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FOR IMMEDIATE RELEASE

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

23 NOVEMBER 2016

REVISED SEVERN TRENT ACQUISITION

of

DEE VALLEY GROUP PLC

by

SEVERN TRENT WATER LIMITED

1. INCREASED BID

The board of directors of Severn Trent Water Limited ("**Severn Trent Water**"), a wholly owned subsidiary of Severn Trent Plc ("**Severn Trent**") has considered its position with respect to Dee Valley Group plc ("**Dee Valley**") and announces today that it is increasing the cash offer price in respect of Severn Trent's acquisition of Dee Valley (the "**Revised Acquisition**"), to be made by Severn Trent Water, to acquire all of the issued Dee Valley Ordinary Voting Shares and all of the Dee Valley Ordinary Non-Voting Shares announced on 16 November 2016.

Under the terms of the Revised Acquisition, Dee Valley Ordinary Voting Shareholders will receive 1,825 pence in cash for each Dee Valley Ordinary Voting Share held. The Revised Acquisition includes a revised comparable cash offer for the Dee Valley Ordinary Non-Voting Shares priced at 1,713 pence per share, in accordance with Rule 14 of the Takeover Code (the "**Revised Severn Trent Contractual Offer**").

It is intended that the Revised Acquisition of the Dee Valley Ordinary Voting Shares will be implemented by means of a court-sanctioned scheme of arrangement of Dee Valley under Part 26 of the Companies Act (the "**Revised Scheme**"). Severn Trent encourages Dee Valley to co-operate and encourages the board of directors of Dee Valley to recommend unanimously that holders of Dee Valley Ordinary Voting Shares vote in favour of the resolutions to be proposed at the Court meeting and General Meeting. A further announcement will be made in due course with an indicative timetable setting out key dates for the implementation of the Revised Scheme. Provided that the board of directors of Dee Valley co-operates with Severn Trent in implementing the Revised Scheme, Severn Trent Water expects that the scheme document in respect of the Revised Scheme will be posted to Dee Valley Ordinary Shareholders as soon as reasonably practicable after the date of this announcement.

The Revised Acquisition values the entire issued share capital of Dee Valley at approximately £84.0 million.

The Revised Acquisition represents a premium of approximately:

- 33.2 per cent. to the Closing Price of 1,370 pence per Dee Valley Ordinary Voting Share on 20 October 2016, being the last Business Day immediately prior to the date that an offer period commenced in respect of Dee Valley;
- 32.9 per cent. to the volume weighted average price of 1,373 pence per Dee Valley Ordinary Voting Share over the three-month period to 20 October 2016;

- 39.8 per cent. to the volume weighted average price of 1,305 pence per Dee Valley Ordinary Voting Share over the six month period to 20 October 2016;
- 7.0 per cent to the offer price of 1,705 pence per Dee Valley Ordinary Voting Share payable pursuant to the Acquisition announced by Severn Trent on 16 November 2016 (the "**Original Acquisition**"); and
- 7.0 per cent. to the offer price of 1,706 pence per Dee Valley Ordinary Voting Share announced by Ancala Fornia Limited ("**Ancala**") on 22 November 2016.

The Revised Acquisition includes the Revised Severn Trent Contractual Offer. On the basis of the ratio of the closing prices of the Dee Valley Ordinary Voting Shares and the Dee Valley Ordinary Non-Voting Shares over the six month period ended 20 October 2016, the Revised Severn Trent Contractual Offer will be made at a price of 1,713 pence per Dee Valley Ordinary Non-Voting Share. The Revised Severn Trent Contractual Offer price represents a premium of approximately:

- 34.9 per cent. to the Closing Price of 1,270 pence per Dee Valley Ordinary Non-Voting Share on 20 October 2016, being the last Business Day immediately prior to the date that an offer period commenced in respect of Dee Valley;
- 38.0 per cent. to the volume weighted average price of 1,241 pence per Dee Valley Ordinary Non-Voting Share over the three month period to 20 October 2016;
- 43.1 per cent. to the volume weighted average price of 1,197 pence per Dee Valley Ordinary Non-Voting Share over the six month period to 20 October 2016;
- 7.0 per cent. to the offer price of 1,601 pence per Dee Valley Ordinary Non-Voting Share contained in the Original Acquisition; and
- 6.9 per cent. to the offer price of 1,602 pence per Dee Valley Ordinary Non-Voting Share announced by Ancala on 22 November 2016.

2. **FACTORS FOR CONSIDERATION IN CONNECTION WITH THE REVISED ACQUISITION**

The directors of Severn Trent Water consider that the holders of Dee Valley Ordinary Voting Shares and Dee Valley Ordinary Non-Voting Shares should note the following factors in connection with the Revised Acquisition:

- Severn Trent continues to believe that an acquisition of Dee Valley by Severn Trent Water would provide a very successful outcome for the customers of Dee Valley.
- Severn Trent intends to deliver Dee Valley's strategy of providing the highest level of customer service and value for money by applying where appropriate its industry leading operating procedures, environmental policies and strong customer service skills together with those of the capable existing team, to the operations of Dee Valley for the benefit of Dee Valley's customers which it serves.
- Severn Trent plans to build on Dee Valley's great customer service by applying an improved proposition for Dee Valley's customers:
 - o Severn Trent intends to enhance the current customer service offering including by extending support for vulnerable customers where we provide discounts and support for local people who most need it – potentially up to 90% off water bills in some cases;
 - o Severn Trent intends, in due course, to launch 24/7 customer support – extending customer service hours so we are available for customers whenever they need us any time of the night or day, through a range of channels including web chat, social media, calls and email;
 - o Dee Valley's customers will have their local tariffs protected in line with the price control set by Ofwat and furthermore will share in half of any wholesale cost efficiencies achieved, which will be reflected in future bills;

- o Severn Trent has committed to Ofwat that it will not seek the small company WACC premium for Dee Valley at any future price review, and that it will be accepting updated financial ring fencing licence conditions that will provide greater customer protection;
- o subject to regulatory approvals, Severn Trent plans to retain the Dee Valley licence and move all of its customers in Wales into the Dee Valley licence (with appropriate protections in place) so that all of the group's customers in Wales will be subject to Welsh Government policy and all of the group's customers in England will be subject to English policy. Severn Trent intends to maintain a local focus for both organisations based on the requirements of local customers;
- o Severn Trent will apply its digital philosophy by equipping and training frontline teams so that they can use new technology with the aim of improving operational response times for customers; and
- o In the first year of Ofwat's customer Outcome Delivery Incentives programme, Severn Trent has achieved significant rewards for delivering improved services to customers. Severn Trent believes this was achieved through creating a winning culture that included allowing employees to share in the success of Severn Trent through a new employee bonus scheme.
- Severn Trent intends to fully support continued investment in infrastructure in the Dee Valley region applying its best practice, economies of scale and procurement expertise in order to deliver best value for customers.
- Severn Trent attaches great importance to the skills, operational experience and technical expertise of the existing employees of Dee Valley and intends to maintain front line field force operations which comprise a majority of Dee Valley's employees at Dee Valley's current locations in Wrexham and Chester. Severn Trent also plans to extend its leading skills programmes across the Dee Valley group – including our recognised graduate programme and award winning apprentice schemes, and investment in engineering. It will also apply its industry leading Health, Safety and Wellbeing approach to the Dee Valley business.
- Severn Trent values the Dee Valley employees and confirms that, following implementation of the Acquisition, the existing contractual and statutory employment rights of all Dee Valley Group employees will be honoured. Dee Valley employees will also have access to job opportunities to develop their careers across the wider Severn Trent group, including at its nearby Shrewsbury office.
- Severn Trent has removed the condition relating to CMA clearance from the Revised Acquisition.

3. IMPLEMENTATION OF THE REVISED ACQUISITION

Revised Scheme

Provided that the board of Dee Valley co-operates with Severn Trent, it is intended that the Revised Acquisition of the Dee Valley Ordinary Voting Shares will be implemented by means of a court-sanctioned scheme of arrangement of Dee Valley under Part 26 of the Companies Act as set out in the announcement by Severn Trent in respect of the Acquisition of Dee Valley dated 16 November 2016 (the "**Original Announcement**") save that holders of Dee Valley Ordinary Voting Shares will receive cash on the basis set out in paragraph 1 of this announcement.

Severn Trent Water reserves the right, subject to the prior consent of the Panel, to elect to implement the acquisition of the Dee Valley Ordinary Voting Shares by way of a takeover offer (as such term is defined in section 974 of the Companies Act). In such event, such a takeover offer will be implemented on the same terms (subject to appropriate amendments as described in Part 3 of Appendix I or the Original Announcement), so far as applicable, as those which would apply to the Revised Scheme. Furthermore, if such an offer is made and sufficient acceptances of such offer are received, when aggregated with Dee Valley

Ordinary Voting Shares otherwise acquired by Severn Trent Water, it is the intention of Severn Trent Water to apply the provisions of section 979 of the Companies Act to acquire compulsorily any outstanding Dee Valley Ordinary Voting Shares to which such offer relates.

Revised Severn Trent Contractual Offer

It is intended that the Revised Acquisition of the Dee Valley Ordinary Non-Voting Shares will be implemented by way of a contractual takeover offer as set out in the Original Announcement, save that holders of Dee Valley Ordinary Non-Voting Shares will receive cash on the basis set out in paragraph 1 of this announcement.

Severn Trent Water reserves the right, subject to the prior consent of the Panel, to elect to implement the acquisition of the Dee Valley Ordinary Non-Voting Shares by way of a scheme of arrangement under Part 26 of the Companies Act. In such event, the scheme of arrangement in relation to the Dee Valley Ordinary Non-Voting Shares will be implemented on substantially the same terms, so far as applicable, as those which would apply to the Revised Severn Trent Contractual Offer.

Distributions

If any dividend or other distribution or return of value is proposed, declared, made, paid or becomes payable by Dee Valley in respect of a Dee Valley Ordinary Share on or after the date of this announcement and prior to the offer period ending, Severn Trent Water will have the right to reduce the value of the consideration payable for each Dee Valley Ordinary Share of the relevant class by up to the amount per such Dee Valley Ordinary Share of such dividend, distribution or return of value except where the Dee Valley Ordinary Share is or will be acquired pursuant to the Revised Scheme or Revised Severn Trent Contractual Offer (as the case may be) on a basis which entitles Severn Trent Water to receive the dividend, distribution or return of value and to retain it. If Severn Trent Water exercises such right to reduce the value of the consideration payable for each Dee Valley Ordinary Share of a particular class by the amount per such Dee Valley Ordinary Share of any dividend that has not been paid, the relevant Dee Valley Ordinary Shareholders shall be entitled to receive and retain such dividend when paid.

If any such dividend, distribution or return of value is paid or made after the date of this announcement and Severn Trent Water exercises its rights described above, any reference in this announcement to the consideration payable under the Revised Scheme or Revised Severn Trent Contractual Offer (as the case may be) shall be deemed to be a reference to the consideration as so reduced. Any exercise by Severn Trent Water of its rights referred to in this paragraph shall be the subject of an announcement and, for the avoidance of doubt, shall not be regarded as constituting any revision or variation of the terms of the Revised Scheme or Revised Severn Trent Contractual Offer (as the case may be).

4. FINANCING OF THE REVISED ACQUISITION

Severn Trent Water will finance the consideration pursuant to the Revised Acquisition from its existing cash resources.

Rothschild, financial adviser to Severn Trent, is satisfied that Severn Trent Water has the necessary financial resources available to satisfy in full the cash consideration payable under the Revised Acquisition.

5. OFFER RELATED ARRANGEMENTS

Severn Trent and Dee Valley entered into a confidentiality agreement on 5 July 2016, pursuant to which Severn Trent and Dee Valley have mutually undertaken to keep confidential information relating to the other party and not to disclose it to third parties (other than permitted recipients) save to the extent required by applicable law or regulation (the "**Confidentiality Agreement**"). The confidentiality obligation will remain in force until 5 years from the date of the Confidentiality Agreement.

The Co-operation Agreement dated 15 November 2016 in respect of the Original Acquisition has now terminated.

6. OTHER

The information on Severn Trent Group, information on Dee Valley Group, Management and Employees, Disclosure of interests in Dee Valley Ordinary Shares, De-listing and re-registration and General sections (paragraphs 6, 7, 8, 10, 13 and 16) of the Original Announcement apply in respect of the Revised Acquisition as if references therein to the Acquisition are to the Revised Acquisition but otherwise without amendment.

The conditions and certain further terms set out in Appendix 1 of the Original Announcement apply to the Revised Acquisition without amendment save that:

- (i) Condition 3(a) (relating to the CMA not making a Phase 2 CMA Reference) shall not apply to the Revised Acquisition;
- (ii) references therein to the Acquisition are to the Revised Acquisition;
- (iii) references therein to the Scheme are to the Revised Scheme;
- (iv) references therein to the Scheme Circular are to the scheme circular that, provided the board of Dee Valley co-operates with Severn Trent in relation to the Revised Acquisition, shall be published in due course in relation to the Revised Scheme; and
- (v) references therein to the Scheme Meeting, General Meeting, Scheme Court Hearing are to be taken as references to those meetings and hearings in relation to the Revised Scheme rather than the Scheme.

Further details of the Revised Scheme and Revised Severn Trent Contractual Offer, including the full terms and conditions of each and an indicative timetable, will be contained in the scheme circular which, provided the board of Dee Valley co-operates with Severn Trent, will be sent to Dee Valley Ordinary Shareholders and will set out, amongst other things, (i) the Revised Scheme and notices convening the court meeting and the general meeting and (ii) the terms and conditions of the Revised Severn Trent Contractual Offer, which will also include the notices of the Court Meeting and the General Meeting and specify the necessary actions to be taken by Dee Valley Ordinary Shareholders.

Copies of the documents listed in paragraph 15 of Part 1 of the Original Announcement and this announcement are available at www.severntrent.com and will continue to remain available there until the end of the offer period.

Unless otherwise stated, capitalised terms used in this announcement have the same meaning as those in the Original Announcement.

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Further information

This announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Revised Acquisition or otherwise, nor shall there be any sale, issuance or transfer of securities of Dee Valley in any jurisdiction in contravention of applicable law. This announcement does not constitute a prospectus or a prospectus equivalent document.

Any vote in respect of the Revised Acquisition should only be made on the basis of the information contained in the scheme circular relating to the Revised Scheme, which will contain the full terms and conditions of the Revised Acquisition and the Revised Scheme (including details of how to vote) and the Revised Severn Trent Contractual Offer (including how to accept the Revised Severn Trent Contractual Offer). Dee Valley Ordinary Shareholders are advised to read the formal documentation in relation to the Revised Acquisition carefully once it has been dispatched.

Please be aware that addresses, electronic addresses and certain other information provided by Dee Valley Ordinary Shareholders, persons with information rights and other relevant persons in connection with the receipt of communications from Dee Valley may be provided to Severn Trent during the offer period as required under Section 4 of Appendix 4 of the Code.

N. M. Rothschild & Sons Limited, which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for Severn Trent and no one else in connection with the Revised Acquisition and will not be responsible to anyone other than Severn Trent for providing the protections afforded to its clients or for providing advice in relation to the Revised Acquisition or any other matters referred to in this Announcement.

Barclays Bank PLC, acting through its Investment Bank, which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the FCA and the Prudential Regulation Authority, is acting exclusively for Severn Trent and no one else in connection with the matters referred to in this Announcement and will not be responsible to anyone other than Severn Trent for providing the protections afforded to clients of Barclays nor for providing advice in relation to the matters referred to in this Announcement.

Morgan Stanley & Co. International plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Severn Trent and no-one else in connection with the Revised Acquisition. In connection with such matters, Morgan Stanley & Co. International plc, its affiliates and their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to any other person for providing the protections afforded to their clients or for providing advice in relation to the Revised Acquisition, the contents of this announcement or any other matter referred to herein.

Overseas jurisdictions

The release, publication or distribution of this announcement in or into, jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this announcement comes who are not resident in the United Kingdom should inform themselves about, and observe, any applicable restrictions. Dee Valley Ordinary Shareholders who are in any doubt regarding such matters should consult an appropriate independent adviser in the relevant jurisdiction without delay. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Revised Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person.

The Revised Severn Trent Contractual Offer is not being made, directly or indirectly, in or into, or by the use of the mails or any means or instrumentality (including, without limitation telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States or any other Restricted Jurisdictions, and the Revised Severn Trent Contractual Offer should not be accepted by any such use, means, instrumentality or facility or from such jurisdictions. Copies of this document and any related offering documents are not being, and may not be, mailed or otherwise distributed in, into or from, whether by use of the mails, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce, or any facility of a national securities exchange of, the United States or any other Restricted Jurisdictions. Persons receiving such documents (including, without limitation, custodians, nominees and trustees) must not distribute or send them into or from such jurisdictions or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with this Revised Severn Trent Contractual Offer and doing so will render invalid any relevant purported acceptance of the Revised Severn Trent Contractual Offer.

This announcement has been prepared for the purposes of complying with English law and the Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Additional information for US investors in Dee Valley

These materials are not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia). These materials do not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States.

Dee Valley and Severn Trent Water are each organised under the laws of England. All of the officers and directors of Dee Valley and Severn Trent Water are residents of countries other than the United States. It may not be possible to sue Dee Valley, Severn Trent Water or their respective officers or directors in a non-US court for violations of US securities laws. It may be difficult to compel Dee Valley, Severn Trent Water and their respective affiliates to subject themselves to the jurisdiction and judgment of a US court.

The Revised Scheme

Dee Valley Ordinary Shareholders in the United States should note that the Revised Acquisition relates to the shares of an English company and, in respect of the Dee Valley Ordinary Voting Shares, is proposed to be made by means of a scheme of arrangement provided for under, and governed by, English law. Neither the proxy solicitation nor the tender offer rules under the US Securities Exchange Act of 1934, as amended, will apply to the Revised Scheme. Moreover the Revised Scheme will be subject to the disclosure requirements, rules and practices applicable in the UK to schemes of arrangement, which differ from the disclosure requirements of the US proxy solicitation rules and tender offer rules. Financial information included in this announcement and the scheme circular has been or will be prepared in accordance with, where relevant International Financial Reporting Standards as adopted by the European Union and/or accounting standards applicable in the UK and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

The Revised Severn Trent Contractual Offer

The Revised Severn Trent Contractual Offer in respect of Dee Valley Ordinary Non-Voting Shares relates to the shares of an English company and will be governed by English law on the implementation of such an offer. The Revised Severn Trent Contractual Offer is not intended to be made pursuant to the provisions of any other legal system. Shareholders should note that the Revised Severn Trent Contractual Offer is subject to English disclosure rules, which are different from those in the United States. The Revised Severn

Trent Contractual Offer will not be made to any Dee Valley Ordinary Shareholders in Restricted Jurisdictions.

Disclosure requirements

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Forward-looking statements

This announcement contains certain forward-looking statements, including statements regarding Severn Trent's and Dee Valley's plans, objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the water and wastewater industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document.

Publication of this announcement

A copy of this announcement will be available subject to certain restrictions relating to persons resident in Restricted Jurisdictions on www.severntrent.com.

The contents of Severn Trent's website are not incorporated into and do not form part of this announcement.