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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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Severn Trent Centre,
2 St John’s Street, Coventry, CV1 2LZ
1. Our Equity Story
2. AMP7 Business Plan
3. From AMP6 to AMP7
4. Half year 18/19 results
5. Regulatory Model
Listed companies:
- Severn Trent
- United Utilities
- Pennon (SW Water)

Source: Ofwat

**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 in non-household retail and Bioresources**

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1. RCV = Regulatory Capital Value

Source: Ofwat
Well positioned to continue to deliver enhanced returns to shareholders
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

2. Based on 2017/18 dividend of 93.4p and a share price at 28th September 2018 of 1,849p
3. Annual average over AMP6. Assumes forecast RPI of 3.5% and 3.1% for years 2019-2020 (average 3.3%), based on Oxford Economics inflation assumptions March 2018
**TRACK RECORD OF DELIVERING RETURNS FOR SHAREHOLDERS**

RPI linked dividend growth with additional capital return

Dividend per share, pence

- Special dividend
- Share repurchase\(^{(1)}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>AMP 3</th>
<th>AMP 4</th>
<th>AMP 5</th>
<th>AMP 6</th>
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<td>62</td>
<td>65</td>
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<td>01/02</td>
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<td>19/20</td>
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</tbody>
</table>

**Dividend promise of at least RPI+4% growth to 2020**

1. Based on £111m share buyback divided by 237m shares (average number over buyback period)
2. CAGR calculated from 2006 to 2019
Our vision is to be the **most trusted** water company by 2020: delivering an **outstanding customer experience**, the **best value service** and **environmental leadership**.

**Most trusted in England**

**Upper Quartile UKCSI position**

**Lowest bills in England & Wales**

**4* EPA performance 2 of last 3 years**

Helping achieve an appropriate stakeholder balance

- Customers
- Colleagues
- Communities
- Investors

1. Based on most recent Independent Survey cross-referencing Severn Trent survey data with other Water and Waste companies.
OUR PURPOSE

To serve our communities and build a lasting water legacy

Creating value through purpose...

....in a sustainable way

Customers

Colleagues

Investors

A PR19 plan packed with initiatives to engage and inspire the Communities we serve
4. Be a company customers can trust

- We’ll use 1% of profits for a new community fund
- Customer panel with c.15,000 customers providing instant feedback and insight
- £3.5m Trust Fund donations annually, 2.62 social return on investment
- 40% of employees volunteering to improve local communities

Improved customer engagement including first TV adverts in over a decade

3. Do more for communities and play a bigger part in society

- Environment: We’ll improve c.2100km of river ecology by 2025
- Community: 4m days out at our visitor sites each year and our top 5 sites have received certificates of excellence from TripAdvisor
- Education & training: WaterAid, Founding partner of WaterAid charity and almost £30m in donations

- Vulnerable customers: Offering everyone in a generation of school children the inspiration to change water usage behaviours, leaving a legacy of reduced consumption
- We’ll help 47% more struggling customers to pay their bills by 2025
- We’ll increase the number of customers on our Priority Services Register to up to 400k, and we’re the only company to commit to help 100% of vulnerable customers during an incident by 2023

2. Treat customers as individuals. Listen, understand and respond – especially if we get something wrong

- 85% Customer satisfaction
- Upper quartile for utilities on UKCSI Index

1. Prevent the problems - from the little irritations to the bigger inconveniences that disrupt customers’ days

Applying Maslow’s hierarchy

82% performance commitments on track (2017/18)
4. Be a company that we’re inspired to work for

- 97% retention rates on all apprentices and graduates
- Employee engagement which is an amazing 7% points ahead of UK and Ireland average benchmark
- 78% proud to be part of Severn Trent
- Leading by example: rated 4th in the FTSE 100 by Hampton Alexander for gender diversity
- 85% feel trusted by Severn Trent to do their job

3. Do more to support our development and wellbeing

- 70% of leaders trained in mental health, and over 400 mental health first aiders available
- £10m investment in new technical academy for the Midlands
- Silver award achieved in MIND (wellbeing) index
- Pioneering company to shape the Dying to Work pledge that supports employees with critical illnesses
- First in sector to adopt and achieve "Trail-blazer" Apprenticeship qualification
- Enhanced health care provision for employees including free Virtual GP services

2. Recognise and fairly reward everyone’s contribution

- Performance related pay for all managers linked to the service our teams deliver for customers
- Only company in sector to offer all-employee bonus scheme
- Flexible benefits programme available to all employees

1. Provide everyone the opportunity to succeed in a job that the community depends upon

- Applying Maslow’s hierarchy
- Employability scheme to support people with learning difficulties to gain work experience
- Sector leading health and safety performance
- Top 20 company in the UK’s social mobility index and offering 1,000 jobs in social mobility cold spots
- Increasing our BAME representation with 15% of apprentices, 21% of new starters and 36% of graduate roles
INVESTOR

1. Deliver a solid performance, achieved in a responsible way.
   - Applying Maslow’s hierarchy
   - Upper quartile for utilities on UKCSI Index
   - One of 2 companies to link executive remuneration to Uo performance over the long term
   - 4 Star status, 3 years in 4

2. Provide a fair return, commensurate to risk.
   - Dividend policy reflects the performance it delivers for its customers
   - Responsibly financed with gearing close to national levels
   - TSR since beginning of AMP6
   - Active treasury policy reducing cost of debt from 5.4% to c.4%
   - 82% performance commitments on track (2017/18)

3. Do more to push the frontier and let stakeholders share in that success.
   - ODI, Financing and TOTEX performance delivered for customers, yielding sector upper quartile cumulative RoR of 9.3% over AMP6
   - Long term planning with £220m reinvested this AMP to improve service and keep bills low for future generations
   - Dividends above UK median for the sector
   - Largest listed RCV growth secured by improved services for future generations
   - £ Investing in Non-Regulated Assets with attractive IRRs

4. Be a company that creates more value for society.
   - FTSE4Good status since 2001
   - Positively contributing to 11 of 17 of the UN Sustainable Development Goals
   - Only utility company to be selected as a Pathfinder for the Purposeful Company
   - Held the Carbon Trust standard since 2004 in recognition of our ongoing carbon reduction
   - Ambition to self-generate over 50% of the energy we consume, reducing cost and carbon impact

Carbon Trust Standard

- Carbon Trust Standard
- 100% renewable electricity
- 14% reduction in carbon since 2011
- 11% fewer carbon emissions than industry average

- Ambition to self-generate over 50% of the energy we consume, reducing cost and carbon impact

Greatest opportunity to outperform with ODI RoR range for AMP7 at -3% to 2.6%
<table>
<thead>
<tr>
<th>Business Services</th>
<th>Non-Regulated</th>
<th>Regulated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Developments in technology frees up surplus land which can be developed and sold</td>
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<tr>
<td>▪ Experienced team to manage portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Benefits customers, communities, investors</td>
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<tr>
<td>▪ Expect to deliver £100m profit by 2027 – delivered 25% of total in the past 18 months</td>
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<tr>
<td><strong>Operating Services</strong></td>
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<tr>
<td>▪ Long term contracts for running and maintaining water assets</td>
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<tr>
<td>▪ Largest contract is with UK Ministry of Defence – halfway through 25 year contract</td>
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<tr>
<td>▪ Portfolio now wholly based in UK and Ireland</td>
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<tr>
<td><strong>Bioresources</strong></td>
<td></td>
<td></td>
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<tr>
<td>▪ Activities relating to treatment of sludge and energy generation from sludge</td>
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<td></td>
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<tr>
<td>▪ Market opens to competition from 2020</td>
<td></td>
<td></td>
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<tr>
<td>▪ Streamlined logistics and optimised treatment strategy in preparation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Already active in the market, completing trades with neighbouring companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
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<tr>
<td>▪ Diverse portfolio of renewable energy sources including 3 food waste AD plants, 1 crop AD digester, 6 wind turbines, and 33 solar sites</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Provides group wholesale electricity hedge to protect against rising power costs</td>
<td></td>
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</tr>
<tr>
<td>▪ £120m acquisition of Agrivert near completion, adding 106GWh of capacity to our portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Includes affinity and searches business</td>
<td></td>
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</tr>
</tbody>
</table>
The debate is far from over, but there is a growing body of research and opinion on the challenges of renationalisation.

The sector has a strong defence through its achievements since privatisation:

- Invested £150bn
- 70% improvement in bathing water compliance with standards
- Serious pollution incidents have fallen by 86%
- Leakage has reduced by 35%
- Customers are five times less likely to suffer from supply interruptions and 100 times less likely to have low water pressure

Publication of reports in 2018 has raised important issues in the debate:

- First Economics
- Clifford Chance
- Centre for Policy studies
- Social Market Foundation

Opinions in the Labour Party are divided:

- “It would be cost free”
  John McDonnell
- “An expensive indulgence in the politics of the past”
  Angela Smith
31 Jan
Ofwat initial assessment

OUR AMP7 BUSINESS PLAN

5% real reduction in CPIH prices

Largest listed RCV growth secured by improved services for future generations

Improving up to 2,100km of our rivers

3.5%

33 ODIs with enhanced values for internal sewer flooding and pollutants

RORE range of -3.0% to +2.6% on customer ODIs

£10m investment in new technical academy for the Midlands

Average company gearing of 63.6%

At least BBB+/Baa1 target credit rating

1% dividend for community schemes

Base regulatory dividend of 5% aligned with Ofwat guidance

Proposed total of £6.6bn - which reflects 13% efficiency
A robust, ambitious and balanced plan

Largest bill reduction in two decades
A real reduction of 5% in CPIH prices

Challenging ourselves on Totex
Total spend of £6.6bn, reflecting 13% efficiency

Continued strong growth in our RCV
Growth of 13.6% in nominal prices

Backing ourselves on Customer ODIs
Proposing the largest RoRE range for ODIs in the sector -3.0% to +2.6%

Stable and responsible financing
Average gearing\(^{(1)}\) of 63.6%

Supporting our Community
Introducing a community dividend of 1% of profits

Delivering for all of our stakeholders

\(^{(1)}\) This differs from the average of 64.1% in our pro-forma business plan presentation which is calculated by applying year end indexation to closing net debt and average indexation to RCV. Our calculation uses year end indexation for both net debt and RCV, consistent with our existing APR reporting.
Our plan contains:

Nine customer outcome chapters (Part 3)

Key additional chapters to also address the nine Ofwat IAP tests, covering:
- Designing better outcomes (Part 2)
- Financing, efficiency and innovation (Part 4)

The plan is supported by a number of technical appendices, and also embraces the four Ofwat themes of great customer service, affordability, resilience and innovation.
Our Principles

- Each generation of customers should pay its fair share
- Bills should be stable over time, where possible, avoiding big fluctuations
- We should be able to maintain a stable, low cost funding platform for investment

Average bill reduces by 5%

Financial assumptions

- Average PAYG rate unchanged from PR14
- RCV run-off rate increased to:
  - Apply CPIH indexation from 2020
  - Crystallise some RCV inflationary return to smooth bills and maintain financeability

Note: Bill profile is shown in 2017/18 prices and includes revenue from AMP 6 deferred ODIs
## Revenue Summary

**All figures in £m at 17/18 prices**

<table>
<thead>
<tr>
<th></th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay as you go</strong></td>
<td>679.2</td>
<td>697.6</td>
<td>691.9</td>
<td>683.6</td>
<td>688.8</td>
</tr>
<tr>
<td><strong>Pension deficit repair contributions</strong></td>
<td>9.8</td>
<td>9.8</td>
<td>9.8</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>RCV run-off</strong></td>
<td>469.6</td>
<td>478.0</td>
<td>480.8</td>
<td>477.4</td>
<td>470.3</td>
</tr>
<tr>
<td><strong>Return on RCV</strong></td>
<td>253.4</td>
<td>257.2</td>
<td>262.6</td>
<td>267.8</td>
<td>271.3</td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>17.3</td>
<td>16.7</td>
<td>16.7</td>
<td>16.9</td>
<td>18.6</td>
</tr>
<tr>
<td><strong>Revenue legacy adjustments(^1)</strong></td>
<td>16.7</td>
<td>17.2</td>
<td>17.7</td>
<td>18.2</td>
<td>18.7</td>
</tr>
<tr>
<td><strong>Re-profiling of revenue</strong></td>
<td>(12.9)</td>
<td>(13.0)</td>
<td>(1.1)</td>
<td>16.5</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total wholesale revenue requirement</strong></td>
<td><strong>1433.2</strong></td>
<td><strong>1463.6</strong></td>
<td><strong>1478.4</strong></td>
<td><strong>1490.2</strong></td>
<td><strong>1487.9</strong></td>
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<tr>
<td><strong>Retail revenue</strong></td>
<td>94.1</td>
<td>96.4</td>
<td>93.8</td>
<td>88.7</td>
<td>88.2</td>
</tr>
<tr>
<td><strong>Grants &amp; contributions</strong></td>
<td>78.9</td>
<td>62.3</td>
<td>51.6</td>
<td>53.1</td>
<td>55.5</td>
</tr>
<tr>
<td><strong>Total appointee revenue</strong></td>
<td><strong>1606.1</strong></td>
<td><strong>1622.2</strong></td>
<td><strong>1623.8</strong></td>
<td><strong>1631.9</strong></td>
<td><strong>1631.5</strong></td>
</tr>
</tbody>
</table>

\(^1\) Includes revenue from AMP6 carry-over ODIs and other legacy adjustments.
Our plan includes £6.6bn of totex – reflecting efficiency of 13%

Total Totex: £6.6bn

- Enhancement expenditure £1.7bn
- Maintenance expenditure £4.9bn

Key enhancement schemes include:

- Environmental programme £0.46bn
- Resilience £0.14bn
- Supply demand balance £0.30bn
- Sewer flooding £0.14bn

Real options:
An innovative approach to managing uncertainty

- Delivering better outcomes for customers
- Applicable where material outcome uncertainty exists
- Gives the right but not the obligation to act upon a defined trigger
- Totex figures shown do not include expenditure of up to £1bn over our water resource management plan period
- We have identified four areas in which a real option mechanism could be used – metering, climate change, wastewater environmental programme and a water trading interconnector

Reinvesting £100m in AMP 6 for a fast start to AMP 7

Note: All spend shown is in 2017/18 prices.
Investment in our business generating RCV growth of 13.6%

RCV growth in nominal prices (1) £m

- 13.6% nominal
- 3.5% in CPIH prices

50/50 indexation of opening RCV at RPI/CPIH

All new additions will be indexed at CPIH

RCV run off increased so that RCV inflation is brought into line with CPIH

Assumptions:

<table>
<thead>
<tr>
<th>Year</th>
<th>RPI</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>3.09%</td>
<td>1.72%</td>
</tr>
<tr>
<td>2021</td>
<td>3.32%</td>
<td>1.76%</td>
</tr>
<tr>
<td>2022</td>
<td>3.55%</td>
<td>1.83%</td>
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<tr>
<td>2023</td>
<td>3.47%</td>
<td>1.90%</td>
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<tr>
<td>2024</td>
<td>3.25%</td>
<td>1.96%</td>
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<tr>
<td>2025</td>
<td>3.00%</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

(1) Closing RCV in 2020 is stated post midnight adjustments of £191m in nominal prices and excludes the portion of RCV associated with our NAV.
We have chosen to apply for enhanced rates on two comparative ODIs.

**Pollution incidents**
- Normal rate: £597k per incident per 10,000km of waste network
- Enhanced rate: £895k per incident per 10,000km of waste network

**Internal sewer flooding**
- Normal rate: £22.6m per 10,000 sewer connections
- Enhanced rate: £33.9m per 10,000 sewer connections

A complete list of our proposed financial customer ODIs can be found on the following page.

Note: All Customer ODIs are shown in 17/18 prices, post-tax.
<table>
<thead>
<tr>
<th>Comparative ODIs</th>
<th>Bespoke ODIs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal sewer flooding</strong></td>
<td>External sewer flooding</td>
</tr>
<tr>
<td>(enhanced)</td>
<td>Public sewer flooding</td>
</tr>
<tr>
<td><strong>Pollutions</strong> (enhanced)</td>
<td>Blockages</td>
</tr>
<tr>
<td>Supply interruptions</td>
<td>Farming for Water</td>
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<td></td>
<td>Protecting schools from lead</td>
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<td></td>
<td>Persistent low pressure</td>
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<td></td>
<td>Resolution of low pressure complaints</td>
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<td>Biodiversity (water)</td>
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<td></td>
<td>Biodiversity (waste)</td>
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<td></td>
<td>AIM (Abstraction Incentive Mechanism)</td>
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<td></td>
<td>Water Quality complaints</td>
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<td></td>
<td>Speed of response to visible leaks</td>
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<td></td>
<td>Reducing residential void properties</td>
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<td></td>
<td>Satisfactory sludge use and disposal</td>
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<td></td>
<td>Inspiring our customers who use water wisely</td>
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<td></td>
<td>Reducing business void and gap site supply points</td>
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<td></td>
<td>Green communities</td>
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<tr>
<td></td>
<td>Help to pay when you need it</td>
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<tr>
<td></td>
<td>Collaborative flood resistance</td>
</tr>
</tbody>
</table>

**Common ODIs**

- Water quality compliance
- Mains bursts
- Unplanned outage
- Leakage
- Per Capita consumption
- Risk of severe restrictions in a drought
- Treatment works compliance
- Sewer collapses
- Risk of sewer flooding in a storm
- C-Mex = Customer experience measure
- D-Mex = Developer experience measure

**Bespoke ODIs**

- External sewer flooding
- Public sewer flooding
- Blockages
- Farming for Water
- Protecting schools from lead
- Persistent low pressure
- Resolution of low pressure complaints
- Biodiversity (water)
- Biodiversity (waste)
- AIM (Abstraction Incentive Mechanism)
- Water Quality complaints
- Speed of response to visible leaks
- Reducing residential void properties
- Satisfactory sludge use and disposal
- Inspiring our customers who use water wisely
- Reducing business void and gap site supply points
- Green communities
- Help to pay when you need it
- Collaborative flood resistance
FINANCING

Maintaining a stable and low cost funding platform

- Starting AMP7 with a balanced debt portfolio and gearing at the current notional level
- Average gearing of 63.6% - well below the trigger for sharing financing outperformance of 70%
- We have applied extensive scenario analysis to ensure we maintain our strong track record of financial resilience

As a reminder, the draft components of Ofwat’s notional WACC are as follows:

<table>
<thead>
<tr>
<th>Ofwat notional WACC</th>
<th>Nominal</th>
<th>Real CPIH</th>
<th>Real RPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of equity</td>
<td>7.1%</td>
<td>5.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Cost of debt</td>
<td>4.4%</td>
<td>2.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Appointee WACC (vanilla)</td>
<td>5.5%</td>
<td>3.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Retail net margin</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Wholesale WACC (vanilla)</td>
<td>5.4%</td>
<td>3.3%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

- Embedded debt 4.6%
- New debt 3.4%

---

(1) This differs from the average of 64.1% in our pro-forma business plan presentation, which is calculated by applying year end indexation to closing net debt and average indexation to RCV. Our calculation uses year end indexation for both net debt and RCV, consistent with our existing APR reporting.
Our dividend policy core principles

- Dividends will be fair and balanced
- Dividends will be transparent
- Dividends should promote continued outperformance
- Dividends will support appropriate gearing

Our community dividend

<table>
<thead>
<tr>
<th>Illustrative figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helping our most vulnerable customers – Trust Fund</td>
</tr>
<tr>
<td>Enhancing our local environment - Volunteering</td>
</tr>
<tr>
<td>NEW Creating social infrastructure – 1% profit</td>
</tr>
<tr>
<td>Community dividend (annual value)</td>
</tr>
</tbody>
</table>

Group dividend policy to be announced in early 2020

Components of our Group dividend will include:

- A base regulatory dividend of 5% in line with Ofwat guidance from Severn Trent Water
- Carryover ODI incentives from AMP6 and any outperformance in AMP7
- Our Welsh regulated business – Hafren Dyfrdwy
- Our non-regulated business – including Operating Services, Property Development and our recently expanded Green Power
The lowest bills in Wales despite a small annual increase of 0.5% above inflation

Total totex of £156m including £19m on dams and treated water reservoirs

Proposed RoRE range on Customer ODIs of -0.46% to +0.24%

Investment in Lake Vyrnwy for customers, communities and the environment
### Upcoming key dates

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Dec 2018</td>
<td>Ofwat publishes decision on customer ODI uncapping application</td>
</tr>
<tr>
<td>31 January 2019</td>
<td>Ofwat publishes initial assessment of business plans</td>
</tr>
<tr>
<td>March/April 2019</td>
<td>Draft determinations published for exceptional and fast track plans</td>
</tr>
<tr>
<td>July 2019</td>
<td>Draft determinations published for slow track and significant scrutiny plans</td>
</tr>
<tr>
<td>December 2019</td>
<td>Final Determinations published</td>
</tr>
<tr>
<td>Early 2020</td>
<td>Announcement of AMP7 dividend policy</td>
</tr>
</tbody>
</table>
FROM AMP6 TO AMP7
AMP6 PERFORMANCE

Sector leading performance in AMP6 providing a strong platform for AMP7

Driving efficiency to keep bills low:
- £870m totex efficiencies
- 160 bps reduction in finance costs
- Lowest bills in England and Wales – now and for the future

Delivering for customers and communities:
- £150m\(^1\) in customer ODIs to date
- UQ customer service\(^2\) for customers and developers
- 4* EPA status for 2 out of 3 years of this AMP

Sustainably investing for the long-term:
- Over 50% energy self-generation by 2020
- £220m reinvested into the business for the future
- 8.9% real RCV growth forecast for the AMP

Upper Quartile RoRE: 9.3% cumulative for first 3 years of AMP6

---

1. Pre-tax in 2012/13 prices. Subject to outcome of Ofwat consultation.
2. Based on UKCSI and developer services measure
RETURN ON REGULATED EQUITY (RoRE)\(^{(1)}\)

**For 2017/18, our highest RoRE to date**

**11.5%**

- **Customer ODIs**
  - £80m of ODI reward from strong performance in most key metrics

- **Totex/Retail**
  - Continued delivery of totex efficiencies

- **Financing**
  - Effective balanced debt strategy
  - Benefitting from high RPI in 2017/18

**Note: RoRE is a full year measure**

**Sector average RoRE for years 1&2 of AMP6**

<table>
<thead>
<tr>
<th>Year</th>
<th>RoRE</th>
<th>Out-performance</th>
<th>Base return(^{(2)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>6.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016/17</td>
<td>10.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017/18</td>
<td>11.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **6.3%**
- **11.5%**

**ODI outperformance capping, £220m totex reinvestment and forecasted falling RPI limit future RoRE outperformance in AMP6**

1. Calculated in accordance with Ofwat guidance
2. 2016/17 onwards adjusted to exclude the non-household retail return now being earned by Water Plus
How have we unlocked totex efficiencies?

Some examples...

- We worked across the supply chain to continue to reduce overheads
- ‘Plug and play’ construction – using prefabricated components, making it safer, faster and cheaper to construct on-site
- Smart programming – revised planning to share assets and resources across projects
- Rolling out standard products, which gives us a benefit in design costs, but also a single procurement route
- Taken a more appropriate view of where risks should sit between us and our suppliers

£870m of totex efficiencies achieved this AMP

<table>
<thead>
<tr>
<th>Total</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>£410m</td>
<td>We committed to deliver in our PR14 plan</td>
</tr>
<tr>
<td>£460m</td>
<td>Outperformance, shared between us and our customers</td>
</tr>
<tr>
<td>£120m</td>
<td>Reinvestment in:</td>
</tr>
<tr>
<td></td>
<td>Security</td>
</tr>
<tr>
<td></td>
<td>Water quality</td>
</tr>
<tr>
<td></td>
<td>Vulnerable customers</td>
</tr>
<tr>
<td>£100m</td>
<td>Reinvestment in:</td>
</tr>
<tr>
<td></td>
<td>Smart data</td>
</tr>
<tr>
<td></td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Proactive asset management</td>
</tr>
<tr>
<td></td>
<td>People</td>
</tr>
</tbody>
</table>

A fast start in AMP7
# £100M Of Additional Reinvestment

## Using Our Data

<table>
<thead>
<tr>
<th>ROBOTIC PROCESS AUTOMATION, INTELLIGENT PROCESSING AND DIGITAL ASSISTANTS</th>
<th>ADVANCED ANALYTICS AND DECISION MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automate repetitive and transactional tasks and introduce digital assistants facilitating fast end user assistance across the organisation.</td>
<td>Building our capability to use the power of analytics to make better decisions, including areas such as leakage detection, flooding root cause, asset performance management and abstraction management.</td>
</tr>
</tbody>
</table>

## Energy Efficiency

Invest in energy efficiency opportunities throughout our sites and network, driving down energy consumption and maximising our energy generation.

## Process Improvements

Investing in process areas such as customer case management and sludge thickening and dewatering, to drive efficiencies in our operation and reduce waste and customer service impacts.

## Proactive Asset Management

<table>
<thead>
<tr>
<th>MONITOR AND CONTROL OUR NETWORK</th>
<th>ENHANCING OUR RESILIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving our monitoring and control capability in our water network, investing in areas such as acoustic and pressure loggers, to pinpoint failure early and minimise customer impacts.</td>
<td>Review of the assets at 3 major sites prioritising investment to enhance asset health and build resilience. Creation of an in-house trunk repair team dedicated to the timely response of issues.</td>
</tr>
</tbody>
</table>

## Investing In Our Properties and Transport

Changes required to our operational sites to get us ready for AMP 7, including optimising business continuity provisions and rationalising and consolidating underutilised sites.

## Investing In Our Colleagues

Create our own in-house Technical Training Academy, a world class centre of technical excellence enabling us to invest in our colleagues’ capability for the future.

## Driving Efficiency

- **Energy Efficiency**
- **Process Improvements**
- **Enhancing Our Resilience**

## Enhancing Our Resources

- **Proactive Asset Management**
- **Investing In Our Properties and Transport**
- **Using Our Data**
Actions taken to balance our debt portfolio since 2015 have driven reductions in our effective interest rate and place us in a strong position going into AMP7.

Gross debt mix

<table>
<thead>
<tr>
<th></th>
<th>31 March 2015</th>
<th>30 Sept 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>64%</td>
<td>47%</td>
</tr>
<tr>
<td>Floating</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>Index-linked</td>
<td>26%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Effective interest rates

31 March 2015
- Effective interest rate: 5.4%
- Effective cash interest rate: 4.9%

30 Sept 2018
- Effective interest rate: 3.8%
- Effective cash interest rate: 3.1%

Gearing
- At 30 Sept 18 our gearing was 59% - in line with the AMP7 notional gearing of 60%
- Our submitted PR19 plan indicates an average gearing over AMP7 of 63.6%
Early actions taken to ready ourselves for competition:

- **Created regional treatment hubs** - six regions to deliver optimised treatment routes
- **Streamlined logistics** - rationalised tanker bases, reducing miles travelled
- **Optimised treatment strategy** - advanced treatment techniques, offering economies of scale and greater gas generation
- **Rationalised sites** - least efficient sites identified for closure

Resulting in a £17m accelerated depreciation charge and £4m other restructuring costs - included as exceptional costs this year

Moved Bioresources business into Business Services, effective from 1 April 2018

Already active in the market, completing our first trial trade
H1 18/19 RESULTS
H1 2018/19 IN SUMMARY

- **PR19**: Submitted a high quality plan we are proud of.
- **Resilience**: Managed increased summer demand, minimising customer impact.
- **Investment**: On track for our biggest capex spend of the decade.
- **Green Power**: Enhancing our portfolio through Agrivert acquisition.
- **Financing**: Improved position through diverse sources.
- **Pathfinder**: A company with a clear social purpose.
- **76.2p**: Underlying EPS + 16.3%.
- **37.35p**: Interim dividend +7.9%.
<table>
<thead>
<tr>
<th>PR19: A plan built on our customers needs</th>
<th>Set to have the <strong>lowest bills</strong> in England and Wales until at least 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a strong position for CMEX / DMEX in AMP7</td>
<td>Ongoing engagement through <strong>Tap Chat</strong> – an online community of <strong>15,000</strong> of our customers</td>
</tr>
<tr>
<td>Exploring new ways of engaging with customers</td>
<td>Upper quartile among utilities in the <strong>UK Customer Service Index</strong></td>
</tr>
<tr>
<td></td>
<td>Upper quartile for the fifth consecutive quarter on services for developers</td>
</tr>
<tr>
<td></td>
<td>New <strong>Wonderful on Tap</strong> customer campaign increasing awareness of water usage and celebrating the role that water plays in everyday life</td>
</tr>
<tr>
<td></td>
<td>Faster resolution and increased efficiency by offering a <strong>FaceTime</strong> service with engineers</td>
</tr>
</tbody>
</table>
PROGRESSING IN WATER

**Catchment Management ODI**

- Improving water quality on farmland
- Unique **Farm to Tap** scheme reducing peak metaldehyde concentrations by 57%
- Lower cost of treatment for customers
- Enhancing biodiversity in the environment
- On track to deliver up to £11 million customer ODI

**Further reductions in water quality complaints**

- **2016 Actual**
- **2017 Actual**
- **2018 Forecast**

- On track to deliver 6% reduction this year
- On track to hit target by the end of AMP6
- Measured by CRI in AMP7 – ambition to **halve our score** by end of AMP6

**Focused on leakage targets**

- Significantly increasing **fix and find** activity
- Installed 10,000 of 35,000 **acoustic loggers**
- Award-winning **leakage detection robot**
- Refining use of **satellite imagery**
WEATHER RESILIENCE

Preparation enabled us to deliver more for our customers

We entered the summer well prepared, with reservoirs at 98% of capacity

We saw a 22% increase in demand for water – the equivalent of an additional 400ML/d at its peak

Remain on track to halve supply interruptions year-on-year

Hot weather cost £10m in first half, expecting to spend a similar amount on recovery in H2
EXCELING IN WASTE

Our catchment approach to waste water has set us apart in AMP6...

- **Invest**
  - Frontier cost efficiency in AMP6
  - Industry leading waste ODI performance of £180m to date
  - Continuing to deliver on measures important to customers in AMP7
  - 4* EPA status awarded by the Environment Agency in July 2018
  - Frontier Bioresources operation

- **Prevent**

- **React**
  - Enhanced ODIs: internal sewer flooding & pollutions
  - New and Bespoke ODIs for AMP7
  - Largest RoRE range on customer ODIs

...And waste performance will be even more important in AMP7

Our innovation, big data and lean performance culture will continue to make the difference
Supporting our colleagues how and when they need it most

- Top 20 employer and only water company in the Social Mobility Index
- Trained over 70% of people managers in mental health awareness
- ‘Blazing a trail’ on menopause awareness and sharing with other companies
- Top utility and 4th overall in Hampton-Alexander Review into women in leadership
- We brought our 900 people managers and investors with us on our AMP7 journey
Good results – on track to deliver in line with expectations

**Turnover**

£881.5m

+3.6%

**Underlying PBIT**

£299.1m

+4.3%

**Effective interest rate**

3.8%

down 70 basis points

**Property Development**

£18.4m

profit from sale of land

**Underlying basic EPS**

76.2 pence

+16.3%

**Interim dividend**

37.35 pence

+7.9%
REGULATED WATER AND WASTE WATER

Turnover £823m

- Up 4% driven by RPI-linked price increases in Severn Trent Water and Hafren Dyfrdwy (£27.9m)
- Revenue uplift from 2016/17 customer ODI rewards (£8.2m) partially offset by WRFIM¹ adjustment for the same period (-£5.4m); other items have a net increase of £1.9m

**£m**

<table>
<thead>
<tr>
<th>789.9</th>
<th>27.9</th>
<th>8.2</th>
<th>(5.4)</th>
<th>1.9</th>
<th>822.5</th>
<th>(27.5)</th>
<th>795.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2017/18</td>
<td>RPI + K</td>
<td>Customer ODI</td>
<td>WRFIM¹</td>
<td>Other</td>
<td>H1 2018/19</td>
<td>Bioresources²</td>
<td>H1 2018/19</td>
</tr>
<tr>
<td>Old Basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Old Basis</td>
<td></td>
<td>New Basis</td>
</tr>
</tbody>
</table>

1. WRFIM = Wholesale Revenue Forecasting Incentive Mechanism.
2. As of 1 April 2018, our Bioresources and property development activity has been managed in the Business Services segment. For ease of comparison, commentary for this financial period has been shown on the old basis. See note 2 of our Interim Results RNS for more detail.
REGULATED WATER AND WASTE WATER

Underlying PBIT
£279m

- Broadly flat, with turnover up 4%, offset by an increase in net operating costs
- Largely driven by the costs of hot weather experienced over summer (£10.1m), higher depreciation (£8.4m), and anticipated cost pressures

1. As of 1 April 2018, our Bioresources and property development activity has been managed in the Business Services segment. For ease of comparison, commentary for this financial period has been shown on the old basis. See note 2 of our Interim Results RNS for more detail.
BUSINESS SERVICES

An exciting year in our non-regulated business

- £18 million\(^1\) profit from sale of land near Nottingham; enabling 830 homes to be built
- Acquisition of Agrivert for £120 million near completion, adding 106 GWh of generation

Results on old segmental basis\(^2\)

- Turnover £70m down £1.3m
- PBIT £14m down £1.0m

Under the new segments, turnover increases to £97m, PBIT increases to £37m

---

1. Under old segments, this profit is split between the Regulated Water and Waste Water and Corporate and Other segments. It is not included in the Business Services segment on the old basis.
2. As of 1 April 2018, our Bioresources and property development activity has been managed in the Business Services segment. For ease of comparison, commentary for this financial period has been shown on the old basis. See note 2 of our interim Results RNS for more detail.
<table>
<thead>
<tr>
<th>£m</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,356.6</td>
<td>Opening net debt</td>
</tr>
<tr>
<td>(489.2)</td>
<td>Cash generated from operations</td>
</tr>
<tr>
<td>340.1</td>
<td>Net capital expenditure</td>
</tr>
<tr>
<td>122.9</td>
<td>Dividends paid</td>
</tr>
<tr>
<td>(9.1)</td>
<td>Net issue of shares</td>
</tr>
<tr>
<td>75.9</td>
<td>Net interest and tax paid</td>
</tr>
<tr>
<td>21.3</td>
<td>Non-cash movements</td>
</tr>
<tr>
<td>5,418.5</td>
<td>Closing net debt</td>
</tr>
</tbody>
</table>

Increase in net debt of £62m following an increase in net capital expenditure to £340m – on track to deliver our biggest annual capital spend in a decade.
FINANCING PERFORMANCE

Financing strategy drives further reduction in interest cost

Finance costs¹

H1 2017/18

- Cash interest: £79.4m (14%)
- Net pension finance cost: £7.5m (8%)
- RPI rolled up: £23.6m (24%)

Total: £110.5m

H1 2018/19

- Cash interest: £68.2m (14%)
- Net pension finance cost: £6.9m (8%)
- RPI rolled up: £18.0m (24%)

Total: £93.1m

- £17m decrease in finance cost, £11m reduction in cash interest
- Finance costs benefiting from actions taken since 2015 to re-balance our debt portfolio
- Effective interest rate is down significantly from the start of AMP6 (5.4%). Full year rate expected to be c.4% based on current interest rate and inflation forecasts

Effective interest rate²

- Down 70 basis points from 2017/18

Effective cash interest cost³

- Down 50 basis points from 2017/18

2018/19 Performance

1. Average inflation applied to index-linked debt 2018/19: 3.4% (2017/18: 3.5%); after deducting capitalised interest
2. Before net pension finance costs but including capitalised interest
3. Before net pension finance costs and RPI rolled up but including capitalised interest
Preparing for AMP7 with a strong balance sheet and a diversified, low cost debt portfolio

- **Sourcing low cost debt**: Raised £323m\(^1\) in USPP at **low cost** fixed rates
- **Managing interest rate risk**: Balanced portfolio, taking advantage of both short and long-term **low interest rates**
- **Strong gearing position**: Expecting to exit AMP6 close to AMP7 notional gearing of **60%**
- **Reduction in pension deficit**: Pension deficit down to **£466m** reflecting market conditions at 30th September

---

1. US Private Placement (USPP) funding was agreed at 30 September but not drawn down until November 2018 therefore not reflected in gross debt figures shown
Based on carrying value of debt at 30 September 2018

DEBT MATURITY AT 30 SEPTEMBER 2018
GEARING & CREDIT RATINGS
AT 30 SEPTEMBER 2018

1. Estimated RCV at 30 September 2018
2. Based on statutory net debt of £5,419m (31 March 2018: £5,357m)
3. Based on Severn Trent Water Group regulated net debt of £5,372m (31 March 2018: £5,375m)

<table>
<thead>
<tr>
<th></th>
<th>30 September 2017</th>
<th>31 March 2018</th>
<th>Net Debt/RCV⁽¹⁾</th>
<th>30 September 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Debt/RCV⁽¹⁾</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Severn Trent Group⁽²⁾</td>
<td>59.2%</td>
<td>60.6%</td>
<td>Severn Trent Group⁽²⁾</td>
<td>59.6%</td>
</tr>
<tr>
<td>Severn Trent Water Group⁽³⁾</td>
<td>59.8%</td>
<td>60.8%</td>
<td>Severn Trent Water Group⁽³⁾</td>
<td>59.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 March 2018</th>
<th>30 September 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severn Trent Water</td>
<td>A3</td>
<td>A3</td>
</tr>
<tr>
<td>Severn Trent Plc</td>
<td>Baa1</td>
<td>Baa1</td>
</tr>
<tr>
<td>Moody's</td>
<td>Moody's</td>
<td>Moody's</td>
</tr>
<tr>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB+</td>
</tr>
<tr>
<td>Standard and Poor's</td>
<td>Standard and Poor's</td>
<td>Standard and Poor's</td>
</tr>
<tr>
<td></td>
<td>Outlook</td>
<td>Outlook</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
<td>Stable</td>
</tr>
</tbody>
</table>

1. Estimated RCV at 30 September 2018
2. Based on statutory net debt of £5,419m (31 March 2018: £5,357m)
3. Based on Severn Trent Water Group regulated net debt of £5,372m (31 March 2018: £5,375m)
## FY18/19 TECHNICAL GUIDANCE

Guidance in bold has been revised since the last trading update. Please note that all technical guidance is presented under the old segmental basis for comparative purposes.

<table>
<thead>
<tr>
<th><strong>Regulated Water and Waste Water</strong></th>
<th><strong>FY17/18 (restated)</strong></th>
<th><strong>Year-on-Year</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>£1.62 billion to £1.65 billion.</td>
<td>£1.57bn ▲</td>
</tr>
<tr>
<td><strong>Opex</strong></td>
<td>Higher year-on-year as upward cost pressures of EA licence fees and continued higher energy pass-through costs offset ongoing efficiency programmes.</td>
<td>£604m ▲</td>
</tr>
<tr>
<td><strong>IRE</strong></td>
<td>£135 million to £155 million.</td>
<td>£135m ▲</td>
</tr>
<tr>
<td><strong>Customer ODIs</strong></td>
<td>Guiding to a broadly neutral position. A proposal from Ofwat to increase this cap is currently out for consultation; if necessary, an update to technical guidance will be provided following the conclusion of this process.</td>
<td>£80m ▼</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Business Services¹</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>Higher year-on-year.</td>
<td>£141m ▲</td>
</tr>
<tr>
<td><strong>PBIT</strong></td>
<td>Marginally higher year-on-year, impacted by new plant start up costs.</td>
<td>£35m ▲</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Group</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property PBIT</strong></td>
<td>Around £20 million, including the sale of land near Nottingham.</td>
<td>£7m ▲</td>
</tr>
<tr>
<td><strong>Interest charge</strong></td>
<td>Down year-on-year due to lower interest rates on new and replacement debt, and lower forecast RPI.</td>
<td>£220m ▼</td>
</tr>
<tr>
<td><strong>Tax rate</strong></td>
<td>Total tax rate expected to be around 19% and underlying effective current tax rate between 11% and 13% due to higher capital allowances from increased capex.</td>
<td>12.7% ▼</td>
</tr>
<tr>
<td><strong>Group capex</strong></td>
<td>£650 million to £750 million.</td>
<td>£591m ▲</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>Annual dividend growth of at least RPI+4% until March 2020. 2018/19 dividend set at 93.37p.</td>
<td>86.55p ▲</td>
</tr>
</tbody>
</table>

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1. Prior year restated following change in accounting policy under IFRS15 – see note 1 to the financial statements in the RNS for detail. Guidance includes acquisition of Agrivert Holdings Limited.
REGULATORY MODEL
CALCULATING ALLOWED PRICES

In real terms

- 2015-2020 Totex (total expenditure)
- “Slow money” (1 – PAYG rate applied to totex spend)
- “Fast money” PAYG rate (58.6% average for AMP6) applied to totex spend

<table>
<thead>
<tr>
<th>PAYG</th>
<th>Customer ODIs</th>
<th>Tax</th>
<th>Interest</th>
<th>Return on equity RCV</th>
<th>RCV run-off (depreciation)</th>
</tr>
</thead>
</table>

Allowed wholesale revenue (expressed as K-factor) \(^{(1)}\) + Retail allowed costs and margin = Severn Trent Water regulated revenue

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)

**Opening RCV**

April

**RCV run-off** (depreciation)

**Closing RCV**

March

**Totex x \(1 - \text{PAYG rate}\)** = Value added to RCV

**Capital grants**

INVESTMENT

Represents the current cost value of the capital base of each company
REAL COST OF CAPITAL
AMP7 VS AMP6

AMP 7

Cost of Debt 1.3%
Gearing(1) 60%
Cost of Equity 4.0%
Vanilla Weighted Average Cost of Capital 2.4%
Risk free rate = -0.88%
Debt premium = 2.21%

AMP 6

Cost of Debt 2.6%
Gearing(1) 62.5%
Cost of Equity 5.65%
Vanilla Weighted Average Cost of Capital 3.74%
Risk free rate = 1.25%
Debt premium = 1.35%

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

1. AMP7 base return is provisional and subject to change. To be finalised by Ofwat in 2019.
Under our licence conditions, we share regulated property disposal proceeds with Severn Trent customers.

There is a well-established mechanism to do this:

1. Customers receive half of the profits from the initial sale of Severn Trent Water land to the property company or the third party.
2. The subsequent sale by the property company is subject to an ‘overage’, which is returned to the regulated business. This will be between 15-60% and is determined by Ofwat’s independent valuer. The more difficult the land is to develop, the lower the percentage. 50% of the overage is then shared with customers.

We forecast around 40% of the profit generated by the Group will be returned to customers through the RCV adjustment at the end of each AMP.

Surplus land in the regulated business is either:

1. Sold directly to a third party.
2. Sold to the Group’s specialist property subsidiary for further value creation, through:
   - Obtaining planning permission and selling on; or
   - Collaborating with others to develop the land.

The terms of sale of any land from Severn Trent Water are approved by an independent valuer, appointed by OFWAT.

Both stages of the sale are subject to customer sharing of the profit through the RCV adjustment.

The RCV adjustment is applied at the end of the AMP and consists of two elements: