PR19 Business Plan 2020-2025
Summary for Investors

WONDERFUL ON TAP

SEVERN
TRENT

Contents

A message from our Chief Financial Officer

Dear Investors,

Welcome to our Business Plan 2020 to 2025 summary.

I hope you get the chance to read our full plan as it's something we're very proud of. However, to make life a little easier we've pulled together what I think are the most important sections from an investor perspective.

Our Executive Summary (Chapter 1) should give you a feel for the tone of our plan, and provides an overview of what we aim to deliver over the next AMP.

We've then included a Financial Summary (Chapter 2) where we've tried to capture helpful financial information in one place.

We then go into a little bit more detail on our story around:

Lowest possible bills (Chapter 3) – showing how we're delivering a 5% bill reduction for our customers

Investment in AMP 7 (Chapter 4) – setting out what we're spending money on in the next AMP

Our performance commitments (Chapter 5) – taking you through our thinking around Customer ODIs

Aligning risk and return (Chapter 6) – explaining how we've balanced the needs of all of our stakeholders

We've included some of our OFWAT Key Business Plan Metrics (Chapter 7) extracted from our pro-forma that we will be presenting to Ofwat in October, as well as a Summary & Next Steps (Chapter 8) and a full list of our Customer ODIs in an Appendix.

If you'd like any more information, or have any questions, our Investor Relations team would be delighted to help (investorrelations@severntrent.co.uk).

James Bowling

Chief Financial Officer

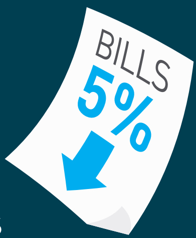
"we've pulled together what I think are the most important sections from an investor perspective."

Serving **our communities**

Our plan for 2020-2025

We think water's wonderful. It plays a critical role in all our lives. And that's why we all deserve a bold and ambitious plan for the future. So we're keeping bills low, improving our service and are having a greater societal impact on our communities, while maintaining an investment grade credit rating and continuing to deliver strong returns for our investors.

5%
real reduction in CPIH prices



Proposed totex of
£6.6bn
- which reflects 13% efficiency

Growing RCV by
13.6%
in nominal prices

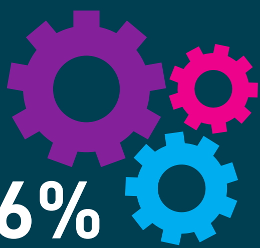
Improving up to
2,100km
of our rivers

41 PCs including
33 ODIs
with enhanced values for internal sewer flooding and pollutions

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

WONDERFUL ON TAP

SEVERN TRENT

01

Executive Summary

Our purpose is to serve our customers and communities. This drives our vision to be the most trusted water company, delivering an outstanding customer experience, best value service and environmental leadership.

None of us have a choice about who provides our water, so customers quite rightly have high expectations of water companies. At Severn Trent, we see the next five years as a critical opportunity to show how we're running a public service for the public good. And we're going to build on our solid track record and take service standards to new, ambitious levels.

Our goal is to be the most trusted water company by 2020. But trust has to be earned - it is given, not taken, and it has to be given by our customers.

Our customers also understand the importance of us being financially sound and not carrying too much debt. A sense of fair play and transparency matters. So while they don't want us to pay excessive dividends, they agree that good performance should be rewarded, as long as poor performance is penalised. And when we do perform well, they expect us to share the benefits with everybody, not just with shareholders.

Affordability

Not content with having the lowest average bills in the country since 2010, we're now going to go even further to help our customers' household finances by reducing bills by 5% (taking into account the Government's preferred measure of inflation – CPIH) which works out at more than double the savings we've given in the last five years. So we'll keep delivering the lowest average bills in England.

Supporting those in need

We already help around 35,000 people who are struggling to pay their bills with our social tariff. But we know that even more people need support. We're going to almost triple the number of customers benefitting from our social tariff, which customers helped us design.

A better service

The last few years have seen us make some solid improvements in the service we provide. For example, our wastewater services are amongst the best in the industry. We consistently score in the top two on the Environment Agency's assessments, and since 2015, 6,000 fewer customers have suffered from sewer flooding. But we need to set the bar even higher. So we're targeting another 8% reduction in all forms of sewer flooding and 17% on pollutions in the next five years.

In some areas we haven't performed as well. We're targeting a real improvement for these and aim to give a service that's one of the best in the industry. We're committing to a 48% improvement in managing drinking water quality risks, 5% fewer complaints about the appearance of drinking water, and have added a new commitment to resolve 95% of pressure complaints first time (because our previous measure wasn't quite getting to the root of the issue). We'll also reduce interruptions to supply, so that we're in the top 25% of all the water and wastewater companies.

Investing for the long term

We're planning ahead so that the generations to come can rely on us. In our last plan, we got the go ahead to safeguard the next 100 years of water supply to Birmingham with a major infrastructure scheme - and while we don't have any projects of this magnitude planned, we're going to continue investing in our strategic grid to improve the ability of our water supplies to cope with shocks and strains.

We need to safeguard the future of the water environment and make sure that when we draw water from it, we're not putting it at risk. And we know that we need to prepare for population growth and uncertainty from climate change. To meet these challenges and protect our water for future generations, we're committing to reduce leakage by 15% - our biggest ever reduction in a five year period. We know customers want to help too, so we're aiming to almost triple the number of water meters and do even more to promote water efficiency.

And where there's uncertainty about how climate change could impact us, we'll only share the costs of any investment once we can demonstrate that it's delivered real benefits.

Playing a bigger part in society

We want to show the difference that we can make to the communities we all call 'home'.

Almost a third of the UK's social mobility 'coldspots' are in our region. We already focus our apprenticeships and graduate schemes in these areas, and we're going to change our recruitment practices so that everybody in our region is aware of the fantastic career opportunities we offer. We're also going to invest £10m in a technical academy that won't only bolster our own engineers' skills, helping to underpin the skills of the Midlands as a whole, but also be a place where other water experts, such as local authorities, can come together to share expertise.

We'll do our bit to help make where we live greener. Over the next five years, we'll improve 2,100km of rivers, taking the total since 2015 to 3,600km – that's more than half the rivers in our region. Working with other organisations like the Wildlife Trusts, we're going to encourage local communities to help us improve biodiversity in areas equivalent to 1,500 football pitches. Where we're working to fix sewer flooding, we'll take the opportunity to create new green spaces for our customers to enjoy – adding up to £600,000 of new natural capital.

We want to inspire a generation to change their water use, so we're taking an innovative roadshow into every primary school playground in our region. We'll also promote the benefits of hydration and spark their interest in a career with us in the future. At the same time, we're helping 500 schools in our region tackle issues with lead in their pipework.

Being a responsible company

Who owns water companies and how they're financed has been a hot topic lately. While many don't worry about it, others are uncomfortable with the idea of a private company providing a public service. But what all have in common is the desire for things to be fair and transparent. Explaining how our finances work and how we've calculated dividends in everyday language is difficult. So to keep things simple, we've established a set of principles, and every year we'll keep our customers informed about how we've followed them.

Sharing the benefits with everybody

When we deliver better performance than we promised, we're rewarded financially. We're going to carry on sharing those benefits between our customers and our business – just as we have done in the last five years, when for example we chose to reinvest £220m of our cost savings into areas such as water quality, security, improving the health of our assets, innovating for the future and supporting vulnerable customers.

From 2020 onwards, we're going to do even more to serve our communities by giving 1% of our profits as a new community dividend. This money – which could amount to around £2.5m a year – will help our most vulnerable customers, enhance the environment and make a real difference to communities. We'll be establishing an advisory board to guide where best to spend the money and also obtain match funding from other bodies.

Our plan - responsible, challenging but can be done

We believe we've created a responsible, challenging but achievable plan that will set the benchmark for how a privately owned company can deliver public good, for the benefit of all stakeholders. Our customers gave our plan an 85% acceptability rating – we now need to deliver it.

"We want to show the difference that we can make to the communities we all call 'home'."

02

Financial Summary

In this section, we have included some key financial data from our submitted plan.

Notional WACC

	Nominal	Real CPIH	Real RPI
Cost of equity	7.1%	5.0%	4.0%
Cost of debt*	4.4%	2.3%	1.3%
Appointee WACC (vanilla)	5.5%	3.4%	2.4%
Retail net margin	0.1%	0.1%	0.1%
Wholesale WACC (vanilla)	**5.4%**	**3.3%**	**2.3%**
*Cost of debt split:			
Cost of embedded debt	4.6%	2.6%	1.6%
Cost of new debt	3.4%	1.4%	0.4%

Financing

Planned average gearing[1]	63.6%
Notional gearing	60%
Targeted credit rating	At least BBB+/Baa1
New funding requirements	£1.2bn
Required refinancing	£1.8bn

1 This differs from the average of 64.1% in our pro-forma business plan presentation, which is calculated using closing net debt but applies year average indexation to RCV. Our calculation uses closing net debt and applies year end indexation to RCV, consistent with our existing APR reporting.

RoRE

Customer ODI RoRE range	-3.0% to +2.6%
Overall RoRE range above allowed return	-5.3% to +4.7%

Totex

Maintenance expenditure	£4.9bn
Enhancement expenditure	£1.7bn
Total expenditure	£6.6bn
Planned efficiency included	13%
Real options	£1bn over 25 years

RCV

RCV growth - nominal	13.6%
RCV growth - real (CPIH prices)	3.5%

Financial levers

	Water	Wastewater
PAYG rate	62%	55%
RCV run off rate	4.6%	5.3%

03

The Lowest Possible Bills

We believe water should be affordable for all. At a time when the economic outlook for many of our customers is uncertain, we need to do everything we can to keep our bills as low as possible.

We've thought about affordability in three ways in our plan: overall affordability – making our bills more affordable for all customers; affordability in the long term – keeping bills affordable for future generations; and affordability for those struggling, or at risk of struggling to pay.

We are proud to have had the lowest average water and wastewater bills in England and Wales in 2015-20. In our 2020-25 plan, we're stretching ourselves further to keep our bills lowest for longer, targeting a further reduction of 5% (12.5% RPI basis) – our biggest bill reduction for two decades.

We discussed bill profiles over a multi-AMP journey with our customers, explaining the choices available to strike this balance, including our proposed use of financial levers (Pay-as-you-go and RCV run off) to manage bill affordability over the long term. 88% of those surveyed preferred a smaller bill reduction over the next five years, and a more stable profile over time.

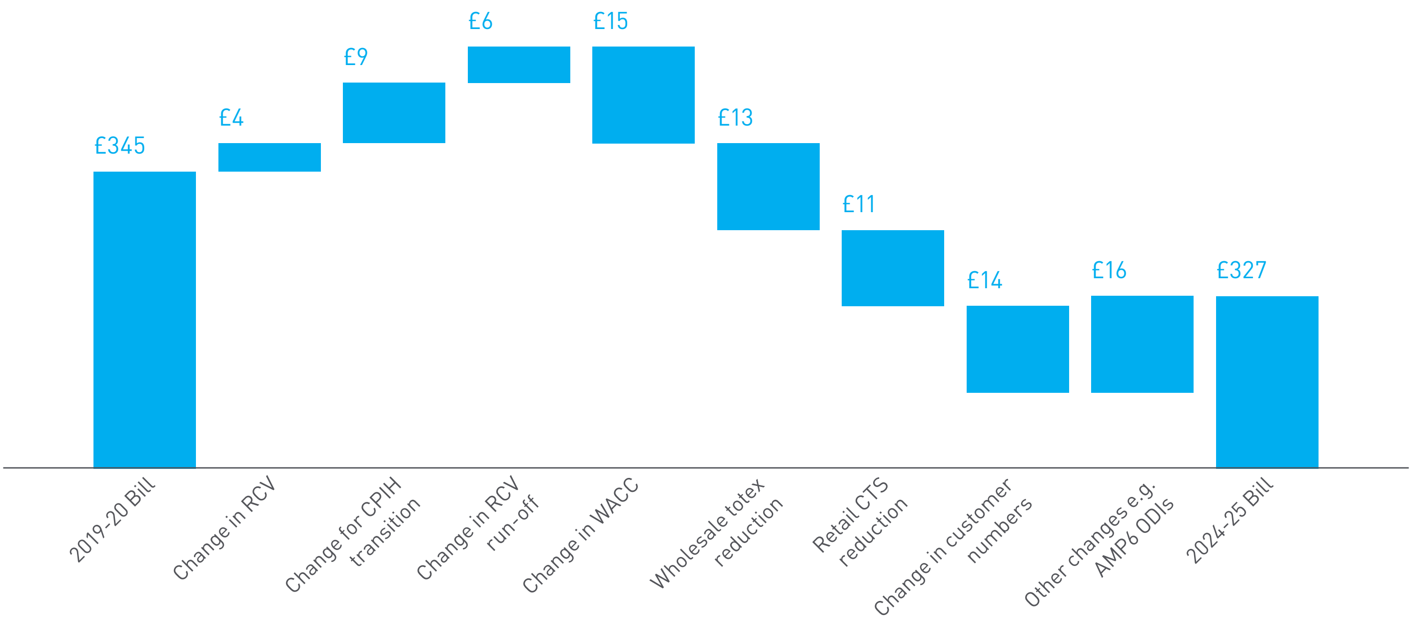
This chart provides an overview of what is driving changes to bills between 2019-20 and 2024-25. The inputs are in price base 2017-18, deflated at year average CPIH.

The change in bills is being driven by reductions in three areas:

- The reduction in the Wholesale WACC;
- Wholesale totex - reflecting the stretching efficiency challenge we've set ourselves; and
- Retail totex - similarly reflecting the efficiency challenge we've set ourselves building on PR14.

We've been able to deliver a significant overall reduction in bills, while also targeting a credit rating of at least BBB+/Baa1 under our notional structure (consistent with Ofwat's assumptions on new debt). Our approach includes increasing the run off of the RCV, by deflating the component of the RCV that relates to "high inflation" (defined as RPI-CPIH * RCV) to ensure the overall RCV is inflated in line with CPIH, consistent with our customers' expectations on intergenerational balance.

Our bills also reflect the impact of ODIs deferred from AMP 6 to help manage bill volatility and re-profile revenue to create a smoother bill trajectory for our customers.



04

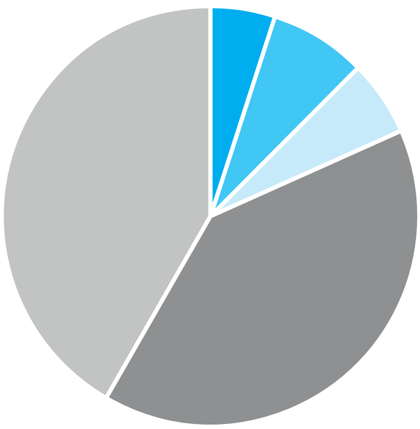
Investment in AMP 7

We believe this is our most ambitious and innovative plan ever.

It has been created with our customers in mind - and includes £6.6bn total expenditure (in 2017/18 prices) to deliver new commitments that get right to the heart of their needs. We've benchmarked our costs against our peers and across other sectors, and tested our plan to ensure it is within the cost parameters Ofwat expect for an efficient company. As a result, we've included 13% wholesale efficiency and 10% retail efficiency in our plan.

£6.1bn Wholesale totex: £3.2bn (52%) is allocated to Wholesale Water (Water Resources and Water Network Plus price controls), with the remaining £2.9bn (48%) to Wholesale Wastewater (Bioresources and Wastewater Network Plus price controls).

£0.5bn (7% of all totex) is allocated to residential retail.



- Bioresources, £332m
- Residential Retail, £507m
- Water Resources, £ 377m
- Wastewater network +, £2,621m
- Water network +, £2,739m

We've used driver trees to link outcomes with activities and resources, recognising an element of shared costs. The following table shows our Wholesale totex split across outcomes:

Outcome £m	Wholesale Water	Wholesale Wastewater	Wholesale totex
Good to Drink (Plan Chapter 11)	866	-	866
Water always there (Plan Chapter 12)	1,721	-	1,721
Wastewater safely taken away (Plan Chapter 13)	-	767	767
A thriving environment (Plan Chapter 16)	102	1,599	1,701
Shared costs	427	587	1,013
Total	3,116	2,953	6,069

Enhancement expenditure

Our plan includes £1.7 billion of enhancement expenditure, in addition to £4.9 billion of maintenance expenditure. Our enhancement business cases cover a range of investment needs, some which have been required due to regulatory or legislative requirements, such as our wastewater environmental programme, and some which are important to our customers, such as low pressure.

We've used our understanding of the PR19 cost models to identify four areas where adjustments may be required (described below). These cost adjustments total £0.5bn but the value needs to be considered alongside the assumed implicit allowance. As such, the total enhancement value associated with these schemes (£0.9bn) is a more appropriate reflection of investment required to deliver identified customer needs.

Supply demand balance

Our customers rely on a safe supply of water every day. They are content with our present level of protection against a 1 in 200 year drought but want us to ensure that we abstract water in a way that protects and sustains the environment. We have therefore presented a business case to secure sustainable water supplies during AMP7 and in the longer term.

We modelled a large number of alternative supply / demand scenarios. Our analysis shows that there is a high level of certainty that three supply schemes will need to start in AMP7. If additional supply schemes are required, our proposed uncertainty mechanism and associated ODI will be used to fund them – see below section on 'real option mechanisms' for further detail.

Wastewater quality

Two main statutory drivers underpin the need for the wastewater quality enhancement investment – the Water Framework Directive and the Urban Waste Water Treatment Directive.

The work that we've done to investigate the need, define innovative solutions and align with other drivers to leverage additional benefits gives us confidence that the activities planned for AMP7 efficiently deliver for the environment in accordance with customers' wishes and our statutory requirements. We have also worked very closely with the EA, using our systematic 'source to estuary' catchment approach, to ensure that solutions will be delivered optimally and at reduced cost.

For projects where the immediate need is less clear, we have developed the real options mechanism (see the below section) that will be triggered when the Water Framework Directive programme is finally confirmed. This is to protect customers from funding work that may prove to be unnecessary.

Security

The threat level determined for the water sector is currently 'low', but changes in both the national threat level and the nature of those threats means we cannot be complacent. While we have invested in previous AMPs to protect customers' drinking water, the rise in cyber related activity and potential new physical security threats will require more sophisticated interventions to deliver faster detection and response. New legislation reflects this and forms the basis of our proposal.

Resilience

Assets, systems and networks, by their very nature, will deteriorate with time, be subjected to external shocks and stresses and could eventually fail.

Resilience enhancement interventions are required where the current level of risk is assessed to be too great and needs to be systematically and permanently lowered, to keep in step with changing customer expectations.

We have sought to ensure that the investments planned for increasing resilience are optimal, cost beneficial and supported by customers and our Water Forum.

Real option mechanisms

We've developed a new approach to managing uncertainty - referred to as real option mechanisms. These protect the interests of customers by not exposing them to the risk of unnecessary upward pressure on bills, and provide an effective response to new information.

We refer to them as real option mechanisms as they support an approach that recognises the real option value that can be associated with waiting before committing to a particular investment (and considering actions that may increase flexibility).

Similar to a financial option, a real option mechanism gives the right, but not obligation to act upon a defined trigger. This mechanism would enable parties to wait for more information before proceeding with an investment, and before reflecting the costs of an investment in the bills our customers face. This helps decouple investment decisions and associated bill effects from the five-yearly price review process, which in some examples can be restrictive because it requires outcomes to be set five years in advance.

The benefit of this approach is that customers do not face the risk of unnecessarily higher bills, but it also allows the company to adopt more efficient and flexible approaches to managing uncertainty.

The total expenditure associated with our real option mechanisms is up to £1 billion over our water resource management plan period, in four areas of uncertainty:

1. **Supply demand balance**
– the impact of climate change
2. **Supply demand balance**
– the required extent of our metering programme
3. **Wastewater environmental programme**
– final requirements of the Water Framework Directive
4. **Water trading**
– the feasibility of the interconnector that we have included in our plan to make meaningful progress on making large scale water trading a practical reality

05

Our Performance Commitments

Our commitments push benchmarks for our sector and introduce innovation in their design and measurement. They're complemented by a suite of outcome delivery incentives (ODIs) that embrace the potential of incentives to drive better performance for our customers, our investors and society.

Our plan pledges nine outcomes and 41 performance commitments (including 14 industry common performance commitments), against which we will hold ourselves to account over the next five years. 33 of these have financial ODIs attached.

Embracing outcomes based regulation

In our 2015-20 plan, we created a strong portfolio of performance commitments - and made more of our revenue dependent on the performance we deliver for customers than any other company. We had to drive a significant cultural change in our organisation to transform our performance to deliver the net outperformance payments that we have earned.

Our customers have told us that sewer flooding remains the highest valued service improvement area in all forms of customer research. During AMP6 we have turned around our performance through a set of significant investments and as a result we expect to reach the ODI cap for our Waste business in 2018/19. We have asked Ofwat to consider uncapping our Waste ODIs, to provide us with the capacity to invest substantially more in this area over the next two years to further reduce instances of sewer flooding. Any additional improvements we make from today would also shift the sector UQ, creating a stronger benchmark from which Ofwat could set comparative targets for the future. This is something our customers resoundingly support, with 72% favouring the removal of ODI caps to incentivise better services.

For this plan, we want to do to even more with ODIs, so we're proposing ODIs that amount to a RoRE range of -3.0% to 2.6%, equating to around -£119m to £106m per annum.

A comprehensive and innovative portfolio

We've created a portfolio of performance commitments which:

- offers a wide breadth of protection for customers;
- is innovative, either in scope or method of measurement (for example, our new farming for water commitment);
- reflects new customer insight and areas of priority (for example, our low pressure complaints commitment);
- makes a broader contribution to our communities (for example, our green communities commitment to create new natural capital while tackling flood risks); and
- incorporates our regulatory obligations and stakeholders' expectations.

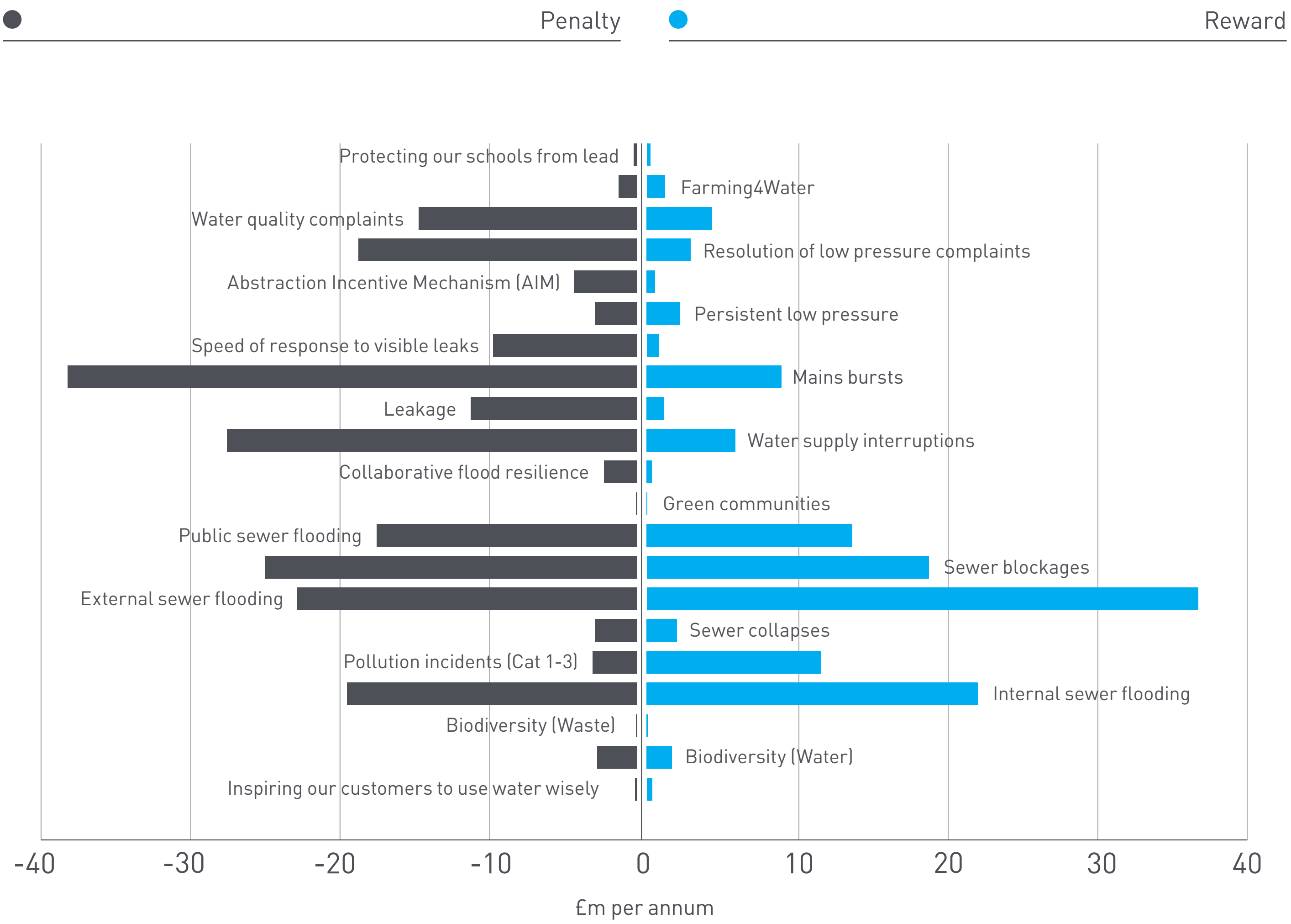
We have designed our upside and downside incentives to be applied through in-period revenue where possible, to be broadly symmetrical, with proportionate use of caps and collars and deadbands only in exceptional circumstances.

Embracing enhanced ODI rates

We're proposing to apply enhanced ODI rates for two common performance commitments – internal sewer flooding and pollution incidents – for which we are targeting upper quartile for the industry. Both penalty and reward rates will become enhanced beyond specific thresholds.

Understanding the potential impact for customers' bills

The figure below shows the potential impact of our overall package on customers' bills and also the impact of each individual ODI.



Note that figures shown are in post-tax 2017/18 prices.

In the current AMP, we're already working to find the right balance between not compromising our incentives by deferring their impact, and causing sudden fluctuations in our customers' bills. After considering the combined impact of both ODIs and inflation on 2018/19 bills, we decided to defer some of our ODI outperformance payments to future years. We believe that the ability to manage ODI payments in this way helps to smooth the profile of bills for our customers, and it's something we will continue to consider in the next AMP.

The complete list of our proposed customer ODIs is included in an appendix.

Aligning Risk & Return

We believe our plan will deliver substantial customer benefits and a sustainable, fair and appropriate balance of risk and return.

Our plan will provide our customers with a substantial reduction in the bills they face before inflation: average bills will fall by 5% in real terms as measured by CPIH. Our approach to the balance of charge over time has been guided by three core principles, which were strongly supported by our customers during our deliberative research:

a) Each generation of customers should pay its fair share.

b) Bills should be stable over time, where possible, avoiding big fluctuations up or down.

c) The balance of charges over time should enable us to maintain a stable and low cost funding platform for investment.

These principles informed our approach in two key areas:

1. **Applying a CPIH-based approach from 2020 in full.** The Retail Price Index (RPI) has been found to overstate inflation. Our plan involves moving to a CPIH-based approach from 2020, consistent with the views of our customers.

2. **The balance of debt interest costs paid by current and future consumers.** The cost allowance that Ofwat provides companies to finance their investments is split between an allowance for inflation, which is paid by future customers through increases to the RCV, and a real cost of debt, which is recovered through current customers' bills. Over the years since the financial crash, interest rates have remained extremely low and this has benefitted customers, reducing the overall allowance for financing costs in three successive price reviews. But it has also meant that the proportion of financing costs paid by current (as opposed to future) customers has fallen significantly over time. We have used the financial lever of RCV run-off to re-balance this.

Our plan provides for a fair and appropriate balance of risk and return between our customers, shareholders and employees. On ODIs, our proposed measures are weighted slightly to the downside due to the level of stretch in our plan, with a RORE range of **-3.0% and +2.6%**. Together with totex and financing, we have identified a RORE range above the allowed return of -5.3% to +4.7%. We set out how we arrived at this range below and in Appendix A11 to our plan.

We tested our business plan and the balance of charges with customers, and 85% found our plan acceptable. Customers also expressed strong support for how we were balancing charges over time and 88% favoured our proposed approach to transition to CPIH earlier rather than having a larger bill reduction in the short term.

Our financial assumptions and targets maintain a sustainable framework for financing

For 2020-25, we intend to operate within a gearing range of 57.5% to 67.5%, which provides 5% tolerance either side of our expected starting point, which is broadly in line with the current notional level of 62.5%. The average gearing in our plan is 63.6%.

The WACC and retail margins

Our plan assumes a Weighted Average Cost of Capital (WACC) and retail margin levels that are consistent with Ofwat's early view as set out in its December 2017 Final Methodology – shown in our Financial Summary (Chapter 2).

Ofwat's early view of the WACC included the assumption that, on average during 2020-25, 30% of all debt will be 'new' and 70% 'embedded', based on a report by Europe Economics. We have highlighted to Ofwat that our forecast debt profile implies that, on average, a little under 25% of our debt will be 'new' during 2020-25, which is consistent with Ofwat's PR14 assumption.

Our target credit rating

For our PR19 plan, our target credit rating is at least BBB+/Baa1, consistent with Ofwat's approach to the notional company and how it is setting the cost of new debt. This also allows us to maintain a stable, low cost, resilient funding platform for investment into the future. We are projecting that we will need to raise £3 billion of debt in 2020-25 (£1.2 billion of new funding and £1.8 billion of refinancing).

PAYG and RCV run-off rates

PAYG rates determine the proportion of total expenditure (totex) that will be paid for by customers in the same year that the expenditure is incurred. The remaining proportion of totex (1-PAYG) is added to the RCV and paid for over a longer period. PAYG rates therefore have a significant impact on the balance of charges over time. The average PAYG rates that we use in our plan are in line with PAYG rates used in PR14 (62% for wholesale water and 55% for wholesale wastewater). For more detail on how we determined these rates, refer to Chapter 22 of our plan.

RCV run-off rates determine the proportion of the RCV that is 'paid down' each year, and so affect the size of the RCV that is passed on to future customers at the end of the 2020-25 price control period. Our average RCV run-off rates for wholesale water (4.6%), and for wholesale wastewater (5.3%) are higher than the levels that applied at PR14, mainly because we are using the RCV run-off rate in our PR19 plan as a 'lever' to transition to a CPIH-based approach from 2020, in effect applying a higher run-off rate to the RPI-linked element of the RCV.

Our approach to RCV run-off rates considered three key elements. First, the 'natural rate' for RCV run off, which can be thought of as the amount required to account for the value of assets that is 'used up' in each period, calculated on some form of replacement cost basis. Second, as noted above, a means to apply CPIH indexation for the whole RCV from 2020. Third, an adjustment to address the notional financeability constraints caused by the current sustained low interest rate environment, which has meant that the proportion of financing costs paid by current (as opposed to future) customers has fallen significantly over time. We have used the financial levers to re-balance this and to help maintain an appropriate credit rating.

Our plan is financeable and maintains a stable platform for investment

Our plan is financeable at the appointee level using a notional capital structure, after account is taken of our ODI rewards from AMP6. The table below shows our credit metrics after legacy AMP6 adjustments, and after re-profiling revenue to manage credit metrics across the control period.

Notional company - financial metrics

	2021	2022	2023	2024	2025
Gearing	60%	61%	61%	61%	61%
Adjusted cash interest cover (per Ofwat measure)	1.48	1.49	1.56	1.64	1.61
FFO/debt (per Ofwat measure)	10.4%	10.4%	10.5%	10.6%	10.4%

We have also assessed the financeability of our plan on an actual capital structure. This is critical because it is on this basis that we raise finance. We consider that our plan would allow us to target at least a BBB+/Baa1 credit rating.

Actual company - financial metrics

	2021	2022	2023	2024	2025
Gearing[1]	62%	63%	64%	64%	65%
Adjusted cash interest cover (per Ofwat measure)	1.59	1.61	1.62	1.64	1.70
FFO/debt (per Ofwat measure)	10.3%	10.2%	10.2%	10.1%	10.0%

1 These figures differ from the figures shown in the pro-forma data tables, which are calculated using closing net debt but apply year average indexation to RCV. Our calculation uses closing net debt and applies year end indexation to RCV, consistent with our existing APR reporting.

RCV Assumptions

Our RCV is expected to grow by 13.6% (in nominal prices) in AMP 7 to £10.7bn, reflecting our continued investment in our asset base. It should be noted this does not include any real options that have been submitted in our plan.

In the table below we show the opening RCV and closing RCV in CPIH deflated 2017/18 prices, reflecting real growth of 3.5%, as included in our submitted plan:

Control	1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)	30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)	% growth
Water resources RCV	379	398	5.1%
Water network Plus RCV	4,132	4,277	3.5%
Wastewater network Plus RCV	3,982	4,110	3.2%
Bioresources RCV	513	534	4.1%

Regulatory Dividend Policy

Our dividend policy reflects our view that in order to deliver successful outcomes, all parties must share in success. This means customers benefiting from lower bills and better services, and investors earning a fair return on the £4 billion they've contributed.

Our new dividend policy builds on the recent guidance from Ofwat - but also introduces a new community dividend. We'll provide much greater transparency about how we deliver for all our stakeholders, and will adopt four core principles that guide how we make decisions about dividends.

1. **Dividends will be fair and balanced** - customers should be able to see and understand how our dividend policy supports them – through both the sharing of outperformance and greater transparency.
2. **Dividends will be transparent** - our annual performance report will explain how our dividend is consistent with our commitments.
3. **Dividends should promote continued outperformance** - our dividend policy will strike the right balance between reinvesting outperformance for the benefit of our customers and rewarding our investors.
4. **Dividends will support appropriate gearing** – if we gear to a high level (above 70%) we will share financing benefits from this structure with customers.

For 2020-25, our plan reflects a base level of dividend that is in line with Ofwat's assessment of an appropriate base return on equity. That equates to a c5% return on equity RCV. The base return does not include any potential outperformance against our plan or the benefit of carried over ODI outperformance payments from AMP 6. The following illustrative dividend figures include the 5% base regulatory dividend plus the value of AMP 6 rewards carried over.

Outturn (nominal prices)	2020-21	2021-22	2022-23	2023-24	2024-25
Illustrative dividends (based on PR19 actual company structure)	210	215	219	224	229

At a Group level, our Welsh regulated business, Hafren Dyfrdwy and our non-regulated business, comprising Operating Services, Green Power and Property Development, will also contribute to our total shareholder dividend.

Our New Community Dividend Explained

Over the past three years, we've made significant progress in serving our customers - by reducing costs, investing in extra services and supporting lower bills for the future. For example, customers experience 6,000 fewer sewer flooding incidents today compared to 2015.

Despite this, we want to do more to truly serve our communities.

We operate across some of the most deprived regions in the UK. Many of our customers struggle to pay their bills. As one of the largest companies in the region, we've both the tools and opportunity to make a genuine difference.

That's why we've established a community dividend. Funded from our investors, this will run alongside our customer dividend, which shares the benefits of outperformance - by building on our existing employee volunteering and Trust Fund donations plus 1% of our profits. Our aim is to make a real difference in our communities by building a lasting legacy, helping our most vulnerable customers, enhancing the environment and building social infrastructure.

Delivering services to our communities

The following figure illustrates what our total community dividend could look like:

	£m
Helping our most vulnerable customers – Trust Fund	3.5
Enhancing our local environment – volunteering value	1.0
NEW Creating social infrastructure – 1% profit	2.5
Community dividend	**7.0**

We're establishing an advisory board that will include representatives from charities, government and business – and importantly, our customers themselves. This group will help inform how our contributions can maximise the positive impact on the community and to encourage other bodies, notably business and government, to match our funding.

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OFWAT Key Business Plan Metrics

We've included in this section some key information extracted from the Company pro-forma that we will be providing Ofwat as part of our presentation in October 2018.

Metric	PR14 (2019-20) 31 March 2020 estimate	PR19 (2024-25) 31 March 2025 estimate	2019-20 to 2024-25 % change (leakage and PCC)
Number of residential water only customers (000s)	302	322	
Number of residential wastewater only customers (000s)	801	785	
Number of residential water and wastewater customers (000s)	2,986	3,107	
Total leakage (Ml per day) Based on PR19 definition, annual average	381.05	322.95	-15%
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	8.15	6.82	-16%
Leakage (litres per property per day) Based on PR19 definition, annual average	104.2	85.7	-18%
Per Capita Consumption (PCC) Based on PR19 definition, annual average	133.27	128.61	-3.5%
ODI RoRE range	-2% to 1%	-3.0% to 2.6%	
Appointee WACC (real RPI)	3.7%	2.4%	
Appointee WACC (real CPIH)	4.8%	3.4%	
Credit rating – actual financial structure	BBB+	BBB+	
Metric	**PR14 (2015-2020 Average)**	**PR19 (2020-25 Average)**	
Adjusted interest cover notional	1.7	1.6	
FFO net debt notional	10.3%	10.5%	
Metric	**2017-18 Actual**	**PR19 (2020-25 Average)**	
Actual gearing[1]	61.5%	64.1%	
Adjusted interest cover actual	2.4	1.6	
FFO net debt actual	11.4%	10.2%	

1 The PR19 gearing average in Ofwat's proforma is calculated using closing net debt but applies year average indexation to RCV. Elsewhere in this summary we have presented average gearing as 63.6% which is calculated using closing net debt and applies year end indexation to RCV, consistent with our current APR reporting.

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Summary & Next Steps

We're proud of the plan we have submitted and believe it shows how a private company can run a public service in the interests of all stakeholders.

After many months of hard work, we're pleased to now be able to share our plan with all of you, and look forward to the next stages in the process which are noted below.

Upcoming key dates

14 Sept 2018	Capital Markets Day when we will bring our plan to life
22 Nov 2018	Half year results presentation
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
Early 2020	Announcement of AMP7 dividend policy

Customer ODIs

The table below shows the full range of customer ODIs included in our submitted plan.

PC	Unit	ODI	Timing	Type
ODIs where we intervened to resolve outliers				
Persistent low pressure	per property per day	£464	In period	Revenue
Water supply interruptions	per minute	£1,081,045	In period	Revenue
Improvements in WFD criteria	ODI per point	£815,234	End of AMP	Revenue
Biodiversity (water & waste)	Hectare	£3,627	In period	Revenue
ODIs incorporating the triangulate WTP results and findings of the Choices research				
Pollution incidents (Cat 1-3)	per 10,000 km of waste network	£596,530	In period	Revenue
Internal sewer flooding	per 10,000 sewer connections	£22,602,484	In period	Revenue
Leakage	1 Ml/day	£324,853	In period	Revenue
External sewer flooding	1 incident	£24,222	In period	Revenue
Public sewer flooding	1 incident	£24,528	In period	Revenue
Water quality complaints	1 complaint	£2,731	In period	Revenue
ODI valuations identified directly through the Choices research				
Sewer collapses	per 1,000 km of sewers	£982,785	In period	Revenue
Inspiring our customers to use water wisely	per customer	£7.41	In period	Revenue
Sewer blockages	1 blockage	£11,166	In period	Revenue
Mains bursts	per 1000 km of mains	£561,861	In period	Revenue
ODIs set directly from triangulated WTPs				
Resilient supplies	% customers whose service can be restored in 24 hrs	£3,501,952	End of AMP	RCV
ODIs set with reference to established ODI valuations				
Resolution of low pressure complaints	per 1%	£75,122	In period	Revenue
Speed of response to visible leaks	per 1 day	£1,073,171	In period	Revenue
ODIs based on marginal cost valuations				
Reducing residential void properties	per void property brought into charge	£159	In period	Revenue
AIM – North Staffs sites	per megalitre	£1,204	In period	Revenue
AIM – Strategic Grid sites	per megalitre	£136	In period	Revenue
Protecting our schools from lead	per school	£4,491	End of AMP	Revenue
ODIs utilising uprated PR14 values				
Farming for Water	number of schemes	£1,157,119	End of AMP	Revenue
Treatment works compliance	per 1% non-compliance	£1,572,783	In period	Revenue
Collaborative flood resilience	per property or area	£34,361	End of AMP	Revenue
Satisfactory sludge use and disposal	per 1% non-compliance	£157,279	In period	Revenue
ODIs with alternative valuation sources				
Green communities	per £1m increase calculated in BEST evaluation tool	£500,000	In period	Revenue
Reducing business void and gap site supply points	per gap/void property brought into charge	£210	In period	Revenue
Enhanced ODIs rates that will apply for incremental super-stretch performance for PCs where we are UQ				
Pollution incidents (Cat 1-3)	per 10,000 km of waste network	£894,795	In period	Revenue
Internal sewer flooding	per 10,000 sewer connections	£33,903,727	In period	Revenue
ODIs for enhancement expenditure and/or uncertain expenditure requirements				
Metering	per meter	£103	In period	Revenue
Security – reducing the risks to our sites	per surface water treatment works equivalent	£1,013,175	End of AMP	RCV
Increasing water supply capacity – penalty	per Ml/day	£659,855	End of AMP	RCV
Increasing water supply capacity – reward 1	per Ml/day	£1,400,000	End of AMP	RCV
Increasing water supply capacity – reward 2	per Ml/day	£750,000	End of AMP	RCV
Increasing water supply capacity – reward 3	per Ml/day	£1,000,000	End of AMP	RCV
Water trading – interconnector	input	£40,000,000	End of AMP	RCV