

Delivering better value, better services, and a healthier environment

Shareholder summary 2014

SEVERN

TRENT



We have continued to make significant long term investment in our regional water and sewerage infrastructure, whilst keeping bill rises on average below the rate of inflation”

Andrew Duff, Chairman



Sustainable returns

We have made progress this year in a number of areas and again delivered a good financial performance.

Total group revenue rose by 1.4% to £1,856.7 million, while underlying group profit before tax was 7.1% higher at £269.1 million. This resulted in adjusted basic earnings per share of 88.4 pence, down 4.5% from 92.6 pence.

For 2013/14, the board is proposing a final dividend of 48.24 pence, to be paid on 25 July 2014. This will result in a total dividend for the financial year of 80.40 pence, representing growth of 6.0%. This is in line with our policy for the current regulatory period to March 2015 of growing the dividend each year by 3% more than the retail price index.

As ever we aim to strike a balance between improving our services and keeping bills low for our customers, whilst providing a fair return for our shareholders. Our shareholders and our customers have benefited from our consistent delivery over recent years.

Since 2005, we've delivered a total shareholder return of 205.7%, well ahead of the 86.8% return from the FTSE100.

In May 2012, we announced that we would invest a further £150 million in improving our water and waste water networks for our customers whilst at the same time returning £150 million to shareholders by way of a special dividend. To date we have invested a further £120 million in our networks and services with more to come in 2014/15.

Andrew Duff, Chairman

2014 Severn Trent group highlights

- In line or below inflation bill increases for last four years – Severn Trent remains lowest average combined bill in England and Wales
- Increased investment – £602 million capital expenditure (+8% year on year) – continues to improve services for the benefit of customers
- Customer service, sewer flooding and supply interruptions all improving
 - Improved or stable performance on 10 out of 14 Ofwat KPIs year on year
 - Customer satisfaction (SIM score) improved for 3rd consecutive year
- Continued growth in RCV^{1,2} from £7,364 million to £7,618 million (+3.4%)
- Group underlying PBIT rose 4.3% year on year
 - Severn Trent Water underlying PBIT rose 4.0%
- Delivering on dividend policy – 6.0% growth year on year to 80.40 pence
- Constructive engagement with Ofwat on 2015-2020 business plan. Revised plan submission by 27 June, draft determination expected 29 August, final determination expected 12 December

Group turnover

£1,856.7m

2013: £1,831.6m

Group profit*

£269.1m

2013: £251.3m (restated)**

Earnings per share**

88.4p

2013: 92.6p (restated)**

Dividend per share

80.40p

2013: 75.85p

* Before tax, exceptional items and gains/losses on financial instruments.

** Before deferred tax, exceptional items and gains/losses on financial instruments.

*** Adjusted for adoption of IAS 19R.

Severn Trent Water Key facts



Drinking water supplied per day

1.8bn litres



Waste water collected per day

1.4bn litres

1 Regulatory Capital Value.

2 March 2014 vs. March 2013.

Chief Executive's review



I'm excited by the prospect of leading the next phase of Severn Trent's development. The business is performing well, is soundly financed and is poised to take advantage of the continuing development of our industry."

Liv Garfield, Chief Executive



Introduction

I'm delighted to have joined Severn Trent, a forward looking and industry leading business.

I appreciate all the hard work from Tony Wray and his colleagues over recent years and I'm looking forward to continuing to deliver for our customers, our shareholders, our regulators and our great people at Severn Trent.

Another year of delivery

This was a good year for Severn Trent's regulated business, as we delivered on our commitments to our customers, the environment, our investors and employees.

Our customers once again benefited from the lowest combined water and waste charges in England and Wales. The cumulative price increase over the past five years is below inflation. We intend to maintain below inflation increases, on average, through to 2020.

We improved our operational performance despite difficult weather, with a hot summer followed by a winter of prolonged rain and high winds. Although the rain affected the quality of our raw water, we continued to deliver high levels of water quality compliance. Our overall water quality continues to be amongst the best in the UK; however we know we have more to do in delivering the improvements identified in the Drinking Water Inspectorate (DWI) Chief Inspector's report. We remain committed to ensuring our customers continue to receive water of the highest quality.

We further reduced the average duration of interruptions to supply. We remain on track to hit our leakage reduction target over the current regulatory cycle and we again reduced the number of properties suffering internal sewer flooding.

While our operating performance is good across most parts of our business, some other performance areas did not meet the required standard. Three of the twenty indicators used to assess the long term health of our assets are not performing within the required levels. This in turn has resulted in three of the four serviceability areas (each with one failing indicator) being assessed as marginal. We recognise this performance is not what our customers expect, and we have put actions in place to address this. We have included shortfalls in our 2015-2020 business plan in recognition that we have not delivered the level of performance we had set ourselves.

Also our customer service hasn't always been as good as we would like. We are committed to delivering the best possible experience for our customers and are focusing on training, better systems and processes and new ways for customers to interact with us. One area where we have targeted improvements is on our New Connections process. We recognise the need to provide customers with a fast and efficient service and are committed to doing better to meet developers' expectations.

This year, we've again seen our efforts reflected in our improved Service Incentive Mechanism (SIM) score, as measured by Ofwat, but there is still much more to be done.

Our SIM score really matters to us – it tells us if we are delivering 5 out of 5 performance every time, every day for our customers. We know we have lots still to do and that we need to deliver improvement quickly to keep pace with changes in customer behaviours and expectations. We've made good progress in our Quantitative SIM scores with a 14% improvement this year, meaning that customers are receiving a more responsive service from us. Our Qualitative SIM score, which captures how our customers feel about their interaction with us, is where we need to place more focus in the year ahead. For the year as a whole for this measure, our score is 4.48 compared to 4.36 in 2012/13. Although this leaves us in seventh place out of the 10 water and waste water companies, we are improving at a faster than average pace.

Severn Trent has one of the lowest levels of bad debt in the sector, at around 2.2% of revenues. This is important for our customers because those who pay bear the cost of those who don't. We therefore put considerable effort into ensuring that customers who can pay actually do pay and we have invested in new technologies that make it easier than ever to do so.

However, we recognise that economic conditions remain tough. As a responsible business, it's important that we help people who are genuinely unable to pay, so we have a comprehensive range of social tariffs. Our relationship with the Citizens Advice Bureau also helps customers to address their broader financial problems.

We continued to look after the environment during the year, with our investment programme producing further environmental improvements that also benefit our customers. We cut the number of sewer blockages and we reduced the number of serious pollution incidents by over a third. We're also improving the quality of our rivers, achieving our best ever waste water treatment works compliance of 99.29%. Knowing that we will supply them with water is critical for our customers and the security of supply index measures our ability to supply water in a drought. Our score this year was 100 (based on our Ofwat measure), reflecting the work we've done to improve resilience and extract water sustainably.

Our non-regulated business delivered a mixed performance, with growth in revenue and profits at Operating Services on the back of new contract wins and acquisitions, contrasting with a disappointing performance in Products, which recorded a loss for the year. A new management team has been installed with plans launched to reduce the cost base and return the business to profitable growth over the next 12 months. We have taken a cautious view of the risks relating to these actions, and the costs are reflected in these results, whilst the benefits will be seen progressively throughout the coming year.

We've also delivered for our investors. Our focus on efficiency, continuous improvement and sustainable financing helps us to maintain our dividend commitment to our shareholders.

Our tax position this year reflects an outline agreement we have reached with HMRC on a long standing discussion regarding overpayments of tax in prior periods and have now factored this

into our business plan for 2015–2020 to support lower customer prices in the next regulatory period (AMP6).

This performance and continuous improvement is made possible by our committed and experienced team. Good performance is underpinned by doing things the right way, safer, better and faster. Our teams have sustained last year's industry leading safety performance.

On behalf of all of my executive colleagues, I would like to thank our employees and supply chain partners for their continued commitment.

Looking forward, conclusion and outlook

Severn Trent has submitted a balanced plan for AMP6, which offers better services and continued better value for customers, along with a healthier environment. At the same time, our plan will deliver investment and growth in our business, to produce fair and sustainable returns for our investors. We continue to work with Ofwat to conclude the price review process. We expect a draft determination from Ofwat on 29 August and a final determination on 12 December 2014.

Regulated – Severn Trent Water

Delivering better value, better services and a healthier environment

Our goal is to be the UK's best water and waste water company. This means we must deliver better value and better services to customers and investors, while protecting the environment on which we depend.

To reach our goal and meet our customers' needs, we set 10 long term objectives in 2013. Each year, we report against our objectives and explain how we've improved our performance.

Details of our performance are set out in the Annual Report and Accounts, which is available online (www.severntrent.com)

Objective 1. We will provide you with water that is good to drink

Objective 2. We will ensure water is there when you need it

Objective 3. We will safely take your waste water away

Objective 4. We will provide you with excellent customer service

Objective 5. We will have the lowest possible charges for our customers

Wales remains an important area of operation for us. We welcome the publication of Welsh Government's Water Strategy and we will be playing our full part to make a success of its implementation. We also welcome the publication of the Silk Commission's report into further devolution and look forward to ongoing discussions about ensuring our customers in Wales continue to receive excellent value for money.

My focus for the next 12 months will be on making sure our customers are right at the heart of Severn Trent and delivering further operational and process improvements, so that we are ready to deliver on our plan for the next five years. Under our current dividend policy, the dividend for 2014/15 is set to be 84.90p, a growth of 5.6%. We will be in a position to communicate our dividend policy for the period 2015–2020 only after we have received the final determination from Ofwat on 12 December 2014.

I look forward to working with everyone in Severn Trent, as we build the next phase of our journey to deliver for our customers, shareholders, employees and the environment.

Liv Garfield, Chief Executive

Objective 6. We will help you if you struggle

Objective 7. We will protect our local environment

Objective 8. We will protect the wider environment

Objective 9. We will make a positive difference in the community

Objective 10. We will finance our business sustainably

Outlook

The next 12 months will see us complete the delivery of our AMP5 plan.

In the coming months we will also finalise our plan for AMP6, so we can continue to deliver for our customers, shareholders, employees and the environment. We'll ensure we're in a position to start delivering it from day one of AMP6.

Ofwat has committed to publishing its final determination of all companies' plans by 12 December 2014.

 [Severn Trent Water website: www.stwater.co.uk](http://www.stwater.co.uk)

Non-regulated – Severn Trent Services

Severn Trent Services delivered a mixed performance in 2013/14. Operating Services performed well, winning new contracts and delivering growth year on year. However, in our Products business shipments were below expectations due to continuing customer project and delivery delays, leading to lower revenues and profit before interest, tax and exceptional items (PBIT) for Severn Trent Services as a whole.

After adjusting for the impact of disposals in 2012/13 and exchange movements, revenue was 1.3% higher but PBIT was down by 48.6%. Reported revenue fell by 5.2% to £311.1 million, while reported PBIT was down 43.7% at £7.1 million.

Our expectations for our non-regulated business remain positive.

Recent new business in Operating Services will provide long term revenue stability, as the business seeks to expand into larger markets through organic growth.

Next generation products and new geographies will provide opportunities for Products, offsetting delayed customer spending in traditional markets. We will continue to invest in BALPURE®, while awaiting IMO ratification of ballast water treatment standards. We also expect to see sustainable growth from our aftermarket sales initiative. While moving to a regional operating structure, we will target continuous improvement across all business segments and ensure we properly manage our supply chain. Having the right cost base and appropriate products for each region will allow us to develop into a sustainable global business.

Our non-regulated renewable energy generation continues to grow as we seek to expand into different technologies and new markets.

 [Severn Trent Services website: www.severntrentservices.com](http://www.severntrentservices.com)

Looking forward

Our business plan for AMP6

Ofwat requires us to produce business plans for each five year regulatory period. In December 2013, we submitted our business plan for the next regulatory period (AMP6), which runs from April 2015 to March 2020. This plan is currently being reviewed by Ofwat who will give us its final determination in December 2014.

Our plan is driven by – and for – our customers. The ‘golden thread’ running through our plan comprises four essential elements.

- Our plan delivers better value for money.
- Our plan is fair and balanced.
- Our plan is robust and reliable.
- Our plan does the right thing for the long term.

A changing regulatory environment

The water industry continues to be affected by a number changes to legislation and regulations.

New legislation introduced this year through the Water Act 2014 brings a number of significant changes to the way the industry operates. In particular, it will allow more competition for non-household customers and greater ‘upstream’ competition which should eventually lead to a more efficient industry.

The European Water Framework Directive (WFD) will be a significant driver of our future capital expenditure. It will help to protect and enhance our rivers, lakes, streams and groundwater. During 2013/14, we published a Changing Course report on implementing the WFD and shared it with the EA. This is our contribution to the debate about achieving environmental improvements at an affordable cost to customers. We’ve also begun to look at which technologies offer the best solution to implementing the WFD, in preparation for AMP6.

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 16 July 2014. 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 48.24 pence per ordinary share, for the 2013/14 financial year. If approved by shareholders at the company’s AGM, the dividend will be paid on 25 July 2014 to shareholders on the register of members on 20 June 2014. Together with the interim dividend of 32.16 pence per ordinary share, paid on 10 January 2014, this will bring the total dividend, for 2013/14, to 80.40 pence per ordinary share (2013: 75.85 pence).

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 Plc website:**
www.severntrent.com

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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 2014 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.