

Delivering the future of water

Shareholder summary 2013

**SEVERN
TRENT**

‘We continue to set ourselves high standards in everything we do and the continuous improvement that we see owes much to the hard work and commitment of our team at Severn Trent.’

Andrew Duff, Chairman



2013 Severn Trent group highlights

- Delivering on dividend policy – 8.2% growth vs. 2011/12.
- Total shareholder return in the current regulatory period (AMP5)¹ – 72%.
- Creating long term value through efficient investment – £555 million invested this year.
- Continued growth in RCV² from £7,089 million to £7,364 million (+3.9%).
- Delivered significant operational improvements and higher levels of customer service
 - Improved or stable performance on 13 out of 14 Ofwat KPIs year on year.
 - Customer satisfaction (SIM score) improving.
- Efficiency improvements at Severn Trent Water helping to offset additional infrastructure investments.
- Non-regulated business delivered revenue growth year on year³.
- Well prepared for next price review.
- Full year dividend for 2013/14 set to be 80.40 pence, up 6%, in line with current RPI+3% growth policy.

1 1 April 2010 to 31 March 2013. TSR assumes reinvestment of ordinary and special dividends.
2 Regulatory Capital Value.
3 Excluding the impact of structural changes, exchange movements and exceptionals.

Good financial performance

In 2012/13, our financial performance was as expected. Total group revenue increased by 3.4% to £1,832 million, while underlying group profit before tax decreased 3.3% to £266.3 million. This resulted in adjusted basic earnings per share of 98.9 pence, up 11.2%.

Our policy during this current five year period to March 2015 is to increase our dividend each year by 3% more than the retail price index. The board therefore proposes a final dividend of 45.51 pence, to be paid on 26 July 2013. This will give a total dividend for the year of 75.85 pence, an increase of 8.2%.

During the year we were pleased to return a further £150 million to shareholders, through the special dividend of 63 pence per share in July 2012 and we also announced the investment of an extra £150 million in our water and waste water network for the benefit of our customers. This reflects our ability to create value from the business plan approved by our regulator to the benefit of both customers and shareholders.

Customers and shareholders have benefited from our consistent delivery over recent years. Since the start of the current cycle on 1 April 2010, Severn Trent's total shareholder return including special distribution has been 71.71%, well ahead of the 25.57% return from the FTSE 100 and the 61.4% achieved by the utilities sector as a whole.

I would like to use this opportunity to note my thanks to our Chief Executive, Tony Wray, who has informed the board of his intention to retire from Severn Trent in Spring 2014.

With a strong Executive team in place the timing of his decision provides us with the continuity of leadership and the necessary time to search for and identify his successor over the coming months.

Group turnover £m

£1,831.6m	2013	1,831.6
	2012	1,770.6

Group profit* £m

£266.3m	2013	266.3
	2012	275.3

* before tax, exceptional items and losses on financial instruments

Earnings per share* pence

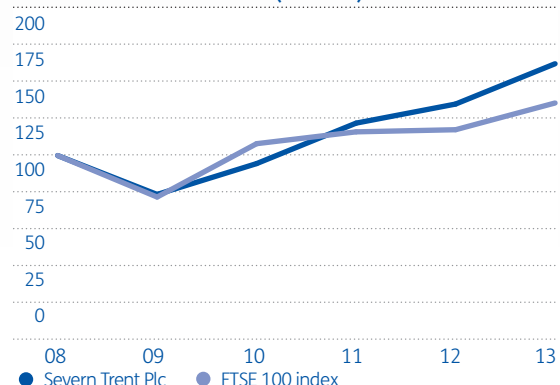
98.9p	2013	98.9
	2012	88.9

* before exceptional items, losses on financial instruments and deferred tax

Dividends pence per share

75.85p	2013	75.85
	2012	70.10

Total shareholder return (value £)



This graph illustrates the value, by 31 March 2013, of £100 invested in Severn Trent Plc on 31 March 2008 compared with the value of £100 invested in the FTSE 100 Index. The intermediate points show the value at intervening financial year ends. Source: Datastream

Chief Executive's review

'The world is changing for water companies and Severn Trent leads the way in shaping that change. We are continually improving our performance, improving our customer service and positioning the group for sustainable growth.'

Tony Wray, Chief Executive



A strategy to deliver the future of water

Our 'Focus on Water' strategy, with the goal of creating sustainable growth through our focus on water and waste water services in the UK and key international markets, drives everything that we do. This strategy recognises that the boundary between our regulated and non-regulated activities is moving and that in future, we will generate returns from a broader range of operations across the regulated and non-regulated areas. As one of the UK's biggest water and waste water companies, Severn Trent is well positioned to succeed.

Our focus on sustainable growth means that we balance the needs of our customers, our people, the environment and investors. Achieving this balance leads directly to good financial performance and delivers value for our customers and investors today and in the longer term.

We recognise that economic conditions are tough and that our customers have seen their incomes squeezed. While prices will inevitably rise because of the ongoing need for investment, we're determined to keep them as low as we can and deliver value for money. This means further improving our service, protecting customers from the effects of drought and floods and providing them with water that's good to drink and always available.

Protecting the environment is also key because we and our customers depend on it to provide the resources we need.

Efficient investment allows us to deliver sustainable returns for our shareholders. Our strategy is to remain focused on water and waste water services.

Our people are central to our future. We work hard to make sure they have the skills and tools they need, and are motivated to continually improve our service to customers.

With significant changes in the sector approaching, we keep our strategy under constant review. This includes having open and constructive relationships with key stakeholders, such as customer representatives, our economic and environmental regulators and our investors, so we understand what they expect from us. We then formally review our strategy each year, involving both the Executive Committee and the board, so it remains relevant, balanced and sufficiently forward looking.

Business performance review

The group delivered a good financial performance during the year, despite challenging conditions in some markets. This underpins our dividend promise, which is to grow our dividend by 3% more than the retail price index up to 2014/15.

We also maintained our financial stability, by continuing to refinance our existing debt and issuing new debt to support our investment programme. This included our first ever retail bond, which raised £75 million.

Looking forward

Severn Trent is well positioned as the UK industry enters the next phase of development. We have accepted Ofwat's proposed licence modifications and are aligned to the agenda for regulatory reform and the Water Bill, both of which we continue to help shape.

Our preparations for the next Price Review in 2014 (PR14) are progressing well. Customers are at the heart of our planning, through the widespread engagement we've already conducted and through our customer challenge panel, the Water Forum. Further details are available on our website.

Regulatory and political support for water trading is growing and companies are likely to be incentivised to trade in the future. Severn Trent has an ongoing dialogue with neighbouring companies and we are well placed to benefit from more effective use of the country's water resources.

Looking further ahead, companies will have to ensure they're sustainably financed. The utilities sector in the UK will need to find billions of pounds for investment and it isn't certain that all of this can be done through debt. Equity is therefore required to play a part, which means companies will have to be able to earn an appropriate return to attract that funding. We published important discussion papers on this subject during the year.

In summary, Severn Trent is operating from a great base. We have the right people doing the right things and delivering the right outcomes. Our markets around the world need clean water and waste water services, and we have the right focus to prosper.

Regulated – Severn Trent Water

Focused on continuous improvement

Our customers benefited for the fourth year running from the lowest average bills for water and sewerage combined in England and Wales. Whilst prices increased they were below the industry average. We continued to supply customers with excellent drinking water and, despite the drought at the start of the year, we once again avoided a hosepipe ban.

Our UK regulated business, Severn Trent Water, continued to improve its operational and environmental performance. These improvements, along with effective procurement and capital delivery, help us to be more efficient. In this Regulatory Period we are re-investing £150 million of our efficiency gains into our plant and networks to improve services for our customers further.

This investment contributed to our ongoing performance improvement. We cut leakage to a 20 year low and beat our target. Underlying levels of interruptions to supply also fell, with our Ofwat measure improving, although a handful of burst mains which affected numerous customers meant that we didn't meet our internal target. We further reduced pollution incidents, while compliance at our waste water treatment works reached a new record high, contributing to improving river water quality.

During the year, we delivered the outputs that Ofwat required from us. We were pleased to see that recent investment in the flood defences at the Mythe Water Treatment Works proved their worth as the plant withstood exceptionally heavy rains and flooding. We also reduced the number of homes at risk of sewer flooding and there are now fewer properties on the 'at-risk' register than ever before.

In previous years, we've identified customer service as an area where we would like to improve. Our customer experience programme is changing the way we think about how we interact with our customers, which has led to pleasing improvements in our customer service scores, as measured by Ofwat's Service Incentive Mechanism (SIM).

This contributed to a customer satisfaction level of 4.36 out of 5 in our SIM quantitative survey, as well as falling levels of complaints. However, we know we have much further to go and we are not complacent. This includes resolving more of our customers' issues to their satisfaction on first point of contact and continuing to invest in our people, to help them form a better appreciation of our customers' needs and concerns when they have to contact us.

Our combined SIM score for 2012/13 was 78.1 against 69.9 in 2011/12. This represents a 12% year on year improvement and we're the most improved water and waste water company.

Key facts



Drinking water supplied per day

1.8bn
litres



Waste water collected per day

1.4bn
litres



Employees

5,631
as at 31 March 2013

 Severn Trent Water website:
www.stwater.co.uk

Non-regulated

Driving new markets in the UK and overseas

We improved our operational and financial performance in our non-regulated business. Like for like revenue in Severn Trent Services grew by 5.3% and we maintained underlying profits after investing further in business development.

We strengthened our Severn Trent De Nora business by acquiring some electrochlorination technologies from Chlorine Engineers Corp for £1.3 million. This gives Severn Trent De Nora an opportunity for future growth in Japan. Our Operating Services business won several new contracts in the US, including 21 from SouthWest Water Company as they exited contract operations in the Texas Municipal Utility District. We recently agreed to acquire service contracts with 10 municipalities and three private entities in California which will provide us with a base for growth in the Western US. We reorganised our products business to create a regional structure, which will bring it closer to its customers and reduce costs by sourcing and assembling more locally. We also sharpened our focus by disposing of the metering and analytical services businesses. Disposal of our analytical services business also satisfied an undertaking made to Ofwat who have now closed the section 26 investigation into this market.

In the UK, we're driving forward retail competition with the UK's first retail switch when we signed major dairy First Milk as a customer, including sites in England, Scotland and Wales.

We also continue to leverage our sector leading position in renewable and green energy. For the second successive year, we generated around one quarter of the electricity needed by our UK regulated businesses. We lead the UK in anaerobic digestion technology and are developing plans to expand into the emerging UK opportunity from food waste digestion. During the year, we also extended our crop digestion plant in Nottinghamshire and started construction of the first of three large wind turbines.

 Severn Trent Services website:
www.severntrentservices.com

Key facts



Orderbook

£49.6m
as at 31 March 2013



Employees

2,339
as at 31 March 2013

Looking forward

Since we published the first of our Changing course documents back in 2010, Severn Trent has played a leading role in shaping the future of the UK water industry.

We've continued this engagement in the last 12 months, with a series of new publications. We issued a paper on designing balanced incentives that drive the right behaviour by water companies. KPMG wrote a report for us on financing water infrastructure beyond 2015. And alongside National Grid, we produced a paper on encouraging equity financing in the water and energy sectors.

We're pleased that our efforts have been productive. The changes from the UK Government, in the form of the Water Bill, and from Ofwat in its recently published consultation on the framework for PR14, are aligned with our own proposals. Together, these promise the most significant changes to water industry regulation since privatisation in 1989.

The challenges for the industry

Water industry regulation needs to change because the sector has to deal with significant challenges in the coming years.

Affordability is a key theme for the next five years. Households are facing declining real incomes and welfare reform, intensifying the need to keep water bills as low as possible. Pressure is also coming from business customers, who want to better manage their costs and have greater choice of water supplier.

We need to respond to climate change and water scarcity. Recent experience shows that the UK's weather patterns are changing, with droughts followed by floods. Water companies need to effectively manage customer demand, make better use of existing water resources on a national rather than regional basis, and increase the network's resilience. This would also create more capacity to move water, making water trading between regions easier.

The water industry must also be more sustainable. This means rebalancing abstraction and taking less water from areas where it's already affecting the environment. It also requires the industry to reduce its bias towards capital expenditure and promote operational solutions, such as improving catchment management rather than building new treatment works.

In summary, we support the general direction of the Water Bill and the PR14 framework. While the changes they propose are evolutionary rather than revolutionary, they are still significant and will help the industry to address its challenges. We're pleased to have played an important part in shaping these proposals and will continue to do so as they progress.

Details of the AGM

This year's AGM will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 17 July 2013. Full details, including the business to be considered and explanatory notes for each resolution, can be found in the enclosed Notice of Meeting.

The doors will open at 10am. There will be also be the opportunity to meet with your board of directors before the meeting begins and to register for this year's Shareholder Networking Programme. Whether you are planning to attend the AGM or not, you can still register your vote by returning the enclosed Form of Proxy or, alternatively, by registering your vote electronically at www.sharevote.co.uk

Dividend information

The directors are recommending a final dividend of 45.51 pence per ordinary share, for the 2012/13 financial year. If approved by shareholders at the company's AGM, the dividend will be paid on 26 July 2013 to shareholders on the register of members on 21 June 2013. Together with the interim dividend of 30.34 pence per ordinary share, paid on 11 January 2013, this will bring the total dividend, for 2012/13, to 75.85 pence per ordinary share (2012: 70.10 pence).

On 27 July 2012 a special dividend of 63.0 pence per ordinary share was paid to shareholders.

The company's financial calendar, with details of future results announcement dates and dividend payment dates, is available at www.severntrent.com

Contact information

For shareholders:

Visit www.severntrent.com to access the full report and accounts and for additional company information.

If you have any queries relating to your Severn Trent shareholding you should contact our registrar, Equiniti.

Equiniti contact details:

Online: <https://help.shareview.co.uk> from here, you will be able to securely email Equiniti with your query.

Telephone: 0871 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0871 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

* Calls cost 8 pence per minute plus network extras. Lines are open from 8.30am to 5.30pm Monday to Friday.

For customers:

Customers of Severn Trent Water can find further information by visiting www.stwater.co.uk

If you have any queries related to our services you can contact us via one of the following:

Email: customer.relations@severntrent.co.uk

For billing queries call 08457 500 500 (8am to 8pm Mon-Fri and 8am to 1pm Sat).

For operational emergencies (24 hour service) please call 0800 783 4444.

**SEVERN
TRENT**

This summary is distributed with your Notice of Meeting each year. It provides high level information from our financial results together with a summary of our performance, and brief details of this year's dividends and our AGM. The full report and accounts, together with additional company information, is available on our website www.severntrent.com

This Shareholder summary is extracted (without material adjustment) from, and should be read as an introduction to and in conjunction with, Severn Trent Plc's 2013 Annual Report and Accounts (ARA). This Shareholder summary is provided for information only, and is not intended to be a substitute for reading the ARA. In particular, this Shareholder summary does not constitute Summary Financial Statements and it does not contain sufficient information to allow for as full an understanding of the results of the group. Shareholders may view a copy of the ARA on www.severntrent.com or obtain a hard copy of the ARA free of charge, by contacting the company using the above details. If you have sold or transferred all your shares in Severn Trent Plc, you should send this document to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.