

INSIDE AMP6

*To serve our communities and
build a lasting water legacy*



Severn Trent overview

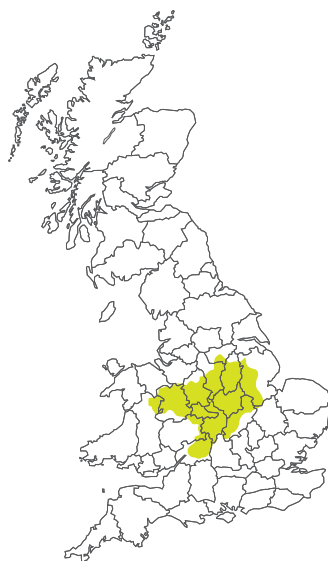
Severn Trent provides clean water and waste water services in the UK and internationally through our regulated and non-regulated businesses – Severn Trent Water and Business Services.

At Severn Trent we always seek to strike the right balance between the service customers receive, the bills they pay and returns to investors. We believe our plan for the next five years achieves that balance, delivering better services, better value and a healthier environment.

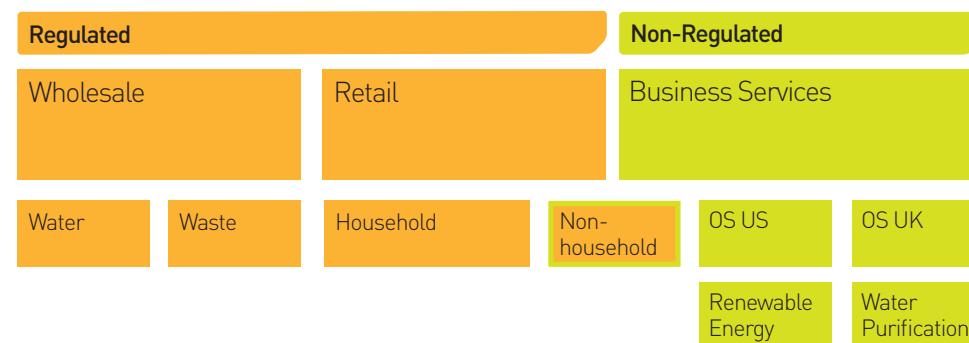
We are focused on creating long term value for shareholders through an inflation linked dividend, growing from a new base in 2015/16 of 80.66 pence by at least RPI each year until 2020, and growth in our asset base through our largest ever investment programme.

We also aim to create value from the new Totex and ODI regimes, through greater efficiency and by growing our renewable energy generation. You'll find more on these in this booklet.

Severn Trent Water region



Severn Trent Plc group structure



Severn Trent Water AMP6 at a glance

Wholesale Totex (inc. pensions)	Retail revenues	Wholesale WACC ¹
£5,623m	£743m	3.6%
PAYG rate ²	Return on regulated equity	Regulatory Capital Value (RCV) in 2020 (nominal) ³
58.8%	0.7-9.0%	c. £10bn

Notes

1. Weighted Average Cost of Capital

2. Pay As You Go

3. Nominal, assumes year end 2.0% RPI for 2014/15 and an average of 3.3% year end RPI for 2015-2020

Source: Ofwat Final Determination. 12/13 prices, unless stated otherwise

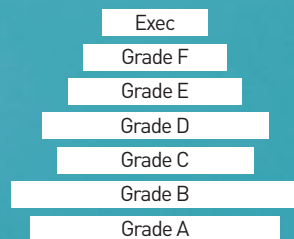
ORGANISATIONAL STRUCTURE

We have implemented a new operating model and are already organised to deliver our AMP6 plans, key changes we have made are:

- Putting our water and waste operations into one Wholesale Operations and Engineering function
- Pulled together all of our non-regulated businesses into a new Business Services organisation
- Merged our Customer and IS functions to deliver customer focus and our digital strategy which will improve our front line productivity and put customers at the heart of our business
- De-layered our organisation
- Reduced roles by 500 in managerial and support areas. Exceptional costs of £25 million to £30 million, annual benefit of c. £20 million from 2015/16
- Our aim for the future is to have great people who have meaningful jobs, feel truly empowered, are highly engaged and achieve great job satisfaction.

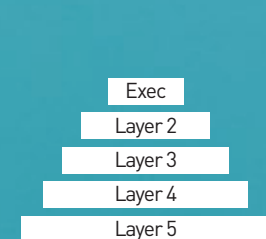
Organisation shape

Previous organisation shape



7 unbalanced layers

New organisation shape



5 balanced layers

Severn Trent Water operating model

Wholesale – Water and waste

Retail

Network Control

We optimise our people and asset resource to secure high quality product and prevent failure

Planning & Performance

We translate our strategy into tangible actions and track our financial and operational performance against them.

Chief Engineer

We drive innovation, Health and Safety, standardisation and assurance to deliver ODI and Totex outcomes

Asset Creation

We construct assets to cost, time and quality.

Operations

We operate and maintain our waste and water assets from source to tap and home to river.

Household

We look after domestic customers and are first port of call for billing and service issues.

Non-Household

We look after business customers both inside and outside of our region.

Fully competitive from 2017.

Operations Support Service

We serve the needs of customers and Wholesale operations, through provision of technical, advisory and logistical services.

Customer Strategy & Experience

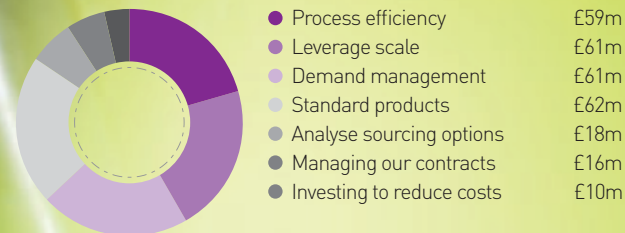
HR, IS, Finance, General Counsel, Health and Safety, Strategy and Regulation, and Transformation

WORKING PARTNERS

We are investing more in AMP6 so efficiency is even more important.

£287 million of supplier efficiencies are built into AMP6 and we have a robust plan in place to deliver the efficiencies across a number of drivers. Our capital programme is key and well advanced.

Efficiency drivers



AMP6 Costs
2012/13 prices

Total Appointed
Business

£6,159m

Capital

£3,334m

Opex

£2,824m

Source: Ofwat Final Determination

A new approach to spending

Some key initiatives:

Leveraging scale

Targeting a **25%** reduction in supplier base

Demand Management

Collaborative supply chain planning. Pilot projects delivered double digit percentage reduction in costs and time

Specification Optimisation

Innovative fleet solutions – replacing 7.5t with 3.5t vans saves **30%** in capital and running costs

Managing Suppliers

A consistent and transparent framework for supplier performance monitoring and measurement

Culture change is a key part of embedding commerciality in the organisation and will help drive further efficiencies.

DELIVERING OUTCOMES

Bringing the opportunities to life with innovative techniques: Broseley Sewage Pumping Station, Ironbridge.

Requirement

To replace the assets that take waste water from the north of the River Severn in the World Heritage site at Ironbridge under the Severn and over the valley to the treatment works.

Initial Solution

To maintain service to our customers and eliminate risk of pollution to the Severn, the initial solution was to duplicate two 22 m deep shafts and a 600 mm diameter tunnel under the Severn. This would require significant civil works affecting the local area and community and leave duplicated assets unused during normal operations.

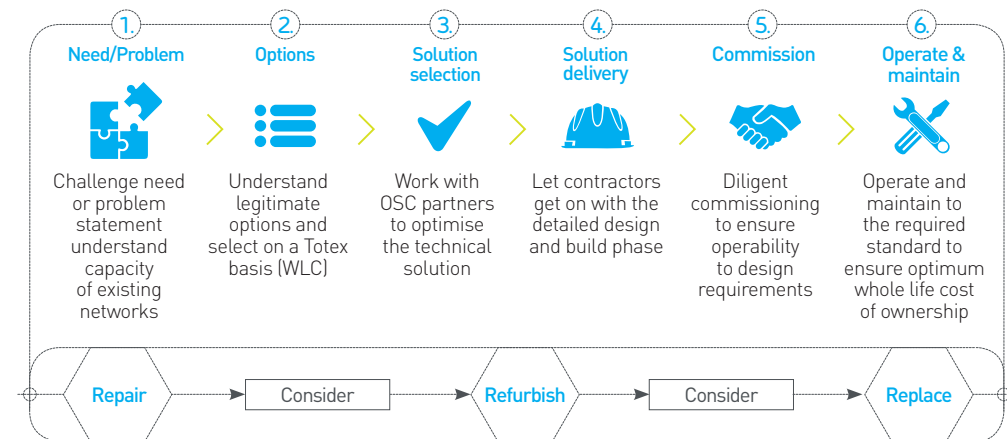
Revised Solution

Through innovative design solutions, detailed risk management, challenge and collaborative planning between Operations, Engineering and our One Supply Chain we identified a solution to modify the existing operations to maintain service while we refurbish and replace the old assets.

Totex reduced from £6 million to £2.5 million saving £3.5 million in AMP6.

Totex in a regulatory world

Asset optimisation and value creation



Totex framework changes the incentives on how we invest

OPEX

IRE

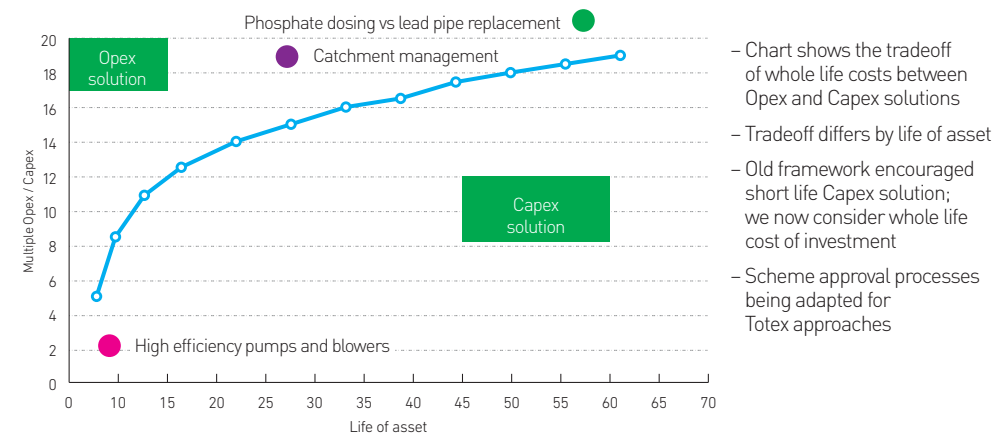
CAPEX

- AMP5**
- 3 categories of spend
 - Inconsistent incentives to outperform between Opex and Capex with a Capex bias

TOTEX

- AMP6**
- Consistent incentives to outperform all forms of spend
 - RCV built by efficient investment in necessary improvements
 - 50/50 sharing of outperformance with customers

We have fresh decision making to optimise spend over AMP6



CAPITAL PROJECTS



The Forum continues strongly to support the need for action to be taken in relation to Birmingham resilience.

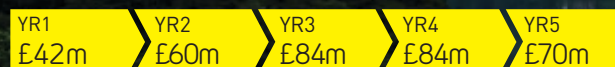
The Water Forum

Birmingham Resilience is our biggest project in a decade and the biggest of all water companies in AMP6.

To give additional resilience to the water supply of the 1.2 million customers in Birmingham we are investing c. £340 million in the AMP in our most ambitious project.

Delivery is important to us and our regulators who will impose ODI penalties if we do not deliver on time or to the standards we promised our customers.

Totex investment profile



Delivering the water industries biggest project will mean significant investment throughout the AMP.

Key facts

Total investment

£340m

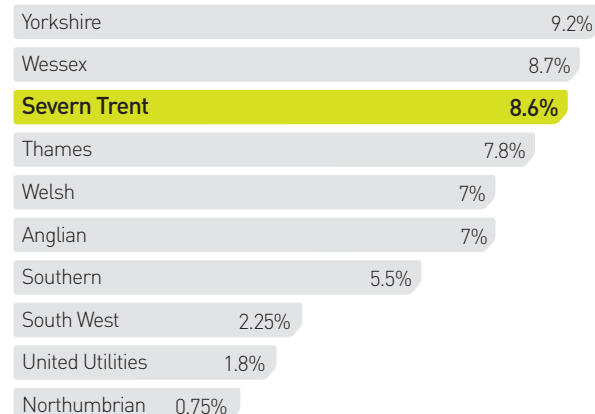
Length of tunnels

13 miles

Length of aqueduct

74 miles

RCV growth 2012/13 prices, 2015–2020



Strong growth in both water and waste RCVs

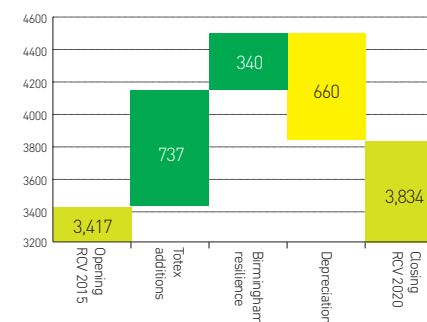
Water RCV growth

+12%

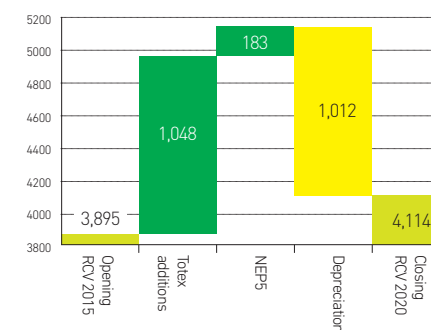
Waste RCV growth

+6%

Water 2012/13 prices (£m)



Waste Water 2012/13 prices (£m)



MAXIMISING INCENTIVES



ODIs (Outcome Delivery Incentives)

Framework of 45 performance commitments and 27 financial ODIs covering all aspects of the business (excl. those related to Birmingham Resilience).

Typical structure of incentive (internal sewer flooding)



- Set for each of 27 ODIs
- Limited deadbands and caps on individual metrics
- Overall cap of +/- 2% on RORE (c. £60m p.a.)
- Cap excludes Birmingham resilience ODIs and SIM

Water

Overall P10/P90 range (excl. Birmingham resilience)

Annual average

+£5m/-£25m

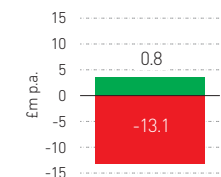
Waste water

Overall P10/P90 range

Annual average

+£27m/-£35m

Supply interruptions



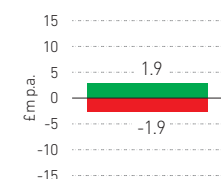
- Reaches industry upper quartile by end of AMP, with a 47% improvement
- Move from reactive to proactive model through enhanced telemetry and network control

Internal sewer flooding



- Reaches industry upper quartile by end of AMP, with a 13% improvement
- Shift from reactive risk register approach to proactive incident prevention
- Excludes severe weather

Leakage



- Target set at efficient level of leakage and 6% lower than current
- Builds on “Valuing Every Drop” programme
- Remains a critical customer priority to fix leaks quickly

External sewer flooding



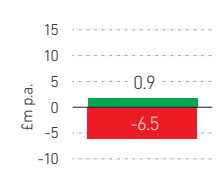
- Reaches industry upper quartile by end of AMP, with a 6% improvement
- Shift from reactive risk register approach to proactive incident prevention
- Excludes severe weather and highway flooding

Household Retail – SIM



- 75% industry wide survey (qualitative)
- 25% quantitative
- Reward/penalty dependent on industry ranking
- Neutral impact in AMP5

Pollution Incidents category 3



- Reaches industry upper quartile by end of AMP, with an 18% improvement
- Rated 4 star by Environment Agency in 2013/14

RENEWABLE ENERGY

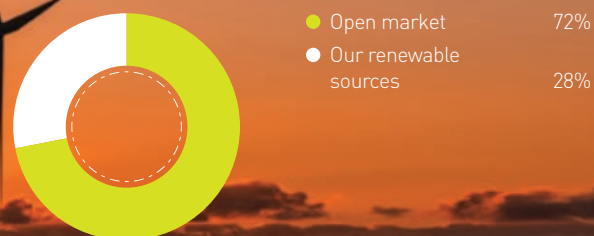
We aim to produce 50% of our energy use from renewable sources by 2020, a significant increase from our current level of 28%. This will reduce our CO₂ emissions and our reliance on the market. To achieve this we are expanding our current renewable production and investing in new technologies.

- To pump and treat over 3.2 billion litres of water and waste water every day we use ~900,000 megawatt hours (MWh) of electricity each year. The average UK household uses around 4.5MWh
- This year – in 2014/15 we will reach 28% of our energy requirement from our renewable sources
- Generating more renewable energy reduces costs and is a natural hedge to price rises
- We are also investing to reduce our consumption of energy (-4% by 2020)

Our Electricity use









Our Current electricity sources



1. Stoke Bardolph Energy Crop Plant
2. Minworth gas to grid plant



Our planned renewable energy mix by 2020

Technology	Indicative % of total generated	
 Sewage sludge anaerobic digestion	55%	Sewage sludge is loaded into anaerobic digesters where it is mixed with bacteria – this produces methane which drives engines that generate heat and electricity. The electricity is used to power the sewage treatment works where the digesters and engines are located.
 Food waste	15%	In the UK several million tonnes of waste is thrown away. We hope to use some of this food waste to generate energy which will reduce carbon emissions and the amount of waste sent to landfill in our region.
 Solar power	15%	We currently have solar panels on the roof of our award winning energy efficient operations centre in Coventry but we are assessing site capabilities to develop large scale solar photovoltaic 'farms' in the future.
 Energy crops anaerobic digestion	10%	Crops are grown on land owned by Severn Trent Water. We use a combination of maize, wheat and rye as well as energy beet. When crops are harvested they are stored to pickle in their own juices, this creates a product known as silage. This silage is fed into the concrete cow (anaerobic digesters) to begin the energy production process.
 Wind power	5%	We have recently constructed four wind turbines on three sewage treatment sites in our region. Together the four turbines will produce 20,000MWh per year which is enough to power 6,000 homes.
 Hydro power	2%	We generate electricity from hydro schemes at our large reservoirs in Wales and the Peak District utilising gravity to turn turbines and generate electricity. There are further opportunities at some of our reservoirs and also in our network pipes.

RETAIL

Household Retail success SIM Qualitative Performance (WASC)



- SIM ODI Performance
- Operational Efficiency (20% reduction in real terms cost to serve over the AMP)

Non-Household Retail success



- UK Total Market c.£3.1bn, in area represents 12% – Retain existing and win across the UK.
- Build on Scotland learnings

Retail landscape

Severn Trent is well positioned to succeed:

- Customer expectations are rising – lower cost, great service, and ‘make it easy for me’
- Competition is arriving:
 - De-regulation of Non-Household Retail in 2017
 - Other areas likely to follow.
- We have the core capabilities across Regulated & Non-Regulated activities
- We are investing in talent and technology to further build the strength of our offer
- We have realigned ourselves to focus on regulated and non-regulated opportunities
- We have clear benefits from group synergies – shared knowledge, technology and buying power

3 key building blocks – Household

Customer segmentation

- Extension of customer segmentation beyond current debt strategies
- Universal service level delivered through more tailored customer experience

Colleague education

- Colleague empowerment, awareness and capability. Underpins improving SIM momentum
- Investment in training on digital and colleague service capability

Insight driven action

- Proactive communications across traditional and new contact channels, reducing customer demand and resolving customer concerns before they escalate

3 key building blocks – Non-Household

Be the best at basics

- Deliver outstanding service to all customers on critical areas, such as:
 - billing accuracy
 - query resolution speed
 - on-line access
- Ensure data completeness and quality to be compliant and allow efficient market interaction

Meet customer needs

- Organised by customer segment
 - Small and medium enterprise
 - Corporate
- Developing compelling propositions, such as:
 - On-line self serve, low cost for small and medium enterprise
 - Customer account management, analytics for multi sites
 - Linking retail and on-site service for some key industrials
- Developing great relations and service offering to third party intermediaries (e.g. fast tender response rate, one point of contact, flexible T&Cs, etc.)

Embed a retail culture

- Measure, encourage and incentivise
 - Right first time
 - Proactive service
 - Innovation
- Sales approach looking at customer/contract lifetime value
- Invest in quality data and analytics to derive commercial benefits e.g.
 - Reducing revenue and margin leakage (e.g. unbilled, inaccurate/incomplete billing)
 - Customised pricing and tariff strategy
 - Debt management

DIGITAL TRANSFORMATION

We believe digital will improve our customer service across wholesale and retail, alongside operational efficiency.

3 key building blocks

Digital Customers



What have we done?

- Mobile enabled web page
- Web self serve enhancement
- Web-Chat trial

Impact so far

- Postal communications down 19% YoY
- Web self serve increased 26% YoY

What Next?

Customer applications to improve experience:

- 'In my street'
- 'Track my job'
- 'In your area'

Digital Colleagues



What have we done?

- Smart device trials and tablet roll-out
- Colleague applications e.g. Pipeline news
- Sludge tankers and new connections Apps

Impact so far

- Great employee feedback and engagement
- Improving tanker scheduling and efficiency

What Next?

- Single view of the customer
- Field devices roll-out
- Field software to make job management simple

Digital Enterprise



Ambition:

- Control room remote infrastructure technology
- Monitor and control infrastructure
- Predict and pre-empt operational activity
- Currently building roadmap

Cautionary statement regarding Forward Looking Statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' 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.

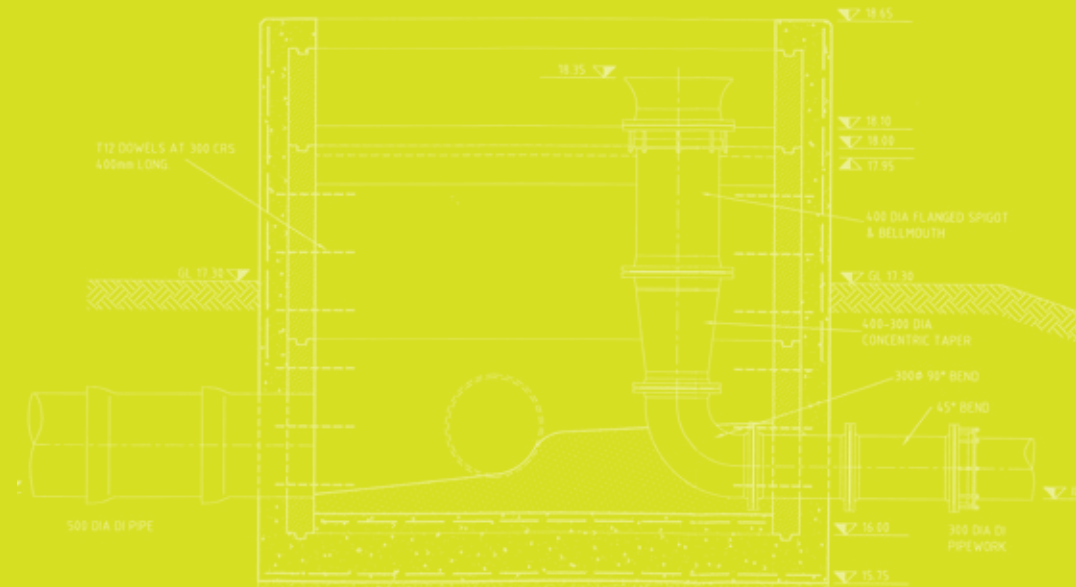
Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised.

There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to: the Principal Risks disclosed in our Annual Report as at May 2013 (which have not been updated since); changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

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