVERN TRENT WATER – RCV

2014/15 Closing RCV (nominal) **£7,740m**

2015/16 Opening RCV (nominal) **£7,683m**

£m	2015/16	2016/17	2017/18	2018/19	2019/20
Per Determination ¹	7,336	7,490	7,684	7,866	7,948
Projected Outturn (OBR RPI assumptions) ²	7,840	8,212	8,686	9,168	9,550

1. 2012/13 prices

2. Based on Office of Budget Responsibility RPI assumptions (2.7% average)