

SEVERN TRENT INVESTOR ROADSHOW

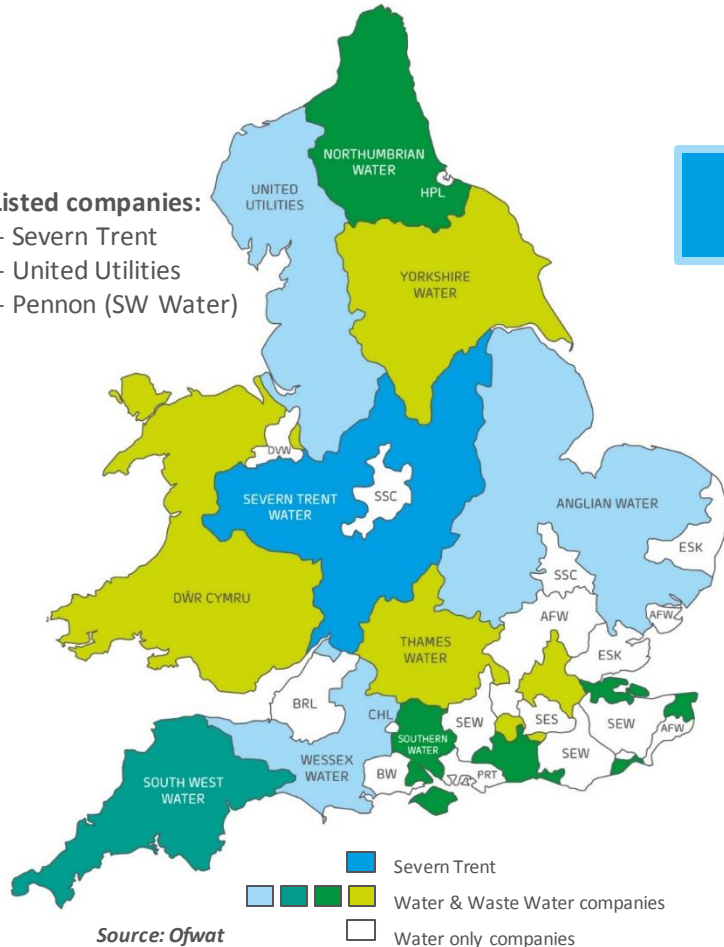
WONDERFUL ON TAP



THE WATER SECTOR IN ENGLAND AND WALES

Listed companies:

- Severn Trent
- United Utilities
- Penlon (SW Water)



Inflation-linked regulatory model offering attractive dividend yields

Value accretion through a growing asset base (RCV⁽¹⁾) with long-term investments in essential assets

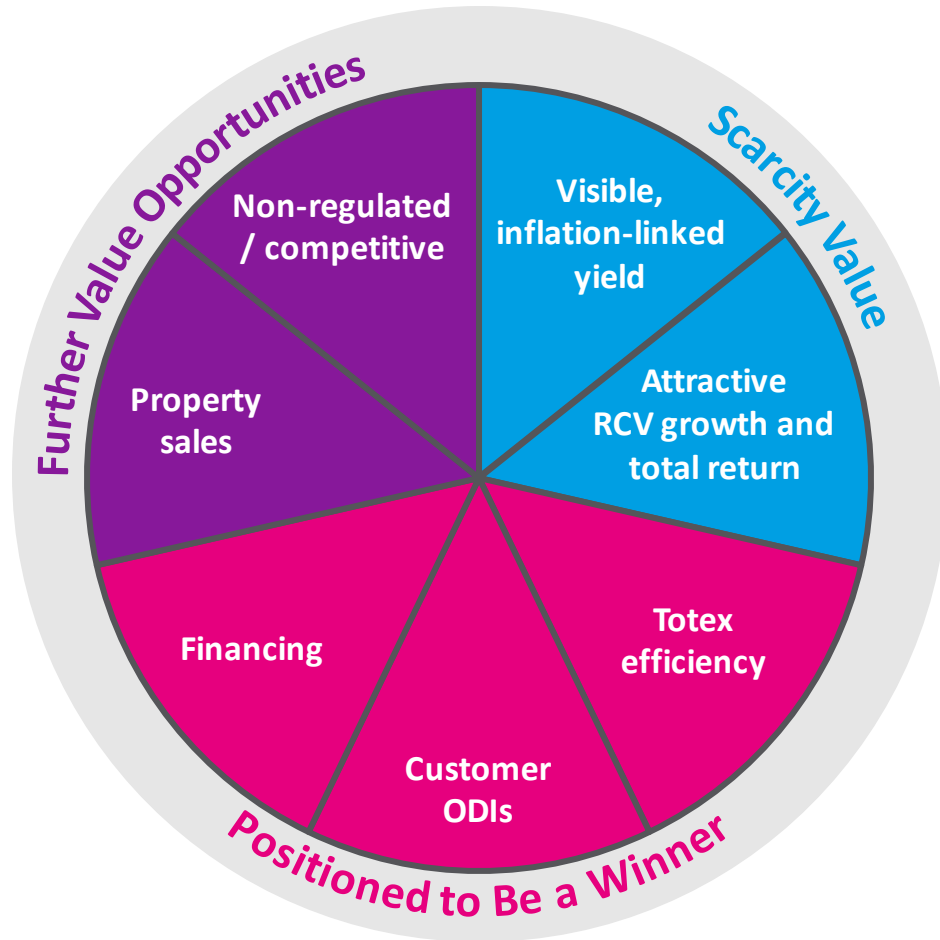
One of the best regulatory frameworks in Europe, with a long and stable track record of independent regulation

Effective incentive mechanisms that reward strong operational performance

Emerging commercial opportunities through greater competition

1. RCV = Regulatory Capital Value

KEY VALUE DRIVERS



**Well positioned to
continue to deliver
enhanced returns to
shareholders**

ATTRACTIVE LONG TERM RETURNS

Severn Trent offers an appealing combined return:

- High near-term dividend yield, reflecting strong AMP6⁽¹⁾ performance
- Continued need for investment growth in AMP7⁽¹⁾ and beyond
- Underpinned by a stable, independent, incentive-based regulatory regime



1. AMP6 = Asset Management Plan for period 2015-2020. AMP7 = Asset Management Plan for period 2020-2025

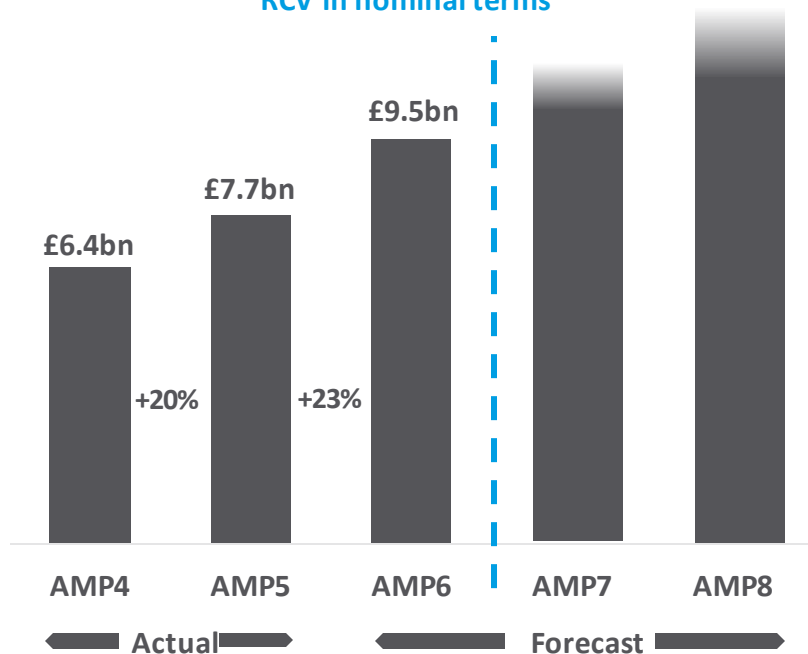
2. Based on 2017/18 dividend of 86.55p and a share price at 1st February 2018 of 1,911p

3. Annual average over AMP6. Assumes RPI of 3.8%, 3.1% and 2.8% for years 2018-2020 (average 3.2%), based on Office of Budget Responsibility forecasts November 2017.

RCV GROWTH

The RCV continues to be a fundamental value driver in the sector
We see significant opportunity for growth into AMP7 and beyond

RCV in nominal terms



With future
growth
driven by:

Unmodelled
expenditure
(UMEs)

Environmental
commitments

Service
improvements

Population growth
and climate change

Ongoing value
accretion through:

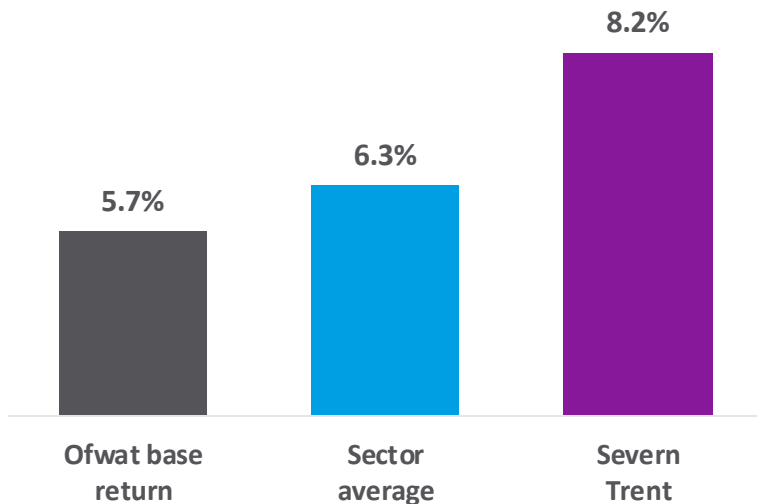
Base RCV equity
per share

Value premium for
outperformance vs
peers

RETURN ON REGULATED EQUITY (RoRE)

RoRE provides a key means of cross-comparing companies in the sector, demonstrating that top performing companies can earn well in excess of allowed returns

Strong cumulative RoRE performance⁽¹⁾
in years 1 & 2 of AMP6...



... with continued outperformance
expected into year 3

Customer ODIs

- Guiding to at least £50m of outperformance payments for 2017/18
- Sector leading performance – in excess of £120m net reward in first three years

Totex

- On track to deliver £770m AMP6 efficiencies, equating to £240m of net outperformance
- £660m efficiencies locked in

Financing

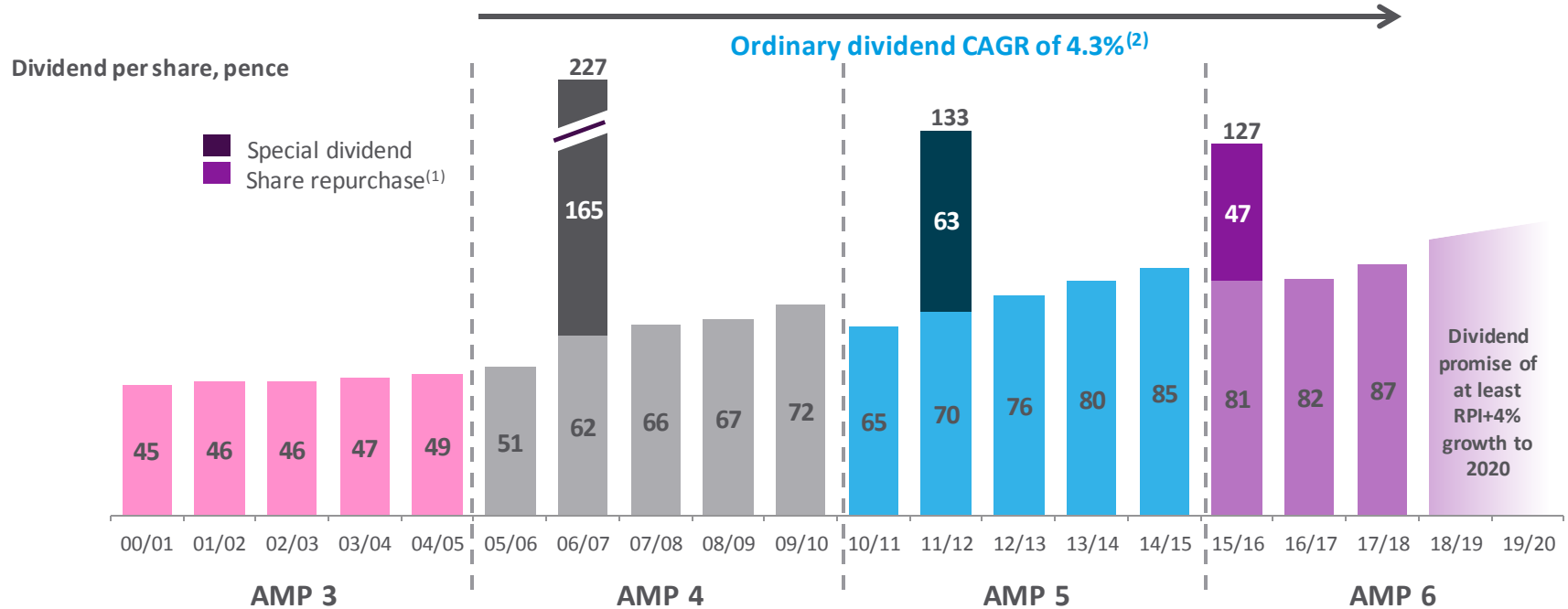
- Effective finance cost of 4.5% at HY 17/18, comfortably outperforming the allowed cost of debt

Ability to demonstrate consistent 1% RoRE outperformance is worth c.£3.50 per share⁽²⁾

1. RoRE as taken from Company Annual Performance Reports, stated at 2012/13 prices
2. Assumes 2.5% inflation growth (RPI/CPI blend) on RCV into perpetuity and CAPM based cost of equity of 6.5%

TRACK RECORD OF DELIVERING RETURNS FOR SHAREHOLDERS

RPI linked dividend growth with additional capital return



1. Based on £111m share buyback divided by 237m shares (average number over buyback period)

2. CAGR calculated from 2006 to 2018

PR19: CLEAR OPPORTUNITIES FOR STRONG PERFORMERS

Clear message from Ofwat in the PR19 Final Methodology: base returns will be lower but strong performing companies, who embrace the enhanced incentive regime, have significant opportunities to deliver attractive returns

PR19 key methodology changes:

Customer ODIs

- Commitment to removing outperformance payment cap⁽¹⁾ (set at 2% of RoRE in AMP6)
- 14 common ODIs proposed, of which three are comparative
- Progressive comparative metrics set to UQ⁽²⁾ each year instead of a year 1 target based on 2024/25 UQ
- Scope to smooth customer ODI outperformance payments into future years

Totex & Retail

- No capping of outperformance
- Companies can now retain up to 60% of wholesale outperformance
- Econometric modelling for water, waste and now retail confirmed, with strong efficiency challenge
- All outperformance on retail and bioresources is kept by the company

Financing

- Retained scope for financing outperformance - indexation of the cost of new debt removes “forecasting” opportunity, but also reduces risk
- Reduction in AMP7 wholesale WACC⁽³⁾ to 2.3%
- Notional gearing reduced to 60% (from 62.5%)
- Embedded debt allowance of 4.6% based on median performance (nominal), above our current cost of debt

Severn Trent has the momentum, culture and drive to maintain outperformance into AMP7

1. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, with £115m remaining

2. UQ = Upper Quartile

3. WACC = Weighted Average Cost of Capital

CATEGORISATION OF BUSINESS PLANS

- Ofwat has confirmed that there will be **four categories** for company business plans

- Exceptional
- Fast-track
- Slow-track
- Significant scrutiny

- They have provided **incentives** for business plans which are fast-track or exceptional

Financial benefits – exceptional

- Benefit equivalent to 20-35 basis points on RoRE⁽¹⁾

Financial benefits – fast-track

- Benefit equivalent to 10 basis points on RoRE

Procedural/reputational benefits – exceptional and fast track

- Gain early certainty on costs and outcomes

Business plans categorised as significant scrutiny will receive reduced cost sharing rates and potentially capped customer ODI payments

CUSTOMER ODIs

AMP6 key achievements

- £71m⁽¹⁾ outperformance payments in first two years of AMP6.
- Significant turnaround in net performance – began AMP6 in a penalty position of >£40m⁽¹⁾
- At least £50m⁽¹⁾ reward forecast for 2017/18
- Expect to hit the Waste cap⁽²⁾ of £190m⁽¹⁾ this AMP – the only company predicted to do this
- Mixed performance on water; but improvement plan established and making an impact
- Instilled a sharper performance culture in the company
- Outperformance payments significantly ahead of our peers

AMP7 opportunities

- Strong customer ODI performance has created a platform for AMP7 outperformance
- To moderate bill increases, potential to smooth earned outperformance payments, creating a more stable earnings profile
- Encouraged by removal of outperformance payment cap (2% of regulated equity)
- Scope for ‘super charging’ of rewards for UQ⁽³⁾ performance on comparative measures
- New customer service measure (C-Mex) to replace SIM⁽⁴⁾. Outperformance payments increase from 6% to 12% of retail revenues



1. Quoted pre-tax at 2012/13 prices

2. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, with £115m remaining

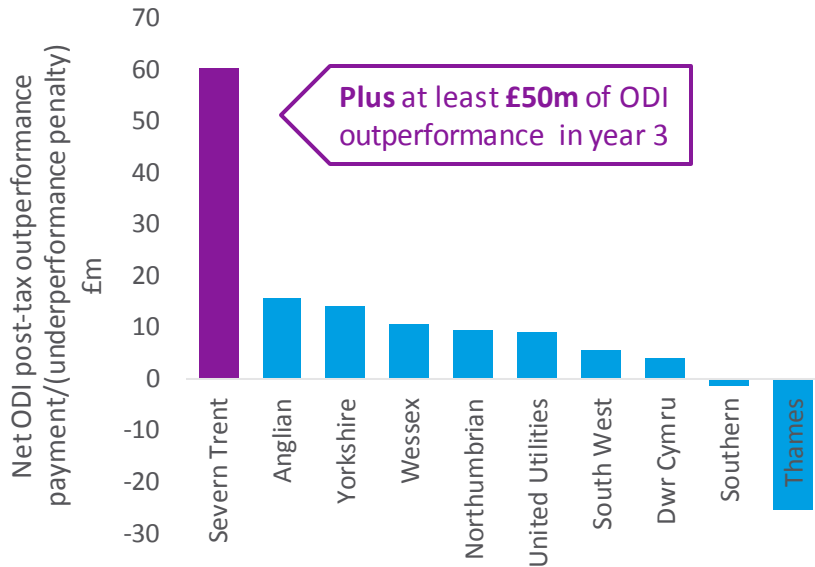
3. UQ = Upper Quartile

4. SIM = Service Incentive Mechanism

CUSTOMER ODIs

MAINTAINING OUTPERFORMANCE INTO AMP7

Cumulative customer ODI performance
Years 1 & 2 of AMP6



Maintaining ODI outperformance into AMP7

- Demonstrated we can achieve significant operational improvements in a short time window e.g. sewer floodings
- Embedded a culture of ODI outperformance and customer focus (comm cells, company-wide bonus, UK Customer Service Index score)
- Already restructured the business to get ready for AMP7

Opportunities through:

Common ODIs

- Upper quartile performer on waste metrics
- Improvement plan well underway for water

Bespoke ODIs

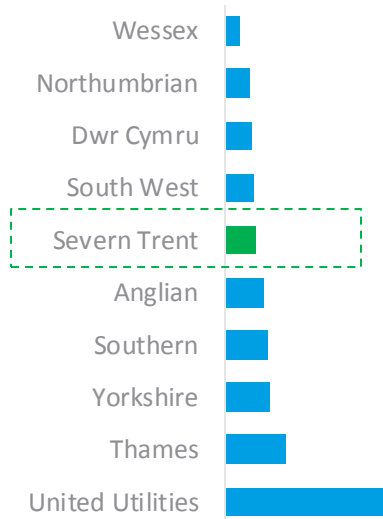
- Customer engagement has revealed new service improvement opportunities
- Scope to be worth a material proportion of total package

STRONG PERFORMANCE ON AMP7 COMPARATIVE ODI_s

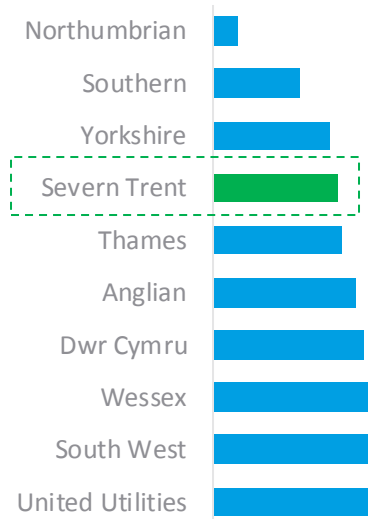
We've created a good platform to succeed, but there is more to be done

2016/17 Performance

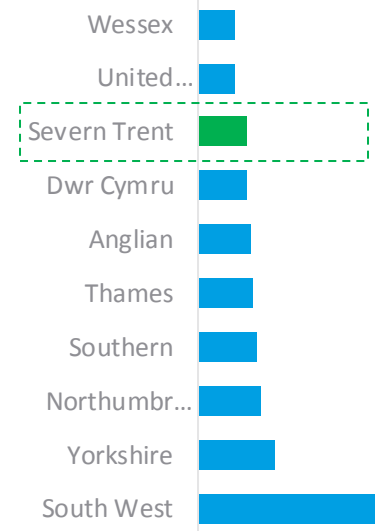
Internal sewer flooding
(per 10,000 connections to sewers)



Supply interruptions⁽¹⁾
(per total properties served)



Pollution incidents
(per 10,000 km of sewers)



Source: Discover Water (<https://discoverwater.co.uk/>)

1. 2017/18 performance expected to fall due to a number of large incidents

AMP6 key achievements

- **£770m⁽¹⁾** total efficiencies forecast for AMP6
- Committed to **£120m⁽¹⁾** of reinvestment in key areas
- Net forecast totex outperformance of £240m^(1,2)
- Demonstrated our ability to meet and exceed tough efficiency targets set by Ofwat
- Top performing WASC⁽³⁾ for bad debt at 1.8%

AMP7 opportunities

- Capping of outperformance to be removed
- Greater retention of wholesale totex efficiencies – up to 60% for most efficient companies
- Strong commitment for funding environmental requirements for National Environment Programme
- Retail and bioresources, core strengths for Severn Trent - 100% of cost outperformance retained by company
- Cost efficiency progress already underway: technology, in-sourcing, materials management, data analytics

Comparative efficiency

	WASTE	WATER	RETAIL
Per PR14 FD ⁽⁴⁾	Upper quartile	Mid-table	Mid-table
Cumulative performance to end 2016/17	Upper quartile	Mid-table	Upper quartile

Aiming for upper quartile across all price controls

1. Efficiencies shown in nominal prices
 2. Net outperformance = £770m total efficiencies - £410m required to meet Final Determination - £120m committed reinvestment
 3. WASC = Water And Sewerage Company
 4. FD = Final Determination

FINANCING

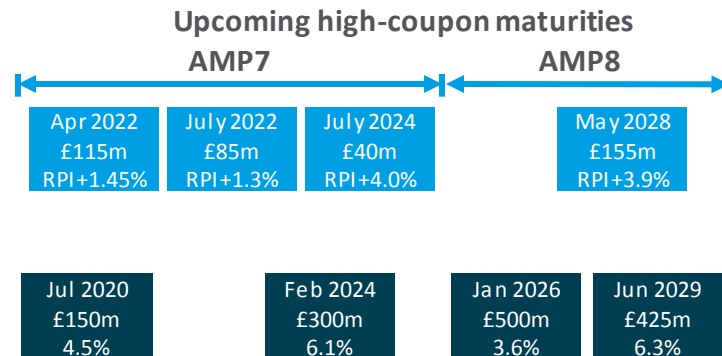
AMP6 key achievements

- Entered the AMP in an unfavourable position: 5.4% cost of debt
- Successful, balanced debt strategy. Delivered a 90bps reduction in financing cost during AMP6 to 4.5% at H1 2017/18, despite higher RPI
- New debt – proven track record of efficient financing in AMP6:
 - £250m 5 year sterling bond at 1.625%
 - £250m 4 year sterling bond at 1.125%
 - £400m 15 year sterling bond at 2.75%
 } Swapped to floating
- Started repositioning debt for introduction of CPI-H by executing £150m of forward-dated RPI:CPI swaps

AMP7 opportunities

- Successful strategy to rebalance portfolio means we are well positioned for AMP7
- Dynamic treasury function who scour the markets for opportunities
- Indexation of the cost of new debt removes some opportunity to outperform, but also reduces risk
- Several high coupon maturities in AMP7, plus further new debt to raise to fund ambitious capex programme
- Gearing levels in-line with Ofwat notional levels

Gross debt profile 30 September 2017			Average interest rate ⁽²⁾	
£5,395m				
Index-linked	£1,417m	26% ⁽¹⁾	RPI + 2%	
Floating	£1,415m	26%	1.7%	
Fixed	£2,563m	48%	5.2%	



1. Includes Dee Valley index-linked debt of £86m
 2. Assuming 6 month LIBOR as at 20 November 2017

FURTHER OPPORTUNITIES TO ENHANCE EARNINGS

Renewable Energy

- Sector leader in anaerobic digestion (AD) technology
- Growth opportunities in sludge, crop, food AD
- Producing the equivalent of **38%** of our energy needs; on track for generating **50%** by 2020
- Capex investment of **£190m in AMP6**
- **22%** growth in renewable energy PBIT in H1 2017/18
- **Natural hedge** against rising sector-wide pass-through costs, making our business more competitive



£100m Property profits

- Surplus land identified for disposal or development potential
- c.£100m PBIT to be delivered over next 10 years, at between £5m – £15m each year

ENGAGING OUR PEOPLE

Creating an Awesome place to work...

Employee engagement

- Significant improvement in quest engagement scores – up 6%
- Higher than global benchmark and rising
- 90% response rate to latest survey

“10 opportunities to improve”

- Employees voted on top 10 opportunities to improve engagement even more
- Range of topics from reducing emails to car parking
- Plans in place to resolve all 10 and good progress being made

Employee involvement

- Over 200 employees volunteered for our Children in Need contact centre
- Also provided contact centres for Sport Relief and Comic Relief



... and aligning our culture/organisation to the challenges of PR19



All employee “Bike on a Boat” CEO roadshow

- CEO hosted 65 events for all 5,500 employees across 26 locations
- Over 5,000 new ‘bold’ ideas generated for AMP7

Challenge cup

- Internal competition to generate efficiency ideas and finding smarter ways to work from employees
- Initiated new drones to inspect our assets

250 new front line staff

- Created new operational roles in our Infrastructure and Asset Creation teams
- Transforming the way we work to help us achieve upper quartile performance

CUSTODIANS OF OUR ENVIRONMENT

Demonstrating environmental compliance and leadership is fundamental to achieving our vision of being the most trusted water company by 2020

Consistently rated by the EA⁽¹⁾ as one of the top performing water companies – scoring 3 or 4 star (the maximum being 4) in their annual **Environment Performance Assessment**

Adopted an Outcome Delivery Incentive that commits us to **reduce pollution incidents by 20% over AMP6**. Set a goal of reaching zero serious pollutions by 2020



40% of our staff signed up to our **volunteering programme**. **40km** of our region's riverbanks cleared up so far



Embarked on a **catchment management programme**; so far engaged more than 1,500 farms in our region to reduce the level of pollution getting into raw water sources

New scheme launched, **encouraging developers to build more water efficient homes** by offering reductions on network connection charges



CASE STUDY:

- Use of automated decision-making tools for quick and effective diagnosis, preventing pollution incidents
- Operation decision management tool uses loggers to identify problems and deploy operational teams
- Implementation of this technology has improved our predictive capability by **33%**

OUR CSR⁽¹⁾ CONTRIBUTION

Top employer

We've been rated as

Top 20 employer for apprentices
Top 100 employer for graduates

and we're the **only water company** included on the first social mobility index



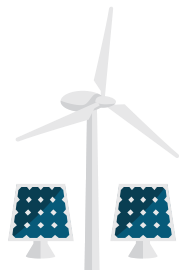
40%

of employees have signed up to take part in our volunteering programme

That gives each employee

2 paid days

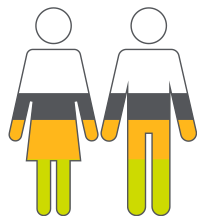
off a year to give back to their local communities. That's over a whopping **16,500** hours



On track to generate

50%

of our energy needs from renewable sources by 2020



Increasing our BAME representation

15% of apprentice roles
21% of new starters
34% of graduate roles



We're helping nearly

35,000

customers with a reduction in their charges, saving them over £8.3 million, and we're supporting 50,000 customers overall who need it most



Founding partner and the money we raise is enough to provide

13,750

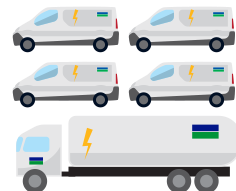
of the poorest and most marginalised people with clean water

Going green

We've pledged to replace our

2,200

vans cars and tankers with alternative fuel vehicles

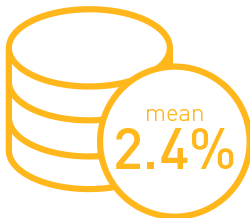


Water efficiency

This year we've completed **20,000 home checks** for customers, and educated over **167,000** people

We have an innovative programme with builders to build water efficient homes

Our gender pay gap is just



APPENDIX

DELIVERING OUR AMP6 CAPITAL PROGRAMME



Newark: Investing £60m to protect 400 homes and businesses from sewer flooding and ensure a reliable water supply

- Construction is underway of a new 2.8m diameter, 15m deep and 3km long tunnel – longer than the Dartford tunnel!
- 1,900m of new sewers have been laid in the highway, and over 850m of new sewers constructed by tunnelling
- 6,700m of new strategic water mains installed to date, to supply new developments and facilitate future resilience of supply
- 2,500m of water mains have been renewed ahead of programme
- Project is on track and completion is due in 2019
- Engaged the communities through extensive stakeholder liaison

1. RGF = Rapid Gravity Filter
2. C&C = Coagulation & Clarification

Thermal Hydrolysis Process (THP)



- Delivering 30% of the total AMP 7 carbon reduction target for Severn Trent Water
- >80% manufactured off-site with efficient modular construction
- A cornerstone of the long-term sludge strategy for the future bioresources operation

Ambergate reservoir



- ~£40m investment to replace 100 year old reservoir with two new reservoirs
- Lowers drinking water quality risk and improves storage capacity resilience
- On target to be completed below budget and ahead of programme with final phase due in February 2018

RGF⁽¹⁾ and C&C⁽²⁾ Programme

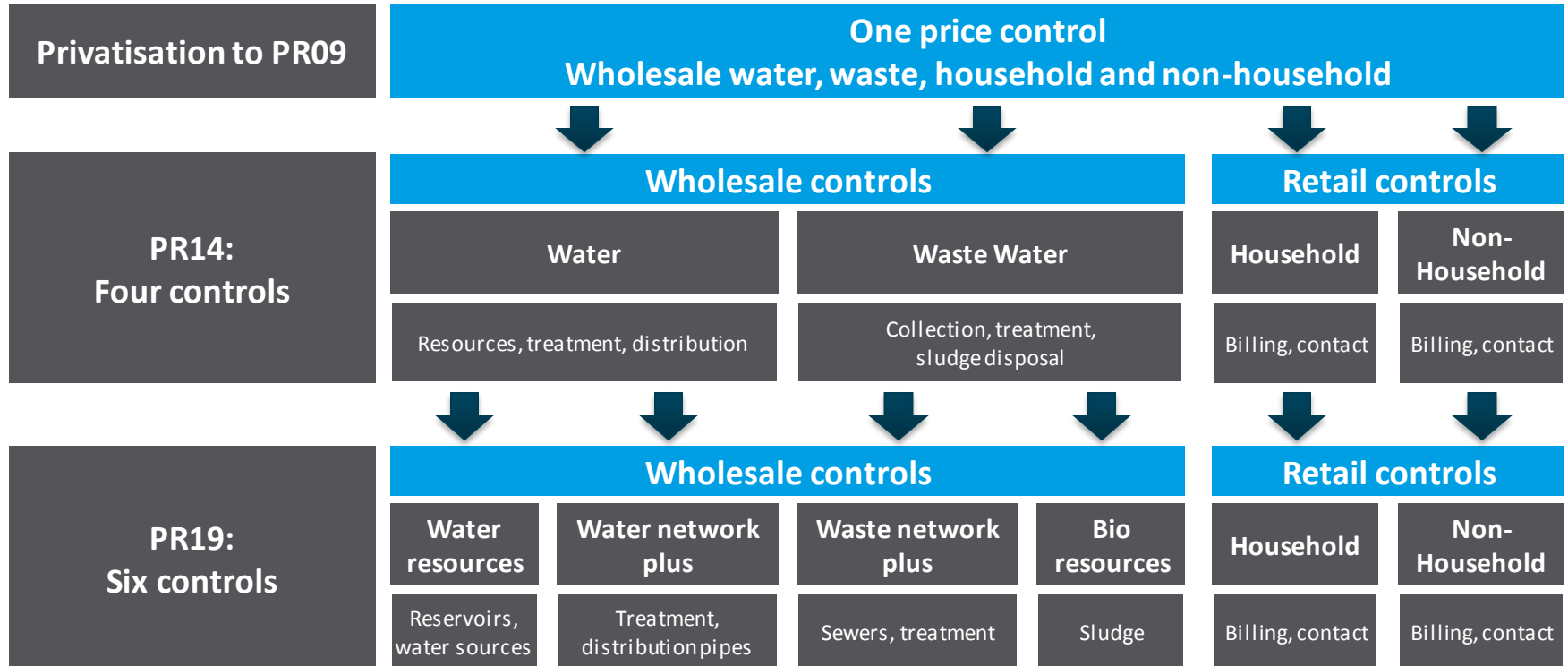


- ~£80m investment programme refurbishing assets in key water treatment processes (RGF⁽¹⁾ and C&C⁽²⁾)
- Both RGF and C&C programmes ahead of schedule
- Being delivered below budget and on track to be substantially complete in FY2018/19

PR19 FORWARD TIMELINE

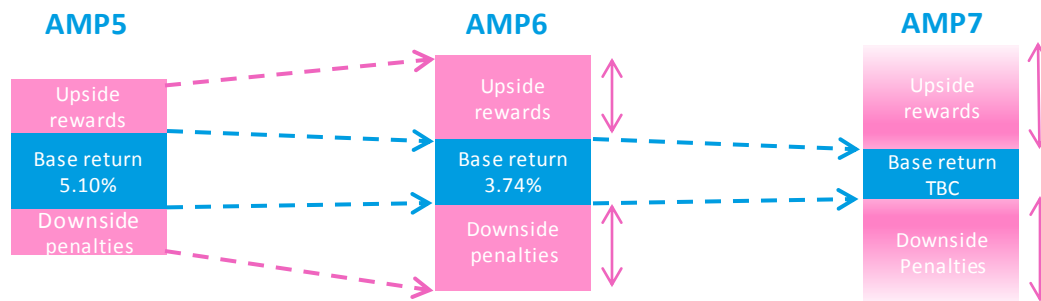
Key dates	
3 rd May 2018	Companies submit performance commitment definitions, and details of cost adjustments
3 rd September 2018	Companies submit business plans to Ofwat
Late January 2019	Ofwat published initial assessment of business plans
March/April 2019	Draft determinations published for exceptional and fast track plans
July 2019	Draft determinations published for slow track and significant scrutiny plans
December 2019	Final Determinations published

PRICE CONTROL EVOLUTION INTO AMP7



THE GROWING IMPORTANCE OF INCENTIVES

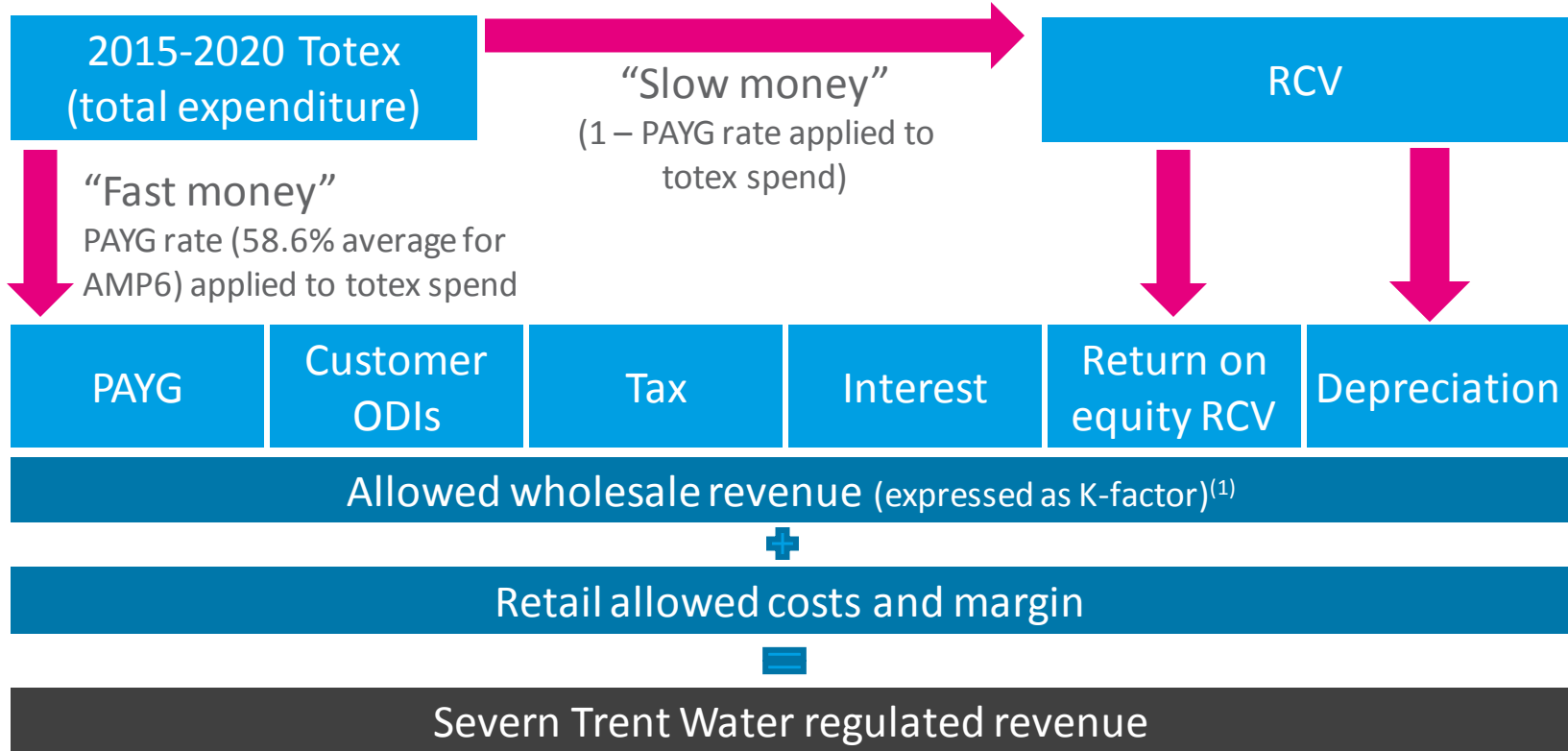
- There has been a shift in the proportion of company returns that come from the base allowed return
- Companies must focus on outperforming on incentive mechanisms to deliver attractive returns
- At **PR14**, Ofwat changed the balance of risk and reward in the price control package by:
 - Reducing the base return companies can earn on their RCV
 - Increasing the risk and reward associated with companies performance and service levels
- At **PR19**, we see an extension of this approach



- The range of potential upside and downside returns that good and poor performing companies can achieve over the base return is growing
- There will be winners and losers and the gap between them is increasing

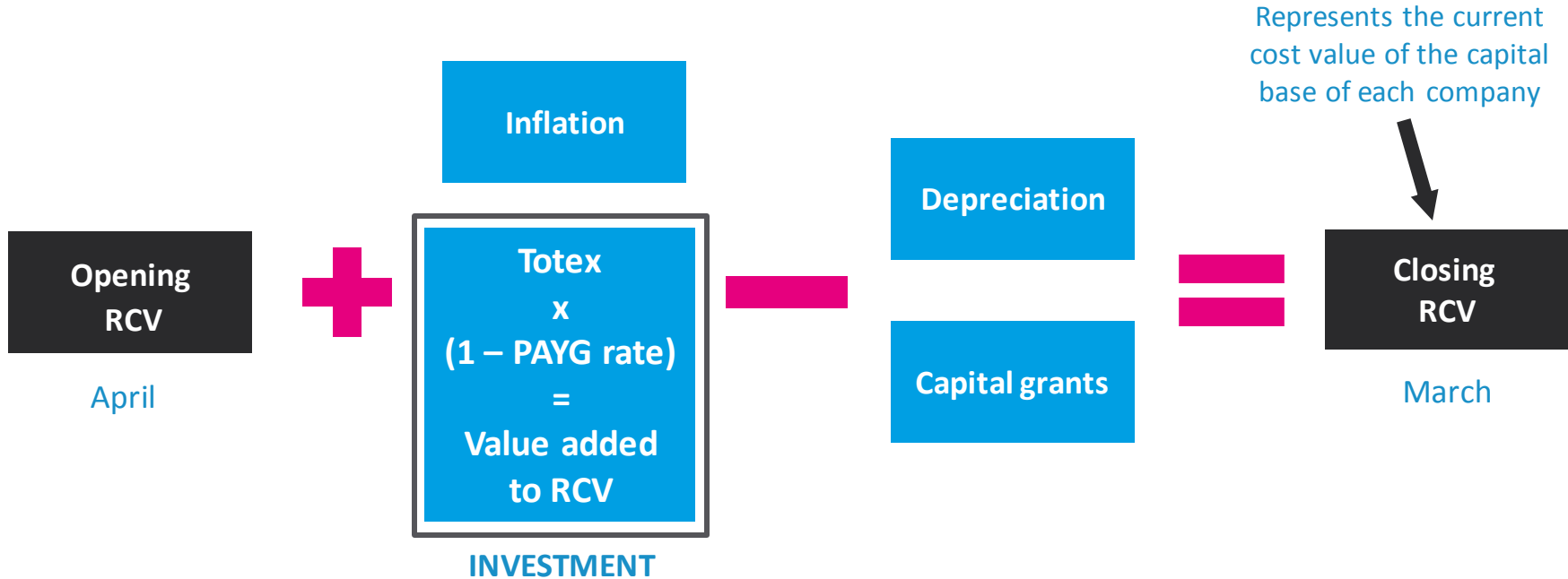
CALCULATING ALLOWED PRICES

In real terms



1. “K factors” are real change in wholesale revenue year on year. Adjusted by RPI from November of previous year. (i.e. K factor for 2016/17 adjusted by November 2015 RPI)

REGULATORY CAPITAL VALUE (RCV)

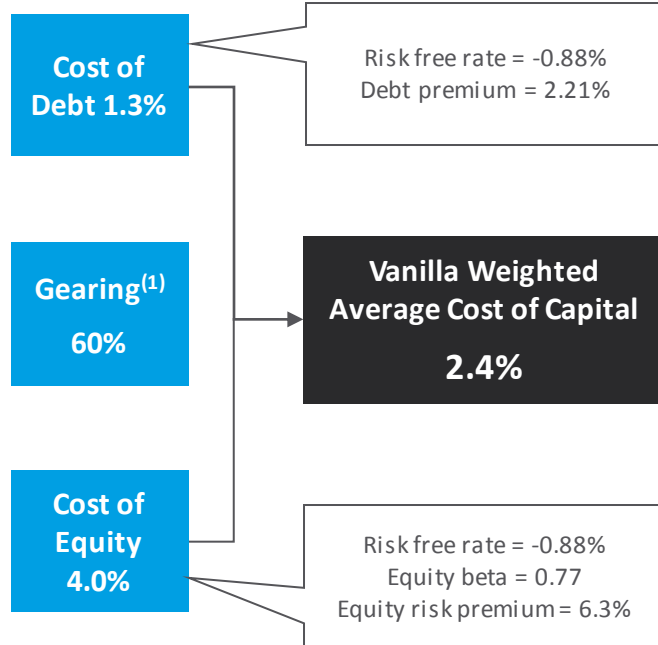


REAL COST OF CAPITAL

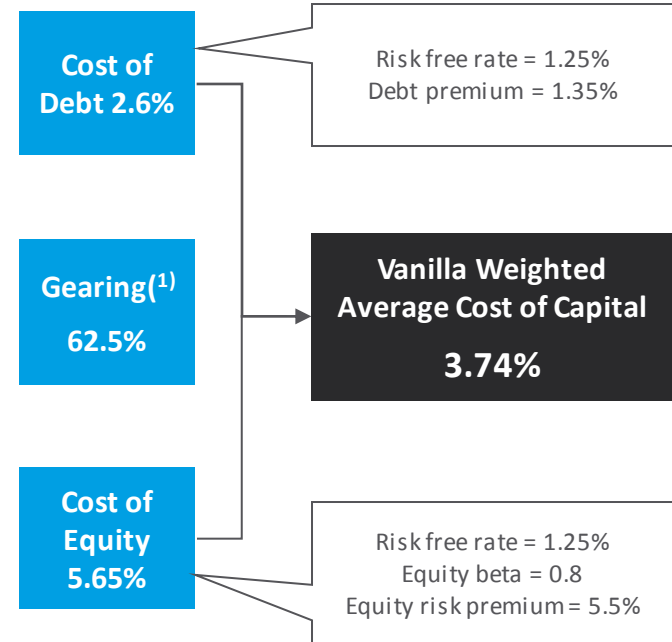
AMP7 VS AMP6

AMP 7

(Provisional and subject to change. To be finalised by Ofwat in 2019)



AMP 6



1. Gearing = net debt to RCV. Ofwat uses a notional balance sheet

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', 'estimates' or words with a similar meaning 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.

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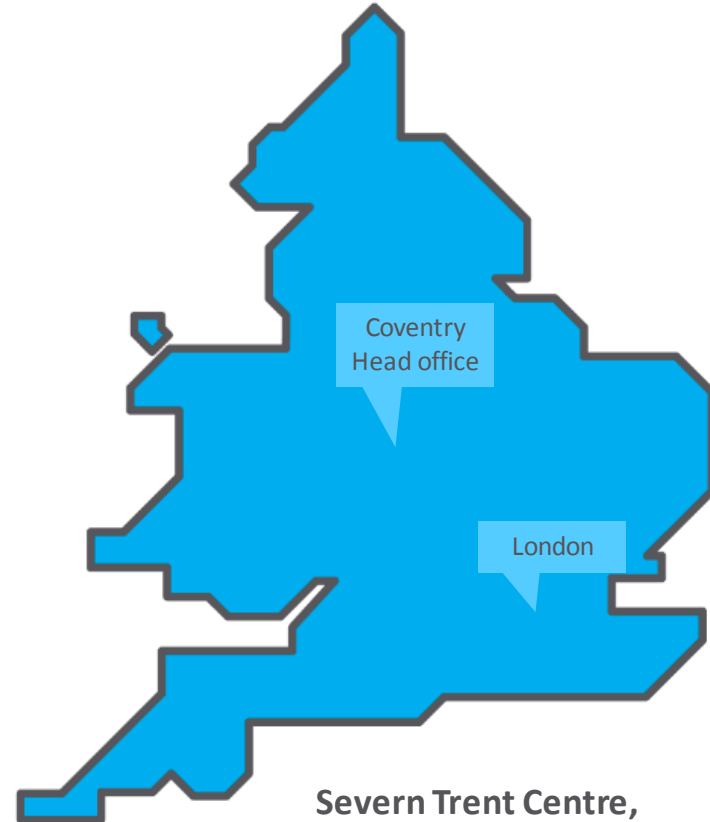
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