

CAPITAL MARKETS DAY

17th March 2015

SEVERN
TRENT

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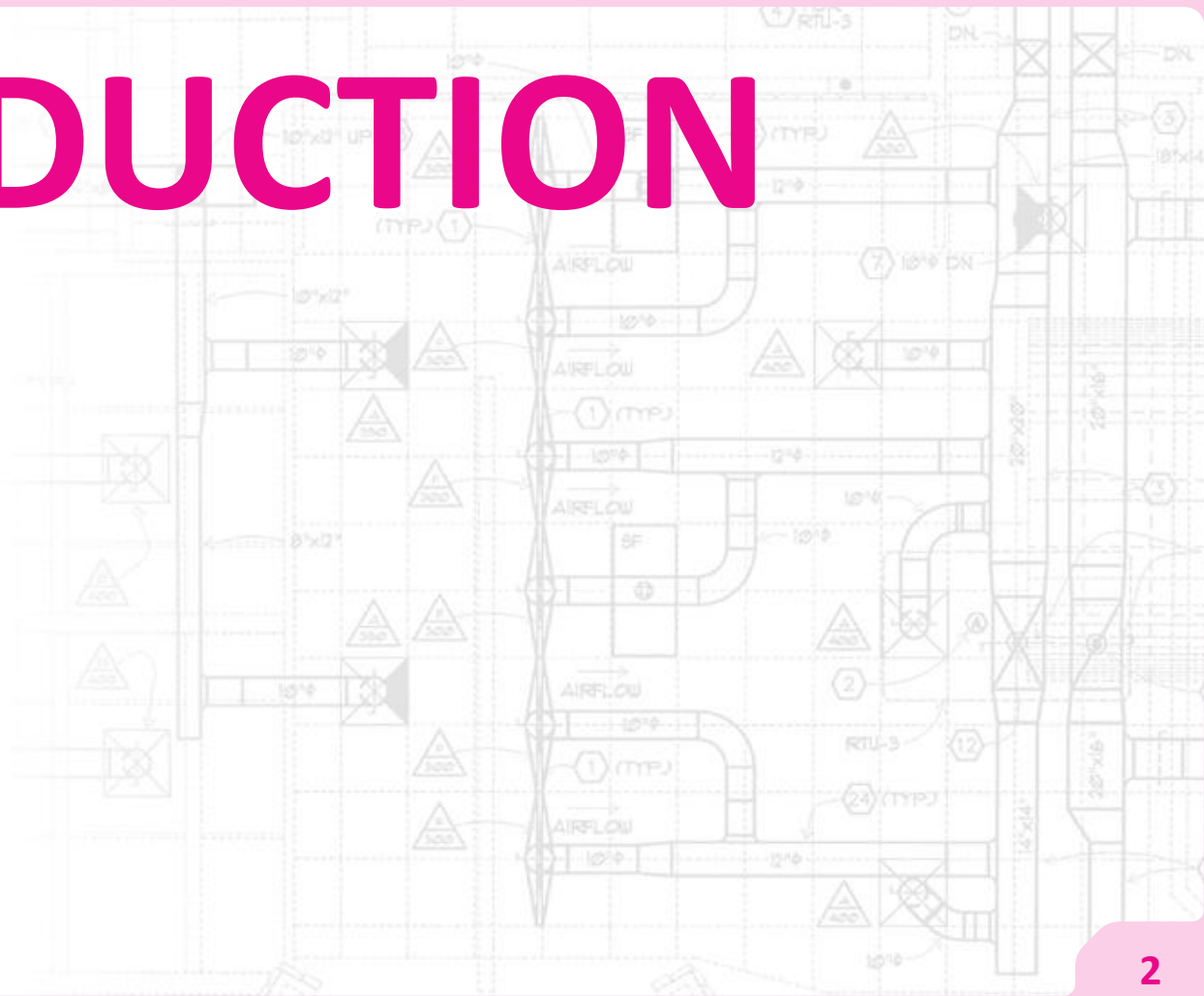
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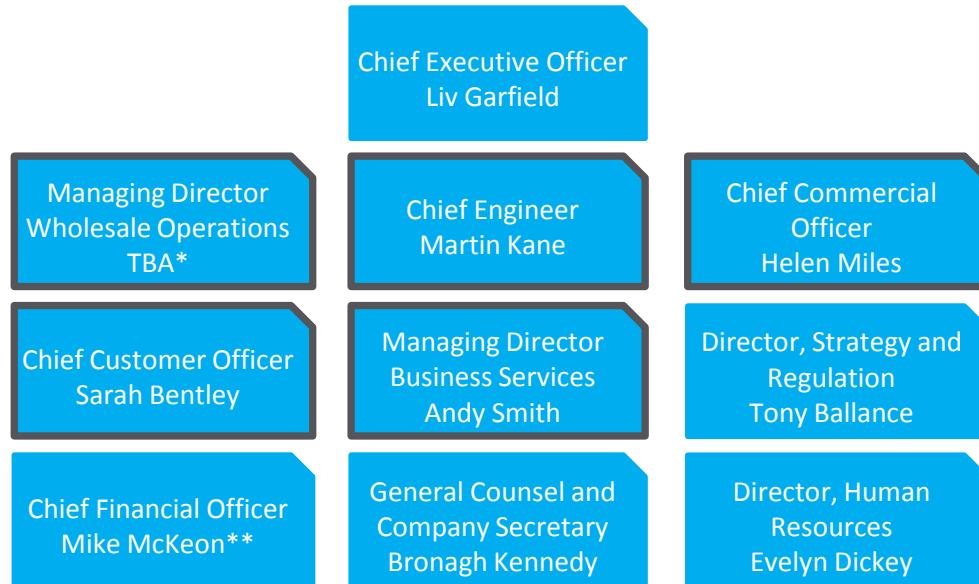
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By Liv Garfield, Chief Executive



OUR NEW EXECUTIVE TEAM STRUCTURE

Breathing more life into our investments, creating shareholder value and delivering a great service for our customers



Key Changes

- Merged our water and waste operations to unlock synergies. New leader starts 1st July
- Pulled together all of our non regulated businesses into a new Business Services organisation
- Merged our Customer and IS functions to focus on customer experience across all channels
- Chief engineer role to provide challenge and assurance
- Chief commercial officer role to help us spend our money more effectively

* Simon Cocks will be leaving Severn Trent in May 2015. His replacement will start on 1 July 2015

* **James Bowling from 1 April 2015

TOPICS FOR TODAY



OUR VISION FOR THE SECTOR

There will be winners and losers

Standards rising at a much faster pace

Greater competition

Consolidation likely

New markets opening

Water sector is changing. Its future is exciting.

Vision

Culture

Plan for AMP6

OUR VISION FOR SEVERN TRENT: THE NEXT 5-10 YEARS

Operational excellence

Industry benchmark in customer service

A company at the frontier of sector efficiency

Winners in a world of incentivisation

Successful in new competitive markets

Standard setters in renewable energy

Vision

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Plan for AMP6

WE ARE DEVELOPING OUR STRATEGIC FRAMEWORK

Our purpose	To serve our communities and build a lasting water legacy.				
Our vision	By 2020 to be the most trusted water company: delivering an outstanding customer experience, the best value service and environmental leadership.				
Our strategy	Severn Trent are transforming service today, driving growth, and shaping our industry for tomorrow – for the mutual benefit of our customers, communities and investors.				
How we do it	Embed customers at the heart of all we do	Drive operational excellence and continuous innovation	Invest responsibly for sustainable growth	Change the market for the better	Create an awesome place to work
Our market segments	Wholesale operations and engineering	Household customer services	Business retail and operating services	Green energy	New water markets
Our values	We put our customers first	We are passionate about what we do	We act with integrity	We protect our environment	We are inspired to create an awesome company

Vision

Culture

Plan for AMP6

DRIVERS OF OUR PLAN

Our Beliefs:

**Customer focused organisations
will ultimately be more successful**



John Lewis

Vision

Culture

Plan for AMP6

DRIVERS OF OUR PLAN

Our Beliefs:

**You can always find ways
to improve what you do**



Vision

Culture

Plan for AMP6

DRIVERS OF OUR PLAN

Our Beliefs:

**Our industry needs to digitalise
to become more efficient**



Vision

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DRIVERS OF OUR PLAN

Our Beliefs:

We are in the right place



Vision

Culture

Plan for AMP6

DRIVERS OF OUR PLAN

Our Beliefs:

**You need the right team
to be successful**



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MY KEY AREAS RE-VISITED...

- People / talent development
- Customers at the heart of what we do
- Drive operational improvement
- Regulatory relationship
- Ready to deliver in AMP6

Create long term value for shareholders

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...AND HERE'S WHAT I'VE DONE TO ADDRESS THEM

Identified and
recruited new
talent

New
organisation
structure

De-layered the
organisation

SIM focus
refreshed

Shadow
reported ODIs
for 6 months

Kick started
a digital
revolution

About to launch
staff incentive
structure

Constructive
regulatory
relationship

Educated all our
people on the
future

Accelerated
spend to get
ready

Newly
empowered our
people

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CREATING AWESOME COMPANY EVENTS



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AMP6 FINAL DETERMINATION

Key Messages:

Strong RCV growth

RCV expected to increase by c. 8.6% in real terms, the third largest growth of the WASCs

Largest ever investment programme

£6.2bn in real terms, including £3.3bn of capital investment

Bills falling in real terms

Our customers will continue to have the lowest bills in the land until at least 2020

PAYG

Increase in our PAYG rate to 58.8% in our FD, helping ensure financeability of our plan

ODIs

Revised ODI package including positive changes to the Birmingham Resilience ODI and larger deadbands

Legacy adjustments

Reduced by around 30% in our FD to £58 million

Vision

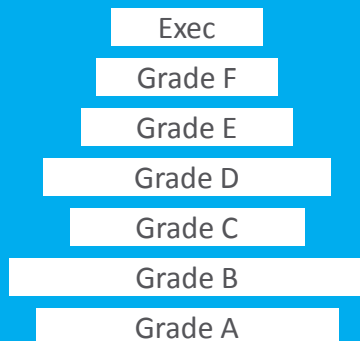
Culture

Plan for AMP6

NEW STRUCTURE LOCKS IN £100M OF AMP EFFICIENCIES

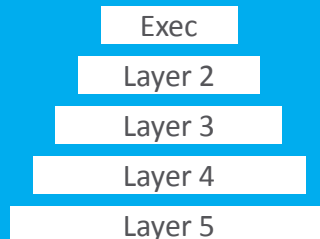
Organisation shape

Previous organisation shape



7 unbalanced layers

New organisation shape



5 balanced layers

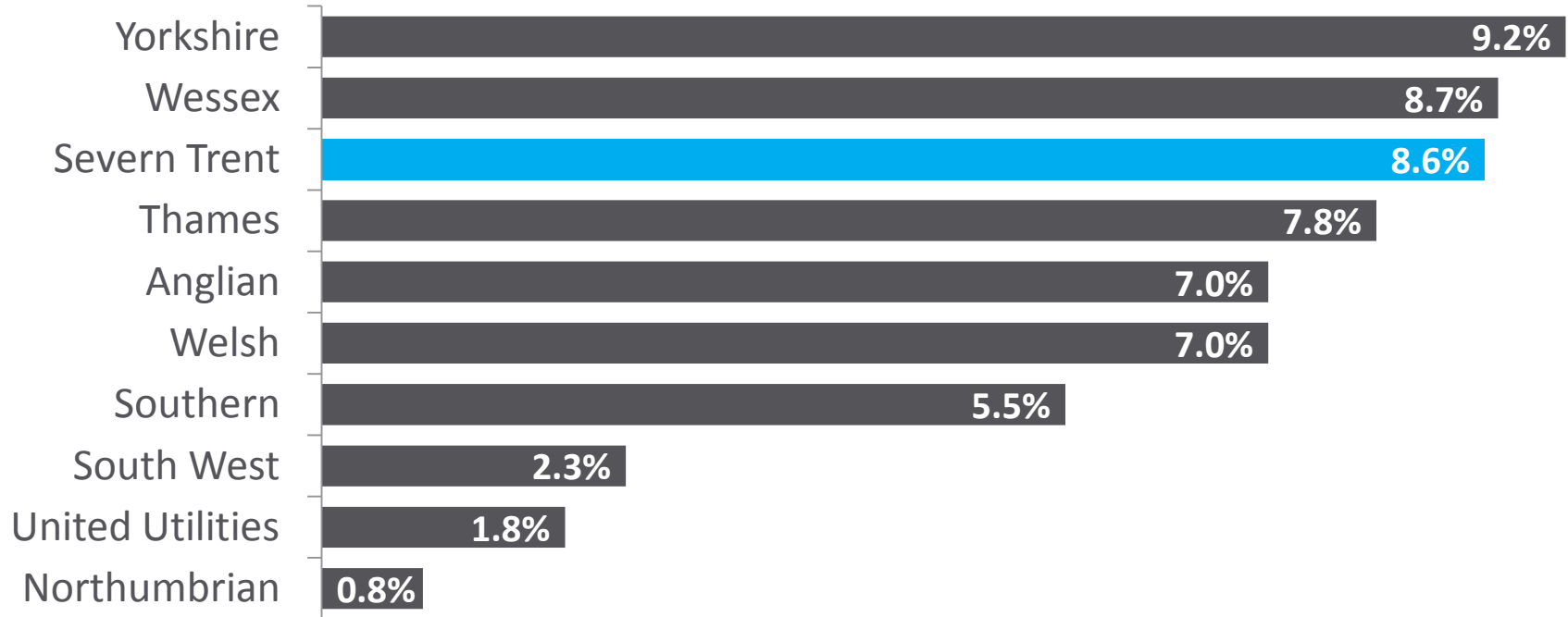
- 500 role reduction
- 80% of the savings from merger of Water and Waste
- Net £100m after having invested in front line customer contact centre roles

Vision

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Plan for AMP6

RCV GROWTH: AMP6 (REAL TERMS)



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WHERE CAN WE OUTPERFORM?

Totex

Changing how we think about expenditure across our £5.6bn wholesale totex budget
Greater understanding of our assets
A new framework to approach investment decisions

ODIs

Meaningful rewards resulting from excellent operational performance
For example SIM +£7m / -£15m p.a
Time lag between achievement and payment

Financing

Sustainable long term financing opportunity (total funding £2.5bn)
Taking advantage of favourable debt market conditions when refinancing
Near term opportunity for outperformance

Efficiency

De-layered our operating model which will deliver £100m over AMP
Big culture change in motion to embed commerciality in the organisation
Year one supply chain efficiencies locked in; option to re-invest to drive operational performance

Energy

Aiming to produce 50% of our energy from renewable sources by 2020
Hedges electricity costs, avoids pass-through costs
Investment of ~£190m, targeting low double digit returns

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AGENDA

- Delighting customers, digital first
- Operational excellence
- Continuous improvement and innovation

Break

- Investing for sustainable growth in the regulated business
- Changing the market for the better
- Investing for sustainable growth in our non-regulated areas
- Financing approach
- Closing remarks

Lunch

- Site visits

DELIGHTING CUSTOMERS DIGITAL FIRST

By Sarah Bentley, Chief Customer Officer

CHIEF CUSTOMER OFFICER

REMIT



DELIGHTING CUSTOMERS FEELS AWESOME & REDUCES COSTS

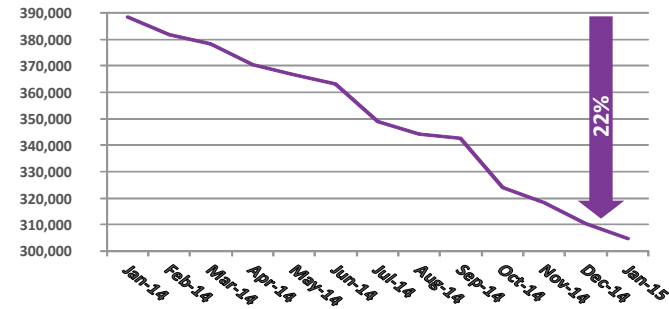
Actions taken in FY 14/15 include:

- Real-time SMS text customer survey and call back
- Daily performance meeting to focus on customer feedback
- Doubling compliance on 24h speed of response



Achievements in FY 14/15 include:

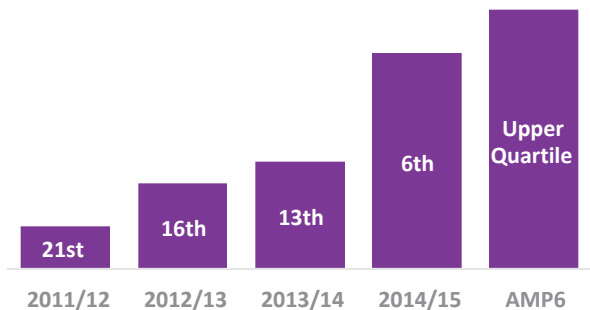
- 22% Reduction in unwanted contacts
- 19% reduction in complaints
- 34% reduction in stage 2 complaints



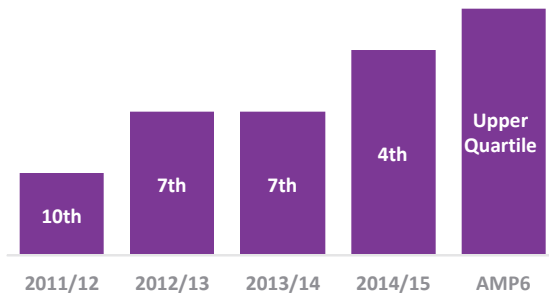
DELIGHTING CUSTOMERS DELIVERS ODI REWARD

Building momentum for AMP6:

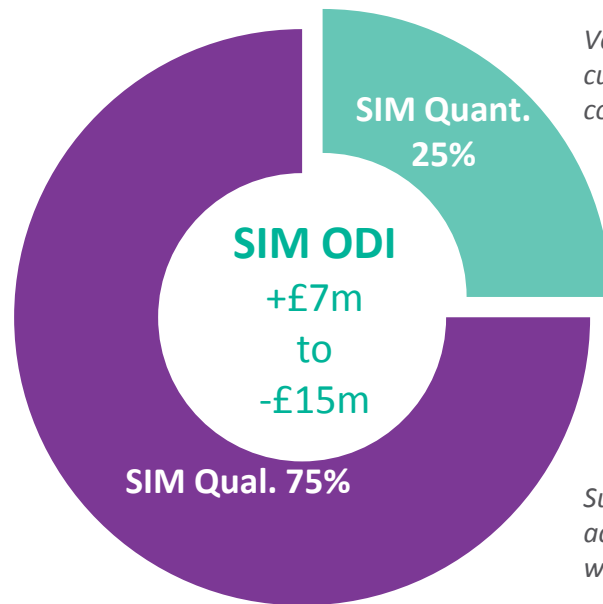
SIM Qualitative Performance (WASC & WOC)



SIM Qualitative Performance (WASC only)



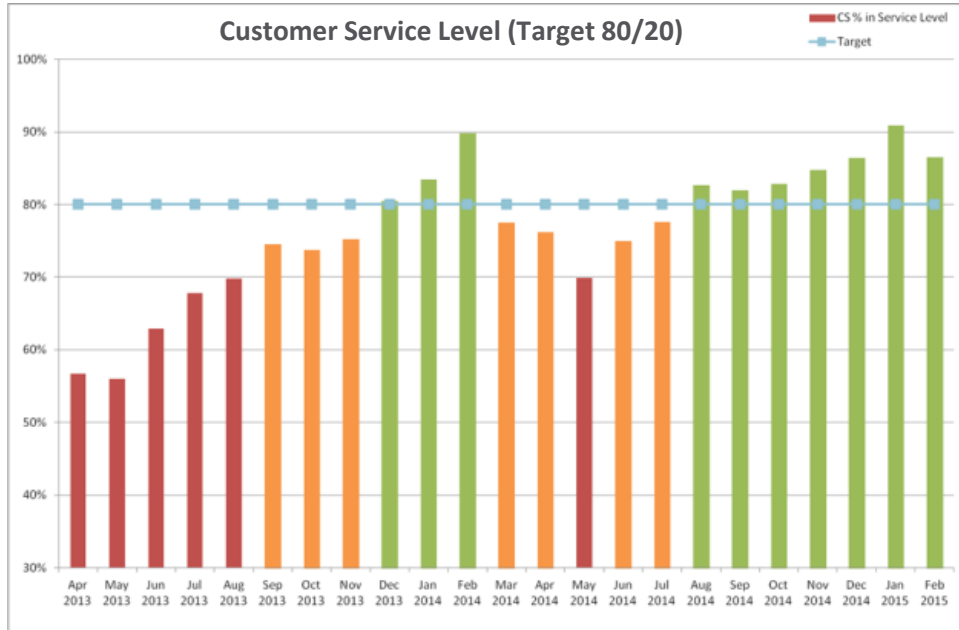
In the most recent industry survey we were 2nd on SIM



Volumetric measure of customer contacts and complaints

Survey of our customers across billing and wholesale

CUSTOMER CHOICE IS ESSENTIAL AND AFFORDABLE



Fewer people on the right activity:

- Removed 102 (20%) management and support roles
- Investing in 92 (15%) additional customer facing roles
- £1.8m annualised efficiency
- 80% of calls answered in 20 seconds (customer service level) now consistently achieved

CREATING COMPELLING CHOICES DRIVES EFFICIENCY

Improving experience helps to change customer behaviour which reduces costs:

- 502k (15%) customers receive electronic bills
- 1.9m (55.6%) customers registered for Direct Debit
- 580k (17%) customers registered for Web Self Serve



Paul Millership @AnubisTheBandit · 4m

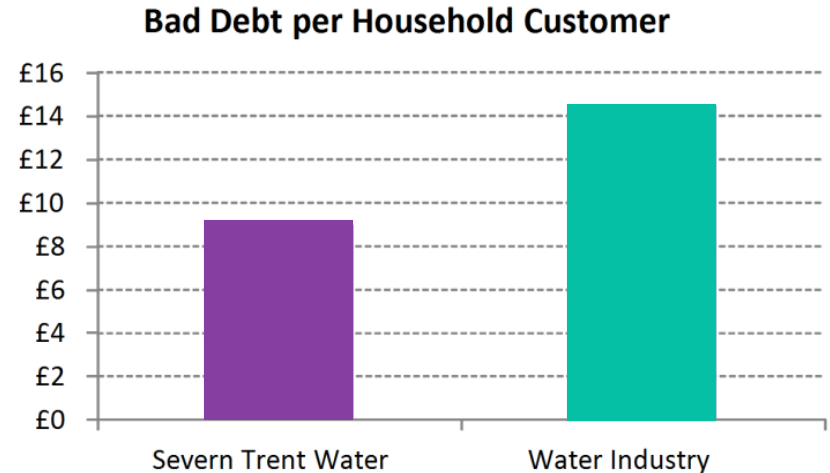
@stwater the 'chat' facility on your website for billing is so useful. Matt was so helpful with my bill query today. Thanks.



UNDERSTANDING CUSTOMERS DRIVES FINANCIAL BENEFITS

Through targeting specific customer groups we have delivered industry leading household collections:

- 2.2% bad debt for FY 14/15
- £10m improved cash flow to date in main billing
- New Social Tariff Scheme goes live 1 April 2015
 - Helping at least 50,000 customers a year who can't afford to pay
 - Providing total debt counselling through CAB
 - Helping customers who can afford to pay by reducing cost to chase unpayable debt



UNDERSTANDING CUSTOMERS DRIVES EFFICIENCY

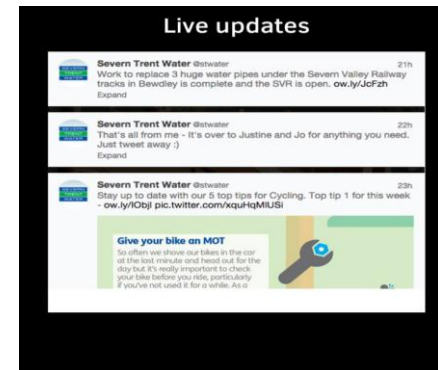
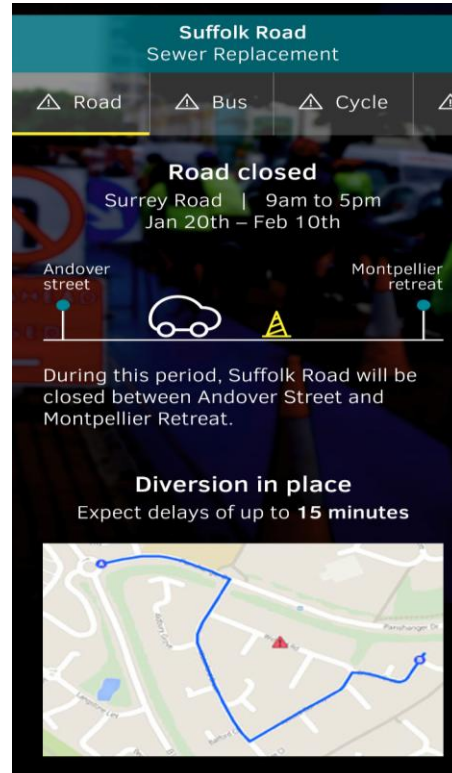
*Proactive customer contact reduces
'unwanted' contacts:*

- 1300 calls avoided in single incident
- Contact & complaint reduction via:
 - Social media
 - SMS text alerts & survey feedback
 - Webchat

A screenshot of the Severn Trent Water website's 'Update meter reading' page. The page has a header with the company logo and navigation links. The main heading is 'Update meter reading'. Below it, there's a breadcrumb trail: 'STW homepage > My account homepage > Account management > Update meter reading'. The left sidebar contains a 'My account' menu with links like 'Apply for a meter', 'Update meter reading', 'Moving house', 'Update customer information', 'Payments', 'Profile management', 'Support', and 'Logout'. The main content area explains how to provide a meter reading and includes a form titled 'Meter reading details' with fields for 'STW account number', 'Service address', 'Meter number', and 'Water meter reading'. A 'Chat Invitation' pop-up window is overlaid on the bottom right, asking 'Hi, can I help you with anything? Click on chat and I'll be able to help :)'. The pop-up has a 'Name' field with 'MISS SARAH LEIVERS' and a 'Chat Now' button.

DIGITAL FIRST IS EASY FOR CUSTOMERS AND CHEAPER FOR US

Digital customer – keeping customers informed:



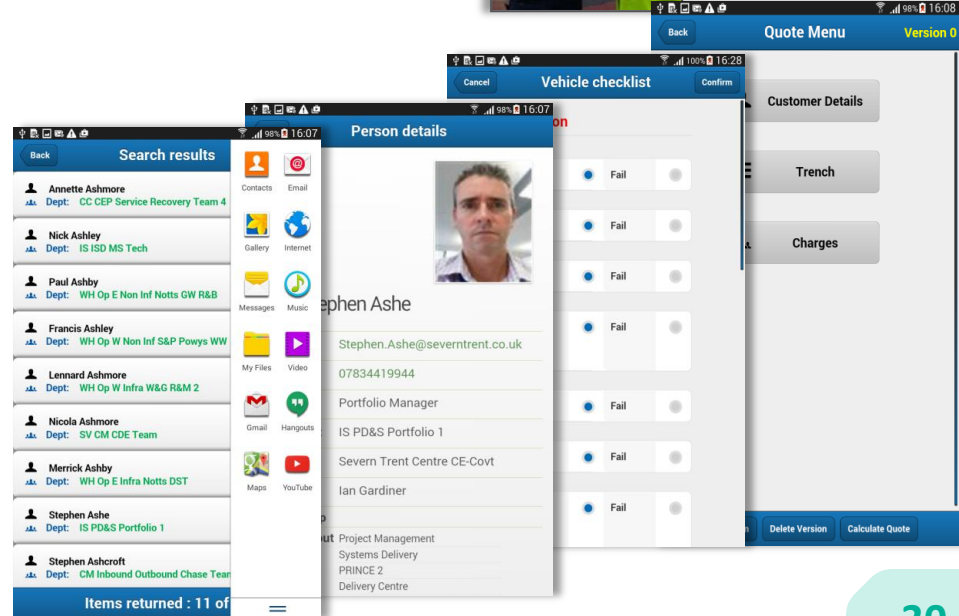
Ongoing launches:

- In my street
- In my area
- Track my job
- SME switching

DIGITAL FIRST HELPS ACHIEVE ODIS AND IMPROVES PRODUCTIVITY

Digital colleagues – driving efficiency & connectivity:

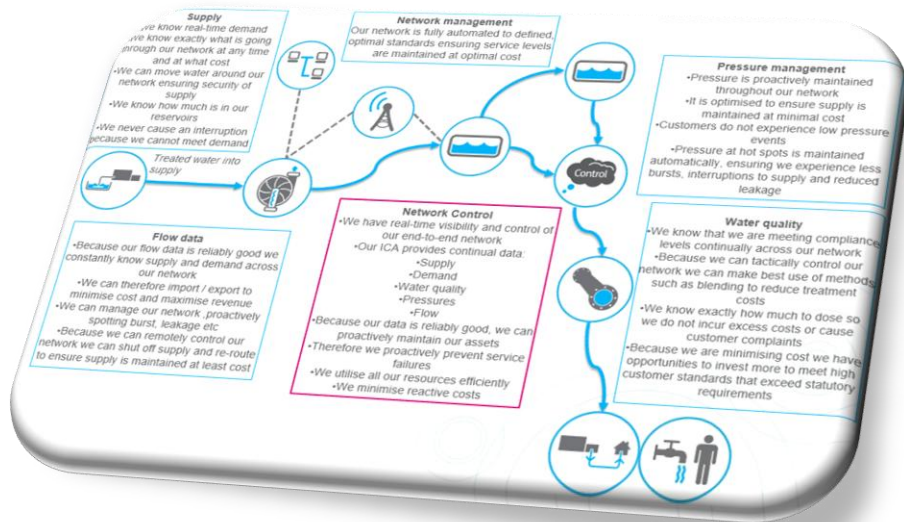
- 2000 smart devices with field worker software rolling out by June
- 9 productivity apps live today, 25 by July and a large pipeline sourced from colleagues:
 - Sludge tanker scheduling
 - New connections quotations
 - Vehicle checks
 - Telemetry alarms
 - SAP integration to 3D visualisation



DIGITAL FOCUS REDUCES INCIDENTS AND OPTIMISES ASSETS

Digital enterprise – building a smarter network:

- Investing in the ambition to digitalise operations
- Remote monitoring and control of infrastructure
- Inform and optimise asset planning and maintenance



Building on experience:

- 2 automated water treatment works in operation
- Reduction of customer impact and response times in Shropshire study
- Pilot waste water treatment works

SUMMARY

Customer Focus	Delighting customers feels awesome, reduces cost and pays out (SIM)
Eliminating Failure	Reducing causes of contact and complaint is better for customers and reduces costs
Channel Choice & Shift	Offering #1 service on any contact channel while creating easy, useful and compelling customer digital services
Customer Insight	Understanding customers delights them, improves our financials and reduces cost
Digital Customers	Starting a digital revolution ... one customer at a time
Digital Colleagues	Accelerating digital roadmap to support efficiency in Wholesale and competitiveness in Retail
Digital Enterprise	Building on our track record to drive digital smarter network

OPERATIONAL EXCELLENCE

By Liv Garfield, Chief Executive Officer



OUR WHOLESALE OPERATIONS AMBITION

Stable and consistent asset performance

Great performance on our ODIs

Customer service leaders

Frontier on efficiency

Successfully delivered capital programme

Great relationships with all our regulators

Be proud to be the leading wholesale business in our sector

OUR OPERATIONS BUSINESS



c.3,000
Employees

4.3m Households
served every day

28% Renewable
energy generation

155 Water treatment
works delivering **1.8bn**
litres of water a day

197 Reservoirs &
bore holes

140,000km
of water and
waste pipes

c1,000 Waste treatment
works putting **2.4bn** litres of
cleaned water back into the
environment a day.

DELIVERING OPERATIONAL PERFORMANCE

What we need to improve

Water

Water Quality is an area we are planning to make significant improvements at pace in AMP6 through:

- Prioritising early AMP investment in “must-do” initiatives.
- Focussing people & effort on rate making improvement activity and replicating successful processes from our Waste division.

We are also looking to improve our management of serious incidents to reduce our Supply Interruptions +12 hours.

Waste

We want to be recognised across all our KPIs in AMP6 so we are very focused on our blockages performance:

- Increasing investment to drive a first time resolution approach to blockage and flooding incidents, reducing the risk of repeat incidents.

DELIVERING OPERATIONAL PERFORMANCE

What we are already good at

Water

We've already invested lots of energy into leakage improvement and have seen great results in AMP5.

- We'll continue this through successfully embedding a new leakage process into our business to drive a 6% improvement.

Delivering a 4th year of improvement on 3 hour Supply Interruption minutes to deliver ODI reward.

Waste

In AMP5 we were recognised by the EA for our strong track record and were the only 4* rated company. In AMP6 we'll be even better! We are:

- Re-prioritising pro-active investment to tackle flooding incidents.

Building on our leading position in Catchment Management

- Delivering the most ambitious (c£200m) River Quality enhancement scheme in the industry.

WATER QUALITY IMPROVEMENT FOCUS

Dedicated
programme
formed and
strong
leaders in
place

Robust
assurance
being
implemented
and standards
re-launched

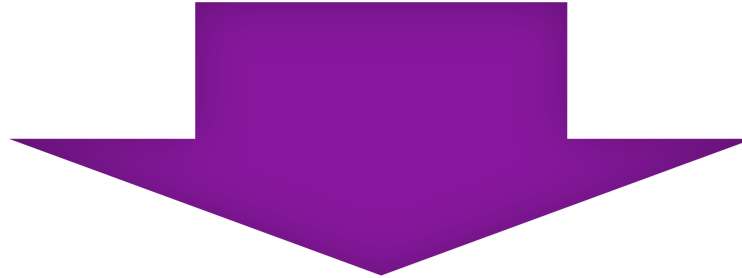
Culture and
skills
programme
under way

Find and fix
improvements
with root cause
analysis at sites

Accelerated
investment
plans

Deploying
quality
management
system

Delivering
customer
focused
processes



ODI Benefits £

SIM

Coliform
Detections

Water Quality
Complaints

WATER QUALITY IMPROVEMENT FOCUS

Removing ingress at groundwater treatment works:

Audit of hazards that may impact water quality through treatment failures or ingress

Treatment experts, supported by site teams, reviewed 132 sites in four months

All risks photographed and control measures added to our Drinking Water Safety Plans

Enables us to reduce total site risk

Actions identified. Rapid fix teams are being deployed.

10% of actions completed in first four weeks

Bednall – Sealing cable gland



Wallmyres – Drainage improvements



Wallmyres – Sealing sample chamber



ODIS ARE ONE OF THE KEY DRIVERS

Our Top 10 ODI

In AMP	End of AMP
Internal Sewer Flooding	• +/- £42k per property
Water Framework Directive	• +/- 0.75m per point
External Sewer Flooding	• +/- £20k per property
Supply Interruption Minutes	• +/- £1.1m per minute
Leakage	• +/- £125k per M/L
Pollutions Incidents	• +/- £50k per pollution
Water Quality Complaints	• +£1k per complaint.
SIM	• +£7m/-£15m per year
Catchment Management Schemes	• +/-£1m per scheme
Coliform Detection	• +/-£0.5m per site

We aim to outperform the Final Determination:

- Top 10 ODI make up majority of the total value
- ODI values are based on customers' importance and willingness to pay
- Customer feedback heavily guided our AMP6 investment & activity plans
- Most of our ODIs are already key performance metrics we track in the business today.
- **Health warning** - there will be good and bad years for different ODIs

OUR PUSH ON ODIS HAS ALREADY BEGUN

We have already:

- Engaged our front line teams with ODI workshops to drive ownership and generate innovative solutions.
- Established what the key activity levers to outperformance are.
- Embedded performance reporting at all levels to make sure it is part of our every day thinking.
- Engaged our strategic partners to help in how we outperform.
- Brought forward investment to ensure a fast start to AMP6 performance.

Early progress report:

- **Pollutions** – based on our 1st 2 months of performance we are on track to be in ODI reward territory.
- **SIM** – Our Q4 results placed us 2nd which would put us in reward ODI territory.
- **Coliforms** – based on our 1st 2 months of performance we are behind where we need to be and would be in ODI penalty territory.

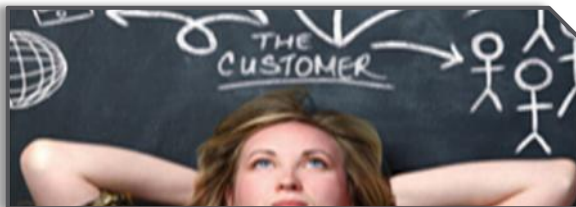


IMPROVED PRODUCTIVITY IS ESSENTIAL TO OPERATIONAL EXCELLENCE



Right first time

- Improved field force effectiveness through the use of technology. 1st time delivery and re-work avoided (eliminating chase calls).
- Today: 25% re-work , causes poor customer satisfaction and 50% increase in unwanted calls.



Reduced hand offs

- Simplifying processes and hand-offs to ensure a smoother customer journey.
- Our recent Value Every Drop Trial reduced hand-offs from 12 to 6. Improved customer satisfaction and financial savings.



More proactive work

- Investing in telemetry and enhanced network control will increase asset utilisation and speed of resolution.
- Move from 80% reactive in our current model towards a more balanced mix between proactive and reactive.

KEY MESSAGES FOR TODAY

Hard organisational changes made up front (contributed £80m opex saving)

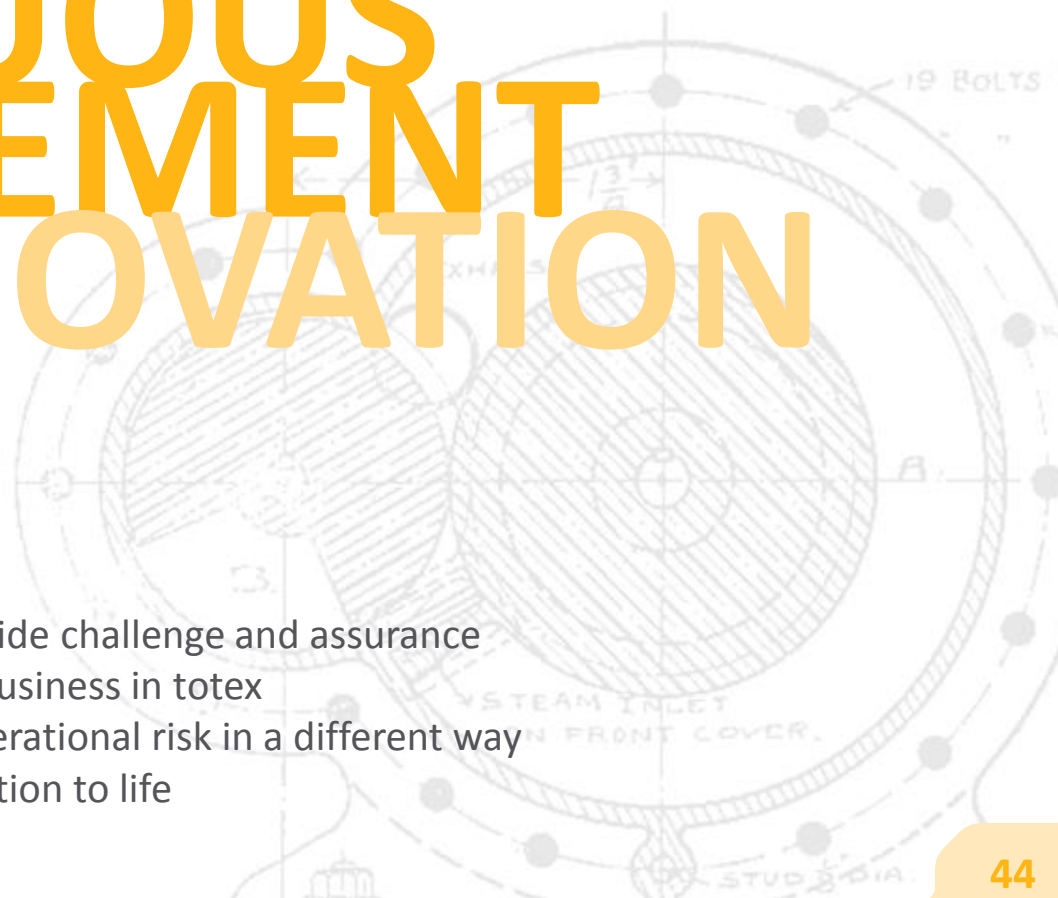
New combined workforce makes us stronger and more focused

Regulatory and customer relationships at the heart of what we do

Organised, informed and ready to go after rewards

Efficient execution to deliver further benefits through the AMP

CONTINUOUS IMPROVEMENT AND INNOVATION

A faint, technical drawing of a steam engine cylinder head is visible in the background. It shows various components like bolts, a steam inlet, and a front cover, with labels such as '19 BOLTS', 'STEAM INLET', and 'FRONT COVER'.

By Martin Kane, Chief Engineer

My role:

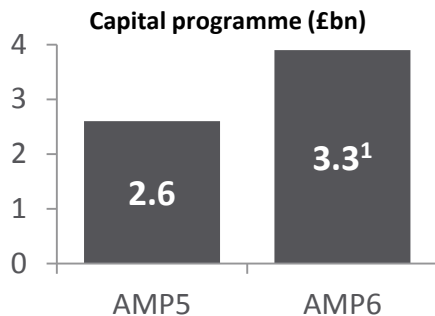
- Created to provide challenge and assurance
- Educating the business in totex
- Think about operational risk in a different way
- Bringing innovation to life

A CHANGING WORLD WE ARE WELL PLACED TO DELIVER AND SUCCEED

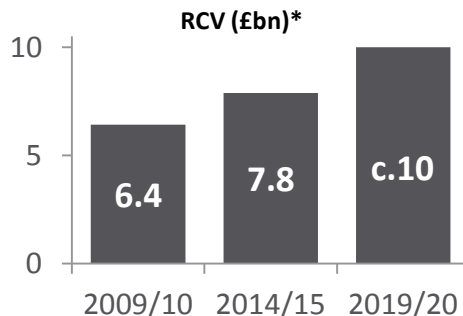
- Pre-AMP6, the sector had a bias towards capex; with the introduction of totex, we need to change how we think about expenditure
- Our thinking on totex components is well advanced with a clear plan to deliver efficiencies
- Major contribution to totex efficiency in AMP6 will be through tighter opex and capex management
- Totex requires a better understanding of the capability and capacity of current assets and future growth
- Potential further outperformance on totex and ODIs from work on innovation and standards

THE GROWING SEVERN TRENT ASSET BASE

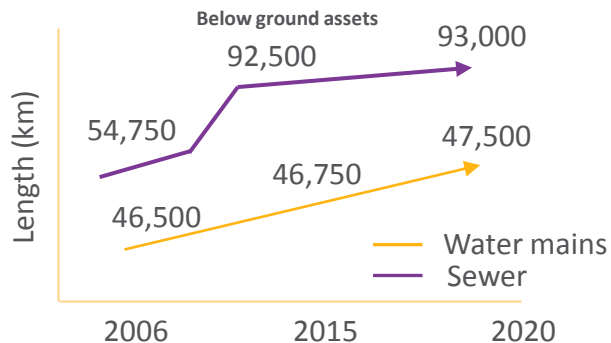
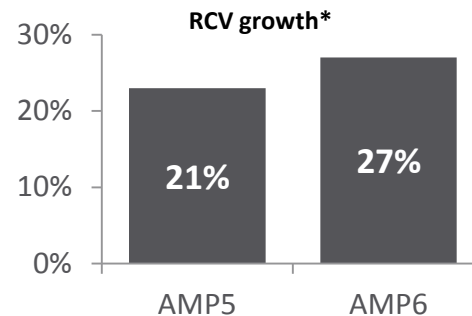
3rd Largest RCV growth of the WASCs in AMP6



¹12/13 Prices



*Nominal assumes year end 2.0% RPI for 14/15 and an average of 3.3% year end RPI for 2015-20.

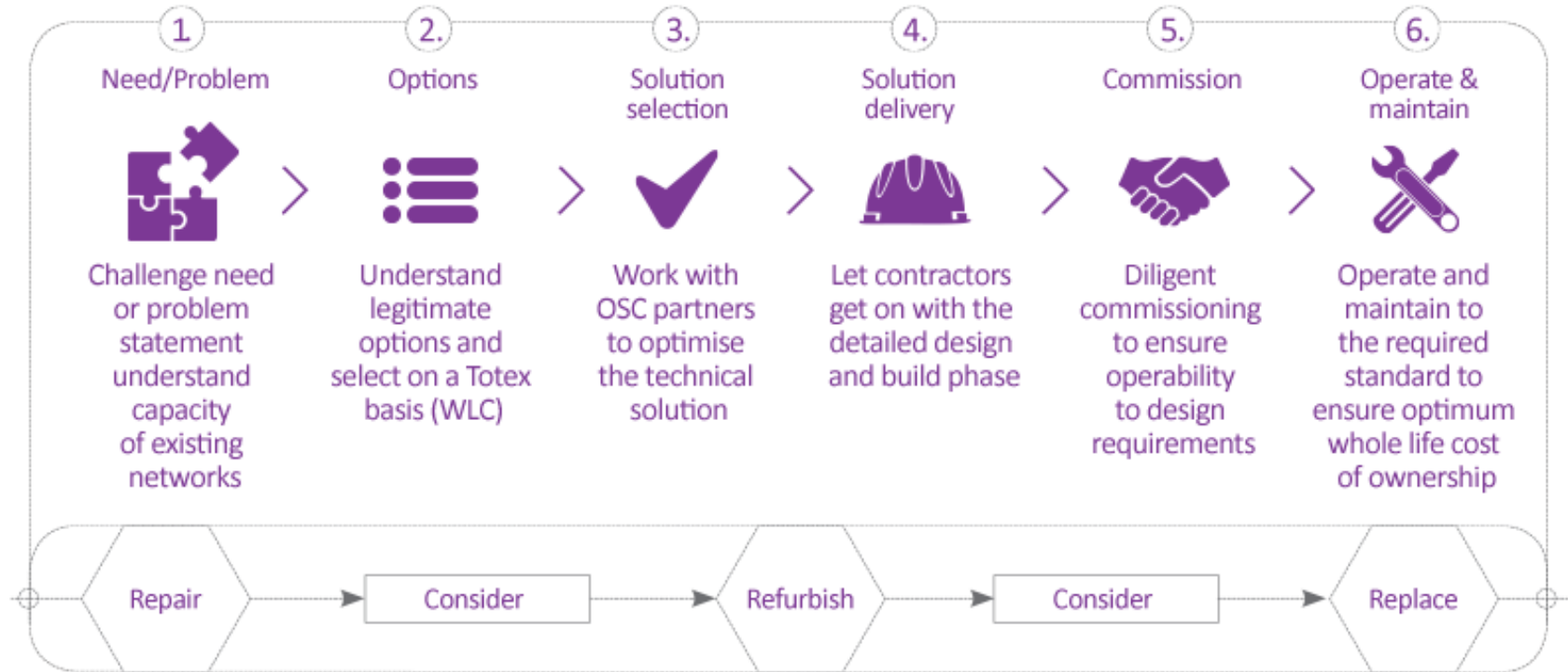


KEY AMP6 CAPEX PROJECTS:

- Frankley alternative supplies... £242m
- EVA community resilience schemes... £50m
- Minworth sludge... £43m
- Rapid gravity filter refurbishment... £41m
- Newark sewer flooding... £29m
- Stroud sewer flooding... £29m
- Ambergate reservoir... £26m

CAPITAL INVESTMENT IN A TOTEX WORLD

From a whole life cost (WLC) perspective:



OUR LARGEST SCHEME IN 2 DECADES: BIRMINGHAM RESILIENCE

- Significant addition to our RCV – c.£300 million
- Final agreed scheme delivers required outcomes of a resilient second supply for Birmingham but sooner and for less; making better use of existing grid and resources
- ODI risk substantially reduced between draft and final determinations; a fair outcome
- Schemes now considered in smaller components with discrete deliverables
- **We are off to a good start** with critical milestones reached
- Chief Engineer providing 2nd line assurance over the design and build programme and risk management of the outcomes
- This is a large, complex capital scheme and we have the required skills and expertise mobilised to deliver on time, on budget and on quality

Outcome Delivery Incentives (ODIs)

6 Frankley Alternative Supply Elements

ODI penalties for delay max. £15.9m pa
ODI penalties for shortfall max. of
£2.71m per MLd

3 Community Risk schemes

ODI penalties for delay of £3.88m pa
ODI penalties for shortfall in capacity of
£0.76m per MLd

1 EVA maintenance scheme

ODI penalties for delay of £2.07m pa
ODI penalty for non delivery of £39.2m

BRINGING THE OPPORTUNITIES TO LIFE: TOTEX NEW WORLD

Broseley sewage pumping station, Ironbridge:

Need

Problematic, life expired assets transferring waste water under River Severn.

Initial Solution

Initial Capex £5.5m, 15yr Totex £6.05m

Revised Solution

Revised Capex £2m, 15yr Totex £2.55m



BRINGING THE OPPORTUNITIES TO LIFE: TOTEX NEW WORLD

Thurlaston Brook (Soar catchment)

The “OLD WORLD”: Outputs at each works

- Objective – Improve water body quality
- Proposal – treat at each site
- Result – water body phosphate status ‘Good’
- Capital cost - **£6,591k**

The “NEW WORLD”: Outcomes in the river

- Objective – Improve water body quality
- Proposal – over treat at one site, no work at a second and original scheme at the third
- Result – water body phosphate status ‘Good’
- Capital cost - **£5,747k**



R&D ACCELERATION IN AMP6

In AMP6, our plan is to double our investment to £40m

Sewer Flooding

- SewerBat pipe condition triage (2015)
- SMART sewers - sewer flood warning, level & flow (2015 trial)
- Infotec auto flusher (2015 trial)

SIM

- Intelligent gel cleaning for discolouration (2016 full scale)
- Real time leakage assessment (Aquarius)
- Auto control of network valving (2016)

Interruptions

- Pressure transient wave reduction (2016)
- EVA laser mapping 2015 and dark fibres (2016)

Water Quality

- Rapid detection of e.coli and cryptosporidium using DNA
- Speciation of e.coli/crypto into different mammal sources (2016)

SUMMARY

Thinking Differently

Totex requires us to change our way of thinking about expenditure and a framework has been developed setting out how we do this

Asset Growth

Strong growth (27%) forecast in our asset base over AMP6

EVA

Off to a good start on the EVA work and have strong assurance around the delivery process

Totex Opportunities

A number of opportunities to benefit from totex have already been identified

R&D Growth

R&D spend to double in AMP6

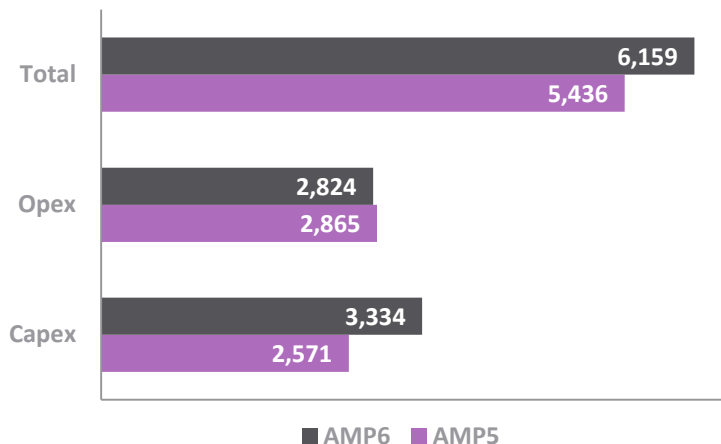
INVESTING FOR SUSTAINABLE GROWTH IN THE REGULATED BUSINESS

By Helen Miles, Chief Commercial Officer

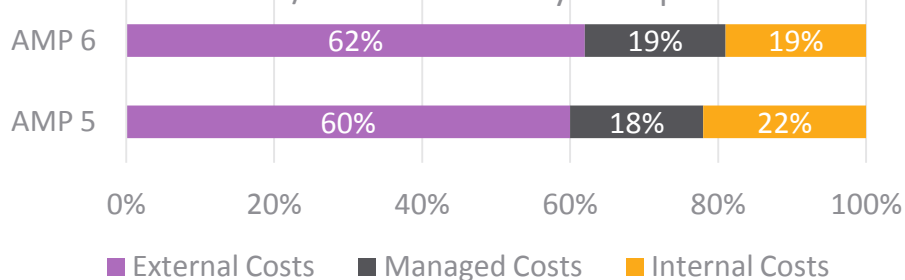


WE ARE INVESTING MORE IN AMP6 SO EFFICIENCY IS EVEN MORE IMPORTANT

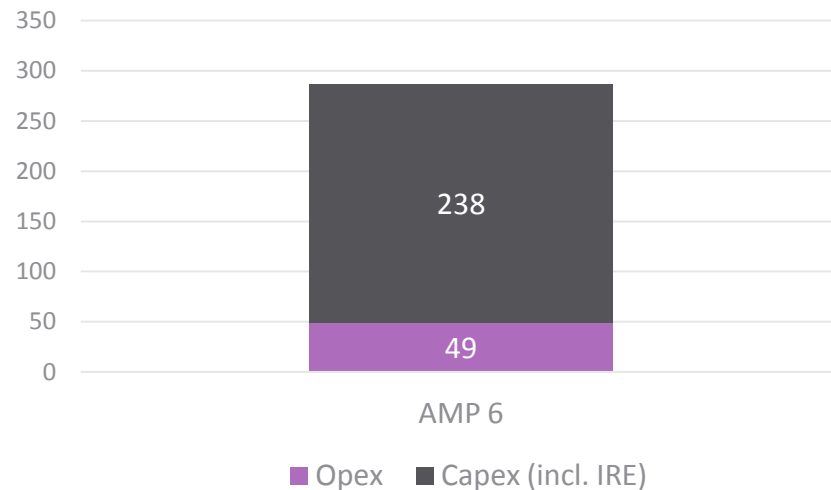
Total Costs (£m)



Internal / External costs by AMP period



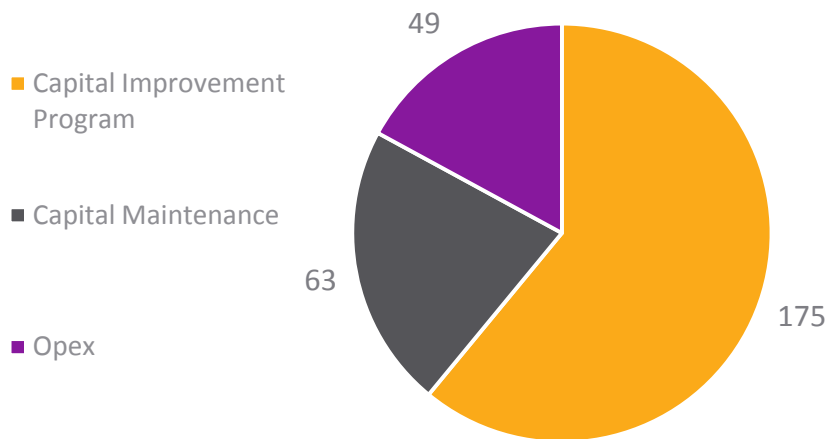
Total AMP6 Supply Chain Efficiencies (£m)



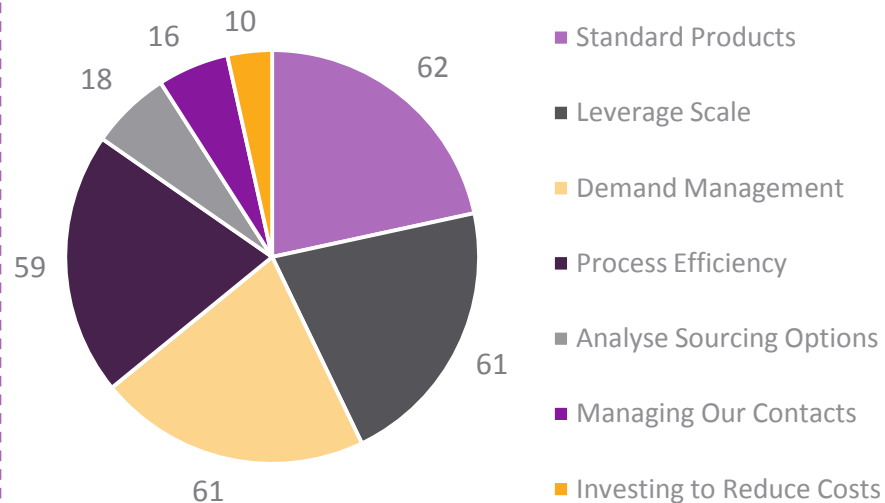
Spend with external suppliers represents 62% of total costs. Strong commercial management is therefore critical to success.

£287M OF SUPPLIER EFFICIENCIES ARE BUILT INTO AMP6

Total efficiencies (£m)



Efficiency drivers (£m)



We have a robust plan in place to deliver and outperform the plan efficiencies across a number of drivers.
Our capital programme is key and well advanced.

DELIVER £175M FROM OUR CAPITAL IMPROVEMENT PROGRAMME EVOLVING THE WAY WE WORK

Production Control
£46m

Distribution
Reorganisation £33m

Right Scoping £21m

Standard Products
£38m

End to End Process
£26m

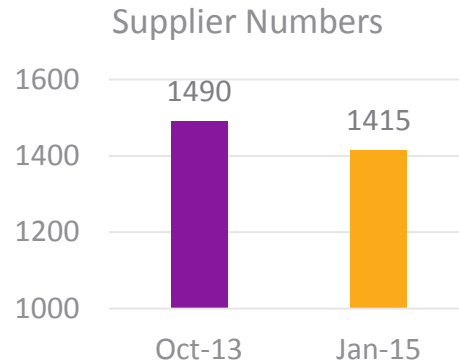
Strategic Programming
£11m

This strategic and collaborative programme is well underway
with year 1 savings locked in

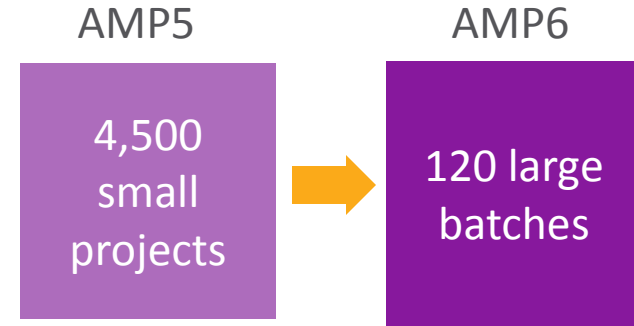
LEVERAGING SCALE

Rationalising suppliers will deliver significant savings

- Suppliers reduced by 5% in 18 months
- Long tail to deal with
- Plan to reduce by a further 25%



Batching projects means better pricing, back office efficiency and optimised resources



LEVERAGING SCALE

Considering the similar tasks undertaken, consolidation of Water and Waste gives us opportunity to share best practice and review common activities

Breaking down regional silos to reduce overheads

	Waste	Water
Customer Contact	✓	✓
Scheduling	✓	✓
Inspection	✓	✓
Repair & Maintenance	✓	✓
Reinstatement	✓	✓
Traffic Management	✓	✓
Asset Creation	✓	✓



MANAGING DEMAND HELPS US MANAGE OUR COSTS

Visibility of Spend

- Use of historic data to improve forecasting
- Visibility of spend to monitor in-life contract opportunities
- Analysing capital spend enables us to compare contractors and projects to drive efficiency

Collaborative Planning

- Consolidation of planning resources across us and supply chain
- Every resource and every material is in the right place at the right time
- Recent pilot had exciting results with a double digit improvement in efficiency and reduced time to deliver

Centralisation

- Improved efficiency in ordering and logistics planning
- Visibility of volumes, usage and stock
- Recent tenders in chemicals & tankering delivered double digit savings

STANDARD PRODUCTS AND INNOVATION



Opportunity for standardisation of products.
£500m spend, we believe ~12% opportunity
e.g. aeration sections



Pumps

- 7,500 to be replaced, saving > 15%
- 30 models instead of 300
- Standardised product
- Low cost country source



UV disinfection reactors >50% saving



Innovative fleet solutions saving 30%

- Replacing 7.5t vans with 3.5t vans
- Remounting reconditioned stainless steel barrels onto a new chassis

Design it once, procure, build, operate & maintain in the most efficient way

IN AN OUTCOME DRIVEN WORLD IN-LIFE MANAGEMENT IS AN OPPORTUNITY

Implementing a framework
which has a number of
components

Managing supplier performance consistently

Targeted cost assurance and audit activity

Focus on key suppliers

Improved contracts

KPIs with incentives that count

Link to ODI performance

Smarter commercial terms

EMBEDDING COMMERCIALITY IN THE ORGANISATION

- Culture change is key
- Running a programme of training for all business leaders
- Fact based decisions
- Effective feedback mechanism from front line
- Balance between good partner and being robust

A combination of robust plan with opportunities to do more
and a change in culture to unlock this

SUMMARY

Delivering the plan

Efficiency savings of £287m and we are confident of outperforming against this

Further opportunities

Number of opportunities identified with plans in progress

Positive start

Activity to date has already locked in £100m savings

Embedding commerciality

Culture change is key to success

CHANGING THE MARKET FOR THE BETTER

By Dr. Tony Ballance, Director, Strategy and Regulation

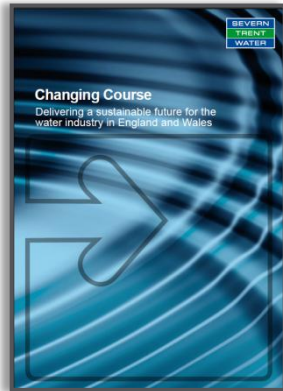


ENGAGING IN THE THE DEBATE

We have a history of engaging in the debate on regulatory reform – changing the market for the better – for the long term benefit of our customers and investors:

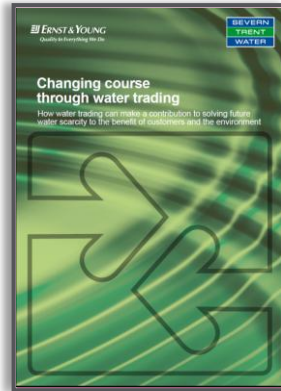
Through our Changing Course series of publications

April 2010



What needs to be done for a sustainable future for the water industry

June 2011



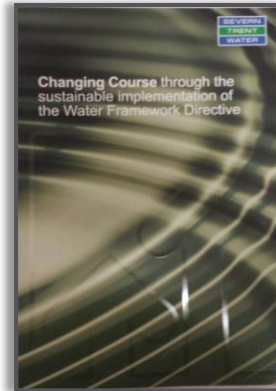
How customers and the environment could benefit from water trading

Sept 2012



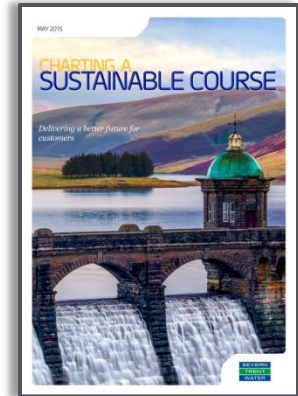
Ensuring sustainable finance for regulated utilities

Sept 2013



Implementing environmental legislation in an affordable way

May 2015



How to ensure we retain a sustainable course delivering a better future for customers

This approach provided us with valuable insight when PR14 took shape

A NUMBER OF THINGS CAME TO FRUITION AT PR14

In areas where we had been seeking to develop:

Examples include:

- ODIs and totex **incentives**
- Greater **competition**
- Long term **resilience** investment
- A more **positive ongoing dialogue** between Ofwat and companies



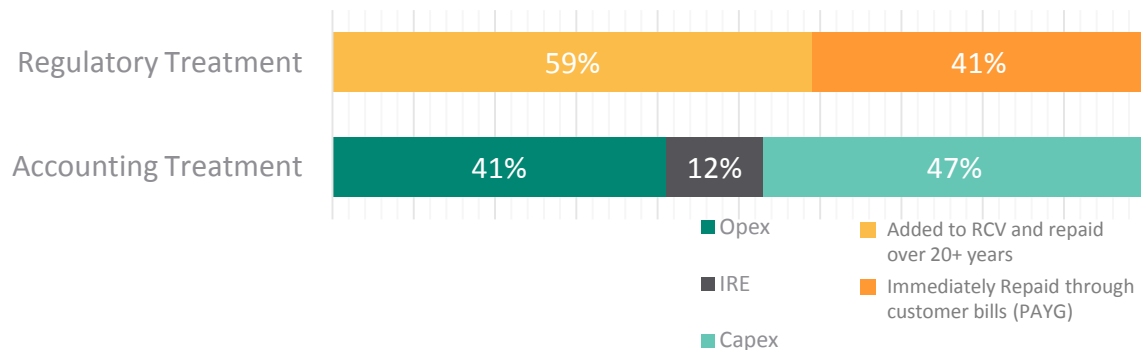
Outcome:

- We are well placed to outperform on totex and perform well against the ODIs
- Our plans for competing in the retail space are well under way
- Allowance was made for our Birmingham Resilience scheme at PR14
- Openness and transparency in the process

PR14 MARKS A SIGNIFICANT CHANGE IN THE REGULATORY REGIME

With ODIs and totex being the most significant changes:

Totex Treatment

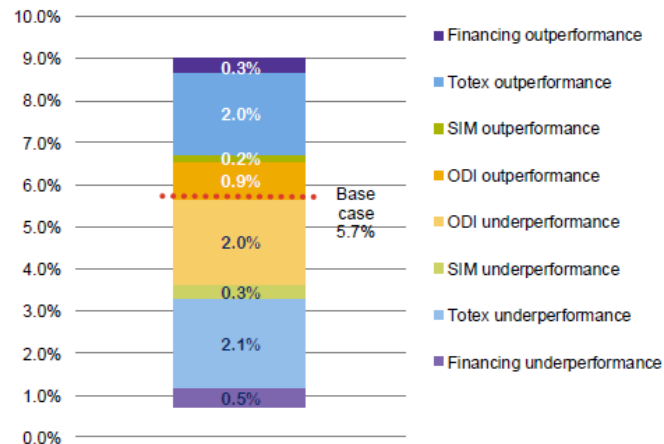
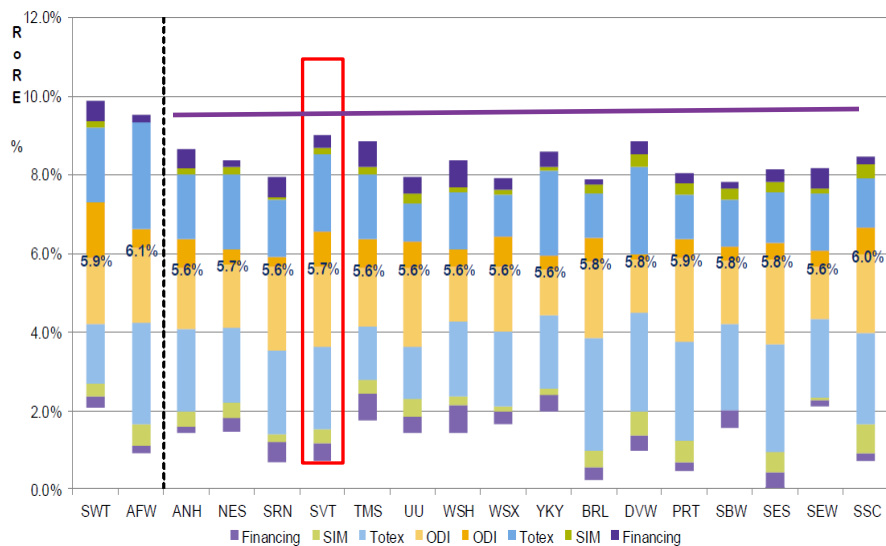


- Totex encourages **whole life cost** decision making and removes the industry's capex bias
- Around **50% of efficiencies kept** in the long term

WE ARE LOOKING TO MAXIMISE THE LEVERS FOR OUTPERFORMANCE

New framework creates potential for outperformance across multiple levers, with totex remaining the biggest driver:

RoRE ranges



WE CONTINUE TO BE ACTIVE IN THE REGULATORY DEBATE

Ofwat

Collaborating constructively on Water 2020, and developing thought leadership pieces on critical regulatory framework topics

Companies

Working closely with other companies on thought leadership issues
Recent report with Wessex Water and South West Water on catchment management and contestable catchment services

Open Water

Seconded staff to support Open Water programme
Active on various technical working groups to define the evolving detail of the Market Architecture Plan (MAP)

WE ENGAGE CONSTRUCTIVELY WITH POLICY MAKERS



General Election

Understanding Party policy positions
Engaging closely with all Parties to ensure full and mutual understanding of the issues



Wales

Silk Commission proposals for devolving water policy
Engaging constructively in process in the interests of our customers and stakeholders



Implementing Water Act 2014

Enables future changes to water industry, although much of the detail still to be decided and enabled
Engaging with Defra and Ofwat to make the implementation successful

THE FUTURE DEBATE IS ABOUT VERTICAL SEPARATION


Jonson Cox made reference to this in his recent speech at the Policy Exchange:

- Greater clarity, definition and pricing of services provided between parts of the value chain
- RCV allocation will be considered - but is likely to be undertaken to better understand cost allocations and reveal efficiencies for a more granular approach at PR19
- Promotion of efficient entry through access pricing (not necessarily reliant on RCV allocation) – water resources and sludge are obvious examples
- Move toward greater separation of retail from wholesale
- Dynamic challenges to ODI targets in AMP7
- PR19 framework will be the next evolution of the direction Ofwat have signalled


We believe that change will be handled carefully by Ofwat

THERE ARE OPPORTUNITIES IN THE NON-REGULATED SPACE


We firmly believe that the emerging framework creates growth opportunities:



Water resources both through physical water transfers and interconnectors but also abstraction rights and trading



Green energy with sludge processing and disposal opportunities including source trading and increasing integration of food waste value chain



Business retail competition through national footprint, targeted segmentation and innovative service offering

The pace of change is already accelerating

INVESTING FOR SUSTAINABLE GROWTH IN OUR NON- REGULATED AREAS

A faint, light blue technical drawing of a steam engine cylinder is visible in the background. It shows various parts like the cylinder head, piston, and connecting rod, with labels such as 'EXHAUST', 'STEAM INLET ON FRONT COVER', and 'STUD DIA.'.

By Andy Smith, Managing Director Business Services

BUSINESS SERVICES: FOCUSED 'NON-REGULATED' BUSINESSES

Business Services

Operating Services UK, Ireland and Italy

Water and sewage
treatment services

UK business retail

13/14 revenue - £490m¹

Operating Services USA

Water and sewage
treatment services

13/14 revenue – £120m

Water Purification

Water disinfection and
filtration products

13/14 revenue – £102m

Renewable Energy

Generation and supply of
renewable energy

13/14 revenue - £16m²

SEVERN TRENT GROUP CAPABILITIES

- Design, build, operate and maintain assets
- Customer service and billing
- Group buying power
- Support functions – IS, HR, commercial

¹ Includes in area Non household retail reported in STW ² Includes intercompany sales of £13.3m

KEY MESSAGES

- 'Services' past performance has been mixed - we've reorganised and improved talent
- Benefit from group capabilities - knowledge, technology, procurement, central functions
- Competition set to increase in UK - strength in 'non-regulated' businesses positions us well
- Opportunities to grow business in USA
- Renewables
- Targeting investment to deliver sustainable revenue and margin growth

OPERATING SERVICES UK, IRELAND & ITALY

Combines deregulated treatment businesses with UK 'business' retail:

Core business - £42m pa contract with MOD covering 1,300 UK sites

We are winning new business

- 10 year £40m O&M contract with The Coal Authority for UK mine water treatment
- Fast growth in water hygiene (legionella control)

Evaluating growth opportunities and upside potential

- 200,000 non-household customer base; 1,300 large customers



UK 'BUSINESS' RETAIL PREPARING FOR 2017

Total retail market c.£3.1bn

- STW 'in-area' share c.12%

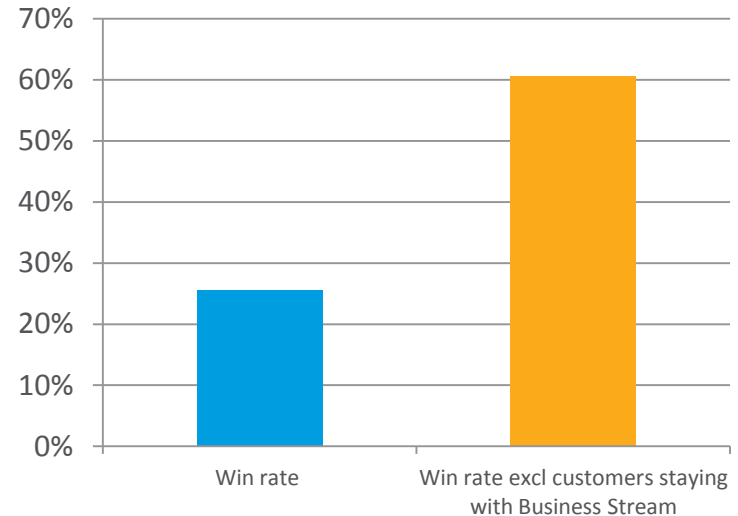
We will serve both SME and 'corporate' segments

Testing and learning through focused selective participation in Scotland

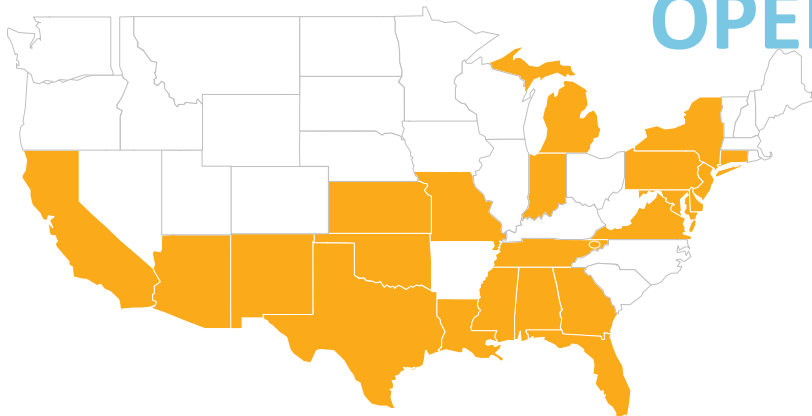
- Winning 1 in 3 tenders we compete in

Building teams to retain existing customers and compete effectively across UK

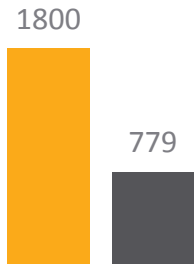
STS Tender Win Rates Scotland



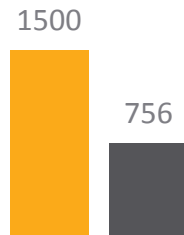
OPERATING SERVICES USA OPERATES ACROSS 23 STATES



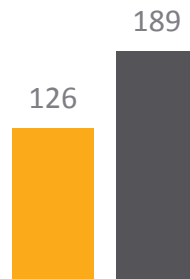
**Water Treated
(MLD)**



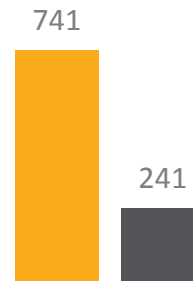
**Waste Water
Treated (MLD)**



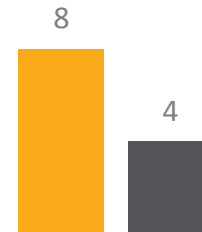
**Water Treatment
works #**



**Waste Water
Treatment works #**

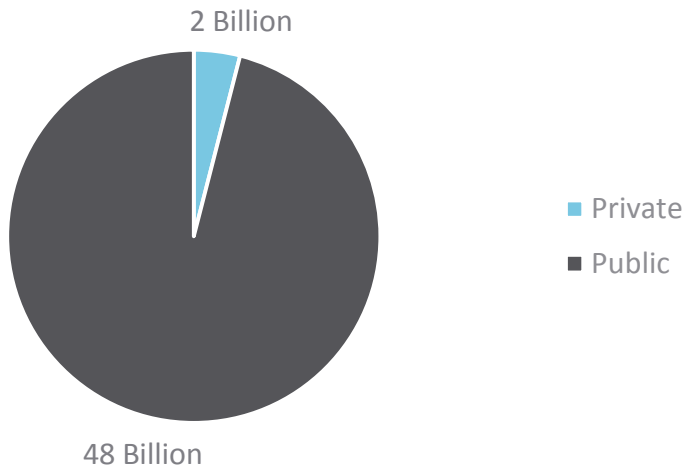


**Residents & business
Served (m)**



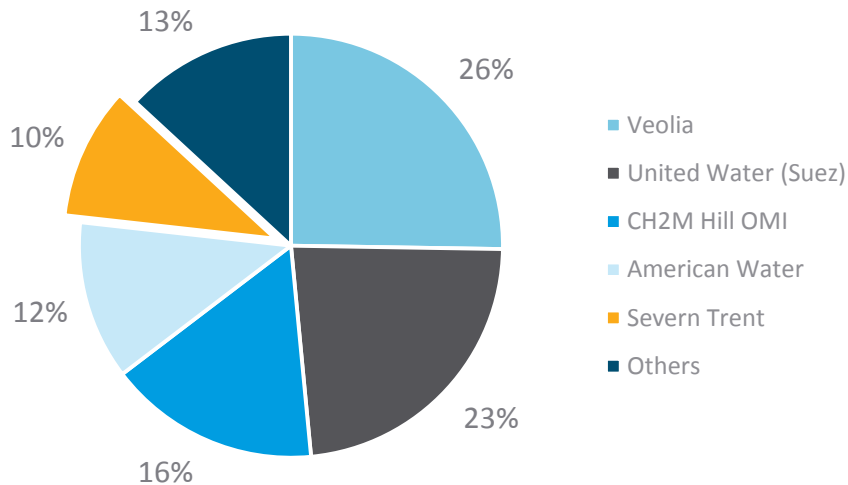
GROWTH OPPORTUNITIES IN US MARKET

The US Market is huge (\$50bn) and has only partially privatised (\$2bn)



- c. \$1bn new revenues expected over next five years
- Public / Private Partnerships (P3) expected to increase

5th largest player in the US market



- Trusted partner bringing expertise, added-value services
- New leadership team and delayed organisation

WATER PURIFICATION LEVERAGING SECTOR KNOWLEDGE

3 Key Markets

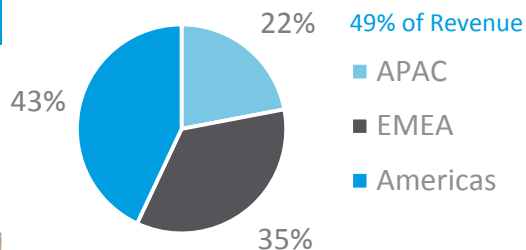
Across 3 Regions

3 Technologies

Energy

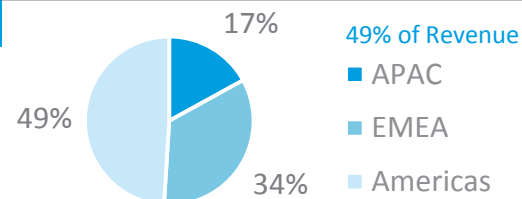
Offshore

Onshore



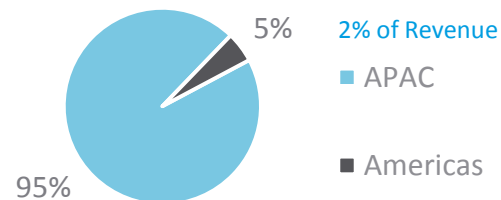
Electrochlorination

Municipal



Filtration
Disinfection
Electrochlorination

Marine



Electrochlorination

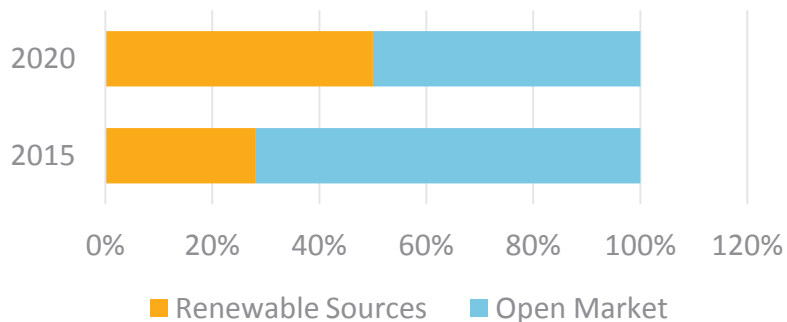
WE ARE INVESTING £190M IN RENEWABLE ENERGY

- Investing £190m in renewable energy in the Midlands over the next 5 years
- Dedicated management team focused on renewables
- Investment principally in two technologies - anaerobic digestion and solar
- Takes our self generation from 28% to around 50% by 2020
- Provides efficient green energy and a long-term hedge

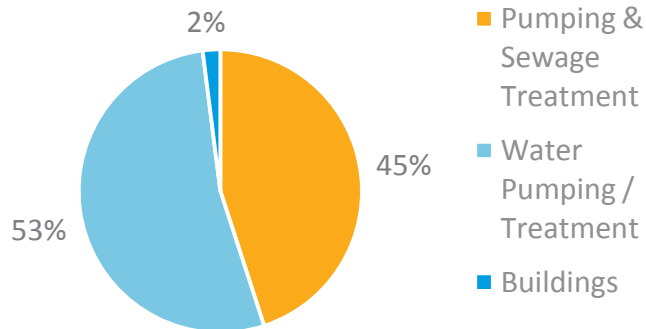
WE ARE INVESTING £190M IN RENEWABLE ENERGY

- STW uses c. 900,000 MWh of electricity (equivalent to around 200,000 average households)
- Renewables today meets c.28% of STW's needs (next best WASC 19% in 2013-14)

SVT electricity sources:
now and in the future



STW Electricity use



EXPANSION OF SOLAR AND ANAEROBIC DIGESTION

- c. 14% generation from solar PV by 2020
- Leaders in use of anaerobic digestion and investing further:
 - Investing over five years to generate c. 20% more from sewage sludge
 - First food-waste plant up and running – evaluating up to three more
- Future deregulation of sludge management likely to provide further opportunities



BUSINESS SERVICES POSITIONED FOR GROWTH IN NON-REGULATED AREAS

Ready for competition

Customer focused strategies in place to compete effectively as deregulation grows in the UK

Leveraging group capabilities

Group capabilities and investment in technology and talent mean we are well positioned for the future

Investing in renewables

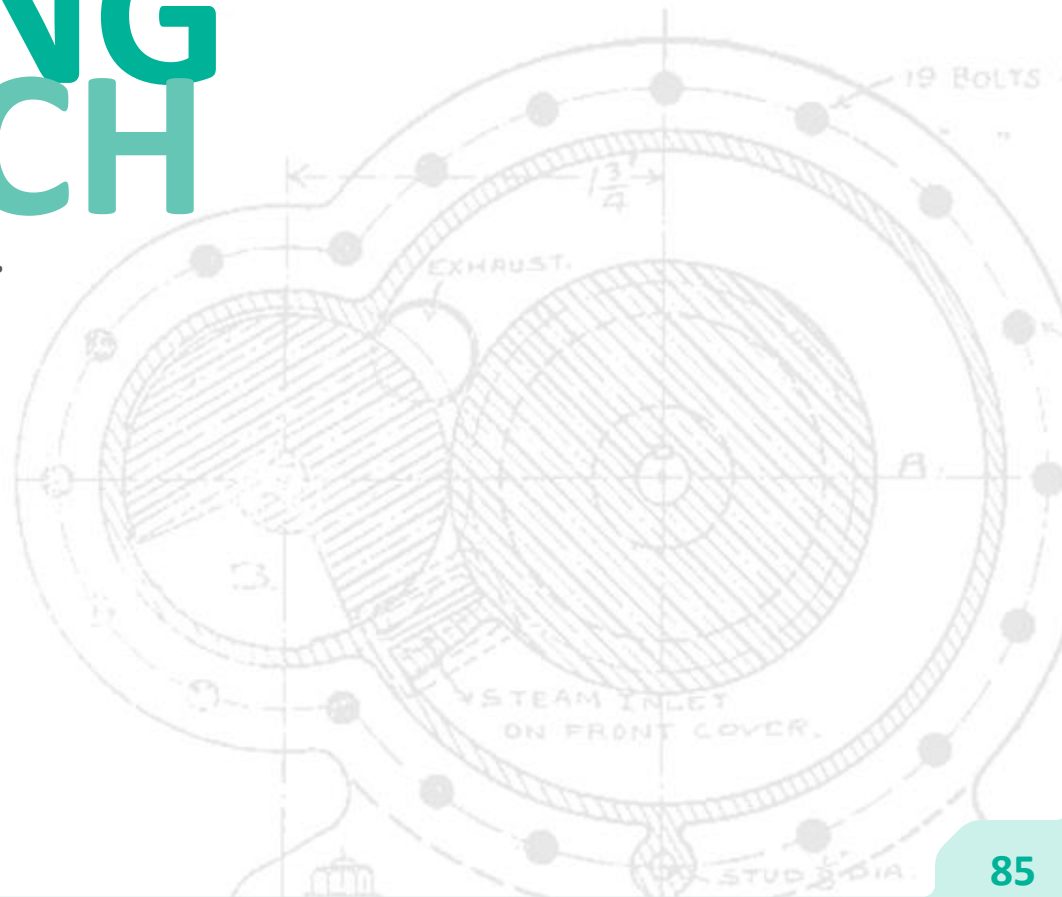
£190m of investment in renewable energy provides a sustainable long-term hedge against increasing electricity prices

Positioned for growth

Targeting growth in both new and existing categories and markets

FINANCING APPROACH

By Mike McKeon, Chief Financial Officer



TOPICS COVERED

Recap from 28 January

Financing approach and opportunity

Shareholder distributions

What we've said today

TO RECAP FROM 28 JANUARY...

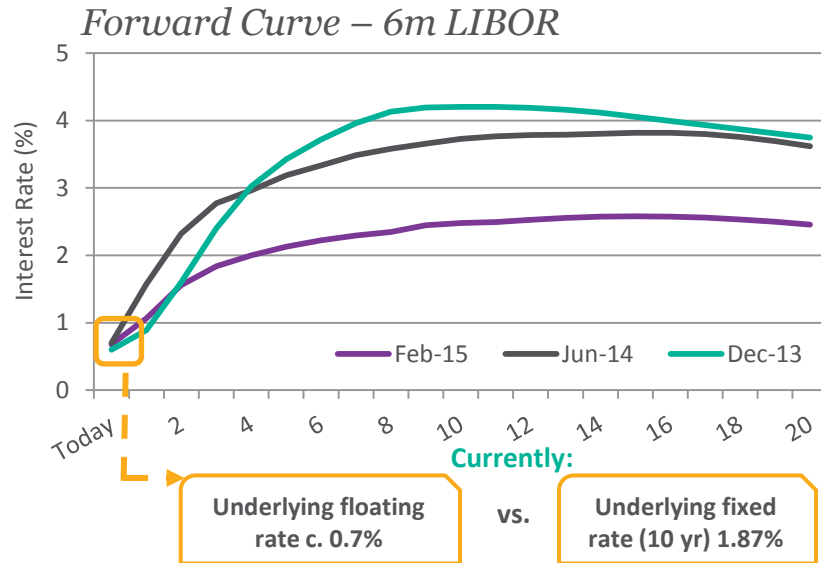
Final Determination

- Allowed returns lower – on equity (5.65% AMP6 vs. 7.1% AMP5) and debt (2.6% AMP6 vs. 3.6% AMP5 - real)
- Notional gearing raised again – we are undergeared
- Allowed cost of new debt – 2% real reflecting shorter term market range

Shareholder distributions

- Dividend rebased by 5% in FY2015/16
- Sustainable growth of at least RPI going forwards, until 2020
- Progressive returns to shareholders
- Gearing to move towards 62.5% over time
- £100 million share buyback now under way and to complete by November 2015

INTEREST RATES



- Ofwat assumes interest rates @ 2% real
- Short term floating rates are c.1% below fixed rates
- Opportunity, but a balance of risk and reward
- Objective: circa 20% of new borrowing at floating
- Can switch to fixed to protect against rate rises

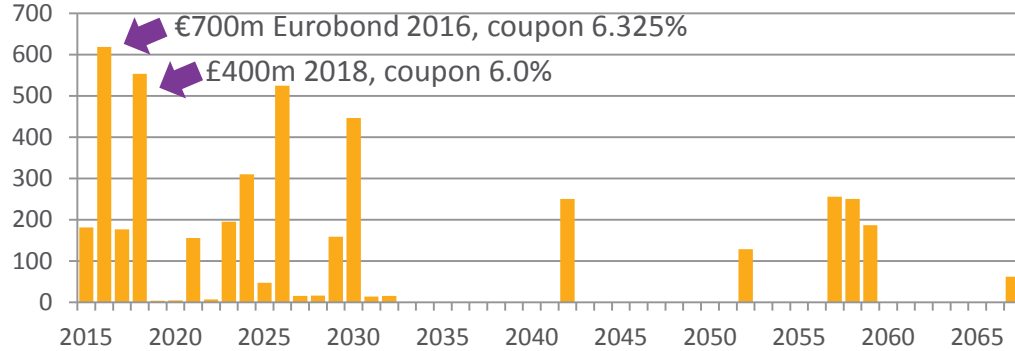
GBP		Underlying swap tenor						
		1y	2y	3y	5y	7y	10y	12y
Forward Start	Spot	0.74	0.97	1.18	1.48	1.67	1.87	1.96
	1y	1.20	1.41	1.56	1.76	1.90	2.04	2.11
	2y	1.62	1.75	1.84	1.97	2.07	2.18	2.23
	3y	1.87	1.95	2.00	2.10	2.19	2.27	2.31
	4y	2.02	2.07	2.12	2.20	2.27	2.34	2.37
	5y	2.12	2.17	2.21	2.29	2.34	2.39	2.42

Source:
BNP Paribas
– Feb 2015

REFINANCING AND NEW FINANCE

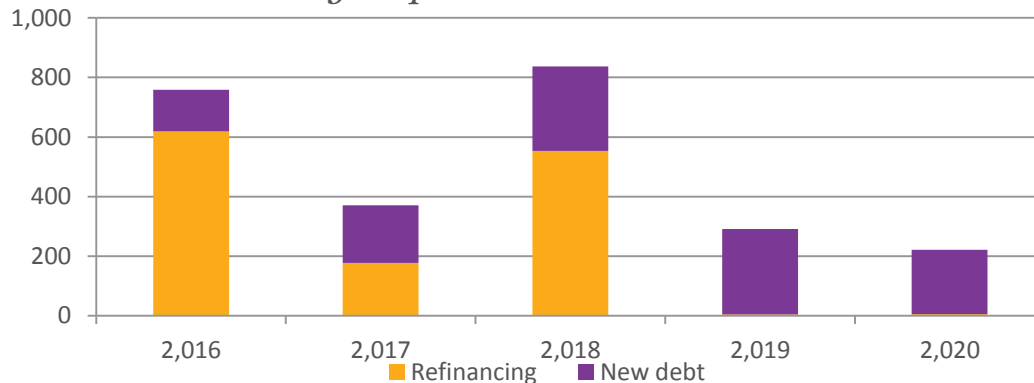
AN OPPORTUNITY

*Debt maturity profile
At 30 September 2014*



- 28% (c.£1.4bn) of existing Severn Trent debt to be refinanced in AMP6
- Total funding requirements of around £2.5bn
- Balanced approach
- Higher proportion of floating rate
- Get into debt market early – manage maturities

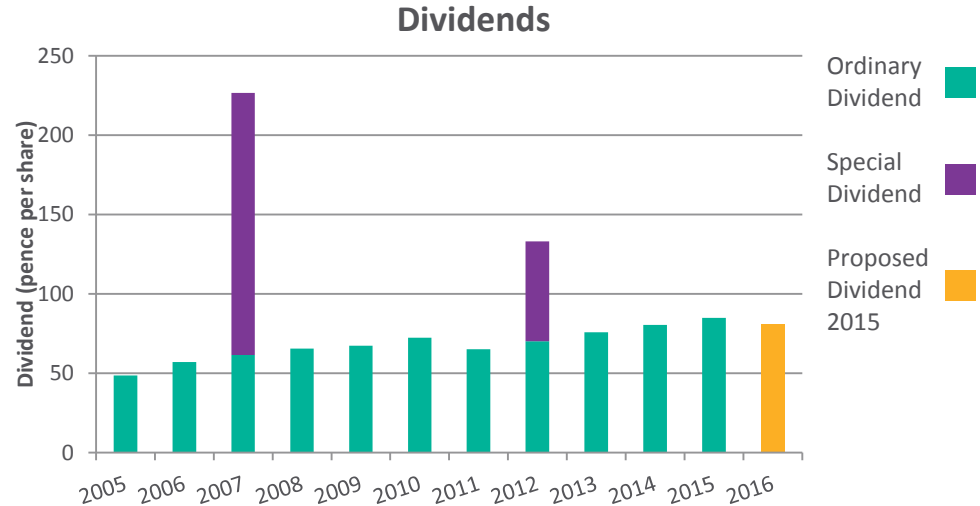
AMP6 Funding Requirements



SHAREHOLDER DISTRIBUTIONS

10 year distributions history

- Severn Trent a sustainable yield with inflation linked growth
- Dividends earned in year linked to inflation
- Occasional sharing of reward as performance and gearing allow
- Rebased at 2015/16 to allow for sustainable dividend to grow at least with RPI
- £100 million buyback under way to complete by November 2015



WHAT WE'VE SAID TODAY

Totex

Changing how we think about expenditure across our £5.6bn wholesale totex budget
Greater understanding of our assets
A new framework to approach investment decisions

ODIs

Meaningful rewards resulting from excellent operational performance
For example SIM +£7m / -£15m p.a
Time lag between achievement and payment

Financing

Sustainable long term financing opportunity (total funding £2.5bn)
Taking advantage of favourable debt market conditions when refinancing
Near term opportunity for outperformance

Efficiency

De-layered our operating model which will deliver £100m over AMP
Big culture change in motion to embed commerciality in the organisation
Year one supply chain efficiencies locked in; option to re-invest to drive operational performance

Energy

Aiming to produce 50% of our energy from renewable sources by 2020
Hedges electricity costs, avoids pass-through costs
Investment of ~£190m, targeting low double digit returns

Potential to outperform

IN SUMMARY

Sector fundamentals remain - low risk, inflation linked returns on growing asset base

Pragmatic and sustainable financing, investment grade credit rating

We remain a rare asset driving future value through efficient investment in long term infrastructure

RCV growth of c.27% (nominal) in AMP6, significantly ahead of listed peers, taking RCV to c.£10bn (nominal) by 2020

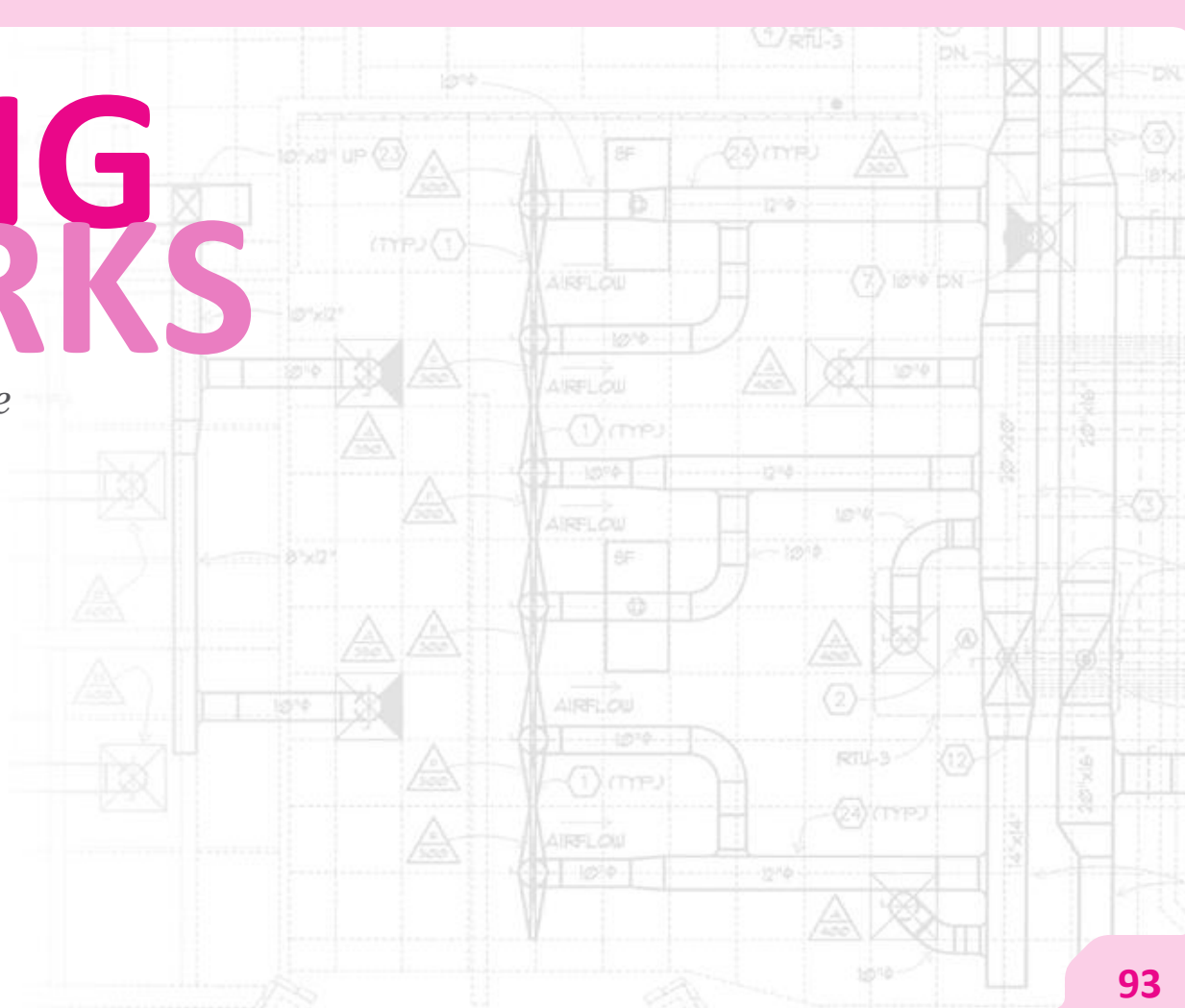
Inflation linked dividend

Plans in place to deliver on our commitments

Create long term value for shareholders

CLOSING REMARKS

By Liv Garfield, Chief Executive



SEVERN TRENT PLC

AN ATTRACTIVE PROPOSITION

Strong RCV
growth

Prepared for
AMP6 –
simplified our
organisation

Embedded KPI
culture

Colleague
education –
totex & ODIs

Great executive
team

Refinancing
opportunity

£100m buyback
and inflation
linked dividend

Flexible balance
sheet

Well placed for
further reforms

Renewables

Experience in
non regulated

KEY MESSAGES FOR TODAY

There will be winners and losers in AMP6

New organisation structure for a new world

Five areas for possible outperformance

Early signs of success in delivering the plan

We look to influence the debate on future regulatory change

Business Services a positive contributor; e.g. renewables

Lots of opportunity to deliver for all of our stakeholders