
The logo for Severn Trent, consisting of the word "SEVERN" in white capital letters on a dark blue rectangular background, and the word "TRENT" in white capital letters on a green rectangular background below it.

SEVERN

TRENT

A focused water company driving returns
through sustainable, efficient, long term
investments

US Roadshow, March 2012

Tony Wray, CEO & Mike McKeon, CFO

Agenda

- Severn Trent and Sector Overview
 - Severn Trent Plc – investment case
 - Severn Trent Water & regulatory model
 - Severn Trent Services
- Update
 - Severn Trent
 - Ofwat consultations and White Paper
 - Water Trading
 - Private Drains and Sewers (PDaS)

Severn Trent profile



- **Regulated “low risk” water utility business**

- Inflation linked business model
- Valuation & returns based on asset base – “RCV” (regulated capital value)
- Generating shareholder value through both dividends and asset/equity growth by investing in essential infrastructure
- Limited new financing requirement over current regulatory period means majority of asset growth accretes to equity



- **Exposure to higher growth, unregulated markets**

- Leveraging core expertise – water and waste water
- Short term challenging, long term opportunity



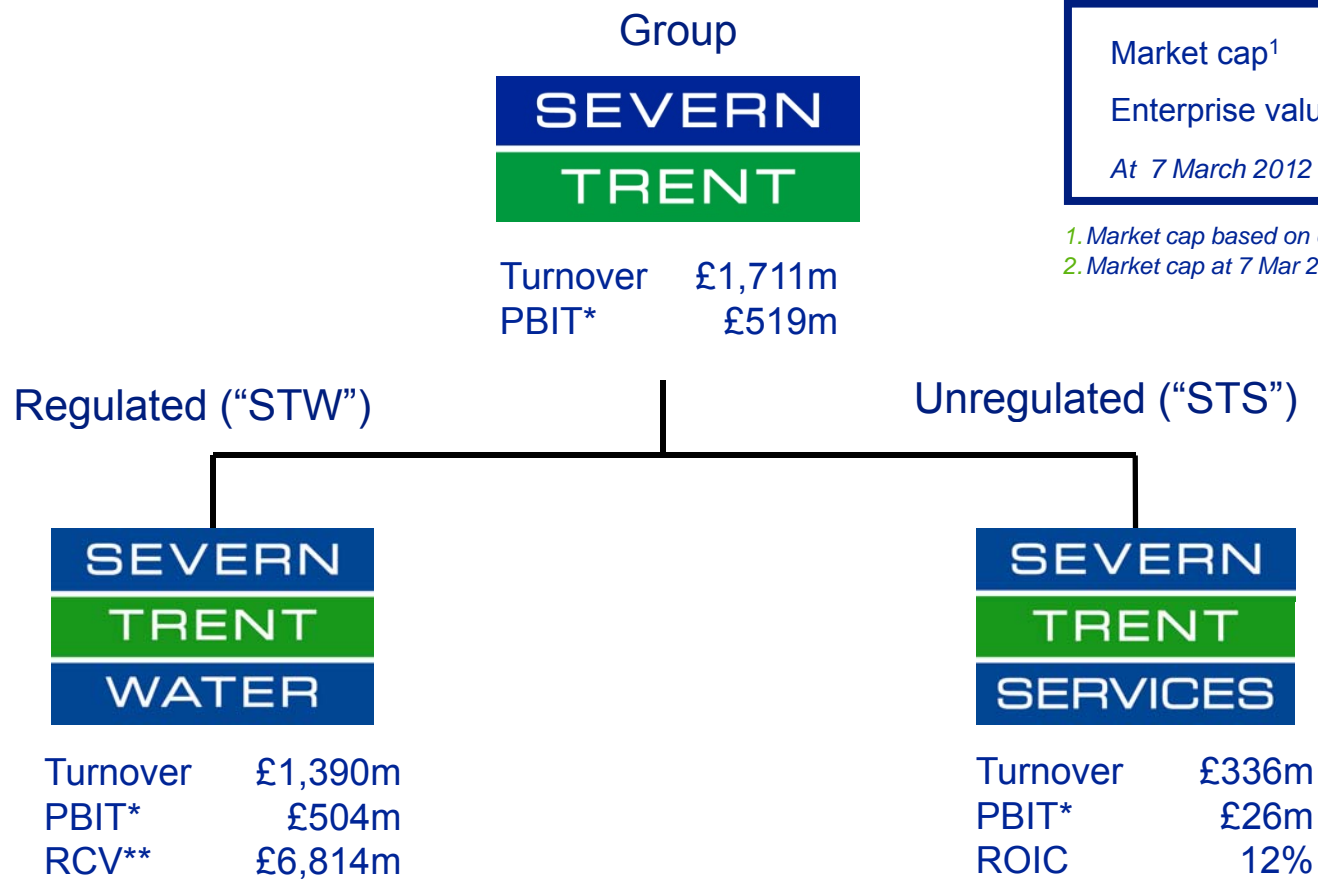
- **Committed to RPI+3% dividend policy to March 2015**

- FY 11/12 = 7.7% growth year on year, currently 4.4% yield*
- FY 12/13 = 8.2% growth year on year, currently 4.8% yield*

- **Previous regulatory period (05/06 – 09/10) delivered 9.8% TSR p.a.**

* Share price 1,581p , close 7 March 2012

Structure



Market cap ¹	£3.8bn
Enterprise value ²	£7.6bn
At 7 March 2012	

1. Market cap based on closing price 7 March 2012
 2. Market cap at 7 Mar 2012 + net debt at 30 Sept 2011

Year ended 31 March 2011. Other smaller activities not presented i.e. excludes Corporate and eliminations

* Profit before interest, tax and exceptional items

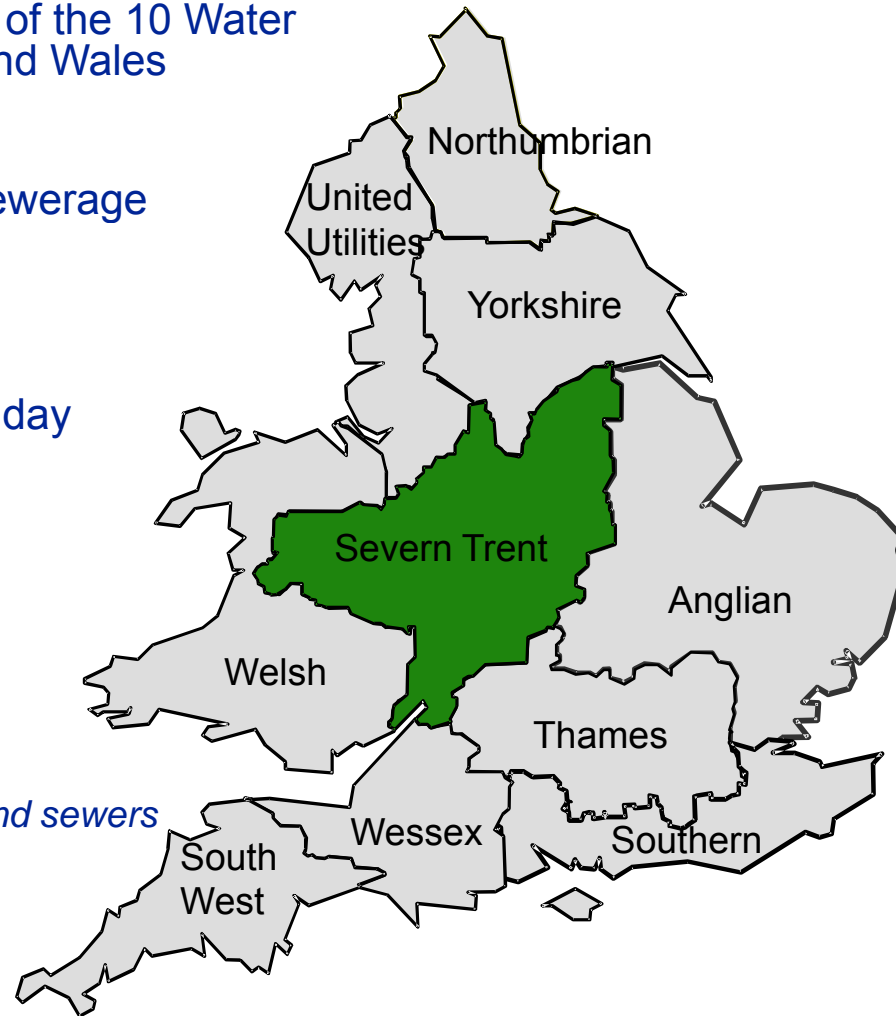
** Regulated Capital Value

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Severn Trent Water - Overview

- Severn Trent Water is one of the largest of the 10 Water and Sewerage Companies in England and Wales
- We cover an area of 21,000km² and:
 - supply water to c.7m people and sewerage services to c. 8m people
 - supply 1.8bn litres water per day
 - collect 1.4bn litres waste water per day
- Our physical assets include:
 - 46,000 kilometres of water mains
 - 134 water treatment works
 - 54,000 kilometres of sewers
 - *additional 37,000km of private drains and sewers adopted October 2011*
 - 1,026 sewage treatment works

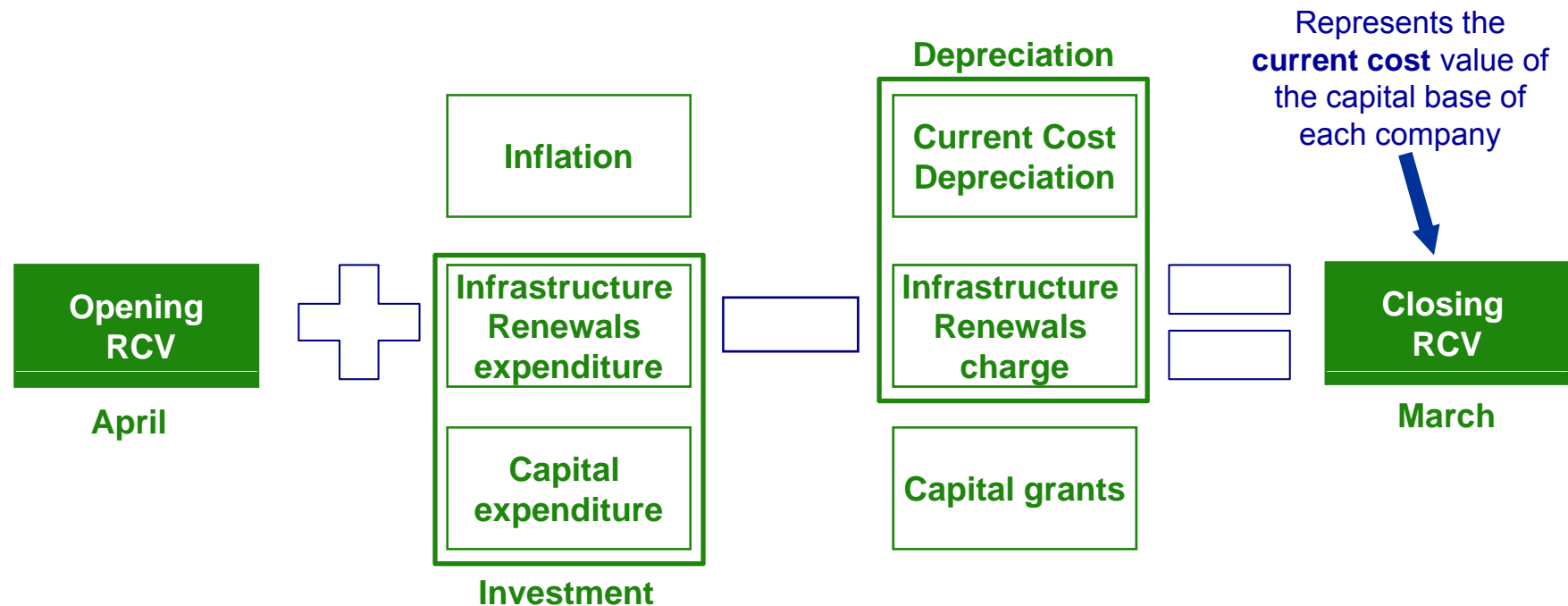


The UK water industry

- Water Companies privatised in 1989 – licences cannot be terminated until 2014 (i.e. 25 yrs after privatisation) and only then with 25 yrs notice
- Investment led industry – capital investment is added to the RCV (Regulated Capital Value)
- Economic returns allowed on RCV through price setting process
- Inflation linked model - asset base and prices adjusted by RPI (Retail Price Index) each year
- Supportive and stable regulation
 - 5 year review cycle (“AMP periods”, current 2010/11 - 2014/15)
 - Prices set by economic regulator Ofwat. Primary legal duty to ensure that licence holders can finance their functions
- Interim price reviews (“IDOK”) also possible between AMP periods, where revenues have unexpectedly been lost or costs have risen significantly. In current period this includes:
 - Bad debt
 - Adoption of private sewers
- Past 20 years – **focus on raising quality and standards**
- Next 20 years – **focus on security of supply**
- Industry on verge of change – but evolution, not revolution

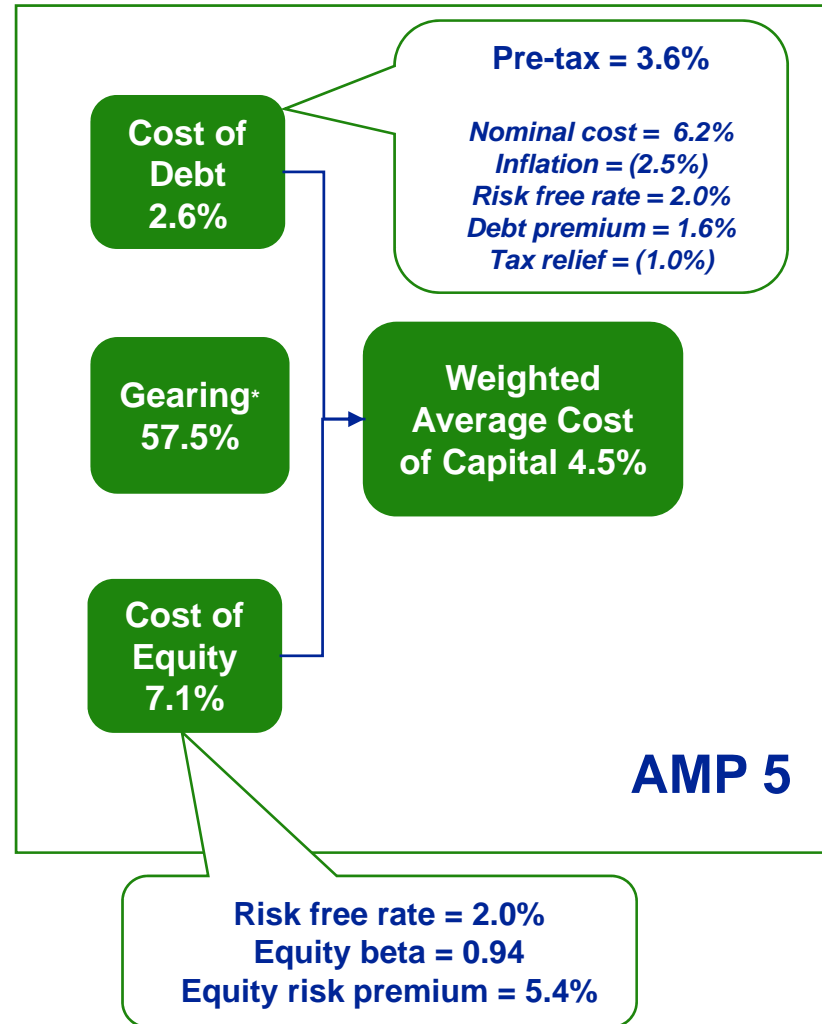
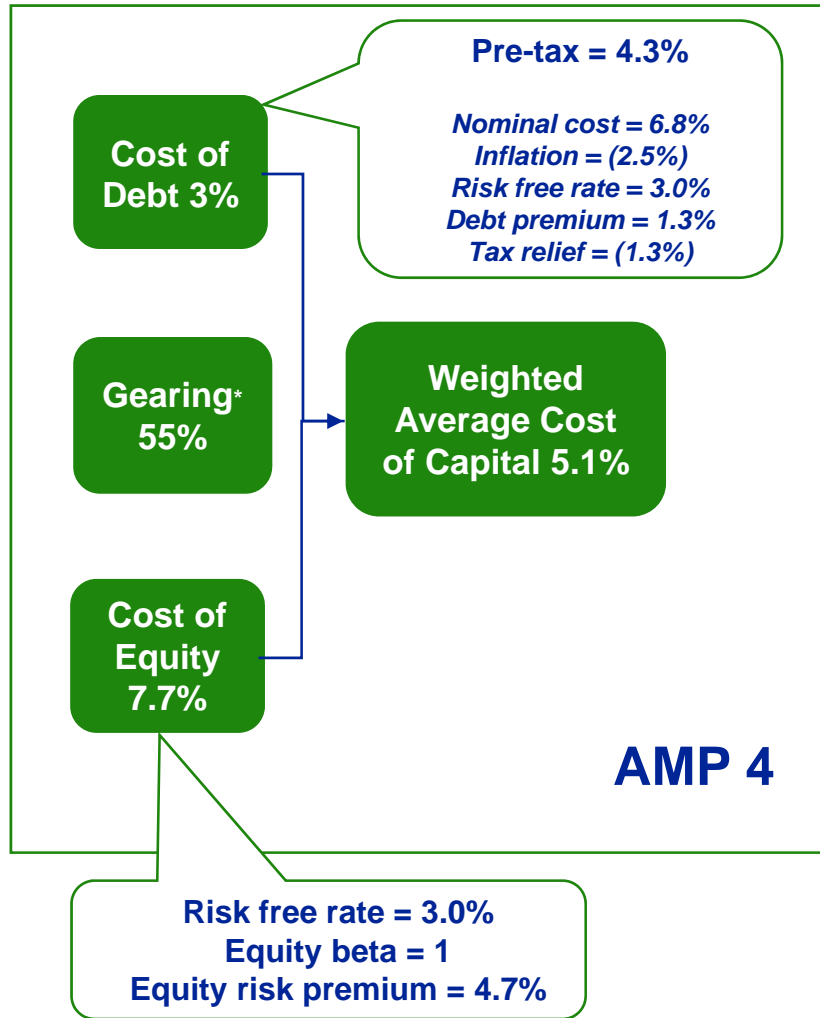
Regulated Capital Value (RCV)

- RCV is the value of the capital base of the Company used by Ofwat for setting price limits
- RCV is widely used as a proxy for the enterprise value
- RCV is adjusted by inflation (RPI) each year



Cost Of Capital (net of tax - 'real')

How the regulated return is derived – AMP4 vs. AMP 5

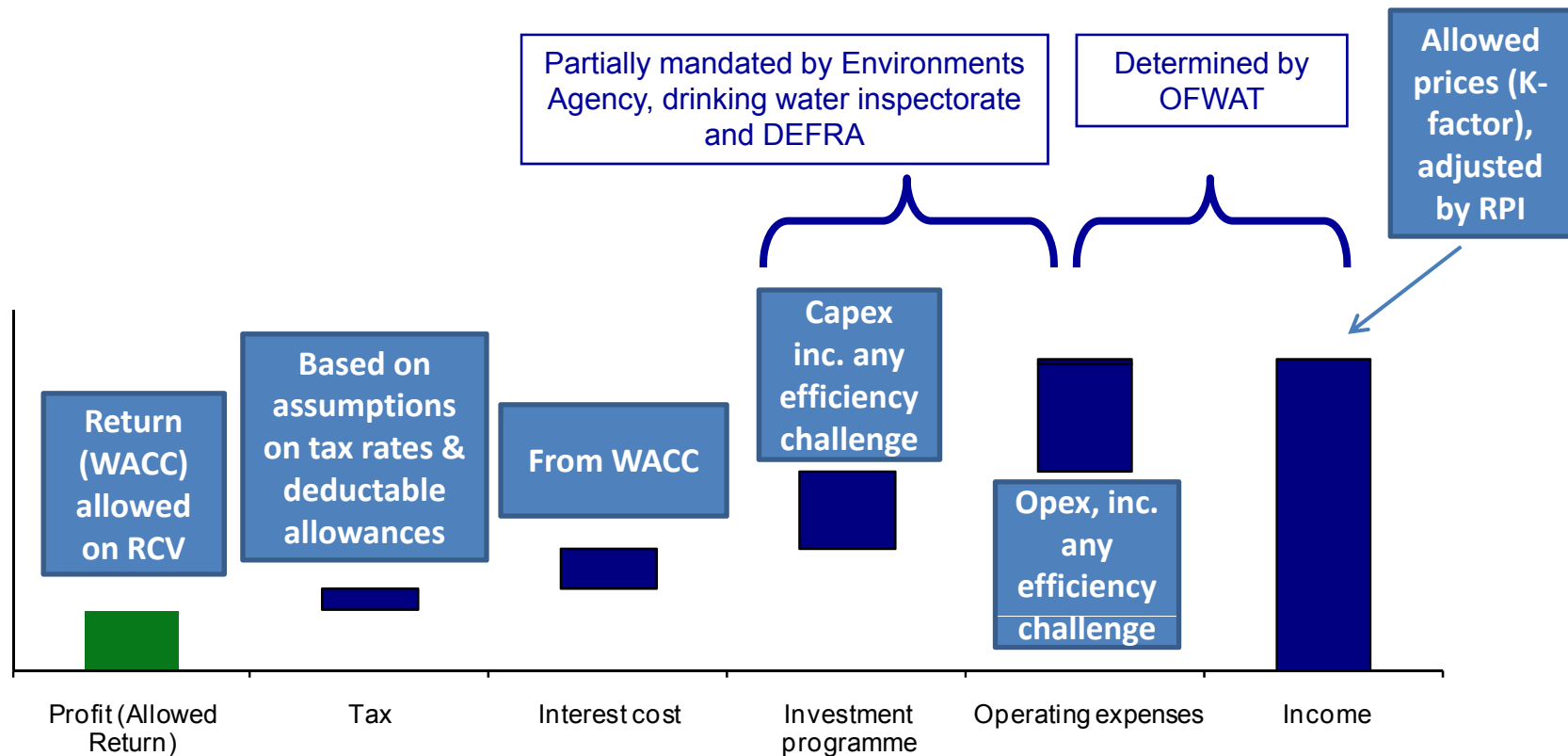


* Gearing = net debt to RCV. Ofwat uses pro-forma balance sheet

How is Severn Trent Water profit made up?

Illustrative

- Ofwat is obliged to ensure water companies can fund themselves
- Ofwat sets prices set over a 5 year cycle (current 2010/11 to 2014/15) in real terms, as below:



- “K factors” adjusted by RPI from November of previous year (i.e. Nov. 2010 RPI = 4.7%, 2011/12 K-factor = 0%, therefore Severn Trent Water prices rise by 4.7% on 1st April 2011).

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**	6,638	6,979	7,259	7,557	7,857
Ofwat Actual / Projected Outturn***	6,814	6,844	6,885	6,951	6,999

* Year end 2007/08 prices

** At year average actual/estimated prices

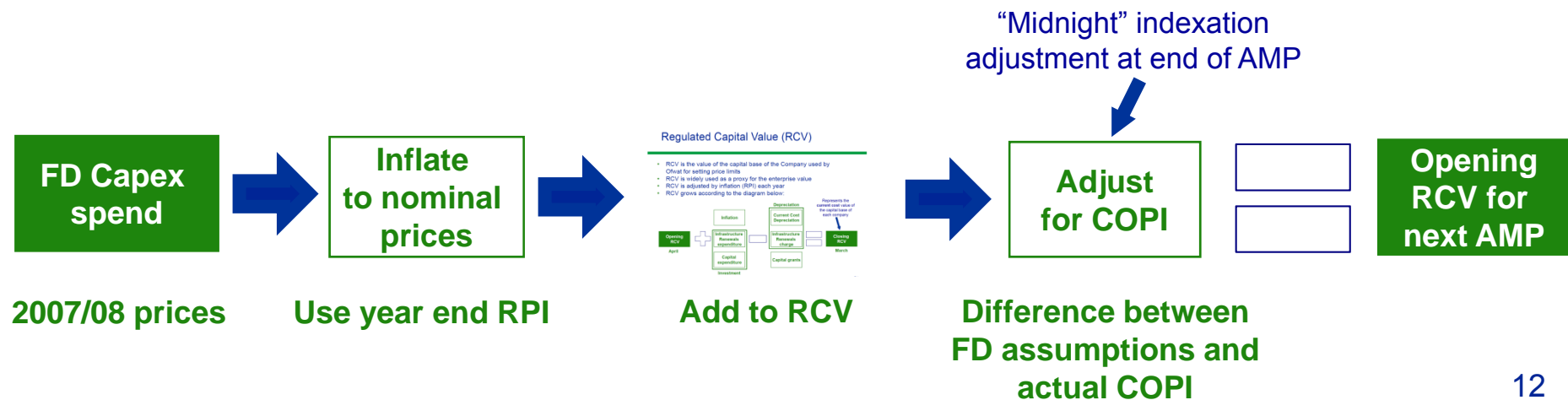
*** Year end at 2010/11 prices. Source: Ofwat

COPI Adjustment to RCV

Ofwat's model

COPI – Construction Output Prices Index

- In the Final Determination (FD), Ofwat's allowed capex spend is stated at 2007/08 prices
- This capex spend therefore needs to be inflated to nominal (outturn) prices before being added to RCV, to arrive at forecast RCV at end of AMP (2014/15)
- However, capex spend is also adjusted by COPI, but **only at the end** of the AMP period
- In the past, COPI has broadly tracked RPI, so the adjustment has been modest (AMP4=£93m)
- COPI has been negative in recent months, and below Ofwat's assumptions in the FD
- COPI embedded in c. 50% supply chain contracts



Outlook for AMP5

Severn Trent Water

- Remain confident we can meet or beat regulatory settlement
 - Continuing to drive performance improvements
 - Power – years 1-4 fully hedged, saving of c. £25m vs. final determination & renewables growing (natural hedge)
- Cost of significant proportion of existing and anticipated debt for AMP5 fixed
 - c. £100 million saving over AMP5 vs. regulatory settlement
- During AMP5 we expect to have:
 - The lowest operating costs
 - One of the most efficient capital programmes
- We have a track record of improving the business and the aim of being the best “WaSC” (water and sewage company) in the UK
- Strong balance sheet

Regulatory change

Between 1990 and 2010

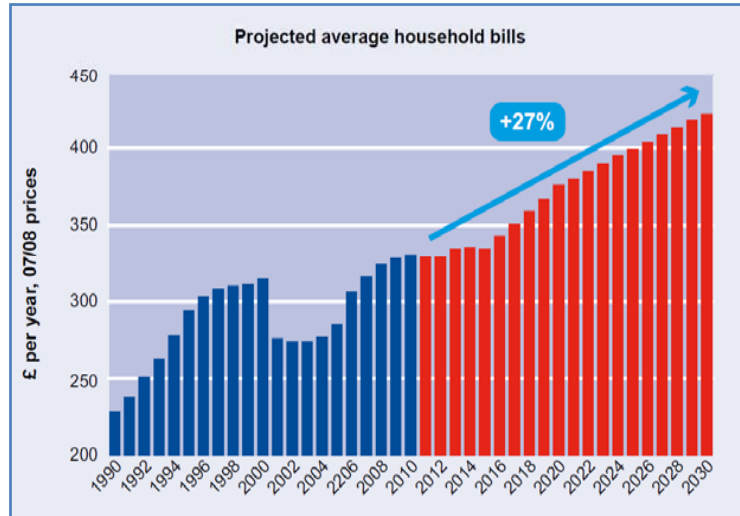
Two decades of improvement:

- ✓ improved customer standards
- ✓ improved environmental standards
- ✓ improved quality of service
- ✓ companies become more efficient
- ✓ financing for an investment programme around £85 billion

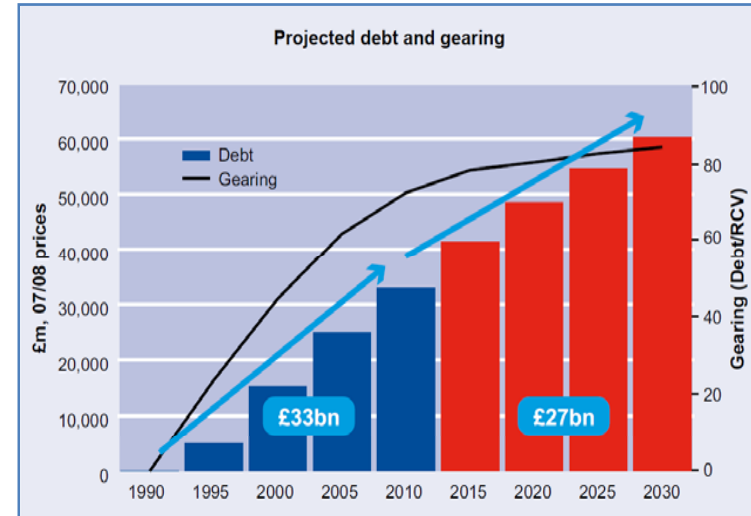
But at a cost:

- customers' bills have exceeded inflation by 45%
- industry debt has increased from zero to around £33bn
- energy usage has increased by 113%

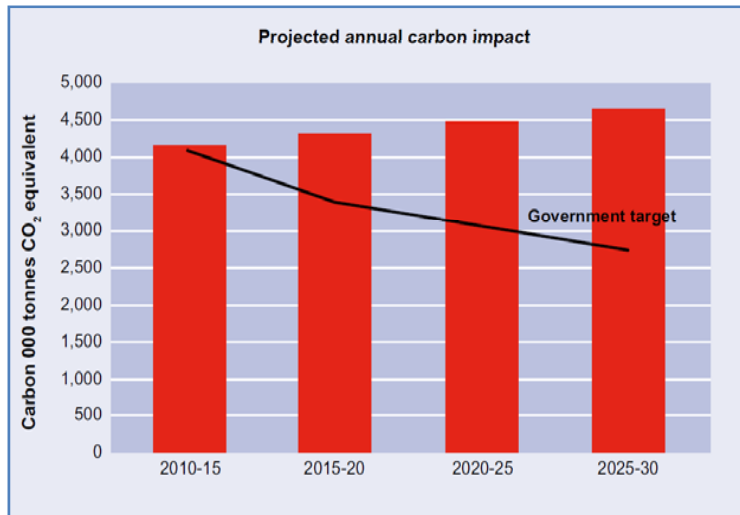
Is this sustainable?



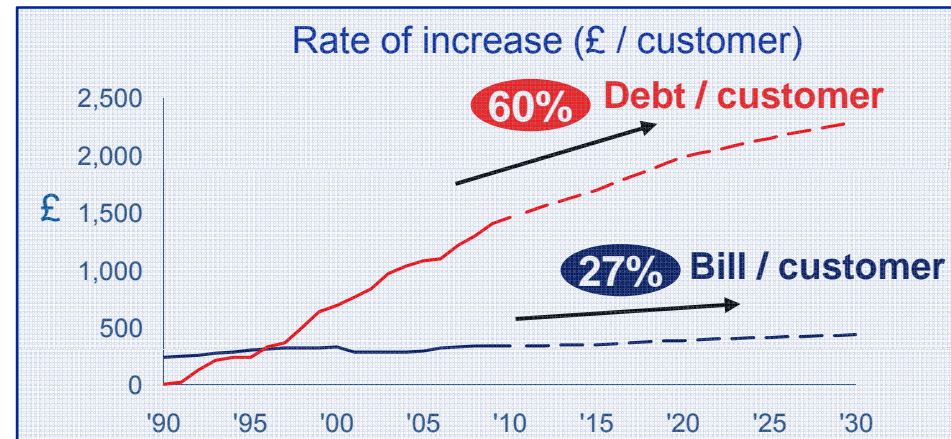
Can customers afford a further 27% bill increase?



Can another £27bn of debt be financed?



Rising carbon emissions



Source: Severn Trent projections

Changing Course

Six changes to reach a more sustainable future

Policy changes

1. Flexible implementation of Water Framework Directive
2. Developing competition through a water trading framework

Regulatory changes

3. Environment Agency – A more flexible approach to consents
4. Ofwat – An improved price setting process

Water company changes

5. Drive innovation in strategic & technological solutions

Government changes

6. Deliver prioritised outcomes through policy and regulatory framework to deliver the strategy

Benefits

Lower emissions; lower capex

More efficient optimisation of water resources; lower capex

Lower capex; lower emissions

Clear incentives & benefits; easier to attract financing

Lower capex; lower emissions

Joined up regulation

Read more online –
www.stwater.co.uk/changingcourse

Agenda

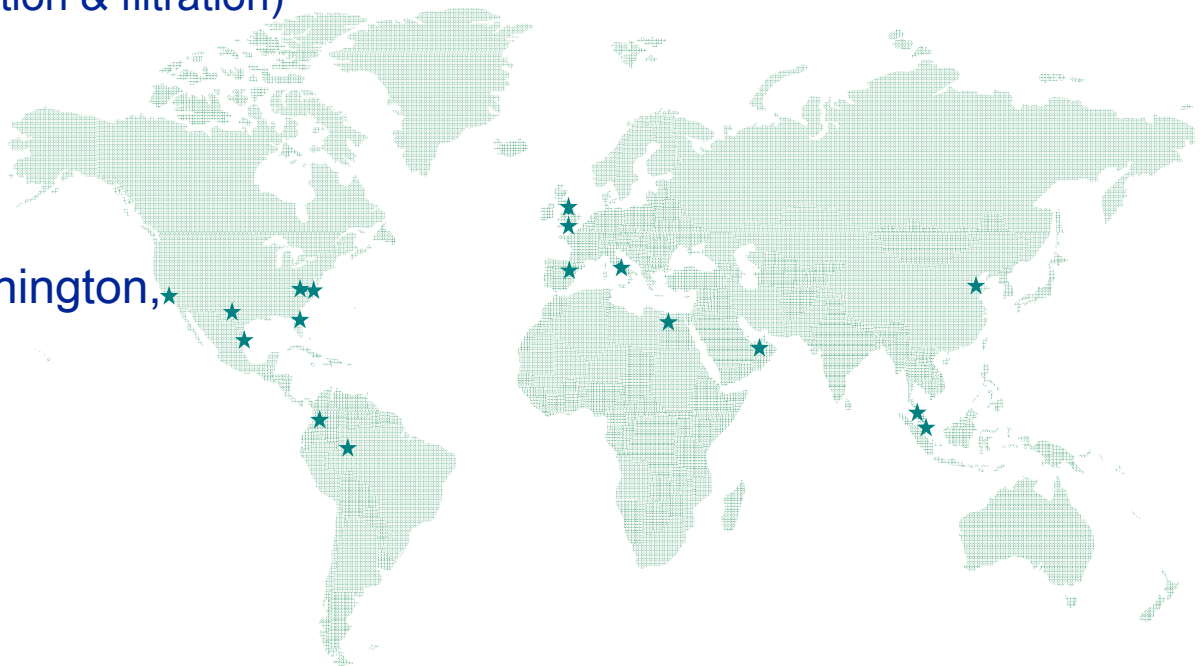
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Severn Trent Services

Focus on water

- Non-regulated global water technologies and services business
- 2 main activities divisions:
 - Water Purification (disinfection & filtration)
 - Operating Services

- Headquartered in Fort Washington, PA, USA. Global workforce around 3,100
- Revenue of £336m¹
- PBIT of £26m^{1,2}
- Historic ROIC >10%^{3,4}



1. Year ended 31 March 2011

2. Profit before interest, tax and exceptional items

3. PBIT before exceptional items at actual exchange rates – adjusted for acquisitions and disposals

4. Net operating assets plus gross goodwill from acquisitions. Excludes Severn Trent Retail and Utility Services – transferred from Severn Trent Water on 1 April 2008

Global Water Market

Growth drivers

Financial Constraints	<ul style="list-style-type: none">• Rising capital requirements• Weak municipal finances• Increased energy prices
Increased regulation / legislation	<ul style="list-style-type: none">• Environmental legislation• IMO (International Maritime Organization) ballast water
Water scarcity	<ul style="list-style-type: none">• Climate change• Population growth• Security concerns
Lack of expertise	<ul style="list-style-type: none">• Ageing infrastructure / poor assets• Ageing workforce in developed countries• Developing economies



Global Water Market

What we do and what we don't do



	Building the system - Products	Operating other's assets – Operating Services
What we do	<ul style="list-style-type: none"> • High value add technologies focused on water purification • Critical parts of a new build project • Well established brands with proven install base • Expert at assembling and packaging 	<ul style="list-style-type: none"> • Operate plants and systems for municipalities • Expertise differentiates us • Leverage off STW best practice • Medium scale projects • Bring global expertise to local customers • Long term stable revenues
What we don't do	<ul style="list-style-type: none"> • Commodity components (e.g. pumps, screens) • We are not a full scale manufacturer 	<ul style="list-style-type: none"> • Risky countries • Mega contracts • Plant / building construction • Solely Repair & Maintenance
	<ul style="list-style-type: none"> • End-to-end solutions 	

Severn Trent Services

H1 2011/12 performance

Presents a good opportunity in the long term

- But current economic environment challenging in some regions

Operating Services

- US market – lower bid activity
- UK performed well
- Italy – uncertainty post referendum

Products

- Filtration & disinfection impacted by customer delays
- Strong order book

Investment

- £1m in H1 on growth projects
 - BalPure – first orders shipped

Summary

Low risk, regulated water utility

Inflation linked, asset based model

Encouraged by direction of regulatory reforms

**Long term opportunity with Services –
short term will remain challenging**

Delivering sustainable shareholder value

Agenda

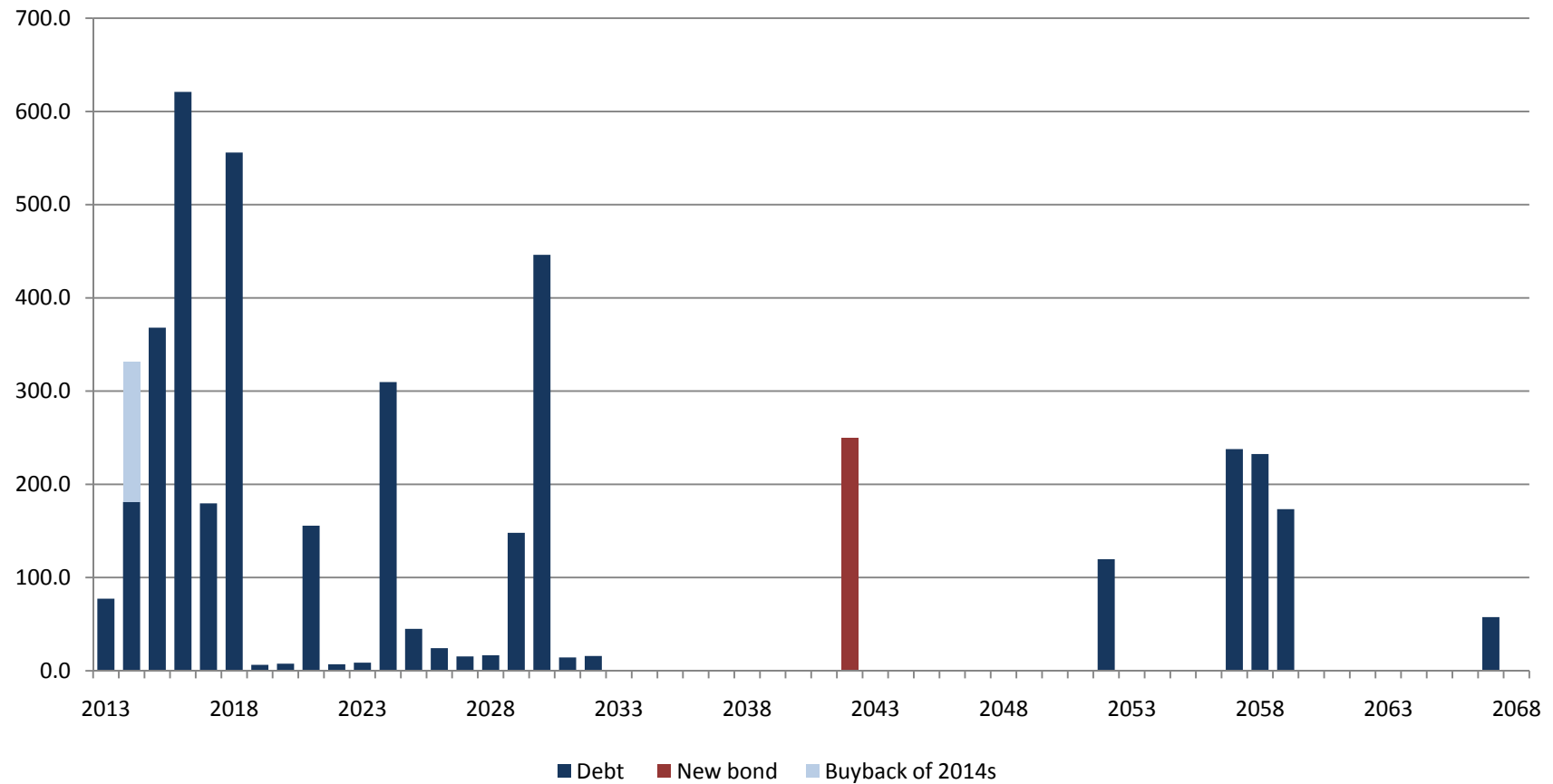
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Funding update

- Strong liquidity - £500 million undrawn 5-year RCF, renewed in October 2011
- £413 million cash @ 30 September 2011
- Funding requirement of c. £1.0 billion in AMP5, refinancing c. £850 million
 - £250m 30 year bond issued January 2012 @ 4.875% coupon
 - Tender for 2014 £200m bond @ 5.25% - 75% acceptance, £150.6m
- Stable credit ratings

Debt maturity profile

Maturity profile of gross debt (£ millions)



Outlook

Interim Management Statement Feb 2012

Severn Trent Water

- Opex below the level of final determination
- Bad debt to remain broadly stable
- Capex £450m-£470m range; IRE £120m-£130m (ex. PDaS)
- On course to hit leakage target
- No usage restrictions currently predicted

Severn Trent Services

- Improved H2 performance vs. H1

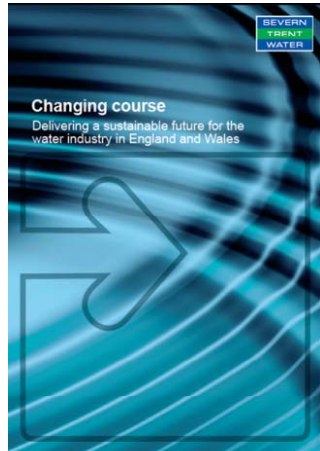
Group

- Interest charge broadly in line with prior year
- Exceptional finance charge of £16m (tender offer)
- Tax rate 26%-27%

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Ofwat consultations and White Paper



Ofwat

- Involving customers in price setting – Ofwat’s customer engagement policy statement (August 2011)
- Regulatory Compliance – a proportionate and targeted approach (October 2011).
- Future price limits

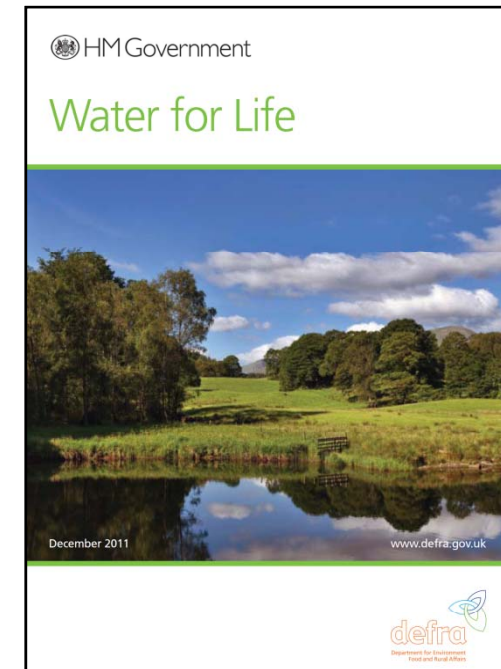
Defra

- White Paper (8th December 2011)



White Paper

- Resilience and Security of Supply
 - Adapting to climate change
 - Network resilience
 - Demand management & upstream competition
- Sustainability
 - Re-balancing of abstraction
 - Long term, co-ordinated resource planning
 - Promotion of catchment management solutions
 - Attracting ongoing investment from the capital markets
- Affordability
 - Social tariffs & specific support for South West Water
- Evolution not revolution
 - No legal separation of retail function
 - Competition in domestic market ruled out
 - Open up business sector to more competition



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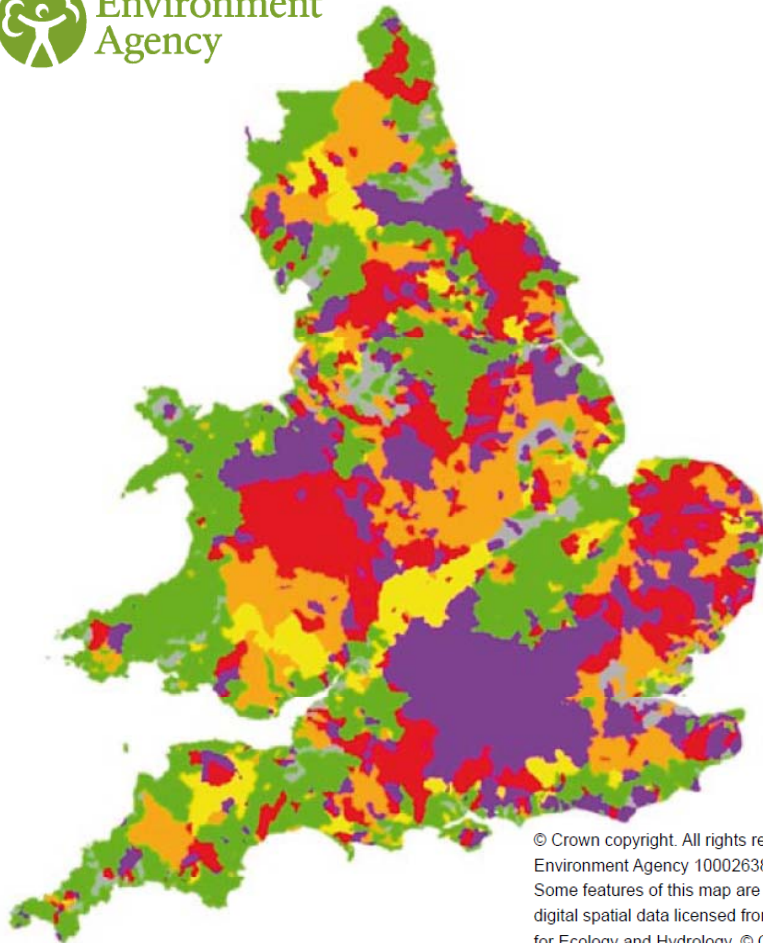
Water Trading

The issue

Abstraction levels



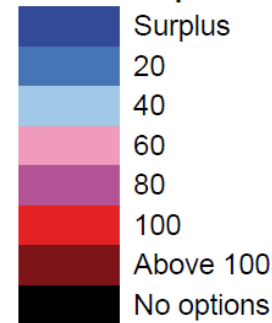
Environment Agency



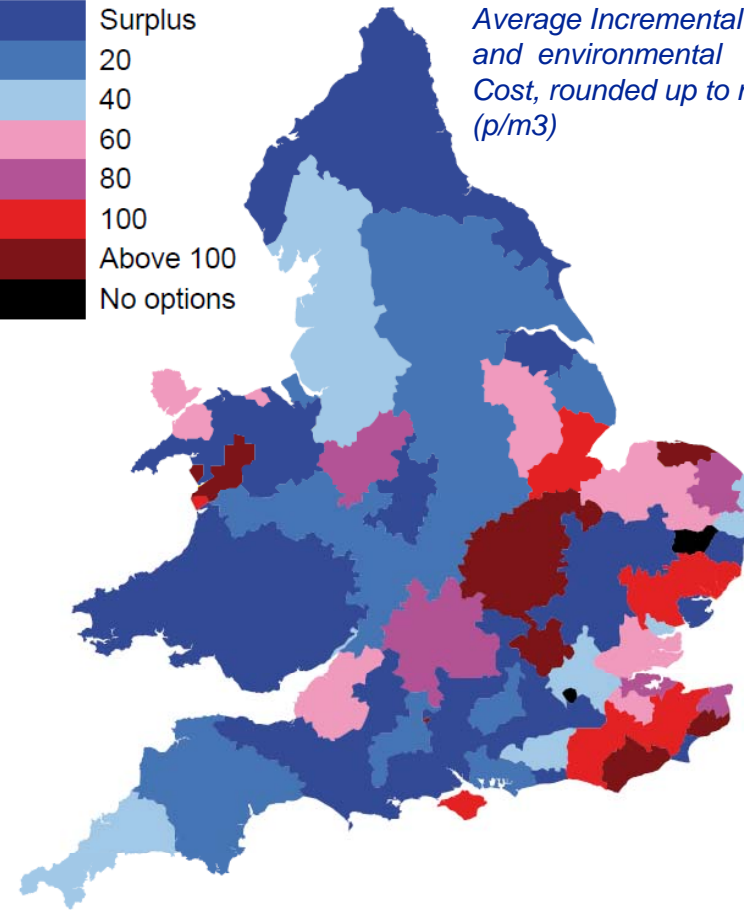
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Environment Agency 100026380. 2004.
Some features of this map are based on
digital spatial data licensed from the Centre
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Indication of abstraction across England and Wales, taking account of needs in downstream catchments, Environment Agency, July 2010

Resource zones for water companies in England & Wales Incremental cost

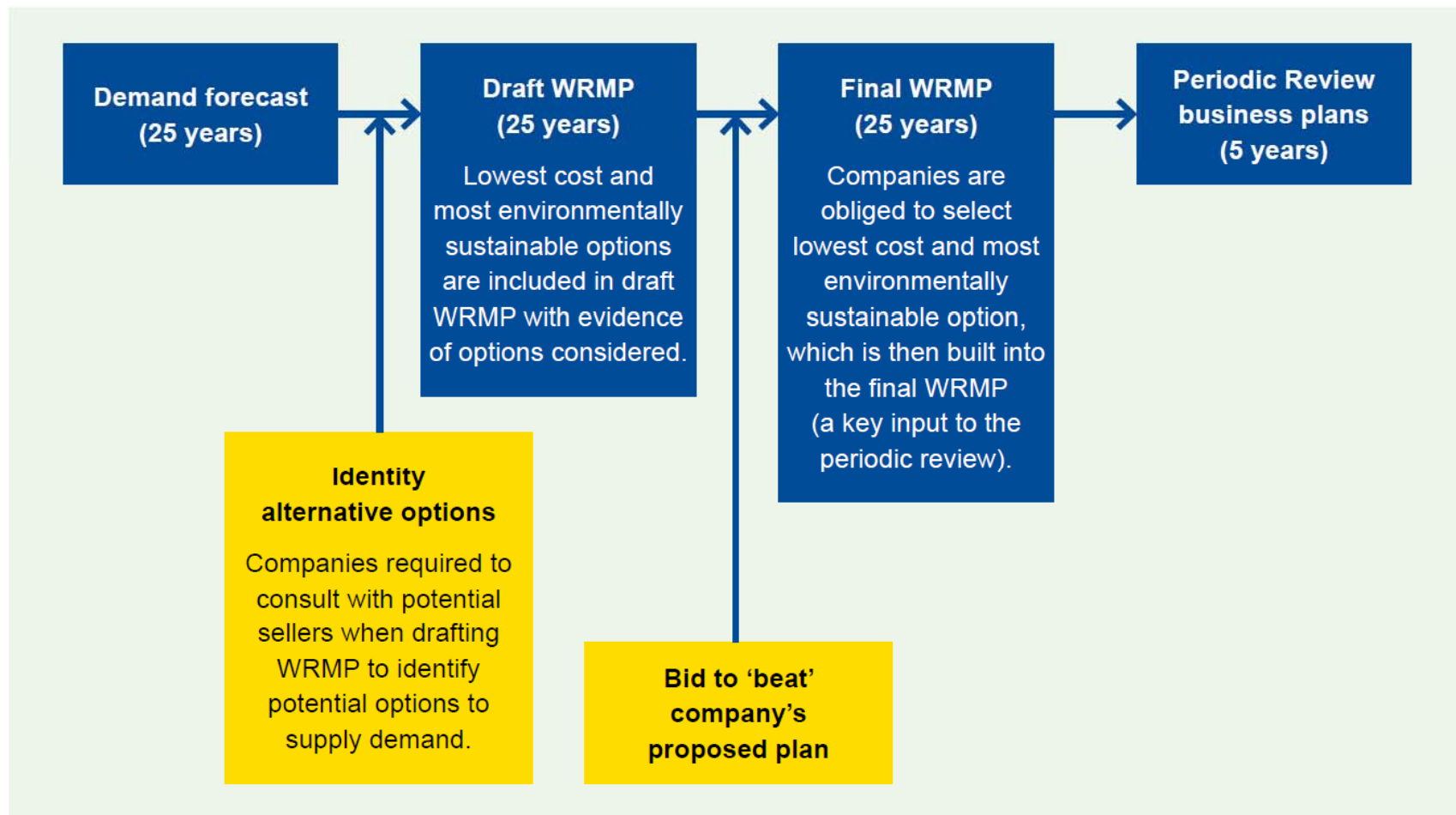


Average Incremental Social and environmental Cost, rounded up to next 20 (p/m3)

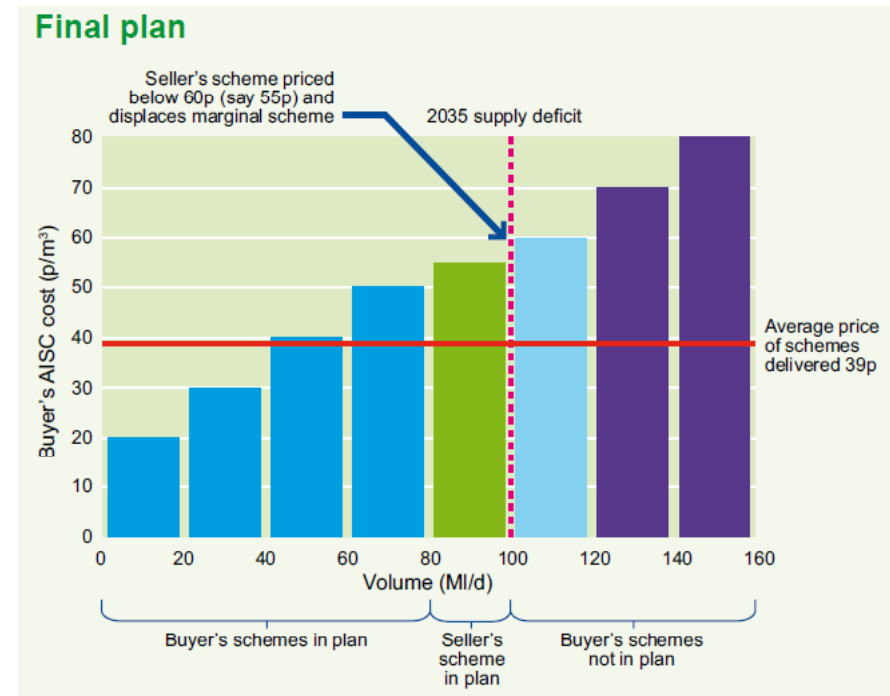
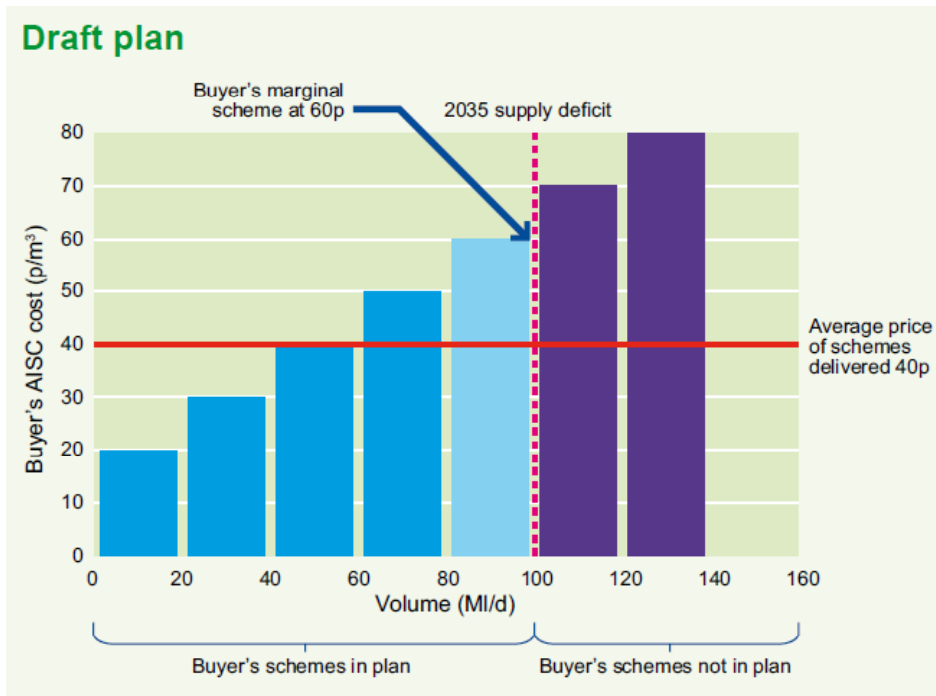


A study on potential benefits of upstream markets in the water sector in England and Wales, Ofwat, March 2010.

Our proposal



How “bidding in” could work



Water Trading

The opportunity for Severn Trent



- Our long term demand / supply is broadly balanced
- Opportunity to be the trading “hub”
- Efficient operator - lowest bills in England and Wales
- Opportunity for further RCV growth / additional income
- Within / outside regulated business

WaSC's shown. Excludes Water only companies

Agenda

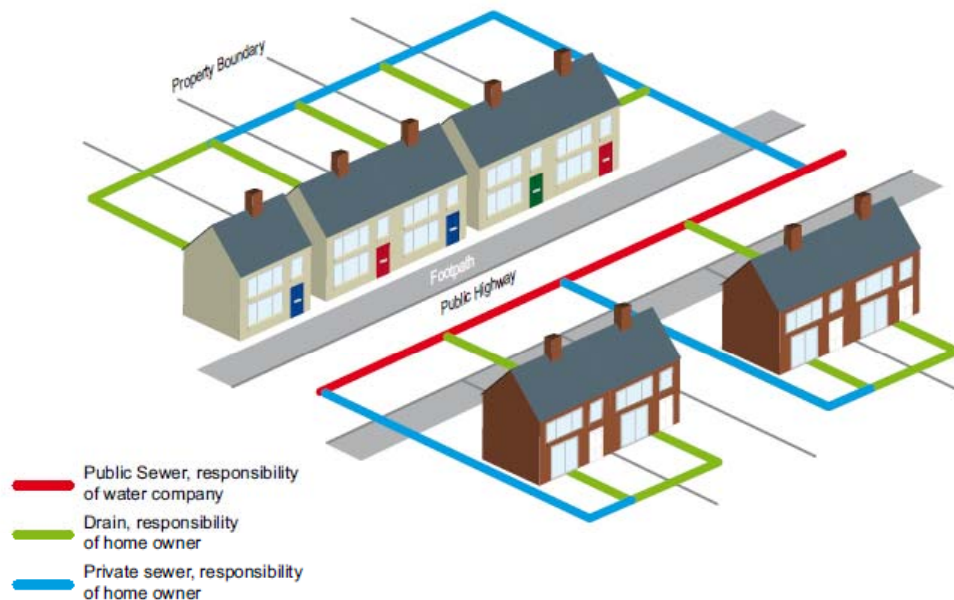
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Private Drains and Sewers (PDaS)

Overview

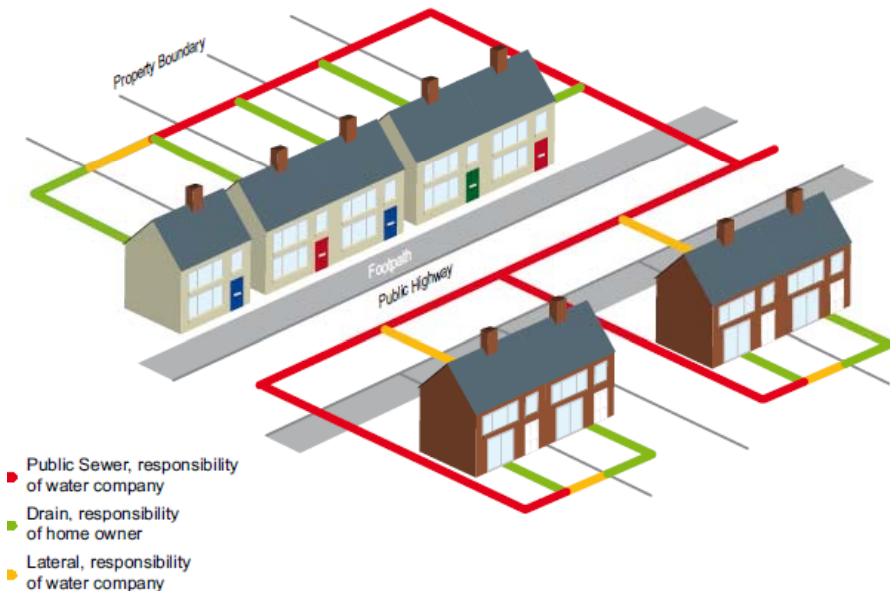
Pre 1 October

- Home owners are responsible for everything up to the main sewer, including the connection



Post 1 October

- All sewers transfer
- All laterals and drains outside property boundaries transfer - BUT
- Home owners are still responsible for the private drains within their boundary.



Private Drains and Sewers (PDaS)

Current status (November 2011)

- Successful handover on 1st October
- To date in-bound call volumes lower than expectations
 - 4,000 jobs on transferred assets
- Positive customer feedback*

	Cost YTD	Guidance
Exceptionals	£2.5m	£6m
Opex	£1m	£12-15m
Capex	£1.5m	£8-12m

"I would use STW again"

"Payment Facility quick and easy"

"Friendly people over the phone even though it was late at night"

"Engineers explained everything clearly"

"The engineer arrived promptly"

* Comments: 1-14 October 2011

Contact details



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Key Publications

Water Trading

www.stwater.co.uk/watertrading

Changing Course

www.stwater.co.uk/changingcourse

Useful Links

Ofwat

www.ofwat.gov.uk

Defra – Department for Environment, Food and Rural Affairs

www.defra.gov.uk

Environment Agency

www.environment-agency.gov.uk

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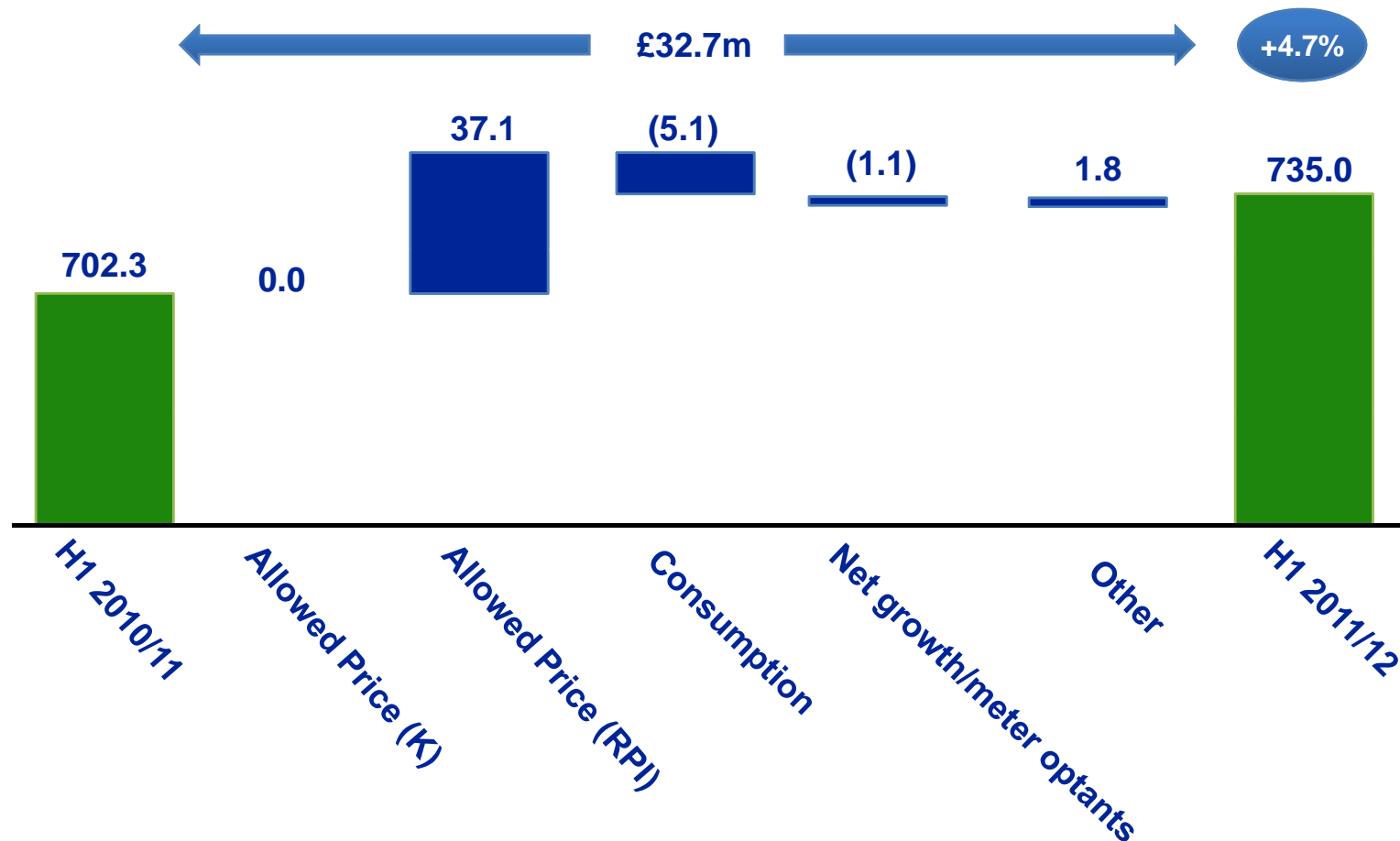
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Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

Appendix

Severn Trent Water turnover

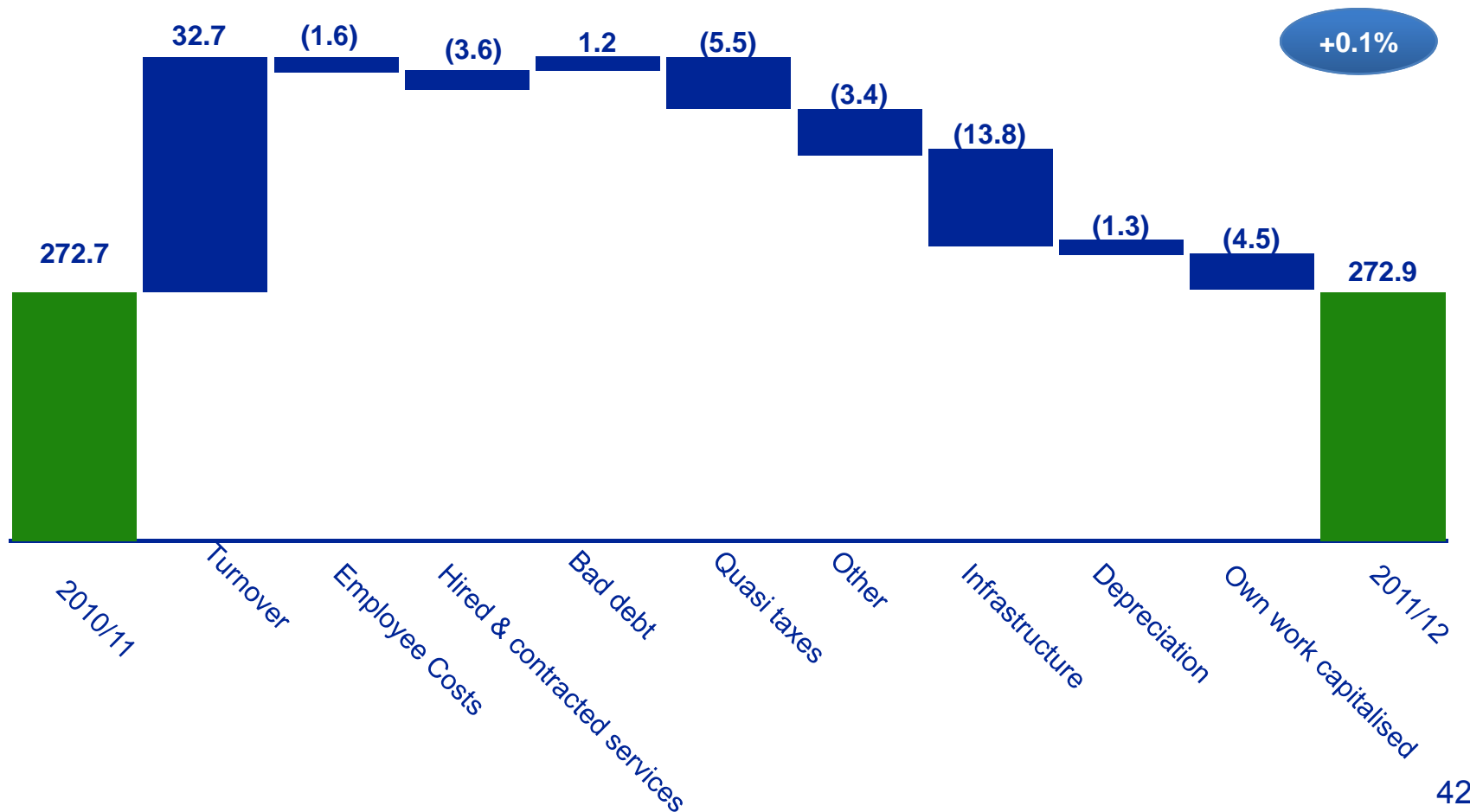
Severn Trent Water Turnover* H1 2011/12
£m



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

Severn Trent Water PBIT

Severn Trent Water PBIT* H1 2011/12
£m



* Numbers shown before exceptional items

Adoption of Private Drains and Sewers (PDaS)

Estimated Financial Impact

Based on October 2011 transfer, the impact in 2011/12 is estimated to be in the region of:

- **One –off set up costs of around £6m**
- **Opex cost in the range of £12m to £15m**
- **Capex cost in the range of £8m to £12m**

For the remainder of AMP 5 we estimate that the total cost of PDaS could be in the region of:

- **Opex cost in the range of £40m to £70m**
- **Capex cost in the range of £35m to £75m**

Privately owned pumping stations are anticipated to be adopted on a phased basis between 1 October 2011 and 1 October 2016. Therefore there is a large degree of discretion around investment levels in pumping stations prior to 2016 which will impact on actual reported capex cost. The above stated costs for the introduction of PDaS represent a “best estimate” range established on current information and current assumptions. The experience of these new processes, when implemented, may differ from our planning assumptions, leading to different costs. There are no costs associated with the transfer included in our existing business plan.

There is a regulatory mechanism, known as an IDOK (Interim Determination of K), which can be used to adjust prices to account for these additional costs. Severn Trent Water will be required to evidence these costs to support any IDoK submission and Ofwat will determine any change to prices. Severn Trent Water will also be required to bear these costs in advance of any future recoveries.

Updated KPI benchmarks



	Upper	Median	Lower
1 Lost time incidents per 100,000 hours worked	●		
2 Employee motivation		● ←	
3 Water quality (test failure rate) - ppm	●		
4 Customer written complaints per 1,000 properties	→ ●		
5 1 st time call resolution for billing (%)	● ←		
6 Unplanned interruptions per 1,000 properties			●
7 Properties at risk of low pressure per 1,000 properties	●		
8 First time job resolution	●		
9 Non performance against regulatory obligations (%)	●		
10 Capex (net)	●		
12 Debtor days		●	
13 Opex (£m)		●	
15 Pollution incidents (categories 1 to 3)		●	
16 Sewage flooding incidents	→ ●		
17 Sewage treatment works – failing consent limits		● ←	
18 Supply availability			●
19 Net energy use - GWh	●		
20 Leakage Mld		●	

Who are our customers?



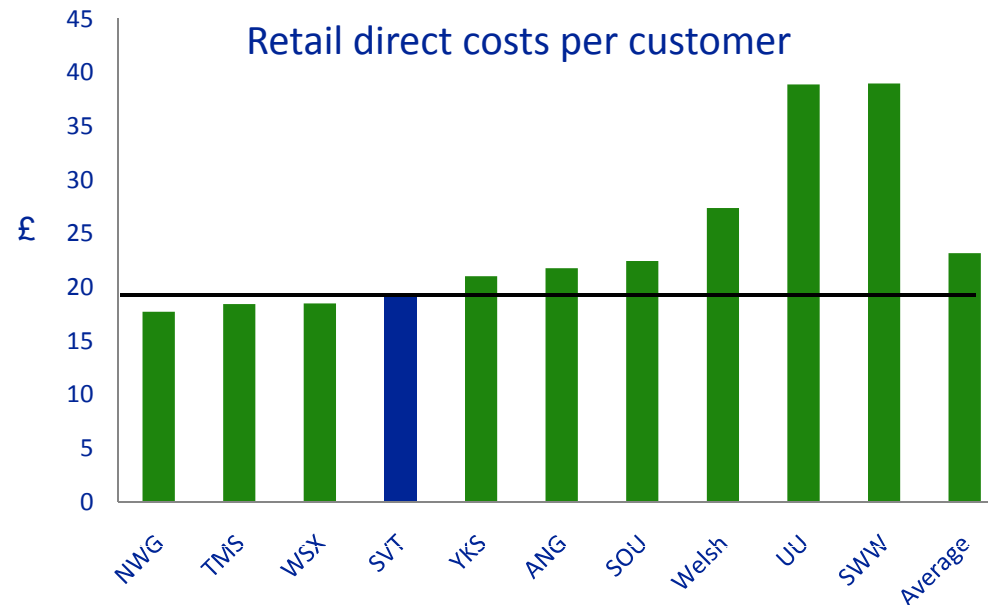
We have 3.6m customers with active accounts (*c.8 million people*)

Domestic

- 3.3 million
 - 1.1 million billed on a meter (33%)
 - 2.2 million billed based on their property (67%)

Commercial

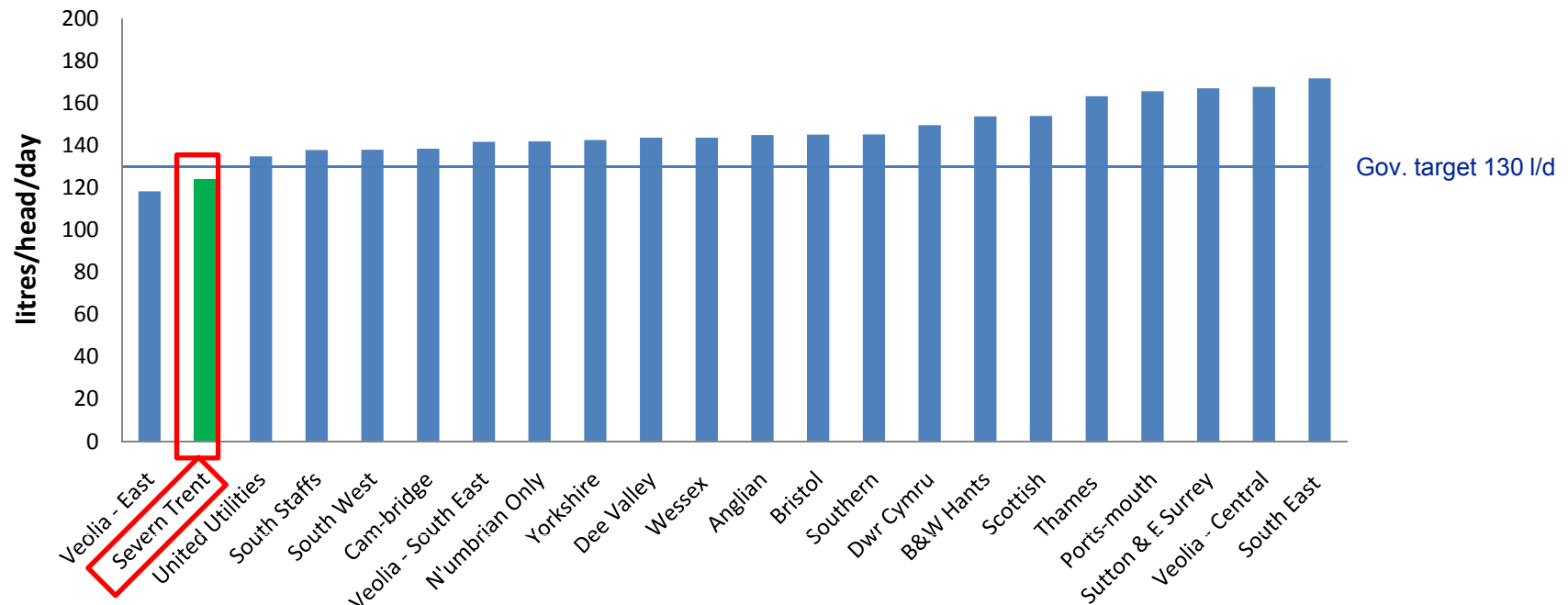
- 250,000 all billed via meters



Source: June return

Customer demand

Per capita consumption (average weighted – excluding s/pipe leakage)



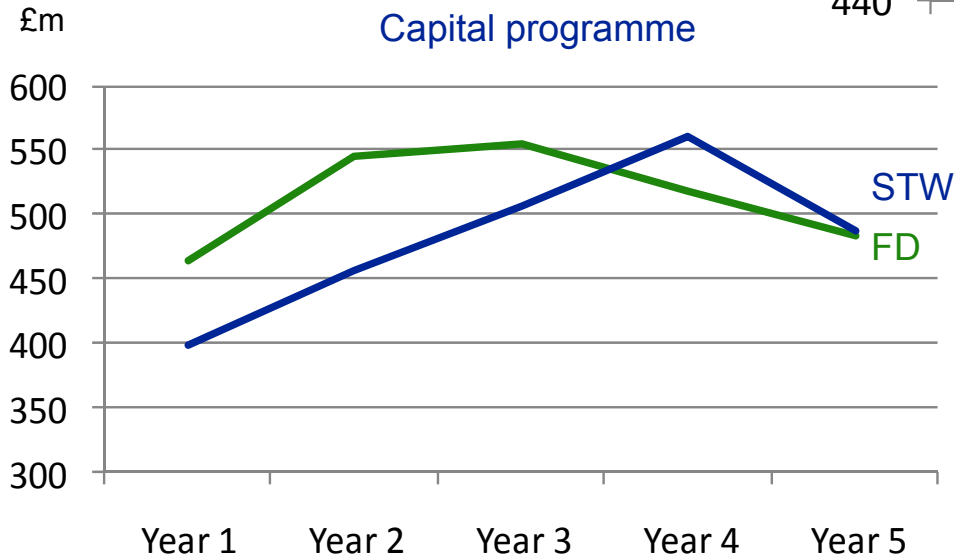
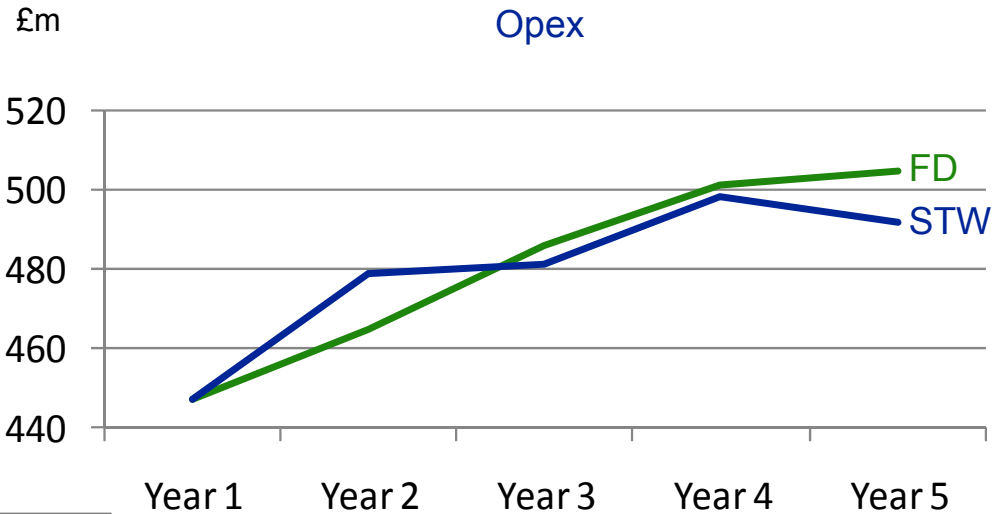
Source: June return data

AMP 4 summary

Performance vs. Final Determination



- Since year 3 consistently outperformed
- 3% outperformance in 2009/10 (year 5)



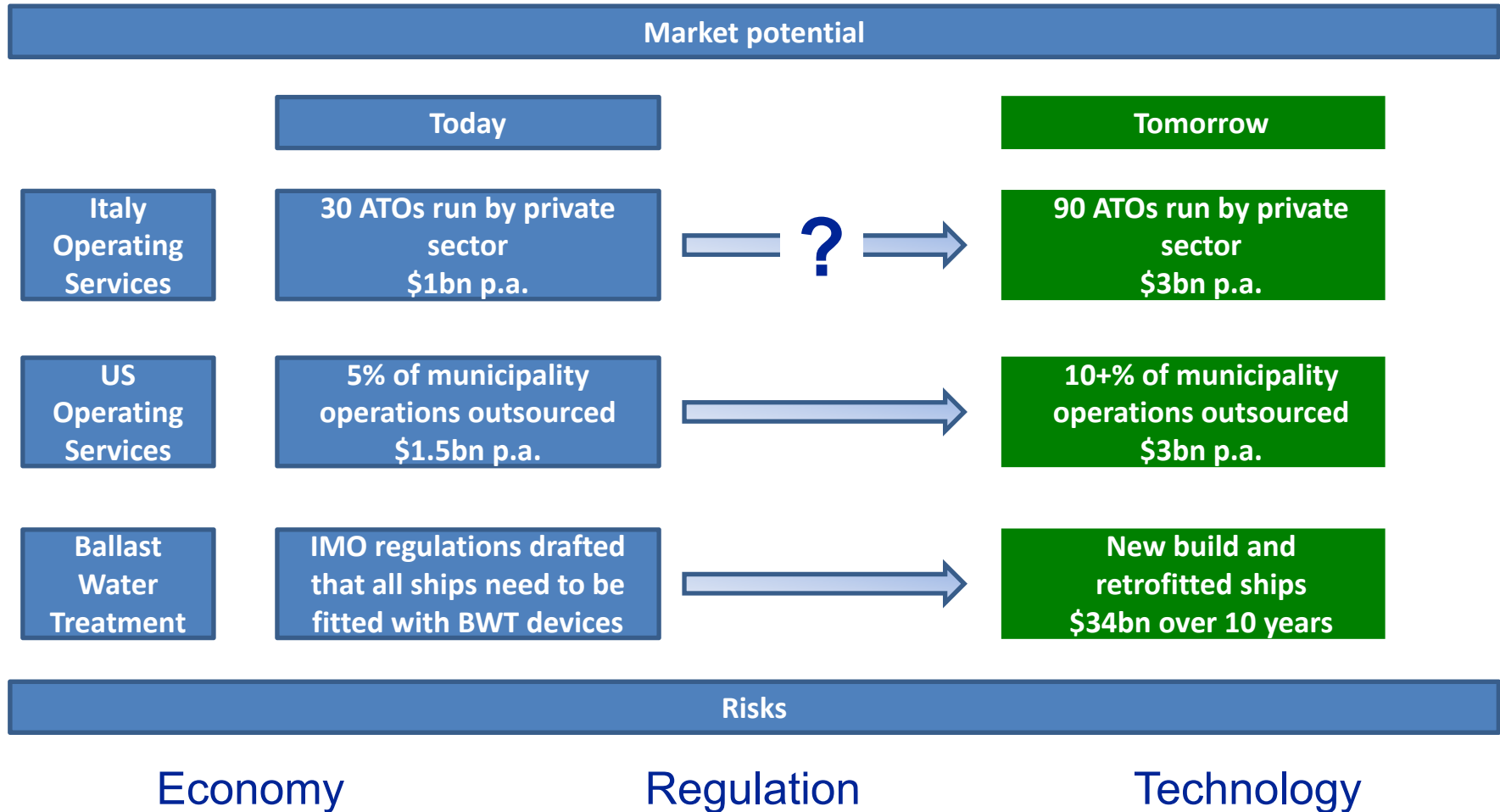
- 6% outperformance over AMP4
- £195m re-invested in efficiency programs

Severn Trent Services Overview



Global Water Market

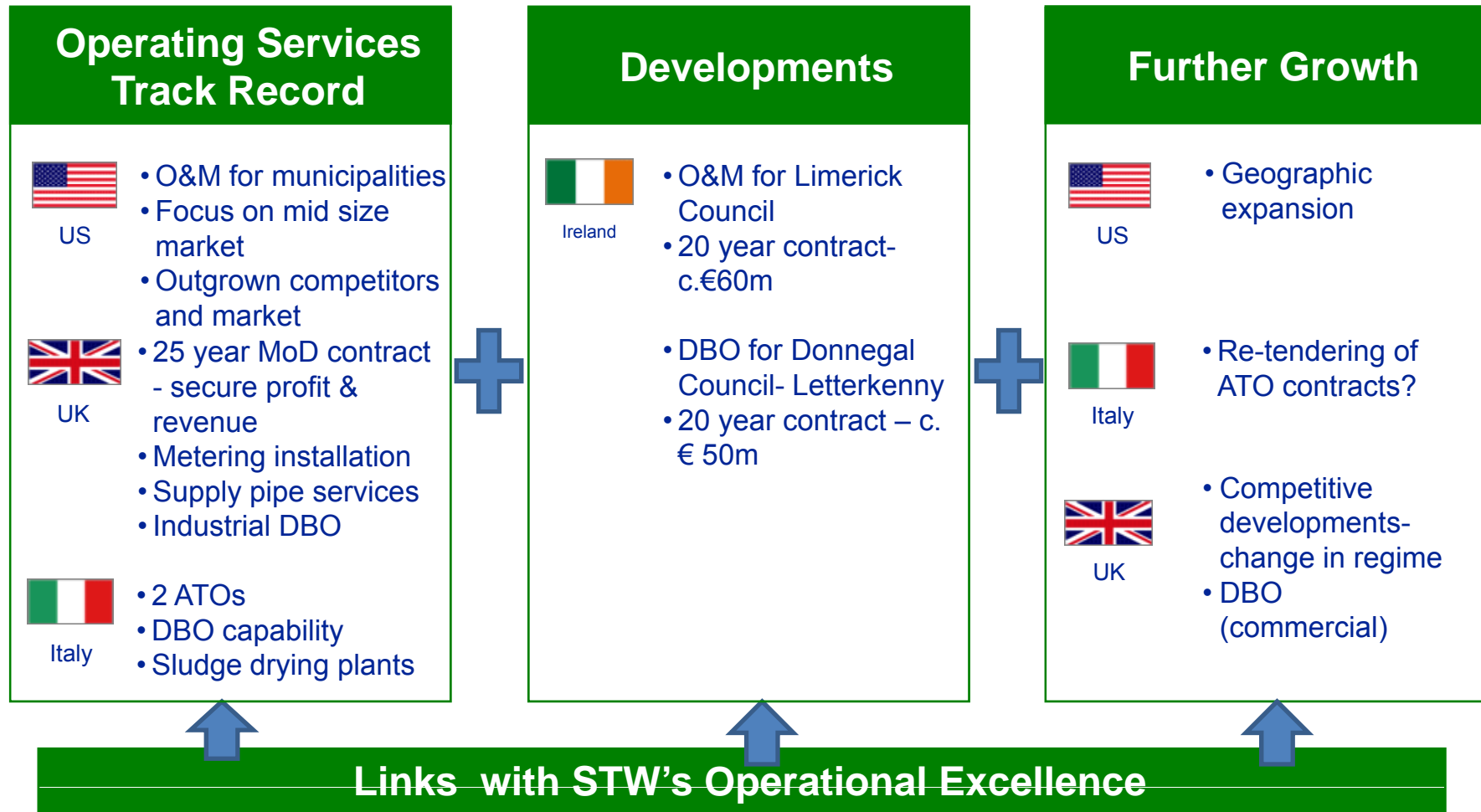
Key opportunities



Source: Severn Trent projections; Frost & Sullivan; Global Water Intelligence; Public Works Financing; Pinsent Masons; Italian 'Blue Book' database

Operating Services

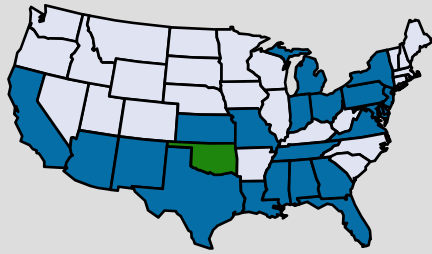
Focus on water



O&M = operation and maintenance MoD = Ministry of Defence DBO = design, build & operate ATO = regional water and waste service contract

Hub and Spoke concept

Western Regional HQ in Chickasha, Oklahoma



Drivers:

- Local support - we are on the ground
- Help with maintaining compliance
- Regulators know us as a solutions provider
- Strong performance begets referrals

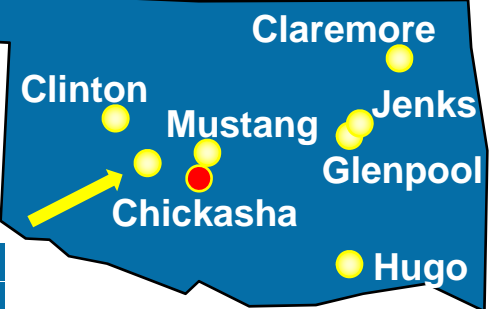
1999

1 contract
\$600k p.a.

Chickasha

TODAY

7 contracts
\$7+m p.a.



Products – focused on water purification

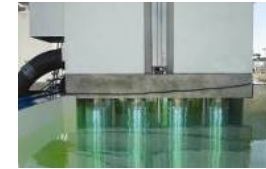
Sources of growth



Geographic Expansion	Route to Market	New Technology	Operational Efficiency
<ul style="list-style-type: none"> Existing and new technologies into new markets <p>Asia Pacific, Middle East, North Africa</p>	<ul style="list-style-type: none"> Technology sales Solutions focused Customer centric Regional alignment Local engineering, purchasing, service, project management 	<ul style="list-style-type: none"> New technologies to new markets e.g., BALPURE®-ballast water treatment systems – new / retrofit New technologies to existing markets e.g., MicroDynamics® UV disinfection Strategic investments- coal seam gas 	<ul style="list-style-type: none"> Centralise product development Improve sourcing and purchasing Engineering and assembly outsourcing

MicroDynamics®

Ultraviolet Disinfection System



What it is

Disinfection technology for treatment of municipal and industrial water and wastewater

Patented core technology is based on a microwave excited UV lamp, which has numerous benefits above conventional electrodes attached to a UV lamp

Microwave UV is a disruptive innovation in the established UV disinfection market

Green benefits

'Chemical free' technology
-substitute for existing chlorine based disinfection technologies

Longer lamp life than conventional alternatives, reduced maintenance and intervention requirements

Minimal disinfection by-product formation

UV is the central technology to address water scarcity through the reuse of water

Market opportunity

Global UV disinfection market valued at c. \$600 million (2010)

- Municipal wastewater \$320 million
- Municipal water \$177 million
- Industrial wastewater \$99 million

Overall future market growth c. 8% per annum

(Source: Global Water Intelligence - Water Technology Markets 2010)



What it is

Significant, emerging treatment opportunity, driven by IMO regulation to control invasive marine species

Ballast water passes via an electrochemical cell which generates hypochlorite to disinfect and kill marine microorganisms

Builds on Severn Trent Services core technology and market channel capability

Green benefits

Protection of marine environment by controlling movement of non-indigenous marine species throughout the world by ballast water transfer

Low power technology offering energy savings particularly at higher flow rates

Performance above the IMO guideline, meeting more stringent California regulations

Market opportunity

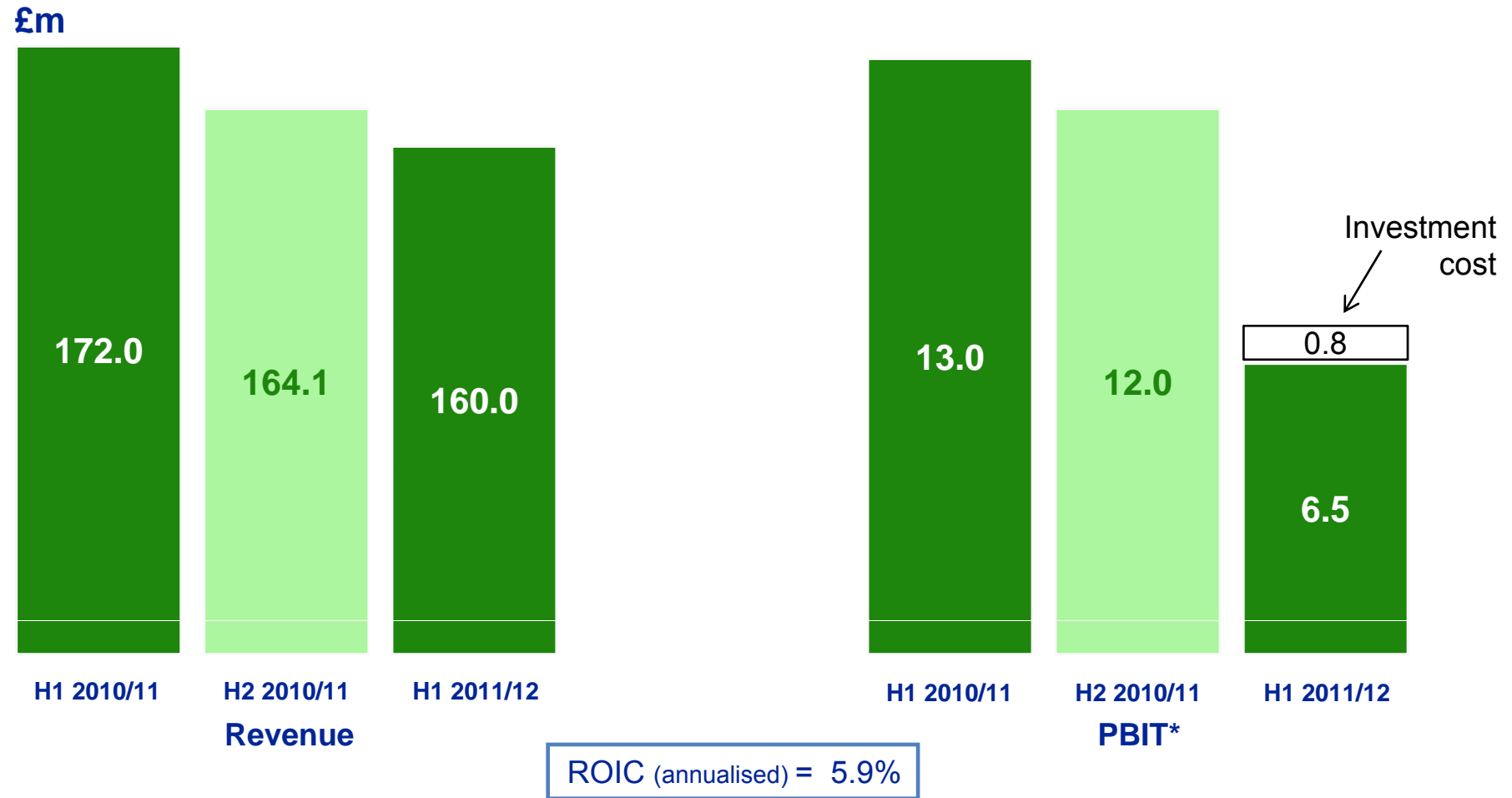
Total market could generate \$34 billion revenues between 2010 – 2020 (Frost & Sullivan) for new-build and retrofits

Market peaks at \$7.2 billion in 2017 at height of retrofits with estimated \$2 billion ongoing value from 2020

BalPure® solution enjoys scale economies, favouring larger vessel market – less competition, more accessible



Severn Trent Services performance



* PBIT before exceptional items

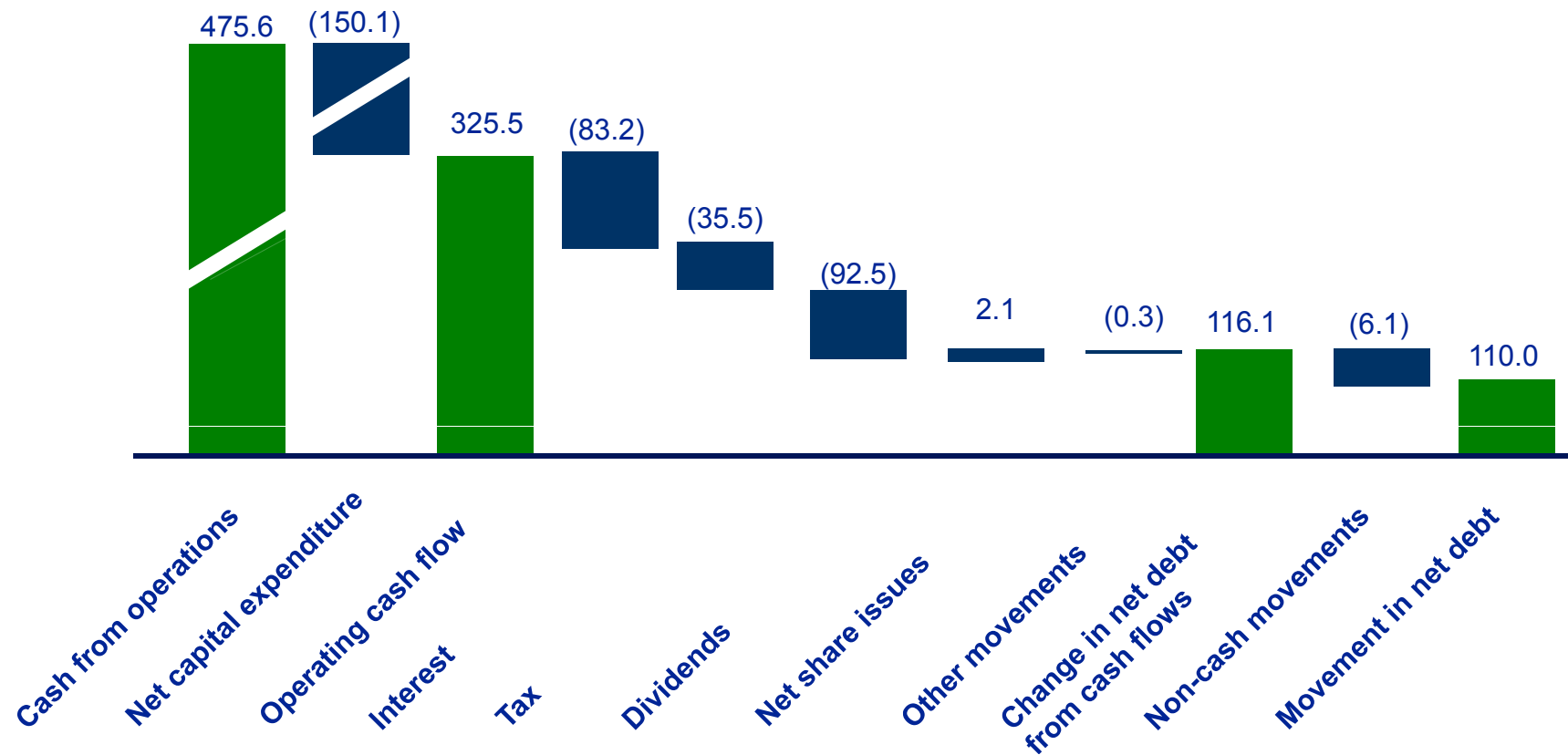
Group data



Cash flow

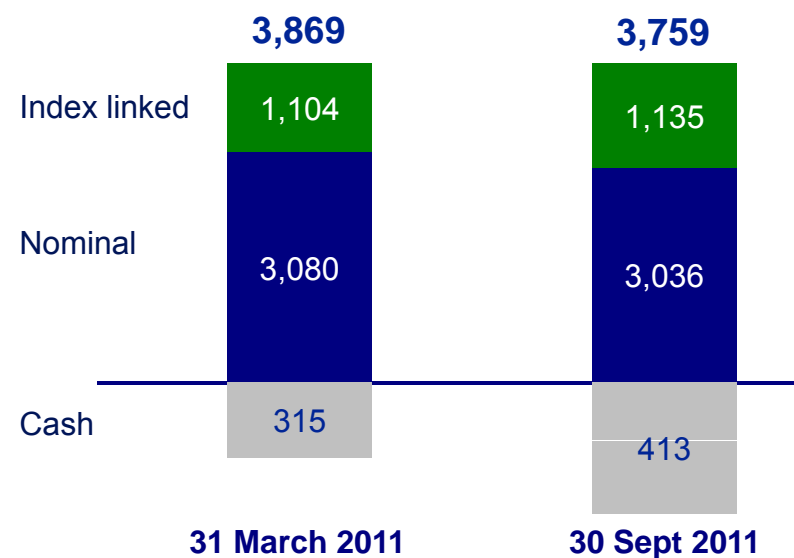
Six months ended 30 September 2011

£m

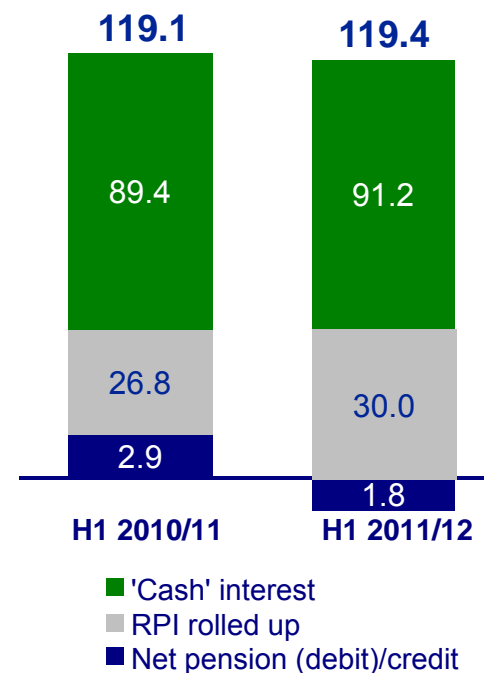


Group net debt and finance charges

Net debt*
£m



Finance charge
£m



- 73% at fixed interest rates
- Regulated Entity (Severn Trent Water) net debt £3,850.3m
- Group net debt/RCV** 54%

- Effective rate circa 6.3%
- Effective cash interest cost 5.0%
- EBITDA cover 3.4x
- PBIT*** cover 2.3x

* Including cross currency swaps

** Forecast RCV at 31 March 2012 at year average RPI

***Before exceptional items

Net finance costs

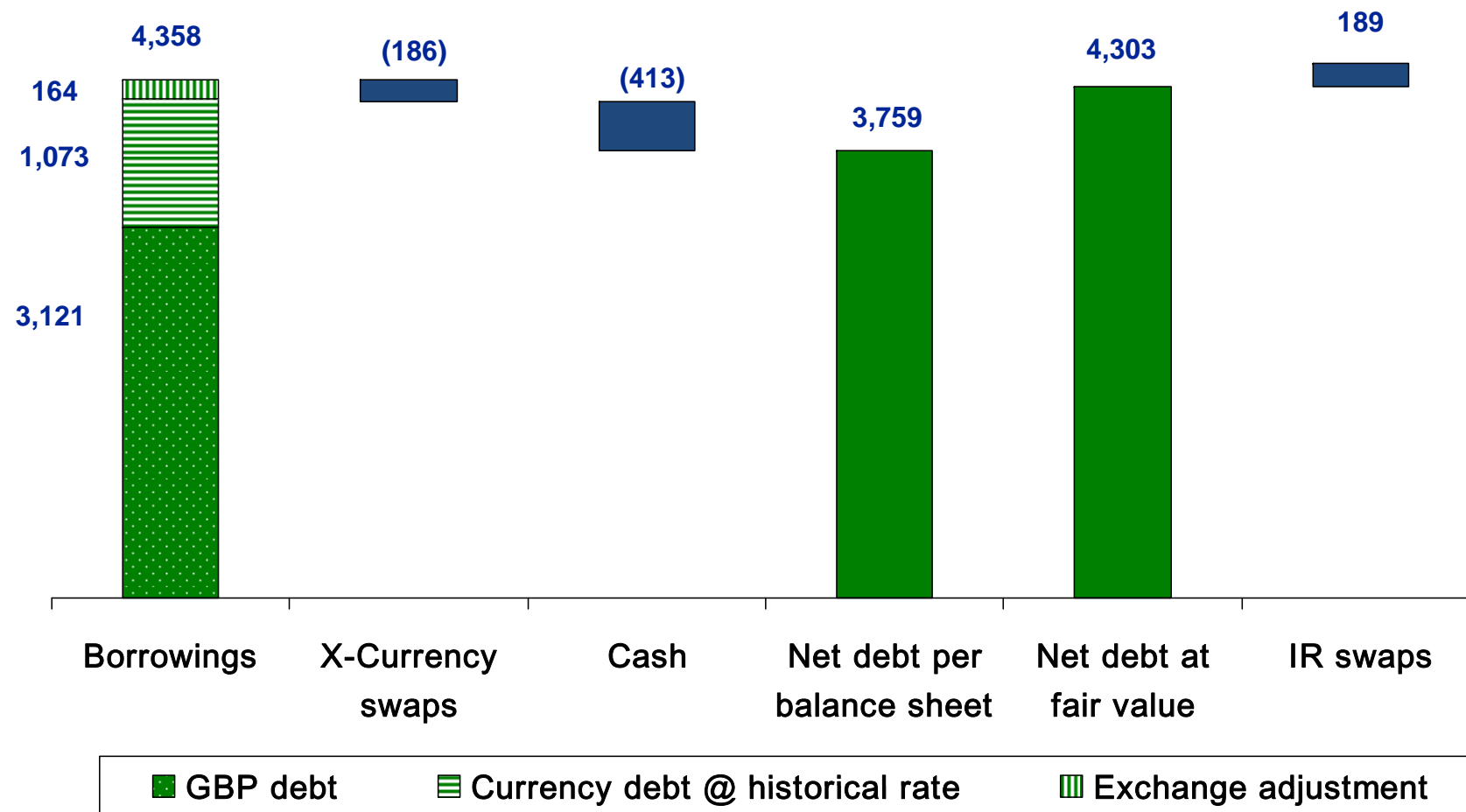
Six months ended 30 September 2011

	Income statement charge	Capitalised interest	Gross interest incurred
	£m	£m	£m
"Cash" interest	91.2	3.2	94.4
Pension debit/(credit)	(1.8)	-	(1.8)
RPI interest	30.0	1.1	31.1
	119.4	4.3	123.7

Net debt

	30 September 2011	31 March 2011	30 September 2010
	£m	£m	£m
Cash and cash equivalents	412.6	315.2	443.9
Borrowings – current liabilities	(85.5)	(23.9)	(58.8)
Borrowings – non-current liabilities	(4,271.6)	(4,320.5)	(4,268.8)
Cross currency swaps hedging debt	185.7	160.4	160.4
Net debt	(3,758.8)	(3,868.8)	(3,723.3)

Analysis of borrowings, net debt and swaps at 30 September 2011



Gearing

At 30 September 2011

31 March 2011	Net debt/RCV	30 September 2011
57%	Severn Trent Plc	54%
58%	Severn Trent Water	55%

Credit ratings

30 September 2011

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

What are the risks?

- Economy
 - double dip recession, increasing unemployment, rising bad debt
 - we have improved collection of debt less than 12 months (>12 months more difficult)
 - focus on customer payment plans
- Inflation
 - negative inflation harmful to the business model (lower revenue, RCV falls, gearing increases)
- Weather / flooding
 - impact of climate change
 - building increased resilience in the network – prudent investment
- Funding
 - c.£1bn financing requirement over AMP5
 - markets open, stable credit rating, successful issue and tender completed
- Delivery of efficiency / change programmes
- Industry change
 - actively engaged in debate with all stakeholders
 - transfer of private drains and sewers

SEVERN

TRENT