

Presentation to Bond Investors

December 2011

Tony Wray, Chief Executive

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Agenda

- Overview and update
 - Overview of sector and Severn Trent
 - 2011/12 interim results
 - Funding
- Sector developments
 - Ofwat consultations and White Paper
 - Water Trading
 - Private Drains and Sewers (PDaS)

Severn Trent profile

Focus on “water” – clean & waste water

SEVERN

TRENT

Severn Trent Water (STW)

- A leading UK water utility
- Proven management team & workforce / performance-driven culture
- Significant operational improvements
- Regulatory settlement up to 2014/15 agreed
- Aim - to be the best water and wastewater company in the UK

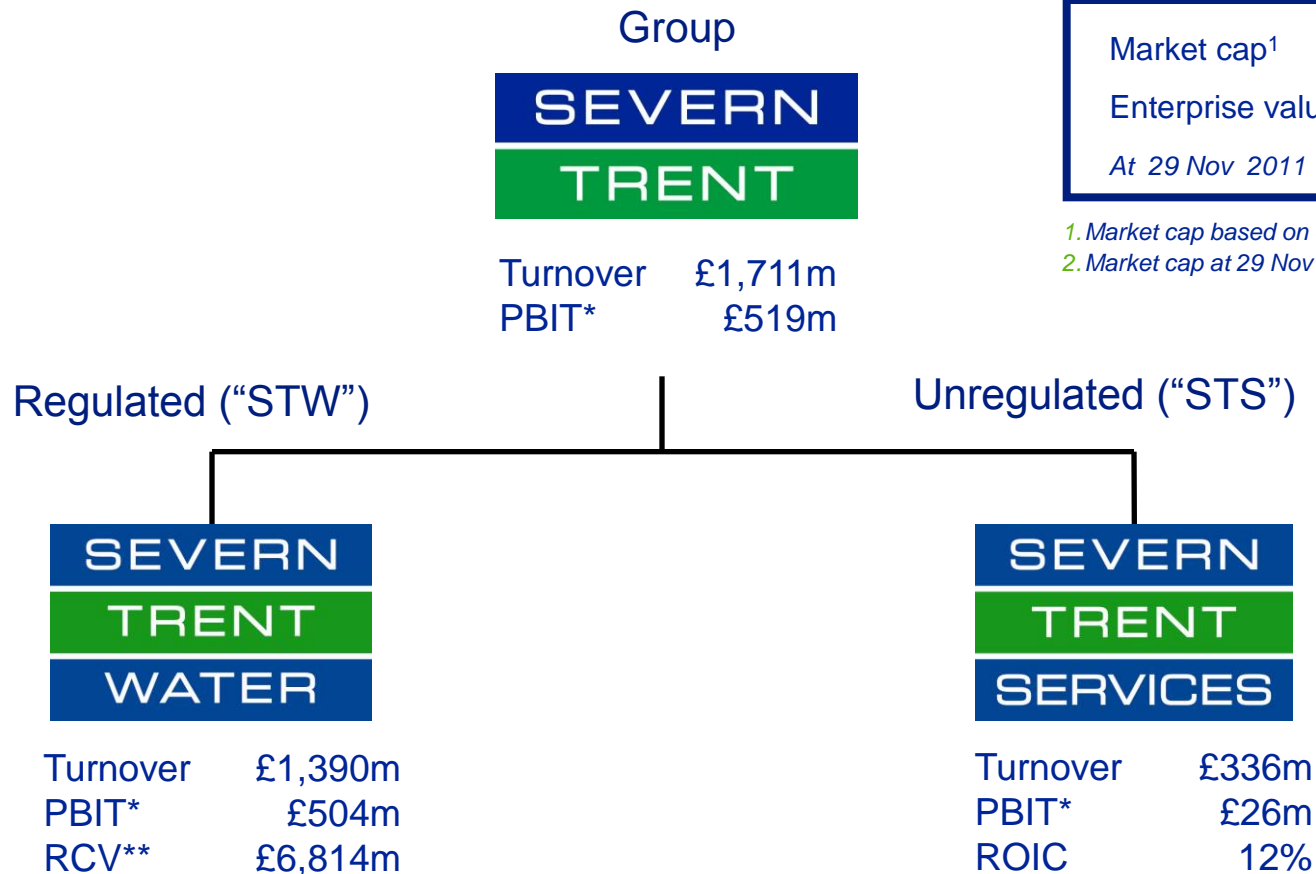
Severn Trent Services (STS)

- Leveraging core operating expertise & water technology into higher-return unregulated markets
- Track record of growth and creation of shareholder value

Severn Trent Plc (Group)

- 100% free float
- Delivered 9.8% p.a. TSR over AMP4 (2005/06 to 2009/10)
- Dividend policy RPI +3% for remainder of AMP5 (2011/12 to 2014/15)
 - FY 10/11 dividend re-based to 65.09p
 - FY 11/12 dividend 70.10p ➡ 7.7% growth

Structure



Market cap¹ £3.6bn

Enterprise value² £7.4bn

At 29 Nov 2011

1. Market cap based on closing price 29 Nov 2011

2. Market cap at 29 Nov 2011 + 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

Severn Trent Water - Overview

Severn Trent Water is one of the largest Water and Sewerage Companies in England and Wales

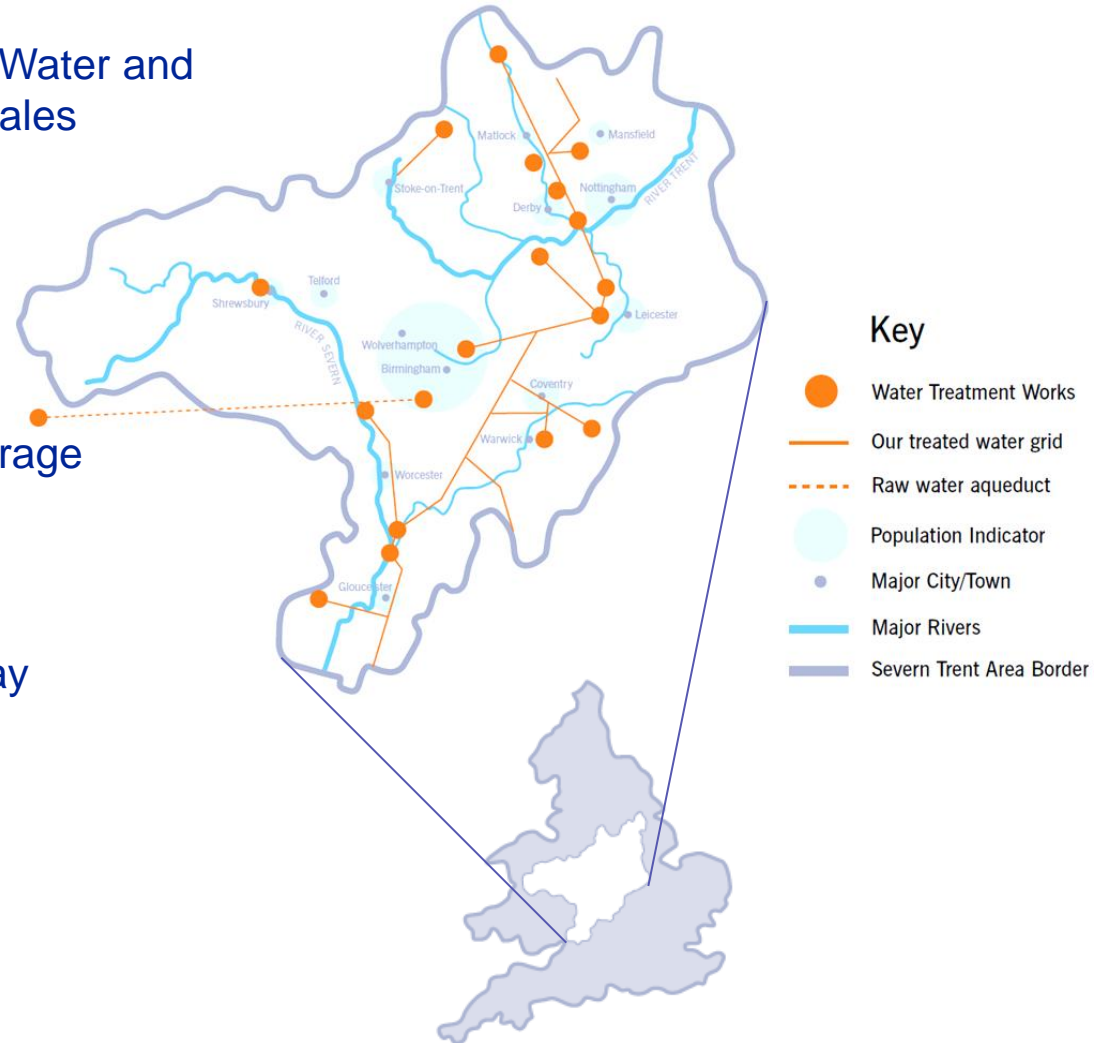
We cover an area of 21,000km²

We :

- supply water for c.7m people, sewerage services to c. 8m people
- supply 1.8bn litres water per day
- treat 2.7bn litres waste water per day

Our physical assets include:

- 46,000 kilometres of water mains
- 134 water treatment works
- 54,000 kilometres of sewers
- 1,021 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”), regulator has primary legal duty to ensure that the licence holders can finance their functions
- Interim determinations (“IDOK”) also possible between reviews, where revenues have unexpectedly been lost or costs have risen significantly. In AMP5 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

Highlights

	H1 2010/11	H1 2011/12	Change %
Group Turnover (£m)	867.9	886.0	2.1
Profit before interest and tax (PBIT ¹) (£m)	277.0	274.3	(1.0)
Profit before tax (PBT ²) (£m)	158.0	155.0	(1.9)
Adjusted basic EPS ³ (pence)	47.4	46.4	(2.1)
Basic EPS (pence)	43.9	30.5	(30.5)
Interim dividend per share (pence)	26.04	28.04	7.7

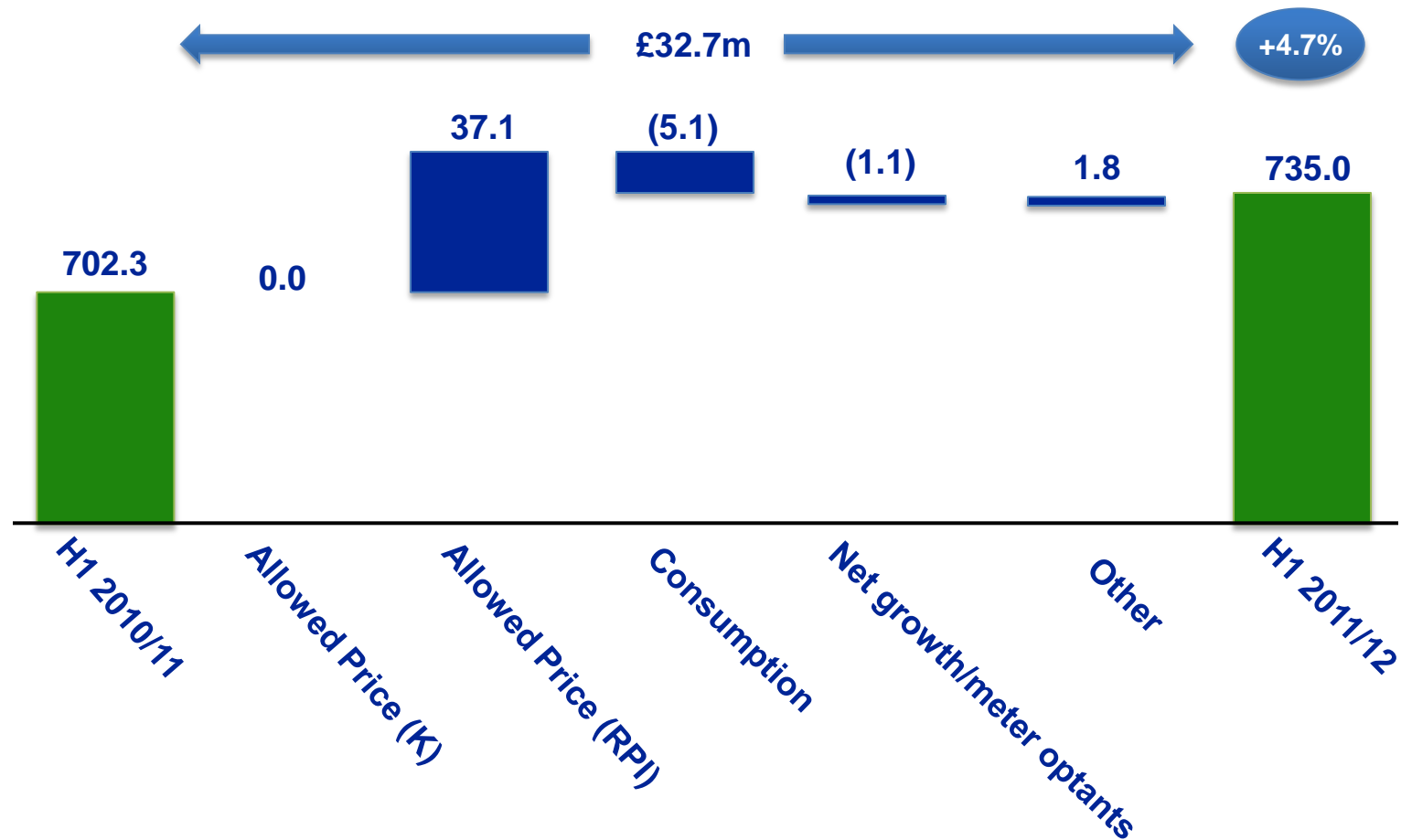
1. *before exceptional items*

2. *before exceptional items and gains/losses on financial instruments*

3. *before excluding exceptional items, gains/losses on financial instruments and deferred tax*

Severn Trent Water turnover

Severn Trent Water Turnover* H1 2011/12
£m

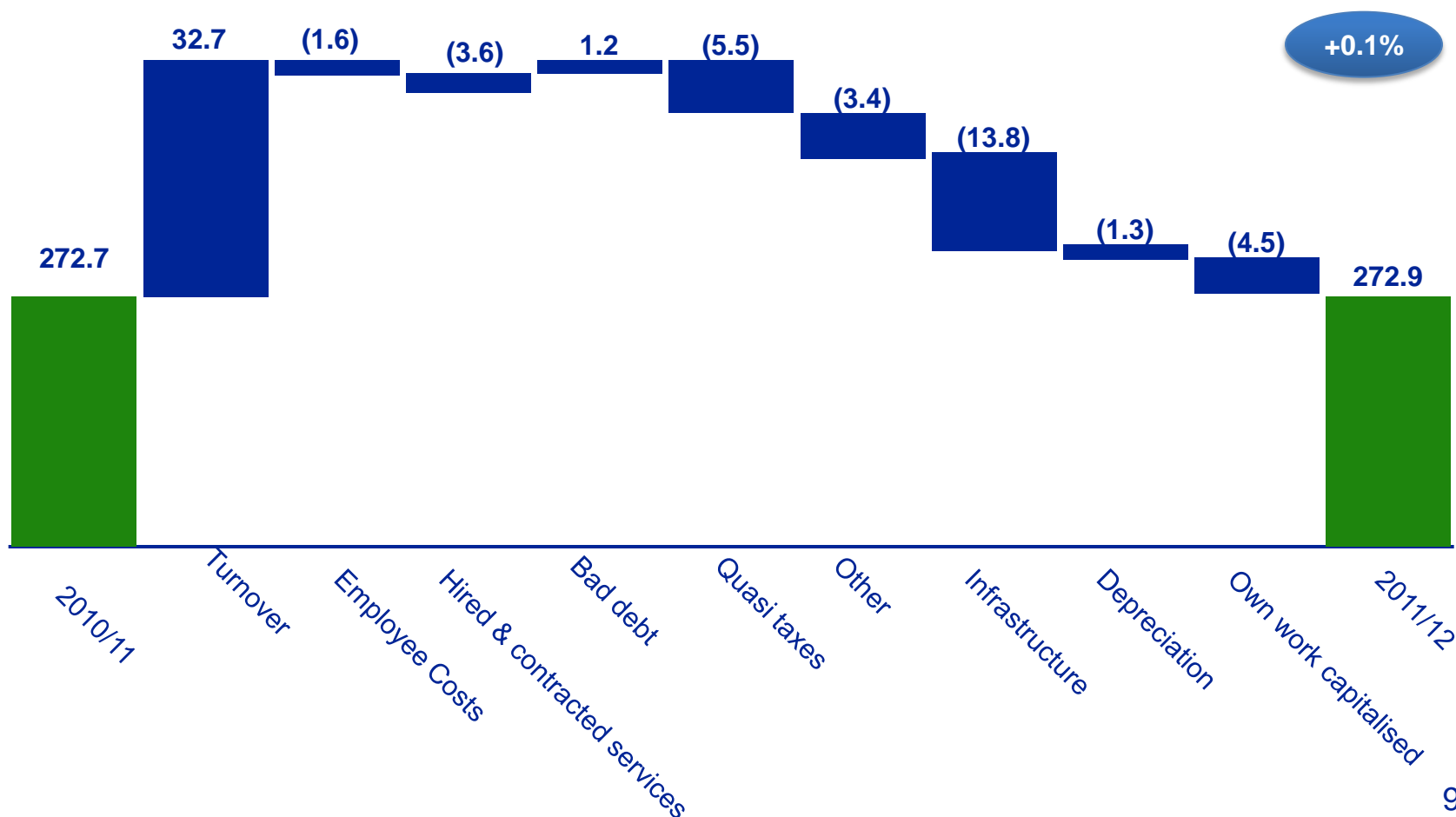


* Business segment turnover is stated gross (i.e. including inter segment trading),

Severn Trent Water PBIT

Severn Trent Water PBIT* 2011/12

£m

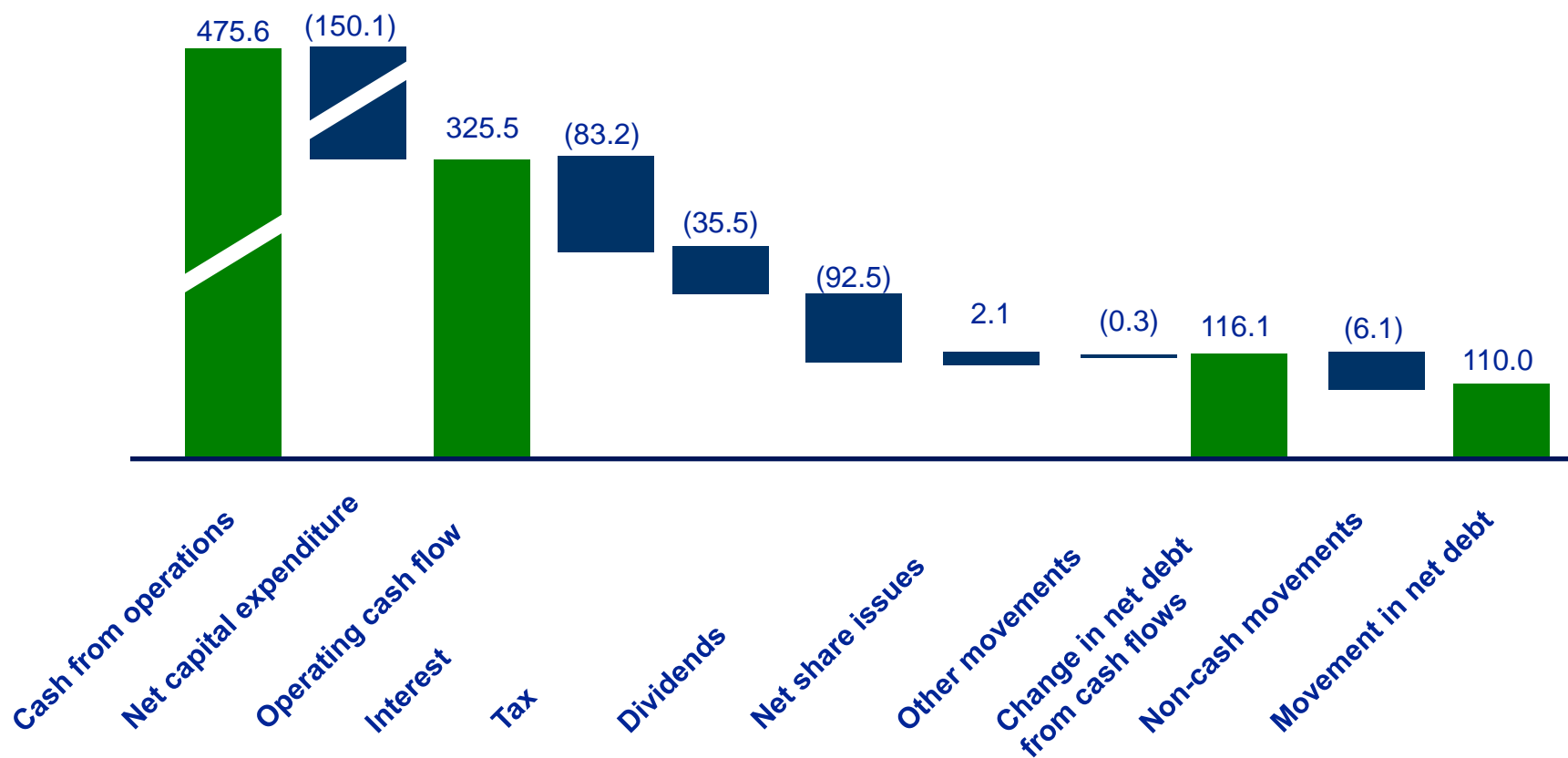


* Numbers shown before exceptional items

Cash flow

Six months ended 30 September 2011

£m



Outlook

FY 2011/12

Severn Trent Water

- Opex below the level of final determination
- Bad debt to remain at 2.2%
- Capex £450m-£470m range; IRE £120m-£130m (ex. PDaS)

Severn Trent Services

- H2 weighted

Group

- Interest charge broadly in line with prior year
- Tax rate 26%-27%

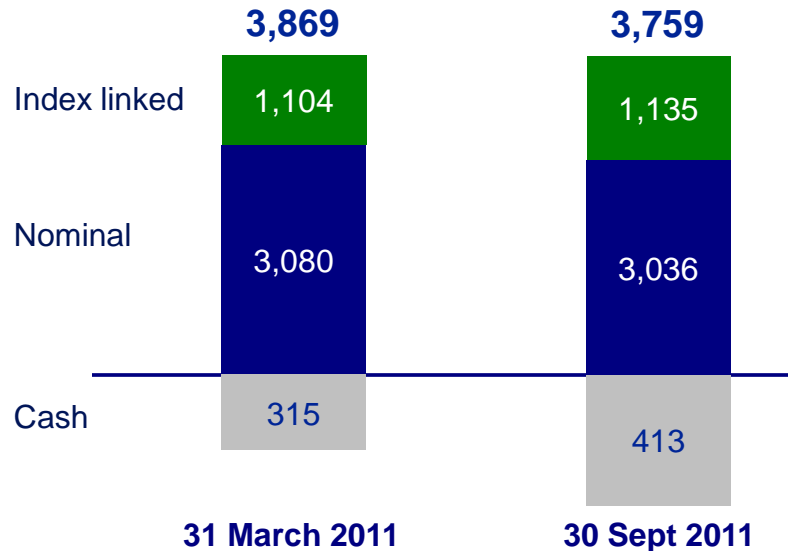
Funding update

- Strong liquidity - £500 million undrawn 5-year RCF, renewed in October 2011
- Funding requirement of c. £1.0 billion in AMP5, refinancing c. £850 million
- Stable credit ratings
- Cost of debt fixed for remainder of AMP5 period
 - c. £100m benefit vs. final determination
- Expected RCV growth of 2.8%¹ p.a. to end of 2014/15

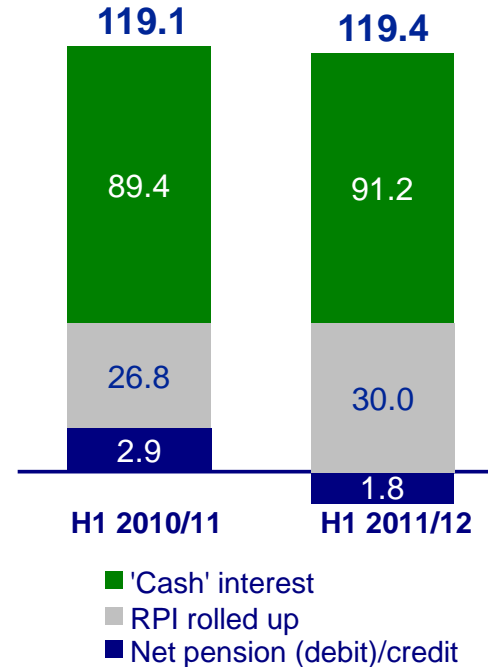
1. Using current year end RPI forecast, adjusted for current estimates of COPI . CAGR 2011/12 to 2014/14

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

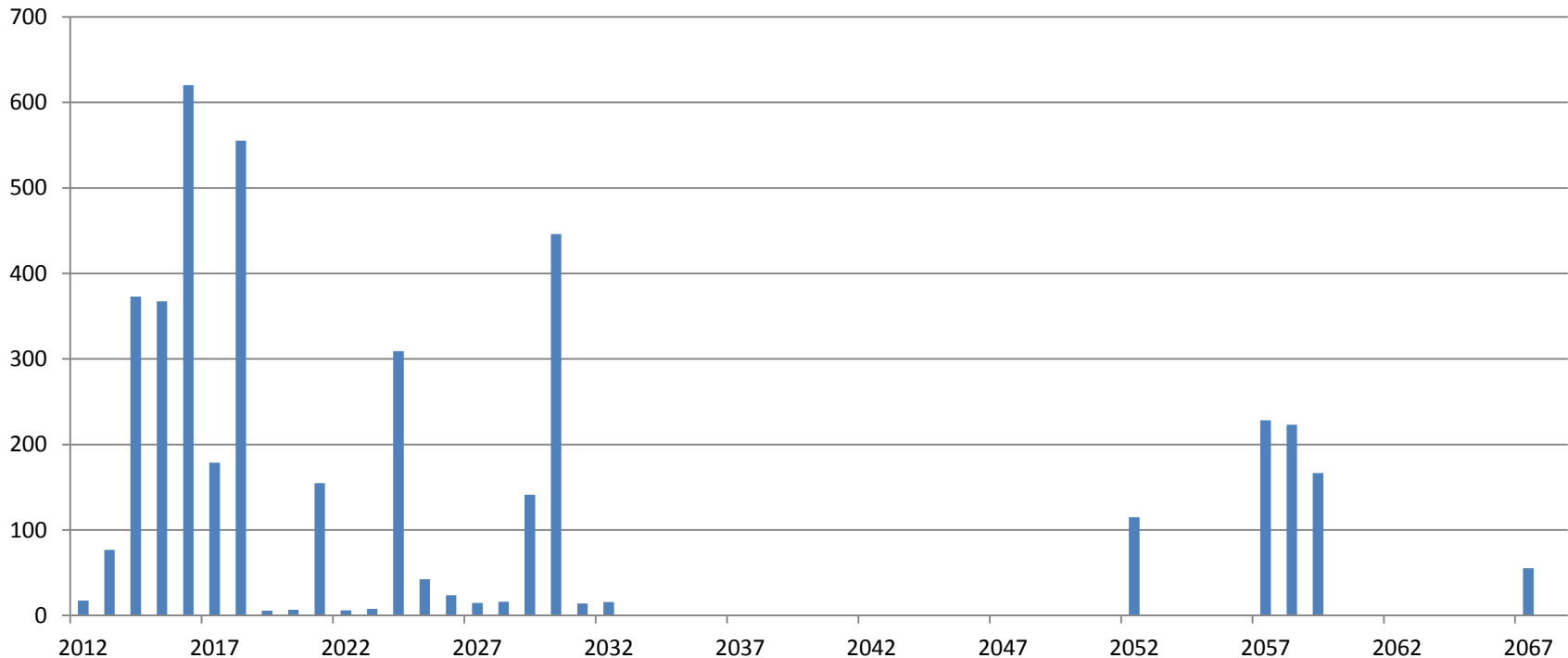
* Including cross currency swaps

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

***Before exceptional items

Debt maturity profile

Maturity profile of gross debt (£ millions)



Average maturity of around 15 years

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

Summary

Delivering planned opex - good cost control

Investment in efficiencies supports strength of balance sheet

Prudent investment in our networks

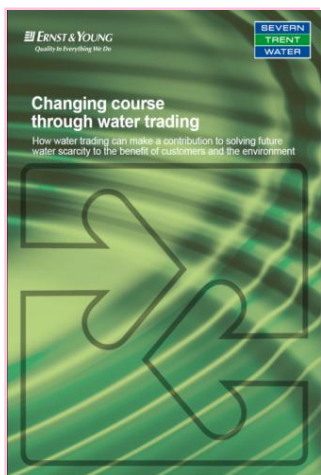
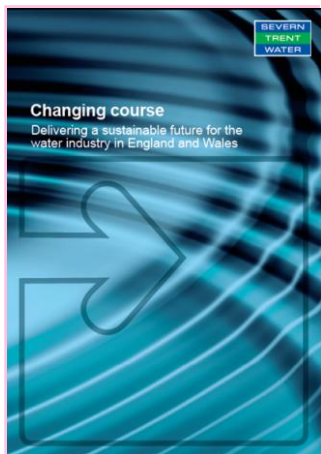
Clear funding requirement for AMP5

Stable credit ratings

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Ofwat consultations and White Paper

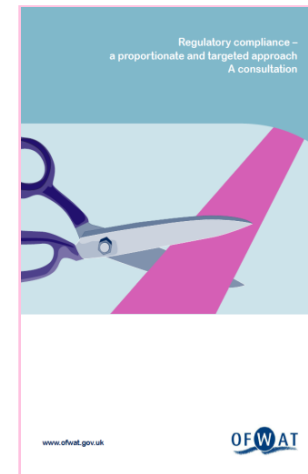


Ofwat

- 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



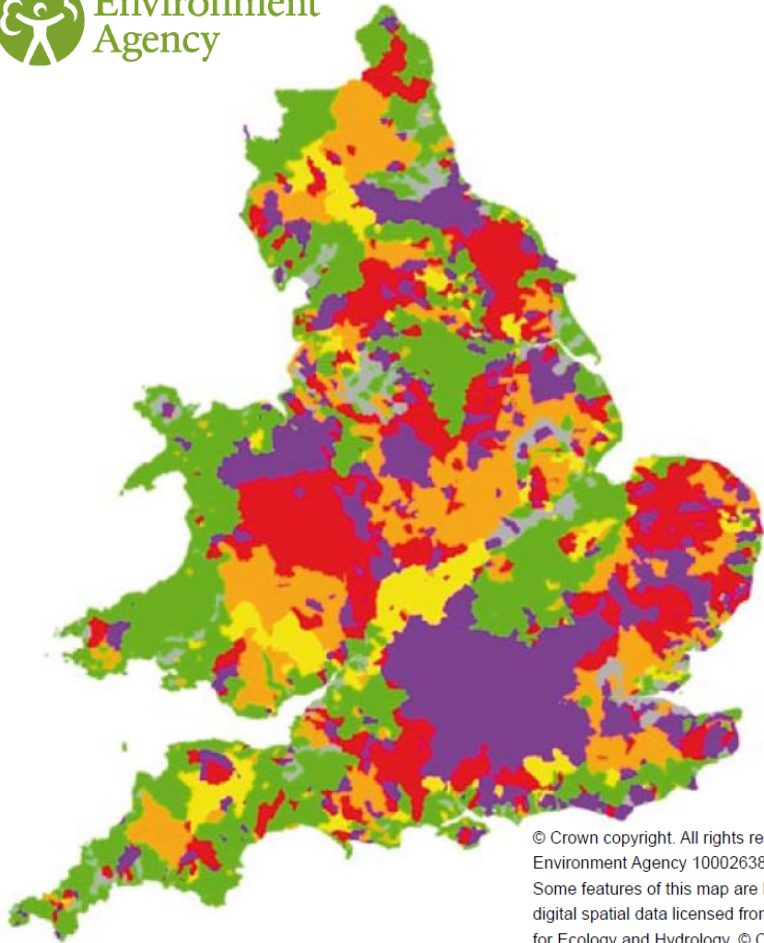
Water Trading

The issue

Abstraction levels



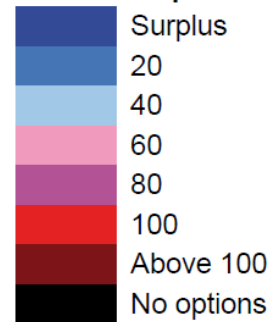
Environment
Agency



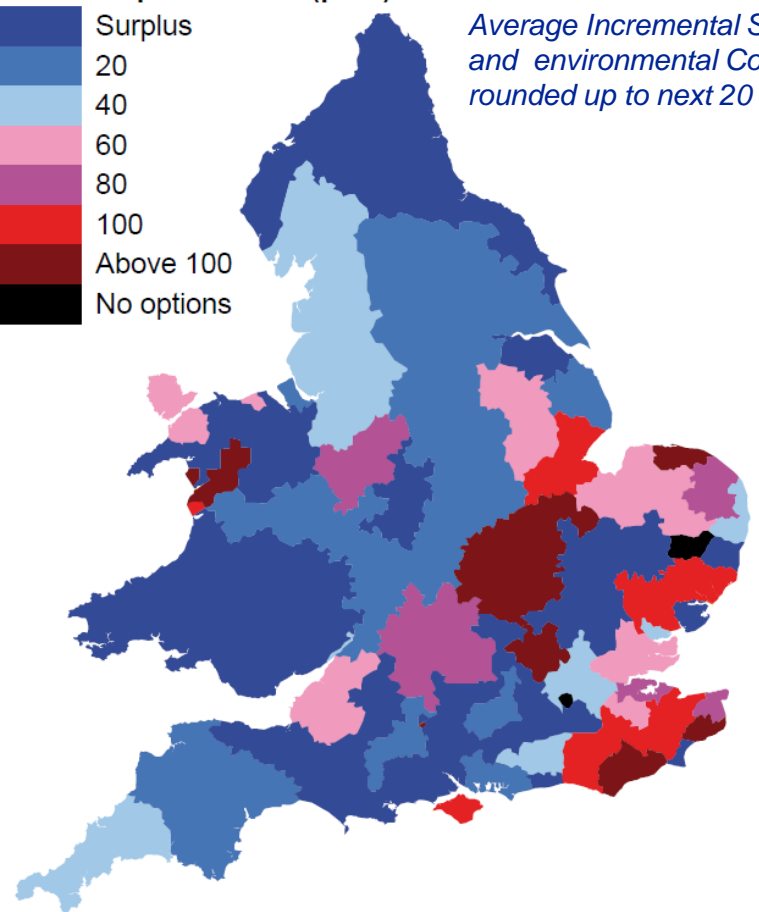
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Environment Agency 100026380. 2004.
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Indication of abstraction across England and Wales, taking account of needs in downstream catchments, Environment Agency, July 2010

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.

Water Trading

The opportunity for Severn Trent



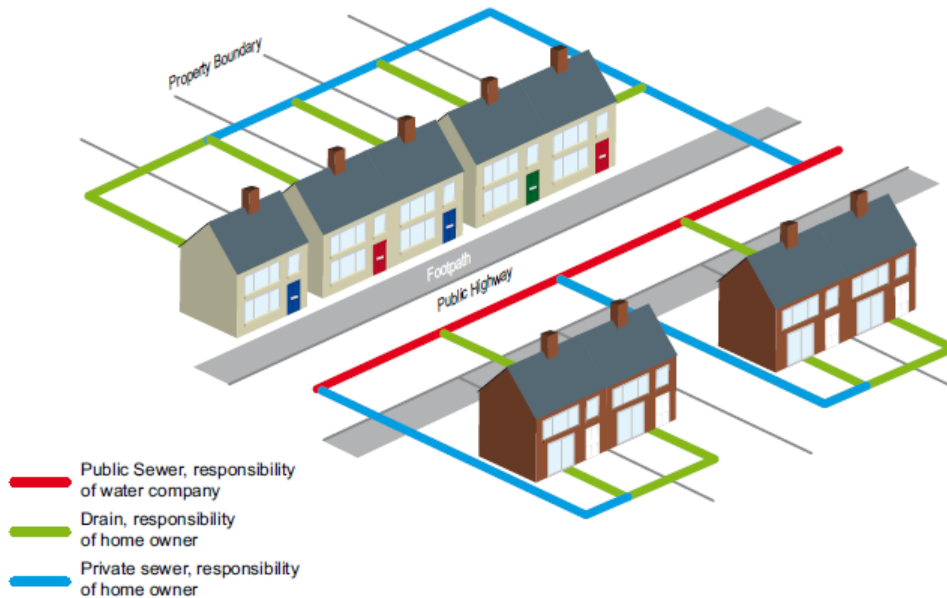
- Our long term demand / supply is broadly balanced
- Opportunity to be the trading “hub”
- Efficient operator - lowest bills in England and Wales
- Opportunity for further RCV growth / additional income
- Within / outside regulated business

Private Drains and Sewers (PDaS)

Overview

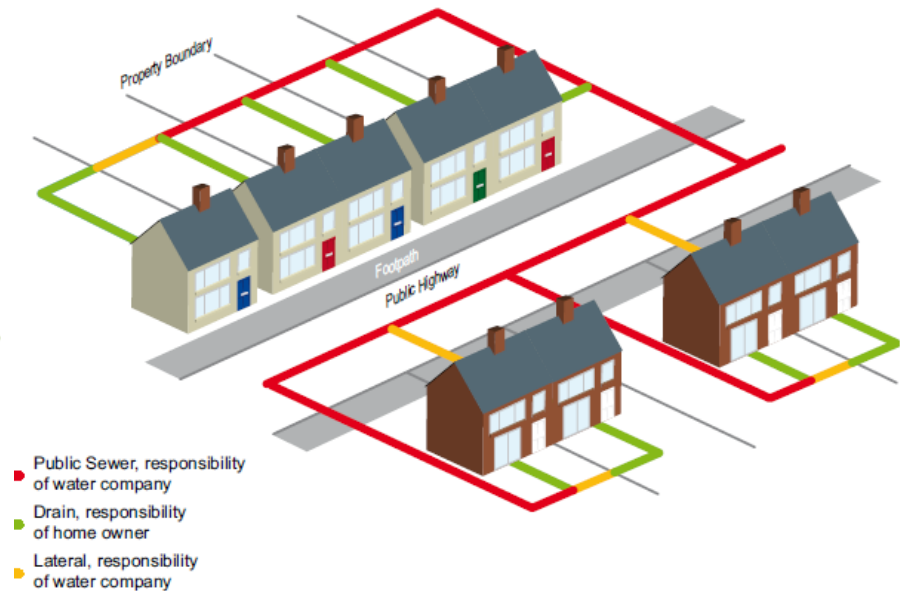
Pre 1 October

- 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

- 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



Summary

Ongoing requirement for prudent investment in our networks

Shaping the regulatory debate

Water trading – an opportunity

PDaS – a long term positive

Right strategy for today and tomorrow

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Key Publications

Water Trading

www.stwater.co.uk/watertrading

Changing Course

www.stwater.co.uk/changingcourse

Response to David Gray's Review of Ofwat
Response to Defra's Natural Environment
consultation

www.severntrent.co.uk/server.php?show=nav.32

Investor Day 16th December 2010

www.severntrent.co.uk/server.php?show=ConWebDoc.623

Cost of capital paper – “The world has turned”

www.severntrent.co.uk/upload/pdf/Cost_of_capital_for_web.pdf

25 Year Strategy

www.stwater.co.uk/server.php?show=nav.6367

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Appendix - Simplified debt structure

